Market Overview
July 2023

Morningstar Investment Management
August 2023

For Financial Advisers & Their Clients

Market and Economic Summary

Global markets continued on an upward trend this month, driven by economic data that exceeded expectations. Market participants shifted from recessionary projections to a cautiously optimistic outlook, anticipating a "soft landing" for most economies and the decreased possibility of a recession. Riskier assets gained traction as a result, while global bonds struggled to generate positive returns. The prevailing sentiment is that the strong economic numbers will likely help most global economies avoid a recession, fostering a sense of cautious optimism among investors regarding the future and continued growth during the ongoing economic recovery.

Developed market inflation continued to surprise to the downside this month, as headline inflation moved lower across the major developed markets. Consumer price inflation in the US moved lower to 3% (year-on-year to the end of June), below expectations. This decrease was partly due to the high base set last year, which is no longer influencing the most recent figures. On the other hand, US core inflation fell to its lowest level since October 2021 at 4.8% (year-on-year to the end of June). Euro area inflation slowed to 5.3% (year-on-year to the end of June) as energy prices normalised and food prices cooled. Core inflation continued to remain stickier and remained at 5.5%, ahead of consensus. Consumer prices in the UK continued its downward trend and fell to 7.9% (year-on-year to the end of June), below expectations, as fuel prices in particular moved lower.

Turning to economic growth, most global developed markets posted resilient GDP growth numbers this month in the face of a contractionary environment. The US GDP number surprised to the upside during the month, posting an annualised 2.4% growth (year-on-year in Q2 2023), well ahead of market expectations of 1.8%. The number continues to show a resilient US economy, in spite of the rapid increase in interest rates we have seen in the past 18 months. On the other hand, China's economic recovery post-covid has slowed and its economy expanded by 6.3% (year-on-year in Q2 2023), well below market estimates of 7.3%. China has been cautious about launching significant stimulus measures, especially as local government debt has soared recently.

Policymakers continued with interest rate hikes this month, as they continued to grapple with resilient economies and elevated inflation, despite making some progress in recent months on the latter. In the US, the US Federal Reserve (Fed) raised the fed funds rate by 0.25% to a range of 5.25%-5.5% during its June meeting, bringing borrowing costs to the highest level since 2001. The Fed noted that they will be data dependent going forward, while acknowledging that the US economy has been expanding at a moderate pace, job gains have been robust in recent months, and the unemployment rate has remained low. The European Central Bank (ECB) followed the US and raised interest rates by 0.25% at its June meeting, bringing the main refinancing rate to 4.25%. This is the fastest tightening pace in interest rates in the ECB's history and the recent rate hike brings the refinancing rate to the highest since 2008. The ECB also committed to a data dependent approach to future rate decisions.

South African asset classes all produced positive performance in June, recovering some lost ground after a difficult month in May, as sentiment towards SA focussed equity counters and asset classes improved slightly over the month.

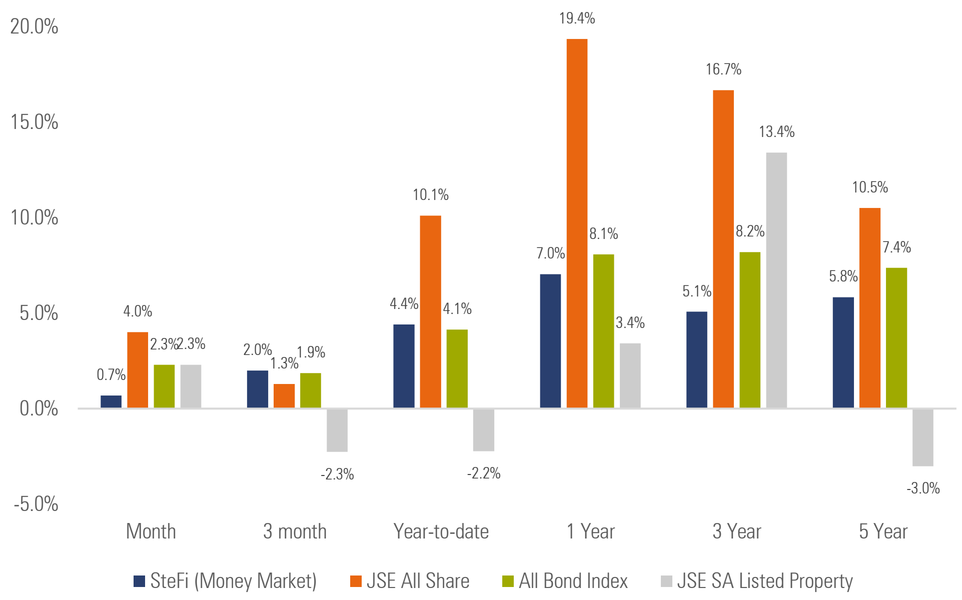
Positive global sentiment bolstered emerging markets, pushing South African asset classes higher this month. The prevailing global risk-on sentiment drove local equities and bonds higher, attracting foreign investors as net buyers of SA assets. However, the significant rand strength dampened currency-exposed index heavyweights, leading to local equities slightly underperforming compared to the broader emerging market complex.

South African equities ended the month higher, as all sectors produced positive returns. Financials produced a robust return this month, driven higher by index heavy weights Capitec (+14.4%) and ABSA (+12.8%). Resources also performed strongly, benefiting from a rebound in precious metals and platinum group metals (PGM's) prices. Industrials ended higher, however, lagged the broader market on the back of the performance from currency-exposed holdings whose performance was negatively impacted by the strong rand. Index heavyweights Richemont (-10.1%) and Anheuser-Busch InBev (-3.7%) ended the month lower.

Local bonds ended the month higher, continuing a strong run for the asset class, which started in June. This positive move was primarily driven by the prevailing global risk-on sentiment, however, a lower-than-expected local inflation print as well as the decision of the South African Reserve Bank (SARB) to keep policy rates unchanged further contributed to the positive performance.

Local property followed other South African asset classes higher this month. Index heavyweight Growthpoint (+8.7%) outperformed this month, while Europe focused counter Nepi Rockcastle (-3.0%) struggled to post a positive return as the rand strength acted as a headwind to the performance of offshore counters.

Exhibit 1 | SA Market Performance (total returns)



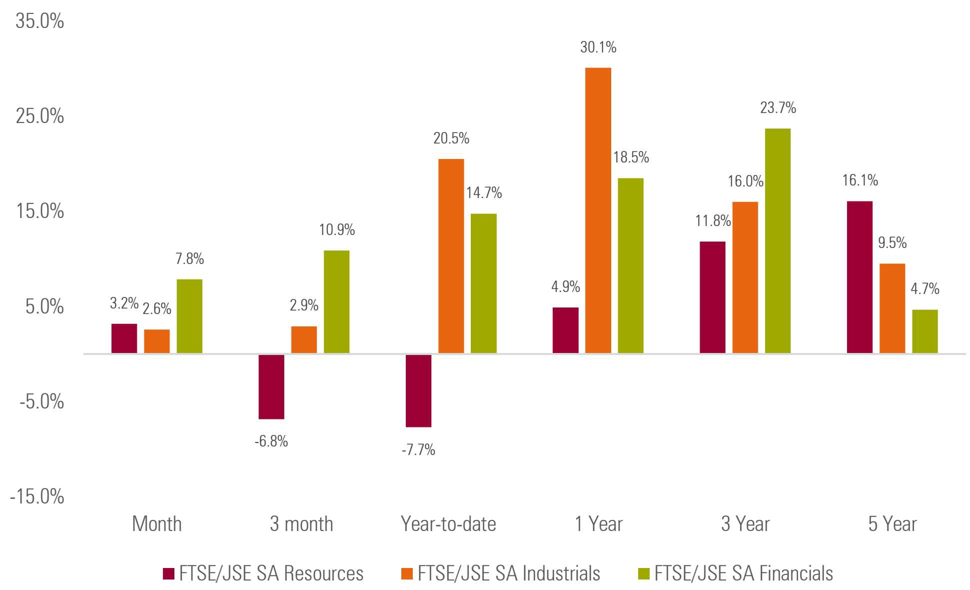
Source: Morningstar Direct as at 31/07/2023. Returns are in South African Rand and have been annualised for periods longer than 1 year.

The SARB kept interest rates unchanged at a 14-year high of 8.25% at its July meeting, in line with expectations. The South African Reserve Bank governor did note that the direction of interest rates will be dependent on inflation data going forward. However, many market participants are forecasting that this is possibly the end of the rate hiking cycle. Policymakers continue to expect lower inflation this year (6%), largely due to softer food and core prices, although upside risks still hold. Policymakers also raised growth forecasts for this year to 0.4% from 0.3% but indicated that energy and logistical constraints in the country continue to limit economic activity and increase costs.

South Africa's annual inflation rate followed the global trend lower and fell to a 19-month low of 5.4% (year-on-year to the end of June). Headline inflation is back to within the central bank target range of between 3%-6% for the first time in 14 months. Core inflation slowed to 5% in June, broadly in line with market estimates of 5.1%.

South Africa recorded a trade deficit of R3.5 billion in June 2023, compared to a downwardly revised R9.6 billion surplus in the previous month and way below market estimates of a R11.9 billion surplus. Exports fell by 8.6% from the previous month to R167.6 billion, mainly due to shipments of vehicles and transport equipment. Meanwhile, imports dropped 1.6% over a month earlier to R171.2 billion, mainly driven by a decline in purchases of precious metals and stones.

Exhibit 2 | SA Sector Performance (total returns)



Source: Morningstar Direct as at 31/07/2023. Returns are in South African Rand and have been annualised for periods longer than 1 year.

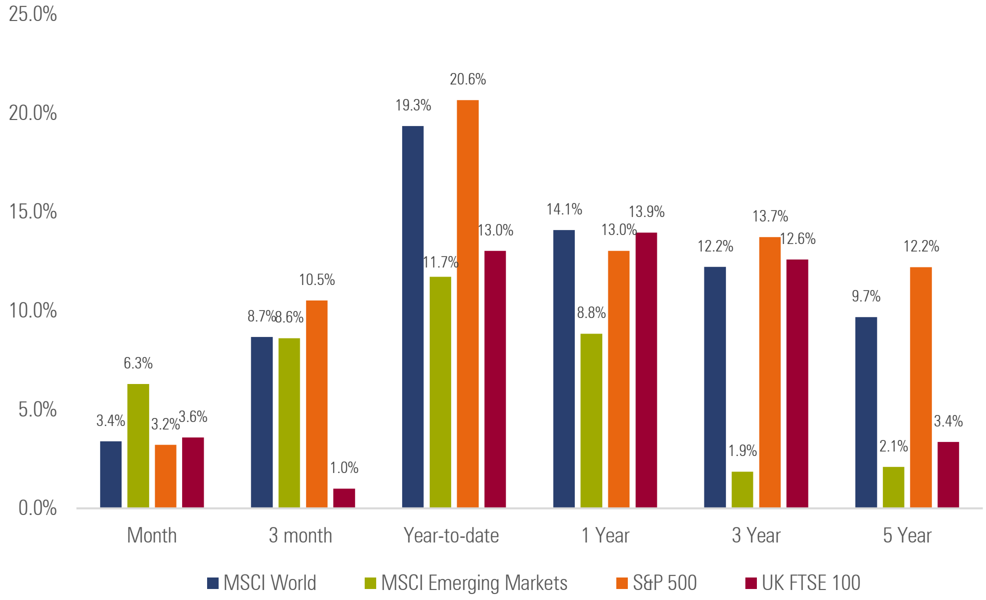
Most of the major developed equity markets ended the month higher this month. The **MSCI World Index** delivered a return of +3.4%, which was slightly behind its emerging market peers.

Most emerging equity markets moved higher during the month, buoyed by strong performance from China as well as a weaker US dollar. The **MSCI Emerging Markets Index** ended the month +6.3% higher in July.

Most major global equity markets produced positive returns in July. The UK's **FTSE 100** (+3.6%), Germany's **FSE DAX** (+2.9%), Japan's **Nikkei 225** (+1.7%) and China's **Shanghai SE Composite** (+4.5%) ended the month in positive territory.

US equities continued on an upward trend this month, as the recent strength in US technology companies broadened out to other areas of the US equity market. The tech-heavy **NASDAQ 100** (+3.8%) ended the month higher, as the mega-cap tech shares continued to post strong gains. The **S&P 500** (+3.2%) also ended the month higher.

Exhibit 3 | International Market Performance (total returns)



Source: Morningstar Direct as at 31/07/2023. Returns are in US dollars and have been annualised for periods longer than 1 year.

Impact on client portfolios

From a portfolio perspective, investors managed to generate positive returns from portfolios during the month of July. Positive global sentiment bolstered emerging markets, pushing South African asset classes higher this month. The prevailing global risk-on sentiment drove local equities and bonds higher. Global equity markets generated strong hard currency returns, as better than expected economic data drove markets higher. The rand did act as a headwind to the performance of global allocations, as the local unit was firmer against most major crosses during the month.

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	7 Years
JSE All Share	4.01	10.11	19.34	16.66	10.51	9.61
JSE Capped SWIX	4.13	7.91	14.90	16.10	7.47	6.23
JSE SA Listed Property	2.30	-2.22	3.42	13.40	-3.01	-3.74
All Bond Index	2.29	4.14	8.07	8.20	7.37	7.88
STeFI (Money Market)	0.68	4.41	7.04	5.07	5.83	6.30
Local Market Sectors	**1 Month**	**YTD**	**1 Year**	**3 Years**	**5 Years**	**7 Years**
JSE Top 40	4.23	11.76	22.41	16.95	11.32	10.58
JSE Mid Cap	5.75	4.54	8.96	15.74	6.34	3.51
JSE Small Cap	1.37	2.70	6.10	29.83	9.15	6.26
FTSE/JSE SA Resources	3.16	-7.69	4.87	11.80	16.05	16.32
FTSE/JSE Ind/Financials	7.84	14.74	18.46	23.67	4.66	5.45
FTSE/JSE SA Industrials	2.58	20.50	30.05	15.96	9.50	7.82
Global Market Indices	**1 Month**	**YTD**	**1 Year**	**3 Years**	**5 Years**	**7 Years**
MSCI World	3.38	19.34	14.07	12.20	9.68	11.06
MSCI Emerging Markets	6.29	11.71	8.83	1.85	2.10	5.51
S&P 500	3.21	20.65	13.02	13.72	12.20	13.31
NASDAQ 100	3.84	44.70	22.77	13.94	17.91	19.91
FTSE 100	3.58	13.02	13.94	12.57	3.35	5.49
SSE Composite	4.47	3.62	-4.64	-0.98	1.79	0.40
Nikkei 225	1.68	19.42	14.79	6.42	5.08	7.50
FSE DAX	2.93	22.03	31.89	7.59	3.89	6.64
US T-Bill 3m	0.45	3.02	4.63	1.74	1.74	1.55
Commodities	**1 Month**	**YTD**	**1 Year**	**3 Years**	**5 Years**	**7 Years**
Oil Price Brent Crude	14.23	-0.41	-22.23	25.49	2.88	10.53
Gold	3.05	8.65	12.39	0.10	10.05	5.64
Platinum	5.80	-7.95	6.75	1.60	2.69	-2.62
Copper	6.61	4.49	11.29	10.94	5.85	6.94

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 31/07/2023.

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