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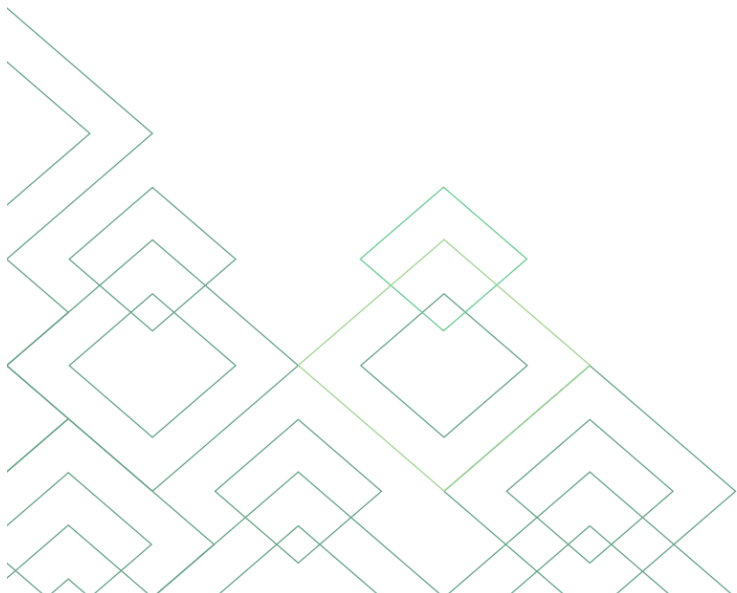
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Quarterly review

Nedgroup Investments Core Diversified Fund



As at 30 June 2023

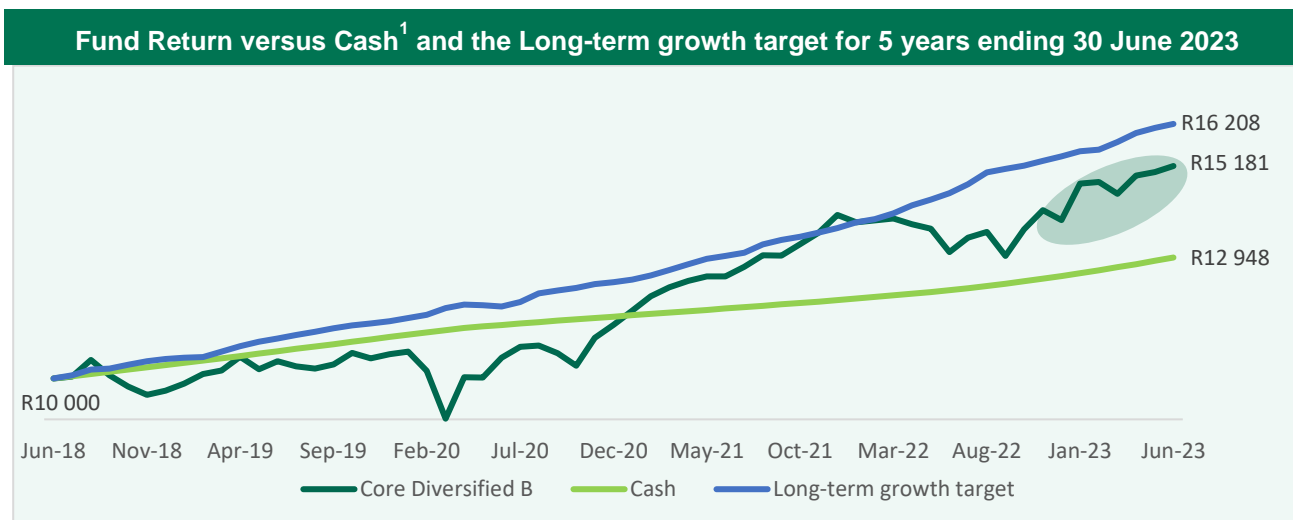


Current inflation is likely to be transitory

Food prices in South Africa, like in many other markets, are not immune to external developments. Supply chain challenges and geopolitical events, such as the Russia-Ukraine conflict, have had a significant impact on global food prices and consequently on overall inflation trends. Headline inflation is slowly decreasing on lower energy prices and base effects but is still above target for most policy makers across the globe. High levels of core inflation also remain a key concern. In the second quarter market participants continued to forecast that the current inflation is “transitory” in the sense that it will dissipate over time. The market remains optimistic that today’s households and businesses will avoid the unpleasant experiences of the long inflation and painful disinflation that their predecessors experienced during 1970–1985. Over the quarter, the Nedgroup Investments Core Diversified Fund increased by 4.7%.

The table below compares an investment in Nedgroup Investments Core Diversified Fund to a bank deposit (cash) investment and its growth target over various time periods. For every R10 000 invested in the Nedgroup Investments Core Diversified Fund five years ago, you would have R15 181 on the 30th of June 2023. This is slightly higher than the R12 948 you would have received had you invested your money in bank deposits (cash) over the same period. The green circle in the chart below, highlights the recent market decline, which helps to contextualise the returns experienced over the past few years.

Value of R10,000 investment in Nedgroup Investment Core Diversified Fund versus Cash ¹ and the Growth target						
	3 Months	1 Year	3 Years	5 Years	7 Years	Inception 31 August 2009
Growth of fund (after fees) (Growth in %)	R10 468 4.7%	R11 606 16.1%	R14 454 13.1% p.a.	R15 181 8.7% p.a.	R16 729 7.6% p.a.	R40 084 10.6% p.a.
Growth of cash (Growth in %)	R10 187 1.9%	R10 655 6.6%	R11 454 4.6% p.a.	R12 948 5.3% p.a.	R14 781 5.7% p.a.	R21 444 5.7% p.a.
Growth target (inflation+5%) (Growth in %)	R10 282 2.8%	R11 162 11.6%	R13 789 10.3% p.a.	R16 208 10.1% p.a.	R19 669 10.1% p.a.	R39 056 10.4% p.a.



The Nedgroup Investments Core Diversified Fund has a long-term growth target of 5% above inflation (around 10% per year) over 5-year periods. The fund has provided returns closer to cash over the past 5 years. However, history² demonstrates that two thirds of the time a fund such as this would have achieved or surpassed its long-term target. This confirms the importance of being invested for the long term. In fact, if you increase your investment horizon, the risk of underperforming this target decreases.

¹ We used the STeFI call deposit rate for cash returns

² Based on SA market returns from 1960 to 2018 (source Firer 2006) using the same long-term equity allocation and fees.





Economic and market review

Despite the threat of recession, interest rate hikes and inflation concerns, global shares have provided a surprising overall return of 13.9% in the first half of the year (in USD). The United States, which is by far has the largest weight in global equity indices, once again delivered higher returns than the rest of the world with the S&P500 returning 16.9% (in USD). Tech stocks made a comeback to their former glory, driving overall US market returns, after their fall from glory in 2022 where they tumbled over 30%. Even global bonds did well to provide relatively flat returns in spite of rapidly rising global interest rates (in USD).

South African share performance was unfortunately muted with a return of 3.6% for the first half of the year and South African property continued to disappoint investors with a decline of 10.9%.

The table below displays the returns of various asset classes for the first and second quarter of the year, as well as the year to date returns to the end of June 2023. Most asset classes earned similar returns in both quarters. The Rand depreciation of almost 10% year to date, further buoyed already good global equity returns.

Table: Returns in Rands

Asset class	Index	Q1	Q2	YTD to Jun 23
SA equity	FTSE/JSE Capped Shareholder Weighted Index	2.4%	1.2%	3.6%
SA property	FTSE/JSE REIT Index	-8.5%	-2.6%	-10.9%
SA nominal bond	SA All-Bond Index	3.4%	-1.5%	1.8%
SA inflation-linked bond	SA Inflation-linked Bond Index	0.9%	-0.8%	0.0%
SA cash	STeFI Composite Index	1.7%	1.9%	3.6%
Global equity	MSCI All Country World Index	11.9%	13.1%	26.5%
Global property	FTSE EPRA/NAREIT Developed (Net)	5.4%	7.1%	12.8%
Global nominal bond	Bloomberg Global Aggregate Bond Index	7.4%	4.8%	12.6%
Global inflation-linked bond	Bloomberg Global Inflation-linked Bond Index	8.9%	4.6%	13.9%
Global cash	Composite USD/GBP/EUR Libor 3-month	5.4%	7.8%	13.6%
ZAR/USD exchange rate	ZAR/USD exchange rate	4.7%	5.0%	9.9%

These exuberant global equity returns somewhat mask the shifting landscape. Since the global financial crisis, the world has enjoyed high money supply, low inflation and low interest rates which have driven up valuations of asset classes. However, this is rapidly changing, and the new regime seems to signal the end of easy money.

The chart below illustrates the European and US money supply since 1965, demonstrating the extremely high money supply we have enjoyed of late, followed by a sharp decline beginning in 2021. In essence, this decline implies that there is less money available in the economy helping to cool down the economy thereby reducing inflation and tightening lending conditions (although other factors such as the speed by which money changes hands in the economy can offset this).





Figure 1: Money Supply



Source: Macrobond, State Street Global Advisors Economics, Federal Reserve Board. Data as of 25 April 2023.

Most global economic forecasts project poor economic growth. But all is not doom and gloom; surprisingly the Federal Reserve have changed their stance on their prediction of a US recession and instead expect a soft landing due to their decision to hold off on a rate hike in June.

In such a rapidly changing environment, it's even more difficult to forecast the future. In such times, it is critical not to make emotionally driven investment decisions. The Core range funds all have very well diversified investments across a range of geographies, asset classes and sectors helping to reduce risk and volatility.



Interest rates and how the debt-ceiling agreement will impact the economy

The great debt-ceiling debate/negotiation ended in something of an anti-climax. While debates about who “won” and “lost” will probably continue for years in both parties, there was at least one clear winner - the United States (and by extension, the global economy). Of course, this episode raises questions on the US Treasury’s ability to repay debt in the future when Congress will have to raise the debt ceiling again. However, for now, a breach of the debt ceiling - with the potential for throwing global financial markets into chaos - is off the table for the next two years. The US government shutdown - with the potential for throwing the economy into a recession - is lot less likely.

The agreement reduces the trajectory of Federal spending by a small amount, small enough to have little impact on the economic outlook. This success does not pave the way for a perfect economy. The Deloitte forecast still shows the economy slowing substantially in the second half of 2023. This slowdown is not, however, a recession. There’s too much positive news, particularly in the labour market.

Have authorities successfully prevented rising interest rates from creating a financial crisis? The failure of three regional US banks and one large Swiss bank certainly got the attention of central banks, including the Fed and regulators including the Federal Deposit Insurance Corporation. So far, the economic impact looks to be modest. But the problems that showed up in March demonstrate that the economy is currently fragile, and that a financial disturbance could easily throw it into a recession.

The Federal Reserve reacted quickly to try to reassure depositors in other banks that these issues were isolated, and that there was no need to be concerned about the safety of deposits. And, in fact, the Fed’s efforts appear





to have worked. But there will be some modest damage to the economy. As of late May 2023, deposits at small banks had stabilized (resuming the slow but controllable declining trend before March), indicating that depositors were satisfied with the safety of their deposits. Bank lending remains under the microscope because a pullback in lending could have a significant impact on economic activity.

In the medium term, the key question is whether long-term interest rates will once again settle in at a relatively low level, or whether they will return to levels consistent with the experience before the global financial crisis. Those arguing that interest rates will return to low levels point to fundamentals such as demographics (the aging global population). Those arguing that interest rates will return to previous behaviour point to the slowing of savings growth from China and the need for large investments (whether public or private) to reduce the impact of climate change. Of course, interest rates are always the least certain part of any forecast: Any significant news could—and will—alter interest rates significantly.



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