MONTH IN PICTURES

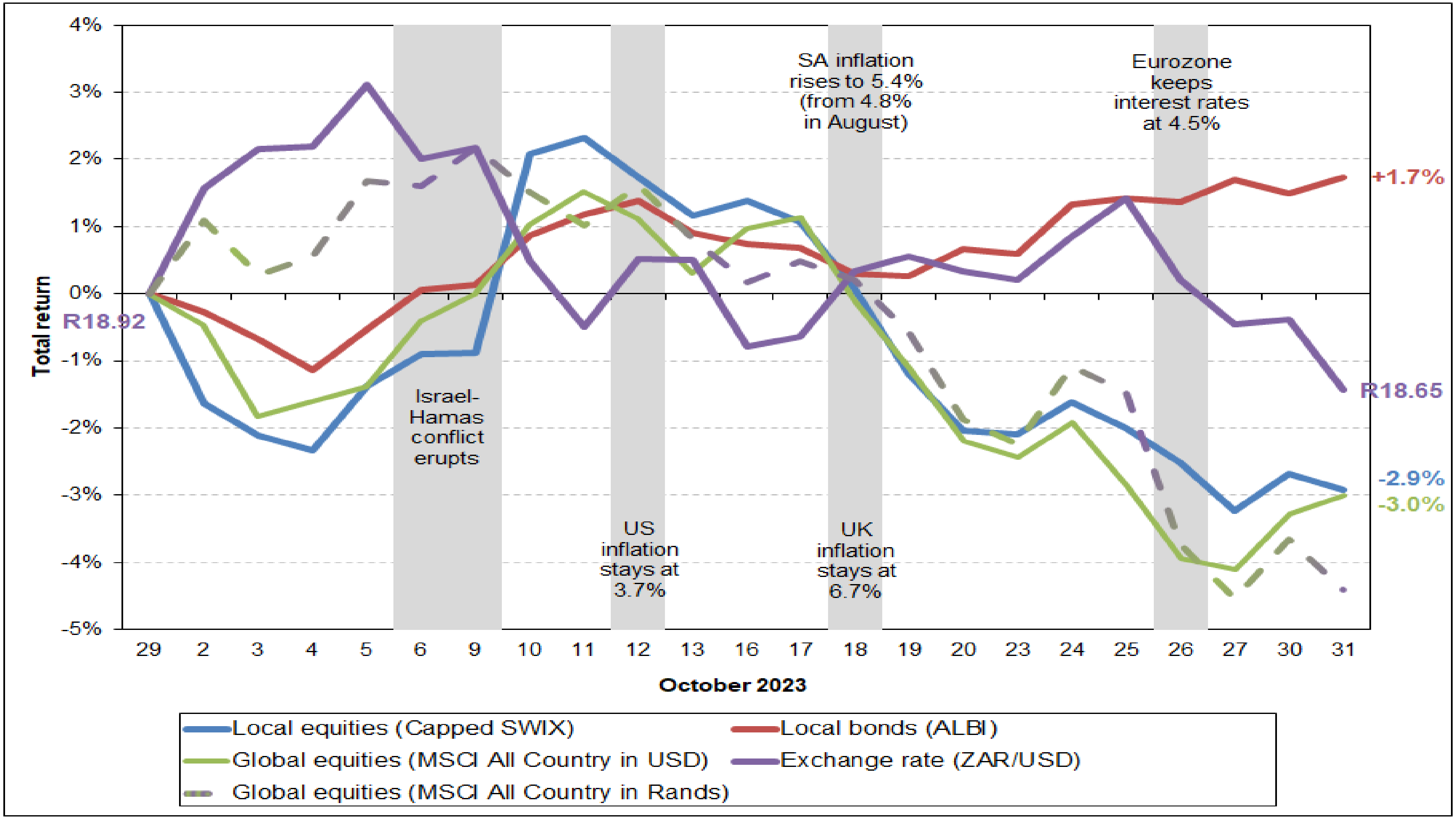
OCTOBER 2023

MONTHLY SNAPSHOT
NOTABLE EVENTS

- October was another difficult month for the markets as investors continued to worry that interest rates might stay higher for longer. This was despite the fact that most central banks have kept policy rates unchanged at their most recent meetings.
- Locally the pain was confined to the equity market (ALSI = -3.4% & Capped SWIX = -2.9%), while global equity and bond markets suffered US dollar (USD) declines of 3.0% and 1.1% each. For local investors, the stronger rand (by 1.4% against the USD) extended these losses to 4.4% and 2.5%, respectively. The local bond market managed to buck the trend, delivering a solid return of +1.7% for the month.
- The recent Medium Term Budget Policy Statement (MTBPS) contained no real surprises, but once again highlighted the precarious state of government's finances. The main problems continue to stem from lower-than-expected revenues, combined with higher-than-budgeted-for expenditures, leading to an ever-growing debt burden, and therefore an unsustainable debt-service-cost trajectory
- South Africa's unemployment numbers continued to improve, with the official rate dropping to 31.9% in 2023 Q3 (from 32.6% in Q2) and the expanded rate falling to 41.2% (from 42.1% in the previous quarter).
- The local inflation rate moved up to 5.9% in October (from 5.4% in September), but the South African Reserve Bank's Monetary Policy Committee members unanimously agreed to keep the repo rate unchanged at 8.25% at their November meeting, following a total of 4.75% of hikes since November 2021. Although risks to the upside remain, markets are of the view that interest rates have likely peaked at these levels.
- With markets having been under pressure since August, the 3-month numbers have taken quite a hit, with returns of -10% from local equities, -6% from global equities, -2% from global bonds and -1% from local bonds.
- Year-to-date (YTD, to 31 October) local markets have therefore struggled (local equities = -2%, local bonds = +3%, local cash = +7%), while the weaker rand (by 10% against the USD) have led to decent gains from global equities (+17%), and to a lesser extent, global bonds (+5%). At the end of October, the average balanced fund's * YTD return stood at just +3.3%.
- It should be noted however that markets have been on a tear in November (to the 24^{th}), with strong returns of around +8% from both local and global equity markets, resulting in a gain of more than 6% from the average balanced fund *. If these gains are not squandered before year-end, retirement fund investors could still end up with a decent return in 2023 (the average balanced fund's * YTD return stood at +9.5% to 24/11/2023).

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

MONTHLY TIMELINE
IMPACT ON MARKETS



Source: Iress

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MARKET INDICATORS
SHORT TERM

Market indicators (% change) [1]		Aug 2023	Sep 2023	Oct 2023	3 months	YTD	12 months
Local equities	ALSI	(4.8)	(2.5)	(3.4)	(10.4)	(1.3)	8.3
	Capped SWIX	(4.8)	(3.0)	(2.9)	(10.3)	(3.2)	3.1
	Resources	(8.4)	1.2	(3.2)	(10.2)	(17.1)	(7.2)
	Industrials	(4.7)	(4.1)	(4.5)	(12.7)	5.2	19.6
	Financials	(1.6)	(3.7)	(2.0)	(7.2)	6.5	5.4
	Listed Property	0.9	(4.1)	(3.0)	(6.1)	(8.2)	(1.3)
Local bonds	ALBI	(0.2)	(2.3)	1.7	(0.9)	3.2	7.9
Local cash	STeFI Composite	0.7	0.7	0.7	2.1	6.6	7.7
Global equities	MSCI All Country	2.6	(3.9)	(4.4)	(5.7)	16.9	12.3
Global bonds	FTSE WGBI	4.1	(3.0)	(2.5)	(1.5)	5.4	2.1
Exchange rate	ZAR/USD	5.6	0.3	(1.4)	4.3	9.5	1.6
Inflation	CPI	0.3	0.6	0.9	1.8	5.2	5.9

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

Source: Iress

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	8.3	15.0	9.8	7.9	11.8	13.8
	Capped SWIX	3.1	14.3	6.8	6.2	-	-
	Resources	(7.2)	13.1	13.0	6.1	7.2	9.4
	Industrials	19.6	11.1	9.7	7.5	13.7	16.5
	Financials	5.4	23.9	4.2	6.4	11.4	12.9
	Listed Property	(1.3)	19.1	(3.8)	0.9	7.8	11.7
Local bonds	ALBI	7.9	7.3	7.9	7.3	8.2	8.2
Local cash	STeFI Composite	7.7	5.4	5.9	6.4	6.5	7.0
Global equities	MSCI All Country	12.3	11.7	12.6	13.6	13.8	12.7
Global bonds	FTSE WGBI	2.1	(4.7)	2.1	4.9	5.1	6.9
Exchange rate	ZAR/USD	1.6	4.7	4.8	6.4	4.4	5.1
Inflation	CPI	5.9	6.1	5.1	5.2	5.2	5.5

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

Source: Iress

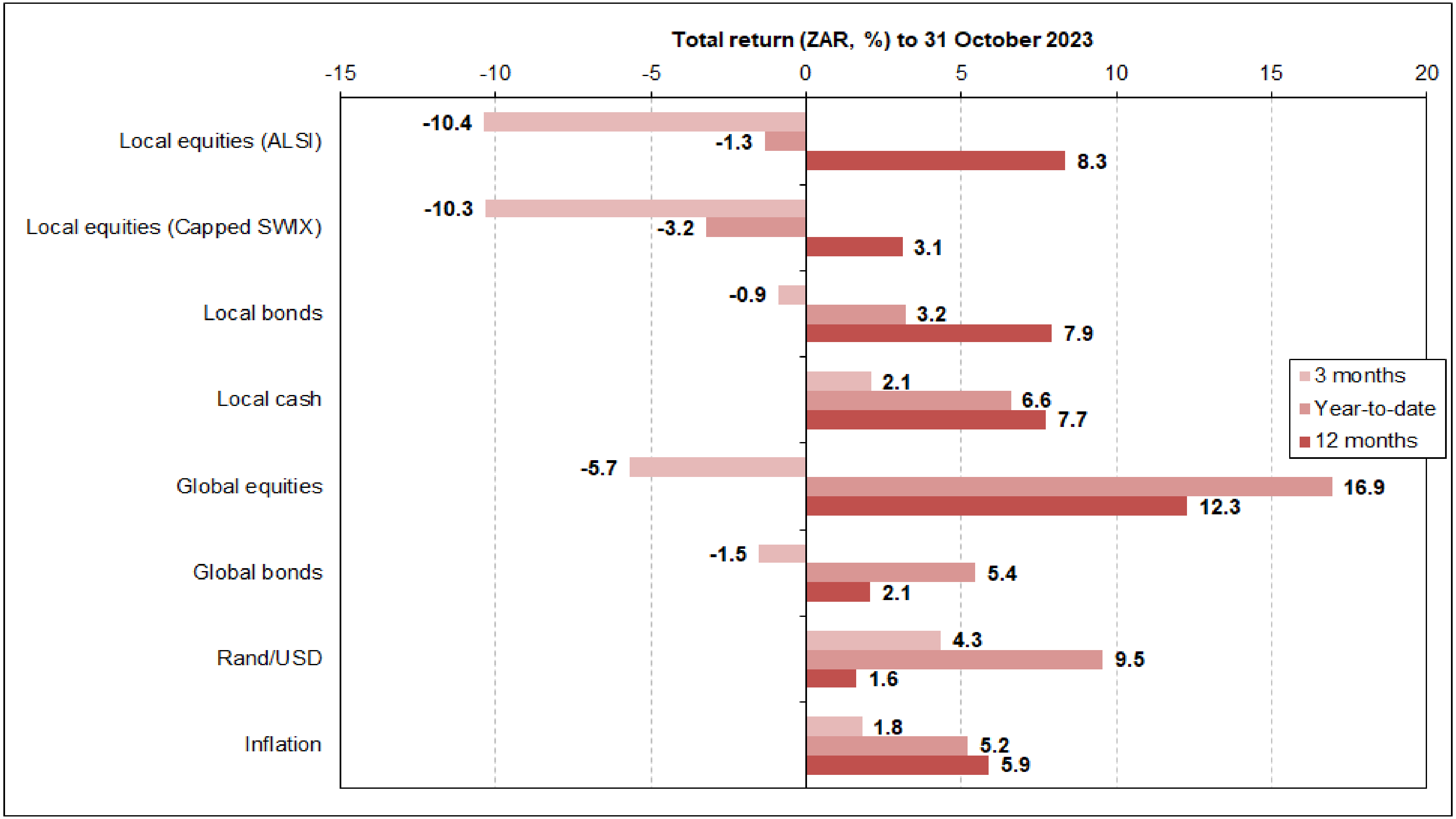
ECONOMIC INDICATORS

Economic indicators [1]	Oct 2021	Oct 2022	Aug 2023	Sep 2023	Oct 2023
Exchange rates:					
ZAR/USD	15.25	18.35	18.87	18.92	18.65
ZAR/GBP	20.86	21.04	23.92	23.09	22.66
ZAR/Euro	17.58	18.14	20.46	20.01	19.73
Commodities:					
Brent Crude Oil (USD/barrel)	83.72	92.81	86.83	92.20	85.02
Platinum (USD/ounce)	1,023.00	934.50	968.18	904.46	933.71
Gold (USD/ounce)	1,783.42	1,640.97	1,945.02	1,848.69	1,996.13

1. *Month-end prices*

Source: Iress

ASSET CLASS PERFORMANCE
SHORT TERM



Source: Iress

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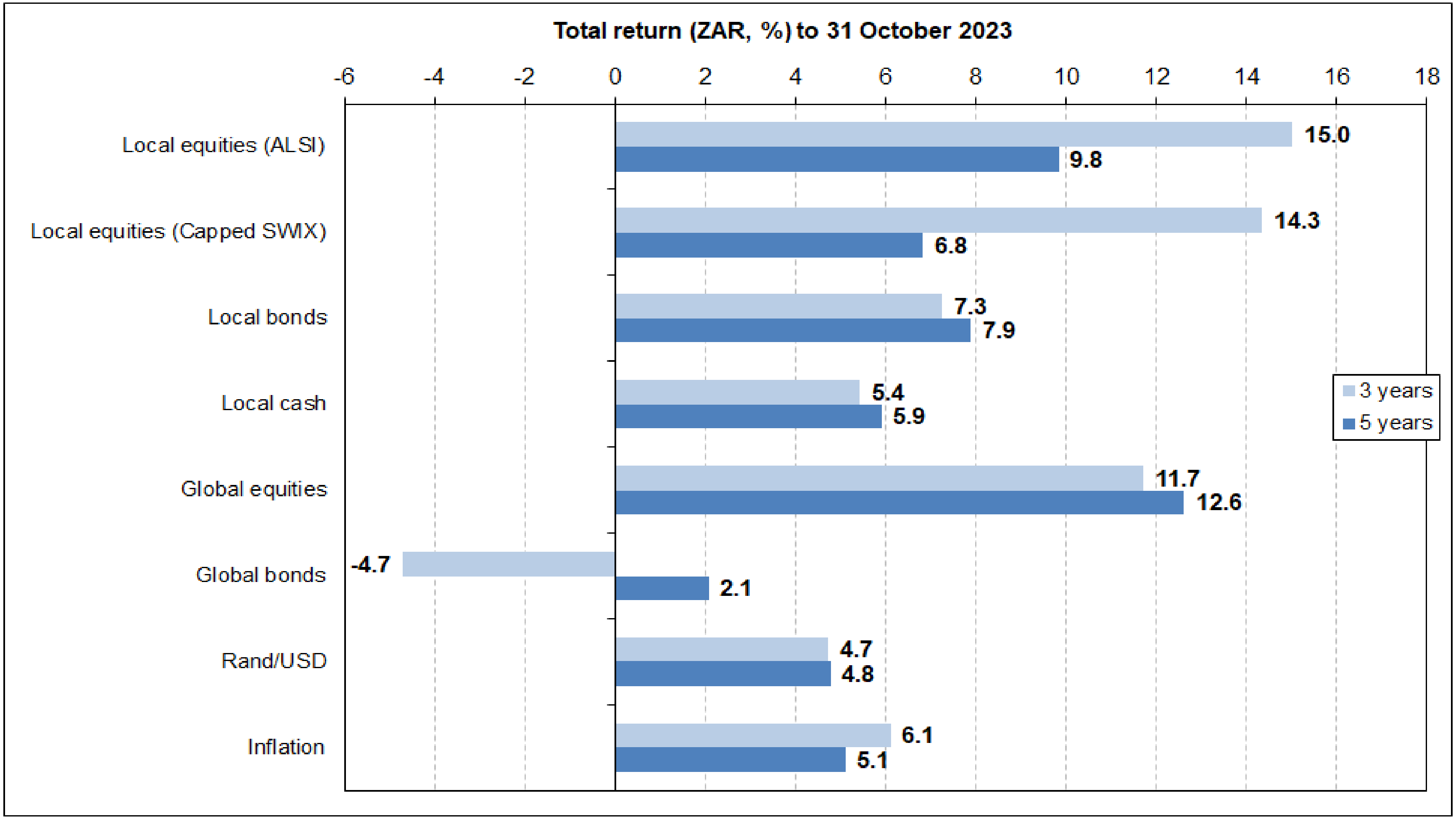
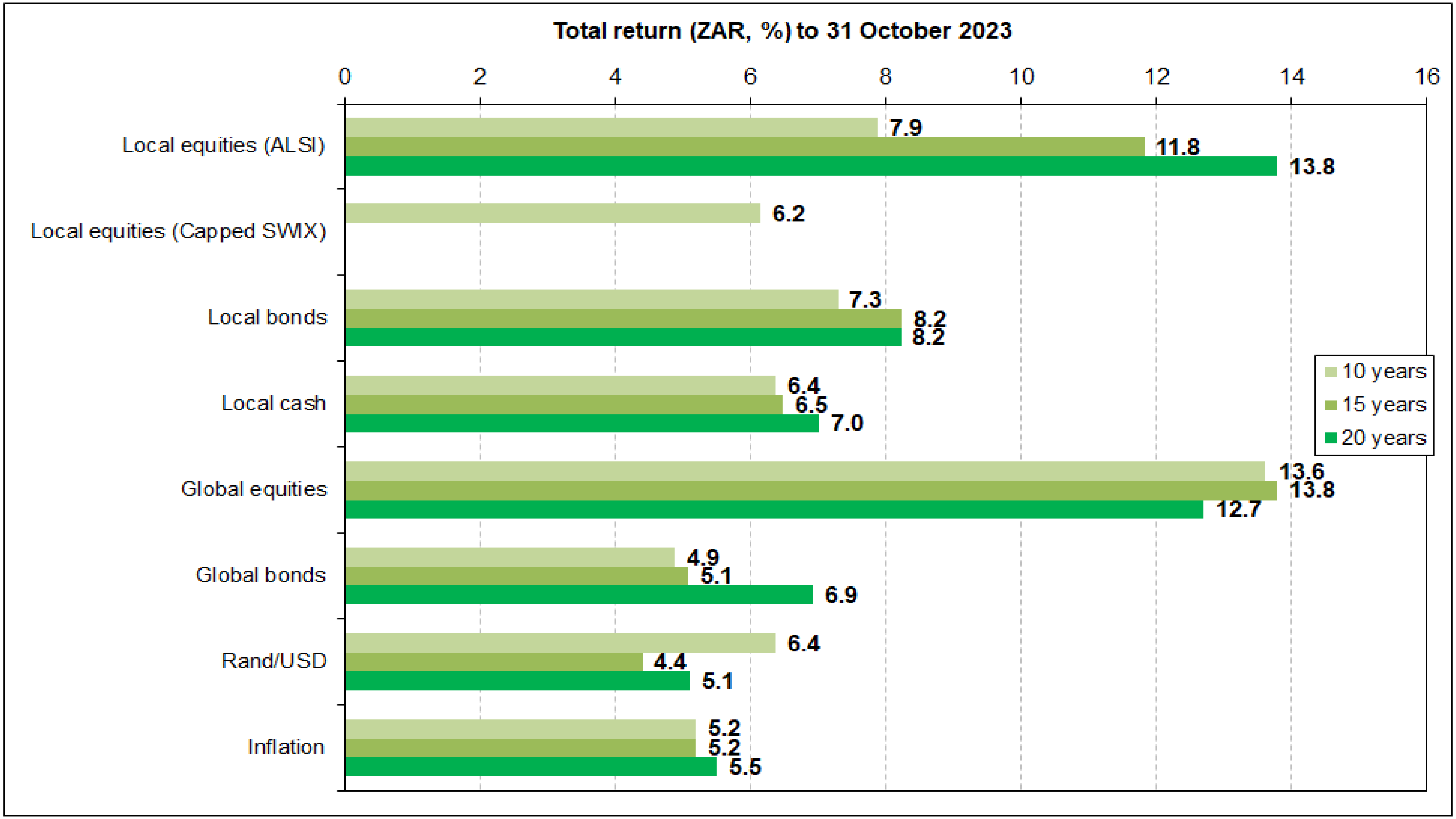
ASSET CLASS PERFORMANCE
MEDIUM TERM



ASSET CLASS PERFORMANCE
LONG TERM



Source: Iress

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:

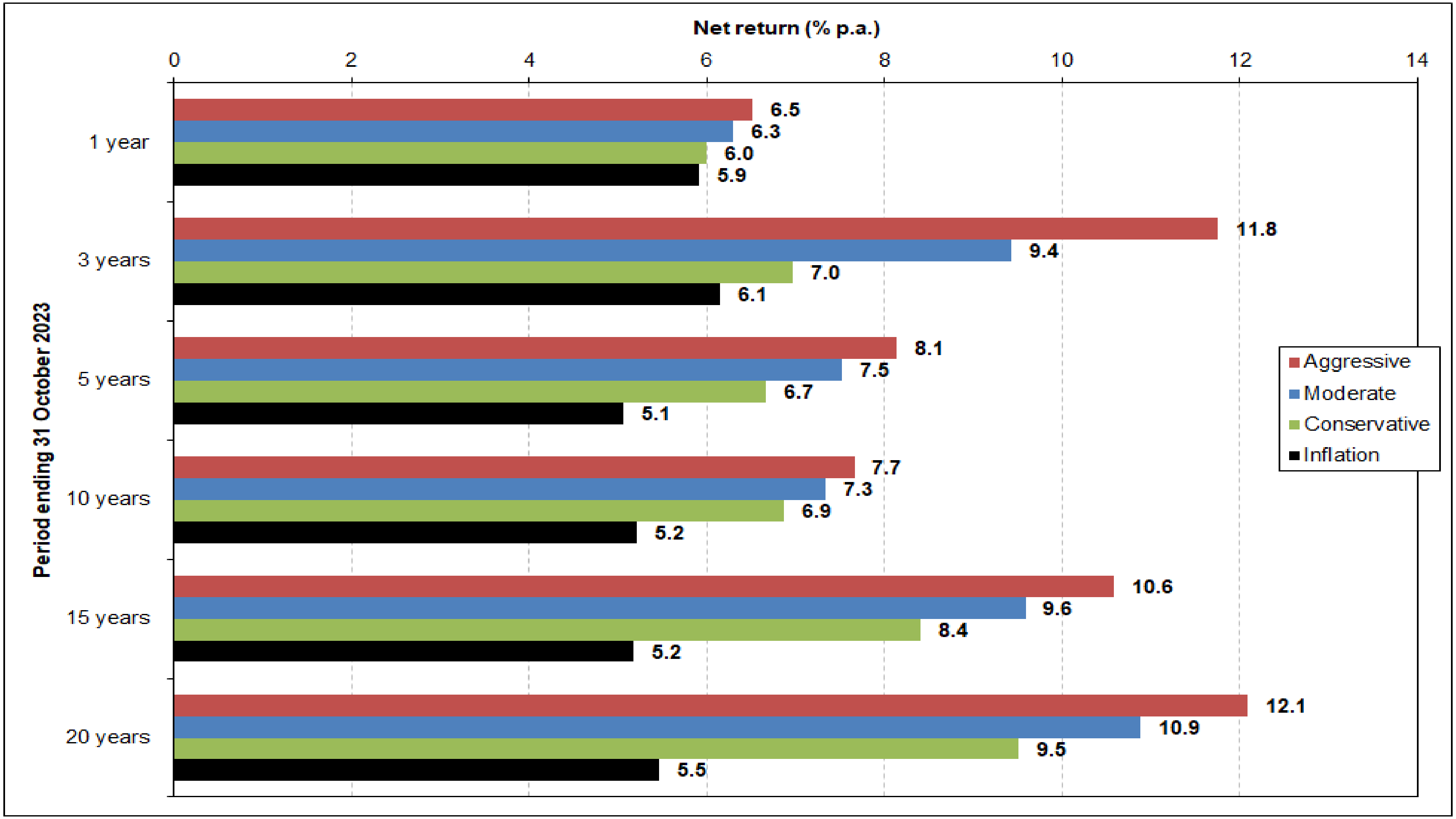
AGGRESSIVE						
Strategic allocation	LOCAL VS OFFSHORE	60%			40% (5% below regulatory maximum)	
	GROWTH VS INCOME ASSETS	75%	25%		75%	25%
	EQUITIES VS BONDS VS CASH	100%	75%	25%	100%	100%
Current allocation		~45%	~11%	~4%	~30%	~10%

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%

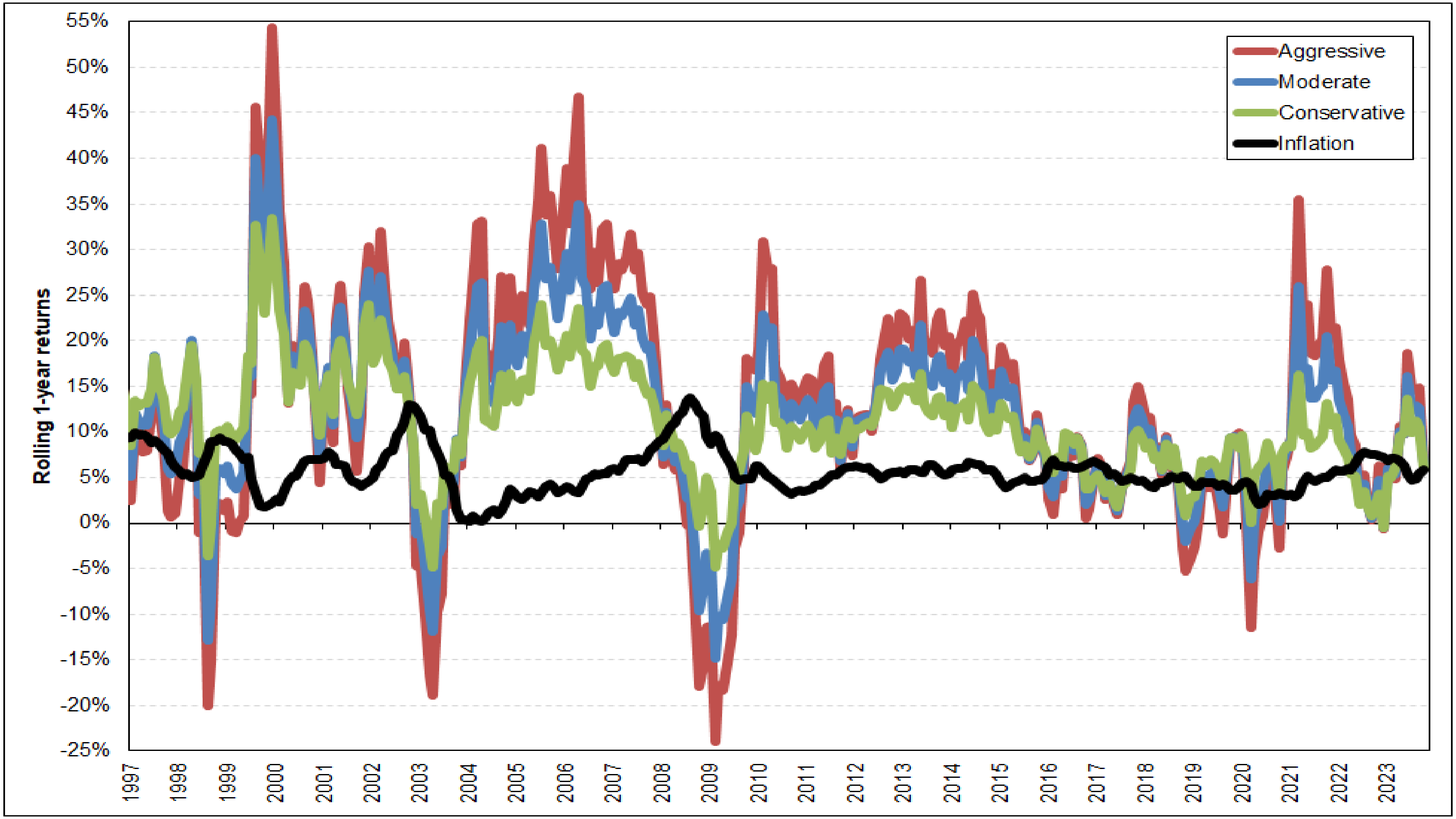
MARKET PERFORMANCE

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



Source: Iress

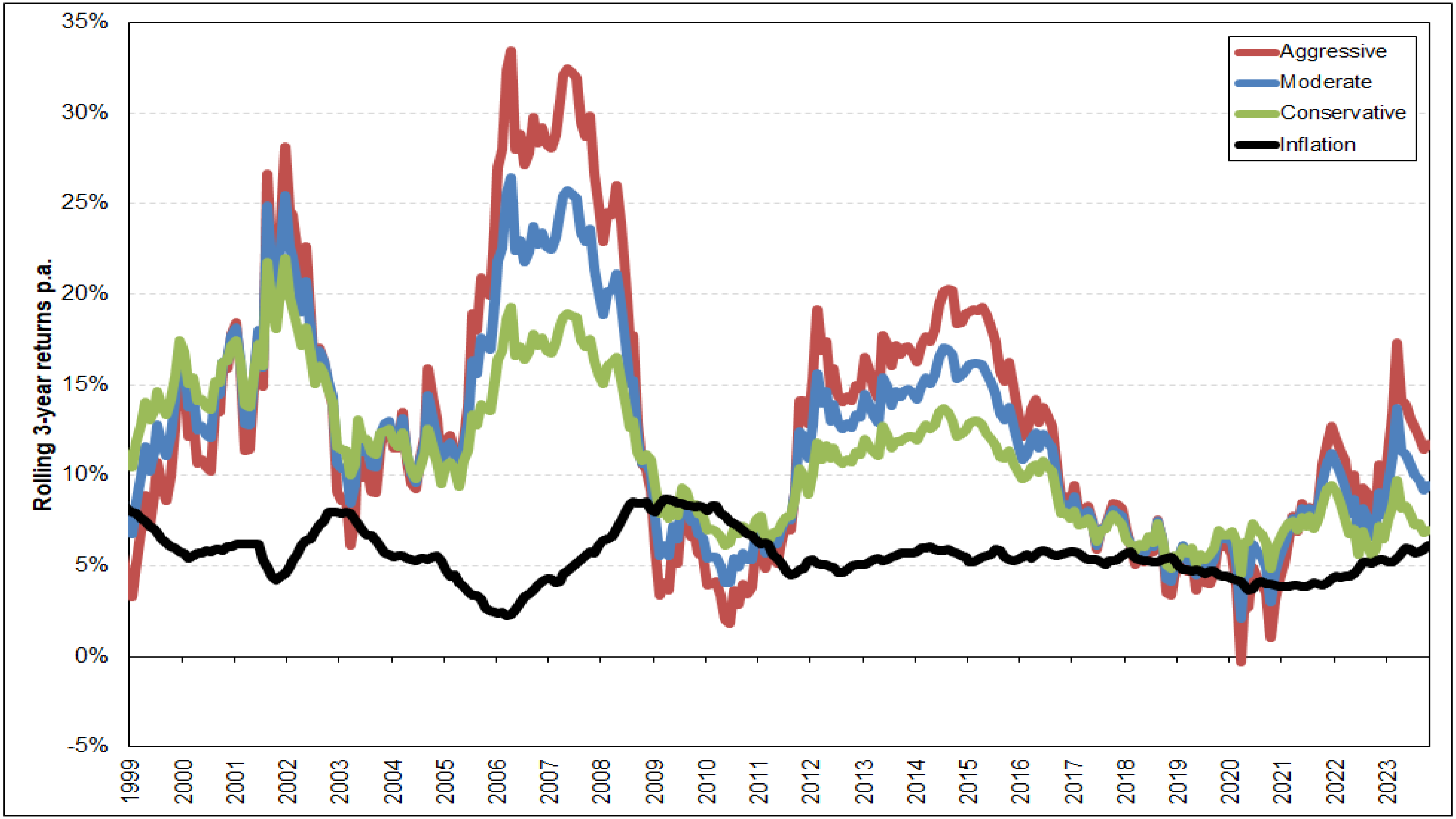
MARKET PERFORMANCE
ROLLING 1-YEAR RETURNS TAKE A DIVE



Source: Iress

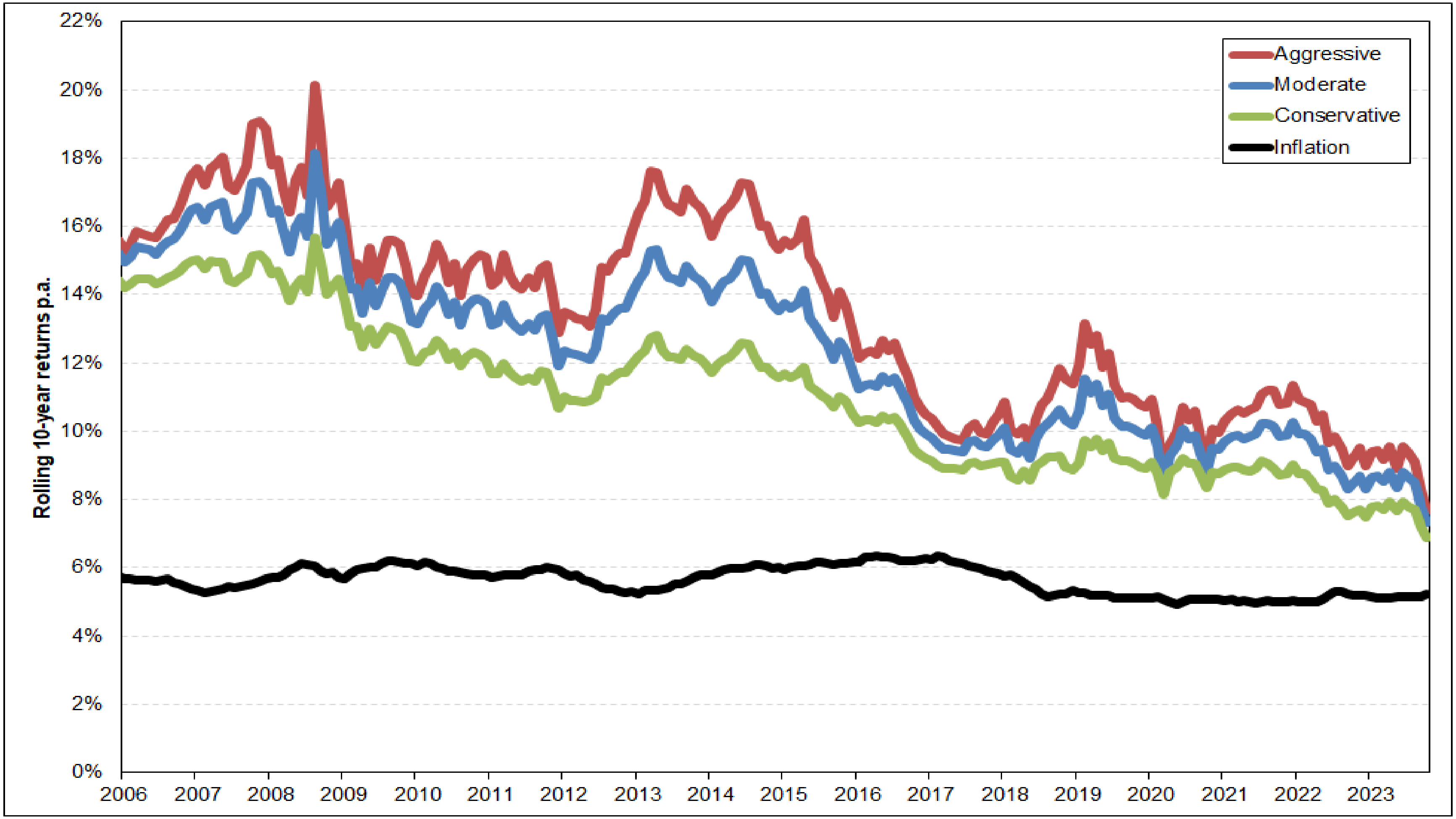
MARKET PERFORMANCE

ROLLING 3-YEAR RETURNS STILL DROPPING FROM THEIR RECENT HIGHS



Source: Iress

MARKET PERFORMANCE
ROLLING 10-YEAR RETURNS COMING UNDER PRESSURE…



Source: Iress

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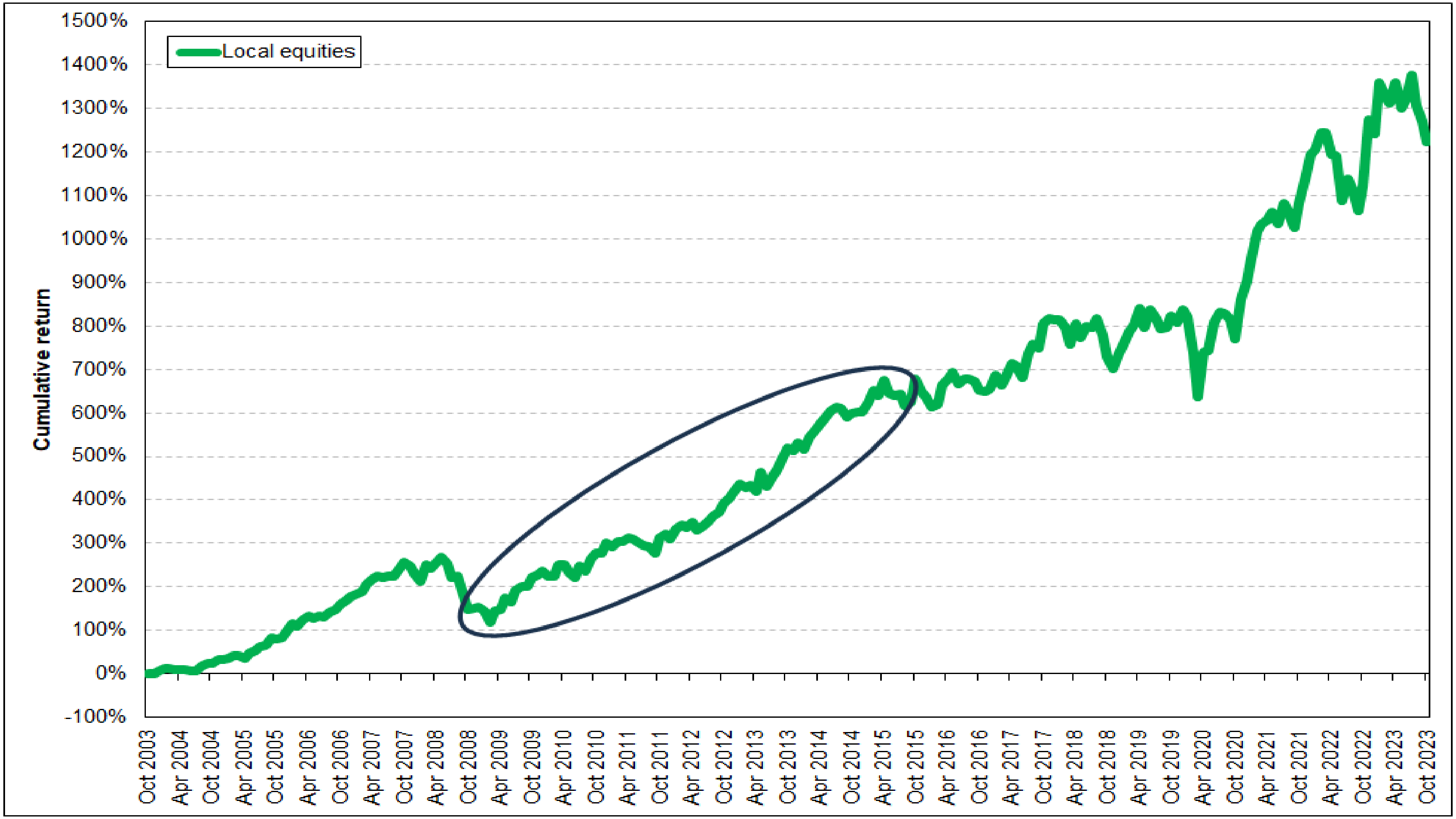
MARKET PERFORMANCE

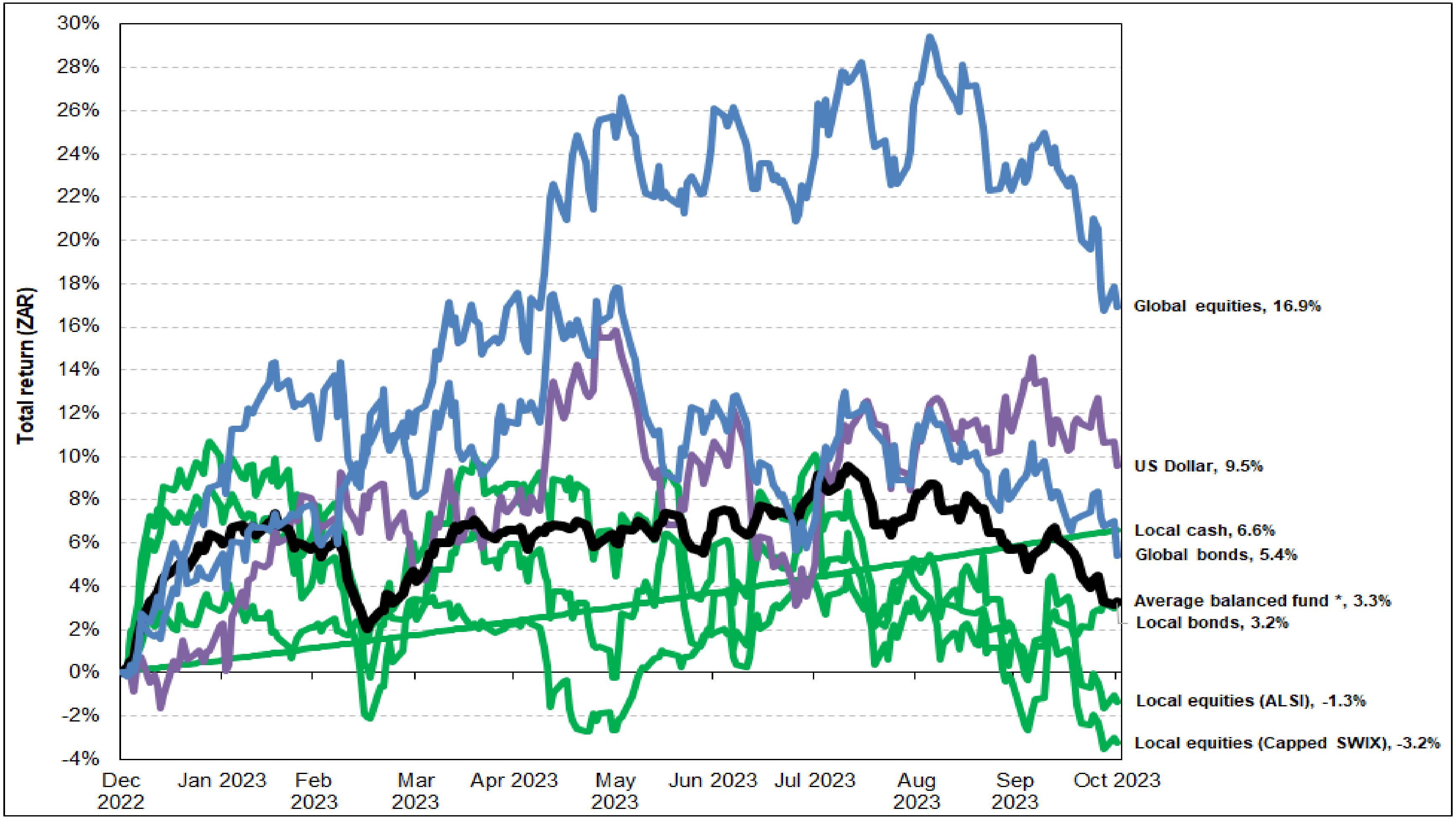
...AS THE STRONG POST-GFC BULL RUN FOR LOCAL STOCKS MOVES OUT OF THE 10-YEAR NUMBERS



Source: Iress

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)

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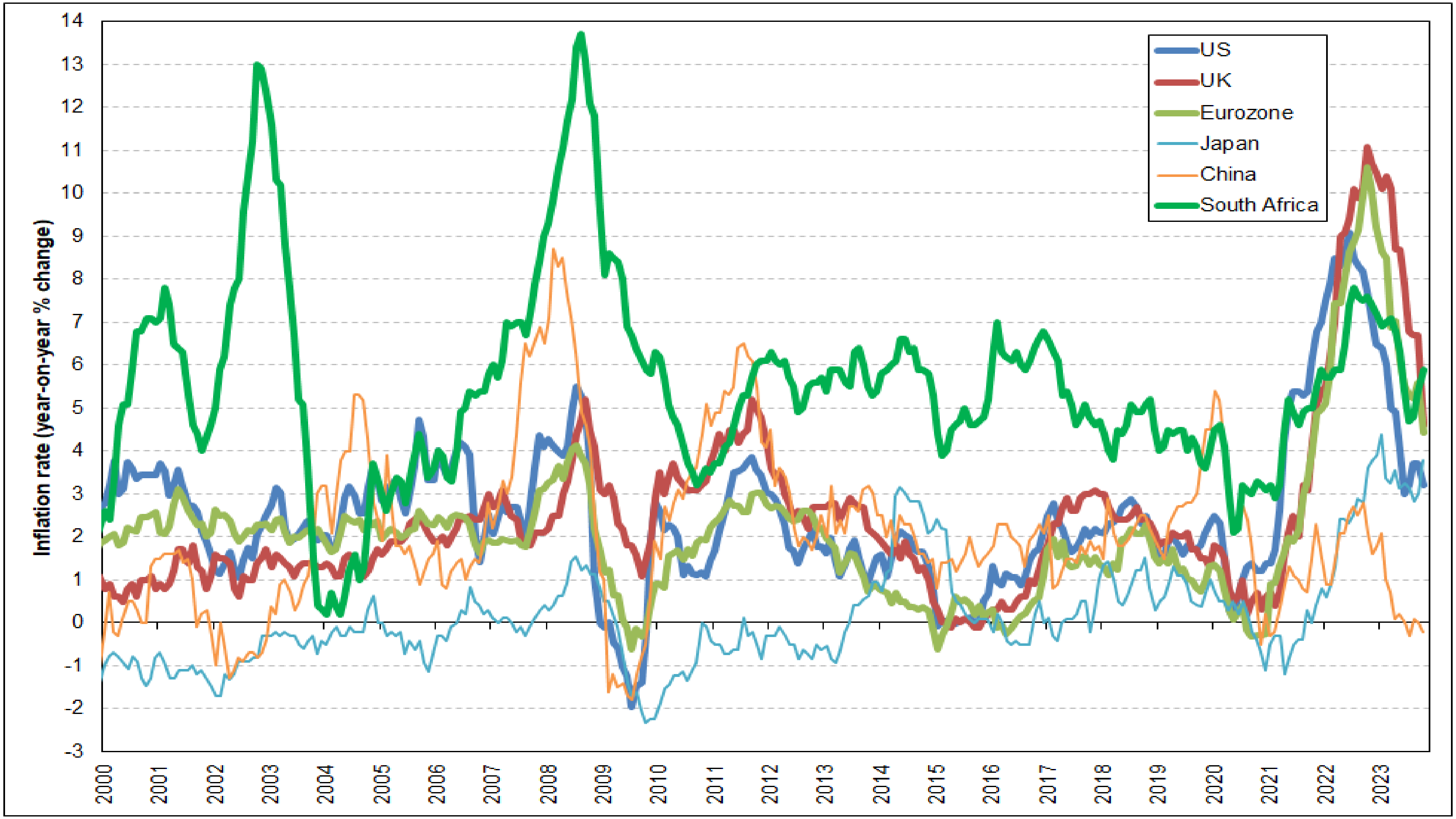
INFLATION RATES
HITTING SOME RESISTANCE



Source: Iress

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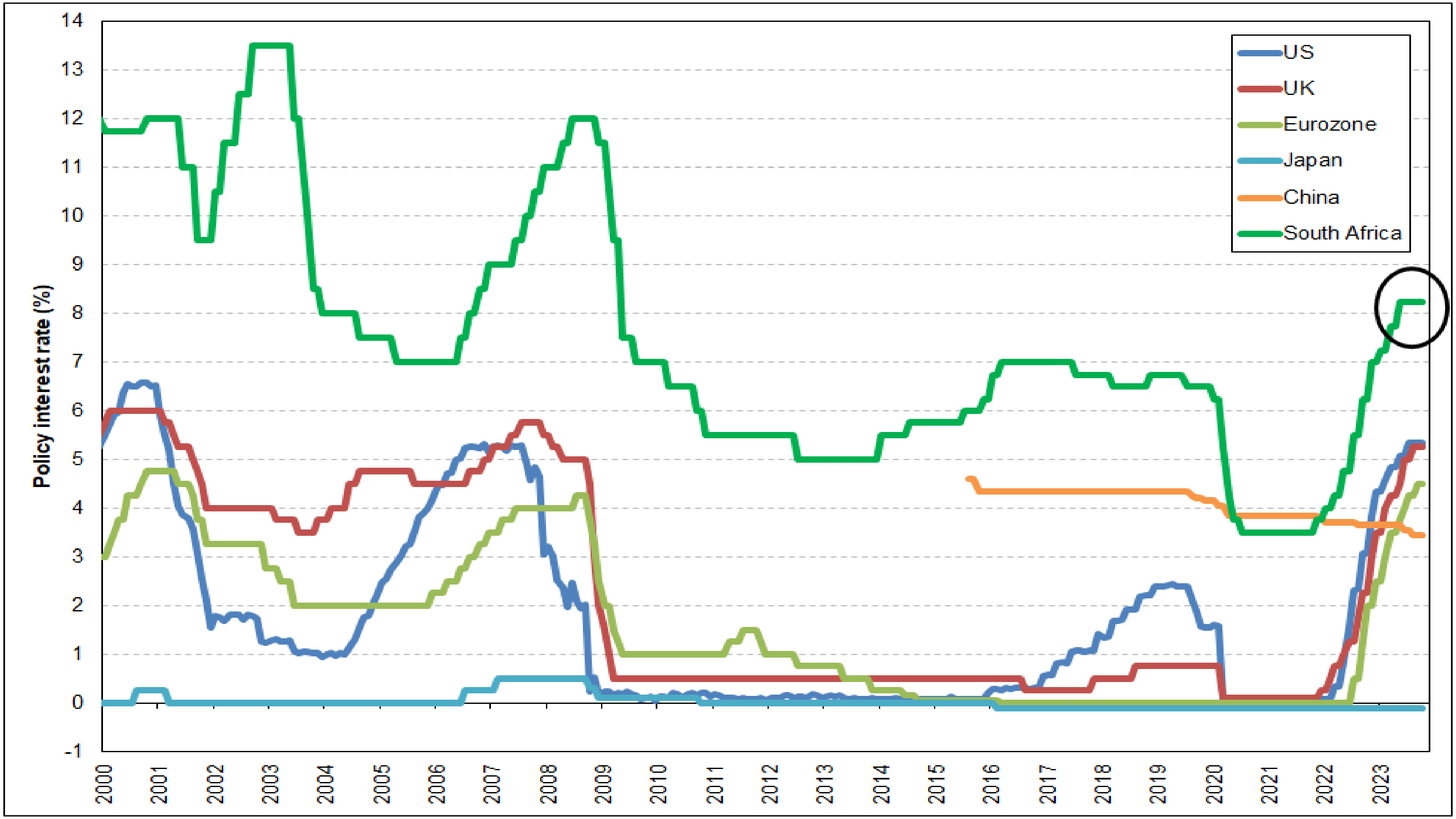
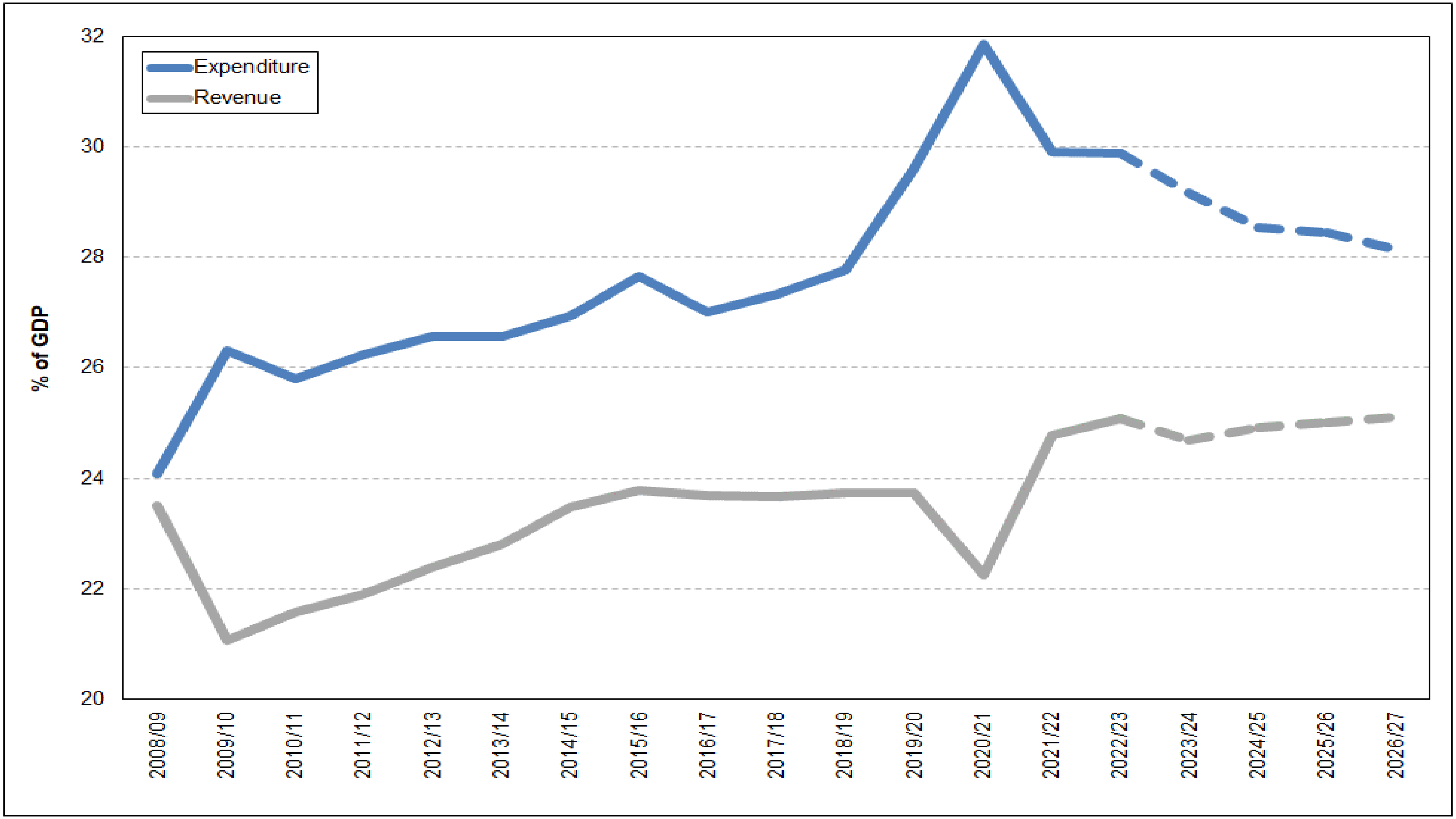
INTEREST RATES

HAVE PROBABLY PEAKED, BUT EXPECTED TO STAY HIGHER FOR LONGER



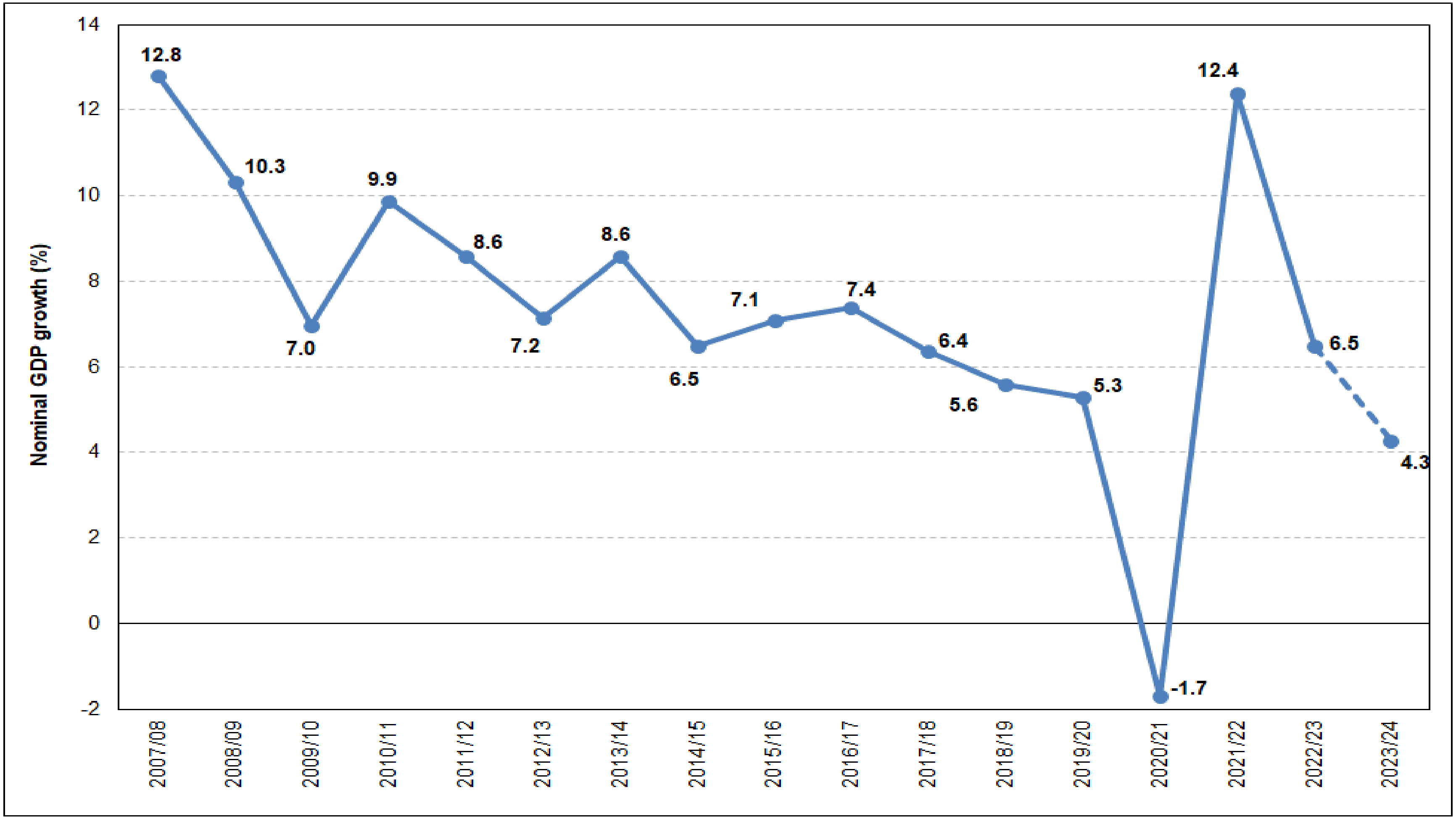
Source: Iress

MTBPS
HEY BIG SPENDER
(GOVERNMENT SPENDING >> GOVERNMENT REVENUE)



Source: National Treasury

MTBPS
AS ECONOMIC GROWTH CONTINUES TO DISAPPOINT



Source: National Treasury

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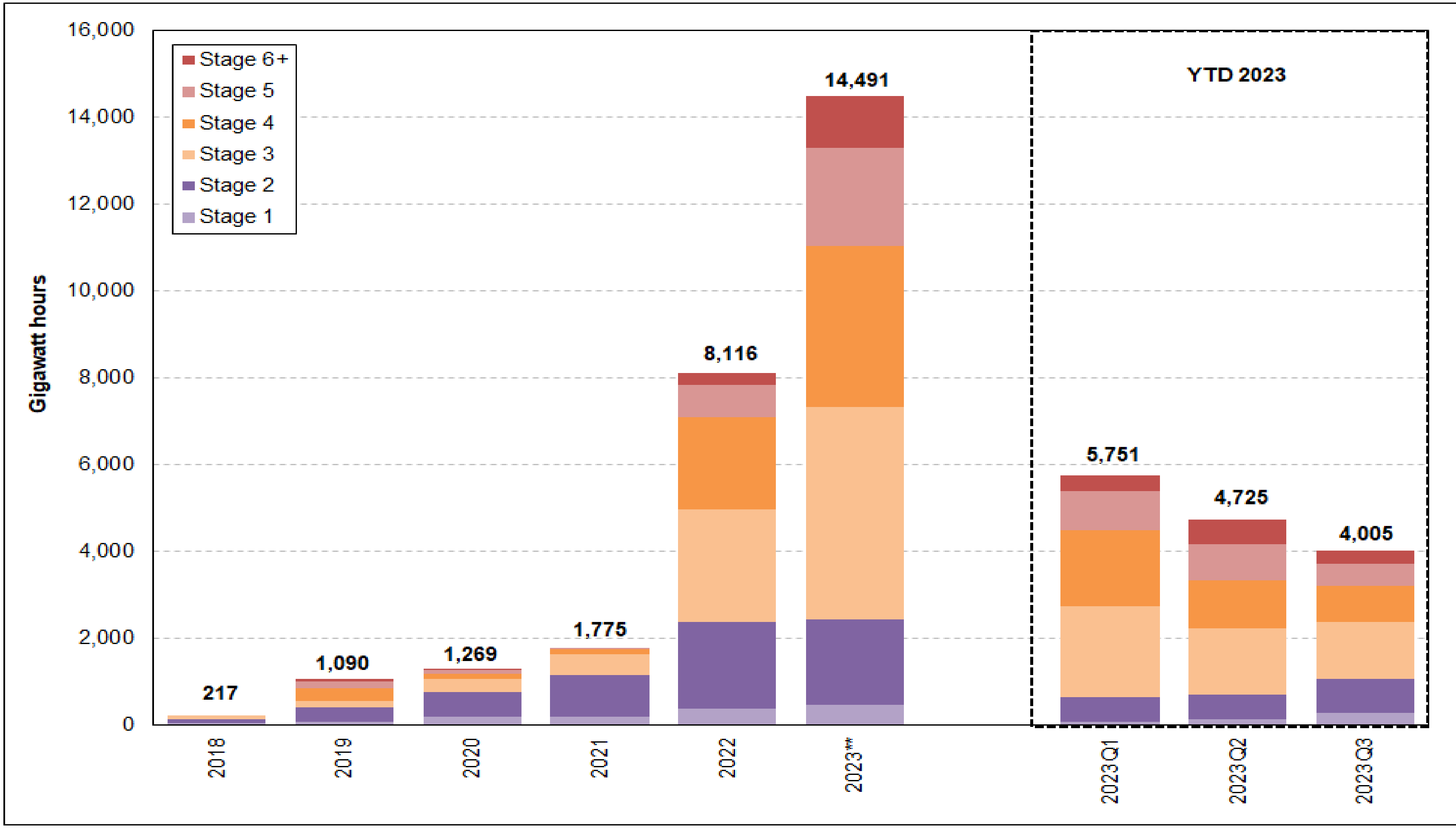
MTBPS
DRIVEN BY THE ENERGY CRISIS



Source: National Treasury

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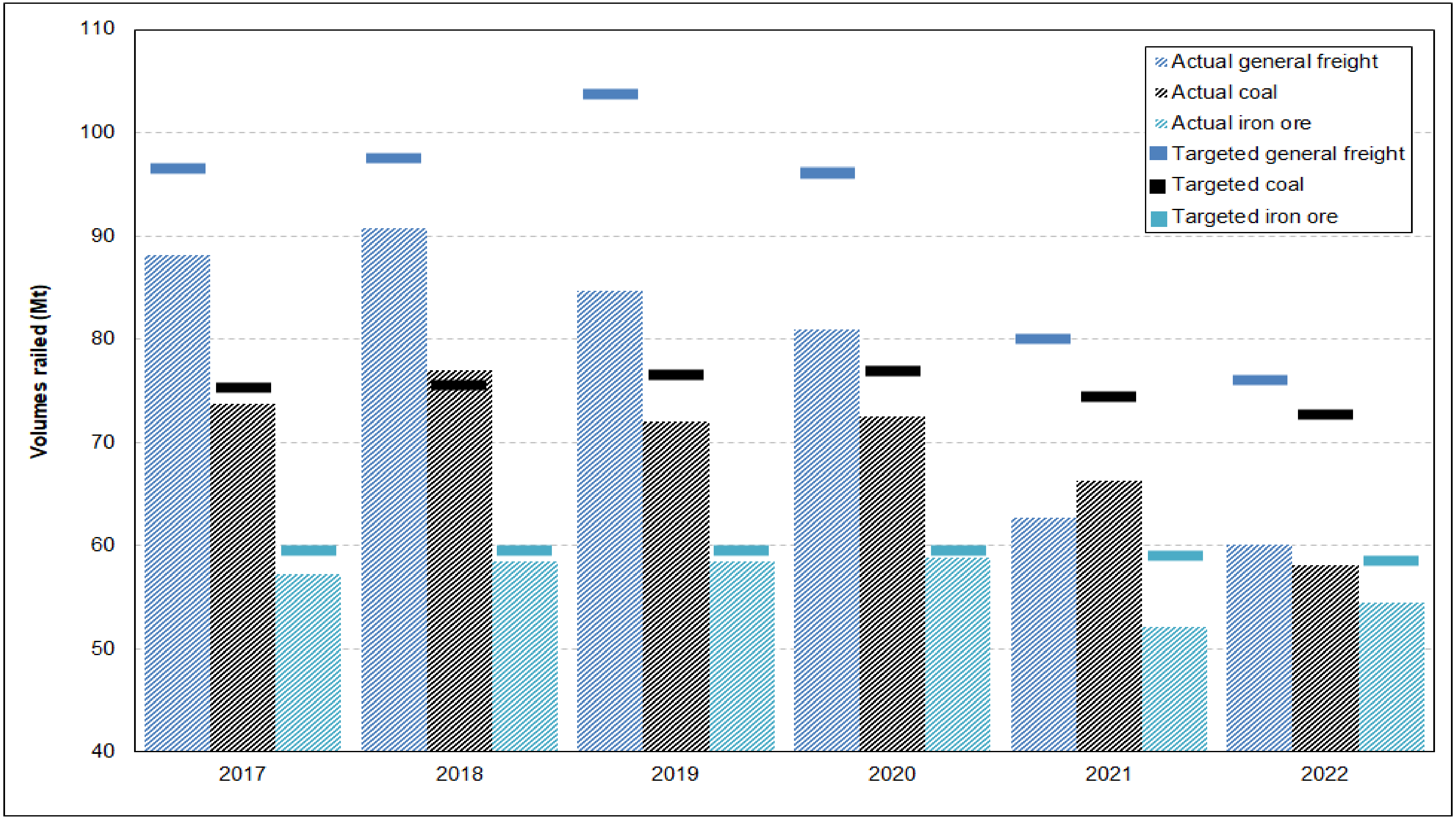
MTBPS
AND THE LOGISTICAL CRISIS



Source: National Treasury

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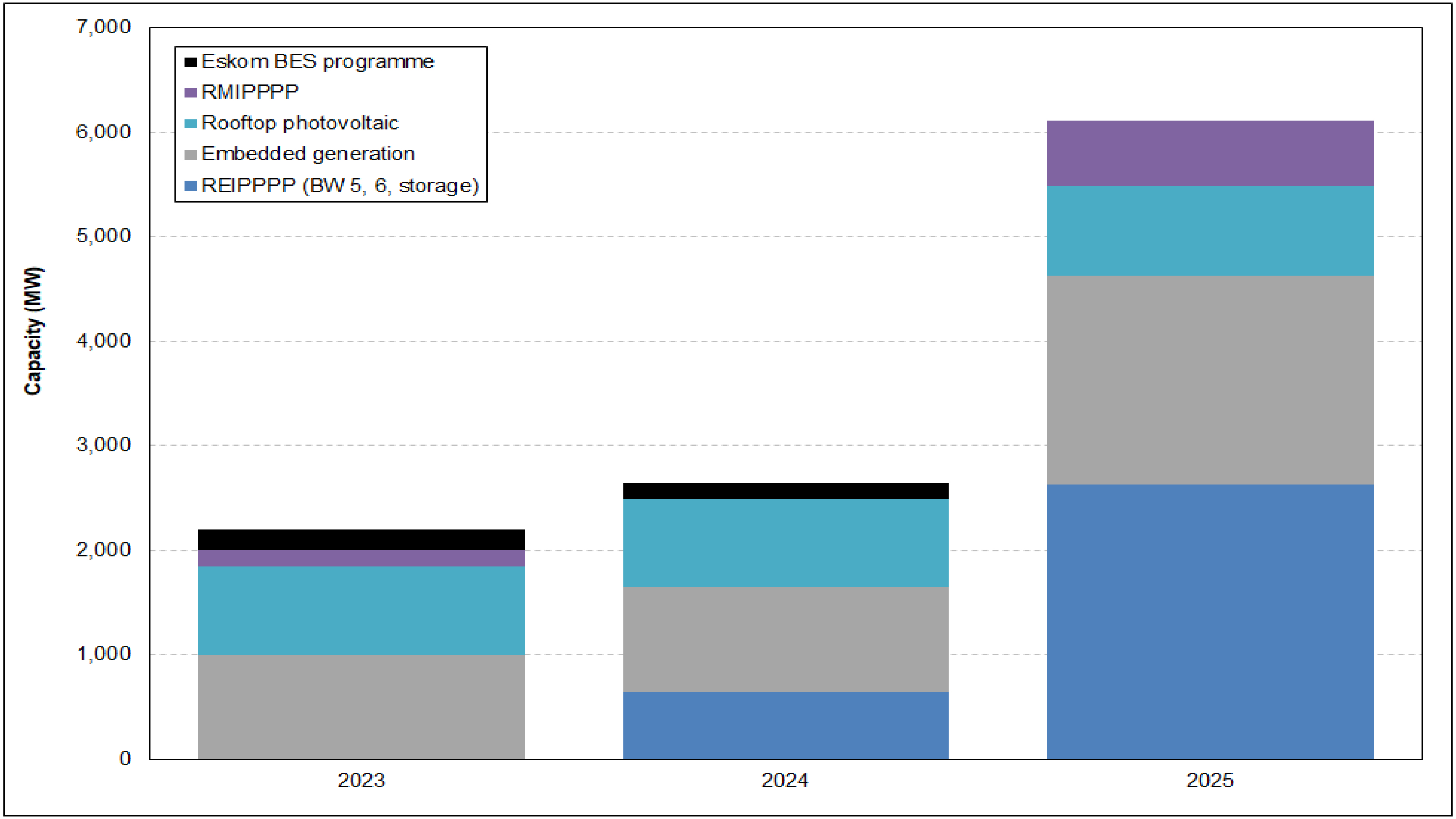
MTBPS

SOME HOPE ON THE HORIZON FOR ELECTRICITY?



Source: National Treasury

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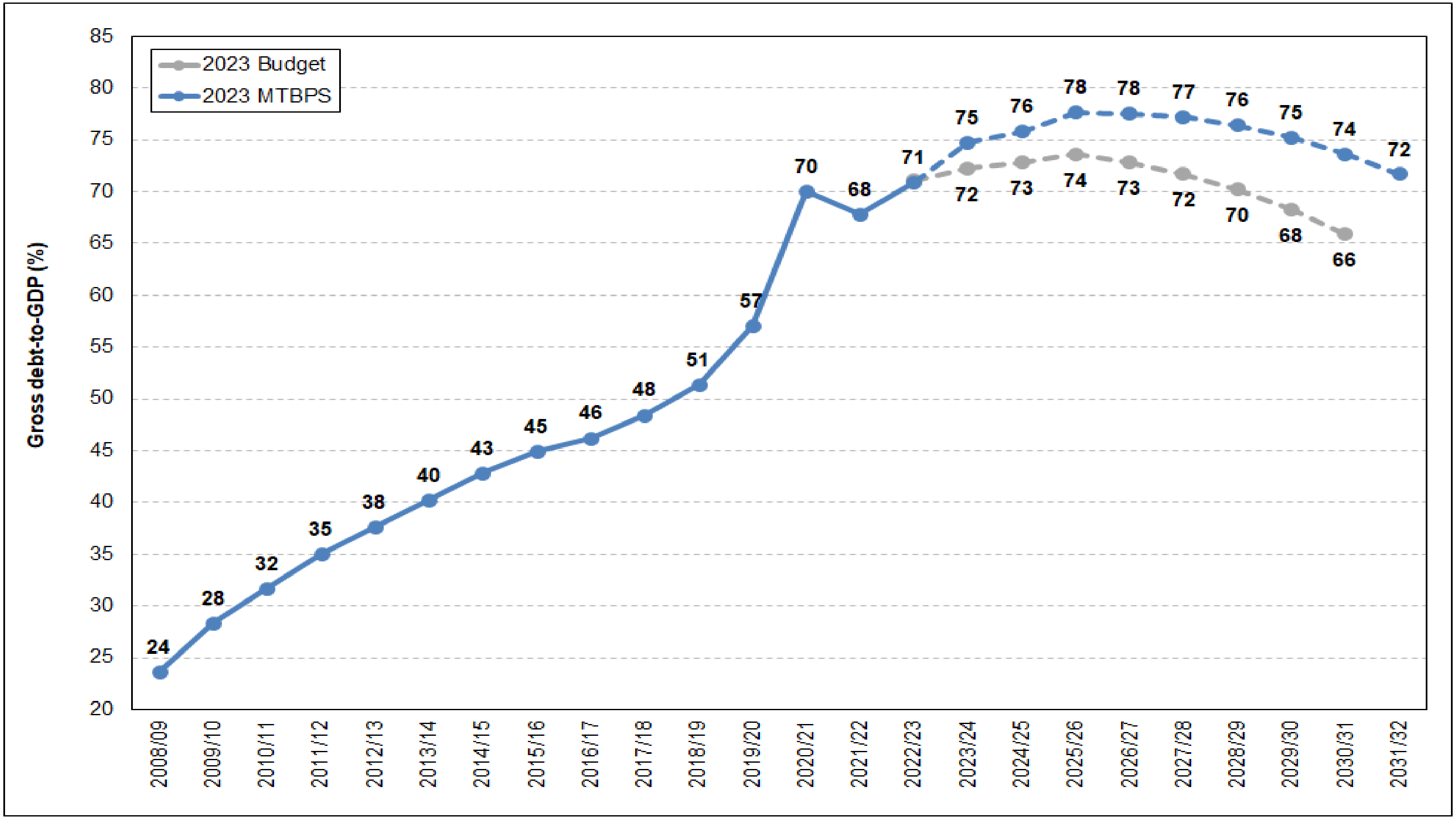
MTBPS
ACTIONS = CONSEQUENCES
(GOVERNMENT DEBT HAVE SKYROCKETED)



Source: National Treasury

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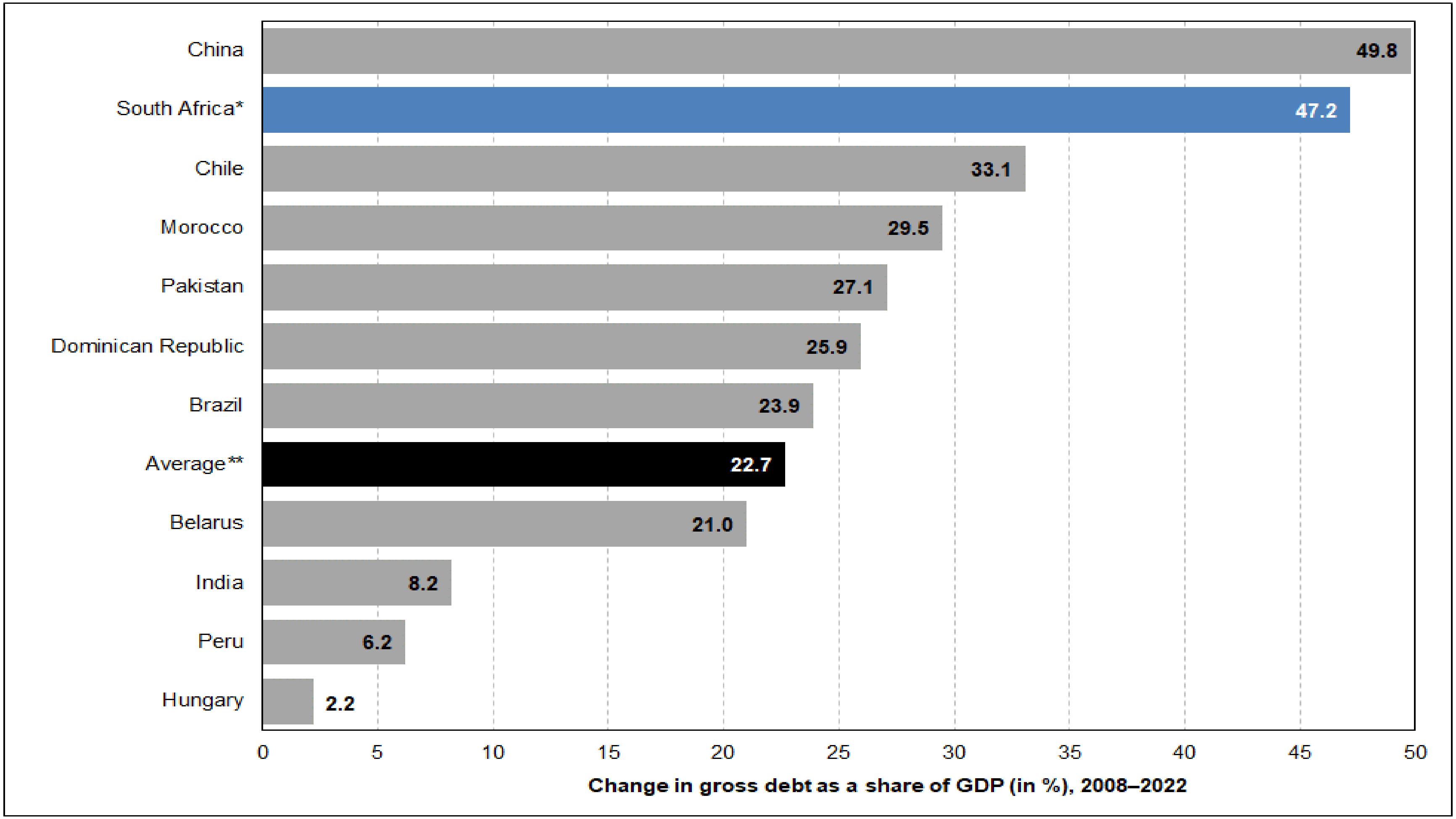
MTBPS
OUR INCREASE IN DEBT IN PERSPECTIVE



Source: National Treasury

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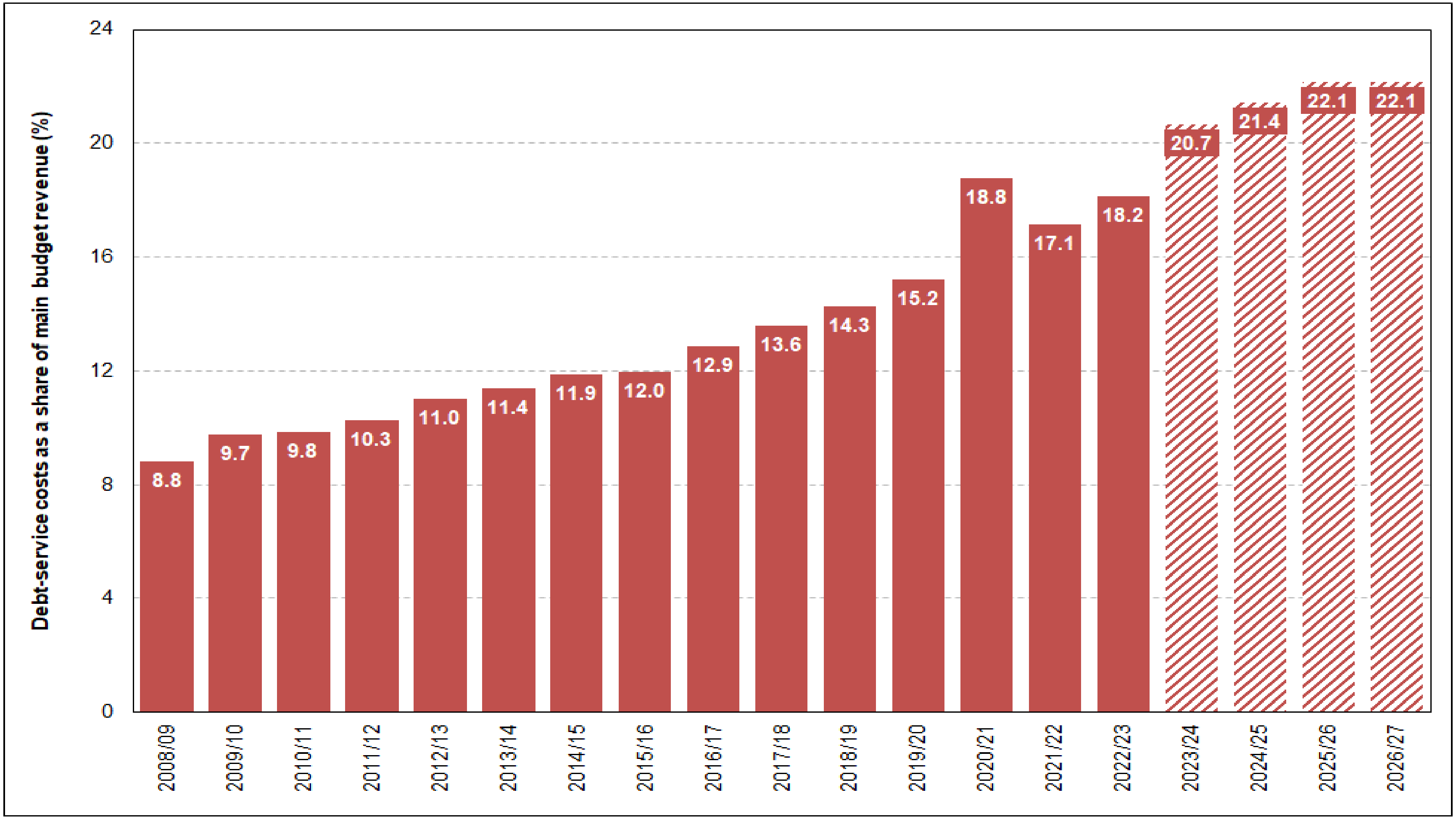
MTBPS
ACTIONS = CONSEQUENCES
(DEBT-SERVICE-COSTS ESCALATE)



Source: National Treasury

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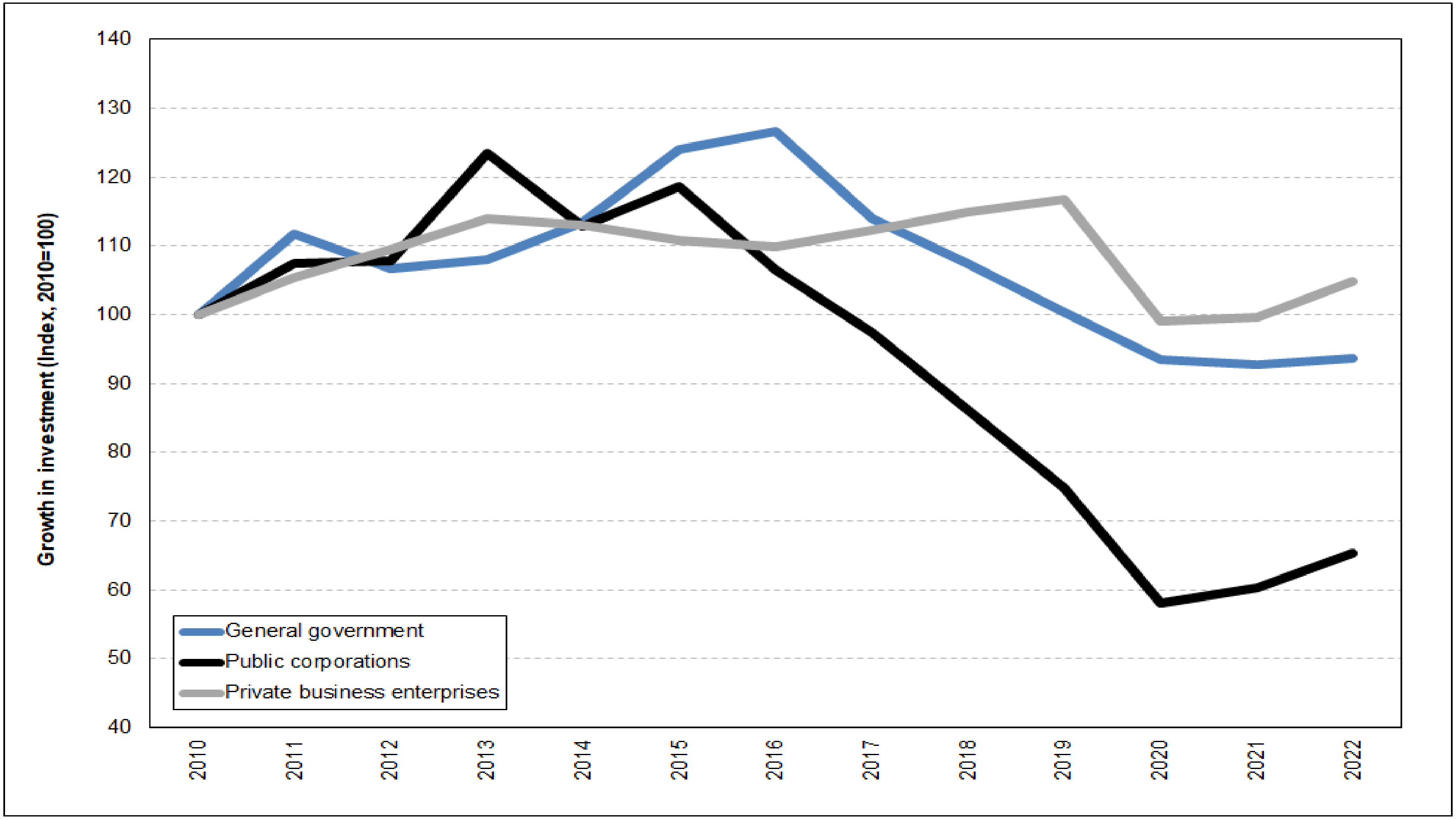
MTBPS

A LACK OF MONEY AND CONFIDENCE = INVESTMENT STRIKE?



Source: National Treasury

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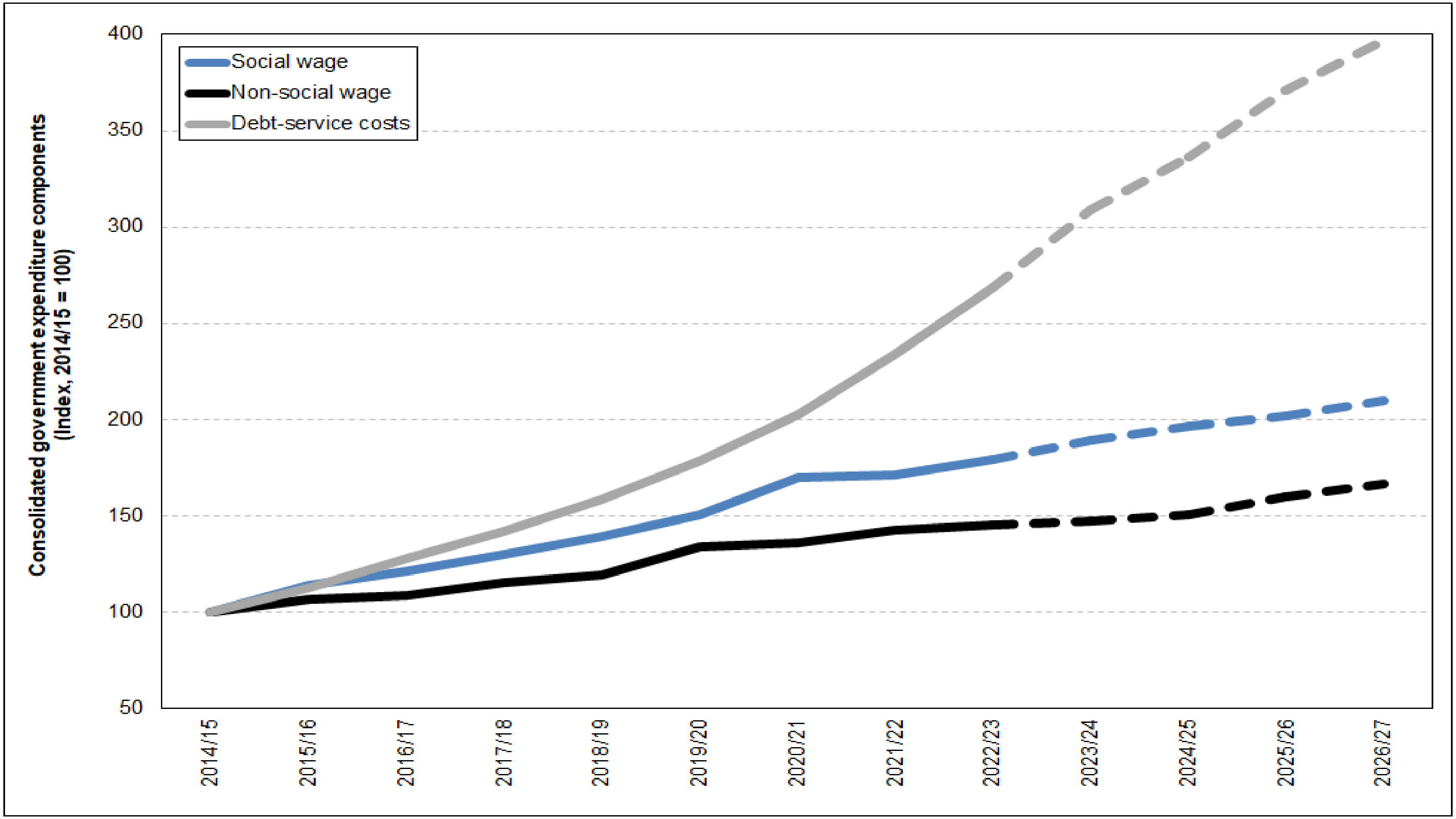
MTBPS

WHERE'S ALL THIS MONEY GOING?



Source: National Treasury

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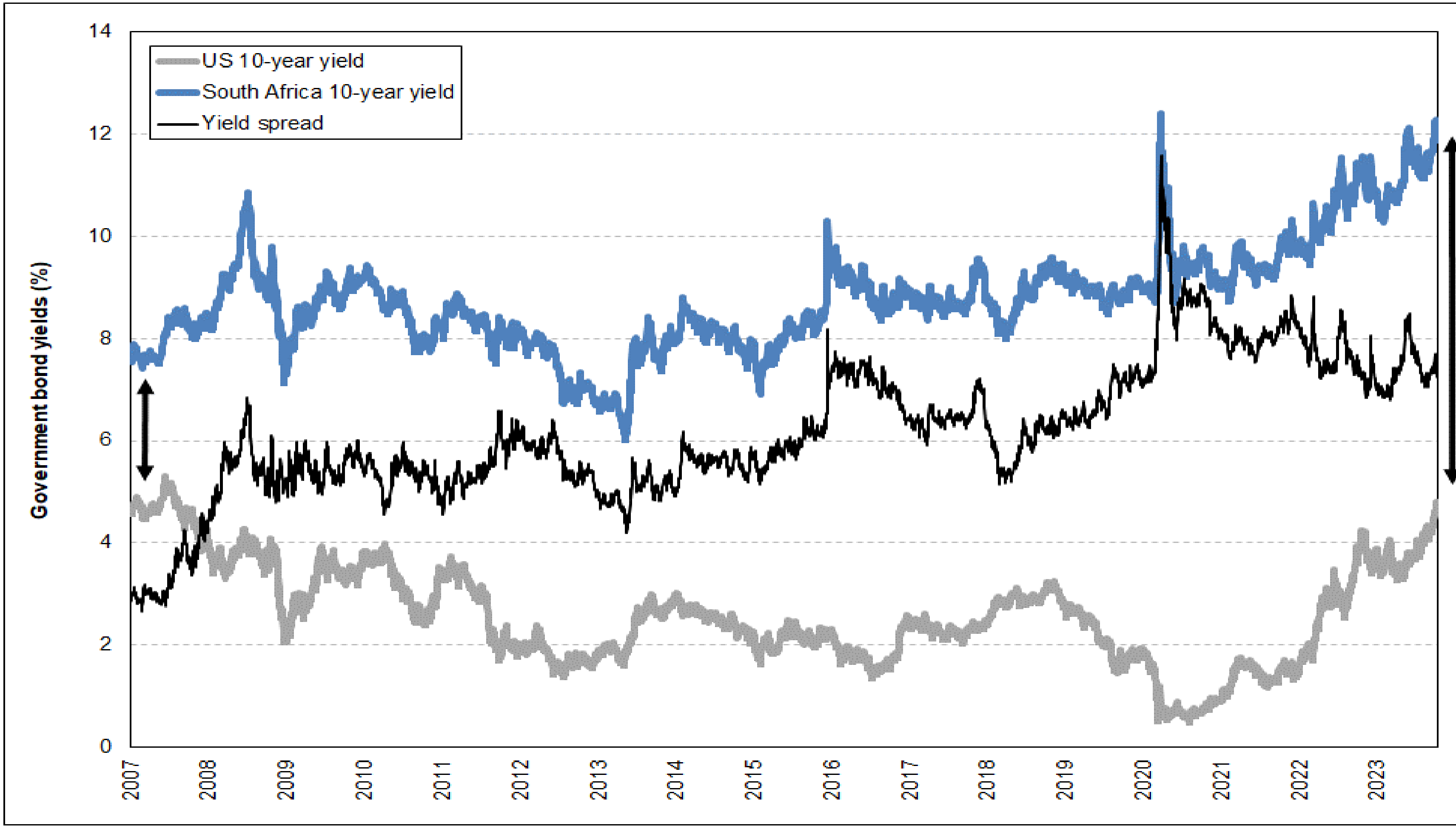
MTBPS

FISCAL INDISCIPLINE REFLECTED IN HIGH GOVERNMENT BOND YIELDS



Source: National Treasury

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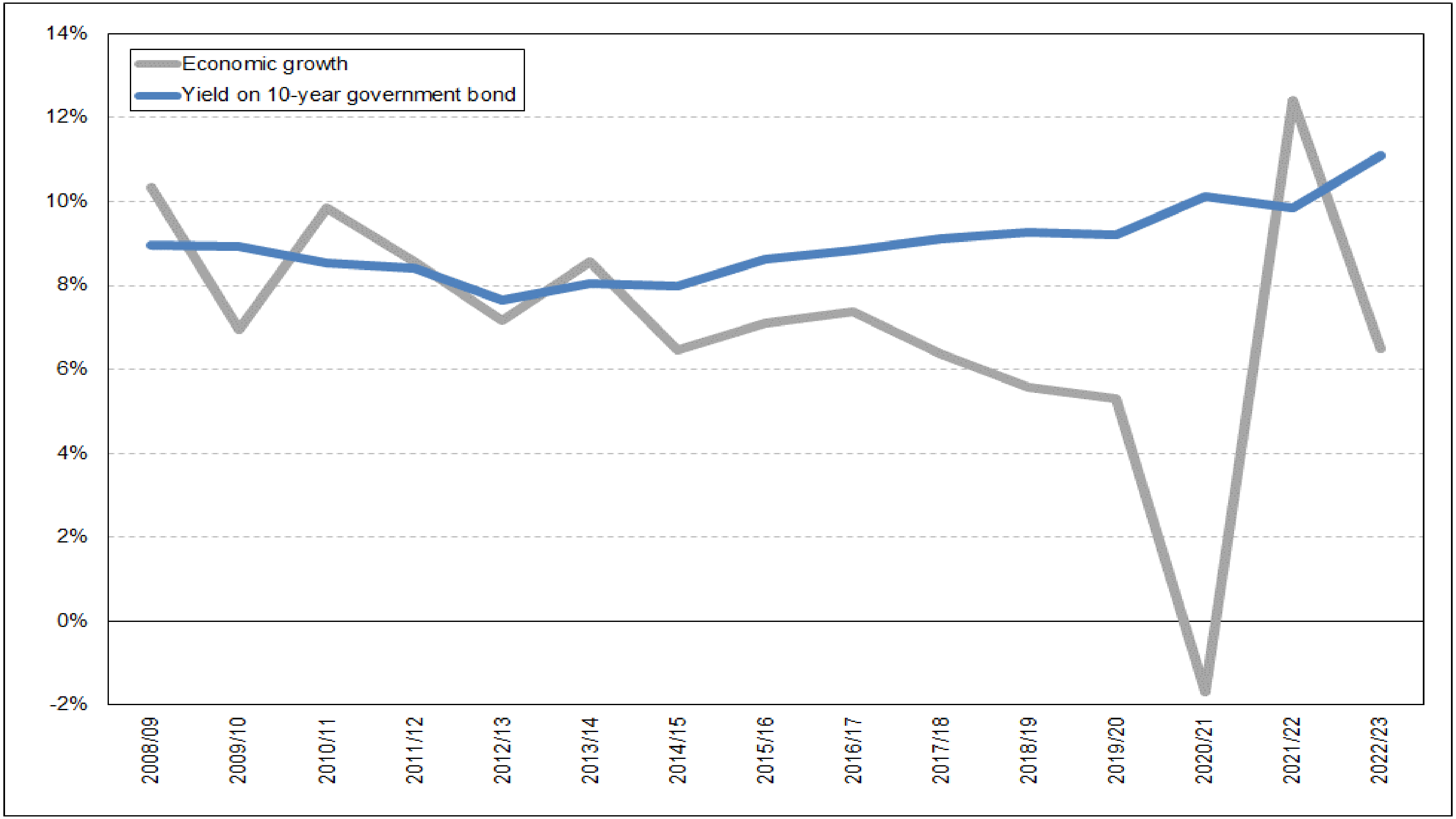
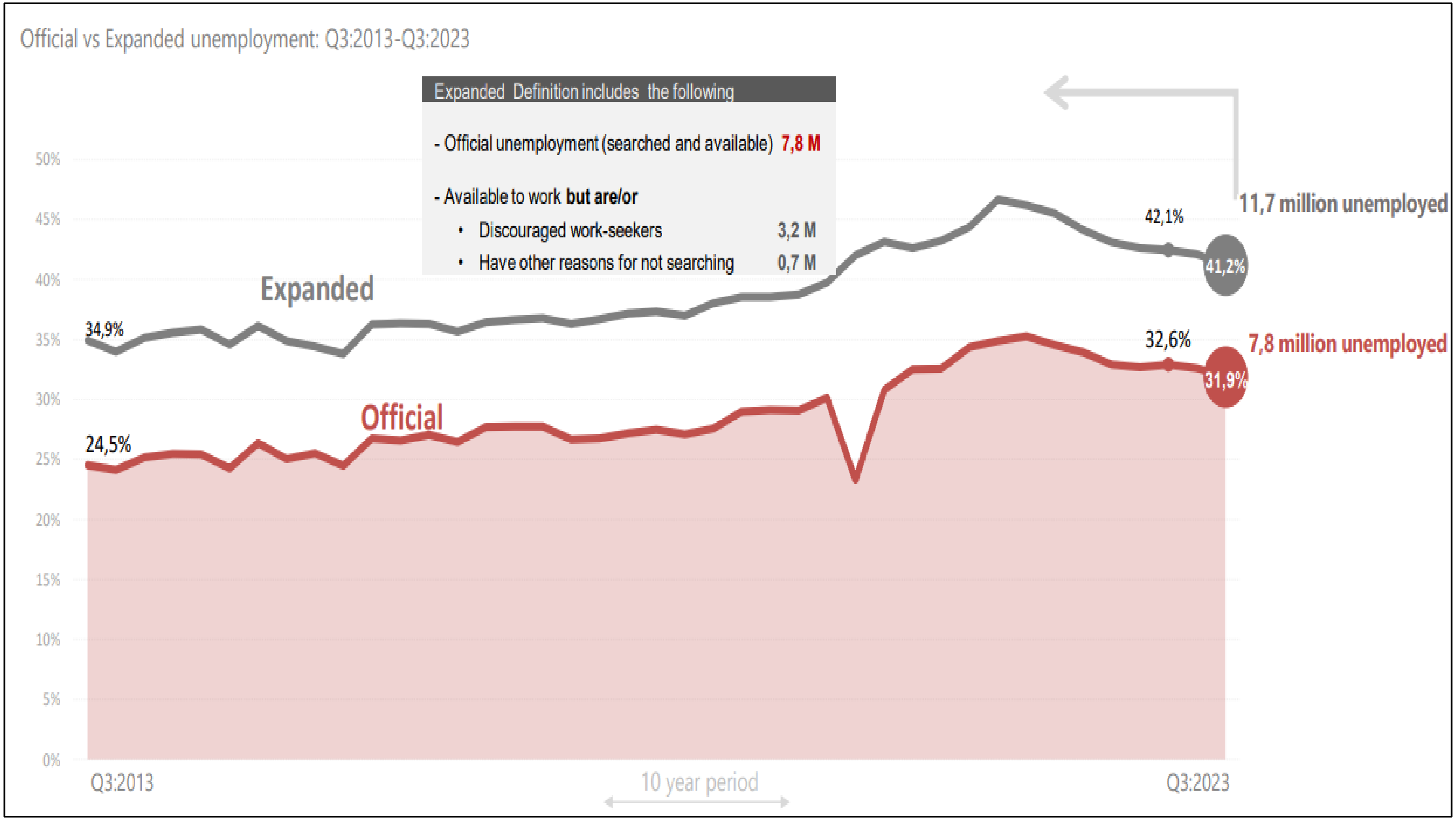
MTBPS
LOW GROWTH + HIGH DEBT COSTS = A RECIPE FOR DISASTER



Source: National Treasury

SA UNEMPLOYMENT
SLOWLY IMPROVING, BUT A LONG WAY TO GO



Source: StatsSA

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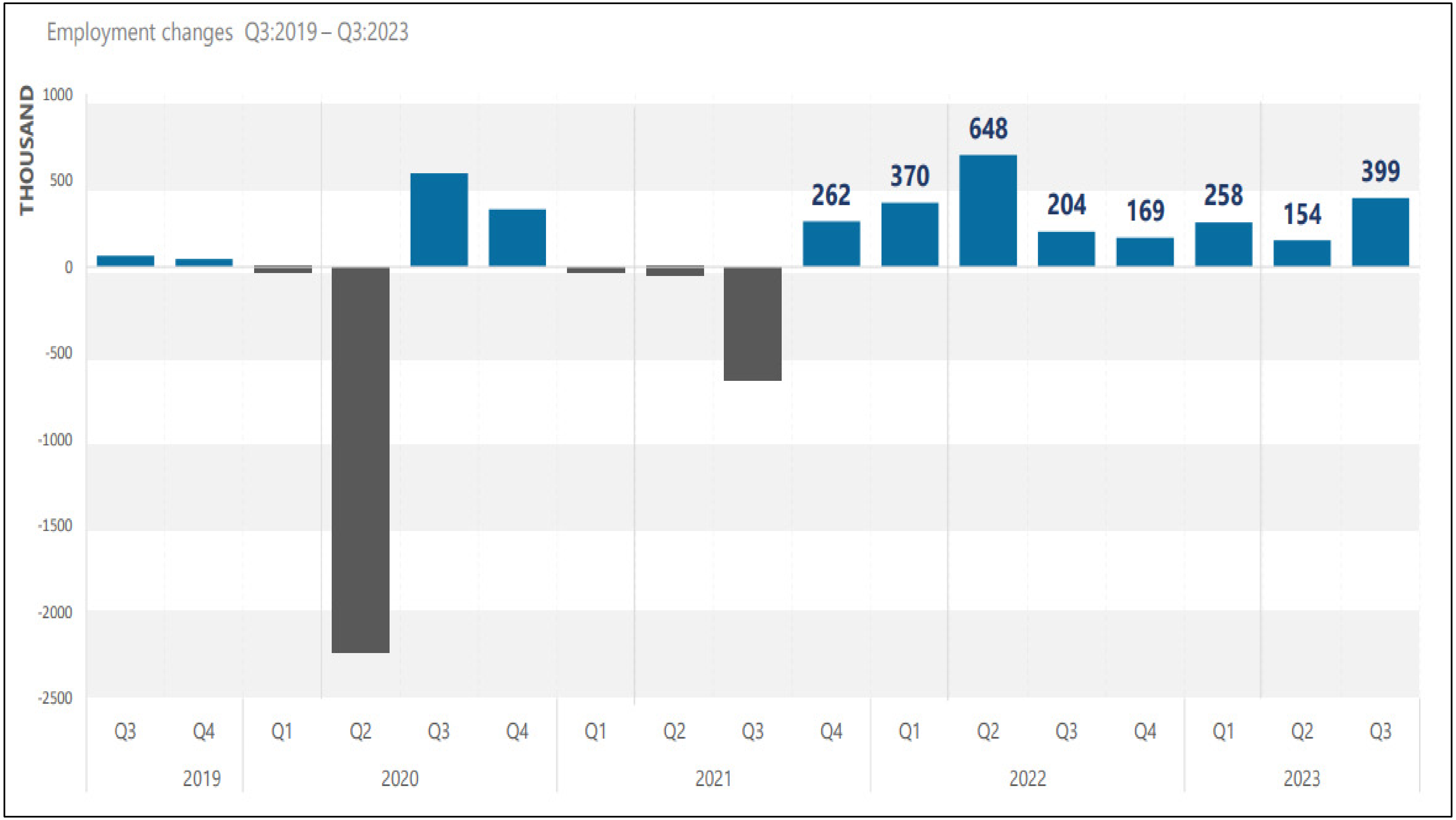
SA UNEMPLOYMENT
8th CONSECUTIVE QUARTER OF EMPLOYMENT GAINS



Source: StatsSA

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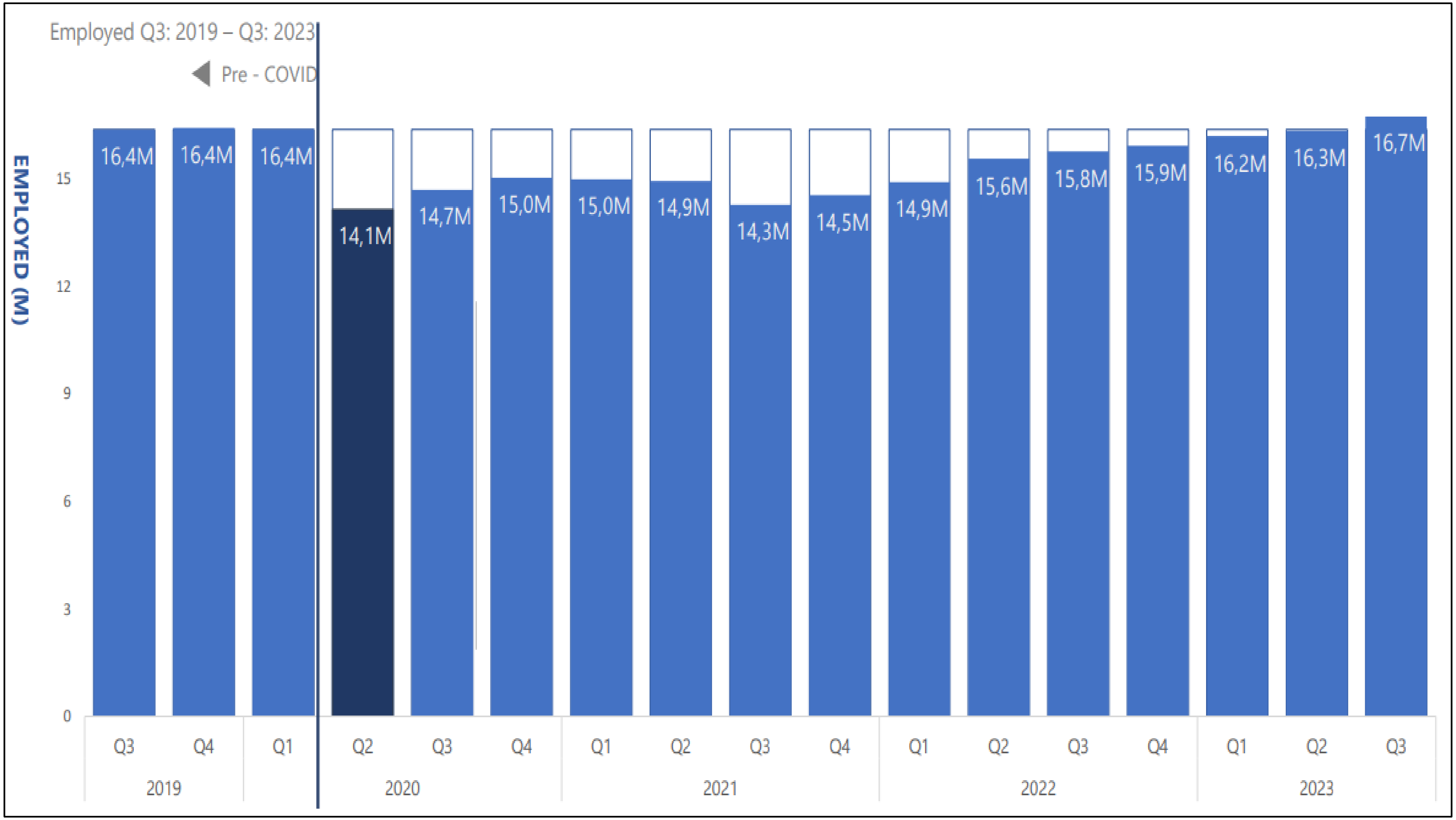
SA UNEMPLOYMENT

TOTAL EMPLOYED FINALLY SURPASSES PRE-COVID LEVELS



Source: StatsSA