

MONTH IN PICTURES

**SEPTEMBER
2023**

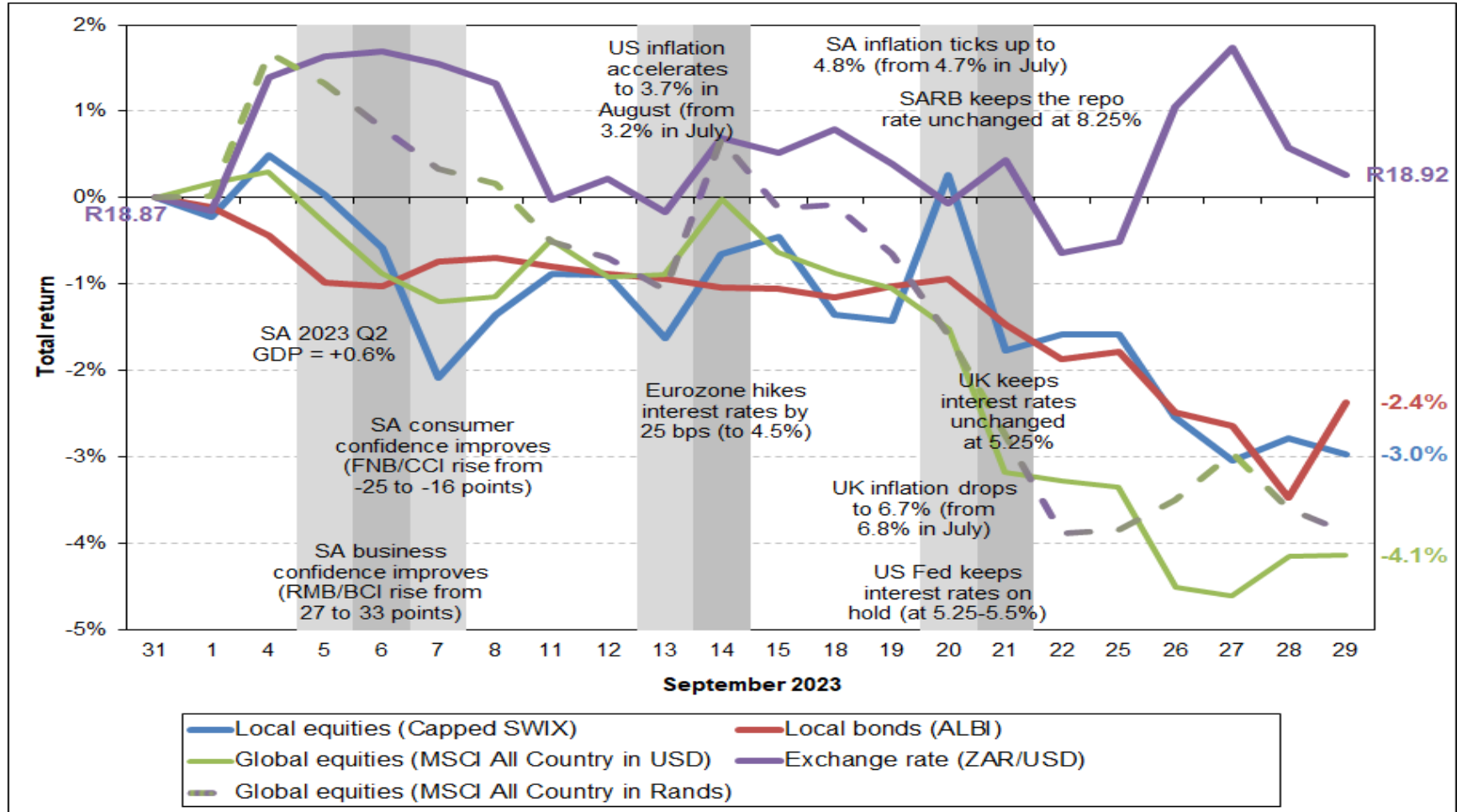
MONTHLY SNAPSHOT

NOTABLE EVENTS

- Most asset classes came under pressure in September, as investors came to the realisation that interest rates might stay higher for longer.
- Local equities fell by 2.5% (ALSI) and 3.0% (Capped SWIX), while local bonds lost 2.3% as global yields shifted higher.
- Global markets had an equally difficult time, with equities and bonds delivering US dollar losses of 4.1% and 3.2% respectively.
- After doing most of its depreciation earlier this year, the rand managed to hold its own against a strong US dollar during the month (weakening by just 0.3%), and thus did little to cushion local investors from global market losses (equities = -3.9% and bonds = -3.0% in rands). With green numbers being few and far between, the average balanced fund * lost 2.4% in September.
- Following a good start but a weak end, 2023 Q3 was thus mostly negative, with local equities losing almost 4% (ALSI = -3.5% and Capped SWIX = -3.8%), local bonds returning -0.3%, global equities dropping by 3.0%, and global bonds falling by 3.9%. In this environment the average balanced fund * returned -1.5% for the quarter.
- After also having a difficult Q2, local markets have thus disappointed year-to-date (YTD), with relatively low returns of +2.2% (ALSI), -0.3% (Capped SWIX), +1.5% (local bonds) and +5.8% (local cash). With a helpful boost of 11% from a weaker rand, global equities and bonds have delivered solid rand returns of +22% and +8.2% YTD, respectively. Global markets have therefore done most of the heavy lifting for local retirement funds in 2023, with the average balanced fund having gained 5.7% YTD.
- Equity market returns over the last year remain strong following the lowish base set by the mid-2022 sell-off (ALSI = +18%, Capped SWIX = +12% and global equities = +26%), while local and global bonds have unsurprisingly delivered more subdued returns (6-7%) given the rising interest rate environment. The average balanced fund * delivered a solid return of +13% over this period.
- 3-year returns continue to trend lower from their highs earlier this year, but remain relatively strong (local equities = +14% p.a. and global equities = +11% p.a.), which means that average balanced fund * has gained a decent return of around 10-11% p.a. over this period.

MONTHLY TIMELINE

IMPACT ON MARKETS



MARKET INDICATORS

SHORT TERM

Market indicators (% change) ¹		Jul 2023	Aug 2023	Sep 2023	3 months	YTD	12 months
Local equities	ALSI	4.0	(4.8)	(2.5)	(3.5)	2.2	17.7
	Capped SWIX	4.1	(4.8)	(3.0)	(3.8)	(0.3)	11.9
	Resources	3.2	(8.4)	1.2	(4.3)	(14.4)	(0.6)
	Industrials	2.6	(4.7)	(4.1)	(6.2)	10.1	27.4
	Financials	7.8	(1.6)	(3.7)	2.2	8.7	21.7
	Listed Property	2.3	0.9	(4.1)	(1.0)	(5.4)	12.9
Local bonds	ALBI	2.3	(0.2)	(2.3)	(0.3)	1.5	7.2
Local cash	STeFI Composite	0.7	0.7	0.7	2.1	5.8	7.5
Global equities	MSCI All Country	(1.7)	2.6	(3.9)	(3.0)	22.3	26.4
Global bonds	FTSE WGBI	(4.8)	4.1	(3.0)	(3.9)	8.2	5.7
Exchange rate	ZAR/USD	(5.2)	5.6	0.3	0.4	11.1	4.6
Inflation	CPI	0.9	0.3	0.6	1.8	4.3	5.4

1. Total returns (in Rands) for the months and periods ending 30 September 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	17.7	14.5	9.3	8.6	11.2	14.5
	Capped SWIX	11.9	13.8	6.4	6.9	-	-
	Resources	(0.6)	10.0	12.8	6.8	6.1	10.2
	Industrials	27.4	12.9	8.9	8.3	13.7	17.2
	Financials	21.7	22.3	3.9	7.3	10.4	13.5
	Listed Property	12.9	16.8	(3.5)	1.5	7.5	12.5
Local bonds	ALBI	7.2	7.0	7.2	7.2	8.1	8.2
Local cash	STeFI Composite	7.5	5.3	5.9	6.3	6.5	7.0
Global equities	MSCI All Country	26.4	11.3	12.8	14.6	13.7	13.2
Global bonds	FTSE WGBI	5.7	(4.9)	3.3	5.3	6.3	7.0
Exchange rate	ZAR/USD	4.6	4.1	6.0	6.6	5.7	5.1
Inflation	CPI	5.4	5.9	5.0	5.2	5.1	5.4

1. Total returns (in Rands) for the months and periods ending 30 September 2023.

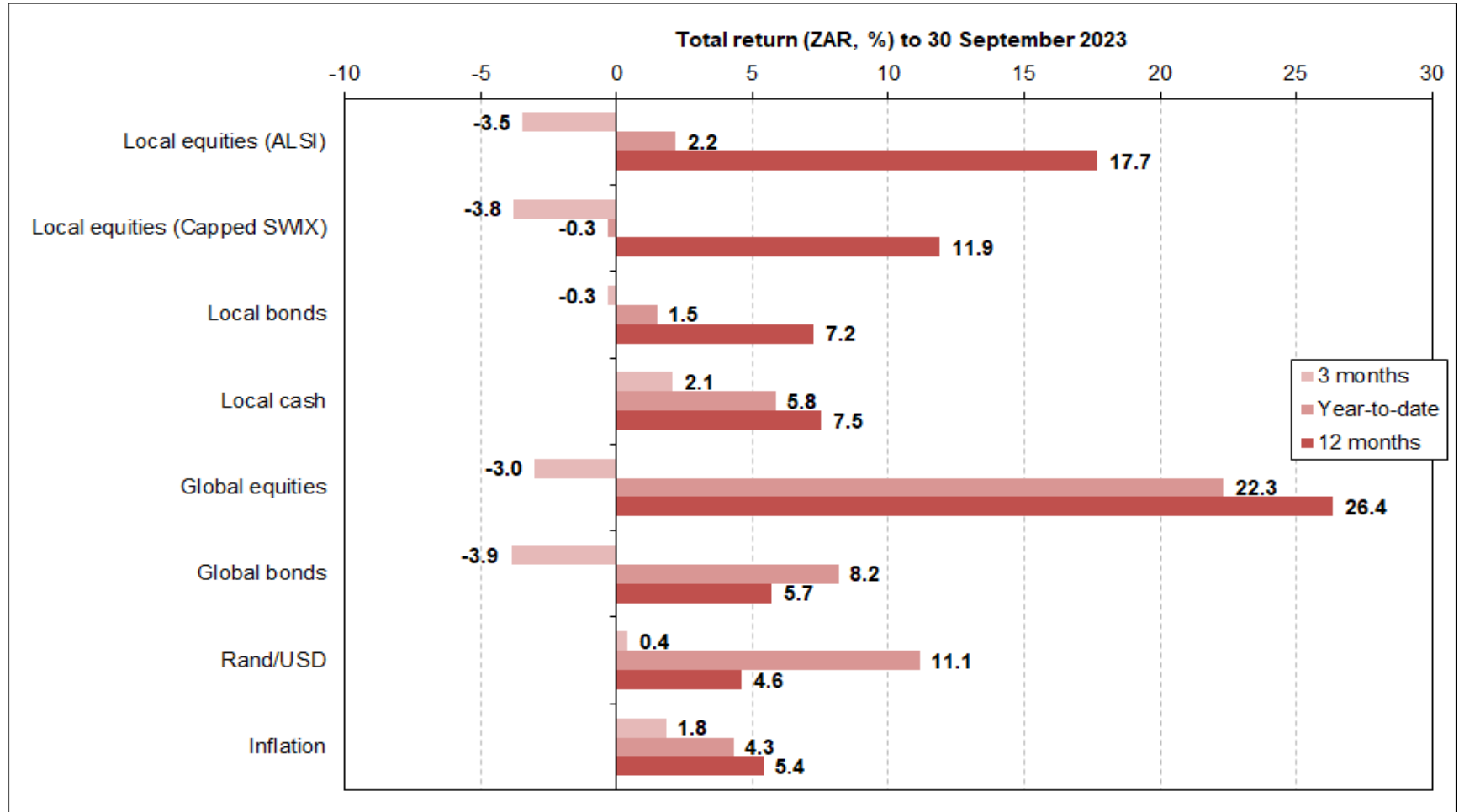
ECONOMIC INDICATORS

Economic indicators ¹	Sep 2021	Sep 2022	Jul 2023	Aug 2023	Sep 2023
Exchange rates:					
ZAR/USD	15.07	18.09	17.88	18.87	18.92
ZAR/GBP	20.31	20.20	22.94	23.92	23.09
ZAR/Euro	17.45	17.74	19.65	20.46	20.01
Commodities:					
Brent Crude Oil (USD/barrel)	78.31	85.14	85.43	86.83	92.20
Platinum (USD/ounce)	954.00	864.50	950.73	968.18	904.46
Gold (USD/ounce)	1,726.50	1,660.90	1,954.82	1,945.02	1,848.69

1. *Month-end prices*

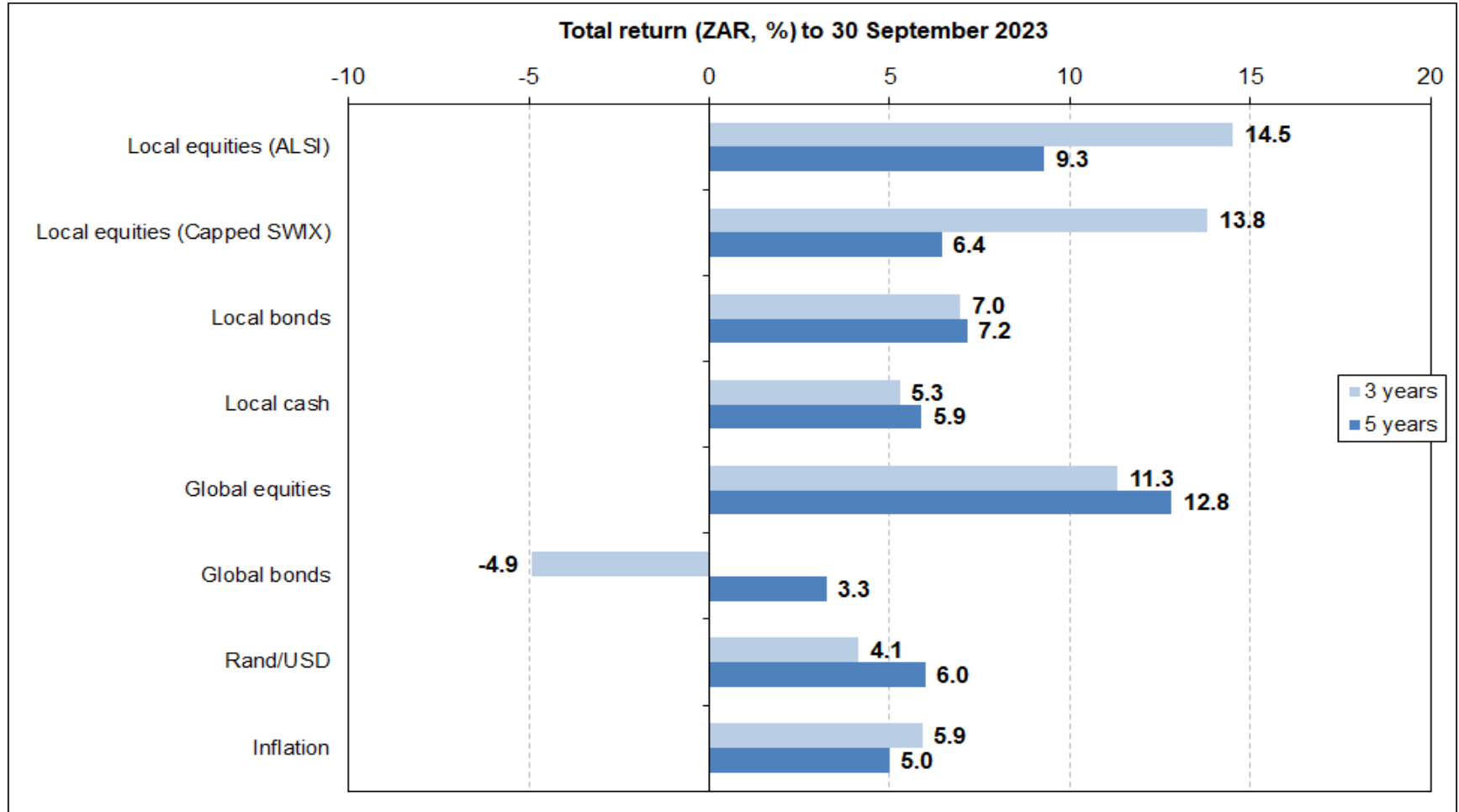
ASSET CLASS PERFORMANCE

SHORT TERM

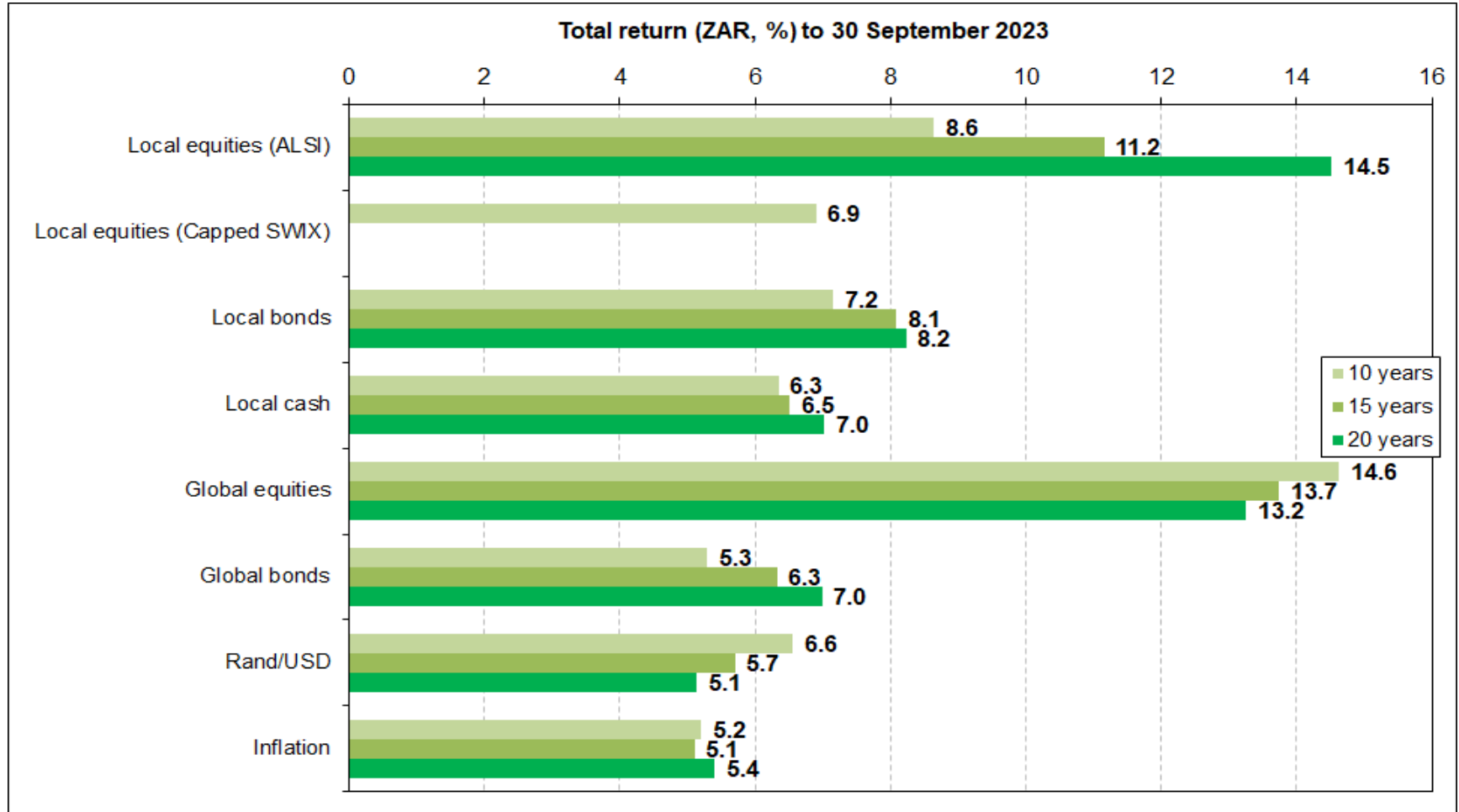


ASSET CLASS PERFORMANCE

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:

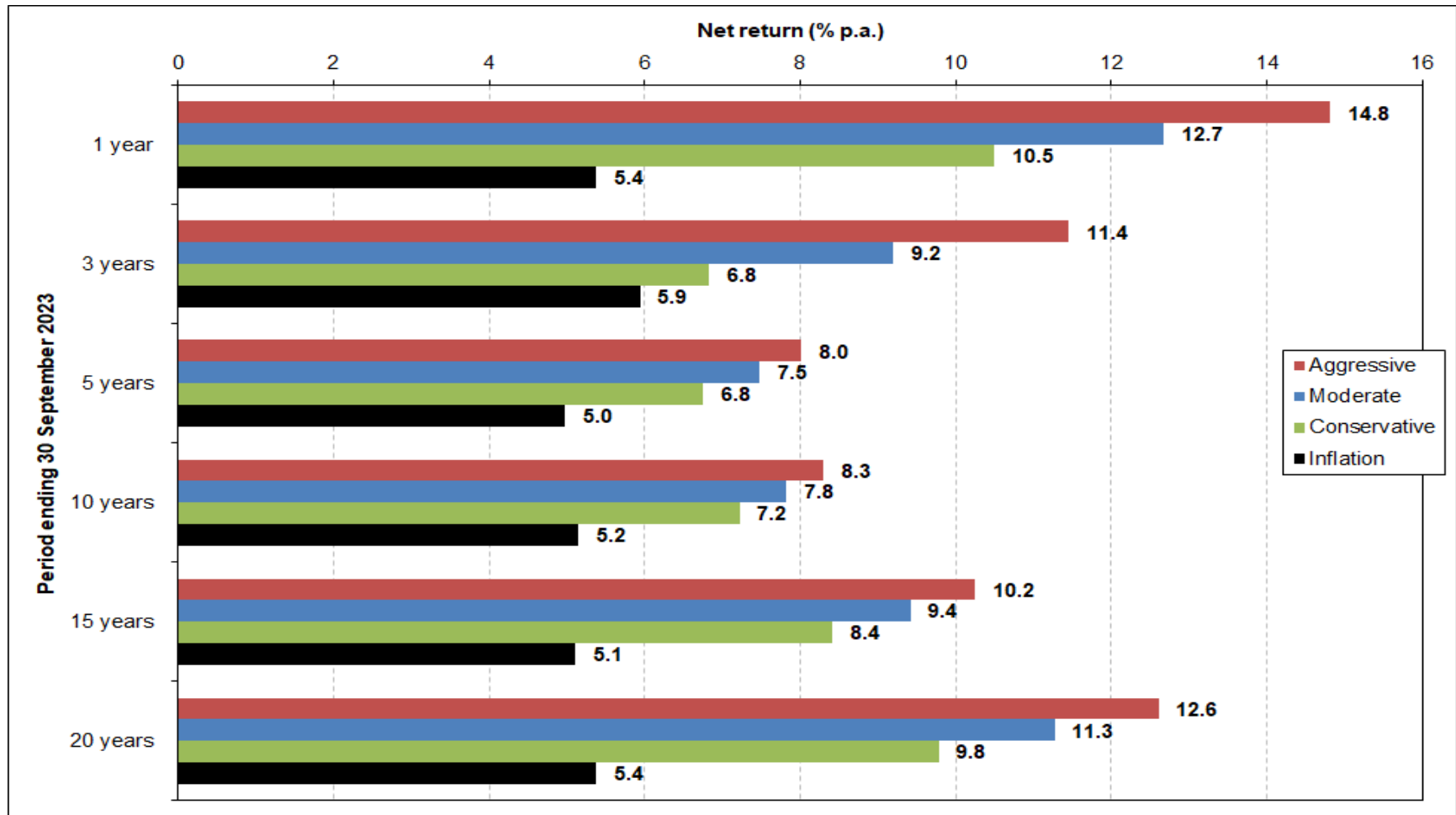
- The offshore allocation is kept at 5% below the prevailing regulatory maximum (15% to 2000, 20% to 2006, 25% to 2018, 30% to 2022 & currently at 45%), with changes to the offshore allocation made in the middle of the year in which the limit changed.
- The equity allocation varies according to the risk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

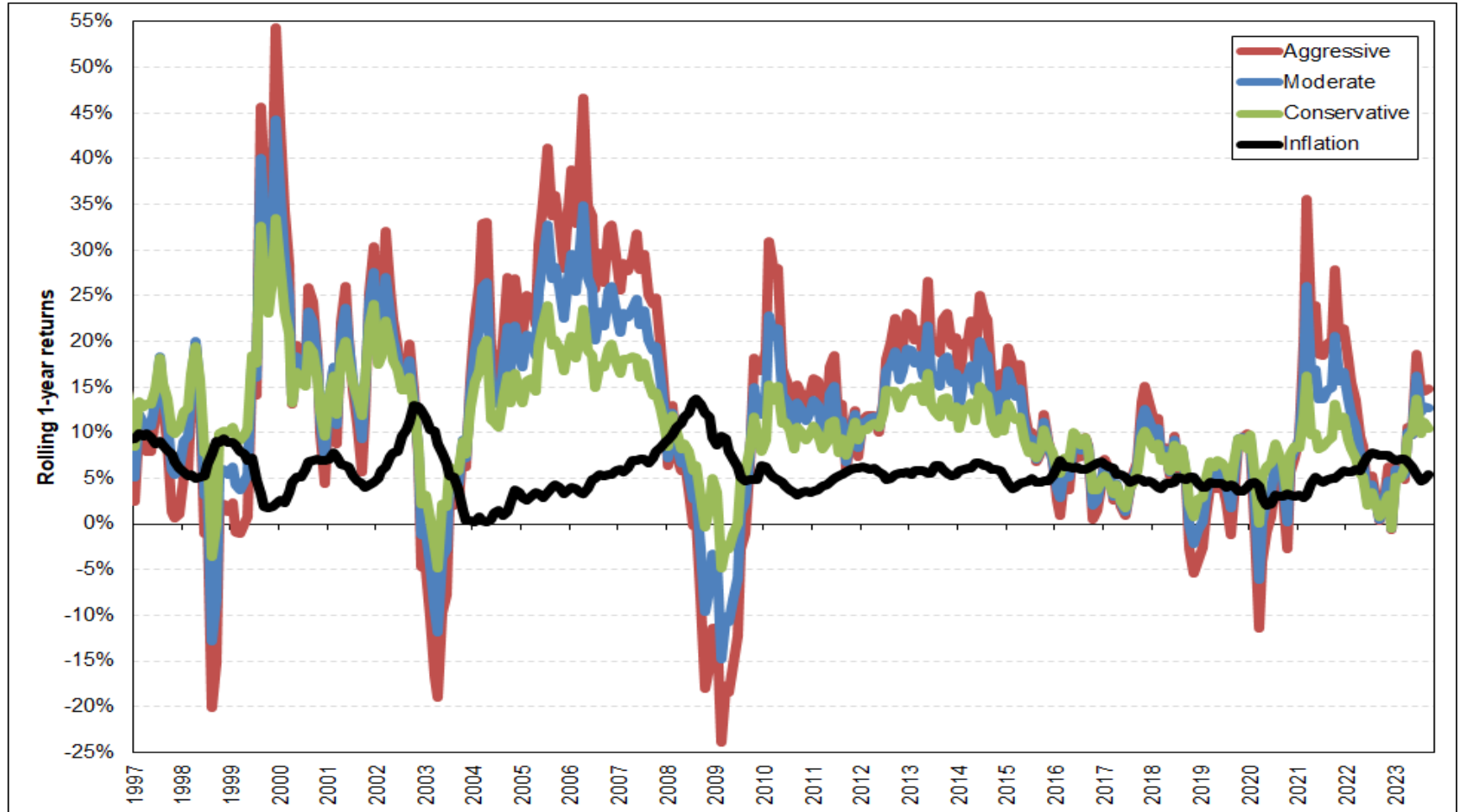
MARKET PERFORMANCE

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



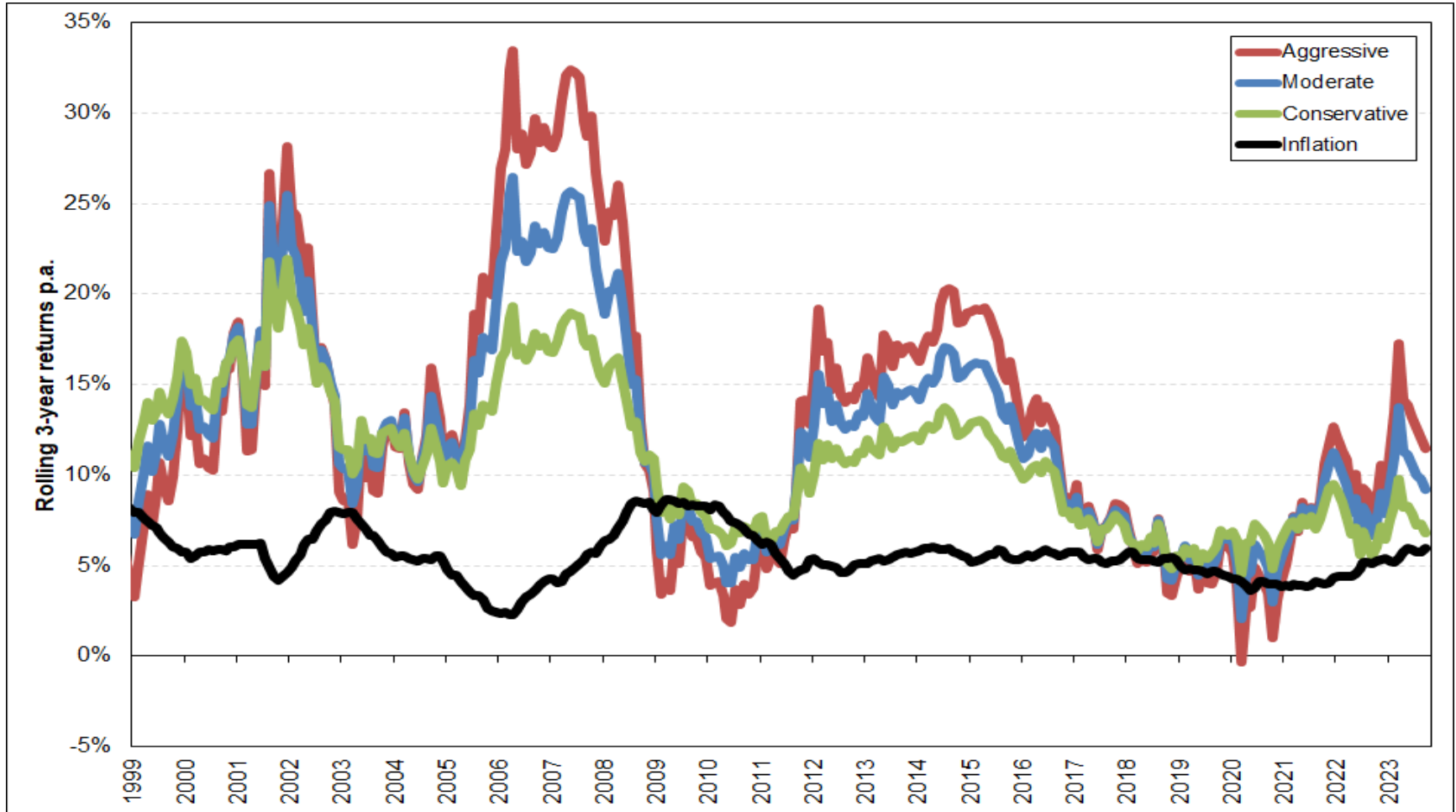
MARKET PERFORMANCE

ROLLING 1-YEAR RETURNS BENEFITTING FROM LOW BASE SET IN 2022



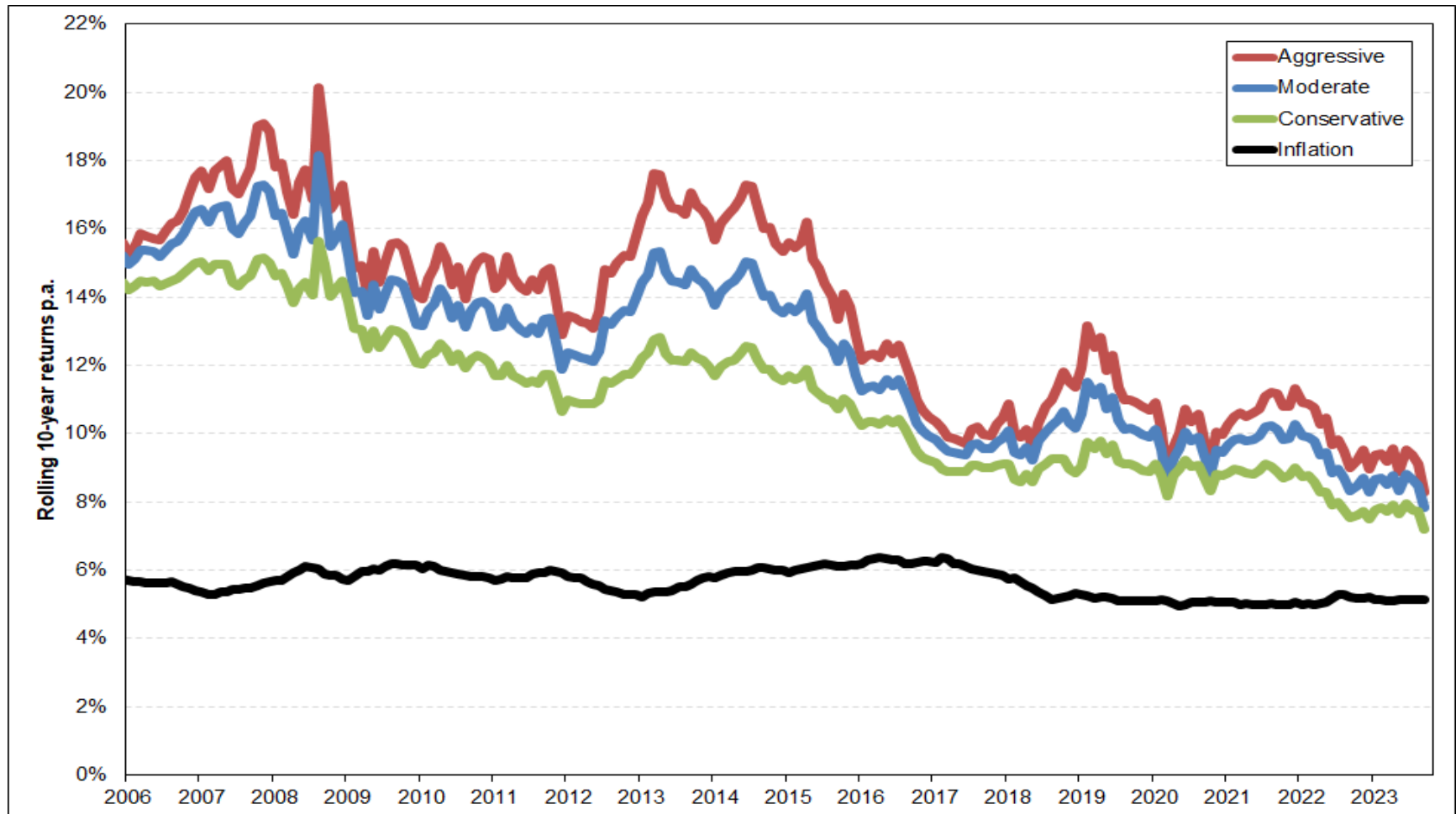
MARKET PERFORMANCE

ROLLING 3-YEAR RETURNS SLOWLY NORMALISING



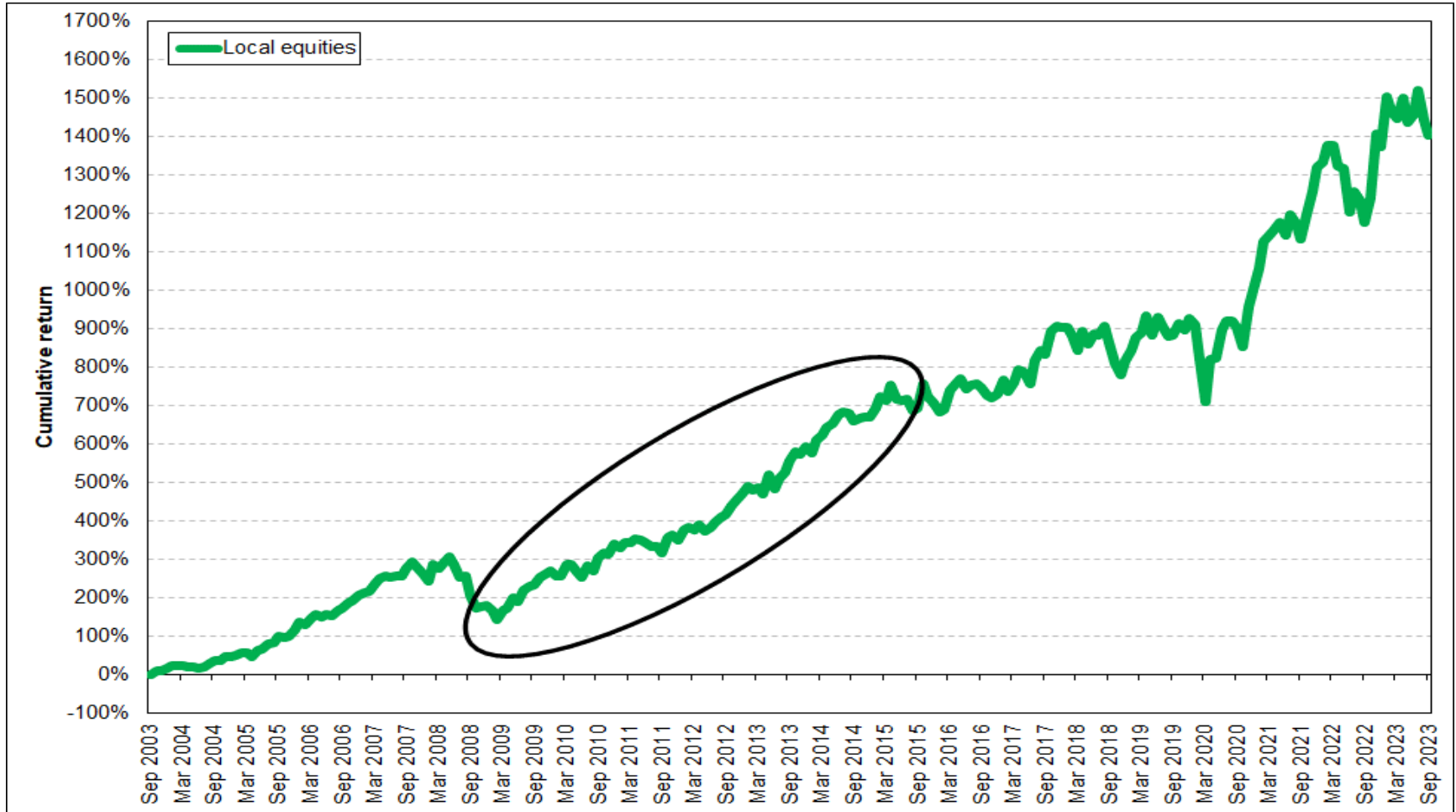
MARKET PERFORMANCE

ROLLING 10-YEAR RETURNS COMING UNDER PRESSURE...



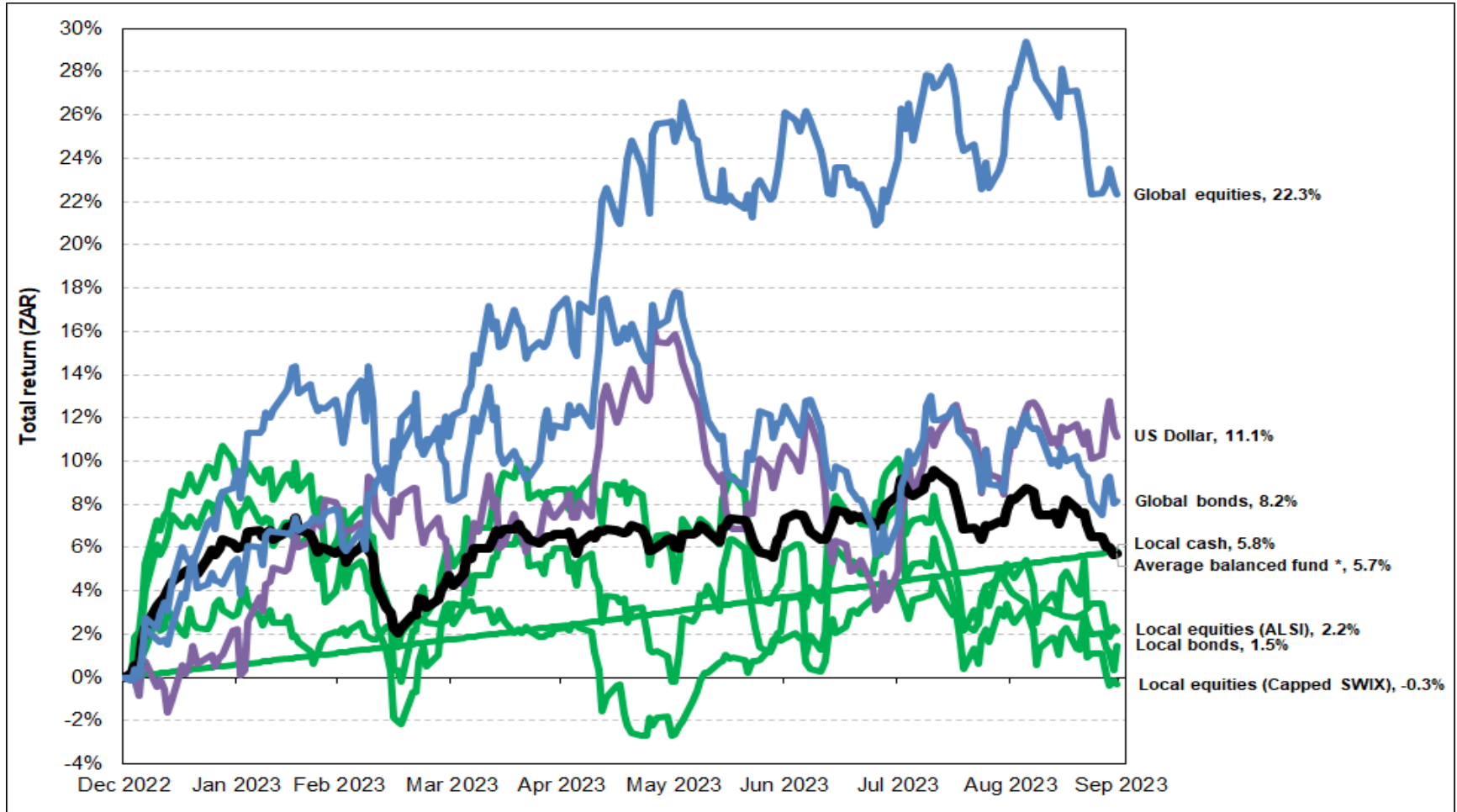
MARKET PERFORMANCE

...AS THE STRONG POST-GFC BULL RUN FOR LOCAL STOCKS MOVES OUT OF THE 10-YEAR NUMBERS



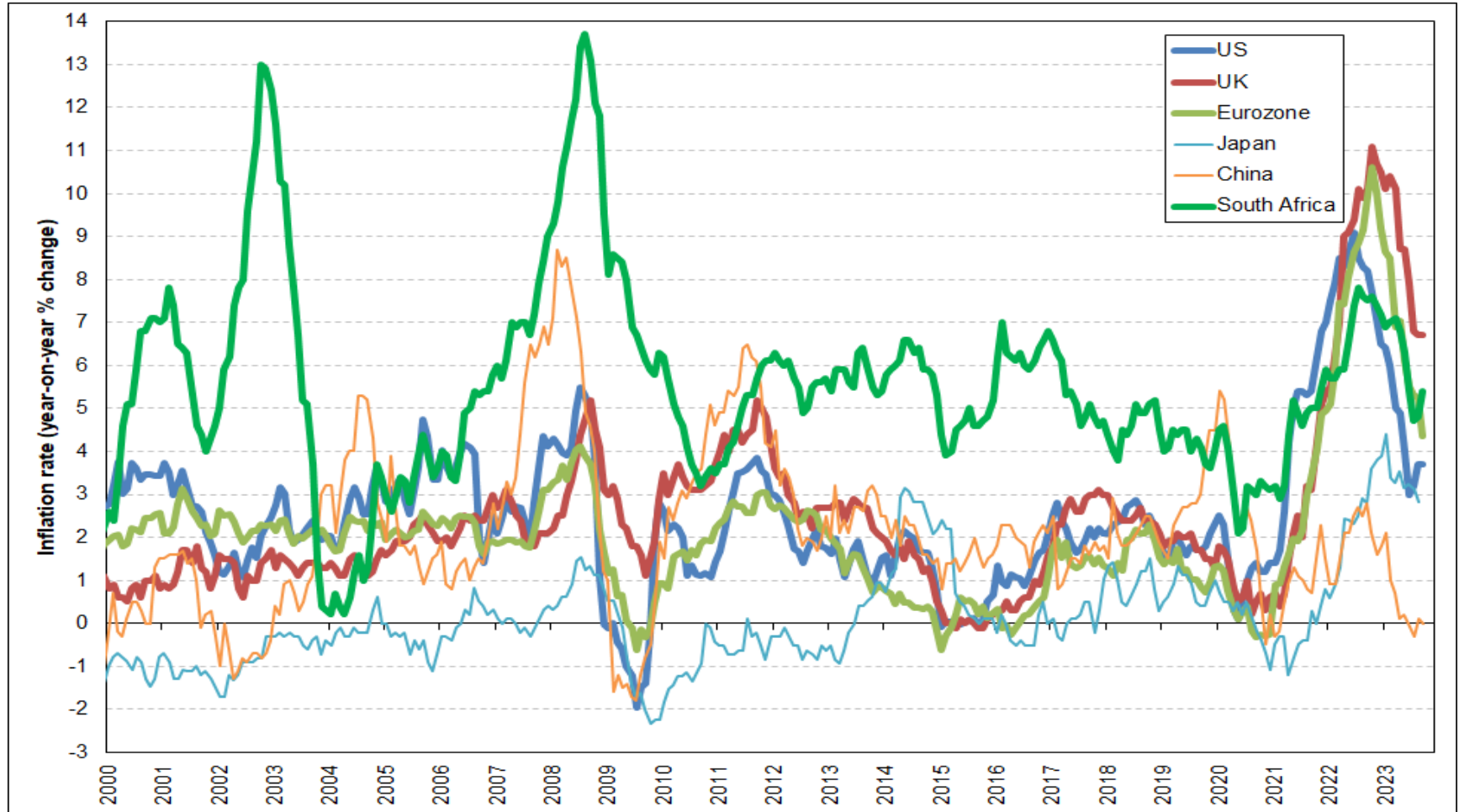
MARKETS in 2023 (ZAR)

LOCAL ASSET CLASSES STILL STRUGGLING, GLOBAL EQUITY RALLY LOSING STEAM



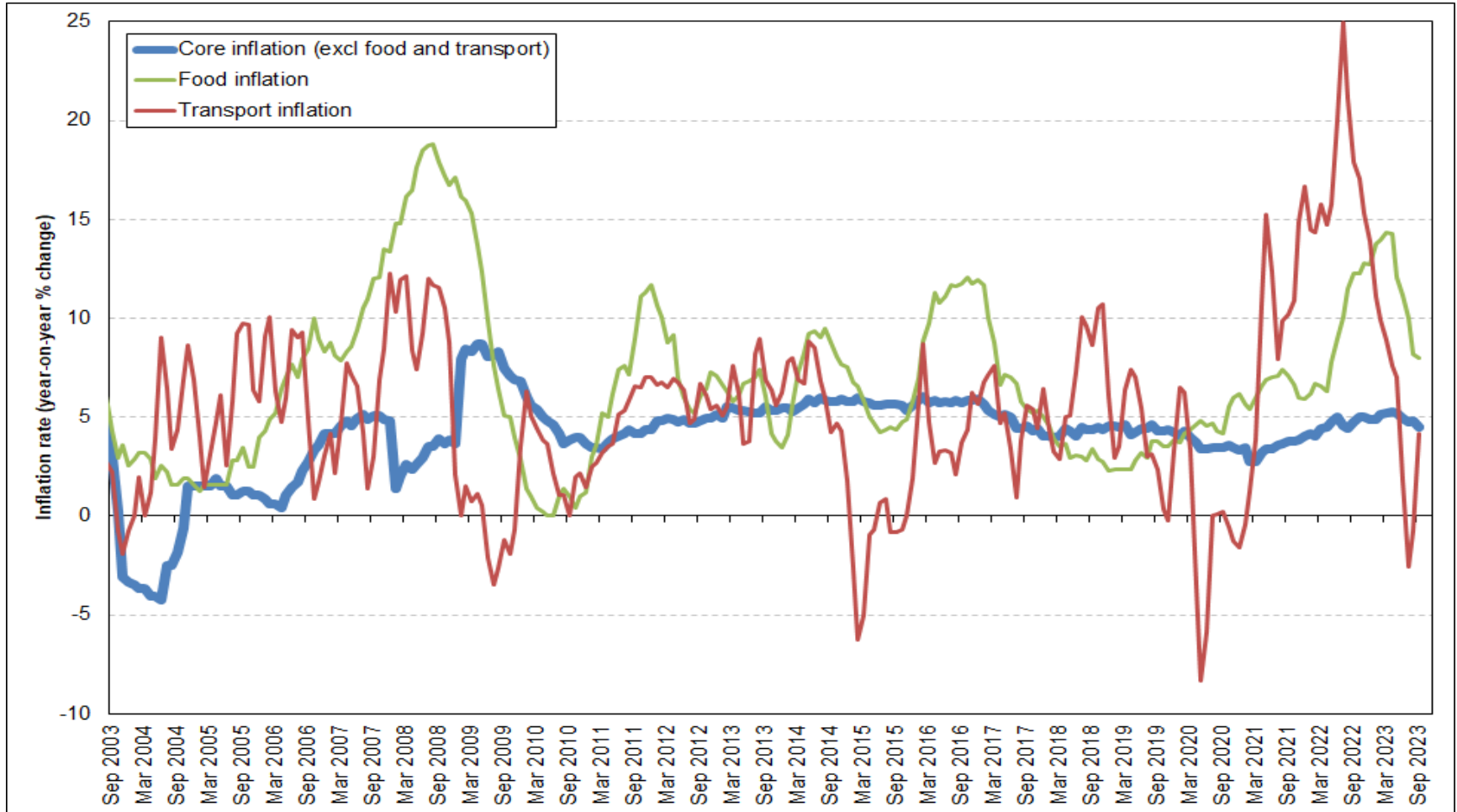
Source: Iress, Morningstar
 * ASISA South African Multi Asset High Equity category average (net of fees)

INFLATION HITTING SOME RESISTANCE...



INFLATION

...AS OIL PRICES BOUNCE BACK



INTEREST RATES HIGHER FOR LONGER?

