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The Trendline

Fourth quarter 2023



Investment overview

Market commentary - Navigating choppy waters

The year ending December 2023 has continued to reflect a challenging global investment market backdrop. Enduring economic uncertainty has prolonged elevated investment market volatility. Subdued global trade and stubborn core inflation have led to persistently restrictive monetary policies from global central banks which, with the elevated yields have prevented markets from being kept on an even footing. These heightened risk factors necessitate continued caution in portfolio positioning.

Over the quarter:

- Global developed market equities rallied +11.4% over the quarter and +23.8% over the year, well ahead of emerging market equities which delivered +7.9% and +9.8% respectively in US dollar terms. Positive sentiment around sooner-than-expected interest rate cuts from the US FED spurred investor optimism over the last quarter. The strong returns earned by both counters over the calendar year helped offset some of the impact from their sell-off during 2022. The dollar's -2.6% weakness relative to the rand, detracted from offshore assets' rand-based return over the quarter but added +7.8% to their return over the year.
- Local equities earned +8.2% over the three months and +7.8% over the calendar year. The quarter's performance was primarily attributed to a strong rally in the local financials sector (+12.3%) and listed property sector (+16.4%) amid strong earnings and a slightly improved global outlook. Industrials were up (+5.9%) while the Resource sector came in flat (-0.0%) for the quarter as softer precious metal prices persisted.

- The South African Reserve Bank (SARB) kept interest rates unchanged at +8.25% as headline inflation (CPI) fluctuated, ending the quarter at +5.5%. This represents an overall +1.25% interest rate hike since the start of 2023 in their efforts to reduce inflation.
- The US FED and European Central Bank (ECB) kept interest rates unchanged. The FED increased interest rates by a total of +1.0% to +5.5% over the calendar year while the ECB increased rates by a total of +2.0% to +4.5%. Headline inflation for the year ending November 2023 came in at +3.1% for the US and 2.4% for the Eurozone.
- The local bond market (ALBI) delivered +8.1% for the quarter and +9.7% over the year ahead of local cash (STEFI) at +2.1% and +8.1% respectively. The Global Government Bond Index (WIGBI) earned +8.1% over the quarter as yields retreated.
- The Gold price breached $2 000/ounce during the year to deliver an +12.8% overall gain. Amid global growth uncertainty and production cuts by OPEC, the Brent Crude price was relatively volatile over the year to end the year at $77.0.
- Overall, global investor sentiment was mixed over the quarter. While the short-term outlook is still unclear, the longer-term picture remains positive. Overall, global investor sentiment was mixed over the quarter. While the short-term outlook is still unclear, the longer-term picture remains positive.

The global investment market environment has been volatile over the past few years. However, patience, especially through periods of difficult investment performances, affords markets the time needed to filter out what is relevant from the noise. This same patience then allows market drivers and investment portfolios the required time to achieve a new state of normalcy, and commensurate compound growth.

The investment road is almost always a bumpy one. GTC's solutions hedge out much of the inherent investment risk while still positioning portfolios for the highest probability of delivering on stated investment objectives. It is crucial to stay invested in line with one's originally determined objectives. Resisting the temptation to be swayed by short-term sentiment is a permanent challenge.

Investment market returns as at December 2023

Investment market returns (%)	3M	1YR	3YR	5YR	7YR	10YR
Local Equity Market	8.21	7.87	12.70	8.97	6.89	7.12
Local Property Market	16.37	10.15	14.88	0.24	-1.71	2.94
Local Cash	2.09	8.06	5.68	5.94	6.36	6.43
Local Bond Market	8.11	9.70	7.43	8.25	8.45	7.98
Offshore Developed Market USD	11.42	23.79	7.28	12.81	10.73	8.60
Offshore Emerging Market USD	7.86	9.83	-5.08	3.69	4.98	2.66
Offshore World Bond Market USD	8.08	5.19	-7.18	-1.39	-0.09	-0.31
Gold (USD)	11.38	12.82	2.35	8.88	7.67	4.70
Brent Crude (USD)	-13.04	-0.92	32.52	16.64	11.17	-2.83
USD / ZAR exchange rate	-2.57	8.24	7.79	4.99	4.26	5.78

All returns greater than 1 year are annualised. All returns are gross of fees.

Asset Management
Artificial Intelligence revolutionising finance and investment

A deep dive into transformative trends

The integration of Artificial Intelligence (AI) into the financial and investment landscape has sparked a revolutionary transformation, reshaping traditional practices and unlocking new possibilities. As technology continues to evolve, financial institutions are leveraging AI to gain a competitive edge, enhance decision-making processes, and optimise investment strategies. In this comprehensive exploration, we will delve into the multifaceted ways in which AI has altered the financial and investment world, examining key trends and their implications.



Data analysis and decision-making

At the heart of AI's impact on finance lies its unparalleled capacity for data analysis. Financial institutions deal with vast datasets daily, encompassing market trends, economic indicators, and customer behaviour. AI algorithms, equipped with machine learning capabilities, can process, and analyse these datasets in real-time, extracting meaningful insights that empower decision-makers.

In most instances, AI decisions can be made more quickly, with greater accuracy, and no subjectivity as compared with human decision-making.

Machine learning algorithms excel in identifying intricate patterns and correlations within data, enabling financial analysts to make informed decisions based on data-driven predictions. Unlike traditional methods that heavily rely on historical data, AI-driven analysis allows for a more dynamic and responsive decision-making process. This capability enhances the adaptability of financial institutions to changing market conditions, providing a substantial advantage in our fast-paced and ever-dynamic environment.

Algorithmic trading

Perhaps one of the most visible manifestations of AI in finance is the rise of algorithmic trading. These AI-powered algorithms are designed to execute trades autonomously, leveraging sophisticated strategies and responding to market conditions at speeds unattainable by human traders. A primary advantage of algorithmic trading lies in its ability to remove emotional biases and execute trades based purely on pre-defined criteria.

Machine learning models in algorithmic trading continuously evolve and adapt to market dynamics. These models learn from past experiences, refining strategies to optimise performance and mitigate risks. The result is a highly efficient and responsive trading system that operates 24/7, maximising profits and minimising the impact of human errors.

Risk management

AI has redefined risk management practices within the financial sector. Traditional risk models often struggle to capture the complexity and interconnectedness of global financial markets. AI, with its holistic approach to data analysis, provides a comprehensive understanding of potential risks.



Machine learning models can predict risks by analysing historical data, market trends, and macroeconomic indicators. This proactive risk management approach enables financial institutions to implement preventive measures and respond swiftly to emerging threats. AI's adaptability is particularly crucial in navigating the unpredictable nature of financial markets, ensuring a robust defence against evolving risks.

Personalised financial services

The era of personalised financial services has dawned with the integration of AI. Financial institutions now harness AI to analyse vast amounts of customer data, offering tailored services and recommendations. Chatbots and virtual assistants, powered by AI, enhance customer interactions by providing real-time assistance, answering queries, and delivering personalized financial advice whilst interacting with human back-end teams to ensure the personal service is still maintained.

Machine learning algorithms enable banks and investment firms to recommend personalised investment strategies based on an individual's financial goals, risk tolerance, and prevailing market conditions. This level of customization not only enhances customer satisfaction but also improves the likelihood of successful financial outcomes for clients. The ability to provide tailored solutions positions financial institutions as trusted advisors in the eyes of their customers.

Fraud detection and security

In a world where financial transactions are increasingly digital, the importance of robust security measures cannot be overstated. AI plays a pivotal role in fortifying security within the financial sector, particularly in the realm of fraud detection.

Machine learning algorithms analyse transaction patterns, detect anomalies, and identify potential fraudulent activities in real time. By continuously learning from new data, these algorithms adapt to evolving tactics employed by cyber criminals. Additionally, AI contributes to the development of secure authentication methods, such as biometric recognition and behavioural analytics, bolstering the overall security framework and safeguarding sensitive financial information.

Challenges and considerations

While the transformative power of AI in finance is undeniable, it brings its own set of challenges and considerations. Ethical concerns surrounding the use of AI, transparency in decision-making processes, and the potential for algorithmic bias are pressing issues that the industry must address. Striking a balance between innovation and responsible AI implementation is essential to build trust among consumers and ensure the ethical deployment of these technologies.

The future landscape

As we stand at the intersection of technology and finance, the trajectory of AI's influence on the financial and investment world appears to be ever-expanding. The future holds the promise of even more sophisticated AI applications, such as natural language processing, predictive analytics, and advanced robotics.

Financial institutions that embrace these technological advancements are likely to gain a competitive edge in a rapidly evolving landscape. The ability to harness AI for strategic decision-making, risk management, and customer-centric services positions these institutions to thrive in an era where adaptability and innovation are paramount.

Conclusion

Artificial Intelligence has become an indispensable force reshaping the financial and investment world. From data analysis and algorithmic trading to risk management, personalised financial services, and security, the influence of AI is pervasive and inevitable. While the advantages are evident, careful consideration of ethical implications and the responsible deployment of AI technologies will be crucial in navigating the evolving landscape of finance.

As the symbiotic relationship between finance and AI continues to evolve, it is clear that we are witnessing a paradigm shift in the way financial institutions operate and deliver value to their clients.

Editor's note

You will be interested to note that the above article was almost exclusively generated by an Artificial Intelligence application…

Employee Benefits
Double, double toil and trouble... Two-pot and it's (political) expediency

The to-ing and fro-ing of the Two-pot system implementation date appears to have come to an end. It was reported that a compromise has been reached between the Minister of Finance and the Portfolio Committee on Finance in Parliament. National Treasury was advocating an implementation date of 1 March 2025 and Government was determined for a 1 March 2024 inception. The new proposed date is 1 September 2024.

Understandably the implementation date is of importance. It represents, for members of retirement funds, the date from which they may gain access to a portion of their retirement savings (to lessen immediate financial distress), whilst remaining in employment.

In contrast, for the industry, this date is the zero hour for readiness. The path to readiness is complex and multifaceted.



To kick-start this metamorphosis, the authorities must finalise and pass the enabling legislation. Only once the new laws are promulgated, the industry then gear up operationally to meet the deadline.

At the top of the agenda for fund administrators is the requirement to upgrade their administration systems to cater for the new dispensation. Integrated systems will also need to be upgraded. Apart from a system upgrade to differentiate between the various pots, system-generated documentation will also need to be revised.

Fund rules must be amended to incorporate the new laws and the amendment must be registered with FSCA. FSCA, in turn, must prepare to manage and process a considerable number of applications in a relatively short period.

SARS will need to adjust their systems to facilitate taxation. SARS anticipates a six-month period for an update to their systems.

Boards of trustees should evaluate the impact of the new laws and make the necessary changes where applicable, including informing members and relevant stakeholders of the changes. A critical area of engagement with members is communication on the workings of the Two-pot system and the impact it will have on retirement savings. Government has already revised regulations making member counselling compulsory.

The challenges of being ready for yet another moving part of South Africa's already regulatory complex retirement industry within the next seven months are enormous.

GTC and the independent boards of trustees of the GTC umbrella retirement funds are working hard on all the issues within GTC's domain to deliver by this prescribed date.



Wealth Management
A considered approach to preparing for your child's education

Introduction: The financial challenges of parenting



For most people, having children is relatively easy. Financially planning for this provision, not only for the benefit of the children but also considering this budgetary exercise for the parent's retirement planning - at least for the first twenty years or so - is considerably less so.

The rising costs of education: A burden for parents

When a couple wishes to plan for the extension of their family, it is also the time to consider the financial responsibility that this decision carries. Over and above the lifestyle change that accompanies the arrival of a newborn is the ever-present and compulsory focus on the cost of their upbringing and education.

Often not factored into this exciting phase - is the accommodation of compromise, and the quid pro quo that this decision to have a child (and each additional child replicating this quantum) has on you and your spouse in your financial planning and preparation for your retirement. It is not a coincidence that the timing of extending a family and beginning a retirement plan happen concurrently.

The 2024 school year is now well under way, with every parent wanting to provide the best that they can for their children. School fees and their annual increases (should) feature highly in family budget reviews. Recent news articles (with a Daily Maverick article featuring South Africa's most expensive private schools) paint a sobering reminder of the actual costs of providing the best that's on offer in this regard.

The annual cost of a model C primary school ranges from R50 000 to R70 000 for grades R through 2 and from R65 000 and R70 000 for grades 3 through 7. This is a tall order for many families and of course applies to each child…

Whilst steep, these model C costs are still less than an equivalent private school education - where the average annual fees for grades R to 2 are approximately R80 000 climbing to around R140 000 for grades 3 through to 7.

Remembering that life never allows one to have one's cake and to eat it, the reality is that school fees (and all the other child related expenditures) must be subtracted from other financial goal setting, including retirement planning. Welcome to the complexity of lifestyle financial planning.

Strategies for funding your child's education

There are perhaps three alternative schools of thought as regards preparing and paying for school fees:

1. Pay as you go: Managing school fees from monthly income

In the first scenario, a couple selects to fund their child's educational requirements from their salary/ies as and when they fall due. While this approach is potentially the easiest in the short term, it does have a knock-on effect for other financial goal setting and manifests itself in scenarios such as the (inevitable) annual escalation rate of school fees being above CPI adjusted salaries.

An August 2023 BusinessTech article indicated that since 2012 school fees have risen by approximately 2.6% more than inflation each year over the last decade. Another 2023 article, written by PwC indicated that the increase in the average South African salary was 4.0% in 2022 compared to an average inflation rate of 6.9% in that year. It described that in 2023, salaries rose 5.2% as compared with CPI of 6.0%. Parents became poorer in real terms while incurring education inflationary costs that were greater than official CPI over recent years. This double-whammy is expressed in a recent article about Curro Schools where it is clear that parents are battling to fund private schooling.



Funding your child's school costs as-and-when they fall due from salary means a larger portion of your monthly income is committed to that cost into the future. Almost without exception, the first financial dominoes that fall are existing savings and the reduction - or elimination - of one's own contributions to retirement savings, as a couple tries to meet conventional parenting responsibilities.

2. Debt financing: Risk and realities

The second approach is to finance the shortfall (the difference between previous regular savings and school fees) of your child's education with debt. An inevitable reality for many South African parents it is however also characterised as a high-risk investment decision.

February 2024 sees the prime lending rate stubbornly sticking at 11.75%. Many parents' individual borrowing rate is considerably higher than this, based on their personal credit rating, and the ever-increasing lending criteria of banks. The eventual borrowing rate effectively incurred increases the already burgeoning cost of education, simultaneously placing additional pressure on parents' household income. Debt funding education should be a course of last resort.

3. Prefunding education: Long-term planning and benefits

A third approach to funding your child's education requires a long-term goal orientation, to be initiated before the money is required. Through a recurring monthly contribution - less than what the actual school fees might initially amount to - and then employing the combination of time and market returns, will see a savings strategy unfold in the same way retirement savings provide for passive income after employment ceases. In the real world of diminishing real salaries , as explained above, we do acknowledge the fiscal discipline and other austerity measures this discipline entails.

The power of compounding interest: Lessons from Einstein

Perhaps Albert Einstein started prefunding his three children's education? He certainly endorsed the investment strategy needed and his observation of the benefits of time and investment returns is often quoted 'Compound interest is the eighth wonder of the world. He who understands it, earns it. He who doesn't, pays it.'

Prefunding your child's education has lots of 'incidental' or 'opportunistic' benefits. If your child later (usually on entering high school) has the opportunity to receive a bursary or scholarship - with many schools providing these chances, this same allocated - but now not necessary - investment can then be used for other purposes. Tertiary education, or indeed parent's retirement coffers are obvious alternatives. No investment will ever be wasted, that is a certainty.

Transparent and attainable financial planning

GTC's sophisticated benefit projection software has made providing for the costs associated with preparing for a family, as well many other equally important milestones transparent and attainable. Each milestone is considered within the context of the individual client's financial plan, and with the ultimate goal of maintaining a dignified lifetime of appropriate expenditure and savings culminating in a successful retirement outcome.

As always, we encourage you to reach out to a member of our MAPS Team, with whom you can document and plan for educational and all other financial milestones you may have.

Wealth Management
How to get into the mindset of saving



There's a reason why so many home gyms are sold very cheaply on Junk Mail and Gumtree. There's also a reason that they are usually sold several months into the New Year. They are the result of failed and poorly constructed goals, often formulated as 'New Year's resolutions'. Savings and investment plans too, whilst never appearing in online adverts often start with great intentions (often also as a New Year's resolution?) only to be abandoned or discarded on the heap of failed dreams due to poor definition, imprecise planning and overly idealistic goals.

A common misconception when it comes to an investment plan - whether it's for a family home, a coastal retirement, or to put children through university - is that this same plan will become apparent 'when the time is right'.

Just as with other lifestyle change motivations (those same home gyms already noted) potential investors tell themselves that 'It's tomorrow's problem' or become fatalistic with a justification that 'something will probably happen and I'm unlikely to even survive until then and I'll have sacrificed living'.

The success – or not – of formulating, planning, implementing, and actively managing one's savings and investment plans falls squarely into the complex world of behavioural finance, which is not the intended direction of this simple call-to arms of starting a financial plan.

Remembering an English lesson at school that defined the difference between a wish and a goal as being that the one had a defined end-goal in a defined time period, and the other had neither, various (in fact there are lots) procrastination quotes are relevant to the success of financial planning. 'Following-through is the only thing that separates dreamers from people that accomplish great things' says motivational speaker Gene Hayden. Nike's byline says the same thing 'Just do it'!

The longer the time frame and the less specific the financial plan is, the harder it is to plan for. The fairly immediate goals of a deposit on a house, or the purchase of a motor car are far more tangible and apparently relevant than mere 'retirement savings' - especially when short term objectives are being required to be compromised in the pursuit of this esoteric and intangible objective.

Speaking with GTC's seasoned professional advisors, it is clear that the lack of specific goals, the imprecision and vagaries of 'retirement savings' and the pressing demands of short term financial requirements are the biggest stumbling blocks to well-founded financial plans. Too many of our clients realise Einstein's 8th World Wonder (written about in a separate article by Kyle Jeacocks) much later in life than they wanted to. Using GTC's Runway Edge software and experiencing the lightbulb moment that another (say) 'seven years would double my retirement capital, and how I wish I'd begun seven years earlier…' is an all too common occurrence.

Government's capitulation to union pressure to allow retirement savings to be used for immediate use (termed Two-pot) is an example of how long term financial planning is compromised by short-term necessity. Ahead of imminent elections, this release of members' retirement monies is understandable, though not from a conventional financial planning perspective. That this also speaks to South Africans (generally) either living beyond their reasonable means or becoming poorer in real terms through no specific fault of their own (also written about in another article this quarter) is perhaps the subject of future articles.

A savings and investment plan, combines financial goals both in the shorter term as well as long-term. A successful plan requires a clear goal, a determined time frame, an objective and anticipated outcome. Delivering this successful plan firstly requires some knowledge and technical understanding. Thereafter discipline, immediacy, resolve, commitment and fortitude are compulsory ingredients. Having said all this, the recipe looks very similar to that required for a successful career, marriage, or any other life event worth achieving. Just do it!

CEO Editorial - by Gary Mockler
Wishing for 'boring' and listening to young(er) investors



2024 welcomes us with many global macro events that could affect our investments. As you've probably already read, we are wishing for a 'boring' investment year.

Several thought leadership articles that I reviewed for this quarter's Trendline were penned by some of our younger professional staff. It was interesting to see their take on savings and investments, and whilst still focussed on long-term objectives (i.e. retirement), their chosen topics focussed on financial goals much earlier in an investor's life.

Adopting a pragmatic mindset of investment strategies and specifically targeting children's education are probably not topics on the minds of investors either in their retirement or close to it, though they remain important topics for so many of our clients. I found this refreshing and it acted as a timeous reminder that so many of GTC's clients are in the early phases of their wealth creation.

We have in the past perhaps focussed on the needs, the psychology, and the investment strategies of investors who have already achieved most of the accumulation phase and are more focused on wealth maintenance and the providing of income.

A persistent theme from GTC over the last number of years has been to include retirement funding as a far more integral component of an investor's personal financial planning. Government too has endorsed this thinking with some profound changes to legislation (Section 36 of the Pension Funds Act) in 2018. Ensuring that young adults begin their working lives with a solid foundation as regards their wealth creation is important. These lessons learnt stand one in good stead the rest of one's investment career. We never stop learning.



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