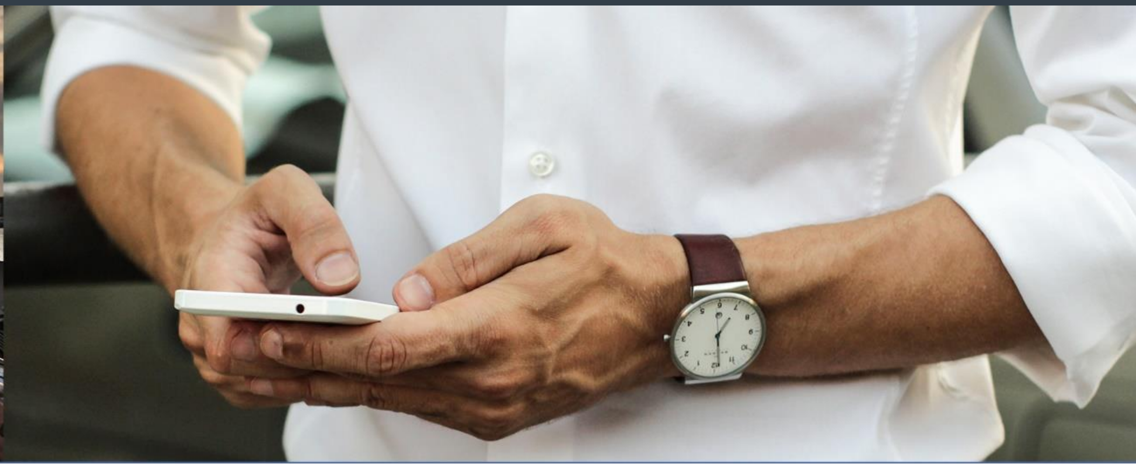
ECONOMIC REPORT

by Glacier Research

glacier by Sanlam



Review period: March 2023

Introduction

In March, the FTSE/JSE All Share index experienced a decline of 1.26%, mainly driven by the financial sector which fell 6.62% as banking counters faced volatility linked to the banking turmoil in the US. SA listed property also lagged, ending the month 3.92% lower, largely due to weak performances from index heavyweights, Growthpoint and Redefine. In contrast, local bonds gained 1.32% as yields came down in March.

Global markets mostly increased in March, but the positive trend masked underlying volatility. Concerns about stress in the banking sector, including SVB, Signature Bank, and Credit Suisse, caused market participants to reassess central bank actions related to inflation and financial stability. Initially, safe havens rose due to fears of a broader financial sector fallout. However, towards the middle of the month, central banks reassured investors by expressing support for financial stability which boosted investor confidence, resulting in higher global markets and a repricing of future interest rate expectations.

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Domestic highlights

- **Gross Domestic Product (GDP) – fourth quarter 2022**
- **South African Reserve Bank (SARB) Monetary Policy Decision**

Gross Domestic Product – fourth quarter 2022

South African GDP experienced a decline of 1.3% in the fourth quarter of 2022, attributed to intensified loadshedding and a slowdown in global growth. Notably, the growth rate for third quarter was revised up to 1.8% quarter-on-quarter (qoq), from the initial estimate of 1.6%. On a year-on-year (yoy) basis, the economy grew by 0.9% in the fourth quarter, significantly lower than the 4.2% growth recorded in the third. Overall, the economy expanded by 2% for the full year of 2022, a notable decrease from the 4.9% growth achieved in 2021.

Among the ten industries, seven contracted in the fourth quarter. The finance, real estate & business services industry, which is the largest in the South African economy, shrank by 2.3%, primarily due to lower economic activity in financial intermediation, insurance & pension funding, and auxiliary activities. This contraction was the biggest factor behind the decline in GDP, subtracting 0.6 percentage points (pps) from GDP growth. The trade, catering & accommodation industry was the second largest negative contributor to growth, recording a contraction of 2.1% and subtracting 0.3 pps from GDP growth, mainly due to a decline in wholesale trade. Mining output also declined by 3.2%, dragged lower by a decrease in the production of diamonds, iron ore, and platinum group metals (PGMs), subtracting 0.1 pps from GDP growth. Economic activity in the electricity, gas & water supply industry was hampered by lower levels of production and consumption of electricity (mainly due to loadshedding) and water, resulting in a contraction of 1.9%. Agriculture recorded the largest contraction in the quarter, declining by 3.3%, mainly due to weaker production figures for field crops and horticulture products, subtracting 0.1 pps from GDP growth. The manufacturing industry decreased by 0.9% in the fourth quarter, subtracting 0.1 pps from GDP growth. Value added by general government services also declined 0.7% as national government, extra-budgetary institutions, and local governments reduced staff numbers, which subtracted 0.1 pps from GDP growth.

On the positive side, transport, storage & communication (+0.7%), construction (+0.5%), and personal services (+0.2%) were the bright spots in the fourth quarter. Transport, storage & communication made the largest positive impact, contributing 0.1 pps to GDP growth, primarily due to increased economic activity in passenger land transport, air transport, and communication services.

Expenditure on GDP contracted by 1.3% qoq in the fourth quarter following a 1.7% rise in the third. The drag came from an extremely sharp deterioration in net exports, reduced inventory accumulation, and a contraction in government consumption expenditure, which outweighed a modest increase in household consumption and a surprisingly strong increase in gross fixed capital formation.

South African Reserve Bank (SARB) monetary policy decision

On 30 March, the SARB's Monetary Policy Committee (MPC) surprised markets by raising interest rates by 50 basis points (bps), higher than the expected 25bps hike. This marked the ninth consecutive rate hike since policy normalisation began in November 2021, bringing borrowing costs to the highest level since May 2009. The repo rate now stands at 7.75% and the prime lending rate at 11.25%, which is 150bps higher than the pre-pandemic level in January 2020. The decision was not unanimous, with three out of five members voting for the hike. The SARB highlighted the risks of upside pressures on inflation, including a potentially tighter global oil market due to the Russia-Ukraine conflict, a rebound in Chinese demand, higher domestic electricity and administered prices, elevated food price inflation, and broader effects of loadshedding. Additionally, elevated food inflation and petrol prices could drive higher wages.

The Monetary Policy Committee (MPC) has chosen to implement a more gradual tightening path in 2023, as recommended by the Quarterly Projection Model (QPM). According to the latest projections from the QPM, the repo rate is expected to average 7.13% (up from 7.08%) in the final quarter of 2023, and 6.94% and 6.91% at the end of 2024 and 2025, respectively.

SA economy

In February 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, edged up to 7% from 6.9% in the prior month, the first rise since last October, while markets had expected it to remain steady at 6.9%. Main upward pressure came from prices of food & non-alcoholic beverages (13.6% vs 13.4% in January 2023), and transportation (9.9% vs 11.1%). The annual core inflation, which excludes prices of food, non-alcoholic beverages, fuel and energy, picked up to 5.2% in February, the highest since February 2017, from 4.9% in the prior month.

The SARB has revised its headline inflation forecast for 2023 to 6%, which is notably higher than the 5.4% forecasted during the January meeting. The forecast for 2024 has been only slightly revised to 4.9% from 4.8%. The core inflation forecast has also been adjusted upwards to 5.3% for 2023 (previously 5.2%) and 4.8% for 2024 (previously 4.7%). However, services inflation for 2023 is now projected to be lower at 4.9% (previously 5.1%), reflecting an expected slowdown in public transport costs.

Additionally, in March, the rand raced back to firmer ground after the SARB hiked interest rates more than the markets expected. As such, the rand strengthened by 3.1% against the US dollar, 0.69% against the euro, and 0.57% against the pound.

	Oct'22	Nov'22	Dec'22	Jan'23	Feb'23	Mar'23
CPI (y/y)	7.6%	7.4%	7.2%	6.9%	7%	7% (forecast)
PPI (y/y)	16%	15%	13.5%	12.7%	12.2%	12.8% (forecast)

Sources: Trading Economics

	31 March 2021	31 March 2022	31 March 2023
USD/ZAR	14.77	14.60	17.78
GBP/ZAR	20.35	19.19	21.93
EUR/ZAR	17.32	16.16	19.27

Source: IRESS

SA markets

In March, local equity markets experienced a decline, with the FTSE/JSE All Share index decreasing by 1.26%. Financials were under significant pressure, declining by 6.62% for the month, largely due to instability in the global banking sector that affected local banking names, including Investec, which was one of the hardest hit local banks, declining 16%. At a stock level, Transaction Capital took the headlines after plummeting 59% due to challenges in its taxi finance division and its used car dealership network, WeBuyCars.

Resources, on the other hand, rebounded with a gain of 2.49%, recovering from a difficult February, as commodity prices, particularly gold prices, moved higher during the month. Gold Fields, Anglogold Ashanti, and Harmony Gold were among the beneficiaries of the elevated gold price, experiencing significant gains in March. Industrials, however, declined by 2.32% for the month, and SA industrials marginally declined by 0.82%.

In terms of market cap, mid-cap stocks underperformed significantly, declining by 4.37%, followed by small caps which declined by 2.24% while large caps declined by 0.81% in March. SA listed property also ended the month lower, declining by 3.92%, and remains the worst performing local asset class on a year-to-date basis. This was largely driven by weak performance from Growthpoint and Redefine, which are index heavyweights.

On the fixed income side, SA bonds ended the month higher with the FTSE/JSE ALBI returning 1.32% as yields came down in March. The seven- to 12-year area experienced the most gains with a 2.90% return, followed by the three- to seven-year area which gained 2.60% for the month. The one- to three-year area returned 1.09%, while the 12-year+ area marginally gained 0.60% in March.

Foreigners were net sellers of R32.61 billion worth of SA equities and net sellers of R42.42 billion worth of SA bonds, during the month.

LOCAL RETURNS IN ZAR

2022	January 2023	February 2023	March 2023	2023 - YTD
SA SMALL CAPS 7.55%	SA TOP 40 9.69%	SA SMALL CAPS 0.76%	SA BONDS 1.32%	SA TOP 40 6.22%
SA CASH 5.21%	SA EQUITY 8.89%	SA CASH 0.54%	SA CASH 0.61%	SA EQUITY 5.17%
SA BONDS 4.26%	SA MID CAPS 3.83%	SA PROPERTY -0.14%	SA TOP 40 -0.81%	SA BONDS 3.39%
SA TOP 40 4.21%	SA BONDS 2.94%	SA MID CAPS -0.23%	SA EQUITY -1.26%	SA CASH 1.75%
SA EQUITY 3.58%	SA SMALL CAPS 2.33%	SA BONDS -0.87%	SA SMALL CAPS -2.24%	SA SMALL CAPS 0.80%
SA MID CAPS 1.60%	SA CASH 0.58%	SA EQUITY -2.19%	SA PROPERTY -3.92%	SA MID CAPS -0.94%
SA PROPERTY -1.90%	SA PROPERTY -0.79%	SA TOP 40 -2.37%	SA MID CAPS -4.37%	SA PROPERTY -4.81%

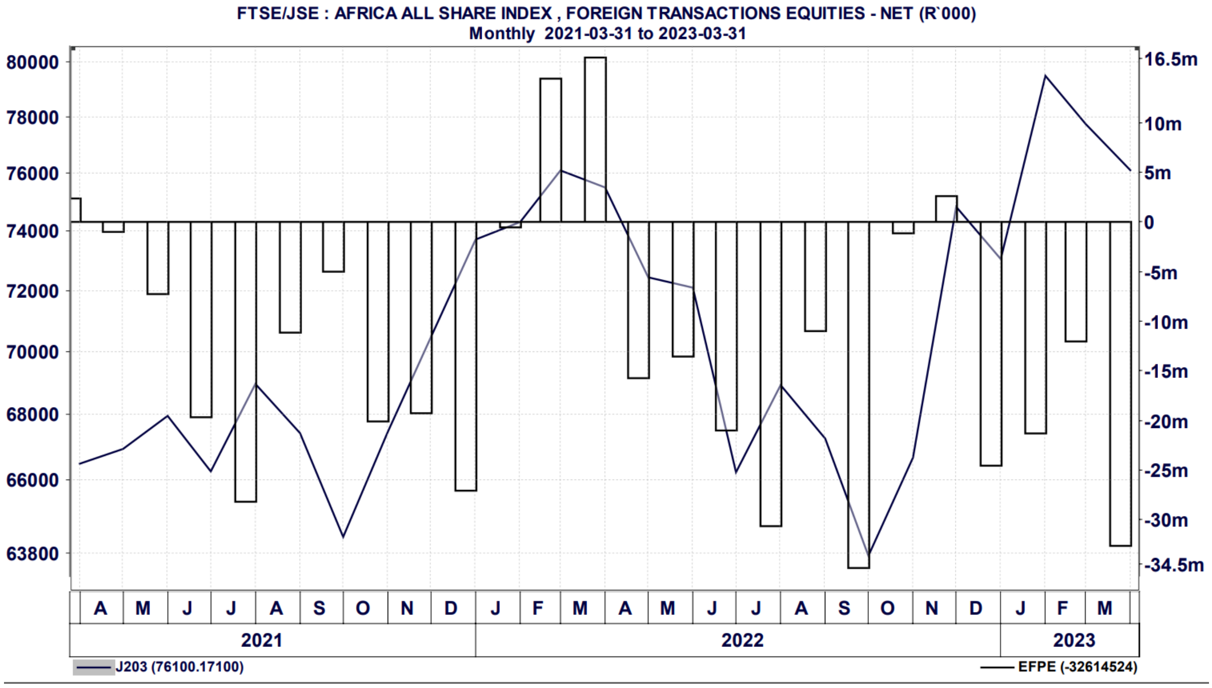
Source: Morningstar & Glacier Research

The financial sector declined by 6.62% in March, reversing gains from the previous month, and underperformed significantly due to volatility in banking stocks linked to the banking turmoil in the US. On the other hand, resources posted a positive return of 2.49% as gold shares rallied in March. The SA industrials and industrials sectors declined by 0.65% and 2.32%, respectively.

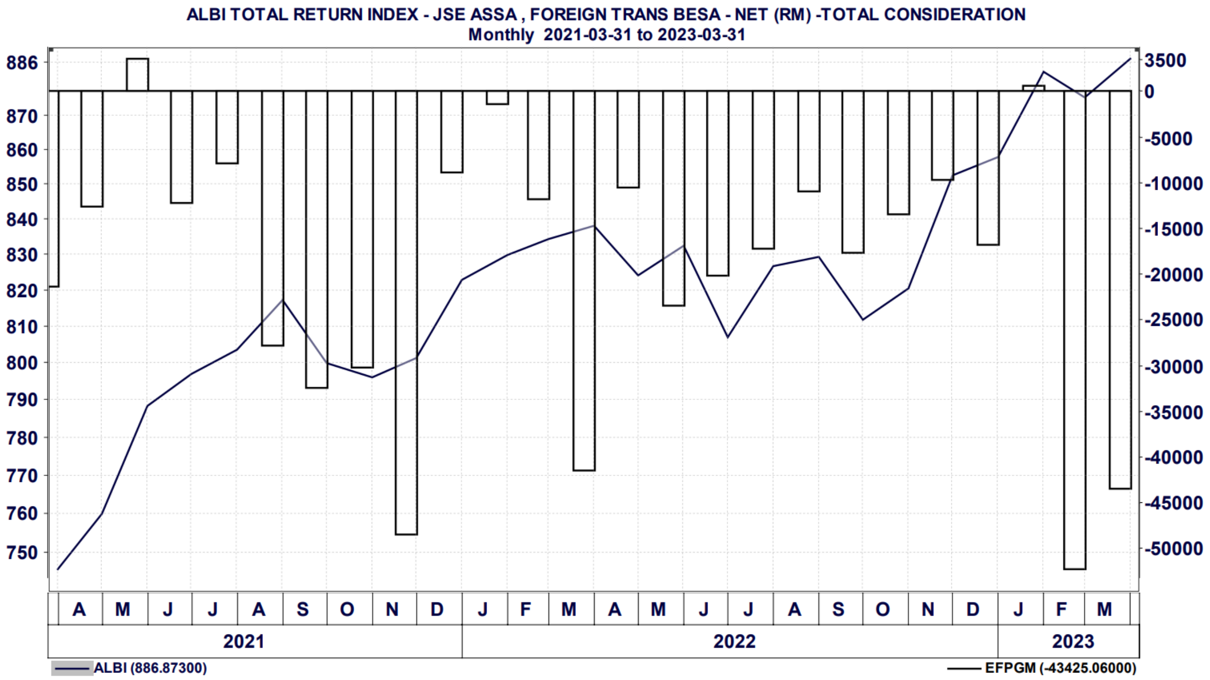
LOCAL SECTOR RETURNS IN ZAR

2022	January 2023	February 2023	March 2023	2023 - YTD
FINANCIALS 8.61%	CONSUMER SERVICES 16.32%	CONSUMER SERVICES 3.85%	RESOURCES 2.49%	CONSUMER SERVICES 21.12%
RESOURCES 8.61%	SA INDUSTRIALS 12.78%	CONSUMER GOODS 3.05%	CONSUMER SERVICES 0.27%	SA INDUSTRIALS 13.61%
CONSUMER GOODS 6.97%	INDUSTRIALS 8.70%	FINANCIALS 2.75%	SA INDUSTRIALS -0.82%	INDUSTRIALS 6.62%
SA INDUSTRIALS -3.71%	RESOURCES 6.27%	SA INDUSTRIALS 1.57%	INDUSTRIALS -2.32%	CONSUMER GOODS 3.07%
CONSUMER SERVICES -4.47%	FINANCIALS 4.69%	INDUSTRIALS 0.42%	CONSUMER GOODS -2.90%	FINANCIALS 0.44%
GENERAL RETAILERS -6.19%	CONSUMER GOODS 3.01%	GENERAL RETAILERS -2.20%	GENERAL RETAILERS -5.00%	RESOURCES -4.71%
INDUSTRIALS -13.26%	GENERAL RETAILERS 1.05%	RESOURCES -12.51%	FINANCIALS -6.62%	GENERAL RETAILERS -6.10%

Source: Morningstar & Glacier Research



Source: IRESS April 2023



Source: IRESS April 2023

Global markets

March 2023 was a month of mixed fortunes for the global economy, with some notable events in the banking and global equity markets. Europe, the US, Asia and emerging markets all advanced, except for the UK, which lagged due to persistent inflation and the banking sell-off. Developed markets (DM) marginally outperformed emerging markets (EM). The MSCI World, MSCI World ACWI and MSCI EM generated returns of +3.09%, +3.08% and +3.03%, respectively, in US dollar terms.

Global sentiment was largely driven by material events in the banking sector following the collapse of Silicon Valley Bank (SVB) mass withdrawals that caused trouble in the banking sector. On the other hand, Credit Suisse suffered a catastrophic liquidity crisis and was taken over by UBS, sparking fears of a potential global banking crisis. Both the US Federal Reserve (Fed) and European Central Bank (ECB) raised interest rates in line with expectations. Despite this, sovereign bond yields in the US dropped during the month (implying a capital gain) with the US 10-year treasury note decreasing from 3.92% to 3.47%. Furthermore, the 10-year UK gilts decreased from 3.83% to 3.49%. On a global equity style basis, growth rallied the most (+6.93%) after tech-heavy NASDAQ was one of the best-performing indices, driven by a strong performance in mega-cap US tech stocks. Quality was not too far behind (+6.84%), while momentum (+0.88%) and value (-0.68%) turned in meagre returns.

United States

US equity markets ended the month of March higher as all three major US indices – NASDAQ (+6.78%), S&P 500 (+3.67%) and Dow Jones (+2.08%) – ended in positive territory. NASDAQ rallied the most due to the strong performance from Facebook parent Meta, Amazon, Apple, Alphabet, and Microsoft delivering double-digit returns in March. US equities experienced two different market phases in March. At the start of the month, the market faced challenges due to persistent inflation and a banking crisis. Silicon Valley Bank (SVB) had to close after it faced a liquidity crisis, and a bank run led to the withdrawal of a quarter of its total deposits in one day. The Federal Deposit Insurance Corporation intervened to manage the situation.

The crisis highlighted the weakness of the financial system due to aggressive interest rate hikes by the Fed, which had led to losses on long-dated securities held by SVB. The Fed's March interest rate decision was a point of contention, as inflation remained high at 6%. However, the central bank raised rates by 25 bps in line with market expectations and signalled that it may soon end its monetary tightening campaign. This sparked a recovery in the technology sector, leading the NASDAQ index to record its best quarter since 2020.

Eurozone

European equity markets rose in March despite the sell-off in bank shares following the collapse of Silicon Valley Bank (SVB) and Signature Bank in the US and subsequent issues at Credit Suisse. The best-performing sectors were information technology and consumer staples, while real estate and financials were the main detractors. UBS announced a takeover of Credit Suisse in an all-share deal, which received support from the Swiss regulator, government, and central bank. The European Central Bank (ECB) raised interest rates by 50 bps, with future increases dependent on market fallout from recent events. Eurozone inflation fell more than consensus forecasts to 6.9%, while core inflation rose to 5.7%, a new eurozone high. The flash purchasing managers' composite index (PMI) for the eurozone rose to 54.1, indicating business expansion, mainly driven by the services sector. Eurozone wage growth hit 5.7%, the highest level since 2010, outstripping the US but remaining below the UK's wage growth.

United Kingdom

UK equity markets also had a negative month of performance due to a sell-off in bank shares, which dragged down the entire market. Unexpectedly, UK inflation rose to 10.4% in February, up from 10.1% in January, with food prices being the main driver of inflation. Core inflation also increased to 6.2%, but the Bank of England believes inflation will begin to ease. The Bank of England raised interest rates by 25 bps to a 15-year high of 4.25% and may raise rates again if there are more persistent inflationary pressures. In other news, Jeremy Hunt delivered his budget, including extending free childcare, scrapping the lifetime allowance on tax-free pensions, and tax breaks for capital expenditure. The UK economy grew 0.3% in January, which was larger than consensus forecasts, and retail sales increased by 1.2% in February. However, UK wage growth slowed in the three months to January due to uncertainty among employers about hiring, while the unemployment rate remained near record lows of 3.7%.

Spot Rates	31 March 2021	31 March 2022	31 March 2023
EUR/USD	**1.21**	**1.12**	**1.06**
GBP/USD	**1.39**	**1.34**	**1.20**
USD/JPY	**106.58**	**114.99**	**136.37**

Source: IRESS

Emerging markets and Asia

Emerging market equities delivered positive returns during the month, largely in line with their developed market counterparts. The MSCI EM index returned +3.03%, while the MSCI World index delivered +3.09% in US dollar terms. Asia led the way, followed by Latin America and Europe, Middle East and Africa (EMEA). However, EMEA remained flat due to the turmoil in the European banking sector. In Asia, China's improving sentiment on the internet and gaming sectors contributed to its rise, and the reopening recovery continued with an increase in international flights and housing transactions. Shockwaves from the US regional banks closures affected EMEA, but Credit Suisse's merger with UBS helped stabilise banking shares and the broader equity market. In Latin America, Argentina was the top laggard due to uncertainty surrounding the upcoming elections and drought.

GLOBAL RETURNS IN ZAR				
2022	January 2023	February 2023	March 2023	2023 - YTD
FTSE 100 -0.87%	EURO STOXX 50 14.53%	FTSE 100 5.40%	EURO STOXX 50 0.95%	EURO STOXX 50 21.18%
EURO STOXX 50 -9.44%	GLOBAL PROPERTY 12.08%	EURO STOXX 50 4.81%	S&P 500 0.21%	MSCI WORLD 12.34%
GLOBAL BONDS -10.71%	SHANGHAI STOCK EXCHANGE 11.94%	MSCI WORLD 2.80%	GLOBAL BONDS -0.29%	S&P 500 12.09%
S&P 500 -12.70%	MSCI EM 10.51%	S&P 500 2.76%	MSCI WORLD -0.36%	FTSE 100 10.99%
MSCI WORLD -12.73%	MSCI WORLD 9.67%	SHANGHAI STOCK EXCHANGE 2.49%	MSCI EM -0.42%	SHANGHAI STOCK EXCHANGE 10.93%
MSCI EM -14.81%	FTSE 100 9.38%	GLOBAL BONDS 1.83%	SHANGHAI STOCK EXCHANGE -3.31%	MSCI EM 8.40%
SHANGHAI STOCK EXCHANGE -19.53%	S&P 500 8.86%	GLOBAL PROPERTY 0.59%	FTSE 100 -3.73%	GLOBAL BONDS 7.41%
GLOBAL PROPERTY -20.90%	GLOBAL BONDS 5.79%	MSCI EM -1.50%	GLOBAL PROPERTY -6.58%	GLOBAL PROPERTY 5.33%

Source: Morningstar & Glacier Research