

ClucasGray
Asset
Management

Fact Sheets &
Commentary

January 2021

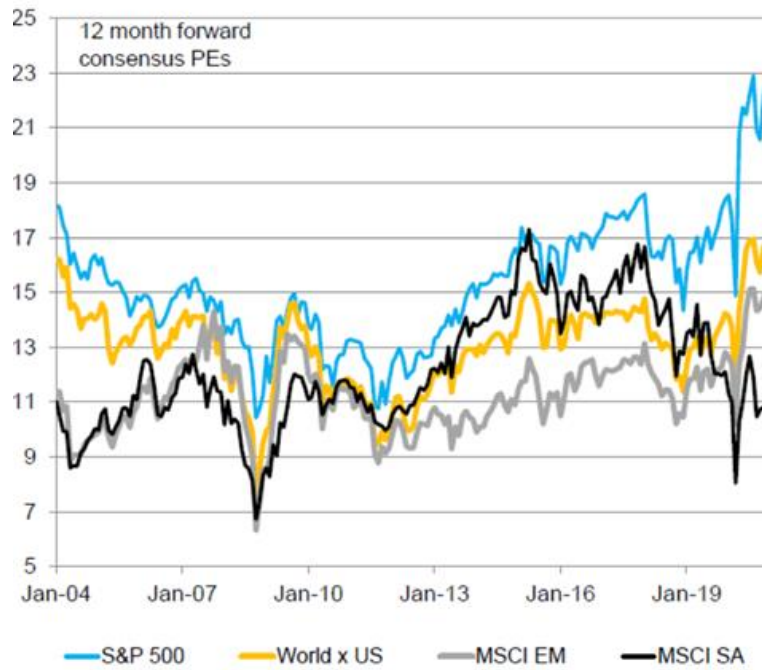


*“Valuation will be a poor guide to timing the bear market. However, it will be an excellent guide to the downside once the bear has begun.” David Abramson,
Alpine Macro*

With global equity markets continuing their seemingly never ending march higher, 2021 is off to a good start. We have for some time expressed our concerns around the valuations in select markets, parts of the US market in particular, and it is in this context that the above quote from David Abramson seems apt.

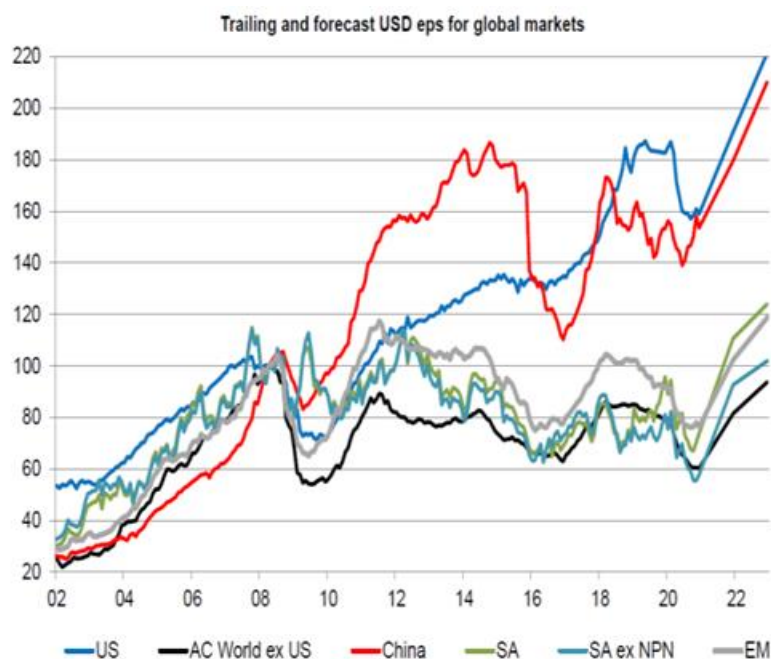
The chart below demonstrates the divergence in regional valuations. Whilst it is true that most markets have rerated over the last few years, with South Africa being a notable and well documented exception, the reality is that the S&P500's rerating has been nothing short of remarkable. What is of some concern to us, is that investors are finding ways to justify these lofty multiples, with the most common argument centering around historically low bond yields. Whilst we concede that one cannot invest in a vacuum, the “there is no alternative” argument can be an extremely dangerous one, in our view.

1 year forward multiples...



Source: RMBMS, February 2021

The valuation disparity between South Africa and all other regions is in stark contrast to history. One of the reasons for depressed ratings would typically be that earnings prospects are materially lower, yet the forecasts in the below chart of prospective US Dollar earnings for South Africa and other regions tells a different story. Following a decade of stagnating relative earnings in South Africa and the All County World excl US Index, the forecasts show that all regions, including South Africa, are likely to experience a strong rebound in earnings – as strong, if not stronger than the US. In light of this, it would appear that the current forward ratings in South Africa are unduly suppressed.



Source: Thomson Reuters, MSCI, IBES, Morgan Stanley, February 2021

Given the rally in global markets over the last quarter, the ClucasGray Asset Management asset allocation process now highlights low prospective returns from certain equity markets. So, while we agree with the sentiments expressed in the earlier quote that timing any sell-off is near impossible, we have nonetheless reduced our exposure to global equities in the ClucasGray Equilibrium Fund. South African equity and fixed income markets remain, we believe, best placed to assist in delivering on the fund's investment objective of industry leading real returns over sustained periods of time.

Both the ClucasGray Equity Prescient Fund and ClucasGray Equilibrium Prescient Fund had a good January, gaining around 3.5% and 2.5% respectively. They have gained 20% and 12.7% respectively over the last quarter.

We will expand on our investment views and portfolio positioning in a more detailed document in due course.

If there is any interest to engage, please don't hesitate to get in touch.

Kind regards
Andrew & Grant

Our funds are available on the following platforms:

AIMS | Allan Gray | Glacier | Momentum
NinetyOne | Multilect | Old Mutual | Prescient | Prime | Stanlib



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ClucasGray Asset Management (Pty) Ltd is an independent investment management company registered in South Africa, company registration number 2019/060149/07 and authorised financial services provider under the Financial Sector Conduct Authority (FSCA) registration number 50733. The main business of ClucasGray is the provision of investment management services to private and institutional clients.

Annualised performance: Annualised performance shows longer term performance rescaled to a 1-year period. Annualised performance is the average return per year over the period. Actual annual figures are available to the investor on request

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