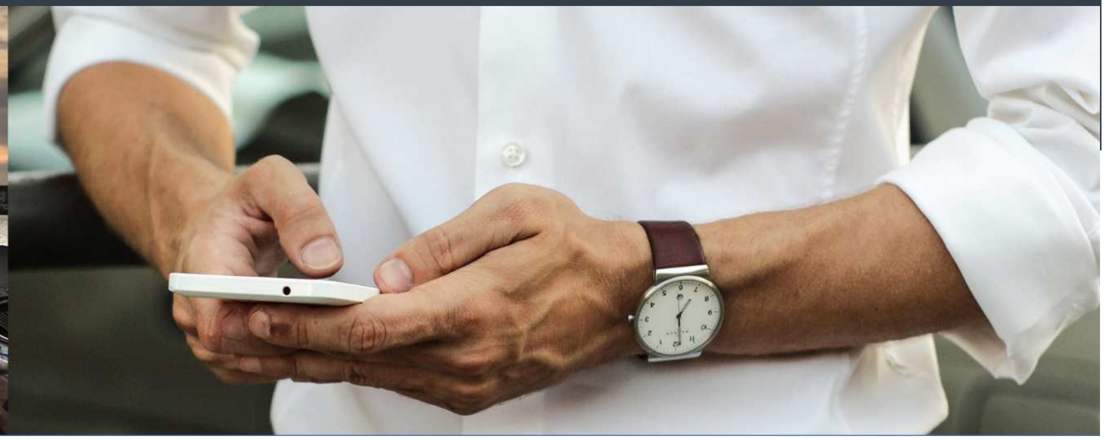
ECONOMIC REPORT

by Glacier Research

glacier
by Sanlam



Review period: July 2023

Introduction

In July, the local equity market rallied alongside global peers, as evidenced by the 4.01% gain in the FTSE/JSE All Share index, driven by positive returns across all sectors. Notably, the financial sector surged by 7.84%, fuelled by strong performances from major players such as Capitec (+14.4%) and ABSA (+12.8%), while the industrials sector also posted robust growth of 5.62%. However, the SA industrials segment fell behind at 2.58%, attributed to currency-exposed holdings impacted by the strengthening rand. The resources sector displayed resilience with a 3.16% uptick, propelled by rebounding prices of precious and platinum group metals. SA-listed property gained 2.46%, in line with other South African asset classes. Furthermore, local bonds continued their upward trajectory, rising by 2.32%, extending the positive trend from June.

Recession fears transformed into a cautiously optimistic outlook, with expectations of a "soft landing" for economies and reduced recession risks. This sentiment drove the rise of riskier assets, while global bonds faced challenges in generating positive returns. Conversely, China's post-COVID economic recovery slowed, with Q2 2023 witnessing a 6.3% year-on-year expansion, falling short of the anticipated 7.3%. China exercised caution in implementing extensive stimulus measures due to concerns about rising local government debt.

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

SARB Monetary Policy Decision

During its July meeting, the South African Reserve Bank (SARB) maintained its key repo rate at a 14-year high of 8.25%, aligning with market projections and signalling a pause in its streak of 10 consecutive rate hikes. The decision, however, came down to the wire, as two of the five Monetary Policy Committee (MPC) members advocated for a modest 25 basis point increase. Additionally, the Governor emphasized that this determination neither marked the conclusion of the tightening cycle nor indicated that interest rates had reached their peak. Prospective actions will pivot on the trajectory of inflation.

The SARB's assessment of inflation and economic growth showed marginal changes. Global economic expansion has outperformed predictions marginally. Consequently, the SARB adjusted its global growth projection for 2023 to 2.5%, a slight increase from the previous 2.4%. The forecast for 2024 remained steady at 2.7%. While worldwide inflation has sustained a downward trend, latent risks persist. Notably, food inflation persists at elevated levels, and the balance between oil demand and supply remains tense.

SA economy

In June 2023, South Africa's annual headline inflation eased to a 19-month low of 5.4%, down from May's 6.3% and below the predicted 5.6%, aligning with the central bank's target range of 3%-6%. The decline was attributed to reduced food and transport inflation, with food inflation hitting an eleven-month low of 11% (vs 11.8% in May), mainly due to a 9.4% drop in the price of oils and fats. Similarly, transport inflation plummeted to 1.8% (vs 7%), marking its lowest since January 2021, driven by an 8.3% decrease in fuel prices. Conversely, inflation accelerated for housing & utilities (4.2% from 4%), recreation & culture (4.1% from 3.8%), and alcoholic beverages & tobacco (6.1% from 5.9%). Core inflation, which excludes selected items, eased to 5% from May's 5.2%. Monthly consumer price inflation remained stable at 0.2%.

In June 2023, South Africa's annual producer price inflation experienced a notable decline, dropping to 4.8% from the previous month's 7.3%, a figure below market projections. This marked the lowest level recorded since February 2021. The decrease was primarily attributed to price drops in petroleum, chemical, rubber, and plastic products (2.9% compared to May's 3.6%), along with a slowdown in the costs of metals, machinery, equipment, and computing equipment (6.2% compared to 7%), food products, beverages, and tobacco products (6.4% compared to 7%), paper & printed products (14.5% compared to 15.5%), and transport equipment (11.3% compared to 12.8%). On a monthly basis, producer prices experienced a decline of 0.3% in June, following a 0.6% increase in the previous month.

Furthermore, the South African rand experienced a robust resurgence in July, driven by the confidence in decreased global interest rate hikes. Capitalizing on its status as a higher-risk currency, the rand was further bolstered by the prevailing positive market sentiment throughout the month. This resulted in substantial gains for the rand, appreciating by 5.18% against the US dollar, 4.23% against the British pound, and 4.46% against the euro.

	Feb'23	Mar'23	Apr'23	May'23	Jun'23	Jul'23
CPI (y/y)	7%	7.1%	6.8%	6.3%	5.4%	5.2% (forecast)
PPI (y/y)	12.2%	10.6%	8.6%	7.3%	4.8%	4.5% (forecast)

Sources: Trading Economics

	31 July 2021	31 July 2022	31 July 2023
USD/ZAR	14.56	16.64	17.85
GBP/ZAR	20.24	20.24	22.91
EUR/ZAR	17.29	17.00	19.62

Source: IRESS

SA markets

In July, the local equity markets concluded the month on a positive note, with all sectors delivering favourable returns. The FTSE/JSE All Share index exhibited a gain of 4.01%. Notably, the financial sector showed remarkable strength, with a robust return of +7.84%. This surge was largely attributed to key players like Capitec (+14.4%) and ABSA (+12.8%). Concurrently, the industrial sector also demonstrated robust growth, recording an increase of 5.62%. However, the SA industrials segment lagged at 2.58%, impacted by currency-sensitive holdings affected by the strengthening rand. The resources sector showcased resilience, marking a 3.16% upturn, propelled by the resurgence in prices of precious and platinum group metals.

Regarding market capitalization, mid-cap stocks stood out with an impressive gain of 5.75%, followed by large caps returning 4.23%, and small caps delivering a 1.37% return in July. South African listed property followed a similar trajectory, rising by 2.46%. Growthpoint (+8.7%), a heavyweight in the index, outperformed, while Europe-focused counter Nepi Rockcastle (-3.0%) struggled due to the headwind of rand strength affecting offshore counters' performance.

Shifting to the fixed income landscape, South African bonds concluded July with an upward trajectory, building on the momentum from June. The FTSE/JSE All Bond Index registered a gain of 2.29%. This positive movement was predominantly influenced by the prevailing global risk-on sentiment. Additionally, a lower-than-anticipated local inflation figure, coupled with the South African Reserve Bank's decision to maintain policy rates, further contributed to this positive performance. Among various maturity ranges, the 12+ year bonds experienced the most significant increase, rising by 2.54%. The 7 – 12-year range followed suit with a gain of 2.46%. The 3 – 7-year range yielded a return of 1.87% in June, while the 1 – 3-year range recorded a gain of 1.40%.

Foreigners were net sellers of R16.56 billion worth of SA equities and net sellers of R3.97 billion worth of SA bonds, during the month.

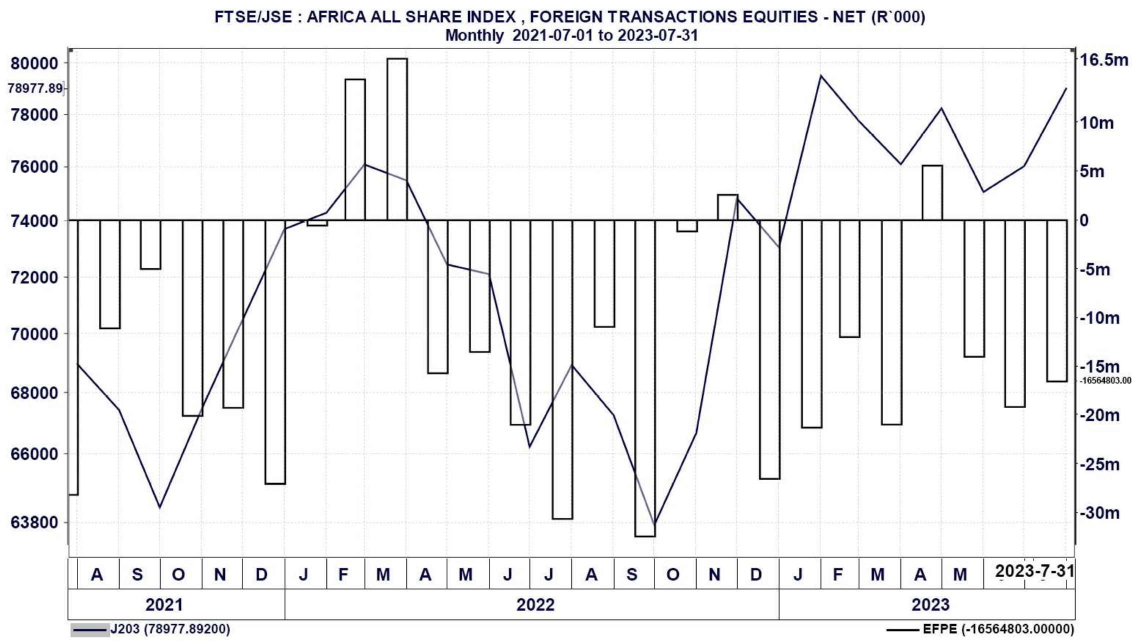
LOCAL RETURNS IN ZAR				
2022	**May 2023**	**June 2023**	**July 2023**	**2023 - YTD**
SA SMALL CAPS 7.55%	SA CASH 0.65%	SA BONDS 4.58%	SA MID CAPS 5.75%	SA TOP 40 11.76%
SA CASH 5.21%	SA TOP 40 -3.48%	SA MID CAPS 4.16%	SA TOP 40 4.23%	SA EQUITY 10.11%
SA BONDS 4.26%	SA EQUITY -3.92%	SA SMALL CAPS 3.83%	SA EQUITY 4.01%	SA MID CAPS 4.54%
SA TOP 40 4.21%	SA BONDS -4.79%	SA EQUITY 1.35%	SA PROPERTY 2.46%	SA CASH 4.41%
SA EQUITY 3.58%	SA SMALL CAPS -5.12%	SA TOP 40 1.05%	SA BONDS 2.29%	SA BONDS 4.14%
SA MID CAPS 1.60%	SA PROPERTY -5.41%	SA PROPERTY 0.93%	SA SMALL CAPS 1.37%	SA SMALL CAPS 2.70%
SA PROPERTY -1.90%	SA MID CAPS -7.75%	SA CASH 0.65%	SA CASH 0.68%	SA PROPERTY -1.54%

Source: Morningstar & Glacier Research

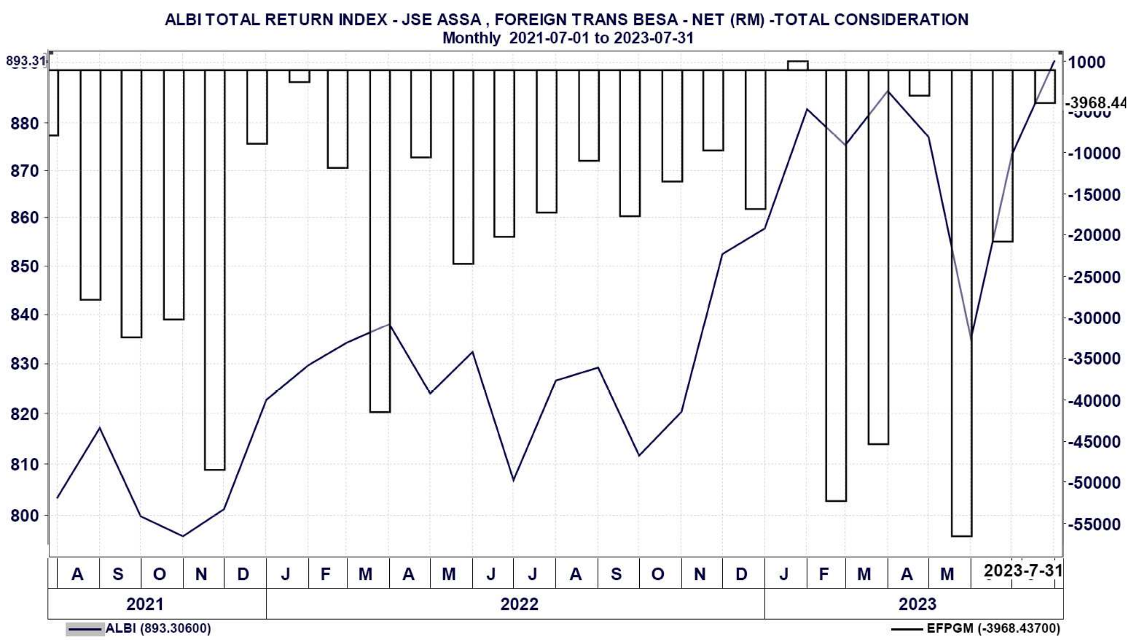
In July, the domestic equity markets surged, registering a 4.01% gain. Notably, the financial sector emerged as the leading performer, boasting a substantial 7.84% return for the month. Following closely, the industrials sector exhibited a solid increase of 5.62%, while the resources sector closed the month with a 3.16% uptick. Conversely, the SA industrials sector experienced a more modest growth of 2.58%.

LOCAL SECTOR RETURNS IN ZAR				
2022	**May 2023**	**June 2023**	**July 2023**	**2023 - YTD**
FINANCIALS 8.61%	CONSUMER SERVICES 1.75%	FINANCIALS 11.66%	FINANCIALS 7.84%	CONSUMER SERVICES 31.56%
RESOURCES 8.61%	INDUSTRIALS -0.81%	GENERAL RETAILERS 8.14%	INDUSTRIALS 5.62%	SA INDUSTRIALS 20.50%
CONSUMER GOODS 6.97%	RESOURCES -2.22%	CONSUMER GOODS 4.33%	RESOURCES 3.16%	INDUSTRIALS 15.41%
SA INDUSTRIALS -3.71%	SA INDUSTRIALS -3.27%	SA INDUSTRIALS 3.72%	CONSUMER GOODS 3.03%	FINANCIALS 14.74%
CONSUMER SERVICES -4.47%	GENERAL RETAILERS -5.37%	INDUSTRIALS 1.94%	SA INDUSTRIALS 2.58%	CONSUMER GOODS 4.06%
GENERAL RETAILERS -6.19%	FINANCIALS -7.93%	CONSUMER SERVICES 0.32%	CONSUMER SERVICES 0.71%	GENERAL RETAILERS 0.89%
INDUSTRIALS -13.26%	CONSUMER GOODS -9.07%	RESOURCES -7.63%	GENERAL RETAILERS 0.67%	RESOURCES -7.69%

Source: Morningstar & Glacier Research



Source: IRESS August 2023



Source: IRESS August 2023

Global markets

Global equity markets ended July higher, buoyed by positive sentiment stemming from easing inflation and resilient economic data. The MSCI EM, MSCI World ACWI and MSCI World all generated positive returns of +6.23%, +3.66% and +3.36% respectively in US dollar terms. Inflation figures printed better than market expectations in the US and UK. Inflation also eased further in the eurozone. Both the US Federal Reserve and the European Central Bank raised interest rates by 25 basis points. The Bank of England's interest rate decision will be delivered in August. Additional stimulus promises in China were supportive to Chinese equities, which in turn boosted emerging market performance.

In the fixed income space, government bonds were mixed during the month, with US and European bonds under pressure, while UK bonds rallied. US treasuries returned -0.4%, as strong GDP figures dampened hopes that the Federal Reserve will cut rates anytime soon. German buds returned -0.35% after the ECB hiked rates by 25 basis points and stated that they are keeping their options open pertaining to the direction of monetary policy in their next meeting in September. In contrast, UK gilts returned +0.81% on the back of better-than-expected inflation prints. The US 10-year treasury yield rose from 3.84% to 3.96% and the 10-year German bunds yield rose from 2.39% to 2.49%. Meanwhile, the UK 10-year Gilts slightly declined from 4.39% to 4.31%. Corporate bond markets had a positive month – sterling credit led the gains, followed by euro and US credit. On a global equity style basis, value (+3.84%) outperformed the most, followed by quality (+3.18%), growth (+2.92%) and momentum (+2.43%).

United States

US equities ended the month of July in positive territory, amid cooling inflation and resilient economic growth. All three major US indices were up – NASDAQ (+4.08%), Dow Jones (+3.44%), and S&P 500 (+3.21%). US inflation eased further to 3.0% year-on-year in June from 4.0% in May, exceeding market forecasts of a 3.2% price rise. Core inflation (excluding food and energy prices) also fell to 4.8% year-on-year from 5.3% in May. The US Federal Reserve hiked interest rates by 25 basis points in July, following a pause in June. The next FOMC meeting will be in September. The easing inflation in the US has raised hopes that the central bank is close to ending its rate hiking campaign. Growth in nonfarm payrolls slowed to 209,000 in June, below the forecast of a 225,000 increase, while unemployment declined to 3.6% in June 2023 from 3.7% in the prior month. Preliminary data showed that the US economy grew by 2.4% quarter-on-quarter in Q2 2023, beating the 1.8% growth expectations.

Eurozone

Eurozone equity markets ended the month of July higher amid cooling inflation and economic growth in the second quarter of the year, with the Euro Stoxx 50 returning 1.74%. Consumer discretionary and energy sectors were the best performers, while utilities and technology dragged performance.

Preliminary inflation in the Eurozone fell to 5.3% year-on-year in July, down from 5.5% in June, in line with market expectations. The slowdown in food, energy, alcohol and tobacco prices contributed to the easing inflation. Core inflation remained unchanged at 5.5% year-on-year from the previous month. The European Central Bank raised interest rates by 25 basis points to 4.25%, the ninth consecutive rate hike. The next ECB meeting will be in September and monetary policy will be dependent on economic data. Flash data from Eurostat showed that GDP grew 0.3% in Q2 2023, after a flat first quarter of 2023. The flash composite PMI fell to 48.9 in July 2023 from 49.9 in June, indicating a contraction in private sector activity.

United Kingdom

In July, UK equities ended the month higher, following positive corporate earnings and cooler-than-expected inflation prints, with the FTSE 100 ending 2.35% higher in pound sterling terms. Inflation surprised and came in at 7.9% year-on-year in June 2023 from 8.7% in May, printing below market consensus of 8.2%. The moderation in inflation can be attributed to a drop in the cost of fuel. Core inflation (excluding energy and food) also cooled down slightly to 6.9% in June from 7.1% in May. The next interest rate decision by the Bank of England will be in August. Preliminary data from the Office for National Statistics showed that the UK economy grew 0.2% in the second quarter of 2023, from a 0.1% growth in Q1.

Spot Rates	31 July 2021	31July 2022	31 July 2023
EUR/USD	1.19	1.02	1.10
GBP/USD	1.39	1.22	1.28
USD/JPY	109.70	133.19	142.28

Source: IRESS

EM and Asia

Emerging markets (EM) outperformed their developed counterparts. The MSCI EM index returned +6.23%, while the MSCI World indexed delivered +3.36% in US dollar terms. Improved investor sentiment on the back of potential additional stimulus and policy easing was supportive to Chinese equities, which in turn boosted Asian equity market and emerging market performance. From a sector perspective, consumer discretionary and material were the best performers. Stronger commodity prices were also supportive to some emerging markets. Earlier in the month, Russia and Saudi Arabia announced oil production cuts, which resulted in oil prices rising. Turkey was the best performing market, followed by Columbia and South Africa. Taiwanese equities posted most gains while Egypt ended in negative territory over the month.

GLOBAL RETURNS IN ZAR

2022	May 2023	June 2023	July 2023	2023 - YTD
FTSE 100 -0.87%	S&P 500 8.85%	EURO STOXX 50 1.79%	MSCI EM 0.00%	EURO STOXX 50 30.06%
EURO STOXX 50 -9.44%	MSCI WORLD 7.30%	S&P 500 1.63%	SHANGHAI STOCK EXCHANGE -0.77%	S&P 500 26.10%
GLOBAL BONDS -10.71%	MSCI EM 6.56%	MSCI WORLD 1.10%	GLOBAL PROPERTY -2.32%	MSCI WORLD 24.33%
S&P 500 -12.70%	GLOBAL BONDS 6.26%	FTSE 100 -0.84%	FTSE 100 -2.49%	FTSE 100 18.12%
MSCI WORLD -12.73%	GLOBAL PROPERTY 3.66%	MSCI EM -1.05%	MSCI WORLD -2.70%	MSCI EM 16.45%
MSCI EM -14.81%	EURO STOXX 50 2.35%	GLOBAL PROPERTY -1.46%	S&P 500 -2.84%	GLOBAL PROPERTY 10.26%
SHANGHAI STOCK EXCHANGE -19.53%	FTSE 100 1.61%	GLOBAL BONDS -4.68%	EURO STOXX 50 -3.21%	GLOBAL BONDS 6.75%
GLOBAL PROPERTY -20.90%	SHANGHAI STOCK EXCHANGE 1.12%	SHANGHAI STOCK EXCHANGE -6.89%	GLOBAL BONDS -5.21%	SHANGHAI STOCK EXCHANGE 6.28%

Source: Morningstar & Glacier Research