

# **MONTH IN PICTURES**

**OCTOBER 2022**

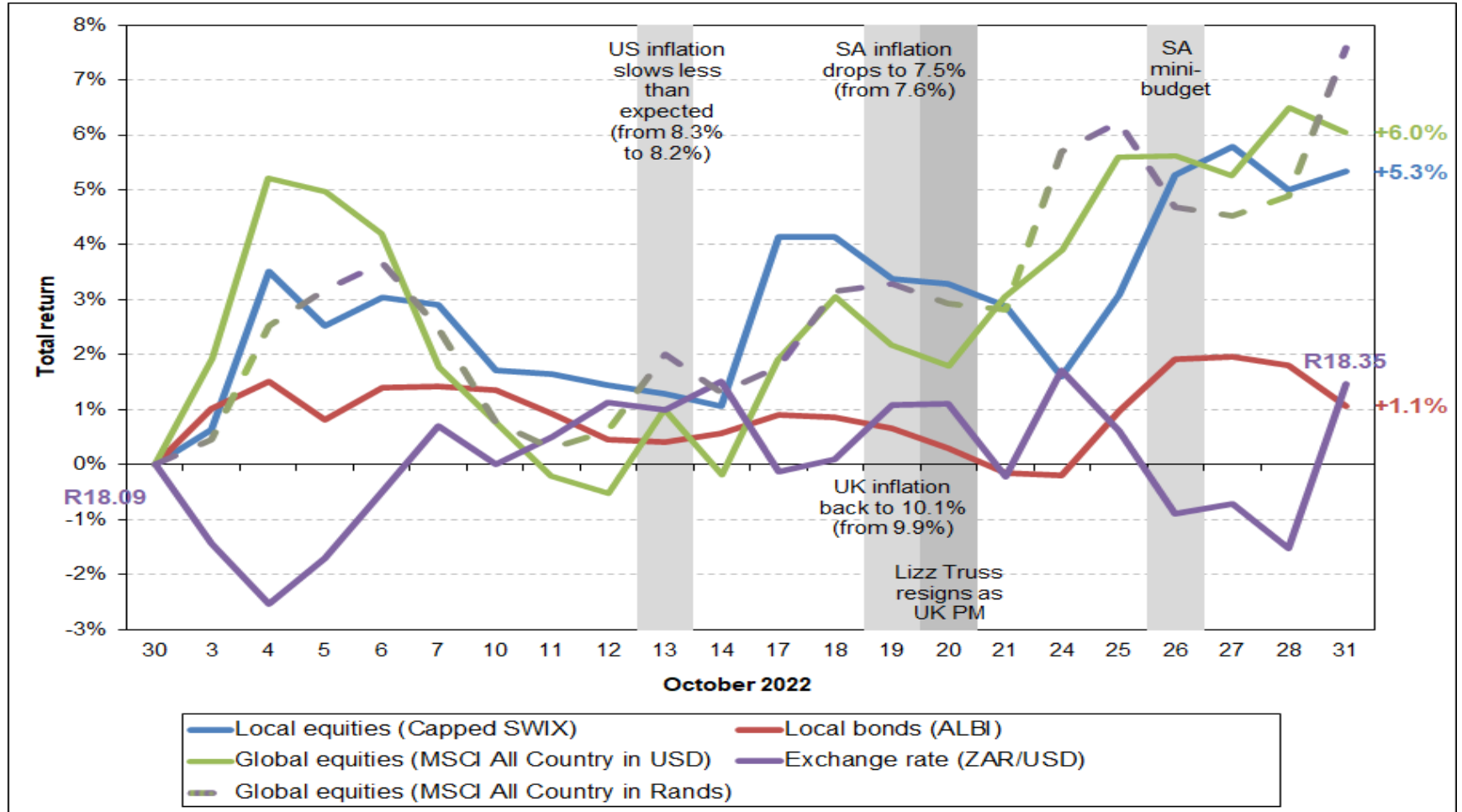
# MONTHLY SNAPSHOT

## NOTABLE EVENTS

- October brought some relief to markets following widespread losses in August and September. Local equities returned +5%, while local bonds delivered +1% for the month.
- Global equities rallied by 6% (in USD), while global bonds remained in negative territory (-0.5%), although it suffered a much smaller loss in October than it did in August (-4.4%) and September (-5.1%). The Rand weakened by another 1.5% against the US Dollar (USD), resulting in local currency gains of 7.6% and 0.9% from global equities and bonds, respectively.
- The latest inflation figures in the US came in below expectations for the first time in a while after October's headline number slowed to 7.7% (markets expected 7.9%), down from 8.2% in September. Importantly, core inflation (which strips out the volatile food and energy components) seems to have finally peaked as well, dropping from a four-decade high of 6.6% in September to 6.3% in October.
- Markets welcomed these developments, recording steep gains following the announcement on 10 November, with the ALSI jumping almost 6% on this news in less than 24 hours (see slides 23 & 24).
- Across the pond the inflation picture remains bleak, however. UK (+11.1%) and Eurozone (+11.5%) inflation numbers reached new highs in October, while in South Africa October's CPI number crept back to 7.6% after dropping to 7.5% in September.
- A week before the release of the latest inflation data the US Fed hiked interest rates by another 75 basis points (bps), taking their policy rate to 4%, a level last seen in 2008. The South African Reserve Bank unsurprisingly followed suit by hiking the repo rate by the same quantum a few weeks later, thereby taking local interest rates back to pre-Covid levels with the repo rate hitting 7% and the prime lending rate now at 10.5%.
- With markets cheering the promising US inflation data, 2022 Q4 has gotten off to a very good start. By mid-November local stocks have gained nearly 15% (see slide 25), local bonds have returned +5% and the Rand has appreciated by 5% against the formidable US Dollar. Similarly, global stocks and bonds have returned +12% and +3% in USD, respectively, resulting in local currency returns of +7% and -2%. This bodes well for the expected Q4 returns from retirement funds, with the average balanced fund \* gaining almost 7% over this period.
- With the good start to Q4 most local asset classes are now back in positive territory on a year-to-date (YTD) basis (equities = +5%, bonds = +4% and cash = +5%), but global markets are still down (by 10-12%, see slide 26). As things stand the average balanced fund \* is now marginally up YTD (+0.8%), after being almost 8% lower at one point earlier this year (see slide 27).

# MONTHLY TIMELINE

## IMPACT ON MARKETS



# MARKET INDICATORS

## SHORT TERM

Market indicators (% change) <sup>1</sup>		Aug 2022	Sep 2022	Oct 2022	3 months	YTD	12 months
Local equities	ALSI	(1.8)	(4.1)	4.9	(1.3)	(5.7)	3.3
	Capped SWIX	(1.3)	(3.8)	5.3	(0.1)	(2.0)	3.7
	Resources	(3.8)	1.7	3.7	1.5	(3.0)	8.8
	Industrials	(0.4)	(6.4)	1.7	(5.1)	(15.3)	(7.9)
	Financials	(1.9)	(6.0)	13.2	4.4	9.8	16.2
	Listed Property	(5.4)	(6.3)	11.0	(1.6)	(6.5)	3.0
Local bonds	ALBI	0.3	(2.1)	1.1	(0.8)	(0.3)	3.1
Local cash	STeFI Composite	0.5	0.5	0.5	1.4	4.1	4.8
Global equities	MSCI All Country	(0.7)	(4.4)	7.6	2.1	(9.2)	(3.7)
Global bonds	FTSE WGBI	(1.4)	0.3	0.9	(0.2)	(9.8)	(6.4)
Exchange rate	ZAR/USD	3.1	5.7	1.5	10.6	15.1	20.3
Inflation	CPI	0.2	0.1	0.4	0.6	6.5	7.6

1. Total returns (in Rands) for the months and periods ending 31 October 2022.

# MARKET INDICATORS

## MEDIUM TO LONG TERM

Market indicators (% change) <sup>1</sup>		1 year	3 years	5 years	10 years	15 years	20 years
Local equities	ALSI	3.3	9.8	6.2	9.5	8.5	13.8
	Capped SWIX	3.7	8.4	4.2	8.3	-	-
	Resources	8.8	18.1	17.7	7.2	4.4	10.0
	Industrials	(7.9)	6.1	0.9	9.2	10.7	16.2
	Financials	16.2	4.3	3.5	8.6	7.8	13.1
	Listed Property	3.0	(6.1)	(7.5)	2.7	6.1	13.9
Local bonds	ALBI	3.1	6.2	7.9	6.9	8.0	9.0
Local cash	STeFI Composite	4.8	4.8	5.8	6.1	6.7	7.3
Global equities	MSCI All Country	(3.7)	11.9	10.9	16.4	11.6	11.2
Global bonds	FTSE WGBI	(6.4)	(1.1)	2.2	5.9	7.9	5.6
Exchange rate	ZAR/USD	20.3	6.7	5.4	7.8	7.1	3.1
Inflation	CPI	7.6	5.2	4.9	5.2	5.6	5.2

1. Total returns (in Rands) for the months and periods ending 31 October 2022.

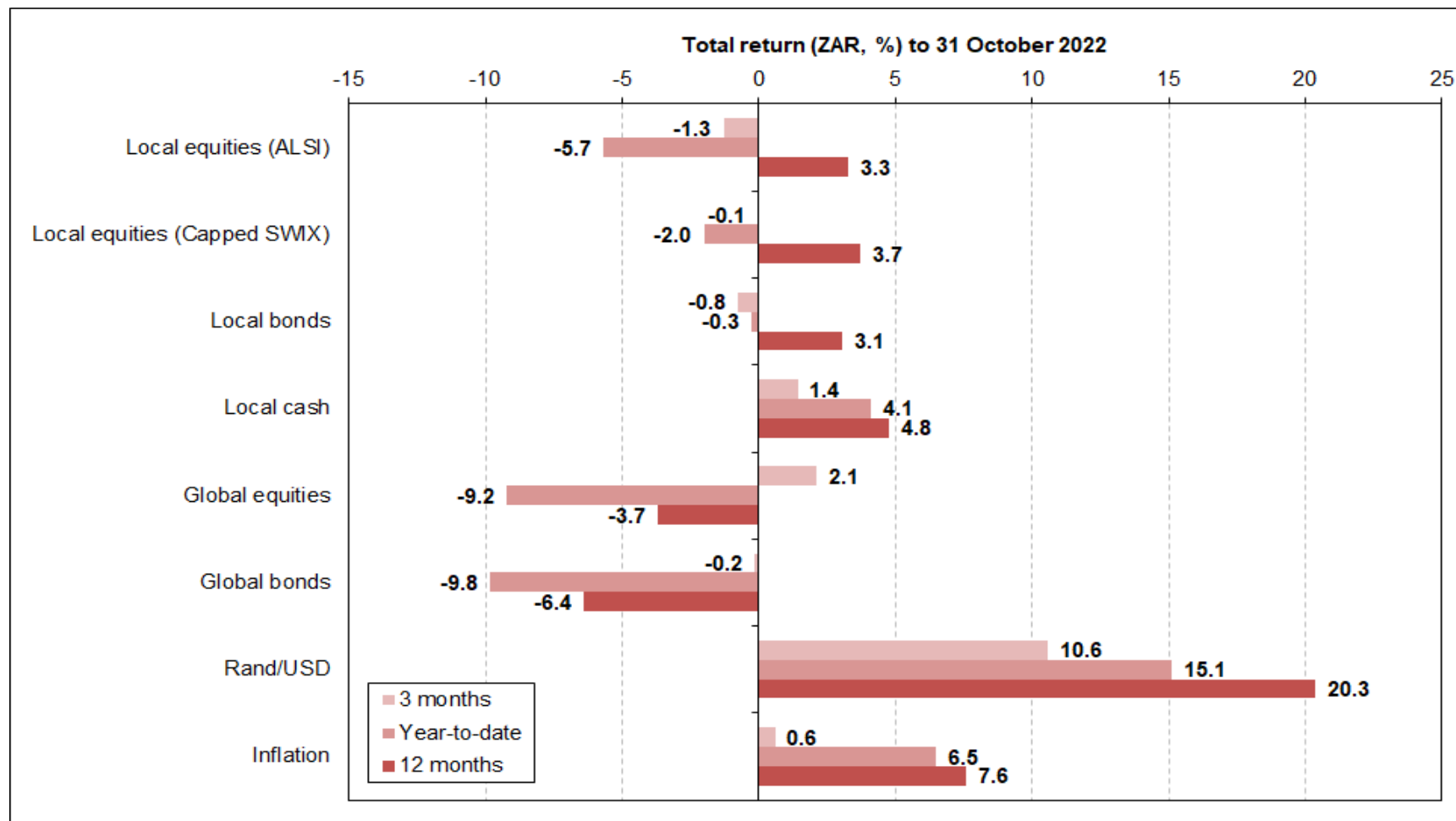
# ECONOMIC INDICATORS

Economic indicators <sup>1</sup>	Oct 2020	Oct 2021	Aug 2022	Sep 2022	Oct 2022
<b>Exchange rates:</b>					
ZAR/USD	16.24	15.25	17.12	18.09	18.35
ZAR/GBP	21.05	20.86	19.90	20.20	21.04
ZAR/Euro	18.90	17.58	17.21	17.74	18.14
<b>Commodities:</b>					
Brent Crude Oil (USD/barrel)	37.94	83.72	95.64	85.14	92.81
Platinum (USD/ounce)	849.00	1,023.00	852.50	864.50	934.50
Gold (USD/ounce)	1,877.90	1,783.42	1,720.84	1,660.90	1,640.97

1. Month-end prices

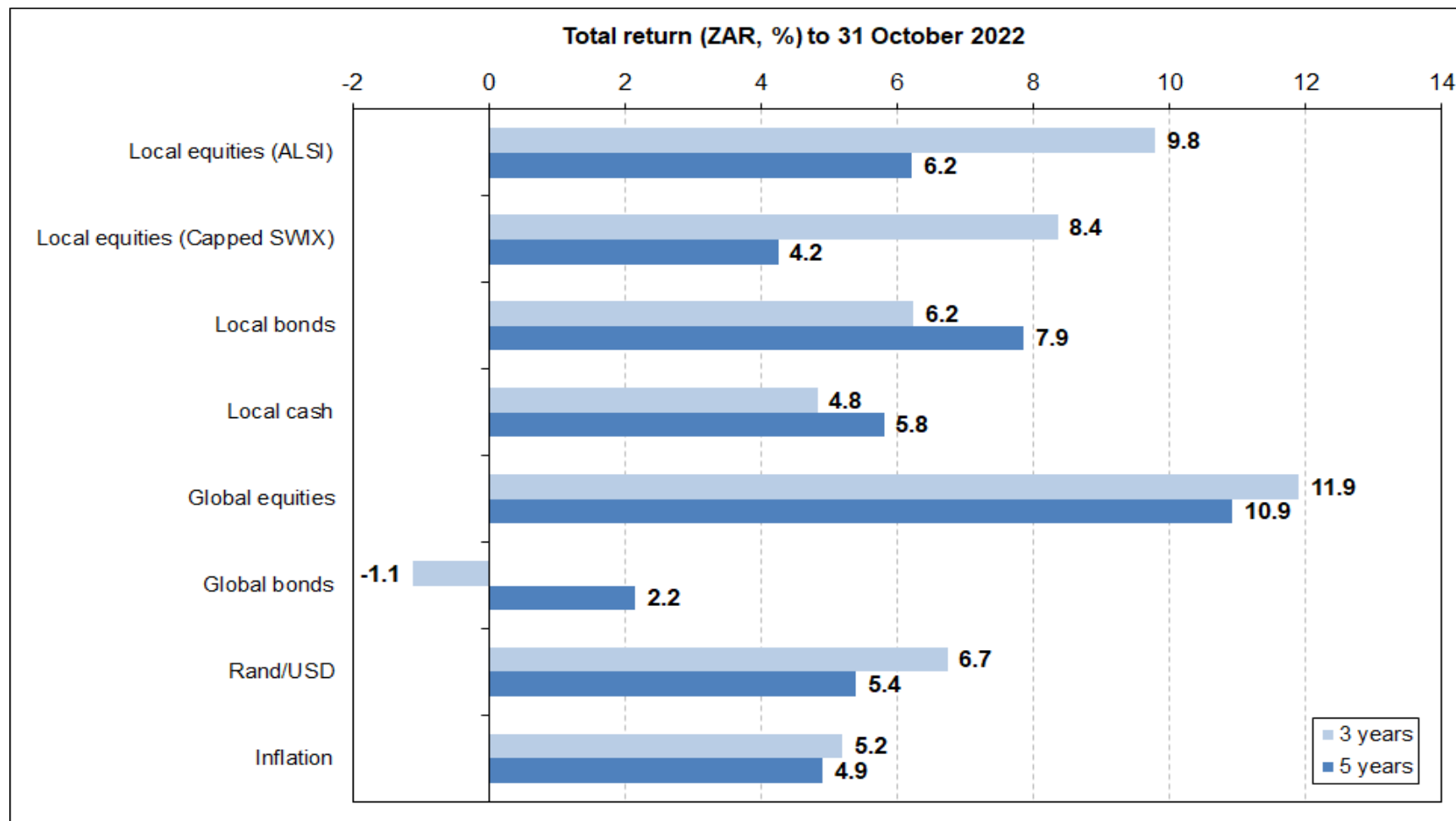
# ASSET CLASS PERFORMANCE

## SHORT TERM



# ASSET CLASS PERFORMANCE

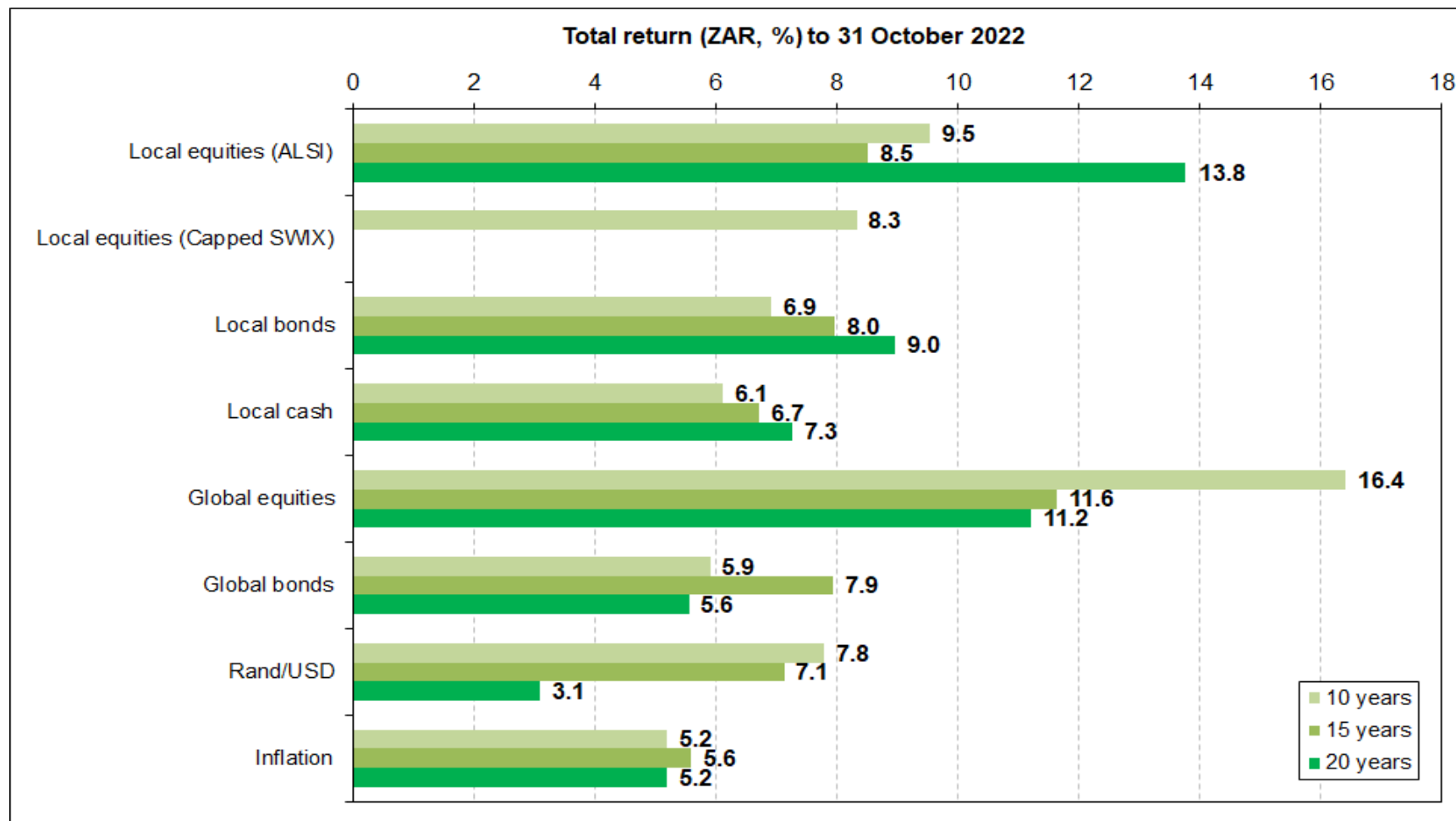
## MEDIUM TERM





# ASSET CLASS PERFORMANCE

## LONG TERM



# 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%

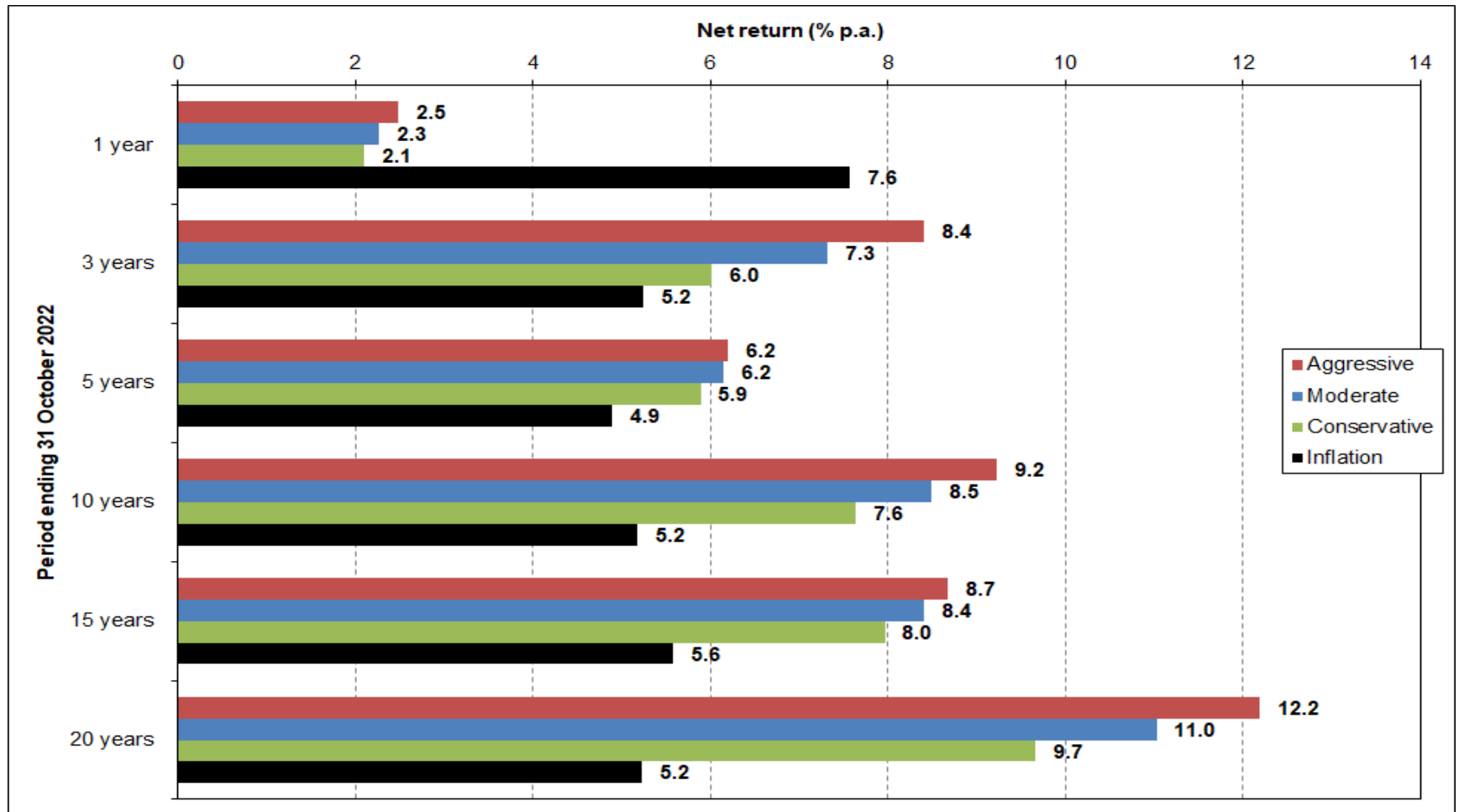
MODERATE	Strategic allocation	LOCAL VS OFFSHORE	60%		40% (5% below regulatory maximum)	
		GROWTH VS INCOME ASSETS	55%	45%	55%	45%
		EQUITIES VS BONDS VS CASH	100%	55% 45%	100%	100%
	Current allocation		~33%	~15% ~12%	~22%	~18%

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%

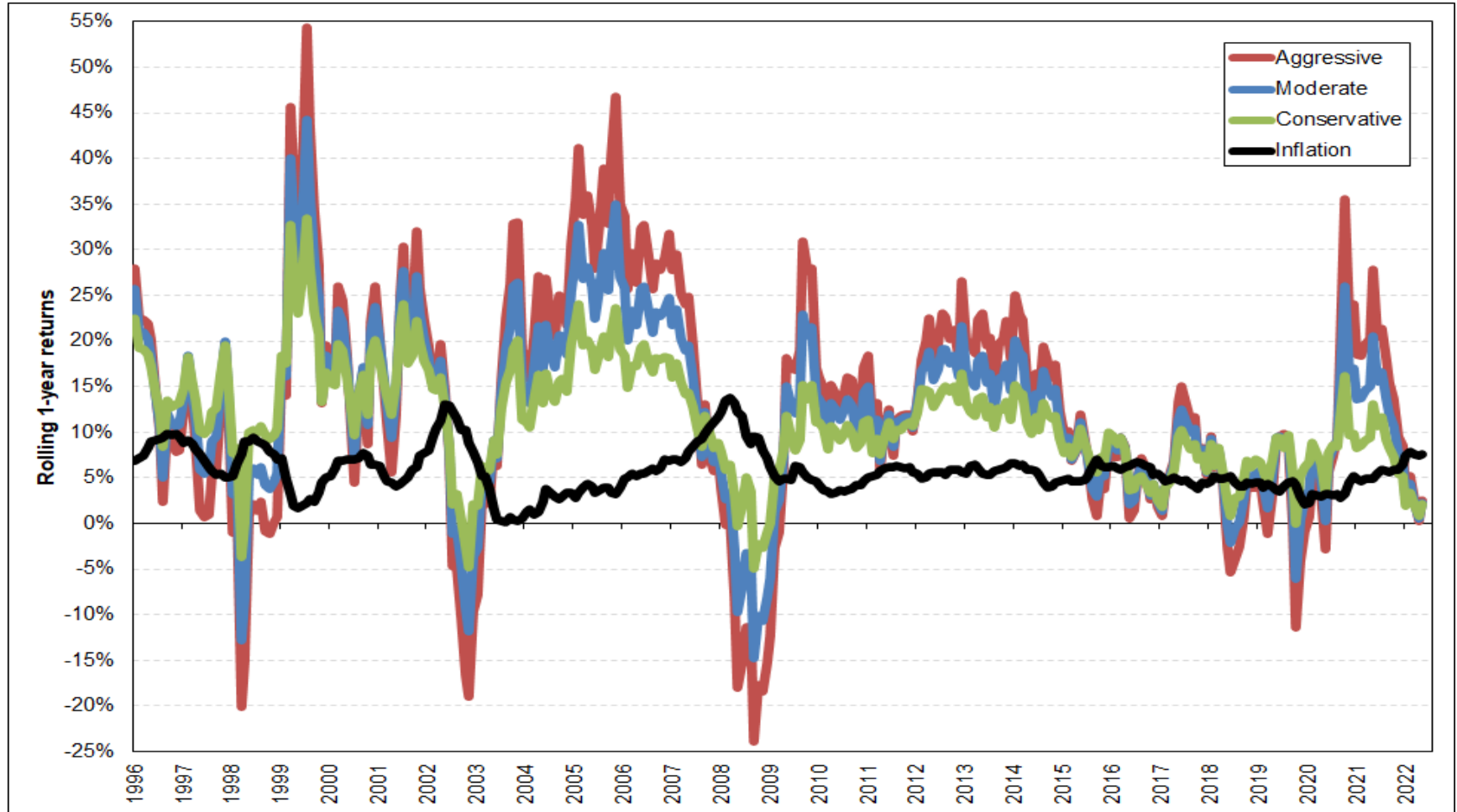
# MARKET PERFORMANCE

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



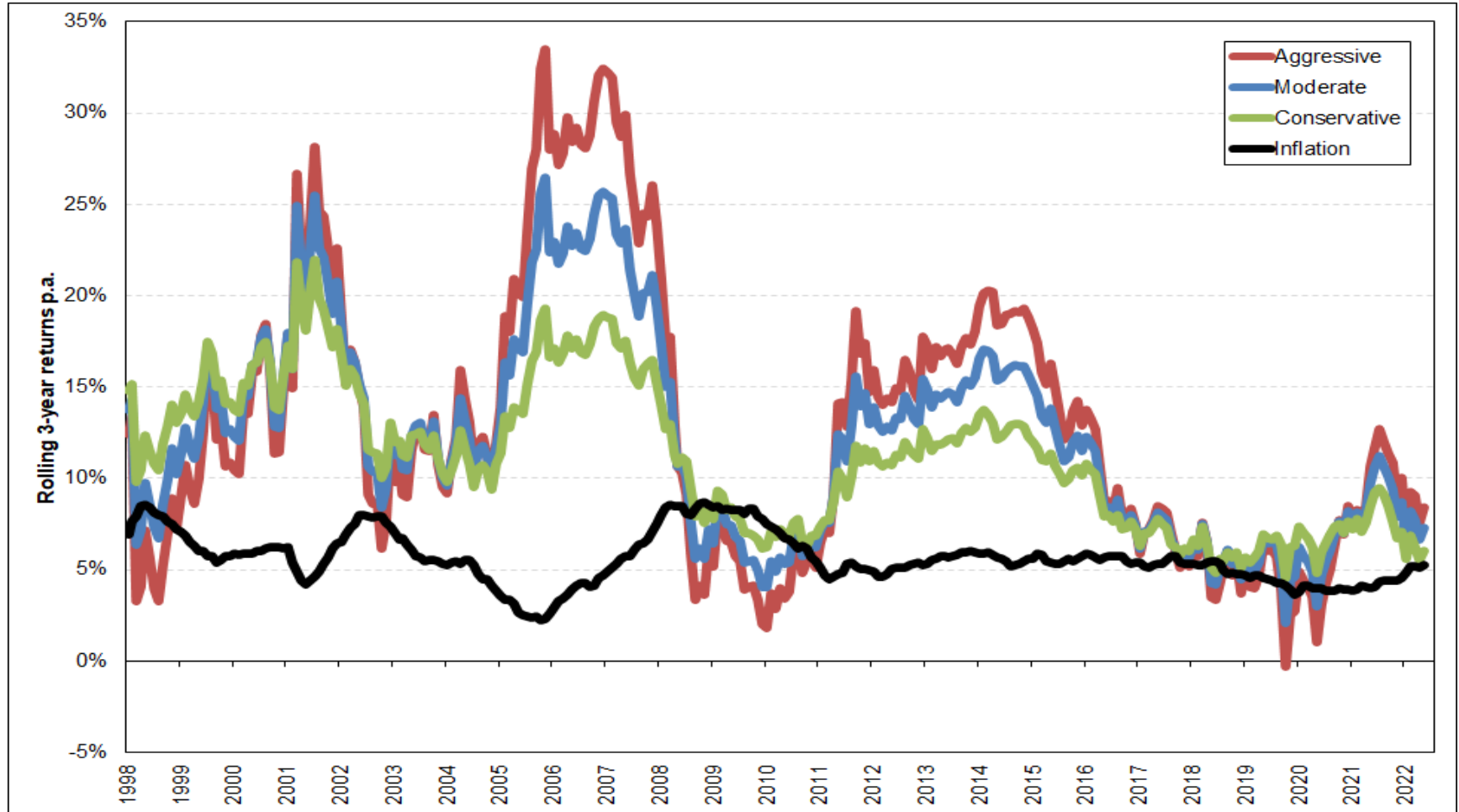
# MARKET PERFORMANCE

## 1-YEAR RETURNS STILL UNDER PRESSURE



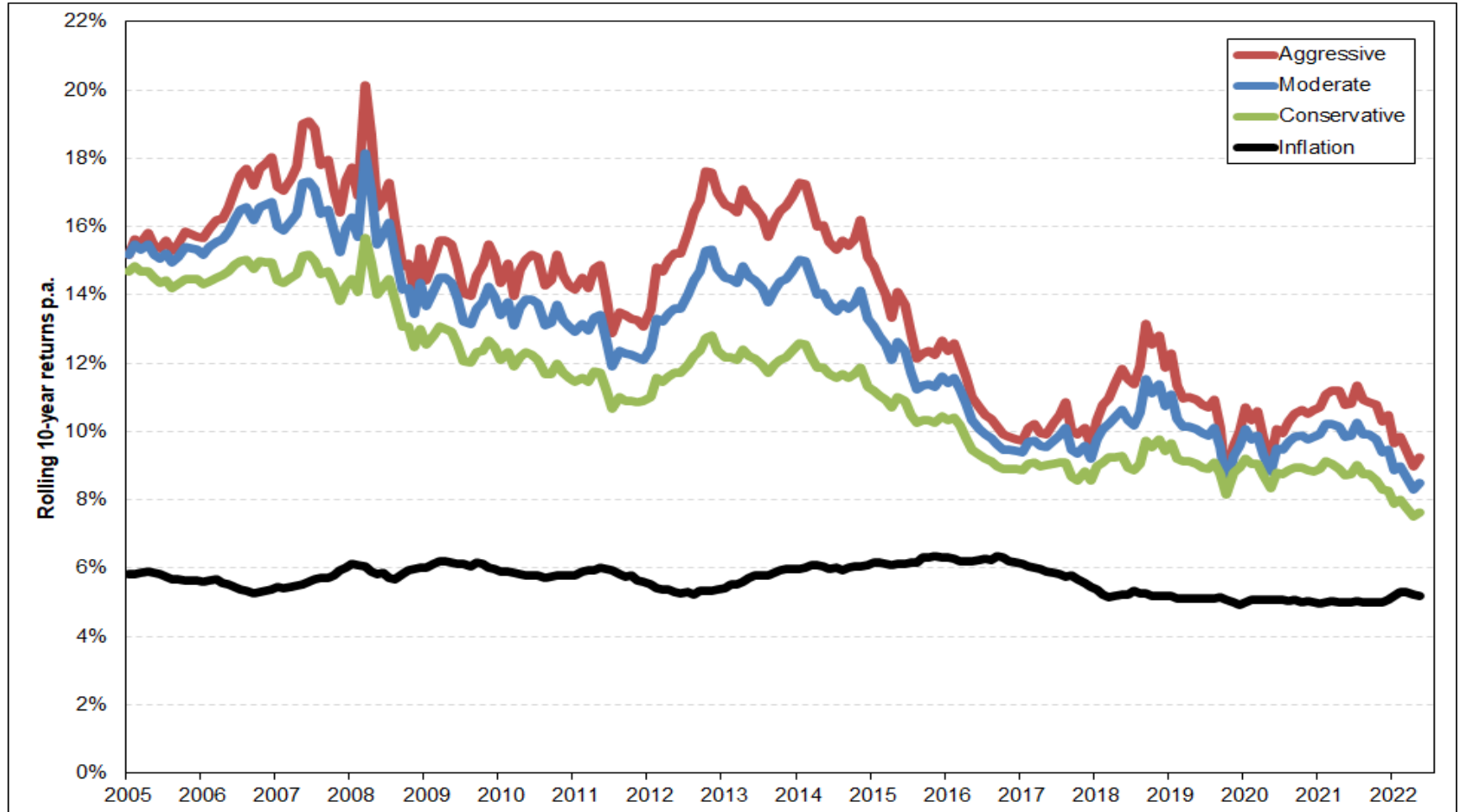
# MARKET PERFORMANCE

## 5 YEARS ≠ LONG TERM



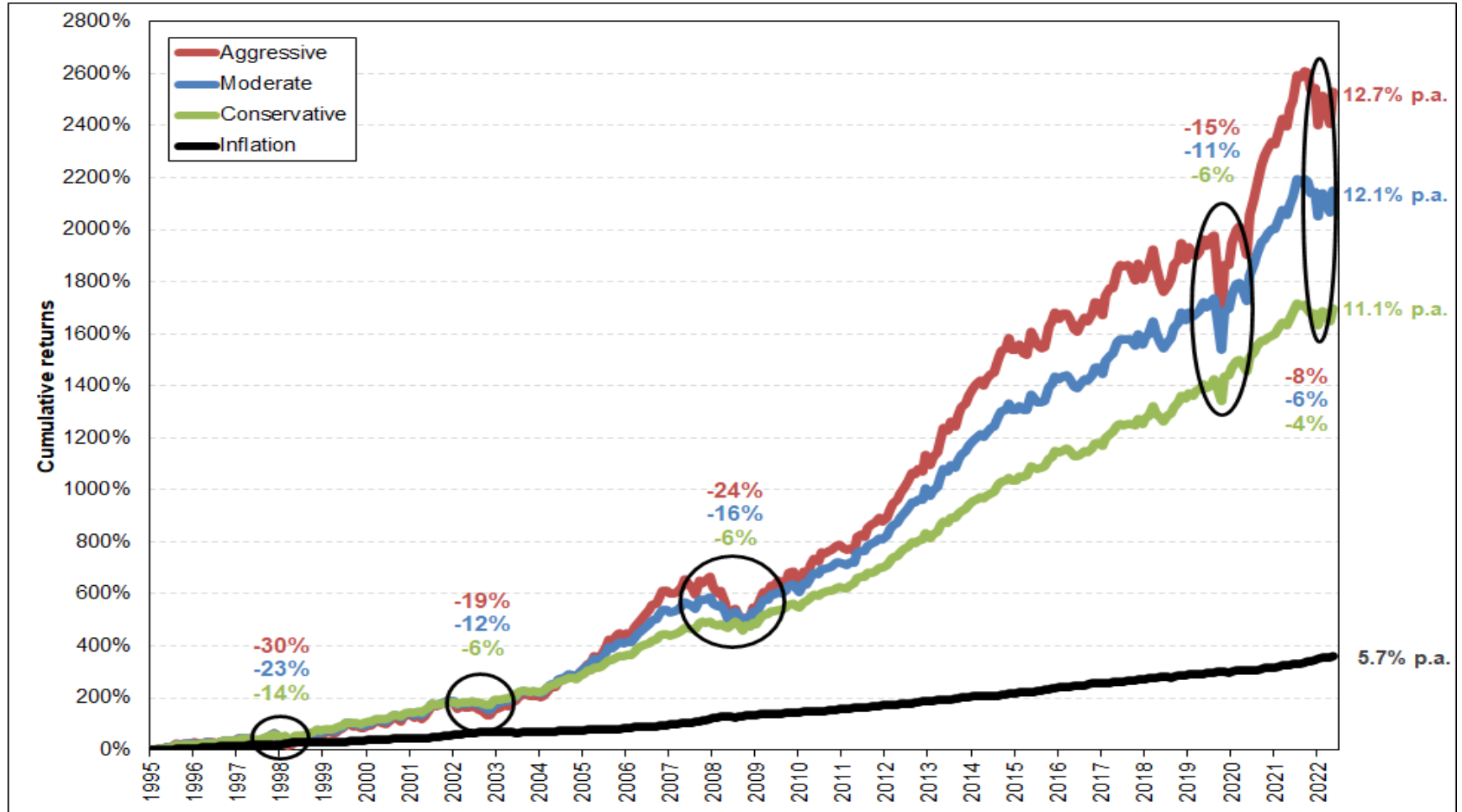
# MARKET PERFORMANCE

## LONG TERM RETURNS STILL OK



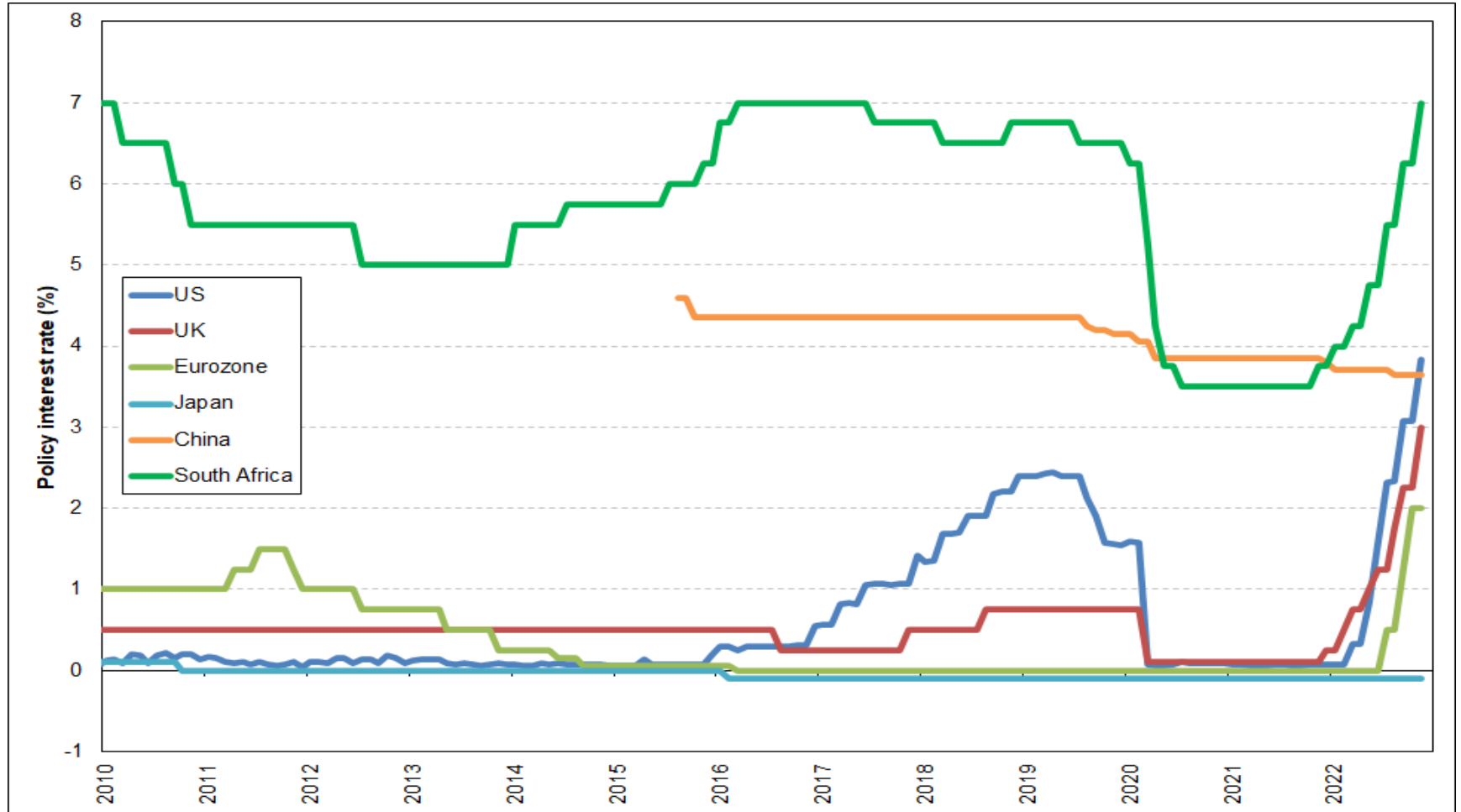
# MARKET PERFORMANCE

## RISK = REWARD



# INTEREST RATES

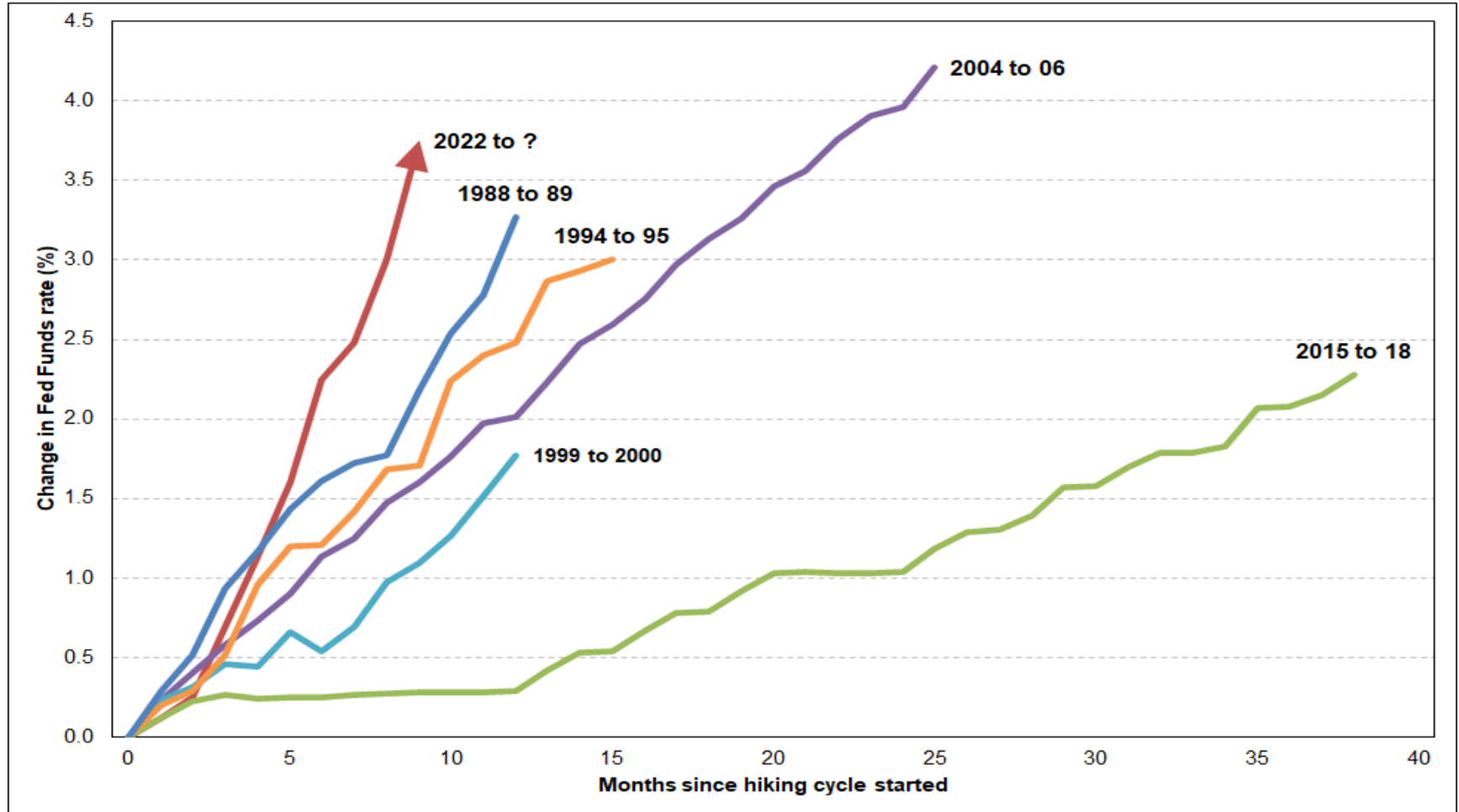
## UP UP AND AWAY THEY GO





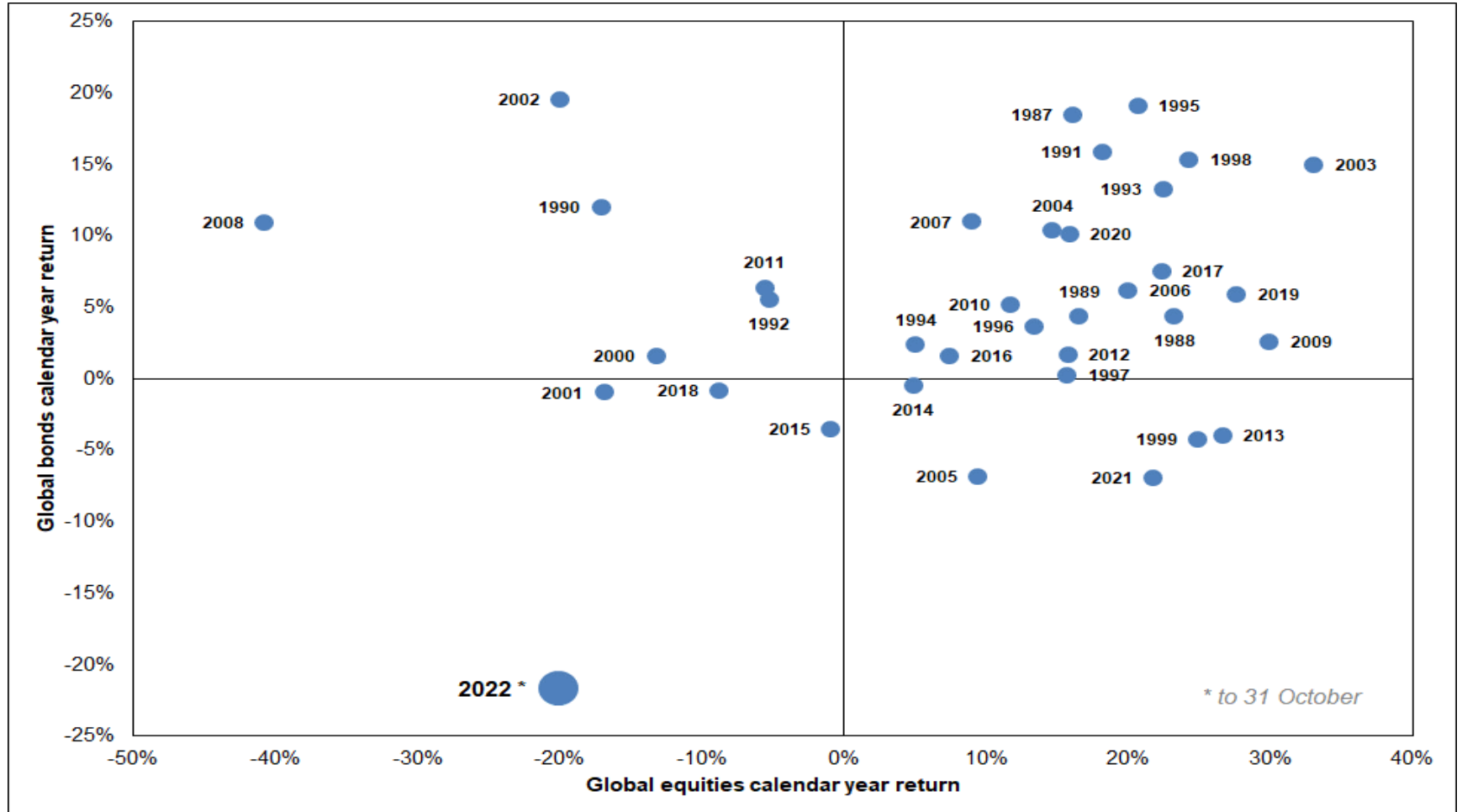
# US INTEREST RATES

## FASTEST HIKING CYCLE IN DECADES



# GLOBAL MARKETS (USD)

## 2022 HAS NOT BEEN EASY



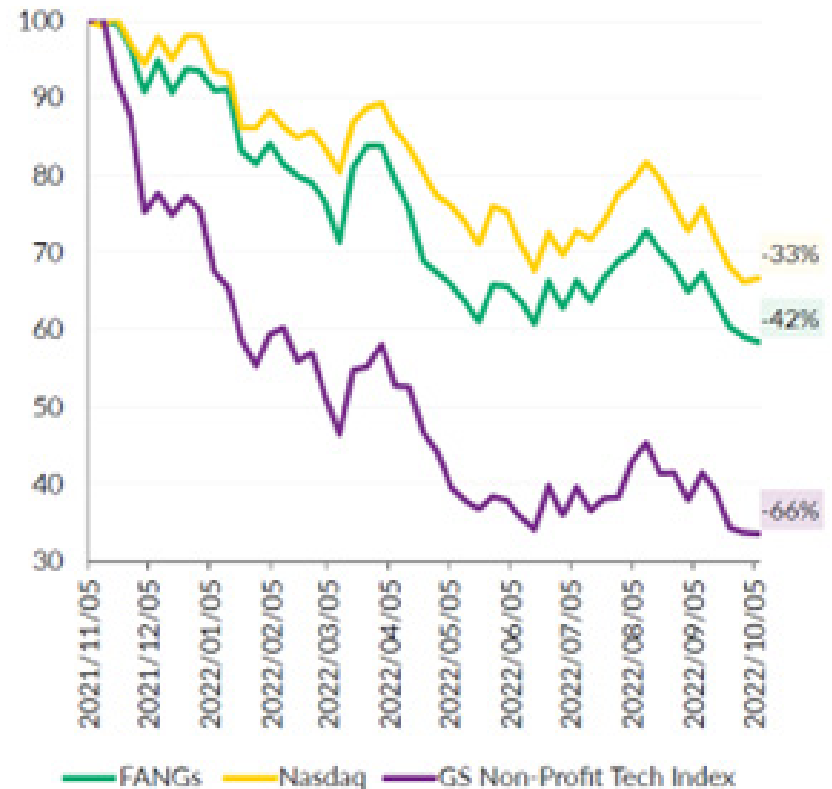
# GLOBAL MARKETS

## GIANTS HAVE FALLEN...

Government bond total returns  
Since November 2021 in USD



'Long duration' equity returns  
Since November 2021



# BITCOIN

## ...AND SPECULATIVE ASSETS HAVE FARED THE WORST

15 866,60 USD

+ Follow

-49,446.00 (75.71%) ↓ past year

14 Nov, 06:15 UTC · [Disclaimer](#)

1D | 5D | 1M | 6M | YTD | 1Y | 5Y | Max



1

BTC ▼

15866.60

USD ▼

# BITCOIN STILL 'HODLING'?

275 220,89 ZAR

+ Follow

-726,671.14 (72.53%) ↓ past year

14 Nov, 06:12 UTC - [Disclaimer](#)

1D | 5D | 1M | 6M | YTD | 1Y | 5Y | Max



1

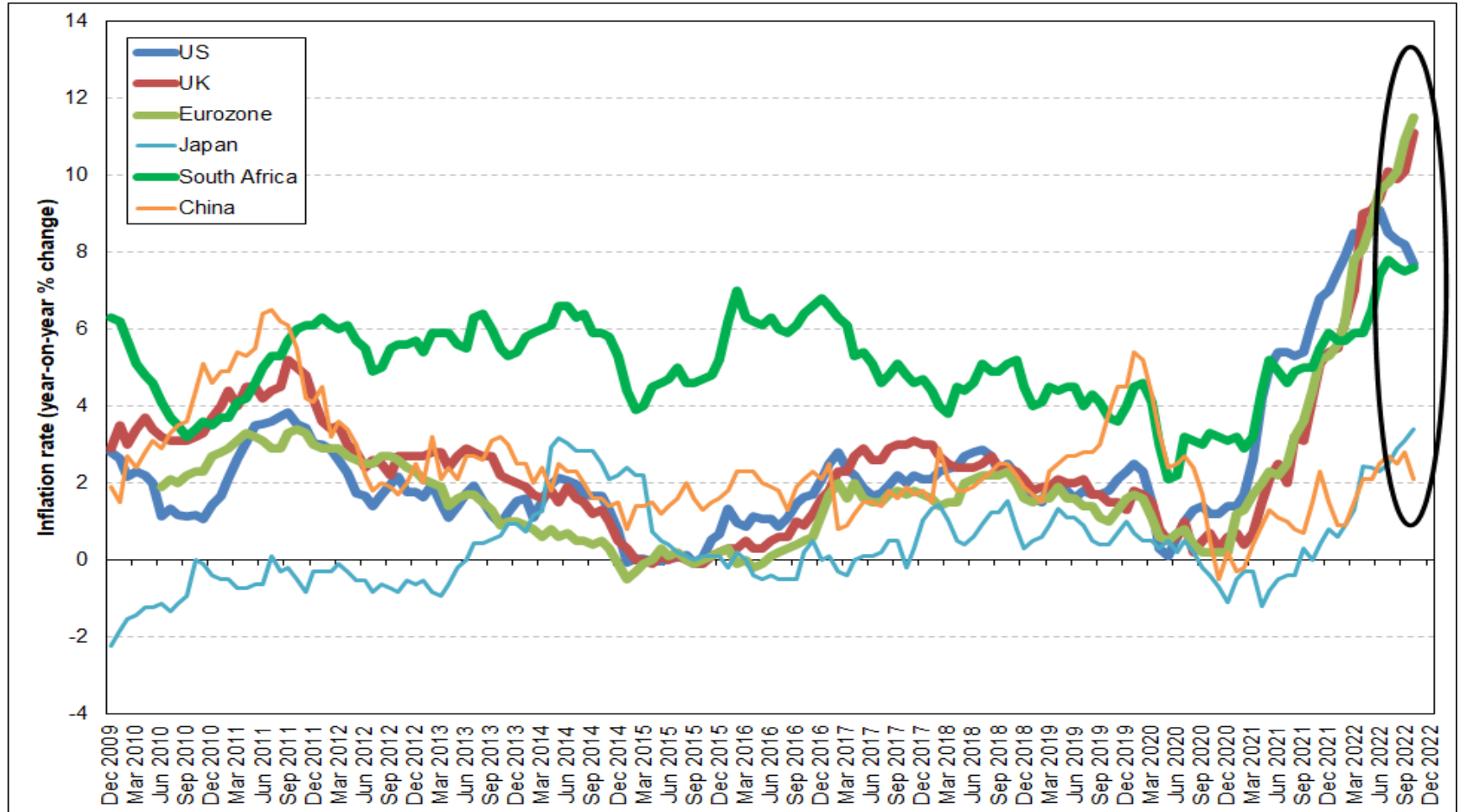
BTC ▼

275220.89

ZAR ▼

# INFLATION

## GOOD NEWS IN THE US, NOT SO MUCH ACROSS THE POND



# INFLATION INFATUATION

LOCAL STOCKS ON 10 NOV: US OCT CPI BETTER THAN EXPECTED (7.7% VS 7.9%)



# INFLATION INFATUATION

## LOCAL STOCKS ON 11 NOV: A 6% JUMP IN < 24 HOURS



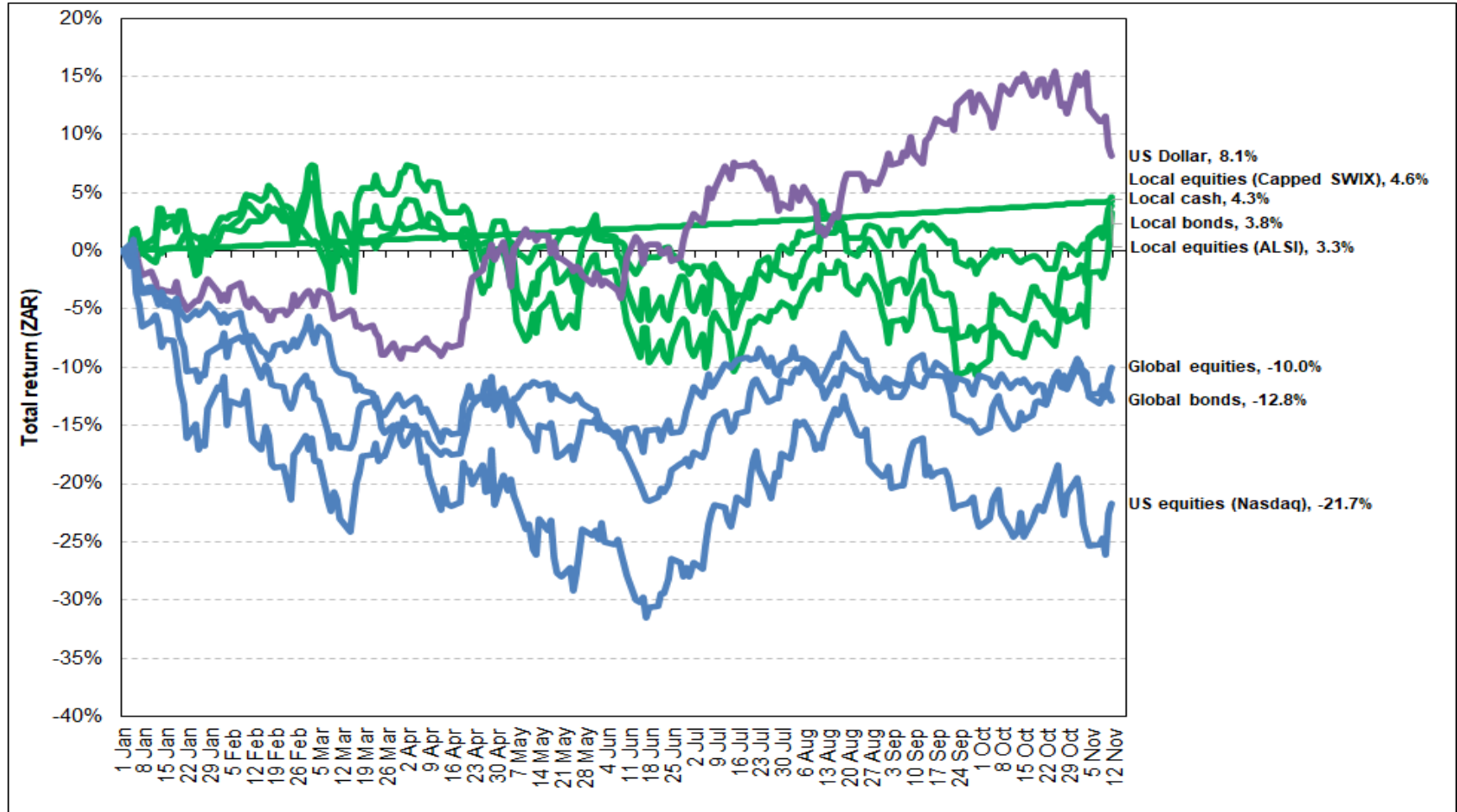


# INFLATION INFATUATION

## LOCAL STOCKS SINCE 1 OCT = +15%

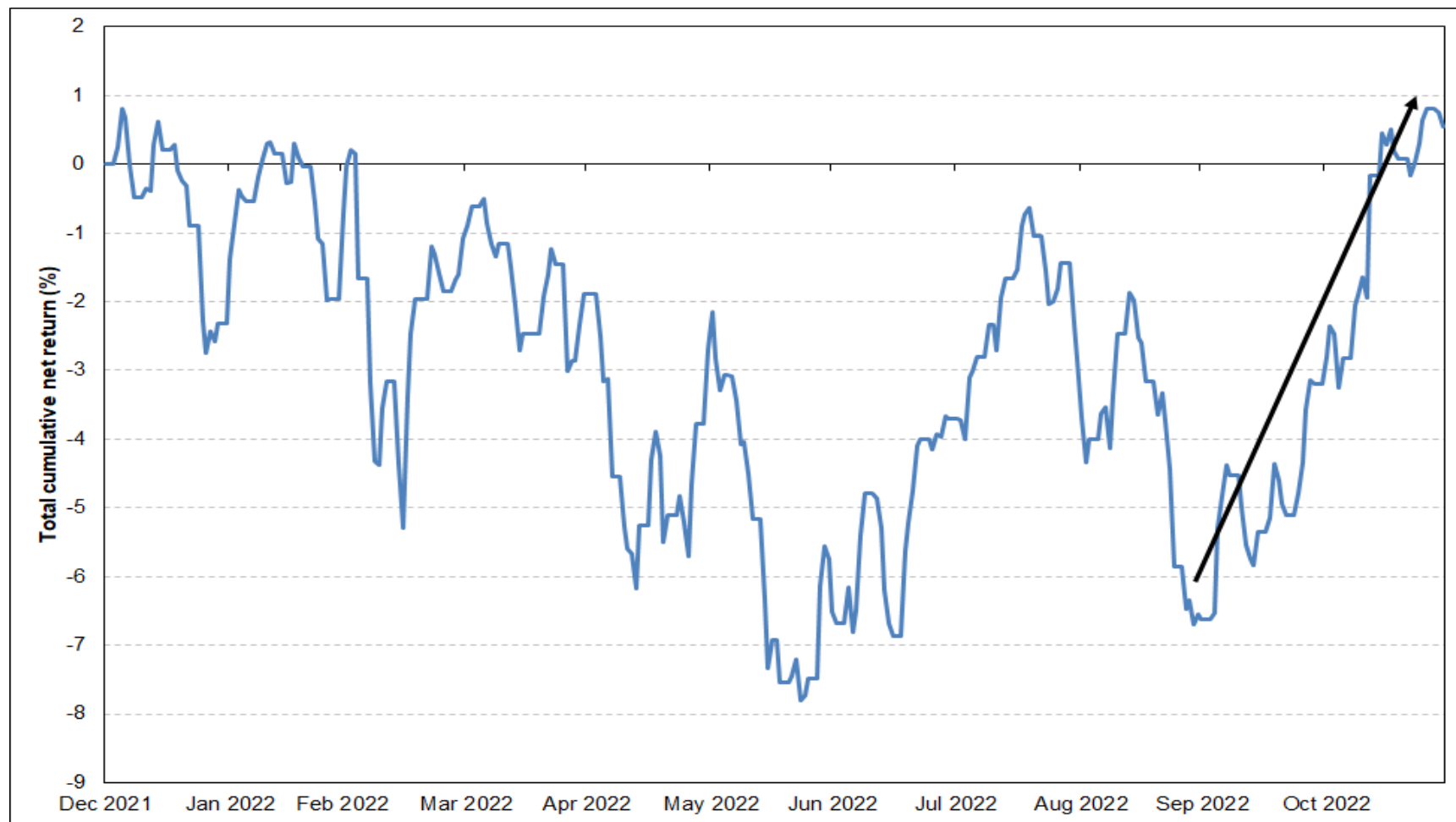


# GLOBAL MARKETS YTD SO IS THE WORST BEHIND US NOW?



# AVERAGE BALANCED FUND \*

## Q4 GAINS ERASE 2022's EARLIER LOSSES, FOR NOW...



\* ASISA South African Multi Asset High Equity category average  
Source: Morningstar