

Prosperity

November 2023

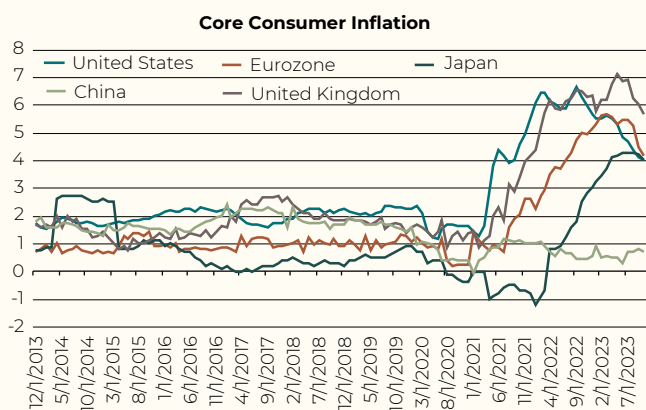
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Private Clients
by  Old Mutual Wealth

ECONOMIC UPDATE

November saw bonds and equities rally as investors anticipate a turn in the global interest rate cycle next year. Inflation data has generally been moving in the right direction, while there is also evidence that tight labour markets are loosening up. This removes the need for central banks to crush demand to cool the economy, especially since the supply side of the global economy has also improved. In other words, things generally seem to be in better balance, reducing upward pressure on prices, particularly in the US.

The US Federal Reserve kept interest rates unchanged at its November monetary policy meeting. US consumer inflation declined to 3.2% year-on-year in October, and to 4% excluding food and fuel prices. While this is still a long way from the Fed's 2% target, inflation continues to move in that direction. Since a large part of the basket is rental inflation – where the official statistics lag the market reality by several months – further declines in core inflation in 2024 are likely.



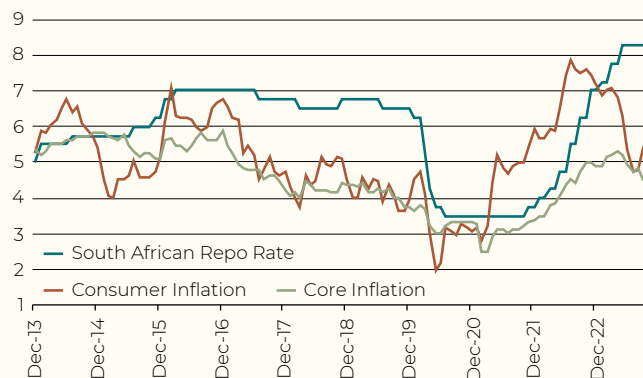
Meanwhile, jobs growth continues to slow in a sign that the great scramble for workers is over. Wage growth is easing as a result, which will give the Fed greater comfort that inflation can continue falling. Importantly, the cooling in the labour market does not yet amount to cracking.

Slower growth is welcome since it reduces inflationary pressures and removes the need for monetary overkill. The big question for next year is whether economic growth slows without turning negative. If it is a case of cooler growth and lower inflation – a soft landing – the Fed can gently reduce rates and markets should be very happy. However, if the outcome is a recession, the Fed will likely cut rates more aggressively.

In China, the world's second largest economy, the picture is very different. Rather than trying to engineer a soft landing, authorities are aiming to reflate the struggling economy. China's headline inflation rate dipped below zero in October, while core inflation has been below 1% since the start of the year. Monetary, fiscal and regulatory authorities are attempting to stimulate the economy and stabilise growth. In a tightly controlled system, they probably have a reasonable shot at success, and there are signs of progress already. However, longer-term challenges remain. China has unfavourable

demographics, too much debt and the overhang of massive overbuilding in property and infrastructure. It also faces a growing rivalry with the US, which can hold back its economy (foreign investment has already plunged).

Locally, the interest rate cycle has most likely also peaked. The South African Reserve Bank's Monetary Policy Committee (MPC) left the repo rate unchanged at 8.25% at its November meeting. All five members voted for this outcome, compared to close-call decisions at previous meetings. The MPC statement noted that the repo rate at its current level is "restrictive". In other words, it is acting to slow demand and place downward pressure on prices. There is little point in pushing it further into restrictive territory.



There is already sufficient evidence that interest rates are working as intended. Credit growth i.e. loans and advances slowed to 4.6% year-on-year in October, largely because of lower demand from corporate borrowers. New vehicle sales, a key rate-sensitive sector that is also reflective of prevailing consumer confidence, was 9.8% lower in November from a year ago.

While October inflation was reported at 5.9% year-on-year, higher than expected, this was largely due to a significant petrol price increase and food inflation not declining as much as expected. Therefore, headline inflation continues to largely be a supply-side phenomenon.

Core inflation, which excludes volatile food and fuel prices and is therefore more closely linked to demand in the economy, is a better gauge of underlying domestic price pressures. It fell further to 4.4% in October.

The Reserve Bank expects inflation to average 5.8% this year, 5% in 2024 and 4.5% in 2025. This means that inflation should remain within the Bank's 3% - 6% target range, albeit on the high side. The Bank expects the economy to grow by 0.8% in 2023. This is not a great outcome in absolute terms but is a better outlook than earlier in the year when only 0.2% was forecast. The projections for the next two years were also lifted to 1.2% and 1.3%, respectively. In other words, 2024 should be somewhat better than 2023.

MARKET UPDATE

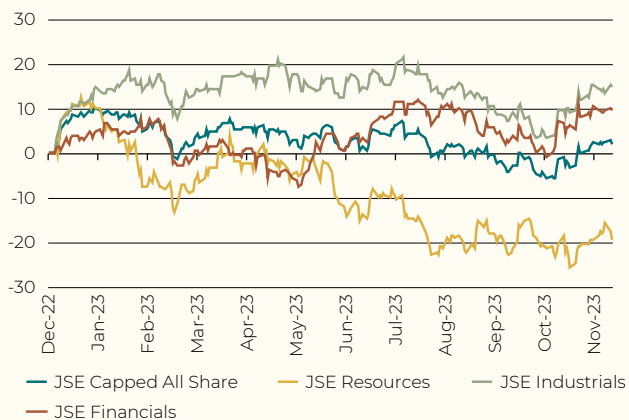
Financial markets, buoyed by improved investor sentiment on the global interest rate cycle, ended November much stronger, with the MSCI World Index up 9.4% over the month.

After posting three consecutive months of losses, US markets had a stellar month, with most indices erasing losses since July. The Nasdaq soared 10.7% in November, the S&P 500 was up 8.9%, and the Dow Jones rallied 8.8%. In the UK, despite some good news around inflation declining, the FTSE 100 was only up 1.8% over the month.

Concerns regarding China's economic recovery persisted in November and the country's official PMI fell to 49.4 versus October's 49.5 print. The Hang Seng ended the month 0.4% lower while the Shanghai Composite Index recorded a marginal gain (+0.4%). Japan's Nikkei soared 8.5% in November.

In South Africa, the JSE All Share Index rose 8.4% in November. Industrials led the charge (+10.4%), followed by Financials (+8.6%) and Resources (+5.9%). The rand weakened 1.1% against the US dollar, ending the month at R18.75. Brent crude was down 5.2% and iron ore prices rose 3.7% in November. The gold price remained above the psychological US\$2 000 level, ending the month 2.6% higher at US\$2 035.75/oz.

JSE Sectors



GLOBAL EQUITIES



Apple

Apple released its highly anticipated full year 2023 results, which – despite being weaker than the previous year – exceeded expectations. Revenue for the year was down 2.8% to US\$383.3bn, largely due to currency headwinds that detracted from product revenue throughout the year. Despite the decline, the reported revenue was still US\$244m ahead of analyst expectations. Margins were one of the highlights, with gross margins for the year increasing to 44.1% (+82bps) following faster growth in higher-margin services. We expect this trend to continue to drive Apple's profitability. Earnings per share for the period rose 0.3% to US\$6.13, above analyst expectations of US\$6.06.

The total number of Apple devices in the global market (technically referred to as Apple's active installed base) continued to grow strongly and reached an all-time high of over two billion devices over the course of the year. Management have increasingly prioritised this metric as the group now focuses on its services business, which grew revenue 9% during the year compared to the decline in product revenue. Management disclosed that the group's service revenue now has over one billion paid subscribers across Apple's various services – nearly double the number it had three years ago. Apple ended the year with a net cash position of US\$51bn. The group continued to use excess cash to reduce its share count and repurchased over US\$80bn worth of shares over the period, which has supported earnings growth.



Disney

Media and entertainment giant, Walt Disney reported full year results that were in line with prior guidance, with both revenue and adjusted earnings per share up by 7% year-on-year. Revenue growth continued to be driven by the group's Direct to Consumer (DTC) channels and Experiences, which offset declining broadcast network revenue. Operating income (+6%) growth was driven entirely by Experiences, which offset sustained losses in DTC and declining profitability from linear networks.

Management remained optimistic about the outlook, advising that they are on track to exceed their initial US\$5bn cost saving target while also achieving profitability in DTC by Q4 2024. In addition, with cash generation improving, the group has made an offer to Comcast to acquire the minority interest in Hulu, which will allow for further integration of the platform into Disney's DTC business. Along with the improvement in free cash flow, management has recommended a resumption of the group's dividend.

LOCAL EQUITIES

RICHEMONT

Richemont

Global luxury goods company, Richemont reported a resilient half-year result despite significant foreign exchange headwinds. Excluding foreign currency fluctuations, revenue and operating income grew 12% and 15%, respectively, with operating profit margin expansion of 90bps. However, including currency fluctuations, revenue and operating income grew by a more modest 6% and 2%, respectively, with the operating margin contracting by 210bps. Sales were driven by continued support for the group's Jewellery collections, while Specialist Watchmakers reported a modest decline in revenue and profitability. A rebound in China partially offset a deceleration in key markets including Europe, Japan, and the Americas.

Management are cautious on the outlook amid deteriorating sentiment in response to the escalating geopolitical tensions and conflict in the Middle East. With a net cash position of EUR5.8bn, Richemont remains in a sound financial position, with the ability to invest in both organic and inorganic growth opportunities.



vodacom

Vodacom

Vodacom reported resilient interim results characterised by rising cost pressures due to its international operations expansion and local loadshedding. This has left the telecoms operator with limited scope to increase voice and data prices. As a result, the group is actively investing in diversifying its revenue sources, focusing on financial services, IoT and digital solutions.

Investment in back-up power has paid off in SA with Vodacom now recognised as the "Most Reliable Network". Improved network availability supported growth in data usage (+45%) and prepaid data (+15%). Including Egypt and foreign currency fluctuations, revenue grew 35.5% to R72.8bn. Excluding Egypt and foreign currency, revenue was up a modest 4.7%.

Start-up losses in Ethiopia, increased share count and financing costs related to the acquisition of Vodafone Egypt contributed to the 4.2% decline in headline earnings per share (to R4.38). In line with the group's revised dividend policy, an interim dividend of R3.05 was declared (down 10.3%). The group remains committed to its medium-term target of mid-to-high single digit revenue and earnings growth.



Ninety One

Global asset manager, Ninety One reported half year results that were in line with expectations and reflective of the challenging “risk-off” investment environment. Over the period, the asset manager saw net outflows of £4.3bn as clients, impacted by inflation and rising interest rates, exited equity markets where returns were driven by narrow sectoral performance. As a result of the tough market, the group reported a 5% decrease in assets under management (AuM) to £123.1bn.

Adjusted operating revenue for the period declined 9% despite performance fee growth of 10%. The business was able to manage costs extremely well, resulting in operating expenses declining 10%. Operating profit fell 9% to £97.9m and the adjusted operating profit margin remained flat at 32.6%. Adjusted earnings per share (EPS) decreased 9%, in line with the fall in adjusted operating profit. The board declared an interim dividend of 5.9p per share (-9%).



Stor-Age

Property REIT, Stor-Age reported a mixed set of interim results. The group's SA operations reported impressive growth and continued to benefit from the positive trends experienced since the onset of COVID. The UK operations, on the other hand, reported muted growth as trends continued to normalise after a period of remarkable growth in the last three years. The UK's slowdown was further exacerbated by high interest rates, which caused a slowdown in all economic activity within the property sector. Overall, rental income and net property operating income were up 8.1% and 8%, respectively. Across both regions, the group reported growth in average rental rates, with SA increasing by 9.6% while the UK grew by 5.1%. However, occupancies across the two geographies diverged. The group's SA operations reported an increase in occupancies of 3.6% while the UK operations reported a decline of 1.9%. The group reported an increase in dividends per share of 2.2%, lower than the 8% increase in property operating income. An increase in interest costs and property rates largely accounted for the difference in dividend and operating income growth.

A small, but fast-growing part of Stor-Age's business is the additional fees that the group generates from non-property related activities. These include the management fees received for the group's services in managing properties for their joint partners and third-party digital advertising for strategic self-storage operators. This business line is attractive due to its capital light nature and its ability to improve Stor-Age's digital capabilities. Over the reported period, fees from this segment rose by 114% to R39m. More than half of this revenue is recurring in nature, which adds to its attractiveness. We expect this to continue to grow over time and to provide an acquisition pipeline for the group across regions.



Mr Price

SA apparel retailer, Mr Price reported interim results that were characterised by two very different quarters. While margins came under significant pressure during the first quarter due to loadshedding and increased promotional activity, the tide turned during the second quarter as sales growth accelerated as back-up power was in all stores and inventory levels normalised across the sector. In the second quarter all sales channels, tender groups and geographies saw sales growth, market share gains and gross profit uplift. Many of the challenges faced by the group (such as inflation, slower discretionary demand and high promotional activity) were anticipated by management, who noted that the group's core consumer was severely constrained over the period. These conditions resulted in higher promotional activity and compromised margins.

Overall, Mr Price reported record revenue growth of 26.4%, which was buoyed by their recent acquisition of Studio88. Growth in revenue included retail sales of R16.1bn (+27.8%). Total expenses increased by 33.6%. As a result of expense growth exceeding sales growth, operating profit growth for the period was flat (-0.4%) and group operating margin decreased 320 basis points (bps) to 11.5%. Basic and headline earnings per share were down 10.3% and 9.3%, respectively. The group remains highly cash generative and ended the period with available cash of R1.1 billion. Management is confident that margin contraction is temporary and mainly attributable to the first quarter. Management maintains that the outlook remains tough, with consumers expected to remain under pressure for the remainder of this year.

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