



South African Market

After 2 months of gains, South African equities followed its global peers lower, with the JSE/ALSI ending the month down (2.26%). Despite the loss the JSE/ALSI ended the year in the green posting a modest gain of 3.58%. The index however still outperformed global equity markets in 2022. For a third consecutive month the property index ended the month up 0.7%. All other sectors were in the red with financials, industrials, and resources losing (5.3%), (0.2%) and (3.6%) respectively.

The JSE All Bond Index (ALBI) has returned 3.8% over a one-year period in rand terms, but lost -2.8% in dollar terms. While underperforming inflation over the past year, South African bonds have performed much better than US Treasuries and UK Gilts. Bonds have outperformed all other asset classes, except for cash, over the past year. Over the long term, bonds have outperformed cash and listed property, but underperformed local equities. Despite higher global bond yields during December, the local 10-year government bond yield remained mostly unchanged at the end of the month with a 10.8% p.a. yield to maturity, a healthy margin above current high inflation and long-term median rates of 4.5% p.a.

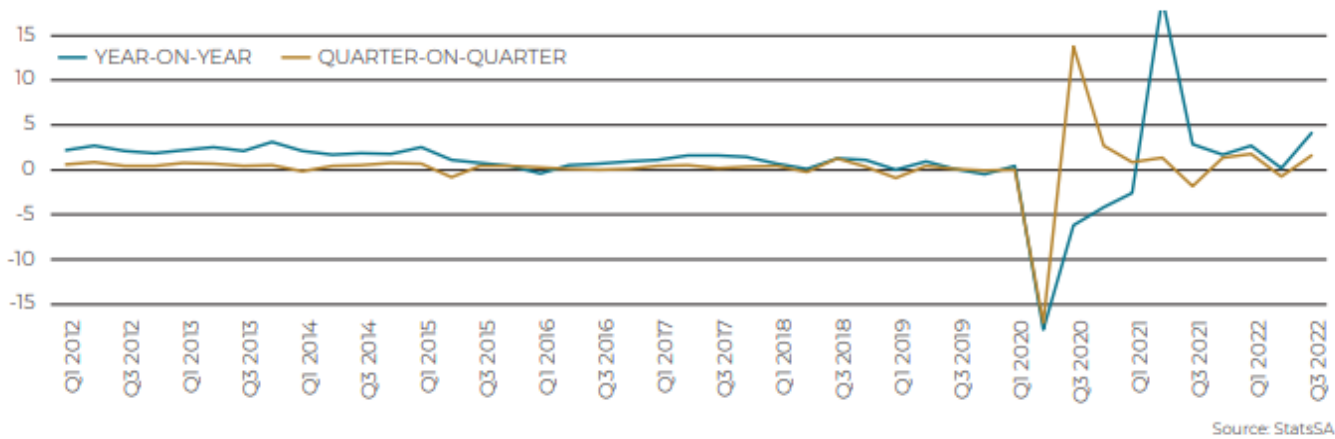
Annual inflation slowed to 7.4% in November from 7.6% the month before, which was the lowest reading since June. The decline was primarily due to a reduction in the prices of transportation, predominantly driven by lower fuel prices. While the CPI direction is encouraging, annual core inflation still stands at a five-year high of 5%, unchanged from October, and opens the door for further rate hikes at the South African Reserve Bank's next rates meeting. The latest figures point to a gradual easing of price pressures in Africa's most industrialised economy, after inflation struck a 13-year high of 7.8% year on year in July.

Locally, we continue to contend with rising prices and interest rates and ongoing bouts of massive load shedding. The outages have led to a slowdown in both the manufacturing and mining sectors with production contracting by 6.3% and 10.4% month-on-month, respectively. Retail sales data showed a contraction of 0.6% from a year earlier, pointing to the negative impact the rise in prices and interest rates are having on consumer demand.

During 2022 South Africa's resource driven economy proved to be more adaptable and resilient than widely anticipated. It recovered from the Covid slump much sooner than expected and has stayed afloat despite record levels of loadshedding in 2022. The local economy grew by 1.6% in the third quarter, well above market forecasts of a 0.6% increase, following a 0.7% contraction in the prior quarter, partly because of a low base in the second quarter, when floods disrupted operations at a key export port in Durban. Eight out of ten activities expanded in the third quarter, with the agricultural sector (19.2%) making the biggest contribution to growth.



South African Real GDP Growth:



Political uncertainty remains a key factor in local markets. President Cyril Ramaphosa somewhat comfortably won re-election as head of South Africa’s governing party just weeks after a scandal threatened to derail his political career, and now faces an uphill battle to rebuild its flagging support heading into a national vote in 2024. Support for the 110-year-old ANC dropped below 50% for the first time in a local government vote in November 2021 and several opinion polls show it’s in danger of losing its national majority in the 2024 elections.

Asset Class Performances in ZAR

As of 31 st December 2022	MTD	YTD	1 Year	3 Years*	5 Years*	10 Years*
Global Equity – MSCI ACWI	(3.67)	(12.62)	(12.62)	11.43	12.37	16.30
Global Property - FTSE EPRA NAREIT DR	(2.70)	(20.90)	(20.90)	2.63	7.62	12.04
Global Bond - JPM GBI Global Traded	0.08	(11.84)	(11.84)	1.05	4.19	6.17
Global Cash - ICE LIBOR 1 Month	0.48	8.69	8.69	7.67	8.04	8.18
SA Equity - FTSE/JSE All Share	(2.26)	3.58	3.58	12.72	7.98	9.94
SA Property - FTSE/JSE SA Listed Prop	1.13	0.49	0.49	(3.40)	(7.24)	2.77
SA Bond - BEASSA ALBI	0.62	4.26	4.26	7.09	7.85	7.05
SA Cash - STeFI Call Deposit	0.53	4.90	4.90	4.31	5.23	5.58

ZAR/USD (negative = Rand strength)	0.27	6.63	6.63	6.75	6.53	7.20
Gold	3.87	3.69	3.69	10.91	11.15	6.36
Brent Crude Oil	0.67	17.75	17.75	16.57	12.04	4.54

*Returns more than 1 year are annualized.



Global Markets

Global equity markets cooled off in December following a 2 month rally. Markets have been on the back foot for most of the year as investors have had to contend with numerous challenges including rising inflation, interest rate hikes and geopolitical tensions. The MSCI ACWI ended the month down (3.77%). The index also posted a YTD loss of (18.04%) to cap off a highly volatile year and push the equity market into bear market territory. Emerging markets again outperformed their developed counterparts. Both indices were down for the month, the MSCI EM index only losing (1.6%) compared to (4.3%) for the MSCI World Index.

In November annual inflation rate in the US slowed for a fifth straight month to 7.1%, beating market forecasts of a drop to 7.3%. With inflation still well above the Federal Reserve’s 2% target the Fed raised rates by 50 basis points at its final meeting of the year, marking its seventh consecutive rate hike and the highest level it has been in the last 15 years. Along with the increase came an indication that officials expect to keep rates higher through next year, with no reductions until 2024.

UK inflation declined at the sharpest rate in 16 months to 10.7% in November as the momentum behind the rising cost of clothing and fuel began to ease amid growing fears of a long recession. Forecasts of a recession lasting until the end of 2023 have triggered falls in the price of crude oil, bringing down the cost of transport. Meanwhile, the rising cost of clothing has begun to wane, forcing retailers in Europe and the US to increase stockpiles as consumers pull back from replenishing their wardrobes. Secondhand car prices also played a part in the easing back of inflation. Prices fell by 5.8% in the year to November, having jumped by more than 31% between March and November 2021.

Bond Market YTD Returns:

Bad year for bond returns



Reuters Graphics



The graph above shows some global bond market returns for 2022. Global bond markets ended the year on a mixed note in the final quarter. Government bond yields edged up towards the end of Q4 reflecting some market disappointment at the hawkish tone from some central banks, despite mounting evidence of slowing economic growth. Overall it has been a tough year for bonds as across the board markets have been negative. Aggressive monetary tightening to contain inflation, exacerbated by war in Ukraine, triggered a paradigm shift for bonds ending more than a decade of tame inflation and record-low borrowing costs.

2022 was the year of the Dollar. It surged, gaining nearly 20% in the first nine months of the year on the back of the widening monetary policy differential between the US and other major economies. Going into Q4 of this year the US dollar's rally slowed. The dollar index lost just under 8%, though ended 2022 higher than a year ago by 7.9%. Among G10 currencies, the New Zealand dollar and Norwegian Krone made the strongest gains against the US dollar in Q4. The Japanese Yen also rebounded strongly during the quarter.

Asset Class Performances in USD

As of 31 st December 2022	MTD	YTD	1 Year	3 Years*	5 Years*	10 Years*
Global Equity – MSCI ACWI	(3.77)	(18.04)	(18.04)	4.37	5.45	8.48
Global Property - FTSE EPRA NAREIT DR	(2.80)	(25.80)	(25.80)	(3.87)	0.99	4.51
Global Bond - JPM GBI Global Traded	(0.03)	(17.31)	(17.31)	(5.35)	(2.23)	(0.97)
Global Cash - ICE LIBOR 1 Month	0.37	1.95	1.95	0.86	1.38	0.91
SA Equity - FTSE/JSE All Share	(2.36)	(2.84)	(2.84)	5.58	1.32	2.55
SA Property - FTSE/JSE SA Listed Prop	1.02	(5.74)	(5.74)	(9.51)	(12.96)	(4.14)
SA Bond - BEASSA ALBI	0.52	(2.21)	(2.21)	0.31	1.20	(0.14)
SA Cash - STeFI Call Deposit	0.43	(1.60)	(1.60)	(2.29)	(1.26)	(1.51)

ZAR/USD (negative = dollar strength)	(0.27)	(6.21)	(6.21)	(6.32)	(6.13)	(6.71)
Gold	3.77	(2.74)	(2.74)	3.89	4.30	(0.79)
Brent Crude Oil	0.56	10.45	10.45	9.19	5.14	(2.48)

*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 December 2022.

	YTD	12/2022	12/2021	12/2020	12/2019	12/2018	12/2017	12/2016	12/2015	12/2014	12/2013	12/2012	12/2011
Best	Global Cash 8.7	Global Cash 8.7	Global Property 41.3	Global Equity 22.8	Global Equity 23.4	Global Cash 18.6	SA Equity 21.0	SA Fixed Income 15.4	Global Property 36.6	Global Property 34.5	Global Equity 53.4	SA Prop-erty 35.9	Global Fixed Income 30.8
	SA Cash 4.9	SA Cash 4.9	SA Prop-erty 36.9	Global Fixed Income 15.2	Global Property 20.6	Global Fixed Income 15.4	SA Prop-erty 17.2	SA Prop-erty 10.2	Global Cash 34.2	SA Prop-erty 26.6	Global Property 27.2	Global Property 29.9	Global Property 22.6
	SA Fixed Income 4.3	SA Fixed Income 4.3	SA Equity 29.2	SA Fixed Income 8.7	SA Equity 12.0	Global Property 10.7	Global Equity 12.8	SA Cash 6.8	Global Equity 31.7	Global Equity 15.2	Global Cash 23.7	SA Equity 26.7	Global Cash 22.3
	SA Equity 3.6	SA Equity 3.6	Global Equity 29.0	SA Equity 7.0	SA Fixed Income 10.3	SA Fixed Income 7.7	SA Fixed Income 10.2	SA Equity 2.6	Global Fixed Income 30.4	Global Fixed Income 11.2	SA Equity 21.4	Global Equity 23.0	Global Equity 12.9
	SA Prop-erty 0.5	SA Prop-erty 0.5	Global Cash 8.8	Global Cash 5.6	SA Cash 6.6	SA Cash 6.6	SA Cash 6.9	Global Equity -3.8	SA Prop-erty 8.0	SA Equity 10.9	Global Fixed Income 17.9	SA Fixed Income 15.9	SA Prop-erty 8.9
	Global Fixed Income -11.8	Global Fixed Income -11.8	SA Fixed Income 8.4	SA Cash 4.5	Global Fixed Income 3.1	Global Equity 4.9	Global Property -1.0	Global Property -6.7	SA Cash 5.8	Global Cash 10.6	SA Prop-erty 8.4	Global Fixed Income 6.5	SA Fixed Income 8.9
	Global Equity -12.6	Global Equity -12.6	SA Cash 3.5	Global Property -3.3	SA Prop-erty 1.9	SA Equity -8.5	Global Fixed Income -3.3	Global Fixed Income -10.4	SA Equity 5.1	SA Fixed Income 10.1	SA Cash 4.8	Global Cash 5.3	SA Cash 5.3
Worst	Global Property -20.9	Global Property -20.9	Global Fixed Income 1.6	SA Prop-erty -34.5	Global Cash -0.6	SA Prop-erty -25.3	Global Cash -8.4	Global Cash -11.3	SA Fixed Income -3.9	SA Cash 5.4	SA Fixed Income 0.6	SA Cash 5.1	SA Equity 2.6

Source: Morningstar Direct