

MONTH IN PICTURES

APRIL 2023

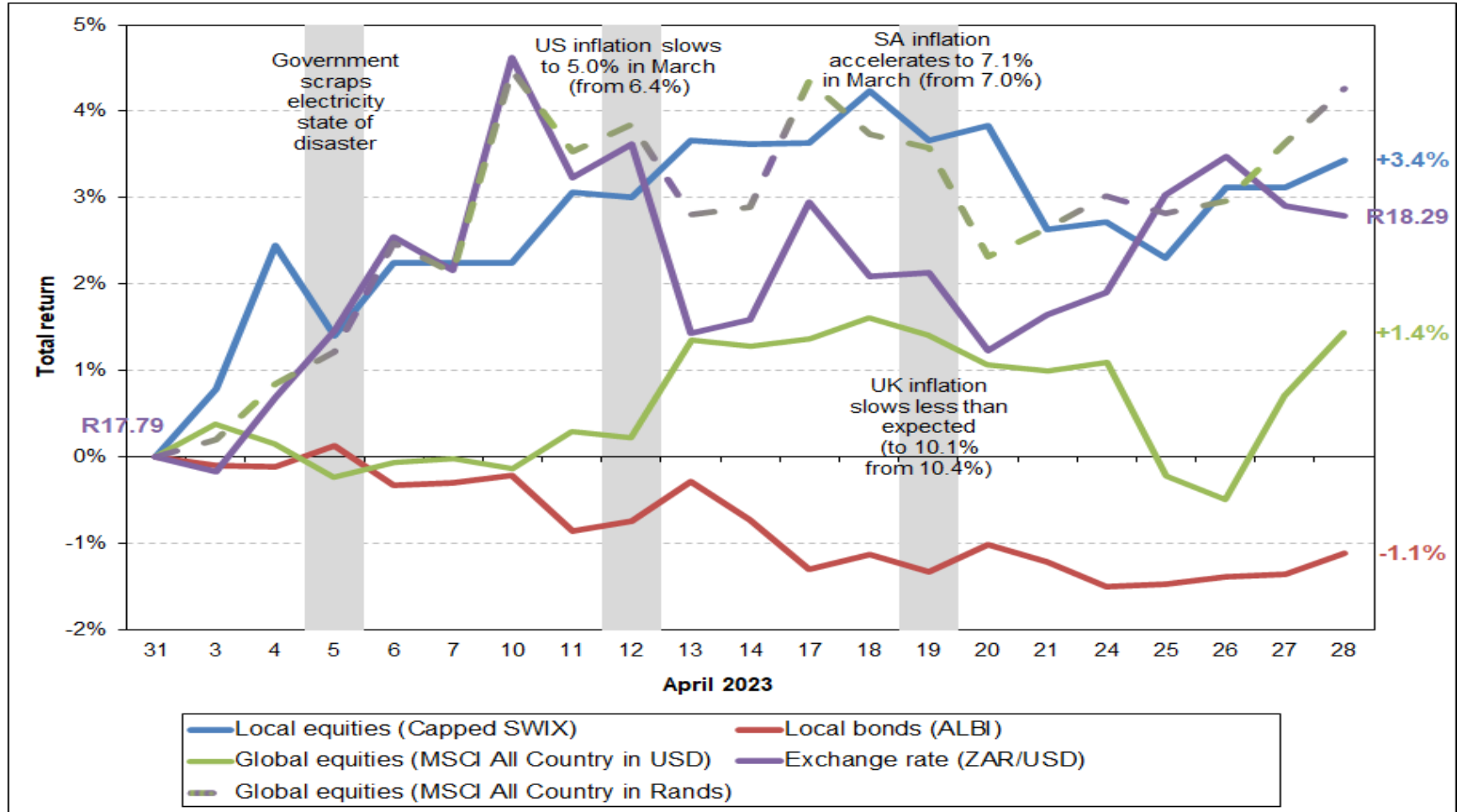
MONTHLY SNAPSHOT

NOTABLE EVENTS

- Following two months of losses the local equity market bounced back in April, with both the ALSI and the Capped SWIX returning +3.4%. Gains were broad-based, with Industrials (+3.1%), Resources (+4.0%), Financials (+3.0%) and Listed Property (+5.4%) all yielding positive returns. On a year-to-date (YTD) basis 2023 has been a relatively good, but quite volatile year, with the ALSI up 8.7% and the Capped SWIX trading 6.0% higher. Local bonds came under some pressure in April (-1.1%), but remains 2.2% in the green YTD, as high running yields have protected investors from losses on the capital side.
- After hitting some resistance on the way down, local inflation slowed to a better-than-expected 6.8% in April (from 7.1% in March), as food inflation eased to a still-elevated 14.3% (from 14.4%), and transport inflation moderated to 7.6% (from 8.9%).
- Despite some improvement on the inflation front the South African Reserve Bank announced yet another 50 basis point (bp) hike in interest rates at their May meeting, taking the repo rate to 8.25%, and the prime lending rate to 11.75% (a 14-year high). Compared to its recent low of 3.5% we've now seen a cumulative 4.75% of hikes, and the monthly repayment on a R1 million 20-year home loan at prime has risen sharply from R7,753 to R10,837, or by nearly 40%...
- Ironically, the Rand did not like this at all (despite lower hikes of 25 bps in the US, UK and EU), and immediately weakened by 2.5% against the US Dollar (USD) on the news, following weakness earlier the month on SA's alleged sale of arms to Russia. This followed its 2.8% USD depreciation in April, which lifted the relatively low returns of global markets in this month (equities = +1.4% and bonds = +0.4% in USD) to decent levels when measured in local currency terms (+4.3% and +3.2%, respectively).
- The average balanced fund * therefore had a good April, delivering a return of +2.3%, and having a YTD return of +6.6%. The average 1-year return improved from last month, rising from 5% to 8.5%, while the average 3-year return dropped from 15.1% p.a. to a still-good 12.4% p.a. as the strong post Covid crash recovery starts moving into the base.
- Unemployment data for 2023 Q1 yielded mixed results, with the official rate deteriorating from 32.7% in the previous quarter to 32.9%, while the expanded rate dropped from 42.6% to 42.4%.
- May has been another eventful month, with another US regional bank falling victim to rising interest rates (First Republic), significant Rand weakness, and some pressure on local markets as sentiment towards SA weakened further. This has however not been enough to derail 2023's YTD performance, with the average balanced fund * holding up reasonably well (on track for a small loss of 0.1% in May) as excellent Rand returns from offshore markets cushioned most of the local losses. This means that 2023's good start remains mostly intact.

MONTHLY TIMELINE

IMPACT ON MARKETS



MARKET INDICATORS

SHORT TERM

Market indicators (% change) ¹		Feb 2023	Mar 2023	Apr 2023	3 months	YTD	12 months
Local equities	ALSI	(2.2)	(1.3)	3.4	(0.2)	8.7	12.6
	Capped SWIX	(2.3)	(2.0)	3.4	(0.9)	6.0	7.9
	Resources	(12.5)	2.5	4.0	(6.8)	(0.9)	(5.0)
	Industrials	1.6	(0.8)	3.1	3.8	17.1	32.0
	Financials	2.7	(6.6)	3.0	(1.1)	3.5	(0.4)
	Listed Property	(0.7)	(3.4)	5.4	1.0	0.0	3.3
Local bonds	ALBI	(0.9)	1.3	(1.1)	(0.7)	2.2	6.4
Local cash	STeFI Composite	0.5	0.6	0.6	1.8	2.4	6.2
Global equities	MSCI All Country	2.4	(0.1)	4.3	6.7	16.9	18.0
Global bonds	FTSE WGBI	1.9	0.6	3.2	5.8	11.6	11.6
Exchange rate	ZAR/USD	5.4	(3.1)	2.8	5.0	7.4	15.6
Inflation	CPI	0.7	1.0	0.4	2.2	2.0	6.8

1. Total returns (in Rands) for the months and periods ending 30 April 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	12.6	20.2	10.0	10.9	9.9	15.9
	Capped SWIX	7.9	19.0	6.4	9.0	-	-
	Resources	(5.0)	23.4	19.7	9.9	4.3	12.2
	Industrials	32.0	16.8	8.2	10.9	13.3	18.9
	Financials	(0.4)	20.0	1.5	7.2	9.7	13.6
	Listed Property	3.3	17.6	(4.5)	1.2	8.3	13.2
Local bonds	ALBI	6.4	9.8	6.8	6.8	8.7	8.7
Local cash	STeFI Composite	6.2	4.9	5.8	6.2	6.6	7.1
Global equities	MSCI All Country	18.0	11.6	15.6	15.9	12.2	13.6
Global bonds	FTSE WGBI	11.6	(5.9)	5.9	6.7	6.9	7.3
Exchange rate	ZAR/USD	15.6	(0.4)	8.0	7.4	6.1	4.8
Inflation	CPI	6.8	5.7	4.9	5.1	5.3	5.2

1. Total returns (in Rands) for the months and periods ending 30 April 2023.

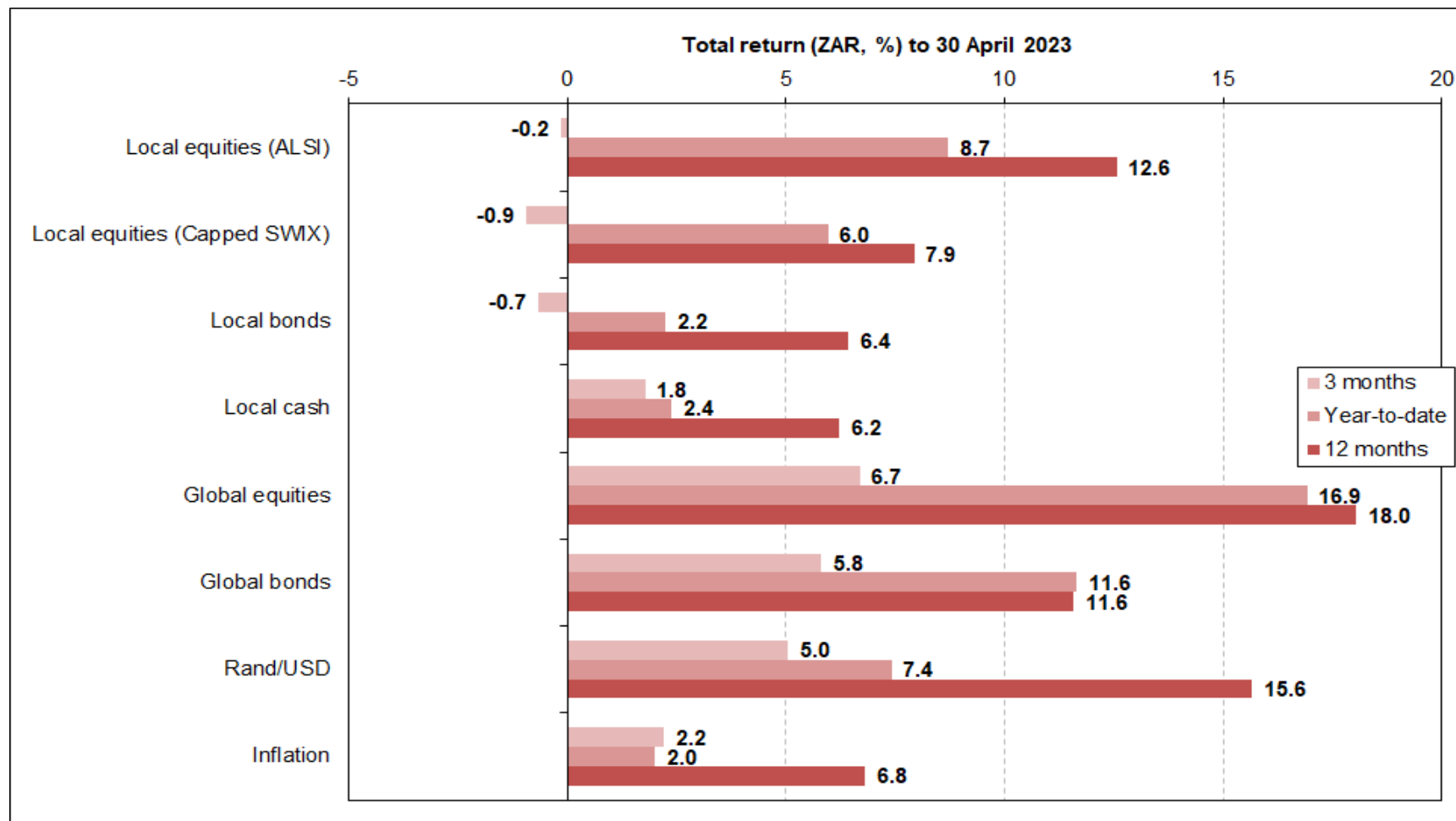
ECONOMIC INDICATORS

Economic indicators ¹	Apr 2021	Apr 2022	Feb 2023	Mar 2023	Apr 2023
Exchange rates:					
ZAR/USD	14.50	15.81	18.36	17.79	18.29
ZAR/GBP	20.03	19.88	22.07	21.94	22.98
ZAR/Euro	17.42	16.67	19.42	19.29	20.15
Commodities:					
Brent Crude Oil (USD/barrel)	66.76	107.14	83.45	79.89	80.33
Platinum (USD/ounce)	1,200.98	939.00	953.59	991.26	1,074.01
Gold (USD/ounce)	1,772.10	1,897.26	1,811.06	1,969.50	1,989.78

1. Month-end prices

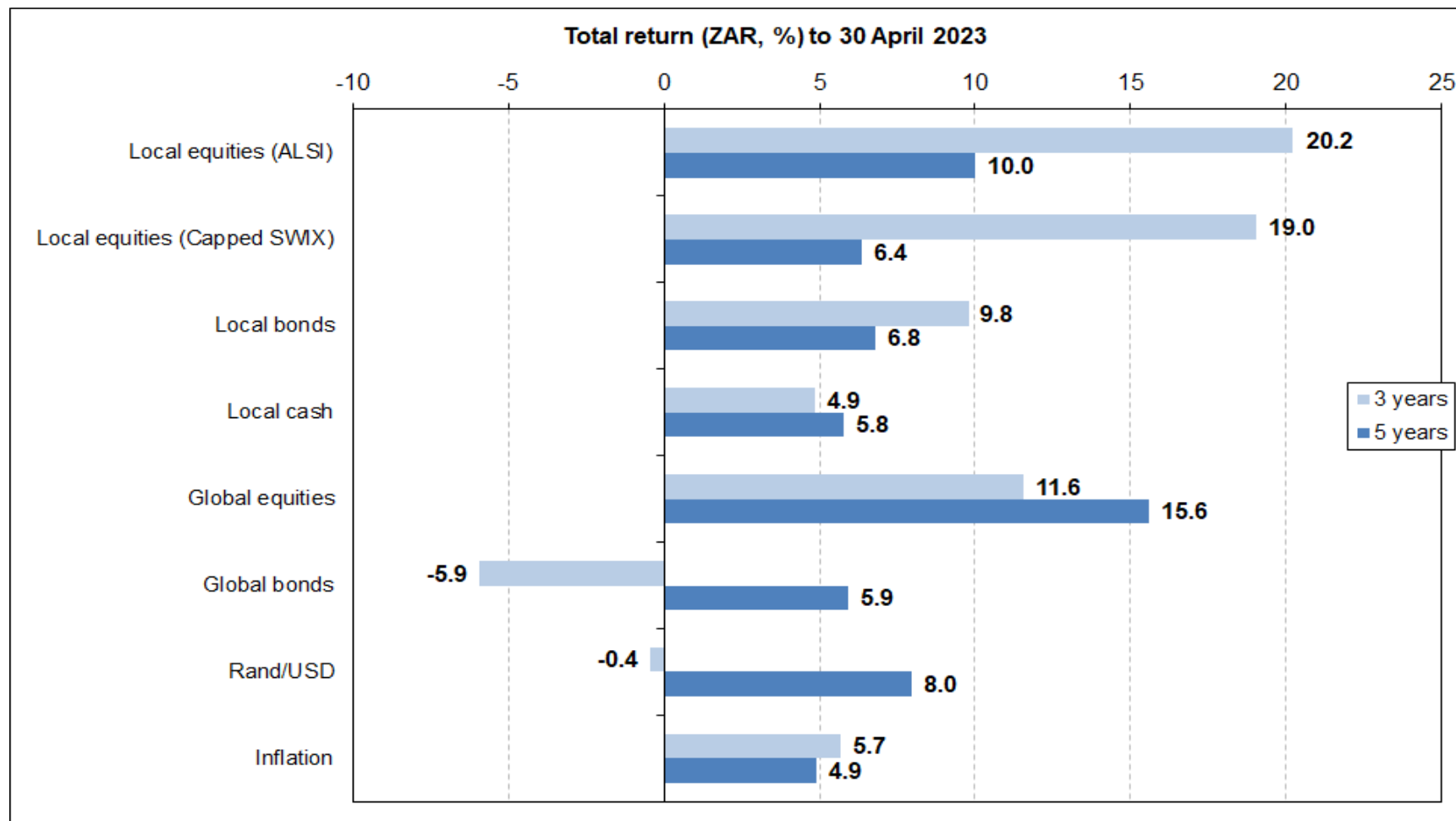
ASSET CLASS PERFORMANCE

SHORT TERM



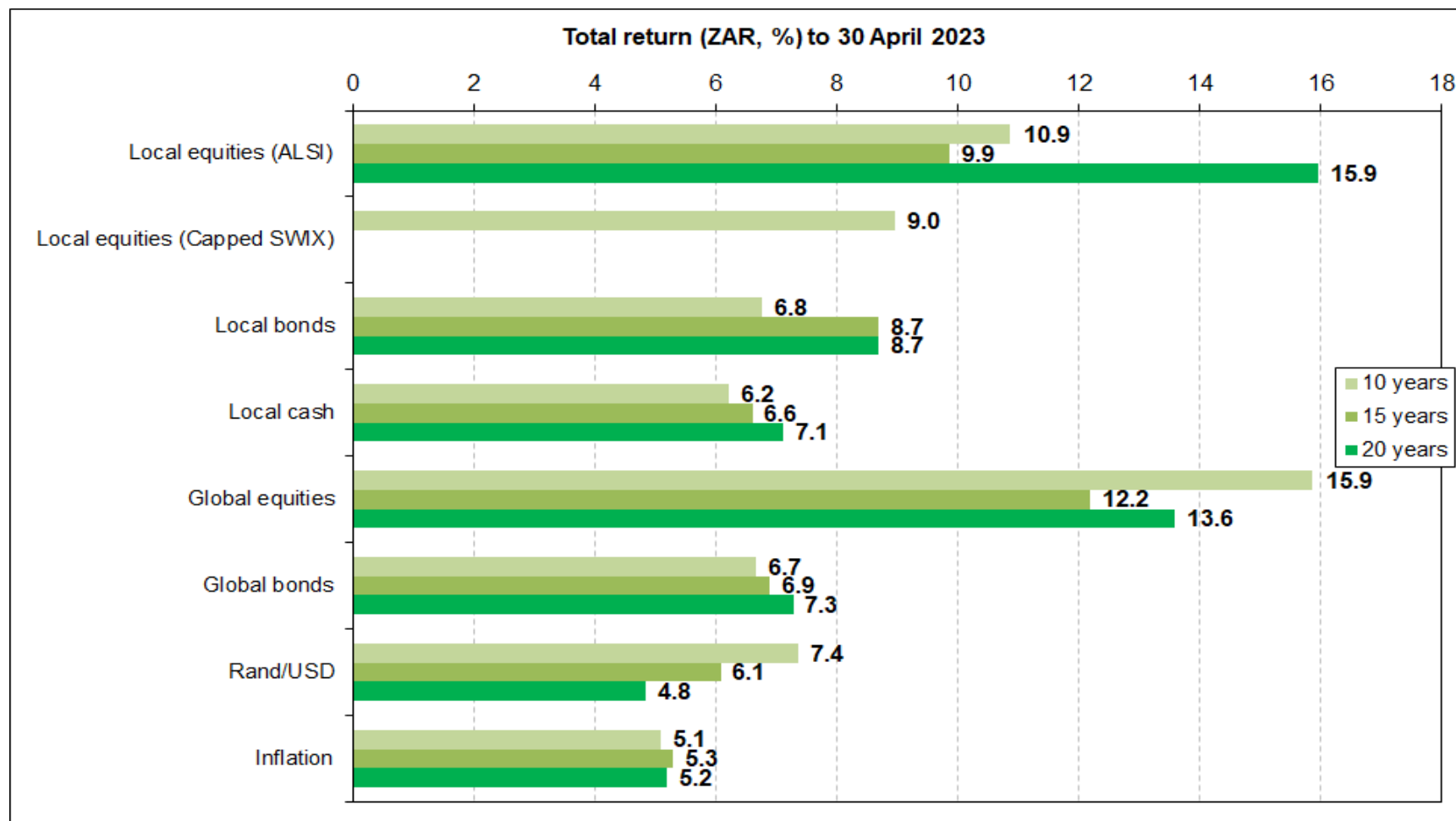
ASSET CLASS PERFORMANCE

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:

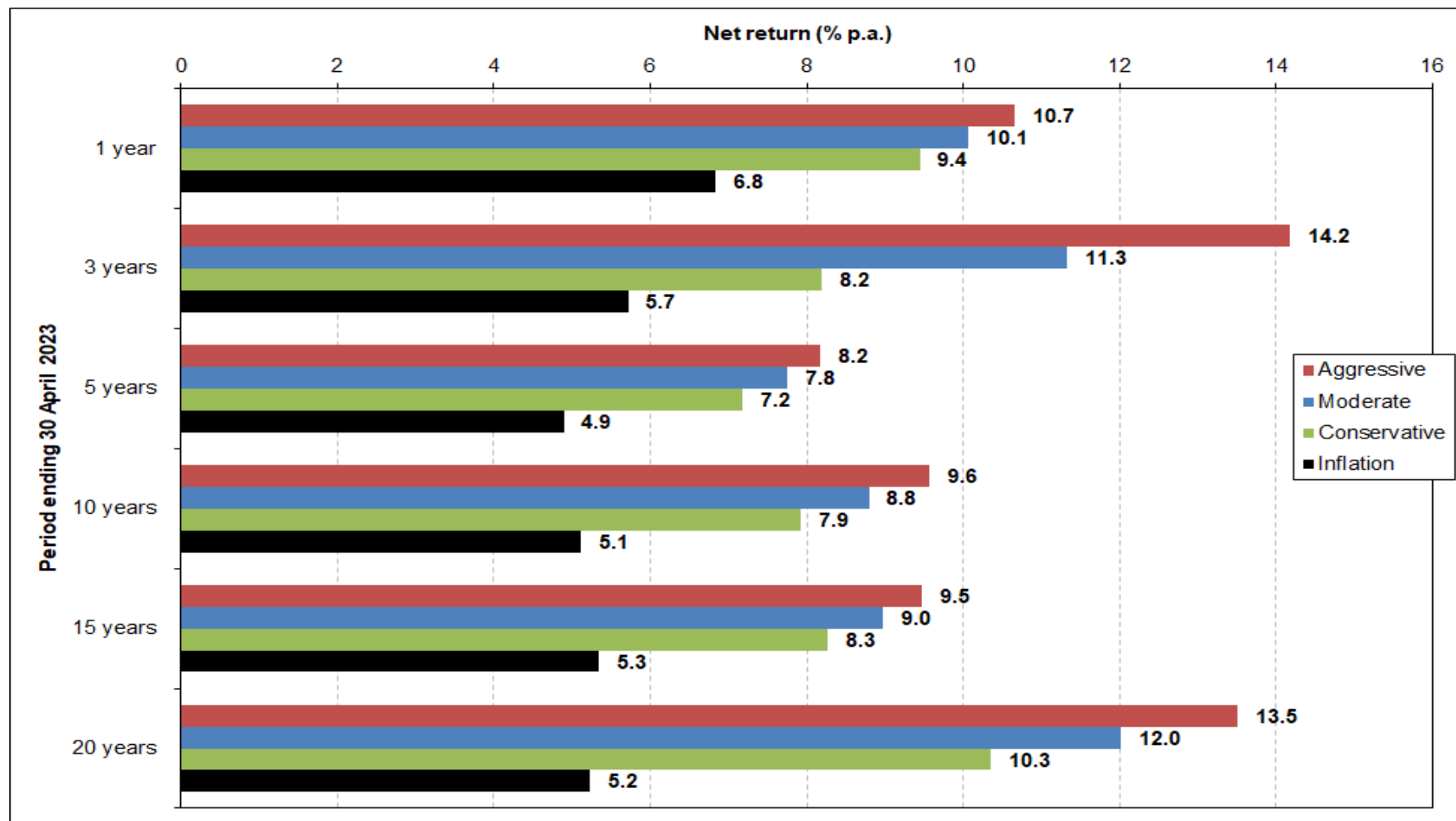
AGGRESSIVE	Strategic allocation	LOCAL VS OFFSHORE	60%		40% (5% below regulatory maximum)	
		GROWTH VS INCOME ASSETS	75%	25%	75%	25%
		EQUITIES VS BONDS VS CASH	100%	75% 25%	100%	100%
	Current allocation		~45%	~11% ~4%	~30%	~10%

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%

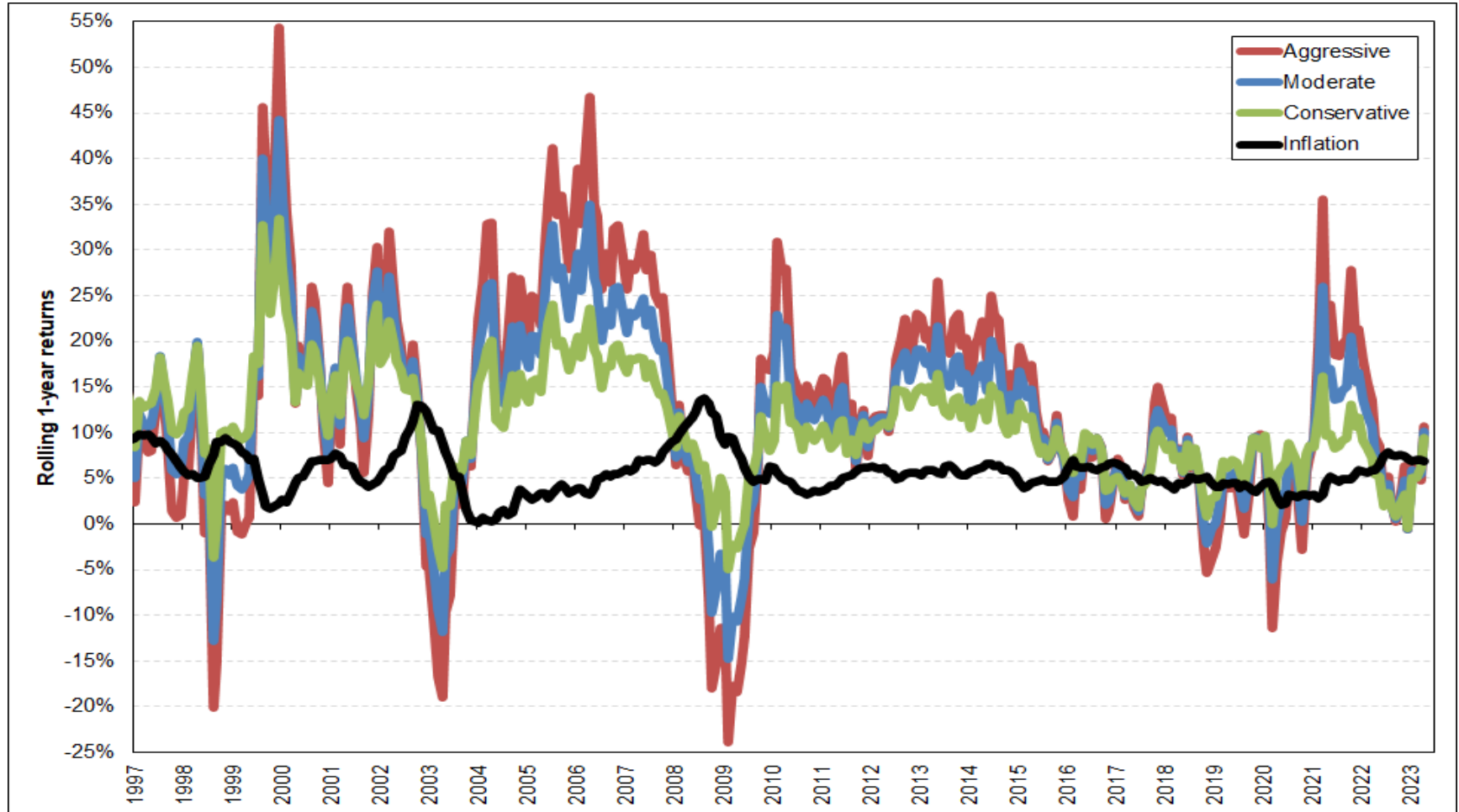
MARKET PERFORMANCE

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



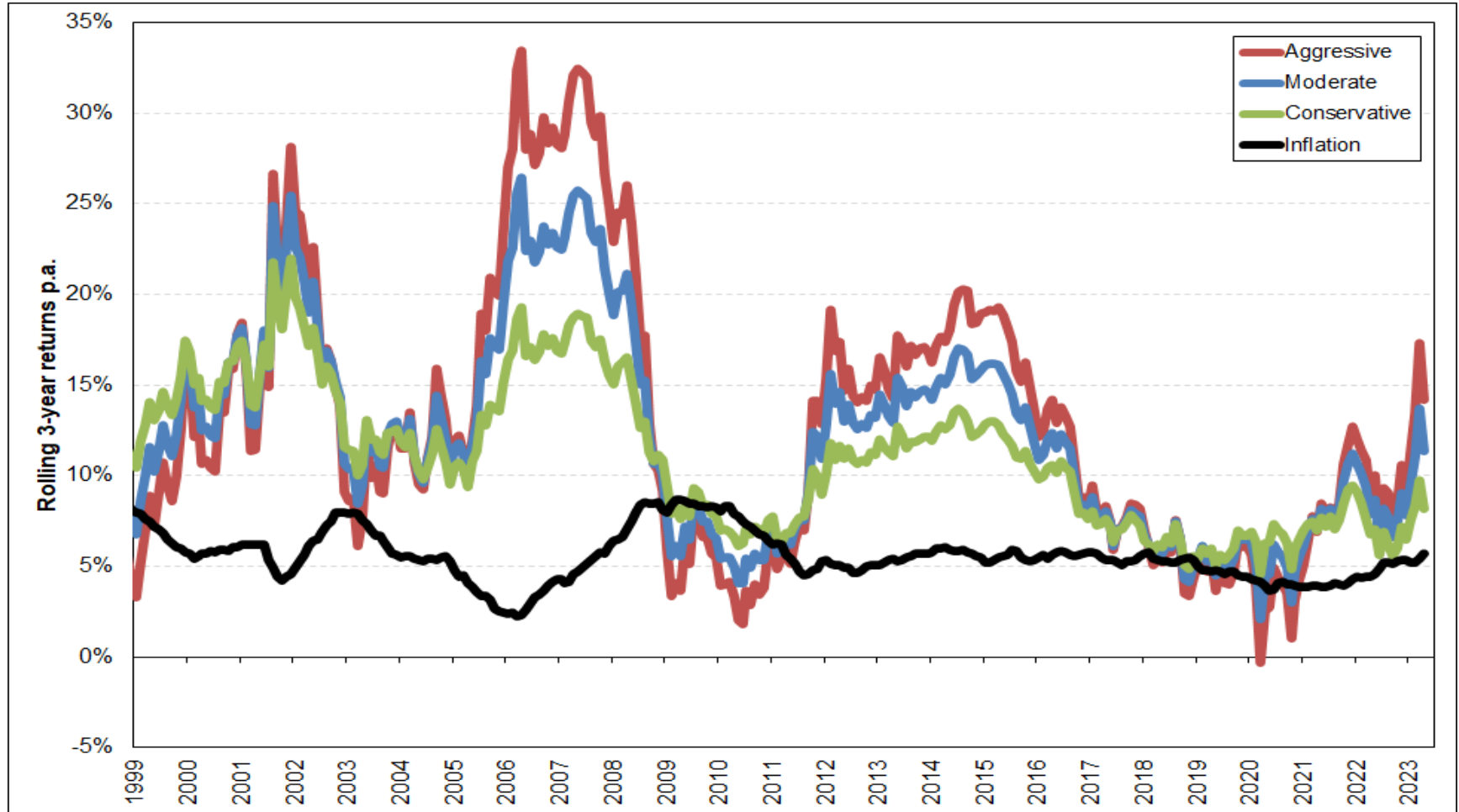
MARKET PERFORMANCE

ROLLING 1-YEAR RETURNS ON THE UP



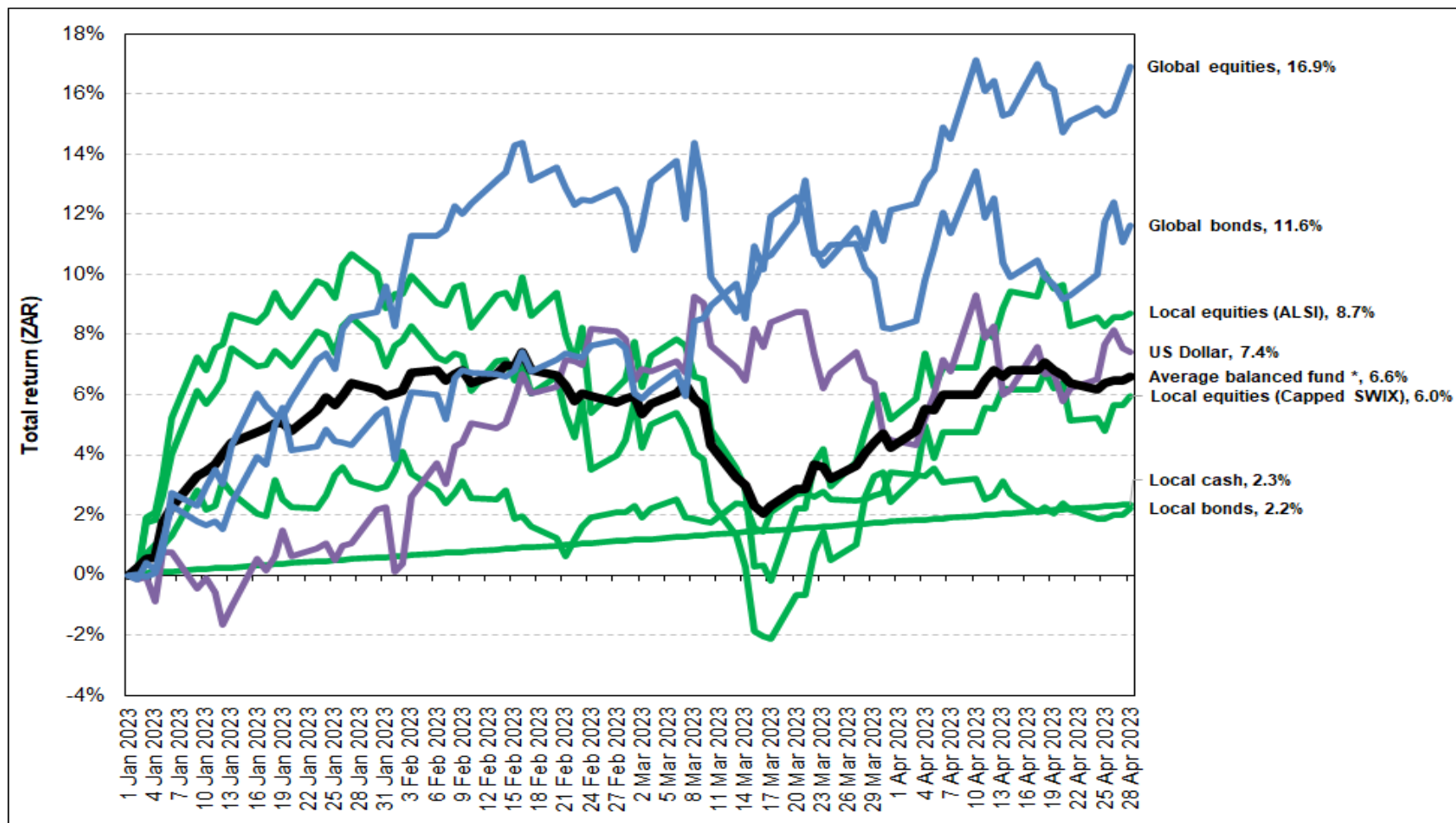
MARKET PERFORMANCE

ROLLING 3-YEAR RETURNS TAIL OFF, BUT REMAINS STRONG



MARKETS in 2023 (ZAR)

A DECENT, BUT EXTREMELY VOLATILE START TO THE YEAR

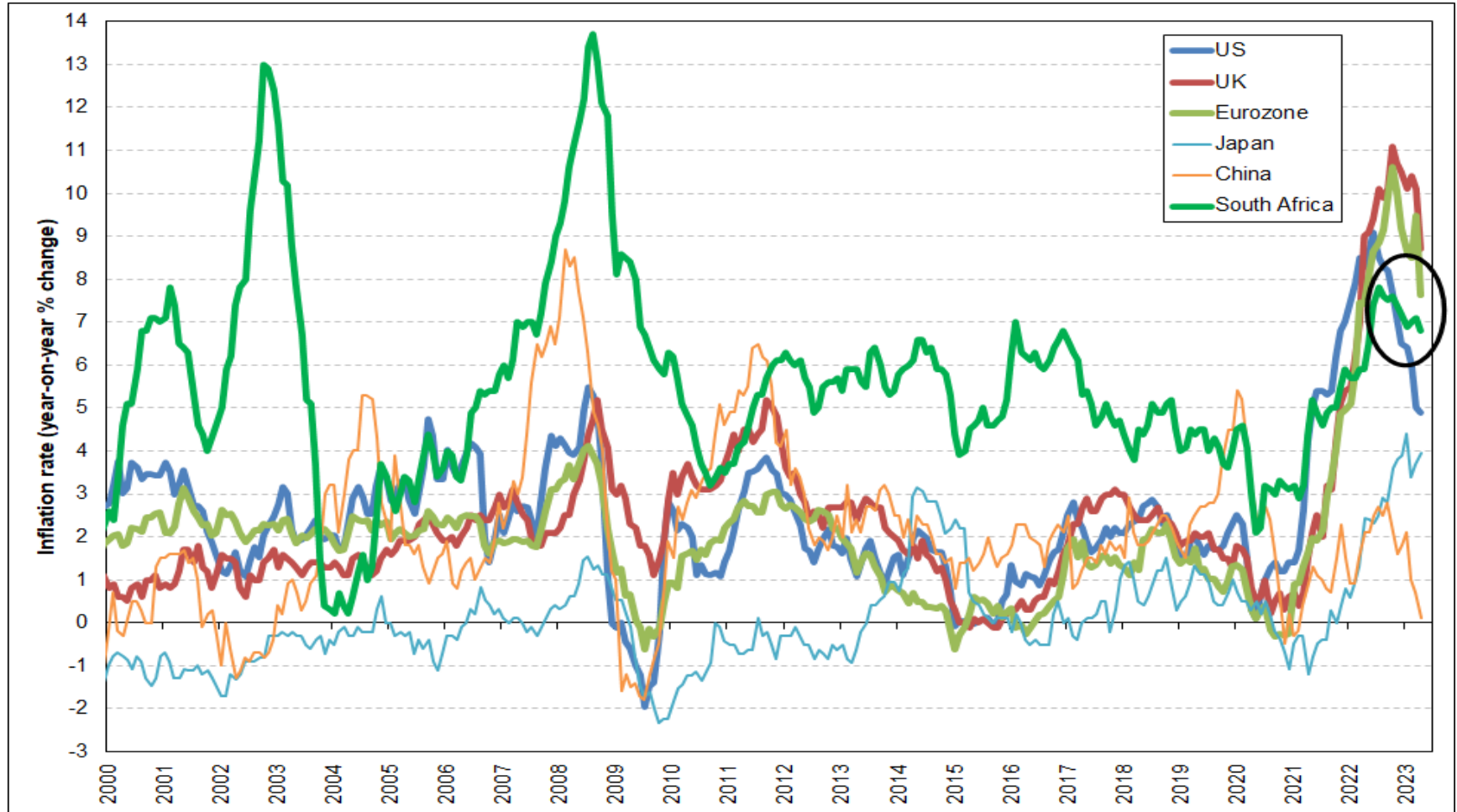


Source: Iress, Morningstar

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

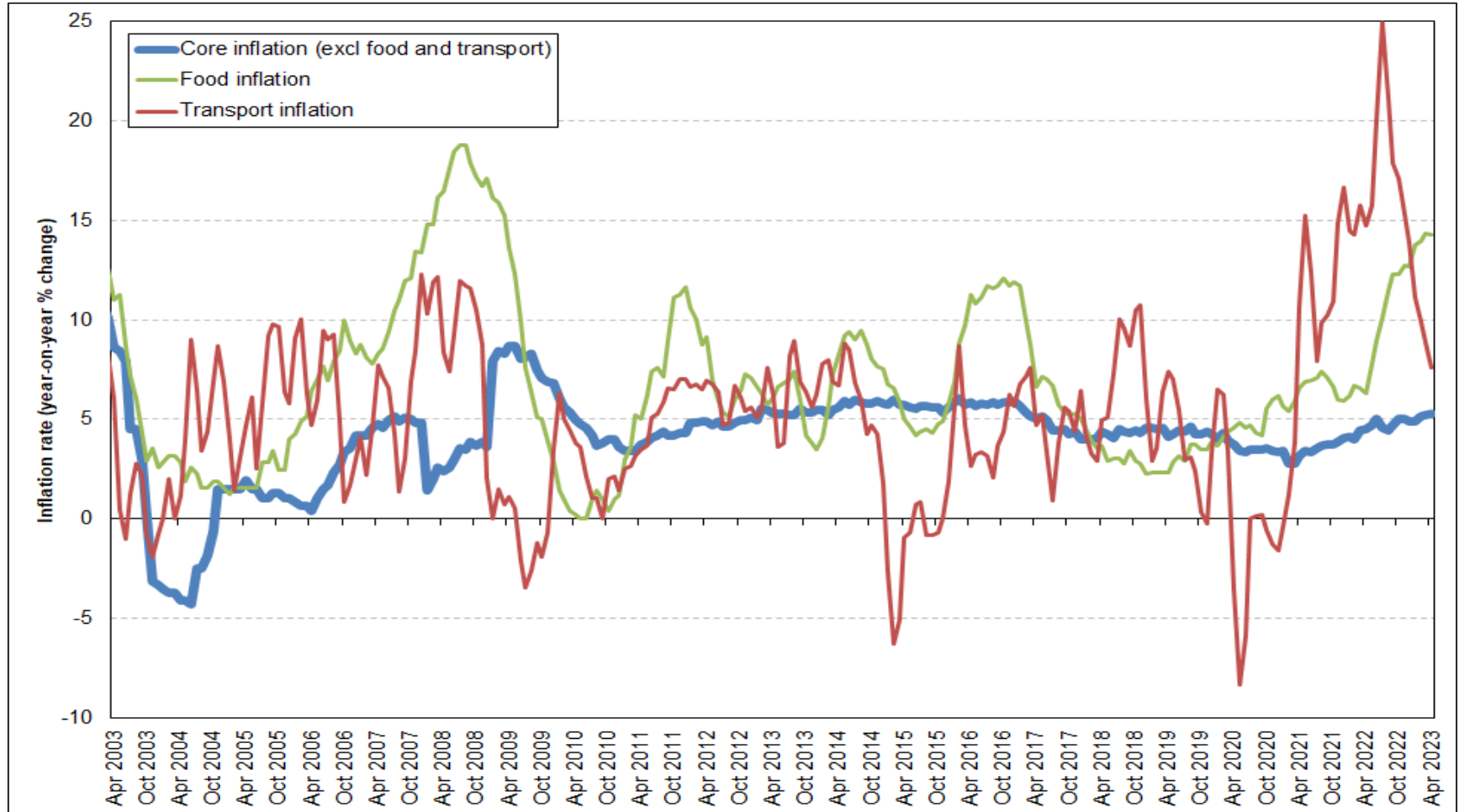
INFLATION

LOCAL INFLATION SHOWING SOME IMPROVEMENT



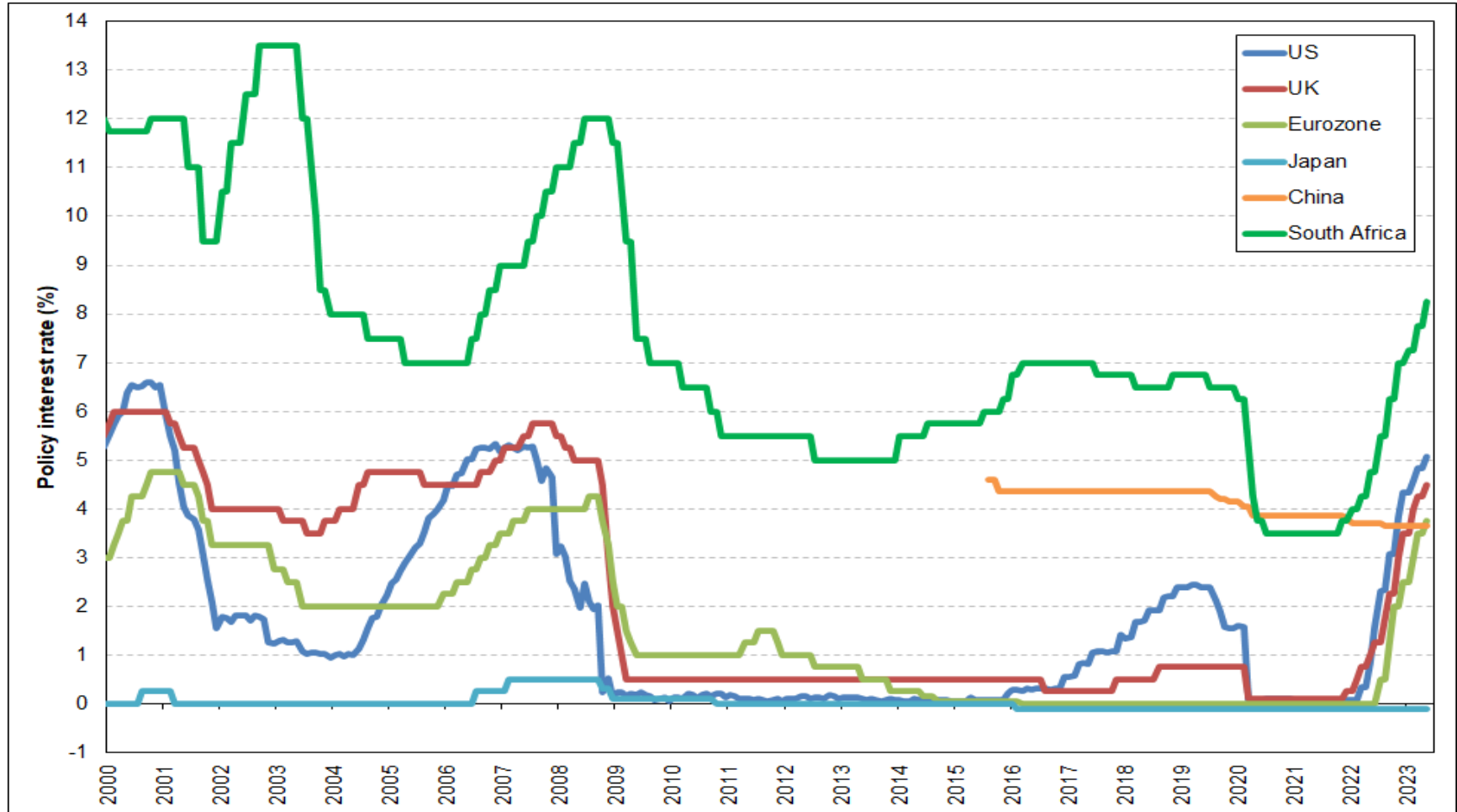
INFLATION

AS TRANSPORT INFLATION EASES, BUT FOOD INFLATION REMAINS NEAR 14-YEAR HIGHS



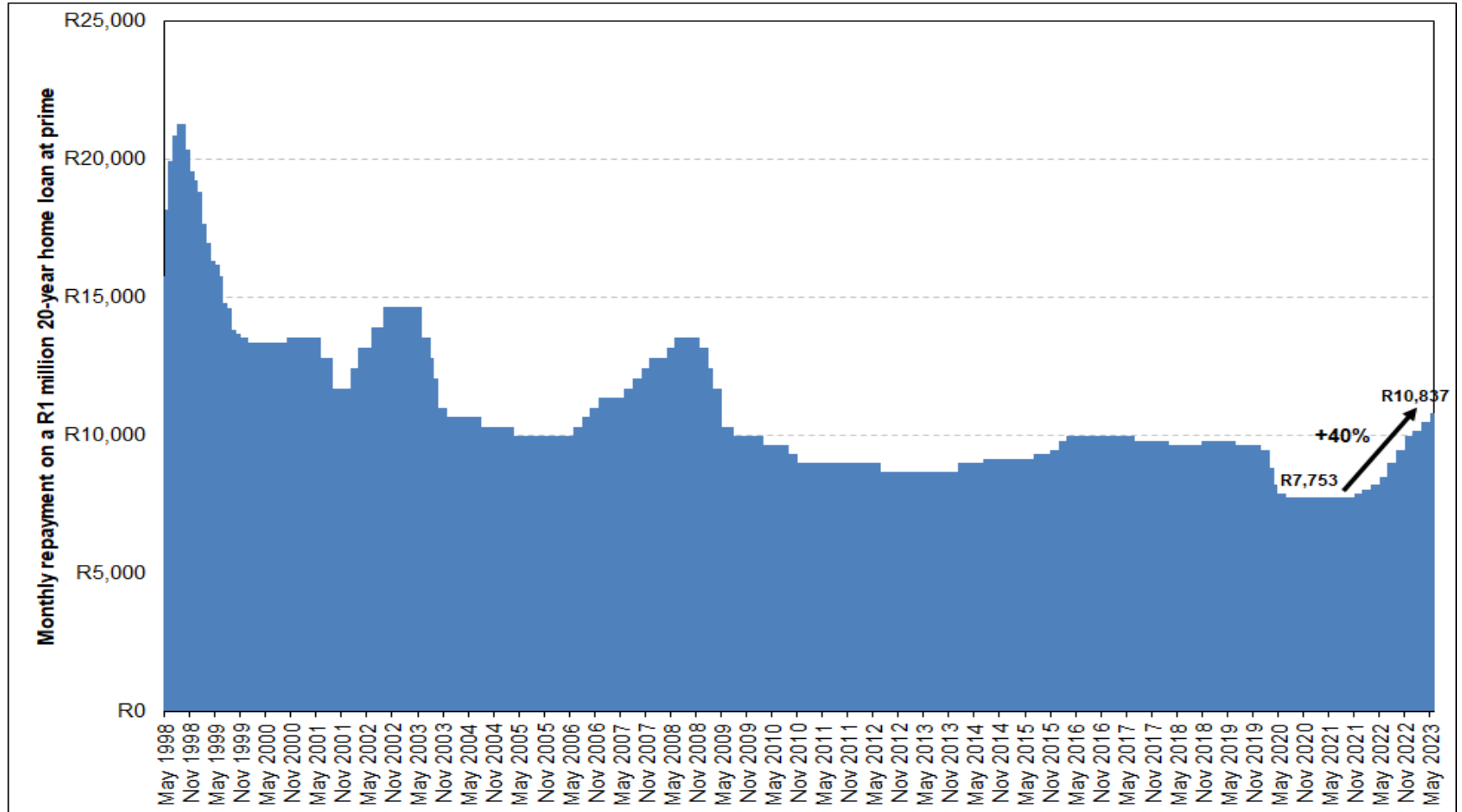
INTEREST RATES

AND THE SARB HIT US WITH ANOTHER 50 BP HIKE ☹️



INTEREST RATES

MONTHLY REPAYMENT ON A R1 MILLION 20-YEAR HOME LOAN AT PRIME



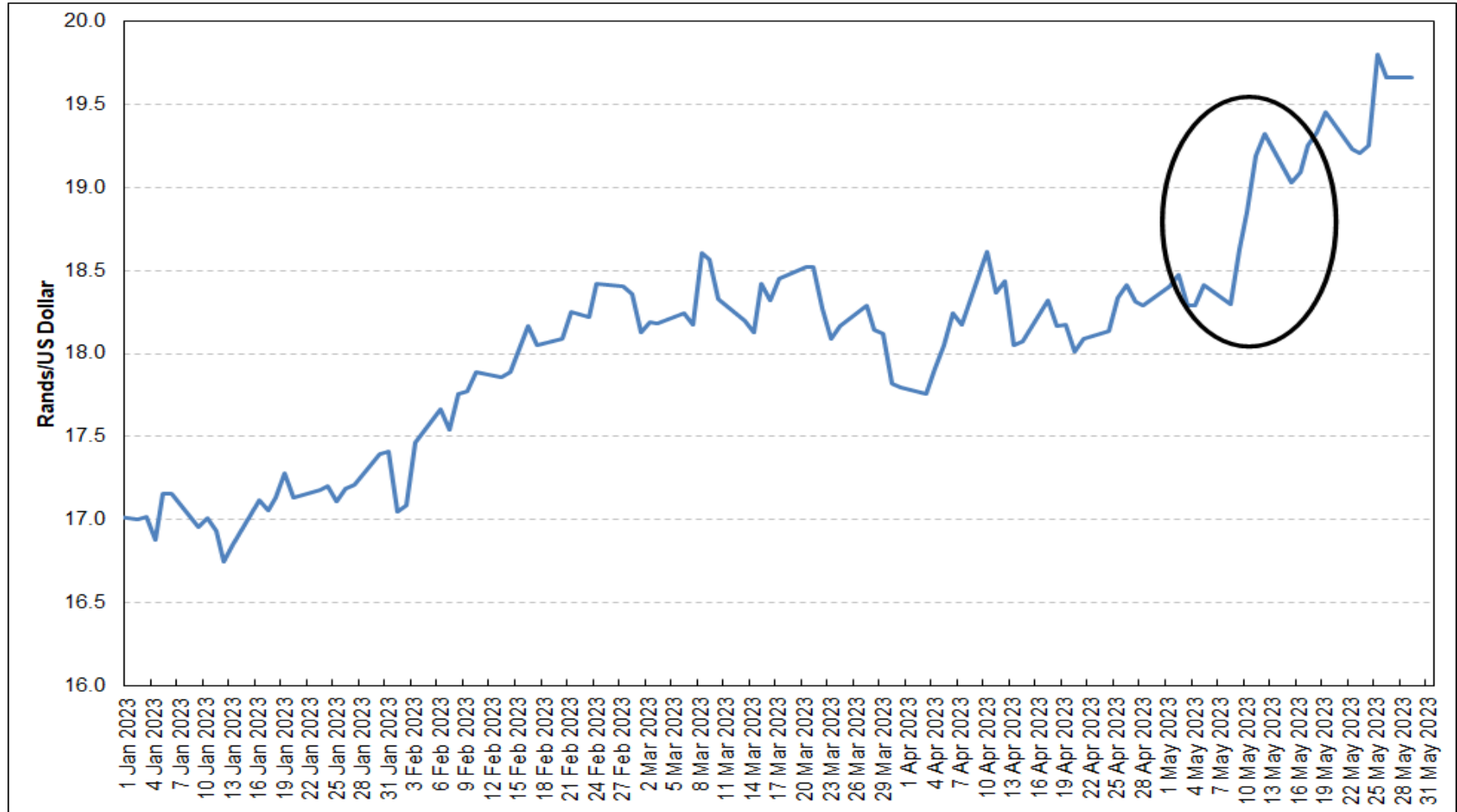
ZAR/USD – 25 MAY 2023

NOT IMPRESSED BY LATEST INTEREST RATE HIKE...



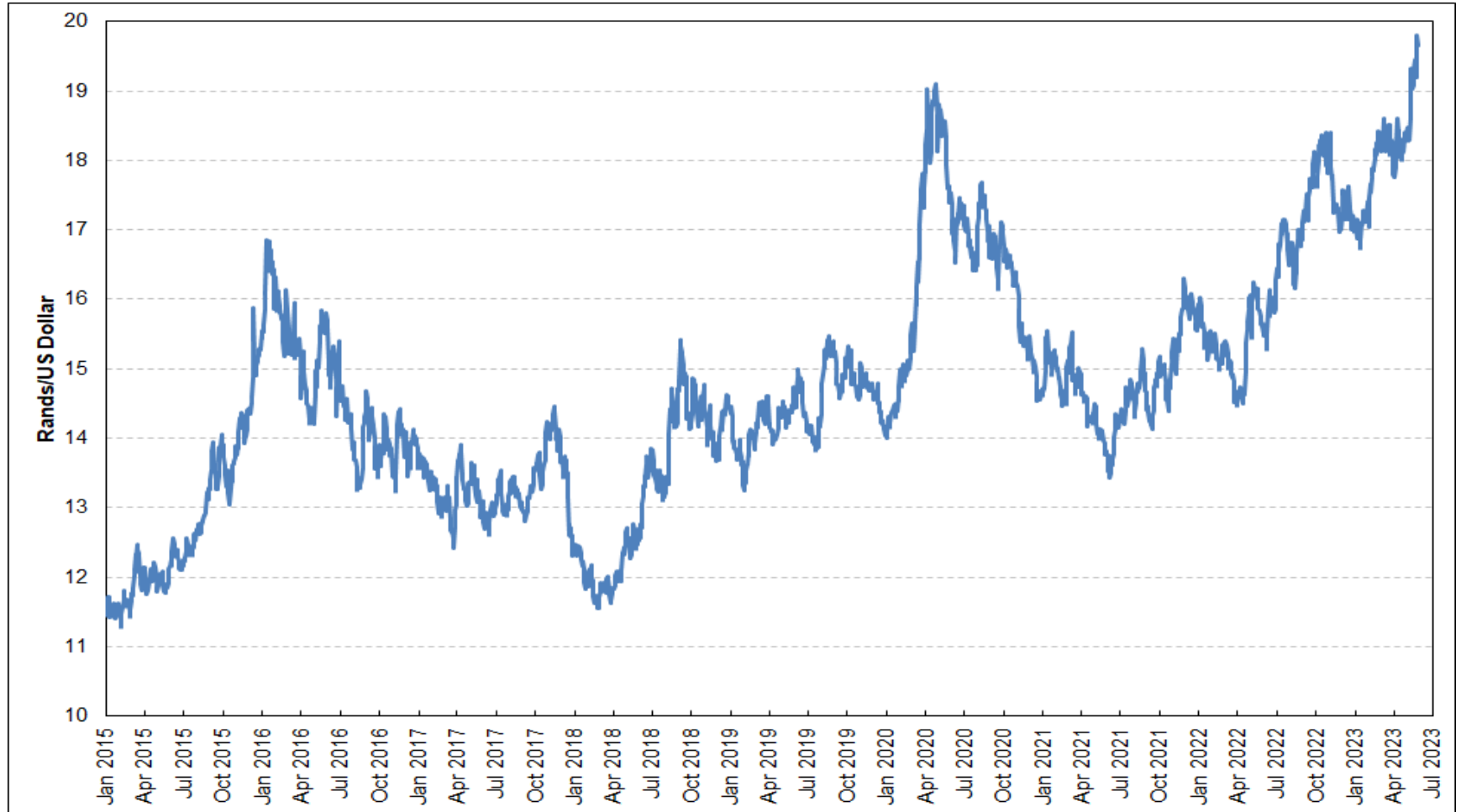
ZAR/USD – SHORT TERM

...AFTER BEING HIT BY SA's ALLEGED ARMS SALE TO RUSSIA...



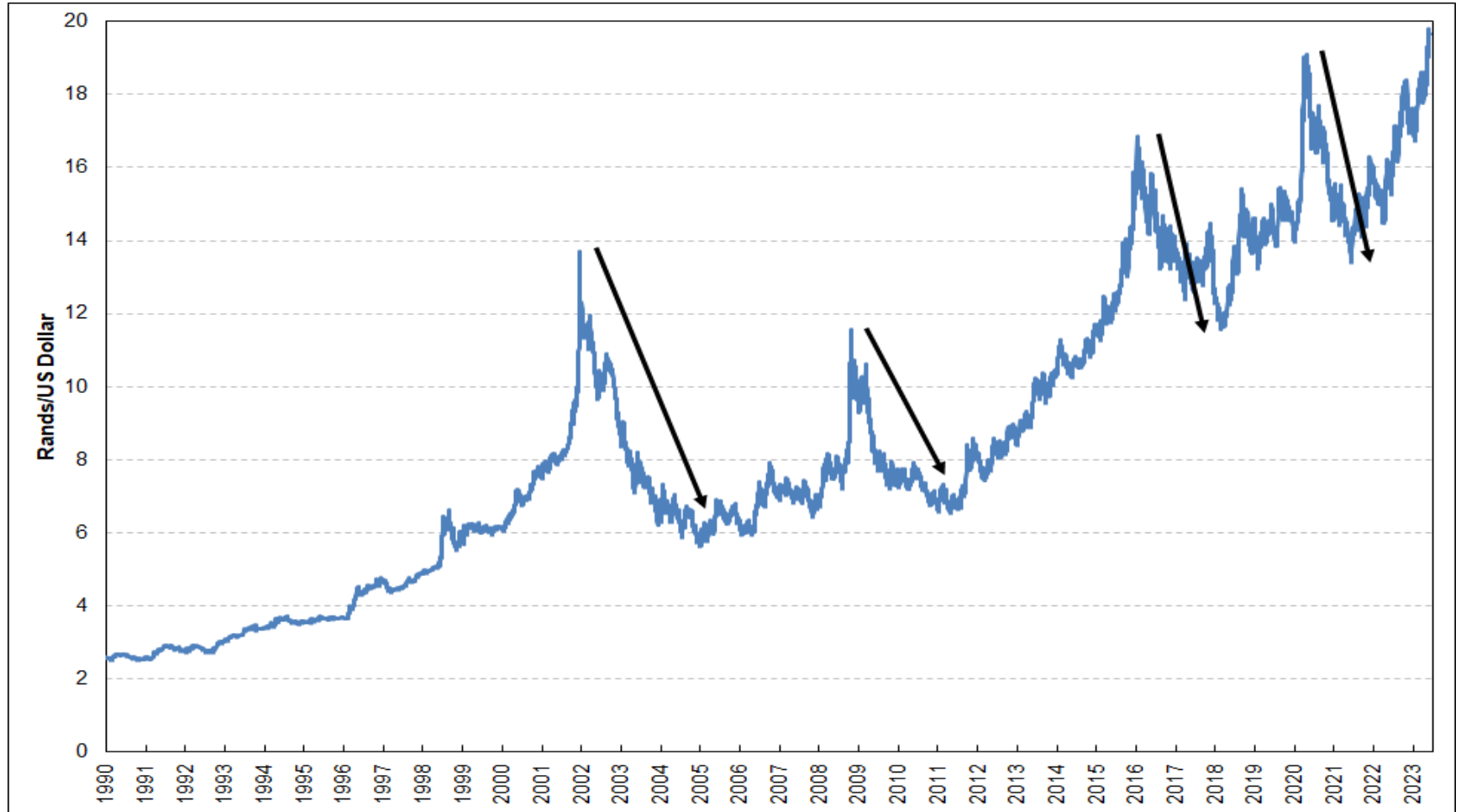
ZAR/USD – MEDIUM TERM

...SURPASSES COVID HIGHS...



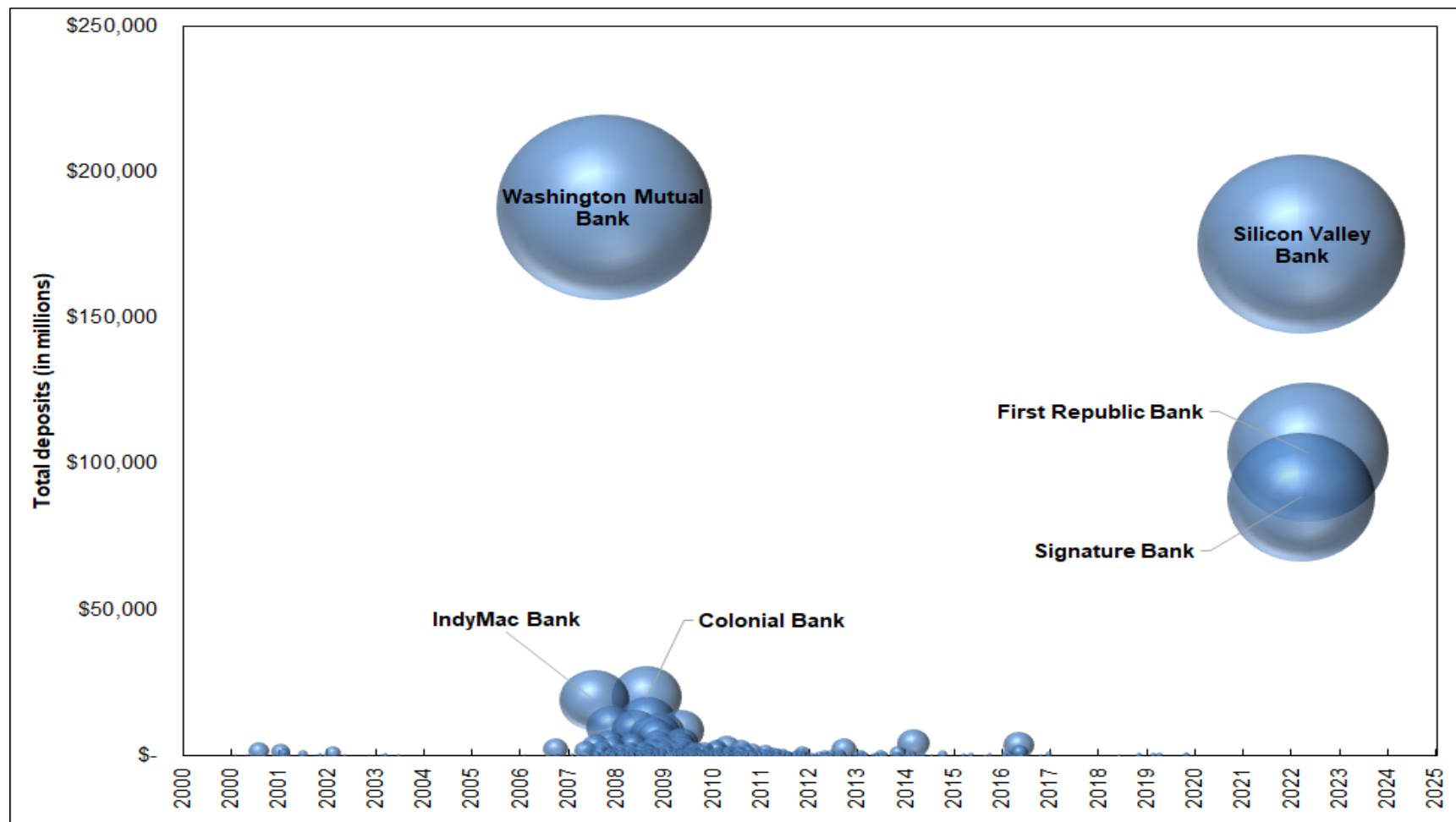
ZAR/USD – LONG TERM

...BUT BE CAREFUL OF PERIODS OF PEAK PESSIMISM



A HISTORY OF US BANK FAILURES

FIRST REPUBLIC BANK JOINS THE LIST



SA UNEMPLOYMENT MIXED RESULTS IN 2023 Q1

Official vs Expanded unemployment: Q1:2013-Q1:2023

