Market Overview

31 December 2023

Local Market

December was a strong month for most asset classes, with the All Share up 2%, the SA All Bond Index up a notable 1.43% and the Listed Property sector up an impressive 9.9%. November's Consumer Price Index (CPI) release disclosed a dip in headline inflation to 5.5% YoY (5.9% in October), marking the first contraction since July 2023, partially due to reduced fuel prices. Core inflation (which strips out volatile contributors) increased from 4.4% to 4.5%, however it remains at the midpoint of the SARB target range.

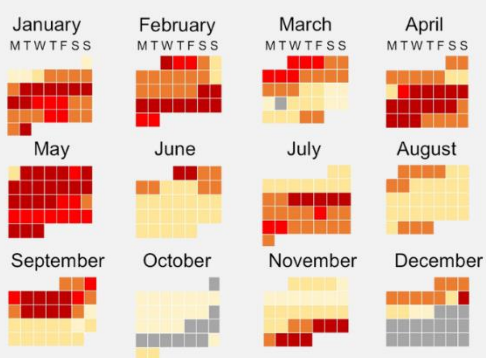
The SA Government 10 year borrowing rate ended the month at 11%, the lowest it has been since May 2023. The SA ALL Bond Index ended the year strongly at 9.7%, as it benefited from a softening global rate environment, ending the year slightly better than local stocks (9.3%).

SA posted a trade surplus of R21bn during November 2023, which was above market expectations of R5.3 billion. During the course of 2023, the JSE had 22 delistings, leaving 283 companies still listed on the JSE by end 2023. Reasons for delistings ranged from companies facing challenges in attracting anticipated investment flows to reduced foreign investment and increased regulatory requirements.

The South African Rand strengthened by 3.5% to the US Dollar during December, but ended the year down 7.48%. Transnet's struggles with its port and rail have become ever clearer, dampening South Africa's export performance, and disrupting the supply of goods into the local economy. This has undoubtedly contributed to the Rand's relative under-performance.

SA Consumer Confidence index remained low, at -17 in Q4, down from -16 as of Q3. This is the lowest festive-season consumer-confidence reading in more than 20 years. This points to the fact that consumers kept tight control over their spending during festive season shopping. 2023 was a year plagued with consistent loadshedding, 335 days to be exact. That equates to around 6,947 hours of loadshedding in 2023 as illustrated in Chart 1 (below). The cost of loadshedding continues to be counted by citizens and businesses alike. Private generation is on the rise, with the Department of Mineral Resources and Energy stating in December, that they had issued three requests for proposals requesting 5,000 MW of renewable energy from independent power producers.

Chart 1: 2023
Days with Loadshedding (335 days)



Source: EskomSePush & The Outlier (2023)

Global Market

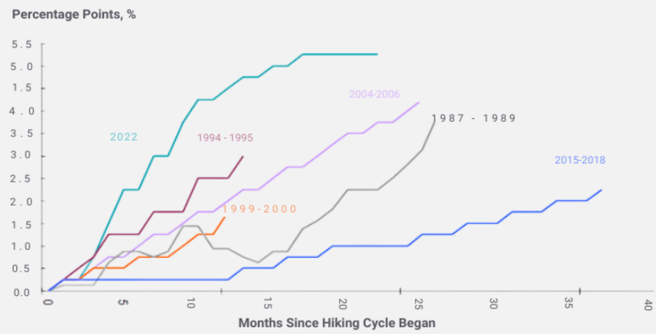
The US Federal Open Market Committee (FOMC) kept the Federal Funds Target Interest Rate in a range of 5.25% to 5.50%, in line with market expectations. Since the beginning of 2022, the Fed has increased rates by 525 basis points as illustrated in Chart 2 (below). The common consensus is that rates have peaked, and the FOMC signaled 75 basis points of interest rate cuts in 2024 (3 x 25 basis points cuts), 100 basis points cuts in 2025, and 50 basis points cuts in 2026. This was more dovish than market expectations, and the Federal Funds target rate is projected to remain above the neutral rate for the next three years. The suggestion is that the Fed will not reduce rates into stimulatory territory, but they still aim to get inflation back to a 2% target. Powell also highlighted that the economy is still on track to achieve a "soft landing" while bringing inflation fully under control, rather than a recession or a "hard landing."

The US exceeded forecasts, with 216,000 jobs added during December 2023, signaling a strong labor market. Throughout 2023, employers added 2.7 million jobs in the US, with an average monthly gain of 225,000 jobs. Unemployment currently sits at 3.7%. This rate has ranged between 3.4% and 3.9% for the past 19 months. Historically, 3.7% is a very low unemployment rate. US headline inflation continued its downward trend to 3.1% YoY, with core inflation at 4%. The US 10-year government bond yields ended the year at 3.9% p.a., down from 5% towards the end of October.

Japan faced economic challenges as its GDP contracted by a larger-than-estimated -2.9% q/q (annualised) in Q3 2023, compared to the initial estimate of -2.1% q/q. The revision was attributed to a more substantial decline in private sector inventories and slightly lower private consumption expenditure.

Moody's cut its credit rating outlook for Chinese government bonds to 'negative' from 'stable' in December. They highlighted that the country's high debt levels within local governments as well as SOEs represented downside risks to the economy. The People's Bank of China (PBoC) injected a record $204.1 billion into the banking system while maintaining the Marginal Lending Facility (MLF) rate at 2.5%. Chinese regulators initially implemented stringent measures sending the gaming market into decline but later showed flexibility, expressing a willingness to consider market feedback.

Chart 2: US Federal Reserve Interest Rate Hiking Cycle



Source: Kevin Lings (2023)

Asset Class (ZAR)	MTD	YTD	1 Year	3 Years	5 Years	10 Years
Local Equity	2.0%	9.3%	9.3%	13.5%	11.9%	8.8%
Local Property	9.9%	10.1%	10.1%	14.9%	0.2%	2.9%
Local Bonds	1.5%	9.7%	9.7%	7.4%	8.2%	8.0%
Local Cash	0.7%	7.8%	7.8%	5.4%	5.5%	5.9%
Global Equity	1.1%	31.3%	31.3%	13.8%	17.2%	14.1%
Global Property	6.1%	19.3%	19.3%	10.1%	9.2%	11.3%
Global Bonds	0.5%	13.6%	13.6%	1.7%	4.6%	6.1%
Global Cash	-3.0%	13.2%	13.2%	10.2%	7.0%	7.2%

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Local Review

Equity

Local equities followed up their strong performance in November with another positive month. The JSE All Share Index delivered 2.0% for December, bringing the index's calendar year performance for 2023 to 9.3%. On a sectoral basis, financials (5.3%, 21.5% for 2023) performed the best, while industrials (0.7%, 16.6% for 2023) also closed in the green. However, resources ended flat for the month and delivered a disappointing -11.8% for 2023. Our models indicate that there is significant value on offer in local equities relative to other asset classes. Therefore, we maintain our allocation to local equity at levels moderately above the benchmark.

Property

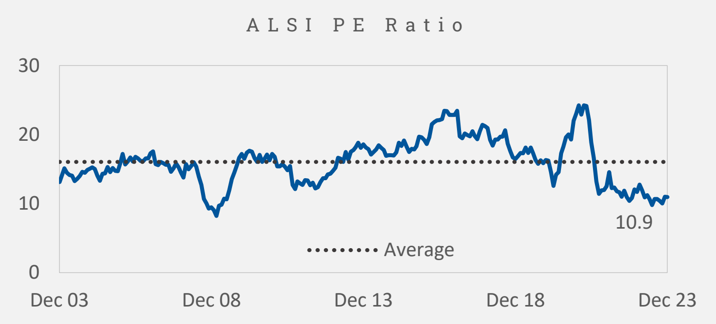
Local property had a phenomenal last two months, with the SA Property Index returning 9.9% in December following a 9.1% rise in November. The year-to-date performance has now improved to 10.1%, making it the best-performing local asset class for the 2023 calendar year after initially being the worst. The listed property sector remains a very volatile asset class, and the yields on offer do not fully reflect the underlying fundamental risks. Therefore, we maintain an underweight ranking on local property.

Bonds

Local bonds also performed well, with the JSE All Bond Index delivering a 1.4% return in December. For the 2023 calendar year, the index came close to double digits at 9.7%, outperforming both local cash and local equities. The SA 10-year government bond yield followed global bond yields lower, decreasing from 11.2% to 11.0% at month-end. 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 to 5.5% in November, down from 5.9% last month. The electricity (15.2%) and food (9.0%) categories contributed negatively to the annual figure, while on the positive side, fuel inflation now sits at only 1.8%. Although headline inflation was slightly lower than the expected 5.7%, core inflation increased again to 4.5%, remaining within the target range and appearing well-contained. Currently, cash delivers an attractive real yield of 2.9%; as a result, our allocation to cash is at overweight levels relative to the benchmark.



Global Review

Currency

The Rand showed some strength against major currencies during December. Starting the month at R18.86/$, the local currency strengthened by 3.0% against the greenback to end at R18.30/$. For 2023, the rand has depreciated by 7.5% against the dollar, 13.1% against the pound, and 10.8% against the euro. At month-end, the ZAR was trading at a 9% undervaluation 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

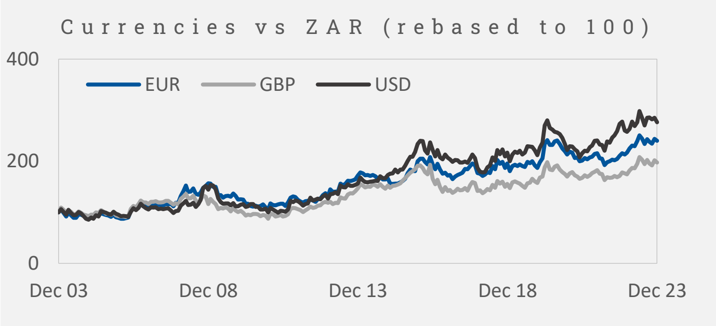
Global equities had another strong month, building on November's rebound after a challenging period. In US dollar terms, the MSCI All Country World Index delivered a 4.8% return for the month, pushing the 2023 annual performance up to a very impressive 22.2%. US equity markets lagged slightly for the month, with the S&P 500 gaining 4.5%, but still outperformed for the full year at 16.3%. Emerging markets underperformed their developed market peers, with the MSCI Emerging Markets Index returning 3.9% for the month and 9.8% for the calendar year. The main detractor has been China, with the MSCI China Index down 11.2% in USD terms for the year. We continue to favour allocating to high-quality stocks and maintain our allocation to global equity at levels just below the benchmark.

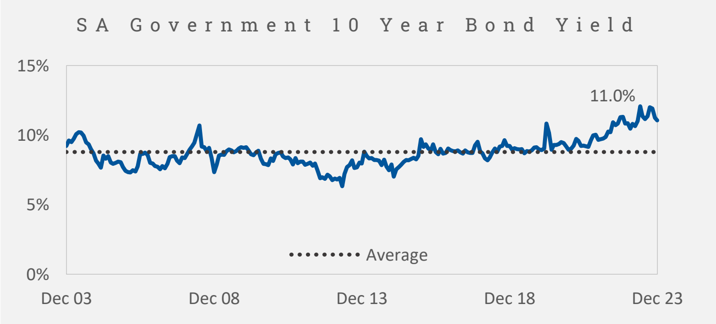
Fixed Income

US government bonds maintained their momentum into December, marking the second consecutive month of falling yields after six straight months of increases, which had taken the yield from 3.4% to 4.9%. The US 10-year government bond yield now sits at 3.9%, 0.5% lower than November's 4.4%, driven by cooling inflation data and reduced rate expectations going forward. According to BCA Research, the 5% yield on the 10-year US Treasury in October was likely the peak.

Alternative

Other asset classes that can be considered include structured notes, private equity, direct real estate, commodities, and hedge funds, providing investors with uncorrelated returns. These globally uncorrelated assets are particularly attractive in low-interest-rate environments, offering asymmetric return profiles. Alternative asset classes can play a useful role in multi-asset portfolios as they contribute to more consistent returns.





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seed investments

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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.