

# Prosperity

March 2023

- Economic and Market Overview
- Global Equities
- Local Equities

Private Clients  
by  Old Mutual Wealth

Global markets have been shaken by, and are now grappling with, the banking crisis currently unfolding in the US. This situation will undoubtedly lead to tighter financial conditions going forward, raising the already high probability of a recession. Against this backdrop of increased risk and uncertainty, increased emphasis must be placed on holistic wealth and risk management. This is key to ensuring that every aspect of a client's portfolio is effectively structured so that it remains resilient and on track to achieving the client's objectives.

At Private Clients we create holistic, bespoke solutions aimed at growing and protecting our clients' wealth. And while investing is key to growing wealth, we understand that true wealth management entails connecting and combining the various elements of a client's portfolio to ensure that they work efficiently and cohesively. In this way, investment management, estate planning, structuring, tax and legal considerations are all taken into account and managed effectively and in line with the client's unique objectives.

In the words of Albert Einstein, "In the midst of every crisis, lies great opportunity." Looking ahead, it will become increasingly important for wealth managers to demonstrate their skill at consistently guiding their clients through periods of uncertainty, while also being sufficiently nimble at identifying and exploiting the potential opportunities that may arise. If the last three years have taught us anything, it is that we need to be prepared and equipped to deal with the unexpected.

## ECONOMIC UPDATE

March was dominated by a (hopefully brief) banking panic. Two US banks, Silicon Valley Bank and Signature Bank were closed by authorities after suffering fatal deposit runs. The fear spread across the Atlantic, with 167-year-old Credit Suisse becoming the highest profile victim as the Swiss government forced its sale to rival UBS.

Banking crises are usually caused by reckless lending. Typically, though not always, there is a property boom, and banks overextend themselves, lending to overextended households. This time, lending has generally been subdued and American household finances have been in good shape. Rather, Silicon Valley Bank and others got into trouble by putting too much money into 'safe' government bonds that lost value as interest rates rose.

In the US and Europe, authorities intervened quickly and forcefully to prevent contagion, and thus far, their efforts have been successful. The acute phase of the crisis seems to have passed, but we might be entering a chronic phase of uncertain timing, breadth, and severity. Consumers and corporates are still switching deposits from smaller to larger banks and money market funds.

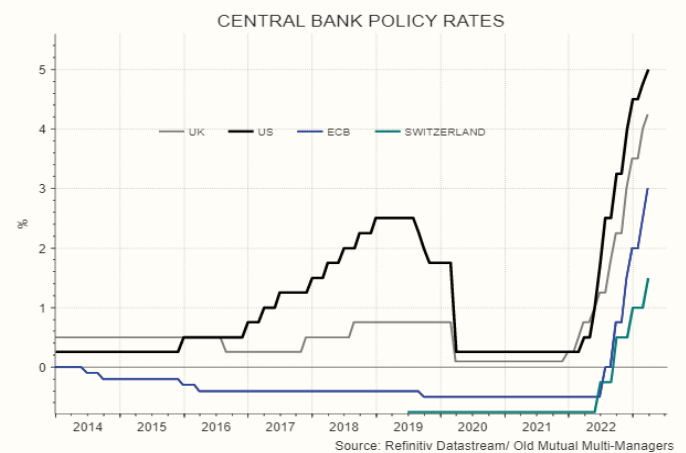
Smaller US banks account for a substantial slice of lending, particularly into the commercial real estate market. This market has already faced pressures from the impact of COVID on the office sector and e-commerce on shopping centres. One concern is that banks will refuse to roll over some loans

to real estate firms, causing them to go under. Banks are already charging more for mortgages, with the spread of both commercial and residential mortgages over government bonds widening. The combination of higher interest rates, widening spreads on loans and tighter bank lending standards is likely to put pressure on economic activity, but it is too early to tell how this will play out.

Banking panic or not, central banks still raised interest rates to combat stubbornly high inflation. Normally, fighting banking crises involve rate cuts. Not this time. Inflation remains a priority. Central banks have instead used liquidity tools to respond to the banking sector stress.

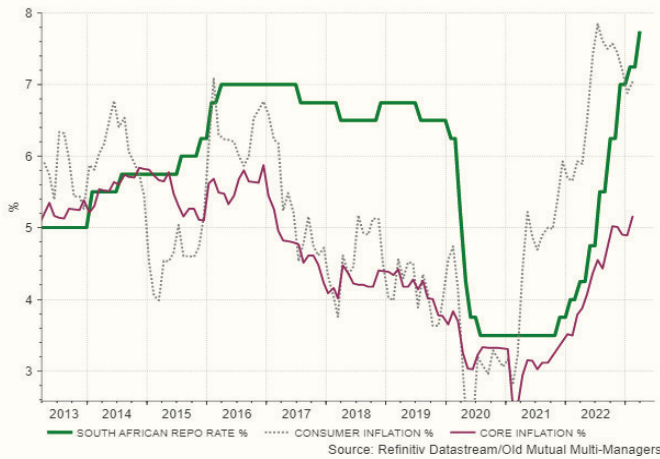
The US Federal Reserve hiked rates by 25 basis points at its March policy meeting, taking the range of the federal funds rate to 4.75% - 5%. Little over a year ago, this range was just 0% - 0.25%. At the same time, it lent out more than US\$160 billion to banks through its existing discount window and new term funding programme. This has offset the previous five months of quantitative tightening, the process whereby the Fed was allowing its balance sheet, swollen from years of bond buying, to shrink.

The Bank of England (BoE) also hiked rates, shortly after new data showed that inflation jumped to 10.4% in February. The Swiss National Bank, fresh from orchestrating the sale of Credit Suisse, hiked rates by 50 basis points to 1.5%. The European Central Bank is also still in hiking mode, increasing its policy rate by 50 basis points at the March Governing Council meeting.



The current uncertainty is likely to result in a more cautious approach in the months ahead as central banks try to disentangle the various effects of banking stress on credit, growth and inflation.

While central banks in the developed world ploughed ahead with rate increases despite financial stability risks, the South African Reserve Bank did so despite the real possibility of economic stagnation.



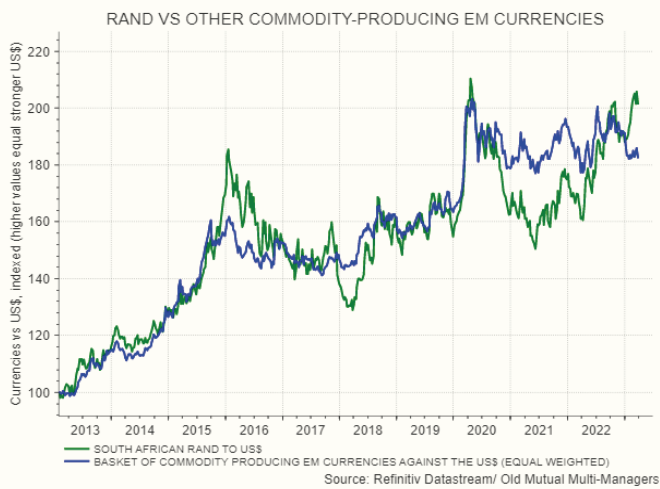
The JSE All Share Index ended the month 2.1% lower, with Financials sliding by 6.4% on the back of the US banking crisis. Industrials (-1.0%) were also lower, while Resources rose 0.7%. During March, the rand strengthened by 3.2% against the US dollar, with most of this strength coming after the SARB raised rates by more than expected. Brent crude was down 4.9%, ending the month at US\$79.77/bbl. The gold price rose 7.8% to close above US\$1 980/oz, platinum was up 4.3% and iron ore rose 4.2% in March.

The Bank's Monetary Policy Committee surprised by hiking the repo rate by 50 basis points to 7.75%. It raised its inflation forecast to average 6% this year, 4.9% next year and 4.5% in 2025. Consumer inflation rose to 7% year-on-year in February, with elevated food inflation largely to blame. However, there was also a jump in core inflation (excluding food, fuel and energy prices), which rose to 5.2% year-on-year.

The SARB expects real economic growth of only 0.2% this year, with 1% forecast for next year and 1.1% in 2025. One silver lining is that it does not see any sign of stress in the local banking system.

## MARKET UPDATE

Despite heightened volatility and uncertainty, most global markets ended March on a positive note, with the MSCI World Index up 3.2% over the month. In the US, the three major indices recorded gains, with the NASDAQ (+6.7%) leading the pack, followed by the S&P500 (+3.5%) and the Dow (+1.9%). Asian markets ended the month mixed, with the Hang Seng (+3.1%) and Nikkei (+2.2%) showing gains while the Shanghai Composite Index lost 0.2%. The UK's FTSE100 was down 3.1% in March.



## GLOBAL EQUITIES



Accenture

Global consulting firm, Accenture reported solid interim results with revenue growth of 12% in constant currency, driven by double-digit growth across four of the five industry groups that the company supports. Outsourcing (rebranded to Managed Services) outperformed with revenue growth of 18%, while consulting remained resilient with 7% constant currency revenue growth. Demand for the group's services remained relatively strong considering the weakening economic environment and to that end, new bookings during the second quarter increased by 17% in constant currency to US\$22.1bn, half of which related to Managed Services.

Management revised their guidance for 2023, forecasting revenue growth of 8% - 10% (previously 8% -11%) and adjusted EPS growth of 7% - 9% (previously 4% - 9%). Margin expansion guidance was maintained at 10bps – 30bps while free cash flow generation is expected to be higher, in the range of US\$8bn – US\$8.5bn (up from US\$7.7bn – US\$8.2bn previously). Continued growth momentum and a strong balance sheet allowed for a 15% increase in the second quarter dividend to US\$1.12 per share.

## LOCAL EQUITIES



FirstRand

FirstRand reported strong interim results as both advances and deposits saw double-digit growth. Net interest income (+13% year-on-year) was boosted by an acceleration in credit advancements in line with the group's increased credit appetite over the period. The group maintained a conservative credit policy and favoured low to medium risk credit customers resulting in benign margin growth. Non-interest revenue (+11% y-o-y) was supported by growing customer volumes, which drove increased transactional activity across all customer franchises. Overall, normalised earnings grew 15% to R18bn and return on equity improved to 21.8% - at the upper end of management's guidance of 18% - 22%.

Lower provision requirements due to a higher quality credit book and surplus capital drove a 20% increase in the interim dividend to 189 cents per share. In response to a deteriorating macro-economic outlook across all regions, the group has maintained a relatively high level of provisioning and are preparing for a mild recession in the UK. FirstRand continues to enjoy strong growth in deposits and customer volumes, which is expected to underpin a strong financial performance for the remainder of the year.



Sibanye Stillwater

Sibanye Stillwater reported disappointing full year results that were largely expected due to lower commodity prices, rising costs, and both environmental and company-specific operational challenges. Furthermore, record-high PGM prices and excellent operational delivery in 2021 created a high base for comparison. Full year revenue and adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) declined by 20% and 40%, respectively. Concluding 2022 with a net cash position gave the board confidence in declaring a final dividend of R1.22 per share, which taken together with the interim dividend equates to a 6% annualised yield based on the JSE closing price on 30 December 2022.

US PGM performance struggled, with operational constraints and weather-related damage hampering production output and costs. US PGM prices were lower as well. In SA, the gold operations were subject to wage-related strike action, which drove a meaningful decline in production and a sharp rise in production costs. This left the segment in a loss-making position. Positively, a recovery in the second half of 2022 limited losses on a full year basis. The SA PGM operations performed resiliently, with production down 9% (largely as a result of tougher geological conditions and power constraints) and costs up 14%. As a result, adjusted EBITDA declined 26% year-on-year. After a strong start, the recently acquired French-based Sandouville Nickel refinery encountered technical challenges, which negatively impacted costs and led adjusted EBITDA down by R432mn. These assets are still in a de-bottlenecking phase and are expected to reach target output by 2026.



Quilter

UK-focused wealth management group, Quilter Plc reported mixed full year results. Given the market environment over the last year, expectations were that inflows, revenue and earnings would be notably weaker than the prior year. While these were indeed weak, positively, the group managed to control expenses well, which softened the impact of the decline in Assets under Management and Administration (AuMA). Revenue for the period was down 2%, with costs well controlled (-2%), resulting in better-than-expected adjusted profit for the period – down 3% to £134m. However, the group's net inflows were disappointing and below expectations due to the challenging market environment, a trend that management only expects to reverse when market sentiment improves.

While closing AuMA declined 11% from the prior year, average AuMA fell 2.4% to £102.8 bn. As such, revenue for the period declined 2% to £606 million. Apart from good cost control, other positive adjustments included a lower tax rate compared to the prior year and a significant decrease in the share count as a result of the group's share repurchases. This culminated in adjusted earnings per share of 7.9 pence, up 7% from the prior year. The group further declared a 13% increase in the dividend to 4.5p, which translates to a pay-out ratio of 57%, within the group's 40% - 60% target range.



## Shoprite

Africa's largest retailer, Shoprite, reported a robust set of interim results driven by growth in Supermarkets RSA across both Shoprite USave and Checkers branded stores. Supermarkets RSA saw sales growth of 17.5% with LiquorShop sales up a strong 35.6%. Group sales for the six-month period surpassed R100bn. Despite record loadshedding, customer visits were up 12.9%. Group market share was up 1.4%, representing 46 consecutive months of market share growth. Over the period, the group focused on keeping consumer prices low and managed to contain internal retail selling price inflation to 9.4% (significantly lower than official food inflation of 11.6%)

Continued loadshedding cost the group R560m (of which R456m was for diesel alone) over the period, increasing the operating costs and reducing net margins. Management pointed out that loadshedding does not only have an impact on keeping the lights on at stores but also affects production and the supply chain through crop irrigation, increased food wastage and production levels at factories.

Shoprite's price segmentation strategy (with Usave at the lower-end, Shoprite in the low-middle income and Checkers in mid-high income) flourished in the current environment and continued to add diversification to the group's operations. Checkers and USave sales increased 16.9% and 15.1%, respectively. Overall group sales grew 16.8%, with strong like-for-like growth of 11.3%. The gross margin declined slightly to 23.5% (vs 24.1% in 1H 2022), while the trading profit increased by 8.6%, resulting in a trading margin of 5.7% – slightly lower than the 6.1% in 1H 2022. The board declared a dividend of 248 cents per share, which represents year-on-year dividend per share growth of 6.4%.



## Standard Bank

Standard Bank reported a strong set of full year results with headline earnings up 37% to R34.2bn. Pleasingly performance was driven by all customer segments and by balanced growth in deposits (+8%) and advances (+9%). Signs of a slowdown emerged in the second half of the year; however, management have continued to guide for double-digit growth in net interest income during 2023. This is expected to be driven by growing customer volumes, demand for

corporate and vehicle asset finance and a positive endowment effect driving net interest margin expansion.

Salary increases (+12%) drove overall operating expense pressure, however, cost growth remained below the average inflation experienced by the group (of 15%). Despite cost pressure, Standard Bank's divisional cost to income ratio improved to 54.9% (FY 2021: 57.8%). The strong revenue performance drove a 290bps improvement in return on equity (ROE) to 16.4%. Standard Bank's excellent financial performance combined with its strong financial position drove the 35% increase in the final dividend to 691 cents per share, representing a final dividend pay-out ratio of 60%.

Looking ahead, the outlook remains challenging – both in SA and rest of Africa – and this contributed to the double-digit increase in credit impairments. However, the credit loss ratio remained well within the group's target range. Despite the challenging short-term outlook, the group reiterated their commitment to their medium term (FY 2025) targets for sustained revenue growth, improved efficiency and stronger profitability.



## Sanlam Group

Listed financial services group, Sanlam reported a mixed set of results for full year 2022. The results reflected a strong recovery in Sanlam's Life Insurance businesses as abating COVID-19 cases led to lower mortality claims across the group's Life segments. The Credit and Structuring businesses also grew strongly on the back of the group's Indian operations, which were underpinned by a healthy economic recovery in that country. The General Insurance (short-term insurance) segment was the laggard during the reporting period, with the recent operating environment aptly described as a 'perfect storm' for the segment. Short-term insurers had to contend with adverse weather impacts (the KwaZulu-Natal floods), high inflation (which impacted the cost of settling claims) and disruptions from loadshedding. Investment management operations reported muted growth as a result of significant volatility experienced in markets over the last year. Overall, net results from financial services were R10.5bn, 2% above the prior year. Excluding the negative impact of unrealised investment returns, net operating earnings were up 8% to R10.2bn.

During the period, Sanlam completed several bolt-on acquisitions, including Absa Investment Management and Alexforbes' life book and LISP. The transactions are expected to contribute positively to earnings in the current financial year. Furthermore, the group expects three recently announced acquisitions (Afrocentric, Capital Legacy and BrightRock) to be concluded during the course of this year at a total cost of approximately R2.3bn. With potential excess capital of about R8bn on its balance sheet, the group's strategy continues to be focussed on bolt-on acquisitions and increased buy-backs, which we believe allays investor concerns around large acquisitions. In addition to about R1bn in share buy-backs, the group announced a dividend of R3.60 per share, an increase of 8% from the prior year.



## MTN Group

Despite a tough macroeconomic backdrop, MTN reported solid full year results, with service revenue growth ahead of the elevated inflation reported in the group's operating regions. In aggregate, revenue and earnings before interest tax and depreciation (EBITDA) for the period were up 15.3% and 14.3%, respectively. The group's expense efficiency programme delivered savings of R2.7bn, which prevented margin decline of about 1.3%. Data and fintech revenue were the standouts, with revenue growth of 32.2% and 14.3%, respectively. Across the group, the number of subscribers increased by 6.1% to 289.1m. Notably, this was achieved despite adverse SIM registration regulations in Nigeria and Ghana.

Although the group delivered solid performance, its share price declined by 10% on the day the results were released. We believe that this decline is due to the revised margin guidance for the group's South African operations. While it is common knowledge that the ongoing loadshedding within SA is adversely impacting telecom providers, it appears the extent of the impact on profitability took the market by surprise. Over the last financial year, MTN estimates that loadshedding resulted in a R640m loss in revenue and a R695m decline in EBITDA. Going forward, the group believes that local businesses will have to contend with higher stages of loadshedding for the next three to five years, and as such, margins for the SA operations will be between 37% - 39% compared to previous guidance of 39% - 41%. Despite this lower guidance, the group's balance sheet is in its strongest position in close to a decade.



## OUTsurance

Financial services company, OUTsurance Holdings reported its maiden interim results since its name change from the RMI Group at the end of 2022. OUTsurance's results for the period ending December 2022 were strong, with the group benefitting from a recovery in its Australian operations. The group's new ventures, specifically, Funeral and Business insurance in South Africa reported strong earnings growth, which bodes well for the group as these investments gain scale. The group's Australian operations benefitted from both a weaker rand (versus the Australian dollar) as well as fewer weather catastrophes. Overall, group normalised earnings rose 36.3% to R1.5bn while annualised new business premiums written grew by 8.6%. Importantly, the group's cost-to-income ratio fell by 0.6%, which helped boost the group's return on equity from 23.6% in the prior year to the current 29.1%.

While earnings were strong, the group declared a muted dividend increase of 3.3% year-on-year (to R0.57 per share) as it has opted to retain about R1.7bn excess cash on its balance sheet in the coming period. Over the long term, the group is committed to a pay-out ratio of 60%, however, in the upcoming period, uncertainty related to reinsurance increases in the group's Australian operations and the investment into a new market, the Republic of Ireland,

led to the lower dividend growth. Regarding the Irish venture, management see this as an attractive market in terms of size, competitive landscape and regulatory environment, and are confident that it will provide both growth and diversification to the group. While the value of the group's investment in this market has not yet been disclosed, management committed to staying within their self-imposed constraint of not investing more than 10% of operating profit on new initiatives. Overall, we view OUTsurance's maiden interim results as strong and remain confident in our long-term view that the group is well placed to continue growing earnings above its peers.



## Remgro

Diversified financials and industrials investment holding company, Remgro delivered mixed interim results to end December 2022 reflecting divergent performances across their sector exposures. Remgro has undergone significant portfolio rebalancing resulting in multiple corporate actions taking place over the current and base period, which made comparability of headline earnings per share less meaningful. Additionally, being an investment holding company that derives growth not only from majority-owned companies but also smaller investees and investment vehicles, looking at revenue, gross profit, etc. is not as useful in evaluating performance as looking at headline earnings, intrinsic net asset value, cash generation and cash at the centre (corporate treasury).

Keeping in mind the lack of comparability, headline earnings per share grew 5.7% to 626.2 cents per share while the disclosed Intrinsic Net Asset Value per share grew by 5% to R223.86 per share. Net cash at the centre was up strongly thanks largely to higher dividend receipts, which also supported management's decision to raise the interim dividend by 60% to R0.80 per share.

At a segment-level, Healthcare performed resiliently, registering both higher in-patient and day case admissions. However, profitability was impacted by higher staffing costs and lower average revenue per case due to mix changes. Performance within Consumer Products was mixed, with Distell recording strong revenue growth driven mostly by increased volumes and recovery in cider and ready-to-drink products, however both RCL Foods and Siqalo Foods were weaker on lower contributions from chicken and baking, as well as higher input costs. Financial Services performed well against a base period marked by significantly higher risk events and claims. Infrastructure registered strong growth following network expansions and growing subscriber bases, while the Industrials segment reported resilient performances from Air Products and Wispeco.

# CONTACT US

## CAPE TOWN

### PINELANDS

TEL: 021 524 4678

ADDRESS: 4th Floor, Block A, Old Mutual Wealth, Mutualpark, Jan Smuts Drive, Pinelands, 7405 | PO Box 207, Cape Town, 8000

EMAIL: [privateclients@omwealth.co.za](mailto:privateclients@omwealth.co.za)

### STELLENBOSCH

TEL: 021 861 5300

ADDRESS: The Vineyard, Building B, Corner Adam Tas and Devon Valley Road, Stellenbosch, 7600

EMAIL: [privateclients@omwealth.co.za](mailto:privateclients@omwealth.co.za)

## JOHANNESBURG

TEL: 011 245 3805

ADDRESS: 1 Mutual Place, 107 Rivonia Road, Sandton, Johannesburg, 2196

EMAIL: [privateclients@omwealth.co.za](mailto:privateclients@omwealth.co.za)

## PRETORIA

TEL: 012 369 7236

ADDRESS: 43 Ingersol Road, 3rd Floor, Podium at Menlyn, Lynnwood Glen, 0081

EMAIL: [privateclients@omwealth.co.za](mailto:privateclients@omwealth.co.za)

## KWAZULU NATAL

### KLOOF

TEL: 031 767 7300

ADDRESS: 74 Old Main Road, Unit 7, Kloof, KwaZulu-Natal

EMAIL: [privateclients@omwealth.co.za](mailto:privateclients@omwealth.co.za)

**Private Clients**  
by  Old Mutual Wealth

Old Mutual Wealth Private Clients (Private Clients) is a division of Old Mutual Wealth Trust Company (Pty) Ltd ("OMWTC"), a licensed Financial Services Provider, Reg No: 1925/002721/07. Private Clients is authorised to provide financial services on the OMWTC licence.

To report unethical behaviour, call the Anonymous Reporting line 0800 222 117, email [toahotline@tip-offs.com](mailto:toahotline@tip-offs.com) or visit [www.tip-offs.com](http://www.tip-offs.com)

4th Floor, Block A, Old Mutual Wealth, Mutualpark, Jan Smuts Drive, Pinelands, 7405 | Tel: +27 (0)21 524 4678 | Email: [privateclients@omwealth.co.za](mailto:privateclients@omwealth.co.za)

This document is for information purposes only and does not constitute financial advice in any way or form. It is important to consult a financial planner to receive financial advice before acting on any information contained herein. Old Mutual Wealth and its directors, officers and employees shall not be responsible and disclaims all liability for any loss, damage (whether direct, indirect, special or consequential) and/or expense of any nature whatsoever, which may be suffered as a result of or which may be attributable, directly or indirectly, to the use of, or reliance upon any information contained in this document.