Market Overview

31 December 2022

seed investments

Local Market

December kicked off with much speculation on the political front as an independent panel released a report claiming that President Cyril Ramaphosa may have violated his oath of office and broken some of SA's anti-corruption laws. The allegations of misconduct were in relation to the theft, and subsequent handling thereof, of foreign currency from the president's Phala Phala game farm. Concerns that Ramaphosa might resign or be impeached ensued, and the local market retracted sharply. The president, however, denied the allegations made against him and managed to avoid any serious fallout.

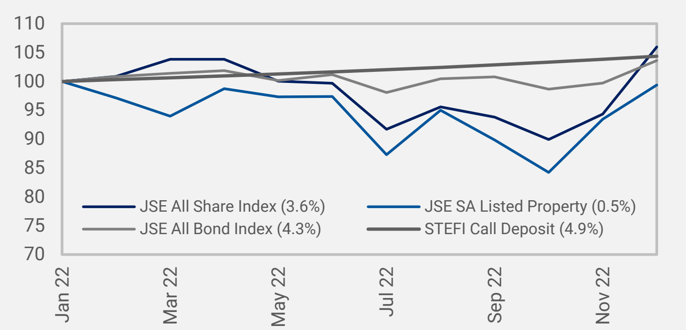
The ANC's twice-a-decade leadership conference took place mid-December from which Ramaphosa emerged victorious, winning a second five-year term as head of the ANC. Paul Mashatile was elected as deputy president of the party and the composition of the remaining top leadership of the party seems to favour an extension of the investor-friendly policies seen under president Ramaphosa's first term. Local markets responded well to the conference's outcome.

Eskom reintroduced stage 6 loadshedding during the month following breakdowns at multiple of its power stations. The state-owned-entity's CEO, Andre de Ruyter, also announced his resignation in December. South Africans have experienced over 3630 hours of loadshedding in 2022 alone, making it the most loadshedding-intensive year on record.

Data released during December showed that the South African economy fared better than the market expected in the third quarter of 2022. The country's gross domestic product increased by an annualised 1.6% over the quarter, compared with expectations of between 0.4% and 0.6% growth. The significantly better than expected outcome was due to a strong rebound of the mining and agriculture sectors, and partly because of a particularly low base in the second quarter when the economy contracted by 0.7%. GDP forecasts for 2023 continue to be revised lower, with the market now expecting 1.3% growth and the Reserve Bank expecting only 1% growth in 2023.

Local asset classes all managed to end the year in positive territory, as illustrated in **Chart 1** (below). In real terms, however, no domestic asset class offered a positive real return for the first time in over 20 years. Cash provided the best "protection", losing only 2% in real terms.

Chart 1: Domestic Asset Class 1 Year Returns



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

Global Market

The global market rally that started in the fourth quarter quickly faded in December as the same fears that drove negative investor sentiment for most of 2022 returned, i.e., no end in sight for monetary tightening and uncertainty over the duration and severity of the economic slowdown that started at the beginning of the year. The final month of the year saw negative returns for equities, commodities, and slightly negative returns for bonds, once again leaving investors with few places to hide.

While economic data released in December continued to point to easing inflationary pressures, central banks continued to surprise with a restrictive outlook for their monetary policy. This reversed the more positive trend on financial markets that had emerged due to the recent better inflation figures in the US.

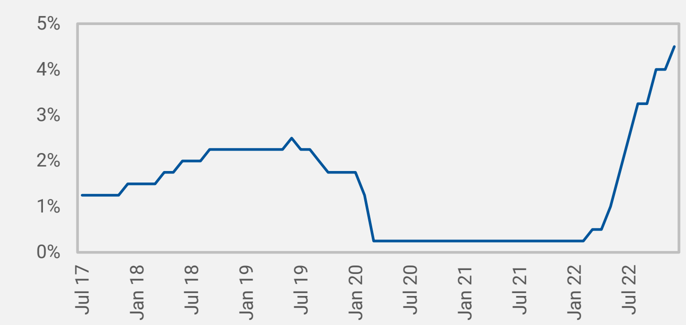
Although the Federal Reserve slowed its pace of interest rate hikes, it raised its benchmark interest rate by another 50 basis points in December to a 4.25-4.5% target range, as illustrated in **Chart 2** (below), now the highest since 2007. The vote was unanimous with the Fed repeating its hawkish language in aiming to bring inflation back down to the 2% level over time. With 425bps of interest rate hikes in the US in 2022, the Fed had its most aggressive year since 1980. Officials also cut their 2023 growth forecasts and increased their unemployment rate projections. Policymakers project rates will end 2023 at 5.1%.

The European Central Bank raised deposit rates from 1.5% to 2.0% in December, as widely expected. More surprising central bank action came from the Bank of Japan which unexpectedly widened the margin of tolerance from 0.25% to 0.50% around its yield target of 0%. The shock move led many investors to believe that this may be the beginning of the end for excessively cheap funding rates globally.

Sentiment towards Chinese investments continued to improve in December as the Chinese government rolled back policies related to the handling of Covid 19 infections that had hampered economic activity in the country, despite reports of increasing infections.

The price of Brent crude oil ended the month broadly unchanged while the price of iron ore rallied (12.1%). The US Dollar Index posted its worst quarter since the third quarter of 2010, but still managed to post its best year since 2015.

Chart 2: US Fed Funds Target Rate



Source: investing.com (31 December 2022)

Asset Class (ZAR)	MTD	YTD	1 Year	3 Years	5 Years	10 Years
Local Equity	-2.3%	3.6%	3.6%	12.7%	8.0%	9.9%
Local Property	1.1%	0.5%	0.5%	-3.4%	-7.2%	2.8%
Local Bonds	0.6%	4.3%	4.3%	7.1%	7.8%	7.1%
Local Cash	0.5%	4.9%	4.9%	4.3%	5.2%	5.6%
Global Equity	-3.8%	-13.0%	-13.0%	11.0%	12.1%	15.8%
Global Property	-2.7%	-20.9%	-20.9%	2.6%	7.6%	12.0%
Global Bonds	0.2%	-11.7%	-11.7%	1.1%	4.2%	6.2%
Global Cash	0.5%	8.7%	8.7%	7.7%	8.0%	8.2%

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Local Review

Equity

Local equities followed global equities lower in December. Despite this, the local bourse was still one of few major global stock markets that managed to eke out a positive return for 2022. The JSE All Share Index depreciated 2.3% in December and returned 3.6% for the year. Financials ended the month down 5.3% (versus 4.9% return in 2022). Resources declined by 3.6% (versus -0.2% return in 2022), and industrials ended December -0.2% lower (versus -5.4% return in 2022). Foreigners were once again net sellers of South African Equities in December. 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 best performing local asset class in December with the SA Property Index up 1.1% for the month, ending a strong quarter where the index was up 19.3%. It was, however, still the worst performing local asset class in 2022, ending the year basically flat with the index up only 0.5% over 12 months. Uncertainty around the lasting impact of Covid 19 continues to weigh on the local property sector and the yields on offer do not fully reflect the underlying fundamental risks. We maintain an underweight ranking on local property.

Bonds

Local bonds increased slightly in December. The JSE All Bond Index ended the month 0.6% higher, pushing the index's return for the year up to 4.3%. Local 10-year government bond yields ended the month largely unchanged from November at 10.8%. Foreigners were net sellers SA Bonds during December. 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

South Africa's annual inflation rate continued to ease, coming in at 7.4% for November, down from 7.6% in the previous month and slightly lower than expected. Core inflation remained unchanged at and over-5-year high of 5.0%. Inflation for food (12.5% month-on-month) and transport (15.3% month-on-month) remained very elevated. Cash currently delivers a negative 0.1% and while we appreciate the optionality in cash, there are several other asset classes with much higher expected real returns at the moment.

Global Review

Currency

After kicking December off at R17.21/$, the rand strengthened by 1.1% against a weaker US dollar to close the month at R17.03/$. For the year as a whole, the local unit was down 6.8% versus the greenback. The Rand improved by 0.8% against the British Pound and weakened -1.7% against the Euro in December. At month end, the ZAR was trading at 3% undervalued relative to the trade weighted basket of currencies on a purchasing power parity basis. Using the same methodology, the ZAR was 45% undervalued versus the USD.

Equity

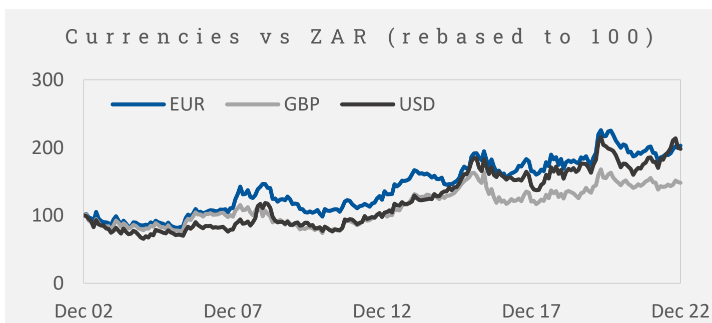
After a strong bear rally in November, global equities weakened in December. In US dollar terms, the MSCI All Country World Index was down 3.9% for the month, resulting in a -18.4% return for the year. US tech stocks had a tough month in particular, and the tech-heavy Nasdaq dropped 9.0%, wiping out all of its fourth quarter gains. Emerging markets performed slightly better than their developed market peers with the MSCI Emerging Markets Index down 2.2% in December. Both developed and emerging markets recorded their worst year since 2008 as investors reacted to rising interest rates and prospects of slower growth. We continue to favour allocation to high quality stocks and maintain our allocation to global equity at levels just below benchmark.

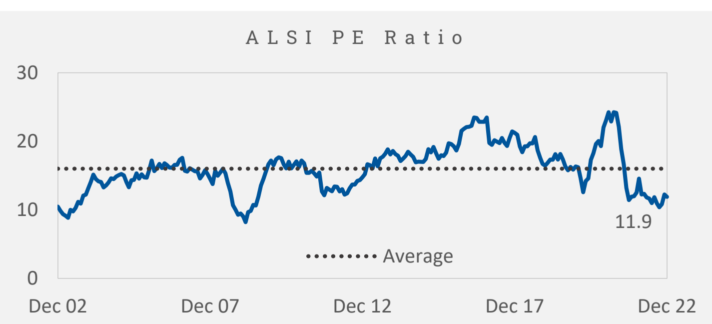
Fixed Income

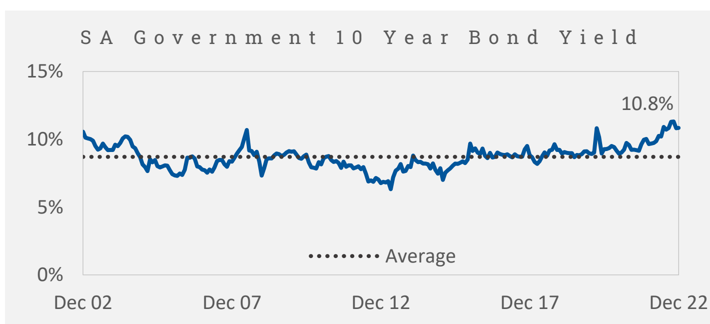
After a brief reprieve in November, global bonds sold off again in December. 2022 was the worst year for global bonds in over a century and the first consecutive negative year in over six decades. The US 10-year government bond yield ended December at 3.9%, slightly up from 3.7% at the end of November. BCA Research continues to recommend an overweight on government bonds as a hedge against recession.

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.