Market Overview
January 2023

Morningstar Investment Management
February 2023

For Financial Advisers & Their Clients

Market and Economic summary

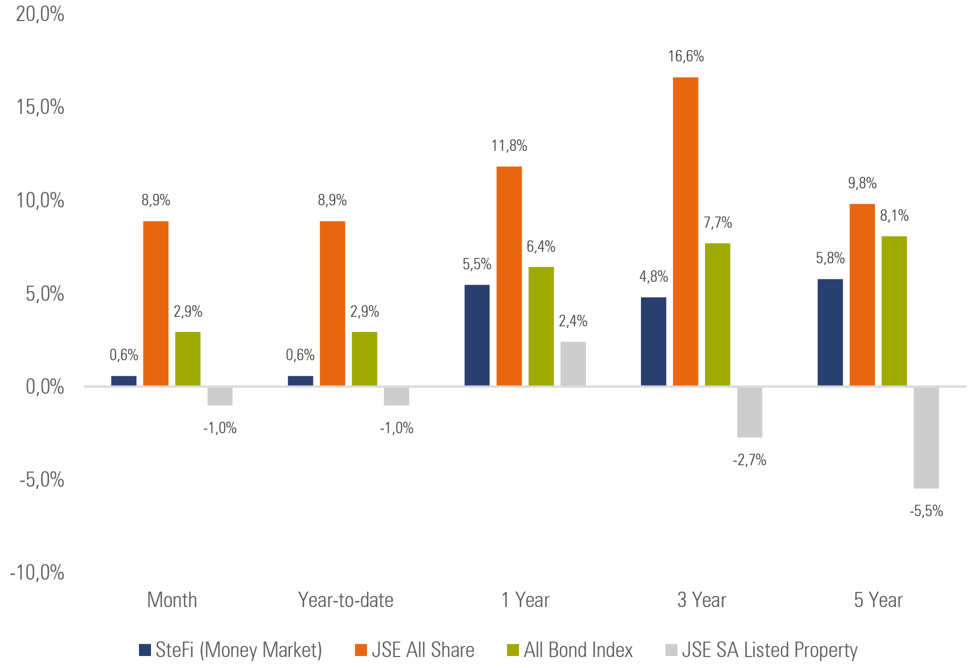
Global markets bounced back strongly in January, starting 2023 on the front foot. Inflation continued its downward trend and market participants now expect global central banks to continue slowing the pace of interest rate hikes, which buoyed the risk-on movements in global markets. Investors continued to focus on the health of corporate earnings in a weaker economic backdrop. Global bonds have moved higher, as yields moved lower in anticipation of a moderation of interest rates, while global equities were the largest benefactor of the risk-on environment in January, posting robust returns. Indian equities were one of the few equity markets that ended the month lower on the back of a report by Hindenburg Research (a short seller) alleging stock manipulation and accounting fraud at the various Gautam Adani listed companies, which led the index lower.

Most inflation reports came in below expectations this month, as headline inflation continues to slow. However, the inflation rates continue to remain above most central banks' targets. The annual inflation rate in the US slowed for a sixth straight month to 6.5% (year-on-year to the end of December), the lowest since October 2021. Inflation seems to have peaked at 9.1% in June 2022, but it remains well above the Fed's 2% target. Euro area inflation fell to 9.2% (year-on-year to the end of December), the lowest in four months, and below consensus forecasts of 9.7%. The annual inflation rate in the UK fell to 10.5% (year-on-year to the end of December), from 10.7% in November, matching market forecasts. The annual inflation rate remains in double digits for the UK, however, inflation seems to have peaked at 11.1% in October. China's annual inflation rate rose to 1.8% in December 2022, from November's eight-month low of 1.6%, in line with market consensus. For the full year of 2022, inflation was 2%, which is below the government target of around 3%.

Turning to economic growth, the US economy expanded at an annualized rate of 2.9% (year-on-year to the end of December), beating forecasts of 2.6%. The Euro area economy expanded 1.9% (year-on-year to the end of December) in the last three months of 2022, the slowest growth rate since the covid-induced contractions in 2020 and early 2021, but above market forecasts of 1.8%. The Chinese economy expanded 2.9% (year-on-year to the end of December), above market estimates of a 1.8% rise. Economic growth in China in 2022 failed to achieve the official target of around 5.5%, and marked the second slowest pace since 1976, underlining the impact of Beijing's zero-COVID policy, before it was stopped last month.

Turning to unemployment, developed job markets continue to remain robust. The unemployment rate in the UK was unchanged at 3.7% in the three months to November of 2022, the same as in the previous period, and in line with expectations. The unemployment rate in the US dropped to 3.5% in December, falling below market expectations of 3.7%. The latest US jobs report continues to point to a tight labour market, which could lead to more room for the US Federal Reserve to continue hiking interest rates.

Exhibit 1 | SA Market Performance (total returns)



Source: Morningstar Direct as at 31/01/2023. Returns are in South African Rand and have been annualised for periods longer than 1 year.

South African asset classes followed global peers higher this month, posting robust returns. Local equities moved higher in January, posting the second-best return in over 30 years. Local bonds followed global peers higher and in the face of a weaker rand.

South African equities ended the month significantly higher, following global and emerging market peers, as the risk-on environment benefitted equity markets. Resources produced a robust return in January, making up for the losses recorded in December. Industrials posted double-digit performance, ahead of the broader market, given the positive upward moves posted by rand hedges and index heavyweights Naspers, Prosus, and Richemont. Financials produced a positive return, however, the sector lagged behind the broader market.

Local bonds returned a positive performance in the face of a weaker rand. The yield curve steepened, with yields on the short end falling more than longer-dated maturities, as the market anticipates a slowdown in the pace of interest rate hikes

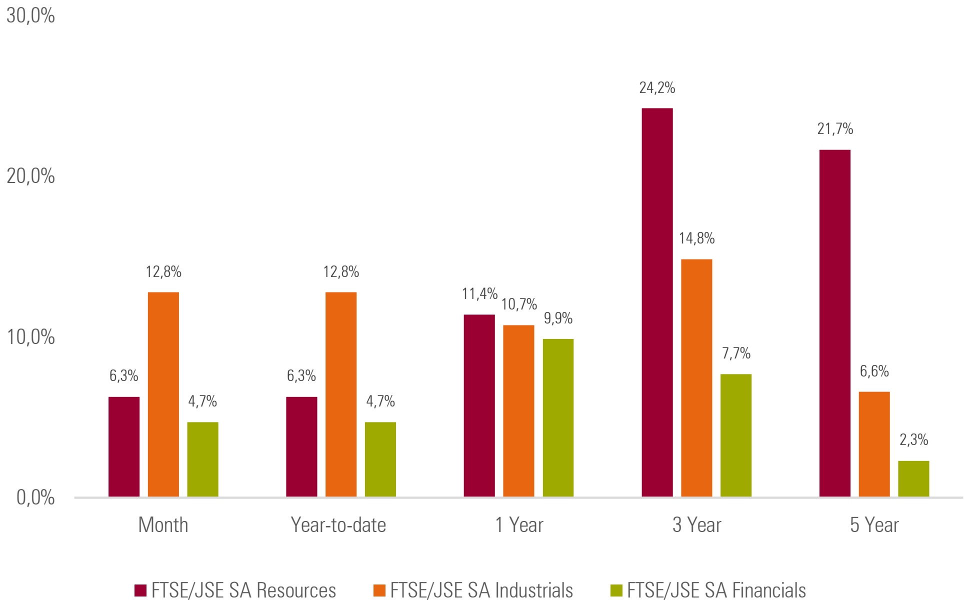
Local property had a tough January and was the only South African asset class to deliver negative performance for the month. The negative performance undid some of the resilient performance registered by the asset class in December.

Producer price inflation remains in double-digit territory, however, it eased for the fifth straight month to 13.5% (year-on-year to the end of December), down from 15% in November and slightly below market estimates of 14.1%. This was the lowest reading since April last year, largely due to the continued slowdown in the prices of coke, petroleum, chemical, rubber, and plastic products.

South Africa's annual headline inflation rate was 7.2% (year-on-year to the end of December), down from 7.4% in the prior month, as expected, but still above the upper limit of the South African Reserve Bank's target range of 3%-6%. It was the softest reading since May 2022, as prices continued to slow, primarily for transportation. The annual core inflation, which excludes prices of food, non-alcoholic beverages, fuel, and energy, eased to 4.9% (year-on-year to the end of December).

The South African Reserve Bank (SARB) raised its benchmark repo rate by 0.25% to 7.25% at its January 2023 meeting, which was below market expectations of 0.50%. The inflation outlook was kept at 5.4% for 2023 and core inflation expectations were cut to 5.2% in 2023 (versus the previous estimate of 5.5%). The growth outlook for 2023 was revised significantly lower to 0.3% (from 1.1% previously), as the SARB forecasts significant headwinds to economic growth, mainly due to extensive power cuts and other logistical constraints.

Exhibit 2 | SA Sector Performance (total returns)



Source: Morningstar Direct as at 31/01/2023. Returns are in South African Rand and have been annualised for periods longer than 1 year.

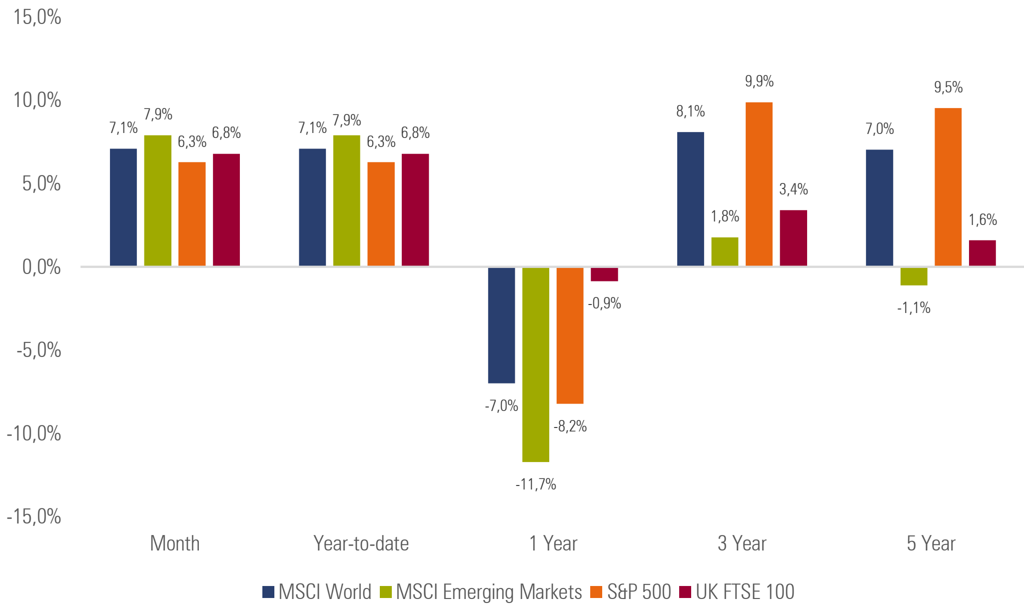
Most of the major developed equity markets ended the month significantly higher, starting the year with robust performance. The **MSCI World Index** delivered a return of +7.1% in January, lagging emerging market peers slightly over the month.

Emerging market equities outperformed developed market equities in January, as Chinese equities moved higher on the back of the Chinese economy normalising after the COVID-19 reopening. The **MSCI Emerging Markets Index** ended the month +7.9% higher in January.

Most major global equity markets produced positive returns in January. The UK's **FTSE 100** (+6.8%) and Japan's **Nikkei 225** (+6.3%) both ended the month higher. Germany's **FSE DAX** (+10.6%) produced double-digit returns while China's **Shanghai SE Composite** (+8.4%) ended significantly higher this month.

US equities ended the month meaningfully higher in January, with most of the indices producing robust performance. The US equity rebound was relatively broad-based, with both the **S&P 500** (+6.3%) and the tech-heavy **NASDAQ 100** (+10.7%) ending the month significantly higher.

Exhibit 3 | International Market Performance (total returns)



Source: Morningstar Direct as at 31/01/2023. Returns are in US dollars and have been annualised for periods longer than 1 year.

Impact on client portfolios

Following the tough year in 2022, January provided some reprieve to investors, as markets rebounded and produced robust returns across most asset classes. From a portfolio perspective, all portfolios managed to generate positive performance over the month, with portfolios allocated heavily to local and global equities benefitting the most from the risk-on environment. Rand weakness over the month provided a tailwind to the performance of global asset classes.

As we head into the new year, there seems to be a sense of optimism that the height of inflation is behind us. Despite this, there remain numerous uncertainties ahead and it's important to safeguard long-term wealth by constructing well-diversified portfolios with assets that are reasonably priced.

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	8.89	8.89	11.83	16.63	9.81	10.76
JSE Capped SWIX	6.96	6.96	9.07	13.57	6.39	7.84
JSE SA Listed Property	-1.00	-1.00	2.41	-2.72	-5.48	-1.42
All Bond Index	2.94	2.94	6.42	7.70	8.07	8.99
STeFI (Money Market)	0.58	0.58	5.46	4.80	5.78	6.26
Local Market Sectors	**1 Month**	**YTD**	**1 Year**	**3 Years**	**5 Years**	**7 Years**
JSE Top 40	9.69	9.69	12.99	17.87	10.67	11.13
JSE Mid Cap	3.83	3.83	5.91	6.31	3.99	7.05
JSE Small Cap	2.33	2.33	11.50	20.70	7.48	9.32
FTSE/JSE SA Resources	6.27	6.27	11.39	24.24	21.65	23.86
FTSE/JSE Ind/Financials	4.69	4.69	9.87	7.70	2.29	5.24
FTSE/JSE SA Industrials	12.78	12.78	10.74	14.84	6.58	7.22
Global Market Indices	**1 Month**	**YTD**	**1 Year**	**3 Years**	**5 Years**	**7 Years**
MSCI World	7.10	7.10	-6.99	8.10	7.05	11.14
MSCI Emerging Markets	7.91	7.91	-11.73	1.77	-1.11	7.74
S&P 500	6.28	6.28	-8.22	9.88	9.54	13.28
NASDAQ 100	10.67	10.67	-18.23	11.31	12.76	17.18
FTSE 100	6.79	6.79	-0.86	3.42	1.59	5.49
SSE Composite	8.42	8.42	-8.76	3.91	-2.73	2.12
Nikkei 225	6.26	6.26	-8.32	1.32	1.86	7.56
FSE DAX	10.57	10.57	-5.27	4.53	0.00	6.46
US T-Bill 3m	0.39	0.39	2.52	0.94	1.40	1.20
Commodities	**1 Month**	**YTD**	**1 Year**	**3 Years**	**5 Years**	**7 Years**
Oil Price Brent Crude	-1.65	-1.65	-7.37	13.26	4.12	13.54
Gold	6.07	6.07	7.17	6.69	7.42	8.15
Platinum	-2.62	-2.62	-1.76	1.54	0.02	2.13
Copper	10.90	10.90	-3.02	17.64	4.18	8.86

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 31/01/2023.

About the Morningstar Investment Management Group

Morningstar's Investment Management group, through its investment advisory units, creates investment solutions that combine award-winning research and global resources with proprietary Morningstar data. Morningstar's Investment Management group provides comprehensive retirement, investment advisory, and portfolio management services for financial institutions, plan sponsors, and advisers around the world.

Morningstar's Investment Management group comprises Morningstar Inc.'s registered entities worldwide including: Morningstar Investment Management LLC; Morningstar Investment Management Europe Limited; Morningstar Investment Management South Africa (Pty) Ltd; Morningstar Investment Consulting France; Ibbotson Associates Japan, Inc; Morningstar Investment Adviser India Private Limited; Morningstar Investment Management Asia Ltd; Morningstar Investment Services LLC; Morningstar Associates, Inc.; and Morningstar Investment Management Australia Ltd.

About Morningstar, Inc.

Morningstar, Inc. is a leading provider of independent investment research in North America, Europe, Australia, and Asia. The company offers an extensive line of products and services for individual investors, financial advisors, asset managers, retirement plan providers and sponsors, and institutional investors in the private capital markets. Morningstar provides data and research insights on a wide range of investment offerings, including managed investment products, publicly listed companies, private capital markets, and real-time global market data. The company has operations in 27 countries.

Important Information

The opinions, information, data, and analyses presented herein do not constitute investment advice; are provided as of the date written; and are subject to change without notice. Every effort has been made to ensure the accuracy of the information provided, but Morningstar makes no warranty, express or implied regarding such information. The information presented herein will be deemed to be superseded by any subsequent versions of this document. Except as otherwise required by law, Morningstar, Inc or its subsidiaries shall not be responsible for any trading decisions, damages or losses resulting from, or related to, the information, data, analyses or opinions or their use. Past performance is not a guide to future returns. The value of investments may go down as well as up and an investor may not get back the amount invested. Reference to any specific security is not a recommendation to buy or sell that security. There is no guarantee that a diversified portfolio will enhance overall returns or will outperform a non-diversified portfolio. Neither diversification nor asset allocation ensure a profit or guarantee against loss. It is important to note that investments in securities involve risk, including as a result of market and general economic conditions, and will not always be profitable. Indexes are unmanaged and not available for direct investment.

This commentary may contain certain forward-looking statements. We use words such as “expects”, “anticipates”, “believes”, “estimates”, “forecasts”, and similar expressions to identify forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results to differ materially and/or substantially from any future results, performance or achievements expressed or implied by those projected in the forward-looking statements for any reason.

The Report and its contents are not directed to, or intended for distribution to or use by, any person or entity who is not a citizen or resident of or located in any locality, state, country or other jurisdiction listed below. This includes where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Morningstar or its subsidiaries or affiliates to any registration or licensing requirements in such jurisdiction.

The Report is distributed by Morningstar Investment Management South Africa (Pty) Limited, which is an authorized financial services provider (FSP 45679), regulated by the Financial Sector Conduct Authority.

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