

Executive Summary

JULY, 2023

Central banks stay hawkish

By Chris Holdsworth, Chief Investment Strategist, Investec Wealth & Investment and member of the Global Investment Strategy Group

The Global Investment View distils the thinking of the Global Investment Strategy Group (GISG) that brings together the insights of Investec Wealth & Investment's professionals in the UK, South Africa and Switzerland. The Group meets quarterly to map out our outlook over the following 18 months, setting a risk budget and identifying some of the potential icebergs that lie in the global investor's path.

The GISG maintains its global risk budget score (-0.5 on a scale of +3 to -3), while the SA risk score has also been maintained, at +0.5

Global equities have recently rallied on the back of resilient earnings, inflation surprising on the downside and some degree of enthusiasm for the artificial intelligence (AI) theme. However, the global economy continues to slow and we are yet to see the full effect of recent rate increases. The Fed and European Central Bank (ECB) remain hawkish and seem willing to err on the side of causing a material slowdown in growth. The US equity market is around 20% above our estimate of fair value – with headwinds from slowing top-line growth ahead. As a result, we have kept the GISG score at -0.5. Risks for the market are likely short-term loaded and we are not too far from peak rates and even rate cuts – providing reason for not being more underweight. Europe screens as cheap and emerging markets are close to fair value according to our model.

South African equities and fixed income screen as cheap. We expect continuing improved performance from Eskom to translate into lower operating costs for 'SA Inc' over the year ahead with earnings likely to be further supported from the knock-on effects of lower rates. 'SA Inc' is our preferred sector in the South African equity market. South African fixed income offers a significant margin of safety and is our preferred asset class domestically. We expect the rand to strengthen over the coming year.

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