Risks & Opportunities in an Election year

27 Feb'24

George Herman

Chief Investment Officer

CITADEL WEALTH MANAGEMENT

30 YEARS

30 YEARS

BEYOND REMARKABLE

CITADEL
WEALTH MANAGEMENT

Citadel Asset Management

Philosophy & Process

Investment Philosophy

Valuation sensitive approach
Avoid expensive assets

Asset Allocation drives long term performance
Stock selection is secondary

Reducing risk effectively
On-going process at every level

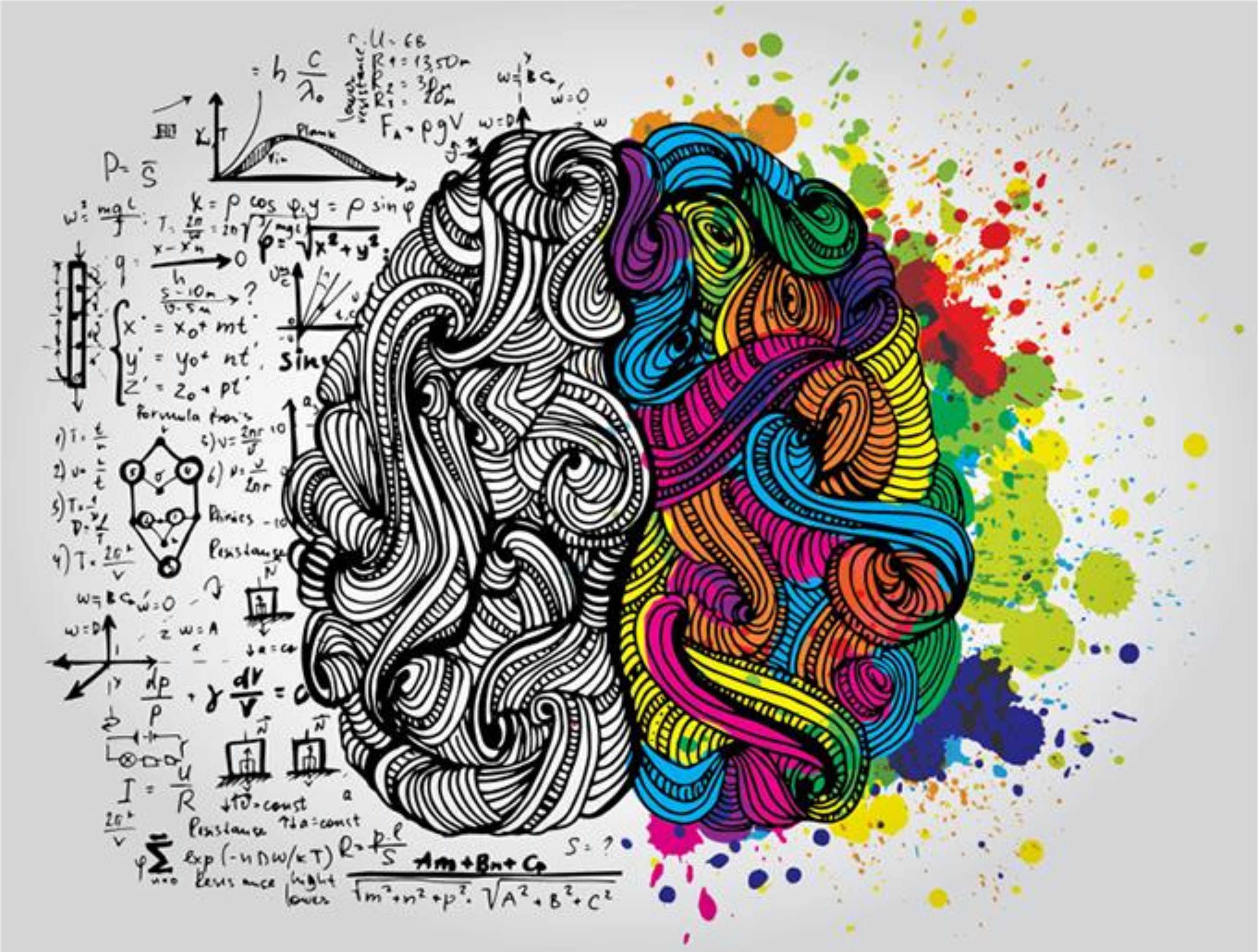
The future is uncertain and will often surprise
Not an excuse
Call to action
Analyse multiple scenarios!

Bringing Art & Science together

Methodical, back tested process with proven track record

+

Sanity overlay, human touch, creative solutions to wealth management problems



30 YEARS
BEYOND REMARKABLE

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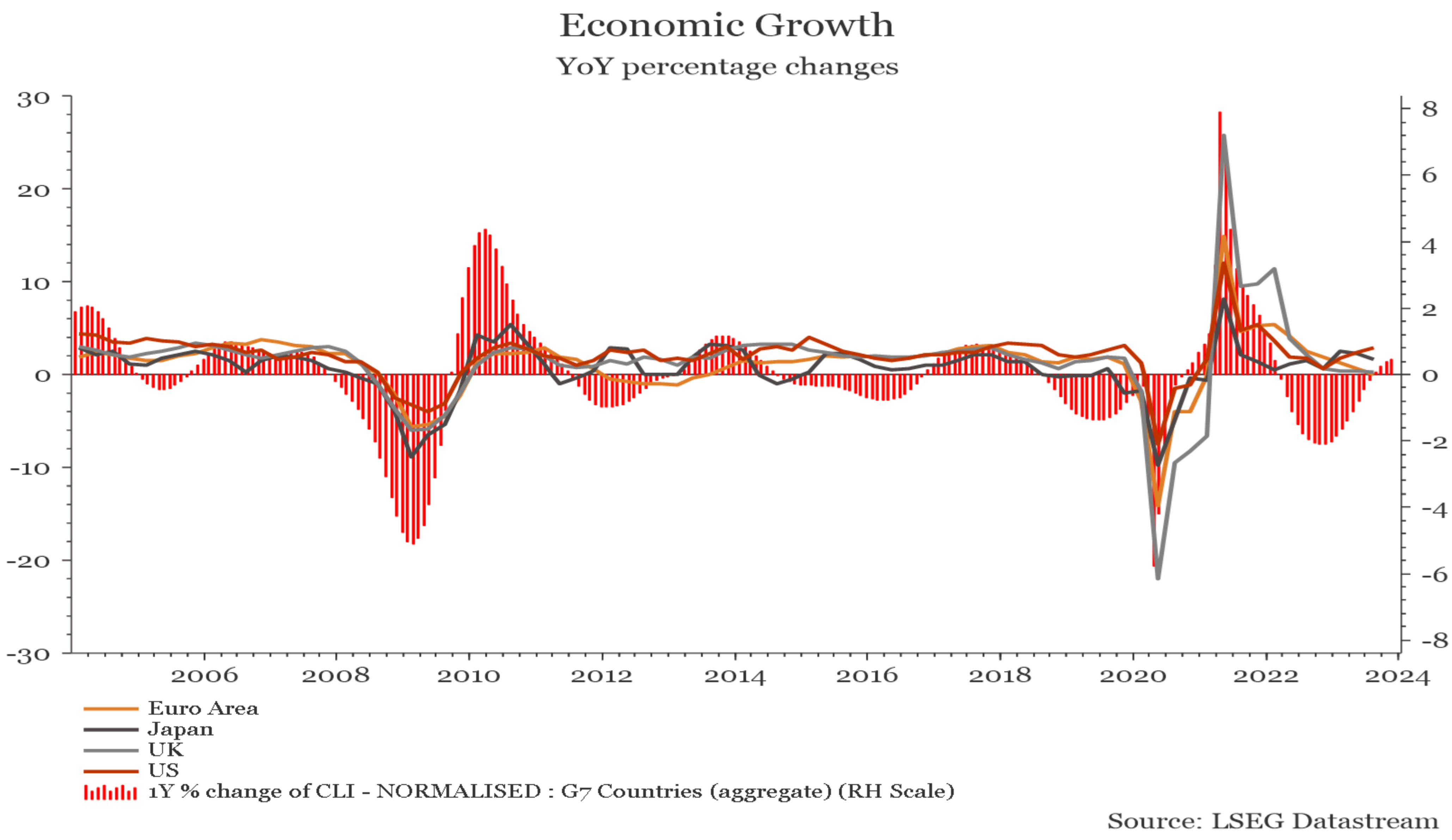
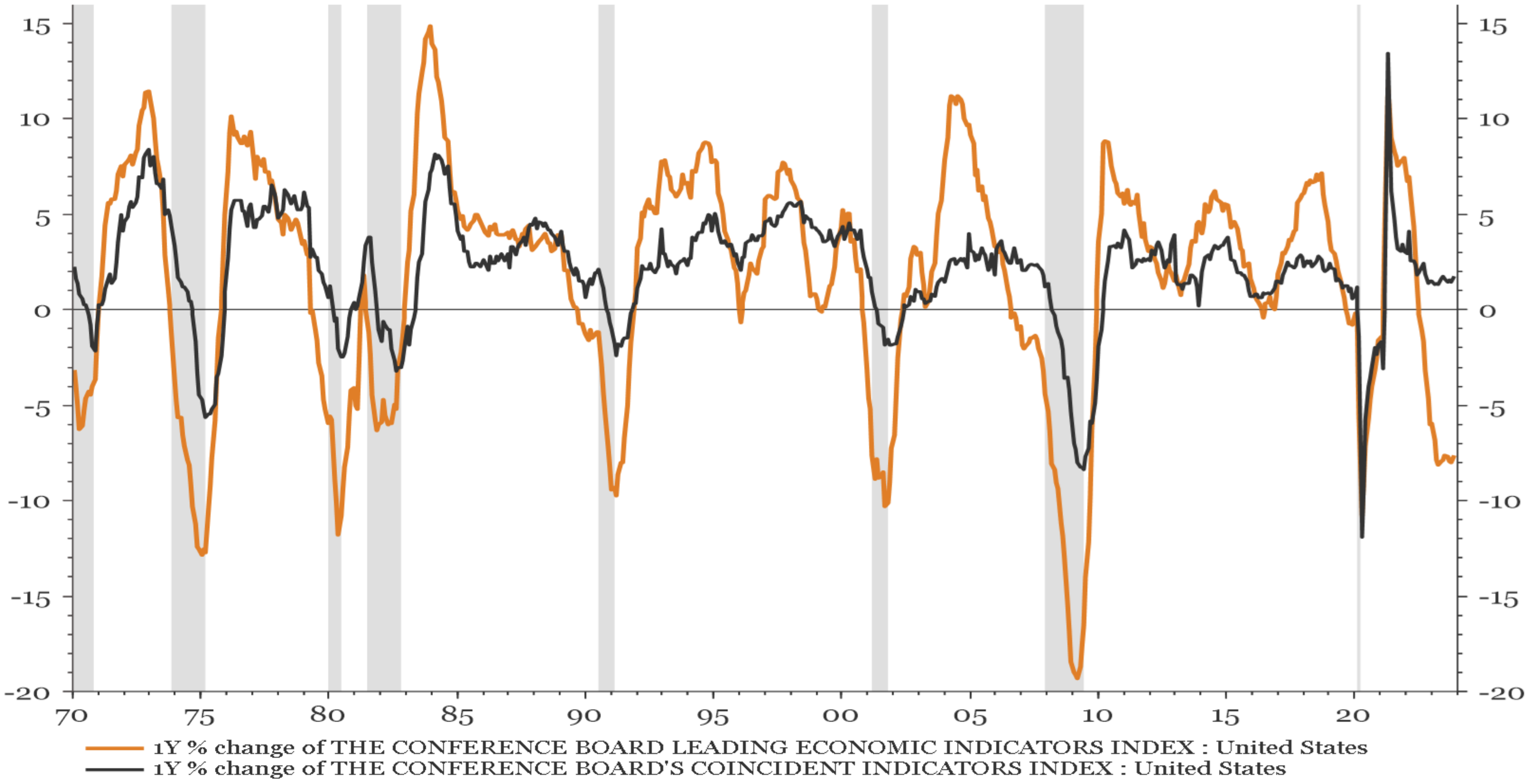
Economic Highlights

GROWTH: LI = Recession (bottom forming, + 18 months)

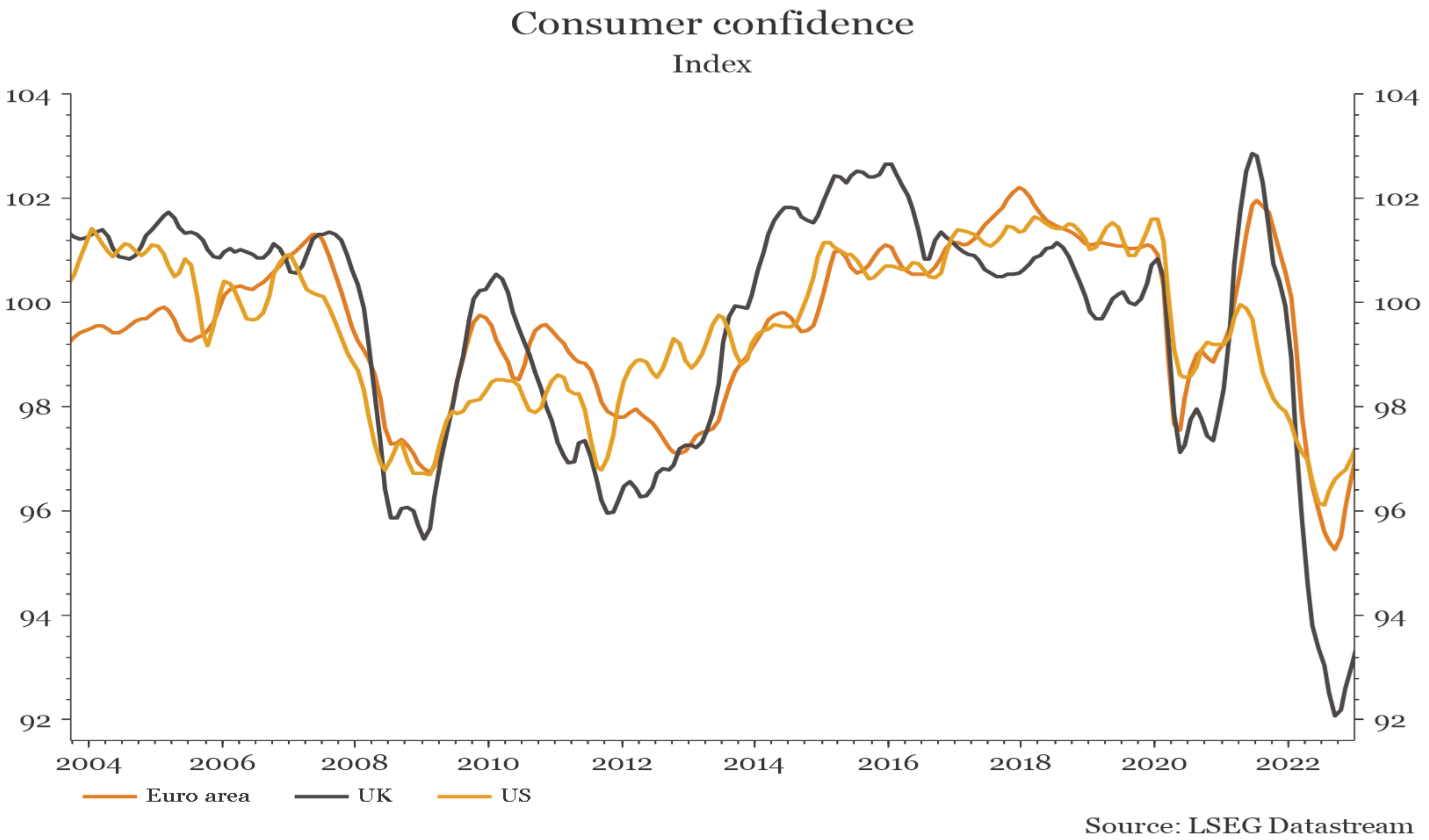


US LEI: Still in the danger zone

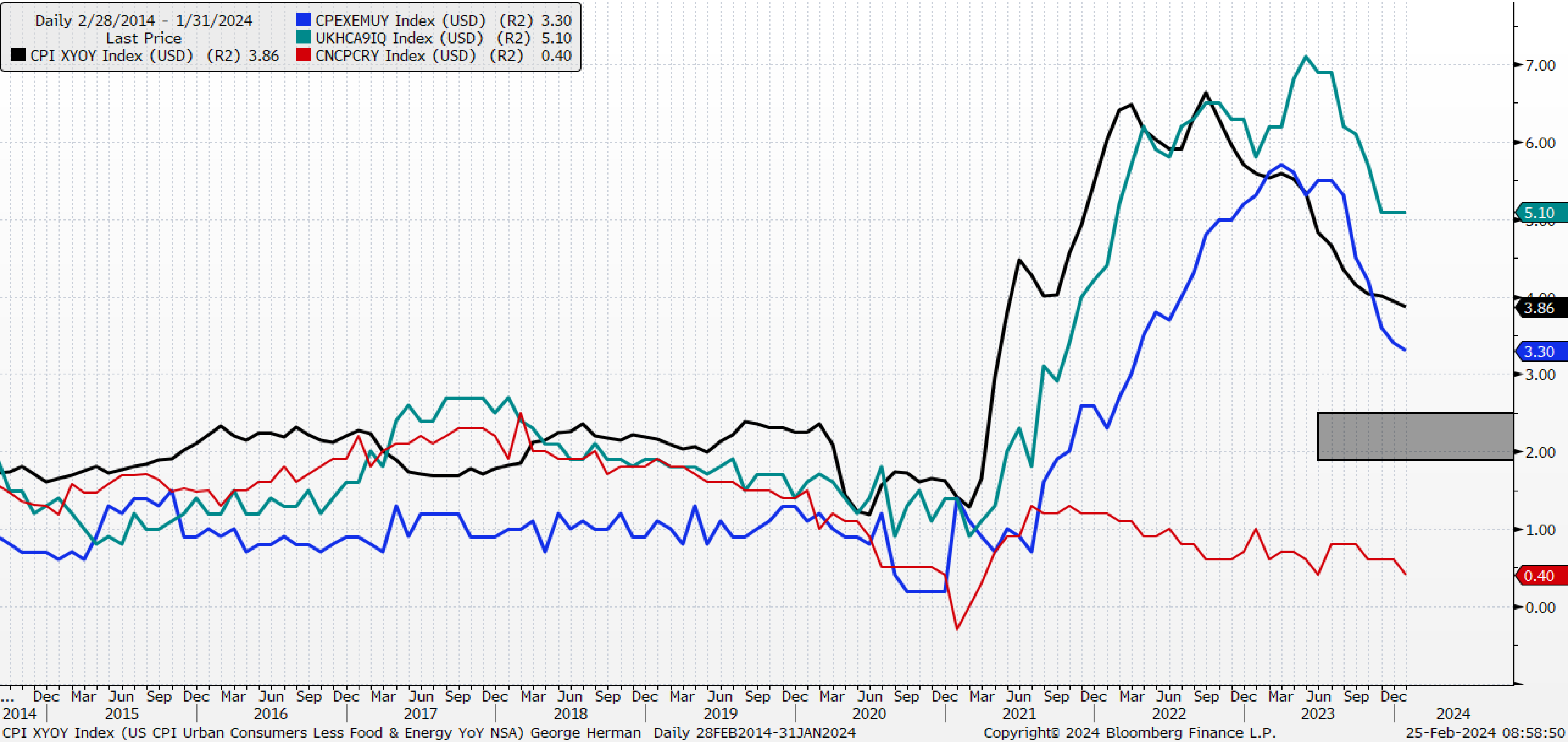


Source: LSEG Datastream

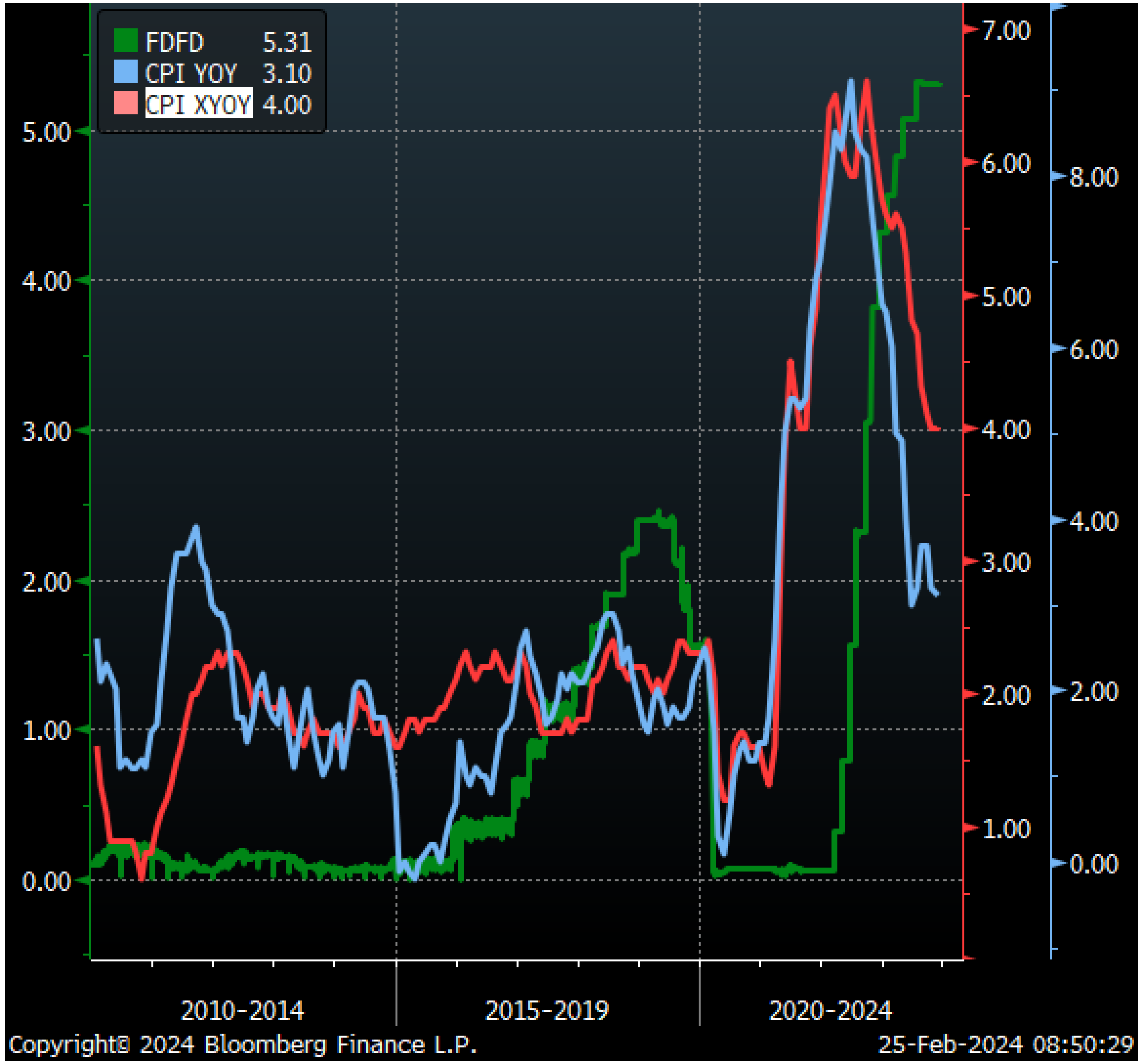
Consumers: Confidence remains low



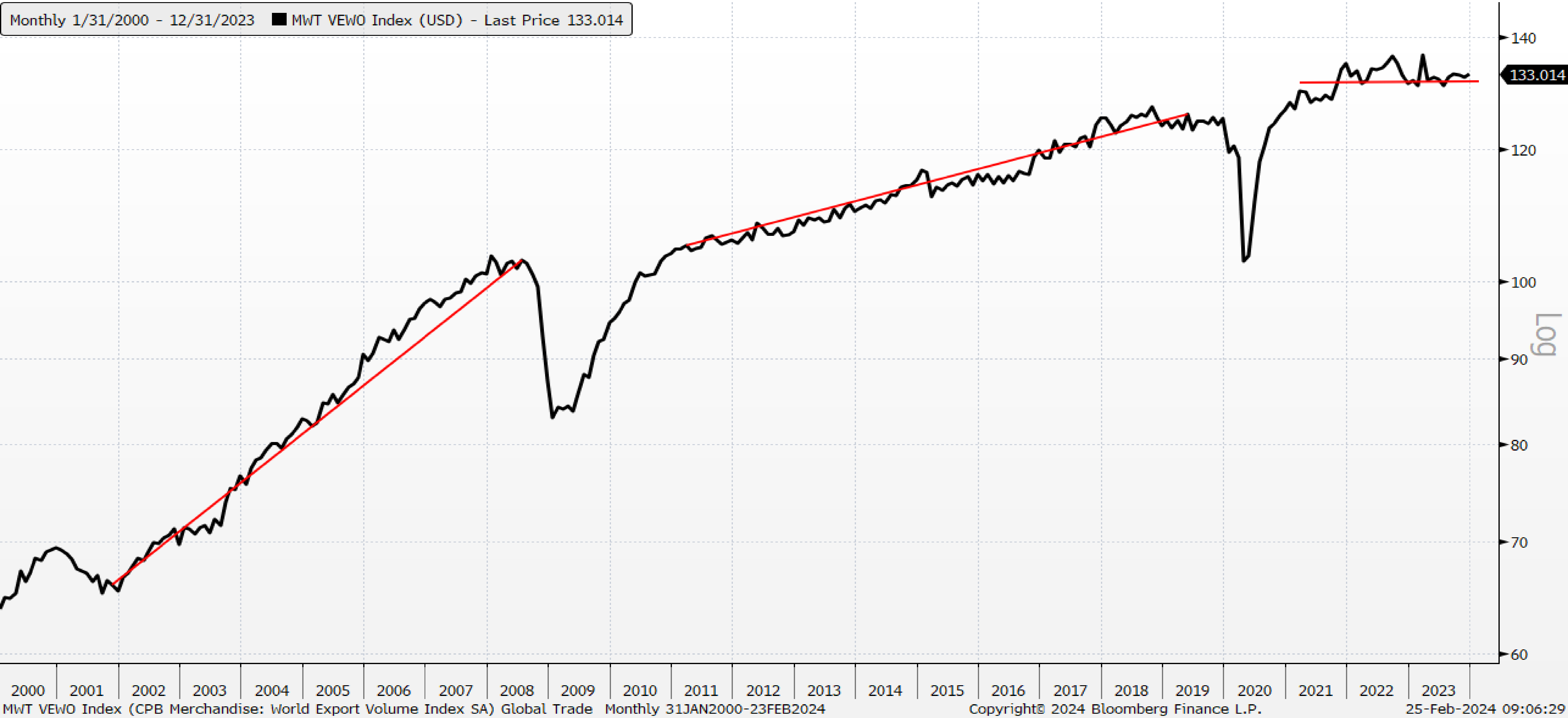
Core Inflation: Falling but sticky



Inflation: Falling but sticky



Global trade: Flat in volume terms

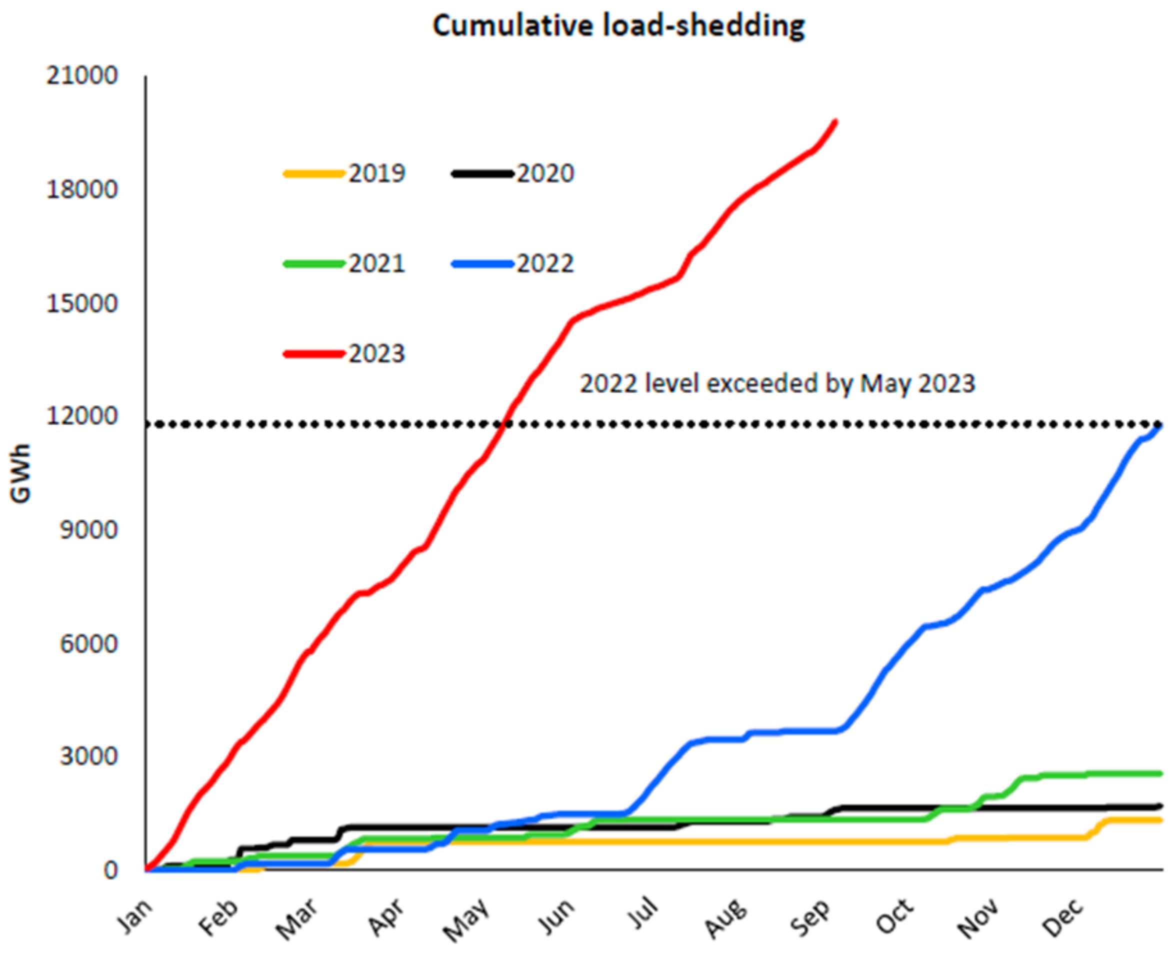


Yield curve: Strong warning to growth

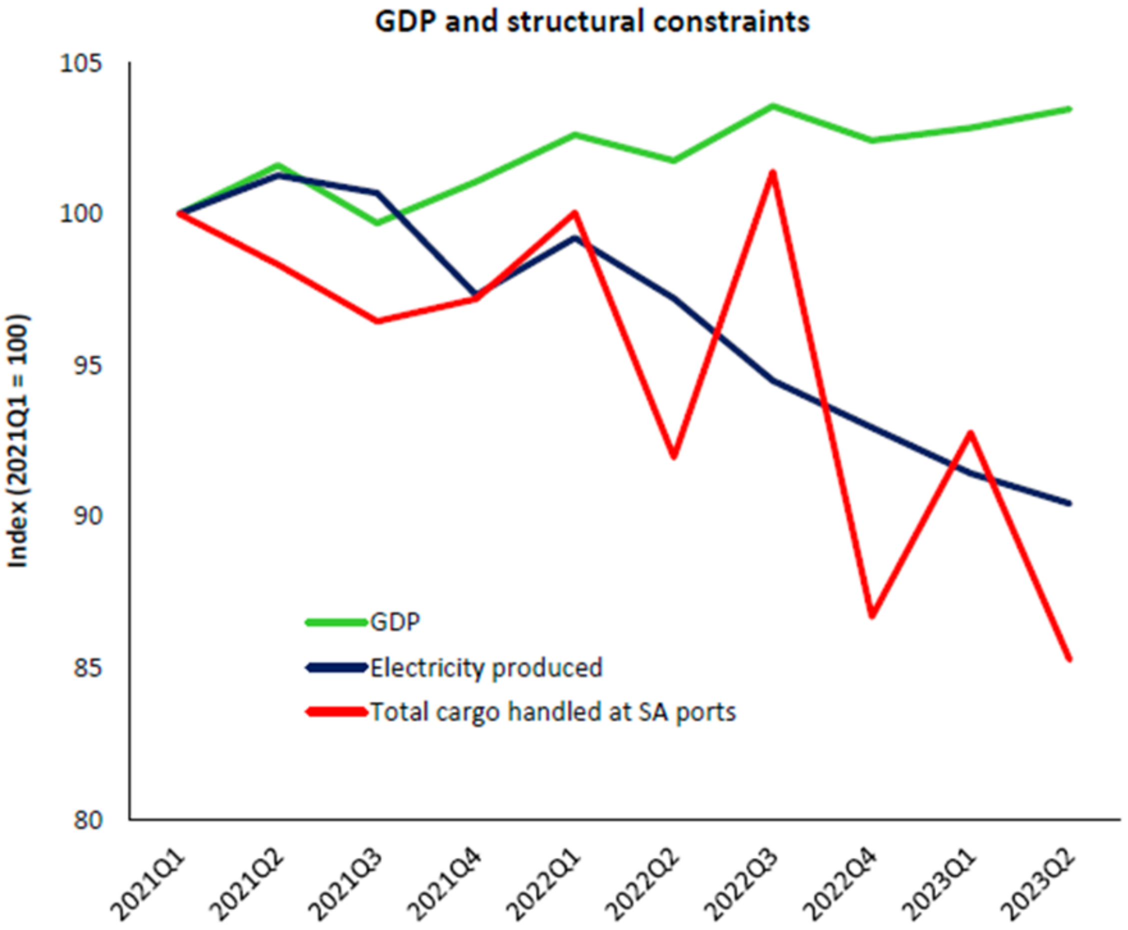
South Africa: Summary

- Leading indicators suggest weak growth, but turning
- Structural issues removing any upside
- Unemployment and social issues will escalate under weak growth environment
- Budget challenges will get bigger
- Consumers under pressure
- PMI not expanding
- Exports weak on global activity and local logistics
- Fixed capital formation slipped after solar boom

Structural Constraints

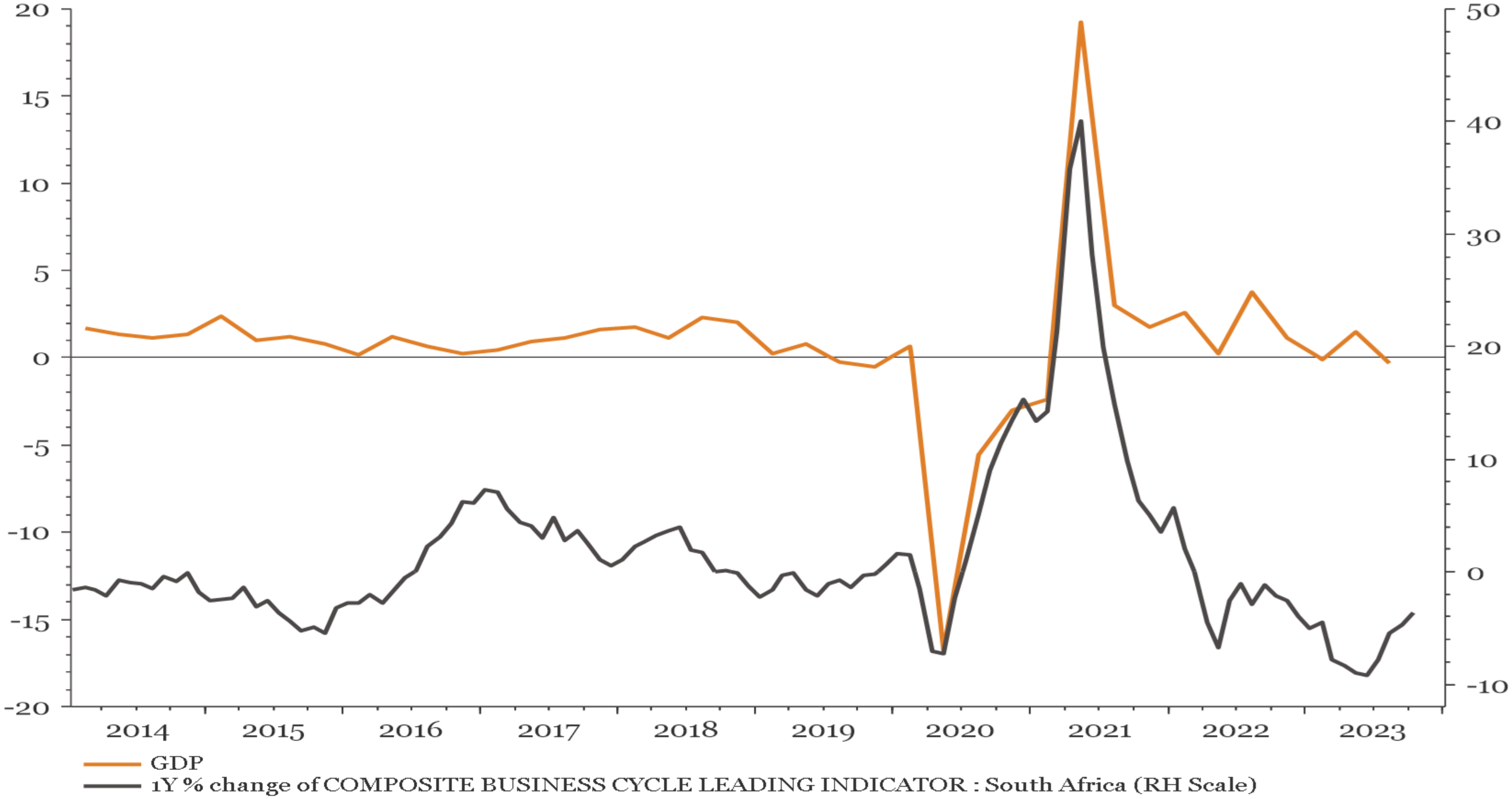


Sources: ESP (app), Eskom Twitter (X) account and SARB



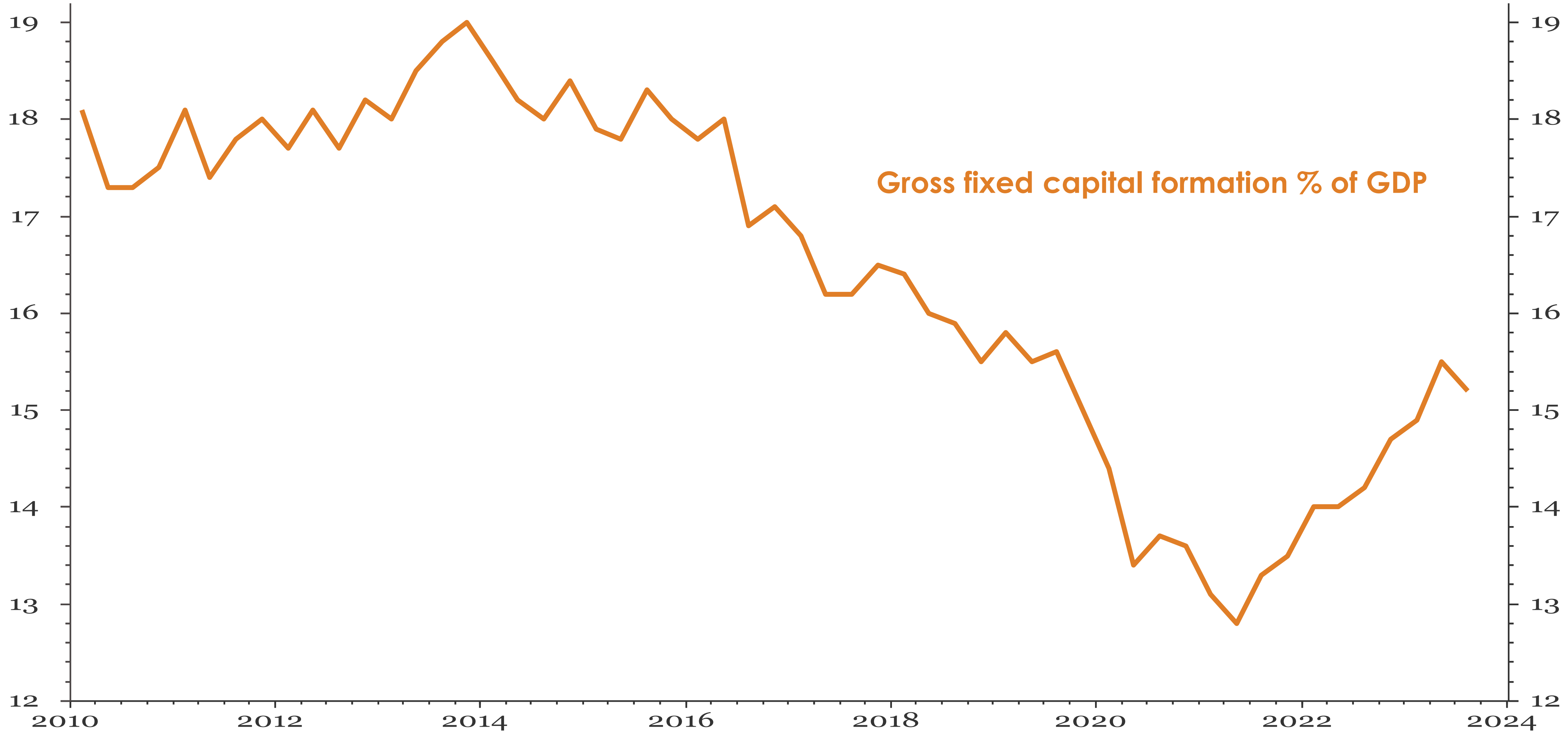
Sources: Stats SA and Transnet National Port Authority

Leading indicator: Poor growth



Source: LSEG Datastream

Green shoot – fixed capital formation



Source: LSEG Datastream

Budget 2024

21 Feb'24

George Herman

Chief Investment Officer

CITADEL
WEALTH MANAGEMENT

30 YEARS

Economic Growth

Economic growth in selected countries

Region/country	2022	2023	2024	2025
Percentage	Actual	Estimate	Forecast	
World	**3.5**	**3.1**	**3.1**	**3.2**
Advanced economies	**2.6**	**1.6**	**1.5**	**1.8**
United States	1.9	2.5	2.1	1.7
Euro area	3.4	0.5	0.9	1.7
United Kingdom	4.3	0.5	0.6	1.6
Japan	1.0	1.9	0.9	0.8
Emerging and developing countries	**4.1**	**4.1**	**4.1**	**4.2**
Brazil	3.0	3.1	1.7	1.9
Russia	-1.2	3.0	2.6	1.1
India	7.2	6.7	6.5	6.5
China	3.0	5.2	4.6	4.1
Sub-Saharan Africa	**4.0**	**3.3**	**3.8**	**4.1**
Nigeria	3.3	2.8	3.0	3.1
South Africa[1]	1.9	0.6	1.3	1.6
World trade volumes	**5.2**	**0.4**	**3.3**	**3.6**

1. National Treasury forecast

Source: IMF World Economic Outlook, January 2024

SA Budget in a nutshell

Table 1. Main budget framework: 2020/21 to 2026/27

	Audited outcome			Revised estimate	Medium-term estimates		
R million	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**
Revenue (National Revenue Fund)							
Tax revenue (gross)	1 249 711.2	1 563 754.2	1 686 697.4	1 731 352.7	1 863 034.8	1 991 210.0	2 133 022.6
Departmental and other receipts, and repayments	52 052.7	46 484.7	56 204.6	61 293.9	41 856.4	33 460.6	32 695.7
Less: Southern African Customs Union payments[1]	63 395.2	45 966.2	43 683.4	79 811.0	89 870.9	77 245.5	79 714.0
Total revenue	**1 238 368.7**	**1 564 272.8**	**1 699 218.5**	**1 712 835.6**	**1 815 020.3**	**1 947 425.1**	**2 086 004.3**
Percentage of GDP	22.1%	24.8%	25.3%	24.3%	24.4%	24.6%	24.8%
Expenditure							
Debt-service costs	232 595.7	268 071.6	308 459.1	356 140.9	382 182.9	414 663.5	440 239.9
Percentage of GDP	*4.1%*	*4.2%*	*4.6%*	*5.1%*	*5.1%*	*5.2%*	*5.2%*
Current payments[2]	241 754.1	259 777.1	267 034.6	269 672.4	285 676.1	297 349.7	311 317.5
Transfers and subsidies	1 213 017.9	1 271 277.1	1 349 450.6	1 399 122.3	1 446 313.0	1 478 359.2	1 537 508.1
Payments for capital assets[2]	12 001.6	14 253.4	16 431.3	16 658.7	15 170.5	15 403.8	15 275.6
Payments for financial assets	89 646.6	73 900.7	67 781.1	2 627.3	1 054.1	1 106.3	928.4
Provisional allocations not assigned to votes	–	–	–	–	570.2	41 093.5	45 612.0
Infrastructure Fund not assigned to votes	–	–	–	–	–	–	7 840.6
Total	**1 789 015.8**	**1 887 279.9**	**2 009 156.8**	**2 044 221.6**	**2 130 966.7**	**2 247 976.1**	**2 358 722.1**
Contingency reserve	–	–	–	–	5 000.0	7 600.0	14 500.0
Total expenditure	**1 789 015.8**	**1 887 279.9**	**2 009 156.8**	**2 044 221.6**	**2 135 966.7**	**2 255 576.1**	**2 373 222.1**
Percentage of GDP	*31.9%*	*29.9%*	*29.9%*	*29.0%*	*28.7%*	*28.5%*	*28.2%*
Main budget balance[3]	**-550 647.1**	**-323 007.2**	**-309 938.2**	**-331 386.1**	**-320 946.4**	**-308 151.0**	**-287 217.8**
Percentage of GDP	*-9.8%*	*-5.1%*	*-4.6%*	*-4.7%*	*-4.3%*	*-3.9%*	*-3.4%*
GDP	5 615 933.0	6 311 962.0	6 721 750.0	7 048 960.8	7 452 214.5	7 913 837.2	8 422 300.3

1. *Payments in terms of Southern African Customs Union agreements.*
2. *Excludes conditional grants to provinces and local government. These are included in transfers and subsidies.*
3. *A positive number reflects a surplus and a negative number reflects a deficit.*

SA Budget in a nutshell

CONSOLIDATED GOVERNMENT FISCAL FRAMEWORK				
R billion/percentage of GDP	2023/24	2024/25	2025/26	2026/27
	Revised estimate	Medium-term estimates		
Revenue	1 921.4	2 036.6	2 176.4	2 323.6
	27.3%	*27.3%*	*27.5%*	*27.6%*
Expenditure	2 268.9	2 369.0	2 471.4	2 597.8
	32.2%	*31.8%*	*31.2%*	*30.8%*
Budget balance	-347.4	-332.4	-295.0	-274.2
	-4.9%	*-4.5%*	*-3.7%*	*-3.3%*
Gross domestic product	7 049.0	7 452.2	7 913.8	8 422.3

SA Budget - 3Y fwd

Calendar Year	2023	2024	2025	2026
GDP growth (%) November forecast (*)	0.6 (0.8)	1.3 (1.0)	1.6 (1.6)	1.8 (1.8)
CPI average (%)	6.0 (6.0)	4.9 (4.9)	4.6 (4.6)	4.6 (4.5)
Current-account gap (% of GDP)	-1.8 (-2.4)	-2.8 (-3.0)	-3.0 (-3.0)	-3.0 (-3.1)
Household spending growth (%)	0.7 (0.8)	1.3 (1.4)	1.8 (1.5)	1.7 (1.7)
Government spending growth (%)	1.8 (0.6)	-0.7 (-3.2)	-0.2 (-0.5)	-0.2 (0.2)
Export growth (%)	3.2 (4.2)	2.1 (2.1)	2.5 (2.6)	3.2 (3.1)
Import growth (%)	4.8 (7.1)	1.9 (2.1)	2.6 (2.7)	2.6 (2.9)

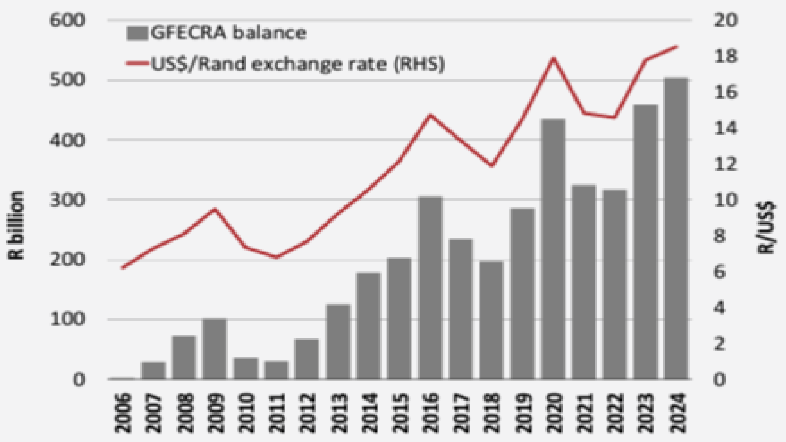
SA Budget - 3Y fwd

Fiscal Year	2023-24	2024-25	2025-26	2026-27
Consolidated budget balance (% of GDP)	-4.9 (-4.9)	-4.5 (-4.6)	-3.7 (-4.2)	-3.3 (-3.6)
Revenue (trillion rand)	1.921 (1.916)	2.037 (2.013)	2.176 (2.139)	2.324 (2.287)
Expenditure (trillion rand)	2.269 (2.262)	2.369 (2.353)	2.471 (2.473)	2.598 (2.589)
Govt gross borrowing (billion rand)	553.1 (563.6)	457.7 (559.6)	579 (623.4)	428.5 (478.2)
Gross debt (% of GDP)	73.9 (74.7)	74.1 (75.8)	75.3 (77.7)	74.7 (77.5)
Net debt (% of GDP)	71.7 (72.6)	72.9 (74.6)	74.4 (76.7)	73.8 (76.6)

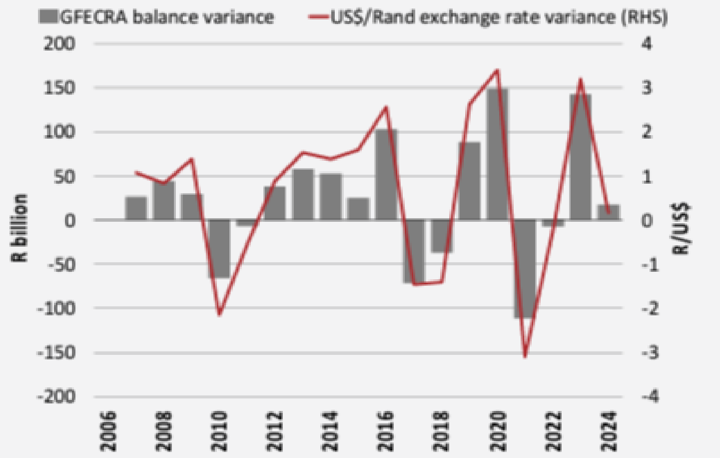
GFECRA

Government will undertake a R150 billion settlement of GFECRA over the next 3 years guided by several principles

Outstanding GFECRA balance



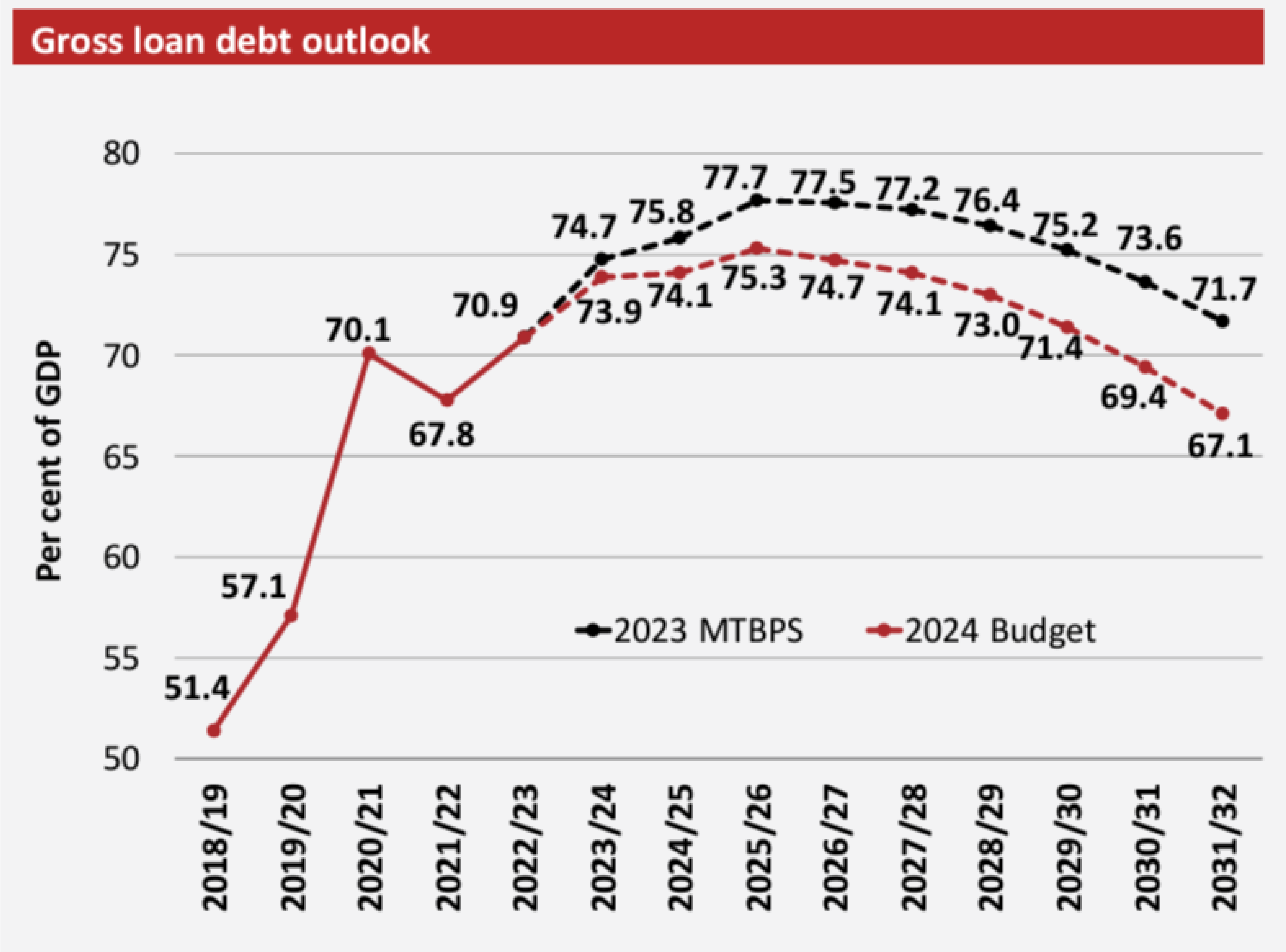
Fluctuations in GFECRA balances



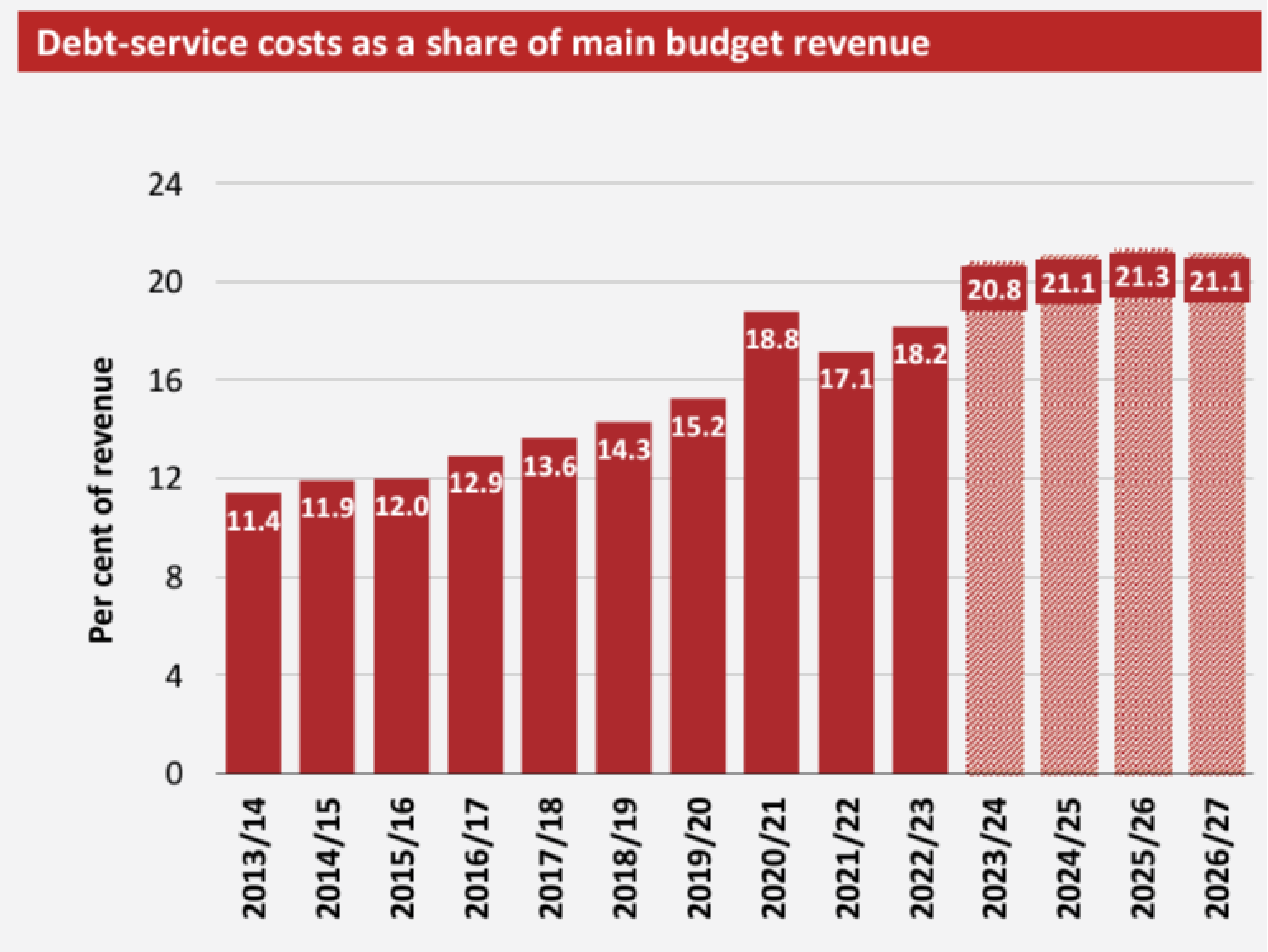
- Current accounting practice is that Gains and losses are recorded but not settled, making the Reserve Bank's liability to the government unusually large.
- Proposed settlement agreement aims to establish a new framework to reduce government borrowing and align the Reserve Bank's practices with international norms.
- Funds Allocation Strategy:
  - First Bucket (GFECRA): Retains funds to cover potential exchange rate fluctuations.
  - Second Bucket (Reserve Bank Contingency Reserve): Ensures central bank solvency and covers costs of interest rate impact neutralisation.
  - Third Bucket (National Treasury): Receives funds after fulfilling the first two obligations.

- The Reserve Bank's policy solvency should not be undermined by any GFECRA distribution. In practical terms, this means the central bank should not suffer sustained negative equity.
- There should be no sales of foreign exchange reserves to realise GFECRA gains if such reserves are below estimated adequacy levels.
- There should be no distribution of unrealised GFECRA balances that could plausibly be unwound by future rand appreciation.
- Any GFECRA distributions should be governed by a framework that rules out ad hoc decisions; should be public to ensure transparency; and should be used to reduce government borrowing.

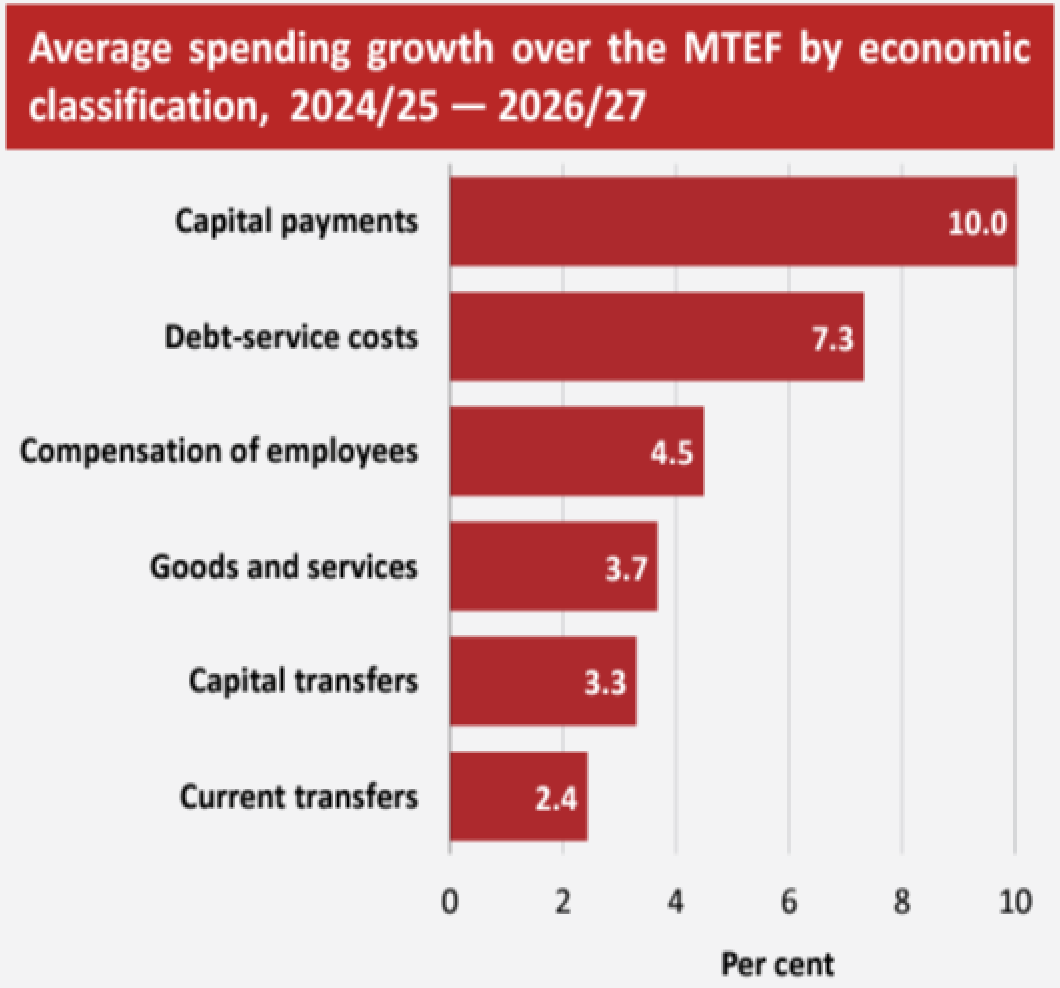
Debt trajectory



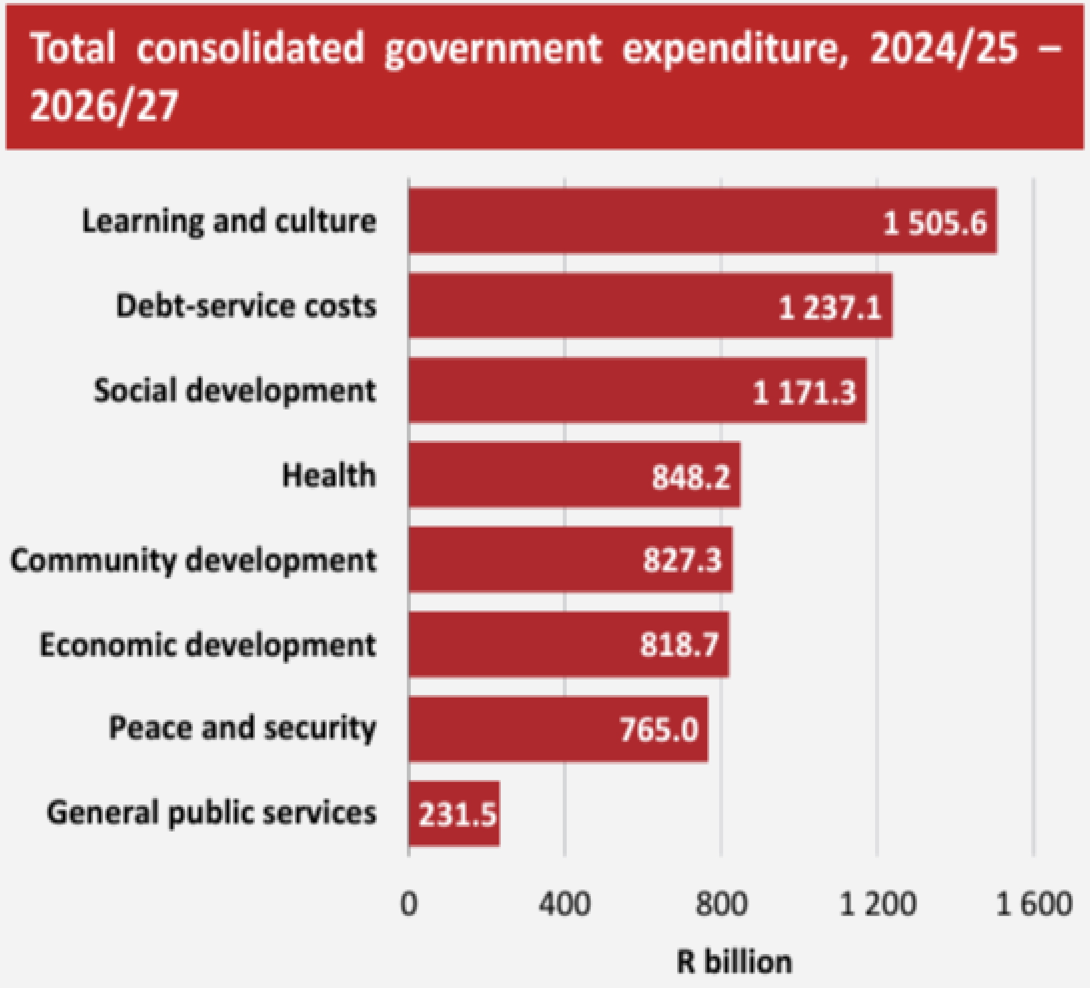
Debt trajectory



Categories



Average spending growth over the MTEF by economic classification, 2024/25 — 2026/27
Capital payments
10.0
Debt-service costs
7.3
Compensation of employees
4.5
Goods and services
3.7
Capital transfers
3.3
Current transfers
2.4
0
2
4
6
8
10
Per cent



Total consolidated government expenditure, 2024/25 – 2026/27
Learning and culture
1 505.6
Debt-service costs
1 237.1
Social development
1 171.3
Health
848.2
Community development
827.3
Economic development
818.7
Peace and security
765.0
General public services
231.5
0
400
800
1 200
1 600
R billion

Categories

CONSOLIDATED GOVERNMENT EXPENDITURE BY FUNCTION

R billion	2023/24	2024/25	2025/26	2026/27	2023/24–2026/27
	Revised estimate	Medium-term estimates			Average growth
Learning and culture	468.4	480.6	499.3	525.8	3.9%
Health	267.3	271.9	281.1	295.2	3.4%
Social development	368.5	387.3	385.0	398.9	2.7%
Community development	251.5	265.3	274.9	287.1	4.5%
Economic development	239.8	255.4	274.9	288.4	6.3%
Peace and security	236.8	244.0	254.5	266.5	4.0%
General public services	76.9	74.7	77.5	79.3	1.0%
Payments for financial assets	3.5	2.6	2.0	1.8	
Allocated expenditure	**1 912.7**	**1 981.8**	**2 049.1**	**2 143.1**	**3.9%**
Debt-service costs	356.1	382.2	414.7	440.2	7.3%
Contingency reserve	–	5.0	7.6	14.5	
Consolidated expenditure	**2 268.9**	**2 369.0**	**2 471.4**	**2 597.8**	**4.6%**

Effect on Yields

30 YEARS
BEYOND REMARKABLE

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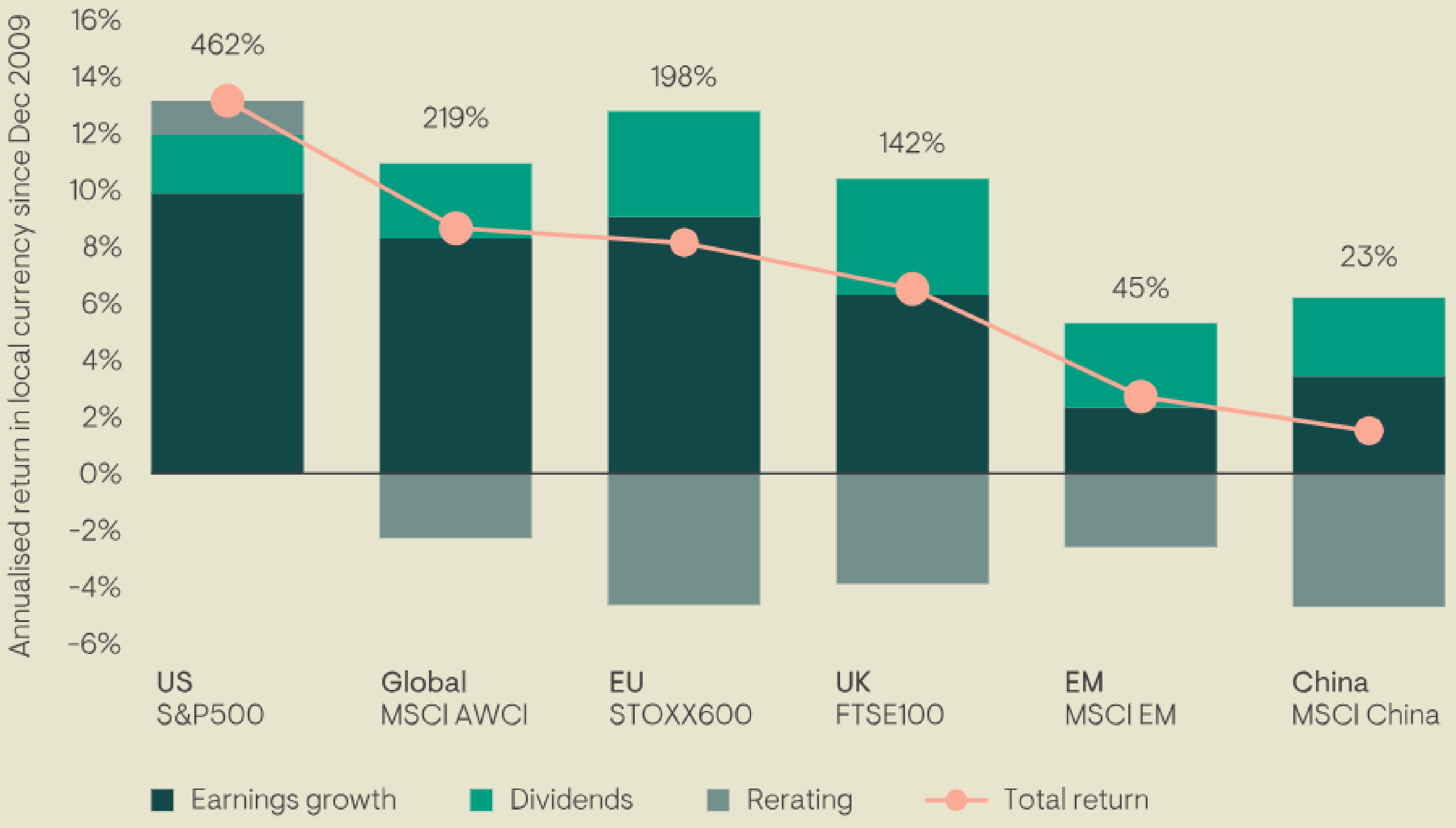
Market Narratives

Economics

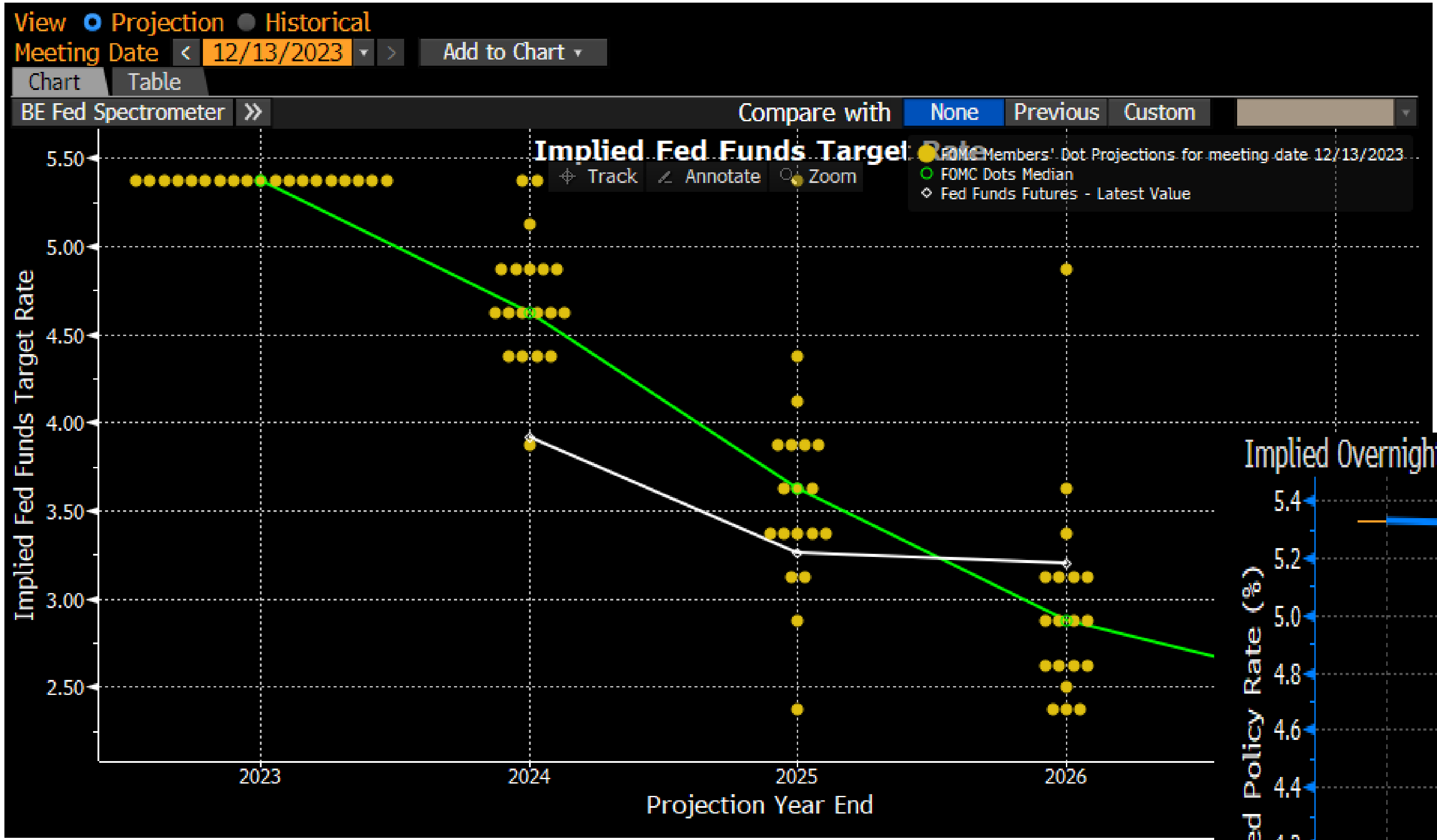
Relative Valuation

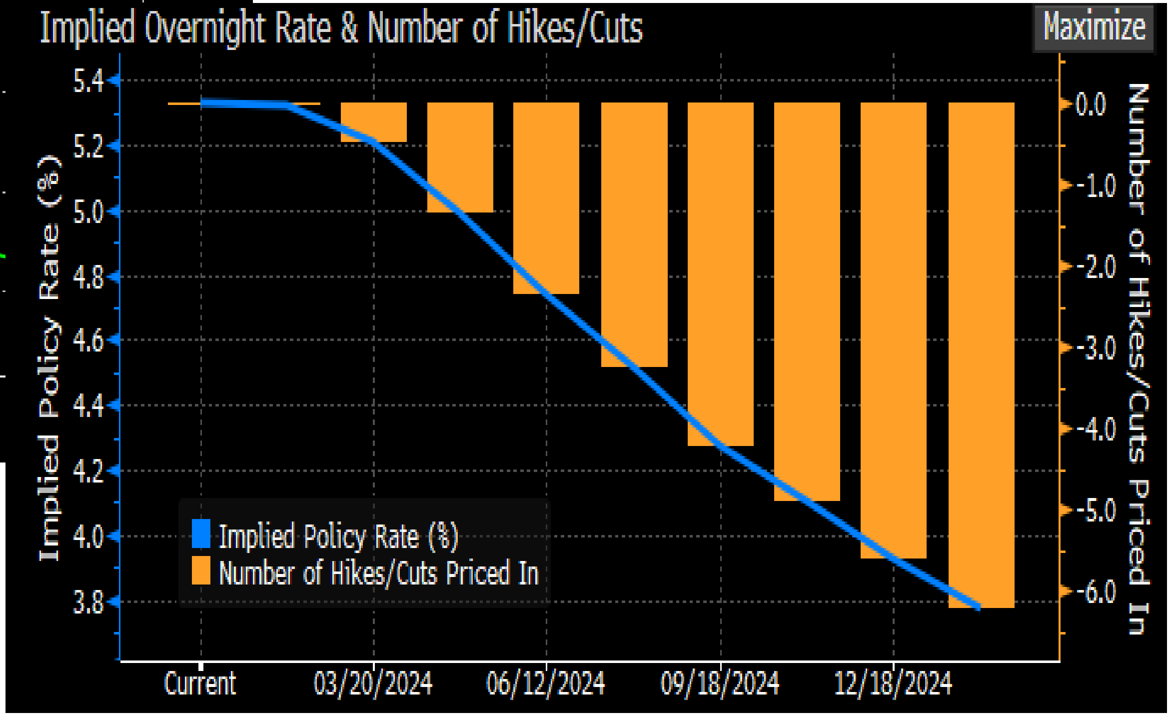


Source: Bloomberg, Ninety One as at 31 December 2023; All returns are in local currency terms.

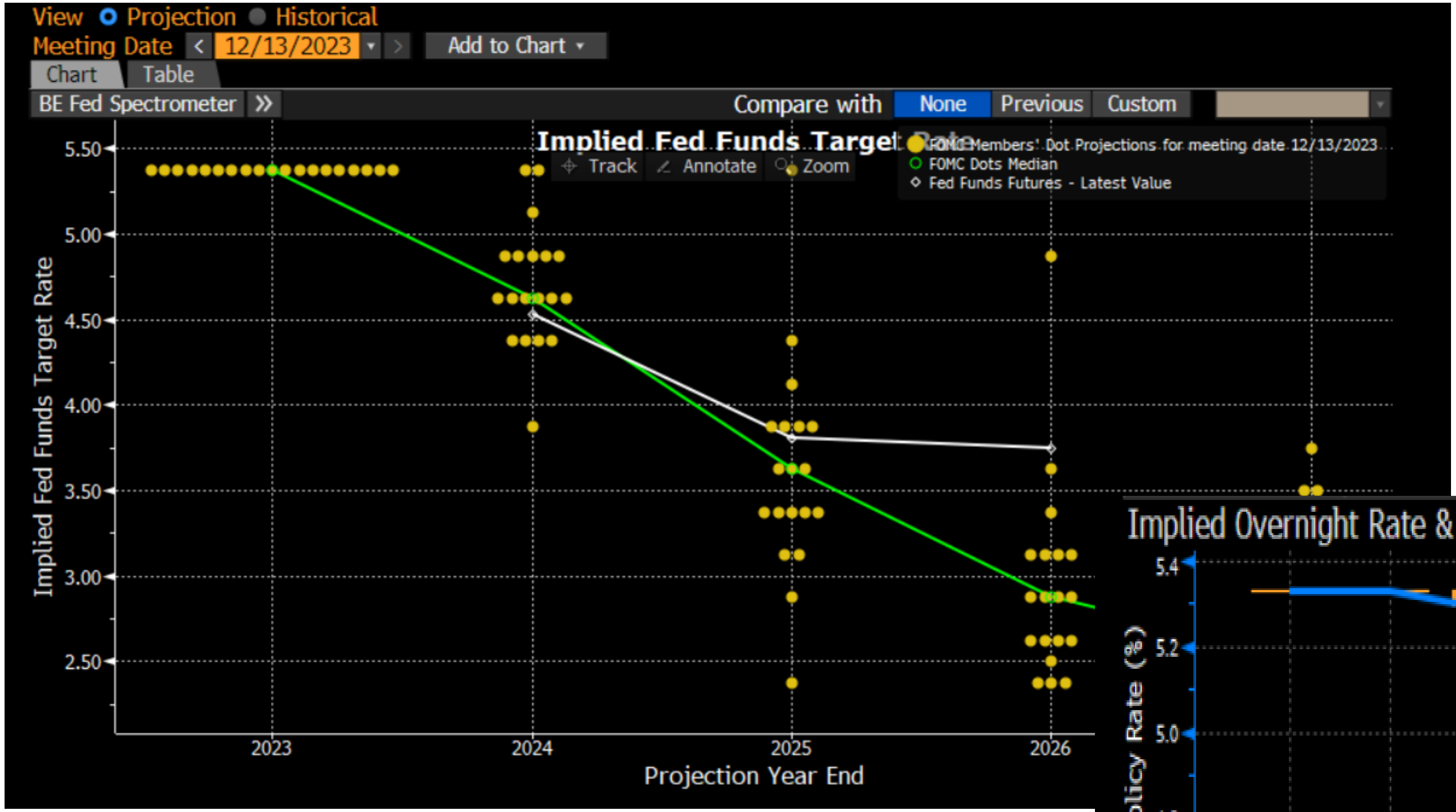
Bars show annualised returns while numbers indicate total cumulative return over the period.

FED


View Projection Historical
Meeting Date 12/13/2023 Add to Chart
Chart Table
BE Fed Spectrometer
Compare with None Previous Custom
Implied Fed Funds Target Rate
Track Annotate Zoom
FOMC Members' Dot Projections for meeting date 12/13/2023
FOMC Dots Median
Fed Funds Futures - Latest Value
Implied Fed Funds Target Rate
5.50
5.00
4.50
4.00
3.50
3.00
2.50
2023
2024
2025
2026
Projection Year End


Implied Overnight Rate & Number of Hikes/Cuts
Maximize
Implied Policy Rate (%)
5.4
5.2
5.0
4.8
4.6
4.4
4.2
4.0
3.8
Number of Hikes/Cuts Priced In
0.0
-1.0
-2.0
-3.0
-4.0
-5.0
-6.0
Implied Policy Rate (%)
Number of Hikes/Cuts Priced In
Current
03/20/2024
06/12/2024
09/18/2024
12/18/2024

FED



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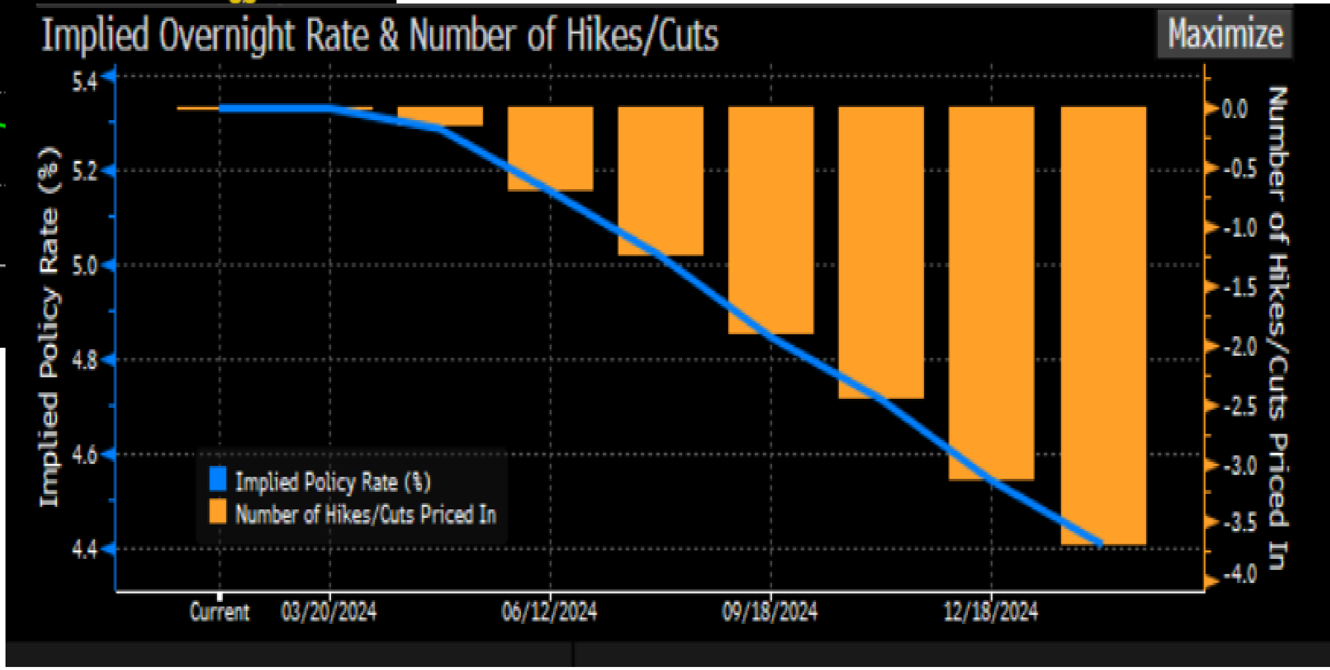
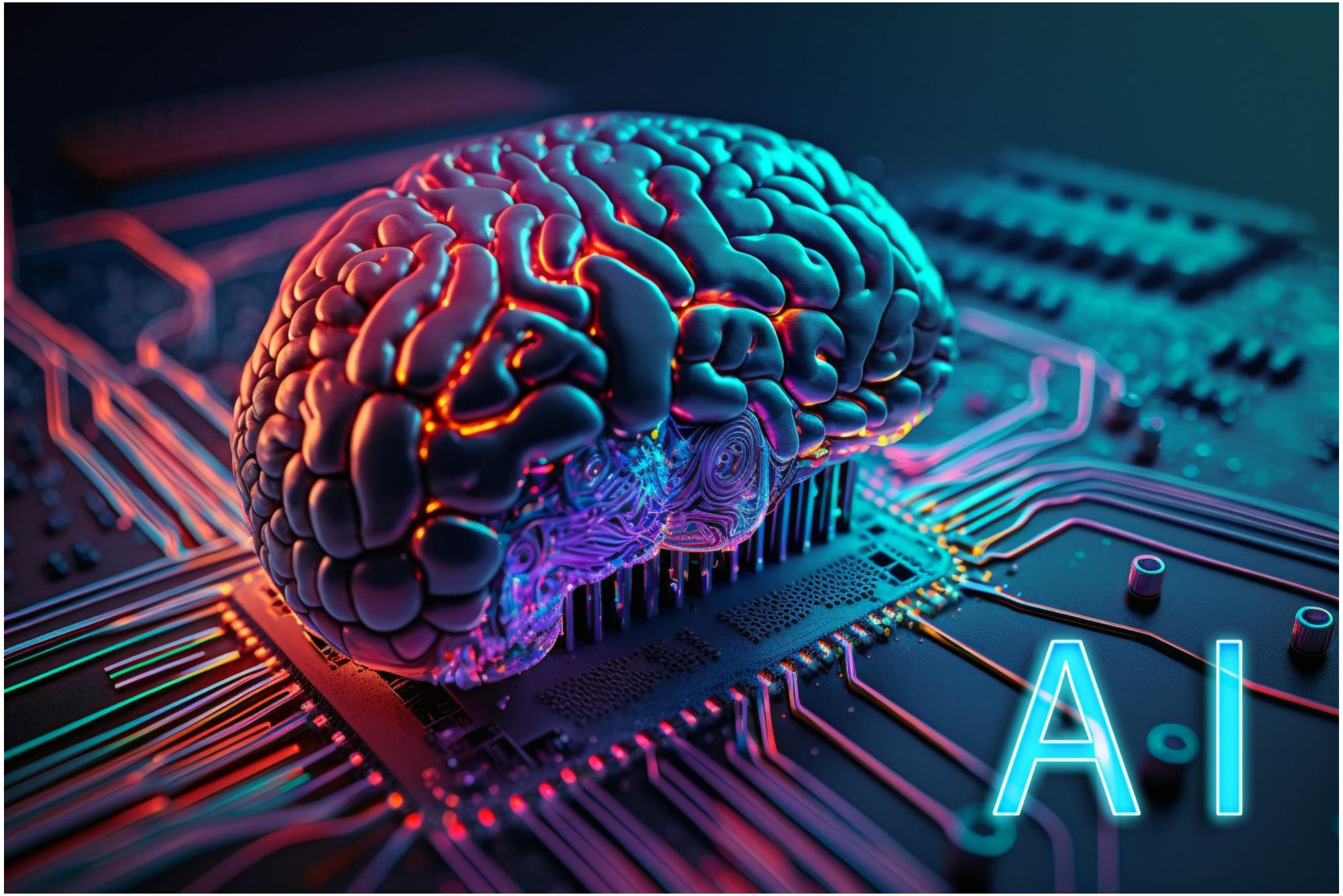
Implied Fed Funds Target Rate
5.50
5.00
4.50
4.00
3.50
3.00
2.50
2023
2024
2025
2026
Projection Year End



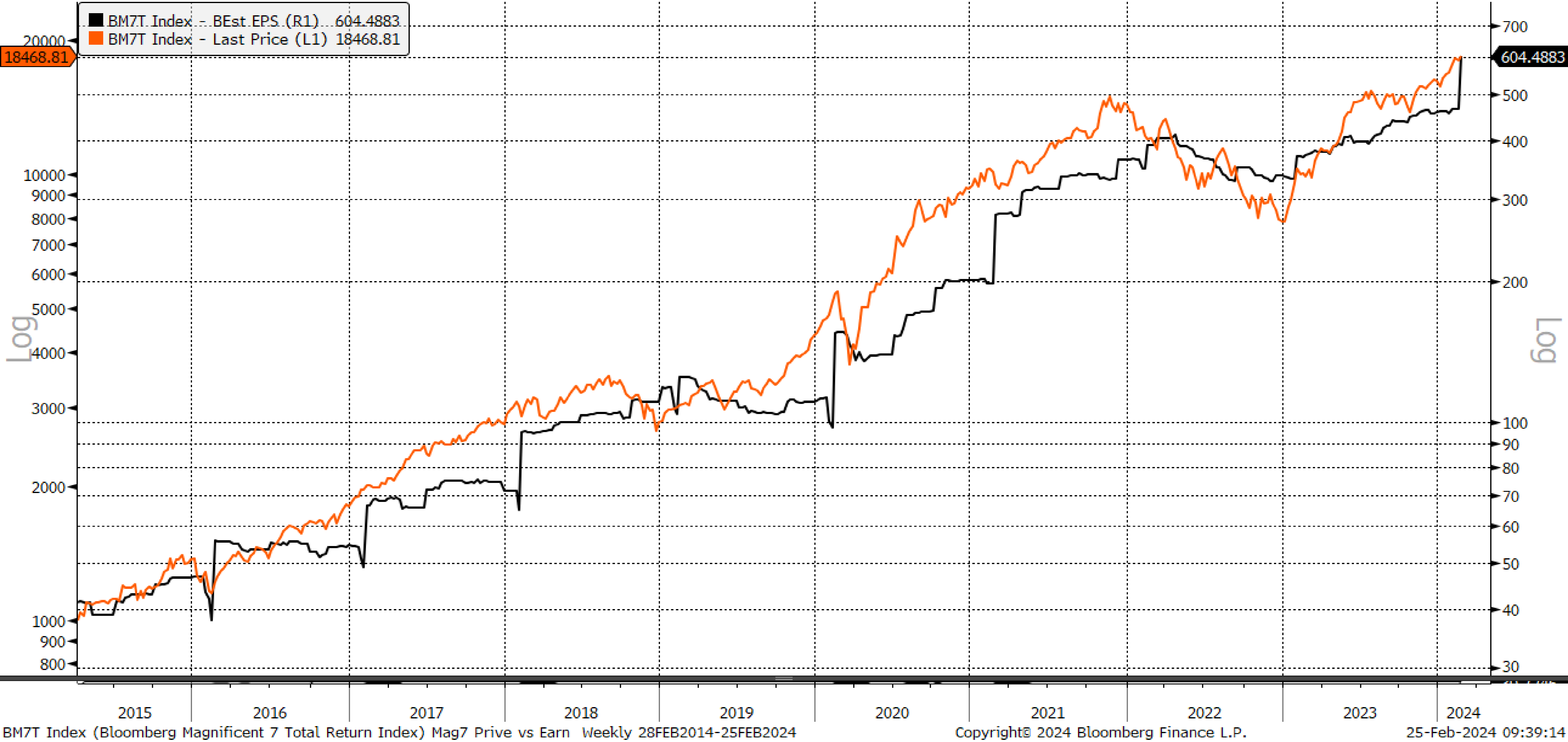
Implied Overnight Rate & Number of Hikes/Cuts
Maximize
Implied Policy Rate (%)
5.4
5.2
5.0
4.8
4.6
4.4
Number of Hikes/Cuts Priced In
0.0
-0.5
-1.0
-1.5
-2.0
-2.5
-3.0
-3.5
-4.0
Implied Policy Rate (%)
Number of Hikes/Cuts Priced In
Current
03/20/2024
06/12/2024
09/18/2024
12/18/2024

FED

Tech & A.I.



Tech & A.I.



BM7T Index - BEst EPS (R1) 604.4883
BM7T Index - Last Price (L1) 18468.81
18468.81
604.4883
20000
10000
9000
8000
7000
6000
5000
4000
3000
2000
1000
900
800
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400
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2015
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2024
BM7T Index (Bloomberg Magnificent 7 Total Return Index) Mag7 Prive vs Earn Weekly 28FEB2014-25FEB2024
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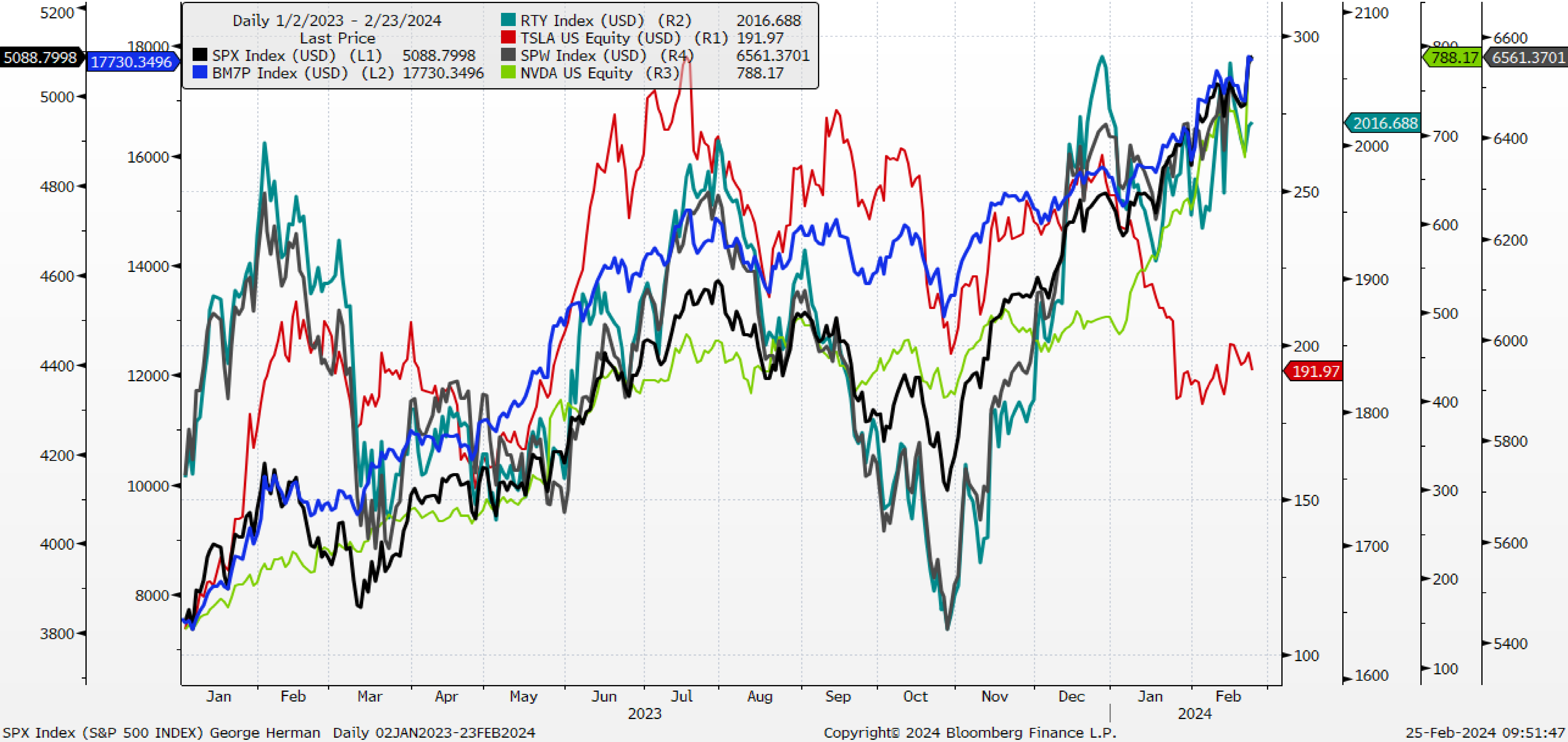
Tech



Daily 1/2/2023 - 2/23/2024
Last Price
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BM7P Index (USD) (L2) 17730.3496
RTY Index (USD) (R2) 2016.688
TSLA US Equity (USD) (R1) 191.97
SPW Index (USD) (R4) 6561.3701
NVDA US Equity (R3) 788.17
5088.7998
17730.3496
2016.688
191.97
788.17
6561.3701
Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb
2023
2024
SPX Index (S&P 500 INDEX) George Herman Daily 02JAN2023-23FEB2024
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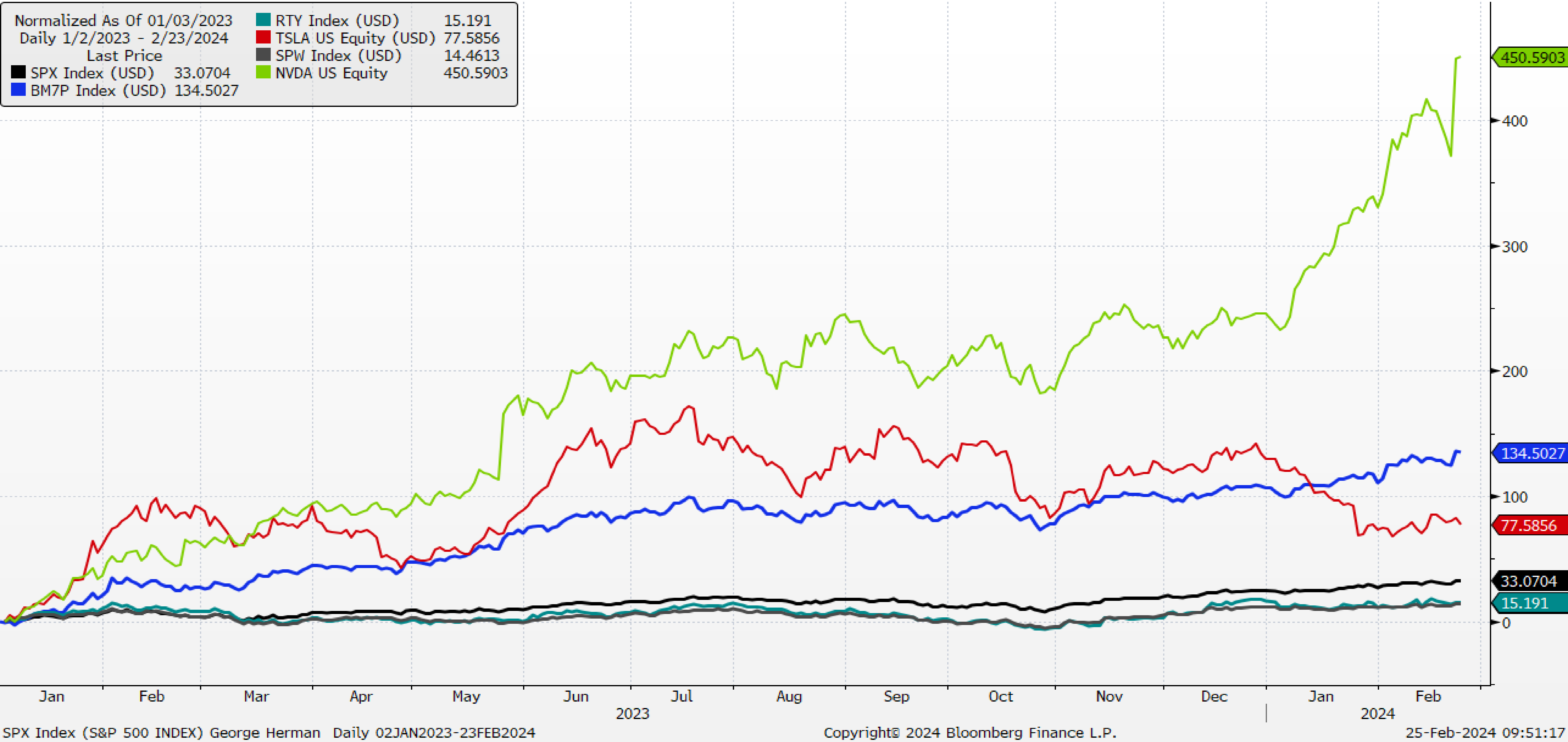

Normalized As Of 01/03/2023
Daily 1/2/2023 - 2/23/2024
Last Price
SPX Index (USD) 33.0704
BM7P Index (USD) 134.5027
RTY Index (USD) 15.191
TSLA US Equity (USD) 77.5856
SPW Index (USD) 14.4613
NVDA US Equity 450.5903
450.5903
400
300
200
134.5027
100
77.5856
33.0704
15.191
0
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
Jan
Feb
2023
2024
SPX Index (S&P 500 INDEX) George Herman Daily 02JAN2023-23FEB2024
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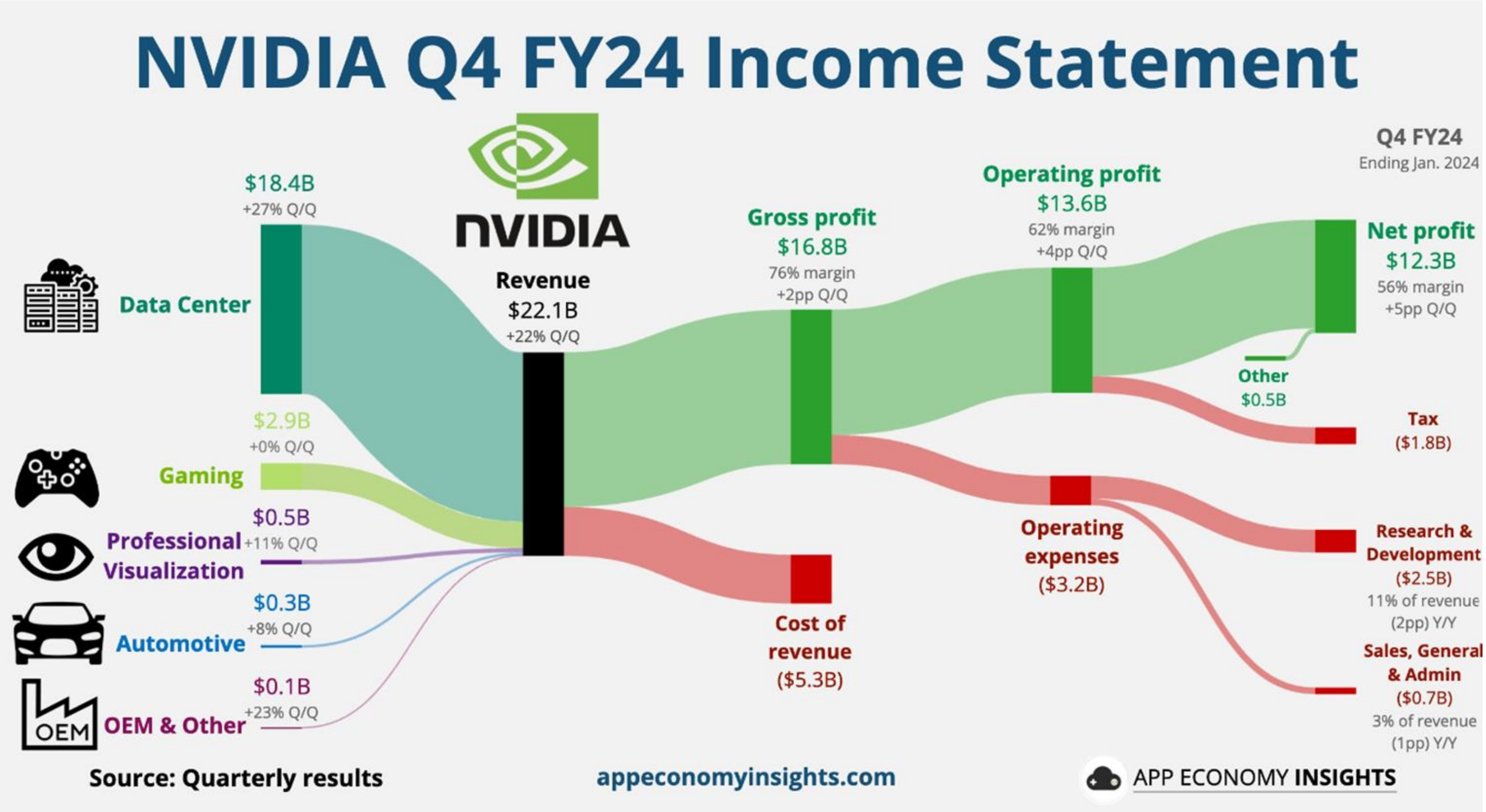
Nvidia



NVIDIA Q4 FY24 Income Statement
Q4 FY24
Ending Jan. 2024
NVIDIA
Data Center
$18.4B
+27% Q/Q
Gaming
$2.9B
+0% Q/Q
Professional Visualization
$0.5B
+11% Q/Q
Automotive
$0.3B
+8% Q/Q
OEM
OEM & Other
$0.1B
+23% Q/Q
Revenue
$22.1B
+22% Q/Q
Gross profit
$16.8B
76% margin
+2pp Q/Q
Cost of revenue
($5.3B)
Operating profit
$13.6B
62% margin
+4pp Q/Q
Operating expenses
($3.2B)
Net profit
$12.3B
56% margin
+5pp Q/Q
Other
$0.5B
Tax
($1.8B)
Research & Development
($2.5B)
11% of revenue
(2pp) Y/Y
Sales, General & Admin
($0.7B)
3% of revenue
(1pp) Y/Y
Source: Quarterly results
appeconomyinsights.com
APP ECONOMY INSIGHTS

Nvidia

($ in millions)	Q4 FY24	Q3 FY24	Q2 FY24	Q1 FY24	Q4 FY23	Q3 FY23	Q2 FY23	Q1 FY23
Data Center	$18,404	$14,514	$10,323	$4,284	$3,616	$3,833	$3,806	$3,750
Gaming	2,865	2,856	2,486	2,240	1,831	1,574	2,042	3,620
Professional Visualization	463	416	379	295	226	200	496	622
Auto	281	261	253	296	294	251	220	138
OEM & Other	90	73	66	77	84	73	140	158
TOTAL	$22,103	$18,120	$13,507	$7,192	$6,051	$5,931	$6,704	$8,288

Geopolitics

Israel says it is under attack in a 'multi-arena war'

Market weighing machine…

Which weighs more, when?

On the one side…

- China stimulus surge
- Better than exp ‘24 growth
- NO recession?
- Consensus was positioned for R
- FED backstop to Market crisis
- Housing market holding up
- End of hiking cycle
- Rate cuts must follow soon
- Bond yields rally
- Earnings slowdown is shallow
- Equity valuations undemanding

On the other side…

- China stimulus fading
- Worse growth outlook ahead
- Hard Landing!
- Consumer cash running dry
- Nothing has broken yet
- Commercial Real Estate
- Sticky inflation = higher TR!
- No rate cut in March
- Yields remain under inflation pressure
- Earnings slowdown…more to come
- Valuations rich for current Macro

Economic outlook: Summary

- **Global growth** should bottom during 2024: expect below potential growth in 2024 & then a recovery: a bit of winter first before spring!
- **SA growth** is lagging peers and will continue to do so until structural issues get resolved. Green shoots are emerging.
- **Global inflation** has moderated. By end-2024 global inflation should be much closer to central bank targets…Core inflation could be sticky, however.
- **Global interest rates**: cuts in short-term interest rates for all major economies & most emerging market economies (including South Africa) later this year.
- **Geo-political risks are high and are real:** adding uncertainty & volatility to an already challenging economic environment & higher risk premium to financial market assets.

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Q&A

THANK YOU

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