Market Overview

31 October 2022

Local Market

October brought a welcome recovery in the local market with most parts of the market contributing positively and all asset classes ending the month in the green. Eskom loadshedding continued and workers at South Africa's state-owned logistics firm, Transnet, went on a 11-day nationwide strike at the beginning of the month, further compromising SA's already weak economy. South African miners lost R815m in export revenue per day during the Transnet workers' strike. A complete restoration of normal functionality at Transnet may only happen in early 2023.

South African tax collections were 9% higher than the same period last year, exceeding government's February 2022 assumption by R83.5 billion for this fiscal year, largely as a result of company tax. This is thanks to higher commodity prices, which has supported mining revenues and in turn buoyed corporate taxes collected.

On the 26th of October finance Minister Enoch Godongwana delivered a prudent and hopeful medium-term budget policy statement (MTBPS), showing continued commitment to fiscal consolidation despite the better-than-expect tax receipts. He reported an improved debt outlook and focussed on the need for additional infrastructural spending.

Gross government debt is now expected to peak at 71.4% of GDP in the current fiscal year, lower than the projections announced at the 2022 main budget. Expectations are that government debt will stabilise at 69% of GDP in 2024/2025. Relative to emerging market peers, which carry an average debt ratio of 65.1%, South Africa's debt levels remain elevated. It remains well below developed countries, which average at 112.4% debt-to-GDP.

National Treasury acknowledged that significant risks remain on the horizon, particularly amid growing concerns about downside global and local growth risks. South Africa's reliance on commodity exports to China is also likely to hurt economic growth as the Chinese economy slows. As such, Treasury has revised SA's GDP growth forecast for 2022 to 1.9% from 2.1%. The local economy is now expected to grow by an average annual rate of 1.7% from 2022 until 2024. The Treasury anticipates inflation will moderate somewhat to average 5.5% per year over the same period. Both forecasts appear to be broadly in line with market consensus.

Global Market

The fourth and final quarter of the year kicked off on a high note. A decline in volatility and risk-off sentiment in October helped global markets bounce back from one of the hardest selloffs in history. Tensions between Russia and Ukraine escalated further, keeping geopolitical risks at the forefront of investors' minds. Global supply chain constraints, on the other hand, continued to ease, and European governments took further steps to dampen the impact of the energy crisis and mitigate the risks of a harsh recession.

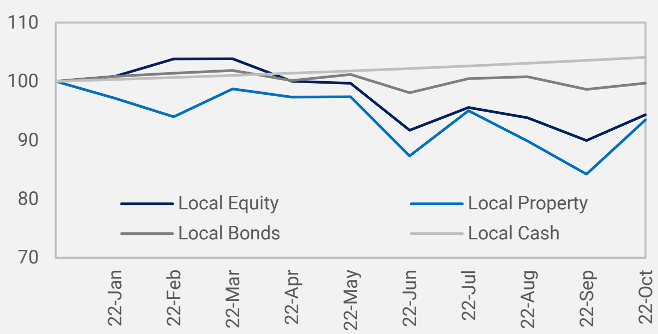
International Monetary Fund Managing Director, Kristalina Georgieva, encouraged central banks to keep raising rates to fight inflation until they hit a "neutral" level. The European Central Bank announced another rate hike of 75 basis points (bps) on 27 October and the Federal Reserve (Fed) followed suit at its meeting in early November.

The US added a further 261 000 jobs in October, which was more than expected. In contrast the unemployment rate rose to 3.7%. Overall, the labour market remains too strong from a monetary policy perspective, especially the services sector. The combination of high inflation and solid labour markets continues to support hawkish action from central banks.

In China, Xi Jinping secured a third term as leader of the Chinese Communist Party (CCP). The yuan continued to weaken due to the country's strict zero-Covid policy and a divergence in monetary policy with other major economies. Chinese shares did not respond well to the outcome of the CCP conference, and losses were extended even further as a resurgence in COVID-19 infections opened the way for further lockdowns, and disappointing economic data worsened the country's outlook.

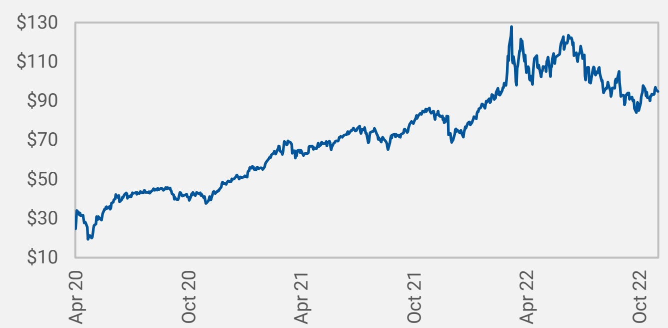
Among commodity prices, brent crude oil saw a turnaround after declining for three consecutive months. As illustrated below in Chart 2, brent crude oil gained 7.8% in October, and is now up 21.9% year-to-date. The gold price recorded its seventh consecutive month-on-month decline, down 1.6% in October and 10.7% year-to-date, on the back of a strong US dollar and fears of further monetary policy tightening from a hawkish Fed. The platinum price rose 7.7% for the month, while the price of palladium fell 14.8%.

Chart 1: South African Asset Class Year-to-date Returns



Source: Seed Investments, Morningstar Direct (31 October 2022)

Chart 2: Brent Crude oil price



Source: Business insider (31 October 2022)

Asset Class (ZAR)	MTD	YTD	1 Year	3 Years	5 Years	10 Years
Local Equity	4.9%	-5.7%	3.3%	9.8%	6.2%	9.5%
Local Property	11.0%	-6.5%	3.0%	-6.1%	-7.5%	2.7%
Local Bonds	1.1%	-0.3%	3.1%	6.2%	7.9%	6.9%
Local Cash	0.5%	3.8%	4.5%	4.3%	5.2%	5.6%
Global Equity	8.4%	-9.2%	-3.2%	12.0%	10.9%	16.4%
Global Property	5.8%	-17.4%	-8.9%	1.3%	6.7%	12.6%
Global Bonds	1.6%	-8.8%	-4.8%	-0.6%	2.4%	6.1%
Global Cash	2.6%	16.6%	22.4%	7.6%	6.7%	8.7%

Market Overview

31 October 2022

Local Review

Equity

Local equities followed global equities higher in October and outperformed the MSCI Emerging Markets Index by a handsome margin. The JSE All Share Index was up 4.9%, bringing the year-to-date return to -5.7%. Financials were the standout performer in October, delivering 13.2%. Resources increased by 3.7%, and Industrials were up 1.7%. The main area of disappointment came from Naspers and Prosus, both down 16% for the month, dragged lower by their main underlying investment, Chinese tech company Tencent which was down 22% in rand terms. The top performing share for the month was Investec, up 27.5%. 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 recovered some ground and was the strongest performing local asset class in October as the SA Property Index increased by 11.0%. The year-to-date return of the index, however, remains in negative territory at -6.5%. Elevated volatility in bond yields continue to impact the property sector 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 increased in October, outperforming the emerging market composite as the JSE All Bond Index appreciated by 1.1%. This brought the index's year-to-date return to -0.3%. Despite global yields generally pushing higher during the month, the local 10-year government bond yields ended the month unchanged, at already elevated levels of 11.3%. Local bonds continue to provide investors with very attractive forward returns and we maintain our allocation to bonds at overweight levels relative to the benchmark.

Cash

The annual inflation rate in South Africa eased for the second consecutive month to 7.5% in September, down from 7.6% in August and 7.8% in July. Annual core inflation, however, which excludes the volatile prices of food and fuel, picked up to an over five-year high of 4.7% in September, from 4.4% in August. Cash currently delivers a negative -1.0% 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

The rand remained under pressure in October due to load-shedding and Transnet labour strikes but held up relatively well towards month-end as the US dollar softened. Starting the month at R18.09/$, the local currency weakened a further 1.4% against the US dollar to end October at R18.35/$. Year-to-date the Rand has weakened 15.1% against the US dollar. At month end, the ZAR was trading at 6% undervalued relative to the trade weighted basket of currencies on a purchasing power parity basis. Using the same methodology, the ZAR was 58% undervalued versus the USD.

Equity

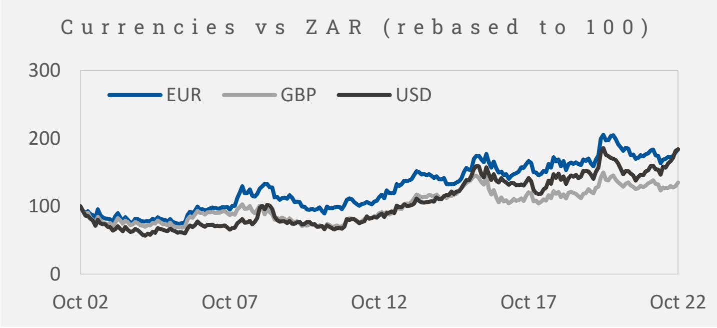
After a shaky start, global risk assets staged a positive rebound in October. In dollar terms, the MSCI All Country World Index delivered 7.2%, resulting in a year-to-date return of -20.1%. In the US, the S&P500 and Nasdaq Composite rallied 8.0% and 3.9% respectively. The Dow Jones Industrial Average, which tracks 30 of the largest US companies, had its best month since 1976, returning a whopping 14.0%. Emerging market stocks were unable to match the strong performance of developed markets and the MSCI Emerging Markets Index ended October down 3.1%. Year-to-date the index has lost 29.4%. We continue to favour allocation to high quality stocks and maintain our allocation to global equity at levels just below benchmark.

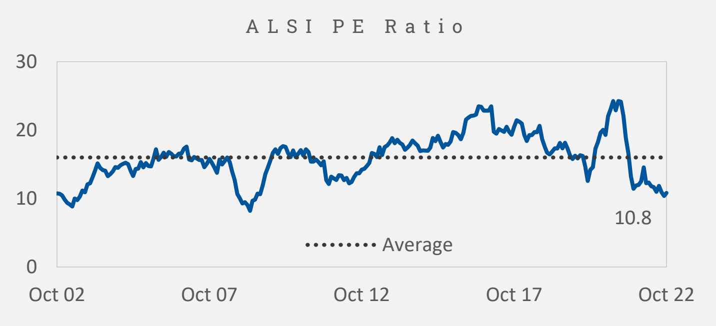
Fixed Income

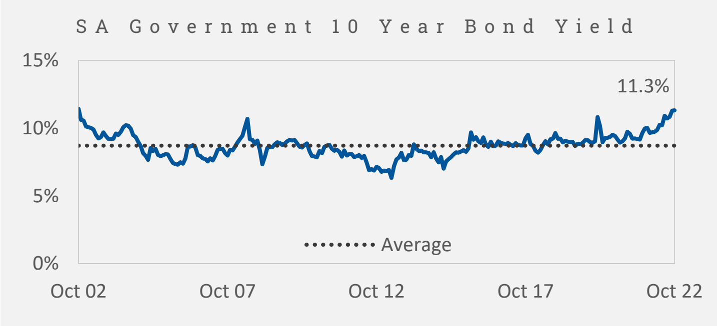
Global bonds recorded another negative monthly performance in October as investors continue to price in Fed Fund rates rising to 5% in the first quarter of next year. The US 10-year government bond yield ended the month at 4.1%, up from 3.8% at the end of September. This is the first month-end print above 4% since early 2008 before the global financial crisis.

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.







Market Overview

31 October 2022

seed investments

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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.