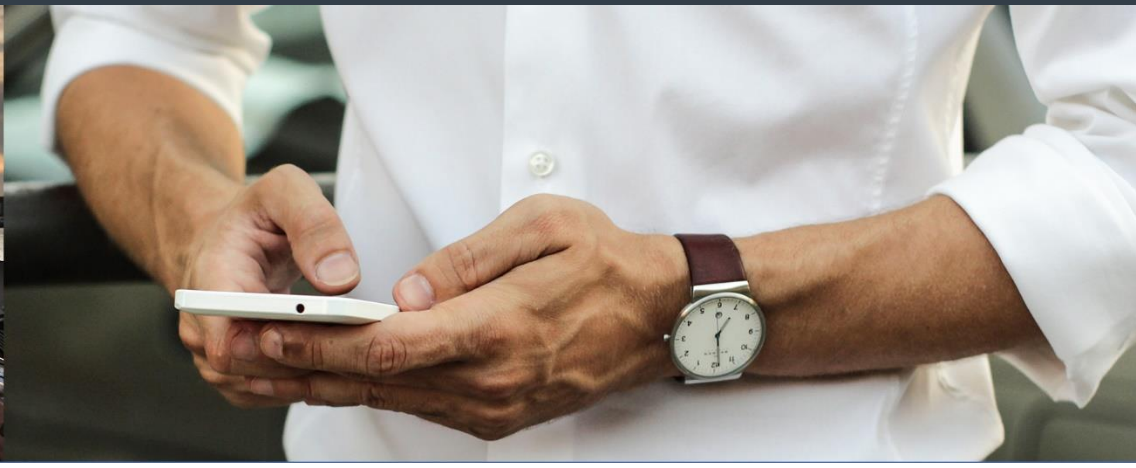
ECONOMIC REPORT

by Glacier Research

glacier by Sanlam



Review period: December 2022

Introduction

In the month of December, local equities followed global stock markets lower as the FTSE/JSE All Share index closed -2.26% with industrials (-6.11%) and financials (-5.70%) leading the losses. South African listed property, however, advanced for the third month in a row, returning 1.12%. On the fixed income side, SA bonds ended the month slightly higher, gaining 0.62%.

Global markets ended the month of December lower driven by global central banks' aggressive interest rate hikes to curb inflation, ongoing recession fears, Russia's war on Ukraine and increasing concerns over a surge in COVID-19 cases in China - this was after the country's decision to open its boarders, scrapping strict pandemic protocols.

Domestic Highlights

SA Gross Domestic Product (GDP) Q3 2022

SA GDP figures surprised on the upside with the economy growing by 1.6% in the third quarter (Q3) of 2022, after shrinking by 0.7% in Q2 2022. Despite muted growth in Q2 2022, the SA economy proved to be more resilient to the severe electricity shortages than expected in Q3 2022.

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Eight of the ten industries reported an increase in economic output in Q3 2022. Agriculture, forestry & fishing was the largest contributor to economic output, expanding by 19.2% in Q3 2022, and contributing 0.5 percentage points (pps) to GDP. This was mainly due to a rise in the production of field crops and horticulture products. The finance, real estate & business services industry (+1.9%) also contributed 0.5 pps to GDP, driven mainly by financial intermediation, insurance & pension funding, auxiliary activities, and real estate & other business services.

Transport, storage & communication (+3.7%) expanded on the back of increased economic activity in land transport, transport support services and communication services and contributed 0.3 pps to GDP. Bolstered mainly by the automotive sector, food & beverages, and metal products, the manufacturing industry expanded 1.5% in Q3 2022, contributing 0.2 pps to GDP. On the downside, the personal services (-1.2%) and electricity, gas & water supply industries (-2.1%) contracted in Q3 2022.

On the expenditure side of GDP, exports increased by 4.2% in Q3 2022, driven mainly by increased trade in mineral products, metals, vegetables products and paper products. Government consumption increased by +0.5%, led mainly by increased spending on goods and services.

SA economy

SA's annual headline inflation, as measured by the consumer price index (CPI), decelerated to 7.4% in November from 7.6% in October, slightly lower than market forecasts of 7.5%, however still above the upper limit of the SARB's target range of 3%-6%. It was the lowest reading since June, mainly due to a slowdown in prices of transportation (15.3% vs 17.1% in October), of which fuels (25.3% vs 30.1%) benefitted from the decline in global oil prices. Meanwhile, prices edged up higher for other CPI items, such as food and non-alcoholic beverages (12.5% vs 12%), restaurants & hotels (7.9% vs 7.8%), alcoholic beverages & tobacco (6.5% vs 6.2%), and household contents and services (5.6% vs 5.5%).

SA annual core inflation, which excludes prices of food, non-alcoholic beverages, fuel, and energy, remained steady at 5% in November, lower than market forecasts of 5.1%. SA's annual producer inflation eased for the fourth straight month to 15% in November of 2022, from 16% in October and slightly below market forecasts of 15.7%. This marked the lowest reading since May, mainly due to a slowdown in the costs of coke, petroleum, chemical, rubber, and plastic products (28.6% vs 31.8% in October) and food products, beverages, and tobacco products (10.7% vs 11.4%).

Manufacturing production in SA fell by 1.1% from a year earlier in November of 2022, following a 1% rise in the prior month and surpassing market forecasts of a 2.3% decline. It was the first monthly decline in the country's factory activity after four consecutive months of increases as sustained and intense power cuts continued to weigh on the sector. Production slowed in almost all sub-activities, notably electrical machinery (-6.9%); textiles, clothing, leather and footwear (-6%); wood and wood products, paper, publishing and printing (-4.5%); food and beverages (-2.5%); and petroleum, chemical products, rubber and plastic products (-2.5%). Conversely, production rose solidly for motor vehicles, parts and accessories and other transport equipment (13.4%).

Furthermore, in the month of December, the rand appreciated by 0.97% to the US dollar, 0.64% against the pound, and depreciated 1.85% against the euro.

	July’22	Aug’22	Sept’22	Oct’22	Nov’22	Dec’22
CPI (y/y)	7.8%	7.6%	7.5%	7.6%	7.4%	7.2%
PPI (y/y)	18.0%	16.6%	16.3%	16%	15%	14.1% (forecast)

Sources: Trading Economics

	31 December 2020	31 December 2021	31 December 2022
USD/ZAR	14.69	15.99	17.00
GBP/ZAR	20.08	21.64	21.64
EUR/ZAR	17.94	18.18	18.20

Source: IRESS

SA markets

After a significant rally in November, local equity markets followed global market peers lower in December, as the FTSE/JSE All Share Index returned -2.26%. All major sectors ended the month in negative territory with Industrials (-6.11%) leading the decline. In terms of market cap, mid-caps were the poorest performers, losing 2.92% for the month, followed by large caps and small caps, which returned -2.25% and 1.44%, respectively.

South African listed property advanced for the third month in a row, returning 1.12% in the month of December. On the fixed income side, SA bonds ended the month slightly higher as the FTSE/JSE All Bond returned 0.62%. Most of these gains came from the belly of the curve as the 7–12-year area gained 1.10% whilst the 3–7-year area increased 0.61%. The 1–3-year area gained 0.70% and the 12+ year area returned 0.34%. Furthermore, inflation-linked bonds gained 2.72%, while cash returned 0.54% for the month of December.

LOCAL RETURNS IN ZAR

2021	October 2022	November 2022	December 2022	2022 - YTD
SA SMALL CAPS 59.08%	SA PROPERTY 10.47%	SA TOP 40 14.26%	SA PROPERTY 1.12%	SA SMALL CAPS 7.55%
SA PROPERTY 38.63%	SA MID CAPS 8.11%	SA EQUITY 12.33%	SA BONDS 0.62%	SA CASH 5.19%
SA EQUITY 29.23%	SA EQUITY 4.89%	SA PROPERTY 5.78%	SA CASH 0.54%	SA BONDS 4.26%
SA MID CAPS 28.88%	SA TOP 40 4.85%	SA BONDS 3.91%	SA SMALL CAPS -1.44%	SA TOP 40 4.21%
SA TOP 40 28.40%	SA SMALL CAPS 3.47%	SA MID CAPS 2.87%	SA TOP 40 -2.25%	SA EQUITY 3.58%
SA BONDS 8.40%	SA BONDS 1.07%	SA SMALL CAPS 2.42%	SA EQUITY -2.26%	SA MID CAPS 1.60%
SA CASH 3.81%	SA CASH 0.51%	SA CASH 0.51%	SA MID CAPS -2.92%	SA PROPERTY -1.90%

Source: Morningstar & Glacier Research

In terms of sector performances, SA industrials were the best performing sector in December, returning -0.27% for the month, followed by resources (-3.49%), and financials (-5.70%). Furthermore, industrials were the poorest performer, returning -6.11% for the month of December.

LOCAL SECTOR RETURNS IN ZAR

2021	October 2022	November 2022	December 2022	2022 - YTD
CONSUMER SERVICES 76.32%	FINANCIALS 13.17%	CONSUMER SERVICES 17.29%	CONSUMER SERVICES 0.39%	FINANCIALS 8.61%
GENERAL RETAILERS 65.87%	INDUSTRIALS 9.62%	RESOURCES 16.02%	SA INDUSTRIALS -0.27%	RESOURCES 8.61%
RESOURCES 32.31%	CONSUMER GOODS 8.45%	SA INDUSTRIALS 14.04%	GENERAL RETAILERS -0.99%	CONSUMER GOODS 6.97%
INDUSTRIALS 30.72%	CONSUMER SERVICES 4.54%	FINANCIALS 4.88%	CONSUMER GOODS -3.07%	SA INDUSTRIALS -3.71%
FINANCIALS 29.59%	RESOURCES 3.73%	GENERAL RETAILERS 3.88%	RESOURCES -3.49%	CONSUMER SERVICES -4.47%
SA INDUSTRIALS 26.45%	SA INDUSTRIALS 1.71%	INDUSTRIALS 2.58%	FINANCIALS -5.70%	GENERAL RETAILERS -6.19%
CONSUMER GOODS 22.28%	GENERAL RETAILERS -0.76%	CONSUMER GOODS 1.52%	INDUSTRIALS -6.11%	INDUSTRIALS -13.26%

Source: Morningstar & Glacier Research

Global markets

Global equities disappointed on the downside ending a volatile 2022 on a negative note in December. Prevailing macroeconomic headwinds of high inflation, interest rate hikes and looming recession fears continued to weigh on investor sentiment. Although there has been improvement in the inflation prints the three major central banks – Federal Reserve (Fed), Bank of England (BoE) and the European Central Bank (ECB) – have committed to continue its rate hiking cycle until inflation has reach the respective target levels. As a result, losses were widespread across developed markets (DM) and emerging markets (EM), however, EM outperformed DM. The MSCI EM, MSCI World ACWI and MSCI World declined 1.41%, 3.93% and 4.25%, respectively, in dollar terms.

Across the regions, macroeconomic concerns remained at the top of mind although inflation has begun to ease globally. In contrast, an early Covid reopening in China along with accommodative government policies sparked a recovery in the market, contributing positively to the performance of EM. Sovereign bond yields in the US rose during the month (implying a capital loss) with the US 10-year treasury note increasing from 3.61% to 3.87%, as Fed officials have reiterated their stance of taming inflation. Furthermore, the 10-year UK gilts rose from 3.16% to 3.67%. On a global equity style basis, growth declined the most (-6.11%) with quality not too far behind (-4.38%). This was followed by value (-2.46%) and momentum (-2.45%).

United States

US equity markets ended the month of December lower as all three major US indices – NASDAQ (-8.67%), S&P 500 (-5.76%) and Dow Jones (-4.09%) – declined significantly. US inflation data showed that the headline inflation print came in at 7.1% which was lower than the previous 7.7% signalling that inflation may have peaked. The Fed did, however, raise interest rates by 50bps in the December meeting and have committed to raising rates until inflation tends closer to its 2% long-term target. From a sector perspective, technology led the losses as long duration assets were negatively impacted by the rate hiking environment. At a stock level, Tesla, dragged performance of the consumer discretionary sector resulting from demand concerns due to a temporary production halt in its China factory. In contrast, defensive stocks in the utility sector remained a bright spot during this market environment.

Eurozone

European equity markets had a weak month of performance, rebounding from gains experienced in the previous month with the Euro Stoxx 50 declining 4.27%. On the macroeconomic front, the Eurozone Purchasing Managers' Composite Index (PMI) rose to 48.8 in December from 47.8 in the previous month. Although a figure remains below 50, thus indicating that businesses in the Eurozone are still contracting, it was better than consensus estimates as supply chain constraints and price pressures improved. Inflation in Germany, Spain and France declined more than expected, driven largely by government subsidies on energy costs. This signalled the possibility that inflation may have peaked. Although inflation prints have improved, Christine Lagarde, president of ECB, indicated at least two more 50 bps in the upcoming months. This comes after the ECB rose rates by 50 bps, the largest rate hike in 14 years. On a positive note, the unemployment rate in the Eurozone fell to a record low of 6.5%.

United Kingdom

UK equity markets also had a negative month of performance with economic data suggesting that the UK economy is in a recession. The FTSE 100 ended the month 1.49% lower in pound sterling terms. UK's inflation declined to

10.7% from 11.1% in the previous month, driven largely by easing of supply chain pressures and slower fuel price increases. The BoE, however, increased interest rates by 50 bps with Andrew Bailey, governor of the BoE, signalling further rate hikes on the horizon to bring inflation back down to target levels. GDP figures also came in worse than expected with a contraction of 0.3% for the three months as at the end of October, driven largely by weaker business confidence, unsustainably high inflation and high interest rates. On a positive note, UK's labour market remains resilient as the unemployment rate remains at a multi-decade low of 3.7%. The BoE, however, anticipates that this figure could be worse in the following year given the bleak macro-outlook.

Spot Rates	31 December 2020	31 December 2021	31 December 2022
EUR/USD	1.22	1.14	1.04
GBP/USD	1.34	1.35	1.21
USD/JPY	103.24	115.08	131.11

Source: IRESS

Emerging markets and Asia

Emerging market equities also delivered negative returns during the month, however, outperforming their developed market counterparts. The MSCI EM index returned -1.41%, while the MSCI World index delivered -4.25% in US dollar terms. The outperformance in emerging markets was largely driven by a stronger performance from Chinese stocks after an earlier than expected Covid reopening sparked a rally. Optimism in the region was further bolstered by China's agenda at the Central Economic Work Conference, focusing on growth through expanding domestic consumption, attracting foreign capital and easing property regulations. In contrast, performance in South Korea and Taiwan was weighed down largely by the Fed's stance on rate hikes, reaffirming that there are more interest rate hikes on the horizon.

GLOBAL RETURNS IN ZAR

2021	October 2022	November 2022	December 2022	2022 - YTD
GLOBAL PROPERTY 41.28%	EURO STOXX 50 12.53%	MSCI EM 6.21%	SHANGHAI STOCK EXCHANGE 1.07%	FTSE 100 -0.87%
S&P 500 39.84%	S&P 500 10.53%	EURO STOXX 50 5.70%	GLOBAL BONDS 0.64%	EURO STOXX 50 -9.44%
MSCI WORLD 32.36%	MSCI WORLD 9.60%	SHANGHAI STOCK EXCHANGE 2.91%	FTSE 100 -0.39%	GLOBAL BONDS -10.71%
FTSE 100 27.52%	FTSE 100 8.62%	FTSE 100 2.48%	EURO STOXX 50 -0.67%	S&P 500 -12.70%
EURO STOXX 50 24.56%	GLOBAL PROPERTY 5.84%	MSCI WORLD -1.08%	MSCI EM -1.30%	MSCI WORLD -12.73%
SHANGHAI STOCK EXCHANGE 14.96%	GLOBAL BONDS 1.55%	GLOBAL PROPERTY -1.55%	GLOBAL PROPERTY -2.70%	MSCI EM -14.81%
MSCI EM 5.89%	MSCI EM -0.92%	S&P 500 -2.34%	MSCI WORLD -4.15%	SHANGHAI STOCK EXCHANGE -19.53%
GLOBAL BONDS 3.54%	SHANGHAI STOCK EXCHANGE -5.14%	GLOBAL BONDS -3.16%	S&P 500 -5.66%	GLOBAL PROPERTY -20.90%

Source: Morningstar & Glacier Research