

MONTH IN PICTURES

**NOVEMBER
2022**

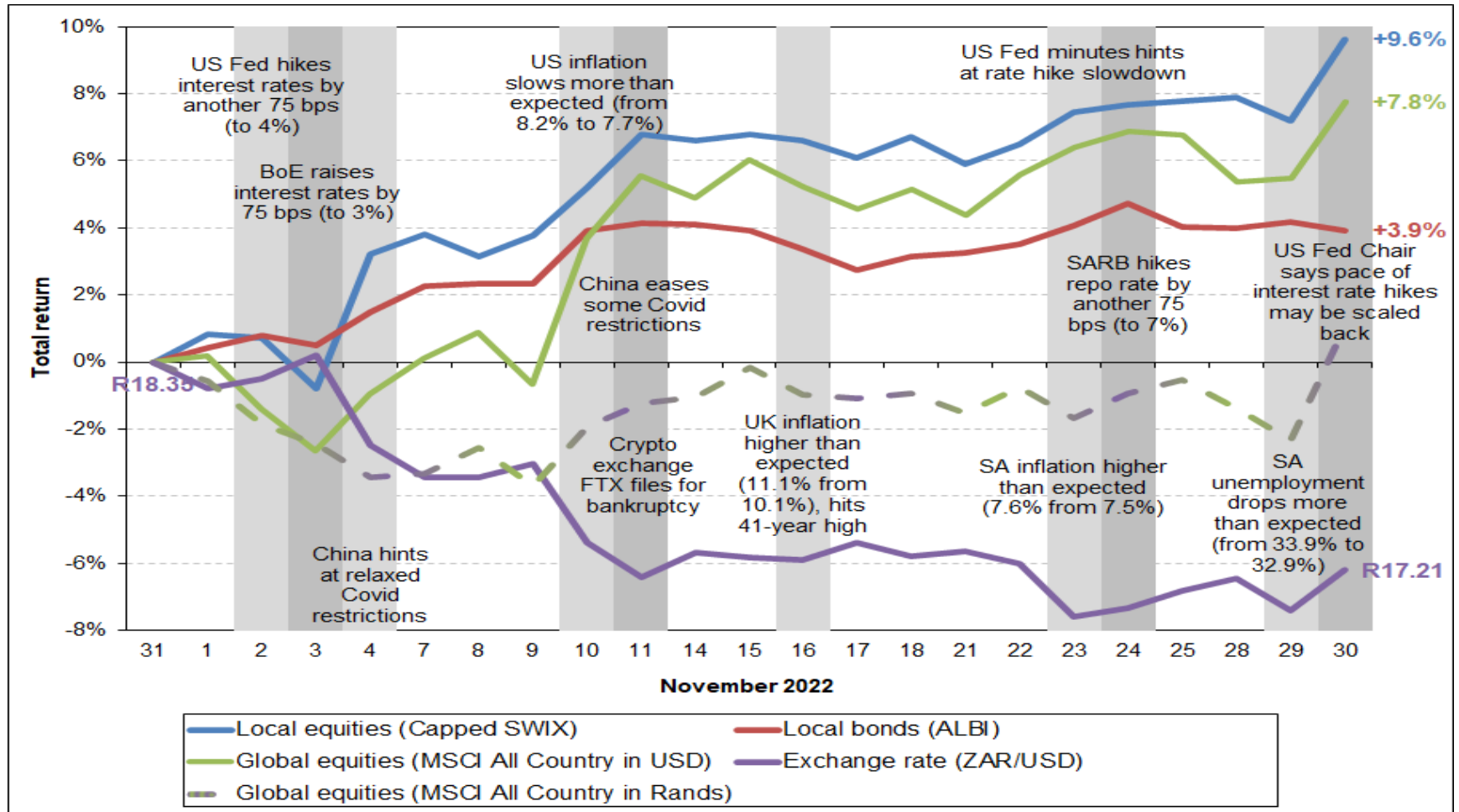
MONTHLY SNAPSHOT

NOTABLE EVENTS

- November was another excellent month on the markets, with easing Covid restrictions in China, encouraging US inflation data and hence a slower expected pace of interest rate hikes leading to strong gains across most asset classes.
- The local equity market (ALSI = +12.3% & Capped SWIX = +9.6%) was by far the best performer, with Resources (+16%) and Industrials (+14%) being the biggest contributors, although Financials (+5%) and Listed Property (+6%) also made decent gains. Local bonds had a good month as well, returning +3.9%.
- Global markets also had a solid month, delivering USD returns of +7.8% (equities) and +4.5% (bonds). In this risk-on environment a sharp recovery in the Rand (from R18.35 to R17.21/USD, or by 6.2%) eroded most of these gains for local investors though, as we saw ZAR returns of only +1.1% and -2.0% from global equities and bonds, respectively.
- In further good news SA's real GDP numbers surprised on the upside, with the economy growing by 1.6% in 2022 Q3 after contracting by 0.7% in the previous quarter. Real GDP has now reached a new quarterly high, finally surpassing the peak of R1.152bn recorded in 2018 Q4. SA's latest unemployment figures also improved by more than expected, with the official number dropping from 33.9% to 32.9%, and the expanded rate dropping from 44.1% to 43.1%.
- On the credit ratings side both Fitch and S&P kept their ratings (BB-, which is three notches below investment grade) and outlooks (Fitch = Stable, S&P = Positive) for SA unchanged.
- November's inflation numbers dropped by more than expected in both the US (from 7.7% to 7.1%) and in SA (from 7.6% to 7.4%). This prompted a lower-than-usual 50 basis point (bp) interest rate hike from the US Fed in December, after four consecutive 75 bps hikes earlier this year. The US Fed Funds rate now stands at 4.25%-4.5%.
- We'll have to wait until January for the next *local* interest rate announcement, but the expectation is again for the SARB to hike by a similar margin as the US (i.e., by 50 bps, which will take the repo rate to 7.5%).
- After a very tough start to the year markets have been on tear in Q4 (to mid-December). Local equities have gained around 15% quarter-to-date (QTD), local bonds are up 5% and global equities have returned +8%, resulting in a very solid QTD return of almost +9% from the average balanced fund *.
- As things stand local markets have now fully recovered from their Q2 and Q3 losses, showing year-to-date (YTD) returns of +6% from equities, +4% from bonds and +5% from cash. Although the Rand has weakened by 8% YTD, global equities (-9%) and global bonds (-10%) are still in the red, but gains on the local side means that the average balanced fund * is now in positive territory YTD with a small gain of 1.6%. If nothing goes wrong in the last two weeks of this year it looks like 2022 could turn out much better than what was initially expected.
- It has certainly been a tumultuous last three years, with a pandemic, lockdowns, a war and rising inflation and interest rates causing a lot of volatility on global markets. Despite this difficult backdrop the average balanced fund * has returned +8.9% p.a. over this period, comfortably ahead of cash (+4.8% p.a.) and inflation (+5.3% p.a.).

MONTHLY TIMELINE

IMPACT ON MARKETS



MARKET INDICATORS

SHORT TERM

Market indicators (% change) ¹		Sep 2022	Oct 2022	Nov 2022	3 months	YTD	12 months
Local equities	ALSI	(4.1)	4.9	12.3	13.0	6.0	11.1
	Capped SWIX	(3.8)	5.3	9.6	11.0	7.4	12.6
	Resources	1.7	3.7	16.0	22.4	12.5	18.5
	Industrials	(6.4)	1.7	14.0	8.6	(3.4)	(0.6)
	Financials	(6.0)	13.2	4.9	11.6	15.2	25.2
	Listed Property	(6.3)	11.0	6.3	10.6	(0.6)	7.2
Local bonds	ALBI	(2.1)	1.1	3.9	2.8	3.6	6.4
Local cash	STeFI Composite	0.5	0.5	0.5	1.5	4.6	5.0
Global equities	MSCI All Country	(4.4)	7.6	1.1	3.9	(8.2)	(4.2)
Global bonds	FTSE WGBI	0.3	0.9	(2.0)	(0.7)	(11.6)	(11.8)
Exchange rate	ZAR/USD	5.7	1.5	(6.2)	0.6	8.0	8.4
Inflation	CPI	0.1	0.4	0.3	0.7	6.8	7.4

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

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	11.1	14.8	8.4	10.5	9.6	14.3
	Capped SWIX	12.6	12.3	5.7	9.1	-	-
	Resources	18.5	24.5	21.7	9.1	5.6	11.0
	Industrials	(0.6)	11.8	3.3	10.1	11.9	16.7
	Financials	25.2	6.5	3.6	8.8	8.6	12.9
	Listed Property	7.2	(4.4)	(6.7)	2.7	6.8	13.9
Local bonds	ALBI	6.4	7.5	8.9	7.2	8.4	8.9
Local cash	STeFI Composite	5.0	4.8	5.8	6.1	6.7	7.2
Global equities	MSCI All Country	(4.2)	12.5	11.5	16.1	11.8	11.4
Global bonds	FTSE WGBI	(11.8)	(0.4)	2.1	5.4	7.3	5.8
Exchange rate	ZAR/USD	8.4	5.5	4.7	6.8	6.4	3.1
Inflation	CPI	7.4	5.3	5.0	5.2	5.6	5.2

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

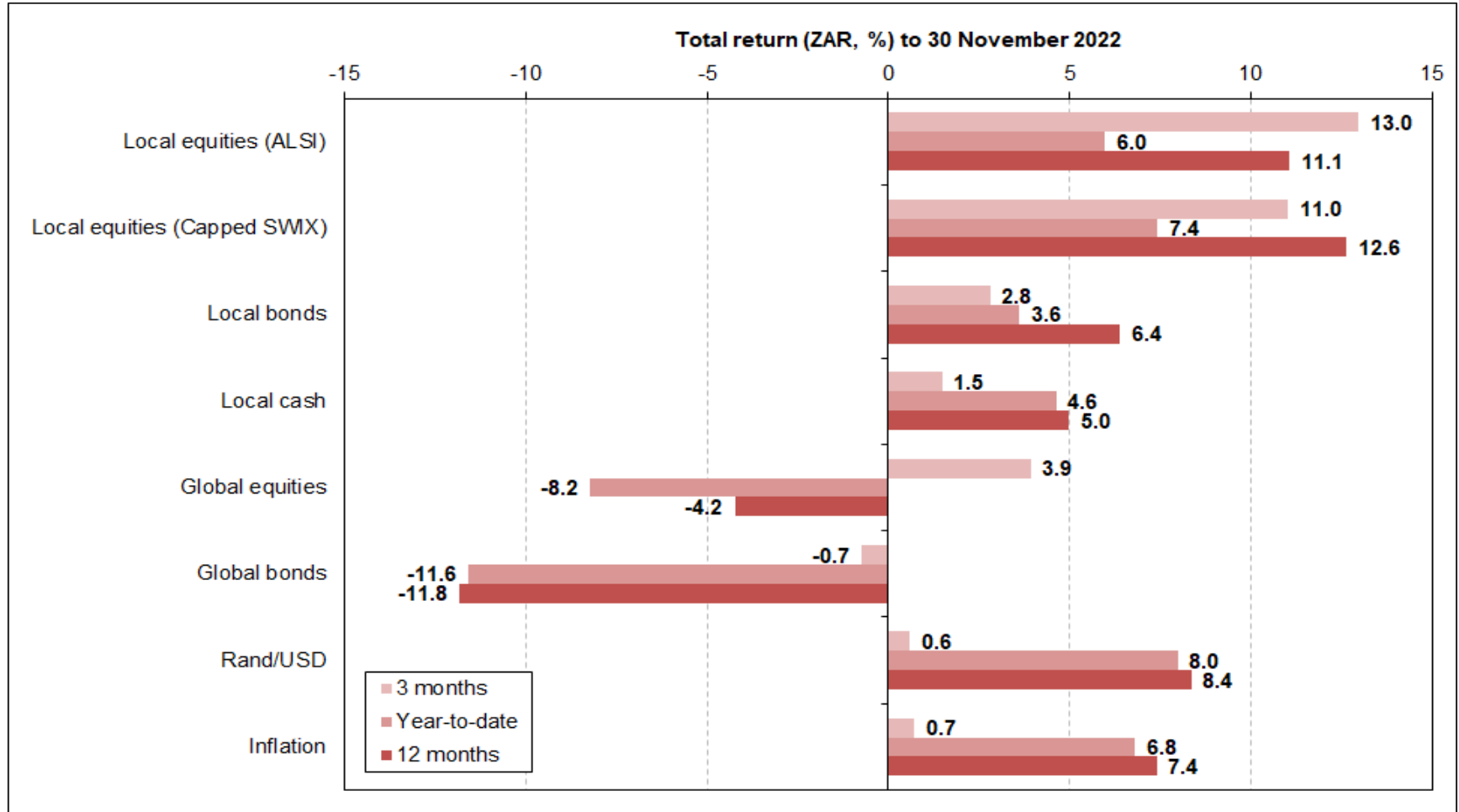
ECONOMIC INDICATORS

Economic indicators ¹	Nov 2020	Nov 2021	Sep 2022	Oct 2022	Nov 2022
Exchange rates:					
ZAR/USD	15.47	15.89	18.09	18.35	17.21
ZAR/GBP	20.60	21.13	20.20	21.04	20.76
ZAR/Euro	18.45	18.01	17.74	18.14	17.92
Commodities:					
Brent Crude Oil (USD/barrel)	47.88	69.23	85.14	92.81	86.97
Platinum (USD/ounce)	959.51	952.76	864.50	934.50	1,018.00
Gold (USD/ounce)	1,776.30	1,793.14	1,660.90	1,640.97	1,759.80

1. *Month-end prices*

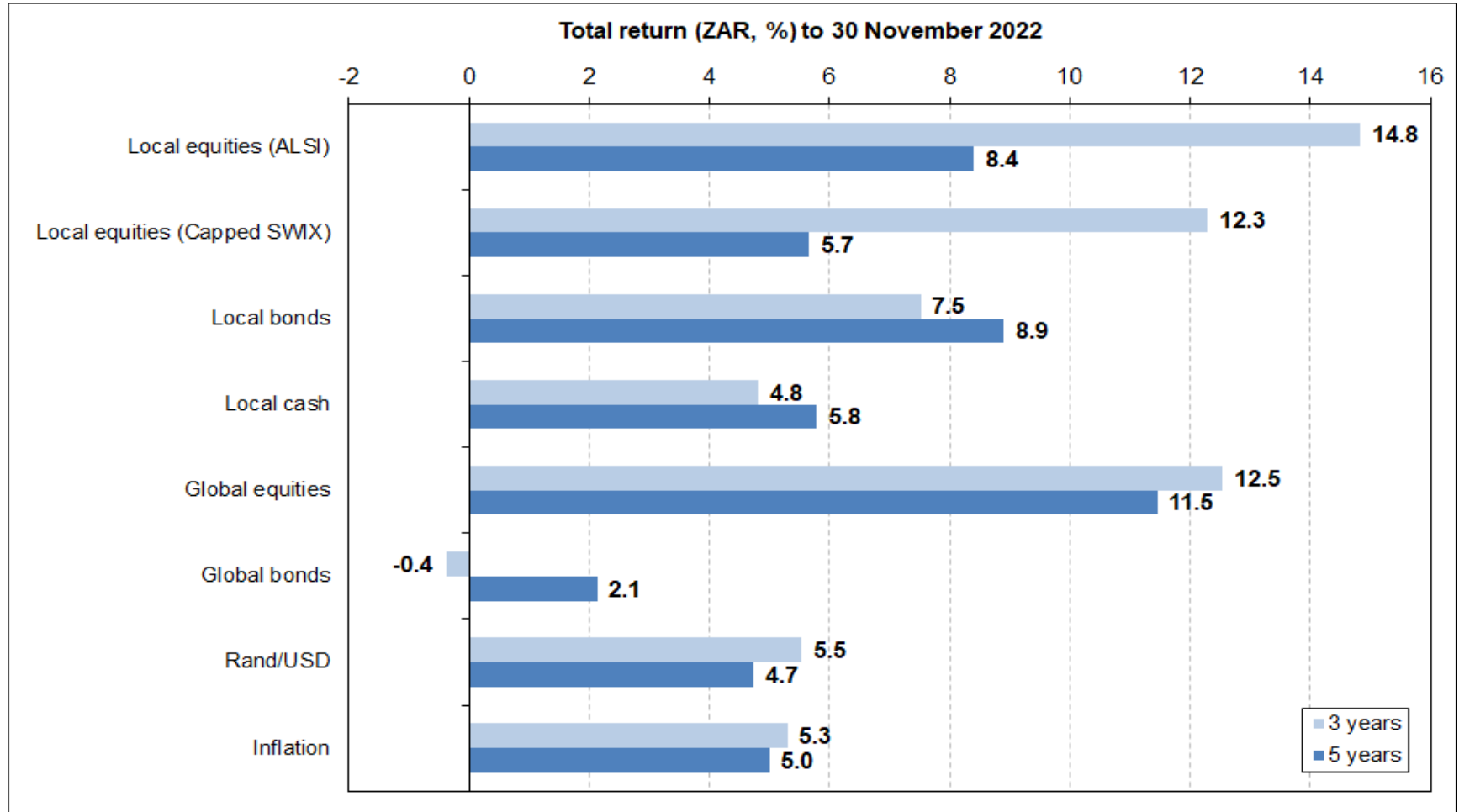
ASSET CLASS PERFORMANCE

SHORT TERM

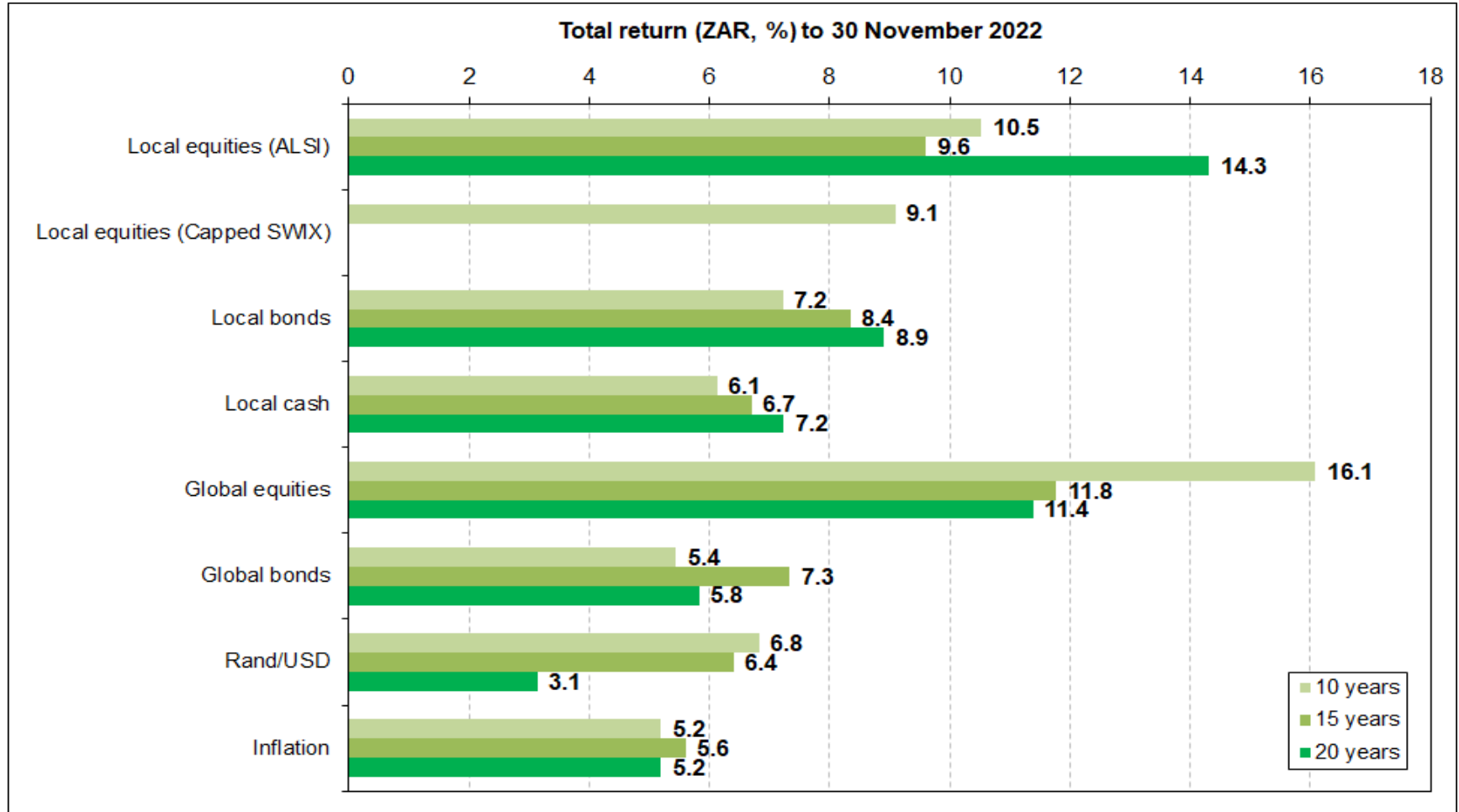


ASSET CLASS PERFORMANCE

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:

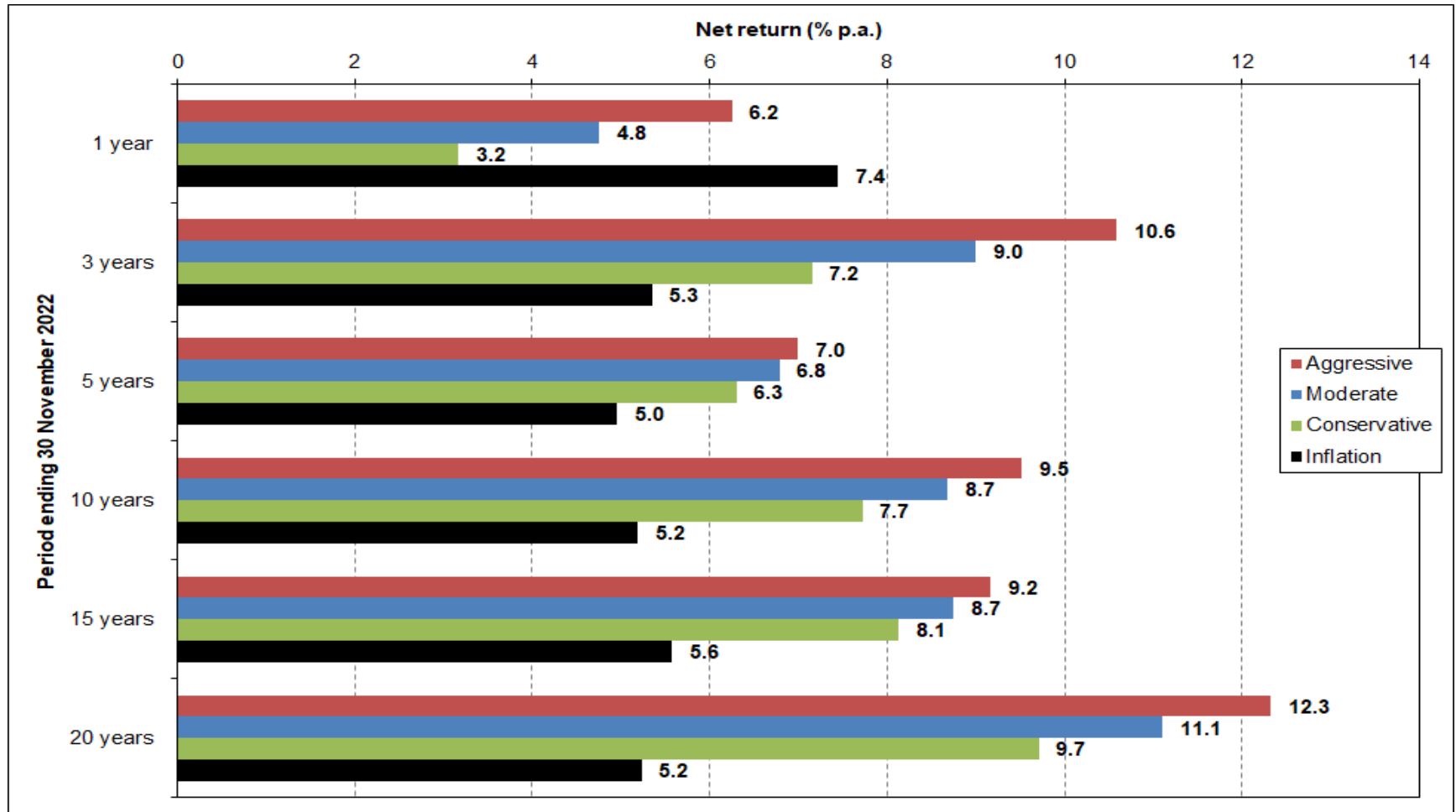
- The offshore allocation is kept at 5% below the prevailing regulatory maximum (15% to 2000, 20% to 2006, 25% to 2018, 30% to 2022 & currently at 45%), with changes to the offshore allocation made in the middle of the year in which the limit changed.
- The equity allocation varies according to the risk 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	GROWTH VS INCOME ASSETS	EQUITIES VS BONDS VS CASH	GROWTH VS INCOME ASSETS	EQUITIES VS BONDS VS CASH
AGGRESSIVE	Strategic allocation	75%	25%	75%	25%	75%	25%
	Strategic allocation	100%	75%	25%	100%	100%	100%
	Current allocation	~45%	~11%	~4%	~30%	~10%	
MODERATE	Strategic allocation	55%	45%	55%	45%	55%	45%
	Strategic allocation	100%	55%	45%	100%	100%	100%
	Current allocation	~33%	~15%	~12%	~22%	~18%	
CONSERVATIVE	Strategic allocation	35%	65%	35%	65%	35%	65%
	Strategic allocation	100%	35%	65%	100%	100%	100%
	Current allocation	~21%	~14%	~25%	~14%	~26%	

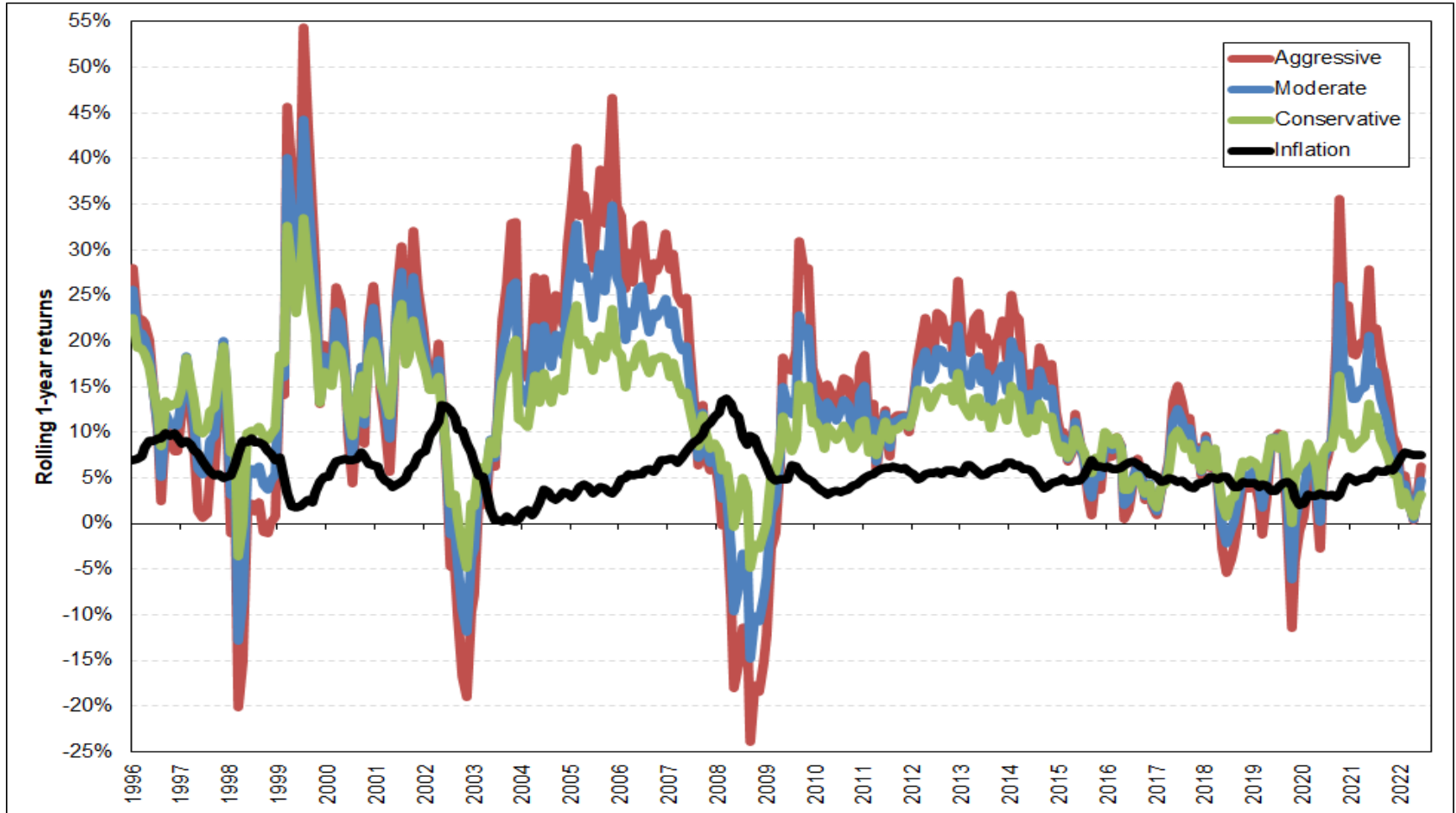
MARKET PERFORMANCE

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



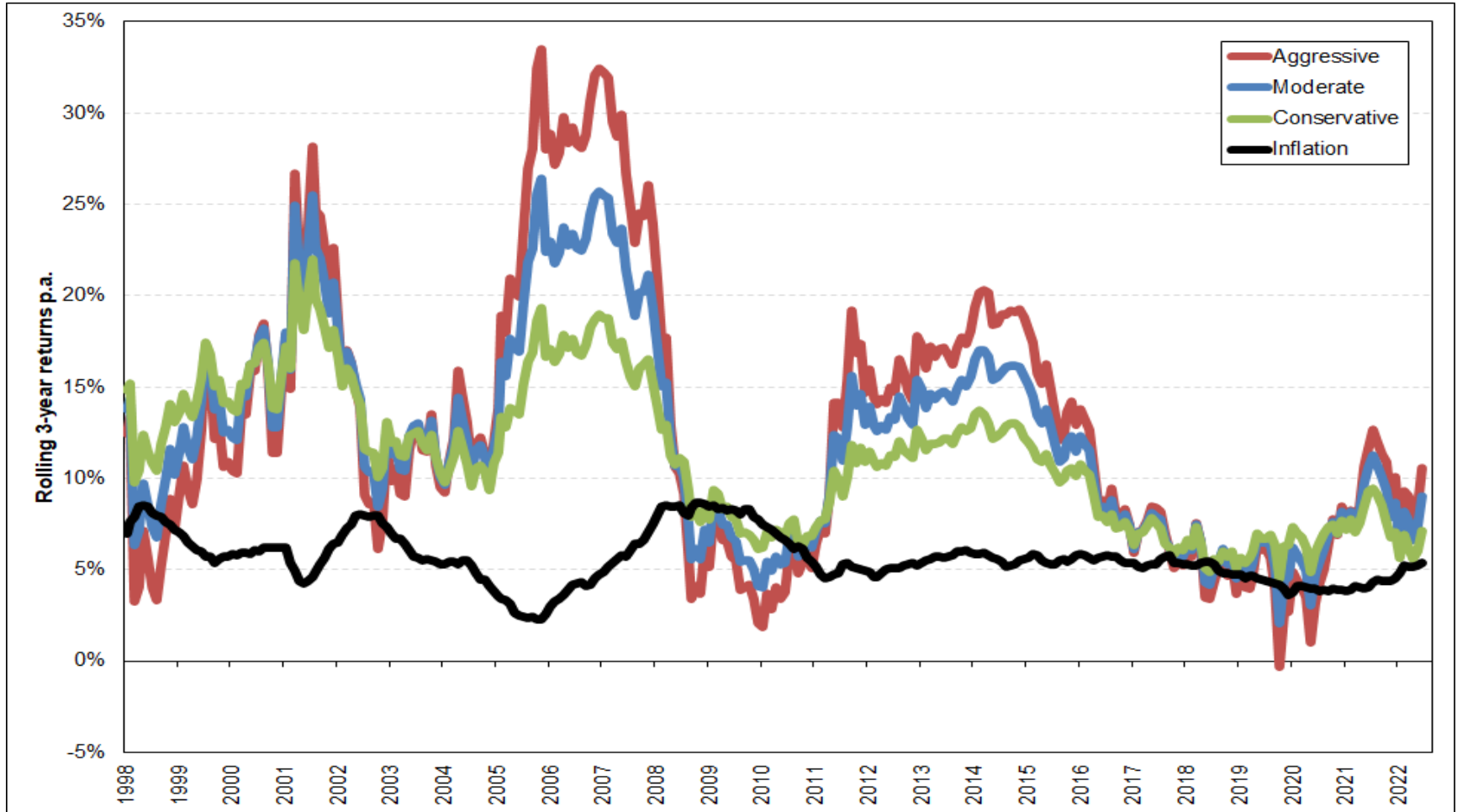
MARKET PERFORMANCE

1-YEAR RETURNS STARTING TO IMPROVE AGAIN



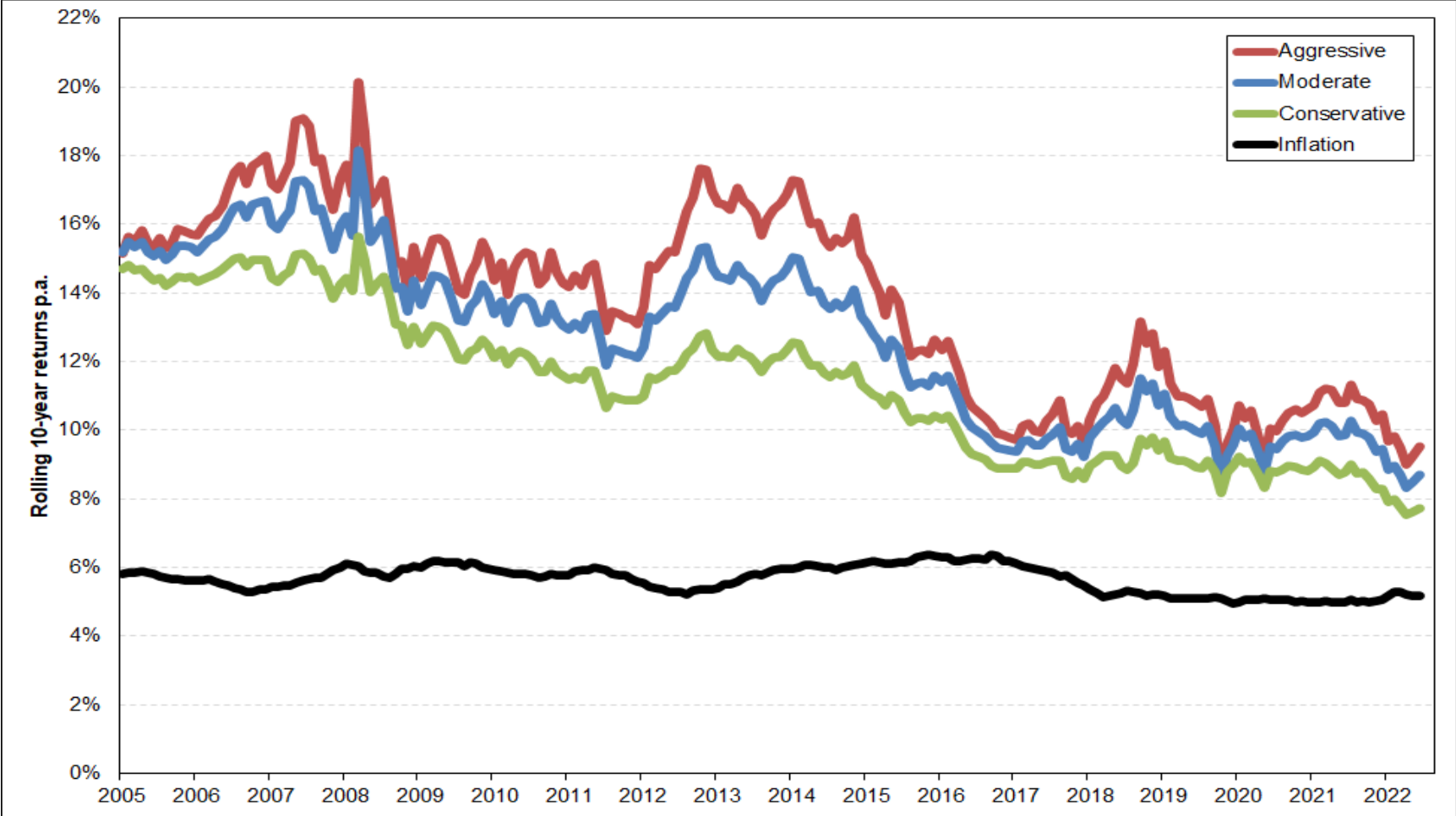
MARKET PERFORMANCE

3-YEAR RETURNS BACK AT DECENT LEVELS



MARKET PERFORMANCE

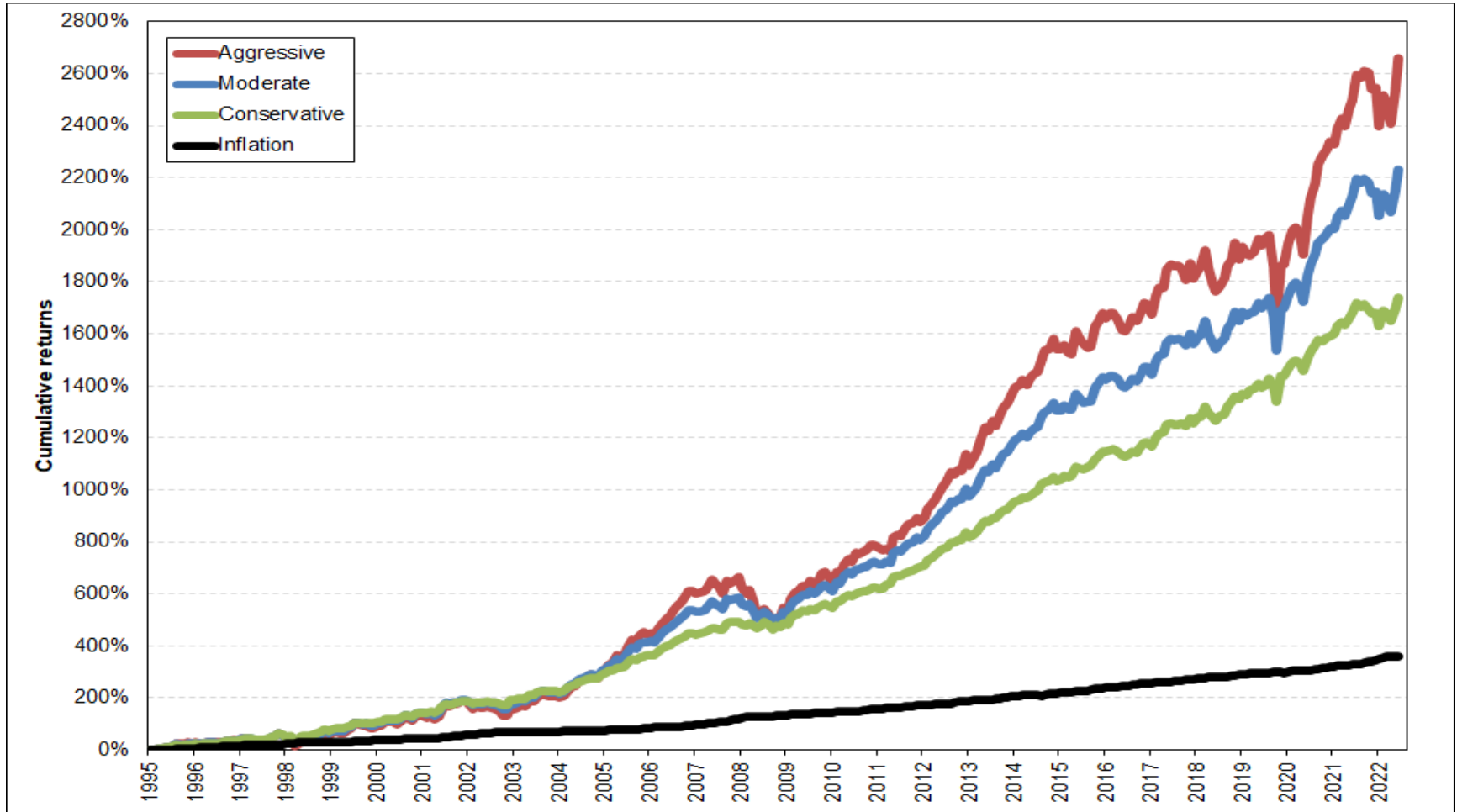
LONG TERM RETURNS STILL OK



Source: Iress

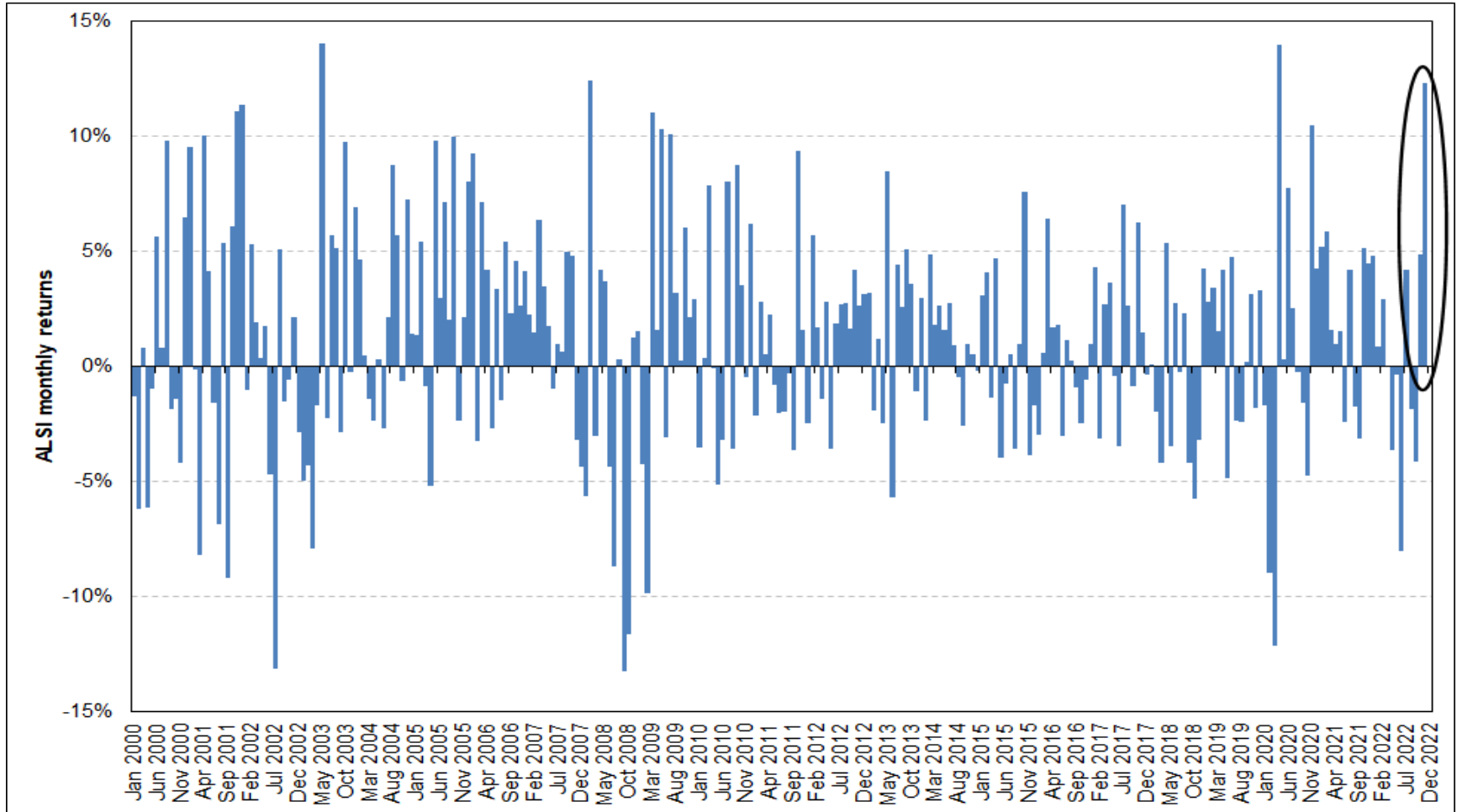
MARKET PERFORMANCE

2022 LOSSES NOW FULLY RECOVERED



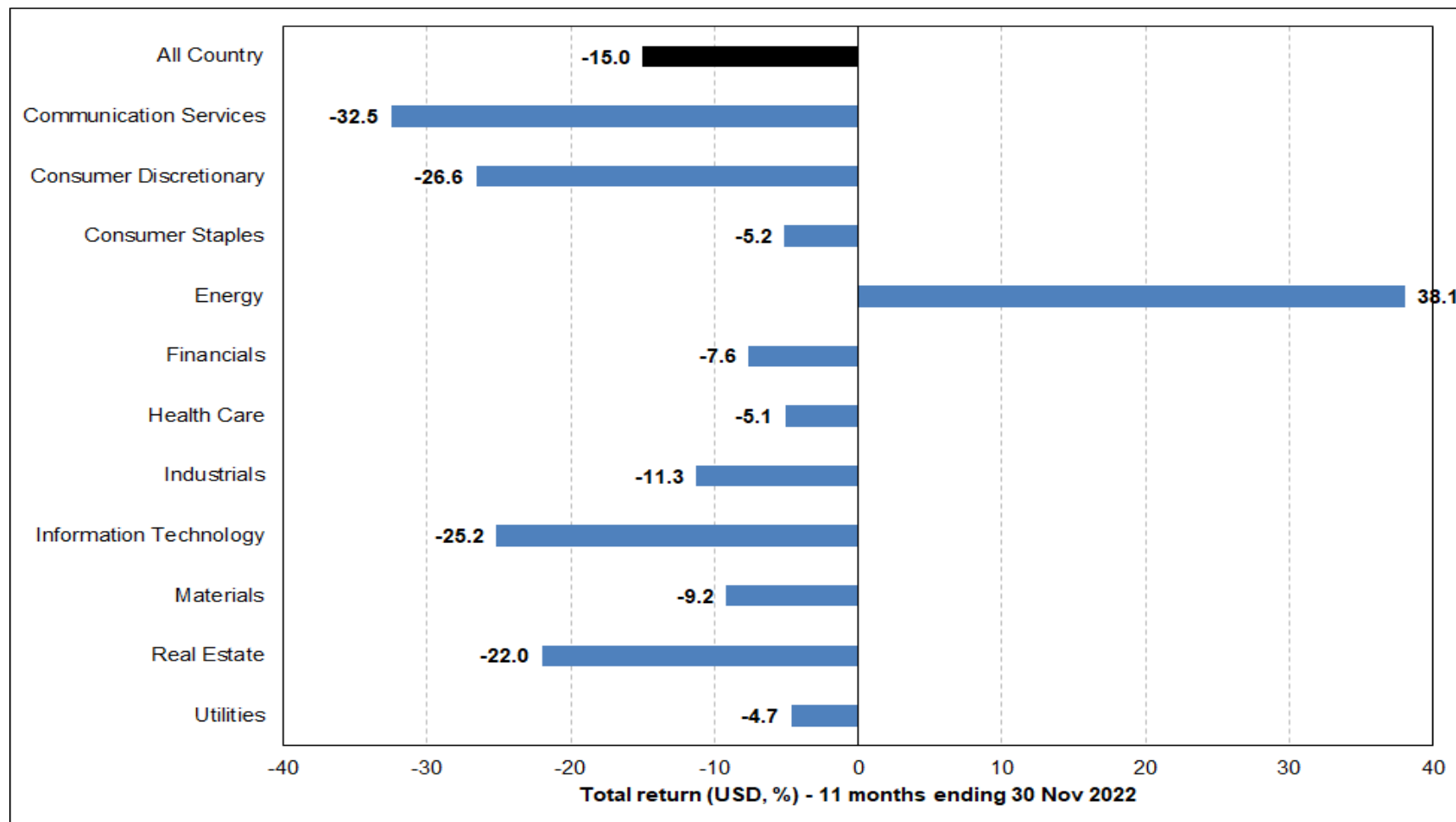
LOCAL EQUITIES

NOVEMBER 2022 = 4th BEST MONTH IN TWO DECADES



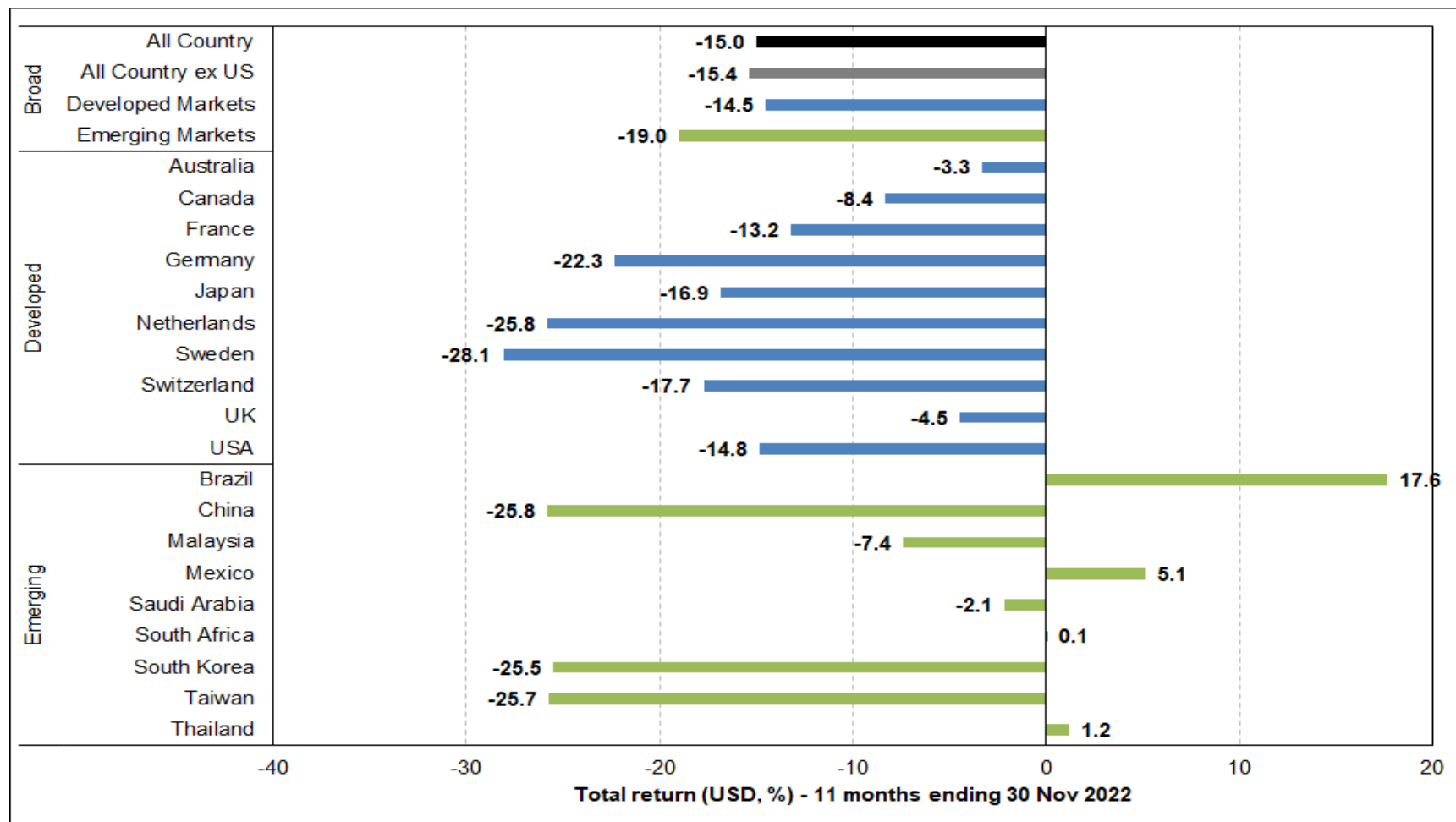
GLOBAL EQUITIES YTD (in USD)

ENERGY THE ONLY SHINING LIGHT IN 2022



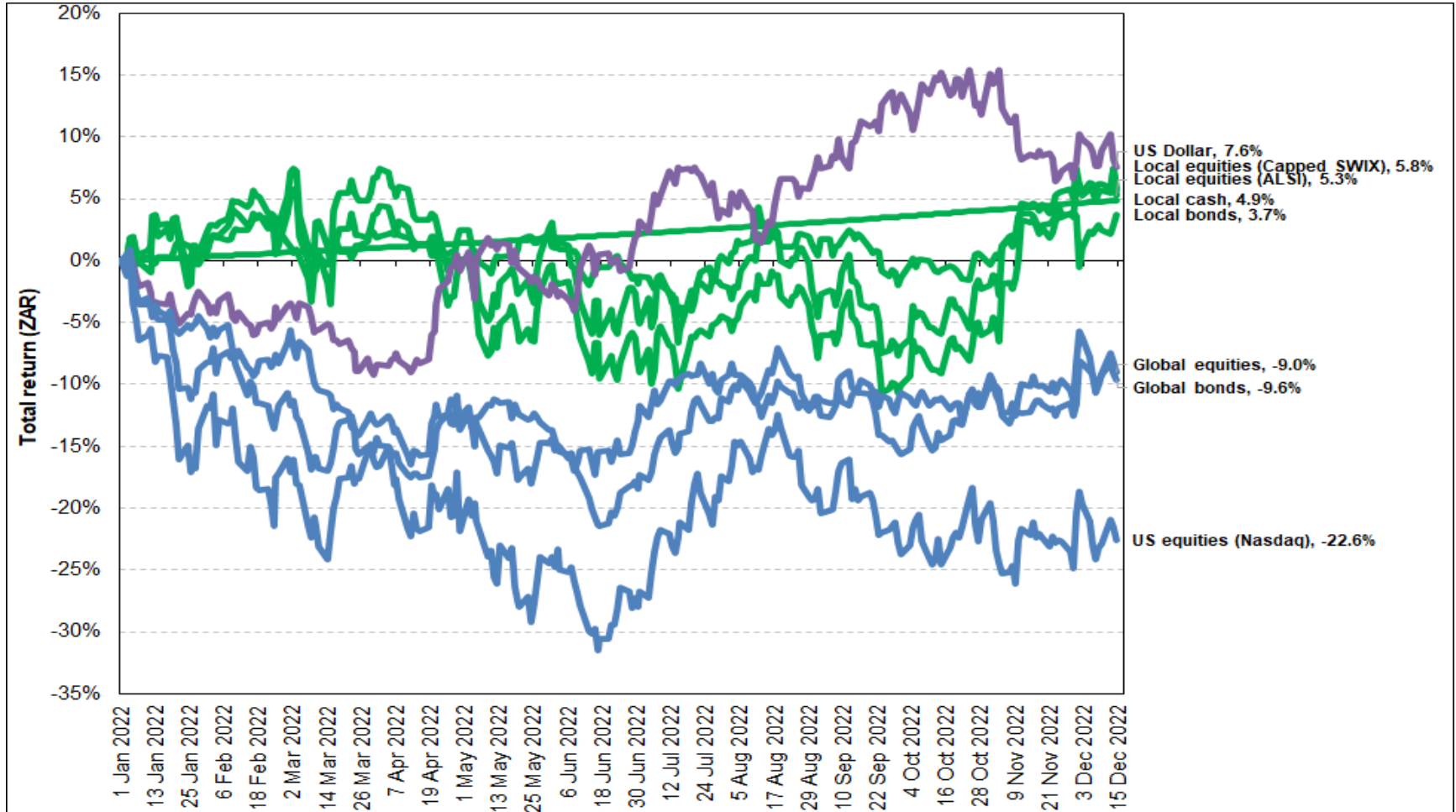
GLOBAL EQUITIES YTD (in USD)

SA OUTPERFORMS

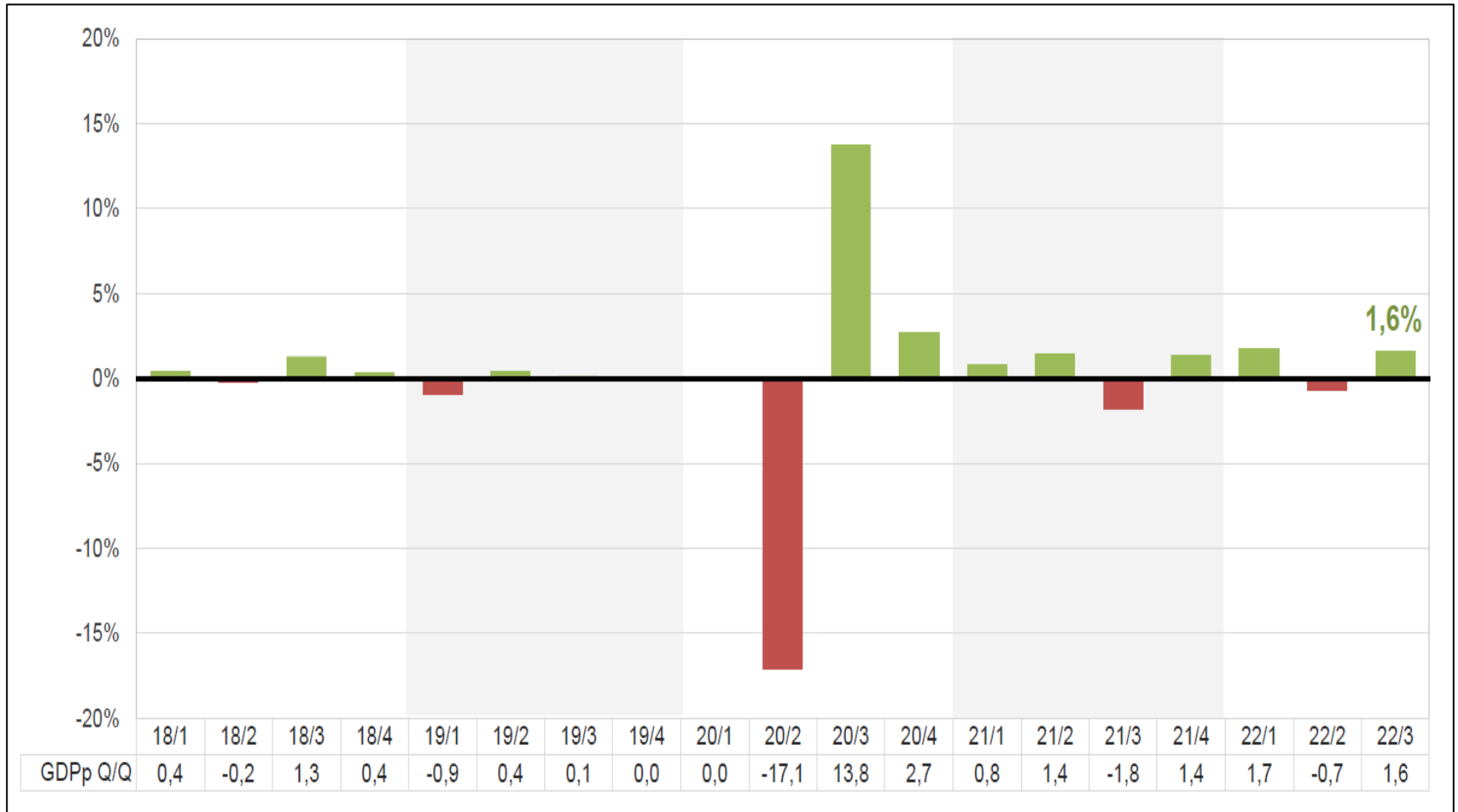


GLOBAL MARKETS YTD

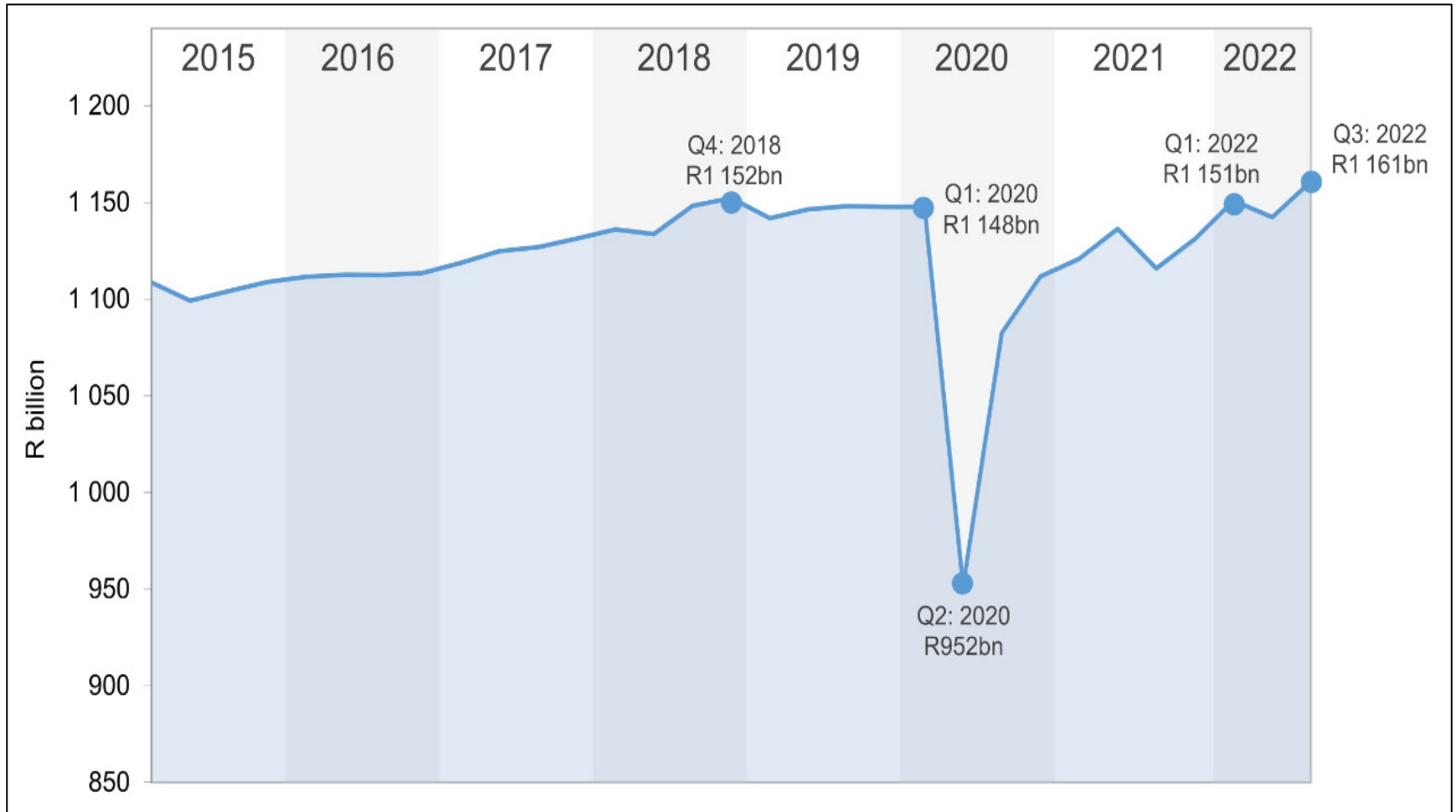
WILL 2022 TURN OUT BETTER THAN EXPECTED?



SA ECONOMY EXPANDS BY 1.6% IN 2022 Q3



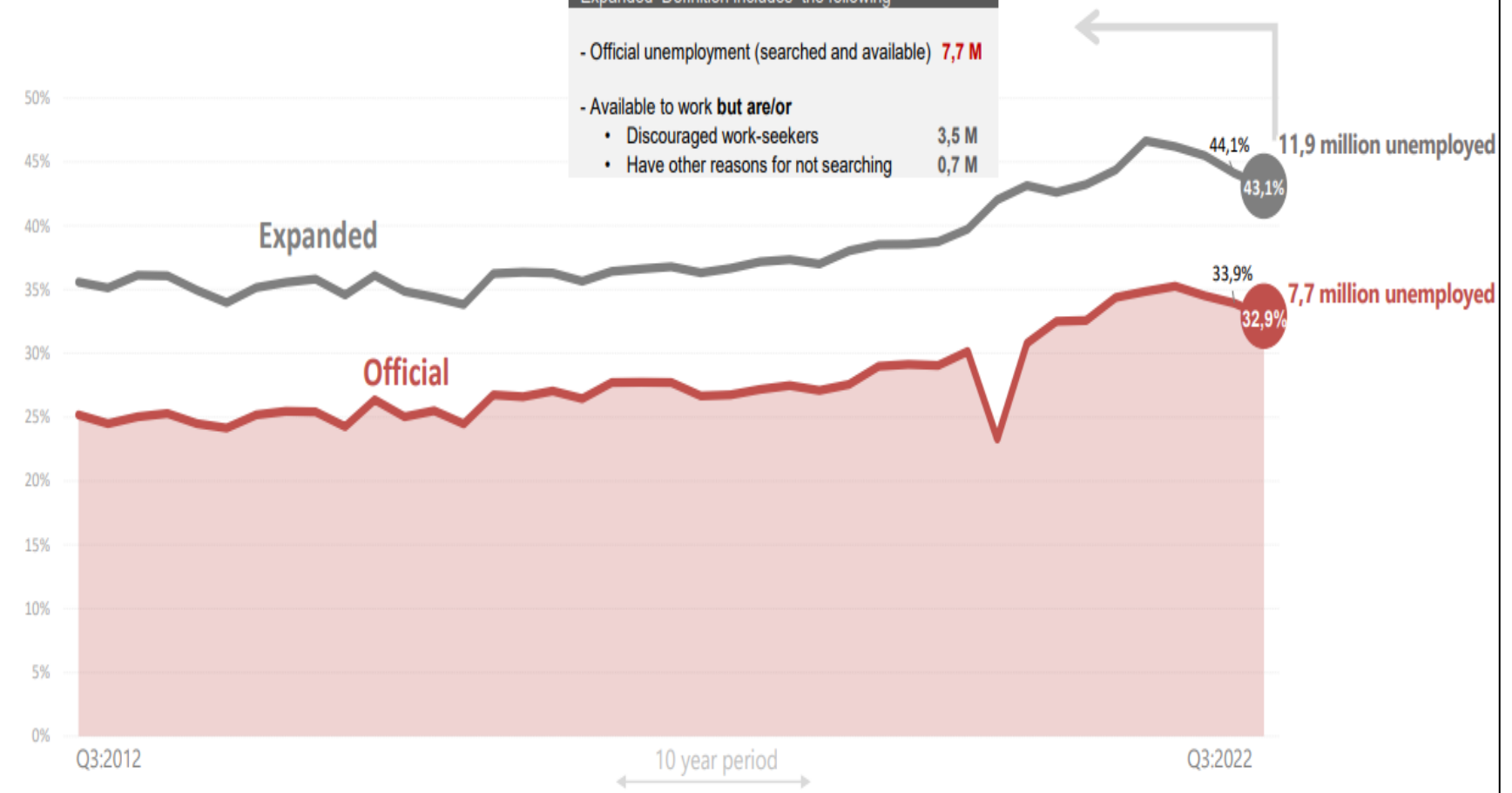
SA ECONOMY FINALLY SURPASSES PREVIOUS PEAK



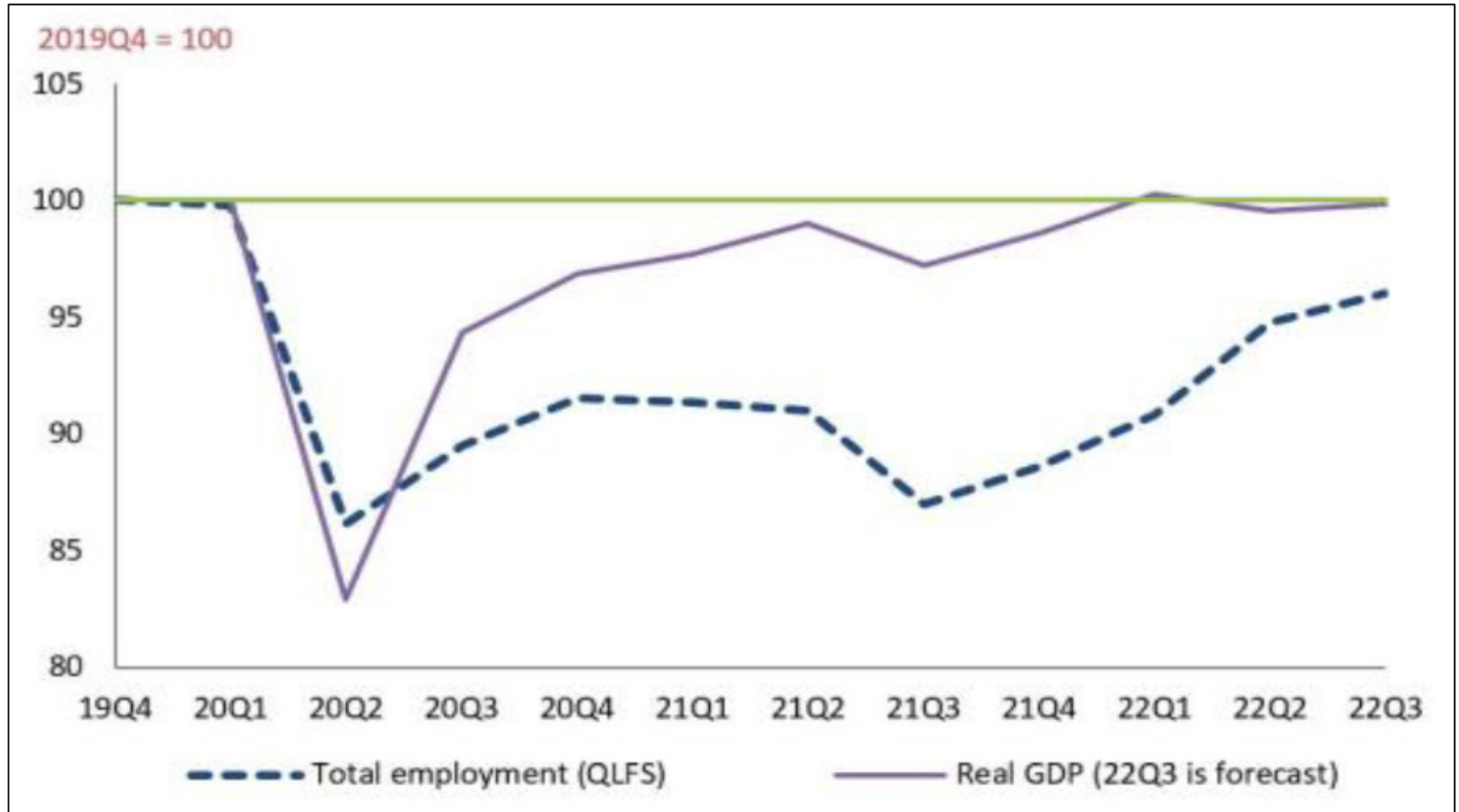
SA UNEMPLOYMENT

SOME IMPROVEMENT, BUT A LONG WAY TO GO...

Official vs Expanded unemployment: Q3:2012-Q3:2022



SA UNEMPLOYMENT RECOVERY LAGGING THAT OF THE ECONOMY

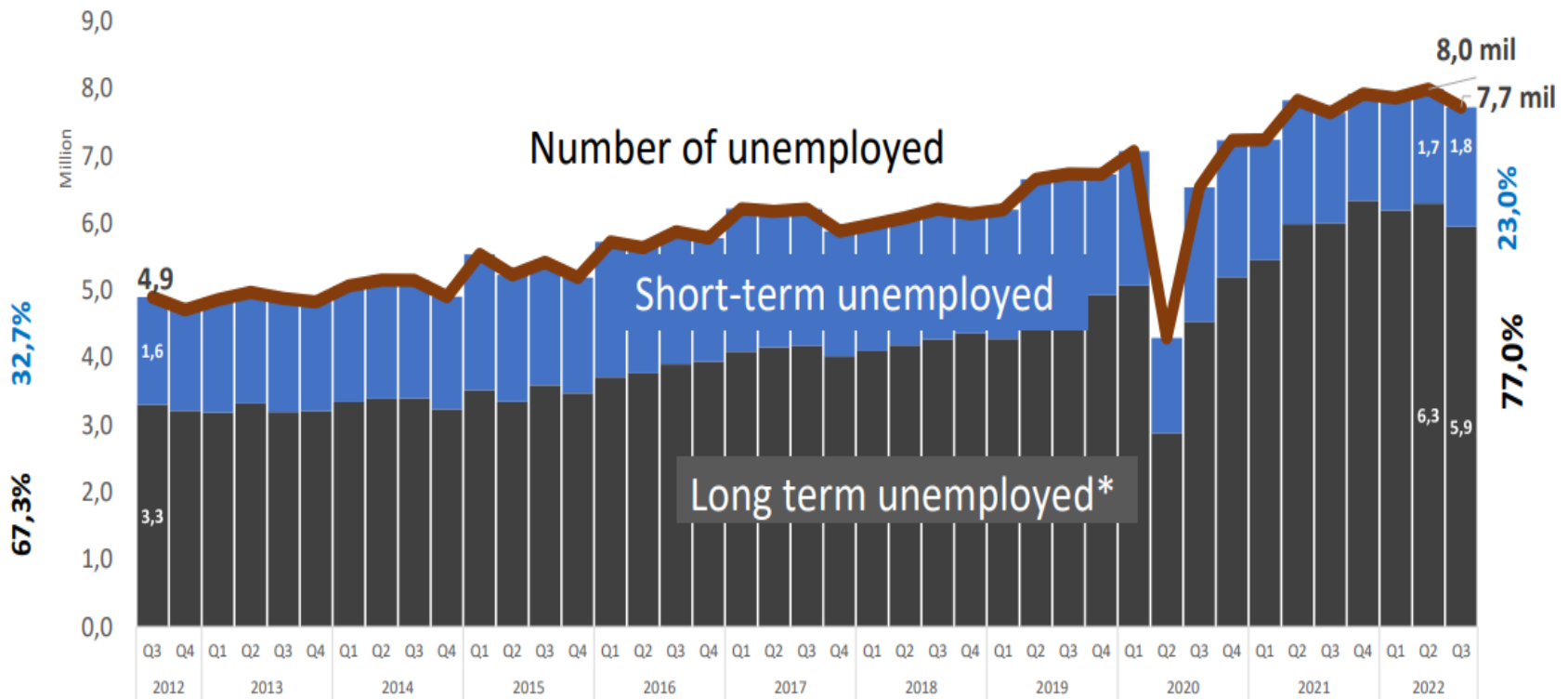


SA UNEMPLOYMENT

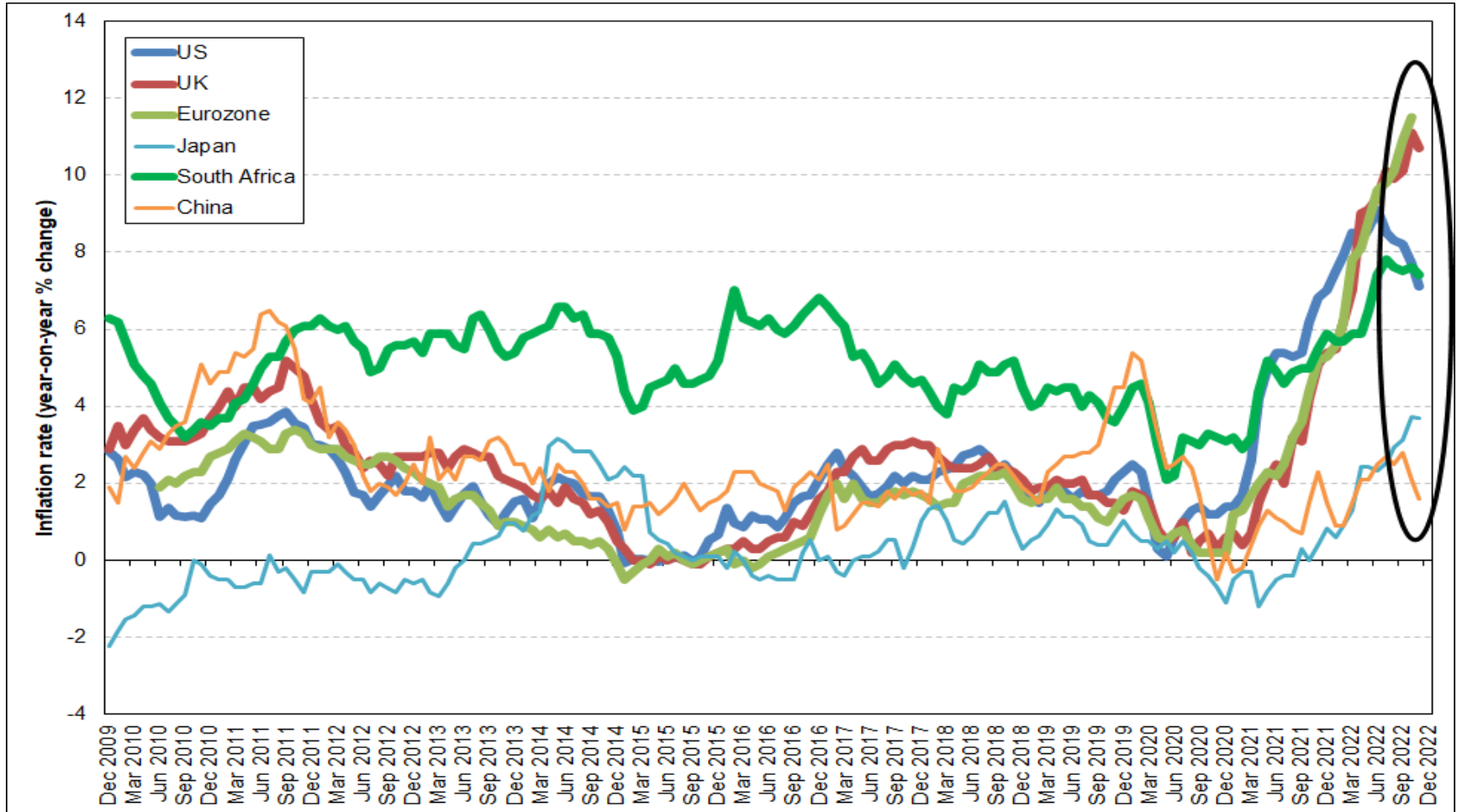
NEARLY 3 MILLION MORE UNEMPLOYED PEOPLE IN 10 YEARS. TIME TO TRY SOMETHING NEW?

The number of unemployed people in South Africa increased from 4,9 million in Q3:2012 to 7,7 million in Q3:2022. The proportion of those in long-term unemployment increased from 67,3% in Q3:2012 to 77,0% in Q3:2022

*Long term unemployment –unemployed for a year or longer

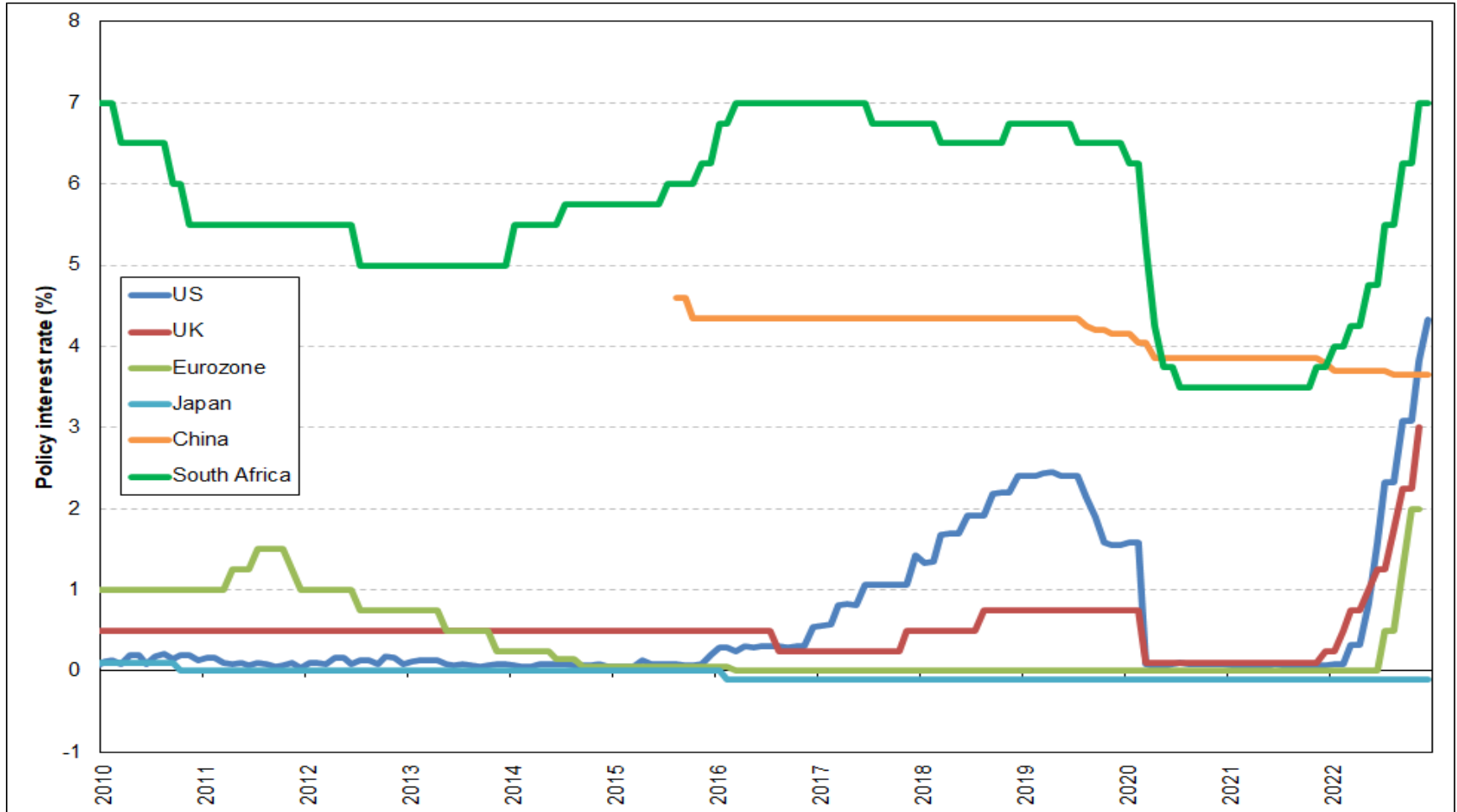


INFLATION IS THE WORST BEHIND US?



INTEREST RATES

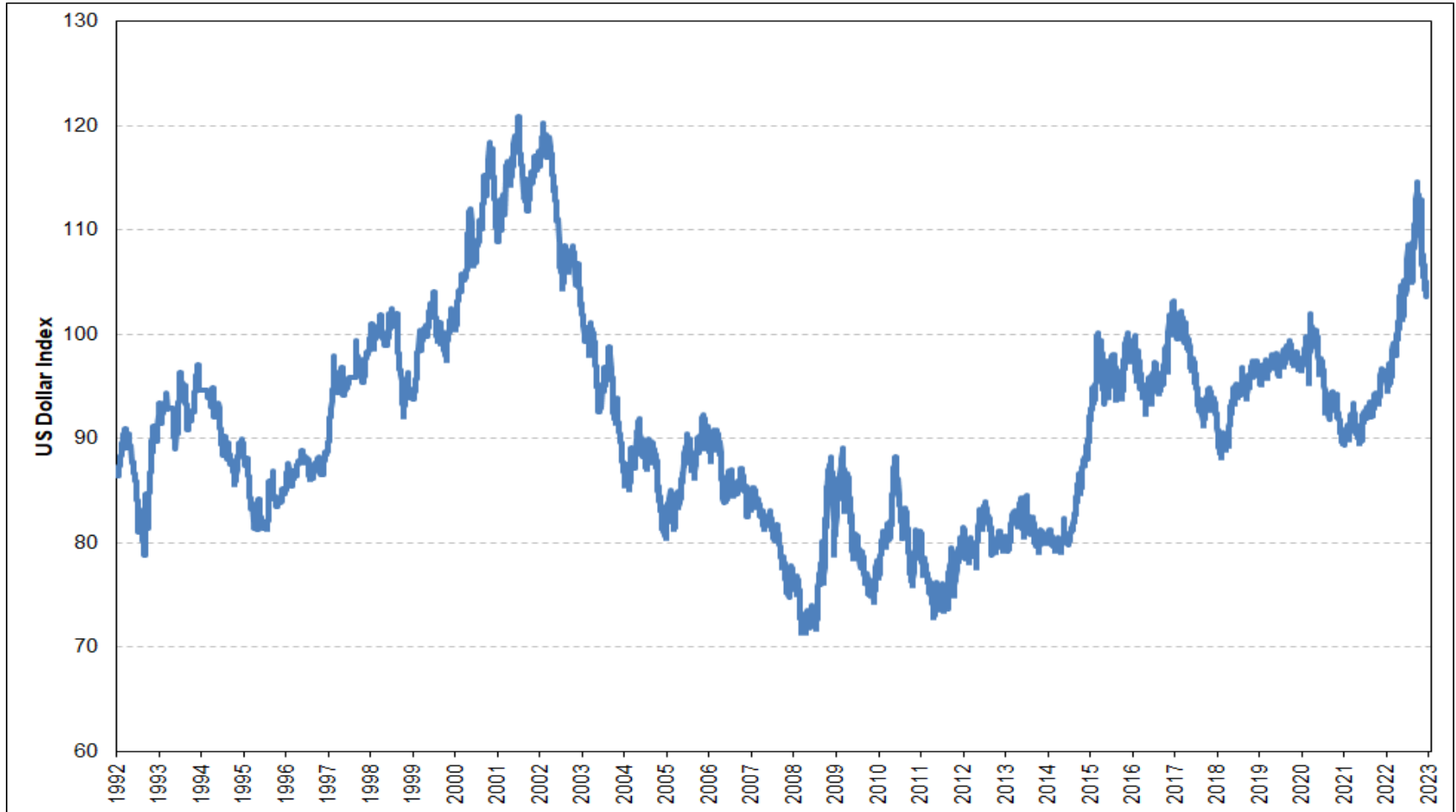
ARE WE CLOSE TO THE PEAK?



US DOLLAR IS ITS STRONG RUN OVER?



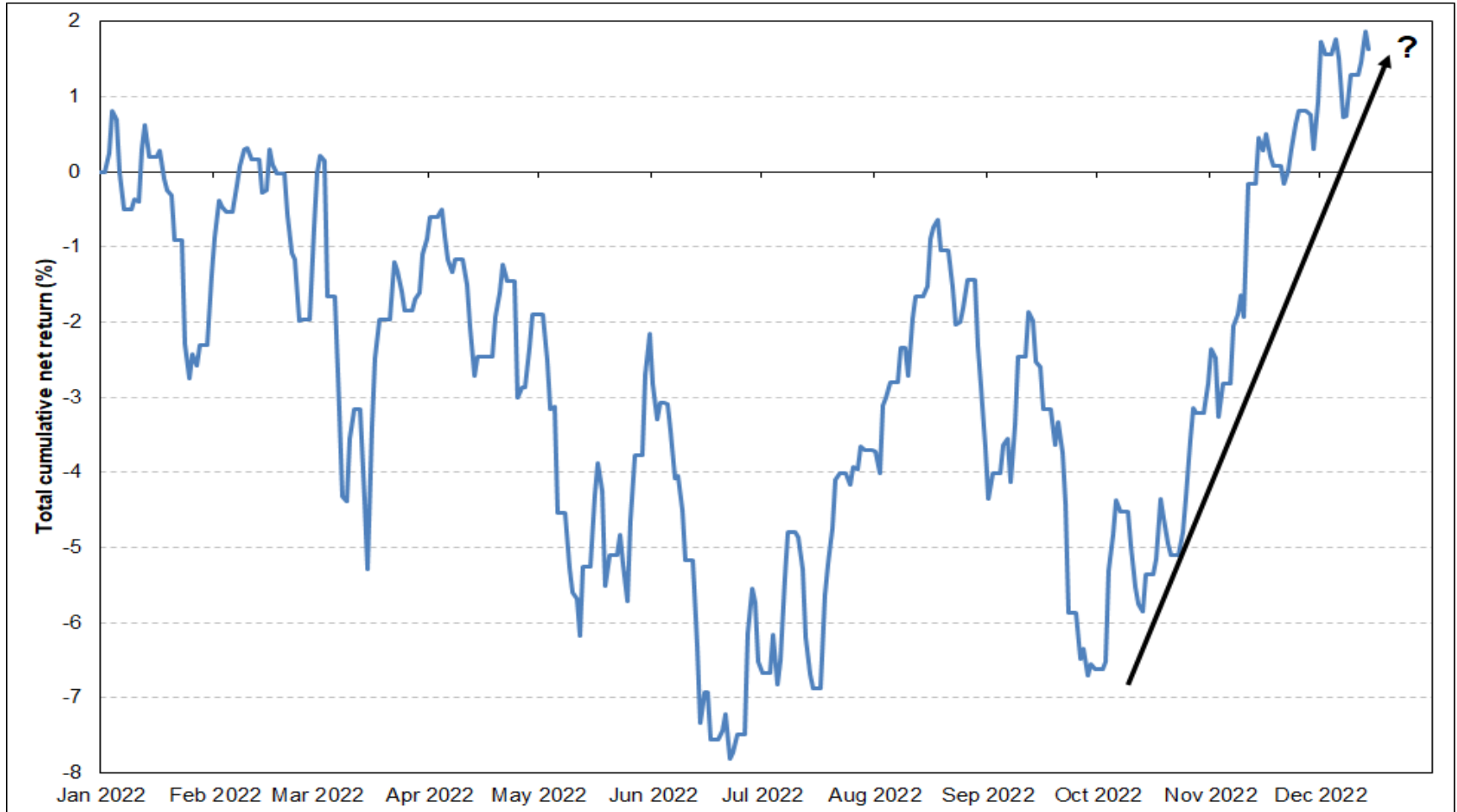
US DOLLAR IS ITS STRONG RUN OVER?



THE RAMAPHOBIA RAND ROLLERCOASTER ZAR/USD



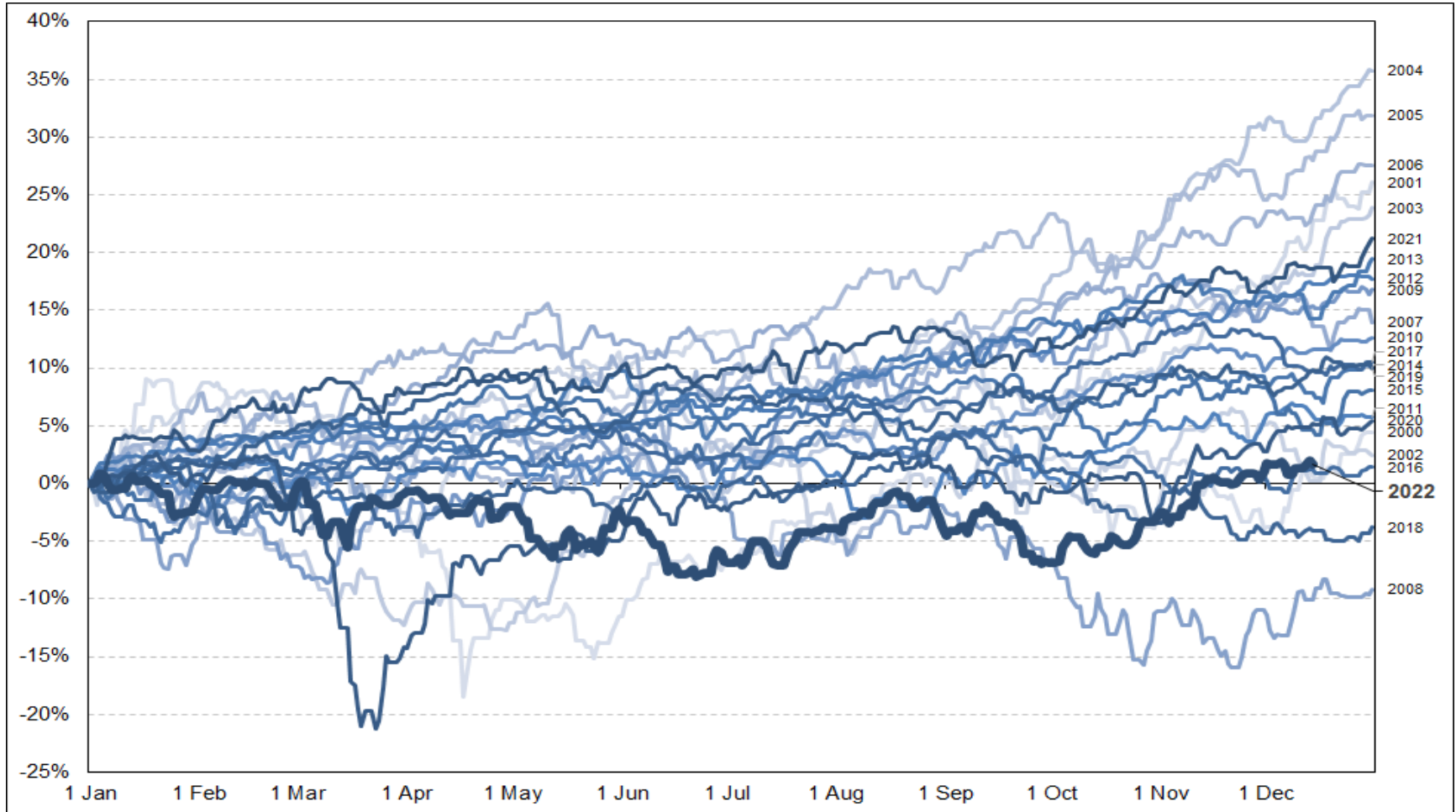
AVERAGE BALANCED FUND * WILL 2022 END IN THE GREEN?



* ASISA South African Multi Asset High Equity category average
Source: Morningstar

AVERAGE BALANCED FUND *

HOW WILL 2022 STACK UP?



* ASISA South African Multi Asset High Equity category average
Source: Morningstar