MONTH IN PICTURES

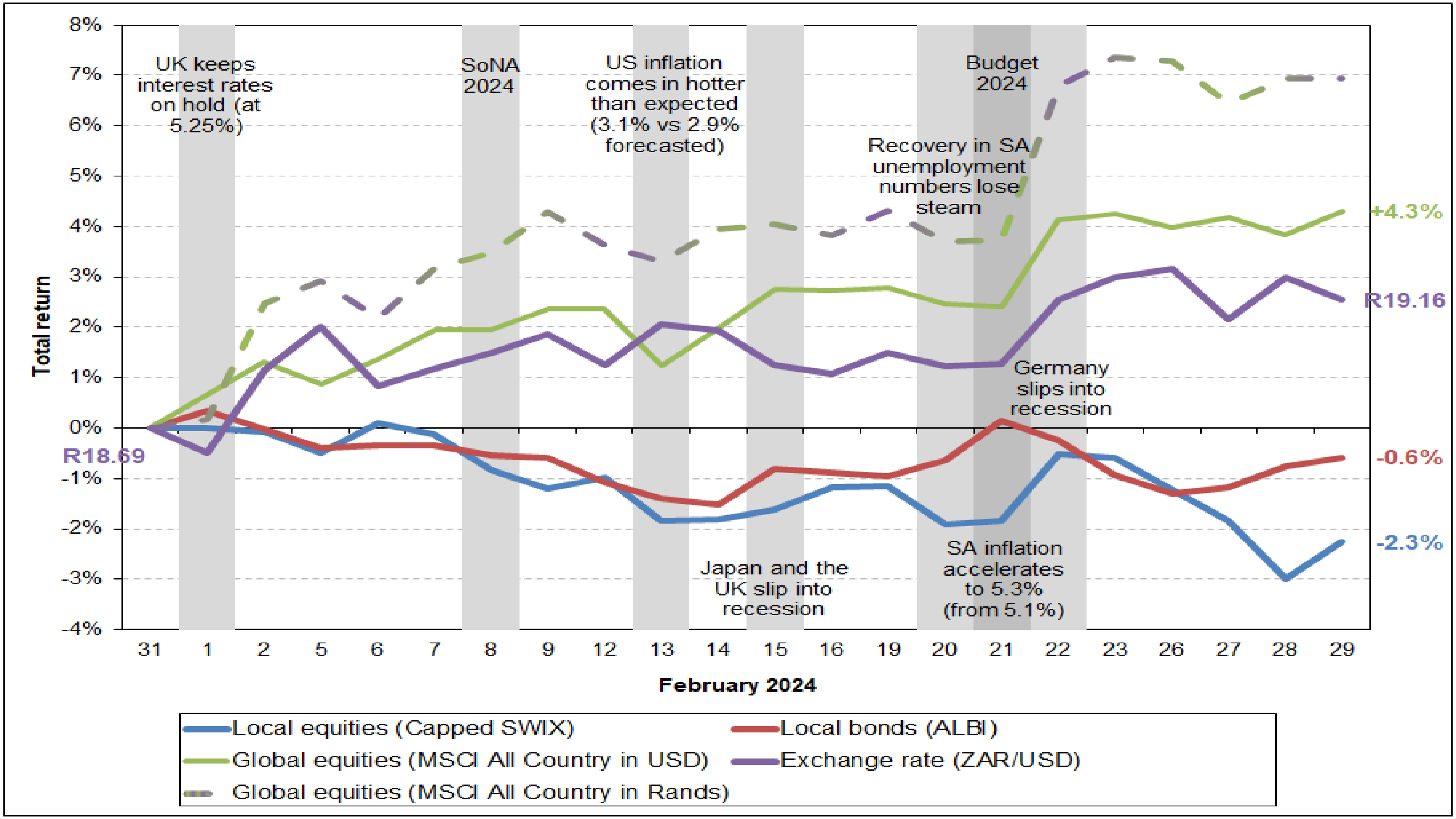
FEBRUARY 2024

MONTHLY SNAPSHOT
NOTABLE EVENTS

- It was unfortunately another difficult month for the local equity market (-2.3%), with local stocks extending their year-to-date (YTD) losses to around 5%. While all of the major sectors were under pressure, Resources (-6.9% in February and -12.8% YTD) have been the main detractor, largely on the back of lower PGM prices.
- Global equity markets on the other hand continued to make gains, delivering a return of +4.3% in US dollars (USD) for the month. Emerging markets (+4.8% in USD) made a bit of a comeback following a strong return of +8.4% (in USD) from China on the back of some long-awaited stimulus measures. YTD global equities have now delivered a solid USD return of +4.9%.
- With a number of global inflation prints coming in hotter than expected, markets have toned down their optimistic expectations for interest rate cuts this year, putting pressure on global bond markets. It was thus another negative month for this asset class (-1.3% in USD), bringing its YTD return to -2.8% in USD.
- Local bonds weren’t immune to the pressures this asset class is facing globally (-0.6% in February), but remains in the green YTD (+0.1%).
- With the rand also remaining under pressure in 2024 (weakening by 2.5% in February and 4.7% YTD against the USD) the global equity market continues to be the best performing asset class for local investors, sporting returns of +6.9% for the month and +9.8% YTD. Global bonds have delivered rand returns of +1.2% and +1.7% respectively over the same periods.
- It is thus largely due to global markets that the average balanced fund * has been able to avoid losses in 2024, delivering returns of +0.8% in February and +0.6% YTD.
- The SA economy narrowly managed to avoid a technical recession, growing by 0.1% in 2023 Q4 after contracting by 0.2% in Q3. Growth for the year was just 0.6% however, and the economy is still only about the same size it was back in 2019. Over the last decade our economy has grown by an average of just 0.8% p.a., compared to an average of 3.4% in the decade prior. We’re not the only underperforming economy though, with Japan, Germany and the UK recording negative real GDP numbers in Q3 and Q4 of 2024, thus slipping into recessionary territory.
- Local business and consumer confidence remain in depressed territory according to recent surveys. On the business side the latest reading of 30 in 2024 Q1 (down from 31 in the previous quarter) implies that 7 out of 10 respondents are unsatisfied with prevailing business conditions. On the consumer side confidence improved marginally from -17 to -15 (zero is the neutral level) due to lower levels of loadshedding and a deceleration in food inflation, but remains near its historic absolute lows.
- Local inflation accelerated to 5.6% in February (up from 5.3% in January and 5.1% in December), prompting the South African Reserve Bank to keep the repo rate unchanged at 8.25% at their March meeting.

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

MONTHLY TIMELINE
IMPACT ON THE MARKETS



Source: Iress

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MARKET INDICATORS
SHORT TERM

Market indicators (% change) [1]		Dec 2023	Jan 2024	Feb 2024	3 months	YTD	12 months
Local equities	ALSI	2.0	-2.9	-2.4	-3.4	-5.3	-2.9
	Capped SWIX	2.9	-2.8	-2.3	-2.3	-5.0	-2.0
	Resources	-0.0	-6.3	-6.9	-12.8	-12.8	-17.3
	Industrials	0.7	-1.2	-0.7	-1.3	-1.9	-0.2
	Financials	5.3	-3.2	-1.2	0.7	-4.3	8.0
	Listed Property	9.9	4.1	0.8	15.3	4.9	17.6
Local bonds	ALBI	1.5	0.7	-0.6	1.6	0.1	7.6
Local cash	STeFI Composite	0.7	0.7	0.7	2.1	1.4	8.3
Global equities	MSCI All Country	1.7	2.7	6.9	11.7	9.8	28.5
Global bonds	FTSE WGBI	1.1	0.5	1.2	2.9	1.7	6.9
Exchange rate	ZAR/USD	-3.0	2.1	2.5	1.6	4.7	4.4
Inflation	CPI	0.0	0.1	1.0	1.1	1.1	5.6

1. *Total returns (in Rands) for the months and periods ending 29 February 2024.*

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	-2.9	7.5	9.3	7.9	13.1	13.4
	Capped SWIX	-2.0	7.8	7.0	6.4	-	-
	Resources	-17.3	-2.0	8.9	4.3	7.2	8.6
	Industrials	-0.2	7.9	10.2	8.0	15.5	16.1
	Financials	8.0	17.0	5.0	7.4	13.2	12.6
	Listed Property	17.6	14.8	0.6	3.7	8.6	12.9
Local bonds	ALBI	7.6	7.2	7.8	8.1	8.3	8.5
Local cash	STeFI Composite	8.3	5.9	6.0	6.5	6.4	7.0
Global equities	MSCI All Country	28.5	15.5	17.5	14.8	16.9	13.5
Global bonds	FTSE WGBI	6.9	0.7	4.2	5.0	5.3	7.3
Exchange rate	ZAR/USD	4.4	8.2	6.3	5.9	4.4	5.4
Inflation	CPI	5.6	6.1	5.1	5.1	5.2	5.5

1. *Total returns (in Rands) for the months and periods ending 29 February 2024.*

Source: Iress

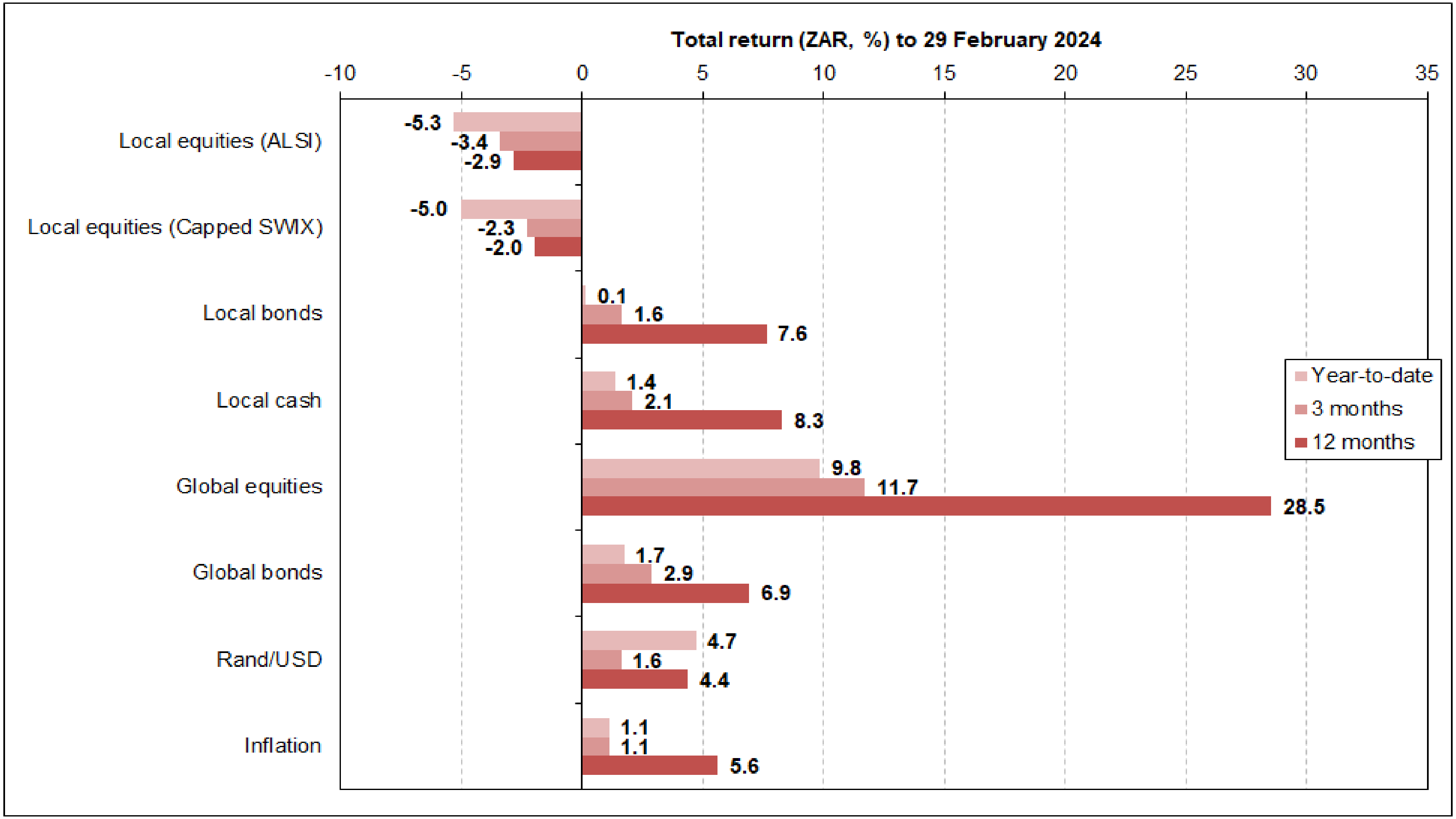
ECONOMIC INDICATORS

Economic indicators [1]	Feb 2022	Feb 2023	Dec 2023	Jan 2024	Feb 2024
Exchange rates:					
ZAR/USD	15.37	18.36	18.30	18.69	19.16
ZAR/GBP	20.62	22.07	23.30	23.71	24.22
ZAR/Euro	17.24	19.42	20.20	20.21	20.73
Commodities:					
Brent Crude Oil (USD/barrel)	97.97	83.45	77.04	80.55	81.91
Platinum (USD/ounce)	1,057.00	953.59	986.75	931.50	877.89
Gold (USD/ounce)	1,895.70	1,811.06	2,062.89	2,039.15	2,037.31

1. *Month-end prices*

Source: Iress

ASSET CLASS PERFORMANCE
SHORT TERM



Source: Iress

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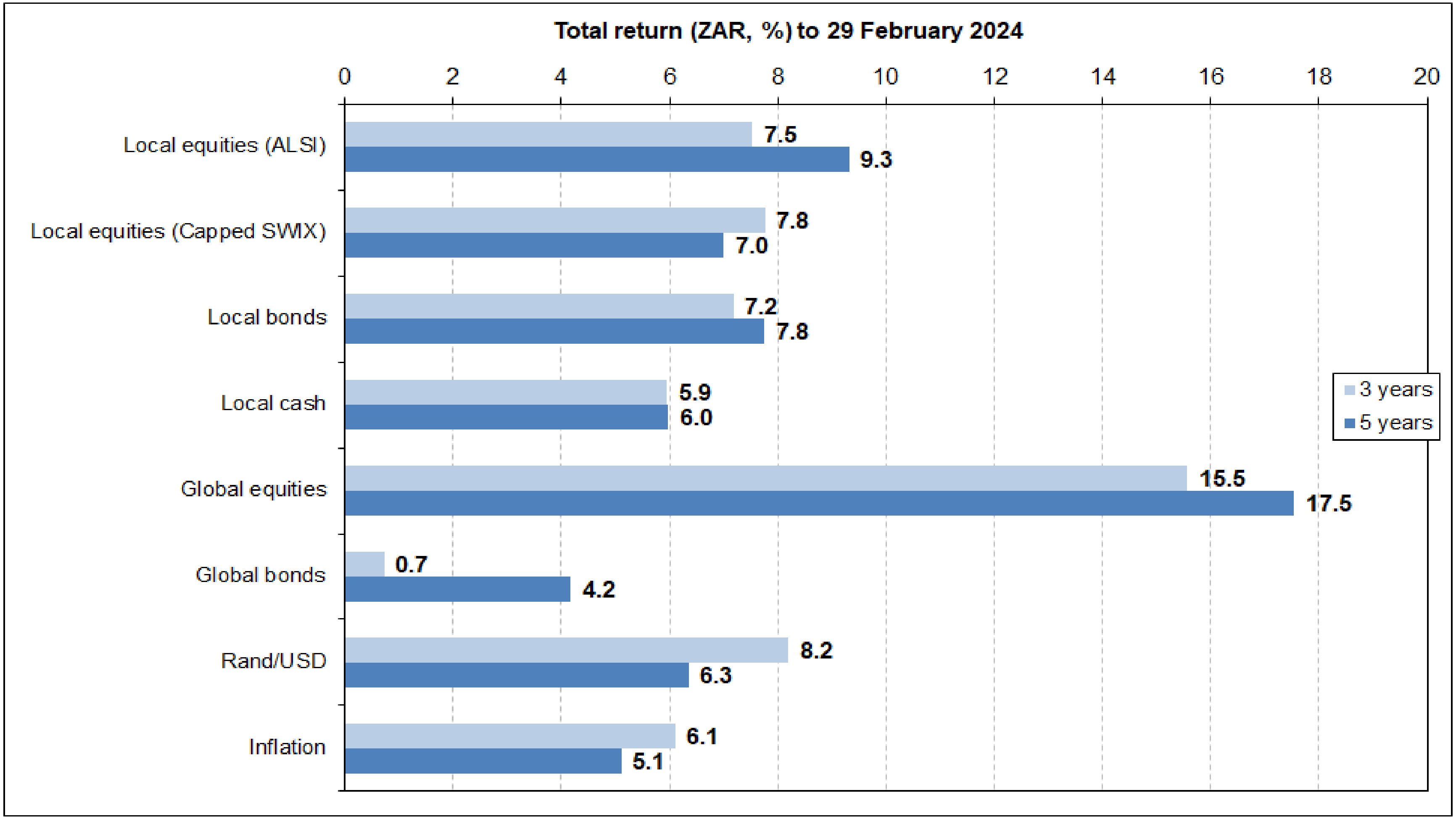
ASSET CLASS PERFORMANCE
MEDIUM TERM



Source: Iress

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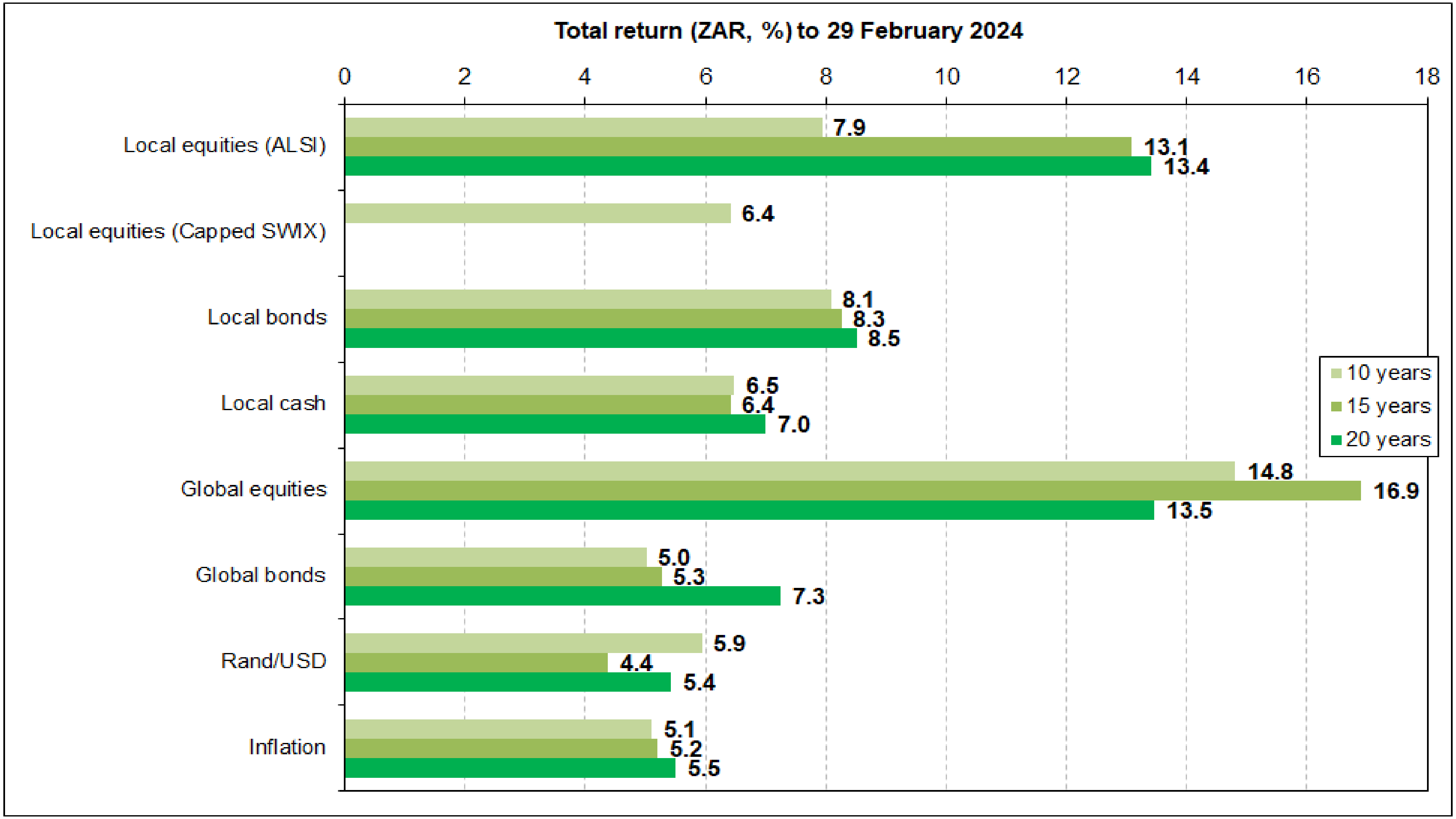
ASSET CLASS PERFORMANCE
LONG TERM



Source: Iress

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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

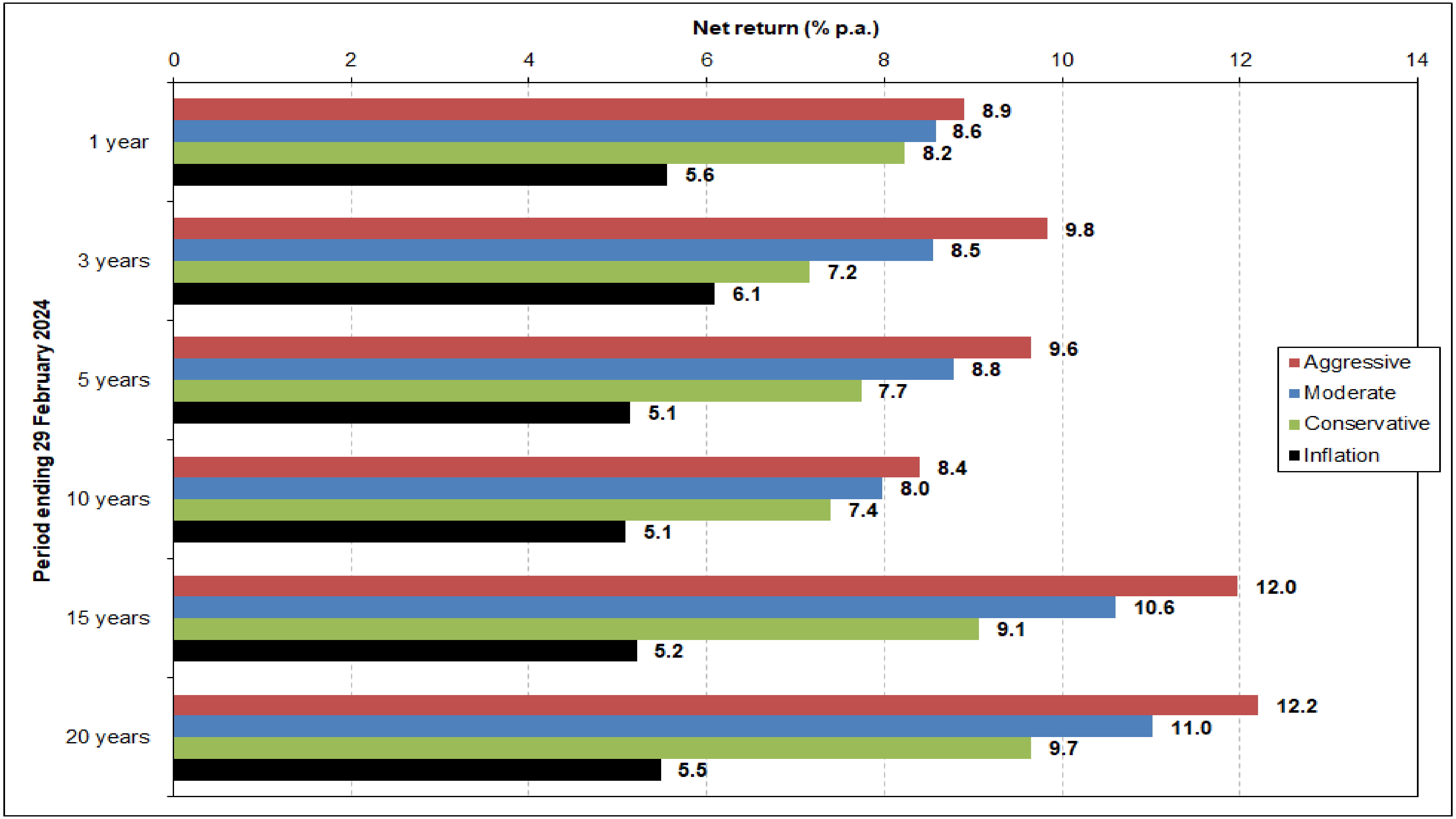
Strategic allocation					
LOCAL VS OFFSHORE	60%			40% (5% below regulatory maximum)	
GROWTH VS INCOME ASSETS	55%	45%		55%	45%
EQUITIES VS BONDS VS CASH	100%	55%	45%	100%	100%
Current allocation	~33%	~15%	~12%	~22%	~18%

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

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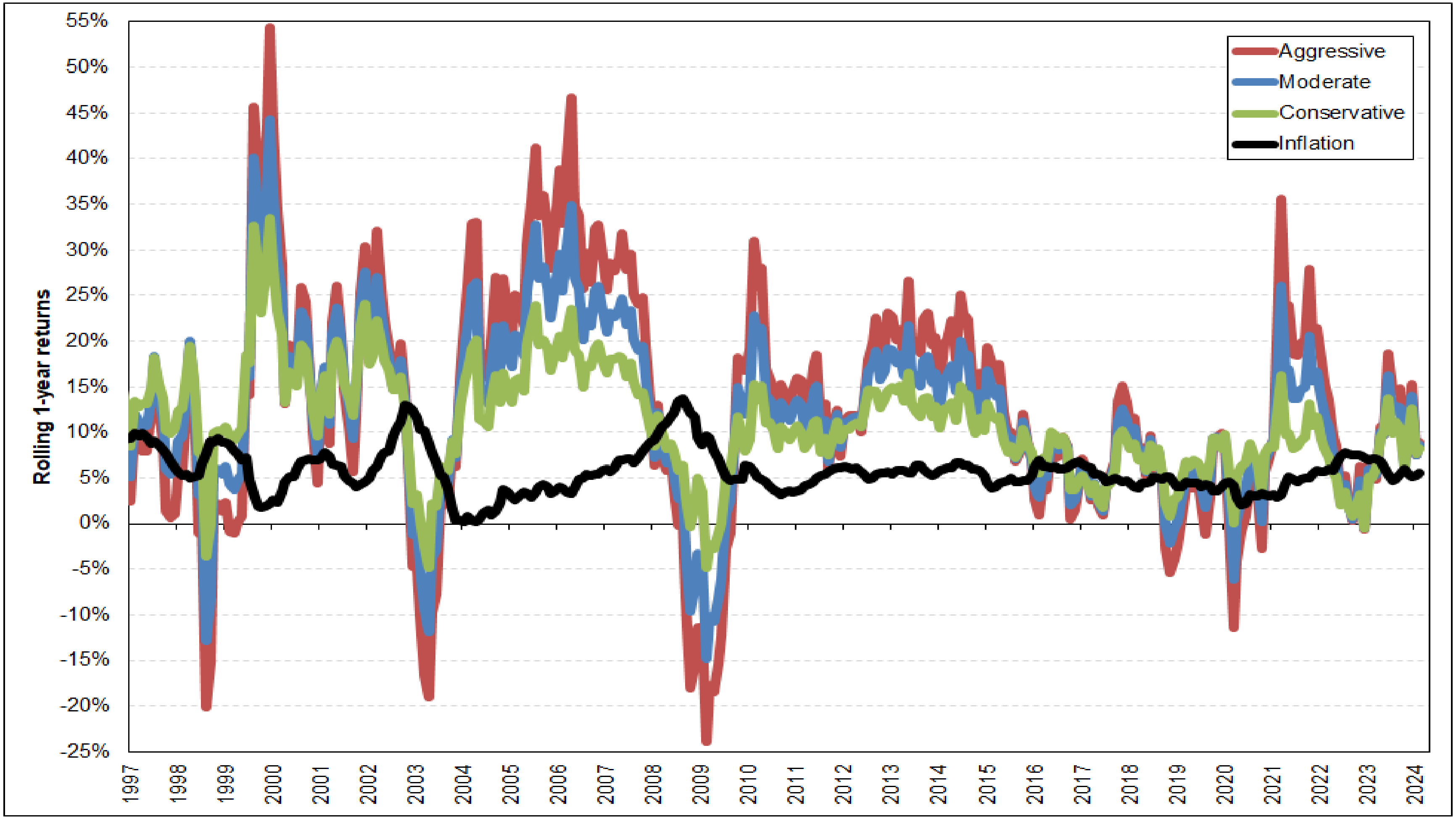
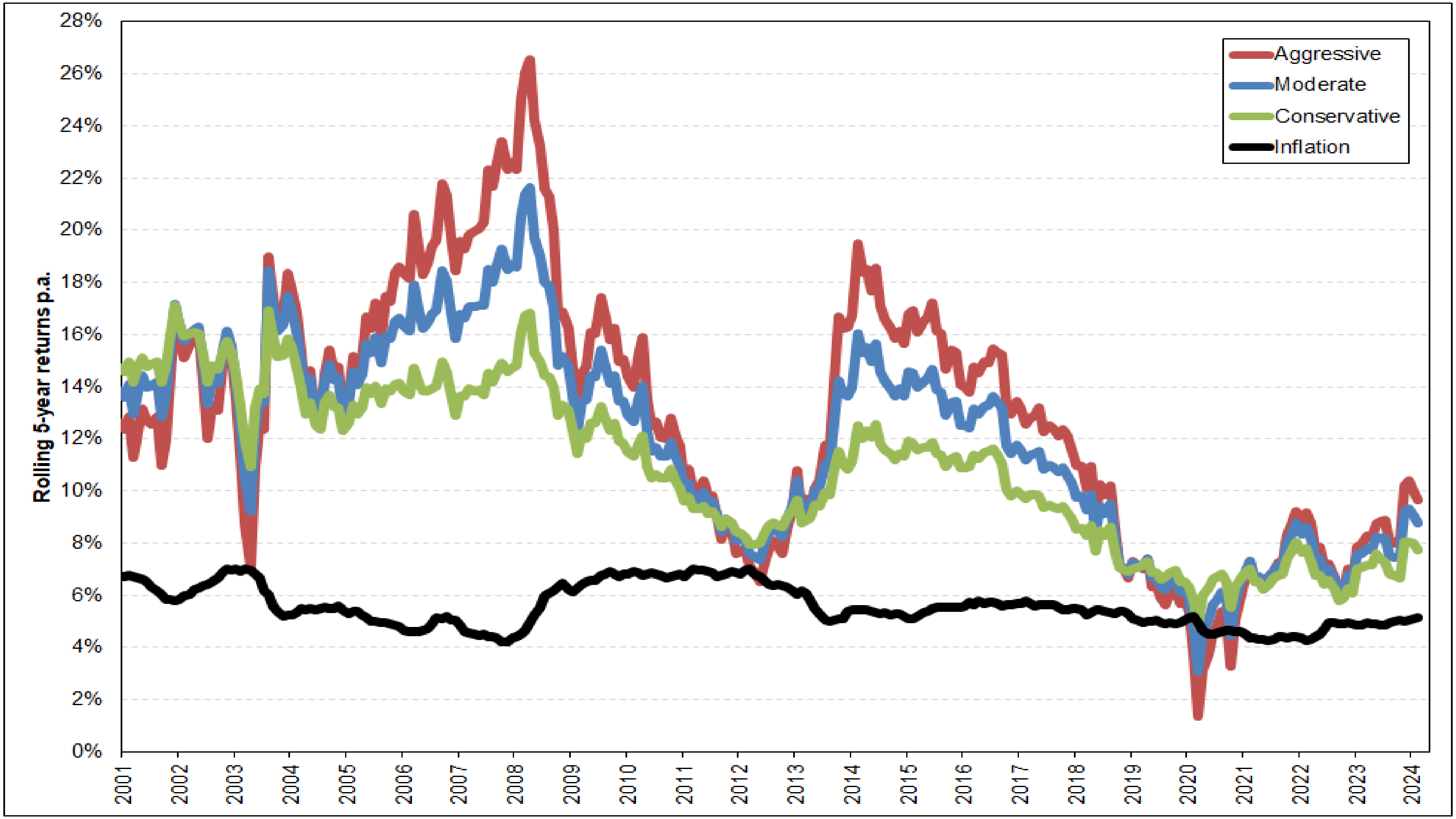
MARKET PERFORMANCE
ROLLING 1-YEAR RETURNS



Source: Iress

MARKET PERFORMANCE

ROLLING 5-YEAR RETURNS



Source: Iress

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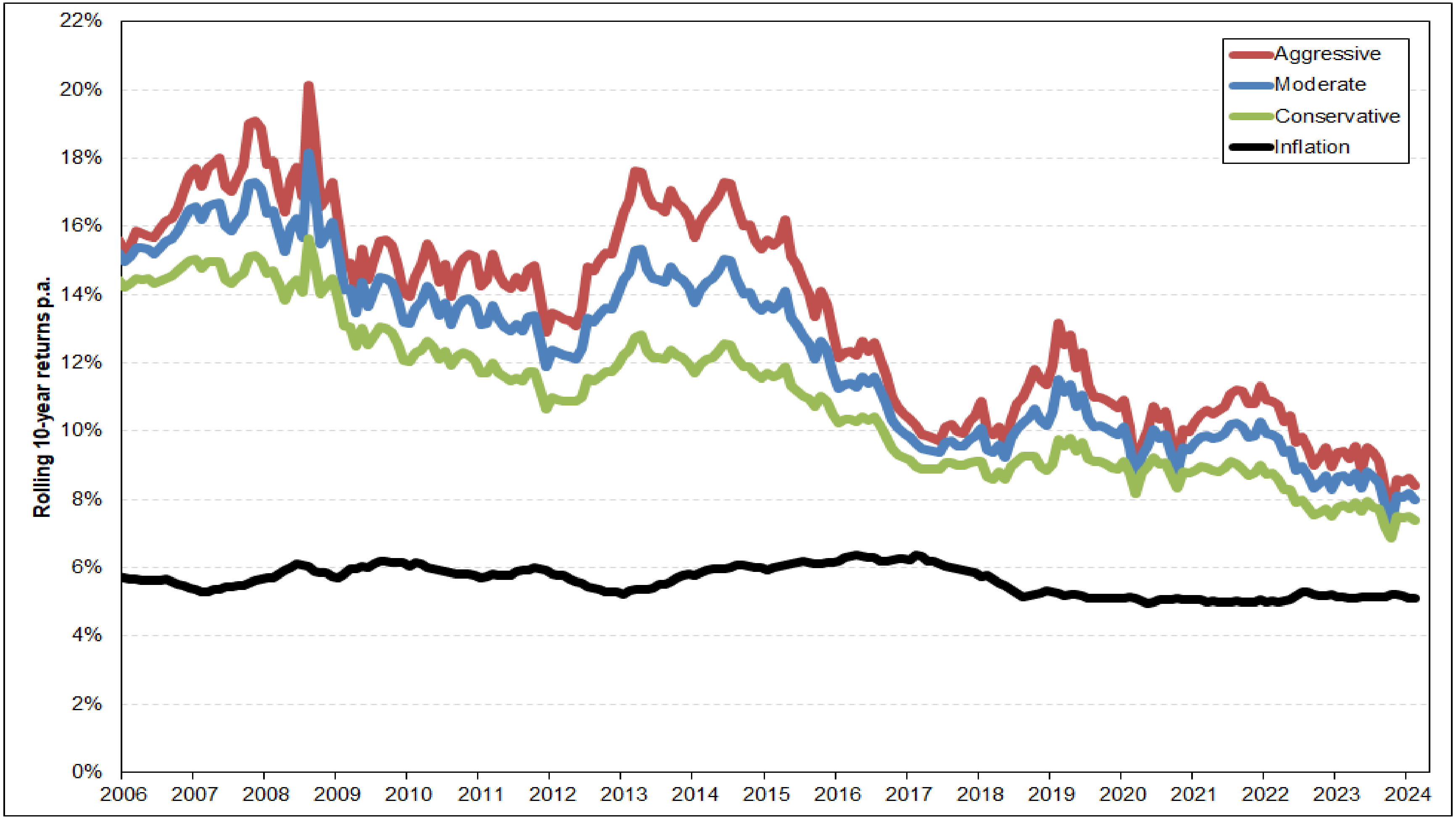
MARKET PERFORMANCE
ROLLING 10-YEAR RETURNS



Source: Iress

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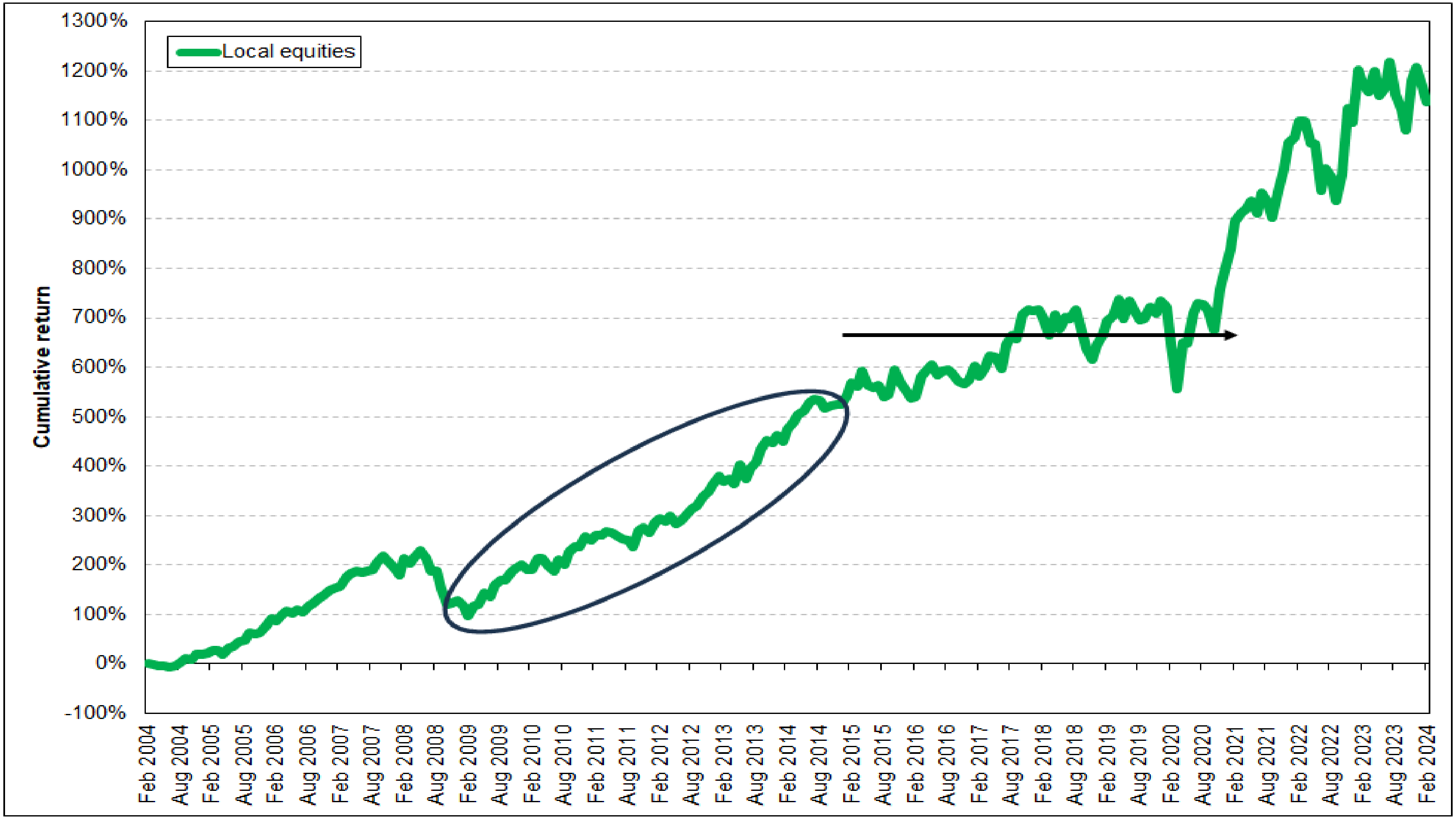
LOCAL EQUITIES
STRONG DERATING (SA STOCKS BECOMING CHEAPER) BEHIND POOR 10-YEAR RETURNS

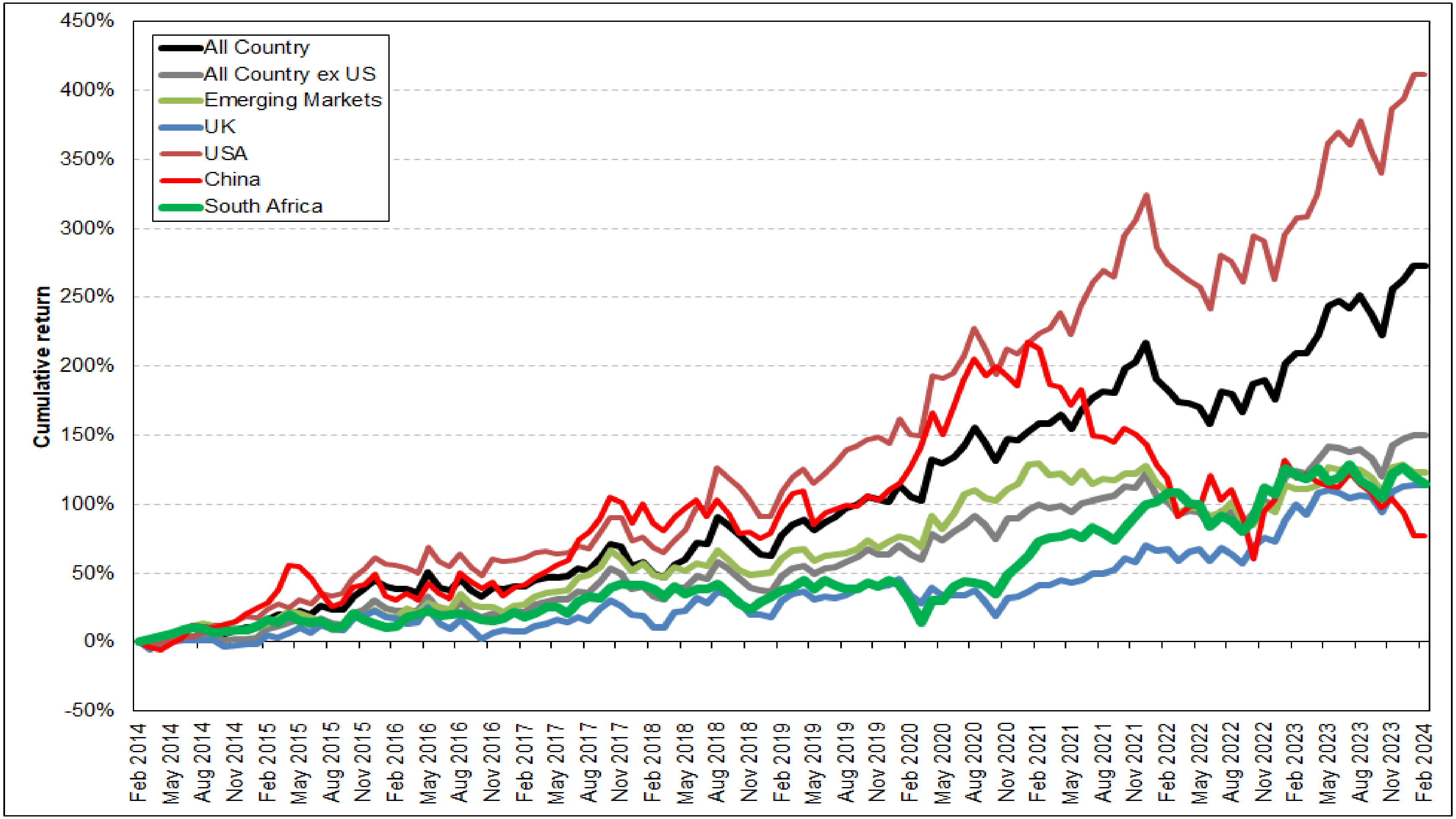
LOCAL EQUITIES
AS MARKET TRACKED SIDEWAYS FOR 5 YEARS FOLLOWING STRONG POST-GFC BULL RUN



Source: Iress

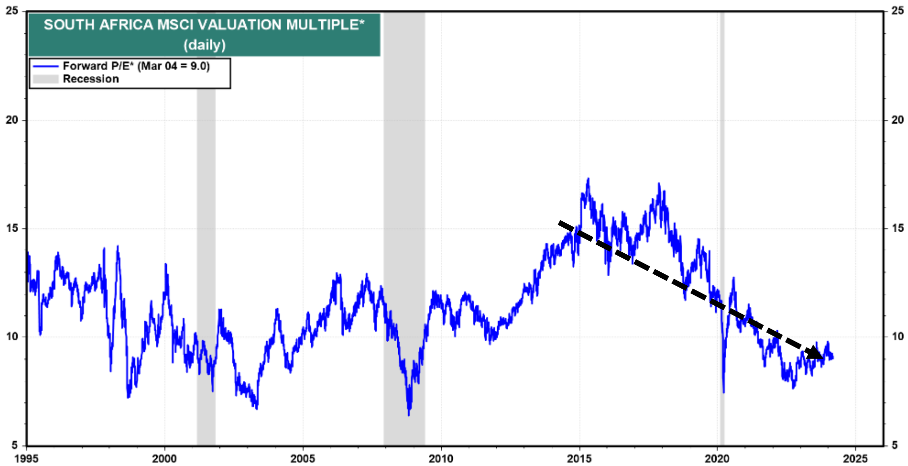
GLOBAL EQUITIES

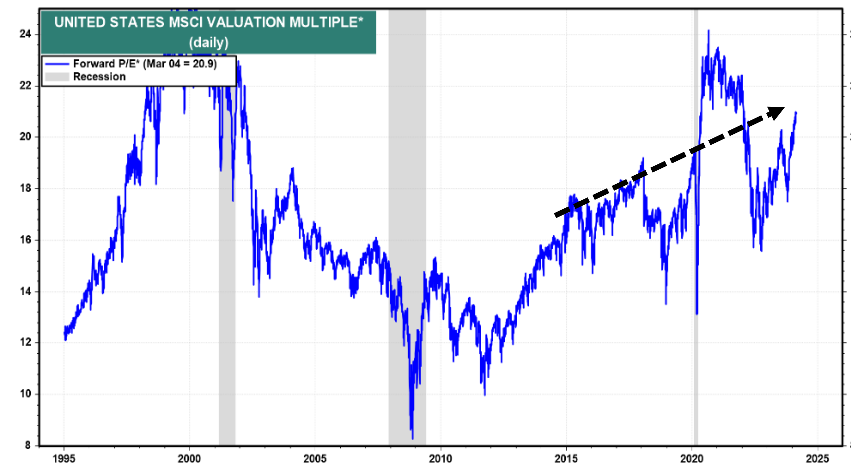
ALMOST EVERYONE, EXCEPT THE US, UNDERPERFORMED

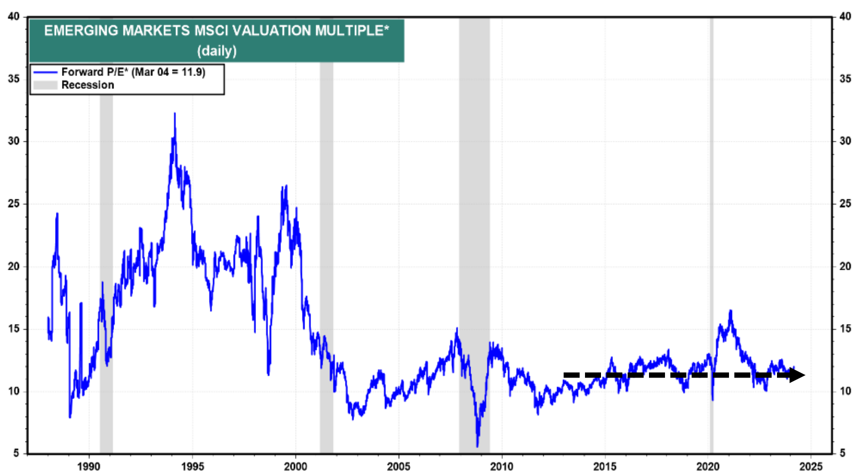


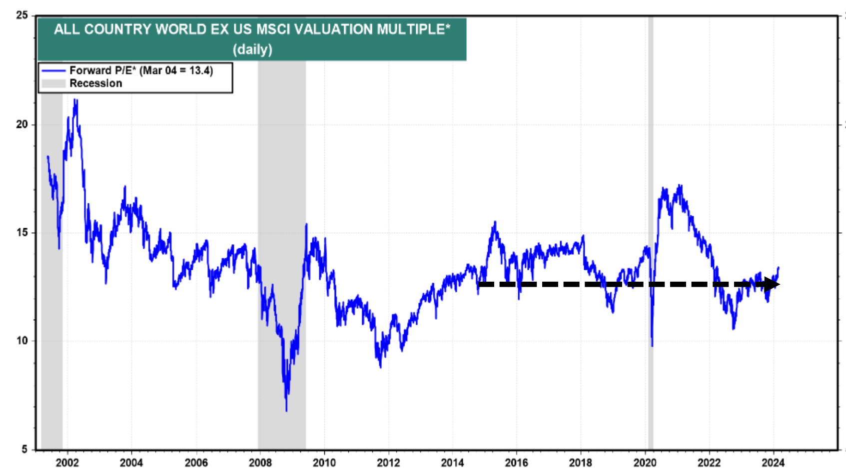
Source: Iress

GLOBAL EQUITIES
SA DERATES, US RERATES









Source: LSEG Datastream, Yardeni Research

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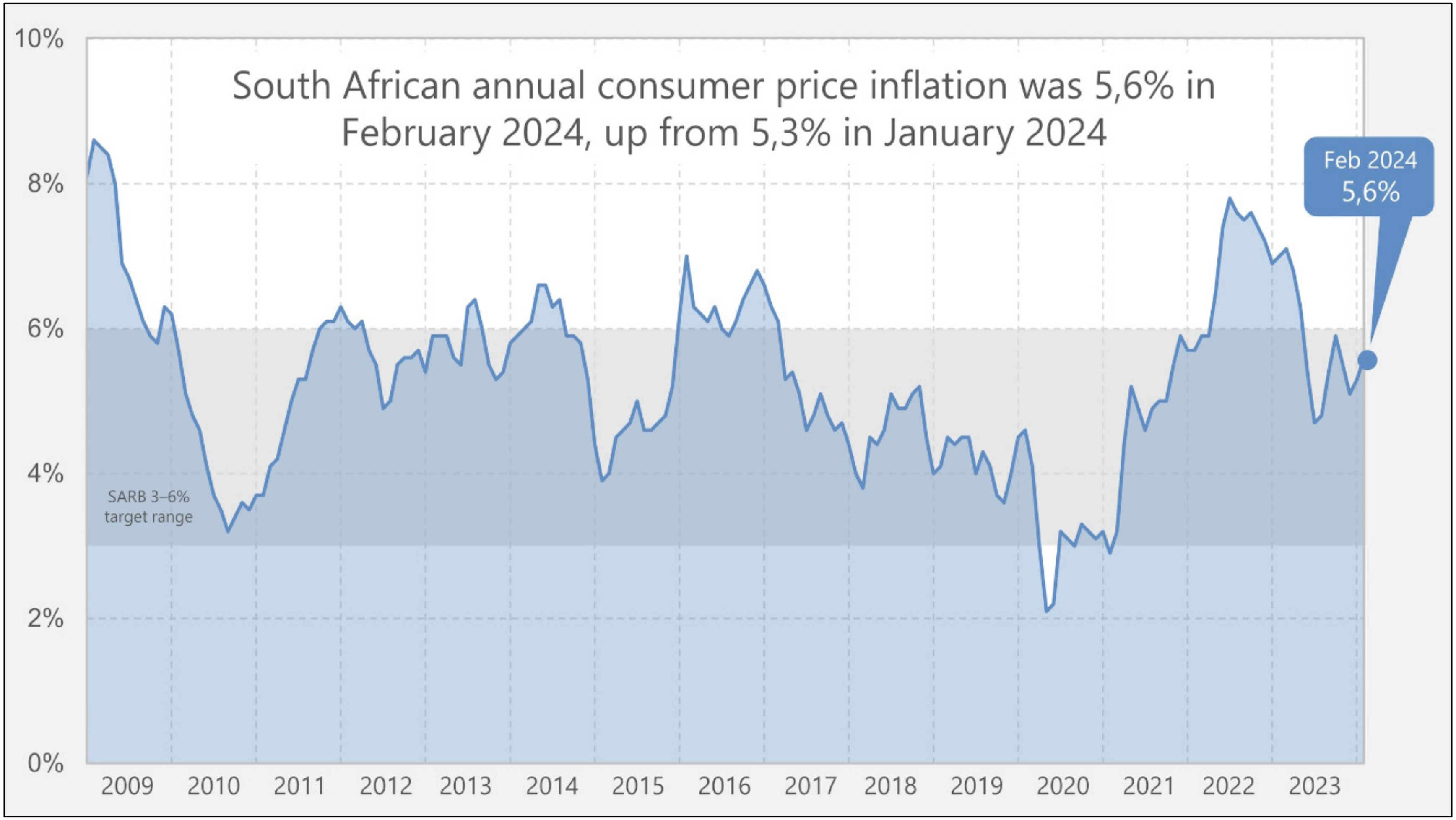
SA INFLATION
ACCELERATES TO 5.6% in FEBRUARY



Source: StatsSA

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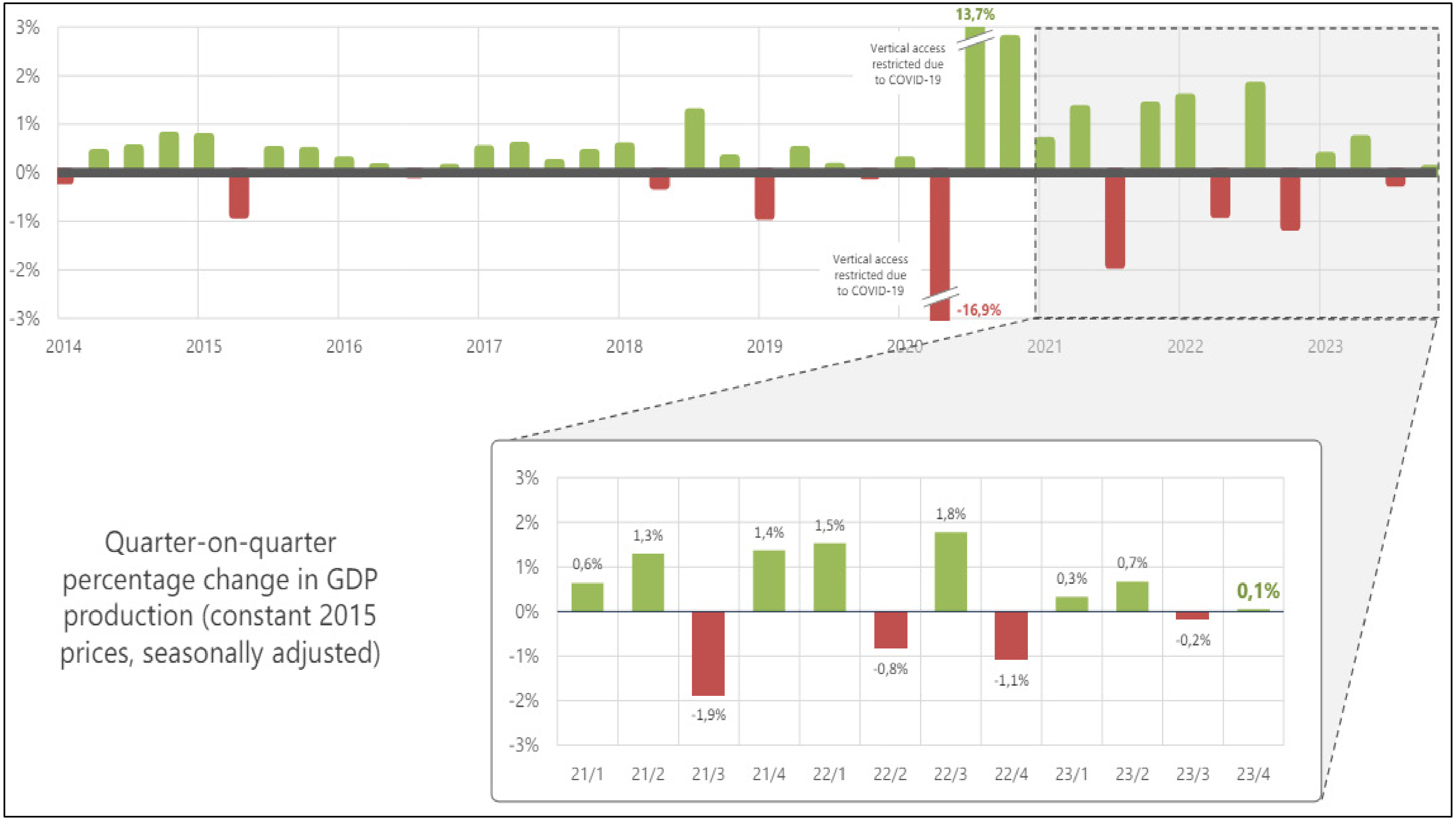
SA ECONOMY

GROWS BY 0.1% IN 2023 Q4, NARROWLY AVOIDS TECHNICAL RECESSION



Source: StatsSA

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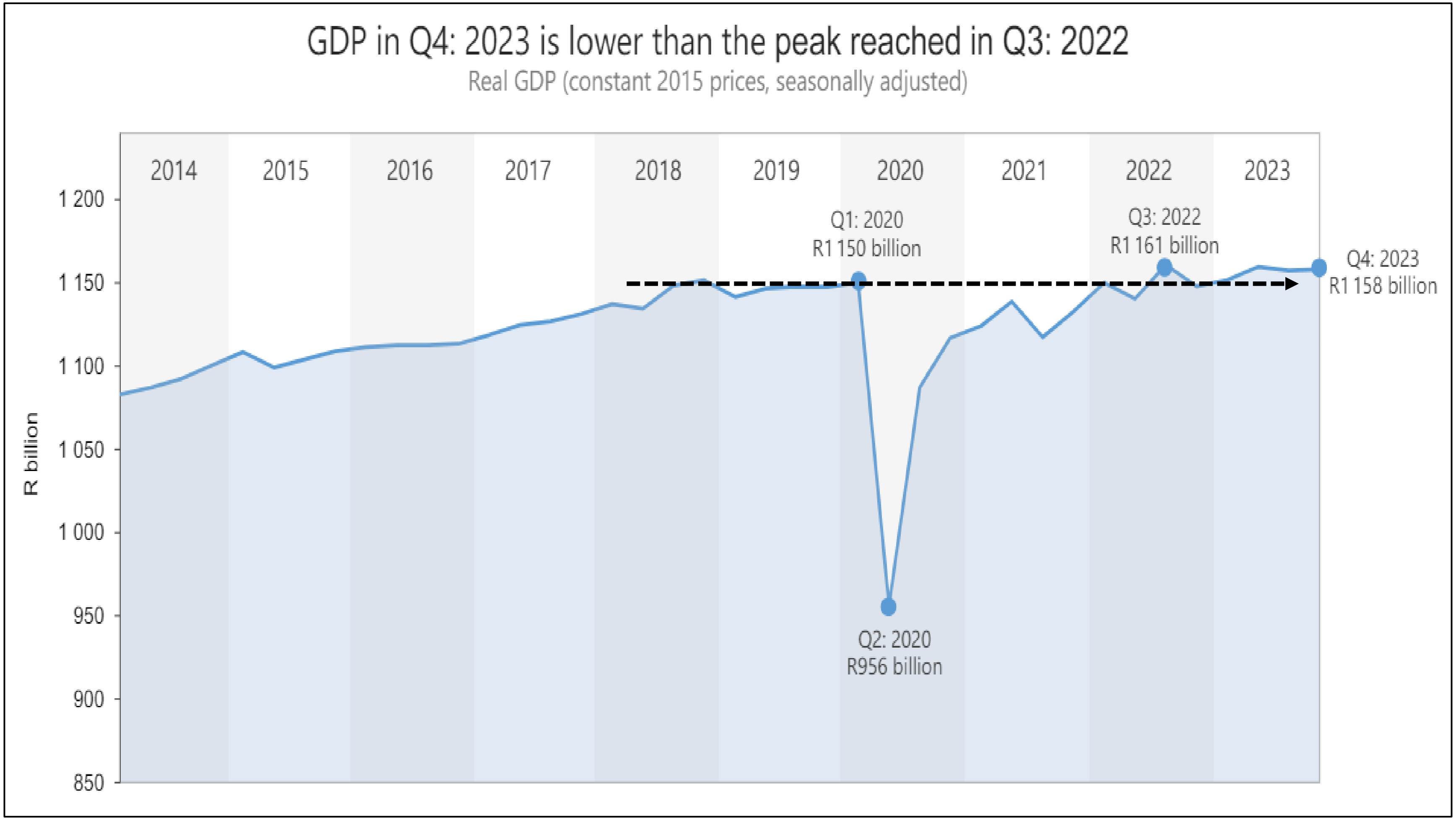
SA ECONOMY
BUT STAGNATION CONTINUES



Source: StatsSA

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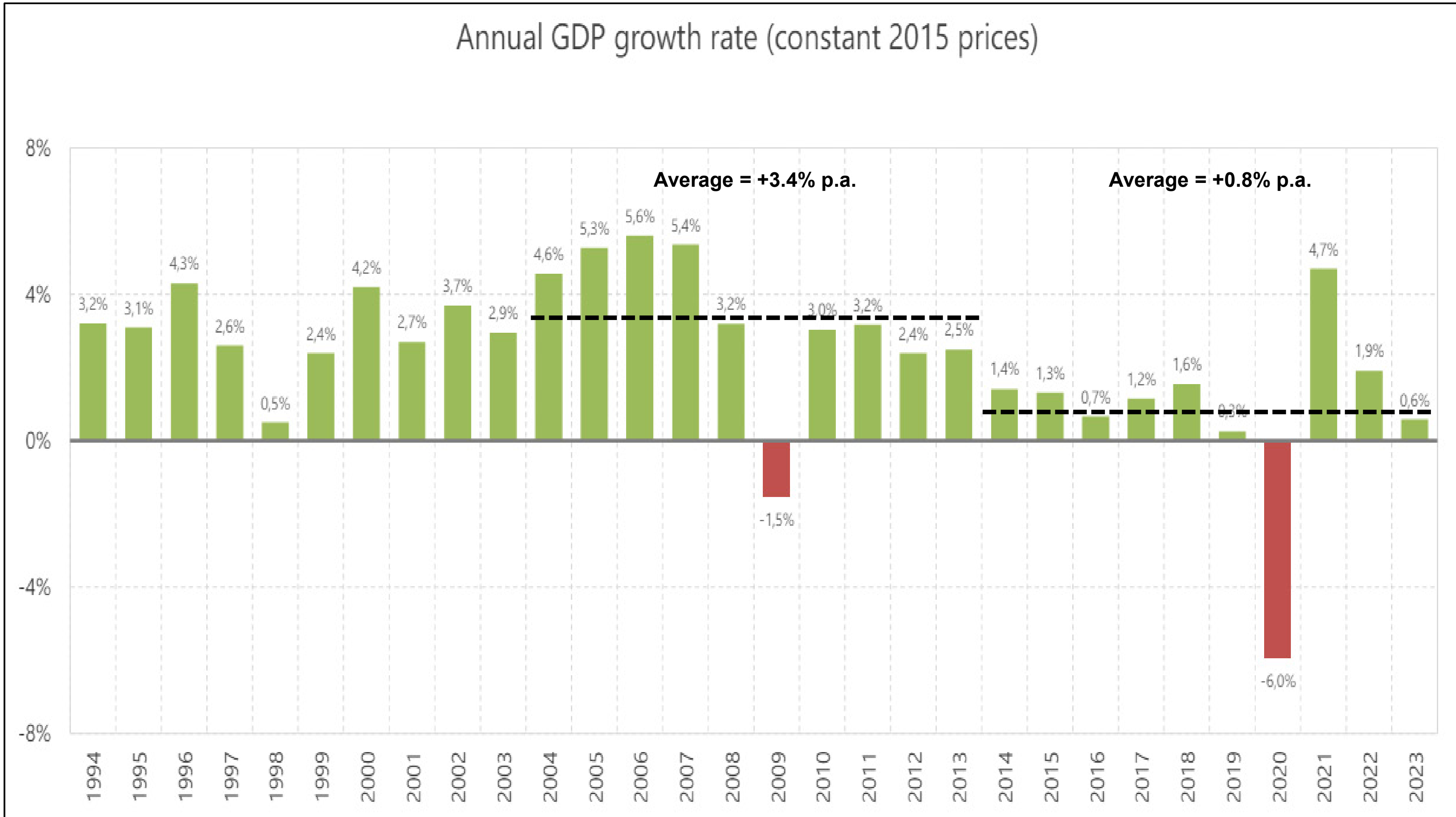
SA ECONOMY
GROWS BY 0.6% IN 2023



Source: StatsSA

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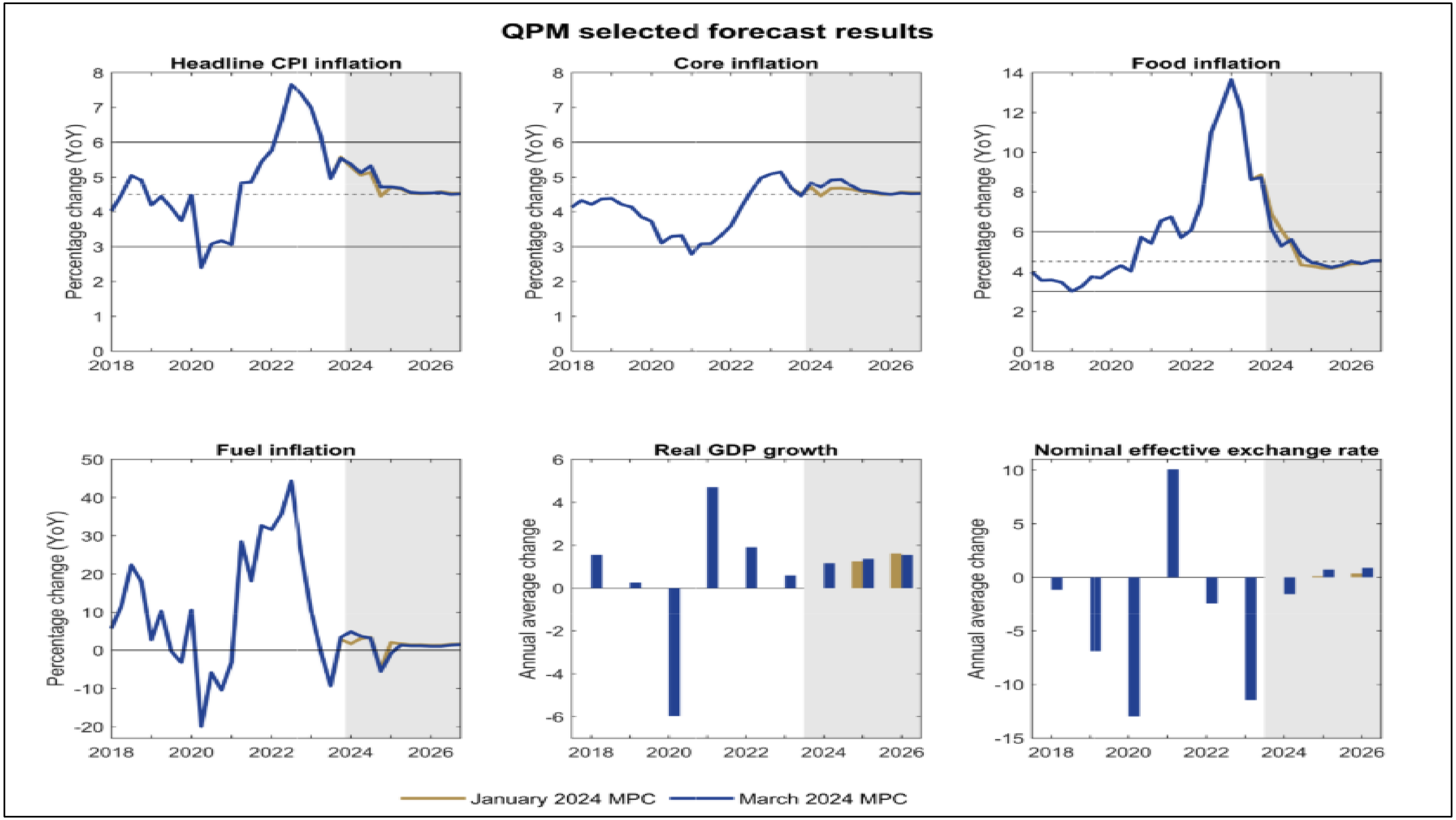
SARB FORECASTS

INFLATION TO SETTLE NEAR TARGET OF 4.5% IN 2025, ECONOMIC GROWTH TO REMAIN UNIMPRESSIVE



Source: SARB

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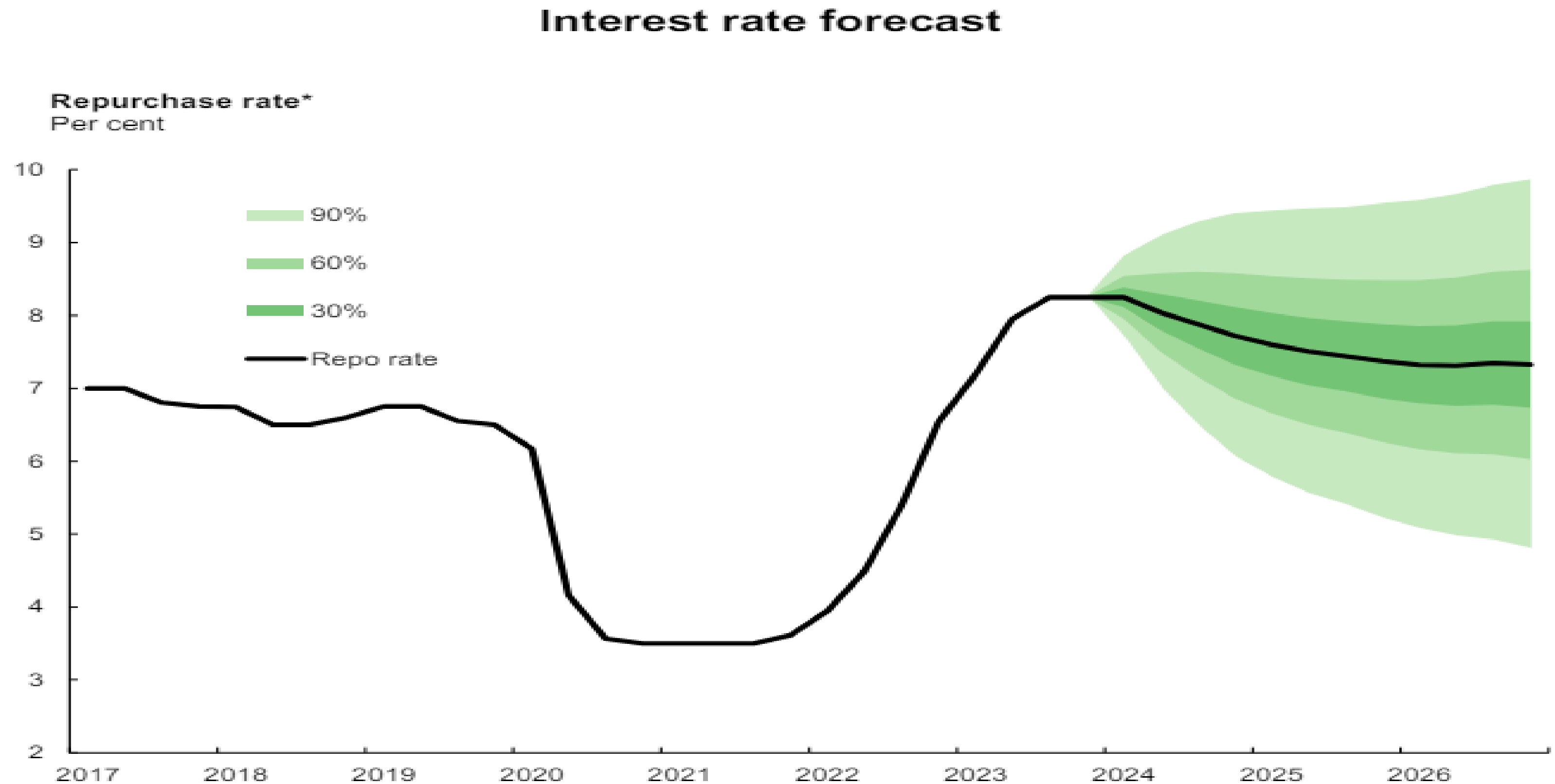
SARB FORECASTS

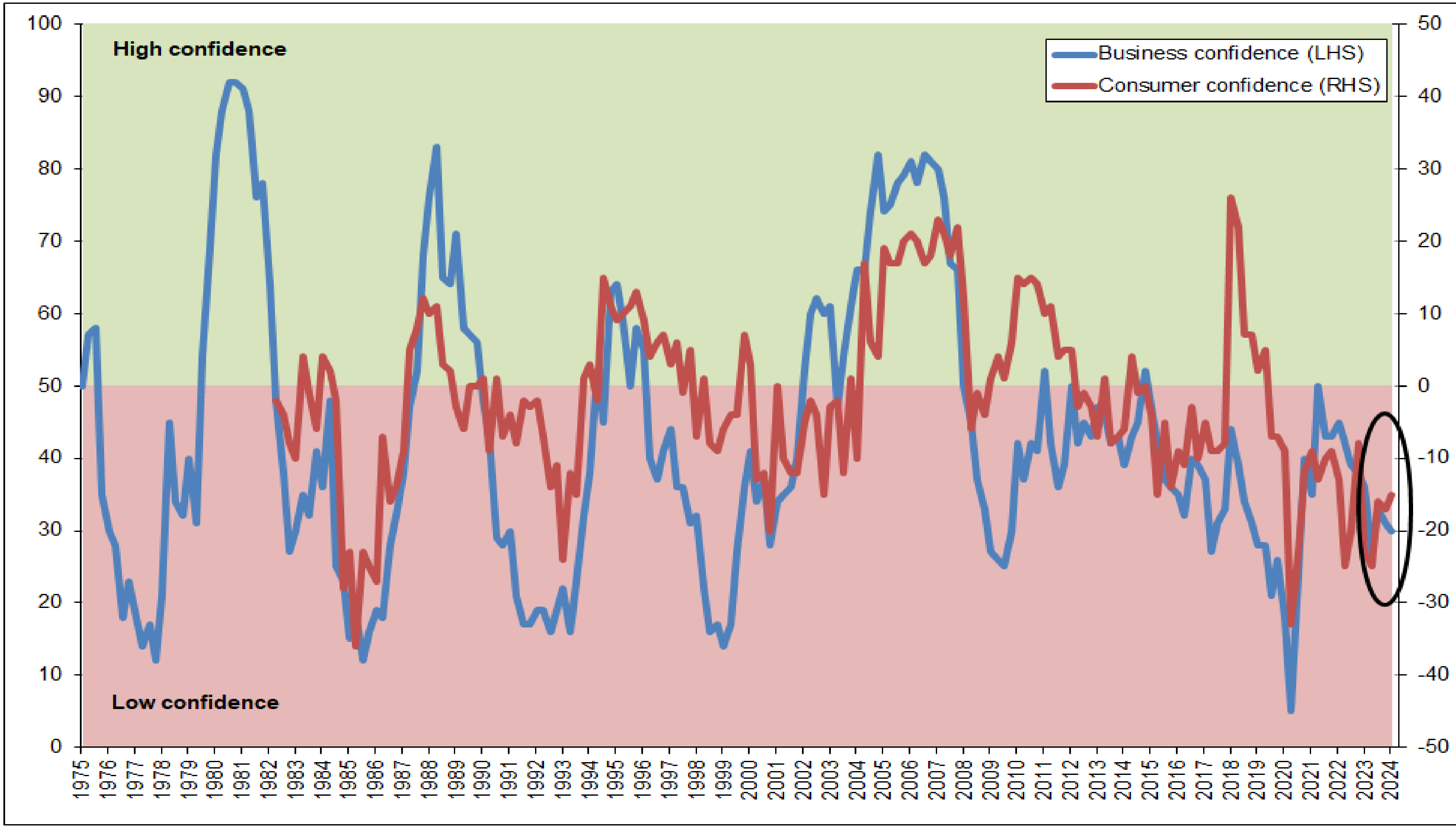
REPO RATE EXPECTED TO DROP BY 75-125 BASIS POINTS IN THE MEDIUM TERM



*The uncertainty bands for the repo rate are based on historical forecasting experience and stochastic simulations in the Quarterly Projection Model (QPM). The bands are symmetric, and therefore do not reflect any assessment of upside or downside risk. For details on the QPM see 'Enhancing the Quarterly Projection Model', South African Reserve Bank Working Paper Series No. WP/23/05, June 2023.

Source: SARB

SA CONFIDENCE
REMAINS IN THE DOLDRUMS



Source: BER, FNB, RMB

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