Iza Wealth

WHAT'S INSIDE

OUR

MONTHLY REPORT

June 2024

June 2024 Market Commentary

Market Insights

GLOBAL MARKET OVERVIEW – June 2024

The second quarter of 2024 built on the successes of the first, with risk assets delivering another set of positive returns to investors. Economic momentum carried over from the first quarter, providing a buoyant environment for equity markets, despite some fluctuations and challenges. April's strong data initially heightened concerns about the US economy overheating, leading investors to dial back expectations for central bank rate cuts. However, as the quarter progressed, these fears subsided, reviving hopes for a soft landing. In Europe, economic momentum also remained positive as the effects of the cost-of-living shock continued to abate. Persistent services inflation remained above levels consistent with central bank targets, leading to fewer anticipated rate cuts by Western central banks.

US shares gained in Q2, driven by the information technology and communication services sectors. AI-related companies continued to perform strongly, bolstered by robust earnings and positive outlook statements. Financials also saw gains as numerous banks announced dividend increases after passing the Federal Reserve's stress tests. Despite initial concerns about economic overheating, hopes for a soft landing grew, supported by easing annual inflation and a strong labour market.

The European Central Bank cut interest rates by 25 basis points in early June. However, the scope for further cuts may be limited by sticky inflation. Annual inflation in the euro area was 2.6% in May, up from 2.4% in April. Forward-looking data pointed to a slowdown in the eurozone's economic recovery. Politics was a key focus in the quarter, with European parliamentary elections seeing gains for right-wing nationalist parties, notably in France, where President Macron's call for parliamentary elections surprised markets and led to French equities underperforming the broader eurozone index.

UK equities rose, with the FTSE 100 achieving fresh all-time highs. Small and mid-sized companies saw a flurry of new bids, driven by expectations of a potential turning point for domestically focused companies. Despite encouraging inflation trends, the Bank of England maintained its base interest rate at 5.25%, amid concerns about high wage inflation. Prime Minister Rishi Sunak's call for a general election added to the market's focus on political developments.

Having suffered a mild recession over the second half of 2023, it was confirmed the UK economy rebounded strongly in the first quarter of 2024, recording GDP growth of 0.7%. However, more recent data revealed growth had stagnated in April, with the three-month unemployment rate (to April) rising to 4.4% as the economy shed 140,000 jobs. Despite slowing UK growth and encouraging inflation trends, the BoE maintained base interest rates at 5.25%, amid concerns that the fall in UK inflation may only be temporary, driven by high wage inflation in services, which was 5.7% in May.

Emerging market equities outperformed their developed counterparts, delivering quarterly returns of 5.1%. Strength in Asian markets, particularly in Taiwan and China, contributed significantly to this performance. Moves by Chinese authorities to support the real estate sector and strong AI-related stock performance in Taiwan helped Asia ex-Japan equities achieve a 7.3% return. Despite lackluster returns in Latin America, the overall emerging market performance was robust.

South Africa was another top performer, as investors welcomed the results of the country's general elections which saw the African National Congress Party and Democratic Alliance, along with a number of smaller parties, form a coalition "Government of National Unity". Meanwhile, markets like Korea and some energy-related markets such as Kuwait, UAE, Colombia, and Saudi Arabia underperformed, with Brazil and Mexico posting the biggest losses in US dollar terms.

The quarter commenced on a disappointing note for global bond markets, spurred by renewed concerns about US inflation causing investors to reassess the timing of interest rate cuts. Later, a more conducive market environment was driven by the emergence of softer labor market conditions and encouraging news on inflation. Political risk drove idiosyncratic weakness across certain emerging markets. Additionally, the announcement of snap parliamentary elections in France instigated localized weakness, whereas the prospect of UK elections was less contentious.

High yield (HY) markets enjoyed another positive quarter, with strong outperformance over both government bonds and investment grade corporates. Global government bond markets diverged during the quarter. Following an initial sharp sell-off in US Treasuries, yields peaked towards the end of April and subsequently trended lower. Central banks were firmly in the spotlight, with the Federal Reserve striking a relatively hawkish tone and the European Central Bank announcing a 25bps cut in June. Meanwhile, the Bank of England's decision to keep interest rates unchanged was dubbed as "finely balanced".

South Africa

The strong performance of SA equities was led by domestic focused sectors: retailers (17.1%), banks (16.2%), and life insurance (16.0%), while listed property returned 6%. The yield on the SA 10-year bond fell from a pre-election April high of 12.5% to a low of 11.2% on the 21st of June when it appeared that the GNU was proceeding smoothly. This was in fact the second-best 2nd quarter performance for SA nominal bonds in the last 22 years. Of course, the strength of the rand in such scenarios (+3.3%) combined with a market configuration dominated by companies with offshore earnings means that there were losers despite the positivity. For example, resources fell 3.7% on aggregate, while Naspers and Richemont fell 4.3% and 5.2% respectively. The same is true for the SA property sector which saw offshore-focused counters like Sirius (-6.5%), MAS (-5.7%), and NEPI (1.2%) well behind their domestic focused peers like Hyprop (14.8%), Redefine (12.0%), Growthpoint (10.8%).

On the economic front, the consumer price index (CPI) remained steady at 5.2% in May (released in June) and although unchanged from April is down from 5.3% in March and 5.6% in February. Disinflation in Bread and Cereals, and Dairy products outweighed the higher inflation in Meat, Fish, and Fruit and Vegetables to help lower food inflation to 4.3% (4.4% in April). The lower Food price was negated by the higher Transport inflation which at a y/y increase of 6.3% (from 5.7% in April) made up 0.9% of the headline inflation figure. Core inflation remained steady at 4.6%, slightly above market expectations of 4.5%, though the underlying components were mixed. Inflation slowed for vehicles, personal care, clothing and textiles, water and other services, and restaurants and hotels, but was counterbalanced by higher prices for alcoholic beverages, tobacco, and transport. Administered prices, which are regulated and less influenced by central bank policy rates and constitute 16.2% of the total CPI basket, increased by 8.9% (8.8% in April), reaching their highest level in 16 months. These relatively sticky administered prices pose a challenge for the SARB's 4.5% inflation target and its goal to adjust the target to align more closely with South Africa's trading partners. Over the past 15 years, administered price inflation has been 2.1% above headline inflation. If this trend continues, non-administered price inflation would need to average 4.2% to meet a 4.5% inflation target, or 2.7% to meet a 3% target.

OUR PORTFOLIOS

The Iza Portfolios

The second quarter of 2024 continued to build on the successes of the first, with both the Iza Global Balanced and Iza Global Equity Funds delivering strong positive performances. The favorable market environment, characterized by lower bond yields and a continued downtrend in CPI, benefitted the growth and quality managers within the portfolios. The funds' performance placed the Iza Global Balanced Fund in the top quartile of the GBP EAA Global Flex category both for the month and year-to-date, and within the top 30% of the ASISA Global MA category. Meanwhile, the Iza Global Equity Fund snuck ahead of the MSCI World Index in June but is still behind year-to-date.

Nomura was the best performing fund for the quarter, up nearly 6%, significantly outpacing the MSCI World Index's 2.5% gain. T. Rowe Price closely followed, posting over 4% returns. These standout performances were instrumental in driving the overall positive returns of both funds. The strategic decision to reduce allocations in Fundsmith and Scottish Mortgage in favor of T. Rowe Price and Nomura has proven to be prudent, effectively diversifying manager risk while maintaining robust returns.

In the Iza Global Balanced Fund, bonds ended the quarter roughly flat but were maintained as a strategic position to earn higher yields while providing protection against a possible recession. Should the Federal Reserve overstay its welcome and keep rates too high for too long, bonds are well-positioned to buffer against this potential economic slowdown. Gold was the biggest contributor, up over 4% for the quarter, highlighting its role as a reliable diversifier in the portfolio. Value names like Dodge & Cox and Berkshire Hathaway were slight detractors, mirroring broader market trends where the value space lagged.

Similarly, in the Iza Global Equity Fund, Dodge & Cox and Berkshire Hathaway were detractors alongside Fundsmith, whose slight negative print for the quarter was disappointing. The performance of Fundsmith further supports our proactive decision last year to meaningfully reduce exposure and rotate into Nomura. Additionally, Smithson lagged in the equity fund due to small and mid-cap headwinds. Small and mid-cap stocks are currently trading at their cheapest relative to large caps in over five decades, indicating potential for a strong recovery when rates come down and sentiment shifts.Despite the recent outperformance in June, the Iza Global Equity Fund remains slightly behind the MSCI World Index year-to-date. This lag is largely due to the high concentration in performance of major indexes, which have seen unprecedented concentration in US large caps. We remain hesitant to chase yesterday's winners, as we already have more prudent weightings to each, ensuring that the fund's portfolio remains diversified and resilient. The fund was ahead by 2% for Q2 and 1.5% YTD vs global equity peers (ASISA Global Eq General).

Both the Iza Global Balanced and Iza Global Equity Funds are well-positioned to capture positive rotations and the recovery of stocks poised to play catch-up. Their exposure to quality growth managers like T. Rowe Price and Nomura ensures resilience, while the strategic diversification away from Fundsmith and Scottish Mortgage has reduced manager risk. Bonds added upside in the balanced fund, with gold being the biggest contributor, further emphasizing its role as a key diversifier.

The Iza Global Balanced and Iza Global Equity Funds' strategic positioning allows them to benefit from both large-cap growth stocks and sectors poised for recovery. This ensures that they can continue to deliver strong returns to investors, supported by a prudent blend of growth, quality, and value investments.

Quote of the Month

"Far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost in corrections themselves."

Peter Lynch

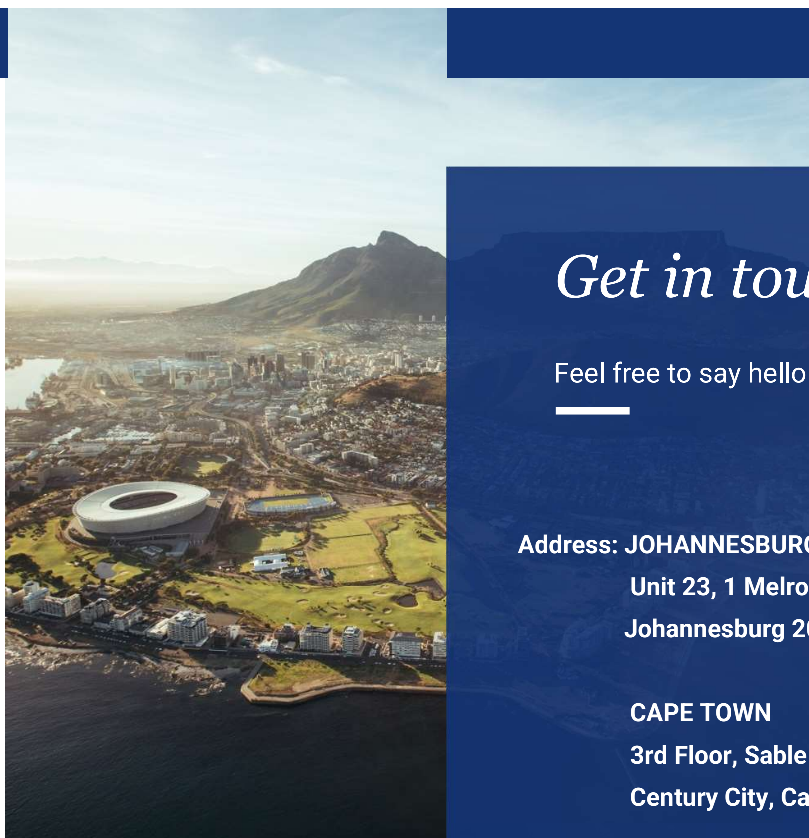
Funds' Performance Summary

As at 28 June 2024 - GBP	1 Month	3 Months	YTD	1 Year	*3 Years	*5 Years
EAA Fund GBP Allocation 20-40% Equity	1.11	0.70	2.45	7.66	-0.17	1.59
EAA Fund GBP Flexible Allocation	1.01	1.23	4.15	9.09	0.11	2.68
Iza Global Balanced A GBP Acc	1.77	1.01	7.90	13.86	-2.57	3.95
Iza Global Equity A GBP Acc	2.13	0.74	9.54	16.81	-3.88	6.13
As at 28 June 2024 - USD						
EAA Fund USD Cautious Allocation	0.84	0.61	2.41	6.83	-0.48	1.91
EAA Fund USD Flexible Allocation	1.00	0.98	4.14	9.05	0.33	3.59
Iza Global Balanced A USD Acc	0.99	1.19	7.17	13.33	-5.49	3.67
Iza Global Equity A USD Acc	1.36	0.91	8.81	16.28	-6.65	5.16
As at 28 June 2024 - ZAR						
EAA Fund GBP Allocation 20-40% Equity	-2.64	-2.83	1.43	3.47	5.20	6.83
Iza Global Balanced A GBP Acc	-2.01	-2.53	6.83	9.43	2.67	9.31
EAA Fund GBP Flexible Allocation	-2.73	-2.32	3.12	4.85	5.49	7.98
Iza Global Equity A GBP Acc	-1.66	-2.80	8.46	12.26	1.29	1.77

*The Performance information is based on back tested performance of hypothetical investments.

Asset Class Performance *(Base Currency)*

As at 28 June 2024	1 Month	3 Months	YTD	1 Year	*3 Years	*5 Years
SA Indices						
FTSE/JSE All Bond TR ZAR	5.24	7.49	5.55	13.73	7.62	7.82
FTSE/JSE All Share PR ZAR	3.91	6.94	3.66	4.84	6.36	6.49
FTSE/JSE All Share TR ZAR	4.08	8.19	5.75	9.14	10.96	10.57
STeFI Call Deposit ZAR	0.61	1.94	3.96	8.18	6.17	5.61
Major Equity Indices						
MSCI ACWI NR USD	2.23	2.87	11.30	19.38	5.43	10.76
MSCI World NR USD	2.03	2.63	11.75	20.19	6.86	11.78
S&P 500 NR USD	3.55	4.18	15.05	24.00	9.50	14.48
Global REITS						
FTSE EPRA Nareit Global NR USD	0.20	-2.34	-3.83	3.94	-5.31	-1.49
Global Fixed Income						
Bloomberg 20-30Y Treasury Strips TR USD	2.10	-3.70	-9.16	-12.49	-16.17	-7.32
ICE LIBOR 1 Month USD	0.46	1.38	2.79	5.68	3.37	2.34
NYSE US 10 Yr Treasury Futures PR USD	1.09	-1.02	-3.32	-3.54	-6.54	-3.00
Commodities						
DJ Cmmdty Crude Oil TR USD	6.83	1.28	19.79	28.80	16.17	-0.01
DJ Cmmdty Precious Metals TR USD	-0.54	7.03	14.01	21.68	8.23	10.24
DJ Cmmdty Silver TR USD	-3.53	17.80	22.31	27.60	3.58	12.65



Get in touch

Feel free to say hello or ask any questions

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