MONTH IN PICTURES

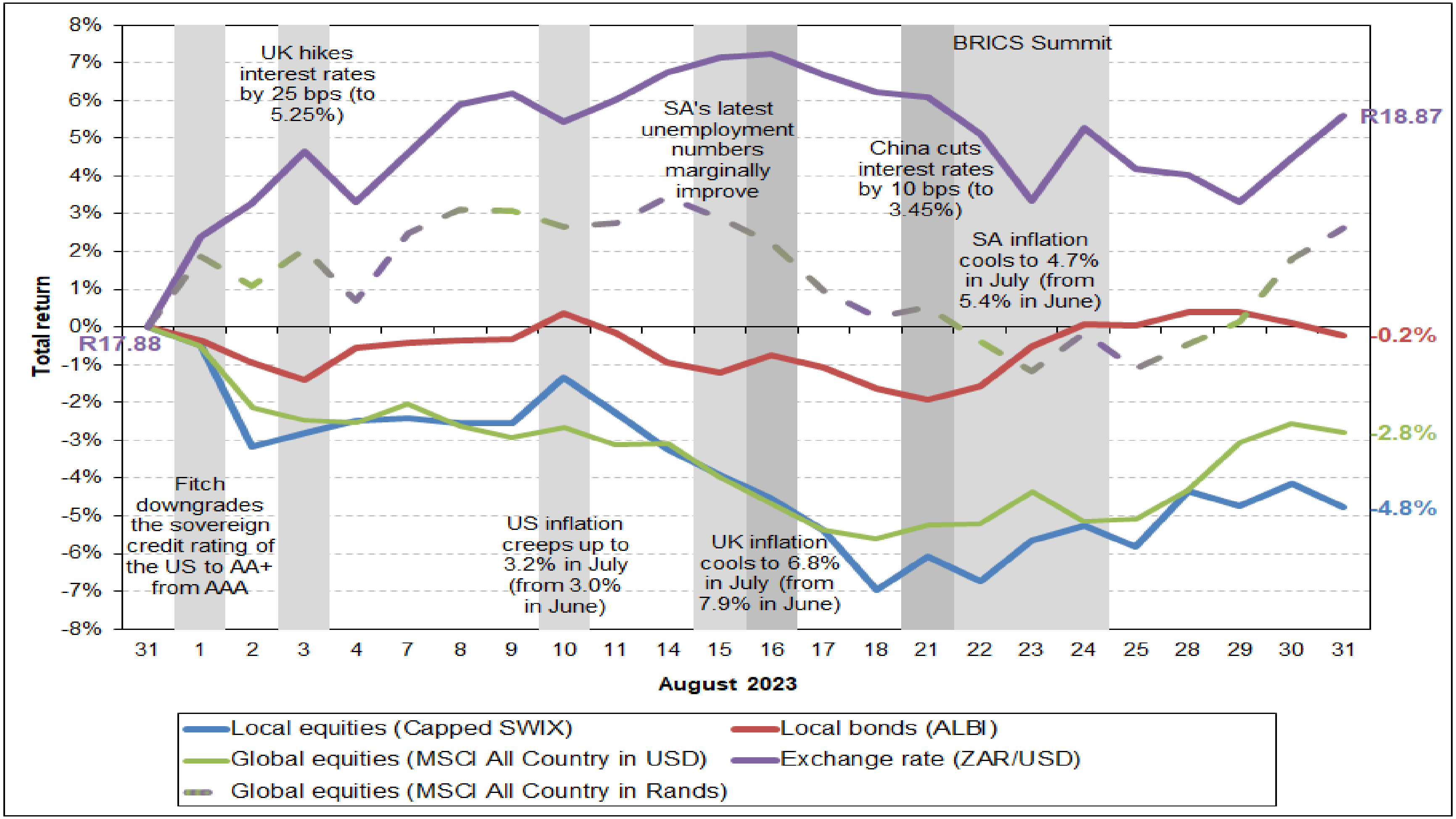
AUGUST 2023

MONTHLY SNAPSHOT
NOTABLE EVENTS

- After a welcome rebound in June and July, markets took a step back in August amid inflationary and economic growth pressures.
- Local equities lost 4.8%, as all of the major sectors closed the month in the red (Resources = -8.4%, Industrials = -4.7% and Financials = -1.6%), while local bonds declined by 0.2%.
- Global markets also had a difficult month (equities = -2.8% and bonds = -1.4% in USD), but a significantly weaker rand (by 5.6% against the USD, 4.3% against the GBP and 4.1% against the Euro) resulted in some decent local currency gains from these asset classes (equities = +2.6% and bonds = +4.1% in ZAR).
- Despite many headwinds the local economy managed to expand by 0.6% in Q2 (beating consensus expectations of 0.1%), following a rise of 0.4% in Q1. This resulted in the South African Reserve Bank (SARB) upping their growth expectations for 2023 to 0.7% (from 0.4% previously).
- Confidence among businesses and consumers improved somewhat in 2023 Q3, with the RMB/BER Business Confidence Index rising to 33 (from 27 in Q2) and the FNB/BER Consumer Confidence Index jumping from -25 to -16. Although the improved sentiment is good news, it is clear that businesses and consumers remain largely unimpressed with current conditions (given that the *neutral* levels for these indices are 50 and 0, respectively).
- After falling to a two-year low of just 4.7% in July, local inflation inched up to 4.8% in August, driven mostly by price increases in food and electricity. Although food inflation is still easing from its recent double-digit levels, transport inflation is set to stage a comeback following steep fuel price increases in September, and possibly more pain at the pumps in October.
- With inflation reasonably contained, the SARB once again kept interest rates on hold at their September meeting, which means that the repo rate stays at 8.25%, and the prime lending rate remains at 11.75%.
- With two thirds of the year having passed, 2023's returns have mostly come from offshore, boosted by both the Rand (11% weaker against the USD year-to-date (YTD)), as well as a strong recovery from global stocks (up 15% in USD, for a ZAR return of 27% YTD). Although local asset class returns have largely disappointed (+3 to +5% YTD), the average balanced fund * is sporting a decent YTD return of +8.3%, while the average returns over the last year (+12.3%) and three years (+10.6% p.a.) remain comfortably above inflation.

* 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]		Jun 2023	Jul 2023	Aug 2023	3 months	YTD	12 months
Local equities	ALSI	1.4	4.0	(4.8)	0.4	4.9	15.8
	Capped SWIX	3.8	4.1	(4.8)	2.9	2.7	10.9
	Resources	(7.6)	3.2	(8.4)	(12.7)	(15.4)	(0.1)
	Industrials	3.7	2.6	(4.7)	1.4	14.9	24.4
	Financials	11.7	7.8	(1.6)	18.5	12.9	18.9
	Listed Property	0.9	2.3	0.9	4.2	(1.3)	10.3
Local bonds	ALBI	4.6	2.3	(0.2)	6.7	3.9	7.5
Local cash	STeFI Composite	0.6	0.7	0.7	2.0	5.1	7.3
Global equities	MSCI All Country	1.1	(1.7)	2.6	2.0	27.3	25.7
Global bonds	FTSE WGBI	(4.5)	(4.8)	4.1	(5.4)	11.5	9.3
Exchange rate	ZAR/USD	(4.5)	(5.2)	5.6	(4.3)	10.9	10.3
Inflation	CPI	0.2	0.9	0.3	1.4	3.7	4.8

1. *Total returns (in Rands) for the months and periods ending 31 August 2023.*

Source: Iress

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	15.8	14.9	8.9	9.5	10.3	14.5
	Capped SWIX	10.9	14.6	6.2	7.8	-	-
	Resources	(0.1)	8.3	12.8	6.8	4.3	9.8
	Industrials	24.4	14.0	8.1	9.4	13.5	17.5
	Financials	18.9	24.8	4.3	8.4	10.5	13.5
	Listed Property	10.3	17.2	(3.2)	2.6	7.5	12.8
Local bonds	ALBI	7.5	7.8	7.7	7.8	8.4	8.5
Local cash	STeFI Composite	7.3	5.2	5.9	6.3	6.5	7.0
Global equities	MSCI All Country	25.7	11.2	13.0	15.4	13.6	13.2
Global bonds	FTSE WGBI	9.3	(4.4)	2.9	5.6	6.9	7.2
Exchange rate	ZAR/USD	10.3	3.7	5.1	6.3	6.2	4.8
Inflation	CPI	4.8	5.8	4.9	5.1	5.1	5.3

1. *Total returns (in Rands) for the months and periods ending 31 August 2023.*

Source: Iress

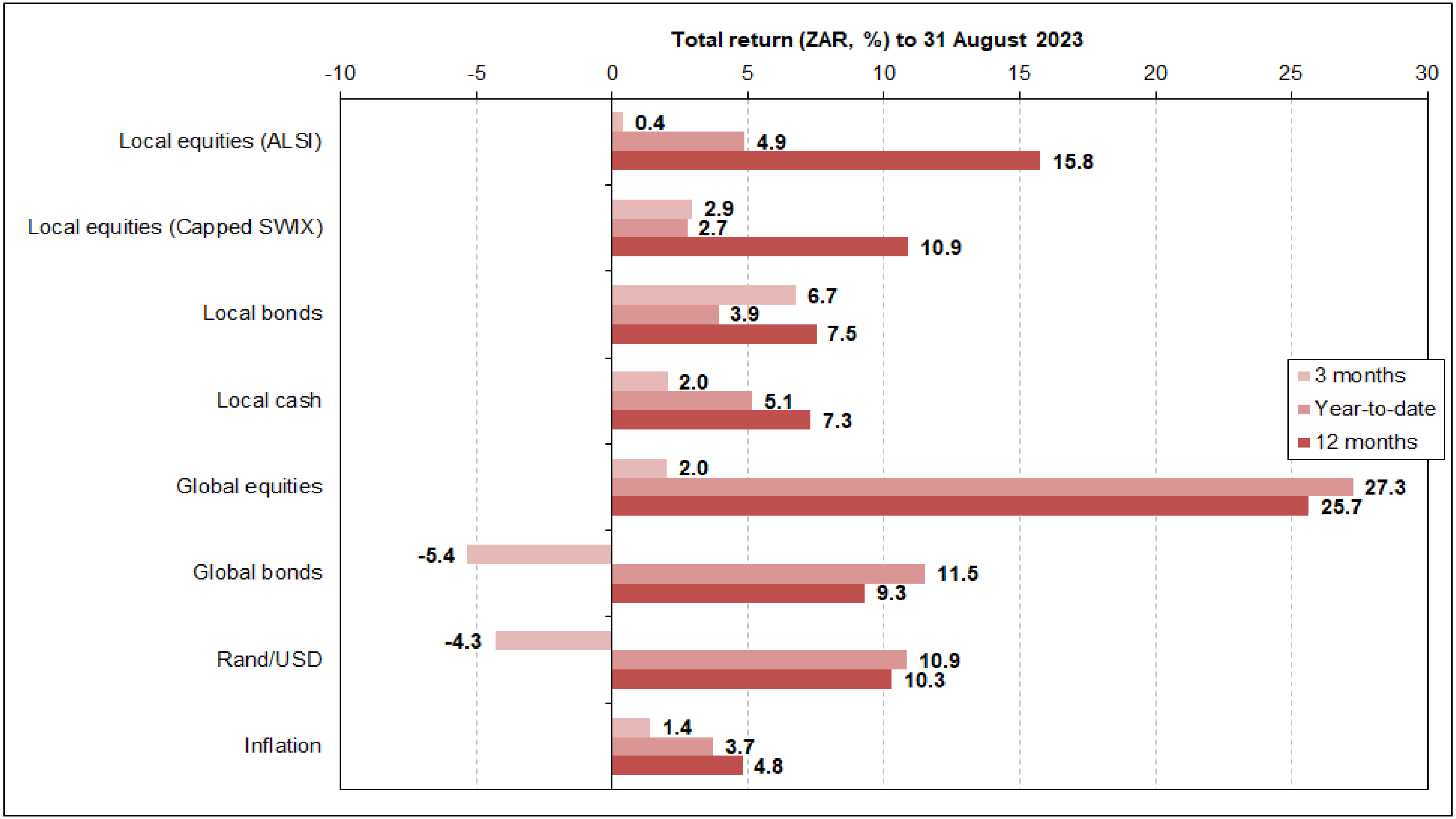
ECONOMIC INDICATORS

Economic indicators [1]	Aug 2021	Aug 2022	Jun 2023	Jul 2023	Aug 2023
Exchange rates:					
ZAR/USD	14.52	17.12	18.85	17.88	18.87
ZAR/GBP	19.98	19.90	23.94	22.94	23.92
ZAR/Euro	17.15	17.21	20.57	19.65	20.46
Commodities:					
Brent Crude Oil (USD/barrel)	71.63	95.64	75.41	85.43	86.83
Platinum (USD/ounce)	1,011.00	852.50	901.00	950.73	968.18
Gold (USD/ounce)	1,810.58	1,720.84	1,919.63	1,954.82	1,945.02

1. *Month-end prices*

Source: Iress

ASSET CLASS PERFORMANCE
SHORT TERM



Source: Iress

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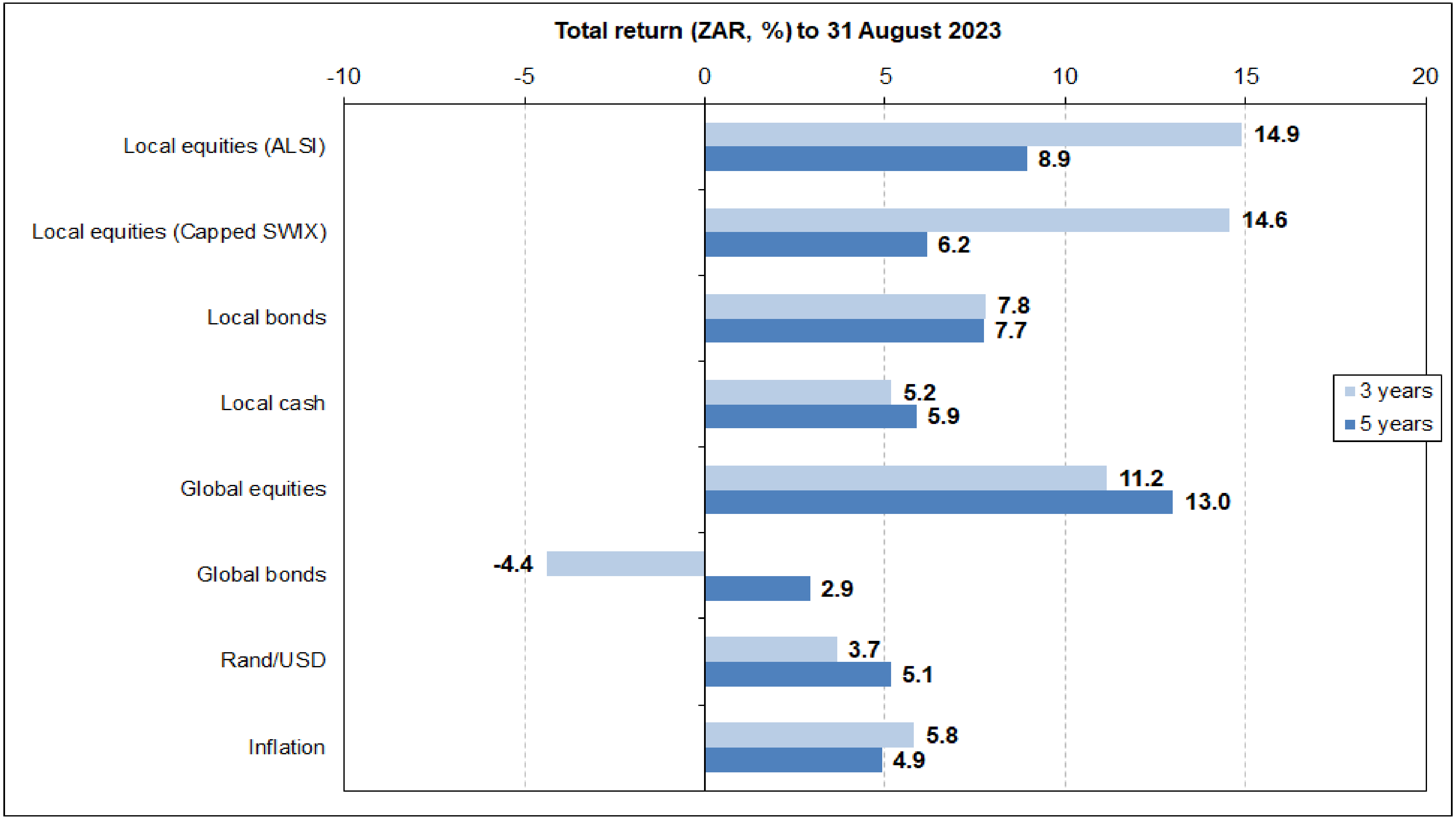
ASSET CLASS PERFORMANCE
MEDIUM TERM



Source: Iress

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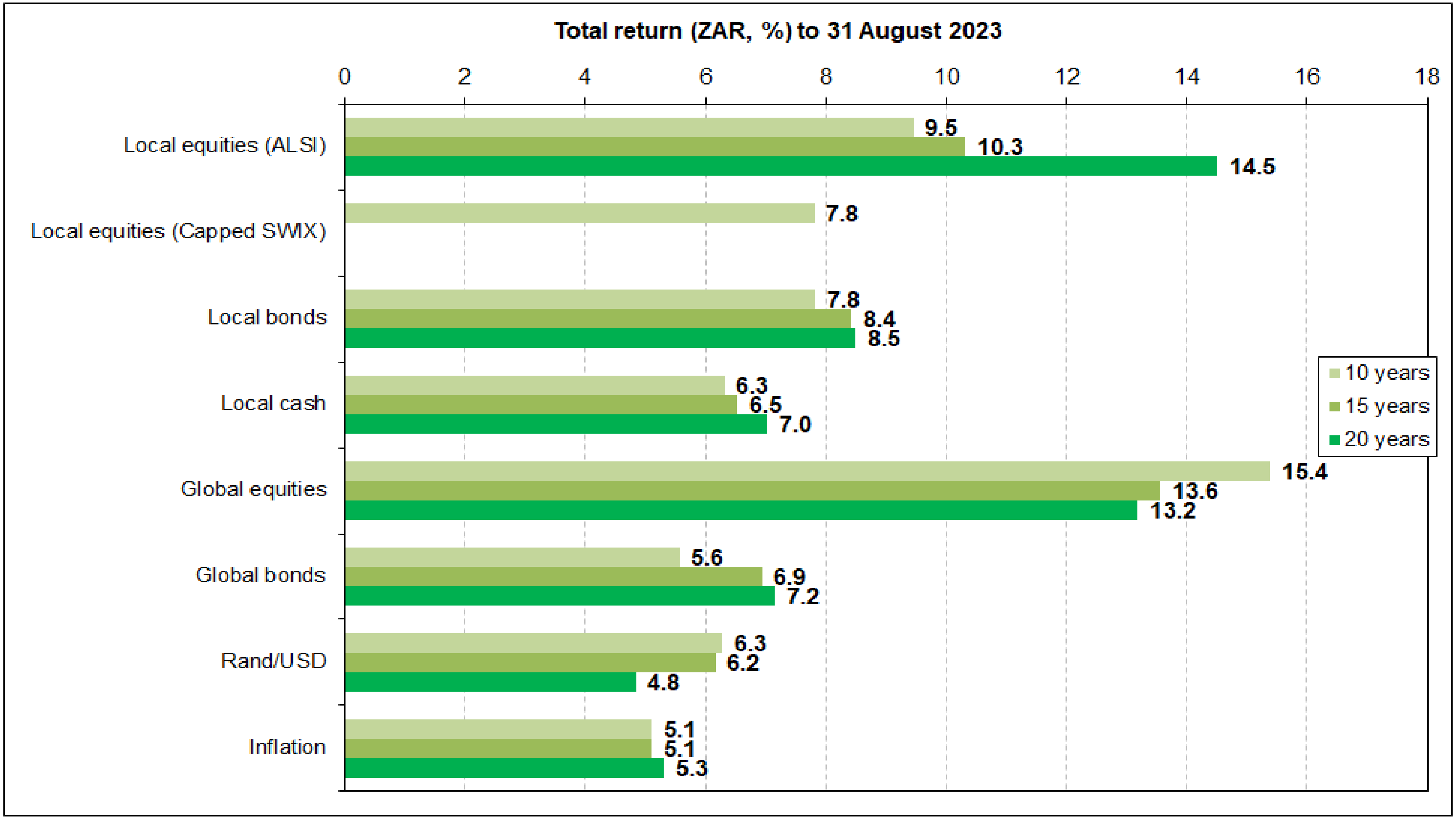
ASSET CLASS PERFORMANCE
LONG TERM



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

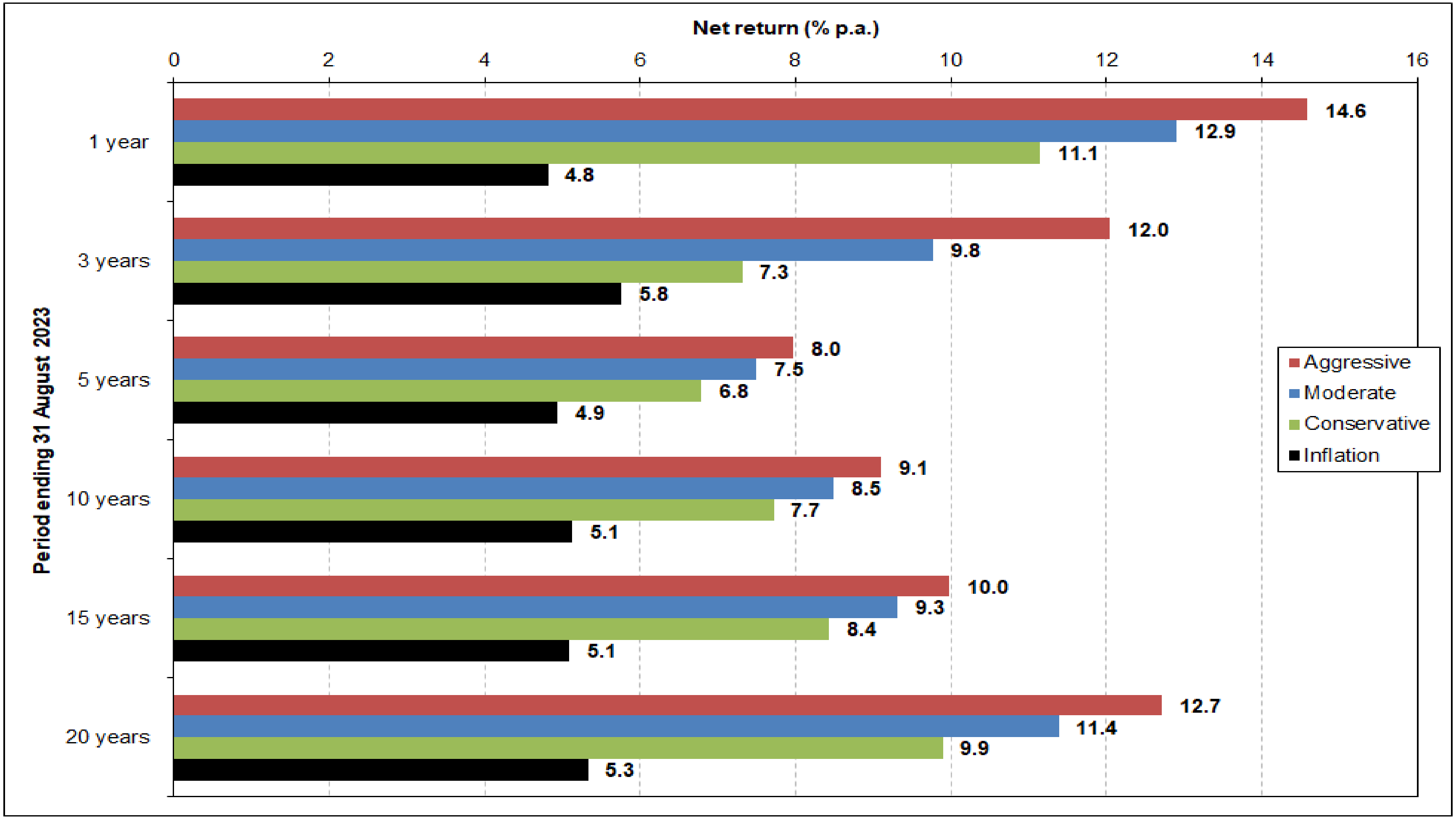
Strategic allocation	LOCAL VS OFFSHORE	60%			40% (5% below regulatory maximum)	
	GROWTH VS INCOME ASSETS	55%	45%		55%	45%
	EQUITIES VS BONDS VS CASH	100%	55%	45%	100%	100%
Current allocation		~33%	~15%	~12%	~22%	~18%

CONSERVATIVE

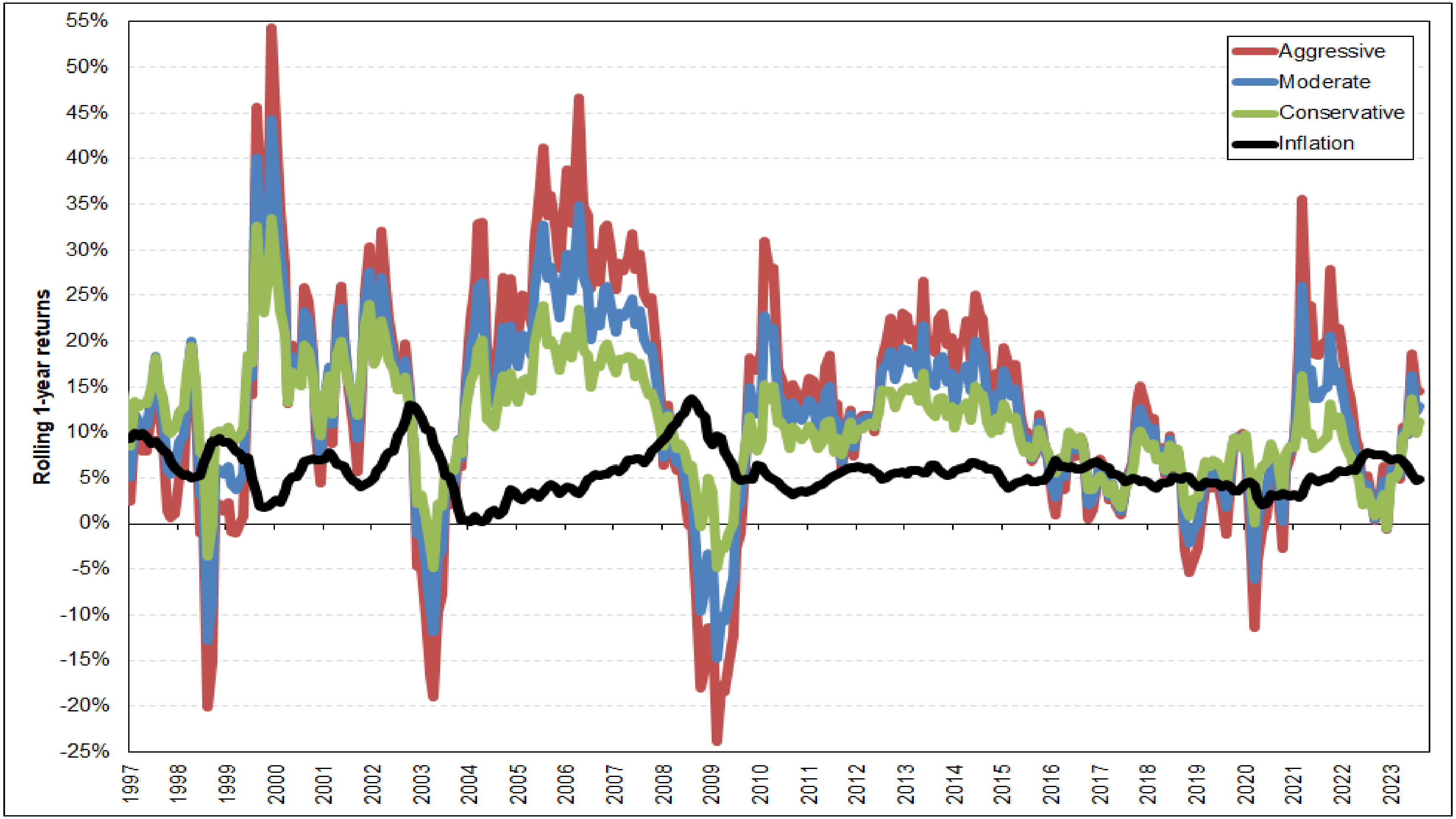
Strategic allocation	LOCAL VS OFFSHORE	60%			40% (5% below regulatory maximum)	
	GROWTH VS INCOME ASSETS	35%	65%		35%	65%
	EQUITIES VS BONDS VS CASH	100%	35%	65%	100%	100%
Current allocation		~21%	~14%	~25%	~14%	~26%

MARKET PERFORMANCE

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

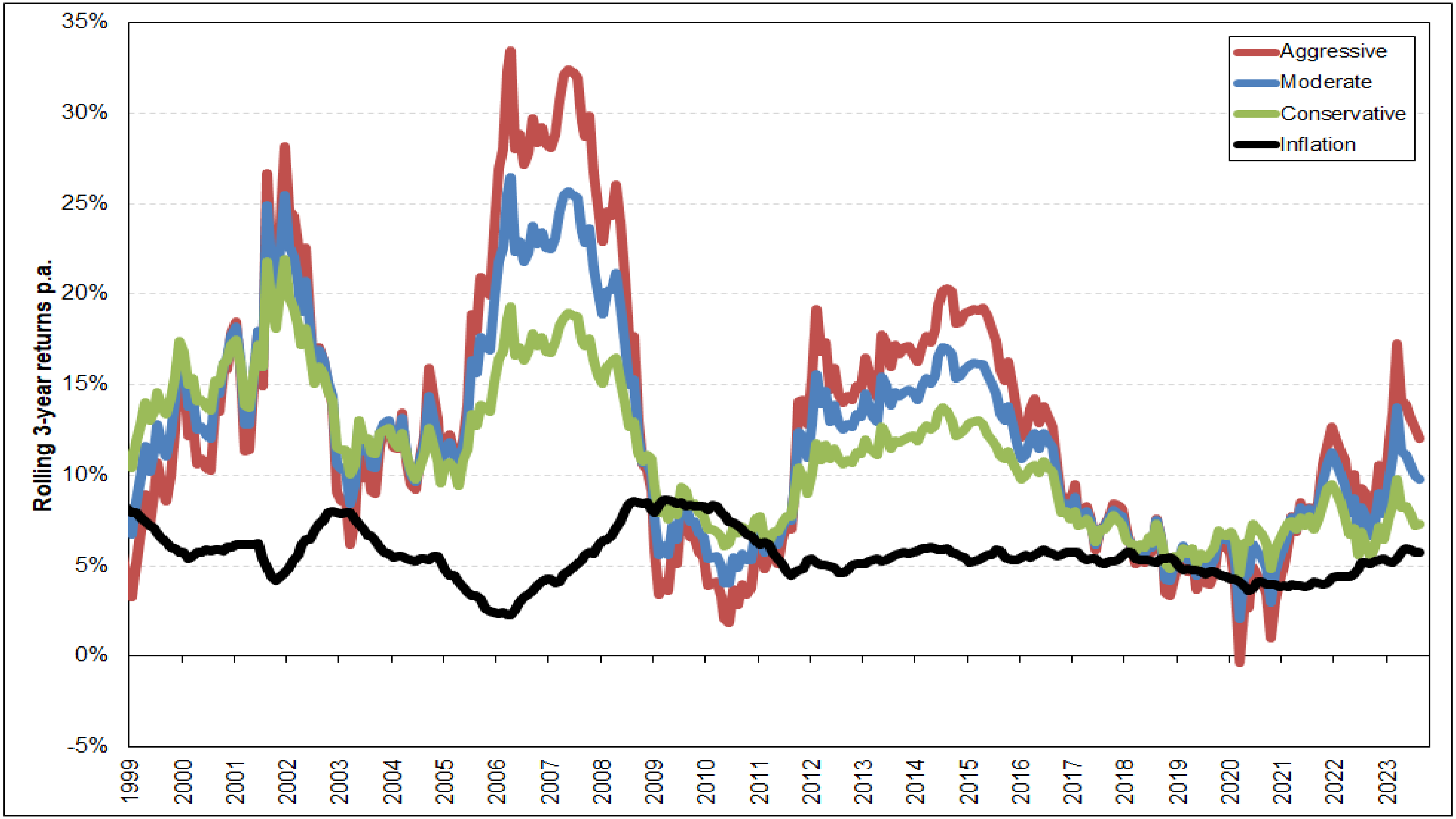


MARKET PERFORMANCE
ROLLING 1-YEAR RETURNS STILL QUITE STRONG



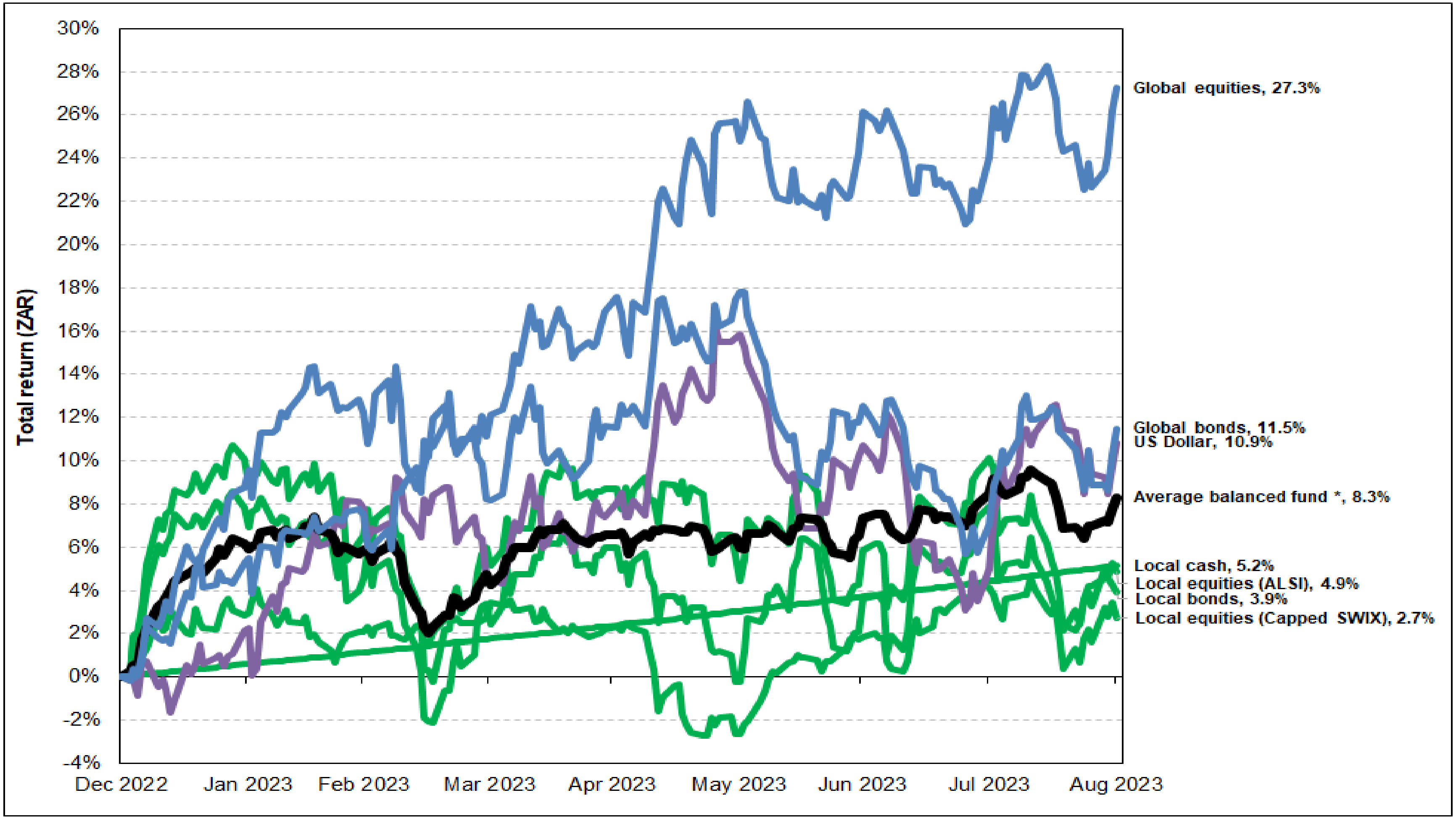
Source: Iress

MARKET PERFORMANCE
ROLLING 3-YEAR RETURNS SLOWLY NORMALISING



Source: Iress

MARKETS in 2023 (ZAR)
GLOBAL EQUITIES REMAIN COMFORTABLY IN THE LEAD



Source: Iress, Morningstar

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

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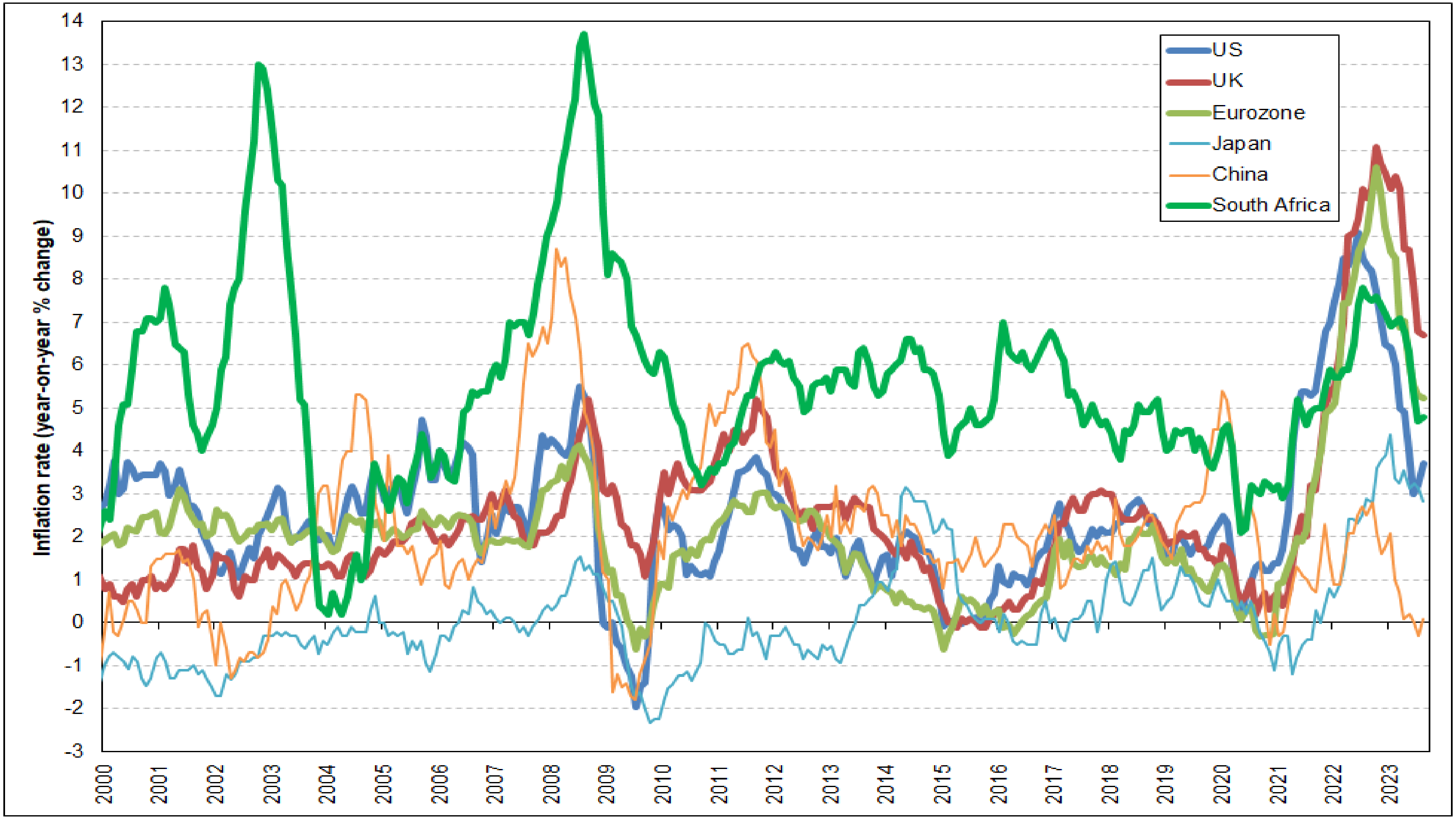
INFLATION

LOCAL INFLATION STAYS BELOW 5%



Source: Iress

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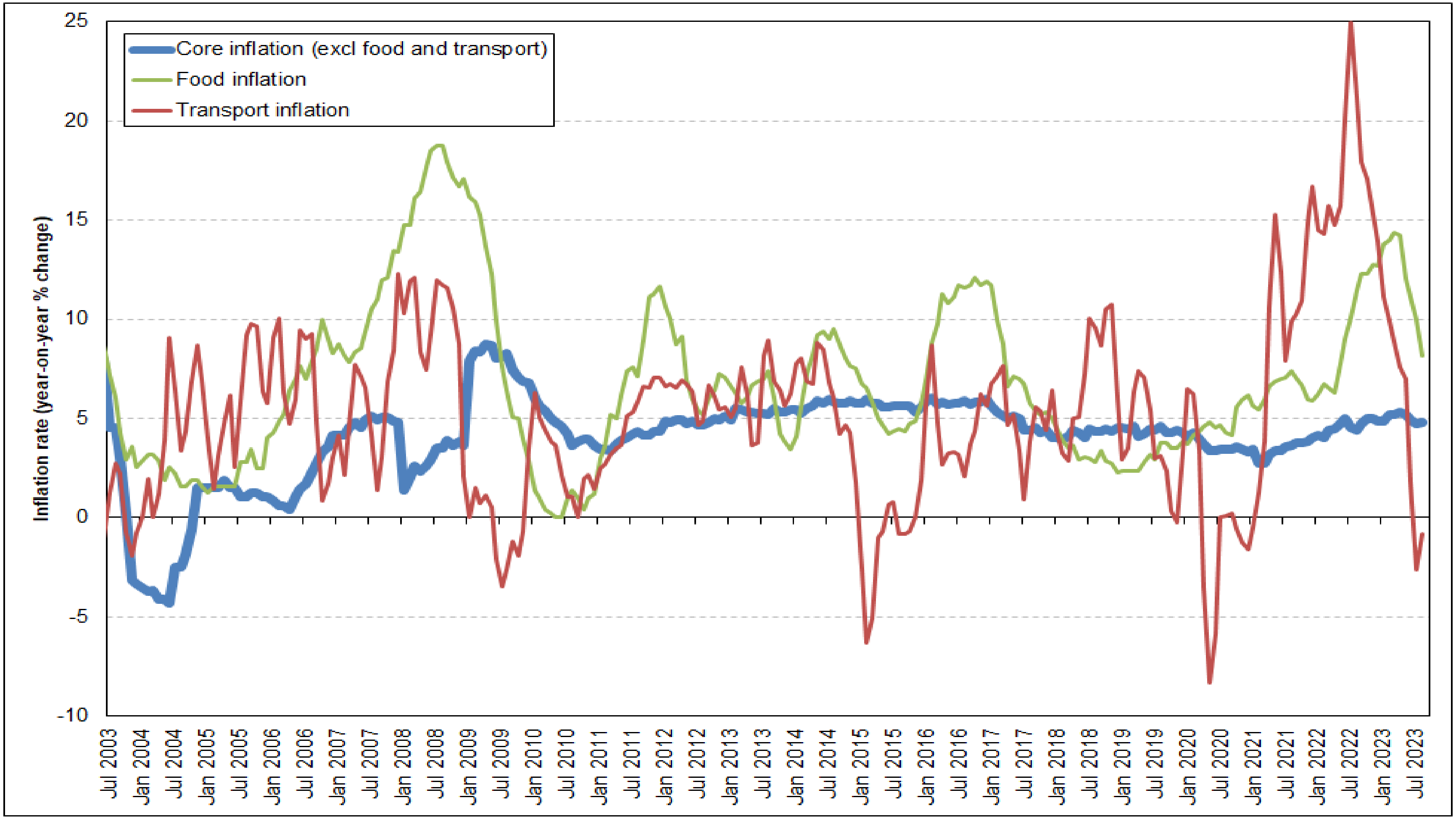
INFLATION

FOOD INFLATION STILL DECLINING BUT TRANSPORT INFLATION SET TO MAKE A COMEBACK



Source: Iress

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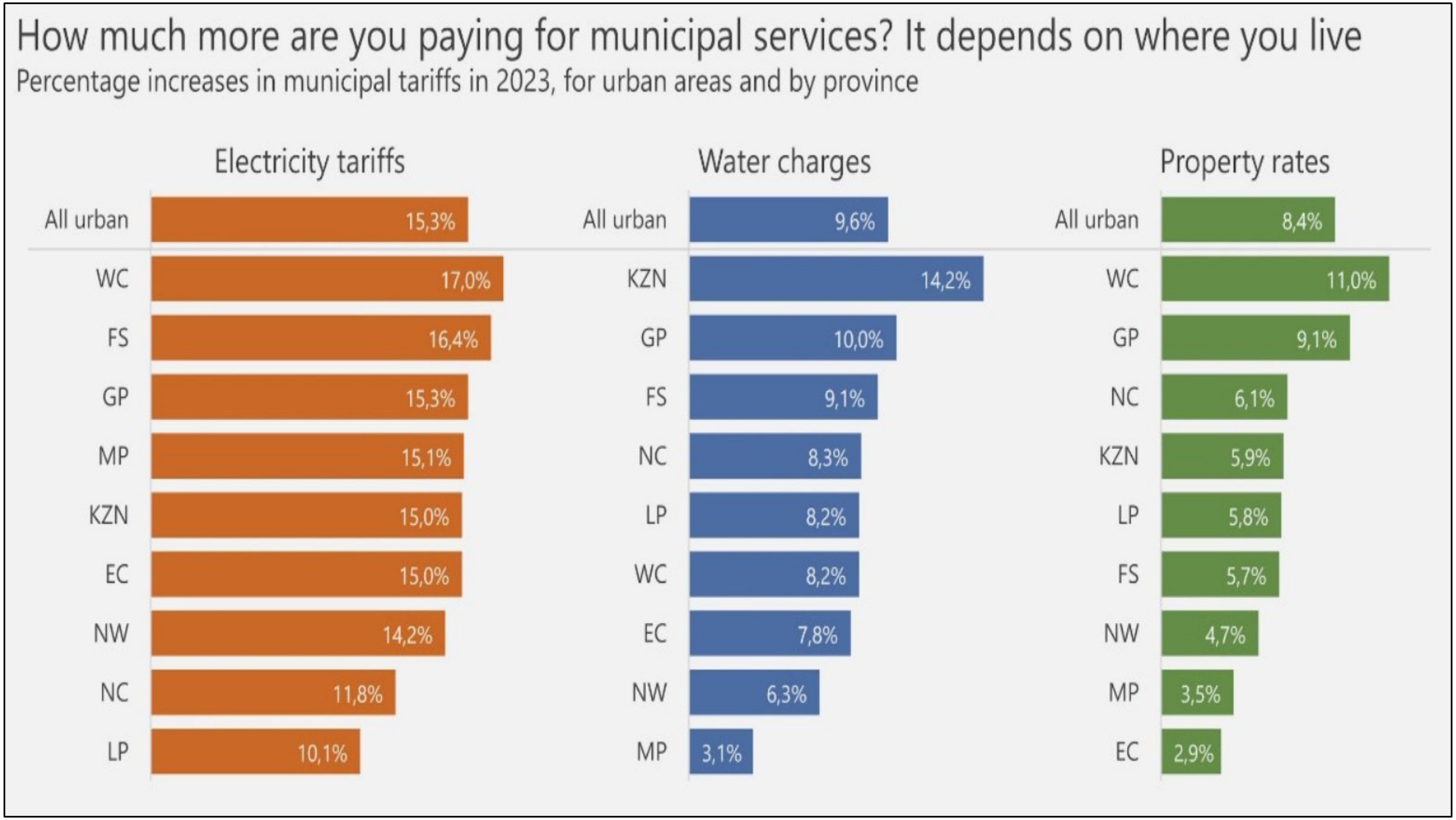
INFLATION

ANOTHER ROUND OF STEEP INCREASES IN MUNICIPAL TARIFFS



Source: StatsSA

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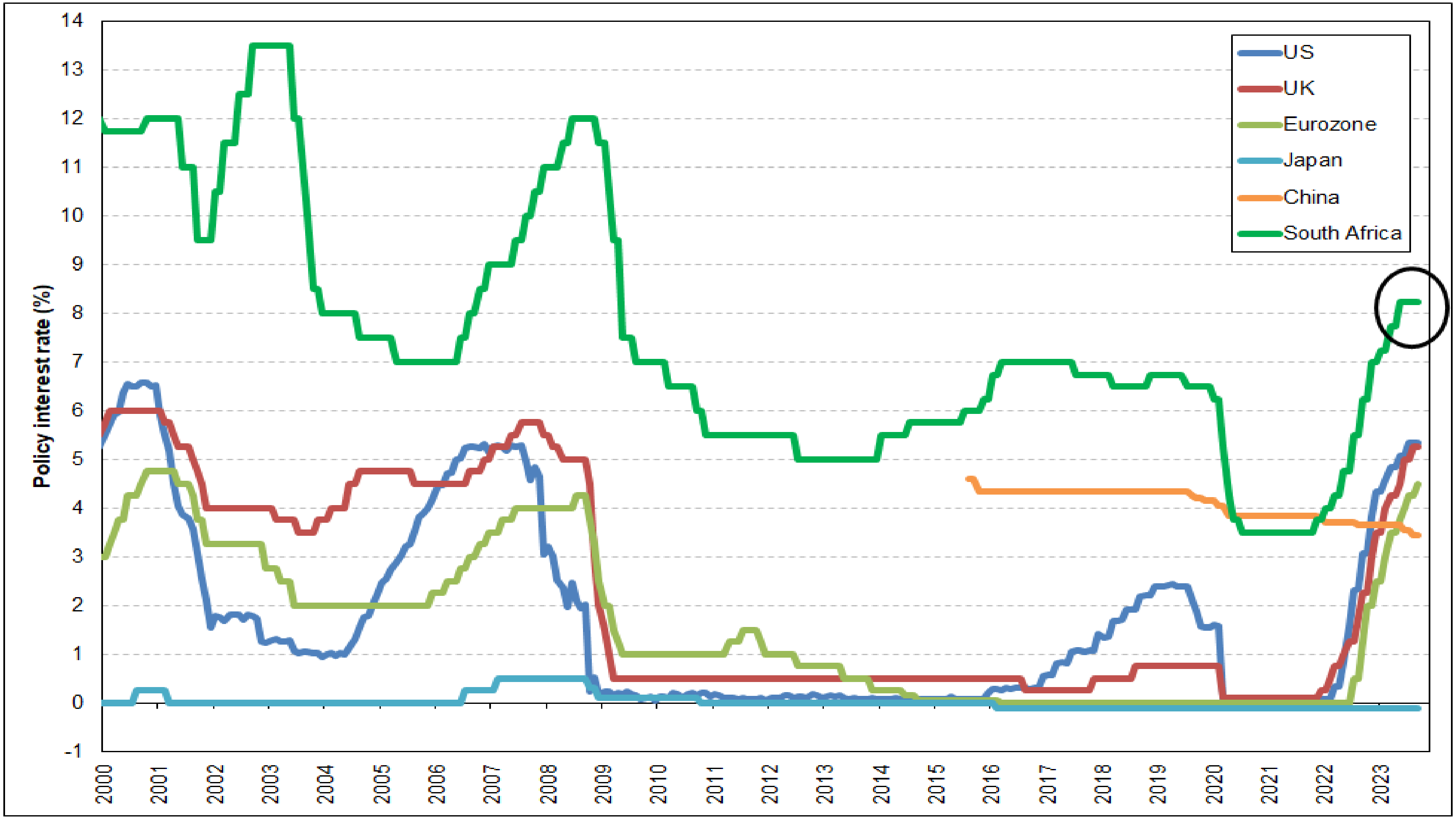
INTEREST RATES

SARB KEEPS RATES ON HOLD AGAIN



Source: Iress

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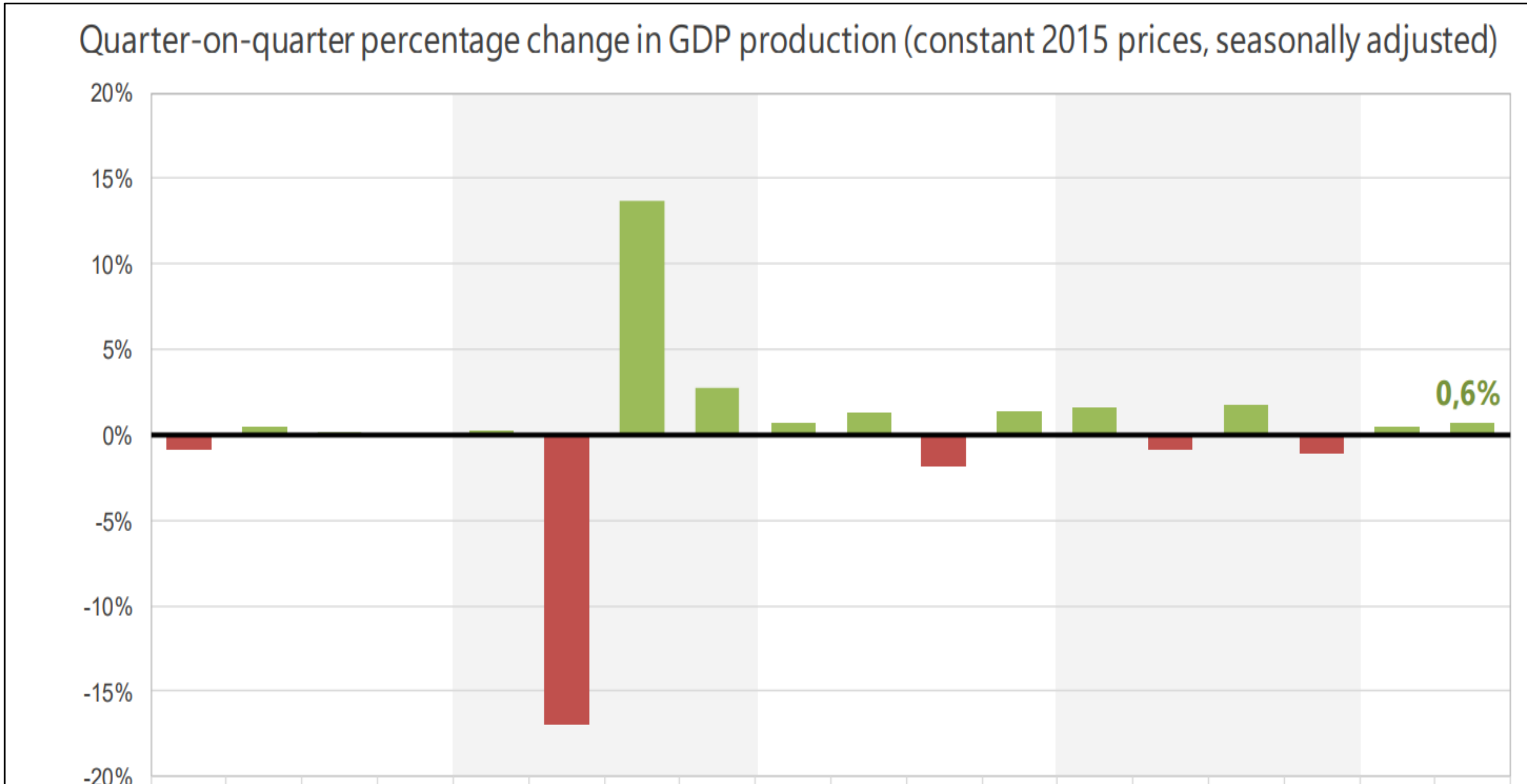
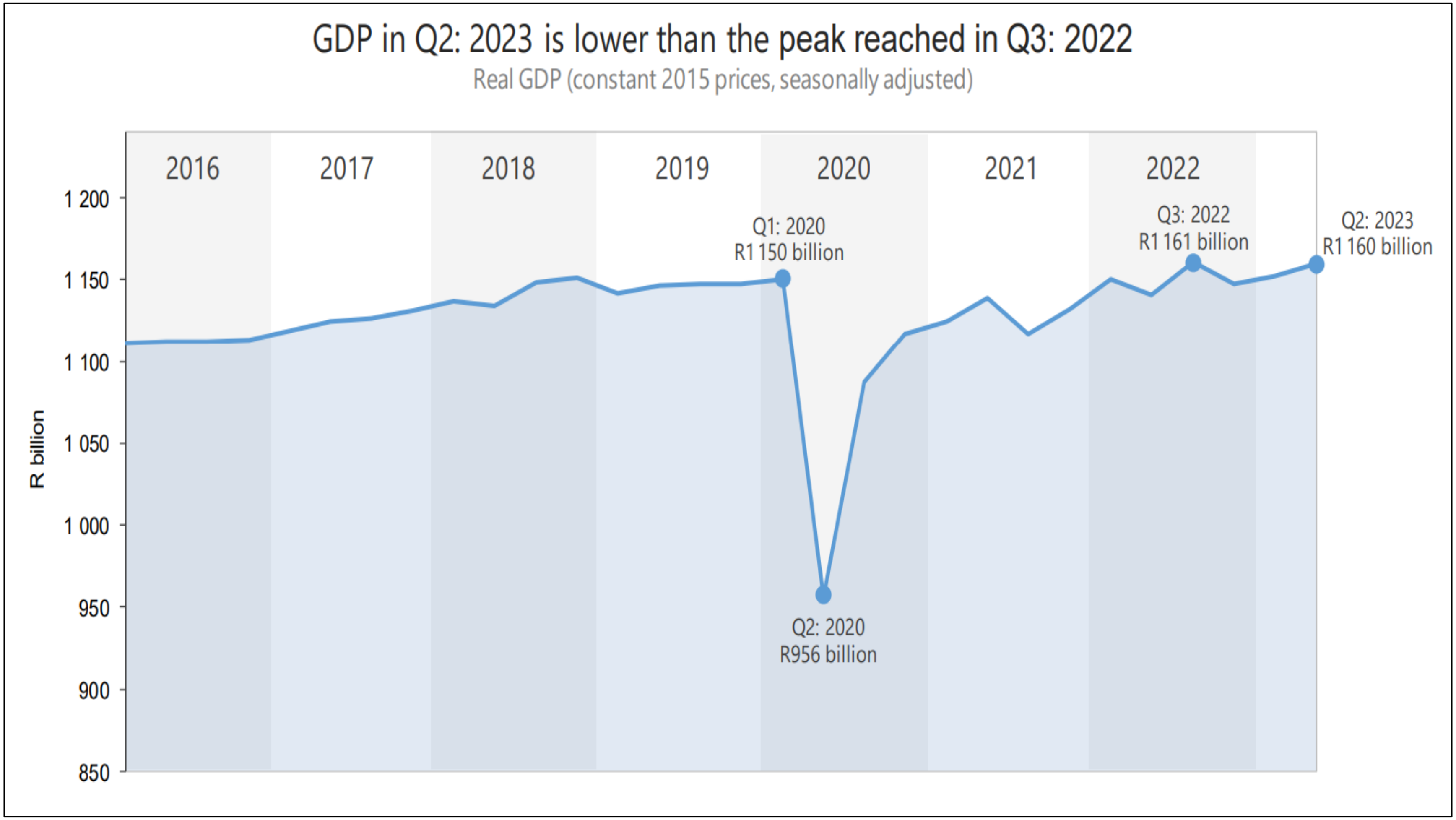
SA ECONOMY
GROWS BY 0.6% IN 2023 Q2...



	19/1	19/2	19/3	19/4	20/1	20/2	20/3	20/4	21/1	21/2	21/3	21/4	22/1	22/2	22/3	22/4	23/1	23/2
GDPp Q/Q	-0,9	0,5	0,1	0,0	0,2	-16,9	13,7	2,7	0,6	1,3	-1,9	1,4	1,5	-0,8	1,8	-1,1	0,4	0,6

Source: StatsSA

SA ECONOMY
… BUT STILL ONLY TRUNDLING ALONG



Source: StatsSA

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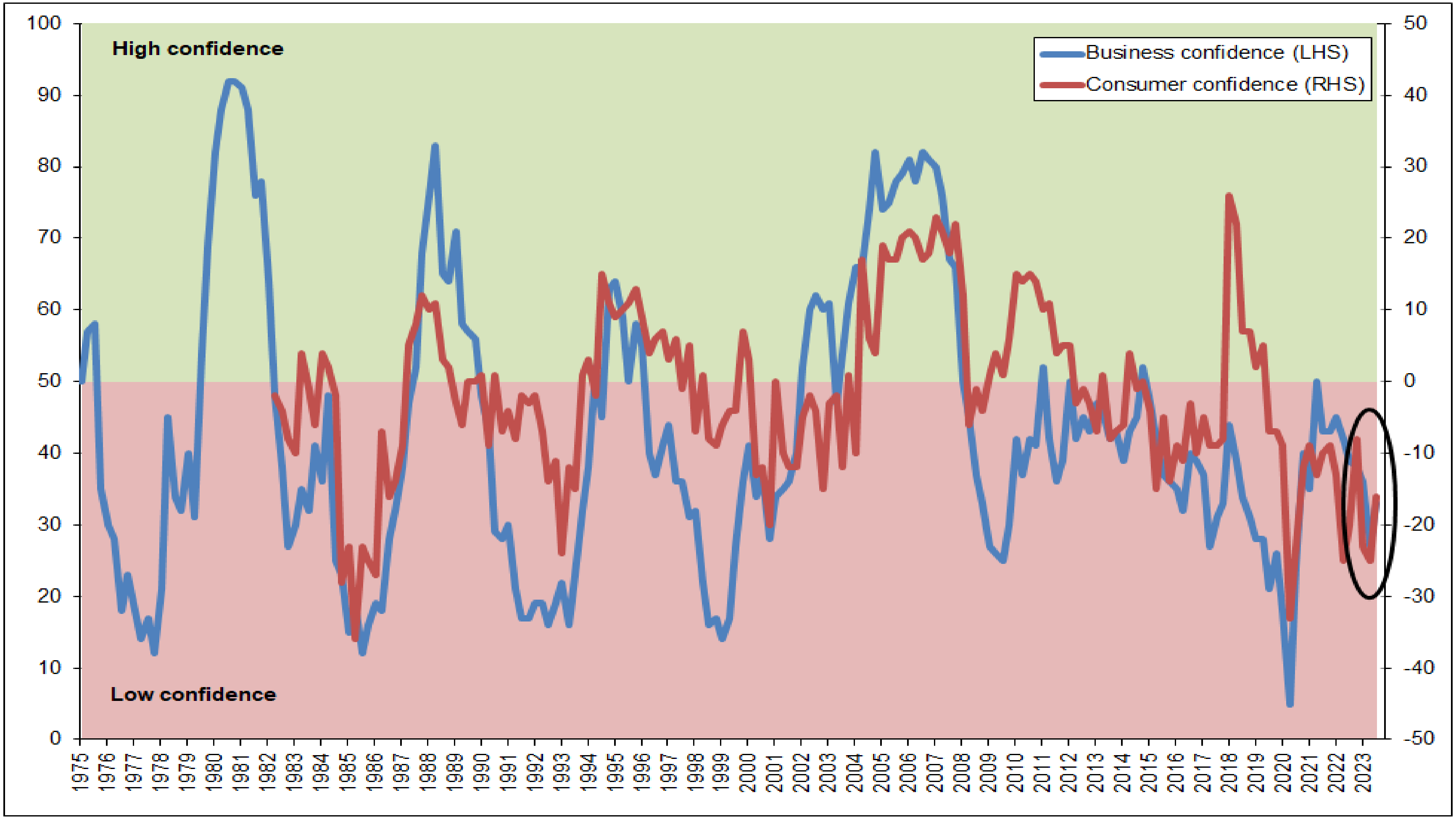
BUSINESS & CONSUMER CONFIDENCE

SLOWLY IMPROVING



Source: BER, FNB, RMB

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