women's month

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Now is not the time to take investment matters into your own hands

Vanessa Mabophe, Quantitative Analyst

In times of heightened adversity, we often think the best way to survive is by taking matters into our own hands. After all, it is better to die trying than to not try at all, right? Well at times, this may not be the best approach.

Unless you have the necessary financial market experience, insight and expertise, going at it alone could well make a bad situation even worse.

During challenging times, the tendency to make emotionally based investment decisions is high, and these can prove extremely costly in the long term. Prescient Investment Management has an investment process that eliminates any potential human bias by relying on its sophisticated, systematic, rules-based approach to guide investment decisions. These rules have been developed over more than two decades and are continuously updated to reflect changing market conditions. We, therefore, pride ourselves on being a systematic investment house that makes well-informed, rational investment decisions and does not fall prey to human weaknesses.

The proof is in the results we have delivered to our clients, and these confirm our approach has held our investors in good stead. Our multi-asset class funds have delivered consistent returns above their benchmarks over the medium- to long-term through all market conditions.

What do our models currently show?

Currently, our models highlight the significant influence the accommodative global monetary policy environment is having on financial markets. Though the various stimulus packages have offered some relief, they have not remedied the devastating, potentially long-lasting effects caused by the pandemic. Specifically, the overall stress in financial conditions remains elevated, as depicted by a LIBOR-OIS spread, which is above its long-term median. The high interest rate spreads show market participants require higher rates in compensation for the perceived risk that lies ahead.

Conflicting sentiment indicators add to the uncertainty about what lies ahead. While both the business and investor sentiment turned positive, consumer sentiment remains in the red.

Given the uncertain outlook, and, in some instances, contradictory fundamentals, what are the asset classes best placed to perform well going forward? Our models are pointing to the relative attractiveness of credit. We saw credit spreads reaching their best levels in March since the 2008 crisis. Though they have since been narrowing, they remain relatively wide, which is generally favourable for credit instruments.

Furthermore, the roll-out of quantitative easing has increased demand for both corporate and high yield credit to the benefit of credit instruments; hence we are overweight in both global investment grade and global high yield credit.

On the real assets front, we are generally overweight across the board. From a valuation perspective, real assets are proving to offer great value for money, as illustrated by the valuation metrics, which are mostly currently positive. For instance, the dividend yields offered by both SA property and SA Preference Shares are currently in the first quartile relative to historic levels. These relatively high dividend yields mean that the per cent you get in dividend earnings is higher than usual.

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Furthermore, the relative spread between the real yield on SA Preference Shares and JIBAR and that of the real yield on SA Property and the All Share Index earnings are both indicating that on a relative basis, investors will realise higher real returns in these asset classes.

In terms of currencies, the current financial conditions and valuations are generally supportive of the South African Rand. For instance, the real effective exchange rate is currently in the fourth quartile of our rankings relative to its historical levels. Since the real effective exchange rate is generally mean reverting, this means that at current levels, the rand is cheap and that the real effective exchange rate could 'revert' to higher levels in the future (in line with the long-term mean).

Based on the wide real interest rate differential between the US and South Africa, the rand currently offers excellent value against the US Dollar. The differential between the two currencies is now in the 100th percentile, which means that, relative to historic levels, the rand offers far more opportunity for outperformance than the dollar.

Risky assets, on the other hand, are currently not well supported by our model. Generally, stressed financial conditions are not conducive to risk-seeking behaviour. We are, therefore, underweight developed market and emerging market equities. From a valuation perspective, our model shows that equities are unattractive at their current levels.

Against this challenging investment backdrop, and as you eagerly await the pandemic to play out, you can rest assured that our approach to investing during these challenging times ensures our fund managers are in the best position to protect the value of your investments as we ride out the crisis.

Not only do we have a sophisticated and reliable investment process that keeps us on track during times like these, but we are also continuously improving on it. Our systematic approach acts as a reliable compass, enabling us to calmly and consistently find the 'true north' for your investments so that you experience consistent long-term real returns that are in line with your expectations. ■