

An aerial photograph showing a two-lane asphalt road that curves through a dense green forest. To the left of the road is a large, calm body of water with a dark blue-green hue. A single white car is visible on the road, heading away from the viewer. The text 'NAVIGATING ALL-TIME HIGHS WITHOUT FEAR' is overlaid in white, bold, sans-serif capital letters on the left side of the image.

NAVIGATING ALL- TIME HIGHS WITHOUT FEAR

22 August 2025

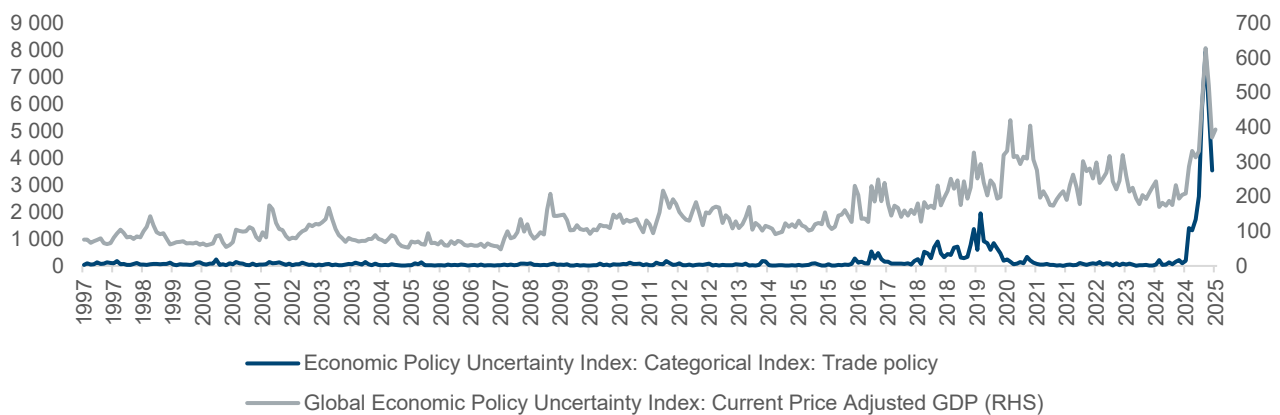


NAVIGATING ALL-TIME HIGHS WITHOUT FEAR

Recent market gains have been underpinned by a range of supportive factors. U.S. growth has shown signs of slowing, but without indications of an imminent recession. Inflationary pressures from tariffs appear transitory, given China's producer price index remains deeply negative and energy prices are stable. U.S. shelter inflation continues to moderate, while expectations for interest rate cuts provide additional support. Progress on trade negotiations, a short-term boost from President Trump's One Big Beautiful Bill Act, ample liquidity, and a reduction in geopolitical risk have further reinforced market sentiment. Meanwhile, although China's macroeconomic data remain weak, the broader narrative has shown tentative signs of improvement.

Despite these positives, risks have not disappeared. Trade and economic policy uncertainty has moderated from previous highs but remains elevated by historical standards. Against this backdrop, some investors are increasingly cautious about markets pushing to all-time highs. Concerns persist that elevated valuations and signs of investor complacency could leave markets vulnerable to setbacks if conditions shift.

Figure 1: Global economic policy uncertainty and trade policy uncertainty



Source: Federal reserve bank of St. Louis

The key question for investors is whether current market conditions justify taking profits after a strong rally. The table below illustrates the performance of a strategy that reduces equity exposure in a 60/40 equity/bond portfolio by 10%, reallocating the proceeds into bonds, and subsequently increases equity exposure when the market falls 10% from its all-time high, with monthly rebalancing. To ensure fairness, if the market has declined more than 10% from its all-time high, the strategy maintains the equity overweight (i.e., 70%) until a new all-time high is reached, allowing participation in the subsequent recovery phase.

Table 1: Key summary of Strategy 1 performance (down weight MSCI ACWI when reaching all-time highs)

Period under analysis	December 1987 to July 2025	
	Portfolio	Benchmark (60% MSCI ACWI 40% WGBI)
Cumulative performance	1103.4%	1219.9%
Cumulative performance annualised	6.8%	7.1%
Sharpe ratio	0.36	0.39
Downside deviation	0.08	0.07
Treynor ratio	0.49	0.56
Success rate at achieve or outperforming benchmark (3-year rolling)	38.7%	

*All returns are in USD, US 3 month treasury bill used for risk free rate

Source: Bloomberg



The strategy does not appear to outperform the benchmark. The results remain largely unchanged whether the investor increases equity exposure when the market is 5% or 20% below its all-time high. Conversely, if the investor maintains a 60% equity allocation at all-time highs but increases equity exposure following a 10% market drawdown—and keeps that overweight allocation until a new high is reached—the portfolio is able to track the benchmark closely, with a modest outperformance.

Table 2: Key summary of Strategy 2 performance (stay invested in MSCI ACWI when reaching all-time highs and up weight when market pulls back 10%)

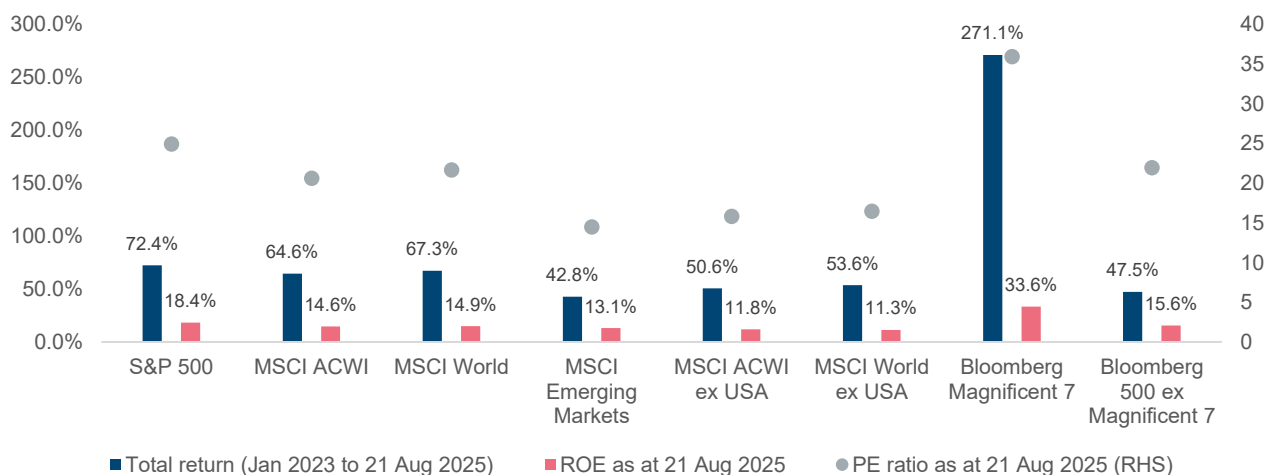
Period under analysis	December 1987 to July 2025	
Strategy 2	Portfolio	Benchmark (60% MSCI ACWI 40% WGBI)
Cumulative performance	1284.9%	1219.9%
Cumulative performance annualised	7.2%	7.1%
Sharpe ratio	0.39	0.39
Downside deviation	0.08	0.07
Treynor ratio	0.55	0.56
Success rate at achieve or outperforming benchmark (3 year rolling)	79.1%	

**All returns are in USD, US 3 month treasury bill used for risk free rate
Source: Bloomberg*

Equity markets rise more often than they fall as over the analysis period, the MSCI ACWI delivered positive monthly returns 62.5% of the time. The strategies discussed above suggest that while increasing equity exposure at new all-time highs warrants careful scrutiny and further analysis, investors are generally better off staying invested. New all-time highs are not inherently problematic, though valuation levels and concentration risks may warrant attention.

The Magnificent Seven stocks currently account for approximately 34% of the S&P 500, up from 12.3% in 2015. The MSCI ACWI Index has a US weighting of around 65%, with the Magnificent Seven stocks account for roughly 21% of the MSCI ACWI Index. The chart below highlights the total returns the Magnificent Seven stocks enjoyed since early 2023 to date, a key driver of the outperformance of S&P 500 over other peers as the Bloomberg 500 ex Magnificent Seven was up 47.5%, underperforming other DM equities (MSCI World ex USA).

Figure 2: Total return, return on equity (ROE) and price to earning ratio (PE) for selected indices

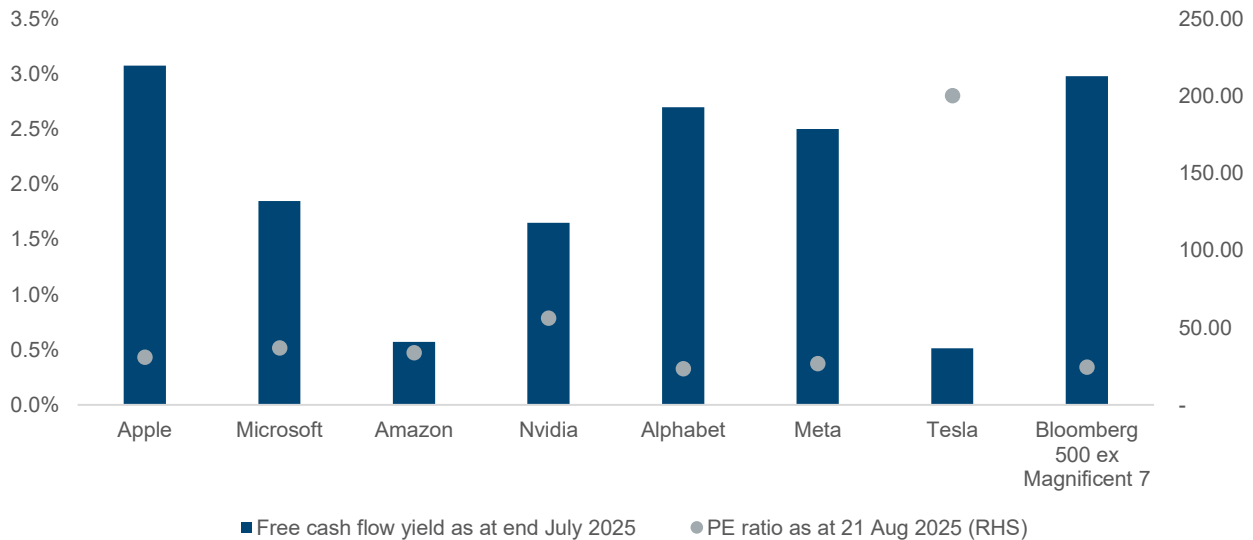


Source: Bloomberg



While the P/E levels of the Magnificent Seven appear excessive—trading at around 36x compared with 22x for other indices—they are not all the same. The chart below highlights that some of these companies are highly cash-generative, whereas Tesla, with a P/E of 200, is a clear outlier. The chart above also suggests that MSCI Emerging Markets, with its relatively cheaper valuations, could benefit from a weaker-dollar environment. This aligns with the Trump administration's general approach to enhance U.S. export competitiveness through a softer dollar, as well as investors' concerns regarding U.S. fiscal sustainability.

Figure 3: Magnificent Seven PE ratio and free cash flow yield



Source: Bloomberg

Compared with the period leading up to the Dot-com bubble, the charts below show that technology firms today are more profitable than they were then. With liquidity remaining accommodative, there is also potential for valuations to rise further from current levels.

Figure 4: PE ratio of M7 vs Information Tech during Dot-com bubble

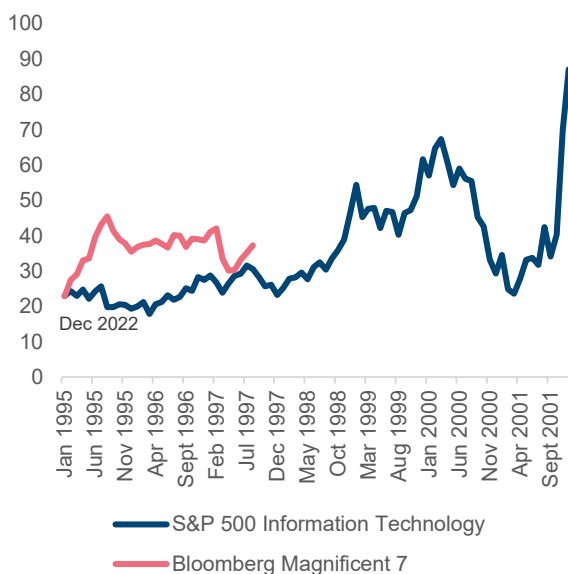


Figure 5: Operating Margin of M7 vs Information Tech during Dot-com bubble

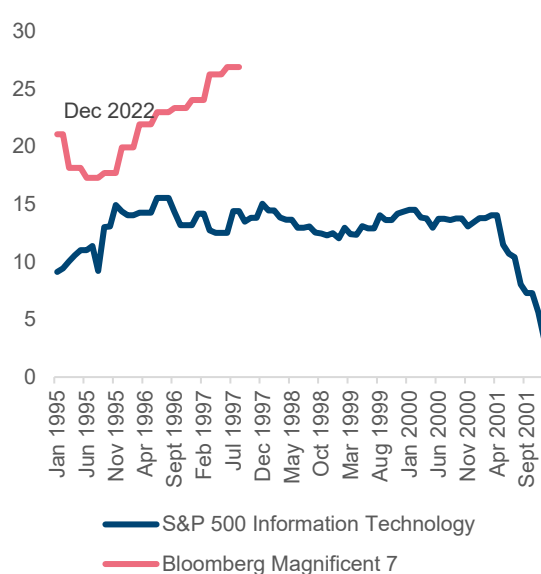
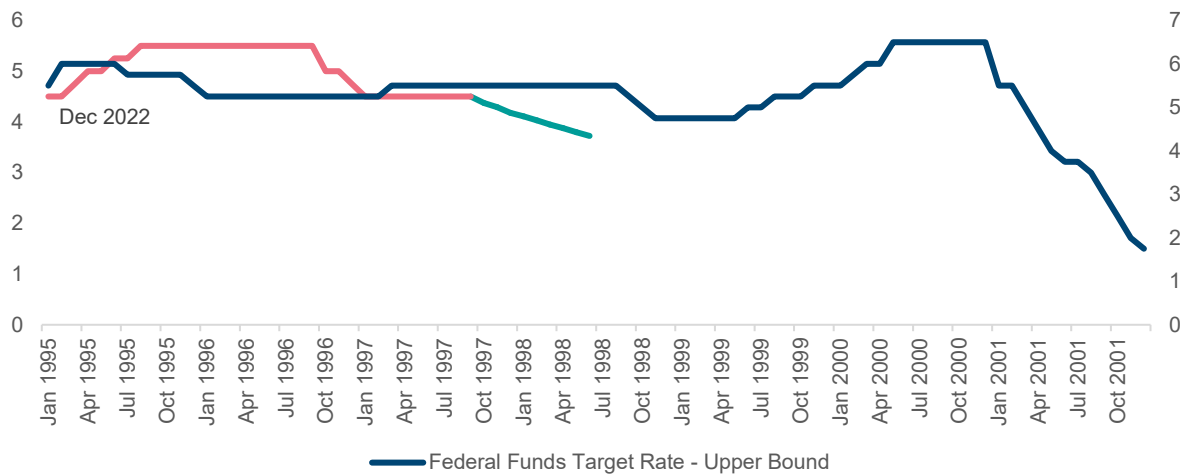




Figure 6: Fed rate (upper bound) since Dec 2022 for Dot-com bubble



Source: Bloomberg, FRA rates are used as market expectations of future US interest rates

While valuation is of limited use in short term calls, 10 year cyclically adjusted PE ratio (CAPE) which is currently over 30, does suggest limited upside potential over the next 5 to 10-year horizon for US equity.

Figure 7: S&P 500 CAPE ratio range vs next 5 year return

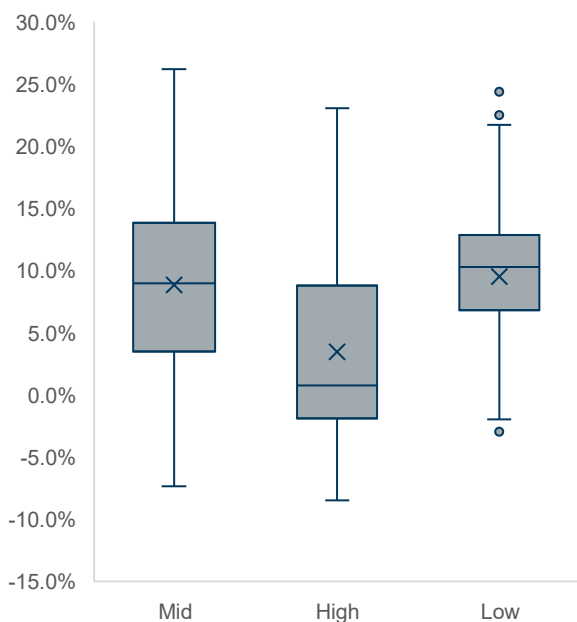
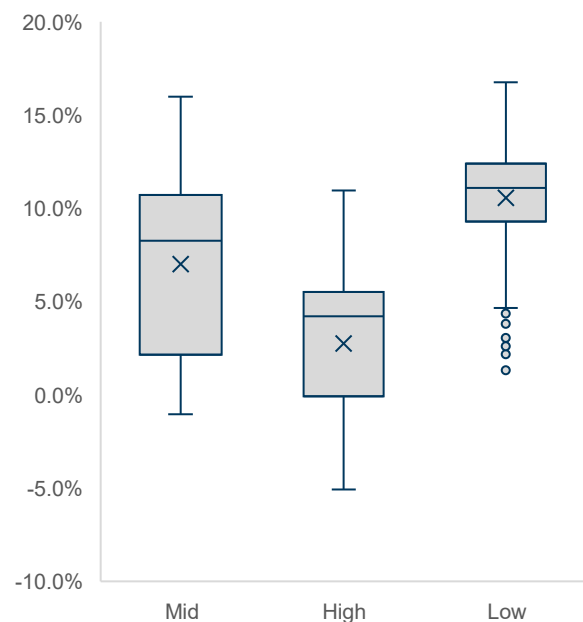


Figure 8: S&P 500 CAPE ratio range vs next 10 year return

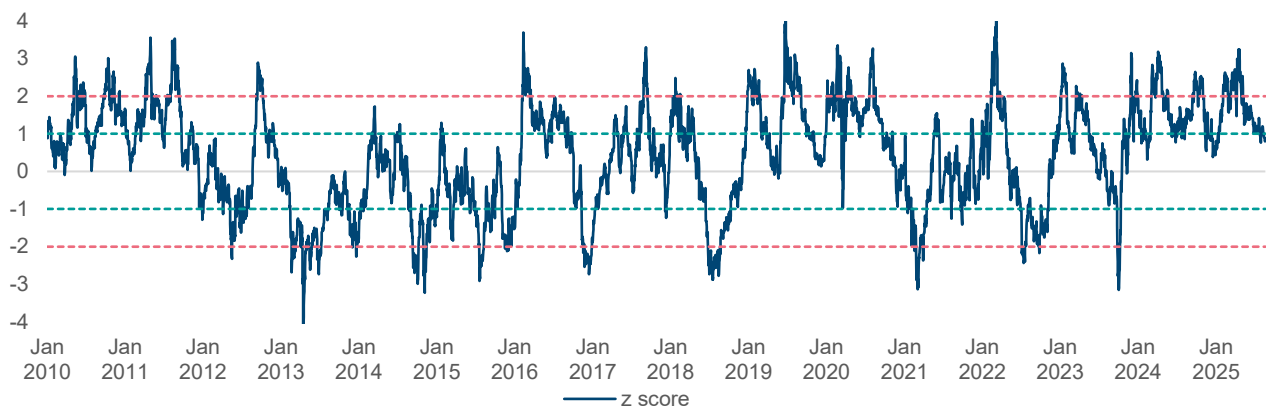


Source: Bloomberg, line marks the median, x marks the average

While the South African equity rally year-to-date has been relatively narrow, it has broadened modestly quarter-to-date, driven by outperformance in property counters and Standard Bank. The domestic growth outlook remains weak due to a lack of structural reforms and ongoing public sector governance challenges. Additionally, foreign policy concerns increase geopolitical risk, ultimately limiting the upside potential from a weaker dollar narrative. However, the 200-day momentum of gold prices suggests limited correction risk, as investor sentiment remains bullish, albeit more normalised compared with four months ago, should provide some comfort to investors concerned over a resources sector correction.



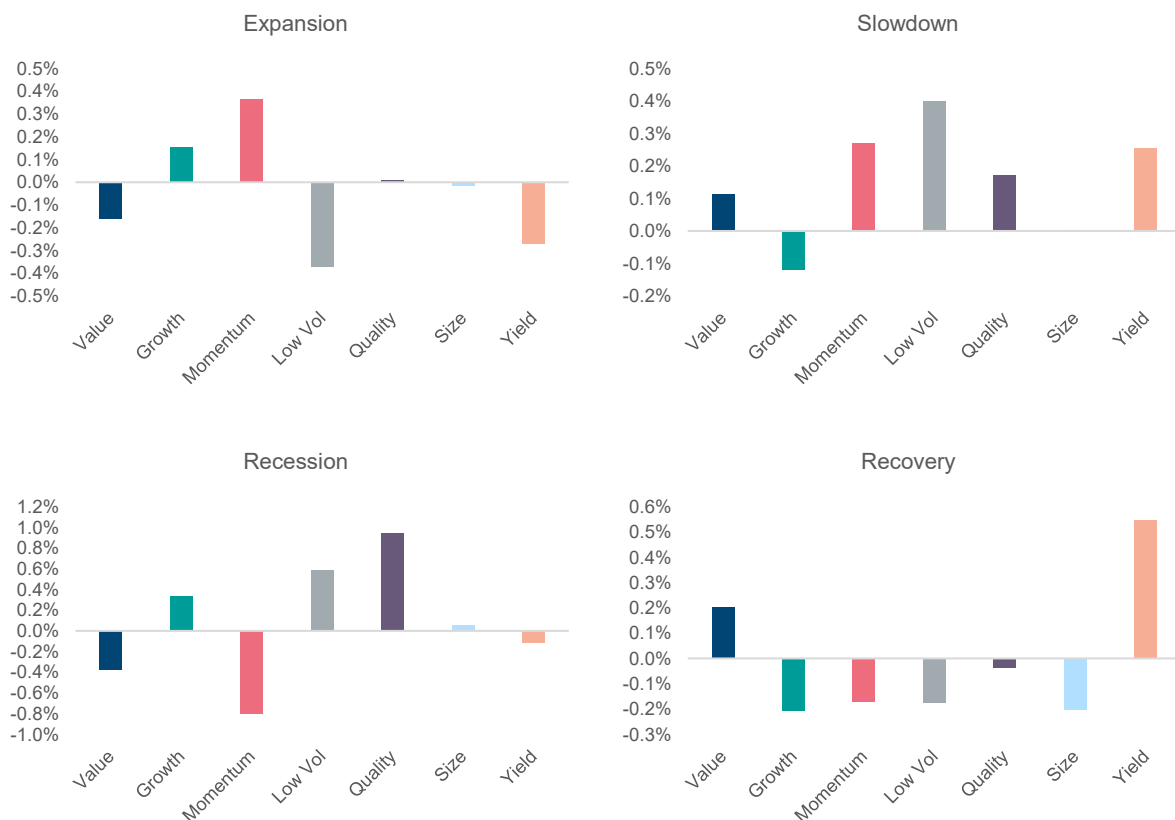
Figure 9: 200-day gold price momentum indicator



Source: Bloomberg

Domestically, MSCI SA Growth has been the only factor to outperform the ALSI year-to-date. In the U.S., Momentum has outpaced all other factors—and even the S&P 500 Index—though growth has contributed to a lesser extent. With the U.S. composite PMI improving from 55.1 in July to 55.4 in August, Momentum is likely to remain strong. However, it may be prudent to increase exposure to Quality, given the backdrop of macroeconomic uncertainty. While the probability of a recession has declined, it cannot be ruled out, and Quality typically offers protection in a slowdown.

Figure 10: Average relative performance of MSCI ACWI style indices over various phases of US business cycle



Source: Bloomberg. MSCI ACWI style indices are used, returns are in USD, since common history inception date of Jan 1999. US Composite PMI is used as business cycle indicator (no smoothing applied)
Average monthly relative returns



Clearly, this is not the moment to build a large new position in global equities if the rally has already been missed. However, history suggests that staying invested remains sensible in light of supportive macro trends, moderating inflation, and the prospect of rate cuts. At the same time, elevated valuations and lingering policy uncertainty call for disciplined risk management. A shift toward active management, targeting high-quality, reasonably valued businesses with durable competitive advantages, appears prudent, both as protection against downside economic surprises and as a way to navigate increasingly concentrated benchmarks. Ultimately, portfolio positioning should be guided by investors' time horizons, risk tolerance, and conviction in the durability of current market drivers.



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