Market Commentary

August 2023

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Global market themes

Global equity markets turned a corner, with the MSCI ACWI down by 2.8%

The U.S. Consumer Price Index (CPI) reported a 3.2% year-on-year increase and hawkish statements from the Federal Reserve imply two more rate hikes

Emerging Markets suffered the most as risk-off sentiment reversed the gains from the previous month

Global equity markets experienced a turning point in August, following a five-month upward trend. Major benchmarks faced declines, including the MSCI ACWI, which dropped by 2.8%. Similarly, the UK FTSE 100 declined by 2.5%, while the emerging market powerhouse, MSCI China, suffered a substantial 9% loss. In contrast, the pullback in valuations in the U.S. was relatively modest, with the S&P 500 falling by 1.6%.

A key driver of the risk-off sentiment came from comments made by Jerome Powell, the Chairman of the U.S. Federal Reserve, regarding prolonged elevated interest rates. The U.S. Consumer Price Index (CPI) printed at 3.2%, significantly lower than the peak of 9.1% a year ago but still above the mandated 2% target. Surprising the markets, the U.S. Federal Reserve signalled support for two additional interest rate hikes in 2023, despite having skipped a hike in June. This led to the Dollar gaining 1.7% against a basket of other major currencies and appreciating by 6.5% against the Rand due to hawkish Fed sentiment. Both the British pound and the Euro weakened, influenced by lacklustre economic data and the perception of a pause in interest rate hikes.

In U.S. debt markets, yields retreated from a peak of 4.35% on the 10-year Treasury bond. Data indicating weaker consumer sentiment and job openings suggested that the U.S. labour market might be starting to feel the lagged effects of elevated interest rates, increasing demand for bonds. The 10-year bond yields for the United Kingdom and Germany closed the month at 4.36% and 2.47%, respectively.

The OECD's composite Leading Indicator (CLI) continued to signal further headwinds, adding to the list of recession indicators. From a production perspective, the U.S. manufacturing PMI continued its contractionary trend, marking its 10th consecutive month below 50 index level, with a reading of 47.6. The Eurozone also displayed signs of slowing down, with its Manufacturing PMI at 43.5. In the high-interest rate and sticky inflation environment, consumers restrained spending, placing manufacturing-driven economies under pressure. China's manufacturing PMI remained below the neutral level at 49.7.

Emerging markets reflected the negative performance of global markets, with the MSCI Emerging Markets Index falling by 6.36% in dollar terms. China's impact on this decline was significant, driven by concerns about the lack of intervention from Beijing to support the faltering Chinese economy and growing issues in the Chinese property sector. Sluggish global demand affected export recovery, while domestic consumer spending and investment contracted due to turbulence in the property market. The wealth effect, wherein people tend to spend more when the value of their assets rises and vice versa, impacted Chinese consumers.

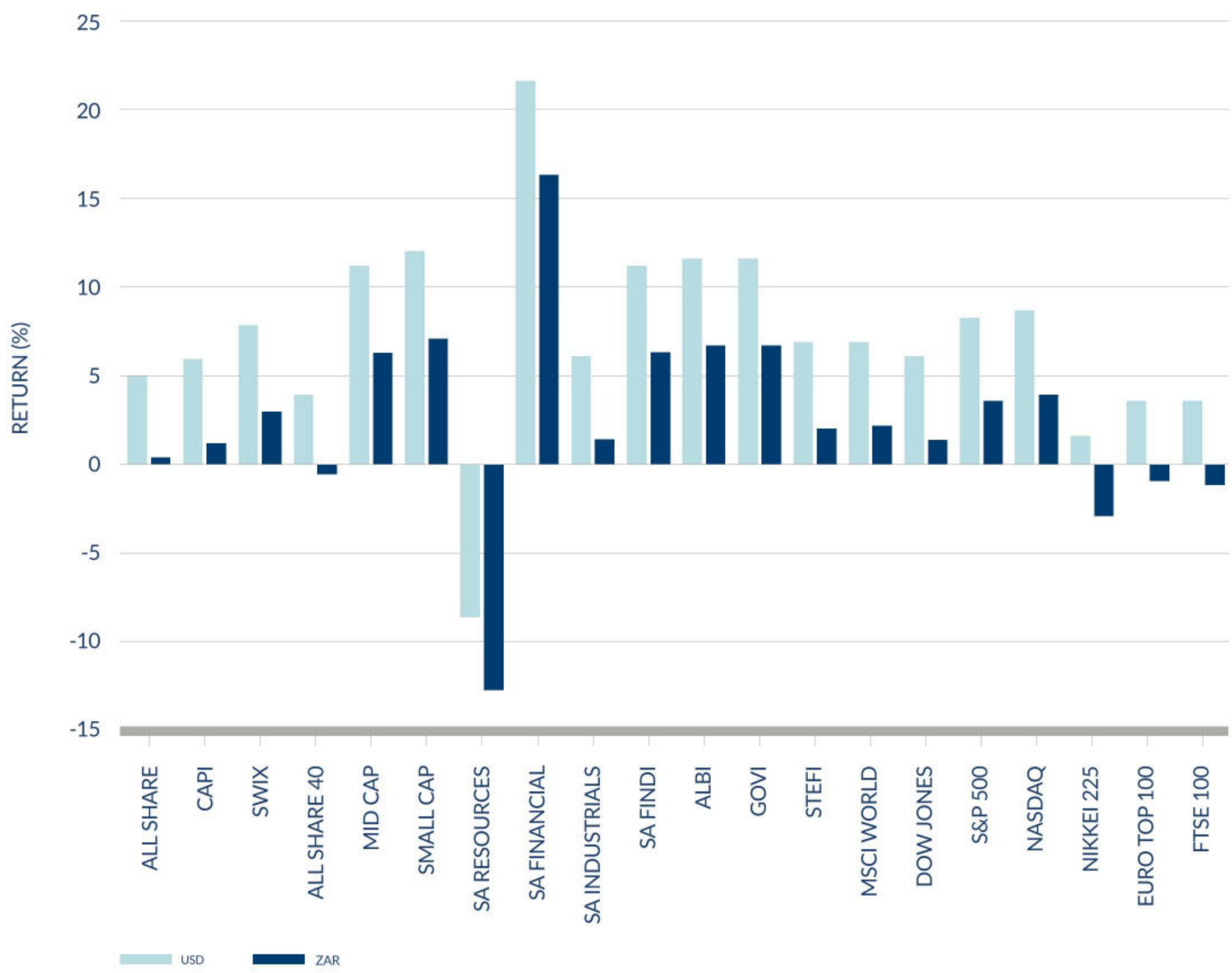
Crucial economic indicators, including GDP, fell below expectations, sparking concerns about the potential trajectory change of the Chinese economy. The second quarter of 2023 revealed a mere 0.8% growth from the previous quarter, leading investors to withdraw from China with substantial equity withdrawals. The Chinese Renminbi depreciated by approximately 5% against the dollar year-to-date, and foreign direct investment plummeted 87% year-on-year to a record low of $4.9 billion. China's multifactor crisis has altered how it is perceived in the global economic landscape. Other emerging economies also experienced the shift in sentiment, with both the MSCI BRIC and MSCI EM Asia Indexes closing in negative territory, marking returns of -6.9% and -6.28%, respectively.

Contractionary Purchasing Managers' Index (PMI) readings across various markets indicate a slowdown in the global economy

In commodities, Brent crude oil recorded its third consecutive month-to-date gain of 1.6%, driven by tightening supply and expectations of OPEC+ leaders extending output cuts for the remainder of the year. Copper, a positively correlated asset with the Chinese economy, fell by 5.5%. Coal gained 10% over the course of the month, recovering some lost ground from earlier in the year but remaining significantly down for the year-to-date, with a return of -39%. Despite the global risk-off sentiment during the month, the gold price declined by 1.3%, while the platinum price rose by 1.9%, and palladium ended the month 5.1% lower.

World Market Indices Performance

QUARTERLY RETURN OF MAJOR INDICES



South African Market Indices Performance

RETURNS OF THE FTSE/JSE SECTORS AND INDICES

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