

MONTH IN PICTURES

JANUARY 2024

MONTHLY SNAPSHOT

NOTABLE EVENTS

- It was a mixed start to the year for global equity markets (+2.7% in ZAR), with developed markets (+3.3%) once again outperforming emerging markets (-2.6%). The former was lifted by a continuation of the strong run we've seen in the US (+3.7%) and Japanese (+6.8%) stock markets, while the pervasive negative sentiment towards China (-8.7%) dragged emerging markets lower.
- The local equity market was therefore also under pressure, ending January with a return of -2.8% after trading nearly 6% lower at the month's halfway mark. None of the local bourse's major sectors were able to make gains in this environment (Industrials = -1.2%, Resources = -6.3% and Financials = -3.2%).
- Local bonds returned +0.7% for the month, while global bonds (+0.5%) made a gain in local currency terms following a 2.1% depreciation in the rand (against the US dollar). The dollar strengthened as the continued resilience of the US economy and hawkish comments by the Fed softened near-term interest rate cutting expectations.
- The average balanced fund * therefore kicked off the new year with a return of -0.1% in January, but also a steep drop in its 1-year return (from +12.3% at 31 December 2023 to +5.8% at 31 January 2024) as a strong January 2023 (+5.9%) rolled out of the 1-year number.
- The South African Reserve Bank's (SARB's) Monetary Policy Committee members unanimously agreed to keep the repo rate unchanged at 8.25% for the fourth consecutive time at their most recent meeting. The SARB reiterated that inflation would need to remain sustainably low (near the midpoint of their 3-6% target range) before they would consider cutting rates. Market expectations of three 25 basis point cuts towards the latter half of 2024 therefore remain unchanged.
- Interest rates were also kept unchanged in Japan (at -0.1%), the Eurozone (4.5%), the US (5-5.25%) and the UK (5.25%).
- The recovery in SA's unemployment numbers lost some steam in 2023 Q4 with the rate increasing to 32.1% from 31.9% in Q3. Under the expanded definition, which includes those jobseekers who are no longer actively seeking employment, there was a marginal improvement from 41.2% to 41.1%.
- Despite this being an election year, the 2024 Budget was pragmatic rather than populist, and the market reaction was therefore mildly positive. Please refer to slides 3 and 21 to 32 for some of the highlights.

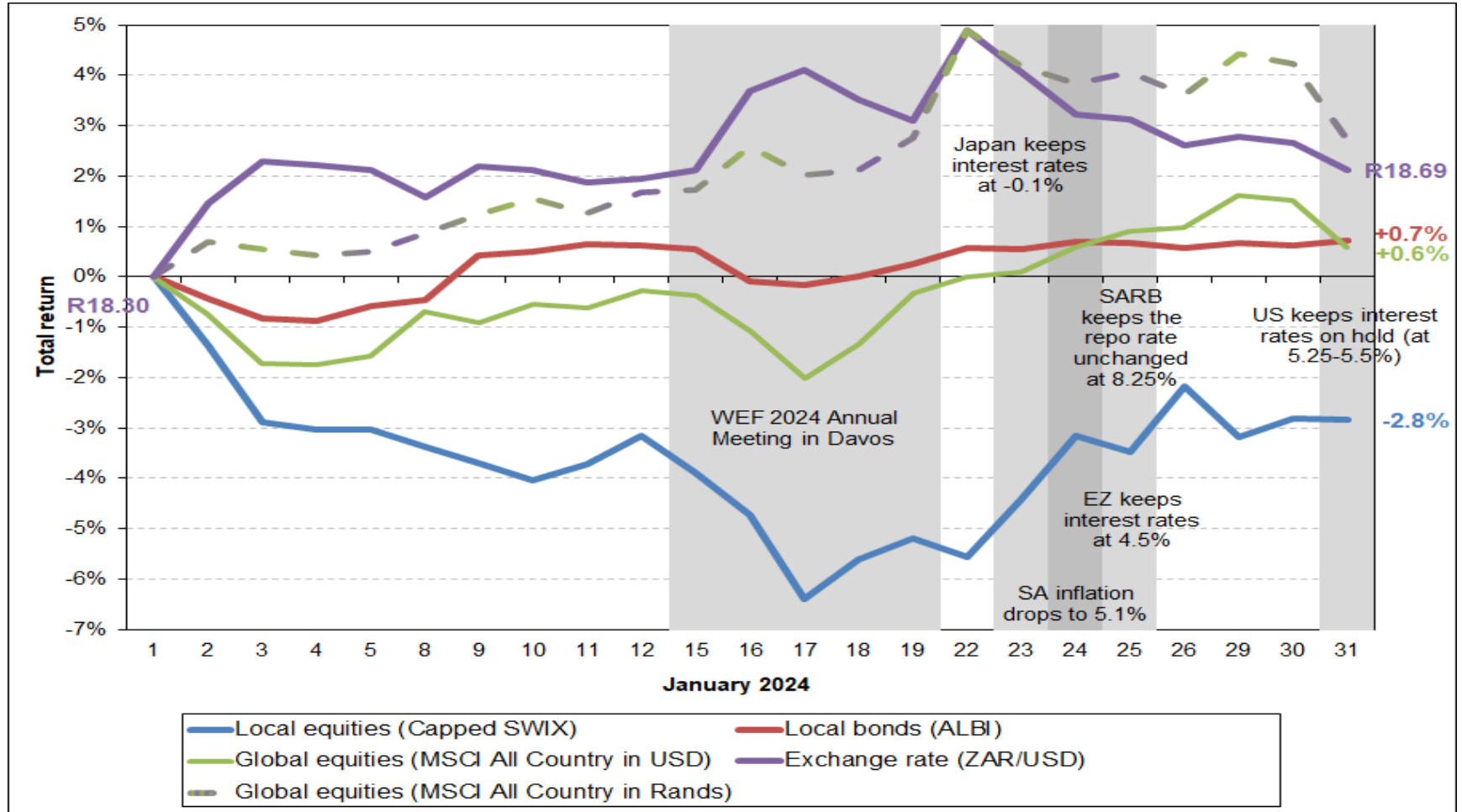
MONTHLY SNAPSHOT

2024 BUDGET HIGHLIGHTS

- Government spending continues to exceed government revenue:
 - Tax revenue for 2023/24 = R1.73 trillion, R56.1 billion below expectations.
 - Budget deficit = 4.9%, compared to 4.0% forecasted in last year's budget, and dropping to 3.3% in 2026/27.
- So, government debt continues to climb:
 - Projected to peak at 75.3% of GDP in 2025/26, compared to an expected peak of 73.6% in last year's main budget (also in 2025/26) and 77.7% in last year's medium term budget (MTBPS).
 - Debt-service costs now gobble up more than 20% of government revenue, but is expected to peak in 2025/26 and decline thereafter.
 - The lower debt trajectory compared to the MTBPS comes about mainly due to government dipping into our Gold and Foreign Exchange Contingency Reserve Account (GFECRA). This account contains the unrealised profits or losses on the country's foreign currency reserve transactions. With the rand's depreciation over the last two decades, the balance in this account has ballooned to R500 billion, of which R150 billion will be drawn down over the next three years.
- But fiscal consolidation continues, so since 2022/23 government has been able to run a primary budget *surplus* (i.e., revenue exceeds total *non-interest* expenditure).
- Which is necessary, since economic growth has disappointed (real GDP growth only averaged 0.8% since 2012), and is forecasted to remain low (0.6% in 2023, 1.3% in 2024, 1.6% in 2025 and 1.8% in 2026).
- Besides the usual sin tax increases, no other major tax hikes were announced, and the fuel and Road Accident Fund levies remain unchanged for the third year running.
- Unfortunately, no inflationary adjustments were made to income tax brackets, rebates or medical tax credits either, so bracket creep will add around R18 billion to the fiscus.
- Below inflation increases were granted to social grants, which brings the state old age grant to approximately R2,200 per month.

MONTHLY TIMELINE

IMPACT ON THE MARKETS



MARKET INDICATORS

SHORT TERM

Market indicators (% change) ¹		Nov 2023	Dec 2023	Jan 2024	3 months	YTD	12 months
Local equities	ALSI	8.6	2.0	-2.9	7.5	-2.9	-2.6
	Capped SWIX	8.3	2.9	-2.8	8.3	-2.8	-2.0
	Resources	6.4	-0.0	-6.3	-0.3	-6.3	-22.3
	Industrials	10.1	0.7	-1.2	9.5	-1.2	2.1
	Financials	8.3	5.3	-3.2	10.4	-3.2	12.4
	Listed Property	9.1	9.9	4.1	24.8	4.1	15.8
Local bonds	ALBI	4.7	1.5	0.7	7.1	0.7	7.3
Local cash	STeFI Composite	0.7	0.7	0.7	2.1	0.7	8.2
Global equities	MSCI All Country	10.4	1.7	2.7	15.4	2.7	23.1
Global bonds	FTSE WGBI	6.0	1.1	0.5	7.8	0.5	7.7
Exchange rate	ZAR/USD	1.1	-3.0	2.1	0.2	2.1	7.3
Inflation	CPI	-0.1	0.0	0.1	0.0	0.1	5.3

1. Total returns (in Rands) for the months and periods ending 31 January 2024.

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	-2.6	10.5	10.6	8.7	12.5	13.6
	Capped SWIX	-2.0	10.5	7.8	7.2	-	-
	Resources	-22.3	4.1	12.4	5.5	7.0	9.0
	Industrials	2.1	9.0	11.1	8.6	14.7	16.1
	Financials	12.4	19.3	4.8	8.2	12.5	12.8
	Listed Property	15.8	17.7	-0.7	4.1	8.4	12.9
Local bonds	ALBI	7.3	7.4	7.8	8.4	8.1	8.6
Local cash	STeFI Composite	8.2	5.8	6.0	6.5	6.4	7.0
Global equities	MSCI All Country	23.1	13.8	18.0	14.2	15.5	12.9
Global bonds	FTSE WGBI	7.7	-0.6	5.0	4.7	4.9	6.9
Exchange rate	ZAR/USD	7.3	7.2	7.1	5.3	4.1	5.0
Inflation	CPI	5.3	6.0	5.1	5.1	5.2	5.5

1. Total returns (in Rands) for the months and periods ending 31 January 2024.

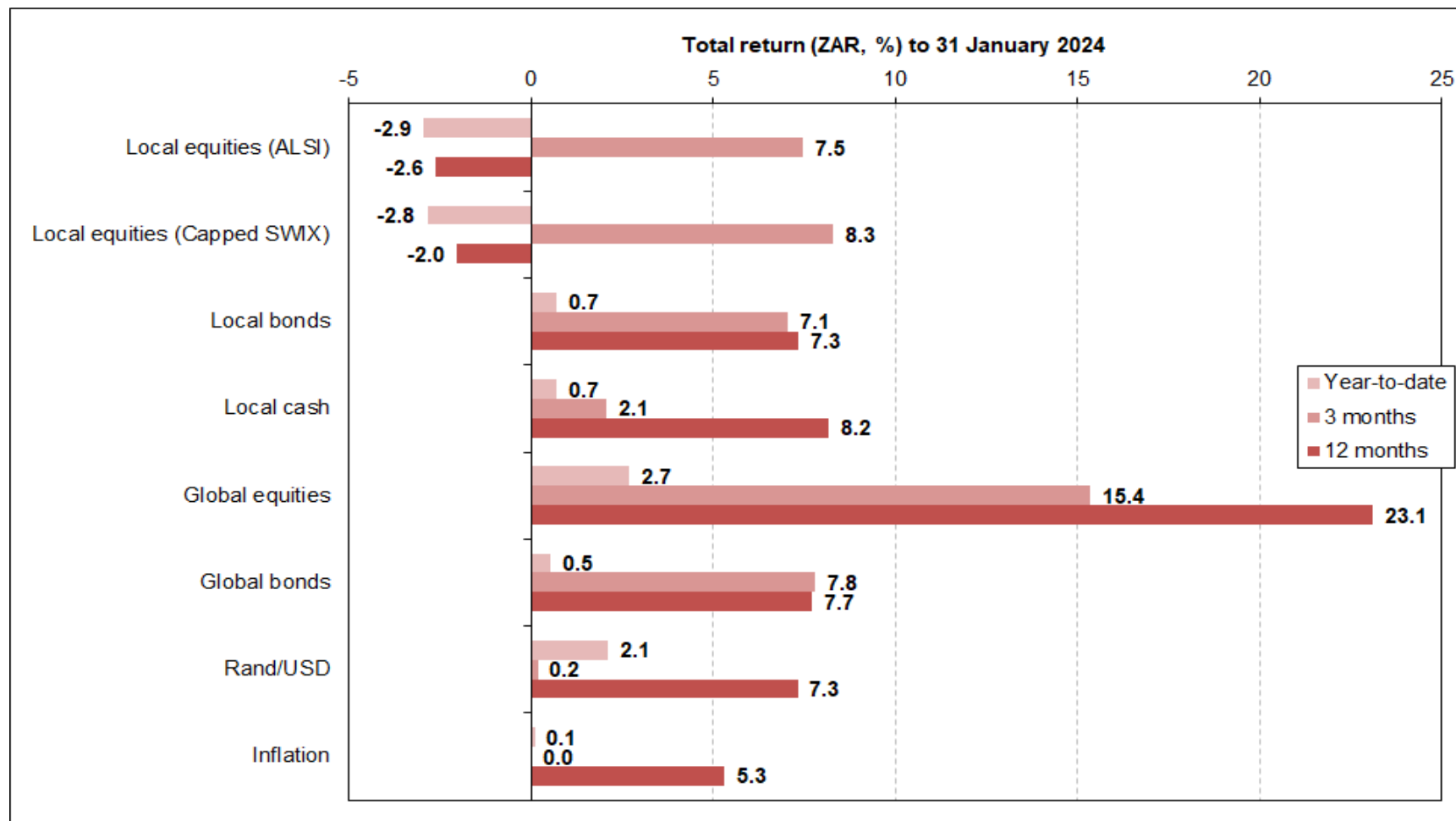
ECONOMIC INDICATORS

Economic indicators ¹	Jan 2022	Jan 2023	Nov 2023	Dec 2023	Jan 2024
Exchange rates:					
ZAR/USD	15.39	17.41	18.86	18.30	18.69
ZAR/GBP	20.69	21.45	23.80	23.30	23.71
ZAR/Euro	17.28	18.91	20.53	20.20	20.21
Commodities:					
Brent Crude Oil (USD/barrel)	89.26	85.46	80.86	77.04	80.55
Platinum (USD/ounce)	1,018.50	1,011.24	929.59	986.75	931.50
Gold (USD/ounce)	1,790.62	1,906.54	2,041.32	2,062.89	2,039.15

1. Month-end prices

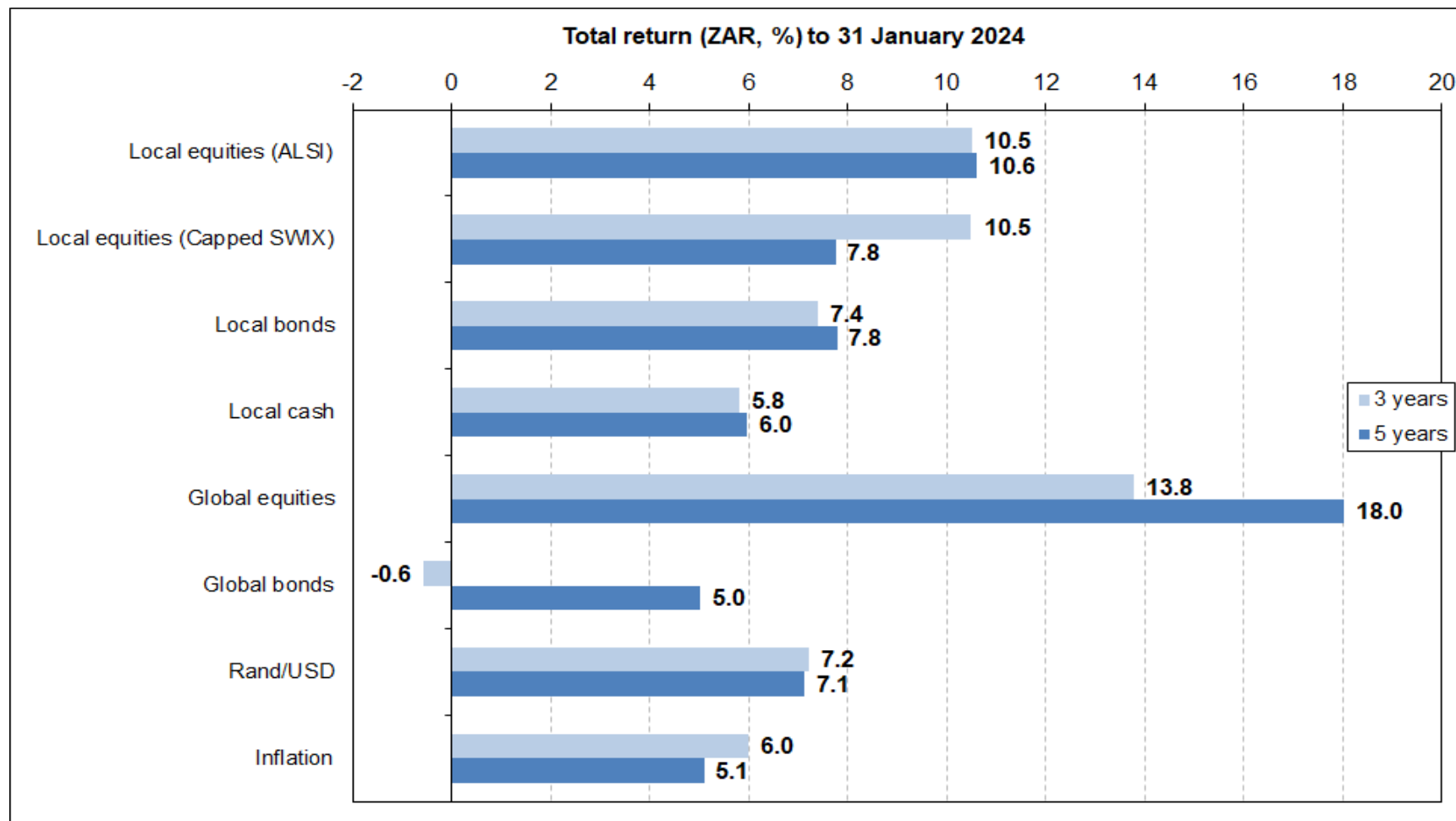
ASSET CLASS PERFORMANCE

SHORT TERM



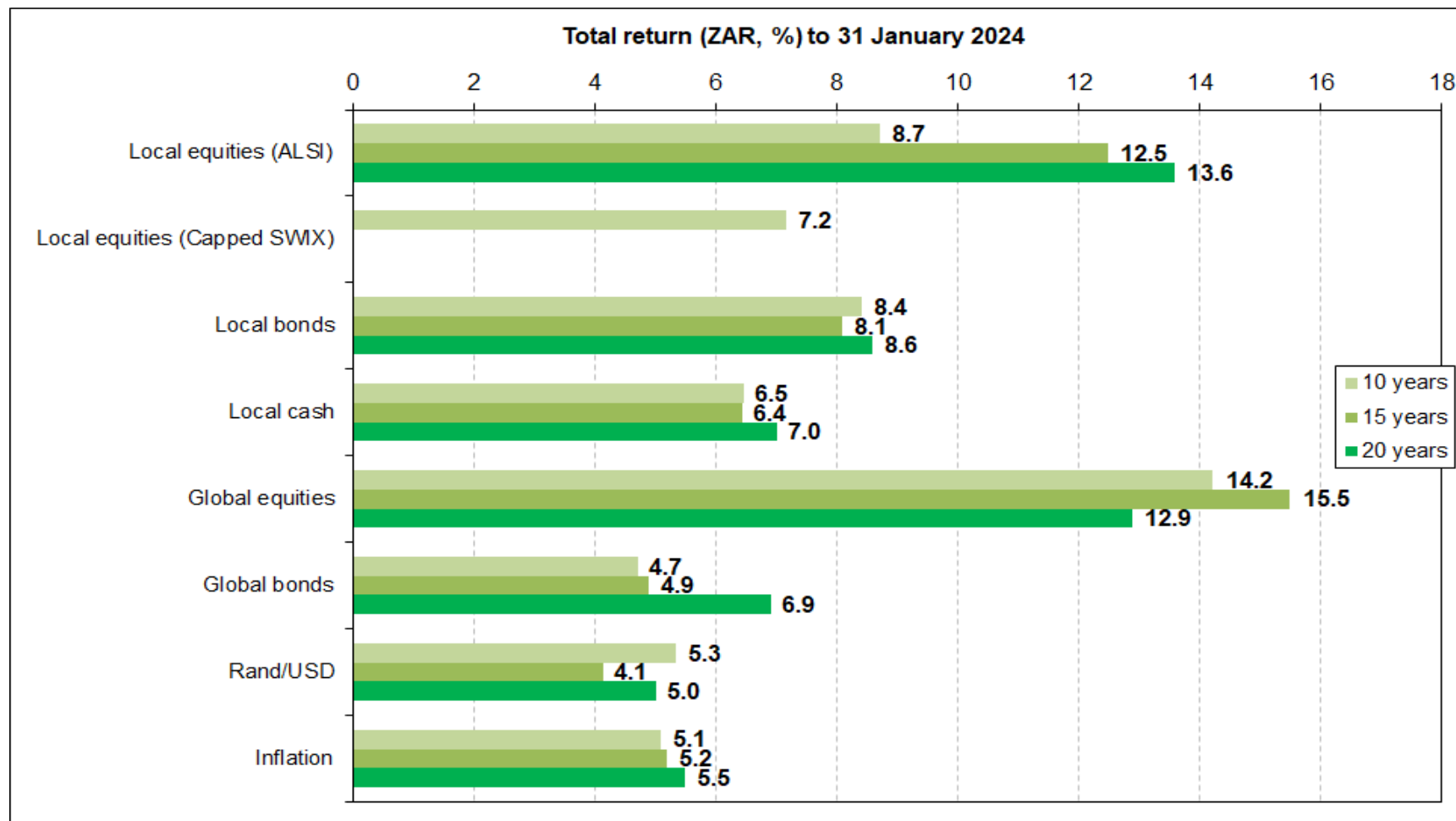
ASSET CLASS PERFORMANCE

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:

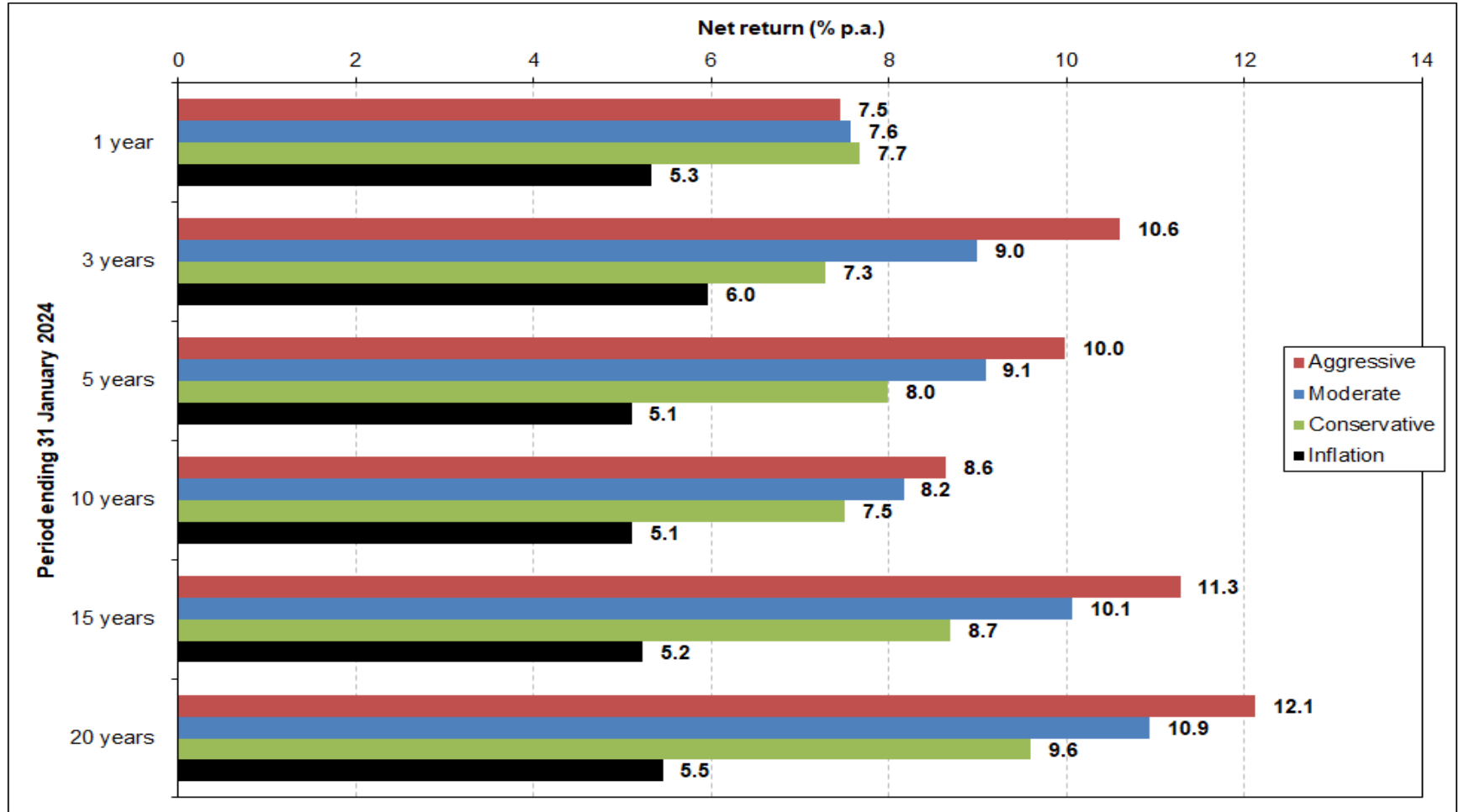
AGGRESSIVE	Strategic allocation	LOCAL VS OFFSHORE	60%		40% (5% below regulatory maximum)	
		GROWTH VS INCOME ASSETS	75%	25%	75%	25%
		EQUITIES VS BONDS VS CASH	100%	75% 25%	100%	100%
	Current allocation		~45%	~11% ~4%	~30%	~10%

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%

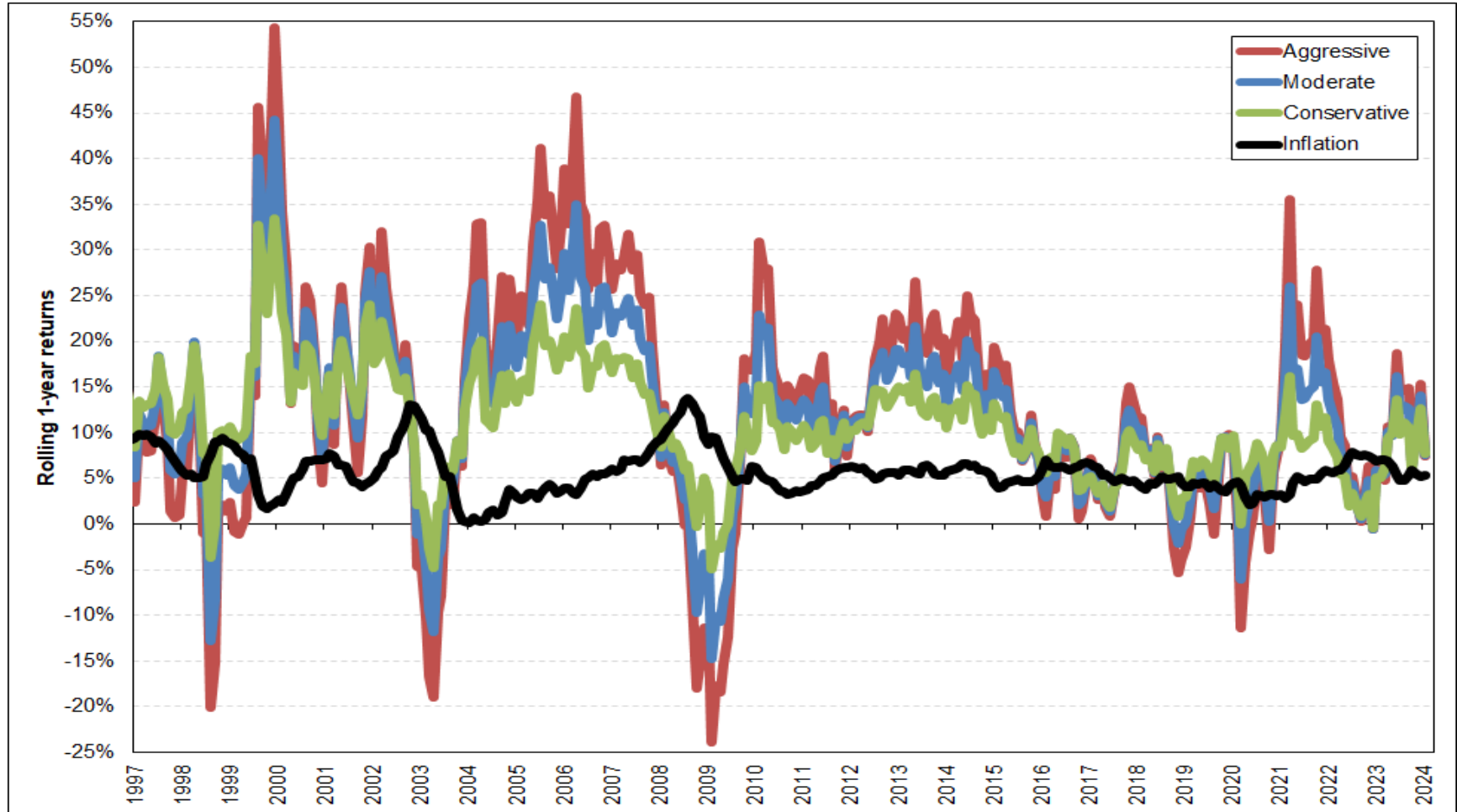
MARKET PERFORMANCE

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



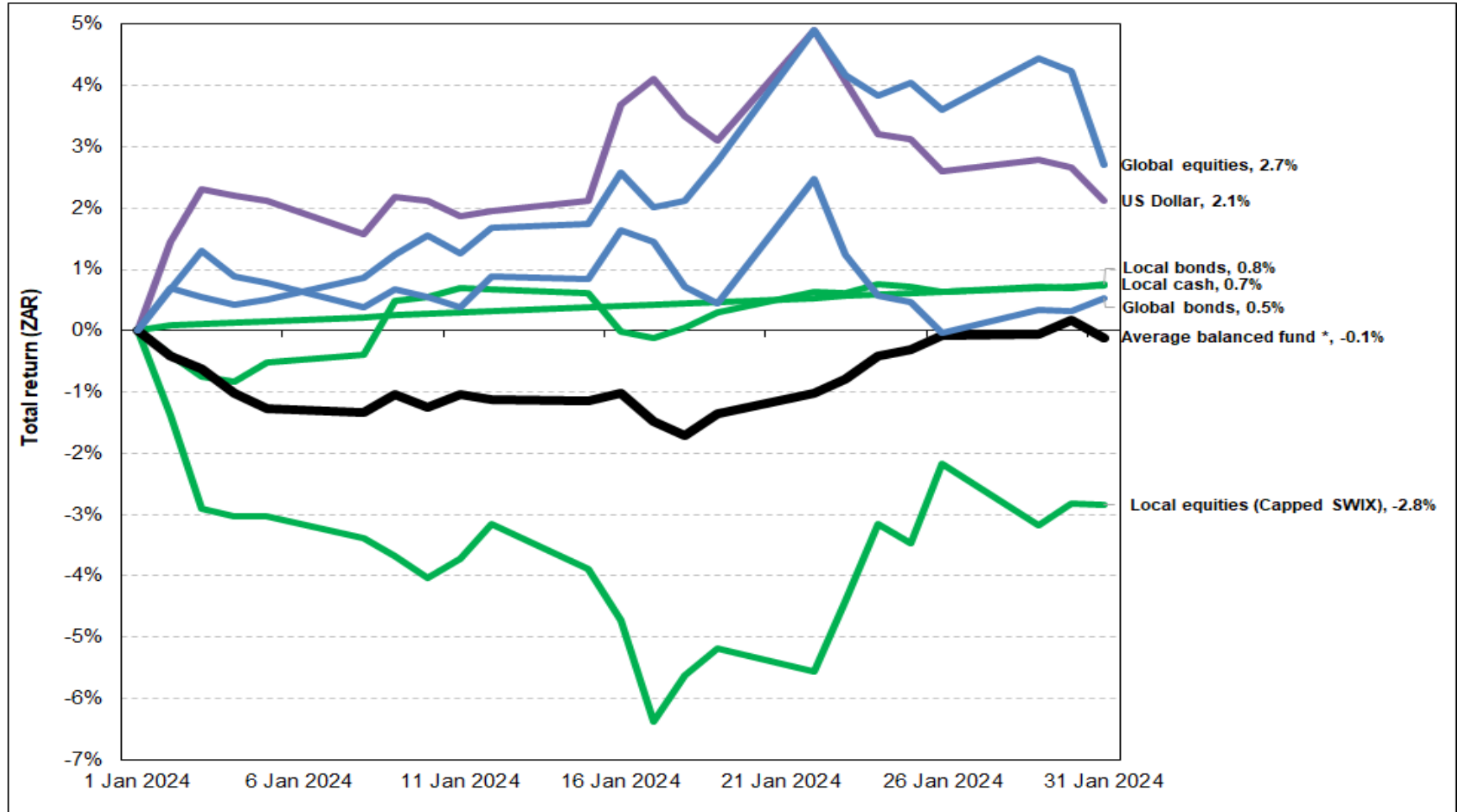
MARKET PERFORMANCE

STEEP DROP IN ROLLING 1-YEAR RETURNS AS STRONG JANUARY 2023 REPLACED WITH POOR JANUARY 2024



MARKETS in 2024 (ZAR)

A POOR START FOR THE LOCAL EQUITY MARKET

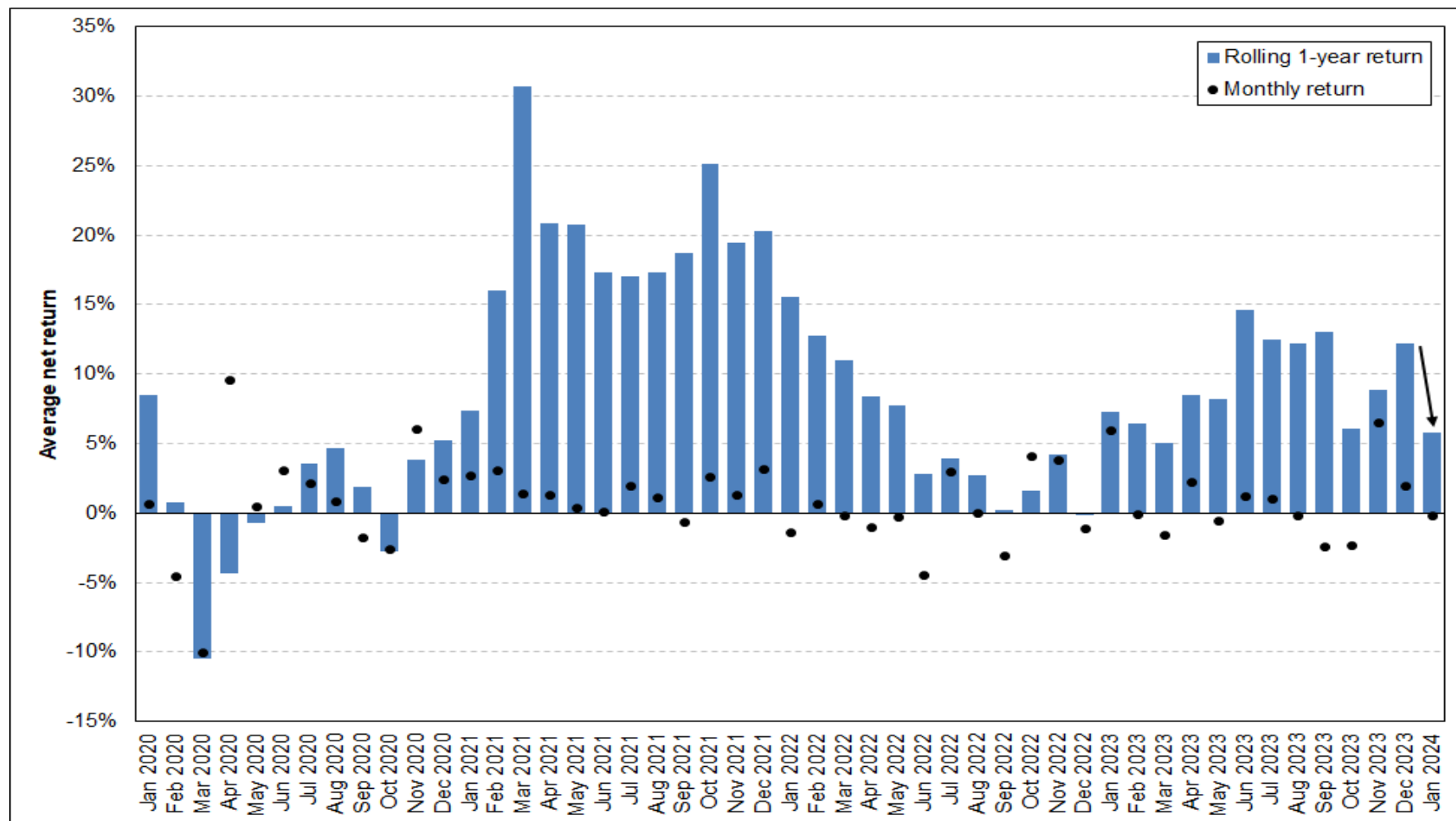


Source: Iress, Morningstar

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

AVERAGE BALANCED FUND *

STEEP DROP IN ROLLING 1-YEAR RETURN AS STRONG JANUARY 2023 REPLACED WITH POOR JANUARY 2024



Source: Iress, Morningstar

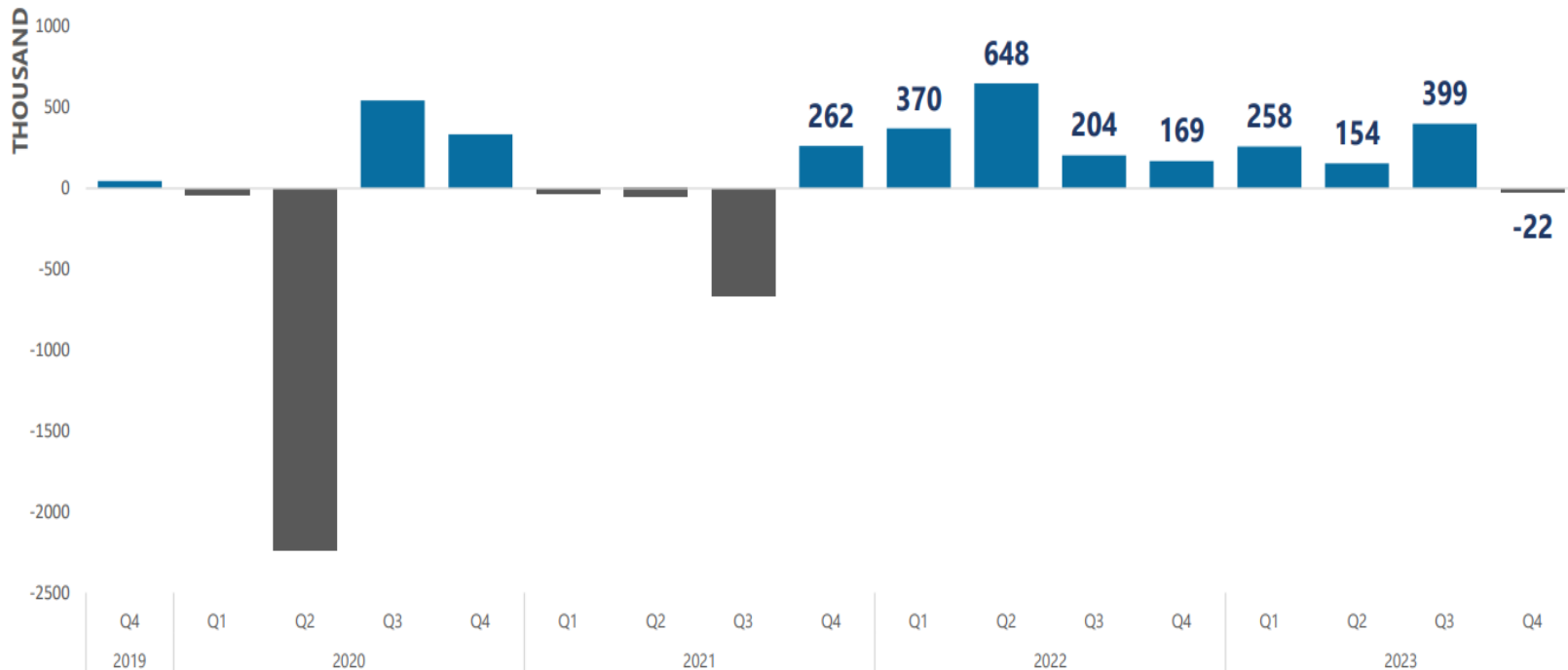
* ASISA South African Multi Asset High Equity category average (net of fees)

Robson • Savage

SA UNEMPLOYMENT RECOVERY LOSES STEAM

After eight consecutive increases, employment decreased by 22 000 in the last quarter of 2023.

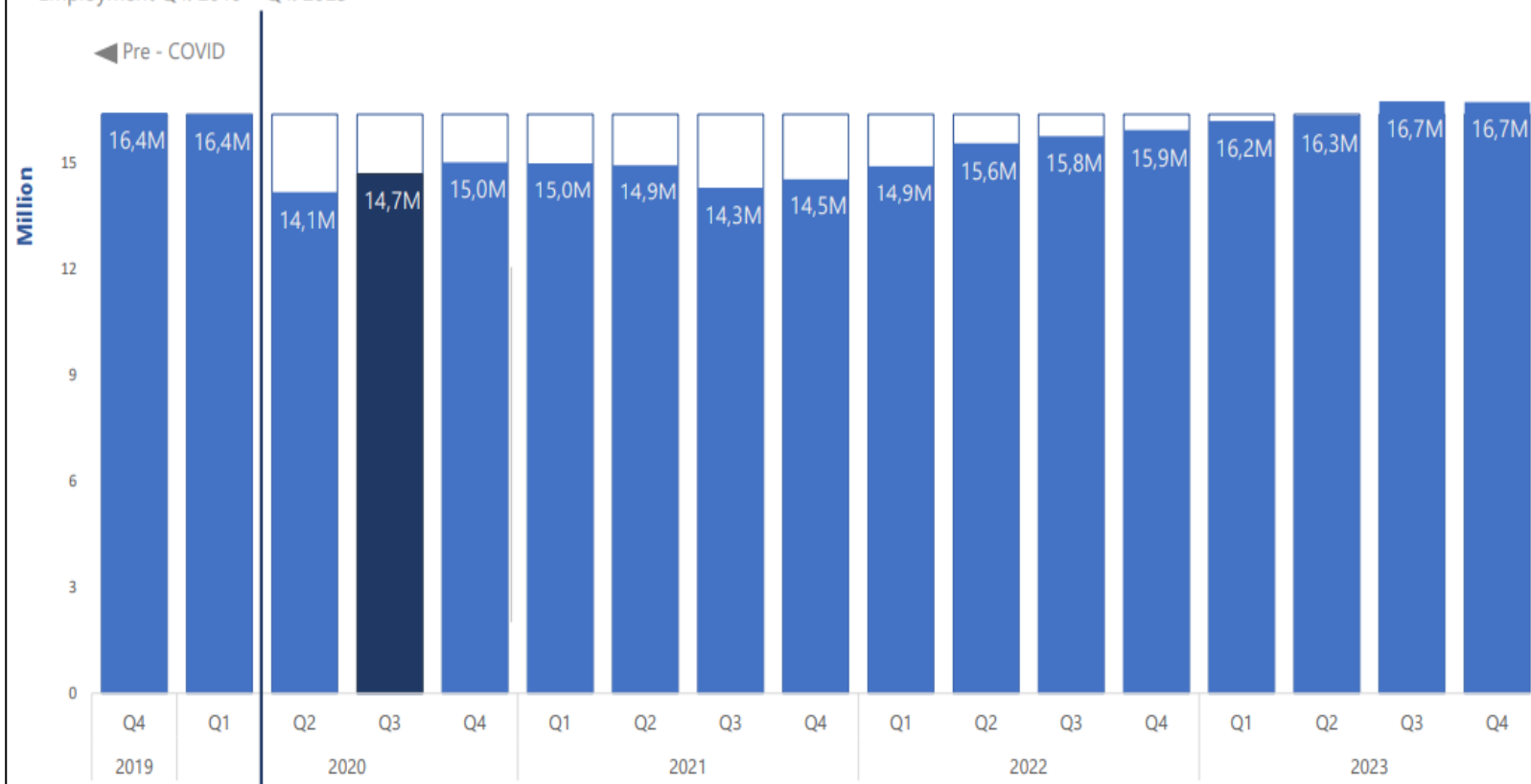
Employment changes Q4:2019-Q4:2023



SA UNEMPLOYMENT RECOVERY LOSES STEAM

The number of **employed** persons remains at 16,7M in Q4:2023 compared to Q3:2023 having surpassed **pre-COVID** level of 16,4M in Q1:2020

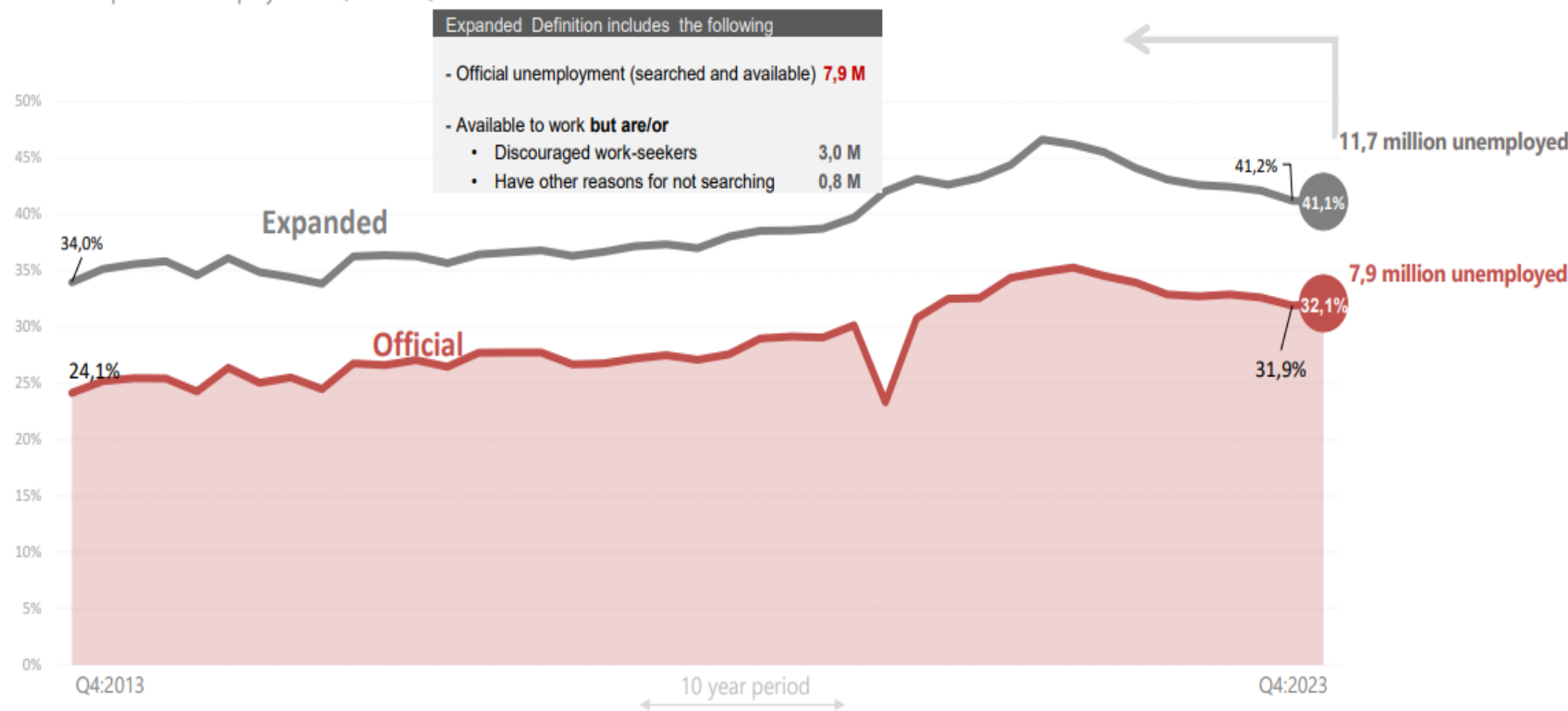
Employment Q4: 2019 – Q4: 2023



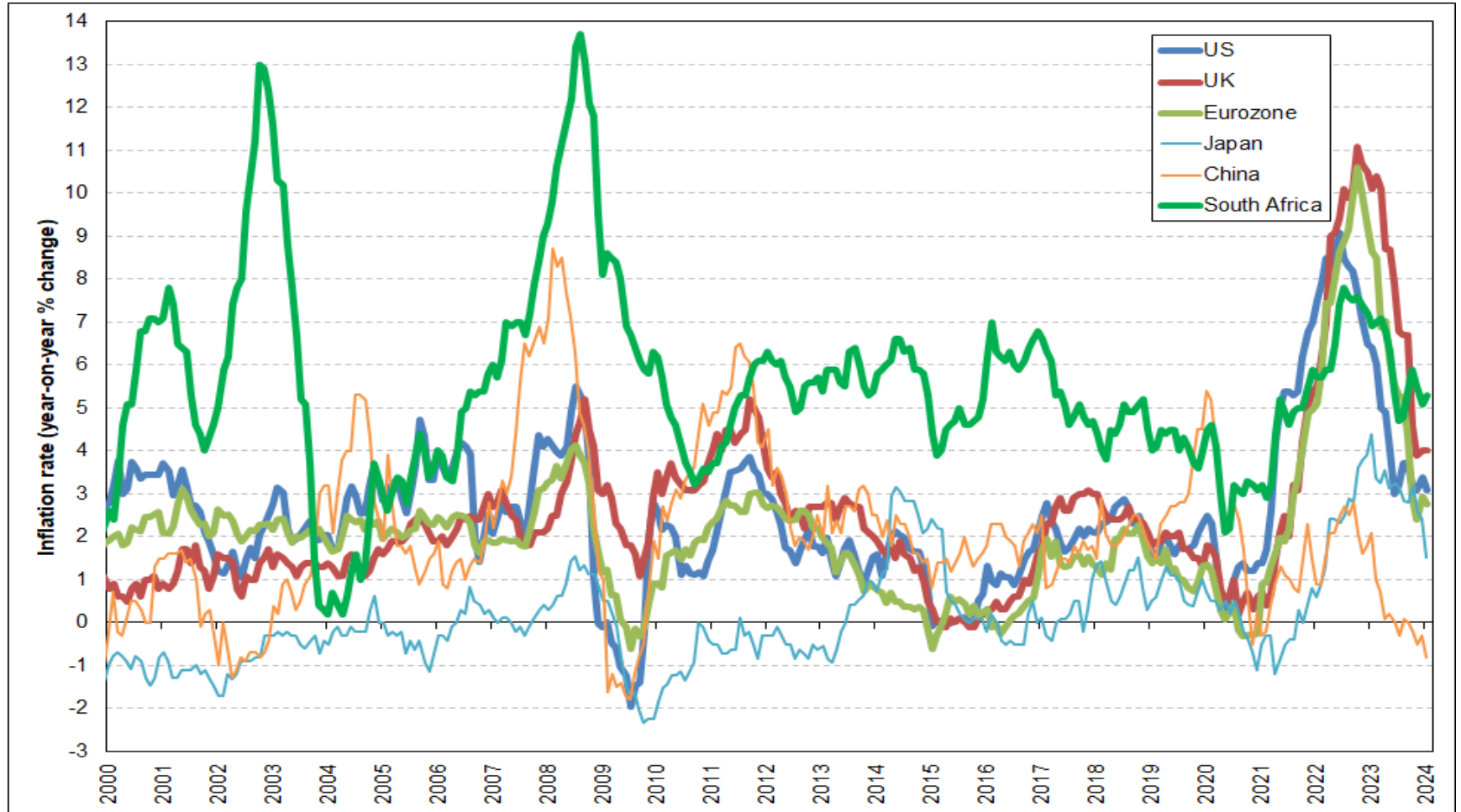
SA UNEMPLOYMENT RECOVERY LOSES STEAM

The **expanded** unemployment rate **decreased by 0,1** of a percentage point to **41,1%** when comparing Q4:2023 and Q3:2023.

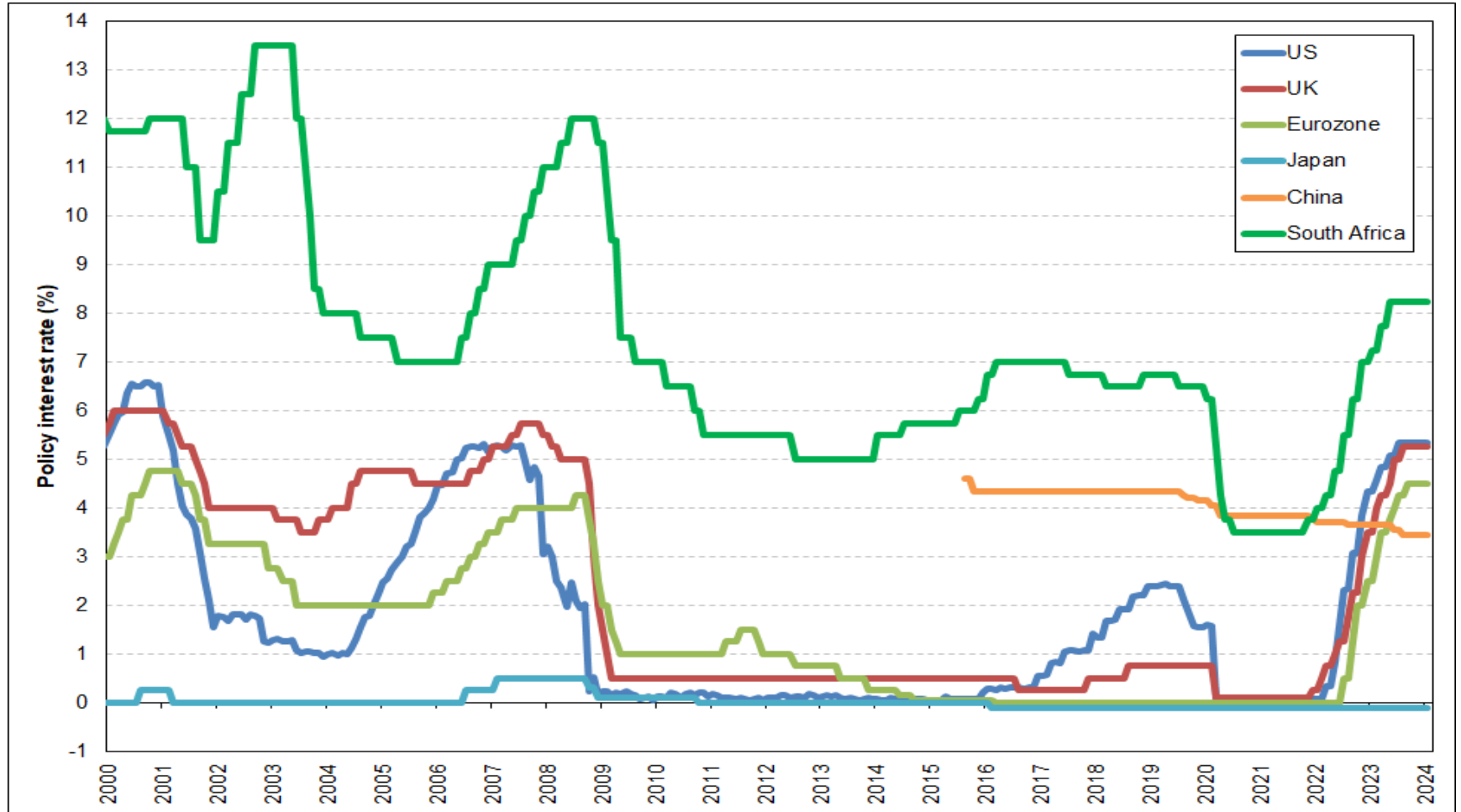
Official vs Expanded unemployment: Q4:2013-Q4:2023



INFLATION RATES STILL BEHAVING

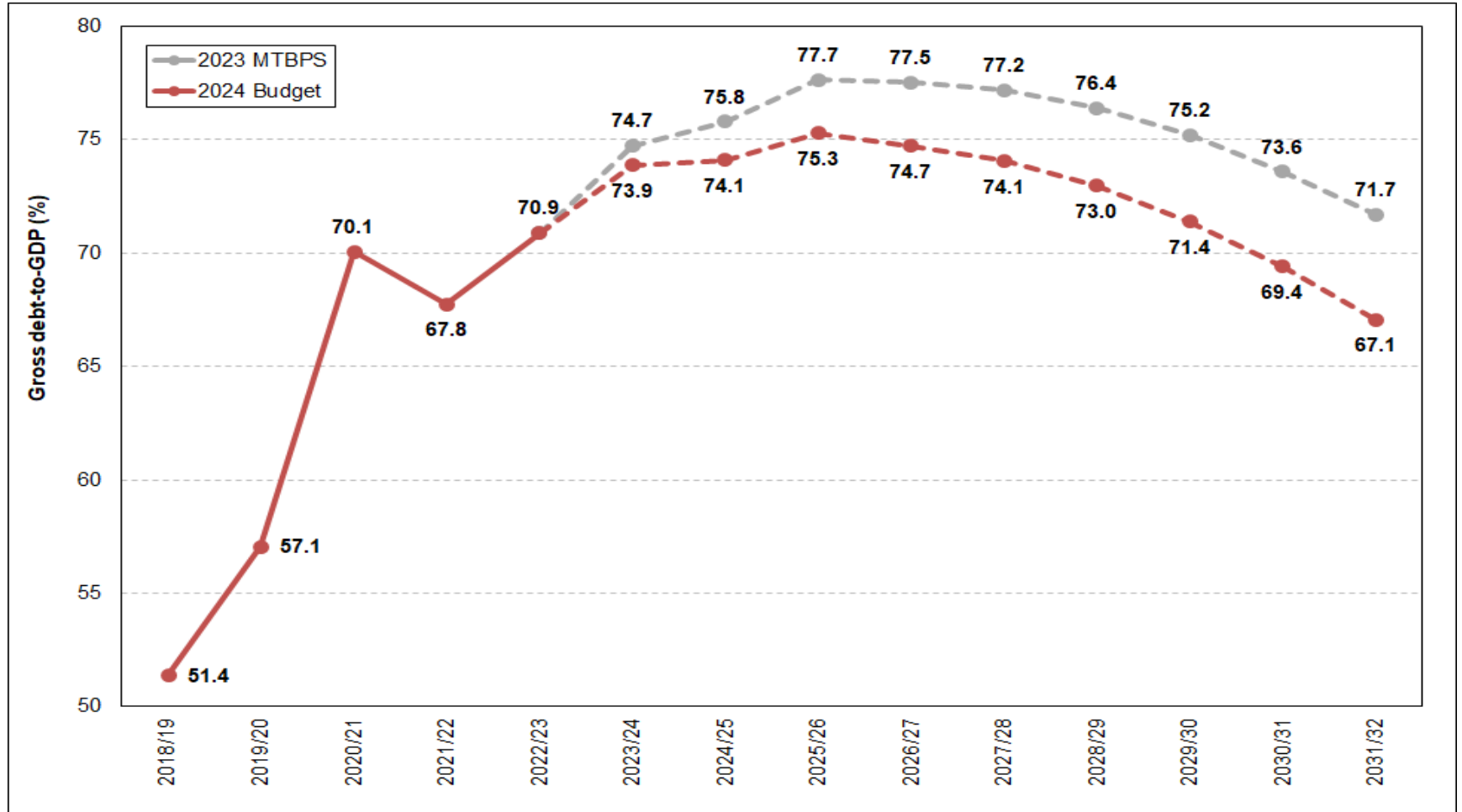


INTEREST RATES STAYING PUT FOR NOW



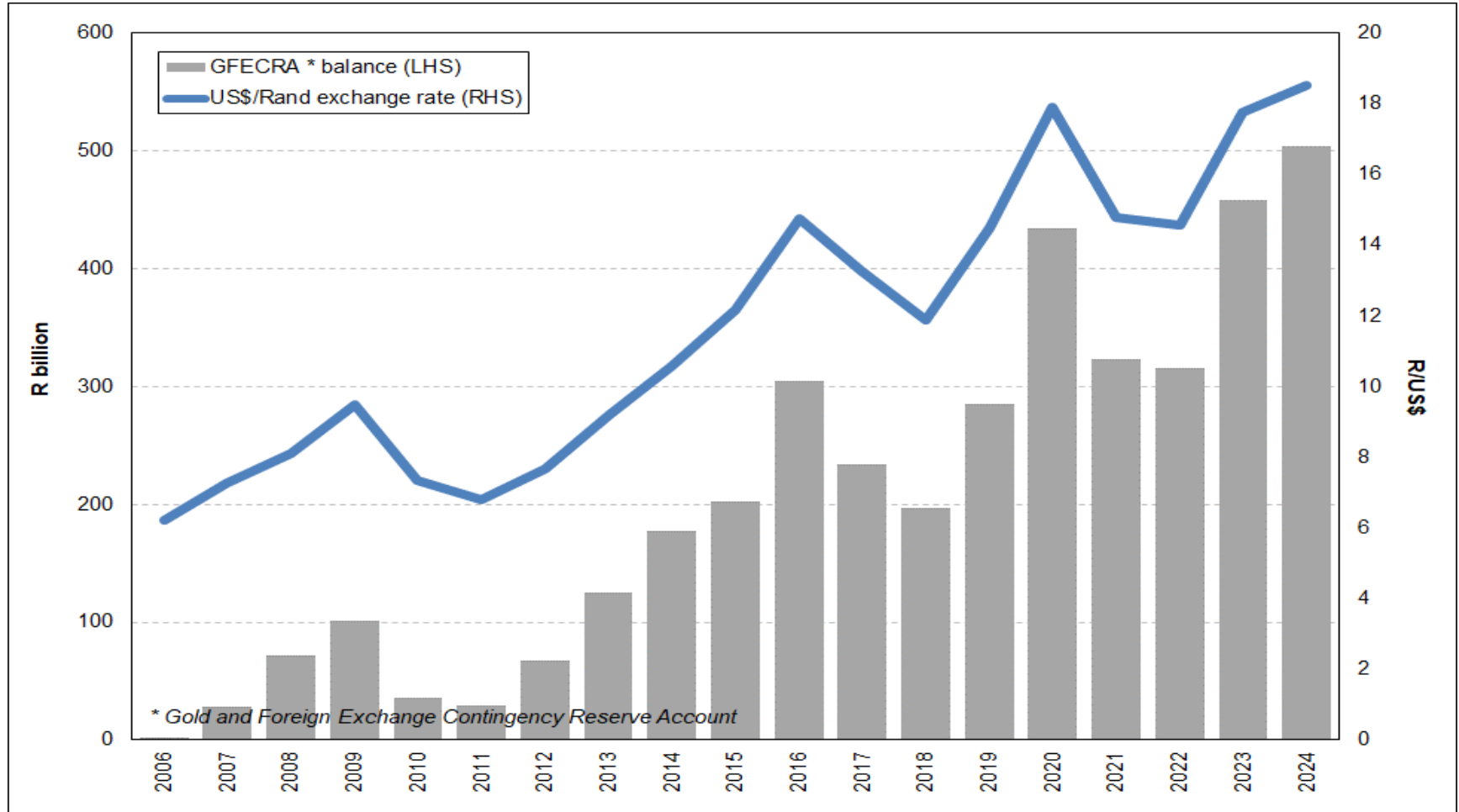
2024 BUDGET

DEBT TRAJECTORY REVISED LOWER



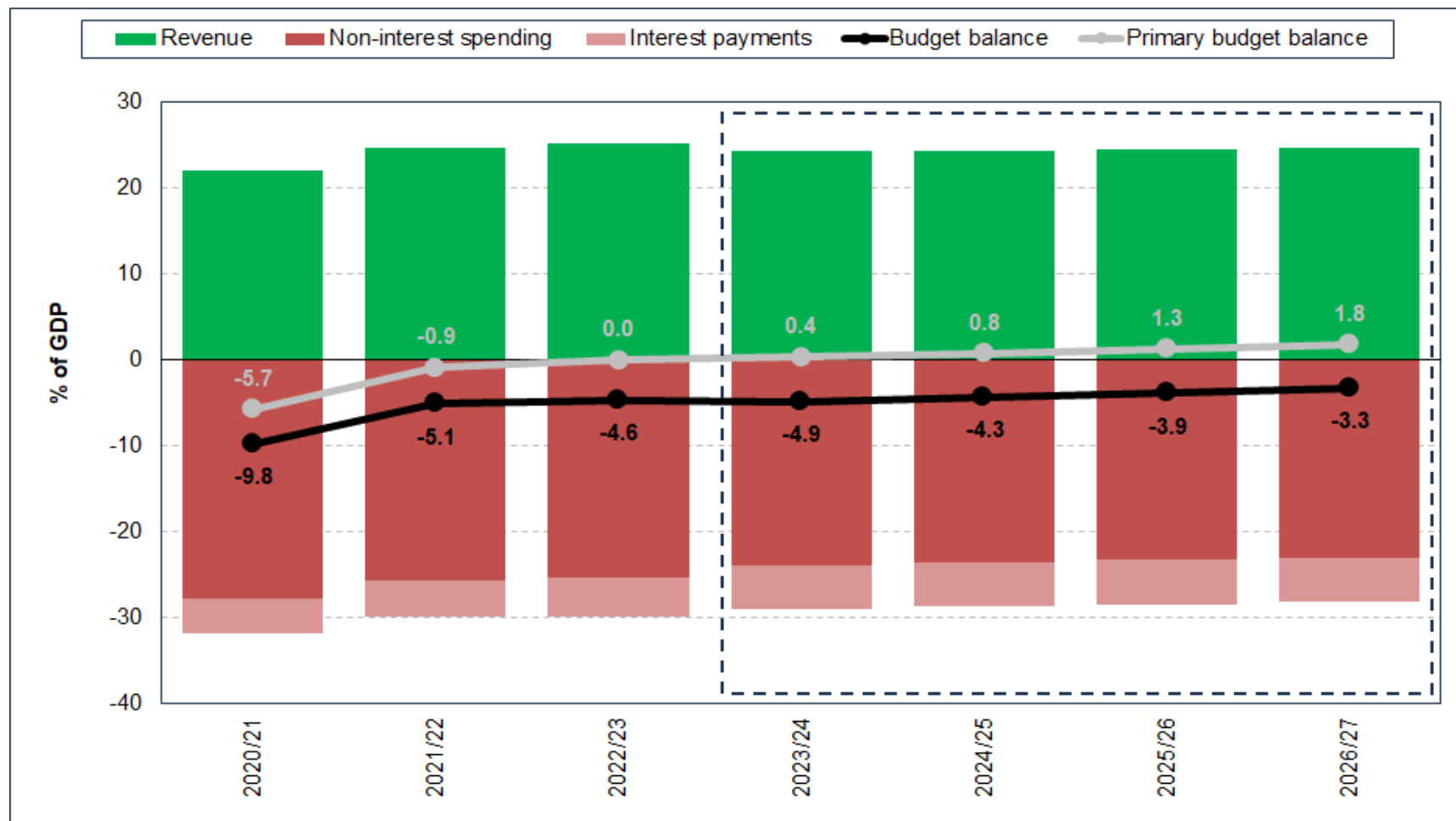
2024 BUDGET

AS WE TAP INTO OUR CONTINGENCY RESERVES



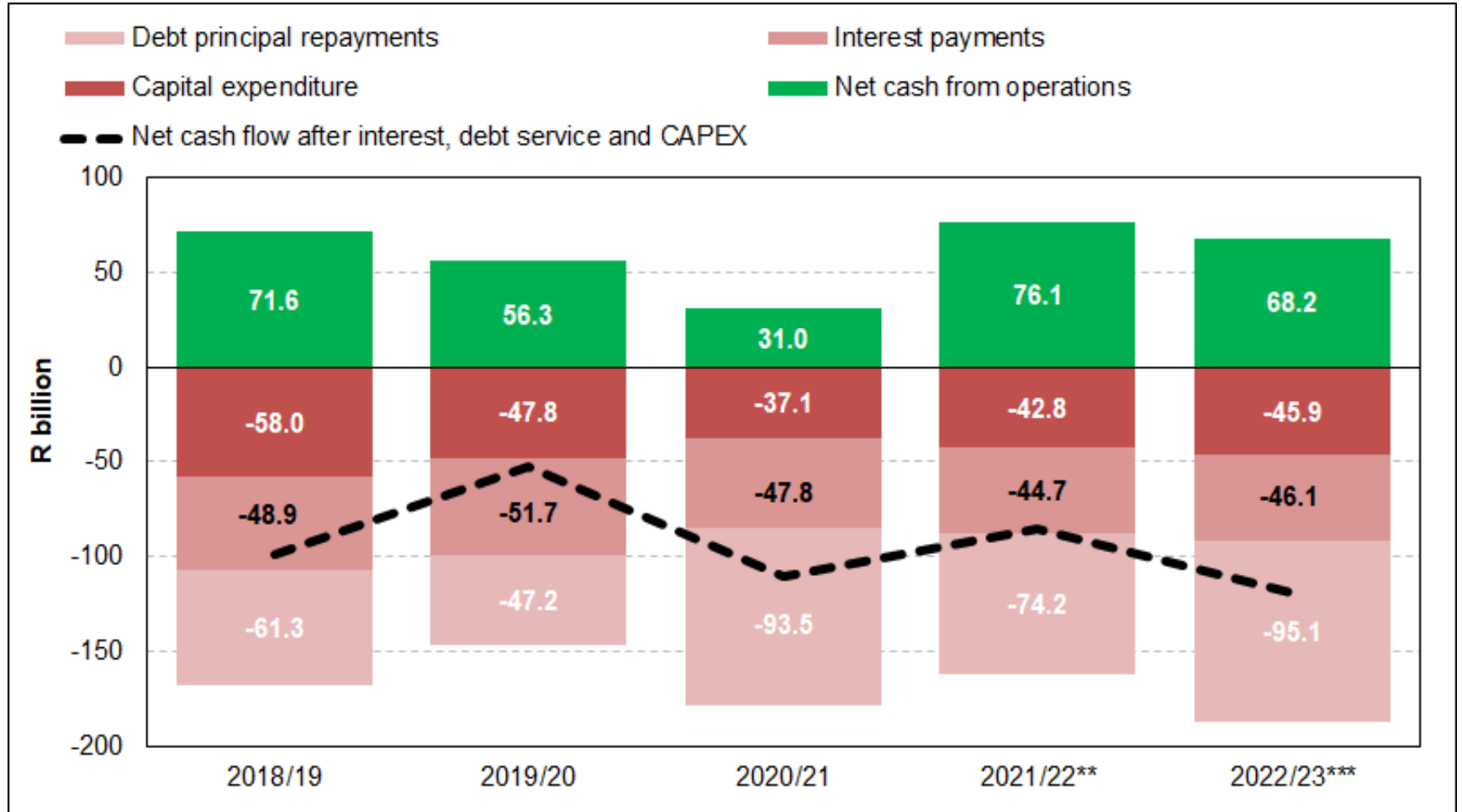
2024 BUDGET

BUT FISCAL CONSOLIDATION THANKFULLY CONTINUES



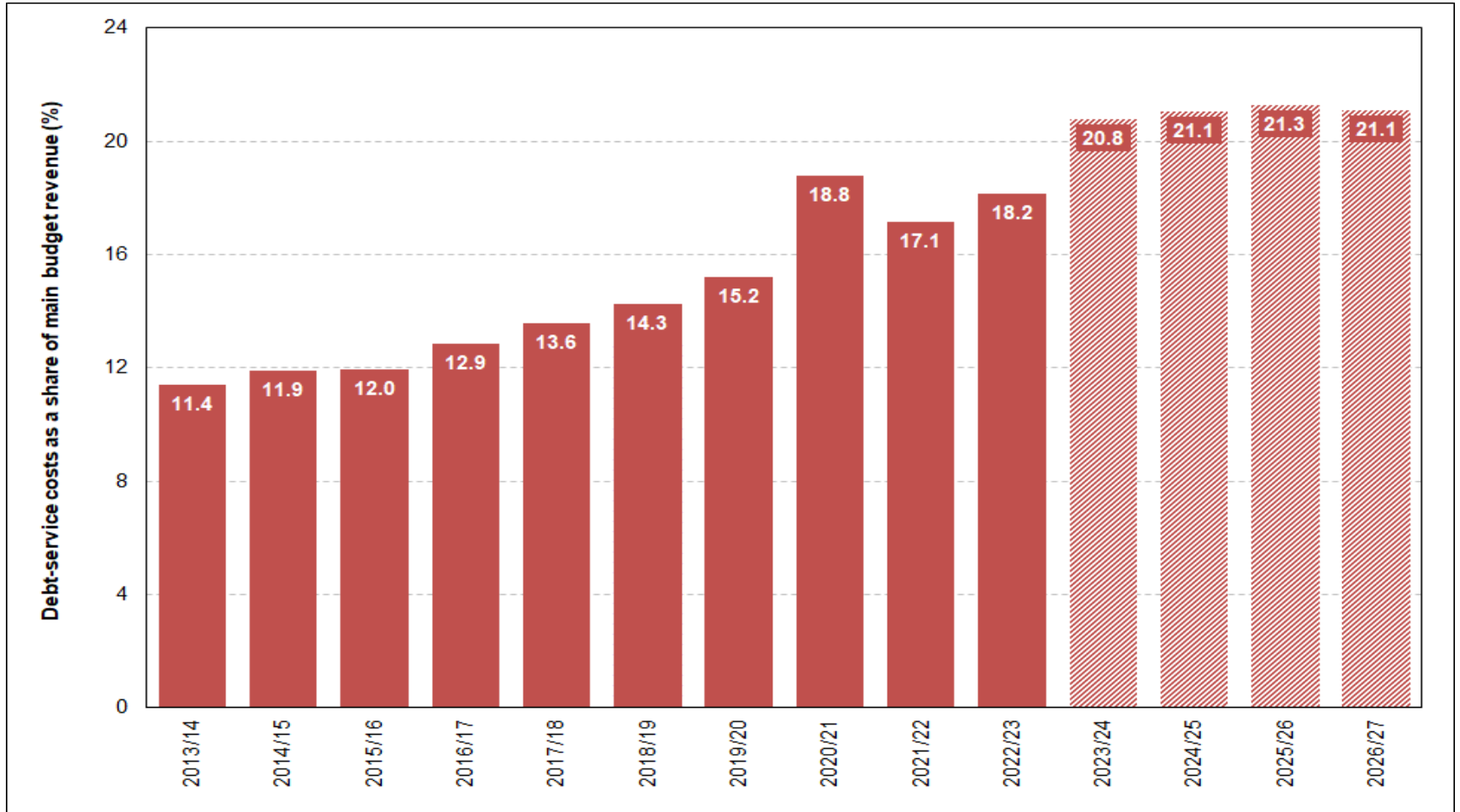
2024 BUDGET

EVEN AS OUR SOEs DRAIN THE FISCUS

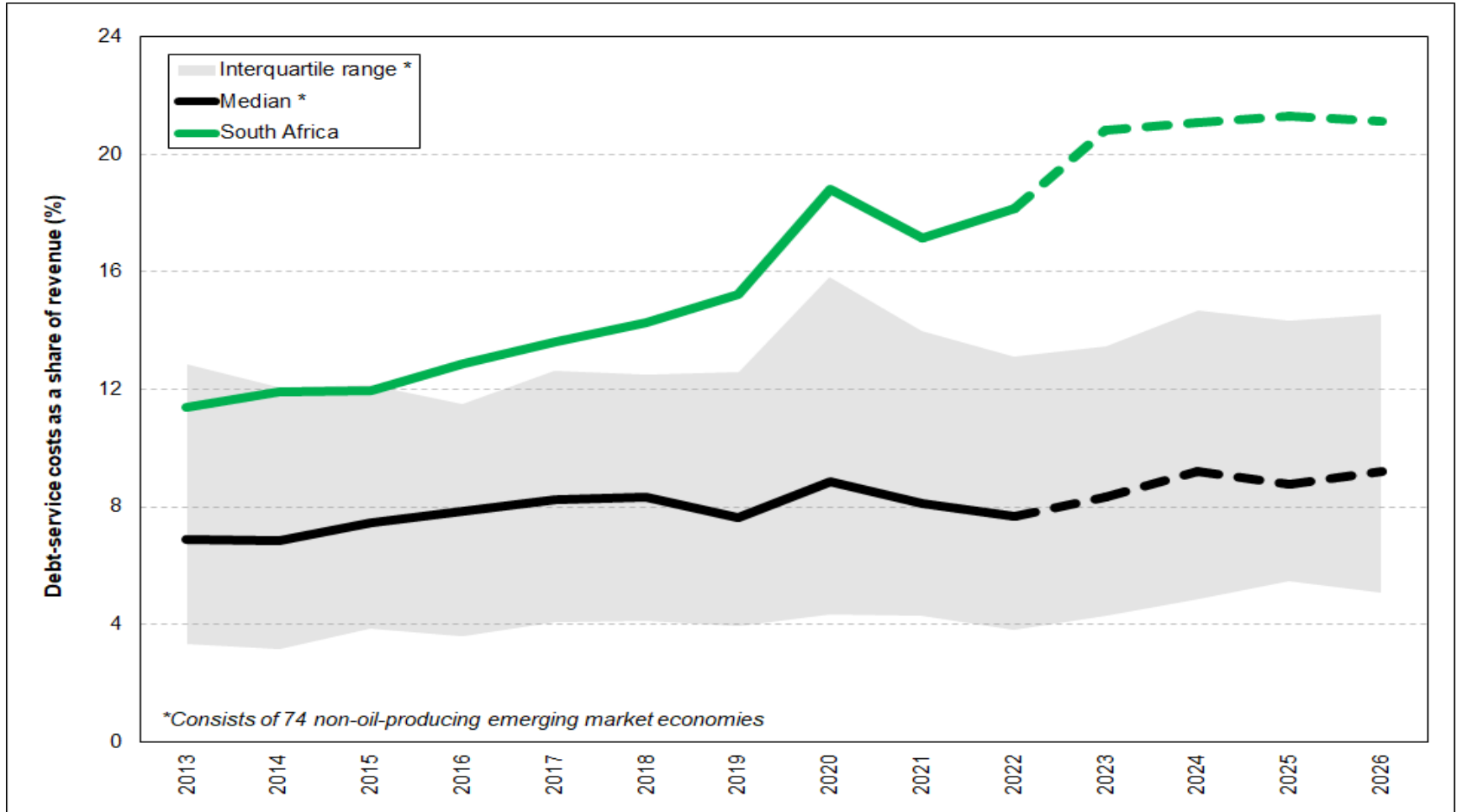


2024 BUDGET

DEBT-SERVICE COSTS ARE HIGH

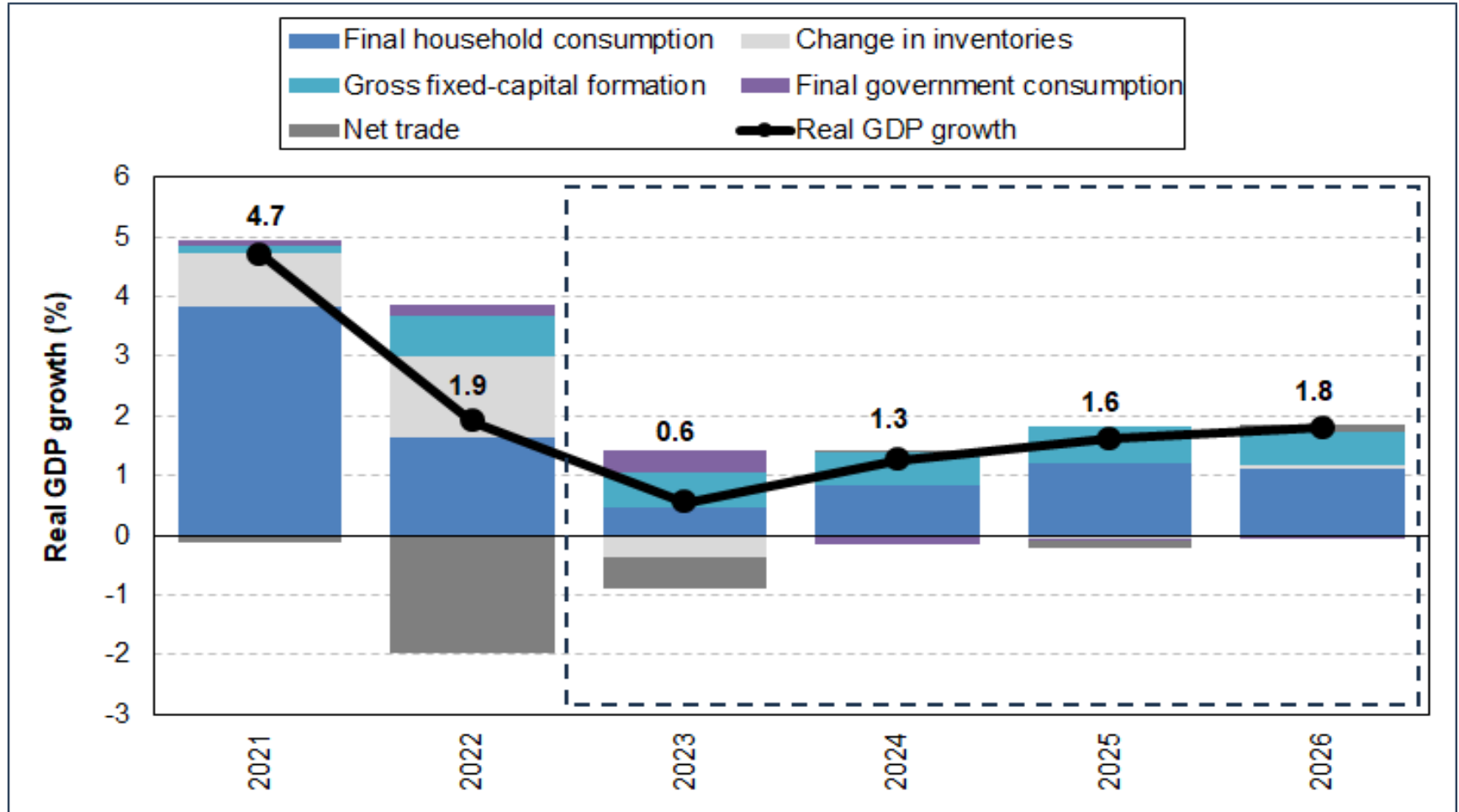


2024 BUDGET AND HAVE GROWN SUBSTANTIALLY



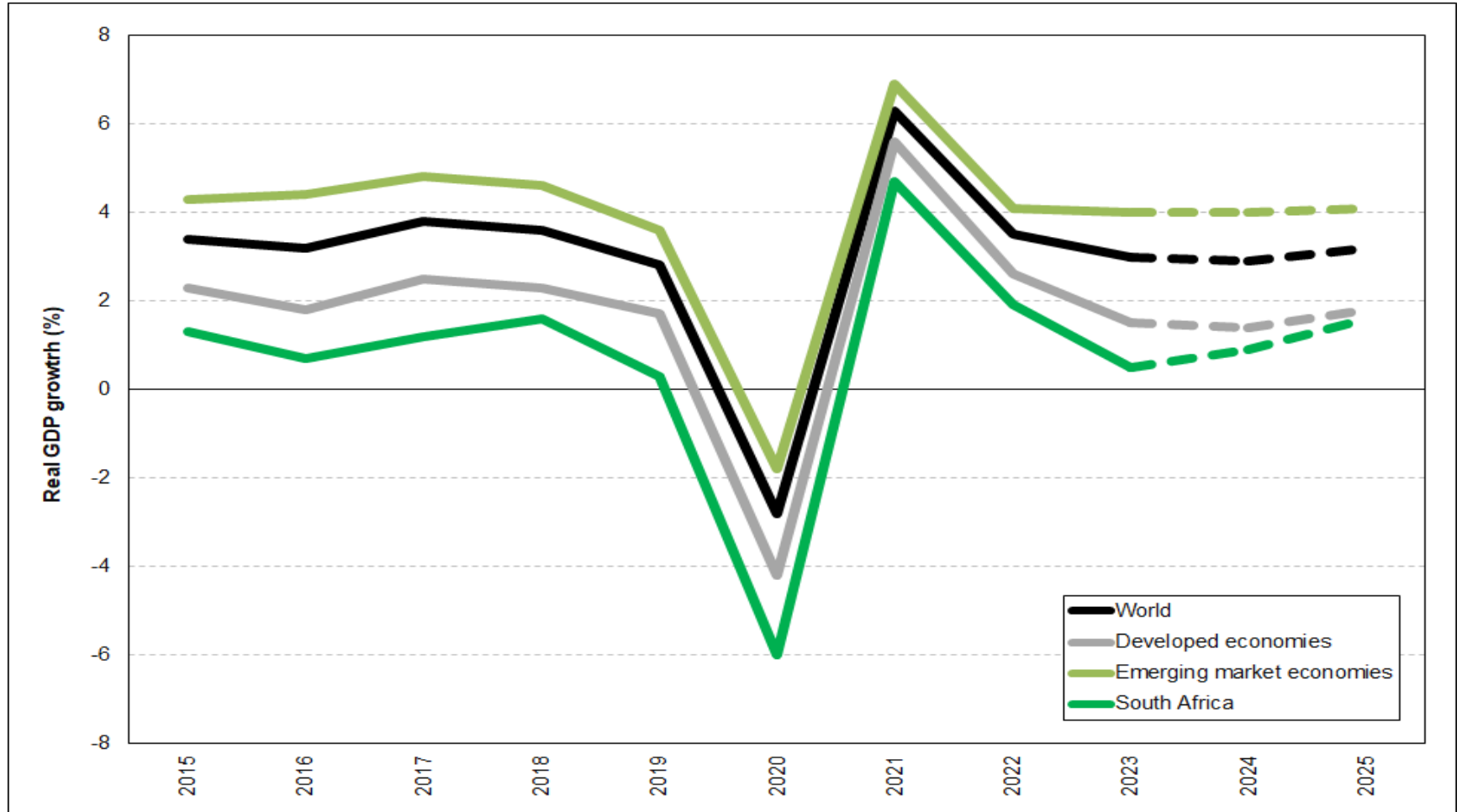
2024 BUDGET

ECONOMIC GROWTH OUTLOOK REMAINS UNIMPRESSIVE



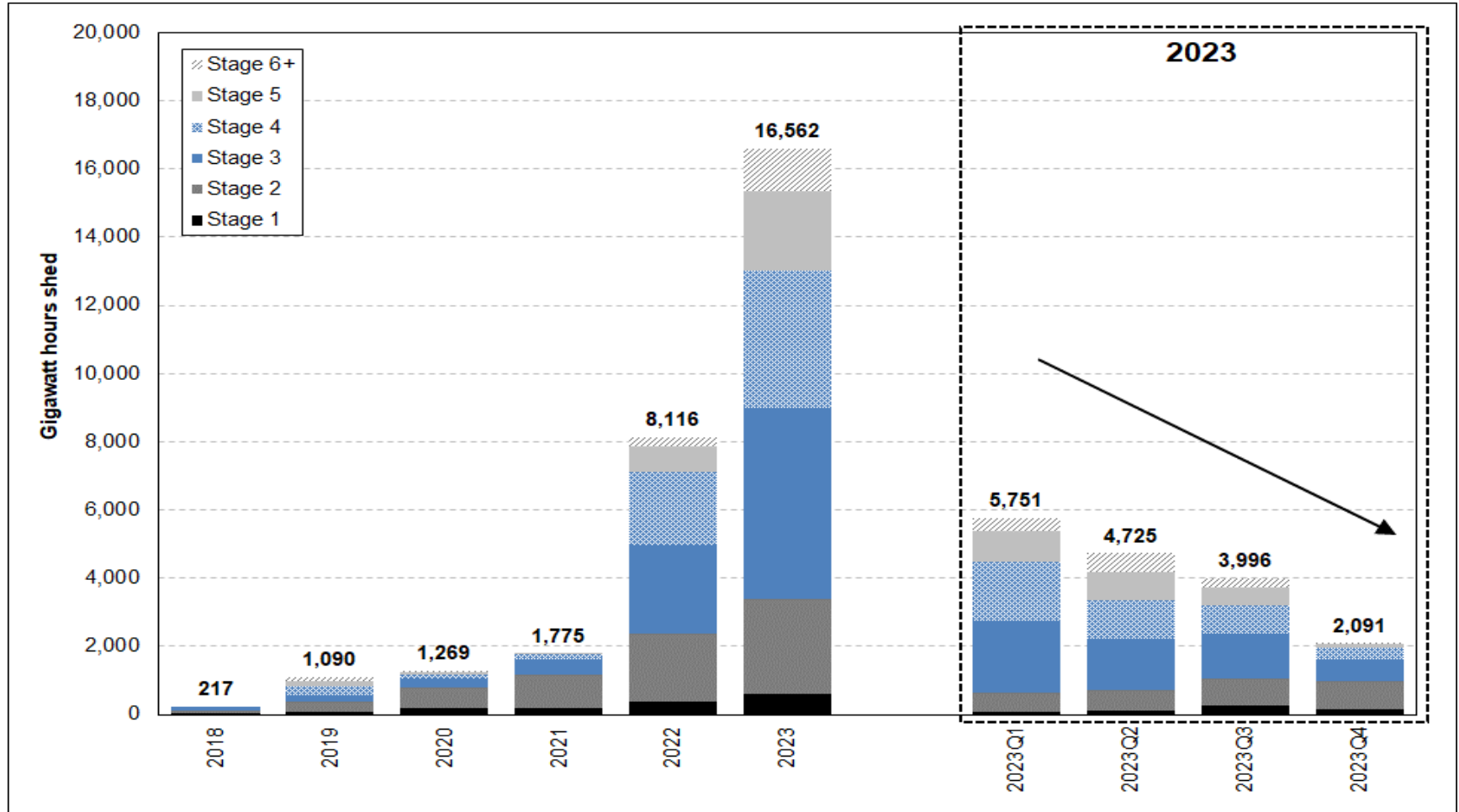
2024 BUDGET

AS SA CONTINUES TO UNDERPERFORM



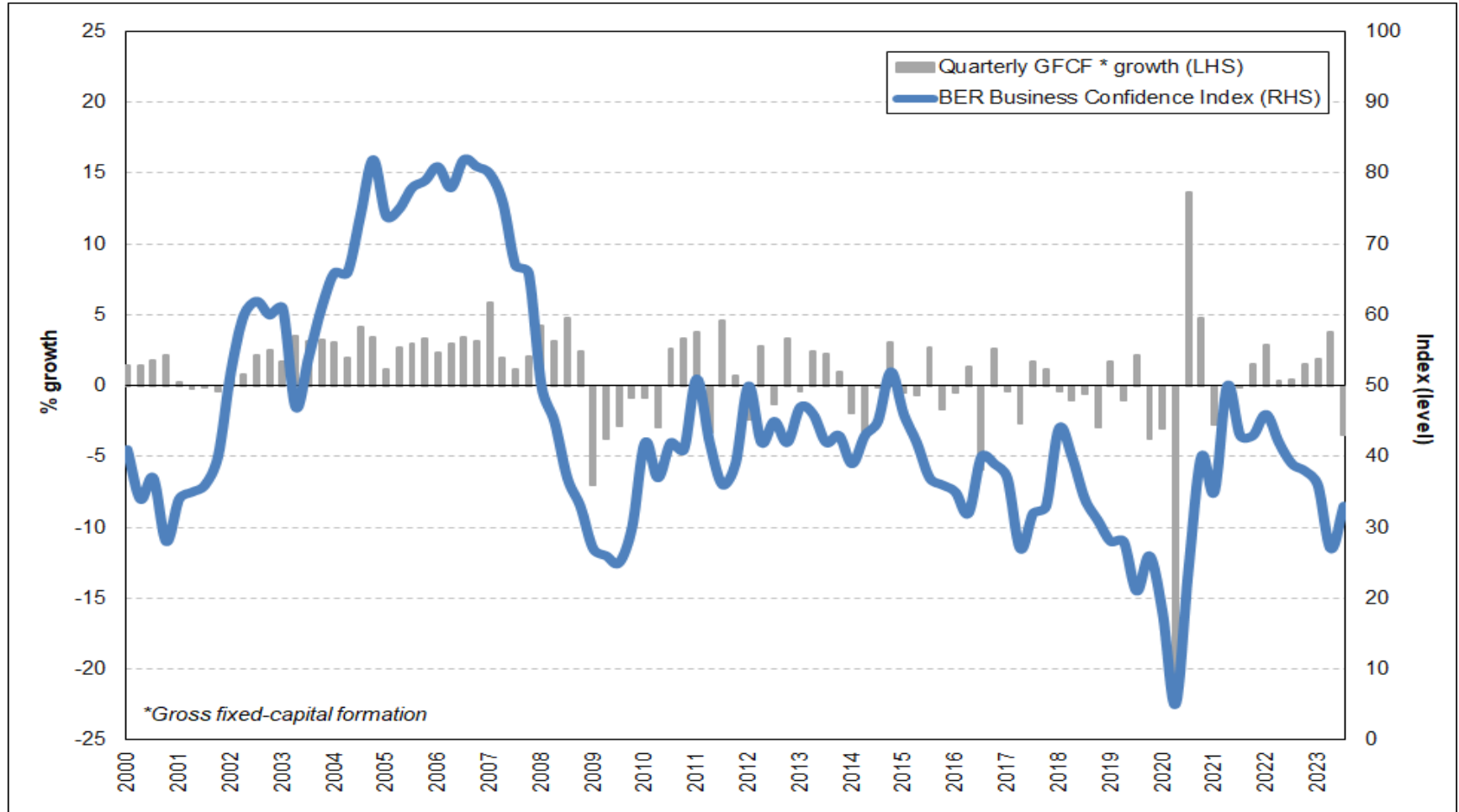
2024 BUDGET

LOADSHEDDING A BIG REASON OF COURSE, BUT HOPEFULLY THE WORST IS NOW BEHIND US



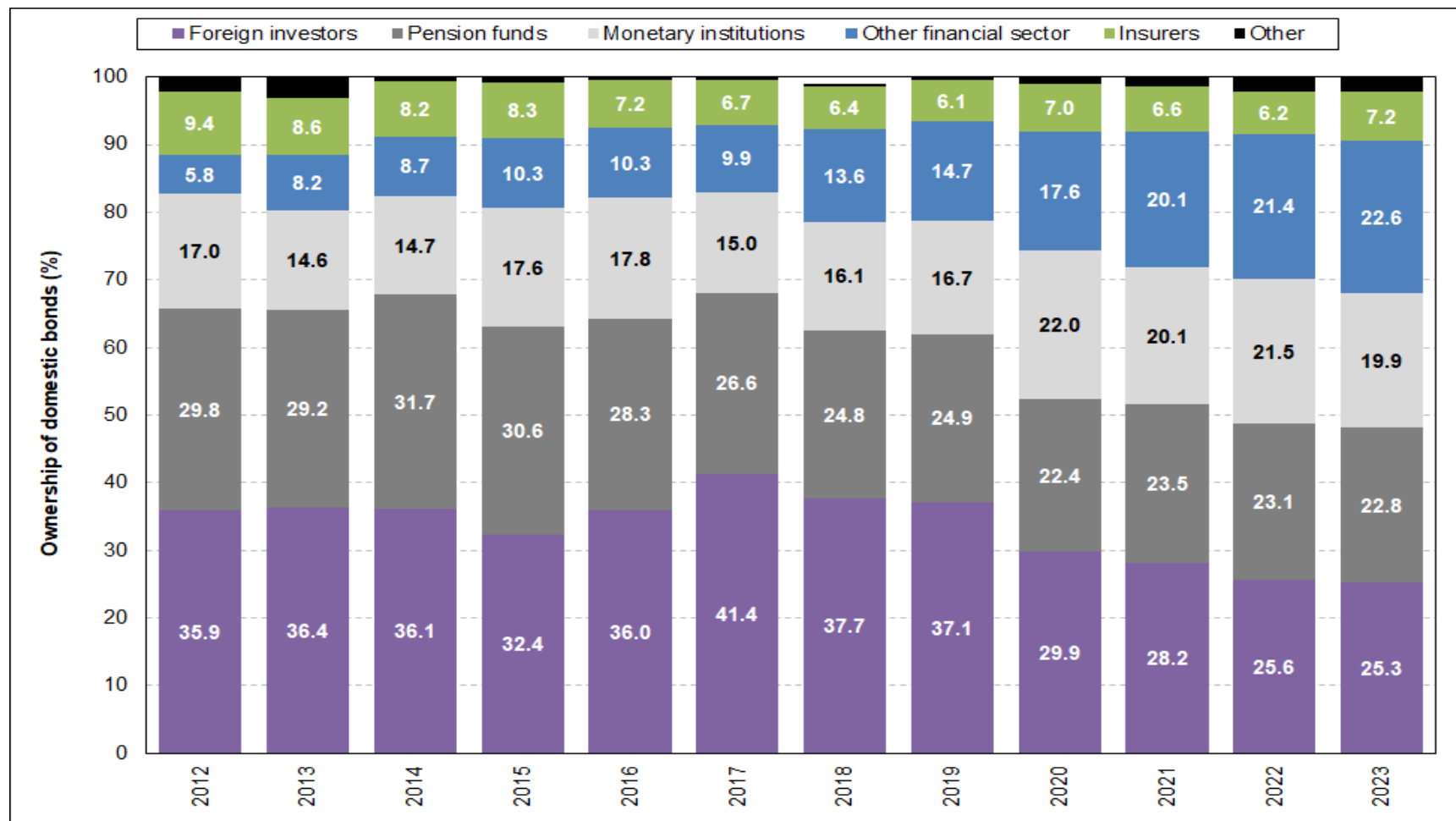
2024 BUDGET

LACK OF CONFIDENCE = LOW TO NO INVESTMENT



2024 BUDGET

FOREIGN OWNERSHIP SHARE OF DOMESTIC BONDS DECLINING



2024 BUDGET

BUT, EXPECTATIONS WERE LOW, SO MARKET REACTION WAS MILDLY POSITIVE

