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# Global Equity Outlook – a prudent way to invest offshore

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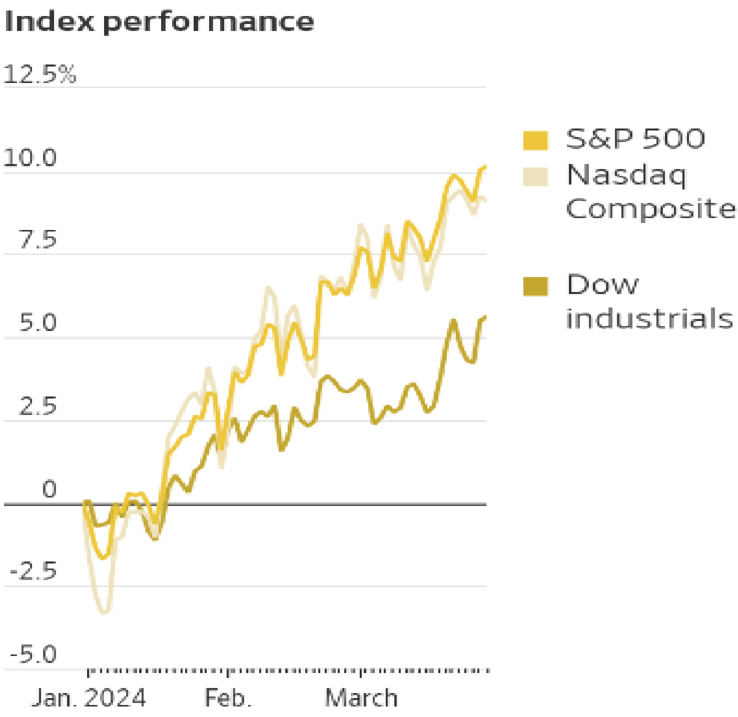
During the first quarter of 2024, US stock market bulls dominated. The S&P 500 rose 10.2%, boosted by the following tailwinds:

1. The US economy avoided any recession, and inflation is likely to fall below 3% soon.
2. Federal Reserve signalled interest rate cuts are likely by mid-year.
3. Tech stocks continue to gain on the back of AI sentiment.

US markets have gained over 20% since last October 2023. This latest quarter reflects the second consecutive strong positive quarter.

It is the best US start to a new year since 2019. European markets have also rebounded strongly - approaching similar double-digit gains in 2024.

Sadly, many investors do not achieve such gains – as the vast majority of US & Global fund managers continue to underperform well known index benchmarks such as the S&P 500 and MSCI World. See the tables and analysis below.



Source: FactSet

## 2024 Highlights so far

The US economy recently saw GDP data revised up for the fourth quarter of 2023. US Consumer confidence has risen to its highest level in 3 years.

Enthusiasm for US stocks is tied to an economy escaping any possible recession. Along with the Federal Reserve soon pivoting to interest rate cuts, with inflation expected to fall below 3%. US Manufacturing has expanded for the first time since 2022, and Inflation is expected to dip below 3%.

Wall Street wrapped up a winning March, extending its rally for 5$^{th}$ straight month. The Dow Jones is now within striking distance of 40,000.

While some US Big Tech firms like Nvidia have driven stocks to new records, stock-market gains are broadening out. The MSCI World Index has rallied 17%+ over the past year.

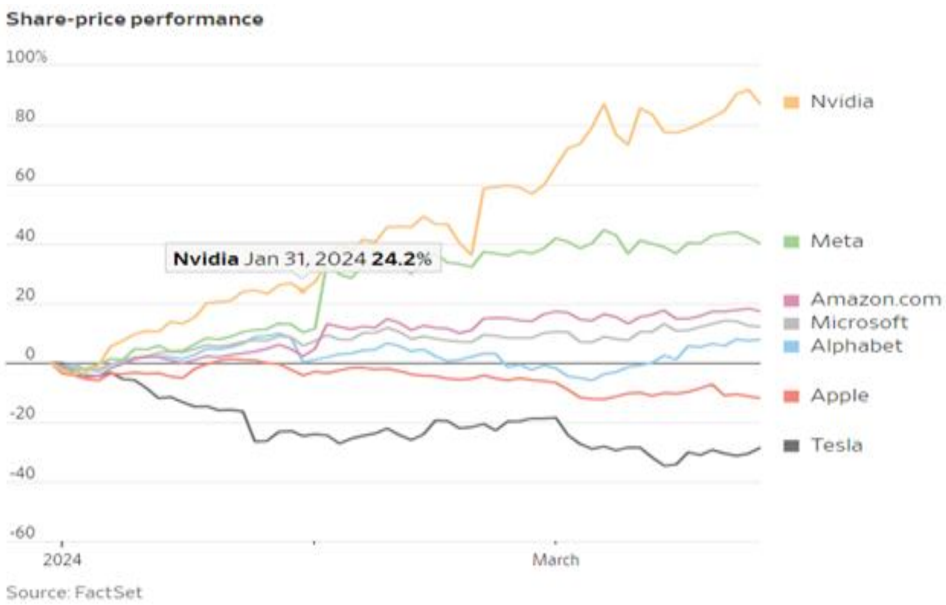
Lower rates will help small and midcap stocks and Growth and Tech stocks. Three Fed rate cuts are expected in 2024. The stock market's gains follow the US economy's resilient 'soft landing'.

## Broadening Market Gains

While the Magnificent 7 trade fizzles, with Tesla down almost 30% in 2024 and Apple down 11% – the broader sentiment remains bullish.

For the first 3 months, all the S&P 500 sectors, except real estate, were up.

* Small caps, Industrials & Financial Services stocks jumped, fueling bets that the broader market has more room to run.
* Some Big Tech shares, such as Alphabet (Google), struggled, ending up 8% with a late run during the quarter.
* The four other Magnificent 7 stocks did well - Nvidia, Meta (Facebook), Microsoft & Amazon continued outpacing the broader market.



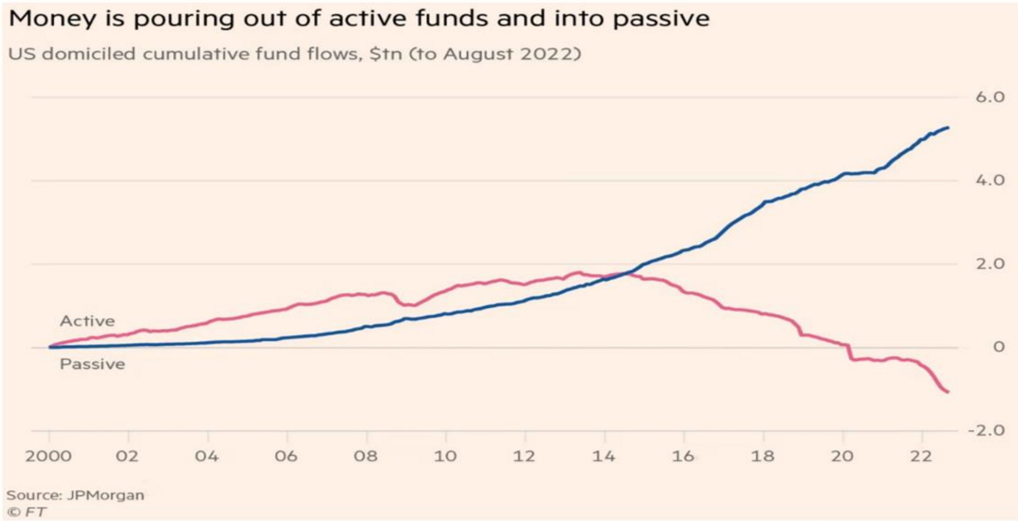

## S&P 500 Index continues outperforming - most US Fund Managers

Over the past 10 years, almost 90% of US Funds have underperformed the S&P 500. Even over shorter periods, nearly 80% of fund managers failed to beat the S&P 500 - over the last 3 years and 5 years.

The latest influential S&P SPIVA study reinforces the Indexing trend, explaining why trillions of investment dollars have continued to leave traditional Fund Managers over the past 2 decades.

Currently, more than 50% of all US mutual fund flows - are invested in Index Funds/ETFs. (Similar to low-cost Satrix products, but tracking US and global stock-market indices)

Unfortunately, in 2023, 60% of all Large Cap US equity funds underperformed the S&P 500. Global equity fund results also showed that almost 75% of funds underperformed the respected S&P Global 1200 index benchmark in 2023. This underperformance rises to 88% versus the S&P global index over the past 3 years.




**% US Fund Managers underperforming**

| | 1 year | 3 year | 5 year | 10 year | 20 year |
|---|---|---|---|---|---|
| **Large-cap** (vs. S&P 500) | 59.7% | 79.8% | 78.7% | 87.4% | 93.0% |
| **Medium-cap** (vs. S&P 400) | 49.7% | 70.0% | 65.9% | 80.4% | 92.8% |
| **Small-cap** (vs. S&P 600) | 48.3% | 64.2% | 61.1% | 88.3% | 95.7% |
| **All US Equity** (vs. S&P 1500) | 75.3% | 79.0% | 84.8% | 91.4% | 94.0% |

Source: Standard & Poors, Year-End 2023 SPIVA Scorecard

## Equity, Tech & AI Outlook

Lower inflation and interest rates have helped rerate stocks over the past 6 months.

While AI has boosted some Megacap players – its impact will be more lasting across the Cloud Technology space. Tech earnings have held up better than many had expected in 2024 – boosting the sector.

AI services ChatGPT & BARD have been successfully integrated into the Cloud ecosystem. Over $1tn of new Cloud revenue is expected by 2028 (Gartner). This is driven by high Cloud adoption rates – which are surging amongst large enterprises with huge AI data needs. The Cloud remains at the forefront of investing in the fastest computer chips to process AI data quickly. The biggest purchasers of Nvidia chips are the largest Cloud providers such as AWS (Amazon), Azure (Microsoft), Google and Oracle. Upwards of 50% of all Corporate IT spending will move to the Cloud by 2025.

Ultimately, more than $2tn of AI spending is predicted in less than a decade – driven by multinationals, governments and SMEs.

We see increased global digital convergence across Social Media, Cloud, AI, Cybersecurity, EVs, Robotics, Streaming Services, and Gaming. The WFH phenomenon among younger workers continues to boost outsourcing services, which are served by the Cloud. Online Gaming, Social Media, and Cybersecurity converge around the Cloud due to the growth of remote work and entertainment.

**The US Chips Act & $1tn Infrastructure Act (IRA)** - are expected to further boost the rollout of local Chip manufacturing across the US and ensure EV adoption rates grow due to sizable vehicle subsidies. The Biden Administration supports a massive rollout of EV Charging Stations via the IRA Act. The US EV market share will exceed 10% of New Cars Sales by 2024.

The recent approval of the Microsoft-Activision $75bn megadeal – is evidence of how important Microsoft's Cloud Azure sees the growing demand for Gaming and Social Media - all converging (relying on) its Cloud infrastructure platform & global data servers. It is seeking to create a similar user-friendly ecosystem to Apple.

## Megatrends

We believe it remains difficult to time individual **Megatrend** themes. We take a broader view of the 4$^{th}$ Industrial Revolution by using a global benchmark and equally weighting our holdings. Our broad Tech Megatrend ETF (across 8 subthemes, 120 holdings) – and our Cloud ETF (100 holdings the full Cloud ecosystem), are both rebalanced twice annually - to avoid trying to time specific subthemes. We expect a broader Tech rebound beyond just the Megacaps – as lower interest rates spur a US and global economic recovery in 2024.

- Artificial Intelligence strengthening the demand for Cloud Computing – as AI's capabilities require significant computer power and capacity, beyond most companies/ capabilities.
- We predict the Cloud Computing industry is set to expand by 20% annually.

## Conclusion

It is almost impossible to time global markets. Thus, it is ultimately time in the markets, rather than trying to time offshore markets.

Expectations of lower US interest rates by mid-2024 – will likely continue to provide a healthy tailwind for US stocks this year and into 2025.

Currently valuations for the broader Tech space remain well below prior peaks for the majority of companies – based on Price/Earnings ratios. Quality Tech companies are well capitalised with mountains of cash - very different to the 2000 Internet Bubble when many companies ran out of cash.

Exposure to offshore stock markets via broadly diversified mutual funds - remains an excellent Rand hedge. Accessing leading global companies, via lower cost funds, provides investors with a far better chance of above average performance.

**Glacier Research would like to thank Anthony Ginsberg for contributing to this week's *Funds on Friday.***

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Anthony Ginsberg is the Managing Director of GinsGlobal Index Funds, a leading index product design & asset management company dedicated to passive index fund investing and ETFs (Exchange Traded Funds). Anthony was born in Cape Town, South Africa and studied at the University of Cape Town, graduating with a Bachelor of Business Science (Honors). He qualified as a Certified Public Accountant in the US after working for the Wall Street investment bank, Salomon Brothers (now Citibank). Thereafter, he served as Barclays Bank's Director for Offshore Services with Global Executive Committee responsibility for the Caribbean, Southern Africa, Jersey, Guernsey and Isle of Man.