BELMONT
ASSET MANAGEMENT

MARKET COMMENTARY - QUARTER ENDED 30 JUNE 2023

Global equity markets rose during the quarter, boosted by strong gains in the technology sector amid positive sentiment towards artificial intelligence and its potential to boost corporate profit margins. Better than expected economic growth in the US and Japan and the Federal Reserve's (Fed's) decision to pause its aggressive interest rate hiking campaign also helped to support investor confidence.

The US Dollar weakened against both the Euro and Sterling, while the Yen weakened against all three of those currencies as the Bank of Japan (BoJ) continued to maintain ultra-low rates in contrast to most other central banks.

INDEX	3 MTH TOTAL RETURN IN US (%)	3 MTH TOTAL RETURN IN EUR (%)	3 MTH TOTAL RETURN IN GBP (%)
MSCI WORLD	6.8	6.4	3.9
S&P 500 (US)	8.7	8.3	5.8
FTSE EUROPE EX UK	3.4	3.0	0.6
FTSE ALL SHARE(UK)	2.4	1.9	-0.5
TOPIX (JAPAN)	5.4	4.9	2.5
MSCI EMERGING MARKETS	0.9	0.5	-1.9
MSCI ASIA EX JAPAN	-1.3	-1.7	-4.0

The US

The S&P 500 Index rose by 8.7% in US Dollars, with the bulk of the gains made in June.

US equities outperformed helped by mega-cap technology stocks and in an environment of moderating inflation and signs that the US economy remains resilient in spite of higher interest rates. Gross domestic product (GDP) grew by an annualised 2.0% which was substantially higher than the previous estimate of 1.3%. May consumer price inflation decelerated on the headline and core levels to 4.0% and 5.3% respectively year-on-year. The US unemployment rate increased in May to 3.7% from 3.4%, but the labour market nevertheless remains historically tight. After falling in four of the previous five months, retail sales rose in both April and May and in May there was a surprise increase in durable goods orders and a positive reading for consumer sentiment.

Following 10 consecutive increases at previous monthly meetings, the Fed left the federal funds rate unchanged at a range of 5.00 – 5.25% at its June meeting. However, the Federal Open Market Committee's projections suggested two more rate increases in 2023 amid an improved growth outlook. Fed Chairman Jerome Powell struck a hawkish tone, suggesting that bringing inflation down to 2% over time was still the Fed's priority.

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Europe

Eurozone

The FTSE Europe ex UK Index rose by 3.0% in Euros and by 3.4% in US Dollars despite rising interest rates and signs of economic weakness across the 20-member Eurozone.

The Eurozone economy contracted by 0.1% in each of the first quarter of 2023 and the fourth quarter of 2022, indicating a mild recession. The flash Eurozone composite Purchasing Managers' Index (PMI) fell to 50.3 in June from 52.8 in May which represents a 5-month low and suggests that the economy may be close to stagnation. The business surveys painted a particularly bleak outlook for the manufacturing sector while the services sector remained in positive territory.

In contrast to the Fed's pause, the European Central Bank (ECB) continued to tighten monetary policy. With inflation remaining at elevated levels, the ECB raised its key policy rate to 3.5%. Subsequent comments from ECB President Christine Lagarde indicated that more tightening was likely.

UK

The FTSE All Share Index fell by 0.5% in Sterling but rose by 2.4% in US Dollars.

The Bank of England (BoE) raised its key rate twice – in May and again in June. The 0.5% increase in June represented a re-acceleration after an initial decision in March to slow the rate to increments of 0.25%. The re-acceleration decision came following data which suggested that the BoE remained some way off getting on top of inflation on a sustainable basis. BoE Governor, Andrew Bailey, said that rates may stay higher for longer than markets expect.

So far not that many households have felt the pain of higher rates thanks to their fixed-rate mortgage deals, but 2.1 million more households will see their cheap fixed-rate deals expire over the next 18 months.

Japan

The Topix Index rose by 14.5% in Yen and by 5.4% in US Dollars.

Japanese equities rose strongly amid ongoing expectations of corporate governance reforms and structural shifts in the Japanese macro economy. Japan's gross GDP grew by an annualised 2.7% in the first quarter following modest contractions in the last two quarters of 2022.

The Bank of Japan (BoJ) held its first policy meeting under new governor Kazuo Ueda in April and the second in June. The central bank maintained its dovish monetary policy despite persistent inflation. Core inflation, which excludes fresh food, edged down in May to 3.2% from 3.4% the previous month, but remained well above the BoJ's 2% target.

The Yen weakened by 9.1% against the US Dollar during the quarter.

Emerging Markets

The MSCI Emerging Markets Index rose by 0.9% in US Dollars.

China: The MSCI China IMI Index fell by 9.7% in US Dollars as investors worried about a slowing economy. Factory output has started to slow due to lacklustre consumer spending and weak demand for exports. China's Manufacturing PMI was 49.0 in June, a slight improvement from May but it marked the third straight month of a sub-50 reading indicating a contraction in activity. The non-Manufacturing PMI, which measures construction and services activity, declined to a lower than expected 53.2 in June. The People's Bank of China cut interest rates and top government officials signalled their intention for more stimulus measures to revive growth.

Brazil*:* The MSCI Brazil IMI Index rose by 20.7% in US Dollars. Brazilian equities outperformed amid easing fiscal policy concerns, optimism about potential rate cuts and better than expected GDP growth in the first quarter.

India: The MSCI India IMI Index rose by 12.2% in US Dollars, driven by foreign inflows and supported by steady earnings and improved macroeconomic data. India's economy expanded by 6.1% year-on-year in the first quarter.

South Africa

Positive GDP growth of 0.4% quarter-on-quarter and 0.2% year-on-year was ahead of expectation and also ensured the country narrowly avoided recession. Although the economy experienced a month of relative reprieve with load shedding, a colder winter led to an increase in energy demand, compounding difficulties at Eskom. Encouragingly, the recent easing of regulations around private power generation is projected to increase non-Eskom capacity by up to 25 GW by the end of 2025. Public/private task teams have also been formed to improve logistics infrastructure, which should similarly help the current issues at Transnet.

The Consumer Price Inflation index continued its steady decline off recent highs with a year-on-year increase of 5.4%, following similar trends overseas. Despite this the South African Reserve Bank (SARB) was unanimous in its decision to hike the repo rate by 50 basis points to 8.25%. This was the tenth consecutive rate hike by the SARB, having increased the rate by a total of 475 basis points since the beginning of the tightening cycle. Local borrowing costs are now at their highest level since May 2009.

During the quarter South Africa's unilateral benefit in the African Growth and Opportunity Act went under consideration following a US Senator's letter to President Joe Biden, questioning the country's official neutral stance in the Russia/Ukraine war. Additionally the controversial National Health Insurance (NHI) Bill was passed in parliament, although many question marks remain over its feasibility and implementation in the medium term.

The Rand and the JSE: The Rand had another poor quarter, decreasing by 5.5% against the US Dollar, 7.3% against Sterling and 5% against the Euro, while reaching record lows against all three major currencies. Market rumours around alleged Russian ties, continual load shedding and soft commodity prices were mostly to blame in this instance. The JSE All Share Index grew a modest 0.2%.

Indices By Sector

		Sector	2022 01-Jul	30-Sep	31-Dec	2023 31-Mar	30-Jun	*3 Months* % Chg	*6 Months* % Chg	*9 Months* % Chg	*12 Months* % Chg
JI0040	1	Consumer Discretionary	25427	25744	32419	38162	40663	6.6%	25.4%	58.0%	59.9%
JI0020	2	Health Care	4319	4319	4424	5162	5349	3.6%	20.9%	23.8%	23.8%
JI0030	3	Financials	38020	35571	39604	39564	40771	3.1%	2.9%	14.6%	7.2%
JS3011	4	Banks	9353	8696	9917	9656	9921	2.7%	0.0%	14.1%	6.1%
JS4041	5	Retailers	5875	6117	6028	5527	5677	2.7%	-5.8%	-7.2%	-3.4%
JI0050	6	Industrials	32649	30925	32835	34329	34671	1.0%	5.6%	12.1%	6.2%
JI0010	7	Technology	31649	28161	36783	40652	40986	0.8%	11.4%	45.5%	29.5%
JI0015	8	Telecommunications	6527	5843	6145	6102	6138	0.6%	-0.1%	5.0%	-6.0%
J200	9	**Top 40**	60902	57850	68361	70959	70933	0.0%	3.8%	22.6%	16.5%
J203	10	**All Share Index**	67025	64227	74436	76615	76234	-0.5%	2.4%	18.7%	13.7%
JI0045	11	Consumer Staples	75072	73652	78773	79971	77850	-2.7%	-1.2%	5.7%	3.7%
J253	12	Listed Property	288	274	320	304	295	-3.0%	-7.8%	7.7%	2.4%
JS5513	13	Precious Metals & Mining	48397	46013	56531	55046	51124	-7.1%	-9.6%	11.1%	5.6%

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