Market Overview

30 November 2023

Local Market

November brought some much-needed relief for South African investors as the local market joined in on the global rally and experienced a significant recovery. The month kicked off with the tabling of the 2023 Medium Term Budget Policy Statement (MTBPS) on the 1st of November. While the MTBPS typically serves as an update on the primary budget set in February, it carried added significance this year due to the substantial deterioration in SA's fiscal health.

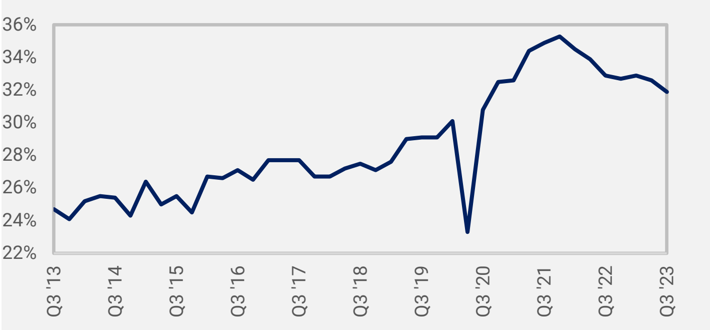
Finance Minister Enoch Godongwana acknowledged the country's deteriorating fiscal picture, but little detail was provided about the exact steps to be taken regarding the promised fiscal correction. Regardless, Godongwana appeared to have largely reassured markets that a credible rebalancing process is underway and the MTBPS was relatively well received by investors.

The SA Reserve Bank kept the Repo rate unchanged at the November Monetary Policy Committee meeting, as expected, but warned about the upside risks to inflation and their willingness to hike if inflationary pressures worsen. The decision was unanimous and in-line with market expectations. The SA Repo rate has been unchanged at 8.25% since May 2023. While the tone of the MPC statement was hawkish, highlighting the fact that serious upside risks to the inflation outlook remain, most analysts expect rates to remain unchanged in early 2024, with rate cuts starting towards the middle of the year.

South Africa's unemployment rate fell to 31.9% in the third quarter of 2023, from 32.6% in the second quarter (Chart 1). The expanded definition of unemployment, which includes those discouraged from seeking work, was 41.2%, down from 42.1% in the second quarter. While it remains extremely elevated at 58%, the youth unemployment rate, measuring job-seekers between ages 15 and 24, dropped to an over one-year low.

GDP data for the third quarter was also released in November. SA GDP declined by -0.2% in Q3, below market expectations for it to remain unchanged quarter-on-quarter. The economy has grown by only 0.3% year-on-year in the first three quarters of 2023. The economic weakness in Q3 was relatively broad-based with agriculture, mining, manufacturing, construction, and retail all declining in the quarter. While the declines were not substantial, it highlights the ongoing stagnation of the SA economy. Fortunately, the broad business services sector grew by 0.5% quarter-on-quarter, while transport activity expanded by 0.9%.

Chart 1: South Africa Unemployment Rate over the past 10 Years



Source: investing.com (30 November 2023)

Global Market

Global markets soared in November as global stocks recorded their strongest month in three years in a broad-based rally. The positive market sentiment was driven by signs of economic moderation in the US and decreasing inflation across developed markets. Economic news headlines were still largely dominated by monetary policy developments following several high-profile speeches by policymakers, but the conversation is shifting from how many more hikes are still to come to when big central banks are expected to start cutting.

At its meeting on the 1st of November, the Federal Reserve kept interest rates unchanged at its 22-year high of 5.25% for a second consecutive time. The meeting minutes confirmed that the Fed will continue its cautious approach and Fed Chair Jerome Powell said it was watching the economic data closely and keeping its options open for further rate increases. The subsequent release of US inflation data showed prices cooling more than expected. US headline inflation for October came in at 3.2%, well off its 2022 peak of 9.2%, and meaningfully closer to the Fed's 2% target.

China's equity markets were the outlier in November's stock market rally as investor concerns around the country's economic recovery continued to weigh on sentiment. The world's second-largest economy is still struggling to digest the challenges in its real estate sector. On the geopolitical front, US-China tensions appeared to ease following a Biden-Xi meeting. Elsewhere, the temporary ceasefire in the Middle East allowed for the exchange of hostages.

While most equity sectors rallied in November, the energy sector experienced a decline. Brent crude oil was a victim of pessimism around Chinese economic activity, as falling refining margins and rising stockpiles for the world's largest oil importer weighed on demand expectations. Despite further OPEC+ production cuts, oil prices extended its decline and fell a further -4.9% in November.

The dollar was under pressure in November with the US Dollar Index trading below both its 50-day and 200-day moving averages (Chart 2). The US unemployment rate came in at 3.7%, exceeding market expectations for the unemployment rate to remain unchanged at 3.9%. An unemployment rate of 3.7% is extremely low by historical standards, but trending slightly higher overall, having risen from a low of 3.4% in April 20

Chart 2: US Dollar Index (DXY) over the past 10 Years

Source: investing.com (30 November 2023)

Asset Class (ZAR)	MTD	YTD	1 Year	3 Years	5 Years	10 Years
Local Equity	8.6%	7.1%	4.7%	14.3%	12.4%	8.9%
Local Property	9.1%	0.2%	1.4%	16.2%	-1.8%	2.1%
Local Bonds	4.7%	8.1%	8.8%	7.8%	8.1%	7.9%
Local Cash	0.6%	7.1%	7.7%	5.3%	5.4%	5.9%
Global Equity	10.4%	29.9%	24.9%	13.1%	16.1%	14.5%
Global Property	12.2%	12.4%	9.4%	7.4%	7.4%	11.0%
Global Bonds	6.2%	13.0%	13.8%	0.2%	5.7%	6.3%
Global Cash	1.5%	16.8%	17.3%	9.4%	8.5%	7.9%

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Local Review

Equity

Local equities performed in line with offshore equities in November, recouping most of the losses incurred in the three months leading up to November. The JSE All Share Index appreciated a whopping +8.6%, bringing the index's year-to-date performance to 7.1%. From a sectoral perspective the most significant contribution came from industrials, up 10.1% (15.8% year-to-date). The financial sector improved 8.3% (15.4% year-to-date) and resources was up 6.4% (-11.8% year-to-date). 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 rebounded strongly with the SA Property Index appreciating 9.1% in November, the best performing local asset class for the month. Year-to-date, however, local property has returned a disappointing 0.2%. The listed property sector remains 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 also had a good month and the JSE All Bond Index ended November 4.7% higher. Year-to-date the index has delivered 8.1%. The SA 10-year government bond yield followed global bond yields lower from 11.9% to 11.2% at month end. Foreign investors were net buyers of SA bonds for the first time since April. 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 rose for the third straight month to 5.9% in October, the highest in five months and well above market estimates of 5.5%. The increase was largely due to higher food, fuel and hotel prices. However, Core inflation decreased to 4.4%, suggesting that the underlying level of inflation remains relatively well under control despite currency fluctuations, some upward pressure on wages and higher energy prices. Cash currently delivers an attractive real yield of 2.5%%, as such our allocation to cash is at overweight levels relative to the benchmark.

Global Review

Currency

The Rand faced challenges in November, losing ground against all major currencies. Starting the month at R18.65/$, the local currency weakened 1.1% against the greenback to end at R18.86/$. Year-to-date the rand has depreciated 10.8% against the dollar, 15.6% against the pound and 12.6% against the euro. 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 57% undervalued versus the USD.

Equity

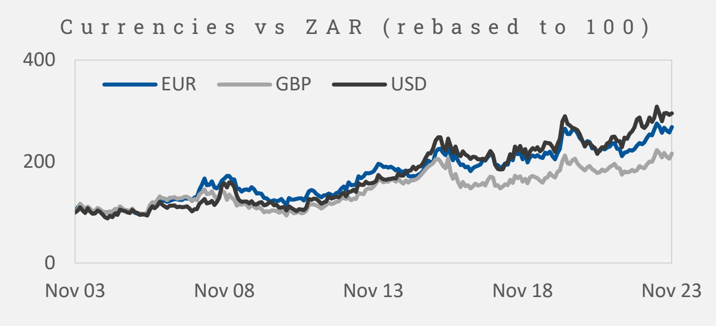
Global equities rebounded in November after three months of declines. In US dollar terms, the MSCI All Country World Index delivered 9.2% for the month, pushing the year-to-date performance up to 16.6%. US equity markets led the rebound, with the S&P 500 gaining an impressive 9.1%, its second-best November return of the last 40 years. Year-to-date the S&P 500 is up 20.8%. Emerging markets weren't far behind their developed market peers, with the MSCI Emerging Markets Index returning 8.0% for the month. Year-to-date however, the index has increased only 5.7%, dragged down by China. We continue to favour allocation to high quality stocks and maintain our allocation to global equity at levels just below benchmark.

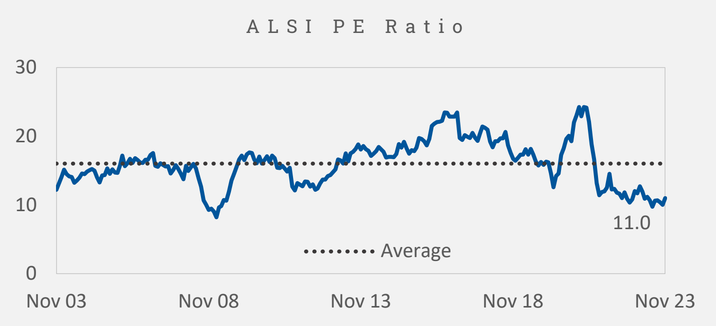
Fixed Income

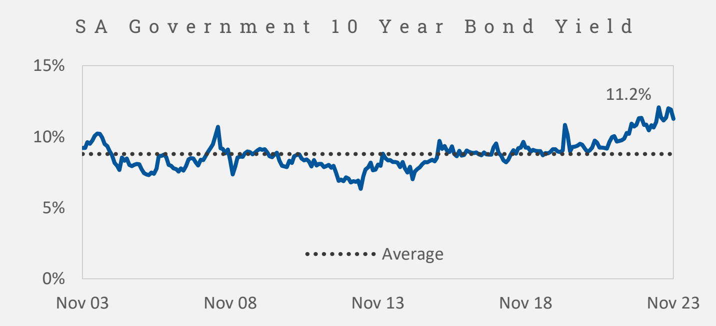
US government bonds recorded one of the best monthly performances on record. After six consecutive months of rising US 10-year bond yields, November saw the largest one month decline since the end of 2008. The US 10-year government bond yield decreased 0.5%, from 4.9% to 4.4%, on the back of cooling inflation data. BCA Research opines that October's 5% yield on the 10-year US Treasury was probably the peak.

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.