



“With us the **safest**
distance between
two points is also
the **smoothest**”

Smoothed Bonus Report

Fourth Quarter 2023

momentum
corporate





Reviewing the last quarter

Dear valued investors

In 2023, the global economic landscape was shaped by the anticipation of decreasing inflation and the conclusion of reserve bank hiking and tightening cycles. The United States (US) Federal Reserve (Fed) signalled its outlook with expectations for three 25 basis points interest rate cuts in 2024, concurrently predicting a 'soft landing' for the US economy. This marked a departure from the previous stance of 'higher for longer,' particularly considering the recent inflation number of 3.1% year-on-year. Simultaneously, other major central banks held rates steady in December 2023, offering mixed 2024 outlooks. South Africa faced challenges like slow growth, logistical issues, power outages, and being grey listed.

The fourth quarter of 2023 witnessed a synchronised rally across global bonds and equities, propelled by easing inflation and the anticipation of rate cuts in 2024. Global equities (represented by the MSCI All Country World Index) saw a robust performance, delivering 11.1% in quarter four, while emerging market equities (represented by the MSCI Emerging Markets Index) returned 7.5%, and global bonds produced an 8.6% return (represented by the FTSE World Government Bond Index (WGBI)) as sentiment turned positive (returns expressed in USD terms).

Global market returns were concentrated in a select group of prominent artificial intelligence-related US companies, termed the 'Magnificent Seven'. Consisting of Apple, Microsoft, Alphabet (Google), Tesla, Amazon, NVIDIA, and Meta (Facebook). Despite concerns about a potential growth slowdown in 2024, the market seemed to be looking beyond immediate issues towards a risk-on environment. The Fed's forecasts for 2024 indicated a gradual decline in inflation toward its 2% target amid a growth slowdown, without substantial job

losses. The unemployment rate was expected to rise to 4.1%. Meanwhile, rate cuts were anticipated in the United Kingdom (UK) from June 2024 onwards, contrasting with the European Central Bank's hawkish stance, emphasising potential upside inflation risks from energy prices and labour costs.

The exceptional performance of the 'Magnificent Seven' prompted scrutiny of the US market as being comparatively expensive compared to other developed markets. Geopolitical risks remained high, with unresolved conflicts in Russia/Ukraine and Palestine/Israel. Additionally, the Red Sea witnessed Iran-backed Houthi attacks, adding another hotspot to monitor in 2024.

South Africa faced ongoing challenges, including persistent loadshedding and structural concerns related to infrastructure, contributing to a constrained growth outlook exacerbated by weakness in China. Local equities gained 9.3% as per the FTSE/JSE All Share (TR), slightly outperforming the MSCI EM Index. Noteworthy performers within equities were property and financials. The historic positive correlation between bonds and local listed property which seemingly broke down during Covid-19 returned, and the anticipated pivot boasted well for the asset class. The ALPI (FTSE/JSE All Property Index) outperformed bonds, equities, and cash by generating 10.7% for the year on a total return basis, with quarter four returning 15.9%.

Herman van Papendorp and Sanisha Packirisamy, members of the macro research team at Momentum Investments, provide additional analysis and insights on the market and the economic landscape in their publication located on page 9.



Waseema Hassen

Technical Marketing:
Investment Deal Maker
Momentum Corporate





Momentum Corporate smoothed bonus

The month of November 2023 deserves special mention, emerging as a pivotal turning point for markets. Both local and global equity markets delivered robust performances, aiding in the recovery of losses sustained over the preceding volatile three quarters. The driving force behind these positive outcomes stemmed from an uplift in investor sentiment. This shift was propelled by a more dovish tone from the US Federal Reserve on 13 December 2023, resulting in bullish sentiment until the end of the month, coupled with encouraging US inflation data, which suggested that restrictive monetary policies may commence tapering sooner than initially expected. Despite a barrage of unfavourable local news, the improved global investor sentiment also managed to permeate the local market, contributing to a month of notably strong performance. This has assisted in the recovery of funding levels and resulted in healthy declared bonus rates for our smoothed bonus portfolios over the period compared to the preceding two quarters of 2023. On 31 December 2023, all our smoothed bonus portfolios were fully funded.

Volatility is a common characteristic in markets, but there has been a notable rise in volatility in recent months and years. This is where our smoothed bonus portfolios come to the fore, as they are specifically designed to produce consistent bonus rates over time with significantly fewer fluctuations than investors would otherwise experience. The option of capital guarantees in the Momentum Corporate smoothed bonus range enhances the level of protection for investors.

We look forward to navigating these volatile market conditions together and being your trusted partner in helping your members achieve financial success.

Kind regards

Waseema Hassen





Contents |

The impact of Geopolitics on Investment Markets by Usaamah Makda	5
Momentum Investments market commentary for the quarter ended 31 December 2023 by Sanisha Packirisamy and Herman van Papendorp	9
Universal Multi-Manager Smooth Growth Fund	24
Universal Smooth Growth Fund	25
Multi-Manager Smooth Growth Fund Global	26
Smooth Growth Fund Global	27
Multi-Manager Smooth Growth Fund Global Bonus Series 2020	28
Smooth-Edge Fund	29
Universal Smart Guarantee +3 Fund	30
Multi-Manager Secure Growth Fund	31
Smoothed Bonus Portfolios: Key Features	32
Contact details	33





The impact of geopolitics on financial markets



Introduction

Geopolitical risks are widely acknowledged for their influence on business cycles and financial markets. Central bankers, the financial press, and business investors frequently cite these risks as pivotal factors in guiding investment decisions. The prevailing uncertainty stemming from geopolitical risks, coupled with important upcoming national elections in various countries, highlights the significance of opting for investments that provide more certainty in outcomes. Like many other countries, South Africa is integrated into the global economic and investment landscape and events on the world stage can have a substantial impact on local bond and equity returns, since many companies either export to or import from overseas or are listed on the Johannesburg Stock Exchange and offshore. A few notable conflicts and impacts are outlined below.

Impact of the conflict between the United States (US) and China

Potential for a recession: There has been a growing collision in recent years between the US and China, with conflicts ranging from issues concerning Taiwan and Chinese spy balloons to trade disputes. Geopolitical tensions have the potential to spook investors, possibly leading to reduced allocations to foreign investments. The International Monetary Fund states that the ongoing discord between the world's two largest economies could result in a decline in global output, which may trigger a global recession.

Decrease in South African exports: The economic landscape also witnessed a significant shift in 2018 and 2019 when the US imposed tariffs on imports from China and selectively raised tariffs on certain products from other countries, primarily on imports of aluminium, steel and solar panels. This departure from the long-standing trend of global tariff liberalisation had notable repercussions in South Africa, leading to reductions in both exports to the US and to the rest of the world.

Impact of the Russia-Ukraine conflict

Energy price increases: Russia holds the position of the world's leading natural gas exporter and is the second-largest exporter of oil. Immediately after the onset of the conflict, there was a significant surge in crude oil prices. This surge had substantial repercussions as oil, being a universal intermediary commodity, influences the costs associated with various commodities, services, and transportation.

Usaamah Makda

Product Specialist

Structured Solutions



An increase in the cost of food: Ukraine and Russia are dominant forces in agricultural exports, commanding a significant share of global trade with 53% in sunflower oil and seeds and 27% in wheat. With 25 African nations relying on these countries for over a third of their wheat imports, the ongoing conflict has directly influenced food prices across Africa. The repercussions are apparent, as South Africa witnessed a notable 17% surge in chicken prices from 2021 to June 2022.

Inflationary pressures and hiking interest rates: Food and energy are significant components of the consumer price index, which measures inflation. A sustained increase in food prices can contribute to overall inflationary pressure in an economy. From March 2022 until late 2023 central banks across the globe raised interest rates to curb high inflation, resulting in the hampering of equity markets due to the high cost of borrowing and expected lower valuations of companies.

Possible impacts of the Israel-Palestine conflict

An increase in the price of oil: Nearly one-third of the world's oil supply is sourced from the Middle East. Should the conflict extend to other oil-producing nations in the region, particularly Iran, there may be severe repercussions for the global economy, such as a resurgence of high inflation.

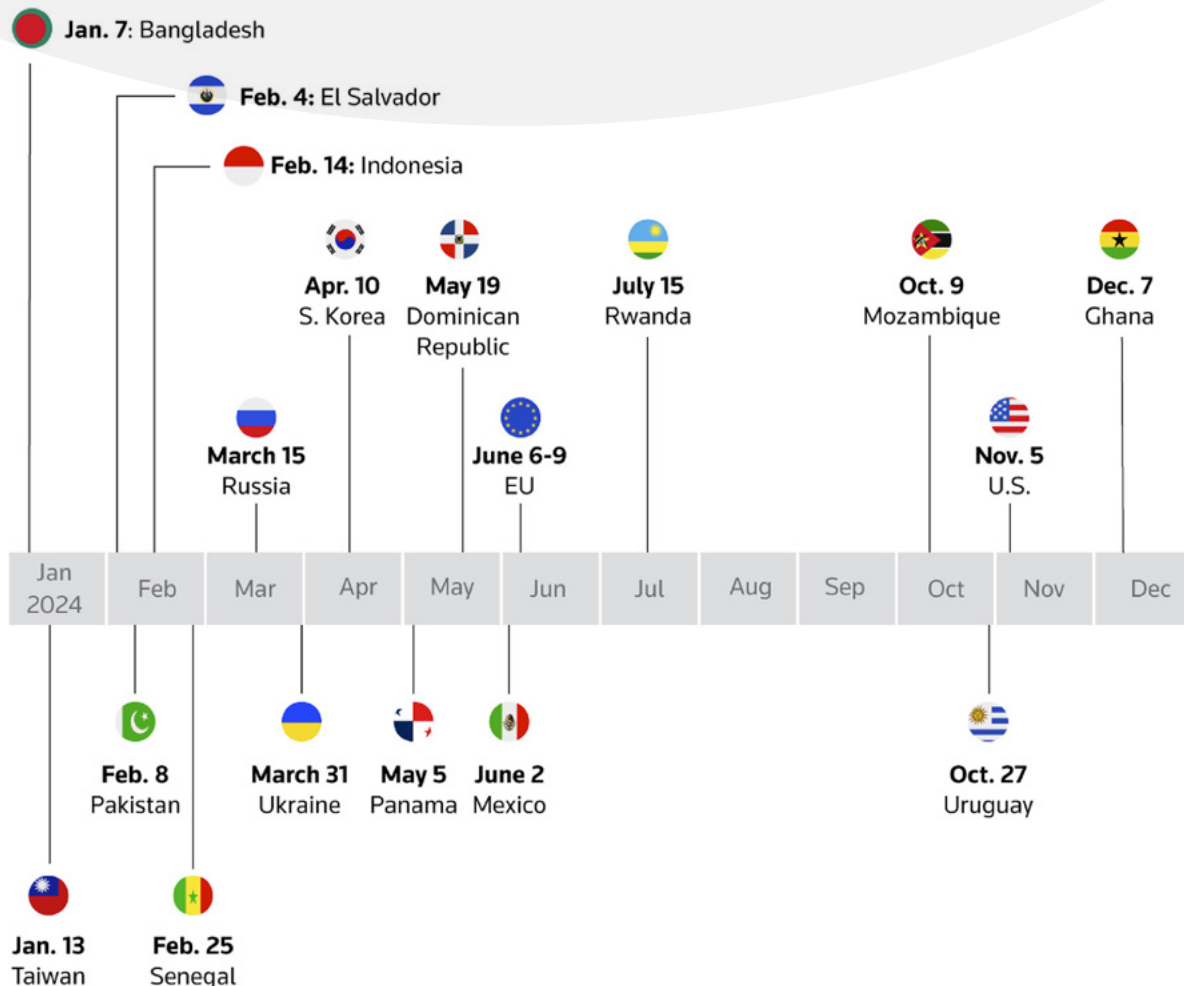
Inflationary pressures: Higher crude oil prices has the potential to trigger elevated global inflation rates. Notably, major economies like the US, India, and China, significant players in oil imports, might face increased imported inflation should oil prices persist at higher levels. The repercussions extend to heightened production costs across various industries, coupled with elevated energy expenses for both businesses and households.

Sustained levels of higher interest rates: Likewise with the Russia-Ukraine conflict, central banks may face challenges in managing inflation, potentially resulting in an extended period of higher interest rates. Such a scenario has the potential to impede global economic growth.

A decrease in equity markets: Investors cautious due to the conflict, may gravitate towards safe-haven assets, which may cause a rippling effect in global equity markets.

Potential effects of the upcoming 2024 elections

In 2024, elections are poised to break records globally, with over 2 billion voters across 50 nations preparing to cast their vote. The figure below illustrates the many countries holding elections this year, and a few impactful ones are discussed below:





Others countries for which dates are yet to be announced



India
April-May



South Africa
May-August



Sri Lanka
before September



Croatia
parliamentary by
September, presidential
in December



Austria
before October



Romania
November



Venezuela
at some point
in the year



UK
Second-half
of the year

Sources: National electoral bodies; Reuters reporting
Sumanta Sen • Jan 10, 2024 | REUTERS

The South African national elections

While not geopolitical, a significant political impact on South African investments is the upcoming national elections. Uncertainty over the outcome can lead to increased volatility in local markets. In recent times, the emergence of opposition parties has contributed to a heightened level of competition in the political landscape. The upcoming 2024 national elections are poised to be significant, as they will play a decisive role in shaping the future trajectory of the country's politics. Key concerns like corruption, inequality, energy and related business sustainability and unemployment are anticipated to take centre stage during the election campaigns. If

the ANC fails to secure a majority vote, the likelihood of a coalition between major parties is high.

The impact on financial markets can generally be categorised into three scenarios. No market impact may be seen if there is an ANC majority vote or a coalition between the ANC and smaller parties. A positive market outcome may be expected if there is a coalition between the ANC and the DA. Lastly, in a scenario of a coalition between the ANC and the EFF, a negative market outcome would be expected.

The Taiwan national elections

The outcome of the election would be closely watched by China's communist leaders who may need to explore alternative strategies to counter Taiwan's pursuit of independence. Taiwan holds significant importance as a strategic partner for the US across various domains, including technology, public health, and security. If China does decide to resort to more drastic measures, a further conflict could arise between China and the US, resulting in the above discussed impacts being further exacerbated.





The US national elections

On 5 November 2024 another round of Donald Trump vs. Joe Biden is predicted. Despite markets largely disregarding the turmoil following the previous election four years ago, concerns persist this time round regarding the potential for social unrest in the event of a Trump-Biden rematch.

A decline in consumer confidence could result in decreased consumer spending, resulting in a decrease in equity markets. Additionally, oil prices may be influenced, given Trump's inclination toward expanding US drilling, a policy stance that Biden has sought to restrain.

The importance of investing in a smoothed bonus portfolio

A smoothed bonus solution would be an ideal investment during uncertain times, protecting assets against short-term market volatility. Its objective is to subsidise poor market performance when market returns are high, ensuring stability in your capital. It would be detrimental if your fund value plummeted due to markets performing poorly at the date of disinvestment, be it on death, disability, retirement, among others. In comparison, a market-linked portfolio with growth exposure is likely to decrease during market downturns. A smoothed bonus portfolio, like the Momentum Smooth-Edge Fund, has the benefit of bonus rates never being negative, guaranteeing the return of capital, meaning that even in a financial crisis your retirement fund value would not decrease.

Investments are volatile during times of high uncertainty. The numerous geopolitical risks and the upcoming elections are significant contributors to uncertainty and the solution would be an investment that protects your money against uncertainty. A smoothed bonus portfolio that provides capital guarantees will protect your assets against these uncertainties.





Momentum Investments market commentary for the quarter ended **December 2023**

by Sanisha Packirisamy and
Herman van Papendorp

Highlights

Markets

- Uncertainties about geopolitics, United States (US) growth, inflation and policy rates are not reflected in the low volatility of US equity or its high valuations. This could potentially constrain future equity returns.
- Historically, US bonds have had a consistently attractive return profile after the final US rate hike. Furthermore, yields across the maturity spectrum of the US yield curve are now higher than equity yields. This makes US fixed income a broader attractive asset class for investors in 2024, particularly for investors looking to move up the duration scale.
- Indications of slowing US economic activity in 2024, along with expectations for the start of a subsequent US easing policy cycle, would provide positive support to both the US bond and equity markets. We prefer US bonds to US equities until a falling rate cycle is discounted in 2024.
- We are circumspect about global listed property due to the combined negative overhang of debt costs eventually resetting at higher interest rate levels and tight bank lending standards potentially squeezing funding availability.
- A significant risk premium is embedded in rock-bottom South African (SA) equity valuations, with little positive sentiment towards this very underowned asset class by local and foreign fund managers. There is ample scope for a rerating should there be improvement in some of the local impediments over time, or if a global risk-on environment takes hold.
- SA nominal bonds similarly discount lots of bad news. A break-even widening in the second half of 2024 in line with the projected inflation trend should provide more fundamental support for inflation-linked bonds (ILBs) as 2024 unfolds. We anticipate a need to increase SA fixed-income duration during 2024 to counter the rising reinvestment risk of shorter-duration fixed-income assets such as cash, as we approach the start of the local rate cutting cycle.
- SA listed property nominal and real dividend yields are among the highest in the world. However, the delayed impact of higher interest rates is already starting to hurt SA listed property companies, with further repricing to higher market rates in the offing as interest rate hedges expire and debt matures in the coming years.
- Geopolitics and related central bank gold buying will likely remain dominant positive drivers for the gold price in the interim.



Economics

- Investors, envisioning an escape from a deeper or more prolonged recession, may still grapple with a moderation in global economic activity in 2024. This is driven by the ongoing repercussions of tight monetary policies, constrained government coffers, lingering inflation and unpredictable geopolitical events.
- The underpinnings of economic growth resilience in 2023 seem fragile. High interest rates are likely to start biting and economic hardship could ensue if high rates persist.
- The world economy faces varied growth paths. While robust consumer spending in the US is expected to slow as excess savings dry up, Europe is contending with economic pressures and calls for fiscal austerity will likely limit recovery. On the other hand, China is anticipated to benefit from meaningful policy announcements made late in 2023, following a disappointing response from authorities earlier last year.
- Despite global inflation having more than halved, the International Monetary Fund (IMF) warns that inflation in 90% of inflation-targeting countries will likely still exceed central bank targets in 2024.
- Calls for fiscal responsibility and more targeted fiscal frameworks are likely to sound louder to address pressures on debt sustainability.
- Elections in 2024 for over half of the world's population will further contribute to an uncertain geopolitical landscape.
- The ruling party faces challenges ahead as we approach the 2024 SA elections given its inability to resolve shortcomings in energy and logistics, alongside insufficient progress made in curbing corruption. This raises prospects for coalitions at a provincial, and possibly even national level.
- Escalating logistical challenges are affecting rail and port efficiency and dampening growth prospects in SA, even as energy constraints are expected to ease.
- SA's interest burden and social demands remain high, hindering a swift stabilisation in the country's debt ratio.
- Though renewed risks to the SA inflation forecast exist, demand-led pressures and wage inflation are expected to remain contained.
- The SA Reserve Bank (SARB) is expected to continue talking tough on inflation even though the next move in interest rates is likely lower from here, most likely by the middle of 2024.

Global financial markets defied pessimistic predictions in 2023

The way 2023 ended was quite different from how it kicked off. At the start, there were serious concerns about a recession. Meanwhile, central banks were vocal about committing to sticking with their plans to tighten monetary policy further until inflation showed a sharper and more sustained deceleration. Despite some easing, inflation was still high due to robust wage growth in a strong jobs market.

By the end of 2023, global inflation had more than halved against a backdrop of resilient growth. In the final monetary policy meetings of 2023, major central banks began indicating a shift in their approach.

Despite a growing sense of optimism early in 2023 that the stock market had passed the worst — having seemingly hit bear-market lows in October 2022, cautious sentiment persisted throughout the first three quarters of 2023 due to elevated inflation levels and

the US Federal Reserve's (Fed) active stance on raising interest rates. These concerns intensified in March following the collapses of Silicon Valley Bank, Signature Bank and First Republic Bank. These failures, stemming from substantial losses in government bond holdings, fuelled fears of a full-blown regional banking crisis and the risk of a credit crunch that could push the economy into a decline. Yet, with the Fed swiftly intervening to alleviate pressure on regional banks grappling with troubled bond portfolios, confidence swiftly returned to the stock market.

Despite reaching 30 points during the US regional banking crisis in March, Wall Street's fear gauge (the CBOE Volatility Index or VIX) fell back nine points during the year and ended 2023 at 12.4 points, reflecting moderating inflation, solid consumer spending and continued strength in the labour market. The 16-point average for the year lies below its long-term average of 19.7 points since 1990.



The Merrill Lynch Option Volatility Estimate (MOVE) Index, which captures a yield curve-weighted index of the normalised implied volatility on one-month Treasury options, ended 2023 more than 86 points lower than the year's high of 198 points in March 2023. Nevertheless, the index reacted more strongly to growth fears during the year relative to a more benign reaction in measured volatility in equity markets.

According to Cbrates, global central banks implemented 160 interest rate hikes in 2023, relative to 81 cuts. The pace of rate increases across the world has nevertheless slowed since the 367 hikes registered in 2022, with only 17 cuts recorded in that year. Cumulatively interest rates have been hiked by 525 basis points in the US and 450 basis points in the Eurozone since the first quarter and third quarter of 2022, respectively. Interest rates have meanwhile surged nearly 525 basis points in the United Kingdom (UK) since the start of its interest rate hiking cycle in December 2021.

After a tumultuous 2022, the crypto market ended 2023 in a much better place, with Bitcoin gaining around 160% during the year. Many events are likely to shape the outcome of the crypto market in 2024, including the possible approval of a spot Bitcoin ETF, which could broaden access for investors, Bitcoin halving (where the reward for mining Bitcoin transactions is cut in half - halving reduces the rate at which new coins are created and therefore reduce the available amount of new supply) and further developments in crypto regulation.

Experiencing their most formidable performance since 2019 (up 26.6%), global stock markets surged by 22.2% in 2023 after a robust two-month rally in the MSCI All Country World Index toward the end of 2023. The driving force behind a firm 11% uptick in the final quarter of the year was a noteworthy shift in interest rate expectations, spurred by recent data indicating a faster-than-expected decline in inflation within Western economies.

With softer growth out of China, the Bloomberg Commodity Price Index (the four largest weights in this index include gold at 15%, WTI Crude oil at 8%, natural gas at 8% and Brent Crude oil at 7%) fell by 7.9% in 2023 (down 4.6% in the fourth quarter of 2023).

Base metals were set back in 2023, with aluminium, zinc, lead and nickel falling the most. Meanwhile, copper and iron ore prices fared better. Agricultural commodities were a mixed bag in 2023.

Live cattle, coffee and soybean prices ended the year higher, while the prices of corn, cotton, sugar and wheat shifted lower in the year. Within precious metals, geopolitical unrest and central bank actions (the World Gold Council reported 800 tonnes of gold purchased by central banks in the first three quarters of 2023) supported gold prices. Platinum and palladium prices, on the other hand, lagged in 2023. During the final quarter of the year, gold prices jumped 11.6% higher (13.1% for the year as a whole), followed by a 9.3% bounce in platinum prices (down 7.7% in 2023), while palladium prices dropped 11.9% (down 38.6% for the full year) in the same period.

Energy prices were down between 10% (Brent crude oil) and 53% (natural gas) in 2023. Despite the devastating war in Gaza, Brent crude oil prices slipped 19% in the fourth quarter of the year on record production outside of OPEC (Organisation of the Petroleum Exporting Countries), particularly in the US, Brazil and Guyana. According to CNBC, the US was responsible for two-thirds of the growth in oil supply outside of OPEC in 2023.

The yearly performance in the MSCI All Country World Index was boosted by a stellar performance in developed market (DM) equities. The MSCI DM Index rose 23.8% in 2023, after collapsing by 18.1% in the prior year. A favourable market outcome was evident across US, European and Japanese bourses. The S&P 500 Index rose 26.3% in 2023, after plunging 18.1% in 2022. This was significantly higher than the longer-term average gain of 10% noted by Forbes. According to Forbes the high-growth, cyclical technology, telecom and consumer discretionary stocks led the S&P 500 Index higher in 2023. In particular, the 'Magnificent 7' mega-cap technology-related stocks (including Apple, Amazon, Alphabet, Nvidia, Meta Platforms, Microsoft and Tesla) drove gains in the overall index higher. S&P Dow Jones indices notes that these seven stocks accounted for two-thirds of the gains in the S&P 500 Index in 2023. Forbes pointed out that defensive sectors, including utilities, healthcare and consumer staples were the biggest laggards in the year 2023.

The Eurostoxx 50 Index rose 23.2% in 2023 (up 8.6% in the final quarter of the year), following an 8.8% drop in 2022. Meanwhile, the Japanese Nikkei 225 Index jumped 5.2% in the fourth quarter of 2023 and a whopping 31% for the year as a whole, after a 7.3% dip in 2022.

Emerging market (EM) stocks experienced milder gains during the year relative to their DM counterparts, in line with softer commodity prices, renewed concerns over China's property sector and a rise in US treasury yields. The MSCI EM Index gained 9.8% in 2023 (7.9% in the fourth quarter of 2023), after falling 20.1% in the previous year. Equity markets in Brazil, India, and Mexico fared better outside of China. According to Barrons, Mexican shares outperformed on equity inflows into the country to establish manufacturing facilities as companies continued to diversify away from China. Brazilian markets outperformed on higher demand for its agriculture and energy products as countries sought to diversify their sources amid the Russia-Ukraine war. Meanwhile, sustainable growth prospects have shifted funds into India, as investors sought out an alternative to China.

Within the MSCI EM Index, equity markets in Latin America outperformed, surging by 32.7% in 2023

(up 17.6% in the fourth quarter), following an 8.9% uptick in 2022, while stocks in Asia and Europe, the Middle East and Africa (EMEA) brought up the rear. The MSCI Asia Index rose 7.8% in 2023 (up 6.7% in the fourth quarter of 2023), after collapsing 21.1% in 2022, while the MSCI EMEA Index ended the year 8.2% in the black (up 8.4% in the final quarter of 2023) after ending 2022 28.3% in the red.

A notable shift from concerns about 'higher-for-longer' borrowing costs to a widely shared expectation of a substantial decrease in interest rates for 2024 has sparked a rally in the bond market. The yield on the US 10-year government bond ended the year broadly unchanged at 3.9% after touching an intra-year high of close to 5% in late October. In contrast, the German

10-year government bond yield sold off 55 basis points to end the year at 2%.

The Fed's dot plot — a chart that records each Fed official's projection for the central bank's key short-term interest rate — suggests 75 basis points of cuts in 2024 and a further 100 basis points in 2025. Conversely, fixed income markets are pricing in a steeper rate cutting cycle. Bloomberg's market-implied policy

rates indicate that markets are looking for close to 150 basis points of cuts on a one-year time horizon. Market-implied policy rates are also signalling around 150 basis points of cuts in both the Eurozone and the United Kingdom by the end of this year.

Mimicking the reversal in risk aversion in equity markets, the JP Morgan EM Bond Index (EMBI) spread edged narrower more than 60 points in 2023. India, Chile and South Korea experienced the largest quarterly narrowing in credit default swap (CDS) spreads of 59, 54 and 50 points, respectively, in the same period. Spreads in the Czech Republic, China and SA improved by the least in 2023.

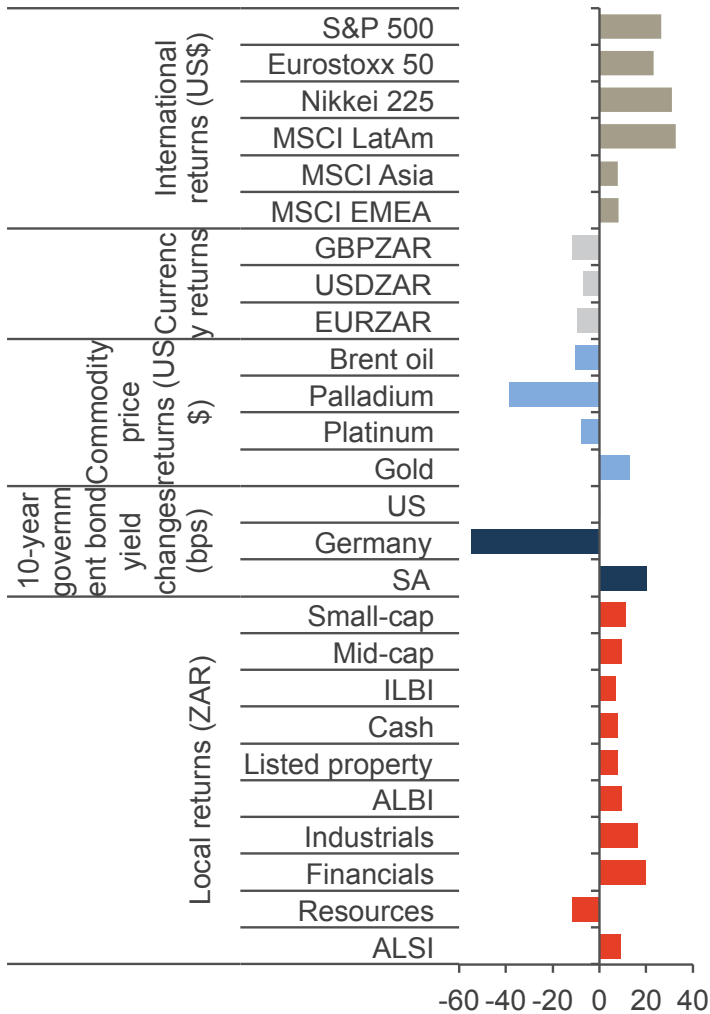
The local equity market underperformed its global counterparts, experiencing a 9.3% rise in 2023 (see chart 1). This was in response to the 'higher-for-longer' narrative in markets earlier in the year, alongside continued loadshedding which placed a further drag on local economic activity. The Business Day reported that net foreign equity outflows for the year (based on JSE data) totalled R135 billion, relative to R84.6 billion in 2022 and R153 billion in 2021.

The FTSE/JSE All Share Index (ALSI) added 6.9% in the final quarter of 2023, supported by firm gains in financial shares. The FTSE/JSE Financials Index climbed 12.3% in the fourth quarter of 2023 (up 20% for the full year). This performance was followed by a 5.9% increase in the FTSE/JSE Industrials Index (which advanced 16.6% for the year as a whole). Gains in the FTSE/JSE Resources Index trailed the overall market at 3% for the quarter. The index lost 11.8% for the year.

The FTSE/JSE Mid-cap index ended the year 9.7% higher while small-cap shares posted an 11.2% gain.

In SA's fixed income markets, the 10-year government bond yield sold off 20 basis points in the year (but rallied 96 points in the final quarter of 2023) and ended 2023 at 11%, after touching an intra-year high of around 12.5% in late September. The Business Day reported that foreigners were net purchasers of SA bonds totalling R20 billion in 2023 (JSE data).

Chart 1: Annual asset class returns for 2023 (%)



Source: Iress, Momentum Investments

The JSE Assa All Bond Index rose 9.7% in 2023 (8.1% in the fourth quarter of the year), after adding 4.3% in 2022. The FTSE/JSE Inflation-linked Index (CILI) similarly gained 7.1% in 2023, after an equal 4.3% uptick in 2022. The FTSE/JSE SA Listed Property Index jumped 8.1% higher in 2023, after recording modest gains of 3.8% in 2021 and 5.2% in 2022.

Bloomberg calculated that EM currencies closed out their best year since 2017 in 2023, after lower-than-expected interest rates in the US reinvigorated investor appetite for riskier assets. Latin American currencies were the winners in 2023 led by the Argentine peso (150% appreciation against the US dollar), the Colombian peso (44.6%) and the Mexican peso (29.6%). The Turkish lira (depreciation of 6.9% against the US dollar), the Chinese renminbi (0.8% weaker) and the Malaysian ringgit (0.7% weaker) were among the worst performing EM currencies in 2023.

The rand weakened by close to 8% against the US dollar in 2023 as the currency reacted to weaker Chinese data and property sector stress during the year, as well as growth-detracting load-shedding news locally.

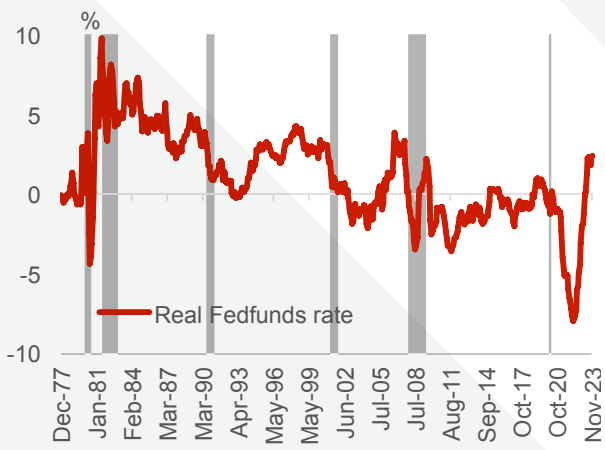
During the fourth quarter of 2023, the rand strengthened 3.4% against the dollar but depreciated by nearly 1% against the euro, suggesting that dollar weakness also affected the rand's marginally stronger performance against the dollar during the quarter.

In contrast to a weaker rand, SA's ten-year CDS spread narrowed by 71 points in 2023, tracking 35 points below levels at the start of the year.

US bonds are preferred to US equities until a falling rate cycle is discounted in 2024

Although the likelihood of a US recession has seemingly diminished in recent months, it remains an important financial market risk to monitor going forward. We have reported before that should a US recession indeed be forthcoming, there could still be significant downside risk for growth assets such as global equities, with US equities never having bottomed throughout history before the onset of a recession. Historically successful US recession indicators such as the New York Fed's one-year recession probability model (which has never given a false signal at its current level), US leading economic indicator momentum (which has never before been this negative without a recession following) and US banks' current very tight lending standards (which has historically been associated with a 90% probability of recession within a year according to Deutsche Bank) all still point to a meaningful probability for US recession. Furthermore, the monetary transmission lag between interest rate changes and when these changes are ultimately reflected in the economy is typically long and variable - the US real policy rate only became restrictive recently from very easy conditions previously (see chart 2)

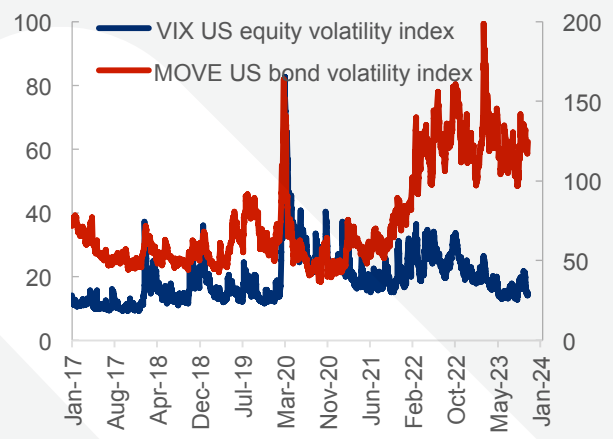
Chart 2: Fed real policy rate only became restrictive recently



Source: Iress, Momentum Investments

There has been a notable divergence between US equity and bond market volatility since the Fed's monetary policy tightening cycle started in early 2022. While bond volatility has settled at a higher level since then, equity volatility has declined to post-pandemic lows (see chart 3).

Chart 3: US equity market seems complacent about risks



Source: Bloomberg, Momentum Investments

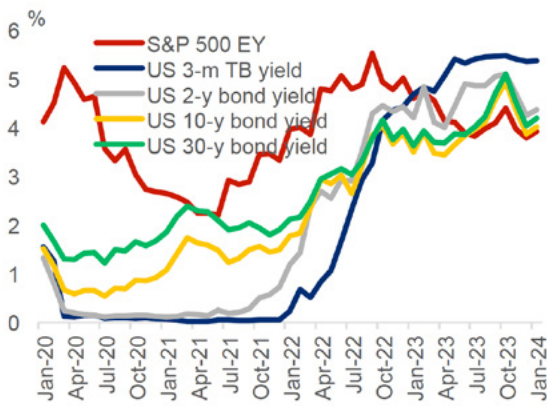
This can be interpreted as indicative of equity complacency, with uncertainties about geopolitics, US growth, inflation and policy rates not appropriately reflected in equity volatility levels. Research from Credit Suisse shows that historically, when lots of good news and little bad news have been discounted by low US equity volatility levels, subsequent US equity returns have been constrained.

Good US economic growth news has constantly been bad news for US bonds since the onset of the rising US interest rate cycle in the early part of 2022, with a consistent positive correlation between US economic surprises and US bond yields ever since. This is also confirmed by real bond yields (and by implication policy rate expectations) being the main driving force(s) for global nominal bond yields throughout 2022-23, in contrast to rising inflation expectations pushing yields higher in 2020-21.

More recently, favourable growth reports have also become bad news for the US equity market, with positive economic surprises driving more negative policy rate expectations rather than more constructive profit views for US equities. Any indication of slowing US economic activity in 2024 with concomitant expectations at the time for the start of a US easing policy cycle in the not-too-distant future would provide some positive support to both the US bond and equity markets.

Historically, US bonds have reacted favourably to a peak in the policy rate, with a consistently attractive bond return profile after the final US rate hike. Furthermore, since early 2023, the short end of the US fixed-income spectrum has started providing superior income alternatives to US equities, with available yields on US cash and US 2-year Treasuries above those on US equities. From mid-2023, yields across the maturity continuum of the US yield curve have been higher than equity yields (see chart 4). This makes US fixed income a broadly attractive asset class for investors in 2024, with an eventual move up the maturity scale likely required to address reinvestment risk in the run up to the start of a US rate cutting cycle later in the year.

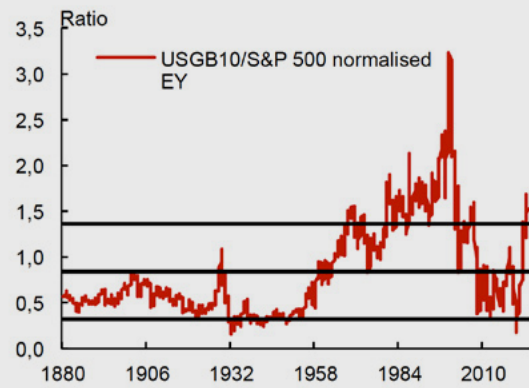
Chart 4: US fixed-income and equity yields



Source: Iress, Momentum Investments

Despite the general upward trajectory of US bond yields in 2023, fuelled by the resilience of the US economy, fiscal concerns and lingering inflation worries, there has been a notable absence of corresponding downward adjustments in US equity valuations. Consequently, US bonds are currently trading at a discount to US equities – an unusual occurrence in the 21st century. An analysis of the ratio of the present US bond yield to the through-the-cycle US equity earnings yield reveals that equities are now almost one-and-a-half standard deviations expensive relative to US bonds (see chart 5). This represents a departure from the prolonged trend observed since the global financial crisis (GFC), during which US equities consistently traded comparatively inexpensively relative to bonds.

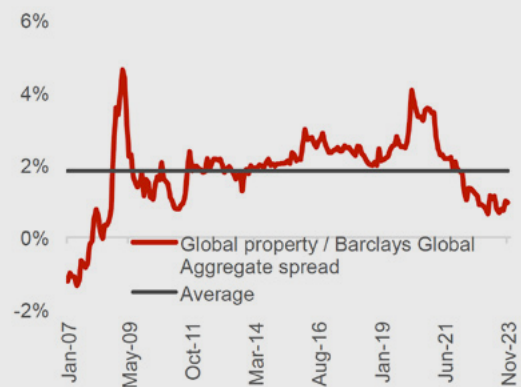
Chart 5: Relative US equity/bond valuations



Source: Iress, Momentum Investments

Although global property currently looks cheap against global equities with yield spreads above historical averages after many years of poor relative performance, it still seems expensively valued versus fixed-income asset classes like nominal and real US Treasuries and global investment grade bonds, with respective yield spreads below normal (see chart 6).

Chart 6: Global property expensive versus global investment grade bonds



Source: Bloomberg, Momentum Investments

The combined negative fundamental overhang of debt costs eventually resetting at higher interest rate levels and tight bank lending standards potentially squeezing the funding availability in the REIT sector, keep us circumspect about the global listed property sector for the moment. Nevertheless, we do acknowledge that the asset class brings diversification benefits and inflation protection to a multi-asset portfolio in the long run.

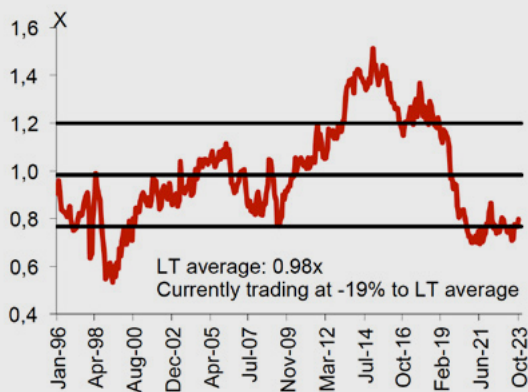
For SA investors, we prefer SA asset classes over global assets in the next year. SA assets are supported by more attractive valuations than global assets and discount copious amounts of bad news. Any improvement in global risk appetite during 2024 in the run up to future DM policy rate declines, or better-than-expected outcomes on current local fundamental constraints, could unlock the valuation discount in SA assets. In addition, some rand appreciation associated with either of these outcomes would erode the local currency returns from global assets.

A significant risk premium is embedded in SA equity market valuations

It seems apparent from the ongoing rock-bottom valuations of the SA equity market that there is still little positive sentiment towards the asset class. SA has not only been a longstanding superior dividend payer within EM, trading at an average 25% dividend yield premium to EM over the past two decades, but its forward dividend yield premium has increased even further since the pandemic, to a current 50% premium.

Similarly, the current 21% SA forward P/E discount to EM is at a level last seen in the aftermath of the dotcom bubble in the early 2000s, and significantly larger than the average 2% discount historically (see chart 7). With EM equities already trading at significant valuation discounts to DM equities, this makes SA equities even cheaper than the latter.

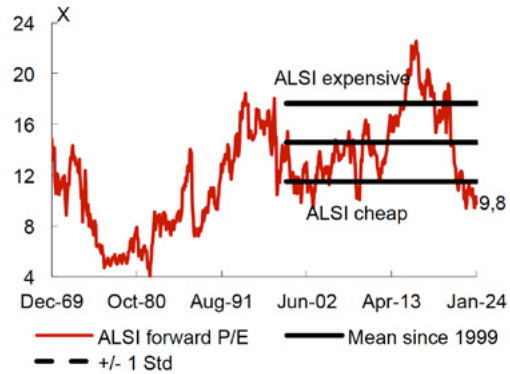
Chart 7: SA forward P/E relative to EM



Source: SBG Securities

SA equities don't only look very cheap against the global universe as mentioned above, but also against their history. We estimate that the SA equity forward multiple is currently in single digits based on our conservative below-consensus 8% profit growth assumption for the next year, a level last seen in the aftermath of the GFC (see chart 8). Should we use the higher double-digit consensus earnings growth number instead, the SA equity forward P/E would be at levels last seen in the early 2000s.

Chart 8: ALSI forward P/E

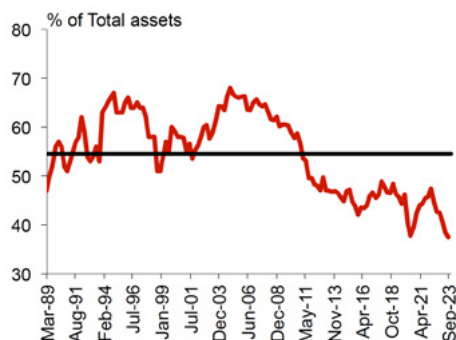


Source: Iress, Momentum Investments

It can be argued that the significant risk premium currently embedded in SA equity valuations is mostly self-inflicted through the continual deterioration of basic operational infrastructure in the SA economy over many years, particularly electricity unavailability and rail transport degradation. However, it also implies that there is ample scope for a rerating in SA equities should there be an improvement in some of these constraints over time, as an ongoing dire scenario is already fully discounted. A rerating could also be on the cards should a global risk-on environment take hold.

In addition, SA equities are very underowned by local and global portfolio managers, which implies that there is no overhang in the asset class, enhancing its rerating potential. SBG Securities notes that domestic multi-asset fund managers' 37.5% SA equity weighting in the third quarter of 2023 is now below the Covid lows (37.8% in the second quarter of 2020) and the lowest since sanctions were imposed on SA in 1986 (see chart 9). SA is also the fifth most underowned market within global EM (GEM) equity funds and should have meaningful rerating potential from current cheap valuations whenever global risk appetite improves.

Chart 9: Historically low SA equity exposure in domestic multi-asset funds



Source: SBG Securities

SA bonds also discount lots of bad news

Real DM bond yields have recovered from very negative levels due to rising nominal yields and falling inflation in 2023. However, except for the US where real bond yields are now slightly positive, real yields in the rest of the region remain in negative territory. In contrast, real bond yields in the EM world are significantly in positive territory. Among the investable EM countries, Brazil and SA continue to stand out as providing the highest available real bond yields based on current nominal yields and the latest inflation print (see table 1).

Table 1: Real ex-post 10-year government bond yields

DM	
US	0.9%
UK	-0.1%
Europe	-0.7%
Japan	-2.3%
EM	
Brazil	5.9%
South Africa	5.5%
Russia	5.0%
Mexico	4.5%
Türkiye	-40.4%

Source: Iress, Momentum Investments

Not only are SA real bond yields currently attractive versus DM and EM yields in absolute terms, but SA's real yield premiums against DM are also high against historical averages (e.g. almost one standard deviation above the average versus the US since the advent of SA's inflation targeting regime). Furthermore, SA's prospective real bond yield is now almost one-and-a-half standard deviations higher than its historical average since inflation targeting (see chart 10). In our view, SA's high nominal and real bond yields already discount elevated fiscal and country risk premiums. Indeed, the current implied total SA risk premium (sovereign and fiscal) derived from the differential between current nominal bond yields, US real rates and SA expected inflation, has only ever been higher at the height of Covid in 2020. Relative to SA equities and cash, SA nominal bonds have consistently been the cheapest asset class since 2013.

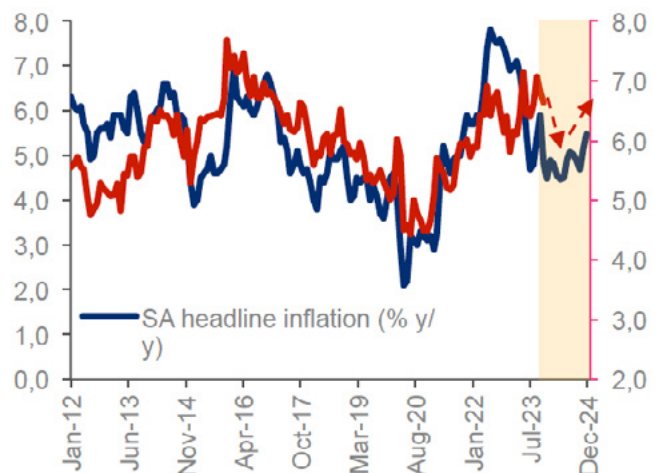
Chart 10: SA ex-ante real bond yield



Source: Iress, Momentum Investments

We expect ILBs to progress from experiencing lower-than-average monthly accruals in 2023 to benefiting from higher-than-average accruals in 2024. After break-even tightening in the first half of 2024, a second half of 2024 widening is anticipated in line with the projected inflation trend. This should provide more fundamental support for ILBs as 2024 unfolds (see chart 11).

Chart 11: More fundamental support for ILBs as 2024 unfolds



Source: Iress, Momentum Investments

The prospective SA real cash yield has been rising from a low level in line with policy rate increases and recently expected falling inflation, currently standing at an attractive 0.9 standard deviations above its historical average (see chart 12). Similar to the case for US cash, we anticipate that investors will need to increase SA fixed-income duration during 2024 to counter the rising reinvestment risk of shorter-duration fixed-income assets such as cash as we approach the start of the local rate cutting cycle.

Chart 12: Prospective SA real cash yield



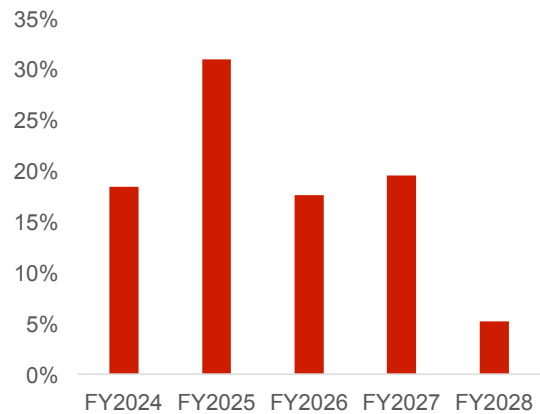
Source: Iress, Momentum Investments

Listed property value is evident, but fundamental risks remain

Although Cape Town office rentals have been rising in recent years, even in real terms, Johannesburg remains the largest and hence most important office node by far – here rentals have remained stagnant in nominal terms and are still falling in real terms. At least office vacancies don't seem to be at risk from new excess supply, with a controlled and demand-driven recent supply of space. Falling industrial vacancies have driven positive rental growth in this subsector, but falling business confidence could be a harbinger of rising industrial vacancies in the near term.

Worryingly, the delayed impact of higher interest rates is starting to hurt the SA listed property companies, with recent earnings guidance negatively impacted amidst future interest rate hedge expiries, particularly in 2025 (see chart 13). There is an upside risk to property debt costs in the offing, with a repricing to higher market rates as interest rate hedges expire and debt matures in the coming years.

Chart 13: SA listed property average hedge maturities



highest on record, dominated by China, Poland and Singapore.

Source: Company reports, Momentum Investments

SA listed property nominal and real dividend yields are among the highest in the world. However, return upside from attractive valuations needs to be weighed against the above-mentioned negative fundamental risks when deciding about portfolio exposure to this asset class.

Geopolitics and related central bank gold buying are the dominant drivers for the gold price

For the decade-and-a-half up to the start of the Russia/Ukraine war at the beginning of 2022, US real interest rates were the main determinant of the direction of the US dollar gold price. This was related to the fundamental driver for the gold price being the opportunity cost of holding a non-interest-bearing asset. Interestingly, we have found that movements in the US dollar did not provide additional explanatory power for the behaviour of the dollar gold price during that time.

However, since the Russia/Ukraine war and the resultant financial sanctions imposed on Russia by the West, the relationship between the gold price and US real interest rates has broken down, with the gold price unfazed by the significant rise in US real yields since then. As a result, the dollar gold price is currently more than three times higher than would be expected at prevailing real interest rate levels.

This divergence of the gold price from the US real interest rate fundamental driver since the start of the Russia/Ukraine war can be ascribed to the highest gold buying from global central banks in 55 years in 2022 (see chart 14), probably for geopolitical and diversification reasons. Gold enables central banks to diversify their reserves away from assets like US Treasuries and the dollar and, unlike currencies and bonds, it does not rely on any issuer or government. Banks including those of Türkiye, China, Egypt and Qatar said they bought gold last year. But around two-thirds of the gold bought by central banks last year was not reported publicly, according to the World Gold Council (WGC). This trend has continued in 2023, with central bank buying in the first three quarters of 2023 the highest on record, dominated by China, Poland and Singapore.

Chart 14: Central bank gold buying highest ever in 2022

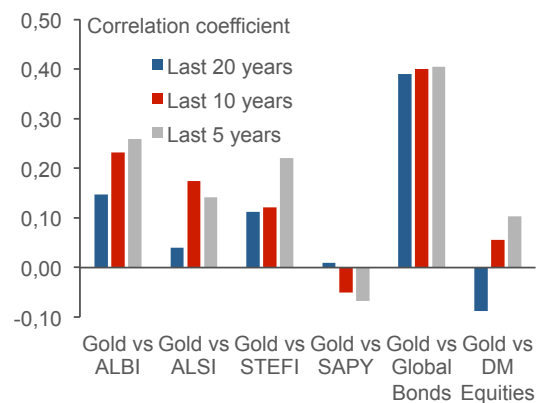


Source: Refinitiv, World Gold Council

With geopolitical strife likely to remain high in coming years as deglobalisation continues and a multipolar world order establishes itself (between the West and China), gold is likely to maintain its strategic attractiveness in central bank and investment portfolios as a hedge against political volatility and uncertainty. This is borne out by results from a recent WGC survey where 71% of 57 global central banks indicated that their gold reserves will likely increase in the next 12 months. The People’s Bank of China, in particular, has significant scope for increasing its gold exposure, with only 4% of its reserves currently consisting of gold. This contrasts with other EMs like Russia and Türkiye, where gold accounts for around 25% of total central bank reserves, and DMs like the US and Germany with around two-thirds of reserves in gold.

Gold also has a strategic rationale as a portfolio risk diversifier, because it is expected to hold its value through turbulent times and has limited correlation with other asset classes (see chart 15). Furthermore, for an SA investor, the rand gold price has been a strong relative asset class performer historically, as perennial rand weakness has provided huge support over many years.

Chart 15: Gold has a limited correlation with other asset classes



Source: Iress, Bloomberg, Momentum Investments

2024 Economic outlook: Ten trends to watch out for this year

From an elevated state of global economic resilience and robust stock markets to adverse geopolitical changes, the landscape of 2023 has been marked by unpredictability. While there is a consensus among investors that a severe and prolonged recession will likely be averted in 2024, the pace of economic activity in the global economy is expected to slow. This anticipated slowdown could follow on the back of the delayed impact of previous aggressive monetary policy tightening, limited fiscal flexibility and persistently higher-than-target inflation, despite inflation having rolled over substantially already.

Furthermore, unforeseen geopolitical events will continue to act as unpredictable variables shaping the political, economic, and financial scenarios in 2024. Here are ten trends under our macro radar for the year:

Trend #1: Economic resilience versus impending gravity in 2024

Despite ongoing conflicts such as the Russia-Ukraine and Israel-Palestine wars, the global economy has displayed resilience. Initial concerns about an imminent recession due to a sharp rise in interest rates to curb inflation have proven overly pessimistic. Inflation is receding globally, unemployment rates have generally stabilised and major central banks have paused their tightening measures. However, the foundation of this economic resilience appears fragile. The potential impact of higher interest rates and increasing corporate bankruptcies, particularly in the US and Europe, poses risks to economic stability.

Trend #2: Varied trajectories in global economic growth

Although the global economy has defied expectations with its resilience in 2023, the IMF estimates that global output remains 3.4% smaller than pre-pandemic forecasts. Disparities in growth outcomes persist, with advanced economies benefiting from earlier reopening, effective vaccines, robust stimulus and a quicker labour market recovery. In contrast, low-income and developing economies face larger output losses due to higher interest rates and depreciated currencies.

Consumer spending strength in the US is anticipated to decelerate throughout 2024 due to the gradual depletion of pandemic-induced savings, coupled with a less supportive labour market. Additionally, prolonged high-interest rates might contribute to a slowdown in fixed investment. In Europe, the recovery in 2024 is expected to be constrained by a growth deceleration in major economies like Germany, pressures on real wages and loud calls for fiscal austerity.

Despite earlier criticism from investors regarding China's

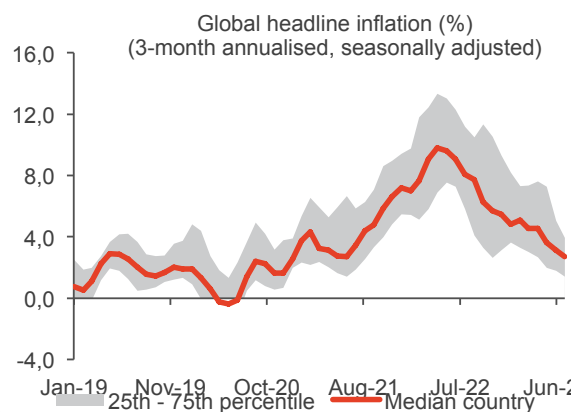
restrained fiscal and monetary policies in 2023, substantial policy announcements made later in the year are poised to have positive effects on growth in 2024. These measures are expected to stabilise the housing market and enhance consumer sentiment.

Moreover, the combined impact of the pandemic, the conflict in Ukraine and escalating climate crises has reversed longstanding trends in poverty reduction. This has led to an increased gap between wealthier and less affluent nations. Constrained fiscal space and heightened debt vulnerabilities in certain regions are anticipated to contribute to a slower convergence toward the living standards of higher-income economies.

Trend #3: Slower deceleration in inflation

The Bank for International Settlements notes that wringing the last bit of excess inflation out of the economy takes longer than the initial phases of reducing inflation. Global inflation has halved from its peak in 2022 (see chart 16), but challenges persist. The IMF warns that inflation in most inflation-targeting countries exceeded central bank targets in 2023 and expects this to continue in 2024. Only by 2025, is headline inflation anticipated to be within 0.2 percentage points of the target in most economies.

Chart 16: Global inflation in retreat



Source: IMF, Momentum Investments

35 Sample economies included, which account for 81% of 2022 world output

This next phase of inflation reduction is expected to take longer due to various factors, including waning food and energy base effects, potential demand pickup and political pressures to ease policy in a slowing economy.

Trend #4: Calls for collaborative monetary and fiscal policies

Monetary and fiscal policies, as essential economic functions, are closely intertwined. The pandemic-induced recession has increased the demand for coordinated fiscal and monetary policies. Governments played a crucial role in navigating lockdowns and facilitating economic recoveries. However, when inflation is high and persistent, fiscal support across the board may seem imprudent. This places central banks in the position of applying more substantial brakes to maintain price stability.

Fiscal responsibility through credible frameworks is crucial to address debt sustainability concerns. This can be done by rebuilding buffers that can be deployed in the event of the next economic shock. Challenges to reining in debt meanwhile include an ageing population, net-zero carbon emissions targets and increased defence spending amid rising geopolitical tensions.

Trend #5: Stormier geopolitical waters

Investors were already navigating a complex global landscape before the tragic events unfolded in the Middle East. However, the conflict between Hamas and Israel has introduced a new layer of uncertainty for the global economy, particularly if the war escalates into a broader Middle Eastern conflict which could compromise the Strait of Hormuz, through which a fifth of the world's total oil consumption passes.

Geopolitical tensions pose additional risks to the global economy, especially when major growth engines are already under strain. Global political tensions are expected to remain heightened, with a significant number of elections worldwide in 2024. The Economist suggests that over half of the global population (76 countries) is set to undergo elections in 2024. The Democracy Index from The Economist Intelligence Unit anticipates that, out of the 71 countries it covers, only 43 will witness entirely free and fair voting processes. As per Bloomberg, 40 of the 76 countries holding elections have a national scope, accounting for 41% of the world's population and 42% of GDP. The risk of China pursuing Taiwanese unification, the US election outcome, and the situation in Ukraine and Russia are particularly noteworthy.

Despite the need to focus on slower domestic growth, we still believe the risk of China pursuing the unification of Taiwan more strongly is higher in the next five years than it has been in the last decade, given the increase in Chinese military movements around Taiwan.

In 2024, US voters will face a closely contested presidential

election, with Democratic incumbent Joe Biden experiencing a decline in popularity to below 40% in early December, as indicated by an average of polls collected by FiveThirtyEight. The Republican front-runner and former President Donald Trump has garnered a substantial lead over Biden in several swing states where polls have been conducted, suggesting the potential for a second presidential term for Trump.

In this scenario, we anticipate an increase in economic nationalism with a rise in trade barriers. The US would likely withdraw from an active role in global affairs, given the diminishing support for such engagement, which has reached its lowest level since 2014. Additionally, under a second Trump term, there may be a rollback of regulations, heightened scrutiny on fiscal sustainability, and increased attention to central bank independence.

Due to the diversion of military resources towards the conflicts in Gaza and Ukraine, which rely heavily on military aid from the US and Germany, are likely to experience a reduction in the frequency and scale of military assistance packages in the foreseeable future. The ongoing war in Ukraine shows no signs of conclusion, and the extensive damage caused by Russia's missile and drone attacks on Ukraine's electricity grid during the previous winter leaves the Ukrainian population in a precarious and uncertain situation.

Trend #6: SA's political path ahead

A decline in voter participation and significant gains for fringe political entities at both extremes may be indicative of SA's evolving democracy, yet these trends could also signify a more fractured society. The ruling African National Congress (ANC) continues with a reduced majority but confronts challenges in the foreseeable future.

The ANC's support has waned due to the energy crisis, logistical breakdowns, and insufficient progress in tackling corruption (see chart 17). The National Prosecuting Authority's inability to prosecute influential figures linked to state capture further hampers SA's chances of being removed from the greylist by 2025.

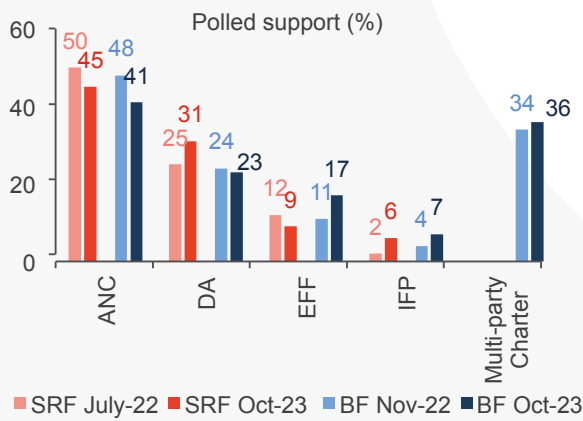
Opposition to the ANC is gaining traction, with growing support for the opposition alliance, the Multiparty Charter, and the emergence of new political movements leading up to the scheduled national elections in May 2024. Polls conducted by the Social Research Foundation (SRF) and the Brenthurst Foundation (BF) in October indicate ANC support levels polling significantly below 50%, nationally. On a provincial level, the potential for a coalition-led government looms larger, especially in Gauteng and KwaZulu-Natal, which collectively constitute 44% of SA's population and 49% of GDP.



Potential scenarios for national election outcomes range from an ANC-led coalition or a marginal ANC majority, suggesting a less stable political environment, to a retained ANC majority with a firmer mandate. In the latter case, a more stable policy environment could emerge if the ANC and the incumbent president pursue their agenda assertively.

Additionally, voter turnout, amid declining global democratic participation, could impact election outcomes. According to the Daily Maverick, increased voter turnouts are likely to benefit the ANC, Economic Freedom Fighters (EFF) and Inkatha Freedom Party (IFP). Conversely, lower voter participation in the national election could favour the main opposition party, the Democratic Alliance (DA) and the Freedom Front Plus.

Chart 17: Support for the ruling party has dropped



Source: SRF, BF, Momentum Investments

Source: SRF, BF, Momentum Investments

Trend #7: SA's logistical challenges outlast loadshedding

While loadshedding is expected to detract from SA's economic growth, improvements in Eskom's generation plan and increased private sector investment in renewable energy suggest a potential easing of the energy crisis. The SARB estimates that loadshedding will detract up to two percent points from gross domestic product (GDP) growth for 2023 based on an expected 250 days of loadshedding, up from a calculated loss of 0.7 percentage points in 2022. Lower anticipated levels of loadshedding could translate into a smaller 0.8 percentage points deduction from GDP growth in 2024, according to the SARB.

However, logistical challenges, particularly in rail and port inefficiencies, persist. Rail inefficiencies alone are estimated to cost around 5.5% of the GDP in 2023. Despite government initiatives to address logistics issues, including the implementation of the Freight Logistics Roadmap, growth projections for 2024 and 2025 are likely to be constrained to 1% this year and 1.7% next year.

Trend #8: SA's unyielding debt burden

SA faces worsening fiscal conditions, with October's budget forecasts indicating a strain on revenues. The ratio of the country's government debt relative to GDP has risen significantly since 2008, presenting challenges for fiscal sustainability. SA's interest burden has surged, with warnings from the IMF that it could reach 27% of fiscal revenues by 2028. Balancing spending reductions, tax increases and managing state-owned entity challenges will be critical for fiscal consolidation.

Although the government proposed to plug the financing gap in the current fiscal year without raising government bond issuance by much, pressure on SA's local bond market will likely escalate in the coming quarters as SA's redemption profile ramps up.

Trend #9: A breather from inflationary struggles

Headline inflation in SA surpassed the upper limit of the 3% to 6% target range in May 2022 due to rising food and energy expenses. This breach persisted for 13 months, reaching a peak of 7.9% in July 2022.

However, subsequent measures by the SARB restored inflation within the target range. Swift and effective monetary policy actions, coupled with clear communication by the SARB, averted a prolonged divergence in inflation expectations. The Bureau of Economic Research noted that total surveyed inflation expectations for 2023 peaked at 6.5% in Q2 2023, with surveyed businesses anticipating 6.9%, while analysts foresaw 5.9%. This reflects continued confidence in the central bank's credibility despite increased living costs.

While acknowledging potential inflation risks from geopolitical factors, currency fluctuations and administered prices, we anticipate that demand-driven and wage inflation will remain contained. Our projection sees headline inflation averaging 5.3% in 2024, with a decrease to an average of 4.5% in 2024.

Trend #10: Central bank caution likely to prevail in spite of steady rates

Major central banks pressed pause in late 2023, cautioning against premature celebrations and expressing readiness to counteract any resurgent disinflation threats. Despite keeping SA interest rates stable at 8.25% at the last three monetary policy meetings, following 11 hikes since November 2021, the SARB remains vigilant. While there has been a positive shift in inflation drivers, concerns linger about the impact of loadshedding and drier El Niño weather conditions on food prices, especially affecting lower-income households. The SARB is expected to uphold a hawkish stance, emphasising the need for a gradual return to the inflation target midpoint to mitigate economic costs and facilitate future interest rate reductions.

We expect the SARB to remain on hold at 8.25%, with the first interest rate cut of 25 basis points projected for the second quarter of 2024. We have pencilled in three interest rate cuts of 25 basis points each for 2024, which is more than the 50 basis points easing suggested by SARB's Quarterly Projection model for the same period.



Sanisha
Packirisamy

Economist
Momentum Investments



Herman
van Papendorp

**Head: Macro Research and
Asset Allocation**
Momentum Investments

Partially Vesting Smoothed Bonus Range

Universal Multi-Manager Smooth Growth Fund



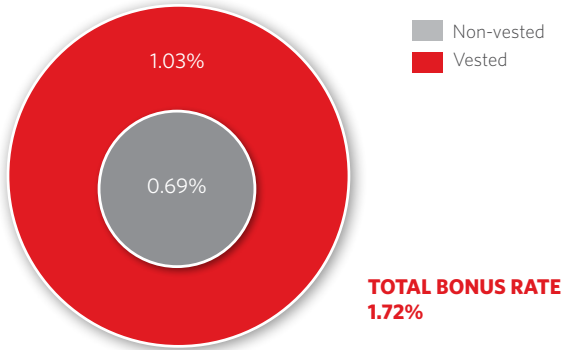
Fund Snap Shot

INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUS RATES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Jun 2020	100% - 105%	R357.4m	0.85%	10.69%

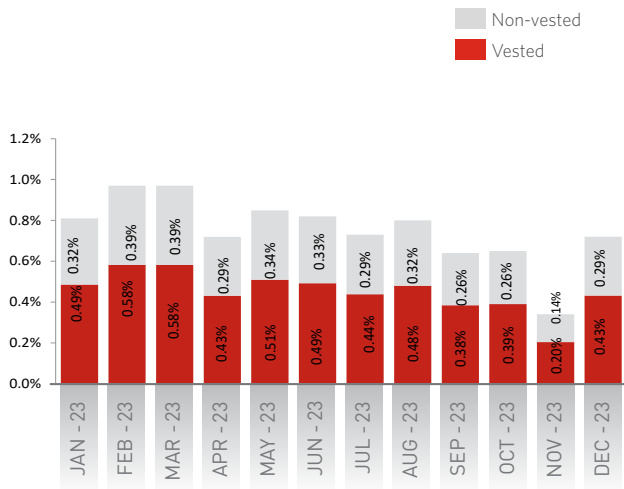
¹Based on back-tested bonus rates and returns

Performance

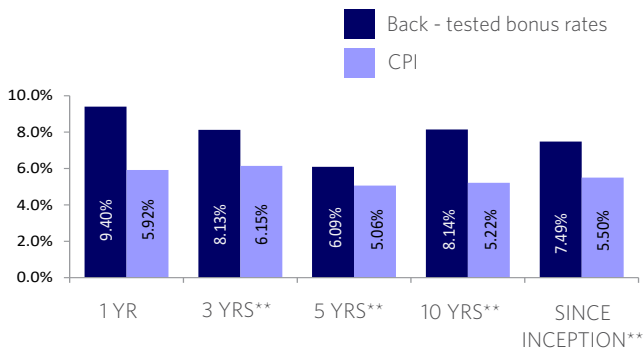
The total bonus rate* for the past quarter on the **Universal Multi-Manager Smooth Growth Fund** is shown below.



The chart below shows the monthly bonus rates* for the past 12 months



The chart below shows the long term bonus* performance of the **Universal Multi-Manager Smooth Growth Fund** against CPI

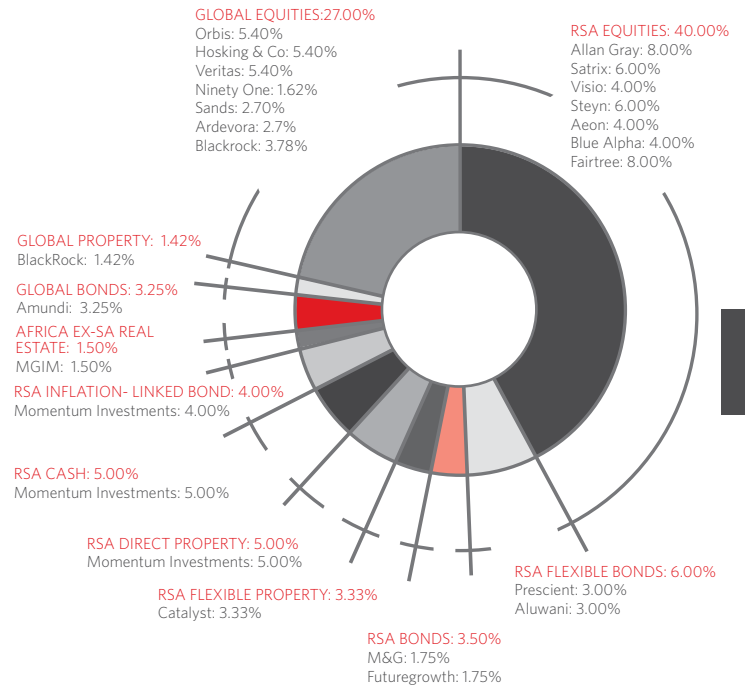


CPI figures are lagged by two months

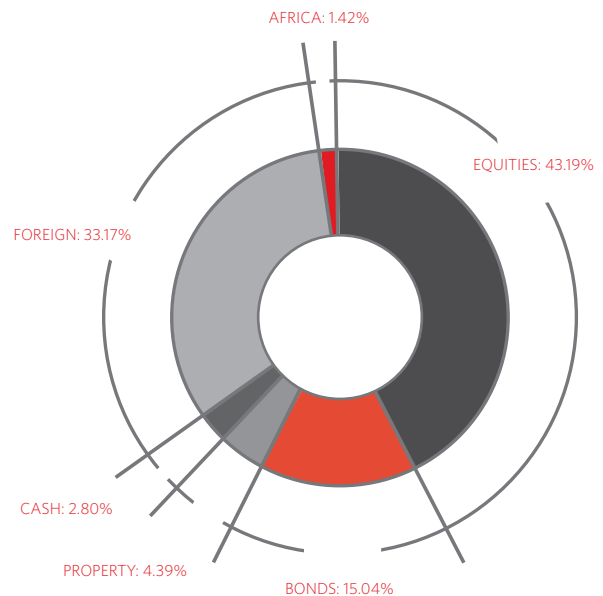
* Bonus rates are net of underlying asset charges but are gross of the policy fee
 ** Annualised

Asset Allocation

The Africa ex-SA Real Estate allocation is expected to increase gradually over the next 5 years to a total of 2.50%, in line with drawdown notices from Momentum Global Investment Management (MGIM). The strategic asset allocation of the portfolio is shown below.



The effective asset allocation of the portfolio is shown alongside.



Partially Vesting Smoothed Bonus Range

Universal Smooth Growth Fund



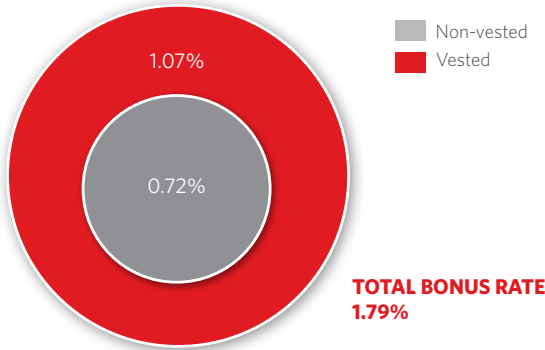
Fund Snapshot

INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUS RATES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Jun 2020	100% - 105%	R409.1m	0.73%	10.46%

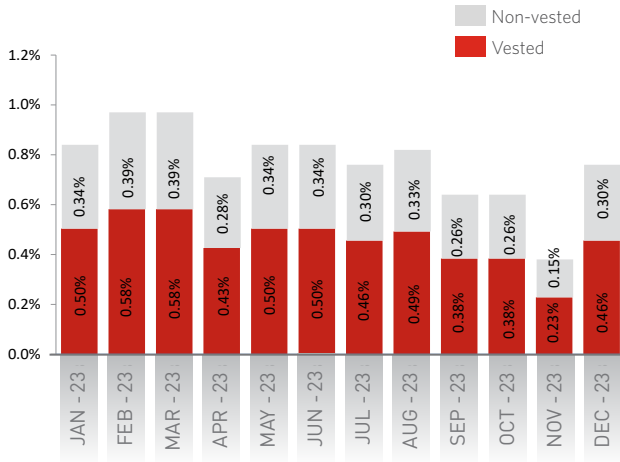
¹Based on back-tested bonus rates and returns

Performance

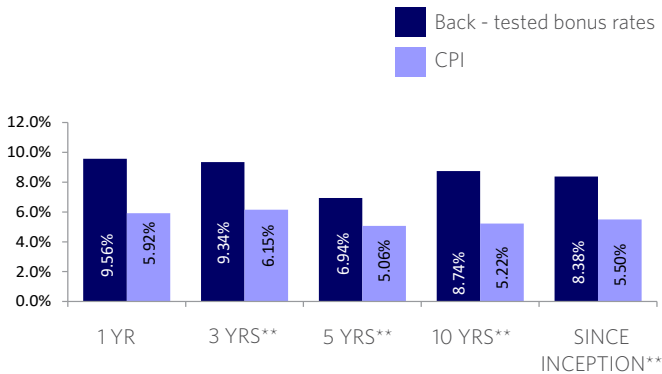
The total bonus rate* for the past quarter on the **Universal Smooth Growth Fund** is shown below.



The chart below shows the monthly bonus rates* for the past 12 months



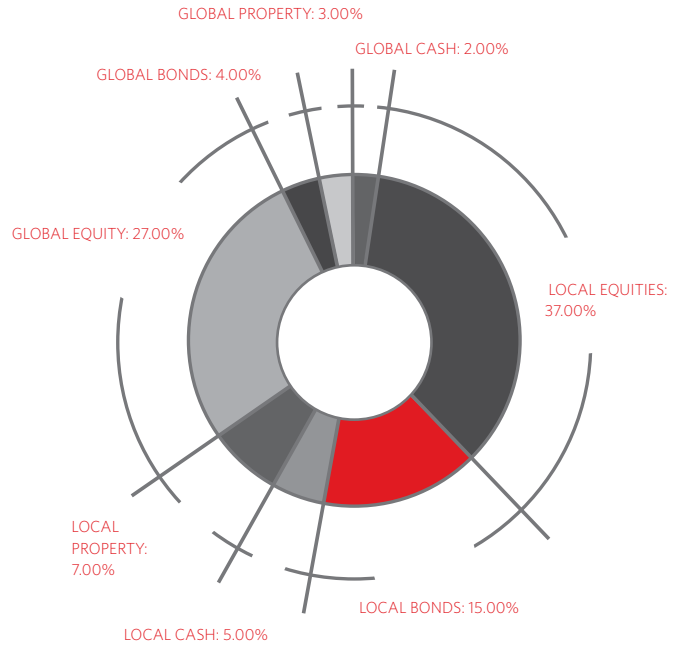
The chart below shows the long term bonus* performance of the **Universal Smooth Growth Fund** against CPI



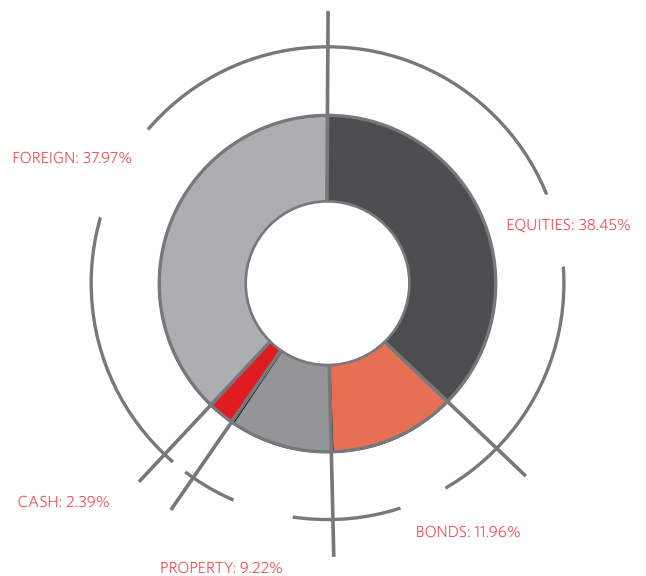
CPI figures are lagged by two months

Asset Allocation

The strategic asset allocation of the portfolio is shown alongside.



The effective asset allocation of the portfolio is shown alongside.



* Bonus rates are net of underlying asset charges but are gross of the investment management fee
 ** Annualised

Partially Vesting Smoothed Bonus Range

Multi-Manager Smooth Growth Fund Global

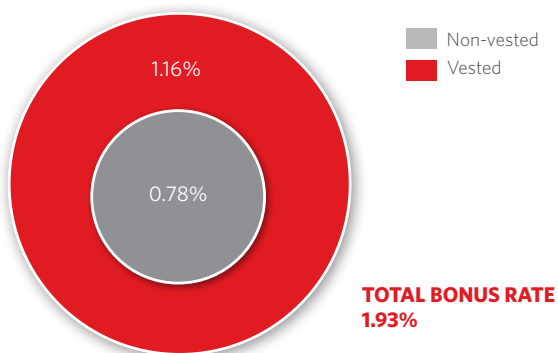


Fund Snap Shot

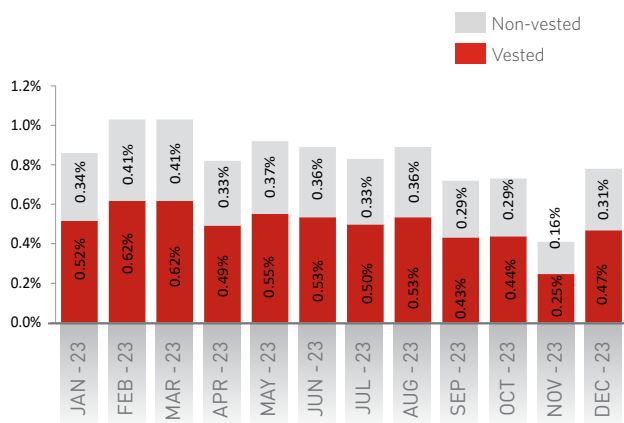
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUS RATES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Jan 2004	100% - 105%	R6.6bn	0.72%	10.62%

Performance

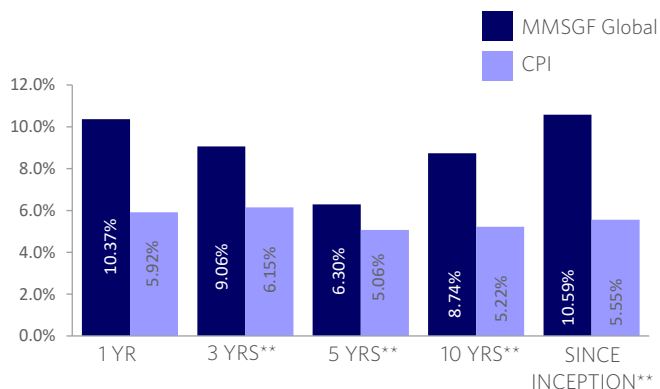
The total bonus rate* for the past quarter on the **Multi-Manager Smooth Growth Fund Global** is shown below.



The chart below shows the monthly bonus rates* for the past 12 months



The chart below shows the long term bonus* performance of the **Multi-Manager Smooth Growth Fund Global** against CPI



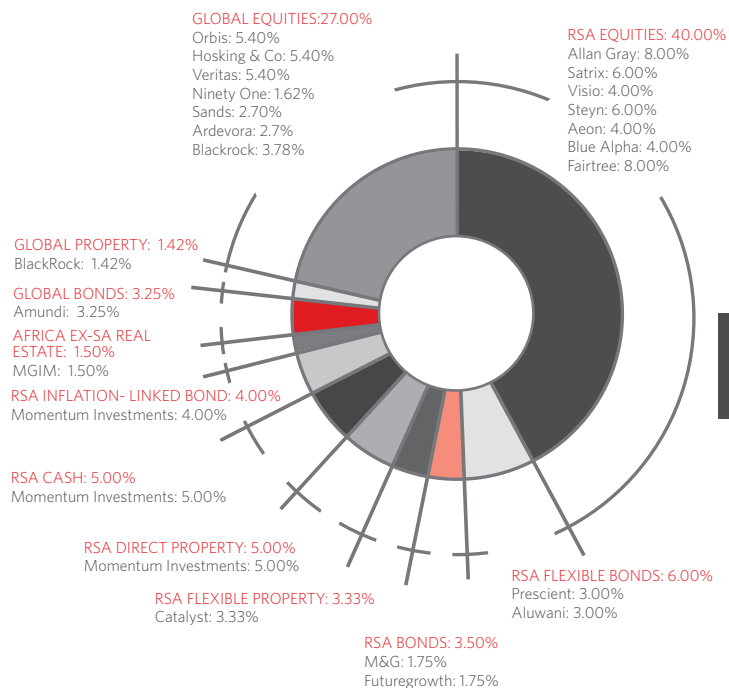
CPI figures are lagged by two months

* Bonus rates are net of underlying asset charges but are gross of the policy fee

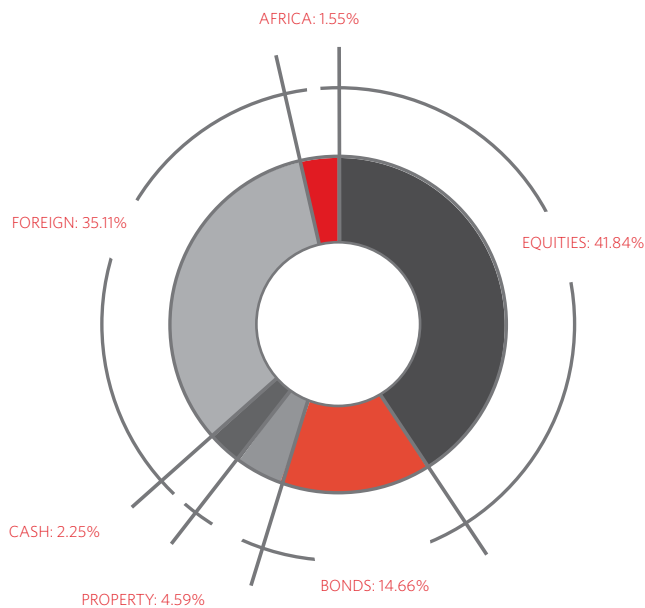
** Annualised

Asset Allocation

The Africa ex-SA Real Estate allocation is expected to increase gradually over the next 5 years to a total of 2.50%, in line with drawdown notices from Momentum Global Investment Management (MGIM). The strategic asset allocation of the portfolio is shown below.



The effective asset allocation of the portfolio is shown alongside.



Partially Vesting Smoothed Bonus Range

Smooth Growth Fund Global

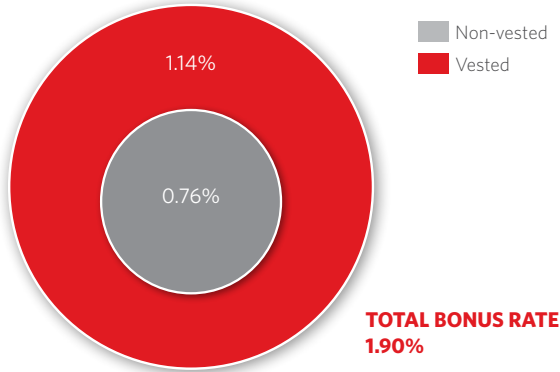


Fund Snap Shot

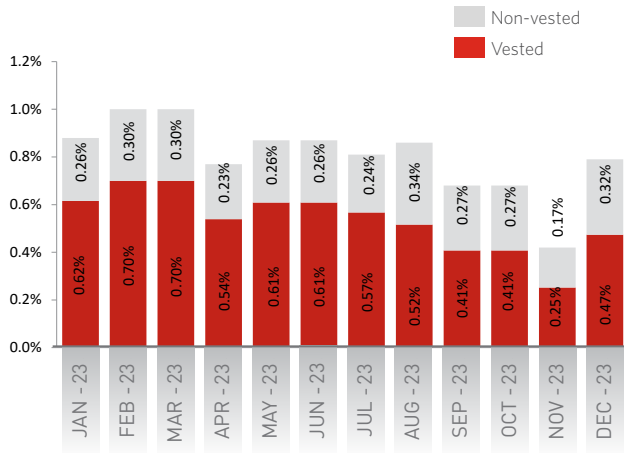
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUS RATES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Jan 1989	100% - 105%	R1.7bn	0.84%	10.33%

Performance

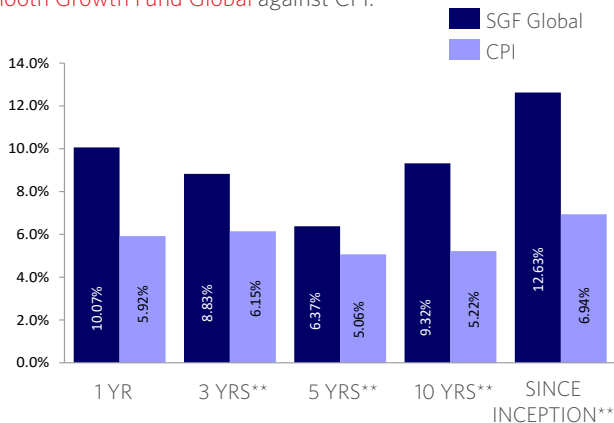
The total bonus rate* for the past quarter on the Smooth Growth Fund Global is shown below.



The chart below shows the monthly bonus rates* for the past 12 months.



The chart below shows the long term bonus* performance of the Smooth Growth Fund Global against CPI.



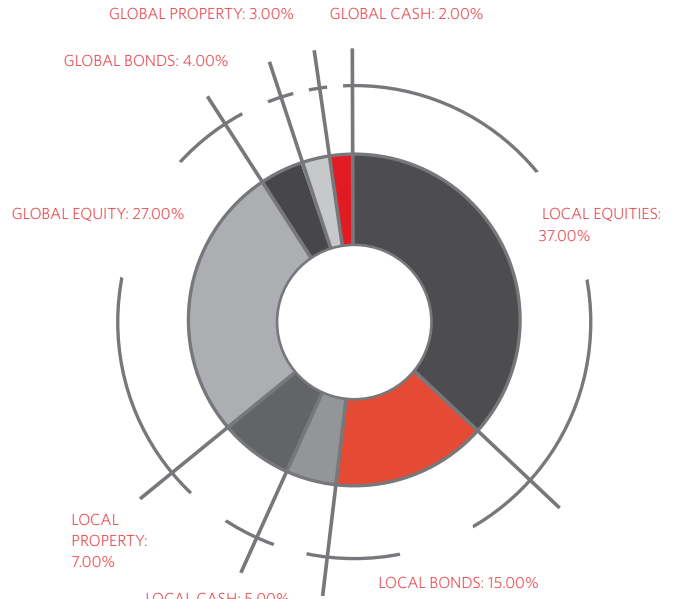
CPI figures are lagged by two months

* Bonus Rates are net of underlying asset charges but are gross of the Investment Management Fee

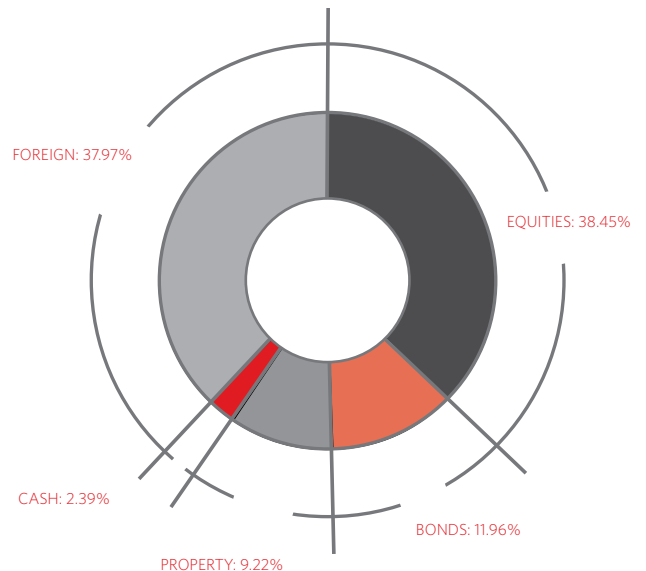
** Annualised

Asset Allocation

The strategic asset allocation of the portfolio is shown alongside.



The effective asset allocation of the portfolio is shown alongside.



Partially Vesting Smoothed Bonus Range Multi-Manager Smooth Growth Fund Global Bonus Series 2020 (previously MMSGF Local)

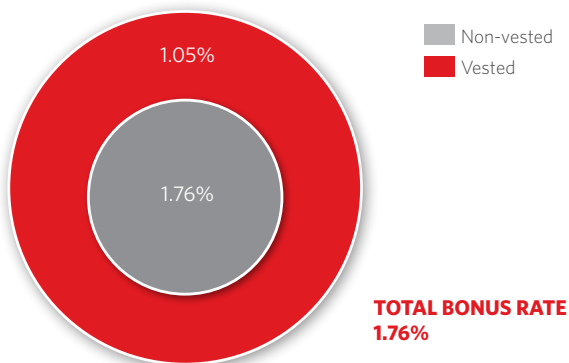


Fund Snap Shot

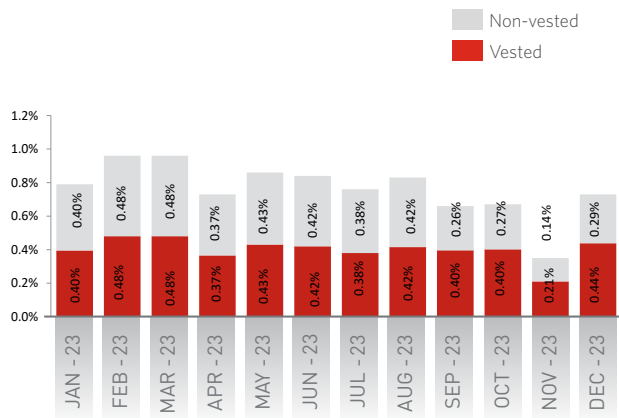
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUS RATES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Jan 2004	100% - 105%	R139.2m	1.10%	10.31%

Performance

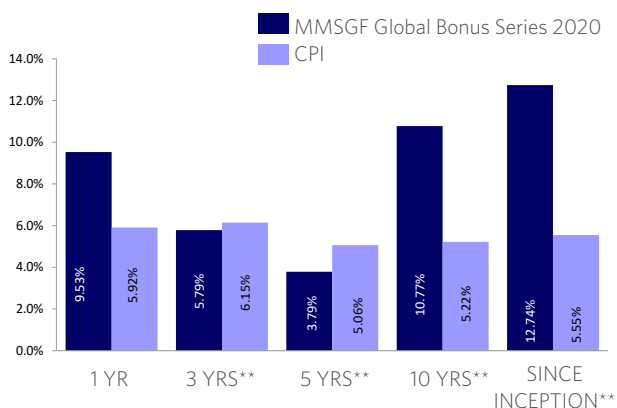
The total bonus rate* for the past quarter on the **MMSGF Global Bonus Series 2020** is shown below.



The chart below shows the monthly bonus rates* for the past 12 months.



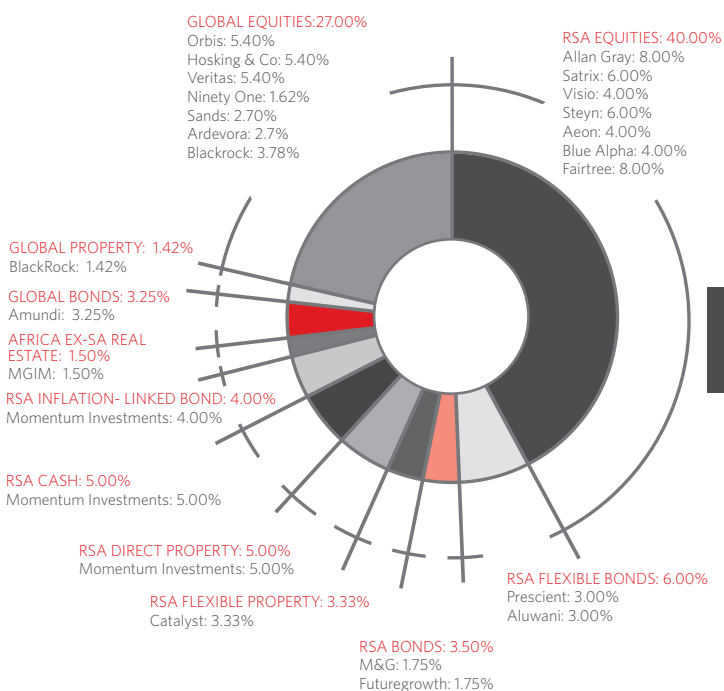
The chart below shows the long term bonus rates* performance of the **MMSGF Global Bonus Series 2020** against CPI



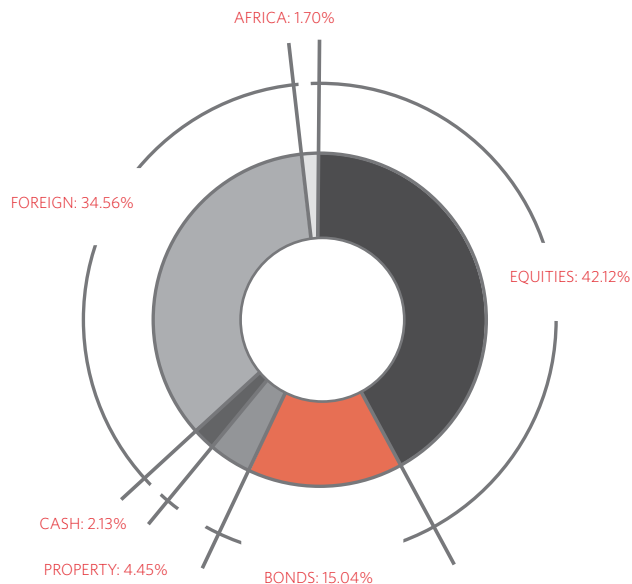
Asset Allocation

The strategic asset allocation of the portfolio is shown alongside.

The Africa ex-SA Real Estate allocation is expected to increase gradually over the next 5 years to a total of 2.5% in line with drawdown notices from Momentum Global Investment Management (MGIM).



The effective asset allocation of the portfolio is shown alongside.



* Bonus rates are net of underlying asset charges but are gross of the policy fee
** Annualised

Partially Vesting Smoothed Bonus Range

Smooth-Edge Fund



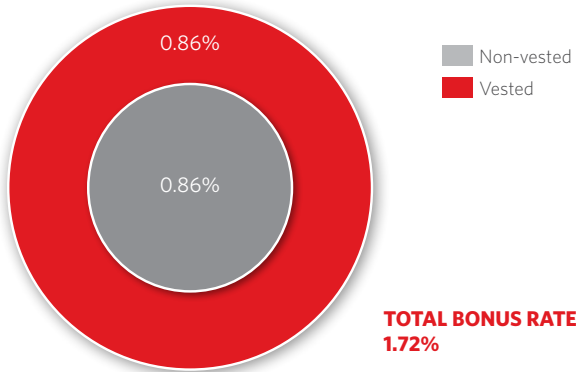
Fund Snap Shot

INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUS RATES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Feb 2019	100% - 105%	R1.8bn	0.75%	10.65%

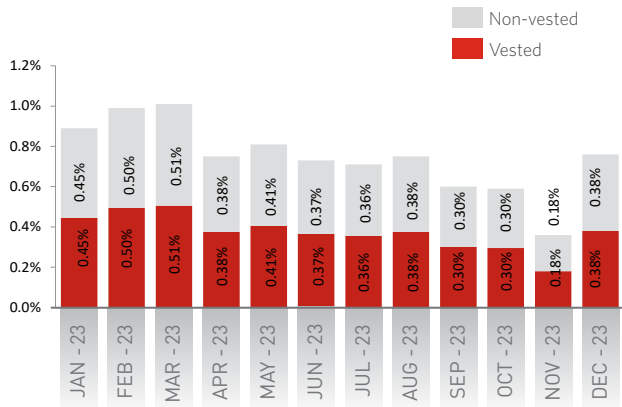
*Based on back-tested bonus rates and returns

Performance

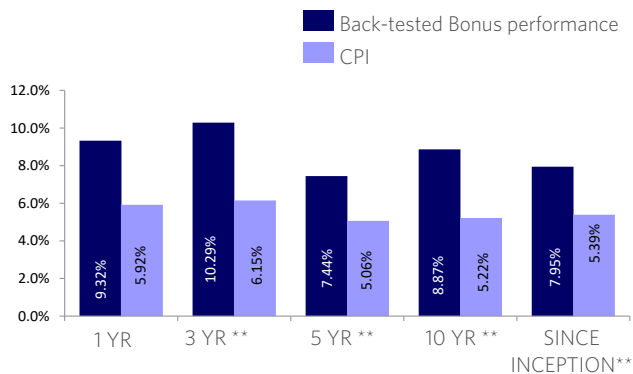
The total bonus rate for the past quarter on the Momentum Smooth-Edge Fund is shown below.



The chart below shows the actual monthly bonus rates* for the past 12 months.



The chart below shows the long term back-tested bonus rates* performance of the Smooth-Edge Fund against CPI

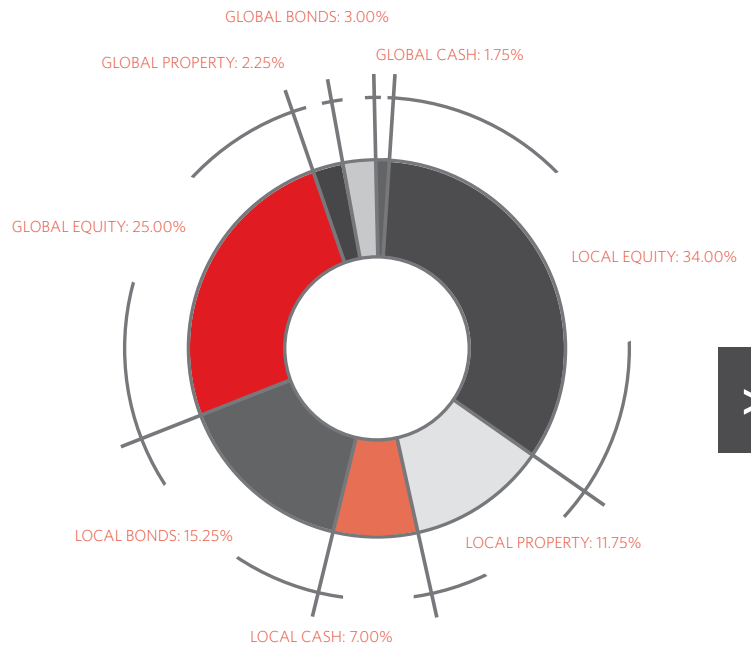


CPI figures are lagged by two months

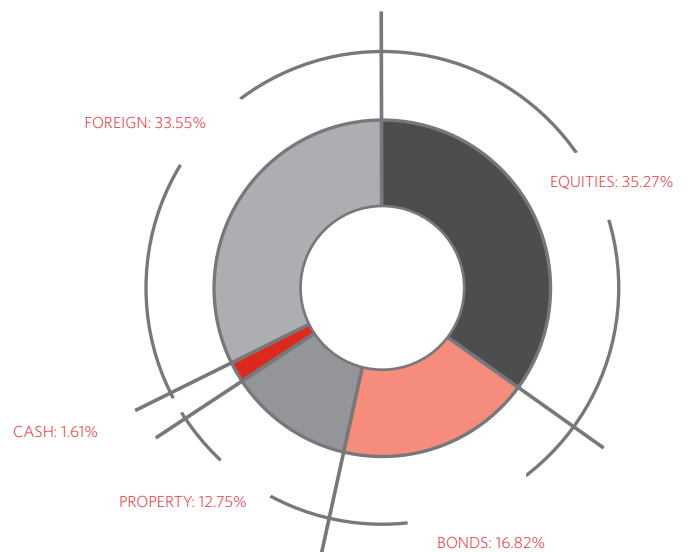
* The bonus rates and back-tested bonus rates are gross of the investment management fee
 ** Annualised

Asset Allocation

The strategic asset allocation is shown alongside.



The effective asset allocation of the portfolio is shown alongside.



Fully Vesting Smoothed Bonus Range

Universal Smart Guarantee+3 Fund

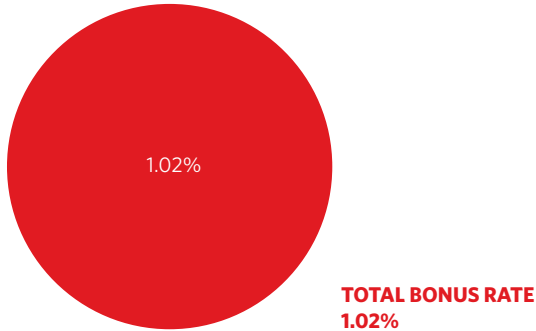


Fund Snap Shot

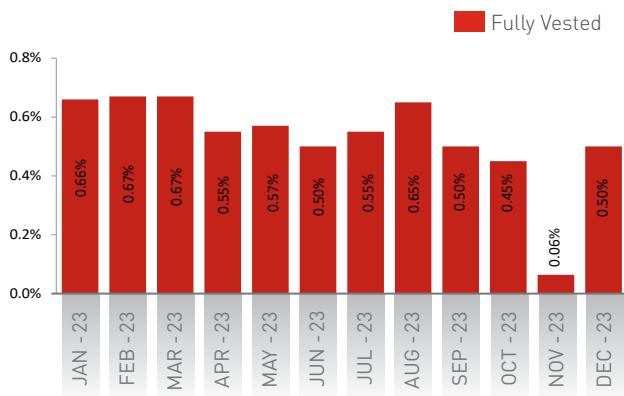
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUS RATES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN OF BONUS GENERATING PORTFOLIO
Oct 2013	100% - 105%	R552.5m	1.08%	10.32%

Performance

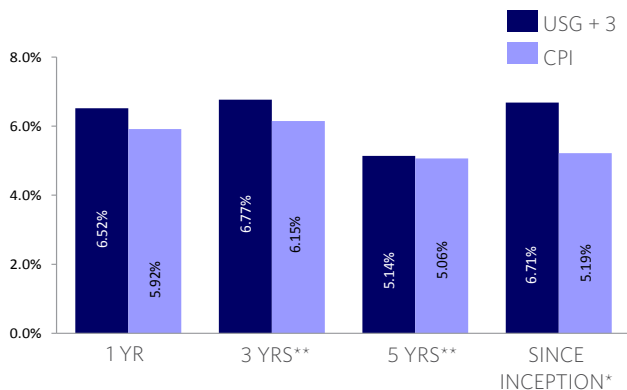
The total bonus rate* for the past quarter on the **Universal Smart Guarantee +3 Fund** is shown below.



The chart below shows the actual monthly bonus rates* for the past 12 months.



The chart below shows the long term bonus* performance of the **Universal Smart Guarantee +3 Fund** against CPI.

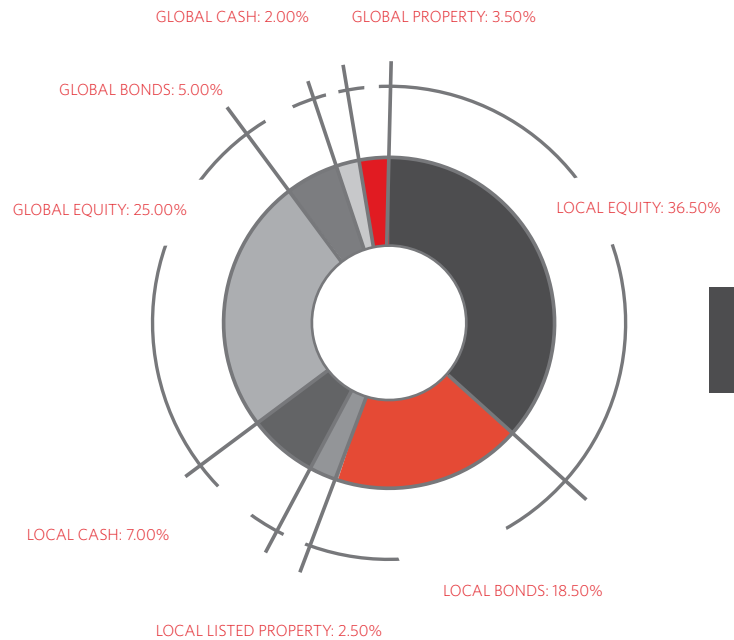


CPI figures are lagged by two months

* Bonus rates are net of underlying asset charges but are gross of the investment management fee
 ** Annualised

Asset Allocation

The strategic asset allocation of the bonus generating portfolio (Momentum Dynamic Hedging Reference Portfolio) is shown alongside.



For bonus declarations, 90% of the underlying asset returns of the bonus generating portfolio are smoothed over a three-year period as per the smoothing formula.

The liability driven investment strategy employed includes a dynamic protection overlay to secure the guarantee. As a result, the value of the underlying asset portfolio is sensitive to changes in asset values (and interest rates) and the effective asset allocation will reflect both the bonus generating portfolio and the dynamic protection overlay.

USG +3: Bonus rates to be declared

Given that the monthly bonuses are based on the weighted average of the previous 36 months' returns of the bonus generating portfolio, it is possible to calculate the future bonuses that will be declared under various future investment return assumptions. Assuming zero returns over the following 34 months (there is a 2 month lag), around **10.11%** of bonuses will still be declared.

Fully Vesting Smoothed Bonus Range

Multi-Manager Secure Growth Fund

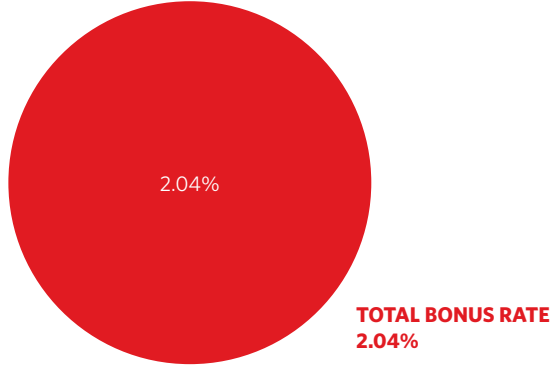


Fund Snap Shot

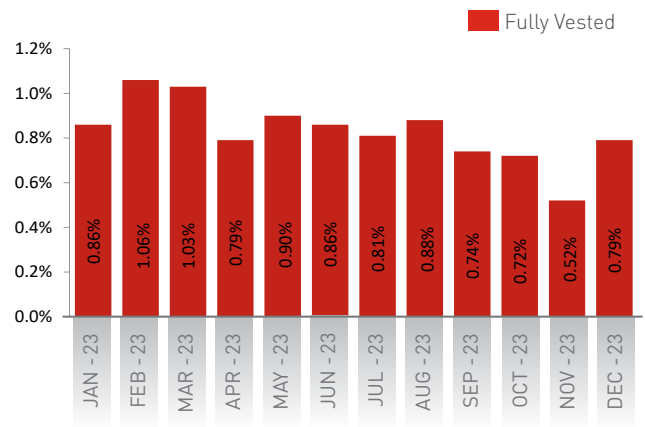
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUS RATES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Nov 2007	105% - 110%	R74.5m	0.56%	9.64%

Performance

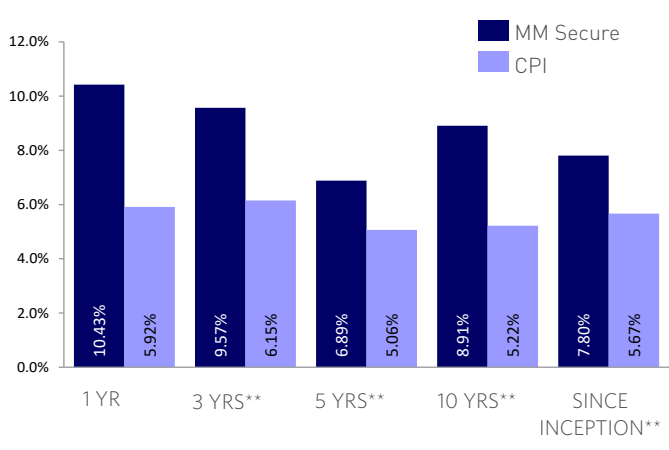
The total bonus rate* for the past quarter on the Multi-Manager Secure Growth Fund is shown below.



The chart below shows the monthly bonus rates* for the past 12 months.



The chart below shows the long term bonus* performance of the Multi-Manager Secure Growth Fund against CPI



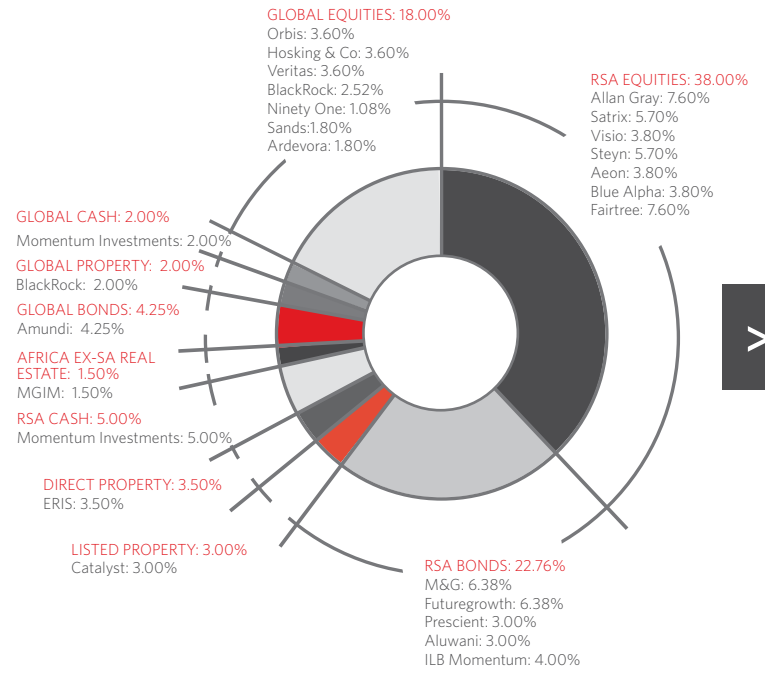
CPI figures are lagged by two months

* Bonus rates are net of underlying asset charges but are gross of the policy fee
** Annualised

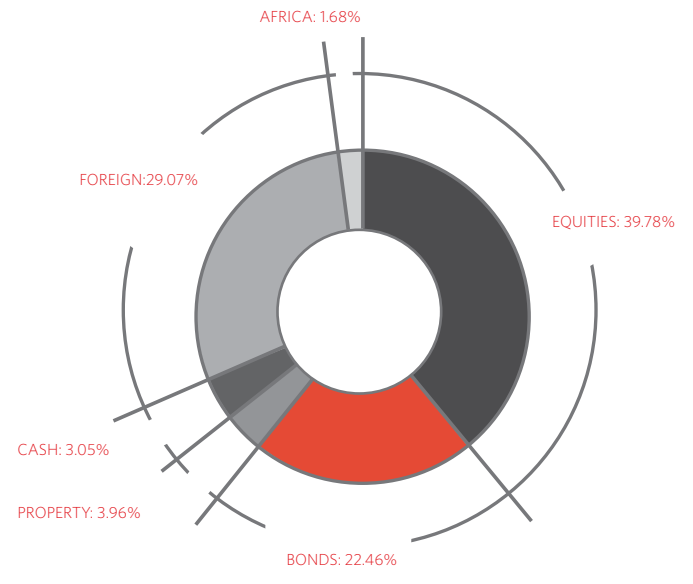
Asset Allocation

On 1 December 2020, changes were made to the strategic asset allocations.

The Africa ex-SA Real Estate allocation is expected to increase gradually over the next 5 years to a total of 2.50%, in line with drawdown notices from Momentum Global Investment Management (MGIM). The strategic asset allocation of the portfolio is shown alongside.



The effective asset allocation of the portfolio is shown alongside.





Smoothed Bonus Portfolios

Key Features

		Fund Return Objective	Manager	Mandate Type	Guarantee on Policy Benefits ¹	Market Value Adjustment on Voluntary Exits ²	Capital Charge	Policy Fee or Investment Management Fee*	Inception Date
Partially Vesting	Multi-Manager Smooth Growth Fund Global	CPI + 4% pa, net of the policy fee and underlying asset charges over the long term	Multi-Manager	Moderate Balanced	100% of net capital invested and vested bonus declared (net of the Policy fee)	Yes	0.90% pa	0.35% of the first R50m, 0.25% of the excess above R50m ³	January 2004
	Universal Multi-Manager Smooth Growth Fund								June 2020
	Multi-Manager Smooth Growth Fund Global Bonus Series 2020								January 2004
	Smooth Growth Fund Global	CPI + 4% pa, net of the investment management fee and underlying asset charges over the long term	Momentum Investments	Moderate Balanced	100% of net capital invested and vested bonus declared (net of the investment management fee)	Yes	0.90% pa	0.45% of the first R10m, 0.35% of the next R40m, 0.25% of the excess above R50m ³ *	January 1989
	Universal Smooth Growth Fund								June 2020
		Smooth-Edge Fund	CPI + 4% pa, net of the investment management fee and underlying asset charges over the long term	Momentum Investments	Moderate Balanced	100% of net capital invested and vested bonus declared (net of the Investment management fee)	Yes	0.60% pa	0.25% pa ³ **
Fully Vesting	Multi-Manager Secure Growth Fund	CPI + 2% pa, net of the policy fee and underlying asset charges over the long term	Multi-Manager	Moderate Conservative Balanced	100% of net capital invested and total bonus declared (net of the Policy fee)	Yes	1.40% pa	0.35% of the first R50m, 0.25% of the excess above R50m ³	November 2007
	Universal Smart Guarantee+3 Fund	CPI + 3% pa, net of the investment management fee and underlying asset charges over the long term	Insurer Liability Driven Investment	Insurer Liability Driven Investment	100% of net capital invested and total bonus declared (net of the Investment management fee)	Yes	0.50% pa	0.75% pa ³ **	October 2013

*Policy fee includes the cost of investment administration.

**Investment management fee includes policy fee and certain fees related to the management of the assets (not included in underlying asset charges).

1. Policy benefits include but are not limited to death, disability, resignation or retirement. The full list policy benefits is outlined as well as other terms and conditions specified in the client policy contracts.
2. Market value adjustments may be applied on member switches out, terminations and other non-policy benefits if a client is underfunded.
3. Underlying asset charges include capital charge and net priced asset fees and performance fees (where applicable).



Contact details

Email: emailus@momentum.co.za

Website: www.momentum.co.za

Disclaimer: Copyright reserved © Momentum Metropolitan 2024 – Momentum Corporate is a part of Momentum Metropolitan Life Limited (registration number 1904/002186/06), a wholly owned subsidiary of Momentum Metropolitan Holdings Limited. Momentum Corporate is the underwriter and benefit administrator of the FundsAtWork Umbrella Pension and Provident Funds. The document is for illustrative purposes only and does not constitute tax, legal, accounting, or financial advice. You rely on the contents at your sole discretion. We recommend that you consult with a financial adviser before making any changes to your group employee benefits. Momentum Metropolitan Holdings Limited, its subsidiaries, including Momentum Metropolitan Life Limited, will not be liable for any loss, damage (whether direct or consequential) or expenses of any nature which may be incurred because of, or which may be caused, directly or indirectly, to the use or reliance on this publication. Terms and conditions apply.

Momentum Metropolitan Life Limited is a licensed life insurer, authorised financial services (FSP6406) and registered credit provider (NCRCP173), and rated B-BBEE Level 1.