

# **MONTH IN PICTURES**

**JULY 2023**

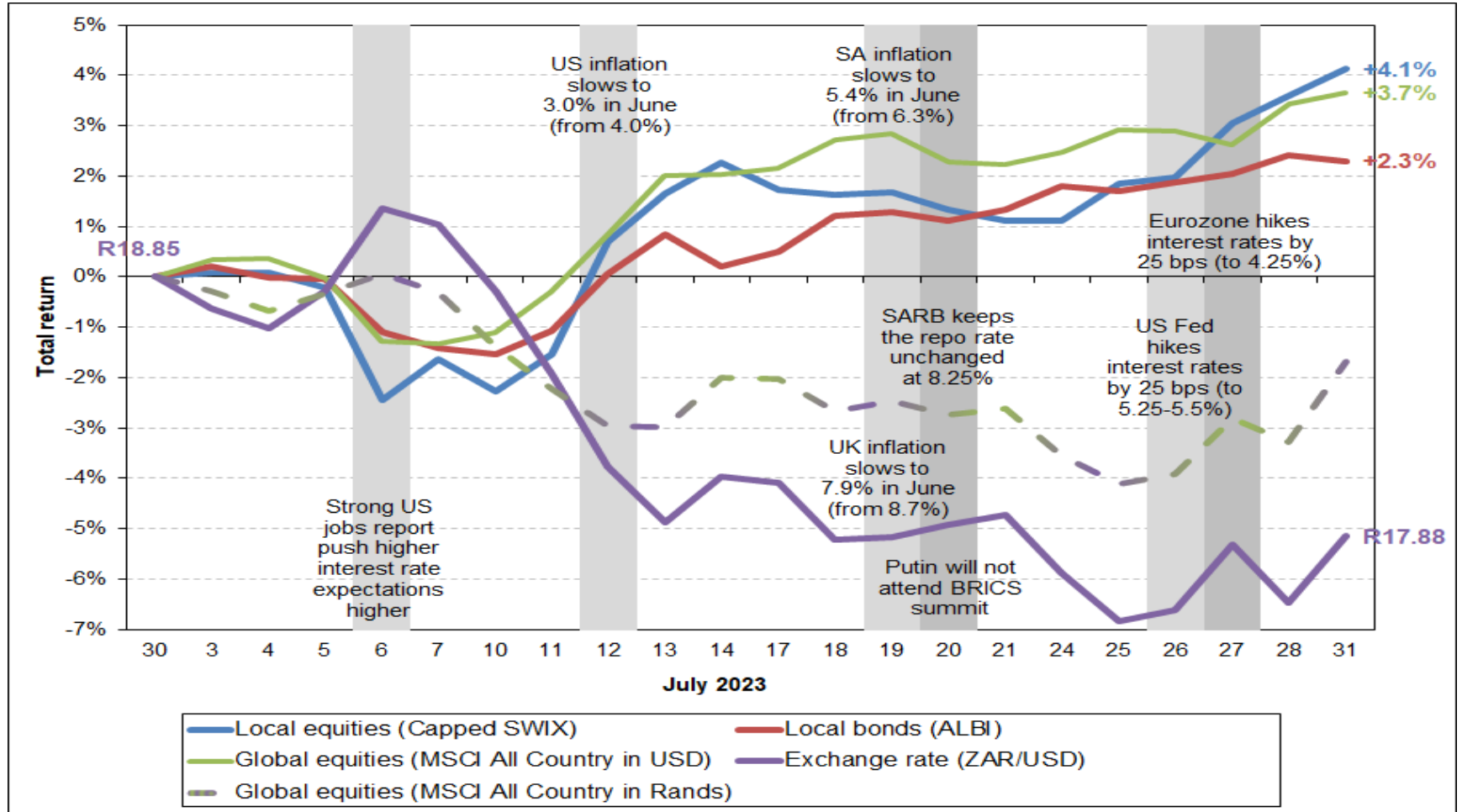
# MONTHLY SNAPSHOT

## NOTABLE EVENTS

- Markets enjoyed another good month in July, buoyed by lower-than-expected inflation numbers both here and abroad.
- The ALSI returned +4.0% and the Capped SWIX delivered +4.1%, as Financials (+7.8%) once again led the gains, while Resources (+3.2%) and Industrials (+2.6%) also had a good month.
- Local bonds (+2.3%) continued its recovery, while the Rand appreciated by 5.2%, 4.2% and 4.5% against the US dollar, British pound and Euro, respectively.
- Global markets also had a good month in USD (equities = +3.7% and bonds = +0.3%), but due to the stronger rand were negative in local currency terms (-1.7% and -4.8%, respectively).
- Local inflation again surprised on the downside, falling to just 4.7% in July (from 5.4% in June), as food inflation continued to drop (to 10.0%, from a recent peak of 14.4%) and transport prices turned deflationary (-2.6%), coming off a high base this time last year when it stood at 25%. Base effects were also responsible for US inflation ticking up slightly to 3.2% (from 3.0% in June), but is still falling elsewhere in the developed world (from 7.9% to 6.8% in the UK and from 5.5% to 5.3% in the Eurozone).
- South Africa's unemployment rate continues to show incremental improvement, with the official rate falling to 32.6% in 2023 Q2 (from 32.9%) and the expanded rate dropping from 42.4% to 42.1%. The number of employed has now increased to 16.3 million, which is almost back at the pre-Covid level of 16.4 million, after falling to as low as 14.1 million in 2020 Q2.
- Despite falling back somewhat in relative terms in June and July, global equities remain in the lead year-to-date (YTD, +24.0%), while local equities are in second place (ALSI = +10.1% and Capped SWIX = +7.9%). Global bonds are showing a decent YTD return (+7.1%) largely by a virtue of the weaker rand (by 5.0% against the USD), while local bonds and cash have returned around +4% each. This means that the average balanced fund \* is still sporting a good YTD return of +8.5%.
- Over the last year the average balanced fund \* delivered a return of +12.5%, boosted by strong returns from local and global stocks (ALSI = +19.3%, Capped SWIX = +14.9%, MSCI All Country = +21.6%), but offset by somewhat lower returns from local bonds (+8.1%), local cash (+7.0%) and global bonds (+3.5%).
- With 2020's market crash still forming a relatively low base, 3-year equity market returns remain quite strong (ALSI = +16.7% p.a., Capped SWIX = +16.1% p.a., MSCI All Country = +12.1% p.a.), while local bonds and cash have delivered more subdued returns of +8.2% p.a. and +5.1% p.a. respectively, and global bonds remains in the red (-6.0% p.a.). In this environment the average balanced fund \* managed to deliver a relatively solid return of around +11% p.a.

# MONTHLY TIMELINE

## IMPACT ON MARKETS



# MARKET INDICATORS

## SHORT TERM

Market indicators (% change) <sup>1</sup>		May 2023	Jun 2023	Jul 2023	3 months	YTD	12 months
Local equities	ALSI	(3.9)	1.4	4.0	1.3	10.1	19.3
	Capped SWIX	(5.8)	3.8	4.1	1.8	7.9	14.9
	Resources	(2.2)	(7.6)	3.2	(6.8)	(7.7)	4.9
	Industrials	(3.3)	3.7	2.6	2.9	20.5	30.1
	Financials	(7.9)	11.7	7.8	10.9	14.7	18.5
	Listed Property	(5.3)	0.9	2.3	(2.3)	(2.2)	3.4
Local bonds	ALBI	(4.8)	4.6	2.3	1.9	4.1	8.1
Local cash	STeFI Composite	0.6	0.6	0.7	2.0	4.4	7.0
Global equities	MSCI All Country	6.7	1.1	(1.7)	6.1	24.0	21.6
Global bonds	FTSE WGBI	5.5	(4.5)	(4.8)	(4.1)	7.1	3.5
Exchange rate	ZAR/USD	7.9	(4.5)	(5.2)	(2.3)	5.0	7.7
Inflation	CPI	0.2	0.2	0.9	1.3	3.3	4.7

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

# 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	19.3	16.7	10.5	10.3	10.7	15.1
	Capped SWIX	14.9	16.1	7.5	8.6	-	-
	Resources	4.9	11.8	16.1	8.6	4.7	10.8
	Industrials	30.1	16.0	9.5	10.1	14.1	18.0
	Financials	18.5	23.7	4.7	8.5	10.8	13.5
	Listed Property	3.4	13.4	(3.0)	2.1	8.0	12.6
Local bonds	ALBI	8.1	8.2	7.4	7.7	8.5	8.5
Local cash	STeFI Composite	7.0	5.1	5.8	6.3	6.5	7.0
Global equities	MSCI All Country	21.6	12.1	14.9	15.3	13.6	13.2
Global bonds	FTSE WGBI	3.5	(6.0)	4.1	5.5	6.9	6.9
Exchange rate	ZAR/USD	7.7	1.6	6.1	6.1	6.1	4.6
Inflation	CPI	4.7	5.7	4.9	5.1	5.1	5.3

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

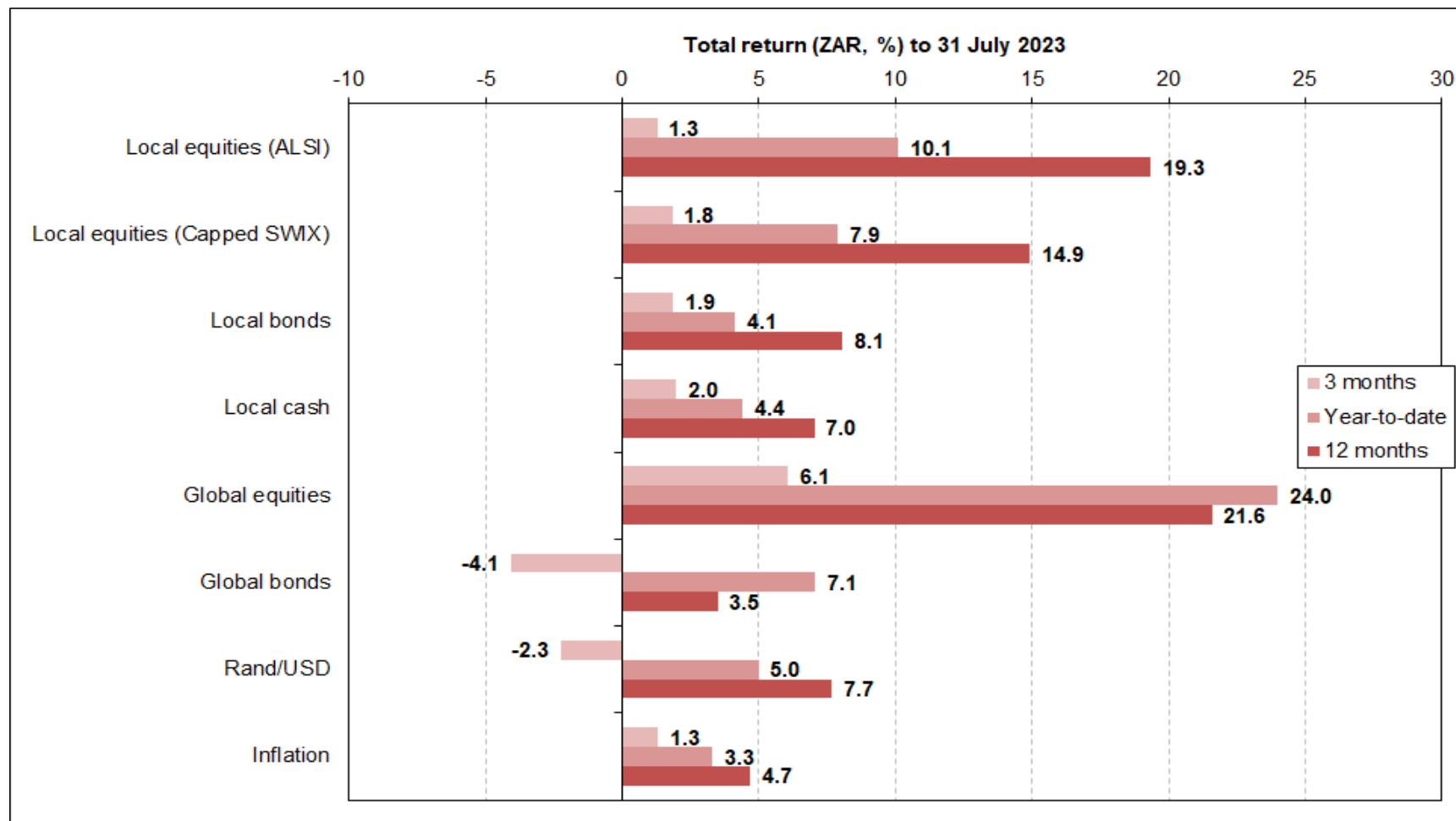
# ECONOMIC INDICATORS

Economic indicators <sup>1</sup>	Jul 2021	Jul 2022	May 2023	Jun 2023	Jul 2023
<b>Exchange rates:</b>					
ZAR/USD	14.62	16.60	19.73	18.85	17.88
ZAR/GBP	20.31	20.21	24.55	23.94	22.94
ZAR/Euro	17.34	16.98	21.09	20.57	19.65
<b>Commodities:</b>					
Brent Crude Oil (USD/barrel)	75.41	103.97	72.60	75.41	85.43
Platinum (USD/ounce)	1,065.10	899.50	994.30	901.00	950.73
Gold (USD/ounce)	1,828.18	1,766.34	1,956.28	1,919.63	1,954.82

1. Month-end prices

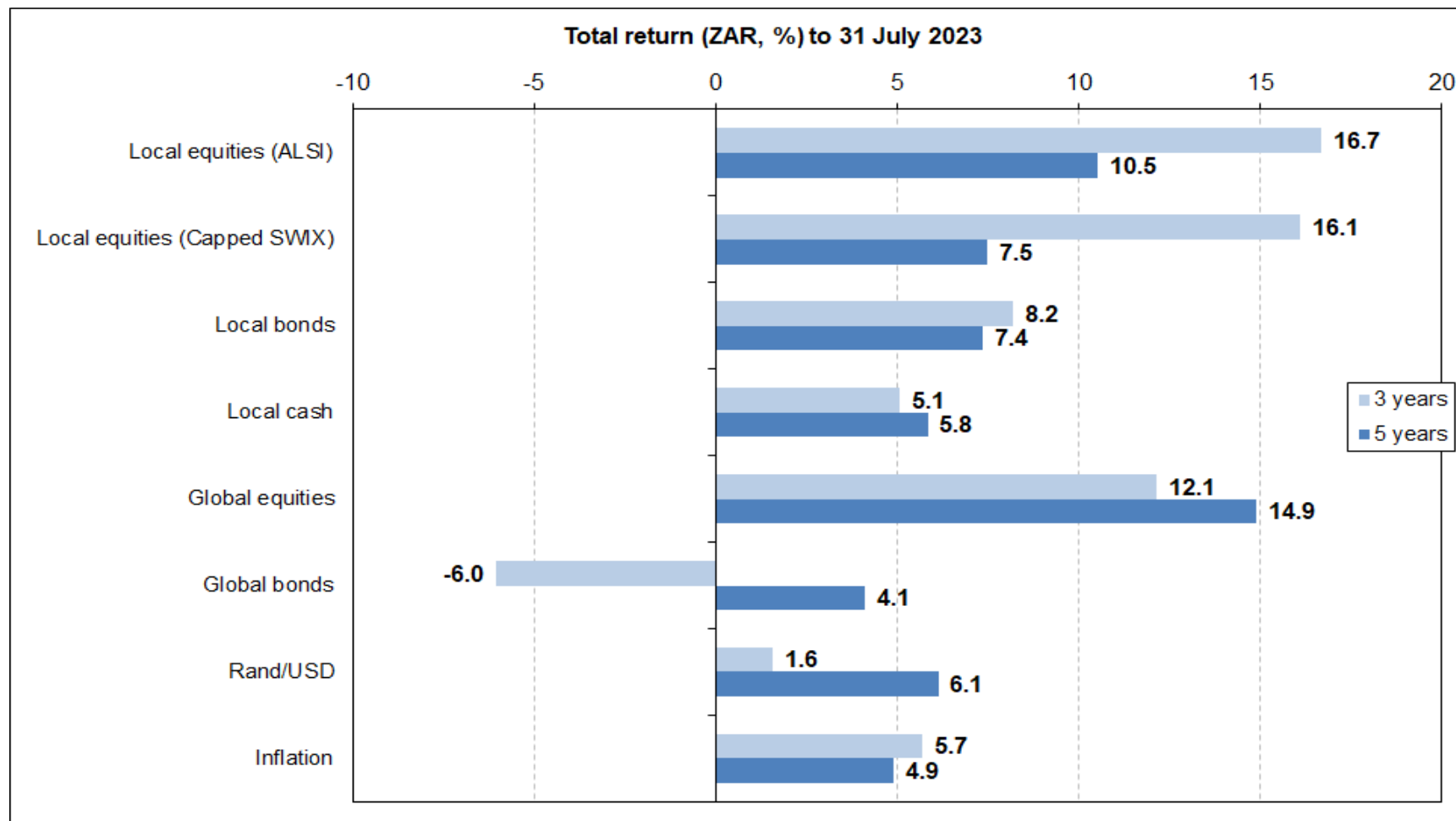
# ASSET CLASS PERFORMANCE

## SHORT TERM



# ASSET CLASS PERFORMANCE

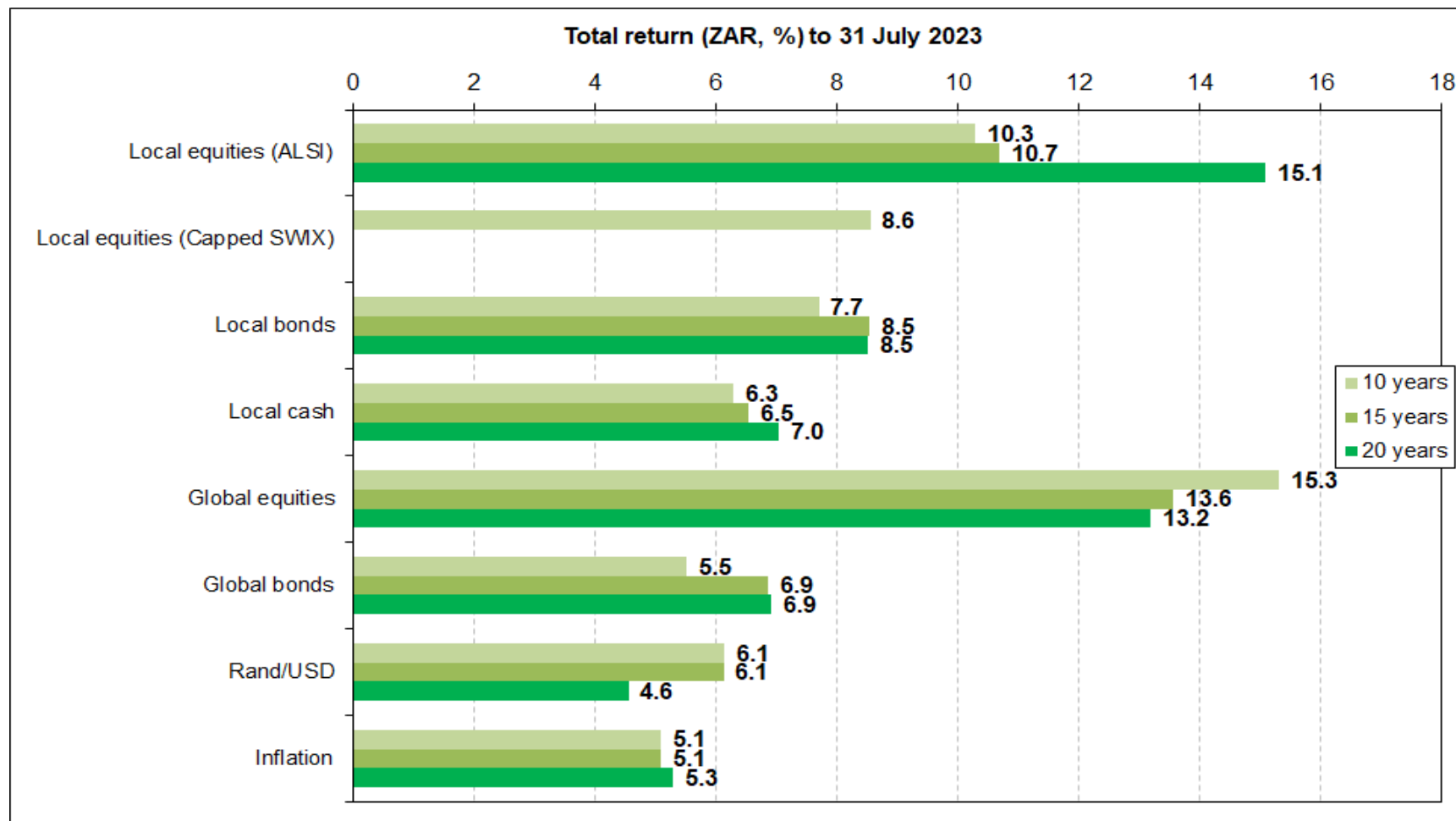
## MEDIUM TERM





# 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%

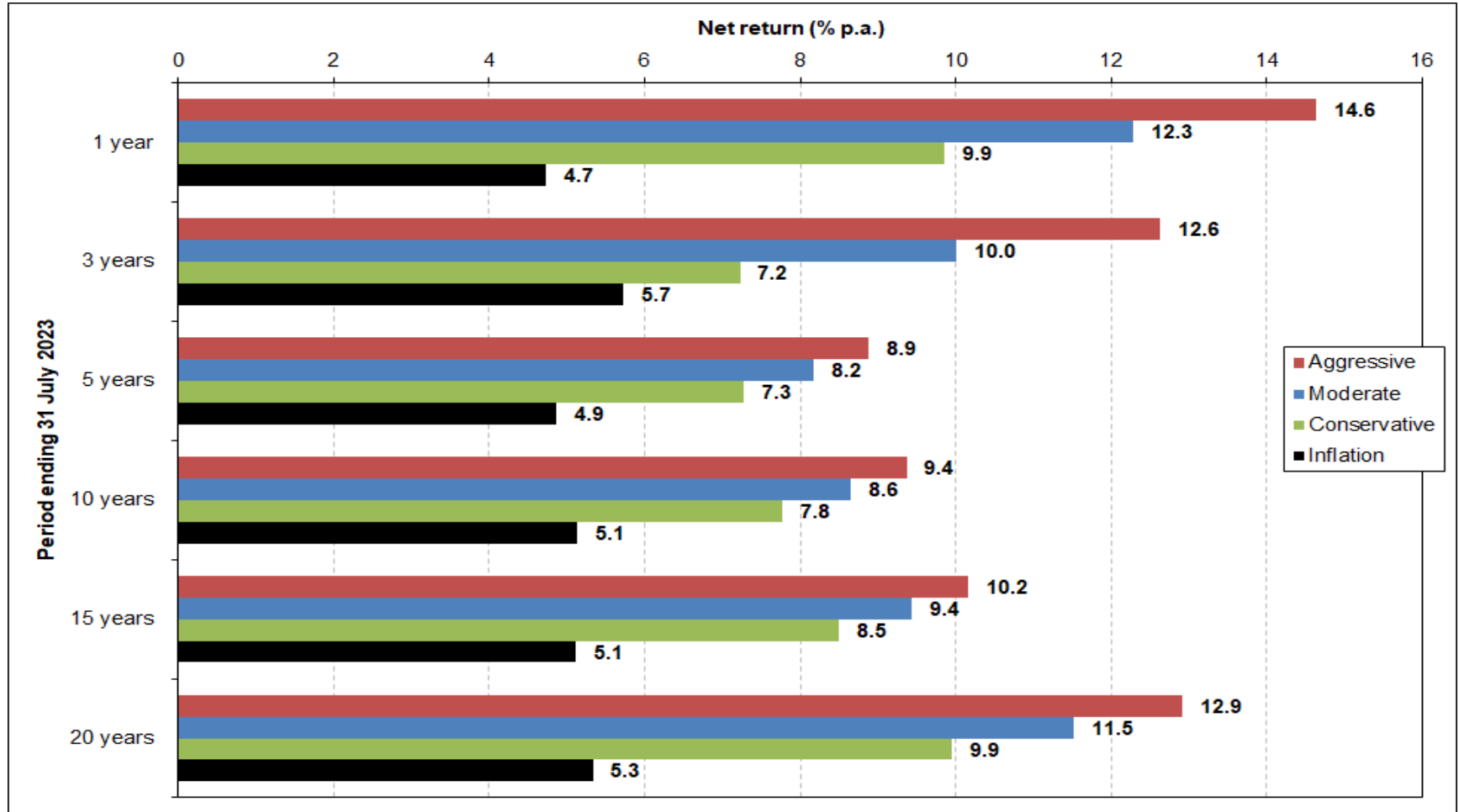
MODERATE	Strategic allocation	LOCAL VS OFFSHORE	60%		40% (5% below regulatory maximum)	
		GROWTH VS INCOME ASSETS	55%	45%	55%	45%
		EQUITIES VS BONDS VS CASH	100%	55% 45%	100%	100%
	Current allocation		~33%	~15% ~12%	~22%	~18%

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%

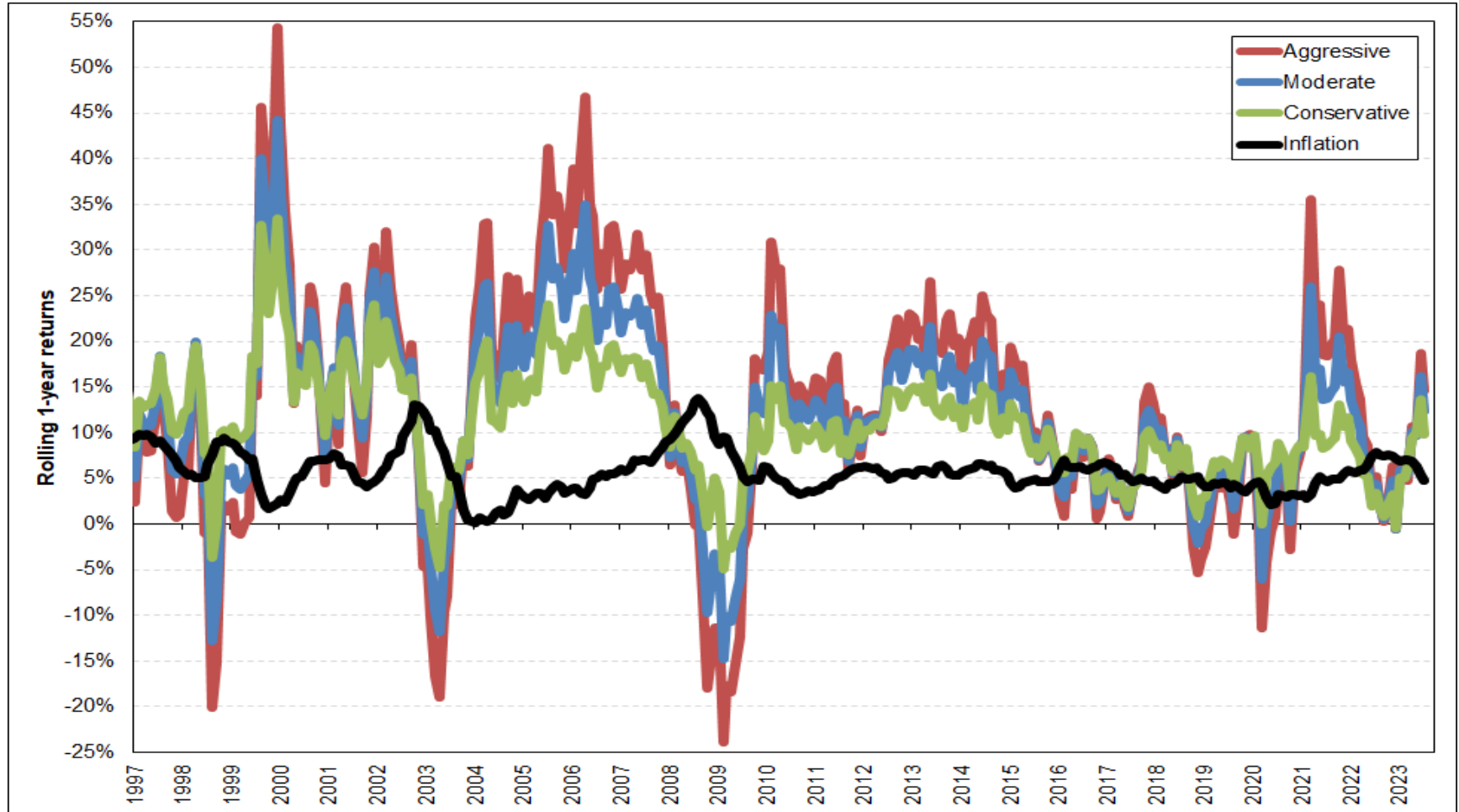
# MARKET PERFORMANCE

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



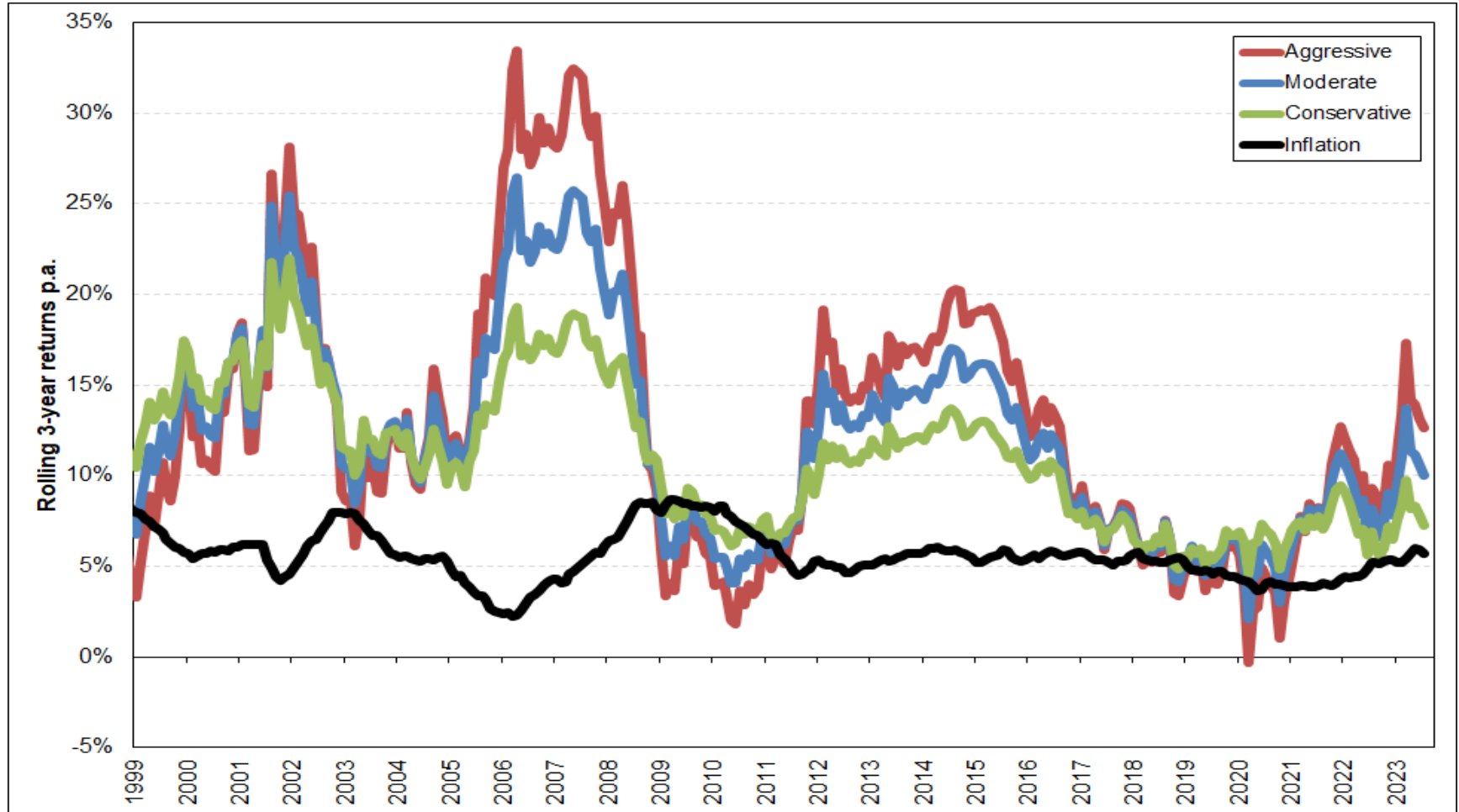
# MARKET PERFORMANCE

## ROLLING 1-YEAR RETURNS STILL QUITE STRONG



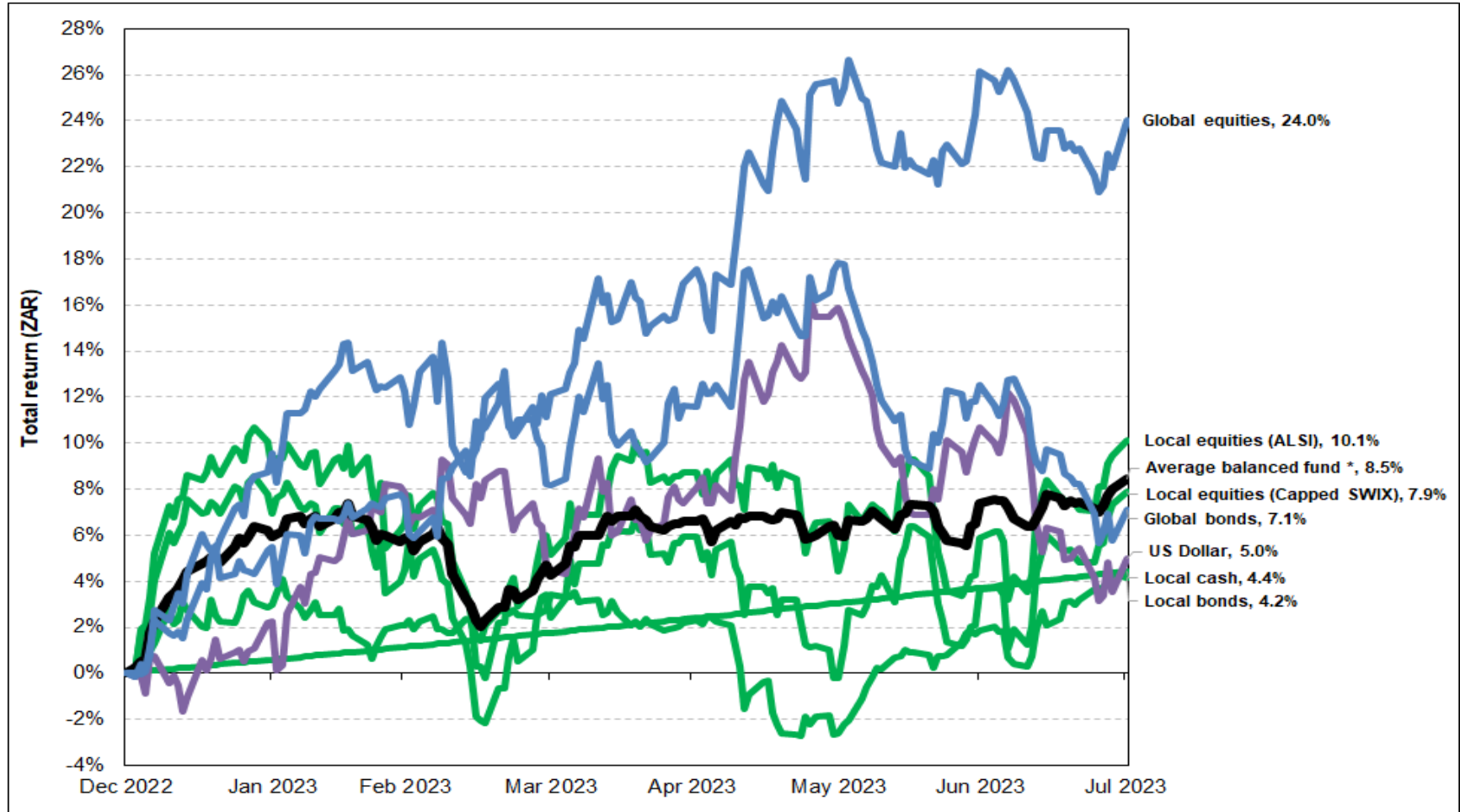
# MARKET PERFORMANCE

## ROLLING 3-YEAR RETURNS STILL TAILING OFF, BUT REMAINS REASONABLY STRONG



# MARKETS in 2023 (ZAR)

## LOCAL MARKETS CONTINUE THEIR RECOVERY IN JULY, BUT GLOBAL EQUITIES RETAIN THEIR YTD LEAD

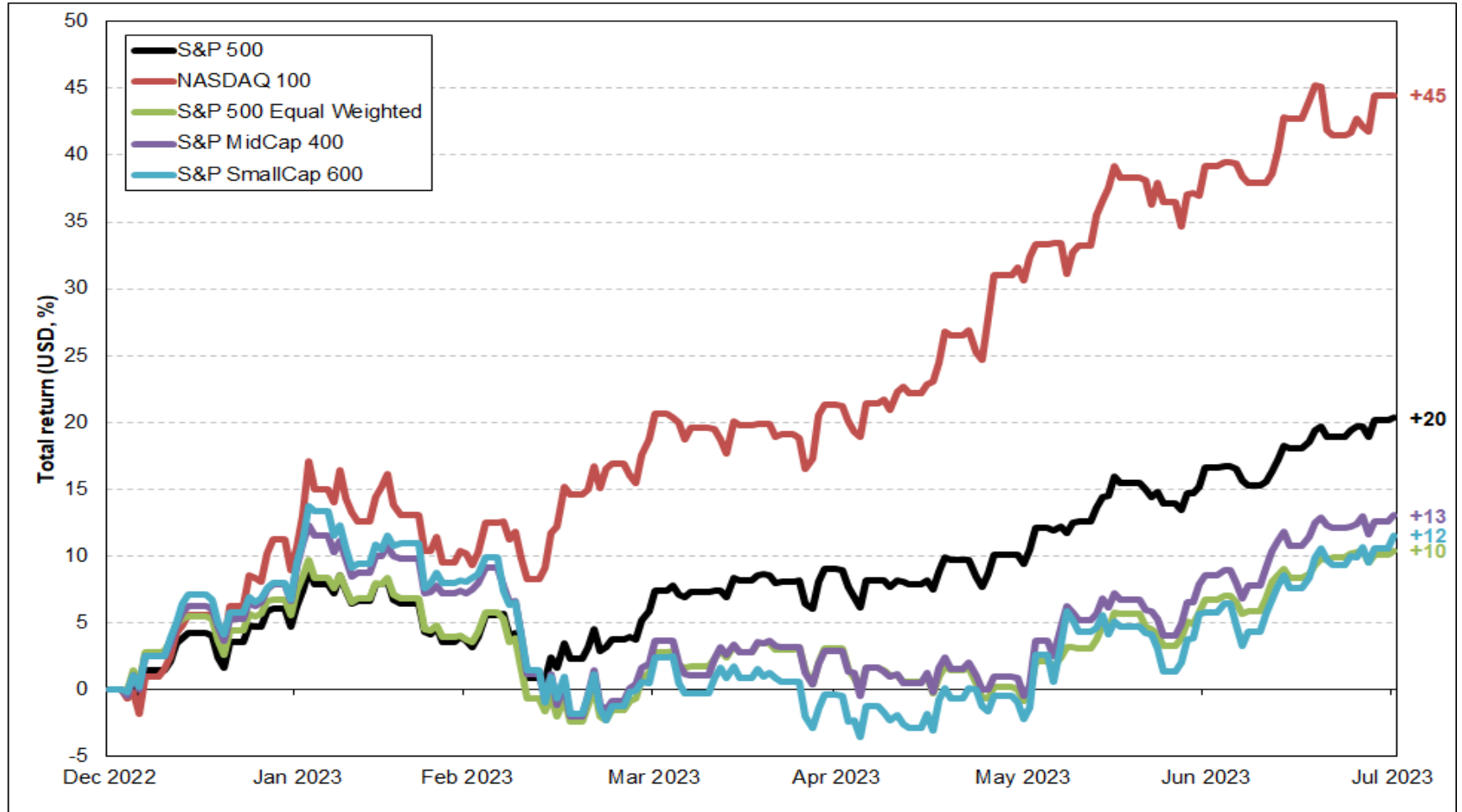


Source: Iress, Morningstar

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

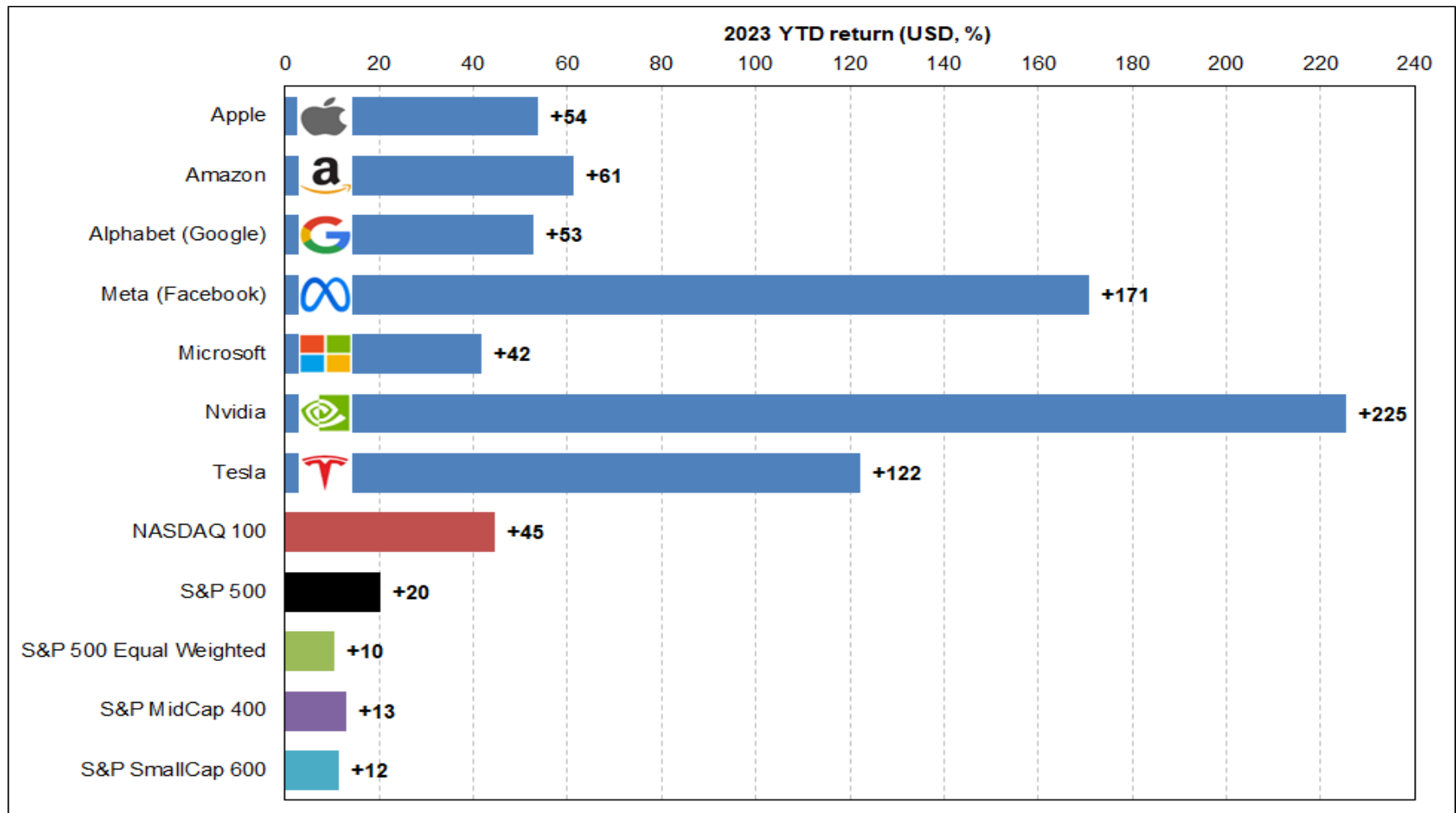
# US EQUITIES in 2023 (USD)

## MARKET BREADTH CONTINUES TO IMPROVE...



# US EQUITIES in 2023 (USD)

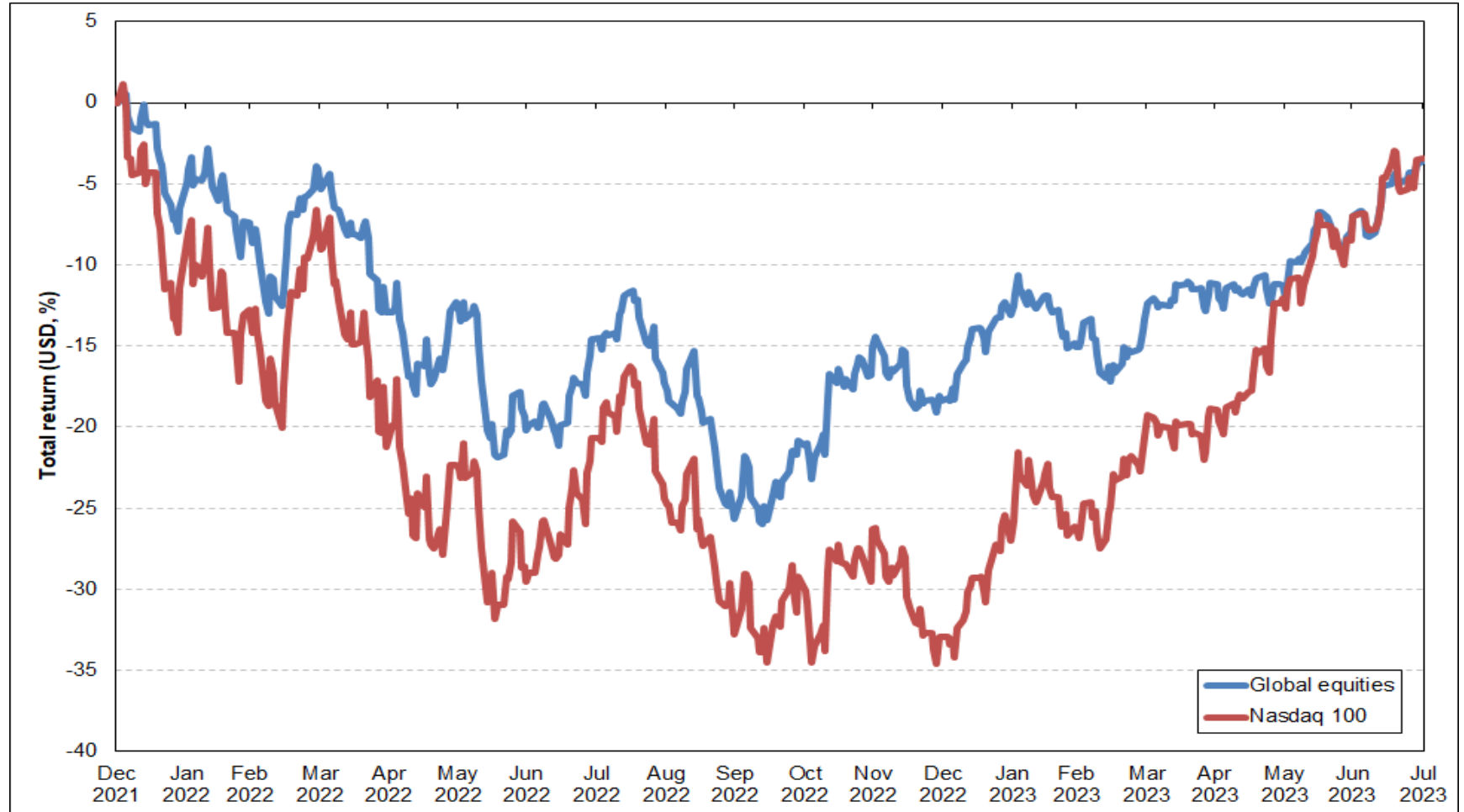
## ...AND THE 'MAGNIFICENT SEVEN' IS SHOWING NO SIGNS OF SLOWING DOWN...





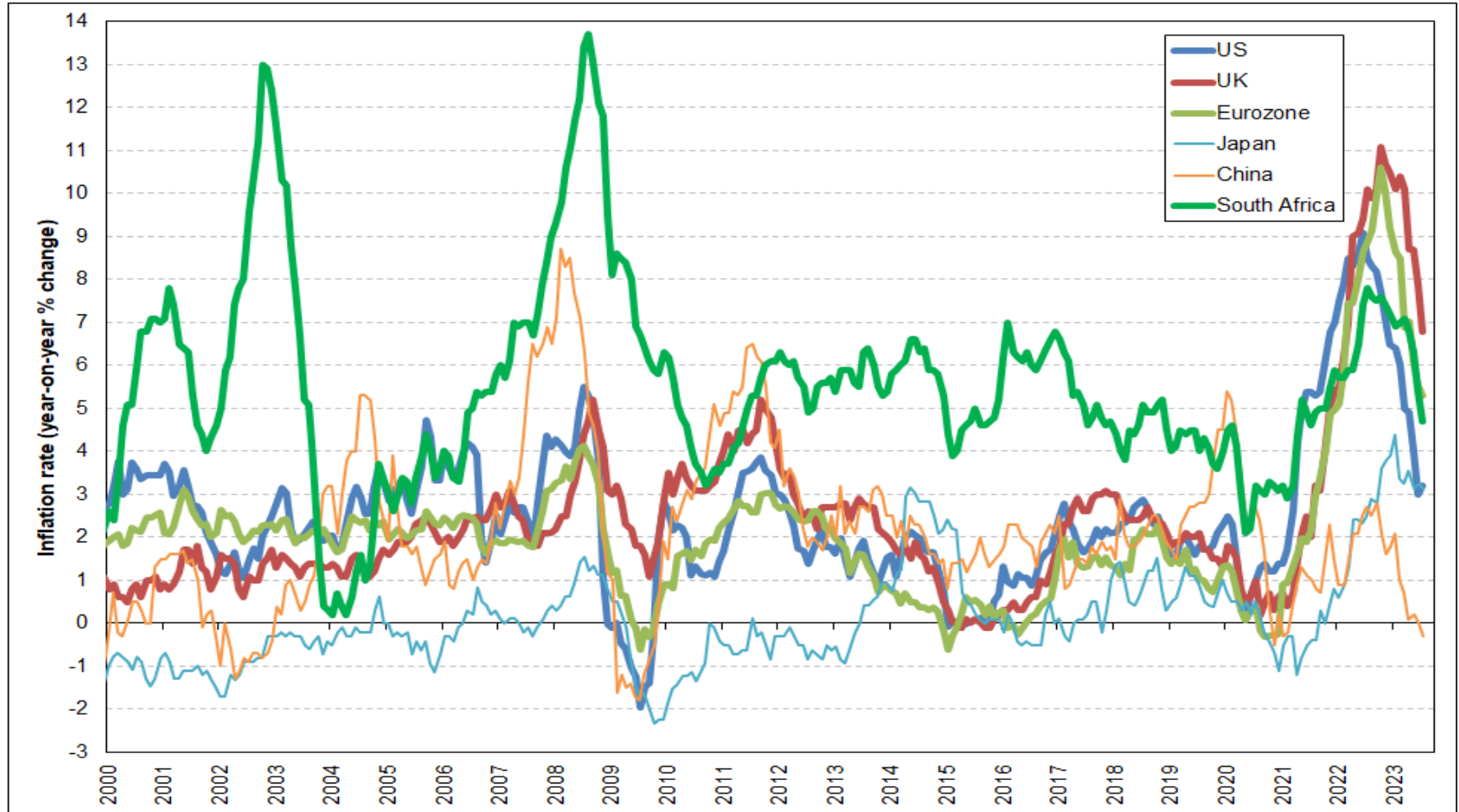
# GLOBAL EQUITIES (USD)

## ...BUT STILL MAKING UP FOR 2022's LOSSES



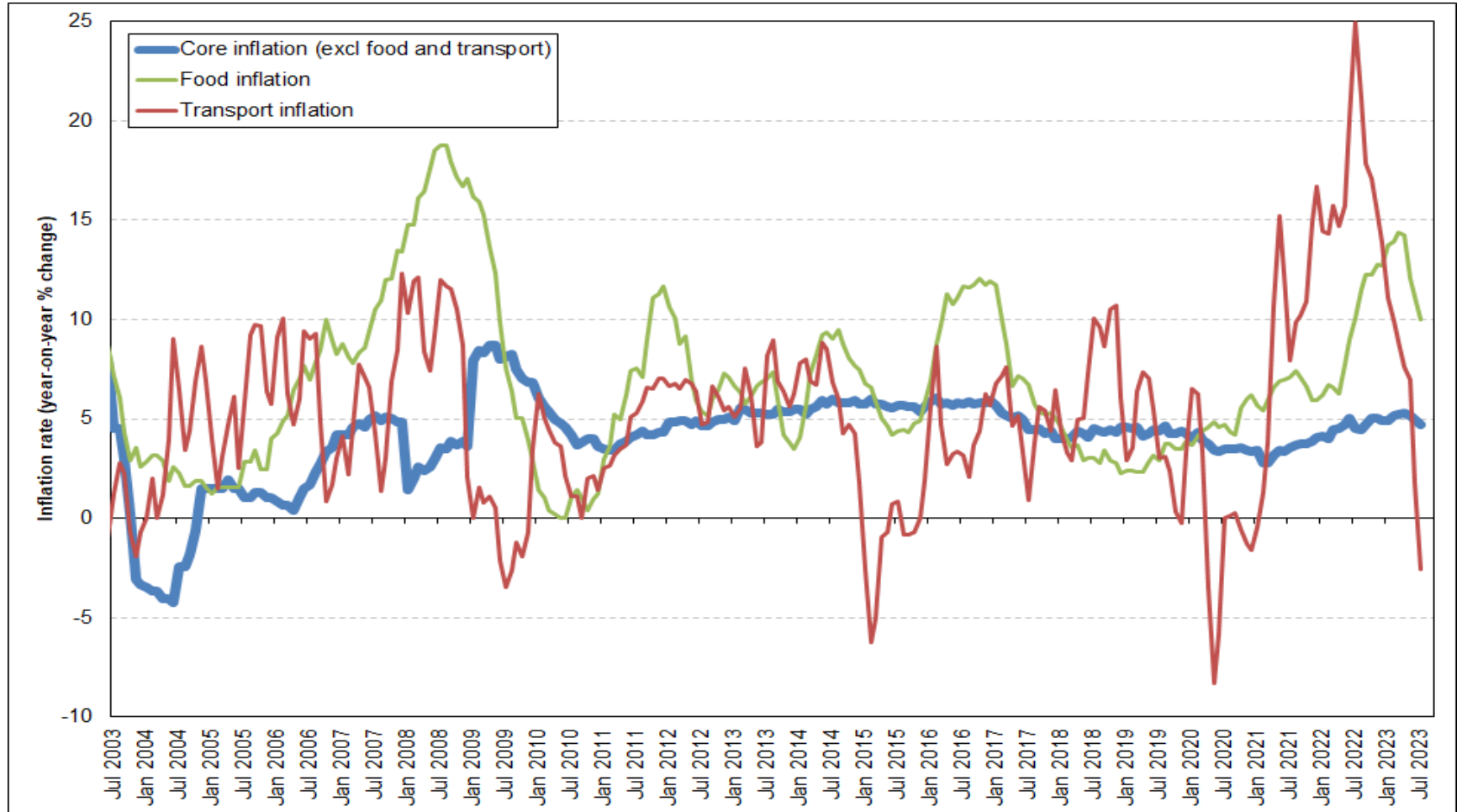
# INFLATION

## LOCAL INFLATION FALLS BELOW 5%



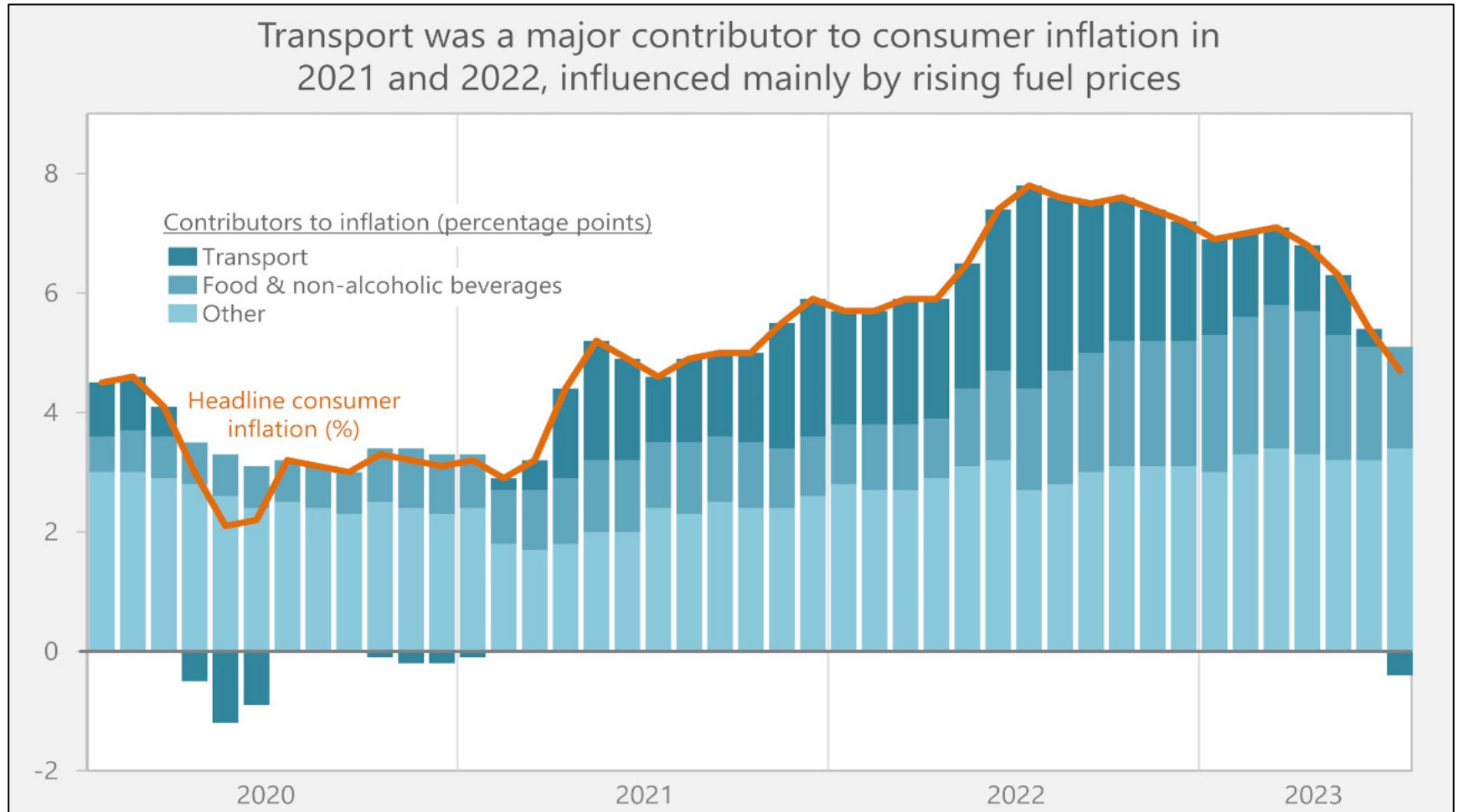
# INFLATION

## AS FOOD INFLATION CONTINUES TO DECLINE AND TRANSPORT TURNS DEFLATIONARY



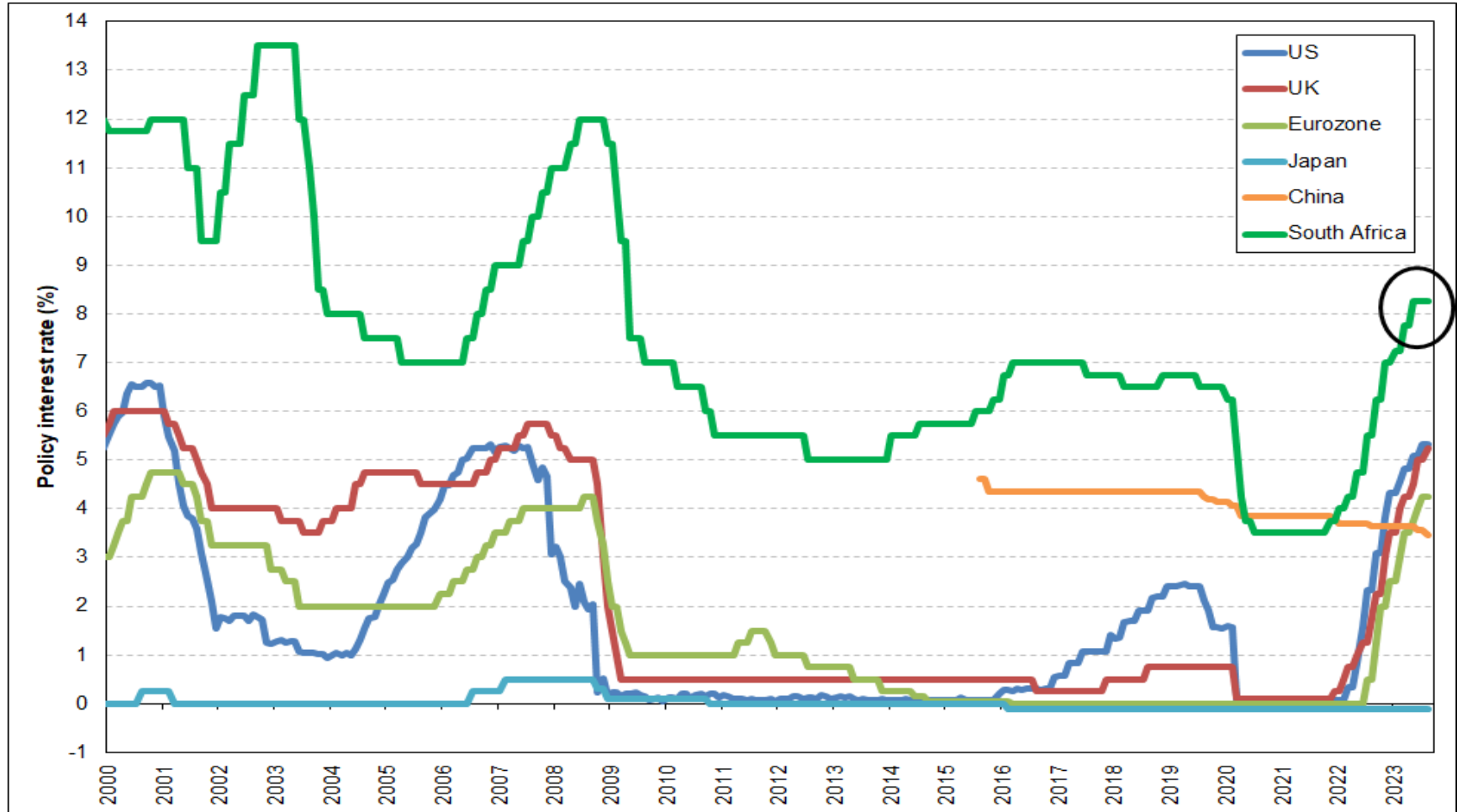
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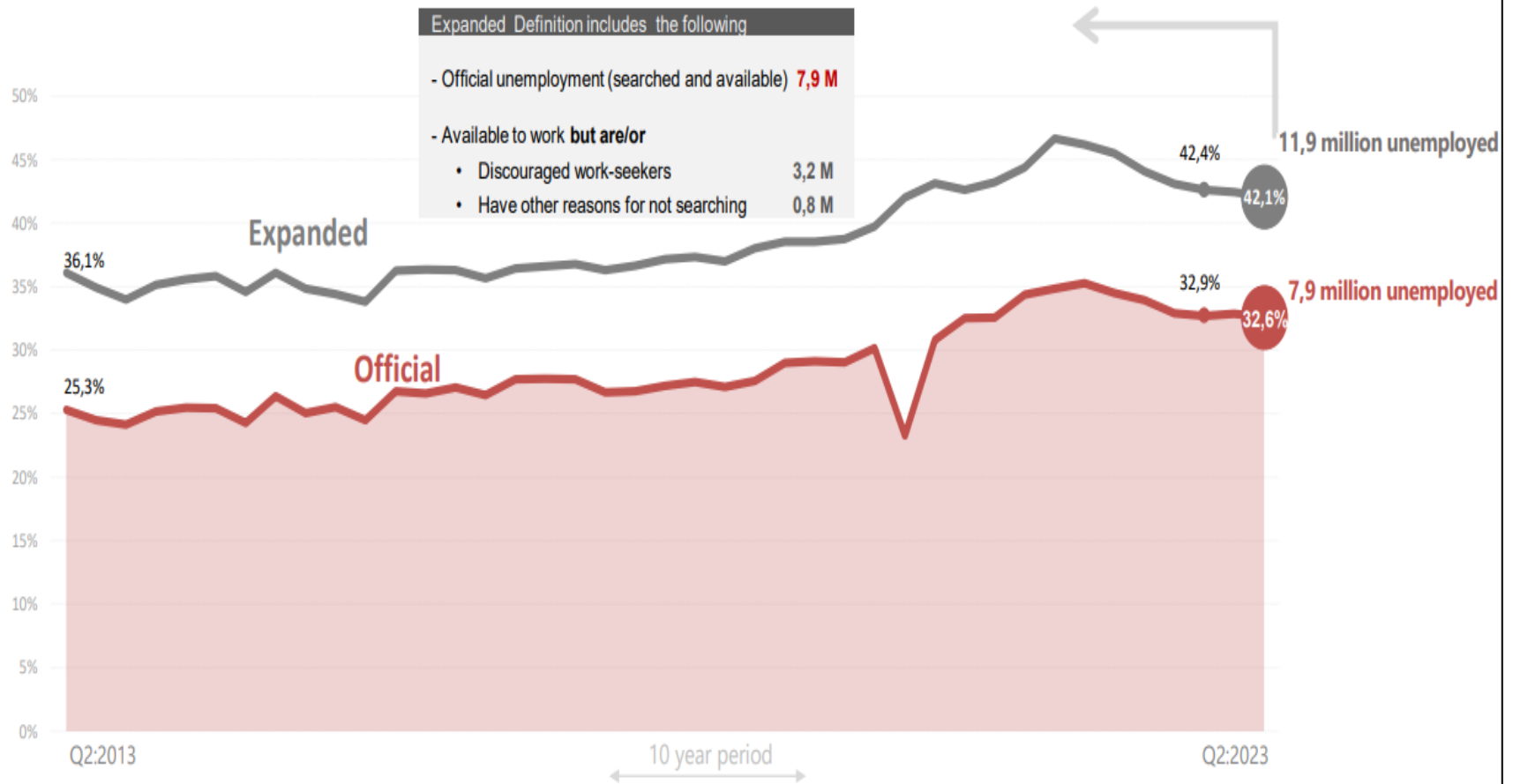
# INTEREST RATES

## HOPEFULLY THE WORST IS NOW BEHIND US



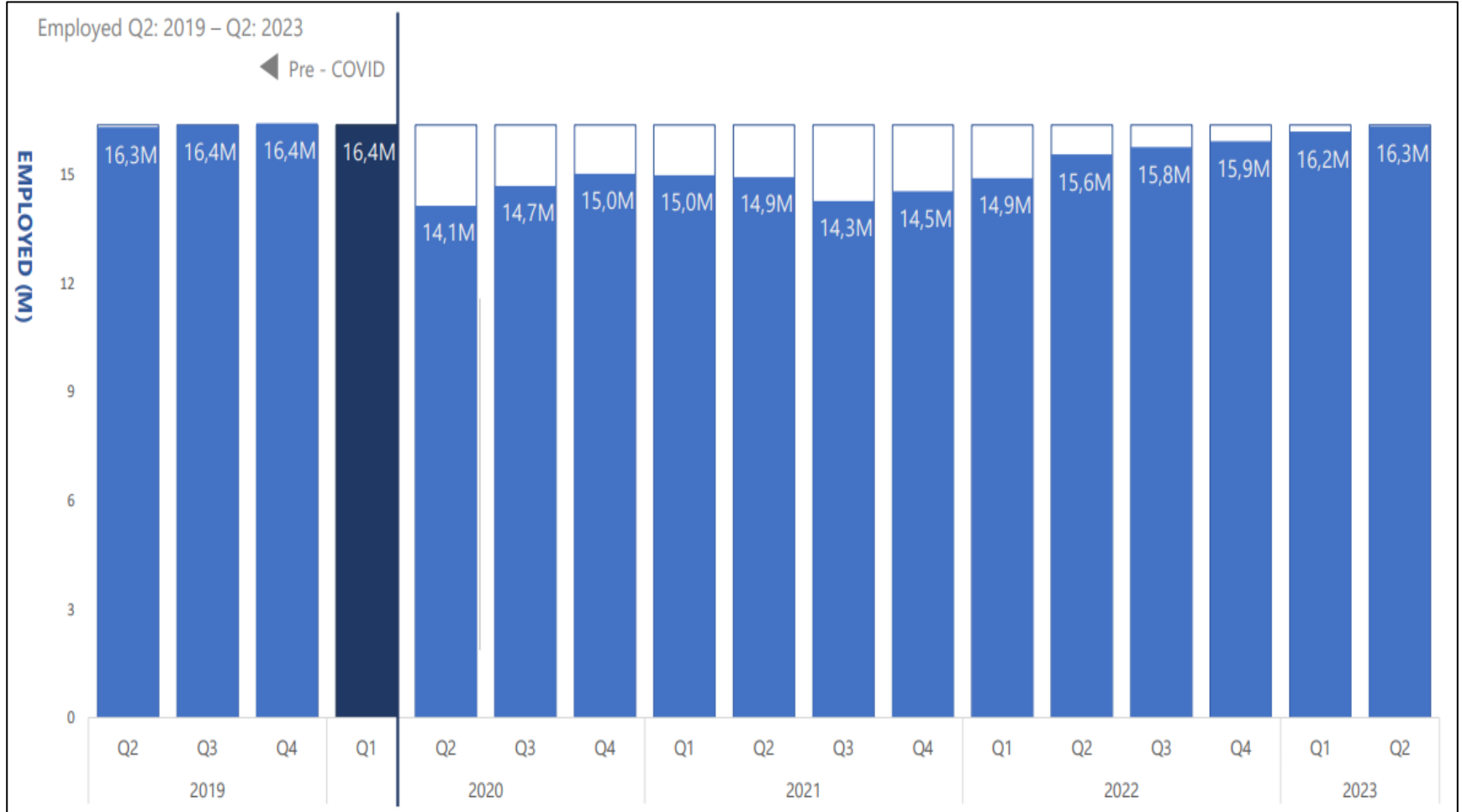
# SA UNEMPLOYMENT SHOWING INCREMENTAL IMPROVEMENT

Official vs Expanded unemployment: Q2:2013-Q2:2023



# SA UNEMPLOYMENT

## TOTAL EMPLOYED ALMOST BACK TO PRE-COVID LEVELS



# SA UNEMPLOYMENT LOWEST IN THE WESTERN CAPE

