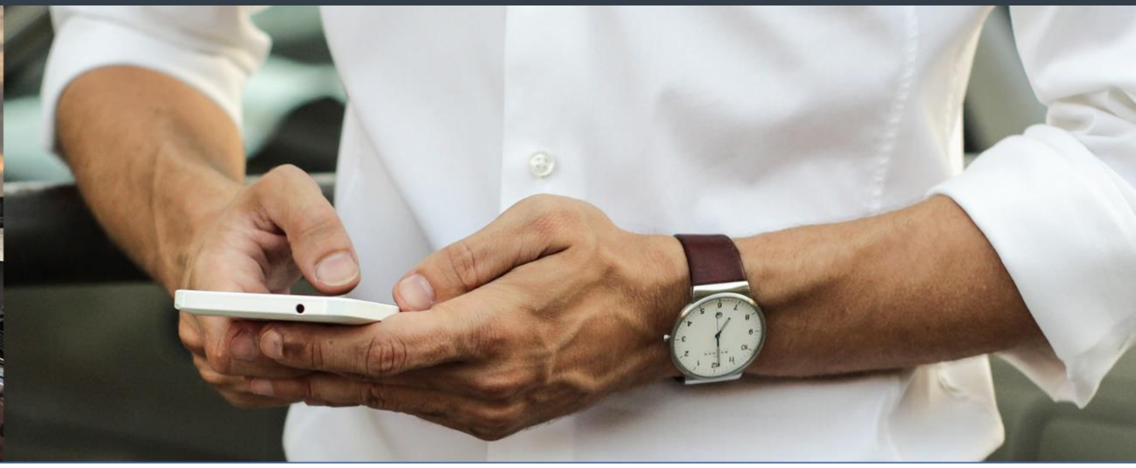
ECONOMIC REPORT

by Glacier Research

glacier by Sanlam



Review period: December 2023

Introduction

In December, South African (SA) asset classes, including equities, property, and bonds, showed strong returns, following global trends. Property counters performed exceptionally well, outpacing other local assets, driven by the belief that the interest rate cycle has peaked. Although local equities had positive returns, they lagged the broader emerging market peers. SA bonds continued their robust performance, influenced by a re-evaluation of rate cut expectations by major central banks, especially the Federal Reserve. In sector performance, Industrials led with a gain of 6.94%, followed by Financials at 5.27%, driven by strong performance in domestically geared shares, particularly in banks and insurers. SA Industrials gained 0.71%, but Naspers and Prosus were negatively impacted by the performance of their major investment, Tencent. Resources were slightly down at -0.03%, with platinum miners performing well, while gold miners and Sasol faced challenges due to falling Brent crude prices.

Global equity markets sustained their rally, even amid persistent geopolitical tension in the Middle East, as market sentiment improved due to optimism regarding potential US rate cuts in 2024. In its final meeting for 2023, the US Federal Reserve chose to keep rates unchanged and indicated the conclusion of its rate-hiking cycle, with US rates currently at a 22-year high. However, emerging markets faced challenges, primarily due to Chinese stocks struggling in December. Chinese regulators announced another unforeseen intervention, this time targeting online gaming, impacting the performance of Chinese stocks.

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Domestic highlights

- Gross Domestic Product (GDP) – Q3 2023

Gross Domestic Product (GDP) – Q3 2023

In Q3 2023, the SA economy contracted by 0.2%, following a revised 0.5% increase in Q2, below the anticipated 0.1% decline. Key factors included persistent rotational load shedding, logistical challenges, and a challenging global environment. Agriculture, forestry & fishing (-9.6%), construction (-2.8%), and manufacturing (-1.3%) were the major contributors to the overall decline. The agriculture sector faced challenges from avian flu and the Western Cape floods. Construction weakened due to reduced activities in residential and non-residential buildings. Manufacturing suffered from lower demand for food & beverages and petroleum & chemicals, primarily due to avian flu affecting chicken-related product production. On a positive note, contributions from transport, storage, communication (+0.9%), personal services (+0.6%), and finance, real estate, and business services (+0.5%) partially offset the economic downturn.

On the expenditure side, fixed investment saw a 3.4% contraction, mainly driven by a decline in investments in machinery and equipment. This reduction in demand for machinery and equipment was a significant factor contributing to the 8.6% decline in imports. Despite this, the country experienced a slight increase (+0.6%) in exports during Q3. This uptick was influenced by heightened trade in vehicles & transport equipment, pearls, precious & semi-precious stones, precious metals, and vegetable products. Household consumption decreased by 0.3%, marked by reduced spending on transport, recreation, and housing utilities. At the same time, there was an increase in spending on items such as clothing & footwear and restaurants & hotels.

In Q3, the GDP experienced a year-on-year decline of 0.7%, contrasting with the revised 1.5% increase in the preceding period and diverging from market expectations of a 0.2% decrease.

SA economy

In November 2023, SA's annual inflation rate declined to 5.5%, down from October's five-month high of 5.9%, slightly below the forecasted 5.6%, aligning with the South African Reserve Bank's (SARB's) 3%-6% target range. The moderation was driven by a notable slowdown in transportation prices (4.3% compared to October's 7.4%), primarily influenced by lower fuel costs. However, food inflation rose to a four-month high of 9% in November, driven by significant increases in vegetable, sugar, sweets, desserts, milk, eggs, cheese, and fruit prices. Annual core inflation, excluding food, non-alcoholic beverages, fuel, and energy, rose to 4.5%, meeting market expectations, increasing from 4.4% in October. Monthly, consumer prices decreased by 0.1% in November, the first drop in 10 months, attributed to a 5.5% decline in the fuel price index, contrary to market estimates of a 0.1% increase.

In November 2023, SA's Producer Price Inflation (PPI) decreased to 4.6% year-on-year, down from the previous month's five-month high of 5.8%, significantly below market predictions of 5.5%. Notably, there was a marked deceleration in the costs of coke, petroleum, chemical, rubber, and plastic products (2.4% compared to October's 5.8%). Prices also softened for food products, beverages, and tobacco products (4.7% vs. 5%), transport equipment (4.3% vs. 5.8%), and paper and printed products (5% vs. 5.3%), among others. On a monthly basis, producer prices experienced a 0.6% decline in November, the most significant drop in nearly a year, contrasting with market expectations of a 0.1% increase.

In addition, during the month, the SA rand strengthened, given the risk-on environment. Specifically, the rand appreciated by 2.95% against the US dollar, 2.09% against the British Pound, and 1.57% against the euro.

	Jul'23	Aug'23	Sep'23	Oct'23	Nov'23	Dec'23
CPI (y/y)	4.7%	4.8%	5.4%	5.9%	5.5%	5.2% (forecast)
PPI (y/y)	2.7%	4.3%	5.1%	5.8%	4.6%	4.6% (forecast)

Sources: Trading Economics

	31 December 2021	31 December 2022	31 December 2023
USD/ZAR	15.99	17.00	18.30
GBP/ZAR	21.64	20.57	23.30
EUR/ZAR	18.18	18.20	20.20

Source: IRESS

SA markets

For the month, the SA equity market, represented by the FTSE JSE All Share index, recorded a 2% gain. Industrials took the lead with a 6.94% increase, fuelled by robust performance in domestically focused shares, especially in banks and insurers. Financials followed with a 5.27% gain, and SA Industrials registered a 0.71% increase. Notably, index heavyweights Naspers (-9.7%) and Prosus (-10.6%) declined due to gaming restrictions announced in China, impacting Tencent. Resources posted a slight decline of -0.03%, trailing the overall market upswing, primarily due to weaknesses in the energy and gold sectors. In terms of market capitalization, mid-cap stocks led the way with a 7.92% gain in December, followed by small cap stocks, which increased by 6%, and large cap stocks, posting a 1.39% gain.

The standout performer for the month was SA property, as measured by the SA All Property index, which experienced a robust gain of 9.92%. This impressive increase was driven by the prevailing risk-on sentiment and strong performances from index heavyweights Growthpoint (+10.2%) and Redefine (+11.0%), leading the sector higher.

Turning to fixed income, local bonds, as reflected by the FTSE JSE All Bond index, registered a 1.49% increase as the yield curve shifted lower, with the more extended maturity bonds experiencing the most significant decline. Specifically, seven–12-year bonds led with a notable increase of 2.23%, followed by the three–seven-year range, which rose by 1.25%. The 12+ year range saw a 1.13% increase, while the one–three-year range advanced by 1.10% in December.

Foreigners were net sellers of R1.87 billion worth of SA equities and net sellers of R1.23 billion worth of SA bonds during the month.

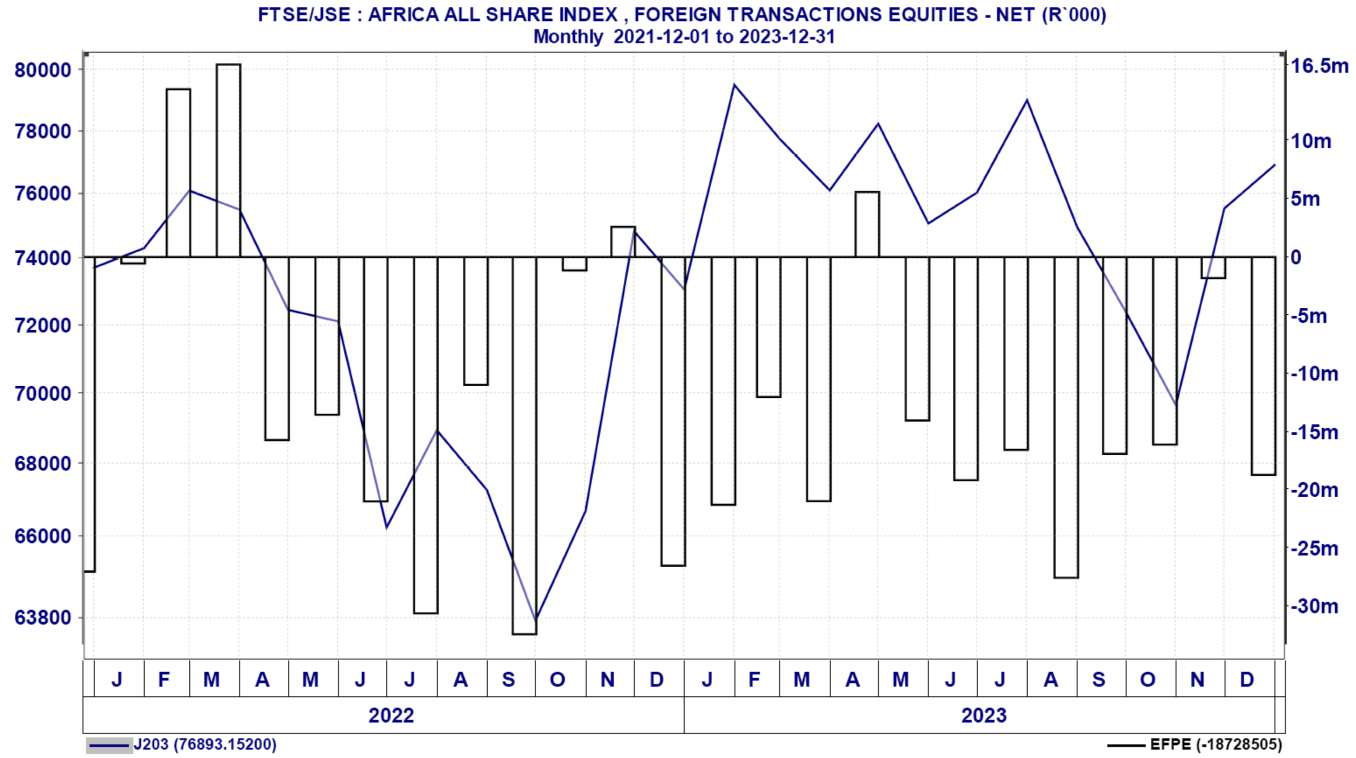
LOCAL RETURNS IN ZAR				
2022	**October 2023**	**November 2023**	**December 2023**	**2023 - YTD**
SA SMALL CAPS 7.55%	SA BONDS 1.71%	SA TOP 40 9.09%	SA PROPERTY 9.92%	SA SMALL CAPS 11.17%
SA CASH 5.21%	SA CASH 0.70%	SA PROPERTY 9.04%	SA MID CAPS 7.92%	SA PROPERTY 10.70%
SA BONDS 4.26%	SA SMALL CAPS -2.30%	SA EQUITY 8.55%	SA SMALL CAPS 6.00%	SA MID CAPS 9.70%
SA TOP 40 4.21%	SA MID CAPS -3.19%	SA MID CAPS 5.28%	SA EQUITY 2.00%	SA BONDS 9.70%
SA EQUITY 3.58%	SA PROPERTY -3.33%	SA SMALL CAPS 4.82%	SA BONDS 1.49%	SA EQUITY 9.25%
SA MID CAPS 1.60%	SA EQUITY -3.44%	SA BONDS 4.73%	SA TOP 40 1.39%	SA TOP 40 8.98%
SA PROPERTY -1.90%	SA TOP 40 -3.67%	SA CASH 0.68%	SA CASH 0.70%	SA CASH 8.06%

Source: Morningstar & Glacier Research

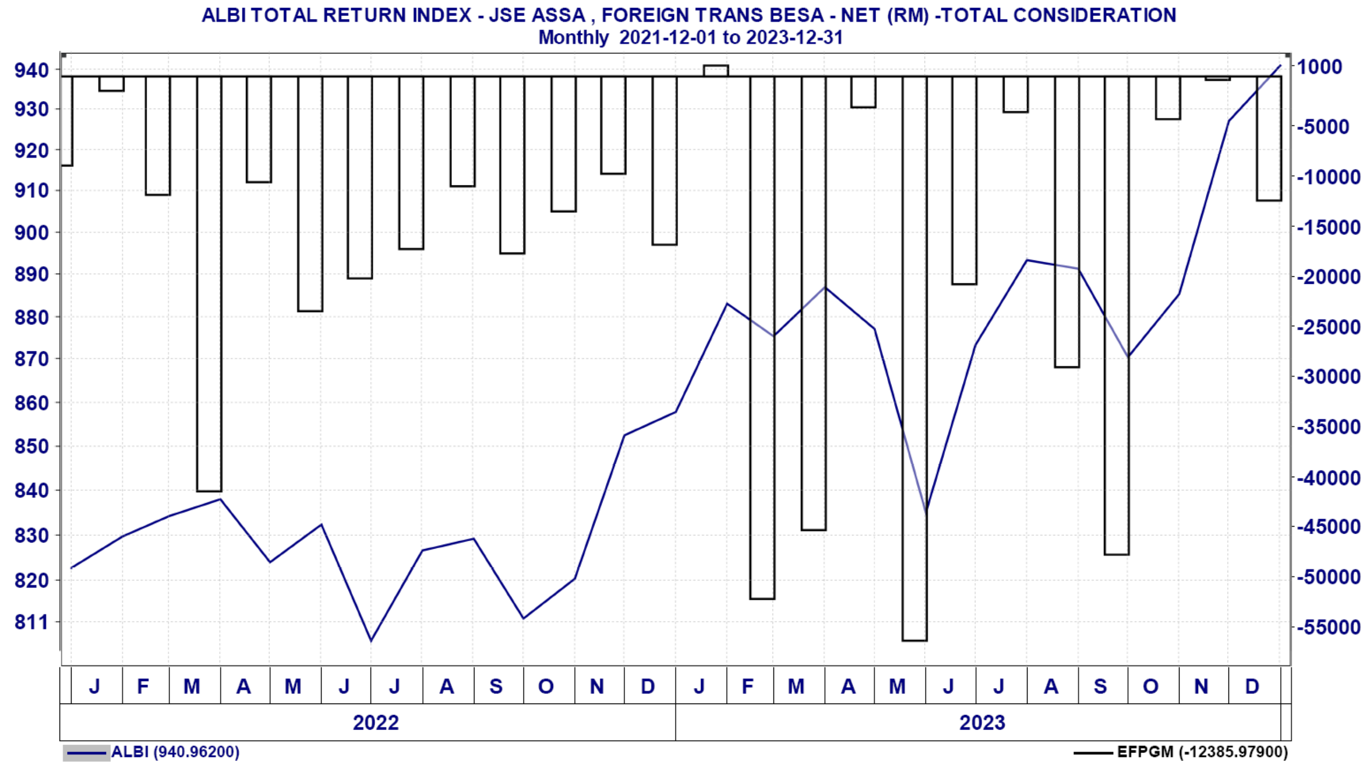
In December, SA's domestic equity markets closed the month with a 2% gain. The main contributor to this positive performance was the Industrials sector, recording a 6.94% increase, followed by financials (+5.27%). The SA Industrials sector also experienced a 0.71% increase, while Resources declined by 0.03% for the month.

LOCAL SECTOR RETURNS IN ZAR				
2022	**October 2023**	**November 2023**	**December 2023**	**2023 - YTD**
FINANCIALS 8.61%	GENERAL RETAILERS 0.61%	GENERAL RETAILERS 14.03%	INDUSTRIALS 6.94%	GENERAL RETAILERS 35.34%
RESOURCES 8.61%	CONSUMER SERVICES -1.87%	SA INDUSTRIALS 10.10%	CONSUMER SERVICES 5.65%	CONSUMER SERVICES 29.16%
CONSUMER GOODS 6.97%	FINANCIALS -1.99%	FINANCIALS 8.32%	FINANCIALS 5.27%	INDUSTRIALS 24.63%
SA INDUSTRIALS -3.71%	CONSUMER GOODS -2.47%	CONSUMER GOODS 7.35%	CONSUMER GOODS 2.23%	FINANCIALS 21.48%
CONSUMER SERVICES -4.47%	RESOURCES -3.17%	RESOURCES 6.40%	GENERAL RETAILERS 1.15%	SA INDUSTRIALS 16.62%
GENERAL RETAILERS -6.19%	INDUSTRIALS -3.56%	CONSUMER SERVICES 5.61%	SA INDUSTRIALS 0.71%	CONSUMER GOODS 10.05%
INDUSTRIALS -13.26%	SA INDUSTRIALS -4.51%	INDUSTRIALS 2.56%	RESOURCES -0.03%	RESOURCES -11.84%

Source: Morningstar & Glacier Research



Source: IRESS January 2024



Source: IRESS January 2024

Global markets

Despite geopolitical challenges, global equity markets experienced another surge in December, building on the strong momentum from November. The positive shift in market sentiment was fuelled by growing investor optimism regarding potential US rate cuts in 2024, attributed to a decline in US inflation and eased concerns about a recession. Conversely, Chinese equity markets faced obstacles during the month due to worries about economic recovery, leading to subdued sentiment. Consequently, the MSCI World, MSCI World ACWI, and MSCI Emerging Markets Index posted gains of 4.91%, 4.80%, and 3.91%, respectively, in US dollar terms. Examining global equity styles, the value category emerged as the top performer with a gain of 5.39%, followed by quality (+4.92%), growth (+4.45%), and momentum (+4.43%) in USD terms.

The increasing belief that major central banks might implement interest rate cuts in 2024 also bolstered the performance of global bond markets in December. As indicated by the Bloomberg Global Aggregate Bond index, the broad gauge of global bonds recorded a 4.16% uptick (in USD) during the month. This movement reflected market anticipations of easing economic conditions, resulting in a reduction in bond yields.

The US 10-year treasury yield declined from 4.33% to 3.88%, influenced by the US Federal Reserve (Fed) maintaining unchanged rates in its final meeting of 2023. In December, a distinct shift to a more dovish stance accelerated the market rally. In the UK, a surprising downside in the latest inflation release extended the rally in the gilt market, causing a decrease in the UK 10-year Gilts from 4.18% to 3.54%. European Central Bank President Christine Lagarde resisted the prospect of imminent interest rate reductions by affirming that borrowing expenses would persist at record levels, even in the face of lower inflation expectations. Nevertheless, the market factored in several rate cuts for the upcoming year, leading to a decline in 10-year German bund yields from 2.45% to 2.02%.

United States

In December, US stocks experienced a surge following the US Federal Reserve's announcement that it believed interest rates had reached their peak. The NASDAQ saw a significant rise of 5.58%, followed by the Dow Jones (+4.93%) and S&P 500 (+4.54%), with all sectors gaining. Real estate led the way, followed by industrials and consumer discretionary.

During its last meeting of 2023, the Fed maintained interest rates for the third consecutive time, keeping the target rate range at 5.25%-5.50%. Furthermore, the Fed signalled the end of its cycle of raising rates, with most of the Federal Open Market Committee members anticipating three rate cuts for 2024. The US Consumer Price Index (CPI) continued its year-on-year decline, with headline inflation easing to 3.1% in November, marking the lowest reading in five months. This decreased from 3.2% in the previous month, in line with market expectations. Core inflation, which excludes volatile items such as food and energy, remained steady at 4% in November, matching market forecasts.

US economic momentum gained traction in November, with robust consumer activity evident as retail sales unexpectedly increased by 0.3% month-over-month, rebounding from a revised 0.2% decline in October. This surpassed market expectations of a 0.1% decrease and indicated a strong start to the holiday shopping season. Industrial production in the US also saw a positive turn, rising by 0.2% in November 2023, offsetting the upwardly revised 0.9% decline from the previous month.

The American economy expanded at an annualised rate of 4.9% in the third quarter of 2023, slightly below the 5.2% in the second estimate but matching the 4.9% initially reported in the advance estimate. This growth represents the strongest since Q4 2021.

In December 2023, the S&P Global US Composite PMI registered at 50.9, showing minimal change from the initial projection of 51.0 and November's figure of 50.7. This latest reading indicated a slight improvement in business activity, representing the fastest expansion since July. The growth was primarily driven by sustained growth in the service sector, although manufacturing production experienced a renewed decline.

Eurozone

Eurozone stock markets performed positively in December, buoyed by optimism about the potential easing of monetary policies by major central banks in 2024. The Euro Stoxx 50 index, measured in euros, saw a return of +3.21% (+4.49% in USD terms). Real estate, industrials, and materials emerged as the top-performing sectors for the month, while the energy sector posted negative returns in December, influenced by a decline in oil prices.

In November, economic activity in the Eurozone continued to exhibit indications of decline, as industrial production decreased by 0.3% month-on-month. This marked the third consecutive contraction period, in line with expectations from the market. On an annual basis, industrial activity contracted by 6.8%, surpassing the anticipated 5.9% decline and extending the ongoing period of contraction to the ninth consecutive month. Ongoing high prices still impact consumer spending, as reflected in a 0.3% decline in monthly retail sales in November, compared to a 0.4% increase previously recorded.

For the second consecutive meeting, the European Central Bank opted to maintain its policy rate at 4.0%, aiming to counteract elevated inflation. Policymakers have committed to sustaining rates at appropriately restrictive levels for as long as necessary. According to Eurostat's preliminary estimate, the inflation rate in the Euro Area increased to 2.9% year-on-year in December 2023. This marked a rise from the November figure of 2.4%, the lowest in over two years but slightly below the market consensus of 3%. This uptick in inflation, the first since April, was predominantly driven by base effects related to energy, with energy prices experiencing a less pronounced decline of 6.7% compared to November's 11.5%. Meanwhile, core inflation moderated to 3.4% year-on-year, aligning with market expectations and slightly decreasing from the previous month's 3.6%.

Eurozone GDP, as indicated by Eurostat data, contracted by 0.1% quarter-on-quarter in Q3. The composite PMI for the Eurozone, maintaining December's level of 47.6, extended its streak below the critical 50.0 threshold for a seventh consecutive month, although it surpassed earlier estimates of 47. This indicates a sustained but moderate decline in business activity across the Eurozone, suggesting a likelihood of economic contraction in Q4 as well.

United Kingdom

Despite underwhelming GDP figures, UK equities saw a rise in December, fuelled by a continuous decline in inflation. This raised optimism that interest rates may have reached their peak and led to speculation about early rate cuts by global central banks in the coming year. The FTSE 100 index exhibited a positive return in pound sterling terms, recording +3.85% (or +4.58% in USD terms).

During its December meeting, the Bank of England kept its policy rate unchanged at 5.25% for the third consecutive time. However, Governor Andrew Bailey struck a hawkish tone. The BoE will continue with their data-dependent approach and stated that monetary policy would remain restrictive for an extended period. In

November, UK inflation declined more than anticipated, with headline inflation dropping to 3.9% year-on-year (from 4.6% in October and below forecasts of 4.4%), primarily driven by slowing fuel, food, and recreation prices. Core inflation also decreased to 5.1% (from 5.7% in October and below forecasts of 5.6%). The British economy contracted by 0.1% in Q3 2023 on a quarter-on-quarter basis, deviating from initial estimates of a flat reading.

In November 2023, retail sales in the United Kingdom rose by 1.3% month-on-month, significantly contrasting October's stagnant growth and surpassing market forecasts of a 0.4% increase. This marked the strongest growth in retail activity since January, driven mainly by increases in non-food stores, as well as food stores and automotive fuel. The composite PMI in the UK accelerated, reaching 52.1 in December 2023 from the previous month's 50.7. This indicated a second consecutive expansion, revised higher from the preliminary reading of 51.7 and representing the sharpest expansion rate since June.

Spot Rates	31 December 2021	31 December 2022	31 December 2023
EUR/USD	**1.14**	**1.07**	**1.10**
GBP/USD	**1.35**	**1.21**	**1.27**
USD/JPY	**115.08**	**131.11**	**141.04**

Source: IRESS

Emerging markets and Asia

Emerging market (EM) equities concluded the month on a positive note but continued to trail their developed market counterparts. The prospect of a "soft landing" for the US economy and growing expectations of interest rate cuts in 2024 provided support for performance. As a result, the MSCI EM index recorded a return of +3.91%, contrasting with the +4.91% return of the MSCI World index, both in US dollar terms. Gains were propelled by utilities, information technology, and basic materials, while communication services detracted.

Asian equity markets saw a rise, with all countries registering gains except China. Sector performance was broadly robust, with utilities, basic materials, and real estate leading the way, while communication services detracted.

Chinese equity markets faced a decline in December due to concerns about economic recovery, highlighted by Moody's revising China's credit outlook to negative. Reports of a record number of Chinese borrowers defaulting on loans and a drop in the November CPI figure added to deflationary concerns. Despite positive industrial production and retail sales growth, doubts persisted about China's economic prospects. Chinese regulators announced rules to curb spending on online video games, leading to an initial decline in Chinese gaming stocks.

GLOBAL RETURNS IN ZAR				
2022	**October 2023**	**November 2023**	**December 2023**	**2023 - YTD**
FTSE 100 -0.87%	GLOBAL BONDS -1.68%	EURO STOXX 50 12.73%	GLOBAL PROPERTY 6.08%	EURO STOXX 50 35.98%
EURO STOXX 50 -9.44%	S&P 500 -2.58%	GLOBAL PROPERTY 12.19%	MSCI WORLD 1.24%	S&P 500 35.73%
GLOBAL BONDS -10.71%	EURO STOXX 50 -3.29%	MSCI WORLD 10.56%	FTSE 100 0.92%	MSCI WORLD 33.04%
S&P 500 -12.70%	MSCI WORLD -3.38%	S&P 500 10.31%	S&P 500 0.89%	FTSE 100 22.94%
MSCI WORLD -12.73%	SHANGHAI STOCK EXCHANGE -3.43%	MSCI EM 9.17%	EURO STOXX 50 0.84%	GLOBAL PROPERTY 19.28%
MSCI EM -14.81%	MSCI EM -4.36%	FTSE 100 7.87%	GLOBAL BONDS 0.51%	MSCI EM 18.04%
SHANGHAI STOCK EXCHANGE -19.53%	FTSE 100 -4.72%	GLOBAL BONDS 6.18%	MSCI EM 0.28%	GLOBAL BONDS 13.62%
GLOBAL PROPERTY -20.90%	GLOBAL PROPERTY -5.21%	SHANGHAI STOCK EXCHANGE 3.31%	SHANGHAI STOCK EXCHANGE -4.85%	SHANGHAI STOCK EXCHANGE -1.75%

Source: Morningstar & Glacier Research