Market Overview

31 October 2021

seed investments

Local Market

South Africa continued to experience a reduction of Covid-19 infections and deaths in October as the third wave comes to an end. As at 31 October, Department of Health data shows that 22.4mn vaccines have been administered, compared to 17.9mn at 30 September. From the 20th of October, vaccinations have also been extended to South African adolescents aged between 12 and 17 years, with a goal of vaccinating at least 6 million people within this age group.

Locally, October was a quiet month on the economic data front with the inflation reading coming to the fore. The CPI inflation rate remained elevated above the 4.5% mid-point target from the South African Reserve Bank (SARB), coming in at 5.0% for September.

Inflationary pressure is beginning to build and the SARB has stated that the sustained increase in inflation prompts the need for interest rates to start normalising, implying a rate hike of 25bps in the last quarter of 2021 and one in every quarter next year.

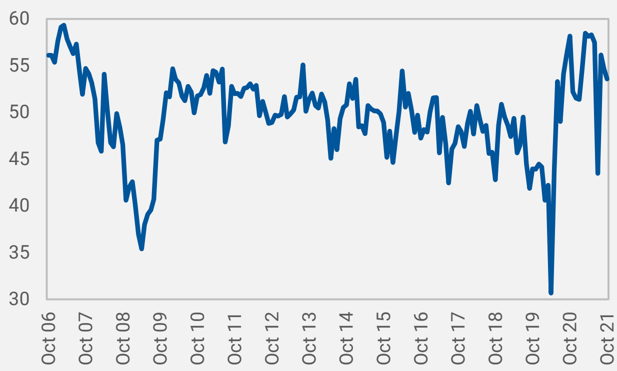
Eskom increased rolling blackouts at very short notice in the last week of the month, moving to stage-4 loadshedding and cutting 4000 megawatts from the national grid. The power utility admitted that a portion of the electricity load-shedding was due to negligence within Eskom. This, along with uncertainty ahead of the municipal elections on the 1st of November, weighed on business and consumer confidence.

The return of loadshedding, and a three-week strike in the steel and engineering sector affected business activity in October, contributing to the almost four-point drop in the seasonally adjusted Absa Purchasing Managers' Index (PMI). As illustrated in **Chart 1** (below), PMI dropped to 53.6 from 54.7 in September.

SA's trade surplus for September declined to R22bn compared to the average of R50bn per month from April to August. This was below market expectations for a surplus of R35 billion and well below the revised surplus of R40.3 billion in August.

Imports rose by a substantial 15.9% month-on-month, while exports declined by 1% month-on-month. The slight drop in exports was off an especially high base, while the increase in imports was broad based and largely seasonal in nature.

Chart 1: Absa Purchasing Managers Index (PMI)



Source: ber.ac.za (31 October 2021)

Global Market

Inflation, monetary tightening, and ongoing supply chain bottlenecks continued to weigh on investor sentiment in October. The inflation debate remained front and center, especially relating to concerns that inflation will not be transitory after all. US Federal Reserve Chair Jerome Powell stated that, "The risks are clearly now to longer and more persistent bottlenecks and, thus, to higher inflation".

Limited supply has kept inflation close to the peaks reached earlier this year in most major developed economies. Emerging markets have also seen notably higher inflation. Developed market central banks have therefore continued to prepare the market for monetary tightening coming earlier than expected, while some emerging market central banks have already entered their hiking cycle.

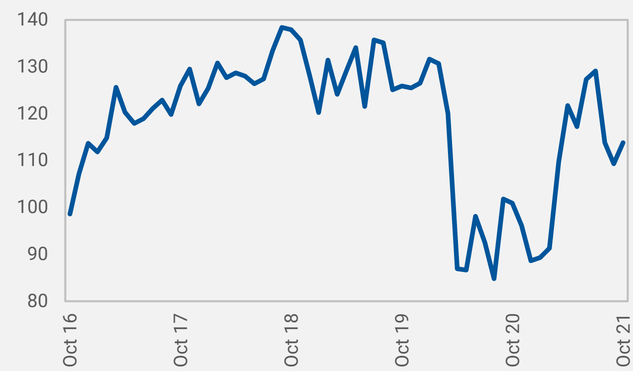
A strong start to the third quarter corporate earnings season made investors look beyond inflation and supply chain woes and was broadly supportive for equities over the month. More than half of S&P 500 companies had reported Q3 earnings by the end of October with their earnings up 40% year-on-year in aggregate, 10% ahead of expectations.

Globally, Covid took a backseat in October, continuing the declining trend established in September. It was only the UK that recorded a substantial increase in new Covid-19 cases, despite a relatively high vaccination level. Delta plus, the latest Covid-19 variant strain, is blamed for the spread, inspiring fears around the potential reimposition of restrictions in the UK.

China's GDP growth rate continued to slow, printing a mere 0.2% quarter-on-quarter for Q3, down from 1.2% in Q2 and marking the weakest growth since the start of the pandemic. The slowdown in economic growth was due to a combination of factors, including power shortages, supply bottlenecks, sporadic Covid-19 outbreaks, and rising jitters over the property sector. US GDP came in at 2% quarter-on-quarter for Q3, slightly behind expectations of 2.6%. The US economy grew by 6.7% quarter-on-quarter in the Q2, after growing by 6.3% in Q1.

After a rocky third quarter, US consumers were more upbeat in October with the Conference Board's consumer confidence index unexpectedly rising to 113.8. As illustrated in **Chart 2** (below), this is up from 109.8 in September and rebounding after three consecutive monthly declines.

Chart 2: US Conference Board (CB) Consumer Confidence



Source: investing.com (31 October 2021)

Asset Class (ZAR)	MTD	YTD	1 Year	3 Years	5 Years	10 Years
Local Equity	5.2%	18.0%	36.0%	12.6%	9.5%	11.1%
Local Property	-1.7%	24.2%	65.9%	-6.8%	-6.1%	5.0%
Local Bonds	-0.5%	4.9%	10.9%	9.5%	8.3%	7.9%
Local Cash	0.3%	2.9%	3.5%	5.0%	5.7%	5.6%
Global Equity	6.2%	20.9%	28.4%	18.6%	17.5%	18.9%
Global Property	7.6%	28.0%	35.7%	12.3%	10.9%	16.5%
Global Bonds	0.7%	-2.7%	-9.8%	5.1%	4.4%	8.0%
Global Cash	1.0%	3.6%	-6.4%	2.1%	3.7%	7.6%

Market Overview

31 October 2021

Local Review

Equity

After two months of negative returns, local equities followed global markets higher in October with the JSE All Share Index appreciating 5.2%, bringing the index's year-to-date performance up to 18.0%. Due to a strong run in most commodity prices, the resource sector was up 8.4% for the month. Industrials weren't too far behind, appreciating 6.7% and Financials underperformed, dropping 3.2% over the period. Foreigners were net sellers of South African equities in October for the seventh month in a row. Our models suggest there is significant value on offer, and we therefore maintain our equity allocations at levels moderately above benchmark.

Property

Local property had a gloomy end to the month, with the SA Property Index losing 1.2% on the last trading day and closing the month down 1.7%. While local property was the worst performing local asset class in October, it remains the best performing asset class year-to-date (24.2%). We still maintain an underweight ranking on this asset class as the yields on offer do not fully reflect all the underlying fundamental risks.

Bonds

Local bonds declined in October, with the JSE All Bond Index losing 0.5%. Year-to-date the index has now returned 4.9%. Yields shifted higher, getting their cue from global markets which sold off. The benchmark R186 yield ended the month at 8.2% (from 7.6% in September) and the risk premium component remains very high. The yield in real terms is very attractive when compared to other asset classes and we increase our allocation to bonds to overweight levels relative to the benchmark.

Cash

The annual inflation rate accelerated for a second consecutive month to 5% in September from 4.9% in August. Main upward pressure came from prices of transport as petrol prices continued to rise. Other upward pressure came from cost of housing and utilities, such as electricity and other fuels. Food prices slowed for the first time since February. Cash currently delivers a negative real yield of -1.3% and while we appreciate the optionality in cash, there are several other asset classes have much higher expected real returns at the moment.

Global Review

Currency

The local currency had another tough month. Kicking the month off at R/$15.07, it weakened significantly against the dollar and ended October at R/$15.25. Year-to-date the rand has declined by 3.7% against the greenback. At month end, the ZAR was 3% undervalued relative to the trade weighted basket of currencies on a purchasing power parity basis. Using the same methodology, the ZAR was 29% undervalued versus the USD.

Equity

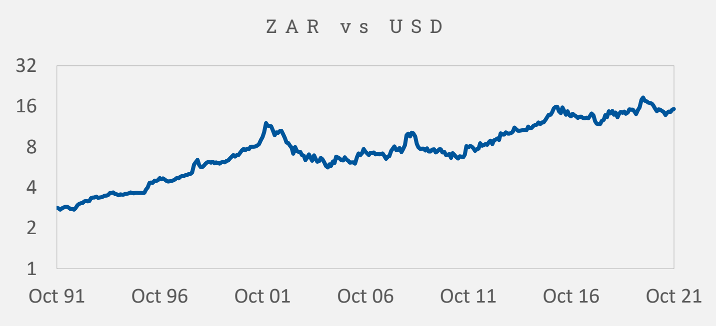
Global equity markets rebounded strongly in October after September's rout. Despite global supply chain issues, companies reported solid results and developed market equities had their strongest month since November 2020. In dollar terms, the MSCI All Country World Index appreciated 5.1%. The US outperformed global markets with the S&P 500 up 7.0% and the Nasdaq 7.3%. While significantly lagging their developed market peers, emerging markets still delivered positive performance with the MSCI Emerging Markets Index up +1.0% for the month. We continue to favour allocation to high quality stocks and maintain our allocation to global equity at levels just above benchmark.

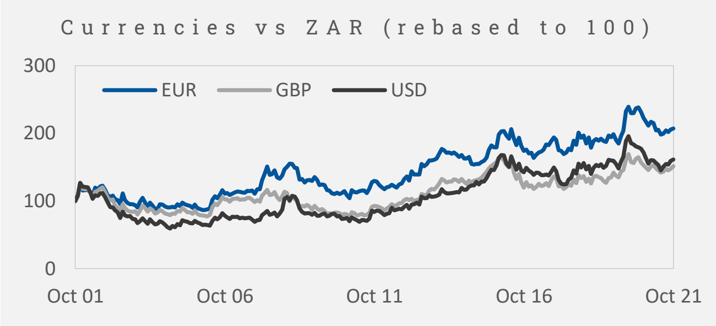
Fixed Income

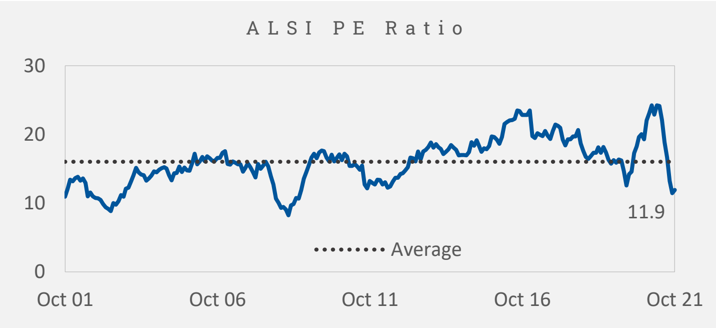
Bonds sold off in October on higher inflation and policy rates. 10-year yields continued to rise as tighter monetary policy was priced in, ending the month at 1.6%, from 1.5% in September. BCA Research remain of the opinion that long-term rates are likely to rise only moderately. They predict the US 10-year Treasury yield to be at 1.7% by end-2021, reaching 2-2.25% at the time of the first Fed rate hike.

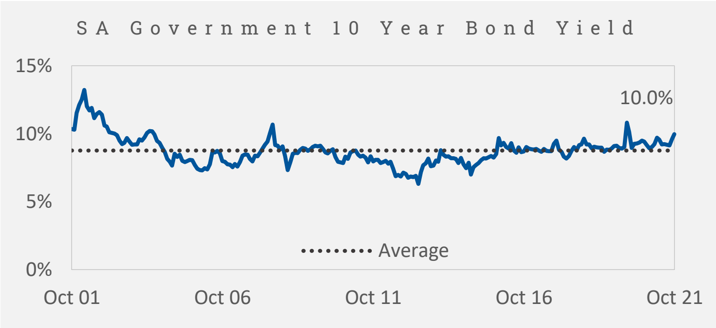
Alternative

Other asset classes that can be considered include structured notes, private equity, direct real estate, commodities, and hedge funds and can provide investors with uncorrelated returns. Interest rates have been slashed to all-time lows, making these uncorrelated global assets particularly attractive as they offer an asymmetric return profile. Alternative asset classes can thus perform a useful role in multi asset portfolios as they help provide more consistent returns. While gold forms part of that cluster we have reduced exposure to gold slightly.









Market Overview

31 October 2021

seed investments

Disclaimer

Seed Investment Consultants is an Authorised Financial Services Provider in terms of the Financial Advisory and Intermediary Services Act (Act No. 37 of 2002). The laws of the Republic of South Africa shall govern any claim relating to or arising from the contents of this document. This document may not be amended, reproduced, distributed or published without the prior consent of Seed Investment Consultants.

No guarantee is provided as to the values of any financial product mentioned in this document. All illustrations, forecasts, information and opinions provided within this document are of a general nature and are not intended to address the circumstances of any particular individual or entity. This document does not constitute a solicitation, invitation or investment recommendation. While we endeavour to provide accurate and timely information, all illustrations, forecasts or hypothetical data are not guaranteed and are provided for illustrative purposes only. We make no representation or warranty, expressed or implied with respect to the correctness, accuracy or completeness of the illustrations, forecasts, information or opinions. No party should act upon such information or opinion without obtaining the appropriate professional and specialised financial, legal and tax advice based upon a thorough examination of their particular situation. Seed Investment Consultants will not be held liable for any direct or consequential loss or damage suffered by any party as a result of that party acting on or failing to act on the basis of information or opinion provided by or omitted from this document.

The value of financial products can increase as well as decrease over time depending on the value of the underlying securities and market conditions. Changes in exchange rates may have an adverse effect on the value price or income of any product.

Past performance is not necessarily a guide to future performance. Performance has been calculated using net NAV to NAV numbers with income reinvested. The performance for each period shown reflects the return for investors who have been fully invested for that period. Individual investor performance may differ as a result of initial fees, the actual investment date, the date of reinvestments and dividend withholding tax. Full performance calculations are available from the manager upon request.

Prescient Management Company (RF) (Pty) Ltd are registered and approved under the Collective Investment Schemes Control Act (No.45 of 2002). Collective Investment Schemes in Securities (CIS) should be considered as medium to long-term investments. There is no guarantee in respect of capital or returns in a portfolio. CIS's are traded at the ruling price and can engage in scrip lending and borrowing. The CIS may borrow up to 10% of the market value of the portfolio to bridge insufficient liquidity. A CIS may be closed to new investors in order for it to be managed more efficiently in accordance with its mandate. CIS prices are calculated on a net asset basis, which is the total value of all the assets in the portfolio including any income accruals and less any permissible deductions (brokerage, STT, VAT, auditor's fees, bank charges, trustee and custodian fees and the annual management fee) from the portfolio divided by the number of participatory interests (units) in issue. Forward pricing is used. In the event that specific CIS in securities are mentioned please refer to the relevant Minimum Disclosure Document in order to obtain all the necessary information in regard to that unit trust. In rare instances redemption transactions may be subject to a redemption fee. The applicable Prospectus and Key Investor Information Document will be made available upon request.

Please note that there are stipulated cut-off times for all documents, notifications of deposit, investment, redemption and switch applications. These cut-off times are product or fund specific and the applicable guidelines have been stipulated on the relevant supporting or transaction documents, application forms and Minimum Disclosure Documents. Where all required and supporting documentation is not received before the stated cut off time no service provider shall not be obliged to transact at the net asset value price as agreed to. Prices are published daily and are available on the Prescient website at www.prescient.co.za.

Investors should at all times remain aware of the risks involved in the buying or selling of any financial product. Where foreign securities are included in a portfolio there may be potential constraints on liquidity and the repatriation of funds, macroeconomic risks, political risks, foreign exchange risks, tax risks, settlement risks, and potential limitations on the availability of market information. The investor hereby acknowledges the inherent risk associated with any selected investments and that there are no guarantees (Paragraph 6(2)(f) of BN92). The Manager retains full legal responsibility for any third-party named portfolio (Paragraph 6(1)(g) of BN92).

For any additional information please visit our website on **www.seedinvestments.co.za**.

Glossary of Terms

Annualised Return	Annualised return shows longer term performance rescaled to a 1 year period. Annualised return is the average return per year over the period. Actual annual figures are available to the investor on request.
Annualised Volatility	The deviation of the calendar month return stream, since launch, relative to its own average.
Highest and Lowest Annual Return	The highest and lowest returns, since launch, for any rolling 1 year period have been shown.
Maximum Drawdown	The maximum calendar month peak to trough loss, since launch, suffered by the Fund.
NAV	The net asset value (NAV) represents the assets of a Fund less its liabilities.
Positive Months	The percentage of calendar months, since launch, where the Fund has delivered a positive return.
Return Horizon	Minimum investment period to have a reasonable probability of receiving the benchmark return.
Risk Horizon	Minimum investment period to have a reasonable probability of receiving a positive nominal return.
Total Expense Ratio (TER)	The Fund's Total Expense Ratio (TER) reflects the percentage of the average NAV of the Fund that was incurred as charges, levies and fees related to the management of the Fund. A higher TER does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER cannot be regarded as an indication of future TERs.