

THE NAVIGATOR

STRATEGY AND ASSET ALLOCATION REPORT
4TH QUARTER 2024



ANCHOR

NAVIGATING
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Introduction



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“Small opportunities are often the beginning of great enterprises.”
Demosthenes, Greek statesman and orator of Ancient Athens.

The South African Government of National Unity (GNU) was unexpectedly born out of need following the outcome of South Africa’s (SA) National and Provincial Elections (NPEs) four months ago. Few gave it much prospect of success, yet here we are, it has held together. The smaller parties have shifted toward a collaborative stance (albeit with a few bumps along the way), and the GNU seems to have delivered its first few achievements. The visa backlog at the Department of Home Affairs is dealt with. We have also seen a more accommodating stance with a compromise on the Basic Education Laws Amendment (BELA) Bill signed into law but with many contentious clauses removed and the implementation of two controversial clauses paused for a three-month consultation period. Perhaps the most outstanding achievement of establishing the GNU is that we have seen a maturity in our politics that we never thought possible. Indeed, from the small and unexpected opportunity for our politicians to work together, a few are beginning to believe that great achievements might be possible.

Financial markets have boomed over 3Q24, with equities and bonds celebrating the start of the interest rate cutting cycle, more positive sentiment towards emerging markets (EMs) after China unveiled a massive economic stimulus package in late September and a generally strong global economy. We start the year’s final quarter with significant returns achieved in most asset classes and the belief that while risks are rising, there is scope for further gains.

Investing is a long-term game – think of it as a marathon, not a

sprint. Although we are more optimistic about the outlook for domestic assets, the path forward is seldom a straight line. The point is that our conviction is growing, the next five years look better than the past five, and SA should be on your investment radar when constructing your portfolios.

We continue to believe that the bulk of your wealth should be invested abroad and that there are opportunities in all offshore asset classes. Nevertheless, recent robust gains in US equities are making us cautious; still, the momentum is strong, and the projected US earnings growth is high.

Anchor is a proponent of balanced portfolios and diversified risks. We believe it is crucial for investors to have a long-term plan for what they seek to achieve with their investments and that the year ahead will likely see them move towards their eventual desired outcome. In our view, this is an excellent time to take a pro-risk stance in your portfolio. We advocate that a healthy portion of your investment portfolio should be offshore to leverage diverse opportunities and return profiles while mitigating SA-specific risk. We expect the rand will continue to hover around current levels vs the US dollar. Therefore, this is an ideal time to externalise a portion of your portfolio if you have not already done so.

Overall, it is also an excellent time to upweight your investments. Anchor strives to help you achieve the best outcomes within your risk tolerances and investment objectives. We see opportunities in all asset classes, and this document highlights some of the best opportunities we believe to be available.



Asset Allocation

The following table illustrates our house view on different asset classes. This view is based on our estimate of the risk and return properties of each asset class in question. As individual Anchor portfolios have specific strategies and distinct risk profiles, they may differ from the more generic house view illustrated here.

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

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

Asset Allocation Summary

The most recent quarter (3Q24) was dominated by the overwhelmingly positive response to the start of the interest rate-cutting cycle both domestically and abroad. At the same time, the South African Government of National Unity (GNU) continues to hold and appears to be delivering some benefits for the country. This provided a solid boost for investments—a stellar outcome for almost all asset classes. Our return expectations for the various asset classes have shifted to reflect different asset starting prices, a more positive outlook for South Africa (SA) and the global economy, and the continuation of the interest rate-cutting cycle.

Figure 1 below highlights the US dollar return outlook for the various global asset classes. The bar in Figure 1 represents the reasonable range of possible outcomes, with the dots representing our estimate of the outcome in the various scenarios. We think global equities (particularly US equities) are likely to perform best; however, downside risks are growing. Global bonds also remain compelling. On an absolute level, we think that returns will be slightly lower going forward while the market absorbs the higher starting prices.

Figure 1: 12M return scenarios for various asset classes in US dollar terms

Source: Anchor

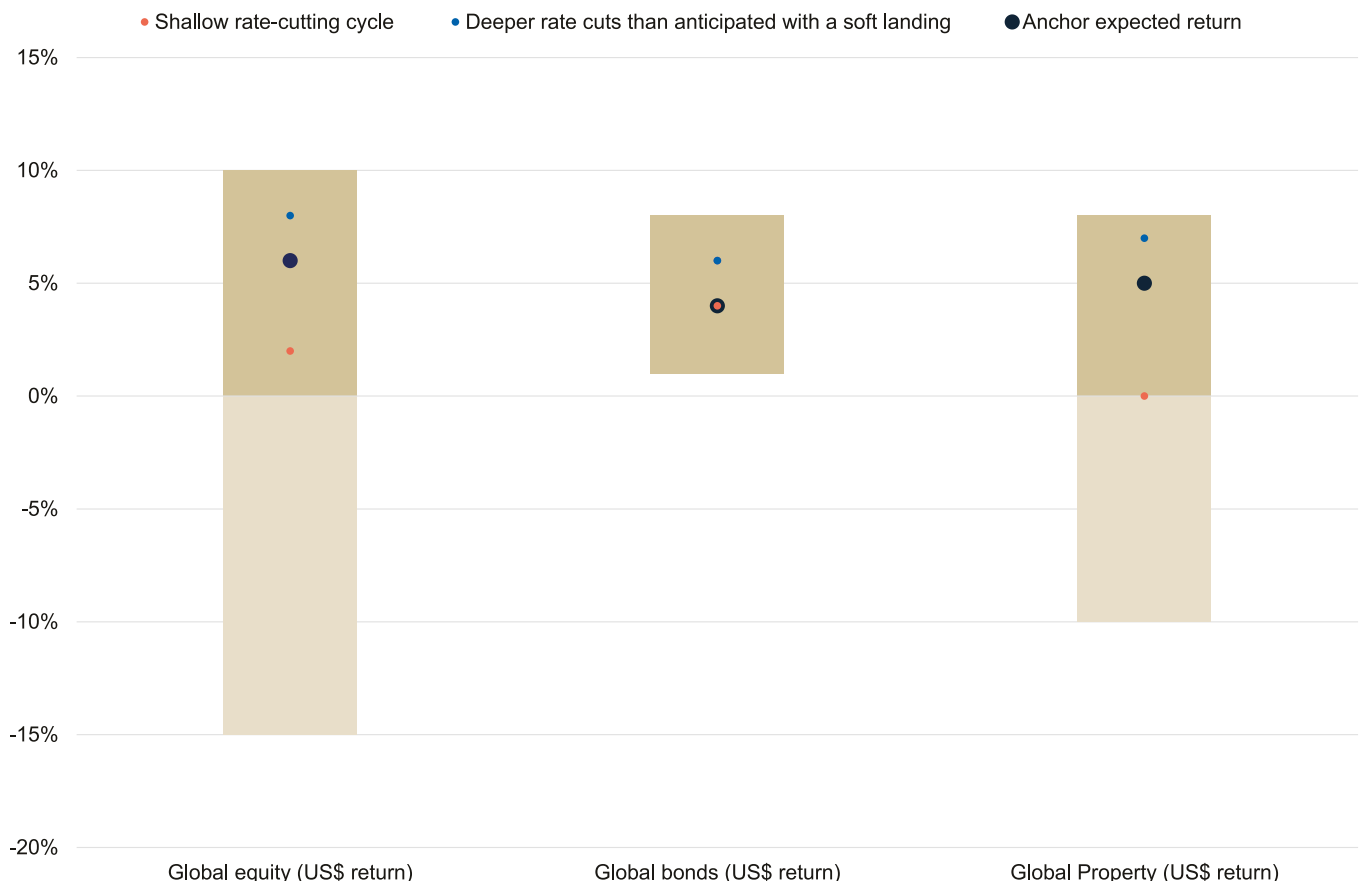


Figure 2: Anchor expected returns by offshore asset class

Source: Anchor

	Global equity	Global bonds	Global property
Anchor expected return (in US dollar)	6%	4%	5%

Figure 3 below highlights the rand return outlook for several domestic asset classes. The bar represents the reasonable range of possible outcomes, with the dots representing our estimate of the outcome under various scenarios. From a domestic perspective, we believe that there is more opportunity ahead. We anticipate declining interest rates, improving sentiment, improved governance, and slightly

positive steps being taken by the government. There is still a significant political risk premium in the price of domestic assets, and we believe the country may become attractive to foreign investors if the reform narrative takes hold in time to come. We are optimistic that domestic factors will continue improving as we progress into 2024 and 2025.

Figure 3: 12M return scenarios for various asset classes in rand terms

Source: Anchor

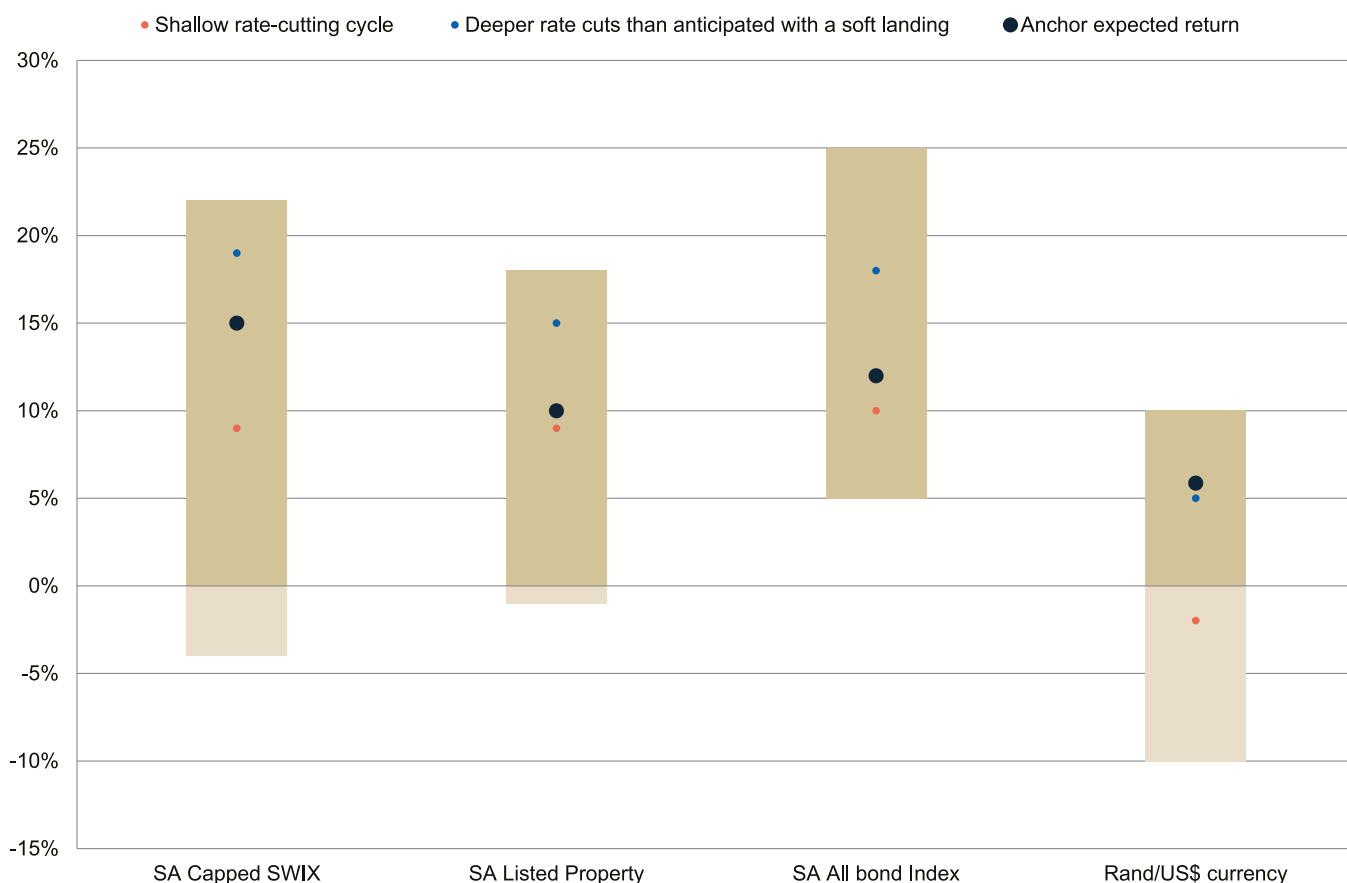


Figure 4: Anchor expected return for domestic asset classes

Source: Anchor

	Domestic equity	Domestic bonds	Domestic property	US\$/rand
Anchor expected return (in rand)	15%	12%	10%	6%

Strategy and Asset Allocation, 4Q24

ECONOMICS

As we enter the final quarter of 2024, global interest rates have finally begun the long-anticipated cutting cycle, marking a significant shift in monetary policy for major developed economies like the US, the eurozone, and the UK. This trend has extended to SA and other developing nations. With the global bias shifting toward easing, the US Federal Reserve (Fed) joined other major central banks in loosening policy. Speculation had been building that the Fed might start with a larger-than-usual cut, and this was confirmed in September when the Fed surprised economists with a 50-bp reduction in the federal funds rate to 4.75%-5.00%. The Fed's long-term neutral rate estimate remains just under 3%, suggesting room for further cuts of 1.75%-2.00%. We view current market pricing expectations for rates as somewhat aggressive, potentially overestimating the implications of the Fed's 50-bp cut. Nonetheless, we expect US rate trends to be a key driver of market sentiment in the coming months.

As we enter 2Q24, global interest rates have finally begun the long-anticipated cutting cycle ...

Moving to Europe, the European Central Bank (ECB) has already cut rates twice this year, lowering the deposit rate to 3.50%, and we anticipate gradual policy easing through 2025, with rates settling at 2.00%. However, the risks seem skewed toward a faster pace of cuts, possibly taking rates below neutral due to increasing downside risks to growth. In contrast to most developed markets (DMs), the UK's interest rate trajectory is an outlier after the Bank of England's (BoE) latest rate decision. In the same month that saw the US, ECB, and SA cut rates, the BoE held rates steady at 5%. This cautious decision reflects the BoE's less favourable position on inflation compared to the Fed. The UK's economic landscape suggests a more measured approach rather than rushing towards a neutral policy stance.

It is important to remember that the softening global economic backdrop is not solely due to restrictive monetary policy. Manufacturing, especially in the eurozone, has yet

to recover, with purchasing managers indices (PMIs) staying below 50 for over a year, signalling contraction. Moreover, global manufacturing PMIs suggest a faltering recovery, with sub-indices pointing to further weakness. While supply chain pressures persist, much of the manufacturing slump can be attributed to China's economic struggles, where domestic demand remains weak.

Looking specifically at China, the end of 3Q24 saw Chinese authorities introduce a comprehensive stimulus package aimed at reviving its sluggish economy. While increased stimulus had been anticipated to counter sluggish growth, the measures introduced so far had been underwhelming. However, this latest round of intervention exceeded most expectations in its scale. As part of the stimulus measure, the People's Bank of China (PBoC) announced a major liquidity injection to stabilise markets and boost investor confidence. Central to this is a CNY800bn (c. US\$113bn) programme to support the equity market and plans for a market stabilisation fund. About half of the fiscal issuance targets consumption growth through new policies, such as a monthly CNY800 allowance per additional child for families and financial bailouts for local governments. Additional measures, including rate cuts, were introduced to support the struggling property market. The government also pledged to ensure spending the necessary to meet its 2024 5% growth target, with more fiscal package details expected ahead. The question remains whether these measures will be targeted enough to address the deep, structural issues in the property sector in particular and the greater Chinese economy. For now, however, global markets have responded positively to the announcements.

Geopolitical tensions are expected to remain a key focus through 2024, with no resolution in sight for the Russia-Ukraine or Israel-Gaza conflicts and risks of further escalation, particularly within the Middle East. The November US Presidential Election is also being closely monitored, with ex-President Donald Trump and Vice President Kamala Harris actively campaigning. A Republican win could significantly impact global macroeconomics and trade policies, particularly with the potential return of Trump's protectionist agenda.

However, financial markets remain largely unaffected, focusing more on anticipated monetary policy changes than fiscal ones. Given the close polling, the election outcome remains highly uncertain.

Geopolitical tensions are expected to remain a key focus through 2024 ...

Moving locally, unlike the Fed's faster pace, the SA Reserve Bank (SARB) prefers a gradual, data-driven approach to rate cuts. In its September meeting, the SARB reduced the repo rate by 25 bps to 8% p.a., lowering the prime lending rate to 11.5%. The SARB's Monetary Policy Committee (MPC) considered leaving rates unchanged, a 25-bp cut, and a 50-bp cut, ultimately choosing the more cautious 25-bp option to ensure a smooth transition toward lower inflation. This gradual approach helps manage expectations and maintain market stability. Looking ahead, the SARB projects rates will stabilise slightly above 7% next year. As a result, the market appears to anticipate a gradual cutting cycle, with no cuts larger than 25 bps per meeting. Subsequently, we expect 100-125 bps of cuts in this cycle. Any deviation from this would only occur in response to significant changes in inflation, growth, or employment data.

... unlike the Fed's faster pace, the SARB prefers a gradual, data-driven approach to rate cuts ...

We align with the SARB's GDP growth forecast of 1.1% YoY for 2024 and 1.5% YoY for 2025. The government has made significant progress on reforms, including lifting energy generation license thresholds, auctioning the telecommunications spectrum for 5G, improving rail and port efficiency through the Transnet Recovery Plan, and reducing water-use license processing times. Recent changes to immigration regulations also aim to attract scarce international skills. These reforms foster a more favourable business environment conducive to boosting growth. If economic reforms are implemented faster and private sector engagement increases, our baseline scenario could be upwardly revised. Business and consumer confidence metrics will be key to watch in this regard. Moreover, growing confidence in the durability of the SARB is bolstering SA's market buoyancy.

SA EQUITIES

South African equities delivered a strong 3Q24 in both absolute and relative terms. The FTSE/JSE Capped Swix, the

most widely used benchmark by local investors, delivered a 3Q24 return of 9.6%, bringing its YTD total return to 15.9%. However, when measuring how the JSE is performing against global benchmarks, we typically look at the MSCI SA Index, which quotes the performance of the market in US dollar terms, making comparisons to other markets more relevant. On this basis, the MSCI SA Index was up 16.1% in 3Q24, bringing the YTD total gain to 21.8%. This is in the context of global equities (MSCI World) rising by 19.3% YTD and EM equities (MSCI Emerging Markets) being 17.1% higher. Despite the recent relative outperformance of SA equities, we maintain our overweight house view and asset allocation to domestic equities with an expected total return of 14% for the MSCI SA Index and a 15% return for the Capped Swix.

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Arguably, the most pleasing aspect of the JSE's recent outperformance has been the continued strength in domestically focussed sectors of the local market (the so-called SA Inc. shares), no doubt sparked by the increased positive sentiment towards SA following the formation of the GNU in June. In *The Navigator: Anchor's Strategy and Asset Allocation*, 2Q24, dated 17 April, we argued that 2Q24 provided investors with a great entry point into a deeply undervalued and under-owned local equity market. We expected that an incident-free national election (our base case) and lower loadshedding and interest rates would provide some cyclical tailwinds for JSE-listed equities. Three months later, in *The Navigator: Anchor's Strategy and Asset Allocation*, 3Q24, dated 15 July, with the outcome of the election far more positive than we had expected, we put forward the argument that not only do the cyclical tailwinds remain in place but suddenly, there is a far greater chance that the GNU will push forward much needed structural reforms.

With earnings bases incredibly low (after ten years of below-trend GDP growth) and risk premiums at an all-time high for South African assets – the set-up for local equities was extremely healthy. Adding further fuel to our constructive stance on local equities is the starting point of valuation and earnings bases relative to global equities. SA finds itself at a cyclical low on earnings and valuation. In contrast, the opposite holds true for global equities, reinforcing our view that, relative to global equities, the MSCI SA Index and local bonds will continue to outperform, and the rand will continue to strengthen.

As mentioned, for the first time in years, most of the JSE's recent strength has come from the domestically focussed sectors of the market. The FTSE/JSE SA Banks Index, which accounts for roughly 25% of the MSCI SA Index, is up 32% since the elections at the end of May. The bulk of that performance (29%) has come in multiple expansions, with the index moving from a forward P/E ratio of 7.8x before the election to the current 10x. However, this multiple expansion seems reasonable as bonds have also experienced a strong run from very depressed levels (12.5% down to 10.3% on the SA 10-year government bond). This is a familiar trend we have seen across many sectors, and it is ultimately a compression of the risk premium on South African assets, driving a valuation uplift across the board.

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The question then becomes, where do we go from here? Multiple catalysts have driven this risk premium compression, expectations of a brighter future are increasing, and the starting point heading into the next 12 months looks very different to that of even three months ago. It should be noted that making a call on local equities 12 months out is more uncomfortable than three months ago. Nevertheless, we remain bullish on the ingredients being in place to entrench a domestic earnings cycle that will drive continued outperformance of the MSCI SA Index. Still, we concede that from these levels, an earnings cycle is needed, and most likely a robust one, as some front-loading of expectations has no doubt already taken place.

... the set-up going into the December trading period looks extremely positive ...

Our constructive stance on local equities is premised on raised GDP growth expectations and earnings delivered 12 months out, beating the current consensus forecasts. We believe the nascent trend of raising growth expectations will continue into 1Q25, and in particular, the December trading for most consumer-facing businesses is expected to be very positive. Domestic consumers have been under immense pressure since before the onset of the COVID-19 pandemic, and this will be the first festive season trading period where conditions for the consumer will be more forgiving than the previous. With another interest rate cut on the horizon before December,

loadshedding largely an issue of the past, lower fuel prices, inflation moderating and the added benefit of changes in pension regulations allowing the consumer to access a portion of their retirement savings early, the set up going into the December trading period looks extremely positive.

At Anchor, our approach following the announcement of the GNU has been to earmark a list of mid-cap companies positively geared to improved consumer conditions and to regularly engage with their management teams for early signs that the SA operating environment is improving. The initial response from over 40 management meetings was that it is too early to tell whether the GNU has had an impact; however, as each month passes, we have already sensed a change in tone. Management teams and investors will likely want to err on the side of caution when building up expectations too much. However, we are cautiously optimistic that twelve months out, the earnings outcome will be better than the current set of expectations built into the valuations and stock prices, with the added caveat that for this to succeed, the GNU needs to deliver growth with the honeymoon period now firmly over.

SA LISTED PROPERTY

September saw the SA-listed property sector continuing its extraordinary rally of the past year, during which the FTSE JSE SA Listed Property Index (SAPY) recorded a total return of 51.3%, buoyed by supportive company results and lower bond yields. With office and retail property's key performance indicators (KPIs) continuing to improve, funding costs starting to peak, reported book values finding support from these factors and the sector trading at a 20% discount to book value, we remain constructive about the sector. Our 12-month forward, total return projection for the sector is 10%, which comprises a slight capital increase in addition to the 8% dividend yield.

Property fundamentals appear to have bottomed a few months ago, and vacancy levels are shrinking. Office property has long-term oversupply issues, but negative lease reversions in the sector have declined sharply as a full rent cycle has almost worked its way through post-COVID-19. So, net portfolio growth is starting to return, and the interest cost will begin to decline towards the second half of 2024 (unless, like Growthpoint, hedging has delayed this positive impact). Offshore portfolios are performing better, and growth prospects look reasonable. A reasonable portfolio with a dividend yield of 7%-9% and growth of 3%-5% can be constructed.

Our top pick of the property sector is MAS PLC. The share price took a dive when the company announced it would hold back on dividends for two years to fund developments. However, at

a 15% forward distributable income yield, we think the share is worth over 50% more than it currently trades.

DOMESTIC BONDS

SA Government Bonds (SAGBs) continued 2Q24's robust returns in 3Q24, with this past quarter recording a 10.6% return at the SA All Bond Index (ALBI) level. This has resulted in an ALBI YTD return of 16.74%. Duration has been strongly rewarded with the curve flattening and lowering on an absolute level in anticipation of interest rate cuts.

The first of these cuts arrived at the September SARB Monetary Policy Committee (MPC) meeting, where the repo rate was lowered by 25 bps. Current market expectations are for inflation, as measured by the Consumer Price Index (CPI), to moderate even further (the most recent CPI print of 4.4% is already slightly below the mid-point of the SARB's target band) towards the bottom of the band, which will drive more rate cuts over the medium term. Market expectations are for the repo rate to bottom out towards 4Q25/1Q26 at 6.75%-7%.

Current market expectations are for inflation to moderate even further ...

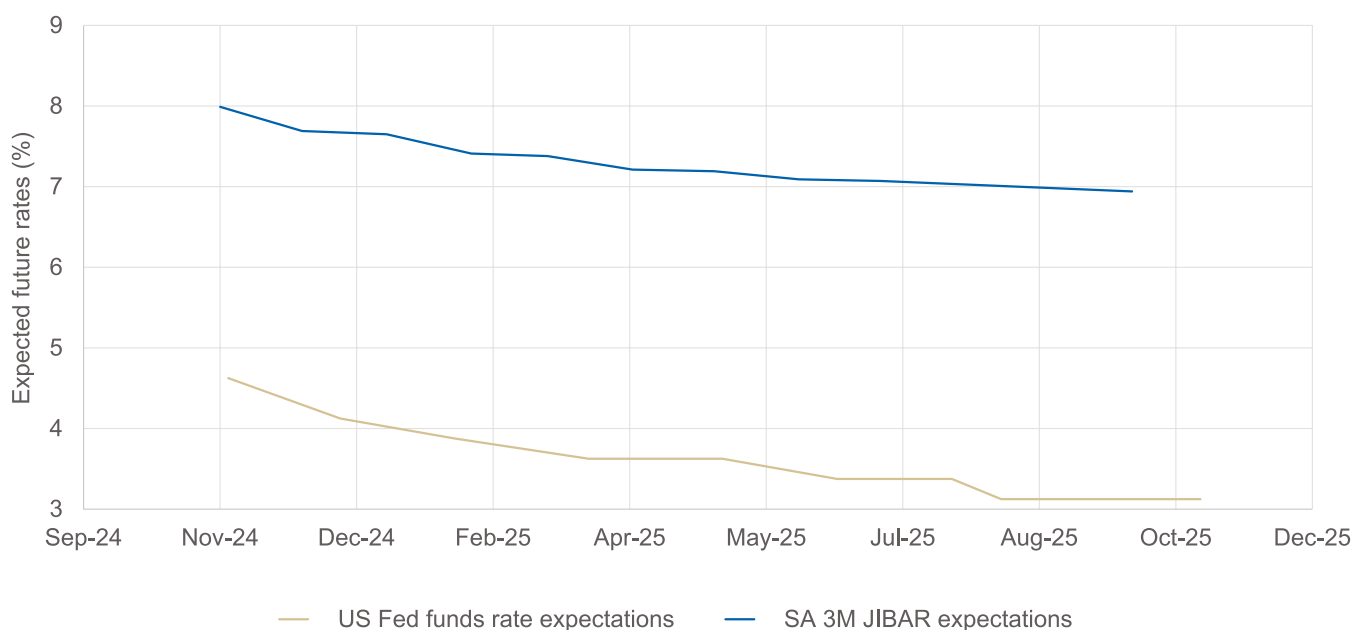
The US Fed opened its rate-cutting cycle with a 50-bp cut, and current market expectations are for the federal funds rate to reach a terminal level of 2.75%-3.25%. This outlook implies a more robust rate-cutting cycle in the US than in SA, which will likely be further rand and SAGB supportive.

Thus, we remain overweight SAGBs with a positive outlook on duration assets, driven by the following factors:

- As the central bank rate differential between the Fed and SARB increases, the SAGB carry trade, which involves borrowing in a currency with a low interest rate and investing in a currency or financial product with a higher return or interest rate, becomes increasingly attractive.
- With CPI moderating downwards, the SARB MPC has headroom to cut rates.
- The GNU has withstood the early challenges and remains resilient at a national level – the medium-term outlook is thus for stable coalition governance.
- Key state-owned enterprises (SOEs) are showing signs of reform and improvement. At the same time, loadshedding has been a non-factor since May 2024, and Eskom's energy availability factor (EAF) has also improved YoY.
- Global sentiment, off the back of the above positivity and factors, is providing strong momentum that is supportive of SA assets in general and SAGBs specifically.

Figure 1: SA vs US rate-cutting expectations

Source: Reuters, CME, Anchor



As per Figure 1 above, the rate-cutting pace expected in the US is meaningfully faster than in SA. This increase in the differential between SA and US rates will make SA comparatively more attractive as a destination for capital.

Figure 2: SA CPI, YoY % change

Source: Reuters, Anchor

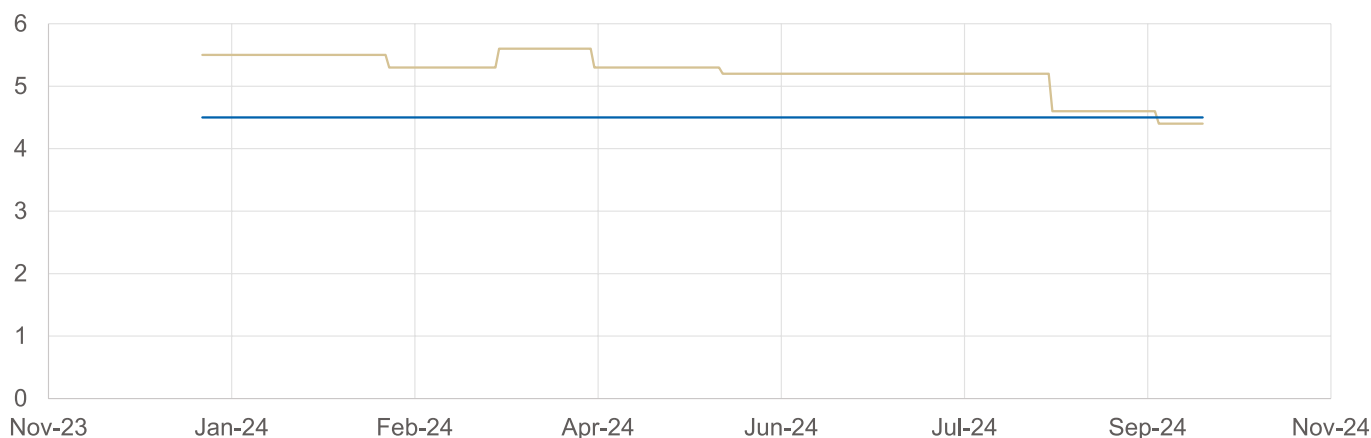
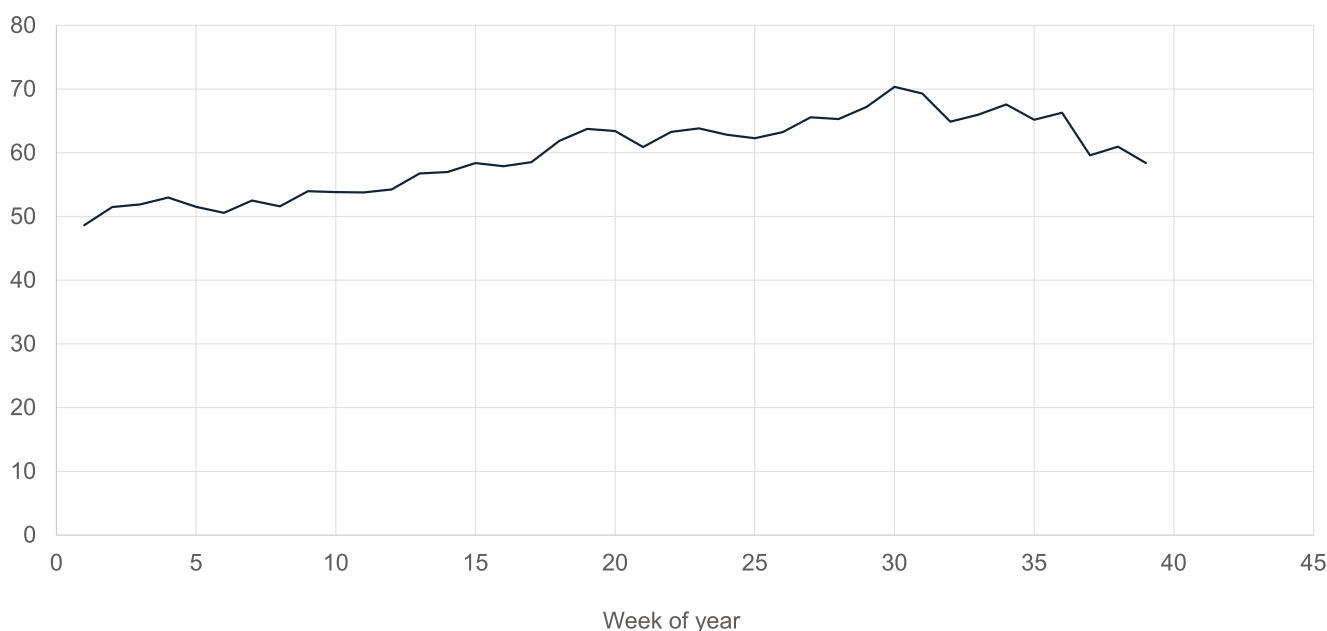


Figure 2 above shows that CPI has moderated significantly. With expectations for a further moderation lower in inflation, the SARB's MPC has headroom to justifiably cut rates without undue concern for excessive price instability.

Figure 3: SA Eskom's EAF, 2024 weekly, %

Source: Eskom, Anchor



We expect inflation to moderate further ...

Eskom's EAF (see Figure 3) has been on a consistent upward trend, with loadshedding drastically reduced from 2023 to 2024. This points to a slow improvement in the quality and reliability of key SOEs, a result of the ongoing reform agenda pursued by the national government.

Thus, we retain a slight tilt toward duration assets, with attractive yields on offer (at an index level, the yield remains over 10%) and additional potential for capital accumulation.

THE RAND

The rand strengthened during 3Q24 as investors took a positive view on the outcome of the SA elections, and the US Fed's 0.5% rate cut saw the dollar lose some strength. We also note that SA's trade balance has remained positive, which is broadly supportive of the rand. We had expected the rand to average around R18.05/US\$1 for much of 3Q24, which appears to have underestimated the rand strength. Looking forward, we think the rand's prospects will continue to improve, and we see it trading in the R16.50-R17.50/US\$1 range for 4Q24 and into 2025.

Projecting the rand's value in a year's time is a fool's errand. This is because the rand vs US dollar exchange rate is one of the world's most volatile currency pairs and trades well away from any modelled fair value for long periods. We highlight, however, that the rand trades within a R2.50 range to the US dollar in most 12-month periods.

... we think the rand's prospects will continue to improve ...

South African reforms appear to be taking hold with the GNU holding and seeming to deliver some early benefits. We expect this to continue. The trade balance remains positive, while the recent gargantuan stimulus package announced in China is EM-positive and should support the local unit. We expect that the US will cut rates further and faster than the SARB, which will make the carry trade more attractive and also cause some US dollar weakness on a global scale. Overall, most factors are stacked in favour of the rand, and we are calling for the domestic currency to trade at R16.20/US\$1 in one year's time.

Perhaps the only storm cloud for risk assets is the fractious

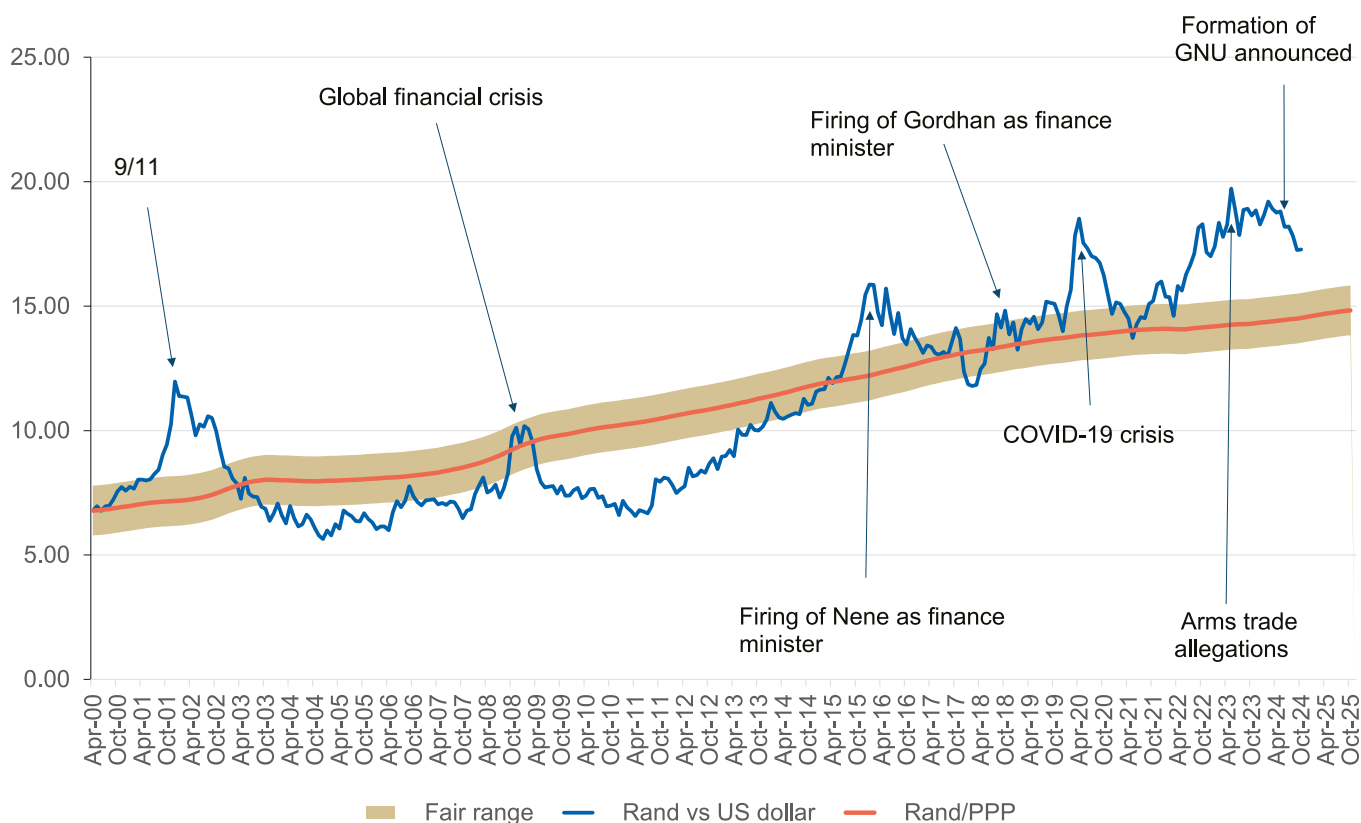
geopolitical environment with regional wars flaring up in the Middle East. We expect that bouts of risk-off sentiment in financial markets might see periods of rand weakness.

We retain our purchasing power parity (PPP) based model to estimate the rand's fair value. We have extended this out by three months since *The Navigator - Anchor's Strategy and Asset Allocation*, 3Q24 report was published on 15 July 2024. Over our forecast period, we expect inflation abroad to come under control and return towards more normalised levels. This means that our PPP model shows an increasing propensity for long-term rand weakness. As a result, our PPP-modelled value for the rand vs US dollar at the end of the next 12 months is R14.83/US\$1 (see Figure 4). We apply a R2.00 range around this to get to a modelled fair-value range between R13.83/US\$1 and R15.83/US\$1.

The domestic and global backdrop means we start with the rand meaningfully weaker than our modelled fair-value range. We anticipate some of this weakness will reverse in the coming months.

We expect the rand to remain particularly volatile, and surprises are inevitable for the remainder of this year.

Figure 4: Actual rand/US dollar exchange rate vs rand PPP model
Source: Thomson Reuters, Anchor



GLOBAL EQUITIES

Global equities sustained their bull run in 3Q24, with the US S&P 500 up 40% since October 2023. Economic conditions and prospects remain excellent for global companies. Still, as share prices rise, the risks of a correction increase, and our 12-month outlook for global equities is a relatively muted 6% return in US dollar terms. We are not calling the end to this bull market but are cautious in deploying new funds.

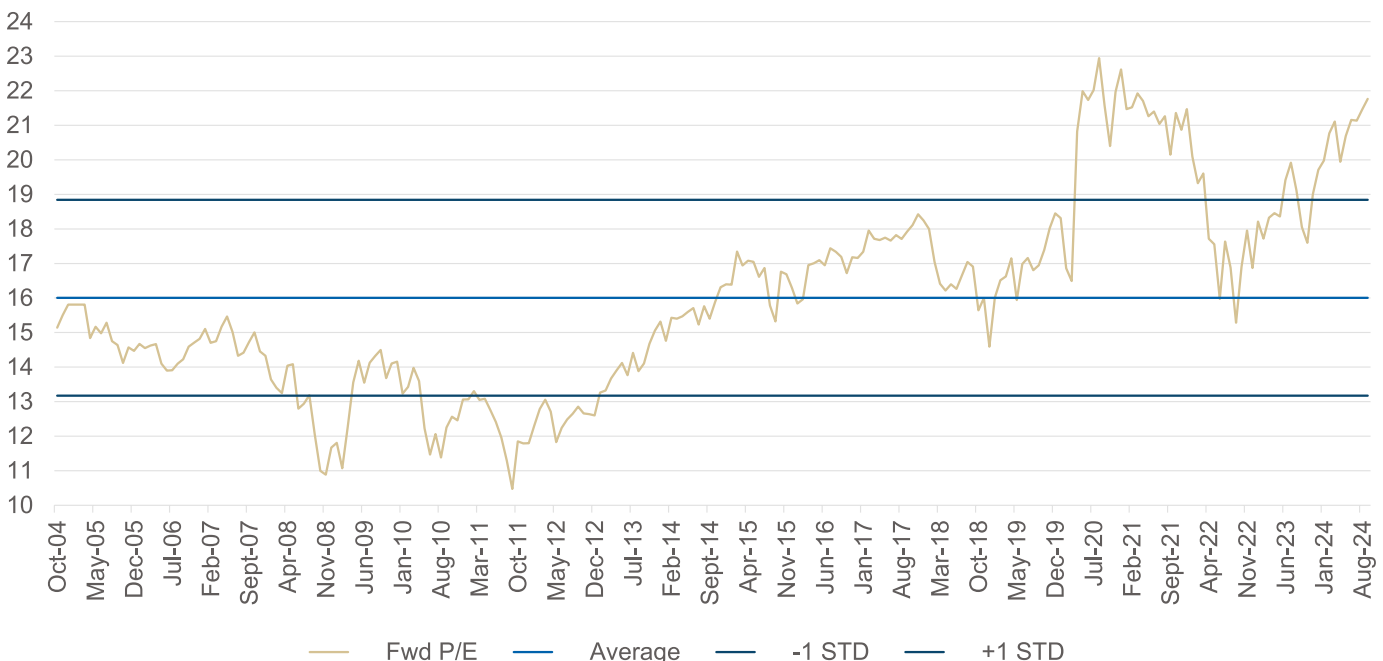
The investment world changed in September 2024 when the US Fed reduced interest rates for the first time in three years. This was significant because it was in response to lower inflation and the normalisation of interest rates rather than worsening economic conditions. Investment markets liked this, and it provided further impetus to the equity rally. The logic goes that if the economy does come under pressure, the Fed has plenty of ammunition to engineer a “soft landing.”

The investment world changed in September when the Fed reduced interest rates for the first time in three years.

Bull markets tend to dismiss risks and events that could cause tremors in a grumpier market. Geopolitical risks are currently particularly high as the Russia-Ukraine war intensifies and Ukraine, a Western ally, invades Russia (the first time it has

Figure 5: US S&P 500 Index forward P/E, x

Source: Anchor, Bloomberg



The biggest driver behind equity markets is earnings growth, and market expectations are for strong growth in the US into 2025 and 2026 as inflation slows, oil prices subside, and interest bills decrease.

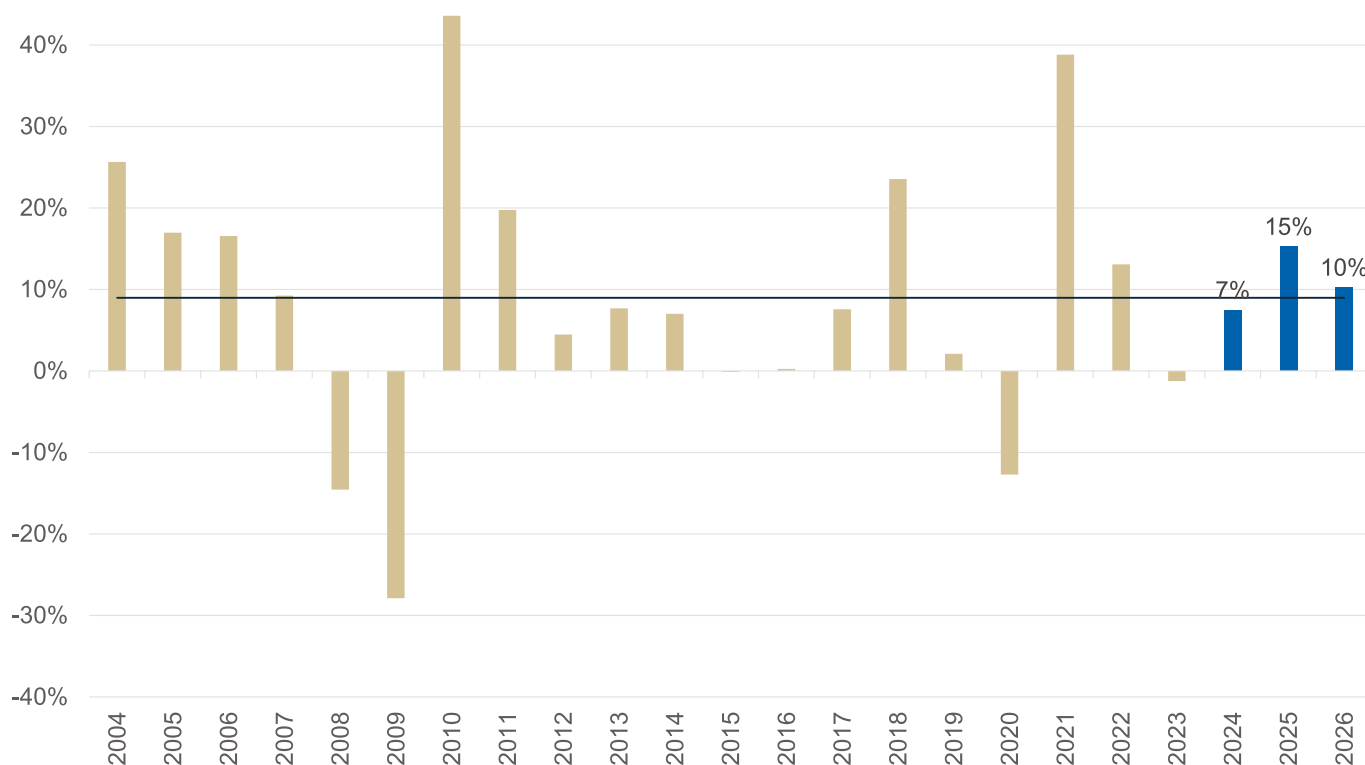
happened since World War II). The ongoing Middle East conflict is also escalating, with more countries, including Iran and Lebanon, entering the fray, and the region remains on a knife-edge. However, the reality is that the market pays little attention to factors it does not expect to impact developed market (DM) earnings growth materially. Thus far, the perception is that these wars are unlikely to spill over, but an oil price shock could occur if things heat up further. Investors are also largely unsure about how to assess the ‘China invades Taiwan’ risk, and it seems to have subsided, at least for now. The US Presidential Election takes place in the next month, and this, too, is not expected to be a big market mover.

Geopolitical tensions are expected to remain a key focus through 2024 ...

The biggest risk to the market is probably the market itself, in the form of inflated valuations. Complacency has undoubtedly set in as prices continue to rise, and a very good case is being priced in. If there is a mild economic shock, or company earnings do not materialise (at least in line with consensus), the market could easily correct 10%-20% without reaching average P/E multiples. Figure 5 below shows that the forward 22x P/E multiple in the S&P 500 is approaching the most expensive levels in two decades. This alone is a good reason for caution.

Figure 6: US S&P 500 earnings growth (annualised)

Source: Anchor, Bloomberg

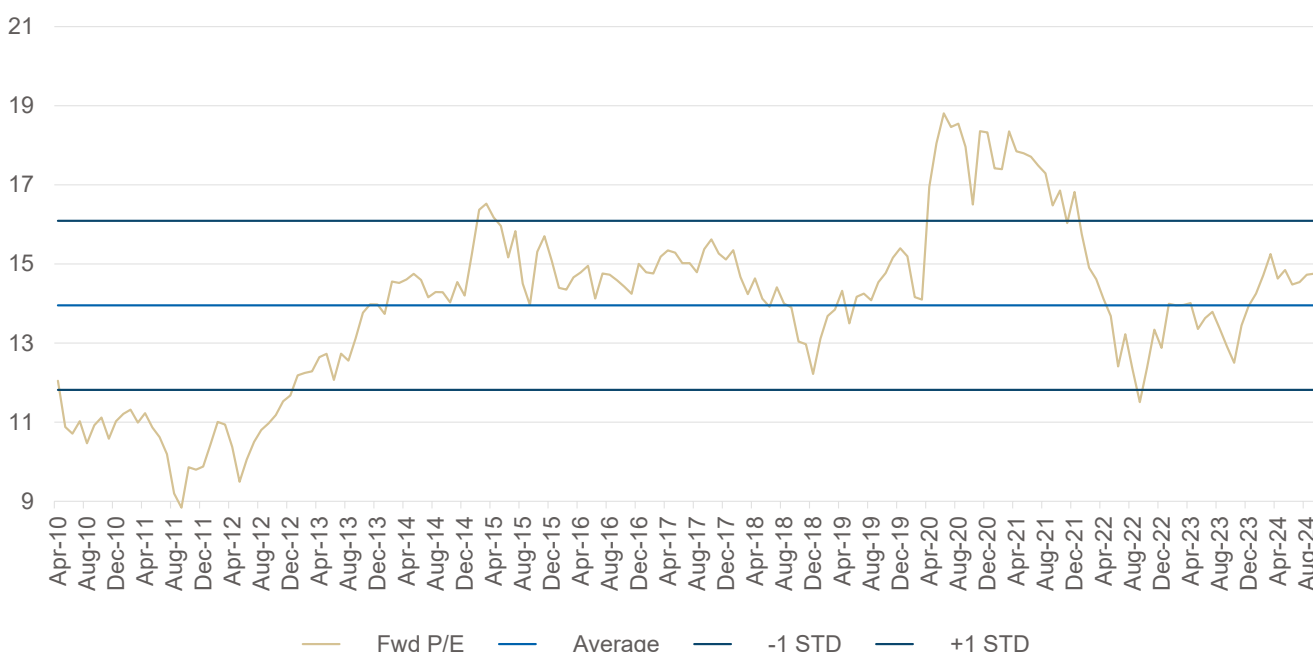


There is no doubt that AI-driven optimism has buoyed markets, but high valuations have now extended far beyond the Magnificent Seven stocks (Apple, Microsoft, Google parent Alphabet, Amazon.com, Nvidia, Meta Platforms and Tesla), which led the market in 1H24.

The market conditions explained above are mainly attributable to the US, which now comprises over 65% of total global market capitalisation. While most DMs have performed well this year, the European market rating is only marginally above its longer-term average.

Figure 7: MSCI Europe (ex-UK) forward P/E multiple, x

Source: Anchor, Bloomberg



The table below shows the earnings growth and ratings of the various market indices.

Figure 8: Various major global indices' EPS growth and forward P/E forecasts

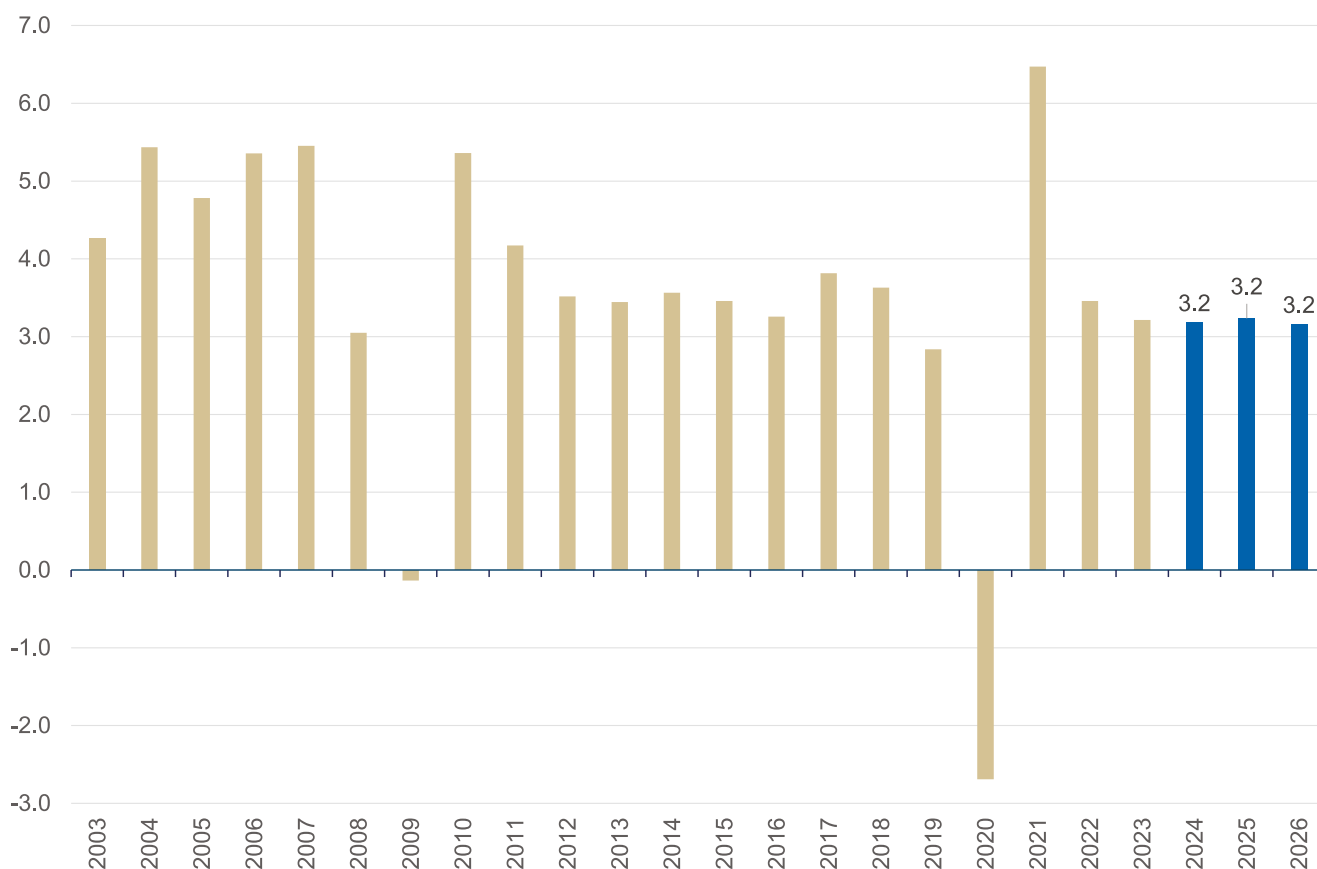
Source: Anchor, Bloomberg

Name	Earnings growth %		FWD P/E x	
	YR1	YR2	YR1	YR2
MSCI World Index	13.0	10.0	18.8	17.1
MSCI EM Index	24.5	13.7	12.5	11.0
MSCI All Country World Index (10% EM)	14.7	10.5	17.8	16.1
S&P 500 Index (ex-Energy)	16.9	12.2	21.3	19.0
S&P 500 Index	13.4	12.0	21.6	19.2

The economic reality shown in Figure 9 indicates reasonable and accelerating global GDP growth. US GDP looks set to register around 3.2% YoY growth for 2024; many were forecasting a recession this year, but strong US national and local government spending has provided a big boost.

Figure 9: Global GDP growth, YoY % change

Source: Anchor, IMF



EMs have started to look interesting recently as global investors look for value. In late September, China launched a multi-pronged stimulus package, which has seen the country's stock market catapult over 40% higher from extremely depressed levels. Still, China's structural property market issues will keep many on the sidelines and take years to solve. Everything China-related has bounced as a result, but we will not be placing a big China bet after these events. Our global model portfolios have modest exposure to the China theme, which has benefitted investors.

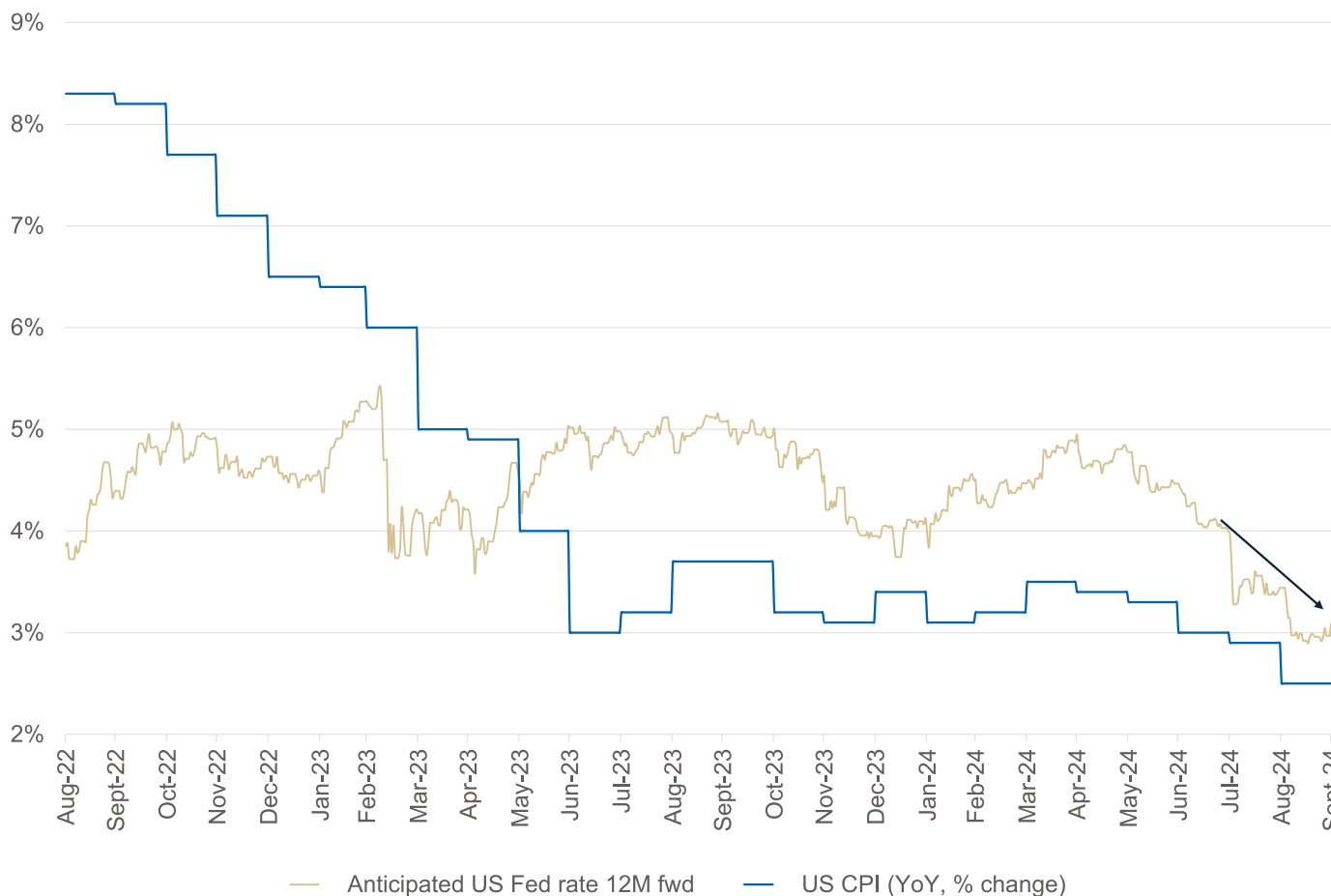
GLOBAL BONDS

Early in August, US employment data came in slightly weaker than anticipated, and investors reacted by starting to anticipate a more “normal” US rate environment. A few days

later, the release of US inflation data reinforced expectations that the era of elevated inflation was largely behind us. At its mid-September meeting, the US Fed announced a larger-than-expected 0.5% interest rate cut, the first time it had cut rates since the start of the COVID-19 pandemic in 2020.

Figure 10: For the first time in a couple of years, investors are anticipating that a more “normal” inflation and interest rate environment in the US is imminent

Source: Anchor, Bloomberg



Optimism about the decreasing US rate environment helped drag the US government’s 10-year borrowing rate below 4%p.a., a level it had stayed above since mid-2023. A US 10-year borrowing rate of around 4% p.a. seems like an appropriate level to us. As such, we anticipate that investors purchasing 10-year US government bonds should expect the bulk of their returns to come in the form of coupon income, with limited scope for material capital gains. That leaves us anticipating a total return of 4% in US dollar terms for US government bonds over the next twelve months.

Corporate bonds have seen their yields relative to government bonds compress over the past few weeks as investors have leaned into risk assets, leaving the current investment-grade credit spreads at 0.85% p.a., very close to the lowest level they have historically achieved. With limited scope for further tightening in credit spreads, investors in US investment-grade bonds are left with interest income as the most likely source of most of their returns. We anticipate this will result in total returns for US investment-grade corporate bond investors of 5% over the next twelve months.

Optimism about the decreasing US rate environment helped drag the US government’s 10-year borrowing rate below 4%p.a.

GLOBAL PROPERTY

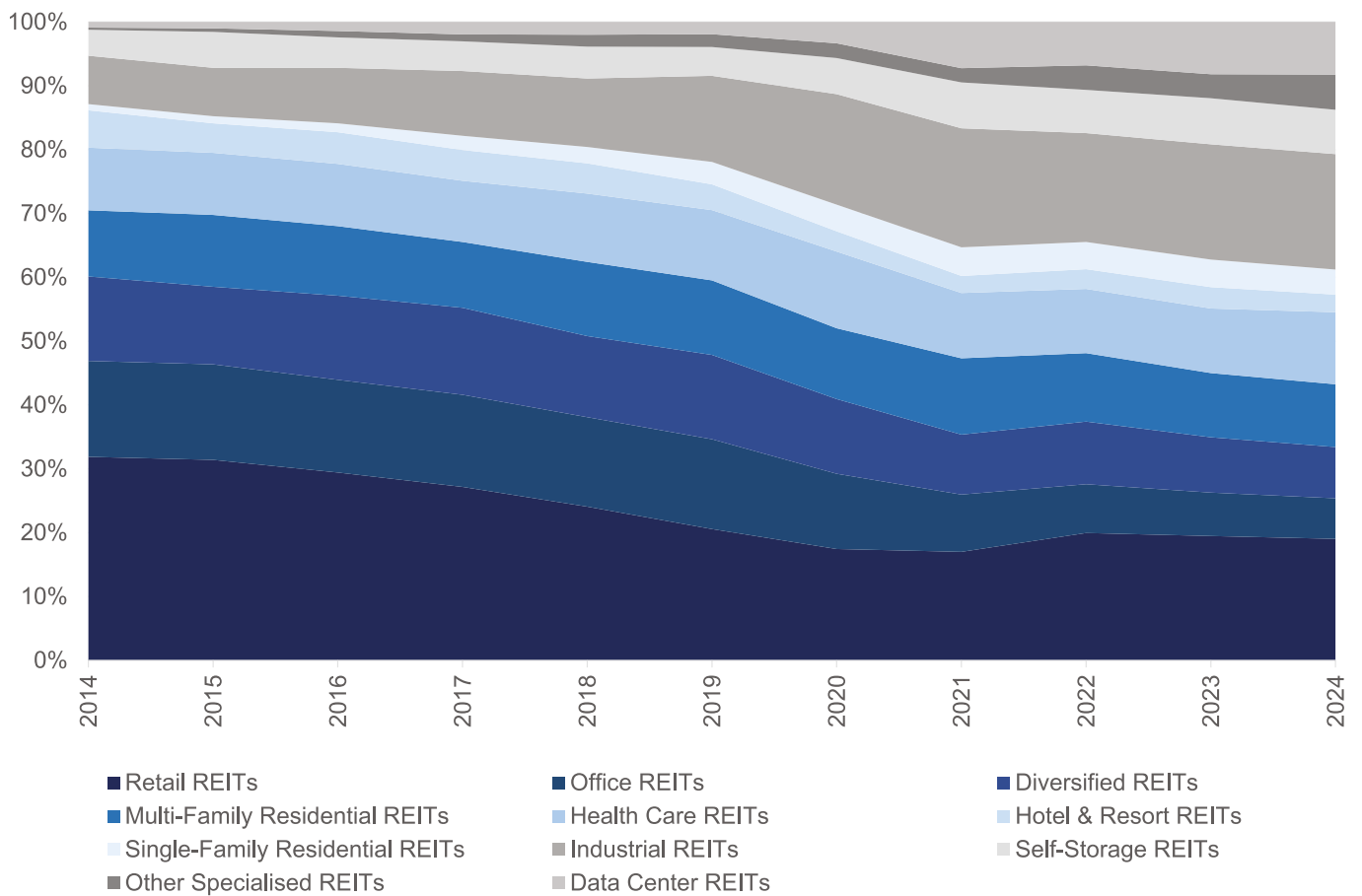
The landscape for listed real estate investment trusts (REITs) has experienced a transformation over the past decade. Ten years ago, the traditional commercial property sectors (retail, office, residential, healthcare, hotel and diversified REITs) comprised almost 90% of the global REIT market cap. That figure has dropped to around 60% of the market cap as the

industrial REITs (including data centres, storage and specialised REITs) generally servicing the digital economy have grown significantly.

The landscape for listed REITs has experienced a transformation over the past decade ...

Figure 11: REITs geared towards servicing the online economy have become a more significant part of the investment landscape over the past decade

Source: Anchor, Bloomberg



The faster-growing industrial-type REITs typically trade at lower yields than the more mature traditional REIT sectors. This has put downward pressure on the overall industry yields,

making them look relatively unappealing, particularly relative to bond yields.

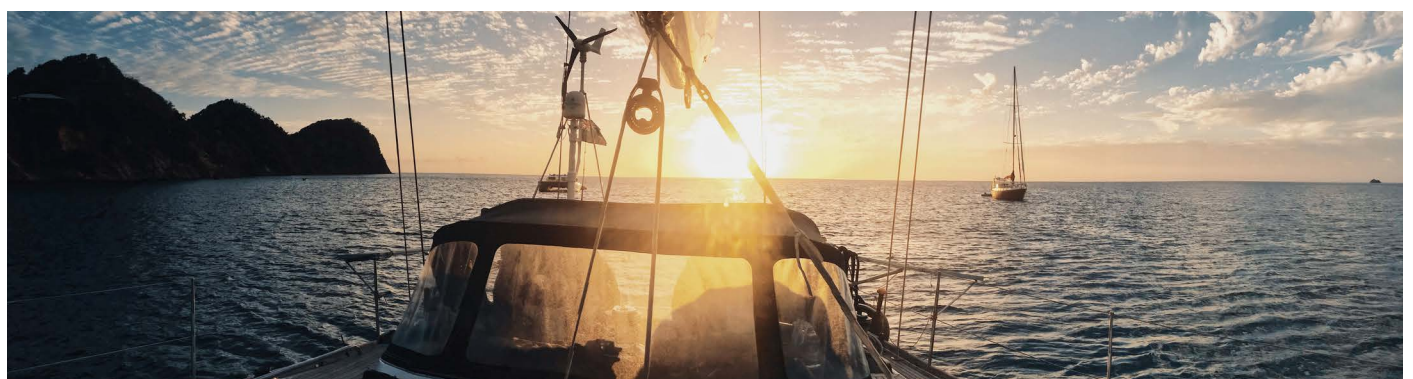
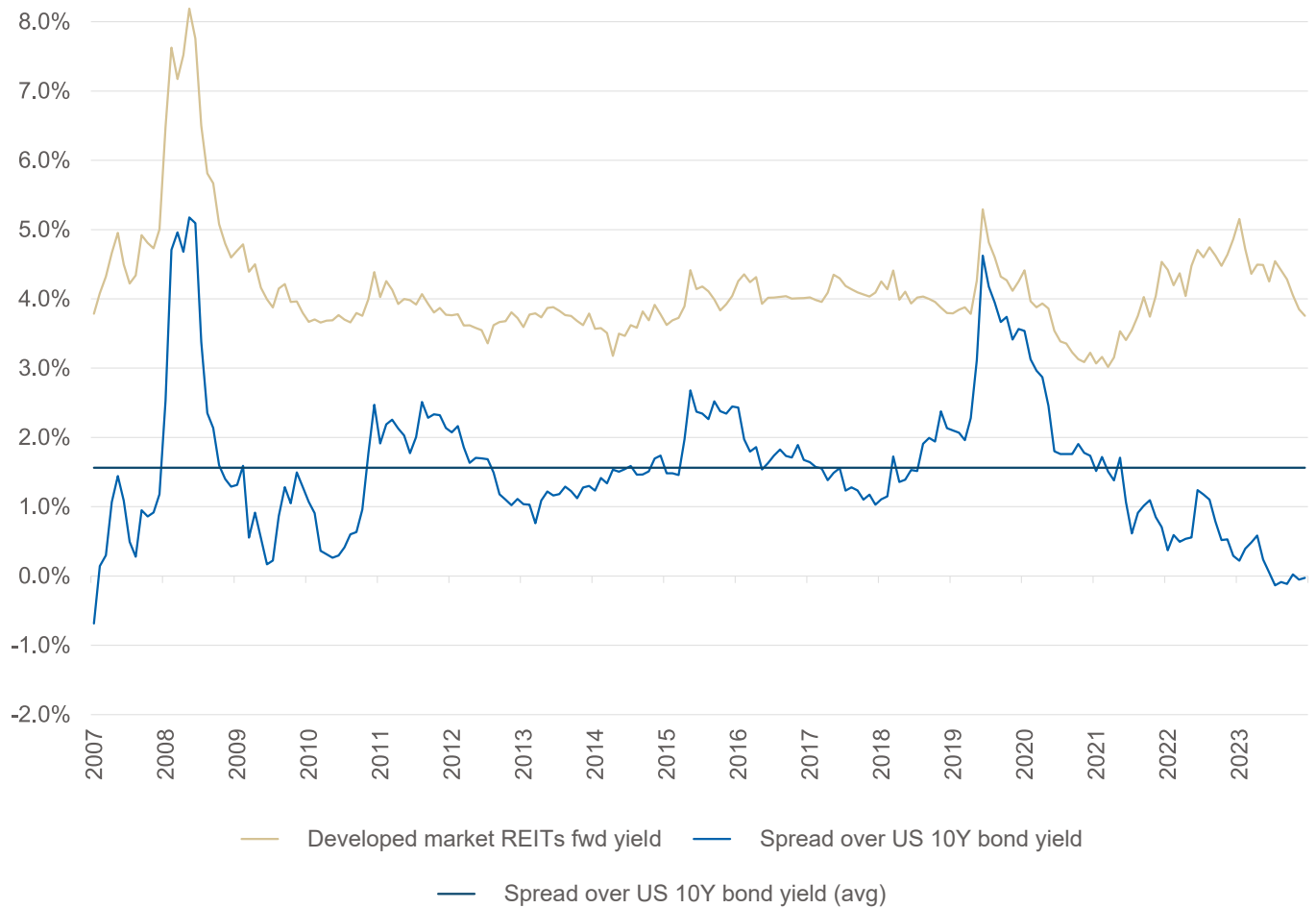


Figure 12: Forward dividend yields on global REITs are hovering below the US 10-year government borrowing rate

Source: Anchor, Bloomberg



Investors should, in part, be compensated for the lower yields with higher growth expectations, but that transition is still in the early stages. We think it is possibly too early to call an absolute bottom in the traditional sectors (though there are early signs of stabilisation in the higher-quality segments of

retail and office), and this will act to dampen any meaningful income growth in the near-term asset class level. We anticipate a total return in US dollar terms of 5% for investors in the asset class over the next twelve months, predominantly in the form of income.



ANCHOR INSIGHTS

In this section of the Navigator, staff across Anchor provide insights into our thinking, strategy, and worldview. This quarter, Steph Erasmus explores key drivers behind gold's recent outperformance, its relationship with real yields, and the potential impact of shifting global economic dynamics on its future value; James Bennett provides a high-level summary of the global cybersecurity industry; as interest rates finally enter the long-awaited cutting cycle, Casey Sprake and Thomas Hendricks look at how low they could go; Nicola Brescia discusses his role as a wealth manager and how the wealth management toolkit includes technical expertise, knowledge, and experience, all of which are applied to separate the noise from the important and relevant information; Danny Figueira and Shaun de Villiers take a deep dive into the importance of financial planning for couples; and, finally, Di Haiden and Aarthi Bikram give readers a refresher course on capital gains tax.



Where to from here for the gold price?



WRITTEN BY:
Stephan Erasmus, CFA, CGMA
 Investment Analyst

Steph joined Anchor as a senior investment analyst in 2022. Steph worked in several financial management positions after studying at Rhodes University, UNISA, and the University of Pretoria. He joined Avior Capital Markets in 2018 as a sell-side analyst. While at Avior, Steph was rated fourth in the annual Financial Mail Ranking the Analysts survey for healthcare and pharma sector coverage in 2021 and was also the joint top-rated industrial small- and medium-cap analyst for 2020 and 2021. Steph has a CFA designation and a CGMA global designation for management accountants.

Historically, gold has been a safe-haven asset and has retained its value during economic and geopolitical turmoil. As 2024 unfolds, several factors are converging to shape the trajectory of gold prices. Central banks are increasing their reserves, geopolitical risks are mounting, and macroeconomic signals, especially those tied to interest rates and the US dollar, influence market sentiment. This article explores the key drivers behind gold's recent outperformance, its relationship with real yields, and the potential impact of shifting global economic dynamics on the metal's future value.

Gold pricing in US Fed cuts, real-yield link rebased

Gold's recent resilience to rising real yields has surprised many as its traditional inverse relationship with real interest rates seems to weaken, indicating a possible shift in this long-held dynamic. Gold continues to react to changes in real yields, especially the Fed rate-cut cycle. Markets expect further rate

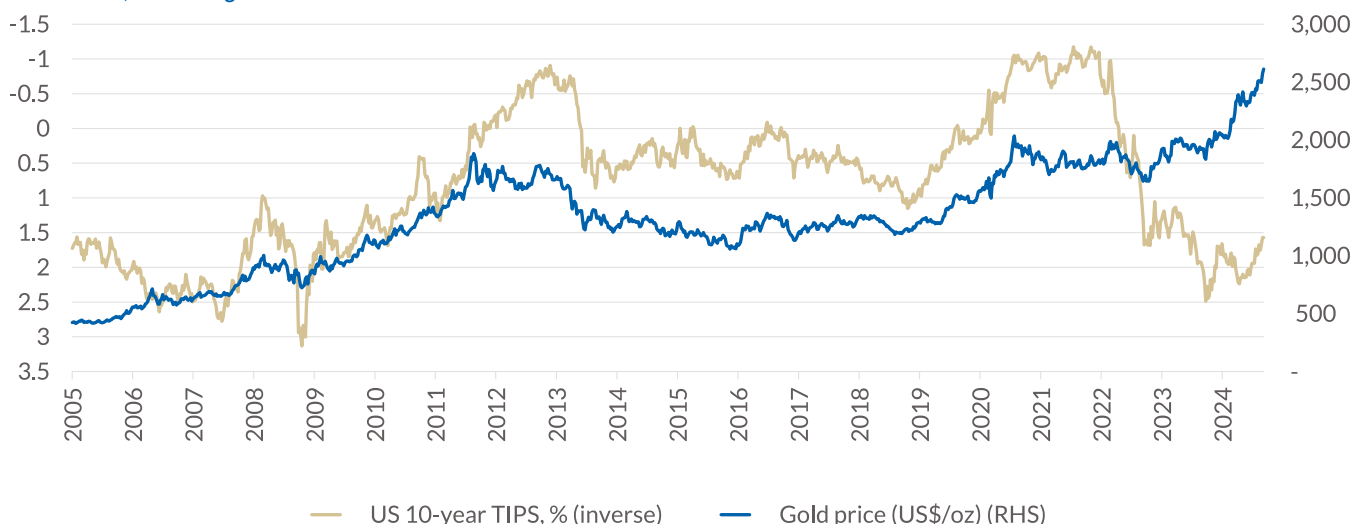
cuts by next year. Gold reflects these anticipated cuts and responds to short-term signals like Chinese economic data, indicating multiple factors at play in the short term. One view is that expectations of lower rates may already be factored into the gold price, and therefore, as the Fed cuts rates, profit-taking could lead to lower gold prices.

Central banks are increasing their reserves, geopolitical risks are mounting, and macroeconomic signals, especially those tied to interest rates and the US dollar, influence market sentiment

However, as of the time of writing, the gold price remains stable, if not slightly increasing, after the rate cut cycle commencement. This demonstrates the complex interplay between real yields, market expectations, and global economic signals affecting gold prices.

Figure 1: US Treasury yields vs the gold price

Source: Anchor, Bloomberg



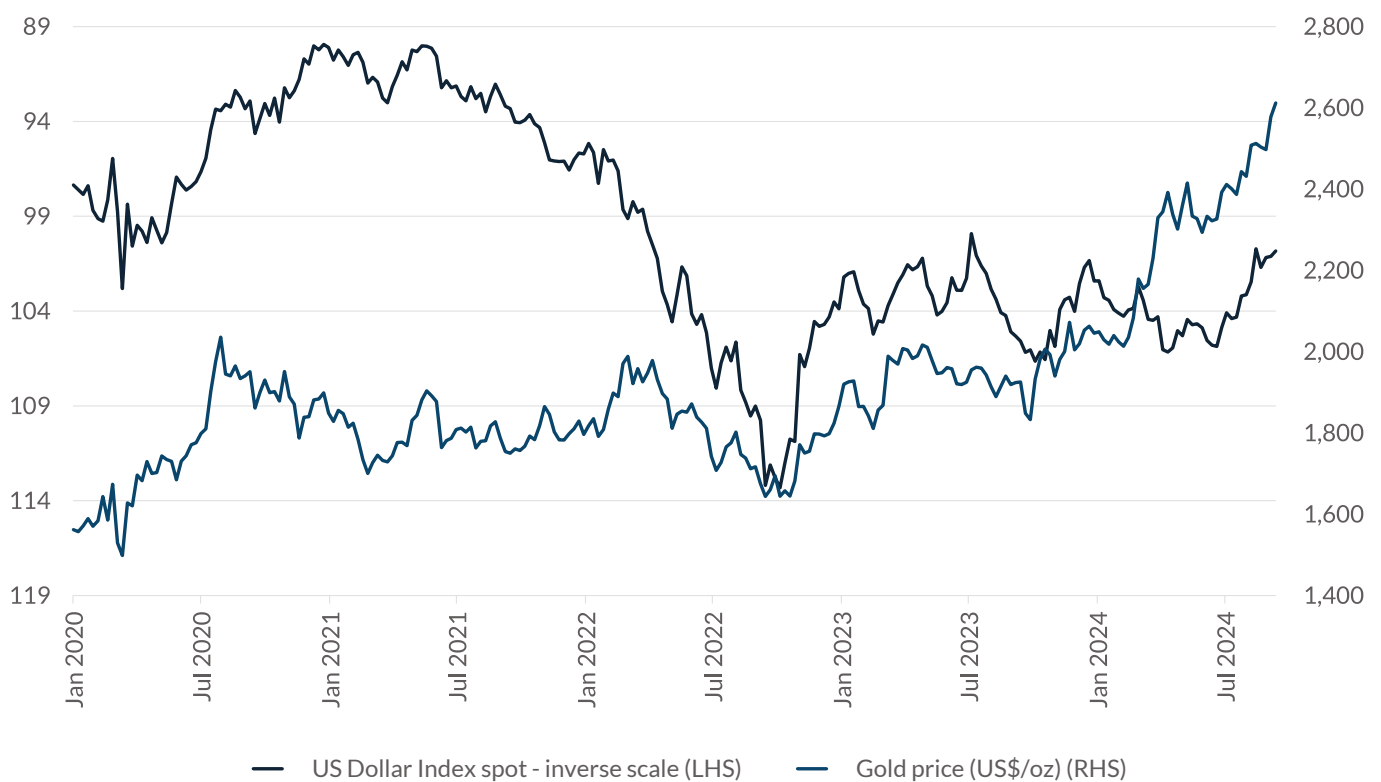
US dollar weakness could still boost gold

In late February, the sharp rise in the gold price suggested a potential decoupling from its traditional inverse relationship with the US dollar. However, that relationship has since reasserted itself. As we approach the end of 2024, with the US Fed adopting a more dovish stance and cyclical factors weakening, there is a scenario where a weaker US dollar could lead to higher gold prices.

The US economy performed well in the first half of this year, increasing the probability of a soft landing. However, with lower opportunity costs, gold stands to benefit due to the Fed's rate-cutting cycle. Despite recent divergences, the outlook for gold remains positive, particularly if the US dollar weakens further in 2024 as the Fed continues its dovish stance.

Figure 2: US dollar value vs the gold price since the start of the COVID-19 pandemic

Source: Anchor, Bloomberg



Mined-gold output could reach record levels in 2024

Bloomberg expects 2024 global gold output to increase by 2.5%-3%, potentially setting a record. Key players in the gold mining industry, including Canada, Côte d'Ivoire, Ghana, and Papua New Guinea, are driving this output increase. In Canada, new mines like IAMGOLD's Côte and Equinox Gold's Greenstone Gold are expected to significantly increase gold production, further solidifying Canada's position as a top producer. In Côte d'Ivoire, the opening of Endeavour Mining's Lafigue mine is expected to boost production growth. Côte d'Ivoire has become a significant contributor to the West African gold supply, and this new mine should help support

further expansion in the region. Ghana, the largest gold producer in Africa, is expected to benefit from increased production at Newmont's Ahafo mine and the ramp-up of AngloGold Ashanti's Obuasi mine. Meanwhile, Barrick Gold's Porgera mine in Papua New Guinea has resumed operations and is anticipated to contribute significantly to the global gold supply. With these new projects coming online and existing operations ramping up, 2024 is shaping up to be a record year for mined gold output, supported by key advancements in Canada, West Africa, and the Pacific region.

Central bank gold buying could remain robust

Central banks have been significant players in the gold market, making record-high purchases in recent years. In 2022, they bought 1,083 tonnes of gold, followed by 1,037 tonnes in 2023. Buying 483 tonnes in 2H24 would total 967 tonnes for 2024, 52% above the 2013-2024 average. This reflects a trend of increasingly viewing gold as a safe-haven asset. Central banks' demand for gold is expected to remain strong over the next 2-4 years.

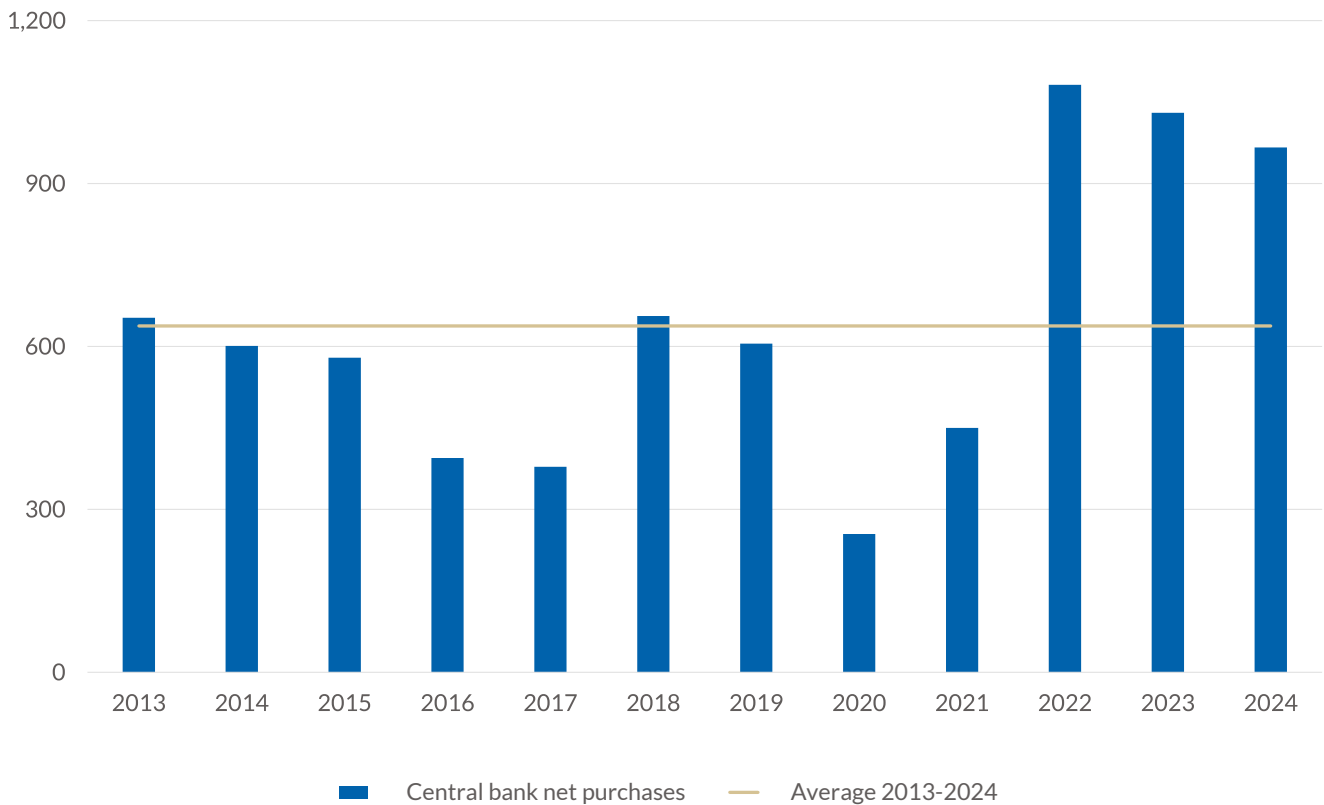
Developing and emerging economies' central banks continue to view gold as a hedge against inflation and currency devaluation. China and India were active buyers in 2023 and 1Q24, with

other nations like Kazakhstan and Turkey also reinforcing this trend by acquiring sizeable amounts of gold to bolster their reserves. Developing countries, with economies more exposed to global shocks, are drawn to gold for its ability to preserve value during crises. Its performance in times of volatility drives robust demand among central banks. Despite some predicting a slight tapering of purchases, overall momentum remains strong due to the need for economic stability. Persistent inflation, currency risks, and political uncertainties make gold central in reserve portfolios. While the growth rate of purchases may decelerate slightly, central-bank gold buying will likely remain a robust market feature for the foreseeable future, reflecting the enduring appeal of gold as a strategic asset in uncertain times.

Figure 3: Central bank net purchases of gold (tonnes)

Source: Anchor, Bloomberg

Note that 2024 gold purchases are assumed to be double the actual sales in 1H24 (to June 2024).



Gold holdings can grow in emerging and sanctioned countries

From 2023 to 2024, Russia, China, and India significantly increased their gold reserves due to geopolitical tensions and efforts to diversify away from US dollar assets. Sanctions following its invasion of Ukraine left Russian producers with limited international markets, leading them to sell gold domestically. By early 2024, Russia's gold reserves stood at approximately 2,350 tonnes, making gold a key element in its financial strategy.

China added over 300 tonnes of gold between 2022 and mid-2024, bringing its reserves to around 2,262 tonnes. This reflects China's ongoing strategy to reduce its dependence on the US dollar and mitigate global financial risks. India also increased its gold holdings, adding approximately 18.5 tonnes in 1Q24 to a total of 760 tonnes. Like China and Russia, India views gold as diversifying its reserves and reducing exposure to US dollar-denominated assets.

Conclusion

Geopolitical tensions, central bank demand, and macroeconomic signals will influence the outlook for gold in the remainder of 2024. Its future performance may depend on US Fed rate cuts, and central bank buying continues to provide support as a hedge against global uncertainties. Nevertheless, potential headwinds remain, especially if the Fed

continues cutting rates as expected. Record gold production in 2024 could also increase supply, potentially moderating price increases. Despite this, gold continues to be valued for its stability during economic volatility and is expected to remain a key asset for central banks and investors. Real yields, central bank demand, and global economic conditions will influence gold's performance over the coming months.



A review of the global cybersecurity industry



WRITTEN BY:
James Bennett,
 Global Equity Analyst

James has a BCom Hons from the University of the Witwatersrand and started his career at UBS (and its predecessor firms) in Johannesburg in 1994. During his 20-year career at UBS as a sell-side analyst, he was rated among the top 2 in the SA diversified mining sector for 14 consecutive years (by the annual Financial Mail Ranking the Analysts survey) until his departure in 2014. He was also rated the number one analyst in the SA steel sector for nine consecutive years. From 2015 to 2018, James covered the SA diversified mining sector at Citi. Since then, he has managed his own global stock portfolio, primarily investing in the US, China, and Europe. James started at Anchor in 2022, covering global listed companies.

I have followed the cybersecurity sector as an analyst for over 15 years and I have always found it to be a fascinating industry. Cybersecurity has remained mission-critical for corporates (and private individuals) of any size for many years. The industry’s mission to protect digital and physical assets has become increasingly critical every year. In recent years, it has also become more widely followed by financial market commentators and participants. However, the core thesis behind investing in the sector is unchanged, and at Anchor, we have a long-term positive view around investing in global cybersecurity. We believe it is a sector with long-term secular tailwinds, offering a promising investment thesis.

While it may be tempting to fill many pages with a deep dive into the intricate inner workings of the cybersecurity industry,

this review is intended to be a high-level summary. Once you drill down below the surface, the industry becomes highly complex and even seasoned tech experts are left floundering at the complexity beyond a certain point.

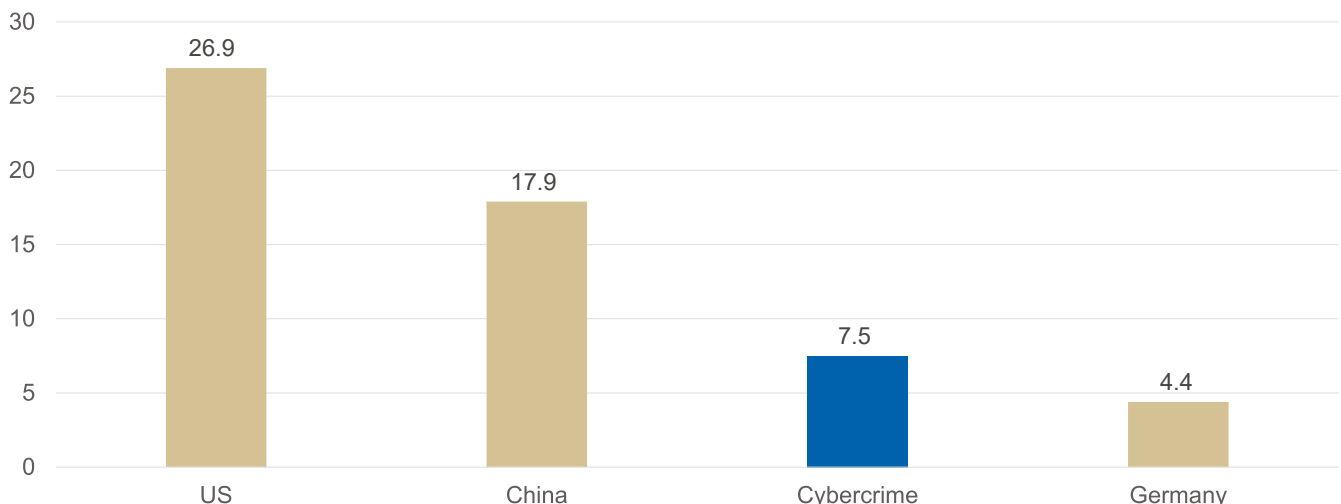
Cybersecurity has remained mission-critical for corporates (and private individuals) of any size for many years

The estimates of cybercrime’s costs to the global economy vary widely, ranging between US\$5trn and US\$10trn p.a. Either way, the cost is enormous. This has led many observers to rank cybercrime as the third-largest “economy” in the world after the US and China.

Figure 1: The largest global economies in 2023 (US\$trn)

Source: IMF, Anchor.

We have used the mid-point of the US\$5trn-US\$10trn range estimate for the cybercrime economy.



The average cost to corporates of a data breach has steadily risen to US\$4.9mn by 2024, according to research done by IBM and the Ponemon Institute. A breach can be traumatic for any organisation. The costs of a data breach include the costs of detecting the breach, post-breach remediation, and the subsequent loss of business. It seems inevitable that most corporates will, in time, experience a breach of some sort. The aim is to try and keep the frequency and the impact of data breaches to an absolute minimum. None of the cybersecurity companies can claim that their offerings are 100% foolproof. Although there are many initial attack vectors, compromised credentials top the rankings. A corporate can have the best

cybersecurity systems in the world, but the entire organisation is at risk if an employee is careless with their login credentials.

The global cybersecurity market, including all products and services, was valued at an estimated US\$167bn in 2023 and will reach nearly US\$300bn by about 2032. This is a significant revenue pool that cybersecurity companies are competing over.

Figure 2: The average cost of a cyber data breach, 2014 to date (US\$m)

Source: IBM, Ponemon Institute, Anchor

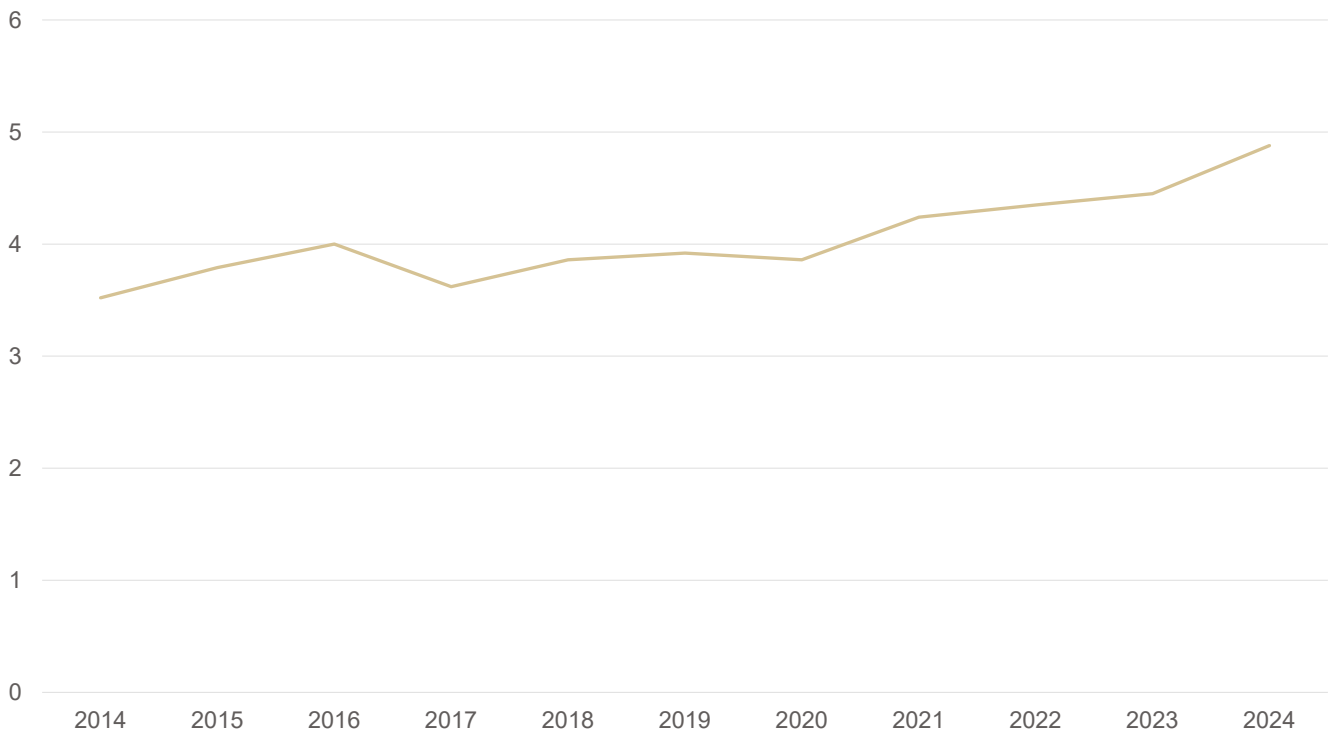
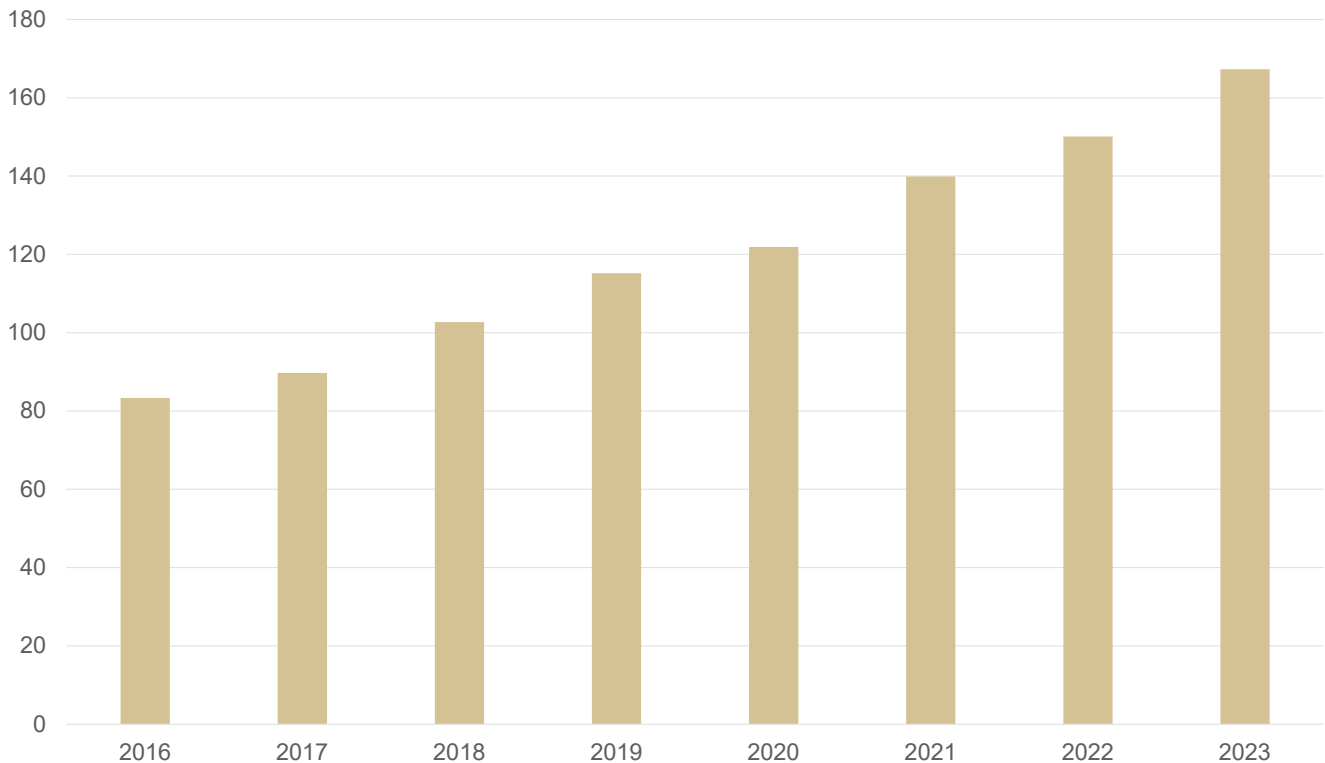


Figure 3: The global cybersecurity market products and services (US\$bn)

Source: Statista Market Insights, Anchor



There is an interesting analogy between investing in the cybersecurity and defence industries. The defence industry offers many attractive properties, such as mission-critical and resilient demand throughout the economic cycle. However, many potential investors baulk at the “killing” aspect that goes with the defence industry. The cybersecurity industry offers many qualities similar to those of the defence industry but without negatively impacting human lives. Many of the world’s leading cybersecurity companies sell to governments even though it is a relatively small part of their total earnings.

Morgan Stanley publishes a quarterly survey of US corporate chief information officers’ (CIOs) tech budgets and spending trends. These surveys typically show cybersecurity spending as the part of IT budgets that are least likely to be cut. While the cybersecurity industry is not entirely immune to broad economic downturns, it is extremely defensive as corporates do not compromise on cybersecurity just because the economy has turned down a bit.

Years ago, cybersecurity was mostly defined by on-premises, physical firewalls. There was an on-premises network with a physical firewall to protect it. Anybody behind the firewall was considered to be safe. However, with the advent of the internet,

email, smartphones, the cloud, work-from-home, work-from-anywhere and the internet-of-things (IoT), the attack surface available to threat actors has grown exponentially. The industry has moved onto a type of zero-trust architecture ([ZTA], a somewhat loose term that many vendors lay claim to), which says that no one is to be trusted, not even a company’s CEO. What if it is not the CEO who has emailed you a request but someone else who has assumed their identity? In my opinion, identity protection is one of the most challenging aspects to get right in cybersecurity.

with the advent of the internet, email, smartphones, the cloud, work-from-home, work-from-anywhere and the internet-of-things, the attack surface available to threat actors has grown exponentially.

With the explosion of the attack surface has come a material increase in the suite of products required to protect corporates and individuals. This has left the cybersecurity industry one of the most fragmented in all of tech. There is a long list of individual best-of-breed point solutions and some larger platform companies that offer a suite of products.

The average US corporate uses about 40 different cybersecurity vendors, leading to a complex sprawl of products. This has created a tug-of-war between using best-of-breed point solutions or using a platform whose products integrate into a couple or even a single operating system. I would argue that Palo Alto and Fortinet are the best examples of platform offerings. However, companies like CrowdStrike, Zscaler, and even SentinelOne are all laying claim to platform offerings. Overall, the needle does seem to be shifting to the power of platform offerings.

Microsoft is considered the biggest player in the cybersecurity industry. However, it bundles many cybersecurity products

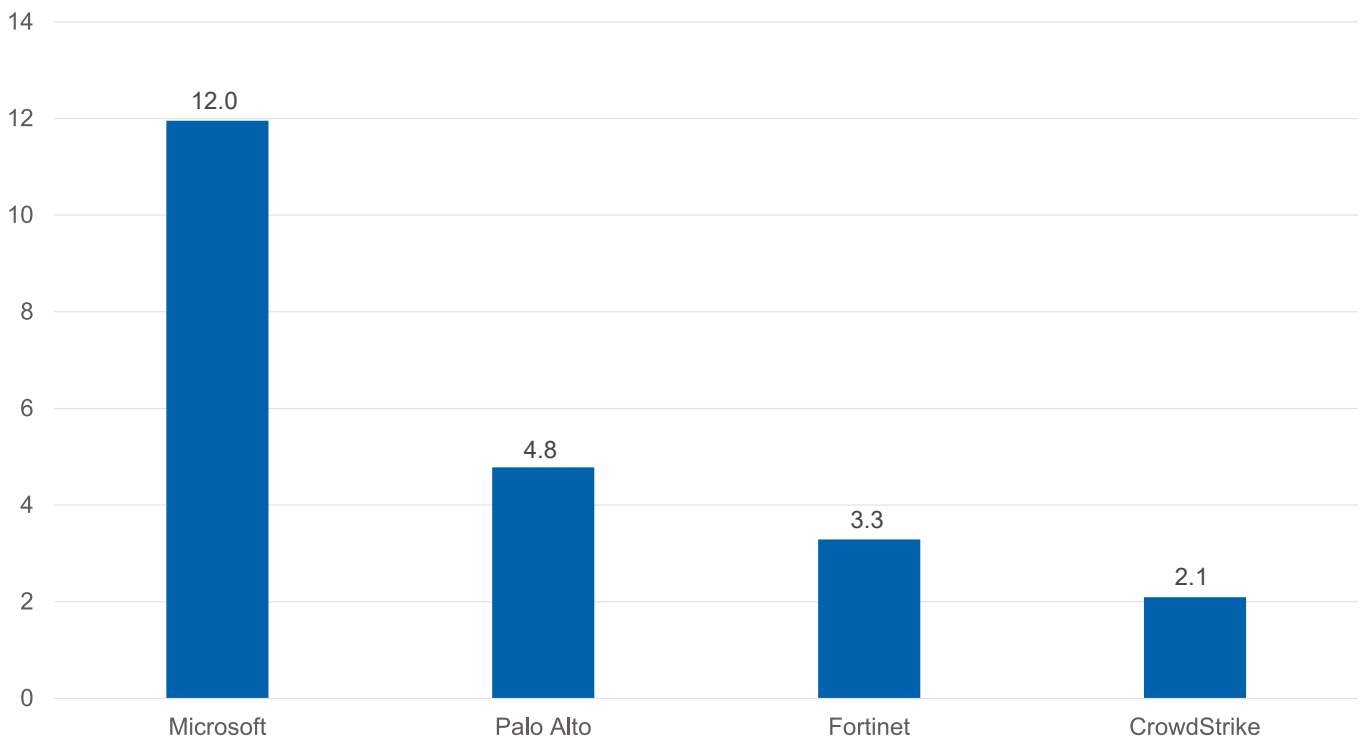
into broader software packages. As such, its estimates of c. US\$20bn in cybersecurity revenue is often taken with a pinch of salt. It is unclear whether it could achieve this level of revenue if its cybersecurity products were all sold on a standalone basis. There is even some double counting where certain corporates run CrowdStrike or SentinelOne's endpoint products in conjunction with the Microsoft Defender offering.

Palo Alto is the largest independent cybersecurity company in the world, yet it has only a c. 5% global market share. Fortinet is likely the second-largest independent, with a c. 3% market share.

Figure 4: Cybersecurity market share by company (%)

Source: Company reports, Statista Market Insights, Anchor

Microsoft's market share is based on the company's indication that it achieves c. US\$20bn in annual cybersecurity revenue.



There is no such thing as the “best” cybersecurity company. Each of the bigger players has strengths and weaknesses. The industry is highly competitive, with many participants adamant that their offerings are the best for each specific purpose. Hence, the clamour for the “best-of-breed” mantle. Corporate buyers do not want to settle for second best when it comes to cybersecurity.

At Anchor, we admire Fortinet as a company, given that it is exceptionally well-run. It has a reasonable P/E for a US growth

tech stock, is still run by its founders from c. 20 years ago, highly profitable (its free cash flow cash margin puts it in the top 5%-10% of S&P 500 Index constituents on this measure), a strong balance sheet, a good balance between growth and profitability, a high return on capital employed (as it builds mostly internally with very few acquisitions), and judicious share buybacks typically only when its share price has declined somewhat. As shown in the chart below, Palo Alto and Fortinet have proven to be excellent share investments over time.

Figure 5: Palo Alto and Fortinet share price performances in US\$ (rebased to 100 as at 4 January 2013)

Source: Bloomberg, Anchor



There are surveys from Gartner, Forrester and MITRE ATT&CK that attempt to evaluate the companies' offerings within specific sectors. These surveys are broadly accurate, and undoubtedly, the cream always rises to the top. However, they cannot be blindly relied upon and require some nuance and interpretation. The MITRE ATT&CK evaluation does real-world testing on the various security endpoint offerings in the market. What amuses me is that within 24 hours of the assessment being published, several endpoint vendors publish their interpretation of the results, claiming to have "won"! I have learnt that within this industry, the truth usually lies somewhere in the middle.

The recent explosion of artificial intelligence (AI) is ultimately a tailwind for the cybersecurity sector. Although AI puts more power in the hands of threat actors, it also increases the need for cybersecurity protection. A cybersecurity company like SentinelOne was built from the ground up on AI since 2013, long before AI was fashionable. It is likely to become a case of fighting AI with AI.

Finally, a brief discussion on the recent large-scale IT outage caused by CrowdStrike, one of the world's leading cybersecurity companies. CrowdStrike is truly a world-class business, which is what makes the outage the company caused even more perplexing. It was not actually a cyber breach but an update/

configuration change that rolled out and instantly bricked every Windows machine it touched. It is hard to understand why standard best practise was not employed, such as testing on a few machines first and then incrementally rolling it out in stages. Some in the tech world have questioned whether it points to deeper issues within the company, but we have no way of knowing whether that is true.

Given CrowdStrike's excellent track record before this incident, we must assume that it is highly unlikely that this exact issue will ever happen to the company again. This will likely slow its signing of new business for the next few quarters, but I am sure that in a couple of years, the world will have mostly forgotten about this incident. Note that cybersecurity contracts typically limit the vendor's liability to the contract's value. Without this, the cybersecurity vendors would be open to material litigation on an ongoing basis.

The CrowdStrike incident also highlights the dangers of too much concentration in IT—some diversity between different vendors is not bad. Still, overall, in our view, the ever-growing need for cybersecurity (and the investment thesis for these companies) remains intact as businesses and individuals have to protect their digital assets from increasingly sophisticated cyber-attacks.

The interest rate-cutting cycle is finally here, but how low will rates go?



WRITTEN BY:

Casey Sprake,
Investment Analyst - Fixed Income



Thomas Hendricks,
Quantitative Analysis - Fixed Income

Casey holds an MCom in Economics and joined Anchor in 2019. She brings her passion for economics to the fixed-income space, particularly global and African country analysis.

Thomas started his career in financial markets in 2016 after studying various disciplines for nine years and graduating with three degrees. His passion is a mathematical approach to understanding investments and ensuring that fundamental analysis meets quantitative analysis to generate returns.

As 3Q24 unfolded, global interest rates finally entered the long-awaited cutting cycle, signalling a significant shift in monetary policy for major economies like the US, eurozone, and UK. This has fed through to SA as well. After an extended period of aggressive rate hikes aimed at curbing inflation in the post-COVID-19 period, major central banks are pivoting towards easing financial conditions to support growth (and the labour market) in the face of moderating inflation and slowing economic activity. This moderation in inflation, particularly in DMs like the US, is driven by slowing employment and wage growth, along with stabilised energy prices. This has fuelled expectations that headline inflation may return to long-term targets by 2025.

However, persistent inflationary pressures in the services sector and rising maritime freight costs present ongoing risks to core inflation, complicating central banks' monetary policy strategies. Additionally, geopolitical tensions and lingering supply chain disruptions threaten to derail the disinflationary momentum. In SA, where inflationary pressures and economic challenges are more pronounced, interest rate cuts will aim to provide relief amid sluggish growth. Therefore, as we transition into this new, less restrictive monetary policy environment, the outlook will be a crucial determinant for investors as 4Q24 progresses. The critical question is how low will rates go?

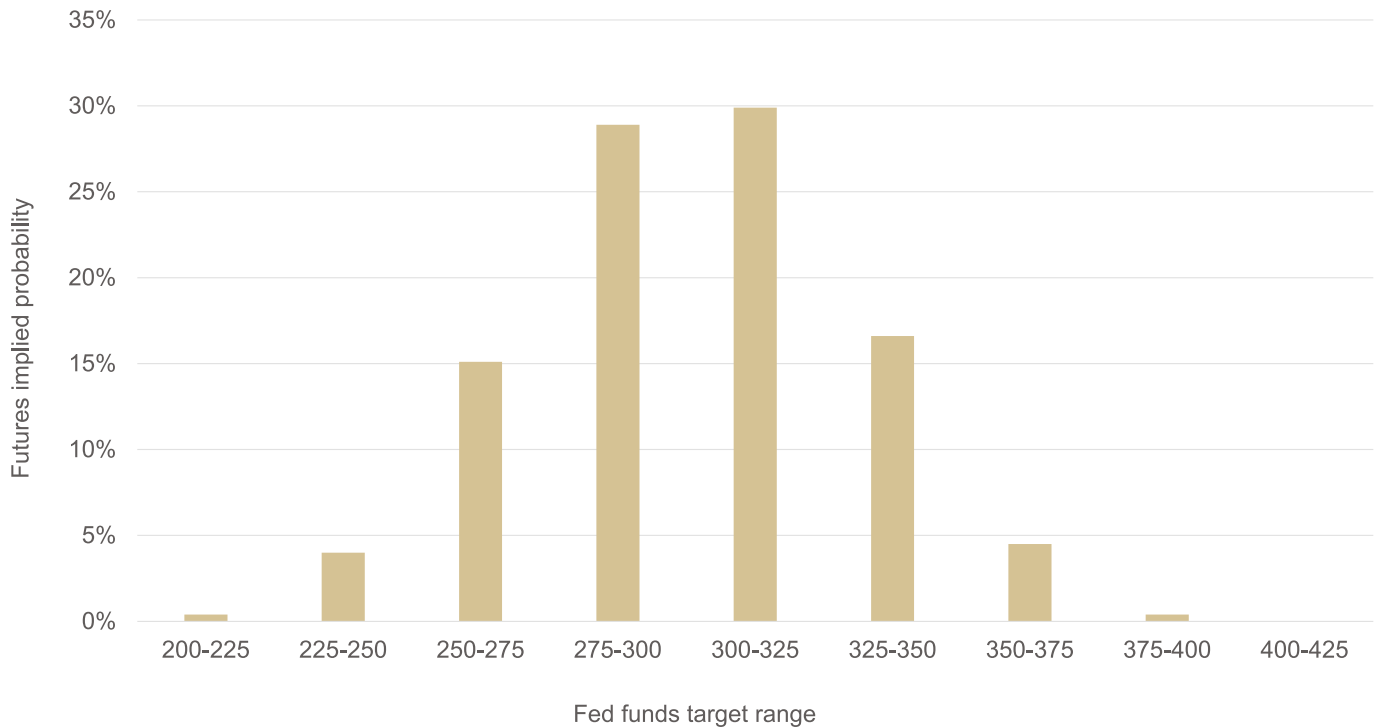
US: Is the Fed the hare of central banks?

When considering the US Fed through the lens of the tortoise and the hare analogy, it appears that the Fed embodies the hare's role among central banks. Speculation had been rising that the Federal Open Market Committee (FOMC) might dash out of the starting blocks with a bang - entering an easing cycle with a larger interest rate reduction than the usual 25-bp shifts. This was confirmed during the Fed's latest Monetary Policy Committee (MPC) meeting on 18 September, where it surprised consensus among economists by announcing a 50-bp reduction in the federal funds target range to 4.75%-5.00%.

The MPC indicated this was not a "one and done" decision, as every member anticipates further rate cuts over the next year, according to the Fed's updated dot plot, which reflects their future interest rate expectations. The emphasis of the meeting was seemingly more on said dot plot rather than the interest rate cut itself. The Fed estimates the long-term neutral interest rate to be just under 3%, consistent with previous communications, implying approximately 1.75% to 2.00% in potential cuts. Looking at the futures market, we can see a range of outcomes for the terminal federal funds rate (using the 30 July 2025 expected Fed meeting as the terminal level). While some market participants are trading on an implied probability of rates dipping into the low 2% range by mid-2025, most expectations (59%) centre on 2.75%-3.25%.

Figure 1: The implied probability of the Fed funds rate as at 30 July 2025

Source: Anchor, Reuters



Notably, Fed governors have suggested that the journey to the neutral rate may occur faster than expected. Overall, in a sense, the meeting served as a lesson in risk management. The Fed does not foresee a sharp economic shock that would necessitate a loose policy stance. Yet, there is growing concern that maintaining current restrictive rates could hinder its employment mandate. Consequently, the FOMC used the 50-bp cut to signal its intention to reach a neutral policy level (where interest rates neither impede nor stimulate the US economy) more quickly. Notably, the median Fed member does not see the need to lower rates below the neutral level into an accommodative setting. Thus, while the Fed’s destination for interest rates is unchanged, it is accelerating the pace of cuts to reach that destination sooner. This could bode well for risk assets, as the Fed currently appears unconcerned about a US recession. Continued economic growth in the US will likely support equity markets, and it seems the “Powell put” is back, indicating the Fed has both the capacity and willingness to support US equities with further cuts if needed.

Eurozone: Walking a tightrope

In line with unanimous expectations, the ECB Governing Council decided at its September policy meeting to lower the key deposit rate by 25 bps to 3.50%. This marks the second step in its easing cycle, which began in June. As previously announced in March, the rate corridor was also adjusted, with

both the main refinancing rate and the marginal lending rate lowered by 60 bps to 3.65% and 3.90%, respectively. These adjustments are intended to align with the normalisation of the ECB’s balance sheet and to guide short-term market rates as excess liquidity decreases. Consequently, this decision is more technical than a shift in the overall policy stance. ECB President Christine Lagarde emphasised that stability in the inflation outlook has given the ECB Governing Council greater confidence that inflation is moving towards the target, allowing for a reduction in policy restrictiveness.

In line with unanimous expectations, the ECB decided at its September policy meeting to lower the key deposit rate

Recent developments suggest that the ECB is not considering significantly changing its policy stance. The Council remains focused on data dependence rather than relying on individual data points as it navigates its monetary policy path. For now, it appears the ECB prefers to pursue gradual reductions in the degree of monetary policy restrictiveness, likely indicating 25-bp cuts during quarterly ECB staff projection meetings until the neutral rate is approached (currently fluctuating between a range of 2% and 2.5%).

Financial markets, however, are pricing in more aggressive cuts, anticipating the possibility of more than 25 bps of declines by year-end. We believe this scenario is unlikely. Where we align more closely with market sentiment is the potential for more than four policy rate cuts next year. However, growth and labour market data would need to disappoint the ECB's forecasts again in order for this to materialise. The outlook remains uncertain; with the 2024 Paris Olympic Games boost fading, a weaker trajectory at the beginning of 2025 is certainly possible. If this occurs, the return to neutral may progress quicker than anticipated.

UK: Steady as she goes

In contrast to most DMs, the UK's interest rate trajectory is an outlier after the Bank of England's (BOE) latest rate decision. In the same month that saw the US, ECB, and SA cut rates, the BOE held rates steady at 5%. Once again, the decision was not unanimous, with one member advocating for an additional 25-bp reduction. This cautious decision reflected that the BOE is not in as fortunate a position as the US Fed regarding inflation. The latest August UK CPI printed at 2.2% - above the BoE's target of 2%, with risks to the upside mounting. Whilst Inflation has fallen significantly since it hit 11.1% in October 2022 (the highest rate in 40 years), some parts of the UK economy, like the services sector, are still seeing more significant price rises.

More importantly, core inflation (which excludes the more volatile food and energy prices and serves as a critical indicator of underlying price pressures) remains sticky at 3.6%. A noteworthy takeaway from the September BOE meeting

minutes highlighted that "for most members, in the absence of material developments, a gradual approach to removing policy restraint would be warranted." This sentiment aligns closely with the market's current expectation that the next rate cut is scheduled for November, followed by a steady path toward achieving a 'neutral' policy stance. Overall, the UK's current economic landscape does not indicate an urgent need to rush toward this goal; instead, it supports a more measured approach.

When assessing the UK interest rate outlook, it is vital to consider the pace of quantitative tightening (QT). In its annual announcement, the BOE decided to lower its holdings of UK government bonds, known as gilts, by GBP100bn (US\$133bn) over the next 12 months through a combination of active sales and the maturation of bonds. This decision aligns with the previous period, despite some expectations for accelerating the programme. The BOE's balance sheet expanded significantly during the pandemic as it aimed to stimulate the economy, but it reversed course and initiated QT in February 2022.

Currently, the BOE is incurring losses on its QT programme, which taxpayers effectively subsidise since bonds are sold at lower prices than their original purchase costs. Despite this, BOE Governor Andrew Bailey argues that conducting QT is necessary now to create room for future quantitative easing (QE) or other monetary operations. This approach highlights the delicate balancing act the central bank must perform as it navigates economic recovery while managing its balance sheet effectively.



SA: If the US Fed is the hare of central banks, then the SARB is certainly the tortoise

Unlike the accelerating Fed, the SARB sees no point in rushing rates to lower levels, and instead, it believes that a gradual, data-driven approach is the most appropriate. Slow and steady will win the race for the SARB - the tortoise approach indeed. Against a steadily moderating inflationary backdrop, as expected, the SARB's Monetary Policy Committee (MPC) decided to lower the repo policy rate by 25 bps to 8% p.a. at its 19 September meeting, with the prime lending rate now sitting at 11.5%. In deliberating the policy stance, the MPC weighed three options - leaving rates unchanged, a 25-bp cut, and a more aggressive 50-bp cut. Ultimately, the committee agreed on a 25-bp reduction, concluding that a slightly less restrictive stance aligned with its goal of achieving sustainably lower inflation over the medium term.

This decision reinforced our long-held view that the MPC will avoid a sharp 50-bp cut, as the SARB typically favours gradual reductions to maintain market stability and predictability. This cautious approach reflects the SARB's commitment to managing expectations and avoiding sudden market shocks. The central bank can adjust based on evolving economic conditions by adopting a data-dependent, incremental strategy. This method minimises the risks of large, rapid cuts, such as heightened market volatility or misaligned signals. It also ensures smoother transitions in financial markets, allowing for a more measured and adaptive response to inflationary pressures and economic

performance.

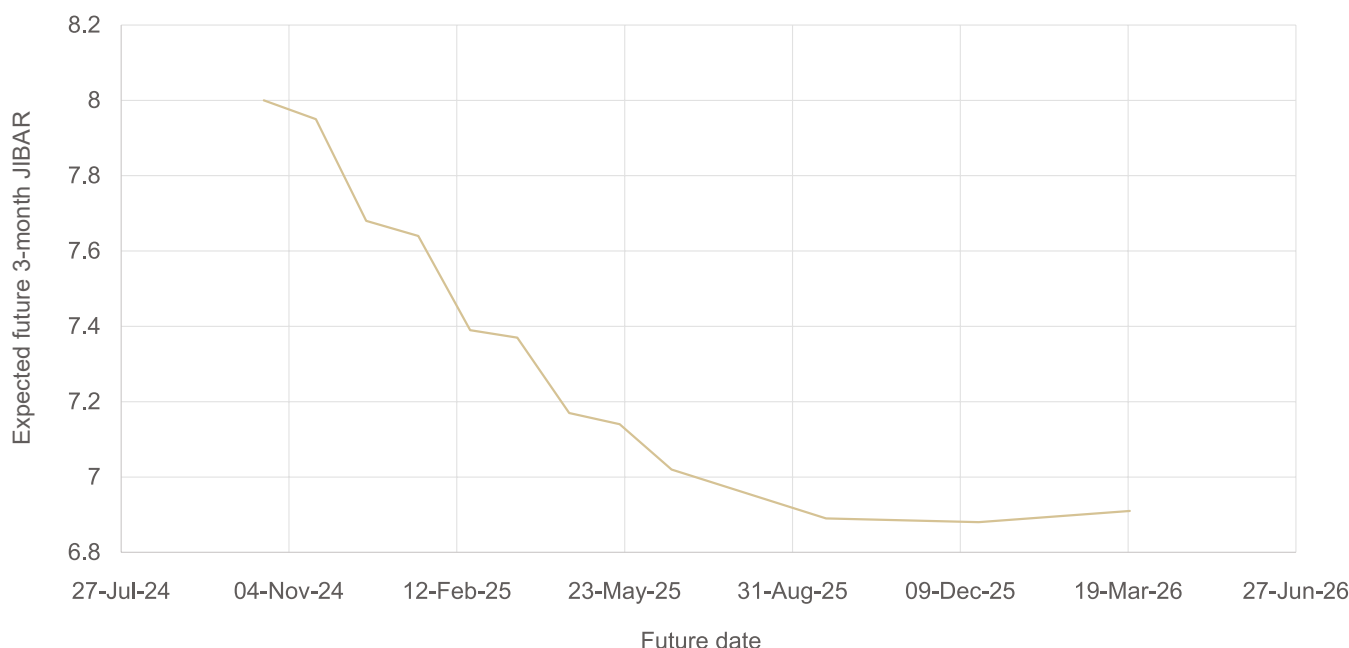
Looking ahead, one key point from the latest SARB MPC statement is that its forecast sees rates moving towards neutral next year, stabilising slightly above 7%. This confirms our base case of 100-125 bps of cuts in this cycle. It is worth noting that the SARB's Quarterly Projection Model (QPM) previously saw the repo rate ending at 7.25% but now signals a further 25-bp cut in 2025/2026. This will take the repo rate to a steady 7%, which aligns with our stated base case. Regarding market reaction, the specific timing or structure of these rate cuts seems relatively unimportant. Assuming the full magnitude of the reductions is ultimately delivered, markets are likely to respond in a relatively neutral manner, similar to the reaction seen shortly after the MPC announcement. This suggests that investors are more focused on the overall trajectory of monetary policy rather than the nuances of individual rate decisions.

... the SARB typically favours gradual reductions to maintain market stability and predictability ...

As highlighted in Figure 2 below, we note a terminal expected rate of just below 7% (implying some market participants see rates dipping below 7% to 6.75% - this split is approximately 50-50). From the inferred forward rate agreement (FRA) data, we also highlight that market pricing expects, as we do, the gradual

Figure 2: The FRA strip implied SARB interest rate trajectory

Source: Anchor, Reuters



cutting cycle to persist, with no single meeting expected to deliver a greater than 25-bp cut. Given SARB MPC messaging on this topic, we are confident that the only deviations from this would be in the event of drastic changes to the underlying inflation, growth, or employment data metrics (with their relative importance in that order).

Conclusion

The direction of global central bank policy rates is downwards. The two key questions then are the rate of that decrease and the level to which central banks are willing to cut to stimulate economic growth. We foresee the pace of SA rate cuts being stable at 25 bps at a time, with a terminal rate likely to be 6.75%-7% (resulting in a prime rate of 10.25%-10.5%). The Fed is a more

open-ended question, with a high probability of further 50-bp rate cuts and a likely terminal rate in the region of 2.75%-3.25%.

With these movements, we will likely see a much more rapid deployment of global capital (with rates in the US nearly half their peak). This, in turn, should spark material global growth upticks in the outer years (2026 onwards). We also note that the expected comparative trajectories of rate cuts (approximately 200 bps for the Fed vs c. 125 bps for the SARB MPC) should support the rand and SA assets in general.



Wealth management: A balancing act



WRITTEN BY:

Nicola Brescia
Wealth Management

Nicola leverages his experience in the finance and audit environments and as a senior corporate executive in passionately leading individuals and companies in their investment journeys through appropriate and sound investment advice and principles. A Wits graduate majoring in Economics and Financial Accounting, Nicola completed his MBA and is a CFA level 1 candidate.

Anchor's quarterly strategy and asset allocation report is aptly titled The Navigator, an appropriate moniker for the wealth manager's responsibilities and experience. As wealth managers, we navigate investment waters where tailwinds, headwinds, shifting currents, various cloud formations, and constellations might guide us to finding our true north or lead us to perdition. On our seaborne investment journey, seagulls loudly compete on policy pronouncements and valuation calls. We may even encounter the occasional mermaid whose enchanting call might result in delight or loss (the Greek hero Odysseus famously asked his crew to fill their ears with wax to avoid hearing the sirens' deadly songs while he was tied to the ship's mast so he might listen but not jump overboard).

Continuing this nautical metaphor, specific requirements exist to remain Anchor-ed amidst investment storms. A wealth manager's toolkit includes technical expertise, knowledge, and experience, all of which are applied to separate the noise from the important and relevant information. The output is funnelled through the filter of an investor's mandate and risk tolerance/capacity, revealing the investable universe within which an individual investor's portfolio will be constructed and the desired financial outcomes sought.

The astute wealth manager must recognise and navigate the below sets of emotional reactions from the market, their clients, and themselves as asset allocators.

Our role as wealth managers is to closely monitor market movements and identify the primary levers between market sentiment, technical analysis, macroeconomic fundamentals

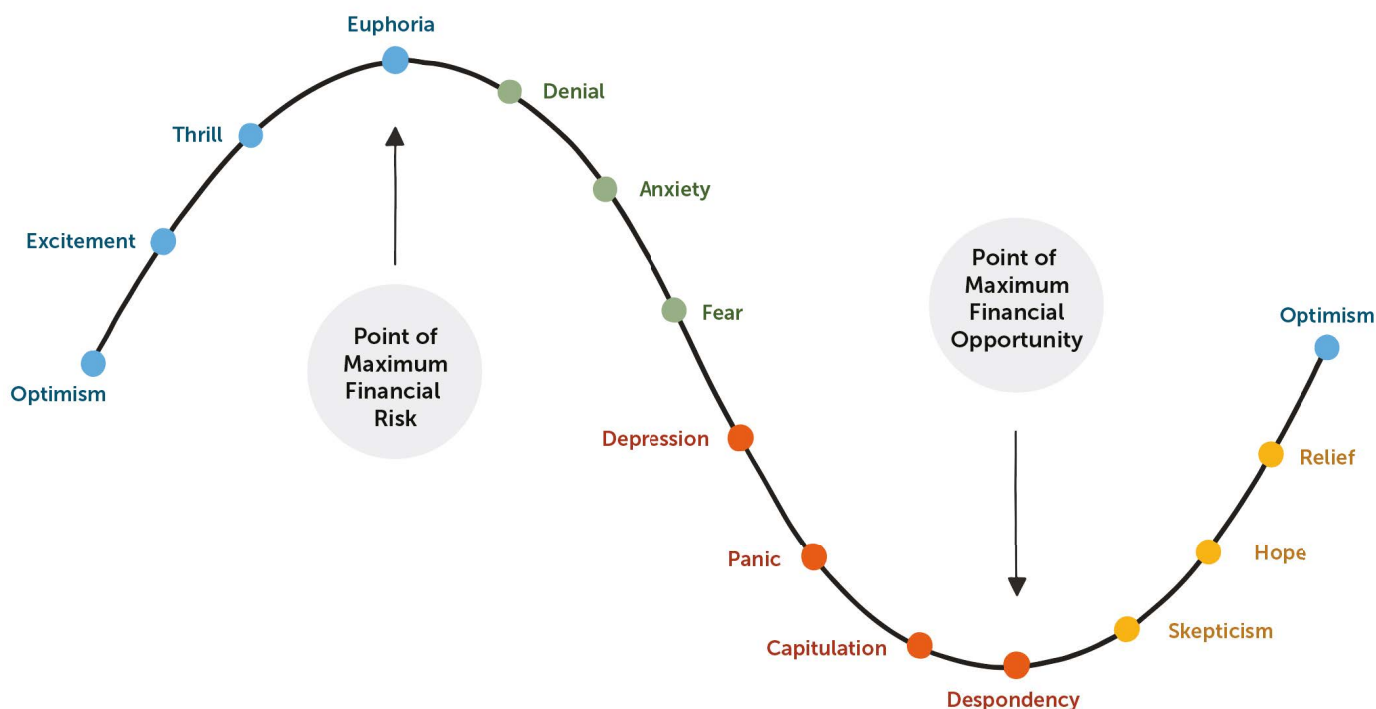
or a combination of these. This ensures we are always prepared to navigate the most treacherous underlying currents, including the waves of emotions experienced by all stakeholders - the client, investors in general, and the wealth managers themselves.

Herd mentality is imprinted on us as a fundamental derivation of benefits evident in animals - safety in numbers, quick action, and reduced stress via extra sets of eyes. The Asch conformity experiments, or Asch paradigm, were a series of social psychology studies performed by Solomon Asch in the 1950s, revealing how people are willing to ignore reality and arrive at wrong conclusions to conform to the majority group. In the investment world, herd mentality manifests in an individual's emotional response to market volatility and economic cycles - accentuating volatility through momentum. The astute wealth manager must recognise and navigate the below sets of emotional reactions from the market, their clients, and themselves as asset allocators.



Figure 1: Emotional biases according to the Asch paradigm

Source: RussellInvestments.com



Understanding emotional biases is critical to the wealth manager’s ability to offer investors a robust, steady, and appropriately set course towards a stated objective. Some of the well-known emotional biases include:

1. **Loss aversion bias:** Holding on to loss-making investment to avoid recognising your losses.
2. **Overconfidence bias:** Placing exaggerated trust in one’s ability and blaming factors other than oneself for subsequent failures.
3. **Status quo bias:** Preferring to leave things as they are rather than make a change, even when necessary.
4. **Endowment bias:** Magnifying the value of an asset we own.
5. **Regret-aversion bias:** Avoid making a judgement for fear of taking a wrong decision.
6. **Conservative bias:** A difficulty in moving from long-held opinions.
7. **Confirmation bias:** Magnifying whatever reinforces an

individual’s existing beliefs.

8. **Hindsight bias:** Believing we could have foreseen and predicted past events.
9. **Anchoring and adjustment bias:** Being influenced by an initial reference point to draw conclusions on any new situation.

The above biases are coupled with an increasing need for immediate gratification, where we are hardwired to respond positively to instant gratification whilst our logical self attempts to reason. A shift from multiple generations experiencing longer-term collective efforts (the post-world wars’ reconstruction, continental and global institutions, etc.) to the rise of obsessive consumerism and a growing ability to impact consumers’ behaviour through effective marketing aimed at offering a sense of validation from peers in mere seconds, has contributed to blurring the meaning of long and short term as critical inputs to the investment framework.



A well-defined investment strategy, staying the course of a well-defined and tested thesis, time in the market vs timing the market, dollar-cost averaging, active monitoring, and effective diversification are some tools a successful wealth manager relies on to navigate an investor's portfolio.

For most people, the ability to sustain their standard of living post-retirement is a significant source of uncertainty and anxiety. This may lead to either an 'ostrich effect' (a cognitive bias to avoid information that is uncomfortable or negatively perceived and ignore the problem or not to feel discomfort) or an action based on fear, which is usually incoherent and destructive. That is where the wealth manager's crucial

role comes into play. Wealth managers can provide comfort through a measurable plan that can be monitored, tested, and adjusted over time by offering a steady hand and a knowledge-based approach. Over and above the intellectual stimulation engendered by applying a growing body of knowledge to market conditions, the profession can meaningfully affect individual and generational wealth outcomes as few other professions do.



Till debt do us part: A financial planning guide for couples



WRITTEN BY:

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Portfolio Management



Shaun de Villiers,
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Danny graduated cum laude with a BCom (Honours) in Economics and Risk Management. Driven by his strong interest in financial markets, he has passed CIPM® level 1 and the SAIFM Equity Market exams. As a portfolio manager, Danny is dedicated to providing value and promoting financial growth for his clients through appropriate risk management and well-informed investment strategies.

Shaun holds a BCom (Honours) degree from the University of Pretoria and a Postgraduate Diploma in Financial Planning from the University of the Free State. As a Certified Financial Planner® (CFP®), he has been active in the financial services sector since 2016. He began his career as a private banker at Investec, managing accountants in audit firms, before transitioning into the broader financial services industry. Shaun joined Anchor as a wealth manager in 2021, where he is dedicated to delivering personalised, client-centric solutions and exceptional service.

Introduction

So, you have found THE one—congratulations! You are ready to ride off into the sunset, hand in hand, and live happily ever after ... except you have not spoken about your finances. You see, marriage is as much about ‘*what is yours is mine*’ as it is about ‘*who is paying the Wi-Fi bill this month?*’

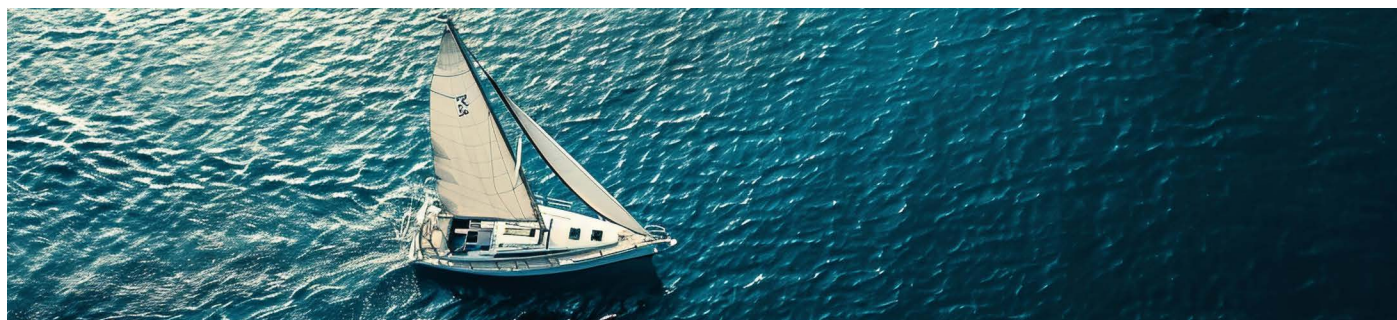
Before you get swept away in wedding planning, you must talk about financial planning—because while love may be blind, your bank account is not. Whether you are entering your union as a frugal financial guru or the type who swears that the green Zara top was an emergency expense, this guide is here to help you navigate the wonderful (and occasionally nerve-wracking) world of finances as a married couple.

Although financial planning is not a one-size-fits-all solution,

aligning your goals and expectations before marriage is vital, as money can spark long-lasting disputes. In 2024, a Fidelity Investments survey found that 45% of couples occasionally argue about money and that one in four couples admit money is their most formidable relationship challenge. Therefore, open communication about money and expectations from your partner will go a long way in avoiding future conflict that leads to financial friction.

... *Before you get swept away in wedding planning, you must talk about financial planning ...*

In this article, we address the various legal and financial aspects couples should consider, which will impact their financial planning as a married couple, to avoid potential pitfalls.



Open communication about finances, budgeting and joint financial planning

Open communication within any relationship is vital to building trust and a healthy relationship. Therefore, openly communicating about finances with your significant other before getting married is just as important and prevents the guesswork.

Goal setting

Discussing financial goals, values, and spending habits will help determine whether you are on the same page regarding money matters. Each of us has a level of desire to create abundance. This desire and relationship with money will depend on each individual's ideas of money and their upbringing.

Establishing short- and long-term financial goals can provide focus and direction regarding what to work towards as a couple. Before establishing your financial goals, it is essential to identify each person's relationship with money. The following can be regarded as having a poor relationship with money - regularly spending too much, using credit to finance your lifestyle, purchasing on impulse, neglecting a budget, accumulating high-interest debt, and living beyond your means to "keep up with the Joneses". Addressing these issues in your relationship should form part of your short-term financial goals. Short-term financial goals can typically be achieved within a year or two. Some examples include building an emergency fund together, saving for your wedding, a vacation, or paying off debt, to name a few.

Longer-term financial goals will allow you to determine your partner's desire for financial abundance and whether you see eye-to-eye on money. Knowing how much money is enough and what financial freedom looks like for your future spouse can assist in establishing a shared financial vision through aligned goals. When setting your financial goals as a couple, try following the SMART principle (an acronym for Specific, Measurable, Achievable, Realistic, and Timely). Using these criteria may help increase the likelihood of achieving your long-term goals and leave less room for future marital discontent.

Debt disclosures

Debt can be one of the most significant contributors to financial stress within a marriage. According to the latest SARB statistics, South African households' indebtedness in terms of their disposable income stood at 62.6% at end-December 2023. Of this debt, c. 80% is longer-term loans, whilst the remainder is short-term credit. Thus, the likelihood that your

future spouse may have debt is high. Understanding this and being prepared to tackle it is a crucial step towards financial planning.

If you want to get married without having massive debt obligations weighing on the relationship, there are several steps you can take to pay your debt faster. Using an accelerated payment method and paying more than the minimum amount may create a snowball effect in reducing your debt. This involves settling your smallest loan first whilst continuing the minimum payments on other loans. Once settled, roll that payment amount to your next smallest account as you work up to the largest balance. This allows you to budget appropriately and build momentum to repay your debt. A different approach could be paying your more significant and higher interest-rate debt.

Income and expenses

Discuss your current and potential income streams, including formal employment, business ventures, or investment income. You can share or split expenses equally based on your income level. Ensure that this arrangement feels equitable for both parties. Finances can become a power play within a household. Power distribution is often determined by a spouse's income, occupation, or even level of education. It is vital to set clear expectations for one another to avoid conflict when managing household finances.

Shared vs separate accounts

Decide whether you will have joint accounts or keep separate accounts. In SA, joint accounts are common for shared expenses like rent, groceries, and utilities, while personal accounts can be used for individual spending. Deciding whether to create a joint bank account or keep entirely separate bank accounts can be facilitated by setting spending limits on specific categories and creating a shared budget template to track expenses. A helpful app to facilitate this is Splitwise, which allows couples or groups of people to track and allocate joint expenses over time.

Cultural expectations

SA is labelled the "rainbow nation" and is very diverse. Traditional and cultural expectations regarding financial contributions to extended family (such as lobola and other family responsibilities) can influence financial planning. Being honest about your financial status and ability to make ends meet is crucial. Your help should be realistic and not compromise your happiness and ability to provide for your direct family.

Investing together

If you can apply sound financial planning in your own life, it will be much easier to use it in your marriage. Therefore, before getting married, you should also assess your financial situation. First, it is crucial to build a cash reserve for emergencies. As a rule, set aside enough money to cover three to six months of expenses. This amount will be influenced by the number of dependents, your housing, groceries, and risk and health coverage, to mention a few considerations. Without an emergency account, when you incur unforeseen expenses outside your budget or suddenly lose your job or business, it may lead to you taking on debt to fund your lifestyle, which is not ideal, especially in the current high-interest rate environment. When mentioning cash reserve, we are not suggesting keeping cash under your mattress; instead, consider opening a basic non-fixed savings or investment account in a money market fund. This will give you the necessary liquidity requirements while earning a stable and attractive yield.

Regardless of your age or retirement timeline, capitalising on tax-friendly investment products will benefit your future self and reduce pressure on you and your future spouse on whether you can retire comfortably together. Examples of such investments include employer *provident funds*, *retirement annuities (RAs)* and *tax-free savings accounts (TFSA)*s. After ensuring your emergency account has sufficient reserves, maximise your contributions to an RA and TFSA. If you cannot invest the full tax-deductible annual limit of 27.5% of your taxable income into your RA or the total annual limit of R36,000 into your TFSA, start with a small manageable amount and gradually increase your contributions.

Is purchasing your first property together a shared vision? If so, marriage can make buying a home easier because two incomes are better than one. For example, you may qualify for a larger loan by combining your income with your spouses'. However, the terms and size of your loan will also depend on each spouse's credit score. Here, the topic of debt comes back into play and emphasises the importance of having a good credit history for you and your spouse. Having conversations about whose name the property will be registered, who will be responsible for the bond costs every month, and how your marital property regime will impact ownership in the case of divorce will be crucial.

Understanding SA's marital regimes

In SA, there are three types of matrimonial regimes. These include:

- **Marriage in community of property:** In SA, a marriage is classified as in community of property if there is no antenuptial contract. Here, all assets and liabilities of each spouse are joined into one communal estate, with each spouse owning an equal share of 50%. Any assets and liabilities accumulated by either spouse will be added to the communal estate and shared equally. Spouses married in a community of property do not have their own estate but a joint estate shared equally. Only half of the estate will be subject to estate duty if one spouse dies. In the unfortunate case of a divorce, the estate will be shared 50-50 between spouses, including all assets and liabilities acquired before and during the marriage. However, gifts or inherited assets are excluded from the communal estate.
- **Marriage out of community of property (excluding the accrual system):** This means getting married with an antenuptial agreement. It may be a sensitive topic as it could raise signs of potential mistrust. However, an antenuptial agreement can protect both spouses' interests in the event of a divorce by protecting assets accumulated before marriage. This contract ensures that both spouses keep their separate estates and are not responsible for one another's liabilities or have part ownership of one another's assets accumulated before marriage. An antenuptial agreement without accrual means that spouses retain what is theirs before marriage and what they have accumulated during the marriage - the estate will not be shared upon divorce.
- **Marriage out of community of property (with accrual):** This regime sees each spouse keep the assets and liabilities acquired before marriage. The difference is that the total wealth accumulated by spouses during the marriage is shared equally on divorce or any percentage agreed to in the antenuptial agreement. Any inherited assets or donations between spouses during the marriage will be excluded from the claim. Setting clear rules in advance simplifies and reduces the cost of legal proceedings, as there is less need for negotiation.

Planning for divorce may sound like planning for failure; however, the number of divorces p.a. is rising. SA's latest divorce statistics show a 10.9% YoY increase in 2022.

Medical aid and risk considerations

Upon assessing your joint financial position, you may have determined various inefficiencies or shortfalls in your joint coverage. It is, therefore, important to discuss this with your wealth manager/financial advisor for an in-depth analysis.

Below, we highlight those aspects that should be reviewed.

A minor consideration for a new couple commonly overlooked is emergency contact details, vital in tracking down your loved one if something unexpected happens. So, ensure you update all your emergency contact details at your doctor, dentist, gym, work, and car tracking company.

Medical aid

As with any new life stage, reviewing your medical aid will help determine any shortfalls. For young couples, the focus should be on your health needs. Understanding each other's medical concerns and chronic medication requirements is essential when determining the right medical aid coverage. Certain medical aids may or may not provide for chronic medication and impose various exclusions or limits on cover for significant expenses. Your lifestyle and finances will assist you in making the right decision.

A family can save money through simple medical aid consolidation. This efficiency is created by consolidating two main members into one primary member and another adult additional member, which can lower your premium and maintain or increase overall cover.

Disability cover and income protection

Possibly the most crucial aspect of financial planning when getting married is assessing your family's requirement for risk cover. While it feels like a grudge purchase, the implications of your partner being permanently disabled, losing their income or being diagnosed with a severe illness can be detrimental to your financial plan. Assessing your disability cover and income protection is designed to financially protect you and your family against financial loss due to said outcome. Ensuring the breadwinner or both individuals are covered can provide peace of mind and financial security for the unplanned.

Life insurance

Life insurance is not a luxury but a necessity for families with young dependents and financial obligations, as it provides a financial safety net when the unexpected happens. The loss of a parent, especially the primary breadwinner, can have severe financial consequences for a young family. Life insurance offers a lump-sum payout that can cover immediate costs or reduce longer-term liabilities. It can go a long way in easing the financial burden during an emotionally challenging time. Another key reason life insurance is especially beneficial for young families is affordability. Typically, younger and healthier individuals are eligible for lower premiums, making it a relatively small investment with a substantial payout in the

event of a tragedy.

Estate planning

Estate planning is often considered a luxury for older or wealthy individuals, but young couples should recognise its importance as it not only relates to death but also incapacity. Beginning the estate planning process early offers several advantages, such as safeguarding assets, ensuring the care of loved ones, and future-proofing your life. The unintended consequences of failing to do so could lead to disputes among heirs, unnecessary taxes, or the mismanagement of assets. While estate planning can become highly complex, we will outline a few points of consideration for a young couple.

First and foremost, updating each other's wills goes a long way in planning your estate. Ensuring an executor has been nominated, all assets have been identified, and beneficiaries have been nominated is a good starting point. Formal consultation with your financial advisor or lawyer is crucial in ensuring your will is up-to-date and valid. Regularly updating your will is essential as major life events (getting married, having kids), changes in law and your financial position (purchase of property, change in income and investments) will impact how you draw up your will.

It is important to consider the tax implications on death when estate planning, as tax planning is often overlooked during this process. Being tax cognisant during your estate-planning process can significantly decrease your tax liability (estate duty, capital gains tax [CGT], and income tax) and increase the overall inheritance to your beneficiaries. Below are a few strategies to reduce your estate duty and other taxes on death:

- **Leverage trusts:** Trusts are a valuable tool for lowering taxes, especially estate duty. Transferring assets into a trust can exclude them from your taxable estate, potentially lowering your overall tax liability.
- **Make lifetime donations:** Consider making donations while you are alive to decrease the size of your estate and the estate duty owed. SA law permits tax-free donations of up to R100,000 p.a., allowing you to transfer wealth to your beneficiaries gradually.
- **Maximise use of exemptions:** Take full advantage of available tax exemptions, such as the primary residence exclusion for CGT and the spousal deduction for estate duty. Structuring your estate plan to incorporate these exemptions can significantly reduce the taxes due.

Local and offshore endowment plans are especially tax-efficient for individuals with an average 30% or higher tax rate.

Lastly, liquidity and access to funds for dependents are crucial. Depending on the complexity of your estate, the winding-up process can take a few years, so it is essential to identify what assets can be transferred quickly to provide liquidity on death.

- **The use of endowments:** Local and offshore endowment plans are especially tax-efficient for individuals with an average 30% or higher tax rate. These plans allow you to nominate a beneficiary to receive the investment proceeds upon death, simplifying estate planning. They

enable heirs to access their inherited assets faster and avoid executor fees.

- **TFSA:** TFSAs are similar investment vehicles which allow you to nominate beneficiaries.
- **Living annuities:** A living annuity can offer income to nominated beneficiaries. They can receive the death benefit as a cash lump sum, transfer it to a living annuity in their name, or opt for a combination.

Conclusion

As a couple's financial habits can be early indications of future marital satisfaction, marital distress, and potential divorce, figuring out who is responsible for the Wi-Fi bill does not sound so unimportant anymore. Discovering each other's financial balance sheets may be just as crucial as finding each other's personalities when living together.



A Capital Gains Tax Refresher



WRITTEN BY:

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Di is the CEO of Robert Cowen Investments (RCI), a subsidiary of Anchor, and has been at RCI since 1990.

Aarhi is a Trust accountant and registered tax practitioner and has been at Anchor since January 2023.

Capital gains tax (CGT), introduced on 1 October 2001 as part of the Eighth Schedule to the Income Tax Act, is a cornerstone of the SA tax system.

CGT applies to individuals, companies, and trusts and is levied on the profit from the sale of certain capital assets. It is NOT a separate tax; it is integrated with income tax, meaning that the capital gains made during a tax year are added to the taxpayer's income. In this summary, we outline the key aspects of CGT in SA, including its applicability, the calculation of capital gains, methods to determine the base cost of assets, exemptions, and rollover relief.

The basics of CGT

What assets are subject to CGT?

Assets subject to CGT can be broadly categorised into tangible and intangible assets. Tangible assets include property, shares, and business assets, while intangible assets include intellectual property rights or licenses.

Who is liable for CGT?

South African residents are taxed on capital gains made on their worldwide assets. In contrast, non-residents are taxed only on profits from the disposal of immovable property in SA or any rights in such property.

What constitutes capital disposal?

Capital disposal occurs when there is a sale, transfer, donation, or any event where the ownership of an asset changes. The most common disposals include selling or transferring an

asset, donating an asset and even deemed disposals, such as becoming a South African resident or when a company ceases to be a controlled foreign company (CFC). Even if no actual transaction occurs, specific actions, such as expropriation or the destruction of an asset, can also be treated as disposals.

These events trigger a CGT liability to be included in the taxpayer's annual tax return.

Capital gain or loss calculation

The calculation of a capital gain or loss involves three key components:

- **Proceeds:** The amount received or accrued from the sale or transfer of an asset.
- **Base cost:** The cost of acquiring, improving, or disposing of an asset, including associated costs such as legal fees and transfer taxes.
- **Capital gain or loss:** The difference between the proceeds and the base cost.

A capital gain occurs when the proceeds exceed the base cost, while a capital loss occurs when the proceeds are less than the base cost. Capital gains are taxable, while capital losses can be used to offset future gains.

Determining the base cost

The base cost is subject to different calculation methods depending on whether it was purchased before 1 October 2001 or after this date. For assets acquired before 1 October 2001, the following special calculation methods are used:

- **20% of proceeds:** This method is used if no records or valuation are available for the asset's value as of 1 October 2001.
- **Market value on 1 October 2001:** This can be used if the asset was valued before 30 September 2004.
- **Time apportionment base cost (TAB):** This method calculates the base cost by apportioning the asset's value over the period of ownership before and after 1 October 2001. This method is suitable for long-held assets where accurate records of the purchase price exist.

If purchased after 1 October 2001, the base cost is the purchase price plus improvements, which may include certain other costs and fees.

Inclusion rates and effective tax rates

There is often a misconception that CGT for individuals is 18% of the gain, BUT this is incorrect. **CGT is integrated with income tax, meaning a portion of the capital gain is added to the taxpayer's taxable income.** The portion of the gain included is determined by the inclusion rate, which differs by taxpayer type:

- Individuals and special trusts: 40% of the capital gain is included in taxable income.
- Companies and other trusts: 80% of the capital gain is included in taxable income.

The effective tax rates based on the inclusion rate are as follows:

- Individuals: **Up to 18%** (calculated as 40% of the capital gain taxed at a maximum marginal rate of 45%. If the individual is NOT subject to the top marginal tax rate of 45%, the tax paid is lower than 18% of the gain).
- Companies: **21.6%** (80% inclusion rate taxed at 27%).
- Trusts: **36%** (80% inclusion rate taxed at 45%).

Annual exclusions and primary residence exemption

Certain exemptions and exclusions help to reduce the CGT liability. These include:

Annual exclusion: Individuals and special trusts are entitled to an annual exclusion of R40,000 from capital gains. In the year of death, this exclusion increases to R300,000.

- **Primary residence exemption:** For individuals, the first R2mn of the capital gain made from the sale of a primary residence is exempt from CGT. This applies only if the residence has been used for personal purposes and not for trade or rental. If the residence is jointly owned, each

owner can claim up to R1mn of the exemption.

Rollover relief and clogged losses

In certain circumstances, CGT liability can be deferred through rollover relief:

- **Involuntary disposals:** When an asset is destroyed or expropriated, and the proceeds are reinvested in a replacement asset, the capital gain can be deferred.
- **Transfers between spouses:** No CGT is payable when an asset is transferred between spouses. The acquiring spouse takes on the original base cost, and gains or losses are deferred until the recipient spouse disposes of the asset.
- **The clogged loss rule** disallows capital losses in transactions between connected persons, such as family members or associated companies. However, these losses can be used to offset future gains on transactions with the same person or entity.

Capital gains for small business assets

Special provisions apply to small businesses. Based on specific provisions, if a person aged 55 or older disposes of an active business asset, they may disregard up to R1.8mn of the capital gain.

Record keeping and compliance

Taxpayers must maintain detailed records of all capital transactions, including:

- The original purchase price.
- Transaction and improvement costs.
- Any valuations done for CGT purposes.

Accurate record-keeping is essential to ensure capital gains tax is calculated correctly. A lack of records may mean the SA Revenue Service (SARS) charges CGT on the total sales proceeds!

Conclusion

CGT in SA is a critical aspect of the tax system, affecting a wide range of taxpayers. Being familiar with the basic principles, such as calculating gains, determining base costs, and available exemptions, is essential for effective planning.

If you have any questions or need further explanation and understanding of CGT and its possible financial implications, please contact Di Haiden or Aarthi Bikram for assistance.

Performance Summary

	Start date	FUND PERFORMANCE								BENCHMARK PERFORMANCE							Performance vs Benchmark
		Annualised p.a.	Since inception	5 Year	3 Year	12-month	6-month	3-month	Sep-24	Since inception	5 Year	3 Year	12-month	6-month	3-month	Sep-24	
UNIT TRUSTS																	
Anchor BCI Equity Fund	Apr-13	9,9%	196,2%	9,5%	10,1%	24,9%	13,7%	7,6%	4,4%	173,8%	11,9%	12,4%	25,4%	18,6%	9,6%	4,0%	22,4%
Anchor BCI SA Equity	Aug-21	14,1%	49,2%	N/A	N/A	26,2%	21,4%	10,8%	4,2%	42,7%	N/A	N/A	25,4%	18,6%	9,6%	4,0%	6,5%
Anchor BCI Flexible Income Fund	Jun-15	7,5%	96,2%	7,0%	7,9%	12,6%	7,1%	4,0%	1,3%	89,7%	6,7%	7,5%	9,2%	4,5%	2,3%	0,7%	6,5%
Anchor BCI Managed Fund	Jan-15	6,8%	88,5%	9,8%	9,9%	22,2%	9,9%	6,1%	2,2%	97,4%	10,2%	10,4%	18,7%	10,0%	6,0%	2,4%	-8,9%
Anchor BCI Worldwide Flexible Fund	May-13	11,6%	249,2%	11,4%	13,3%	30,5%	4,8%	3,8%	2,5%	167,9%	9,0%	9,6%	8,4%	3,8%	1,6%	0,4%	81,4%
Anchor BCI Property Fund	Nov-15	0,1%	1,3%	2,6%	8,5%	32,3%	15,7%	12,3%	4,1%	18,6%	5,4%	16,0%	51,3%	25,2%	18,7%	5,0%	-17,3%
Anchor BCI Global Equity Feeder	Nov-15	12,2%	179,7%	16,1%	2,0%	14,7%	-0,3%	1,2%	3,0%	203,4%	15,1%	12,9%	20,1%	0,0%	0,7%	-1,2%	-23,7%
Anchor BCI Bond Fund	Feb-16	10,0%	127,8%	9,6%	11,0%	27,1%	20,1%	11,1%	3,9%	127,1%	9,8%	11,1%	26,1%	18,8%	10,5%	3,9%	0,8%
Anchor BCI Diversified Stable Fund	Feb-16	8,4%	101,1%	9,7%	11,0%	19,2%	12,5%	7,6%	2,5%	84,6%	8,5%	9,3%	16,4%	8,9%	5,5%	1,8%	16,5%
Anchor BCI Diversified Moderate Fund	Feb-16	8,1%	96,3%	10,3%	11,5%	18,7%	12,2%	7,6%	2,7%	86,0%	9,3%	9,7%	17,4%	9,2%	5,5%	2,1%	10,3%
Anchor BCI Diversified Growth Fund	Feb-16	7,9%	94,0%	11,1%	12,4%	20,7%	13,3%	8,2%	3,1%	91,0%	10,2%	10,4%	18,7%	10,0%	6,0%	2,4%	3,0%
Anchor BCI Africa Flexible Income	Mar-16	6,5%	72,1%	5,3%	5,2%	11,7%	-3,9%	0,9%	-0,4%	104,0%	8,1%	8,9%	10,6%	5,2%	2,6%	0,8%	-31,9%
Anchor BCI Global Technology Fund	Jun-19	10,1%	66,9%	10,6%	-0,9%	25,1%	-1,0%	-2,7%	1,6%	246,2%	26,0%	19,2%	35,7%	2,5%	-4,6%	-1,1%	-179,3%
Anchor BCI Flexible Fund	Jul-13	9,2%	168,1%	10,1%	2,2%	-0,5%	0,0%	0,0%	0,0%	9,7%	9,0%	9,1%	4,9%	0,0%	0,0%	0,0%	158,4%
Anchor BCI Core Income Fund	Sept-20	7,5%	34,1%	N/A	8,2%	10,0%	0,0%	2,5%	0,8%	27,1%	N/A	6,9%	8,6%	4,2%	2,1%	0,7%	7,0%
Anchor BCI Global Flexible Income Fund	Sept-20	2,9%	12,4%	N/A	5,9%	0,2%	-4,8%	-1,9%	-1,5%	16,6%	N/A	8,9%	-3,0%	-6,3%	-4,2%	-2,5%	-4,1%
Anchor BCI Worldwide Opportunities Fund	Feb-21	5,6%	21,7%	N/A	6,2%	19,2%	3,7%	3,9%	2,7%	22,8%	N/A	5,6%	4,4%	1,8%	0,6%	0,1%	-1,2%
EQUITY NOTES & SEGREGATED MANDATES																	
Anchor Equity	Jul-13	10,2%	199,6%	13,6%	15,4%	31,8%	19,2%	9,9%	3,1%	171,9%	15,9%	12,4%	25,4%	18,6%	9,6%	4,0%	27,7%
HEDGE FUNDS																	
Anchor Stable SNN RIHF	Jul-03	12,4%	1102,5%	12,1%	15,5%	15,7%	11,0%	5,7%	2,5%	334,0%	6,1%	6,9%	8,6%	4,2%	2,1%	0,7%	768,5%
Anchor Accelerator	Feb-16	7,5%	86,1%	6,8%	1,3%	21,3%	14,1%	8,7%	5,5%	99,1%	6,1%	6,9%	8,6%	4,2%	2,1%	0,7%	-12,9%
OFFSHORE																	
High Street Equity - Dollars	Jun-12	10,0%	223,5%	7,9%	0,7%	24,5%	3,3%	4,6%	1,0%	300,9%	13,6%	9,6%	33,0%	9,4%	6,5%	1,9%	-77,4%
High Street Equity - Rands	Jun-12	16,9%	581,6%	10,7%	5,3%	13,9%	-6,0%	-1,2%	-2,0%	743,0%	16,5%	14,5%	21,2%	-0,2%	0,5%	-1,6%	-161,4%
Offshore Balanced - Dollars	Jun-12	7,9%	153,8%	4,9%	0,9%	21,3%	4,7%	5,3%	1,2%	133,3%	7,5%	4,2%	24,0%	7,8%	6,6%	1,8%	20,5%
Offshore Balanced - Rands	Jun-12	14,7%	437,6%	7,8%	5,8%	10,9%	-4,8%	-0,6%	-1,8%	385,3%	9,9%	8,5%	13,1%	-1,5%	0,9%	-1,6%	52,3%
Global Dividend - Dollars	Jan-14	8,3%	134,7%	8,8%	7,5%	25,5%	6,9%	8,0%	0,9%	198,1%	13,6%	9,6%	33,0%	9,4%	6,5%	1,9%	-63,3%
Global Dividend - Rands	Jan-14	12,8%	261,8%	11,5%	12,2%	14,5%	-2,7%	1,9%	-2,1%	361,3%	16,5%	14,5%	21,2%	-0,2%	0,5%	-1,6%	-99,5%
Anchor Global Stable Fund - Dollars	May-15	2,2%	23,0%	3,3%	1,5%	14,5%	5,8%	5,4%	1,1%	37,8%	4,2%	5,3%	4,9%	2,1%	1,0%	0,3%	-14,8%
Anchor Global Stable Fund - Rands	May-15	6,1%	74,3%	6,0%	6,0%	4,3%	-3,8%	-0,5%	-2,3%	96,0%	6,9%	10,1%	-4,3%	-6,9%	-4,1%	-2,8%	-21,7%
Anchor Global Equity - Dollars	May-15	11,4%	174,3%	16,2%	-1,4%	27,6%	10,3%	8,3%	4,6%	130,8%	12,2%	8,1%	31,8%	9,7%	6,6%	2,3%	43,5%
Anchor Global Equity - Rands	May-15	15,6%	288,6%	19,2%	2,9%	16,2%	0,3%	2,3%	1,0%	226,9%	15,1%	12,9%	20,1%	0,0%	0,7%	-1,2%	61,6%
RCI UNIT TRUSTS																	
RCI BCI Flexible Growth Fund	Sept-16	8,6%	94,3%	11,4%	0,4%	19,9%	-7,3%	-4,7%	1,0%	112,8%	10,0%	10,6%	9,4%	4,3%	1,8%	0,5%	-18,5%
RCI BCI Worldwide Flexible Fund	Dec-16	7,8%	80,7%	7,3%	1,0%	9,9%	-8,0%	-4,4%	-1,3%	94,6%	9,0%	9,6%	8,4%	3,8%	1,6%	0,4%	-14,0%



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