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Local Income Portfolio

Q4 2024

Investment Objective

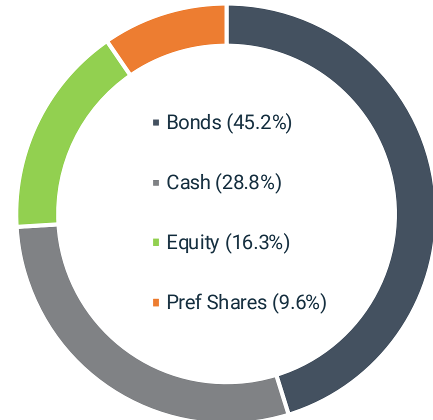
The OAM Local Income Portfolio is designed to increase the long-term wealth of investors by primarily holding investments aimed at maximizing income, while maintaining a moderately-low risk level. Investments are extensively researched to assess their intrinsic value over the longer-term.

Risk Rating

Technical Details

- Base currency: South African Rands
- Benchmark: Short-Term Fixed Interest (SteFI) Index
- Asset Allocation: Flexible mix of equities, bonds, preference loan stock, money market securities and cash
- Individual portfolio representing Local Income investment style
- All performance figures include income and are net of fees and expenses

Asset Allocation (see through basis)



Investor Criteria

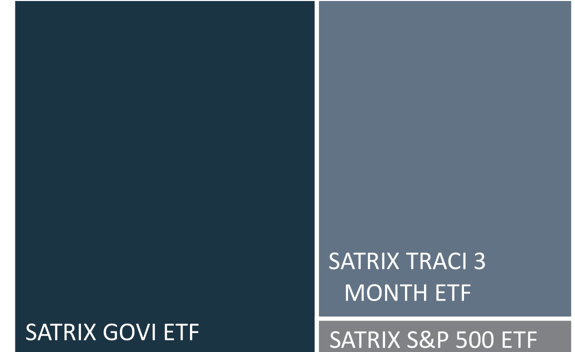
- Seek income and steady capital growth.
- Have a moderately conservative risk profile.
- Typically aim to invest for a period of 4 years or longer.

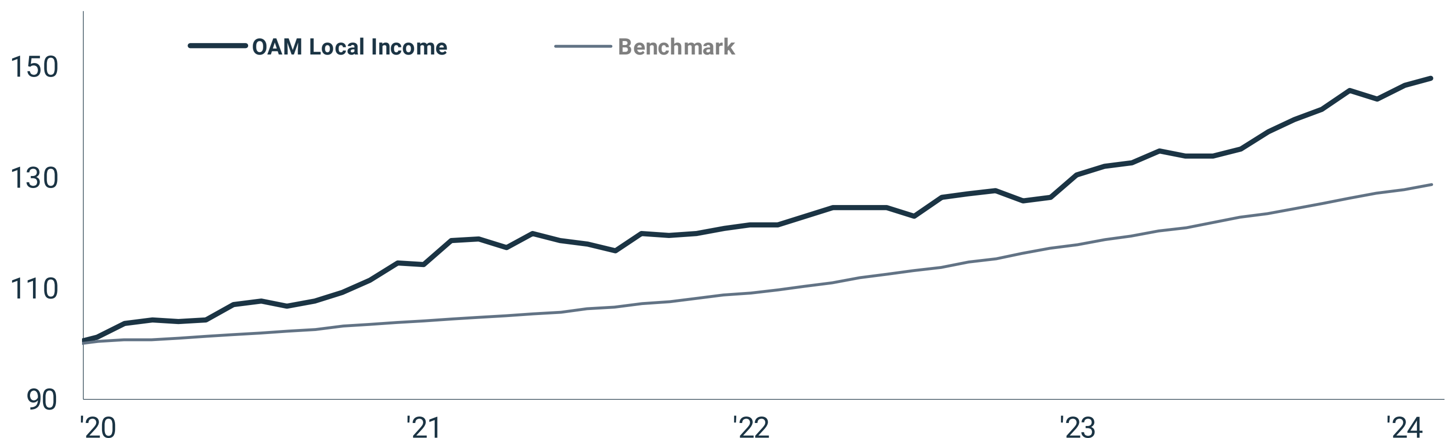
Performance

Growth	OAM*	Benchmark
Annualised (%)	ZAR	ZAR
Inception 2020	9.88	6.27
3 years	7.67	7.23
2 years	10.42	8.27
YTD	12.05	8.51
Yield**	2.92	

* Performance figures are based on a typical portfolio.
**Income yield since inception

Top 3 Holdings





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Disclosure: There is a risk associated with investing in our financial products. The value of the investments and income may rise and fall, and there is a risk that the client may suffer financial losses. Returns are dependent on the performance of underlying assets and other variable factors. Past performances are not necessarily indicative of future performances.

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Local Market Review and Strategy Outlook for the quarter ended December 2024

In the final quarter of the year (Q4), local shares gave back some of the ground gained in Q3. Investor sentiment turned cautious after Donald Trump's re-election raised concerns about export tariffs being levied on US trade partners and about potential worsening in diplomatic relations with South Africa under his leadership. Relations have deteriorated between the two nations, which may jeopardise SA's membership of AGOA, especially under Trump who is likely to be less forgiving. SA is the largest beneficiary of AGOA. The dollar strengthened after the US election due to a trimming back in US interest rate cutting expectations, causing increased rand volatility.

The JSE was also underwhelmed by SA's GDP, which shrank in Q3 by 0.3% quarter-on-quarter (Q/Q) following a 0.3% expansion in Q2. The economic contraction was due to a significant decline in agricultural production blamed on adverse weather conditions. Mining production rebounded in Q3 following two successive quarters of contraction but remained impeded by port and rail bottlenecks. Manufacturing output moderated and in the first three quarters of 2024 registered a 0.3% contraction compared with the same period the previous year. Disappointingly, real gross fixed capital formation (GFCF) remained anaemic. Following four successive quarters of contraction, it grew in Q3 by 0.3% Q/Q but only due to increased public sector spending. Much needed private sector investment continued its decline. The average level of GFCF in the year to end September was 4.4% lower than the previous year's period. Household consumption, aided by increased consumer confidence, lent support with a 0.3% quarter-on-quarter gain. Real household expenditure increased in the first three quarters of the year by 1.4% over the equivalent period in 2023.

Having gained 8.58% in Q3, the All-Share index declined 2.83% in Q4, trimming the overall gain in 2024 to 9.37%. Mining shares lagged due to declining global commodity prices and logistical constraints, dragging the Resources 10 index lower by 10.26% in Q4 and by 9.78% for the full year. The domestically focused Financial 15 index fared best despite a 2.94% loss in Q4, returning 15.31% for the year, while the Industrial 25 index lost a modest 0.94% in the quarter but rallied 14.43% over the year, helped by strong returns in Naspers and Prosus after China's large stimulus announcement. Gradual monetary easing by SA Reserve Bank (SARB) supported the bond market, with the benchmark 10-year gilt yield dropping over the year from 9.77% to 9.24% although off its best level of 8.85% at the end of Q3. The All Bond 1–3-year Total Return index gained 0.43% in Q4 and a substantial 17.25% over the full year. The rand firmed against the US dollar in the first three quarters of the year from R/$18.30 to R/$17.29 but after Trump's re-election fell back to R/$18.90 by year-end. The dollar gold price remained close to its Q3 level at year-end closing at $2624 per ounce, resulting in an impressive 27.20% annual return.

The JSE is likely biding its time before making another upward move. The weak GDP result belies a steady improvement in business and consumer confidence and a general brightening in the economic outlook, founded on stability in the Government of National Unity (GNU), structural reform progress, a continued absence in load shedding and an easing in interest rates. The Bureau of Economic Research business and retail confidence indices both maintained steady upward trajectories in Q4, while the BER consumer, building and civil construction indices remained at or close to their Q3 multi-quarter highs. SARB's forward-looking composite leading business cycle indicator increased by a solid 1.1% in October and 1.8% year-on-year, helped higher over the month by eight of its ten components, most notably the number of new passenger vehicles sold and the level of job advertisement space.

S&P Global Ratings upgraded the outlook for SA from "stable" to "positive", citing the potential for reforms to lift economic growth. Wins over the last quarter include the formal launch of The National Transmission Company of South Africa, which although still a wholly owned subsidiary of Eskom, advances key energy reforms. The Minister of Home Affairs gazette new visa regulations, which has been one of Project Vulindlela's priorities. On 1st December SA assumed the presidency of the G20 group of nations, offering a valuable platform to promote foreign direct investment into the country. The Medium-Term Budget Policy Statement confirmed a prudent fiscal course and that a primary budget surplus had been maintained.

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Headline consumer price inflation (CPI) dropped well below the midpoint of the SARB's 3-6% target range, falling in October from a year-on-year rate of 3.8% to 2.8% before settling at 2.9% in November, benefiting from lower food and oil prices. Core CPI, which excludes food and oil prices, also eased to 3.7% by November, compared with 4.6% at the start of the year. Although SARB governor, Lesetja Kganyago cautioned that inflation risks remain over the medium-term, including higher prices for food, electricity and water, as well as wage settlements, he said inflation is well contained over the near term. In November the SARB cut the benchmark repo rate for the second time since the easing cycle began in September 2024, reducing it to 7.75%. According to the central bank's forecasts, the repo rate will reduce further, stabilizing a bit above 7%.

In the November Monetary Policy Committee (MPC) statement Kganyago expressed optimism over a near-term pickup in economic growth citing the benefits of lower inflation, higher disposable income and extra spending from pension withdrawals via the new Two Pot system. Over the medium term he expects a sustained improvement in growth as reforms take effect. The SARB forecasts GDP growth to steadily improve from a predicted 1.1% in 2024, to 1.7% in 2025, 1.8% in 2026 and 2.0% in 2027. However, Kganyago emphasized that "It remains crucial to sustain domestic reform momentum. This entails both structural reforms to support growth capacity, and macroeconomic efforts to rebuild fiscal and monetary policy space". He said necessary measures included "reaching a prudent public debt level, further repairing and strengthening network industries, lowering administered price inflation, and keeping real wage growth in line with productivity gains."

Key risks include the growing water security crisis, which has the potential to eclipse the damage wrought by Eskom over the past decade. Organized crime is also developing into a systemic risk as it widens regionally and spreads from construction mafia extortion to other economic sectors and public services. There is also risk attached to the pace of reforms and the longevity of the GNU. However, the outlook for local markets is better than it has been for several years. Substantial gains have already been made as investors have crystalised the benefits of improved economic activity upfront, but equities remain cheap compared with other markets and relative to their own history. The potential for accelerated reforms provides a catalyst for both an improvement in earnings growth and a substantial increase in the market's rating.

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