Market Overview

30 November 2022

Local Market

November was an exceptionally great month for the local stock market which has its best monthly return in well over two years. In rand terms, the local bourse materially outperformed both developed market and emerging market indices. This was despite continued loadshedding and a higher-than-expected inflation print. Given the sway of commodities, technology, and luxury retail stocks on the JSE, many local companies benefited from the rally in foreign-listed Chinese stocks as China reopened towards the end of November.

The SARB delivered another 0.75% rate hike at its November meeting, its seventh consecutive rate hike, pushing the benchmark repo rate to 7% for the first time since mid-2017. The decision was not unanimous, with two MPC members preferring an increase of 0.5%. The MPC statement highlighted the upside risks to SA inflation, including upward pressure on salaries. It seems likely that the repo rate is not yet at a peak, especially given the increases seen in core inflation.

Stats SA released unemployment data for the third quarter of 2022, which showed a further improvement in the unemployment rate to 32.9% (illustrated in **Chart 1** - below). The biggest job gains in the quarter were reported in the manufacturing, trade, construction, and transport industries. South Africa's youth remain vulnerable, with an unemployment rate of 45.5% in those aged between 15 and 34.

The S&P rating agency kept SA's sovereign credit rating unchanged at its scheduled rating review in November. The foreign currency rating remains at BB-, with a positive outlook. A rating upgrade is possible if economic growth and fiscal consolidation continue on a sustained basis, against a backdrop of structural and governance reforms. The rating agency stressed that the outcomes of the ANC's conference in December could determine the pace of reform implementation.

SA GDP numbers for Q3 came in at an encouraging quarter-on-quarter growth of 1.6%, but off a low base. The latest increase in GDP means that the economy is 1.2% above the level of economic activity that prevailed prior to the start of COVID-19 and the largest it has ever been, albeit by a relatively small margin. Given persistent electricity outages, rising interest rates, declining real incomes and political uncertainty, the economic outlook remains challenging going into 2023.

Global Market

The rally in global risk assets that begun in October continued in November. Performance was reinforced by weaker-than-expected inflation numbers in the US, which led to dovish comments from the Fed. In addition, Covid restrictions in China eased towards month end, resulting in the Hang Seng Index posting its strongest monthly performance in over a decade. November started with Federal reserve officials delivering their fourth straight 0.75% interest rate hike, lifting the target rate to a range of 3.75% to 4%, the highest level since 2008. Investors were rattled by the message from Fed Chair Jerome Powell that the Fed members were of the view that they would end up pushing rates higher than they had previously expected.

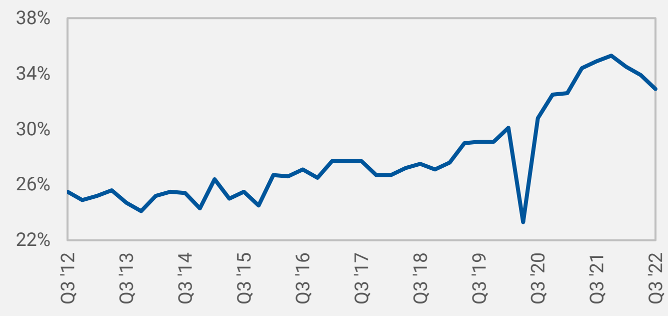
China experienced widespread protests in an unprecedented show of defiance against the country's stringent and increasingly costly zero-Covid policy. This led to Chinese authorities gradually easing the strict zero-Covid policy, indicating a possible end of the policy being in sight, and, consequently, an improvement in the Chinese economy, which boosted sentiment.

The October US inflation number came in at 7.7%, below market expectations. Core inflation also softened more than expected. Inflation in the UK, on the other hand, accelerated more than expected and hit a 41-year high of 11.1%. The annual inflation rate in Japan also climbed to 3.7% in October, the highest reading since January 1991 and above the Bank of Japan's 2% target. Chinese consumer inflation decelerated to 2.1%, driven by a moderation in fuel and food prices.

The US M2 Money Supply year-on-year growth rate continued to decline to its lowest level in 10 years. M2 is a measure of the money supply that includes cash, checking deposits, and easily-convertible near money. As illustrated below in Chart 2, the US dollar continued to lose steam and contracted heavily during November, falling 5% against a basket of major world currencies during the month.

Commodity prices were very volatile in November on the back of China concerns. The oil price came under pressure, dropping by 6.3% in November to its lowest level in 12 months. Natural gas prices bounced by 9% as Russia threatened to cut off its supply to Europe and after seven consecutive monthly declines, the gold price rose 8.3% on the back of the weaker US dollar.

Chart 1: South Africa Unemployment Rate over the past 10 Years



Source: investing.com (30 November 2022)

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

Source: investing.com (30 November 2022)

Asset Class (ZAR)	MTD	YTD	1 Year	3 Years	5 Years	10 Years
Local Equity	12.3%	6.0%	11.1%	14.8%	8.4%	10.5%
Local Property	6.3%	-0.6%	7.2%	-4.4%	-6.7%	2.7%
Local Bonds	3.9%	3.6%	6.4%	7.5%	8.9%	7.2%
Local Cash	0.5%	4.3%	4.7%	4.3%	5.2%	5.6%
Global Equity	-0.3%	-9.5%	-6.3%	12.0%	11.2%	15.9%
Global Property	-1.6%	-18.7%	-13.5%	2.1%	6.4%	12.2%
Global Bonds	-3.5%	-11.9%	-12.8%	-0.5%	2.2%	5.6%
Global Cash	-7.2%	8.2%	7.8%	5.9%	5.9%	7.6%

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seed investments

Local Review

Equity

Continuing its gains from October, local equities posted a double digit increase in November. The JSE All Share Index appreciated 12.3% for the month, pushing the index's year-to-date return into positive territory to 6.0%. Resources and industrials performed remarkably well, increasing 16.0% and 14.0% respectively. Financials also had a strong month increasing 4.9% in November. Naspers and Prosus contributed significantly to the local bourse's stellar performance, both up 39% for the month, as they benefitted from a huge rally in foreign-listed Chinese companies. Sasol was the largest loser in November. 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 also put in a solid performance in November and the SA Property Index rose by 6.3% for the month. Year-to-date, however, the index remains slightly in the red, down 0.6%. Over 3- and 5-years local property has delivered -4.4% and -6.7% respectively. The yields on offer do not fully reflect all the underlying fundamental risks and we therefore maintain an underweight ranking on local property.

Bonds

Local bonds increased in November with the JSE All Bond Index returning 3.9%. This brought the index's year-to-date return into the green to 3.6%. Local 10-year government bond yields followed global yields lower, ending the month at 10.8% from 11.3% in October. Foreigners were net sellers of South African Bonds again during November. Local bonds continue to provide investors with very attractive forward returns, we therefore maintain our allocation to bonds at overweight levels relative to the benchmark.

Cash

The annual inflation rate in South Africa surprised to the upside, after slowing for two months, coming in at 7.6% for October versus 7.5% in September. The annual core inflation, which excludes prices of food, non-alcoholic beverages, fuel and energy, picked up to an over 5-year high of 5% in October, from 4.7% in the prior month. Cash currently delivers a negative 0.4% 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 rallied against a weaker US dollar as the greenback fell from multi-decade highs. Starting the month at R18.35/$, the local currency strengthened 6.2% against the US dollar to end November at R17.21/$. The Rand improved by 1.17% against the Euro and 1.33% against the British Pound. At month end, the ZAR was trading at 1% undervalued relative to the trade weighted basket of currencies on a purchasing power parity basis. Using the same methodology, the ZAR was 48% undervalued versus the USD.

Equity

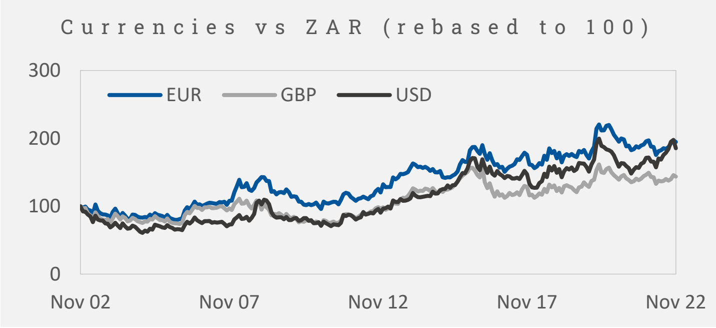
Global equities rallied further in November with the MSCI All Country World Index up 7.8% in dollar terms, stringing together the first back-to-back positive months in equity markets for over a year. Year-to-date the index is down 015.0%. The blue-chip S&P 500 rose 5.4% in November, with the materials sector, up 11.5% for the month, the standout performer. The tech-heavy Nasdaq gained 4.4% and the Dow Jones was up 5.7%. Emerging markets had their best month in thirteen years and significantly outperformed their developed market peers. The MSCI Emerging Markets Index delivered 14.8% in November, its first positive double-digit month since 2016. We continue to favour allocation to high quality stocks and maintain our allocation to global equity at levels just below benchmark.

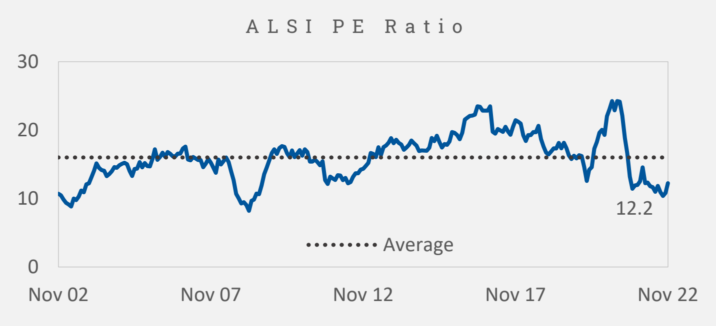
Fixed Income

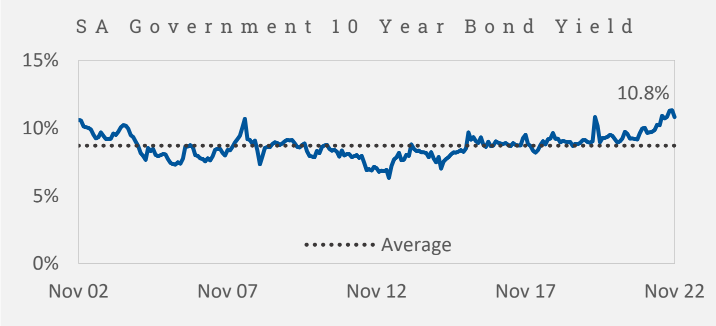
Global bonds also registered a strong month as lower real yields supported bond returns across the board. US 10-year government bond yield ended November at 3.7%, down from 4.1% at the end of October. Though less attractive at lower yields, BCA Research continues to recommend government bonds as a recession hedge.

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.