

MONTH IN PICTURES

JANUARY 2023

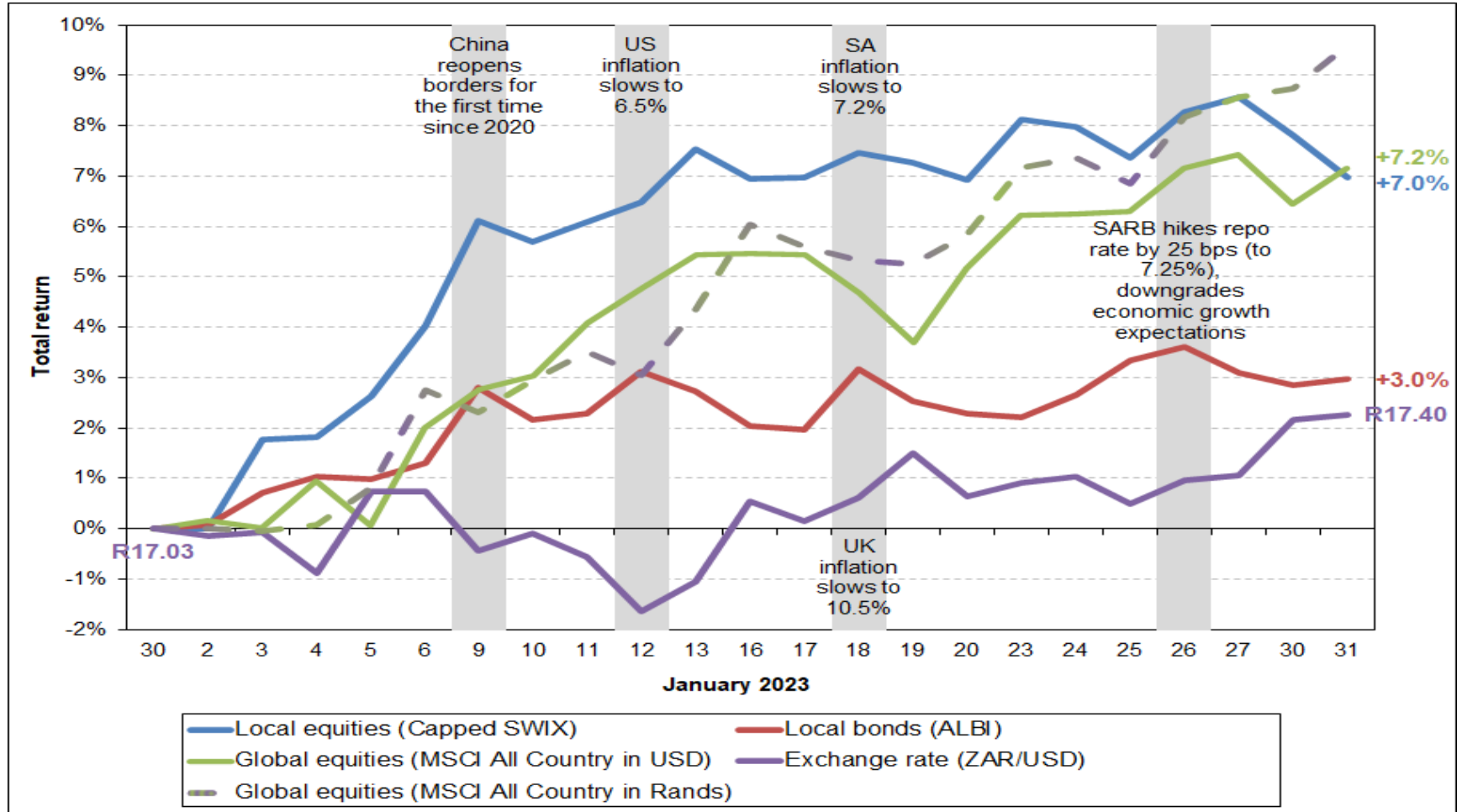
MONTHLY SNAPSHOT

NOTABLE EVENTS

- 2023 started off with a bang, with all of the major asset classes enjoying strong returns as markets continued to celebrate the softening of inflation data and China's long-awaited reopening.
- Local equities therefore built on their strong results from 2022 Q4, delivering returns of +7% (Capped SWIX) to +9% (ALSI) in January, while the local bond market gained 2.9%. Within the local equity market Industrials (+12.8%) outperformed, but gains were widespread as both Resources (+6.3%) and Financials (+4.7%) also provided solid returns. Industrials benefitted mainly from strong gains from its large China-exposed constituents such as Naspers (+18.5%), Richemont (+18.3%) and Prosus (+17.9%).
- Global markets also enjoyed a good month, yielding USD returns of +7.2% (equities) and +3.2% (bonds). With the local currency weakening by 2.3% against the US Dollar, local investors enjoyed Rand returns of +9.6% and +5.5% from these asset classes, respectively.
- Following the SARB's 25 basis point (bp) hike in late January (taking the repo rate to 7.25%), the US Fed raised interest rates by another 25 basis points in early February (taking their policy rate range to 4.5-4.75%).
- Markets have now bounced back considerably since troughing in Q3 last year, with gains of 20-25% from local equities (from 1 October 2022 to 31 January 2023), +9% from local bonds, +13% from global equities and +3% from global bonds. The average balanced fund * has enjoyed a return of +13% over this period, meaning that medium term returns are back at decent levels following last year's sell-off in Q2 and Q3 (+7.2% over the last year, and +10% p.a. over the last 3 years).
- Finance Minister Enoch Godongwana delivered his second budget to parliament in February, which contained no major surprises and was generally well received by markets. The focus was unsurprisingly on the electricity crisis, with a debt relief package of R254 billion announced for Eskom, along with rebates for renewable and solar installations for businesses and households. Other highlights included no increases in any of the major tax rates, and projected primary budget surpluses (i.e., when revenue exceeds non-interest expenditure) from 2022/23 onwards (for the first time since 2008/9). Retirement fund members should also be glad to hear that the retirement lump sum tax brackets were adjusted upwards by 10%, which will result in a lower tax burden on the cash portion of their benefits.
- Shortly after the budget, the Financial Action Task Force (FATF), an inter-governmental body that sets international standards aimed at preventing global money laundering and terrorist financing activities, added SA to its grey list. This was widely anticipated, so market reactions were relatively muted, but this will unfortunately be another headwind for the local economy in the form of increased administration/compliance burdens, reduced foreign investment, etc.

MONTHLY TIMELINE

IMPACT ON MARKETS



MARKET INDICATORS

SHORT TERM

Market indicators (% change) ¹		Nov 2022	Dec 2022	Jan 2023	3 months	YTD	12 months
Local equities	ALSI	12.3	(2.3)	8.9	19.6	8.9	11.8
	Capped SWIX	9.6	(2.8)	7.0	14.0	7.0	9.1
	Resources	16.0	(3.5)	6.3	19.0	6.3	11.4
	Industrials	14.0	(0.3)	12.8	28.3	12.8	10.7
	Financials	4.9	(5.7)	4.7	3.6	4.7	9.9
	Listed Property	6.3	1.1	(1.0)	6.4	(1.0)	2.4
Local bonds	ALBI	3.9	0.6	2.9	7.6	2.9	6.4
Local cash	STeFI Composite	0.5	0.6	0.6	1.7	0.6	5.5
Global equities	MSCI All Country	1.1	(5.0)	9.6	5.2	9.6	4.1
Global bonds	FTSE WGBI	(2.0)	(1.3)	5.5	2.2	5.5	(2.5)
Exchange rate	ZAR/USD	(6.2)	(1.1)	2.3	(5.1)	2.3	13.2
Inflation	CPI	0.3	0.4	-0.1	0.5	-0.1	6.9

1. Total returns (in Rands) for the months and periods ending 31 January 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	11.8	16.6	9.8	10.5	10.8	15.1
	Capped SWIX	9.1	13.6	6.4	8.9	-	-
	Resources	11.4	24.2	21.6	8.7	6.0	11.5
	Industrials	10.7	14.8	6.6	10.8	13.9	17.9
	Financials	9.9	7.7	2.3	7.8	9.8	13.4
	Listed Property	2.4	(2.7)	(5.5)	2.6	7.7	13.6
Local bonds	ALBI	6.4	7.7	8.1	7.4	8.6	8.9
Local cash	STeFI Composite	5.5	4.8	5.8	6.2	6.7	7.2
Global equities	MSCI All Country	4.1	12.3	13.9	15.7	12.1	12.5
Global bonds	FTSE WGBI	(2.5)	(0.5)	5.5	6.0	6.7	6.2
Exchange rate	ZAR/USD	13.2	5.1	8.0	6.9	5.8	3.6
Inflation	CPI	6.9	5.2	4.8	5.2	5.4	5.2

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

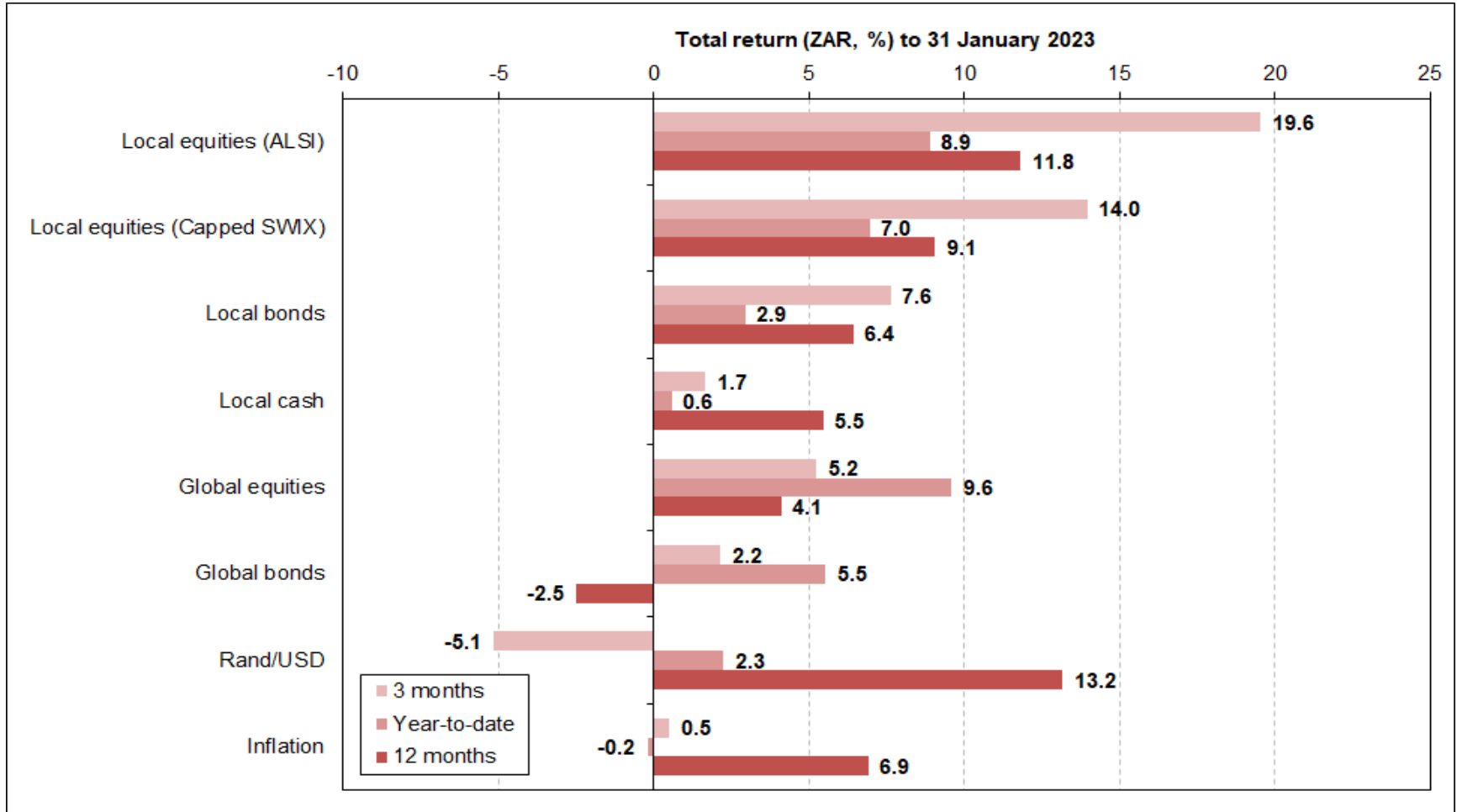
ECONOMIC INDICATORS

Economic indicators ¹	Jan 2021	Jan 2022	Nov 2022	Dec 2022	Jan 2023
Exchange rates:					
ZAR/USD	15.16	15.39	17.21	17.03	17.41
ZAR/GBP	20.78	20.69	20.76	20.59	21.45
ZAR/Euro	18.40	17.28	17.92	18.22	18.91
Commodities:					
Brent Crude Oil (USD/barrel)	55.04	89.26	86.97	85.91	85.46
Platinum (USD/ounce)	1,082.95	1,018.50	1,018.00	1,073.00	1,011.24
Gold (USD/ounce)	1,846.97	1,790.62	1,759.80	1,823.95	1,906.54

1. *Month-end prices*

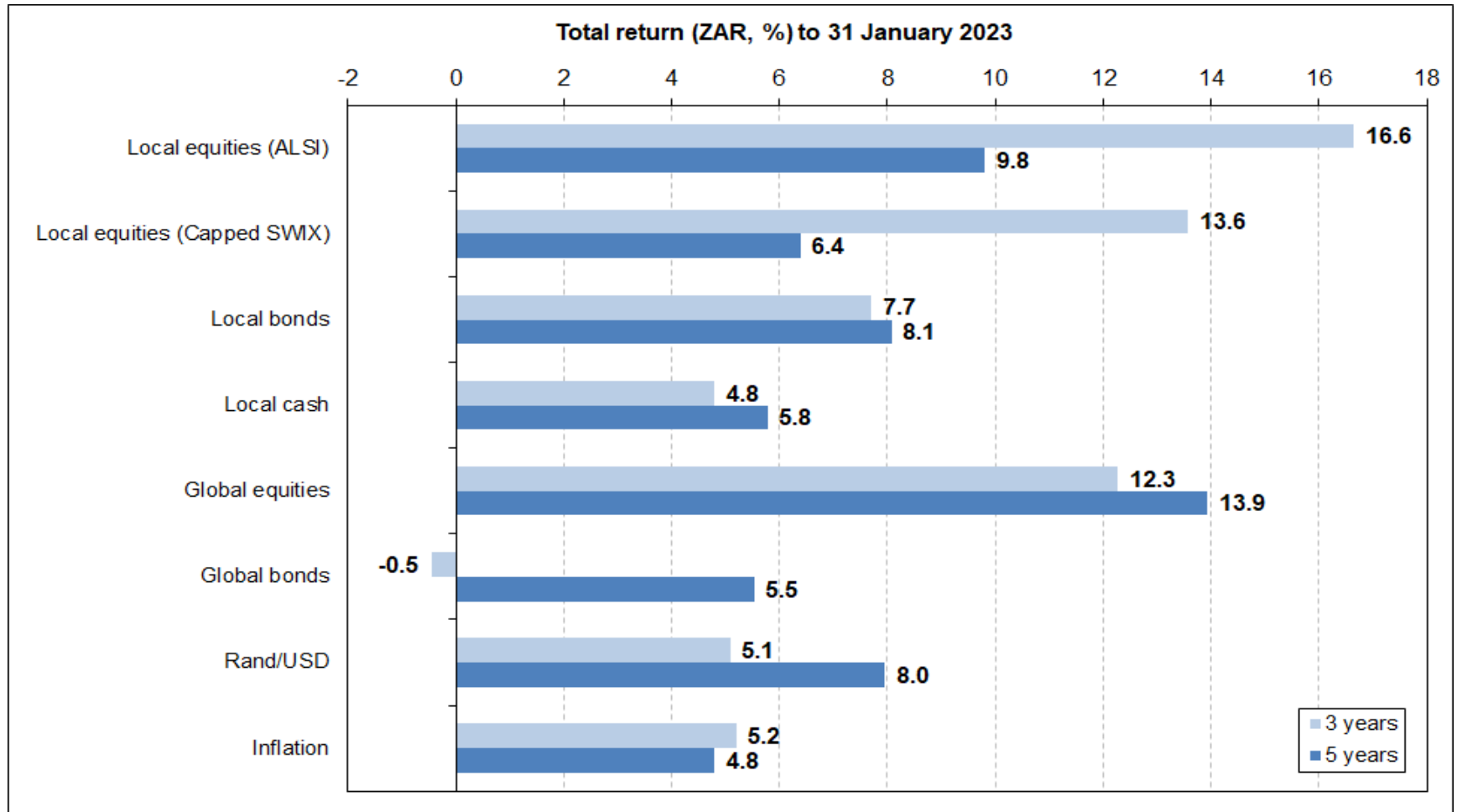
ASSET CLASS PERFORMANCE

SHORT TERM

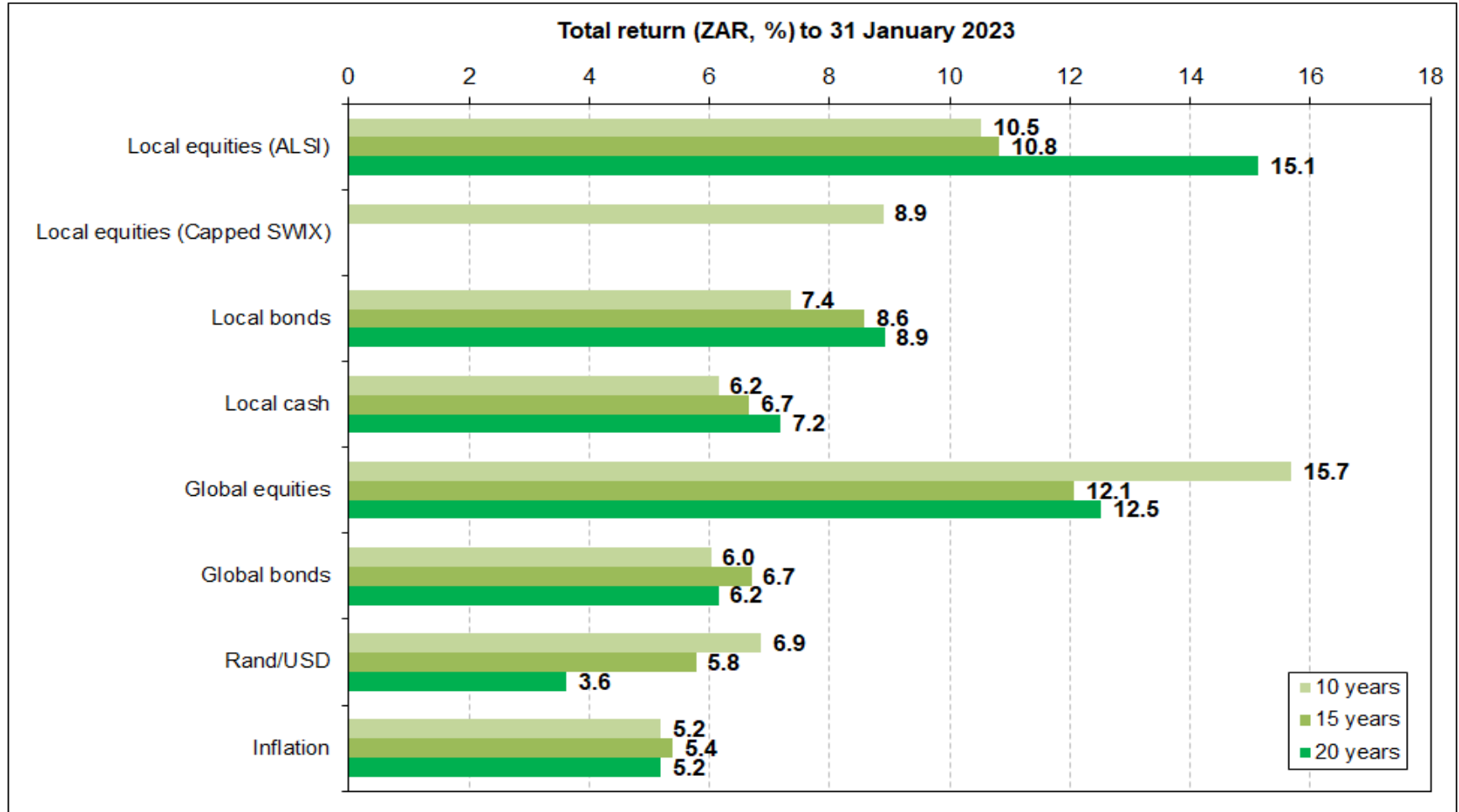


ASSET CLASS PERFORMANCE

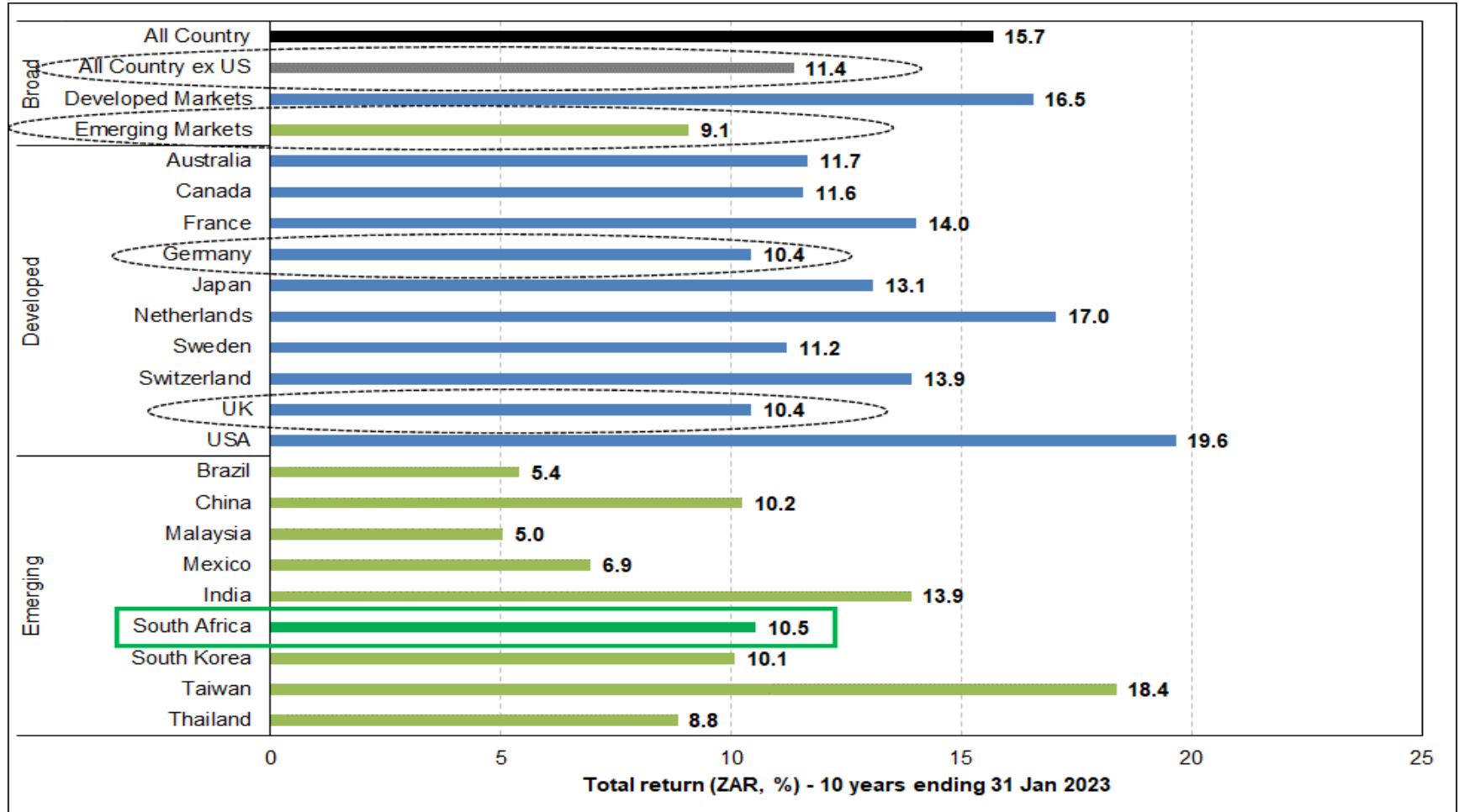
MEDIUM TERM



ASSET CLASS PERFORMANCE LONG TERM



GLOBAL EQUITIES 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:

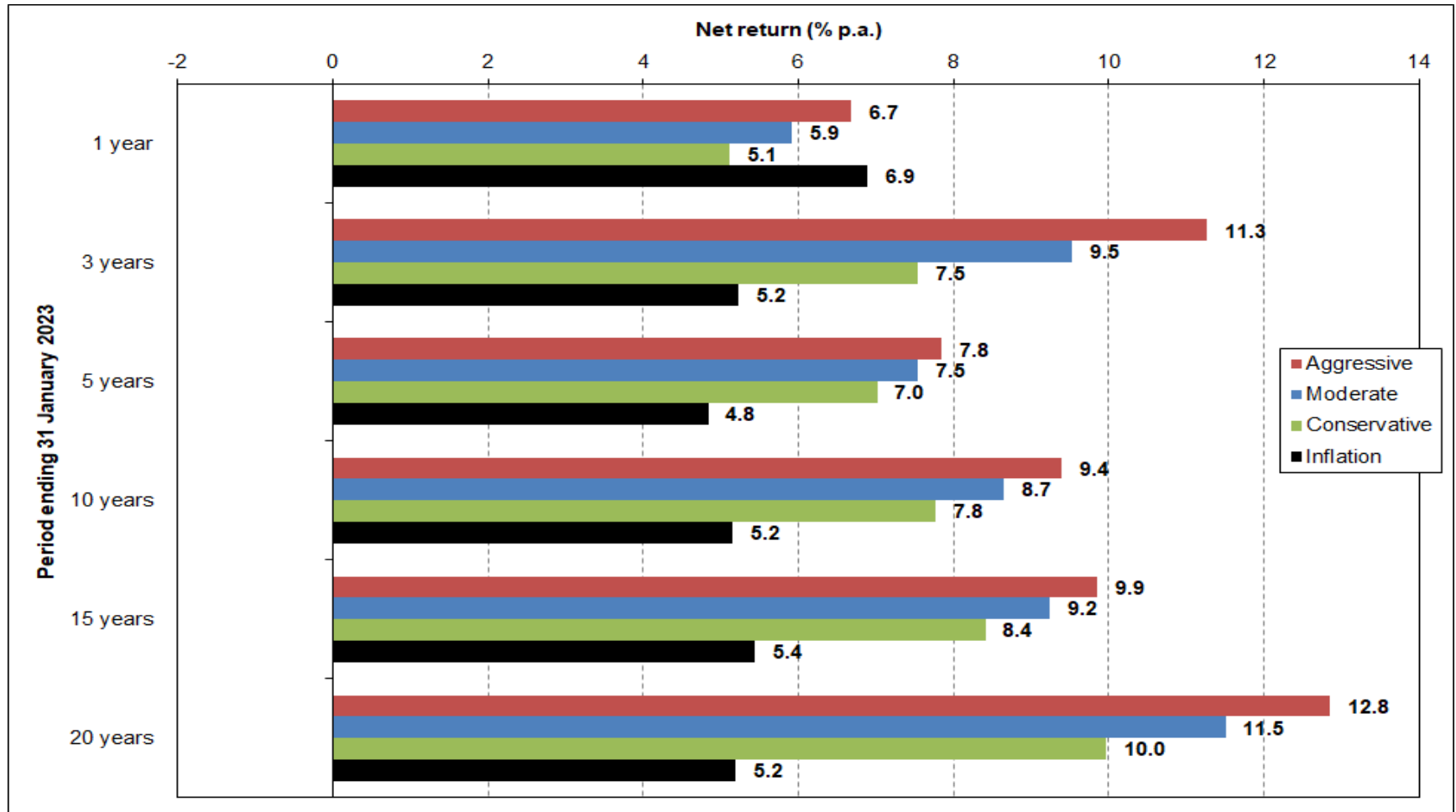
- The offshore allocation is kept at 5% below the prevailing regulatory maximum (15% to 2000, 20% to 2006, 25% to 2018, 30% to 2022 & currently at 45%), with changes to the offshore allocation made in the middle of the year in which the limit changed.
- The equity allocation varies according to the risk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

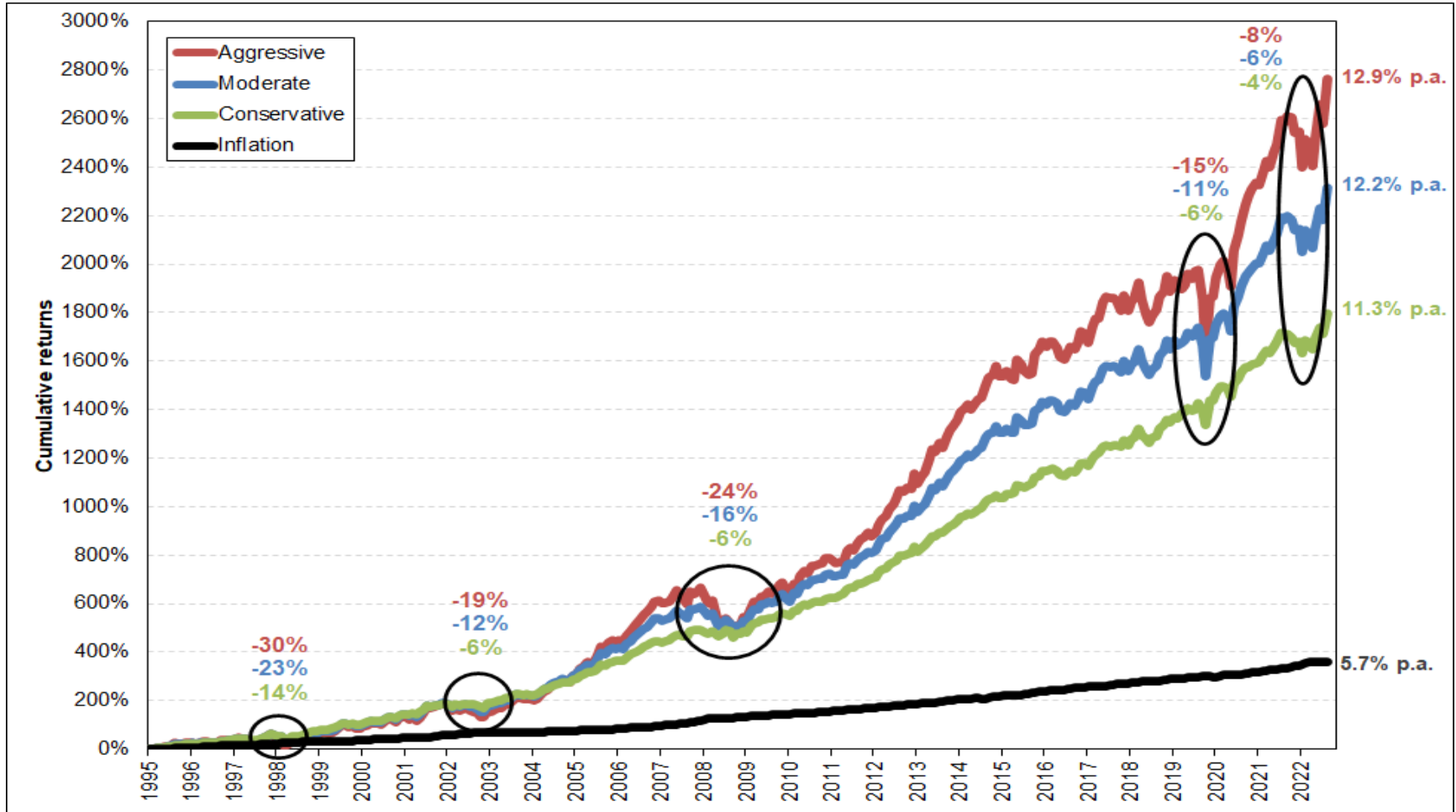
MARKET PERFORMANCE

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

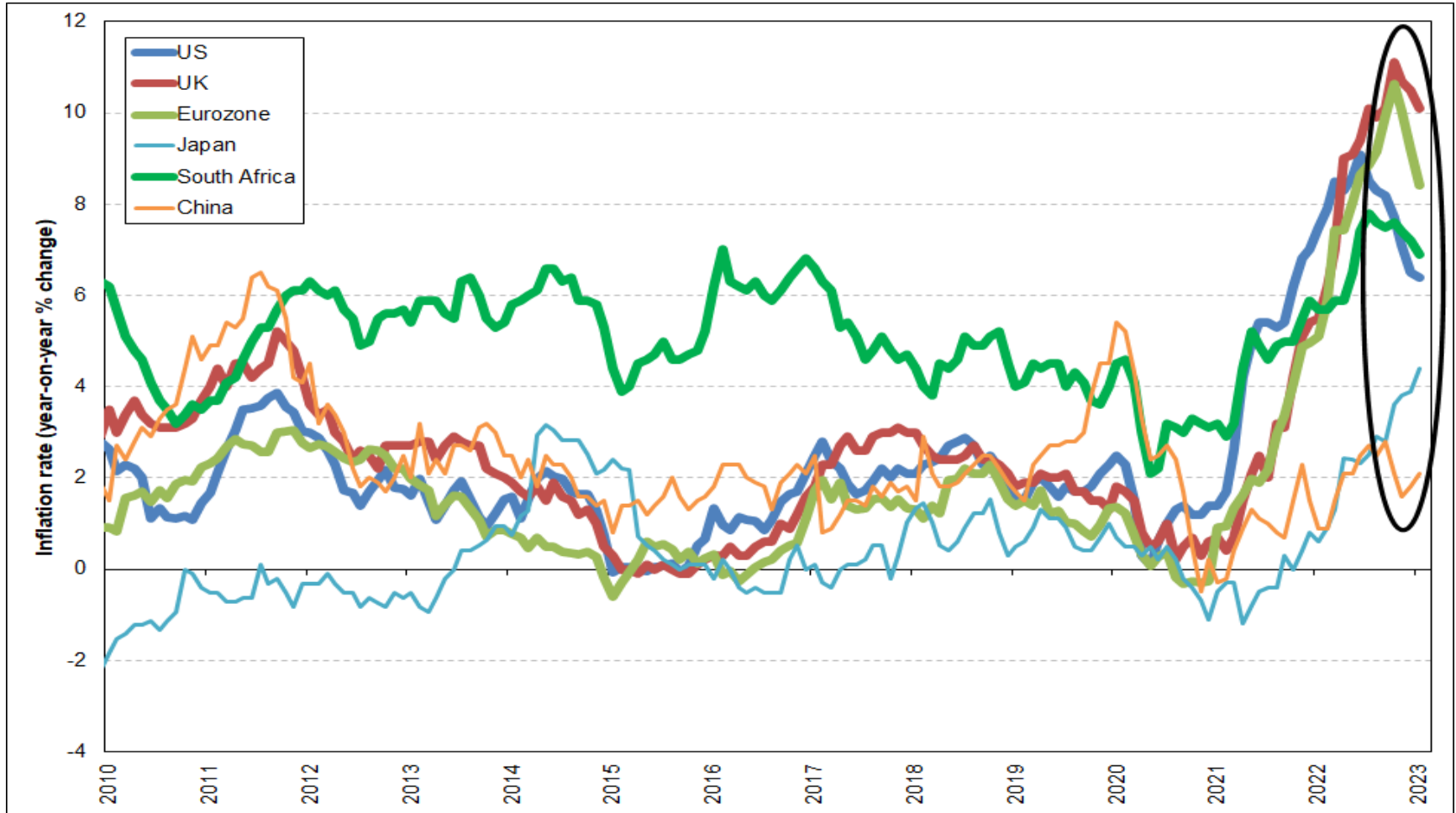


MARKET PERFORMANCE

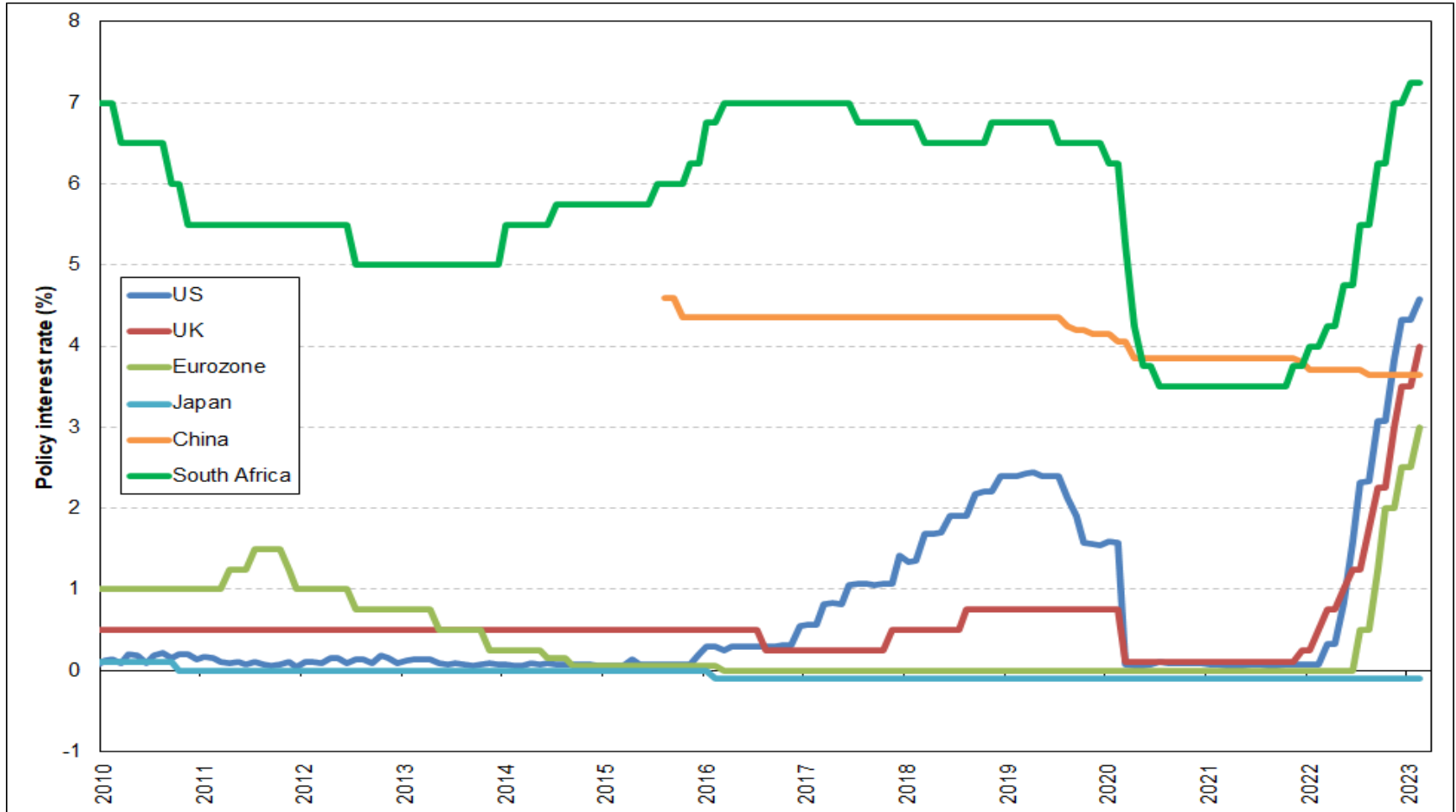
MARKETS CONTINUE TO DELIVER OVER THE LONG TERM, DESPITE MANY SHORT-TERM SETBACKS



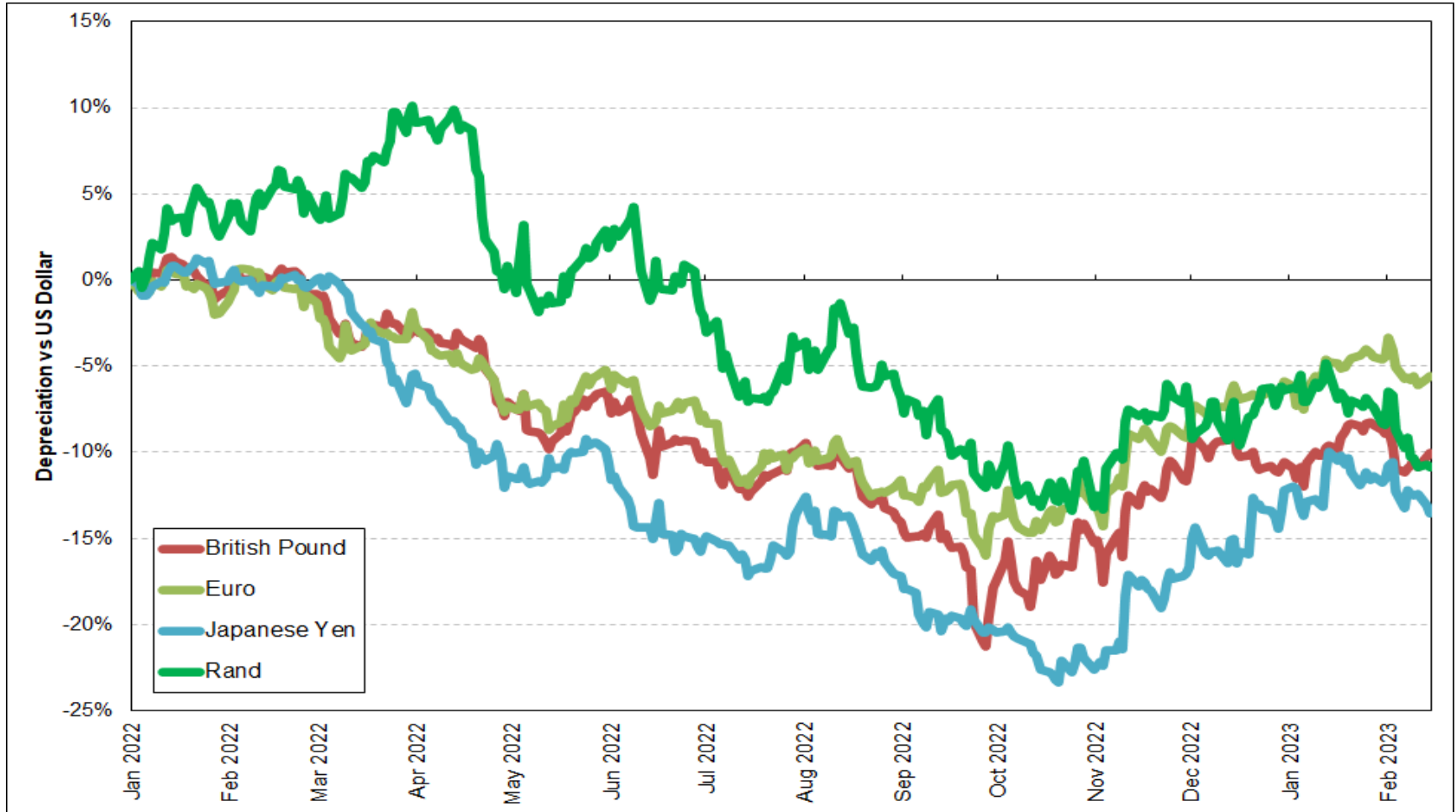
INFLATION STILL SLOWING



INTEREST RATES STILL RISING

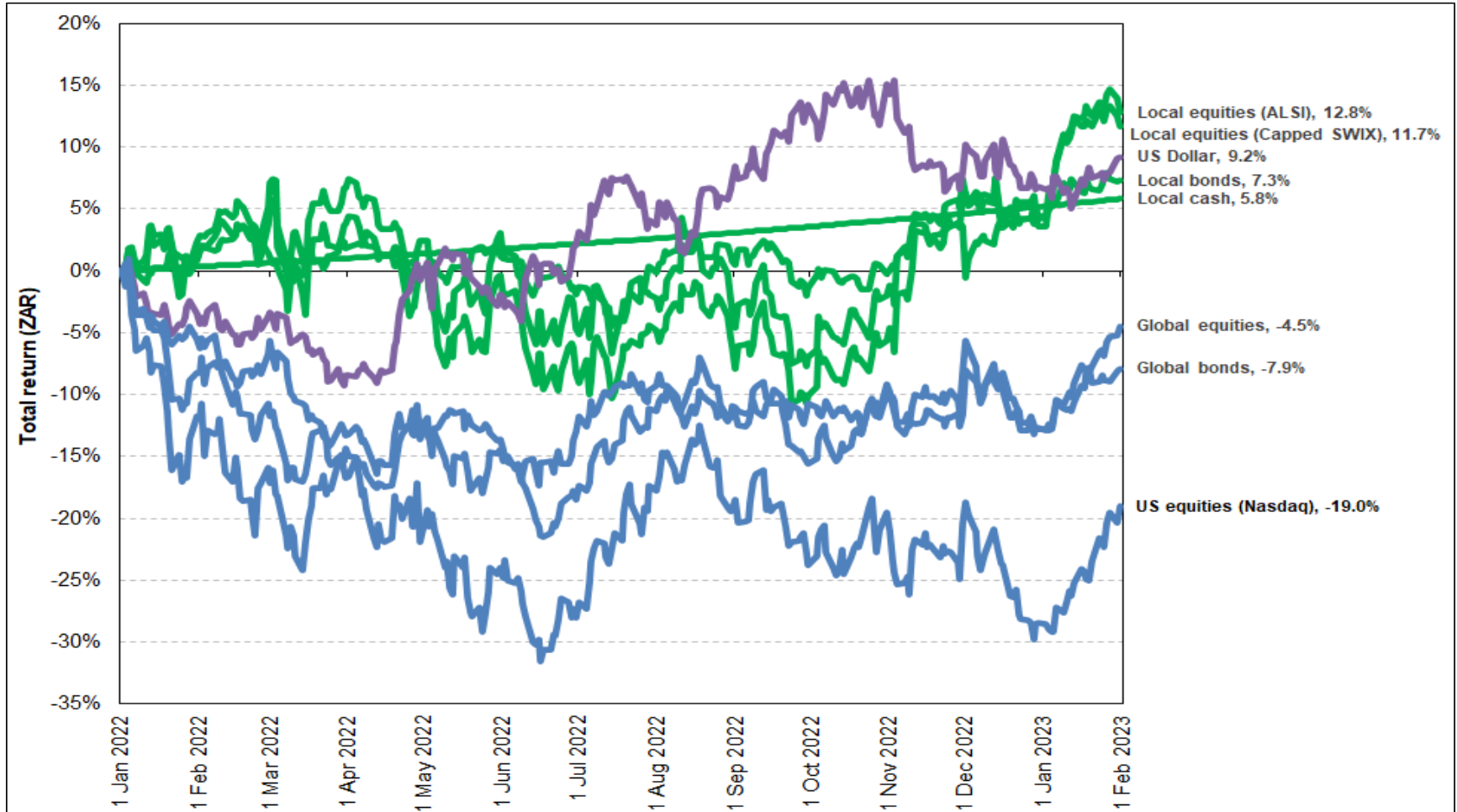


US DOLLAR ON THE FRONT FOOT AGAIN



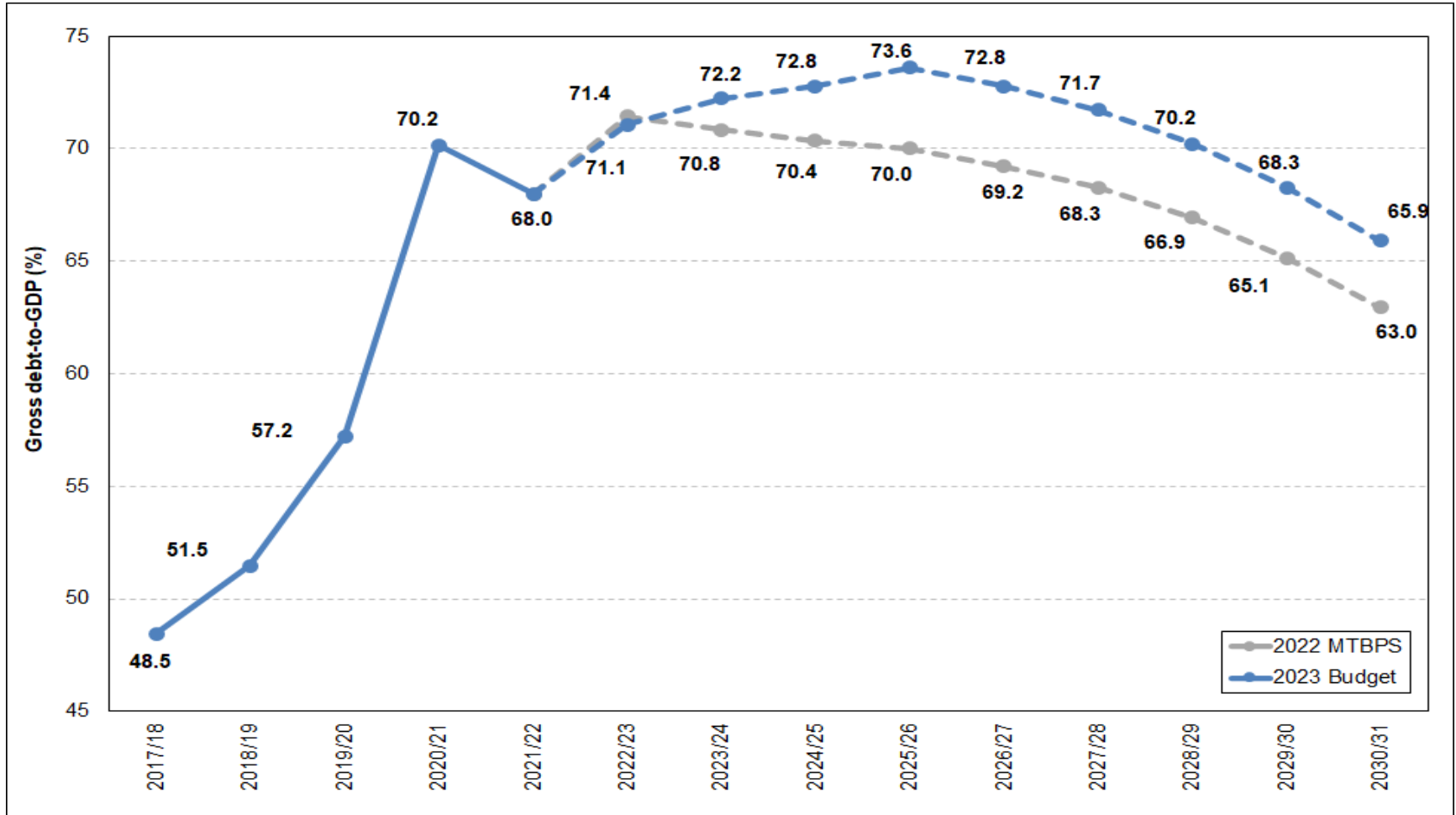
MARKETS in 2022/23 (ZAR)

RECOVERY CONTINUES



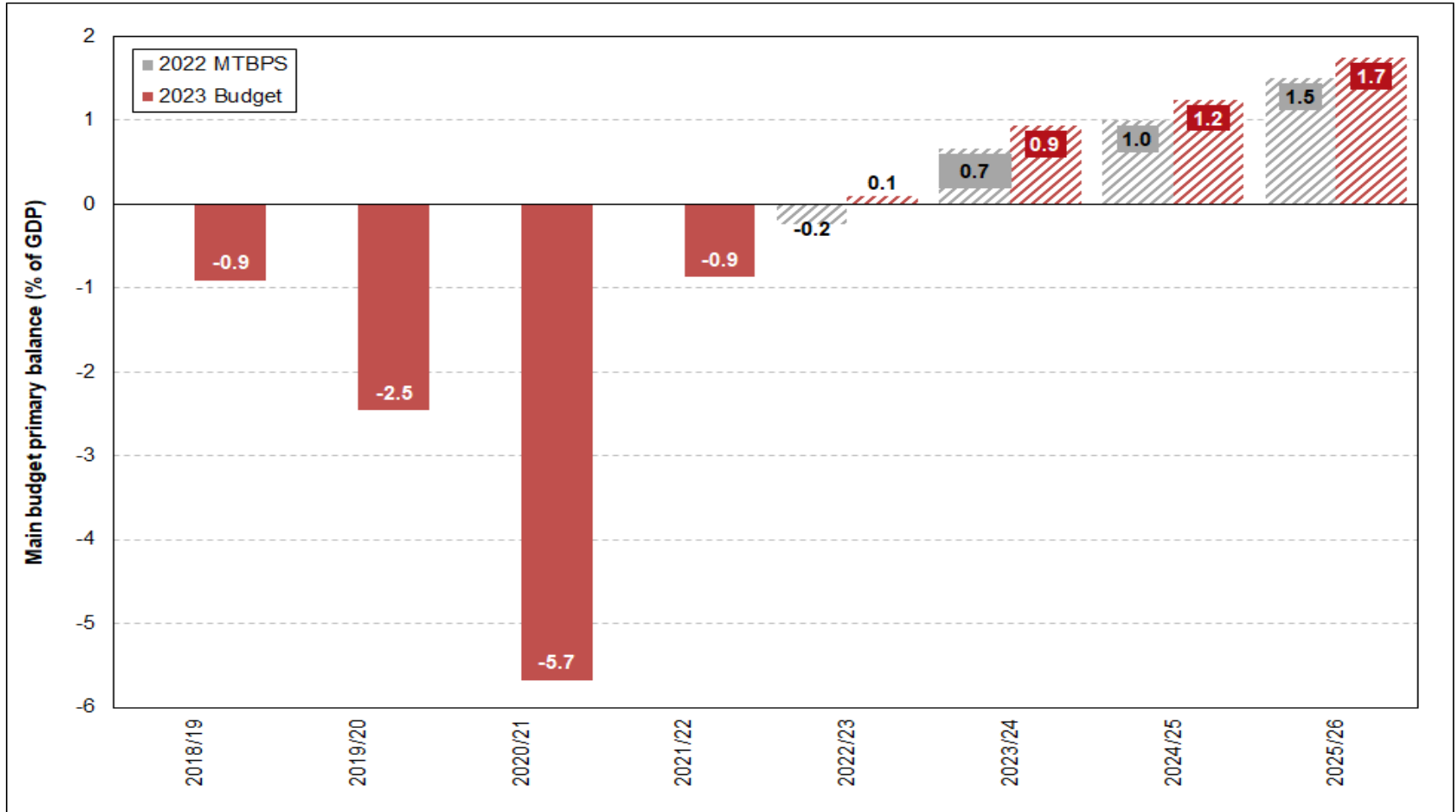
2023 BUDGET

ESKOM RELIEF PUSHES GOVERNMENT DEBT HIGHER



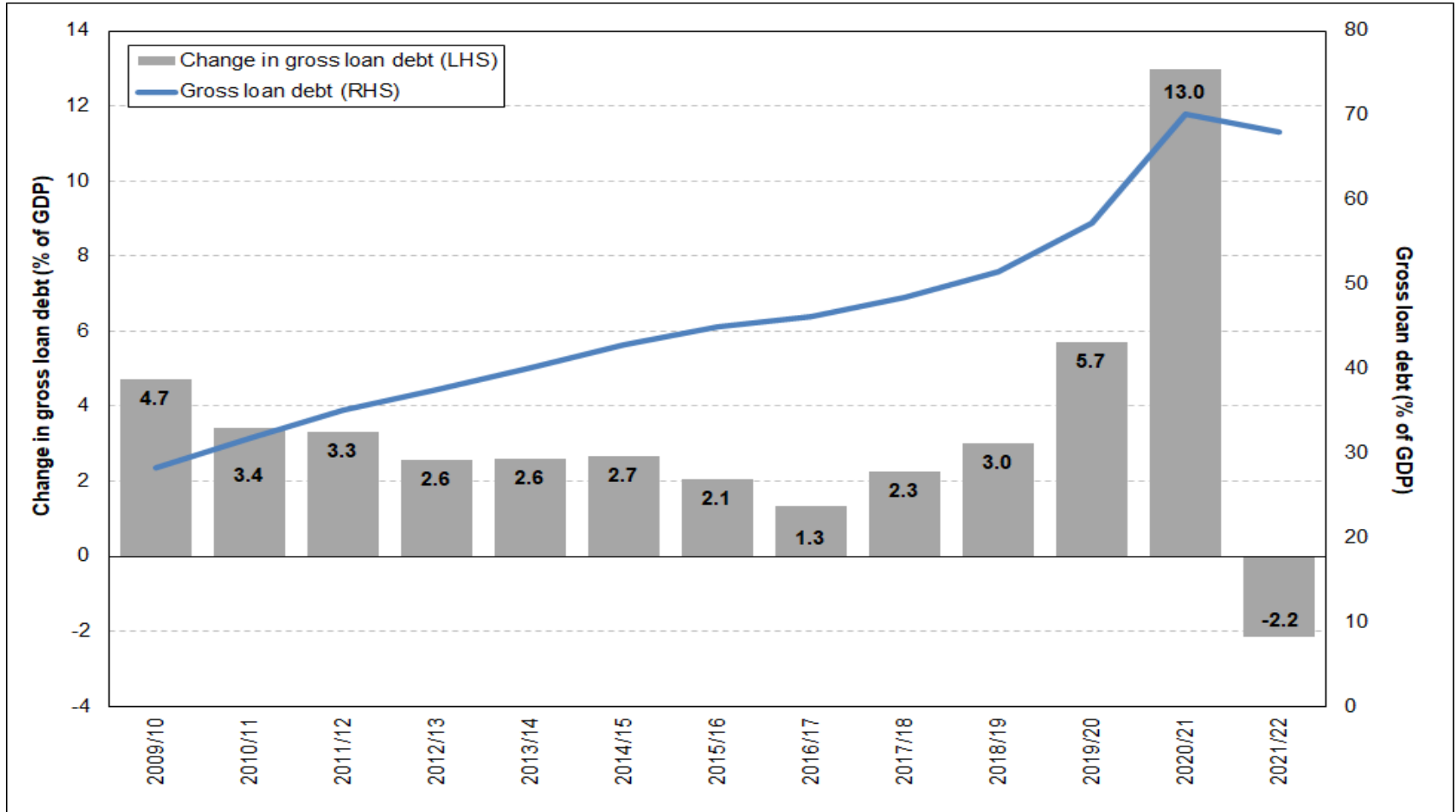
2023 BUDGET

SPENDING SLOWLY GETTING UNDER CONTROL



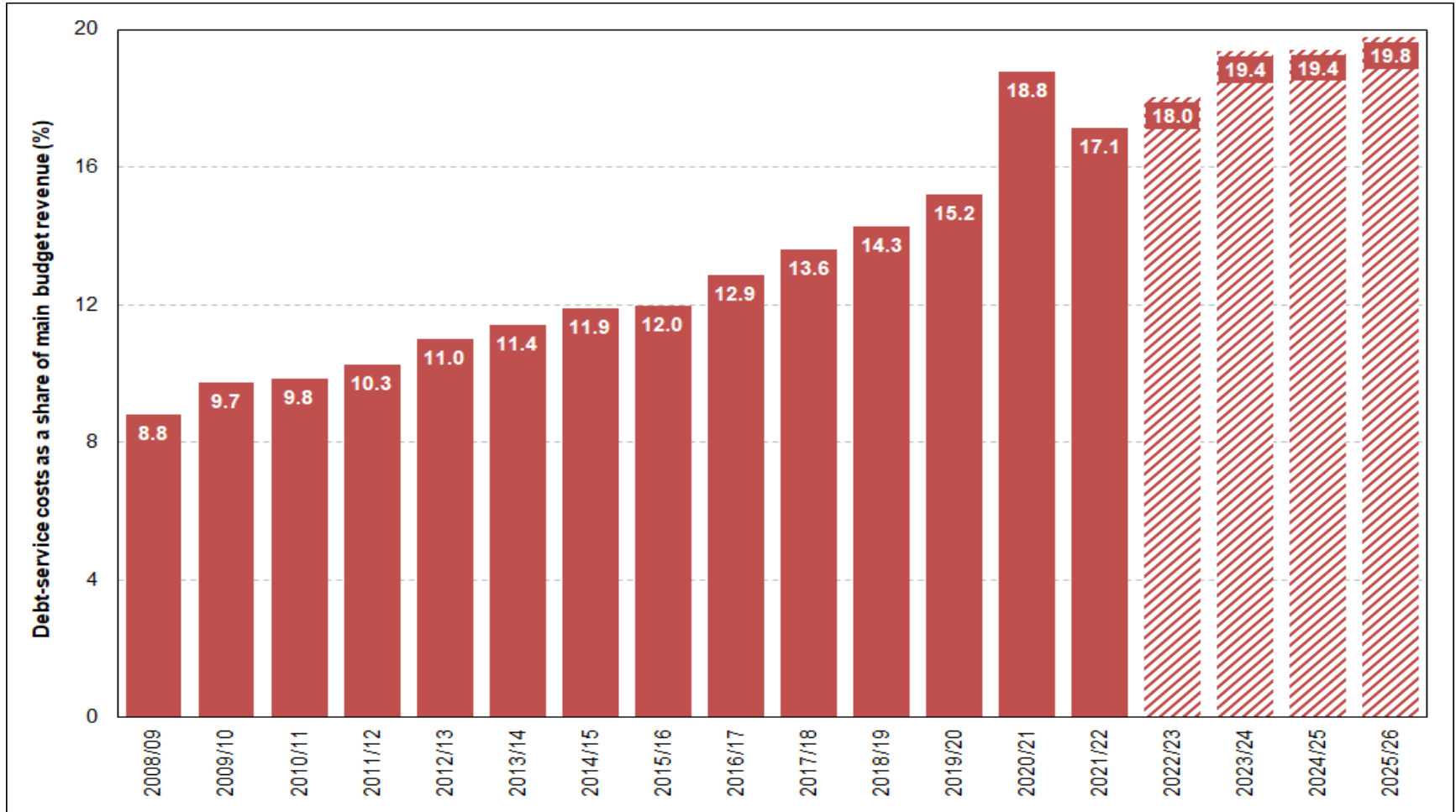
2023 BUDGET

GOVERNMENT BORROWING SPREE FINALLY OVER?



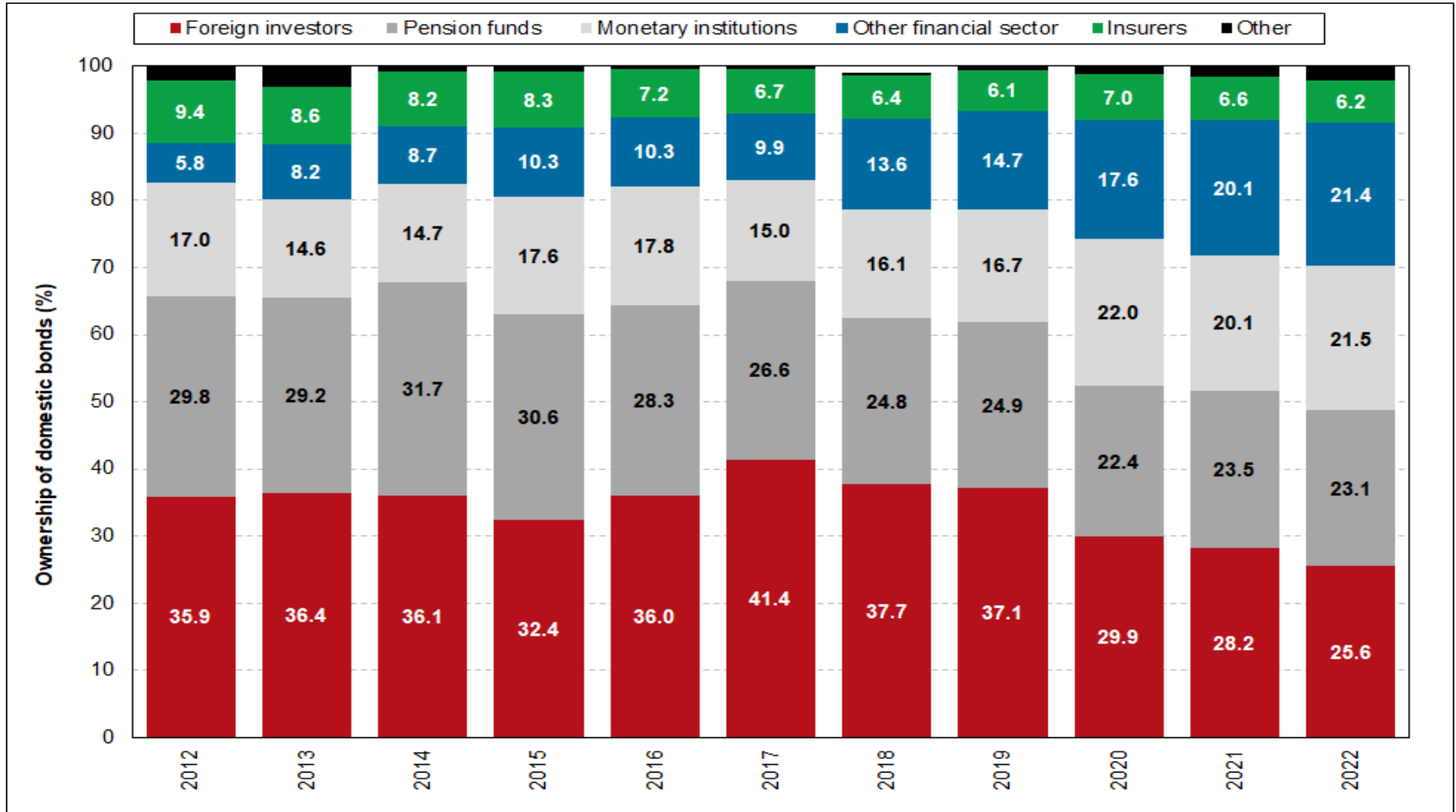
2023 BUDGET

BUT STILL PAYING THE PRICE OF PREVIOUS LARGESSE



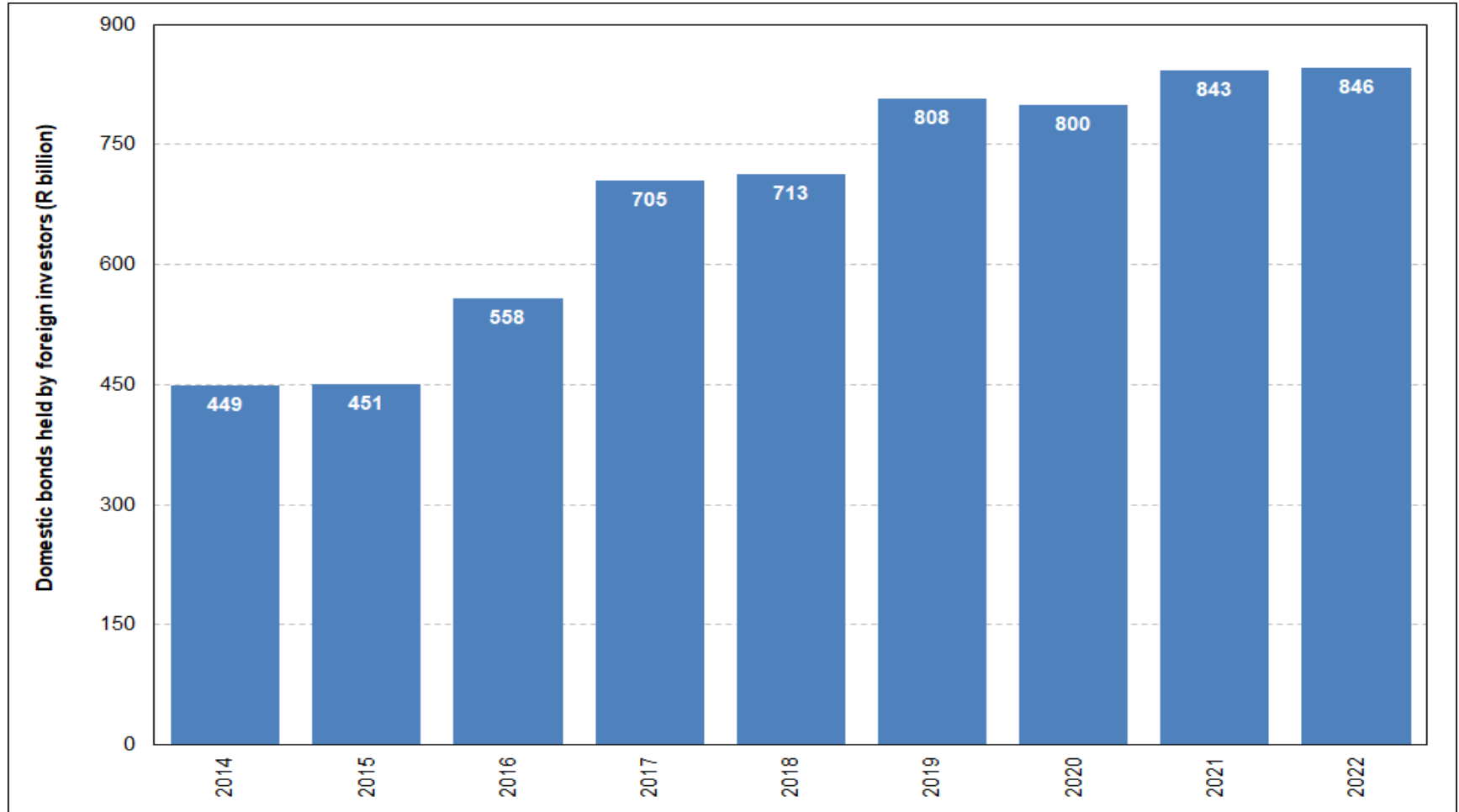
2023 BUDGET

LOCALS PICK UP THE SLACK OF FOREIGN BOND SELLING



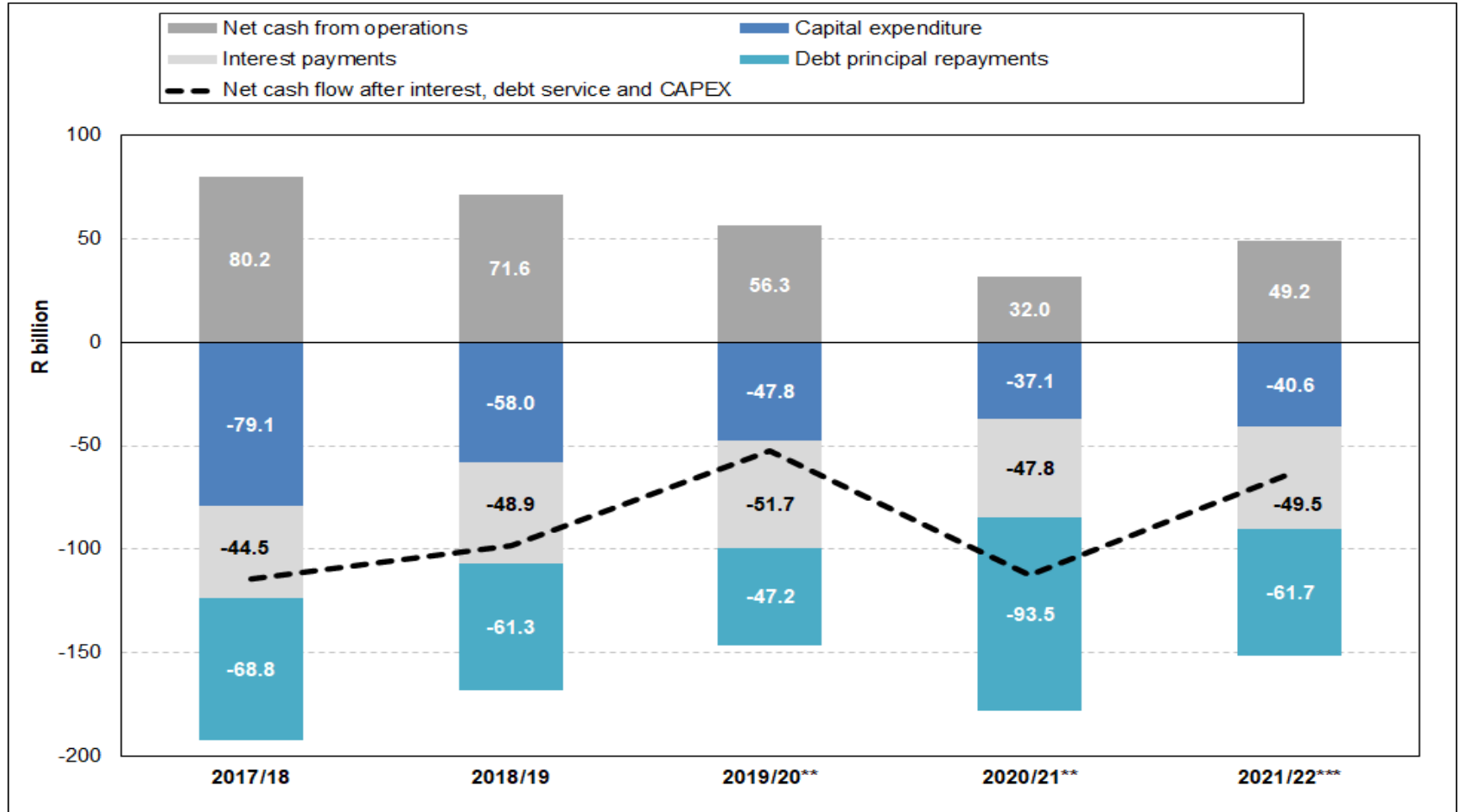
2023 BUDGET

BUT FOREIGNERS STILL SIGNIFICANT HOLDERS OF LOCAL BONDS



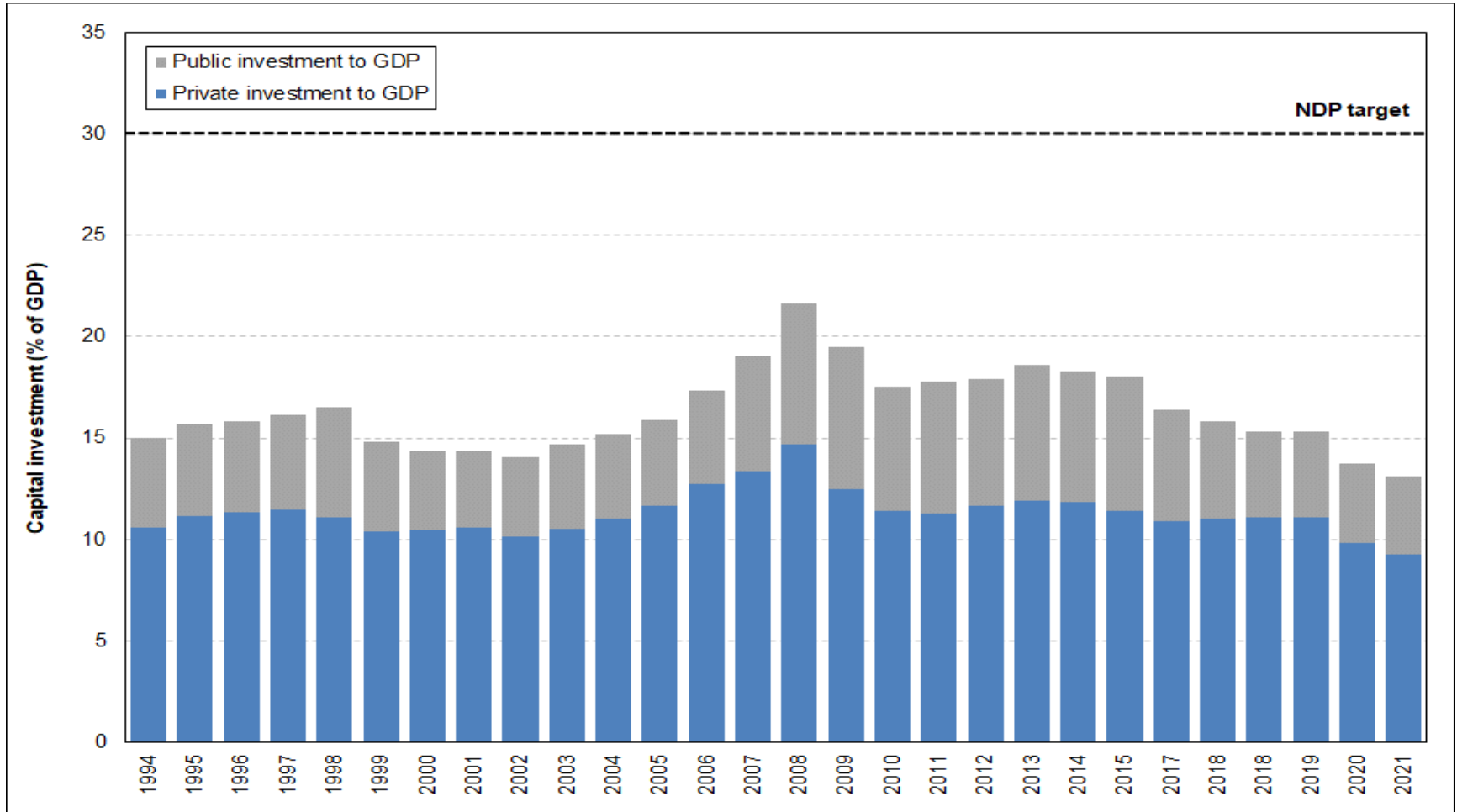
2023 BUDGET

SOEs STILL HAEMORRHAGING CASH



2023 BUDGET

FIXED INVESTMENT REMAINS WOEFULLY INADEQUATE



2023 BUDGET

TAX ON LUMP SUM RETIREMENT BENEFITS LOWERED – OLD VS NEW TAX TABLES:

Retirement fund lump sum benefits or severance benefits			
2022/2023		2023/24	
Taxable income (R)	Rates of tax	Taxable income (R)	Rates of tax
R0 – R500,000	0% of taxable income	R0 – R550,000	0% of taxable income
R500,001 – R700,000	18% of taxable income above R500,000	R550,001 – R770,000	18% of taxable income above R550,000
R700,001 – R1,050,000	R36,000+ 27% of taxable income above R700,000	R770,001 – R1,155,000	R39,600 + 27% of taxable income above R770,000
R1,050,001 and above	R130,500 + 36% of taxable income above R1,050,000	R1,155,001 and above	R143,550 + 36% of taxable income above R1,155,000
Retirement fund lump sum withdrawal benefits			
2022/2023		2023/24	
Taxable income (R)	Rates of tax	Taxable income (R)	Rates of tax
R0 – R25,000	0% of taxable income	R0 – R27,500	0% of taxable income
R25,001 – R660,000	18% of taxable income above R25,000	R27,501 – R726,000	18% of taxable income above R27,500
R660,001 – R990,000	R114,300 + 27% of taxable income above R660,000	R726,001 – R1,089,000	R125,730 + 27% of taxable income above R726,000
R990,001 and above	R203,400 + 36% of taxable income above R990,000	R1,089,001 and above	R223,740 + 36% of taxable income above R1,089,000

2023 BUDGET

TAX ON LUMP SUM RETIREMENT BENEFITS LOWERED – EXAMPLES:

Tax on retirement

Lump sum benefit payable (R)	2022/23		2023/24		Difference	
	Tax payable (R)	Tax payable (%)	Tax payable (R)	Tax payable (%)	R	%
100,000	0	0.0	0	0.0	0	0.0
250,000	0	0.0	0	0.0	0	0.0
500,000	0	0.0	0	0.0	0	0.0
750,000	49,500	6.6	36,000	4.8	-13,500	-1.8
1,000,000	117,000	11.7	101,700	10.2	-15,300	-1.5
2,000,000	472,500	23.6	447,750	22.4	-24,750	-1.2
5,000,000	1,552,500	31.1	1,527,750	30.6	-24,750	-0.5
10,000,000	3,352,500	33.5	3,327,750	33.3	-24,750	-0.2

Tax on withdrawal

Lump sum benefit payable (R)	2022/23		2023/24		Difference	
	Tax payable (R)	Tax payable (%)	Tax payable (R)	Tax payable (%)	R	%
100,000	13,500	13.5	13,050	13.1	-450	-0.4
250,000	40,500	16.2	40,050	16.0	-450	-0.2
500,000	85,500	17.1	85,050	17.0	-450	-0.1
750,000	138,600	18.5	132,210	17.6	-6,390	-0.9
1,000,000	207,000	20.7	199,710	20.0	-7,290	-0.7
2,000,000	567,000	28.4	551,700	27.6	-15,300	-0.8
5,000,000	1,647,000	32.9	1,631,700	32.6	-15,300	-0.3
10,000,000	3,447,000	34.5	3,431,700	34.3	-15,300	-0.2