

Market Overview

February 2023

Morningstar Investment Management
March 2023

For Financial Advisers & Their Clients

Market and Economic summary

After a strong start to the year, markets gave up some of their year-to-date gains in the month of February. This was on the back of stronger economic data, which led market participants to become concerned about interest rates staying higher for longer, rather than the previously expected pivot in 2023. The recent rebound in China also came to an abrupt halt, as the improved sentiment on the back of the Chinese economy reopening was replaced by concerns around government debt levels and the long-term prospects for the local economy. The deterioration in sentiment led to the majority of major global equity markets ending the month lower, with those emerging economies reliant on global growth being the most heavily impacted.

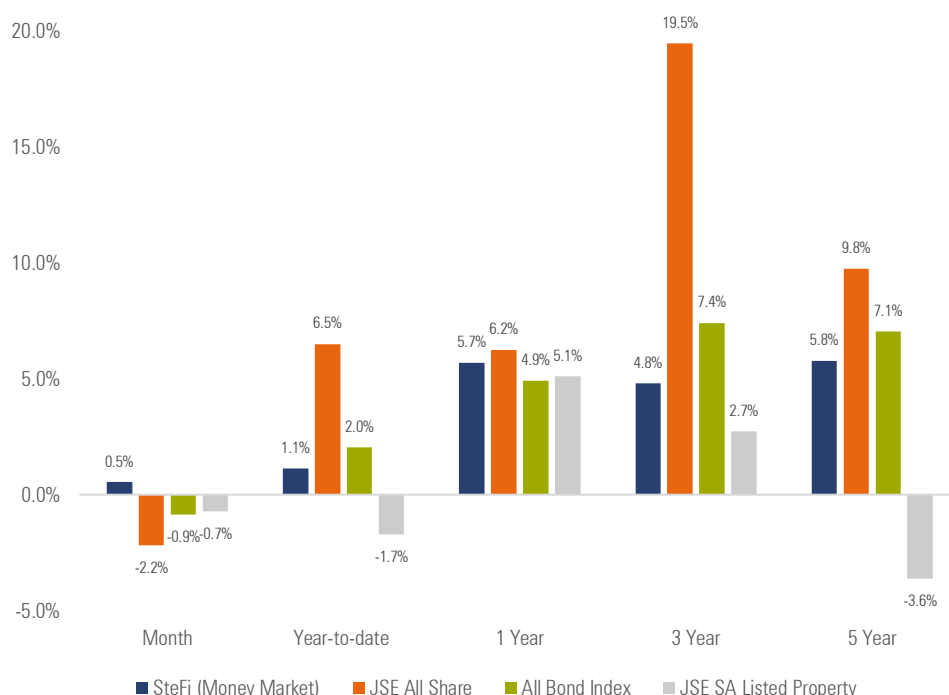
Most inflation reports continued to trend lower in February, as transport inflation continues to slow. However, the inflation rates continue to remain above most central banks' targets. The annual inflation rate in the US slowed for a sixth straight month to 6.4% (year-on-year to the end of January), higher than market forecasts of 6.2%. Euro area inflation fell to 8.6% (year-on-year to the end of January), the lowest since May 2022, and slightly higher than consensus forecasts of 8.5%, with a slowdown in energy inflation being the largest contributor to the decline. The annual inflation rate in the UK fell to 10.1% (year-on-year to the end of January), from 10.5% in December, lower than market consensus. The annual inflation rate remains in double digits for the UK; however, inflation seems to have peaked at 11.1% in October. China's annual inflation rate rose to 2.1% (year-on-year to the end of January), slightly lower than market consensus. Food prices jumped on the back of the Chinese Lunar New Year Festival and the relaxation of Covid-19 restrictions.

Moving to central bank actions over the month, the US Federal Reserve (Fed) raised the target range for the fed funds rate by 0.25% to 4.5%-4.75% in its February 2023 meeting, reducing the size of the increase for a second straight meeting, but still pushing borrowing costs to the highest since 2007. This was on the back of a welcome decrease in inflation; however, the job market remains tight, providing more room for interest rate increases. The Bank of England voted by a majority to raise interest rates by 0.5% points to 4.0% during its February meeting, pushing the cost of borrowing to the highest level since late-2008. It was the 10th consecutive interest rate hike amid policymaker's efforts to combat high inflation and despite the risks of an expected economic recession this year. The European Central Bank (ECB) raised interest rates by 0.5% to 3.0% in their February meeting. Since the start of last year, the ECB has hiked interest rates by 3.0%, bringing borrowing costs to the highest level since late 2008.

Turning to unemployment, developed job markets continue to remain robust. The unemployment rate in the US inched lower to 3.4% (at the end of January 2023), the lowest level since May 1969 and below market expectations of 3.6%. The latest US jobs report continues to point to a tight labour market, which

could lead to more room for the Fed to continue hiking interest rates. The Euro area unemployment rate was 6.6% (at the end of December 2022), slightly higher than forecasted. The unemployment rate in the UK was unchanged at 3.7% (at the end of December 2022), in line with expectations.

Exhibit 1 | SA Market Performance (total returns)



Source: Morningstar Direct as at 28/02/2023. Returns are in South African Rand and have been annualised for periods longer than 1 year.

South African asset classes followed global peers lower this month, posting negative returns. Local equities and bonds moved lower, with most asset classes coming under pressure this month.

South African equities ended the month mostly lower, following emerging market peers, as Resources came under significant pressure during the month. Resources produced a large decline, as commodity prices came under pressure, moving the Resources index into negative territory on a year-to-date basis. Given the rand weakness, Industrials posted a resilient performance, ahead of the broader market, given the positive upward moves posted by rand hedges and index heavyweights including Richemont, Anheuser-Busch InBev and British American Tobacco. Financials produced a positive return, despite the weaker environment.

Local bonds ending the month lower, as the yield curve bear flattened during February, with shorter dated yields moving significantly higher during the month.

Local property also ended the month lower, as continued concerns around the unstable electricity supply and poor local economic prospects weighed on the performance of the asset class.

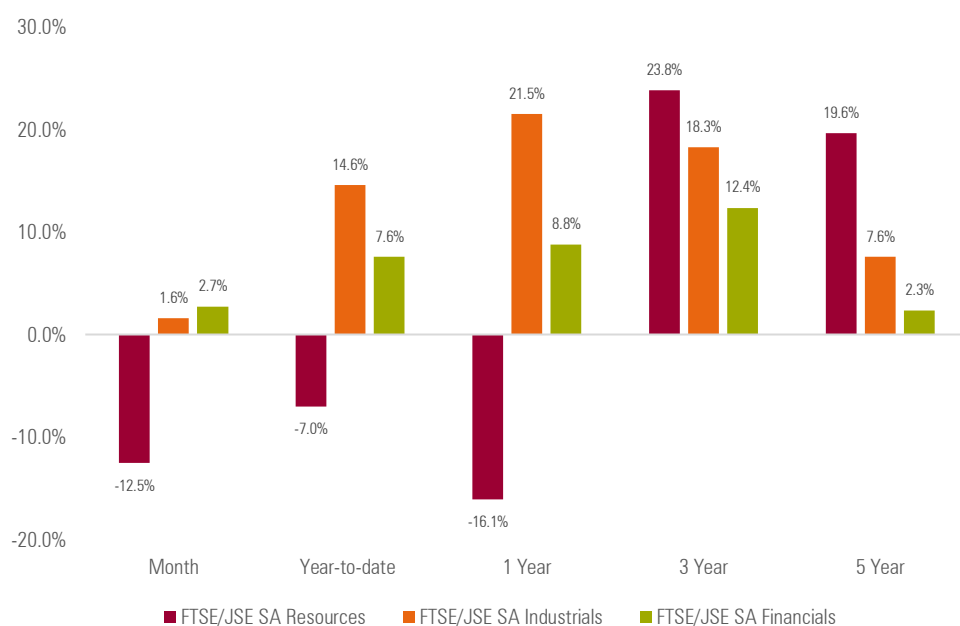
In February, South Africa's Finance Minister, Enoch Godongwana, presented the country's annual budget speech, which did not include any major surprises. The key announcement was a debt relief plan of R254 billion over three years for Eskom, with a focus on reducing the power utility's debt and promoting clean energy through solar incentives. The budget also saw no increase in the fuel levy and positive adjustments to tax thresholds, while government expenditure rose by only 3.4%.

During February, South Africa was added to the Financial Action Task Force's (FATF) "grey list" of jurisdictions under enhanced monitoring. This was largely expected, due to deficiencies in South Africa's regulatory framework and enforcement capabilities highlighted in the FATF's October 2021 report. Rapid progress in implementing the recommendations and achieving prosecutorial and asset recovery success could provide a small chance to exit the grey list in 2024.

South Africa's annual inflation rate eased for the third straight month to 6.9% (year-on-year to the end of January 2023), from 7.2% in the prior month, in line with forecasts, but still above the upper limit of the South African Reserve Bank's target range of 3%-6%. It was the lowest reading since May 2022, mainly due to slowing transport inflation. Meanwhile, faster increases were seen for food and non-alcoholic beverages. The annual core inflation rate, which excludes prices of food, non-alcoholic beverages, fuel, and energy, stood at a three-month low of 4.9% (year-on-year to the end of January 2022), unchanged from the prior month.

South Africa's Q4 2022 unemployment rate dropped to 32.7%, the lowest reading since the first quarter of 2021. The expanded definition of unemployment fell to 42.6%, however, the youth unemployment rate rose to 61%.

Exhibit 2 | SA Sector Performance (total returns)



Source: Morningstar Direct as at 28/02/2023. Returns are in South African Rand and have been annualised for periods longer than 1 year.

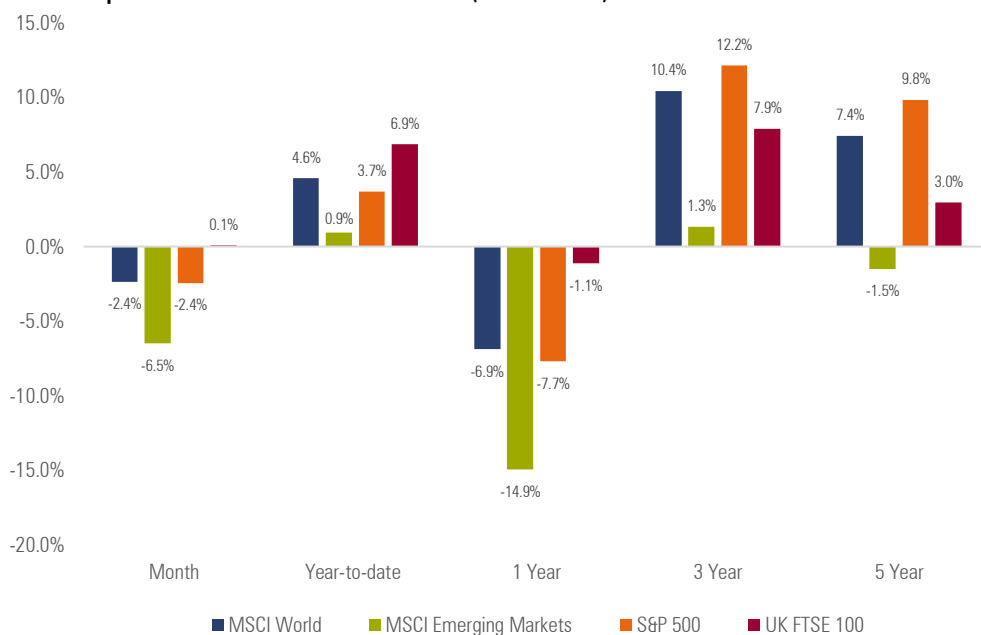
Most of the major developed equity markets ended the month lower, giving up some of the strong gains generated in the previous month. The **MSCI World Index** delivered a return of -2.4% in February, which was slightly ahead of its emerging market peers.

Emerging market equities struggled during the month, weighed down by weak performance from Chinese equities. The **MSCI Emerging Markets Index** ended the month -6.5% lower in February.

Most major global equity markets produced negative returns in February. Japan's **Nikkei 225** (-4.1%), Germany's **FSE DAX** (-0.8%) and China's **Shanghai SE Composite** (-1.9%) ended the month in negative territory. The UK's **FTSE 100** (+0.1%) was one of the few global equity markets to end the month in positive territory.

US equities also ended the month lower, in line with global peers. The tech-heavy **NASDAQ 100** (-0.4%) held up slightly better than the **S&P 500** (-2.4%) during the month.

Exhibit 3 | International Market Performance (total returns)



Source: Morningstar Direct as at 28/02/2023. Returns are in US dollars and have been annualised for periods longer than 1 year.

Impact on client portfolios

Following a strong start to the year, February proved to be a tough month for investors, as markets gave up some of the gains accumulated in the first month of the year. From a portfolio perspective, very few portfolios managed to generate meaningful returns for the month, as all major local asset classes ended the month in negative territory. Those portfolios with an income focus managed to eke out small positive returns, despite the local bond market failing to deliver a positive return for the month. Rand weakness over the month against the major developed market currencies did provide a slight cushion to the performance of offshore allocations.

We remain comfortable with the current positioning of client portfolios, both from an asset allocation and a manager selection perspective. We will continue to follow our valuation driven approach by allocating assets to the most attractive areas of the market from a reward for risk perspective and ensure we build robust portfolios. We are confident that we will continue to deliver on the specific investment objectives of each client portfolio independent of the prevailing market environment.

Local Market Indices	1 Month	YTD	1 Year	3 Years	5 Years
JSE All Share	-2.19	6.50	6.24	19.46	9.76
JSE SA Listed Property	-0.72	-1.71	5.09	2.73	-3.62
All Bond Index	-0.87	2.04	4.93	7.40	7.06
STeFI (Money Market)	0.54	1.13	5.70	4.80	5.78
Local Market Sectors	1 Month	YTD	1 Year	3 Years	5 Years
JSE Top 40	-2.37	7.09	6.81	20.41	10.66
JSE Mid Cap	-0.23	3.59	4.60	11.24	3.97
JSE Small Cap	0.76	3.11	11.75	26.89	7.57
FTSE/JSE SA Resources	-12.51	-7.03	-16.05	23.80	19.61
FTSE/JSE Ind/Financials	2.75	7.57	8.78	12.34	2.33
FTSE/JSE SA Industrials	1.57	14.55	21.50	18.26	7.57
Global Market Indices	1 Month	YTD	1 Year	3 Years	5 Years
MSCI World	-2.37	4.57	-6.86	10.43	7.43
MSCI Emerging Markets	-6.48	0.92	-14.91	1.34	-1.50
S&P 500	-2.44	3.69	-7.69	12.15	9.82
NASDAQ 100	-0.37	10.26	-14.65	13.40	12.95
FTSE 100	0.07	6.87	-1.11	7.87	2.96
SSE Composite	-1.91	6.35	-13.85	4.68	-1.69
Nikkei 225	-4.06	1.95	-10.55	2.88	1.47
FSE DAX	-0.82	9.66	0.32	7.65	1.44
US T-Bill 3m	0.40	0.80	2.91	1.03	1.45
Commodities	1 Month	YTD	1 Year	3 Years	5 Years
Oil Price Brent Crude	-0.71	-2.35	-16.93	18.42	4.98
Gold	-5.16	0.60	-4.46	4.26	6.72
Platinum	-5.28	-7.76	-10.54	2.97	-0.58
Copper	-3.55	6.96	-9.16	16.00	3.97

Note: The performance of Local Market Indices and Local Market Sectors is quoted in rands and the performance of Global Market Indices and Commodities is quoted in US dollars. All data is sourced from Morningstar Direct as at 28/02/2023.

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Morningstar South Africa

5th Floor
20 Vineyard Road
Claremont
7708
+27 21 201 4645