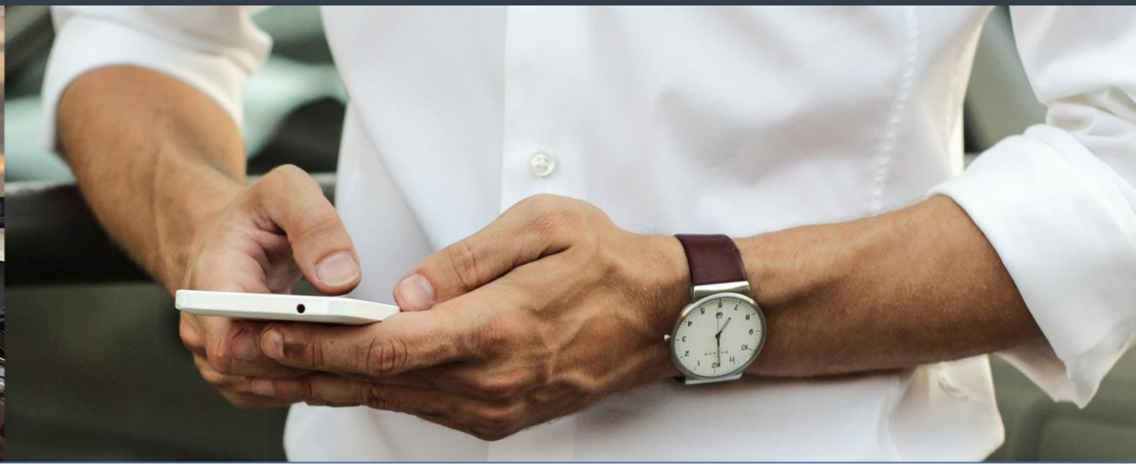
ECONOMIC REPORT

by Glacier Research

glacier by Sanlam



Review period: November 2022

Introduction

In the month of November, local equities experienced their best month in over two years as the FTSE/JSE All Share index gained 12.33%. All major sectors posted positive performances with resources (+16.02) leading the charge, followed by SA industrials (+14.04%) and financials (+4.88%). South African listed property advanced for the second month in a row, returning 5.86%. On the fixed income side, SA bonds ended the month higher, gaining 3.91%.

Global markets continued to rally in November, as softer-than-expected CPI data from the US raised investor hopes that the Federal Reserve could ease the pace of monetary policy tightening. Emerging markets outperformed their developed market peers as Chinese stocks rallied on the back of constructive talks between President Xi Jinping and US President Joe Biden at the G20 Summit, an announcement of bailouts for China's stressed property sector and initial signs that the Chinese government will start to ease strict COVID-19 lockdown restrictions.

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Domestic Highlights

- **SARB interest rate decision**
- **SA unemployment**

SARB interest rate decision

In an attempt to combat increasing domestic inflation, the South African Reserve Bank's (SARB) Monetary Policy Committee (MPC) increased interest rates by another 75 basis points (bps), raising the repo rate to 7% and the prime lending rate to 10.5%, in line with market expectations. The decision was not unanimous as three MPC members favoured a 75bps hike, while two favoured a 50bps hike. With this final MPC announcement for the year, the level of the repo rate is now above the level prevailing before the start of the COVID-19 pandemic. In addition, this rate hike marks the seventh hike in the current cycle, with the total adjustment being 350bps since this rate-hiking cycle started a year ago in November 2021.

The South Africa Reserve Bank (SARB) reiterated that the risks to the inflation outlook remain on the upside, mainly due to the adverse impact of the Russia-Ukraine war on global food prices, the vulnerability in energy markets, higher domestic electricity and administered price increases, and possibly higher domestic wage settlements. As such, the SARB's forecast for headline inflation for 2022 and 2023 was revised to 6.7% (6.5% in September) and 5.7% (5.3% in September), respectively. Headline inflation is projected to average 4.5% in 2024, slightly lower than the previous expectation of 4.6%. The SARB's core inflation forecast remains unchanged at 4.3% in 2022 and higher for 2023 at 5.5% (5.4% in September).

The Quarterly Projection Model (QPM) points to a gradual but persistent tightening in monetary policy through 2025. The QPM suggests that the repo rate will average 6.55%, 6.71%, and 6.83% in the fourth quarters of 2023, 2024, and 2025, respectively.

SA unemployment

The South African (SA) unemployment rate fell to 32.9% in the third quarter (Q3) of 2022, down from 33.9% in the prior period and below the market estimate of 33.4%. This marked the lowest reading since Q1 of 2021, with the number of unemployed persons declining by 269 000 to 7 725 000. Meanwhile, the number of employed persons rose by 204 000 to 15 765 000 as the economy recovered from the damage caused by COVID-19 restrictions, the social unrest in July 2021 and the KZN floods in April 2022. However, the labour force fell by 66 000 to 23 491 000. Almost all the 235 000 jobs created in Q3 2022 were derived from the formal sector.

In terms of employment by sectors, the performance of the various industries during Q3 2022 were mixed. Manufacturing (+123 000), trade (+82 000), construction (+46 000) and transport (+33 000) saw the largest job gains. However, employment growth in community and social services (including government) slowed significantly to only 27 000 jobs from more than 250 000 jobs added in Q1 2022 and Q2 2022 each. In contrast, jobs were cut in finance (-80 000), private households (-36 000) and mining and agriculture (-1 000).

The SA job market has shown continued improvement in 2022 compared with the same period in 2021 as a total of 1 200 000 jobs were created year-to-date (YTD) compared to the 742 000 jobs that lost over the same period in 2021. The improvement in employment numbers came from the informal sector, largely driven by higher job creation in community and social services, trade, and manufacturing industries. However, general employment conditions remained subdued with job creation falling short of pre-COVID-19 levels (Q4 of 2019). Encouragingly, employment rose by 1 600 000 from the trough reached in Q2 of 2020.

SA economy

SA's annual headline inflation, as measured by the consumer price index (CPI), ticked up to 7.6% in October 2022, from 7.5% in the prior month, above market expectations of 7.4%. This is significantly above the upper limit of the SARB's target range of 3%-6%. The major drivers were transport, food & non-alcoholic beverages, restaurants & hotels, and miscellaneous goods & services. However, annual core inflation, which excludes prices of food, non-alcoholic beverages, fuel, and energy, picked up to an over five-year high of 5% in October, from 4.7% in the prior month. However, SA's annual producer inflation eased for the third straight month to 16% in October of 2022, from 16.3% in September, matching market forecasts. This marked the lowest reading since May, mainly due to a slowdown in the costs of coke, petroleum, chemical, rubber, and plastic products.

Manufacturing production in SA rose by 1% in October of 2022 from a year earlier, following a 2.9% rise in the prior month and missing market estimates of a 4.5% advance. It was the fourth consecutive month of growth in factory activity but the weakest in four months, partly due to continued intense load shedding. Production slowed mostly for motor vehicles, parts and accessories, and other transport equipment. Furthermore, in the month of November, the rand appreciated by 6.21% to the US dollar, 1.24% against the pound, and 1.08% against the euro.

	Jun'22	July'22	Aug'22	Sept'22	Oct'22	Nov'22
CPI (y/y)	7.4%	7.8%	7.6%	7.5%	7.6%	7.4%
PPI (y/y)	16.2%	18.0%	16.6%	16.3%	16%	16%

Sources: Trading Economics

	30 November 2020	30 November 2021	30 November 2022
USD/ZAR	15.47	15.87	17.15
GBP/ZAR	20.62	21.10	20.72
EUR/ZAR	18.45	17.99	17.88

Source: IRESS

SA markets

Local equity markets had their best month in over two years in the month of November as the FTSE/JSE All Share index gained 12.33%. All major sectors ended the month in positive territory as the FTSE/JSE All Share index gained 12.33%.

Resources (+16.02%) took the lead and were the largest gainers for the month of November as improving global sentiment provided tailwinds for industrial metals, particularly iron ore. In terms of market cap, large caps were the strongest performers, gaining 14.26% for the month, followed by mid-caps and small caps, which gained 2.87% and 2.42%, respectively.

South African listed property advanced for the second month in a row, returning 5.86% in the month of November. On the fixed income side, SA bonds ended the month higher as the FTSE/JSE All Bond returned 3.91%. Most of these gains came from the longer end of the curve. The 12-year+ gained 4.60% and the seven- to 12-year area increased 4.16%. The three- to seven-year area returned 1.86% while the one- to three-year area returned 1.67%. Furthermore, inflation-linked bonds gained 0.79%, while cash returned 0.51%.

Foreigners were net sellers of R25.9 billion worth of SA equities and net sellers of R9.7 billion worth of SA bonds, during the month.

LOCAL RETURNS IN ZAR

2021	September 2022	October 2022	November 2022	2022 - YTD
SA SMALL CAPS 59.08%	SA CASH 0.46%	SA PROPERTY 10.47%	SA TOP 40 14.26%	SA SMALL CAPS 9.13%
SA PROPERTY 38.63%	SA SMALL CAPS -2.01%	SA MID CAPS 8.11%	SA EQUITY 12.33%	SA TOP 40 6.61%
SA EQUITY 29.23%	SA BONDS -2.11%	SA EQUITY 4.89%	SA PROPERTY 5.78%	SA EQUITY 5.98%
SA MID CAPS 28.88%	SA MID CAPS -2.83%	SA TOP 40 4.85%	SA BONDS 3.91%	SA MID CAPS 4.66%
SA TOP 40 28.40%	SA EQUITY -4.13%	SA SMALL CAPS 3.47%	SA MID CAPS 2.87%	SA CASH 4.63%
SA BONDS 8.40%	SA TOP 40 -4.43%	SA BONDS 1.07%	SA SMALL CAPS 2.42%	SA BONDS 3.61%
SA CASH 3.81%	SA PROPERTY -6.48%	SA CASH 0.51%	SA CASH 0.51%	SA PROPERTY -3.00%

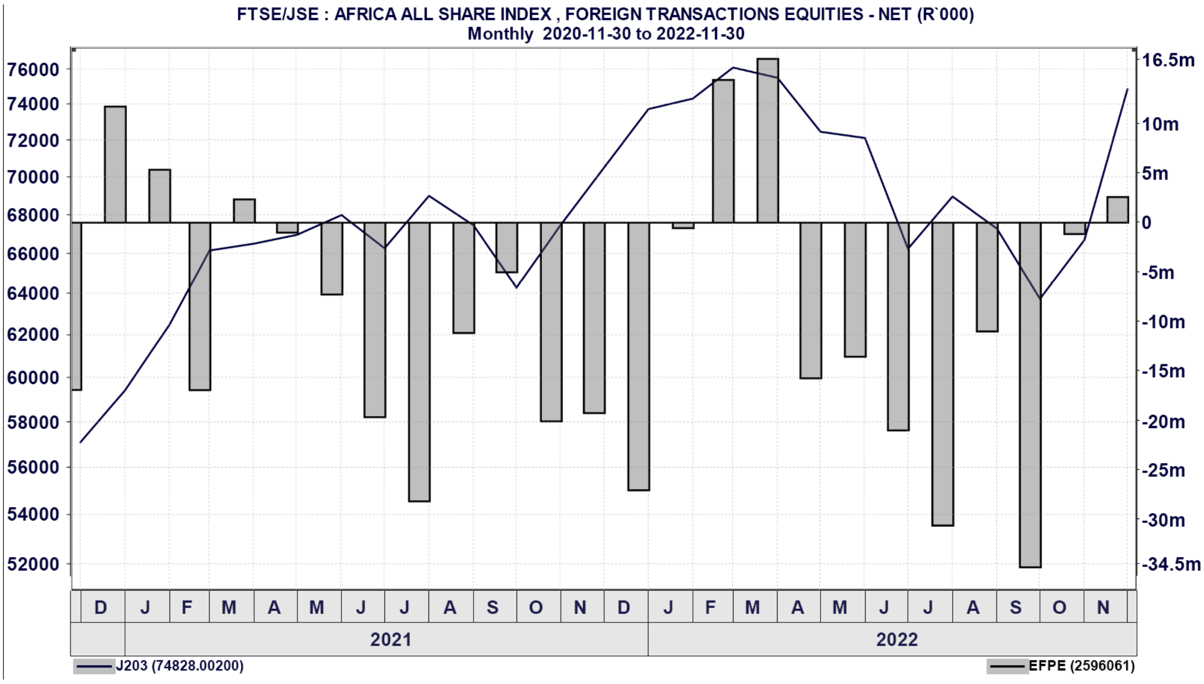
Source: Morningstar & Glacier Research

In terms of sector performances, resources were the best-performing sector in November gaining 16.02% for the month, followed by SA industrials (+14.04%), and financials (+4.88%). Furthermore, industrials also fared well in November, returning 2.58%.

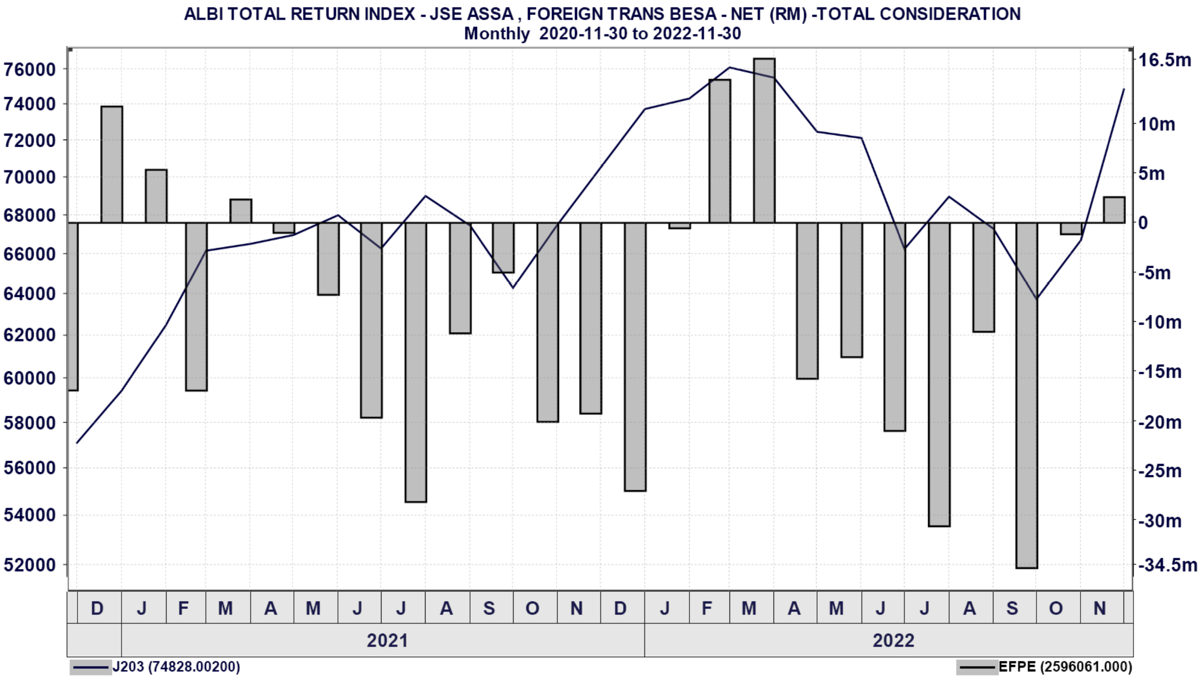
LOCAL SECTOR RETURNS IN ZAR

2021	September 2022	October 2022	November 2022	2022 - YTD
CONSUMER SERVICES 76.32%	RESOURCES 1.72%	FINANCIALS 13.17%	CONSUMER SERVICES 17.29%	FINANCIALS 15.18%
GENERAL RETAILERS 65.87%	GENERAL RETAILERS -1.29%	INDUSTRIALS 9.62%	RESOURCES 16.02%	RESOURCES 12.54%
RESOURCES 32.31%	INDUSTRIALS -5.05%	CONSUMER GOODS 8.45%	SA INDUSTRIALS 14.04%	CONSUMER GOODS 10.35%
INDUSTRIALS 30.72%	CONSUMER GOODS -5.54%	CONSUMER SERVICES 4.54%	FINANCIALS 4.88%	SA INDUSTRIALS -3.45%
FINANCIALS 29.59%	FINANCIALS -5.95%	RESOURCES 3.73%	GENERAL RETAILERS 3.88%	CONSUMER SERVICES -4.84%
SA INDUSTRIALS 26.45%	SA INDUSTRIALS -6.35%	SA INDUSTRIALS 1.71%	INDUSTRIALS 2.58%	GENERAL RETAILERS -5.25%
CONSUMER GOODS 22.28%	CONSUMER SERVICES -7.38%	GENERAL RETAILERS -0.76%	CONSUMER GOODS 1.52%	INDUSTRIALS -7.62%

Source: Morningstar & Glacier Research



Source: IRESS November 2022



Source: IRESS November 2022

Global markets

Global equities continued its strong recovery in performance despite some macroeconomic headwinds still prevailing. Improvement in the inflation prints have fuelled hopes of an easing of the interest rate hiking cycle, which in turn improved investor sentiment. As a result, gains were widespread across developed markets (DM) and emerging markets (EM) with EM outperforming DM. The MSCI EM, MSCI World and MSCI World ACWI rose 14.83%, 6.95% and 7.76%, respectively, in dollar terms.

Across the regions, macroeconomic concerns eased slightly with positive inflation surprises and expectations of a potential slowdown in the rate-hiking cycle boosted both global equities and bonds. Furthermore, easing of COVID-19 control measures in China sparked a recovery in the market, driving performance of EM to the upside. Sovereign bond yields in the US declined during the month (implying a capital gain) with the US 10-year treasury note decreasing from 4.05% to 3.61%, as Fed officials are considering a slower pace of rate hikes to cushion the effects of an economic contraction. Furthermore, the 10-year UK gilts declined from 3.52% to 3.16%. On a global equity style basis, quality rallied the most (+8.27%) with value not too far behind (+7.23%). This was followed by growth (+6.65%) and momentum (+5.33%).

United States

US equity markets ended the month of November higher as all three major US indices – NASDAQ (+4.51%), S&P 500 (+5.59%) and Dow Jones (+6.04%) – rose significantly. US inflation data showed that the headline inflation print came in at 7.7% which was lower than the previous 8.2% and below consensus expectations signalling that inflation may have peaked. The Fed did, however, raise interest rates by 75bps in the November meeting, but investors are positive that the end of the rate-hiking cycle is in sight. Furthermore, equity markets reacted positively to the suggestion made by Fed Chair, Jerome Powell, of a less aggressive pace of monetary tightening. From a sector perspective, materials and industrials led the gains with all sectors ending positively. In contrast, consumer discretionary and energy were the lowest-performing sectors. The US labour market continues to provide support with the unemployment rate at a multi-decade low of 3.5%.

Eurozone

European equity markets had a strong month of performance, extending gains experienced in the previous month with the Euro Stoxx 50 rising 9.70%. On the macroeconomic front, the Eurozone Purchasing Managers' Composite Index (PMI) rose to 47.8 in November from 47.1 in the previous month. Although the figure remains below 50, thus indicating that the eurozone is slipping into a contraction, it was better than consensus estimates as improving supply chain constraints and price pressures improved. Inflation in the region dropped to 10.0% in November, as lower energy prices in conjunction with easing of supply chain bottlenecks signalled the possibility that inflation has peaked. The European Central Bank (ECB) will now aim to increase interest rates at smaller increments. Furthermore, the combination of fiscal support, lower energy prices and a less harsh autumn season improved the economic outlook for the eurozone, with consensus that the region will experience a milder recession than initially anticipated.

United Kingdom

UK equity markets also had a strong showing for the month despite economic data suggesting that the UK economy is in a recession. The FTSE 100 finished 7.12% higher in pound sterling terms. UK's inflation rose to 11.1% from 10.1% in the previous month, driven largely by the highest food price increases since the 1980s. The

Bank of England (BoE) subsequently increased interest rates by 75bps, its largest single hike in 33 years. The central bank now expects inflation to peak at 11% at the end of the year before tapering off early in 2023. GDP figures also came in worse than expected with a contraction of 0.2% in Q3, driven largely by weaker business confidence, unsustainably high inflation and high interest rates. On a positive note, the UK's labour market remains a bright spot as the unemployment rate remains at a multi-decade low of 3.6%. The BoE, however, anticipates that this figure could be worse in the following year given the bleak macro-outlook.

Spot Rates	30 November 2020	30 November 2021	30 November 2022
EUR/USD	1.19	1.13	1.04
GBP/USD	1.33	1.33	1.21
USD/JPY	104.27	113.13	137.36

Source: IRESS

Emerging markets and Asia

Emerging market equities delivered strong positive returns during the month, outperforming their developed market counterparts. The MSCI EM index returned +14.83%, while the MSCI World index delivered +6.95% in US dollar terms. The outperformance in emerging markets was largely driven by a stronger showing from Chinese equities as the Shanghai Composite Index rose 8.89%. Optimism in the region was driven by reignited hopes of a relaxation of their zero-COVID policy after policymakers eased some control measures and increased their drive to vaccinate the elderly. Furthermore, geopolitical tension between the US and China appears to be easing after the Biden-Xi Jinping meeting provided some relief which spurred a rebound in Taiwan's technology sector along with a market rotation towards growth assets amid expectations of bond yields having peaked.

GLOBAL RETURNS IN ZAR

2021	September 2022	October 2022	November 2022	2022 - YTD
GLOBAL PROPERTY 41.28%	GLOBAL BONDS 0.03%	EURO STOXX 50 12.53%	MSCI EM 6.21%	FTSE 100 -0.47%
S&P 500 39.84%	EURO STOXX 50 -2.99%	S&P 500 10.53%	EURO STOXX 50 5.70%	S&P 500 -7.46%
MSCI WORLD 32.36%	SHANGHAI STOCK EXCHANGE -3.88%	MSCI WORLD 9.60%	SHANGHAI STOCK EXCHANGE 2.91%	EURO STOXX 50 -8.83%
FTSE 100 27.52%	FTSE 100 -4.06%	FTSE 100 8.62%	FTSE 100 2.48%	MSCI WORLD -8.95%
EURO STOXX 50 24.56%	S&P 500 -4.27%	GLOBAL PROPERTY 5.84%	MSCI WORLD -1.08%	GLOBAL BONDS -11.28%
SHANGHAI STOCK EXCHANGE 14.96%	MSCI WORLD -4.36%	GLOBAL BONDS 1.55%	GLOBAL PROPERTY -1.55%	MSCI EM -13.68%
MSCI EM 5.89%	MSCI EM -6.92%	MSCI EM -0.92%	S&P 500 -2.34%	GLOBAL PROPERTY -18.70%
GLOBAL BONDS 3.54%	GLOBAL PROPERTY -7.89%	SHANGHAI STOCK EXCHANGE -5.14%	GLOBAL BONDS -3.16%	SHANGHAI STOCK EXCHANGE -20.38%

Source: Morningstar & Glacier Research