Market Overview

31 July 2023

Local Market

The local market rallied alongside global markets in July, though marginally underperforming other emerging markets. Domestically focussed companies posted strong gains, while the local currency's recovery acted as a headwind for locally listed companies with offshore earnings, such as luxury goods company Richemont, which lost 10% in July. Northam Platinum (20.4%), Sibanye Stillwater (16.6%) and Shoprite (14.5%) were amongst the month's best performers.

The SA Reserve Bank decided to keep the repo rate unchanged at 8.25% at its monetary policy committee (MPC) meeting on the 20th of July, offering some temporary relief to strained local consumers. The decision was not unanimous, with two of the five MPC members arguing for a 25-basis point hike. Reserve bank governor, Lesetja Kganyago, said that sticky inflation in major economies suggests average interest rates will remain high, resulting in tighter global financial conditions, which often leads to increases in the risk profile of economies needing foreign capital.

The SARB expects the SA economy will grow by only 0.4% in 2023 as energy and logistical constraints remain binding on the growth outlook, limiting economic activity and increasing costs. From a demand perspective, spending by firms, households, public corporations, and general government remains positive in real terms. The bank expects GDP growth will pick up to 1.0% in 2024 and 1.1% in 2025.

SA trade data for June came in way below estimates. The country recorded a trade deficit of R3.54bn in June (Chart 1), compared to a downwardly revised R9.57bn surplus in May and way below market estimates of a R11.85bn surplus. The development is a signal that the domestic economy is likely to be more dependent on foreign funding at a time of heightened geopolitical uncertainty. Exports fell by 8.6% vs May while imports fell by 1.6%.

With elections coming up next year, President Cyril Ramaphosa has given his cabinet six months to deliver on key priorities. Opinion polls show the ruling ANC risks losing its outright majority it has held since the country's first multiracial vote in 1994. The ANC will begin the process of compiling a manifesto that sets out key priorities should it win another five-year term.

Global Market

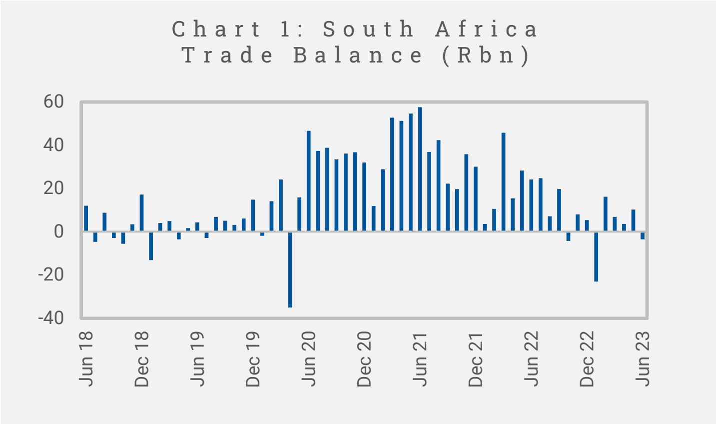
Market sentiment remained positive in July, with all the major global markets up for the month, buoyed by receding inflation worries and resilient economic data. US inflation data for June came in lower than expected at 3% year-on-year, the lowest reading in over two years and the twelfth consecutive monthly drop. US GDP data also surprised on the upside, growing by 2.4% quarter-on-quarter in the second quarter of 2023, above both the previous quarter's growth rate of 2.0%.

The US Federal Reserve increased interest rates by 25 basis points in July as widely expected, bringing the target range to 5.25% to 5.5%. This followed a pause at their previous meeting in June. Fed chairman, Jerome Powell, made it clear that the incoming data will determine the next rate decision in September, and they may continue to raise interest rates further if the environment remains inflationary. According to the futures markets, investors are pricing only a 27% chance of further rate hike by the end of the year.

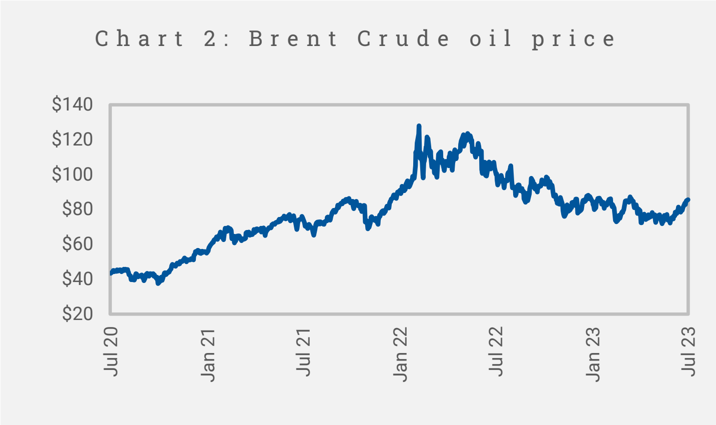
The European Centra Bank (ECB) also increased interest rates by 0.25% to 3.75%, as expected. The bank, however, suggested that it was keeping an open mind about future rate decisions and hinted that a pause in monetary tightening could be on the horizon. The Bank of Japan (BoJ) decided to keep its key short-term interest rate unchanged at 0.1% and the 10-year Japanese government bond yield around zero percent.

In China, some policy easing and hopes for further stimulus led to strong gains in July, despite disappointing economic data releases. China's exports fell a larger-than-expected 12.4% in June from a year earlier, the sharpest decline in nearly three years as global demand remained weak. Imports shrank by 6.8%, which was more than expected. China's factory activity also posted a fourth straight monthly contraction in July.

Commodity prices reversed some of their year-to-date losses, with the broad Bloomberg Commodity Index rising 6.3% over July. Brent crude oil bounced back above US$80 per barrel for the first time since April, rallying 14% in July (Chart 2). The oil price was supported by pledges from Russia and Saudi Arabia to maintain supply cuts and hopes that China's move to support economic activity would spur demand.



Source: investing.com (31 July 2023)



Source: Business insider (31 July 2023)

Asset Class (ZAR)	MTD	YTD	1 Year	3 Years	5 Years	10 Years
Local Equity	4.0%	10.1%	19.3%	16.7%	10.5%	10.3%
Local Property	2.3%	-2.2%	3.4%	13.4%	-3.0%	2.1%
Local Bonds	2.3%	4.1%	8.1%	8.2%	7.4%	7.7%
Local Cash	0.7%	4.3%	6.8%	4.8%	5.3%	5.7%
Global Equity	-2.4%	23.4%	20.5%	12.0%	15.1%	15.2%
Global Property	-2.3%	10.3%	-1.5%	6.1%	8.1%	11.0%
Global Bonds	-5.7%	5.5%	2.0%	-6.1%	4.5%	5.6%
Global Cash	-5.4%	7.6%	11.5%	3.2%	8.2%	7.3%

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Local Review

Equity

Local Equities delivered impressive performance in July, recording its best monthly return since January. The JSE All Share Index ended the month 4.0% higher, resulting in a double-digit year-to-date return of 10.1%. The financial sector continued its positive trend, appreciating a substantial 7.8% in July. Resources and industrials also posted solid gains, up 3.2% and 2.6% respectively. Foreign investors were net sellers of South African equities in July. 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 relatively good month with the SA Property Index increasing +2.3%. Year-to-date however, it remains a laggard, delivering -2.2%. Over 3 years local property has delivered an annualised return of 13.4% and -3.0% 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 rallied alongside the currency for a second consecutive month. The JSE All Bond Index was up 2.3% in July, pushing the index's year-to-date return up to 4.1%. While the South African 10-year government bond yield dropped from 11.4% to 11.1% in July, it remains elevated relative to history. Foreign investors were net sellers of South African bonds in July. 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 moved back to the central bank's target range of 3% - 6%. The June 2023 inflation number came in at a 19-month low of 5.4%, down from 6.3% in May and below market forecasts of 5.6%. Food inflation eased to an eleven-month low of 11%, and transport prices also softened. The annual core inflation slowed to 5% in June, after a 5.2% rise in May. Cash currently delivers an attractive 3.1% real yield. We appreciate the optionality in cash, but recognise that several other asset classes have higher expected real returns at the moment.

Global Review

Currency

The local currency continued to recover from is plunge toward R20/$ in May. The rand started July at R18.85/$ and ended 5.2% stronger against the US dollar at R17.88/$. Year-to-date the local currency has now depreciated 5.0% against the greenback, 7.9% against the Euro and 11.4% against the Pound. At month end, the ZAR was trading at 5% undervalued relative to the trade weighted basket of currencies on a purchasing power parity basis. Using the same methodology, the ZAR was 51% undervalued versus the USD.

Equity

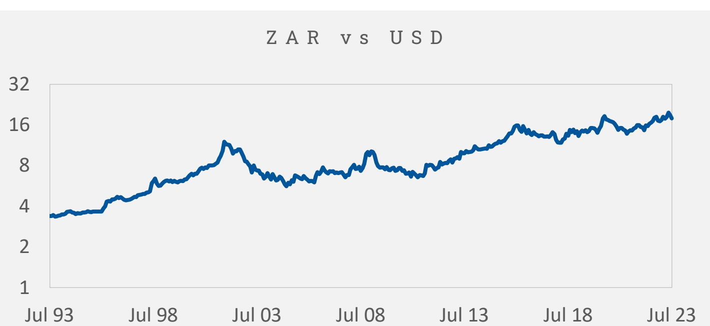
Global equities rallied for a second consecutive month. In US dollar terms, the MSCI All Country World Index appreciated 3.7%, bringing the index's year-to-date performance up to 18.1%. In the US, the tech-heavy Nasdaq and the blue-chip S&P 500 posted good gains, up 4.0% and 3.2% respectively. Emerging markets significantly outperformed their developed market counterparts in July with the MSCI Emerging Markets Index increasing 6.2% for the month. Chinese equities, particularly those listed offshore, were the standout performers, benefitted from improving sentiment. Year-to-date the MSCI Emerging Markets has returned 11.4%. We continue to favour allocation to high quality stocks and maintain our allocation to global equity at levels just below benchmark.

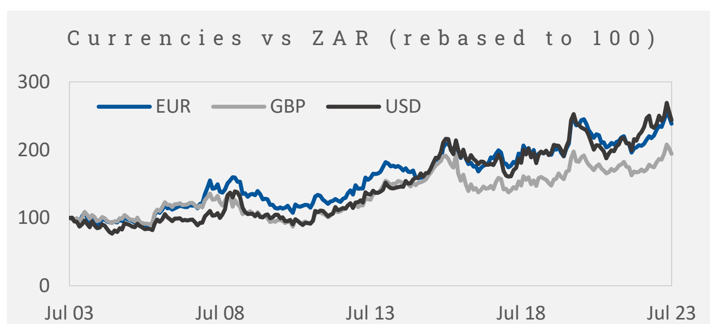
Fixed Income

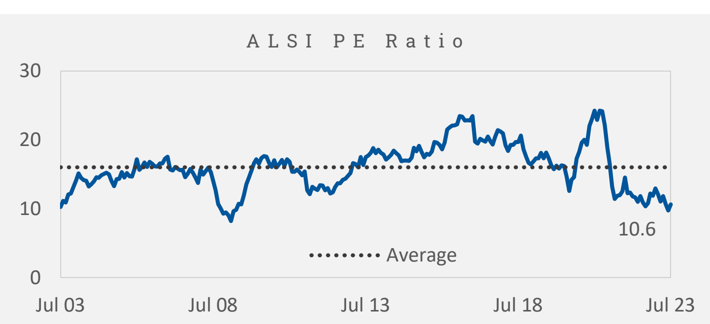
Developed market bonds had a poor month as investors started moving out of bonds as a recession hedge and into riskier assets such as equity. Starting the month at 3.8%, the US 10-year government bond yield fell slightly to 3.7% after the better-than-expected inflation data around mid-month. Still, it pushed back to 4% by month-end.

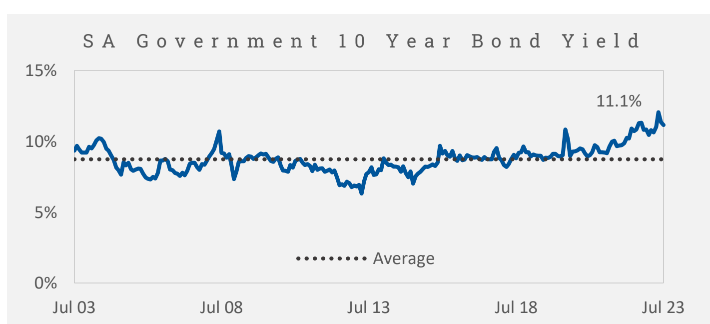
Alternative

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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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.