SELECT MANAGER

Newsletter

May 2023

MARKETS AND ECONOMICS

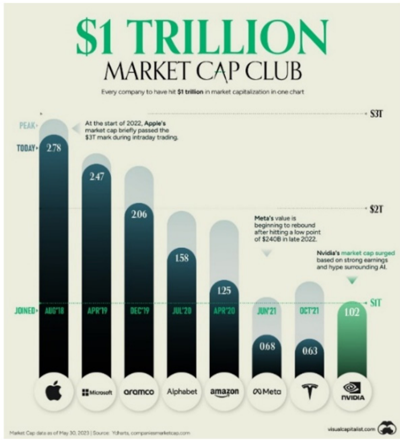
After the markets provided some relief in April, it was a negative month for most areas of the global markets in May. A looming debt ceiling in the United States (US), combined with slowing global activity that continues to fuel recession fears, all contributed to lower global risk appetite.

Central banks also stuck to their hiking cycles, with the US and European central banks raising their policy interest rates by 0.25% during May, in line with expectations. The Federal Reserve Bank's Policy Committee did, however, hint that they could be close to pausing, and that they will not be guiding for further rate hikes but rather remain data-dependent. Furthermore, US lawmakers were also at least able to principally agree on a deal that would avoid a potential default on some of their debt, reaching a compromise between lifting the borrowing limit and more fiscal constraints.

Locally, it feels as if we hit extreme negativity during May, as an increasingly negative global sentiment towards South Africa (SA), combined with local missteps, drove further pressure on the rand and on "SA Inc". After already being under immense pressure, owing to the domestic electricity crisis, low growth, and weakening consumers, the nail in the coffin was rumours that SA supplied weapons to sanctioned Russia.

Sentiment was so negative that not even the 0.5% interest rate hike by the South African Reserve Bank (SARB) was able to provide much currency relief, partially owing to the expectation of an even bigger hike, but also on the back of commentary from the SARB highlighting the risks to the current account and further rand weakness. The rand, consequently, lost more than 7% against the US dollar during the month, falling to a record low of approximately R19.90 at some point. While almost all asset classes were down in base currency for the month, South African-based investors in offshore markets would have seen positive returns from their foreign investments, completely driven by this rapid currency depreciation.

Global tech shares were the exception to the weaker markets during May, driven by the surge in flows towards artificial intelligence. One of the biggest winners from this theme was Nvidia, with their share price jumping 36% during the month (now up 159% year-to-date), pushing the company's valuations to extreme levels (their price-to-earnings ratio is currently around 200 times). This comes after reports of a 50% increase in forecasted earnings, on the back of increased demand for graphics processing units, of which Nvidia is the market leader. For context, the market capitalisation of Nvidia has more than doubled in 2023, moving them past the $1 trillion mark and making them one of only a few companies to have achieved this size. Other names on the list include Apple, Microsoft, Alphabet, and Amazon.



Source: Dorothy Neufeld, Visual Capitalist, Technology, 30 May 2023.

With market and consumer sentiment extremely low, and asset classes pricing in a lot of bad news, any positive shifts will likely have a significant impact on returns, even if such shifts seem relatively small. Improvement in electricity generation capacity and, therefore, lower stages of load shedding (as we have already seen at the beginning of June), combined with less political noise and the potential for a pause in interest rate cycles, can all drive a substantial recovery in especially local market areas, which are currently trading at historic lows.

JSE All Share - 3,92% | 75 067,47	**MSCI World (USD)** - 1,00% | 2 800,56	**MSCI EM (USD)** - 1,68% | 958,53
SA Bonds - 4,79% | 835,02	**SA Property** - 5,32% | 293,27	**CPI (y/y)** 6,80% | 109,40
Gold - 1,68% | 1 956,28	**Platinum** - 7,52% | 994,30	**Oil** - 9.62% | 72,60
$/R 7,86% | 19,73	**€/R** 4,68% | 21,09	**£/R** 6.82% | 24,55