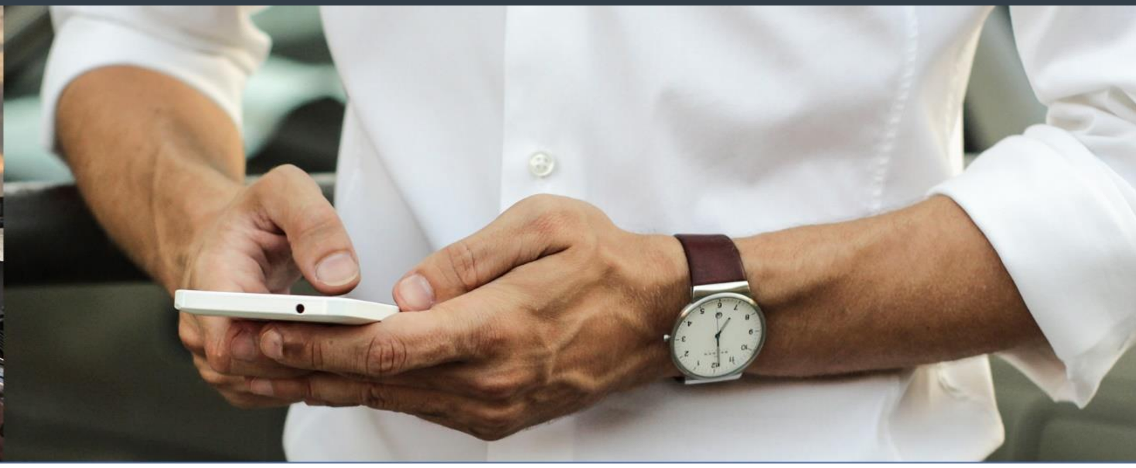
ECONOMIC REPORT

by Glacier Research

glacier by Sanlam



Review period: February 2023

Introduction

In February, the FTSE/JSE All Share index declined by 2.19%, retreating from the gains of the previous month. The resource sector saw the most significant losses, mainly due to poor performances of mining companies, which were weighed down by generally weaker commodity prices. The SA Listed Property index also retreated by a further 0.09% for the month, while SA bond prices came under pressure due to increasing yields with the FTSE/JSE All Bond index recording a decline of 0.87% for the month of February.

Global equity markets experienced a decline from their year-to-date gains due to higher-than-anticipated US inflation data, which led market participants to become concerned about interest rates remaining elevated for an extended period instead of the previously expected pivot in 2023. Additionally, the recent rebound in Chinese equities came to an abrupt halt as concerns about government debt levels and long-term prospects for the local economy replaced the positive sentiment that was driven by the reopening.

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Domestic highlights

- **Budget Speech 2023 highlights**
- **Unemployment rate in the fourth quarter of 2022**

Budget Speech 2023 highlights

In February, South Africa's Finance Minister, Enoch Godongwana, presented the country's annual Budget Speech. The key announcement was a debt relief plan of R254 billion over three years for Eskom, with a focus on reducing the power utility's debt and promoting clean energy through solar incentives. The government has announced two tax measures to encourage businesses and individuals to invest in renewable energy and increase electricity generation:

i. From 1 March 2023, businesses can deduct 125% of the cost of investing in renewables from their taxable income, without any project-size thresholds.
ii. From 1 March 2023, individuals who install rooftop solar panels can claim a rebate of 25% of the cost, up to a maximum of R15 000.

The budget also included no increase in the fuel levy and positive adjustments to tax thresholds, while government expenditure rose by only 3.4%.

Financial Action Task Force (FATF)

In 2003, South Africa joined the FATF, a global body that establishes standards for combating money laundering and terrorism financing across borders. In February 2023, South Africa was added to the FATF's "grey list" of jurisdictions under enhanced monitoring, as highlighted in the FATF's October 2021 report due to deficiencies in South Africa's regulatory framework and enforcement capabilities. However, implementing the recommendations and achieving success in prosecuting and recovering assets may provide a slight chance of exiting the grey list in 2024.

Unemployment rate in the fourth quarter of 2022

South Africa's unemployment rate slightly decreased to 32.7% in the fourth quarter of 2022, compared to 32.9% in the previous period, marking the lowest figure since the first quarter. The number of unemployed individuals increased by 28 000 to 7.753 million, while the number of employed individuals rose by 169 000 to 15.934 million, resulting in a total labour force increase of 197 000 to 23.688 million. The finance sector experienced the highest job gains (+103,000), followed by private households (+54,000), trade (+52,000), and transport (+43,000). In contrast, the community and social services (-122,000) as well as construction and agriculture (-12,000 each) sectors lost jobs. The expanded definition of unemployment, which includes individuals who have given up searching for work, decreased to 42.6% in the fourth quarter of 2022 from 43.1% in the third. However, the youth unemployment rate, measuring job seekers between 15 and 24 years old, increased to 61% in the fourth quarter, up from the more than two-year low of 59.6% in the previous period.

SA economy

In January 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, eased for the third consecutive month to 6.9% from 7.2% in the previous month, in line with expectations. However, it remains above the upper limit of the South African Reserve Bank's target range of 3%-6%. The latest reading is the lowest since May 2022, mainly due to a slowdown in transport inflation (11.1% vs 13.9% in December 2022). Meanwhile, food and non-alcoholic beverages experienced faster increases (13.4% vs 12.4%). The annual core inflation, which excludes the prices of food, non-alcoholic beverages, fuel, and energy, remained unchanged at a three-month low of 4.9% in January.

In December, local manufacturing and mining production contracted by 4.7% and 3.5% year-over-year, respectively. This is the 11th consecutive decrease in mining activity and the second in industrial activity, underscoring the adverse impact of rolling blackouts on power-intensive sectors of the economy. Furthermore, retail sales declined by 0.6% month-over-month in December, indicating that consumers are still experiencing the repercussions of rising interest rates and prices.

Additionally, in February, the South African rand weakened by 5.3% against a robust US dollar, 3% against the pound, and 2.56% against the euro. Increasing apprehension about the impact of South Africa's persistent power crisis on the economy has added pressure on the local currency.

	Sept'22	Oct'22	Nov'22	Dec'22	Jan'23	Feb'23
CPI (y/y)	7.5%	7.6%	7.4%	7.2%	6.9%	7% (forecast)
PPI (y/y)	16.3%	16%	15%	13.5%	12.7%	12.7% (forecast)

Sources: Trading Economics

	28 February 2021	28 February 2022	28 February 2023
USD/ZAR	15.09	15.36	18.34
GBP/ZAR	20.03	20.61	22.06
EUR/ZAR	18.22	17.23	19.39

Source: IRESS

SA markets

The local equity markets, mirroring their global peers, experienced a decline, with the FTSE/JSE All Share Index losing 2.19% in February. The resources sector (-12.51%) suffered the most significant setback as commodity prices came under pressure. However, financials outperformed, returning 2.75% for the month. SA industrials and industrials also posted positive performances, gaining 1.57% and 0.42%, respectively, buoyed by the positive performance of stocks such as Anheuser-Busch InBev (+7.8% MoM) and Richemont (+5.5% MoM). Among the different market capitalisations, small-cap stocks performed the best, rising 0.76%, followed by mid-caps, which declined 0.23%, and large caps, which declined 2.37% for the month.

In contrast, SA listed property ended the month marginally lower, declining 0.09%, as continued concerns about unstable electricity supply and poor local economic prospects weighed on the asset class's performance. On the fixed income side, SA bonds also ended the month lower as the 7-12-year area suffered the most significant loss, declining 1.27%, followed by the 3-7-year area, which declined 1.04%. The 12-year+ area declined 0.60%, while the 1-3-year area declined 0.01%. However, inflation-linked bonds gained 0.45% and cash returned 0.54% for the month of February.

Foreigners were net sellers of R12.03 billion worth of SA equities and net sellers of R52.2 billion worth of SA bonds, during the month.

LOCAL RETURNS IN ZAR

2022	December 2022	January 2023	February 2023	2023 - YTD
SA SMALL CAPS 7.55%	SA PROPERTY 1.12%	SA TOP 40 9.69%	SA SMALL CAPS 0.76%	SA TOP 40 7.09%
SA CASH 5.21%	SA BONDS 0.62%	SA EQUITY 8.89%	SA CASH 0.54%	SA EQUITY 6.50%
SA BONDS 4.26%	SA CASH 0.56%	SA MID CAPS 3.83%	SA PROPERTY -0.14%	SA MID CAPS 3.59%
SA TOP 40 4.21%	SA SMALL CAPS -1.44%	SA BONDS 2.94%	SA MID CAPS -0.23%	SA SMALL CAPS 3.11%
SA EQUITY 3.58%	SA TOP 40 -2.25%	SA SMALL CAPS 2.33%	SA BONDS -0.87%	SA BONDS 2.04%
SA MID CAPS 1.60%	SA EQUITY -2.26%	SA CASH 0.58%	SA EQUITY -2.19%	SA CASH 1.13%
SA PROPERTY -1.90%	SA MID CAPS -2.92%	SA PROPERTY -0.79%	SA TOP 40 -2.37%	SA PROPERTY -0.93%

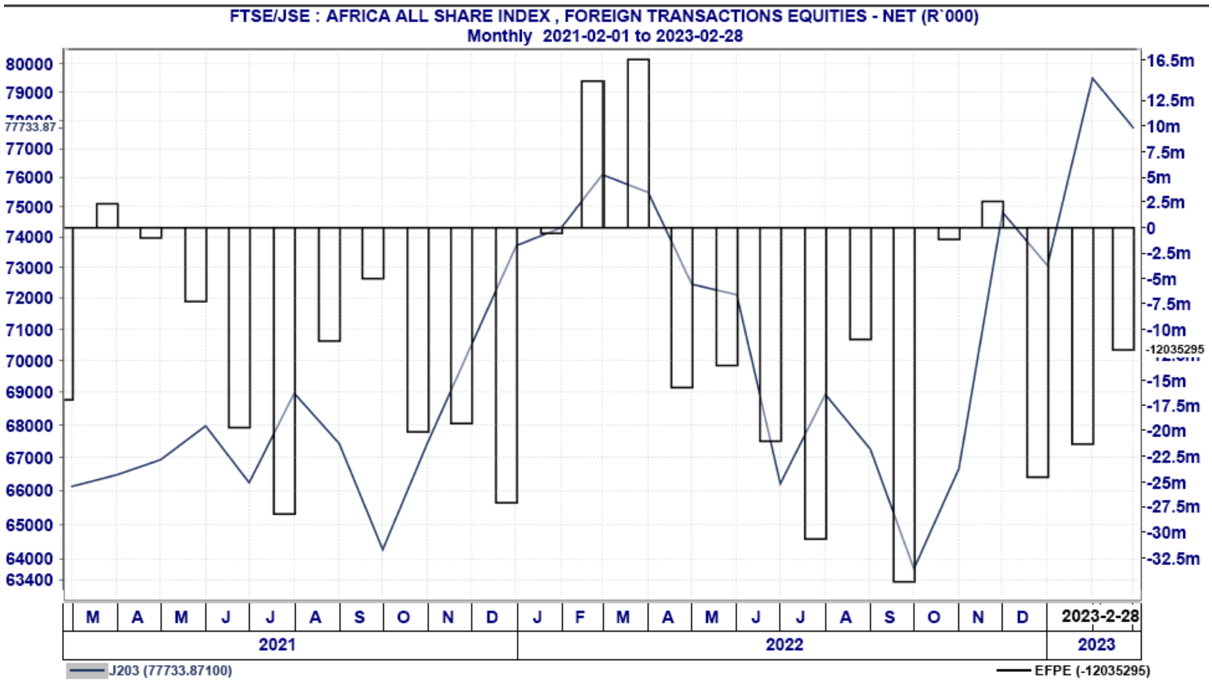
Source: Morningstar & Glacier Research

In February, the resources sector (-12.51%) experienced significant underperformance due to pressure on commodity prices, resulting in a year-to-date decline in the Resources index. However, the financial sector posted a positive return of 2.75%. The SA industrials and industrials sectors demonstrated resilience, with respective performances of 1.57% and 0.42%. This was partly attributed to the positive upward movements of rand hedges and index heavyweights such as Richemont, Anheuser-Busch InBev, and British American Tobacco, which contributed to the overall performance of these sectors.

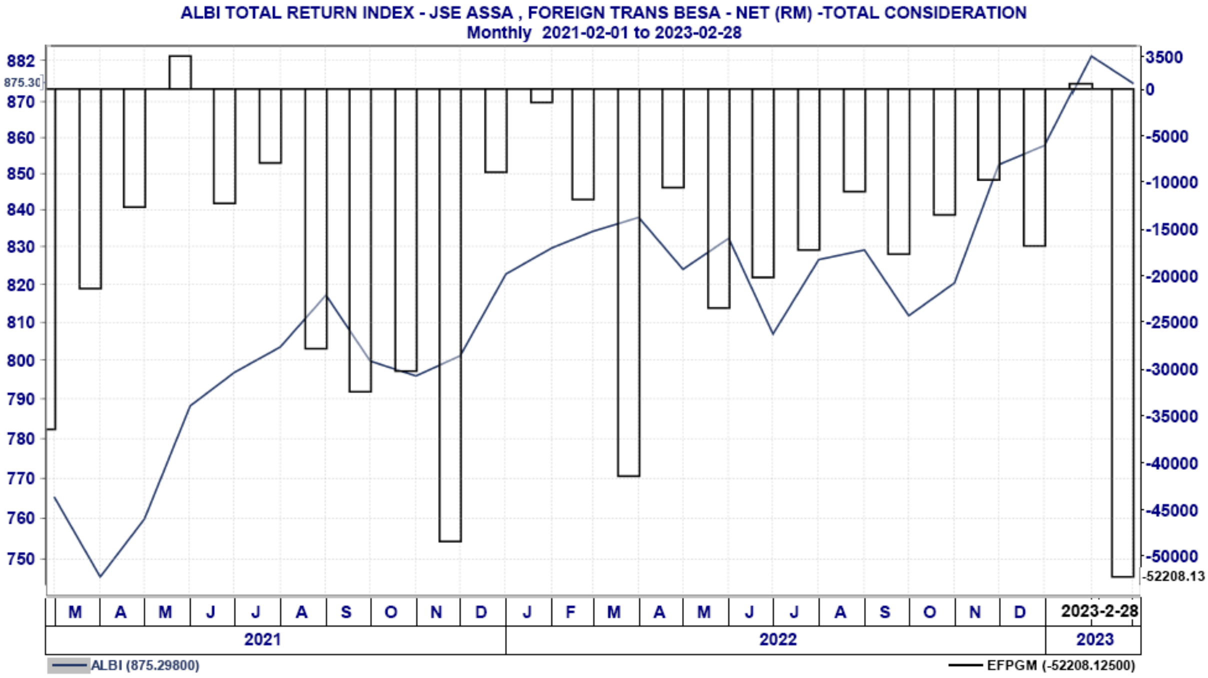
LOCAL SECTOR RETURNS IN ZAR

2022	December 2022	January 2023	February 2023	2023 - YTD
FINANCIALS 8.61%	CONSUMER SERVICES 0.39%	CONSUMER SERVICES 16.32%	CONSUMER SERVICES 3.85%	CONSUMER SERVICES 20.80%
RESOURCES 8.61%	SA INDUSTRIALS -0.27%	SA INDUSTRIALS 12.78%	CONSUMER GOODS 3.05%	SA INDUSTRIALS 14.55%
CONSUMER GOODS 6.97%	GENERAL RETAILERS -0.99%	INDUSTRIALS 8.70%	FINANCIALS 2.75%	INDUSTRIALS 9.16%
SA INDUSTRIALS -3.71%	CONSUMER GOODS -3.07%	RESOURCES 6.27%	SA INDUSTRIALS 1.57%	FINANCIALS 7.57%
CONSUMER SERVICES -4.47%	RESOURCES -3.49%	FINANCIALS 4.69%	INDUSTRIALS 0.42%	CONSUMER GOODS 6.15%
GENERAL RETAILERS -6.19%	FINANCIALS -5.70%	CONSUMER GOODS 3.01%	GENERAL RETAILERS -2.20%	GENERAL RETAILERS -1.17%
INDUSTRIALS -13.26%	INDUSTRIALS -6.11%	GENERAL RETAILERS 1.05%	RESOURCES -12.51%	RESOURCES -7.03%

Source: Morningstar & Glacier Research



Source: IRESS March 2023



Source: IRESS March 2023

Global markets

After a strong start to the year, global equities experienced mixed fortunes in February. The UK and Eurozone experienced growth as positive corporate earnings results aided market performance. The US, however, bucked the trend after inflation figures came in higher than expected which signalled that inflation may be more persistent than anticipated. In a reversal of trend, developed markets (DM) outperformed emerging markets (EM). The MSCI World, MSCI World ACWI and MSCI EM generated returns of -2.40%, -2.87% and -6.48%, respectively, in US dollar terms.

Resilient economic data led to a move higher in bond yields and a decline in equity markets. Investors reassessed their expectations for both the peak in interest rates and the subsequent pace of rate cuts, as the road back to target inflation could be longer than previously hoped. Despite the strong economic news, equity markets were disappointed at the prospect of less monetary easing in the near future. The ECB, Bank of England, and Federal Reserve all announced rate hikes at the beginning of the month. Sovereign bond yields in the US rose during the month (implying a capital loss) with the US 10-year treasury note increasing from 3.51% to 3.92%. Furthermore, the 10-year UK gilts increased from 3.33% to 3.83%. On a global equity style basis, momentum declined the most (-3.23%) with value not too far behind (-2.92%). This was followed by quality (-2.55%) and growth (-1.87%).

United States

US equity markets ended the month of February lower as all three major US indices – NASDAQ (-1.01%), S&P 500 (-2.44%) and Dow Jones (-3.94%) – ended in negative territory. Dow Jones lagged due to the underperformance of value stocks compared to growth stocks. At the Federal Open Market Committee (FOMC) meeting, a 25-bps raise of the federal funds rate was announced, which initially spurred stocks forward. However, unexpected labour market acceleration later in the month caused the bullish sentiment to turn bearish, as it dented confidence in potential rate cuts by the Fed later in the year. Fed Chairman Jerome Powell warned that disinflation still has a way to go, and further rate hikes may be implemented if macroeconomic data continues to surprise to the upside. Inflation remained a concern, with the headline CPI growing at an annual rate of 6.4%, higher than expectations. In sector news, information technology was the top performer, with Nvidia and Apple contributing positively, while health care and communication services lagged.

Eurozone

European equity markets had a strong month of performance, extending on gains experienced in the previous month with the Euro Stoxx 50 rising 1.90%. This performance was boosted by positive company earnings guidance, with communication services and financials leading the gains. However, real estate and healthcare sectors struggled during the period. The European Central Bank (ECB) raised interest rates by 50 bps to 2.5%, signalling its plan to continue its tightening with another 50-bps rate hike in March. Inflationary concerns were raised as French and Spanish consumer prices rose, potentially requiring the ECB to extend its aggressive policy of raising interest rates. The Eurozone's GDP growth is expected to be revised down due to Germany's economy shrinking more than expected in the fourth quarter. Despite the hawkish tone, energy prices continued to fall, resulting in consumer confidence rebounding and the European equity markets performing well. In economic news, the European commission announced its "Green Deal Industrial Plan," including a ban on the sale of combustion engine cars by 2035, demonstrating Europe's commitment to accelerating the energy transition.

United Kingdom

UK equity markets also had a positive month of performance supported by better earnings and signs of a slowdown in inflation. The FTSE 100 ended the month 1.76% higher in pound sterling terms. UK's inflation slowed to 10.1% in January, down from 10.5% in December, mainly due to falling petrol prices, travel costs, and restaurant prices. The BoE, however, raised interest rates by 50 bps to 4.0%, the highest in 15 years. Despite indications from the BoE that rates may have peaked, they emphasised that they will continue with rate hikes until inflation is controlled. Nevertheless, the BoE expects a milder recession and further rate hikes will only be considered if there are signs that inflation will persist at high levels. In economic news, the unemployment rate remained stable at 3.7%, and wage growth came in at a strong 6.7% YoY. Despite signs of an economic slowdown, consumer confidence and the PMI business survey showed improvement, suggesting a potential for higher rates in the future.

Spot Rates	28 February 2021	28 February 2022	28 February 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 negative returns during the month, underperforming their developed market counterparts. The MSCI EM index returned -6.48%, while the MSCI World index delivered -2.40% in US dollar terms. The negative performances were largely driven by a re-escalation of tensions between the US and China, and a strong rally in the broad dollar index, which halted the positive momentum seen in January. Risk-off sentiment returned as optimism surrounding the US Federal Reserve's slowing of interest rate hikes faded. Asia had the worst performance, followed by Latin America and EMEA. US-China tensions caused a decline in the market, although China's internet names remained strong. On a look-through basis, however, positive macroeconomic data and the post-lockdown reopening of China's economy could lead to a rapid consumption-driven recovery.

GLOBAL RETURNS IN ZAR

2022	December 2022	January 2023	February 2023	2023 - YTD
FTSE 100 -0.87%	SHANGHAI STOCK EXCHANGE 1.07%	EURO STOXX 50 14.53%	FTSE 100 5.40%	EURO STOXX 50 20.04%
EURO STOXX 50 -9.44%	GLOBAL BONDS 0.64%	GLOBAL PROPERTY 12.08%	EURO STOXX 50 4.81%	FTSE 100 15.29%
GLOBAL BONDS -10.71%	FTSE 100 -0.39%	SHANGHAI STOCK EXCHANGE 11.94%	MSCI WORLD 2.80%	SHANGHAI STOCK EXCHANGE 14.73%
S&P 500 -12.70%	EURO STOXX 50 -0.67%	MSCI EM 10.51%	S&P 500 2.76%	GLOBAL PROPERTY 12.74%
MSCI WORLD -12.73%	MSCI EM -1.30%	MSCI WORLD 9.67%	SHANGHAI STOCK EXCHANGE 2.49%	MSCI WORLD 12.74%
MSCI EM -14.81%	GLOBAL PROPERTY -2.70%	FTSE 100 9.38%	GLOBAL BONDS 1.83%	S&P 500 11.86%
SHANGHAI STOCK EXCHANGE -19.53%	MSCI WORLD -4.15%	S&P 500 8.86%	GLOBAL PROPERTY 0.59%	MSCI EM 8.85%
GLOBAL PROPERTY -20.90%	S&P 500 -5.66%	GLOBAL BONDS 5.79%	MSCI EM -1.50%	GLOBAL BONDS 7.72%

Source: Morningstar & Glacier Research