

REZCO

Live Webinar **Starting Shortly**

2023 Investors' Outlook: Is this a new bull market, or is caution still required?



Rob Spanjaard



Simon Sylvester

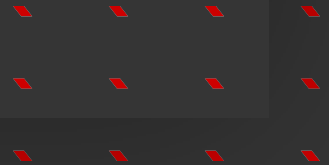


Brian du Plessis

2023 Investors' Outlook: Bull or Bear?

Is this a new bull market or is caution still required?

January 2023



AGENDA

- **Scenarios**
- **How we are positioned**
 - Fund performance
 - Allocation decisions
 - Positioned for risk managed growth
- **Why we are positioned like this: Macro**
 - The market is playing out the way we have expected
 - Managing **risk & return** in this type of market requires patience

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SCENARIOS



REZCO SCENARIOS FOR 2023

SCENARIO	OPTIMISTIC	BASE	FAT TAIL
	Soft Landing	Normal Recession	Hard Recession or Shock
PROBABILITY	30%	60%	10%
EARNINGS IMPACT	0% to 5%	-10% to -25%	-25% to -45%
DESCRIPTION	Inflation falls to target while wages decelerate, corporates tighten up but profits are stable and balance sheets strengthened	The Fed needs a recession to break inflation, unemployment rises to curb wage increases, services inflation is stickier and requires a recession to cool demand	Something breaks due to: 1) impact of rapidly increased interest rates; or 2) geopolitical shock eg Ukraine and nuclear tensions; or 3) inflation remains sticky

MANAGING SCENARIO RISK

The outcome is not the weighted average, it is one of the scenarios.

Investors need to be able to live with all of the outcomes.

How clients experience scenario risk and how asset manager's businesses are exposed are very different.



THERE'S ALWAYS A DEBATE

Fed chairman projects 'soft landing' for U.S. economy - Business - International Herald Tribune



Give this article



By **Edmund L. Andrews**

Feb. 15, 2007



FUND PERFORMANCE & POSITIONING

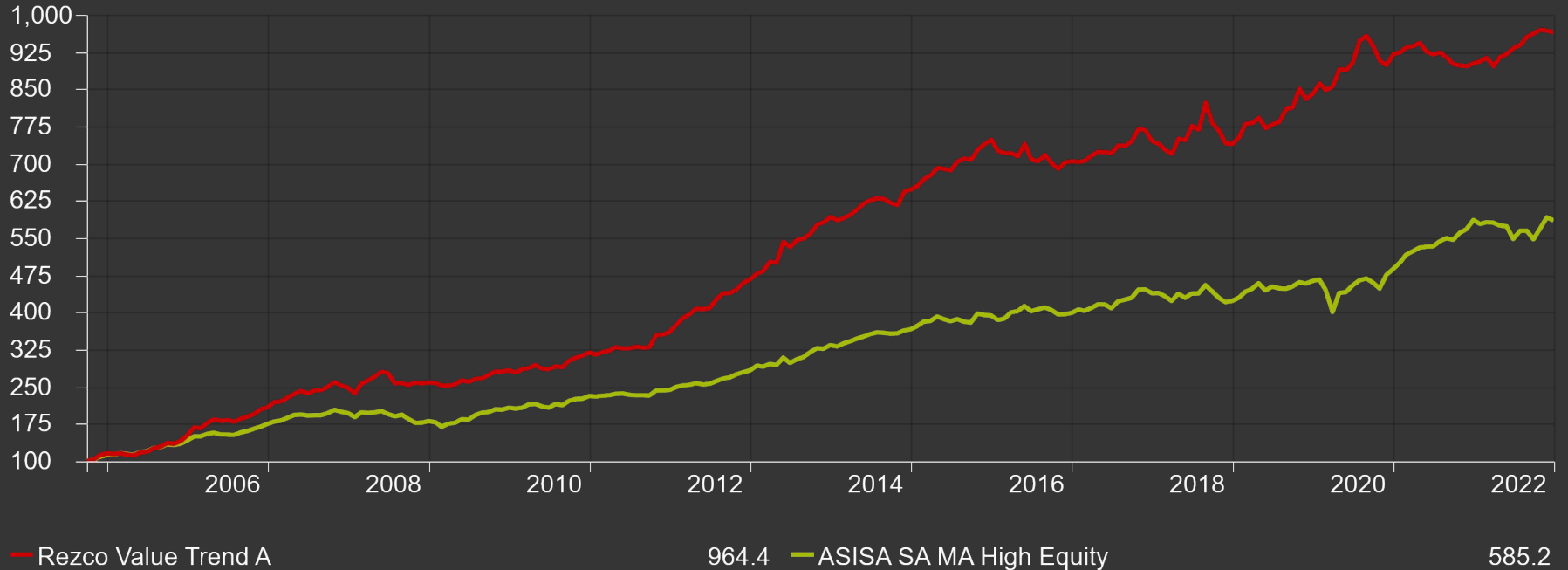
FUNDS POSITIONED FOR MANAGING RISK

	Managed Plus	Value Trend	Stable	SA Equity	Global Flexible
SA Equity	20%	10%	10%	95%-97%	
Global Equity	17%	7%	5%		30%
Total Equity	37%	17%	15%		30%
SA Gov Bonds (Duration)	28%	35%	35%		
SA Floating Rate Notes & Cash	14%	24%	35%		
Global Short Duration	17%	21%	11%		70%
alis AI Market Neutral Fund	4%	4%	4%		
Direct Offshore	39%	33%	20%		

LONG TRACK RECORD OF MANAGING RISKS THROUGH DIVERGENT SCENARIOS

Time Period: Since Common Inception (10/1/2004) to 12/31/2022

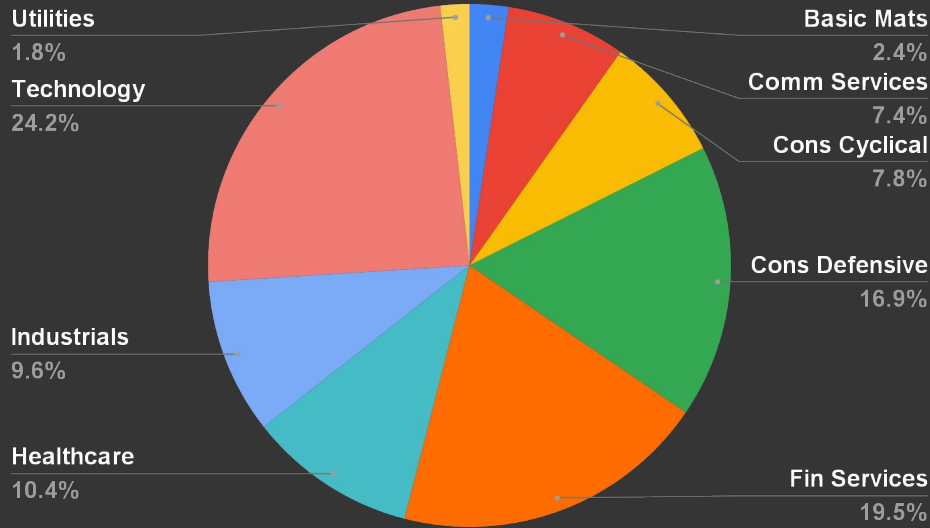
Currency: South African Rand Source Data: Total Return



GLOBAL EQUITY EXPOSURE

100% BASIS

Sector Allocation



FACTOR	METRIC
12 Month Forward PE	20.8
EPS Growth FY1-FY2	25.8%
3 Month EPS Revisions FY1	5.6%
Debt / MV	13.9%
FCF Yield	4.8%
Ex Ante Beta	1.03
alis Machine Learning Score	80.2

REZCO GLOBAL EQUITY MANDATES

MSREZ002 C 131.273 -- 131.273 / 131.273
On 29 Jan 0 131.273 H 131.273 L 131.273 Prev 131.273

MSREZ002 Index 94 Suggested Charts 96 Actions

G 92: ALL PEPS GRAPH-Complete

01/02/2022 - 01/27/2023 Local CCY

1D 3D 1M 6M YTD 1Y 5Y Max Daily Table

Add Data

Edit Chart

Track Annotate News Zoom



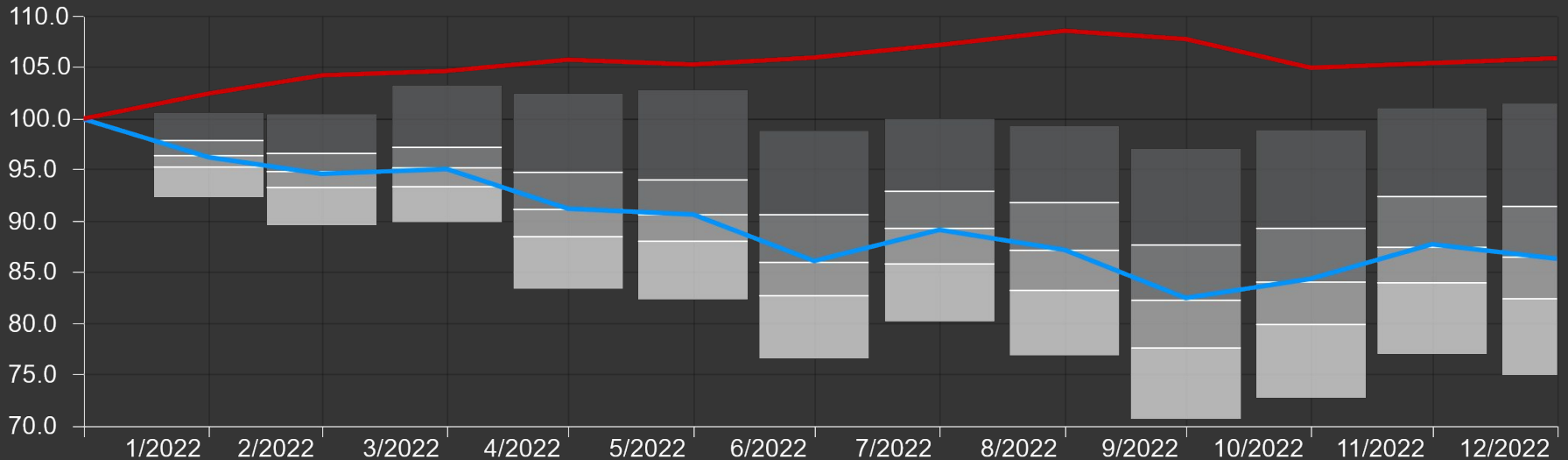
WE NAVIGATED THE TOUGH 2022 WELL...

2023 may be similar

Time Period: 1/1/2022 to 12/31/2022

Peer Group (5-95%): Open End Funds - Europe/Africa/Asia - USD Flexible Allocation Currency: US Dollar Source Data: Total Return

■ Top Quartile ■ 2nd Quartile ■ 3rd Quartile ■ Bottom Quartile



— Rezco Global Flexible Fund

105.9 — EAA Fund USD Flexible Allocation

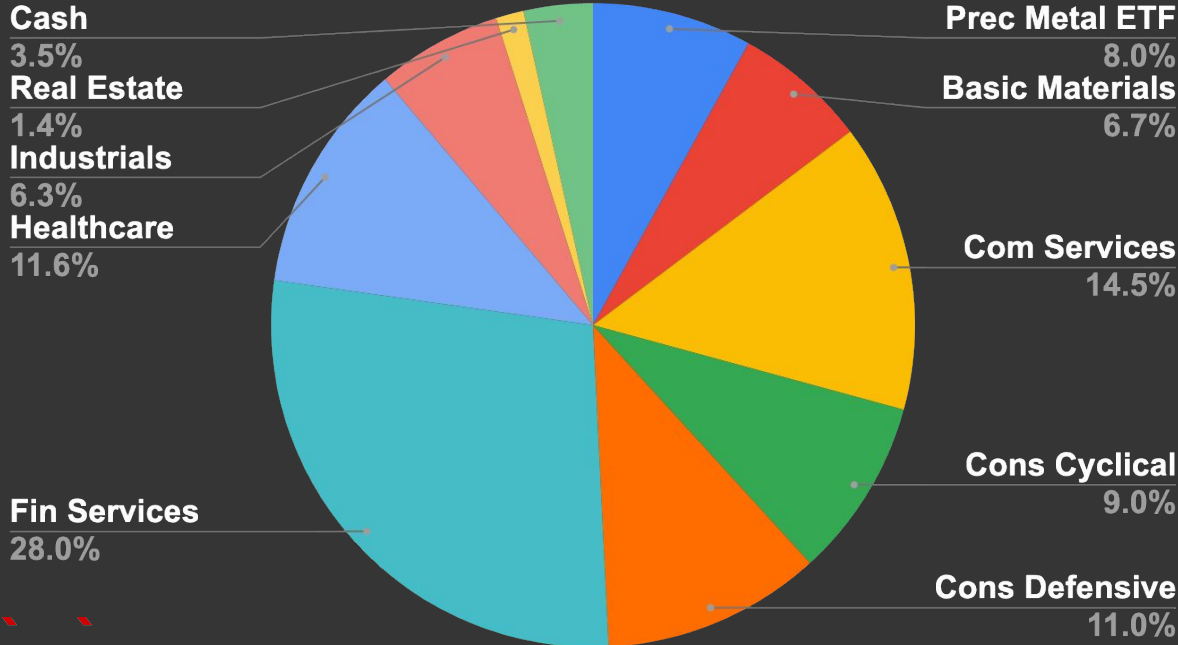
86.3

Source: Morningstar Direct

SA EQUITY EXPOSURE

REZCO EQUITY FUND

SECTOR ALLOCATION

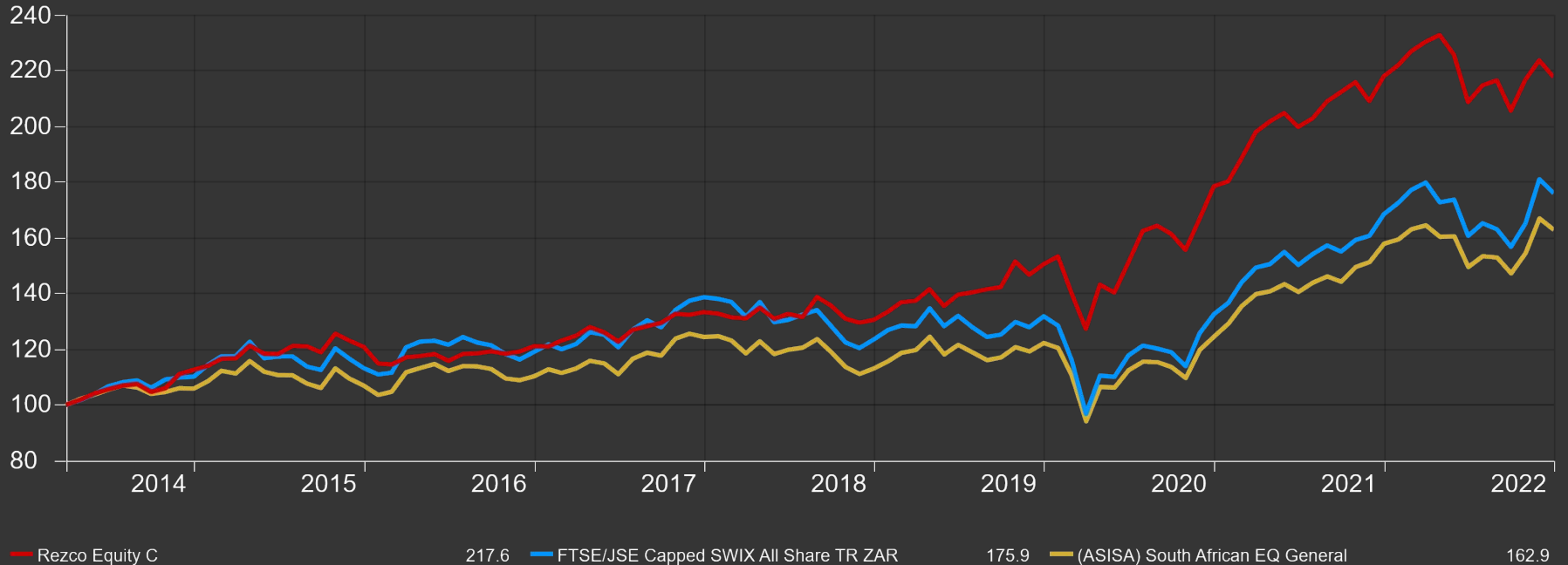


FACTOR	METRIC
12 Month Forward PE	11.9
EPS Growth FY1-FY2	11.8%
3 Month EPS Revisions FY1	0.50%
Debt / MV	24.2%
Ex Ante Beta	0.81

REZCO EQUITY FUND SINCE INCEPTION

Time Period: Since Common Inception (4/1/2014) to 12/31/2022

Currency: South African Rand Source Data: Total Return



Source: Morningstar Direct

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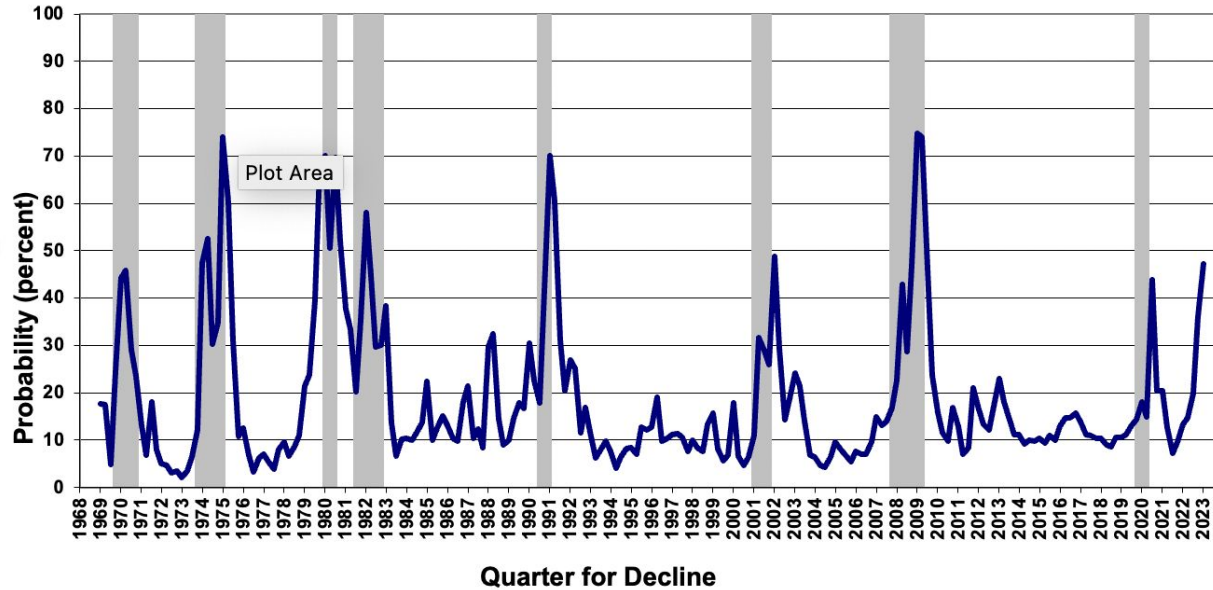
WHY WE ARE POSITIONED
LIKE THIS:

REZCO SCENARIOS FOR 2023

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GLOBAL RECESSION IN H2 2023 IS CONSENSUS

The Anxious Index
One-Quarter-Ahead Probability of Decline in Real GDP
Quarterly, 1969:Q1 to 2023:Q1



The shading shows the period beginning with each NBER peak and ending with the corresponding trough.

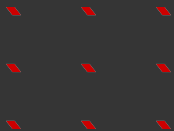
Philadelphia Fed

THE RECESSION IS GLOBAL

USING MOSTLY USA GRAPHS FOR BREVITY

THE PICTURE IS SIMILAR FOR THE EU AND UK

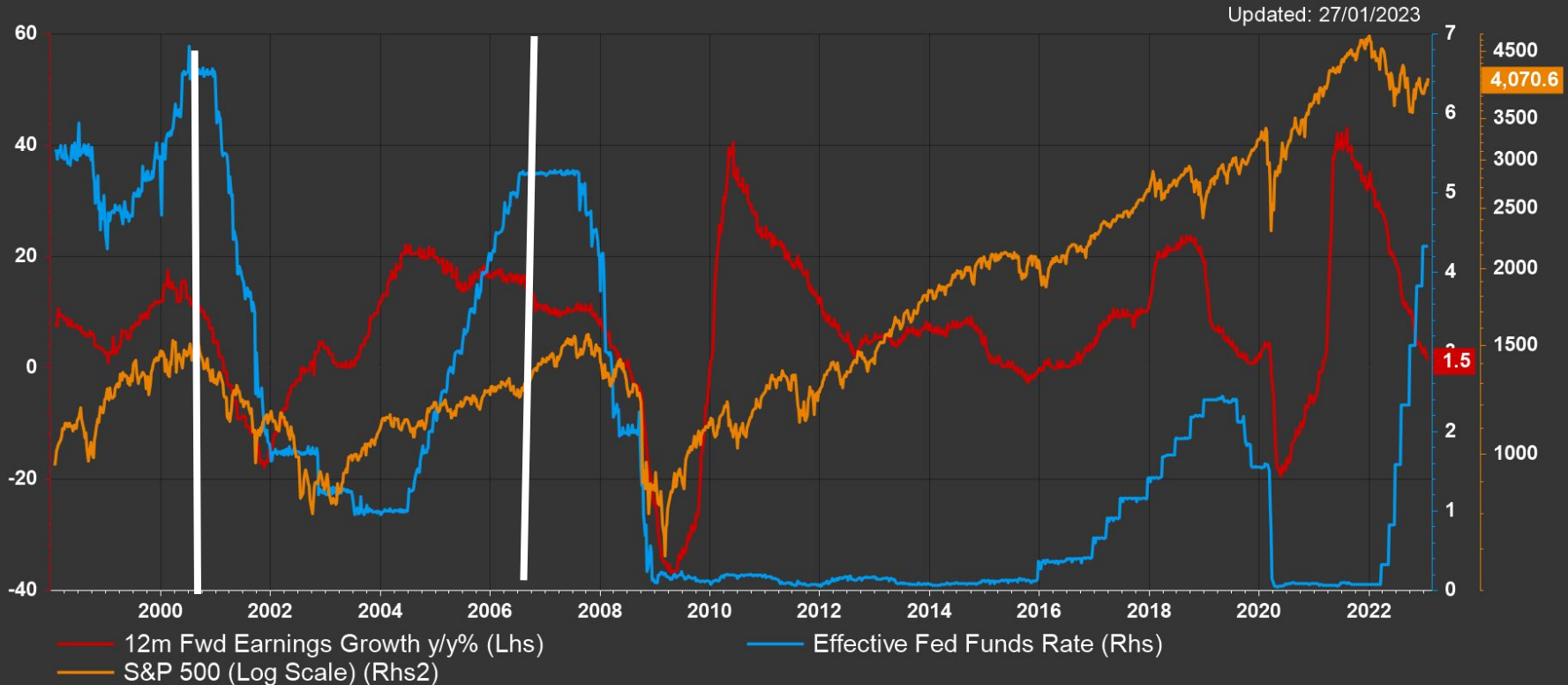
CHINA - NOW LOW GROWTH



INTEREST RATES AND MARKETS

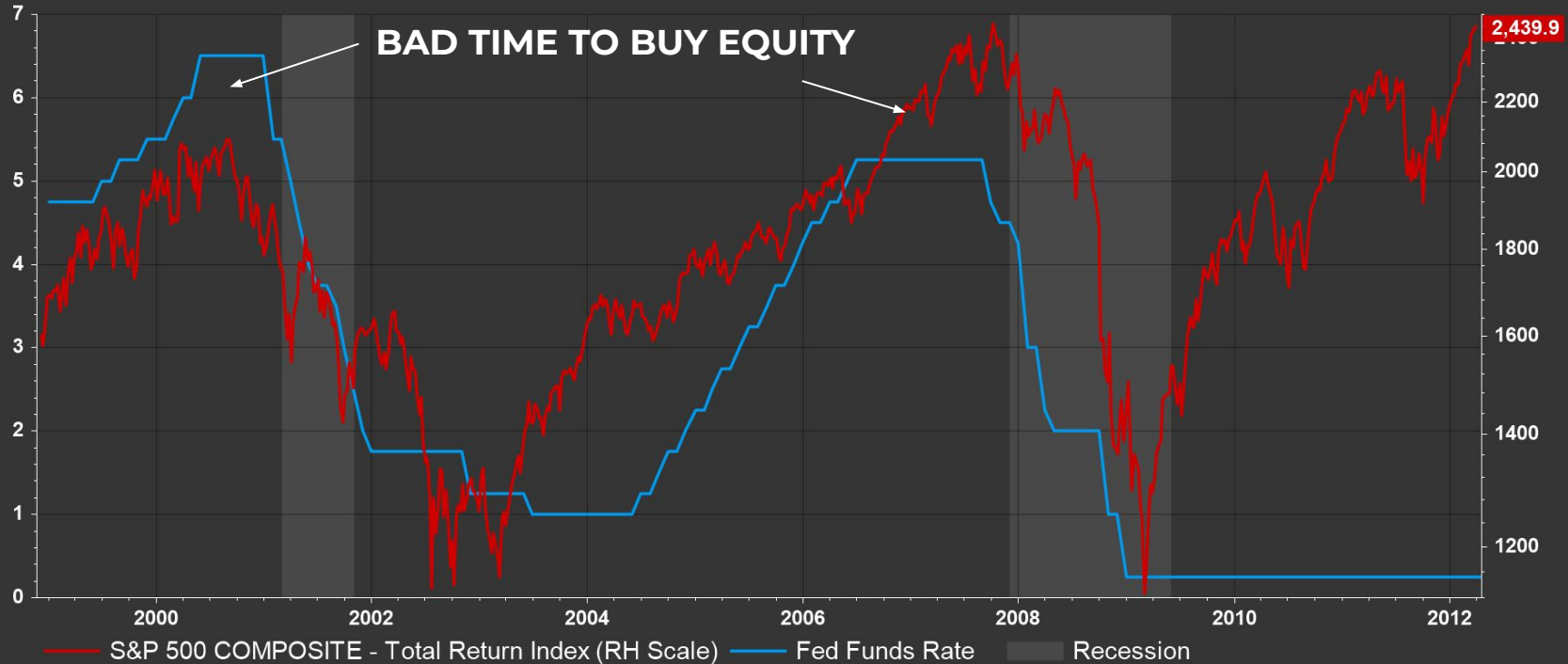
The bear/recession only starts after rates pause

US MARKET



MARKET TIMING USING THE FED FUNDS RATE?

US INTEREST RATE VS S&P500

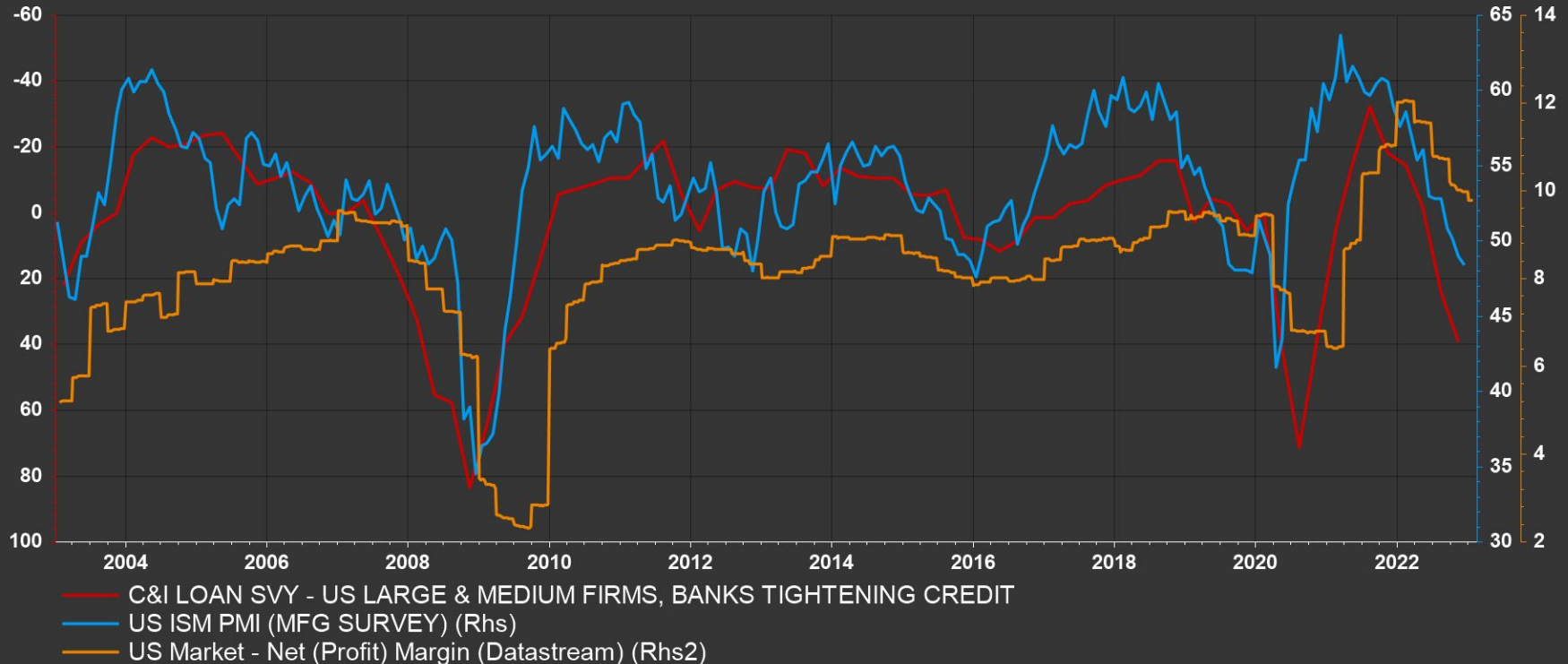


Source: Refinitiv Datastream / Rezco

REAL TIME INDICATORS ARE FLASHING RED

Lending standards, PMI's, Profit Margins

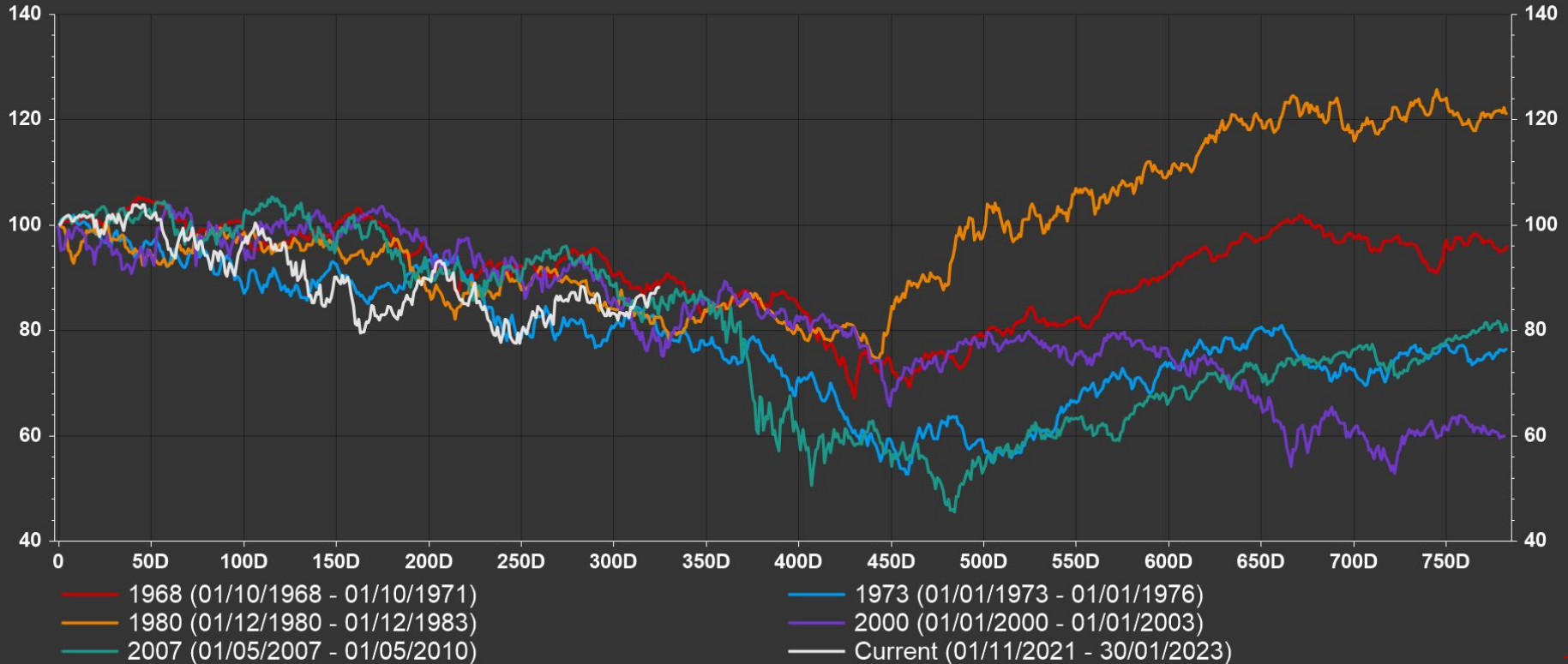
Bank Tightening Standards (Inverted), ISM, US Net Profit Margin [20 years]



S&P - BEAR MARKETS WITH RECESSIONS

BE PATIENT

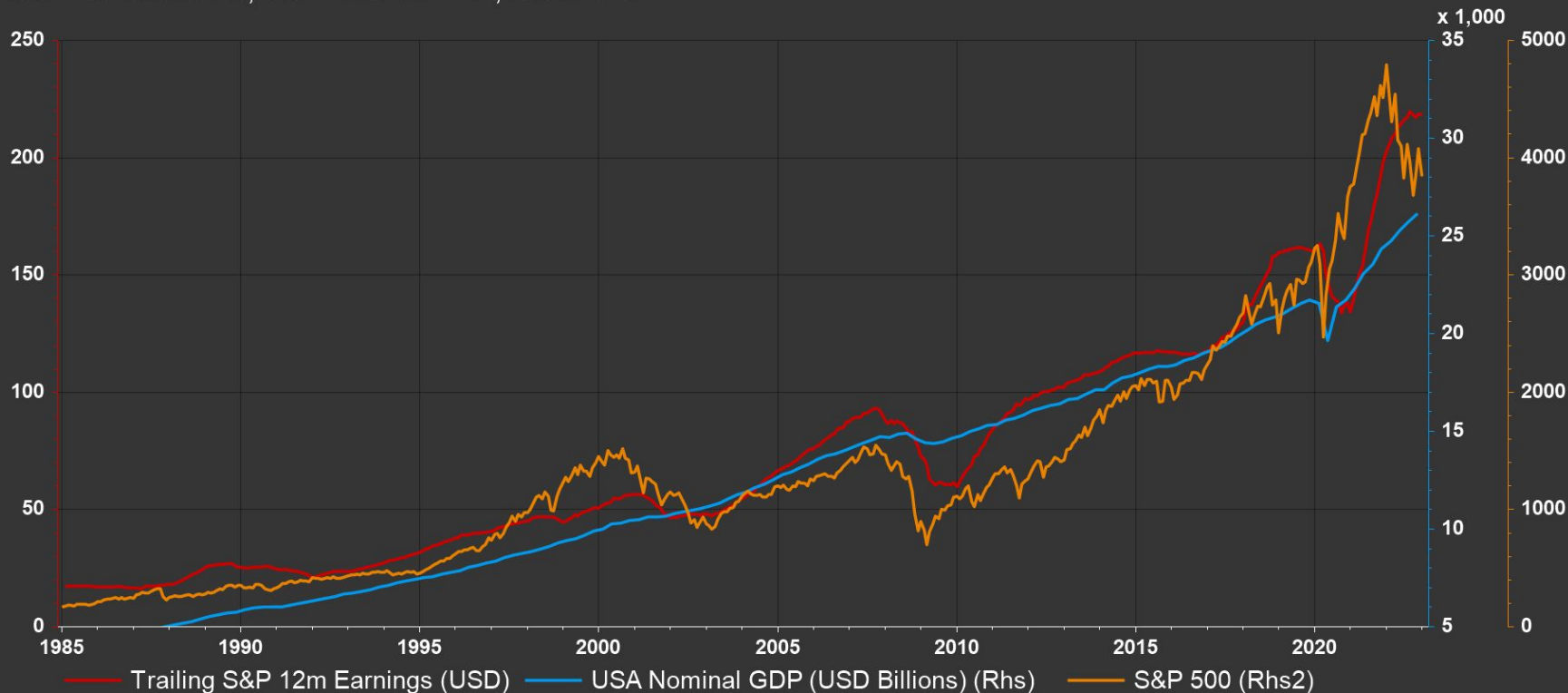
S&P THROUGH RECESSIONS (REBASED)



2022 PROBABLY WASN'T THE BEAR MARKET

Just correcting the 2021 over-earning

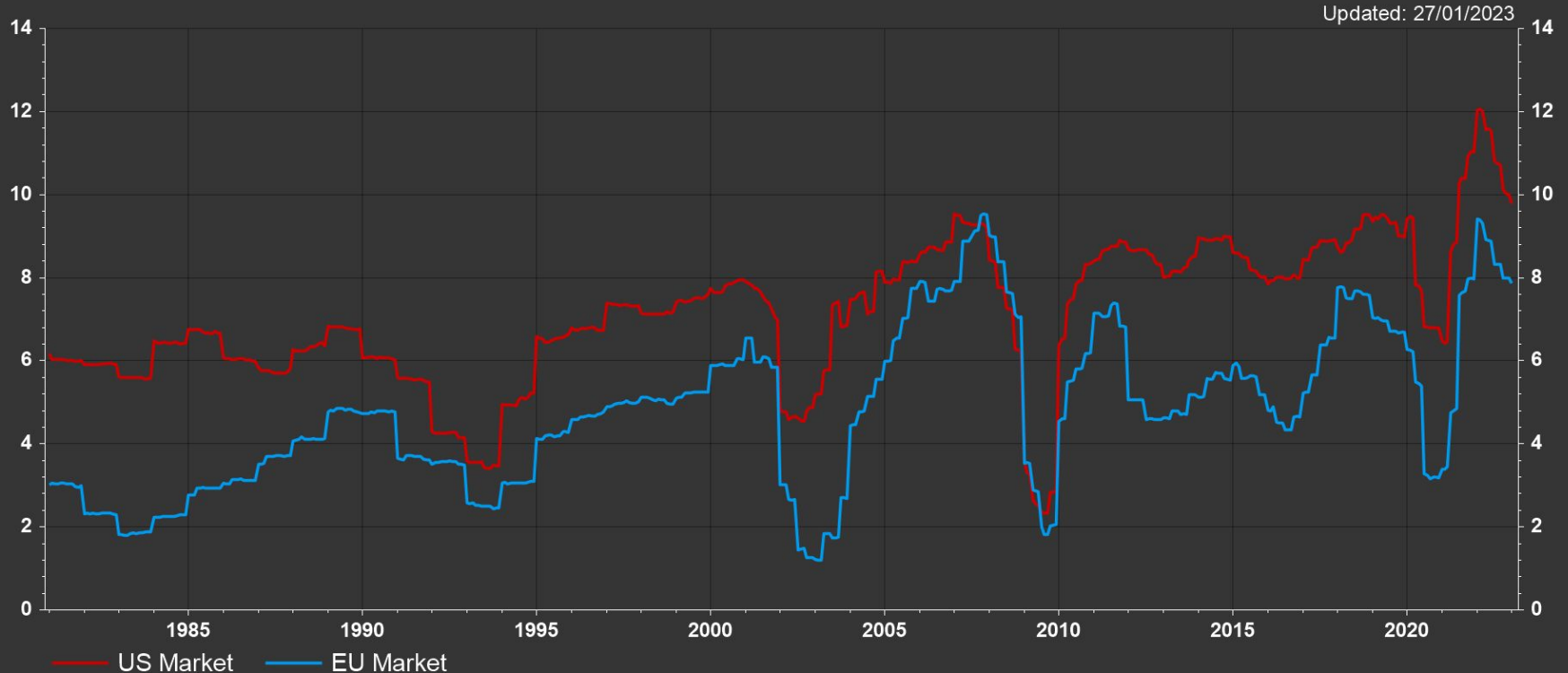
S&P Historical EPS, USA Nominal GDP, & S&P 500



CORPORATE PROFIT MARGINS

Still need to normalise

US & EU Market Net Profit Margin (Long Term)



TINA (There Is No Alternative) - NO LONGER TRUE

US MARKET EARNINGS & US 2YR YIELD (LONG TERM)



Source: Refinitiv Datastream / Rezco

WORLD OF FREE MONEY IS OVER

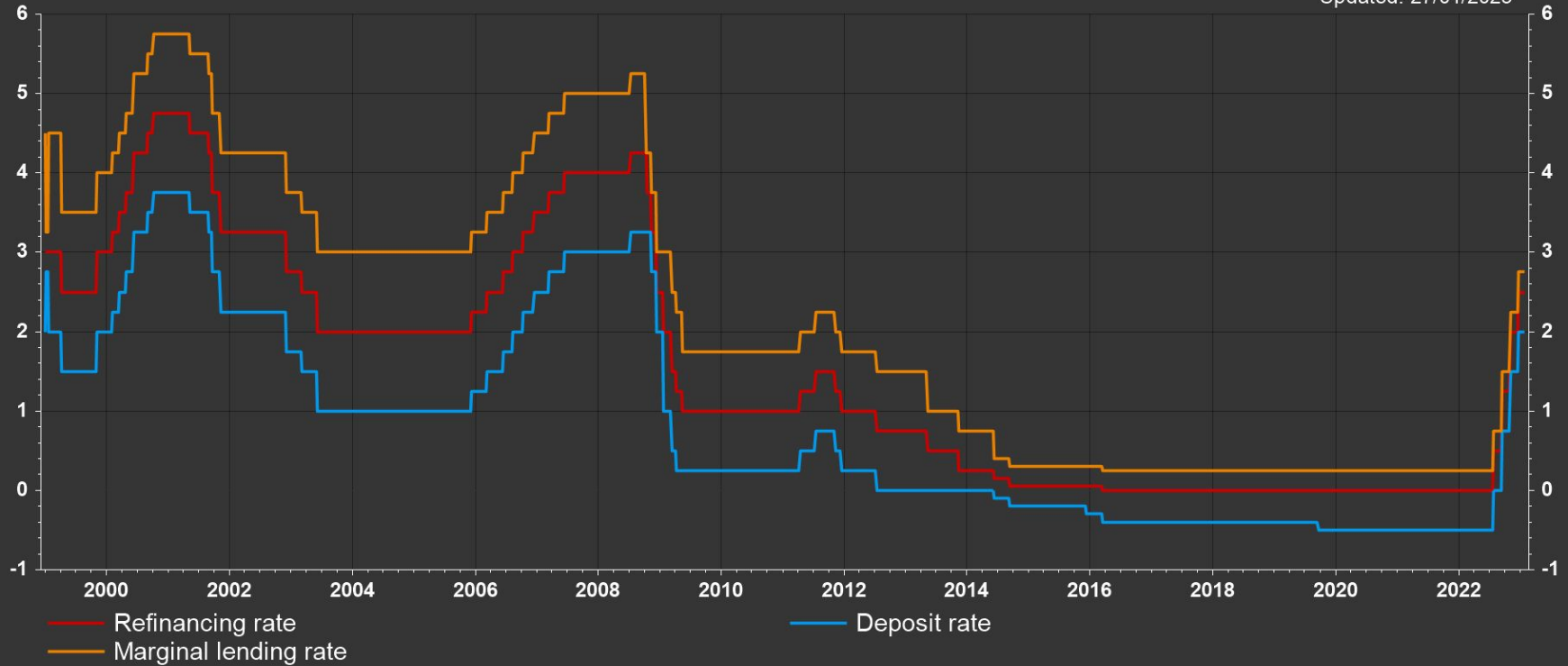
Bonds with negative yield \$tn



EU: END OF A DECADE OF FREE MONEY

ECB POLICY RATES

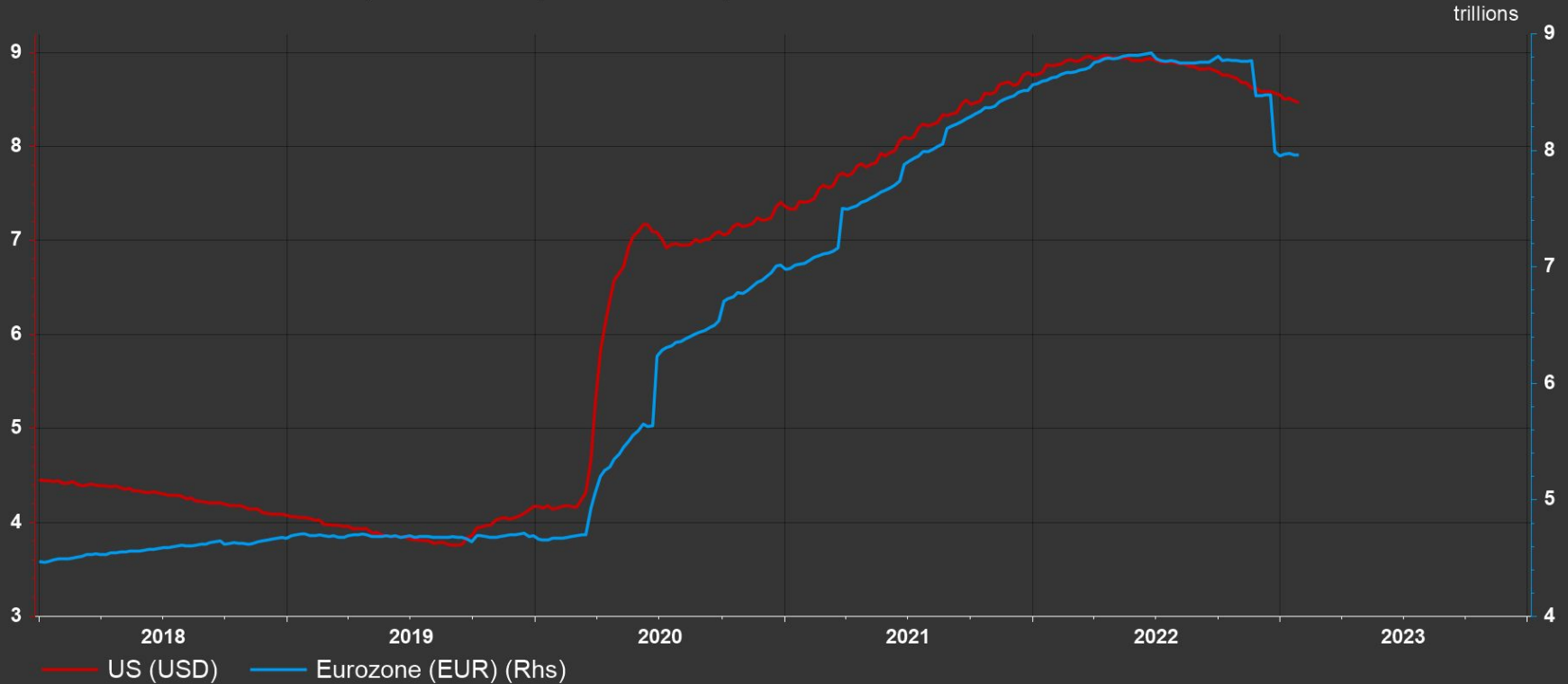
Updated: 27/01/2023



Source: Refinitiv Datastream / Rezco

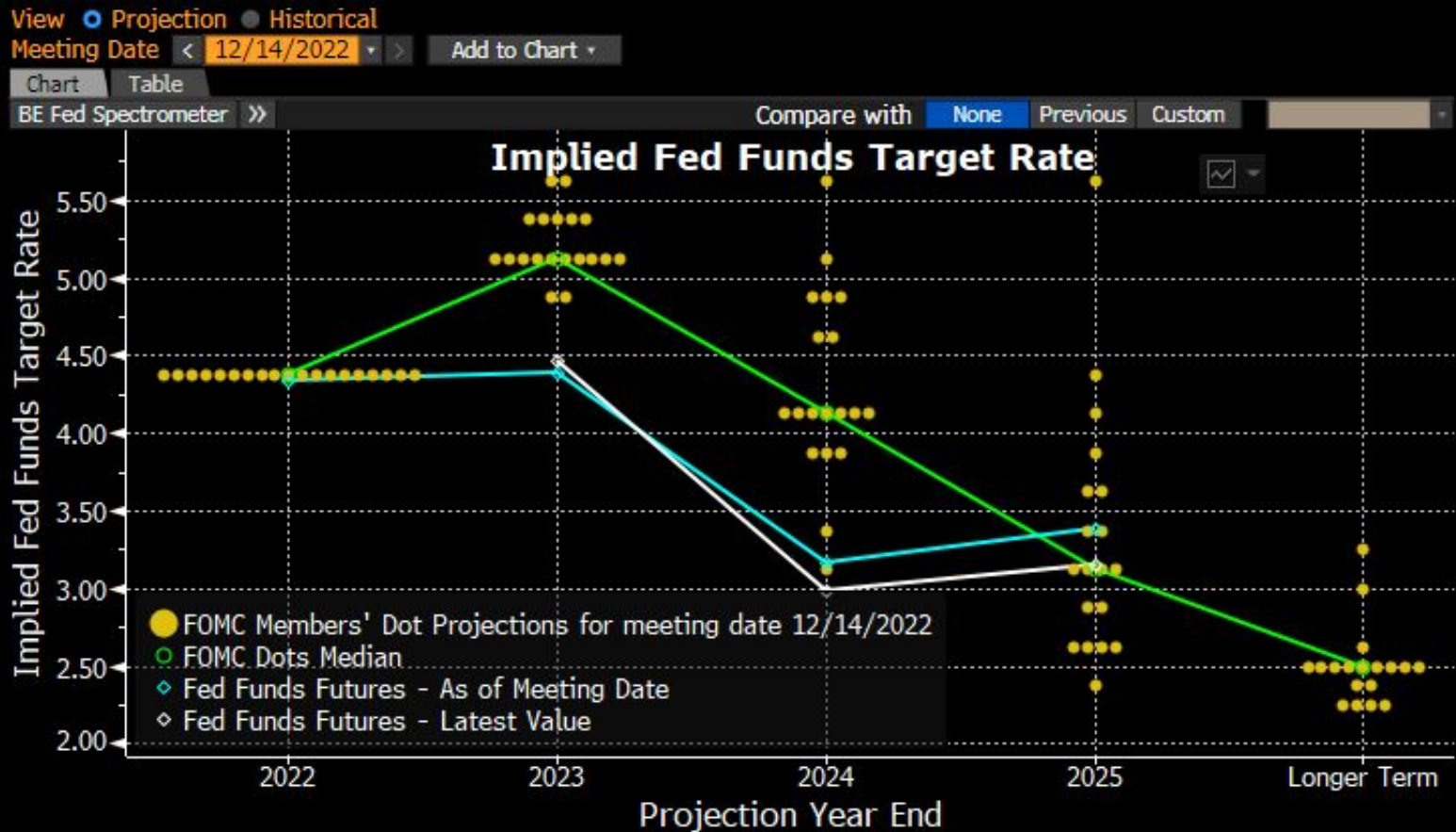
CENTRAL BANKS ARE DOING QT NOW

Central Bank Balance Sheets, Total Assets [2018 - Present]



Source: Refinitiv Datastream / Rezco

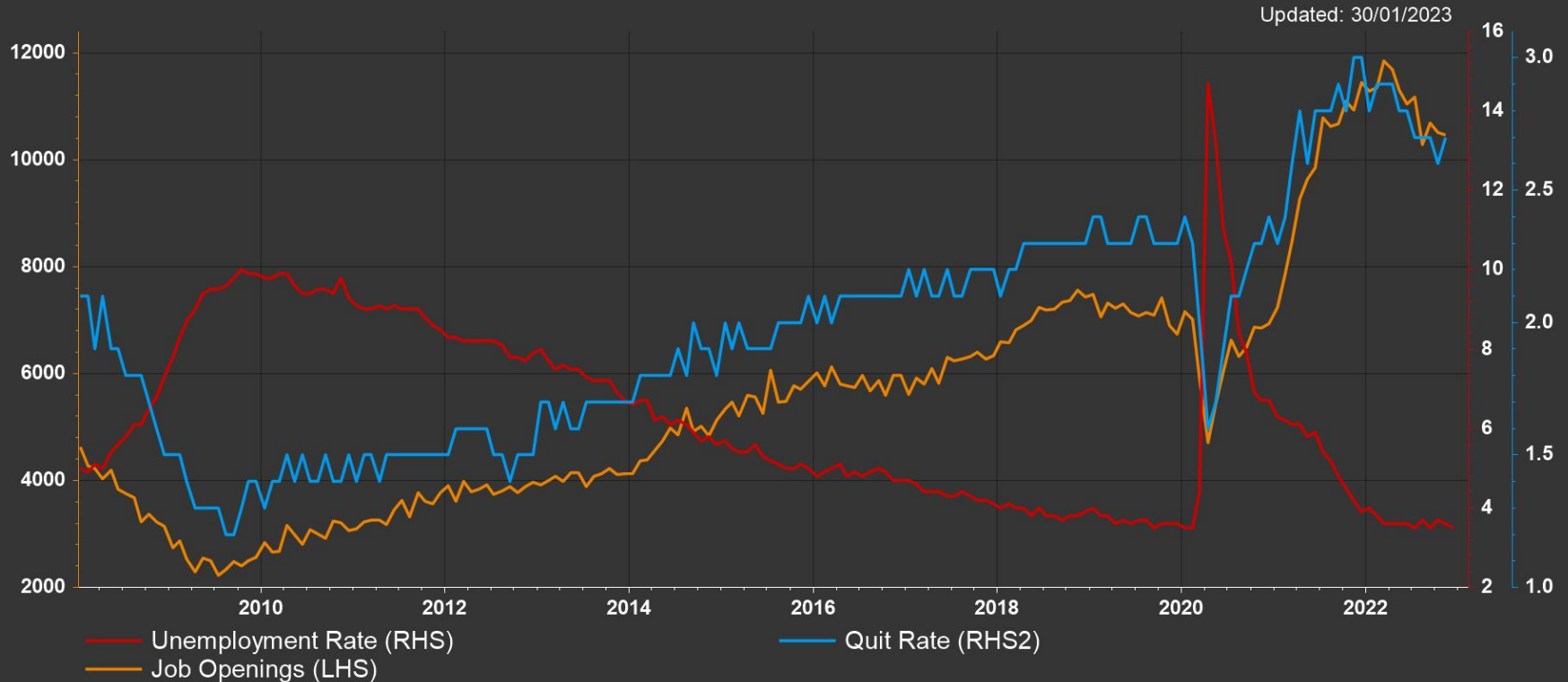
THE MARKET IS BETTING HEAVILY ON A FED PIVOT



WHAT THE FED ARE WATCHING

The labour market is way too hot

US Job Market



Source: Refinitiv Datastream / Rezco

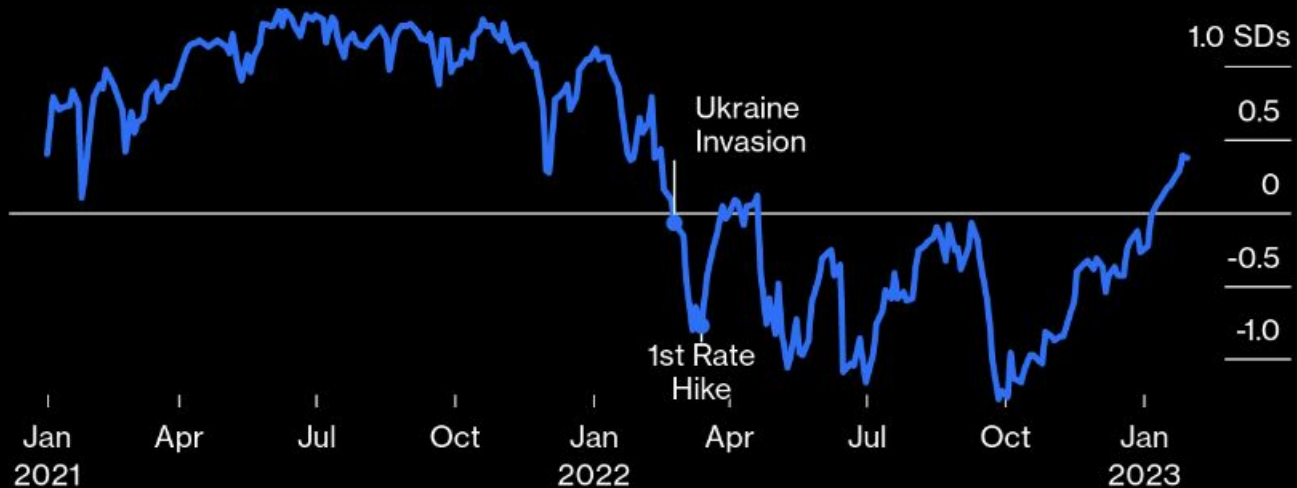
NO ONE IS TAKING THE FED SERIOUSLY

Financial conditions are looser than before the first rate hike

Unconditional Joy

The rally has left financial conditions their easiest in almost a year

— Bloomberg US Financial Conditions Index



Source: Bloomberg

BloombergOpinion

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SOUTH AFRICA



ALSI HITTING HIGHS



Source: Refinitiv Datastream / Rezco

CAREFUL OF CYCLICAL SHARES GOING INTO A RECESSION

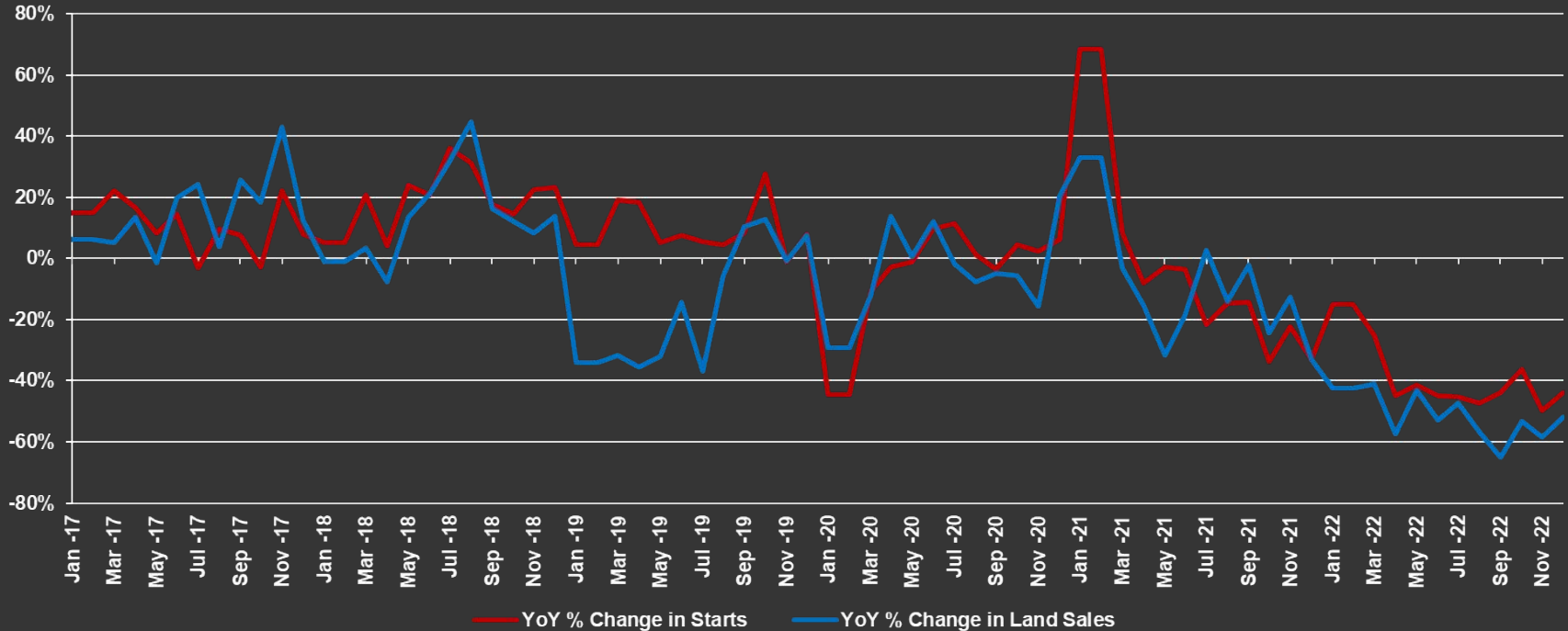
ANGLO AMERICAN THROUGH THE CYCLES



“HOUSES ARE FOR LIVING IN, NOT SPECULATION”

XI JINPING

YoY % Change in Chinese Land Sales and Housing Starts



CAUTIOUS OF OVER-EARNING COMPANIES

Betting on a soft landing as base case

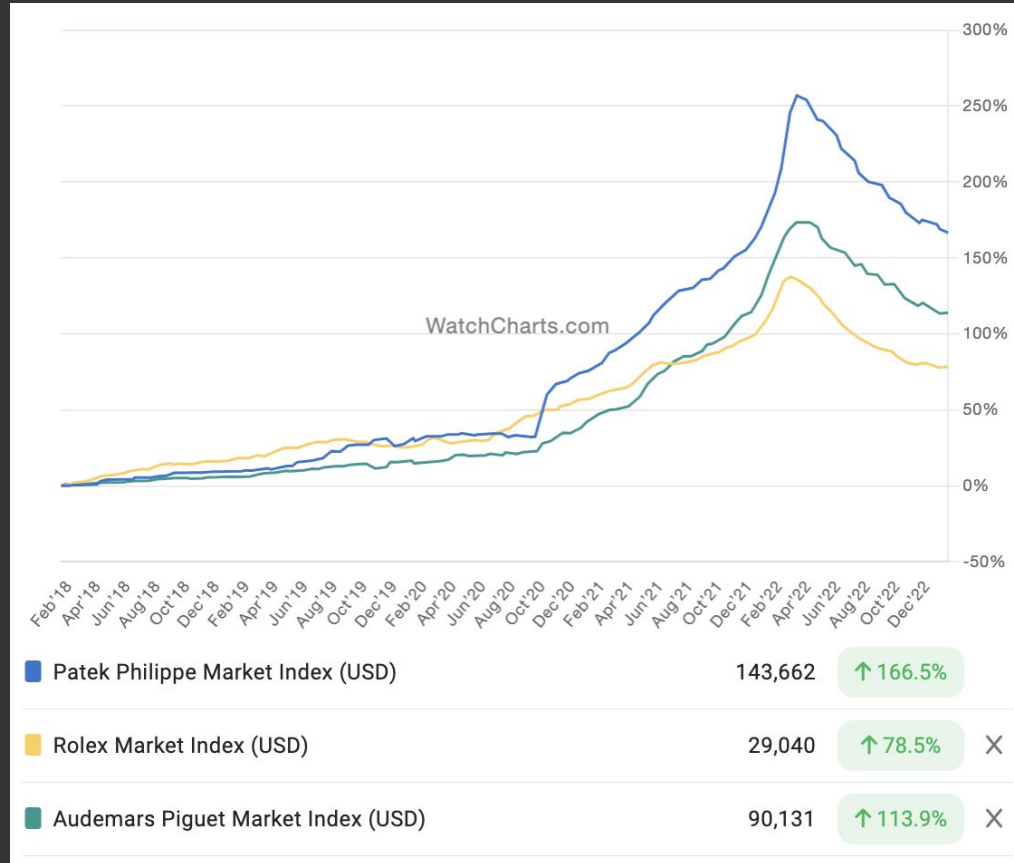
RICHEMONT SHARE PRICE & EARNINGS

Updated: 27/01/2023



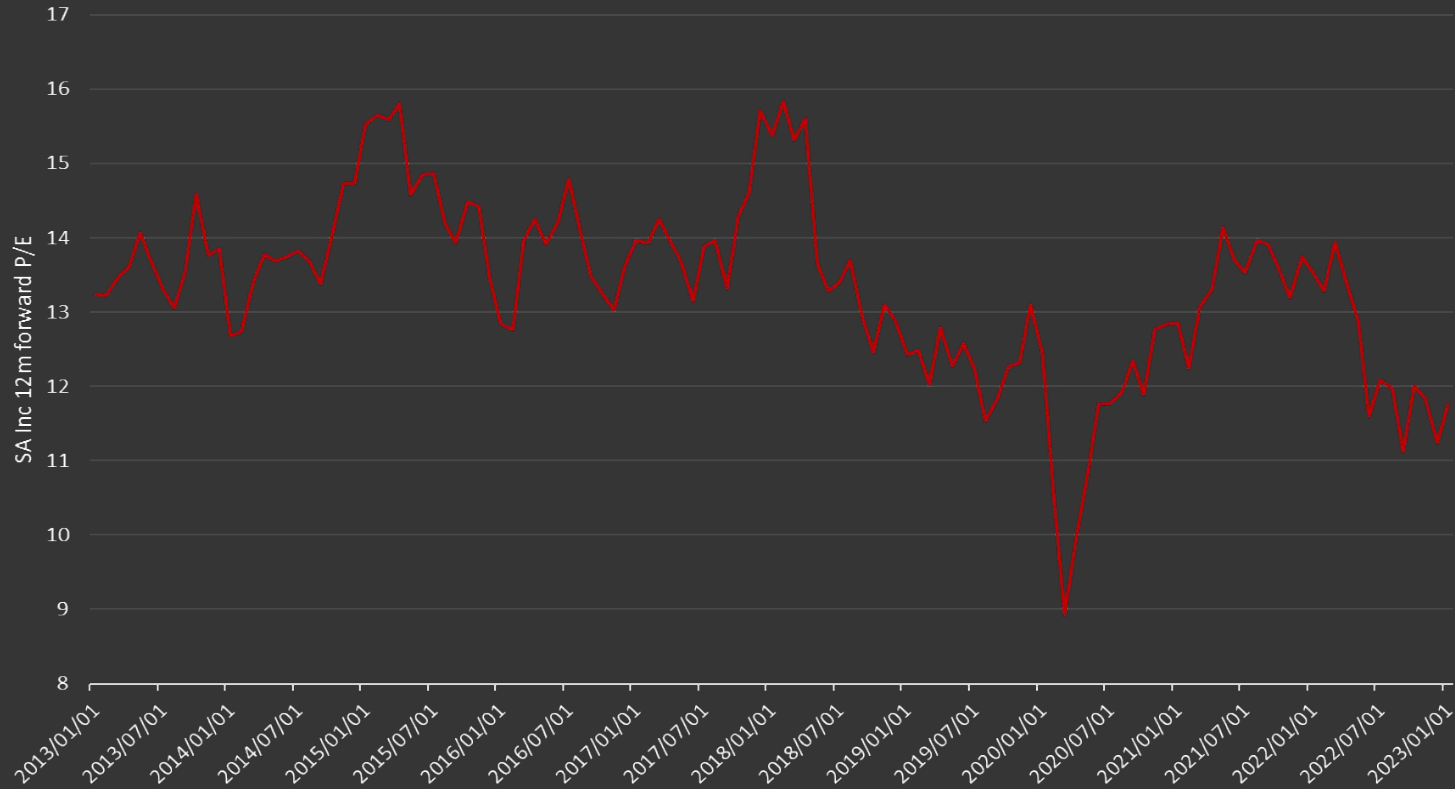
Source: Refinitiv Datastream / Rezco

WATCH PRICES WERE IN A BUBBLE



SA INC LEFT BEHIND IN THE RALLY

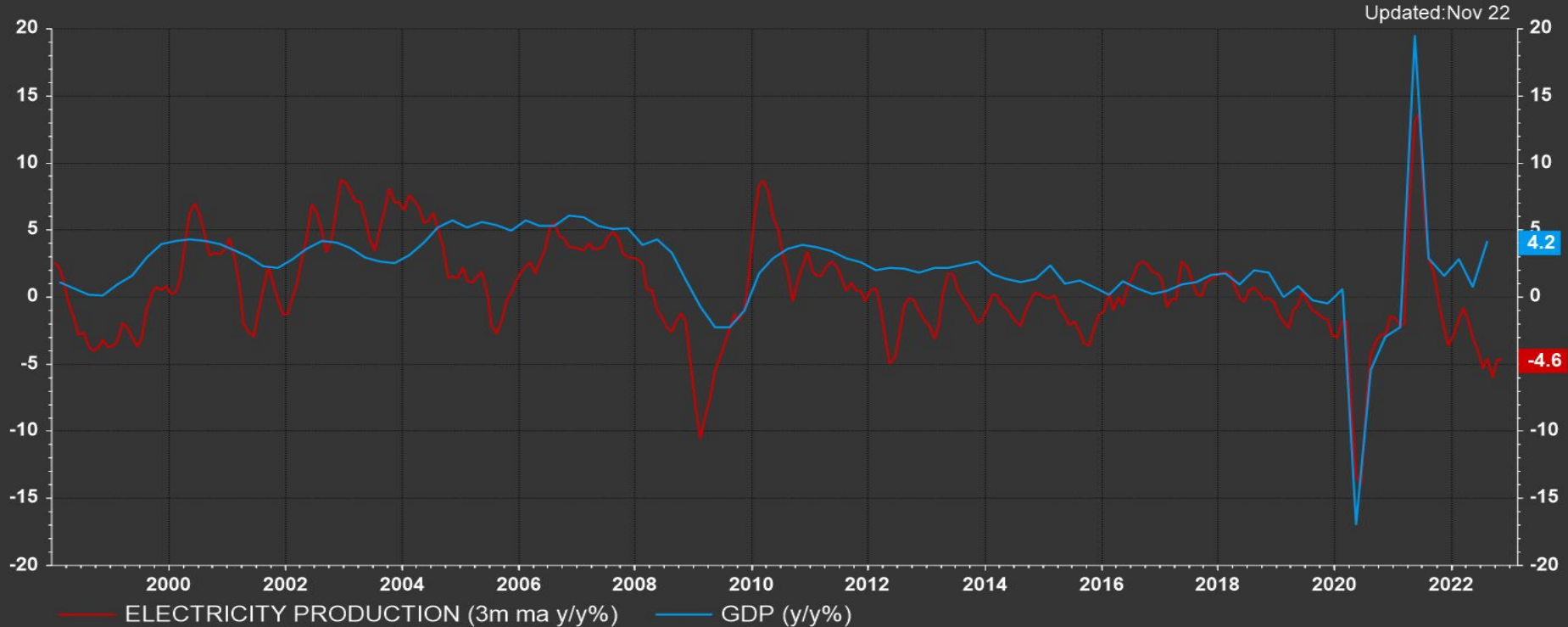
SA Inc Top 40 Equally weighted 12m forward P/E



Source: Refinitiv Datastream. Construction: Equally weighted consensus forward P/E's of the largest 40 largest JSE stocks each month, excluding miners, oil, paper producers or where a majority of the stocks earnings are derived from outside South Africa.

ESKOM IS A PROBLEM FOR THE ECONOMY

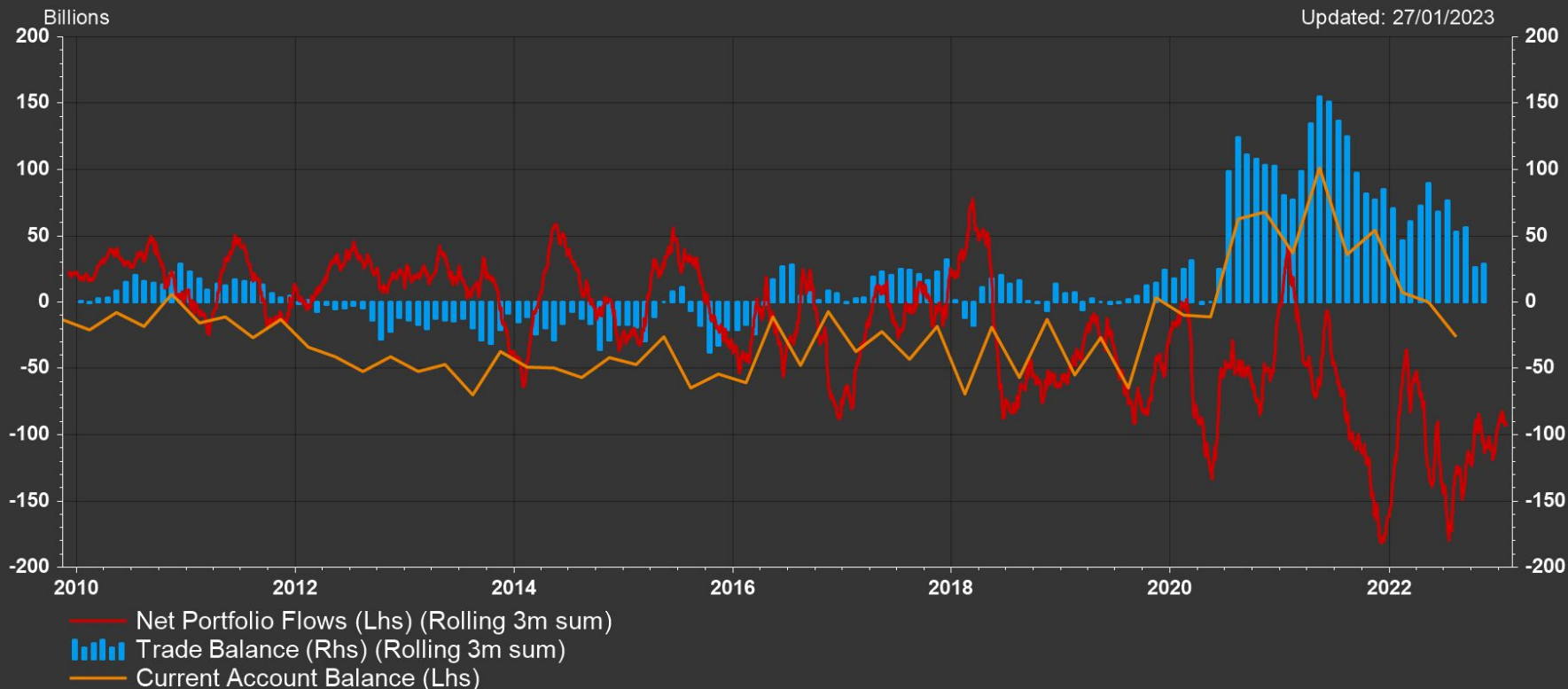
SOUTH AFRICA GDP AND ELECTRICITY



Source: Refinitiv Datastream / Rezco

THE NEED FOR EXTERNAL FINANCING: ZAR RISKS

SA TRADE BALANCE



Source: Refinitiv Datastream / Rezco

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CLOSING



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FOCUSED ON POSITIVE RETURNS

- **MUST BE ABLE TO HANDLE ALL SCENARIOS**
- Funds are invested accordingly
- Tail risk is monitored closely, and hedges can be used to help manage this risk
- Fund will tick up in a strong market
 - We will be vigilant and adjust “IF” data which supports a soft landing

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THANK YOU

Please stay on for our usual 'Coffee Chat'



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PRESERVING CAPITAL* & CREATING WEALTH.

*While the portfolio manager will attempt to minimise risk, it is possible that the investor could incur losses, including the loss of principal invested.

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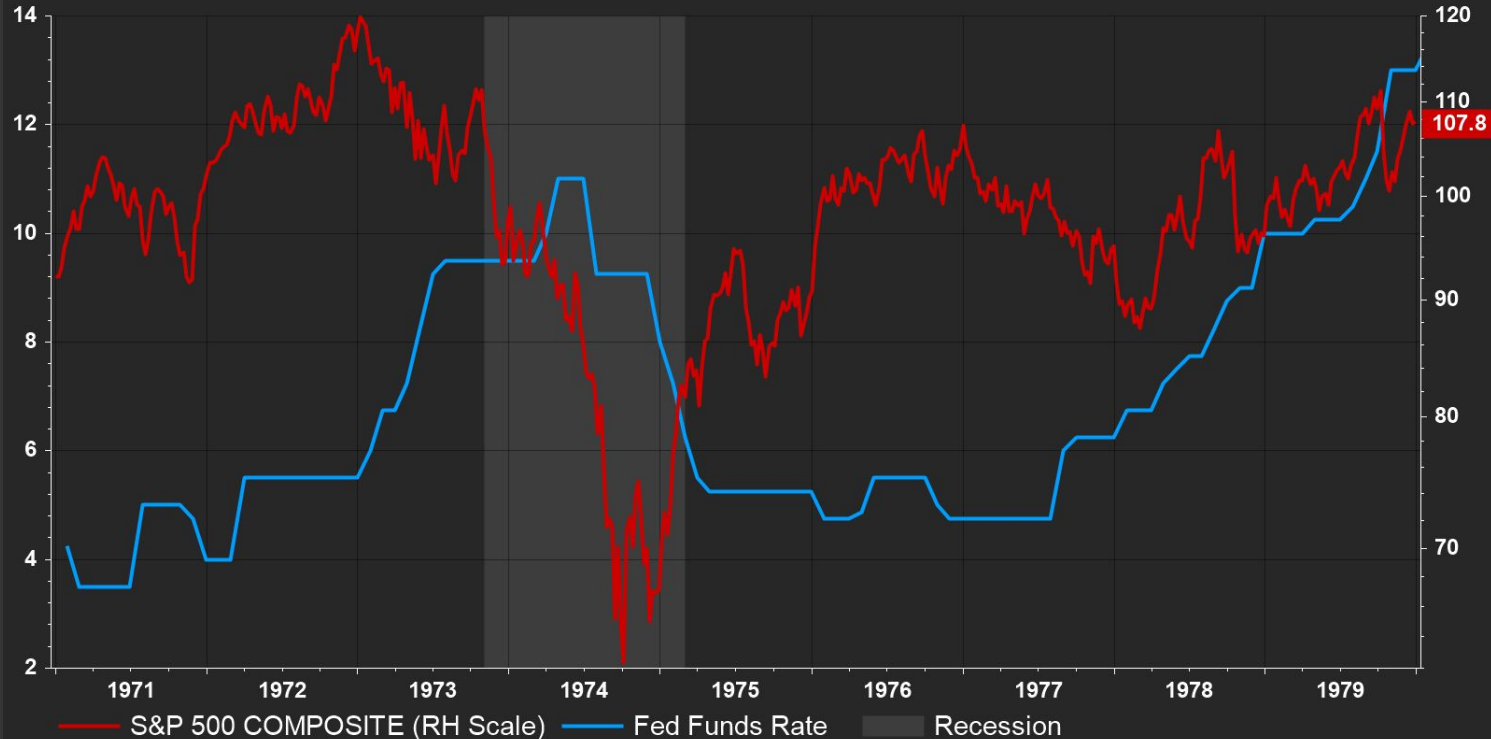
Prospective investors should inform themselves and take appropriate advice as to any applicable legal requirements and any applicable taxation and exchange control regulations in the countries of their citizenship, residence or domicile, which might be relevant to the subscription, purchase, holding, exchange, redemption or disposal of any investments.

While the portfolio manager will attempt to minimise risk, the value of investments in discretionary accounts and the income derived from those investments may fluctuate, and it is possible that the investor could incur losses, including the loss of principal invested. Past performance is not necessarily indicative of future performance. An investor whose reference currency differs from that in which the fund or segregated account is denominated may be subject to exchange rate movements, which may cause fluctuations in the value of their investments. In addition, investments involving exposure to a currency other than that in which the segregated account or Fund is denominated may also cause values to fluctuate.

1970's LAST BIG INFLATION EVENT

A lost decade with a lot of risk

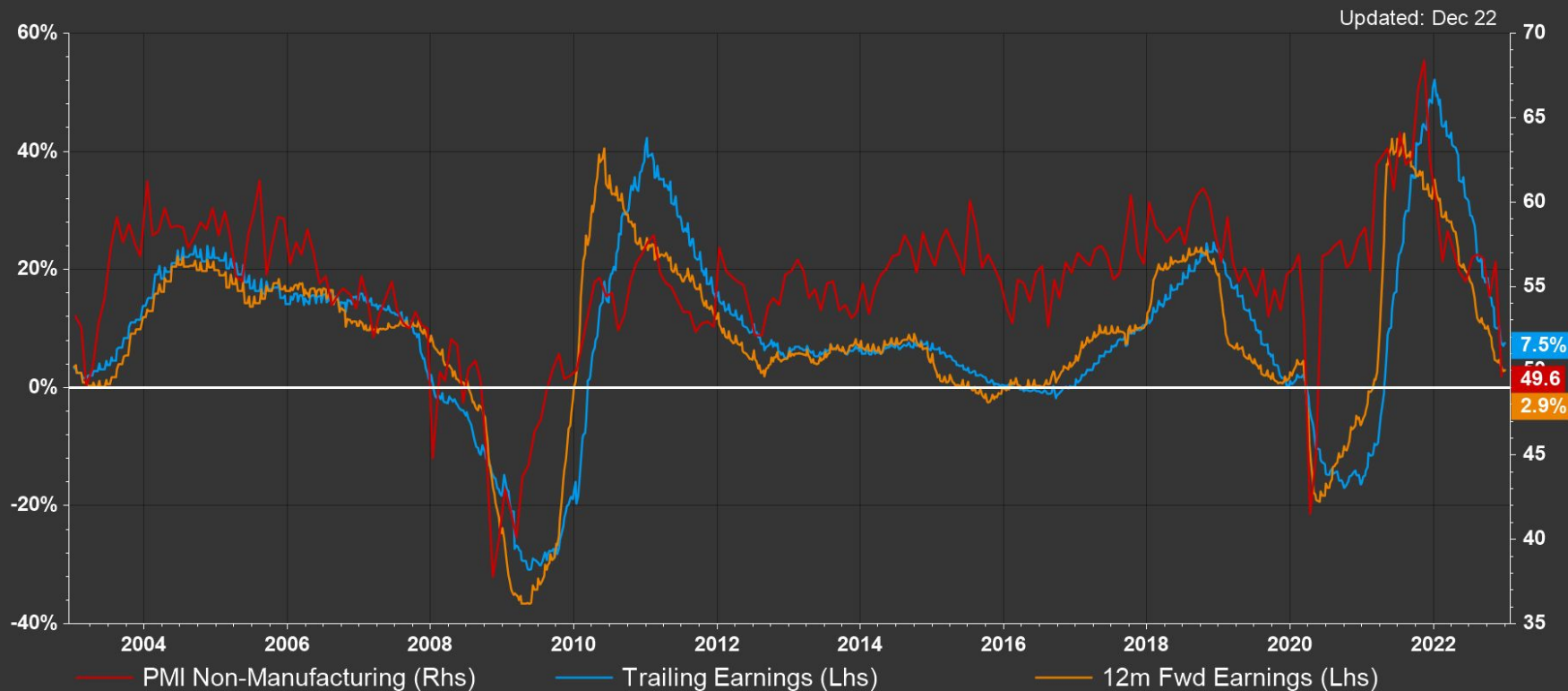
US INTEREST RATE VS S&P500



Source: Refinitiv Datastream / Rezco

COMPANY EARNINGS GROWTH TURNING NEGATIVE

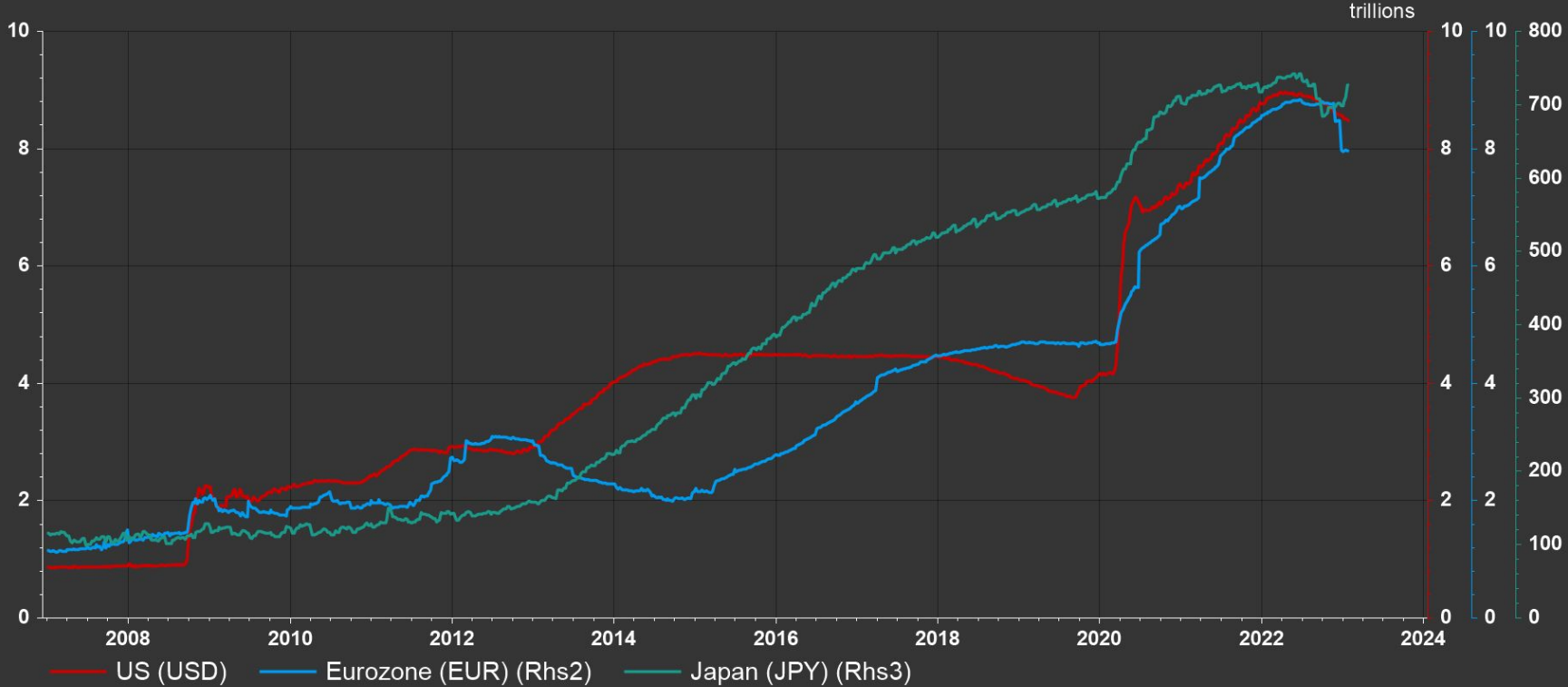
US PMI AND EARNINGS



Source: Refinitiv Datastream / Rezco

THE DECADE OF Q.E. HAS REVERSED

Central Bank Balance Sheets, Total Assets

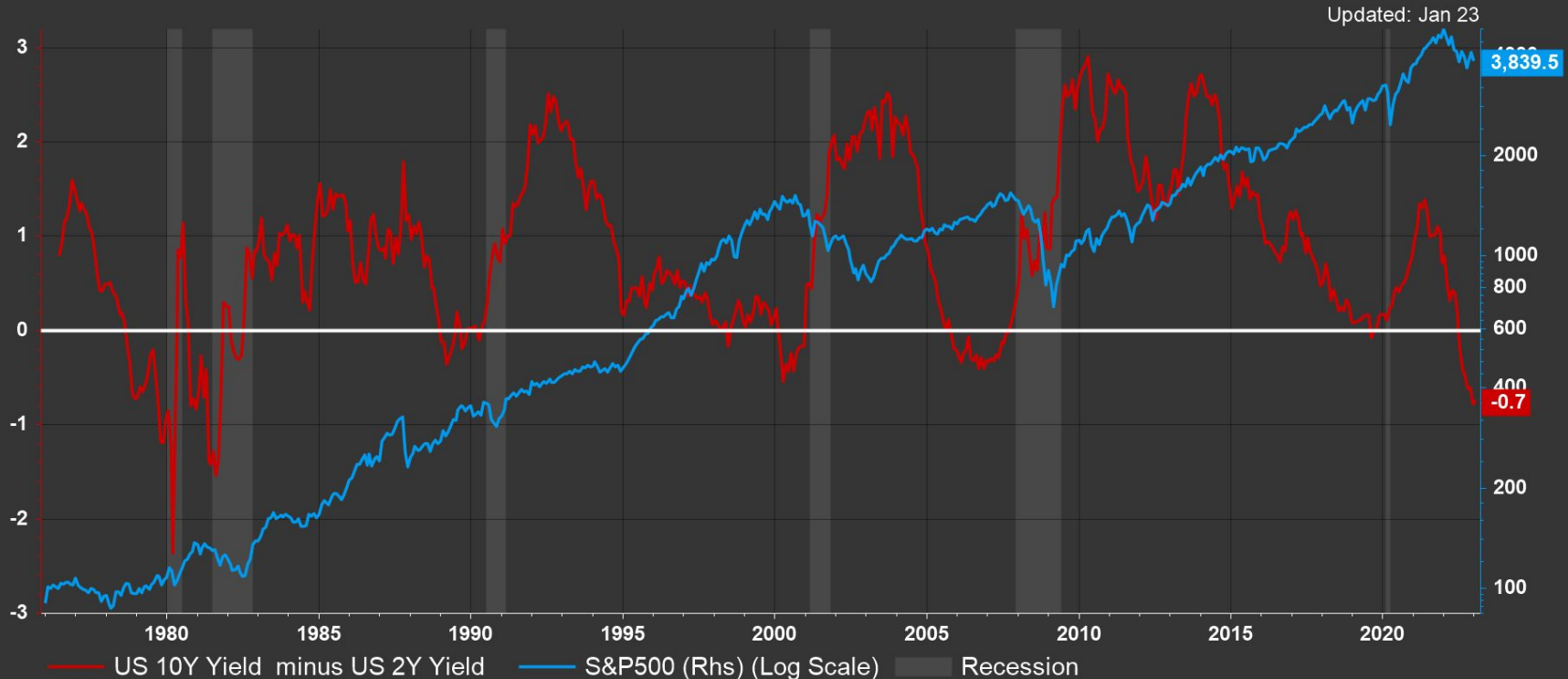


Source: Refinitiv Datastream / Rezco

THE INVERTED YIELD CURVE

Reliable recession indicator

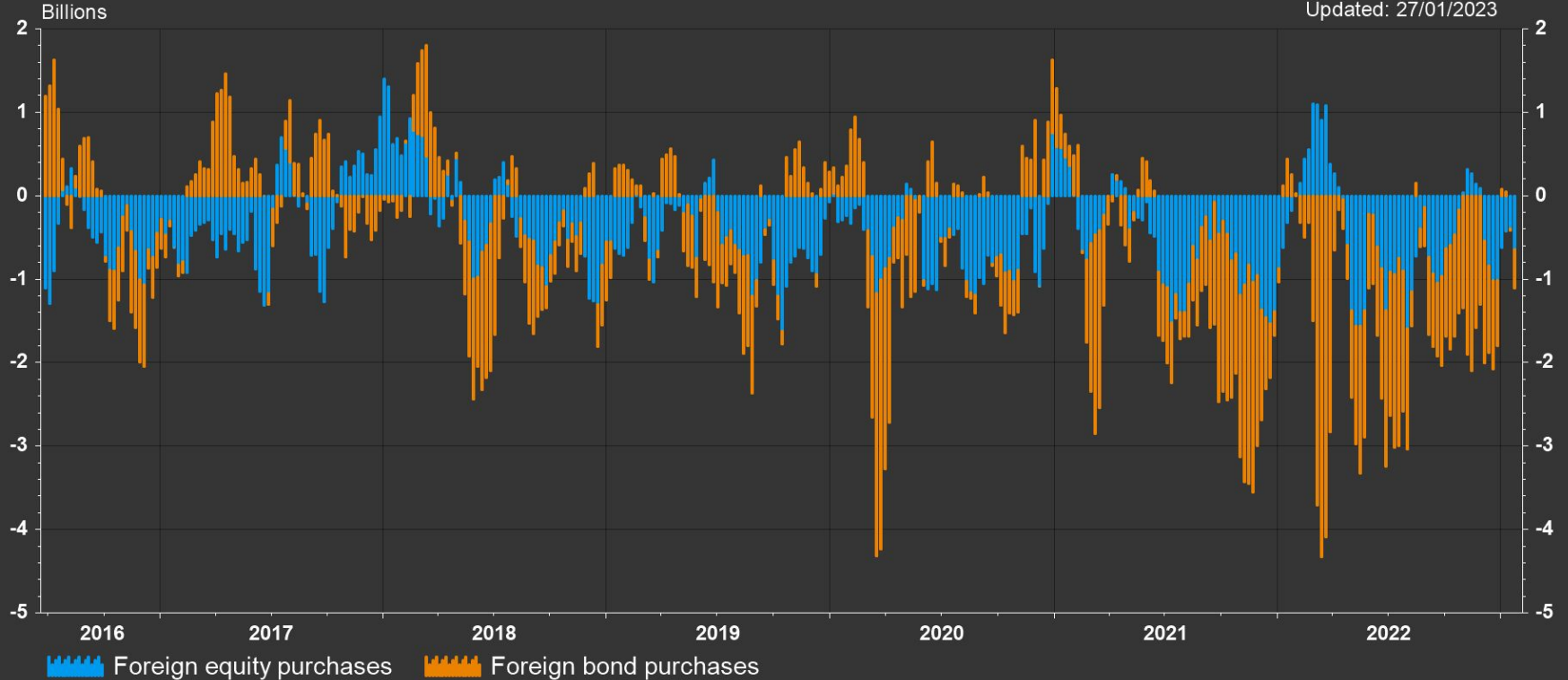
US 10 Year minus US 2 Year Yield (Long Term)



Source: Refinitiv Datastream / Rezco

FOREIGNERS - BIG NET SELLERS OF RSA BONDS & EQUITIES

DAILY FOREIGN PORTFOLIO FLOWS (20D MA)



Source: Refinitiv Datastream / Rezco

R186 x R2030 YIELDS vs EM BOND INDEX YIELD

Updated: 27/01/2023



Source: Refinitiv Datastream / Rezco

SA 10Y vs US 10Y

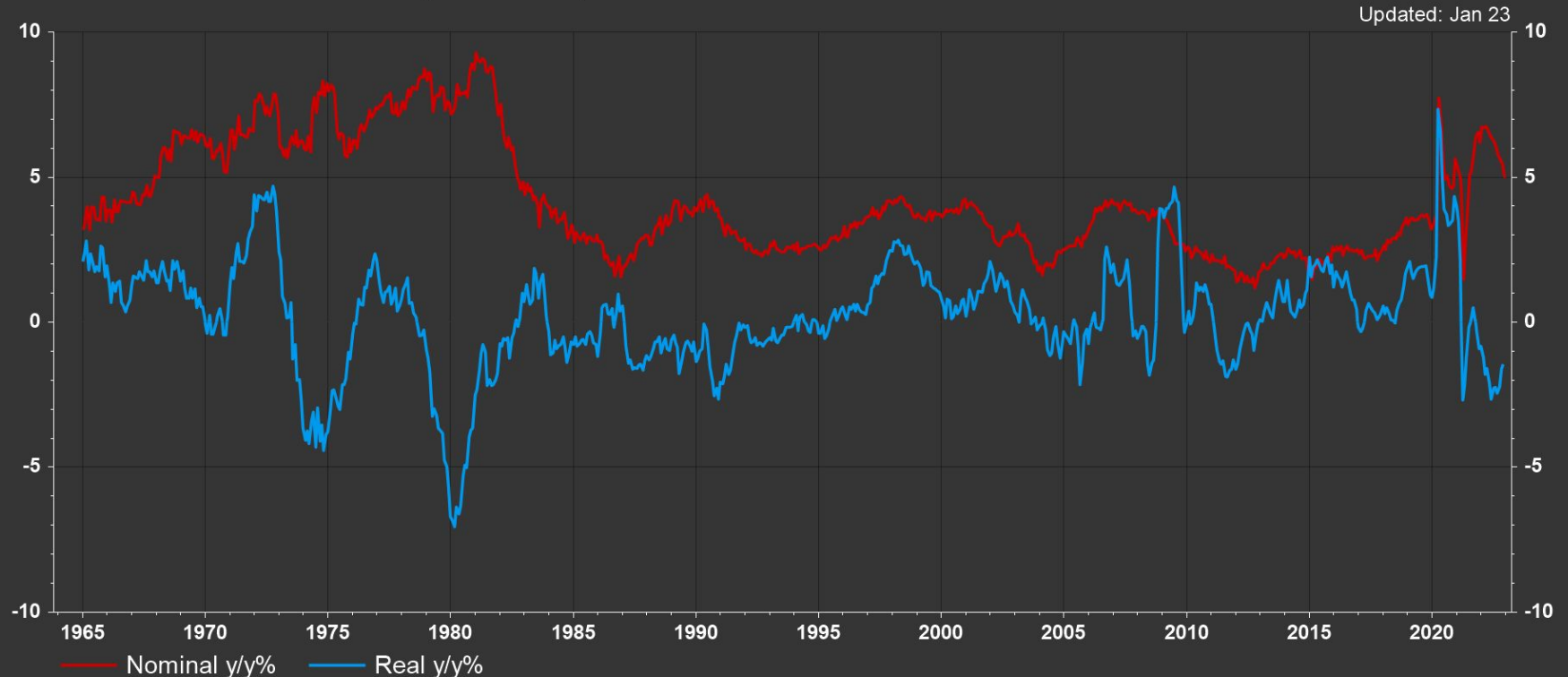
Updated: 27/01/2023



Source: Refinitiv Datastream / Rezco

OVERHEATED LABOUR MARKET: Really worries the FED

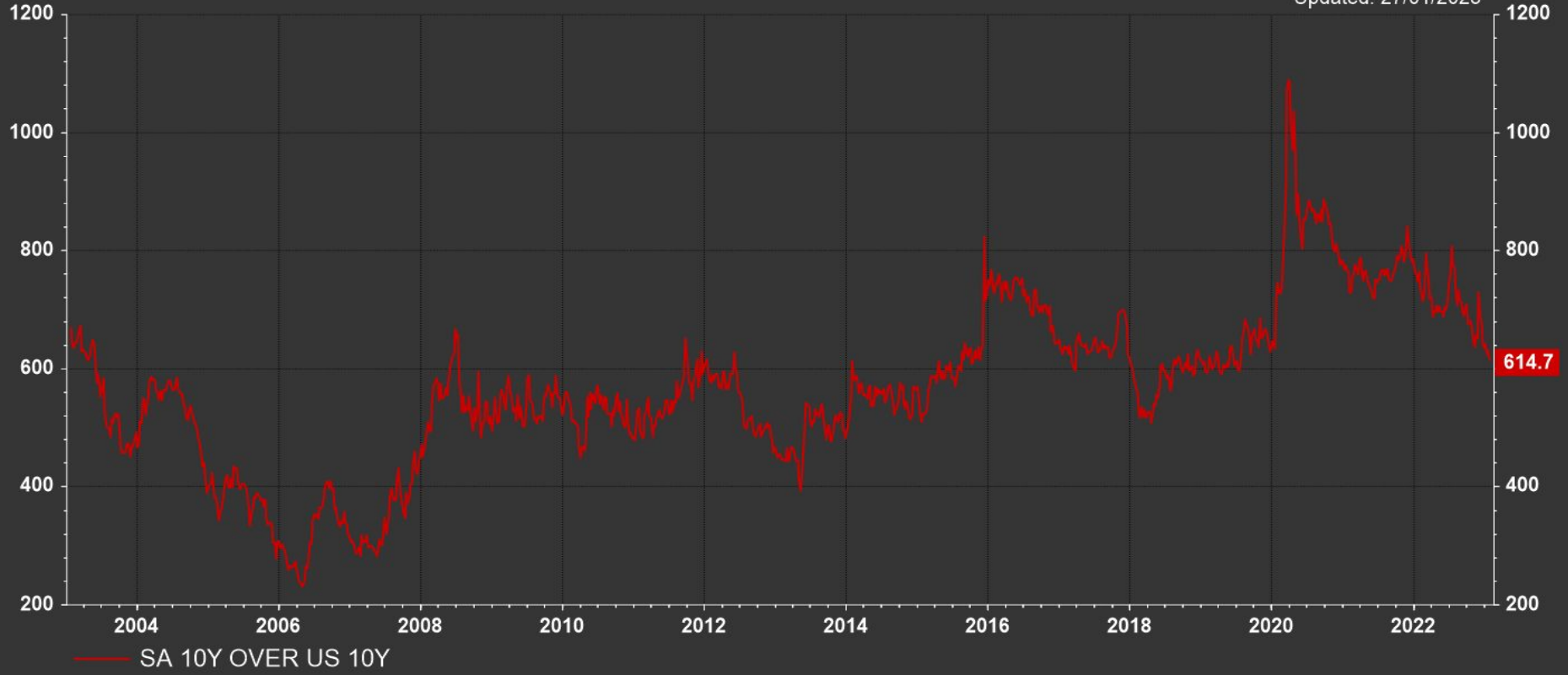
AVERAGE HOURLY EARNINGS (NON-FARM)



Source: Refinitiv Datastream / Rezco

YIELD DIFFERENTIAL

Updated: 27/01/2023



Source: Refinitiv Datastream / Rezco