Market Overview

31 January 2023

Local Market

After a tumultuous 2022, January brought some very welcome relief to market participants as most markets around the globe rallied into the first month of the year. The local market was no exception and posted solid gains. This was despite the intense electricity shortages the country experienced in January which now seem to be embedded within South Africa's operating environment. 752 hours of load shedding has already occurred during the month, this equates to 20% of the total loadshedding hours experienced during 2022.

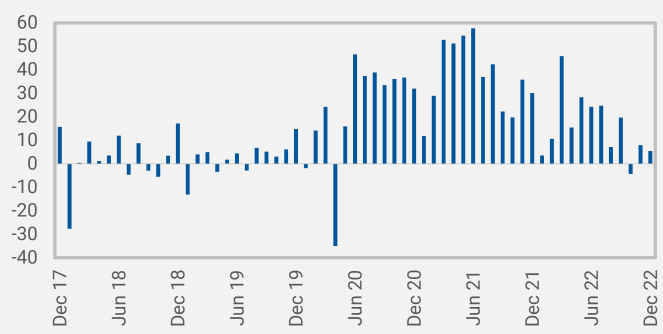
At a press briefing in January, Eskom said that South Africa faces at least two more years of persistent blackouts which will be necessary to make "space for maintenance" on Eskom's power-station fleet. On top of this Eskom has been given the go-ahead to hike the standard electricity tariff by 18.65% for 2023/2024. Some good news, and a potentially game-changing move, however, is that the National Treasury has allowed the City of Cape Town to buy privately generated electricity from households and businesses.

The South African Reserve Bank prolonged its most aggressive monetary policy tightening cycle in at least two decades by raising its benchmark repo rate by a further 0.25% at its January meeting. Three of the five MPC members voted for a 25bps increase while the remaining two opted for 50bps. The rate hike set the country's repo rate at 7.25% and the prime lending rate at 10.75%. The SARB also cut its forecast for economic growth to 0.3% this year, from 1.1% previously.

Trade data for December came in, recording a surplus of R5.43bn, this was smaller than market expectations of R5.5 billion and a downwardly revised surplus of R7.3 billion in the prior month, as illustrated in **Chart 1** (below). Exports fell 5.1% in December, while imports were down 4.2%. For 2022 as a whole the country's trade surplus shrank significantly to R193.3bn from R431.7bn in 2021.

The seasonally adjusted Absa Purchasing Managers' Index (PMI), a key barometer of confidence in South Africa's manufacturing sector, came in nearly unchanged at 53 index points in January, only slightly down from 53.1 in December. A drop in new sales orders was offset by higher manufacturing activity and improved inventories levels.

Chart 1: South Africa Trade Balance



Source: investing.com (31 January 2023)

Global Market

Renewed investor optimism was seen in global markets in January. This was driven largely by China's re-opening after the country dropped their strict zero-Covid policy in late December, despite surging Covid-19 infection rates being recorded. Government measures to support the country's property market and a loosening of the regulatory crackdown on China's technology companies also bolstered investor sentiment. Signs that inflation is easing from its highs in several major regions further supported sentiment, amid hopes that key central banks may be close to the peak of their rate hiking cycle.

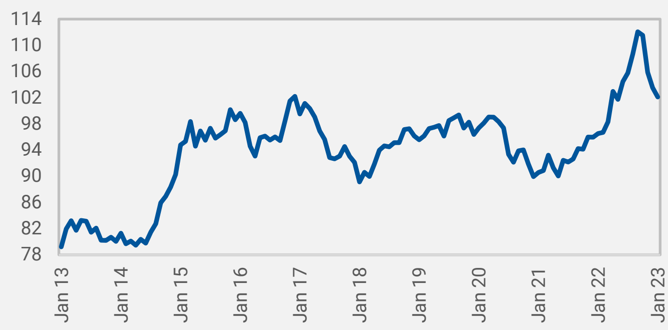
The risk-on environment favoured equity markets which recorded their second-best January in over three decades. Tech stocks, and particularly those related to artificial intelligence (AI), posted massive gains as the hype around OpenAI's ChatGPT took the internet by storm, driving a buying frenzy across all AI-related tech companies.

In terms of commodities, brent crude oil fell 1.5% in January as Russian oil supply remained strong. Natural gas prices continued to decrease, plummeting 39.7%. Thermal coal prices dropped 16.9% and iron ore rose 5.7%. The gold price gained ground for a third consecutive month, up 5.7% in January. However, the price of platinum and palladium fell 6.6% and 8.7% respectively.

The US M2 Money Supply year on year growth rate continued to decline and is currently at its lowest level in 10 years. The US Dollar Index (DXY), a measure of the value of the US Dollar relative to a basket of foreign currencies, remained below both its 50-day and 200-day moving averages. The DXY declined for the fourth consecutive month, as illustrated in **Chart 2** (below). US December labour market reports showed stronger than expected job gains and a fall in the unemployment rate to 3.5%, matching its 53-year low.

In Europe, it appears as though a relatively mild winter, and government energy support measures, has defused the country's energy crisis and reduced the risk of a deep winter recession. Indicators of economic activity in the eurozone surprised to the upside in January, signalling a significant improvement in sentiment. The eurozone composite purchasing manufacturers' index (PMI) improved to 50.3 index points, the fourth consecutive monthly improvement since the September 2022 low.

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



Source: investing.com (31 January 2023)

Asset Class (ZAR)	MTD	YTD	1 Year	3 Years	5 Years	10 Years
Local Equity	8.9%	8.9%	11.8%	16.6%	9.8%	10.5%
Local Property	-1.0%	-1.0%	2.4%	-2.7%	-5.5%	2.6%
Local Bonds	2.9%	2.9%	6.4%	7.7%	8.1%	7.4%
Local Cash	0.6%	0.6%	5.2%	4.3%	5.2%	5.6%
Global Equity	9.8%	9.8%	3.6%	12.3%	13.9%	15.7%
Global Property	12.1%	12.1%	-2.4%	3.8%	11.3%	12.4%
Global Bonds	5.3%	5.3%	-2.2%	-0.1%	5.9%	6.3%
Global Cash	2.8%	2.8%	15.3%	6.1%	9.5%	7.9%

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31 January 2023

Local Review

Equity

Local equities had a great January. Following global markets higher, the JSE All Share Index ended the month up 8.9%, breaking through the psychological 80 000 index level for the first time and reaching new record highs. Over 12 months the index has returned 11.8%. From a sectoral point of view, industrials performed exceptionally well, increasing 12.8%. Returns from resources (6.3.%) and financials (4.7%) were slightly lower. Naspers, Prosus, and luxury retailer Richemont, were all up 18%. BHP Group (15%) and Anglo American (10%) also posted double-digit gains. 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

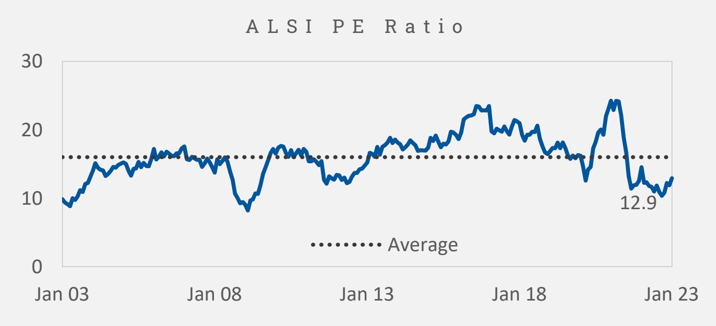
Local property went from the best performing domestic asset class in December to the only loser in January. The SA Property Index ended January in the red at -1.0%. Over 12 months the index has returned a positive 2.4%, 3- and 5-year returns remain negative at -2.7% and -5.5% respectively. The yields on offer do not fully reflect the underlying fundamental risks and we maintain an underweight ranking on local property.

Bonds

Local bonds also had a good month with the JSE All Bond Index appreciating 2.9%. Foreigners were net buyers of SA Bonds during January for the first time since May 2021. South African 10-year government bond yields followed global bond yields lower in January, ending the month at 10.4%, down from 10.8% at the end of 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 eased for a second consecutive month to 7.2% in December, the softest reading since May 2022 and down from 7.4% in November, as expected. Prices continued to slow down primarily for transportation. The annual core inflation, which excludes prices of food, non-alcoholic beverages, fuel and energy, eased to 4.9% in December, from an over 5-year high of 5% in November. Cash currently delivers 0.3% 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

Despite a generally soft month for the US dollar against most currency pairs, the rand weakened by 2.3% against the greenback amid heightened concerns over the severe and ongoing bouts of loadshedding. The local currency started January at R17.03/$ and closed the month at R17.41/$. The rand was one of only three major currencies to weaken against the US dollar in January. At month end, the ZAR was trading at 7% 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

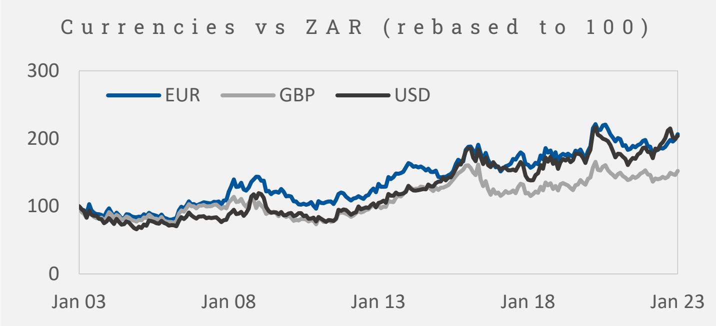
Global Equities started the year off with a bang on the back of renewed optimism around China's economic recovery. In US dollar terms, the MSCI All Country World Index was up 7.2% in January. Tech shares bounced back strongly from a grueling 2022, with the tech-heavy Nasdaq soaring 10.7% (after falling 32.4% in 2022). The blue-chip S&P 500 jumped by 6.3% and the Dow increased 2.8%. Emerging markets outperformed their developed market counterparts for the third consecutive month with the MSCI Emerging Markets Index up 7.8%, primarily due to the rally in Chinese stocks. We continue to favour allocation to high quality stocks and maintain our allocation to global equity at levels just below benchmark.

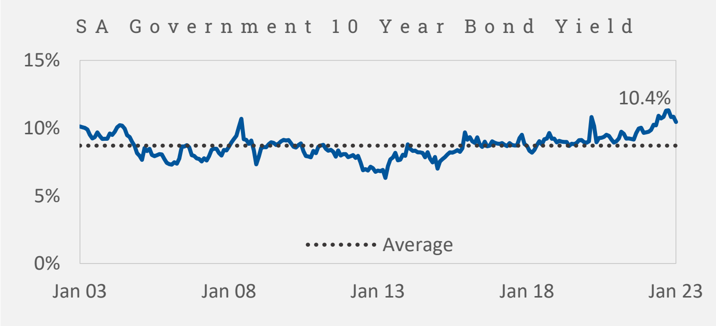
Fixed Income

The US 10-year government bond yield continued to fall during January to end the month at 3.5%, down from 3.9% in December and from a peak of 4.3% in October. BCA Research points out that if there were a resurgence of inflation or the Fed turns out to be more hawkish than expected, there is a risk that yields have one further leg up. They continue to recommend an overweight on government bonds.

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.