# WHERE THE MONEY WILL BE MADE 1Q24

PETER ARMITAGE
CHIEF EXECUTIVE OFFICER

ANCHOR
NAVIGATING CHANGE

# KEY MESSAGE TO BE CONVEYED

- After a tough three years (covid, wars, rampant inflation), the next three years hold much more promise
  - The cost of money will come down
  - Economic growth will bottom
  - US earnings will return to growth
  - Artificial Intelligence will begin to impact everything
- Conditions returning for animal spirits again?
- Challenges and negatives: fullish valuations

# WHERE THE MONEY WILL BE MADE

## DOMESTIC EQUITY

- Equities are cheap relative to history
- Will stay cheap while cost of capital is high and economic growth is low
- Expect total return of 10%
- Focus on quality and sustainability of earnings
- Opportunities often thrown up in the chaos.

## DOMESTIC FIXED INCOME

- Interest rates are high making yield accrual attractive.
- Rate cuts are likely less than in the US.
- Some small gains on bonds are plausible.
- Anchor BCI Flexible Income Fund gives a good blend of accrual and measured exposure to bond risk.

## GLOBAL EQUITY

- Current market-level valuation pricing in high-road outcome
- Declining interest rates/recovering earnings growth good for equities LT
- Respectable 7% return projected over the next year
- Stock-specific opportunities more interesting

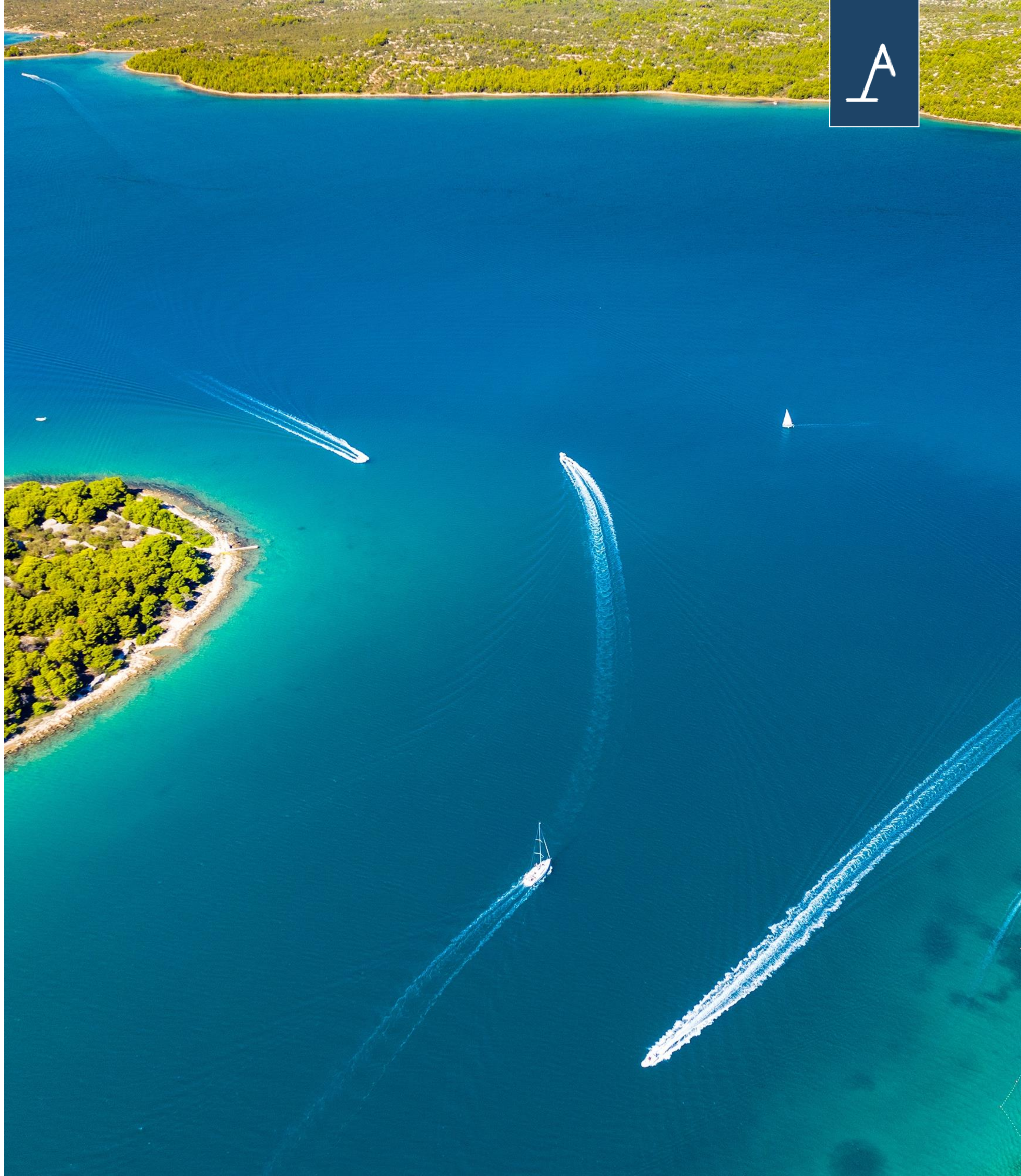
## GLOBAL FIXED INCOME

- Cash remains interesting at 4.5% to 5% yields.
- Time to position for cuts though they may be delayed.
- Term yield of 4 to 10 years is attractive to lock in the higher rates.
- Anchor Global High Yield is showing a yield of 5.5% with bonds maturing in 2026.

# PROJECTED RETURNS

| Asset class | Current stance: Negative | Current stance: Neutral | Current stance: Positive | Expected returns (own currency) (%) |
|---|---|---|---|---|
| **DOMESTIC** | | | | |
| Equity | | ● | | 10 |
| Bonds | | ● | | 10 |
| Listed property | | > | ● | 12 |
| Cash | | ● | | 8 |
| Alternatives* | | | ● | 10 to 15 |
| | | | | |
| Rand vs US dollar (rand weaker) | | | | -3 |
| | | | | |
| **GLOBAL** | | | | |
| Equity | | > | ● | 7 |
| Government bonds | | ● | < | 5 |
| Corporate credit | | ● | < | 4 |
| Listed property | | ● | | 6 |
| Cash | | ● | | 4 |
| Alternatives* | | | ● | 8 to 12 |

**Alternatives include hedge funds, protected equity structured products and physical property.*



# SA - WHAT HAPPENS IN 2024 AND BEYOND?

## BACKGROUND

- Our country is going to be different post 2024 April/May
- The population of RSA is seeking answers to difficult questions and difficult solutions to wicked problems.
- Lots of expert views.

## THREE BIG EVENTS

- The national elections
- The reserve bank governors' end of term, 9 November 2024
- The SA revenue service commissioners' end of term, 1 May 2024

# ELECTION SCENARIOS

## SCENARIO 1

The ANC achieves between 50-55% of the votes and they govern with lots of the challenges we face today continuing to persist, get worse or improve. The sitting President is only effective until 2026 at the conference where he cannot stand, and the new President of the ANC takes over and the sitting President becomes the lame duck. Things get worse.

## SCENARIO 2

The ANC achieves between 45-49% of the votes and seek a coalition partner who may not be too demanding. The DA, EFF, IFP and others have the potential to be a coalition partner and it will all depend on the cost of the coalition.

Cost? Presidency, Finance Ministry, Deputy Presidency etc

## SCENARIO 3

The ANC gets 40-45% and the opposition parties work together to remove the ANC and a new era is heralded. New government, new rules, cooperation without greed and the interests of South Africa prevail, and not the interests of a single party.

## SCENARIO 4

The headwinds facing SA require a dose of sobriety where the ANC govern with the DA and they collaborate for the future of SA. The sitting President stays on and if/when he faces the risk in 2026 at party level, the DA can appoint a President. Two characters may "ruin" this.

# PROPERTY MARKET

WHERE THE MONEY
WILL BE MADE 1Q24

# GLOBAL EQUITIES

MIKE GRESTY
ANALYST/FUND MANAGEMENT

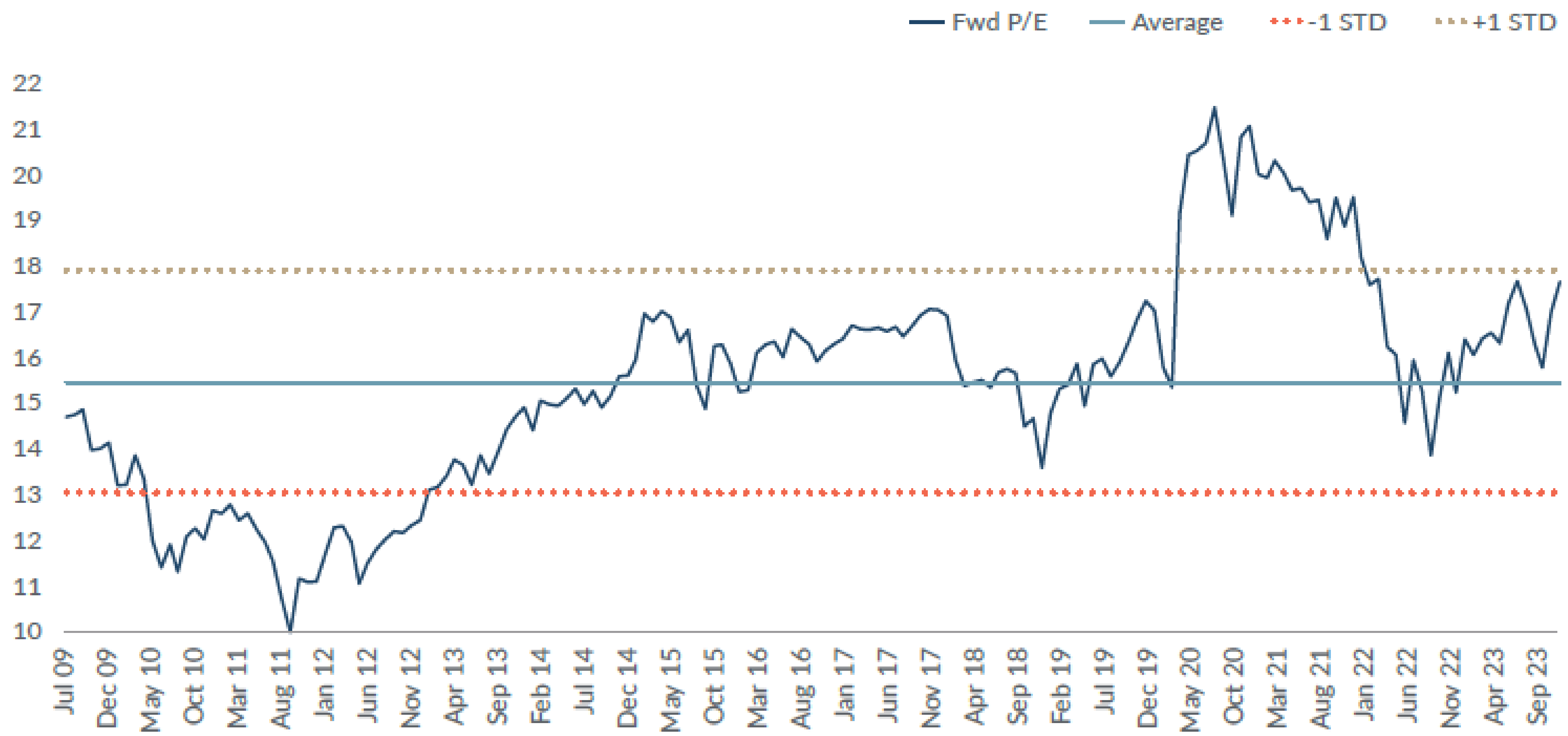

ANCHOR | NAVIGATING CHANGE

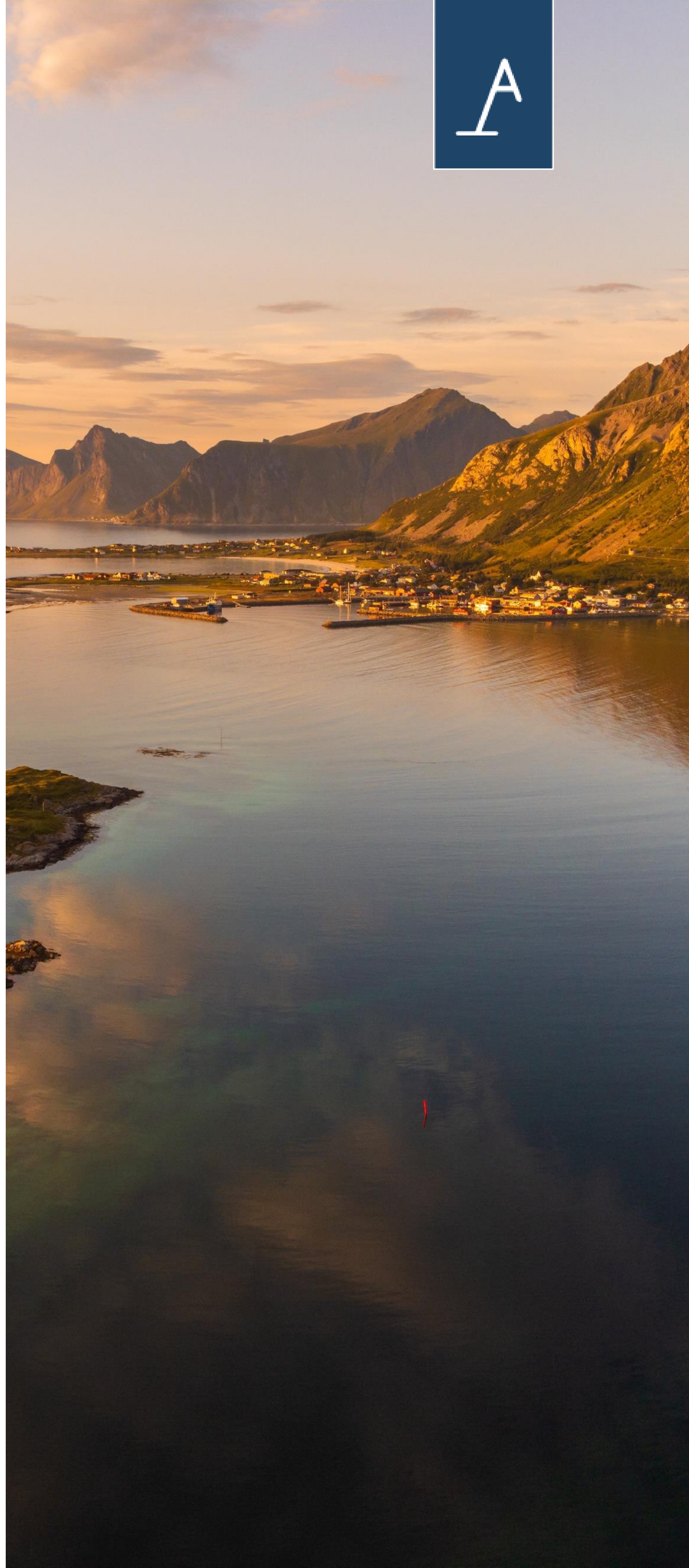
# A WORD ON SHORT-TERM MARKET OUTCOMES…

## DRIVEN BY HOW ACTUAL EVENTS DIFFER FROM EXPECTATION?

| | MR. MARKET'S PREDICTIONS… | WHAT DROVE EQUITIES… | WHAT WE GOT (USD)… |
|---|---|---|---|
| **2022** | Cautious optimism after 2 stellar years | • Russia invades Ukraine<br>• China doubles down on COVID lockdowns<br>• Fastest rate hiking cycle in history | Developed Market equities **down 18%**<br>Emerging Market equities **down 20%** |
| **2023** | Negative returns predicted – recession! | • US surprisingly resilient – no recession<br>• AI frenzy - "Magnificent 7"<br>• Inflation slowed<br>• China disappointed again! | Developed Market equities **up 24%**<br>Emerging Market equities **up 10%**<br>Chinese equities (Hong Kong) **down 6%** |
| **2024** | Cautions optimism – soft landing, declining interest rates | ? | ? |

# HIGH LEVEL: GLOBAL EQUITIES PRICING IN A "HIGH ROAD" SCENARIO FOR 2024

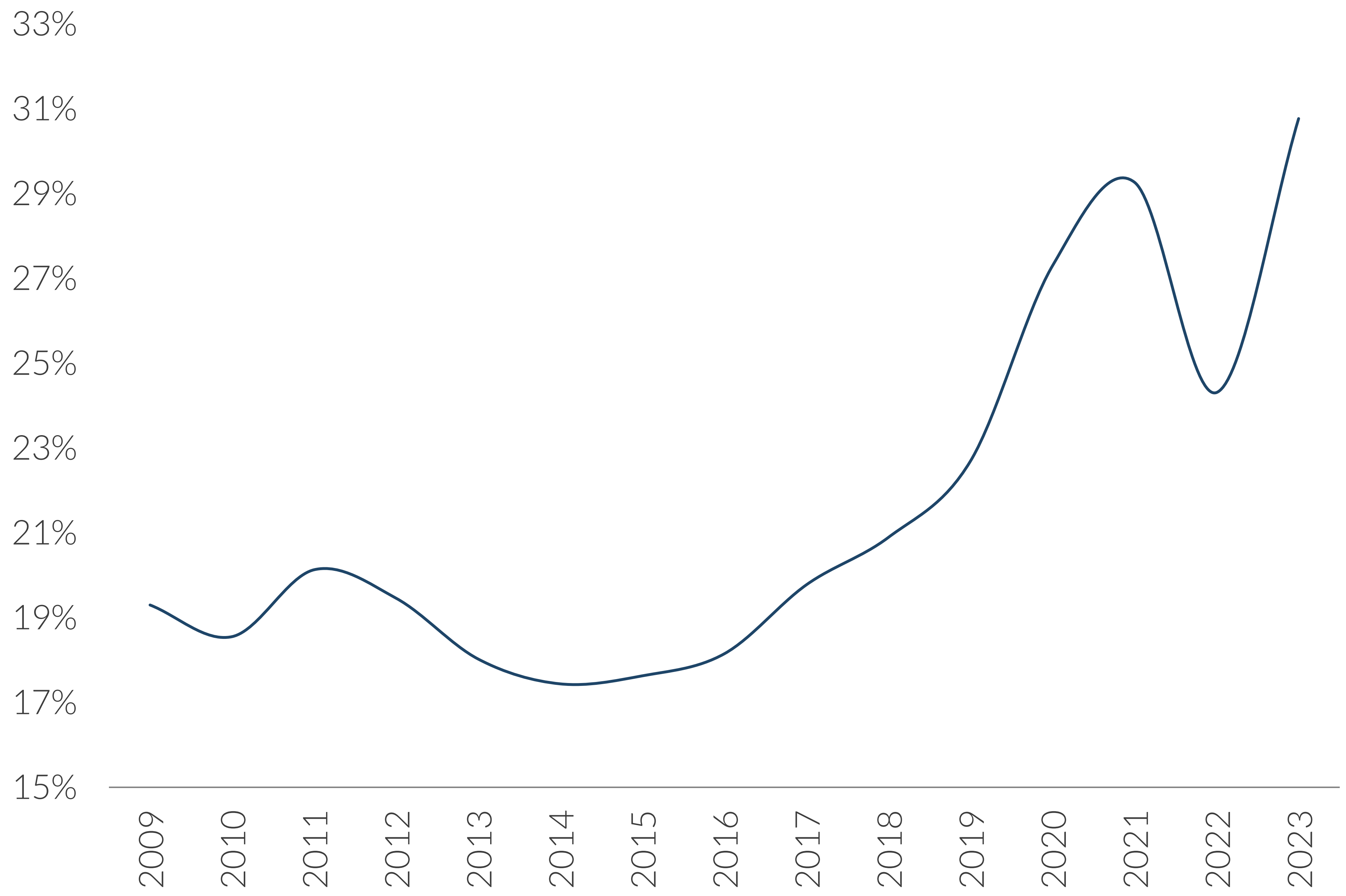


# US MARKET – MORE CONCENTRATED; MORE TECH!

| TOP 10 **2009** |
| --- |
| Exxon Mobil |
| Microsoft |
| Apple |
| Johnson & Johnson |
| Procer & Gamble |
| IBM |
| AT&T |
| JPMorgan Chase |
| General Electric |
| Chevron |

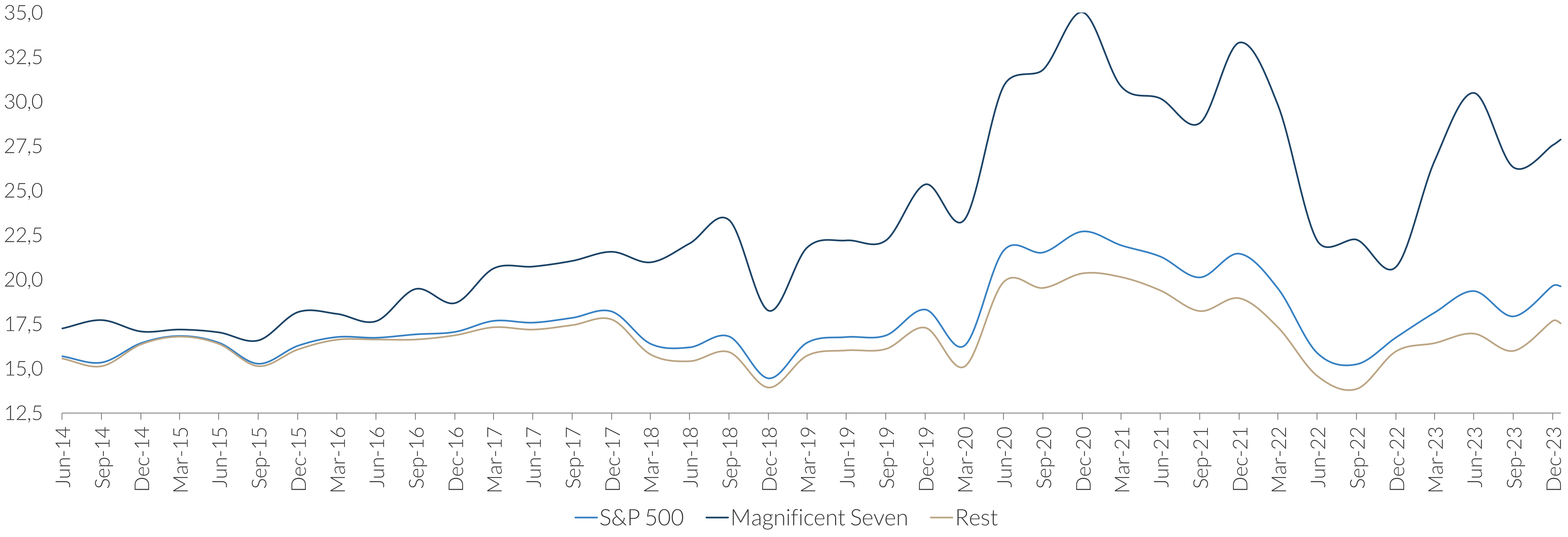
**S&P 500 WEIGHT OF TOP 10 SHARES**



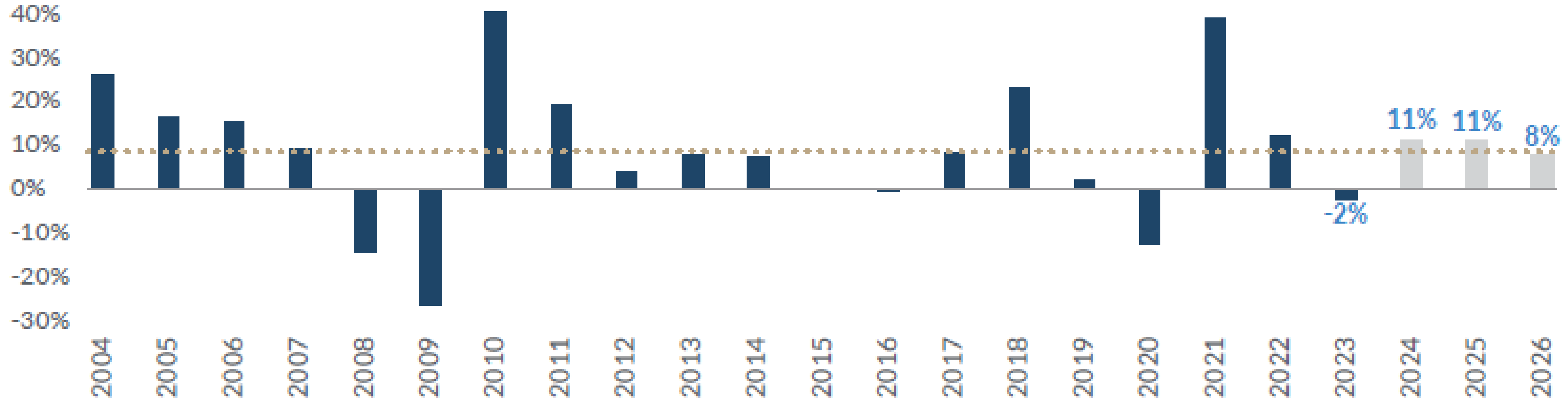

| TOP 10 **TODAY** |
| --- |
| Apple |
| Microsoft |
| Amazon |
| Nvidia |
| Alphabet |
| Meta |
| Tesla |
| Berkshire Hathaway |
| JPMorgan Chase |
| Broadcom |

# VALUATION PICTURE MORE DISTORTED THAN EVER BY A HANDFUL OF MEGA-CAP TECH STOCKS

### FORWARD P/E



# EARNINGS GROWTH RECOVERING AFTER SEVERAL TUMULTUOUS YEARS




# GLOBAL EQUITIES: NOT AS BORING AS THEY APPEAR

Strong 4Q23 – market valuation elevated as we start 2024

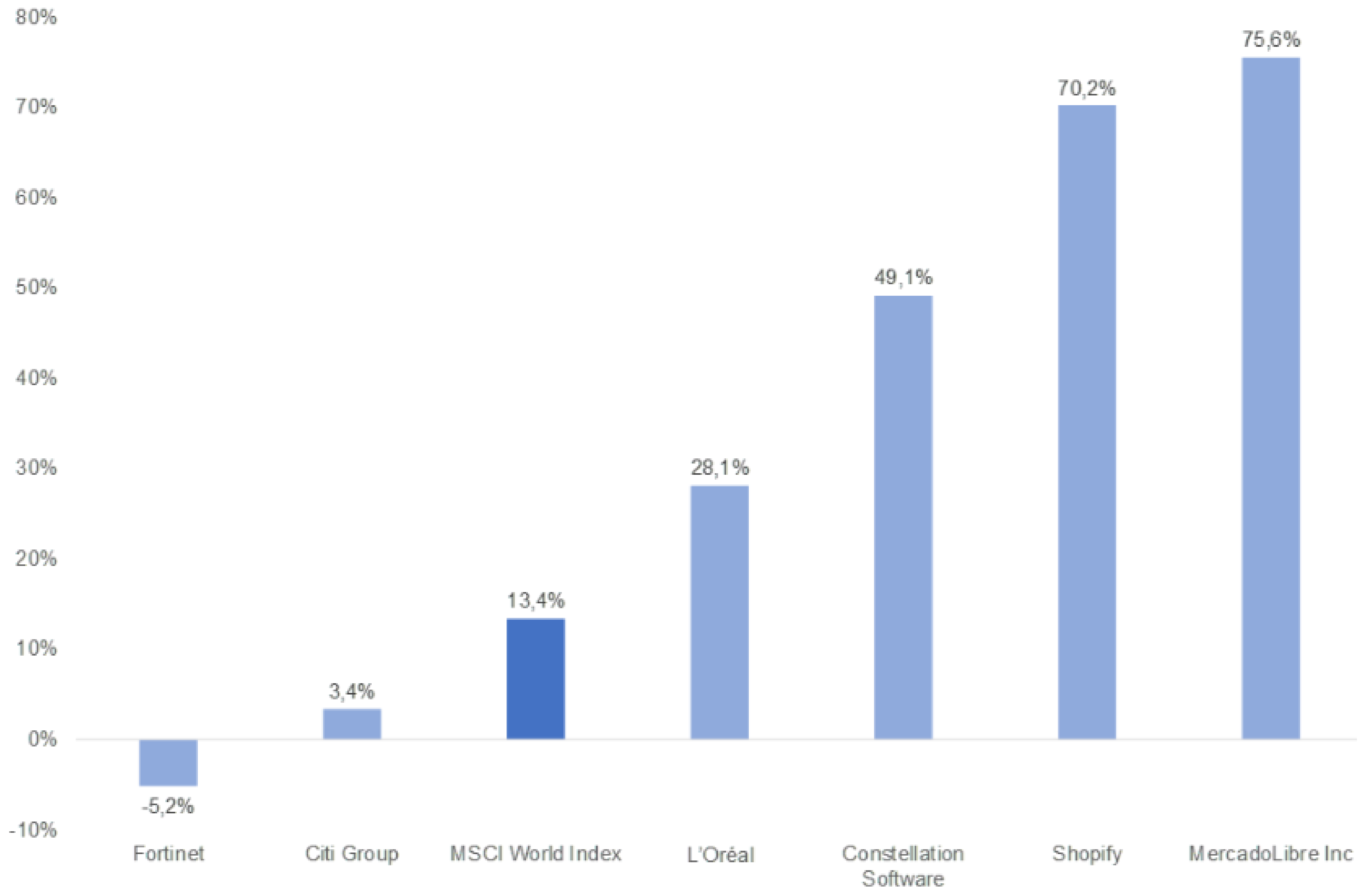
Odd concentration of performance on 2023 - **stock-specific opportunities remain**

Anchor expectation – **7% return** for Global Equities

**Hold short-term predictions lightly;** be on the look-out for opportunities as things change

Declining interest rates/recovering earnings growth – **favourable in the long-term**

# OUR STOCK PICKS FOR 2023 – DECENT DESPITE NO "MAGNIFICENT 7"




# OUR 2024 IDEAS – AVOIDING 2023'S BEAUTY PARADE

**Citi Inc:** CEO, Jane Fraser's restructuring plans set to begin driving up returns in 2024

**Estee Lauder:** Current Chinese challenges present an opportunity

**Rentokil Initial:** Terminix indigestion allows chance in this quality defensive company

**Scottish Mortgage Investment Trust:** Innovation has not ended because interest rates rose

**Starbucks:** New leadership, weight-loss drug fears; but great long-term potential

# WHERE THE MONEY WILL BE MADE 1Q24

NOLAN WAPENAAR
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ANCHOR | NAVIGATING CHANGE

# THE GLOBAL ENVIRONMENT

Rates & Bonds

# US Fed pivot dominates as global rate hike cycle stutters in December

By **Karin Strohecker** and **Sumanta Sen**

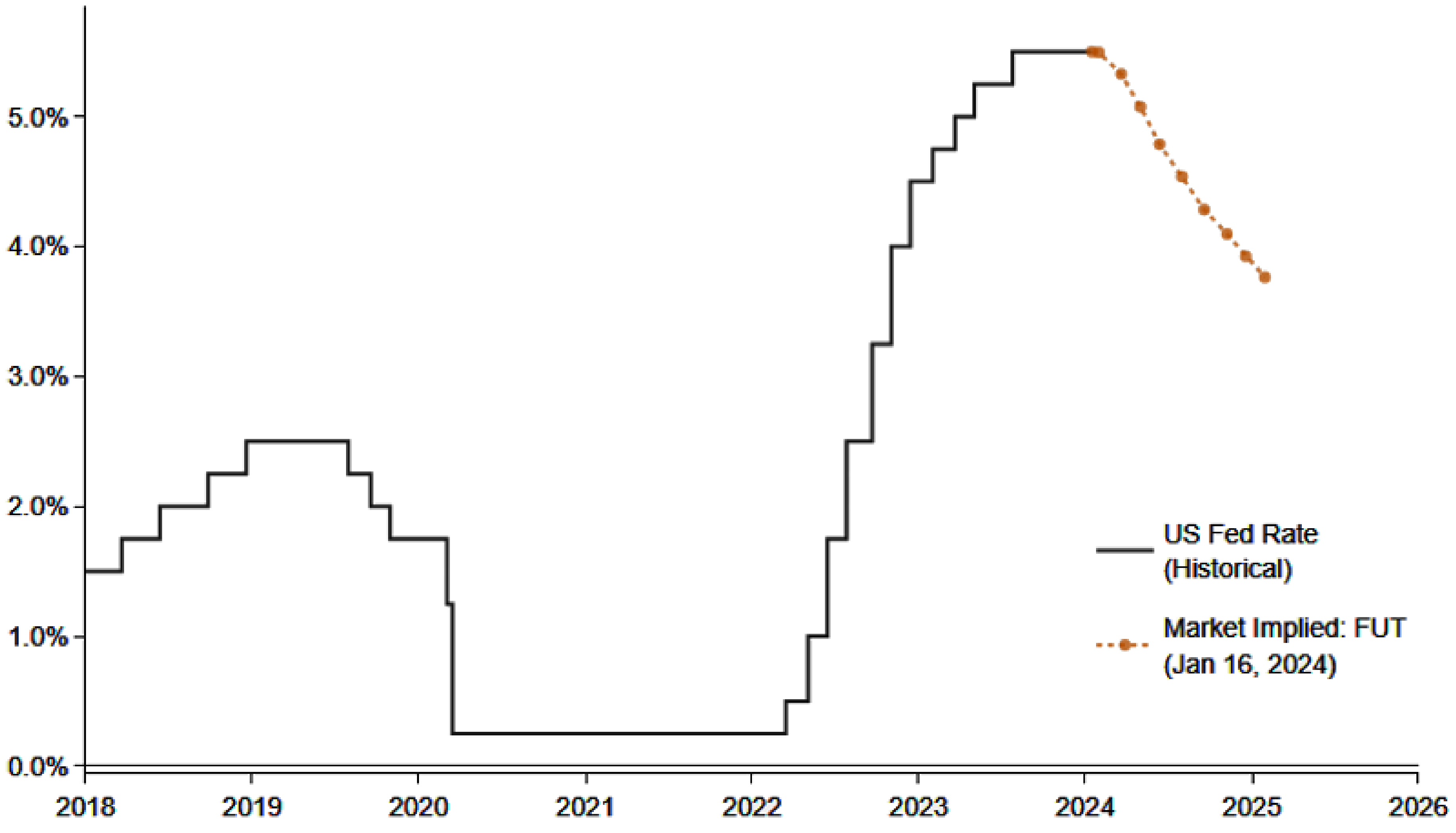
December 22, 2023



*Source: Reuters 22 December 2023*

# IT IS ALL ABOUT HOW FAST AND DEEP US RATE CUTS WILL BE

## FEDERAL FUNDS RATE – UPPER BOUND




*Source: Bloomberg*

## THERE ARE THREE POSSIBLE SCENARIOS:

### 1. US ECONOMIC GROWTH SURPRISES TO THE UPSIDE AGAIN:

- The US economy surprised with strong growth last year, and there are good reasons why this might be repeated, with tailwinds expected into the end of 2024.
- Strong economic growth will make interest rate cuts optional for the US Fed. We would expect only 0.75% of rate cuts in this scenario.

### 2. US ECONOMIC GROWTH HITS A SPEED BUMP:

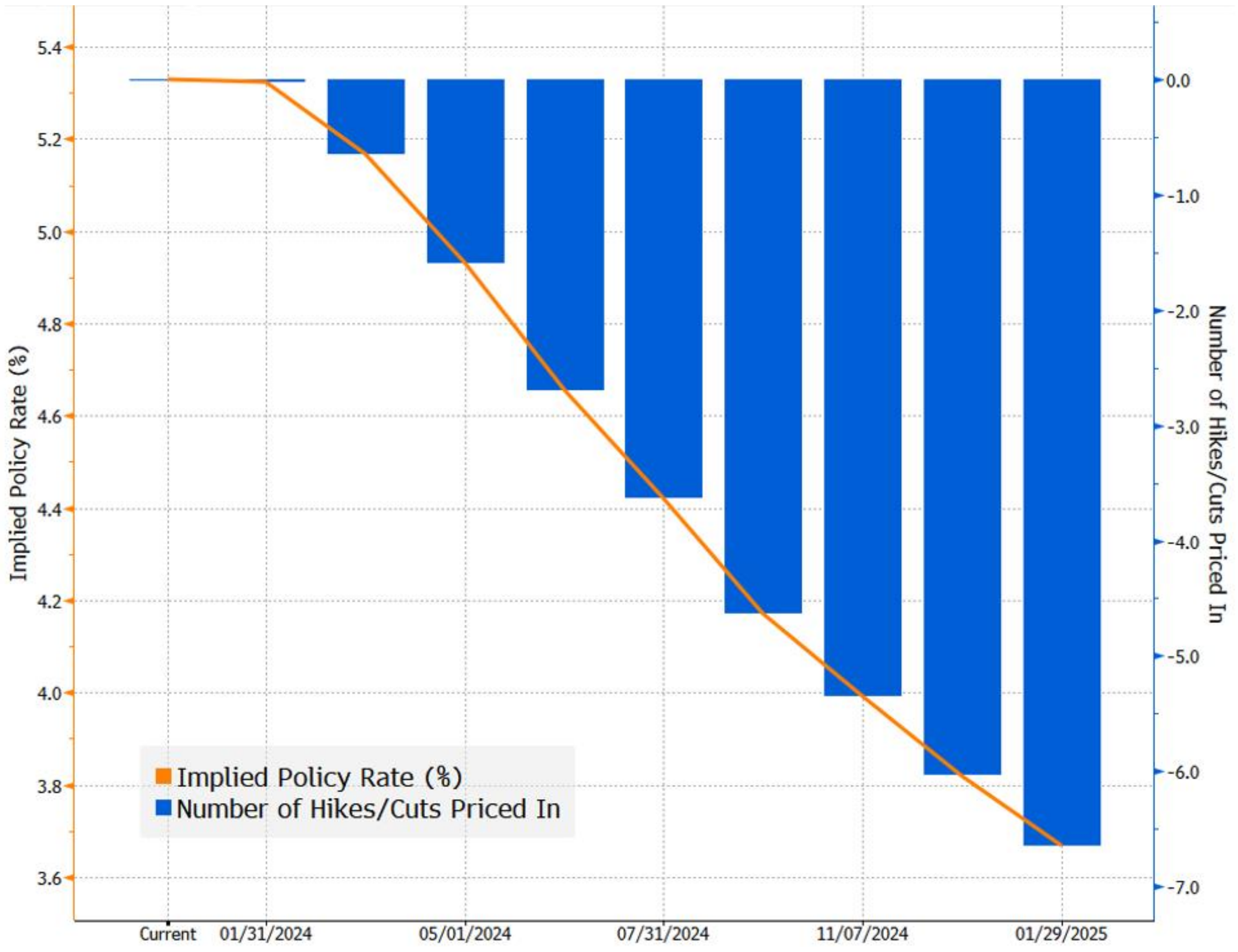
- This is the US Fed's base-case scenario where growth slows meaningfully before accelerating again into next year (2025).
- This scenario sees rate cuts of 1.0% to 1.25% and is the scenario that financial markets currently favour (it is also Anchor's base case).

### 3. US ECONOMIC GROWTH IS DERAILED:

- There is also a scenario where US growth is derailed by the cumulative effects of the past three years' rate hikes and financial tightening.
- In this scenario, the Fed will respond more aggressively with rate cuts of 2.25% to 3.0%.

# US BONDS – WHAT IS CURRENTLY PRICED IN?

## IMPLIED OVERNIGHT RATE AND NUMBER OF RATE HIKES/CUTS




*Source: Bloomberg*

## US BOND OUTLOOK

- US derivatives are pricing in interest rate cuts of 1.50%. This is squarely in range for the US Economic Growth Hits A Speed Bump scenario (Anchor's base-case scenario).
- We, therefore, believe that bond yields are at about fair value right now. The yield will move quite starkly as the market narrative shifts from one scenario to another. Over time, the long-term trend remains gradually stronger.
- Our base case is for returns of between 5% and 6% on US bonds this year.

# WHERE THE MONEY WILL BE MADE

## DOMESTIC EQUITY

## DOMESTIC FIXED INCOME

## GLOBAL EQUITY

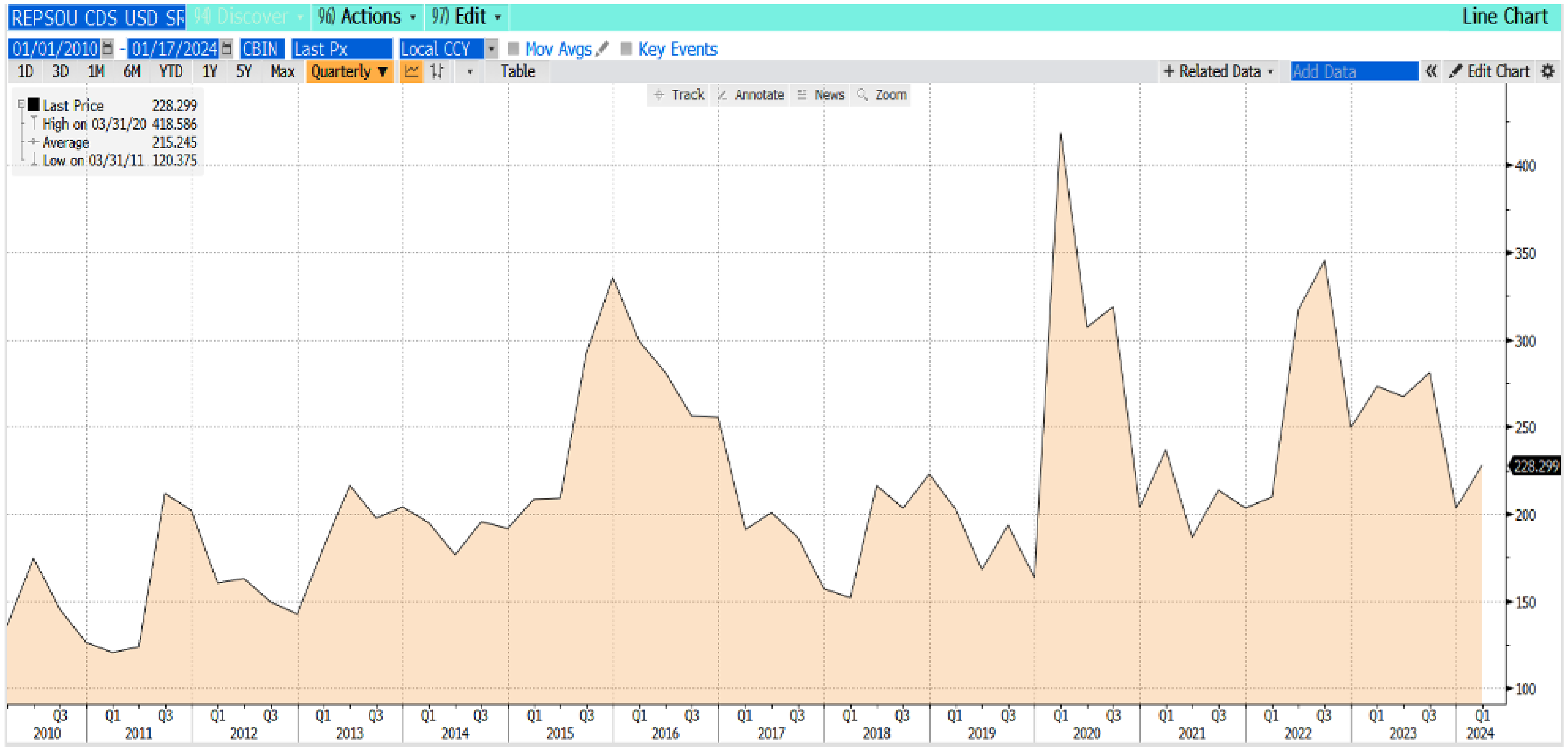
## GLOBAL FIXED INCOME

- Cash remains interesting at 4.5% to 5% yields.
- Time to position for interest rate cuts.
- Term yields of 4 to 10 years are attractive to lock in higher rates.
- The Anchor Global High Yield Fund is earning a yield of 5.5%, with bonds maturing in 2026.

# THE DOMESTIC ENVIRONMENT

# SOUTH AFRICA – IT IS ALL ABOUT DOMESTIC CHALLENGES

## THE COST OF INSURING AGAINST THE RISK OF A SOUTH AFRICAN DEFAULT SINCE 2010




Source: Bloomberg

The cost of insuring against the risk of a default by South Africa has gradually increased since 2010. The increase has been gentle and accounts for relatively little domestic bond weakness. The upward trend line is, however, worrying.

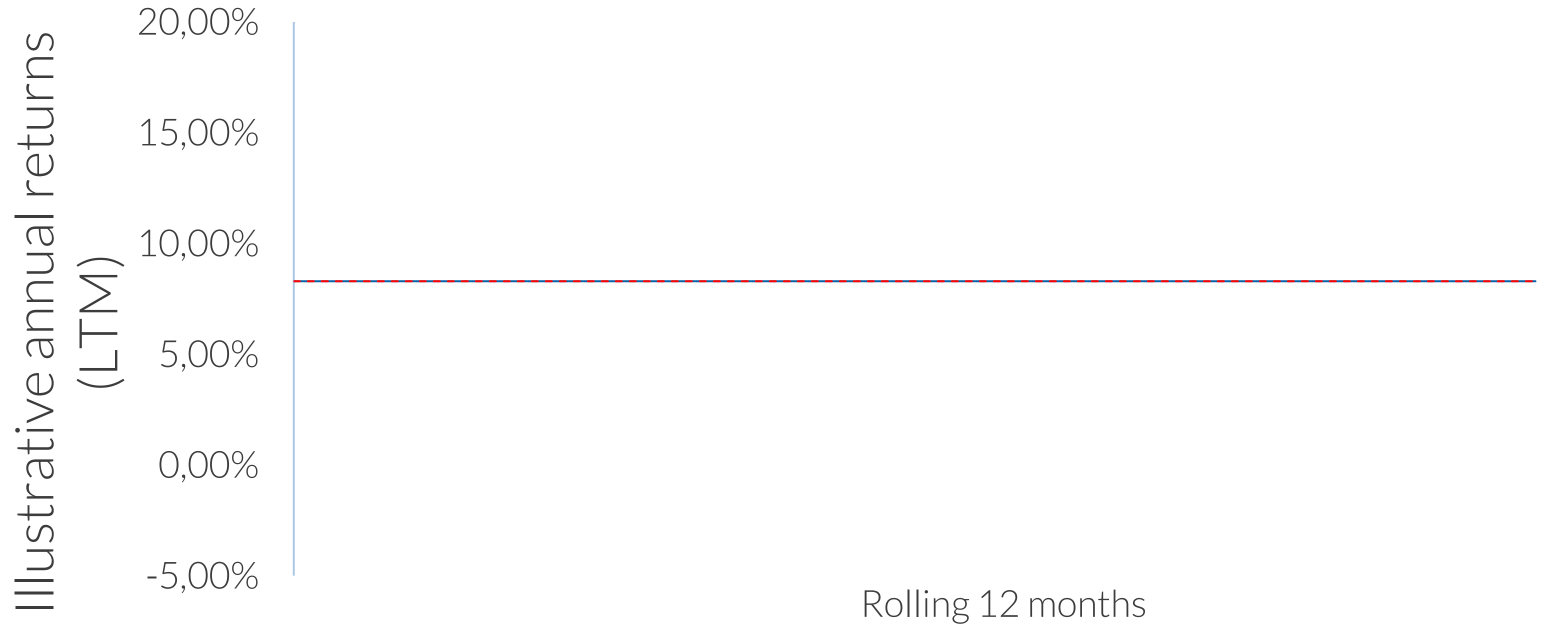
South Africa's bond weakness is more a function of higher global interest rates converging with an oversupply of bonds from the South African government as the domestic bond supply is growing faster than the economy.

## SOUTH AFRICA BOND OUTLOOK

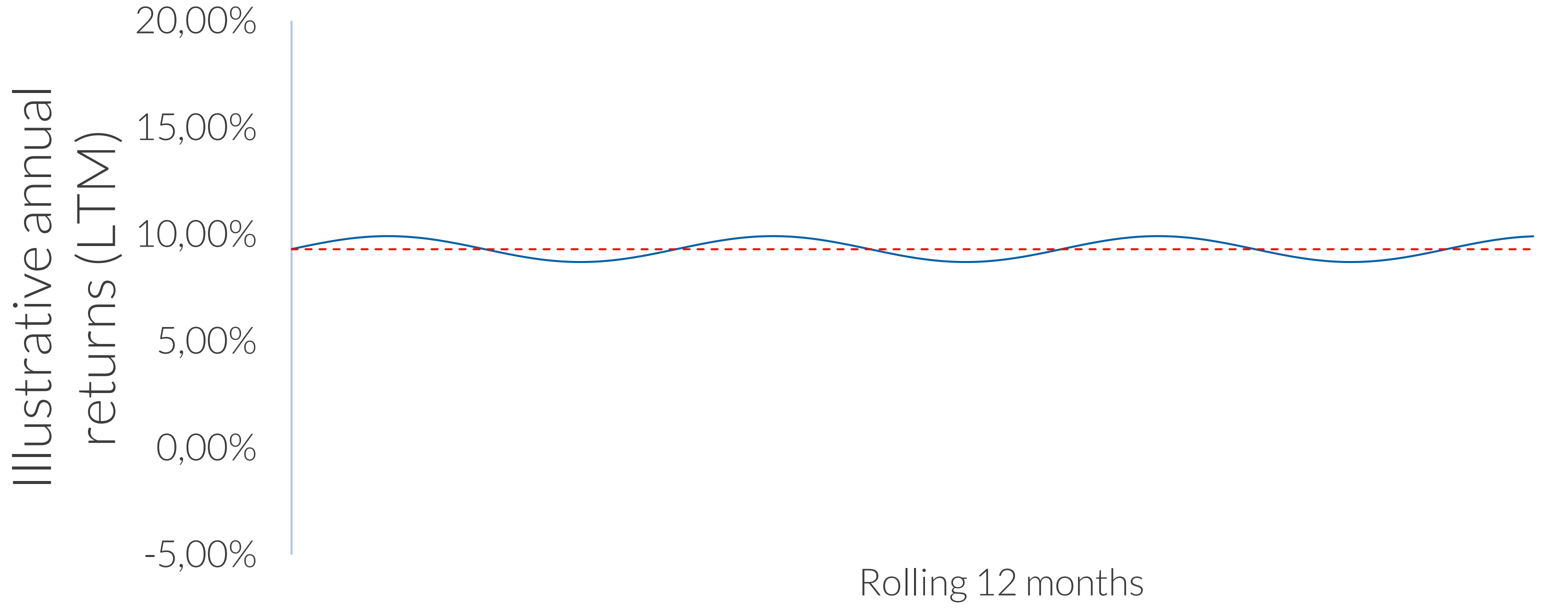
- The supportive global environment will likely be the dominant factor over the year.
- Domestic risk factors are centered around the 2024 national election, the precarious state of government finances, and the disarray within state-owned enterprises (SOEs). Domestic sentiment remains low. This will soften the potential gains in this asset class.
- Our base case is for decent returns in line with 2023. We expect 9.0% to 10.5% returns for the various domestic income products.

# FIXED INCOME STYLES

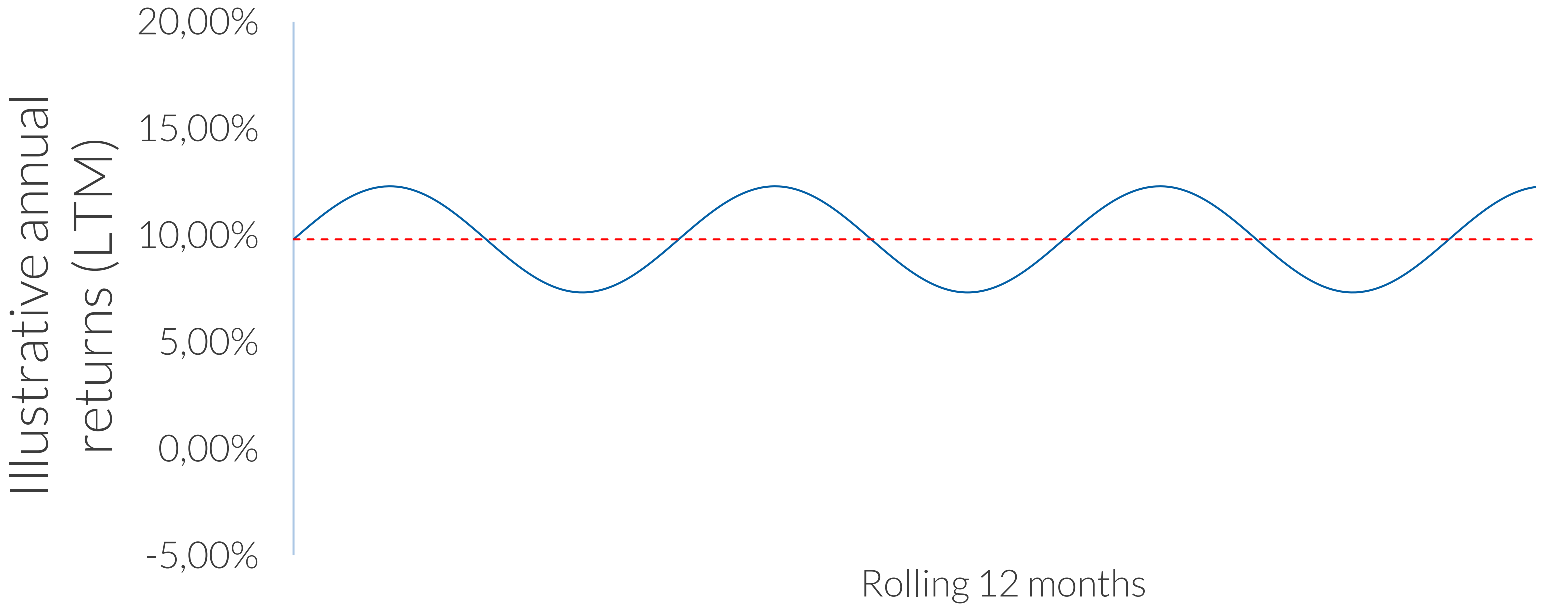
### MONEY MARKET FUND - AVERAGE RETURN 8.30%



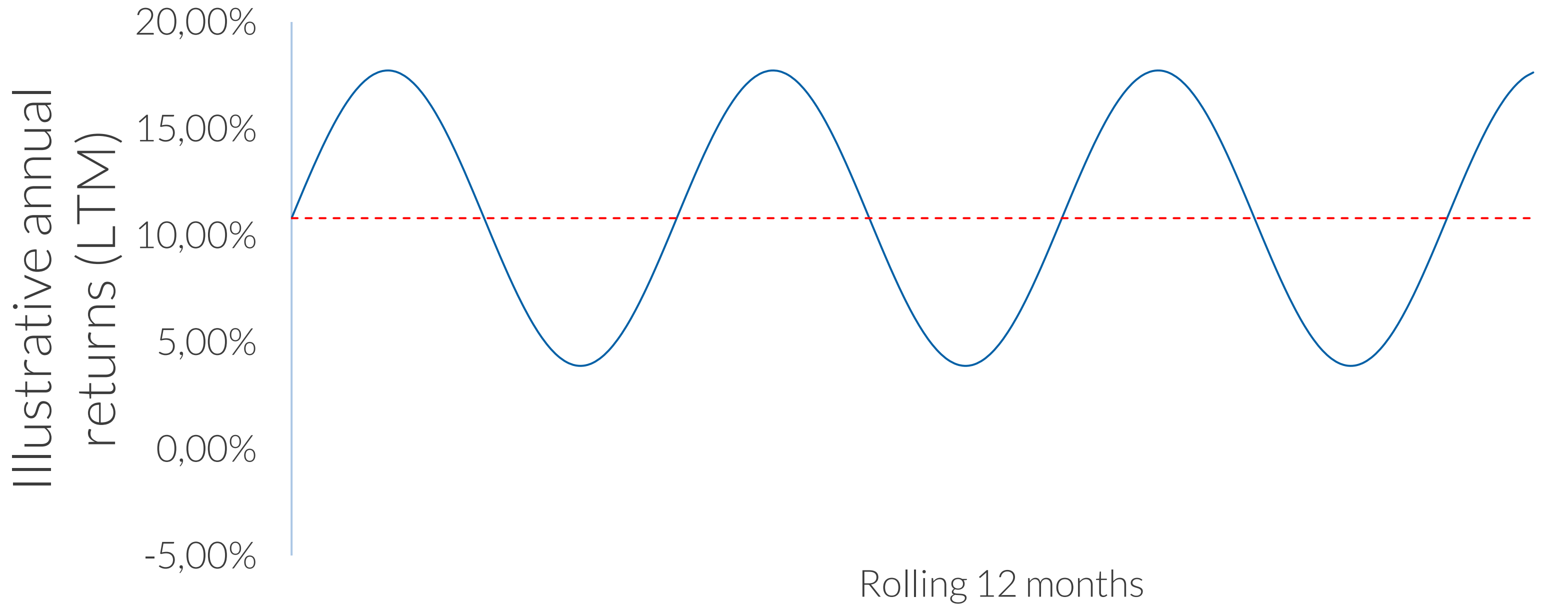

### CORE INCOME FUND - AVERAGE RETURN 9.30%




### FLEXIBLE INCOME FUND - AVERAGE RETURN 9.80%




### BOND FUND - AVERAGE RETURN 10.80%



# WHERE THE MONEY WILL BE MADE

## DOMESTIC EQUITY

## DOMESTIC FIXED INCOME

- Interest rates are high, making yield accrual attractive.
- We expect about 1% in interest rate cuts over the next 18 months.
- Expected returns on the portfolios are in the 9% to 10.5% range.
- The Anchor BCI Flexible Income Fund gives a good blend of interest income and measured exposure to bond risk.

## GLOBAL EQUITY

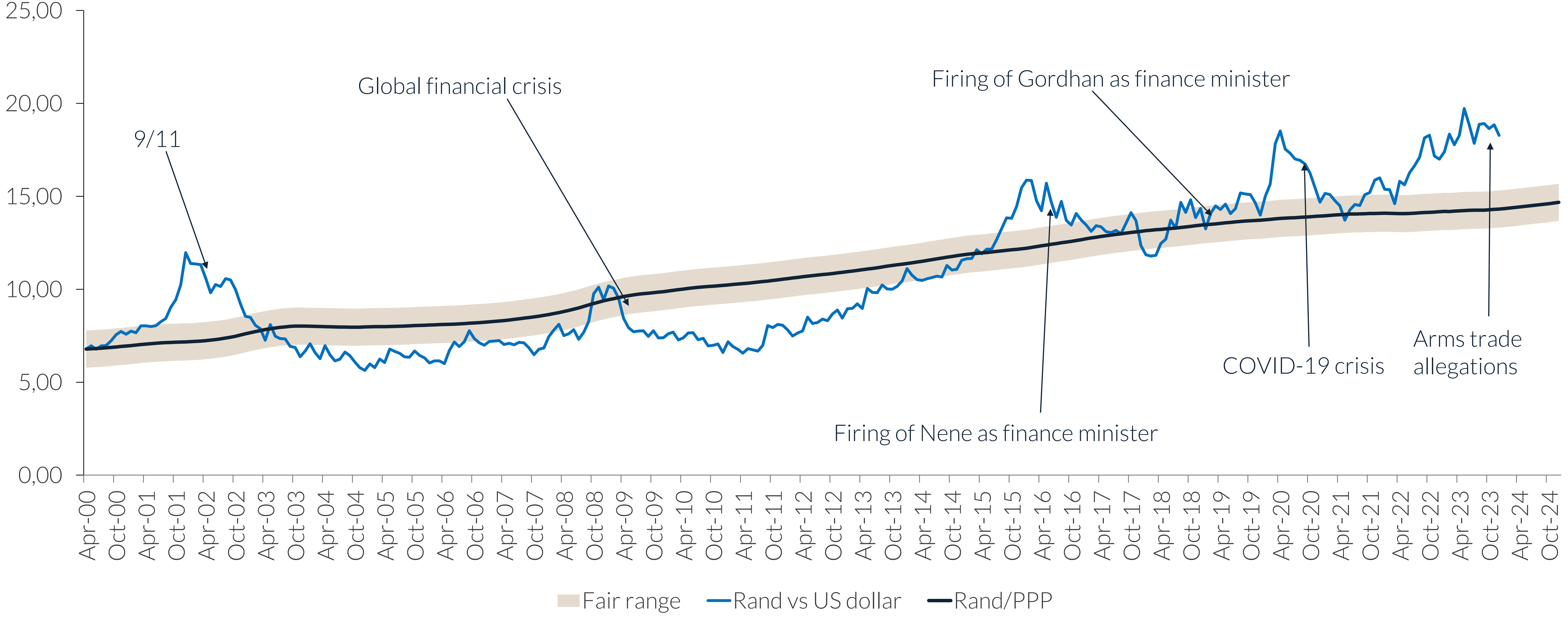
## GLOBAL FIXED INCOME

- Cash remains interesting at 4.5% to 5% yields.
- It is time to position for cuts, though they may be delayed.
- A term yield of 4 to 10 years is attractive to lock in the higher rates.
- The Anchor Global High Yield Fund is showing a yield of 5.5%, with bonds maturing in 2026.

# THE SOUTH AFRICAN RAND

# THE RAND

## ACTUAL RAND/US$ VS RAND PURCHASING POWER PARITY (PPP) MODEL




*Source: Thompson Reuters, Anchor*

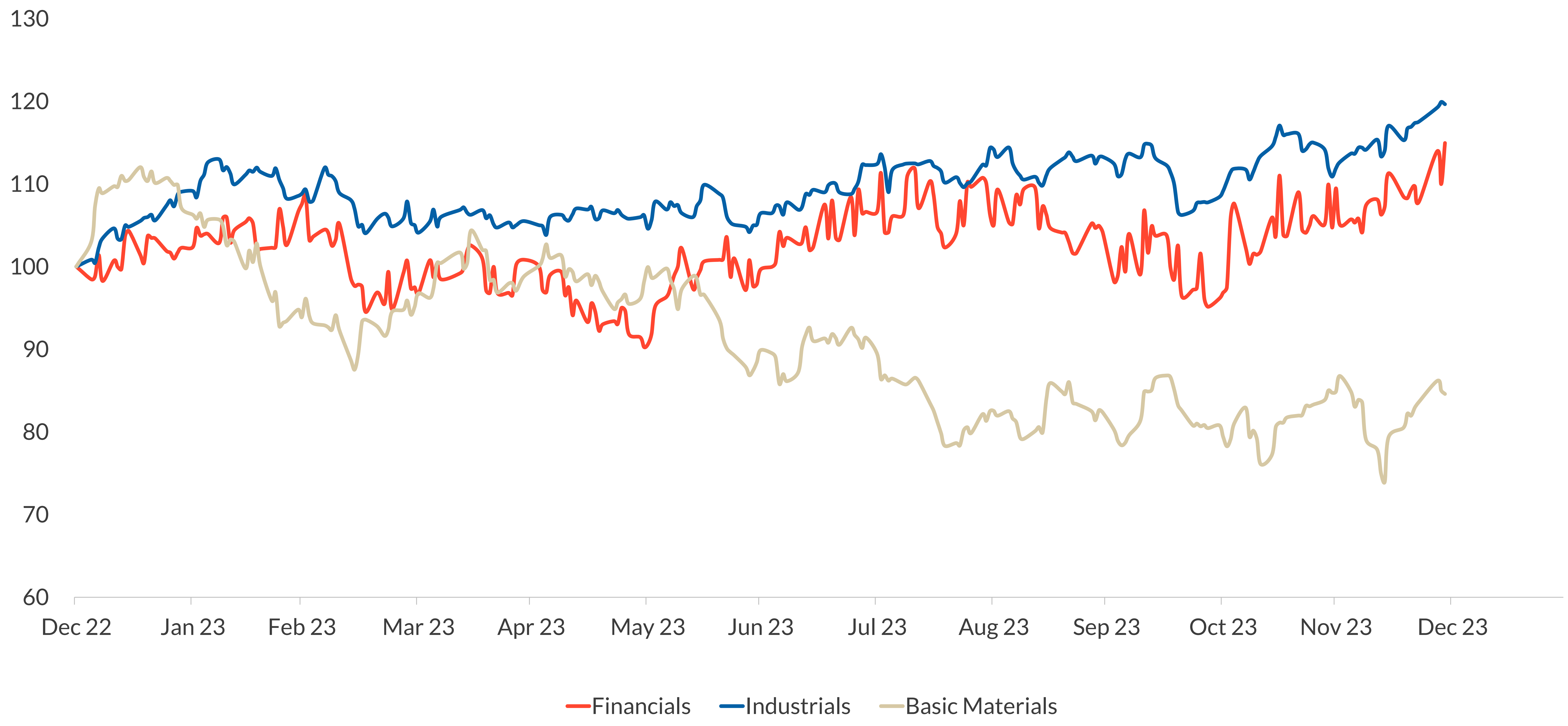
WHERE THE MONEY WILL BE MADE 1Q24

# JSE

**LIAM HECHTER**
FUND MANAGEMENT


ANCHOR | NAVIGATING CHANGE

# DIVERGING FORTUNES FOR THE JSE IN 2023

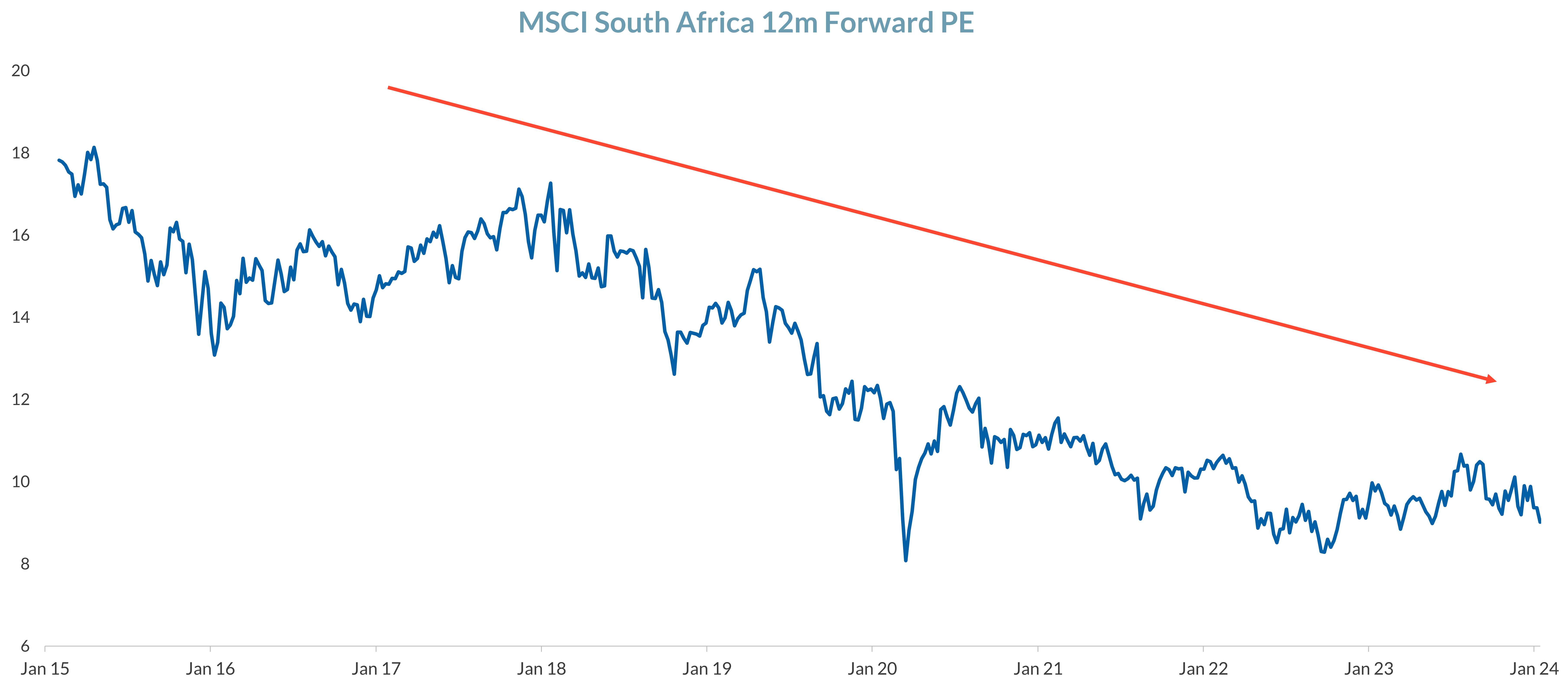


# TOTAL RETURN EXPECTATIONS FOR 2024

## Expect 10% in ZAR, 7% in USD

- Interest rates to come down during 2H24
- South African elections increasing forecast risk
- Multiples are cheap – big upside to mean

# RATINGS DEPRESSED – DERATED SINCE 2015



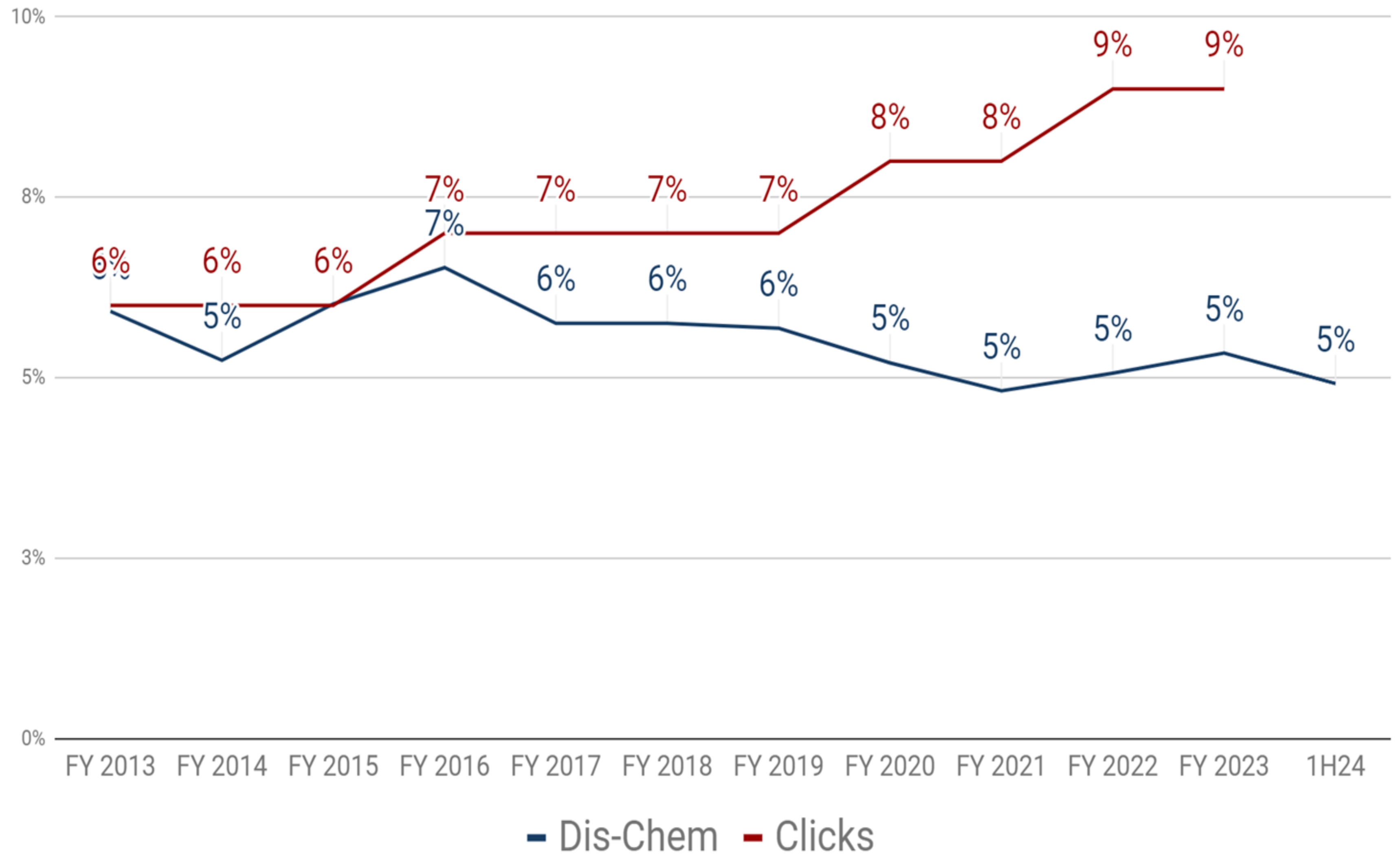
# CURRO HOLDINGS - AGGRESSIVE CAPEX COMPLETE

- Years of investment and balance sheet stress largely behind
- Operating leverage not reflected in the multiple
- Structural South African growth story
- 13x PE for 25% earnings growth

# DISCHEM – FOCUSING ON THE RIGHT METRICS

- Revenue growth vs. payroll growth improved from -3.7% at Q1 to +3.0% in October. A “significant step in securing positive operating leverage…in [2H24] and over time”
- As they open new stores, they’ll redistribute 600 people into new stores
- Improving return on capital employed metrics

Operating Margin



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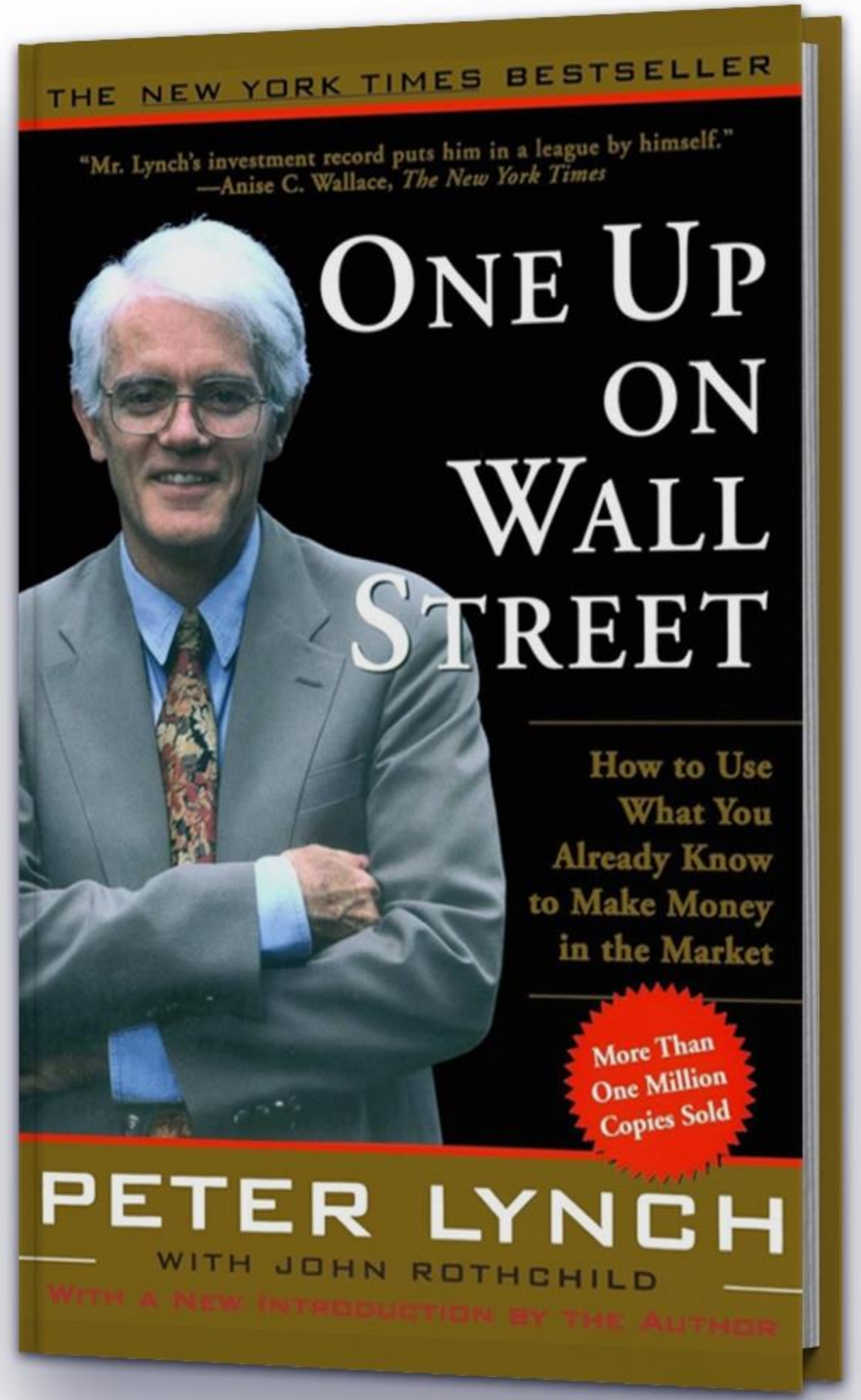
WHERE THE MONEY
WILL BE MADE 1Q24

# WHAT I LEARNED ABOUT INVESTING FROM DARWIN

NICK DENNIS
FUND MANAGEMENT


ANCHOR | NAVIGATING CHANGE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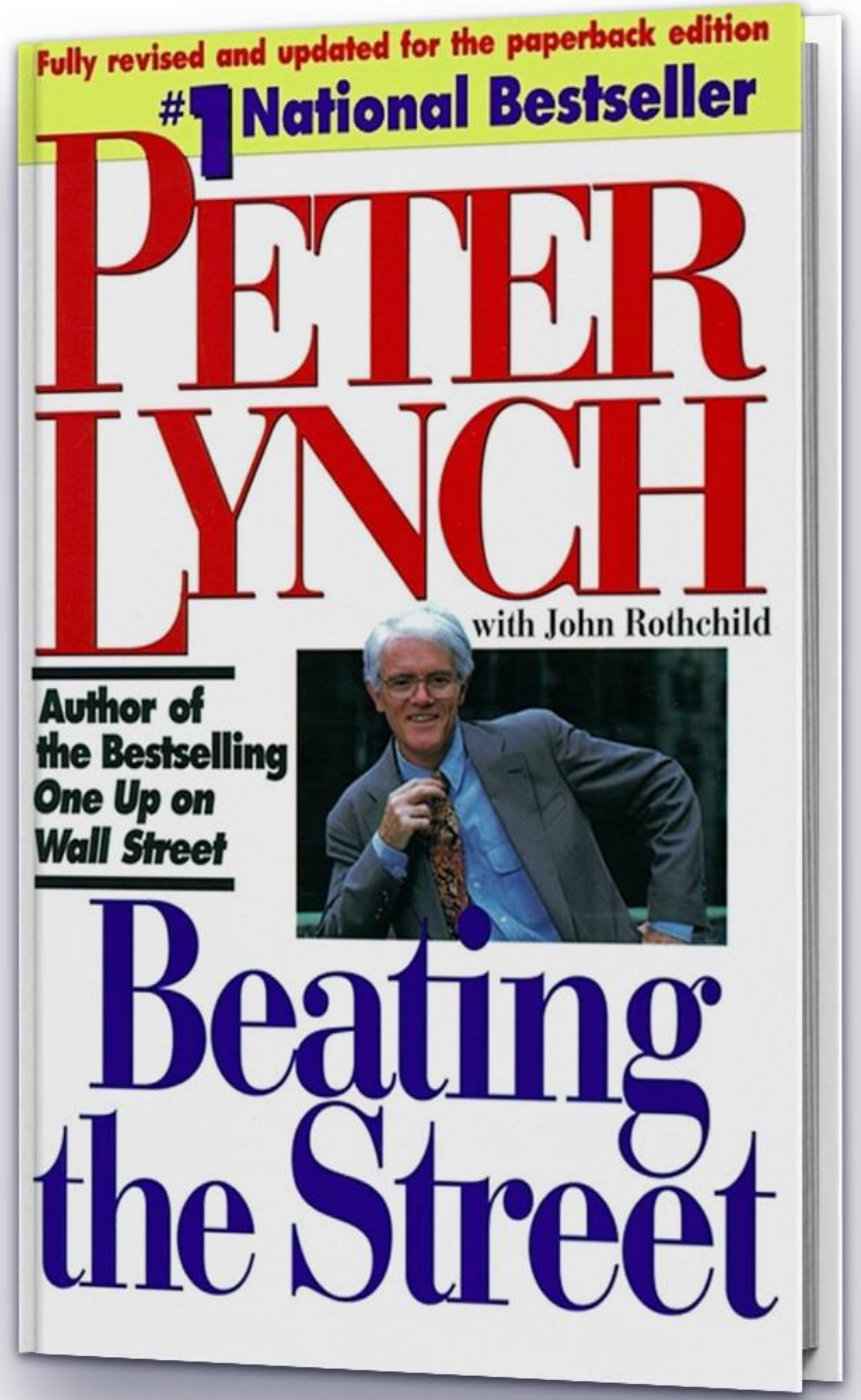
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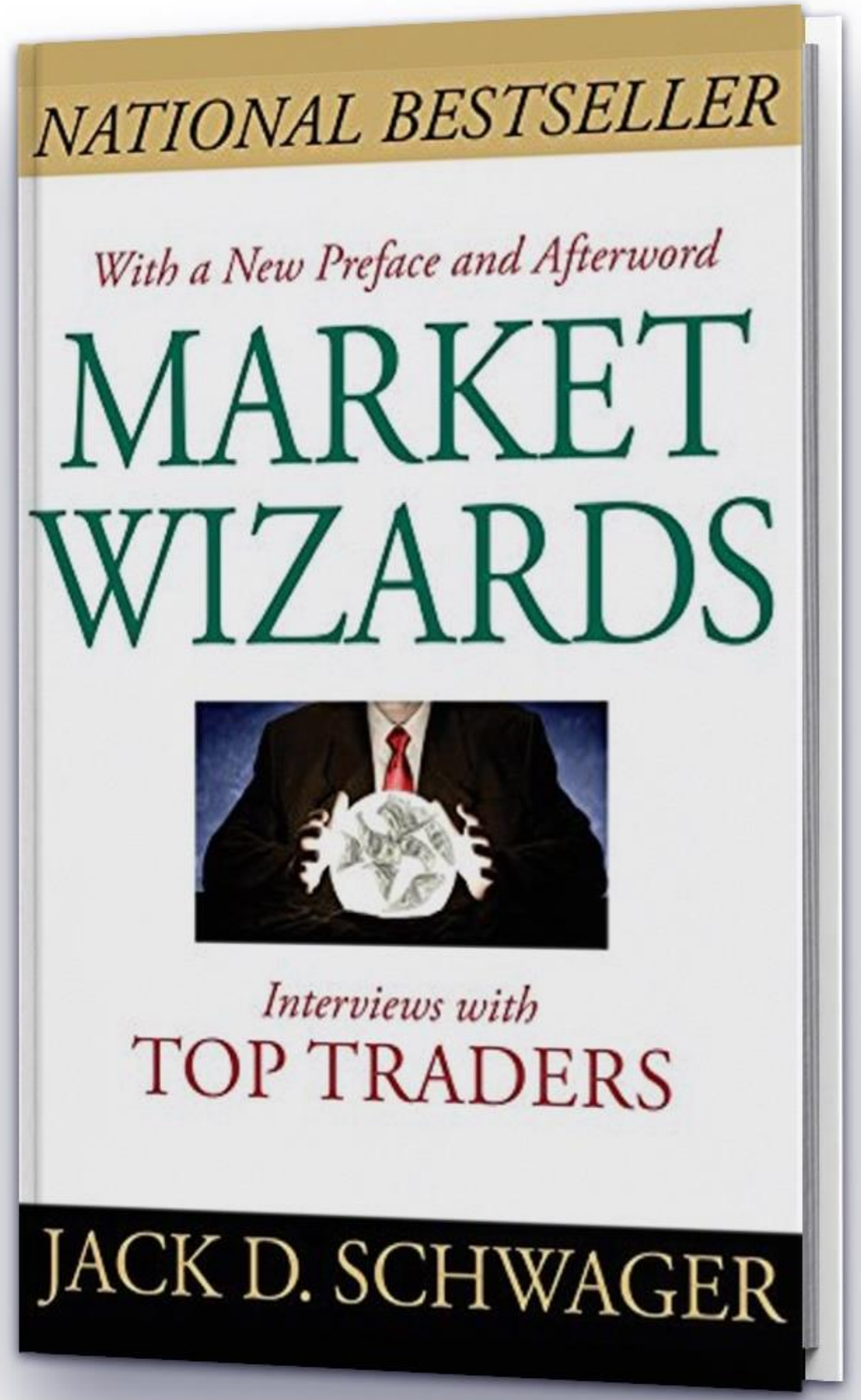
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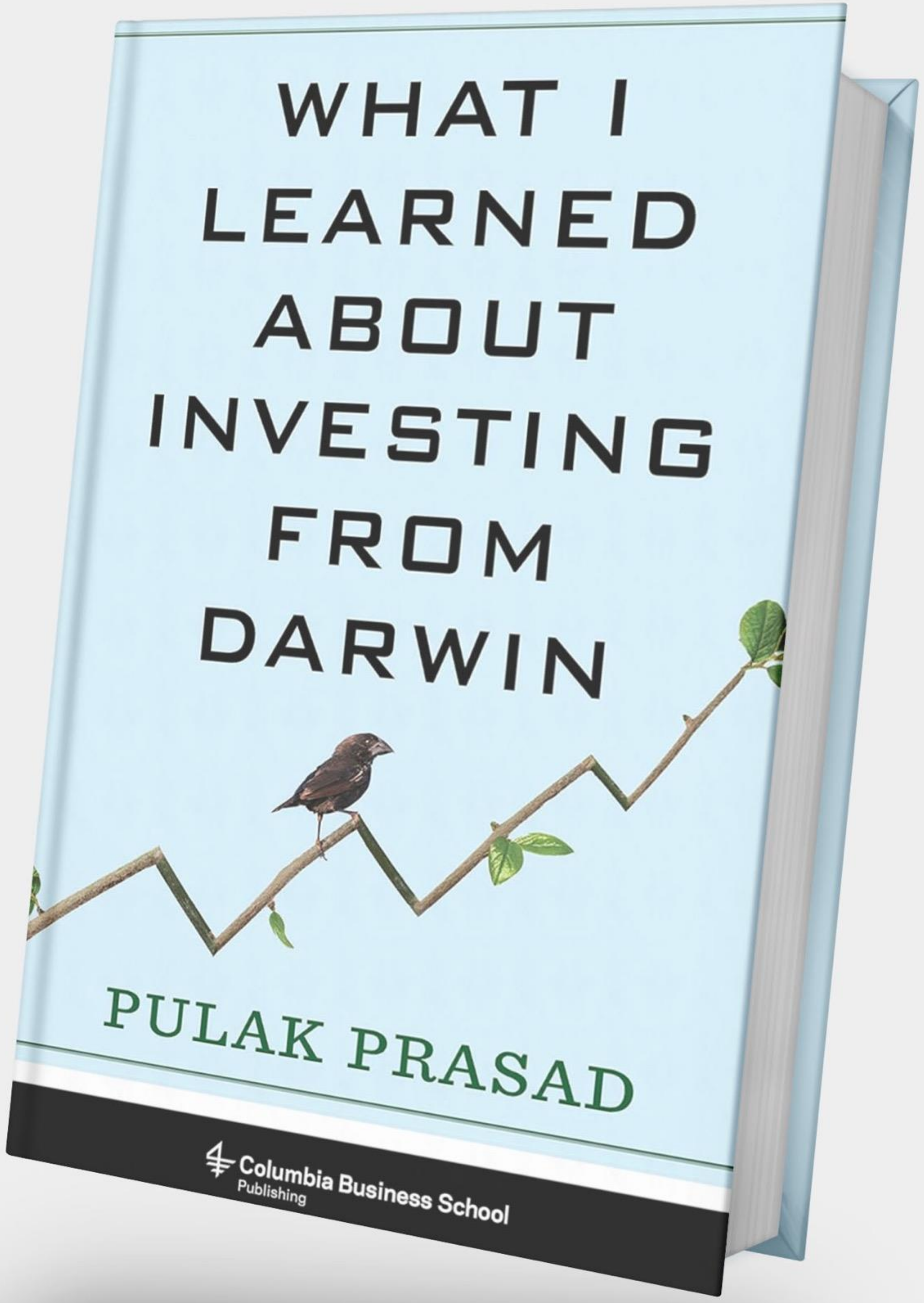
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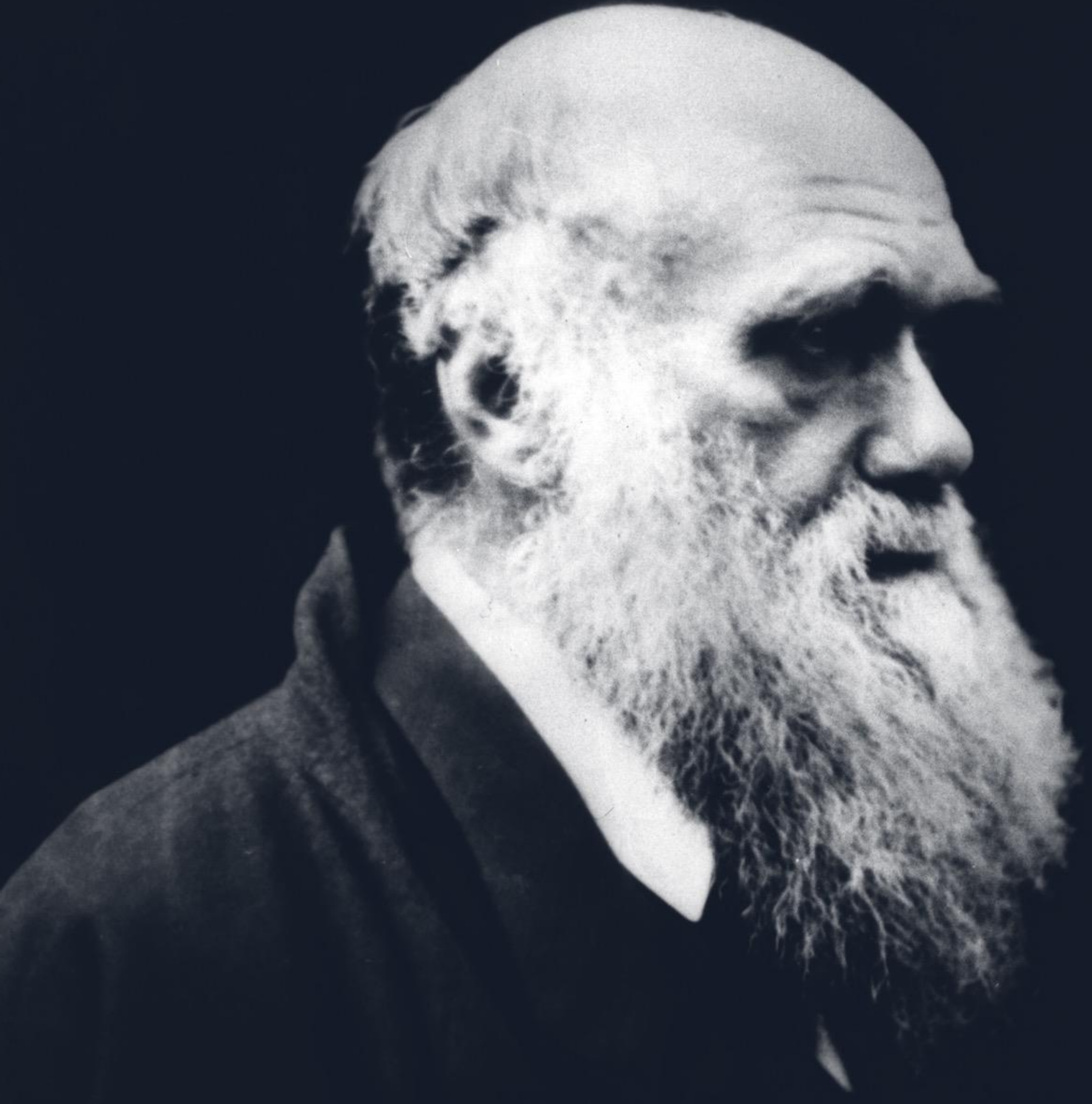
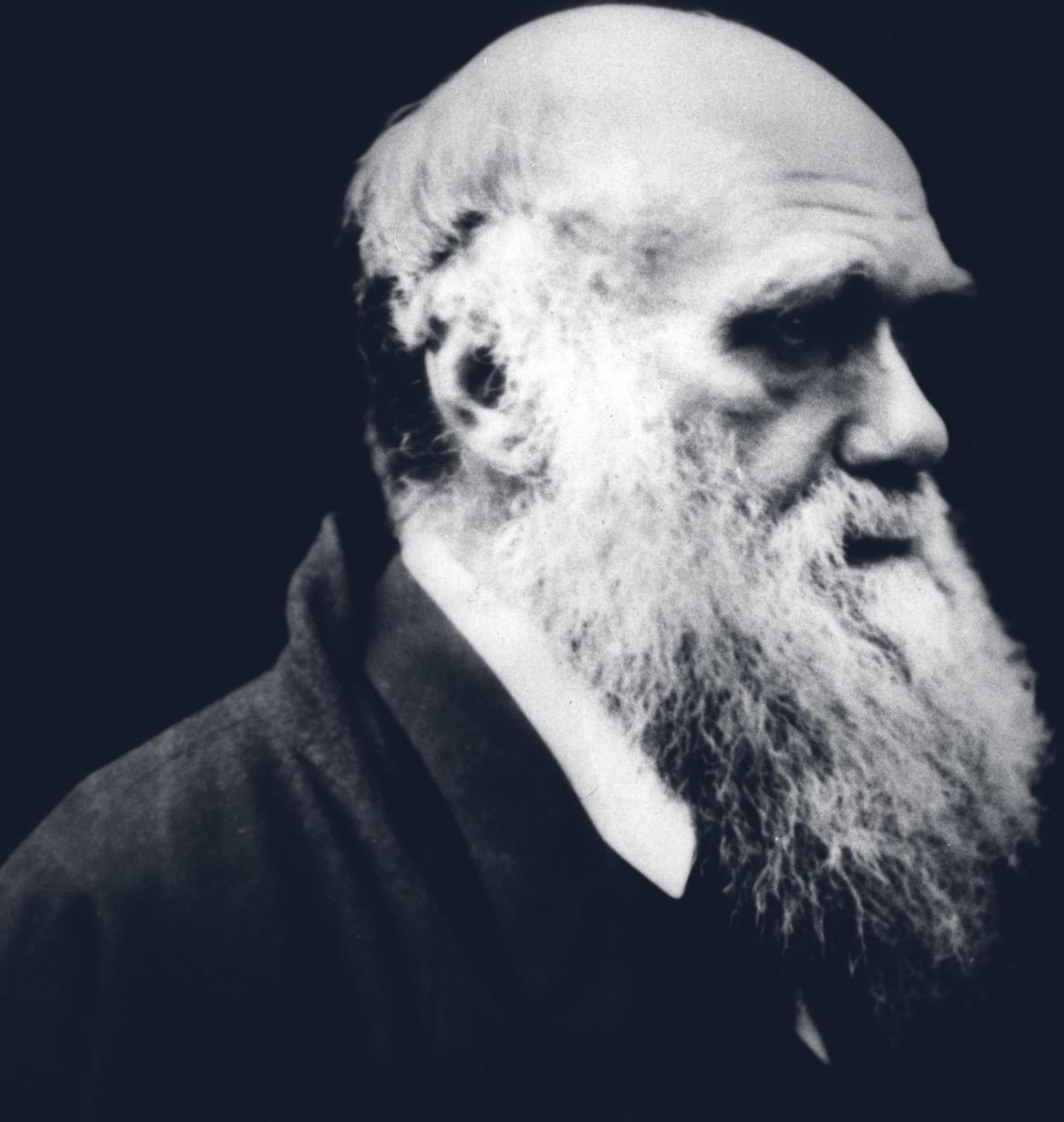


1. There are **very few** good investments in the market.
2. Errors of commission > Errors of omission.

12 LESSONS FROM
# DARWIN



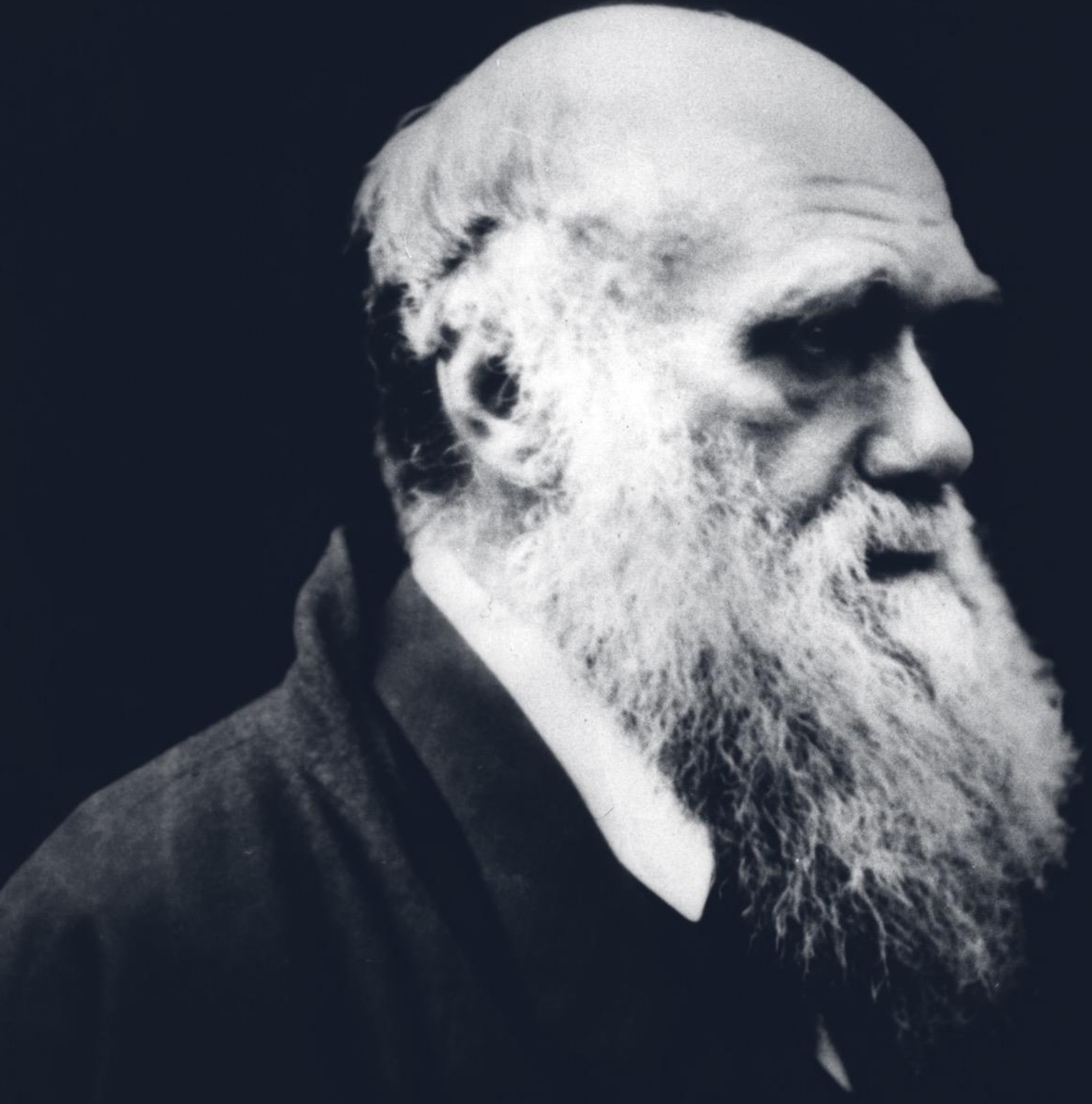
3

The more robust a company, the greater its ability to evolve.

4

Risk first, quality second, valuation last.

12 LESSONS FROM
# DARWIN

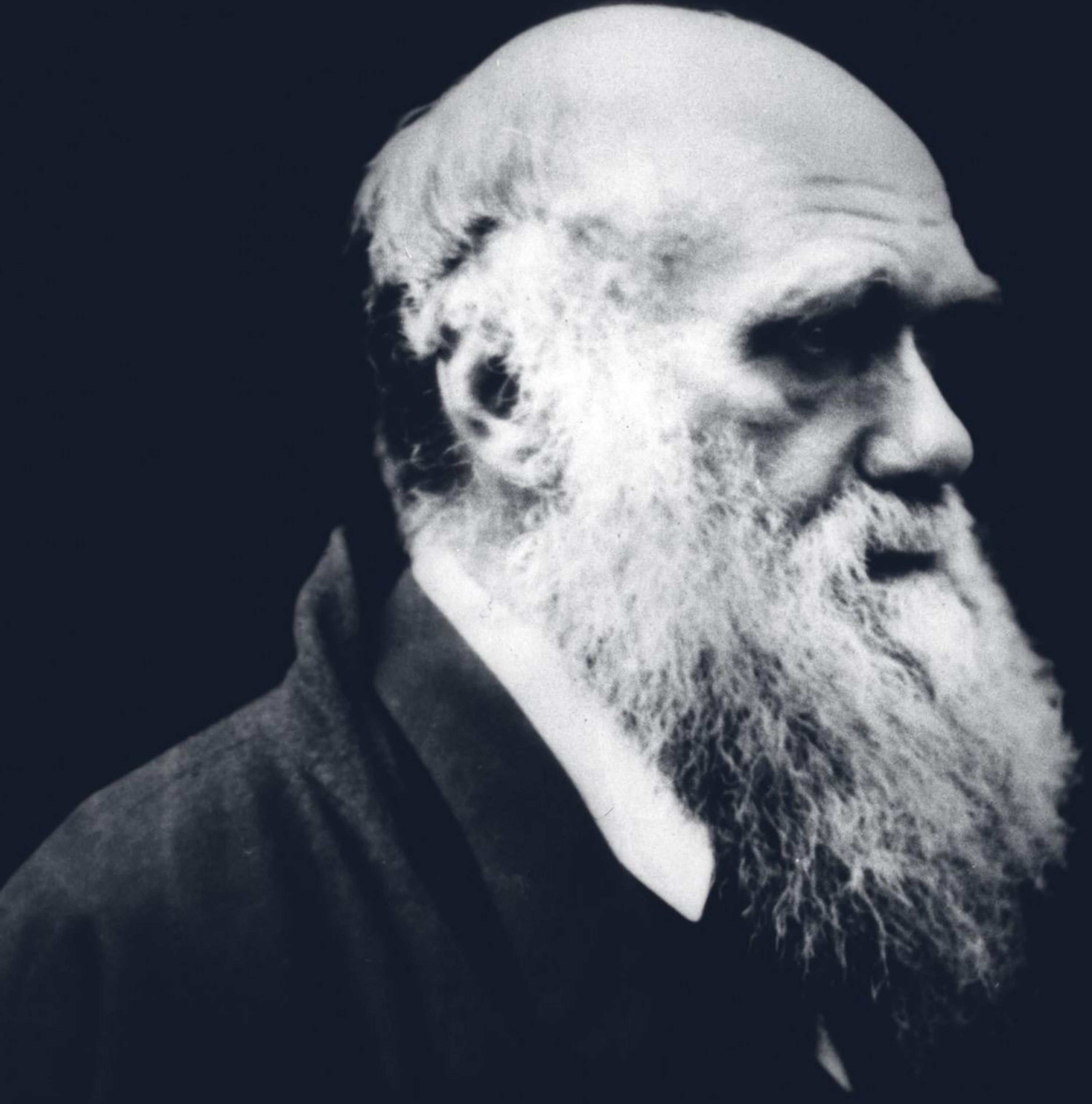


12 LESSONS FROM

# DARWIN

5 Look for convergent patterns: Business models > Individual businesses

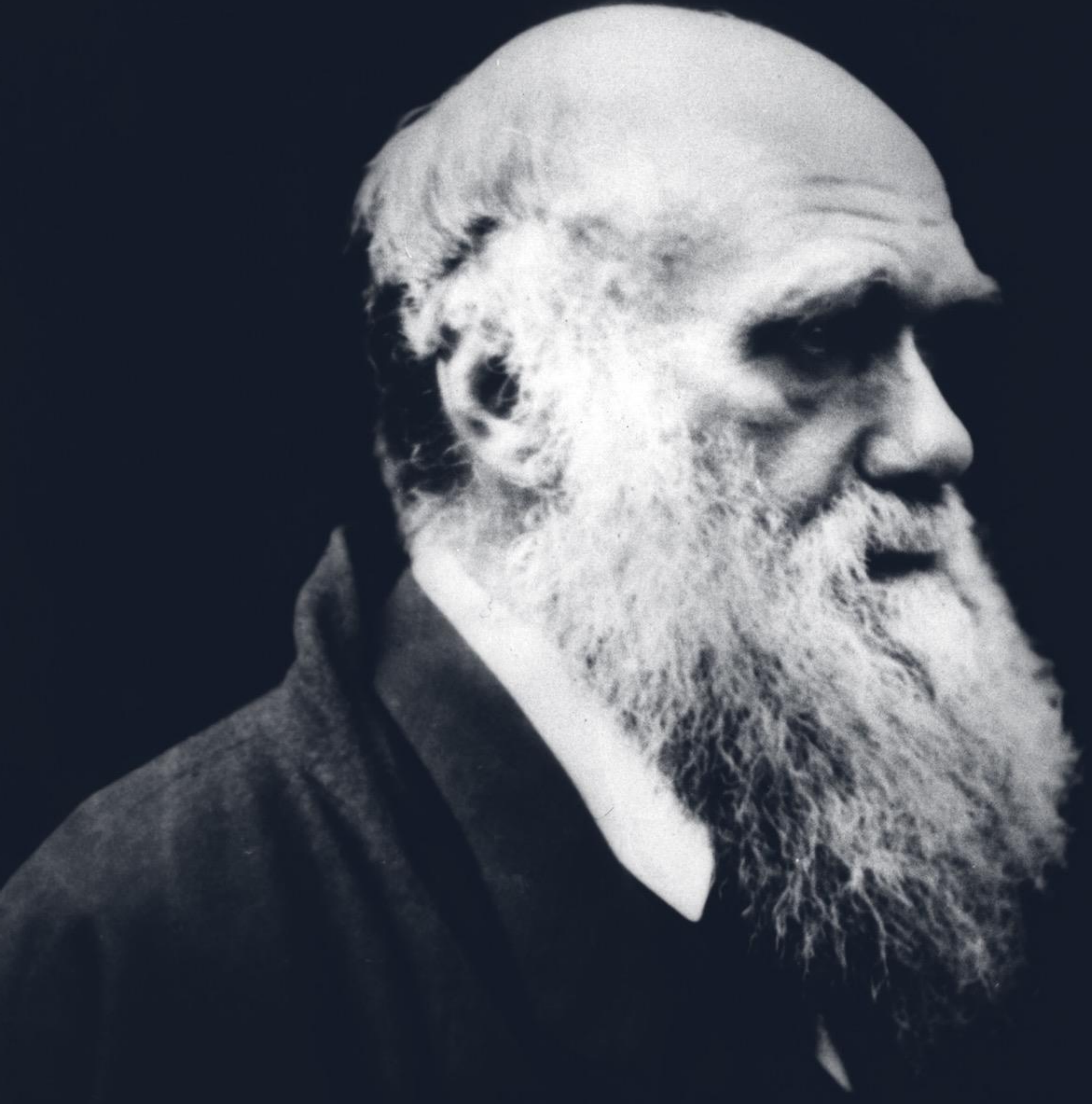
6 When you find high quality, low change businesses, use volatility to buy, not sell.



12 LESSONS FROM
# DARWIN

7 Business stasis is the default. If you hold a good company, sit on your hands!

8 Therefore, be a ‘lazy’ buyer and a **very** lazy seller!



12 LESSONS FROM

# DARWIN

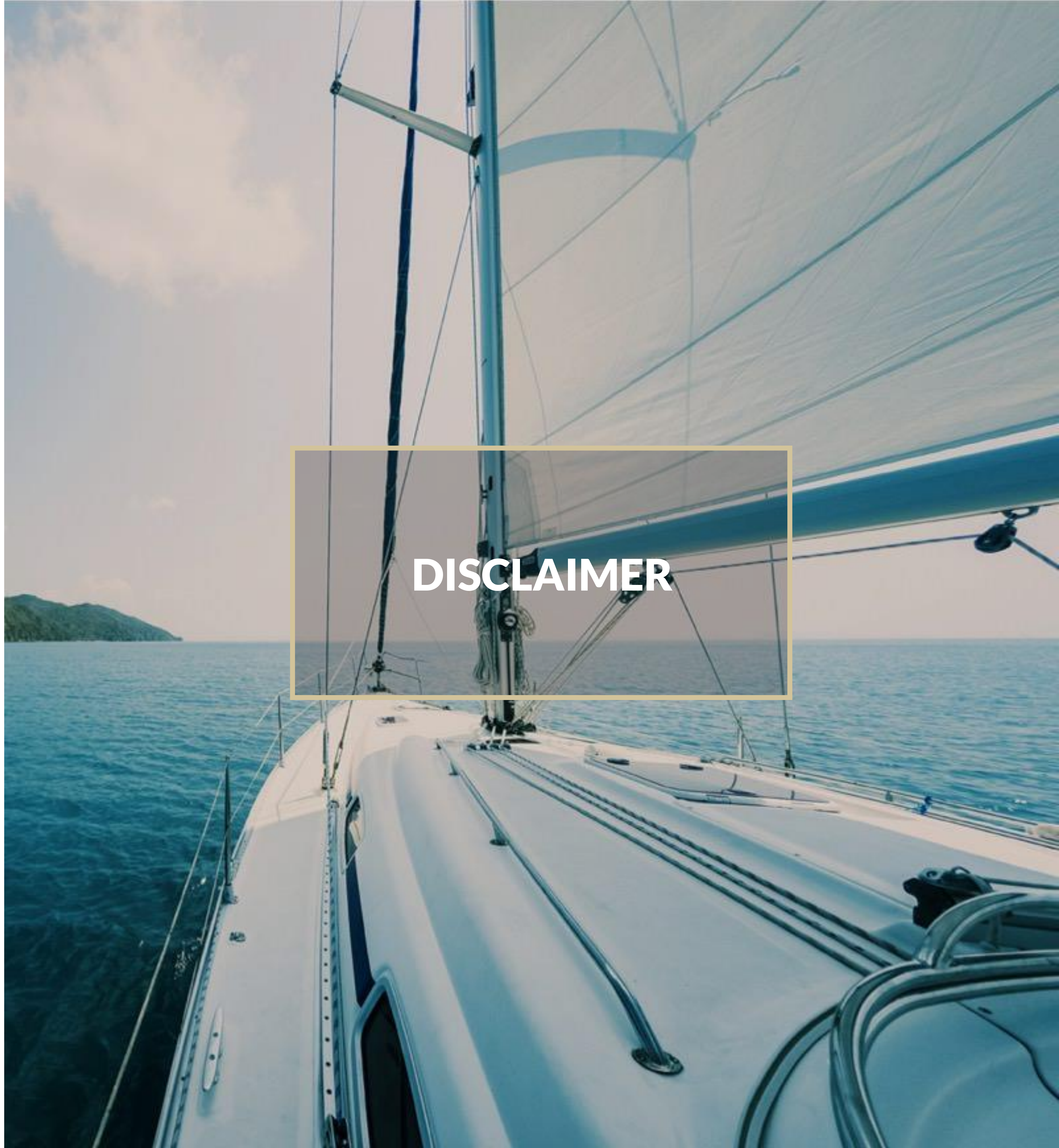
9

Compounding leads to large numbers, but only after a **very long** time.

10

Don't worry about finding the 'best' investment. Focus on a simple and repeatable process.


PAUL
KENNEDY

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# OPEN AI… LAST VALUED AT $29BN…

*On average, Wall Street estimates underestimated the size of the PC, Internet, Mobile, and Cloud opportunity by 38%*

| COMPUTE CYCLE | INITIAL FORECAST | ACTUAL | % UNDERESTIMATION | 10 YR CAGR* | INITIAL FORECAST DATE |
|---|---|---|---|---|---|
| PC | **225mn** *PC Users in 2000* | **354mn** *PC Users in 2000* | 36% | **14%** *1995-2005* | **February 1996** |
| INTERNET | **152mn** *Internet Users in 2000* | **361mn** *Internet Users in 2000* | 58% | **41%** *1995-2006* | **February 1996** |
| MOBILE | **657mn** *Smartphones Shipments in 2013* | **1,019mn** *Smartphones Shipments in 2013* | 36% | **15%** *2010-2020* | **January 2010** |
| CLOUD | **$90.2bn** *Top 3 Cloud Provider Revenue in 2020* | **$115.6bn** *Top 3 Cloud Provider Revenue in 2020* | 22% | **30%** *2017-2026* | **March 2017** |

**Average Underestimation: 38%**

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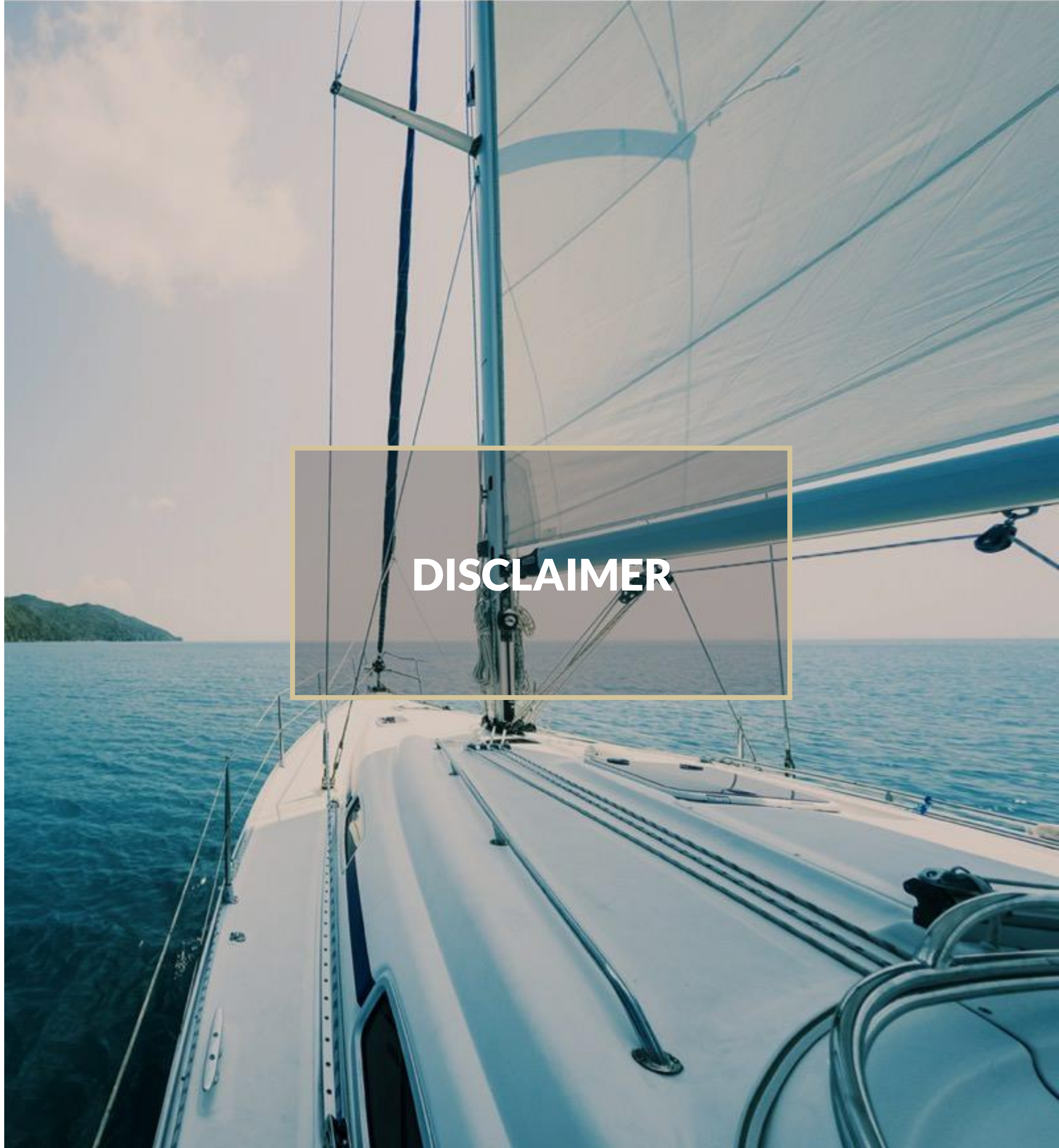

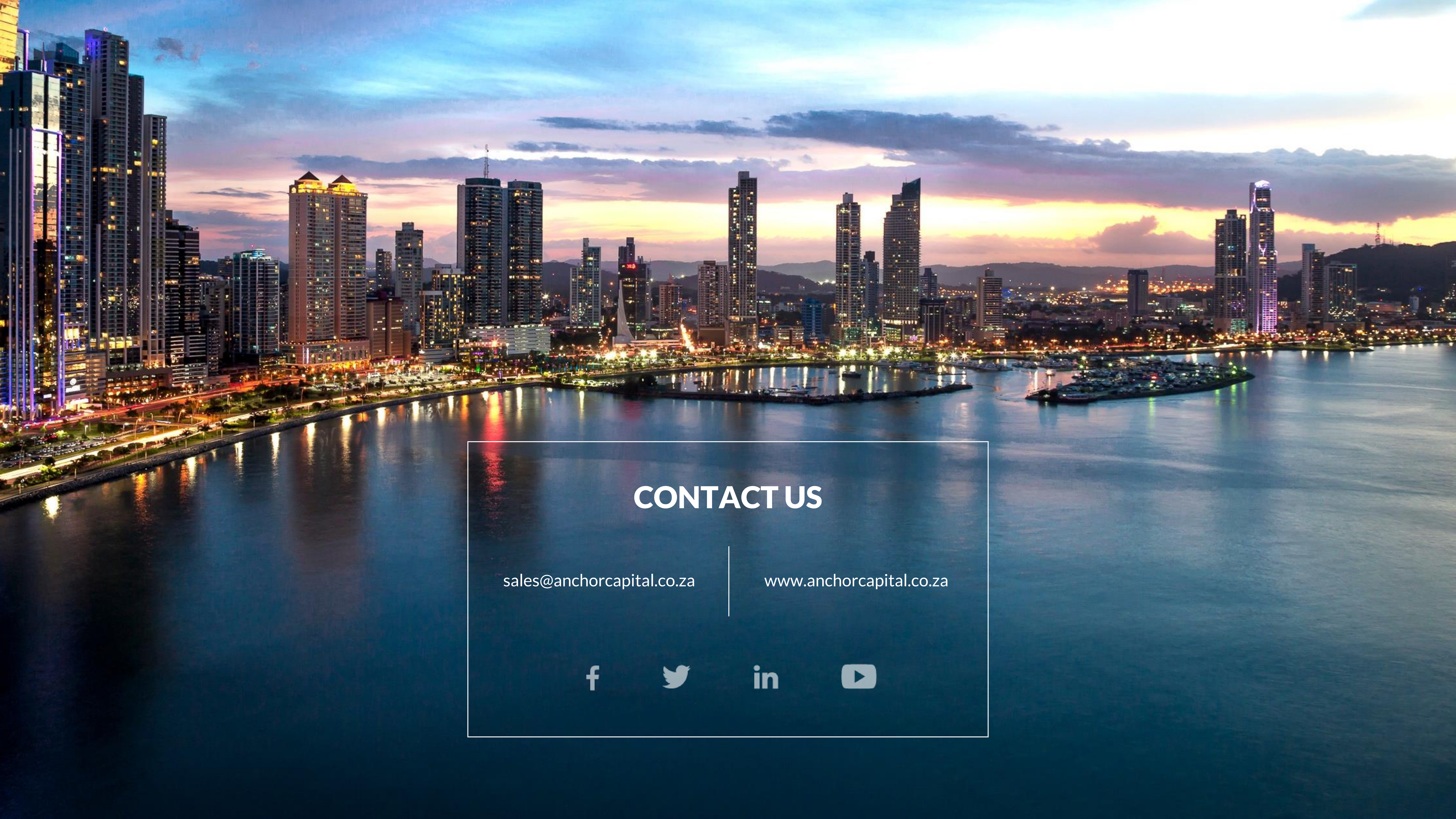

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