Iza Wealth

WHAT'S INSIDE

OUR

July 2024

MONTHLY REPORT

July 2024 Market Commentary

Market Insights

GLOBAL MARKET OVERVIEW – July 2024

July was marked by notable economic and political developments. Early in the month, a softer-than-expected US Consumer Price Index (CPI) reading and weaker labor market data reassured bond investors that the Federal Reserve might soon begin cutting interest rates. This environment spurred a rotation into small-cap stocks and other interest-sensitive asset classes. Despite these fluctuations, the Iza funds maintained resilience due to their diversified exposures.

Interest-rate sensitive asset classes outperformed, with small-cap returns surging and global REITs posting healthy gains. Conversely, developed equities had a more muted performance, and growth stocks saw a pullback as enthusiasm for AI investments cooled. Commodities struggled, but gold shone brightly, driven by expectations of Fed rate cuts and its status as a safe-haven asset.

Earnings season in the US saw mixed reactions. Four of the 'magnificent seven' tech giants reported results, but broadly, investors appeared underwhelmed, leading to pressure on the tech sector for most of July before a rebound at month's end. The S&P 500 gained 1.2% over the month. With over half of S&P companies having reported, more than two-thirds beat analysts' expectations, suggesting a resilient US economy. However, this year's laggards played catch-up in July, with investors shifting towards small-cap equity stocks, which are more sensitive to interest rate cuts. This shift led to the largest one-month outperformance of the Russell 2000 versus the Nasdaq 100 in over 20 years.

UK stocks outperformed, with the FTSE All-Share rising by 3.1% over the month. Robust service sector PMIs in July and stronger-than-expected economic growth for the second quarter pointed to improving economic momentum. Markets did not react significantly to the general election, given that a Labour victory was already assumed. European stocks lagged their US and UK counterparts, with the MSCI Europe ex-UK returning 0.6% over the month.

The Japanese TOPIX index underperformed, falling 0.5% last month. This decline reflected the weakness in global tech stocks and was compounded by a strengthening yen. Expectations of earlier Fed interest rate cuts, coupled with an interest rate hike from the Bank of Japan, led to the yen appreciating by 6.5% versus the US dollar, its strongest monthly move since June 2016. Chinese equity markets also struggled, with the MSCI China Index falling by 1.2% in US dollar terms. Continued challenges in the real estate sector and their spillover effects on the broader economy were major contributors. However, Chinese authorities took steps to provide liquidity support to the financial system, including cutting the reverse repo rate and lowering the benchmark loan prime rate to stimulate lending and support economic growth.

In the fixed income market, the soft CPI print and weakening labor market in the US heightened investor expectations for Fed rate cuts in 2024 and 2025. This optimism boosted US Treasuries, which gained 2.2% over the month. The rally at the front end of the curve also caused the yield curve to steepen, with the spread between the 10-year and 2-year US Treasury yields narrowing to -21 basis points, its smallest level since January 2024. In the UK, stronger-than-expected GDP growth in the second quarter and persistent services inflation suggest that interest rate cuts may be more gradual compared to the US and Europe. Consequently, UK Gilts underperformed, returning only 1.9% over the month. In the eurozone, government bonds in the periphery continued to outperform core bonds as investors sought higher yields in anticipation of further European Central Bank interest rate cuts. Italian and Spanish sovereign bonds returned 2.8% and 2.3% respectively, with Italy maintaining its status as the top-performing major sovereign bond market year to date.

Stronger economic momentum and more attractive valuations can be found in areas such as the UK, China and continental Europe, offering some diversification against US market and political risks.

South Africa

Just as the global economy is showing signs of slowing down which has impacted global stock markets, South African assets have performed better than their global counterparts.

The South African Equity Market is seeing strong performance, especially in sectors sensitive to interest rates like Consumer Staples (7.2%), Banks (6.1%), and Financials (5.2%). These gains are partly driven by local valuations (which trade at a significant discount) being unlocked following a return in optimism to South Africa – thanks to a positive national election outcome.

South African Bonds (+ 4.0%) also had a strong month, lagging only the property sector (+4.4%). The strong rally in local bonds seems to have fully priced in the risk associated with the recent elections. To justify further decline in yields, we need to see evidence of strong performance from the new government. The South African Reserve Bank (SARB) kept interest rates unchanged for the seventh consecutive meeting. Despite this, there were signs of a dovish stance from the SARB, including downward revisions to the inflation forecast. This opens the door for a possible rate cut in September, potentially marking the start of a gradual easing cycle. Inflation continues to slow down, with headline inflation reaching 5.1% in June. The decrease in food inflation is particularly encouraging, falling to its lowest level in over four years. The SARB's updated forecast suggests inflation will be below the middle of the target range by the end of 2024.

Economic data for May was mixed, with manufacturing production showing a contraction and mining production stagnating. Despite this, a weak base in the first quarter of 2024 suggests potential for growth in the second quarter. While it's disappointing that improvements in the power and rail sectors haven't translated into stronger growth, we anticipate a stronger growth trajectory in the coming years thanks to lower interest rates and successful reforms from the new government.

While the global economic outlook is uncertain, South African markets are showing signs of improvement. The strong performance of local equities and bonds, coupled with the potential for a rate cut and slowing inflation, offers some optimism for investors. However, it's important to watch the new government's performance closely and ensure that their policies deliver on promises for economic growth.

OUR PORTFOLIOS

The Iza Portfolios

The Iza Global Balanced Fund ended July roughly in line with peer benchmarks in the EAA Global Flex and ASISA Global MA categories, maintaining its top quartile position year-to-date. This performance is particularly pleasing given the challenging environment for quality and growth names in July. The fund's diversified holdings, including Berkshire Hathaway, Dodge & Cox, gold, and bonds, all outperformed, underscoring the benefits of a well-rounded portfolio.

Berkshire Hathaway stood out with a positive return of 6.02%, demonstrating the strength of value investments even in a volatile market. Gold was also a big contributor, up over 4% for the month, driven by heightened expectations of Federal Reserve rate cuts and its appeal as a safe-haven asset amid geopolitical tensions and economic uncertainties. Bonds added significant value, with the iShares Treasury Bond ETF up 2% and Rubrics Enhanced Yield up 1%. These fixed-income assets not only contributed positively in July but continued to add value in August as equity markets sold off due to fears of a possible recession. The funds reduction in USD exposure via the use of GBP classes for certain positions also added value as the US dollar weakened vs the pound.

Conversely, Fundsmith suffered a loss of -3.08%, reinforcing the prudence of our prior decision to reduce exposure to this holding. The manager is currently on watch for a possible replacement, and we are conducting thorough analysis and discussions with the team to determine the best course of action. Nomura Global High Conviction faced a minor setback with a -0.64% return, though it remains a cornerstone of the fund. T. Rowe Price Global Focused Growth experienced a pullback with a -4.20% return, reflecting broader market trends where growth-oriented investments faced headwinds.

The Iza Global Equity Fund, when compared to other global equity names in the ASISA Global Equity category, remains top quartile for the year. However, it is slightly behind the MSCI World Index due to its greater diversification and lower concentration risk.

Despite these challenges, the fund maintained resilience and demonstrated the benefits of a diversified approach. Smithson Investment Trust, focusing on small and mid-cap stocks, posted a strong return of 7.26% for July, indicating the potential of these stocks to rebound. Berkshire Hathaway also performed well in the equity fund, with a return of 6.02%. Dodge & Cox, benefiting from the value space's relative outperformance, returned 1.60%. However, some holdings underperformed. Fundsmith Equity Fund-I Acc had a negative return of -3.08%, further supporting our decision to reduce exposure and putting the manager on watch for possible replacement. Scottish Mortgage Investment Trust returned -2.22%, highlighting the challenges faced by growth-oriented investments in the current market environment.

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 significant value in the balanced fund, with gold being the biggest contributor, further emphasizing its role as a key diversifier.

Smithson's focus on the small and mid-cap space, trading at historical lows relative to large caps, positions the equity fund to capture the anticipated market turn as rates come down and sentiment shifts. While some reduction in these positions might be considered due to current headwinds, the potential for swift mean reversion suggests caution in trying to time these moves too precisely.

As we look forward to the coming months, the funds remain well-placed to navigate the evolving economic landscape. 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

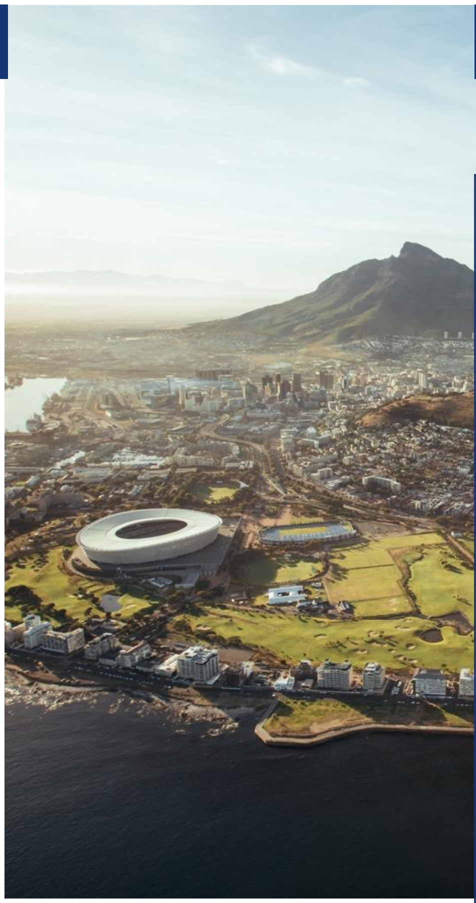
Funds’ Performance Summary

As at 31 July 2024 - GBP	1 Month	3 Months	YTD	1 Year	*3 Years	*5 Years
EAA Fund GBP Allocation 20-40% Equity	0.99	2.79	3.46	7.57	-0.06	1.47
EAA Fund GBP Flexible Allocation	0.87	2.93	5.05	8.46	0.22	2.51
Iza Global Balanced A GBP Acc	-0.09	2.84	7.80	11.12	-2.83	3.24
Iza Global Equity A GBP Acc	-0.17	3.35	9.36	13.00	-4.17	5.00
As at 31 July 2024 - USD						
EAA Fund USD Cautious Allocation	1.37	3.47	3.82	6.98	-0.21	2.06
EAA Fund USD Flexible Allocation	0.99	3.97	5.18	7.92	0.45	3.66
Iza Global Balanced A USD Acc	1.57	5.83	8.85	11.28	-5.39	4.10
Iza Global Equity A USD Acc	1.50	6.36	10.44	13.17	-6.63	5.20
As at 31 July 2024 - ZAR						
EAA Fund GBP Allocation 20-40% Equity	2.23	1.84	3.69	9.85	4.67	7.69
EAA Fund GBP Flexible Allocation	2.11	1.97	5.29	10.76	4.96	8.79
Iza Global Balanced A GBP Acc	1.14	1.88	8.04	13.47	1.77	9.57
Iza Global Equity A GBP Acc	1.06	2.39	9.61	15.39	0.36	14.75

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

Asset Class Performance (Base Currency)

As at 31 July 2024 - GBP	1 Month	3 Months	YTD	1 Year	*3 Years	*5 Years
SA Indices						
FTSE/JSE All Bond TR ZAR	3.96	10.22	9.73	15.58	8.72	8.82
FTSE/JSE All Share PR ZAR	3.84	8.79	7.64	4.80	6.27	7.83
FTSE/JSE All Share TR ZAR	3.92	9.20	9.89	9.04	10.87	11.96
STeFI Call Deposit ZAR	0.72	2.01	4.71	8.22	6.32	5.64
Major Equity Indices						
MSCI ACWI NR USD	1.61	8.09	13.10	17.02	5.75	11.05
MSCI World NR USD	1.76	8.47	13.72	18.34	6.85	12.06
S&P 500 NR USD	1.19	9.93	16.42	21.60	9.09	14.43
Global REITS						
FTSE EPRA Nareit Global NR USD	5.70	9.29	1.65	5.61	-4.36	-0.41
Global Fixed Income						
Bloomberg 20-30Y Treasury Strips TR USD	4.39	10.78	-5.17	-5.10	-16.24	-6.55
ICE LIBOR 1 Month USD	0.47	1.40	3.27	5.69	3.53	2.39
NYSE US 10 Yr Treasury Futures PR USD	1.66	3.77	-1.72	-1.18	-6.48	-2.59
Commodities						
DJ Cmmdty Crude Oil TR USD	-2.78	-1.41	16.47	7.48	14.50	-0.62
DJ Cmmdty Precious Metals TR USD	3.16	6.29	17.61	21.14	8.82	10.46
DJ Cmmdty Silver TR USD	-1.63	8.86	20.31	15.19	3.87	10.74



Get in touch

Feel free to say hello or ask any questions

Address: JOHANNESBURG
Unit 23, 1 Melrose Boulevard, Melrose Arch,
Johannesburg 2076

CAPE TOWN
3rd Floor, Sable Corner, Conference Way,
Century City, Cape Town, 7441

Phone: +27 (0)10 615 0901
E-MAIL: info@izawealth.com

Iza Wealth

www.izawealth.com