STAR INVESTMENT PARTNERS

South African Market

South African equities rebounded in October, with the FTSE/JSE All Share Index ending the month in the green for the first time since July, gaining 4.9%. After a turbulent September where all sectors made losses, October saw a turnaround, with all sectors ending the month in green. South African listed property broke its losing streak finishing the month up 10.97%. The Financial sector was one of the strongest in October up 12.7%, this was helped in part by the share buyback plan by Investec which saw it post a gain of 27.5% for the month. After initial talks between Telkom and MTN, MTN called off its plan of a proposed takeover, which would have seen the combined entity become the largest telecommunications company in South Africa, this had a big knock-on for Telkom shareholders as shares plummeted to end down (21.3%).

South African bond returns have struggled to stay above water this year, but it has hardly been a record-breaking negative year, even when measured in US dollars. 10-year bond yields ended the month unchanged, at already elevated levels. The ZAR/USD Exchange rate remains high as the Rand traded above the R18/$ benchmark for the whole of October. The surging Dollar has made it tough for the Rand to prosper in the current environment. The Rand is undervalued in the short term but optimistic projections by ABSA economists see it recovering to R16/$ by end of Q1 2023.

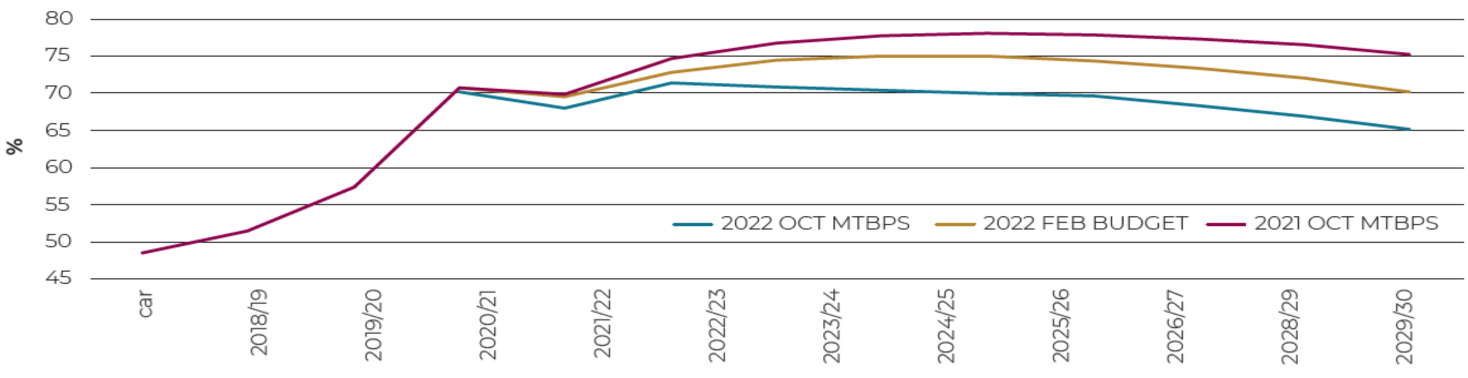
Inflation decreased for a second consecutive month, with the annual CPI rate easing to 7.5%, down from 7.6% the previous month, matching market expectations but still above the upper limit of the South African Reserve Bank’s target range of 3%-6%. While down from 7.6%, the sticky components continue to advance upwards, with annual core inflation rising to 4.7% in September from 4.4% the month before.

A cut in fuel prices contributed towards the CPI rate easing in September, and in October there was a further R1.02/litre drop. Diesel prices also fell in September aiding the moderation in overall fuel costs, but picked up again in October. Due to a continued rise in international oil prices, local prices are set to rise again which does not bode well for future CPI. Higher global freight costs and a crippling Transnet strike also support a stubbornly high inflation outlook.

Retail sales decreased by 1.8% YoY in August as rising prices and higher interest rates continued to squeeze consumer demand. With higher inflation comes higher wage demands and the government is in a battle to keep its promise to the investment world to cap their wage bill. The government has stuck fast to a 3% salary increase while the unions keep pressing for between double and three times that number. Strikes are looming which will add more pressure to an already low investor confidence in South Africa. The MPC is scheduled to announce its final interest-rate decision of this year on 24 November with most economists predicting at least a 0.5% rise in the Repo rate.

The following graph shows how the actual Government Debt-to-GDP Ratio has improved compared to the projection given in the two previous Budget speeches. A significant gain has been made over the past year with unexpected corporate taxes collected with a booming commodity sector that benefited from the V shaped economic recovery post Covid-19 global lockdowns and restrictions. This enabled government to pay down debt as well as provide further assistance to the most vulnerable consumers.

South Africa Government Debt-GDP Ratio, actual vs Projection:



Source: National Treasury

Finance minister Enoch Godongwana delivered the 2022 Medium-Term Budget Policy Statement (MTBPS) on Wednesday, 26 October. The budget touched on many points and topics that were raised in the lead-up to the speech, including the South African government taking over a portion of struggling power utility Eskom's debt, and providing a solution to the ongoing e-toll problem in Gauteng. It was generally well received by the markets.

Persistent loadshedding, bottlenecks in ports and a slowing global economy means in South Africa real economic growth is expected to slow from 1.9% in 2022 to 1.4% in 2023 before improving somewhat to 1.7% in 2024 and 1.8% in 2025. These are not overly optimistic forecasts, but the short-term risks are firmly to the downside. These numbers do not however solve the biggest issue namely growing unemployment as South Africa needs growth of 3.5-5% p.a. to solve it.

Asset Class Performances in ZAR

As of 31st October 2022	MTD	YTD	1 Year	3 Years*	5 Years*	10 Years*
Global Equity – MSCI ACWI	8.55	(8.89)	(3.19)	12.46	11.15	16.93
Global Property - FTSE EPRA NAREIT DR	5.84	(17.42)	(8.88)	1.29	6.66	12.61
Global Bond - JPM GBI Global Traded	1.64	(8.75)	(4.75)	(0.61)	2.44	6.14
Global Cash - ICE LIBOR 1 Month	2.56	16.58	22.43	7.62	6.74	8.67
SA Equity - FTSE/JSE All Share	4.89	(5.66)	3.29	9.79	6.21	9.54
SA Property - FTSE/JSE SA Listed Prop	10.97	(6.54)	3.01	(6.11)	(7.47)	2.73
SA Bond - BEASSA ALBI	1.07	(0.29)	3.07	6.23	7.86	6.91
SA Cash - STeFI Call Deposit	0.49	3.84	4.45	4.32	5.24	5.56

ZAR/USD (negative = Rand strength)	1.60	15.12	20.55	6.83	5.36	7.75
Gold	0.34	1.43	9.04	7.43	8.34	5.58
Brent Crude Oil	10.24	40.39	35.88	24.31	15.30	6.31

*Returns more than 1 year are annualized.

Global Markets

Markets rallied in October with the outlook that major central banks would start to slow the pace of recent interest rate hikes, as data showed that economic conditions were deteriorating. Equities this month were also lifted by optimistic investors taking advantage of a market that was severly bruised in September. Consequently, the MSCI ACWI ended the month up 6.16%. Split out, the MSCI Emerging Markets Index lost 3.2%, largely due to the severe drop in China which makes up over 30% of the index, whereas the MSCI Developed World Index gained 7.1%. The rise came in spite of the US Federal Reserve (Fed) confirming that tighter monetary policy is still needed to reverse stubborn elevated inflation.

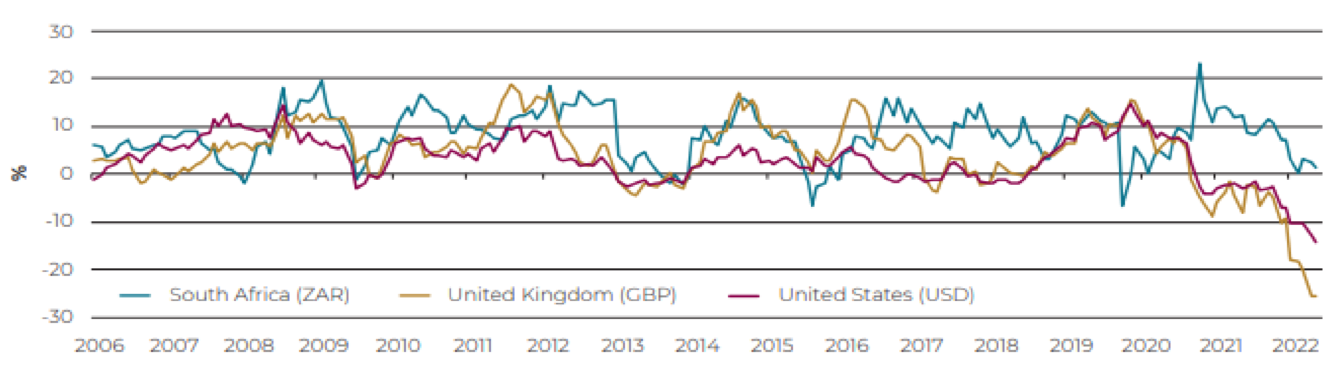
The US economy posted its first period of positive growth, this year, in the third quarter, with its GDP expanding at an annual rate of 2.6%. While the advance has more than offset the decline in the first two quarters of the year, economists are still expecting a mild recession as demand continues to be eroded by high inflation and rising interest rates. Inflation in the US remains elevated with CPI data showing prices rose by 8.2% (year-on-year) in September, matching the forecast of a drop to 8.2%. The stickier less volatile components of inflation continue to rise, with annual core CPI jumping to 6.6% in September, as compared to 6.3% the month before. The inflation report highlights the fact that the Federal Reserve will likely need to raise rates by 75 basis points for the fourth consecutive time at their meeting in November.

The United Kingdom's current run of political instability continued after the new finance minister, Jeremy Hunt, made a historic policy turnaround and scrapped the Prime Minister Liz Truss's economic plan. Hunt stated that it is not right to fund tax cuts with increased debt at a time when the UK is already dealing with a large current account deficit, a weakening currency, high inflation and a looming recession. This subsequently forced Truss to step down and make way for Rishi Sunak to take control. The new prime minister will have to deal with an economy full of uncertainty and on the brink of a major recession.

The UK Medium Term Fiscal Plan occured against the backdrop of turmoil in UK government bond markets. The FTSE UK Government Bond Index has lost almost 30% in Pounds this year, compared to a 5% loss for the FTSE 100 equity index. The picture is only somewhat better in other bond markets. The FTSE World Government Bond Index has lost 15% in dollars this year, the worst drawdown on record.

The graph below illustrates the 12-month rolling Government Bond Returns in Local Currency for South Africa, the UK and the USA. It illlustrates the collapse in investor confidence especially in the UK and the struggle fixed income has when borrowing and inflation are high as has been the case over the past year.

<u>Bond Returns:</u>



Chinese President Xi Jinping secured a third term as president in October and introduced a new leadership team full of his loyalists. This has raised concerns regarding what stance he will take regarding the private sector, as many worry that he could introduce policies that will further hamper growth. The Chinese economy continues to slow as the housing market and zero-Covid policy hamper demand and production.

Asset Class Performances in USD

As of 31st October 2022	MTD	YTD	1 Year	3 Years*	5 Years*	10 Years*
Global Equity – MSCI ACWI	6.16	(20.88)	(19.93)	5.25	5.47	8.50
Global Property - FTSE EPRA NAREIT DR	3.50	(28.29)	(24.63)	(5.21)	1.21	4.49
Global Bond - JPM GBI Global Traded	(0.60)	(20.76)	(21.22)	(6.98)	(2.79)	(1.50)
Global Cash - ICE LIBOR 1 Month	0.30	1.24	1.26	0.72	1.29	0.84
SA Equity - FTSE/JSE All Share	2.58	(18.07)	(14.57)	2.75	0.79	1.65
SA Property - FTSE/JSE SA Listed Prop	8.53	(18.83)	(14.80)	(12.13)	(12.19)	(4.67)
SA Bond - BEASSA ALBI	(1.16)	(13.41)	(14.76)	(0.58)	2.35	(0.79)
SA Cash - STeFI Call Deposit	(1.72)	(9.82)	(13.61)	(2.37)	(0.13)	(2.05)

ZAR/USD (negative = dollar strength)	(1.58)	(13.14)	(17.05)	(6.39)	(5.09)	(7.19)
Gold	(1.87)	(11.91)	(9.81)	0.54	2.81	(2.03)
Brent Crude Oil	7.81	21.92	12.38	16.34	9.41	(1.35)

*Returns more than 1 year are annualized.

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 31st October 2022.

	YTD	10/2022	10/2021	10/2020	10/2019	10/2018	10/2017	10/2016	10/2015	10/2014	10/2013	10/2012	10/2011
Best	Global Cash 16.6	Global Cash 22.4	SA Property 65.9	Global Fixed Income 14.2	Global Property 24.1	SA Fixed Income 7.8	Global Equity 30.3	SA Fixed Income 7.0	Global Property 31.4	Global Property 26.0	Global Equity 43.5	SA Property 28.3	Global Property 19.8
	SA Cash 3.8	SA Cash 4.5	SA Equity 36.0	Global Equity 13.1	Global Equity 14.8	Global Property 7.0	SA Equity 20.1	SA Cash 6.7	Global Equity 25.7	SA Property 19.4	Global Property 27.4	Global Property 28.2	Global Fixed Income 18.1
	SA Fixed Income -0.3	SA Equity 3.3	Global Property 35.7	Global Cash 8.7	SA Fixed Income 13.0	SA Cash 6.6	SA Property 11.1	Global Fixed Income 3.4	Global Cash 25.2	Global Equity 19.1	SA Equity 26.2	Global Equity 20.2	Global Equity 14.6
	SA Equity -5.7	SA Fixed Income 3.1	Global Equity 29.9	SA Cash 5.0	Global Fixed Income 12.5	Global Cash 6.4	Global Property 10.9	SA Property 2.2	Global Fixed Income 22.0	SA Equity 12.5	SA Property 18.5	SA Equity 18.6	Global Cash 13.8
	SA Property -6.5	SA Property 3.0	SA Fixed Income 10.9	SA Fixed Income 4.9	SA Equity 11.5	Global Equity 3.9	SA Cash 6.9	Global Property 1.5	SA Property 20.2	Global Cash 10.6	Global Cash 15.3	SA Fixed Income 13.2	SA Property 9.6
	Global Fixed Income -8.8	Global Equity -3.2	SA Cash 3.5	SA Equity -5.8	SA Cash 6.6	Global Fixed Income 2.2	Global Cash 5.9	Global Equity 0.6	SA Equity 11.6	Global Fixed Income 9.7	Global Fixed Income 10.9	Global Fixed Income 12.8	SA Equity 9.4
	Global Equity -8.9	Global Fixed Income -4.8	Global Cash -6.4	Global Property -16.0	Global Cash 4.5	SA Equity -8.4	SA Fixed Income 5.0	Global Cash -1.9	SA Cash 5.7	SA Fixed Income 9.0	SA Cash 4.8	Global Cash 10.4	SA Fixed Income 7.8
Worst	Global Property -17.4	Global Property -8.9	Global Fixed Income -9.8	SA Property -51.6	SA Property 0.8	SA Property -18.7	Global Fixed Income 4.9	SA Equity -3.4	SA Fixed Income 4.8	SA Cash 5.3	SA Fixed Income 4.1	SA Cash 5.2	SA Cash 5.3

Source: Morningstar Direct