Market Overview

30 April 2023

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Local Market

Despite continued signs of domestic economic strain, the local market had a positive April with all equity sectors rising more than 3%. Loadshedding intensified and was firmly entrenched at Stage 6 for most of April. Persistent loadshedding has been the biggest driver behind economists meaningfully downgrading their 2023 growth expectations for South Africa.

The Reserve Bank has forecasted power cuts to add 0.5% to the inflation rate as businesses pass on the costs of back-up energy solutions to consumers. The bank estimates that power from a generator is 133% more costly than energy provided by the grid. Loadshedding is expected to worsen in winter but improve towards the end of the year and into 2024.

The South African Revenue Service reported record tax revenue collection of more than R2 trillion for the first time in the 2023 financial year. Refund pay-outs, however, were also at a record, and reduced the amount to R1.68 trillion. Companies' increased loadshedding related investment and maintenance spending increased input VAT claims by 18%.

South Africans continue to feel the pressure from the last nine interest rate hikes, paying 35% more on their home loans compared to early 2021 when the hike cycle started. The prime lending rate currently sits at 11.25%. Retail activity released for the month of February, also shows that domestic consumers are taking strain. South Africa's retail sales declined for the third consecutive month by -0.5% year-on-year. Hurt by declining real incomes and rising interest rates, retail spending is now below pre-Covid levels.

The Absa Purchasing Managers' Index (PMI) improved from 48.1 in March to 49.8 in April, staying below the 50-point mark that separates expansion from contraction for the third consecutive month, as illustrated below in Chart 1. While this marks an upward turn for PMI, overall business activity and new sales orders are still tracking lower as demand remains suppressed. The increase was largely due to the inventories index which surged to its highest level since mid-2022.

The rand remains under pressure from a volatile global risk sentiment. Domestic factors such as the power shortages and political unrest ahead of the elections next year will also weigh negatively on the local currency.

Global Market

Global markets offered investors some reprieve in April. After the banking failures in March, contagion risks mostly eased through April as overall stress and default measures remained subdued. Most of the large- and mega-cap banks delivered reassuring first quarter earnings that settled investor fears and the CBOE volatility index, widely known as the "Fear Index", closed the month at its lowest level since November 2021. Concerns over First Republic Bank did emerge towards month-end, but they were short-lived as JP Morgan acquired the bank in a government-led rescue deal. The consolidation has raised some concerns around market concentration in the lending space.

US GDP data for the first quarter of 2023 came in weaker than expected at 1.1% year-on-year compared to consensus economists' forecast of 2% and the 2.6% increase in the fourth quarter of 2022. Eurozone GDP also came in slightly below consensus at 1.3% growth, versus 1.4% expected. China's GDP print, on the other hand, came in stronger than expected, growing by 4.5% year-on-year as the country's reopening-driven economic revival continued.

In commodity prices, iron ore plummeted 12.4% in April, platinum shot up 8.4%, and gold managed to eke out a small gain of 1.1%. Brent crude oil had a volatile month. It started April strongly, rallying on a surprise announcement of supply cuts by OPEC, before reversing gains as the prospect of weakening demand due to slowing economic activity weighed on the price. As illustrated below in Chart 2, the oil price has had a poor 2023, year-to-date the price has dropped by -6.5%.

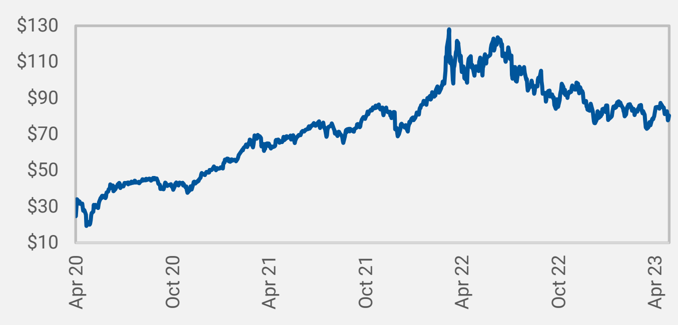
The IMF released their World Economic Outlook for April. Their baseline forecast is for growth to fall from 3.4% in 2022 to 2.8% in 2023, before settling at 3.0% in 2024. They expect advanced economies to see an especially pronounced slowdown, from 2.7% in 2022 to 1.3% in 2023. The IMF report contrasts with Goldman Sachs's forecast that labour market rebalancing will enable a "soft landing" in the US, where inflation is tamed without sparking a recession.

Economic data continues to signal slower growth and persistent inflation, and uncertainty around a US recession, geopolitical tensions between the US and China, the uncertain future the US Fed rate policy stance, and fears of a US default continues to weigh on sentiment.

Chart 1: Absa Purchasing Managers Index (PMI)

Source: ber.ac.za (30 April 2023)

Chart 2: Brent Crude oil price



Source: Business insider (30 April 2023)

Asset Class (ZAR)	MTD	YTD	1 Year	3 Years	5 Years	10 Years
Local Equity	3.4%	8.7%	12.6%	20.2%	10.0%	10.9%
Local Property	5.4%	0.0%	3.3%	17.6%	-4.5%	1.2%
Local Bonds	-1.1%	2.2%	6.4%	9.8%	6.8%	6.8%
Local Cash	0.5%	2.3%	5.9%	4.4%	5.3%	5.7%
Global Equity	4.5%	17.0%	18.0%	11.9%	15.5%	15.9%
Global Property	4.9%	10.5%	-2.4%	5.9%	10.4%	11.1%
Global Bonds	3.2%	11.0%	11.5%	-5.7%	6.2%	6.9%
Global Cash	3.5%	9.2%	19.6%	1.1%	9.6%	8.5%

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Local Review

Equity

Local equity had a strong April as the JSE All Share Index appreciated +3.4%. With a year-to-date return of +8.7%, the JSE has been amongst the best-performing emerging market bourses over the first 4 months of 2023. Looking at the different sectors, resources was up +4.0% in April, outperforming both industrials (+3.1%) and financials (+3.0%). Gold and platinum miners were the star performers for the month. MultiChoice and Capitec were amongst the biggest losers. Our models indicate that there is 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 April. The SA Property Index increased +5.4% for the month, recouping its losses from the first quarter of the year. The year-to-date return is now flat at 0.0%. With a 3-year annualised return of 17.6% and a 5-year annualised return of -4.5%, this asset class remains extremely volatile. The yields on offer do not fully reflect the underlying fundamental risks and we maintain an underweight ranking on local property.

Bonds

Local bonds had their worst month since September with the JSE All Bond Index down -1.1% in April. Despite a generally benign environment for global bond yields in April, South African 10-year government bond yields drifted 0.4% higher, ending the month at 11.0% This is the highest level since late 2022 when the prospect of impeachment of President Cyril Ramaphosa rattled foreign investors. 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 rose for the second consecutive month to 7.1% in March 2023, from 7% in February and, against market expectations of 6.9%. The annual core inflation, which excludes prices of food, non-alcoholic beverages, fuel and energy, remained at a six-year high of 5.2% in March, unchanged from February and slightly above market estimates of 5.1%. Cash currently delivers 0.9% 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

The Rand struggled against all major currencies during April. Starting the month at R17.79/$, the ZAR weakened 2.8% against the greenback to end April at R18.29/$. Year-to-date, the local unit is down 7.4% against the US dollar, 10.6% against the euro and 11.6% against the pound sterling. At month end, the ZAR was trading at 11% undervalued relative to the trade weighted basket of currencies on a purchasing power parity basis. Using the same methodology, the ZAR was 55% undervalued versus the USD.

Equity

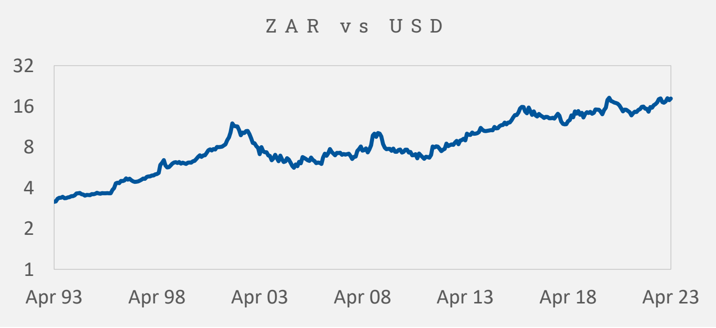
Most major global markets ended April in the green. In US dollar terms the MSCI All Country World Index returned +1.4% for the month, bringing the index's year-to-date performance to 8.9%. The blue-chip S&P 500 increased +1.6% and the tech-heavy Nasdaq ended the month flat. Emerging markets were dragged lower by Chinese stocks in April and the MSCI Emerging Markets Index depreciated -1.1%. Year-to-date the index has now returned +2.8%. We continue to favour allocation to high quality stocks and maintain our allocation to global equity at levels just below benchmark.

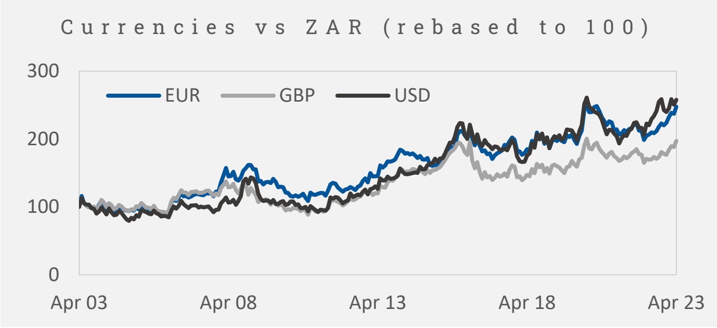
Fixed Income

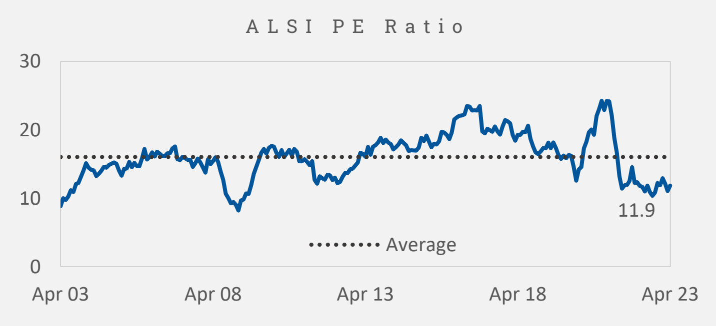
The US 10-year government bond yield ended the month largely unchanged at 3.4%, down only 0.1% from the end of March. Bond market volatility, as measured by the MOVE index, moderated slightly during the month, but remained at historically elevated levels as uncertainty surrounding inflation and policy rates remains high. BCA Research continues to recommend a defensive stance with an overweight on government bonds.

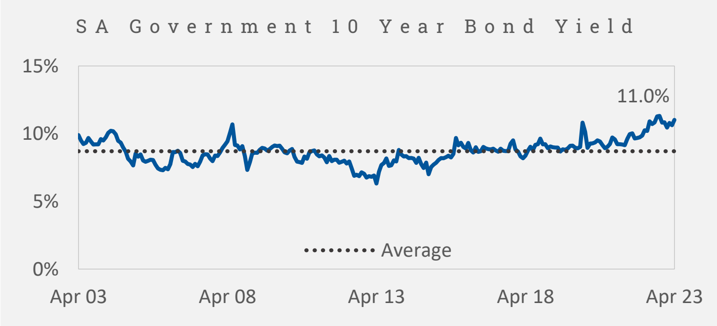
Alternative

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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Disclaimer

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.