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As an investment professional I am often asked about our 'investment outlook'. The question is reasonable, given that the impact of any investment decision purely depends on the future rather than the past. There is no shortage of written articles and videos on the market outlook, what lies ahead, or even more boldly, predictions for companies, asset classes or geographical regions. It is easy to dismiss this as pure speculation, but I do believe that there are concrete, trustworthy indicators worth considering in formulating an investment outlook. And how can one have an investment strategy without formulating opinions about the future?

It is important to create some distinction between two common approaches in order to better understand and evaluate this challenging endeavour. Perhaps an analogy would be helpful, since the world of investing, much like quantum physics, seems to operate on its own unique principles. In many sports, forecasting a winner will be based mostly on form and ranking. With Ireland currently occupying the top position in world rugby, they are considered favourites to beat any opponent in a game of rugby. When faced with a lower ranked opponent, the odds are more strongly in their favour, and betting odds will reflect that expectation. Notably, ranking is not just a reflection of the past, but is also a good predictor of future results, even if not perfect.

When looking at investments, relying on past form to predict the future simply does not hold up, especially over longer time horizons. In investments, profits are made by 'buying low and selling high'. That means acquiring assets as cheaply as possible and selling when prices overtake underlying value. And this can be done because financial assets tend to 'mean revert'. In other words, expensive assets eventually become cheaper and vice versa. An example of this would be oil futures trading at negative values in March 2020, returning to $100 a barrel in the subsequent two years.

When evaluating a market outlook or economic prediction, the underlying logic tends to be either mean reversion, or its opposite, momentum. A momentum bias would favour outperforming assets to keep outperforming, so past winners are expected to continue into the future. The momentum investor seeks well performing assets that may already be expensive, in the hope that they will become more expensive. In the same vein, investments that performed poorly, are avoided. When a short time period is considered, momentum might well be a successful strategy, if nimble decisions can be made at inflection points. But over longer periods, mean reversion is by far the more logical approach.

In considering the past performance that ultimately determines the current valuation picture, a short-term investor would logically then conclude that investment outlook in South Africa is poor. Stocks performed poorly for a long time, the rand is undervalued, local bond yields are high, and even global stocks and bonds have pulled back substantially as looming rate cuts remain just over the next hill. As an investor more interested in building wealth over the long term, I am unequivocally positive in my outlook. With local equity, bonds, inflation-linked bonds, cash and property all trading at attractive valuations, the investment outlook is actually fantastic. Global markets are trading closer to fair value, so whilst not abnormally attractive, at least an average return could be expected from this point forward from these markets. This is the environment where optimists will ultimately triumph, because in the simplest terms, we are now absolutely in a 'buy low' world.

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