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Keeping a cool head in a volatile world

Navigating a complex global market with a sufficiently diversified portfolio will prove vital for local investors looking to protect capital and exploit opportunities

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Given the unprecedented risks that plague global markets at present, investors looking to invest outside SA must tread carefully.

“Russia’s invasion of Ukraine, tensions between the US and China, the global semiconductor crisis, global food shortages, heatwaves and water shortages, among other natural pressures, all set against the backdrop of rising inflation and interest rates and slowing global economic growth, create a complex environment for investors,” says Anil Jugmohan, senior investment analyst at Nedgroup Investments.

“In this environment, no one country, region or asset class is going to outperform all the time.”

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Navigating the complexity in global markets will prove vital for local investors looking to protect capital and exploit opportunities from the volatility.

Peregrine Capital portfolio manager Matthew Thomson believes hedge funds are ideally positioned to protect against the downside.

“Using put options or shorting offers a huge advantage in the current volatile environment, as it enables hedge fund managers to protect investors on the downside and also gives us the confidence to increase our exposure to the market as valuations fall.”

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- Anil Jugmohan

Jing Cong Xue, portfolio manager and equity analyst at Foord & Management, believes certain traditional safe-haven assets still offer

protection, despite high inflation.

“Assets that have pricing power and can consistently generate free cash flow irrespective of the inflationary environment have held up well during this period. For example, consumer staples such as Nestlé have been able to pass on inflation and continue to grow through periods of disruption,” says Jing.

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“We also see gold holding up well as a safe haven asset, particularly against equity markets and bitcoin due to its entrenched perception as a store of value.”

With a sufficiently diversified portfolio, investors can also look to exploit opportunities for alpha amid the volatility, without sacrificing this downside protection.

In this regard, Thomson adds that hedge funds have the ability to pair trade — buy a share long and short another share against it — which can generate alpha for investors regardless of the overall direction of the market.

“This is a huge advantage over traditional long-only fund management as it means we can still offer strong returns without the market necessarily having to recover. We are finding more of these opportunities in the current environment, which means we can run lower market exposures without giving up the upside investors are looking for.”

While the market downturn this year brought with it somewhat better valuations, investors should ensure that their portfolio

positions are carefully weighted to minimise undue risk and potential losses when venturing into equities, adds Jugmohan.

“We prefer companies with a durable competitive advantage amid the rising tide of long-term growth markets. These are companies with high return on invested capital and free cash flow generation, and the ability to compound growth.”

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- *Jing Cong Xue*

In this regard, Nedgroup Investments Global Equity Fund managers see opportunities for good long-term returns in areas such as big data and AI via stocks such as Alphabet and Amazon, for example, as well as next-generation global health care in companies such as Illumina, Catalent and CVS Health.

“We maintain our strict valuation discipline and absolute return mindset, while remaining patient in allocating investor capital to achieve the best opportunities,” says Jugmohan.

Jing also identifies value in the Chinese internet and consumer space.

“We’ve seen substantial corrections in valuations across the space following the regulatory crackdown that started last year, and continued Covid-driven restrictions.

“Current valuations reflect assumptions that headwinds will continue into perpetuity, but we believe that policies contributing to the headwinds today will either normalise or serve to benefit the economy over the longer term.”

In terms of alternative investments, Amol Prabhu, country CEO: SA and market head: Africa at Barclays, says the UK holds appeal for African high net worth individuals (HNWIs) who want to invest in quality real estate.

“These people may want a second home in London to spend n. time there or for inclusion in their investment portfolios.” HNWIs also

favour direct assets at present, notes Prabhu.

“Entrepreneurial families often like to invest in other entrepreneurs. These investments can take the form of high-growth technology companies in fintech, medtech or agritech, or those focused on climate change and other issues,” says Prabhu.

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