

# **MONTH IN PICTURES**

**SEPTEMBER  
2022**

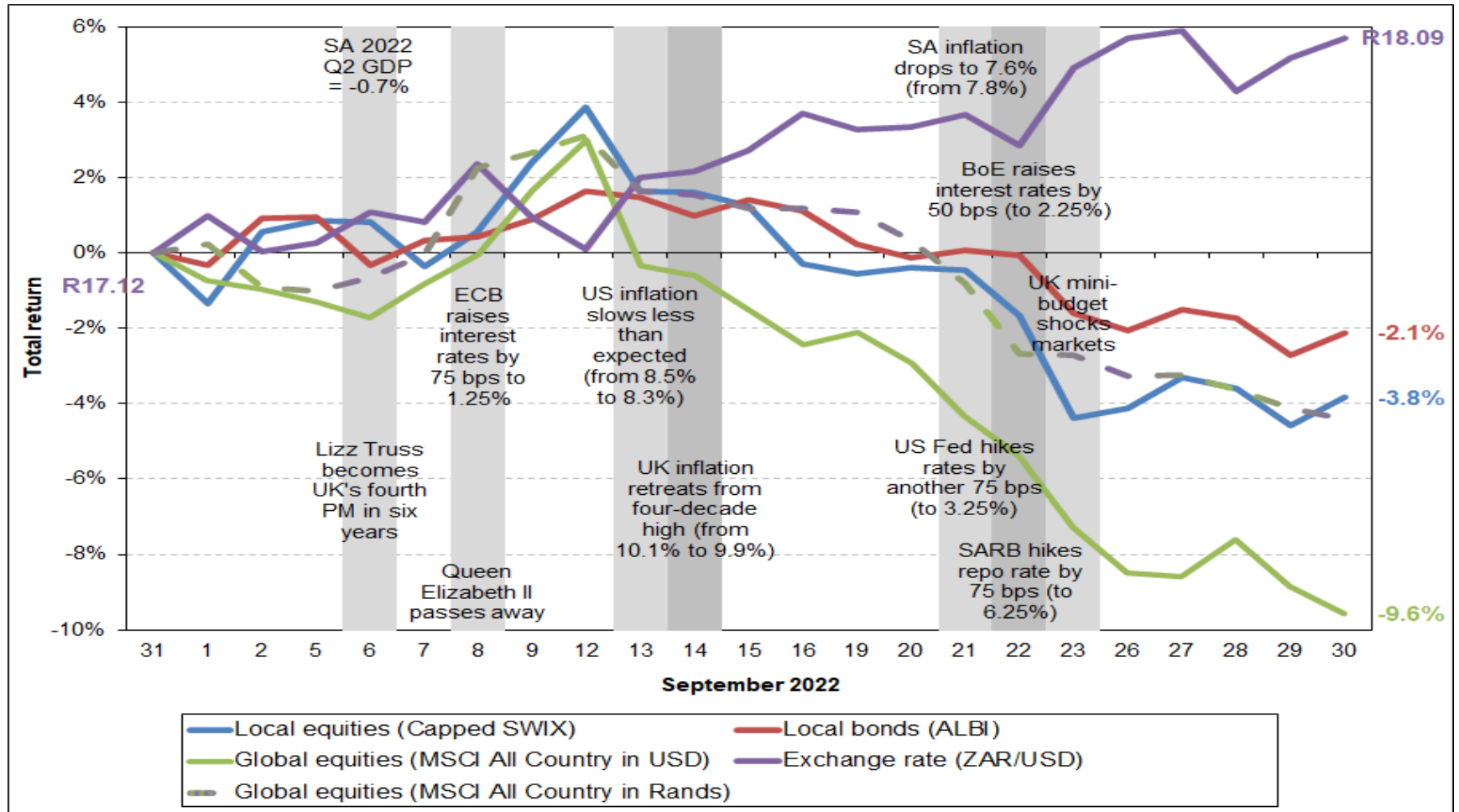
# MONTHLY SNAPSHOT

## NOTABLE EVENTS

- September brought more pain for investors, as markets continued to worry about stubbornly high inflation rates and the aggressive reactions from global central banks.
- On the local market equities were down 4% (ALSI = -4.1% & Capped SWIX = -3.8%), while local bonds fell by 2.1%. Conditions weren't any better outside our borders, with global equities and bonds suffering steep USD losses of 9.6% and 5.1%, respectively. The rampant US Dollar did manage to numb some of this pain for local investors, with a 5.7% depreciation in the ZAR/USD exchange rate resulting in Rand returns of -4.4% and +0.3% from these asset classes.
- Inflation rates continued to remain stubbornly high, but there are signs of some possibly having peaked, with SA's rate dropping to 7.5% (from July's level of 7.8%) and the US's rate moderating to 8.2% (from 9.1% in June). The same can't be said for price increases on the other side of the Atlantic, where UK (10.1%) and Eurozone (+10.9%) inflation numbers haven't showed any signs of slowing just yet.
- It was thus another busy month on the interest rate front, with notable announcements including 75 basis point (bp) hikes in SA, the eurozone and the US, while the UK saw an increase of 50 bps in its policy rate.
- 2022 Q3 therefore ended up being another exceptionally volatile quarter, but thankfully it turned out being a less harrowing experience than the previous quarter, with most asset classes showing some improvement on Q2. Local equities ended the quarter 2% in the red (-11% in Q2), while local bonds eked out a gain of 0.6% in Q3 (-4% in Q2). On global markets equities and bonds stayed in negative territory with USD returns of -7% and -8%, respectively (compared to losses of 16% and 9% in Q2). The Rand (and most other currencies for that matter) had a terrible quarter against the US Dollar however, which at least provided local investors with positive ZAR returns of 3.5% and 2.6% from their global equity and bond investments. After many ups and downs the average balanced fund ended 2022 Q3 marginally down (-0.1%).
- With almost no change in Q3, and most asset classes still in negative territory year-to-date (YTD), the average balanced fund's YTD loss therefore remains at around 6-7%.
- 1-year returns have fallen dramatically from the double-digit levels reached in 2021 and early-2022 and are now barely positive for the average balanced fund (<1%), caused by a combination of losses on global markets (equities = -5% & bonds = -7%) and quite low returns locally (equities & bonds = +1 to +3%).
- Although returns over the short to medium term have taken a knock, market valuations have become considerably more attractive over the course of the year (especially on local markets), which usually bodes well for prospective (medium to long term) returns. That being said, we should remember that valuations have virtually no predictive power over the short term, so some patience will likely be required.

# MONTHLY TIMELINE

## IMPACT ON MARKETS



# MARKET INDICATORS

## SHORT TERM

Market indicators (% change) <sup>1</sup>		Jul 2022	Aug 2022	Sep 2022	3 months	YTD	12 months
Local equities	ALSI	4.2	(1.8)	(4.1)	(1.9)	(10.1)	3.5
	Capped SWIX	2.8	(1.3)	(3.8)	(2.4)	(7.0)	1.1
	Resources	1.3	(3.8)	1.7	(0.9)	(6.5)	13.7
	Industrials	5.8	(0.4)	(6.4)	(1.3)	(16.8)	(3.4)
	Financials	3.9	(1.9)	(6.0)	(4.2)	(3.0)	(0.5)
	Listed Property	8.8	(5.4)	(6.3)	(3.5)	(15.8)	(8.7)
Local bonds	ALBI	2.4	0.3	(2.1)	0.6	(1.3)	1.5
Local cash	STeFI Composite	0.4	0.5	0.5	1.3	3.6	4.6
Global equities	MSCI All Country	9.0	(0.7)	(4.4)	3.5	(15.6)	(4.8)
Global bonds	FTSE WGBI	3.7	(1.4)	0.3	2.6	(10.7)	(6.6)
Exchange rate	ZAR/USD	1.9	3.1	5.7	11.1	13.5	20.0
Inflation	CPI	1.5	0.2	0.1	1.8	6.1	7.5

1. Total returns (in Rands) for the months and periods ending 30 September 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	3.5	9.2	6.5	9.5	8.5	13.5
	Capped SWIX	1.1	7.8	4.2	8.1	-	-
	Resources	13.7	19.5	18.5	7.5	4.2	9.6
	Industrials	(3.4)	5.6	2.1	9.5	11.0	16.3
	Financials	(0.5)	1.3	1.5	7.4	7.6	12.6
	Listed Property	(8.7)	(8.7)	(9.0)	1.2	5.7	13.5
Local bonds	ALBI	1.5	5.7	7.1	6.7	8.0	9.0
Local cash	STeFI Composite	4.6	4.9	5.8	6.1	6.7	7.3
Global equities	MSCI All Country	(4.8)	10.1	10.7	16.0	11.0	10.9
Global bonds	FTSE WGBI	(6.6)	(1.3)	2.7	6.2	7.6	5.2
Exchange rate	ZAR/USD	20.0	6.1	6.0	8.1	6.7	2.7
Inflation	CPI	7.5	5.1	4.9	5.2	5.6	5.3

1. Total returns (in Rands) for the months and periods ending 30 September 2022.

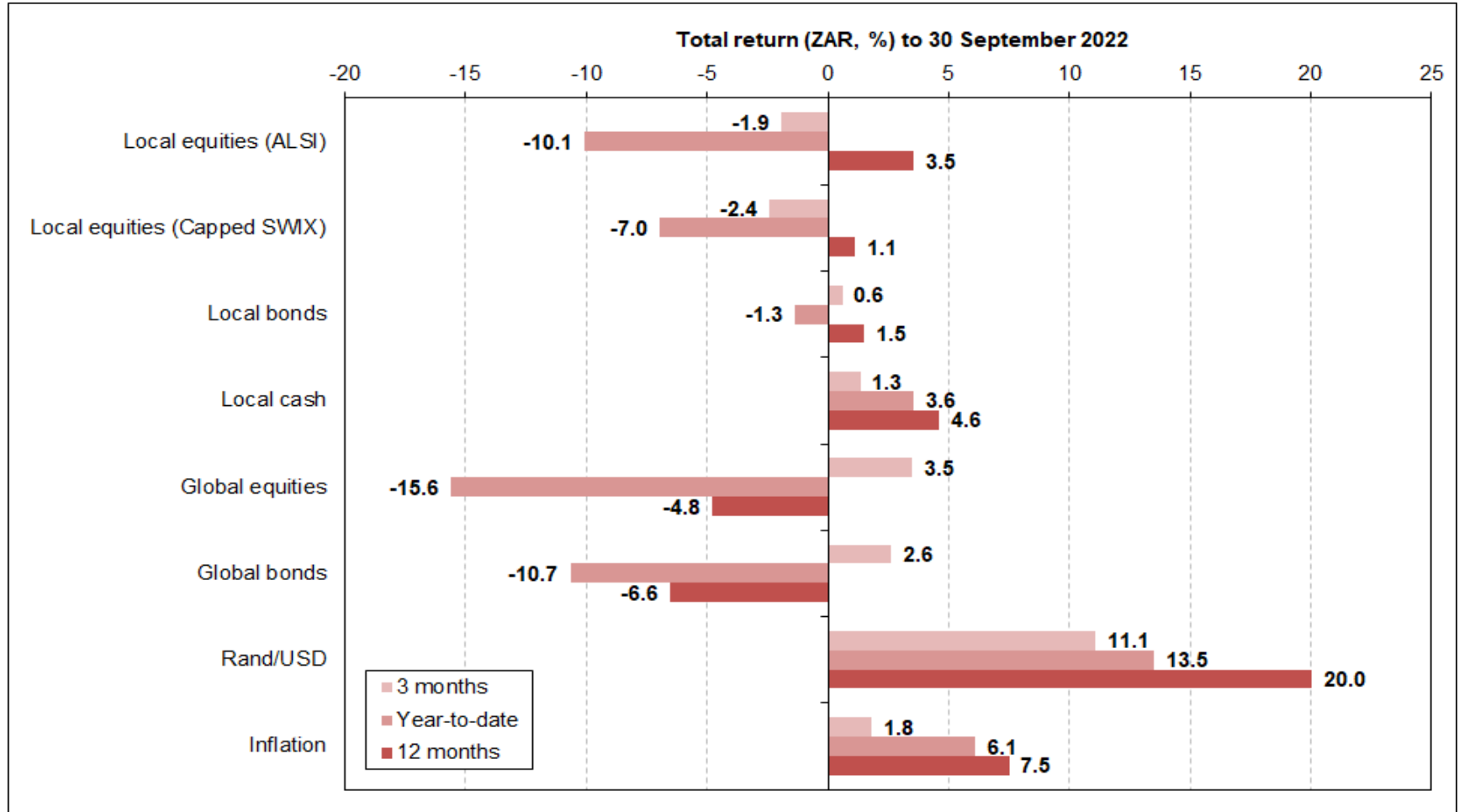
# ECONOMIC INDICATORS

Economic indicators <sup>1</sup>	Sep 2020	Sep 2021	Jul 2022	Aug 2022	Sep 2022
<b>Exchange rates:</b>					
ZAR/USD	16.76	15.07	16.60	17.12	18.09
ZAR/GBP	21.65	20.31	20.21	19.90	20.20
ZAR/Euro	19.64	17.45	16.98	17.21	17.74
<b>Commodities:</b>					
Brent Crude Oil (USD/barrel)	42.30	78.31	103.97	95.64	85.14
Platinum (USD/ounce)	869.88	954.00	899.50	852.50	864.50
Gold (USD/ounce)	1,887.90	1,726.50	1,766.34	1,720.84	1,660.90

1. *Month-end prices*

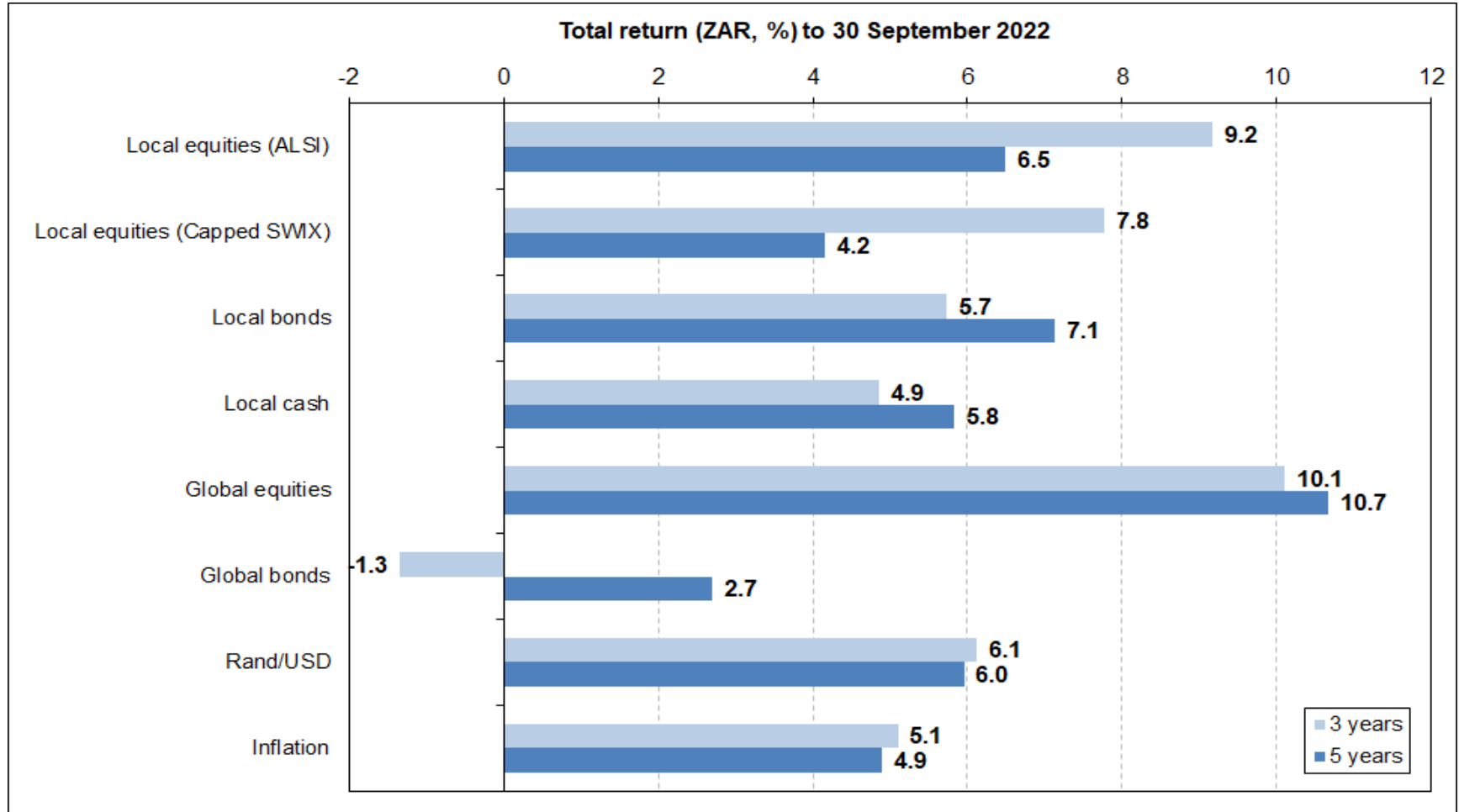
# ASSET CLASS PERFORMANCE

## SHORT TERM



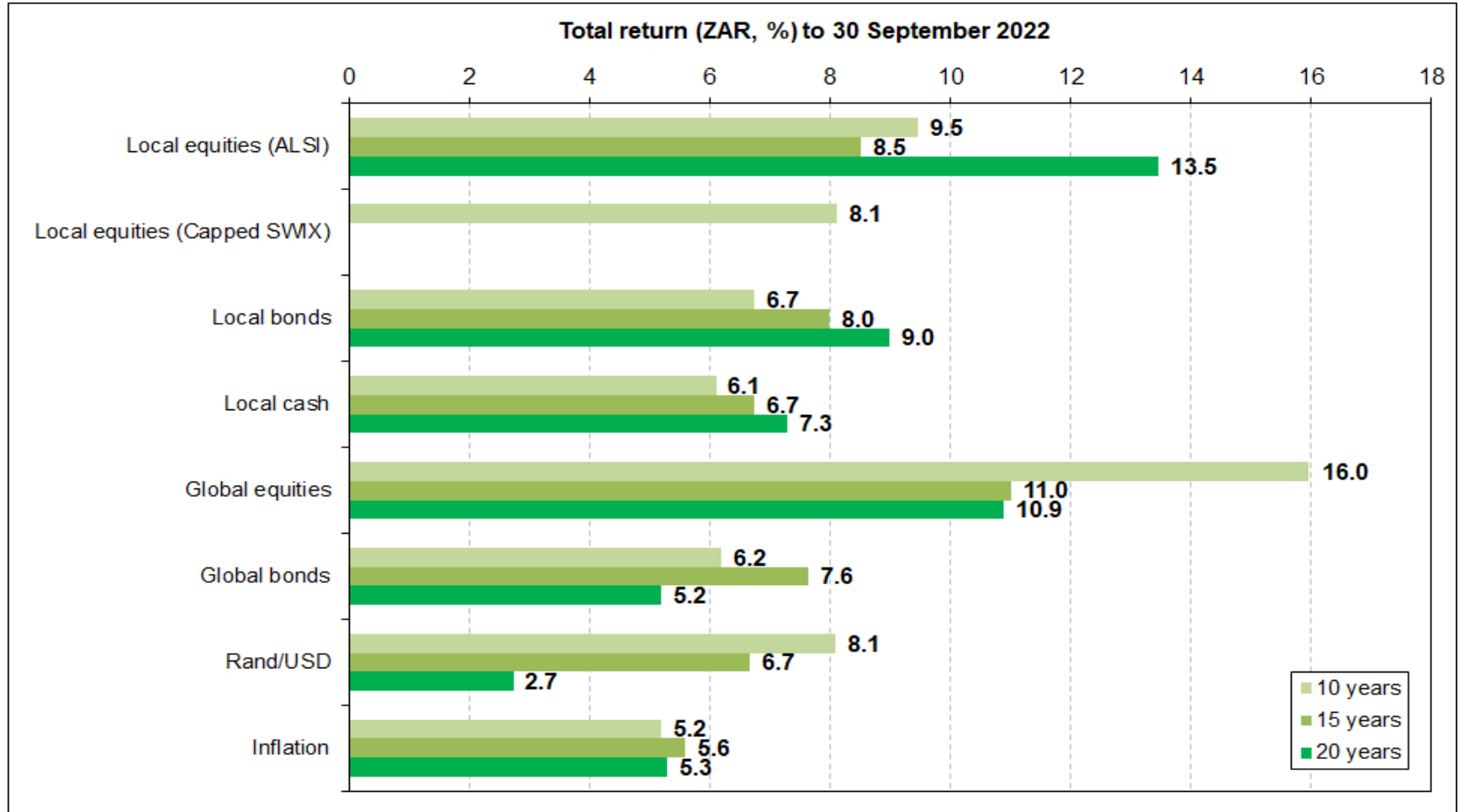
# ASSET CLASS PERFORMANCE

## 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:

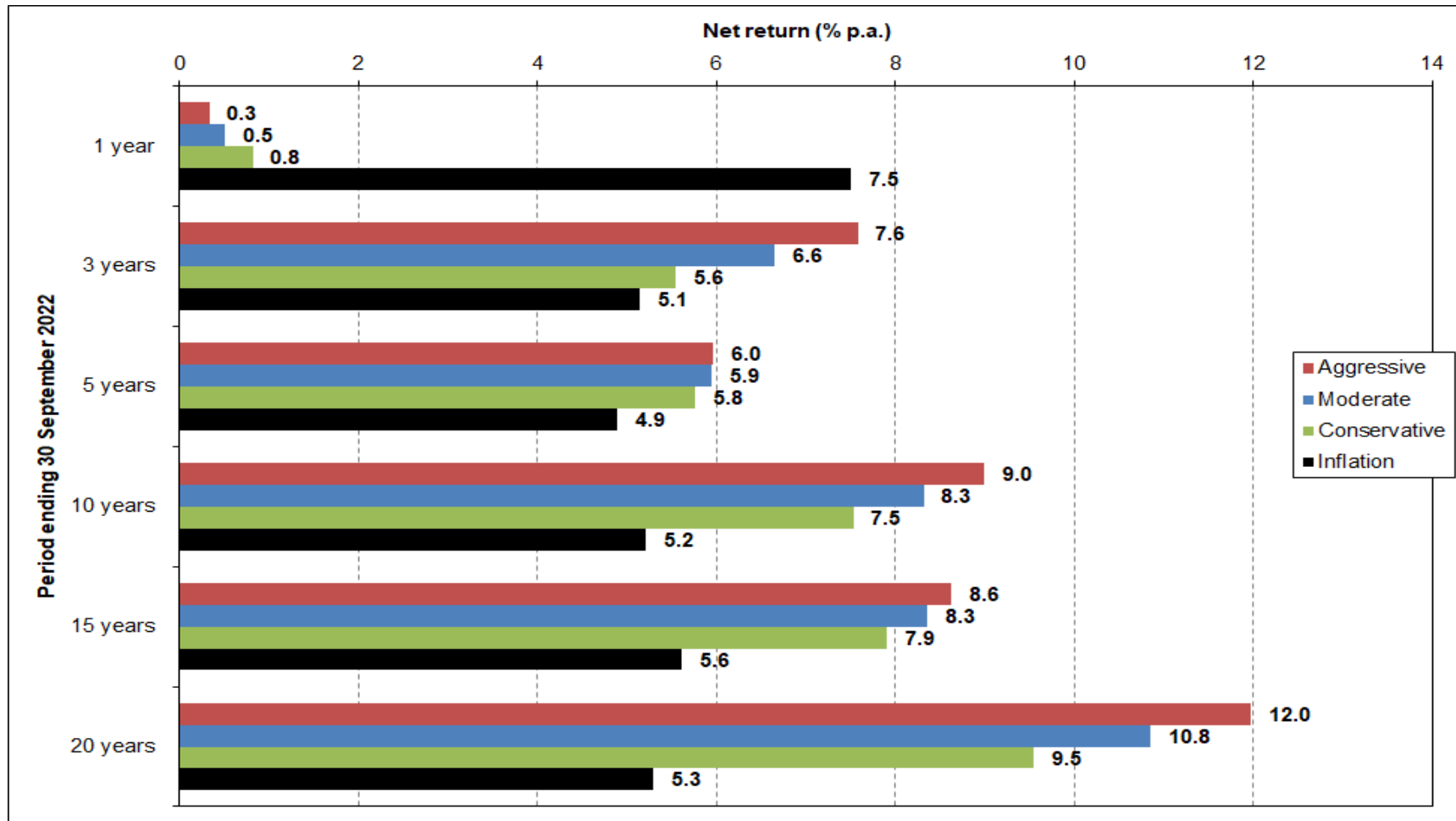
- The offshore allocation is kept at 5% below the prevailing regulatory maximum (15% to 2000, 20% to 2006, 25% to 2018, 30% to 2022 & currently at 45%), with changes to the offshore allocation made in the middle of the year in which the limit changed.
- The equity allocation varies according to the risk 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:

Risk Profile	Strategic allocation	LOCAL VS OFFSHORE		60%		40% (5% below regulatory maximum)	
		GROWTH VS INCOME ASSETS	EQUITIES VS BONDS VS CASH	75%	25%	75%	25%
AGGRESSIVE		100%	75%	25%	100%	100%	100%
	Current allocation	~45%	~11%	~4%	~30%	~10%	
MODERATE		100%	55%	45%	100%	100%	100%
	Current allocation	~33%	~15%	~12%	~22%	~18%	
CONSERVATIVE		100%	35%	65%	100%	100%	100%
	Current allocation	~21%	~14%	~25%	~14%	~26%	

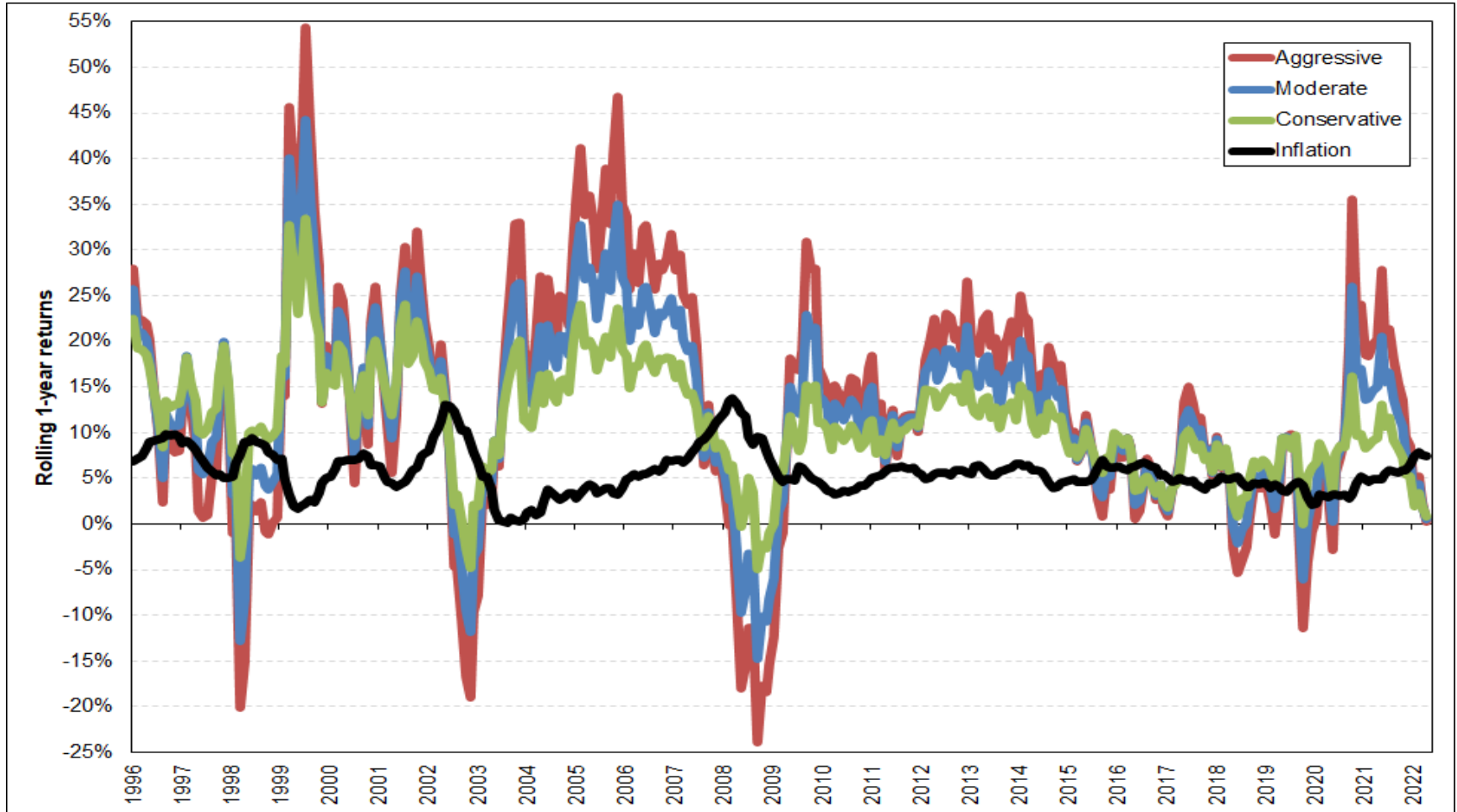
# MARKET PERFORMANCE

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



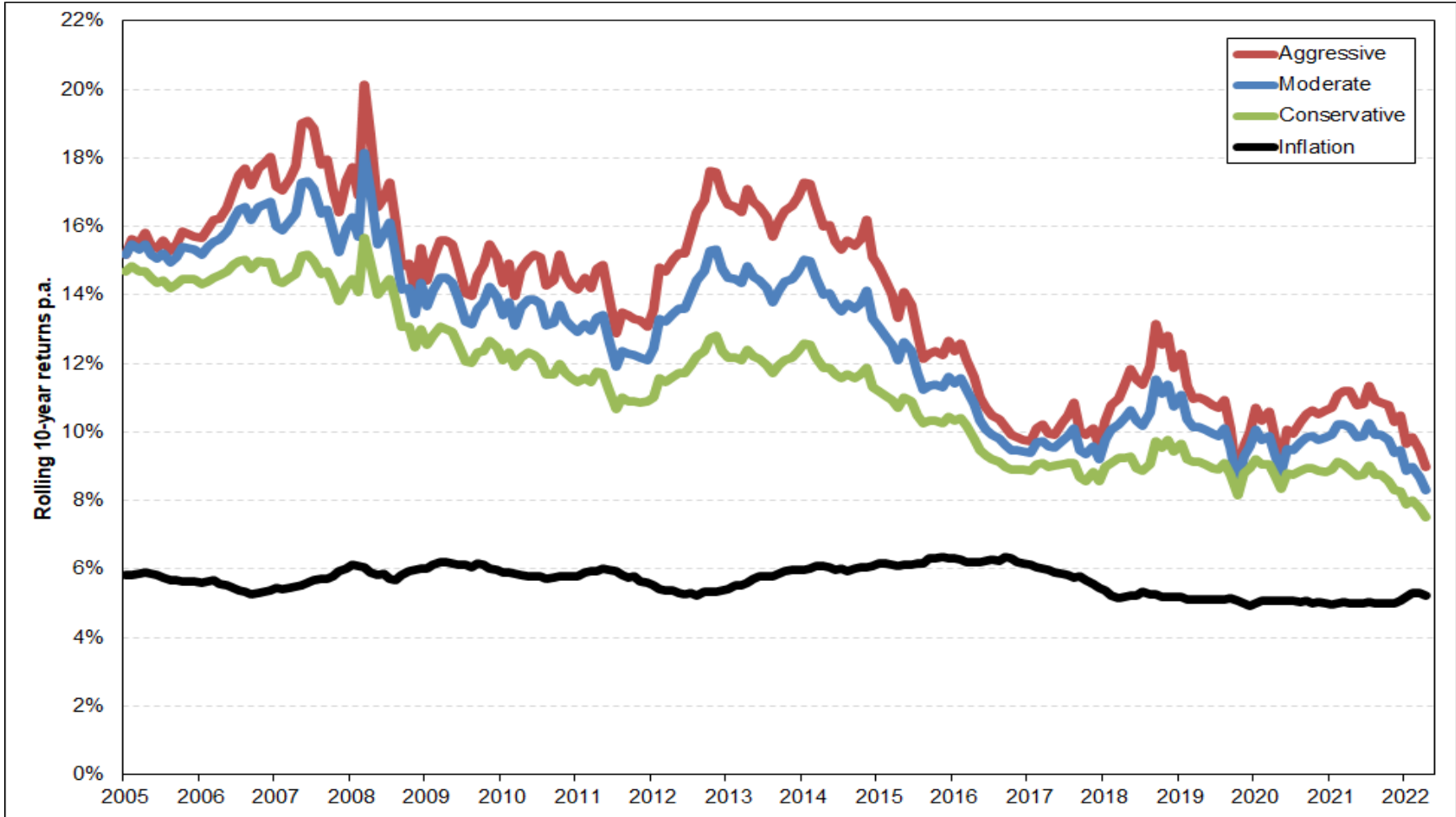
# MARKET PERFORMANCE

## 1-YEAR RETURNS BARELY POSITIVE



# MARKET PERFORMANCE

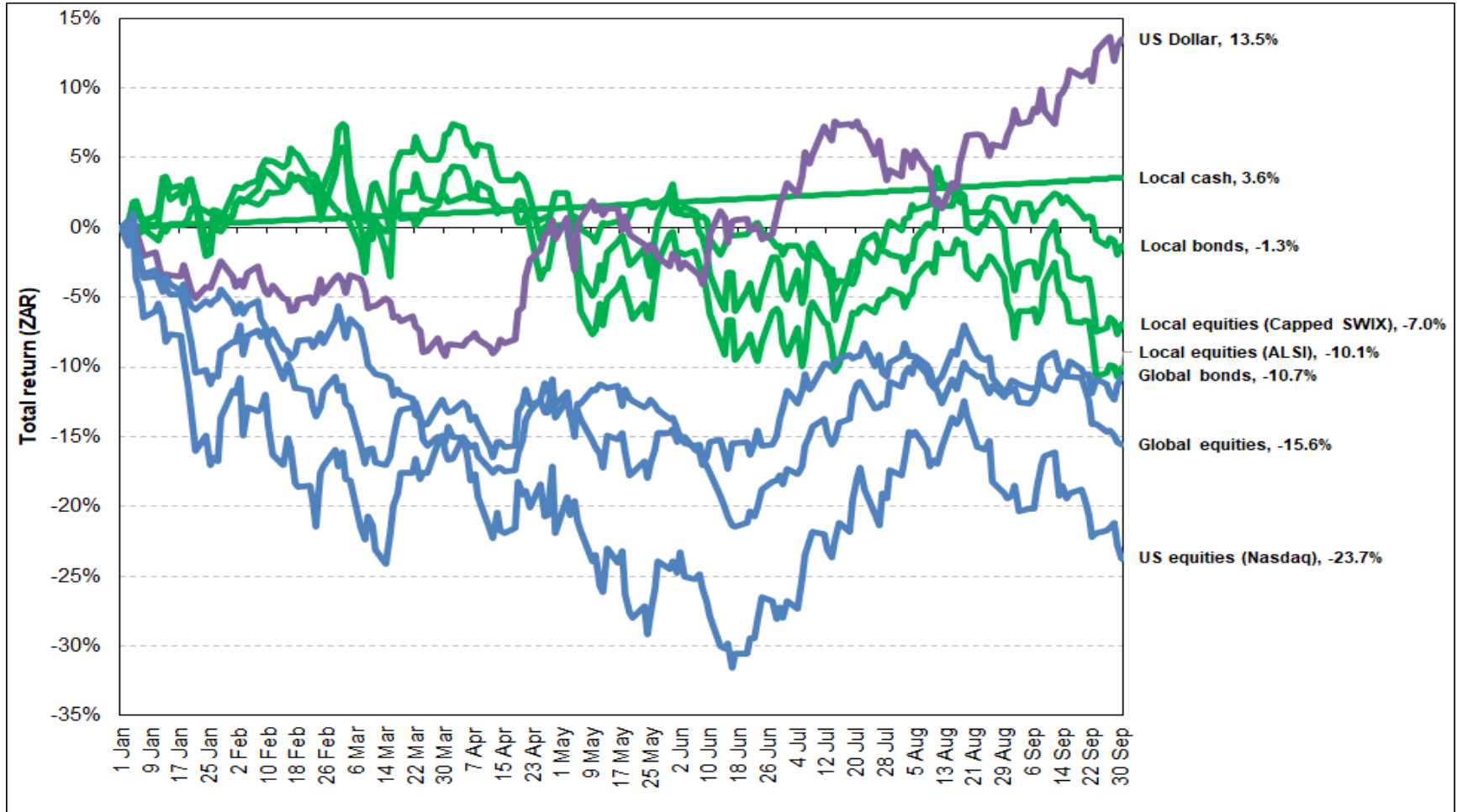
## LONG TERM RETURNS STILL OK



Source: Iress

# GLOBAL MARKETS YTD

## DEEP IN THE RED



# SHORT TERM MARKET SUMMARY

## NOT MANY PLACES TO HIDE

Total asset class returns (in %) at 30 September 2022						
Asset classes		3 months		YTD		1 year
Local	Equities	ALSI	-1.9		-10.1	3.5
		CAPI	-2.0		-9.0	4.1
		SWIX	-2.4		-7.8	-0.2
		Capped SWIX	-2.4		-7.0	1.1
		Resources	-0.9		-6.5	13.7
		Industrials	-1.3		-16.8	-3.4
		Financials	-4.2		-3.0	-0.5
		Property	-3.5		-15.8	-8.7
		Top40	-2.7		-11.0	3.4
		Mid Cap	0.7		-5.9	-2.3
		Small Cap	4.7		3.0	12.0
		Value	-0.7		0.2	12.6
		Growth	-3.1		-15.5	-1.8
		Interest-bearing	ALBI	0.6		-1.3
	ALBI (1-3 yrs)		0.7		2.0	3.4
ALBI (3-7 yrs)	0.4			0.7	1.8	
ALBI (7-12 yrs)	0.8			-1.5	0.8	
ALBI (12+ yrs)	0.6			-2.0	2.0	
Government bonds	0.6			-1.4	1.3	
Non-government bonds	0.9			-0.3	3.1	
Inflation-linked bonds	-1.0			2.2	7.4	
Cash	1.3			3.6	4.6	
<b>ZAR/USD</b>			11.1	13.5	20.0	
Global (ZAR)	Equities (All Country)	3.5		-15.6	-4.8	
	Equities (Developed)	4.2		-15.4	-3.5	
	Equities (Emerging)	-1.8		-17.3	-13.7	
	Bonds	2.6		-10.7	-6.6	

# SHORT TERM UNIT TRUST SUMMARY

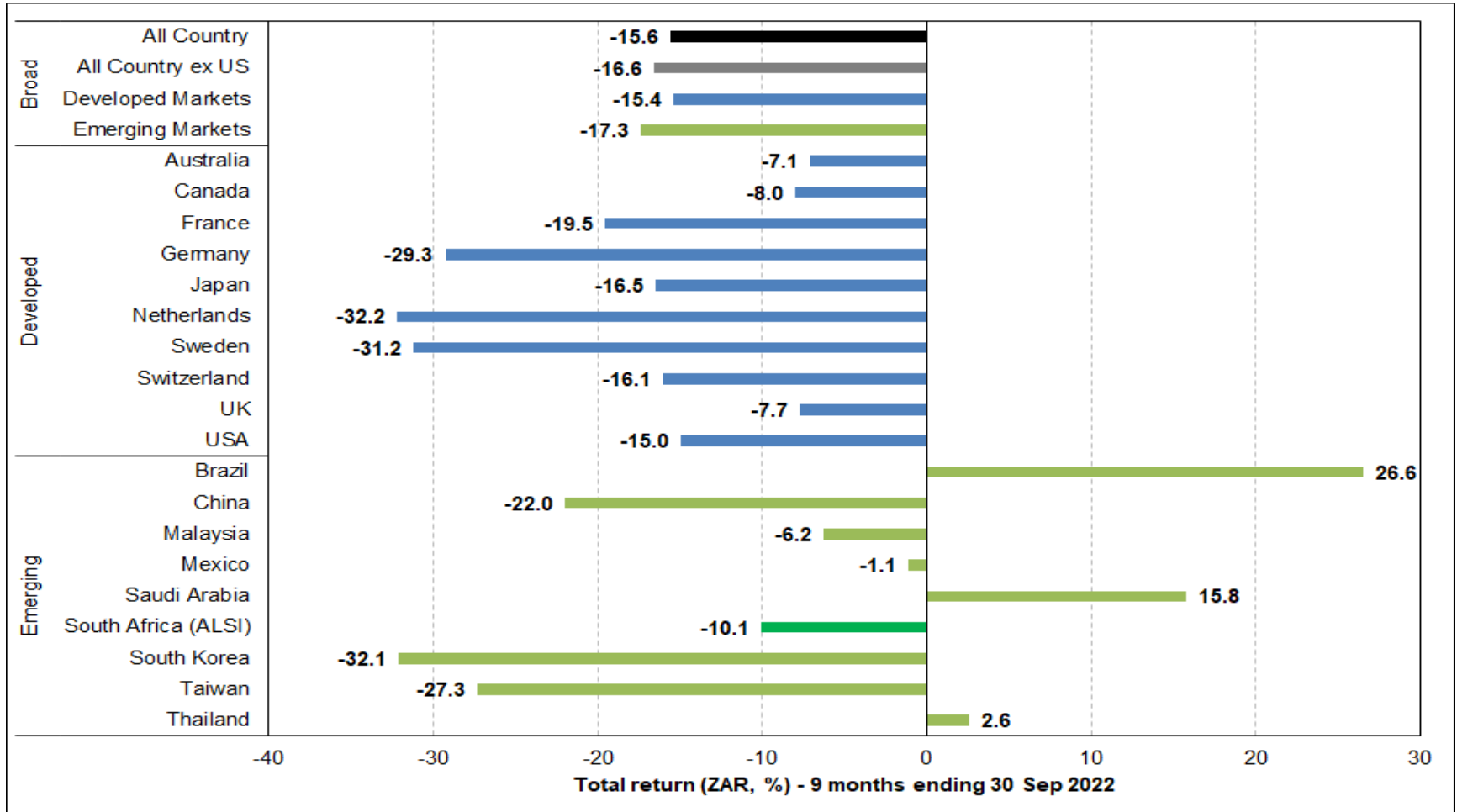
## A TOUGH YEAR FOR INVESTORS

Average unit trust returns (in %) at 30 September 2022					
ASISA category		3 months	YTD	1 year	
South Africa	Equities	General	-1.5	-6.8	2.1
		Resources	-0.9	0.1	23.0
		Industrial	-0.5	-12.9	-5.4
		Financial	-2.8	-3.7	-0.7
		Property	-3.8	-16.6	-9.5
		Large Cap	-2.5	-10.2	0.0
		Mid/Small Cap	1.4	-4.1	3.5
	Interest-bearing	Variable Term	0.1	-1.1	2.0
		Short Term	1.4	3.8	5.0
		Money Market	1.3	3.3	4.3
	Multi Asset	Flexible	0.2	-6.0	0.5
		High Equity	-0.1	-6.6	0.2
		Medium Equity	0.3	-5.4	0.9
Low Equity		0.5	-3.3	1.5	
	Income	1.2	2.5	4.4	
Global	Equities	General	1.3	-17.1	-9.3
		Property	-5.2	-23.1	-10.2
	Interest-bearing	Variable Term	2.2	-9.7	-5.5
		Short Term	5.8	4.1	8.6
	Multi Asset	Flexible	2.3	-12.4	-4.9
		High Equity	2.5	-11.2	-3.7
		Medium Equity	3.8	-9.7	-1.0
	Low Equity	4.0	-2.7	3.6	



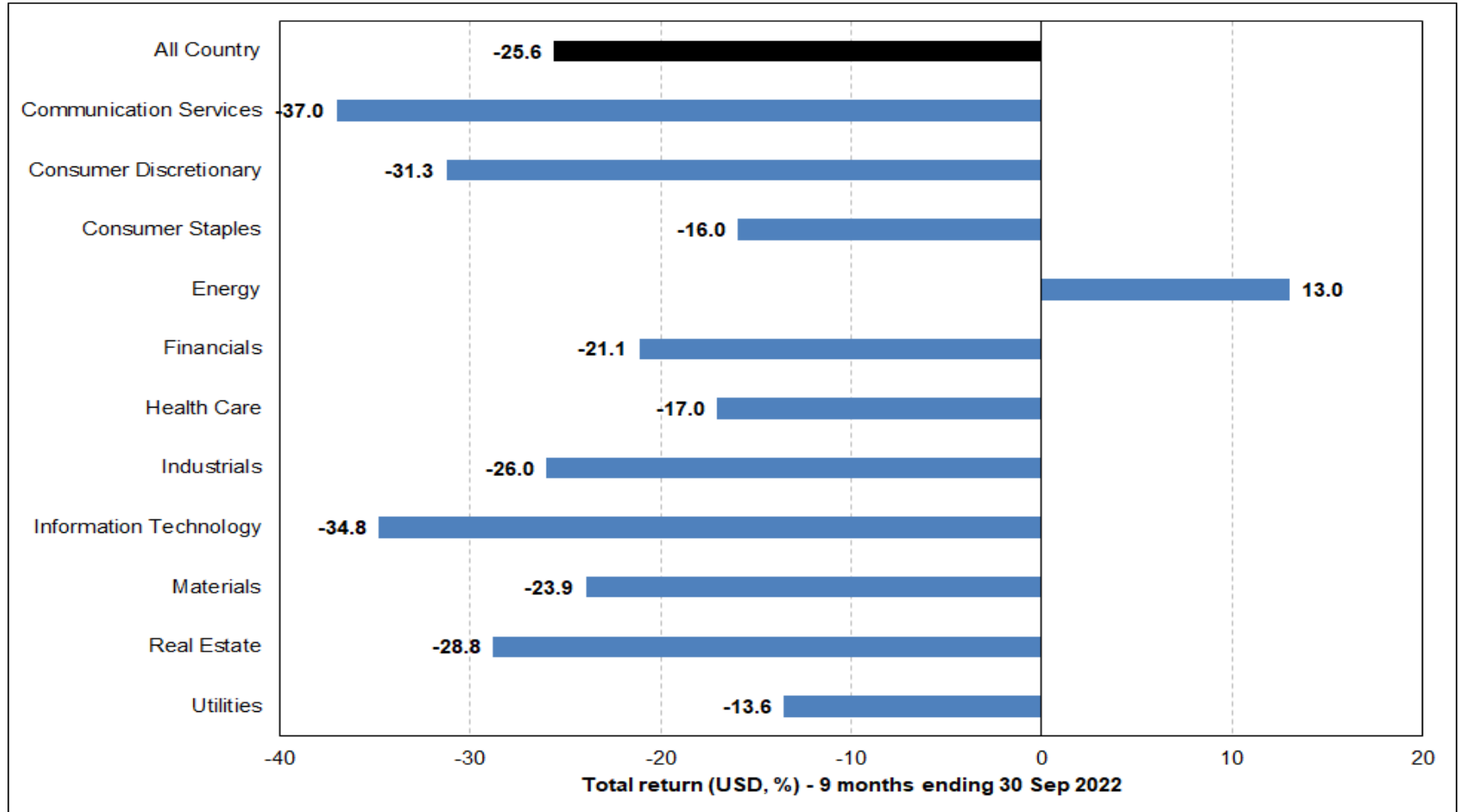
# GLOBAL EQUITIES YTD

## MOST COUNTRIES SUFFERING DOUBLE-DIGIT LOSSES

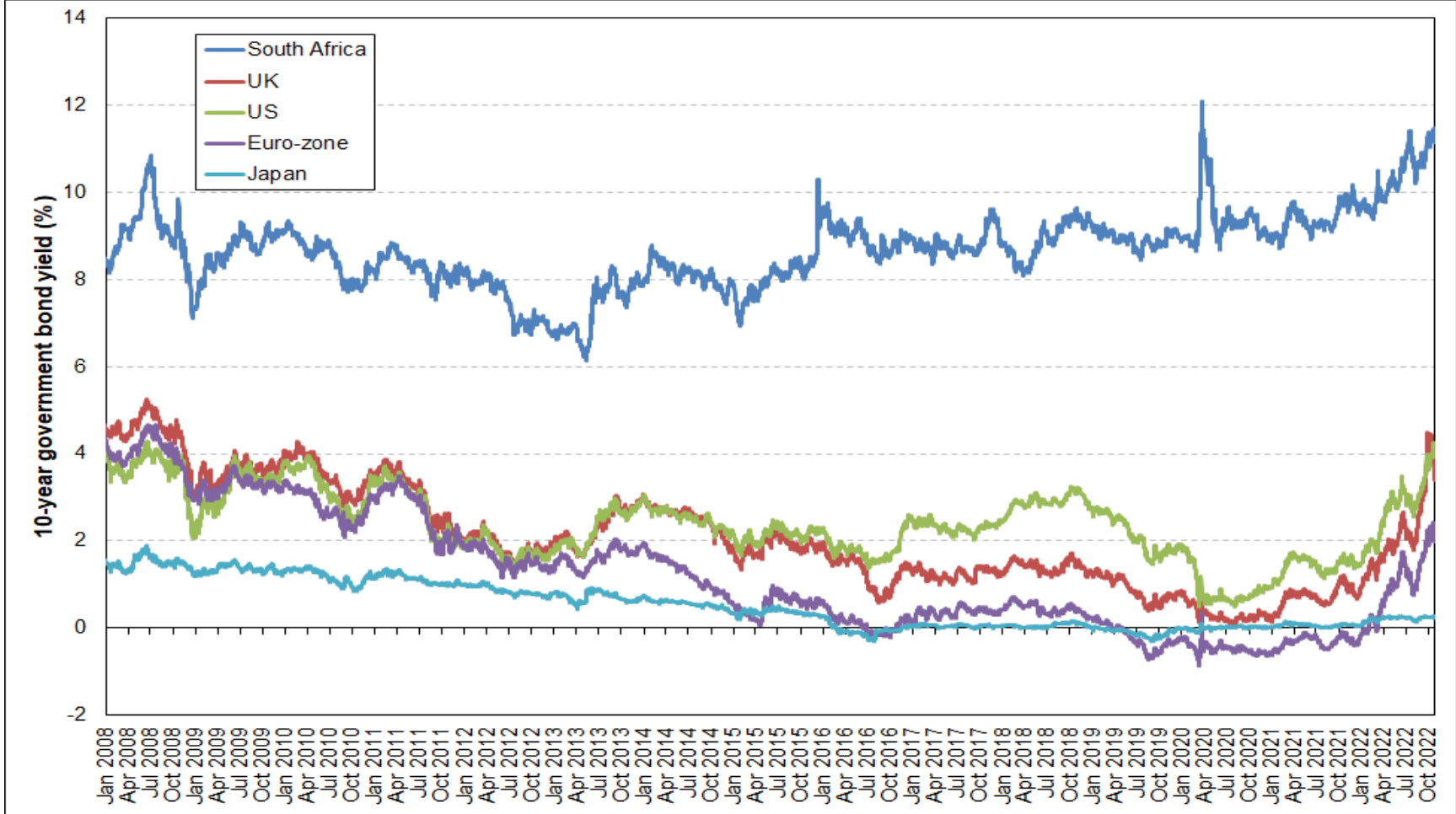


# GLOBAL EQUITIES YTD (USD)

## ONLY ENERGY IN THE GREEN...



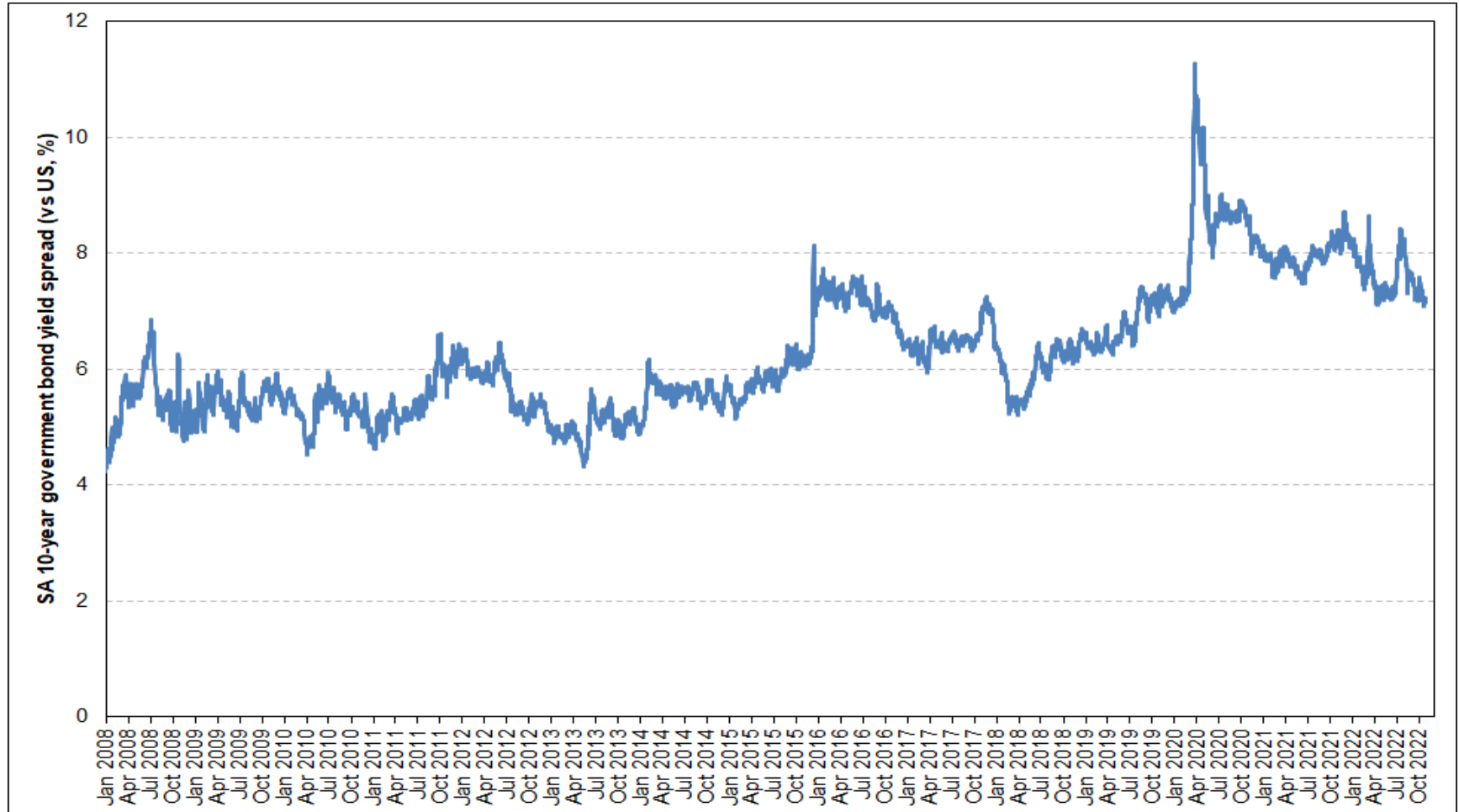
# GLOBAL BONDS YIELDS INCHING HIGHER



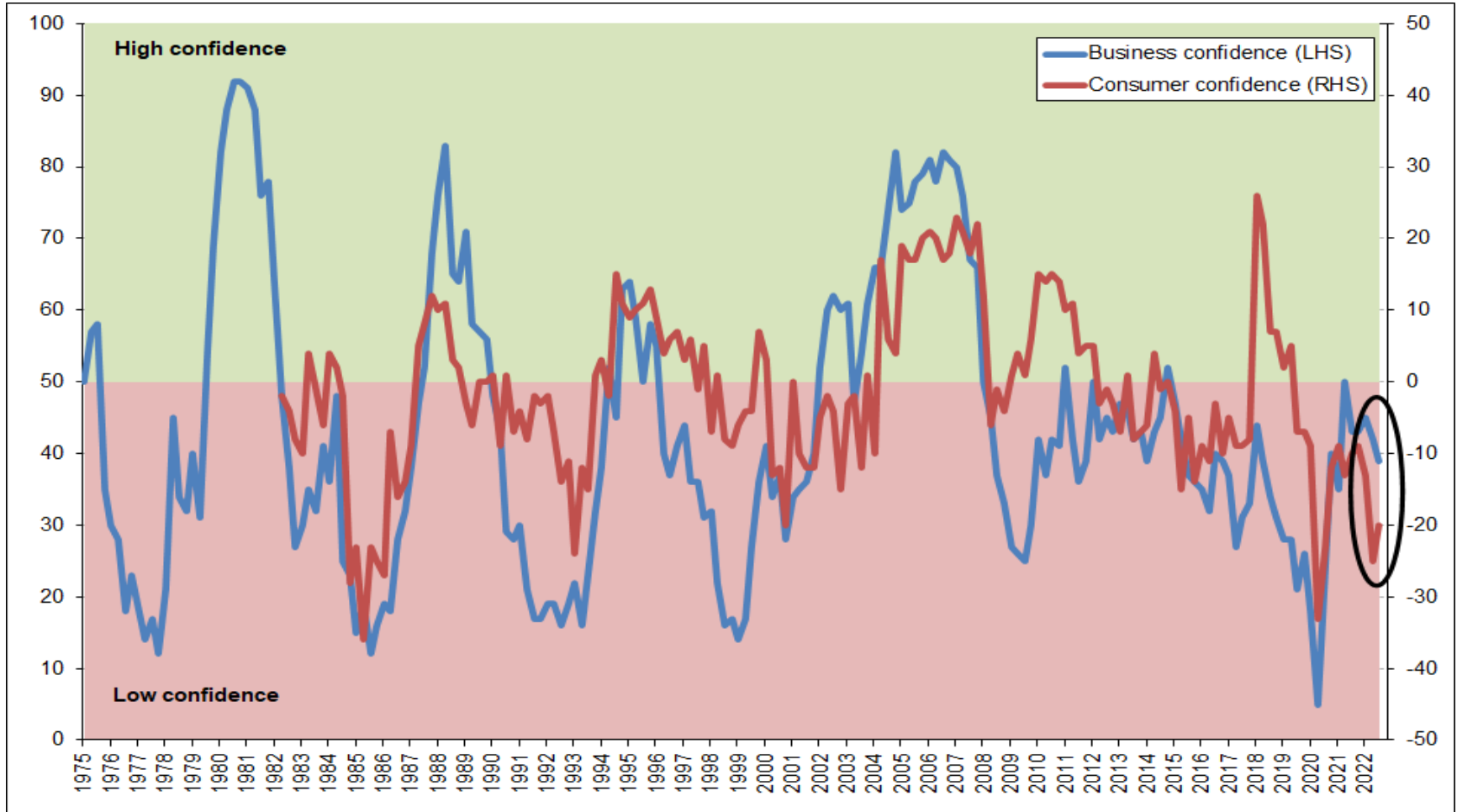
Source: Iress

# GLOBAL BONDS

## SA YIELD SPREAD (VS US) REMAINS HIGH

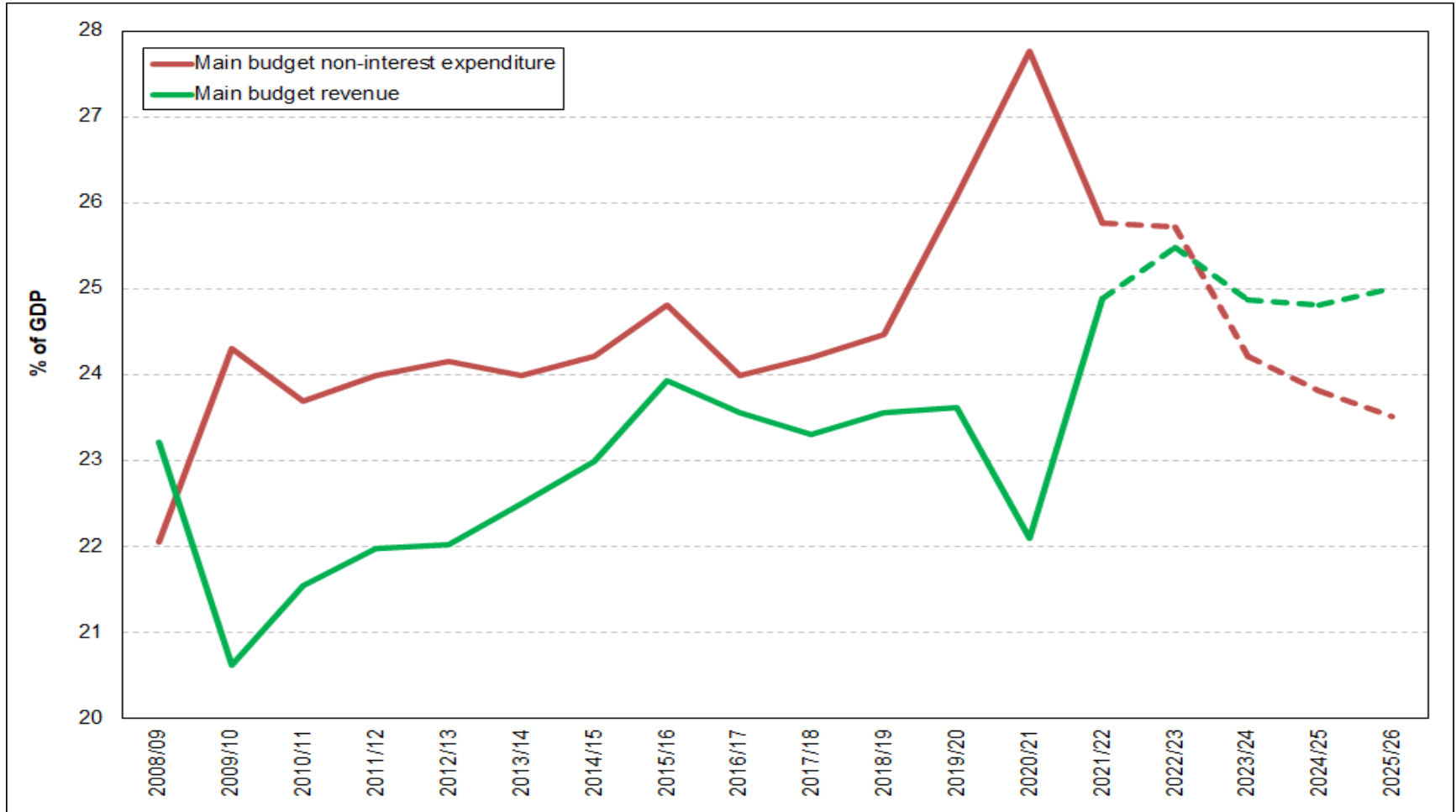


# SA CONFIDENCE REMAINS DEPRESSED



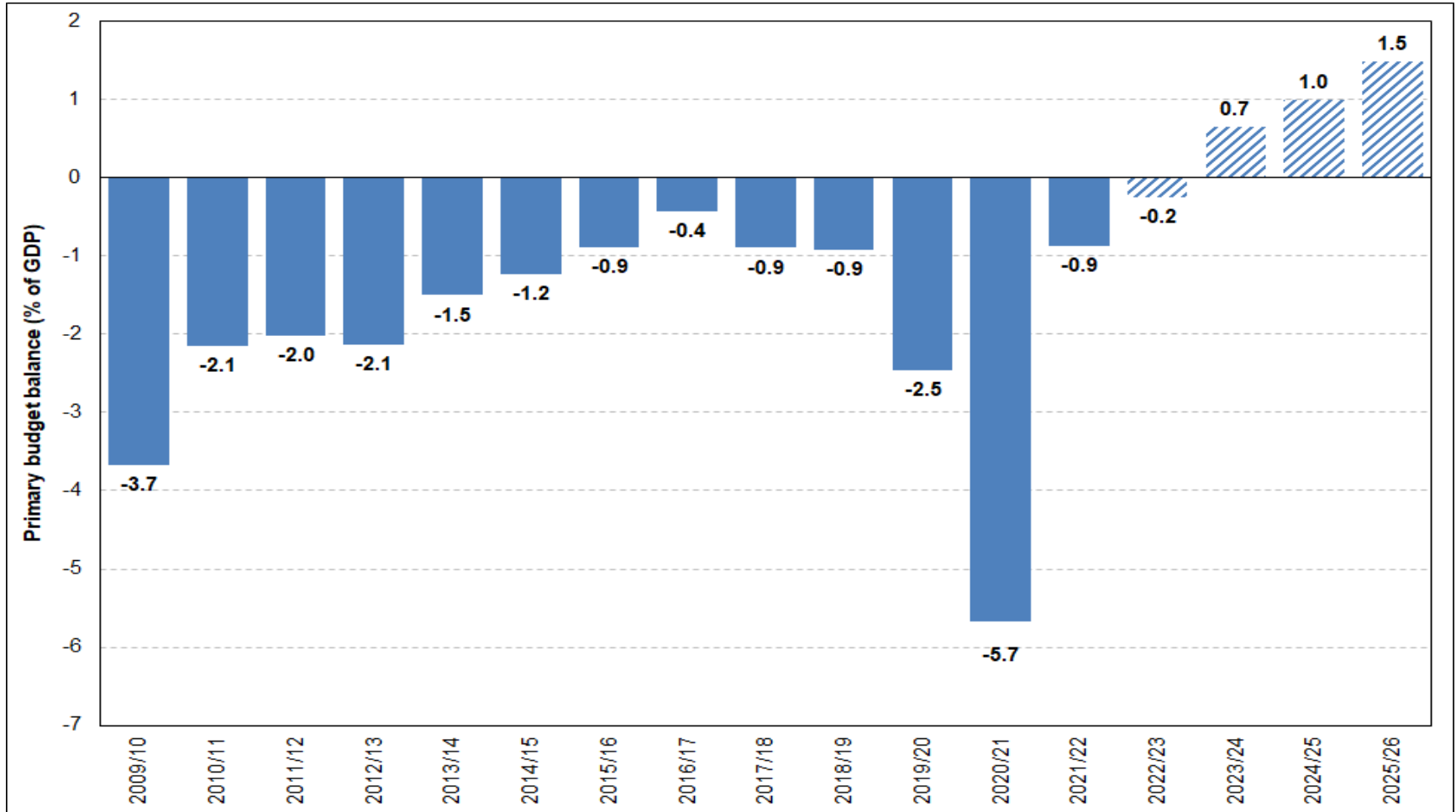
# MEDIUM TERM BUDGET

## A PRIMARY BUDGET SURPLUS IN 2023/24?

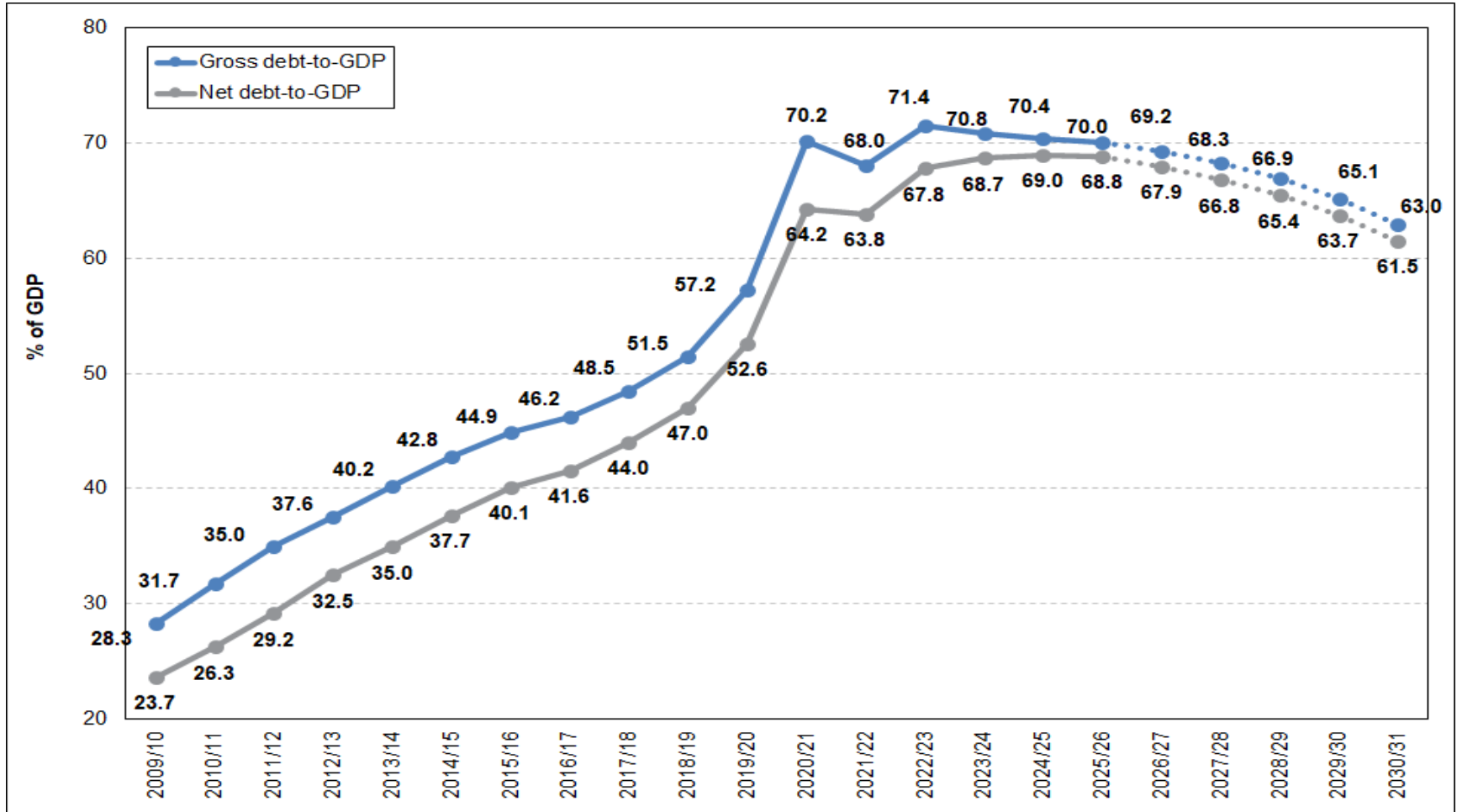


# MEDIUM TERM BUDGET

## A PRIMARY BUDGET SURPLUS IN 2023/24?

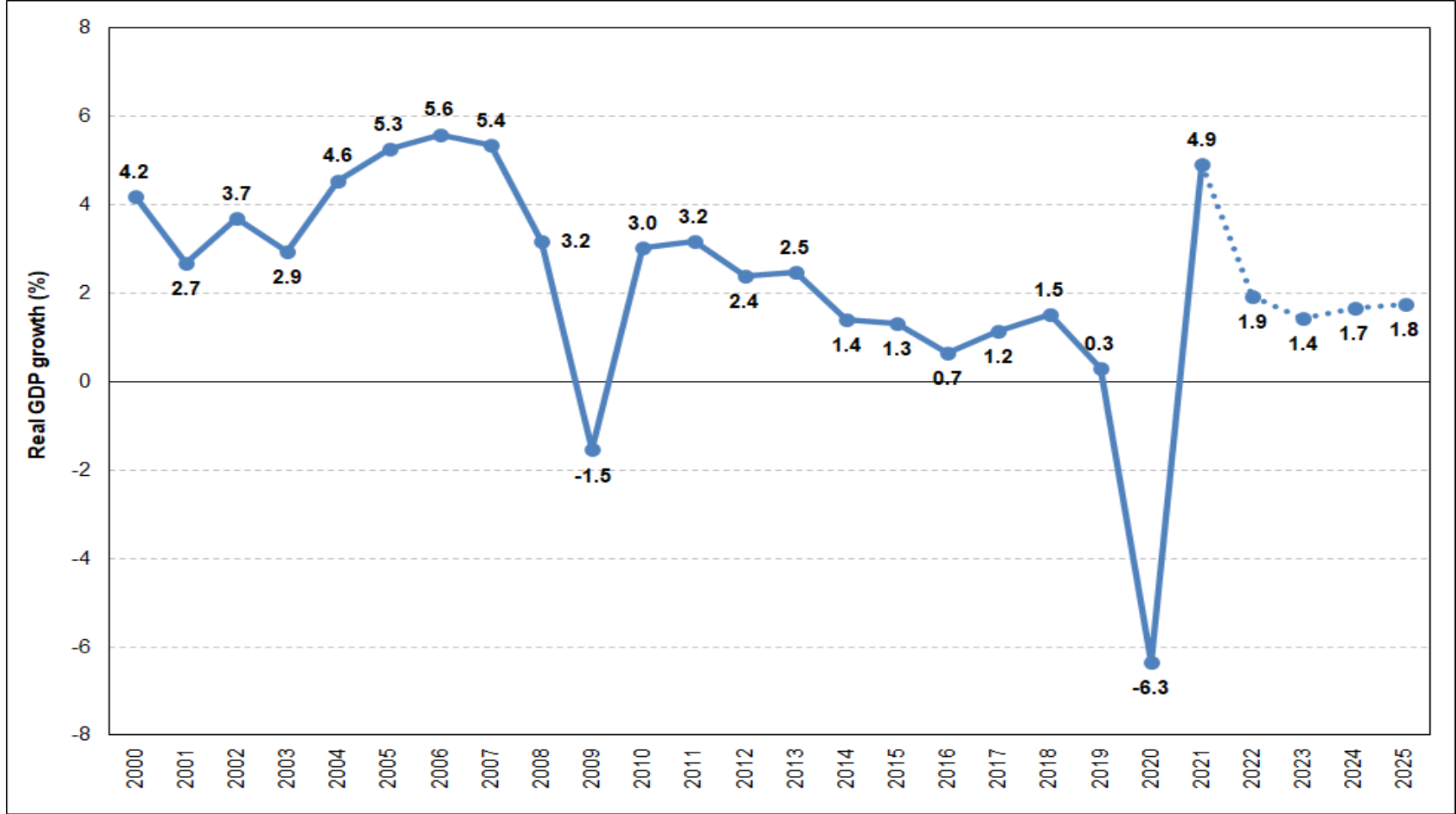


# MEDIUM TERM BUDGET DEBT STABILISATION TO CONTINUE





# MEDIUM TERM BUDGET NO GROWTH FIREWORKS EXPECTED...



Source: National Treasury

# MEDIUM TERM BUDGET

## ...AS LOAD-SHEDDING REMAINS A MAJOR CONSTRAINT

