Market Overview

31 May 2023

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Local Market

May was another turbulent month for South African investors. Investor confidence plunged and the rand came under severe pressure. This was due to a variety of factors including the persistence and severity of electricity outages, downward revisions to economic growth, SA's seemingly pro-Russia stance, and a clear lack of effective political leadership. The local currency plunged to a new record low against the US dollar of R19.86/$ on the 30th of May.

At a news conference around mid-month, the US ambassador to South Africa made allegations that weapons and ammunition were secretly loaded onto a Russian cargo ship at the Simon's Town naval base in December and then transported to Russia. The news severely dented both foreign and domestic sentiment towards SA. Government has denied the claim, and President Cyril Ramaphosa has established a judicial commission to investigate.

The rand was also knocked by the South African Reserve Bank decision to increase the repo rate by a further 50 basis points to 8.25% at its Monetary Policy Committee (MPC) meeting on the 25th of May. The decision was unanimous, and in-line with market expectations, although interest rates have risen significantly more than what was anticipated a year ago. The MPC statement highlighted the increase in the risk premium charged on rand-denominated bonds, food inflation that remains extremely high, electricity prices that is expected to rise further, loadshedding that is having broader price effects than initially anticipated, and the upside risk to salary increases.

Unemployment data for the first quarter of 2023 was released in May. The official jobless rate jumped to 32.9% vs 32.7% in the prior quarter, the first rise in over a year **(Chart 1).** The number of employed people increased by 258 000 in the quarter, but this was circumvented by the number of job seekers increasing by 437 000.

Absa's Purchasing Managers' Index (PMI), a leading indicator of business conditions in the manufacturing sector, edged down to 49.2 in May 2023 from 49.8 in April. The reading pointed to the fourth consecutive month of contraction in manufacturing activity, to its weakest since early 2020. "This is the most pessimistic respondents have been about the near-term outlook since the strictest phase of South Africa's Covid-lockdown three years ago," Absa said.

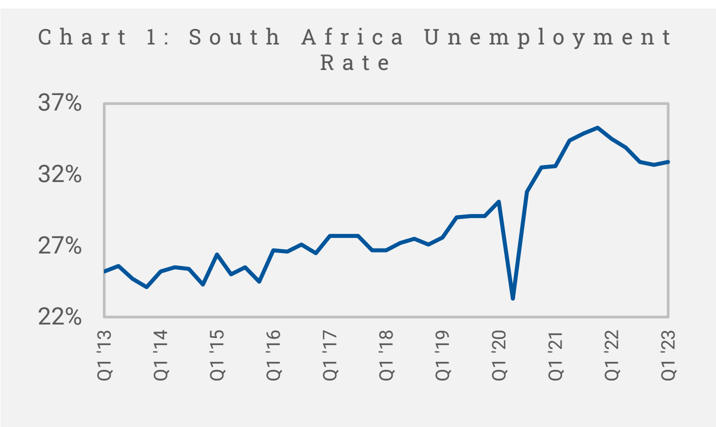
Global Market

Following the recent banking crisis, financial distress seemed to fade in May as broader stress metrics subdued, indicating that banking risk has stabilised. Fed Chair Jerome Powell commented that bank conditions had "broadly improved" since early March but that the strains in the sector appear to be resulting in even tighter credit conditions for households and businesses.

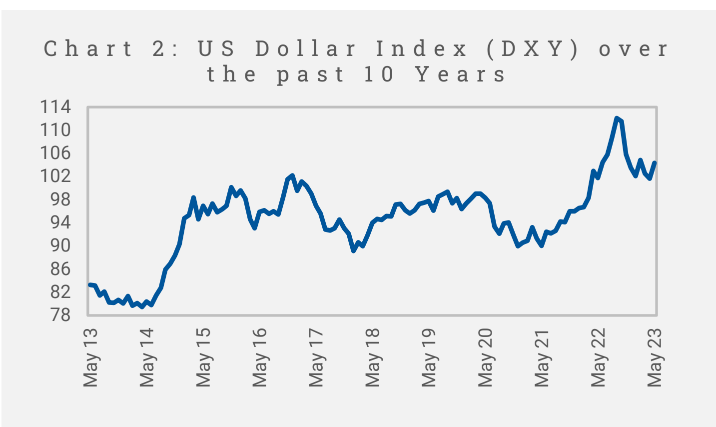
Concerns around the US debt ceiling and the possibility of an impending US government default dominated headlines in May as political parties haggled to reach a compromise on raising the US borrowing limit. The debt ceiling is a limit on the amount of money that the US government can borrow to fund its operations and pay its obligations, and the US government reached their debt ceiling on 19 January 2023. A last-minute deal on the debt ceiling was announced towards month-end, to raise the ceiling for two years, with a cap on spending. The debt ceiling has been raised 20 times since 2001.

At the start of May, the US Federal Open Market Committee (FOMC) decided to increase interest rates by a further 25 basis points, in-line with market expectations. The increase took the federal funds rate to a range of 5% to 5.25%, the highest since 2007, before the global financial crisis. The Fed has increased interest rates by a total of 500 basis points since the beginning of 2022. Global investors turned risk-off amid expectations US interest rates could stay higher for longer. This led to the Dollar Index (DXY), which measures the value of the US Dollar versus a basket of global currencies, regaining some lost ground **(Chart 2).**

US economic activity remained upbeat, albeit patchy. US inflation continued to trend lower, although core inflation remains sticky, and the labour market remains strong. While key parts of the US economy are slowing, including the housing market, and housing activity as well as private sector fixed investment and industrial activity, activity data in some parts of the service sectors remains relatively firm. Commodities, particularly industrial metals, experienced pronounced weakness in May. The price of brent oil decreased by 7.5% for the month, the platinum price decreased by 7.4%, palladium by 7.2% and copper by 5.9%.



Source: investing.com (31 May 2023)



Source: investing.com (31 May 2023)

Asset Class (ZAR)	MTD	YTD	1 Year	3 Years	5 Years	10 Years
Local Equity	-3.9%	4.5%	8.5%	18.5%	9.9%	9.5%
Local Property	-5.3%	-5.3%	-2.3%	15.8%	-4.4%	1.8%
Local Bonds	-4.8%	-2.7%	0.3%	5.6%	6.2%	6.7%
Local Cash	0.6%	3.0%	6.3%	4.5%	5.3%	5.7%
Global Equity	7.2%	25.4%	28.2%	14.5%	16.8%	15.4%
Global Property	3.7%	14.6%	7.8%	8.4%	10.4%	11.0%
Global Bonds	6.1%	17.7%	20.0%	-2.5%	7.3%	6.7%
Global Cash	8.9%	18.8%	32.0%	5.4%	11.2%	8.2%

Market Overview

31 May 2023

Local Review

Equity

Local equities fell for the fourth time in six months as the JSE All Share Index declined by 3.9% in May, resulting in a year-to-date return of 4.5%. On a sector level it was red across the board. Financials were hit the hardest, ending the month down 7.9%, followed by industrials (-3.3%) and resources (-2.2%). The performance of the local bourse was somewhat "protected" by a weak local currency, and when measured in US dollar terms, the JSE was the worst-performing major equity market in May. Our models indicate that there is significant value on offer in local equities relative to other asset classes, we therefore maintain our allocation to local equity at levels moderately above benchmark.

Property

Local property had a poor month and was the worst performing domestic asset class in May. The SA Property Index lost 5.3%, bringing the year-to-date performance of the index down to -5.3% as well. Elevated bond yields and low economic confidence have kept property share prices depressed and the yields on offer do not fully reflect the underlying fundamental risks. We therefore maintain an underweight ranking on local property.

Bonds

Local bonds suffered their fourth worst month in over 22 years as the JSE All Bond Index dropped 4.8%. The year-to-date return of the index is now in the red at -2.7%. Bond yields spiked and the South African 10-year government bond yield rose by more than 1% during the month to 12.1%. Foreigners were net sellers of SA bonds every day in the month of May, a first on record. We maintain our allocation to bonds at overweight levels relative to the benchmark as local bonds continue to provide investors with very attractive forward returns.

Cash

South Africa's annual inflation rate fell to an 11-month low of 6.8% in April, down from 7.1% in March and below market forecasts of 7%. The moderation in inflation was mainly due to softer rises in prices of transportation. Food prices remain elevated. The annual core inflation, which excludes prices of food, non-alcoholic beverages, fuel and energy, rose to an over six-year high of 5.3% in April, up from 5.2% in March. Cash currently delivers 1.7% 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 May and found itself at its weakest levels ever. Starting the month at R18.29/$, the ZAR weakened 7.9% against the greenback to end May at R19.73/$. Year-to-date the rand has depreciated 15.9% against the US dollar, 15.7% against the euro and 19.2% against the pound. At month end, the ZAR was trading at 16% undervalued relative to the trade weighted basket of currencies on a purchasing power parity basis. Using the same methodology, the ZAR was 68% undervalued versus the USD.

Equity

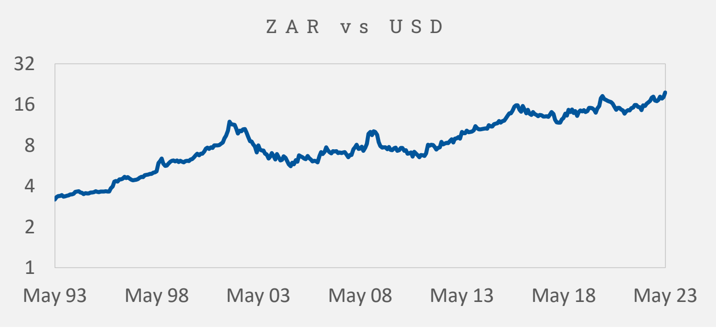
Global equities fell in May with the MSCI All Country World Index declining 1.1% in US dollar terms, bringing the index's year-to-date performance down to 7.7%. There was, however, a significant difference between sectors, as enthusiasm over artificial intelligence boosted technology stocks. The tech-heavy Nasdaq ended the month 5.8% stronger, while the blue-chip S&P 500 was up only 0.4%. Weighed down by Chinese stocks, emerging markets also had a difficult month. The MSCI Emerging Markets Index depreciated by 1.7%, underperforming its developed market peers. We continue to favour allocation to high quality stocks and maintain our allocation to global equity at levels just below benchmark.

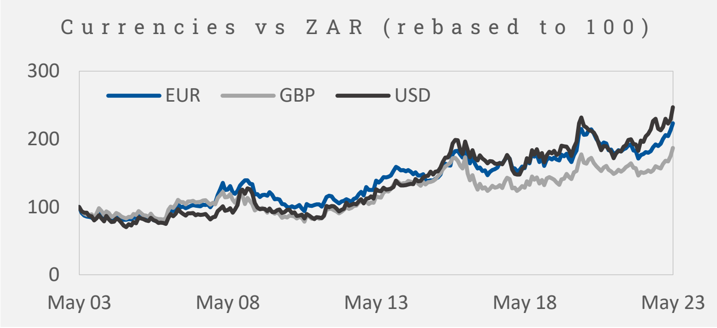
Fixed Income

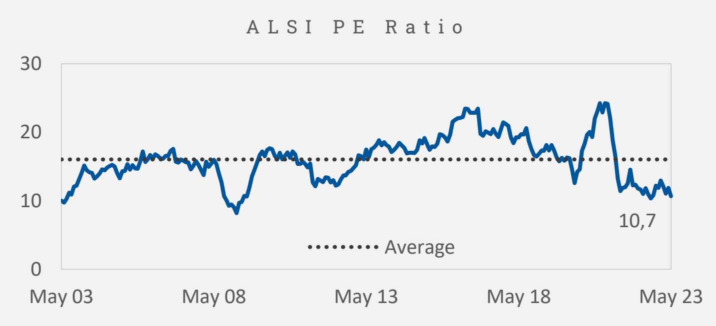
Government bond yields generally climbed during May. The US 10-year government bond yield reached an intra month high of above 3.8%, though the bonds retraced some of those losses into month-end and closed the month 0.3% higher at 3.7%. BCA Research opines that bond yields could rise further if the Fed hints at further rate hikes.

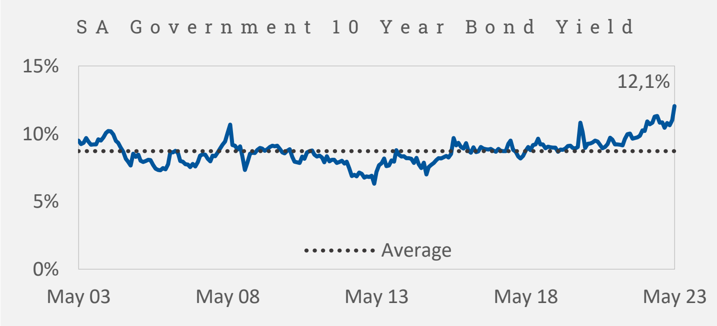
Alternative

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.