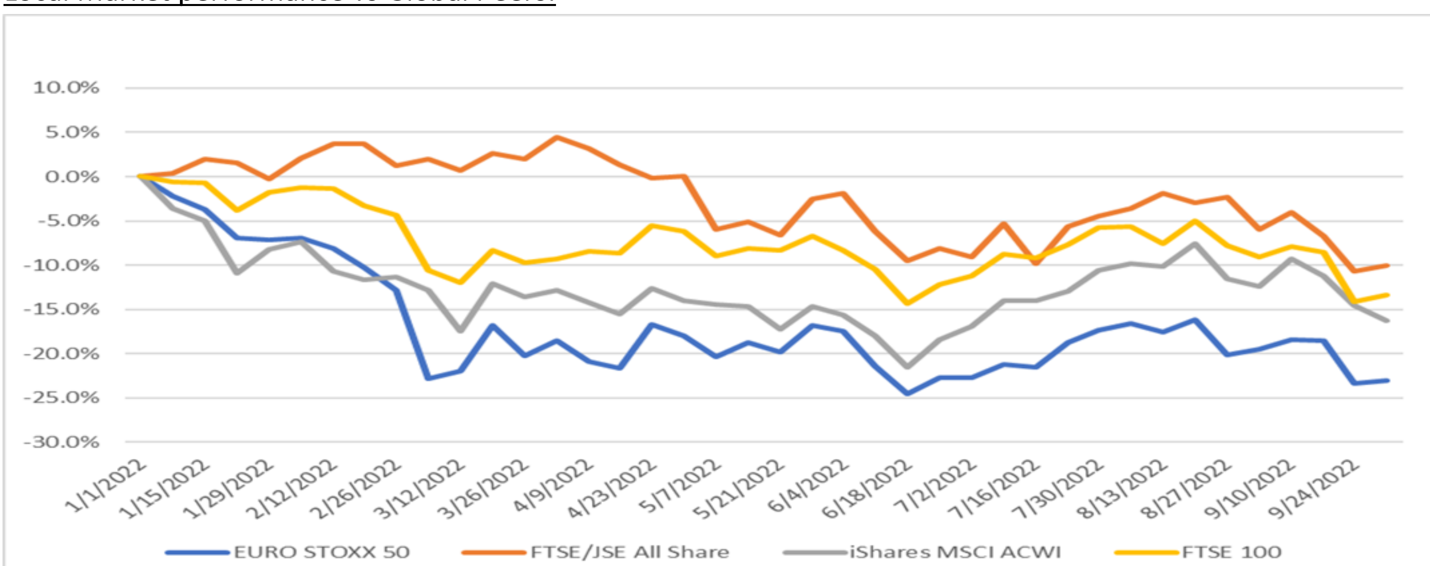
South African Market

Local equites followed global peers lower for a second consecutive month, with the FTSE/JSE All Share Index down (4.13%) for September. Industrials were the worst performing sector, losing (7.3%), followed by financials and resources with (7.2%) and (0.1%) respectively. Mining production dropped for a sixth consecutive month as continued power outages hindered industrial activities. The crippling power cuts, coupled with a weakening Rand, due to concerns over the looming global recession, have seen investors take a dim view of South Africa's growth prospects. The growth outlook for 2023 is estimated to decline further to 1.5%, with higher interest rates and lower global growth reducing aggregate demand locally. Local bonds had a negative month (2.11%) causing many Multi-Asset Low Equity and Income funds to underperform for the month.

On the inflation front, annual CPI eased to 7.6% in August, down from 7.8% in July but missing consensus expectations of a drop to 7.5%. The drop was expected due to the recent decline in key food and fuel prices. Despite this, the economic headwinds that South Africans continue to face show no signs of easing as the repo rate (repurchase agreement rate) was increased. The South African Reserve Bank still see upside risks to the inflation outlook and thus raised interest rates by 75 basis points at their meeting in September. This brings the repo rate to 6.25% and the prime lending rate to 9.75%. This was the 6th consecutive hike since policy normalization started in November 2021. SARB governor Kganyago outlined that there will be a need to continue raising borrowing costs, even after hiking interest rates faster than its modelling suggested necessary. The current rate of 6.25% matches the level seen back in January 2020, before lockdowns and supply-chain disruptions prompted unprecedented easing.

The following graph shows how the FTSE/JSE ALSI has performed YTD against global peers. Although the ALSI is down YTD (10.06%), it has outperformed most major international markets. This is a small silver lining for domestic equities as global markets are taking a beating.

<u>Local Market performance vs Global Peers:</u>



Graph is denoted in ZAR

Eskom, the struggling power utility, had for most of September plunged the country into severe stage 4-6 rotational loadshedding as a number of its ageing coal-fired power plants experienced unplanned breakdowns. The challenges at Eskom have resulted in untold economic devastation as industry functions at a stop-start pace, with the cell towers of the country's biggest mobile operators and water pumps at municipal reservoirs severely impacted. In 2022 alone the country has experienced 1,949 hours of combined loadshedding (81 days). This is significantly higher than the 1,153 hours (48 days) in 2021 and the 844 hours (35 days) in 2020.

Over the past 12 months, the Rand has depreciated 20% against the US dollar and 13.31% YTD. Starting 2022 at ZAR 15.92 to the USD, the Rand has depreciated to a month end rate of over ZAR 18/USD. A lot of this weakness comes down to investors taking a risk-off approach as turmoil hits global market confidence and the current load shedding crisis that South Africa is experiencing.

Asset Class Performances in ZAR

As of 30th September 2022	MTD	YTD	1 Year	3 Years*	5 Years*	10 Years*
Global Equity – MSCI ACWI	(4.71)	(16.07)	(5.51)	10.19	10.80	16.51
Global Property - FTSE EPRA NAREIT DR	(7.89)	(21.98)	(7.37)	(0.04)	6.24	12.65
Global Bond - JPM GBI Global Traded	0.30	(10.23)	(5.60)	(1.22)	2.97	6.46
Global Cash - ICE LIBOR 1 Month	5.70	13.67	20.61	6.55	7.21	8.98
SA Equity - FTSE/JSE All Share	(4.13)	(10.06)	3.55	9.18	6.49	9.47
SA Property - FTSE/JSE SA Listed Prop	(6.28)	(15.78)	(8.75)	(8.74)	(9.02)	1.25
SA Bond - BEASSA ALBI	(2.11)	(1.34)	1.48	5.74	7.13	6.74
SA Cash - STeFI Call Deposit	0.44	3.33	4.25	4.34	5.25	5.55

ZAR/USD (negative = Rand strength)	6.04	13.31	20.07	6.01	5.90	8.08
Gold	2.13	1.09	11.47	8.08	9.03	5.77
Brent Crude Oil	(3.88)	27.35	33.82	19.71	15.27	5.48

*Returns more than 1 year are annualized.

Global Markets

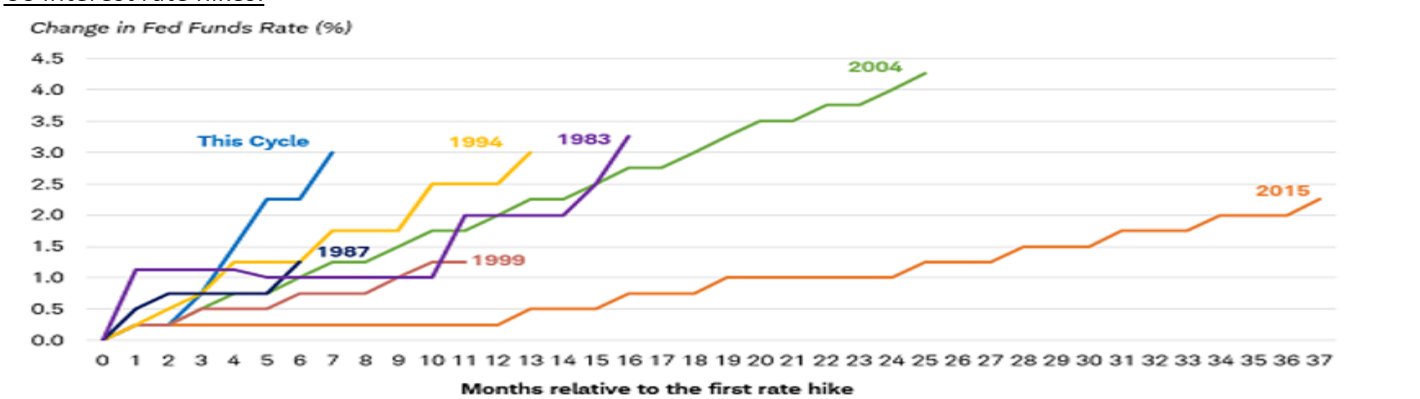
Global markets followed the same pattern as in August, with a positive start to the month hindered by more aggressive monetary policy tightening later. Consequently, the MSCI ACWI suffered its worst performance since the start of this year, ending the month of September down (9.63%). This has plunged the market back into bear market territory. Further pain was felt across markets in September as inflation numbers remained stubbornly high and continued to beat expectations globally. As a result, central banks of most major economies continued to hike interest rates, which forced markets to price in a more depressed growth outlook. Developed markets have fared better than their emerging counterparts, with the MSCI World Index losing (9.5%) as compared to (11.9%) for the MSCI Emerging Markets Index. The Nasdaq composite index, down (30.06%) YTD and the MSCI Global Growth Index,down (32.28%) YTD have taken the brunt of the market declines. Although both indicies are on track to post there first negative annual return since 2008, overall, the economic and business fundamentals for the underlying companies of these indicies remain strong.

During September, the US Federal Reserve increased its benchmark interest rate by an additional 75 basis points, bringing the total increase for the calendar year to 3%. The so-called ‘hawkish’ pivot towards the Fed putting up interest rates to combat inflation has – since January – been well documented, though the Fed’s own assumption of how high interest rates need to go before they stop hiking has shifted materially upwards from December 2021. At present, the Fed expects the target interest rate to be around 4% - 4.25% by the end of 2022 and around 4.5%-4.75% by the end of 2023. The Fed’s actions have also promted other central banks to act, and generally the world is now 7 months into a global rate hiking cycle. The full effect of tightening monetary policy is usually only observable with a lag of between 12 to 18 months, meaning it is still too early to tell what impact these successive round of hikes has on inflation, unemployment and global growth.

US inflation remains stubbornly high after annual CPI data showed an increase to 8.3% in August as compared with forecasts for a drop to 8.1%. However, the primary concern is the fact that core CPI, which excludes the effects of volatile items like food and energy, rose by 0.6% month-on-month in August, as compared to 0.3% in July. This highlights the fact that inflation has seeped into the stickier parts of the economy and may be harder to bring down than expected.

The following graph shows the speed at which the US has hiked rates in the past. The 2022 rate hike cycle is the fastest, reaching a 2.36 percentage point increase nearly twice as fast as the rate hike cycle of 1994.

<u>US Interest rate hikes:</u>



Note: Data is the short-term interest rate targeted by the Federal Reserve's Federal Open Market Committee (FOMC) as part of its monetary policy.
Source: Bloomberg, Federal Funds Target Rate – Upper Bound (FDTR Index), using monthly data. **Past performance is no guarantee of future results.**

Not much has changed in China as its zero-Covid policy continues to disrupt economic activity. According to a statement made by the World Bank, this, coupled with the housing market crisis has put China's economic growth behind the rest of Asia for the first time in over 30 years. It is now forecasting GDP growth of only 2.8% for China in 2022, as compared to the 5.3% expected for the rest of the South East Asian region.

The US dollar is scaling fresh two-decade highs nearly every day, which is keeping emerging market currencies on the back foot. With the US economy still relatively strong, and rates expected to keep rising, the dollar has been a natural beneficiary of flows. The trade-weighted dollar index gained 17% so far this year, including a 7% jump in the third quarter. The most notable casualty has been the British pound, falling to as low as 1.03/$, a level it has only hit before once, briefly in March 1985.

The central Bank of England has been hiking rates in response to near-double digit inflation. However, the administration of new Prime Minister Liz Truss announced a massive fiscal package that includes £60 billion to shield households from surging energy prices, and £45 billion in tax cuts. Moreover, the entire package is debt-funded. This means that while the Bank of England is trying to reduce credit demand to lower inflation, the government is going in the opposite direction, causing confusion and panic selling of government bonds in particular after the government announcements.

On the commodity front both Oil (8.84%) and Gold (3.14%) were down for the month as demand for oil slowed along with the global growth outlook and gold continued its YTD negative trend (10.23%).

Asset Class Performances in USD

As of 30th September 2022	MTD	YTD	1 Year	3 Years*	5 Years*	10 Years*
Global Equity – MSCI ACWI	(9.63)	(25.47)	(20.91)	4.12	4.64	7.78
Global Property - FTSE EPRA NAREIT DR	(12.65)	(30.71)	(22.46)	(5.55)	0.33	4.22
Global Bond - JPM GBI Global Traded	(4.88)	(20.28)	(20.98)	(6.66)	(2.76)	(1.51)
Global Cash - ICE LIBOR 1 Month	0.24	0.94	0.97	0.68	1.25	0.82
SA Equity - FTSE/JSE All Share	(9.08)	(20.13)	(13.32)	3.16	0.57	1.27
SA Property - FTSE/JSE SA Listed Prop	(11.12)	(25.21)	(23.61)	(13.77)	(14.07)	(6.34)
SA Bond - BEASSA ALBI	(7.17)	(12.39)	(15.05)	(0.09)	1.18	(1.26)
SA Cash - STeFI Call Deposit	(4.75)	(8.24)	(12.73)	(1.41)	(0.60)	(2.36)

ZAR/USD (negative = dollar strength)	(5.70)	(11.74)	(16.72)	(5.67)	(5.57)	(7.47)
Gold	(3.14)	(10.23)	(6.68)	2.12	2.96	(2.15)
Brent Crude Oil	(8.84)	13.09	12.02	13.11	8.86	(2.42)

*Returns more than 1 year are annualized.

STAR INVESTMENT PARTNERS

Historic Asset Class Performance Matrix

The below performance matrix shows returns (colour coded) for the 4 main indicative sources of return per asset class and separated for South Africa and Global. **All performance figures here shown in ZAR.** The performances show the one-year performance of each asset class up to the displayed date (X-axis) except for the column showing YTD returns up to 30th September 2022.

	YTD	9/2022	9/2021	9/2020	9/2019	9/2018	9/2017	9/2016	9/2015	9/2014	9/2013	9/2012	9/2011
Best	Global Cash 13.7	Global Cash 20.6	SA Prop-erty 54.4	Global Equity 21.1	Global Property 23.4	Global Equity 15.4	Global Equity 17.2	Global Property 17.0	Global Property 30.1	Global Equity 24.9	Global Equity 45.6	SA Prop-erty 37.2	Global Fixed Income 21.2
	SA Cash 3.3	SA Cash 4.2	SA Equity 23.2	Global Fixed Income 17.4	Global Fixed Income 16.5	Global Property 9.8	SA Equity 10.2	Global Equity 12.3	SA Prop-erty 25.8	Global Property 24.1	Global Property 31.4	Global Property 32.7	Global Cash 15.5
	SA Fixed Income -1.3	SA Equity 3.5	Global Property 18.8	Global Cash 11.1	SA Fixed Income 11.4	SA Fixed Income 7.1	SA Prop-erty 9.5	Global Fixed Income 8.9	Global Cash 22.6	SA Equity 15.4	SA Equity 27.0	Global Equity 24.9	Global Property 13.7
	SA Equity -10.1	SA Fixed Income 1.5	Global Equity 16.9	SA Cash 5.3	Global Cash 9.7	Global Cash 6.7	SA Fixed Income 8.2	SA Fixed Income 7.6	Global Fixed Income 19.5	SA Prop-erty 15.1	Global Cash 22.2	SA Equity 24.4	Global Equity 8.9
	Global Fixed Income -10.2	Global Equity -5.5	SA Fixed Income 12.5	SA Fixed Income 3.6	Global Equity 8.1	SA Cash 6.6	SA Cash 6.9	SA Cash 6.6	Global Equity 15.4	Global Fixed Income 12.6	Global Fixed Income 15.8	SA Fixed Income 17.0	SA Prop-erty 8.3
	SA Prop-erty -15.8	Global Fixed Income -5.6	SA Cash 3.5	SA Equity 2.0	SA Cash 6.6	SA Equity 3.3	Global Cash -0.9	SA Equity 6.6	SA Fixed Income 7.0	Global Cash 12.4	SA Prop-erty 10.3	Global Fixed Income 6.1	SA Fixed Income 5.9
	Global Equity -16.1	Global Property -7.4	Global Cash -9.7	Global Property -9.3	SA Equity 1.9	Global Fixed Income 3.1	Global Property -2.0	SA Prop-erty 3.8	SA Cash 5.7	SA Fixed Income 5.8	SA Cash 4.8	SA Cash 5.2	SA Cash 5.4
Worst	Global Property -22.0	SA Prop-erty -8.7	Global Fixed Income -13.0	SA Prop-erty -46.1	SA Prop-erty -2.7	SA Prop-erty -15.7	Global Fixed Income -4.8	Global Cash -0.1	SA Equity 4.8	SA Cash 5.2	SA Fixed Income 3.1	Global Cash 2.9	SA Equity 3.6

Source: Morningstar Direct