

PRIVATE Wealth

# 2022: THE YEAR OF CHANGE

Alwyn van der Merwe, Director of Investments



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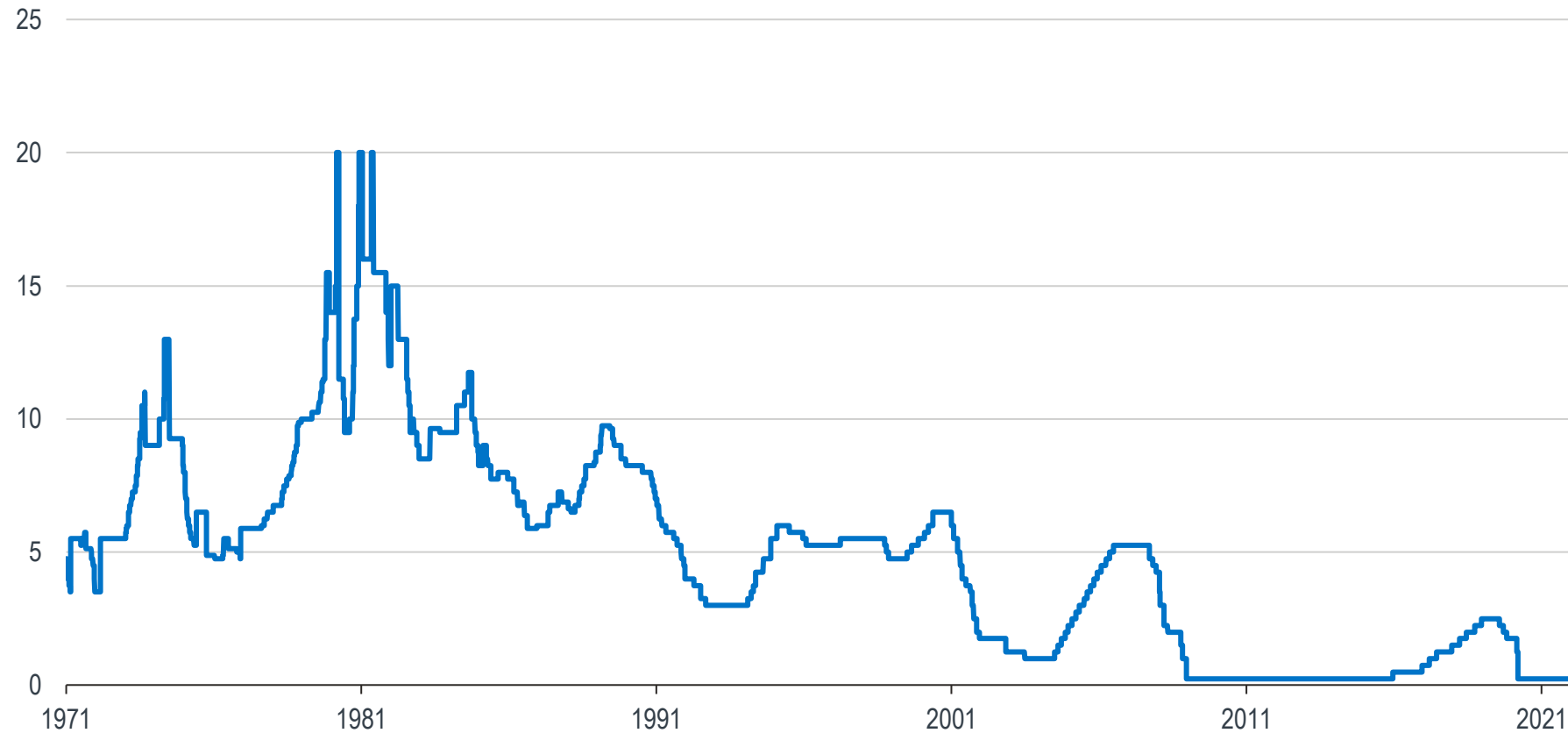
1. The investment anchors of 2021
2. The clock is moving
3. Investor change: start of next cycle?
4. Proposed portfolio positioning



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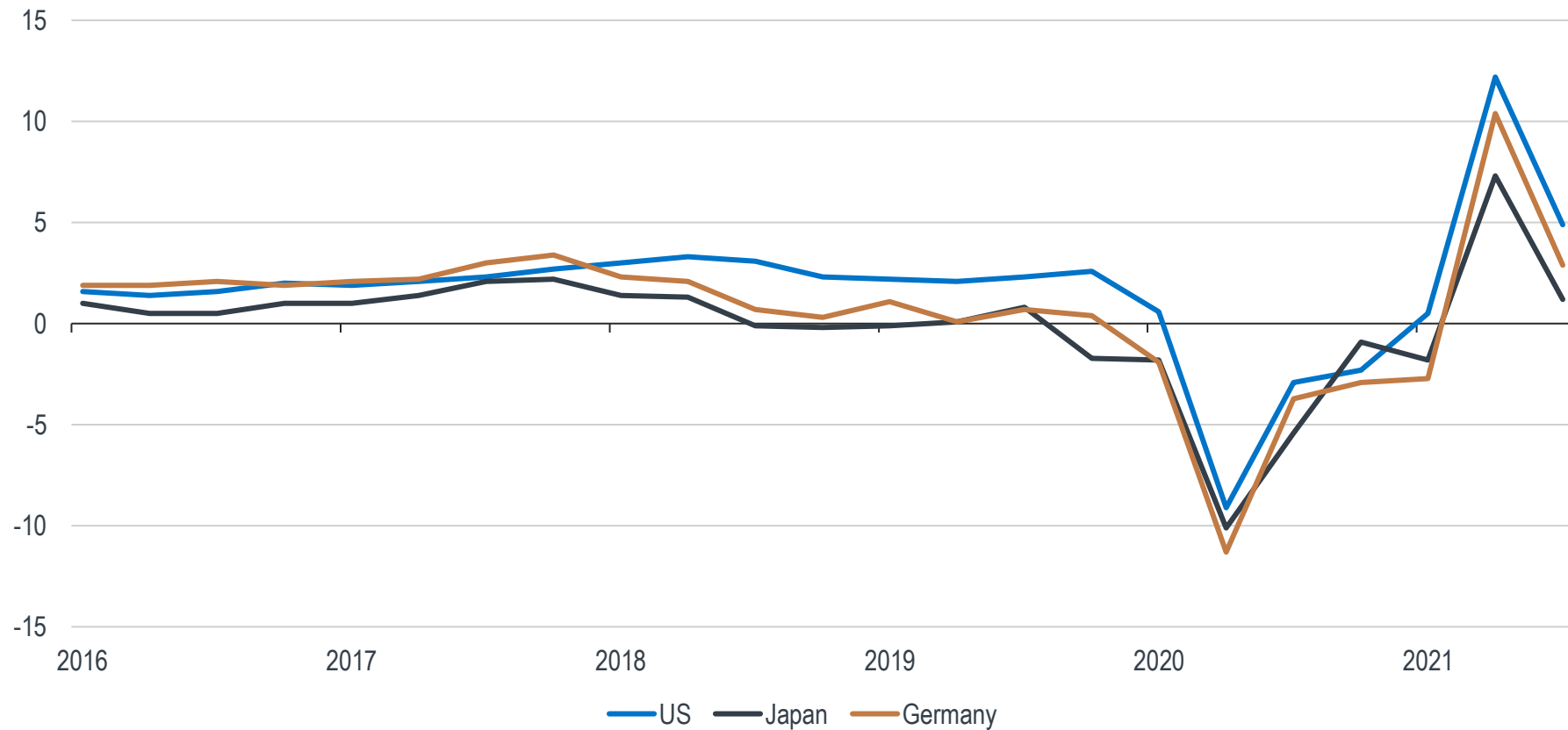
2021 Market Drivers

# POLICY INTEREST RATES LOW GLOBALLY



Source: Bloomberg, SPW Research

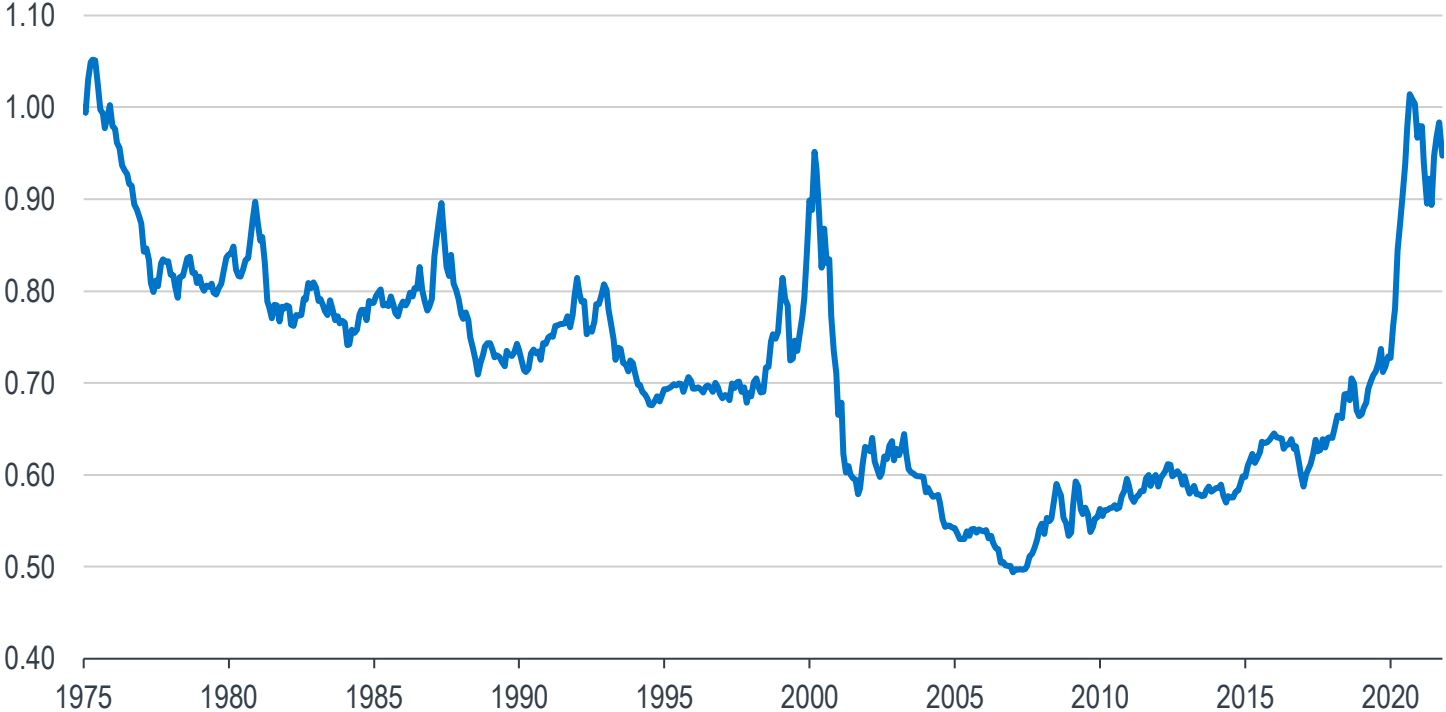
# STRONG GLOBAL ECONOMIC RECOVERY



Source: Bloomberg, SPW Research

# MATERIAL OUTPEFORMANCE OF GROWTH SHARES SINCE 2007

MSCI World Growth relative to MSCI World Value



Source: Bloomberg

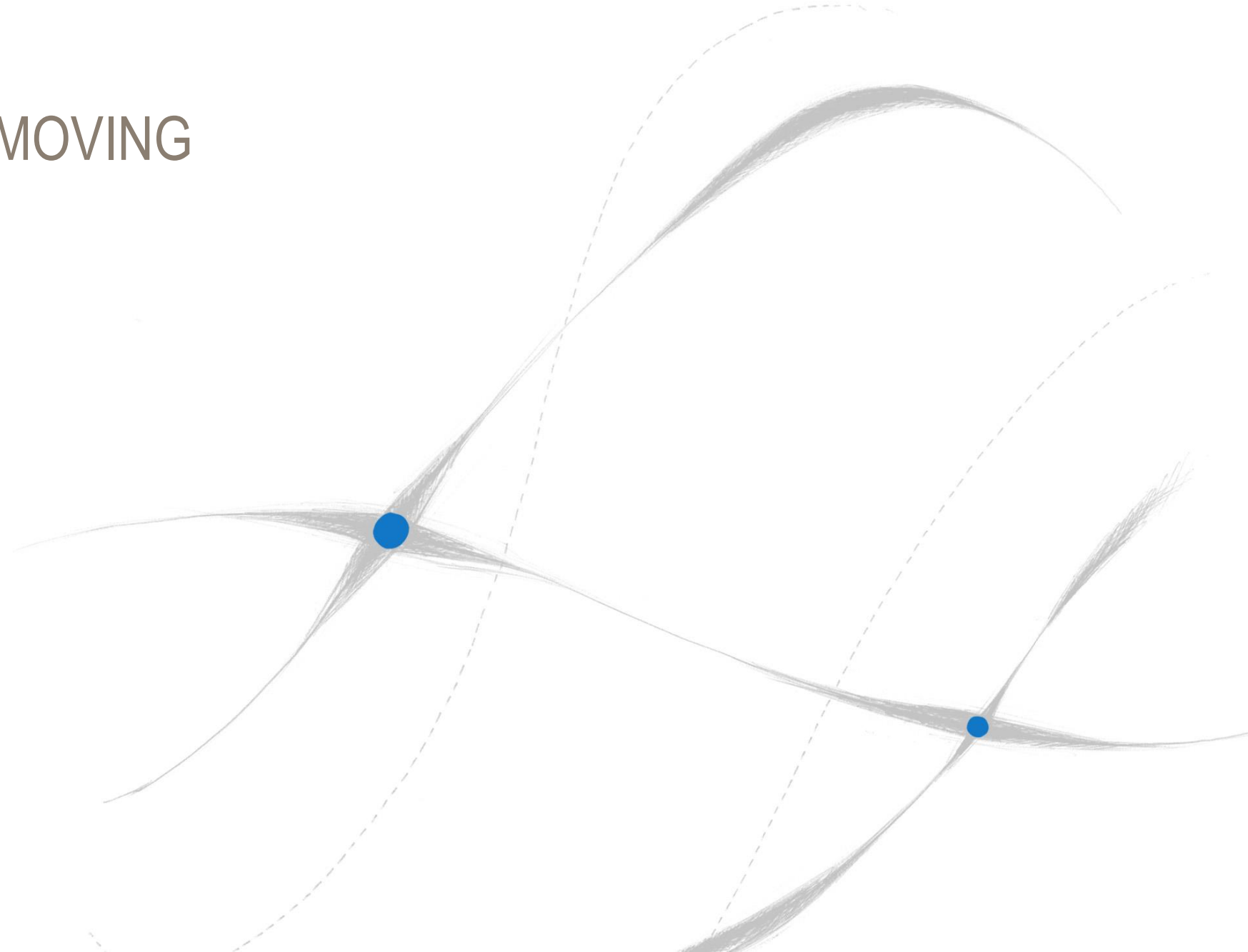
**RETURN SINCE 2007**  
per annum in US\$

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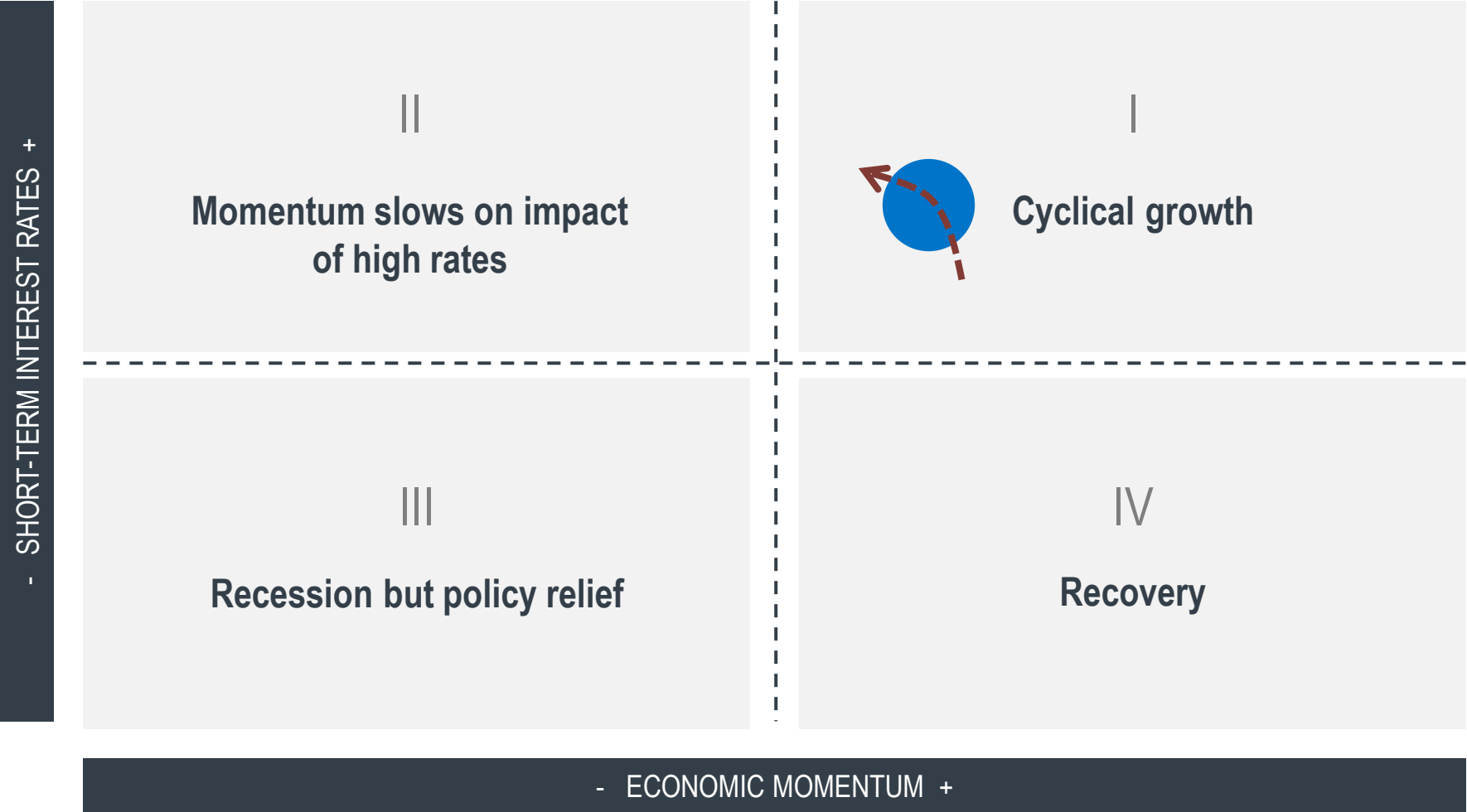
<b>VALUE</b>	<b>5.1%</b>
<b>GROWTH</b>	<b>10.0%</b>

2

CLOCK IS MOVING

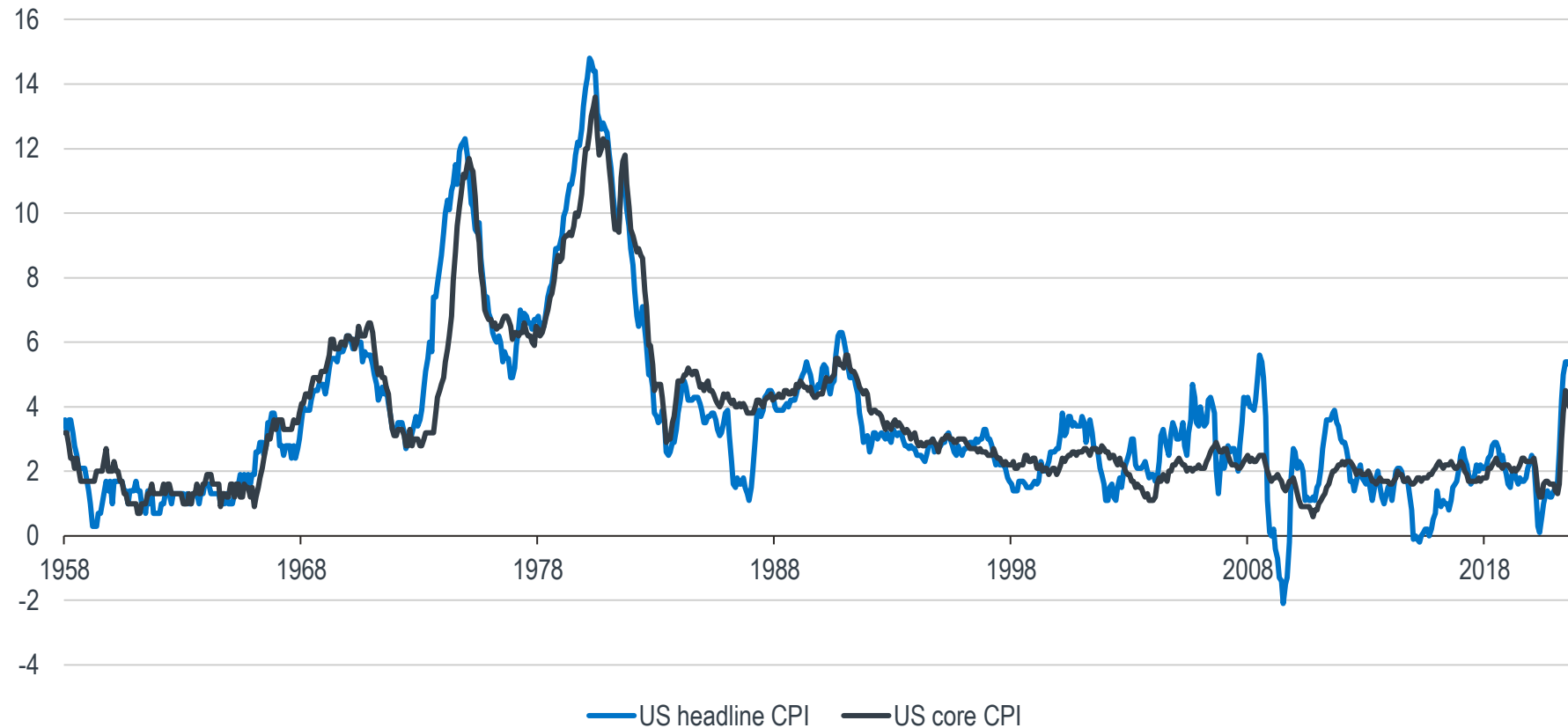


# INVESTMENT CLOCK – CURRENT POSITION





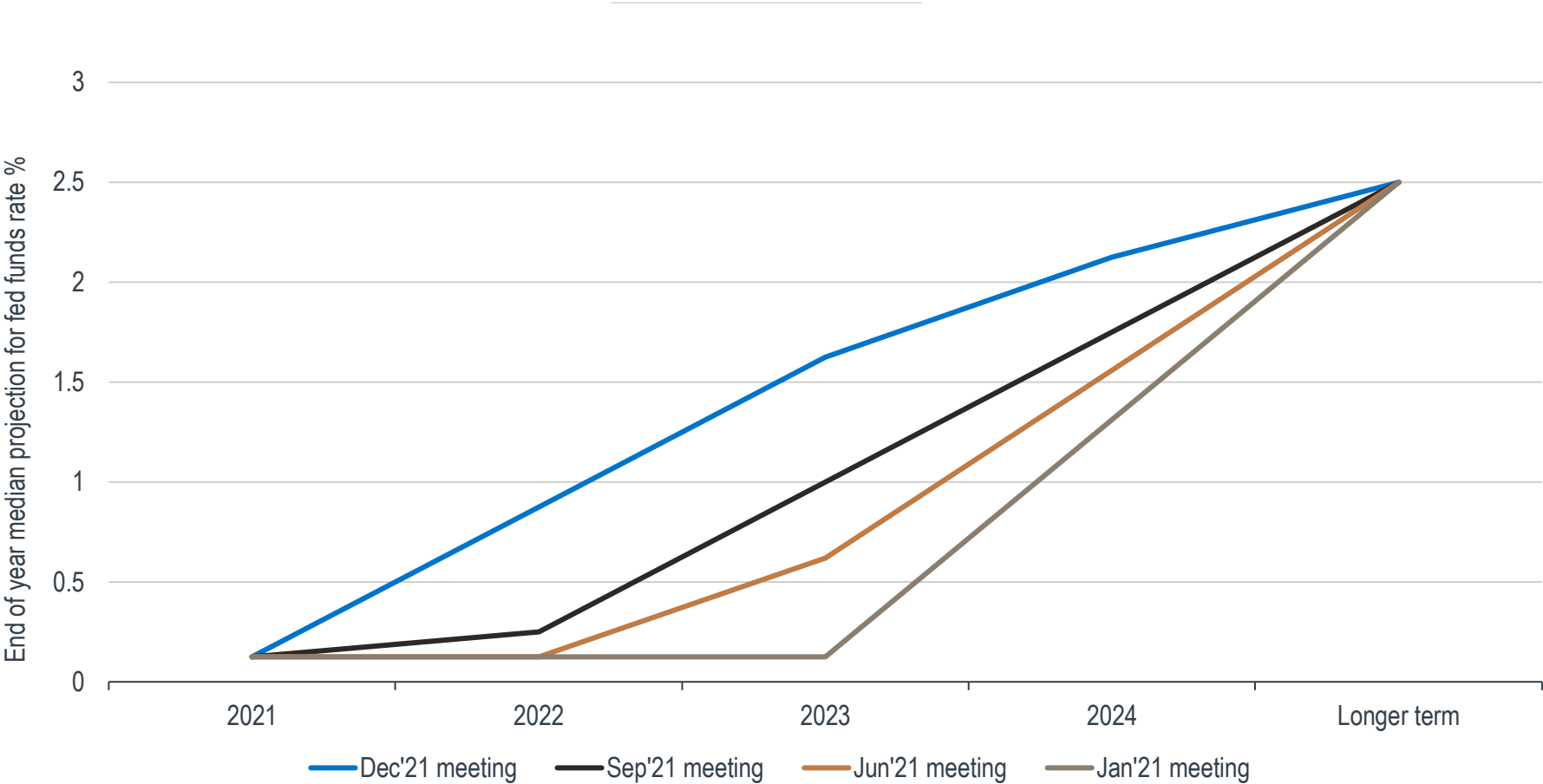
# INFLATION UNDENIABLY A GLOBAL PROBLEM



Source: Bloomberg, SPW Research

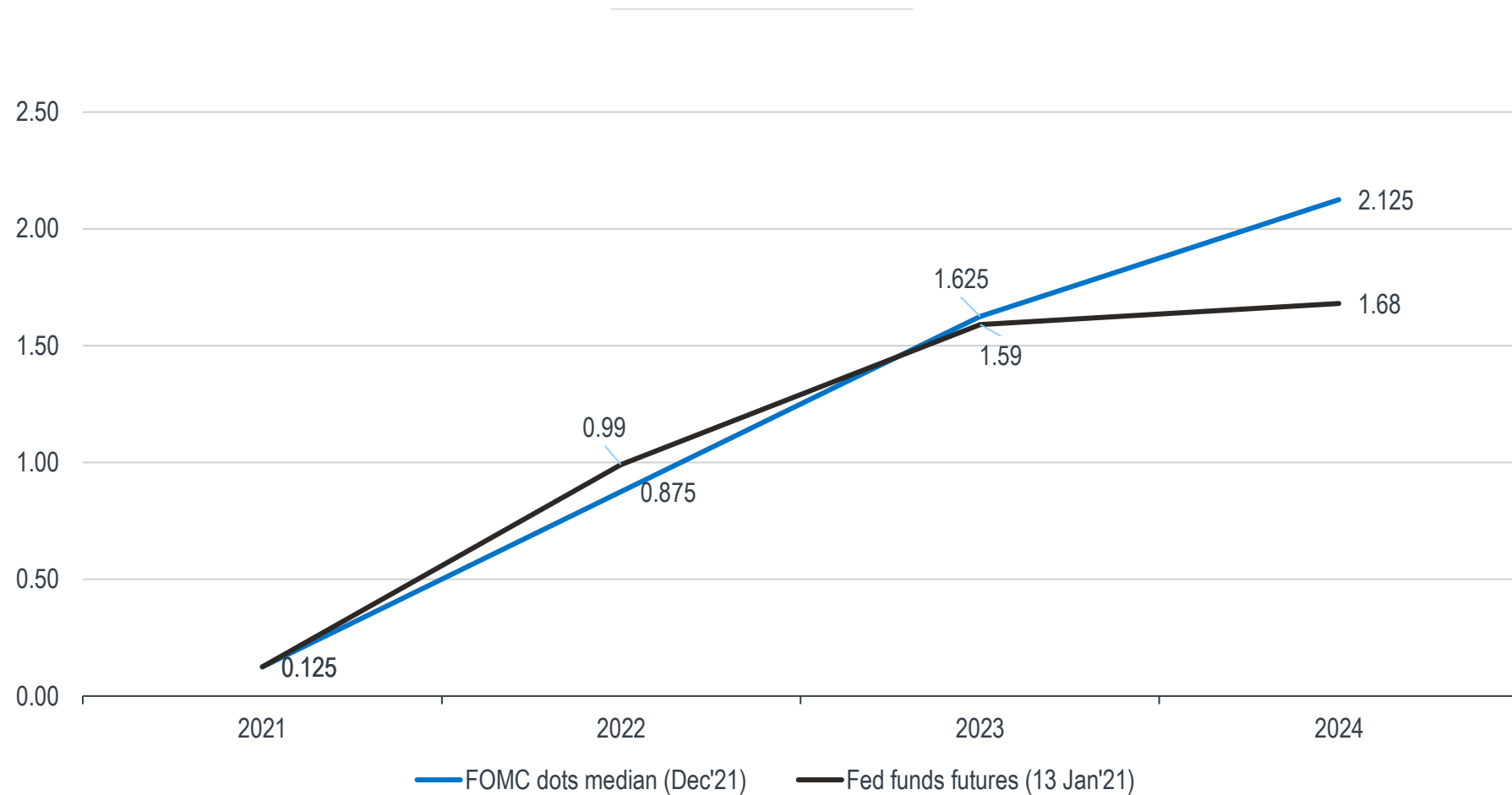
# FOMC MEMBERS HAVE ACCELERATED EXPECTATIONS OF RATE HIKES

Movement in median dot plot by FOMC members



Source: Federal Reserve; Bloomberg

# US INTEREST RATES: FED VERSUS THE 'MARKET'



Source: Federal Reserve; Bloomberg

# ECONOMIC RESPONSE TO RATE HIKES

## US hiking cycle summary statistics

HIKING CYCLE TIMING			FED FUNDS RATE (%)			NEXT RECESSION	
START	END	MONTHS	START	END	TOTAL HIKE	DATE	MONTHS
15/04/1955	23/08/1957	28	1.50	3.50	2.00	Aug 57	28
12/09/1958	11/09/1959	12	1.75	4.00	2.25	Apr 60	19
17/07/1963	04/04/1969	69	3.00	6.00	3.00	Dec 69	77
01/03/1972	01/05/1974	26	3.50	13.00	9.50	Nov 73	20
01/12/1976	03/03/1980	39	4.75	20.00	15.25	Jan 80	37
07/08/1980	05/12/1980	4	9.50	20.00	10.50	Jul 81	11
02/05/1983	21/08/1984	15	8.50	11.75	3.25	Jul 90	86
16/12/1986	04/09/1987	9	5.88	7.25	1.37	Jul 90	43
29/03/1988	24/02/1989	11	6.50	9.75	3.25	Jul 90	28
04/02/1994	01/02/1995	12	3.00	6.00	3.00	Mar 01	85
30/06/1999	16/05/2000	11	4.75	6.50	1.75	Mar 01	21
30/06/2004	29/06/2006	24	1.00	5.25	4.25	Dec 07	42
16/12/2015	19/12/2018	36	0.125	2.375	2.25	Feb 20	50
<b>Average</b>		<b>23</b>	<b>4.14</b>	<b>8.88</b>	<b>4.74</b>		<b>42</b>
<b>Median</b>		<b>15</b>	<b>3.50</b>	<b>6.50</b>	<b>3.00</b>		<b>37</b>

- Irrespective of the time to the following recession, a common pattern seen across hiking cycles is that growth tends to slow in the year after the hikes have commenced.
- On average, real GDP growth in the first year of the hiking cycle was +4.8%, but that slowed to +2.7% in the second year, and +2.1% in the third year.

# AVERAGE MONTHLY RETURNS (SINCE 1995) – PATTERN

AVERAGE MONTHLY RETURN (LAGGED 3M)	QUARTILE			
	I	II	III	IV
<b>MSCI World</b>	1.25%	1.56%	-0.82%	1.55%
MSC World Financials	1.11%	1.70%	-1.04%	1.38%
MSCI World Consumer Staples	0.40%	0.97%	0.28%	1.37%
MSCI World Mining	1.61%	0.22%	-1.03%	1.82%
MSCI World Technology	1.98%	2.80%	-0.96%	1.99%
JSE All Share in USD	1.79%	1.26%	-0.84%	1.49%
Gold	0.40%	-0.33%	1.16%	0.78%
<b>Barclays Global Bond Index</b>	0.06%	0.11%	0.91%	0.57%
Global government inflation linked index	0.32%	0.31%	0.62%	0.74%

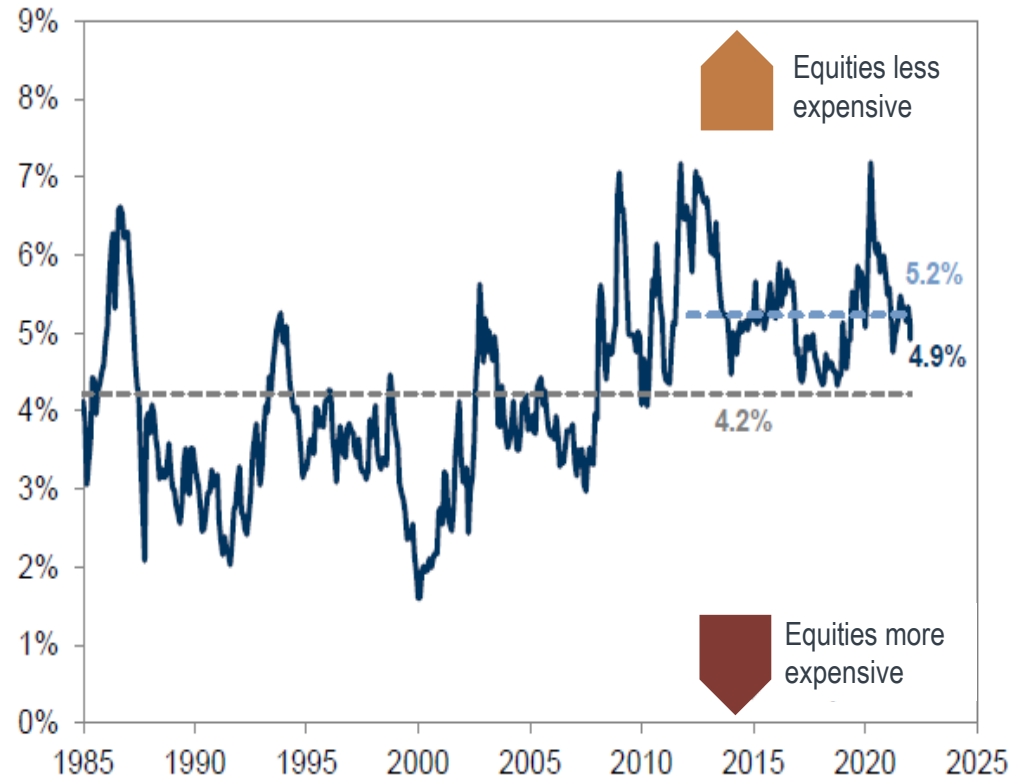
Source: SPW Research, Bloomberg

# RETURNS DASHBOARD – 31 JANUARY 2022

RETURNS IN USD	2020 CY	2021 CY	2M
<b>MSCI World Index</b>	15.9%	21.8%	-1.2%
<b>MSCI style indices</b>			
MSCI World Growth	33.8%	21.2%	-7.4%
MSCI World Value	-1.2%	21.9%	5.2%
MSCI World Quality	22.2%	25.7%	-4.5%
MSCI World Momentum	28.3%	14.6%	-6.4%
<b>Returns by geography/sector</b>			
S&P500	18.4%	28.7%	-0.9%
Nasdaq Composite	44.9%	22.2%	-8.3%
FTSE 100	-9.0%	17.4%	7.3%
MSCI EM	18.3%	-2.5%	-0.1%
MSCI China	29.5%	-21.7%	-6.0%
MSCI EM ex China	12.5%	10.0%	3.0%
MSCI World Technology	44.3%	30.1%	-6.1%
MSCI World Financials	-2.1%	28.7%	5.0%
MSCI World Consumer staples	8.5%	13.7%	5.3%
MSCI World Healthcare	14.1%	20.3%	-0.5%
MSCI World Energy	-30.4%	41.8%	20.1%
MSCI World Mining	25.4%	15.4%	8.3%
<b>JSE All Share</b>	1.9%	19.0%	9.7%
<b>Barclays Global Bond aggregate index</b>	9.2%	-4.7%	-2.2%
<b>Global listed real estate (GPR250)</b>	-7.6%	28.5%	0.4%
<b>Change in 10-year US Treasury bond rate</b>	-100	60	33

# US EQUITY VALUATION

## S&P 500 equity risk premium



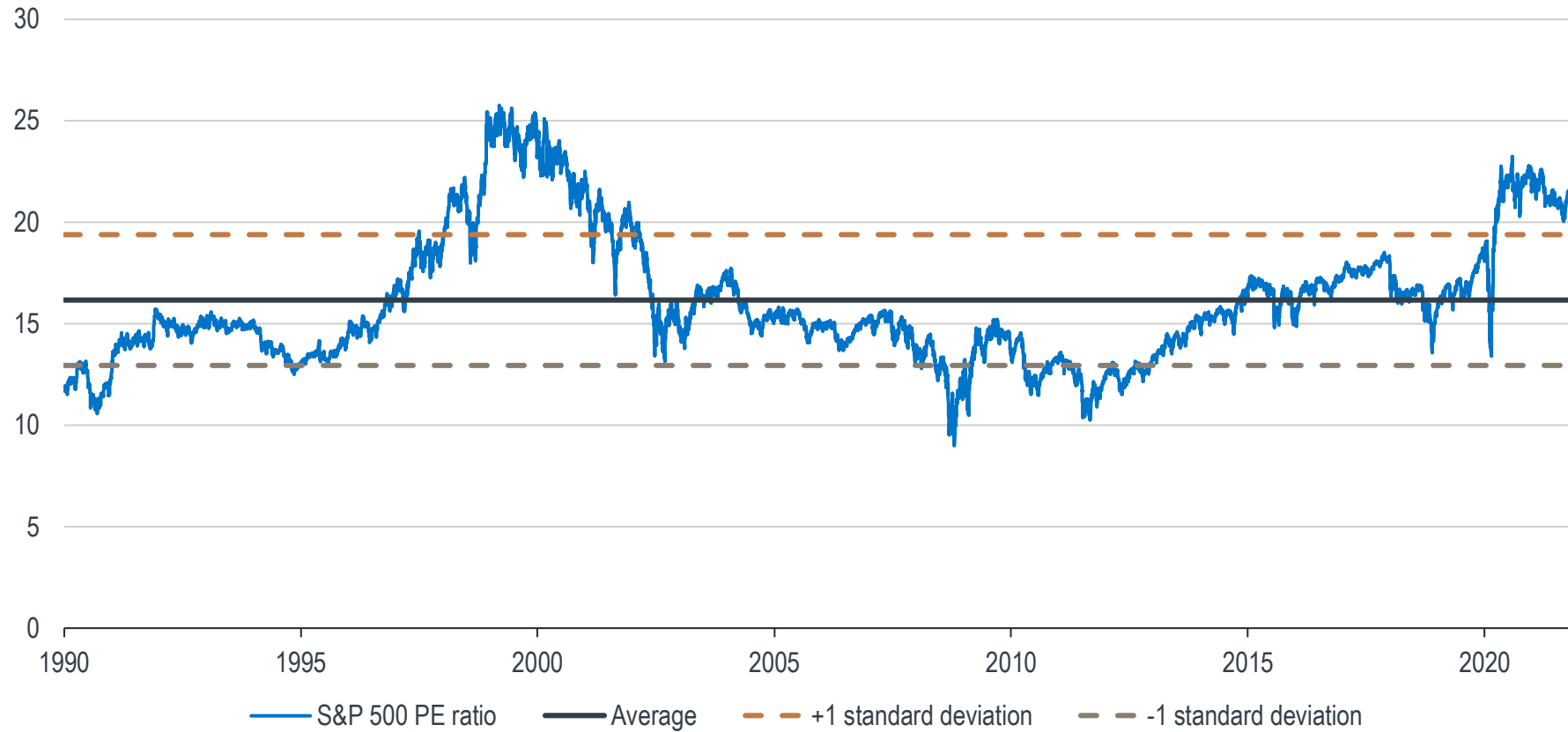
Source: Goldman Sachs

- ⊙ Expensive in terms of own history
  - High PE multiples
  - High earnings growth
  - 10% ahead of its long-term trend
- ⊙ Not expensive relative to current long bond yields
- ⊙ Equity risk premium\* above 40-year mean
- ⊙ Rating of market can absorb risk free rate of 2%

\* Market's expected equity return over and above the risk-free rate of return.

# US EQUITIES

12-month blended forward PE

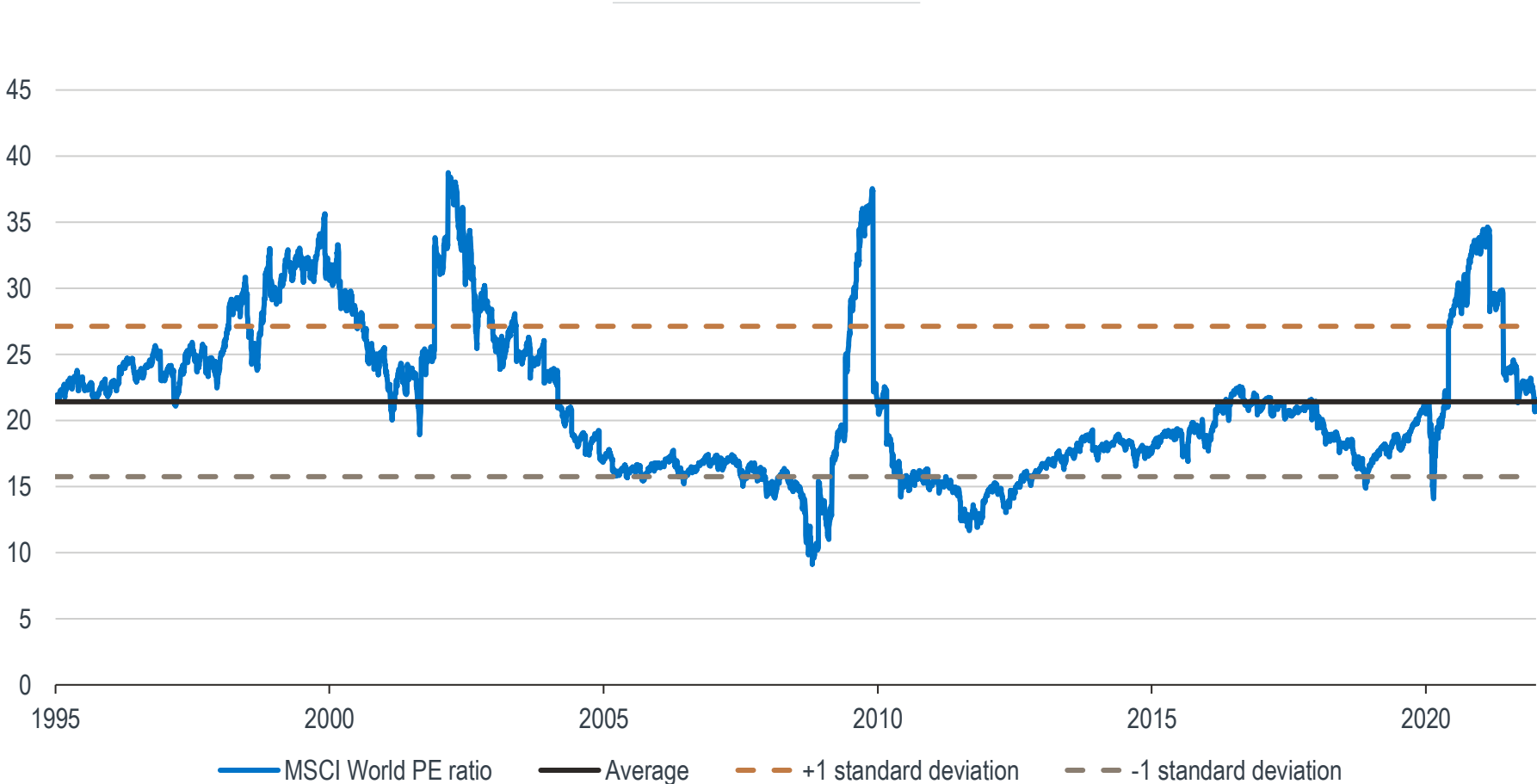


Source: Bloomberg; SPW Research



# EQUITIES VALUATION

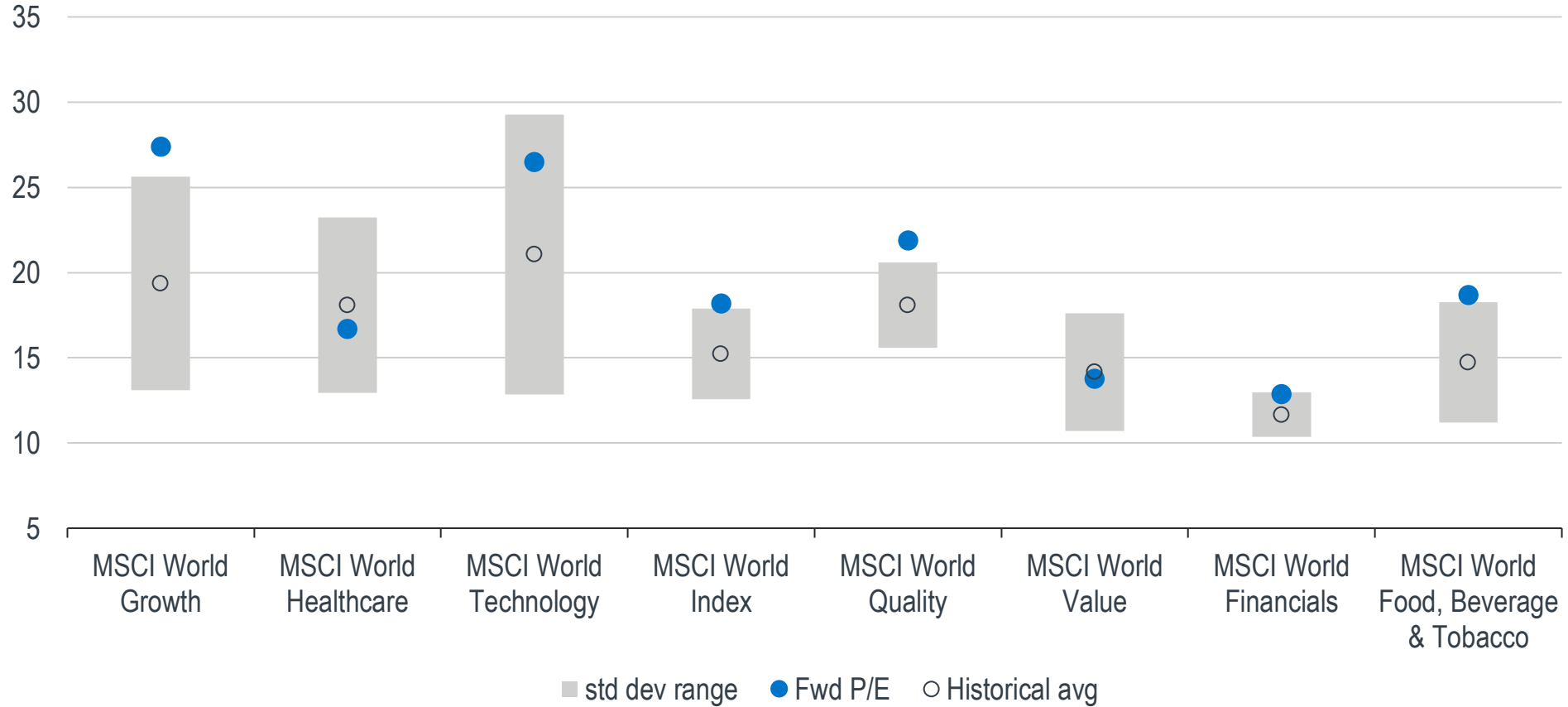
MSCI trailing PE



Source: Bloomberg; SPW Research

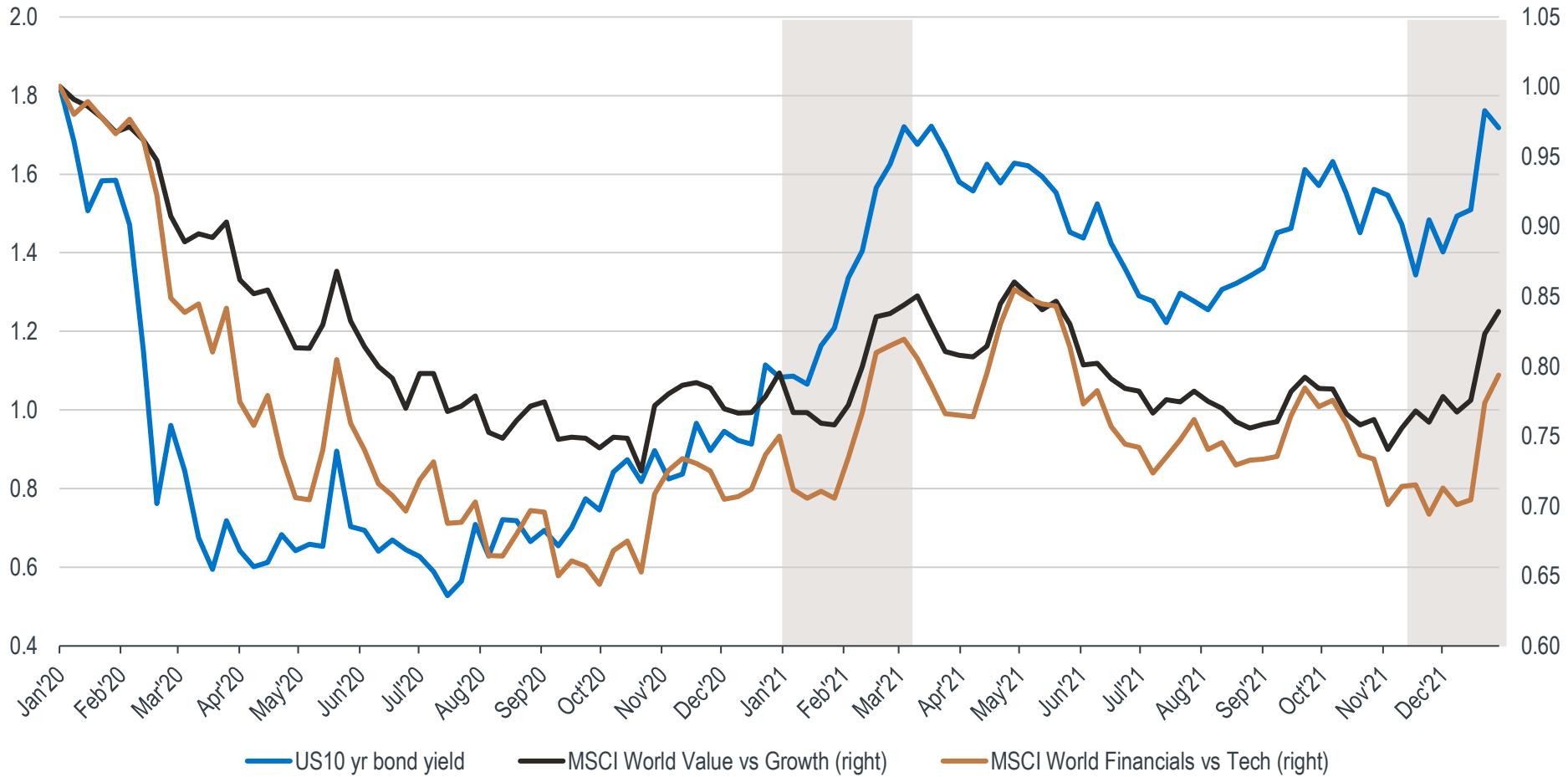
# VALUATION DISPERSION IN GLOBAL EQUITIES

Forward P/E multiples relative to history



Source: Bloomberg; SPW Research

# SECTOR ROTATION IN LINE WITH DIRECTION OF BOND YIELDS



Source: Bloomberg; SPW Research

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# SA EQUITIES – VALUATION SNAPSHOT

12 Jan 2022 (September 2021)

	ALSI	ALSI EX- NASPERS/PROSUS
Dividend Yield	4.3% (4.1)	4.7%
P/E	12.3 (12.4)	12.5
Forward P/E	10.7 (9.4)	10.4
Price to Cash Flow Ratio (P/CF)	8.7 (8.1)	7.8
Price to Book Ratio (P/B)	2.2 (1.92)	2.1
PEG Ratio Forward 12m	1.8 (1.68)	1.9

Source: Bloomberg; SPW Research

# US 10-YEAR TREASURY PROSPECTIVE RETURNS (JAN 2022)

	EXIT YIELD IN 3 YEARS					
	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%
<b>3-year annualised total return</b>	4.4%	3.3%	2.2%	1.2%	0.1%	-0.9%
Current 10-year Govi yield	1.74%					

Source: SPW Research, Bloomberg

# SANLAM PRIVATE WEALTH VIEW

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## ➤ Progression in investment clock

- Economic growth slowing
- Interest rates higher

## ➤ Investors have shifted expectations

- Yet, clear forecast risks

## ➤ At high level traditional asset classes offer muted prospective returns

## ➤ Portfolio structuring needs granular approach

## ➤ Correct geographies and sectors likely to make material difference in equities

- Fixed interest diversifies risk but hardly offers long-term return solution



thank you<sup>®</sup>

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