

Market Commentary

July 2024

RISCURA

South African market themes



SA investors are optimistic about the new administration addressing state inefficiencies and power shortages



The inflation rate decreased to a six-month low of 5.1%, driven by a slowdown in food and beverage prices



The SARB forecasts lower interest rates come September and a drop in the repo rate to 7.75% by year-end



The PMI for SA's factory sector rose to 52.4 points in July, indicating increased manufacturing activity

Investors are optimistic that the inclusion of opposition parties in the new administration may help address state inefficiencies, power shortages, and logistical challenges that have hindered economic growth. This political transition has also positively impacted South African equities, bonds, and the rand. The Capped SWIX gained 4.1%, the All Share gained 4.0%, the ALBI gained 4.0%, and the rand appreciated by 0.4% in July. The formation of the Government of National Unity (GNU) has significantly increased investor confidence, resulting in a surge in South African government bonds that have outperformed all other emerging market local markets. However, foreign investors are still cautious, taking a "show me" approach and waiting for concrete growth initiatives before making substantial commitments. Despite this cautious stance, the latest South African Fund Manager Survey by Bank of America revealed an optimistic outlook on equities among South African investors.

The inflation rate in South Africa decreased to a six-month low, with the headline inflation rate dropping to 5.1% in June from 5.2% in May. This is the lowest rate since December 2023. The decrease was driven by a slowdown in inflation for food and non-alcoholic beverages (NAB), which is at its lowest level in nearly four years. Categories such as sugar, sweets & desserts, vegetables, fruit, milk, eggs & cheese, and fish saw lower annual rates, although inflation increased for hot beverages, bread & cereals, oils & fats, cold beverages, and meat. Additionally, fuel prices fell by 4.6% in June compared to May, contributing to the lower inflation rate, with lower fuel prices helping to bring down overall transport inflation.

In September, the South African Reserve Bank (SARB) is expected to lower interest rates due to lower inflation. Despite a minority vote in favour of a rate cut in July 2024, the SARB decided to keep interest rates at 8.25% for the next two months. However, some members of the Monetary Policy Committee (MPC) expressed

the need to keep policy at restrictive levels to stabilise inflation at 4.5%. The SARB's forecasts suggest lower headline inflation and subdued core inflation, contrary to the MPC's assessment. The SARB noted that some of the critical risks highlighted in May had slightly eased, with the rand performing better than expected during elections and post-election uncertainty diminishing.

Nedbank forecasts that inflation will average 5.1% in 2024 and drop to 4.6% in 2025. They predict a 25-basis point rate cut in September and another in November, bringing the repo rate to 7.75% and the prime lending rate to 11.25% by the end of 2024.

Economists at the Bureau for Economic Research (BER) view the minority dissenting vote as indicative of a shifting tone at the SARB, suggesting the possibility of a gradual rate-cutting cycle in September. Bank of America (BofA) economists also noted that a minority vote for a cut increases the likelihood of a rate cut in September, contingent on factors such as lower domestic inflation, a stable rand, and potential rate cuts by the Fed. The Fed's recent signals point to possible cuts as early as September, which could prompt the SARB to cut rates in both September and November MPC meetings.

In July, manufacturing activity in South Africa increased, as indicated by the rise of the Purchasing Managers' Index (PMI) for the factory sector to 52.4 points from 45.7 in June. This growth is reflected in the increase of the business activity sub-index and new sales orders, suggesting a realisation of previously on-hold orders. However, private sector activity remained subdued in July due to weakened sales and increased supply-side pressures, with the S&P Global South Africa PMI slightly rising to 49.3 from 49.2 in June, staying below the growth threshold of 50.

Minister of Energy and Electricity Kgosientsho Ramokgopa stated that while the possibility of load shedding remains, current indications suggest that Eskom's situation is becoming more



Eskom has achieved 100 days without load shedding, but experts warn that the electricity crisis is not over



The proposed delisting of Sasfin Holdings from the JSE is underway



Severe storms and heavy rainfall hit the Western Cape, causing significant displacement and damage

stable. Eskom has reached significant milestones, such as going over 100 days without load shedding since the end of March and maintaining an available capacity of 35,000MW. Despite these accomplishments, experts are warning that the electricity crisis is not yet resolved and are urging caution, as demand may rise with the resumption of economic activity. There is an optimistic suggestion that load shedding could potentially come to an end as early as October 2024, provided there are ongoing improvements in generation capacity.

In July, Sasfin made an offer to minority shareholders at R30 per share, representing a 65% premium to the 30-day Volume Weighted Average Price (VWAP) (R18.16), as part of a proposed delisting of the Group. The offer will be funded by major shareholders WIPHOLD and Unitas through subscription for shares in Sasfin Wealth, accompanied by the Sasfin Wealth management team's investment in the company. Sasfin Holdings Limited CEO Michael Sassoon explained that pending shareholder and regulatory approvals, these transactions are part of the strategic reset announced in March 2023 to simplify the group and unlock stakeholder value.

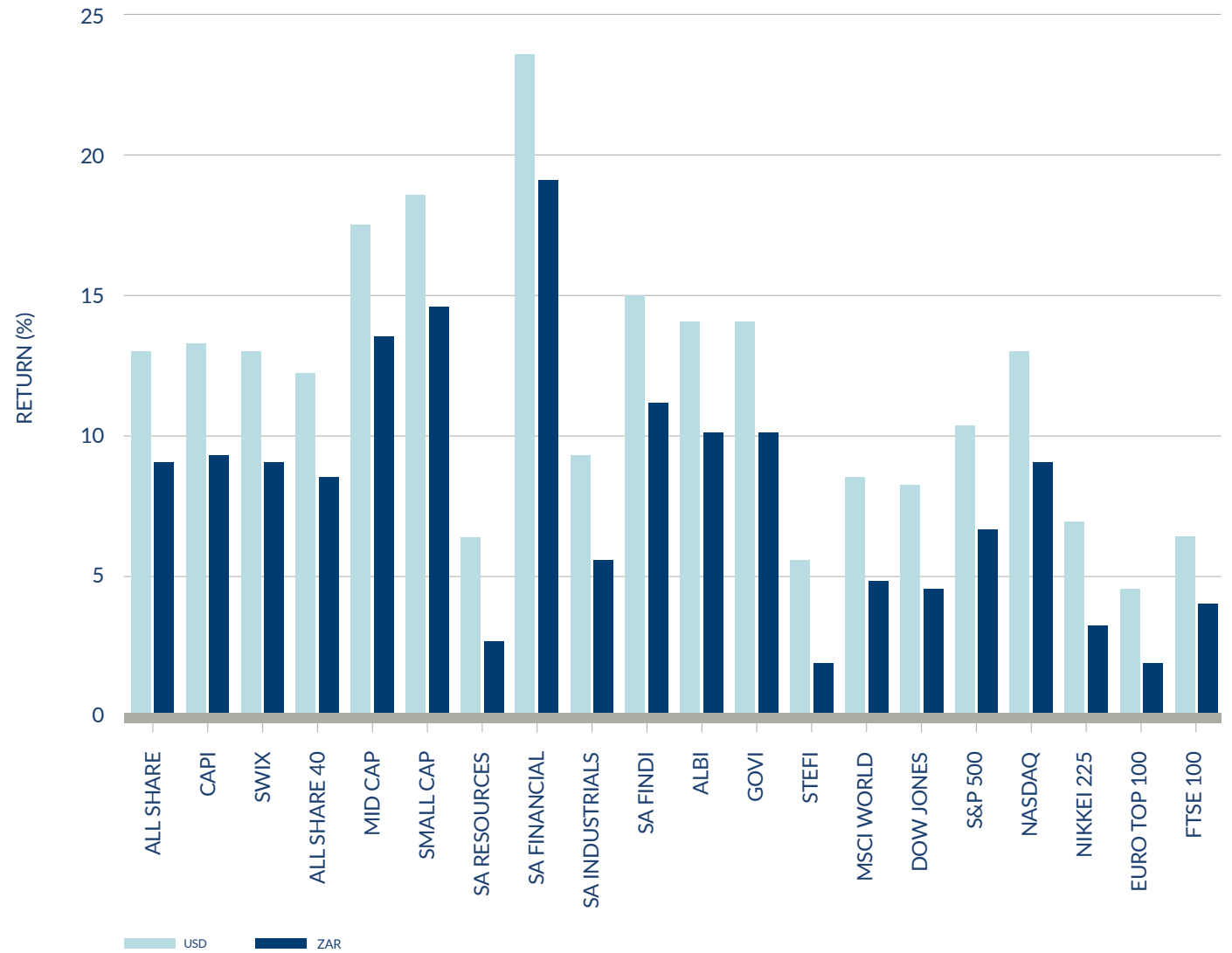
Sasfin has already exited its Specialised Lending and Foreign Exchange businesses and is now awaiting regulatory approvals to dispose of its Capital Equipment Finance and Commercial Property Finance businesses to African Bank Limited. WIPHOLD and Unitas are set to each subscribe for a 7.5% shareholding in Sasfin Wealth, while key executives will acquire a 15% interest through a management buy-in scheme. WIPHOLD Founder Gloria Serobe has expressed confidence in Sasfin's strategy and value proposition. Following the cash subscriptions from WIPHOLD and Unitas, Sasfin Wealth will extend an offer to

acquire up to 10% of Sasfin Holdings, providing minority shareholders with the option to remain invested or exit at a substantial premium, thereby facilitating the delisting of Sasfin Holdings from the JSE.

In the month of July, the Western Cape province, which typically experiences cold fronts during winter, faced a series of severe storms, resulting in extensive damage. The impact included the displacement of at least 4 500 individuals and damage to 15 000 structures. The most severely affected areas were the impoverished informal settlements on the outskirts of Cape Town, where the structural vulnerabilities of metal and wooden shacks were exposed to the harsh weather conditions. As a result of the storms, schools across Cape Town were forced to close, and an unusual snowfall was reported in Stellenbosch. The overflow of three major rivers in the province necessitated widespread evacuations due to flooding.

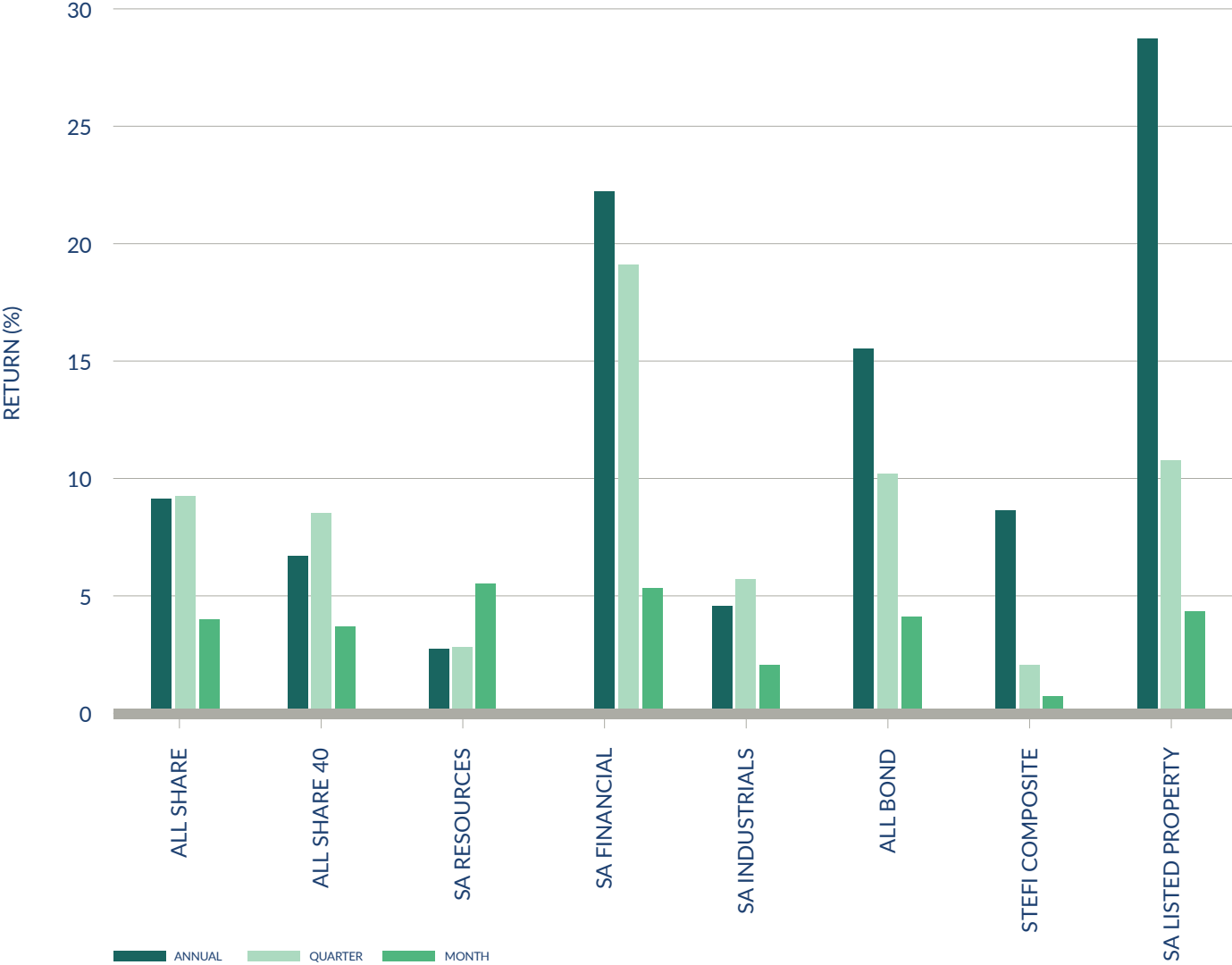
World Market Indices Performance

QUARTERLY RETURN OF MAJOR INDICES



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