INVESTMENT ENVIRONMENT

DOUGLAS INVESTMENTS

Introduction

August started as a bearish month as bond yields ticked up putting pressure on equities following the higher for longer rates expectation. China continued to produce weak economic data which also put pressure on global sentiment.

In Europe and the US, August tends to be a quieter month as many market participants go on holiday to take advantage of the end of Summer. However, closer to home a big event for emerging markets was the BRICS conference that was hosted in Johannesburg. The conference went ahead with a significant number of the world's emerging markets most important dignitaries attending although Vladimir Putin as previously reported was only in attendance virtually. The biggest news coming out of the conference was the expansion of BRICS membership to form BRICS+. The membership was extended to Saudi Arabia, Egypt, Iran, UAE, Ethiopia and Argentina. With the addition of these members BRICS would control more than 80% of global oil production as well as more than 30% of the global GDP which gives it an important role in the global economy.

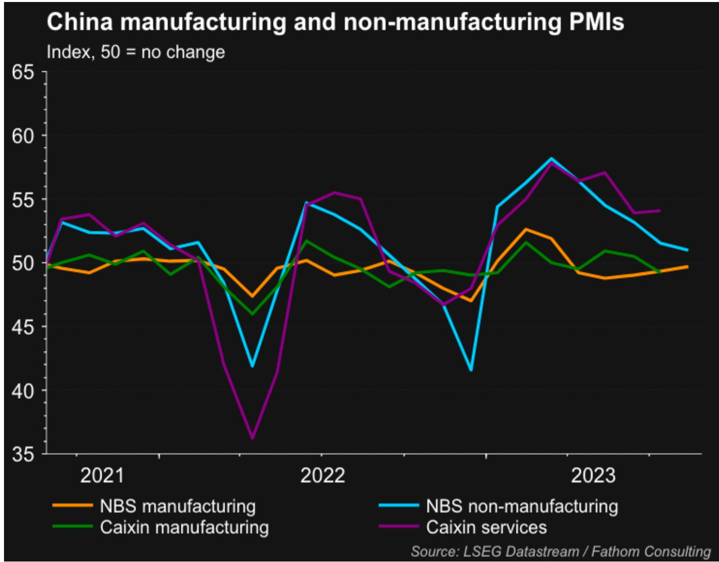
Jerome Powell spoke at the Jackson Hole Economic Symposium where he maintained a hawkish bias emphasizing that the Fed remains data dependent and would hike rates if necessary. This was largely in line with what the market expected as the door remained open for further rate hikes. Following his speech there were signs that the US labour market could be easing which drove a rally in stocks towards the end of the month as hopes of a soft landing increased. China's property crisis continues to unravel with a clear over supply of property from the many years of construction that assisted in stimulating China's GDP growth.

Locally there was some positive news flow with inflation coming in below expectations at 4.7% which should provide some breathing room to the MPC from a rate hikes perspective. In addition, South Africa saw its unemployment rate come in at 32.6% which is the lowest level seen since pre covid. Unfortunately, our business confidence reading remains low and PMI data is still contractionary as loadshedding headwinds make it difficult to see growth.

Macro Environment

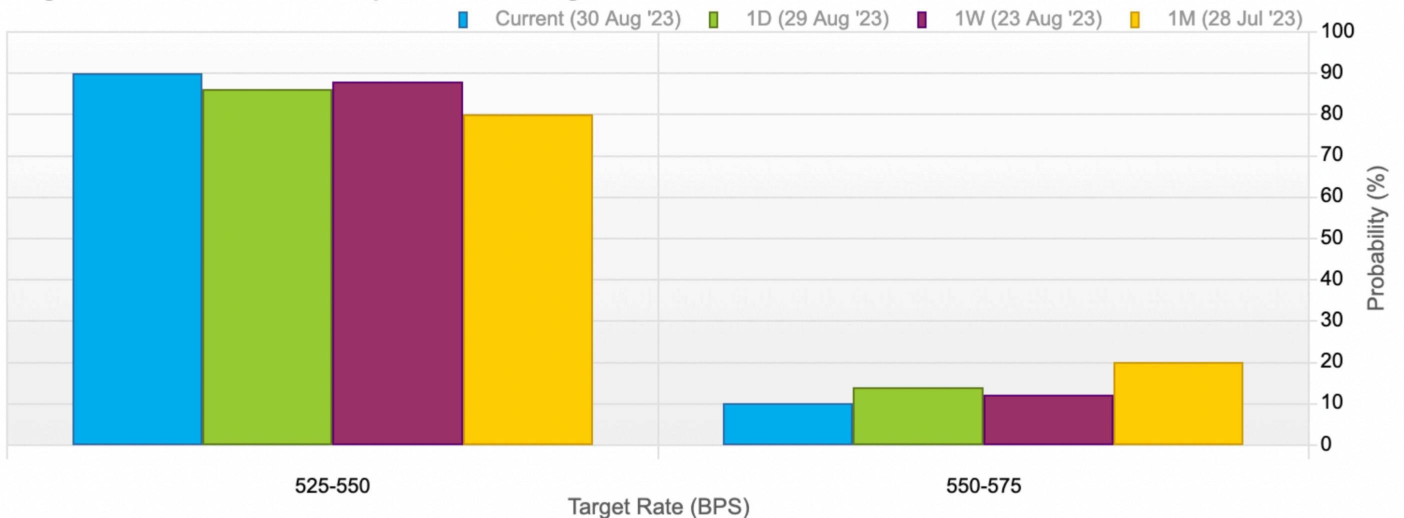
US labour market has seen some weakening recently which the markets have responded to favourably as expectations of a soft-landing increase. The JOLTS (Job Openings and Labour Turnover Survey) revealed that job openings were at their lowest in 28 months recording 8.827 million openings versus the consensus expectation of 9.478 million. This weakening data was further enhanced by ADP private payrolls only growing by 177 000 versus an estimate of 200 000 and a big drop from the 371 000 from July. On Friday 1 September the Non Farm Payrolls numbers will come out which the market will be monitoring closely with consensus at 171 500.

The figures and information contained in this article are based on the best information available to Douglas Investments at the time of drafting; however, no representations or warranties are made or given as to the accuracy of the information contained herein and investors are advised of the risks associated with investments. Douglas Investments shall under no circumstances be liable or responsible for any loss, whether direct or indirect howsoever arising, which may be incurred or suffered arising out of the use of this article



Data coming out of China lately shows a faltering economy and is a very different story from the expectations at the start of the year. The expansion coming out of covid hasn't taken place as expected. The chart on the left shows how PMI's have moved from clearly expansionary at the start of the year to contractionary from a manufacturing perspective. As the second biggest economy in the world this has a knock-on effect to global growth. In addition, China is facing a property crisis where decades of building in an effort to drive GDP growth has caught up with the country. There are a number of 'ghost' buildings and many of the country's key players in the property sector are either bankrupt or on the brink of it. China is responding by ramping up economic support with five of the biggest banks cutting interest rates, as well as reducing the amount of funds institutions are required to hold in foreign exchange reserves.

The chart below outlines the target rate probabilities for the Fed meeting on 20 September 2023. There is clear consensus that the Fed will keep rates on hold. Over the last month the probabilities of a hold for the September meeting have shifted from 80% to 90% with a very small percentage of analysts still believing a 25bps hike is possible. This largely aligns to the data that has come through in August and the tone that was struck by Chairman Powell at Jackson Hole. The bigger question for markets is what happens during the remainder of 2023 with mixed opinions between no further hikes and a single 25bps hike. This will continue to evolve as the macroeconomic data comes out with a weakening in data shifting expectations to no further hikes whereas strong data will likely drive markets to expect further hikes in the current environment.



The figures and information contained in this article are based on the best information available to Douglas Investments at the time of drafting; however, no representations or warranties are made or given as to the accuracy of the information contained herein and investors are advised of the risks associated with investments. Douglas Investments shall under no circumstances be liable or responsible for any loss, whether direct or indirect howsoever arising, which may be incurred or suffered arising out of the use of this article

Asset Allocation

As the market breadth has widened slightly, we have upweighted some of our preferred stocks, outside of the technology sector, who have reflected good fundamentals and are priced attractively. We have also moved along the yield curve extending our bond positions duration more towards the middle of the curve. Our structured notes allocation remains unchanged with their yields continuing to be attractive and all coupons have been paid to date. Locally our allocation remains unchanged with a clear bias towards Rand Hedge equity positions.

Market Performance

Initially August saw the market struggle to find direction with a general risk off sentiment. As some weaker data came out the US we saw an uptick towards the end of the month. The S&P500 was down 1.51% in August and the MSCI World was down 2.05%. The JSE saw more pain coming off 4.69%. On a YTD basis as per the chart below the S&P500 is up 17.4% while the MSCI World is up 14.73%. The JSE is only up 2.61%.

Equities

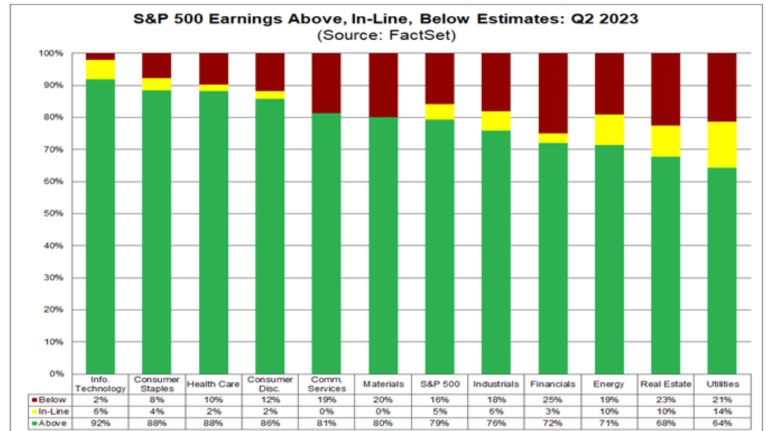
So far equities in the US have performed far better than most market participants were expecting in 2023 and this is despite a more volatile month in August. Unfortunately, this can't be said for global equities with pressure being felt across several regions as the effects of rate hikes slow economies and China's slowdown is having a negative impact on commodity prices. Locally our mining houses have shown poor results and the market as a whole has had few pockets of positive growth. We remain focused on the US as our preferred regional allocation as their economic backdrop and company results align to our fundamental analysis of attractive investment opportunities despite valuations being higher when compared on a global scale.

The figures and information contained in this article are based on the best information available to Douglas Investments at the time of drafting; however, no representations or warranties are made or given as to the accuracy of the information contained herein and investors are advised of the risks associated with investments. Douglas Investments shall under no circumstances be liable or responsible for any loss, whether direct or indirect howsoever arising, which may be incurred or suffered arising out of the use of this article

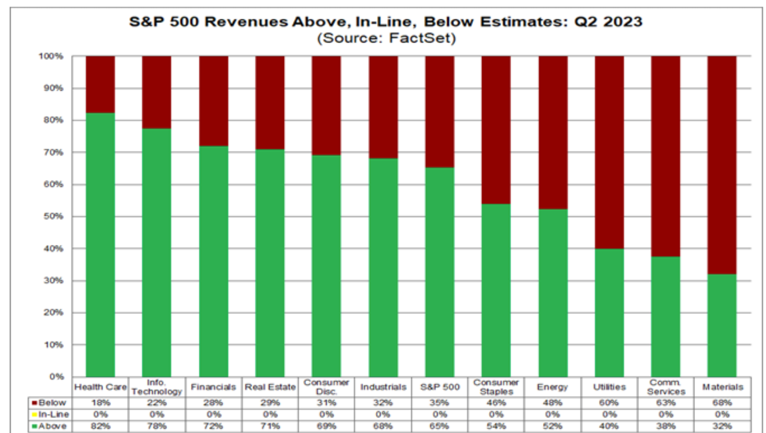
INVESTMENT ENVIRONMENT

DOUGLAS INVESTMENTS

With earnings season coming to an end, we saw a bit of a mixed bag of results but generally Q2 was better than the market expected. As outlined by the charts on the right from an earnings perspective Technology was clearly the biggest upside surprise when focusing on earnings, whereas healthcare saw the biggest upside when it came to revenue. Overall, 79% of companies reported earnings above the market EPS estimates. The clear star of the show in August was Nvidia who managed to beat the markets already lofty expectations and provided guidance for the third quarter which was far beyond even the highest analyst estimates. In addition, they instituted a USD25bn share buyback program which received mixed reviews from the market. It is clear they are sitting at the centre of the Artifical Intelligence craze, and should they continue to deliver on the expected results we can expect strong growth from the company.

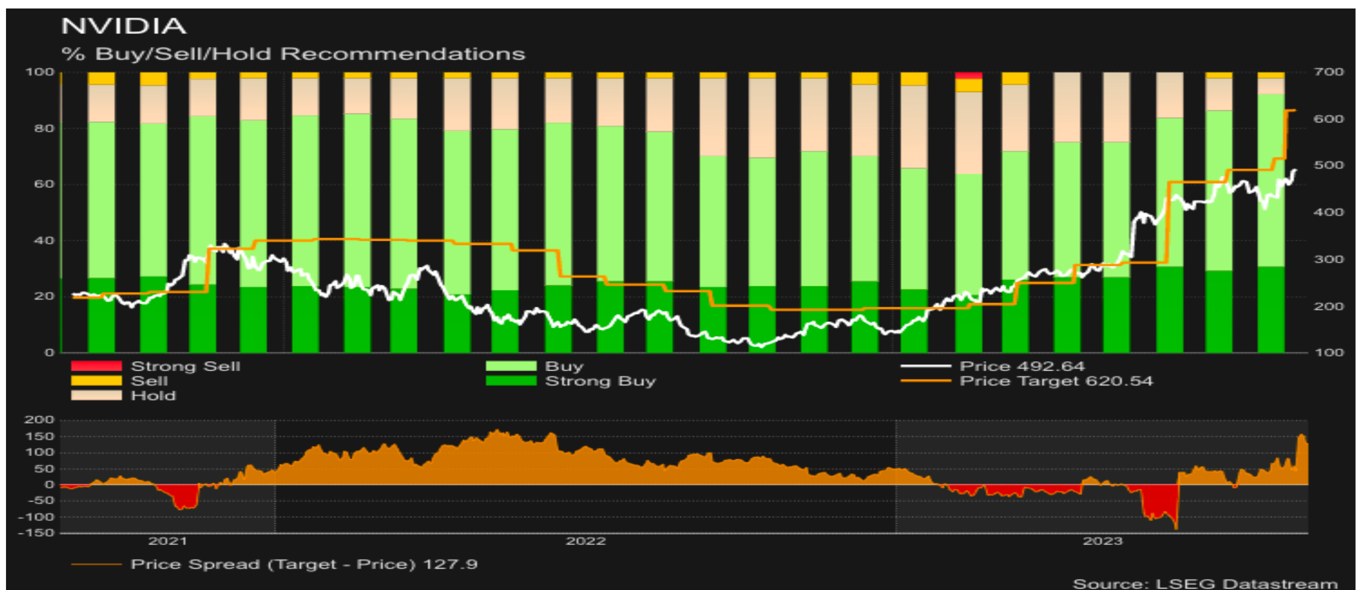


	Info. Technology	Consumer Staples	Health Care	Consumer Disc.	Comm. Services	Materials	S&P 500	Industrials	Financials	Energy	Real Estate	Utilities
Below	2%	8%	10%	12%	19%	20%	16%	18%	25%	19%	23%	21%
In-Line	6%	4%	2%	2%	0%	0%	5%	6%	3%	10%	10%	14%
Above	92%	88%	88%	86%	81%	80%	79%	76%	72%	71%	68%	64%



	Health Care	Info. Technology	Financials	Real Estate	Consumer Disc.	Industrials	S&P 500	Consumer Staples	Energy	Utilities	Comm. Services	Materials
Below	18%	22%	28%	29%	31%	32%	35%	46%	48%	60%	63%	68%
In-Line	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Above	82%	78%	72%	71%	69%	68%	65%	54%	52%	40%	38%	32%

As outlined by the chart below Nvidia has seen a significant uplift in buy recommendations from analysts and a rapid increase in price targets as they continue to produce results that beat expectations forcing analysts to upgrade their models and in turn raise their target. Currently the mean price target sits at USD620 versus the current price of USD492. Naturally this is not without significant risk but to date they have delivered on market expectations and in turn shareholders have been rewarded.



The figures and information contained in this article are based on the best information available to Douglas Investments at the time of drafting; however, no representations or warranties are made or given as to the accuracy of the information contained herein and investors are advised of the risks associated with investments. Douglas Investments shall under no circumstances be liable or responsible for any loss, whether direct or indirect howsoever arising, which may be incurred or suffered arising out of the use of this article

Bonds

The month of August saw a fairly dramatic move in the US 10-year yield which drove significant volatility in the bond market. As the labour market softened towards the end of August, we saw the 10-year yield recover a bit back to around 4.1% off the peak of 4.34% but not back to the levels at the start of August which was below 4%. South Africa followed a similar pattern to the US with a volatile move to a peak of 10-year yield of 12.11% only to make its way back down to a yield of 11.73%.

Conclusion

August saw a bit of a slowdown in markets after the highs experienced in July. With earnings season behind us we can expect the market to place full focus on macro data points and the anticipated impact that would have on the Fed's hiking path. The soft-landing rhetoric is still very strong although the discussion around a recession has picked up. Our view at DI is that if there is a recession it is likely to be fairly mild and the equity market could potentially look beyond it and recover fairly quickly; however, this is not to say there wouldn't be some volatility. The bigger concern at this point is whether inflation proves to be sticky from these levels, requiring either further hikes or a higher for longer holding position which would put significant pressure on both equities and the bond market as expectations are clearly for cuts in 2024. We are watching the data carefully and positioning our clients' portfolios accordingly.

The figures and information contained in this article are based on the best information available to Douglas Investments at the time of drafting; however, no representations or warranties are made or given as to the accuracy of the information contained herein and investors are advised of the risks associated with investments. Douglas Investments shall under no circumstances be liable or responsible for any loss, whether direct or indirect howsoever arising, which may be incurred or suffered arising out of the use of this article