NAVIGA

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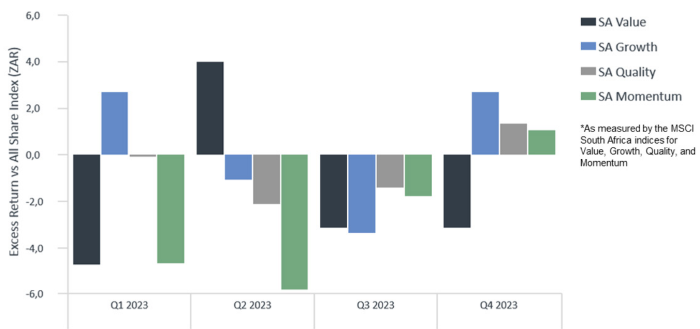
ARE YOUR INVESTMENTS TRULY DIVERSIFIED?

Recent years have seen large performance rotation in asset classes, styles, sectors and regions. How do you protect yourself against this volatility and performance swings?

Concentration in specific geographies, sectors, or investment styles often drive market performance for extended periods of time. The MSCI World index, for example, holds stocks across 23 developed countries, with approximately 1500 shares in the index. However, more than 70% of this index consists of United States (US) exposures, representing significant geographic concentration. Within the US, the ten largest shares on the S&P500, most of which are AI related, account for more than 30% of the index - the highest concentration level in over 30 years. Consequently, a portfolio of global equities most likely means significant geographic and sector concentration. When these positions perform well, as they recently have, concentration risk is often overlooked. Country, sector, or style specific event can however cause large losses. The top shares on the S&P500, the magnificent seven, had an impressive 2023, pulling the market up to record highs, however, investors forget that they also lost more than 40% during 2022.

In South Africa, the concentration risk at an index level has been partially addressed over the past years with the reweighting of Naspers and Prosus. However, the market is still becoming narrower as more companies delists and liquidity constraints force funds into the largest 10 stocks on the index. Style rotation is also a significant occurrence, as can be observed from the styles performance relative to the All Share Index.



Most investments follow periods of outperformance and underperformance based on specific investment styles or exposures, and the prevailing market environment. As an investor, you should interrogate underlying holdings and strategies to ensure proper diversification. Partner with the experts for long-term success!

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