Notes from my inbox

"Long-term consistency trumps short-term intensity." – Bruce Lee, martial artist, actor, philosopher

By **PIETER KOEKEMOER**

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ONE OF THE great disconnects in our collective investment endeavour is that, while we all know results are optimised when you adopt a patient long-term approach, we are constantly nudged to make short-term decisions by the way society and our industry is organised. Financial markets operate nearly continuously, which provide the comforts of objective price discovery and instant liquidity when you need access to your investment. This in turn drives the incessant pace of the news cycle, priming millions of market participants to buy or sell in response to the headlines. Regulatory requirements and industry practice enforce a quarterly reporting cycle, even when the investment horizon is typically decades into the future. The downside of the constant information firehose coupled with the ability to respond instantly, for investors and their fund managers alike, is how easy it is to be tempted to respond to noise. Our challenge will always remain the much harder one of identifying the few signals that are relevant to your long-term objectives.

The newsflow nudges become much harder to ignore when well-established positive market trends break down in response to unsettling events. This is what happened at the start of 2022, specifically for international investors. As covered in detail in the first quarter's fund commentaries, the headlines were dominated by the conflict between Russia and Ukraine/the West, adding to the existing pressures of Covid-19 and climate change.

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The conflict triggered a further spike in energy, metals and food prices, which contributed to the existing inflationary pressures resulting from the easy monetary policies and supply chain disruptions caused by the Covid-19 response, and the dearth of new fossil fuel investments in response to climate change concerns. The risk of inflation expectations becoming unanchored has increased, with the IMF forecasting 2022 inflation at around 6% for developed markets (versus targets around 2%) and 9% for emerging markets (versus targets of 3% to 6%). In South Africa, we expect inflation of around 6.2% this year, compared to 4.5% in 2021.

The net market result was dollar declines of 5% and 6% for global equities and bonds, respectively. Market segments more exposed to the risks currently in focus saw bigger declines, with Europe down 7%, the Nasdaq, dominated by long-duration growth shares, down 9%, Chinese equities down 14% and Russian equities becoming technically uninvestable for the foreseeable future. These declines were amplified in rand terms, as the dollar weakened by more than 8%, its worst first quarter performance against the local currency since 1973. As Mike Tyson quipped, "it's easy to have a plan until you get punched in the face". However, those that have the fortitude to roll with the punches are likely to be rewarded in due course, as our research indicates historically high levels of upside to fair value for the shares held in our global portfolios.

Domestic assets were much more resilient, with equities and bonds up 7% and 2% in rands, respectively, outperforming their global equivalents by around 20% over the quarter. While the quantum and pace of this outperformance was unpredictable, this outcome was consistent with our expectations for better domestic performance as shared in the January edition of From my Inbox.

INCREASED OFFSHORE ALLOWANCE FOR RETIREMENT INVESTORS

The most surprising news out of the 2022 national budget was the increase in the offshore investment allowance for retirement funds from 30% to 45%. More investment freedom is always good news as it provides more opportunity for investors to manage their portfolios held via retirement annuities and preservation funds in line with their personal objectives. However, the 45% limit introduces a new financial planning consideration: it is higher than the 30% to 35% offshore allocation that risk/return modelling studies typically show as optimal for investors who are concerned about matching their portfolio of assets to their future rand liabilities. The rand is a volatile currency and, by increasing offshore exposure, you are increasing the volatility of your portfolio too. This is especially relevant for investors in retirement, withdrawing an annual income of 5% or more from their investment portfolio.

If you are invested in our multi-asset funds that are optimised for the various stages of the retirement journey, namely Balanced Plus, Capital Plus or Balanced Defensive, we will make use of the additional capacity on your behalf. As always, our asset allocation decisions will be informed by our view on long-term valuations of the various available assets, while keeping risk exposures appropriate to fund objectives. If you make your own asset allocation decisions by investing in building block funds, such as Top 20 or Global Opportunities Equity, you can implement any changes you would like to make to your fund selection via our secure online site.

As always, I invite you to contact us via clientservice@coronation.com if any aspect of our delivery to you has failed to meet your expectations.

Pieter