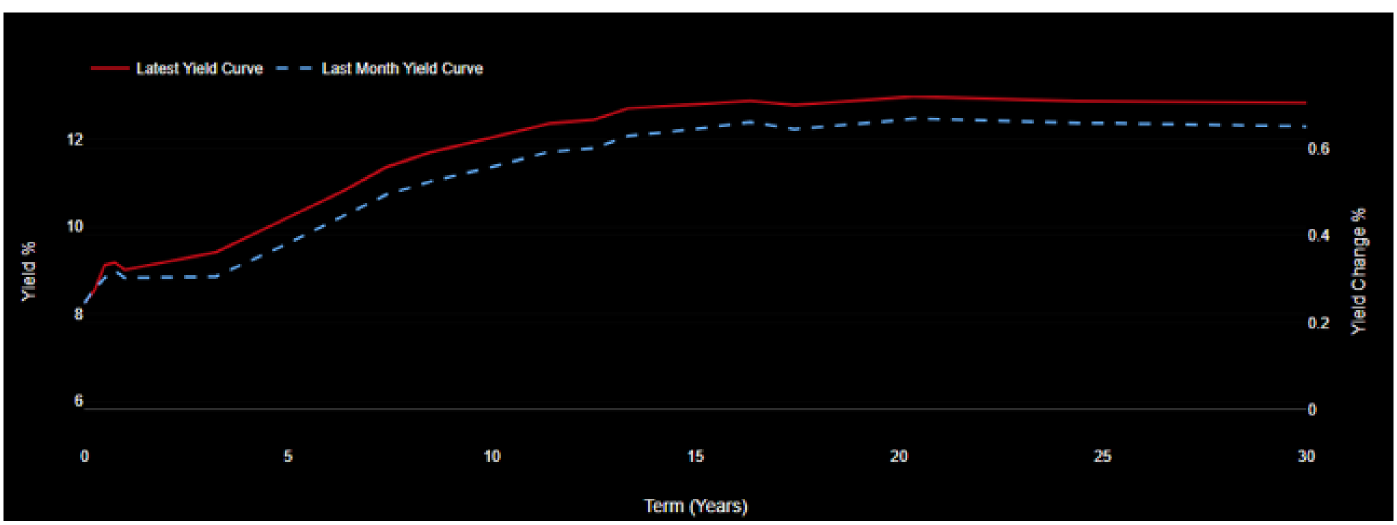
South African Market

Local financial markets followed global peers lower for a second consecutive month, with continued selling pressure across the market further dampening risk sentiment. Local equites ended the month lower with the FTSE/JSE ALSI losing (2.55%). Over the last 2 months the index has lost (7.20%) reversing most of the YTD gains achieved in the first seven months. Industrials and Financials were the biggest drags on the index, losing (4.12%) and (3.83%) respectively. The resource sector gained back some of its losses from the previous month advancing 1.21% during September. South African listed property is firmly negative YTD after falling (4.32%) by month end.

After four consecutive months of slowdown, the latest CPI report showed that both headline and core inflation accelerated again, although marginally, both coming in at 4.8%, up from 4.7% the previous month. Local price increases are still under control, being close to the mid-range of our 3-6% target for inflation. This still puts inflation at close to the midpoint of the SARB target range. Most of the upward pressure came from higher municipal electricity tariffs grew by 15.4% in 2023, higher than the 7.9% rise in 2022. Further pressure came from the higher fuel prices that rose by 2.2%, taking prices to the highest level of this year. Annual food inflation slowed further for a fifth consecutive month to 8.0% down from the previous month of 9.9%. At the month's meeting The Monetary Policy Committee kept South Africa's key interest rate steady at 8.25% for a second consecutive meeting. The decision to keep interest rates on hold wasn't unanimous, with two of the five members of the MPC voting to hike the interest rate. With concerns about South Africa's fiscal position recently intensifying and the 'higher for longer' narrative taking hold all eyes will be on the final 2023 MPC meeting to be held in November.

Local bonds also came under pressure in September as was the case with equities. Along with the broad-based sell-off in September, the ALBI lost (2.34%), bringing the YTD returns for the Index down to just 1.47%. Local bond yields rose, not just following international yields higher, but also because of the deterioration in the budgeted tax income since the start of the financial year. The South African 10-year bond yield kicked up from 11.39% to 12.04% during the month, before retracing marginally. The 20-year bond yield also surged to just under 13% even higher than during the 2020 Covid crash.

__South African Bond Yield curve:__



Source: RBonds

The Rand experienced a volatile month against the Dollar, despite the general increased risk aversion as well as rate hike fears, but ultimately ended the month largely flat. After breaching the R19/$ level at the beginning of September, the Rand strengthened and held up relatively well against the greenback to end the month at R18.91/$ down (0.02%).

The seasonally adjusted Absa Purchasing Managers’ Index (PMI) remained firmly in contractionary territory as it declined by 4.3 points in September to 45.4, down from 49.7 in August. The soft reading comes as restrictive borrowing costs and also sharp fuel price hikes at the start of September weighed on demand domestically. Furthermore, there was weak demand and constrained production as rolling blackouts increased again in September. The current level of the PMI could raise concerns about the prospects for GDP in the third quarter as the manufacturing sector is one of only two sectors that made a significant positive impact on economic growth in the second quarter. The September reading indicated the eighth consecutive month of contraction in South Africa’s factory activity and the sharpest decline since July 2021.

<u>ABSA PMI vs Production:</u>

Source: ABSA/BER

Asset Class Performances in ZAR

As of 30th September 2023	MTD	YTD	1 Year	3 Years*	5 Years*	10 Years*
Global Equity – MSCI ACWI	(4.65)	21.48	26.47	11.79	12.84	14.88
Global Property - FTSE EPRA NAREIT DR	(6.77)	5.73	7.20	5.67	5.73	10.38
Global Bond - Bloomberg GBL AGG	(3.47)	7.00	6.03	(3.99)	3.53	5.33
Global Cash - ICE LIBOR 1 Month	(0.07)	15.02	9.98	6.20	7.86	7.83
SA Equity - FTSE/JSE All Share	(2.55)	2.19	17.68	14.50	9.30	8.64
SA Property - FTSE/JSE SA Listed Prop	(4.08)	(5.35)	12.93	16.75	(3.54)	1.49
SA Bond - BEASSA ALBI	(2.34)	1.47	7.24	6.96	7.15	7.15
SA Cash - STeFI Call Deposit	0.63	5.66	7.29	5.00	5.38	5.80

ZAR/USD (negative = Rand strength)	0.02	11.22	4.66	4.24	5.92	6.53
Gold	(5.56)	7.95	10.73	0.69	12.38	7.91
Brent Crude Oil	9.17	22.84	13.58	38.01	8.93	5.09

*Returns more than 1 year are annualized.

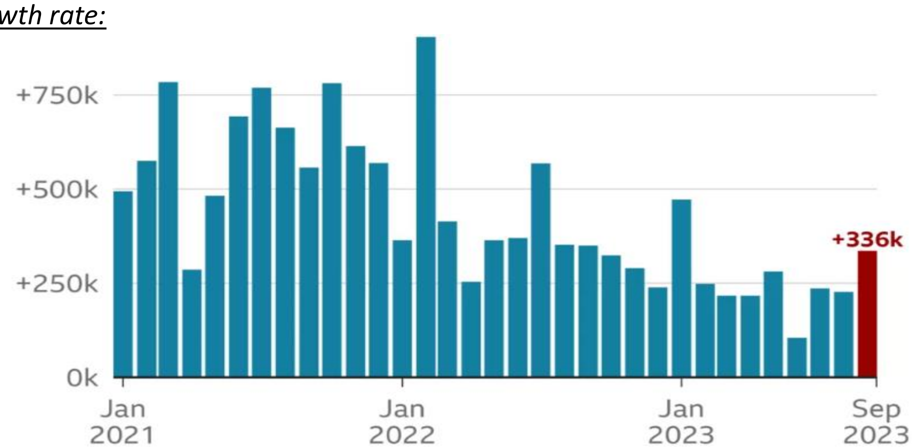
Global Markets

Global markets continued its downward trend in September following more hawkish comments from the central banks that negatively impacted the risk sentiment. Adding to market concerns was the continuing increase in crude oil prices. The sharp rise in oil prices also raised fears that global central banks will maintain high interest rates, to fight persistent inflation, at a time when investors are already concerned about slower and lower global growth. This heightened uncertainty has led to a drop in equity prices, with the MSCI ACWI ending the month down (4.17%). Both Developed and Emerging Markets finished in the red, with the MSCI World and Emerging Markets indices down 4.51% and 2.84%, respectively.

US CPI data revealed that headline inflation experienced its most significant increase in 14 months in September, primarily driven by a surge in fuel prices. Inflation rose to 3.7% up from 3.2% the previous month. Economists expected the data to show a 3.6% overall increase in inflation compared to the previous year. Annual inflation has now ticked up two months in a row after 12 consecutive months of decline. Core CPI, which excludes volatile food and energy items, decreased to 4.3% from the previous 4.7%. While encouraging, the sharp rally in crude oil puts an upward stress on future headline inflation prints. Fuel prices rose 10.6% compared to the previous month and fuel oil prices jumped 9.1%, according to the federal government, which in turn drove up transportation costs. The Federal Reserve announced it was leaving its benchmark interest rate unchanged at a 22-year high of 5.25%-5.5% at its September meeting, but signalled it could hike rates again in its fight to bring down inflation. The decision marked the second time this year that the Fed has left interest rates unchanged. The Fed's dot plot, which outlines its economic projections, signalled an expectation for one more rate hike before the year's end, the last meeting will take place in November.

The number of US jobs created surged more than expected last month. The US added 336,000 jobs in September, almost double the 170,000 estimated, according to figures released by the Labor Department, with the current unemployment rate in the US remaining at 3.8%. While job numbers gained traction for a second month, monthly wage growth remained moderate in September, with average hourly earnings rising 4.2% in the 12 months to September. The job market's resilience in the face of the Federal Reserve's attempts to cool down the economy has led to suggestions interest rates could remain tight for some time and that the current trend of 'higher for longer' is the order of the day. U.S. manufacturing took a further step towards recovery in September as production picked up. The ISM said that its manufacturing PMI increased to 49.0 last month, the highest reading since November 2022, up from 47.6 in August. Still, September marked the 11th straight month that the PMI remained below 50, which indicates contraction in manufacturing. That is the longest such stretch since the 2007-2009 Recession.

<u>US monthly job growth rate:</u>



Source: US Bureau of Labor Statistics

In the UK, there was slight relief with the CPI figures, which decreased to 6.7% in September from the previous month's 6.8%. Nonetheless, the economy continues to grapple with a bleak growth outlook, primarily due to consumers wrestling with the escalating cost of living. This challenge becomes evident when observing the 1.4% year-on-year decline in retail sales for September, marking the 17th consecutive month of decline. Given this economic slowdown, the BoE opted to maintain interest rates unchanged at its September meeting, despite inflation persisting significantly above the 2% target. The Monetary Policy Committee did, however, reiterate its readiness to raise borrowing costs if necessary, underscoring the commitment to keeping rates elevated to restore inflation to more typical levels.

Led by the US, global government bond yields peaked in September before slightly retreating at the quarter's end. Rising borrowing costs have pushed the 10-year Treasury yield to a 16-year high of 4.57%, up from 3.81% the previous month and the two-year yield increased from 4.87% to 5.05%. That's up from a record low of 0.5% in the summer of 2020, when the Fed slashed interest rates to near zero to stimulate an economy bruised by pandemic lockdown. Several issues have been driving bond yields higher over the last two months. Most prominent is the continued strength of the U.S. economy, especially the jobs market, which is seen as the reason the Fed will keep interest rates at or near current levels for longer than what had been expected. In addition, the market is adjusting to a flood of new government bond issuance. Global sovereign bonds lost nearly 3% in September. Global bonds have delivered a negative return for the first nine months of the year, barely rebounding from last year’s record sell-off. However, since the best predictor of the longer-term return from bonds is the starting yield, investors can now look forward to better returns looking forward.

US government longer dated Bond Yield (%)changes over the 3rd Quarter of 2023:

Source: Bloomberg

Asset Class Performances in USD

As of 30th September 2023	MTD	YTD	1 Year	3 Years*	5 Years*	10 Years*
Global Equity – MSCI ACWI	(4.17)	9.72	20.65	7.34	6.56	7.90
Global Property - FTSE EPRA NAREIT DR	(6.30)	(4.51)	2.26	1.47	(0.15)	3.67
Global Bond – Bloomberg GBL AGG	(2.98)	(3.36)	1.16	(7.81)	(2.23)	(1.07)
Global Cash - ICE LIBOR 1 Month	0.45	3.90	4.94	1.98	1.87	1.28
SA Equity - FTSE/JSE All Share	(2.05)	(7.71)	12.26	9.95	3.22	2.04
SA Property - FTSE/JSE SA Listed Prop	(3.59)	(14.52)	7.73	12.11	(8.91)	(4.68)
SA Bond - BEASSA ALBI	(1.85)	(8.35)	2.30	2.71	1.19	0.64
SA Cash - STeFI Call Deposit	1.16	(4.55)	2.38	0.83	(0.47)	(0.63)

ZAR/USD (negative = dollar strength)	(0.02)	(10.09)	(4.45)	(4.07)	(5.59)	(6.13)
Gold	(5.08)	(2.50)	5.63	(3.31)	6.13	1.35
Brent Crude Oil	9.73	10.94	8.36	32.52	2.87	(1.30)

*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 September 2023.

	YTD	9/2023	9/2022	9/2021	9/2020	9/2019	9/2018	9/2017	9/2016	9/2015	9/2014	9/2013	9/2012
Best	Global Equity 21.5	Global Equity 26.5	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 Cash 15.0	SA Equity 17.7	SA Cash 4.2	SA Equity 23.2	Global Cash 11.1	SA Fixed Income 11.4	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 Property 5.7	SA Prop-erty 12.9	SA Equity 3.5	Global Property 18.8	SA Cash 5.3	Global Cash 9.7	SA Fixed Income 7.1	SA Prop-erty 9.5	SA Fixed Income 7.6	Global Cash 22.6	SA Equity 15.4	SA Equity 27.0	Global Equity 24.9
	SA Cash 5.7	Global Cash 10.0	SA Fixed Income 1.5	Global Equity 16.9	SA Fixed Income 3.6	Global Equity 8.1	Global Cash 6.7	SA Fixed Income 8.2	SA Cash 6.6	Global Equity 15.4	SA Prop-erty 15.1	Global Cash 22.2	SA Equity 24.4
	SA Equity 2.2	SA Cash 7.3	Global Equity -5.5	SA Fixed Income 12.5	SA Equity 2.0	SA Cash 6.6	SA Cash 6.6	SA Cash 6.9	SA Equity 6.6	SA Fixed Income 7.0	Global Cash 12.4	SA Prop-erty 10.3	SA Fixed Income 17.0
	SA Fixed Income 1.5	SA Fixed Income 7.2	Global Property -7.4	SA Cash 3.5	Global Property -9.3	SA Equity 1.9	SA Equity 3.3	Global Cash -0.9	SA Prop-erty 3.8	SA Cash 5.7	SA Fixed Income 5.8	SA Cash 4.8	SA Cash 5.2
Worst	SA Prop-erty -5.4	Global Property 7.2	SA Prop-erty -8.7	Global Cash -9.7	SA Prop-erty -46.1	SA Prop-erty -2.7	SA Prop-erty -15.7	Global Property -2.0	Global Cash -0.1	SA Equity 4.8	SA Cash 5.2	SA Fixed Income 3.1	Global Cash 2.9

Source: Morningstar Direct