Executive Summary

Q2 2023

Investec
Wealth & Investment

Favouring the rest of the world over the US

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

The Global Investment Strategy Group (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

While the Fed has so far successfully contained the risk to the US banking system, it has in effect also bought itself space to keep rates elevated. We expect a recession in the US to start shortly but this does not yet seem to be reflected in consensus earnings forecasts. While inflation is coming down, partly due to reduced demand, we do not think it will come down quickly enough to prevent the Fed from pushing the US into recession. In addition, the US equity market offers no margin of safety in our view. Equities in the rest of the world look more attractive as does global and US fixed income outside of high-yield credit.

We continue to expect higher returns from equities and bonds in South Africa than from abroad. South Africa is not without risk though – declining performance at key state-owned enterprises (SOEs) is a binding constraint on growth and has kept the allocation to SA Inc shares at neutral, despite compelling valuations. The reopening of the Chinese economy, combined with continuing strong investment in the global energy transition and disciplined supply from miners should, in our view, continue to provide support for commodity prices and South African exports. We expect the rand to strengthen by 5% against the US dollar over the year ahead.

Chris Holdsworth

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

Although information has been obtained from sources believed to be reliable, Investec Wealth & Investment International Proprietary Limited (1972/008905/07) or its affiliates and/or subsidiaries (collectively "W&I") does not warrant its completeness or accuracy. Opinions and estimates represent W&I's view at the time of going to press and are subject to change without notice. Past performance is not indicative of future returns. The information contained herein is for information purposes only and readers should not rely on such information as advice in relation to a specific issue without taking financial, banking, investment or other professional advice. W&I and/or its employees and/or other Investec Companies may hold a position in securities or financial instruments mentioned herein. The information contained in this document alone does not constitute an offer or solicitation of investment, financial or banking services by W&I. W&I accepts no liability for any loss or damage of whatsoever nature including, but not limited to, loss of profits, goodwill or any type of financial or other pecuniary or direct or indirect or consequential loss howsoever arising whether in negligence or for breach of contract or other duty as a result of use of the reliance on information contained in this document, whether authorised or not. This document may not be reproduced in whole or in part or copies circulated without the prior written consent of W&I.

Investec Investment Management Proprietary Limited. Registration number 2013/001592/07. An authorised financial services provider No. 44897. Investec Wealth & Investment International (Pty) Ltd Registration number 1972/008905/07. Member of JSE Equity, Equity Derivatives, Currency Derivatives, Bond Derivatives and Interest Rate Derivatives Market. An authorised financial services provider No.15886. A registered credit provider registration number NCRCP262