STAR INVESTMENT PARTNERS

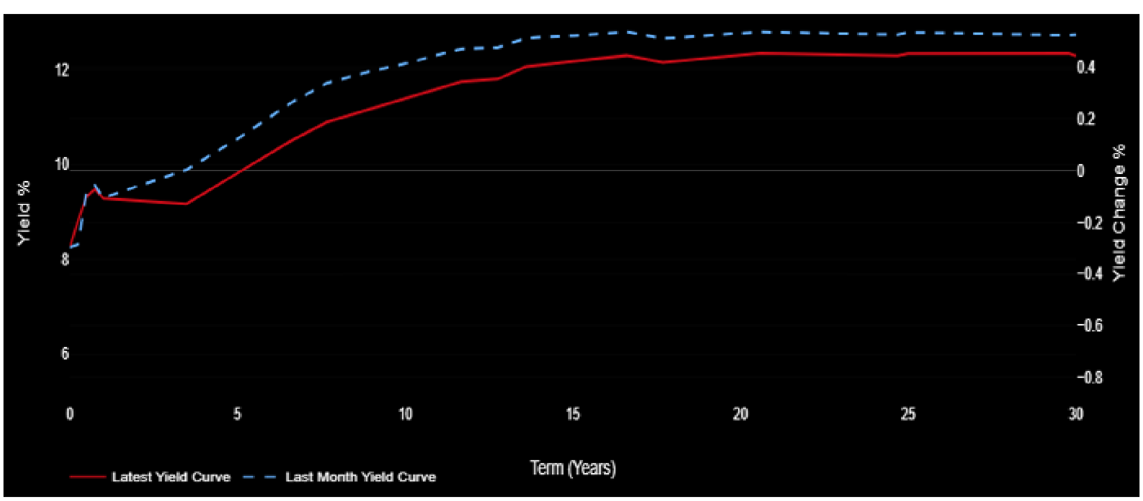
South African Market

Local equities followed their global peers higher in June, with the FTSE JSE/ALSI returning 1.35%. The ALSI was dragged down by the resources sector, which came under pressure as commodity prices dropped on the back of a weaker than expected recovery in China, ending the month down (8.24%). Financials and industrials gained 11.43% and 3.62%, respectively. The ALSI closed out the first half of the year firmly in the green returning 5.86% YTD, triumphing over a mixed six-month period characterised by weaker commodity prices, record load shedding and a Rand rout largely bought on by South Africa's relations with Russia and poor economic fundamentals.

Local consumer inflation dipped to a 13-month low of 6.3%, down from 6.8% the previous month. This is the lowest reading since April 2022, when the rate was 5.9%, and reflects a month-on-month decline of 0.2%. This figure came in lower than expectations from economists, who forecast 6.4% to 6.7%. However, the inflation rate remains outside the South African Reserve Bank's target range of 3% to 6%. Food inflation has finally turned the corner, slowing down from 14% to 12% year-on-year. While there has been a recent decrease in inflation and a modest recovery of the Rand, local economists hold divided opinions regarding the next interest rate decision by the MPC, with some analysts foreseeing a hold on local rates and others a rise. Observers have taken note of the recent hawkish tone adopted by the SARB and suggest that the central bank is likely to continue with rate hikes for at least one more meeting, potentially resulting in another 25 bps increase in July. The MPC is scheduled to announce its next rate decision on the 20th of July.

The local bond market experienced a rebound after the May sell-off, as reflected in the ALBI's return of 4.58% in June. This gain almost offset the losses incurred in May, which amounted to a return of (4.75%). Consequently, the bond index has returned to positive territory for the year, with a 1.79% increase YTD. Along with this recovery, the yields on bonds still remain appealing, offering investors generous compensation for holding sovereign debt. The SA 10-year government bond yield fell (0.74%) in June to end the month at 11.39% and while future volatility in the bond market is a possibility, the resilience demonstrated in June serves as a reminder of how markets can recuperate and return to a more reasonable valuation after experiencing significant selloffs.

Bond Yield curve dispersion (Last Month vs. Current Month):

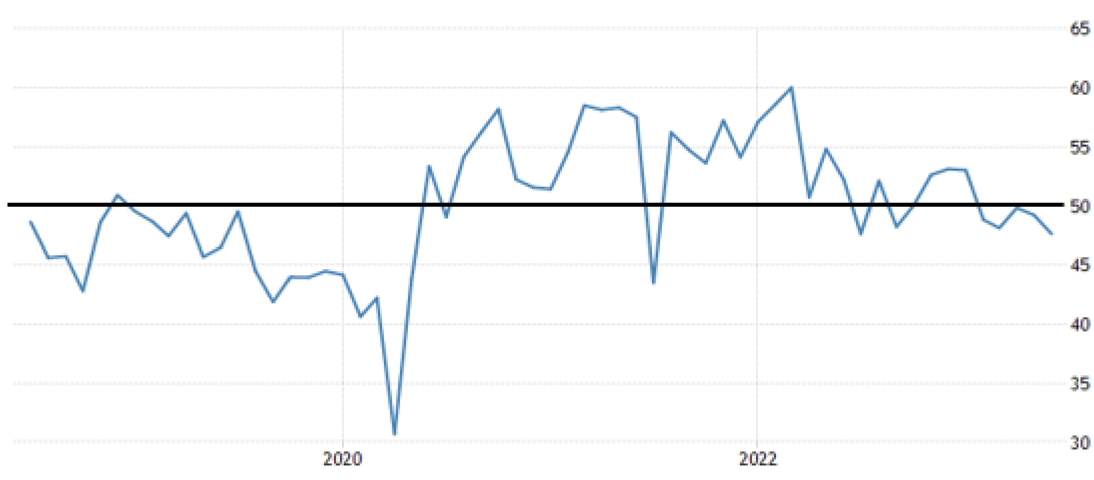


Source: R Bonds

The Rand recovered against the Dollar in June after experiencing a record low in May. This month the Rand appreciated 4.75% against the greenback to end the month at R18.84/$. Additionally, the Rand also made gains against the Pound and Euro, rising by 2.44% and 2.38%, respectively. Despite the currency's current weakness against the Dollar, there is optimism that it will gain strength in the near future. This is expected to occur as the Reserve Bank's hike cycle takes effect and geopolitical uncertainties eventually subside. The Reserve Bank Governor also affirmed that the Rand is undervalued based on their SARB model, indicating potential for the domestic currency to realign to its average long-term value. Some economists anticipate the currency pair to potentially reach R17.50/$ by the end of this year. Our view is that there are too many moving parts to provide clear currency guidance. As such volatility will remain the order of the day until SA has a clear handle on a consistent, improving and sustainable loadshedding environment and the government of the day provides for an stable and long term environment that is pro private sector job creation and economic growth. These two factors alone would act to raise GDP growth substantially and reverse much of the Rand currency weakness.

GDP data for the first quarter of 2023 was released during June, which showed that in the first quarter, the South African economy managed to avoid a technical recession, showcasing a modest quarter-on-quarter GDP expansion of 0.4%. Eight out of the ten industries experienced growth during this period, although none of them expanded by more than 1.5%. With a challenging external environment, and weaking commodity prices, the outlook for GDP growth has been further revised downward with only a 0.1% growth by the end of the year. Despite the challenges posed by almost daily power outages, the manufacturing sector displayed its resilience by registering a 0.53% month-on-month increase in production in May, following a revised 3.42% growth year-on-year. Conversely, the ABSA PMI fell for a second month in a row to 47.6, down from 49.2 the previous month. This marks the fifth consecutive month of contraction and the steepest drop since July 2022, still staying below the 50-point mark that separates expansion from contraction.

ABSA Purchasing Managers Index Since 2018:



Source: TradingEconomics

Asset Class Performances in ZAR

As of 30th June 2023	MTD	YTD	1 Year	3 Years*	5 Years*	10 Years*
Global Equity – MSCI ACWI	0.92	25.98	34.48	14.61	15.28	16.40
Global Property - FTSE EPRA NAREIT DR	(1.46)	12.88	11.14	7.49	7.84	11.34
Global Bond - JPM GBI Global Traded	(4.90)	11.91	12.07	(3.83)	4.63	6.34
Global Cash - ICE LIBOR 1 Month	(4.26)	13.77	20.10	4.40	8.43	7.87
SA Equity - FTSE/JSE All Share	1.35	5.86	19.58	16.12	9.59	10.32
SA Property - FTSE/JSE SA Listed Prop	0.92	(4.42)	10.00	11.33	(3.55)	1.45
SA Bond - BEASSA ALBI	4.58	1.81	8.23	7.60	7.39	7.39
SA Cash - STeFI Call Deposit	0.64	3.61	6.55	4.63	5.30	5.72

ZAR/USD (negative = Rand strength)	(4.75)	10.79	15.34	2.76	6.54	6.67
Gold	(7.20)	14.14	17.50	2.39	13.08	9.53
Brent Crude Oil	(1.73)	(3.20)	(24.77)	25.55	5.38	3.34

*Returns more than 1 year are annualized.

Global Markets

Global markets rebounded in June as sentiment lifted with hopes that China will introduce fresh rounds of stimulus to support their ailing economy. On the other hand, hawkish central bank comments and growing concerns regarding slowing global growth were seemingly put on the side lines for the time being. The MSCI ACWI ended the month up 5.86% supported once again by the continued rally in tech stocks and signs that the US economy remains resilient despite higher interest rates. The recent advances put the Index up 13.47% YTD. Developed markets further outperformed their Emerging market counterpart, returning 5.94% and 3.23% in June, respectively.

Following its June meeting, the US Fed opted to maintain interest rates at their current level. However, subsequent comments from the Fed have taken on a more hawkish tone, indicating the possibility of two more rate hikes before the year concludes. This stance is supported by the strength exhibited in both the labour market and the interest rate-sensitive housing market. While the Fed foresees two more rate hikes, the market's expectations are currently centred around a single 25 bps increase. Inflation in the US continues to improve, declining from a 40-year high of 9.1% in October 2022 to the end of May level of 4.05% year on year movement. Although this represents progress, inflation would need to decrease by half once again to reach the Fed's target of 2%. The latest inflation figures have been primarily influenced by the decline in energy prices. Core inflation, which excludes the volatility of food and fuel prices, remains stubbornly high, maintaining an annual rate of approximately 5%, hence the Fed’s concerns.

The US labour market remains tight, with approximately 1.79 jobs available per unemployed individual. In a surprising turn of events, the latest release of nonfarm payrolls revealed an adjusted addition of 306,000 jobs to the US economy in May. This figure represents the highest surge in job growth seen in the past four months and significantly surpasses the projected 190,000 jobs. Despite the increase in job creation compared to the previous month, the unemployment rate experienced a 0.3% uptick in May, reaching 3.7%. The Institute of Supply Management's recent report unveiled a decline in the manufacturing PMI to 46.0, signifying the 7th consecutive contraction in the manufacturing sector. Simultaneously, the services PMI also witnessed a drop to 50.3, falling well below the expected rise of 52.2. These reports highlight the challenges faced by businesses as they grapple with heightened uncertainty surrounding future demand. Post month end the June non-farm payroll showed 209000 jobs added slightly below a forecast of 225000. An additional weight on activity for both manufacturing and services has been the prices component- the proxy for inflation pressure. As shown in the graph below, prices within the manufacturing sector have fallen into contraction, as services prices are easing but not yet contracting. Should a significant decline in both ISM prices components occur, it could become consistent with recession fears (as shown by historical similar events).

ISM Manufacturing vs Services Prices Index:

Source: Bloomberg & YCharts

The UK economy finds itself in a challenging position as persistent inflation concerns, rising interest rates, and a slowdown in growth cast a shadow over the prospects for economic expansion. In the latest CPI report, it was revealed that annual inflation remained high at 8.7% in June, surpassing the consensus expectation for a decrease to 8.4%. Of more concern was the upward trajectory of core CPI, which increased from 6.8% in April to 7.1%. These developments prompted a more assertive response from the Bank of England (BoE), leading to an unexpected 50 basis point hike in interest rates in June, bringing rates to 5.0%. Consequently, market expectations have shifted, with rates in the UK now anticipated to peak at 6.0%. The impact on the bond market was notable, with the UK 10-year yield surging from 3.49% to 4.39%, while the two-year yield made even more gains, rising from 3.44% to 5.26%.

June witnessed significant fluctuations in currency values against the US Dollar, with some currencies making notable gains while others experienced declines. The Euro and the Pound strengthened against the greenback, while the Japanese Yen suffered a loss of (3.3%) in value. The Pound recorded a gain of 2.51% against the Dollar. The Bloomberg Global Aggregate Bond Index in dollars is negative (0.6%) year-to-date, following a significant decline of 16% in 2022. The slow rebound from this historic slump reflects the ongoing adjustment to higher interest rates for longer in the bond market.

10-Year minus 2-Year yield spread:

Source: Advisorperspective.com & Bloomberg

A scenario of a soft landing, characterized by a gradual economic slowdown and controlled inflation, remains plausible but is not the sole possibility. However, the bond market's pricing does not align with this perspective, as short-term yields now surpass long-term yields by the largest margin in four decades. The US 10-year yield has seen an increase from 3.47% to 3.81%, nearing the significant 4% threshold for the first time since early March. Simultaneously, the two-year yield has climbed from 4.03% to 4.87%. This inversion of the yield curve has historically served as a reliable indicator of an impending recession, as evident from the graph above. Despite the recent decrease in recession discussions, the persistent yield curve inversion continues to convey a compelling signal of an imminent economic downturn.

Our multi-strategy and multi-manager approach to investments allows you to have a range of expertise in a single portfolio. In these volatile and difficult investment times it is often easier to cut and run for the hills. Long term investors however tend the do the opposite and rather tough it out, sticking to their proven approaches. Baillie Gifford, a Edinburgh based investment manager of the Scottish Mortgage Investment Trust follow this philosophy and have an exceptional long term track record investing in high growth businesses. These companies have been out of favour for the past 18 months. In our offshore portfolio we hold approximately 6.5% of Scottish Mortgage. Tom Slater of Scottish Mortgage recently commented: *“What gives us the confidence to stay the course and stick to our approach? It is the ongoing, deepening and widening of technological progress. So, we aren't changing what we're doing in response to a period of poor performance. We aren't following the market's current enthusiasm towards companies and investments that are perceived as reliable and safe. Instead, it is precisely by embracing discomfort that we can generate outsized returns from exceptional companies. The universe of steady, predictable, overanalysed stocks is unlikely to yield extraordinary outcomes.”* Please feel free to watch this video to get more insight from Tom.

Source: Scottish Mortgage Investment Trust

Asset Class Performances in USD

As of 30th June 2023	MTD	YTD	1 Year	3 Years*	5 Years*	10 Years*
Global Equity – MSCI ACWI	5.86	13.47	16.62	11.46	8.12	9.15
Global Property - FTSE EPRA NAREIT DR	3.36	1.67	(3.62)	4.53	1.14	4.40
Global Bond - JPM GBI Global Traded	(0.24)	0.80	(2.82)	(6.47)	(1.87)	(0.28)
Global Cash - ICE LIBOR 1 Month	0.43	2.47	4.15	1.53	1.69	1.15
SA Equity - FTSE/JSE All Share	6.31	(4.65)	3.70	12.92	2.78	3.45
SA Property - FTSE/JSE SA Listed Prop	5.86	(13.92)	(4.61)	8.27	(9.54)	(4.87)
SA Bond - BEASSA ALBI	9.70	(8.30)	(6.14)	4.64	0.72	0.70
SA Cash - STeFI Call Deposit	5.56	(6.68)	(7.60)	1.75	(1.24)	(0.87)

ZAR/USD (negative = dollar strength)	4.98	(9.74)	(13.30)	(2.69)	(6.14)	(6.25)
Gold	(2.66)	2.80	1.89	(0.42)	6.05	2.70
Brent Crude Oil	3.08	(12.82)	(34.76)	22.10	(1.17)	(3.10)

*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 30th June 2023.

	YTD	6/2023	6/2022	6/2021	6/2020	6/2019	6/2018	6/2017	6/2016	6/2015	6/2014	6/2013	6/2012
Best	Global Equity 26.0	Global Equity 34.5	Global Cash 15.1	SA Prop-erty 25.2	Global Fixed Income 29.7	Global Property 11.8	Global Equity 16.9	SA Fixed Income 7.9	Global Property 42.5	SA Prop-erty 27.0	Global Equity 32.9	Global Equity 42.9	SA Prop-erty 26.3
	Global Cash 13.8	Global Cash 20.1	SA Equity 4.7	SA Equity 25.1	Global Equity 25.2	SA Fixed Income 11.5	SA Equity 15.0	Global Equity 7.1	Global Fixed Income 34.6	Global Equity 15.6	SA Equity 32.7	Global Property 34.5	Global Property 25.9
	Global Property 12.9	SA Equity 19.6	SA Cash 3.8	Global Equity 16.5	Global Cash 25.0	Global Fixed Income 8.7	Global Property 11.2	SA Cash 7.0	Global Cash 21.1	Global Property 15.3	Global Property 24.5	SA Prop-erty 24.0	Global Fixed Income 25.0
	Global Fixed Income 11.9	Global Fixed Income 12.1	SA Fixed Income 1.3	SA Fixed Income 13.7	SA Cash 6.0	Global Equity 8.0	SA Fixed Income 10.2	SA Prop-erty 2.8	Global Equity 16.6	Global Cash 14.3	Global Fixed Income 14.1	Global Cash 21.7	Global Cash 20.9
	SA Equity 5.9	Global Property 11.1	SA Prop-erty 0.2	Global Property 11.6	Global Property 5.0	SA Cash 6.6	SA Cash 6.7	SA Equity 1.7	SA Prop-erty 11.0	SA Fixed Income 8.2	Global Cash 7.3	SA Equity 21.0	SA Fixed Income 14.6
	SA Cash 3.6	SA Prop-erty 10.0	Global Property 0.2	SA Cash 3.5	SA Fixed Income 2.8	Global Cash 5.4	Global Fixed Income 6.4	Global Cash -9.9	SA Cash 6.3	SA Cash 5.6	SA Prop-erty 6.0	Global Fixed Income 15.4	Global Equity 12.9
	SA Fixed Income 1.8	SA Fixed Income 8.2	Global Fixed Income -3.4	Global Cash -17.7	SA Equity -3.3	SA Equity 4.4	Global Cash 6.3	Global Property -11.8	SA Fixed Income 5.2	Global Fixed Income 5.6	SA Fixed Income 5.5	SA Fixed Income 6.2	SA Equity 9.2
Worst	SA Prop-erty -4.4	SA Cash 6.6	Global Equity -3.9	Global Fixed Income -17.8	SA Prop-erty -40.0	SA Prop-erty 0.8	SA Prop-erty -9.9	Global Fixed Income -14.5	SA Equity 3.8	SA Equity 4.8	SA Cash 5.0	SA Cash 4.8	SA Cash 5.3

Source: Morningstar Direct