

Making money in a post-election SA

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NAVIGATING
CHANGE



SUMMARY OF OUR THINKING

- **The world has changed dramatically and is different to the last decade:**
 - Geo-political risks considerably higher
 - Equity valuations are at stretched levels
 - Interest rates are the highest in 15 years
 - Structural trends – Artificial Intelligence and Obesity drugs
- **Interest rates now structurally higher for longer**
- **Rand forecast 18.50 in 12 months – but 25 in 5 years**
- **Relief rally in SA equities post elections;**
 - ... but hard to beat +/-10% interest earnings
- **Goldilocks conditions in the US, but equity valuations high;**
 - ... but fixed income can earn 6-9% in US\$ again



TOTAL SA EQUITY RETURN EXPECTATIONS FOR 2024

Expect 18% in ZAR, 16% in USD

- Interest rates to come down during 2H24
- South African elections increasing forecast risk
- Multiples are cheap – big upside to mean

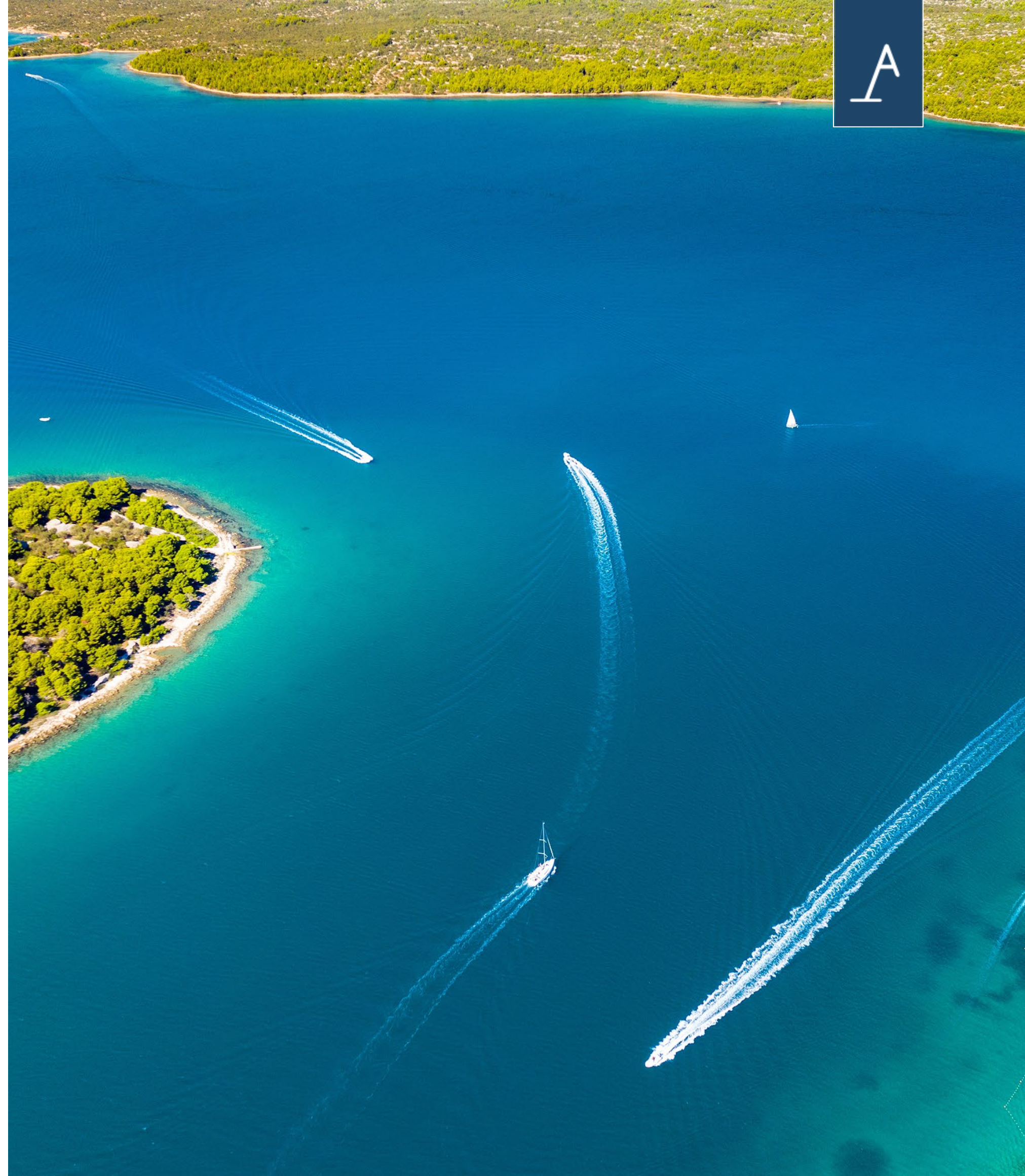


PROJECTED RETURNS



Asset class	Current stance			Expected returns (own currency) (%)
	Negative	Neutral	Positive	
DOMESTIC				
Equity	●	●	●	10
Bonds	●	●	●	10
Listed property	●	➤	●	12
Cash	●	●	●	8
Alternatives*	●	●	●	10 to 15
Rand vs US dollar (rand weaker)				-3
GLOBAL				
Equity	●	➤	●	7
Government bonds	●	●	➤	5
Corporate credit	●	●	➤	4
Listed property	●	●	●	6
Cash	●	●	●	4
Alternatives*	●	●	●	8 to 12

*Alternatives include hedge funds, protected equity structured products and physical property.





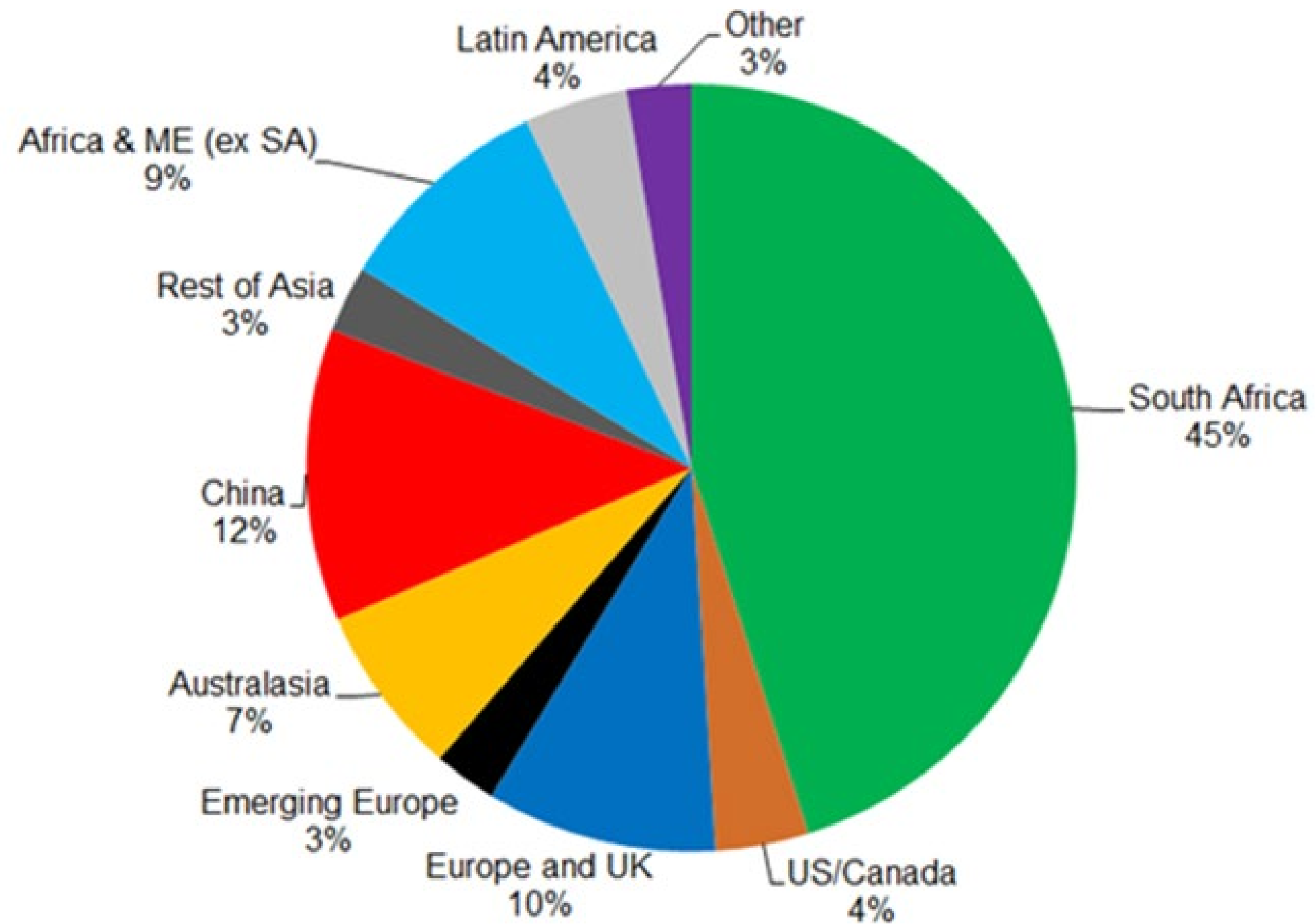
IT COMPANIES DOMINATE WORLD MARKETS

	Company	Market Cap	IT	Pharma	Financial	Other
1	MICROSOFT	\$3.028T	9			
2	APPLE	\$2.577T				
3	NVIDIA	\$2.060T				
4	ALPHABET	\$1.977T				
5	AMAZON	\$1.867T				
6	META	\$1.258T				
7	BERKSHIRE HATHAWAY	\$882.61 B				
8	ELI LILLY	\$708.97 B		5		
9	BROADCOM	\$578.90 B	3			
10	VISA	\$560.96 B			3	
11	JP MORGAN	\$551.84 B				
12	EXXON	\$479.06 B				
13	WALMART	\$476.15 B				
14	TESLA	\$460.77 B	3			
15	UNITEDHEALTH	\$447.32 B		5		
16	MASTERCARD	\$431.76 B			3	
17	PROCTER & GAMBLE	\$381.16 B		5		
18	JOHNSON & JOHNSON	\$360.40 B		5		
19	HOME DEPOT	\$335.95 B			3	
20	NNORDISK	\$573.90 B		5		
			9	5	3	3

- 9/20 = IT
- 5/20 = Pharma
- 3/20 = Financial
- 3/20 = Other

SA NOW 45% OF SWIX

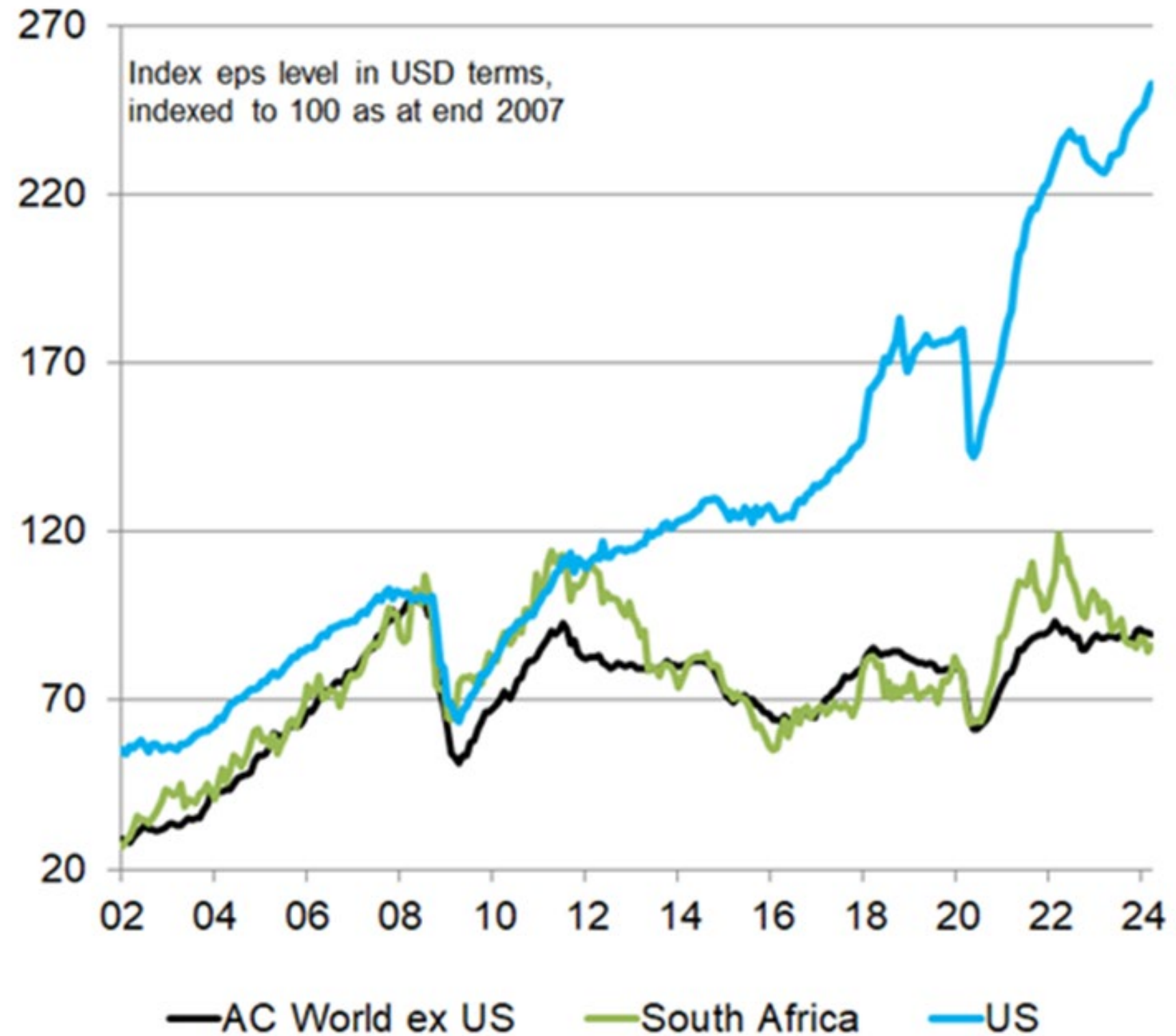
Geographical exposure of the JSE SWIX index (March 2024)



Source: RMB Morgan Stanley

US IS WHERE YOU GET US\$ EARNINGS

Index earnings in USD terms: SA vs RoW

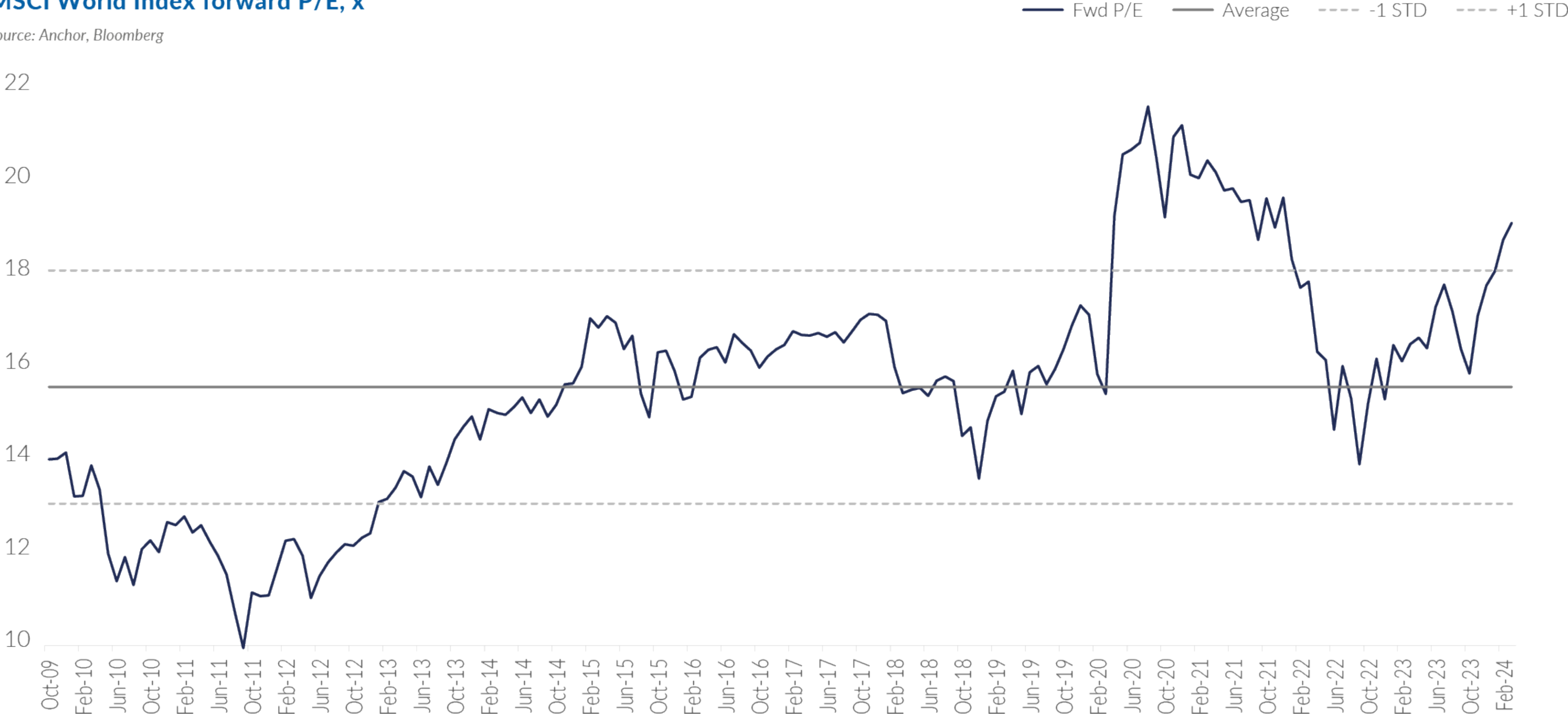




MSCI WORLD INDEX P/E MULTIPLE - HIGH

MSCI World Index forward P/E, x

Source: Anchor, Bloomberg





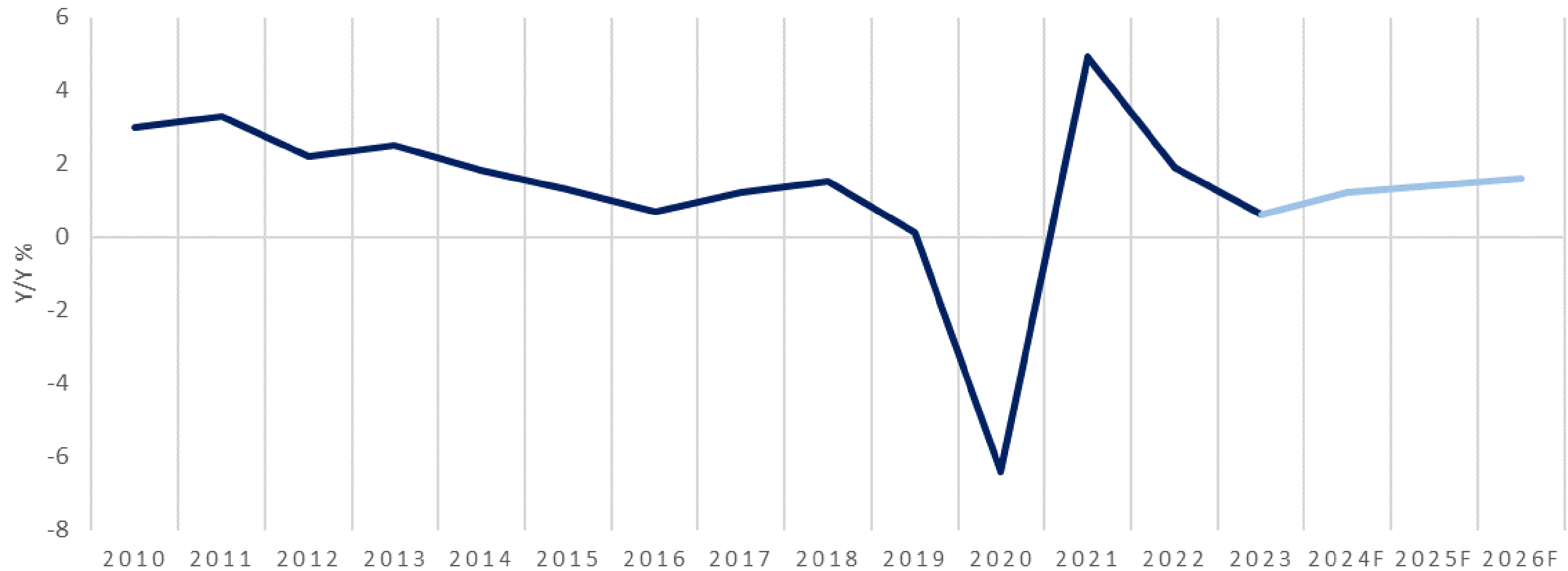
RATINGS DEPRESSED – DERATED SINCE 2015

MSCI South Africa 12m Forward PE



SA ECONOMIC GROWTH: SARB FORECASTS

SA GDP GROWTH





GLOBAL GDP GROWTH

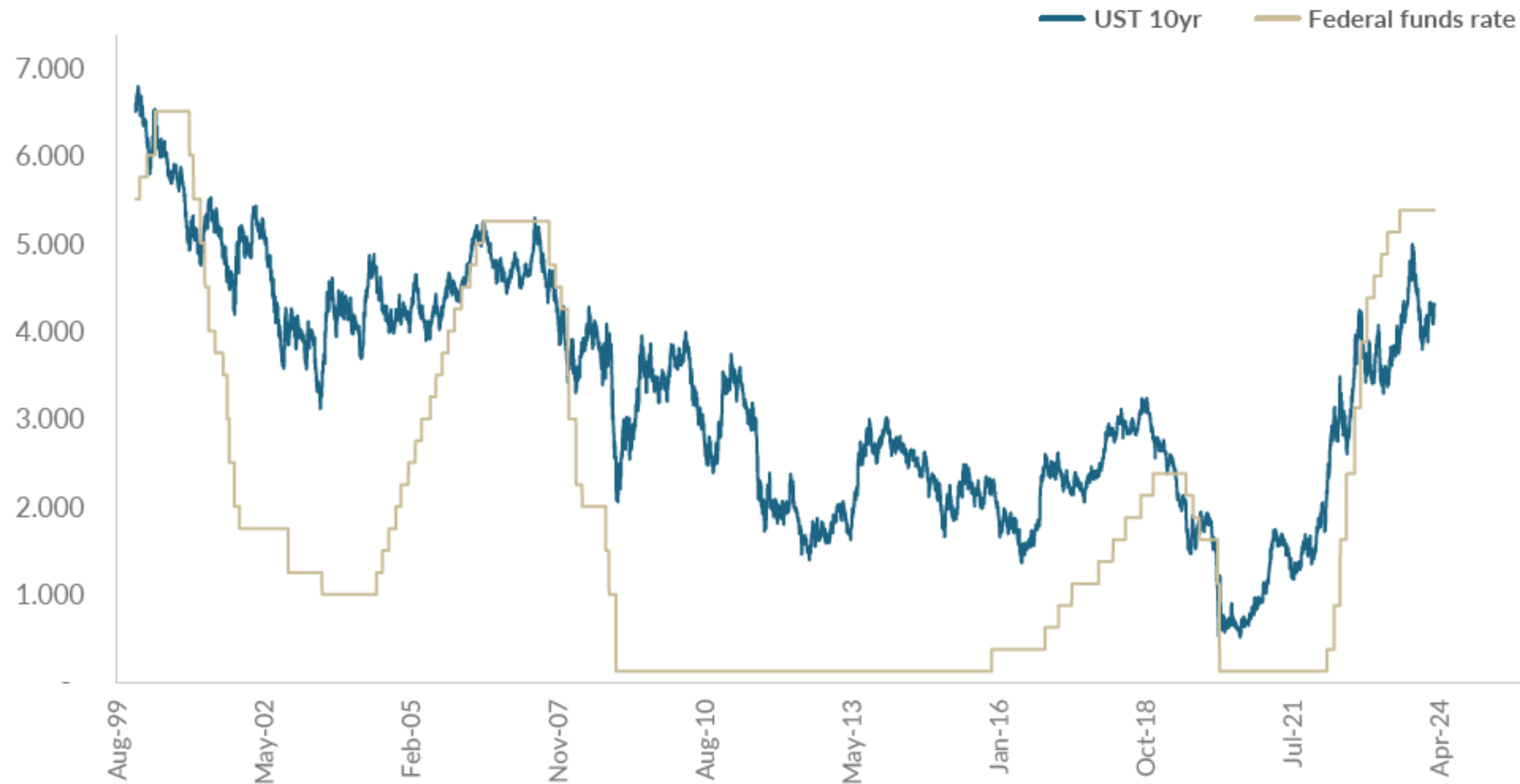
Global GDP growth, YoY % change

Source: Anchor, IMF



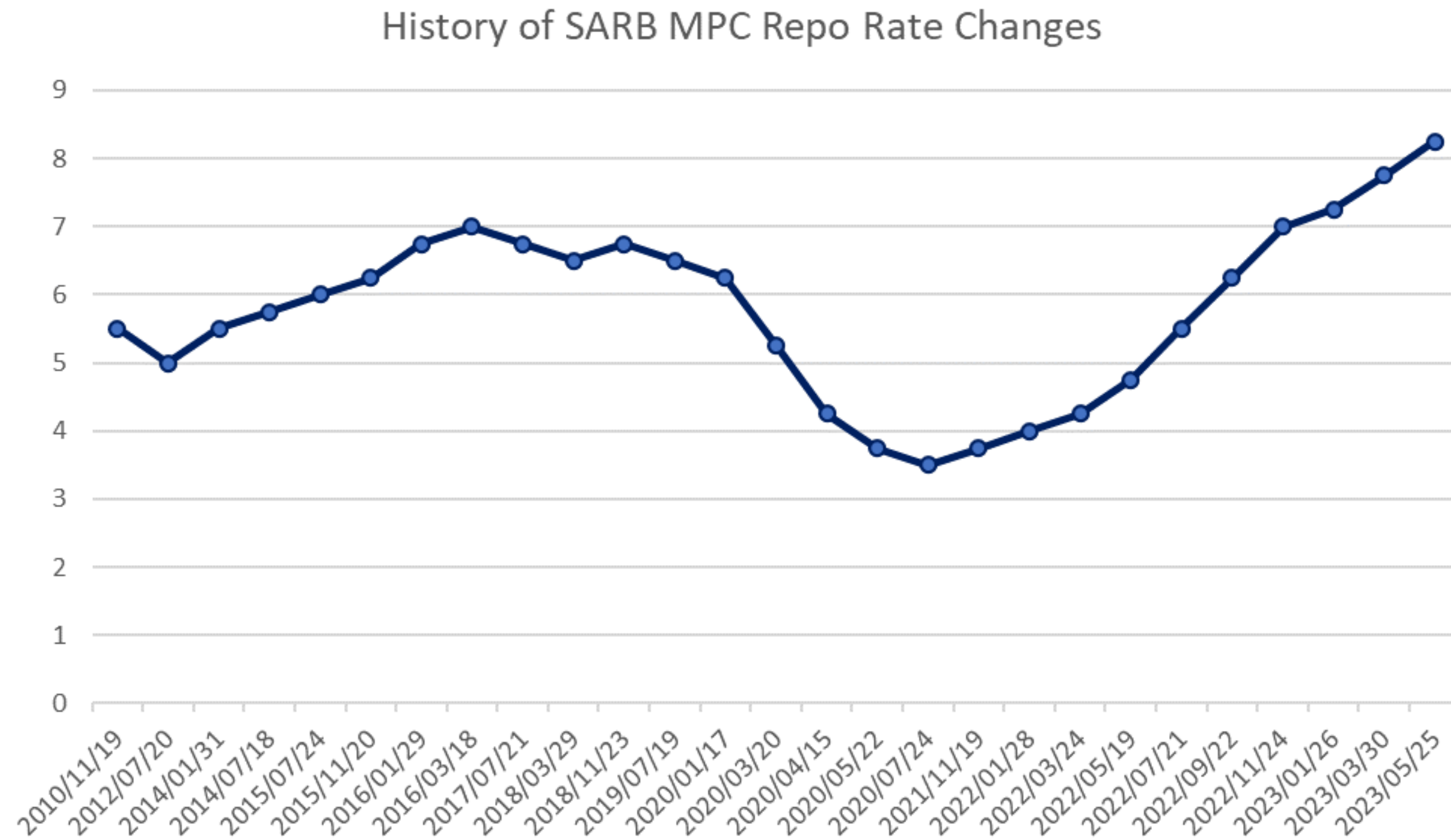
US RATES THE HIGHEST IN 20 YEARS

Figure 1: The federal funds target rate vs UST 10-year



Source: Thomson Reuters, Anchor

HISTORY OF SARB MPC REPO RATE CHANGES

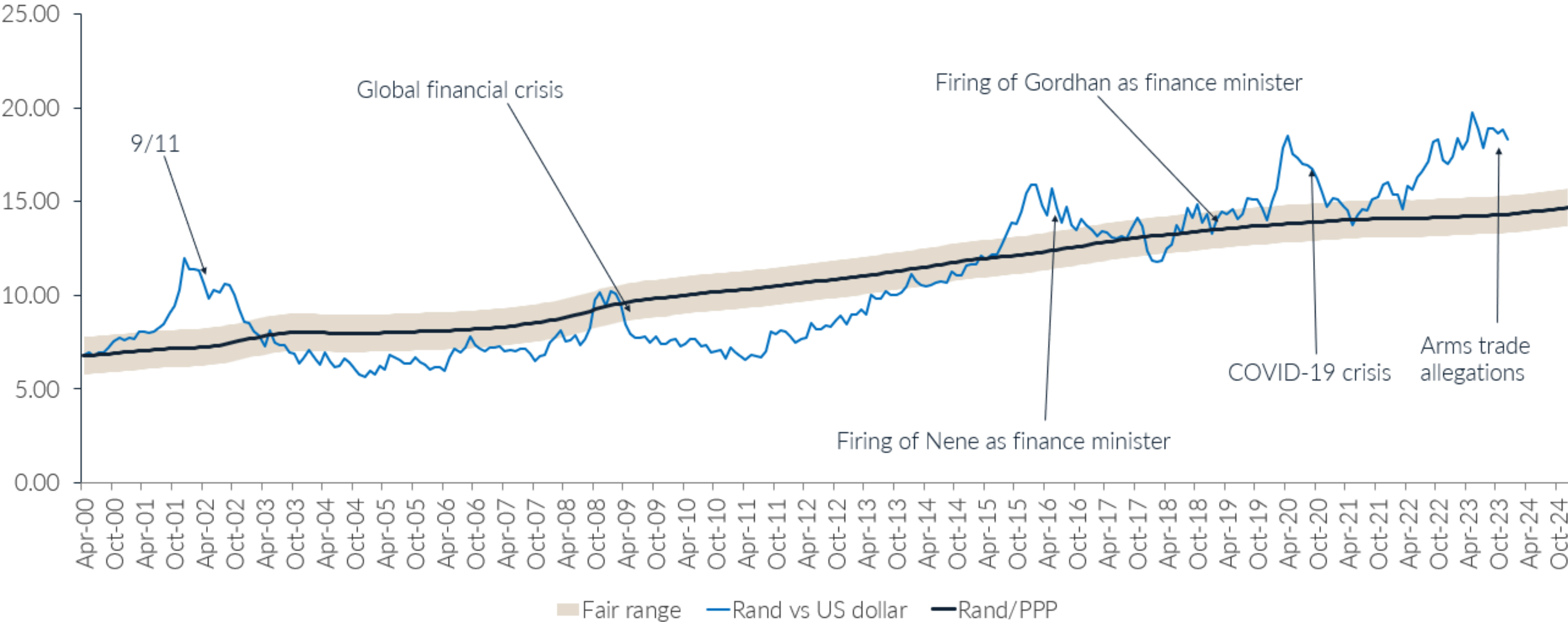


- With risks to the inflation outlook skewing increasingly to the upside, it was not surprising that the South African Reserve Bank (SARB) cautiously kept the repo rate on hold at 8.25% at its second Monetary Policy Committee (MPC) meeting for this year, with the prime rate remaining at 11.75%.
- The drift higher in headline CPI inflation from 5.1% in December to 5.3% in January and 5.6% in February continues to cause concern for the MPC as upside inflation risks linger.
- Current market sentiment suggests only one interest rate cut of 25 bps this year in SA, possibly two, with the second cut almost fully priced out.
- Over the longer term, we expect the SARB to gradually cut rates from 8.25% to 7.5% through three 0.25% cuts, reflecting the theme of higher interest rates globally
- The next meeting is scheduled for the 30 May.

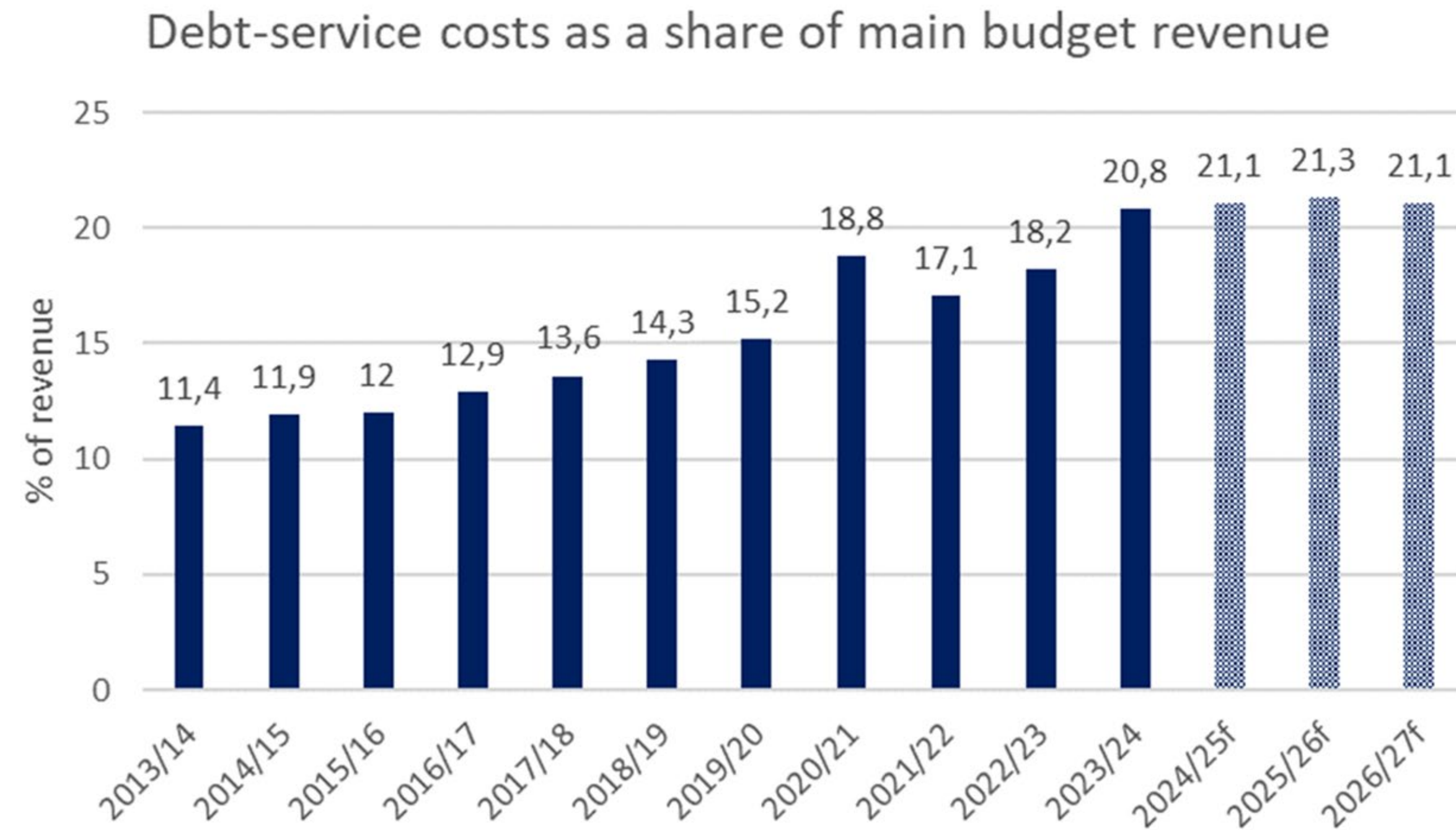


RAND - 18.50 IN 12 MONTHS

ACTUAL RAND/US\$ VS RAND PURCHASING POWER PARITY (PPP) MODEL



GOVERNMENT DEBT SERVICE COSTS



- Although government debt is now expected to stabilise at 75.3% of GDP in 2025/2026 (lower than the 77.7% projected in the 2023 MTBPS), essentially thanks to the use of GFECRA, in 2023/2024, for the first time since 2000/2001, debt-service costs absorb more than ZAc20 of every rand collected in revenue.
- Moreover, debt-service costs now absorb more of the budget than basic education, social protection, or health.
- The SA's government gross loan debt-to-GDP trajectory is about 16% higher than the median emerging market (EM) level.

BASE CASE – POST ELECTION TACTICAL REBOUND

MSCI South Africa	Index
SA Domestic	49%
Banks	25%
Insurance	8%
Retail	8%
Industrial + Telco	8%
ZAR hedge	25%
Commodities	26%

- MSCI South Africa trading at a steep discount
 - Technical factors - offshore allocations, election inertia and pressure on the risk-free rate
 - Structural factors remain in place (low growth, low fiscal flexibility and high unemployment)
- Technical factors to recede over the coming months
- Calling for a tactical rebound on SA equities
 - Specifically relative to global equities over the next 12 months
- Added optionality in the form of EM and commodities.

SA BANKS - DOUBLE DIGIT DIVIDEND YIELDS

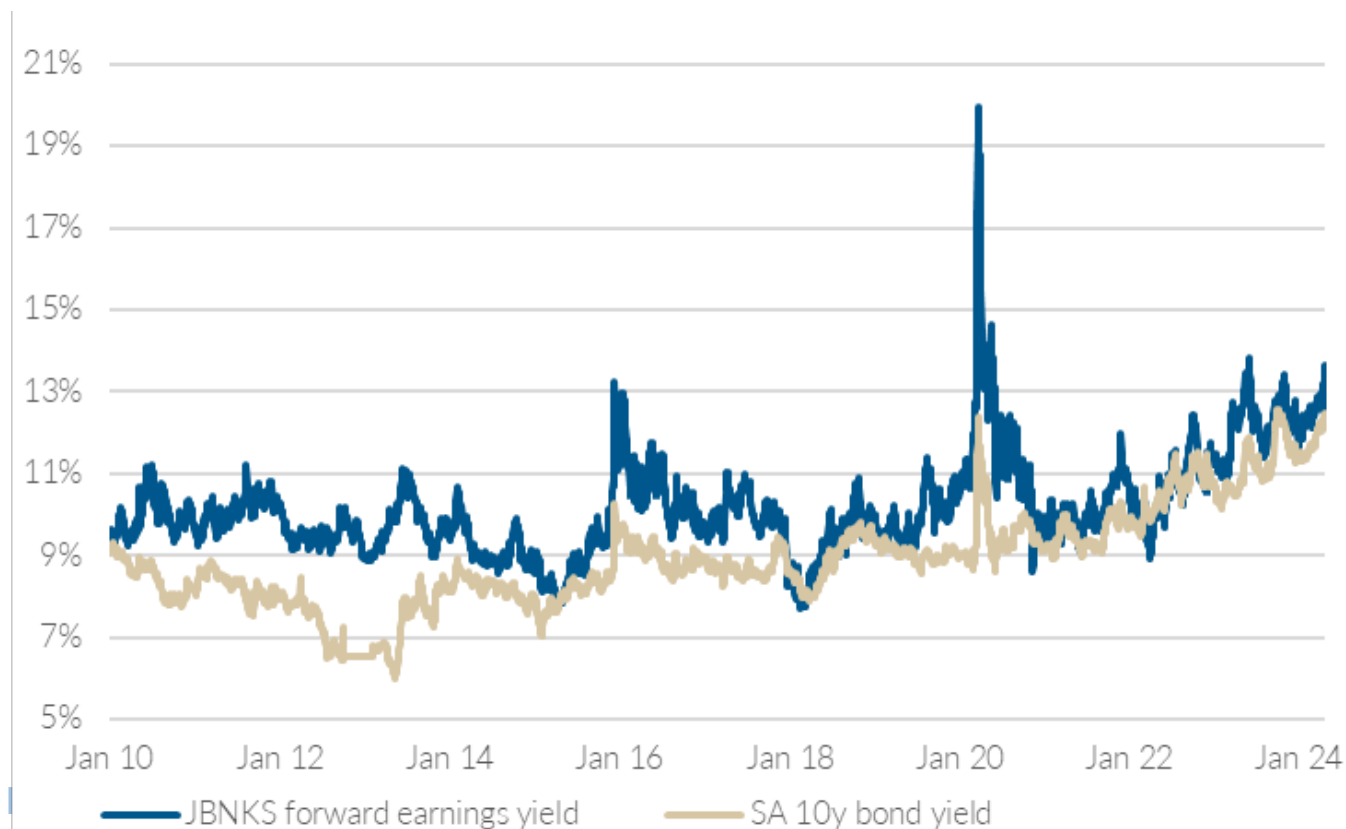
JSE banks forward PE

	ABG	NED	FSR	SBK	INL	CPI
Current*	5.0	6.1	8.5	6.2	6.5	20.0

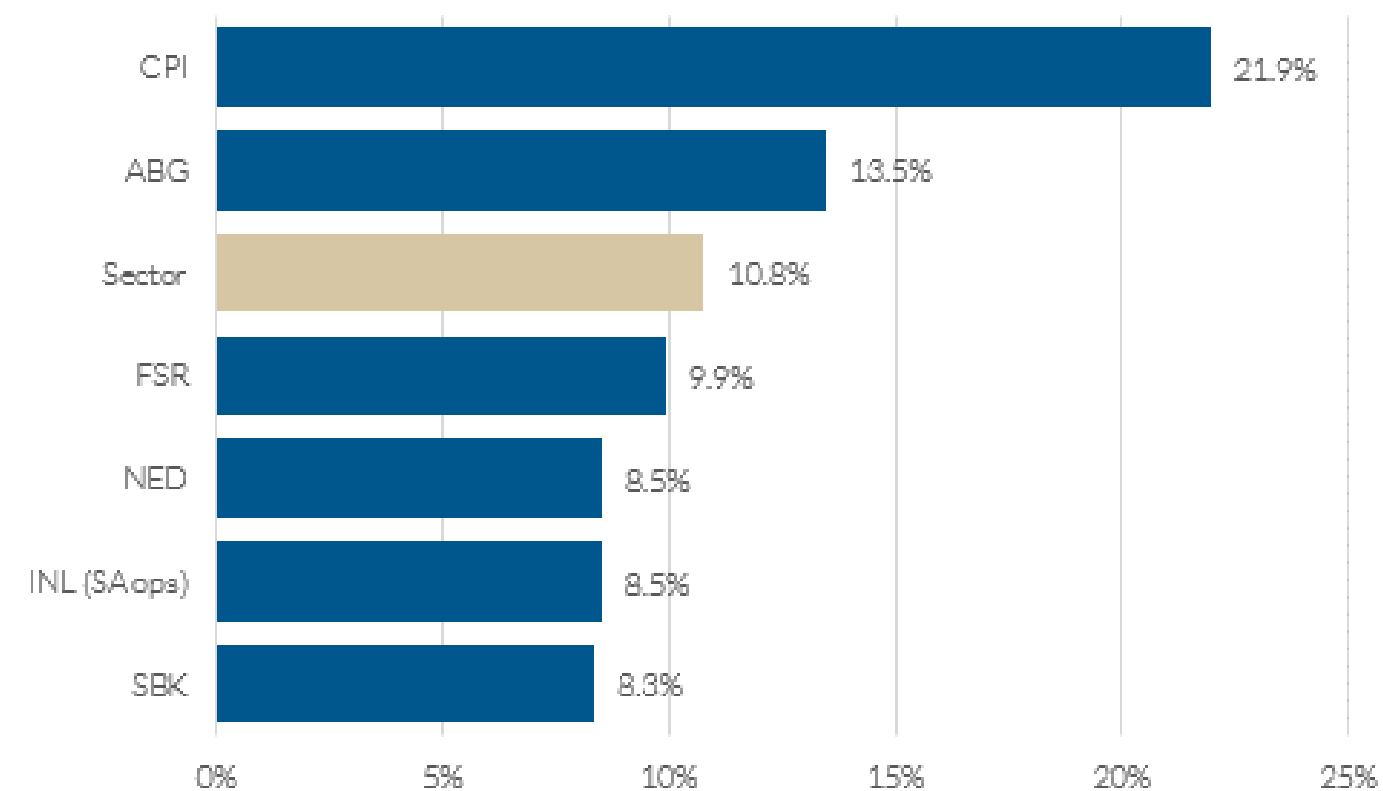
JSE banks forward Dividend Yield

	ABG	NED	FSR	SBK	CPI
Current*	11.1%	9.8%	6.8%	9.2%	2.6%

JSE banks forward earnings yield vs 10y bond yield



JSE banks forecast 3-year earnings growth



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