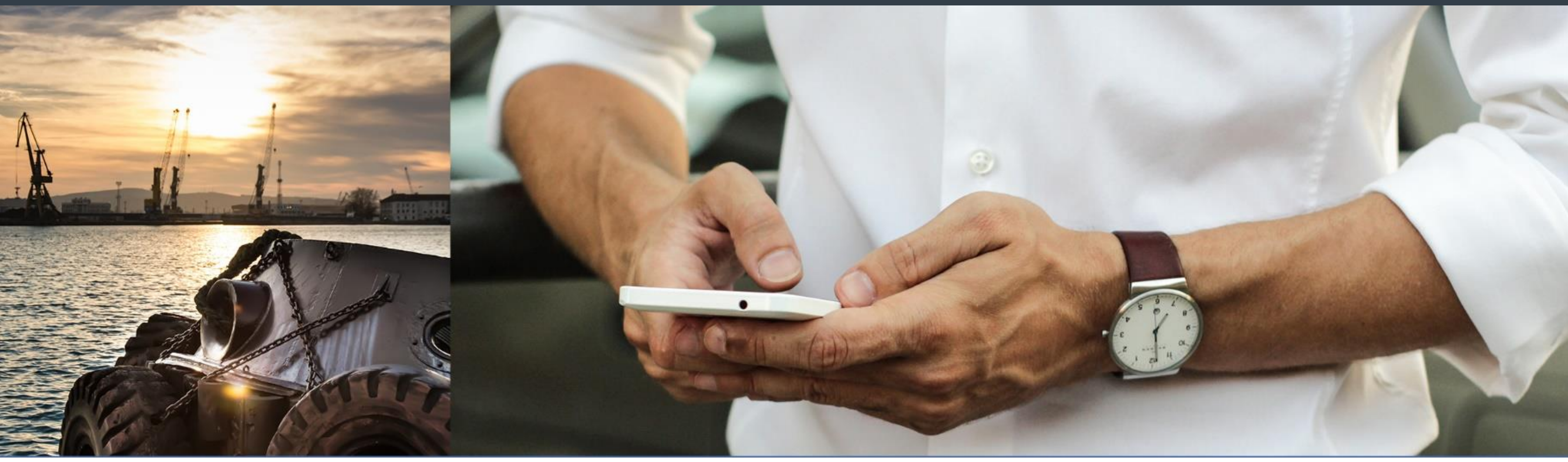
ECONOMIC REPORT

by Glacier Research

glacier by Sanlam



Review period: October 2022

Introduction

In the month of October, local equities ended the month higher as the FTSE/JSE All Share index gained 4.89%. All sectors posted positive performances with financials leading the pack. South African listed property broke its losing streak, ending the month 9.8% higher. On the fixed income side, SA bonds ended the month higher, faring better than their developed market peers.

Global markets rebounded strongly in October, providing some reprieve to investors as most US stocks ended the month in positive territory on the back of an incrementally hawkish Fed and better-than-expected earnings. Emerging markets underperformed, led lower by a sharp decline in Chinese stocks.

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

Medium-term Budget Policy Statement (MTBPS)

On the 26th of October 2022, Finance Minister Enoch Godongwana delivered the medium-term Budget which outlined the financial targets over the next three years. Due to higher commodity prices, tax revenue collection has been revised higher by R83.5bn and total main budget revenue has been revised higher by R106.4bn for the 2022/23 fiscal year. On the expenditure front, National Treasury outlined R30bn funding to Denel, Transnet and Sanral and R6.4bn to KwaZulu Natal, in order to assist the province with flood damage from earlier in the year.

In addition, National Treasury announced that they will be taking on a significant portion of Eskom's debt (currently R400bn). Other significant announcements were that the COVID-19 social relief grant would be extended to 31 March 2024, the government wage bill will be increased by 3% annualised over the next four fiscal years and the Treasury will do everything necessary to avoid being grey-listed.

Furthermore, National Treasury acknowledged that significant risks remain on the horizon, particularly amid growing concerns about slowing global and local growth.

SA economy

SA's annual headline inflation, as measured by the consumer price index (CPI), slowed for a second month to 7.5% in September 2022 versus August's 7.6% print, matching market expectations but still above the upper limit of the South African Reserve Bank's target range of 3%-6%. The major drivers were food and non-alcoholic beverages, housing and utilities, transport, and miscellaneous goods and 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 4.7% in September, from 4.4% in the prior month.

Despite intense power cuts which continued throughout the month of October, SA's SACCI Business Confidence Index rose to 110.9 in September, from 105.6 in the previous month, marking the highest reading since February as there was an increase in tourism and trade volumes. However, retail sales decreased by 1.8% in August as rising prices and interest rates continued to squeeze consumer demand. Furthermore, in the month of October, the rand depreciated by 0.79% to the US dollar, 3.58% against the pound, and 1.66% against the euro.

	May'22	Jun'22	July'22	Aug'22	Sept'22	Oct'22
CPI (y/y)	6.5%	7.4%	7.8%	7.6%	7.5%	7.4%
PPI (y/y)	14.7%	16.2%	18.0%	16.6%	16.3%	16% (forecast)

Sources: Trading Economics

	31 October 2020	31 October 2021	31 October 2022
USD/ZAR	16.24	15.20	18.29
GBP/ZAR	21.02	20.82	20.98
EUR/ZAR	18.92	17.58	18.08

Source: IRESS

SA markets

Local equity markets posted robust returns, directionally in line with their global counterparts and outperforming their emerging market peers. All major sectors ended the month in positive territory as the FTSE/JSE All Share index gained 4.89%.

Financials (+13.27) took the lead and were the star performers for the month of October, as banking stocks rallied, followed by industrials and resources. In terms of market cap, mid-caps were the strongest performers, gaining 8.11% for the month, followed by large caps and then small caps, which returned 4.85% and 3.47%, respectively.

South African listed property rebounded strongly in October, posting double-digit returns of 10.53%. On the fixed income side, SA bonds ended the month higher, faring better than their developed market peers as the FTSE/JSE All Bond returned 1.07%. The majority of gains came from the shorter end of the curve. The three- to seven-year gained 2.01% and the one- to three-year area increased 1.28%. The seven- to 12-year area returned 0.94% while the 12 years+ area returned 0.77%. Furthermore, inflation-linked bonds declined 1.27 % while cash returned 0.51%.

Foreigners were net sellers of R11.4 billion worth of SA equities and net sellers of R13.4 billion worth of SA bonds, during the month.

LOCAL RETURNS IN ZAR

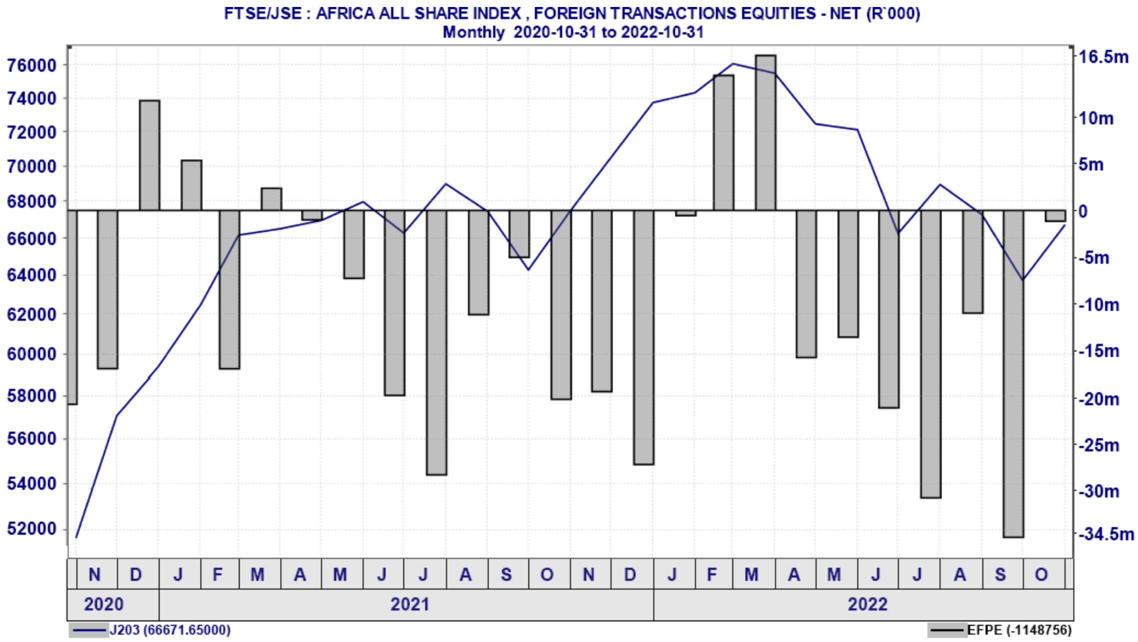
2021	August 2022	September 2022	October 2022	2022 - YTD
SA SMALL CAPS 59.08%	SA SMALL CAPS 0.94%	SA CASH 0.46%	SA PROPERTY 10.47%	SA SMALL CAPS 6.55%
SA PROPERTY 38.63%	SA CASH 0.45%	SA SMALL CAPS -2.01%	SA MID CAPS 8.11%	SA CASH 4.09%
SA EQUITY 29.23%	SA BONDS 0.31%	SA BONDS -2.11%	SA EQUITY 4.89%	SA MID CAPS 1.73%
SA MID CAPS 28.88%	SA MID CAPS -0.65%	SA MID CAPS -2.83%	SA TOP 40 4.85%	SA BONDS -0.29%
SA TOP 40 28.40%	SA EQUITY -1.84%	SA EQUITY -4.13%	SA SMALL CAPS 3.47%	SA EQUITY -5.66%
SA BONDS 8.40%	SA TOP 40 -2.13%	SA TOP 40 -4.43%	SA BONDS 1.07%	SA TOP 40 -6.70%
SA CASH 3.81%	SA PROPERTY -5.95%	SA PROPERTY -6.48%	SA CASH 0.51%	SA PROPERTY -8.30%

Source: Morningstar & Glacier Research

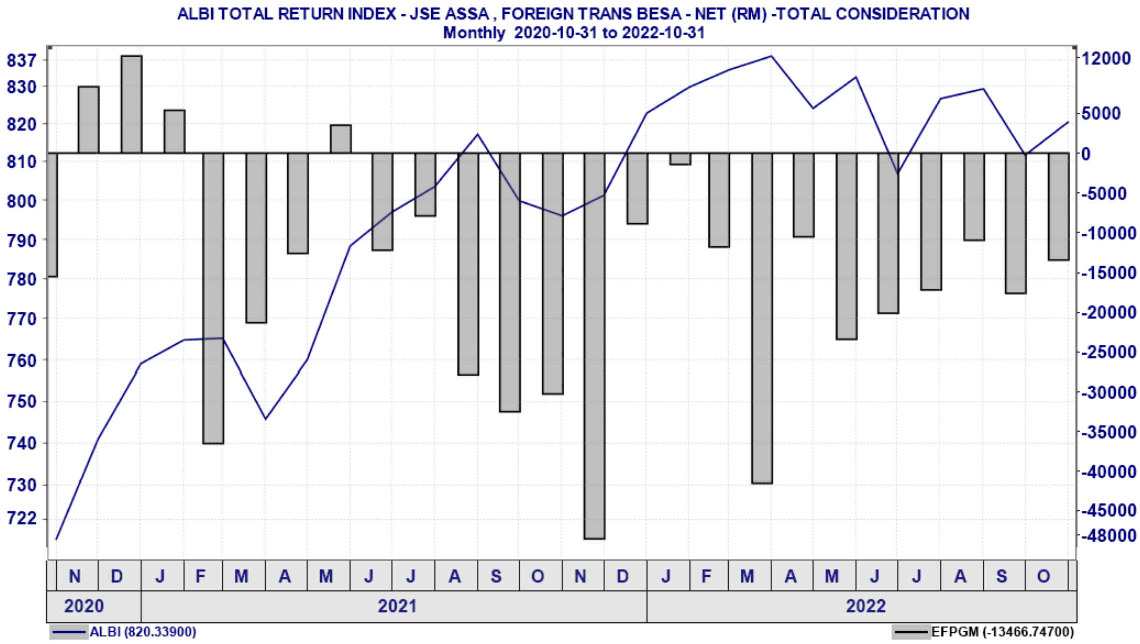
In terms of sector performances, financials were the best-performing sector in October gaining 13.17% for the month, followed by industrials (+9.62%), and resources (+3.73%). Furthermore, SA industrials fared well in October, returning 1.68%.

LOCAL SECTOR RETURNS IN ZAR				
2021	**August 2022**	**September 2022**	**October 2022**	**2022 - YTD**
CONSUMER SERVICES 76.32%	CONSUMER GOODS 4.76%	RESOURCES 1.72%	FINANCIALS 13.17%	FINANCIALS 9.81%
GENERAL RETAILERS 65.87%	SA INDUSTRIALS -0.36%	GENERAL RETAILERS -1.29%	INDUSTRIALS 9.62%	CONSUMER GOODS 8.70%
RESOURCES 32.31%	GENERAL RETAILERS -0.38%	INDUSTRIALS -5.05%	CONSUMER GOODS 8.45%	RESOURCES -2.99%
INDUSTRIALS 30.72%	CONSUMER SERVICES -0.92%	CONSUMER GOODS -5.54%	CONSUMER SERVICES 4.54%	GENERAL RETAILERS -8.79%
FINANCIALS 29.59%	FINANCIALS -1.93%	FINANCIALS -5.95%	RESOURCES 3.73%	INDUSTRIALS -9.94%
SA INDUSTRIALS 26.45%	INDUSTRIALS -2.83%	SA INDUSTRIALS -6.35%	SA INDUSTRIALS 1.71%	SA INDUSTRIALS -15.33%
CONSUMER GOODS 22.28%	RESOURCES -3.84%	CONSUMER SERVICES -7.38%	GENERAL RETAILERS -0.76%	CONSUMER SERVICES -18.87%

Source: Morningstar & Glacier Research



Source: IRESS October 2022



Source: IRESS October 2022

Global markets

Global equities experienced a strong rebound in performance despite macroeconomic headwinds still prevailing. It appears that a lot of the bad news has already been priced into the market. The US rose on the back of a strong third-quarter earnings season, while Europe rallied with all sectors finishing in the positive territory. The UK recovered amid upbeat earnings and more supportive news from the fiscal side. As a result, gains were widespread across developed markets while emerging markets (EM) ended in the red. MSCI World and MSCI World ACWI rose 7.18% and 6.03%, respectively, while the MSCI EM declined 3.10%, in dollar terms.

Across the regions, macroeconomic headwinds continued with negative inflation surprises and evidence of slowing economic growth through lower flash Purchasing Managers' Index (PMI) surveys. A strong labour market provided some respite driving nominal wage growth. Sovereign bond yields in the US rose during the month (implying a capital loss) with the US 10-year treasury note increasing from 3.83% to 4.05%, although some Fed officials are considering a slower pace of rate hikes to cushion the effects of an economic contraction. In contrast, the 10-year UK gilts declined from 4.09% to 3.52%. On a global equity style basis, momentum rallied the most (+9.96%) with value not too far behind (+9.70%). This was followed by quality (+6.41%) and growth (+4.58%) as growth stocks continue to be weighed down by higher interest rates.

United States

US equity markets ended the month of October higher as all three major US indices – NASDAQ (+3.94%), S&P 500 (+8.10%) and Dow Jones (+14.07%) – rose significantly. US inflation data showed that the headline inflation print came in at 8.2%, which was lower than September's 8.3%. However, this figure still remains above target. A strong performance in services prices offset falls in goods and energy prices. The Fed is largely expected to raise interest rates by 75bps at their November meeting. However, some Fed officials are considering slowing the pace of rate hikes in order to avoid a sharp economic contraction. A better-than-expected third-quarter earnings season was supportive of US equity markets; however, technology stocks disappointed. Alphabet reported a 27% decline in profits, Meta announced a drop of more than 50%, Microsoft experienced its slowest revenue growth in five years and Amazon reported slowing growth in key business areas. The US labour market continues to provide support with the unemployment rate falling to a multi-decade low of 3.5%.

Eurozone

European equity markets had a strong month of performance, rebounding from losses in the previous month despite prevailing macro concerns. On the macroeconomic front, the eurozone Purchasing Managers' Composite Index (PMI) fell to 47.1 in October from 48.2 in the previous month, indicating that the eurozone is slipping into a contraction. The sharp drop in the PMI has raised concerns about a potential recession as manufacturing and services companies were below 50 for the fourth consecutive month, indicating a contraction in business activity. Inflation in the region rose to 10.7% in October, largely driven by rising food, alcohol and tobacco as well as energy prices. The European Central Bank (ECB) subsequently rose interest rates by 75bps to its highest level in over 10 years. On a positive note, Europe announced new plans to tackle the energy crisis that included a first version of a price cap and a common purchases system. Households and businesses should benefit largely from these measures, together with new fiscal stimulus support of €40bn.

United Kingdom

UK equity markets also had a strong showing for the month with upbeat earnings reports outweighing concerns about an economic contraction. The FTSE 100 finished 2.99% higher in pound sterling terms. The UK's inflation rose to 10.1% from 9.9% in the previous month, driven largely by the highest food price increases since the 1980s. Market expectations are for the Bank of England's rate hikes to be moderate, with interest rates now expected to peak at about 4.75% next year. On the political front, Rishi Sunak became the Prime Minister of the UK, following Lizz Truss' resignation. The new chancellor, Jeremy Hunt, reversed many of the previous chancellor's tax cuts and vowed to deliver a much more restrained budget in mid-November. On a positive note, the UK's labour market remains a bright spot as the unemployment rate fell to a multi-decade low of 3.5%.

Spot Rates	31 October 2020	31 October 2021	31 October 2022
EUR/USD	1.16	1.16	0.98
GBP/USD	1.29	1.37	1.15
USD/JPY	104.64	114.00	148.71

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 -3.10%, while the MSCI World index delivered +7.18% in US dollar terms. The underperformance in emerging markets was largely driven by a weaker showing from Chinese equities as the Shanghai Composite Index declined 4.52%. The 20th Party Congress was met with disappointment by global investors as President Xi Jinping was reappointed, thus failing to boost confidence in policy changes. Furthermore, geopolitical tension between the US and China appears to be ramping up as US President, Joe Biden, imposed new restrictions on Chinese access to US semiconductor technology.

GLOBAL RETURNS IN ZAR				
2021	**August 2022**	**September 2022**	**October 2022**	**2022 - YTD**
GLOBAL PROPERTY 41.28%	MSCI EM 2.74%	GLOBAL BONDS 0.03%	EURO STOXX 50 12.53%	FTSE 100 -2.89%
S&P 500 39.84%	GLOBAL BONDS -1.73%	EURO STOXX 50 -2.99%	S&P 500 10.53%	S&P 500 -5.24%
MSCI WORLD 32.36%	S&P 500 -1.86%	SHANGHAI STOCK EXCHANGE -3.88%	MSCI WORLD 9.60%	MSCI WORLD -7.96%
FTSE 100 27.52%	SHANGHAI STOCK EXCHANGE -1.94%	FTSE 100 -4.06%	FTSE 100 8.62%	GLOBAL BONDS -8.39%
EURO STOXX 50 24.56%	MSCI WORLD -1.97%	S&P 500 -4.27%	GLOBAL PROPERTY 5.84%	EURO STOXX 50 -13.75%
SHANGHAI STOCK EXCHANGE 14.96%	FTSE 100 -3.20%	MSCI WORLD -4.36%	GLOBAL BONDS 1.55%	GLOBAL PROPERTY -17.42%
MSCI EM 5.89%	EURO STOXX 50 -4.25%	MSCI EM -6.92%	MSCI EM -0.92%	MSCI EM -18.73%
GLOBAL BONDS 3.54%	GLOBAL PROPERTY -4.36%	GLOBAL PROPERTY -7.89%	SHANGHAI STOCK EXCHANGE -5.14%	SHANGHAI STOCK EXCHANGE -22.63%

Source: Morningstar & Glacier Research