

MONTH IN PICTURES

MAY 2023

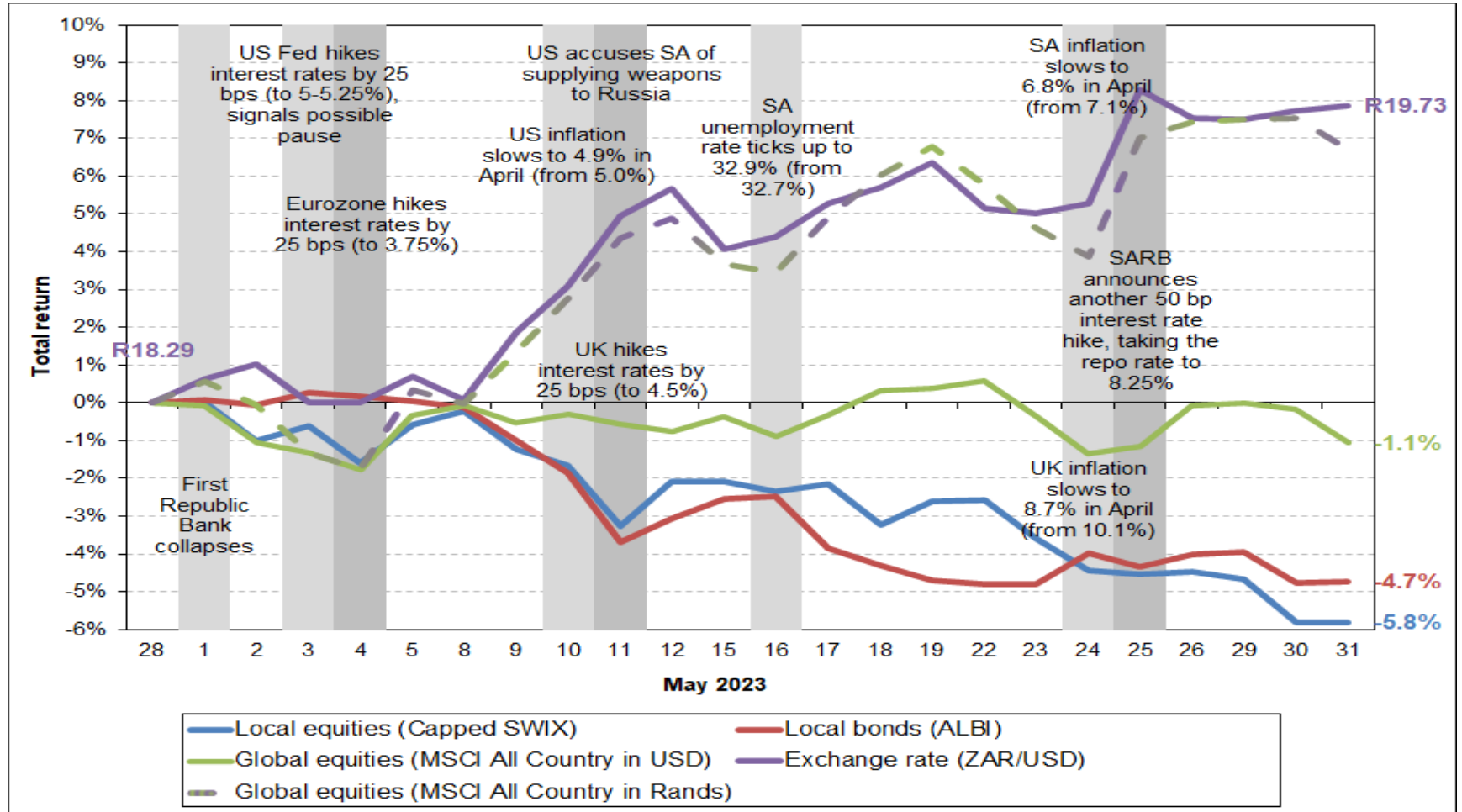
MONTHLY SNAPSHOT

NOTABLE EVENTS

- The adage 'sell in May and go away' felt quite apt in 2023 as we saw widespread losses across global markets last month.
- On the local equity market the ALSI fell by 3.9%, the Capped SWIX fared even worse (-5.8%), while all of the major sectors closed in the red for the month (Industrials = -3.3%, Resources = -2.2%, Financials = -7.9% and Listed Property = -5.3%).
- Even local bonds took an unusually large hammering in May (-4.8%), recording its third worst month in more than two decades, with only December 2015 (-6.7%, Nenegate) and March 2020 (-9.7%, Covid) having been more painful in recent times, as our government's supposed neutral stance towards the Russia-Ukraine war were called into question.
- Global markets were also under pressure in May (equities = -1.1% and bonds = -2.2%, both in USD), as the politicised negotiations around the US debt ceiling dominated headlines for most of the month, before finally reaching a favourable conclusion in early June.
- With the blowout in our currency (7.9%, 6.8% and 4.7% weaker against the US Dollar, British Pound and Euro, respectively), the Rand returns from these markets were strong though (+6.7% from equities and +5.5% from bonds), and thus did a good job at containing most of the local losses suffered by the average balanced fund *, which ended the month only 0.6% down. This means that the quarter-to-date return for the average balanced fund * now stands at +1.7%, and the average year-to-date return is still at a reasonably robust +6%.
- Local inflation dropped by more than expected in May, falling to 6.3% from 6.8% in the previous month. The slowdown was led by an easing in food prices, which increased by 12.0% compared to 14.3% in April. This will hopefully mean that better news lies ahead for local interest rates as well.
- Business confidence, as measured by the RMB/BER Business Confidence Index declined for a fifth consecutive quarter, falling to a 3-year low of 27 in 2023 Q2 (down from 36 in Q1), and suggesting that only roughly a quarter of respondents were satisfied with prevailing business conditions. A challenging business environment amid, among other factors, persistent load-shedding, rising interest rates, and cost pressures weighing on profitability mainly affected confidence.
- Confidence among consumers (as measured by the FNB/BER Consumer Confidence Index) also came under pressure, clocking in at -25 (zero is considered neutral) and recording its second-lowest reading since 1994, which is indicative of the tremendous concern among consumers about South Africa's economic prospects and their household finances.
- Despite record levels of loadshedding South Africa narrowly averted a technical recession after growing by 0.4% in 2023 Q1, following a revised contraction of 1.1% in 2022 Q4. The economy grew by just 0.2% from a year earlier, however, and remains only marginally above its pre-Covid levels.

MONTHLY TIMELINE

IMPACT ON MARKETS



MARKET INDICATORS

SHORT TERM

Market indicators (% change) ¹		Mar 2023	Apr 2023	May 2023	3 months	YTD	12 months
Local equities	ALSI	(1.3)	3.4	(3.9)	(1.9)	4.5	8.5
	Capped SWIX	(2.0)	3.4	(5.8)	(4.5)	(0.2)	1.1
	Resources	2.5	4.0	(2.2)	4.2	(3.1)	(6.7)
	Industrials	(0.8)	3.1	(3.3)	(1.1)	13.3	30.6
	Financials	(6.6)	3.0	(7.9)	(11.4)	(4.7)	(11.4)
	Listed Property	(3.4)	5.4	(5.3)	(3.6)	(5.3)	(2.3)
Local bonds	ALBI	1.3	(1.1)	(4.8)	(4.6)	(2.7)	0.3
Local cash	STeFI Composite	0.6	0.6	0.6	1.9	3.0	6.5
Global equities	MSCI All Country	(0.1)	4.3	6.7	11.2	24.8	27.1
Global bonds	FTSE WGBI	0.6	3.2	5.5	9.5	17.8	19.1
Exchange rate	ZAR/USD	(3.1)	2.8	7.9	7.5	15.9	26.1
Inflation	CPI	1.0	0.4	0.2	1.5	2.2	6.3

1. Total returns (in Rands) for the months and periods ending 31 May 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	8.5	18.5	9.9	9.5	9.3	15.0
	Capped SWIX	1.1	16.8	6.2	7.6	-	-
	Resources	(6.7)	20.3	18.2	8.5	3.7	11.1
	Industrials	30.6	16.2	8.6	9.5	12.8	18.1
	Financials	(11.4)	18.0	1.2	6.4	9.5	12.7
	Listed Property	(2.3)	15.7	(4.4)	1.8	8.3	12.7
Local bonds	ALBI	0.3	5.6	6.2	6.7	8.5	8.3
Local cash	STeFI Composite	6.5	4.9	5.8	6.2	6.6	7.1
Global equities	MSCI All Country	27.1	14.5	16.6	15.3	12.5	13.0
Global bonds	FTSE WGBI	19.1	(2.5)	6.9	6.4	7.3	6.7
Exchange rate	ZAR/USD	26.1	4.0	9.2	6.9	6.6	4.6
Inflation	CPI	6.3	6.0	4.9	5.2	5.3	5.3

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

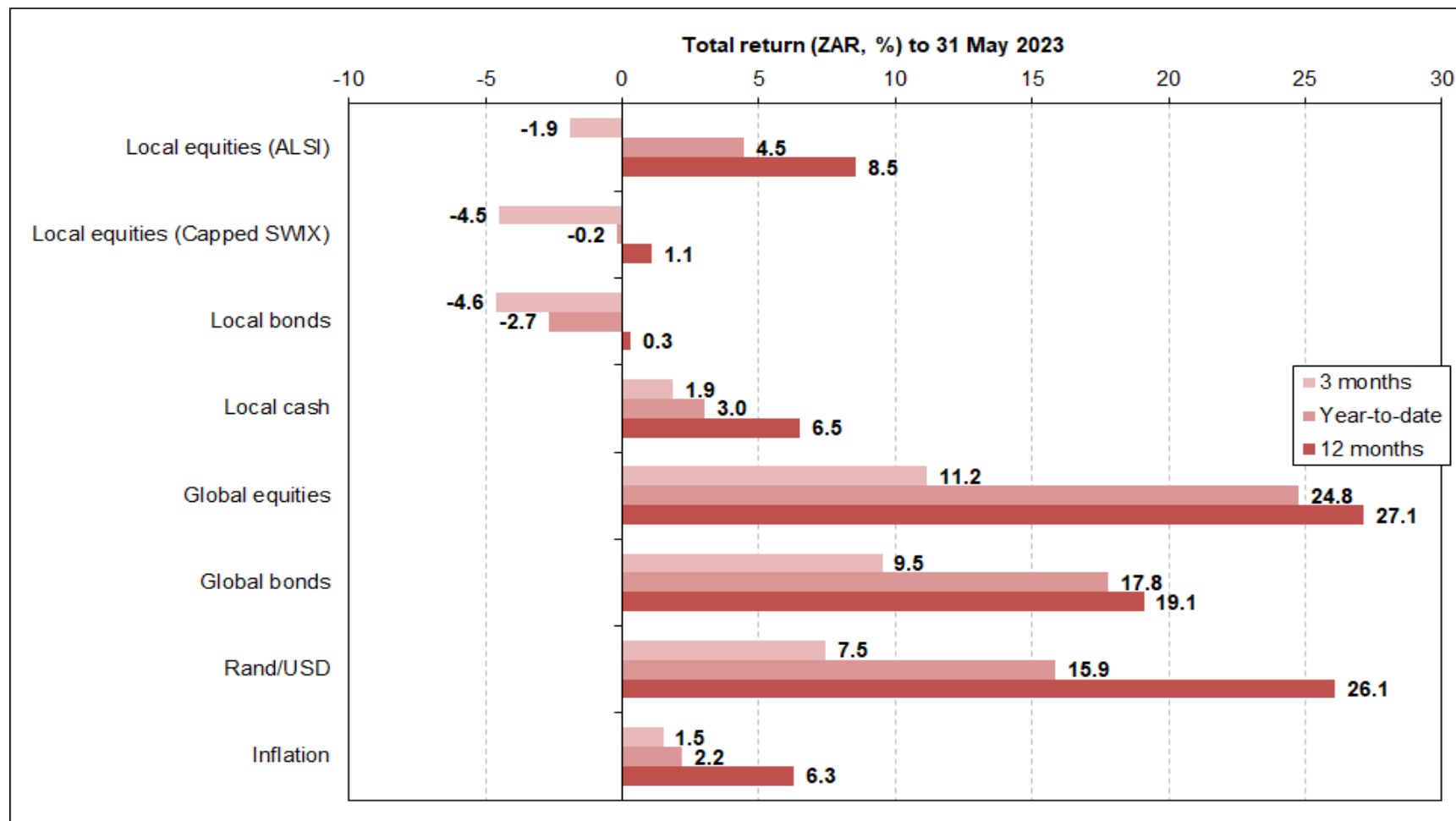
ECONOMIC INDICATORS

Economic indicators ¹	May 2021	May 2022	Mar 2023	Apr 2023	May 2023
Exchange rates:					
ZAR/USD	13.74	15.65	17.79	18.29	19.73
ZAR/GBP	19.53	19.72	21.94	22.98	24.55
ZAR/Euro	16.80	16.79	19.29	20.15	21.09
Commodities:					
Brent Crude Oil (USD/barrel)	69.33	115.60	79.89	80.33	72.60
Platinum (USD/ounce)	1,182.43	966.13	991.26	1,074.01	994.30
Gold (USD/ounce)	1,896.49	1,854.81	1,969.50	1,989.78	1,956.28

1. Month-end prices

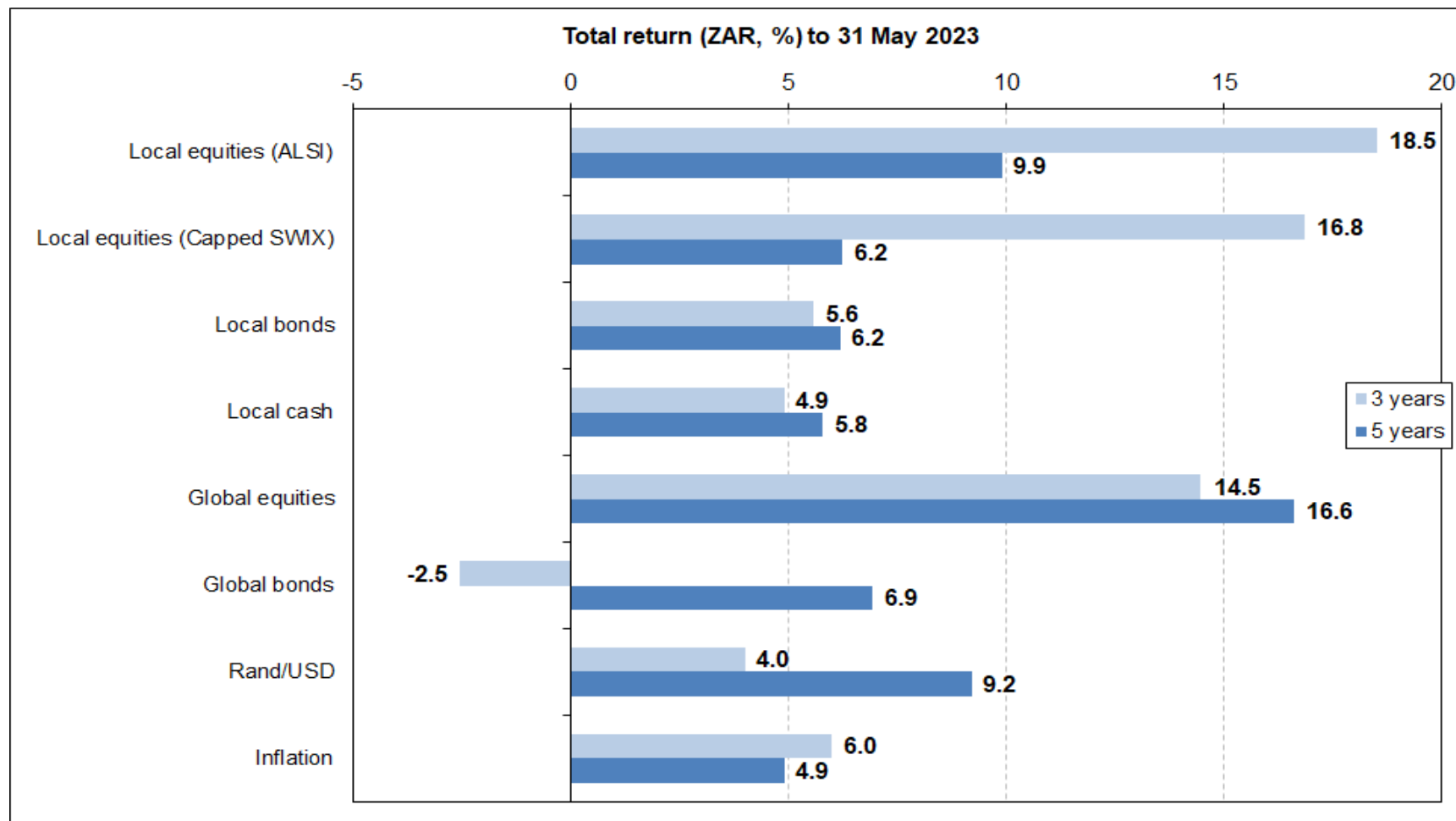
ASSET CLASS PERFORMANCE

SHORT TERM



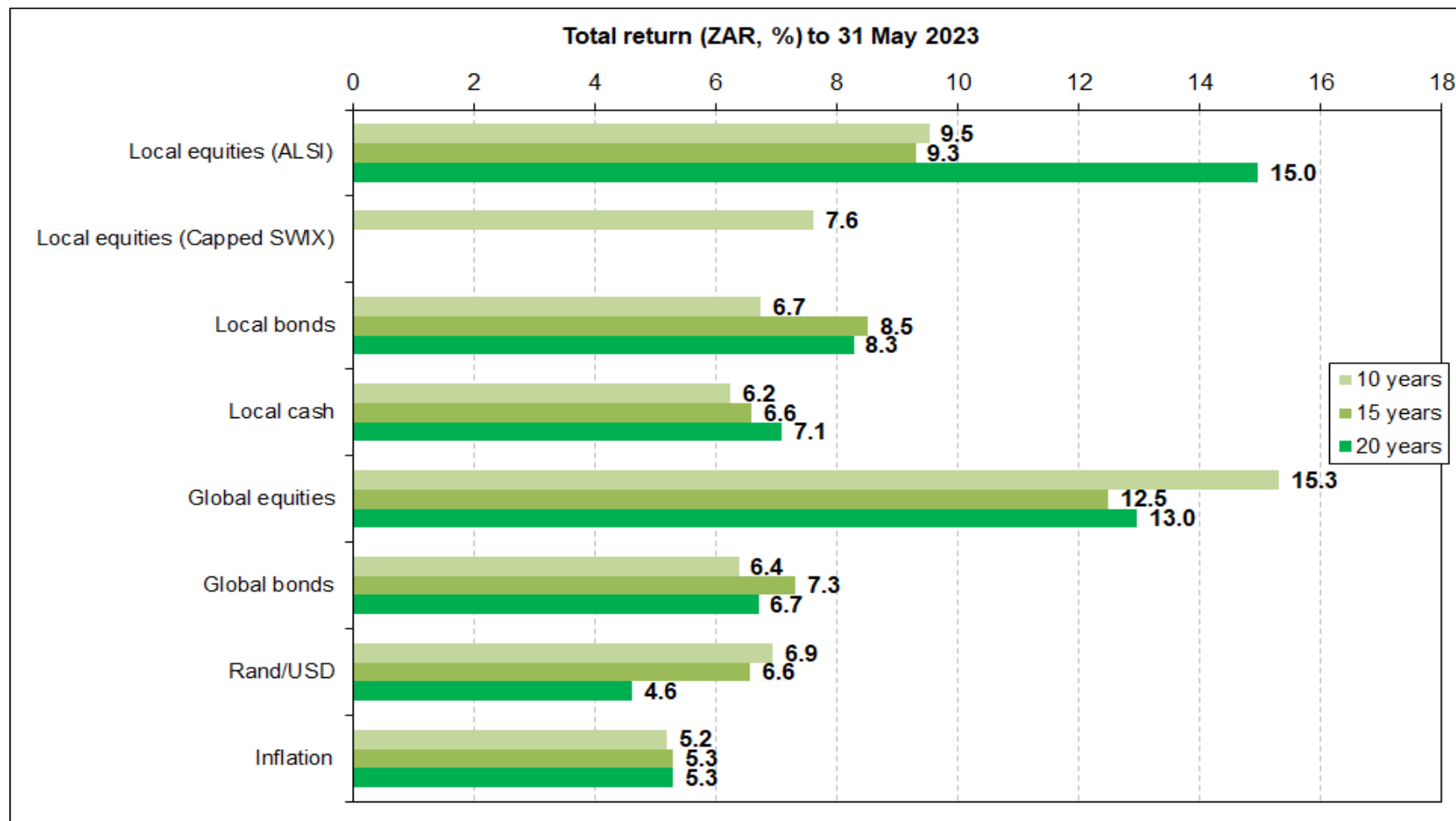
ASSET CLASS PERFORMANCE

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:

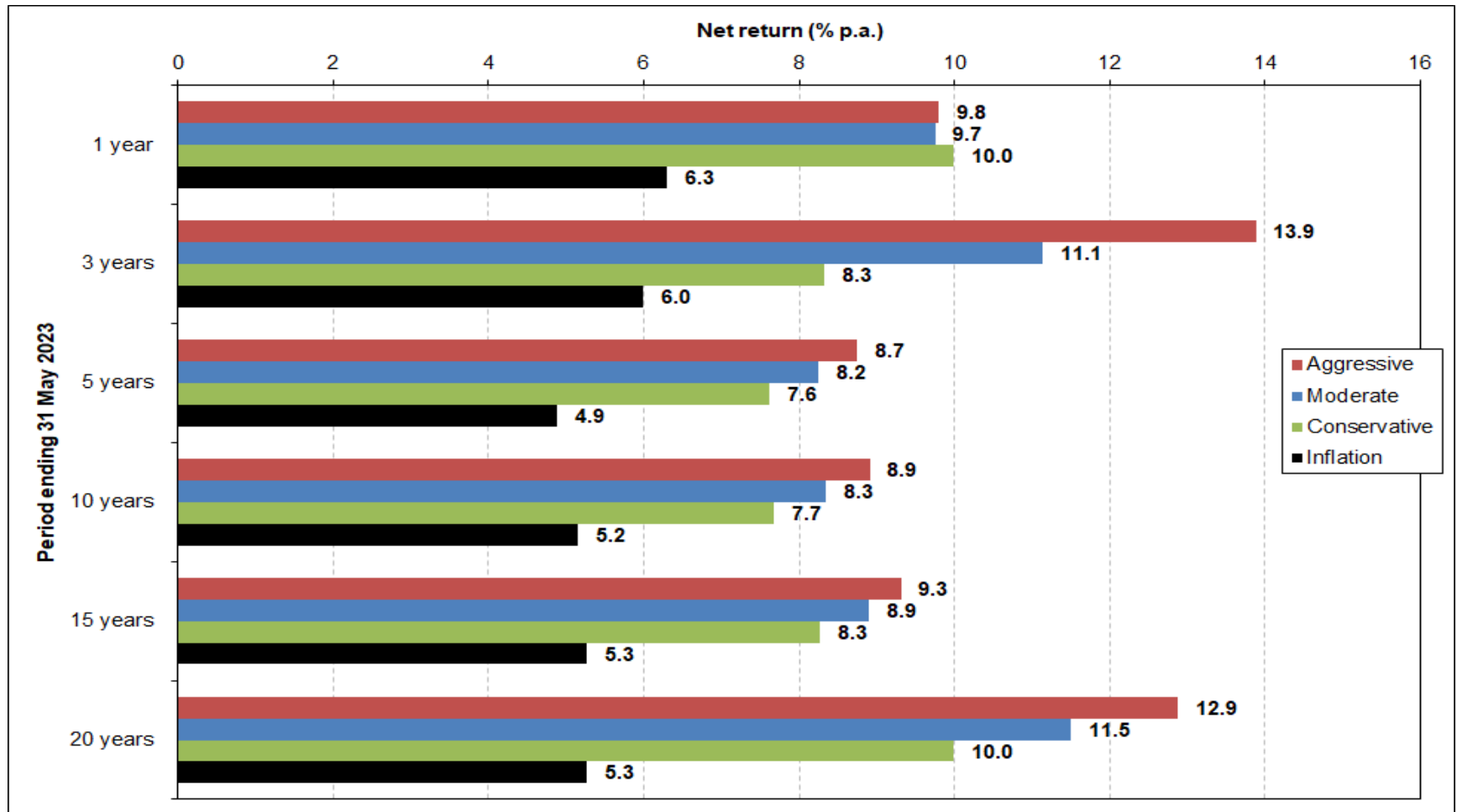
AGGRESSIVE	Strategic allocation	LOCAL VS OFFSHORE	60%		40% (5% below regulatory maximum)	
		GROWTH VS INCOME ASSETS	75%	25%	75%	25%
		EQUITIES VS BONDS VS CASH	100%	75% 25%	100%	100%
	Current allocation		~45%	~11% ~4%	~30%	~10%

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%

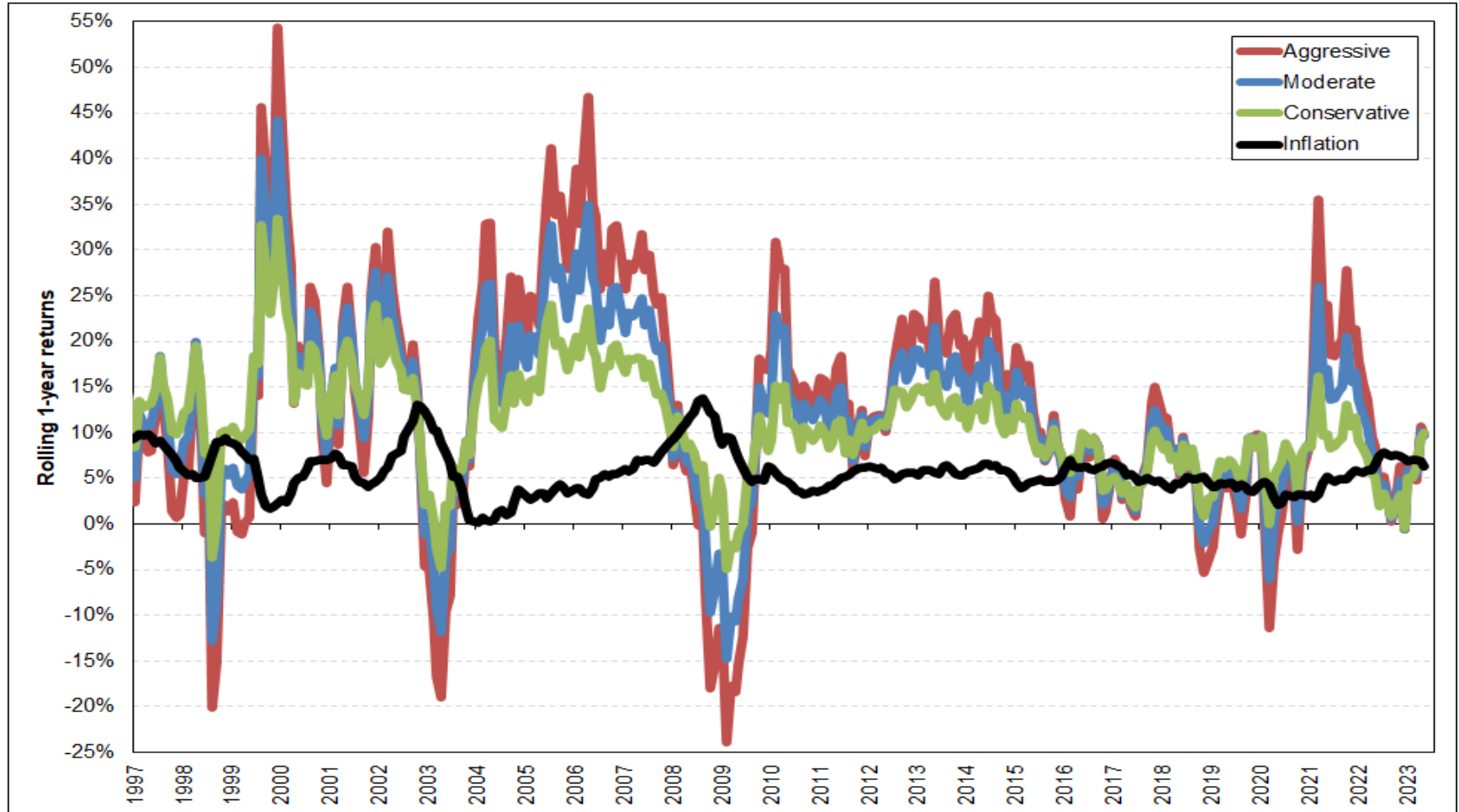
MARKET PERFORMANCE

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



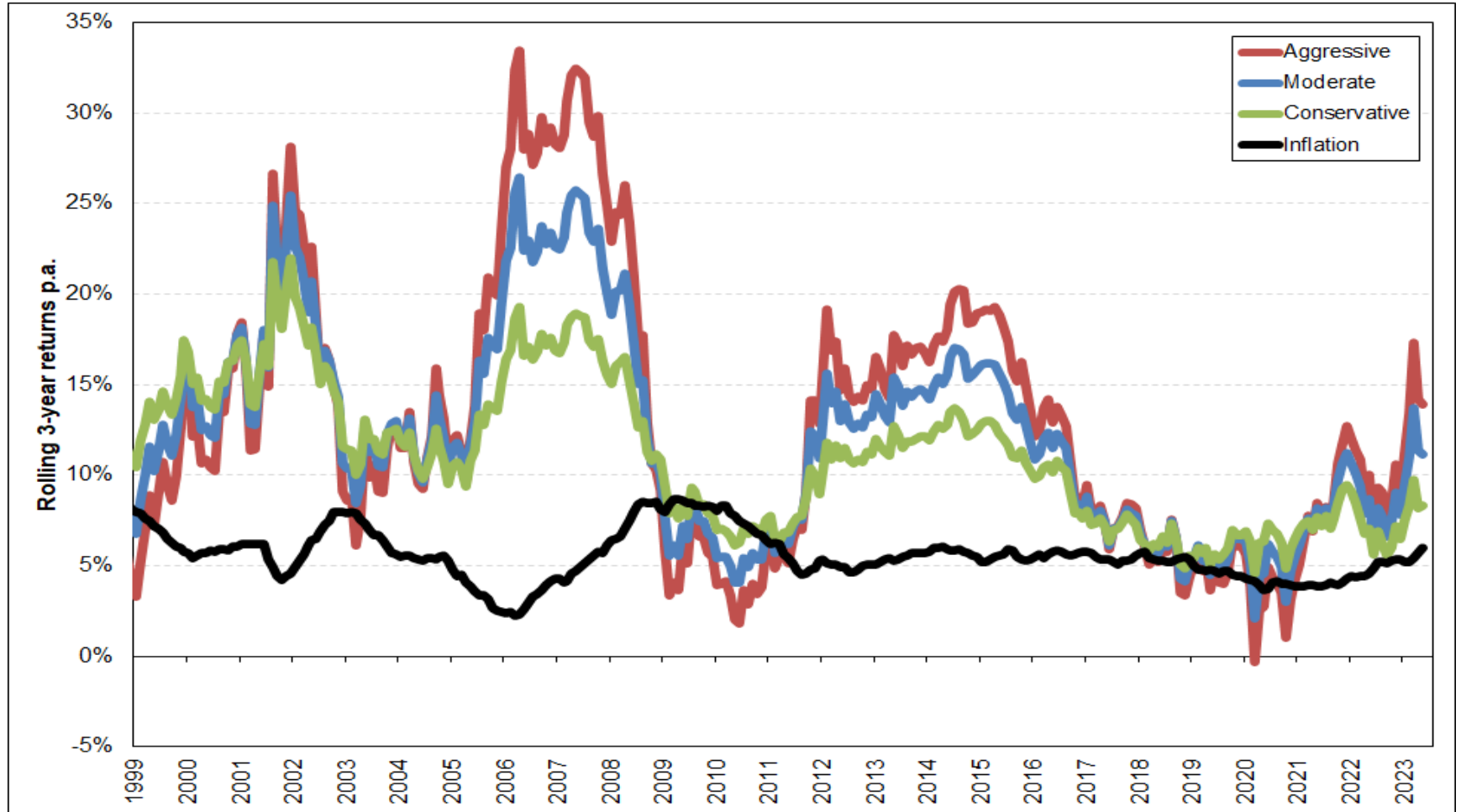
MARKET PERFORMANCE

ROLLING 1-YEAR RETURNS HOLD THEIR GROUND DESPITE A DIFFICULT MONTH



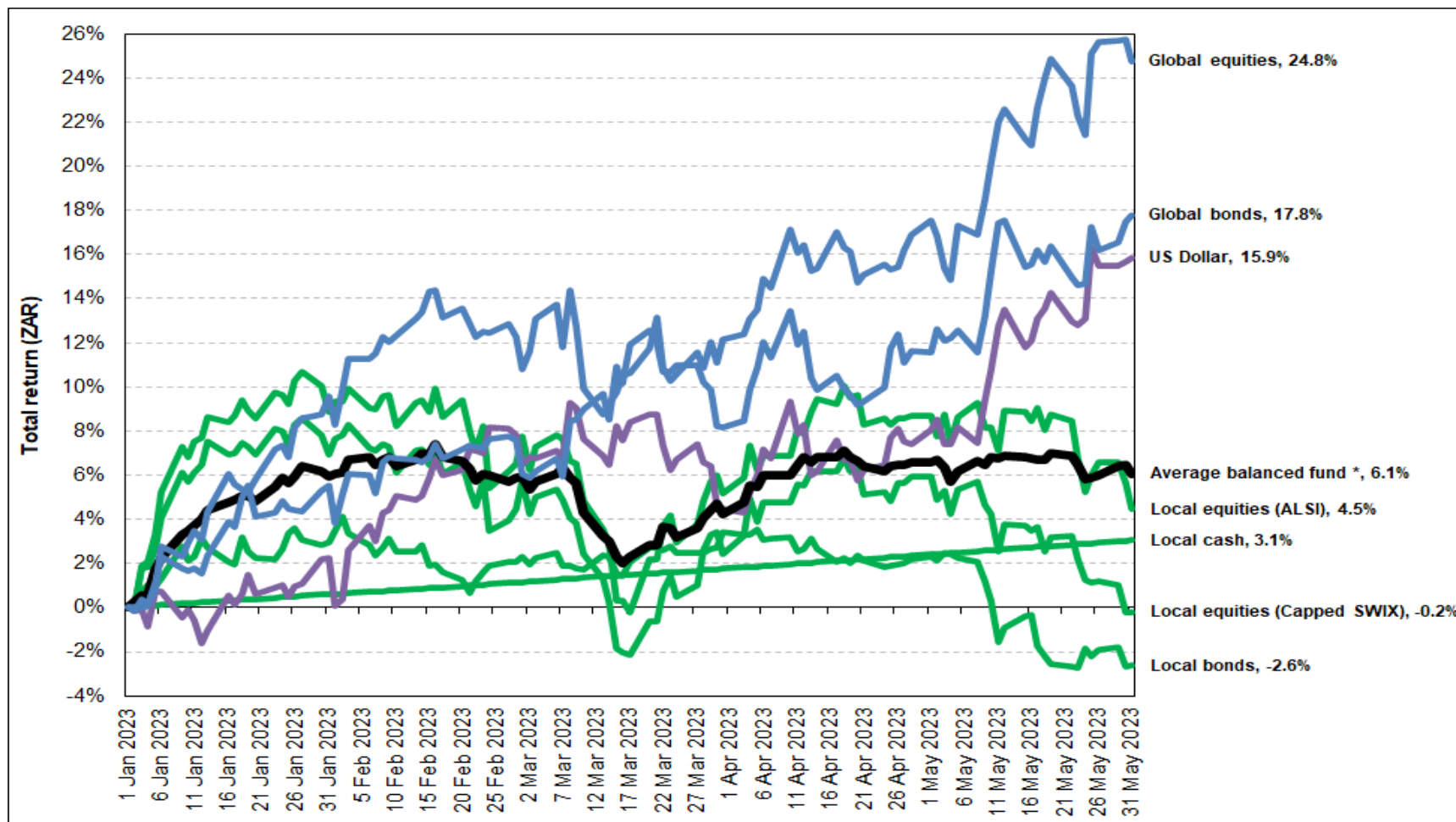
MARKET PERFORMANCE

ROLLING 3-YEAR RETURNS TAIL OFF, BUT REMAINS STRONG

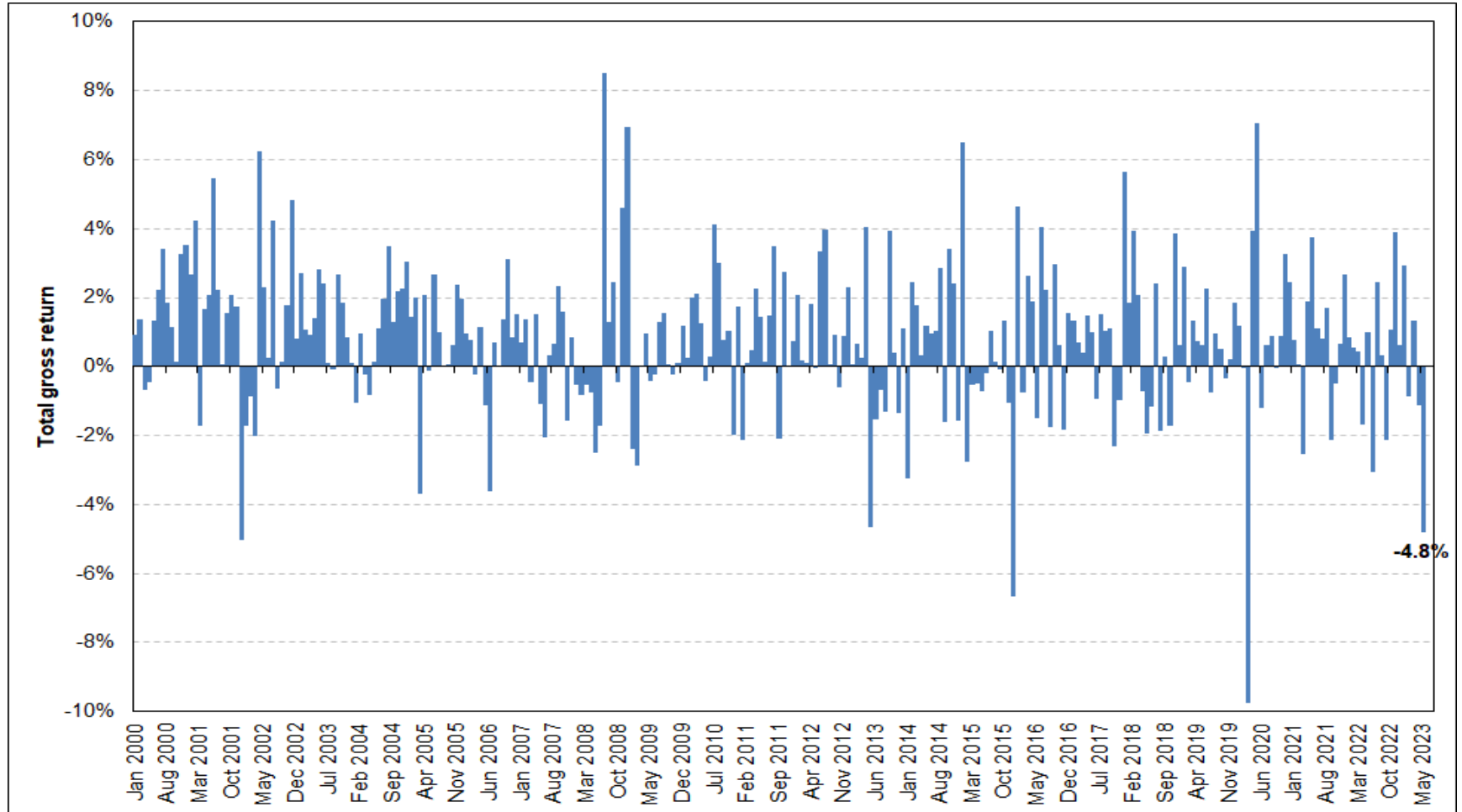


MARKETS in 2023 (ZAR)

DOMESTIC ASSET CLASSES UNDER PRESSURE, BUT BALANCED FUNDS HOLDING UP WELL

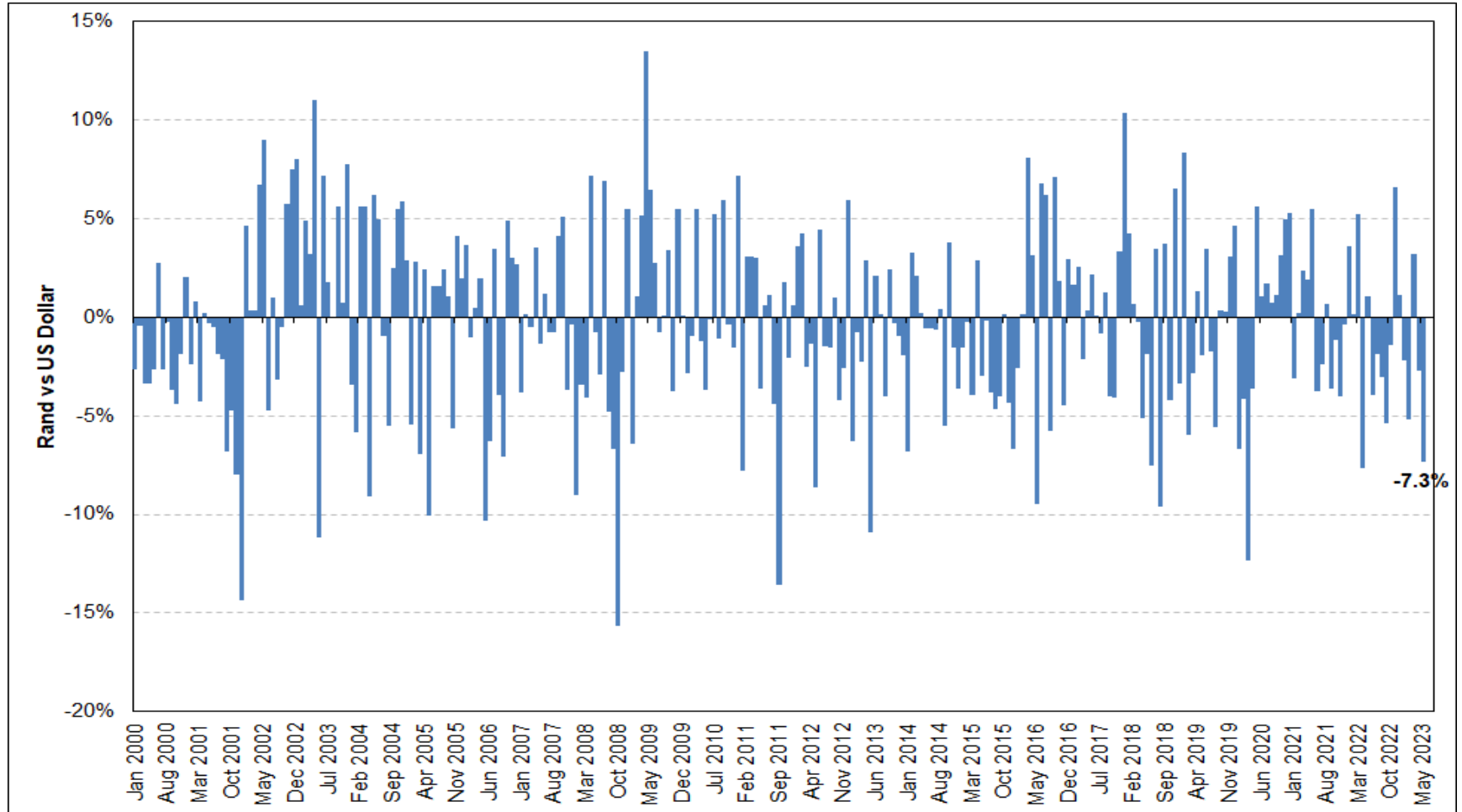


LOCAL BOND MARKET RECORDS THIRD WORST MONTH IN MORE THAN TWO DECADES



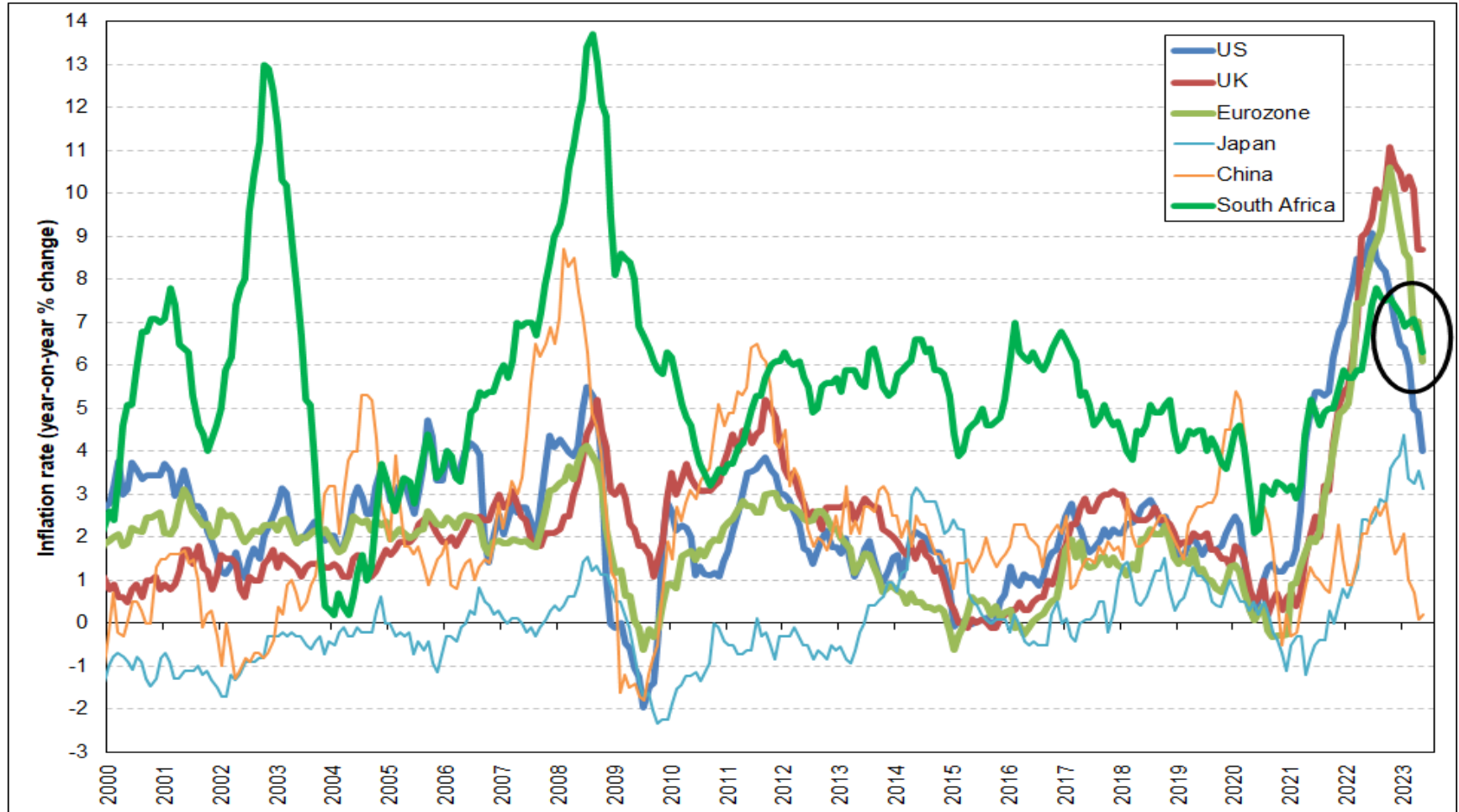
RAND VS US DOLLAR

ALSO HAD A TOUGH MONTH, BUT PAR FOR THE COURSE FOR OUR VERY VOLATILE CURRENCY



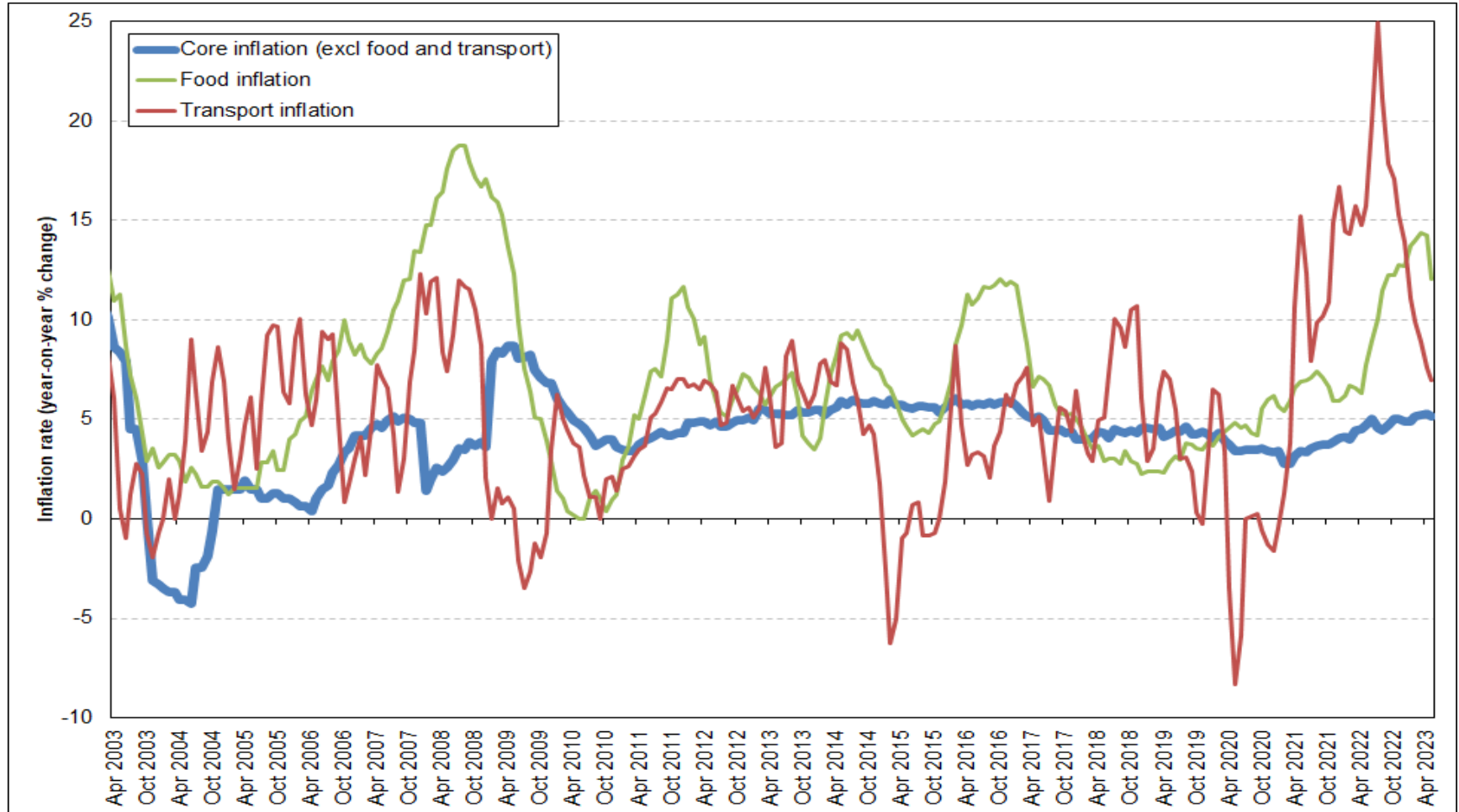
INFLATION

LOCAL INFLATION SLOWS BY MORE THAN EXPECTED

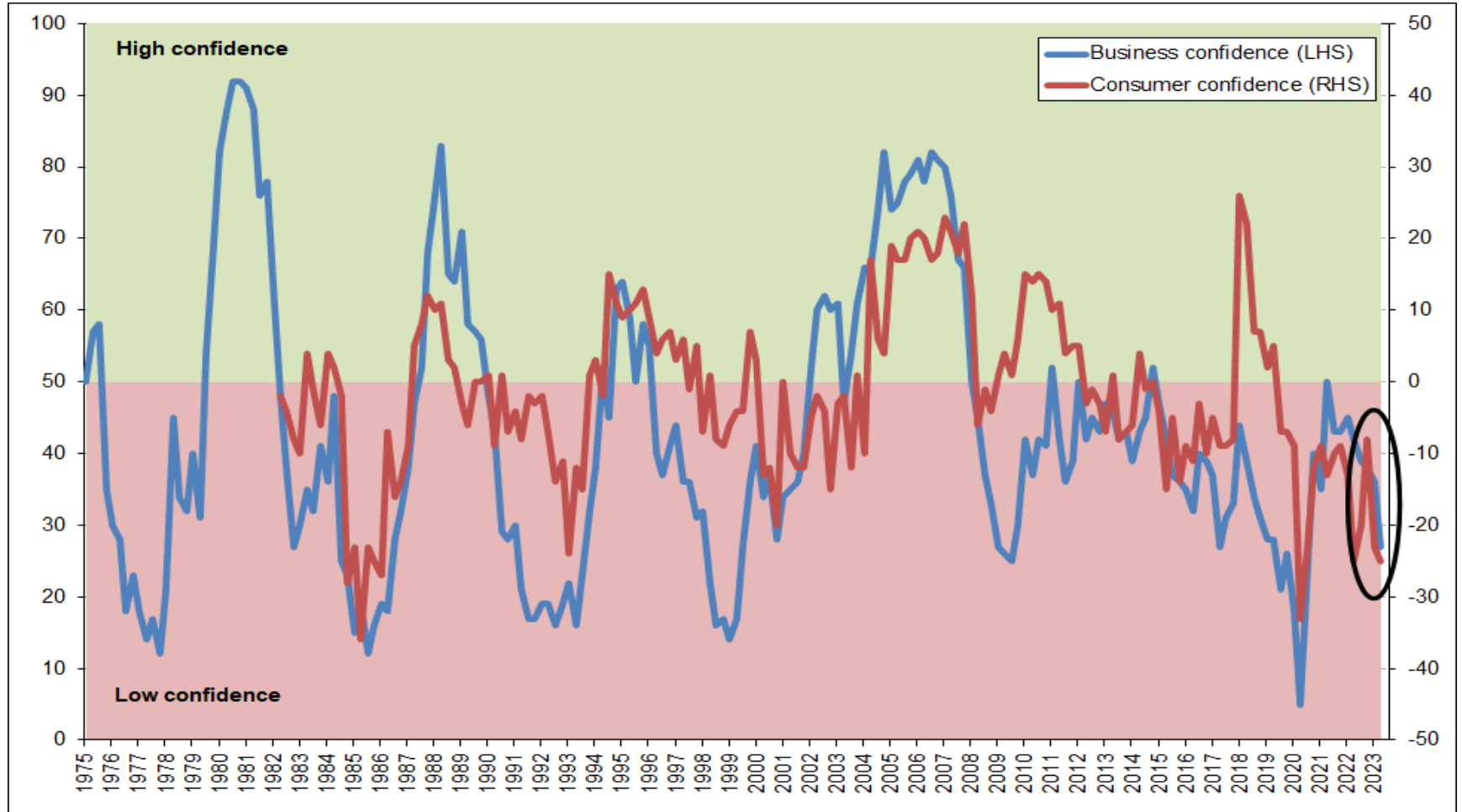


INFLATION

AS FOOD INFLATION TURNS THE CORNER



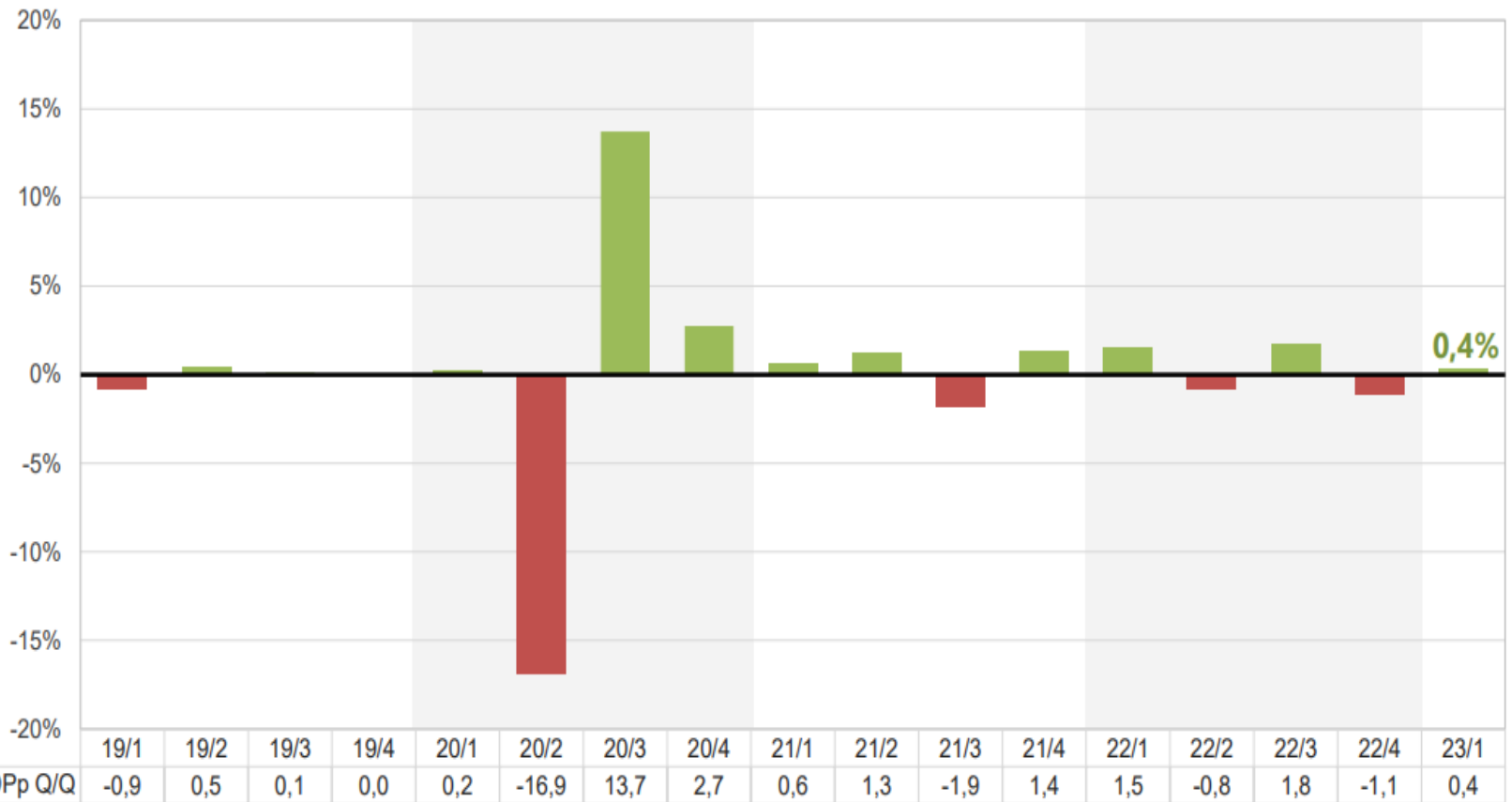
BUSINESS & CONSUMER CONFIDENCE SHOWS FURTHER DETERIORATION



SA ECONOMY

NARROWLY AVERTS A TECHNICAL RECESSION IN 2023 Q1

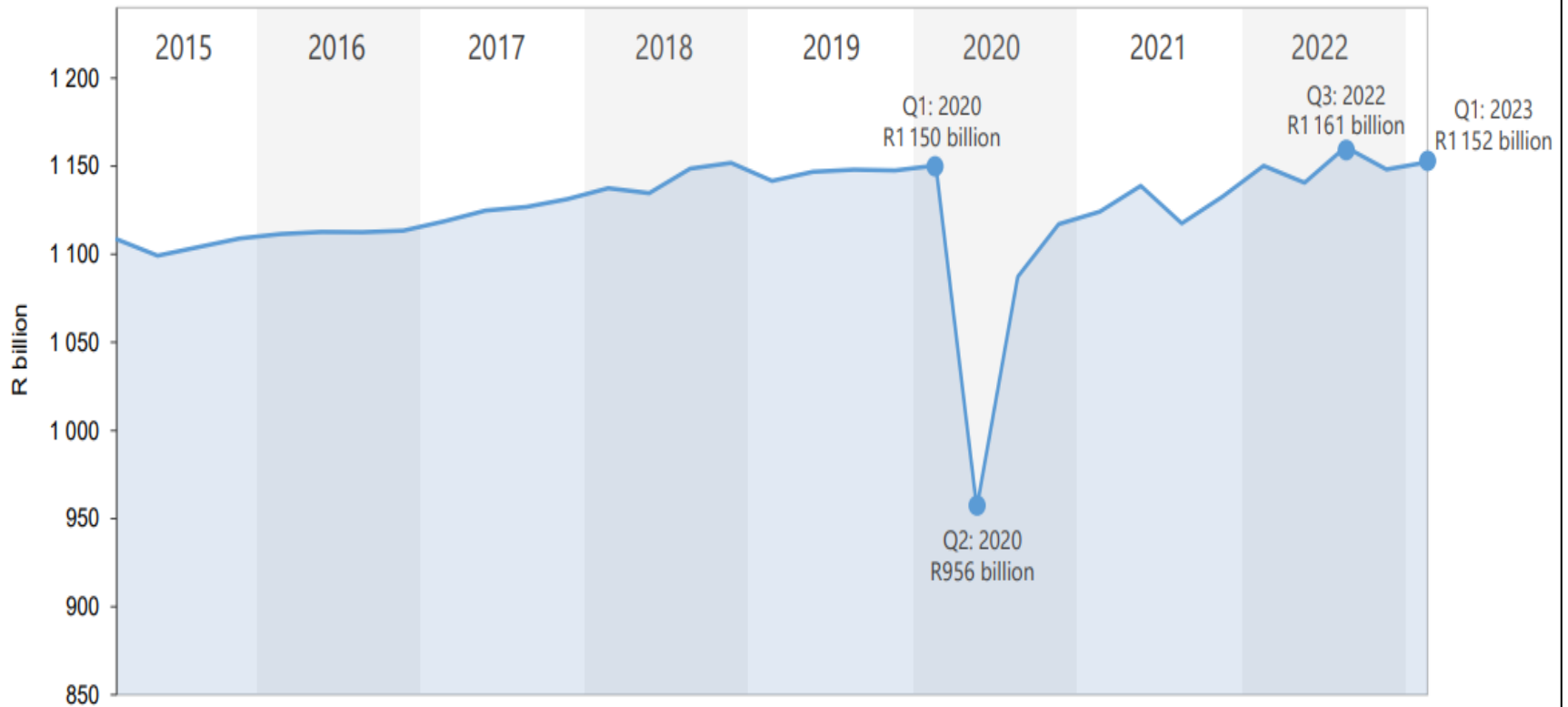
Quarter-on-quarter percentage change in GDP production (constant 2015 prices, seasonally adjusted)



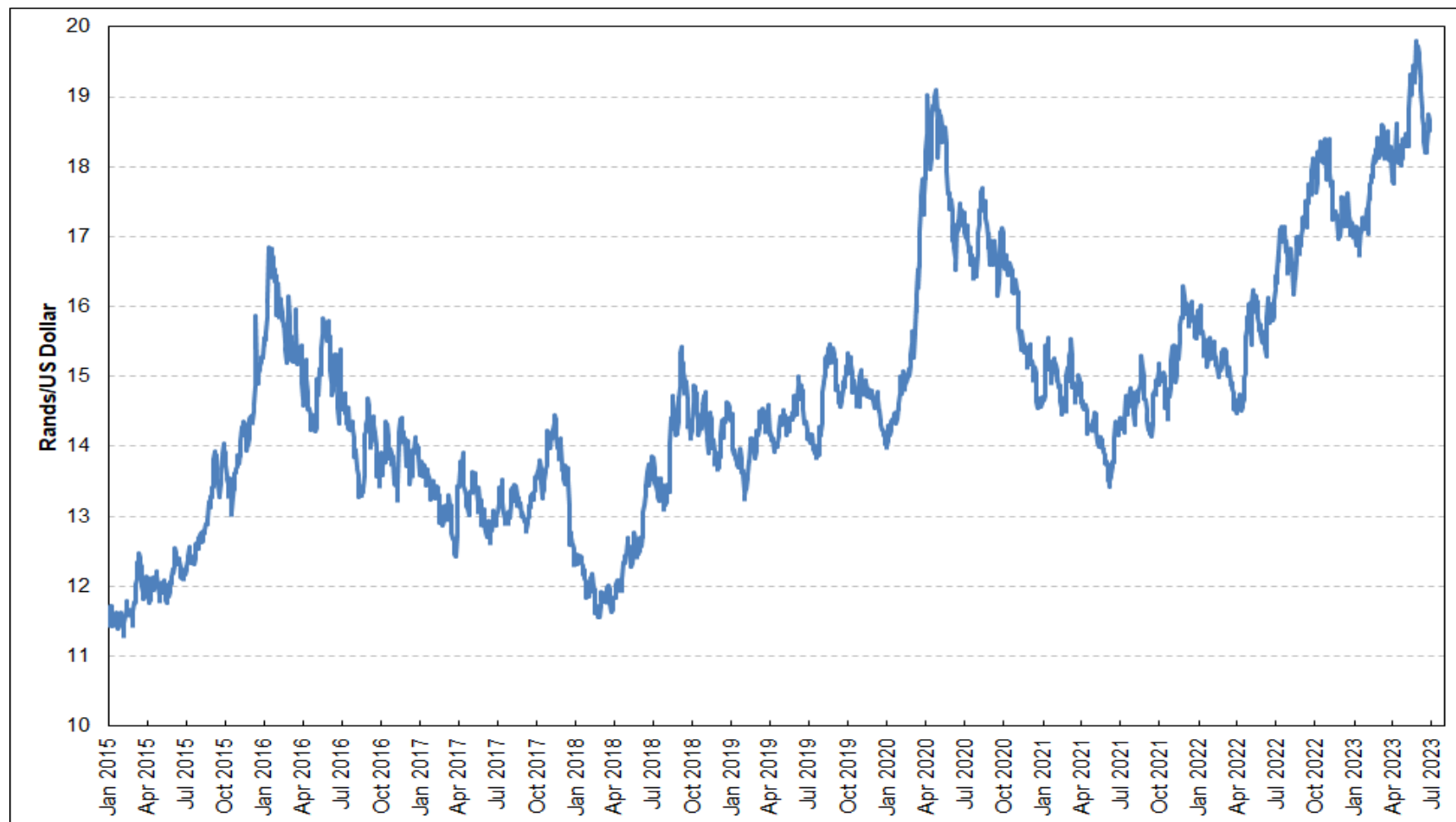
SA ECONOMY TRUNDLES ALONG

GDP in Q1: 2023 is lower than the peak reached in Q3: 2022

Real GDP (constant 2015 prices, seasonally adjusted)

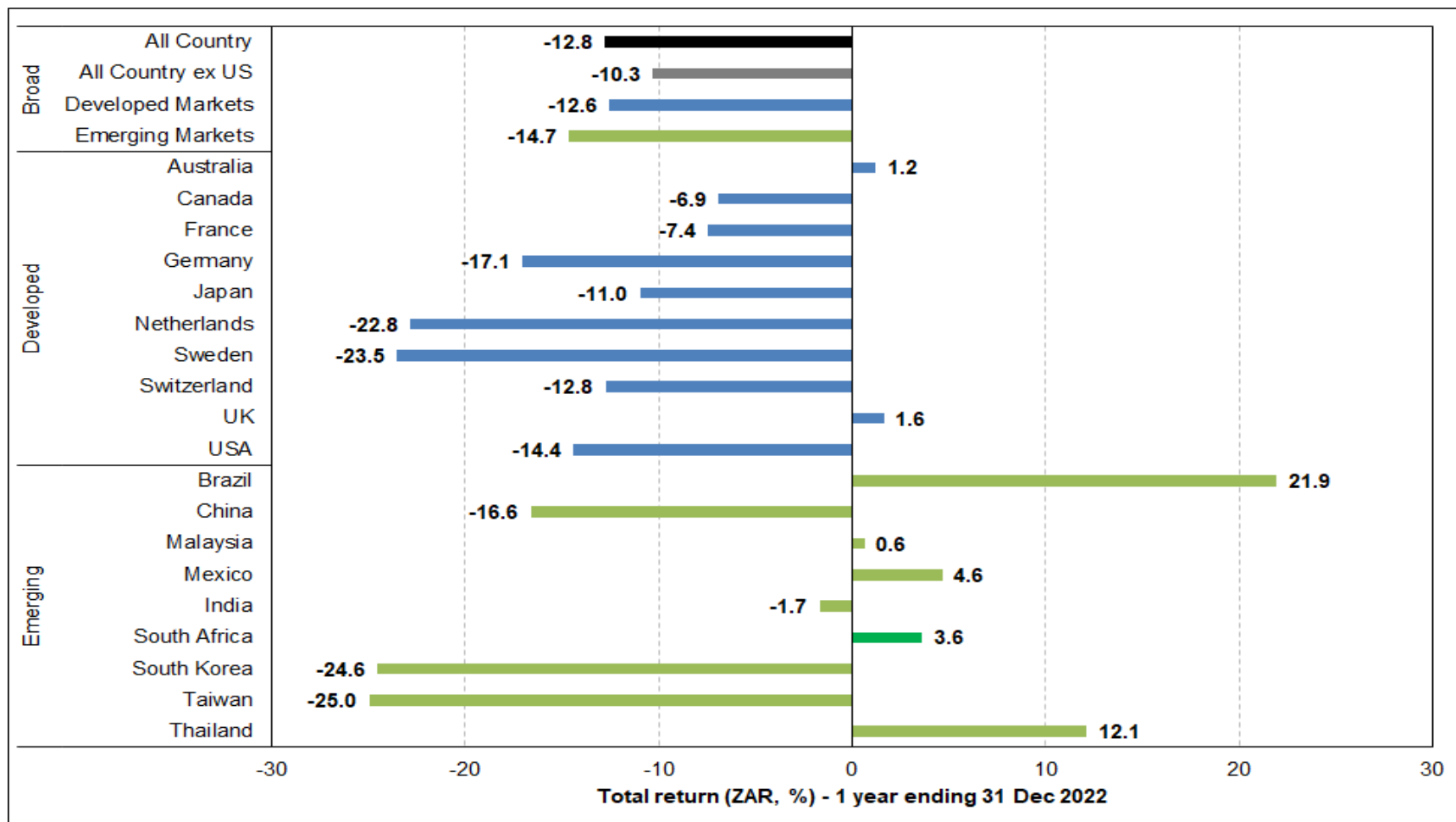


ZAR/USD – MEDIUM TERM RECOVERS SOMEWHAT FROM RECORD LOWS



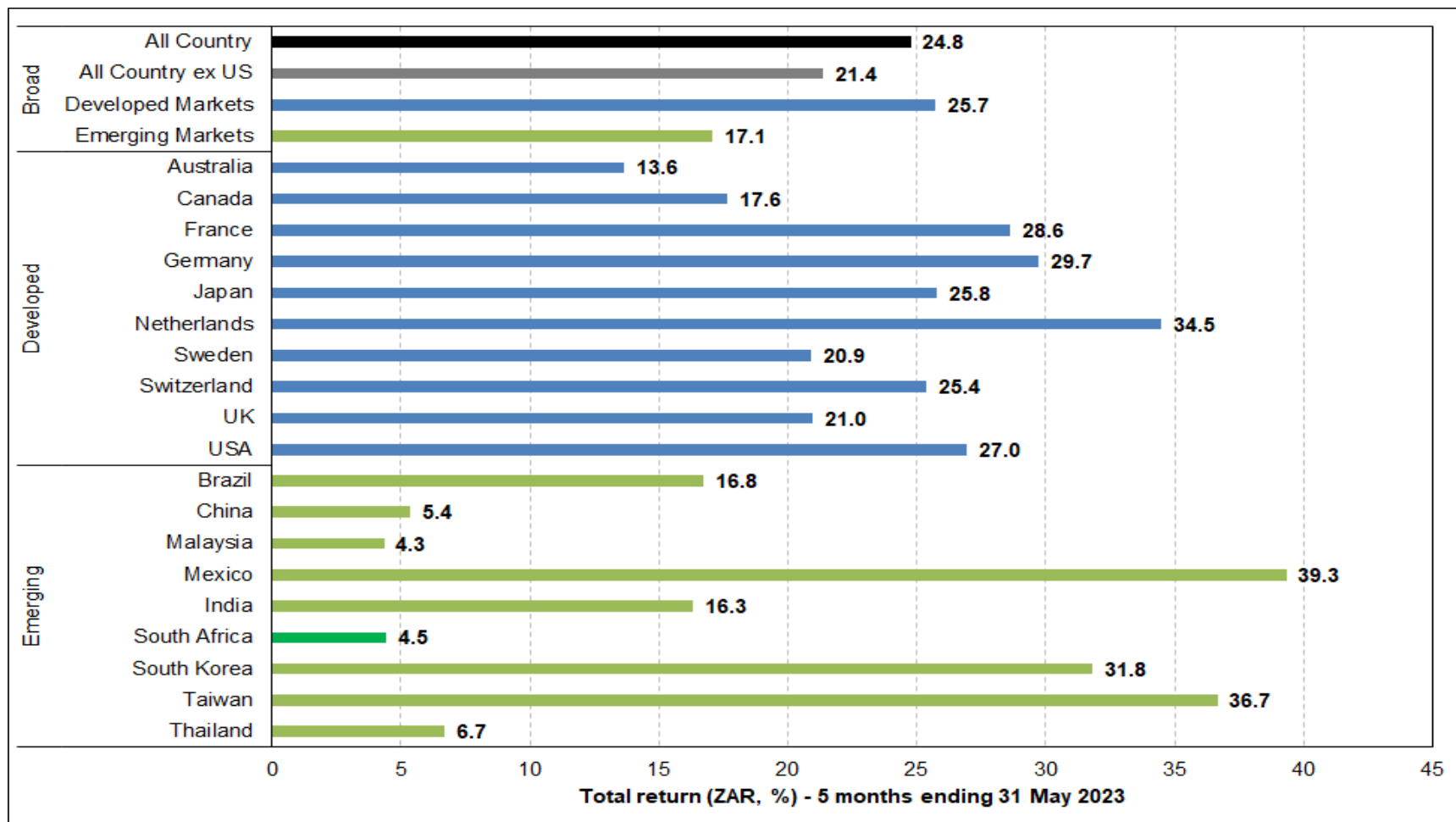
GLOBAL EQUITIES in 2022 (ZAR)

LAST YEAR'S LOSERS...



GLOBAL EQUITIES in 2023 (ZAR)

= THIS YEAR's WINNERS...



US EQUITIES in 2023 (USD)

...BUT VERY NARROW RECOVERY AS AI CRAZE FUELS MEGA-CAP TECH STOCK RALLY

