NEWSLETTER

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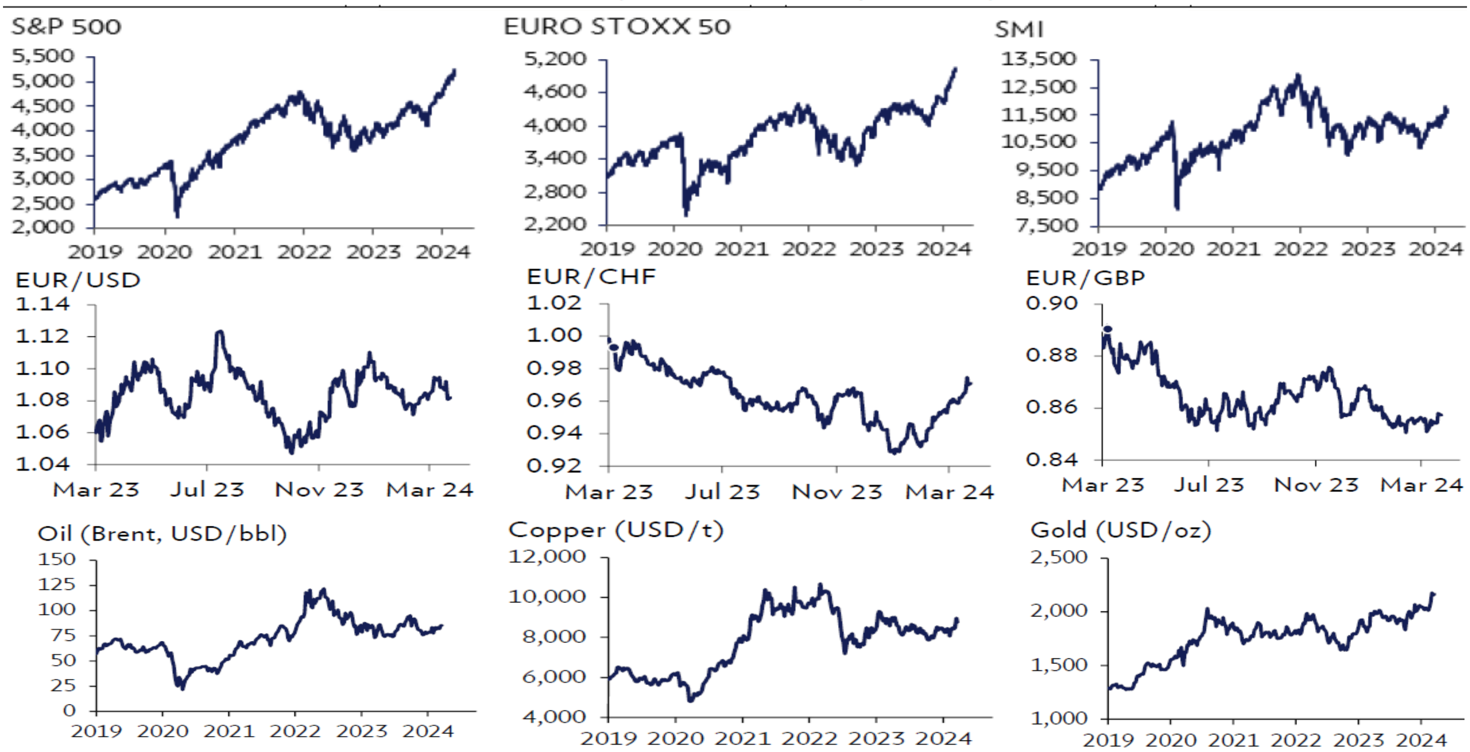
- Market overview
- Theme of the month: Green infrastructure/energy
- Psychology of money: Chapter 4

"Spending less than you make, saving the difference, and being patient is perhaps 90% of what you need to know to do well."
- Morgan Housel

MARKET OVERVIEW

Review (1-month and 6-month performance)



Source: Julius Baer, 25/03/2024

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INTERNATIONAL

31/03/2024	Last	Month %	YTD %	5Y ann. %
MSCI ACWI	784	2.93	7.78	8.49
S&P 500	5254	3.10	10.16	12.56
NASDAQ 100	18255	1.17	8.49	19.27
EURO STOXX 50	5083	4.22	12.42	8.08
MSCI EM	1043	2.18	1.90	0.89
HANG SENG	16541,42	0.18	-2.97	-10.78
US Equities Volatility Index (VIX)	13.65			

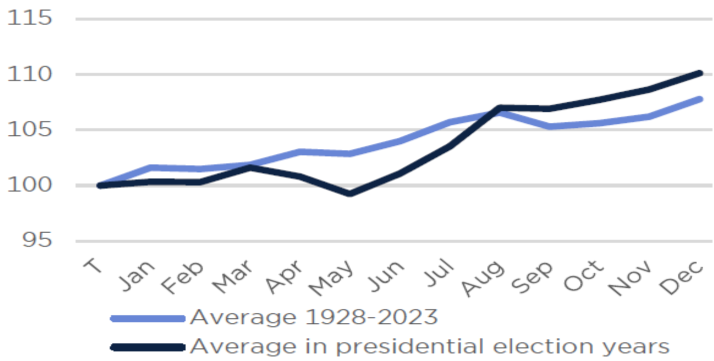
Source: Edmond De Rothschild

In March, significant developments occurred within central banks worldwide. The US Federal Reserve opted to keep interest rates unchanged. However, the Fed indicated a high likelihood **of three interest rate cuts throughout 2024.** Markets responded favorably to the Fed's announcement. Conversely, the Bank of Japan took a divergent path from the Fed by raising interest rates by 20 bps into positive territory for the first time since 2016.

This newsletter focuses on the potential ramifications of the 2024 US elections and the impact they could have on markets. Analysis of the S&P 500's past performance since 1928 shows an atypical profile in election years. Key observations include:

- On average, US equities perform better in presidential election years
- Uncertainty over the program and the outcome of the primaries creates an uncertain context in the early months of election years
- The market tends to outperform from May onwards once visibility on candidates and programs has increased.

Chart 1: Historical performance of the S&P 500 during presidential years (1928-2023)



Source: Edmond De Rothschild

Historically, the initial underperformance in equity markets during election years has been attributed to uncertainty surrounding the selection of nominees. However, in 2024 the near certainty regarding the candidates—Trump and Biden emerging as clear favorites—may alter this dynamic. The behavior of equity markets could deviate from historical patterns.

The policy stances and positions of the candidates

A **Republican victory** would probably result in additional corporate tax breaks and a push for further deregulation.

During Trump's initial term, he decreased the federal corporate income tax rate from 35% to 21% and hinted at the potential for an additional reduction to 15%. Regarding economic policy, the anticipated changes seem less drastic than seen in 2020. Conversely, **Democrats** may uphold their budget spending plans but could resort to increased taxation to prevent any substantial deficit worsening.

Republican and Democrat camps have adopted a more offensive approach regarding US industrial policy. However, a second Trump term could lead to more significant changes in trade policy. Trump has already proposed a general 10% tariff on imports, with some products from China facing tariffs potentially tripling on average. Share prices of companies exposed to tariffs have experienced declines and their potential recovery may be contingent upon a Biden re-election.

The outcome of the election is unlikely to directly influence the monetary policy decisions of the Federal Reserve, as the Fed operates independently of the executive branch. However, President Trump intends to avoid reappointing Fed Chairman Powell after his term expires in 2026. In such a scenario, market concerns about the Fed's potential subordination could increase, leading to a higher inflation risk premium and steeper yield curves. The prospect of more stringent immigration policies under a Republican administration may evoke concerns regarding a tightening labor supply, potentially leading to heightened inflation risk. Immigrants constitute over a fifth of the US workforce, inclusive of approximately 8 million undocumented workers, representing around 5% of the total workforce.

Overall, a Republican administration and Congress would increase the sources of geopolitical tension. Such an administration may be less supportive of Ukraine in its conflict with Russia. The Republican-controlled House has thus far hindered the extension of aid, potentially impeding efforts toward resolving the dispute. The international landscape may also become more unstable, particularly in light of Trump's assertions regarding the United States' desire for greater isolationism.

Summary

Trump and Biden hold starkly contrasting views and policy agendas. A Trump presidency would likely result in tax breaks and tariffs on imports, which would benefit US businesses, albeit potentially negatively impacting businesses exporting to the US. Healthcare companies stand to benefit under a Trump administration due to anticipated challenges to Biden's proposed measures to control medicine prices.

A second consecutive term for Biden is expected to see initiatives such as the Inflation Reduction Act (IRA), CHIPS and Infrastructure Investment and Jobs Act (IIJA) gaining traction. Companies exposed to sectors like green/smart infrastructure and semiconductor production are poised to benefit from Biden's policies.

SOUTH AFRICA

31/03/2024	Last	Month %	YTD %	5Y ann. %
JSE All Share	74536	2.48	-1.55	5.45
JSE Resources	57251	13.86	-0.49	3.84
South Africa 10Y Bond	10.55%			
CPI	4.50%			
Prime Rate	11.75%			
USDZAR	18.9926	1.16	-2.21	-5.80
EURZAR	20.4987	1.63	0.41	-5.02

Source: Moneyweb

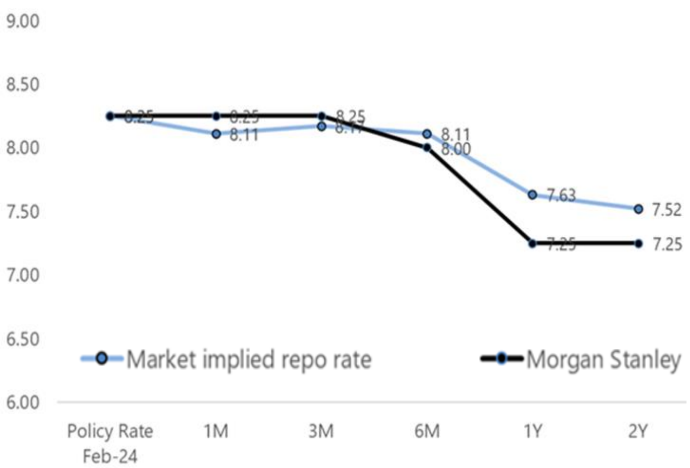
Africa's largest stock exchange, the JSE, has shed more than **R2 trillion** in market capitalization since 2022 with delistings, foreign capital flight, geopolitics, low valuations and weak economy flagged as some of the reasons behind the decline. The annual report published in March by the JSE Ltd, which operates the exchange, shows the bourse had a market capitalization of R21.34 trillion in 2022, which had been reduced to R19 trillion by the end of the 2023 financial year. This translates to a loss of about **R2.3 trillion in market value in a year.** The size of the South African economy is **R7.5 trillion.**

The JSE All-Share index witnessed a challenging first quarter in 2024 compared to global markets. The JSE declined 1.5% in 1Q24 (S&P 500 +10% and Nasdaq 100 +8.5%). The February headline inflation rate rose to a four-month peak, reaching 5.6% YoY, up from 5.3% YoY in January.

South Africa is expected to become a water-scarce country by 2025 and will have a **water deficit of 17% by 2030.** A recent report published by the Department of Water and Sanitation (DWS) shows that a countrywide average:

- 46% of drinking water systems did not meet microbiological standards
- 68% of wastewater treatments failed to process sewage and other wastes adequately
- 47% of water was lost due to leaks or was unaccounted for.

The South African Reserve Bank (SARB) maintained the repo rate at 8.25% in March and indicated postponing any rate cuts until the third quarter. Market expectations suggest that the first interest rate reduction is anticipated in November 2024.

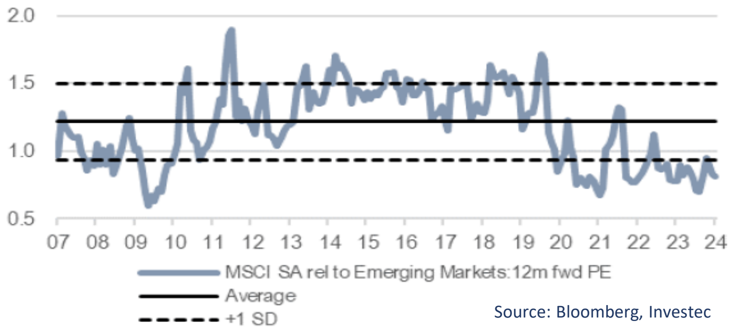


Source: Morgan Stanley

South African equities are currently trading at a 12-month forward price-to-earnings ratio of 11.9x, which is one standard deviation below their long-term average relative to Emerging Markets.

Despite trading at attractive valuations, South African equities may continue to underperform Emerging Market equities unless structural reforms accelerate. In the medium term, South Africa should experience reduced levels of load-shedding below stage 4.

Chart 3: The JSE has lagged behind the emerging market recovery



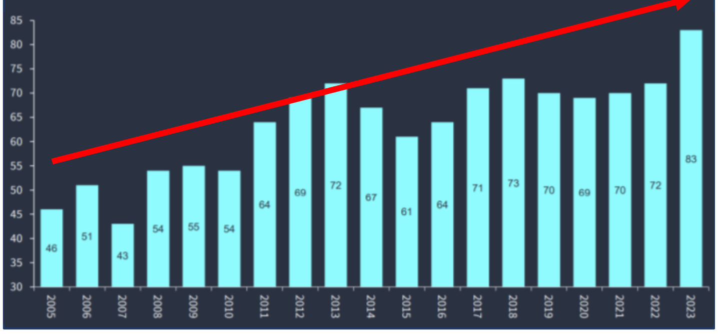
Source: Bloomberg, Investec

Chart 4: The JSE best and worst performing shares in March 2024

Best performing	%	Worst performing	%
Harmony	+41%	Montauk Renewables	-31%
Blue Label	+27%	Brait PLC	-20%
Impala Platinum	+21%	Remgro	-18%
Gold Fields	+21%	ArcelorMittal	-17%
Industrial REIT	+20%	Netcare	-13%
DRD Gold	+19%	Kumba Iron	-13%
Anglo Gold	+17%	Standard Bank	-11%
Glencore	+15%	ABSA	-11%

Did you know? – World corruption perception: SA's ranking out of 180 countries

The latest report by the Global Risk Profile assesses the Global Corruption Index (GCI), which evaluates the prevalence of corruption and white-collar crimes globally. This index incorporates data from up to 42 internationally recognized variables. Among 180 countries analyzed, South Africa is ranked **83rd in the index.** A higher ranking indicates a perception of greater corruption within the country.



Source: Global Risk Profile

Electrical power was (and still is, primarily) distributed in a hub-and-spoke fashion. Large power stations at the center of the "hub" use fuel to make gas. The gas turns a turbine, which drives a generator, producing high voltage (HV) electricity for distribution across the "spokes" of the grid. The HV being supplied to that grid is stepped down along the way to consumers. We consume low voltage (LV) electricity in the 110-240v range in our homes or offices. The electricity that arrives at the substations at the ends of our roads, the basements of our apartments and our industrial facilities is **medium voltage (MV),** at c1,000+ volts.

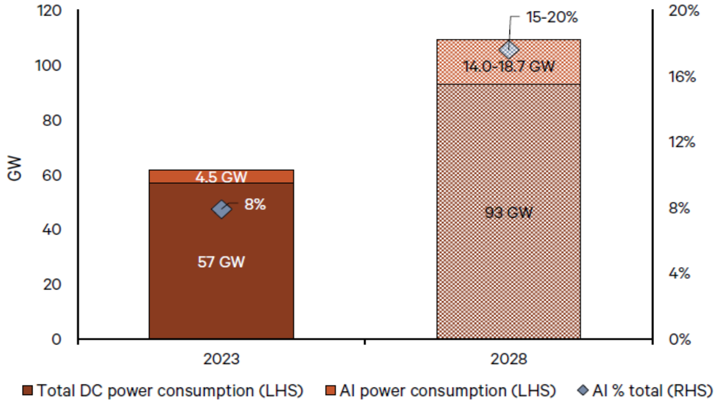
Renewables oppositely contribute to the grid to a hub-and-spoke approach. They typically produce electricity at an MV level around the periphery of the "spokes" on that grid in a relatively unreliable way due to environmental fluctuations (sun or wind). As a result, grids must become much smarter to balance the variable demands for power at the correct times with the fluctuations in supply from the increasing number of less reliable contributors to that grid. MV technology is fundamental to the rollout of renewables and intelligent infrastructure. Building smarter grids and smarter cities safely, with a smooth supply and balanced loads from these now disparate and less reliable power sources, is paramount and enabled by MV technology.

Generative AI applications will only increase the power demand and necessitate infrastructure upgrades to handle this increase. For example, recent snippets from Netflix suggest that artificial intelligence (AI) models and algorithms require **four times** the power and infrastructure that traditional server farms require.

According to the International Energy Agency (IEA), data centers, cryptocurrencies and AI consumed c460TWh of electricity in 2022, representing 2% of global demand. In a base-case scenario, the IEA's Electricity 2024 report predicts that global electricity demand from data centers alone could double by 2026. There are over 8,000 data centers globally (33% in the US, 16% in Europe and 10% in China).

For instance, the IEA forecasts that the US will see data center electricity consumption increase from 200TWh to 260TWh from 2022-2026. The consensus forecast is that the energy requirements of data centers (DCs) are and will continue to drive capex by DC operators for their own grid and microgrid needs, as opposed to relying on traditional and budget-constrained utility providers.

Chart 5: AI workloads are projected to grow at a 25-30% CAGR to 15-20% of total data center power consumption by 2028



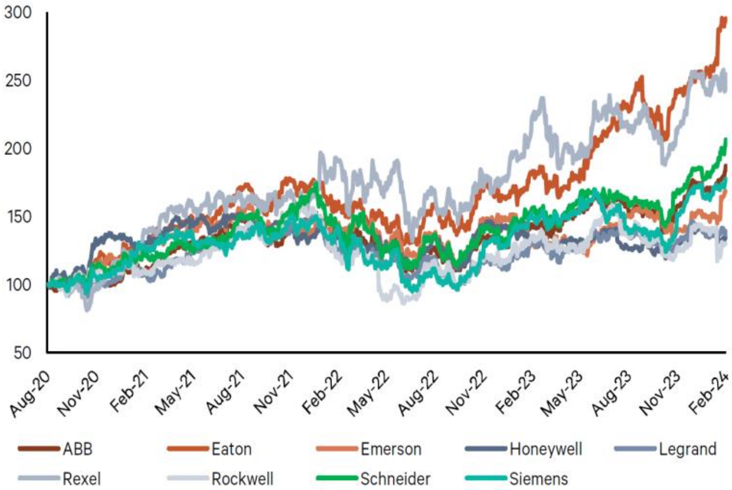
Source: Schneider Electric

In recent years, the surge in AI development has significantly bolstered the demand for energy in data centers. According to estimates by Schneider, AI applications already account for 4.5 GW of total data center power consumption, constituting 8% of overall usage. Supported by the advent of Generative AI technology, this is forecasted to grow 2x to 3x the overall data center consumption growth rate at a **25% to 30% CAGR to 2028.**

AI-related consumption could encompass 15% to 20% of the total energy demand. However, achieving this is contingent on technological progress, particularly in server efficiency, infrastructure optimization and chip performance. Electrical players are critical in facilitating the immediate energy demands of data centers.

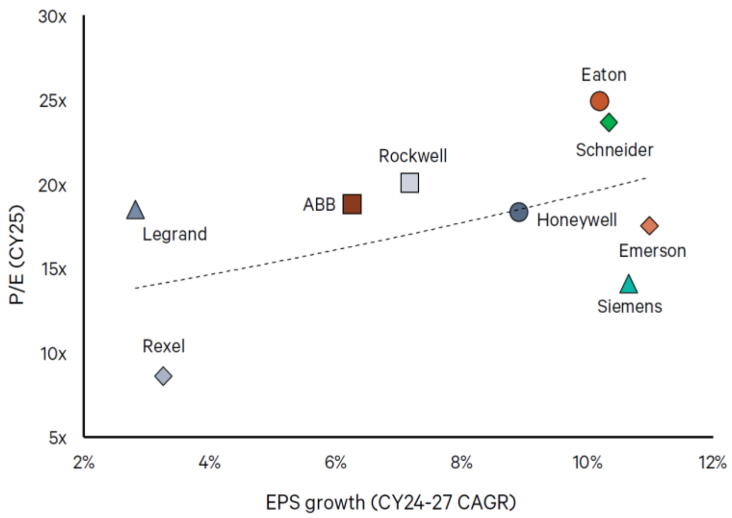
Given the demand for MV technology and infrastructure necessary for renewable energy and DC growth, we see an opportunity for the intelligent infrastructure and green energy sector, but more specifically for companies such as **Siemens, Schneider Electric, Emerson** and **Eaton.**

Chart 6: Total shareholder returns (TSR) with the subgroup averaging a total return of 54% from August 2020.



Source: Berenberg estimates, Datastream

Chart 6: Consensus P/E multiples (2025) versus mid-term adjusted EPS growth estimates



Source: Berenberg estimates, Visible Alpha

GRAPH OF THE MONTH: THE WORLD'S LARGEST CORPORATE HOLDERS OF BITCOIN

Source: Visual Capitalist

THE PSYCHOLOGY OF MONEY – LESSON 4: DON'T RISK WHAT'S IMPORTANT

In his book, **The Psychology of Money**, Morgan Housel delves into the intricate relationship between human psychology and financial decision-making, offering valuable lessons for navigating the complexities of personal finance. Lesson 4, "Don't risk what's important," is a poignant reminder of the need to prioritize non-monetary values over financial gain and avoid unnecessary risks that could jeopardize essential aspects of life.

At the heart of this lesson lies the recognition that while money holds significant importance in our lives, it should never come at the expense of what truly matters: our reputation, freedom, family, friends and happiness. Housel underscores the idea that these intangible assets are invaluable and should be safeguarded against the allure of quick financial gains or speculative ventures.

The concept of risk and its implications on financial and personal well-being is central to understanding this lesson. While taking risks is an inherent aspect of investing and wealth accumulation, Housel warns against recklessness and emphasizes the importance of thoughtful risk management. He argues that certain risks, particularly those that threaten fundamental aspects of our lives, should be avoided, regardless of the potential monetary rewards they may offer.

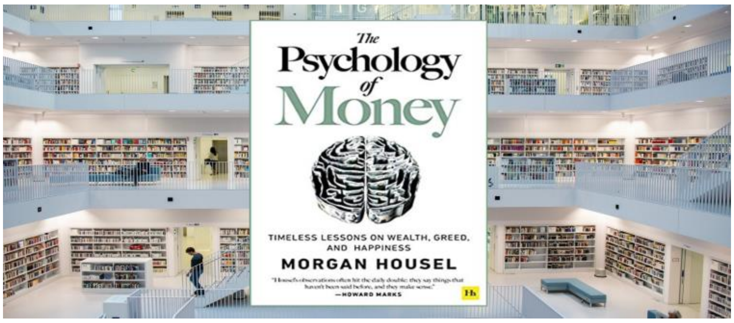
One critical insight in this lesson is the idea of **opportunity cost**—the notion that every decision to pursue a risky financial endeavor carries the potential cost of sacrificing something of greater value. In pursuing wealth, individuals may inadvertently compromise their relationships, health, or overall happiness, ultimately realizing that the financial gains pale compared to the losses incurred in other areas of their lives.

Moreover, Housel explores the **psychological biases** and **cognitive pitfalls** that often lead individuals astray when making financial decisions. From overconfidence to the fear of missing out, human behavior is rife with tendencies that can cloud judgment and lead to poor choices with lasting consequences. By recognizing and mitigating these biases, individuals can make more informed decisions that align with their long-term goals and values.

The lesson emphasizes balance and perspective in financial matters. While pursuing financial security and prosperity is essential, it's equally crucial to maintain a holistic view of one's life and prioritize the things that bring true fulfillment and happiness. This requires introspection and a deep understanding of one's values, goals and priorities beyond the realm of money.

Applying this lesson involves exercising prudence and caution in financial decision-making, particularly when faced with high-risk opportunities or temptations for quick profits. It requires cultivating a mindset that values stability, security and well-being over the allure of wealth accumulation at any cost.

Ultimately, "Don't risk what's important" is a powerful reminder to reevaluate our relationship with money and prioritize what truly matters. By recognizing the inherent trade-offs in financial decisions and honoring our non-monetary values, we can strive for a more balanced and fulfilling approach to wealth and well-being.



SOURCES

Sources: Alpine Macro, Anchor, Bloomberg, BNY Mellon, Charlie Bilello, Credit Suisse, Compound Advisors, Edmond De Rothschild, ETFMG, FactSet, Haver Analytics, JP Morgan, Julius Baer, Morgan Stanley, Refinitive, RMB, Statista, Sygnia, Strategas, UBS

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