Market Commentary

November 2023

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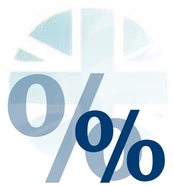
Global market themes

Commodity prices shift with Brent crude at $80 despite Middle East tensions, and gas dropping 15%

The FOMC hints at maintaining high rates amid resilient economic data

Jobless claims, credit card delinquencies and a dip in retail could mean potential economic slowdown



Headline and core inflation in the UK fall further than expected

In November, financial markets staged a strong positive month, propelled by indicators showcasing a robust 5.2% GDP growth in the US economy and falling inflation across advanced economies. The data released during the month reinforced the belief that central banks had reached their peak under the current tightening cycle, resulting in upward movements in both equities and fixed income.

Commodity prices, specifically Brent crude oil, retreated from October highs, hitting $80 per barrel despite ongoing tensions in the Middle East. Factors such as increased US supply and non-compliance by OPEC+ members with production quotas contributed to this decline. Natural gas prices fell by 15% in the month, reflecting predictions of reduced demand amid an expected economic slowdown, favourable weather, and sufficient storage in Europe.

The US Consumer Price Index (CPI) for October came in lower than anticipated and brought a wave of optimism to the market. Both headline and core inflation dropped to 3.2% and 4.0% year-on-year, respectively, driven by reduced energy and gasoline prices, along with declines in travel expenses and hotel rates. This decline raised hopes that inflation would meet the Fed's 2% target by the close of 2024 and eased investors' expectations of a potential halt in interest rate adjustments at the Fed's upcoming December meeting.

While market sentiment indicated a belief that policy rates had reached their peak, the November FOMC minutes hinted at the Fed's commitment to maintaining high policy rates due to resilient economic data. Signs pointing toward a potential slowdown in the US economy included slight increases in initial and continuing jobless claims, a rise in credit card delinquencies, and a slight dip in retail spending in November.

In the UK, both headline and core inflation experienced larger-than-expected declines, falling to 4.6% and 5.7% year-on-year, respectively. The lowered services inflation may provide impetus for the Bank of England (BOE) to turn less hawkish or slow the pace of interest rate hikes, despite ongoing high wage growth. Signs of the UK economy hitting its bottom emerged as the November services Purchasing Managers' Index crossed the pivotal 50-mark, indicating economic expansion territory.

The European Union's (EU) latest CPI release for October highlighted a slowdown in both headline and core inflation to 2.4% and 3.6% year-on-year, respectively. Reduced energy prices primarily fuelled this drop, with easing seen in both goods and services inflation within the core print. Despite some improvements, the ECB remained cautious in the face of lingering inflation risks. Manufacturing activity and industrial production in Europe remained subdued due to uninspiring data from major economies like Germany and France. However, eurozone employment growth for Q3 showed strength with a quarter-on-quarter rise of 0.3%.

China's macro data for October presented more positive outcomes than anticipated, with a 7.6% year-over-year increase in retail sales. However, the housing market continued to drag on growth, witnessing continued year-over-year declines in new home sales. The People's Bank of China injected liquidity into the banking system, hinting at a potential required reserve ratio cut before year-end. Yet, additional fiscal stimulus might be necessary to boost consumer sentiment and counter deflationary pressures. The Chinese and US presidents' meeting resulted in agreements on energy transition and climate change, potentially indicating decreased tensions between the two superpowers and holding positive prospects for global markets. Ongoing economic momentum, especially

China sees positive retail sales, but the housing market continues to drag growth

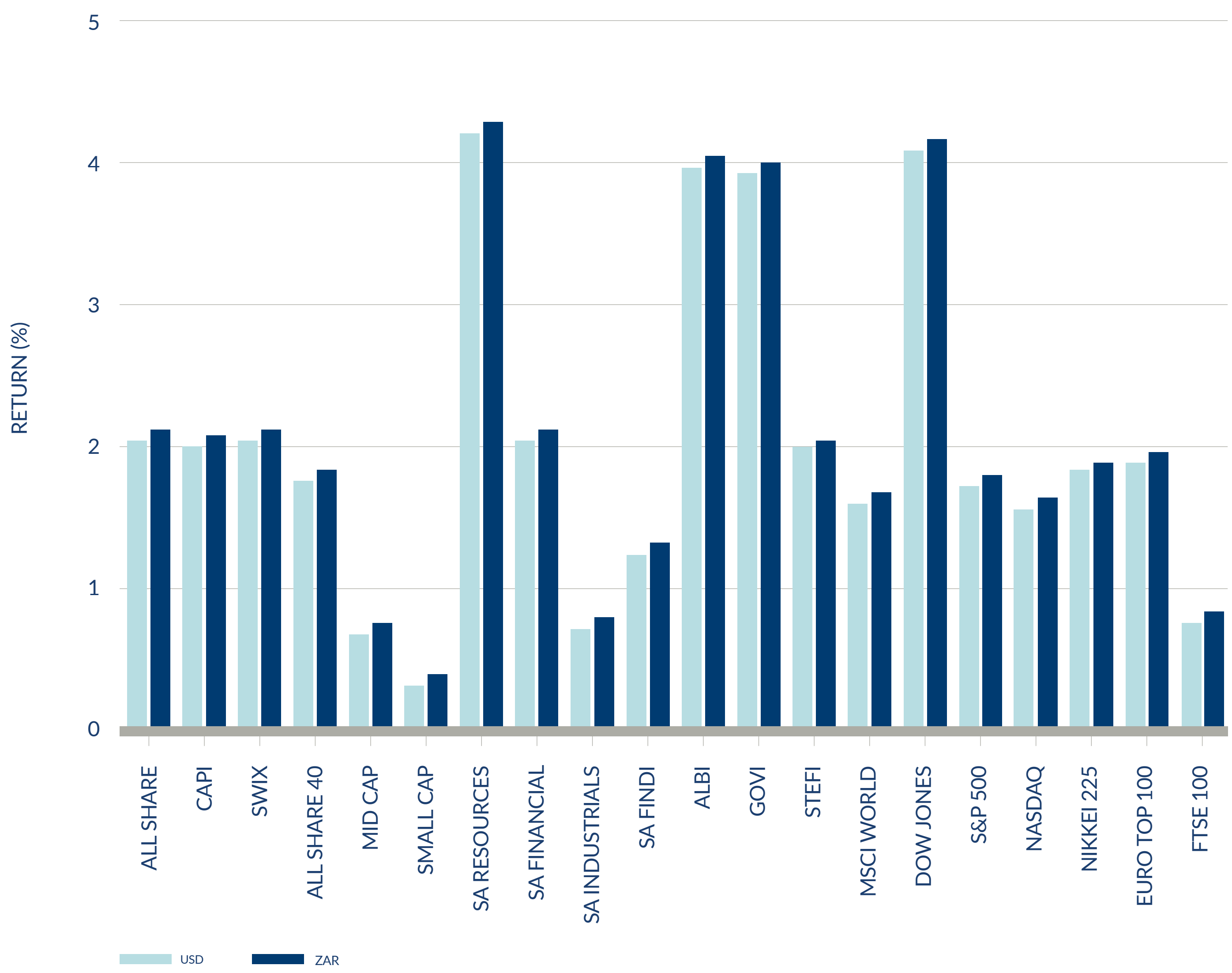
Economic momentum persists globally, supporting equity markets in November

in the US, coupled with tight labour markets, reinforced hopes of a smooth economic slowdown, supporting equity markets throughout November. European indexes also ended the month of November favourably. Growth stocks and the tech sector outpaced value peers, bolstered by reduced bond yields and robust corporate earnings. While small caps surged, large caps continued to outperform year-to-date by approximately 12 percentage points. The MSCI Emerging Markets Index grew 8% over the month, supported by MSCI China's 2% gain in November, and healthy gains from the likes of India and Brazil. On a year-to-date basis, the MSCI EM Index has gained 5.7%.

Core government bonds saw a turnaround from previous losses amid expectations of forthcoming rate cuts in the upcoming year. The 10-year US treasury bond yield dropped below 4.4% after hitting 5% in October, despite Moody's negative outlook on US sovereign debt. German Bunds and UK Gilts similarly saw significant yield declines, settling at 2.4% and 4.2% respectively by month-end, a drop of approximately 50 basis points from their October highs. Excluding sovereign bonds, the broader fixed income universe benefitted from lower yields and anticipated rate cuts in 2024. Investment grade bonds gained traction, and high-yield bonds experienced tighter spreads on the back of optimism for a softer landing. Emerging market debt instruments also recorded growth, supported by accommodative local central bank policies and a weakening US dollar.

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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