

Market Commentary

December 2023

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South African market themes

As the festive season comes to an end in South Africa and around the world, it's worth noting that December was a positive month for South African markets. Market dynamics were positively influenced by the Fed pivot. The FTSE JSE All Share Index saw a rise of 2.0% during December 2023, resulting in an overall gain of 9.25% for the year. In December, South Africa's FTSE JSE Capped SWIX rose by 2.9%, resulting in cumulative growth of 7.87% in 2023. Sectors such as property and finance performed better than others, with both rising by 9.3% and 5.3% respectively month on month. However, the residential sector faced some challenges, declining by 1.3% month on month. The rand strengthened by 3.5% month on month against the US dollar in December, but still ended the year 7.48% lower against the US dollar. When it comes to individual stocks, BHP Group experienced significant gains of 10.2% month on month, while Anheuser-Busch InBev rose 1.6% month on month. On the other hand, Naspers and Prosus recorded losses of 10.6% and 9.9% respectively.

Over the month, the South African government's 10-year borrowing rate decreased in line with global interest rates, reaching 11.4% p.a., the lowest it has been since May. However, it remains higher than the 10.8% p.a. level at the beginning of the year. The FTSE JSE All Bond Index saw a positive increase of 1.43% month on month and 9.67% year to date, thanks to the softening global rate environment. For the first time since 2020, it ended the year slightly ahead of the local bourse. In contrast, in Q3 2023, South Africa's real GDP contracted by 0.2%, marking a significant change from the previous quarter's revision, which had shown an expansion of 0.5%. The agricultural industry, field crops, horticultural products, and the poultry industry saw a sharp decline due to an outbreak of avian influenza, resulting in a contraction of the primary sector. The mining output, which plays a vital role in the country's economy, also decreased,

particularly in platinum group metals, gold, manganese ore, and coal, further contributing to the overall contraction. On the other hand, the tertiary sector continued to grow despite the decline in the primary and secondary sectors.

In December, household spending on durable goods, such as personal transport, equipment, and computers, decreased due to lending constraints, high-interest rates, and elevated vehicle prices. This led to a decline in real final consumption expenditure by households and gross fixed capital formation. However, general government expenditure increased during the same period. South African producer prices rose less than expected last month due to slowing fuel inflation, which was expected to ease further in December. According to data published by Statistics South Africa, the producer price index annual rate declined to 4.6% in November, lower than all eight estimates by economists in a Bloomberg survey, from 5.8% in October. The median forecast in the poll was 5.1%. The easing in producer inflation, an early indicator of movements in consumer-goods prices, was helped by a big drop in the cost of coal, petroleum, chemical, rubber, and plastic products, along with slowing food inflation. Diesel prices fell 5.4% from a year earlier, while petrol inflation slowed by 11.7 percentage points from the previous month to 3.7%. A further reprieve was expected in December as the retail cost of 95 octane gasoline fell by almost 65 cents a litre, and the wholesale diesel price by more than R2.35 a litre.

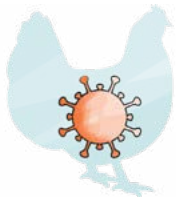
There are some 40 national elections scheduled globally in 2024, and Bank of America Corp. strategists have identified the South African election as one of the most market-relevant in developing countries. However, the uncertainty surrounding the poll, which has not yet been scheduled, could hinder the benefit that Johannesburg stocks have been experiencing due to falling interest rates and a potential soft landing in major



December was positive for SA markets, with property and finance sectors outperforming



The SA government's 10-year borrowing rate was the lowest it has been since May



Agricultural and poultry industries saw a sharp decline due to the avian influenza outbreak



December saw slowing fuel and food inflation, and easing in producer inflation



The 2024 SA election is deemed highly market-relevant by strategic analysts

economies. Investors are cautious and prefer fixed income over equities until clearer election outcomes emerge because the upcoming elections in South Africa have raised concerns about market uncertainties. Structural issues, such as power crises and infrastructure limitations, have been influencing market valuations and investor sentiment.



Insurance industry challenges mount with rising global losses and increasing premiums

The insurance industry is facing sustainability challenges due to climate change, infrastructure deficits, and socio-economic issues. South Africa is no longer immune to catastrophic events such as those in the Asia-Pacific, Europe, and the United States. As a result, there has been a significant increase in reinsurance premiums due to a growing number of large catastrophe reinsurance claims and rising global losses.

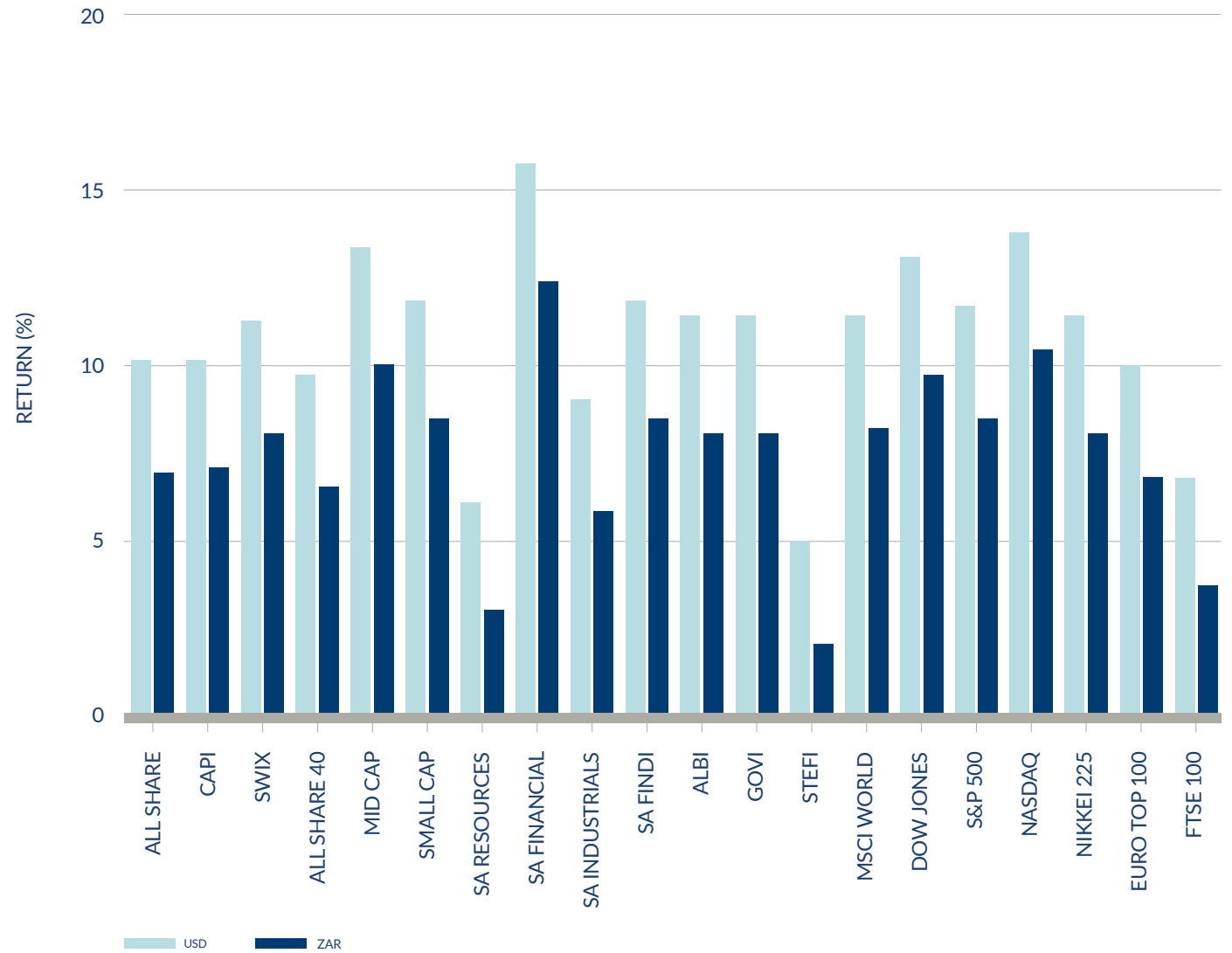


Capital flight persists as non-residents offload R43.2 billion in Q3 2023

In 2023, foreign investors divested significant amounts from South African stocks and bonds due to concerns about inflation, central bank policies, idiosyncratic factors, and geopolitical tensions. This capital flight has resulted in a significant drop in the share of non-resident holdings in domestic government bonds from an all-time high of 42.8% in March 2018 to 25.4% in October 2023, as revealed by the South African Reserve Bank (SARB) in its Quarterly Bulletin in December 2023. This trend of capital flight continued in the JSE-listed shares market, with non-residents offloading R43.2 billion in the third quarter of 2023, marking the sixth consecutive quarter of net selling. Investment inflows and outflows have a significant impact on the South African economy.

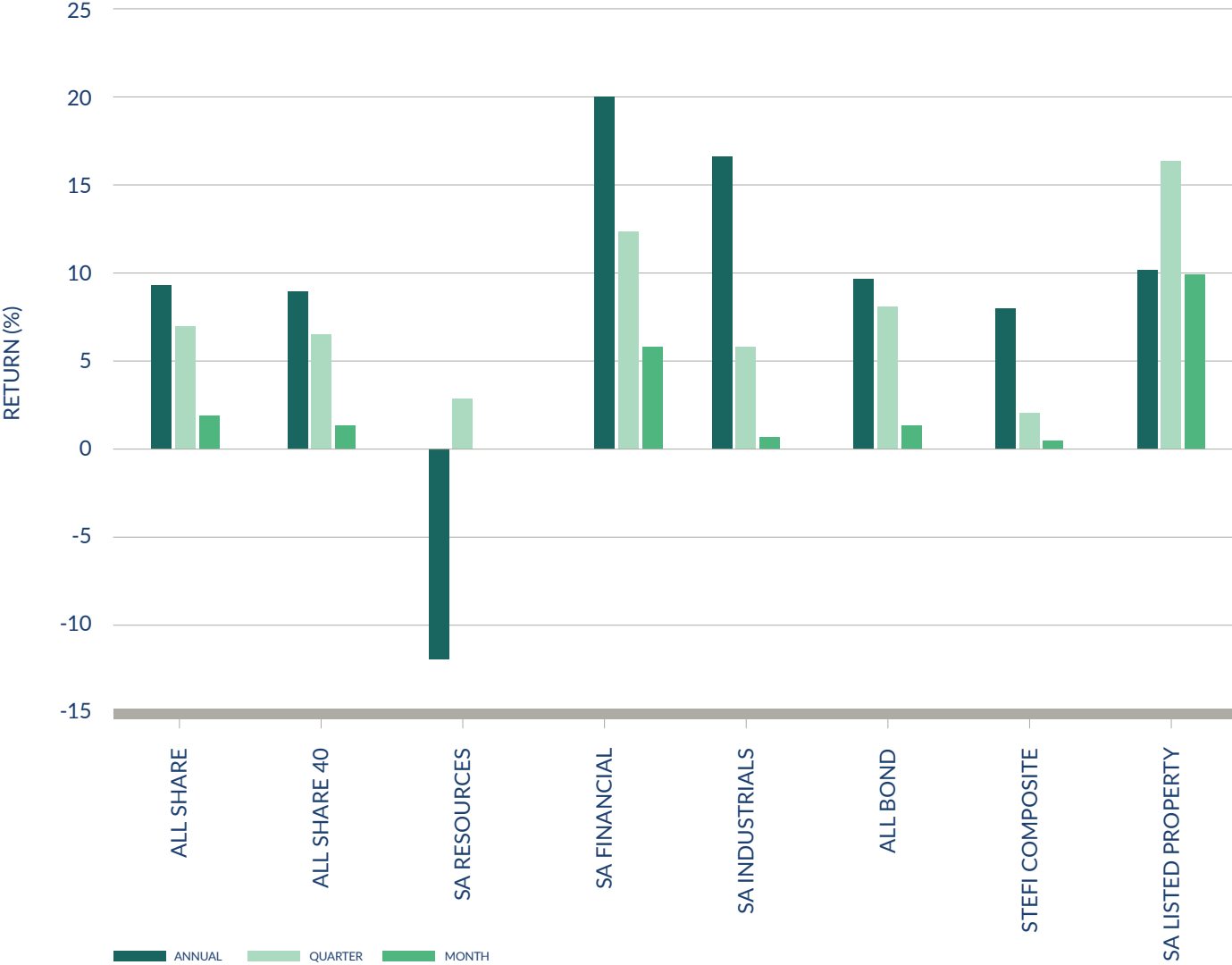
World Market Indices Performance

QUARTERLY RETURN OF MAJOR INDICES



South African Market Indices Performance

RETURNS OF THE FTSE/JSE SECTORS AND INDICES



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