

Market Overview

December 2022

Morningstar Investment Management
January 2023

For Financial Advisers & Their Clients

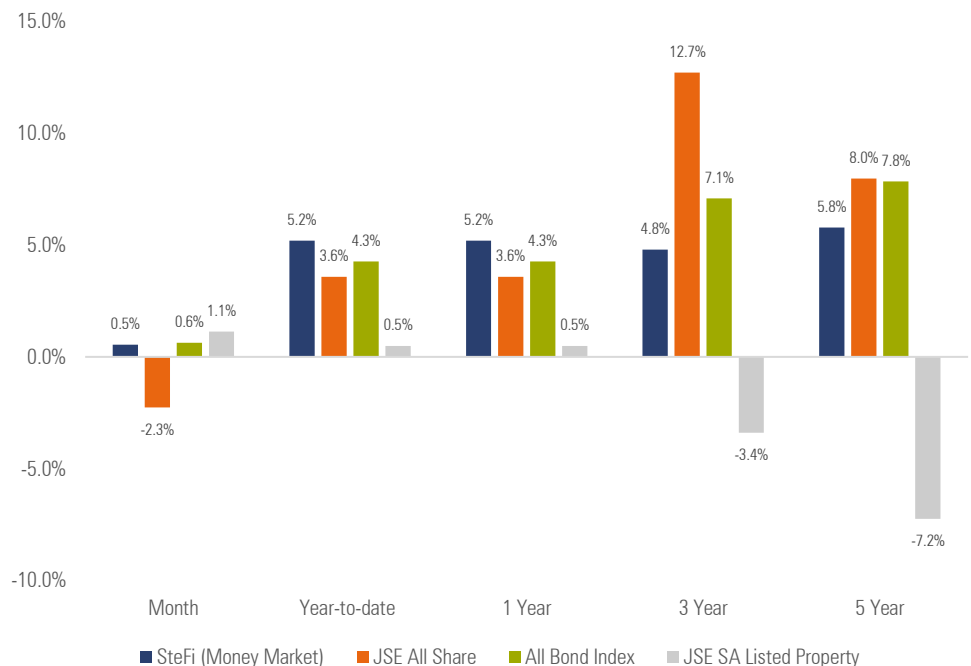
Market and Economic summary

Global markets ended the month in negative territory in December, with both developed and developing equity markets experiencing declines. This comes after a difficult year for investors, who have faced challenges such as elevated inflation, rising interest rates, and slowing global growth. Meanwhile, the bond market also experienced a downturn in December, as investors anticipated higher interest rates to combat inflation, causing yields to rise and prices to fall. This marks the worst year for global bonds in over a century. On the other hand, Chinese markets saw positive moves, as the country lifted Covid-19 restrictions and reopened its borders.

Inflation remained elevated in December, although some reports came in below market expectations. The annual inflation rate in the US slowed for a fifth straight month to 7.1% (year-on-year to the end of November), the lowest reading since December last year, and below market consensus forecasts of 7.3%. The annual inflation rate in the UK eased to 10.7% (year-on-year to the end of November) from 11.1% in October, which was the highest reading since October 1981. The consumer price inflation rate in the Euro area was revised to 10.1% (year-on-year to the end of November). The rate slowed for the first time in the Euro area since June 2021 from October's record high of 10.6%. China's annual inflation fell to 1.6% (year-on-year to the end of November) from 2.1% in the prior month, matching market consensus.

Central banks continued to raise interest rates this month, although at a slower rate than previous meetings. The US Federal Reserve (Fed) raised the fed funds rate by 50bps to 4.25% - 4.5% during its last monetary policy meeting of 2022, pushing borrowing costs to the highest level since 2007, and in line with market expectations. The Fed continued to have a hawkish tone on policy outlook, despite slowing the rate of interest rate increases. The European Central Bank (ECB) followed the Fed and raised interest rates by 50bps during its last monetary policy meeting of 2022, marking a fourth-rate increase, following two consecutive 75bp hikes.

Turning to other important economic data releases this month: The Eurozone economy expanded 2.3% year-on-year in the third quarter of 2022 (slightly higher than the previous estimate of 2.1%) and below a downwardly revised 4.2% rise in the second quarter. The unemployment rate in the UK edged higher to 3.7% in the three months to October of 2022, from 3.6% in the previous period, matching market forecasts. The unemployment rate in the Euro area fell to a new record low of 6.5% in October of 2022, from 6.6% in the prior month, slightly below market estimates of 6.6%.

Exhibit 1 | SA Market Performance (total returns)

Source: Morningstar Direct as at 31/12/2022. Returns are in South African Rand and have been annualised for periods longer than 1 year.

South African asset classes proved more resilient than global peers this month. Local equities fell in December, albeit less than developed market peers, while local property and bonds ended the month in positive territory.

South African equities ended the month lower, following global emerging market peers. Resources produced a negative return in December, partially giving up the gains recorded in November. Industrials posted resilient performance, ahead of the broader market, given the positive upward moves posted by index heavyweights Naspers and Prosus. Financials produced a significant negative return, lagging the broader market and giving up the strong gains recorded in November.

Despite the negative moves in global bond markets, local bonds returned a positive performance during a particularly volatile month. The volatile intra-month moves included the fourth largest daily decline of 4% in over two decades, which was caused by perceived heightened political risk which culminated in President Cyril Ramaphosa securing another term as ANC president at the ANC's National Elective Conference (NEC).

Local property had a strong December, following the robust performance in November and is now flat on a year-to-date basis, capping off a volatile year.

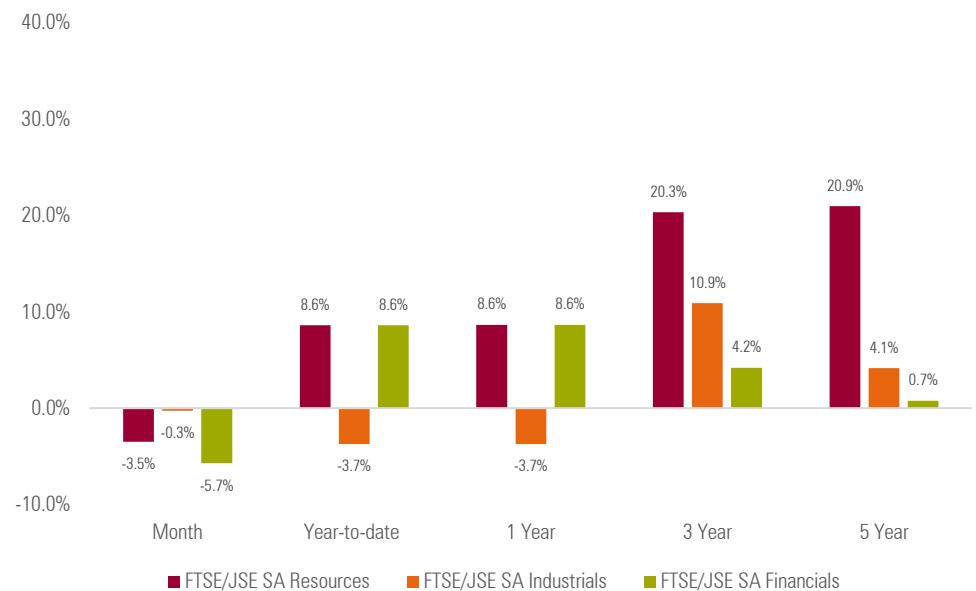
South Africa's annual inflation rate eased to 7.4% (year-over-year in November) from 7.6% in the prior month, below market expectations of 7.5%, but still above the upper limit of the South African Reserve Bank's target range of 3% - 6%. It was the lowest reading since June this year.

The composite SACCI Business Confidence Index in South Africa increased to 110.9 in November 2022, from 109.4 in the previous month. The latest reading suggested there was an improvement in business morale and matched September's seven-month high.

The FNB/BER Consumer Confidence Index for South Africa improved to -8 points in the fourth quarter of 2022 from -20 points in the previous period but remained "depressed" due to higher inflation and tighter monetary conditions. It was the highest reading since the last quarter of 2019 (before Covid-19).

The economy of South Africa advanced by 4.1% from a year ago in the third quarter of 2022, beating market estimates of 2.8% growth. It was the strongest growth rate since the second quarter of 2021.

Exhibit 2 | SA Sector Performance (total returns)



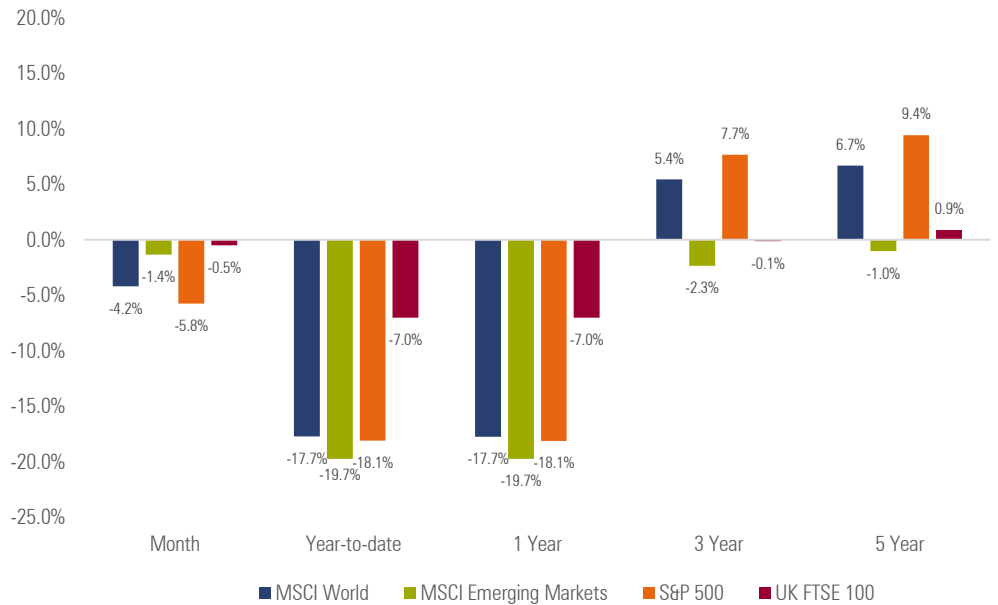
Source: Morningstar Direct as at 31/12/2022. Returns are in South African Rand and have been annualised for periods longer than 1 year.

Most of the major developed equity markets ended the month significantly lower, following the strong market moves in November. The **MSCI World Index** delivered a return of -4.2% in December, lagging emerging market peers over the month.

Emerging market equities outperformed developed market equities in December, as Chinese equities provided resilient performance on the back of the reopening of the economy from Covid-19 restrictions. Despite the positive contribution from Chinese equities, the **MSCI Emerging Markets Index** ended the month -1.4% lower in December.

Most major global equity markets produced negative returns in December. The UK's **FTSE 100** (-0.5%) and Japan's **Nikkei 225** (-1.2%) both ended the month lower. Germany's **FSE DAX** (+0.2%) and China's **Shanghai SE Composite** (+0.7%) bucked the global trend and moved higher this month.

US equities ended the month meaningfully lower in December, with most of the indices producing their worst annual performance since the global financial crisis. The US equity sell off was relatively broad based, with both the **S&P 500** (-5.8%) and the tech-heavy **NASDAQ 100** (-9.0%) ending the month significantly lower.

Exhibit 3 | International Market Performance (total returns)

Source: Morningstar Direct as at 31/12/2022. Returns are in US dollars and have been annualised for periods longer than 1 year.

Impact on client portfolios

Following the strong performance in October and November, markets ended the year in negative territory. From a portfolio perspective, most portfolios struggled to generate positive performance over the month, with only those portfolios allocated heavily to income producing assets ending in positive territory for the month. Rand weakness over the month provided a tailwind to the performance of global asset classes. Global emerging markets exposure (China exposure in particular) contributed positively to performance this month.

Given the tough year investors faced in 2022, we are reminded that market fluctuations are a natural part of the investment process, however, the uncertainties that come with it can be unsettling. It is worth reminding ourselves that significant drawdowns in asset prices reset valuations and provide the opportunity for investors to improve the expected returns of their portfolios over the long term.

We remain comfortable with the current positioning of client portfolios, both from an asset allocation and a manager selection perspective. We will continue to follow our valuation driven approach by allocating assets to the most attractive areas of the market from a reward-for-risk perspective and ensure we build robust portfolios. We are confident that we will continue to deliver on the specific investment objectives of each client portfolio independent of the prevailing market environment.

Local Market Indices	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
JSE All Share	-2.26	3.58	3.58	12.72	7.98	8.95
JSE Capped SWIX	-2.81	4.41	4.41	10.09	4.88	6.50
JSE SA Listed Property	1.13	0.49	0.49	-3.40	-7.24	-1.71
All Bond Index	0.62	4.26	4.26	7.09	7.85	9.24
STeFI (Money Market)	0.54	5.19	5.19	4.80	5.78	6.26
Local Market Sectors	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
JSE Top 40	-2.25	4.21	4.21	13.74	8.69	9.07
JSE Mid Cap	-2.92	1.60	1.60	3.89	3.19	6.89
JSE Small Cap	-1.44	7.55	7.55	19.49	6.92	8.23
FTSE/JSE SA Resources	-3.49	8.61	8.61	20.32	20.93	22.31
FTSE/JSE Ind/Financials	-5.70	8.61	8.61	4.18	0.75	4.05
FTSE/JSE SA Industrials	-0.27	-3.71	-3.71	10.90	4.13	4.94
Global Market Indices	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
MSCI World	-4.21	-17.73	-17.73	5.45	6.69	9.10
MSCI Emerging Markets	-1.35	-19.74	-19.74	-2.34	-1.03	5.56
S&P 500	-5.76	-18.11	-18.11	7.66	9.42	11.48
NASDAQ 100	-9.01	-32.38	-32.38	8.68	12.36	14.34
FTSE 100	-0.49	-7.01	-7.01	-0.13	0.87	3.56
SSE Composite	0.73	-22.19	-22.19	0.49	-2.63	-2.87
Nikkei 225	-1.17	-19.13	-19.13	-1.26	1.56	5.28
FSE DAX	0.24	-17.74	-17.74	-0.03	-0.85	3.51
US T-Bill 3m	0.37	2.13	2.13	0.85	1.34	1.15
Commodities	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
Oil Price Brent Crude	0.56	10.45	10.45	9.19	5.14	12.67
Gold	3.44	0.44	0.44	6.19	7.04	7.98
Platinum	0.59	7.51	7.51	2.69	2.19	2.49
Copper	1.94	-15.28	-15.28	9.73	1.39	6.76

Note: The performance of Local Market Indices and Local Market Sectors is quoted in rands and the performance of Global Market Indices and Commodities is quoted in US dollars. All data is sourced from Morningstar Direct as at 31/12/2022.

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Morningstar South Africa

5th Floor
20 Vineyard Road
Claremont
7708
+27 21 201 4645