Market Overview

28 February 2023

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Local Market

Following an extremely strong January, the local market lost momentum in February. Risk off sentiment ripped through global markets and the local market was not spared. South African investors had to digest a good deal of economic news in February, including two important addresses from the government. First was President Cyril Ramaphosa's State of the Nation speech delivered on the 9th of February, where he declared a National State of Disaster to enable the government to accelerate its response to the ongoing energy crisis. He also announced that a new minister for electricity will be appointed to focus solely on improving the electricity supply.

On the 22nd of February, Finance Minister Enoch Godongwana delivered the 2023 Budget Speech in Parliament. The speech brought no major surprises and market reaction was somewhat positive, albeit slightly muted. Central themes were Eskom, loadshedding and corruption. Overall, the primary fiscal intent remains unchanged, and the 2023 budget reiterates the government's commitment to debt stabilisation via fiscal consolidation. The state has also committed to take on R254 billion worth of Eskom's debt over the next three years, aimed at improving capacity and with strict guidelines.

Dominating headlines toward month end was the South Africa's grey-listing by the global Financial Action Task Force (FATF). The FATF concluded that South Africa has made insufficient progress in addressing deficiencies they identified in the country's regulatory and justice systems. They have therefore decided to place SA on its grey list of jurisdictions subject to increased monitoring. The move was largely expected and is likely to make investing offshore more burdensome, and possibly more costly, for South African investors given the additional scrutiny being placed on financial flows going into and coming out of the country.

The Absa purchasing managers' index (PMI), a monthly indicator of business conditions, contracted to 48.8 index points in February, down from 53 in January and 51.3 in December (**Chart 1**). This is the first time since September 2022 that the headline index fell below the neutral 50-point mark, pointing to a marked deterioration in business conditions in the manufacturing sector. The greylisting announcement, organised crime, power outages, and downtime owing to inefficiencies at state-owned rail freight utility Transnet, are all factors that weighed heavily on investor sentiment in February.

Global Market

Global markets remained volatile in February and gave back some of their strong gains from January. The inflation rhetoric continued to drive global risk sentiment and while most incoming economic data was strong, the market focused on the negative impact of higher interest rates. On the 1st of February the US Federal Reserve increased interest rates by a further 0.25%, lifting the benchmark overnight interest rate to a range between 4.50% and 4.75%.

Chairman Jerome Powell signaled that rates would continue to rise despite the Fed's willingness to scale back the pace of rate hikes, dashing hopes that the US central bank will soon be able to pause its monetary tightening and possibly cut rates before the end of this year. In the press conference following the interest rate hike decision, Powell highlighted that the Federal Open Market Committee (FOMC) "needs more evidence that inflation is on a sustained downward path".

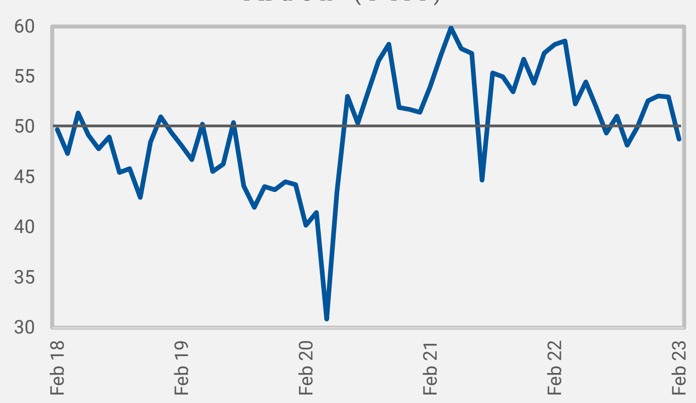
The Bank of England hiked interest rates by 0.5% at the beginning of February, moving the base rate to 4.0%. The tone of the statement, however, was dovish, with the central bank governor declaring that inflation has turned a corner and that further interest rate hikes aren't inevitable.

The European Central Bank (ECB) also raised rates by 0.5% to 2.5% in February, confirming their intention to "stay the course in increasing interest rates significantly, at a steady pace, and keeping them at levels that are sufficiently restrictive to ensure a timely return of inflation to the 2% target".

Chinese markets saw investors taking profit in February, and ended in the red following a three-month rally that started when China began easing its strict zero-Covid policy at the end of last year. On the economic data front however, factory activity in China bounced back further in February.

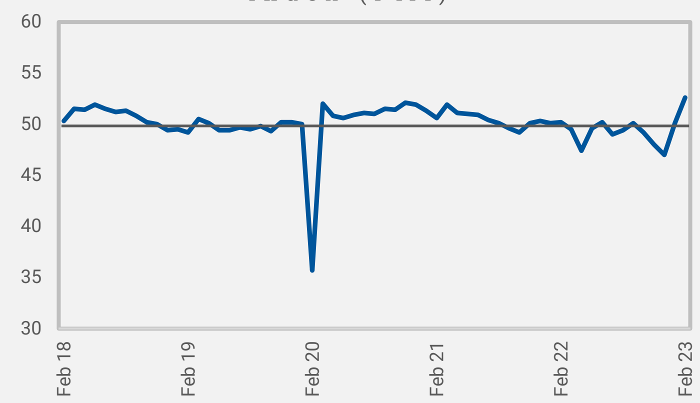
The official manufacturing purchasing managers index (PMI) surprised to the upside and jumped to 52.6 index points in February from 50.1 in January (**Chart 2**). The print exceeded expectations of 50.5 and was the highest reading since April 2012. China has identified its domestic consumers as the key driver of short-term economic growth, citing weak global exports, ongoing US export tariffs and the continued feud over technology security as constraints on foreign demand.

Chart 1: Absa Purchasing Managers Index (PMI)



Source: ber.ac.za (28 February 2023)

Chart 2: China Purchasing Managers Index (PMI)



Source: investing.com (28 February 2023)

Asset Class (ZAR)	MTD	YTD	1 Year	3 Years	5 Years	10 Years
Local Equity	-2.2%	6.5%	6.2%	19.5%	9.8%	10.5%
Local Property	-0.7%	-1.7%	5.1%	2.7%	-3.6%	2.0%
Local Bonds	-0.9%	2.0%	4.9%	7.4%	7.1%	7.2%
Local Cash	0.5%	1.1%	5.4%	4.4%	5.2%	5.6%
Global Equity	2.3%	12.3%	9.0%	14.5%	15.6%	15.9%
Global Property	0.6%	12.7%	1.0%	5.3%	13.2%	12.3%
Global Bonds	2.0%	7.3%	0.7%	-1.5%	6.6%	6.6%
Global Cash	5.7%	8.7%	22.0%	6.3%	10.9%	8.5%

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Local Review

Equity

Equities were the worst performing local asset class in February with the JSE All Share Index declining 2.2%, bringing the index's year-to-date performance down to 6.5%. The biggest drag on the local bourse came from the resource sector which lost a significant 12.5% as commodity counters struggled. Financials (+2.8%) and Industrials (+1.6%) both ended the month in the green. Foreigners were net sellers of South African Equities again in February. 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

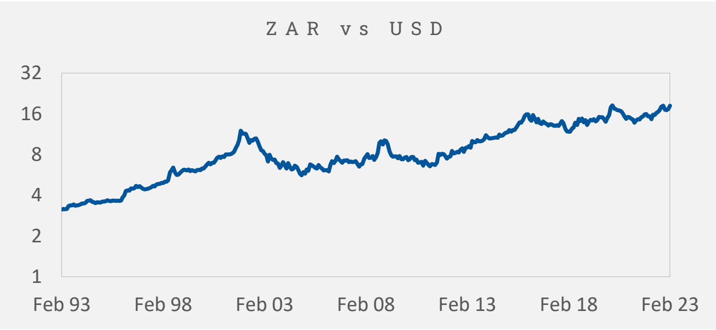
Local property retreated further in February and the SA Property Index was down 0.7%. Year-to-date the index has now depreciated by 1.7%. Over 1 year, however, local property has still delivered a positive 5.1%. The yields on offer do not fully reflect the underlying fundamental risks and we maintain an underweight ranking on this asset class.

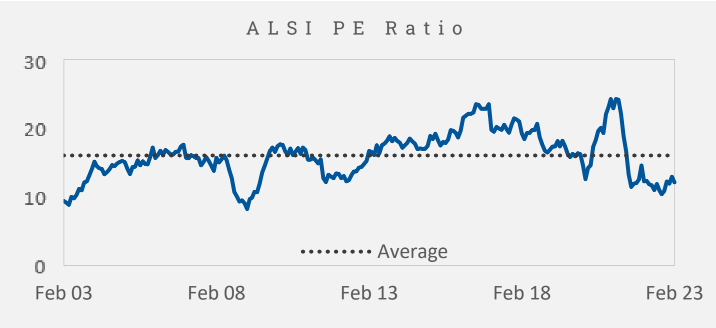
Bonds

Local bonds also lost some ground in February with the JSE All Bond Index decreasing 0.9%. Local government bond yields followed global yields higher as it became clear that inflation could remain relatively elevated leading to a more prolonged tightening policy cycle. South African 10-year government bond yields ended the at 10.8%, up from 10.4% at the end of January. 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 the third straight month to 6.9% in January, from 7.2% in December. It was the softest reading since May 2022, mainly due to slowing prices of transportation. Core inflation remained unchanged at 4.9%, while food inflation continued to increase. The price pressure on food appears to reflect the impact of prolonged electricity outages on food production and supply. Cash currently delivers 0.6% 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

The local currency weakened by 5.2% against a strong US dollar as concerns about the state of South Africa's economy weighed on the rand in February. After kicking the month off at R17.41/$, the rand depreciated against the greenback and ended February at R18.36/$. The rand weakened 2.8% against the pound and 2.6% against the Euro. At month end, the ZAR was trading at 10% undervalued relative to the trade weighted basket of currencies on a purchasing power parity basis. Using the same methodology, the ZAR was 57% undervalued versus the USD.

Equity

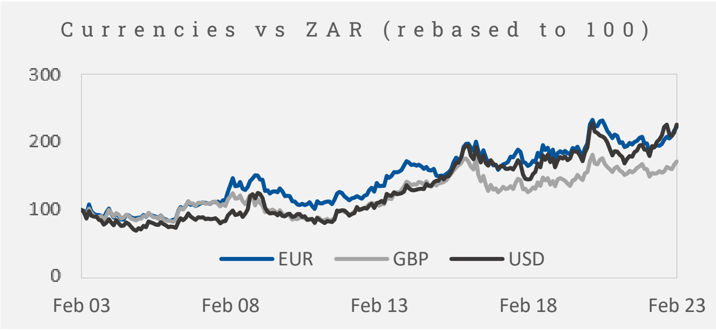
Global markets lost steam in February as most major indices came under pressure. In US dollar terms, the MSCI All Country World Index fell -2.9% in February, pulling the index's year-to-date performance down to 4.1%. The blue-chip S&P 500 was down -2.4%, while the tech-heavy Nasdaq lost only 1.1%. Emerging markets fared even worse than their developed market counterparts. The MSCI Emerging Markets Index plummeted by -6.5%, with Chinese and Brazilian equities amongst the worst performing. We continue to favour allocation to high quality stocks and maintain our allocation to global equity at levels just below benchmark.

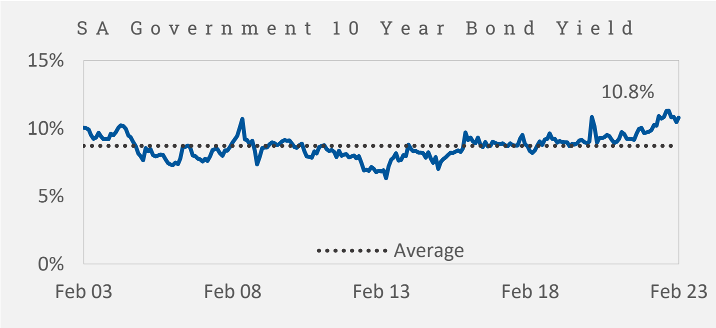
Fixed Income

The US 10-year government bond yield climbed by 0.4% in February and ended the month at 3.9% as markets started to price in the possibility of at least a couple more Fed hikes over the next few months and a very low probability of any cuts in 2023. BCA Research continues to recommend government bonds as the best hedge against recession. They also recommend an overweight on inflation-linked bonds as a hedge against inflation surprising further to the upside.

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.