South African Market

After starting of the year on a strong front foot, February saw some retracement in the local equity market, with the JSE FTSE/ALSI following its global peers lower, to end the month down (2.19%). The biggest drag on local performance came from the resource sector, which lost (13.23%), this is largely attributed to the disappointing FY22 results that were released last month for major companies, Anglo American Platinum, and Sibanye Stillwater. Financials and industrials ended the month up 2.52% and 1.66% respectively. South African listed property ended the month marginally down (0.72%).

The Rand weakened further against the Dollar, last month depreciating (5.25%) to end the month at R18.42/$, the weakest level since November 2022. The currency started the year at R17/$ but has come under pressure as the Dollar rushed ahead as fresh US economic data supported more aggressive interest rate hikes in the US.

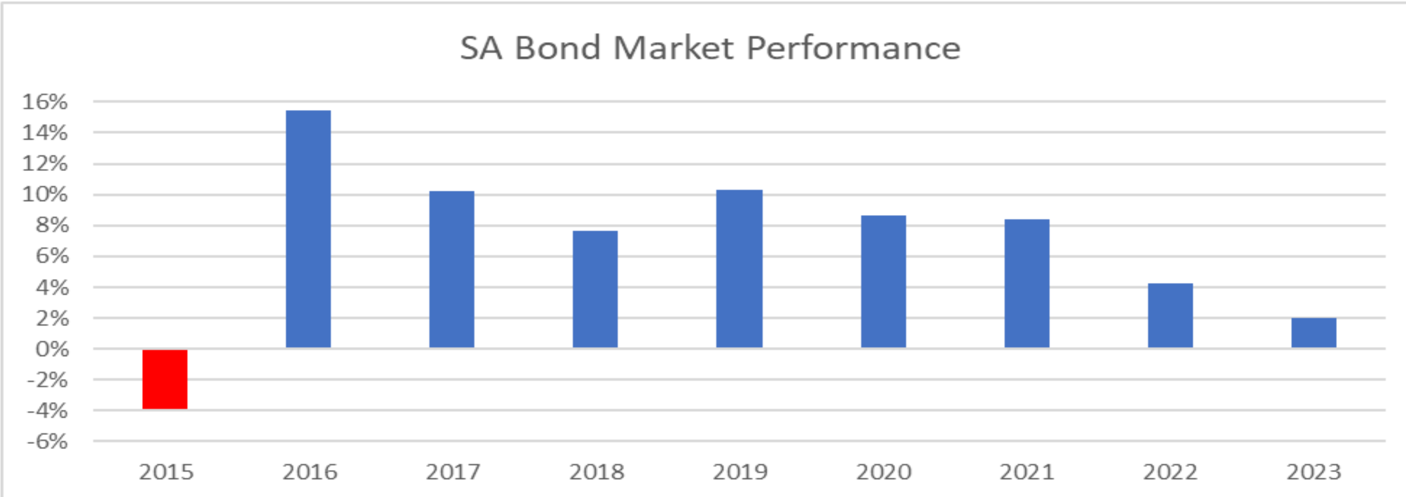
South African government debt continues to offer attractive yields both in nominal and real terms. Throughout 2022, the average yield of the 10-year SA government bond was 10.50%, while headline inflation rate averaged 6.90%. It is expected that the latter will decrease further in 2023. The average real yield for investors was roughly 3.5% in 2022. Although local government bond yields followed global yields higher, 10-year government yields spiked by 0.85% in February, leaving them comfortably above 11% at the end of the month. The ALBI returned (0.87%) at month end, while there was a small selloff in the bond market the year-to-date return remains positive at 2.04%.

South African inflation showed some signs of abating, with annual inflation down to 6.90% from 7.20% the previous month. This is the third straight month that the inflation numbers have eased. However, while overall inflation eased, food and non-alcoholic beverages inflation continued to accelerate. The annualised rate for these categories climbed to 13.40% this month, the highest reading since 2009 when the rate was 13.60%. Despite the recent interest rate hikes in South Africa, SA still lags behind the US in terms of the magnitude of the increases. During the current hiking cycle, South Africa has only raised its repo rate by 375 basis points, while the Fed has raised its funds rate by 450 basis points. This discrepancy has added to a decline in the rand's value, as South Africa's risk premium relative to the United States has significantly increased.

Both manufacturing and mining production recorded YoY contractions of (4.7%) and (3.5%), respectively during February. This signifies the 11th consecutive monthly decrease in mining activity and the second for industrial activity, emphasizing the harmful impact of the power outages on power-intensive sectors of the economy. Meanwhile, retail sales also experienced a decline of 0.6% on a monthly basis, with consumers still grappling with the consequences of increasing interest rates and prices.

In February, President Ramaphosa delivered his State of the Nation Address, which primarily focused on resolving the ongoing electricity crisis in South Africa. However, he also touched on other crucial issues such as unemployment, poverty, crime, corruption, and the rising cost of living. To address the energy crisis, Ramaphosa announced his plan to expand the Cabinet by appointing a Minister of Electricity. In the address he also implemented a National State of Disaster to allocate more funds to resolve the electricity crisis. The new minister would oversee the National Energy Crisis Committee and spearhead the response to the electricity crisis.

SA Bond Market Performance:



Source: RMB

The graph above shows how the bond market faced challenges in 2015 and then produced six years of returns exceeding 8% annually. With bond yields rising and inflation returning in 2022 and into 2023 and with the high bond yields reflecting the known risks, investors can anticipate a multi-year opportunity to generate inflation beating returns from bonds with the risk levels much lower than equities. When considering the full range of outcomes for bonds, this appears to be an attractive opportunity for investors.

Asset Class Performances in ZAR

As of 28th February 2023	MTD	YTD	1 Year	3 Years*	5 Years*	10 Years*
Global Equity – MSCI ACWI	2.43	12.67	9.72	15.20	15.94	16.48
Global Property - FTSE EPRA NAREIT DR	0.59	12.74	0.96	5.30	13.17	12.33
Global Bond - JPM GBI Global Traded	1.96	7.33	0.73	(1.46)	6.57	6.61
Global Cash - ICE LIBOR 1 Month	5.71	8.69	21.99	6.35	10.85	8.47
SA Equity - FTSE/JSE All Share	(2.19)	6.50	6.24	19.46	9.76	10.49
SA Property - FTSE/JSE SA Listed Prop	(0.72)	(1.71)	5.09	2.73	(3.62)	2.03
SA Bond - BEASSA ALBI	(0.87)	2.04	4.93	7.40	7.06	7.19
SA Cash - STeFI Call Deposit	0.53	1.10	5.44	4.35	5.24	5.62

ZAR/USD (negative = Rand strength)	5.25	7.91	19.12	5.42	9.26	7.42
Gold	(0.55)	7.56	10.97	8.38	13.80	7.20
Brent Crude Oil	4.58	5.35	(1.32)	24.67	14.68	4.34

*Returns more than 1 year are annualized.

Global Markets

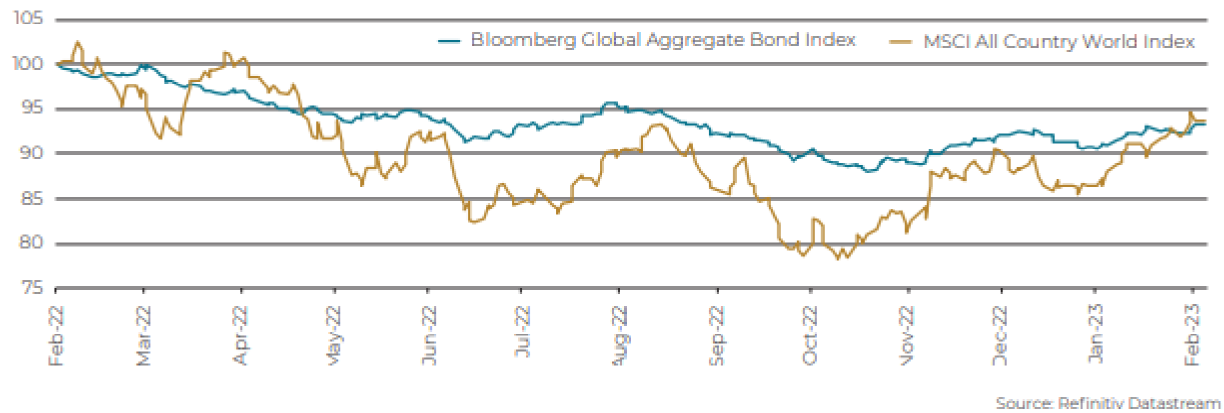
Global markets declined in February after the strong advance in January. Resilient economic data suggested that any hoped for pause in interest rate rises may still be some way off. Recent data releases have shown that the US economy is holding up better than expected and that inflation may take longer to come down in the near future, forcing investors to raise expectations of more rate hikes by the Federal Reserve. Consequently, the MSCI ACWI ended the month down (2.75%). After the recent surge in the emerging market componant, this month it underperformed developed markets, with the MSCI Emerging Markets index falling (6.48%) vs. (2.37%) for the MSCI World index. The underperformance for the EM index was mostly driven by a re-escalation in US-China tensions along with a weaker than expected reopening of the Chinese economy post aggressive Covid restrictions.

US inflation continues to decline slowly, at 6.4% YoY, down from 6.5% the previous month, while the decline was less than market forecasts of a drop to 6.2%, it is still the lowest reading since October 2021. In February investors seemed to be factoring in an extended period of rising interest rates due to the US economy's resilience and persistent inflationary pressures. As such, the Fed Funds Futures Market month end forecasted an additional three 25 basis point hikes, which would bring the midpoint terminal rate to 5.38% by June.

Similarly, inflation in the UK also showed signs of a slowdown falling for a third consecutuive month, dropping to 10.1% down from 10.5% the previous month, with the biggest contribution coming from transport (3.1% vs 6.5%). The Bank of England has released its most recent quarterly projection for the UK, indicating that the nation is still likely to experience a recession towards the end of 2023. Nonetheless, the Bank has revised its previous forecast from November, now anticipating that the decline will be less severe due to a recent significant decrease in wholesale energy prices. At the most recent Monetary Policy Committee meeting, the Bank decided to increase the UK base rate by 0.5 basis points.

During February, there was an overall increase in global government yields. Riskier fixed income assets did not fare as well, with US credit (including both high yield and investment grade) spreads widening due to market expectations of longer periods of elevated interest rates. Investors who had been bullish on the global bond market this year are now reversing their views due to persistent signs of inflation, causing the record-breaking rally to deteriorate. Earlier this month, a strong US labor market report ignited a string of better-than-expected economic data releases from both sides of the Atlantic, that upended expectations that the European Central Bank and the Fed were nearing victory in their battle against inflation. As a result, gains made in the bond market in 2023 have disappeared.The interest rate sensitive global property sector was also hammered in February but remains positive year to date.

Global bonds vs Equities (USD):



The US Dollar strengthened against six major currencies, buoyed by hawkish remarks from the Federal Reserve regarding the possibility of more aggressive rate hikes in the near future. This has resulted in a 0.5% rise in the dollar index, snapping a four-month losing streak. Earlier in February, the dollar index hit its highest level since the end of last year. Meanwhile, the Euro fell (0.6%) to $1.0607, while the Japanese Yen weakened (0.2%) against the greenback, with the exchange rate at 136.25 at the end of February.

Asset Class Performances in USD

As of 28th February2023	MTD	YTD	1 Year	3 Years*	5 Years*	10 Years*
Global Equity – MSCI ACWI	(2.75)	4.44	(7.64)	9.43	6.14	8.43
Global Property - FTSE EPRA NAREIT DR	(4.50)	4.50	(15.01)	0.02	3.60	4.57
Global Bond - JPM GBI Global Traded	(3.20)	(0.51)	(15.20)	(6.40)	(2.43)	(0.75)
Global Cash - ICE LIBOR 1 Month	0.36	0.75	2.69	1.01	1.48	0.98
SA Equity - FTSE/JSE All Share	(7.14)	(1.28)	(10.56)	13.47	0.48	2.86
SA Property - FTSE/JSE SA Listed Prop	(5.74)	(8.90)	(11.53)	(2.42)	(11.77)	(5.02)
SA Bond - BEASSA ALBI	(5.88)	(5.41)	(11.67)	2.02	(1.99)	(0.21)
SA Cash - STeFI Call Deposit	(4.56)	(6.28)	(11.24)	(0.88)	(3.66)	(1.67)

ZAR/USD (negative = dollar strength)	(4.99)	(7.33)	(16.05)	(5.14)	(8.48)	(6.90)
Gold	(5.58)	(0.30)	(6.58)	2.95	4.18	(0.21)
Brent Crude Oil	(0.71)	(2.35)	(16.93)	18.42	4.98	(2.87)

*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 28th February 2023.

	YTD	2/2023	2/2022	2/2021	2/2020	2/2019	2/2018	2/2017	2/2016	2/2015	2/2014	2/2013	2/2012
Best	Global Property 12.7	Global Cash 22.0	SA Property 22.4	SA Equity 33.2	Global Fixed Income 21.7	Global Property 36.7	SA Equity 17.4	SA Fixed Income 13.5	Global Fixed Income 39.1	SA Property 44.3	Global Equity 43.3	Global Property 43.3	SA Property 21.8
	Global Equity 12.7	Global Equity 9.7	SA Equity 20.5	Global Equity 27.4	Global Property 16.3	Global Cash 21.8	SA Fixed Income 14.3	SA Property 11.0	Global Cash 35.8	Global Property 28.6	Global Property 27.3	SA Property 35.7	Global Fixed Income 15.0
	Global Cash 8.7	SA Equity 6.2	Global Property 17.9	SA Fixed Income 8.3	Global Equity 15.8	Global Equity 18.4	Global Equity 7.6	SA Cash 6.9	Global Property 28.7	Global Equity 16.4	SA Equity 22.8	Global Equity 32.6	SA Fixed Income 13.6
	Global Fixed Income 7.3	SA Cash 5.4	Global Equity 9.4	SA Cash 4.0	Global Cash 14.3	Global Fixed Income 18.1	SA Cash 6.8	SA Equity 6.3	Global Equity 19.5	SA Equity 16.1	Global Fixed Income 20.7	Global Cash 20.7	Global Property 9.8
	SA Equity 6.5	SA Property 5.1	SA Fixed Income 9.0	Global Fixed Income -1.3	SA Fixed Income 8.9	SA Cash 6.6	Global Fixed Income -4.3	Global Equity 2.2	SA Cash 5.9	SA Fixed Income 15.0	Global Cash 19.9	SA Equity 19.3	SA Equity 9.6
	SA Fixed Income 2.0	SA Fixed Income 4.9	SA Cash 3.6	Global Property -1.9	SA Cash 6.6	SA Fixed Income 4.2	SA Property -6.1	Global Property -7.1	SA Property -2.0	Global Cash 8.7	SA Cash 4.8	Global Fixed Income 18.7	Global Cash 7.6
	SA Cash 1.1	Global Property 1.0	Global Cash 2.1	Global Cash -3.5	SA Equity -5.7	SA Equity -0.9	Global Cash -8.6	Global Cash -16.7	SA Fixed Income -3.7	SA Cash 5.5	SA Property -0.3	SA Fixed Income 14.3	Global Equity 6.0
Worst	SA Property -1.7	Global Fixed Income 0.7	Global Fixed Income -3.8	SA Property -15.8	SA Property -19.1	SA Property -5.2	Global Property -11.9	Global Fixed Income -18.3	SA Equity -4.4	Global Fixed Income 5.1	SA Fixed Income -1.0	SA Cash 5.0	SA Cash 5.3

Source: Morningstar Direct