

ViewPoints

Summer Edition - January 2025

At a glance – our asset class views

Domestic SA	Comment	–	○	+
Equities	Overweight – attractive valuations, lower interest rates			+
Listed property	Overweight – strong rally supported by improving fundamentals			+
Bonds	Overweight – yields are still very high relative to inflation			+
Income*	Overweight – offers a higher yield relative to money market			+
Money market	Underweight – SARB is cutting interest rates, funding overweights	–		
Global	Comment	–	○	+
Equities	Overweight – lower interest rates and possible tax cuts			+
Bonds	Neutral – inflation still above central bank targets		○	
Money market	Underweight – preferring other asset classes	–		

While our long-term real return assumptions are derived assuming that markets are in equilibrium, we do not believe that this is the case all the time. We therefore take tactical views on the relative performance of each asset class over a three to 12-month period, specifically ignoring shorter-term noise and not relying on long-term expectations. Having identified a specific factor or catalyst for the relative out- or under-performance of an asset class, we then rate it on a scale of underweight/neutral or overweight and position our portfolios accordingly.

*Floating rate instruments of maturity longer than one year.

**Views expressed for each asset class are subjective and are for the asset class as a whole. All views are as at 31 December 2024.

Domestic asset classes

Equities

- We started 2024 with an overweight position as we expected lower interest rates to support equity markets. We added to the position in Q3 to take advantage of cheap valuations and to benefit from the GNU exuberance. Valuations remain attractive with a dividend yield of 3.9% and trade on a forward PE of 13.2x. As a result, we remain overweight.

Listed property

- Locally listed property produced a strong 29.8% in 2024 and the discount to NAV remains above 20%, despite improving fundamentals. We maintained our overweight position throughout 2024 and think the positive sentiment towards South Africa, lower bond yields and improving rental reversions are likely to keep the momentum going.

Bonds

- We started the 2024 year with an overweight position in bonds, with the view that yields reflected a very gloomy outlook for SA despite expectations of lower inflation for the year. Following a positive election outcome in Q2, bonds rallied strongly, giving us the opportunity to take profits in Q3.
- The SA yield curve remains steep. Yields at the long end of the curve are around 11% despite expectations that inflation will be contained within the SARB's 3% to 6% target band this year. In addition, current inflation is low (2.9% in November) and would require a big shock to jump outside of the band. For these reasons, we remain overweight SA bonds.

Income

- Income typically enjoys a 50-basis point advantage over money market yields. The current yield pickup is 10 basis points higher than this historic average, making it attractive on this metric.
- We continue to prefer income to cash as we expect the SARB to cut interest rates further this year, which would benefit income assets over money market assets. In line with this thinking, we added to our overweight position in Q3 and maintained the position for the remainder of the year.

Money market

- Most central banks, including the SARB, are on a rate-cutting cycle. Investors expect the local central bank to cut interest rates by a further 50 basis points in the first half of 2025. We share these expectations, and as a result, we further reduced our money market weighting in the second half of the year.

Global asset classes

Equities

- We were overweight global equities for most of 2024 and increased this position in Q4. We expect equities to benefit from further interest rate cuts and possible tax cuts in the US when the new administration takes office. However, we are concerned about valuations and are therefore only marginally overweight.

Bonds

- Bond yields sold-off in December following hawkish comments from the US Fed regarding future interest rate cuts. US 10-year treasuries sold-off from 3.8% in Q3 to 4.6% in Q4.
- We were overweight global bonds for most of the year as we expected lower inflation prints in most countries and subsequent interest rate cuts. We reduced the position to neutral in Q4, as we believe that from this point onwards it will be challenging to get inflation significantly lower – closer to the targets – as base effects are behind us.

Money market

- We are underweight global money market, preferring other asset classes.

STANLIB Multi-Manager Investment Team

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