Investec
Wealth & Investment

Global Investment View

QUARTER 2 - 2017

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The benefits of synchronised growth

We maintain our view that taking risk will be rewarded over our forecast period (18 months). As before, we believe that increased stock market volatility is inevitable, reflecting modest anticipated absolute returns from risk assets, a challenging political backdrop and, with deflationary fears receding, a need to confront a change in the monetary policy "regime". However, with the global economy enjoying synchronised growth for the first time since the Great Financial Crisis, we believe any correction in share prices will be short-lived. Our "neutral" score, as before, leaves us able to take advantage of opportunities that will arise in any such periods.

> Our "neutral" positioning leaves us able to take advantage of the opportunities that may arise.

By John Haynes

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Paul McKeaveney

Paul is a Senior Portfolio Manager and Chairman of the SA Asset Allocation Committee. He has a degree in Mathematics from the University of Stellenbosch and a First Class Honours degree in Financial Analysis and Portfolio Management from the University of Cape Town. He is a CFA Charterholder. Paul has been with Investec Wealth & Investment as a portfolio manager since 2010, managing equity and multi-asset portfolios. Prior to joining Investec, he was with JP Morgan in London and Ireland.

Watch the interview with Annelise Peers by Patrick Lawlor

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A summary of our key thoughts

- The "hard" global economic data flow (growth, employment, sales) has been very positive, with Europe looking particularly resilient, while emerging markets are also showing a much-improved picture. Led by the US, soft data (confidence) bodes well for further progress. The new administration's tax policies are clearly designed to spur both consumer and business spending. Everything else being equal, large scale fiscal stimulus would also be positive for the world economy and global corporate profits over the next 18 months.

- Critically, part of the recent driver of better stock market performance has been the perception that one of the key risks in the election of Trump has receded. Specifically, hostile campaign rhetoric on trade (against Mexico, but more dangerously targeted at China) has softened and appears less likely to translate into disruptive action. Some overtly protectionist gestures must still be expected, but they will likely lack real teeth.

- It is encouraging that investors have been comfortable with rising bond yields in the context of rising growth, since it suggests that they are also comfortable with a more imminent normalisation of policy interest rates and withdrawal of extraordinary monetary support – starting in the US, but inevitably rippling out to Europe and eventually also to Japan. A pause in the rise in bond yields in the recent past is also reassuring, since a normalisation of interest rates relative to inflation across the yield curve should ideally happen slowly, not all at once.

- All of the above points are positive, but we are conscious of a number of risk factors that could quickly return to haunt us. Aside from the personal volatility of the new US President, success on the growth front raises the prospects of commensurately faster monetary policy normalisation. In the past, stock markets have hit "air pockets" when this happens, as bond investors push yields suddenly higher, worrying that the monetary authorities are behind the curve. At the same time, equity investors struggle to re-price assets relative to suddenly higher bond yields while simultaneously fretting about the negative effect of those higher yields on future growth. This period generally passes quite quickly, with little material damage to asset prices, but after a good deal of volatility in both bonds and stocks. Today we are emerging from a long period of abnormally low yields and there is a suspicion that leverage has built up in the system in many ways. The correction in medium-term interest rates (what matters to borrowers) could be sharper – with a higher risk of collateral damage. We will not know until after the event whether our judgement is right that the economic engine is strong enough to withstand the change of gears without blowing a gasket.

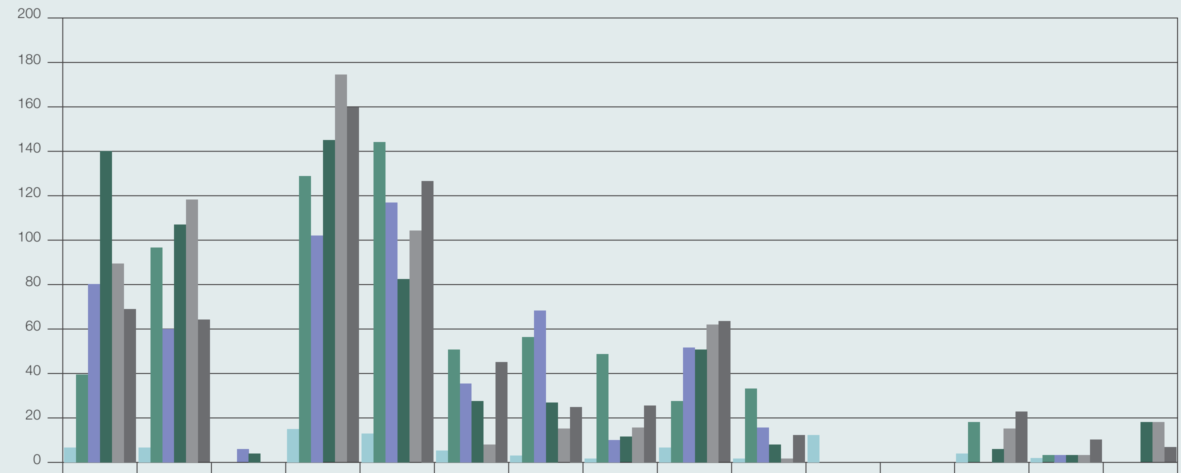
- Objective measures of complacency and subjective assessments of investor behaviour (ETF and momentum driven markets, for example) also suggest a correction is overdue.

- Overall valuations of risk assets are in the "fair value" range rather than cheap, with the US at the top end and Europe and emerging markets still below average. Adverse outcomes are therefore not priced in. Aside from the unresolved political risks still evolving in Europe, China has receded from most investors' near term list of concerns. This may be premature if President Xi Jinping chooses to extend his anti-corruption austerity drive. Just the fear of this could re-awaken dark fears that are hard to dispel, other than with time and evidence to the contrary.

- In short, we do not think that risk assets have become overvalued after their recent rise. The rally has been driven by improved growth (both delivered and forecast), which, because of its breadth, should have greater sustainability and has reduced the warranted risk premium. Risk assets (i.e. equities) therefore appear rationally exuberant after a prolonged period of despondent disbelief. We see further upside as further growth materialises. We do not, however, see a further reduction in the "risk premium" that investors will require to persuade them to make investments. In addition, it would be unsurprising if this period of low volatility met resistance, providing better buying opportunities in the short term. Hence our risk exposure remains "neutral".

In short, we do not think that risk assets have become overvalued after their recent rise. The rally has been driven by improved growth (both delivered and forecast), which, because of its breadth, should have greater sustainability and has reduced the warranted risk premium.

Iceberg Threat Ranking - March 2017



	Systematic -Euro-Zone Melt Down	Systematic -China-Bubble Burst	Systematic -Japan-Hyperinflation / Economic Collapse	Systematic - Currency / Trade War	Cyclical - Policy Mistake DM	Cyclical - Policy Mistake EM	Cyclical - DM Recession	Cyclical - EM Recession	Geopolitical - War (Hot / Cold)	Geopolitical - Oil Price Shock	Geopol ELECTDM	Geopol ELECT EM	Geopolitical - Terrorism / Outrage	Other - Pandemic	Other Environmental (El Nino / Ag Prices)
Sightings	7	7	0	15	13	5	2	1	6	1	12	0	4	1	
Threat (-4)	39	96	0	129	144	51	56	49	28	33			18	3	
Threat (-3)	79	60	6	102	117	35	68	10	52	16			0	3	
Threat (-2)	140	107	4	145	82	28	27	12	51	8			6	3	18
Threat (-1)	90	118	0	175	105	8	15	16	62	0			15	3	18
Threat	69	64	0	161	127	46	25	25	63	12			23	10	6

- **CURRENCY WAR RISK** is largest Systematic Threat - Europe & China percieved risk has subsided
- Cyclical policy error risk has **RISEN** - as US rate cycle is in focus "Transition risk"
- Emerging markets recession risks has increased marginally in tandem with US transition risk
- DM electoral cycle risk is recognised, but not greatly feared (impact modest)

Source: Investec Wealth & Investment

Explaining why we've kept our risk exposure at neutral

Global economic growth has synchronised (in a good way)

The election of Donald Trump has broken a multi-year trend of re-regulation in America. Although his personal approval ratings are very low, this immensely pro-business message has been warmly greeted by Wall Street and by Main Street. Employment, wage growth and consumer confidence are on improving trends. Europe remains impressively resilient in the face of political challenges – the latest being Italy stumbling under the weight of its seemingly interminable banking crisis and the electoral temperature rising in the run-up to the triggering of Brexit "Article 50". The vote "for" Europe and against nationalism-driven populism seen in the Dutch elections raises hopes that the French elections at the end of April will also follow an optimistic script. In the meantime the economic pulse is strengthening, with loan growth continuing to improve as both the demand for, and the supply of, credit has increased. Emerging markets have been underpinned by a soft landing in China, more positive trends in commodity prices and the benefit of substantial currency devaluations relative to the US dollar over the previous 18 months. Consensus estimates of an acceleration from around 3% global growth in 2016, to 3.5% in 2017 and 2018, look very achievable.

> The Federal Reserve under Janet Yellen has also done a reassuringly good job of adjusting its positon to the improving economic circumstances, mitigating the risk that it is perceived to be behind the curve. "

Trumponomics is highly pro-growth

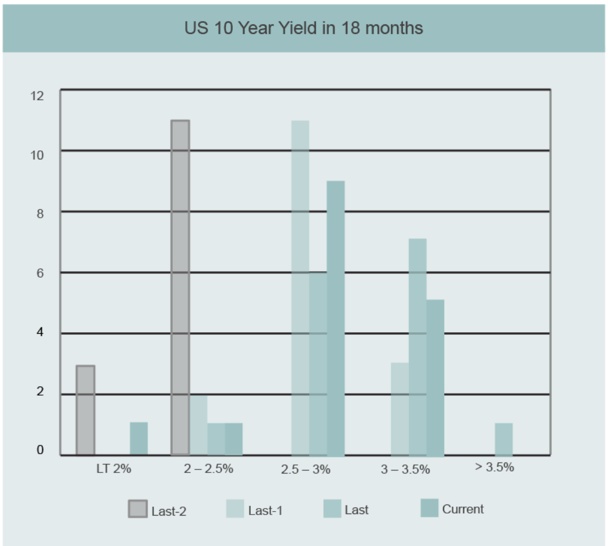
Donald Trump has a specific goal to accelerate growth in the US. Republican control of both Houses of Congress has, in theory, broken the legislative logjam and makes implementation of some of his agenda highly likely. The recent failure to repeal Obamacare was not badly received by financial markets because it highlights that Donald Trump is as much an outsider in his own, recently adopted Republican Party, as he is to Washington as a whole.

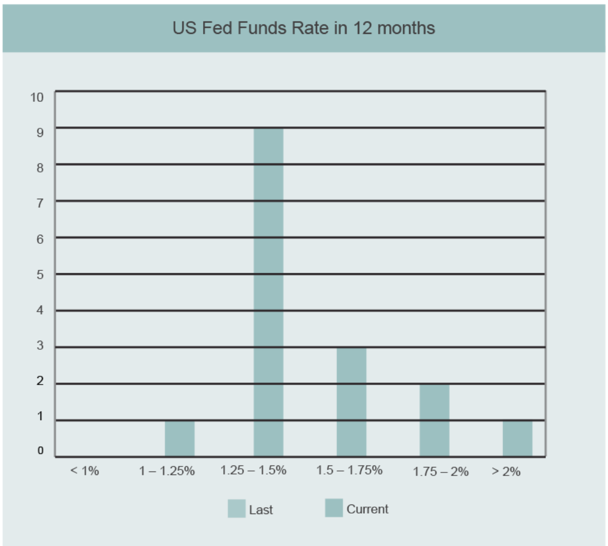
He must seek compromise to achieve progress and this is already evident in a much-softened position on trade. The Trump Presidency's focus will move now to tax reform. His incentive to succeed is increased and, without the savings pencilled in from the repeal of Obamacare, the net effect will be a larger deficit – hence even more stimulus.

The Federal Reserve under Janet Yellen has also done a reassuringly good job of adjusting its positon to the improving economic circumstances, mitigating the risk that it is perceived to be behind the curve. Futures markets indicate that the US Treasury Yield Curve in 12 months' time will see US Fed Funds Rate at 1.25% - 1.5% (currently 0.75% - 1%, which is two rises from here) and the consensus of forecasts has 10-year Yields at 3% (currently 2.4%) – a reasonable outlook in the context of a waning of this years' pulse of commodity inflation.

… or currency markets

The more synchronised global growth picture has reduced the unbalanced attractions of the US. Although interest rate spreads still favour the relative safety of the US relative to other (less safe) markets, they have not widened recently. The US dollar, therefore, remains firm





Source: Investec Wealth & Investment

…. and has provided a welcome fiscal policy lead

The world is ready for fiscal stimulus. The IMF has echoed the messages given by the Federal Reserve and the ECB that they can do no more, than through monetary policy alone, to support growth. Government spending (i.e. an end to austerity) is required to consolidate the gains made since the financial crisis. A positive global fiscal impulse could materially increase consumer and corporate risk appetites.

... without disrupting fixed income

The scale of the potential fiscal stimulus in the US and the sense that it may be echoed (albeit in less scale) in Europe initially, had a large impact on bond markets. So far however, bond yields have simply reversed the "deflation premium" that had become built into prices in the second half of 2015 and the first half of 2016.

but not to the extent that credit conditions in Europe and emerging markets are tightening. This is a key "canary in the coal mine".

The more synchronised global growth picture has reduced the unbalanced attractions of the US. Although interest rate spreads still favour the relative safety of the US relative to other (less safe) markets, they have not widened recently.

So why are we not adopting a more than "neutral" stance?

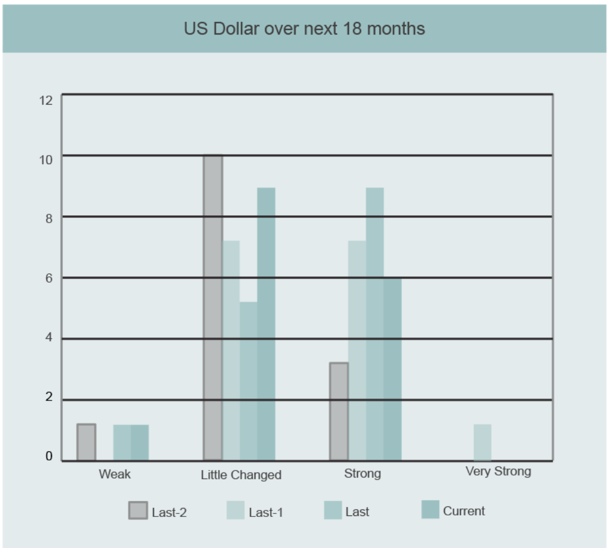
All of the above paints a positive picture for global corporate earnings (estimated to rise by double digit rates in dollars) and therefore, for risk asset prices (notably equities). However, we do not believe it is right to take more risk because:

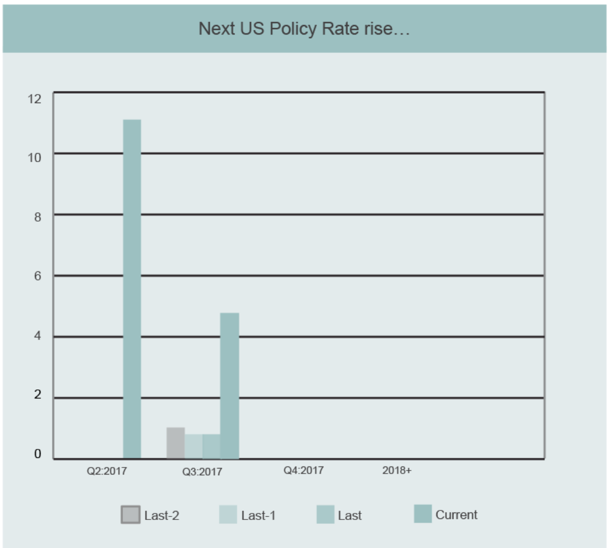
The Trump Presidency continues to pose new risks

President Trump may yet choose populism over pragmatism in his approach to global trade. Trade wars could result, with very severe consequences. Having said that, these risks appear much reduced recently. Headline-grabbing "America First" policy moves are to be expected, but so far, "watching what he does" rather than "reading what he tweets" has been reassuring.

This is specifically so in the relationship with China, which is a litmus test of his choice of populism over pragmatism. His rhetoric on the campaign trail will necessitate some action (he may put his touted 45% punitive tariff on a symbolic import, for instance) but he has un-pressed the "One China" hot button and appears more focused on getting China on-side to address North Korea than to make a new enemy. Labelling China as a "currency manipulator" (which would open the way for the President to impose unilateral tariffs, but would not necessitate it) is still possible, but this is a high-risk strategy. Relationships with Europe are also strained, but once again it is hard to see where the benefit lies in provocation.

Possibly Trump is simply using currency and trade as leverage in his call for the US's allies to share the burden of common defence. Rational heads are so far prevailing. In this vein, although we do not know the shape of the proposed tax package, a rumoured Border Adjustment Tax component is a possible point of friction. From an investment perspective, long-term damage here could more than offset any short-term boost from US domestic reflation.





Source: Investec Wealth & Investment

A regime change is also underway in financial markets

The last stages of a 35-year bond bull market have seen investor behaviour reminiscent of that in the equity market at its peaks in the tech boom of 2000. Since we expect that yields will be anchored at the short-end by monetary policy and that the longer end will not rise to damaging levels, we expect this will lead to greater volatility in our forecast time period but not an end to the growth cycle. Having seen safe haven bond yields driven to multi-century lows, the danger is that related assets have been mis-priced as yield hungry, risk intolerant investors have been inevitably tempted out of their natural homes into equity risk in search of income.

> We expect a challenging period as reflationary forces gain ascendancy. This should ultimately be a good thing for equities but there is a real possibility that both equity markets and fixed income markets fall together.

> Europe appears to be travelling in the right direction but the European project is still not safe.

The test of how much trouble has been stored up for the future by this phenomenon, is upon us

We expect a challenging period as reflationary forces gain ascendancy. This should ultimately be a good thing for equities but there is a real possibility that both equity markets and fixed income markets fall together if bond yields move up more quickly and reach higher levels than investors are comfortable with.

Policy divergence and the US dollar

If the improvement in economic conditions outside the US is not sustained, upward pressure on the US dollar will increase. Although modest US dollar appreciation is a good thing (Americans are able to afford more imports), if the dollar moves too much, it will become a headwind for global growth, as it puts pressure on the many foreign dollar borrowers (many of whom are in emerging markets), who must repay their borrowings in depreciated local currencies.

Donald Trump is not Ronald Reagan and 2017 is not 1981

Parallels with Ronald Reagan can be seen in the shock of Donald Trump's election and in his aggressive stance on cutting taxes and red tape. However, both the message (Morning in America v Make America Great Again) and the environment are very different. In 1981 Ronald Reagan inherited an economy with very favourable post-baby boom demographics (an expanding young labour force), with an unemployment rate of 9% (under 5% today), 12% inflation (about 2% today) and 10-year Treasury bond yields of over 12% (about 2.5% today). The outcome of aggressive fiscal stimulus in an economy close to full employment, combined with immigration controls, is not easy to predict, but conventional economic theory would suggest that both imports (good) and inflation (bad) may rise faster than current consensus suggests.

It is not all about Trump event risks outside the US

Europe appears to be travelling in the right direction but the European project is still not safe. If Marine Le Pen is elected as president, her explicitly anti-euro election pledge would run up against constitutional obstacles, but this could be a mortal blow. It is a tail risk that cannot be priced in by financial markets and not one that we could see being taken well, if it occurs.

Economic risks outside the US

Fears of China imploding and the RMB (yuan) being devalued, thereby becoming a source of global deflation, have been debunked. Cyclical risks are, however rising for two reasons: firstly, the government is taking some of the heat out of the housing market, which is a key swing factor for Chinese growth directly through construction and indirectly through the "wealth effect" – Chinese consumers overwhelmingly use real estate, not shares, as their long-term investment of choice. Secondly, there is also a possibility that Xi Jinping uses his now unchallenged power to extend the anti-corruption drive (austerity), rather than beginning to deliver on the Chinese Dream (easing). Signs of slowing in China from either source will be unwelcome, particularly in recently battered emerging markets and commodity markets. Their global systemic significance may also be over-interpreted once again.

The equity/risk valuation – not cheap, but reasonable under the circumstances

There is no single "right" valuation metric for equities and it is certain that risk assets are not available at bargain basement prices, but using reasonable assumptions of earnings growth, inflation and bond yields, comparative measures show they are not expensive either, particularly outside the US. To put it another way, substantially lower share prices in general would only be justified by lower earnings expectations, higher inflation (without higher earnings) and/or materially higher bond yields.

Are there any icebergs and icicles that could disrupt our outlook?

Europe – Political risks outside France remain high

The Italian government still stands, but elections, if held this year (2018 is more likely), could see the anti-euro Five Star movement gain ground. German Presidential elections are due in October and this poses another potential risk. What about European banks? Our view is that they are, by and large, "fixed". Share prices and lending data support this view, but not everyone agrees.

A shift in the geopolitical pack-ice

China gains

Although in the cross-hairs of Donald Trump's industrial policy, politically, China may be a net beneficiary of his trade position. Many Asian countries will be driven to closer ties with China as a counterweight to a less friendly US. Hectoring and short-term commercial hard-headedness contrast poorly with dynastic vision and the offer of trade and investment (the "new silk road"). The US, having vacated her position at the hub of the Trans-Pacific Partnership (designed to exclude China), leaves a conspicuous opportunity.

Russian rapprochement?

Trump's arrival in the White House suggested the potential of a thaw in relations between the US and Russia, owing to the reported mutual admiration between the two leaders. However, the situation is more complicated. First of all, Russia's annexation of Ukraine remains unresolved. It was an illegal act and Russia remains subject to trade sanctions. Then there is the continuing speculation about Russia's role in the US presidential election (by leaking sensitive hacked information), not to mention funding of Marine Le Pen's National Front party in France. The latest concern is the role of Russia in Syria's use of chemical weapons, and how Russia continues to project its power in the region and works to protect its own strategic interests. It is too early to declare glasnost in the west's relationship with Russia.

Sentiment is likely to be tested by Donald Trump's game show persona

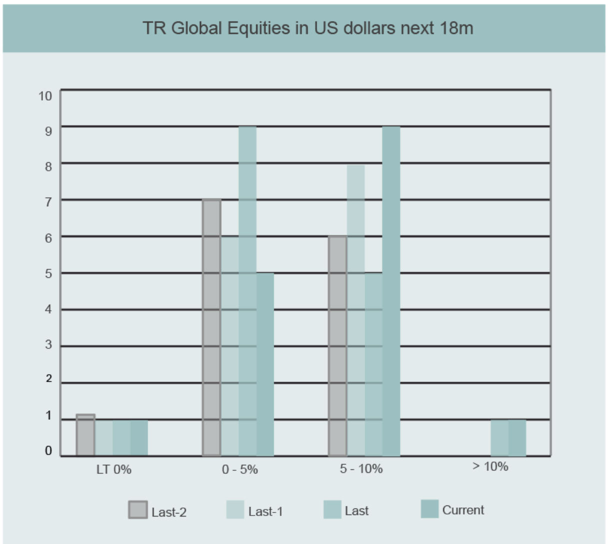
As stated in our previous Global Investment View, a benign interpretation of the possibilities from a Trump Presidency depends upon him being a very different President from what he portrayed during his campaign. If he manages that, he may sustain unity in the Republican Party and achieve his stated economic objectives. Volatility and unpredictability would ultimately alienate a large part of his party, America's trading partners and military allies.

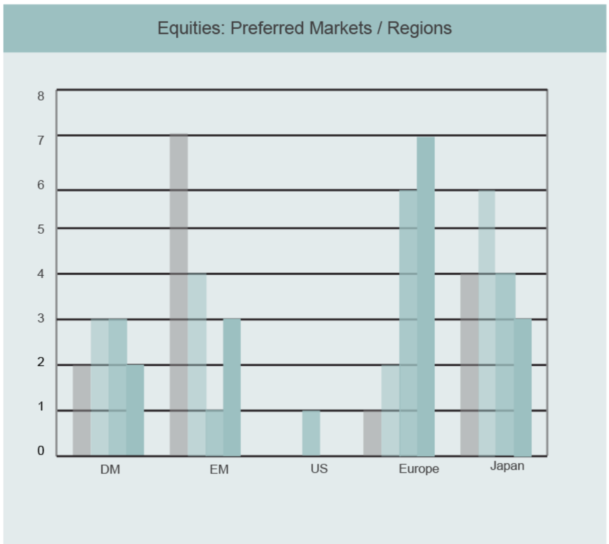
Tea Party Republicans are already causing some difficulty and may hamstring his legislative agenda

The mystery of Donald Trump's finances and his links with Russia (a symmetry that is being increasingly closely scrutinised) could lead ultimately to his removal from office. Whether this would be a good or bad thing depends upon how messy his rearguard action becomes.

Sentiment, volatility and hidden leverage

The CBOE Volatility Index (VIX – a measure of US stock market volatility) and other volatility indices in currency and fixed income markets are all at low levels. It is hard to see them moving lower.





Source: Investec Wealth & Investment

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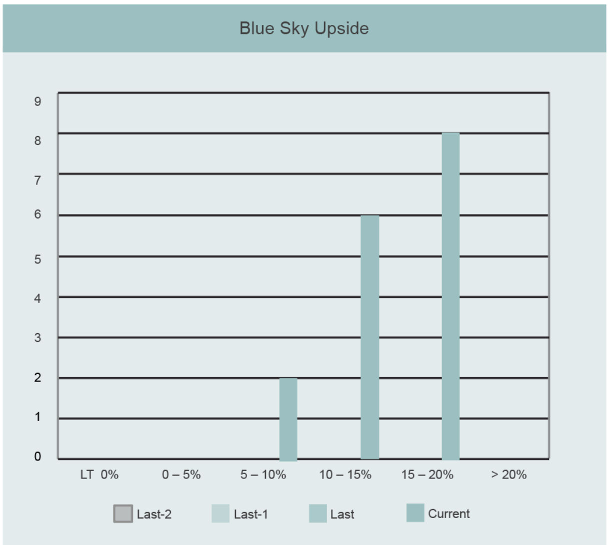
Widely followed valuation measures (such as Shiller) show equities as very overvalued – at least in the US. Nominal dividend yields on shares are low, providing little cushion in the event of adverse developments and valuations relative to asset value are unambiguously elevated.

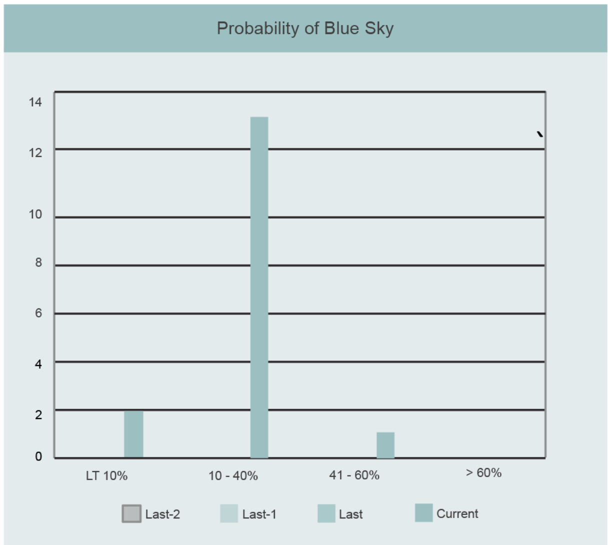
- Corporate earnings are being inflated (again largely in the US) by share buybacks. This is unsustainable and adds to leverage.
- Market structural fragility: given the withdrawal of market making capacity, the high level of thematic crowding (bond proxies), the stampede behaviour of "flash" trading platforms and the elevated share of equity markets being run by "hedge funds/quants" (fast money), and ETFs mean that the potential for a technical correction, perhaps turning rapidly into a 1987 type event, cannot be discounted (we have already seen flash crashes in the equity and bond markets; they were very short lived, but this may not always be the case).

The above does not lead us to change our base case. However, the existence of multiple risk factors and the low margin for error makes it more likely that if one thing goes wrong, it will lead to another, compounding the impact.

Brexit and the UK: Still an evolving story

Having initially been negative, investors may now be becoming too complacent on the impact of Brexit on the UK. The impact of inflation on UK consumer spending is beginning to be felt just at the time that decisions on the relocation of high skilled (mainly financial sector) jobs are being taken. We feel that expectations of a soft, rather than a hard landing are correct, but this theory is about to be tested. The UK remains vulnerable to changes in financial conditions (housing) and justifies a high risk premium.





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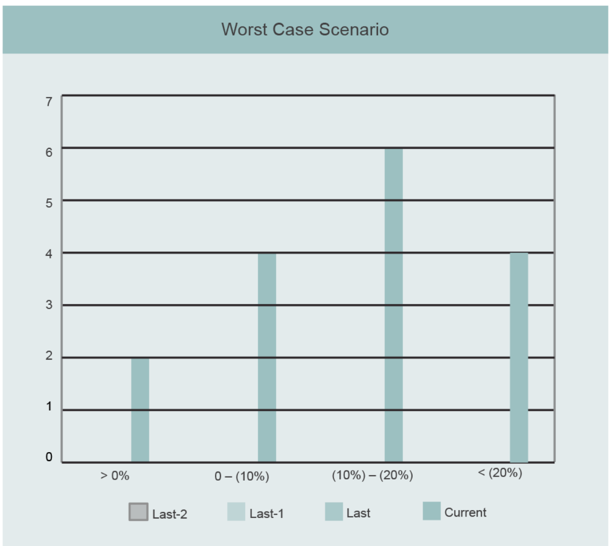

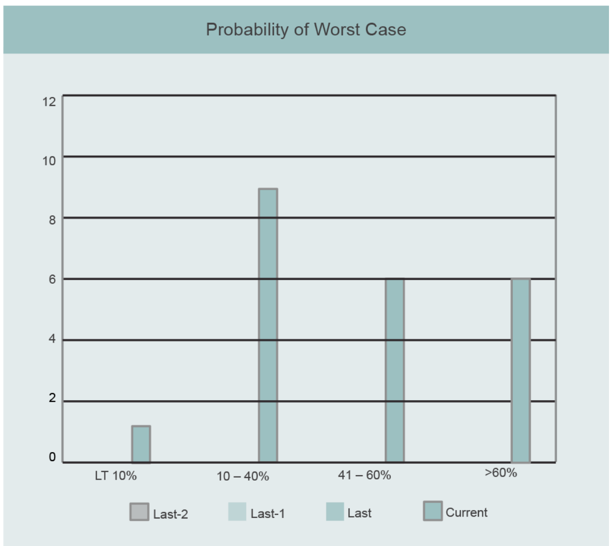

Source: Investec Wealth & Investment

SA market view and asset allocation – Acknowledging heightened risks

By Paul McKeaveney, Chairman of the Asset Allocation Committee, Investec Wealth & Investment SA

Following recent events, we have looked to increase cash positions to protect capital in times of heightened risk. This also provides us with the opportunities to buy quality assets at reasonable prices.

Summary:

- The events of the last few weeks have raised question marks around our view of an upswing in South Africa and related assets.
- The broad message from our most recent asset allocation committee meeting is that the situation is very volatile, the outcomes look binary and that making any sort of forecast is extremely difficult.
- Protecting capital is critical and with a large increase in risk, we are increasing cash positions across portfolios.
- Client portfolios are well positioned for the current volatility we are experiencing. We should also point out that volatility often presents investors with opportunities to buy quality assets at reasonable prices.

Last year, we began to position our portfolios – in a measured way – for an improvement in the South African landscape. This included repatriating cash from some of our offshore holdings, increasing some of our fixed income exposure and beginning to rotate our locally listed global equity exposure into domestically focused plays. This view was predicated on the fact that we saw a renewed interest in emerging market assets from the global investment community, an improving growth outlook for South Africa (off a low base), a stronger rand, lower inflation and lower interest rates – which would have helped to stimulate growth further and lead to a virtuous circle of growth and a better South Africa for all.

More recently, in the light of the strong moves we saw, we indicated that there appeared to be little margin of safety (in terms of South African-specific risk) priced into the currency and fixed income markets, and although the political situation seemed to have improved, risks still remained. On that basis, we highlighted to clients that, with the rand at close to fair value, we would be looking to externalise funds (if investors hadn't done so already).

The events of the last few weeks have raised question marks around our view of an upswing in South Africa and related assets. As South Africans we are disappointed with what is happening and as investors, we are concerned. The broad message from our most recent asset allocation committee meeting is that the situation is very volatile, the outcomes look binary and that making any sort of forecast is extremely difficult. Protecting capital is critical and with a large increase in risk, we are increasing cash positions across portfolios.

> Our equity exposure remains overweight counters with global earnings; this has worked against performance in the short-term but is standing the portfolios in good stead currently. ”

> So while we have a neutral allocation to bonds, we are more focused on the shorter maturity issues that have much lower volatility, duration and would be more correlated to changes in the Repo rate.

A summary of our broad portfolio positioning:

Offshore: We remain invested at our maximum regulatory weights for Regulation 28 portfolios and have higher allocations for non-constrained portfolios. This view reflects the attractiveness of the international opportunity set (both equity and other asset classes) and more attractive valuations of international equities versus the local "global" equivalents, and is a hedge against negative South African developments.

Equity: The local equity market has held up very well given what is happening and this is because of the large component of equities with large global earnings bases. Our equity exposure remains overweight counters with global earnings; this has worked against performance in the short term but is standing the portfolios in good stead currently. As mentioned above, we had started to add some selected domestic names, based on the improved outlook for South Africa, which are now underperforming. We had also increased our non-SA diversified mining exposure, which does well when the rand weakens for South African-specific reasons. Our allocation to equity remains at neutral.

Fixed income: We have been adding fixed income exposure over time, based on the view that we may be seeing a change in the direction of the interest rate cycle, and the prospect of lower inflation in future makes locking in higher interest rates today attractive. That said, we hedged our bets because we think the risk/return relationship for owning long-dated South African bonds is not in an investor's favour. So while we have a neutral allocation to bonds, we are more focused on the shorter maturity issues that have much lower volatility, duration and would be more correlated to changes in the Repo rate. With all that said, the fiscal outlook is at risk, the inflation and interest rate views are changing and all ratings agencies are in the process of downgrading our local and foreign currency debt. Taking all of the above into account, we are reversing course and looking to raise cash from our bond holdings. An interesting side is that foreigners continued to buy our bonds from 27 March to the time of writing (7 April). We think the flows are due to the continued strong demand for emerging markets generally, coupled with the large investments into passive products which have to buy whatever is in an index at the time, regardless of outlook or quality.

Cash: Having been at a neutral cash weighting, we are moving back overweight. We are looking to raise cash from those investments that are benefiting from the current volatility. The idea is to give ourselves some flexibility to buy some assets that may become cheap. Furthermore, if the environment continues to deteriorate, then the cash holding will act as a portfolio diversifier while earning a reasonable rate of return – bearing in mind that the scope for cuts in the Repo rate has all but disappeared.

> Furthermore, if the environment continues to deteriorate, then the cash holding will act as a portfolio diversifier while earning a reasonable rate of return.

Property: We are down-weighting this asset class because of its beta (high sensitivity) to interest rates as well as its valuation concerns. We are currently diversified into offshore counters, given the limited opportunities for growth locally.

Gold: We are overweight gold. We introduced gold as a hedge for US and SA political risk ahead of the US elections last year and, until recently, it had not performed very well. But as gold in US dollars has gone up (on the back of increasing political and geopolitical risk and lower real yields in the US), and coupled with the weakness in the rand, this has meant that the position is providing the protection that we had included the allocation for.

Pulling all of the above together, we want to reassure our clients that their portfolios are well positioned for the current volatility we are experiencing. Investors need to keep their emotions in check and make well-considered investment decisions. Volatility also presents opportunity, and we are prepared to act to take advantage of those opportunities.

Note: The above positions are illustrative of our broader asset allocations across our portfolios as a whole. Individual portfolios may differ.

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Asset allocation positioning:

The metrics below show our asset allocation positioning for global, domestic and by theme.

Global Asset Allocation	Q2 2017	Q1 2017	Comments
Offshore Equity	N	N	Neutral global equity. Improved return from risk assets as a result of better growth prospects but risk premiums to remain elevated
Offshore Fixed Income	▼	▼	Low expected total returns from these starting yield levels. Still offers some insurance characteristics versus risk assets.
Offshore Cash	▲	▲	Prefer cash to core government bonds.
Offshore Alternatives	▲▲		Offers attractive risk-adjusted returns relative to traditional long only assets classes. Variations include return enhanced, capital protected and low correlation products.

SA Asset Classes	Q2 2017	Q1 2017	Comments
SA Equity	N	N	Outlook for Emerging Markets has continued to improve. SA outlook has deteriorated but market does offer some protection through Global Plays listed locally.
SA Fixed Income	▼	N	Looking to raise cash from short maturity bond holdings to provide optionality.
SA Cash	▲	N	Repo rate expected to remain unchanged so should offer positive real returns. Lowers volatility and provides optionality.
SA Listed Property	▼	N	Moving underweight. Valuations on the domestic side look rich and growth outlook more muted. Local property counters will be correlated to interest rates.
Preference Shares	▲	▲	Attractive yield advantage with possible repurchase underpin.
$/R (+ for Rand strength)	▼	N	The Rand is above current fair value (ie slightly cheap from a model perspective) but not pricing in enough SA specific risk.

Sectoral/Thematic Positioning	Q2 2017	Q1 2017	Comments
Global Plays	▲	▲	Overweight global plays. High quality businesses generally but have been reducing given valuation gap between domestic and interest plays.
Commodities	▲	N	Overweight commodity plays although upweight in quality and lower beta. Prefer diversified miners versus single commodity producers.
Gold Plays	▼▼	▼▼	Currently do not own any gold producers given poor fundamentals. Own physical gold in balanced portfolios.
Interest Rate Plays	▲	▲	Slightly overweight based on our recently held view of a change in direction of the interest rate cycle. That has changed and we are re-evaluating positioing.
SA Industrials	▼	▼	Remain underweight for now. Opportunities may come so raising cash to possibly take advantage.

▼▼	▼	N	▲	▲▲
Underweight	Moderately underweight	Neutral	Moderately overweight	Overweight

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