

## 2022: the year of change

You can't change investment portfolios in the white water – you have to have a strategic view beforehand. This is particularly important when you're at an inflection point." These were the words of Alwyn van der Merwe, Director of Investments at Sanlam Private Wealth as he shared his views on the markets and where he thinks we're heading.

### 2021's investment anchors

Financial markets across the world were driven by low interest rates last year. Liquidity was available, enabling spend on both consumer goods as well as financial assets. Growth shares showed good performance, but this is unlikely to be sustainable as there is evidence that interest rates and economic growth are changing.

### The investment clock is moving

Looking at the investment clock below, we see how the interplay between interest rates and economic growth (and where we are in these two cycles) creates movement between the four quadrants.

- |  |                   |
|--|-------------------|
| 2 Momentum slows on impact of high rates | 1 Cyclical growth |
| 3 Recession but policy relief            | 4 Recovery        |

Financial assets perform differently, depending on which quadrant we find ourselves in. For the last 18 months, we've been in quadrant one – evidenced by strong growth and low interest rates.

However, we're now seeing two things happening. The momentum on economic growth is starting to slow, and inflation is picking up with interest rates rising faster than the market expected. The result is that we're starting to move into quadrant two.

If there is an orderly move in rates (i.e. interest rates rise gradually and economic growth momentum slows gradually), then it's still possible to have an environment where the returns can be found - provided the valuations are there.

# We're moving to quadrant two....what now?

Financials and technology stocks normally do well in this sector. However, this time around, the valuations of tech stocks are too high and if they don't produce the returns the markets want, history won't repeat itself.

When positioning portfolios for clients today, there should be more granularity beyond just the normal asset classes. For example, within the equity space, we need to be thinking about geographic and sectoral exposure.

## The South African market

The local market is quite attractively valued. The economy has its problems, but the market doesn't reflect that. From a valuation perspective, it's not prudent to ignore SA equities.

The market has seen movement in the investment clock and investors are recognising that the same set of circumstances that drove the market in 2021, will perhaps operate in a reverse fashion in 2022.

## In summary – the view of Sanlam Private Wealth:

- Economic growth is slowing, and interest rates are trending higher.
- Investors have shifted their expectations – yet there are clear forecast risks.
- At a high level, traditional asset classes offer muted prospective returns.
- Portfolio structuring needs a granular approach.
- Correct geographies and sectors are likely to make a material difference in the returns from equities.
- Fixed interest diversifies risk but doesn't offer a long-term return solution.

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