MitonOptimal

QUARTERLY MARKET INSIGHT

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At MitonOptimal we take asset allocation (AA) very seriously, taking into consideration both Strategic AA (3-7 years) and Tactical AA within the various asset classes. This quarterly piece provides insight into our short term tactical calls on a 12-month view (reviewed quarterly) and as such may diverge from our long term strategic AA views. We review our strategic AA bi-annually as we believe this is prudent practice, in a world dominated by debt de-leveraging, central bank and political interference.

Index	Q3-2023	Q2-2023
FTSE/JSE All Share TR ZAR	-3.48	0.66
FTSE/JSE SA Listed Property TR ZAR	-0.97	0.66
FTSE/JSE All Bond TR ZAR	-0.33	-1.53
FTSE/JSE ALB 1-3 Yr TR ZAR	1.96	0.48
Allan Gray Money Market	2.13	2.00
MSCI World NR USD	-3.73	13.75
MSCI EM NR USD	-3.19	7.43
GinsGlobal Global Bond Index	-4.84	3.54
OMG Money Market USD	0.99	7.75
S&P Global REIT TR USD	-6.48	7.57
Bloomberg Commodity TR USD	4.42	3.75
STeFI Composite ZAR	2.07	1.92
S&P 500 NR USD	-3.65	15.64

SA EQUITY

Underweight – Underperformed

SA Equities continued to underperform in the 3rd quarter of 2023. Another difficult month for risk assets saw the returns for the quarter down significantly. Loadshedding struggles and other local problems were exacerbated by global geopolitical tensions and lack of foreign investment. This saw the JSE All Share Index drop 3.48% for the quarter with the industrial index (-6.77%) and resources index (-5.36%) the main detractors.

Although inflation seems to have turned the corner globally, interest rates remain high.

There are signs of relaxation of the hiking cycle though, as the SARB as well as the FED seems content with rates staying at current levels. This means the only other factor that could unlock the value in SA equities would be foreign inflows and we are not seeing that just yet.

Our underweight allocation to SA Equities had a positive relative influence on our portfolios. We remain underweight SA equities into Q4 of 2023 but could move to neutral if some of the catalysts for Emerging Market equities and foreign investment come through.

SA LISTED PROPERTY

Underweight - Neutral

Q3 saw the sector lose a lot of the momentum it gained in Q2. Although it ended the quarter in the negative (-0.97%), SA Listed Property was still the best performing risk asset class for the quarter. Although fundamentals for many of the REITs in the sector are looking strong after a horrid 2020, the lack of GDP growth, continuous loadshedding and rising interest rates are all putting tremendous presure on the sector.

Our underweight view had a slight negative relative influence in the portfolios, but only when viewed in comparison to other risk assets.

We feel that there is a lot of value in the sector, specifically after the recent drop in prices causing yields to rise substantially. But the pressures pulling down GDP growth and keeping SA Bond yields high are keeping us underweight this sector into Q4.

SA FIXED INTEREST

Overweight – Outperformed

It was a tough time for SA Bonds again this quarter with the FTSE/JSE All Bond returning -0.33% for the quarter. On a relative basis, however, this is an outperformance of most other asset classes with only local cash and global cash outperforming local fixed interest. This was mainly because of longer maturity bonds being negatively affected by interest rate hikes and the sell-off in SA Bonds in general. This could change soon as we are seeing more dovish talks coming from the FED and the SARB and the end of the hiking cycle being imminent.

This is causing us to look more closely at medium-term government bonds as a viable option versus equities and property. But with many risks on local bonds, especially with the 2024 elections around the corner, we are keeping our exposure to below the ALBI maturity level.

Fortunately, our overweight on this asset class added to relative portfolio performance, despite the asset class having a negative return. We remain overweight into Q4 and feel that the yield return on offer outweighs the risk of equities and property in the short to medium term.

SA CASH

Overweight - Outperformed

Our overweight exposure to cash was a positive influence on the performance of our funds, relatively speaking. With the STeFI Composite Index returning 2.07% outperforming all other asset classes over this quarter. There is still too much risk in the SA economy to move up the risk scale, so we remain cautious and overweight SA cash in Q4 2023.

GLOBAL EQUITIES

Underweight – Underperformed

After the AI run of the tech stocks in Q2, there was a bit of a sell-off in Q3. Economic pressures, global geopolitical tensions and debt problems across the globe played havoc on global equities. There was little respite anywhere with all global equity indices ending in the red this quarter.

After our last Strategic Asset Allocation meeting we preferred global equities over local equities, adding to our relative performance in ZAR terms, with the risks inherent in our local market and pressure on the ZAR having the biggest influence on this decision.

We remain underweight global equities, although we feel that this could change in the next 6 to 12 months as rate hiking cycles end and the central banks and governments become focused on growth rather than fighting inflation. We also remain biased towards global equities versus local equities, but without diverging much for the market allocation towards developed markets versus emerging markets.

GLOBAL FIXED INTEREST

Overweight – Underperformed

Global Bonds became more intriguing since the start of Q2 with yields for US treasuries edging over 4%. This caused us to move into overweight territory for the first time in a while. Yields unfortunately continued to rise throughout Q3 topping out at the end September at over 4.7%.

With the FED seeming more dovish and bond yields cooling off at the end of the quarter, this might provide another great buying opportunity with our funds already adding (although only a little) to our global bond exposure.

GLOBAL CASH

Neutral – Neutral performance

As with local cash exposure, the global cash allocation is used as either a risk mitigator or as a place holder for future deployment into risk opportunities. We moved from underweight to neutral exposure since Q4 2022 and then overweight in Q2 2023. There are still many risks that we fear could play out over the medium term and we are therefore cautious on our risk asset allocation.

We feel confident in maintaining an overweight exposure into Q4, using Global Cash as a risk mitigation tool when and where appropriate.

GLOBAL PROPERTY

Underweight – Underperformed

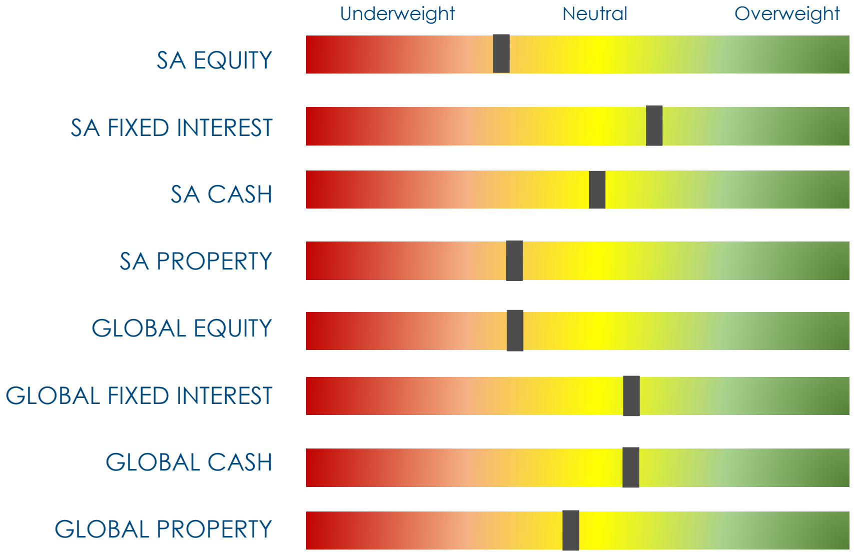
The worst performing asset class for the quarter (-6.48%), with all the factors pulling down equities just having a bigger influence on listed property in general.

With bond yields still high (and getting higher since Q2), there was no incentive to increase our global property exposure to get back to neutral and we remained underweight throughout Q3. We do, however, stick with our view that with bond yields coming down and rate cuts more plausible in the next 12 months, there could be a buying opportunity soon. But that has not materialised yet.

Where we do own global listed property, we are focused on sectors such as warehousing, storage, data centers and infrastructure. Our view is that future interest rate cuts could benefit the sector and we would up our allocation in such an event.

PORTFOLIO ASSET CLASS WEIGHTINGS GOING INTO Q4

The actual weightings are relative to each portfolio's long term neutral weighting and the actual weighting varies between different risk profiles/mandates.



Source of all data: Morningstar