



Jonel Matthee-Ferreira
CEO & CIO

cogence

BlackRock |  Discovery

About **Cogence**:

Founded in August 2022, Cogence is a disruptive wealth-creating Discretionary Fund Manager. Cogence equips advisers with the tools to provide their clients best-of-breed advice by marrying the institutional quality risk management technology, Aladdin Wealth™, with global asset research and allocation insight from BlackRock, supported by RisCura's local investment expertise. Where available, individual clients' unique health and behavioural data, such as that collected by Discovery's Vitality, can be factored into perfecting individually forward stress-tested portfolios. The combination is uniquely able to empower advisers to manage and leverage volatility for growth in a fractured global investment landscape while keeping clients invested for longer.

2024 Market Outlook

The Great Unknown emerging as new mega forces shape the world of investing

6 March 2024

The unexpected resilience of developed markets in 2023 has placed global investors on a strong footing going into 2024. That said, Discretionary Fund Manager Cogence, and its partners BlackRock and RisCura, believe the world is entering a new period – The Great Unknown – as fracturing deepens and a record number of countries go to the polls.

The year that was

2023 surprised many. In place of a much-anticipated downturn among the world's developed economies, equity markets delivered robust returns for global investors as artificial intelligence (AI) euphoria took mainstage.

In this environment, the iShares MSCI ACWI, which tracks the performance of large and mid-cap stocks in developed and emerging markets, delivered returns of 22% (USD) in 2023. The Core MSCI S&P 500 delivered 25.6% (USD), the Core MSCI Europe delivered 16.1% (EUR), the Core MSCI Emerging Markets ETF delivered 11.3% (USD) and the MSCI South Africa ETF returned 1.6% (USD).

On the local front, both bonds and equities ended a skittish period in positive terrain as fears of a hard landing in the global economy gave way to more positive sentiment by year end. In this environment, fixed income made a resurgence as valuations for bonds improved. "This led flows into managed ETFs as reflected in the performance of the Cogence Conservative Fund which returned 13.67% compared to the ASISA category average of 11.05%," observes chief executive officer of Cogence, Jonel Matthee-Ferreira.

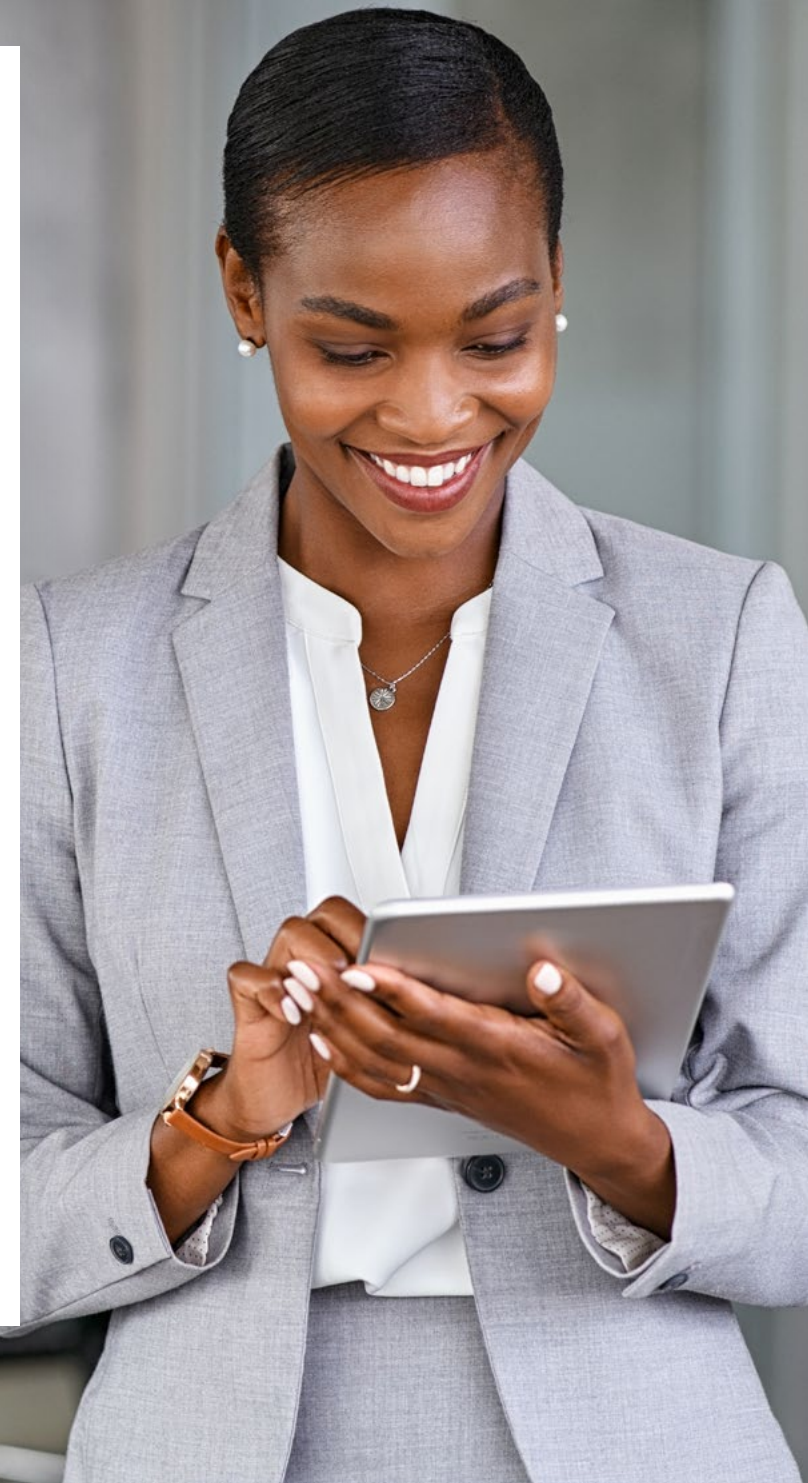
Entering the unknown

Cogence and its partners believe that the debate around whether the world will achieve a soft landing as peak rates bite in 2024 is misplaced. Matthee-Ferreira says that the recent rally is welcome, though adding, "What shouldn't be overlooked is just how narrow this has been - led by a mere handful of mega-cap American tech companies benefitting from the normalisation of the United States economy after the pandemic".

Instead, Cogence believes a more relevant conversation for the years ahead is likely to be the impact of profound structural shifts currently underway. Geopolitical fragmentation, shrinking workforces and the low-carbon transition are preventing economies from growing at pre-pandemic levels without stoking inflation. According to Matthee-Ferreira this means that "central banks are in a wholly different position now compared to where they were a decade ago. They can no longer flood the market with cheap money to accelerate growth".

In this new investment regime, The Great Moderation - a long period of stable growth and inflation - is giving way to The Great Unknown - marked by geopolitical fracturing and higher interest and inflation rates. This is locking in a cycle of what RisCura characterises as "political uncertainty begetting market volatility".

Matthee-Ferreira explains that seizing the opportunity presented by this new volatility requires "active asset management and expertise, macro-insight differentiation, and a detailed understanding of the mega forces shaping the world of tomorrow".



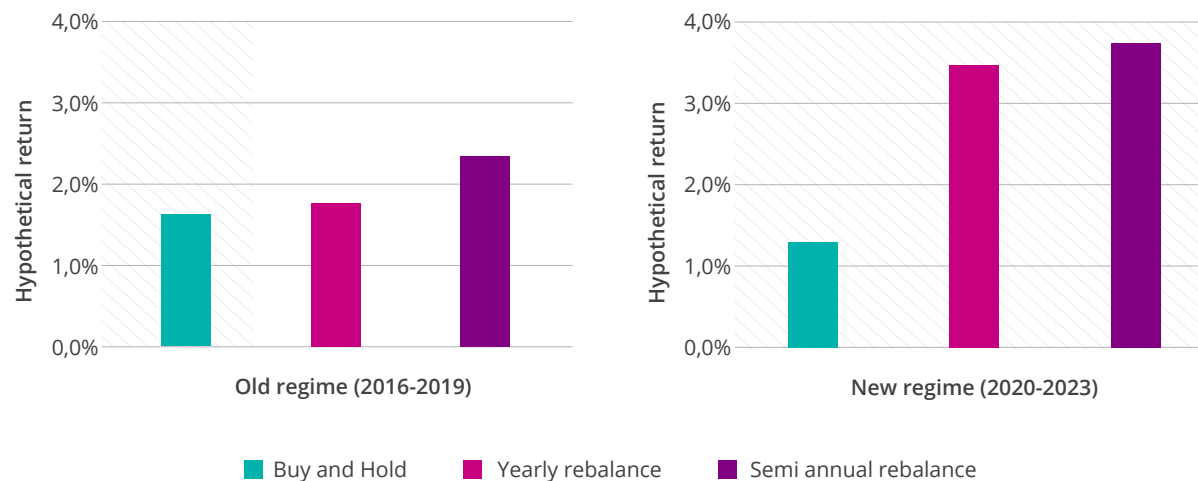
Macro uncertainty demands active insight

In 2024, globalised active management backed by macro-insights will become essential to enhancing portfolio outcomes as returns become more dispersed across the world's geographies, industries, assets and themes.

BlackRock analysis demonstrates that, since 2020, the dispersion in the estimates of United States equity analyst earnings has widened. The environment has become harder to read. But there is a silver lining. As the macro-outlook is more uncertain in the new regime, there is more scope to outperform than in the less-volatile Great Moderation. Within a wider dispersion of views, investment expertise can shine.

This is evident in analysis of hypothetical returns showing that a more dynamic approach to equities would have outperformed static buy-and-hold strategies over the medium period.

HYPOTHETICAL IMPACT OF REBALANCING ON U.S. EQUITY RETURNS



*Source: BlackRock 2024 Global Outlook

Matthee-Ferreira says that in this new unknown, active management is more important than ever. "Given so much uncertainty, investors must stay diversified and they must stay active. To achieve this, you need global expertise and macro-differentiation," she says.

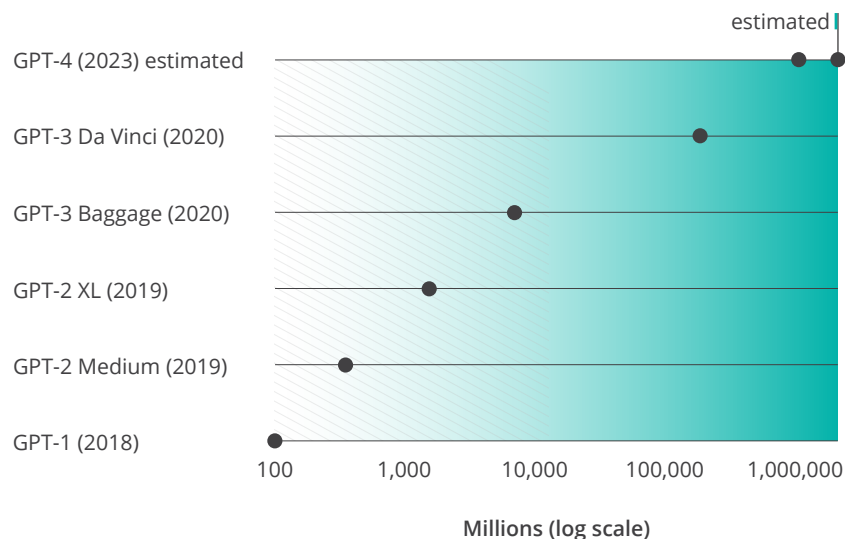
In short, in a world in which macro insights are likely to set those that do well apart from those that don't, Matthee-Ferreira explains that "having a partner with significant global expertise is a great advantage relative to local managers that also offer global solutions".

The bottom line is that as the world enters something entirely new, investors cannot rely on the investment paradigms of old. "Investors relying on static, broad asset class allocations for alpha is out," says Matthee-Ferreira. Instead, BlackRock believes, "today, the ability to deliver differentiated insights on the macro-outlook is key".

Mega forces: The building blocks of tomorrow

2023 showed that mega forces, like digital disruption, decarbonisation and the future of finance, are creating a new set of portfolio building blocks that help steer outcomes¹. The performance of counters tracking these trends demonstrates that the market's anticipation of the world of tomorrow can have profound implications for the value of portfolios today. As such, Cogence and its partners see rapid advances in technology continuing to define value as the AI revolution increases parameters and outputs across economies, sectors, industries and individual businesses.

NUMBER OF PARAMETERS IN SELECTED OPEN AI GPT MODELS



**Source: BlackRock Investment Institute with data from Open AI, Cornwell University, Semafor, JPMorgan, Reuters. November 2023.*

***Note: The chart shows the increase in parameters in selected iterations of Open AI's GPT (generative pre-trained transformer) models between 2018-2023. Open AI has not disclosed the specifics of the training data and architecture for GPT4 - the latest iterations. The estimated above is based on independent analysis, industry watchers and media reports, as well as cited in sellside research including JPMorgan. Parameters can be thought of as dials that are tweaked as the model learns setting to understand patterns in historical data. Data available on page 8 of the following paper: <https://arxiv.org/abs/2005.14165>.*

Yet, BlackRock says, "The biggest investment impact may come from AI's interaction with other tech and mega forces". They argue for a granular approach to identifying future winners not yet priced by the market. These top performers would be aligned not only to digital disruption and AI, but to demographic divergence, a fragmenting world, the future of finance, and the low-carbon transition too.²

Matthee-Ferreira believes, "These forces can be seen as portfolio building blocks that transcend traditional asset classes and straddle sectors and regions as they drive corporate profits independently and aren't necessarily correlated with what's going on in the macro environment".

With a lot more dispersion, megatrends and AI are presenting an entirely unique set of opportunities to do well outside of traditional asset classes.

Accordingly, the macro view for the global allocation in Cogence portfolios is neutral United States equities at the benchmark level. However, potential within the AI and digitisation theme brings the weighting of United States stocks to overweight overall.

More generally, Cogence is well-positioned to take advantage of this exceptionally dynamic market by applying its unique forward stress-testing to its investment approach. Matthee-Ferreira concludes that through BlackRock's innovative risk and investment technology platform, Aladdin Wealth™, Cogence's forward testing allows clients to test how their portfolio will behave under different conditions and scenarios. "These partners, tools and insights enable us to show our clients the power of staying invested through volatility," Matthee-Ferreira says.

¹ <https://www.blackrock.com/corporate/literature/whitepaper/bii-global-outlook-2024.pdf>

² <https://www.blackrock.com/corporate/insights/blackrock-investment-institute/publications/mega-forces>

Meet the Cogence team



JONEL MATTHEE-FERREIRA
CEO & CIO

Jonel comes with almost 20 years of senior management experience in asset management, including more than a decade leading multi-managers. She joins Cogence from Sanlam Multi-Management and held a similar role at Absa Multi-Management.



DIMITRI THEO
HEAD OF SALES

Dimitri comes with more than 20 years' experience in financial services with previous roles in New York at Goldman Sachs and Ernst & Young, and in South Africa at Aylett & Co. Fund Managers, Absa Wealth, and Rand Merchant Bank.



MARIZE VAN DER MERWE
HEAD OF CLIENT
STRATEGY & SOLUTIONS

Marize served as Head of Client Experience at Graviton Financial Partners, where she also previously headed up Investment Services. Her career includes roles at Sanlam Investments and Glacier by Sanlam.



KERRI-ANN SATTARY
INVESTMENT SPECIALIST

Kerri joins Cogence from Ninety One Asset Management in London, where she worked as an investment specialist covering Global and UK Equity strategies. She also assumed the role of a performance attribution and risk analyst at Ninety One.



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