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April 2023 Monthly Market Summary

Global Market and Economic Update

Despite facing various market-moving events such as a potential fallout from the recent banking stress, earnings releases, stubbornly high inflation, and weak economic data, most global markets moved higher in April. Divergent views continued this month around future central bank actions, with some market commentators anticipating a possible reduction in interest rates towards the end of the year given the tough economic backdrop and the recent banking stress. On the other hand, some continue to see rates moving higher to combat sticky inflation. Despite the prevailing uncertainty, most markets moved higher in April and posted decent gains, as earnings reports from the major technology companies buoyed sentiment. As we head into May, all eyes will be on monetary authorities' policy actions given the weaker economic backdrop, in their attempt to rein in inflation, whilst closely monitoring the fallout from the recent banking stress.

Economic growth failed to gain traction in most global economies in the first quarter of 2023. **The UK economy** stalled in February and **expanded 0.5%** (year-on-year to the end of February), slightly above forecasts of a 0.3% increase. The UK economy has recovered to 0.3% above its pre-coronavirus levels. **The Chinese economy advanced 4.5%** (year-on-year in the first quarter of 2023), above market estimates of 4%. It was the strongest pace of expansion since Q1 of 2022, amid efforts from Beijing to spur a post-pandemic recovery. **The US economy grew by 1.1%** (year-on-year in the first quarter of 2023), slowing from a 2.6% expansion in the previous quarter and missing market expectations of 2% growth. It was the weakest pace of expansion since Q2 2022, as business investment growth slowed down, inventories declined, and rising interest rates continued to impact the housing market. **The Euro Area economy expanded 1.3%** (year-on-year to the end of the first quarter of 2023), less than market expectations of 1.4%, and below the 1.8% growth achieved in Q4 2022.

Inflation prints came in below expectations in most developed markets, however, remain sticky and above central banks targets, providing room for **further interest rate hikes**. China's annual inflation rate fell to 0.7% (year-on-year to the end of March 2023), below market consensus of 1.0%. This was the lowest figure since September 2021. The **annual inflation rate in the US slowed for a ninth consecutive month to 5%** (year-on-year to the end of March 2023), the lowest reading since May of 2021 and below market forecasts of 5.2%. **The inflation rate in the UK eased to 10.1%** (year-on-year to March 2023), down from 10.4% in February, but higher than market expectations of 9.8%. **The inflation rate remained above the 10% mark for a seventh consecutive month** and has also remained above the Bank of England's 2% target for almost two years, suggesting policymakers might continue to raise borrowing costs. The annual inflation rate in the Euro Area moved lower to 6.9% (year-on-year to March 2023), down for a fifth consecutive month from last October's record high of 10.6% and its lowest level since February 2022. **Euro Area core inflation hit a fresh record high of 5.7%** (year-on-year to the end of March 2023), putting pressure on policymakers to **push on with further rate hikes**.

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Turning to unemployment, developed job markets continue to remain robust, **providing more room for central banks to move rates higher to curb inflation**. The unemployment rate in the United States moved lower to 3.5% (year-on-year to the end of March 2023), below expectations of 3.6%. China's unemployment rate declined to a seven-month low of 5.3% (year-on-year to the end of March 2023), from February's three-month high of 5.6%. The unemployment rate in the UK increased to 3.8% (year-on-year to the end of the first quarter 2023), the highest level since the second quarter of 2022 and slightly higher than the market consensus of 3.7%.

South African Market Update

South African asset classes produced divergent returns this month. Local equities ended the month higher, driven by a strong return from the resource sector, while local bonds produced negative returns on the back of sticky inflation and weak economic growth, which impacted the fiscal outlook.

South African equities ended the month higher, as all sectors produced strong returns. Resources moved higher this month, as the prices for the commodity complex (mainly gold, platinum, and palladium) moved higher. **Gold Fields (+19.9%), Harmony Gold (+16.9%) and Northam Platinum (+23.7%)** were all beneficiaries of the elevated gold and platinum price in April. **Industrials** produced a **strong return in April** and continues to be the best performing sector over a one-year basis, driven largely by the returns of index heavy weights, Richemont, Naspers and Prosus. **Financials produced strong returns this month** as the financial sector bounced back from the weak returns recorded in March.

Local bonds ended the **month lower**, producing their **worst return since September last year**, as yields on the short end of the curve rose more than longer dated maturities (typically known as a bear flattening of the yield curve), leading bond prices lower. The negative move was largely on the back of elevated inflation, which continues to be sticky, leading to the expectation that rates will continue to rise to bring inflation under control.

Local property ended the month higher, recouping some of the losses produced in the first quarter of 2023. Europe focused counters outperformed this month, producing strong returns. The sector is now flat on a year-to-date basis.



Besturende Lid/Managing Member: F.C. Nel National Certificate: Financial Markets & Instruments-Wealth Management Specialization

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South African Economic Update

South Africa's retail trade was down by 0.5% (year-on-year to the end of February 2023), below market estimates of a 0.3% fall. It was the third consecutive month of declines in retail activity, on the back of persistent headwinds to the SA consumer on the back of persistent load shedding and elevated living costs for consumers. The largest negative contributors came from general dealers and retailers in hardware, paint and glass.

South Africa continues to suffer from higher-than-expected inflation driven by loadshedding and the weak rand. South Africa's annual inflation rate rose for the second consecutive month to 7.1% (year-on-year to the end of March 2023), from 7% in the prior month, ahead of market expectations of 6.9% and still above the upper limit of the SARB's target range of 3%-6%. Food and non-alcoholic beverages, transport, miscellaneous goods and services and housing and utilities were the main drivers of overall inflation. The annual core inflation, which excludes prices of food, fuel and energy, stood at a six-year high of 5.2% in March, unchanged from February and above market estimates of 5.1%.

The South African Chamber of Commerce and Industry (SACCI) business confidence index fell to a four-month low of 111.3 in March of 2023, from 111.9 in February, dragged down by persistent power blackouts, rising interest rates and lower share prices dampening sentiment.

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See below for a summary of the key market movements for the month:

- The **JSE All Share Index (+3.4%)** ended April higher, buoyed by a strong performance in the Resource sector.
- The **strong performance** of South African equities was broad based across the different local equity sectors during the month, with **Financials (+3.0%)**, **Industrials (+3.1%)** and **Resources (+4.0%)** all moving higher.
- **Listed property (+5.4%)** ended the month higher, as the property sector rebounded after a weak first quarter performance. Europe focused counters outperformed this month, with **Nepi Rockcastle (+7.0%)**, **MAS (+10.8%)** and **Sirius (+9.8%)** producing robust returns. Index heavyweights performed well and posted strong returns in April, as **Growthpoint (+2.4%)** and **Redefine (+6.6%)** moved higher this month.
- **Local bonds (-1.1%)** ended the month lower, as the yield curve flattened. Yields moved higher (moving prices lower) on the front end of the curve, in anticipation of an increase in interest rates.
- **Cash** delivered a positive return of **+0.6%** in April, and the expected return continues to move up on the expectation of higher interest rates.
- Most of the **major developed equity markets ended the month higher**, producing strong gains in April. The **MSCI World Index delivered a return of +1.8%** in April, which was ahead of its emerging market peers.
- Most **emerging equity markets** moved lower during the month. The **MSCI Emerging Markets Index** ended the month **-1.1%** lower in April.
- Most **major global equity markets** produced **positive returns** in April. **Japan's Nikkei 225(+0.6%)**, **Germany's FSE DAX (+3.5%)** and **China's Shanghai SE Composite (+0.7%)** ended the month in positive territory. The UK's **FTSE 100 (+5.1%)** posted strong gains this month, bouncing back from the negative performance recorded in March.
- **US equities** ended the month higher. The tech-heavy **NASDAQ 100 (+0.5%)** ended the month higher, however, the positive move masked the volatile nature of the index during the month. The index was mostly negative for most of April, however, better than expected earnings from large technology counters pushed the index higher in the latter part of the month. **The S&P 500 (+1.6%)** ended the month higher in the month, posting a decent return.
- In terms of the major commodities, **Gold (+0.1%)** and **Platinum (+9.5%)** ended the month higher, while **Oil (-0.3%)** ended the month lower.
- The rand weakened against most of the major crosses this month. The currency lost ground against the **US dollar (-3.1%)**, **euro (-4.7%)**, and the **pound sterling (-4.8%)** during the month.

**All data is sourced from Morningstar Direct as at 2023/04/30. The performance of South African asset classes is quoted in rands and the performance of global asset classes is quoted in US dollars*