

Prosperity

May 2024

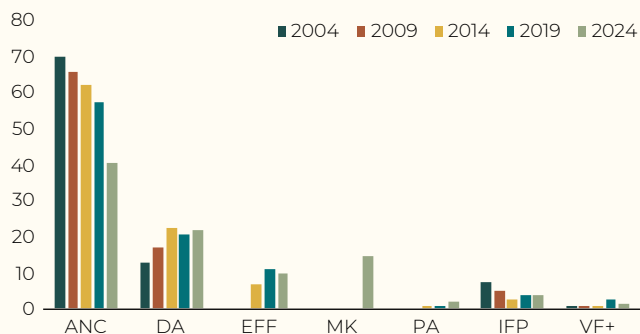
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Private Clients
by  Old Mutual Wealth

ECONOMIC UPDATE

South Africa sailed firmly into uncharted political waters when national election results showed the ANC's share of the vote drop to 40% – an incredible 17 percentage points lower than 2019. Most, though not all, of these votes went to the new MK Party, headed by former President Jacob Zuma. Ironically, Zuma is still technically an ANC member.

SA National Election Results: Leading Parties



Source: IEC

While the election outcome was a surprise (the local and international investment community expected ANC support in the 45% - 50% range), it also suggests that South Africa's democracy is maturing. Despite its big losses, the ANC quickly accepted the outcome. South Africa will be governed by a formal or informal coalition over the next five years, but what form that coalition takes is yet to be determined at the time of writing.

From an investment perspective, the main consideration is around continuity in growth-enhancing reforms and ongoing fiscal discipline.

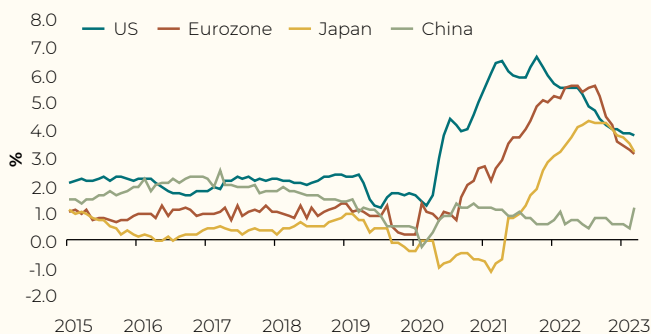
Supply-side problems, notably loadshedding, have been a common problem on both the growth and inflation front. At the risk of turning one swallow into a summer, the two-month streak of uninterrupted electricity supply has been encouraging. It shows stabilisation on the part of Eskom, but more importantly, a continued increase in private energy generation. Operation Vulindlela, the joint initiative of National Treasury and the Presidency, noted in its latest update that almost 6000MW in private renewable projects have already been registered with Nersa. Furthermore, there is still a large pipeline of projects at various stages of development that will enhance the grid in years ahead. While the new coalition is unlikely to roll back changes in the electricity sector, there are other important changes in other sectors that are in the early stages of being addressed.

Amid all the election drama, few people paid attention to the Monetary Policy Committee (MPC) meeting. As expected, the outcome was a unanimous decision to leave the repo rate unchanged. However, the tone of the meeting was more upbeat. Oil price and exchange rate risks have somewhat abated, and the Reserve Bank now expects inflation to reach its 4.5% target in the second quarter of next year, earlier than previously thought.

The Bank remains concerned about elevated surveyed inflation expectations, but these tend to lag actual inflation. In other words, as inflation falls, it will probably pull expectations lower. Inflation risks are now viewed as being "balanced" rather than "biased upwards".

Domestic consumer inflation eased to 5.2% year-on-year in April, from 5.3% in March and 5.6% in February. While still above the Reserve Bank's 3% - 6% target range, this was slightly lower than the market expected. Core inflation, excluding volatile food and fuel prices, moderated to 4.6% from 4.9%.

Core Inflation Rates in Major Economies



Source: Refinitive Datastream

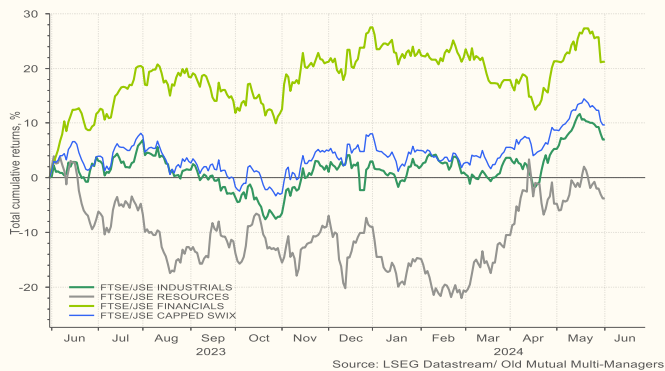
Therefore, barring a serious market dislocation, the MPC is likely to start a modest rate cutting cycle in the coming months. As always, it will keep a close eye on international interest rate developments and the evolving domestic outlook. As Governor Kganyago noted, the Reserve Bank remains committed to achieving macroeconomic stability, and if fiscal policy changes in an unwelcome direction under a new government, monetary policy would do "the heavy lifting to deal with inflation." In other words, South Africa has institutional strengths, including a credible central bank, a free and vocal media, and an independent judiciary. Most importantly, it has an active citizenry who care about the future of their country.

MARKET UPDATE

Most major markets ended May higher, with the MSCI World Index returning 4.5% during the month. In the US, the Dow Jones (+2.3%), S&P 500 (+4.8%) and Nasdaq (+6.9%) all recorded monthly gains. Over in the UK, the FTSE-100 ended May 1.6% higher.

Following a strong performance in April, China's Hang Seng Index eased and ended May up 1.8%. The Shanghai Composite Index ended the month marginally lower (-0.6%) and Japan's Nikkei was up 0.2%.

On the local front, the JSE All Share Index rose just 0.8% in May. Resources (+0.1%) and Industrials (+1.7%) recorded gains, while Financials ended the month 0.7% lower. The rand closed May 0.1% in the red against the US dollar. The gold price fell sharply to US\$2 340 on 29 May, however, it was still up 1.8% for the month, ending at US\$2 326.97/oz. Brent crude fell 7.1%, and the platinum price soared 10.7% in May, driven by supply shortages.



GLOBAL EQUITIES



Apple

Apple released better-than-expected second quarter 2024 results. Leading up to the results, there had been several news reports estimating significant iPhone market share declines in China. However, the earnings results showed that iPhone sales in Mainland China are holding up better than feared. Revenue for the quarter was down 4.3% to US\$90.8bn with little impact from currency movements. Despite the decline, the reported revenue was US\$886m ahead of analyst expectations, which partly explains the 5% share price increase shortly after the results. Margins were one of the highlights, with gross margins for the quarter increasing to 46.6% (+2.3%) following strong growth in higher-margin services revenue. This is a trend we expect to continue to drive Apple's profitability over the coming years. Earnings per share for the period rose 1.0% to US\$1.53, above analyst expectations of US\$1.50.

While reported revenue for the period declined from the prior year, mainly because of the Greater China region, the group reported that in more than a dozen other countries and regions, the March quarter saw record iPhone revenues. The likes of Latin America, India, Indonesia and Mexico reported strong performance that in aggregate and over time will rival China as significant contributors to group revenue. Apple ended the year with a net cash position of US\$58bn. The group continued to use excess cash to reduce its share count and repurchased over US\$43bn worth of shares, which supported earnings growth. Consistent with management's stated objective of distributing the net cash position on the balance sheet to shareholders, the board approved a 22% increase in the share buyback programme to US\$110bn.



Walt Disney

Media and entertainment giant, Walt Disney reported interim 2024 results, which although in line with prior guidance, did not impress the market, sending the share price down nearly 10% on the day. Over the six-month period, revenue was flat at US\$46.5bn, while cost-saving and efficiency initiatives drove a 28% increase in adjusted diluted earnings per share. Including a once-off US\$2bn goodwill impairment related to the contribution of Star India and entertainment assets to a JV with Reliance in India, diluted EPS fell 26%.

While revenue in Disney's Direct to Consumer (DTC) segment continued to grow strongly at 14%, this growth did not offset sustained declines in the traditional linear networks and content sales and licensing. As a result, overall revenue growth was below

1%. Group profitability, however, was driven by DTC, as both Disney+ and Hulu began to generate profits, with ESPN+ being the only DTC platform to incur an operating loss during the second quarter.

Free cash flow generation recovered strongly, allowing for a US\$1bn share buyback during the second quarter and supporting future dividend prospects. While the financial performance was in line with expectations, management's guidance for the third quarter underwhelmed as DTC and Experiences are expected to report modest operating income growth, if any. This is due to the timing of costs, particularly the launch of a new cruise ship and payment of ICC cricket rights, relative to the comparable period. Despite this, management increased their FY 2024 adjusted EPS growth expectations from 20% to 25%.

LOCAL EQUITIES

RICHEMONT

Richemont

Global luxury goods company, Richemont reported a resilient 2024 full year performance, with constant currency sales and operating income growth of 8% and 13%, respectively. The group's performance was driven by double-digit growth in sales of jewellery (+12%) and leather goods and accessories (+10%), while specialist watches remained relatively subdued. The group benefitted from a lower impairment to YNAP as well as lower finance costs, which drove a notable recovery in earnings per share. Proceeds of warrants exercised last year added to the group's already substantial net cash position, which supported the Board's proposal of a 10% increase in the group's ordinary dividend to CHF2.75 per share.

As of 1 June 2024, after nearly six years as group Chief Executive Officer, Jerome Lambert will resume his former role as Chief Operating Officer and current Van Cleef and Arpels CEO, Nicolas Bos will assume the Group CEO position.

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