Market Overview
August 2023

Morningstar Investment Management
September 2023

For Financial Advisers & Their Clients

Market and Economic Summary

This month, global market sentiment turned negative, as most asset classes ended in the red. Resilient economic data, and concerns of further upside risks to inflation led to expectations that central banks would maintain higher interest rates for a longer period to control inflation, which dampened sentiment for risk assets. Further worries around the health of the global economy were exacerbated by the continued weakness in the world's second largest economy, China. Global emerging markets underperformed developed markets, largely due to ongoing pressures in Chinese asset classes caused by weak economic data, which dragged the emerging market complex lower.

Developed market inflation numbers produced varied results last month, however, most remained above central banks inflation targets. The annual inflation rate in the US moved higher to 3.2% (year-on-year to the end of July) but below expectations of 3.3%. This marks the end of the 12 consecutive month on month declines in US inflation. Inflation data continued its downward trend in the UK, as consumer price inflation dropped to 6.8% (year-on-year to the end of July) from 7.9% in June. This is the lowest level since February 2022 and matched market consensus, largely on the back of a significant decrease in fuel prices. On the back of higher inflation, the Bank of England raised its policy interest rate by 0.25% to 5.25% during its August 2023 meeting, marking a 14th consecutive increase, and bringing borrowing costs to fresh highs since 2008, as the central bank continues to battle high inflation. The annual inflation rate in the Euro Area remained steady at 5.3% (year-on-year to the end of July), more than double the ECB goal and above the market consensus of 5.1%. On the other hand, China's consumer prices dropped by -0.3% (year-on-year to the end of July), the first decrease since February 2021 and ahead of market estimates of a 0.4% fall.

Turning to economic growth, most global developed markets posted resilient GDP growth numbers this month in the face of a contractionary environment. The Eurozone GDP growth number grew by 0.6% (year-on-year in the second quarter of 2023), in line with estimates. The US economy grew at an annualized rate of 2.1% (year on year in the second quarter of 2023), compared to the preliminary figure of 2.4% and the first quarter's expansion of 2.0%. The UK economy expanded by 0.4% (year-on-year in the second quarter of 2023), ahead of forecasts of 0.2% growth.

Data out of China continued to disappoint in August, with the world's second-largest economy reporting weaker-than-expected retail sales growth, industrial production, and manufacturing data. China's industrial production increased 3.7% (year-on-year to the end of July), below forecasts of 4.4%, due to softer rises in manufacturing activity (3.9% vs 4.8%) and mining output (1.3% vs 1.5%). China's retail sales increased by 2.5% (year-on-year to the end of July), slowing from 3.1% growth in the prior month and missing market estimates of 4.5% growth. The slowdown in China's economy dampened sentiment around the emerging market complex.

Turning to other important economic releases in August, unemployment numbers continued to remain low in most developed regions, however, they posted marginal increases last month. The unemployment rate in the US rose to 3.8% (to the end of July), above market expectations of 3.5%. The unemployment rate in the UK increased to 4.2% (to the end of June), the highest since late-2021 and above market forecasts of 4%.

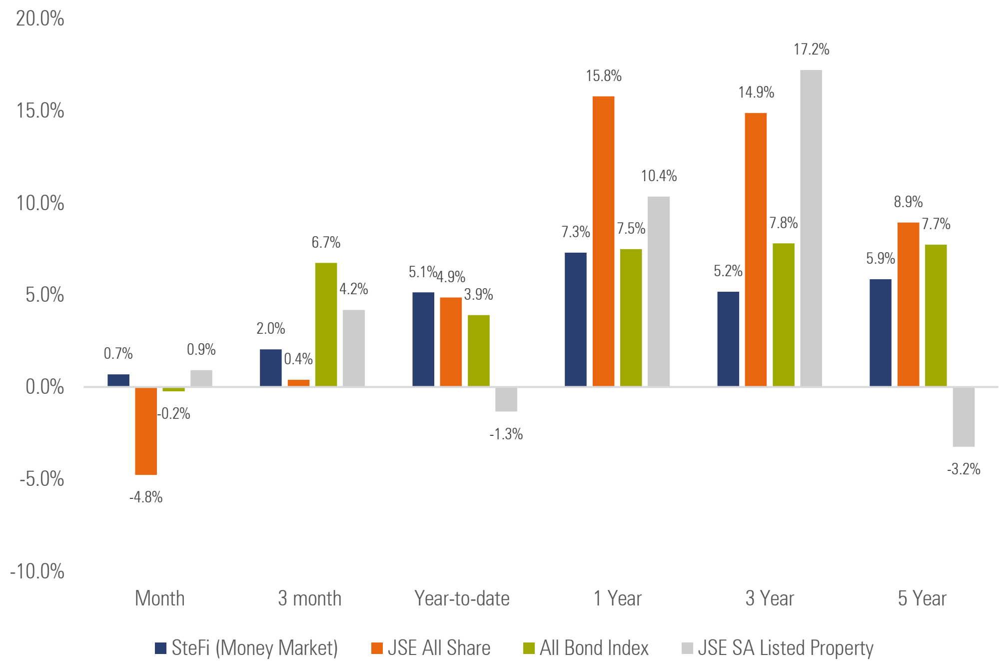
South African asset classes followed global peers lower this month, as sentiment towards emerging markets waned. Most SA asset classes ended lower, barring listed property which posted a positive return. Commodity exposed shares came under significant pressure this month as concerns surrounding China's economic growth (a large importer of South African commodities) weighed on share prices. The rand weakened this month as investors' appetite for emerging markets fell.

South African equities ended the month lower, as all sectors produced negative returns. Financials produced a resilient albeit negative return this month, driven lower by index heavy weight Capitec (-11.6%). Resources were the biggest laggard this month, producing negative returns on the back of weak performance from gold and platinum group metals counters. Industrials ended lower, on the back of the performance from China exposed Naspers and Prosus, who fell on the back of the performance of Tencent.

Local bonds ended the month marginally lower, as the yield curve bear steepened (the short end of the curve moving lower while the longer end of the curve moved higher). The yield curve came under pressure this month on the back of weaker sentiment towards South African assets, a weaker currency as well as concerns around the fiscal outlook.

Local listed property produced a positive performance this month, ahead of the SA equity market. Index heavyweight Nepi Rockcastle (+5.8%) outperformed this month, on the back of positive results. Hard currency exposed counters also moved higher on the back of the weaker rand.

Exhibit 1 | SA Market Performance (total returns)



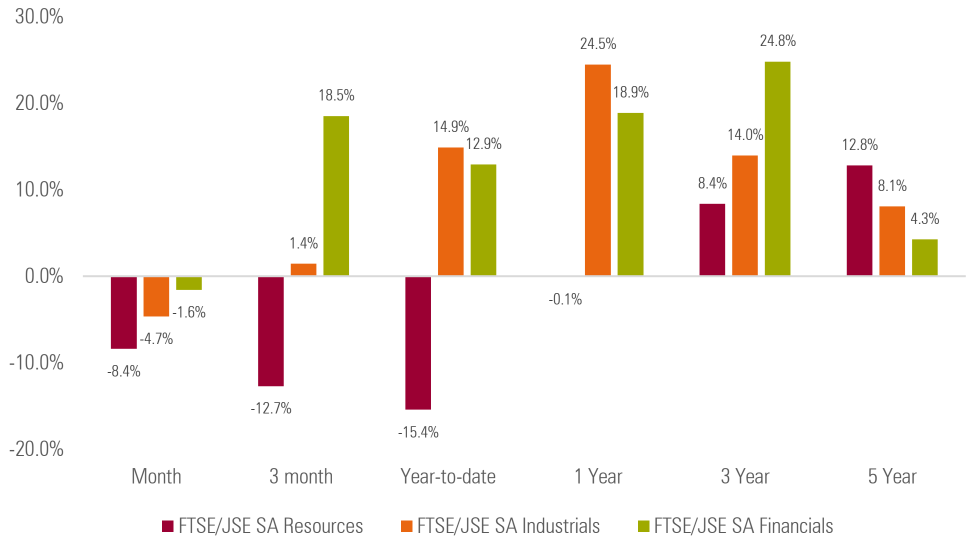
Source: Morningstar Direct as at 31/08/2023. Returns are in South African Rand and have been annualised for periods longer than 1 year.

South Africa's annual inflation rate fell to a two-year low of 4.7% (year-on-year to the end of July), within the central bank's target range of 3%-6% (and below market forecasts of 5%), a big step down from June's 5.4%. The moderation in inflation was largely impacted by a significant decline in prices of transportation. However, prices rose higher for housing and utilities and in particular electricity, as municipalities have raised electricity tariffs by more than 18%, effective July. The annual core inflation rate reached a 10-month low of 4.7% (year-on-year to the end of July), below market forecasts of 4.9%. Risks to inflation remain high, as petrol price increases and diminishing base effects will likely push inflation higher in the near term.

During the month, South Africa hosted the BRICS Summit. This is the 15th ongoing annual summit, an international relations conference attended by the heads of state or heads of government of the five member states: Brazil, Russia, India, China, and South Africa. The share of global GDP of the BRICS countries has grown from around 17% in 1995, to around 32% in 2023. At the summit, the largest news flow was the inclusion of Argentina, Egypt, Ethiopia, Iran, Saudi Arabia, and the United Arab Emirates. The drive to expand BRICS was largely to reduce reliance on other developed markets.

South Africa's unemployment rate surprised to the downside in July, with the data point falling to 32.6% in the second quarter of 2023, slightly lower than market expectations and the previous period's 32.9%. It was the lowest reading since Q1 of 2021. The expanded definition of unemployment, which includes those discouraged from seeking work, was 42.1% in Q2, down from a prior figure of 42.4%. The youth unemployment rate, measuring jobseekers between 15 and 24 years old, dropped to 60.7% at the end of the second quarter.

Exhibit 2 | SA Sector Performance (total returns)



Source: Morningstar Direct as at 31/08/2023. Returns are in South African Rand and have been annualised for periods longer than 1 year.

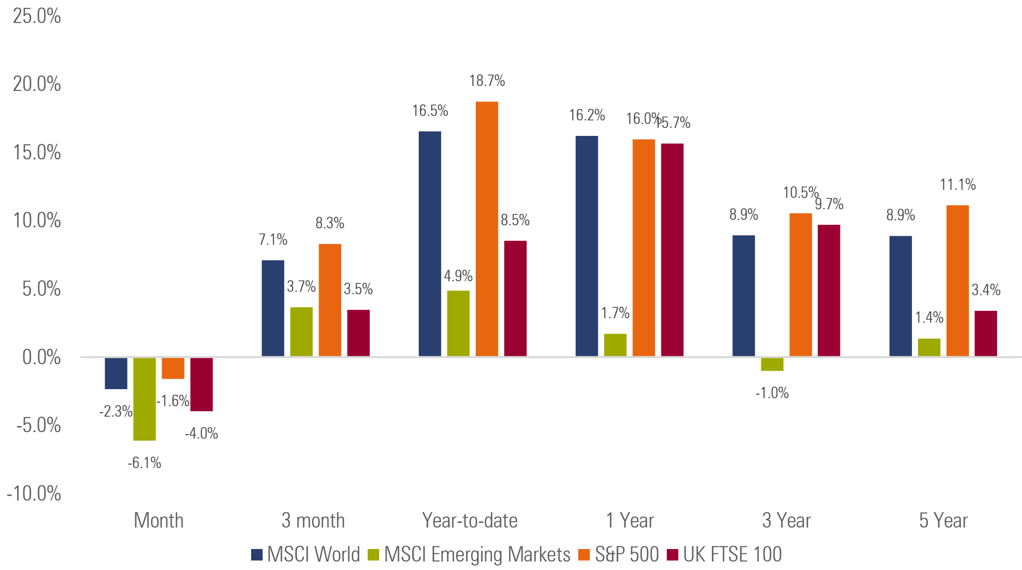
Most of the major developed equity markets ended the month lower this month. The **MSCI World Index** delivered a return of -2.4%, which was ahead of emerging market peers.

Most emerging equity markets moved lower during the month, dragged down by weak performance from China. The **MSCI Emerging Markets Index** ended the month -6.1% lower in August.

Most major global equity markets produced negative returns in August. The UK's **FTSE 100** (-4.0%), Germany's **FSE DAX** (-4.6%), Japan's **Nikkei 225** (-4.0%) and China's **Shanghai SE Composite** (-7.1%) ended the month in negative territory.

US equities moved lower in August, following global peers. The tech-heavy **NASDAQ 100** (-1.5%) posted its first monthly decline of 2023, as mega-cap tech shares posted weak performance this month. The **S&P 500** (-1.6%) also ended the month lower.

Exhibit 3 | International Market Performance (total returns)



Source: Morningstar Direct as at 31/08/2023. Returns are in US dollars and have been annualised for periods longer than 1 year.

Impact on client portfolios

From a portfolio perspective, investors struggled to generate meaningful performance in a particularly weak environment during the month of August. Negative global sentiment towards emerging markets pushed South African asset classes lower this month. The prevailing global risk-off sentiment drove local equities and bonds lower. Global equity markets generated weak hard currency returns this month, on the back of negative sentiment towards risk assets. Rand weakness did act as a tailwind to the performance of global allocations, as the local unit was weaker against most of the 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	-4.77	4.86	15.77	14.88	8.93	8.81
JSE Capped SWIX	-4.79	2.74	10.87	14.56	6.16	5.73
JSE SA Listed Property	0.92	-1.33	10.34	17.20	-3.25	-2.92
All Bond Index	-0.23	3.91	7.49	7.80	7.72	8.11
STeFI (Money Market)	0.69	5.13	7.29	5.18	5.86	6.31
Local Market Sectors	**1 Month**	**YTD**	**1 Year**	**3 Years**	**5 Years**	**7 Years**
JSE Top 40	-5.59	5.52	18.09	14.76	9.52	9.49
JSE Mid Cap	-3.51	0.87	5.83	15.01	5.27	3.72
JSE Small Cap	1.72	4.46	6.91	29.98	9.26	6.32
FTSE/JSE SA Resources	-8.38	-15.43	-0.08	8.35	12.80	15.01
FTSE/JSE Ind/Financials	-1.59	12.91	18.87	24.78	4.27	5.71
FTSE/JSE SA Industrials	-4.66	14.88	24.44	13.96	8.05	6.80
Global Market Indices	**1 Month**	**YTD**	**1 Year**	**3 Years**	**5 Years**	**7 Years**
MSCI World	-2.35	16.54	16.21	8.93	8.88	10.67
MSCI Emerging Markets	-6.13	4.86	1.69	-1.01	1.36	4.19
S&P 500	-1.59	18.73	15.94	10.52	11.12	13.03
NASDAQ 100	-1.50	42.53	27.44	9.44	16.19	19.46
FTSE 100	-3.98	8.52	15.64	9.69	3.40	4.84
SSE Composite	-7.07	-3.70	-7.86	-4.76	1.41	-1.09
Nikkei 225	-3.97	14.68	13.08	2.87	3.74	6.72
FSE DAX	-4.55	16.48	34.11	3.79	3.77	5.63
US T-Bill 3m	0.46	3.50	4.87	1.89	1.79	1.62
Commodities	**1 Month**	**YTD**	**1 Year**	**3 Years**	**5 Years**	**7 Years**
Oil Price Brent Crude	1.52	1.11	-9.98	24.25	2.33	9.16
Gold	-1.44	7.09	13.19	-0.26	10.07	5.80
Platinum	3.27	-4.95	15.98	1.76	4.35	-0.98
Copper	-5.45	-1.20	7.22	6.82	6.06	7.19

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 31/08/2023.

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