



# Coiled springs

BY MIKE ADSETTS

Chief Investment Officer at Momentum Investments

Taking my mind back to the start of the year and reflecting on the state of the world and markets, the analogy of a coiled spring comes to mind. From a geopolitical perspective, there was the tension of the Russia-Ukraine war and the hope that the Ukrainian Spring offensive would create a potential pathway for negotiating. Inflation was coming down, albeit slowly, and interest rates were increasing, creating both opportunities and risks across the investment spectrum.

Locally, the South African (SA) government was determined to buckle down and score as many own goals as they could. Something that talks to the dire nature of SA politics, infrastructure, and the state of our state-owned entities. On the bright side, corporate SA had relatively healthy balance sheets and there was a good valuation underpin to SA asset classes, despite the difficult economic environment.

As the year progressed, instead of an opportunity for the spring to bounce back, it unfortunately coiled even tighter. The conduct of the SA government abroad, the Lady R fiasco, together with the potential of the Russian President, Vladimir Putin, coming to SA for the BRICS summit, brought into question the country's official non-aligned position, risking a global political and economic backlash that we can ill afford to be exposed to.

Recently, the Middle East has once again become a geopolitical mess, with the unfolding tragedy in Israel and Gaza bringing untold misery to the people in that part of the world. In addition, the conflict is undoubtedly sowing the seeds of another generational cycle of hate and violence between Palestinians and Israelis. Brand America has also been tarnished as the human tragedy escalates and they appear unable to positively influence their regional partners.

This backdrop has all cumulated into a higher-for-longer view on interest rates. Although inflation is

easing, it is doing so more slowly than anticipated. There is also the very real risk that local conflicts in the Middle East escalate into becoming regional conflicts and pitting established and emerging powers against each other. Here we need to be mindful of the posturing between global powers, such as the USA and China, as well as regional powers such as India, Russia and Iran. The world seems to be fragmenting into regional spheres of influence, with high stakes and a lot of political uncertainty.

The spring has therefore coiled tighter during the year, raising the question of whether there is now so much tension that it breaks, or at some point bounces back.

**"The spring has therefore coiled tighter during the year, raising the question of whether there is now so much tension that it breaks, or at some point bounces back"**

Although there is a huge amount of risk in the system, there are also real positive indicators that there is a reasonable pathway to more stability ahead. Global growth, although under pressure, has been more resilient than expected. Inflation, although sticky, is on a gentle downward trajectory. As the world has come to grips with the harsh realities of what war looks like – with our digital age bringing us unedited views of its full human cost – the appetite for prolonged conflict is waning. Hopefully cooler heads and realpolitik start to unravel the current crises.



Under this scenario, we would be close to or at the top of the interest rate hiking cycle around the world. As interest rates start to come down, this would be the trigger to release the tension in our anecdotal spring.

So, with this context, how do I think about the investment opportunity set over the last year and looking forward? Despite the economic and political backdrop, as well as extreme volatility, global equity, as well as shorter-duration fixed interest assets, provided reasonable returns. Looking forward, local growth asset classes, as well as selected global growth asset classes and longer-duration fixed interest investments, should benefit as the interest rate cycle rolls over. The question of when this happens is a big one and there is no certainty when exactly we see this happening.

So, from a portfolio management perspective, the best approach is to have a well-diversified portfolio across asset classes that matches with your investment duration and has a level of growth asset exposure that, in the long run, matches your growth objective.

This is exactly how we manage our portfolios at Momentum Investments, because with us, investing is personal.

*Momentum Investments is part of Momentum Metropolitan Life Limited, an authorised financial services (FSP 6406) and registered credit (NCRCP173) provider.*