Market Overview

31 March 2023

Local Market

Local markets were among a minority of major global markets that ended March lower, though it performed well enough to end the quarter in positive territory. Rating agency S&P Global unexpectedly downgraded SA's credit outlook in March from positive to stable. This dealt a blow to the country's hopes of digging itself out of junk status as infrastructure and deepening power outages weigh on the economy. The agency, which rates SA debt at BB-, or three rungs below investment grade, also cited the slow pace of much-needed reforms being implemented to improve governance at state-owned enterprises.

The SARB increased its benchmark interest rate by 50 basis points, taking the repo rate from 7.25% to 7.75%, and bringing the cumulative increase to 4.25% since early 2020, as illustrated below in **Chart 1**.

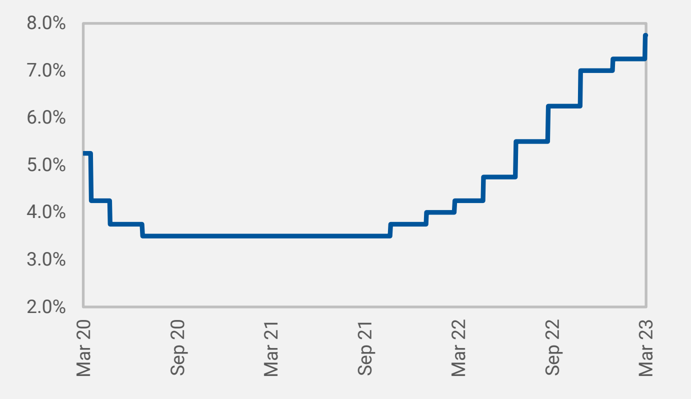
The decision was not unanimous, with 2 members of the MPC preferring an increase of 0.25%. Most analysts were also expecting a 0.25% increase. SARB governor Lesetja Kganyago once again warned of threats to the inflation outlook as the prices for food, fuel and energy remained persistently high. Consumer inflation is now expected to average around 6% in 2023, up from the estimated 5.4% in January.

SA's GDP growth number for the fourth quarter of 2022 dropped by a worse-than-expected 1.3% quarter-on-quarter, reflecting declines in almost all economic sectors. This led to a slew of downward revisions to growth forecasts for 2023. The IMF revised its growth forecast for SA to just 0.1% for this year and warned that SA risks economic stagnation unless it acts with urgency to step up the pace of economic reforms.

The IMF cited the increase in the intensity of power cuts and weaker commodity prices for the recent sharp deceleration in SA's growth prospects. Though it expects growth to pick up in the medium term, it sees this averaging only about 1.5%.

The IMF has painted a much worse fiscal picture than the finance minister and has penciled in a 6.5% fiscal deficit for this year compared with the Treasury's 4%. Further disruptions to electricity supply suggests a continuation of sluggish growth and the possibility of a technical recession.

Chart 1: South Africa Repo Rate



Source: investing.com (31 March 2023)

Global Market

Global markets ended the first quarter of 2023 on a surprisingly strong note, resulting in two consecutive positive quarters for equity markets for the first time in almost two years. The strong performance came despite a very uncertain economic environment characterised by major jitters in the global banking sector, a cryptocurrency meltdown, and persistent concerns that higher interest rates will trigger a global recession.

On the 10th of March, Silicon Valley Bank (SVB) collapsed after a bank run, marking the second largest banking failure in US history. This triggered turmoil in the US banking sector and raised concerns about the interconnectedness of the financial system as a whole. Two days later Signature Bank also collapsed and got shut down by federal regulators. Silvergate, a smaller US lender with links to the crypto industry, also failed. The fear of further contagion then spread to First Republic Bank and Credit Suisse.

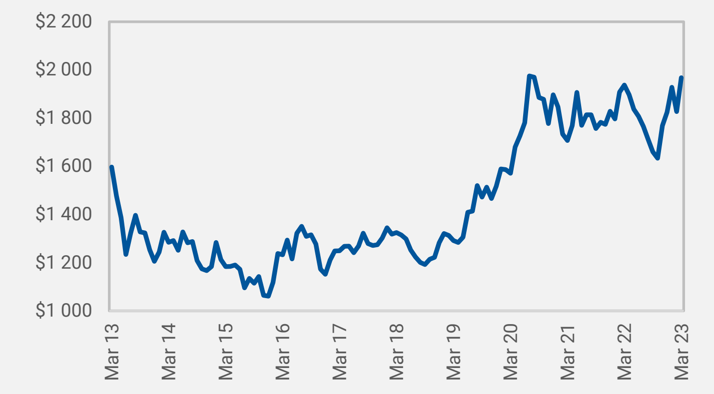
In response to the bank crisis, the central bank intervened, and the decision was quickly made to bail-out all depositors at SVB and Signature. The Fed also announced a separate facility (BTFP) to provide loans up to one year for institutions affected by the bank failures, while the Fed's prime lending facility was made more attractive.

US Federal Reserve Chair Jerome Powell also announced a much-anticipated 0.25% rate hike towards the end of March, and signaled that more tightening may be in store, but indicated it considered pausing further increases in borrowing costs. The move set the US central bank's benchmark overnight interest rate in the 4.75% - 5.00% range and was accompanied by a message that the US banking system was "sound and resilient".

The Bank of England also raised their policy rate by 25 basis points to 4.25%, while the European Central Bank made a loud statement to the market by increasing rates by 50 basis points, suggesting that fighting inflation remains the bank's top priority.

In commodity markets, energy commodities struggled with natural gas prices down 19% in March, while brent crude oil fell 5.7%. The price of gold saw a significant increase of 7.8%, illustrated below in **Chart 2**. Palladium also showed a strong recovery, with a 5.5% increase during the same period.

Chart 2: Gold Spot US Dollar Price over 10 years



Source: investing.com (31 March 2023)

Asset Class (ZAR)	MTD	YTD	1 Year	3 Years	5 Years	10 Years
Local Equity	-1.3%	5.2%	4.9%	24.2%	10.4%	10.2%
Local Property	-3.4%	-5.1%	-3.4%	18.2%	-4.1%	1.3%
Local Bonds	1.3%	3.4%	5.8%	11.6%	6.9%	7.3%
Local Cash	0.6%	1.7%	5.7%	4.4%	5.2%	5.6%
Global Equity	-0.4%	11.9%	12.4%	15.1%	15.9%	15.4%
Global Property	-6.6%	5.3%	-4.9%	7.6%	10.9%	11.0%
Global Bonds	0.1%	7.5%	10.5%	-5.5%	6.2%	6.4%
Global Cash	-2.9%	5.5%	25.2%	0.9%	10.1%	7.9%

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Local Review

Equity

March was a challenging month for South African equities. Failing to keep up with global markets, the JSE All Share Index declined by -1.3%. Year-to-date the index has returned +5.2%. Gold shares were by far the JSE's biggest positive contributors in March with companies like Gold Fields and AngloGold returning more than 40% over the period. The resource sector increased by +2.5%, outperforming industrials and financials which both ended the month in the red at -0.8% and -6.6% respectively. 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 ended the month lower with the SA Property Index depreciating -3.4% in March, ending the quarter down -5.1%. Over 1-year, local property has now delivered -3.4%. Prevailing high stages of loadshedding continues to put pressure on this asset class and the yields on offer do not fully reflect the underlying fundamental risks. We maintain an underweight ranking on this asset class.

Bonds

Bonds emerged as the best performing local asset class in March with the JSE All Bond Index returning a positive +1.3% for the month. Benefiting from a fall in global bond yields, South African 10-year government bond yields ended the month marginally lower at 10.6%, down from 10.8% at the end of February. Foreigners were net sellers of South African bonds in March. Local bonds continue to provide investors with very attractive forward returns, we maintain our allocation to bonds at overweight levels relative to the benchmark.

Cash

South Africa's annual inflation rate edged up to 7% in February, from 6.9% in January, the first rise since October 2022. The core CPI, which strips out volatile energy and food prices, came in at 5.2%, up from 4.9% in January. Until February, consumer prices on aggregate had been moderating since peaking at the 13-year high of 7.8% last year, boosting hope for an end to the present hiking cycle. Cash currently delivers 1.0% and while we appreciate the optionality in cash, there are several other asset classes with much higher expected real returns at the moment. As a result we remain neutral.

Global Review

Currency

Benefitting from a combination of a weaker US dollar and a SARB rate hike surprise, the rand showed some improvement against the US currency in March. After starting the month at R18.36/$, the ZAR strengthened against the greenback to end March at R17.79/$. The local currency still finds itself at similar levels of weakness compared to 2020. At month end, the ZAR was trading at 8% undervalued relative to the trade weighted basket of currencies on a purchasing power parity basis. Using the same methodology, the ZAR was 52% undervalued versus the USD.

Equity

Global markets had a strong month with the MSCI All Country World Index ending March up +3.1% in US dollar terms, pushing the index's year-to-date performance up to +7.3%. The tech-heavy Nasdaq 100 Index was amongst the best performing segments of the market in March, returning +9.5%, while the blue-chip S&P 500 increased +3.7%. Emerging markets weren't far behind their developed market peers with the MSCI Emerging Markets Index delivering +3.0%. We continue to favour allocation to high quality stocks and maintain our allocation to global equity at levels just below benchmark.

Fixed Income

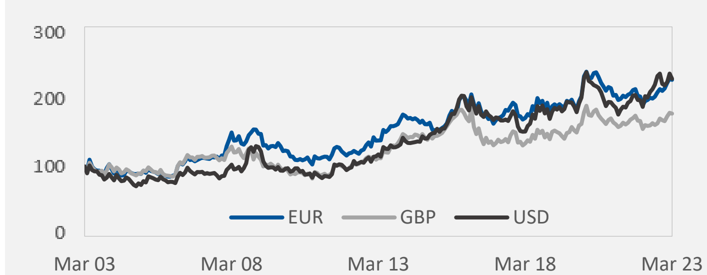
The US 10-year government bond yield ended the month 0.4% lower at 3.5%. The mini-banking crisis caused investors to price in the probability of rate cuts to support economic activity. Markets are now pricing in rate cuts of 60 basis points in the second half of this year, despite the Fed's best efforts to convince investors that the inflation fight is far from over. BCA Research opines that big rate cuts won't happen, since inflation remains sticky, and the Fed has other tools to help banks.

Alternative

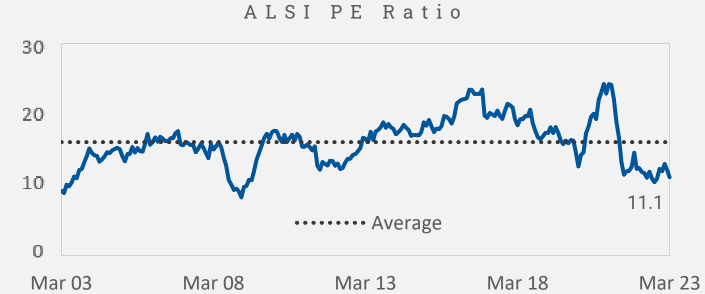
Other asset classes that can be considered include structured notes, private equity, direct real estate, commodities, and hedge funds and can provide investors with uncorrelated returns. These uncorrelated global assets are particularly attractive in low interest rate environments as they offer an asymmetric return profile. Alternative asset classes can thus perform a useful role in multi asset portfolios as they help provide more consistent returns.

ZAR vs USD

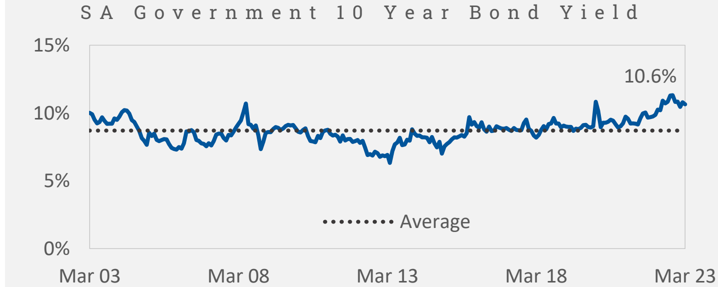
Currencies vs ZAR (rebased to 100)



ALSI PE Ratio



SA Government 10 Year Bond Yield



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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.