NAVIGA

EFFICIENT WEALTH

THE IMPACT OF INTEREST RATES ON SOUTH AFRICAN ASSETS

With growing expectations for local rate cuts, investors should consider the potential impact on their portfolios. Lower interest rates reduce the cost of borrowing, stimulating economic activity and boosting consumer spending. However, it also reduces the return available on savings. Although just one of the factors impacting asset returns, rate cuts typically prove negative for cash investors while benefitting bonds, equity, and listed property.

1. Bonds

Bonds benefit from the inverse relationship between interest rates and prices. As interest rates fall, investors are willing to pay more for bonds that offer higher rates than the prevailing market rate, increasing prices.

2. Equities

The expectation of future earnings is a key driver of share prices. Lower interest rates can potentially increase company revenue and profits through higher consumer spending and lower borrowing costs. However, the impact can differ depending on the specific market sector. Financial stocks tend to suffer from lower interest rates, as they reduce the profit margin of banks and other lending institutions. On the other hand, consumer discretionary stocks (such as Shoprite and Mr Price) tend to benefit, as lower interest rates increase the disposable income and spending power of consumers.

3. Listed property

Listed property, which is a debt-heavy asset class, tends to benefit as lower rates lead to lower interest costs and increased spending at commercial properties.

When studying historic returns, the picture does not necessarily reflect a straightforward relationship. Certain inferences can be drawn from analysing past results (see the table below), such as equities tending to outperform during cutting cycles, cash performing better during hiking cycles, and bonds typically reacting ahead of announcements - outperforming before cuts and underperforming before hikes (not necessarily during).

Average Annualised Return	SA Equities	SA Bonds	SA Property	SA Cash
Hiking Cycle	9,62%	14,66%	10,55%	8,92%
Cutting Cycle	22,54%	9,71%	11,07%	7,44%

**Average of annualised return over cutting/hiking cycles since 1998. All returns in ZAR.*

But for investors, it is important also to consider the significant impact of cycle-specific variables such as starting valuations, structural imbalances, asset-specific metrics, and the level of cuts or hikes implemented when drawing conclusions. To ensure that you are appropriately positioned, partner with the experts.

CITYWIRE
SOUTH AFRICA DFM AWARDS 2023 WINNER
NAVIGA SOLUTIONS (PTY) LTD
PERFORMANCE: EQUITY GENERAL - GLOBAL

t: 087 056 9631 | e: info@naviga.co.za | www.naviga.co.za | Catnia Building, Bella Rosa Village, Bella Rosa Street, Bellville, 7530