



Market Commentary

August 2023

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South African market themes



Influenced by the global risk-off sentiment, South Africa follows suit with its emerging market peers. FTSE JSE SWIX is down by 4.8%



The Rand depreciated against major currencies, declining by 6.5% against the U.S. dollar and 4.3% against the Euro and the Pound



The BRIC Summit welcomed six new nations to the bloc

The South African market was impacted by the global risk-off sentiment in August. Following the path of peer emerging markets, FTSE JSE SWIX fell by 4.8%. Concerns about growth in China and the Federal Reserve's hawkish monetary policy stance played pivotal roles. Tickers with close ties to China, such as Richemont, Naspers, and Prosus, were severely impacted. The resource sector suffered the most, retracing by 8.4%.

Resources have been the only sector on the JSE this year to have a negative return year-to-date. Financials, although closing the month in the red (-1.3%), relatively outperformed due to strong earnings accompanied by cheap valuations. South Africa's CPI continues its disinflationary path, printing at 4.7% year-on-year for July. Decreased fuel costs were a major driver of the subdued inflation. However, underlying risks persist, relating to inflation stemming from a weakened rand, OPEC supply limitations, and adverse weather impacting crucial food-producing nations.

The South African Reserve Bank (SARB) hinted at another interest rate hike as Deputy Governor Fundi Tshazibana highlighted the SARB's vigilance regarding inflation risks. If those risks materialise, it is likely that interest rate hikes will resume. This follows the central bank's decision to temporarily pause its cycle of monetary tightening after refraining from raising rates the previous month. The current benchmark interest rate remains at 8.25%, with the prime lending rate set at 11.25%. The cumulative increase since November 2021 is a substantial 475 basis points. The rand depreciated against major pairs in August, by 6.5% against the Dollar (18.87 USDZAR) and by 4.3% against the Euro and Pound.

The domestic bond market was bolstered by the recent BRICS summit hosted in South Africa. The summit brought together

the emerging economies of the world for their nations' leaders to discuss developmental agendas.

The significant media attention around the successful event had a positive impact on the bond market. Although the All-Bond Index (ALBI) closed the month down by -0.2%, its outperformance in comparison to equities is significant. Inflation-linked bonds (CILI +0.44%) outperformed nominal bonds as fears of sticky inflation persist.

The biggest development from the summit was the inclusion of six new countries: Argentina, Egypt, Iran, Ethiopia, Saudi Arabia, and the United Arab Emirates. While it is unclear how all these countries' interests align, the enhanced collective strength of the group is poised to amplify trade flows, foster growth in slower-growing economies, enhance global influence in foreign policies, and augment the group's impact on global forums. Russia's president, Vladimir Putin, joined via video link.

The South African PMI experienced a slight decline of 0.3, falling to 47.3 in July 2023 from June's 47.6. This suggests the potential presence of stagflation or a weakening manufacturing sector. Additionally, global and domestic interest rate increases are pressuring demand and dampening international interest in South African manufactured goods.

A quarterly rebalance from the passive index behemoth MSCI was another catalyst in the equity market pullback. The review saw three domestic names—Multichoice Group, MR Price, and TFG Limited—removed from the S.A. index and, therefore, the MSCI Emerging Market index.

In total, there has been an approximate outflow of R7 billion from domestic equities following this rebalancing. The announcement from MSCI on 10 August meant that any exchange-traded funds



South Africa's allocation within the MSCI Emerging Market Index has decreased following the quarterly rebalance, which saw the removal of three 'S.A. Inc' stocks

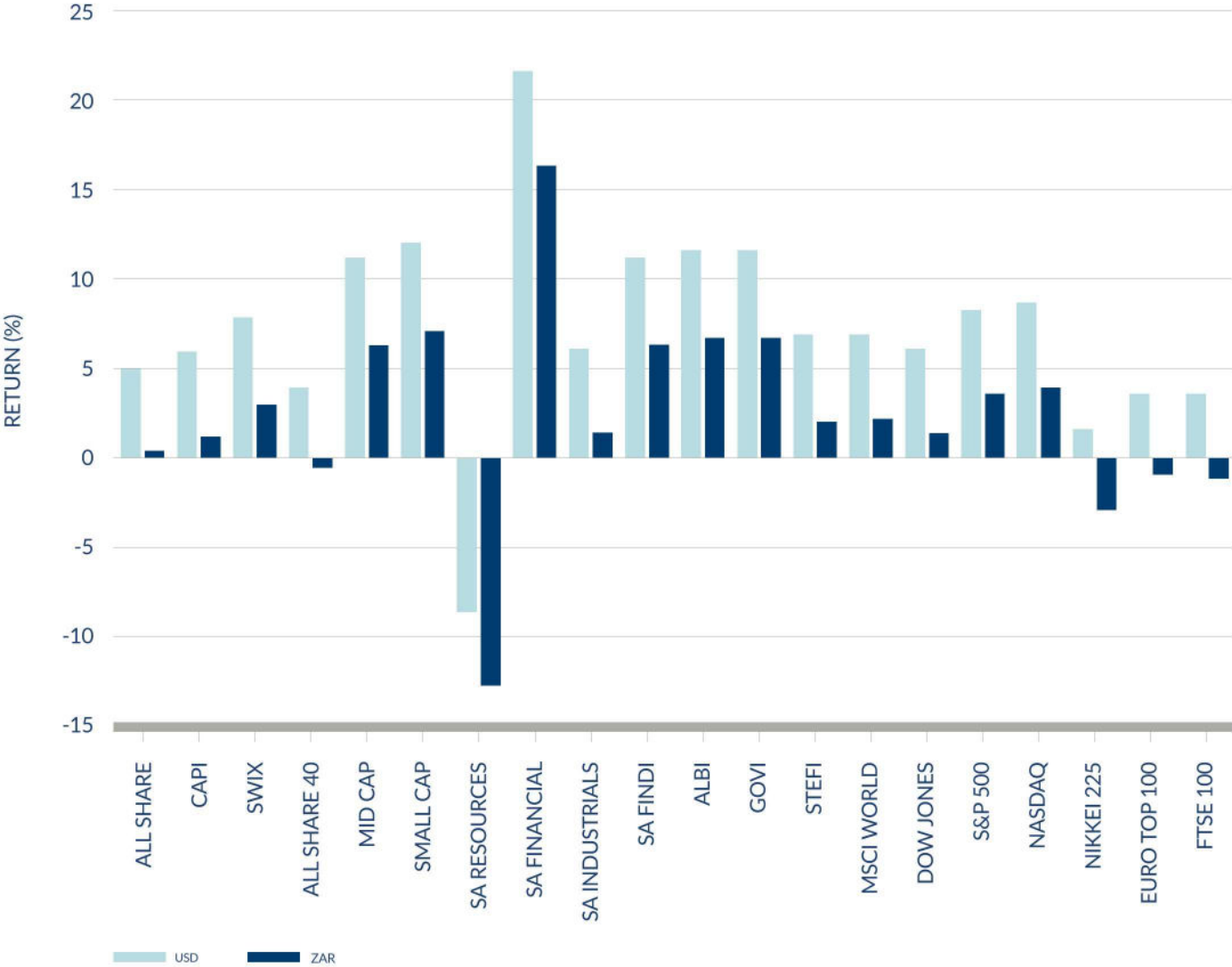
(ETFs) or index funds that track the MSCI Emerging Markets Index were forced to dispose of their holdings in these three stocks by the end of last month.

MultiChoice shares saw a decline of 16.5%, while Mr Price experienced an 11% decrease, and TFG Limited registered a 9.1% drop. Typically, when rebalances occur, one company is removed, and another from the same country takes its place as the market capitalizations of these firms evolve. However, in this instance, no replacement was introduced, resulting in an overall reduction of South African representation in the index. This may serve as an indicator of the diminishing global relevance of JSE-listed companies.

All returns above are in ZAR.

World Market Indices Performance

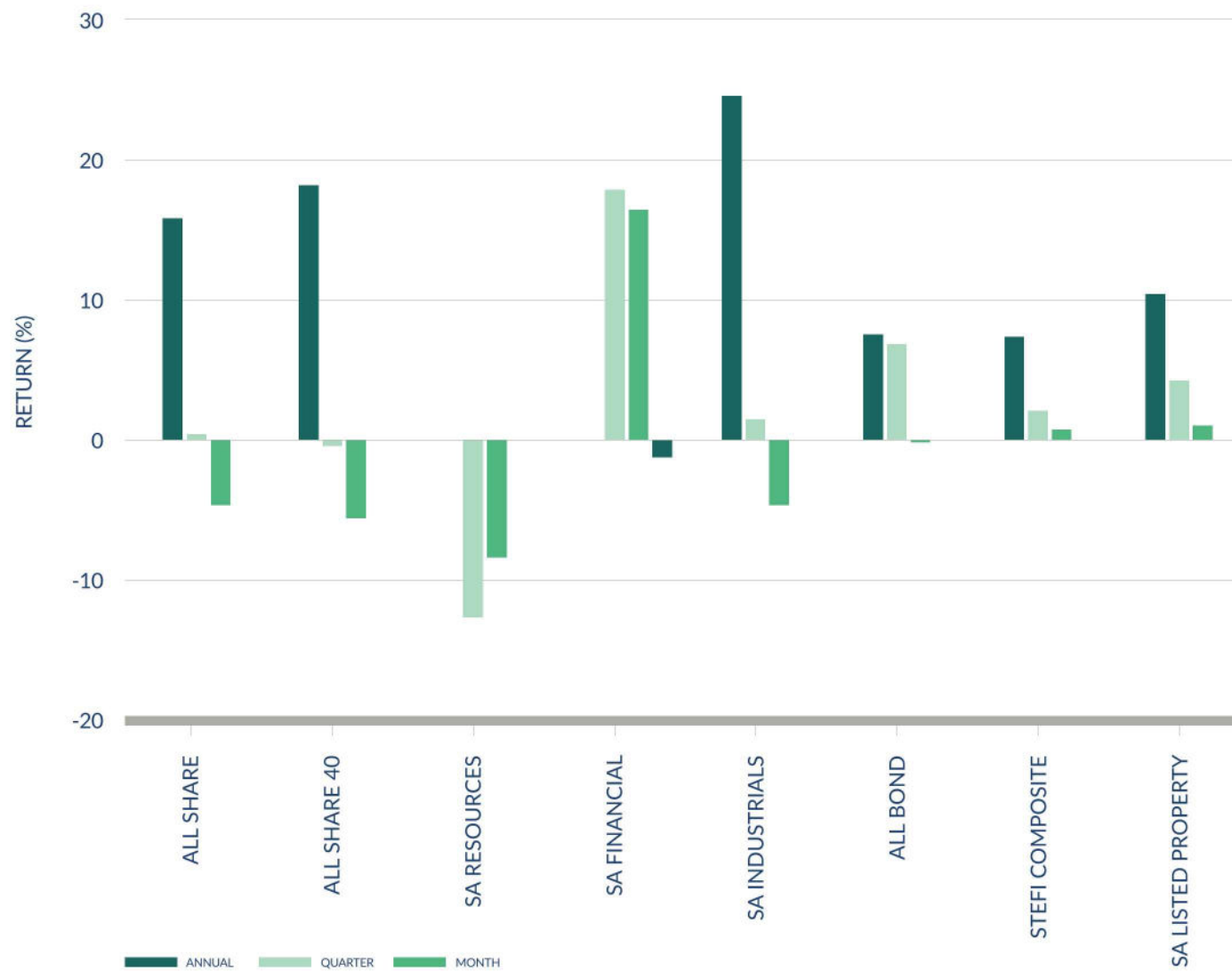
QUARTERLY RETURN OF MAJOR INDICES





South African Market Indices Performance

RETURNS OF THE FTSE/JSE SECTORS AND INDICES



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