

Market Overview

31 August 2023



Local Market

After a positive June and July, the local market retreated significantly in August. Mining stocks were a massive drag on the local bourse as weak Chinese economic activity weighed on metal prices, with platinum miners by far the worst performers. Major platinum miners all reported disappointing results characterised by weak volumes and elevated costs. Impala Platinum and Anglo American Platinum both ended the month down 24.4%.

The BRICS bloc held their 15th summit in Johannesburg for three days from 22 to 24 August 2023 where it was announced that six countries will be joining the group from January 2024. These are Argentina, Egypt, Ethiopia, Iran, Saudi Arabia and the United Arab Emirates. Expansion of the economic alliance furthers the bloc's efforts to counter Western dominance.

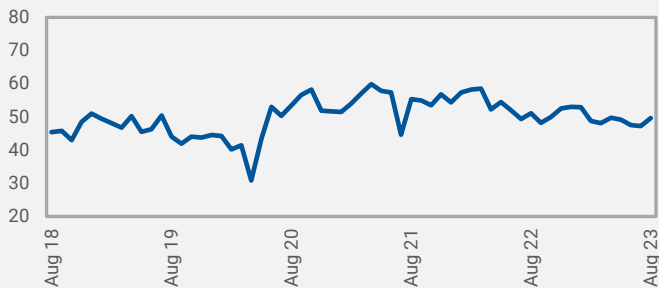
Amid the BRICS summit and SA's electricity woes, President Cyril Ramaphosa revealed that the Chinese government has donated R170m in emergency power equipment and made available an approximately R500m grant as development assistance to alleviate SA's energy crisis. He added that Chinese companies, encouraged by their government, responded with enthusiasm to his investment drive, which has raised more than R1.5-trillion in commitments in the past five years.

SA's second quarter unemployment data, released in August, surprised on the upside. Helped by a sizeable increase in formal sector employment, the unemployment rate fell more than expected. However, at 32.6% it remains exceedingly high by historical and international standards. Youth unemployment came in at 60.7% in the second quarter and at 70.1% when using the expanded definition.

The Absa Purchasing Managers' Index (PMI) came in at 49.7 in August (Chart 1). While up from the two-year low of 47.3 recorded in July, the reading remains below 50, which makes August the seventh consecutive month of economic contraction in the manufacturing sector.

The contraction in South African manufacturing activity in August is mainly attributed to rolling power cuts and the Western Cape taxi strike. Several sectors experienced widespread absenteeism due to commuters being unable to reach their workplaces. The strike was called without notice by the South African National Taxi Council (Santaco) on the 3rd of August, abruptly halting all minibus taxi operations in the Western Cape following a dispute with the City of Cape Town authorities.

Chart 1: SA Absa Purchasing Managers Index (PMI)



Source: Investing.com (31 August 2023)

Global Market

August traditionally tends to be a tough month for markets. This year was no different as most major markets ended the month in the red. Volatility increased and concerns about the health of the global economy, especially China, weighed on sentiment.

Macroeconomic data out of China continued to disappoint, with the world's second-largest economy reporting much weaker-than-expected July retail sales growth in August, while industrial production data rose less than expected, and manufacturing activity fell for a sixth straight month in August. The Golden Dragon China Index was down over 16% in August before rallying at month's end to close out down 10.3%.

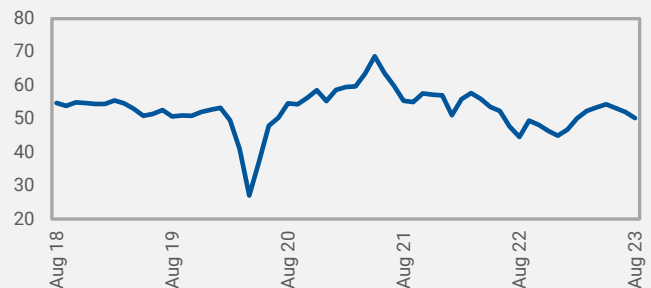
Chinese property market woes also returned as Chinese real estate giant Evergrande filed for US bankruptcy protection. At the same time, the heavily indebted property development Group Country Garden Holdings' shares fell to a record low, and it was removed from Hong Kong's Hang Seng Index. In efforts to stimulate the Chinese economy and support its currency the central bank will trim the amount of foreign currency deposits banks are required to hold as reserves for the first time this year.

The long-term credit rating of the United States was downgraded by the Fitch Ratings agency in August. This reflects the expected fiscal deterioration of the US government over the next three years, a high and growing general government debt burden, and the erosion of governance relative peers over the last two decades. The downgrade, the second in America's history, came two months after the United States narrowly avoided defaulting on its debt.

The annual Jackson Hole economic policy symposium also took place in August. Unlike last year, Federal Reserve chair Jerome Powell's speech was well received by financial markets. Overall, the Fed's policy will remain data dependent with a bias to tighten if necessary. Market pricing suggests the Fed could deliver one final hike before year-end, followed by four or five rate cuts in 2024.

The August purchasing managers' indices (PMIs) supported this dovish outlook, with S&P Global Composite PMI falling to 50.4 in August from 52 in July. This reading came in worse than the market expectation of 52. A near-stalling of business activity in August has economists concerned over the strength of US economic growth in the third quarter.

Chart 2: US Composite Purchasing Managers Index (PMI)



Source: Investing.com (31 August 2023)

Asset Class (ZAR)	MTD	YTD	1 Year	3 Years	5 Years	10 Years
Local Equity	-4.8%	4.9%	15.8%	14.9%	8.9%	9.5%
Local Property	0.9%	-1.3%	10.3%	17.2%	-3.2%	2.6%
Local Bonds	-0.2%	3.9%	7.5%	7.8%	7.7%	7.8%
Local Cash	0.7%	5.0%	7.1%	4.9%	5.4%	5.8%
Global Equity	3.5%	27.8%	26.6%	11.3%	13.1%	15.4%
Global Property	2.9%	13.4%	5.9%	6.6%	6.0%	11.5%
Global Bonds	5.0%	10.9%	9.3%	-4.2%	3.2%	5.8%
Global Cash	7.0%	15.1%	16.3%	5.7%	7.2%	7.7%

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Local Review

Equity

Local equities had its poorest monthly performance since June 2022, falling behind both developed and emerging market indices. The JSE All Share Index retreated -4.8% in August, bringing the index's year-to-date return down to 4.9%. The most substantial detractor was the resources sector, which saw a decline of -8.4%. Industrials and financials also declined, ending the month down 4.7% and 1.6% respectively. Our models indicate that there remains 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

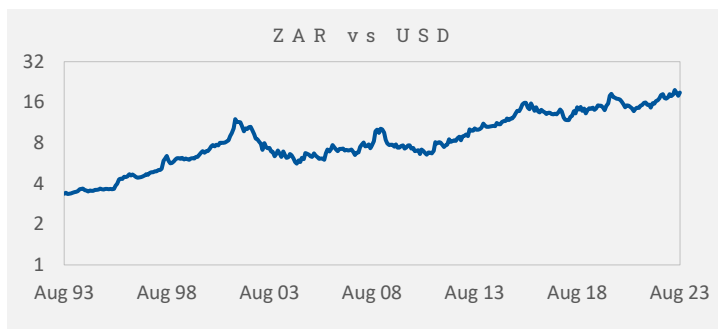
Local property enjoyed a more favourable environment and was the best performing domestic asset class in August. The SA Property Index was up 0.9% for the month, with mixed performance across counters. Year-to-date the index remains in the red, returning a negative 1.3%. This asset class remains very 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 ended the month slightly down with the JSE All Bond Index depreciating -0.2%. Year-to-date local bonds have now posted a 3.9% gain. South African bond yields followed global bond yields higher and the SA 10-year government bond yield increased from 11.1% to 11.3%. 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 fell further to a two-year low of 4.7% in July, from June's 5.4% and below market forecasts of 5%. The moderation in inflation largely reflected a notable decline in prices of transportation and slower price growth for food. Conversely, prices rose faster for housing and utilities, especially electricity, as municipalities have raised electricity tariffs by more than 18%, effective July. Cash currently delivers a very attractive real yield of 3.7%, as such our allocation to cash is at overweight levels relative to the benchmark.



Global Review

Currency

The local currency faced challenges against major currencies throughout August, once again trading well above R19/\$ during the month. The rand started the month at R17.88/\$ and weakened 5.6% against the US dollar to close August at R18.87/\$. Year-to-date the local currency has now depreciated 10.9% against the greenback. At month end, the ZAR was trading at 9% undervalued relative to the trade weighted basket of currencies on a purchasing power parity basis. Using the same methodology, the ZAR was 58% undervalued versus the USD.

Equity

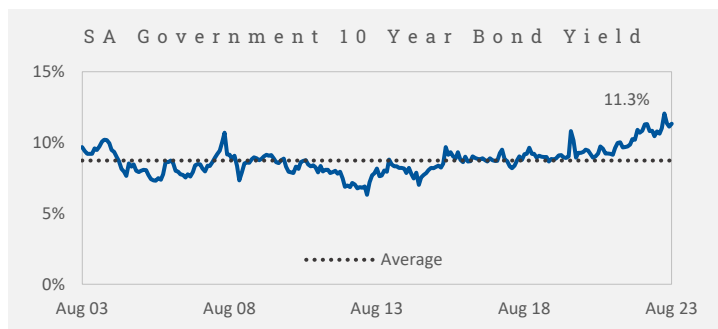
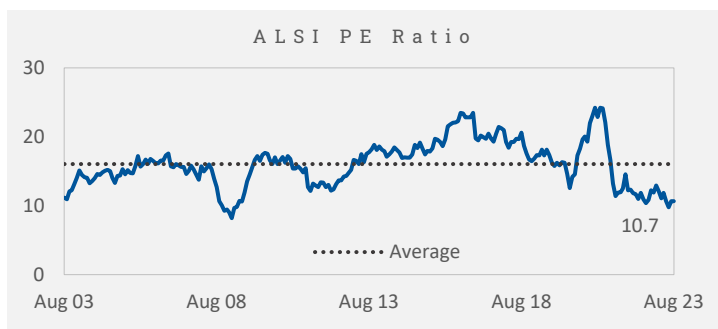
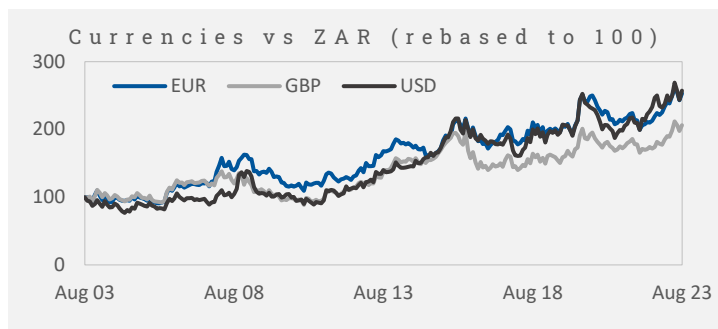
August saw a discernible shift towards a risk-off market sentiment. In US dollar terms, the MSCI All Country World Index was down 2.8%. The index's year-to-date performance, however, remains strong at 14.8%. The S&P 500 and the Nasdaq both ended what had been a five-month winning streak with the blue-chip S&P 500 down 1.6% and the Nasdaq closing the month 2.2% lower. Emerging market equities fared even worse than developed markets with Chinese companies the biggest drag. The MSCI Emerging Markets Index declined 6.2%, year-to-date the index has returned 4.6%. We continue to favour allocation to high quality stocks and maintain our allocation to global equity at levels just below benchmark.

Fixed Income

Global bonds had a volatile month and the Bloomberg Aggregate Bond Index fell 1.4% as sovereign yields rose. Starting August at 4.0%, the US 10-year government bond yield reached 4.4% by mid-month, its highest level since 2007, before retreating slightly to 4.1% into month-end. BCA Research sees little upside to 10-year Treasury yields from here, and a 20% return from Treasuries in the event of a recession.

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.