

Local Market

Domestic asset classes delivered mixed performance in October. While South African equities did not escape the global sell-off, local stocks displayed increased resilience in comparison to other emerging markets and even outperformed developed markets in USD terms. On a price-to-earnings basis, the MSCI South Africa index was undervalued compared to the MSCI World index at 0.6x, which would typically be attractive for international investors. However, the quality of South African equities seems to be overshadowed by the political instability and uncertain policy environment. Year-to-date cash has been the best performing local asset class (Chart 1).

Despite the many ongoing challenges, the nation was in a festive mood in October as the Springboks lifted the Rugby World Cup in France. To celebrate the victory, President Ramaphosa declared a public holiday on the 15th of December in a televised address to the nation. His tribute quickly morphed into a defence of the ANC ahead of elections in 2024 that could terminate its three decades in power.

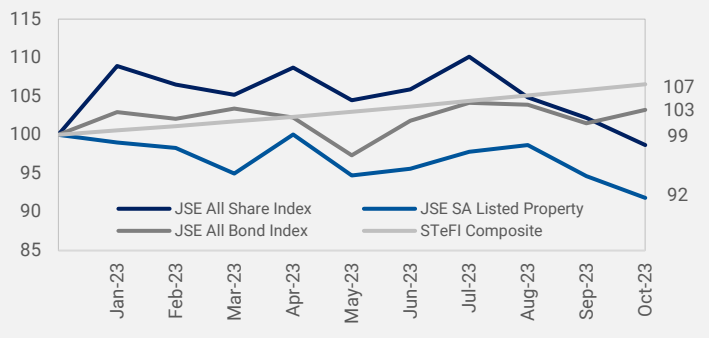
He highlighted his administration's achievements in tackling an energy crisis, logistics constraints, crime and corruption and high levels of unemployment. He also reiterated his administration's commitment to stabilising debt and a sustainable fiscal policy.

However, Ramaphosa was also forced to admit that the rolling blackouts, and the collapse of the country's rail network under state-run Transnet, had crushed badly needed growth and exports. He added that mounting fiscal pressures has meant that government is now paying more in interest on national debt than they are budgeting for the police force, at about 18 cents in every rand of revenue.

Incoming third quarter economic data continued to disappoint. August retail sales, released in October, fell by 0.5% year-on-year following a downwardly revised 1% drop in July, as local consumers remained under pressure. SA mining production continued to fall in August, decreasing by 2.5% year-on-year.

Municipalities generated R10bn surplus from electricity sales during the first half of 2023, despite record days of loadshedding. During October, South Africa experienced 11 days of no load-shedding, helped by improvements at the Kusile power station as well as ongoing investment in roof-top solar. Eskom's energy availability factor averaged 58% during October, up from 54.8% in September.

Chart 1: Domestic Asset Class Year-To-Date Returns



Source: Seed Investments, Morningstar Direct (31 October 2023)

Global Market

Global financial markets experienced notable strain in October with all major stock markets down for the month alongside bonds and listed property, leaving no place to hide for investors. Increased geopolitical concerns and the likelihood of persistently high interest rates during the first half of 2024 in the major developed economies continued to negatively impact market sentiment.

On the 7th of October Palestinian Islamist militant group, Hamas, launched an unprecedented multi-faceted and sustained assault on Israel from the Gaza Strip. Concerns around the potential for the conflict to spill into other countries in the region caused markets to retreat. The risk of escalation or broadening of the military conflict in the Middle East poses an upside risk to the oil price, which would put strain on global oil markets, negatively impacting inflation and interest rates.

The Brent oil price declined by 7.8% in October following a prior 10% increase in September. Nevertheless, Brent oil was not the poorest performing commodity, as palladium witnessed a double digit drop of 10.0%. Gold, on the other hand, saw a sharp rally, with the spot gold price rising above the psychological US\$2000 level on 27 October before falling back and ending the month 7.3% higher (Chart 2). As a safe-haven asset, gold is a good hedge against geopolitical risks. Platinum increased by 3.2% and iron ore by 1.6%.

In the US, September US retail sales data came in stronger-than-anticipated at 0.7% month-on-month, relative to expectations for 0.3%. This was followed by the release of third quarter US GDP growth of 4.9% quarter-on-quarter, ahead of expectations of 4.5%. Growth was driven by consumer spending, a substantial increase in inventories and increased government activity, including defence spending which is at a record high.

Despite stronger-than-expected US growth, according to the IMF's analysis global growth is forecast to slow from 3.5% in 2022 to 3.0% in 2023 and 2.9% in 2024. These projections remain below the historical (2000–2019) average of 3.8%.

In China, October saw ongoing jitters over the country's economic recovery and the Chinese property sector weighing on its equity markets. China's official October Manufacturing Purchasing Managers Index (PMI) unexpectedly fell back into contraction territory, coming in at 49.5 versus September's 50.2 print. The 50-point mark separates expansion from contraction.

Chart 2: Gold Spot US Dollar Price over 10 years



Source: investing.com (31 October 2023)

Asset Class (ZAR)	MTD	YTD	1 Year	3 Years	5 Years	10 Years
Local Equity	-3.4%	-1.3%	8.3%	15.0%	9.8%	7.9%
Local Property	-3.0%	-8.2%	-1.3%	19.1%	-3.8%	0.9%
Local Bonds	1.7%	3.2%	7.9%	7.3%	7.9%	7.3%
Local Cash	0.7%	6.4%	7.5%	5.1%	5.4%	5.8%
Global Equity	-3.5%	17.6%	12.7%	11.9%	12.7%	13.7%
Global Property	-5.2%	0.2%	-4.0%	5.9%	4.4%	9.5%
Global Bonds	-1.7%	6.5%	3.8%	-2.8%	3.2%	5.8%
Global Cash	0.0%	15.0%	7.2%	7.1%	6.9%	7.9%

Local Review

Equity

The local stock market produced a third consecutive negative month in October with the JSE All Share Index ending the month down 3.4%. This pushed the index's year-to-date performance into negative territory at 1.3%. Losses were fairly broad-based as all major sectors lost ground. The most significant decline was observed in the industrial sector, down 4.5%. Resources depreciated 3.2% and financials lost 2.0%. Gold shares were the only exception to the downward trend as they followed the gold price higher. 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 had another weak month. Steered by volatility in bond markets, the SA Property Index ended October -3.0% lower. Year-to-date the index has now returned -8.2%. The listed property sector remains a very volatile asset class 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 was the best performing local asset class. The JSE All Bond Index was up 1.7% in October as investors was drawn to the attractive inflation-adjusted yield on offer. Year-to-date the index has now posted a 3.2% gain. The SA 10-year government bond yield fell slightly from 12.0% to 11.9%. 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 accelerated for the second successive month to 5.4% in September, up from 4.8% in August and slightly above market forecasts of 5.3%. Still, it remained comfortably within the Reserve Bank's 3%-6% target band. The main upward pressure came from prices of food and fuel. The annual core inflation, which excludes prices of food, non-alcoholic beverages, fuel and energy, eased from 4.8% to a 13-month low of 4.5%. Cash currently delivers a very attractive real yield of 3.0%, as such our allocation to cash is at overweight levels relative to the benchmark.

ZAR vs USD



Global Review

Currency

The rand held up relatively well in October, finding itself amongst a small grouping of currencies to strengthen against a strong US dollar. The local currency started the month at R18.92/\$ and strengthened 1.4% against the greenback to close October at R18.65/\$. Year-to-date the rand has now depreciated 9.5% against the dollar, 10% against the pound and 8.2% against the euro. At month end, the ZAR was trading at 7% undervalued relative to the trade weighted basket of currencies on a purchasing power parity basis. Using the same methodology, the ZAR was 57% undervalued versus the USD.

Equity

Global equities continued to decline. In US dollar terms, the MSCI All Country World Index was down 3.0% in October, bringing the year-to-date performance down to 6.8%. The tech-heavy Nasdaq Composite (-2.0%) and the blue-chip S&P 500 indices (-2.1%) fell into correction territory before gaining some ground at the end of a tough month. Emerging markets underperformed developed markets, with the MSCI Emerging Markets Index returning -3.9%. Chinese companies were the worst-performing, particularly those listed offshore. Year-to-date the emerging market index has lost 2.1%. We continue to favour allocation to high quality stocks and maintain our allocation to global equity at levels just below benchmark.

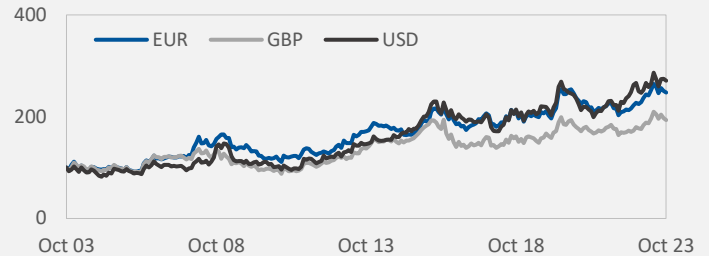
Fixed Income

The bond market saw a rapid rise in US Treasury yields in October. The US 10-year government bond yield increased for the 6th consecutive month, and touched 5% for the first time in over 16 years before closing the month at 4.9%. Rising US rates have pushed up yields in the rest of the world too and the Bloomberg Global Bond index ended October down 1.2%.

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.

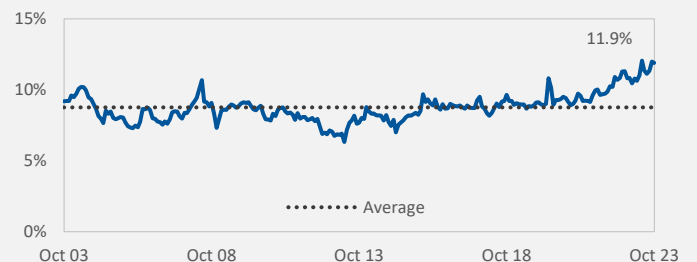
Currencies vs ZAR (rebased to 100)



ALSI PE Ratio



SA Government 10 Year Bond Yield



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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.