

REZCO

Global and Local Markets 2024 Outlook

Webinar Starting Shortly



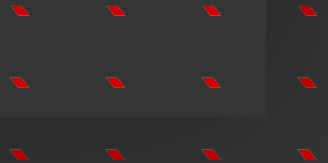
REZCO



Global and Local Markets 2023 Review, 2024 Outlook

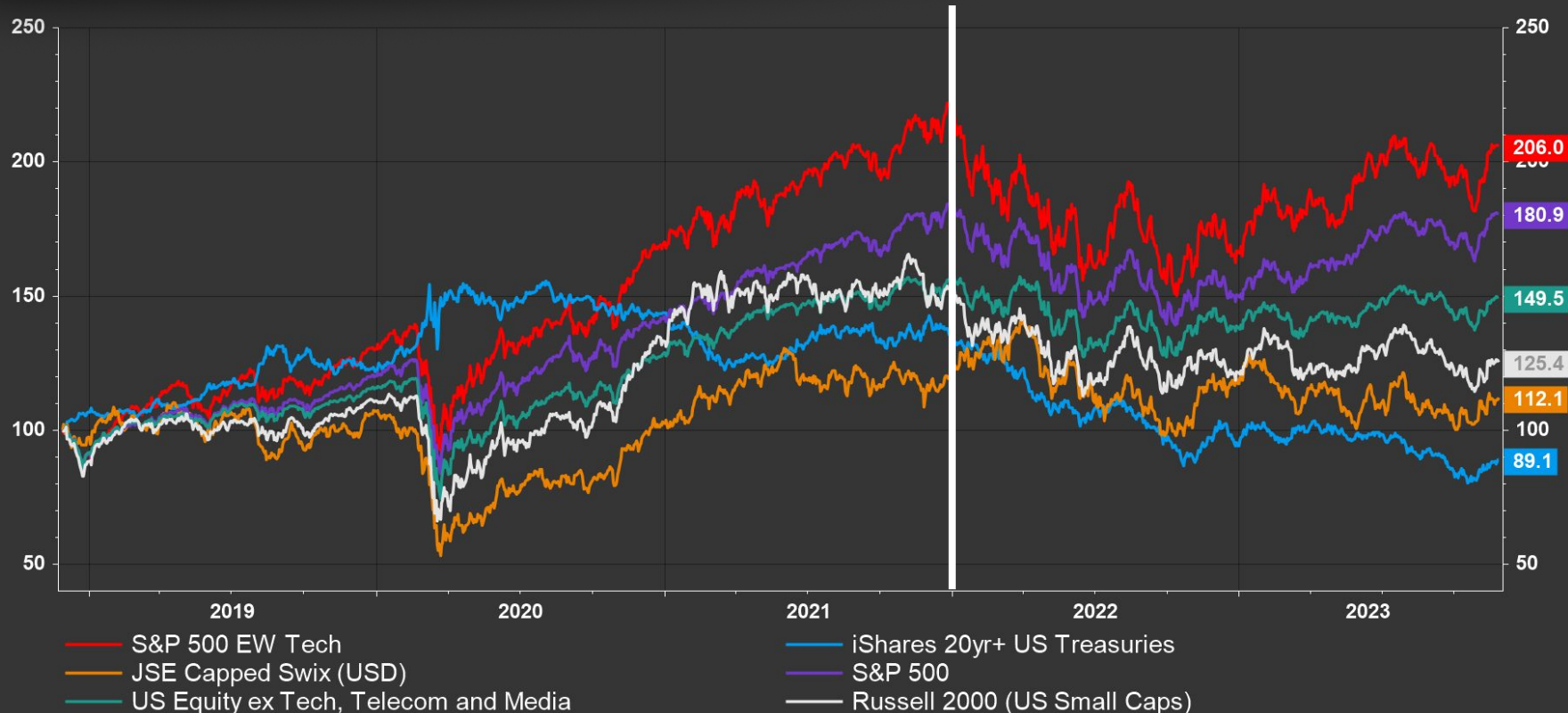
November 2023

Rob Spanjaard CIO
Simon Sylvester CEO, Portfolio Manager



Nowhere To Hide Since 1 Jan 2022

USD Total Return Index Over 5 Years



Source: LSEG Datastream / Rezco

What Happened? The Fed Pivot



ECONOMY | U.S. ECONOMY

Fed Minutes Point to Possible Rate Increase in March

Officials also are considering an earlier timetable for shrinking their \$8.76 trillion bond portfolio

By *Nick Timiraos*

Updated Jan. 5, 2022 5:38 pm ET | [WSJ PRO](#)



311



Gift unlocked article

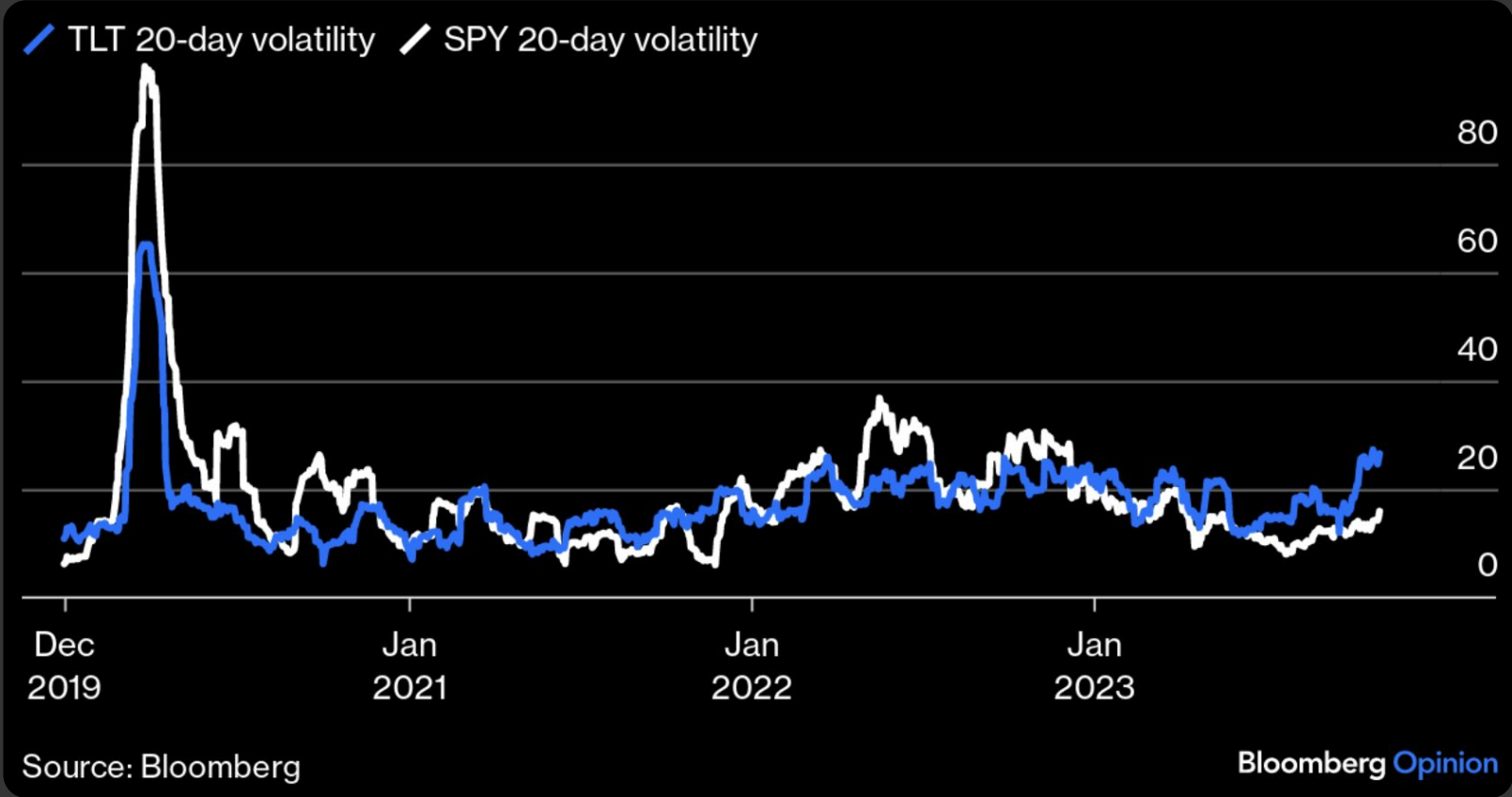


Listen (7 min)



Federal Reserve Chairman Jerome Powell has signaled greater concern about inflation in recent weeks.
PHOTO: MICHAEL BROCHSTEIN/ZUMA PRESS

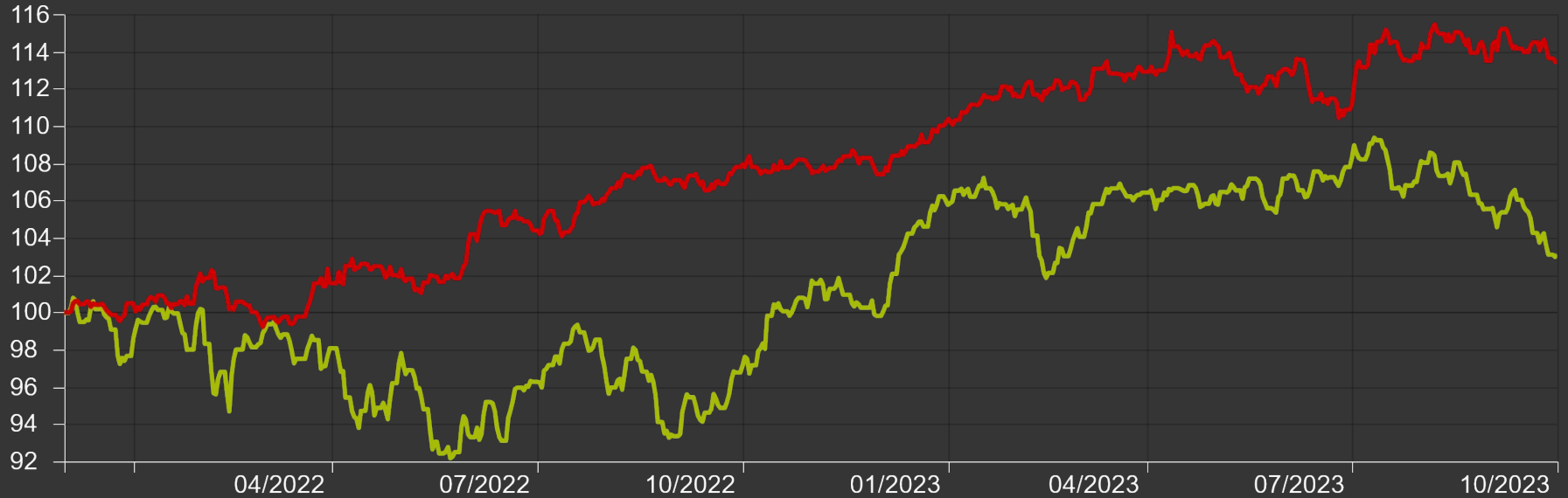
Long Bonds More Volatile Than Equity



How has Rezco Been Performing In This New Regime?

Time Period: 01/01/2022 to 31/10/2023

Currency: South African Rand Source Data: Total Return



— Rezco Value Trend C

113.5 — ASISA SA MA High Equity

103.1

Source: Morningstar Direct

Rezco Value Trend - Seven Years

A Good Time to be Thinking About Macro

Time Period: 01/11/2016 to 31/10/2023

Currency: South African Rand Source Data: Total Return



— Rezco Value Trend C

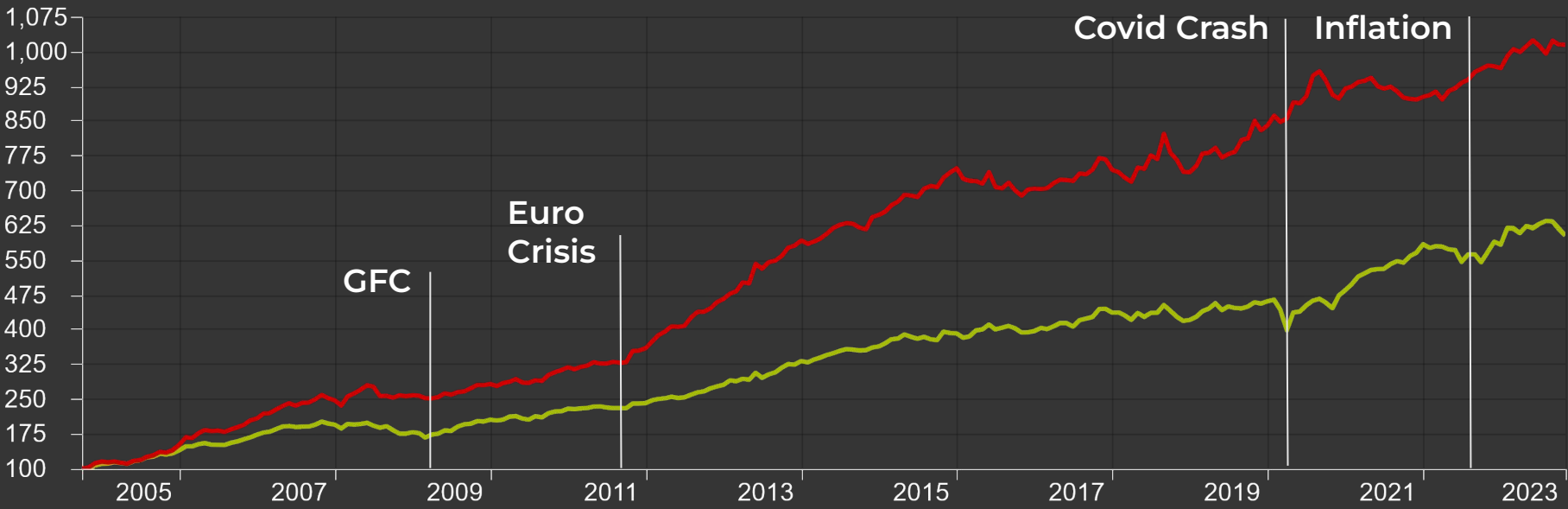
152.8 — ASISA SA MA High Equity

152.7

Long Term: Managing the Risks

Time Period: Since Common Inception (01/10/2004) to 31/10/2023

Currency: South African Rand Source Data: Total Return



— Rezco Value Trend A

1,014.7 — ASISA SA MA High Equity

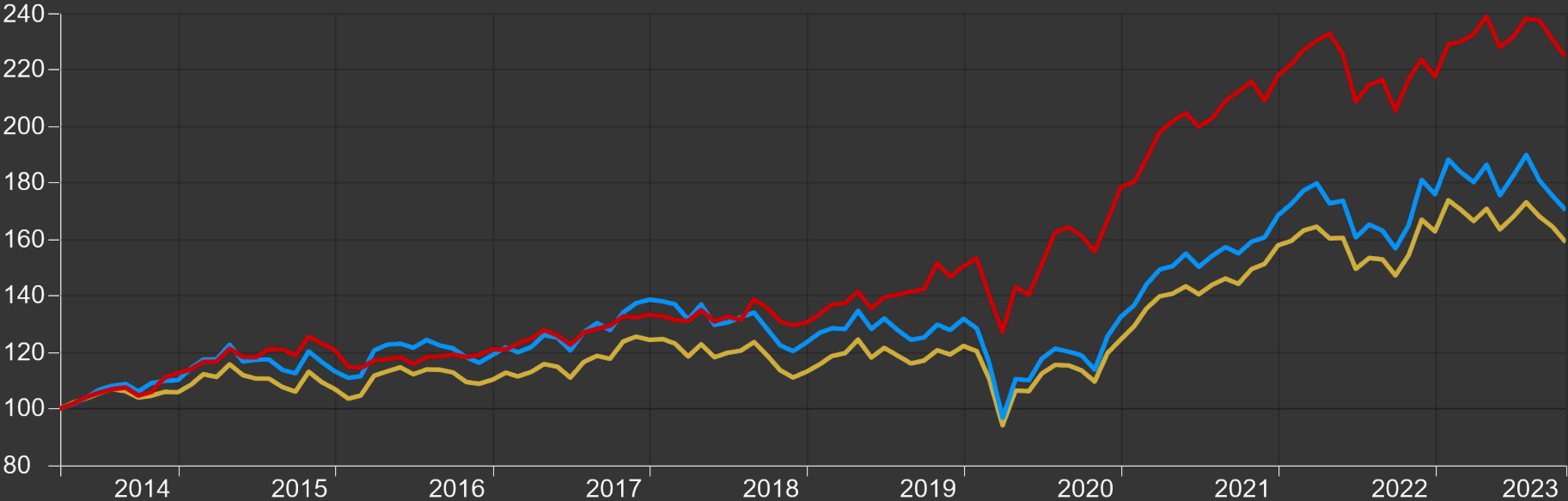
604.5

Source: Morningstar Direct

Rezco Equity Fund (RSA Only)

Time Period: Since Common Inception (4/1/2014) to 10/31/2023

Currency: South African Rand Source Data: Total Return

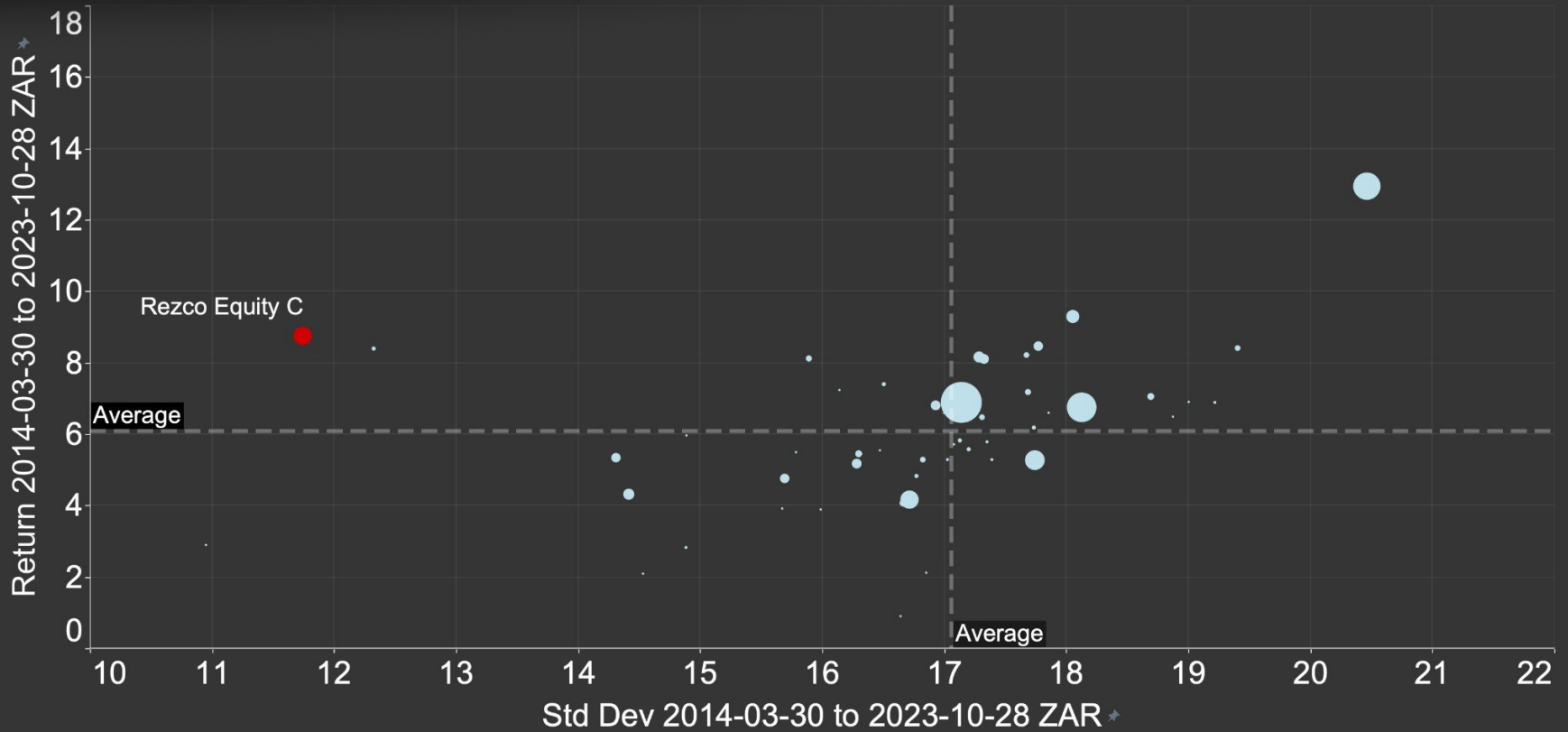


— Rezco Equity C 224.5 — FTSE/JSE Capped SWIX All Share TR ZAR 170.2 — (ASISA) South African EQ General 159.0

Source: Morningstar Direct

Rezco Equity Fund

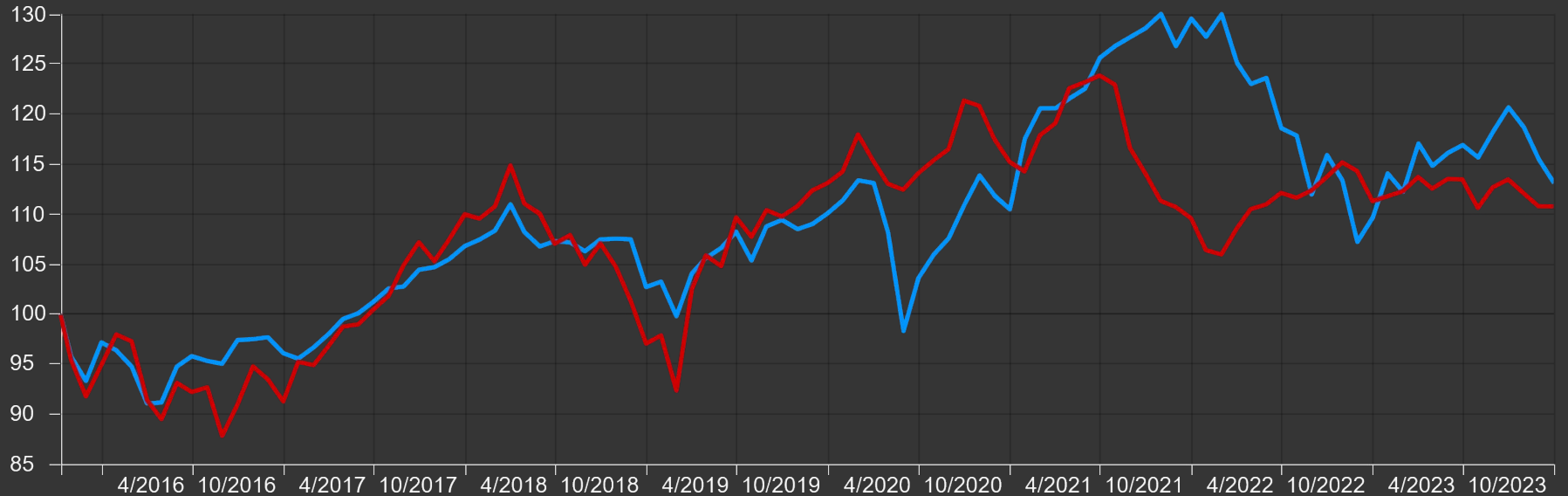
SA General Equity (SA Only)



Rezco Global Flexible Fund

Time Period: Since Common Inception (8/11/2015) to 10/31/2023

Currency: US Dollar Source Data: Total Return



Rezco Global Flexible Fund

110.7 EAA Fund USD Flexible Allocation

113.1

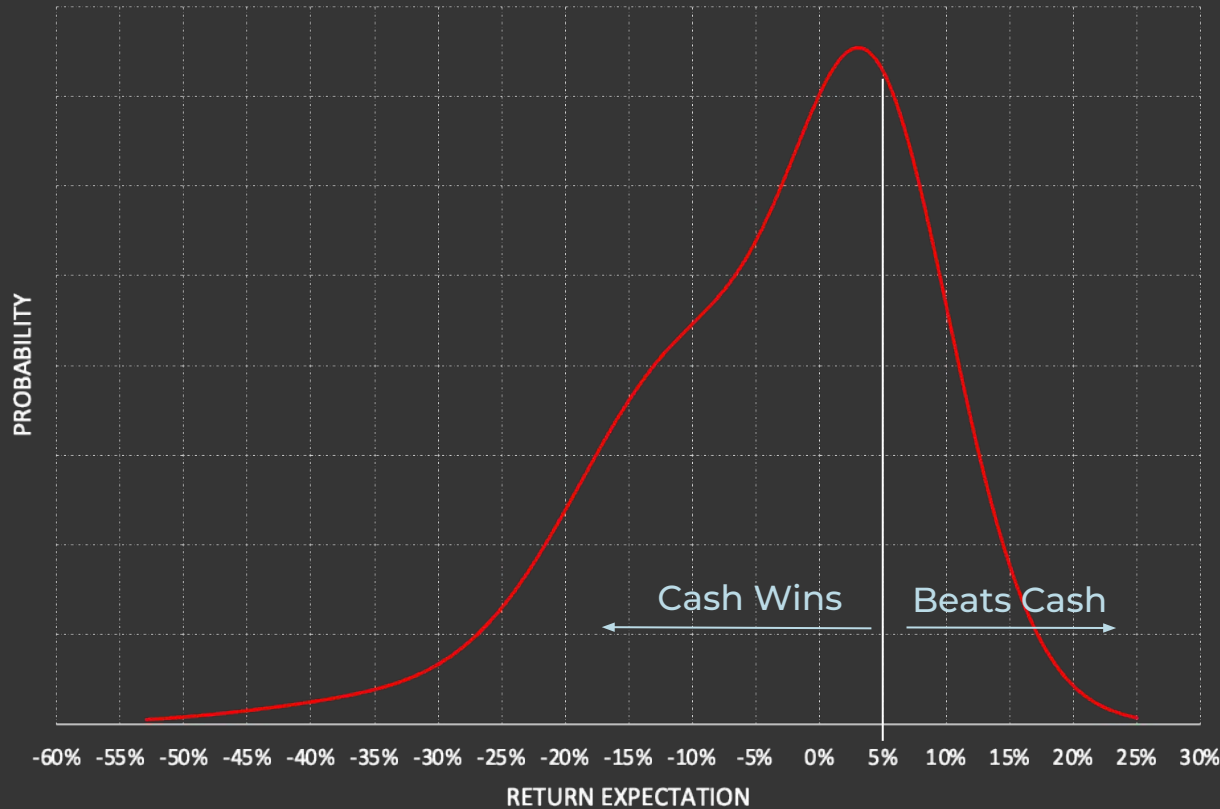
What Is Rezco Positioned For?

Scenario	No Landing	Soft Landing	Normal Recession	Hard Landing
	What is Priced in			Something Breaks
Probability	10%	40%	45%	5%
Earnings Impact	5%-15%	0% to 5%	-10% to -20%	-25% to -45%
Description	The Fed /CB has done enough to cool inflation, the market is pricing that the economy can operate with steep negative sloping yield curve, strong economic data, strong consumers and corporate earnings, high wage inflation, but declining inflation..	Inflation falls to target while wages decelerate, corporates tighten up but profits are stable and balance sheets strengthened.	The Fed/ CB's need a recession to break inflation, unemployment rises to curb wage increases, services super-core 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 Taiwan/Ukraine/Israel/Iran and nuclear tensions; or 3) inflation remains sticky - Fed hasn't done enough 4) Bond rates blowout.

How Does it all add up?

		NO LANDING	SOFT LANDING	SOFT RECESSION	HARD RECESSION FAT TAIL	WEIGHTED RETURN
PROBABILITY		10%	40%	45%	5%	
GDP		2%	0 - 1%	-1%	-3%	
EARNINGS	FY1	8%	4%	-10%	-30%	
	FY2	8%	8%	5%	10%	
ASSUMING MARKET RATING STAYS CONSTANT						
MSCI WORLD	FY1	8%	4%	-10%	-30%	-3,6%
	FY2	8%	8%	5%	10%	6,8%

Equity Probability Skewed to the Downside



	Probability	Outcome	Equities vs Cash
Beats Cash	24,3%	10,3%	5,3%
Cash Wins	75,5%	-8,0%	-13,0%

Funds Positioned for Managing Risk

	Managed Plus	Value Trend	Stable	SA Equity	Global Flexible
SA Equity	23%	10%	13%	95%-97%	
Global Equity	22%	8%	6%		29%
Total Equity	45%	18%	19%		29%
SA Gov Bonds (R186)	20%	29%	29%		
SA Floating Rate Notes & MM	9%	17%	20%		
Global Short Duration	26%	36%	32%		71%
Direct Offshore	49%	45%	39%		

The Big Debate

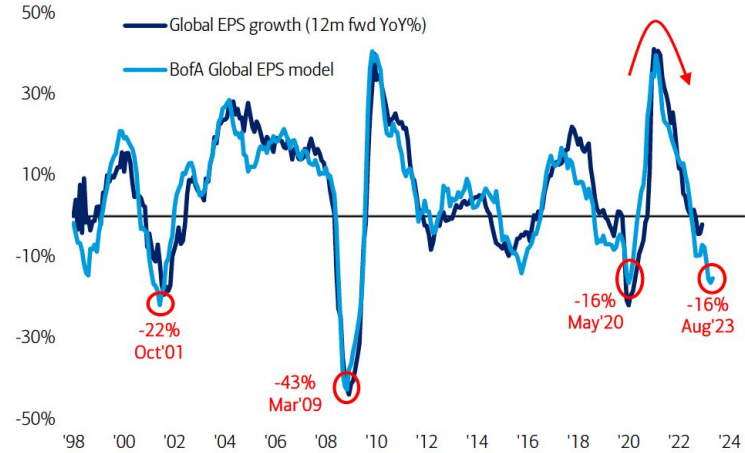


The Big Debate on Company Earnings

Top Down vs Bottom Up: In January 2023

Chart 7: Bofa Global EPS model remains v negative...

BofA Global EPS Growth Model

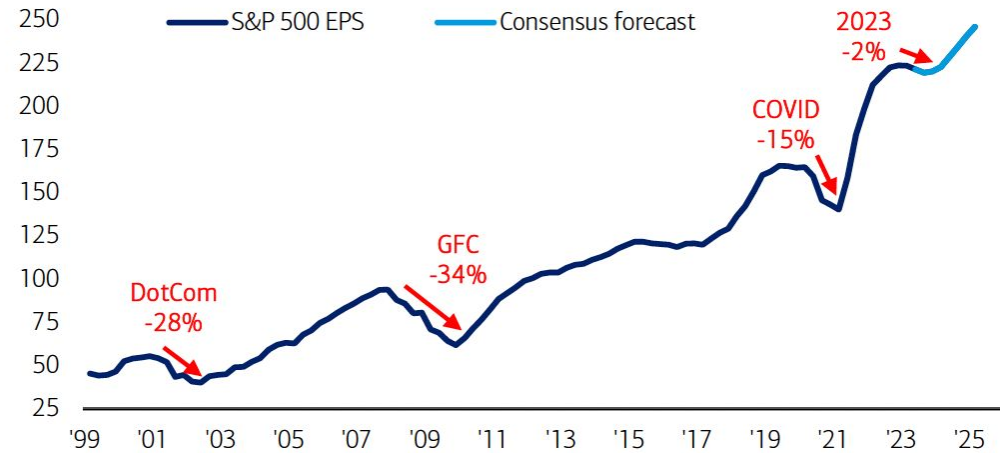


Source: BofA Global Investment Strategy, Bloomberg, Refinitiv Datastream, Haver

BofA GLOBAL RESEARCH

Chart 8: Where did my EPS recession go?

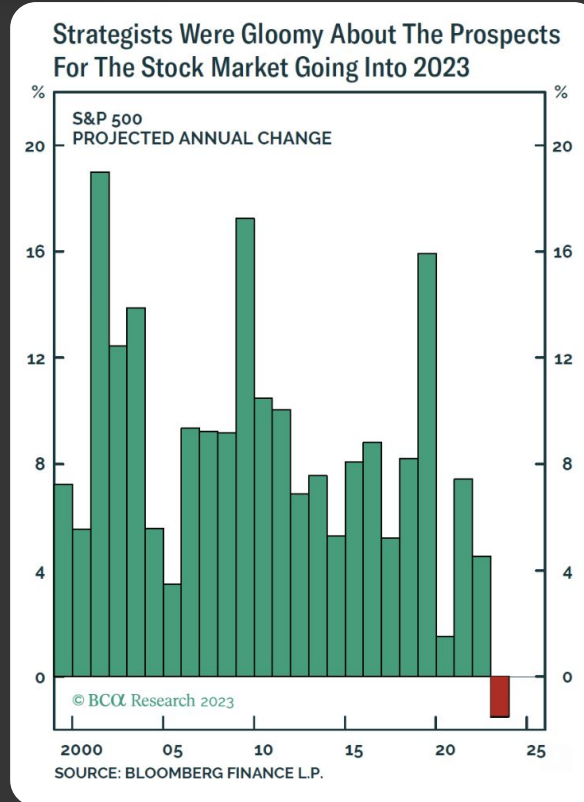
S&P 500 EPS and consensus forecast



Source: BofA Global Investment Strategy, Bloomberg

BofA GLOBAL RESEARCH

So far the Top Down Strategists Have Been Wrong



The Case for a New Bull Market



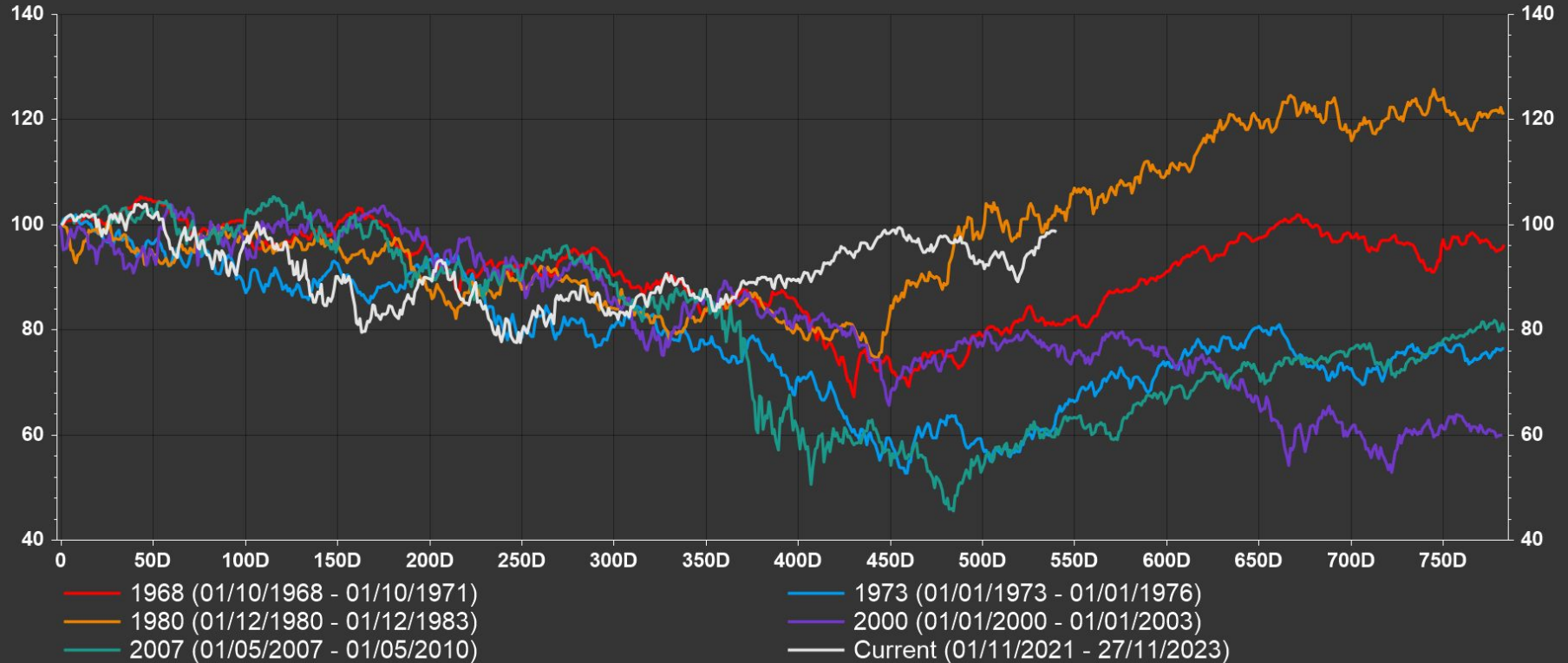
Summary of the Bull

- Cumulative global stimulus in the system
- A repeat of 1995 hiking cycle
- Consumers are in great shape
- Bottom up earnings forecasts have troughed and increase strongly from here
- The Magnificent 7 have bulletproof growth & have tailwinds from AI
- The REST OF THE WORLD EQUITIES have already fallen a lot,
- Inflation is beaten
- There is an expiry date on the bear market

Bear Markets Have an Expiry Date

S&P Through Recessions (Rebased)

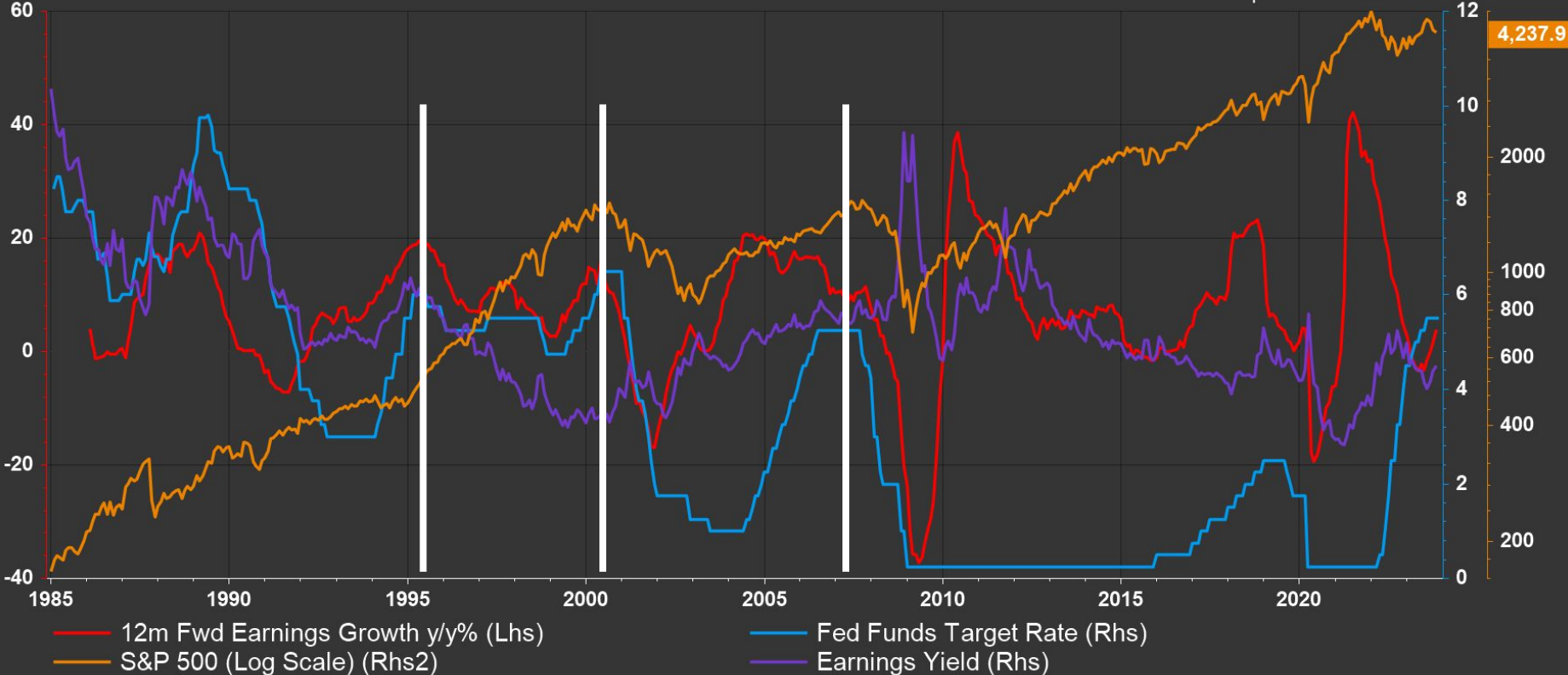
S&P THROUGH RECESSIONS (REBASED)



Hiking and no Earnings Pain (Like 1995)

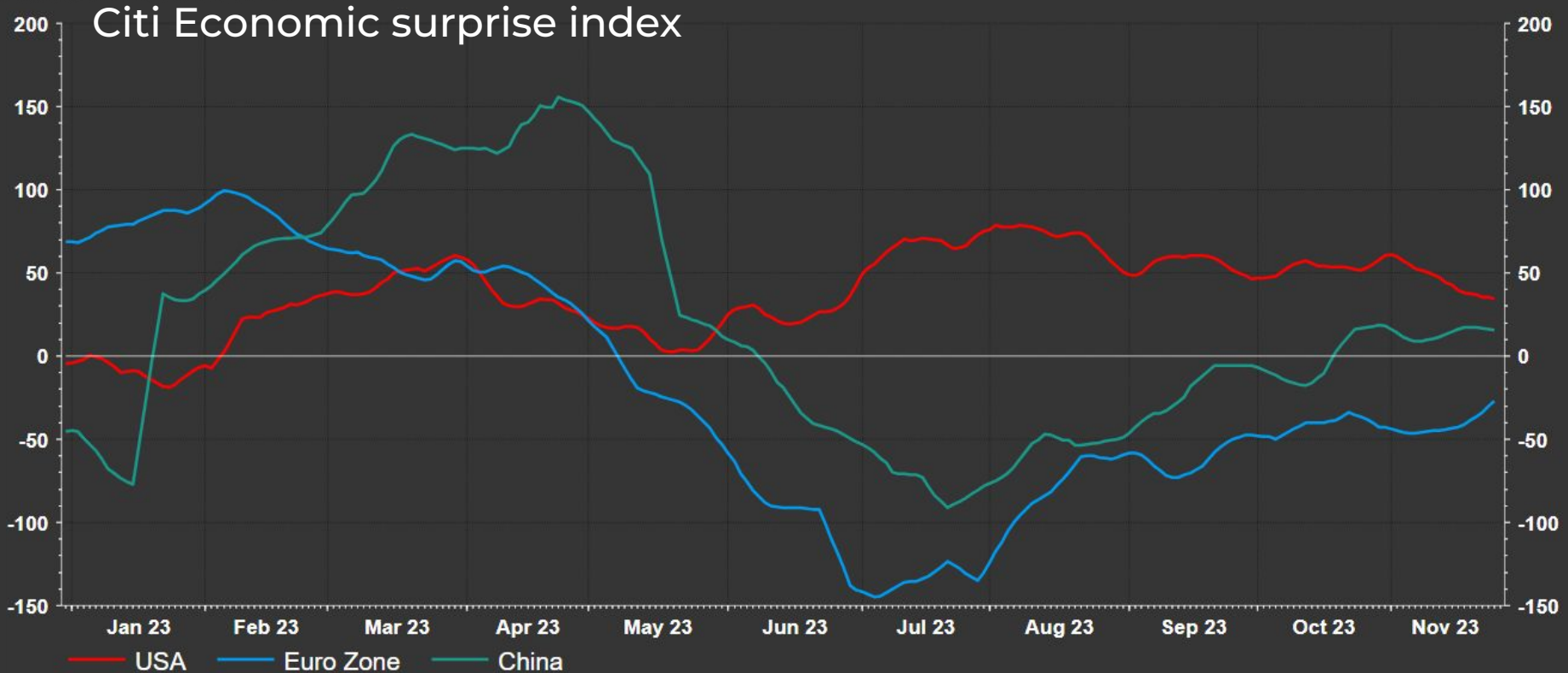
US MARKET

Updated: 28/11/2023



Source: LSEG Datastream / Rezco

Global Economic Growth



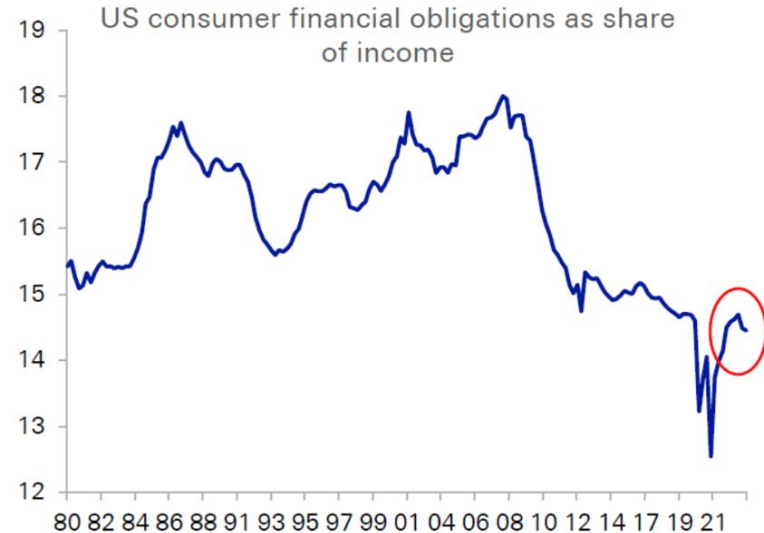
Source: LSEG Datastream / Rezco

Higher Interest Rates: Not a Problem

Lowest net interest expense since the 1970s!



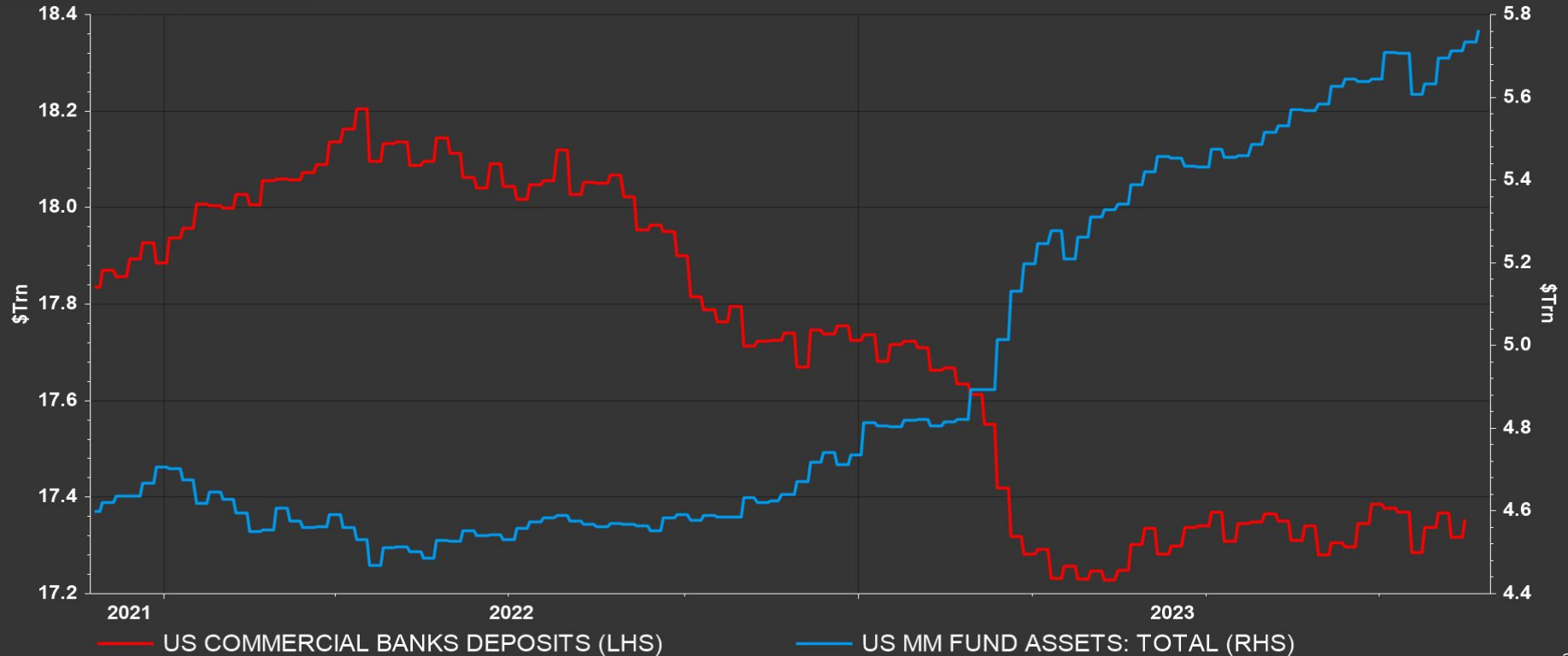
Same story for US consumer



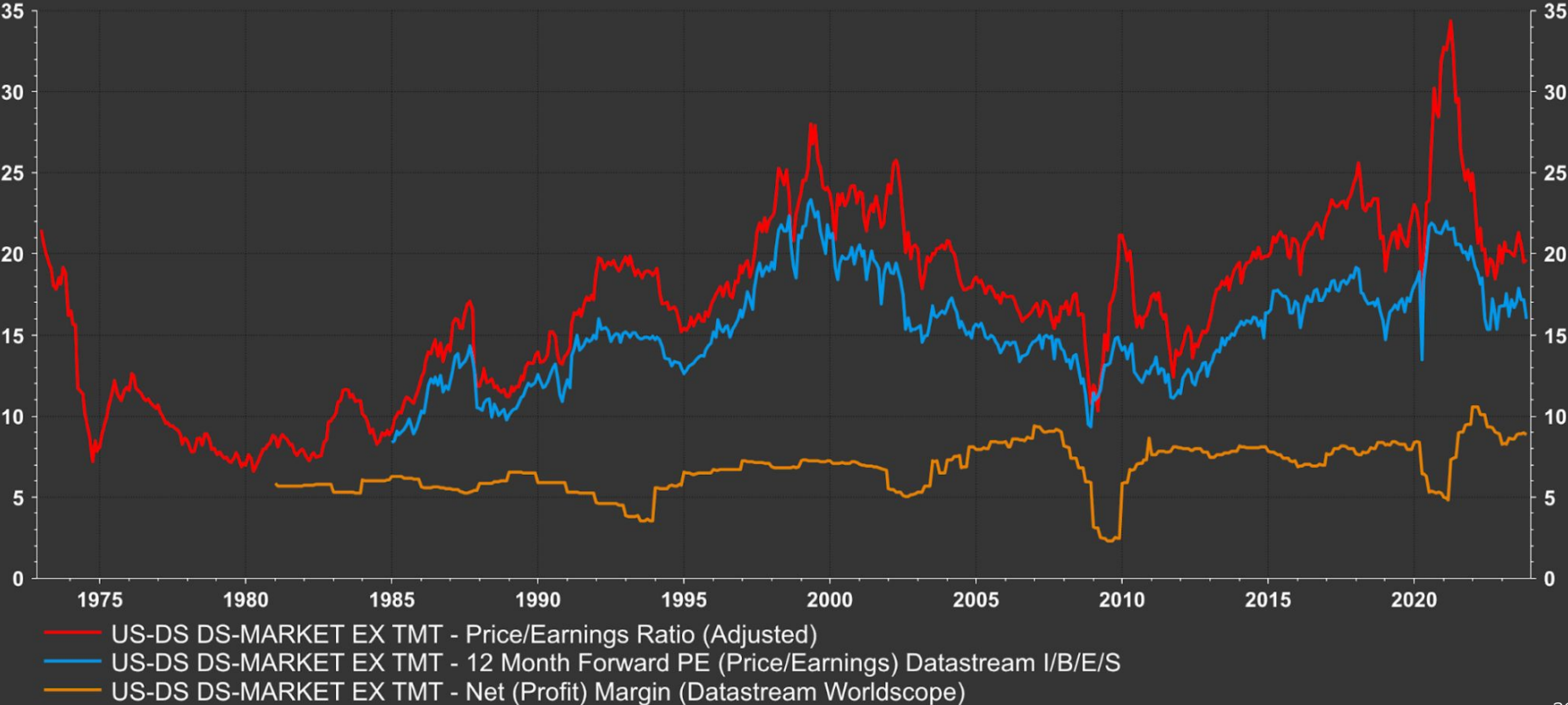
Source: Deutsche Bank research / Bloomberg Finance

There is Record Cash on the Sidelines

(Maybe not?)



Excluding Tech: Market is Fair Value

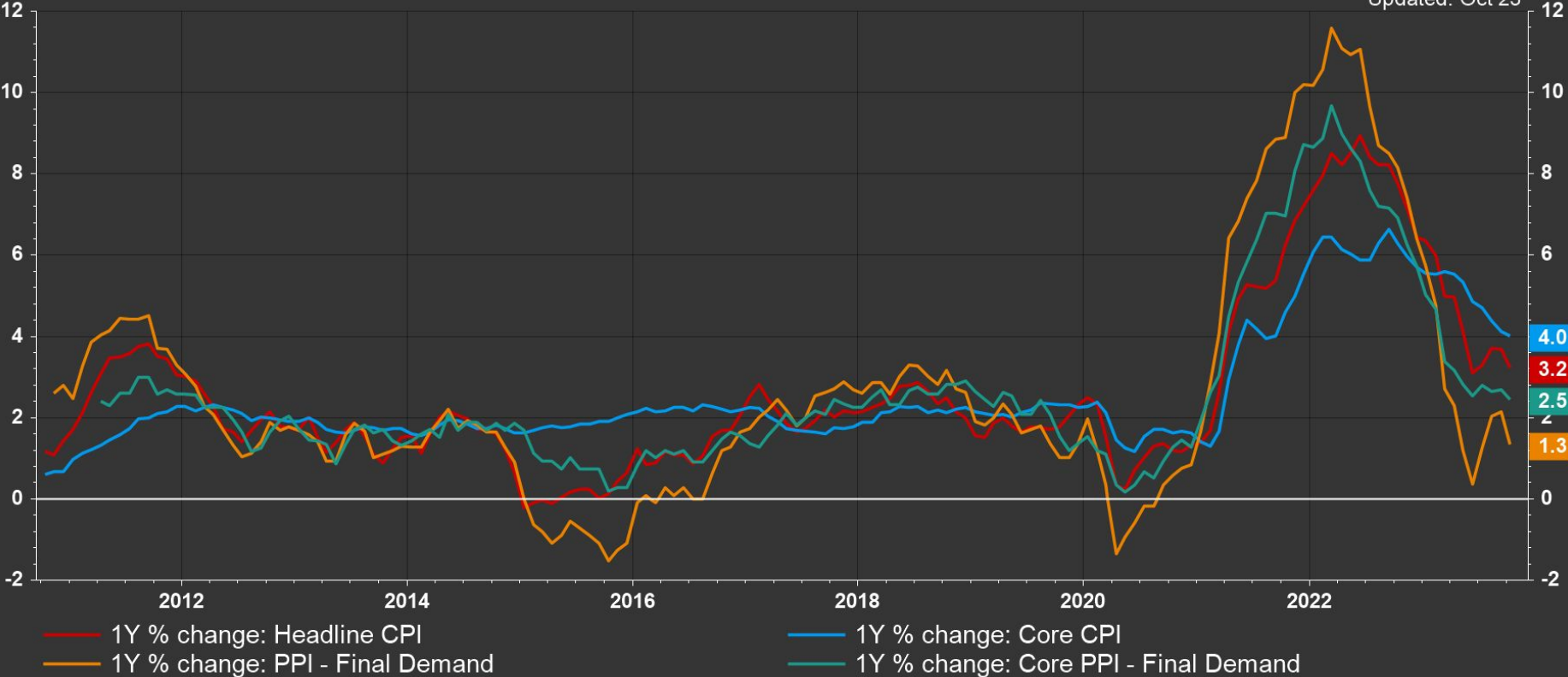


Source: LSEG Datastream / Rezco

Inflation is Beaten

US INFLATION & PPI: FINAL DEMAND

Updated: Oct 23



Source: LSEG Datastream / Rezco

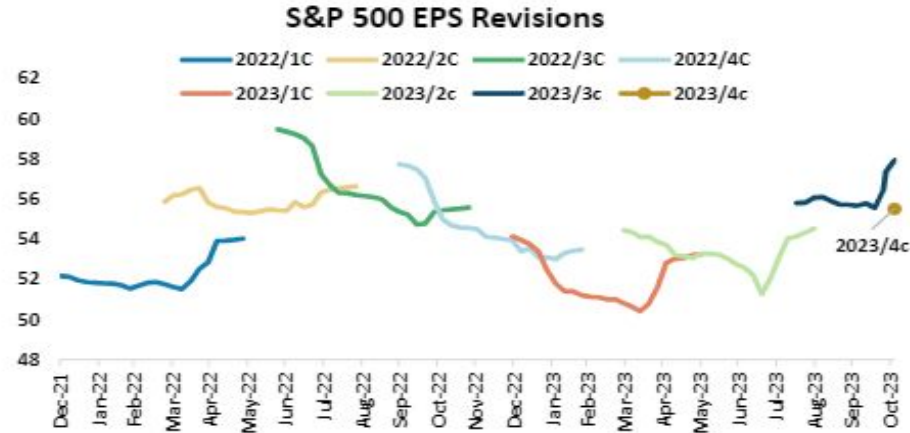
AI Causes a Massive Boost in Productivity



ChatGPT

Consensus Earnings Expected to Increase From Here

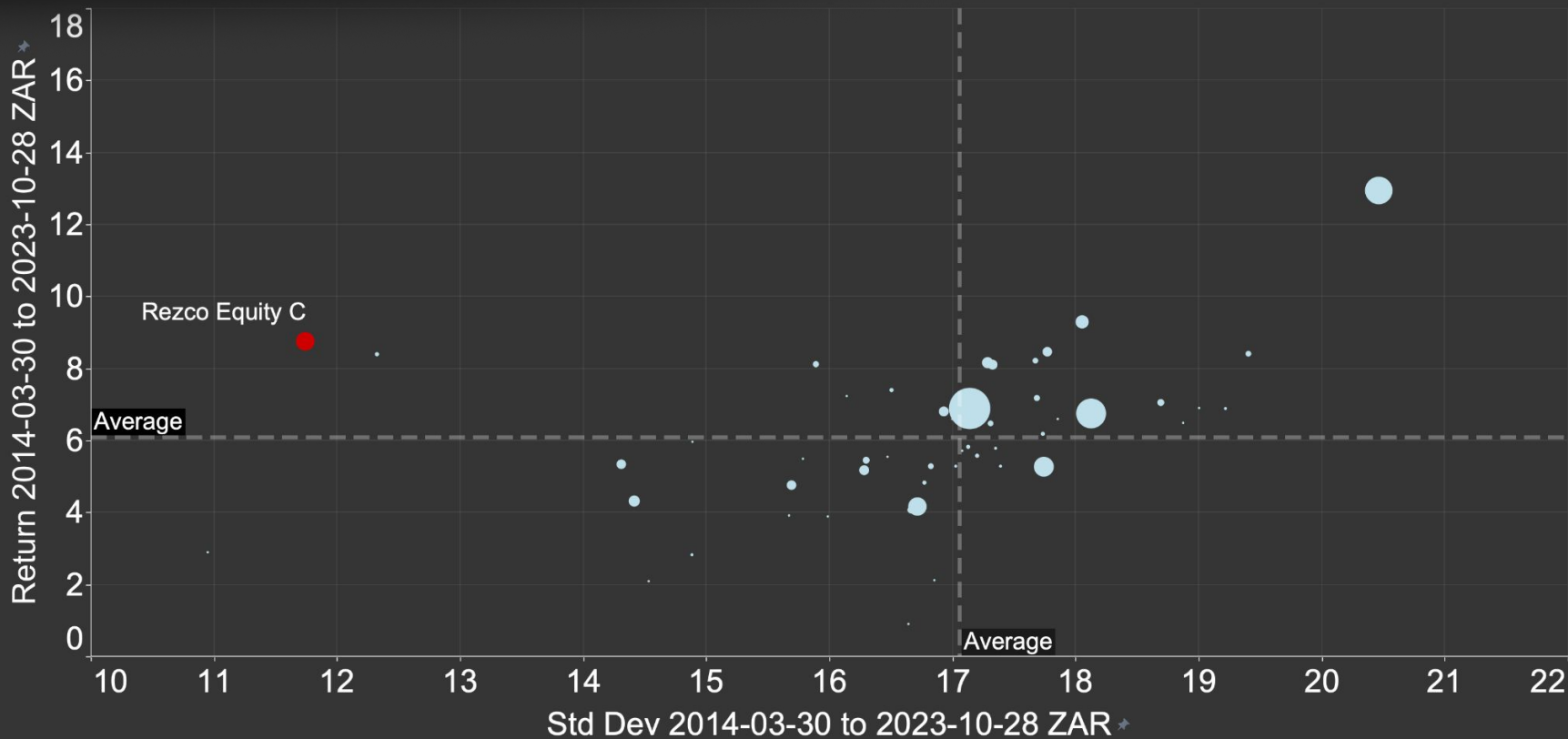
Exhibit 21: S&P 500 EPS Revisions by Quarter



Source: FactSet, Morgan Stanley Research

Rezco Equity Fund

SA General Equity (SA Only)



Market Headwind Case

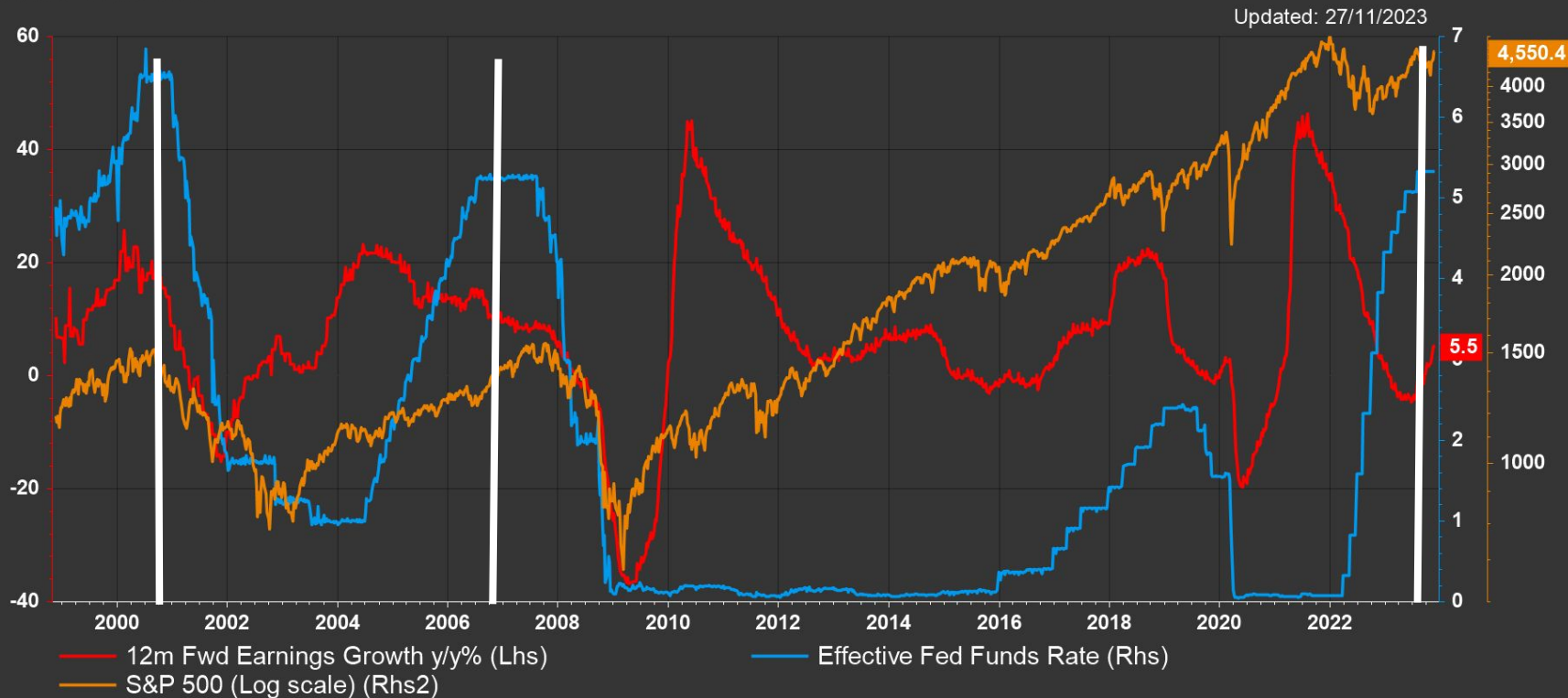


Summary of the Headwinds

- Slowdown normally only starts after the FED & CB's stop hiking
- Fed / CB's: Not debating cuts yet
- Global Fiscal and Monetary Policy contraction
- Markets are expensive relative to interest rates
- USA PMI's have turned down again
- France / Germany / UK PMI's are recessionary
- Earnings revisions have turned down with poor visibility
- Rising rates due to budget deficits being too high
- China
- Something breaks

The Bear/Recession Only Starts After Rates Pause

US MARKET



Rate Increases are Massive and Global:

End of the QE Experiment

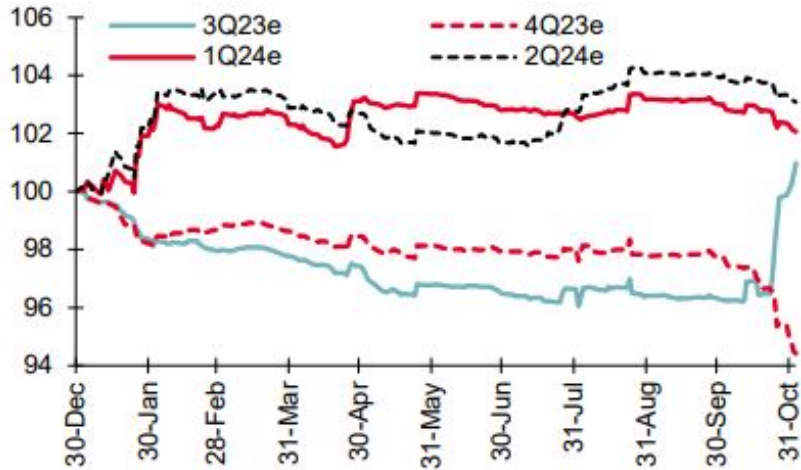
10 YEAR BOND YIELDS



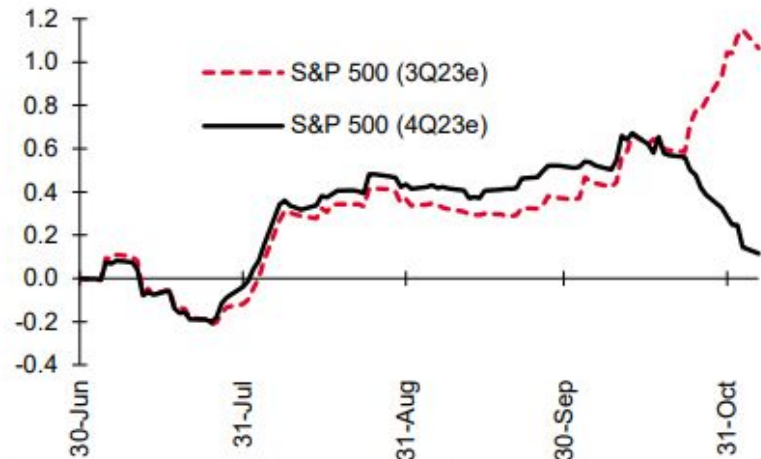
Source: LSEG Datastream / Rezco

Company Earnings are Turning Down

S&P 500 3Q 2023 earnings have come in above consensus, however, this has been accompanied by 4Q23 downgrading



Sales still surprising on the upside: S&P 500 has seen 3Q sales rise, while 4Q figures have recently been cut

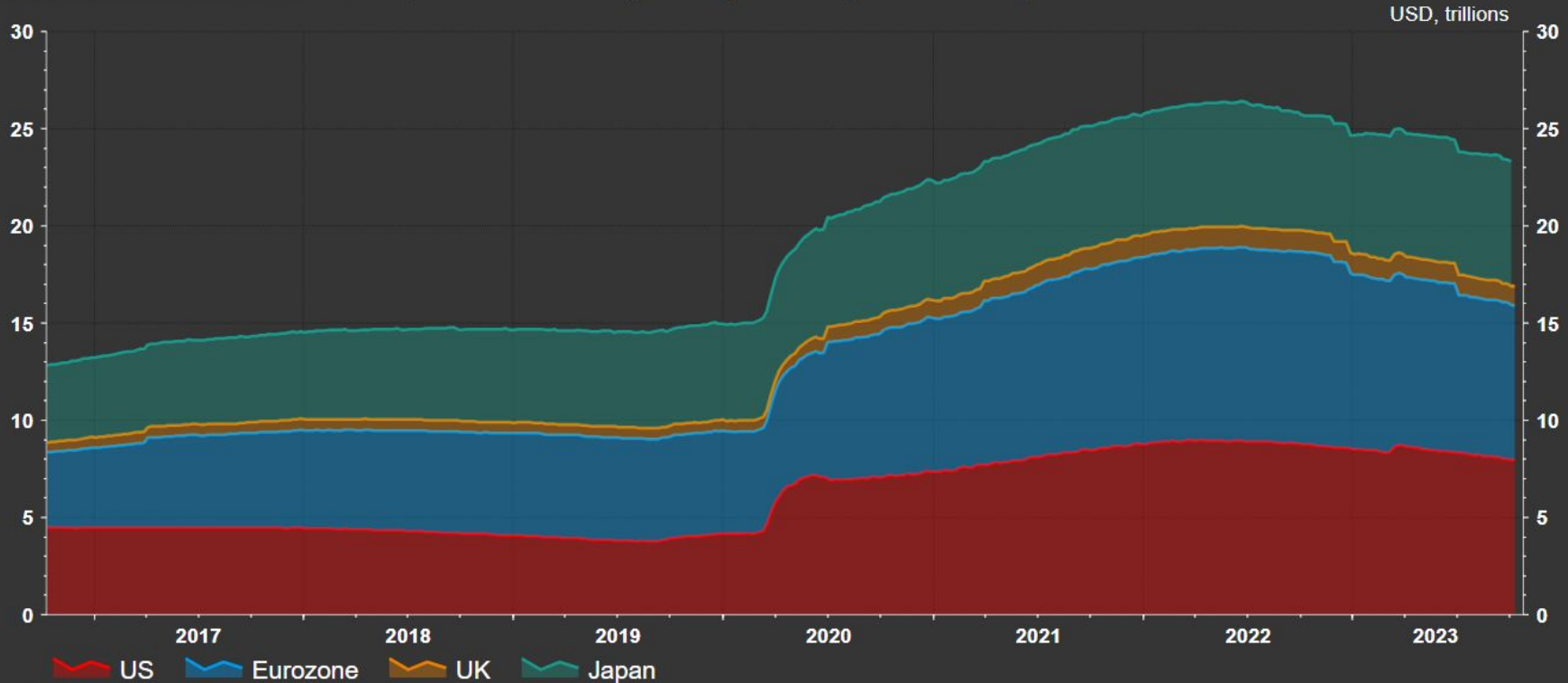


Source: SG Cross Asset Research/Quant Research, FactSet, Ken French

Monetary Policy

Central Banks are Doing QT now

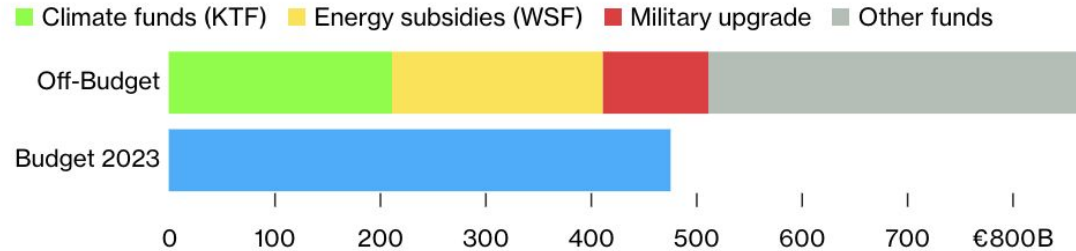
US Central Bank Balance Sheet, Total Assets Using average exchange rate over 7 years



Source: LSEG Datastream / Rezco

Fiscal Policy: From Stimulus to Contraction

Germany's Special Funds Exceed Regular Budget

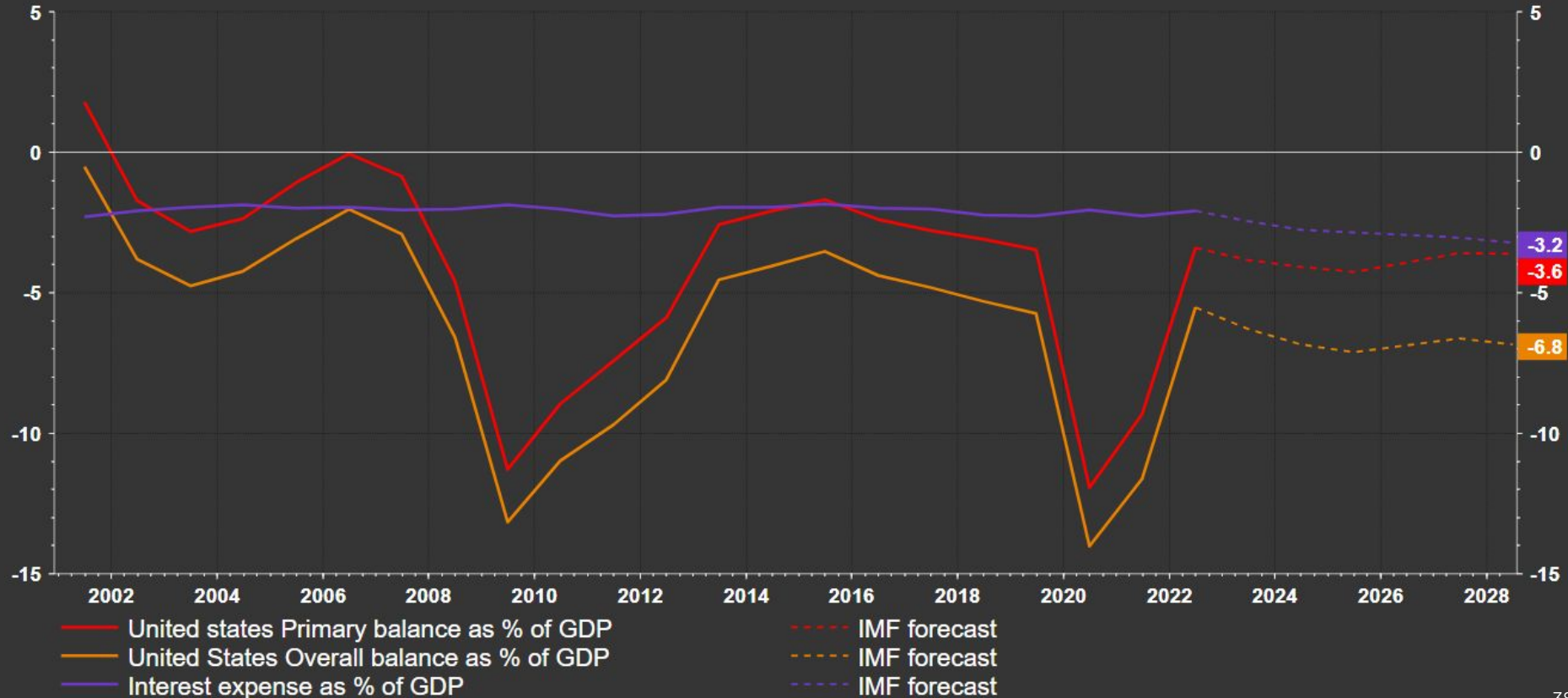


Sources: German Finance Ministry, Federal Court of Audit

Germany Battles 'House in Flames' After Budget Ruling Surprise

- Scholz deeply involved in near non-stop talks after ruling
- Judgment casts doubt over use of special funds outside budget

USA Budget Deficit



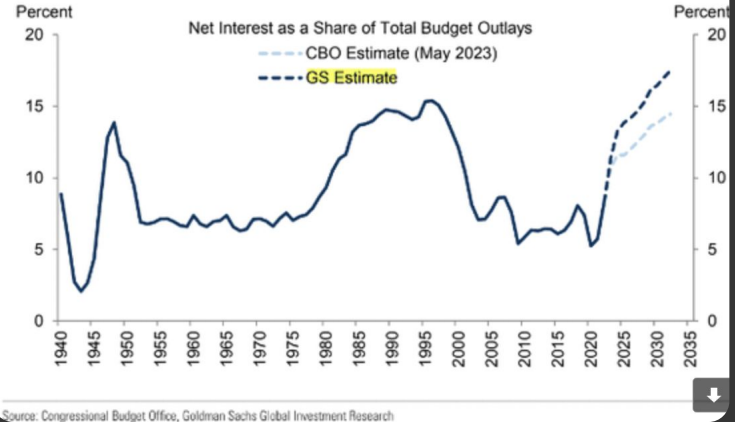
Govt Deficits Matter Again

CAPITAL ACCOUNT | GREG IP

Rising Interest Rates Mean Deficits Finally Matter

Investors ignored deficits when inflation was low. Now they are paying attention and getting worried. [Read](#)

Exhibit 4: We Estimate Interest Costs as a Share of Total Spending Will Reach a New Peak by 2029



FINANCE | INVESTING

Wall Street Isn't Sure It Can Handle All of Washington's Bonds

Investors long shrugged off U.S. deficits, but a torrent of Treasuries is testing the bond market

By [Eric Wallerstein](#) [Follow](#)

Updated Oct. 8, 2023 12:02 am ET

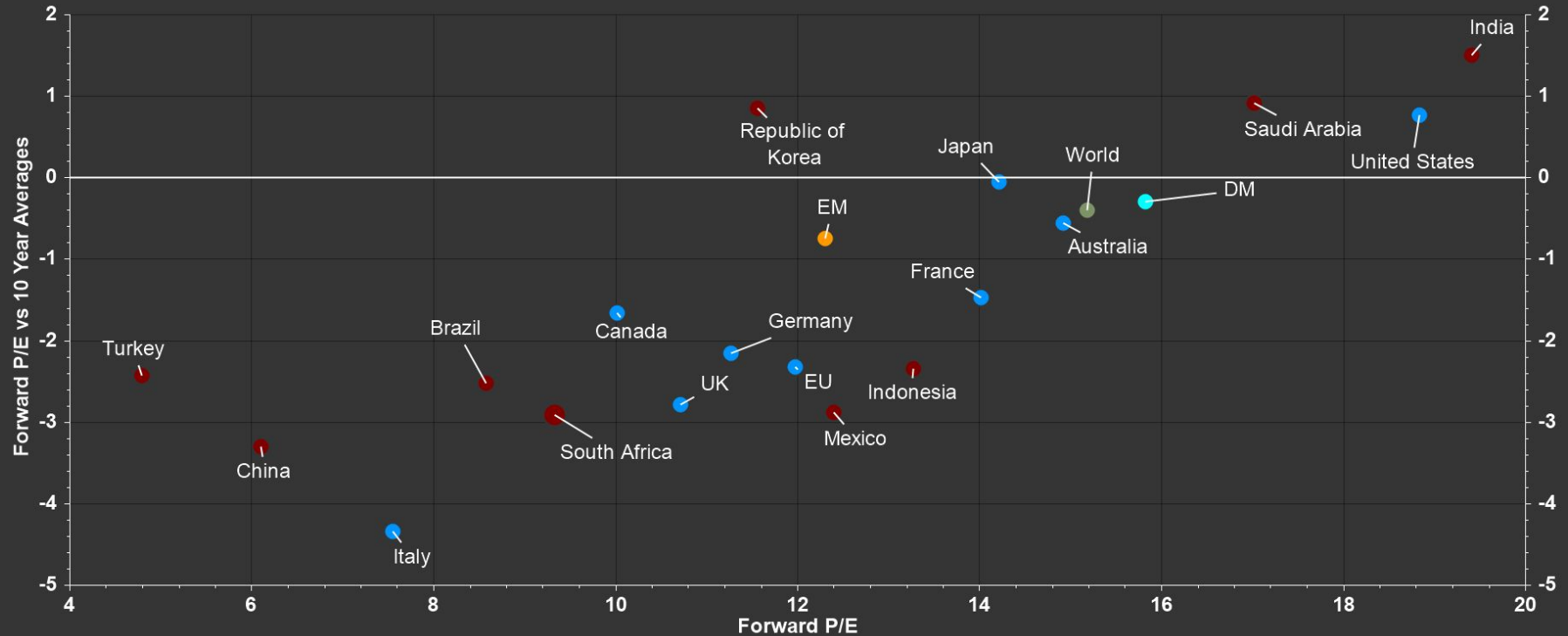
Market is Expensive Relative to Interest Rates

MSCI World 12m fwd P/E vs. 5-year US real yield inverted



Global Equities are Cheap vs Average PE's

Forward P/E ratio & Forward P/E 10 Year Averages



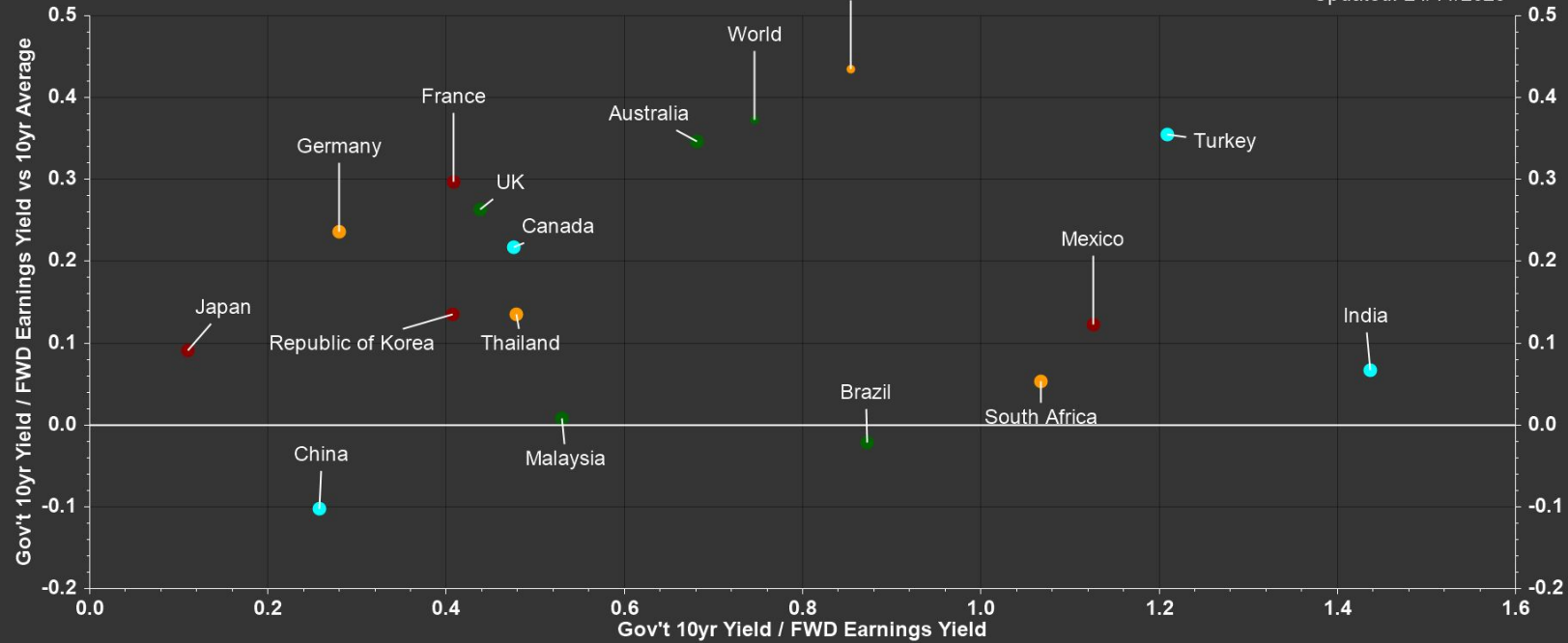
But Expensive Relative to Interest Rates

Equities vs 10 Year Government Bonds

Gov't 10yr Yield / FWD Earnings Yield vs 10yr Average

Updated: 24/11/2023

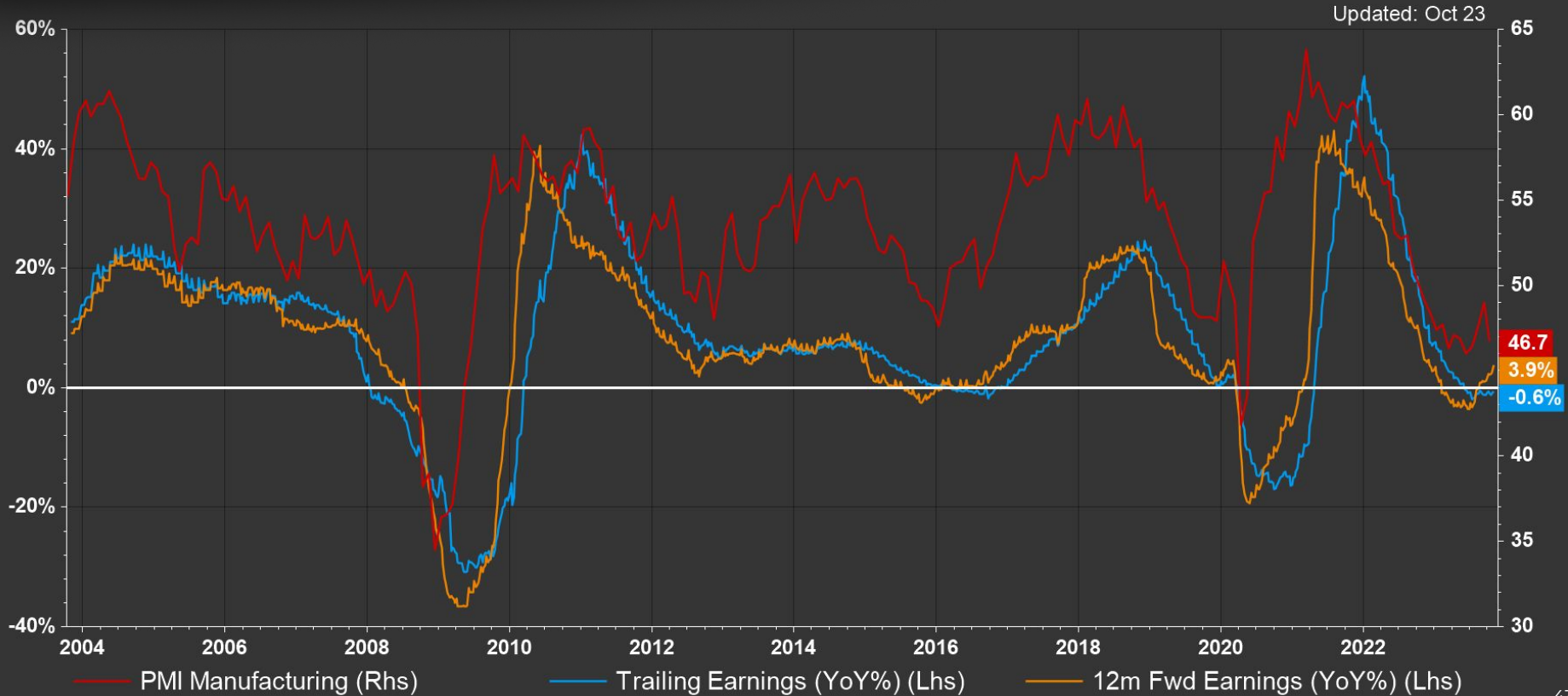
↑
EXPENSIVE



Source: LSEG Datastream / Rezco

→
SHARES EXPENSIVE

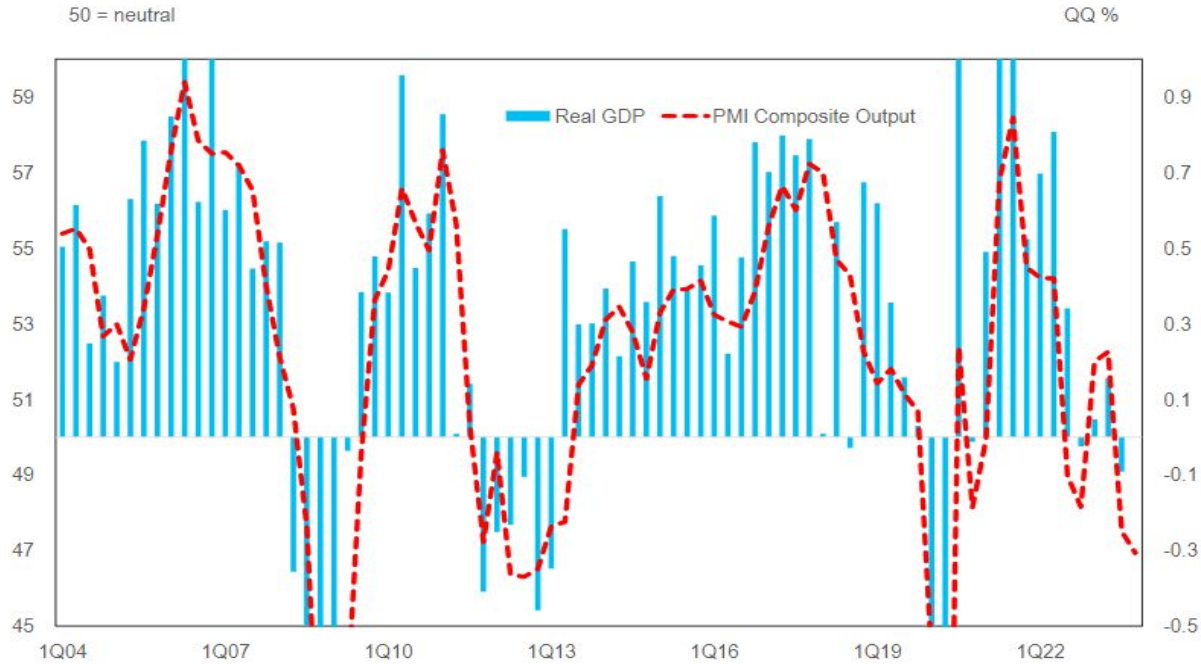
USA Earnings and PMI's: Signs of coming weakness



Euro Area: Heading to Recession

PMI's and GDP

Figure 1. Euro Area: PMIs and Real GDP (% QQ)

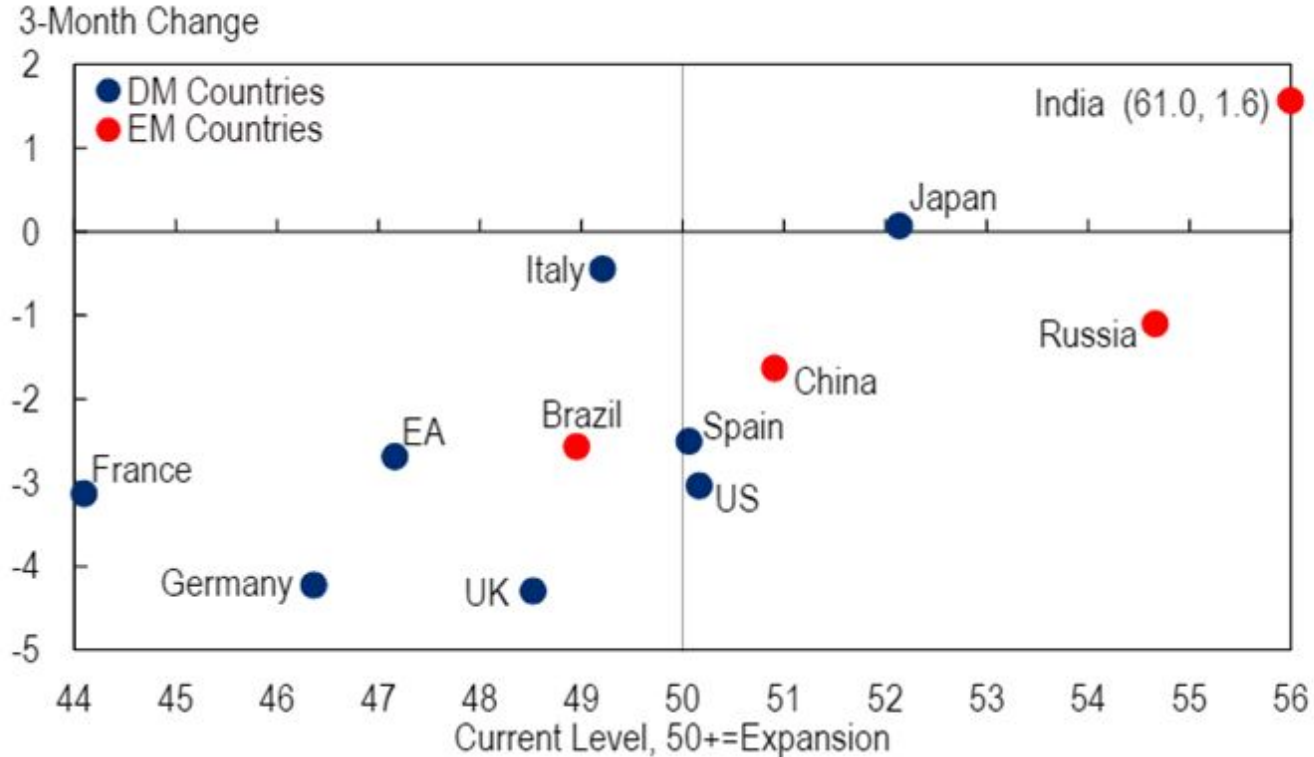


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Source: Citi Research, Haver Analytics

Global Economy: Fading Fast

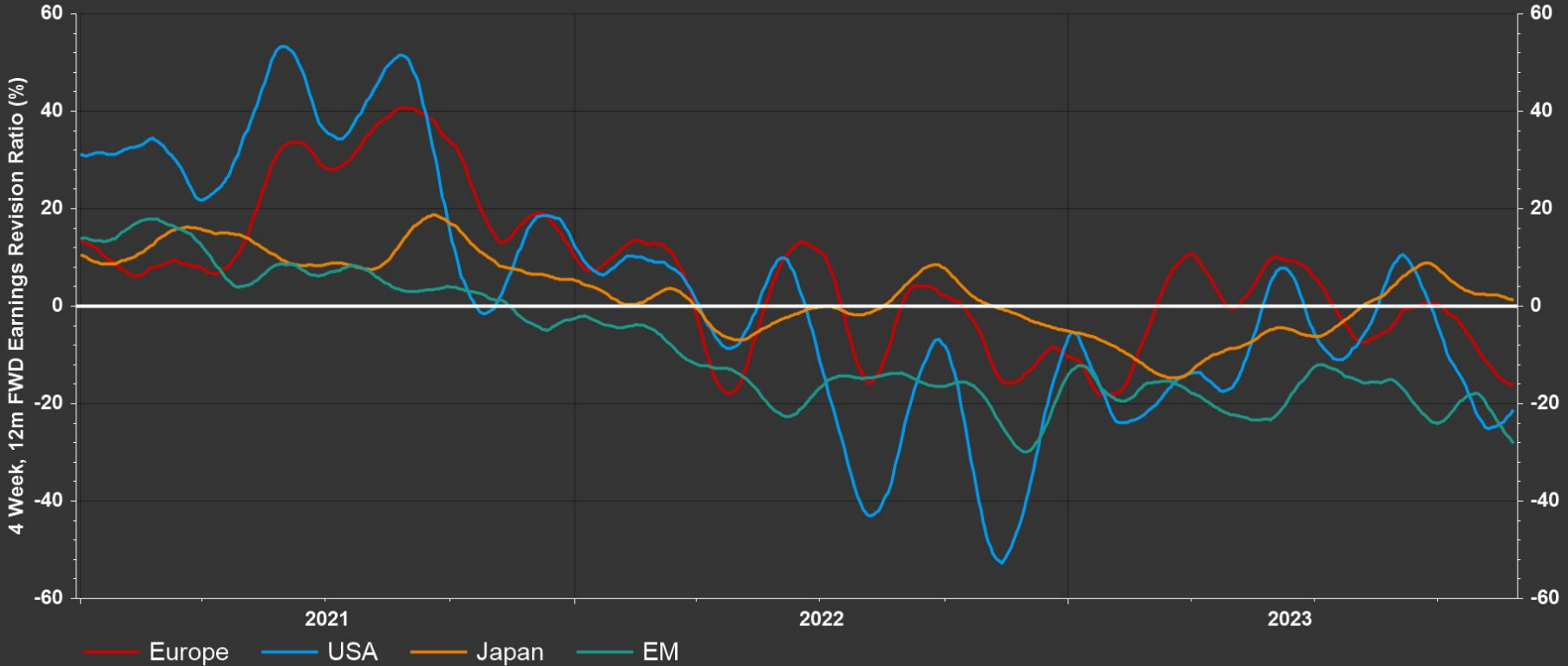
Figure 2. Global Composite PMI: Country-Level Detail



Earnings are Being Revised Down

Global Earnings Revision Ratio

Updated: 27/11/2023

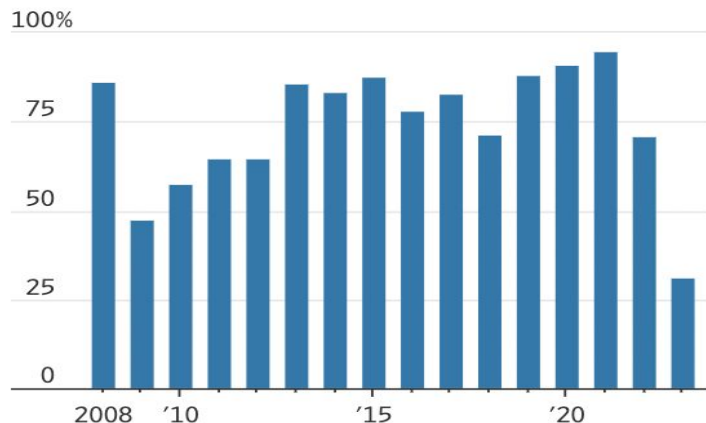


Source: LSEG Datastream / Rezco

Messy Things (Examples)

USA: Commercial Property & Unrealised Bank Losses?

Share of maturing office commercial mortgage-backed securities loans that got paid off by September of each year

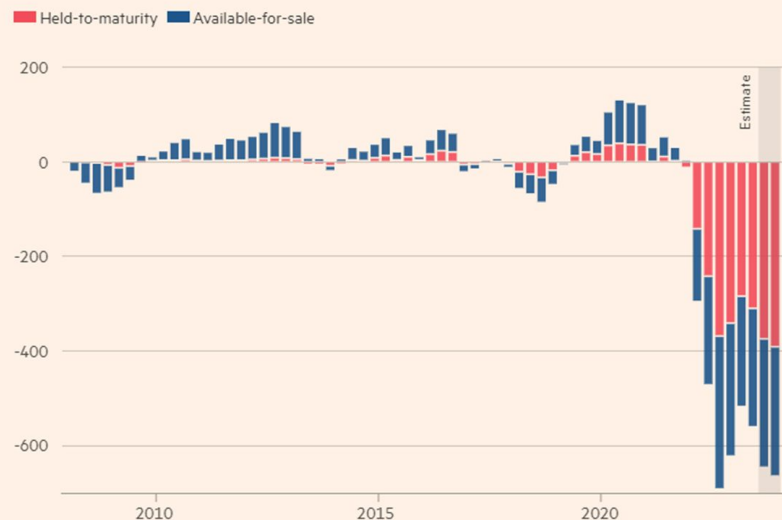


Note: The numbers include only loans maturing in the first nine months of each year and exclude loans with extension options.

Source: Moody's Analytics

Renewed interest in banks' rate issues

Unrealised losses on lenders' balance sheet (\$bn)

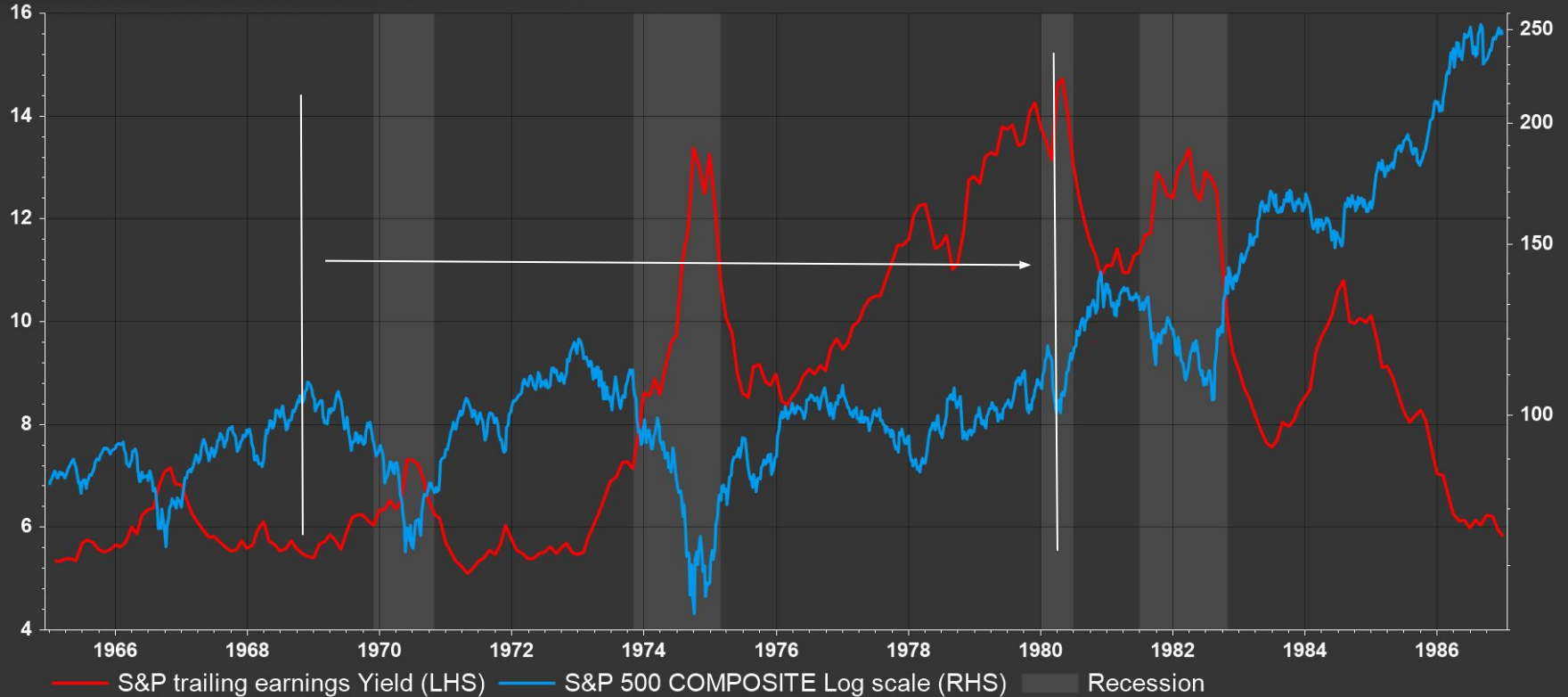


FINANCIAL TIMES

Sources: FDIC; Trepp

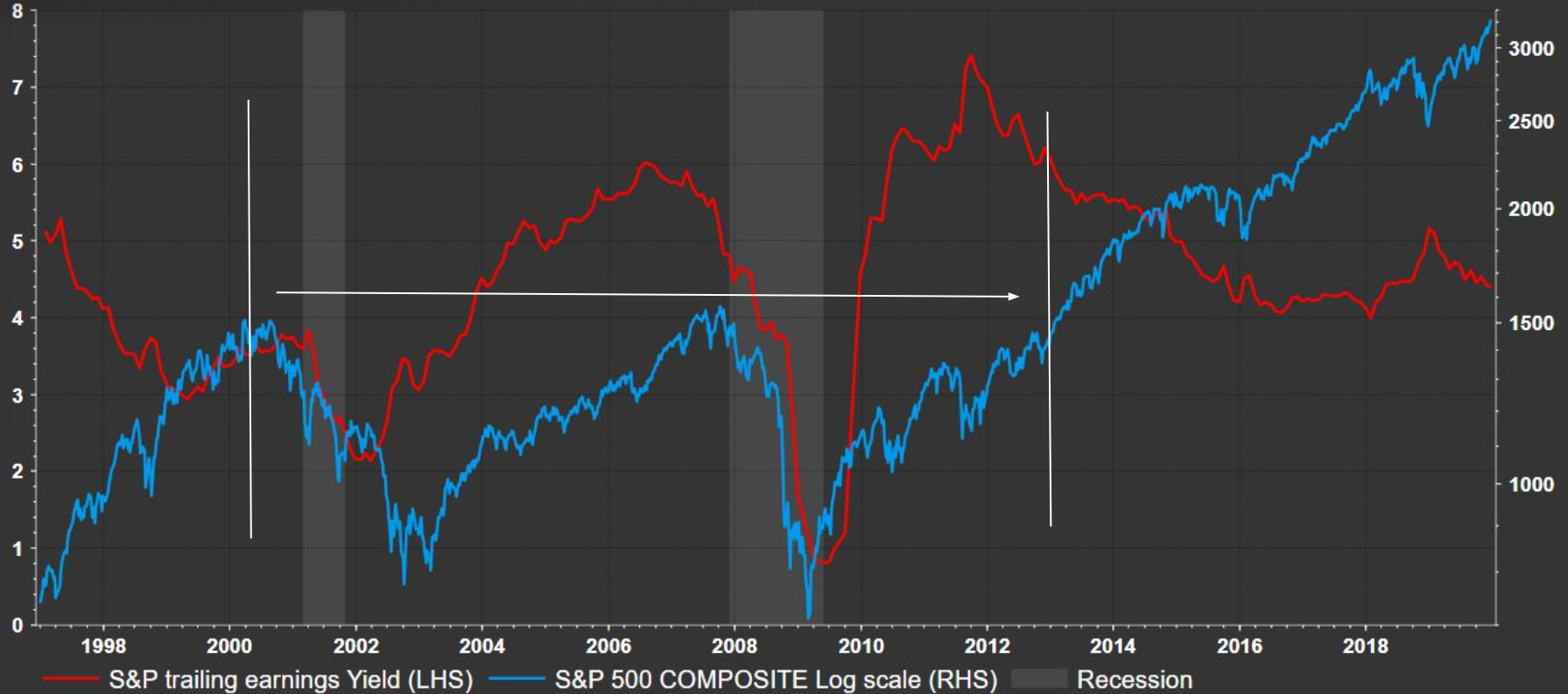
Old & Thematic Bull Markets

1968 - 1980 After the Nifty Fifty Bull Market



Old & Thematic Bull Markets

2000 - 2013 After the Dot-Comm Bull Market



Source: LSEG Datastream / Rezco

South Africa



Economy

Stuck in low growth due to mismanagement

Eskom, Spoornet, Portnet

Currency

Current account and portfolio flows negative

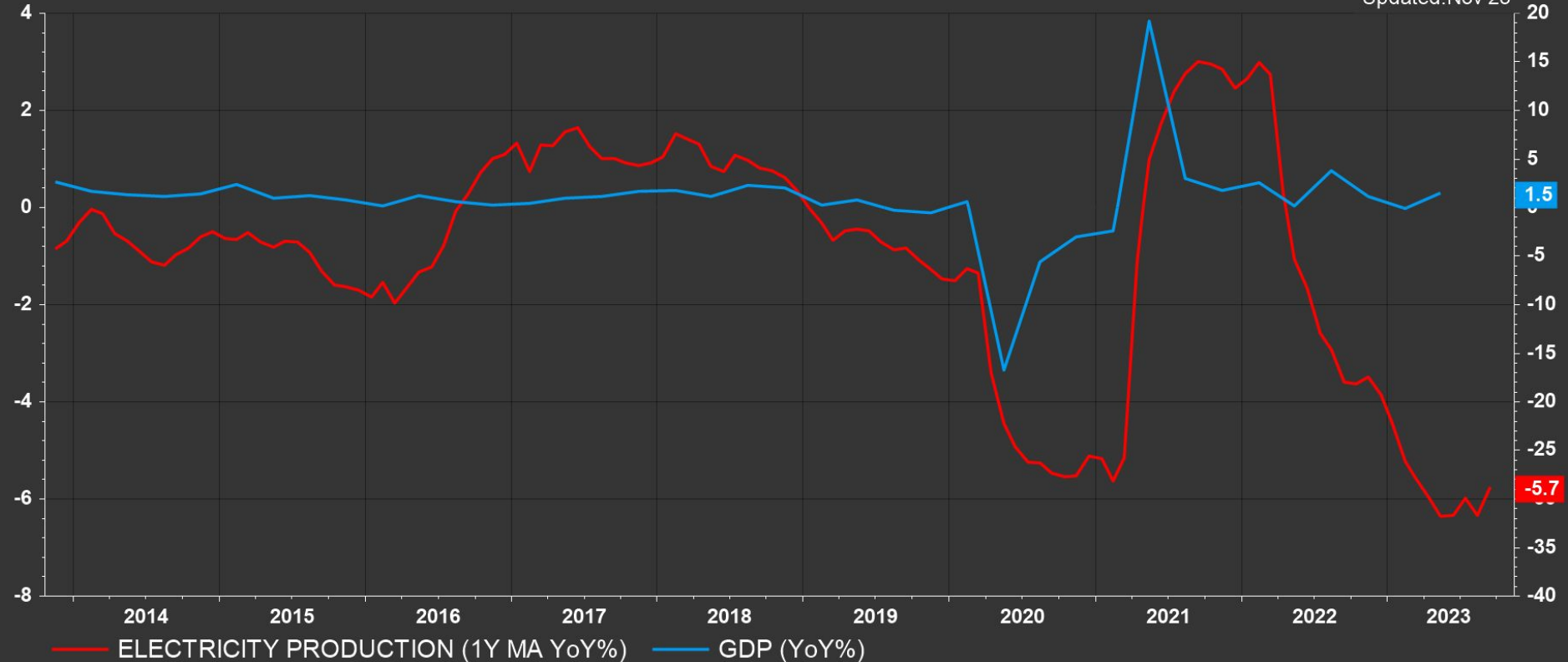
Turkey similarities

Risk Events

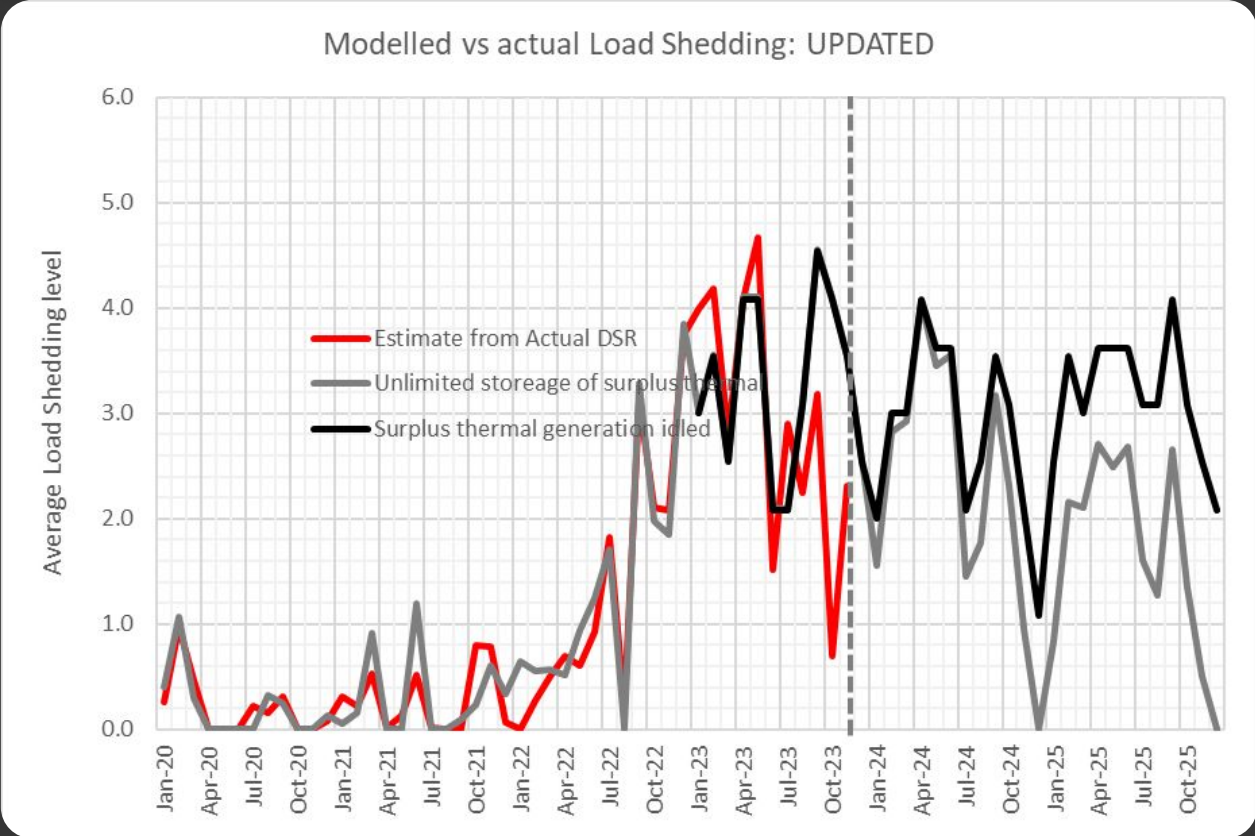
2024 Elections : Government = ANC + WHO

South Africa GDP and Electricity

Updated: Nov 23



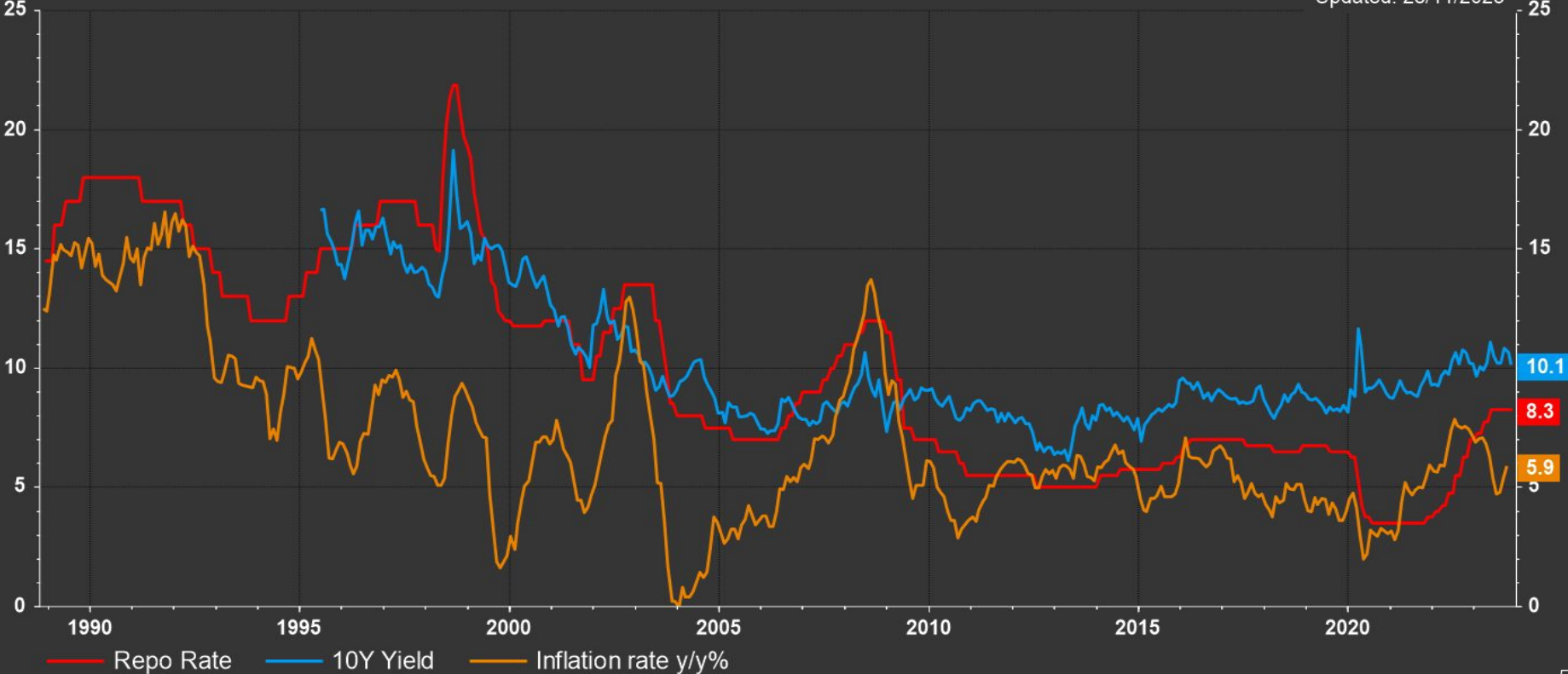
Load-Shedding will come and go



RSA: Interest Rates, Inflation and Bonds

SOUTH AFRICAN RATES

Updated: 28/11/2023



Source: LSEG Datastream / Rezco

Treasury in talks with Reserve Bank over gold and forex reserve account

Head of Treasury's budget office concedes the R27bn contingency reserve in MTBPS is insufficient

 ECONOMY

 BL PREMIUM

RSA Fixed Income



RSA Bonds not yet Reflecting Increased Risks

YIELD DIFFERENTIAL



Source: LSEG Datastream / Rezco

Floating Rate Notes:

A Good Option for our Balanced Funds

JIBAR RATES

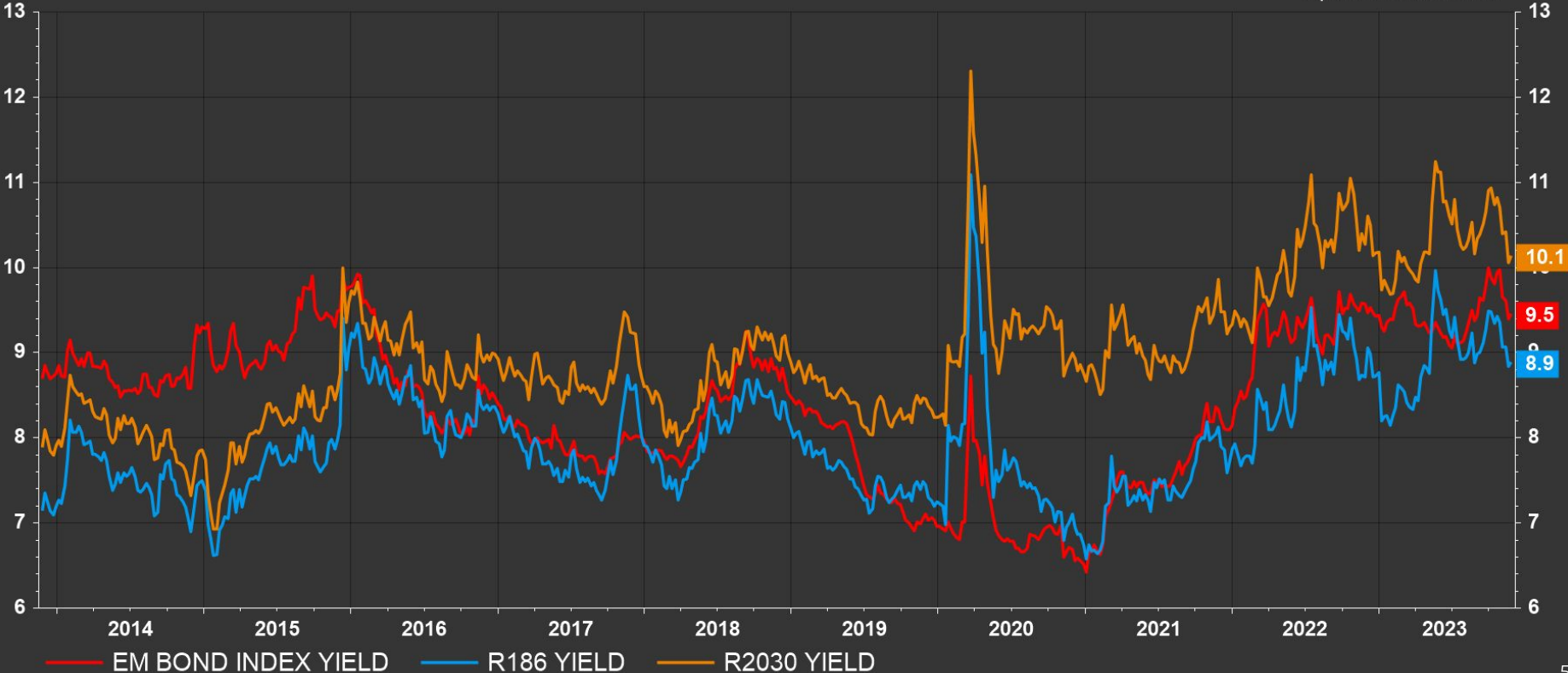
Updated: 27/11/2023



RSA: Another Emerging Market

R186 x R2030 YIELDS vs EM BOND INDEX YIELD

Updated: 27/11/2023



Source: LSEG Datastream / Rezco

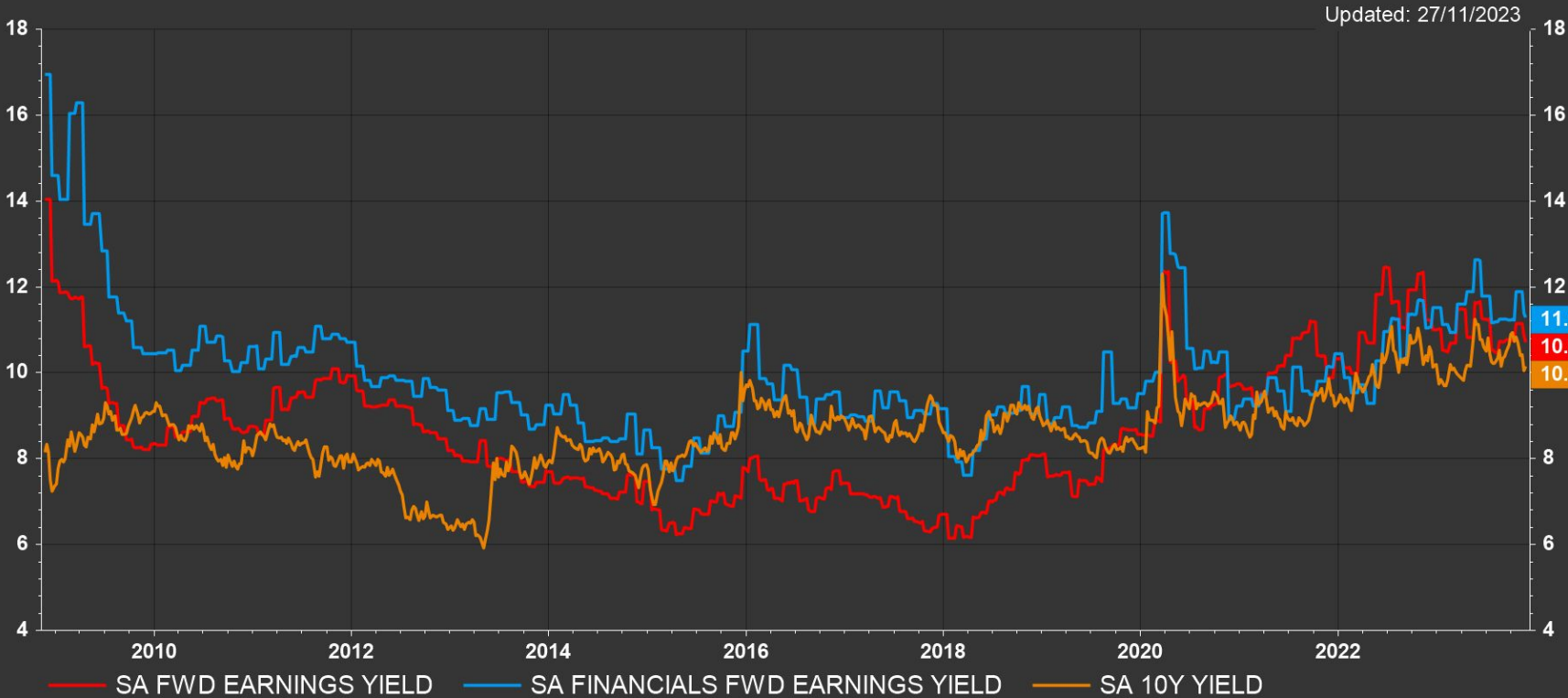
RSA Equities



RSA not Cheap

Given Low Growth and Alternative

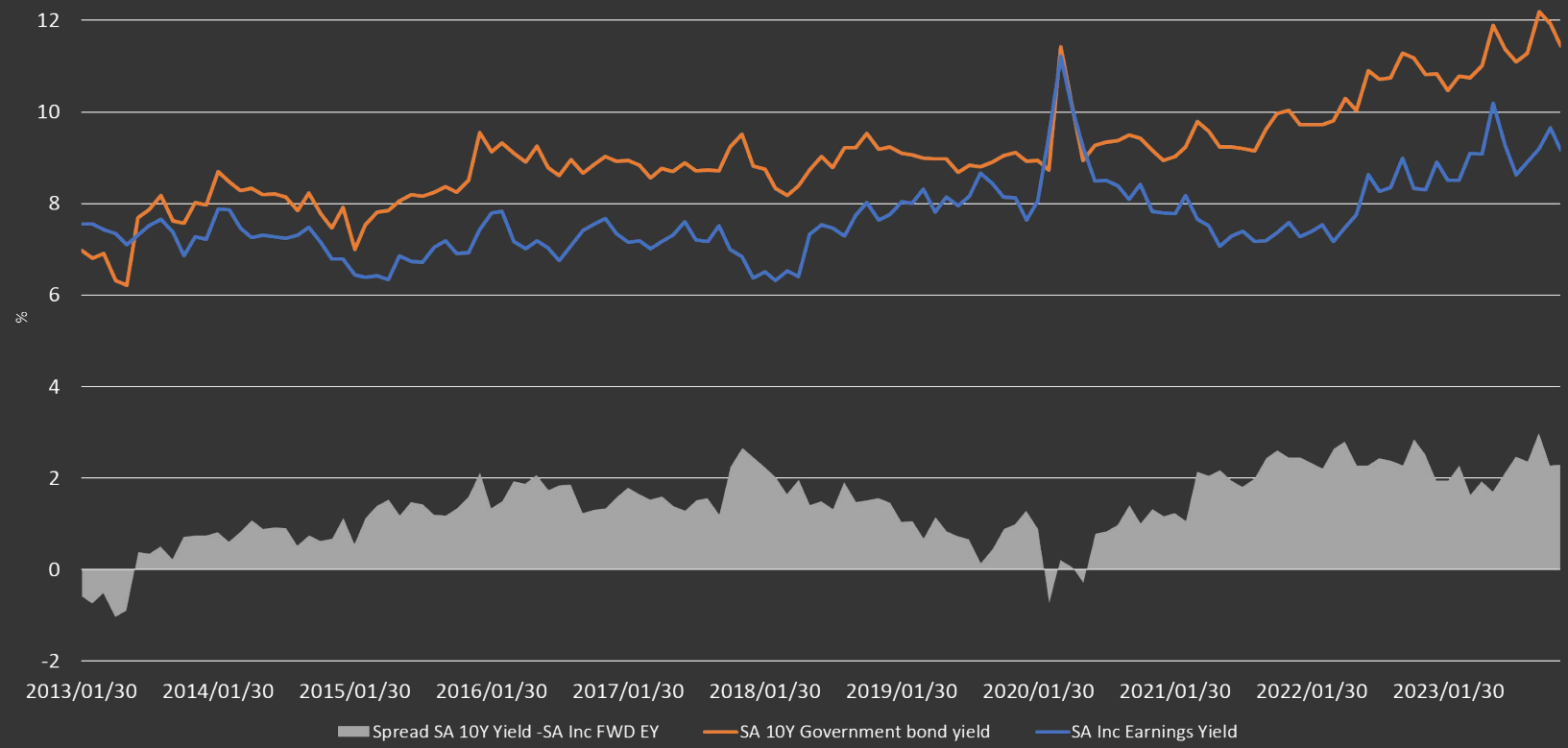
SA MARKET VALUATION



Source: LSEG Datastream / Rezco

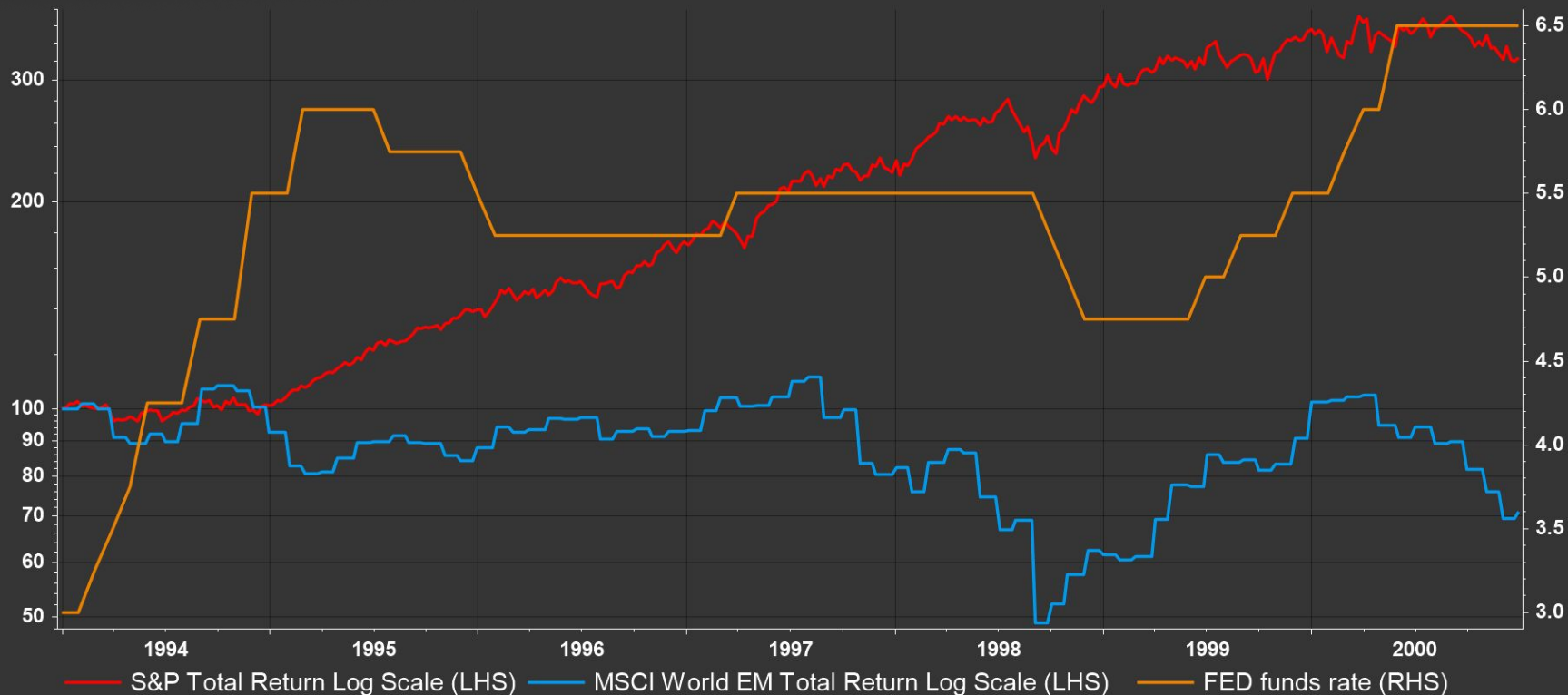
SA Inc - Not Cheap Relative to Bonds

SA 10Y vs SA INC FWD Earnings Yield



The 1995 US Soft Landing

EM Crisis as Rates Held High and US Equities Rallied



Rand Exchange Rate Scenario

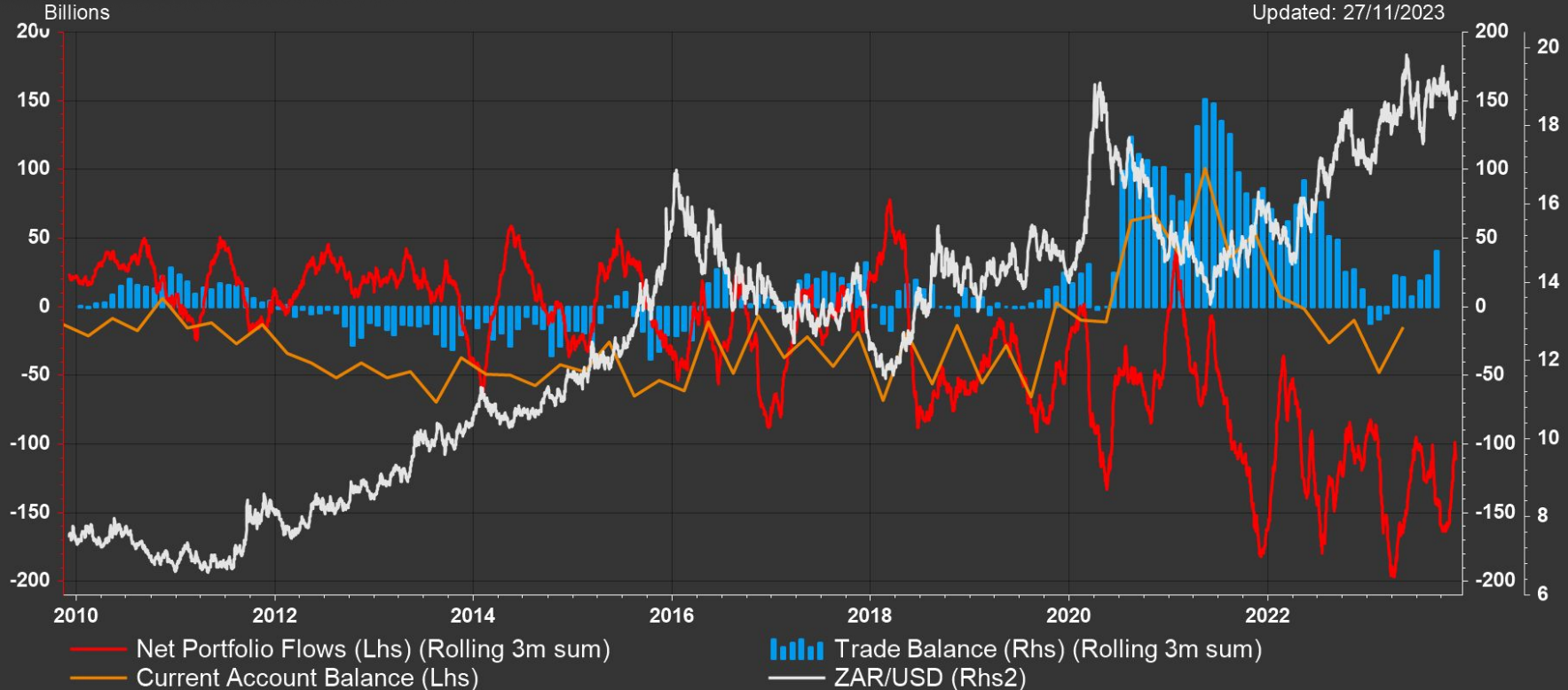
(Three to Ten Year)



RSA Fundamentals Point to a Weaker ZAR

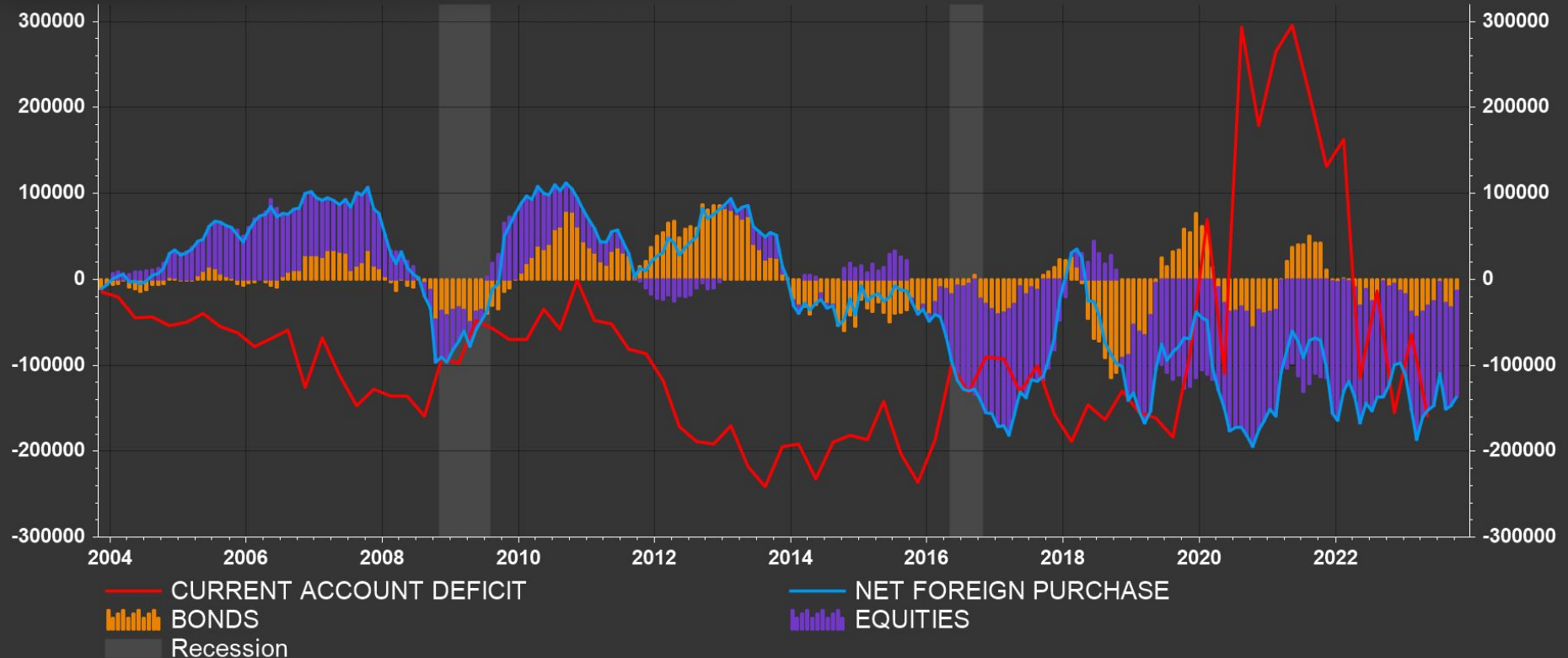
The Trade Surplus was Temporary

SA TRADE BALANCE

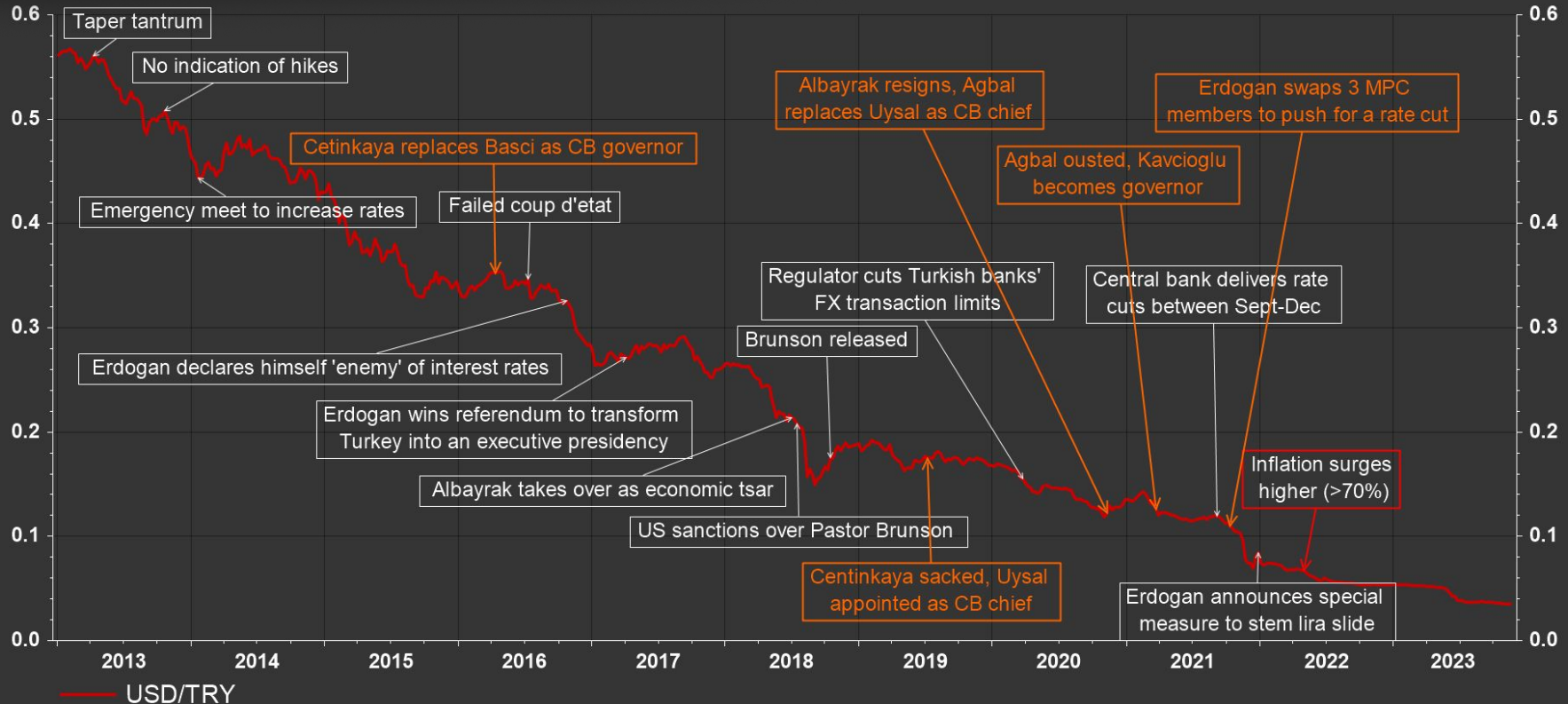


C/A Deficit Needs to be Funded by Portfolio Flows

Updated: 28/11/2023



Turkey: Populist Economics & Doing Dumb Things Builds Over Time



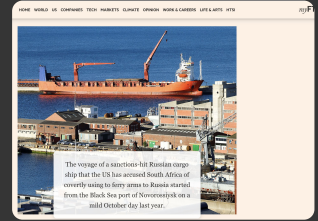
ANC - Doing Lots of Dumb Things

Backing Russia in Ukraine war
BRICS Summit
Naval exercises with Russia
Lady R selling arms to Russia

Instantaneously backing Hamas after terror attack

Starting the road to non-orthodox policy
Dipping into Forex reserves
Uncontrolled budget deficits

Broken SOE's _ no real plan to fix them.
Portnet, Spoornet, Eskom, SAPS, NPA
Weigh on economic growth.



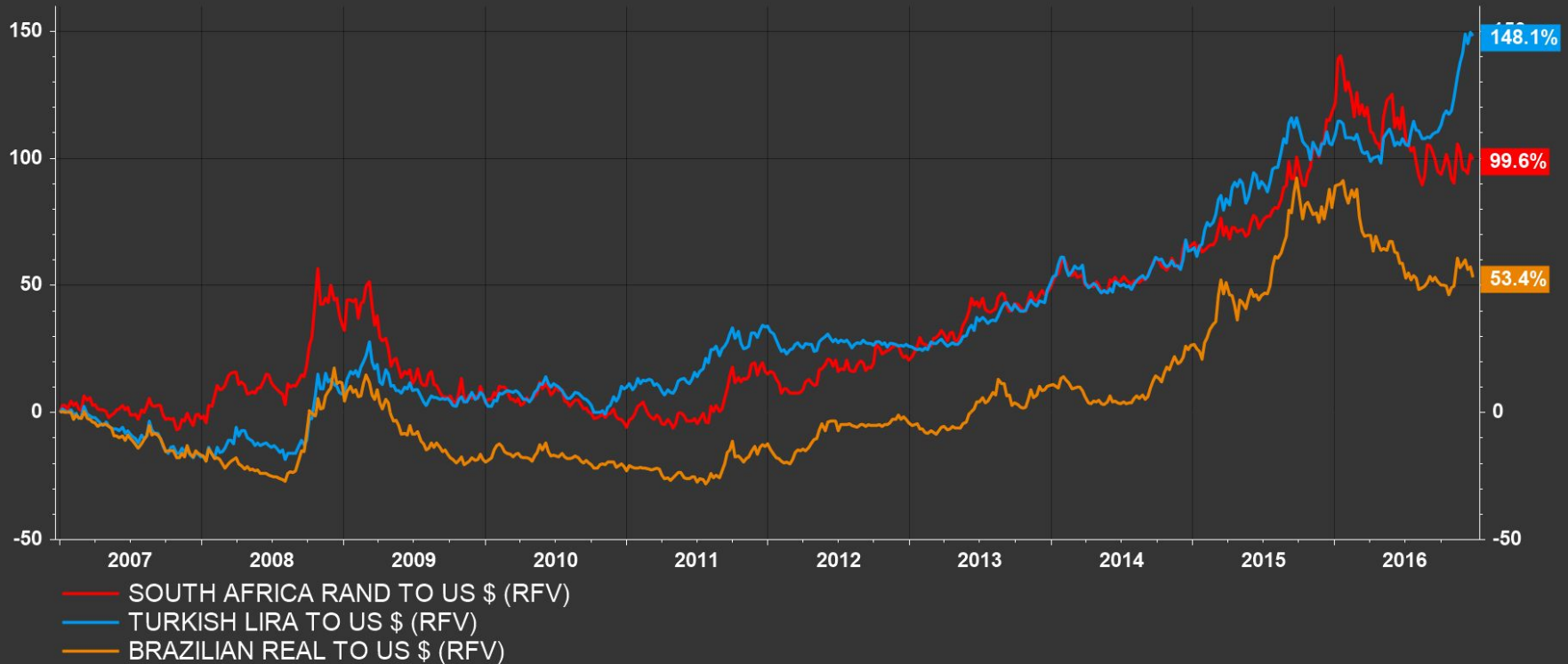
Treasury in talks with Reserve Bank over gold and forex reserve account
Head of Treasury's budget office concedes the R27bn contingency reserve in MTBPS is insufficient

■ ECONOMY
■ BL PREMIUM

South Africa, Brazil & Turkey - 3 Sibling EM's

2007 - 2017

EM Currencies vs USD [2007 - 2017]

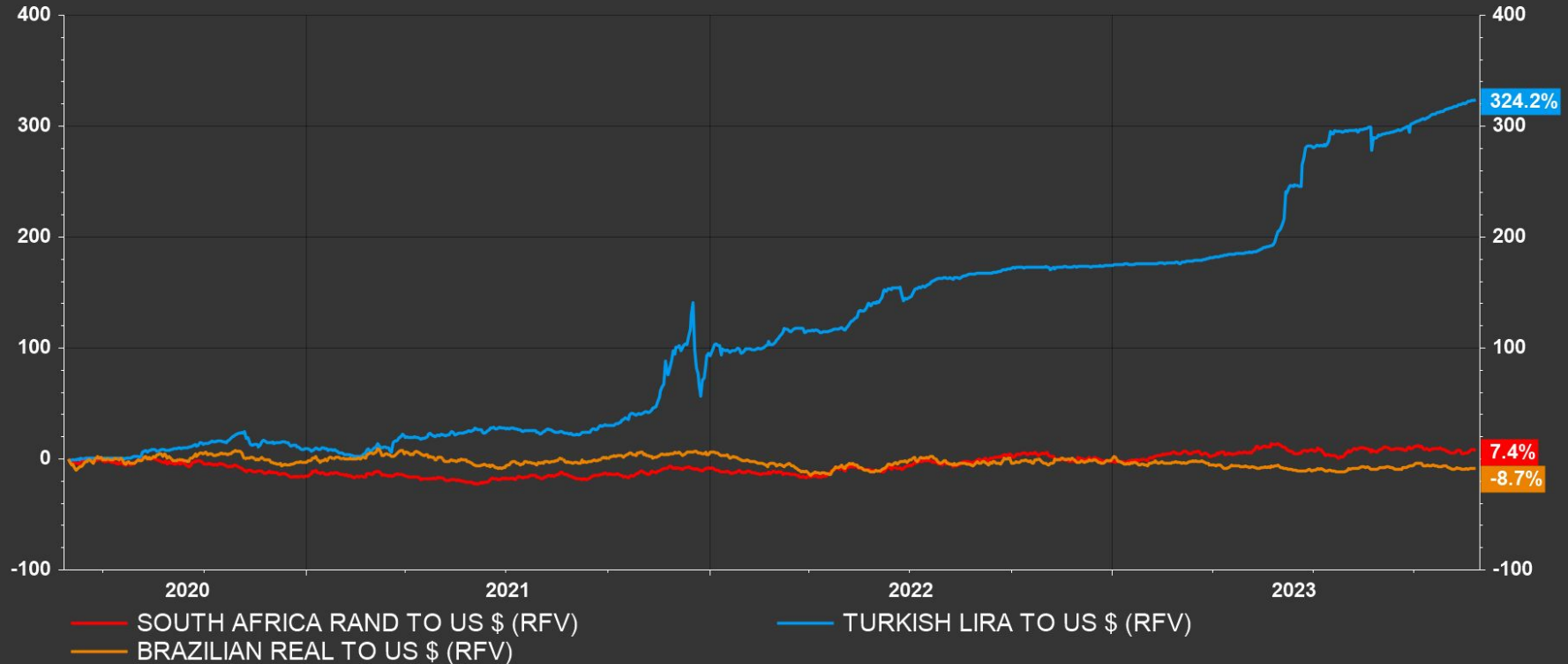


South Africa, Brazil & Turkey

Bad Policy has Consequences

EM Currencies vs USD (Short-term)

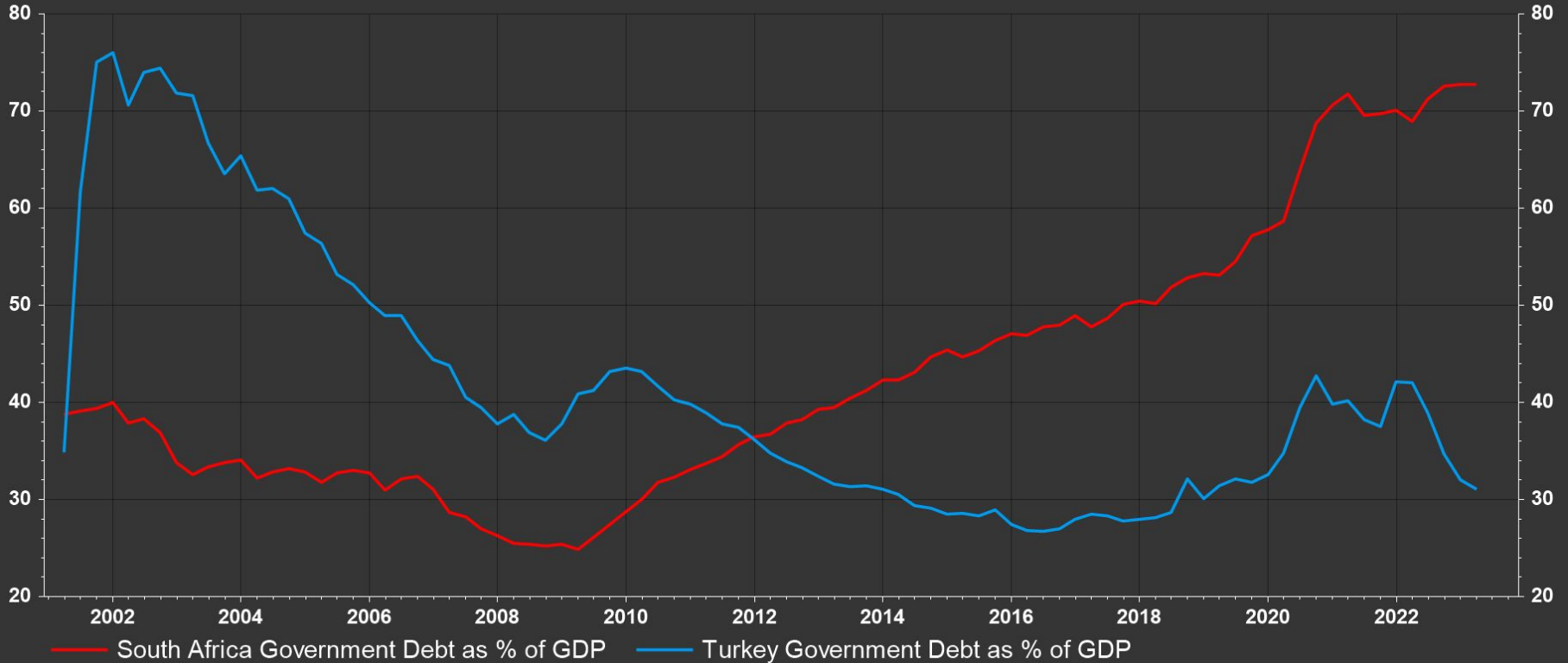
Updated: 27/11/2023



South Africa & Turkey: Debt to GDP

Government Debt to GDP (Quarterly)

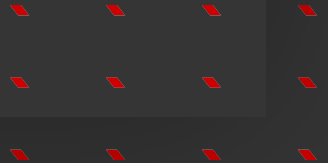
Updated: Q4 23



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Summing it up



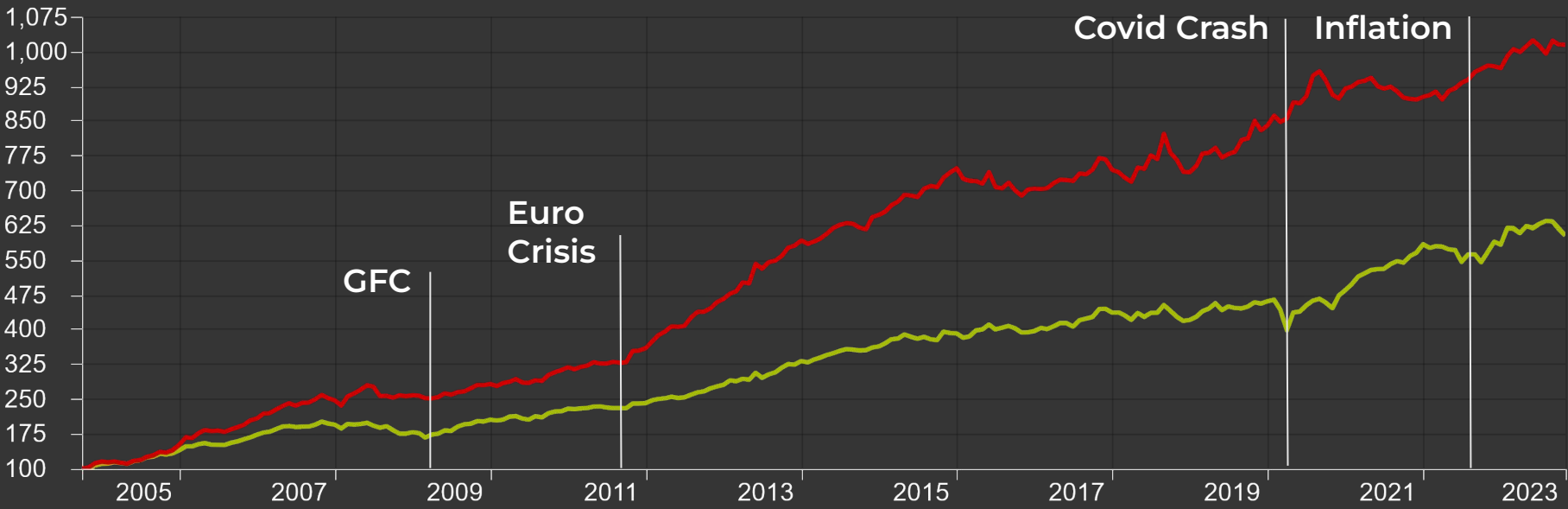
Fund Positioned for Managing Risk

	Managed Plus	Value Trend	Stable	SA Equity	Global Flexible
SA Equity	23%	10%	13%	95%-97%	
Global Equity	22%	8%	6%		29%
Total Equity	45%	18%	19%		29%
SA Gov Bonds (R186)	20%	29%	29%		
SA Floating Rate Notes & MM	9%	17%	20%		
Global Short Duration	26%	36%	32%		71%
Direct Offshore	49%	45%	39%		

Long Term: Managing the Risks

Time Period: Since Common Inception (01/10/2004) to 31/10/2023

Currency: South African Rand Source Data: Total Return



— Rezco Value Trend A

1,014.7 — ASISA SA MA High Equity

604.5

Source: Morningstar Direct

Disclaimer

Preserving Capital* & Creating Wealth.

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Thank You

