BELMONT
ASSET MANAGEMENT

MARKET COMMENTARY - QUARTER ENDED 31 MARCH 2023

Global equity markets rose during a volatile quarter as investors welcomed signs from central banks in the US and Europe that interest rates may not rise as much as had previously been expected. Lower inflation levels combined with a crisis in the banking sector prompted central banks to consider adjusting monetary policy.

Markets started the year with a strong January rally for equities. Fixed income markets also reacted positively to the decline in inflation and the prospect of easier monetary policy. In February, equity and fixed income markets were weighed down by strong economic data together with sticky core inflation which caused investors to reassess their interest rate expectations and price in higher-for-longer interest rates. In March, the collapse of Silicon Valley Bank (SVB) and broader concerns around the financial sector hit bank shares hard, while government bonds rallied. The fall in bond yields also led to a rally in growth stocks which considerably outperformed value stocks during the quarter.

The Euro, Japanese Yen and Sterling strengthened against the US Dollar by 2.4%, 2.3% and 2.1% respectively.

INDEX	3 MTH TOTAL RETURN IN US (%)	3 MTH TOTAL RETURN IN EUR (%)	3 MTH TOTAL RETURN IN GBP (%)
MSCI WORLD	7.7	5.8	4.8
S&P 500 (US)	7.5	5.6	4.6
FTSE EUROPE EX UK	11.7	9.7	8.6
FTSE ALL SHARE(UK)	6.0	4.1	3.1
TOPIX (JAPAN)	6.3	4.4	3.4
MSCI EMERGING MARKETS	4.0	2.1	1.1
MSCI ASIA EX JAPAN	4.3	2.5	1.5

The US

The S&P 500 Index rose by 7.5% in US Dollars.

US gross domestic product (GDP) growth fell to an annualised 2.7% in the fourth quarter from 3.2% in the prior quarter due in part to weaker consumer spending. In the labour market, about 800 000 jobs were added in January and February combined. However the 4-week average of jobless claims to 8 April 2023 rose to 240 000, up from 170 500 one year ago. The February consumer price inflation (CPI) report showed that inflation fell to 6.0% year-on-year, an eighth consecutive monthly decline and now well down from its 8.9% peak in June 2022. It is worth noting that inflation is now dominated by shelter costs which account for over 70% of the increase in prices.

As the collapse of SVB unfolded, the authorities acted quickly and decisively to guarantee deposits and the Federal Reserve (Fed) launched a one-year funding scheme to shore up confidence and liquidity in the banking system. This sent a signal to investors that regulators and central banks were willing to aid the sector in times of distress. Nevertheless, the possibilities that the collapse could lead to financial instability and a sharp slowdown were concerns for the Fed. As a result, it raised its benchmark interest rate by only 25 basis points at its March meeting instead of the 50 basis points that had been expected prior to the SVB crisis.

Europe

Eurozone

The FTSE Europe ex UK Index rose by 9.7% in Euros and by 11.7% in US Dollars.

The Eurozone composite purchasing managers index (PMI) for March rose to a 10-month high of 54.1 which was well above expectations and also entirely driven by the services sector. Eurozone consumer price inflation rose by 6.9%, down from 8.5% in February. However core inflation (excluding food and energy costs) rose to 5.7% from 5.6%.

The European Central Bank (ECB) raised its key policy rate twice during the quarter, sticking to its inflation fighting plan despite growing turmoil in the banking sector. Following the collapse of SVB, Credit Suisse also faced a crisis before the Swiss government stepped in to shore it up and ultimately arranged an emergency acquisition. Swiss banking giant UBS agreed to buy Credit Suisse for more than $3 billion.

UK

The FTSE All Share Index rose by 3.1% in Sterling and by 6.0% in US Dollars.

The latest GDP data revealed that the UK economy had not contracted in the fourth quarter of 2022, contrary to consensus expectations. However, in its latest quarterly forecasts, the Bank of England (BoE) said that it still expected the country to fall into a recession later in 2023. The recession, however, is expected to be shallower than the BoE had envisaged in November 2022. The BoE’s Monetary Policy Committee voted to continue to raise interest rates as inflation remained its main concern.

Japan

The Topix Index rose by 7.2% in Yen and by 6.3% in US Dollars. The Bank of Japan (BoJ) kept its ultra-low interest rate unchanged amid slowing inflation. After hitting a 41-year high in January core inflation fell to 3.1% from 4.2% but remained well ahead of the BoJ’s 2% target. Kazuo Ueda, a former BoJ policy board member, was appointed as the BoJ’s next governor to replace Haruhiko Kuroda following the end of Kuroda’s 5-year term in early April.

The Tokyo Stock Exchange was expected to announce its guidance to urge companies with price-to-book ratios of below 1 to make plans to boost corporate value. This has attracted global attention to Japan, especially for those companies announcing enhanced shareholder remuneration.

Emerging Markets

The MSCI Emerging Markets Index rose by 4.0% in US Dollars.

China: The MSCI China IMI Index rose by 4.7% in US Dollars. Optimism about the re-opening of the economy, supportive property market measures and a loosening of the regulatory crackdown on China's technology companies bolstered investor sentiment.

Brazil*:* The MSCI Brazil IMI Index fell by 3.2% in US Dollars against a backdrop of softening economic data and anti-government riots. President Luiz Inacio Lula da Silva continued to question the central bank's independence and monetary policy stance.

India: The MSCI India IMI Index fell by 6.4% in US Dollars. Slowing growth and rising rates weighed on sentiment. India's economy grew by 4.4% on an annualised basis in the last quarter of 2022. Higher borrowing costs weighed on consumer spending.

South Africa

South Africa's GDP growth turned negative quarter-on-quarter, decreasing by 1.3%. This fell significantly short of expectations with eight out of eleven sectors in the red. ABSA estimates that record loadshedding at Eskom may have accounted for a negative 1.7% of this total and the South African Reserve Bank (SARB) estimates that this will cost the economy 2% of its GDP in 2023. The SARB expects the economy to grow by 0.3% in 2023, 0.7% in 2024 and 1% in 2025. Furthermore S&P Global revised the country's outlook from positive to stable.

A national state of disaster was declared in two instances during the quarter - the first due to the Eskom crisis and the second as severe floods impacted seven out of nine provinces. The former was subsequently revoked in April however under the threat of legal scrutiny by the public.

Inflation was recorded at 7% year-on-year, continuing a downward trajectory off its peak in July last year. The Food & Beverage and Transport sectors were the main contributors as higher input costs were passed on to consumers. The hawkish SARB surprised pundits by raising interest rates by an accelerated 50 basis points in March in addition to a 25-basis point hike in January. The current level of 7.75% brings the repo rate back to levels last seen in 2009 at the back end of the Global Financial Crisis, although at this stage a termination of the rising cycle is expected by the end of the year.

President Cyril Ramaphosa led a lacklustre State of The Nation address which largely failed to address solutions to the country's pressing issues. The jury is out on the effectiveness of the newly-minted position of Minister of Electricity, considering the additional four ministerial departments overseeing various matters at Eskom. The infrastructure woes at Transnet, estimated to have cost R150bn in lost sales last year, also remain unresolved. In a widely-anticipated cabinet reshuffle, Cyril Ramaphosa placed key allies in strategic positions such as Paul Mashatile as Deputy President and Dr Kgosientsho Ramokgopa as Minister of Electricity.

By contrast Finance Minister Enoch Godongwana delivered a more decisive budget speech, detailing a R254bn debt relief plan for Eskom which is expected to bring the utility back to a state of financial stability. While government revenue beat expectations, the added debt load from Eskom is forecast to push the country's peak debt-to-GDP ratio up to 73.6% in 2025/26.

The Financial Action Task Force (FATF), an international body aimed at reducing money laundering and terrorist financing, officially placed South Africa on its grey list. While this was mostly priced in to the markets, the grey listing will increase the cost of cross-border business for the country going forward as well as the regulatory burden in financial dealings for everyday South Africans.

The Rand and the JSE: Weaker growth along with softer commodity prices led to the Rand losing ground against all three major currencies. The Rand decreased by 3.4% against the US Dollar, 8.6% against Sterling and 9% against the Euro. The mainly Rand-hedged element of the JSE was on full display as the All-Share Index appreciated by 4.5% during the quarter, reaching all-time highs in January. Richemont was the star performer as its share price increased by 27%.

Indices By Sector

		Sector	2022 01-Apr	01-Jul	30-Sep	31-Dec	2023 31-Mar	*3 Months* % Chg	*6 Months* % Chg	*9 Months* % Chg	*12 Months* % Chg
JI0040	1	Consumer Discretionary	28216	25427	25744	32419	38162	17.7%	48.2%	50.1%	35.2%
JI0020	2	Health Care	5008	4319	4319	4424	5162	16.7%	19.5%	19.5%	3.1%
JI0010	3	Technology	23261	31649	28161	36783	40652	10.5%	44.4%	28.4%	74.8%
JI0050	4	Industrials	33914	32649	30925	32835	34329	4.6%	11.0%	5.1%	1.2%
J200	5	**Top 40**	68941	60902	57850	68361	70959	3.8%	22.7%	16.5%	2.9%
J203	6	**All Share Index**	75835	67025	64227	74436	76615	2.9%	19.3%	14.3%	1.0%
JI0045	7	Consumer Staples	76771	75072	73652	78773	79971	1.5%	8.6%	6.5%	4.2%
JI0030	8	Financials	45285	38020	35571	39604	39564	-0.1%	11.2%	4.1%	-12.6%
JI0015	9	Telecommunications	8403	6527	5843	6145	6102	-0.7%	4.4%	-6.5%	-27.4%
JS5513	10	Precious Metals & Mining	64362	48397	46013	56531	55046	-2.6%	19.6%	13.7%	-14.5%
JS3011	11	Banks	10966	9353	8696	9917	9656	-2.6%	11.0%	3.2%	-11.9%
J253	12	Listed Property	332	288	274	320	304	-5.0%	10.9%	5.6%	-8.4%
JS4041	13	Retailers	6817	5875	6117	6028	5527	-8.3%	-9.6%	-5.9%	-18.9%