

# REZCO INVESTMENT WEBINAR OCTOBER 2021

**BRIAN DU PLESSIS: HEAD OF DISTRIBUTION** 

SIMON SYLVESTER: CO-PM, HEAD OF RESEARCH

**ROB SPANJAARD**: CIO, CO-PM

#### **AGENDA**

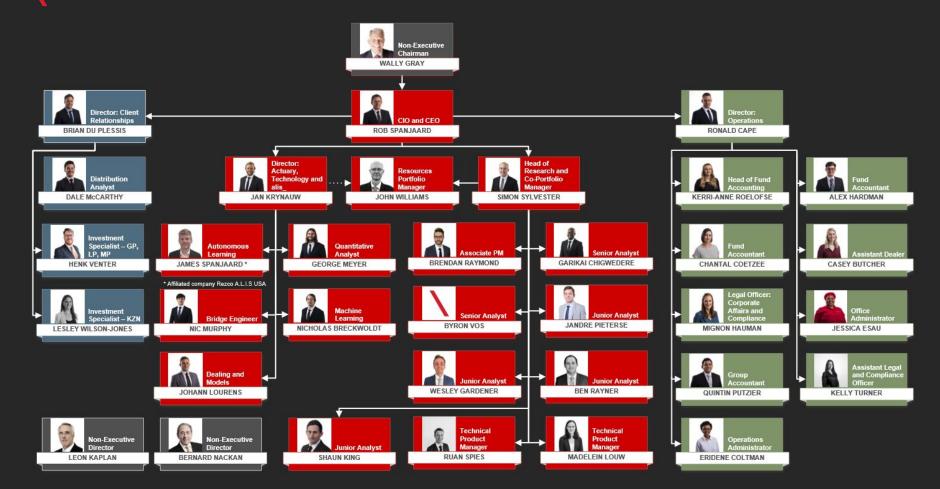
- Business Update
- Recap of what we have been calling for this year
- Outline of how we see the market's positioning
- Inflation risks and why they are so important
- Fund performance and contributions
- How are the funds positioned and where will outperformance come from
- Extended Q&A 'coffee chat afterwards'



#### **REZCO BUSINESS UPDATE**

- Exec Management own 85%
- Rezco Charitable Foundation gets 20% of profits PLUS 14% Dividend
- Target to be BEE level 2 by Dec 2021
- Bonus pool 30% of profits
- Offices
  - Sandton (Investment Management and Technology)
  - Port Elizabeth (Operations Office)
  - Cape Town
  - Boston (alis\_ Tech Office)
- Run own Manco for Unit Trusts
- JTC: pricing and TA function (Rezco run duplicate backup system)
- Global Fund: Own Luxembourg SICAV UCITS structure

### **REZCO TEAM**



# **Stable Client Base**

Our clients know why they use us

		As at 30/09/2021
ZAR	Rezco Value Trend	R 6,404.2M
	Rezco Equity	R 1,400.2M
	Rezco Managed Plus	R 861.5M
	Rezco Global Flexible Feeder	R 412.5M
	Rezco Stable	R 330.4M
		R 9,408.9M
USD	Rezco Global Flexible	\$ 149.2M

# **REZCO WEBINAR FEB 2021**



#### **JEREMY GRANTHAM**

Viewpoints | January 05, 2021

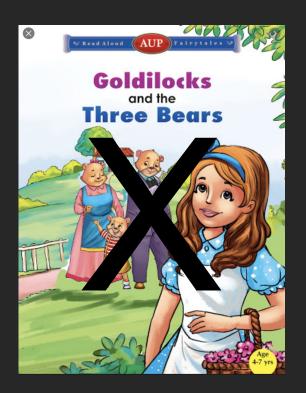
# WAITING FOR THE LAST DANCE

The Hazards of Asset Allocation in a Late-stage Major Bubble

By Jeremy Grantham



# JAMIE DIMON'S THREE OPTIONS





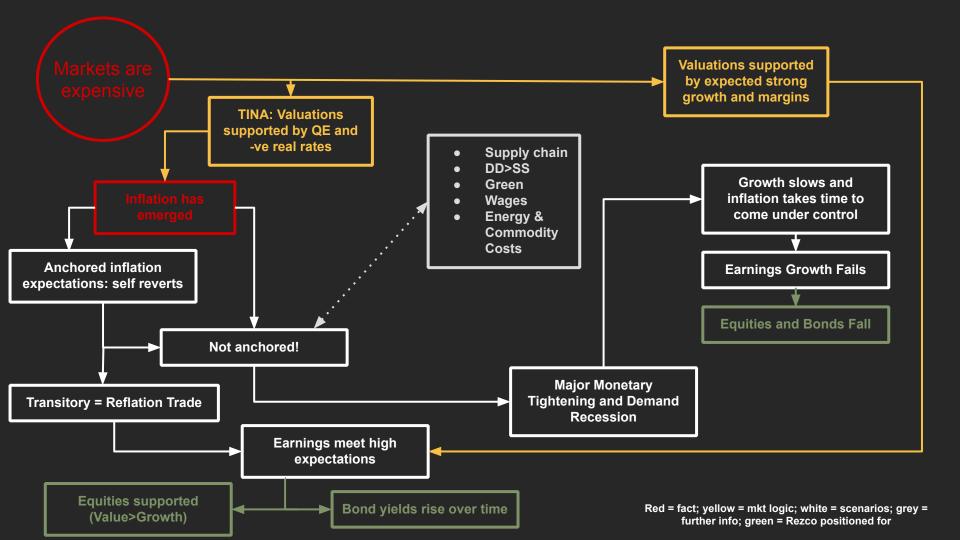






It looks like the car is speeding down a mountain pass and the driver still has their foot flat on the accelerator.

How do we see this playing out...



#### TWO LIKELY OPTIONS & TINA

#### Option 1: Benign

- Interest rates normalise
- PE's fall
- Equities go up a little Value vs Growth
- Bonds take a hit

#### Option 2: Toxic

- Inflation Monetary Tightening Recession
- Equity bear market
- Bonds take a hit

#### Option TINA

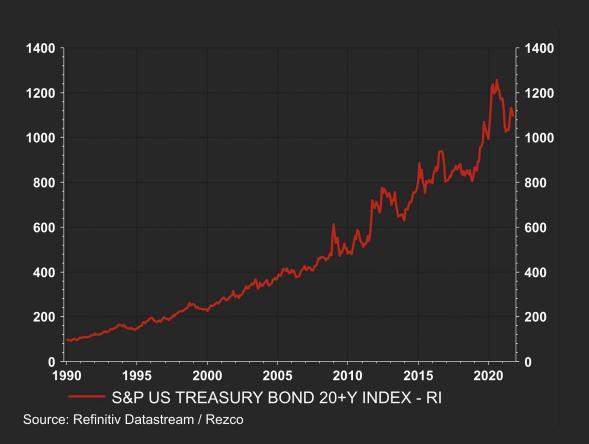
- Interest rates stay close to zero, and no inflation
- Big budget deficits funded by QE
- Very strong economic growth
- Equities valuations go up from record levels



# THE MARKET IS HYPER BULLISH



# **BOND BULL MARKET**



#### MARKET IS WRONG FOOTED

#### MARKET IS POSITIONED FOR:

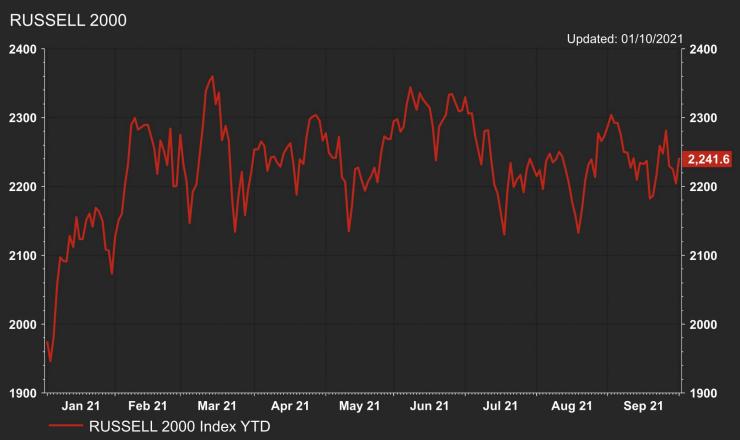
- Goldilocks economies
- Continued company earnings growth and high margins
- Negative real interest rates can continue indefinitely
- Inflation is impossible
  - Inflation is not impacted by employment, economic slack, QE, negative real interest rates.....only thing that affects future inflation is inflation expectations

### **TINA**

#### What does TINA mean?

- Don't fight the FED
- Always buy the dips
- Markets always go up
- Ignore the risks
  - QE is always available should anything go wrong

# **BUY THE DIPS!**



Source: Refinitiv Datastream / Rezco

#### WHAT CAN GO WRONG FROM HERE?

#### RISKS THAT ARE ALREADY IN MOTION:

- Inflation
  - The FED are positioned for deflationary trends behind the curve
- Energy Crisis
- Supply chain bottlenecks
- Stock-outs rippling through J.I.T. delivery networks
- Massive budget deficits and unwind of QE
  - Who are the new bond buyers once central banks step back?
- China property (debt) crisis

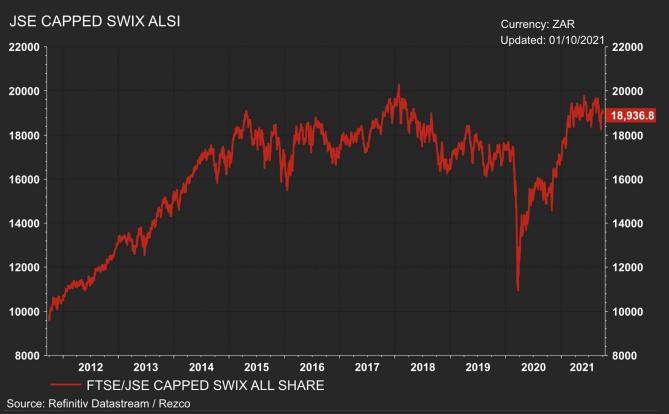
# **USA EX TECH**

#### Long way to fall

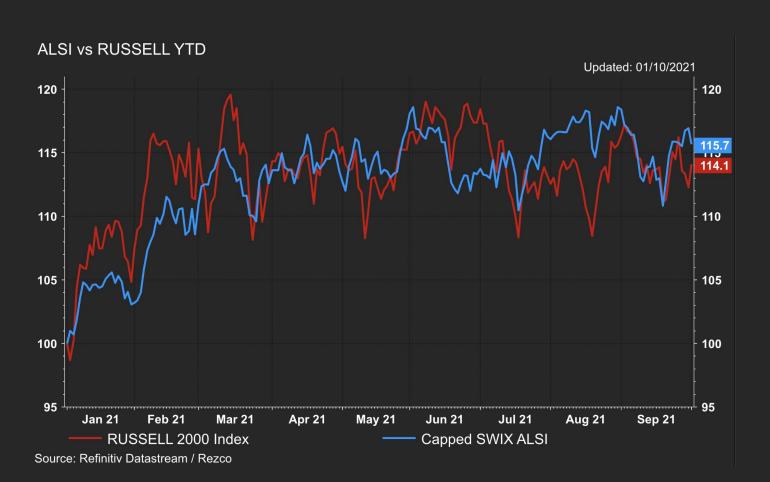


## **ALSI UP ON PRE-COVID LEVELS**

Lack of SA growth justifies sideways market



## **SA STORY OR JUST GLOBAL SENTIMENT?**





### WHY IS INFLATION A PROBLEM?

## Higher inflation means:

- QE and negative real rates need to end
- Rising yields are bad for asset prices
- Rising interest rates will lower economic and earnings growth
  - o risk of stagflation when the market is priced for growth

# **INFLATION HAS APPEARED**

#### US CORE CONSUMER PRICE INFLATION



Source: Refinitiv Datastream / Rezco

## **CORE CORE INFLATION**

US CPI All Items Less Food Shelter Energy & Used Cars & Trucks SA A "Core Core" measure of inflation is still above the Fed's upper band



## WHY'S THE FED FORECASTING 2.3% INFLATION NEXT YEAR?

Because inflation expectations are well anchored

So, I expect inflation to decelerate, and pre-COVID inflation dynamics to return when COVID disruptions dissipate.

Lael Brainard, 27 Sept 2021

The currently elevated level of inflation is driven by COVID-related disruptions. As these COVID-related disruptions subside, most forecasters expect inflation to move back down toward the Federal Reserve's 2 percent long-run objective on its own.

Lael Brainard, 27 Sept 2021

### THE INFLATION PICTURE HAS CHANGED

The inflation dynamics are not the same as before COVID:

- Labour rights, political pressure for real wage growth
- Environmental costs are increasing inflation
- Supply chain bottlenecks
  - JIT has gone from efficiency to global fragility
- De-globalisation and protectionism
- Demand is greater than supply, bottlenecks similar to shortages

### THE FED HAVE BEEN SURPRISED

#### JEROME POWELL: FED CHAIRMAN - CONGRESSIONAL TESTIMONY JULY 2021

"The challenge we are confronting is how to react to this inflation which is larger than we had expected, or that anyone had expected. And to the extent it is temporary, then it wouldn't be appropriate to react to it, but to the extent it gets longer and longer then we will have to continue to reevaluate the risks that would affect inflation expectations and be of a longer duration and that's what we're monitoring."

1

## **INFLATION EXPECTATIONS ARE NOT WELL ANCHORED**





Source: Refinitiv Datastream / NY FED Survey

### **JUSTIFY ANCHORING IS GETTING DIFFICULT**

Politics over who gets the Top Job at the FED

"Recent analysis of the Survey of Consumer Expectations (SCE) concludes that 'in August 2021 consumers' five-year ahead inflation expectations were as well anchored as they were two years ago, before the start of the pandemic."

Lael Brainard, 27 Sept 2021

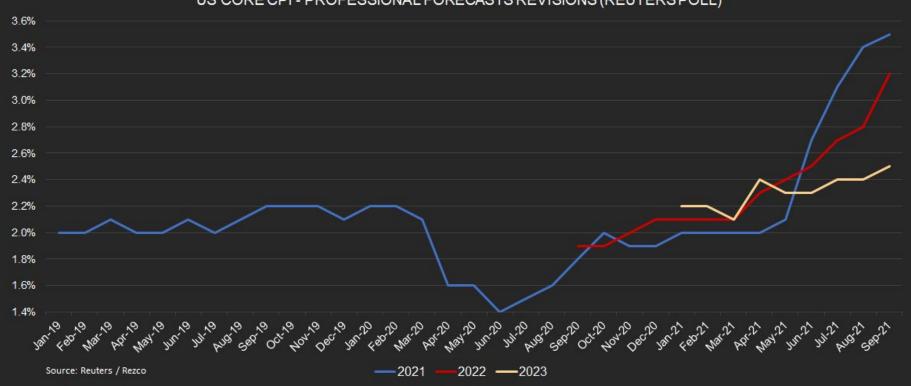
#### Median Short-Run and Long-Run Inflation Expectations

	July 2019 (N=999)		April 2021 (N=1,024)		August 2021 (N=2,209)	
	Horizon	Median Point Prediction	Horizon	Median Point Prediction	Horizon	Median Point Prediction
1-year ahead	Jul 19-20	2.92%	Apr 21-22	3.24%	Aug 21-22	4.84%
5-year ahead	Jul 23-24	3.00%	Apr 25-26	3.00%	Aug 25-26	3.16%

Source: Federal Reserve Bank of New York Survey of Consumer Expectations (2013-2021).

# **EXPECTATIONS: PROFESSIONAL FORECASTERS**





### **ECONOMICS IS NOT EXACT SCIENCE**

Recent paper

## Board of Governors of the Federal Reserve System

The Federal Reserve, the central bank of the United States, provides the nation with a safe, flexible, and stable monetary and financial system.

About Supervision News Monetary **Payment** Economic Consumers Data the Fed & Events Policy & Regulation Systems Research & Communities Home > Economic Research > Finance and Economics Discussion Series (FEDS) > 2021

#### Finance and Economics Discussion Series (FEDS)







September 2021

#### Why Do We Think That Inflation Expectations Matter for Inflation? (And Should We?)

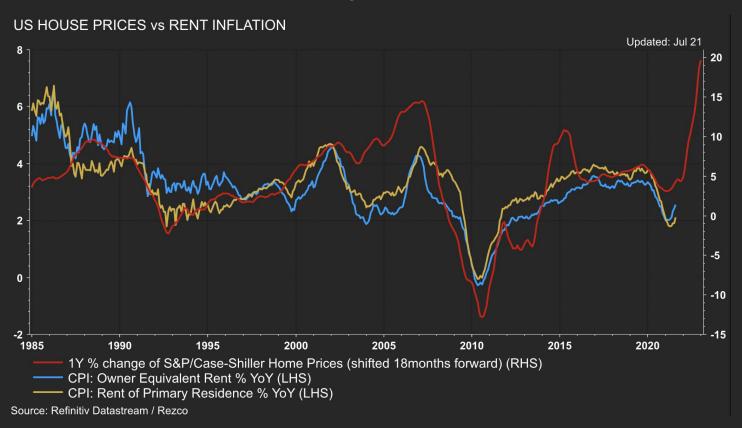
Jeremy B. Rudd

#### Abstract:

Economists and economic policymakers believe that households' and firms' expectations of future inflation are a key determinant of actual inflation. A review of the relevant theoretical and empirical literature suggests that this belief rests on extremely shaky foundations, and a case is made that adhering to it uncritically could easily lead to serious policy errors.

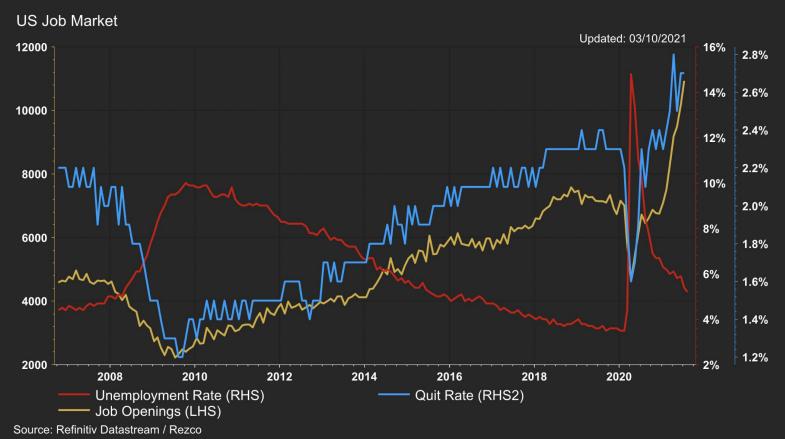
## **INFLATIONARY PRESSURES ARE STILL BUILDING**

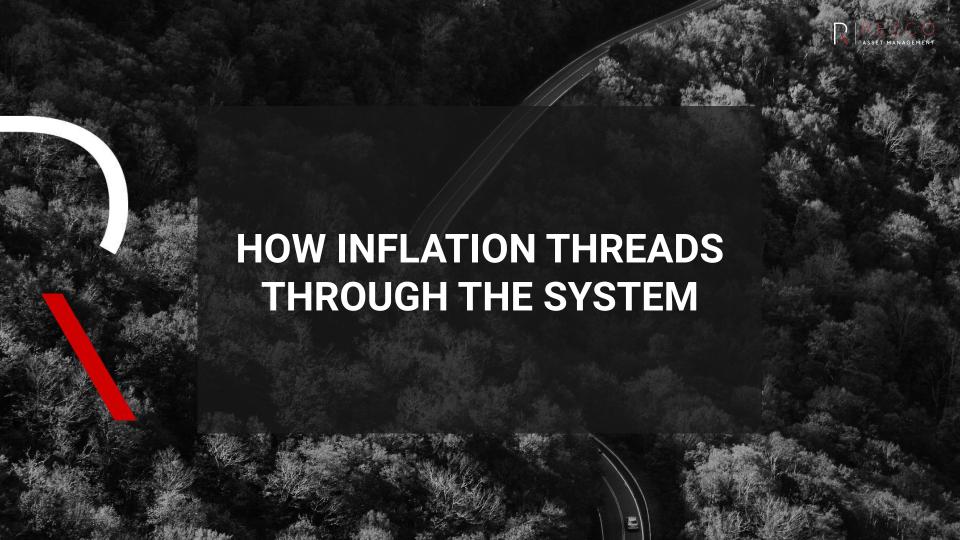
Rent is coming - 40% of Core CPI



## **DEMAND FOR LABOUR > THAN SUPPLY**

#### Expect continued wage growth





## FROM US GOODS TO A EUROPEAN ENERGY CRISIS

USA goods demand up 25%

China is where the goods are made:

Electricity demand

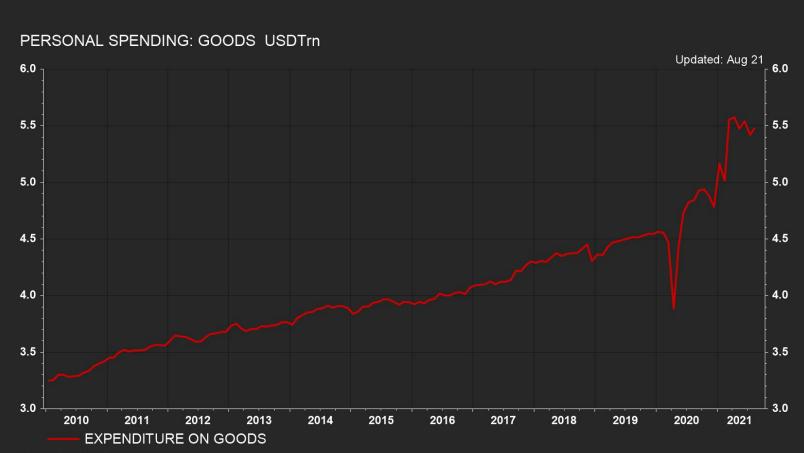
**Coal Prices** 

**Gas Prices** 

Container traffic prices

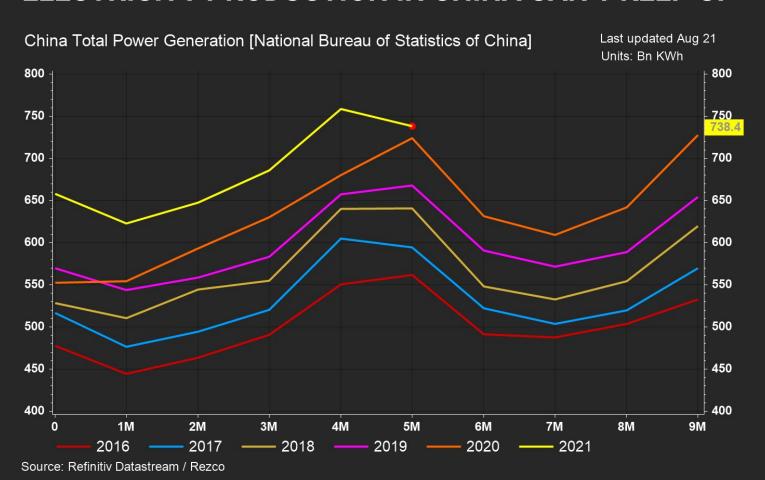
Result: Major output gap (the goods part is only some of this)

#### **SUPPLY CHAIN BOTTLENECKS OR EXCESS DEMAND**



Source: Refinitiv Datastream / Rezco

#### **ELECTRICITY PRODUCTION IN CHINA CAN'T KEEP UP**



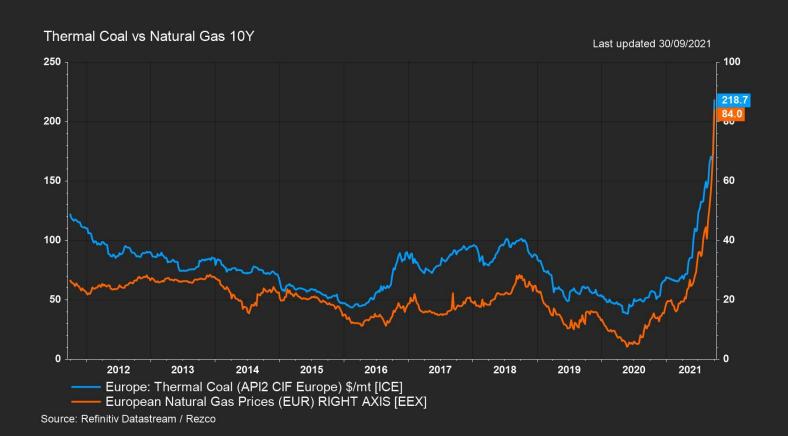
#### AN ENERGY CRISIS IS BUILDING

Inflationary: Higher input costs and lower production levels (supply)

## Chinese energy order points to harsher gas crunch for Europe

Beijing reportedly demands energy supplies to keep factories working at all costs

#### **EUROPEAN ENERGY COMMODITY PRICES**



#### **KNOCK ON EFFECTS**

A metal made from the second-most abundant element on Earth is in shortage

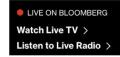
Markets

## Silicon's 300% Surge Throws Another Price Shock at the World

By Krystal Chia, Dan Murtaugh, and Mark Burton

1 October 2021, 05:26 GMT+2 Updated on 1 October 2021, 13:08 GMT+2

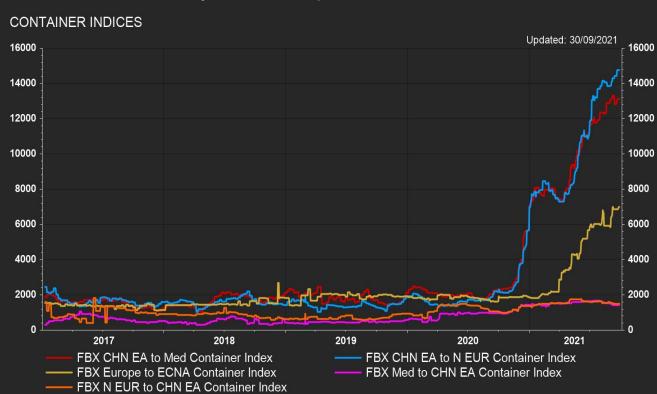
- ► Silicon metal output disrupted amid electricity curbs in China
- ► Chemicals firms declare force majeure on silicone products





#### FREIGHT RATES ARE YET TO RETREAT

Almost 1yr of elevated prices - too much demand!



Source: Refinitiv Datastream / Rezco

## Sherwin-Williams raising prices — again — because of supply chain problems

Updated: Sep. 30, 2021, 9:25 a.m. | Published: Sep. 30, 2021, 9:25 a.m.

ECONOMY | U.S. ECONOMY

#### Powell Says Supply-Chain Bottlenecks Could Lead to Somewhat Longer Interval of High Inflation

Central-bank chairman says he expects prices to come down on their own

**ECONOMY** 

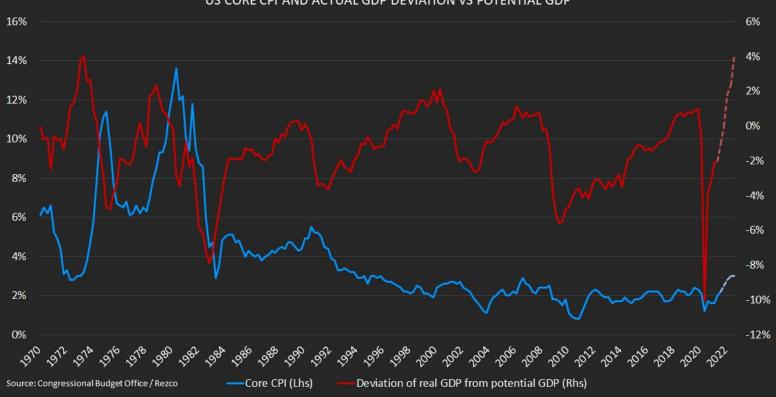
# Costco, Nike and FedEx are warning there's more inflation set to hit consumers as holidays approach

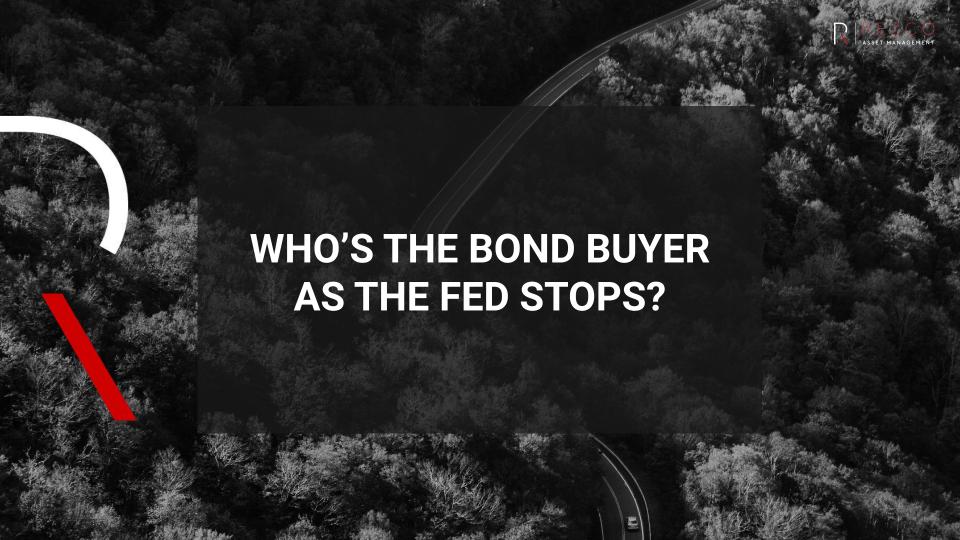
PUBLISHED FRI, SEP 24 2021-1:30 PM EDT | UPDATED SAT, SEP 25 2021-11:58 AM EDT

#### **US OUTPUT GAP VS CPI**

(FEELS LIKE THE 1970's)

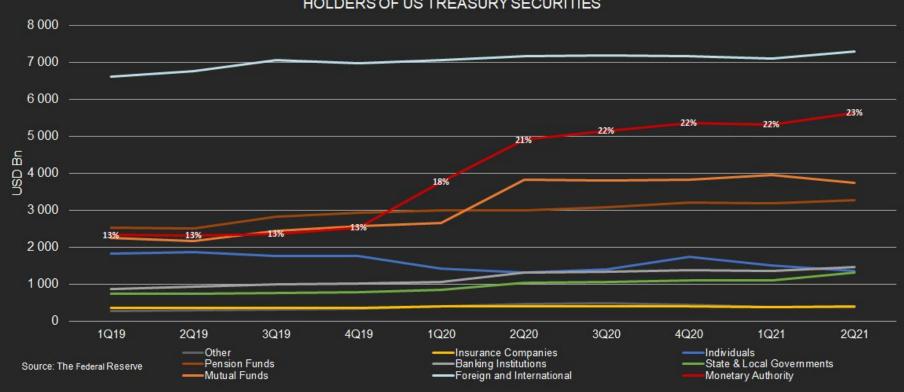
#### US CORE CPI AND ACTUAL GDP DEVIATION VS POTENTIAL GDP





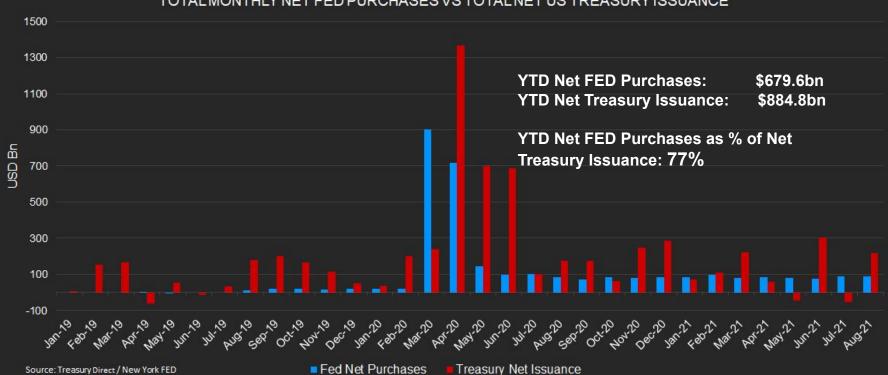
#### WHO HAS BEEN BUYING US TREASURIES?





#### FED IS THE ONLY BUYER IN TOWN



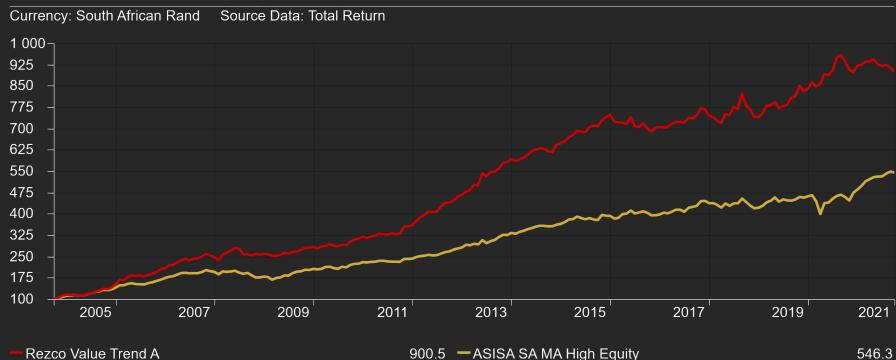




#### **LONG TERM TRACK RECORD**

Focus on Risk Management and not Market Timing

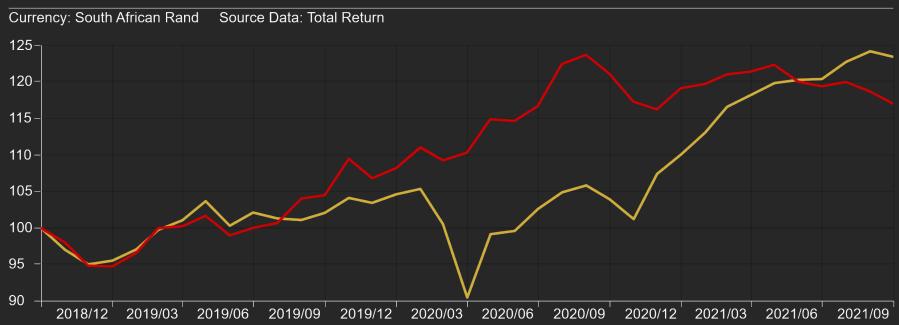
Time Period: Since Common Inception (2004/10/01) to 2021/09/30



#### **UNDERPERFORMANCE OVER THE LAST YEAR**

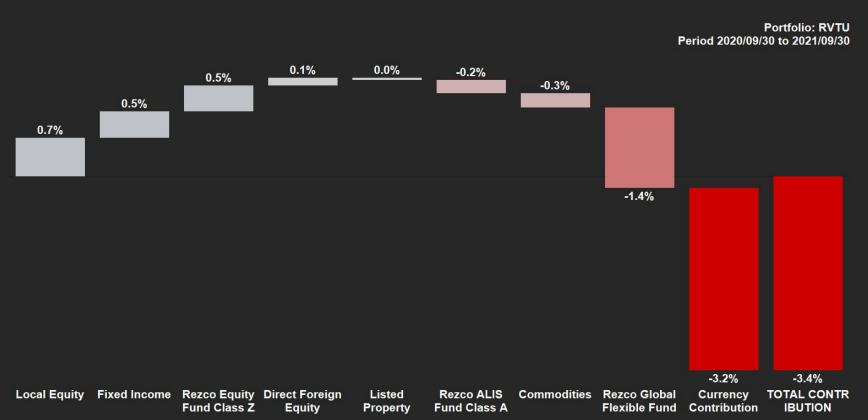
But context needed through the full covid impacted period

Time Period: 2018/10/01 to 2021/09/30



#### **REZCO VALUE TREND FUND**

WATERFALL CHART - 1 YEAR



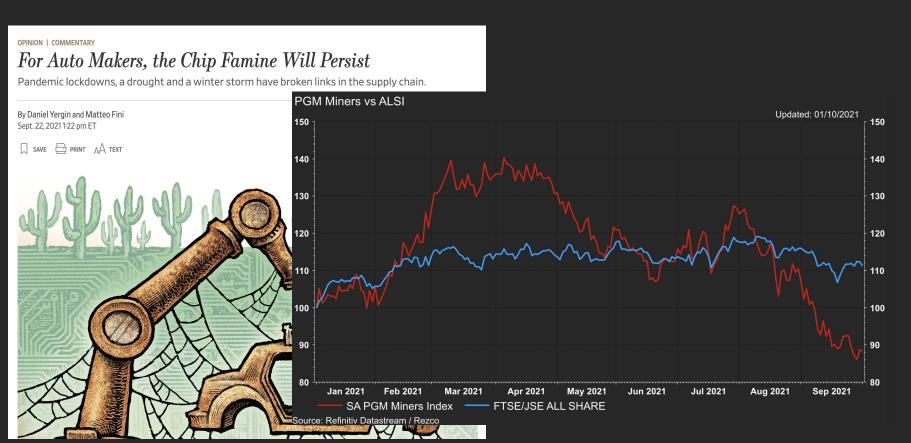
#### **REZCO GLOBAL FUND PERFORMANCE**

#### Fund positioned for:

- Surging US Inflation
- Sharply higher yields
- Move from expensive growth to non-cyclical value
- High risk market for equities hedged equity
- The wait has been painful but our conviction is increasing
- We would change our positioning if the opposite unfolded

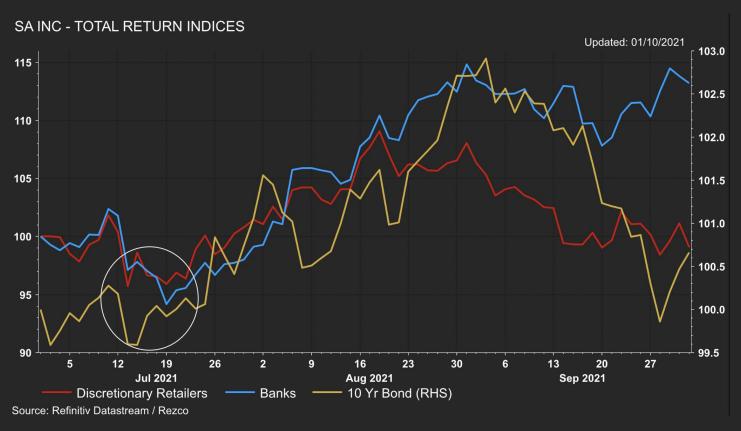
#### **PGM UNDERPERFORMANCE**

We misjudged the impact of the semi shortage



#### **FUNDS PULLED BACK OVER THE LOOTING**

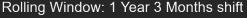
Risks were asymmetrical to the downside



#### **VALUE TREND CARVE OUT RETURNS**

Low allocation has been the drag on performance

Time Period: 2014/10/01 to 2021/09/30





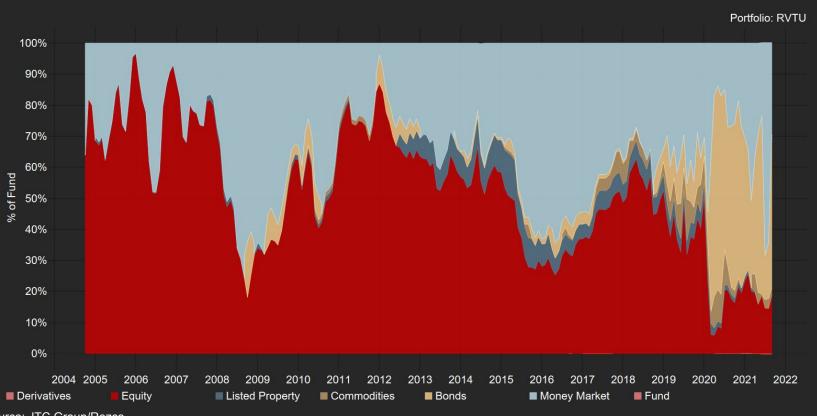
Rezco Value Trend - Local Growth Assets Carve-out

FTSE/JSE All Share TR

NB. Local Equity Carve-Out returns were calculated by Morningstar based on daily holdings files. The carve-out returns therefore do not represent a registered collective investment scheme and are also gross of returns.

#### **REZCO VALUE TREND FUND**

#### HISTORICAL ASSET ALLOCATION

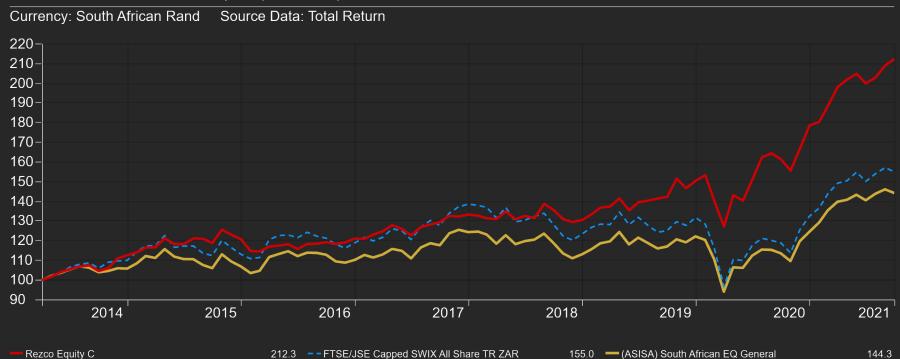


Source: JTC Group/Rezco

#### **TEAM IS WORKING WELL**

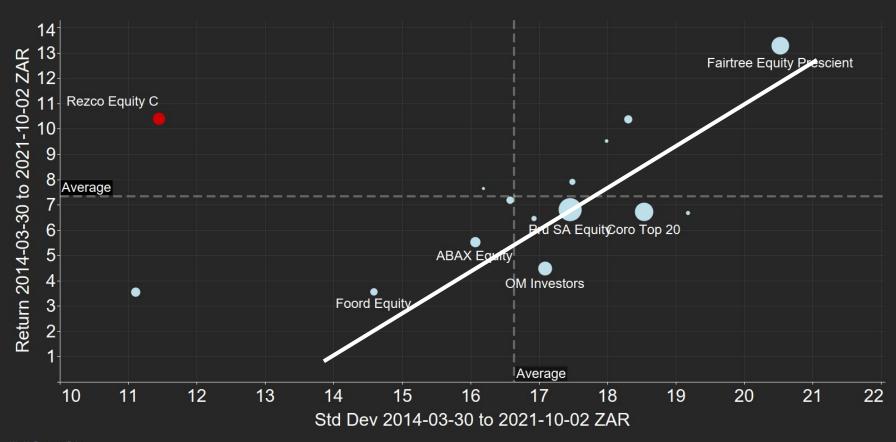
Rezco Equity Fund: Stock Selection

Time Period: Since Common Inception (2014/04/01) to 2021/09/30

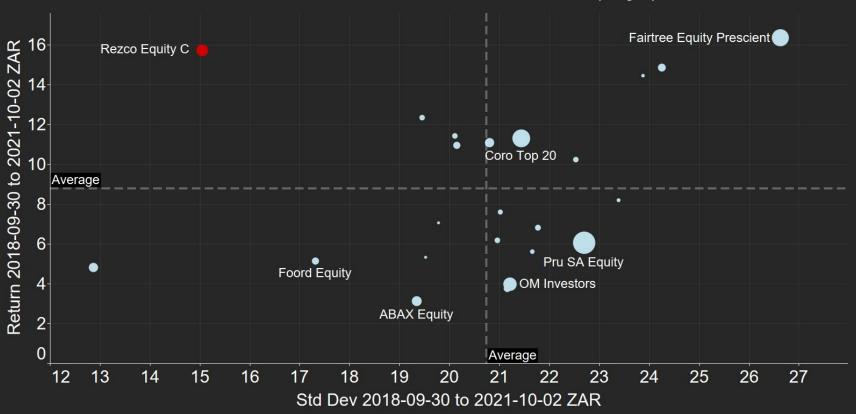


Source: Morningstar Direct

#### RISK MANAGEMENT IN A FULLY INVESTED STRATEGY



## REZCO SA EQUITY FUND RETURN AND STD DEVIATION (3 yr)





#### **FUND PERFORMANCE**

#### Looking forward

- TINA Trade / Buy the dips is breaking
- Yields are rising in a meaningful way
- QE USA version is ending
- Data is supporting our views

#### Where will outperformance come from?

- Funds should outperform in a rising US yield / inflation environment and falling equities
- Rezco Global Fund has a negative duration exposure to US treasuries
- Value outperform growth (hedged global equity)
- Local multi-asset funds have very low equity exposure in anticipation of falling equity markets

#### **US 30YR YIELDS**

#### Strong rise in yields over the last few weeks



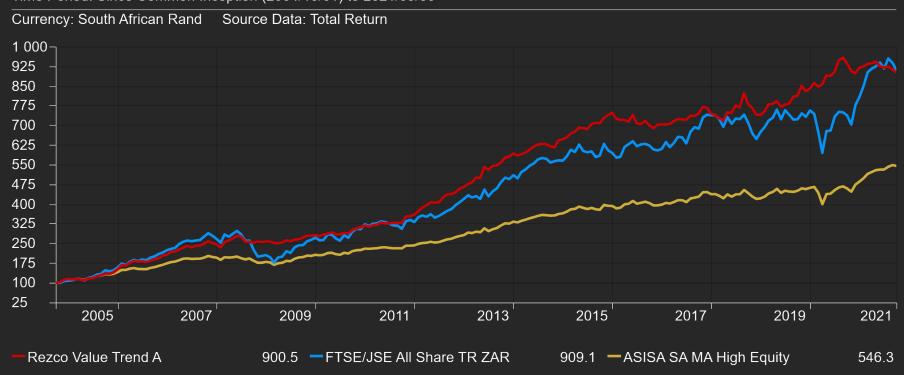
#### **S&P 500 YTD**

Buy the dips looks to have broken



#### LONG TERM TRACK RECORD OF MAKING TOUGH CALLS

Time Period: Since Common Inception (2004/10/01) to 2021/09/30



Source: Morningstar Direct



### THANK YOU



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