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OUR

MONTHLY REPORT

October 2024 Market Commentary

October 2024



Market Insights

GLOBAL MARKET OVERVIEW – October 2024

Global markets were marked by high levels of volatility and risk aversion in October. The US presidential election and rate cut expectations played a prominent role in shaping investor sentiment. US equities generally faced downward pressure, with sectors like healthcare, materials, and real estate declining amid growth concerns and earnings shortfalls. In contrast, Japan was a standout in equity markets, bolstered by currency tailwinds and solid corporate earnings.

Fixed income markets experienced headwinds as rising yields impacted Treasuries and other government bonds. In the US, 10-year Treasury yields rose above 4.0% as markets priced in potential inflationary policies from a Trump administration. UK Gilts saw a similar sell-off, further pressured by domestic budget announcements. This environment underscored the benefit of Iza Balanced Fund's selective fixed-income holdings, which are positioned as effective hedges and sources of yield amid long-term rate concerns and abnormally low credit spreads.

The month of October brought a wave of volatility across global markets, driven by heightened uncertainty around the US presidential election, fluctuating interest rate expectations, and mixed economic indicators. This environment was further complicated by currency dynamics, as the US dollar strengthened against all major currencies, including the pound, following market anticipation of a Trump victory. Both Iza Global Balanced and Equity Funds demonstrated resilience, benefitting from strategic hedging adjustments and asset allocation decisions, which allowed them to remain competitive despite challenging conditions.

Due to proactive steps taken in September to reduce GBP-hedged classes, particularly in the Iza Equity Fund, both funds were well-prepared to weather the strong dollar's impact. The decision to implement hedging adjustments has proven beneficial over the past 12 months, particularly during periods of USD weakness. However, the shift back towards unhedged USD classes has allowed the funds to better capitalize on the dollar's October surge, balancing their exposure as global economic and political developments unfold.

The Iza Global Balanced and Iza Global Equity Funds navigated October's challenging environment with resilience, supported by timely hedging adjustments, strategic asset allocations, and diversified holdings. While Both funds suffered slightly on a relative due to being underweight the USD in October, benefitted from their proactive positioning late September, allowing them to mitigate some of the adverse currency effects while maintaining strong relative performance against benchmarks due to manager and asset class selection.

For the Iza Balanced Fund, the strong performance of Berkshire Hathaway, gold, and the selective use of lower duration bond holdings underscored the value of a diversified approach. Meanwhile, the Iza Equity Fund's timely additions, such as the GARP ETF and reduced hedged exposure in MSCI World, allowed it to adapt effectively to a volatile USD environment, providing both upside potential and downside protection.

As we move forward, the funds remain well-positioned to capture future opportunities in a dynamic global landscape, maintaining a prudent balance between growth, value, and protective assets. This approach will ensure that both funds can continue to deliver strong returns to investors amid an evolving economic and geopolitical environment.

South Africa



October saw a retracement in equity markets after initial highs, with developed markets (DM) experiencing their second negative month this year (-1.0%). The sell-off was triggered by stronger-than-expected US economic data, reducing expectations for Fed rate cuts and highlighting the reliance of equity valuations on lower policy rates. The surge in US bond yields negatively affected emerging market (EM) equities (-2.8%) and bonds (-0.3%).

South African equities experienced a mixed performance, with a slight decline of 0.9%. The resource sector provided a buffer against broader market declines, thanks to strong performances in gold stocks driven by global risk sentiment and risk hedging. However, this resilience was tempered by some profit taking in the more domestic orientated sectors which have rated significantly post the GNU election outcome. The SA Property sector saw a similar trend, marked by reversal in the fortunes of the South African Property Index (SAPY) which lost 2.8% in the month. In addition to the profit-taking activities, heightened selectivity amid rising financing costs also weighed in on sector returns.

During October, South African bonds experienced a downturn in line with global bond markets. The MTBPS impact, alongside the unchanged auction sizes, led to a steepening of the yield curve. Despite this, SA bonds managed to outperform the emerging market bond aggregate year-to-date, reflecting cautiously optimistic investor sentiment towards fiscal sustainability.

The market for inflation-linked bonds saw yields rise across the curve, yet these bonds outperformed in the shorter tenors. The anticipation of continued subdued inflation supports lower returns on ILBs, yet the relatively higher yields at approximately 5% for 10-year maturities present an attractive entry point, especially for investors focused on real returns.

From an economic perspective, inflation continued its downward trend, reaching 3.8% in September. This was driven by lower transport costs, notably a 3.8% monthly drop in petrol prices. The real estate sector showed minimal inflation, suggesting weak demand-pull pressures. An anticipated petrol price drop in October is likely to keep inflation near the target's lower bound, with favorable base effects expected to persist through 2025.

Improved sentiment post-elections has not yet translated into increased economic activity. Key sectors such as mining, wholesale trade, and construction showed declines, while manufacturing remained flat. A slight improvement in retail and motor trade is expected, but third-quarter growth is projected to disappoint at 0.5%.

The Iza Portfolios

IZA Global Balanced Fund

The Iza Global Balanced Fund outperformed its peers in October, maintaining a top-quartile position relative to the EAA Global Flex category and placing within the quartile year-to-date. This is particularly noteworthy given the fund's modest USD exposure which did create a slight lag in performance vs the ASISA Global MA Flex category but still leaves it in the top two quartiles year to date. Outside of the very binary currency move with the GBP weakening by over 3% in the month, performance was largely driven by high-conviction equity and precious metals holdings, which served as defensive buffers in a volatile month.

Berkshire Hathaway, a cornerstone value holding, posted a solid gain of 1.99% in GBP terms. The strength of this holding, combined with its low sensitivity to currency shifts, helped the fund offset other areas affected by the USD rally. Gold was another key contributor, appreciating significantly in October (9% in GBP) due to geopolitical uncertainties, with the fund taking advantage of its strength to rebalance back to target. This proved a wise decision, as gold saw a pullback immediately following Trump's win in early November, demonstrating the fund's adaptability in managing precious metals exposure.

Nomura Global High Conviction Fund, which typically performs well in quality-focused environments, saw a slight loss of -1.49% in GBP terms. This decline is largely attributable to currency impact, as Nomura's performance in USD terms was in line with quality peers and still remains one of the top performing global quality managers for the last decade. The fund's bond positions, including iShares US Treasury Bond ETF, declined in GBP terms due to rising yields but remain essential hedges against economic slowdown and are valued for their attractive yields.

IZA Global Equity Fund

The Iza Global Equity Fund also fared well against the backdrop of October's currency volatility and market dynamics, finishing in the top quartile year-to-date. The transition from Smithson to the S&P 400 Midcap GARP ETF continued to pay dividends, with the GARP ETF outperforming Smithson by over 3% in USD terms. This strategic rotation allowed the fund to capture mid-cap growth at a reasonable valuation while reducing exposure to smaller, non-profitable companies that could face headwinds if rate cuts do not materialize as expected.

Scottish Mortgage Investment Trust emerged as a top performer in the equity fund, up 4.37% for October in GBP terms, reflecting its resilience amid concerns surrounding AI monetization and major holdings like Nvidia. The fund's remaining positions in the MSCI World ETF also contributed, as the global exposure allowed it to capture broad-based equity performance while benefitting from reduced GBP hedging.

The newly added Clearance Camino, focused on European property, faced headwinds from rising rates, which weighed on the sector, though this was anticipated as a short-term impact. We believe Europe's rate pressures may soon abate, given structural constraints within the region that limit sustained high rates. This addition remains well-positioned to benefit from a cyclical recovery in European property markets as rates stabilize.

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

| | 1 Month | 3 Months | YTD | 1 Year | *3 Years | *5 Years |
|---------------------------------------|---------|----------|-------|--------|----------|----------|
| As at 31 October 2024 - GBP | | | | | | |
| EAA Fund GBP Allocation 20-40% Equity | - 0.72 | 0.82 | 4.30 | 11.42 | 0.19 | 1.74 |
| EAA Fund GBP Flexible Allocation | - 0.82 | 0.53 | 5.61 | 13.83 | 0.03 | 2.80 |
| Iza Global Balanced A GBP Acc | 0.88 | 1.78 | 9.72 | 19.67 | - 3.27 | 4.61 |
| Iza Global Equity A GBP Acc | 0.97 | 1.09 | 10.55 | 24.52 | - 5.14 | *6.80 |
| IZA Global Stable Portfolio GBP | 0.21 | 1.13 | 8.80 | 16.53 | - 0.19 | 2.82 |
| As at 31 October 2024 - USD | | | | | | |
| EAA Fund USD Cautious Allocation | - 1.36 | 1.27 | 5.13 | 12.52 | 0.26 | 2.13 |
| EAA Fund USD Flexible Allocation | - 1.61 | 1.31 | 6.56 | 16.65 | 0.64 | 3.80 |
| Iza Global Balanced A USD Acc | - 2.24 | 2.63 | 11.71 | 27.63 | - 5.08 | *4.50 |
| Iza Global Equity A USD Acc | - 2.15 | 1.92 | 12.56 | 32.81 | - 6.86 | *6.10 |
| As at 31 October 2024 - ZAR | | | | | | |
| EAA Fund GBP Allocation 20-40% Equity | - 2.37 | - 1.93 | 1.69 | 11.33 | 3.14 | 4.92 |
| EAA Fund GBP Flexible Allocation | - 2.47 | - 2.20 | 2.97 | 13.74 | 2.98 | 6.01 |
| Iza Global Balanced A GBP Acc | - 0.80 | - 0.99 | 6.98 | 19.57 | - 0.42 | 7.88 |
| Iza Global Equity A GBP Acc | - 0.71 | - 1.66 | 7.79 | 24.42 | - 2.35 | 11.61 |
| IZA Global Stable Portfolio GBP | - 1.46 | - 1.62 | 6.08 | 16.44 | 2.75 | 6.03 |

*The 5-Year performance information is based on back-tested performance of hypothetical investments.

Asset Class Performance (Base Currency)

| As at 31 October 2024 | 1 Month | 3 Months | YTD | 1 Year | *3 Years | *5 Years |
|-----------------------------------------|---------|----------|--------|--------|----------|----------|
| SA Indices | | | | | | |
| FTSE/JSE All Bond TR ZAR | - 2.20 | 3.99 | 14.11 | 21.29 | 10.49 | 9.43 |
| FTSE/JSE All Share PR ZAR | - 1.34 | 3.17 | 11.04 | 22.59 | 8.17 | 8.64 |
| FTSE/JSE All Share TR ZAR | - 0.92 | 4.51 | 14.85 | 27.16 | 12.48 | 12.76 |
| STeFI Call Deposit ZAR | 0.66 | 1.99 | 6.80 | 8.21 | 6.71 | 5.72 |
| Major Equity Indices | | | | | | |
| MSCI ACWI NR USD | - 2.24 | 2.57 | 16.00 | 32.79 | 5.51 | 11.08 |
| MSCI World NR USD | - 1.98 | 2.45 | 16.50 | 33.68 | 6.38 | 12.03 |
| S&P 500 NR USD | - 0.93 | 3.56 | 20.56 | 37.42 | 8.58 | 14.72 |
| Global REITS | | | | | | |
| FTSE EPRA Nareit Global NR USD | - 5.13 | 4.15 | 5.87 | 27.41 | - 3.36 | - 0.75 |
| Global Fixed Income | | | | | | |
| Bloomberg 20-30Y Treasury Strips TR USD | - 7.13 | - 2.04 | - 7.11 | 20.11 | - 16.64 | - 8.64 |
| NYSE US 10 Yr Treasury Futures PR USD | - 3.34 | - 1.69 | - 3.38 | 2.39 | - 6.27 | - 3.25 |
| Commodities | | | | | | |
| DJ Cmmnty Crude Oil TR USD | 2.92 | - 6.56 | 8.83 | - 3.18 | 6.98 | - 0.56 |
| DJ Cmmnty Precious Metals TR USD | 3.87 | 12.56 | 32.39 | 37.52 | 14.16 | 11.67 |
| DJ Cmmnty Silver TR USD | 4.66 | 13.11 | 36.09 | 41.95 | 10.66 | 11.41 |



Get in touch

Feel free to say hello or ask any questions

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