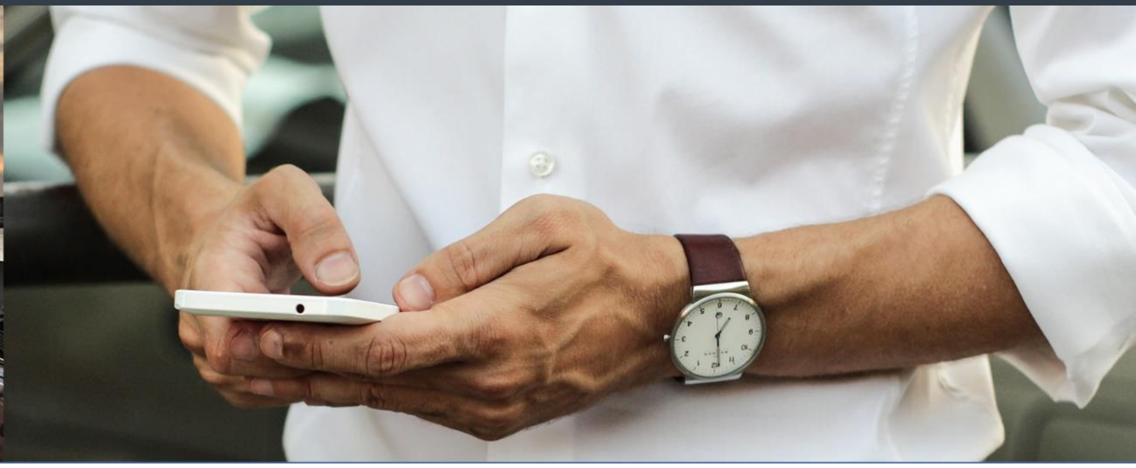
ECONOMIC REPORT

by Glacier Research

glacier by Sanlam



Review period: April 2023

Introduction

In April, the FTSE/JSE All Share index experienced a positive growth of 3.38%. All major sectors performed well during the month, with the resource sector leading the gains at 3.98%. The surge in commodity prices boosted the performance of gold counters and platinum group metal (PGM) stocks. Following closely were the SA industrials (+3.06%), financials (+3.04%), and industrials (+1.36%). SA listed property also saw a significant increase of 5.79%. However, local bonds declined by 1.11% due to rising yields.

On the global front, most markets ended April with positive results. The last week of the month was dominated by earnings reports from major US tech companies, which exceeded expectations. Despite this positive news, concerns regarding a potential US recession, the loss of over US$100bn in market value for US-listed Chinese shares due to geopolitical tensions between the two superpowers, fears of a US default, and reports of the Federal Deposit Insurance Corporation taking receivership of troubled US regional lender First Republic Bank, weighed on overall market sentiment.

Domestic highlights

SA Consumer Price Index (CPI) – March 2023

In March 2023, South Africa's Consumer Price Index (CPI) annual headline inflation, which measures the average change in prices of goods and services consumed by households, increased slightly to 7.1% from 7.0% in the previous month. This surpassed market expectations of 6.9% and remained above the upper limit of the South African Reserve Bank's (SARB) target range of 3%-6%. The primary drivers of this upward trend were food and non-alcoholic beverages, with a rate of 14% compared to 13.6% in February.

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Following closely were housing and utilities, which remained unchanged at 4%, and transport, which decreased from 9.9% to 8.9%. Miscellaneous goods and services also experienced a decline, with a rate of 5.9% compared to 6.1% in the prior month.

The annual core inflation, which excludes prices of food, non-alcoholic beverages, fuel, and energy, reached a six-year high of 5.2% in March, unchanged from February and slightly above market estimates of 5.1%.

SA economy

In February 2023, South Africa's retail trade experienced a decline of 0.5% compared to the same period the previous year, which was lower than market expectations of a 0.3% decrease. This marked the third consecutive month of declining retail activity, primarily driven by ongoing challenges faced by South African consumers, such as persistent power outages (loadshedding) and high living costs. The largest negative contributions to the decline came from general dealers and retailers in the hardware, paint, and glass sectors.

Similarly, South Africa's manufacturing production declined by 5.2% in February 2023 compared to the same month in the previous year, surpassing market estimates of a 2.2% fall. This represented the fourth consecutive month of decreased industrial activity and the sharpest decline since April of the previous year. The persistent power outages (loadshedding) were a major factor behind this decline. The manufacturing sectors that contributed the most to the downturn were food and beverages, basic iron and steel, non-ferrous metal products, metal products, machinery, as well as petroleum, chemical products, rubber, and plastic products.

Furthermore, the South African Chamber of Commerce and Industry (SACCI) business confidence index decreased to a four-month low of 111.3 in March 2023, down from 111.9 in February. This decline was attributed to persistent power outages, rising interest rates, and lower share prices, which negatively impacted investor sentiment.

Additionally, in April, the South African rand depreciated by 2.75% against the US dollar, 4.73% against the pound, and 4.55% against the euro.

	Nov'22	Dec'22	Jan'23	Feb'23	Mar'23	Apr'23
CPI (y/y)	7.4%	7.2%	6.9%	7%	7.1%	7.1% (forecast)
PPI (y/y)	15%	13.5%	12.7%	12.2%	10.6%	10.2% (forecast)

Sources: Trading Economics

	30 April 2021	30 April 2022	30 April 2023
USD/ZAR	14.49	15.81	18.27
GBP/ZAR	20.02	19.87	22.97
EUR/ZAR	17.42	16.66	20.15

Source: IRESS

SA markets

In April, the local equity markets in South Africa performed well, with the FTSE/JSE All Share index advancing by 3.38%. All major sectors experienced positive returns during the month. The resources sector stood out, posting a gain of 3.98%, driven by higher prices for commodities such as gold, platinum, and palladium. Gold Fields

(+19.9%), Harmony Gold (+16.9%), and Northam Platinum (+23.7%) were among the companies that benefited from the increased prices. SA industrials followed with a 3.06% gain, supported by strong performances from heavyweight stocks like Richemont (+6%) and British American Tobacco (+7%), which benefited from the weakened local currency. Financials also rebounded with a gain of 3.04%, recovering from a weak performance in March, while industrials returned 1.36% for the month.

In terms of market capitalisation, mid-cap stocks outperformed with a gain of 3.85%, followed by large caps at 3.50%, and small caps at 2.03% in April. SA listed property also ended the month on a positive note, recovering from losses in the first quarter of 2023. European-focused counters within the sector performed strongly, contributing to the sector's overall gains.

On the fixed income side, SA bonds experienced a decline in April, with the FTSE/JSE ALBI decreasing by 1.11%. Yields increased during the month due to elevated inflation, which remained persistent. This led to expectations of further rate increases to control inflation. The seven- to 12-year maturity range saw the most significant losses, declining by 1.38%, followed by the 12years+ range with a decline of 1.31%. The three- to seven-year range returned -0.68%, while the one- to three-year range declined by 0.22% in April.

Foreigners were net sellers of R55.96 billion worth of SA equities and net sellers of R2.16 billion worth of SA bonds, during the month.

LOCAL RETURNS IN ZAR

2022	February 2023	March 2023	April 2023	2023 - YTD
SA SMALL CAPS 7.55%	SA SMALL CAPS 0.76%	SA BONDS 1.32%	SA PROPERTY 5.75%	SA TOP 40 9.94%
SA CASH 5.21%	SA CASH 0.54%	SA CASH 0.61%	SA MID CAPS 3.85%	SA EQUITY 8.72%
SA BONDS 4.26%	SA PROPERTY -0.14%	SA TOP 40 -0.81%	SA TOP 40 3.50%	SA MID CAPS 2.87%
SA TOP 40 4.21%	SA MID CAPS -0.23%	SA EQUITY -1.26%	SA EQUITY 3.38%	SA SMALL CAPS 2.84%
SA EQUITY 3.58%	SA BONDS -0.87%	SA SMALL CAPS -2.24%	SA SMALL CAPS 2.03%	SA CASH 2.33%
SA MID CAPS 1.60%	SA EQUITY -2.19%	SA PROPERTY -3.92%	SA CASH 0.57%	SA BONDS 2.24%
SA PROPERTY -1.90%	SA TOP 40 -2.37%	SA MID CAPS -4.37%	SA BONDS -1.11%	SA PROPERTY 0.66%

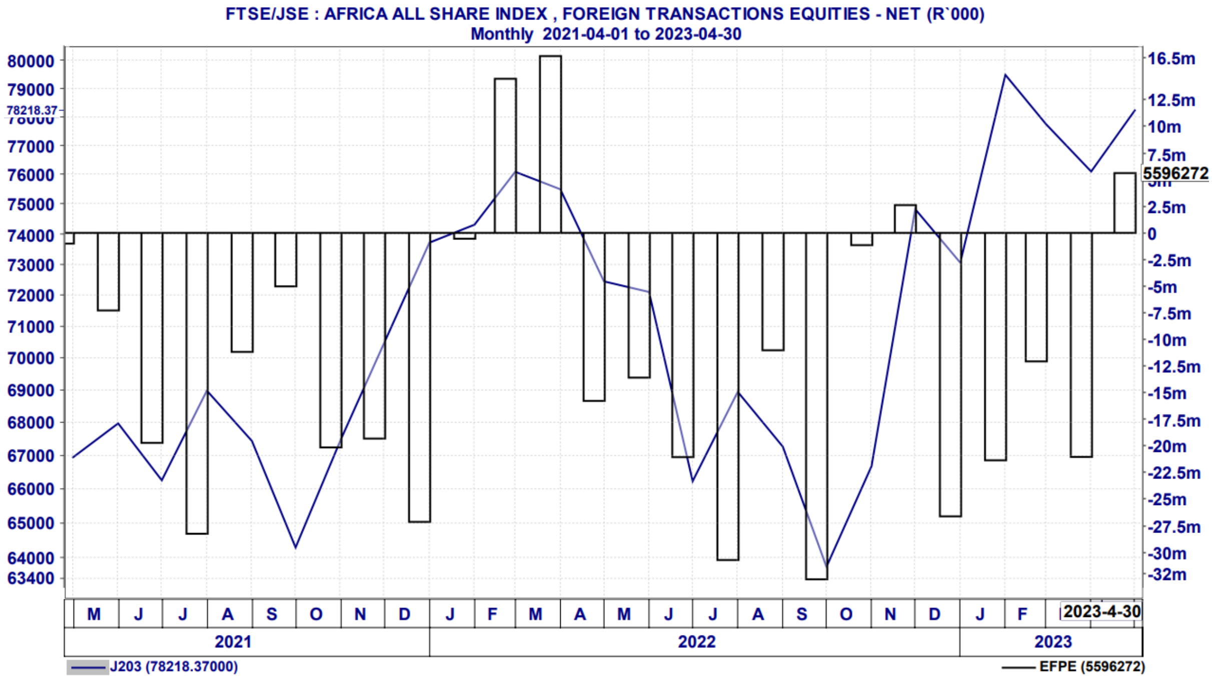
Source: Morningstar & Glacier Research

In April, the resources sector showed strong performance, with a gain of 3.98%. This outperformance was driven by gold counters and platinum group metal (PGM) stocks, which benefited from higher commodity prices. The financials sector also had a strong month, producing returns of 3.04%. This rebounded the sector from the weak returns experienced in March. Additionally, both the SA industrials and industrials sectors saw gains of 3.04% and 1.36%, respectively.

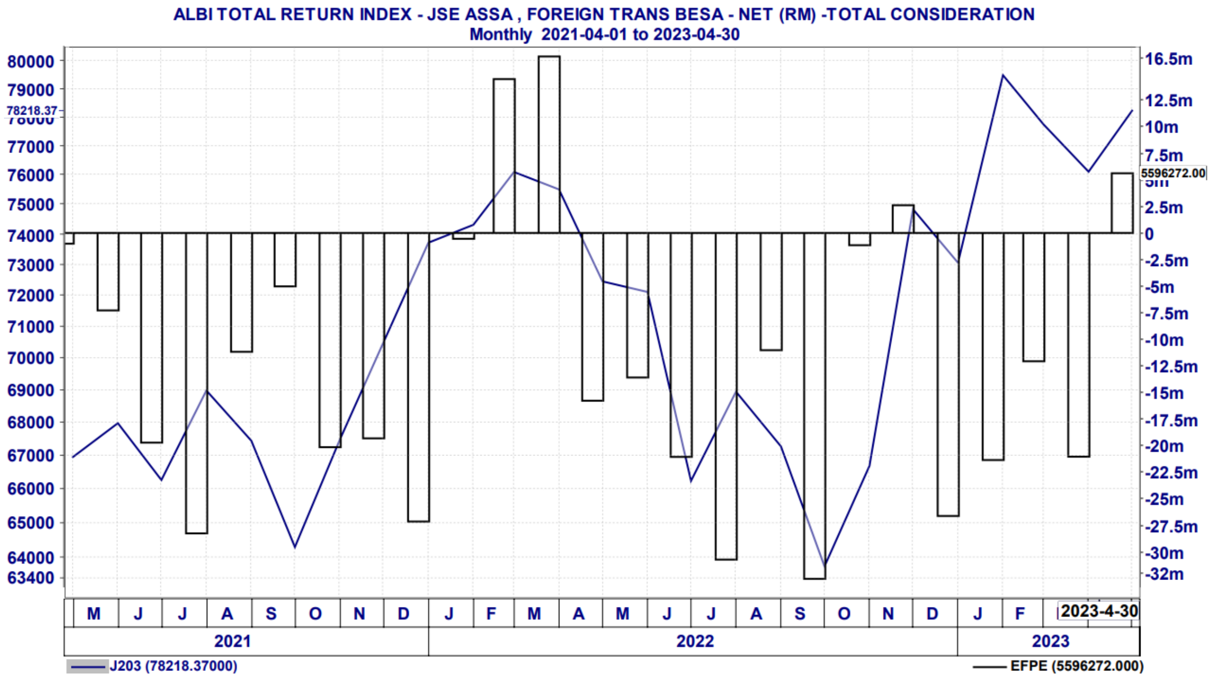
LOCAL SECTOR RETURNS IN ZAR

2022	February 2023	March 2023	April 2023	2023 - YTD
FINANCIALS 8.61%	CONSUMER SERVICES 3.85%	RESOURCES 2.49%	CONSUMER SERVICES 5.66%	CONSUMER SERVICES 27.98%
RESOURCES 8.61%	CONSUMER GOODS 3.05%	CONSUMER SERVICES 0.27%	GENERAL RETAILERS 4.30%	SA INDUSTRIALS 17.08%
CONSUMER GOODS 6.97%	FINANCIALS 2.75%	SA INDUSTRIALS -0.82%	RESOURCES 3.98%	INDUSTRIALS 8.07%
SA INDUSTRIALS -3.71%	SA INDUSTRIALS 1.57%	INDUSTRIALS -2.32%	CONSUMER GOODS 3.29%	CONSUMER GOODS 6.46%
CONSUMER SERVICES -4.47%	INDUSTRIALS 0.42%	CONSUMER GOODS -2.90%	SA INDUSTRIALS 3.06%	FINANCIALS 3.50%
GENERAL RETAILERS -6.19%	GENERAL RETAILERS -2.20%	GENERAL RETAILERS -5.00%	FINANCIALS 3.04%	RESOURCES -0.92%
INDUSTRIALS -13.26%	RESOURCES -12.51%	FINANCIALS -6.62%	INDUSTRIALS 1.36%	GENERAL RETAILERS -2.07%

Source: Morningstar & Glacier Research



Source: IRESS May 2023



Source: IRESS May 2023

Global markets

Global equity markets wrapped up the month of April mixed. Despite further stress in the banking sector after First Republic Bank's failure, the positive economic momentum supported risk assets. The US, Eurozone, and the UK all advanced on the back of resilient economic data. Asia, in contrast, detracted; dragged by China's underperformance amid concerns around growth sustainability. Emerging markets also underperformed their developed market counterparts due to the poor performance of Chinese stocks; overshadowing gains made in the Latin America and Central Europe, Middle East and Africa (CEEMEA) regions. The MSCI World, MSCI World ACWI and MSCI EM generated returns of +1.75%, +1.44% and -1.13%, respectively, in US dollar terms.

In recent months, as observed through the Purchasing Managers Indices in many countries across the world, economic data is showing a strong services sector while manufacturing activity remains weak.

In the fixed income space, sovereign bond yields in the US marginally dropped during the month (implying a capital gain) with the US 10-year treasury note decreasing from 3.47% to 3.42%, with a large part of this driven by investment grade credit which returned 1.18% over the month as optimism that US interest rates may be nearing their peak grew. European sovereign bonds struggled, with UK gilts underperforming the most as yields rose from 3.49% to 3.72%. Looking at performance from a global equity style basis, momentum (+2.88) led the pack, followed by quality (+2.14%), value (+1.91%) and growth (+1.60%).

United States

US equity markets ended the month of April with modest gains, supported by strong earnings performance. All three major US indices – Dow Jones (+2.57%), S&P 500 (+1.56%), and NASDAQ (+0.07%) – ended in positive territory.

On the US data front, GDP slowed in the first quarter of 2023, after a strong end to 2022. the US ISM Purchasing Managers Index indicated an expansion in the services sector and a shrinkage in economic activity in the manufacturing sector. Annual headline CPI was lower than expected at 5.0% year-on-year (YoY) from 6.0% in the previous month. Whereas annual core CPI (excludes food and energy components) rose to 5.6% YoY from 5.5% in the previous month. Retail sales dropped 1% month on month (MoM), more than the market forecast of a 0.4% drop, as consumers cut back spending on motor vehicles, electronics, and at-home and garden stores. Investors throughout the month anticipated a 25-bps interest rate hike in May, with hopes that the Federal Reserve will pause monetary policy tightening cycle thereafter.

Fears of contagion in the banking sector re-emerged as the collapse of First Republic looked unavoidable by end of April. First Republic Bank is the third mid-sized bank to fail in the US in less than two months. The bank's stock price dropped more than 49% after publishing its first quarter earnings report, which showed that First Republic's deposits fell by 40.8% YoY in the first quarter of 2023 as customers pulled out their funds.

Eurozone

Performance in April for European stocks was stronger relative to the previous month; boosted by better-than-expected earnings season despite disappointing economic data. All sectors advanced except for the information technology (IT) and materials sectors which lagged. The IT sector dropped after several semiconductor companies warned that a slowdown in demand is lasting longer than expected. The semiconductor industry is critical in modern electronics; shortages would affect the electronics, telecommunications, auto, and defence & aerospace sectors.

The April Manufacturing PMI figure at 45.8 indicated a tenth consecutive contraction, while the Services PMI rose to 56.2 points from 55.0 points in March. The services sector contributed to positive eurozone GDP growth of 0.1% in the first quarter from zero growth in the fourth quarter of 2022. Germany saw no growth in the first quarter of 2023, while France, Spain and Italy all saw growth of 0.2%, 0.5% and 0.5% respectively.

The April flash annual CPI for the Eurozone slightly increased to 7.0% from March's 13-month low of 6.9%, as energy prices rebounded, and the cost of services rose. Germany's inflation slowed to 7.2% for April from 7.4% in March, the lowest in seven months; while in France, Italy and Spain annual inflation rose. Markets anticipated a 25-bps rate hike throughout the month at the next ECB meeting in May, with the ECB officials also signalling that the tightening cycle is still to continue until there is a significant decline in inflation.

United Kingdom

UK equities had a positive month of performance, bouncing back from March's banking sector stock selloff with the FTSE 100 ending the month 3.41% higher in pound sterling terms. The top contributors to performance were financial sector stocks, driven largely by the banking sector as fears around the health of US banks retreated somewhat. Diversified energy stocks were another top contributor to the positive performance buoyed by the recovery of oil prices as the OPEC+ announced a surprise production cut at the start of the month.

Similarly, to the Eurozone and the US, UK economic data reflected a divergence between the manufacturing and services sectors. The manufacturing contraction continued in April with the Manufacturing PMI revised higher to 47.8 from an earlier estimate of 46.6 and compared with March's 47.9. Economic activity in the services sector expanded with the Services PMI at 55.9 points from 52.9 in the previous month. Headline inflation printed at 10.1% YoY from 10.4% in the previous month. Core inflation remained flat at 6.2% YoY. In response to the stubborn core inflation, the Bank of England will be under pressure to hike interest rates in May; with markets predicting a 25-bps rate hike on the 11th of May.

Spot Rates	30 April 2021	30 April 2022	30 April 2023
EUR/USD	1.20	1.05	1.10
GBP/USD	1.38	1.26	1.26
USD/JPY	109.27	129.93	136.28

Source: IRESS

Emerging markets and Asia

Emerging market (EM) equities lagged their developed market counterparts, delivering negative returns for the month of April. The MSCI EM index returned -1.13% MoM, while the MSCI World index delivered +1.75% in US dollar terms.

Emerging markets (EMs) were dragged lower by China as doubts emerged over the country's ability to sustain its economic rebound. Baidu (-20% MoM), Alibaba (-17% MoM), and Tencent (-11% MoM) were amongst the big losers in April, with the latter two impacted by announcements that key shareholders, Soft Bank and Prosus, are selling down a portion of their stakes. Moreover, the ongoing tension between China and the US over Taiwan has affected investor sentiment towards Taiwan. Stocks in Taiwan also dragged performance as demand for semiconductors, one of the country's main exports, has declined due to weaker growth in other parts of the world.

Indonesia and India as well as Central & Eastern Europe, Middle East and Africa (CEEMEA) and Latin America advanced, though these gains were not enough to lift EMs and Asia into green territory.

GLOBAL RETURNS IN ZAR

2022	February 2023	March 2023	April 2023	2023 - YTD
FTSE 100 -0.87%	FTSE 100 5.40%	EURO STOXX 50 0.95%	FTSE 100 8.33%	EURO STOXX 50 28.98%
EURO STOXX 50 -9.44%	EURO STOXX 50 4.81%	S&P 500 0.21%	EURO STOXX 50 6.43%	FTSE 100 20.24%
GLOBAL BONDS -10.71%	MSCI WORLD 2.80%	GLOBAL BONDS -0.29%	GLOBAL PROPERTY 4.91%	MSCI WORLD 17.79%
S&P 500 -12.70%	S&P 500 2.76%	MSCI WORLD -0.36%	MSCI WORLD 4.86%	S&P 500 17.32%
MSCI WORLD -12.73%	SHANGHAI STOCK EXCHANGE 2.49%	MSCI EM -0.42%	S&P 500 4.66%	SHANGHAI STOCK EXCHANGE 13.75%
MSCI EM -14.81%	GLOBAL BONDS 1.83%	SHANGHAI STOCK EXCHANGE -3.31%	GLOBAL BONDS 3.51%	GLOBAL BONDS 11.18%
SHANGHAI STOCK EXCHANGE -19.53%	GLOBAL PROPERTY 0.59%	FTSE 100 -3.73%	SHANGHAI STOCK EXCHANGE 2.54%	GLOBAL PROPERTY 10.50%
GLOBAL PROPERTY -20.90%	MSCI EM -1.50%	GLOBAL PROPERTY -6.58%	MSCI EM 1.88%	MSCI EM 10.44%

Source: Morningstar & Glacier Research