INVESTMENT ENVIRONMENT

DOUGLAS INVESTMENTS

Introduction

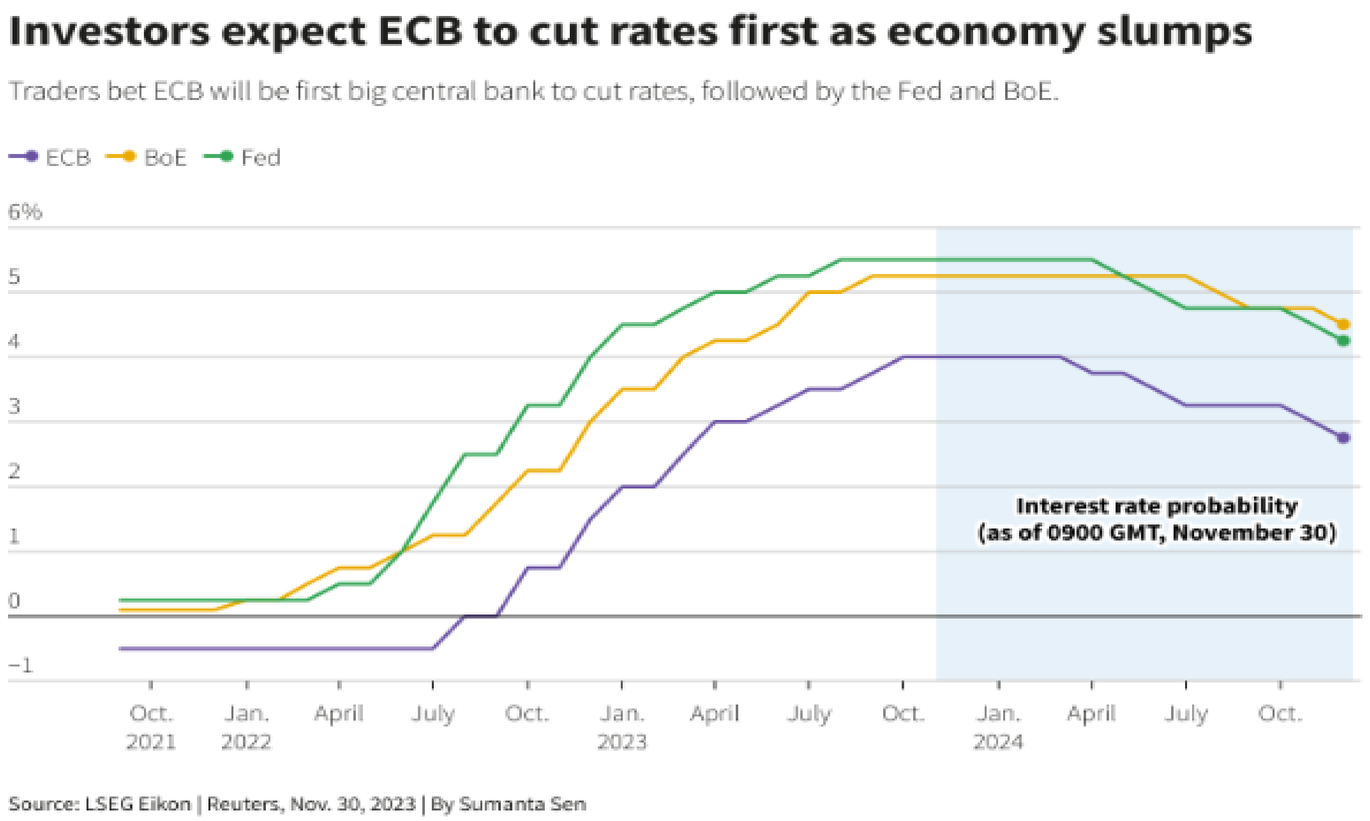
November has been a strong month for markets driven by US equities. There was a rapid shift in market sentiment when inflation came in below expectations and this helped drive a strong market rally as expectations for rate cuts next year were more optimistic and brought forward, with first cuts expected by the markets to take place in May. The disinflation expectation is noticeable as risky assets have performed across the board. The lower CPI reading in the US was further backed up by a lower PPI print which further emphasized the disinflation narrative. To add to the positive sentiment was data coming out that the labour market is cooling as initial jobless claims missed and continuing claims also missed. The Fed has been pushing to see some weakening in the labour market so this coupled with all the disinflationary data has provided the market a strong view that the Fed is done with their hiking cycle and the focus has shifted to when will the first cuts take place. In addition US GDP for the third quarter came out at 5.2% so the soft landing view, that markets have been hopeful for, is becoming more of a reality.

There has been some positive news from the Israel Hamas war with a truce negotiated in order to exchange prisoners/hostages and provide Gaza with some much needed aid. The truce has been extended twice which has at least provided hope that a degree of diplomacy is being adopted although we are likely far from over with Prime Minister Netanyahu of Israel making it clear they still plan for eliminate Hamas from the face of the Earth.

Locally we saw a decent performance from equities and a pull-back in yield benefitted bonds which follows the strength coming out of the US. CPI surprised on the upside but the MPC kept rates on hold and indicated they felt they were sufficiently restrictive. Loadshedding unfortunately has picked up again which will put pressure on businesses as diesel costs increase again. The situation with Transnet is also creating concern as our economy relies heavily on exports and imports and the situation at the various ports especially Durban appear to be another disaster due to mismanagement, broken machinery and a general lack of care from the public sector. As we head into 2024 and approach the election we are anticipating a lot of headline chasing with the likes of NHI and other policies as the ANC desperately tries to hold onto their majority. This does not create an easy investment environment but it will be important to look through this noise and make decisions based on fundamentals.

Macro Environment

The biggest shift in the macro environment has been around central bank policy with market participants largely accepting that the hiking cycle is over and predictions quickly moving to when central banks may start cutting. The recent Fed speakers have generally indicated a more dovish tone which the market has responded well to. Specifically Waller who is a known Hawk indicated the Fed has probably done enough and going into next year there is no reason to keep rates so high unnecessarily. The markets are currently predicting 100bps of cuts for the Fed next year starting in May. It is interesting to note that the Fed's current dot plot reflects 50bps of cuts but this will be updated at their December meeting so the market will be watching this closely. Although the Fed led the hiking cycle as outlined by the chart below it is expected that the ECB will be the first to start the cutting cycle with markets anticipating a first cut coming in April. This is a result of their headline inflation falling to as low as 2.4% and concerns around economic growth in 2024. Core inflation in the Euro area still remains quite a bit higher at 3.6% but the downward trend is clear. The UK also saw a drop off in inflation with headline moving from 6.7% down to 4.6% which was also below expectations and has provided the market comfort that the BOE is also at the peak of the cycle.



Graphics are produced by Reuters.

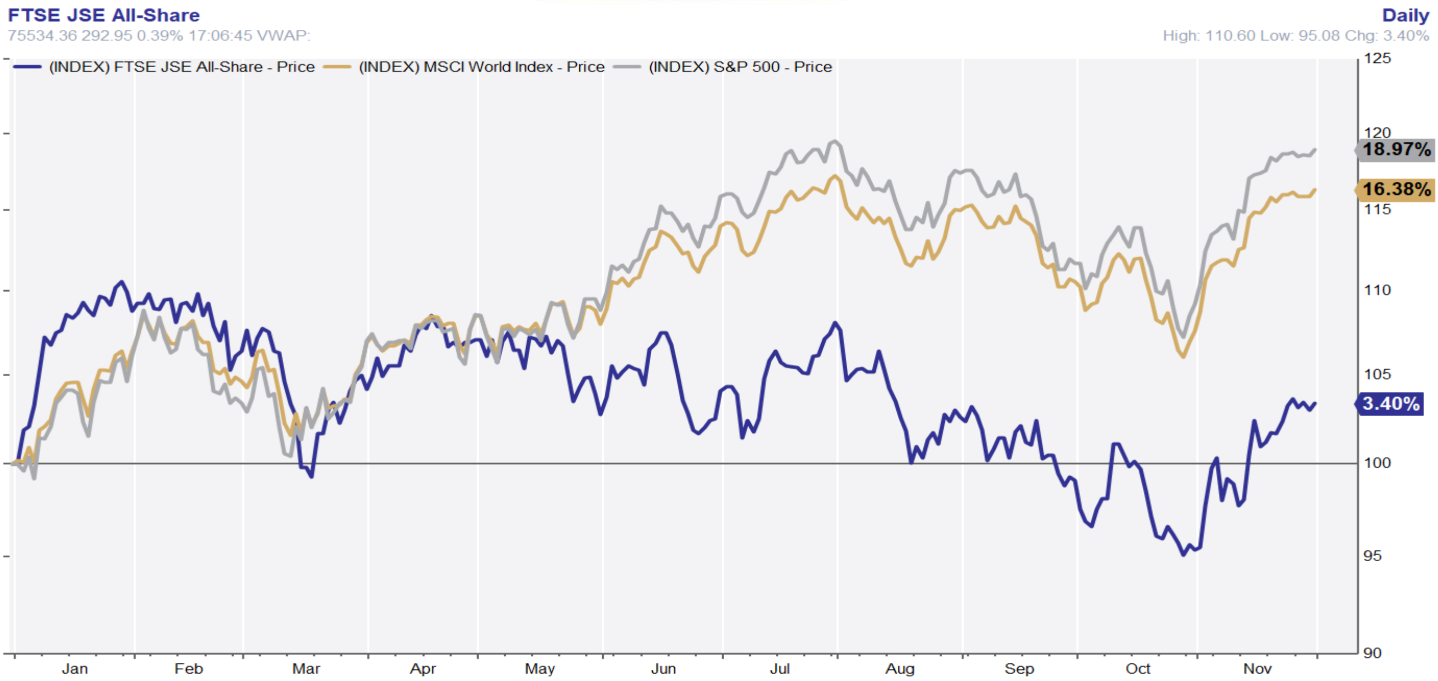
There is no doubt the expectations for the macro environment has shifted in November and risk assets have benefitted. The trends are positive but there are still risks that need to be monitored and some significant data points are due before the Fed announce their December decision. Jobs data comes out on Friday 8 December and US CPI on Tuesday 12 December with the Fed announcement on Wednesday 13 December. At the moment if the data comes out as predicted we should be able to ease into the December break with a positive outlook for the macro environment.

Asset Allocation

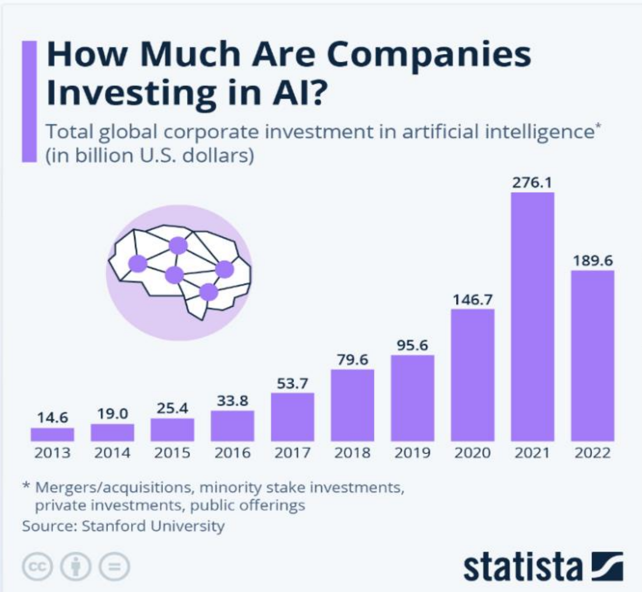
Our asset allocation has worked well this year by holding our equity weighting despite the sell off prior to November and taking advantage of this pullback with any new client money. We have also recently upweighted our bond allocation based on the view that we are at the peak of the hiking cycle and this positioning should benefit from rate cuts. We have added to duration risk but remained clearly in the Investment Grade bond offerings. Our Structured Notes strategy continues to perform well and our allocation remains unchanged providing income supporting the portfolios during volatile times.

Market Performance

November has been a strong month for equity markets with a rally across regions. The S&P500 was up 8.92% for the month while the MSCI World and JSE were up 8.13% and 8.44% respectively. The recent rally has meant the S&P500 is up 18.97% YTD and the MSCI World is up 16.38%. Unfortunately, the JSE has struggled this year and to date their performance is up 3.4%.



Equities saw a strong rally in November as the peak of the hiking cycle saw a significant positive shift in sentiment. Earnings season came to an end with a generally strong results especially from the technology companies that we follow. Some of the guidance for Q4 and going into 2024 has indicated a slow-down but this can be expected based on the lag effect of the hiking cycle. It is important to note that the rally this year has not been broad based and so when we look at earnings expectations and valuation metrics the index provides a skewed view and it is important to look at the fundamentals of the underlying companies as there are still attractive opportunities we are exploring with a specific focus on the US going into 2024. At the same time we are also looking at taking some profit on some of our positions to ensure client portfolios are well positioned for 2024.



Artificial Intelligence (**AI**) has been a major buzz word for markets this year with the release of ChatGPT being the catalyst for how accessible AI is becoming. Looking at the chart on the left from Statista shows how investment in AI has been ongoing for a while and actually 2022 saw a drop off in comparison to 2021. There is no doubt 2023 has seen an acceleration and we anticipate this trend to continue based on various forecasts and the clear demand being seen for the likes of Nvidia's chips. Historically new technology tends to be overestimated in the short term and underestimated in the long term. We are watching this space closely and in addition to the current positions held in client portfolio identifying other opportunities that could benefit in the long run.

INVESTMENT ENVIRONMENT

DOUGLAS INVESTMENTS

Equities have performed well this year to date but it has not been straight up and positioning has been crucial from both a regional and sector perspective. Following a tough year in 2022 it has been good to see equity positions in client portfolios rewarded this year and it reminds us why time in the markets is critical and to always make decisions based on fundamentals and try to avoid getting caught up in the day to day noise. Going into 2024 there are a number of themes and new ideas we are exploring and we are hopeful that the New Year will bring lots of opportunities in the equity space although our bias remains towards the United States and Rand Hedge positions in local portfolios.

Bonds

From a bond perspective for most of the year we have been focused on the shorter end of the curve as a way to secure attractive yields for the longer term without taking too much duration risk. With the significant shift in the yield curve covered in our October Investment Environment we decided to take advantage of the sell off and add some longer dated bonds to the portfolios to benefit from the anticipated rate cuts going into 2024. In addition the yields on offer were attractive for a very low level of credit risk. There is no doubt the bond market has been a volatile place to be this year as outlined below by the 10 Year US Treasury but November has seen a steep drop off in yields finally providing some reward to bond investors.

Conclusion

As we head towards closing out 2023 we look back at what has been another challenging year in the Investment world with high inflation, high rates, geopolitical tensions, mini-banking crises, wars and slowing growth. Despite this there have been pockets of opportunities and the patient investor who has stuck to fundamentals has largely been rewarded. We are generally happy with our clients' portfolios performance this year and we hope December continues with the positive momentum so that we can start 2024 from a strong position. We hope all our clients have a wonderful Festive season and a good break and we look forward to catching up in the New Year.

Please note that our offices will be closed for the Festive Season from 23 December, and will reopen on 8 January. The team will still be available through electronic channels.