

MARKET COMMENTARY - QUARTER ENDED 30 SEPTEMBER 2023

Global equities declined during the quarter as central banks continued to raise interest rates and to indicate that policy might need to remain restrictive for longer in order to tame inflation. Tight oil markets pushed the price of Brent crude oil above \$90/barrel for the first time since November 2022.

The divergence between a resilient US economy and signs of slowing in the Eurozone persisted. Among major developed markets, US equities fared better than European equities and Japanese equities fared better than both. The US Dollar strengthened against major currencies.

INDEX	3 MTH TOTAL RETURN IN US (%)	3 MTH TOTAL RETURN IN EUR (%)	3 MTH TOTAL RETURN IN GBP (%)
<i>MSCI WORLD</i>	-3.5	-0.5	0.6
<i>S&P 500 (US)</i>	-3.3	-0.3	0.8
<i>FTSE EUROPE EX UK</i>	-5.5	-2.6	-1.6
<i>FTSE ALL SHARE(UK)</i>	-2.2	0.8	1.9
<i>TOPIX (JAPAN)</i>	-0.8	2.3	3.4
<i>MSCI EMERGING MARKETS</i>	-2.9	0.0	1.1
<i>MSCI ASIA EX JAPAN</i>	-3.3	-0.4	0.7

The US

The S&P 500 Index fell by 3.3% in US Dollars.

Gross domestic product (GDP) rose by 2.1% in the second quarter, indicating that the US economy continued to grow at a healthy pace despite persistent recession fears. The unemployment rate rose by 0.3% to 3.8% in August but overall the US labour market remains very strong. Consumer spending rose by 0.9% and 0.4% month-on-month in July and August respectively.

The Consumer Price Index (CPI) rose by an annualised 3.7% in August, the second consecutive monthly increase after 12 straight months of slowing inflation. The increase was largely driven by a 5.6% month-on-month increase in energy prices.

The US Federal Reserve (Fed) raised its key rate by 0.25% to a range of 5.25% to 5.50% at its July meeting as most monetary policy members saw significant upside risk to inflation which could require further tightening of monetary policy. Fed Chairman Jerome Powell's speech in late August was also somewhat hawkish as he stated: "We are prepared to raise rates further if appropriate and intend to hold policy at a restrictive level until we are confident that inflation is moving sustainably down." Although the Fed held rates steady in September, its projections indicated that another increase could come by the end of the year.

Europe

Eurozone

The FTSE Europe ex UK Index fell by 2.6% in Euros and by 5.5% in US Dollars.

Economic data remained disappointing. Second quarter GDP was revised down from 0.3% quarter-on-quarter to 0.1% amid weak consumer spending. Although the Eurozone composite PMI (Purchasing Managers' Index) for September increased to 47.1%, it remains in contractionary territory. Eurozone inflation fell to its lowest level in two years, dropping to 4.3% in September from 5.2% the month before.

The European Central Bank (ECB) raised its key interest rate by 0.25% in July and by the same amount again in September.

UK

The FTSE All Share Index rose by 1.9% in Sterling but fell by 2.2% in US Dollars.

CPI rose by 6.7% in the 12 months to August 2023, down from 6.8% in July. The composite PMI fell to a 32-month low of 46.8 in September.

While the Bank of England (BoE) raised the base rate to 5.25% in August, signs of slowing inflation allowed the central bank to keep rates unchanged in September. The BoE said that further tightening in monetary policy would be required if there was evidence of more persistent inflationary pressures and indicated that the pace of quantitative tightening would rise from £80bn a year to £100 billion in the next fiscal year.

Japan

The Topix Index rose by 2.5% in Yen but fell by 0.8% in US Dollars.

Japanese GDP grew by 4.8% in the second quarter. The final Jibun Bank Japan Service PMI fell to 53.8 in September from 54.3 in August. The composite PMI, which combines the manufacturing and service activity figures, fell to 52.1 in September from 52.6 in August, staying above the break-even 50 mark for the ninth consecutive month.

Despite steady inflation, the Bank of Japan (BoJ) kept its ultra-loose monetary policy unchanged. In late July, however, it surprised the markets by relaxing its yield curve control policy. Prime Minister Fumio Kishida unveiled a new economic stimulus plan to help alleviate inflation and encourage wage growth.

Emerging Markets

The MSCI Emerging Markets Index fell by 2.9% in US Dollars.

China: The MSCI China IMI Index fell by 1.9% in US Dollars. Although China's official PMI Manufacturing Index rose in August, it marked the fifth straight month of contraction as the reading remained below the 50-point threshold. The debt-ridden property sector remained weak despite government measures to boost home sales. Exports continued to decline and Mexico recently overtook China as the US's largest trading partner. Consumers cut back on spending.

Brazil: The MSCI Brazil IMI Index fell by 3.6% in US Dollars even though economic data improved. The central bank cut rates by 0.5% and signalled that similar cuts were forthcoming.

India: The MSCI India IMI Index rose by 2.7% in US Dollars. The Indian economy grew by 7.8% during the quarter, bolstered by massive infrastructure spending.

South Africa

GDP growth of 0.6% quarter-on-quarter and 1.6% year-on-year was surprisingly resilient given the backdrop of heavy loadshedding at Eskom. The manufacturing sector proved adaptable as production grew for five straight months in spite of these significant headwinds. Consumers however felt the pinch with the second-lowest Consumer Confidence reading recorded since 1994. The South African Reserve Bank estimates that loadshedding of 207 days in 2022 and 250 days in 2023 will reduce GDP by 3.2% and 2% respectively. Overall, this year's GDP growth is expected to be flat after an increase of 1.9% in 2022.

Mortgage payers experienced a hint of reprieve as the South African Reserve Bank (SARB) paused its interest rate hiking cycle following a spell of ten consecutive hikes. Consumer price inflation (CPI) was recorded at 5.4% year-on-year, near the higher end of the target band. While local rates appear to be nearing their peak, the SARB's hawkish tone and warnings on the inflationary outlook imply it may still have the appetite for a further increase. Additionally the SARB pointed out that deteriorating public finances risked adding to the sovereign risk premium as South Africa's budget deficit rose to a record monthly deficit of R143.8 billion in July.

In light of the dire straits at Eskom and Transnet, Public Enterprises Minister Pravin Gordhan proposed a new plan for substantial reforms to state-owned companies (SOE's). The proposal would provide for greater private sector participation as well as structure strategic SOE's into a holding company in order to limit political interference. The bill however has been criticised thus far for a lack of detail.

The Rand and the JSE: The Rand declined by 2.6% against the US Dollar, while strengthening 2.3% against Sterling and 1.5% against the Euro. The All Share Index fell by 2.4% during the quarter. The Resources Index (-22.9%) fared worst as commodity prices such as platinum group metals (PGM's) remained soft. The World Bank's Metals and Minerals Index decreased more than 11% for the year. Furthermore the share prices of JSE heavyweights Richemont and Naspers struggled due to fears around Chinese growth.

Indices By Sector

		Sector	2022		2023			3 Months	6 Months	9 Months	12 Months
			30-Sep	31-Dec	31-Mar	30-Jun	30-Sep	% Chg	% Chg	% Chg	% Chg
J10050	1	Industrials	30925	32835	34329	34671	36610	5,6%	6,6%	11,5%	18,4%
JS4041	2	Retailers	6117	6028	5527	5677	5662	-0,3%	2,4%	-6,1%	-7,4%
J10030	3	Financials	35571	39604	39564	40771	40088	-1,7%	1,3%	1,2%	12,7%
J10045	4	Consumer Staples	73652	78773	79971	77850	76507	-1,7%	-4,3%	-2,9%	3,9%
J253	5	Listed Property	274	320	304	295	288	-2,4%	-5,3%	-10,0%	5,1%
JS3011	6	Banks	8696	9917	9656	9921	9642	-2,8%	-0,1%	-2,8%	10,9%
J10020	7	Health Care	4319	4424	5162	5349	5055	-5,5%	-2,1%	14,3%	17,0%
J203	8	All Share Index	64227	74436	76615	76234	71238	-6,6%	-7,0%	-4,3%	10,9%
J200	9	Top 40	57850	68361	70959	70933	65417	-7,8%	-7,8%	-4,3%	13,1%
J10010	10	Technology	28161	36783	40652	40986	37100	-9,5%	-8,7%	0,9%	31,7%
J10040	11	Consumer Discretionary	25744	32419	38162	40663	36072	-11,3%	-5,5%	11,3%	40,1%
J10015	12	Telecommunications	5843	6145	6102	6138	4997	-18,6%	-18,1%	-18,7%	-14,5%
JS5513	13	Precious Metals & Mining	46013	56531	55046	51124	40145	-21,5%	-27,1%	-29,0%	-12,8%

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