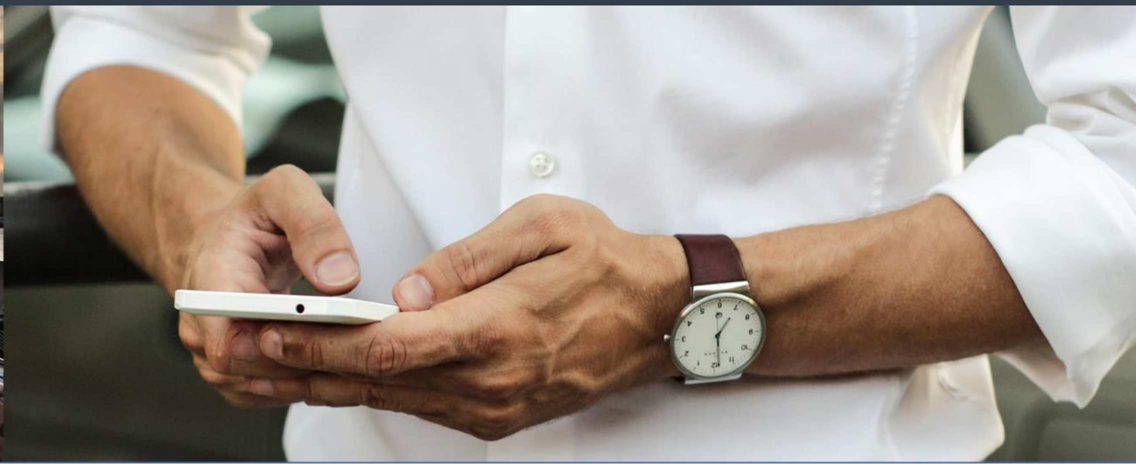
ECONOMIC REPORT

by Glacier Research

glacier by Sanlam



Review period: May 2023

Introduction

In May, the FTSE/JSE All Share index experienced a decline of 3.92%, with all major sectors delivering negative returns for the month. The financial sector (-7.93%) was the biggest detractor, primarily due to the poor performance of prominent index components such as Capitec (-13.7%) and FirstRand (-6.4%). Resources managed to perform relatively better than other sectors albeit generating a negative return of -2.22%, with gold shares and rand hedges demonstrating resilience. SA industrials (-3.27%) and industrials (-0.81%) followed closely with their own declines. SA listed property experienced a decline of -5.41%. However, European-focused counters within the property sector outperformed, capitalising on the weakness of the rand. Additionally, local bonds concluded the month on a lower note as yields increased across the curve, resulting in lower prices.

Global markets had a relatively lacklustre performance in the past month, as most equity markets experienced decline. However, the US equity market stood out as an exception, driven higher by the tech sector and witnessing substantial gains, particularly in mega-cap tech stocks. The lifting of the US debt ceiling posed concerns for market participants, but the conclusion of debt negotiations without major disruptions alleviated fears of a US default. Nevertheless, the lingering uncertainty surrounding this issue led to significant volatility across various risk assets throughout the month.

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Domestic highlights

SA unemployment

In the first quarter of 2023, South Africa's unemployment rate saw a slight increase to 32.9%, up from 32.7% in the final quarter of 2022. This marked the first rise in over a year. The expansion of the labour force by 438 000 individuals or 1.8% quarter-on-quarter was driven by new graduates and matriculants entering the job market, as well as previously discouraged jobseekers re-entering the market. Despite challenging economic prospects exacerbated by acute loadshedding, there was a positive development with the creation of 258 000 jobs. However, since the labour force grew at a higher rate than employment, the number of unemployed individuals also increased by a significant 179 000, resulting in a higher unemployment rate.

Among various sectors, the finance sector experienced the most job gains with 184 000 positions created, followed by community and social services with 175 000. Conversely, there were job losses in private households (-85 000), trade (-28 000), mining (-24 000), construction (-11 000), and manufacturing (-2 000) as businesses struggled to operate amid the power crisis. The expanded definition of unemployment, which includes those discouraged from seeking work, stood at 42.4% in the first quarter, a slight decrease from 42.6% in the fourth quarter of 2022. The youth unemployment rate, measuring jobseekers between 15 and 24 years old, rose to 62.1% in the first quarter, up from 61% in the previous three-month period.

SARB Monetary Policy decision

During its May meeting, the South African Reserve Bank (SARB) implemented a significant repo rate hike of 50 bps, bringing it to 8.25%. This decision exceeded market expectations and resulted in borrowing costs reaching their highest level since May 2009, raising the prime lending rate to 11.75%. The rate hike was supported by a unanimous decision from the SARB, driven by concerns over rising inflation expectations and persistent upside risks to the inflation outlook. Several factors influenced this decision, including the substantial depreciation of the rand, which exceeded R19 to the US dollar in May, as well as apprehension regarding potential tightening by the US Federal Reserve Bank. Additionally, the damaging effects of loadshedding on inflation played a prominent role. This latest rate increase marked the 10th consecutive hike by the SARB, totalling 475 bps since the initiation of the tightening policy in November 2021.

The Monetary Policy Committee (MPC) of the SARB maintained its focus on the existing upside risks, which remained unchanged. These risks encompassed persistent global inflation, expectations of tighter global oil markets, higher domestic electricity tariffs, increases in other administrative prices, elevated wage demands, and elevated domestic food inflation due to rising production costs resulting from severe loadshedding and the potential impact of drier weather conditions during the upcoming planting season. The SARB also revised its inflation projections, with a new forecast of 6.2% for 2023, up from the previous estimate of 6.0%. For 2024, the projected inflation rate was adjusted to 5.1% from the previous estimate of 4.9%. Furthermore, the SARB revised its GDP forecast for 2023, now expecting a slight increase in economic growth to 0.3%, compared to the previous estimate of 0.2%.

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SA economy

In April 2023, South Africa's annual headline inflation, as measured by the Consumer Price Index (CPI), reached an 11-month low of 6.8%, decreasing from 7.1% in March. This figure was below market expectations of 7%, but still remained above the upper limit of the South African Reserve Bank's (SARB) target range of 3%-6%. The moderation in inflation was primarily driven by milder increases in prices for transportation (7.6% compared to 8.9% in March), restaurants and hotels (5.1% compared to 6.4%), and household content and services (6.5% compared to 6.9%). However, prices for food and non-alcoholic beverages remained elevated, recording a rate of 13.9% in April, although it decelerated from 14% in March. Additionally, the annual core inflation, which excludes the prices of food, non-alcoholic beverages, fuel, and energy, rose to its highest level in over six years, reaching 5.3% in April, slightly up from 5.2% in March, in line with market forecasts.

In March 2023, South Africa's retail trade recorded a decline of 1.6% compared to the same period in the previous year. This followed a revised downward drop of 0.7% in the prior month and was higher than market expectations of a 0.7% decrease. It marked the fourth consecutive month of declining retail activity and the most significant contraction since June 2022. The ongoing power crisis played a major role in this decline, particularly impacting food, beverages, and tobacco retailers, which experienced a sharp decline of 6.6% compared to a modest growth of 0.3% in February. Sales also continued to decrease for general dealers (-1.9% compared to -1.5% in the previous month), pharmaceuticals and medical goods, cosmetics and toiletries (-3.2% compared to -3.1%), and hardware, paint, and glass (-3.9% compared to -8.2%), among other sectors. However, there was a positive exception in textiles, clothing, footwear, and leather goods, which saw an increase of 6.3% compared to 5.6% in the previous month.

In April 2023, South Africa's manufacturing production witnessed a year-on-year increase of 3.4%, marking the first annual gain in six months. This surpassed market expectations of 2.5%. The largest contributions to this growth came from the production of basic iron and steel, non-ferrous metal products, metal products, and machinery, which saw a 5.3% increase. Additionally, the food and beverages sector contributed with a growth rate of 4.6%, followed by petroleum, chemical products, rubber, and plastics with 2.8% growth. The manufacturing of motor vehicles, parts and accessories, and other transport equipment also contributed positively with a growth rate of 5%. When compared to the previous month, manufacturing production experienced a modest increase of 0.5%.

Furthermore, during the month of May, the South African rand experienced significant volatility, plummeting to its lowest ever exchange rate of R19.80 against the US dollar. Several factors contributed to this decline, including elevated interest rates, the repercussions of loadshedding, and allegations of the country's involvement in arms trade with Russia. These ongoing circumstances have continued to undermine the strength of the rand. Specifically, the rand depreciated by 7.97% against the US dollar, 6.82% against the pound, and 4.63% against the euro.

	Dec'22	Jan'23	Feb'23	Mar'23	Apr'23	May'23
CPI (y/y)	7.2%	6.9%	7%	7.1%	6.8%	6.8% (forecast)
PPI (y/y)	13.5%	12.7%	12.2%	10.6%	8.6%	8.6% (forecast)

Sources: Trading Economics

	31 May 2021	31 May 2022	31 May 2023
USD/ZAR	13.72	15.63	19.72
GBP/ZAR	19.51	19.69	24.53
EUR/ZAR	16.79	16.77	21.08

Source: IRESS

SA markets

In May, local equity markets ended the month lower, with the FTSE/JSE All Share index declining by 3.92%. All major sectors experienced negative returns during the month. Financials were the biggest laggard this month, dragged down by performance of index heavyweights Capitec (-13.7%) and Firstrand (-6.4%).

Resources (-2.22%) produced a resilient albeit negative return this month, as gold shares and rand hedges produced a resilient performance. SA industrials (-3.27%) and industrials (-0.81%) ended lower dragged down by retailers Spar (- 24.7%), Mr Price (-17.5%) and Pepkor (-16.8%), which all moved significantly lower this month.

In terms of market capitalisation, mid-cap stocks underperformed significantly, losing -7.75%, followed by small caps which returned -5.12%, and large caps which returned -3.48% in April. SA listed property experienced a decline of -5.41%. However, European-focused counters within the property sector outperformed, capitalising on the weakness of the rand.

On the fixed income side, SA bonds experienced a decline in May, with the FTSE/JSE ALBI decreasing by 4.79% as yields shifted higher across the curve leading prices lower. The negative move was largely on the back of the hawkish tone from the SARB as they continued to hike rates to tame elevated inflation. The 12-year+ maturity range saw the most significant losses, declining by 5.77%, followed by the seven- to 12-year range with a decline of 5.33%. The three- to seven-year range returned -3.23%, while the one- to three-year range declined by 1.75% in May.

Foreigners were net sellers of R14.04 billion worth of SA equities and net sellers of R56.46 billion worth of SA bonds, during the month.

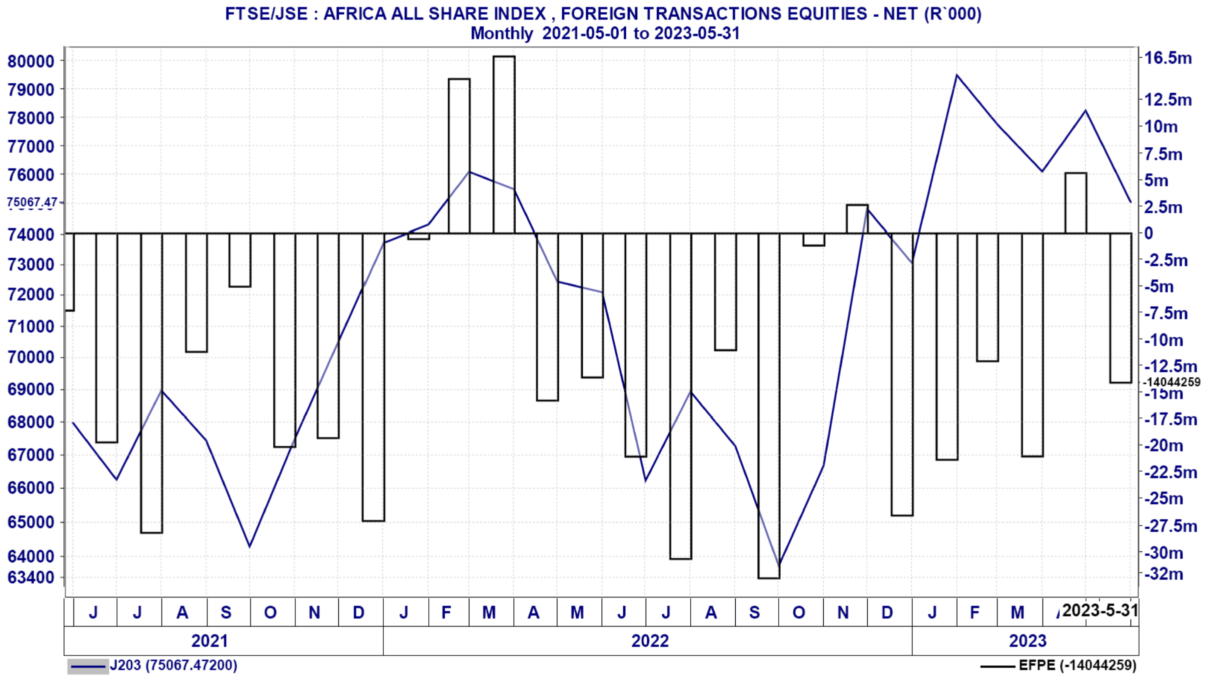
LOCAL RETURNS IN ZAR				
2022	**March 2023**	**April 2023**	**May 2023**	**2023 - YTD**
SA SMALL CAPS 7.55%	SA BONDS 1.32%	SA PROPERTY 5.75%	SA CASH 0.65%	SA TOP 40 6.11%
SA CASH 5.21%	SA CASH 0.61%	SA MID CAPS 3.85%	SA TOP 40 -3.48%	SA EQUITY 4.45%
SA BONDS 4.26%	SA TOP 40 -0.81%	SA TOP 40 3.50%	SA EQUITY -3.92%	SA CASH 3.03%
SA TOP 40 4.21%	SA EQUITY -1.26%	SA EQUITY 3.38%	SA BONDS -4.79%	SA SMALL CAPS -2.43%
SA EQUITY 3.58%	SA SMALL CAPS -2.24%	SA SMALL CAPS 2.03%	SA SMALL CAPS -5.12%	SA BONDS -2.65%
SA MID CAPS 1.60%	SA PROPERTY -3.92%	SA CASH 0.61%	SA PROPERTY -5.41%	SA PROPERTY -4.79%
SA PROPERTY -1.90%	SA MID CAPS -4.37%	SA BONDS -1.11%	SA MID CAPS -7.75%	SA MID CAPS -5.10%

Source: Morningstar & Glacier Research

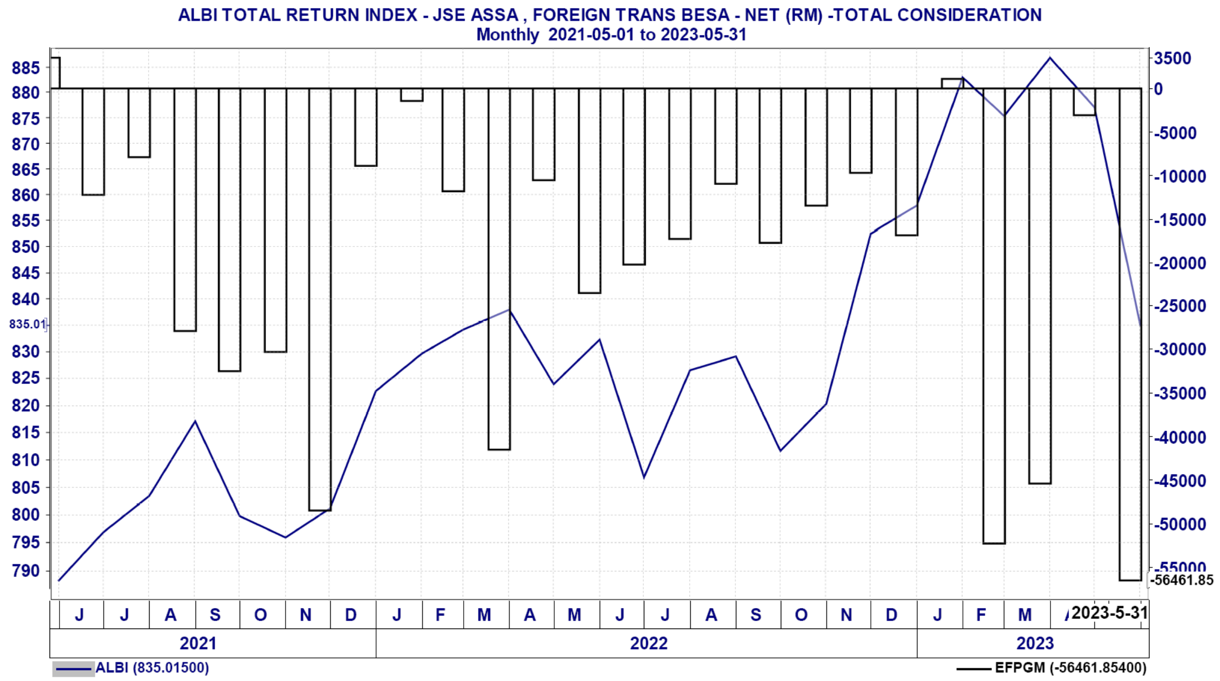
In May, the local equity markets saw a decline of 3.92%, with all major sectors experiencing negative returns. The financial sector was the weakest performer (-7.93%). Resources (-2.22%) had a resilient negative return, while SA industrials (-3.27%) and industrials (-0.81%) ended lower.

LOCAL SECTOR RETURNS IN ZAR				
2022	**March 2023**	**April 2023**	**May 2023**	**2023 - YTD**
FINANCIALS 8.61%	RESOURCES 2.49%	CONSUMER SERVICES 5.66%	CONSUMER SERVICES 1.75%	CONSUMER SERVICES 30.22%
RESOURCES 8.61%	CONSUMER SERVICES 0.27%	GENERAL RETAILERS 4.30%	INDUSTRIALS -0.81%	SA INDUSTRIALS 13.26%
CONSUMER GOODS 6.97%	SA INDUSTRIALS -0.82%	RESOURCES 3.98%	RESOURCES -2.22%	INDUSTRIALS 7.20%
SA INDUSTRIALS -3.71%	INDUSTRIALS -2.32%	CONSUMER GOODS 3.29%	SA INDUSTRIALS -3.27%	RESOURCES -3.12%
CONSUMER SERVICES -4.47%	CONSUMER GOODS -2.90%	SA INDUSTRIALS 3.06%	GENERAL RETAILERS -5.37%	CONSUMER GOODS -3.20%
GENERAL RETAILERS -6.19%	GENERAL RETAILERS -5.00%	FINANCIALS 3.04%	FINANCIALS -7.93%	FINANCIALS -4.71%
INDUSTRIALS -13.26%	FINANCIALS -6.62%	INDUSTRIALS 1.36%	CONSUMER GOODS -9.07%	GENERAL RETAILERS -7.33%

Source: Morningstar & Glacier Research



Source: IRESS June 2023



Source: IRESS June 2023

Global markets

Global equity markets had a challenging period in May, as most regions concluded with negative performance. Uncertainty around the US debt ceiling was a key contributing factor in the broad underperformance. The US had a mixture of gains and losses, while the UK suffered losses amid disappointing inflation data and the anticipation of further interest rate hikes. Emerging markets and Asia's performance was dragged by China's moderating economic growth. The MSCI World, MSCI World ACWI and MSCI EM generated returns of -1.00%, -1.07% and -1.68%, respectively, in US dollar terms.

The divergence between the services and manufacturing sectors widened further in May, reflecting a mixed picture of the global economy. The services flash Purchasing Managers' Index (PMI) business survey for May for the US, Eurozone and UK were all above 55, indicating an expansion. In contrast, the manufacturing sector is not doing well. The Eurozone, US and UK manufacturing PMI readings were all below the important 50-mark, signalling a contraction in activity.

In the fixed income space, government bond yields rose during the month. However, there were gains in some regions and Continental Europe being the most notable – boosted by better-than-expected inflation prints. Sovereign bond yields in the US climbed during the month (implying a capital loss) with the US 10-year treasury note increasing from 3.42% to 3.64%. UK gilts underperformed the most as the yields rose from 3.72% to 4.18% amid disappointing inflation data. On a global equity style basis, growth (+2.40%) rallied the most, followed by quality (+1.70%), value (-4.59%) and momentum (-4.85%).

United States

US equity markets wrapped up the month of May mixed. Two of the three major US indices were positive – NASDAQ (+5.93%), S&P 500 (+0.43%), while the Dow Jones (-3.17%) ended in negative territory – dragged by losses in the likes of Nike and Walt Disney. Energy and materials stocks were the worst performers amid concerns regarding the outlook for demand. Debt ceiling talks dominated headlines in the month of May, with the House of Representatives eventually voting to raise the debt ceiling - this should help the country avoid a default.

The US services flash PMI business survey for May rose to a 13-month high of 55.1. On the flipside, the US manufacturing PMI reading was below the 50-mark, signalling a contraction in activity. April CPI printed at 4.9% year-on-year, coming in below the market expectation of a 5% increase. The rate of growth in food prices, specifically, was lower than anticipated, and this deceleration in price growth was further influenced by decreased energy costs. Core CPI rose 0.4% monthly and 5.5% year-on-year, which were both in line with expectations. The central bank increased interest rates by 25 basis points to reach 5.25% in early May. However, there is an anticipation that the Fed might temporarily pause its programme of interest rate hikes.

At stock level, the artificial intelligence (AI) company, Nvidia, was the best performer up 36% for the month. The company is at the forefront of the AI revolution as it manufactures and designs hardware and software, with a focus on graphic processing units (GPUs). Not only was the share price boosted by the release of its first-quarter results in 2023 as revenue was up 19% from the fourth quarter of 2022, but the company also forecasts that its second-quarter revenue in 2023 will be approximately $11bn – a significant increase from the Wall Street estimate of $7.2bn.

Eurozone

Equity markets in the Eurozone fell, weighed down by weak economic data pointing to a global slowdown as well as the uncertainty around the US ceiling which dominated headlines throughout the month. All sectors experienced losses apart from the information technology sector which was supported by semiconductor stocks. Revised figures revealed that the German economy did not manage to avoid a recession. The GDP figure for the first quarter of 2023 showed that the economy contracted by 0.3% in comparison to an initial flat reading; this is after GDP contracted by 0.5% quarter-on-quarter in the fourth quarter of 2022. The Eurozone services flash PMIs remained above the 55-level, indicating an expansion. The Eurozone manufacturing PMI business survey, on the other hand, fell to 44.6 in May, its lowest level in three years. Headline inflation significantly fell to 6.1% year-on-year in May down from 7.0%, falling more than expected. Core inflation also fell from 5.6% to 5.3%, continuing its downward trajectory. The European Central Bank increased rates by 25 bps to 3.75%, in line with market expectations.

United Kingdom

UK equities had a negative month of performance, retreating from last month's gains with the FTSE 100 ending 4.93% lower in pound sterling terms. The Bank of England (BoE) hiked rates by 25 basis points to 4.5% (the highest level since 2008), in line with expectations and signalled that "if there were to be evidence of more persistent pressures, then further tightening in monetary policy would be required". The BoE also adjusted its forecast for a recession, now anticipating a stagnant economy during the first half of the year, followed by accelerated growth in the second half. The British economy expanded by 0.1% quarter-on-quarter in the first quarter of 2023, the same as the previous quarter's growth. Headline CPI fell from 10.1% year-on-year to 8.7% in April but was above expectations of 8.2%. Core CPI, however, concerningly rose from 6.2% year-on-year to 6.8% - now at its highest rate since 1992. This has raised expectations for additional increases in interest rates.

Spot Rates	31 May 2021	31 May 2022	31 May 2023
EUR/USD	1.22	1.07	1.07
GBP/USD	1.42	1.26	1.24
USD/JPY	109.54	128.68	139.34

Source: IRESS

Emerging markets and Asia

Emerging market (EM) equities underperformed their developed market counterparts, delivering negative returns for the month of May. The key driving factors behind the underperformance was the uncertainty around the US debt ceiling and concerns pertaining to China's economic recovery, which all weighed on sentiment. The MSCI EM index returned -1.68% MoM, while the MSCI World index delivered -1.00% in US dollar terms.

After the China reopening and a strong first quarter of 2023, economic data in China printed below expectations, with signals that growth is moderating. Imports were down 7.9% and industrial production only grew 5.8% year-on-year. The property market continued its downward trajectory, with property investments in April declining 6.2% year-on-year in comparison to the previous month's 5.8% drop. Moreover, there were also reports of new COVID-19 infections which further added to domestic uncertainty. Tech-heavy countries such as Korea and Taiwan fared well and posted positive gains, boosted by the growing hype over the potential of AI. Indian markets were also buoyed by tech stocks. Brazil also posted gains on the back of the unemployment rate which fell to its lowest level in seven years.

Central & Eastern Europe, Middle East and Africa (CEEMEA) lagged the most, dragged mainly by Saudi Arabia, United Arab Emirates and South Africa. South Africa was the weakest market due to the Russia arms allegations and the ongoing power crisis.

GLOBAL RETURNS IN ZAR

2022	March 2023	April 2023	May 2023	2023 - YTD
FTSE 100 -0.87%	EURO STOXX 50 0.95%	FTSE 100 8.33%	S&P 500 8.85%	EURO STOXX 50 32.01%
EURO STOXX 50 -9.44%	S&P 500 0.21%	EURO STOXX 50 6.43%	MSCI WORLD 7.30%	S&P 500 27.70%
GLOBAL BONDS -10.71%	GLOBAL BONDS -0.29%	GLOBAL PROPERTY 4.91%	MSCI EM 6.56%	MSCI WORLD 26.39%
S&P 500 -12.70%	MSCI WORLD -0.36%	MSCI WORLD 4.86%	GLOBAL BONDS 6.26%	FTSE 100 22.17%
MSCI WORLD -12.73%	MSCI EM -0.42%	S&P 500 4.66%	GLOBAL PROPERTY 3.66%	GLOBAL BONDS 18.14%
MSCI EM -14.81%	SHANGHAI STOCK EXCHANGE -3.31%	GLOBAL BONDS 3.51%	EURO STOXX 50 2.35%	MSCI EM 17.69%
SHANGHAI STOCK EXCHANGE -19.53%	FTSE 100 -3.73%	SHANGHAI STOCK EXCHANGE 2.54%	FTSE 100 1.61%	SHANGHAI STOCK EXCHANGE 15.03%
GLOBAL PROPERTY -20.90%	GLOBAL PROPERTY -6.58%	MSCI EM 1.88%	SHANGHAI STOCK EXCHANGE 1.12%	GLOBAL PROPERTY 14.55%

Source: Morningstar & Glacier Research