Market Overview

30 June 2023

Local Market

Fewer power station breakdowns and less required maintenance down periods at Eskom meant improved loadshedding schedules for South Africans in June. However, despite the welcome reprieve in electricity constraints, the local market remained under pressure, materially lagging most major global markets for the month.

Since November 2021 the South African Reserve Bank has hiked interest rates by a cumulative 4.75%. This, along with high inflation and poor government policy choices, is clearly putting a major strain on the economy. Data shows that households are feeling the squeeze on disposable income and are being forced to supplement spending with credit. Growth in consumer credit averaged 7.6% year-on-year, pushing the household debt-to-income ratio up from 61.6% to 62.1%. The household savings-to-income rate has moved into negative territory for the first time since Covid.

Persistent inflation remains a concern and South African inflation expectations rose for the next two years, providing impetus for the SARB to extend its rate-hiking cycle. Average inflation expectations for 2023 increased to 6.5% in the second quarter, from 6.3% in the previous quarter. The rate of price growth is now expected to climb to 5.9% for 2024 to 5.6% for 2025. Inflation expectations influence decision making by the SARB's monetary policy committee.

Consumer confidence plummeted to its second-lowest reading since 1994, reflecting the concern among consumers about the country's economic prospects and their household finances. FNB and the Bureau for Economic Research (BER) reported that consumer confidence fell to minus 25 in the second quarter, dropping to levels last recorded during the second quarter of 2022 (Chart 1).

Some positive news is that fears over sanctions against South Africa seem to have deteriorated, given the country`s non-aligned stance and importance as a trade partner to the US and Europe. SA has also made significant strides in fostering international relationships to enhance domestic production capacity. South Africa and Germany signed an agreement in June to establish a task force that will facilitate the creation of projects to meet global demand for green hydrogen and simultaneously bolster the African economy.

Global Market

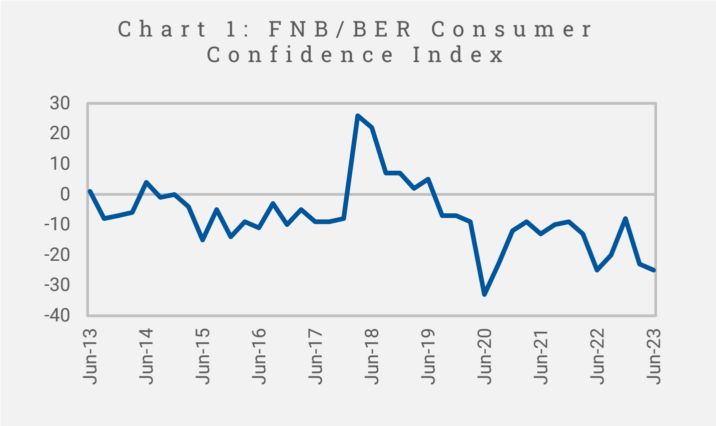
Global financial markets improved materially in June and recorded firm gains for the first half of the year. Promising US economic data has been released, indicating the economic expansion remains strong. The first quarter of 2023 saw a reported growth rate of 2.0%, surpassing the previously reported figure of 1.3%. The US labour market also remains tight.

As widely expected, following ten consecutive rate hikes, the Federal Reserve put a pause in their ongoing rate hiking efforts in June, maintaining the policy rate within the target range of 5-5.25%. Fed Chair Jerome Powell, however, signalled that rate hikes would likely resume at the Fed's next meeting and that most Fed members anticipate at least two more rate hikes in the second half of 2023. This caused a shift in expectations in the Fed Fund futures market, transitioning from an anticipated end to rate hikes (and some cuts) to expectations of further hikes this year.

The European economy remains under pressure due to high and sticky inflation. Both the European Central Bank and Bank of England have increased interest rates twice in the second quarter to combat inflation. Economic data indicates that the Eurozone experienced a mild recession during their winter, with GDP declining 0.1% in both Q4 of 2022 and Q1 of 2023.

In China the economic recovery has been underwhelming with a slower-than-expected ramp-up in spending. Exports and imports have contracted, and factory output has declined. China's factory activity, as measured by the manufacturing purchasing managers index (PMI), came in at a disappointing 49 index points in June, highlighting the patchy recovery in the world's second-biggest economy. Although slightly up from May's 48.8 print, it remains below 50, indicating economic contraction for a third consecutive month (Chart 2).

Significant concerns regarding political stability emerged in Russia when the Russian mercenary group Wagner staged a revolt. Although the attempt to overthrow President Vladimir Putin did not work, it did shed light on the perceived shortcomings of the country's military leadership. Without the Wagner troops on Putin's side, Russia may have lost a substantial portion of the firepower for the war in Ukraine.



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

Source: investing.com (30 June 2023)

Asset Class (ZAR)	MTD	YTD	1 Year	3 Years	5 Years	10 Years
Local Equity	1.4%	5.9%	19.6%	16.1%	9.6%	10.3%
Local Property	0.9%	-4.4%	10.0%	11.3%	-3.5%	1.5%
Local Bonds	4.6%	1.8%	8.2%	7.6%	7.4%	7.4%
Local Cash	0.6%	3.6%	6.6%	4.6%	5.3%	5.7%
Global Equity	0.9%	26.5%	34.4%	14.1%	15.3%	16.0%
Global Property	-1.5%	12.9%	11.1%	7.5%	7.8%	11.3%
Global Bonds	-4.9%	11.9%	12.1%	-3.8%	4.6%	6.3%
Global Cash	-4.3%	13.8%	20.1%	4.4%	8.4%	7.9%

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Local Review

Equity

Local equities had a relatively poor month underperforming both developed and emerging market aggregates. The JSE All Share Index ended June up 1.4%, resulting in a year-to-date return of 5.9%. The resource sector faced one of the largest declines this year, down 7.6%, as large gold and platinum producers sold off aggressively. The financial sector, on the other hand, experienced one of its strongest months this year, registering a growth of 11.7%. Industrials returned 3.7%. 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

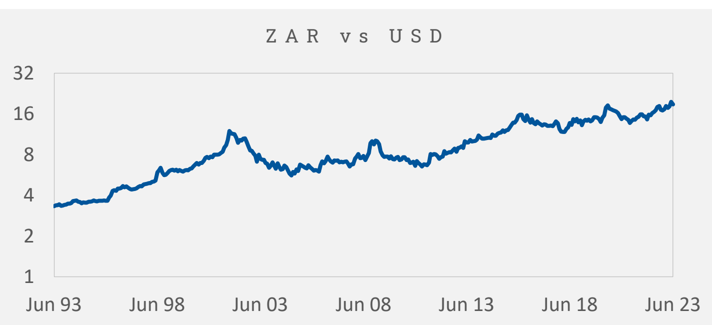
Local property was the worst performing domestic asset class again in June. The South African Property Index ended the month up only 0.9%, bringing the year-to-date return to -4.4%. Over 3 years local property has delivered an annualised return of 11.3% and -3.5% annualised over 5 years. This asset class remains very volatile and the yields on offer do not fully reflect the underlying fundamental risks. We therefore maintain an underweight ranking on local property.

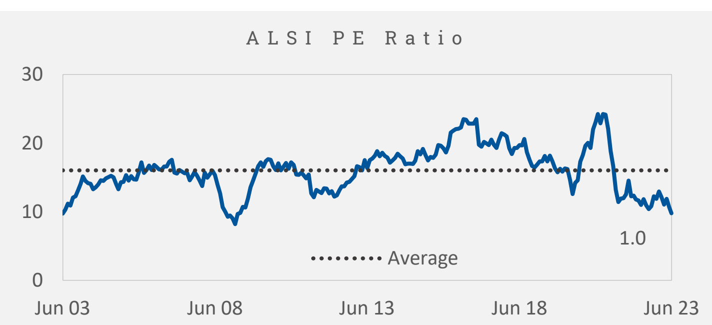
Bonds

Local bonds rebounded strongly in June with the JSE All Bond Index appreciating 4.6%. The year-to-date return is now back in the green at 1.8%. The South African 10-year government bond yield fell by 0.7% during June from 12.1% to 11.4%. Local bond yields remain extremely elevated relative to history but below the panic levels it got to in May. 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 eased further to a 13-month low of 6.3% in May, down from 6.8% in April and below market forecasts of 6.5%. Food and fuel prices slowed down and the annual core inflation, which exclude these, also eased slightly to 5.2% in May, down from an over six-year high of 5.3% in April. Cash currently delivers 2.2% 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 remained volatile in June and experienced a partial recovery from its losses in May but gave up some of the gains later in the month. After starting June at R19.73/$, the ZAR still ended the month 4.5% stronger at R18.85/$. Year-to-date the local currency has now depreciated 10.7% against the US dollar. 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 60% undervalued versus the USD.

Equity

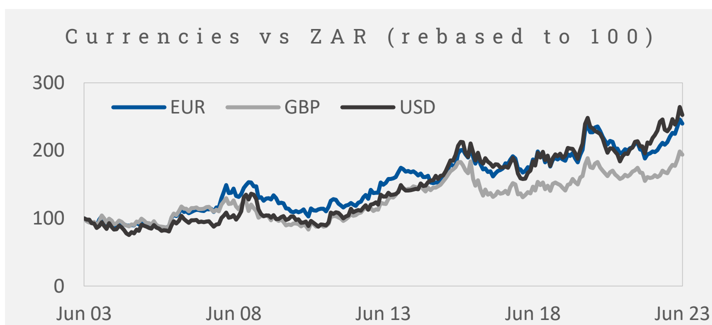
Global equity markets had a solid June, buoyed by stronger-than-expected economic data. In US dollar terms, the MSCI All Country World Index rallied 5.8%, bringing year-to-date performance up to 13.9%. Benefitting from the hype surrounding artificial intelligence, mega-cap US-listed tech stocks have been a key driver of equity market returns. The FANG Index was up 8% in June and has gained a whopping 74% in the first half of the year. Emerging Markets lagged developed markets in June, with the The MSCI Emerging Markets Index delivering 3.8%. Year-to-date the index has returned only 4.9%, with foreign-listed Chinese companies the biggest laggards. We continue to favour allocation to high quality stocks and maintain our allocation to global equity at levels just below benchmark.

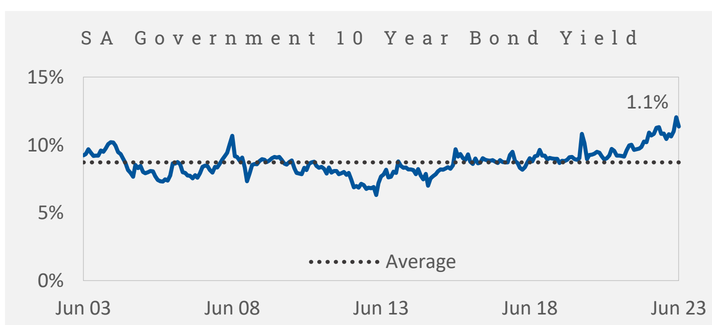
Fixed Income

Developed market bonds performed poorly in June as investors considered the increasing likelihood that policy rates will remain elevated for longer than previously thought. Government bond yields continued to drift higher and the US 10-year government bond yield ended the month at 3.8%, from 3.7% at the end of May.

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 asymmetric return profiles. 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.