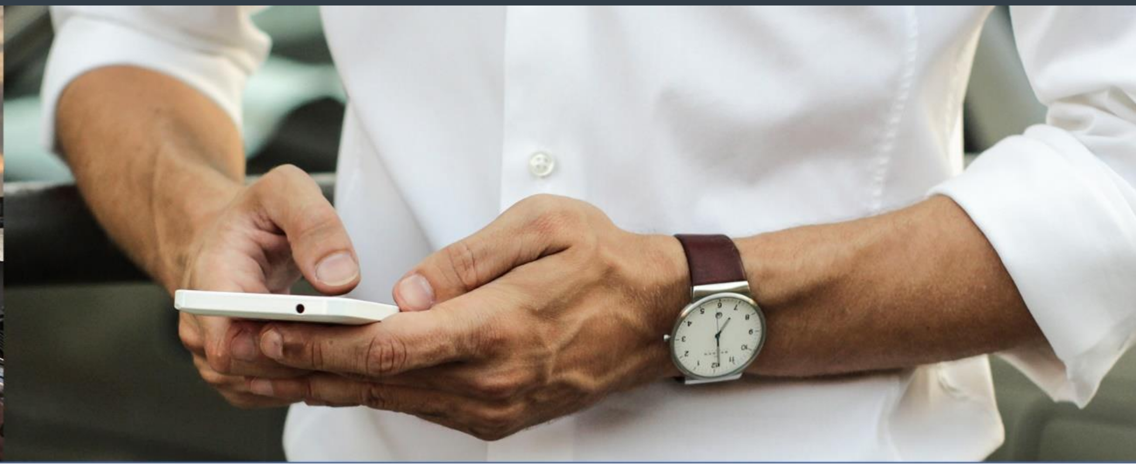
glacier
by Sanlam



Review period: October 2023

Introduction

In October, the South African equity market mirrored global trends, experiencing a 3.44% decline in the FTSE/JSE All Share index. SA industrials (-4.51%) led the decline, with MTN (-19.4%) affecting the index. Industrials (-3.56%) followed, influenced by a stronger rand and global market weakness. Weak platinum and diversified miners impacted resources (-3.17%). Financials fell by 1.99%, outperforming the broader market. SA Listed Property declined by 3.33%, driven by risk-off sentiment and drops in Nepi Rockcastle (-2.8%) and Growthpoint (-1.4%). Local bonds, represented by the FTSE/JSE All Bond Index, rose 1.71% as bond yields eased.

Global equity markets extended their decline for the third consecutive month, influenced by higher US interest rate expectations, driven by robust September retail sales and strong Q3 2023 GDP growth. Negative sentiment persisted due to geopolitical tensions in the Middle East and heightened US-China tensions, mainly due to advanced chip restrictions. This risk-off environment impacted US bonds, with yields rising for the sixth consecutive month, causing prices to fall.

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

SA economy

In September 2023, South Africa's annual inflation rate increased for the second consecutive month to 5.4%, surpassing market expectations of a 5.3% rise. This remains within the South African Reserve Bank's target band of 3%-6%. The uptick was driven by higher prices in food & non-alcoholic beverages (8.1% vs 8% in August) and transportation (4.2% vs -0.8%). Housing and utilities prices, at 5.5%, remained elevated due to significant increases in electricity and other fuels tariffs (15.1%) and water costs (7.9%). Annual core inflation, excluding key components, eased to a 13-month low of 4.5%, below market forecasts of 4.7%. On a monthly basis, consumer prices rose by 0.6%, meeting market estimates after a 0.3% increase in August.

In September 2023, South Africa's Producer Price Inflation (PPI) increased to 5.1% year-on-year, up from 4.3% the previous month and surpassing market forecasts of 4.7%. Key contributors to the annual inflation rate were food products, beverages, and tobacco products (+4.4%); metals, machinery, equipment, and computing equipment (+6.5%); paper and printed products (+11.8%); and transport equipment (+7.8%). Monthly, producer prices rose by 1.5%, the highest over a year, exceeding market estimates of 1.1% after a 1% increase in the previous month.

Furthermore, the South African rand performed robustly, standing out among a limited set of currencies that strengthened against the US dollar in October (+1.44% month-on-month). This resilience occurred despite the US dollar's recent strength driven by higher rates and overall risk aversion. Additionally, the rand appreciated by 1.82% against the British Pound and 1.4% against the euro.

	May'23	Jun'23	Jul'23	Aug'23	Sep'23	Oct'23
CPI (y/y)	6.3%	5.4%	4.7%	4.8%	5.4%	5.4% (forecast)
PPI (y/y)	7.3%	4.8%	2.7%	4.3%	5.1%	5.1% (forecast)

Sources: Trading Economics

	31 October 2021	31 October 2022	31 October 2023
USD/ZAR	15.20	18.29	18.64
GBP/ZAR	20.82	20.98	22.65
EUR/ZAR	17.58	18.08	19.72

Source: IRESS

SA markets

In October, local equity markets ended negatively, with all sectors witnessing declines. The FTSE/JSE All Share index saw a loss of 3.44% for the month. SA industrials (-4.51%) led the downturn, as MTN (-19.4%) weighed heavily on the index due to weak results and concerns about its exposure to Nigeria. Industrials (-3.56%) followed suit, driven by declines in Richemont (-3.9%), Prosus (-5.4%), and British American Tobacco (-5.5%), influenced by a stronger rand and global equity market weakness. Resources (-3.17%) were impacted by platinum and diversified miners' weakness. However, gold miners were seen bucking the trend as they followed gold prices higher in October. Financials fell by 1.99%, outperforming the broader market decline.

Regarding market capitalisation, large cap stocks experienced the most significant decline in October, down 3.67%, followed by mid-cap stocks, which dropped 3.19%, and small cap stocks, which decreased 2.30%. SA Listed Property declined by 3.33% due to risk-off sentiment and notable drops in index heavyweights Nepi Rockcastle (-2.8%) and Growthpoint (-1.4%).

Turning to fixed income, local bonds, as the FTSE/JSE All Bond Index indicated, saw a 1.71% increase as bond yields eased. Despite the global trend of rising bond yields, the SA government's long-term borrowing rate slightly decreased to 12.3% p.a. in October. The strength in the SA bond market suggests growing investor confidence that the market has largely factored in the negative aspects of the fiscal outlook. Notably, 12+ year bonds showed the most significant increase at 1.99%, followed by the 7–12-year range with a rise of 1.79%. The 3-7-year range witnessed a 1.32% increase, and the 1-3-year range advanced by 1.07% in October.

Foreigners were net sellers of R16.12 billion worth of SA equities and net sellers of R4.79 billion worth of SA bonds during the month.

LOCAL RETURNS IN ZAR

2022	August 2023	September 2023	October 2023	2023 - YTD
SA SMALL CAPS 7.55%	SA SMALL CAPS 1.72%	SA CASH 0.68%	SA BONDS 1.71%	SA CASH 6.59%
SA CASH 5.21%	SA PROPERTY 0.83%	SA MID CAPS -1.12%	SA CASH 0.70%	SA BONDS 3.20%
SA BONDS 4.26%	SA CASH 0.69%	SA SMALL CAPS -1.96%	SA SMALL CAPS -2.30%	SA SMALL CAPS 0.06%
SA TOP 40 4.21%	SA BONDS -0.23%	SA BONDS -2.34%	SA MID CAPS -3.19%	SA EQUITY -1.33%
SA EQUITY 3.58%	SA MID CAPS -3.51%	SA EQUITY -2.55%	SA PROPERTY -3.33%	SA TOP 40 -1.47%
SA MID CAPS 1.60%	SA EQUITY -4.77%	SA TOP 40 -3.07%	SA EQUITY -3.44%	SA MID CAPS -3.44%
SA PROPERTY -1.90%	SA TOP 40 -5.59%	SA PROPERTY -3.76%	SA TOP 40 -3.67%	SA PROPERTY -7.63%

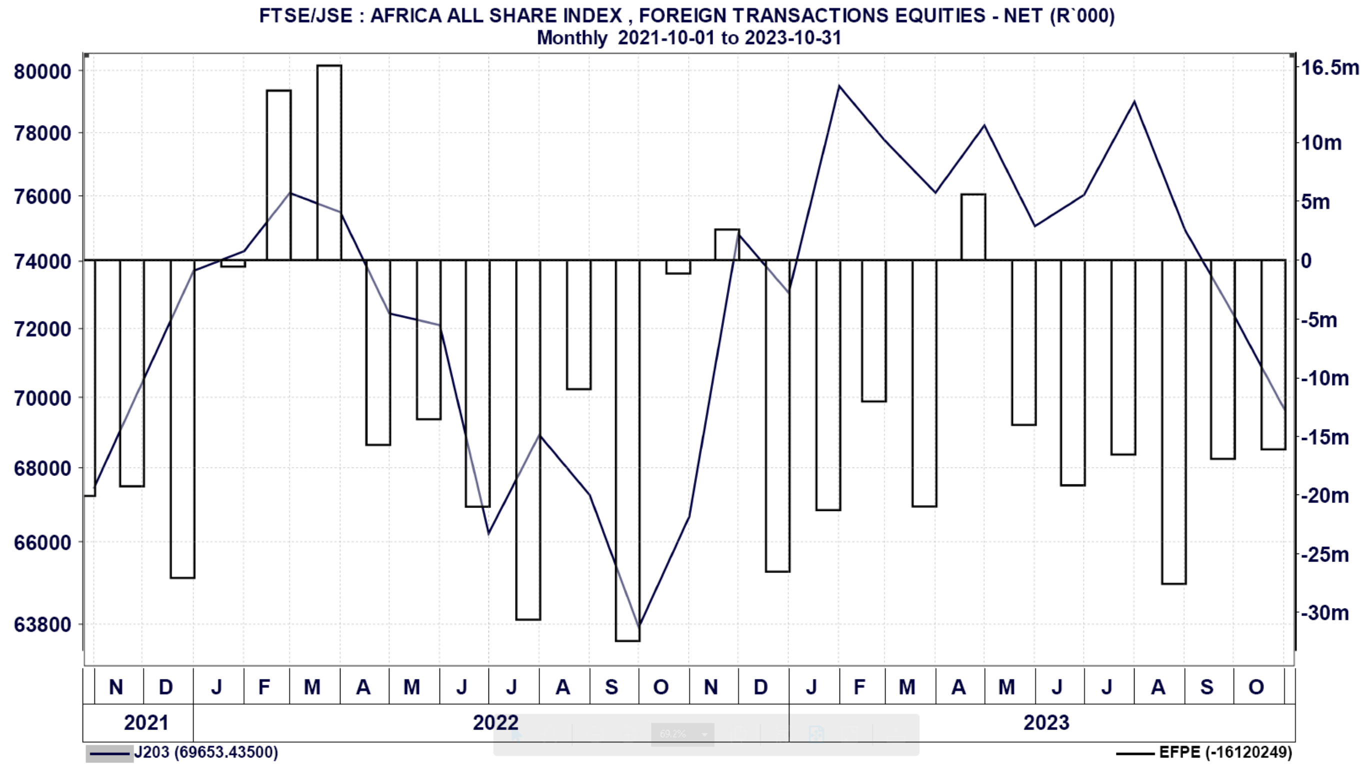
Source: Morningstar & Glacier Research

In October, South Africa's domestic equity markets closed with a 3.44% loss for the month. The main contributor to this decline was the SA Industrial sector, which fell by 4.51%, followed by Industrial (-3.56%). The Resources sector experienced a 3.13% decrease, and the Financial sector declined by 1.99% for the month.

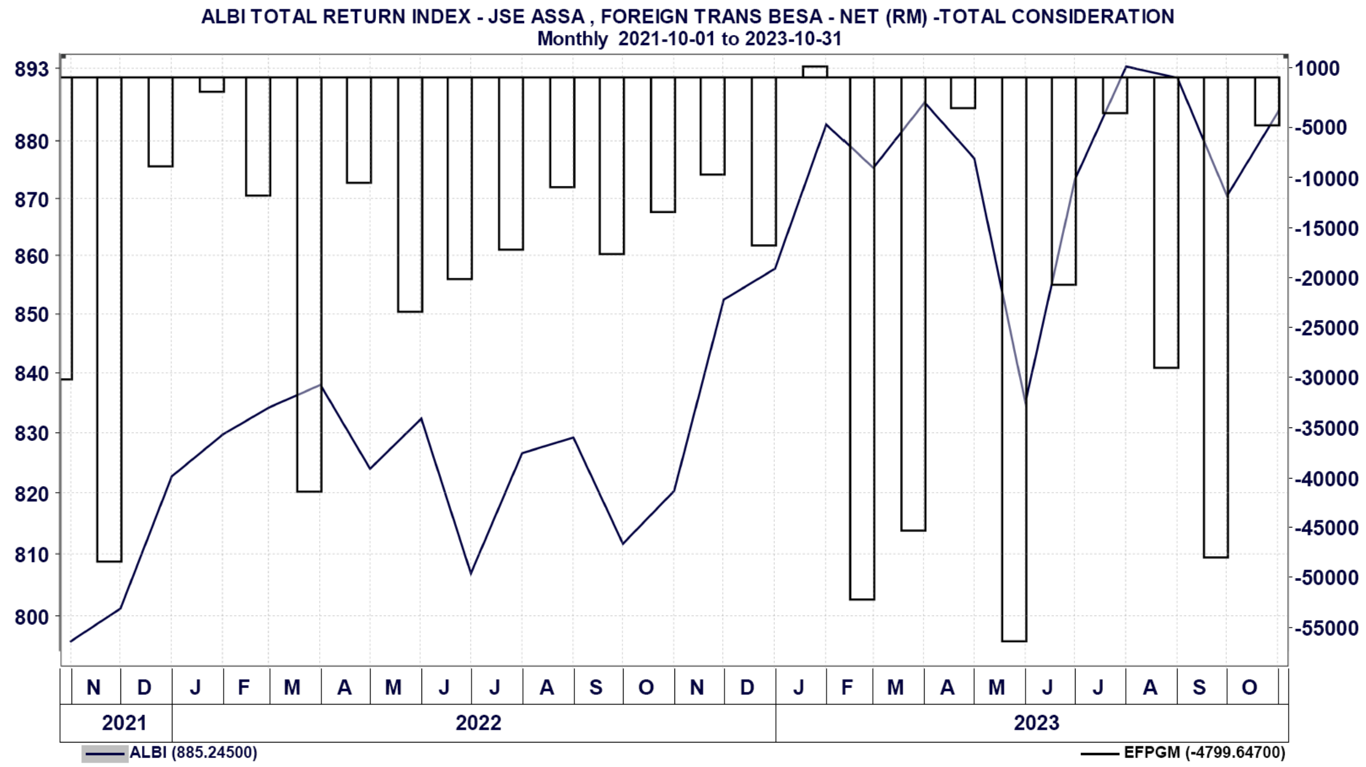
LOCAL SECTOR RETURNS IN ZAR

2022	August 2023	September 2023	October 2023	2023 - YTD
FINANCIALS 8.61%	GENERAL RETAILERS 12.30%	GENERAL RETAILERS 2.94%	GENERAL RETAILERS 0.61%	GENERAL RETAILERS 17.34%
RESOURCES 8.61%	INDUSTRIALS 2.35%	RESOURCES 1.21%	CONSUMER SERVICES -1.87%	CONSUMER SERVICES 15.76%
CONSUMER GOODS 6.97%	CONSUMER GOODS 1.72%	INDUSTRIALS -0.26%	FINANCIALS -1.99%	INDUSTRIALS 13.63%
SA INDUSTRIALS -3.71%	FINANCIALS -1.59%	CONSUMER GOODS -2.86%	CONSUMER GOODS -2.47%	FINANCIALS 6.53%
CONSUMER SERVICES -4.47%	SA INDUSTRIALS -4.66%	FINANCIALS -3.74%	RESOURCES -3.17%	SA INDUSTRIALS 5.18%
GENERAL RETAILERS -6.19%	CONSUMER SERVICES -5.65%	SA INDUSTRIALS -4.12%	INDUSTRIALS -3.56%	CONSUMER GOODS 0.28%
INDUSTRIALS -13.26%	RESOURCES -8.38%	CONSUMER SERVICES -4.96%	SA INDUSTRIALS -4.51%	RESOURCES -17.12%

Source: Morningstar & Glacier Research



Source: IRESS November 2023



Source: IRESS November 2023

Global markets

In October, global stock markets experienced their third consecutive monthly decline, marked by heightened volatility. Market sentiment was influenced by factors such as increasing bond yields, geopolitical tensions, and a mix of earnings reports, contributing to a downturn in stock prices. US Treasury yields rose due to strong US economic data and hawkish comments from Federal Reserve officials. Geopolitical conflicts, particularly the war between Israel and Hamas in the Middle East, dominated headlines, resulting in over 8,500 deaths in October. This conflict led to a surge in oil prices over supply concerns, though prices eased later in the month due to a slowing global economy affecting demand expectations. US-China tensions escalated as the US sought to restrict advanced chip exports to China. In Beijing, Russian President Vladimir Putin and China's President Xi Jinping expressed solidarity at an international leaders' gathering. Consequently, the MSCI World, MSCI World ACWI, and MSCI Emerging Markets Index recorded losses of -2.90%, -3.01%, and -3.89%, respectively, in US dollar terms. Analysing global equity styles, value (-3.42%) experienced the most significant decline, followed by growth (-2.42%), momentum (-1.79%), and quality (-1.74%).

Within the fixed-income realm, the broad measure of global bonds (Bloomberg Global Aggregate Bond USD) experienced a 1.20% decline for the month, primarily attributed to an increase in long-dated borrowing costs. Notably, the US 10-year treasury yield rose from 4.57% to 4.93%, reaching an intra-month peak of 5.02% for the first time in over 16 years. The consistently robust US economic data, coupled with a persistently hawkish stance from the Federal Reserve, prompted significant market repricing, ruling out near-term rate cuts across the US yield curve. In the UK, the latest indicators signalled a slowdown in activity, with the economy grappling with rising taxes, reduced household savings, and an uptick in corporate insolvencies. Consequently, the UK 10-year Gilts increased from 4.44% to 4.51%. The belief that the European Central Bank would refrain from further interest rate hikes strengthened as eurozone inflation declined in October, leading to a decrease in 10-year German bund yields from 2.84% to 2.81%.

Government bond returns displayed a mixed picture, with US treasuries declining by -1.32%, UK gilts experiencing a -0.41% decrease, and German bunds yielding a positive return of +0.33%. Corporate bond markets also saw a mixed month, with euro credit (+0.41%) posting positive returns, while sterling (-0.23%) and US credit (-1.82%) delivered negative results.

United States

Despite expectations of a slowdown, US economic data continued to surpass forecasts. Retail sales and Q3 2023 GDP exceeded consensus estimates, contributing to positive sentiment early in the month. However, by the end of the month, US equities faced a decline primarily driven by uncertainty surrounding interest rates and the conflict in the Middle East. Despite broadly resilient corporate profits during the third-quarter earnings season, a few notable earnings misses contributed to a negative overall mood. As a result, the NASDAQ (-2.76%), S&P 500 (-2.10%), and Dow Jones (-1.26%) all registered declines. Energy stocks emerged as some of the weakest performers, while utilities were the most resilient.

In September, headline inflation held steady at 3.7% year-on-year, defying market expectations of a slight decrease to 3.6%, while core inflation decreased to 4.1% year-on-year from August's 4.3%, aligning with market predictions. The easing of underlying inflation pressures bolstered financial market expectations that the US Federal Reserve (Fed) would refrain from raising interest rates in early November.

In September 2023, retail sales showed a 0.7% month-on-month increase, surpassing expectations and following an upwardly revised 0.8% rise in August. This data indicates robust consumer spending, even in the face of elevated prices and borrowing costs. The US economy expanded at an annualised rate of 4.9% in the third quarter of 2023, exceeding market forecasts of 4.3% and the 2.1% growth recorded in Q2, according to the advance estimate.

In terms of production, the US composite PMI was slightly revised lower to 50.7 in October 2023, down from the preliminary estimate of 51.0 and compared with 50.2 in the preceding two months. Manufacturing production, confirmed at 50.0 in October 2023, showed a slight improvement from 49.8 in September, signalling a stabilisation in the health of the manufacturing sector. The services sector, with a reading of 50.6 in October compared to 50.1 in September, reflected a modest expansion in output at service sector companies.

Eurozone

Eurozone equity markets ended October on a downtrend, influenced by weakening growth and declining consumer confidence. The Euro Stoxx 50 index, measured in euros, recorded a return of -2.65%. The healthcare and consumer discretionary sectors underperformed, driven by lacklustre results and a deteriorating consumer environment. Conversely, the energy and materials sectors gained from favourable momentum in commodities, while utilities and technology stood out as better-performing sectors.

During its October meeting, the European Central Bank maintained interest rates at 4.0%, signalling a cautious "wait-and-see" approach among policymakers influenced by the gradual easing of price pressures and concerns about a looming recession. ECB President Christine Lagarde neither dismissed the possibility of future rate hikes nor deemed it appropriate to discuss potential cuts at this stage. Preliminary headline inflation in the Eurozone significantly decreased to 2.9% year-on-year in October, down from September's 4.3%, falling below the market consensus of 3.1%. Similarly, preliminary core inflation, excluding energy and food, dropped to 4.2% year-on-year in October from 4.5% in September, aligning with market expectations. Germany's inflation moderated from 4.5% year-on-year the previous month to 3.8% in October. Preliminary inflation in France declined to 4.0% year-on-year in October from 4.9% in September, while Spain's preliminary inflation held steady at 3.5% year-on-year in October compared to the previous month.

Regarding third-quarter economic growth in 2023, Spain (+0.3% QoQ) and France (+0.1% QoQ) saw modest expansion. Meanwhile, Italy remained stagnant (0.0% QoQ), and Germany (-0.1% QoQ), Ireland (-1.8% QoQ), and Austria (-0.6%) all contracted, mainly due to a decline in consumer spending stemming from elevated interest rates and weakness in exports. Overall, the eurozone economy contracted by 0.1% in the third quarter, falling below market forecasts of a flat reading and following an upwardly revised 0.2% increase in the second quarter, as indicated by preliminary estimates.

The composite PMI for October 2023 was recorded at 46.50, compared to 47.2 in September, indicating a contraction in private sector activity. Both manufacturing production (43.1 in October, down from 43.4 in September) and services sector output (47.8 in October, down from 48.7 in September) showed declines.

United Kingdom

UK markets concluded October with a negative trend, influenced by stagnant growth and diminishing consumer confidence. As a result, the FTSE 100 index registered a negative return of -3.69% in pound sterling terms. The prominent UK banks performed poorly, reflecting concerns about the potential impact of higher interest rates on their lending businesses, particularly in mortgage books.

Consumer price inflation in the United Kingdom remained unchanged at 6.7% year-on-year in September, defying market expectations of a slight decrease to 6.6%. This was attributed to the persistence of high motor fuel and hotel costs, which offset a drop in food prices. Core inflation, excluding energy and food, eased to 6.1% in September from 6.2% in August, slightly surpassing the consensus forecast of 6%. The International Monetary Fund (IMF) downgraded the UK's growth forecasts for 2023 and 2024 due to persistent high inflation. In the three months leading up to August, UK wage growth experienced a slight deceleration, with average total pay increasing at an annual rate of 8.1%. This marked a decrease from the previous month's growth rate of 8.5%. Notably, wages have consistently outpaced prices for several months, supporting household finances amid the challenges posed by higher interest rates.

Consumer confidence experienced a sharp decline in October after two consecutive months of improvement, influenced by the high cost of living and economic uncertainties that weighed on sentiment. On the production side, the composite PMI showed little change, moving from 48.5 in September 2023 to 48.7 in October, marking the third consecutive month of UK private sector output being in contractionary territory (i.e., below the 50-mark), with both manufacturing production and service sector activity continuing to contract.

.

Spot Rates	31 October 2021	31 October 2022	31 October 2023
EUR/USD	1.16	0.99	1.06
GBP/USD	1.37	1.15	1.22
USD/JPY	114.00	148.71	151.67

Source: IRESS

Emerging markets and Asia

Against a backdrop of rising yields and Middle East conflict, emerging markets (EMs) performed less favourably than developed markets. The MSCI EM index recorded a return of -3.89%, in contrast to the -2.90% return of the MSCI World index, both in US dollar terms. Asian equity markets also experienced declines in the month. Notably, industrials and real estate stocks saw the most significant declines at the sector level, while healthcare was the sole sector to achieve positive returns for EMs.

Chinese third-quarter GDP exceeded expectations, alongside better-than-expected retail sales for September 2023. However, concerns about real estate challenges and fears of a slowing economic recovery led the International Monetary Fund (IMF) to downgrade its growth forecasts for China in 2023 and 2024. The revised projections anticipate the world's second-largest economy expanding by 5% in 2023 and 4.2% in 2024, down from the IMF's April forecast of 5.2% and 4.5%, respectively. The US signalling new restrictions on AI chip exports to China dampen investor sentiment.

In India, inflation remained above expectations despite a decrease. The Reserve Bank of India kept interest rates unchanged. In late October, foreign investors rapidly sold Indian stocks due to mixed earnings, rising oil prices, and a growing belief in "higher for longer" interest rates in developed markets. The Reserve Bank of Australia maintained unchanged interest rates in October, in line with expectations, and the consumer price index (CPI) inflation fell from 6.0% to 5.4%.

Turkish equity markets had an unfavourable month in the EMEA region, making Turkey the most significant underperformer as the currency weakened against the dollar. Turkish inflation rose to 61.53% from 58.94% the previous month, prompting the central bank to raise interest rates for the fifth time since June to 35%.

Egypt and Poland stood out as top performers. In Poland, sentiment received a boost from the pro-European Civic Platform's victory in the elections, displacing the ruling party in a vote that saw record-high turnout under the leadership of Donald Tusk.

GLOBAL RETURNS IN ZAR

2022	August 2023	September 2023	October 2023	2023 - YTD
FTSE 100 -0.87%	GLOBAL BONDS 5.02%	SHANGHAI STOCK EXCHANGE -1.05%	GLOBAL BONDS -1.68%	S&P 500 21.96%
EURO STOXX 50 -9.44%	S&P 500 4.78%	FTSE 100 -1.86%	S&P 500 -2.58%	EURO STOXX 50 19.62%
GLOBAL BONDS -10.71%	MSCI WORLD 3.93%	MSCI EM -3.11%	EURO STOXX 50 -3.29%	MSCI WORLD 18.86%
S&P 500 -12.70%	GLOBAL PROPERTY 2.85%	GLOBAL BONDS -3.41%	MSCI WORLD -3.38%	FTSE 100 12.93%
MSCI WORLD -12.73%	FTSE 100 2.24%	MSCI WORLD -4.80%	SHANGHAI STOCK EXCHANGE -3.43%	MSCI EM 7.83%
MSCI EM -14.81%	EURO STOXX 50 0.79%	S&P 500 -5.25%	MSCI EM -4.36%	GLOBAL BONDS 6.46%
SHANGHAI STOCK EXCHANGE -19.53%	MSCI EM -0.09%	EURO STOXX 50 -5.65%	FTSE 100 -4.72%	GLOBAL PROPERTY 0.22%
GLOBAL PROPERTY -20.90%	SHANGHAI STOCK EXCHANGE -1.58%	GLOBAL PROPERTY -6.77%	GLOBAL PROPERTY -5.21%	SHANGHAI STOCK EXCHANGE -0.05%

Source: Morningstar & Glacier Research