


Quarterly House View – Quarter 3, 2024

The publication summarises the investment committee’s latest forward-looking house view on several asset classes based on the four dimensions of our quarterly capital markets research (the 4Rs Process: *Economic Regime, Implied Returns, Technical Risk and Value, and Relative Positioning*). The house view underpins our target tactical asset allocation decisions and implementations across the Hollard BCI Conservative Growth, Moderate Growth and Managed Growth Funds of Funds. It is a consensus outcome of a constructive, rigorous, and research-based team debate, as articulated by the investment charter.

Asset class ratings – relative attractiveness


- Figure 1 shows our quintile rating framework for expressing the overall attractiveness of each asset class. The up/down arrows depict the relative changes from the previous quarter.
- Figure 2 shows the application of the quintile rating framework, provides detailed insights into each asset class, dimension, and tactical decision relative to the strategic asset allocation.
- Figure 3 is a summary table of Figure 2, expressed in terms of ratings.



Figure 1: Asset class rating calibration framework









Asset class rating	Very attractive	Attractive	Neutral	Unattractive	Very unattractive	Up from previous quarter	No change	Down from previous quarter
Tactical view	Assertively Overweight	Moderately Overweight	Neutral	Moderately Underweight	Assertively Underweight	More attractive from the previous quarter		Less attractive from the previous quarter

Figure 2: Main asset classes: tactical view

Asset Group	Asset Class	Tactical Rating	Base Case	Key Inputs
Equity	SA equity		<p>Returns & Regime: Our base-case scenario for SA equity indicates very attractive 1-year-forward total returns in the range of 20-25%. The expected total return assumes a dividend yield of 3.6%, 1-year forward earnings growth expectation of 10%, current and a base-case 1-year exit price: earnings ratios of 14x and 15.1x respectively, and an implied price: earnings valuation re-rating of 8%. The combined market cap of resources and financial is equivalent to almost half of the Capped SWIX index. The resources (16.1x) and financials (11.5x) equity sectors are currently trading at attractive price: earnings multiples and ranked 37th and 67th percentile relative to their respective 20-year histories respectively. The industrials equity sector (21.4x) appears somewhat cheap with a current price: earnings ratio ranked 43rd percentile relative to its 20-year history.</p> <p>In Q2 2024, South Africa's real GDP increased by 0.4%, marking a recovery from the 0.1% contraction recorded in Q1 2024. Encouragingly, medium-term growth prospects have significantly improved, though they remain below historical averages of around 2%. This positive shift is supported by several factors namely, a favourable inflation outlook, a more reliable electricity supply with Eskom this year achieving its longest period without loadshedding since</p>	<ul style="list-style-type: none"> • Returns expectations (Valuations) • Regime (Economic and financial conditions) • Risk sentiment (Technical risk and value indicators) • Relative positioning (Tactical decision)

			<p>2019, improved logistics & consumer sentiment following a stable election and a budget surplus in Q1 for the first time in 15 years. The new two-pot retirement savings system is also expected to boost GDP by 0.5% when it becomes effective in September 2024.</p> <p>Potential structural reforms under the new government could further enhance growth, provided they address governance issues effectively. While a political risk premium remains, the government's stronger position could attract foreign investment if reforms progress. Additionally, South Africa is working to address deficiencies identified by the Financial Action Task Force, with a potential exit from the grey list as early as early 2025. However, global geopolitical tensions and weak external demand could pose risks to the outlook.</p> <p>Risk & Technical: Our technical risk and value metrics indicate a combination of a moderate downside risk and high momentum for SA equity relative to own history.</p> <p>Relative positioning change: The SA equity tactical exposures in the Hollard BCI Multi-Asset Funds and solutions were increased from a neutral position (0%) to a moderately-high overweight position (3.5%) relative to respective strategic asset allocations.</p>
	Developed economies' equity		<p>Returns & Regime: Our base case scenario shows a 1-year-forward total return (USD) in the range 0-5% from developed markets' equities in aggregate. Our total return expectations for large individual markets peg the US equity and UK equity in the 0-5% range, in local currency terms. The Eurozone-ex UK equity and Japanese equity are expected to deliver returns in the range of 10-15%, in local currency terms. The key valuation measures (current & 1-year exit price: earnings ratio; 1-year-forward nominal earnings growth) for the US, UK, Eurozone-ex UK, and Japan are (26.3x & 24.5x; 7%), (14.8x & 14.9x; -4%), (14.2x & 14.8x; 5%) and (17.4x & 17x; 8%) respectively.</p> <p>The global economy is stabilizing with expected growth of around 3.2% for 2024 and 2025, below the historical average of 3.8%, due to restrictive monetary policies, reduced fiscal support, and low productivity growth. Growth among developed market economies is expected to converge. US growth is projected to slow to 1.9% in 2025 due to a cooling labor market and tighter fiscal policy, while EU growth may rise to 1.5% due to stronger consumption from increasing real wages and easing financing conditions. The US economy, representing 70% of the MSCI World Index, is expected to continue growing, though at a slower pace. Factors such as pandemic-related fiscal stimulus, greater insulation from interest rate hikes, reduced sensitivity to Chinese import competition, leadership in AI technologies, and potentially supportive US presidential policies may continue to bolster its growth.</p> <p>Risk & Technical: Our technical risk and value indicators show a combination of a moderate downside risk and high in momentum potential for developed markets equity relative to own history.</p> <p>Relative positioning change: The developed markets equity tactical exposures in the Hollard BCI Multi-Asset Funds and solutions were maintained at a neutral position (0%) relative to respective strategic asset allocations.</p>
	Emerging economies equity		<p>Returns & Regime: Our base case scenario assumes a 1-year-forward total return in the range 5 - 10% from emerging markets equities in aggregate. This expected total return is underpinned by an expected earnings growth of 9%. At a country level, Taiwan equity is expected to deliver returns in the range -5%-0%. India equity is expected to generate returns in a range of 5%-10% in local currency terms. China and South Korea are expected to generate returns in a range of 15%-20% in local currency terms. The fundamentals (current & 1-year forward price: earnings; 1-year-forward earnings growth) for Taiwan, India, China and South Korea are (24x & 21.1x; 5%), (28.9x & 27.2x; 14%), (11.7x & 12.0x; 13%) and (15x & 14.3x; 23%) respectively.</p> <p>The IMF forecasts stable economic growth for emerging market economies at 4.3% for 2024 and 2025, with high growth forecast powered by stronger activity in Asia, particularly China and India. Economic prospects continue to vary significantly across regions, with some facing challenges like elevated debt levels, sluggish growth, and the risk of debt distress. China's growth is expected to remain subdued, with the IMF forecasting 5% in 2024 and 4.5% in 2025, constrained by debt sustainability risks, a struggling real estate sector, and potential obstacles from US import tariffs, despite a recent export-led rebound.</p>

			<p>Risk & Technical: Our technical risk and value indicators show a combination of moderate downside risk and very high momentum for emerging markets equity relative to own history.</p> <p>Relative positioning change: The emerging markets equity tactical exposures in the Hollard BCI Multi-Asset Funds and solutions were maintained at a neutral (0%) position relative to respective strategic asset allocations.</p>
Property	SA listed property		<p>Returns & Regime: Our base-case scenario for SA listed property indicates attractive 1-year-forward total return in the range 10-15%. The expected total return assumes a dividend yield of 5.9% p.a, 1-year forward earnings growth expectation of 3%, current and a base-case 1-year exit price: earnings ratios of 13.4x and 14x respectively, and an implied price: earnings valuation re-rating of 4.5%.</p> <p>The outlook for South African listed property is positive, driven by improvements in rental reversions, reduced vacancies, and better rent collections across retail, office, and logistics sectors. A falling interest rate environment is likely to enhance property values (higher property intrinsic values as discount rates reduce) and reduce funding costs. Recent data (SAPOA's Retail Trends Report and SAPOA Office Vacancy Survey) shows robust retail sector growth and a decline in office vacancies, with expectations for further improvements due to improved business confidence post a favourable election outcome and lower operating costs from reduced load shedding.</p> <p>Risk & Technical: Our technical risk and value indicators show a combination of low downside risk and high in momentum potential for SA listed property relative to own history.</p> <p>Relative positioning change: The SA listed property tactical exposures in the Hollard BCI Multi-Asset Funds and solutions were increased from a mildly underweight (-1%) position to a mildly overweight (1.5%) position relative to respective strategic asset allocations.</p>
	Developed economies' listed property		<p>Returns & Regime: Our base case scenario for Global developed markets real estate (rental- as opposed to development-oriented) indicates a 1-year-forward total return in the range 10%-15% in aggregate in hard currency terms. The return expectation assumes a dividend yield of 4.2%, earnings or Funds from Operations (FFO) growth of 5.0%, current and a base-case 1-year exit price: earnings ratios of 27.9x and 28.2x respectively, and an implied price: earnings valuation re-rating of 3.1%.</p> <p>Developed market property have a one-year forward dividend yield (4.3%) below US 10-year government bond yields for the first time since 2007. Given the current US dollar funding rates, significant re-rating in the sector seems unlikely, so investors should focus on dividend yield and growth for returns. However, a minor de-rating might occur to restore relative spreads. The outlook for developed market property has improved due to strong tenant demand, limited supply growth, and a falling global monetary policy cycle, which will lower funding costs and support earnings growth. Developed market property offers diversification, inflation protection, and liquidity, presenting opportunities for strategic asset allocation. Considering our current divested position, we are reassessing the asset class within our portfolio solutions.</p> <p>Risk & Technical: Our technical risk and value indicators are indicating a combination of a moderate growth trend and reduced downside risk for developed markets listed property relative to own history</p> <p>Relative positioning change: The developed markets listed property tactical exposures in the Hollard BCI Multi-Asset Funds and solutions were maintained at a mildly underweight (-1%) position relative to respective strategic asset allocations. This relative positioning is expressed through the funds remaining divested from the asset class.</p>
Bonds and cash	SA long bonds		<p>Returns & Regime: Despite the increase in long-term sovereign risk, the compensation on SA government fixed rate bonds still looks reasonable on an inflation risk-adjusted basis, and we do not expect the SA government to default in the near term. The 1-year forward total returns for SA fixed rate bonds: 1-3 years, 3-7 years, 7-12 years, and 12+ years are 9%, 11%, 14% and 15% respectively.</p>

			<p>South Africa's current account deficit narrowed from 2.3% in 4Q23 to 1.2% in 1Q24 due to a widening trade surplus. However, the deficit is projected to increase to 2.8% in 2024 and 3% in 2025 and 2026, driven by slower export growth compared to imports, subdued external demand, lower commodity prices, and logistical challenges. The SARB anticipates rising external financing needs due to this deficit. The budget deficit is expected to improve gradually from -4.9% in 2023/2024 to -3.3% by 2026/2027, while the debt-to-GDP ratio will peak at 75.3% in 2025/2026 before declining. Despite the government's commitment to fiscal sustainability, risks such as low economic growth, higher borrowing costs, unaffordable wage increases, and bailout demands from struggling SOEs, elevates the risk of fiscal slippage which could negatively impact long bond yields and the rand. Nonetheless, falling interest rates and renewed foreign investment interest post a favourable election outcome could benefit long bonds in the short to medium term.</p> <p>Relative positioning change: The SA long (nominal) bonds exposures in the Hollard BCI Multi-Asset Funds and solutions were materially increased to align closer to their respective strategic asset allocations. However, the exposures are moderately underweight relative to the strategic allocations.</p>
	SA short bonds and cash		<p>Returns & Regime: The real repo rate has increased to 3.55%, with SA inflation for July 2024 at 4.6%, while the nominal repo rate remains at 8.25%. As at the end of Aug 2024, the Forward Rate Agreement (FRA) curve reflects a 75% probability of 125bps rate cut over the next 12 months. The SARB expects inflation to stabilize at the 4.5% objective in Q2 2025, and significant upside risks to inflation from fuel and food prices have diminished. The SARB is expected to cut rates by 25bps in Sept 2024 and thereafter will be guided by the inflation outlook (both locally and globally) and global interest rate developments. We expect a slow and steady interest rate cutting cycle which implies that cash could remain attractive over the next 6 months. Such assets are anticipated to play a crucial role in mitigating downside risks in portfolios.</p> <p>Relative positioning change: The SA short-duration tactical exposures in the Hollard BCI Multi-Asset Funds and solutions were reduced from an assertively overweight position (2%) to a neutral position (0%) relative to respective strategic asset allocations.</p>
	Advanced economies' cash & bonds		<p>Returns & Regime: Interest rates have been lowered in Canada, Switzerland, the UK, and the EU. The US Fed is expected to begin cutting rates in Sept 2024, though the pace of subsequent cuts may be gradual compared to other developed markets. Japan is projected to gradually raise policy rates as inflation converges to its target. Outside the US, developed market economies may see faster rate cuts and lower year-end 2025 destination rates. As at the end of August 2024, the US yield curve was no longer inverted with the 2-year yield and 10-year yield, both at 3.83%. Although positive, we expect financial market volatility to continue in the short to medium term due to the potential for sudden market repricing due to changes in interest rate expectations, and the possibility of policy errors by Central banks (such as risks of over/under tightening). Recognizing the elevated duration risk, we express a preference for cash and short-dated bond exposures in developed markets, valuing their safe-haven attributes.</p> <p>Relative positioning change: The developed markets interest-bearing (short-dated) tactical exposures in the Hollard BCI Multi-Asset Funds and solutions were reduced from a neutral (0%) position to a moderate underweight (-2.5%) position relative to respective strategic asset allocations.</p>
Currency	USD		<p>Returns & Regime: Our PPP model shows that at R17.8/USD as of 31 August 2024, the rand was approximately 10.2% undervalued against the US dollar relative to the upper band of our fair value range (R/USD 12.6 to 16.2).</p> <p>Risk & Technical: Our technical risk and value indicators show a combination of negative momentum and neutral downside risk for the ZAR/USD spot.</p> <p>Currency Hedge: Currently, the three FOFs have no FX hedges. We require the ZAR/FX valuation to be at least 10% before we consider hedging the FX exposure.</p> <p>Relative positioning change: The USD tactical exposures in the Hollard BCI Multi-Asset Funds and solutions were reduced from a mild underweight (-1%) position to a moderate underweight (-2.5%) position relative to respective strategic asset allocations.</p>

Tactical allocations inputs & outputs - ratings summary

The table in Figure 3 below shows the investment committee's consensus (quintile) ratings in terms of attractiveness per asset class across the different dimensions, and in aggregate.

Figure 3: Asset class views and ratings

2024 Q3												
Asset class	Perspective	Regime		Returns		Risk and Technicals			Total	Tactical Allocations (Signed-Off)		
		Economy and Financial Conditions		Valuations and Business Fundamentals		Technical Value - Upside	Technical Risk - Downside	Technical Aggregate - Risk-adjusted Value	Overall Tactical Rating 1 (least) to 5 (best)	Asset Class Building Block		
Equity	SA Equity		4		4		5		3		4	3.5%
	DM Equity		3		2		5		3		3	0.0%
	EM Equity		3		2		5		3		4	0.0%
Property	SA Property		4		4						4	1.5%
	DM Property		3		3						3	-1.0%
SA Income	SA Bonds		3		4						4	-1.5%
	SA Income		4		5						5	0.0%
	SA Cash		3		5						4	
Global Income	DM Bonds		2		3						3	
	DM Income		3		4						4	
	DM Cash		3		4						4	-2.5%
Foreign Currency Exposure relative to ZAR (unhedged)	USD		2		2						2	-3.5%

	Very Unattractive	Unattractive	Neutral	Attractive	Very Attractive
Quintile Rating	1	2	3	4	5
Indicative Relative Positioning	-5%	-2.50%	0%	2.50%	5%

Source: Hollard Investment Managers

Implementations – Hollard BCI Multi-Asset Fund of Funds (with offshore)

The following tactical allocation changes were made in the Hollard BCI Conservative, Moderate and Managed Growth Funds of Funds. Relative to each Fund of Fund's strategic asset allocations (i.e., sector average asset allocations), we have:

Growth assets: target allocation changes – quarter on quarter

- SA equity: increased relative exposure from a neutral position (0%) to a moderately high overweight position (3.5%)
- SA listed property: increased relative exposure from a mildly underweight position (-1%) to a mildly overweight position (1.5%)
- Developed markets equity: maintained relative exposure at a neutral weight of 0%
- Emerging markets equity: maintained relative exposure at a neutral weight of 0%
- Developed markets property: remained divested from the asset class.

Income assets: target allocation changes – quarter on quarter

- SA fixed income (short and long bonds): reduced relative exposure from a moderately overweight (2%) to a mildly underweight (1.5%) position
- Hollard BCI Multi-Asset Fund of Funds target allocations for SA long-bonds as a percentage of total SA fixed income exposure:
 - Conservative Growth FoF: increased from 25% to 37%
 - Moderate Growth FoF: increased from 30% to 62%
 - Managed Growth FoF: increased from 40% to 75%
- Global fixed income: decreased relative exposure from a neutral (0%) to a moderately underweight (-2.5%) position.

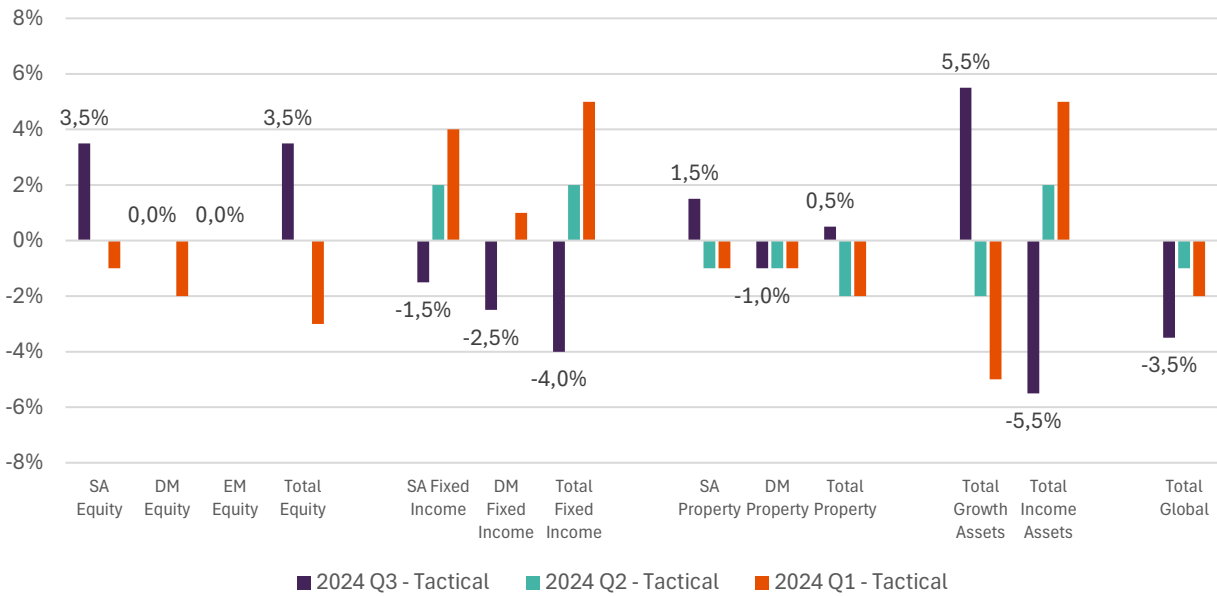
Global assets: target allocation changes – quarter on quarter

- **↑** Total USD-denominated assets: reduced relative exposure from a mildly underweight position (-1%) to a moderately overweight (-3.5%). The target total global assets exposure for the Hollard BCI Conservative, Moderate and Managed Growth Funds of Funds are 20.6%, 27.1% and 30.2% respectively.

Currency hedge changes – quarter on quarter

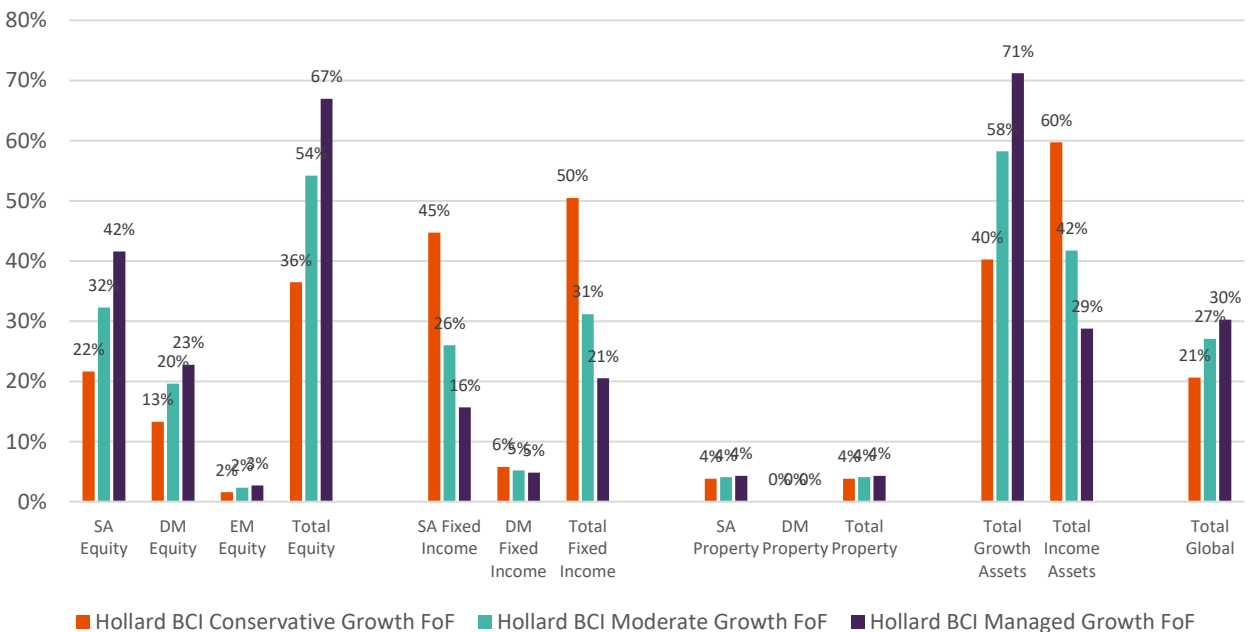
- **↓** Currency hedge: Currently, the three FOFs have no FX hedges. We require the ZAR/FX valuation to be at least 10% before we consider hedging the FX exposure.

Figure 4: Tactical Sector Relative Allocations – Hollard BCI Multi-Asset Fund of Funds



Source: Hollard Investment Managers

Figure 5: Tactical Absolute Allocations – Hollard BCI Multi-Asset Fund of Funds



Source: Hollard Investment Managers

Appendix: Tactical Asset Allocation Dimensions Explained

Regime (macroeconomic indicators)

Asset class ratings are based on insights from a set of macroeconomic metrics, trends and relationships and their influence on global capital movement, and financial conditions across different regions, countries and asset classes. We also gain an understanding of the changes to fiscal profiles and required sovereign risk premiums.

Returns (valuation drivers)

Asset class ratings are based on insights from our proprietary models that measure total required and expected returns for each asset class and sector. Sensitivity analysis (base case, upside and downside) is also performed on the expected total returns to gauge the margin of safety implied in the valuation picture for each asset class and underlying sector.

Risk and Technical (tail risk and momentum indicators)

Asset class ratings are based on insights from our proprietary risk models that measure local and global equity market risks of extreme loss, volatility clustering and the probability of getting worse than a threshold (tail loss) daily return. We can calibrate the priced-in near-term tail risk as better than normal, in line with normal or worse-than-normal downside risk.

Insights from our momentum-focused technical analysis model which measures the intensity and direction of investor sentiment and risk appetite for each asset class by looking at various first- and second-order price measures and trends.

Relative positioning (tactical allocations)

Asset class ratings from each dimension above are consolidated and expressed (by consensus) into tactical views and allocation decisions for each asset class relative to the strategic asset allocations for the multi-asset funds,

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2. The value of participatory interests or the investment may go down as well as up.
3. The manager does not provide any guarantee either with respect to the capital or the return of a portfolio.
4. All CIS are traded at ruling prices and can engage in borrowing and scrip lending.
5. A schedule of fees and charges and maximum commissions is available on request from the manager.
6. Performance is calculated for the portfolio and that the individual investor performance may differ as a result of initial fees, the actual investment date, the date of reinvestment and dividend withholding tax.
7. The investment performance is for illustrative purposes only.
8. The investment performance is calculated by taking the actual initial fees and all ongoing fees into account for the amount shown.
9. Income is reinvested on the reinvestment date.
10. The manager has the right to close the portfolio to new investors to manage it more efficiently in accordance with its mandate.
11. Performance is calculated for the portfolio as well as that of the individual investor. Dealing prices are calculated on a net asset value and auditor's fees, bank charges and trustee fees are levied against the portfolios.
12. A fund of funds is a portfolio that invests in portfolios of collective investment schemes that levy their own charges, which could result in a higher fee structure for the fund of funds.
13. The manager retains full legal responsibility for the third party named portfolio.