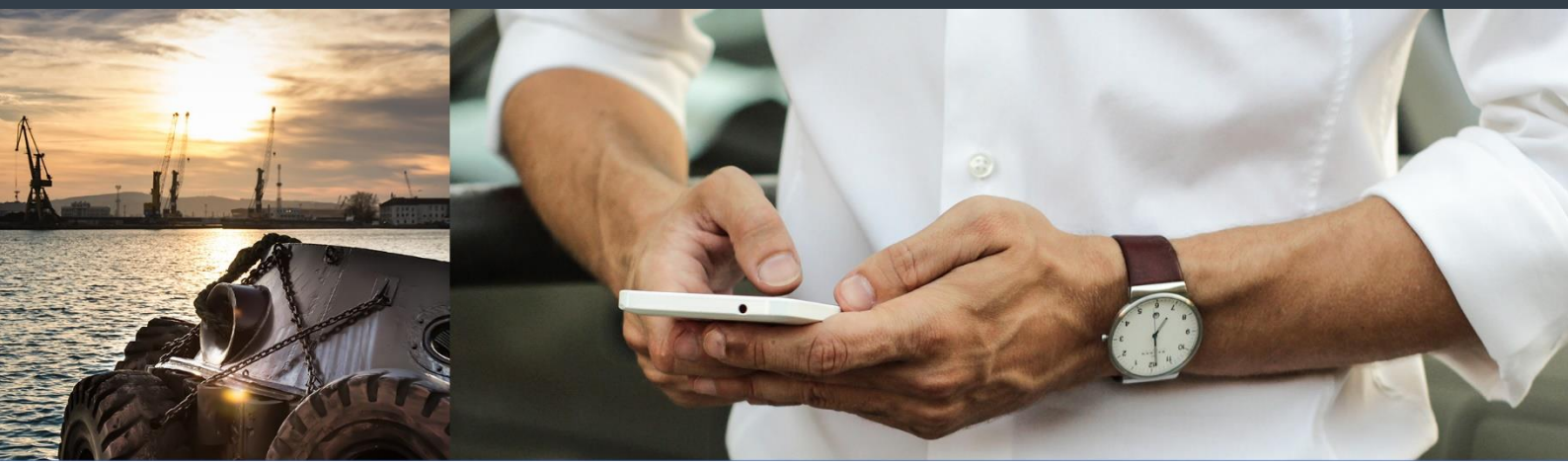
ECONOMIC REPORT

by Glacier Research

glacier by Sanlam



Review period: June 2023

Introduction

In June, the local equity markets displayed positive performances, with the FTSE/JSE All Share index gaining 1.35% for the month. Sentiment towards South African-focused equity counters and asset classes improved slightly over the course of the month. Financials experienced a strong rebound (+11.66%) after a challenging May, while resources (-7.63%) faced significant pressure due to weaker commodity and gold prices. Both SA industrials and industrials recorded gains of 3.72% and 1.94%, respectively. SA listed property closed the month 0.95% higher, driven by a rebound in index heavyweights such as Resilient (+5.8%) and Redefine (+5.5%). Moreover, local bonds experienced a substantial rebound as yields fell, supported by improved sentiment stemming from reduced loadshedding and an improving economic outlook.

Global markets rallied in June as various positive factors unfolded. The successful avoidance of a US government debt default and a pause in rate hikes by the US Federal Reserve (following ten consecutive increases) buoyed equity markets. Leading the charge in equity market returns were mega-cap, US-listed tech stocks, benefiting from the hype surrounding artificial intelligence. However, emerging markets (EM) struggled to keep pace with their developed market counterparts, with foreign-listed Chinese companies experiencing the most significant lag in performance due to a disappointing rebound in Chinese economic activity.

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

SA Gross Domestic Product (GDP), first quarter 2023

South Africa's GDP showed signs of recovery in the first quarter of 2023, expanding by 0.4% after a 1.1% contraction in the previous quarter. The growth, in line with market forecasts, was primarily driven by the manufacturing and finance sectors, which saw notable increases of 1.5% and 0.6%, respectively. The manufacturing sector benefited from a surge in food and beverage production, while finance, real estate, and business services were buoyed by financial intermediation.

Mining activity also rebounded, growing by 0.9% in the first quarter, with platinum and gold group metals contributing to this improvement. However, the agriculture sector experienced a significant decline of 12.3%, marking the largest negative contributor to GDP growth. Additionally, the electricity and water sectors contracted, continuing a downward trend.

On the expenditure side, exports grew by 4.1%, indicating strong external demand, while imports advanced by 4.4%. Government spending increased by 1.2%, and household consumption showed a modest rise of 0.4%. Year-on-year, the GDP advanced by 0.2% in the first quarter, following a downward revision of the previous period's growth rate.

SA economy

In May, South Africa's annual headline inflation, measured by the Consumer Price Index (CPI), decreased to a 13-month low of 6.3%. This was a decline from the 6.8% recorded in April and below market expectations of 6.5%. The slowdown in prices was most noticeable in the food and non-alcoholic beverages category, where annual inflation decreased to 11.8% from 13.9% in April. Most food categories experienced lower inflation rates in May, except for sugar, sweets, desserts, and cold beverages. Prices also softened for transportation, household contents and services, alcoholic beverages and tobacco, and recreation and culture.

Additionally, the annual core inflation, which excludes food, non-alcoholic beverages, fuel, and energy prices, eased to 5.2% in May, down from an over six-year high of 5.3% in April, aligning with market expectations. On a monthly basis, consumer prices rose by 0.2% in May, the lowest increase in four months and below market expectations of a 0.4% rise.

Furthermore, in June, the South African rand displayed significant recovery, strengthening against major currencies. It appreciated by 4.56% against the US dollar, 2.51% against the pound, and 2.57% against the euro. Factors contributing to this recovery include expectations of less severe power outages, the US Federal Reserve's decision to pause interest rate hikes, and positive diplomatic efforts by President Ramaphosa and other African leaders to ease geopolitical tensions.

	Jan'22	Feb'23	Mar'23	Apr'23	May'23	June'23
CPI (y/y)	6.9%	7%	7.1%	6.8%	6.3%	5.9% (forecast)
PPI (y/y)	12.7%	12.2%	10.6%	8.6%	7.3%	5.4% (forecast)

Sources: Trading Economics

	30 June 2021	30 June 2022	30 June 2023
USD/ZAR	14.27	16.27	18.83
GBP/ZAR	19.73	19.81	23.92
EUR/ZAR	16.91	17.06	20.54

Source: IRESS

SA markets

In June, despite varying performances among different sectors, local equity markets managed to achieve a modest positive return for the month. The FTSE/JSE All Share index gained 1.35%. The financial sector experienced a significant rally, with a remarkable increase of 11.66% driven by strong performances from South African banks and insurers. Industrial counters also showed positive growth, with SA industrials and industrials increasing by 3.72% and 1.94% respectively.

However, the resources sector witnessed a significant decline of 7.63%. This drop was primarily attributed to a broad sell-off in commodity markets, leading to lower prices for commodities, especially platinum group metals (PGM) and gold. The sell-off in resources was initially triggered by the sluggish post-COVID recovery in China and insufficient stimulus measures to stimulate growth in the world's second-largest economy. The impact of this broad sell-off in commodity markets was felt across the JSE. Furthermore, ongoing issues with South African rails and ports further weighed on the mining sector, exacerbating the challenges faced by resource companies.

In terms of market capitalisation, mid-cap stocks outperformed, gaining 4.16%, followed by small caps which returned 3.83%, and large caps which returned 1.05% for the month of June. SA listed property ended the month marginally higher at 0.95% due to a rebound in index heavy weights Resilient (+5.8%) and Redefine (+5.5%) which contributed positively to performance.

On the fixed income side, South African bonds saw a strong rebound in the month, with the FTSE/JSE All Bond Index gaining 4.58%. This increase was driven by lower yields across the curve, which resulted in higher bond prices. The positive performance was primarily influenced by improved sentiment due to reduced loadshedding and positive developments in the local economic outlook. These factors contributed to a more favourable environment after a challenging start to the year in the first quarter of 2023. Among different maturity ranges, the seven- tov12-year bonds experienced the largest gains, increasing by 5.52%. This was followed by the 12-year+ range, which saw a gain of 4.75%. The three- to seven-year range returned 3.71% in June, while the one- to three-year range declined by 2.50%.

Foreigners were net sellers of R19.17 billion worth of SA equities and net sellers of R20.48 billion worth of SA bonds, during the month.

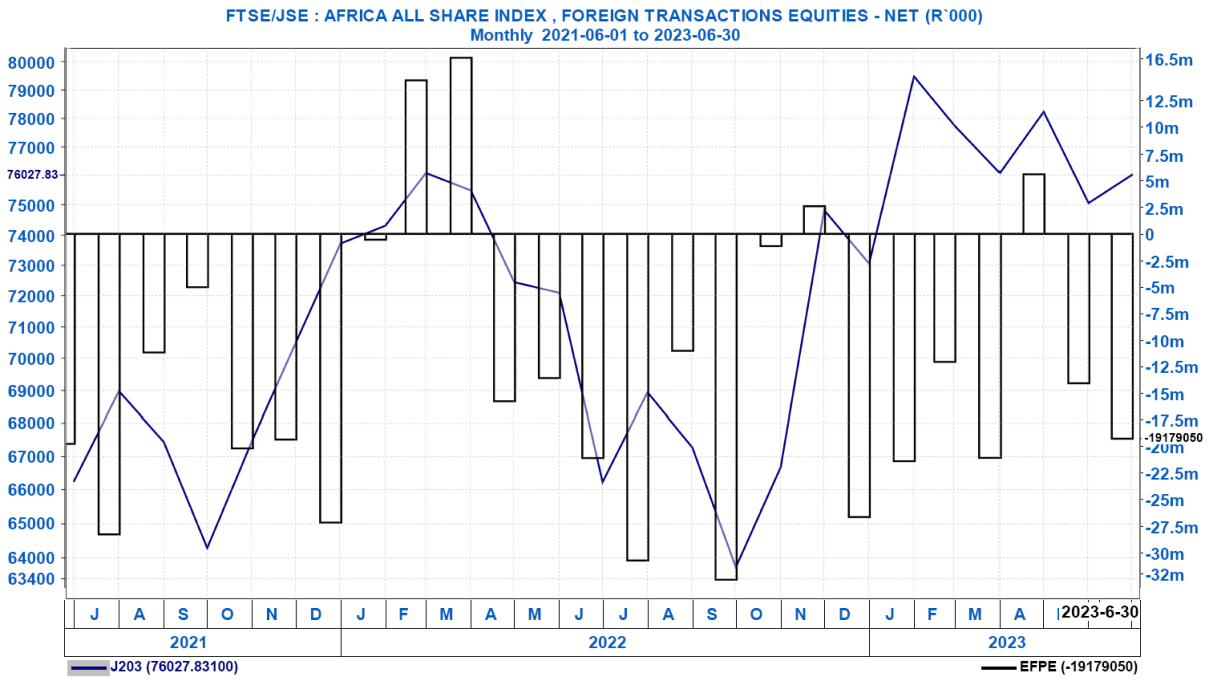
LOCAL RETURNS IN ZAR				
2022	April 2023	May 2023	June 2023	2023 - YTD
SA SMALL CAPS 7.55%	SA PROPERTY 5.75%	SA CASH 0.65%	SA BONDS 4.58%	SA TOP 40 7.23%
SA CASH 5.21%	SA MID CAPS 3.85%	SA TOP 40 -3.48%	SA MID CAPS 4.16%	SA EQUITY 5.86%
SA BONDS 4.26%	SA TOP 40 3.50%	SA EQUITY -3.92%	SA SMALL CAPS 3.83%	SA CASH 3.70%
SA TOP 40 4.21%	SA EQUITY 3.38%	SA BONDS -4.79%	SA EQUITY 1.35%	SA BONDS 1.81%
SA EQUITY 3.58%	SA SMALL CAPS 2.03%	SA SMALL CAPS -5.12%	SA TOP 40 1.05%	SA SMALL CAPS 1.31%
SA MID CAPS 1.60%	SA CASH 0.61%	SA PROPERTY -5.41%	SA PROPERTY 0.93%	SA MID CAPS -1.15%
SA PROPERTY -1.90%	SA BONDS -1.11%	SA MID CAPS -7.75%	SA CASH 0.65%	SA PROPERTY -3.90%

Source: Morningstar & Glacier Research

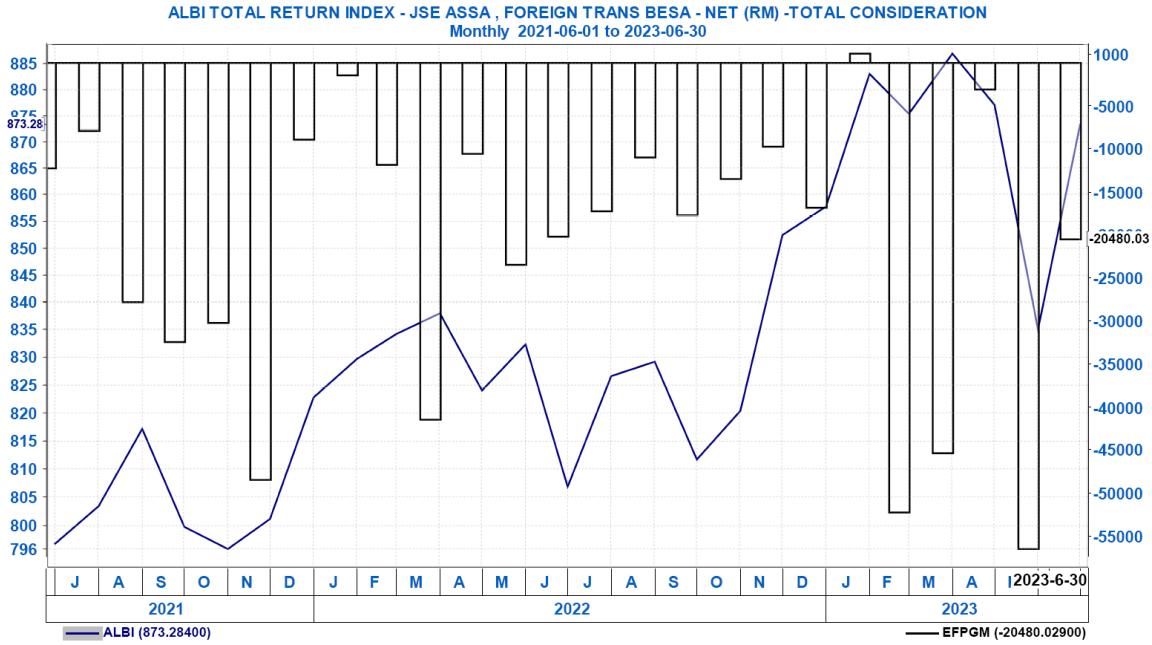
During June, the local equity markets experienced a gain of 1.35%. The financial sector stood out as the best performer, with an impressive increase of 11.66%. This was followed by the SA industrials sector, which saw a gain of 3.72%, and the industrials sector, which ended the month 1.94% higher. However, the resources sector had a challenging month and emerged as the worst performer, declining by 7.63%.

LOCAL SECTOR RETURNS IN ZAR				
2022	April 2023	May 2023	June 2023	2023 - YTD
FINANCIALS 8.61%	CONSUMER SERVICES 5.66%	CONSUMER SERVICES 1.75%	FINANCIALS 11.66%	CONSUMER SERVICES 30.64%
RESOURCES 8.61%	GENERAL RETAILERS 4.30%	INDUSTRIALS -0.81%	GENERAL RETAILERS 8.14%	SA INDUSTRIALS 17.47%
CONSUMER GOODS 6.97%	RESOURCES 3.98%	RESOURCES -2.22%	CONSUMER GOODS 4.33%	INDUSTRIALS 9.28%
SA INDUSTRIALS -3.71%	CONSUMER GOODS 3.29%	SA INDUSTRIALS -3.27%	SA INDUSTRIALS 3.72%	FINANCIALS 6.40%
CONSUMER SERVICES -4.47%	SA INDUSTRIALS 3.06%	GENERAL RETAILERS -5.37%	INDUSTRIALS 1.94%	CONSUMER GOODS 0.99%
GENERAL RETAILERS -6.19%	FINANCIALS 3.04%	FINANCIALS -7.93%	CONSUMER SERVICES 0.32%	GENERAL RETAILERS 0.22%
INDUSTRIALS -13.26%	INDUSTRIALS 1.36%	CONSUMER GOODS -9.07%	RESOURCES -7.63%	RESOURCES -10.51%

Source: Morningstar & Glacier Research



Source: IRESS July 2023



Source: IRESS July 2023

Global markets

Global equity markets ended in positive territory in June, rebounding from losses experienced in the previous month. The MSCI World, MSCI World ACWI and MSCI EM all generated positive returns of +6.05%, +5.81% and +3.80%, respectively, in US dollar terms. Inflation is slowing in both the eurozone and the US. The US paused interest rate hikes at the last Federal Reserve meeting in June, but still envisions further rate hikes in the second half of the year. The European Central Bank and the Bank of England are continuing with their monetary policy tightening for the time being, with the latter having surprised the market with a 50-basis point hike at its last meeting. China's economic recovery post-COVID remains a concern but did not hinder the country from producing positive returns in the month of June.

In the fixed income space, government bonds were under pressure during the month in anticipation of further interest rate hikes as central banks grapple with sticky inflation. Sovereign bond yields rose (meaning prices fell) during the month with the US 10-year treasury note increasing from 3.64% to 3.84%. The 10-year German bunds yield climbed from 2.28% to 2.39% and the UK 10-year gilts rose from 4.18% to 4.39%. Corporate bond markets were mixed as dollar-denominated credit yielded gains, unlike their sterling peers. On a global equity style basis, momentum (+6.45%) outperformed the most, followed by growth (+6.13%), value (+5.96%) and quality (+5.60%).

United States

US equity markets wrapped up the month of June with positive returns. The month started off with Congress passing the debt ceiling bill; and the bill was then signed into law by President Joe Biden. This buoyed markets as a historic default was avoided. All three major US indices were up – NASDAQ (+6.65%), S&P 500 (+6.61%), and the Dow Jones (+4.68%). Gains were largely brought about by the strong sector performances from consumer discretionary, industrials and materials. The rapid developments in artificial intelligence, as well as the wider optimism surrounding the technology sector has also been a notable contributor, which has driven stocks such as NVIDIA, Meta, Tesla, Amazon, Apple, Microsoft, and Google.

US inflation continued its downward trend and eased to 4% year-on-year in May (from 4.9% in April) amid a continued decline in the cost of energy. However, core inflation (excluding food and energy prices) rose 5.3% year-on-year. The US Federal Reserve kept its monetary policy unchanged in June, following 10 consecutive rate hikes. However, the central bank signalled that there are still two more interest rate hikes this year. Nonfarm payrolls grew more than expected in May, rising 339 000 versus the forecast of a 180 000 increase. The strong jobs report supports the case for further rate hikes. Meanwhile, unemployment rose in May from 3.4% to 3.7% - higher than the 3.5% consensus estimates. First quarter GDP growth was revised to an annualised 2.0% from an initial 1.3%.

Eurozone

Equities in the eurozone rallied in June, despite GDP figures being revised lower. Consumer discretionary and financial service sectors were the best performers, while healthcare and communication services dragged performance. Revised figures from Eurostat show that eurozone GDP contracted by 0.1% in the final quarter of 2022 and in the first quarter of 2023, which means that the eurozone is in a mild technical recession. Inflation in the eurozone eased to 5.5% year-on-year in June, its lowest level since January 2022, down from 6.1% in May. However, core inflation slightly increased to 5.4%, year-on-year, from 5.3%. CPI in other eurozone countries fell with Italy's down to 6.7%, France 5.3% and Spain at 1.6%. Germany's inflation, on the other hand, was higher at

6.4%, from a 14-month low of 6.1% recorded in May. The European Central Bank raised benchmark rate by 25 basis points to 4%. There is still a likelihood that the ECB will hike rates again in July. The flash PMI came in at 50.3 in June from 52.8 in May. This suggests that the economy may be close to stagnation.

United Kingdom

UK equities had a positive month of performance amid some relatively upbeat economic data, despite stubborn inflation, with the FTSE 100 ending 1.40% higher, in pound sterling terms. Inflation remained persistently high at 8.7% in May, unchanged from the April figure and more than four times the central bank's target inflation of 2%. Core inflation (excluding energy and food) increased from 6.8% in April to 7.1% in May, the highest since March 1992. The price increases were influenced by air fares and live music events, but the impact was partly offset by declining petrol and diesel prices. The Bank of England raised interest rates by an unexpected 50 basis points to a 15-year high of 5%, with markets having priced in a 60% chance of a 25-basis points rate hike. UK interest rates are now at their highest level since 2008.

According to data from the Office for National Statistics, UK GDP grew 0.2% in April mainly driven by the services sector. In May UK retail sales grew by 0.3%, exceeding consensus forecasts. Good weather conditions were the driving force behind the higher spending on summer item such as clothes and outdoor equipment, which was supportive to the strength of retail sales.

Spot Rates	30 June 2021	30 June 2022	30 June 2023
EUR/USD	1.19	1.05	1.09
GBP/USD	1.38	1.22	1.27
USD/JPY	111.10	135.73	144.32

Source: IRESS

EM and Asia

EM and Asia Pacific equity markets ended the month of June with positive returns. Chinese equities were supportive to Asian and EM markets buoyed by positive sentiments regarding Chinese stimulus efforts. The MSCI EM index and the MSCI Asia Pacific index rose +3.80% and +3.48%, respectively, in US dollar terms.

Chinese stocks saw a rise after the People's Bank of China reduced two key lending rates. However, some investors were disappointed by the absence of additional stimulus announcements and concerns over ongoing tensions with the US, which weighed on sentiment. Taiwanese stocks saw an increase, driven by the technology sector's gains, while South Korea's market also experienced a slight rise due to GDP growth in the first quarter. Unemployment in Australia dropped from 3.7% to 3.6% and annual inflation eased from 6.8% to 5.6%, beating analysts' forecasts of 6.1%. Despite the positive economic data, the Reserve Bank of Australia opted to raise interest rates to 4.10%. On the contrary, equity markets in Thailand and Malaysia lagged their Asia Pacific peers.

EM gained strength as the US dollar softened, over and above the optimism concerning China's efforts to boost its economy. In Brazil, GDP grew 4% in the first quarter of 2023, exceeding forecasts of 2.7% and inflation came in at 3.16% year-on-year in June, from 3.94%. Equity markets in Brazil gained 16.1% with all sectors contributing positively. Energy sector stocks – Petrobras and Cosan, which were up more than 25% in June – contributed to performance the most. In India, stocks made progress as pricing pressures eased. On the flipside, Turkey's market

faced a decline as the lira reached new all-time lows against the US dollar, and despite a substantial interest rate hike from 8.5% to 15%, it fell short of expectations.

GLOBAL RETURNS IN ZAR				
2022	April 2023	May 2023	June 2023	2023 - YTD
FTSE 100 -0.87%	FTSE 100 8.33%	S&P 500 8.85%	EURO STOXX 50 1.79%	EURO STOXX 50 34.37%
EURO STOXX 50 -9.44%	EURO STOXX 50 6.43%	MSCI WORLD 7.30%	S&P 500 1.63%	S&P 500 29.78%
GLOBAL BONDS -10.71%	GLOBAL PROPERTY 4.91%	MSCI EM 6.56%	MSCI WORLD 1.10%	MSCI WORLD 27.78%
S&P 500 -12.70%	MSCI WORLD 4.86%	GLOBAL BONDS 6.26%	FTSE 100 -0.84%	FTSE 100 21.14%
MSCI WORLD -12.73%	S&P 500 4.66%	GLOBAL PROPERTY 3.66%	MSCI EM -1.05%	MSCI EM 16.45%
MSCI EM -14.81%	GLOBAL BONDS 3.51%	EURO STOXX 50 2.35%	GLOBAL PROPERTY -1.46%	GLOBAL PROPERTY 12.88%
SHANGHAI STOCK EXCHANGE -19.53%	SHANGHAI STOCK EXCHANGE 2.54%	FTSE 100 1.61%	GLOBAL BONDS -4.68%	GLOBAL BONDS 12.62%
GLOBAL PROPERTY -20.90%	MSCI EM 1.88%	SHANGHAI STOCK EXCHANGE 1.12%	SHANGHAI STOCK EXCHANGE -6.89%	SHANGHAI STOCK EXCHANGE 7.10%

Source: Morningstar & Glacier Research