ECONOMIC REPORT
by Glacier Research

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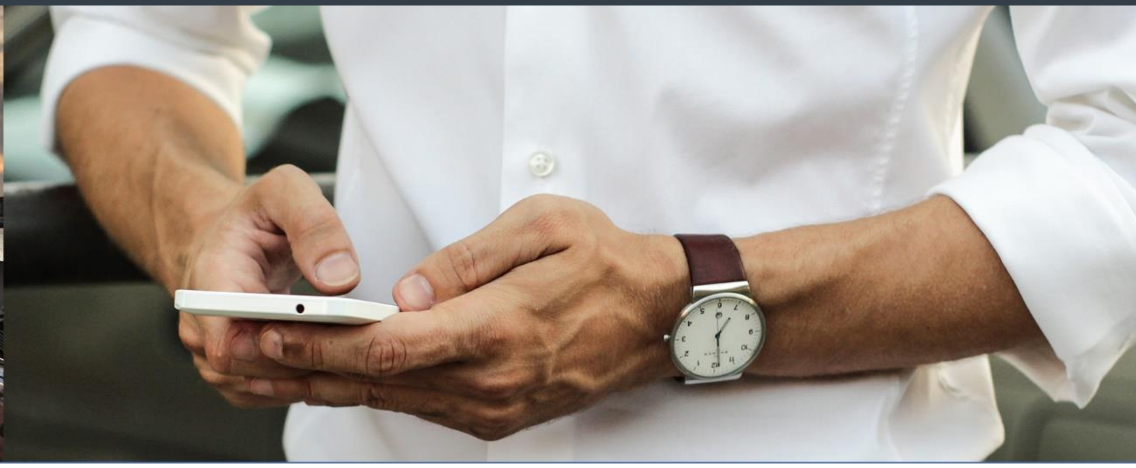
by Sanlam

Review period: November 2023

Introduction

In November, South African equity markets surged alongside global counterparts, with the FTSE JSE All Share Index rising 8.55%. All sectors contributed to robust returns, with SA industrials leading at +10.10%, driven by Naspers (+19.4%) and Prosus (+19.7%) on strong results, while industrials gained 2.56% for the month. Financials (+8.32%) performed well, boosted by Capitec (+18.5%) and Investec (+18.4%). Resources (+6.40%) saw solid gains, particularly in gold mining stocks like Harmony (+35.4%) and Gold Fields (+14.6%). SA Listed Property rebounded by 9.04%, with Nepi Rockcastle (+15.2%) contributing significantly. Local bonds, represented by the FTSE JSE All Bond Index, increased 4.73% as bond yields eased amid a risk-on environment favouring emerging market assets.

Global markets rebounded in November, reversing losses from the previous three months due to signs of economic moderation in the US and declining inflation in developed markets. Positive data releases supported the belief that central banks have reached the peak of their tightening cycles, benefiting both equities and fixed income. However, Chinese equities posed challenges for emerging markets, as China entered December with year-to-date benchmarks still lower for both domestic and foreign-listed companies. Ongoing issues in China's real estate sector, impacting consumer sentiment, and investigations into companies like Zhongzhi Enterprise Group further contributed to market dynamics.

Glacier Financial Solutions (Pty) Ltd, I A member of the Sanlam Group | Private Bag X5 I Tyger Valley 7536 I Email: client.services@glacier.co.za | Tel +27 21 917 9002 I Fax +27 21 947 9210 I Web www.glacier.co.za | Reg No 1999/025360/07 I Licensed Financial Services Provider

Domestic highlights

- SA unemployment – Q3 2023
- SARB Monetary Policy Decision

SA unemployment – Q3 2023

In Q3 2023, SA's unemployment rate dropped to 31.9%, the lowest in a year, compared to 32.6% in the previous quarter. Unemployment declined by 72 000 to 7.8 million, employment increased by 399 000 to 16.7 million, and the labour force grew by 326 000 to 24.6 million. The expanded unemployment rate, including those discouraged from seeking work, decreased to 41.2% from 42.1% in Q2 2023. This improvement is attributed to reduced power disruptions and lower transport costs, encouraging more active job searches. The formal sector created the most jobs (287 000), and total employment has now exceeded pre-pandemic levels, surpassing Q4 2019 by 325 000 jobs. Despite this recovery, the unemployment rate remains higher than the pre-crisis level of around 30%, as labour force growth outpaces job creation, and a significant number of discouraged workers persist.

Across sectors, the finance industry led in job gains, creating 237 000 positions, followed by community and social services with 119 000. Agriculture, construction, and domestic trade also saw employment growth. In contrast, job losses occurred in manufacturing (-50 000), mining (-35 000), and transport (-20 000). The declines in mining and manufacturing result from challenges such as weakened global demand, lower commodity prices, restricted electricity supply, and logistical issues. Notably, the youth unemployment rate for those aged 15 to 24 reached a one-year low of 58%.

SARB Monetary Policy Decision

In November, the South African Reserve Bank (SARB) Monetary Policy Committee (MPC) unanimously opted to maintain the key repo and prime interest rates at 8.25% and 11.75%, respectively, aligning with market expectations. This decision aimed to solidify inflation expectations around the target midpoint and instil confidence in achieving the inflation goal. While addressing electricity shortages and logistical challenges, the MPC also underscored fiscal risks as impediments to growth and potential contributors to inflation. These risks encompass sluggish revenue growth, substantial public sector wage agreements, potential additional financial aid for large state-owned enterprises, and heightened financing needs. These factors could increase the country's risk profile and expose the exchange rate to greater vulnerability.

The SARB expects inflation to ease and reach the midrange of the 3% to 6% target by Q4 2024. The inflation forecast for this year was adjusted slightly down to 5.8% (from 5.9% in September) and to 5% for 2024 (from 5.1%). Future projections indicate stability at 4.5% for both 2025 and 2026. In terms of economic activity, the SARB raised its GDP growth forecast to 0.8% for this year (up from 0.7%), 1.2% for 2024 (compared to 1%), and 1.3% for 2025 (compared to 1.1%).

SA economy

In October 2023, SA's annual inflation rate rose for the third consecutive month to 5.9%, compared to 5.4% in September. This marks the highest level in five months and exceeds market estimates of 5.5%, approaching the upper limit of the SARB's inflation target range. The upward pressure was notable in categories such as food & non-alcoholic beverages (+8.7%), transportation (+7.4%), health (+6.4%), and restaurants & hotels (+6.3%). However, the annual core inflation, which excludes food, non-alcoholic beverages, fuel, and energy, eased to a 14-month low of 4.4% in October, down from 4.5% in the previous month and in line with market forecasts of 4.3%. On a monthly basis, consumer prices increased by 0.9% in October, marking the steepest rise in three months and surpassing market expectations of 0.5%.

In October 2023, South Africa's Producer Price Inflation (PPI) continued its acceleration for the third consecutive month, reaching a five-month high of 5.8% year-on-year, up from 5.1% in the previous month, aligning with market expectations. The primary contributors to the headline PPI annual inflation rate included coke, petroleum, chemical, rubber, and plastic products (+5.8%); food products, beverages, and tobacco products (+5%); metals, machinery, equipment, and computing equipment (+6.3%); and transport equipment (+5.8%). On a monthly basis, producer prices increased by 1% in October, following a 1.5% rise in the prior month, just below market estimates of 1.1%.

The month also saw a South African rand depreciation, despite a generally weaker US dollar. The rand declined by 1.13% against the dollar, 5.03% against the British Pound, and 4.07% against the euro.

	Jun'23	Jul'23	Aug'23	Sep'23	Oct'23	Nov'23
CPI (y/y)	5.4%	4.7%	4.8%	5.4%	5.9%	5.7% (forecast)
PPI (y/y)	4.8%	2.7%	4.3%	5.1%	5.8%	5.6% (forecast)

Sources: Trading Economics

	30 November 2021	30 November 2022	30 November 2023
USD/ZAR	15.87	17.17	18.85
GBP/ZAR	21.10	20.70	23.79
EUR/ZAR	17.99	17.87	20.52

Source: IRESS

SA markets

In November, local equity markets delivered robust performance across all sectors, resulting in an 8.55% FTSE JSE All Share index gain. SA industrials led with a 10.10% increase, propelled by strong results from Naspers (+19.4%) and Prosus (+19.7%), while industrials posted a solid performance at 2.56%. Key rand hedges, including Richemont (+6.1%), Anheuser-Busch InBev (+11.4%), and British American Tobacco (+7.7%), benefited from a weaker rand and strong global equity markets. Financials (+8.32%) thrived, driven by impressive gains from Capitec (+18.5%) and Investec (+18.4%). Resources (+6.40%) experienced solid gains, particularly in gold mining stocks such as Harmony (+35.4%) and Gold Fields (+14.6%), as the gold price moved higher during the month.

Regarding market capitalization, large-cap stocks led the way with a substantial 9.06% gain in November, followed by mid-cap stocks, which increased by 5.28%, and small-cap stocks, posting a 4.82% gain. The standout performer for the month was SA Listed Property, which experienced a noteworthy rebound of 9.04%. This surge was fuelled by prevailing risk-on sentiment, and the sector was further propelled by a significant increase in the index heavyweight Nepi Rockcastle (+15.2%).

Shifting the focus to fixed income, local bonds, as represented by the FTSE JSE All Bond Index, recorded a 4.73% increase as the yield curve moved lower, particularly in the longer-dated segment. The resilience of the South African bond market was primarily driven by a risk-on environment, fostering heightened interest in emerging market asset classes. Notably, 12+ year bonds showed the most significant increase at 7.34%, followed by the seven–12-year range with a rise of 3.65%. The three to seven year range witnessed a 2.47% increase, and the one to three year range advanced by 1.89% in November.

Foreigners were net sellers of R1.81 billion worth of SA equities and net buyers of R1.12 billion worth of SA bonds during the month.

LOCAL RETURNS IN ZAR

2022	September 2023	October 2023	November 2023	2023 - YTD
SA SMALL CAPS 7.55%	SA CASH 0.68%	SA BONDS 1.71%	SA TOP 40 9.09%	SA BONDS 8.09%
SA CASH 5.21%	SA MID CAPS -1.12%	SA CASH 0.70%	SA PROPERTY 9.04%	SA TOP 40 7.49%
SA BONDS 4.26%	SA SMALL CAPS -1.96%	SA SMALL CAPS -2.30%	SA EQUITY 8.55%	SA CASH 7.31%
SA TOP 40 4.21%	SA BONDS -2.34%	SA MID CAPS -3.19%	SA MID CAPS 5.28%	SA EQUITY 7.11%
SA EQUITY 3.58%	SA EQUITY -2.55%	SA PROPERTY -3.33%	SA SMALL CAPS 4.82%	SA SMALL CAPS 4.88%
SA MID CAPS 1.60%	SA TOP 40 -3.07%	SA EQUITY -3.44%	SA BONDS 4.73%	SA MID CAPS 1.66%
SA PROPERTY -1.90%	SA PROPERTY -3.76%	SA TOP 40 -3.67%	SA CASH 0.68%	SA PROPERTY 0.71%

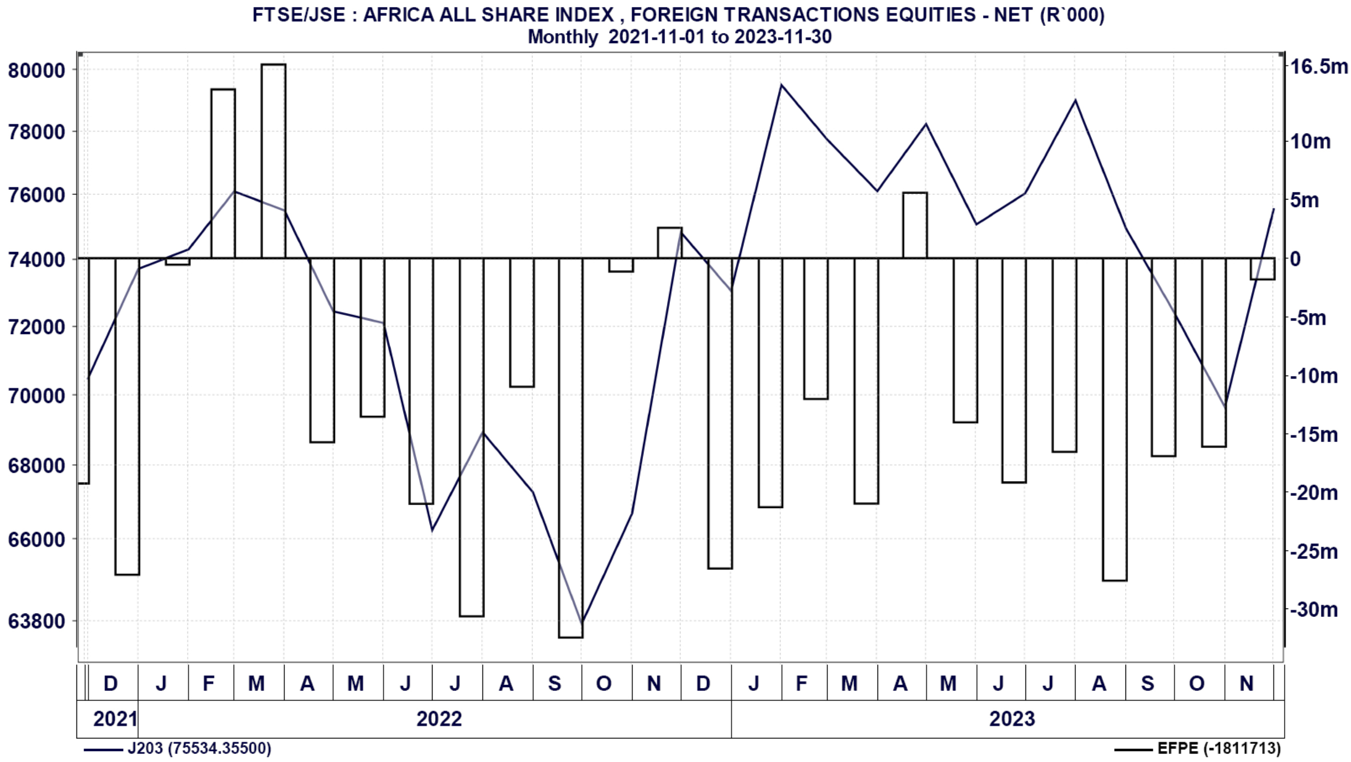
Source: Morningstar & Glacier Research

In November, South Africa's domestic equity markets ended the month with an 8.55% gain. The primary driver of this positive performance was the SA industrials sector, which surged by 10.10%, followed by financials (+8.32%). The Resources sector also saw a notable increase of 6.40%, and industrials gained 2.56% for the month.

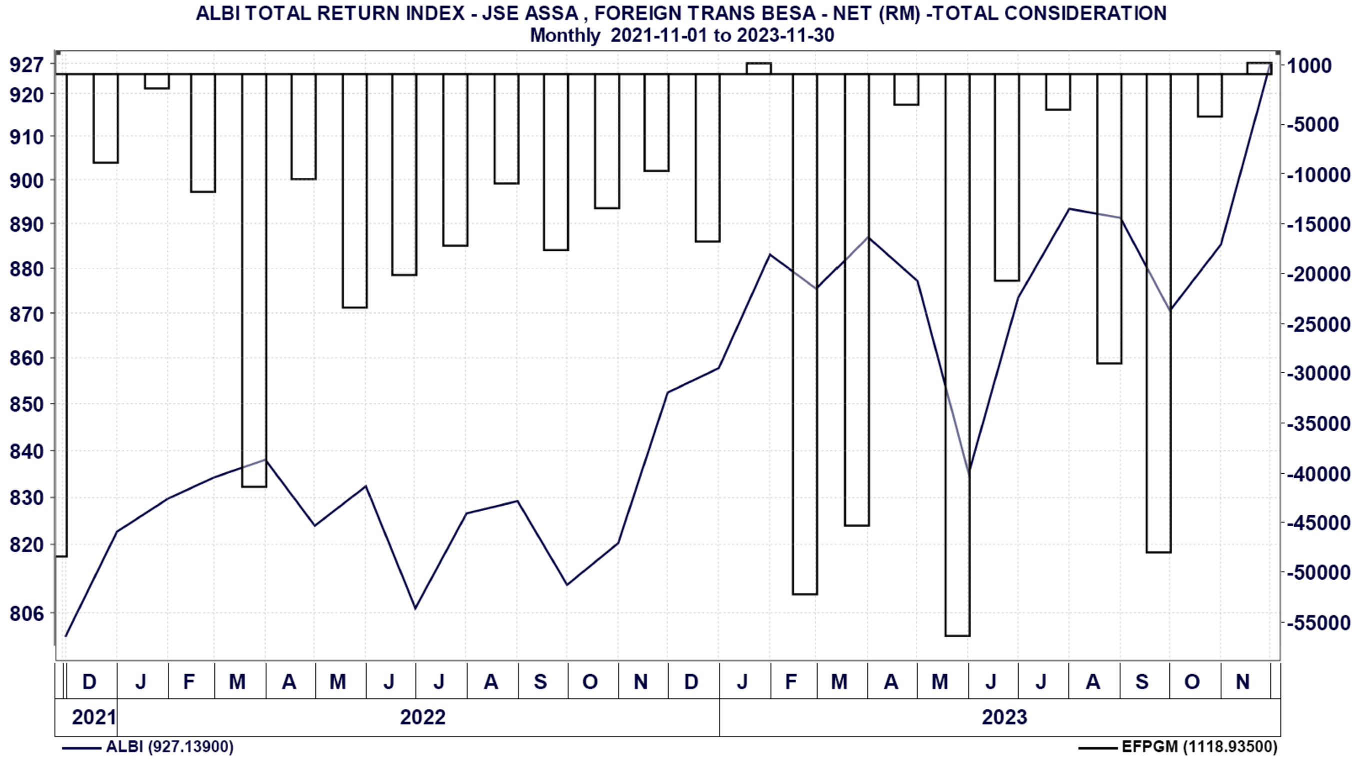
LOCAL SECTOR RETURNS IN ZAR

2022	September 2023	October 2023	November 2023	2023 - YTD
FINANCIALS 8.61%	GENERAL RETAILERS 2.94%	GENERAL RETAILERS 0.61%	GENERAL RETAILERS 14.03%	GENERAL RETAILERS 33.80%
RESOURCES 8.61%	RESOURCES 1.21%	CONSUMER SERVICES -1.87%	SA INDUSTRIALS 10.10%	CONSUMER SERVICES 22.25%
CONSUMER GOODS 6.97%	INDUSTRIALS -0.26%	FINANCIALS -1.99%	FINANCIALS 8.32%	INDUSTRIALS 16.54%
SA INDUSTRIALS -3.71%	CONSUMER GOODS -2.86%	CONSUMER GOODS -2.47%	CONSUMER GOODS 7.35%	SA INDUSTRIALS 15.80%
CONSUMER SERVICES -4.47%	FINANCIALS -3.74%	RESOURCES -3.17%	RESOURCES 6.40%	FINANCIALS 15.40%
GENERAL RETAILERS -6.19%	SA INDUSTRIALS -4.12%	INDUSTRIALS -3.56%	CONSUMER SERVICES 5.61%	CONSUMER GOODS 7.65%
INDUSTRIALS -13.26%	CONSUMER SERVICES -4.96%	SA INDUSTRIALS -4.51%	INDUSTRIALS 2.56%	RESOURCES -11.81%

Source: Morningstar & Glacier Research



Source: IRESS December 2023



Source: IRESS December 2023

Global markets

November witnessed a robust upturn in global equity markets, marking a reversal of losses sustained in the preceding three months. This positive shift was driven by tentative signs of economic moderation in the US and a decrease in inflation across developed markets. Broadly, data releases supported the notion that central banks had reached the peak of their tightening cycles, benefiting both equities and fixed income. Furthermore, tensions between the US and China appeared to ease after the Biden-Xi meeting.

As a result, the MSCI World, MSCI World ACWI, and MSCI Emerging Markets Index registered significant gains of +9.38%, +9.23%, and +8.00%, respectively, in US dollar terms. European equity markets emerged as standout performers, closely trailed by the technology-driven US market, while the Chinese equity market continued to underperform significantly. While most equity sectors experienced a surge in November, the energy sector encountered a downturn in stock prices due to the decline in energy prices. Brent crude oil, witnessing a month-on-month decrease of -5.2%, suffered from negative sentiment linked to Chinese economic activity. Worries about shrinking refining margins and increasing stockpiles for China, the world's largest oil importer, impacted demand forecasts, contributing to the sector's challenges. Analysing global equity styles, growth (+11.21%) recorded the most substantial gain, followed by momentum (+9.30%), quality (+9.08%), and value (+7.38%).

Fixed income markets also yielded positive performance in November. The broad gauge of global bonds, represented by the Bloomberg Global Aggregate Bond Index, registered a notable 5.04% increase (in USD) during the month. This upward trend was mainly attributed to the decline in government bond yields, fuelled by optimism about potential rate cuts in the coming year. In November, most global central banks kept interest rates unchanged, carefully monitoring economic conditions while prioritising inflation control.

The combination of slowed growth and decreasing inflation strongly supported bond yields in November. The US 10-year treasury yield experienced a decrease from 4.93% to 4.34%, despite Moody's negative outlook downgrade on US sovereign debt. The market responded by removing expectations of Fed rate hikes and factoring in an earlier-than-anticipated cycle of rate cuts. In the UK, bond yields declined over the month, signalling a rise in bond prices, as doubts surfaced about the previously held belief in a "higher for longer" interest rate scenario. This shift in perception resulted in a more straightforward path to lower rates, leading to a decrease in the UK’s 10-year Gilts from 4.51% to 4.18%. Growing confidence among investors that the European Central Bank (ECB) would implement rate cuts as early as March, coupled with statements from traditional ECB hawk Isabel Schnabel, buoyed the markets. Schnabel's remarks suggested that additional rate hikes were no longer suitable given the significant drop in inflation, contributing to a decrease in 10-year German bund yields from 2.81% to 2.45%.

United States

US equities displayed robust gains, buoyed by the release of October inflation data. The data sparked optimism that inflation is trending toward the Federal Reserve's 2% target, potentially alleviating the need for further interest rate hikes. Consequently, the tech-centric NASDAQ surged by +10.83%, driven by the continued strong performance of mega-cap technology stocks. The Dow Jones (+9.15%) and S&P 500 (+9.13%) also experienced significant rallies, with most sectors closing in positive territory. The cooler-than-expected inflation reading benefited rate-sensitive areas such as real estate and technology stocks. The consumer discretionary sector performed strongly, while the energy sector underperformed.

The Federal Reserve opted for a second consecutive pause, maintaining its target rate range at 5.25%-5.50%. Fed Chair Powell indicated that the rise in long-duration treasury yields had lessened the imperative to tighten rates substantially. Although Powell didn't rule out further rate hikes, investors widely anticipate the Fed to keep rates unchanged in December.

The US Consumer Price Index (CPI) for October revealed lower-than-expected figures. Headline inflation slowed to 3.2% year-on-year, down from 3.7% in September and August and below the forecasted 3.3%. Core inflation dipped to an over two-year low of 4% in October, compared to 4.1% in the previous month. Reduced energy and gasoline prices chiefly drove the decline, and lower travel costs and hotel rates.

Retail spending saw a modest decline in October, indicating a moderation in consumer spending patterns following a robust performance in the middle of the year. Economic data painted a mixed picture of the US economy. The second estimate of Q3 GDP was revised upward to 5.2% (annualised), surpassing the initial reading of 4.9% and Q2 growth of 2.1%. Services PMI in November reached 50.8, the highest in four months, indicating continued growth in the services sector. However, the manufacturing sector exhibited weakness, with the S&P manufacturing PMI indicating contraction at 49.4 in November, down from 50.0 in October, suggesting a renewed deterioration in operating conditions due to lower new orders.

Eurozone

In November, Eurozone shares experienced gains amid more significant-than-anticipated declines in inflation, fostering optimism that price pressures might be alleviating and paving the way for potential interest rate cuts. Among all major indices, the European market showed the most substantial improvement, with the Euro Stoxx 50 index, measured in euros, achieving a return of +8.04% (or +11.52% in USD terms). In terms of sectors, top performers in the Eurozone included real estate, information technology, and industrials, while the energy sector lagged, along with less economically sensitive sectors like healthcare.

Eurostat's flash CPI release for November in Europe revealed a softening in headline and core inflation. Headline inflation decelerated to 2.4% year-on-year from October's 2.9%, while core inflation dropped to 3.6% year-on-year from the prior month's 4.2%. Lower energy prices played a significant role in this decline, and within the core metrics, inflation in both goods and services showed signs of easing. Despite recent improvements, the minutes of the European Central Bank's latest meeting indicated a continued vigilance toward potential upside inflation risks.

On the production front, the composite PMI was revised upward to 47.6 in November 2023, surpassing the preliminary estimate of 47.1 and exceeding October's 35-month low of 46.5. Although this marked the highest PMI reading since July, it still indicated a notable deterioration in economic conditions. Manufacturing production increased to 44.2 in November from 43.1 in October, while the services sector output increased to 48.7 in November from 47.8 in October.

United Kingdom

UK equities exhibited a monthly uptick, albeit lagging behind various other developed regions. Particularly noteworthy is the outperformance of small and mid-cap equities in the UK compared to the broader market, driven by increasing optimism that interest rates may have plateaued. The robust performance of the sterling hindered the larger, internationally exposed companies. The decision by the Bank of England to maintain rates at the beginning of the month further uplifted markets. Consequently, the FTSE 100 index showed a positive return in pound sterling terms of +2.29% (or +6.71% in USD terms). Sectors such as information technology and real estate emerged as top performers, given their sensitivity to the outlook for interest rates. At the same time, laggards included the energy sector and defensive sectors like healthcare and consumer staples, as investors favoured more cyclical areas of the market.

During the November 2nd meeting, the Bank of England opted to keep rates at 5.25% for the second consecutive time. Governor Andrew Bailey emphasised that it was premature to consider rate cuts and indicated that rates would need to remain high for an "extended" period. Despite expectations of a contraction, the UK economy stagnated in the third quarter. Headline and core inflation experienced a larger-than-anticipated decline, with the October consumer price index falling sharply to an annual rate of 4.6%, down from the previous month's 6.7% and below economist expectations of 4.8%. The significant drop in headline inflation was partly influenced by Ofgem, the energy regulator, who implemented a reduced-price cap in line with the decrease in wholesale gas prices. Additionally, a deceleration in food price inflation contributed to the overall decline.

There were indications that economic activity might have bottomed in the UK, as the flash November services Purchasing Managers' Index crossed the critical 50 mark that separates expansion from contraction. The composite PMI rose to 50.1 in November 2023 from 48.7 in October, surpassing preliminary estimates of 48.7 and indicating a stabilisation of UK private sector output after marginal reductions in the previous three months. The service economy returned to business activity expansion, and the downturn in manufacturing production softened.

Spot Rates	30 November 2021	30 November 2022	30 November 2023
EUR/USD	1.13	1.04	1.09
GBP/USD	1.33	1.21	1.26
USD/JPY	113.13	138.03	148.19

Source: IRESS

Emerging markets and Asia

Once again, Emerging Markets (EMs) showed a relative underperformance compared to developed markets, primarily due to challenges in Chinese equities stemming from ongoing struggles in the real estate sector, which continue to impact consumer sentiment. However, global markets responded positively to the US Federal Reserve's decision to maintain interest rates, and the United States reported better-than-expected inflation data, indicating a softening trend. This favourable environment contributed to the performance of equities, resulting in the MSCI EM index recording a return of +8.00%, in contrast to the +9.38% return of the MSCI World index, both in US dollar terms.

In China, macroeconomic data exceeded expectations, with retail sales rising 7.6% year-on-year in October. Despite this positive trend, the housing market remains a significant drag on growth, with new home sales continuing to decline on a year-over-year basis. The People's Bank of China injected liquidity into the Chinese banking system, and a potential required reserve ratio cut is anticipated before the end of the year. However, it is likely that additional fiscal stimulus will be required to bolster consumer sentiment and address deflationary pressures. The meeting between the Chinese and US presidents resulted in agreements on energy transition and climate change, potentially signalling lower tensions between the two superpowers and positive implications for global markets.

Among specific EMs, Egypt emerged as the top-performing market index, followed by Korea, where tech-related stocks experienced a strong rally. Mexico and Brazil posted double-digit growth in US dollars, with currency gains supporting the former and signs of disinflation and a policy rate cut to the SELIC rate of 12.25%, boosting the latter. Taiwan also benefited from a tech stock rally.

Greece, Poland, and Hungary also outperformed, with Poland's markets benefiting from October's electoral results and signs of strength in consumption contributing to positive sentiment. South Africa marginally underperformed, facing challenges such as increased power blackouts and a ports crisis. Energy-related markets like UAE, Qatar, and Saudi Arabia underperformed due to softer energy prices. Thailand stood out as the weakest index market, attributed to a weaker-than-expected Q3 GDP print.

GLOBAL RETURNS IN ZAR

2022	September 2023	October 2023	November 2023	2023 - YTD
FTSE 100 -0.87%	SHANGHAI STOCK EXCHANGE -1.05%	GLOBAL BONDS -1.68%	EURO STOXX 50 12.73%	EURO STOXX 50 34.85%
EURO STOXX 50 -9.44%	FTSE 100 -1.86%	S&P 500 -2.58%	GLOBAL PROPERTY 12.19%	S&P 500 34.54%
GLOBAL BONDS -10.71%	MSCI EM -3.11%	EURO STOXX 50 -3.29%	MSCI WORLD 10.56%	MSCI WORLD 31.41%
S&P 500 -12.70%	GLOBAL BONDS -3.41%	MSCI WORLD -3.38%	S&P 500 10.31%	FTSE 100 21.81%
MSCI WORLD -12.73%	MSCI WORLD -4.80%	SHANGHAI STOCK EXCHANGE -3.43%	MSCI EM 9.17%	MSCI EM 17.72%
MSCI EM -14.81%	S&P 500 -5.25%	MSCI EM -4.36%	FTSE 100 7.87%	GLOBAL BONDS 13.04%
SHANGHAI STOCK EXCHANGE -19.53%	EURO STOXX 50 -5.65%	FTSE 100 -4.72%	GLOBAL BONDS 6.18%	GLOBAL PROPERTY 12.44%
GLOBAL PROPERTY -20.90%	GLOBAL PROPERTY -6.77%	GLOBAL PROPERTY -5.21%	SHANGHAI STOCK EXCHANGE 3.31%	SHANGHAI STOCK EXCHANGE 3.26%

Source: Morningstar & Glacier Research