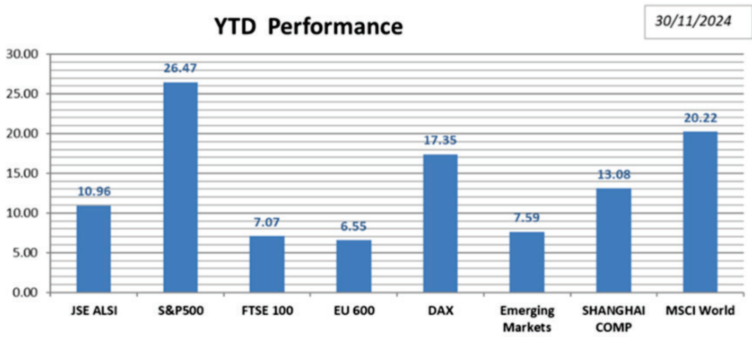
Wood for the Trees

November 2024

With the end of the year fast approaching it's a good time to look back at what has proven to be a great year for equity returns despite all the geopolitical events that have unfolded in 2024.

Global stock markets have given investors reason to cheer with the S&P 500 up 24% year-to-date (YTD). Technology stocks initially drove the market, but leadership broadened in the latter half of the year.



Numerous factors have contributed to this year's strong returns; AI continues to be a major secular growth driver with significant investment being made by the big tech companies as they race to be first to market. This investment has propelled a step change in earnings growth for many in the technology space, driving their stocks to new highs. The US Fed finally got inflation under control, allowing them to begin the rate cutting cycle in September with a 50bps cut. The onset of rate cuts saw multiple expansion as investors began to price in lower discount rates and faster earnings growth. Adding to the positive momentum in US stocks was the positive progression we have seen in earnings growth from US quarterly reports – recovering from low single-digit Y/Y growth in 2023 to low double-digit growth in 2Q24, with expectations for 4Q earnings growth to continue in the double-digit range. Looking to 2025, earnings growth for S&P 500 companies is expected to accelerate to mid-teens growth.

While European markets have lagged due to economic growth concerns, Asian markets got a boost in September as China announced stimulus measures in order to stabilize the lagging Chinese economy. Investor optimism drove the Chinese indices up almost 30% in September alone.

Locally, interest in domestic equities is seeing a revival, with SA Property (22%), Financials (17.5%) and Consumer Discretionary names all delivering great performance YTD. Optimism in the National Government of Unity, the specter of interest rate cuts, falling inflation, and an improving SA consumer environment, spurred a rally in cyclical stocks. Of note, we have seen a very strong rally in the small and mid-cap primarily domestic focused names such as Sun International, Raubex, Advtech, etc.

Away from the equity markets, Trump and the Republican Party took the presidency as well as a clean sweep across the Houses of Congress; essentially giving the Republicans carte blanche to enact their policies. While Trump only takes office on the 20th of January next year, there is a lot of rhetoric as to his intended path of leadership. It remains to be seen if some of his more dramatic plans are implemented. He does seem to have nominated some safe hands to lead the most important offices of government; case in point is the appointment of Scott Bessent as US Treasury secretary. Bessent comes with a much more moderate and gradualist approach to tariffs than Trump's public comments. Consensus seems to agree Trump's intended policies will be pro-growth but inflationary and more than likely support dollar weakness as they would likely lead to a widening fiscal deficit. With this in mind, the rate markets are currently pricing in a shallower interest cutting cycle than outlined by the Fed at their November meeting.

We dive into more detail later in the note, looking at the potential impact of some of the proposed policies on global stock markets. In a similar light, we also investigate any potential impact from Trump polices on South Africa.

In South Africa, the GNU remains in place and is operating in relative harmony, despite views from some commentators who gave it little prospect of longevity. Eskom continues to operate without any hiccups and operation Vulindela has now turned its focus on finding a solution for Transnet. As the saying goes "you eat an elephant one small bite at a time". S&P Global ratings surprised the markets in November with an unexpected upgrade in outlook for South African debt, from stable to positive. While S&P maintained their sub investment grade rating on SA debt, they did acknowledge things are moving in the right direction with the budget deficit under control and Debt-to-GDP stabilizing in the upper 70% range, versus previous estimates of 90%. Needless to say, it provided a nice hat tip, supporting the general optimistic sentiment that GDP growth could grow above 2% in 2026 and beyond. With transport costs declining, food inflation softening, interest rate cuts and R50bln already released from the 2-pot pension regulations, SA consumers remain well placed for a bumper December trading season.

Looking forward, South Africa listed stocks have two powerful drivers for returns; valuations remain very attractive as well as the likelihood of earnings growth accelerating as the pieces of the puzzle begin to fall into place.

As mentioned in previous correspondence, one of the sectors we view as being a big beneficiary of the factors noted above is the Consumer Discretionary segment. We have worked diligently to add exposure to this sector, taking new positions in The Foschini Group and Boxer. We highlight our thesis for both stocksI hope you enjoy this month's Wood for the Trees

International Section

By the Numbers

Global equities saw a strong rebound after Donald Trump won the U.S. Presidential Election; driving the S&P 500 (+5.7%, +26.5% YTD) and Nasdaq (+6.2%, +28.0% YTD) to record highs during the month. Recession fears remain at bay as the economy and labour market remain resilient.

Tesla (+33.8%) rallied as one of the most prominent "Trump Trades" and is expected to benefit from an easing in regulation around autonomous driving. The ties between Elon Musk and Trump is also an added benefit. Warner Bros Discovery (+39.4%) reported better-than-expected Q3 EPS, with management also expressing interest in M&A for their portfolio of assets. On the earnings call, the CEO hinted that a second Trump presidency will be helpful for M&A activity.

On the other hand, Moderna (-20.8%), Regeneron (-18.4%), and Biogen (-13.0%) moved lower after Trump nominated pharma critic Robert F. Kennedy Jr. as head of the Department of Health and Human Services.

In Europe and the UK, we see a divergence from the U.S. as economic indicators point to a weaker outlook – EU 600 (+1.4%, +6.4% YTD), FTSE 100 (+2.2%, +7.2% YTD). Sage (+30.9%) surged to an all-time high as profit margins expanded on strong cloud software sales and noting good momentum into next year. On the other hand, JD Sports (-20.0%) issued a profit warning for FY25 over weak consumer demand leading to discounting.

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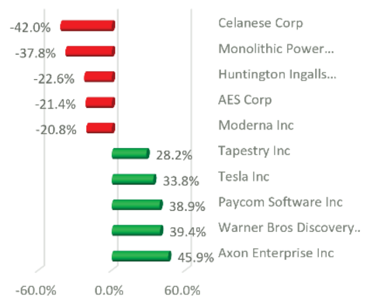
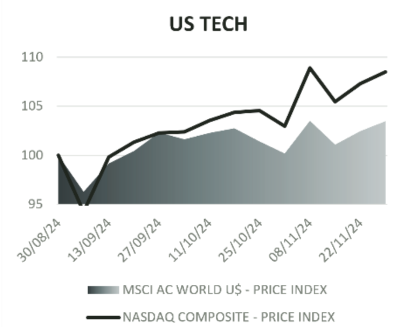
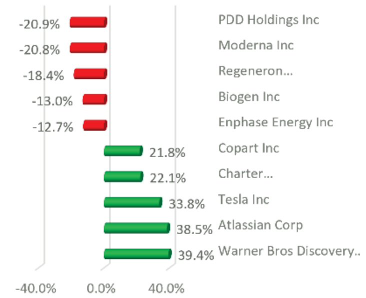
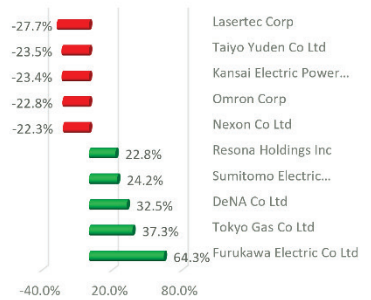
LAST QUARTER IN USD

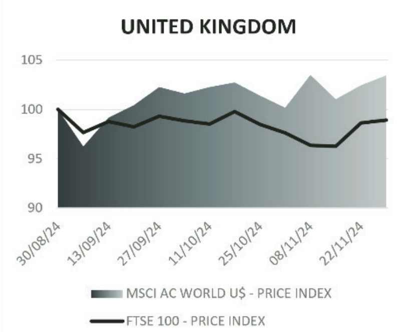
1 MONTH UPS AND DOWNS

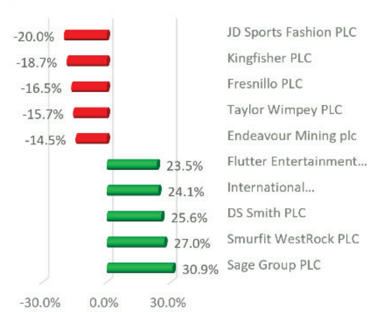


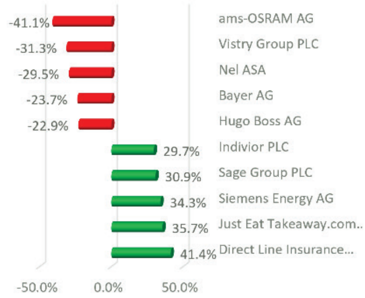


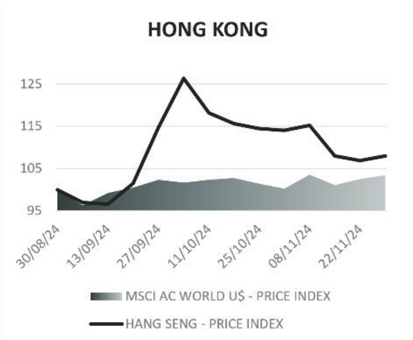


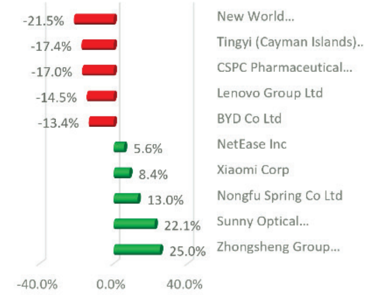


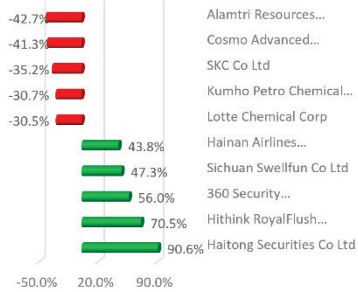












Trump 2.0

With the outcome of the U.S. election behind us, we now look ahead to see what a second Trump presidency might entail for equity markets. We analyze what worked during Trump's first presidency and how Trump 2.0 might be the same or different this time round.

Trump's policy agenda – from tariffs, tax cuts, to deregulation – carries risk and rewards for different sectors. Furthermore, with both the House of Representatives and the Senate controlled by Republicans, there is a strong possibility that Trump's pro-business agenda will be favoured. However, the scope and timing of policies is far from certain. It's important to highlight that these policies still need to be inspected, molded and approved by the gatekeepers before it comes to pass. The elected Heads of Departments include pro-business minds who are likely to be more thoughtful and reticent to support policies that may hinder growth.

Trump's nominee for Treasury Secretary, Scott Bessent, is seen as a stable hand in Trump's administration; reducing the likelihood of extreme tail risks for the markets and softening the edges of Trump's more bombastic policies.

In the days following the election outcome, we saw markets run the same playbook as President Trump's first win in 2016. We saw the dollar strengthen, treasury yields rise, and U.S. equities outperformed non-U.S. equities. The same large cap sectors also outperformed as in 2016: Financials, Industrials, and Energy.

	8 Nov 2016 – 31 Dec 2016	5 Nov 2024 – 3 Dec 2024
Financials	16.3%	8.8%
Industrials	6.9%	5.0%
Energy	8.7%	4.8%
S&P 500	**4.6%**	**4.6%**

In a broad context, standing to benefit are the sectors that favour Republican pro-business policies such as tax cuts, deregulation, or a reduction in green energy initiatives. On the other hand, sectors that could be affected by shifts in trade policy, immigration, and healthcare reform are likely to face some headwinds.

Trump's proposed policies will have an impact across the different sectors:

Financials

Trump's second term is expected to usher in lighter regulation. This will reduce the required capital that banks need on their balance sheets and allow for more flexibility in lending or investing – increasing liquidity in the market and fostering economic growth. A reduction in red tape will also allow for a more business friendly market, positive for mergers and acquisitions (M&A), supporting capital markets activity in investment banking.

Energy

Trump's catch phrase "drill, baby, drill" has implied a bountiful approach to oil production. However, regulation takes time to be repealed. Additionally, with the price of oil below $80 a barrel, oil companies are less likely to increase production. We're less concerned that there is additional supply coming to market.

Outside of the U.S. Trump is expected to enforce the sanctions already applied to Iran and Venezuela; removing up to 1 million barrels of sanctioned oil per day from the market. Tighter supply is bullish for the price of oil.

Technology

The tech space is dominated by large, very profitable companies with an appetite for M&A. Trump's stance of reduced corporate tax, deregulation and friendlier M&A environment, supports the tech space.

Trump is expected to replace the Federal Trade Commission (FTC) chair with a more business-friendly chief regulator. The current FTC chair has gone after big tech, trying to break up companies. In October 2024, Trump warned that breaking up companies can be "a very dangerous thing because the U.S. does not want to lose out to China on having great tech companies."

Over the last eight years, there has been pressure to bring production back to the U.S. instead of China. This is likely to continue in Trump's second term.

Regardless of the president's agenda, performance comes down to fundamentals and Tech remains in good shape. The U.S. economy is growing, earnings growth is solid, and tech companies continue to leverage disruptive innovation like AI – this ultimately drives long-run equity returns.

Auto's

In August, we gave a brief description of the 10 potential policies that could be set out by both parties. Referring to that note, Trump's aversion to EV's could create some headwinds for EV producers, as he plans to remove the targets/requirements for EV sales. Slowing EV penetration could drive increased Internal Combustion Engine (ICE) vehicle sales. This in turn, will lead to higher-than-expected PGM demand growth as ICE vehicles are the largest PGM end market.

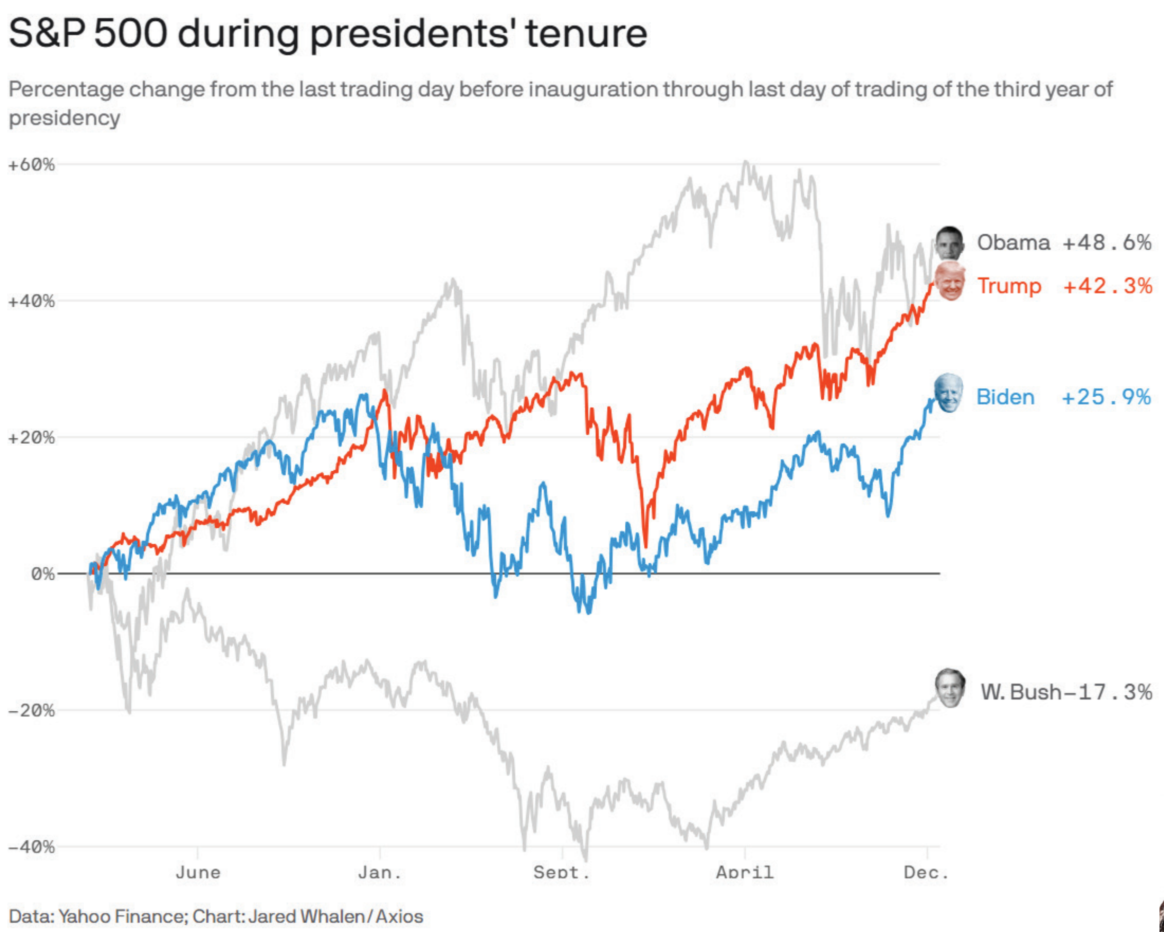
Tariffs and trade conflict could pose threats to the auto industry, since the U.S. relies heavily on other nations to manufacture cars and parts. Consequently, affecting the cost and availability.

Health Care

Trump's nominee for head of Department of Health and Human Services, Robert F. Kennedy Jr. has a record of criticizing vaccines as well as taking on food and drug companies who have engaged in deception or misinformation. Trump has said that Kennedy will "Make America Great and Healthy Again."

Cuts to Affordable Care Aid (Obamacare) are also likely on the table in order to reduce government spending and raise money for a tax-cut package. Publicly listed health companies might be affected by lower volumes or consumers who face higher health care premiums. Medical tech providers – especially those that supply electronics with semiconductors sourced from China – could be burdened by tariffs.

More positively, deregulation might help certain pharmaceutical companies which may benefit from faster approvals from the FDA.



Ultimately, the market has performed well under all three previous presidents. There is no reason to believe that the market can't navigate another four years under Trump's leadership.

Looking at the past, markets don't favour a specific party – Republican or Democratic. While headlines and investor sentiment may influence short-term market movements, fundamentals continue to drive long-term market performance. Factors such as inflation, economic growth and the Fed exert more influence on market performance than election cycles.

By the Numbers

In November, while global markets rallied, emerging markets underperformed, with the ALSI declining 1.0% for the month but remaining up 9.9% year-to-date; property led sector gains (+1.1%), followed by financials (+0.2%), while retailers (-2.4%) and resources (-6.6%) weighed on performance. Industrials, on the other hand, were flat for the month.

Property sector gains were led by MAS (+12.6%) after the company announced it had entered into negotiations to acquire Prime Kapital's 60% interest in DJV, which, if successfully concluded, would grant MAS full ownership of high-quality commercial assets while also enhancing its credit rating prospects, debt access, and simplifying its corporate structure. Hyprop (+8.4%) delivered a pre-close operational update highlighting improving fundamentals and plans to review its dividend policy with the aim of progressively increasing the payout ratio. RDF (-10.3%) reported FY2024 results in line with expectations, highlighting ongoing operational improvements and solid NOI growth. The shares went ex-dividend on 27 November, resulting in ~ 5% pullback.

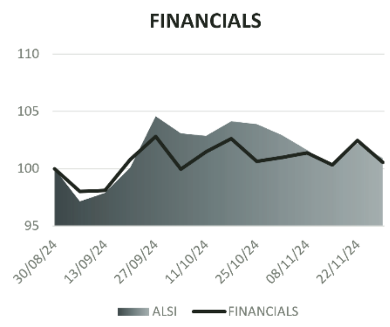
In the financial sector, insurers led gains with Discovery (+8.1%), OUTsurance (+6.8%), and Momentum (+6.2%), while Transaction Capital fell 11.6% following a disappointing trading statement forecasting a headline loss per share for FY2024.

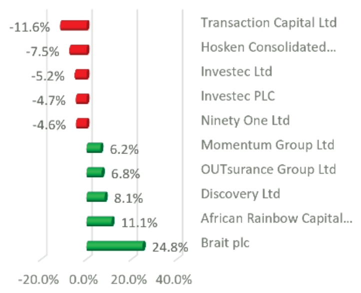
Telkom (+27.5%) was one of the top performers this month after a voluntary trading statement and results revealed a 57.5% increase in headline EPS, which was a significant beat on consensus expectations. Super Group (+22.6%) surged following a cautionary announcement on November 25, disclosing that its Australian unit, SG Fleet, is being targeted for acquisition by Pacific Equity Partners in a deal valuing the unit at approximately R20 billion. PPC (+18.2%) saw a significant increase after releasing interim results that marked the start of the second phase of its strategic turnaround, described as an effort to "awaken the giant". Despite strong operational performance in other regions, ANH (-14.4%) came under pressure after its 3Q results on 31 October, which revealed weaker-than-expected performance in China.

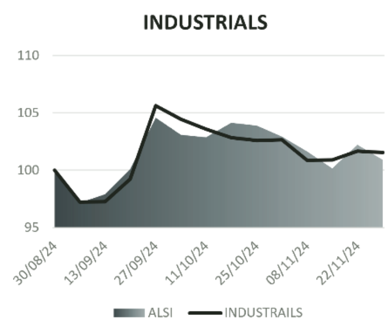
Retailers had an exceptional month, boosted by improving consumer sentiment and the exciting IPO of Boxer (+24.1%) on 28 November, which opened above R60 — 20% higher than the R54 offer price. PIK (+15.8%) also benefited from this success. Pepkor (+15.8%), Foschini (+13.6%), and Mr Price (+10.3%) reported strong post-period trading, signaling a rebound in consumer spending and improved margins, while Lewis (+15.6%) reported a strong result with improved credit book quality. The weaker performance in Truworths Africa and Woolworths' fashion division led to share declines of 9.2% and 5.7%, respectively.

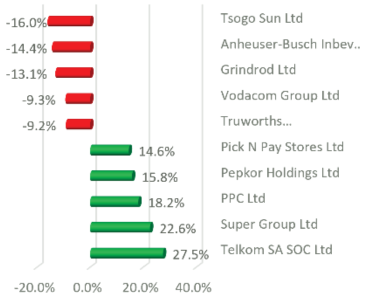
The resources sector retreated, giving up most of October's gains, with Montauk (-23.7%) leading the losses, followed by PGM stocks Amplats (-23.6%), Northam (-22.8%), and Sibanye (-22.2%), which were pressured by cautious investor sentiment and falling PGM prices. Gold stocks, including DRDGold (-19.7%), also declined as the gold price retreated from November's record highs.

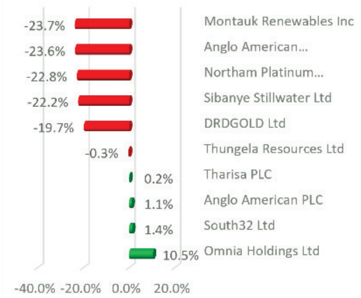
LAST QUARTER IN ZAR | **1 MONTH UPS AND DOWNS**

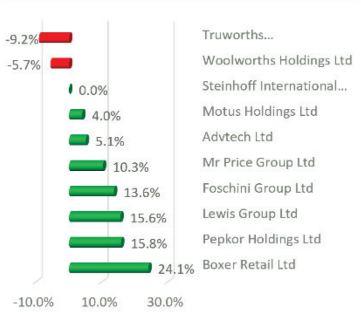


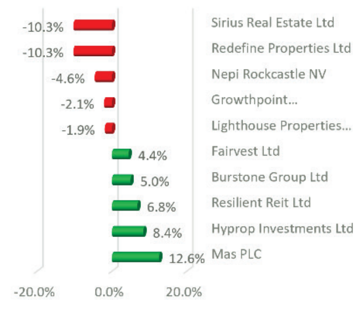


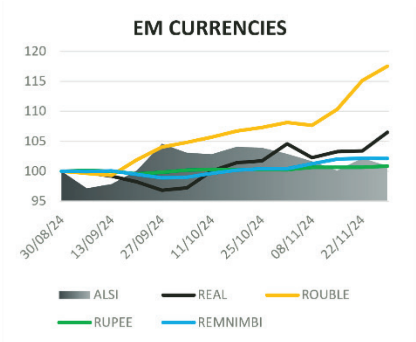












South Africa First for Trump's Second Term

We examine the potential impact of Trumponomics 2.0 on the South African economy. To this end, we unpack the various economic and financial channels through which Trump's economic policy could affect our investment universe in the immediate term.

In our view, the performance of South Africa's assets will be driven primarily by domestic factors. Local valuations, even after the recent rally, offer a low base for what we think is a broad and multi-layered opportunity set to drive outperformance. Additionally, foreign exposure to our assets remains at multi-year lows, greatly reducing the risk of incremental, event-driven outflow, in our view. Dramatically easing financial conditions and the green-shoots of a potentially trend-changing structural reform program underpin our bullish South African view.

In our base case, Trump's policy goals could lead to a re-ordering of global trade relationships, with spending and demand patterns shifting, rather than becoming constrained. The global economy has demonstrated resilience through the tariff regimes of both the first Trump administration, and the Biden administration. We expect this to continue, though perhaps with a different set of winners and losers. The possibility of a volatile pathway to these outcomes warrants a look at the areas of our economy potentially most affected.

Looking at demand for our goods and services, there are two channels through which we could be impacted: AGOA and the knock-on impacts of a general global tariff war.

The African Growth and Opportunity Act (AGOA) promotes economic growth and development in Sub-Saharan Africa, by providing eligible countries duty free access to the US market for thousands of products. AGOA only represents around 2.5% of South Africa's global exports. However, South Africa's automotive industry and agriculture sector is reliant on AGOA to compete effectively in the US. Our eligibility for upcoming renewal may directly depend on any bilateral issues we may have with the US on the Russia/Ukraine war and the conflict in Israel/Palestine.

In the event of a global tariff/trade war ensuing, we could see softening global demand for our basket of mineral exports, negatively impacting our economy. Conversely, an increased focus on oil and gas production from the Trump administration would serve to keep a ceiling on global energy prices, allowing us to access refined petroleum – our biggest import – without negatively contributing to our inflation outlook.

The demand for our financial assets is the area most impacted by the changing of winds brought about by Trumponomics policy, in our view. Due to our standing as an emerging market currency proxy, rand volatility tends to spike when the market oscillates between risk-on and risk-ff mode. However, looking at the spectrum of South African risk-assets we see reason for optimism. Our precious metals, and rand-hedge names are likely to provide ballast to portfolios in a global risk-off scenario, though our China-exposed resources would be negatively affected by a flare-up in US-China relations. We think the SA-exposed sections of the local equity index will trade more on bullish local fundamentals, though perhaps at slightly contracted valuation multiples. Our platinum sector potentially stands to benefit, in the event of a rolling back of the US electric vehicle agenda, which we see as likely.

On the global trade front, the counter to any trade-war, could be falling global demand which has the ability to solve our logistics issues. This would potentially enable us to claw back previously lost market share, even in the event that global trade volumes fall. Ramaphosa and Putin have a good relationship that could be leveraged to gain favour with Trump; aiding our cause. It is also important to note that any radical policy changes in America are likely to take time to implement, despite the Republican sweep.

Therefore, it is our considered view – as reflected in our equity positioning – that performance on the JSE will depend first and foremost on the GNU executing on its self-help agenda which is underpinned by a more favourable trading environment. Were we to achieve this, it could distinguish our economy as a standout among the emerging market peer group. Therefore, we remain bullish on prospects for SA Equities, with a leaning stance toward cyclical local names, which we juxtapose with a selection of defensive rand-hedge names.

The Foschini Group – Dress for Success

The recent rally in SA equities has raised questions about remaining opportunities, particularly within the retail sector. While valuations have adjusted with multiples expanding, we are of the opinion that consensus earnings estimates remain low having not adjusted for the changing economic climate in SA. This presents the potential for earnings to surprise on the upside, creating an attractive entry point into a quality growth retailer at current levels.

Consensus Lagging the Market

The SA context has seen a step change for the better, marked by the formation of the GNU, suspension of loadshedding, progress at Transnet, implementation of the two-pot retirement system and a decreasing interest rate cycle. This led to an initial boost in the local market, with valuations and multiples expanding from a low base. Further expansion will require structural support for earnings growth over time – in other words sustainable GDP growth in South Africa.

Economists are now forecasting GDP to reach the 2% mark by 2025 with some (including the Government and private business) entertaining the possibility of 3.3%. While over 3% in 2025 remains a stretch in our opinion, 2% is not, given South Africa's more optimistic economic outlook.

Despite this positive outlook, analysts remain cautious in earnings upgrades until evidence of this new growth environment is seen in the numbers. Additionally, the extent of the potential uplift and how it will

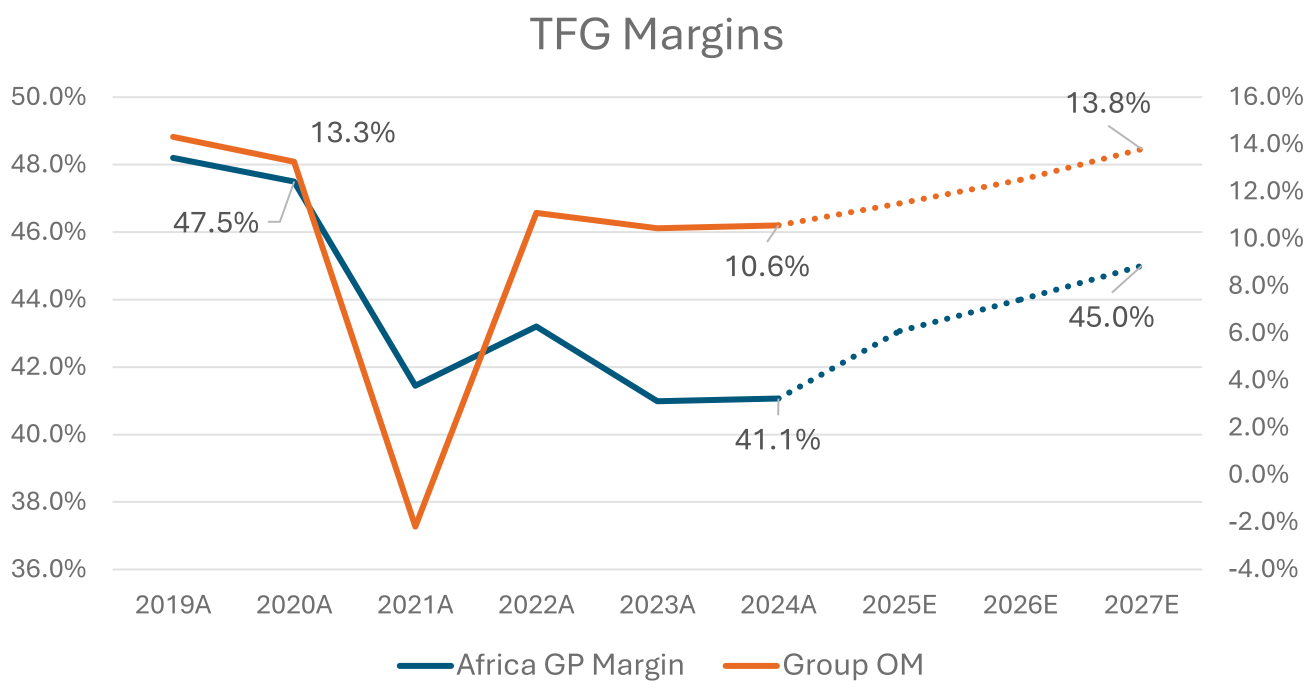
translate into company earnings remains murky. As a result, current consensus expectations do not fully account for the positive GDP impact on future earnings. The suspension of loadshedding and withdrawals from the two-pot retirement system (R21billion in less than two months) are two factors that alone could have an immediate impact on earnings.

While consensus expectations are likely to adjust over time, we want to position ourselves accordingly ahead of any upgrades. Given their sensitivity to the economic climate, we are increasing our exposure to the retail sector.

TFG - All about the Margins

Within the retail sphere, TFG offers an attractive entry point relative to the balance of the sector, with its story hinging on the recovery of margins.

Margins across the sector were squeezed by loadshedding, port delays and a softening in the market over the past two years. Peers were able to recover margins quicker, while TFG lagged and disappointed the market as a result. However, in its latest trading update, TFG management indicated an improvement in margins despite soft topline growth. In addition, we are of the opinion the change in the environment will provide further support for margin recovery. Despite this, consensus expectations remain cautious, creating the potential for TFG to surprise on the upside.



The Foundations are Ready to be Built Upon

Historically, and at present, TFG has been one of the higher capex spenders in the apparel retail sector. Most recently, integrating Tapestry and Bash effectively into their operations has been a major focus. The sustained capex over the past few years is expected to provide TFG with a competitive advantage; positioning them incrementally better than peers and enabling market share gains as a result. Ultimately, with the operating leverage already in place, TFG is placed to capture growth when the environment turns.

Room to Move

In our opinion, the risk-adjusted return profile for TFG is skewed to the upside and presents an opportunity to increase our exposure to consumer cyclicals.

Based on conservative estimates as well as assuming margin expansion materializes in line with management guidance, our EPS expectation for FY25 and FY26 is R11.88 and R13.75. We have a target price of R175 on TFG; representing a 17% upside from current levels. The market appears to be pricing in a much tougher FY26 than our conservative estimates suggest, providing an attractive margin of safety.

It is important to note that while we are using a historic 10yr PE multiple for our valuation, the expected upswing in our economic growth trajectory may warrant a premium multiple, relative to history. Such an expansion would see our target price rerate.

Time to Take a Position

All factors point to a strengthening consumer environment in South Africa. TFG remains ahead of the pack in terms of capex spend but offers a more attractive entry point given the market's concern over its ability to increase margins. Across the sector, consensus earnings expectations have yet to adjust upward to account for a stronger growth environment. We feel there is opportunity given the potential for earnings to surprise on the upside and have added TFG to our General Equity portfolio to take advantage of this.

Boxer IPO – Ready to Rumble

The highly anticipated listing of Boxer (Ticker: **BOX**) is drawing closer, with the share expected to debut on the JSE on **28 November 2024**. The excitement surrounding the listing is undeniable and arguably justified with Boxer being the first JSE listing in many years offering an enticing growth trajectory.

Against the backdrop of Pick n Pay's (**PIK**) restructuring efforts and Spar's (**SPP**) recovery, Boxer positions itself as a strong contender in the retail sector. As an existing player, Boxer pinpoints the fast-growing food segment, currently dominated by Shoprite (**SHP**), and plans to take advantage of any unpenetrated low LSM market space to capture strong earnings growth.

Aiming to double revenues by 2030 fueled by an aggressive store roll out, Boxer will be expanding into existing and new territories. With virtually no debt and a management team energized to expand and unlock shareholder value, which had previously been trapped in the PIK structure, Boxer enters the market as a top tier growth story and a stock to watch.

Well-Priced Offer

The highly anticipated IPO presented an offer price range of between **R42-R54 per share**. Multiple times over-subscribed, the result of the IPO saw Boxer pricing at the top end at R54 per share. In our opinion, this price is fair and, depending on the multiple applied, could represent a **6% to 20% upside** based on our analysis.

Our valuation, based on the medium-term guidance provided by management, estimates a fair value of **between R57.16 and R65.33 per share** using a multiple range of **21x-24x**. Shoprite trades around 21x but with the growth potential embedded in Boxer and the overwhelming market interest in the stock, a premium multiple may be appropriate.

PRICE SENSITIVITY TABLE*

		FY27 EPS Estimate				
		3.30	**3.40**	**3.50**	**3.60**	**4.00**
P/E	**18x**	44.91	46.28	47.64	49.00	54.44
	19x	47.41	48.85	50.28	51.72	57.47
	20x	49.91	51.42	52.93	54.44	60.49
	21x	52.40	53.99	55.58	**57.16**	63.52
	22x	54.90	56.56	58.22	59.89	66.54
	23x	57.39	59.13	60.87	62.61	69.57
	24x	59.89	61.70	63.52	**65.33**	72.59
	25x	62.38	64.27	66.16	68.05	75.61

*Price discounted at risk free rate

The decision to buy, hold or sell this position will be guided by the market reaction on and following listing day Thursday 28 November. We will be watching the market's reaction with anticipation and excitement, with our next steps guided by market conditions.

This disciplined approach ensures we remain focused on value-based investing, avoiding overpayment in an exuberant market environment while capitalizing on potential opportunities

Conclusion

As we head into December and the holiday season, the team at NVest Securities wishes everyone a happy and safe festive period.

We will be working hard on our 2025 outlook strategy, what we can expect for the next 12 months, and how to be positioned to deliver the best risk-adjusted returns for our clients.

We look forward to sharing this with you in January and February 2025