

Market Overview

April 2023

Morningstar Investment Management
May 2023

For Financial Advisers & Their Clients

Market and Economic summary

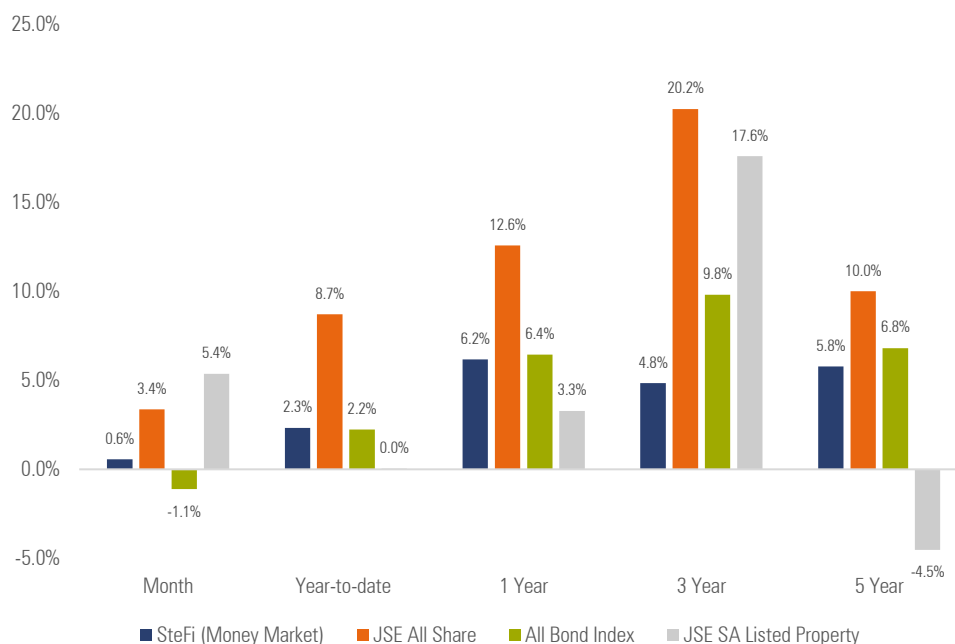
Despite facing various market-moving events such as a potential fallout from the recent banking stress, earnings releases, stubbornly high inflation, and weak economic data, most global markets moved higher in April. Divergent views continued this month around future central bank actions, with some market commentators anticipating a possible reduction in interest rates towards the end of the year given the tough economic backdrop and the recent banking stress. On the other hand, some continue to see rates moving higher to combat sticky inflation. Despite the prevailing uncertainty, most markets moved higher in April and posted decent gains, as earnings reports from the major technology companies buoyed sentiment. As we head into May, all eyes will be on monetary authorities' policy actions given the weaker economic backdrop, in their attempt to rein in inflation, whilst closely monitoring the fallout from the recent banking stress.

Economic growth failed to gain traction in most global economies in the first quarter of 2023. The UK economy stalled in February and expanded 0.5% (year-on-year to the end of February), slightly above forecasts of a 0.3% increase. The UK economy has recovered to 0.3% above its pre-coronavirus levels. The Chinese economy advanced 4.5% (year-on-year in the first quarter of 2023), above market estimates of 4%. It was the strongest pace of expansion since Q1 of 2022, amid efforts from Beijing to spur a post-pandemic recovery. The US economy grew by 1.1% (year-on-year in the first quarter of 2023), slowing from a 2.6% expansion in the previous quarter and missing market expectations of 2% growth. It was the weakest pace of expansion since Q2 2022, as business investment growth slowed down, inventories declined, and rising interest rates continued to impact the housing market. The Euro Area economy expanded 1.3% (year-on-year to the end of the first quarter of 2023), less than market expectations of 1.4%, and below the 1.8% growth achieved in Q4 2022.

Inflation prints came in below expectations in most developed markets, however, remains sticky and above central banks targets, providing room for further interest rate hikes. China's annual inflation rate fell to 0.7% (year-on-year to the end of March 2023), below market consensus of 1.0%. This was the lowest figure since September 2021. The annual inflation rate in the US slowed for a ninth consecutive month to 5% (year-on-year to the end of March 2023), the lowest reading since May of 2021 and below market forecasts of 5.2%. The inflation rate in the UK eased to 10.1% (year-on-year to March 2023), down from 10.4% in February, but higher than market expectations of 9.8%. The inflation rate remained above the 10% mark for a seventh consecutive month and has also remained above the Bank of England's 2% target for almost two years, suggesting policymakers might continue to raise borrowing costs. The annual inflation rate in the Euro Area moved lower to 6.9% (year-on-year to March 2023), down for a fifth consecutive month from last October's record high of 10.6% and its lowest level since February 2022. Euro Area core inflation hit a fresh record high of 5.7% (year-on-year to the end of March 2023), putting pressure on policymakers to push on with further rate hikes.

Turning to unemployment, developed job markets continue to remain robust, providing more room for central banks to move rates higher to curb inflation. The unemployment rate in the United States moved lower to 3.5% (year-on-year to the end of March 2023), below expectations of 3.6%. China's unemployment rate declined to a seven-month low of 5.3% (year-on-year to the end of March 2023), from February's three-month high of 5.6%. The unemployment rate in the UK increased to 3.8% (year-on-year to the end of the first quarter 2023), the highest level since the second quarter of 2022 and slightly higher than market consensus of 3.7%.

Exhibit 1 | SA Market Performance (total returns)



Source: Morningstar Direct as at 30/04/2023. Returns are in South African Rand and have been annualised for periods longer than 1 year.

South African asset classes produced divergent returns this month. Local equities ended the month higher, driven by a strong return from the resource sector, while local bonds produced negative returns on the back of sticky inflation and weak economic growth, which impacted the fiscal outlook.

South African equities ended the month higher, as all sectors produced strong returns. Resources moved higher this month, as the prices for the commodity complex (mainly gold, platinum, and palladium) moved higher. Gold Fields (+19.9%), Harmony Gold (+16.9%) and Northam Platinum (+23.7%) were all beneficiaries of the elevated gold and platinum price in April. Industrials produced a strong return in April and continues to be the best performing sector over a one-year basis, driven largely by the returns of index heavy weights, Richemont, Naspers and Prosus. Financials produced strong returns this month as the financial sector bounced back from the weak returns recorded in March.

Local bonds ended the month lower, producing their worst return since September last year, as yields on the short end of the curve rose more than longer dated maturities (typically known as a bear flattening of the yield curve), leading bond prices lower. The negative move was largely on the back of elevated inflation, which continues to be sticky, leading to the expectation that rates will continue to rise to bring inflation under control.

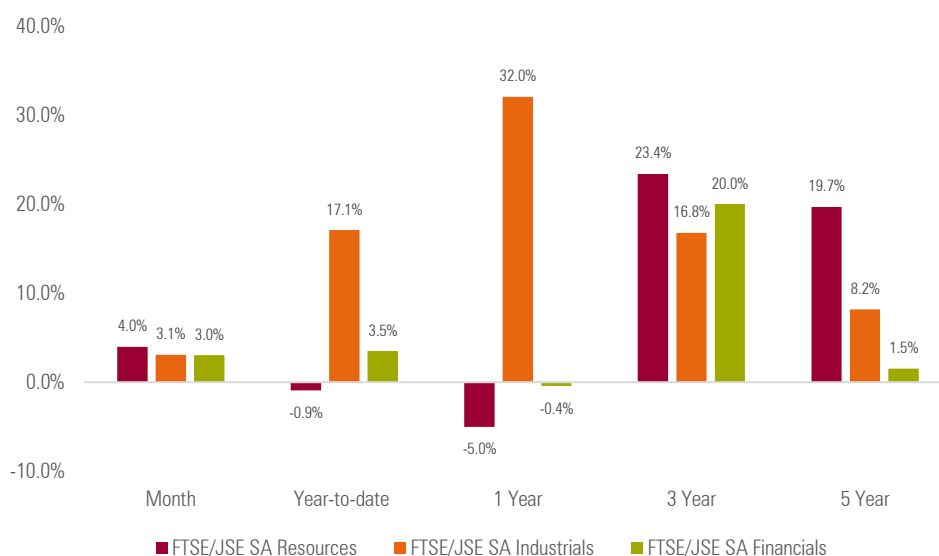
Local property ended the month higher, recouping some of the losses produced in the first quarter of 2023. Europe focused counters outperformed this month, producing strong returns. The sector is now flat on a year-to-date basis.

South Africa's retail trade was down by 0.5% (year-on-year to the end of February 2023), below market estimates of a 0.3% fall. It was the third consecutive month of declines in retail activity, on the back of persistent headwinds to the SA consumer on the back of persistent load shedding and elevated living costs for consumers. The largest negative contributors came from general dealers and retailers in hardware, paint and glass.

South Africa continues to suffer from higher-than-expected inflation driven by loadshedding and the weak rand. South Africa's annual inflation rate rose for the second consecutive month to 7.1% (year-on-year to the end of March 2023), from 7% in the prior month, ahead of market expectations of 6.9% and still above the upper limit of the SARB's target range of 3%-6%. Food and non-alcoholic beverages, transport, miscellaneous goods and services and housing and utilities were the main drivers of overall inflation. The annual core inflation, which excludes prices of food, fuel and energy, stood at a six-year high of 5.2% in March, unchanged from February and above market estimates of 5.1%.

The South African Chamber of Commerce and Industry (SACCI) business confidence index fell to a four-month low of 111.3 in March of 2023, from 111.9 in February, dragged down by persistent power blackouts, rising interest rates and lower share prices dampening sentiment.

Exhibit 2 | SA Sector Performance (total returns)



Source: Morningstar Direct as at 30/04/2023. 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, producing strong gains in April. The **MSCI World Index** delivered a return of +1.8% in April, which was ahead of its emerging market peers.

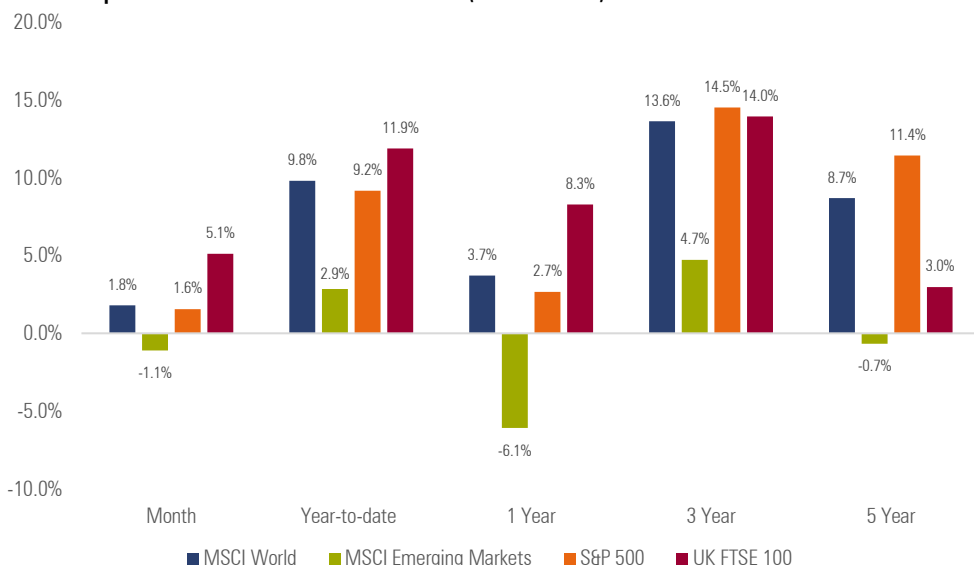
Most emerging equity markets moved lower during the month. The **MSCI Emerging Markets Index** ended the month -1.1% lower in April.

Most major global equity markets produced positive returns in April. Japan's **Nikkei 225** (+0.6%), Germany's **FSE DAX** (+3.5%) and China's **Shanghai SE Composite** (+0.7%) ended the month in positive territory. The UK's **FTSE 100** (+5.1%) posted strong gains this month, bouncing back from the negative performance recorded in March.

US equities ended the month higher. The tech-heavy **NASDAQ 100** (+0.5%) ended the month higher, however, the positive move masked the volatile nature of the index during the month. The index was

mostly negative for most of April, however, better than expected earnings from large technology counters pushed the index higher in the latter part of the month. The **S&P 500** (+1.6%) ended the month higher in the month, posting a decent return.

Exhibit 3 | International Market Performance (total returns)



Source: Morningstar Direct as at 30/04/2023. Returns are in US dollars and have been annualised for periods longer than 1 year.

Impact on client portfolios

During the month of April, markets grinded higher in the face of multiple market moving events. Local and global equities ended the month higher in a particularly volatile month, while local bonds moved lower. From a portfolio perspective, most portfolios managed to generate positive performance over the month, with portfolios allocated heavily to local and global equities moving meaningfully higher. Rand weakness over the month provided a tailwind to the performance of global asset classes.

As we head into May, all eyes will be on central banks as they try and tame sticky inflation, while maintaining financial stability. Inflation, the continued slowdown in most global economies and possible contagion from the recent banking market stress, continues to be top of mind for investors and central bank authorities. Despite the uncertainties ahead, it's important to safeguard long-term wealth by constructing well-diversified portfolios with assets that are reasonably priced.

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	3.38	8.72	12.56	20.22	10.00	9.40
JSE Capped SWIX	3.43	5.96	7.93	19.03	6.36	6.16
JSE SA Listed Property	5.36	0.04	3.28	17.58	-4.52	-3.31
All Bond Index	-1.11	2.24	6.44	9.80	6.81	8.31
STeFI (Money Market)	0.57	2.33	6.18	4.84	5.78	6.27
Local Market Sectors	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
JSE Top 40	3.50	9.94	15.17	20.40	10.98	10.15
JSE Mid Cap	3.85	2.87	0.24	18.16	3.82	4.04
JSE Small Cap	2.03	2.84	3.97	33.73	7.53	6.12
FTSE/JSE SA Resources	3.98	-0.92	-5.01	23.37	19.68	17.14
FTSE/JSE Ind/Financials	3.04	3.50	-0.43	19.98	1.54	3.71
FTSE/JSE SA Industrials	3.06	17.08	32.02	16.76	8.17	7.53
Global Market Indices	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
MSCI World	1.80	9.82	3.72	13.64	8.69	10.34
MSCI Emerging Markets	-1.11	2.86	-6.09	4.71	-0.67	5.05
S&P 500	1.56	9.17	2.66	14.52	11.45	12.61
NASDAQ 100	0.52	21.40	3.99	14.66	15.98	18.43
FTSE 100	5.12	11.90	8.29	13.94	2.97	5.11
SSE Composite	0.71	7.94	3.69	5.75	-0.25	0.82
Nikkei 225	0.59	8.23	4.65	5.94	2.69	6.59
FSE DAX	3.52	18.29	18.19	13.90	2.90	6.25
US T-Bill 3m	0.43	1.64	3.66	1.30	1.56	1.37
Commodities	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
Oil Price Brent Crude	-0.29	-7.41	-27.25	46.55	1.14	7.44
Gold	0.14	9.31	3.73	5.20	8.59	6.38
Platinum	9.48	4.17	15.24	11.88	3.48	0.12
Copper	-5.03	1.70	-12.45	17.37	3.44	6.08

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 30/04/2023.

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