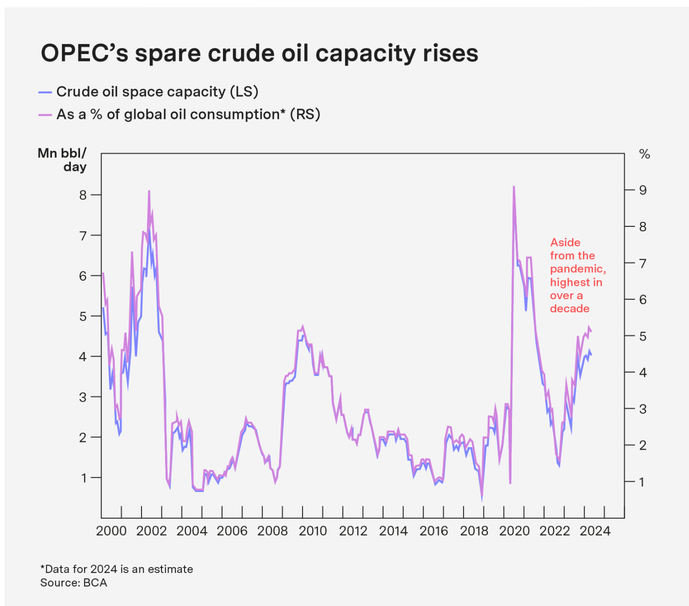
The Monthly Bulletin
SygniaSygnals
May 2024

Chart of the month – Geopolitical tensions escalate

By Kyle Hulett
Co-Head: Investments



*Data for 2024 is an estimate
Source: BCA

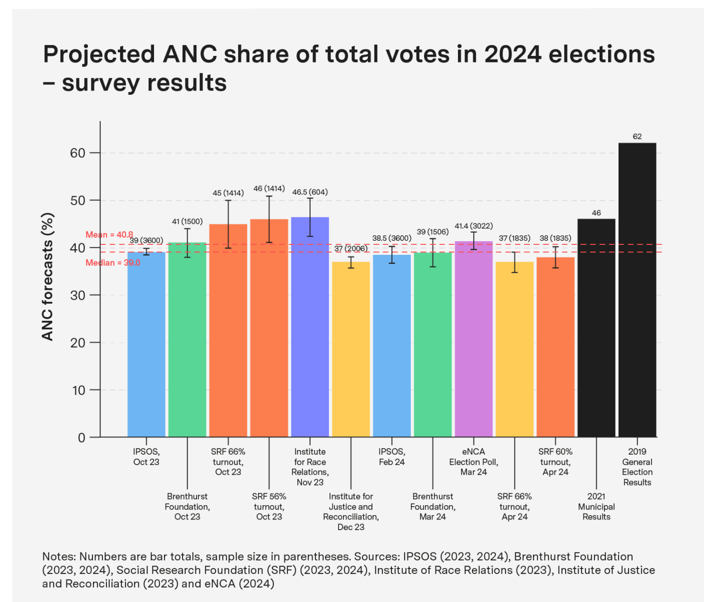
Stocks sold off in April on escalating Middle East tensions and hotter than expected US inflation. Despite officials in the US and Europe pushing to avoid a tit-for-tat between Israel and Iran, this is exactly what happened, although seemingly in a polite and orchestrated way. Iran's 300-plus rocket and drone barrage against Israel on 13 April was the first ever attack from Iranian soil, in retaliation for the 1 April Israeli attack on Iran's consulate in Syria, which resulted in the death of two senior generals. Iran's retaliation had limited impact and Israel's own retaliation on 19 April suggests it was designed not to widen conflict in the region. Early signs are that the symbolic nature of the action could open the door to de-escalation, at least in the short term.

However, an escalation could disrupt global oil flows and lead to oil shortages, with roughly one-fifth of global petroleum liquids flowing through the Strait of Hormuz that links the Persian Gulf with the Gulf of Oman and the Arabian Sea. OPEC's spare capacity – which can be brought online within 30 days – has risen rapidly and is now 4.5% of global consumption, raising resilience against market supply shocks. Furthermore, Iran's oil exports have reached a six-year high – 1.6m barrels a day were sold over the last three months, almost exclusively to China. The Biden administration has a strong incentive to hold down oil prices ahead of its elections and is largely turning a blind eye to illicit Iranian oil exports. They have also admonished Ukraine for launching drone strikes against Russian refining facilities. Russia now makes up 20% of China's oil imports and 12% of India's oil imports. Oil is still flowing from these regions to the biggest users, keeping the oil market in check. That said, we have raised the probability of a geopolitical incident in our forecast models, with UK Prime Minister Rishi Sunak speaking of putting the UK's defence industry on "a war footing", Polish Prime Minister Donald Tusk warning that Europe is in a "pre-war" situation and French President Emmanuel Macron saying Europe faces an "existential threat." Meanwhile, the US Senate has approved a $95bn bill to deliver aid to Ukraine, Israel and the Indo-Pacific region.

The big 50% election question

By Haroon Bhorat
Chair: Investment Committee

On Wednesday, 29 May, South Africans go to the polls for their seventh national election since democracy. As is usual in an election year, there has been busy debate and discussion around possible voting outcomes – almost as busy as the number of new parties on the ballot paper! In the graphic below I have tried to be a bit more scientific in my assessment of the key election question: What percentage of the national vote will go to the ANC? The data below synthesizes the outcomes of 11 different surveys run between October 2023 and April 2024 by institutions including IPSOS, the Social Research Foundation and the Brenthurst Foundation. The data show the predicted ANC vote share, with the sample size in parentheses. I have also recorded the predicted turnout, a key driver of results. Surveys that do not report confidence intervals or are not nationally representative (and are thus statistically not reliable) have been excluded.



Notes: Numbers are bar totals, sample size in parentheses. Sources: IPSOS (2023, 2024), Brenthurst Foundation (2023, 2024), Social Research Foundation (SRF) (2023, 2024), Institute of Race Relations (2023), Institute of Justice and Reconciliation (2023) and eNCA (2024)

The headline result is that the average of all the polls shows the ANC recording 40.8% of all votes and 39% at the median. This would be a massive 22 percentage point reduction on average from the 2019 elections and is on trend relative to the municipal elections. The

highest results for the ANC came in the IRR survey of November 2023, with 46.5% of the votes – with the upper bound here at 50%. There does not – at least on this sample – seem to be a correlation between voter turnout and outcome, although not all surveys report turnout shares. Also, survey confidence intervals report a wide range as high as 5 percentage points.

Crucially, the projected ANC share below 50% suggests the ANC will need either a dominant opposition party alliance or a large number of small parties with whom to form a coalition government.

However, surveys closer to the election date will probably be more accurate in voter choice and turnout, and I cannot help feeling that these surveys are too small in sample and may not be sufficiently "spatially stratified" (economist-speak meaning they have not surveyed a representative sample of rural individuals) to capture the actual ANC result. This may under-estimate the ANC returns come 29 May. Bookmark this until early June!

Top-performing Sygnia funds

By Nikita Hadskins
Portfolio Analyst

1-month absolute performance

Rank	1 month	Return
1	Sygnia Itrix New China Sectors ETF	3.0%
2	Sygnia Top 40 Index Fund	2.1%
3	Sygnia Enhanced All Bond Fund	1.9%
4	Sygnia Equity Fund Class A	1.3%
5	Sygnia Enhanced Income Fund	0.9%

For a second month in a row, SA equities and China rebounded in parallel with strong commodity prices. BHP's $39 billion bid for Anglo American, with specific interest in its copper assets, has given the green metal fresh life. Two of Sygnia's Zen funds showed their defensiveness in this volatile month. The Enhanced Income Fund delivered a return above cash.

12-month absolute performance

Rank	12 month	Return
1	Sygnia FANG.AI Equity Fund Class A	53.5%
2	Sygnia Itrix S&P 500 ETF	28.6%
3	Sygnia Itrix MSCI US ETF	26.4%
4	Sygnia Life Berkshire Hathaway Portfolio	23.9%
5	Sygnia Itrix S&P Global 1200 ETF	22.0%

The Sygnia FANG.AI fund continues to steal the show over 12 months, followed by the Sygnia US ETFs, the US-based Berkshire Hathaway Fund and MSCI World (which is 70% US). The common thread is US exceptionalism, a weak rand and strong performance from the FANG stocks.

US – Resilient growth leads to higher-for-longer market price adjustments

By Chanté Burger
Portfolio Manager

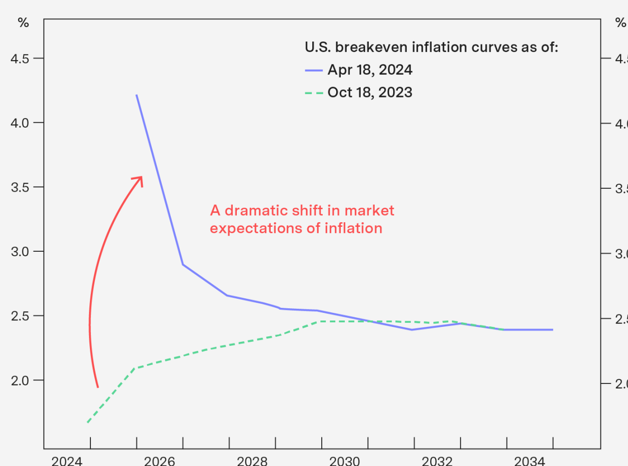
Very strong US non-farm payroll numbers, hotter than expected core consumer price index (CPI) and strong retail sales show the US economy and consumer remain resilient. The markets have priced in only two rate cuts in the US this year, and Fed Chair Jerome Powell signalled that policymakers will wait longer than previously anticipated to cut interest rates. If price pressures persist, he said, the Fed can keep rates steady for "as long as needed".

The dollar strengthened, bonds weakened and US inflation breakeven curves have adjusted dramatically over the last six months (see chart). However, forward-looking indicators suggest inflation will continue to fall, just slower than expected.

Goods deflation is likely to persist or even deepen in the months ahead as China ramps up exports. While job numbers are strong, the labour market is cooling. The employment components of both the ISM manufacturing and non-manufacturing surveys remain below 50, with the latest reading its lowest since May 2020. The structure of employment is also weakening, with the average duration of unemployment increasing and more people working part time. The increase in US immigrant labour has also allowed growth to continue as inflation has fallen. Five states have at least one unemployed job seeker for every vacancy.

US exceptionalism has been driven by significant gains in household net worth since 2021 that have pushed down the personal savings rate and supported the consumer. This is unlikely to change unless equity markets fall significantly. However, the International Monetary Fund (IMF) has criticised US policymakers, saying the country's recent strong performance was partly driven by unsustainable fiscal policy. US spending has been elevated by Covid-related rescue packages and investments in infrastructure and clean energy. As these slow, the US will come off the boil. For now, the US remains exceptional, with its strong economy giving the Fed plenty of room to wait. Our higher-for-longer thesis remains intact and we remain overweight the US, particularly in light of geopolitical risks and US safe haven status.

Dramatic shift in inflation expectations



Source: Alpine Macro

Rest of world growth recovery

By Anrich de Jager
Portfolio Manager

Over the past two years, global manufacturing has been held back by high interest rates, a strong dollar, the Chinese housing bust, the EU energy crunch and Covid distortions. A global manufacturing recovery with such high interest rates is unusual but is supported by four factors: i) continued US consumer resilience; ii) piecemeal Chinese stimulus, with particular focus on manufacturing; iii) supply chain onshoring and friendshoring, which has led to a surge in capital investment in manufacturing as facilities are duplicated around the world; and iv) Covid normalisation as people start spending on goods again. These factors have supported Europe's recovery: the ZEW expectations series for the eurozone and Germany surged and are now both at their highest in 26 months. European Central Bank (ECB) President Christine Lagarde said that output is "recovering and we are clearly seeing signs of recovery". The export dynamics of small open economies are also a good leading indicator of global growth, and the latest Taiwanese and Korean export numbers are consistent with a revival in global trade.

up just over 8% of GDP. This helped China's official manufacturing PMI rebound to a 12-month high of 50.8 in March after being in contractionary territory for five months. China's 2024 Q1 GDP growth exceeded expectations, reaching 5.3% year on year (y/y) and rising from the previous quarter. The surge in external demand was a significant contributor to this growth, as evidenced by a 14% y/y increase in export volume.

US President Joe Biden blasted Beijing as "xenophobic" and vowed to triple tariffs on Chinese steel and aluminium exports amid moves by Congress to ban Chinese-owned TikTok. While threats of tariffs continue, China's automobile exports, which surged last year as the country overtook Japan as the world's top car exporter, actually became more expensive. On average, leading Chinese electric vehicles fetch roughly double in Europe than domestically. However, the property market remains a drag on Chinese growth despite the strong GDP figures.

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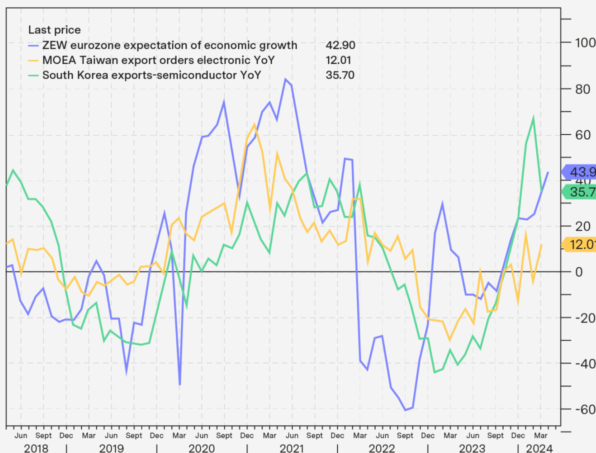
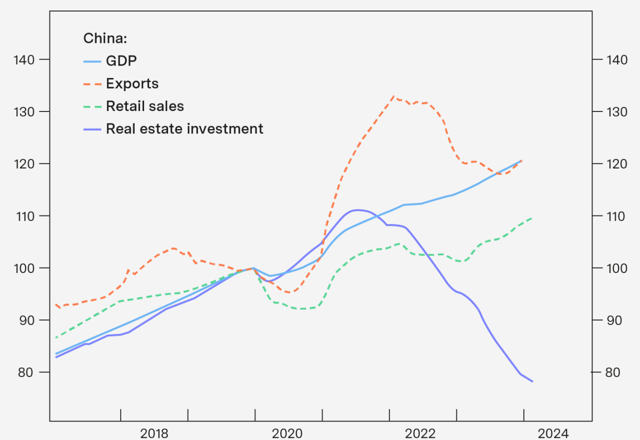
Europe, Korea and Taiwan forward looking indicators suggest a growth recovery



Source: Bloomberg

China's GDP supported by retail sales and exports, while housing continues to detract



Note: All series are shown in real terms and rebased to Dec 2019=100
Source: Alpine Macro

China – Strong GDP growth

By Mish-Al Bassadien
Senior Portfolio Analyst

President Xi Jinping's vision to power China's economy through a major manufacturing drive is showing results. China has poured money into manufacturing, focusing on a "three new" economy that includes digitalisation, AI and the green economy. New energy vehicles, solar cells and lithium-ion batteries were a key export driver in 2023, expanding by a combined 30% and making up close to 18% of gross domestic product (GDP). These sectors have yet to offset the sharp drag from the housing sector, but they will help ease the slowdown as the economy transitions, with property now making

Outlook – A synchronised recovery drives commodity prices higher

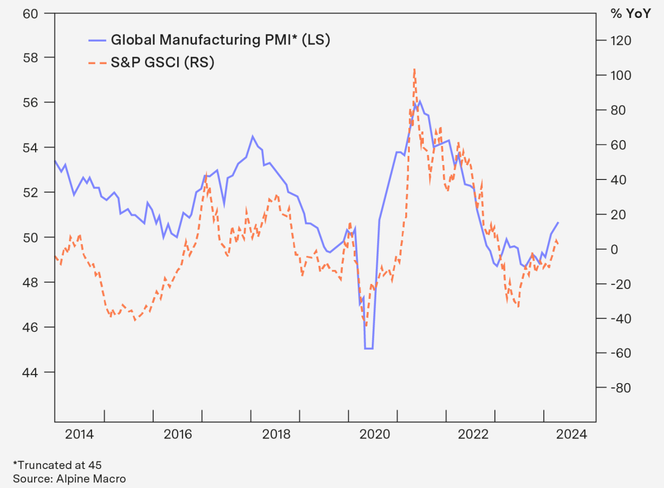
By Iain Anderson
Co-Head: Investments

- The IMF's April 2024 World Economic Outlook paints a picture of sluggish global growth, forecast to remain at 3.2% in 2024 and 2025.
- This differs from the synchronised manufacturing recovery evident across Europe, Japan and emerging markets, which has driven up commodity prices – copper is at its highest value since

June 2022, zinc is at its highest level in a year and gold recently reached a new high. China is important for commodity prices, importing more than half the world's zinc, nickel, steel, copper and aluminium.

- A global manufacturing recovery is usually bearish for the dollar, as the rest of world growth is more sensitive to global trade.
- However, the US dollar is unlikely to weaken while the Fed lags other central banks in easing policy. The Swiss National Bank has already cut rates, and inflation in the Swiss economy has dropped to below 1%. Canada is likely to cut in June, with core CPI targeted at 2%. The ECB has also signalled it will ease in June. The Fed's delay has had different impacts on central banks. Lagarde said that the ECB is data dependent, not "Fed dependent", while Swedish Deputy Governor Per Jansson suggested that the Riksbank is "Fed dependent".
- Higher-for-longer US interest rates and rising geopolitical risks are likely to keep the dollar and US economy relatively strong for longer. So we remain focused on the US despite the green shoots in the rest of the world and the commodities recovery.

Synchronised recovery could drive commodities higher and the dollar weaker



*Truncated at 45
Source: Alpine Macro

Key indicators

		1 mo.	3 mos.	6 mos.	1 yr.	2 yrs.	3 yrs.	5 yrs.	10 yrs.
J203T	**FTSE/JSE All Share Index**	3.0%	3.7%	11.4%	1.1%	6.7%	8.8%	9.4%	8.1%
J200T	**FTSE/JSE Top 40 Index**	3.2%	4.5%	11.5%	0.0%	7.3%	8.9%	9.9%	8.3%
J210T	**FTSE/JSE Resources 10 Index**	7.1%	14.7%	12.8%	-8.2%	-6.8%	1.7%	11.3%	5.0%
J211T	**FTSE/JSE Industrials 25 index**	1.4%	3.7%	13.6%	1.5%	17.1%	9.2%	9.6%	8.8%
J212T	**FTSE/JSE Financials 15 Index**	2.7%	-1.8%	9.5%	12.0%	6.7%	16.2%	4.3%	6.6%
J403T	**FTSE/JSE SWIX Index**	3.0%	3.6%	12.1%	2.3%	5.3%	6.5%	6.4%	6.7%
J433T	**FTSE/JSE Capped SWIX Index**	2.9%	3.5%	12.1%	2.4%	5.1%	8.2%	7.2%	6.5%
J303T	**FTSE/JSE CAPI Index**	2.9%	3.6%	11.4%	1.3%	6.2%	9.4%	9.8%	8.1%
J253T	**FTSE/JSE SA Listed Property Index**	-0.6%	-0.8%	23.8%	13.7%	8.3%	9.6%	0.0%	2.8%
ALBI	**JSE All Bond Composite Index**	1.4%	-1.2%	5.8%	6.8%	6.6%	7.2%	7.2%	7.8%
STeFI	**STeFI Index**	0.7%	2.0%	4.2%	8.5%	7.3%	6.2%	6.0%	6.5%
	MSCI World Index in SA rands	-4.2%	4.9%	21.2%	22.3%	20.8%	15.3%	16.8%	15.4%
	Rand/US dollar exchange rate	-0.5%	1.3%	0.5%	3.0%	9.1%	9.1%	5.6%	6.0%
	Rand/euro exchange rate	-1.5%	-0.3%	1.6%	-0.2%	9.9%	4.9%	4.6%	3.3%
	Rand/pound exchange rate	-1.4%	-0.4%	3.7%	2.6%	9.0%	5.5%	4.8%	2.9%
	Headline CPI	0.8%	1.9%	2.7%	5.3%	6.2%	6.1%	5.1%	5.0%
	PPI	1.1%	1.7%	1.5%	4.6%	7.6%	9.0%	7.1%	6.0%