MONTH IN PICTURES

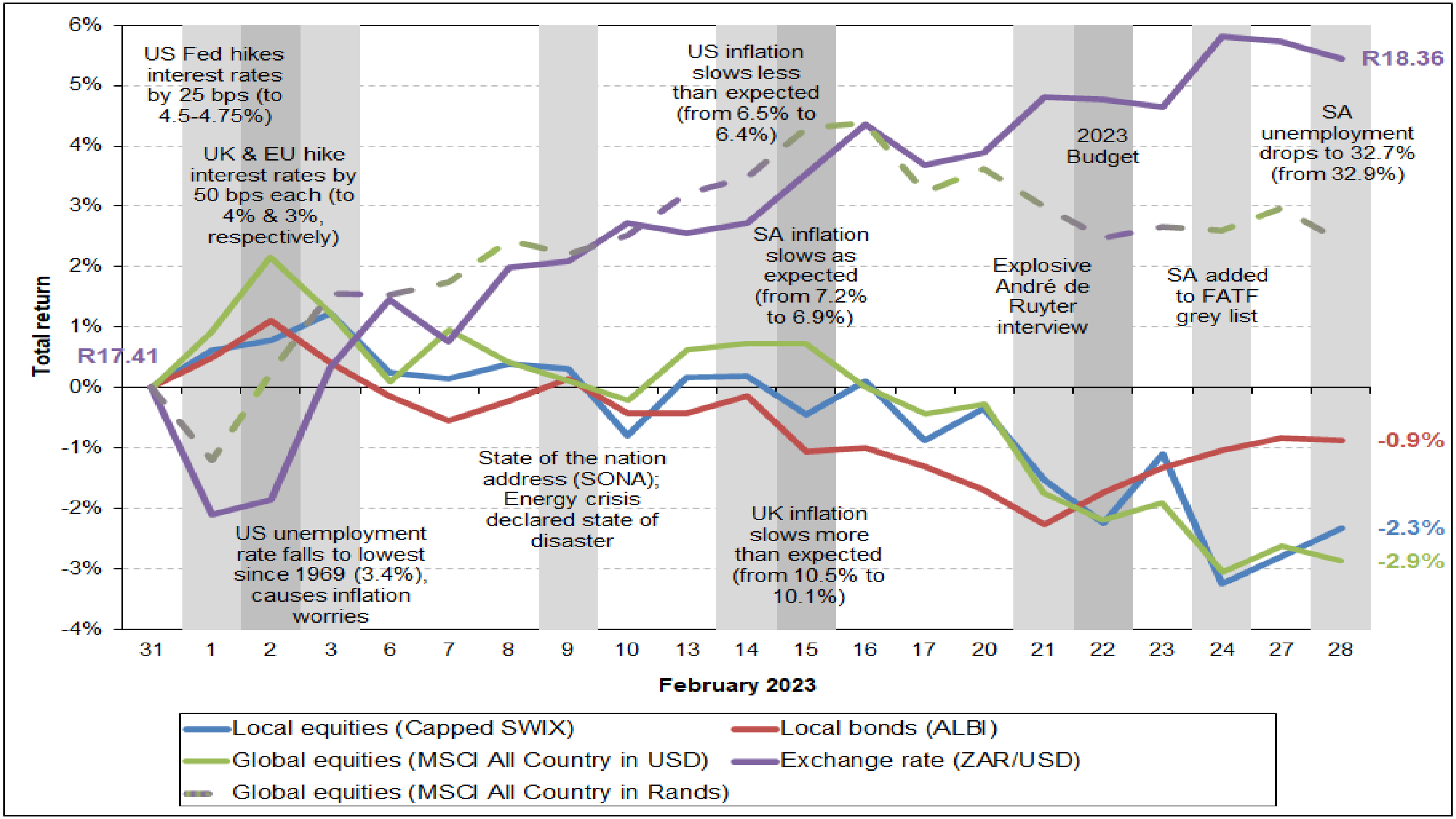
FEBRUARY 2023

MONTHLY SNAPSHOT
NOTABLE EVENTS

- The optimism that kickstarted the new year swiftly evaporated in February as stronger than expected economic and inflation data sparked renewed fears that interest rates might stay higher for longer.
- In this environment most of the major asset classes gave back some of their strong January gains, with Rand losses of 2.3% and 0.9% from local equities and bonds, while global equities and bonds yielded USD returns of -2.9% and -3.3%, respectively.
- The Rand traded significantly weaker throughout the course of February on a combination of local factors (loadshedding, SA's greylisting, etc.) and the upward shift in expectations for US interest rates. The exchange rate moved from R17.41 to R18.36/USD, resulting in positive local currency returns of 2.4% and 1.9% from global equities and bonds, respectively. This helped the average balanced fund * end February only marginally down (-0.1%).
- After record levels of loadshedding local economic growth disappointed in 2022 Q4, contracting by 1.3% compared to a much milder consensus expectation of -0.4%. Growth for the 2022 calendar year therefore averaged +2%, compared to 2021's strong recovery of +4.9%. With crippling power cuts expected to continue, growth expectations for 2023 have been downgraded across the board, with most institutions expecting an expansion of less than 1% for the year (IMF = +0.1% SARB = +0.3% and National Treasury = +0.9%).
- Confidence from businesses and consumers unsurprisingly took a knock in 2023 Q1, with the RMB/BER Business Confidence Index (with a neutral level of 50) falling from 38 to 36 and the FNB/BER Consumer Confidence Index (with a neutral level of 0) plunging from -8 to -23 (its third lowest reading ever). In some good news local unemployment data showed a marginal improvement, falling from 32.9% to 32.7%, while the expanded rate dropped from 43.1% to 42.6%.
- Unfortunately the decline in the local inflation rate was interrupted in February, with CPI climbing to +7% year-on-year (y-o-y), up from +6.9% the previous month. Food (+14% y-o-y) and transport (+9.9% y-o-y) were the main contributors.
- February and March saw another slew of interest rate hikes in the developed world, with hikes totaling 50 basis points (bps) in the US, 75 bps in the UK and 100 bps in the EU, with interest rates in these regions reaching their highest levels in 15 years. Rising rates have now also caused and exposed some weaknesses in parts of the global banking system, with several poorly managed US regional and large European banks running into difficulties in recent weeks. This has shifted the expected peak of interest rates lower, with the US Fed's latest 25 bp hike being a compromise of sorts between pausing its hiking cycle due to the current banking crisis, and earlier expectations of a 50 bp hike to counter stubbornly high inflation.
- With local and global stock markets remaining under pressure in March we're possibly looking at another negative month. Thankfully January's strong gains suggest that a positive 2023 Q1 is likely still on the cards, with the average balanced fund * still up by more than 3% for the quarter with less than one week to go.

* ASISA South African Multi Asset High Equity category average (net of fees)

MONTHLY TIMELINE
IMPACT ON MARKETS



Source: Iress

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MARKET INDICATORS
SHORT TERM

Market indicators (% change) [1]		Dec 2022	Jan 2023	Feb 2023	YTD	3 months	12 months
Local equities	ALSI	(2.3)	8.9	(2.2)	6.5	4.1	6.2
	Capped SWIX	(2.8)	7.0	(2.3)	4.5	1.6	3.8
	Resources	(3.5)	6.3	(12.5)	(7.0)	(10.3)	(16.1)
	Industrials	(0.3)	12.8	1.6	14.6	14.2	21.5
	Financials	(5.7)	4.7	2.7	7.6	1.4	8.8
	Listed Property	1.1	(1.0)	(0.7)	(1.7)	(0.6)	5.1
Local bonds	ALBI	0.6	2.9	(0.9)	2.0	2.7	4.9
Local cash	STeFI Composite	0.6	0.6	0.5	1.1	1.7	5.7
Global equities	MSCI All Country	(5.0)	9.6	2.4	12.2	6.6	9.6
Global bonds	FTSE WGBI	(1.3)	5.5	1.9	7.6	6.2	0.6
Exchange rate	ZAR/USD	(1.1)	2.3	5.4	7.8	6.6	19.5
Inflation	CPI	0.4	-0.1	0.7	0.7	1.1	7.0

1. *Total returns (in Rands) for the months and periods ending 28 February 2023.*

MARKET INDICATORS
MEDIUM TO LONG TERM

Market indicators (% change) [1]		1 year	3 years	5 years	10 years	15 years	20 years
Local equities	ALSI	6.2	19.5	9.8	10.5	9.8	15.3
	Capped SWIX	3.8	16.5	6.1	8.8	-	-
	Resources	(16.1)	23.8	19.6	7.9	4.0	10.9
	Industrials	21.5	18.3	7.6	10.9	13.4	18.3
	Financials	8.8	12.3	2.3	8.1	9.5	13.8
	Listed Property	5.1	2.7	(3.6)	2.0	7.4	13.3
Local bonds	ALBI	4.9	7.4	7.1	7.2	8.6	8.8
Local cash	STeFI Composite	5.7	4.8	5.8	6.2	6.6	7.2
Global equities	MSCI All Country	9.6	14.7	15.6	15.9	12.0	13.0
Global bonds	FTSE WGBI	0.6	(1.5)	6.2	6.3	6.4	6.4
Exchange rate	ZAR/USD	19.5	5.5	9.3	7.4	5.9	4.2
Inflation	CPI	7.0	5.2	4.8	5.1	5.5	5.2

1. *Total returns (in Rands) for the months and periods ending 28 February 2023.*

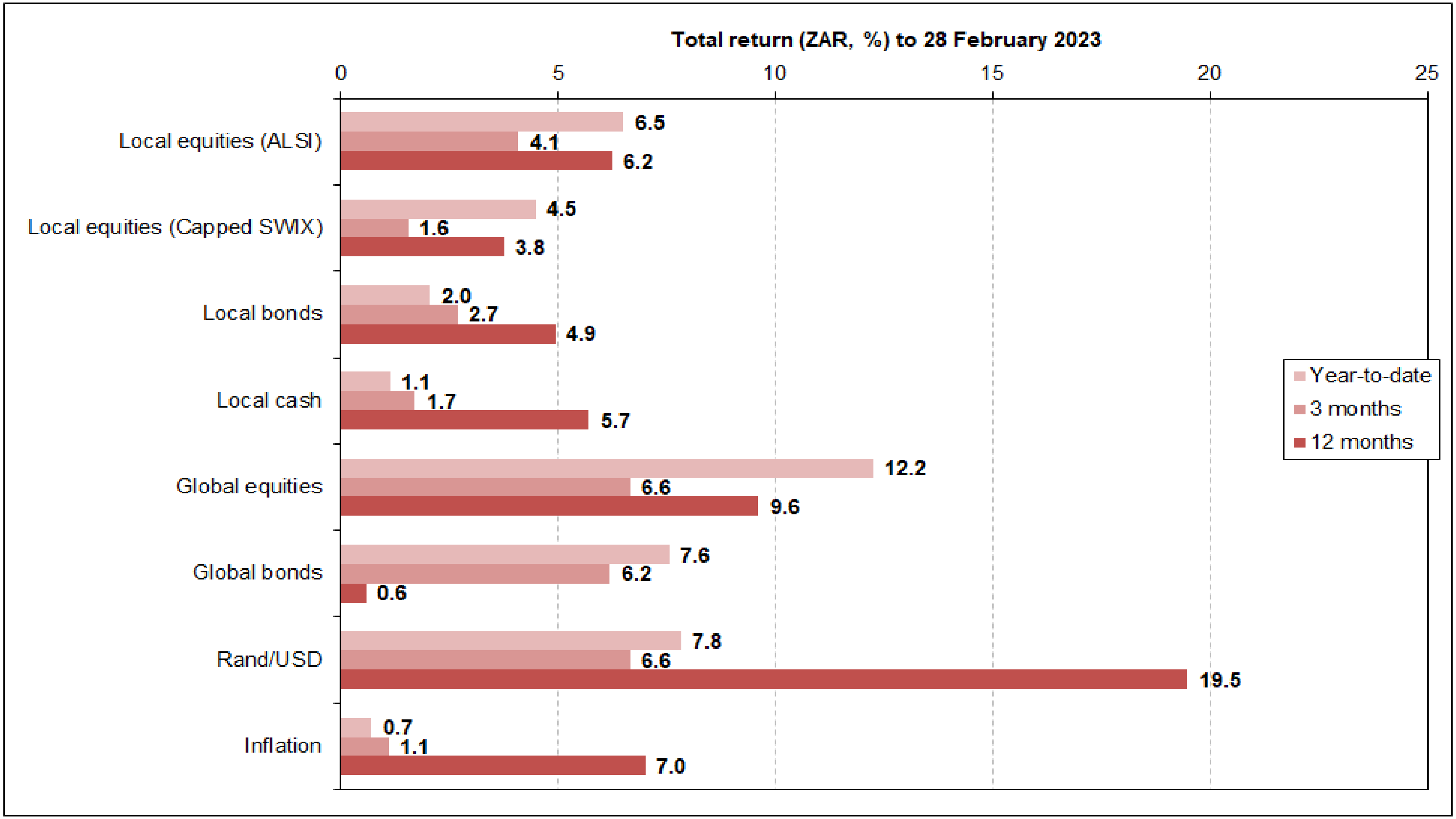
ECONOMIC INDICATORS

Economic indicators [1]	Feb 2021	Feb 2022	Dec 2022	Jan 2023	Feb 2023
Exchange rates:					
ZAR/USD	15.13	15.37	17.03	17.41	18.36
ZAR/GBP	21.08	20.62	20.59	21.45	22.07
ZAR/Euro	18.26	17.24	18.22	18.91	19.42
Commodities:					
Brent Crude Oil (USD/barrel)	64.42	97.97	85.91	85.46	83.45
Platinum (USD/ounce)	1,219.21	1,057.00	1,073.00	1,011.24	953.59
Gold (USD/ounce)	1,770.16	1,895.70	1,823.95	1,906.54	1,811.06

1. *Month-end prices*

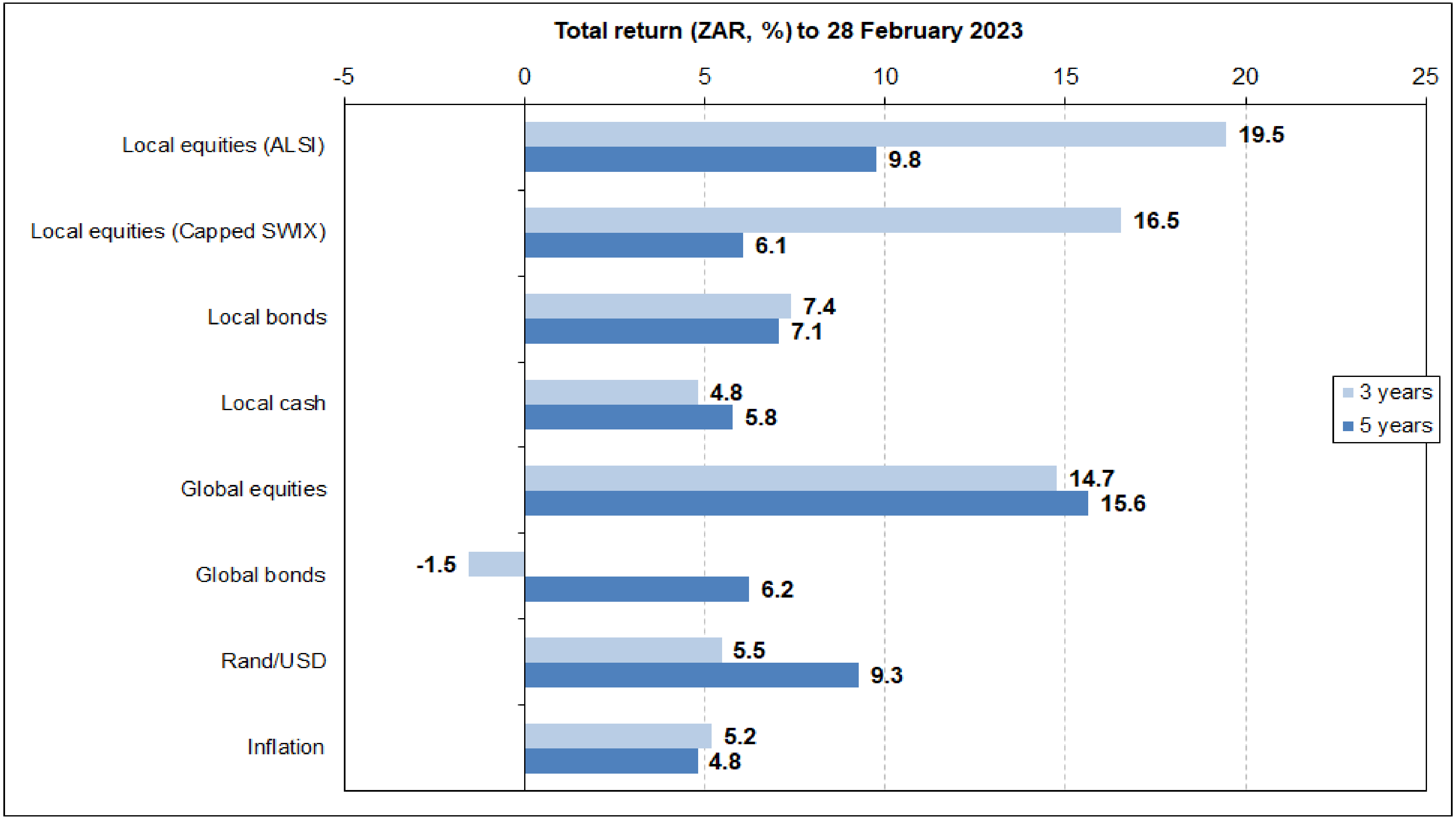
Source: Iress

ASSET CLASS PERFORMANCE
SHORT TERM



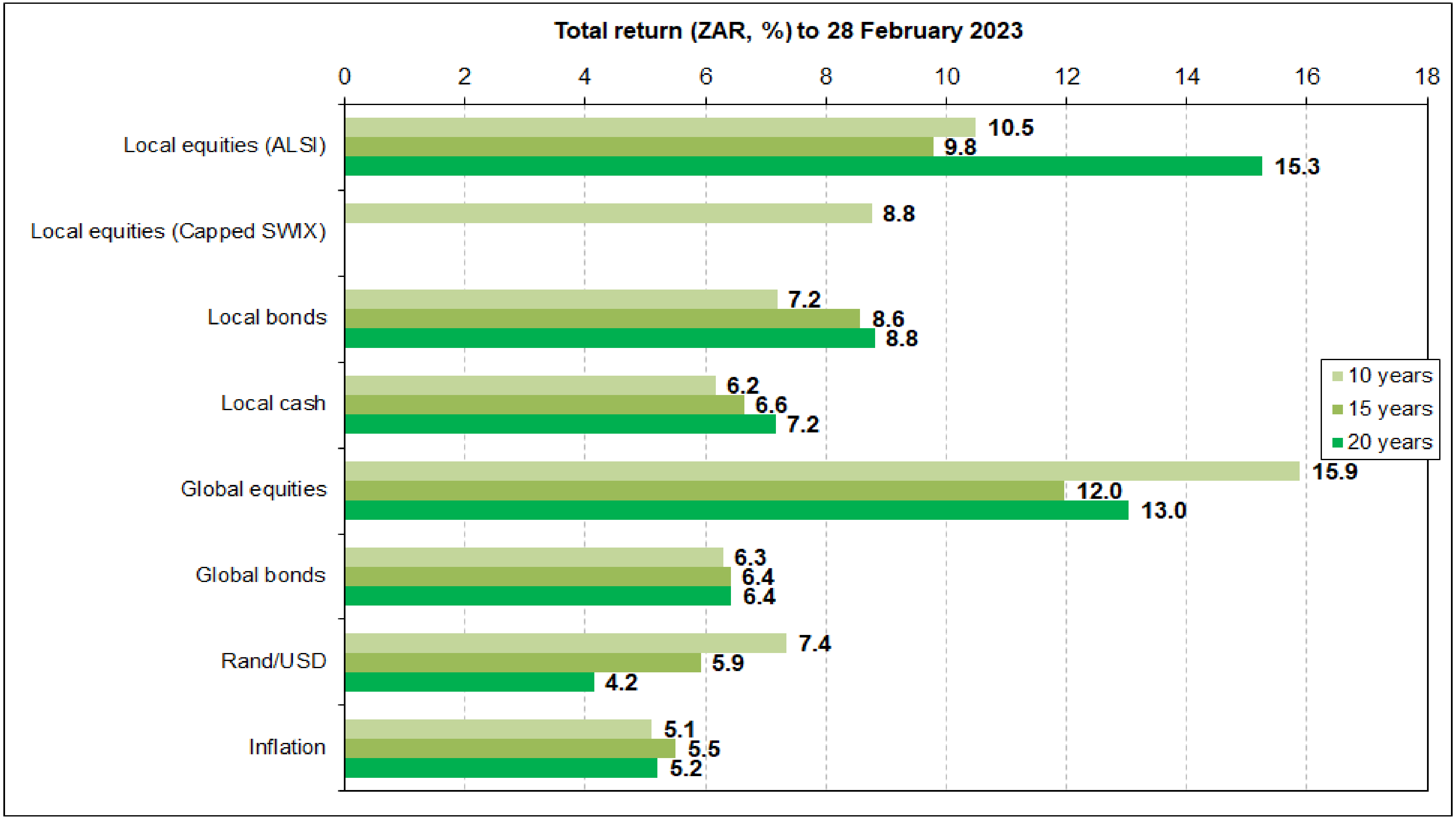
Source: Iress

ASSET CLASS PERFORMANCE
MEDIUM TERM



Source: Iress

ASSET CLASS PERFORMANCE
LONG TERM



Source: Iress

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MARKET PERFORMANCE
WHAT (PAST) RETURNS CAN INVESTORS REASONABLY EXPECT?

Given the performances of the various asset classes, what level of historical returns can retirement funds reasonably expect?

To illustrate this, we calculated the hypothetical returns of various risk profiled 'portfolios' (Aggressive, Moderate and Conservative) using a rules-based asset allocation approach to cater for the change in the regulatory offshore allowance over time:

- The offshore allocation is kept at 5% below the prevailing regulatory maximum (15% to 2000, 20% to 2006, 25% to 2018, 30% to 2022 & currently at 45%), with changes to the offshore allocation made in the middle of the year in which the limit changed.
- The equity allocation varies according to the risk profile, and is set at 75% for Aggressive, 55% for Moderate and 35% for Conservative, which applies to both the local (ALSI up to December 2001, SWIX up to June 2011, Capped SWIX thereafter) and offshore (MSCI All Country) portions.
- The remainder of the *local* assets is split between local bonds (ALBI) and cash (STeFI composite), with the local bond allocation being the same as the equity allocation in this sub-portion, i.e., 75% for Aggressive, 55% for Moderate and 35% for Conservative. The balance is kept in local cash.
- The remainder of the *offshore* assets is allocated to global bonds (FTSE WGBI).
- Fees are assumed at 0.4% p.a.

A graphical representation of the strategic and current asset allocations of the various risk-profiled 'portfolios' are provided below:

AGGRESSIVE

Strategic allocation					
LOCAL VS OFFSHORE	60%			40% (5% below regulatory maximum)	
GROWTH VS INCOME ASSETS	75%	25%		75%	25%
EQUITIES VS BONDS VS CASH	100%	75%	25%	100%	100%
Current allocation	~45%	~11%	~4%	~30%	~10%

MODERATE

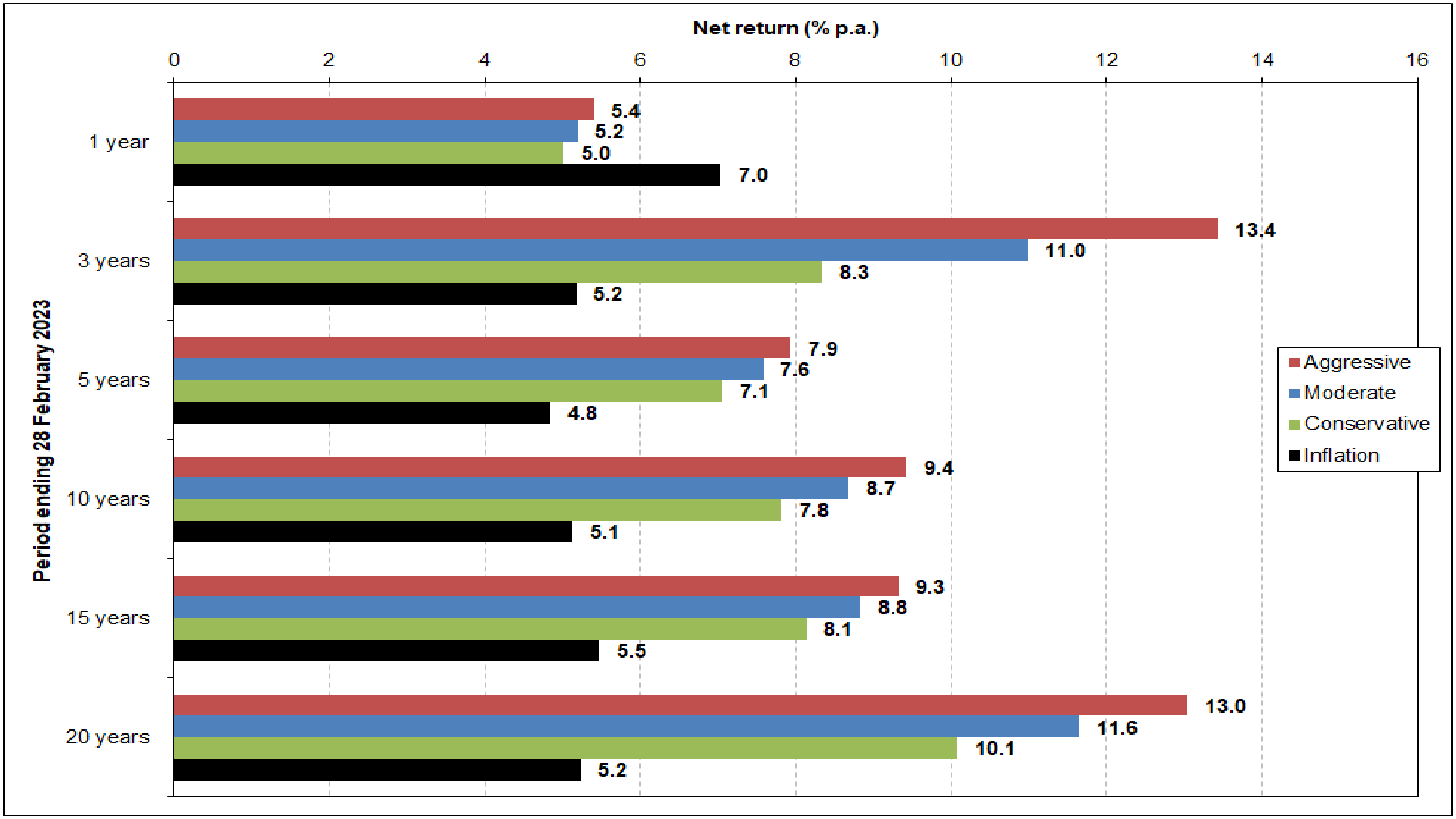
Strategic allocation					
LOCAL VS OFFSHORE	60%			40% (5% below regulatory maximum)	
GROWTH VS INCOME ASSETS	55%	45%		55%	45%
EQUITIES VS BONDS VS CASH	100%	55%	45%	100%	100%
Current allocation	~33%	~15%	~12%	~22%	~18%

CONSERVATIVE

Strategic allocation					
LOCAL VS OFFSHORE	60%			40% (5% below regulatory maximum)	
GROWTH VS INCOME ASSETS	35%	65%		35%	65%
EQUITIES VS BONDS VS CASH	100%	35%	65%	100%	100%
Current allocation	~21%	~14%	~25%	~14%	~26%

MARKET PERFORMANCE

FOR BALANCED PORTFOLIOS, WHAT RANGE OF RETURNS WAS REASONABLY ACHIEVABLE?



Source: Iress

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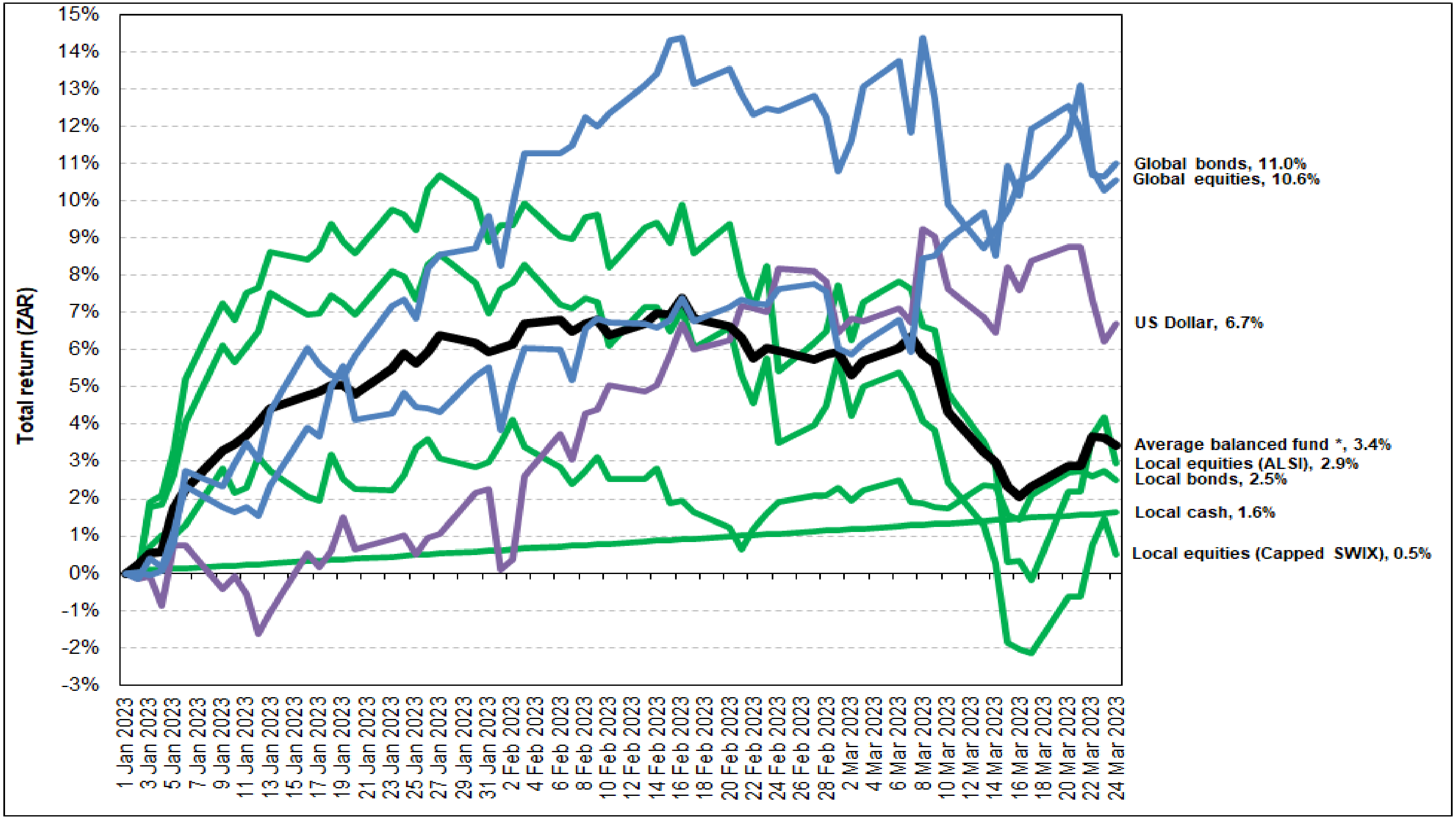
MARKETS in 2023 (ZAR)

STRONG START FIZZLING OUT, BUT STILL ON TRACK FOR A POSITIVE Q1



Source: Iress, Morningstar
* ASISA South African Multi Asset High Equity category average (net of fees)

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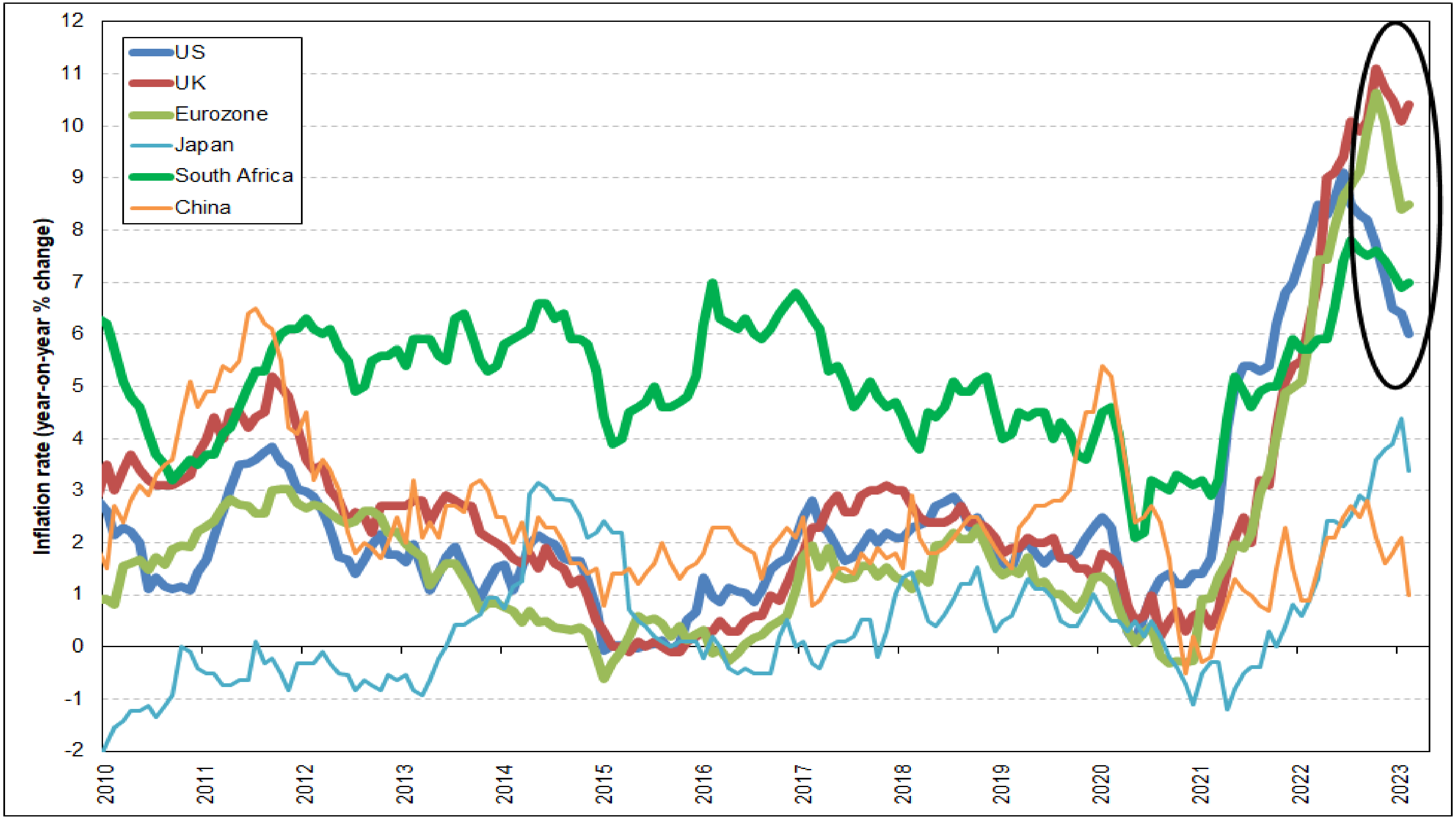
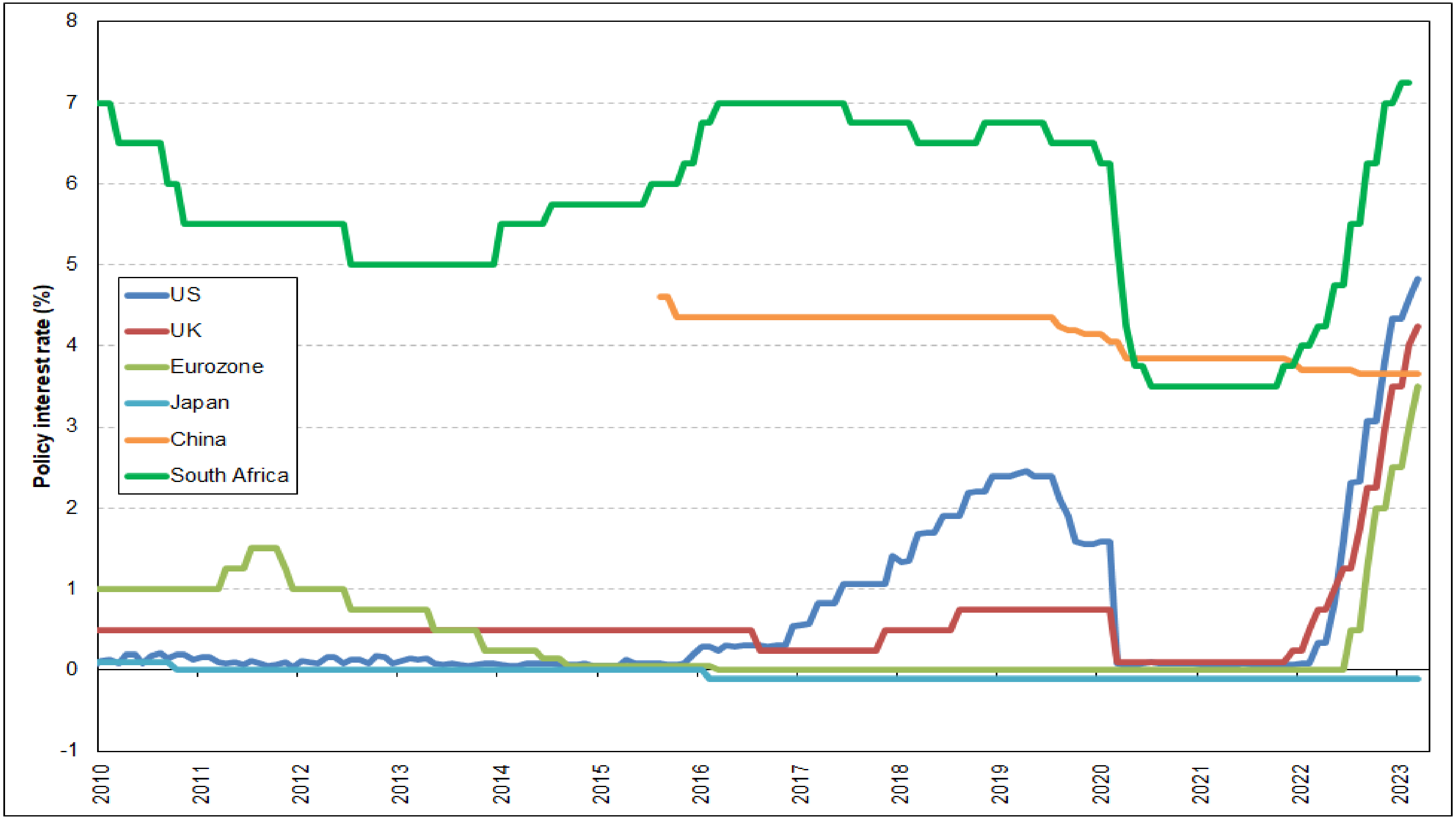
INFLATION

MODERATION HITTING SOME RESISTANCE



Source: Iress

INTEREST RATES
NEARING THE PEAK?



Source: Iress

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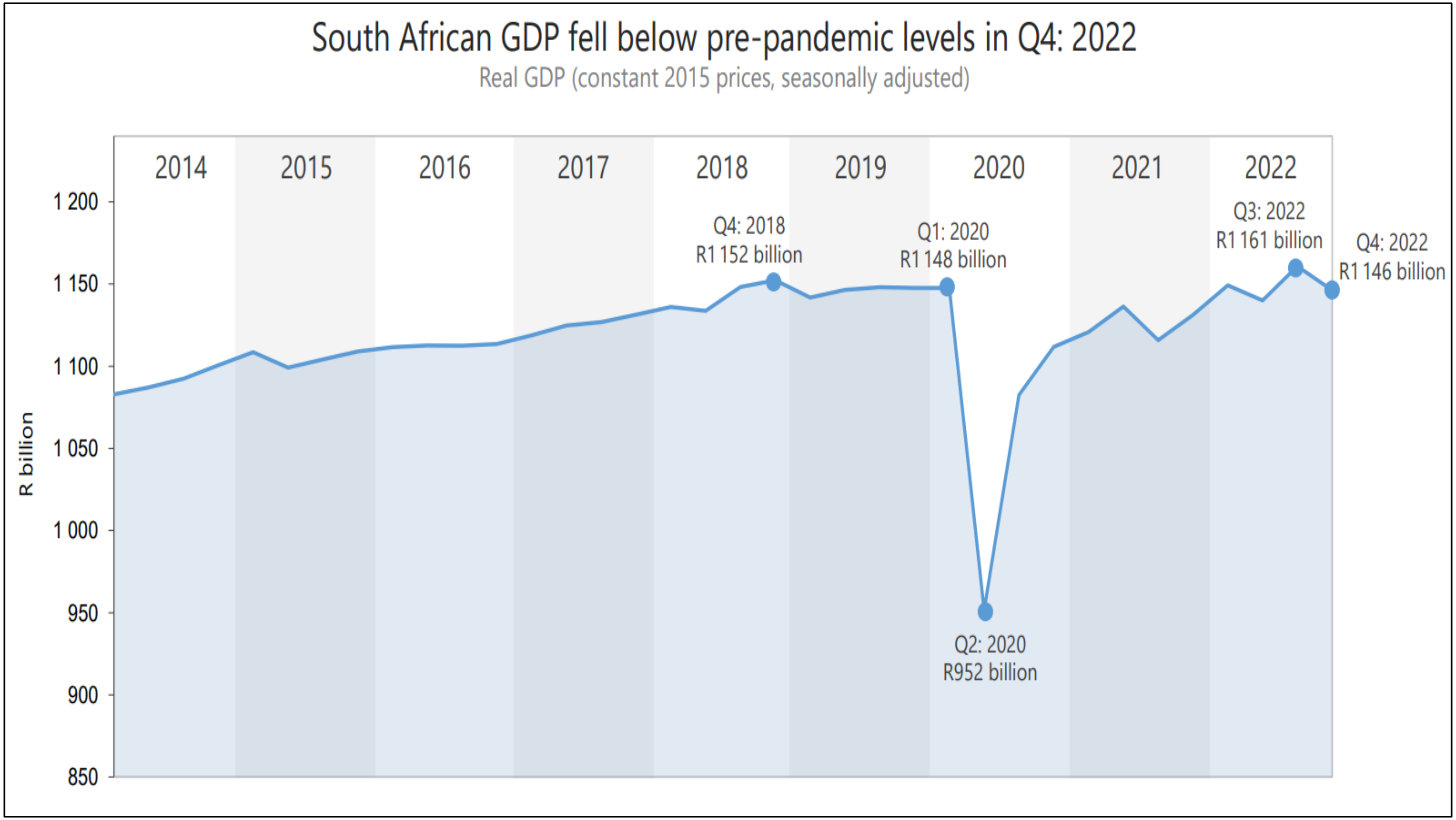
2022 Q4 GDP
SA ECONOMY CONTRACTS BY 1.3%



Source: StatsSA

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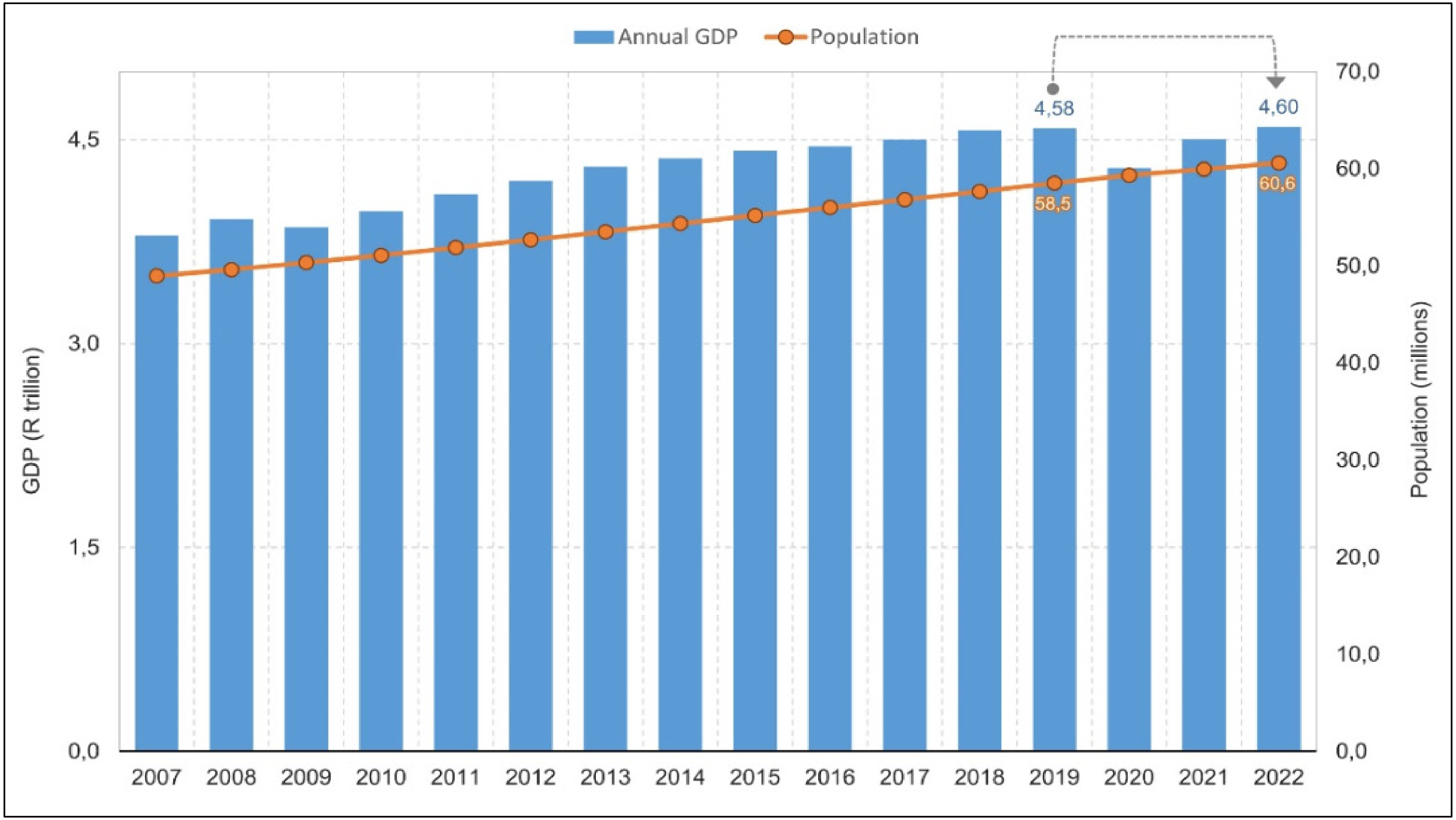
2022 Q4 GDP

ECONOMY NOT KEEPING PACE WITH POPULATION GROWTH



Source: StatsSA

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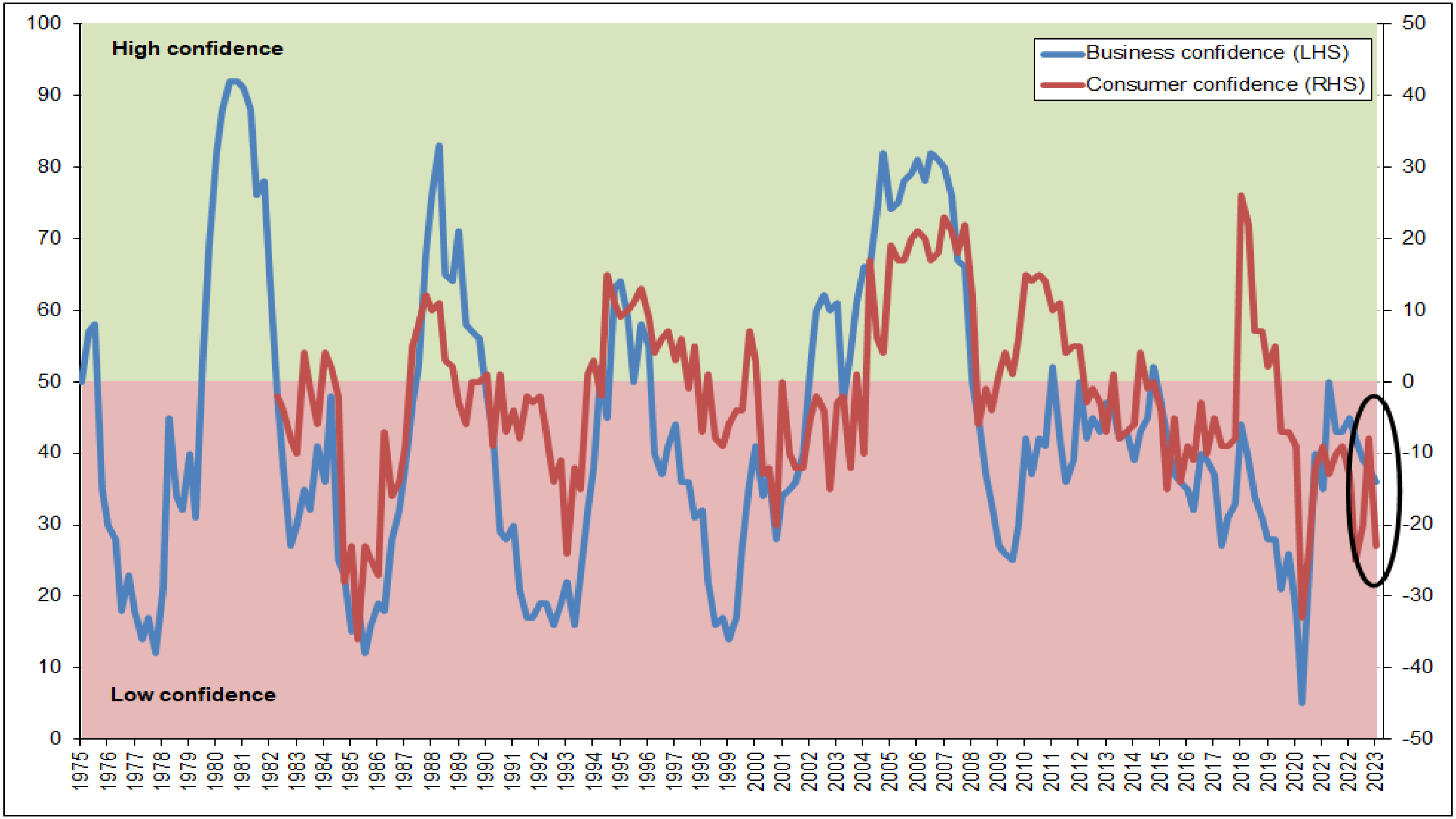
BUSINESS & CONSUMER CONFIDENCE
REMAINS GLOOMY



Source: BER, FNB, RMB

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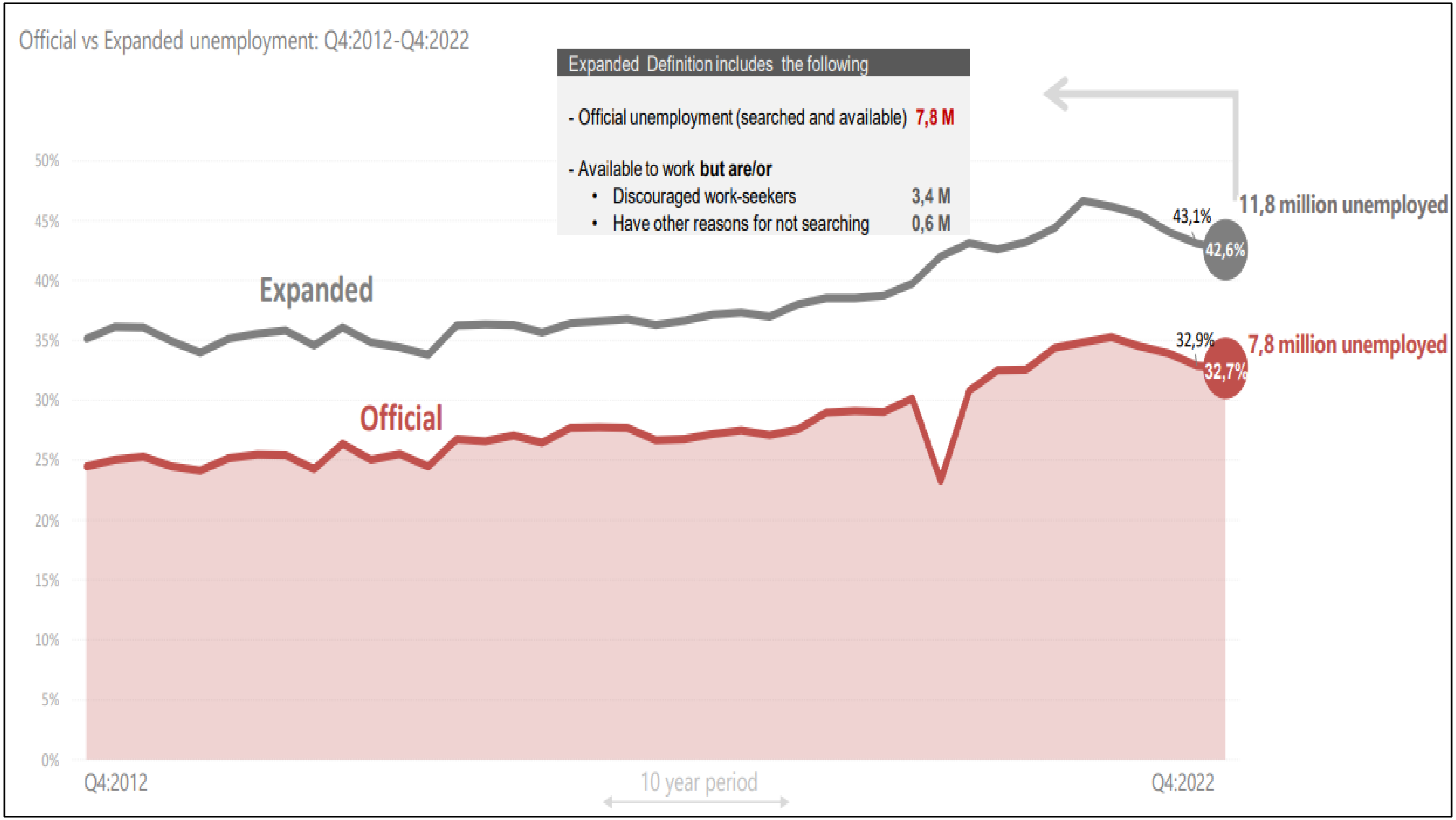
UNEMPLOYMENT
STEADILY IMPROVING, BUT A LONG WAY TO GO



Source: StatsSA