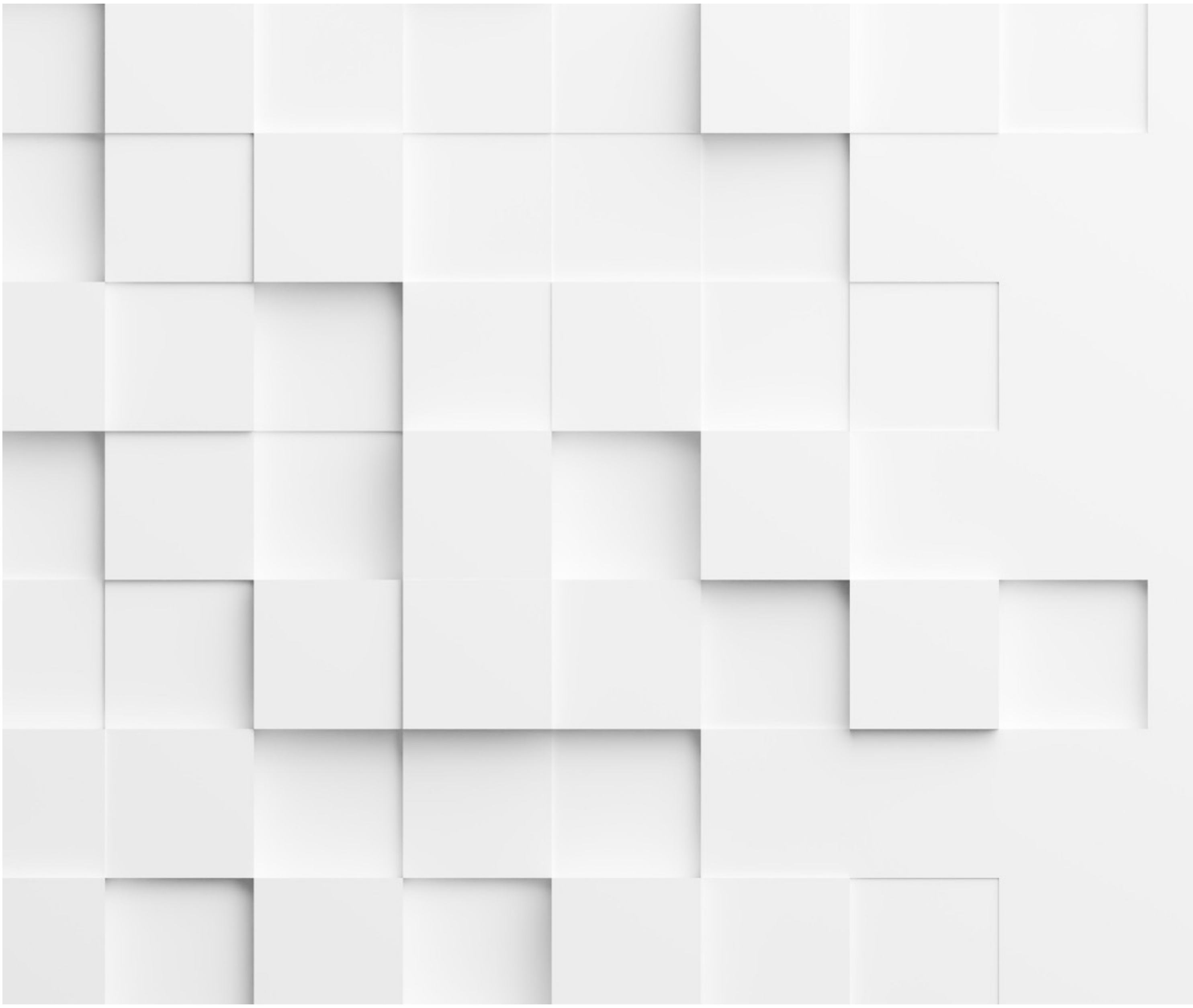


October Newsletter | 2023 Sentiment

Intelligent Investing

Market Review

Global market overview

The global market sentiment has been coloured with a number of factors, including:

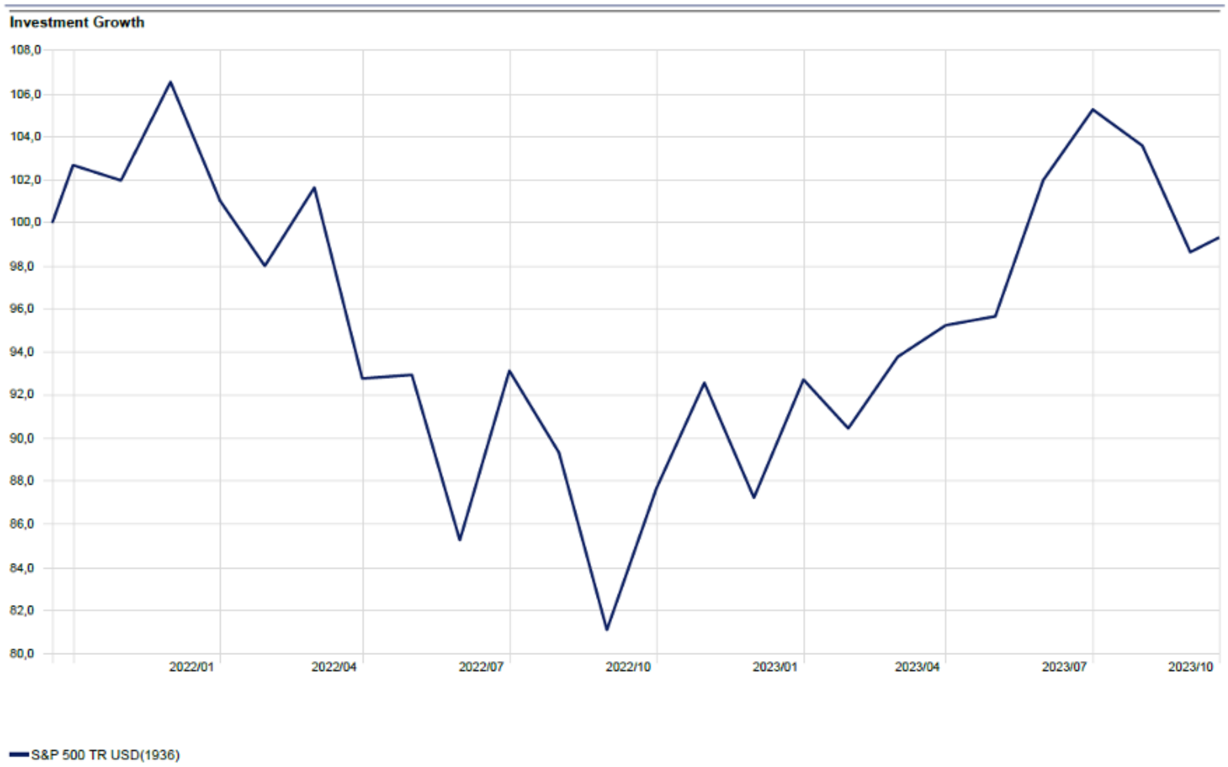
- Rising inflation
- Persistent rising interest rates
- Seemingly unresolvable geopolitical factors
- Consequential higher oil prices
- Resultant market volatility

Stubbornly high global interest rates

The second quarter of 2023 started with positive momentum as risks in the global banking sector began to fade, however the debate around raising the US debt ceiling did cause uncertainty, which translated into market volatility. The debt ceiling debate was ultimately resolved by deferring the debt borrowing limit to 2025. Thereafter investors directed their concerns to global growth dynamics which encompassed further interest rate hikes by major central banks.

The bottom line is, looking through the noise and volatility, US markets have gone sideways over the past 2 years, as is evident in the below graph of **the S&P 500 (proxy for the U.S stock exchange)**

S&P 500 (US Stock Market)

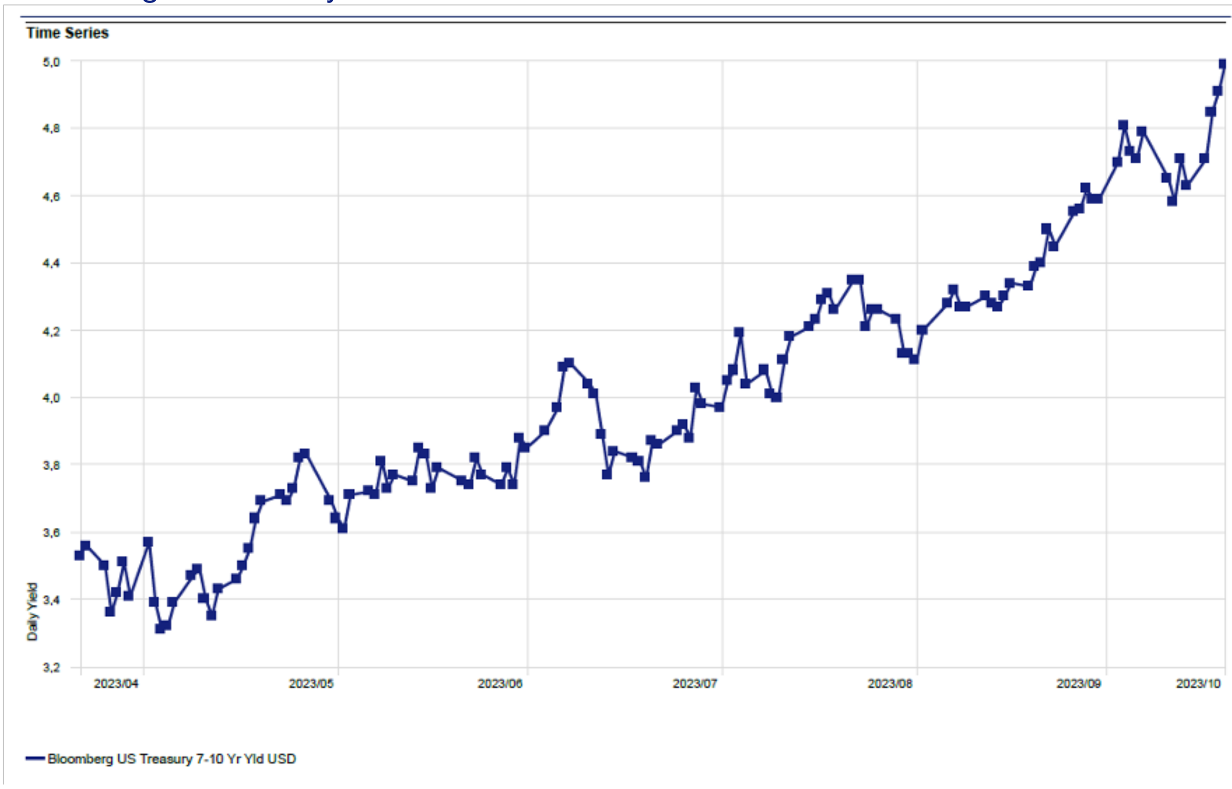


US 10-year treasury yield

Given the earlier expressed concerns, the US Federal Reserve (Fed) raised interest rates by 25 basis points (bps) in May and most concerningly indicated the possibility of two further rate hikes later in the year.

These rates hikes coupled with persistently strong economic data out the US, led to a significant increase in US Treasure yield curve and a further sell off in global aggregate bonds. This is best expressed by the **Bloomberg US Treasury 7-10 Year Yield** graph hereunder.

Bloomberg US Treasury



Europe and the United Kingdom

Taking its cue from the USA The European Central Bank (ECB) also raised interest rates by 25bps in both May and June, and discouragingly, given ECB's President Christine Lagarde's stance, it is clear that the European rate-hiking cycle will continue.

Turning to the UK, it is much of the same where stubbornly high inflation prompted a larger-than-expected rate hike of 50bps by the Bank of England (BoE) in June. In summary, contrary to sentiment in the early part of 2023, indications are that interest rates may need to remain higher for an extended period.

China

During the early part of 2023, Chinese GDP growth exceeded expectations, a consequence of the post COVID-19 economy opening up. Unfortunately, as the quarter progressed, economic activity weakened, leading to additional concerns as well as a lack of clear policy support from the authorities.

Whilst the People's Bank of China (PBoC) did announce some monetary policy easing measures in June, they were regarded as insufficient by the market, which resulted in unexpected declines in Chinese market indexes, as well as the Chinese Renminbi, which also traded lower against a globally stronger US dollar.

Notwithstanding the above, the Chinese trade balance remains remarkably strong.

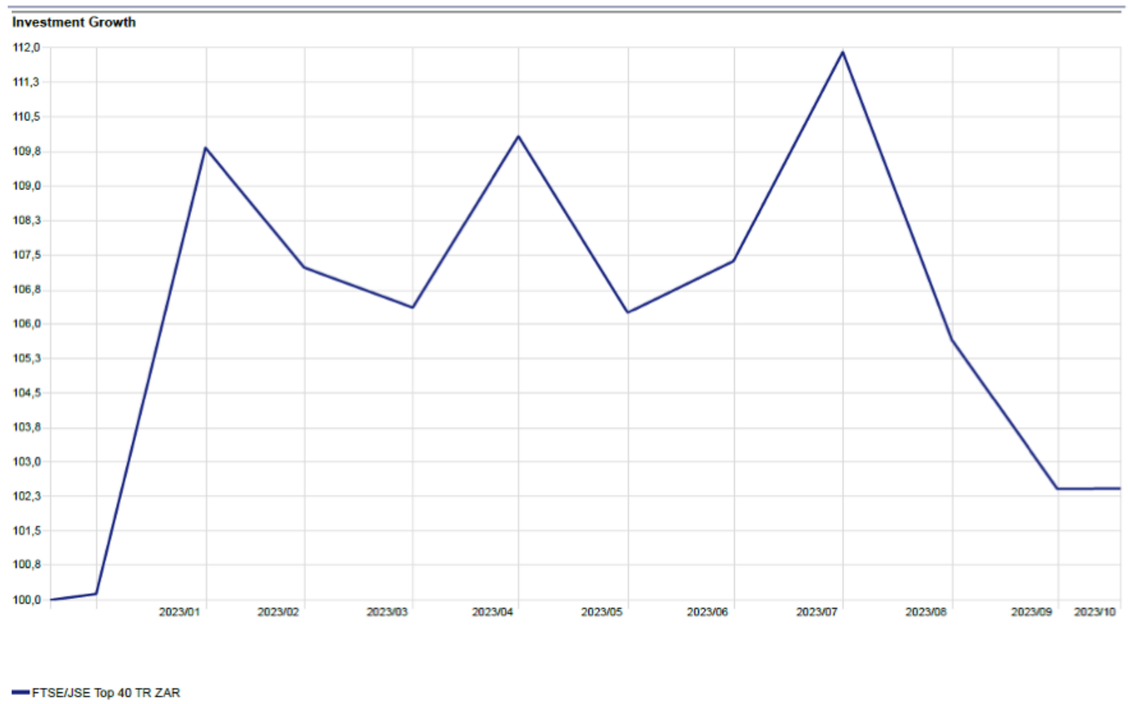
South Africa

Sadly, South Africa has been hit from all sides. Most prominent of which has to be the persistent impact of continued load-shedding. The ongoing drain of load-shedding on the economy, resulted in a responsible cautioning from SARB (South African Reserve Bank) of negative growth.

Of course, the saga of the SA government loading weapons onto a US sanctioned vessel took the cake. Geopolitical tensions and SA sidling up to Russia, concerned markets. Also, continued inflationary pressures have led to a more constrained shift by the SARB, where interest rates are unlikely to see meaningful declines any time soon. With this background of uninspiring sentiment towards SA's economic outlook, it is probably unsurprising to note that the rand reached a record low against the US dollar.

It therefore follows, that much like the US markets, the JSE has likewise gone sideways for the better part of 2023. This is best illustrated in the **JSE Top 40 graph below**.

JSE Top 40



There was one bright star in that Mining Data surprised on the upside, with gold in particular reflecting improved production. All in all, our balanced portfolios have performed as expected, having outperformed category peers in recent months, due to our exposure to the gold and resources sector.

Conclusion

The performance of different regions varied over the past quarter, with the US economy showing resilience, Europe facing inflationary challenges, and China experiencing a mixed recovery.

SA markets generally take their cue from localised political sentiment, as well as world market opinion. Accordingly, we would prefer to confine any reinvestment considerations to a conservative outlook, favouring money market instruments and investments with rand hedge attributes.

The global economic outlook is uncertain. High interest rates for longer may slow the U.S and global economies, and potentially resulting in economic recession or slow down. That being said, in spite of the high interest rate environment, the U.S economy has showed signs of strength & resilience in its employment and labour numbers. This indicates potential for a soft landing and avoiding recession. The outcome will be based on if high interest rates can finally curb inflation and how long the central banks maintain high interest rates. Interactive believe investors should consistently save and contribute to investment plans whilst being cautious in an uncertain environment.

For cautious to moderate risk rated investors, Interactive believes that higher allocations to short-term debt or cash is prudent. In a high interest rate environment, equities and long dated bonds are at further risk of volatility & drawdowns in the event of a recession or further interest rate hikes.

For more aggressive investors with long term investment horizons, these macroeconomic environments can provide new pockets of opportunity as quality assets trade below fair value due to short term fear in market sentiment.

Investors should aim to avoid making knee jerk reactions to portfolio allocations in credit or growth assets which have experienced short term drawdowns over the past two years. The focus should be on the importance of long-term investor behaviour and remaining invested during this uncertain environment.

Investor behaviour – Interactive understands most traditional asset classes (except for gold, short dated debt & cash) have experienced mediocre returns with heightened volatility over the past 3 years. It’s prudent for investors to understand that investments which take on risk with exposure to growth or credit assets are volatile & can experience drawdowns over the short to medium term. In order to avoid realised losses, investors are encouraged to remain invested within the specified time horizon of each portfolio or mandate. Asset classes and economic fundamentals are cyclical and normally revert to new highs over time. Investor behaviour is important for all client’s, particularly for those clients who have recently become investors and experienced short term drawdowns during this global high inflationary environment.

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