

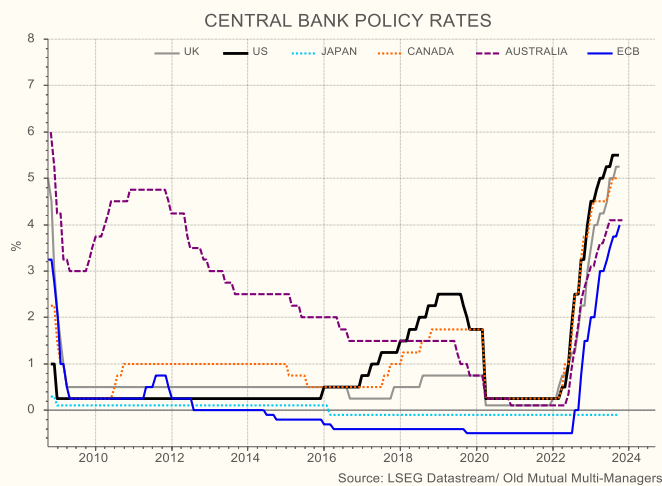
Prosperity

September 2023

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Private Clients
by  Old Mutual Wealth

ECONOMIC UPDATE



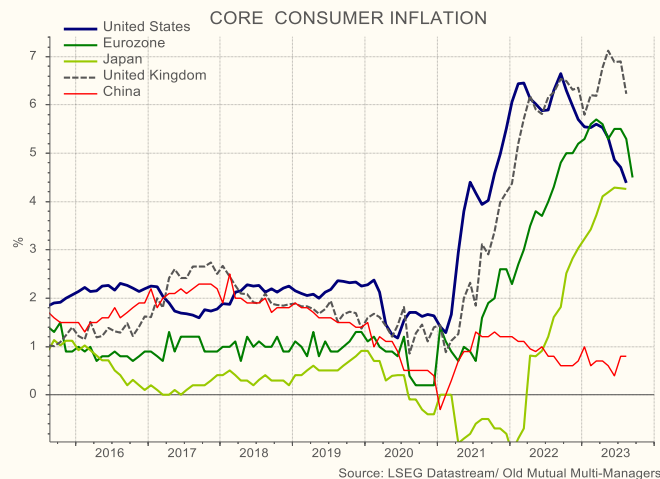
A year ago (in September 2022), 38 central banks hiked rates. In September 2023, eight banks cut and eight hiked rates, and most did not change policies at all, including Japan, the US and South Africa. The point being that the great post-COVID interest rate hiking cycle, the sharpest and most synchronised ever, is coming to an end. However, this does not mean that a synchronised cutting cycle is imminent.

While inflation has declined from multi-decade highs in most countries, it is too soon to say that inflation is well and truly beaten, particularly in countries where labour markets remain tight, wages are still rising, and household income growth can still support spending. The sharp increase in the global oil price further complicates this scenario, but we are not yet at the point where we should worry about a repeat of the 2022 global inflation surge.

Although the US Federal Reserve left the door open for another hike, it is not in a particular hurry to do anything. There is enough progress on inflation to be able to sit back and assess things. A still resilient economy means it does not face a serious growth-inflation trade off just yet. After all, it is easy to talk tough on inflation when unemployment is near a record low. It becomes more difficult to defend this tough stance when people are losing their jobs because of high rates. Nonetheless, while growth remains resilient, the Fed will not have the conviction that inflation is out for the count. Therefore, it is very much still a higher-for-longer rate environment and given the jump in bond yields during September, markets finally seem to have accepted this scenario.

By contrast, the growth-inflation trade-off is starker in the Eurozone, where the economy is clearly slowing (particularly Germany, its largest constituent) but inflation remains elevated. The European Central Bank raised its policy interest rate to 4% in September, the highest level since its founding in 1999, but indicated that "interest rates have reached levels that, maintained for a sufficiently long duration, will make a substantial contribution to the timely return of inflation to

the target". In other words, it is not about how high anymore, but rather, for how long?



The Bank of England's predicament is even worse since UK inflation has been among the highest of major developed economies and the growth outlook among the poorest. Call it luck, perhaps, but a surprise drop in August inflation to 6.7% paved the way for the Bank to keep rates on hold in a tight 5/4 split decision. However, the Bank too noted that the focus now was on keeping rates "sufficiently restrictive for sufficiently long" to ensure inflation continues falling back to the 2% target.

The People's Bank of China reduced its reserve requirement ratio, a form of easing that frees up liquidity for banks. This, the latest in a series of policy tweaks, seems to be having a positive impact and the slowdown in Chinese economic activity seems to be bottoming out according to the August data on retail sales and industrial production. However, the key property market remains under tremendous pressure, and we are probably still at the beginning of a multi-year process of deleveraging.

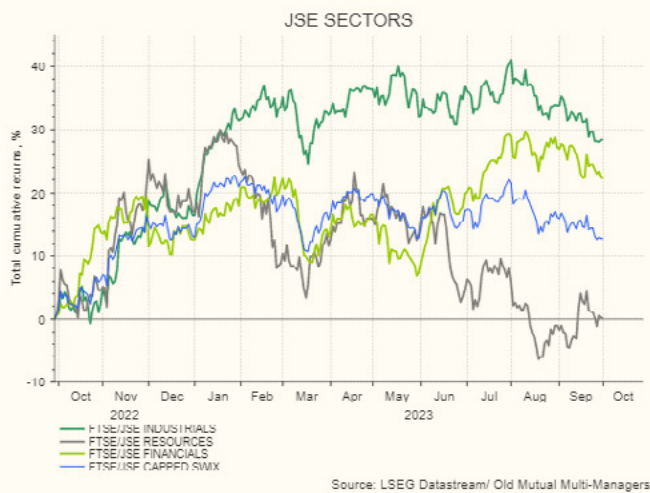
The Bank of Japan, the last of the big five, did nothing during the month of September. In fact, its policy rate has been unchanged at -0.1% since 2016. It also kept yield curve control in place, capping the yield on the 10-year government bond at 1% (it traded at 0.7% at month-end). While inflation in Japan is running well above target, the Bank of Japan has the opposite problem to its peers, who are all concerned that inflation might stick around despite recent declines. The Bank of Japan's concern, on the other hand, is that inflation might still prove transitory.

Back home, the South African Reserve Bank left the repo rate unchanged at 8.25%. While this was expected, it was still a close call, with a 3/2 split on the Monetary Policy Committee. While further rate hikes in the current cycle are not likely, renewed inflationary pressures from higher global fuel prices, a widening current account deficit and potential El Nino-related risks to food prices have placed the bar to cut rates quite high. As always, global dynamics will also play a key role in its decision making.

MARKET UPDATE

Concerns around high interest rates and the global economic outlook resurfaced, causing a selloff in most major global markets during September, with the MSCI World Index ending the month 4.3% lower. In the US, the NASDAQ (-5.8%), S&P 500 (-4.9%) and the Dow Jones (-3.5%) all recorded losses during the month. The UK's FTSE-100 (+2.3%) was the only major index to end the month with a gain.

Foreign funds continued to exit the Chinese equity markets due to concerns surrounding the macroeconomic outlook. The Hang Seng declined 3.1% in September, while the Shanghai Composite Index was down marginally by 0.3%. Japan's Nikkei lost 2.3% during September.



The JSE All Share Index was down 3.4% in September, with Industrials (-5%), Financials (-5%) and Resources (-0.1%) all recording losses. The rand pulled back by 0.2% against the US dollar, ending the month at R18.91. Brent crude oil (+9.7%) recorded its fourth consecutive monthly gain. Iron ore was 1.7% higher, while the platinum price declined 6.6% in September, and the gold price was down 4.7% to US\$1 848.

GLOBAL EQUITIES



Accenture

Global consulting firm, Accenture reported revenue of US\$64.1bn for full year 2023, representing growth of 8% in local currency, in line with guidance provided by management earlier this year. There was a notable slowdown in the second half of the financial year, driven by a deteriorating macro-economic outlook prompting clients to delay discretionary expenditure. This impacted Consulting, with reported revenue down 1% (up 3% in constant currency). Managed Services (previously Outsourcing) was more resilient, with reported revenue growth of 11% (+14% in constant currency).

From an industry perspective, revenue growth was driven by a double-digit performance from Health & Public Services (+14%) and Resources (+15%). Financial Services (+7%) and Products (+9%) performed respectably while Communications, Media and Technology (-3%) remained weak.

Adjusted earnings per share of US\$11.67 were up 9% in line with the upper end of management's guidance while free cash flow generation exceeded expectations at US\$9bn for 2023. While management remain optimistic about the work in progress related to generative AI, they expect discretionary expenditure to remain constrained in 2024. As such, they have guided for weaker growth in 2024. Guidance for revenue growth was in the range of 2% - 5% in constant currency while adjusted earnings per share are expected to be up a modest 3% - 6%. The group remains committed to returning excess cash to shareholders in the form of dividends and share buybacks and the Board approved an additional US\$4bn share repurchase authority. The group expects to return US\$7.7bn in 2024 after returning US\$7.2bn in 2023.

LOCAL EQUITIES



Bidcorp

Diversified food services group, Bidcorp reported its strongest set of full year results to date. Revenue (+33%) and headline earnings per share (+35%) were driven by resurgent demand and higher inflation across all operating regions. In addition, Bidcorp gained market share across all regions despite the rate of sales growth moderating in the second half of the year as a result of base effects from the strong recovery period last year. Sales growth over the past six months was driven by higher volumes across key markets. The board announced a dividend of R5.00 per share, in line with the group's dividend cover policy of 2.2 times. This brings the full year dividend to R9.40 per share.

Sales were strong across all regions, with outstanding performance from Australasia. The group reported margin gains across all regions, with slightly lower margins in the UK where results were impacted by a turbulent first half characterised by inflation, labour challenges and higher interest rates. The positive sales trend informs management's optimism that the group remains well positioned as one of the world's largest food services groups.



Shoprite

Shoprite delivered an extremely strong set of full year results, with group sales (+16.9%) surpassing R200bn for the first time. This was driven by performance in the core Supermarkets RSA segment, which saw sales growth of 17.8%. Within this segment, Checkers and Checkers Hyper recorded sales growth of 18%, making Checkers the fastest-growing grocer in the SA premium food segment. Shoprite and USave stores continued to focus on keeping prices low for consumers, resulting in a slight decline in margins. Over the period, the group managed to contain internal retail selling price inflation to 10.1% in the Supermarkets RSA segment. LiquorShop continued to deliver, growing sales 30.8%. Group market share was up 1.4%, representing 52 consecutive months of market share growth. Group gross margin declined slightly to 24.1% (vs 24.5% in FY 2022), while the trading profit increased by 5.7%, resulting in a trading margin of 5.5%. The board declared a dividend of 415 cents per share, which represents year-on-year dividend per share growth of 10.5%

Continued loadshedding cost the group R1.3bn over the period, increasing 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.



FirstRand

FirstRand (consisting of FNB, Wesbank, RMB and the UK's Aldermore), reported resilient full year results amid challenging macroeconomic conditions across all jurisdictions. The group reported double-digit growth in both advances (+15%) and deposits (+16%), notably gaining market share in SA, across broader Africa and in the UK. Increased financial pressure on consumers led to higher credit impairment charges (+55%) and increased credit counselling. However, the group's credit loss ratio (78bps) remained below its through-the-cycle target range, largely due to the conservative

credit extension policy employed since the COVID19-pandemic. Overall, normalised earnings grew 12% to R36.7bn, which filtered into a 12% increase in the FY 2023 dividend per share of 384 cents. Positively, return on equity improved by 60bps to 21.2%, which remains at the upper end of management's target range.

The macroeconomic and credit environments across all regions continued to deteriorate throughout the second half of the financial year. Consequently, management are conservative on growth prospects for full year 2024, and are guiding for earnings to fall within the lower end of their medium-term growth range. They also expect an increase in the group's credit loss ratio, driven by a deterioration in retail advances. Return on equity, however, is expected to remain at the upper end of management's target range (18% -22%) and well ahead of the group's cost of capital.



OUTsurance

Financial services company, OUTsurance Holdings reported a strong set of full year results, 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 Australian operations benefitted from both a weaker rand (versus the Australian dollar) as well as fewer weather catastrophes. Overall, group normalised earnings rose 39.8% to R3.2bn while annualised new business premiums written grew by 17.2%. The strong recovery in Australia in addition to reduced losses from new business ventures drove a significant improvement in return on equity from 22% to 29.8%.

While the total dividend of 220 cents per share was up 5.9%, it lagged normalised earnings growth as the group opted to retain capital in order to fund growth initiatives. These include expansion into Ireland as well as initiatives to support the pace of growth experienced in Australia. While management acknowledges the challenging macro-economic conditions affecting consumers, they remain optimistic about their organic growth potential, highlighting that certain business lines within Youi and OUTsurance have single-digit market share and continue to grow strongly. Overall, we remain confident in our long-term view that OUTsurance is well placed to continue growing earnings above its peers.



Remgro

Diversified financials and industrials investment holding company, Remgro delivered a good set of full year results over a period that was not without its challenges. Headline earnings per share grew 8.9% to R12.54 per share while the disclosed Intrinsic Net Asset Value (INAV) was up 16.6% to R248.47 per share. The Group completed significant corporate actions, which distorted the comparability

of headline earnings to the prior period. Removing the impact of these corporate actions would have seen headline earnings increase by 27%, highlighting a strong underlying performance across key portfolio investments. Net cash at the centre was lower at R1.1bn, following significant investments and loans related to both Mediclinic and Distell being taken private, as well as dividend payments. Management declared a final gross dividend of 160 cents per share, up 60% on last year's distribution.

Looking at segment-level performance, Healthcare's contribution was up strongly following a recovery across South Africa and the Middle East, but somewhat offset by challenging conditions in Switzerland. Consumer Products was broadly weak, with RCL Foods and Siqalo struggling against higher input costs and the inability to fully pass them on, while the Heineken/Distell integration remained in progress. Financial Services performed strongly, with OUTsurance benefitting from solid growth in Australia and lower costs of funding, following the utilisation of cash from the Hastings sale to pay down debt. Infrastructure continued to show strong operational growth with a meaningful uptick in earnings but remained focused on capital expenditure targeting fibre access and services penetration across underserved areas. The Industrials segment, similarly to Consumer Products, was subject to volatile input prices but also mixed end-markets, which drove an aggregated decline in earnings.



Sanlam

Listed financial services group, Sanlam reported a solid set of interim results showing a strong recovery in its Life Insurance businesses, which are finally normalising after being heavily impacted by higher mortality claims due to COVID-19. New business volumes for the segment were up 4% to R44.8bn. Sanlam's Credit and Structuring businesses also grew strongly (+36%) on the back of its Indian operations, which continue to be underpinned by a healthy economic recovery in that country. The General Insurance (short-term insurance) segment reported a rebound in profit across all its major business lines. With the comparable base impacted by the 2022 floods in KwaZulu-Natal, the current period saw earnings increase by 83%. This strong recovery was further supported by an improvement in the segment's underwriting margin (7.5% on a normalised basis) and investment returns. Despite being higher than the prior year, the Investment Management operations reported the slowest growth across the group as profitability was impacted by large outflows. Overall, net results from financial services were R6.1bn, 26% above the prior year. Including the volatile impact of unrealised investment returns, net operating earnings were up 64% to R7.5bn.

During the period, Sanlam made significant progress in its stated strategy of partnering with or pursuing bolt-on acquisitions that will drive growth. The group completed the acquisition of AfroCentric (health insurance), Capital Legacy (wills and estate

solutions) and Brightrock (an innovative insurer that targets the affluent market in South Africa). The most material transaction in our view is Sanlam's recently concluded joint venture with global insurer, Allianz, to form an Africa-wide partnership. This partnership, which combines both companies' African operations into one entity, will be 60% owned by Sanlam and provides Sanlam with scale in several African markets. We expect growth across the continent to be an important driver of earnings over the coming years for the group.



Capitec reported a solid set of interim results within a challenging economic and consumer environment, with headline earnings up 9% to R4.7bn. Loans and advances grew by 10% to R101bn while deposit growth (+10% to R154bn) was more in line with growth in the client base. Two million active clients were added over the period, bringing the total to 20.9 million clients. Results from the credit life insurance and funeral plan offerings were strong, up 20% and 58% respectively. The Business Bank, now fully launched, reported 14% client growth to 183 000 and earnings up 20% to R242m. In response to the challenged consumer environment, the bank tightened its credit granting criteria, which drove a 9% decline in loans and disbursements. Beyond lower disbursements, the effect of stricter lending criteria was also evident in the bank reporting 7.6% of the new loan book showing strain versus 8.7% at the same time last year. The quality of the existing loan book did, however, deteriorate with the bank reporting an impairment charge of R4.6bn, up 62% on last year and an increase to the expected credit loss coverage ratio from 23.5% to 24.5%. Encouragingly, the amount of debt rolling forward to stage 2 and 3 in quarter 2 was 35% lower than quarter 1, further highlighting the impact of tighter lending criteria.

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