Market Overview

30 September 2022

seed investments

Local Market

Global risk-off sentiment and a record-long stretch of loadshedding weighed on the local market in September. It was by far the worst month of the year in terms of load shedding as South Africans experienced 25 consecutive days of rolling blackouts. On the last day of the month, Public Enterprises Minister Pravin Gordhan announced a new Eskom board. Good news is that the new board has more technical expertise, with five engineers among the thirteen non-executive directors. The executive leadership has remained unchanged. So far in 2022, South Africa has had 1950 hours of national loadshedding, this is double the hours experienced in 2021.

The South African Reserve Bank followed global central banks with a 0.75% rate hike during the month, raising the repo rate to 6.25% - back to levels last seen in early 2020. The decision was not unanimous, with 2 members of the MPC preferring an increase of 100bps. The MPC statement highlighted the upside risks to SA inflation and made it clear that the bank is committed to getting inflation firmly back inside the target range.

The petrol price declined by a very welcome R2.04 per litre in September, helped largely by the lower oil price. SA petrol has declined by R3.36 per litre in the past two months, with the annual rate of petrol inflation falling from a peak of 54% year-on-year in July 2022 to 28% in September.

SA business and consumer confidence remained weak in Q3 of 2022, highlighting the wide range of factors negatively impacting the economy including electricity outages, problems with water supply and service delivery, lack of job creation, declining real incomes and rising interest rates. The RMB/BER Business Confidence Index eased further from 42 to 39 in the third quarter.

Trade statistics for August got released, recording the smallest trade surplus in seven months of R7.2bn, down from a revised surplus of R24.8bn in July – see **Chart 2**. The smaller surplus was the result of a decrease in exports of 1% month-on-month and a sizable increase of 10.4% in imports compared to the previous month. SARS said that the year-to-date (1 January to 31 August 2022) preliminary trade balance surplus of R163.36bn is a deterioration from the R325.06bn trade balance surplus for the comparable period in 2021.

Global Market

Global financial markets came under intense pressure in September as concerns of a global recession and monetary tightening caused investor sentiment to turn increasingly pessimistic. This is the first time since the Global Financial Crisis in 2008 that the market has logged three straight negative quarters. Central bankers around the globe reaffirmed their commitment to fighting inflation as their highest priority irrespective of the implications for capital markets.

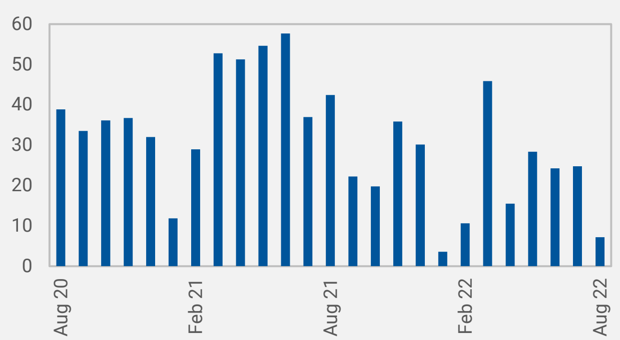
The Fed continued its hiking cycle, raising its main policy rate by another 0.75% to the 3% - 3.25% range, pushing borrowing costs to the highest since 2008. The Federal Funds target interest rate has increased by a total of 3% since the beginning of 2022 and a further 1% - 1.25% bps of hikes is projected by the end of the year. The European Central Bank also raised interest rates by 0.75% in its September meeting and suggested similar moves ahead. The Bank of England raised rates by 0.5%.

In China, their zero-Covid policy has continued to slow the Chinese economy and strain global supply chains, causing the IMF to lower its estimate of China's 2022 economic growth to 3.3%. The IMF now projects that global economic growth will decelerate to 3.2% in 2022 from its earlier estimate of 3.6%.

Recessionary fears once again placed pressure on oil prices, which fell substantially for a third straight month, bringing some relief to consumers. The spot price of brent crude oil closed the month 8.8% lower at around US$93 per barrel. The prices of most metals followed suit, with aluminium returning -8.0%, gold -3.5%, lead -3.1% and copper -1.0%. Positive outliers for the month included platinum, which returned 1.4%, palladium 2.3% and silver 3.6%. A strong US dollar rose against all major developed and emerging market currencies. The dollar index rose to a two-decade high of 114.8 before closing the month at 112.08 – see **Chart 1**.

Economic activity has begun to deteriorate in most economies on faltering global demand. Although inflation has moderated in some economies, for most it remains well above central bank targets. The slowdown in the global economy and additional pressure from tighter financial conditions is placing significant stress on both firms and households.

Chart 1: South Africa Trade Balance (Rbn)



Source: investing.com (30 September 2022)

Chart 2: US Dollar Index (DXY) over the past 10 Years

Source: investing.com (30 September 2022)

Asset Class (ZAR)	MTD	YTD	1 Year	3 Years	5 Years	10 Years
Local Equity	-4.1%	-10.1%	3.5%	9.2%	6.5%	9.5%
Local Property	-6.3%	-15.8%	-8.7%	-8.7%	-9.0%	1.2%
Local Bonds	-2.1%	-1.3%	1.5%	5.7%	7.1%	6.7%
Local Cash	0.4%	3.3%	4.2%	4.3%	5.3%	5.5%
Global Equity	-4.6%	-16.2%	-5.2%	9.8%	10.6%	16.0%
Global Property	-7.9%	-22.0%	-7.4%	0.0%	6.2%	12.7%
Global Bonds	0.3%	-10.2%	-5.6%	-1.2%	3.0%	6.5%
Global Cash	5.7%	13.7%	20.6%	6.5%	7.2%	9.0%

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Local Review

Equity

Local equities had a tough September as investment sentiment soured globally. The JSE All Share Index depreciated 4.1%, bringing the year-to-date return down to a double digit negative of -10.1%. The silver lining is that the local bourse continued to outperform both developed and emerging market peers, courtesy of a strong performance of the resources sector (1.3%). Industrials, on the other hand, decreased by 6.4%, while financials were down 6.0%. Capitec was the worst performing share, dropping a massive 24.0% after its results missed consensus, pointing to the inevitable slowdown in earnings growth. Our models indicate that there remains significant value on offer relative to other asset classes, and we therefore maintain our allocation to local equity at levels moderately above benchmark.

Property

Local property was the weakest performing asset class during September. The SA Property Index ended the month down 6.3%, extending declines from the previous month. This resulted in a year-to-date return of -15.8% for the property sector. Volatility for this asset class remains very high and the yields on offer do not fully reflect all the underlying fundamental risks. We therefore maintain an underweight ranking on local property.

Bonds

Local Bonds sold off in September, offering no hiding place as investors appeared to indiscriminately sell all assets. The JSE All Bond Index closed 2.1% lower and is now also negative year-to-date (-1.3%). Following global yields higher, the local 10-year government bond yield crept up from 10.8% to 11.3% at month end. Local bonds continue to offer some of the highest real yields in the world and are providing investors very attractive forward returns. We maintain our allocation to bonds at overweight levels relative to the benchmark.

Cash

The annual inflation rate in South Africa declined slightly from 7.8% in July to 7.6% in August. Prices slowed mostly for transport as anticipated, while it continued to climb for food and non-alcoholic beverages. August core CPI inflation also came in much softer than expected at 4.4% (down from July's 4.6%). Cash currently delivers -1.1% and while we do appreciate the optionality in cash, there are several other asset classes with much higher expected real returns at the moment.

Global Review

Currency

Kicking the month off at R17.12/$, the local currency remained under pressure and ended September 5.7% weaker against the greenback, at R18.09/$. The Rand also decreased 3.2% against the Euro and 1.8% against the British Pound. Year-to-date the Rand has weakened 11.8% against the US dollar. At month end, the ZAR was trading at 5% undervalued relative to the trade weighted basket of currencies on a purchasing power parity basis. Using the same methodology, the ZAR was 55% undervalued versus the USD.

Equity

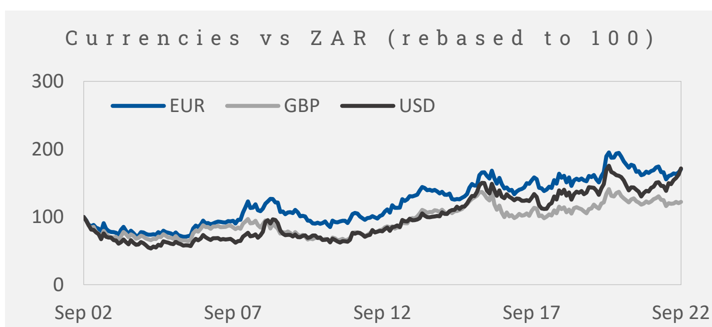
September played out much like August, with a positive start to the month derailed by the prospect of more aggressive monetary policy tightening. This led to global markets suffering their worst month of an already painful year. In US dollar terms, the MSCI All Country World Index plunged 9.3% in September, pushing the index's year-to-date return even deeper into the red to -25.4%. The S&P 500 fell 9.2% and the Nasdaq lost 10.6% in September. Emerging Markets fared even worse than their developed market peers. The bulk of the pain come from Chinese stocks and the MSCI Emerging Markets Index ended September 11.7% lower. We continue to favour allocation to high quality stocks and maintain our allocation to global equity at levels just below benchmark.

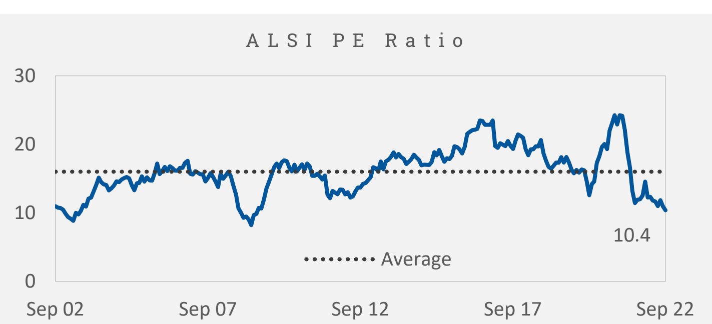
Fixed Income

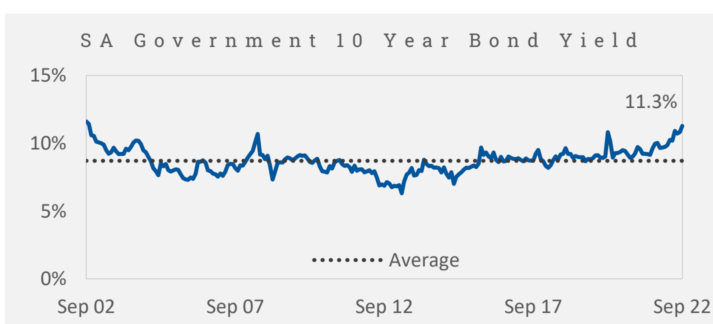
Global bonds recorded their worst month since the early 1980's. Global yields continued their rise, with the US 10-year government bond yield reaching 3.8%, having started the year at 1.5%. Yields in other developed economies have moved along a similar path and are currently at multi-year highs. BCA Research opines that even if inflation remains stubbornly high, yields would be unlikely to rise above 5% and, in a scenario where a recession ensues, they are likely to fall below 2%.

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. These uncorrelated global assets are particularly attractive in low interest rate environments 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.







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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.