

Prosperity

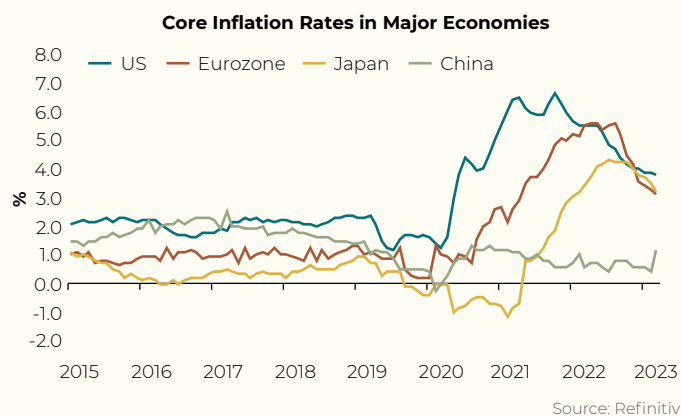
April 2024

- Economic and Market Overview
- Global Equities
- Local Equities

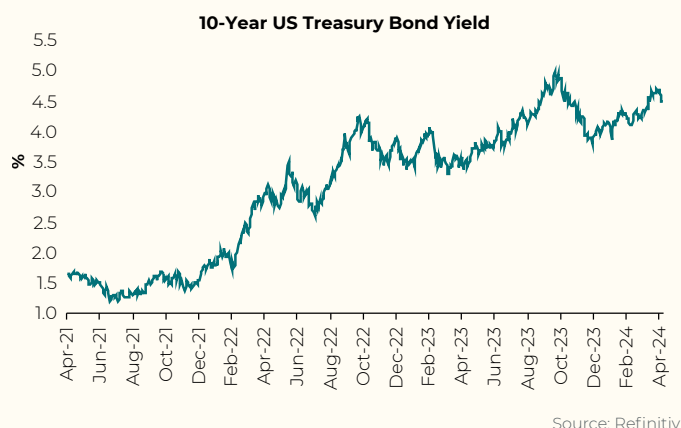
Private Clients
by  Old Mutual Wealth

ECONOMIC UPDATE

In Ian Fleming's *Goldfinger*, James Bond is told: "Once is happenstance. Twice is coincidence. Three times is enemy action." Currently, US monetary policy makers may also be pondering whether three data points make a trend. Fixed income markets have been left shaken and stirred after the first three US consumer inflation prints for 2024 came in higher than expected. While January's reading could be considered a seasonal blip, February and March cannot be waved away and inflationary pressures clearly persist. Core inflation, excluding volatile food and energy prices, rose to 3.8% year-on-year in March.



Together with ongoing strength in consumer spending and a relatively tight labour market, expectations for interest rate cuts this year have been scaled back drastically. Money markets are now pricing in rates falling by only around 25 basis points (i.e. one cut), while bond yields have moved substantially higher. The benchmark 10-year Treasury yield rose from 3.8% at the start of the year, to 4.6% by the end of April. The two-year yield closed above 5%.



Since there are lags between interest rate changes and the direction of inflation, central banks do not need to wait for inflation to be at target to cut rates. They do, however, need confidence that inflation is heading in the right direction – and the current environment means such confidence is in short supply. Fed Chair, Jerome Powell admitted as much following

the third unkind inflation print, saying that "it's likely to take longer than expected to achieve that confidence." Therefore, the first cut in interest rates is only likely to materialise later this year.

Powell's lack of confidence could rob other central bankers of theirs, especially in emerging markets. European Central Bank officials were at pains to argue that they can act independently of the Fed, but even they are somewhat constrained. However, with sluggish economic growth and a better-looking inflation profile (core inflation fell to 2.7% in April), the ECB is now expected to start cutting rates in June. The Bank of Japan's historic rate hike might still turn out to be a case of one and done; while the People's Bank of China is still in easing mode despite better-than-expected first quarter GDP numbers. It should be noted that, while real GDP in China grew 5.3% year-on-year, nominal GDP grew only 4.2%. Deflation was therefore a main contributor to the upside growth surprise – hardly a healthy outcome.

In essence, the gap between expected short-term interest rates between the US and other major markets is, on balance, widening. This supports the US dollar, which has rallied 2% against the tightly controlled Chinese yuan, 4% against the euro and 11% against the Japanese yen in 2024. While these moves may seem small compared to standard rand volatility, they are notable by the standards of the major currencies.

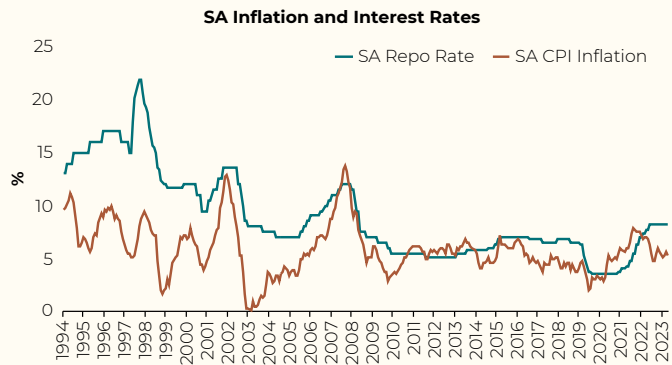
On the local front, expectations for SA interest rate cuts have also been scaled back, with the forward rate agreement (FRA) market no longer pricing in any rate reductions. This seems extreme, since falling inflation means the real repo rate will rise above 3% - a level too high for the fragile domestic economy.

Despite the re-emergence of food price risks due to drought conditions in the interior of the country, inflation should be well behaved this year, drifting towards target. Consumer inflation declined to 5.3% year-on-year in March. However, the Reserve Bank is likely to be cautious when the rate cutting cycle commences, keeping a close eye on risks from food and global fuel prices and the international interest rate outlook.

Reserve Bank governor, Lesetja Kganyago recently reiterated his call for a lower inflation target, saying that discussions in this regard were underway with National Treasury.

Lower inflation in the long run will improve SA's competitiveness and will result in lower interest rates. It should also limit the rand's decline over time, since its performance against hard currencies such as the dollar and pound is largely explained by higher inflation in SA compared to the US and UK.

However, getting to a lower inflation target range (2% - 4%) will put SA in line with most of its peers and may require short-term pain for long-term gain. Interest rates might have to remain at relatively elevated levels to guide inflation down, not just to 4.5%, but eventually further down towards 3%.



Source: Refinitiv

Relatively high interest rates do hold the SA economy back, but the biggest problems remain on the supply side. In particular, the impact of fifteen years of loadshedding, and intense loadshedding over the last five or so, is measured not only in the jobs lost but also in the jobs that could not be created. The logistics crisis is of a more recent vintage, but the impact is similar. SA's infrastructure in general ranges from inadequate to poor, and this makes it very difficult to grow businesses and create jobs. The good news is that there has been a lot of progress on the energy side, largely by simply allowing businesses and households to source their own electricity. The process of liberalising the rail and port network is also underway but lags the electricity sector and is a more complex process.

As the election looms, the big question is whether the new governing coalition (assuming there will be one) carries on with the gradual reforms we have seen over the past few years. It seems highly likely that it will, and that there will be broad continuity with current policies since, for better or for worse, the ANC is the major partner in almost any realistic coalition permutation.

MARKET UPDATE

After five consecutive months of gains, most major global markets ended April lower. The MSCI World fell 3.7% as markets retreated on the latest US inflation numbers and ongoing concerns over the further escalation of the conflict in the Middle East.

In the US, the Dow Jones (-5%), S&P 500 (-4.2%) and the Nasdaq (-4.4%) all recorded losses in April. The UK's FTSE100 was an outlier, ending the month 5.4% higher. In China, the government announced that it would support mainland and Hong Kong. This boosted Chinese markets, with the Hang Seng surging 7.4% in April. The Shanghai Composite was up by a more muted 2.1%. Japan's Nikkei (-4.9%) followed most major global markets lower.

In SA, the JSE All Share Index ended April 2.1% higher. Resources (+7%) led the charge, while Industrials (+1%) and Financials (+0.5%) recorded modest monthly gains. The rand strengthened marginally against the US dollar, ending the month up by 0.5%. The gold price continued its upward trend (+2.5%), ending the month at US\$2 284.57/oz. Brent crude rose 0.4% in April, and the platinum price was 2.9% higher.

GLOBAL EQUITIES



Visa

Visa reported strong second quarter results that were ahead of both analyst estimates and management guidance. Key geographies continued to perform well, with management noting a sustained trend of stable consumer spending despite macroeconomic concerns in some regions. Payment volumes over the quarter rose by 8%, which was slightly lower than the 10% reported in the second quarter a year ago. Despite international travel patterns normalising over the last year, Visa's cross-border volumes, which drive higher-margin international transaction revenues, remained strong (+16%).

Group revenue for the quarter rose 10% to US\$8.8bn, exceeding analysts' expectations of US\$8.6bn. Revenue growth was driven by rising payment volumes, cross-border volumes and processed transactions. Furthermore, Visa benefited from better-than-expected value-added service revenue and lower incentives paid to banks. Net income was at US\$4.6bn or US\$2.29 per share – an increase of 10% and 12%, respectively. Excluding the impact of litigation provision and foreign currency fluctuations during the quarter, Visa's earnings per share grew by approximately 20%, which highlights the group's strong operational performance. During the quarter, US\$2.7bn worth of shares were repurchased at an average price of US\$280.80 per share. Visa has a remaining US\$23.6bn authorised funds for share repurchases.

LOCAL EQUITIES



Capitec

Despite a challenging consumer environment, Capitec reported a solid set of 2023 full year results, with headline earnings up 16% to R10.6bn. Loans and advances grew by 5% to R103bn, while retail deposits and wholesale funding grew 6% to R156bn, reflecting more moderate growth in the traditional interest income business. More than one million active clients were added over the past six months, bringing Capitec's total client base to 22 million.

Results from the credit life insurance and funeral plan offerings remained strong, with income up 13% and 27%, respectively. The Business Bank, now fully launched, grew profit after tax by 23% to R478m, despite higher interest expenses and a higher credit impairment charge. In response to the challenging consumer environment, Capitec tightened its credit criteria for all retail products, which saw net loans and disbursements decline by 8%. The quality of the existing loan book deteriorated, with the bank reporting a net impairment charge of R8.4bn. This is up 37% on last year and has pushed the expected credit loss coverage ratio from 24.9% to 25.5% compared to August last year. Encouragingly, growth in credit loss provisioning moderated in the second half of the year, further highlighting the impact of tighter lending criteria, and painting a picture of peak credit strain at this point in the cycle.



Clicks

Within a challenging operating environment, Clicks Group reported a solid set of 2024 interim results, with diluted headline earnings per share (HEPS) up 13% over the period. Group revenue rose 9% and operating margin strengthened by 30bps to 8.5%. The results were largely driven by robust demand in beauty and personal care segments and private label, the ongoing success of the Clicks Clubcard loyalty programme and the group's expansion efforts. Over the past year, a net 41 new stores and 27 pharmacies were opened, and these, along with the integration of recent acquisitions, have bolstered Clicks' market position.

Looking ahead, while economic conditions are expected to remain constrained for the remainder of the year, Clicks is well positioned to defend and capture its share of wallet, with effective promotions, and expansion of higher margin, private labels. Clicks will also continue to focus on expanding its footprint and enhancing its existing stores and infrastructure. Management have guided for full year headline earnings growth of between 10% - 15%.



BHP and Anglo American

As was widely reported, BHP Group made an all-share offer for Anglo American. The deal specified that Anglo would be acquired without Anglo American Platinum and Kumba Iron Ore. While Anglo subsequently rejected the offer, we are likely to see increasing interest in Anglo American from other potential suitors, potentially Rio Tinto or Glencore. BHP is also widely expected to make a revised offer.

For BHP, the rationale for a deal can be summed up in one statement: undervalued assets and copper scale. Anglo offers a large, high margin and high growth potential copper asset base with close geographic proximity to BHP's Chilean and Peruvian copper assets. The deal would see the combined entity being one of, if not the, largest copper producer in the world, with 2.6million metric tons of production a year, accounting for almost 10% of global production.

We view a possible deal as attractive for a few specific reasons. Firstly, Anglo American is currently undervalued. Some of their key commodities, namely platinum group metals, diamonds and nickel are facing challenging market conditions, which have undermined their respective valuations. If BHP were to acquire Anglo American, it could be acquiring a meaningfully undervalued portfolio of assets.

Secondly, Anglo American has spent the greater part of the last decade right-sizing and optimising their asset base. As a result, their key commodity operations are globally competitive and are high margin. Therefore, the potential for big expenditure surprises and/or dealing with operationally challenged assets is reduced for BHP. Lastly, together with Anglo American's already undervalued portfolio, this would be a de-risked large acquisition that presents the potential for higher valued unbundlings and divestments down the road. We are monitoring developments closely and will provide a more formal update as the situation unfolds.

CONTACT US

CAPE TOWN

PINELANDS

TEL: 021 524 4678

ADDRESS: Old Mutual Wealth, Mutualpark, Jan Smuts Drive, Pinelands, 7405 | PO Box 207, Cape Town, 8000

EMAIL: privateclients@omwealth.co.za

STELLENBOSCH

TEL: 021 861 5300

ADDRESS: 97 La Gratitude, Dorp Street, Stellenbosch, 7600

EMAIL: privateclients@omwealth.co.za

NEWLANDS

TEL: 021 524 4678

ADDRESS: 22 Kildare Street, Newlands, 7700

EMAIL: privateclients@omwealth.co.za

JOHANNESBURG

TEL: 011 245 3805

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

EMAIL: 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

KWAZULU NATAL

KLOOF

TEL: 031 767 7300

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

EMAIL: privateclients@omwealth.co.za

Private Clients
by  Old Mutual Wealth

Private Clients by Old Mutual Wealth (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 or visit www.tip-offs.com.

Old Mutual Wealth, Mutualpark, Jan Smuts Drive, Pinelands, 7405 | Tel: +27 (0)21 524 4678 | Email: 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.