

Rate Cuts – Good News or Bad News for your Investment Portfolio?

Can I / Should I DO anything?

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ETFSA

Why do central banks cut (and raise) interest rates?

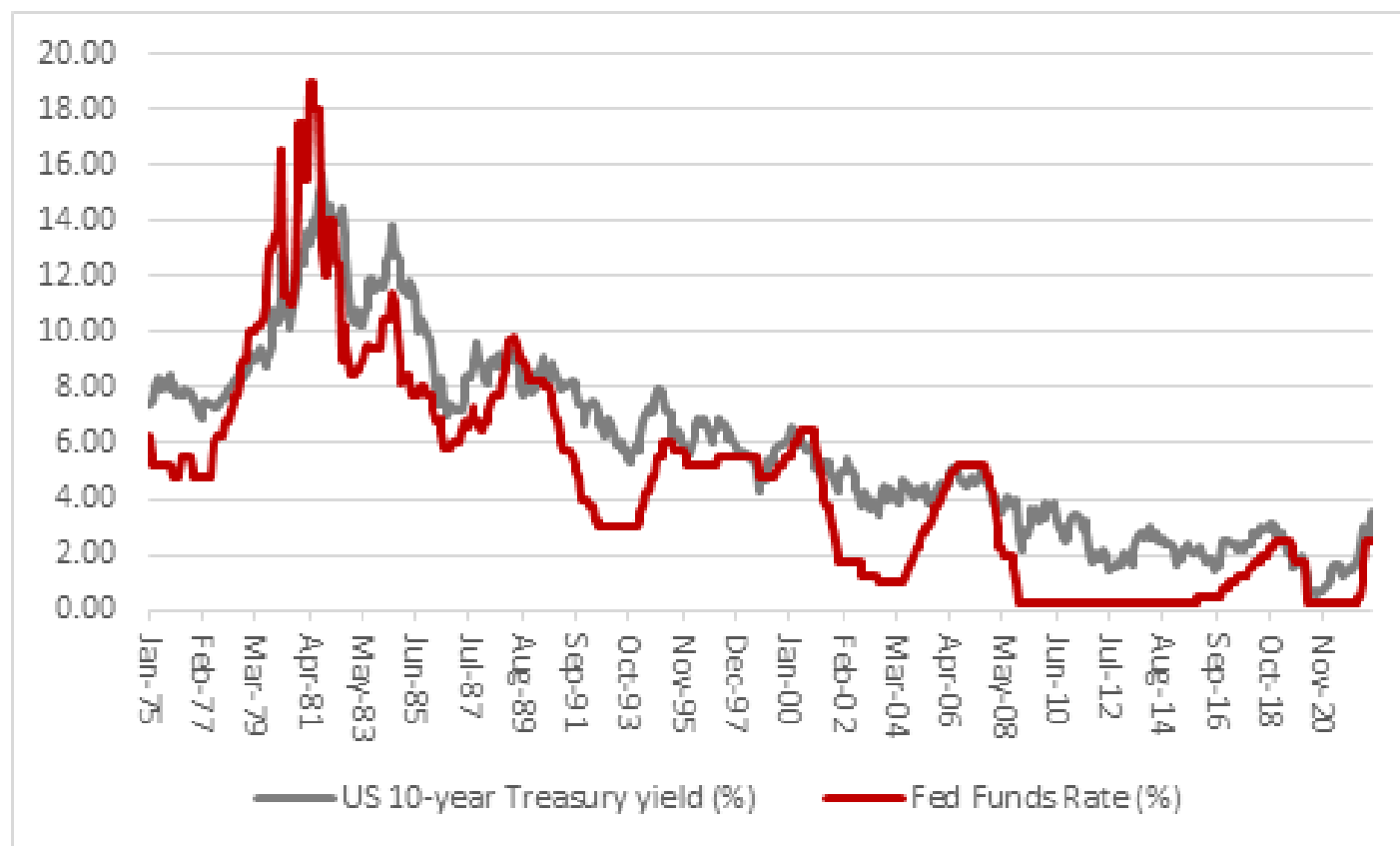
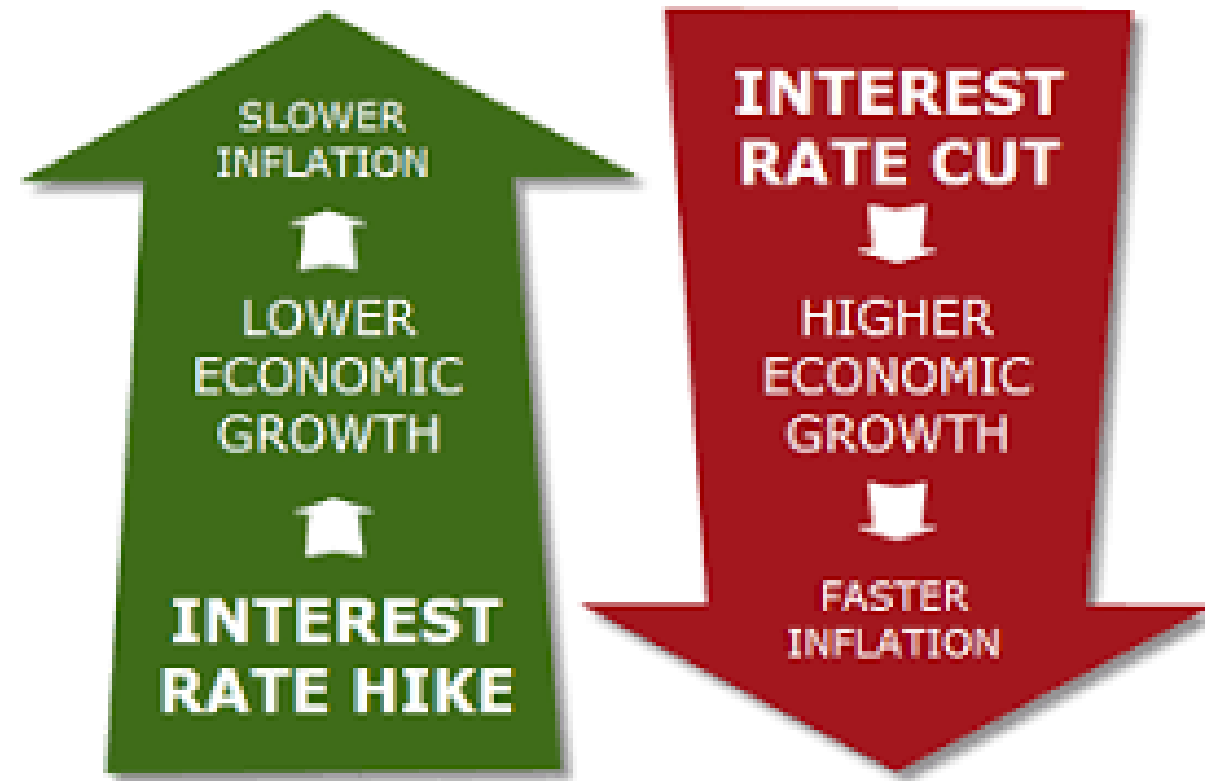
CUT rates

- Under “normal” circumstances
 - To stimulate economic growth by making money “cheaper”
 - Pace of cuts gradual and measured
- Under “distressed” circumstances
 - To stimulate economic growth by “injecting” liquidity into the financial system
 - Pace of cuts quick and sharp

RAISE rates

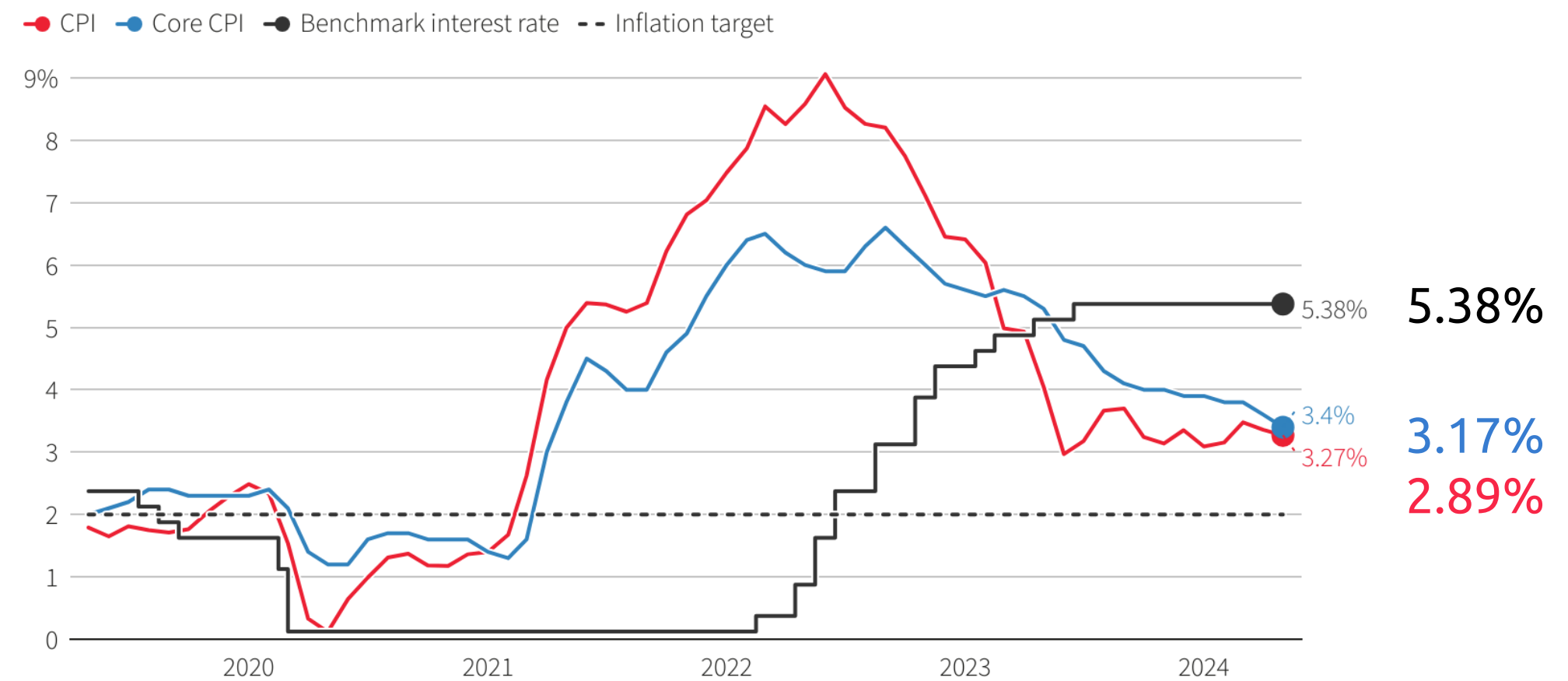
- Under “normal” circumstances
 - To maintain an “equilibrium” in financial markets and the economy
 - Pace of increases gradual and measured
- Under “distressed” circumstances
 - To curb runaway inflation and avoid further “damage” to the economy
 - Pace of increases quick and sharp

The relationship between interest rates, inflation and economic growth



US inflation and interest rates

Benchmark interest rate and year-on-year change in CPI inflation



The benchmark interest rate is the midpoint of the federal funds target rate. Published June 12, 2024 at 12:32 PM GMT
Sources: Bureau of Labor Statistics, LSEG

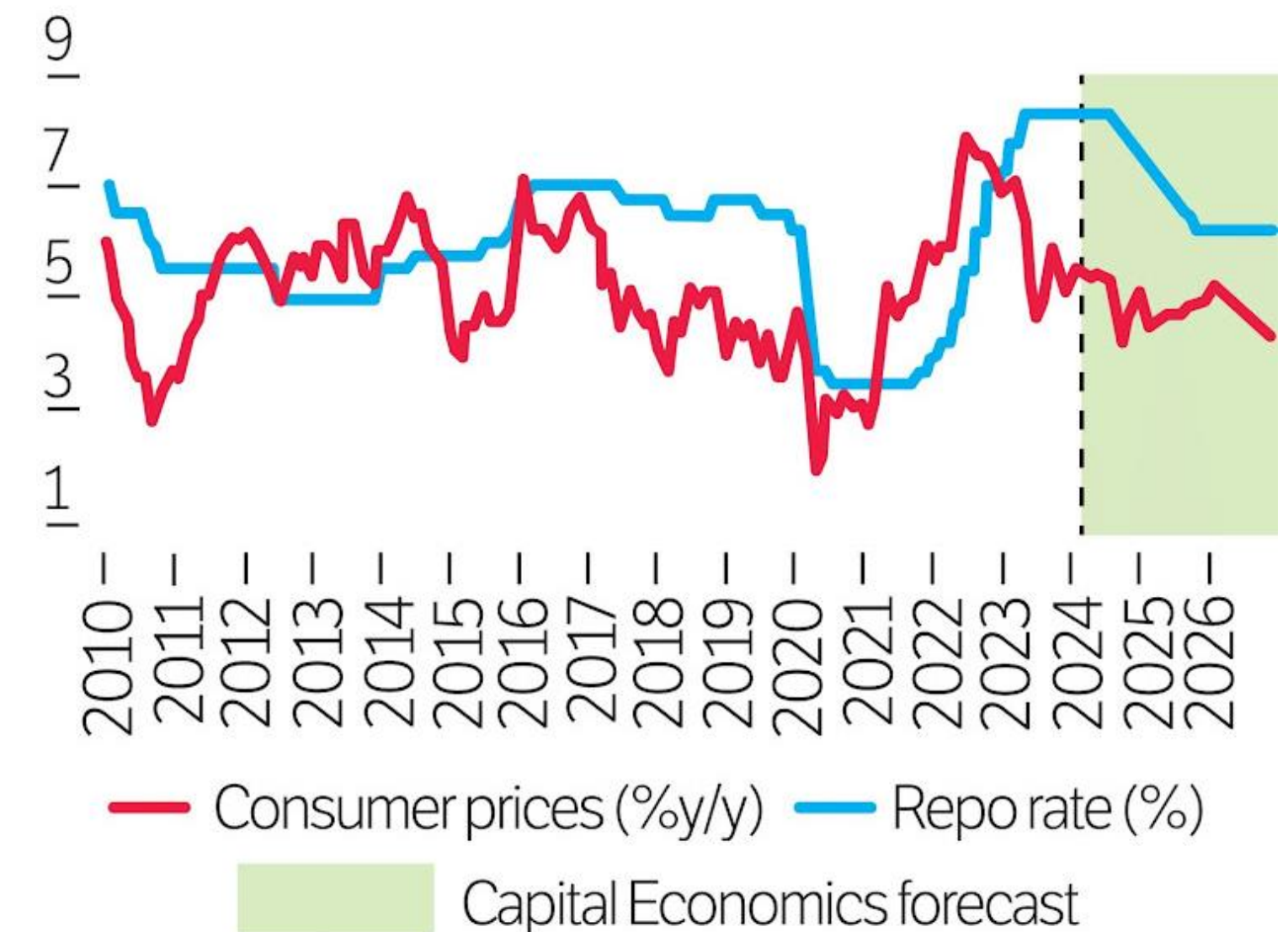
Key question: what does this mean for economic growth?

Labour market / Unemployment / Jobs data is a **key leading indicator**

What about the SARB?

- **Real interest rate** in SA (interest rate minus inflation rate) is high so there is room to cut rates.
- **Economic growth** in SA need much more than lower interest rates (which would need to be cut aggressively to have even a small positive impact) – we mostly need structural reforms.
- **Inflation** in SA is mostly driven by exogenous factors (e.g. oil prices, global food prices) and administered price increases (e.g. electricity, public sector wage bill), which is not affected by interest rates. But the **currency** has a significant impact on inflation.
- **SARB dilemma**: can't afford to move too far out of step with the Fed as it will lead to rand weakness, which is inflationary – a vicious circle!

CPI vs repo rate (%y/y)



Source: Capital Economics

What does this mean for different investments?

Asset class	Cash / Money Market	Bonds	Listed Property	Equities
Risk level	Lowest	Low-Medium	Medium-High	Highest
“Normal”	Interest income declines slowly, and while interest rates > inflation rate you are still earning positive real income before tax	Declining interest rates are positive for bond prices so you can earn capital growth in addition to the fixed coupon rates	Generally positive due to positive impact on property company balance sheets and debt servicing costs, and increased demand, affordability for tenants	Good for mid & small caps and the valuations of high growth companies as long-dated future cash flows are discounted to present value at lower discount rates, leading to higher present values
“Distressed”	Interest income will fall away quickly, but there will be no loss in nominal value	Sharply lower interest rates would mean higher bond prices <i>all else being equal</i> but concerns about economic growth and debt sustainability may weigh on prices	Deteriorating economic outlook may result in a drop in demand for property rentals which may outweigh the benefits of lower borrowing costs	Rotation from growth and momentum to value and quality where share prices are better supported by resilient balance sheets, strong dividend flow, and less dependence on future earnings

Some ETF options for consideration for a “normal” cycle



Asset class	Cash / Money Market	Bonds	Listed Property	Equities
JSE – local	<ul style="list-style-type: none"> Satrix TRACI 3m ETF (STXTRA) Prescient Income Provider AMETF (PIPETF) 	<ul style="list-style-type: none"> 10X Wealth GOVI ETF (CSGOVI) PortfolioMetrix Active Income Prescient AMETF (PMXINC) 	<ul style="list-style-type: none"> 1invest SA Property ETF (ETFSAP) 10X SA Property Income ETF (CSPROP) 	<ul style="list-style-type: none"> FNB MidCap ETF (FNBMID) Satrix Momentum ETF (STXMMT)
JSE – foreign	<ul style="list-style-type: none"> 1invest ICE US Treasury Short Bond ETF (ETFUSD) Coronation Global Strategic USD Income Prescient AMETF (COUSDI) 	<ul style="list-style-type: none"> FNB 10-year Dollar Custodial Certificates (DCCUSD) Satrix Global Aggregate Bond ETF (STXGBD) 	<ul style="list-style-type: none"> Sygnia Itrix Global Property ETF (SYGP) 1invest Global REIT ETF (ETFGRE) 	<ul style="list-style-type: none"> Satrix Nasdaq ETF (STXNDQ) Sygnia Itrix FANG.AI AMETF (SYFANG)
Offshore	<ul style="list-style-type: none"> iShares \$ Treasury Bond 0-1yr ETF (IBTU) Xtrackers II GBP Overnight Rate ETF (XSTR) 	<ul style="list-style-type: none"> iShares US Treasury Bond ETF (GOVT) iShares Global Govt Bond ETF (IGLO) 	<ul style="list-style-type: none"> iShares Global REIT ETF (REET) iShares US Property Yield ETF (IUSP) 	<ul style="list-style-type: none"> iShares Russell 2000 ETF (IWM) iShares NASDAQ 100 ETF (CNDX)

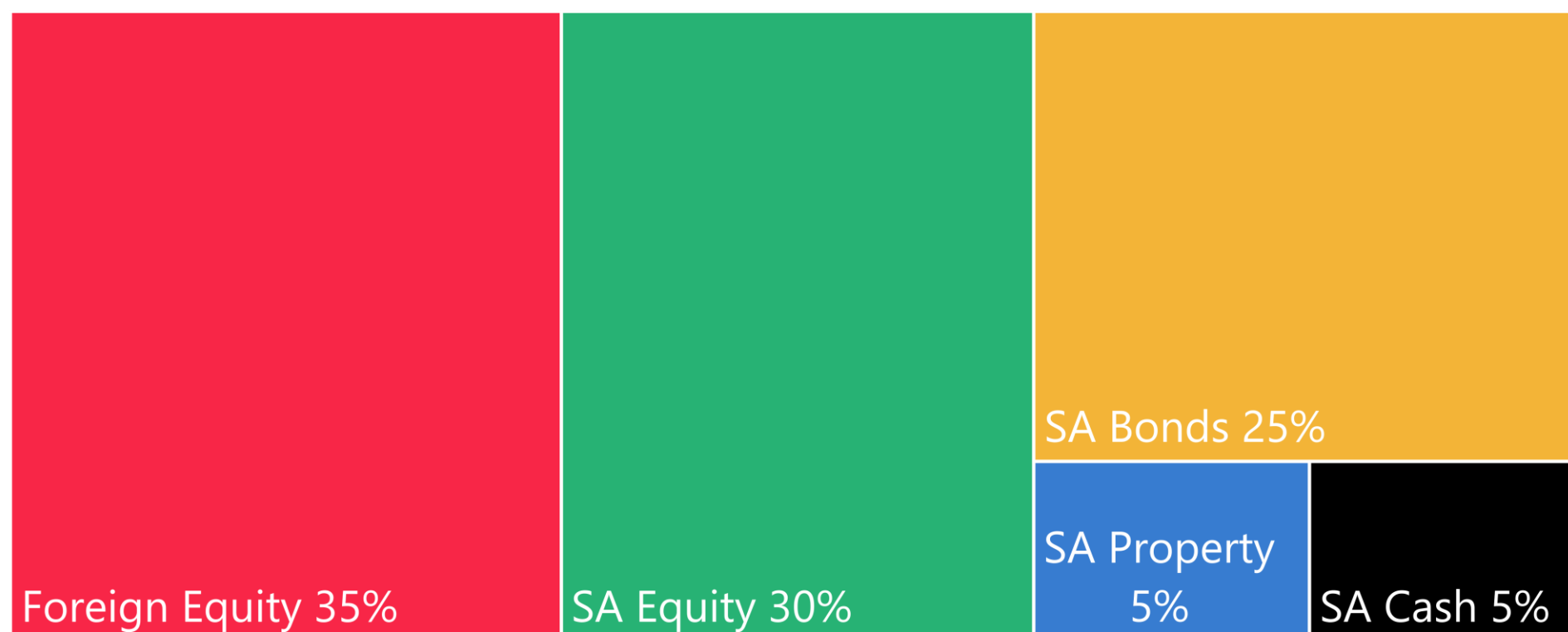
Note: This is not a comprehensive list and given for illustrative purposes only. Refer to www.etfsa.co.za/information-centre/fund-library/etp/ for a full list of all JSE-listed exchange-traded products. Not to be seen as investment advice nor recommendations.

Is this too much to consider? Start with a good Foundation... ... then build on it as your knowledge and confidence grows

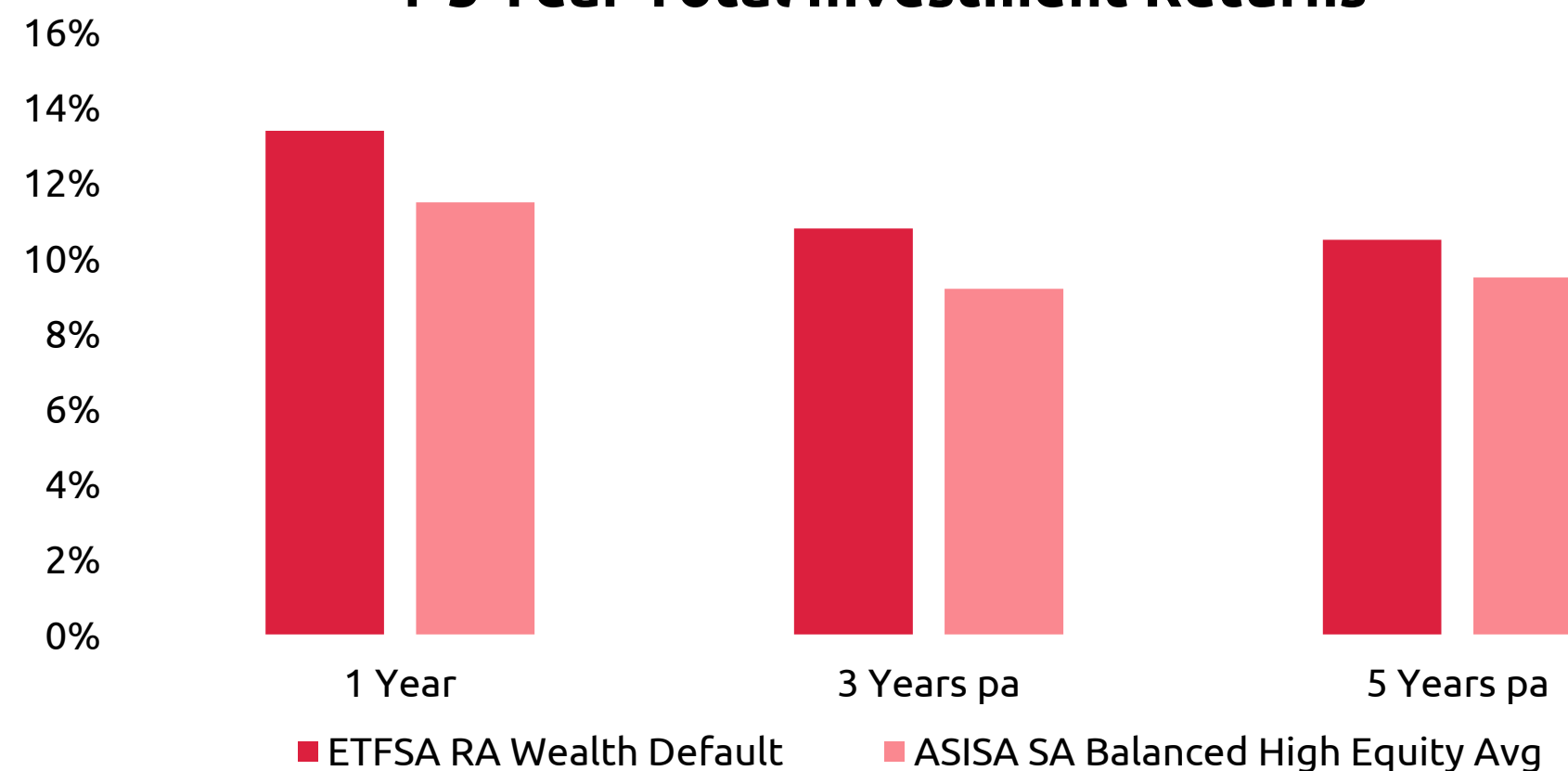


- Long term (5yrs +) wealth creation
- Balance between Growth & Defensive
 - 70% growth assets
 - 30% defensive assets
- Diversified exposure to major asset classes, local and global
- A foundational product to anchor your portfolio
- ETFSA Balanced Foundation Prescient AM-ETF
 - Share code: **ETFSAB**

Asset Allocation



1-5 Year Total Investment Returns



Source: ProfileData, ETFSA (July 2024).
 Past performance is not indicative of future performance.
 The returns depicted above are that of the ETFSA RA Wealth Default Portfolio and not that of the ETFSA Balanced Foundation AMETF. The ETFSAB mirrors the same strategy of the ETFSA RA Wealth Default Portfolio and

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