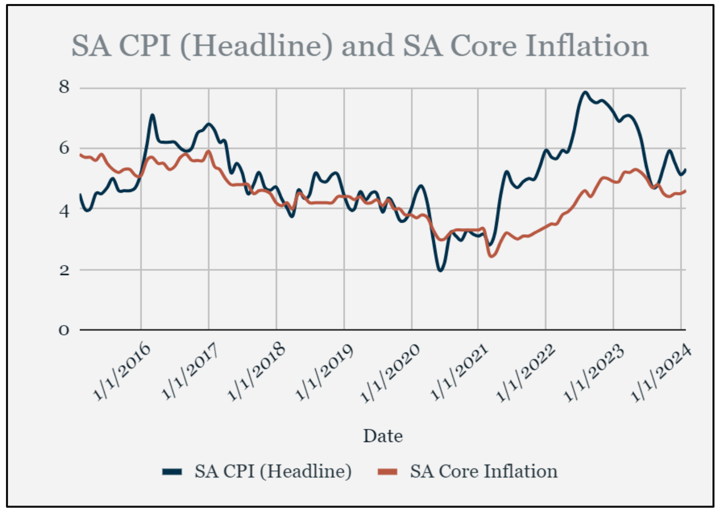
South African Market

Local financial markets continued to sell-off throughout the month, as negative local sentiment increased further on the back of the national budget speech and the State of the Nation Address, with both being fairly muted in the run up to the local election later this year. The FTSE/JSE ALSI Index lost (2.44%) in February, with the mining sector being the biggest drag on performance as commodity prices continue to fall and put further pressure on mining company earnings.

Local inflation (CPI) increased for the first time in three months in February, on the back of higher fuel and food prices, as consumer prices rose by 5.3% YoY, compared with 5.1% the previous month. Inflation still remains within the 3-6% target range, however, has now moved further away from the preferred 4.5% midpoint. With a decline of (2.5%) in fuel prices at the start of the year, the fuel price has increased at the start of February by 3.3%, due to a weaker Rand and higher global petroleum prices. The core inflation rate, which excludes food and energy costs, rose to 4.6% from 4.5%. Reserve Bank Governor Lesetja Kganyago reiterated that the job of taming inflation is not yet done, and that interest rates will only be cut once there is a noticeable trend that shows it is easing toward its 4.5% target and stays there in a sustained manner.

SA Inflation Rate:



Source: Morningstar

The South African Reserve Bank's MPC decided to keep rates on hold at 8.25% for a fourth consecutive interest rate-setting meeting in January 2024. The MPC's tone is still on the hawkish side, highlighting the persistence of inflation risks while emphasizing a balanced evaluation of risks to medium-term growth.

Asset Class Performance (ZAR):

As of 29th February 2024	MTD	YTD	1 Year	3 Years*	5 Years*	10 Years*
Global Equity	7.47	9.55	27.55	15.24	17.69	15.13
Global Property	2.48	(0.15)	5.63	7.94	7.49	10.26
Global Bond	1.91	1.77	6.35	1.20	4.53	5.18
Global Cash	3.60	5.86	10.28	11.17	8.68	7.57
SA Equity	(2.44)	(5.31)	(2.86)	7.53	9.32	7.93
SA Property	0.82	4.92	17.58	14.80	0.62	3.73
SA Bond	(0.58)	0.13	7.64	7.18	7.75	8.09
SA Cash	0.63	1.31	8.02	5.66	5.52	5.94

ZAR/USD (negative = Rand strength)	2.88	4.88	4.60	8.27	6.40	5.99
Gold	2.51	3.03	10.31	10.86	12.73	8.29
Brent Crude Oil	5.56	13.86	4.17	17.00	11.56	3.18

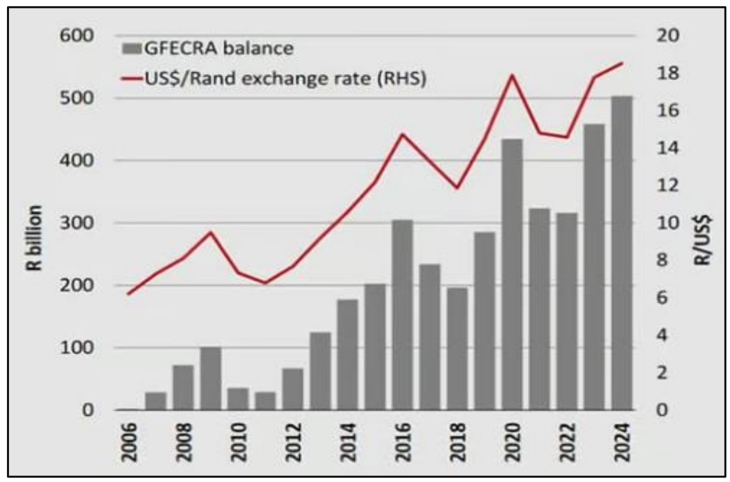
*Returns more than 1 year are annualized.

Finance Minister Enoch Godongwana delivered his third national budget speech during February, which was mostly met with reserved scepticism. The most talked about topic was the Gold and Foreign Exchange Contingency Reserve Account (GFECRA). All eyes will be on whether the R150 billion, that the National Treasury will take from GFECRA will lead to the start of fiscal improvement. Consensus seems to be that the withdrawal is not excessive and that the exclusive use of it would be to reduce debt, with Godongwana adding that a new settlement arrangement is being introduced that will reduce government borrowing and improve the Reserve Bank's equity position. Compared to a year ago, the budget deficit for 2023/24 is estimated to worsen from 4% to 4.9% of the national GDP. The overall debt burden is now expected to peak at 75.3% of GDP in 2025/26, down from 77% previously. Further good news is that there are no additional lifelines being thrown at flailing SOEs. Overall, the Budget shows marked improvements on the 2023 MTBPS' projections, but the key driver to solving South Africa's fiscal and economic problems, would be accelerated economic growth. Taxpayers are footing the overspending low growth by having their income tax brackets frozen for the next three years meaning take home salaries will decline in real terms for the next three years indirectly putting consumer purchasing power in peril.

The Rand continued its volatility as it weakened further through February. The Rand hovered around the R19/$ mark throughout the month as it felt the pressure of rising uncertainty surrounding local fiscal policy. The local currency ended the month at R19.19/$, weaking (2.88%). The Bloomberg table of currency rankings still shows the Rand at the bottom end of the EM currency group as the Rand has lost 4.88% Year-To-Date. Finance Minister Enoch Godongwana revealed that South Africa's current account deficit is expanding further, leaving the Rand vulnerable to external shocks. The current account deficit indicates that South Africa imports more goods and services than it exports, implying that the country needs to raise foreign currency capital to support its imports.

Local bonds along with equities also sold-off during February, albeit at a slower pace. The ALBI returned (0.58%) during February, but is still in the green Year-to-date, up 0.18%. The SA 10-year government bond yield ended the month at 11.42%, slightly up from the previous month. The longer end of the yield curve was yielding well over 12% at the end of the month. Local bonds are still providing good value relative to US bonds, with a premium close to 6% being awarded to 10-year bond investors.

<u>Outstanding GFECRA Balance:</u>



Source: National Treasury, Budget Review

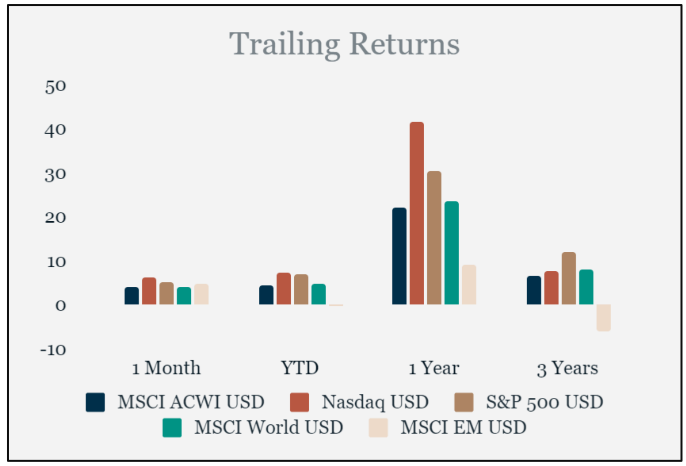
The South African economy narrowly avoided a recession in the fourth quarter of 2023, growing 0.1% on a quarterly basis following the 0.2% contraction in Q3. Altogether, real annual GDP grew 0.6% in 2023, a significant slowdown from an already meagre growth of 1.9% in 2022. The overall picture in the local economy has yet to change as it remains stagnant amid soft domestic demand and numerous supply-side growth barriers. A glimmer of light in the report was that Eskom's power generation improved in the final quarter of last year. The report further states that in Q4, six of the ten broad industries that measure GDP showed signs of growth, but none were shooting the lights out. Of concern was a 0.2% decline in gross fixed capital formation, a key measure of how much of the new value added in an economy is invested rather than consumed. This followed a sharp 3.8% decline in Q3, which reversed seven consecutive quarters of growth on this front.

Global Markets

Global financial markets were up strongly in February, with emerging markets outperforming as the Chinese market experienced a rebound. In contrast to equities, fixed income yields were generally higher, as investors started to push out the timeframe for central banks to cut interest rates. The MSCI ACWI rose 4.19% in February, mainly supported by well-received corporate earnings. In the developed world, equities continued their upward trend, led by a strong US market, which saw the S&P 500 and the tech-heavy Nasdaq closing at all-time highs during the month. The MSCI World Index returned 4.16%, while the MSCI EM Index returned 4.77%, beating out the developed market Index for the first time in four months.

The inflation rate in the US fell back to 3.1% YoY in February. In January the consumer price index stood at 3.4%. According to the US Bureau of labour statistics, prices for gasoline fell on a seasonally adjusted basis, helping drive down the overall inflation rate despite sharp upticks in food and shelter. The price of food rose 0.4% MoM, the biggest monthly increase in a year. Core inflation, which excludes food and energy prices, fell only slightly to 3.9% over the year, where forecasters had projected it to drop to 3.7%, suggesting that price increases are staying more stubborn than expected.

Global Indices Trailing Returns:



Source: Morningstar

With the next policy meeting scheduled for March, the Federal Reserve is still waiting for data to show that higher inflation is fully subdued before cutting its benchmark interest rate, at 23-year highs, where it has been since July 2023. Both Fed projections and market expectations see lower interest rates in 2024 but weighted to the second half of the year. Currently markets expect approximately three to four 0.25% interest rate cuts by December 2024. That implies that short-term rates will end the year at a little more than 4%.

Asset Class Performance (USD):

As of 29th February 2024	MTD	YTD	1 Year	3 Years*	5 Years*	10 Years*
Global Equity	4.19	4.44	22.05	6.51	10.60	8.64
Global Property	(0.64)	(4.82)	1.08	(0.23)	1.01	4.04
Global Bond	(1.19)	(2.99)	1.76	(6.47)	(1.77)	(0.75)
Global Cash	0.44	0.91	5.53	2.75	2.13	1.51
SA Equity	(5.42)	(9.73)	(7.05)	(0.62)	2.74	1.85
SA Property	(2.25)	0.02	12.51	6.10	(5.44)	(2.12)
SA Bond	(3.61)	(4.55)	3.00	(0.94)	1.26	2.00
SA Cash	(2.44)	(3.43)	3.36	(2.34)	(0.84)	(0.03)

ZAR/USD (negative = Dollar strength)	(2.80)	(4.65)	(4.39)	(7.64)	(6.01)	(5.65)
Gold	(0.61)	(1.09)	(1.79)	5.55	2.47	5.93
Brent Crude Oil	2.34	0.95	8.54	(0.32)	8.14	4.84

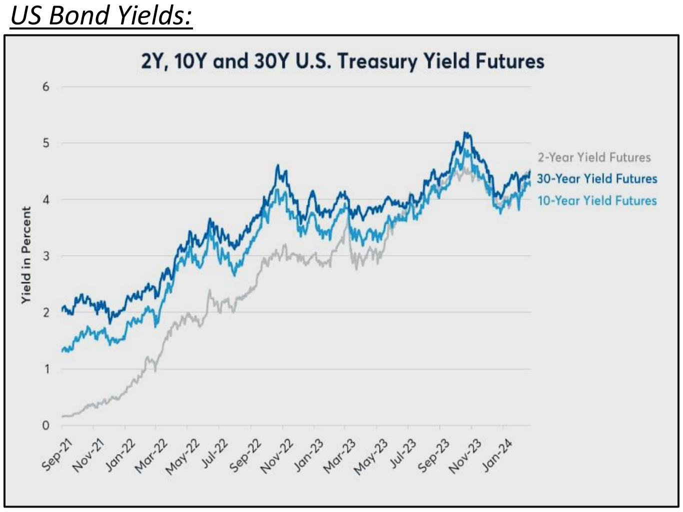
*Returns more than 1 year are annualized.

Official data showed that the UK economy had entered a technical recession, with a second consecutive contraction of (0.3%) in Q4 of 2023. The contractions were mainly due to services output falling (0.2%), the same as the previous quarter, while Industrial production output dropped at a faster pace, (1.1%), down from 0.1% in the last quarter. UK inflation data positively surprised as headline inflation remained steady at 4%, on the back of easing prices of household goods and food and non-alcoholic beverages. Similarly, core inflation held steady for the second straight month at 5.1%.

The market continued to anticipate interest rate cuts, although not immediately as labour markets remained strong and inflation data surprised to the upside. The global bond Index sold-off for a second continuous month, in stark contrast to the equity market, returning (1.19%) in February. Major global government bond market yields increased across the board, with the US 10-year yield rising by 29 bps to 4.24%, up from 3.95% the previous month.

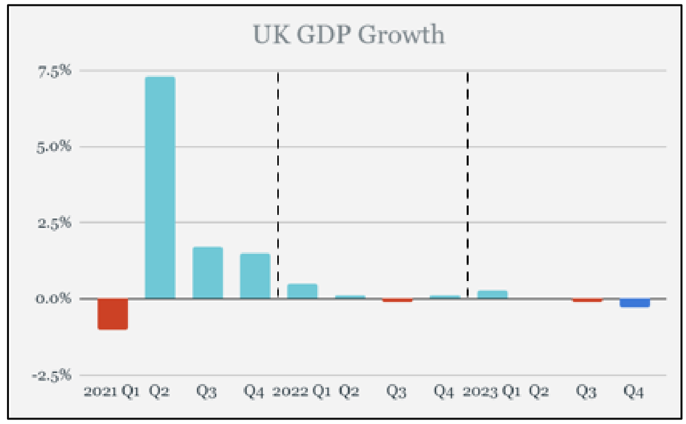
In the foreign exchange market, lower yielding currencies, including the Japanese yen were the underperformers of the month. Conversely, the dollar modestly strengthened against its main-traded currencies as the Dollar index hit a three-month high after the Consumer Price Index (CPI) released on February 13th showed prices accelerated more than expected in January.

US Bond Yields:



Source: Bloomberg

UK Real GDP Growth:



Source: US Bureau of Labour Statistics

US manufacturing fell further in February, with the measure of factory employment falling to a seven-month low amid layoffs, but there were signs activity was on the edge of rebounding as manufacturers saw an increase in demand and sales. Customer inventories have also declined, which is seen as a positive for new orders and production growth. The ISM manufacturing PMI fell to 47.8 last month from 49.1 in January. It was the 16th straight month the PMI remained below 50, which indicates contraction in manufacturing. That is the longest such stretch since the period from August 2000 to January 2002. Though higher borrowing costs have cooled demand for goods and weighed on business investment on equipment, the survey has painted an overly pessimistic picture of manufacturing, which accounts for roughly 10.3% of the economy. Brent crude prices rose in February as the conflict in the Middle East rages on, the conflict has however not yet disrupted crude production in the region. Brent Crude gained 2.34% in February with first month contracts trading at a premium to later months, typically indicating a tightening oil market.

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Historic Asset Class Performance Matrix

The below performance matrix shows returns (colour coded) for the 4 main indicative sources of return per asset class and separated for South Africa and Global. **All performance figures here shown in ZAR.** The performances show the one-year performance of each asset class up to the displayed date (X-axis) except for the column showing YTD returns up to 29th February 2024.

	YTD	2/2024	2/2023	2/2022	2/2021	2/2020	2/2019	2/2018	2/2017	2/2016	2/2015	2/2014	2/2013
Best	Global Equity 9.6	Global Equity 27.6	Global Cash 22.0	SA Prop-erty 22.4	SA Equity 33.2	Global Fixed Income 20.0	Global Property 36.7	SA Equity 17.4	SA Fixed Income 13.5	Global Fixed Income 38.1	SA Prop-erty 44.3	Global Equity 43.3	Global Property 43.3
	Global Cash 5.9	SA Prop-erty 17.6	Global Equity 9.7	SA Equity 20.5	Global Equity 27.4	Global Property 16.3	Global Cash 21.8	SA Fixed Income 14.3	SA Prop-erty 11.0	Global Cash 35.8	Global Property 28.6	Global Property 27.3	SA Prop-erty 35.7
	SA Prop-erty 4.9	Global Cash 10.3	SA Equity 6.2	Global Property 17.9	SA Fixed Income 8.3	Global Equity 15.8	Global Equity 18.4	Global Equity 7.6	SA Cash 6.9	Global Property 28.7	Global Equity 16.4	SA Equity 22.8	Global Equity 32.6
	Global Fixed Income 1.8	SA Cash 8.0	SA Cash 5.4	Global Equity 9.4	SA Cash 4.0	Global Cash 14.3	Global Fixed Income 17.3	SA Cash 6.8	SA Equity 6.3	Global Equity 19.5	SA Equity 16.1	Global Fixed Income 20.7	Global Cash 20.7
	SA Cash 1.3	SA Fixed Income 7.6	SA Prop-erty 5.1	SA Fixed Income 9.0	Global Fixed Income 0.3	SA Fixed Income 8.9	SA Cash 6.6	Global Fixed Income -3.5	Global Equity 2.2	SA Cash 5.9	SA Fixed Income 15.0	Global Cash 19.9	SA Equity 19.3
	SA Fixed Income 0.1	Global Fixed Income 6.3	SA Fixed Income 4.9	SA Cash 3.6	Global Property -1.9	SA Cash 6.6	SA Fixed Income 4.2	SA Prop-erty -6.1	Global Property -7.1	SA Prop-erty -2.0	Global Cash 8.7	SA Cash 4.8	Global Fixed Income 18.8
	Global Property -0.2	Global Property 5.6	Global Property 1.0	Global Cash 2.1	Global Cash -3.5	SA Equity -5.7	SA Equity -0.9	Global Cash -8.6	Global Cash -16.7	SA Fixed Income -3.7	SA Cash 5.5	SA Prop-erty -0.3	SA Fixed Income 14.3
Worst	SA Equity -5.3	SA Equity -2.9	Global Fixed Income 1.0	Global Fixed Income -3.5	SA Prop-erty -15.8	SA Prop-erty -19.1	SA Prop-erty -5.2	Global Property -11.9	Global Fixed Income -17.7	SA Equity -4.4	Global Fixed Income 3.2	SA Fixed Income -1.0	SA Cash 5.0

Source: Morningstar Direct