



Market Commentary

September 2023

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Global market themes

Global equity markets faced their second consecutive month of negative returns, with a select group of economies showing relative outperformance. Consequently, the MSCI World index declined by 4.3%, while the MSCI Emerging Markets (EM) index recorded a 2.6% drop. Bond markets were not immune to the prevailing turmoil, as the Barclays Global Aggregate Index registered a decline of 2.9%.

On the interest rate front, investors closely monitored the comments made by Jerome Powell to anticipate the Fed's next move. However, his messaging was not overtly clear, suggesting that the Fed may temporarily pause rate hikes to assess the impact of policy tightening while reiterating the goal of achieving price stability to its 2% target.

As of the end of August, recent US Consumer Price Index (CPI) prints indicated a CPI of 3.7%. US CPI bottomed out at 3% at the end of June and has since remained relatively stable, with a slight upward trend, but remains above the Fed's 2% goal. A resilient US labor market and rising oil prices have raised concerns about a potential second wave of inflation. This "higher for longer" narrative impacted equity markets, with the MSCI ACWI declining by 4.1%. Investors are hopeful that the Fed will rapidly reduce rates should economic growth begin to falter. Interest rate futures are currently pricing in the first rate cut in 2024, contingent on the data-dependent Fed observing a clear downward trajectory for inflation.

Developed market economies, led by the US, continue to be influenced by the Generative Artificial Intelligence trend, which has led to speculation around technology-oriented stocks driving innovation and resulting in high valuation multiples. The valuations of these companies, as well as all equities, are significantly impacted by the rising discount rate. Should the economic cycle conclude and borrowing costs start to decline, these valuations could potentially rise further. The ultimate test will be in the earnings of these companies to determine if they have successfully managed to pass on the impact of inflation to their consumers.

In September, longer-term US bond yields experienced a more rapid increase compared to their shorter-term counterparts due to growing concerns about the possibility of a US government shutdown. However, an eleventh-hour agreement pushed back the shutdown risks by 45 days, extending the deadline to November 17th.

From an equity perspective, concerns about a potential US recession over the next twelve months and the rise in US equities driven by the so-called "Magnificent Seven" have elevated the risks of investing in (US) equities. The situation is not significantly different in other markets, as growth remains weak in Europe and the UK, while China's recovery has been muted due to piecemeal stimulus from Beijing have little impact.

A significant sell-off in the bond market pushed yields on the 10-year US Treasury bond to the highest levels since the Global Financial Crisis, reaching approximately 4.6%. Traders are pricing a one-third probability of an increase in the Fed Funds rate at its November meeting. The US Dollar strengthened, as measured by the DXY index, rising for the second consecutive month by 2.5% in September. Emerging markets displayed varying and contrasting performances, with India and Brazil's benchmark indices increasing by 1.5% and 0.7%, respectively. In contrast, China saw a decline of 2%, and South Africa experienced a more substantial loss of -3%.



Global equities declined, influenced by various economic factors



Longer-term US yields rose due to government shutdown concerns



US and global equities face recession risks and challenges



Inflation monitored; Fed may cut rates if needed for growth



UK stock market up due to Q2 revision and lower inflation

The UK experienced a positive month in the stock market, with the FTSE 100 rising by 2.4%. This was driven by an upward revision of the second quarter and a marginal decline in headline inflation to 6.7%.

The Composite Purchasing Managers' Index (PMI) remains in contraction territory at 46.8. The housing market has further slowed down, with the average household value declining by 5% compared to a year ago. As mentioned in last month's market commentary, this has implications in terms of the wealth effect; as individuals' assets rise and fall, so does their propensity to invest and consume. In Europe, there is a mixed economic reality, with countries like Spain and France experiencing economic recovery driven by increased exports and strong tourism, while Germany appears to be in a recessionary phase. Germany's largest GDP contributor, the automotive industry, is undergoing a transition as demand shifts toward electric vehicles. Recent headline inflation prints came in lower than expected at 4.3%.

China continues to face various challenges, both domestically and internationally. The largest exporting economy experienced a year-on-year drop in exports of 14.5%, primarily due to lacklustre global demand. Additionally, the Chinese real estate market remains unstable, with housing sales declining and over-leveraged real estate developers, such as Evergrande, defaulting on substantial amounts of debt. Nearly 40% of all bank loans in China are linked to property. Geopolitical tensions with the West add further pressure to growth prospects. Investors maintain hope for substantial stimulus measures, although policymakers in Beijing have not been very forthcoming. One positive development from China was the People's Bank of China's decision to lower the reserve requirement ratio by 25 basis points to support bank liquidity and stimulate economic growth in Beijing.

On the commodities front, oil prices increased by 6.2% for the month, continuing to exert pressure on inflation. OPEC+ may consider extending oil cuts to support commodity prices in response to low global demand. Coal prices saw a significant increase, rising by 14.4% in the past month. While this price movement may be positive news for commodity traders, coal prices are still down by 30% year-to-date. Silver, platinum, and gold also experienced declines of 9.3%, 6.6%, and 4.7%, respectively.



China faces a drop in exports and real estate instability, impacting markets



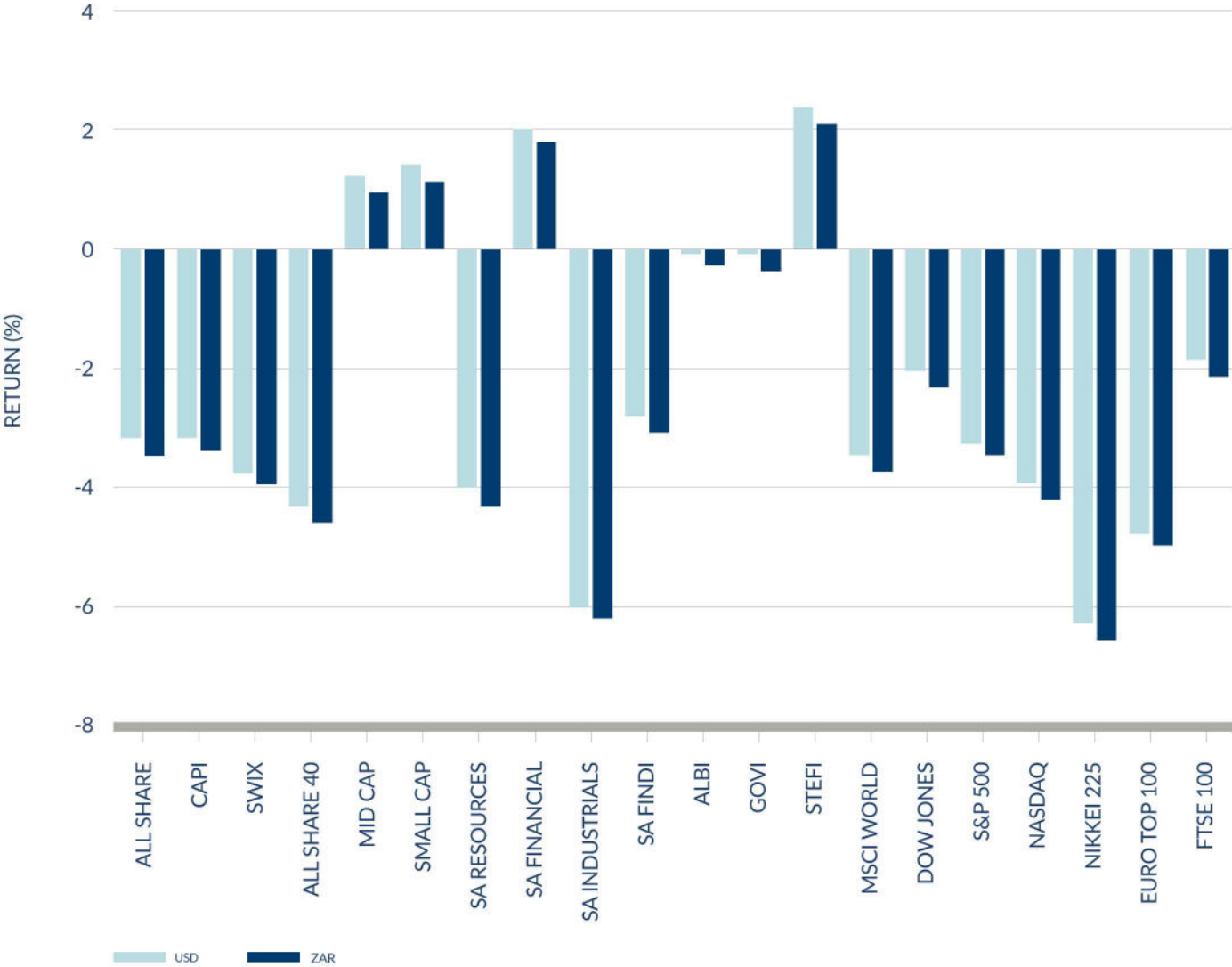
Commodity outlook: Oil up, coal surged, metals declined



Geopolitical tensions and China policies affect investment strategies

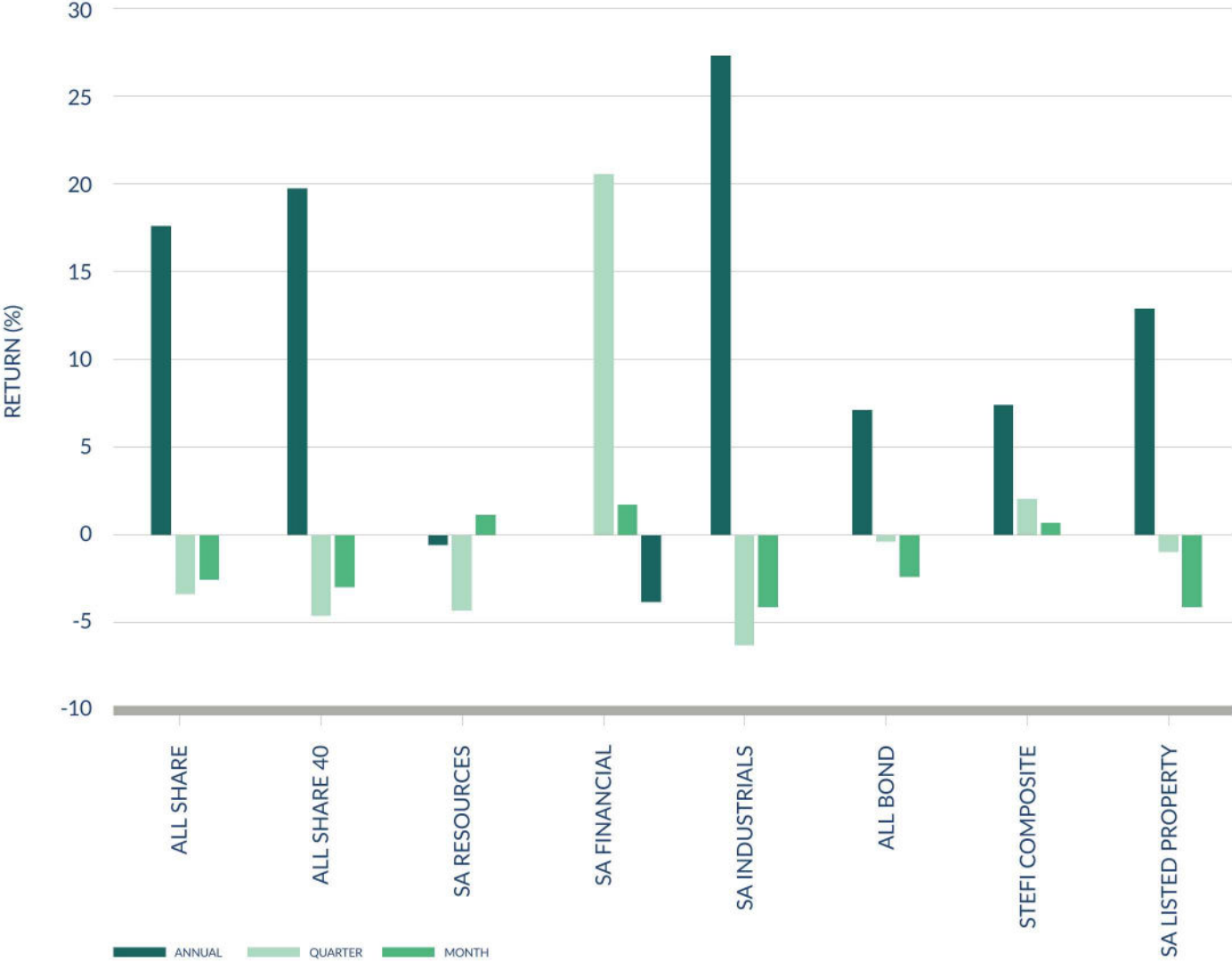
World Market Indices Performance

QUARTERLY RETURN OF MAJOR INDICES



South African Market Indices Performance

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