

Prosperity

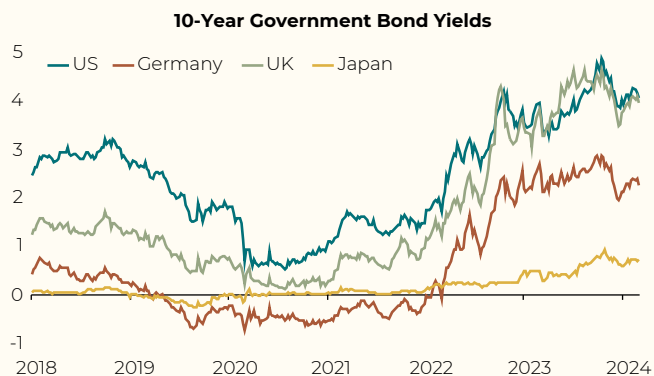
February 2024

- Economic and Market Overview
- Global Equities
- Local Equities

Private Clients
by  Old Mutual Wealth

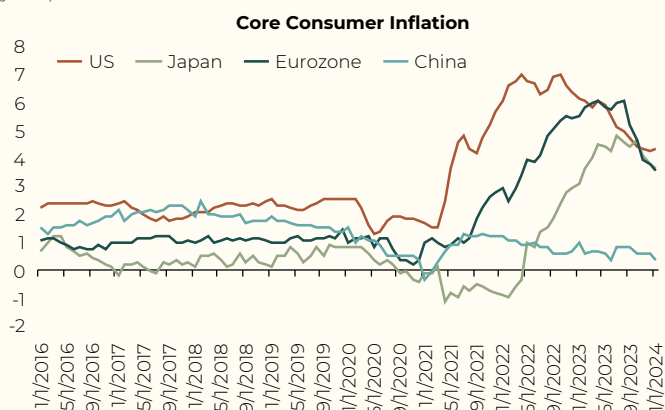
ECONOMIC UPDATE

Markets are heavily influenced by narratives – a set of stories about what is happening and what is likely to happen. Sometimes those narratives are challenged, leading to a repricing. Sometimes the narratives change, and investors latch onto a new one. And sometimes, the narrative changes without anyone paying much attention. During February, the narrative around central banks cutting rates aggressively, and soon, was challenged. While the bond market noticed and repriced, the equity market carried on regardless.



US inflation numbers for January showed signs of stickiness, casting doubt on the notion that inflation was well and truly under control. However, conclusions should not be drawn based on a single data point, especially when January numbers have been unusually volatile in recent years. However, with the labour market also still strong (January's employment report was a blockbuster with 353 000 jobs added), there is enough reason for the US Federal Reserve to be cautious. The minutes of its January policy meeting, released with the standard three-week lag, suggest as much. Fed officials want greater confidence that inflation is headed towards the 2% target before taking the plunge. The minutes state that "most participants noted the risks of moving too quickly to ease the stance of policy," but "a couple" of officials at the meeting were worried about downside risks to the economy due to "maintaining an overly restrictive stance for too long."

While the Fed is still likely to cut rates later this year, market expectations around the timing of the first cut have been pushed back from March to June. The extent of cuts priced in has also declined and is now closer to what Fed officials projected in the quarterly 'dot plot' in December. The US 10-year government bond yield rose from 3.8% at the start of February to 4.3%, while the policy-sensitive two-year yield jumped from 4.1% to 4.7%.



The European Central Bank's meeting minutes exhibit a similar caution, even though the Eurozone economy is in far greater need of support from interest rate cuts. The minutes note a "broad consensus among members that it was premature to discuss rate cuts at the present meeting." European bond yields also rose during the month.

The People's Bank of China does not publish meeting minutes. It does not operate with the same degree of transparency as other major central banks, nor is it independent from the government. Therefore, it is more likely to surprise markets. So far, the big surprise has been its general lacklustre response to the Chinese economic slowdown, and the property crisis in particular. It has only tweaked interest rates lower. However, the last move was bigger than expected, with the prime mortgage rate cut by 25 basis points, the largest ever such move. Lower rates will not necessarily stimulate a market when there is little appetite to borrow. Who wants to take out a loan to buy a flat when property prices are still falling and there is no guarantee that cash-strapped developers can complete the units they have promised? Despite the Chinese equity market seemingly finding a floor (partly due to aggressive buying by state entities), the bond market is still signalling a sustained period of slower growth and lower inflation ahead. The 10-year bond yield ended the month at 2.4%, the lowest on record.

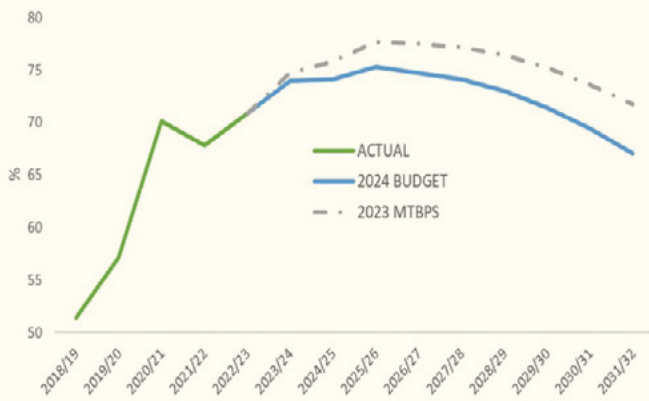
In South Africa, markets still care more about fiscal policy than monetary policy given South Africa's chronic growth problems and high government debt levels. Therefore, the February Budget Speech came under intense scrutiny. Despite it being an election year, the Budget showed an ongoing commitment to fiscal consolidation and debt stabilisation, with no sign of populist budget policies leading up to elections.

It is not that the government ideologically favours the bond market. The simple reality is that in the absence of much faster economic growth, only spending discipline can bend the fiscal trajectory back into sustainable territory. Failing that, government's interest burden will continue rising. The combination of high levels of borrowing and high interest rates means that 20 cents of every rand collected by SARS goes towards interest payments. This number has doubled since 2010, and results in other spending areas being squeezed out.

The government does not have direct control over tax revenues, borrowing costs or economic growth. It only controls spending. Therefore, fiscal consolidation must be achieved with ongoing spending discipline. Non-interest expenditure is projected to grow by less than inflation over the next three years, though upward adjustments were made to accommodate wage increases for frontline workers.

Government gross debt-to-GDP ratio

Source: National Treasury



Fortunately, the pain of this consolidation is eased somewhat by a transfer from the GFECRA, the gold and foreign exchange contingency reserve account at the Reserve Bank. It is effectively the unrealised valuation gains or losses on South Africa's foreign exchange reserves. Though held by the Reserve Bank, these gains or losses accrue to the government. Unlike in other countries, there has not been a regular transfer of gains from the central bank to the government. The sharp depreciation of the rand from R6/US\$ in 2010 to almost R19/US\$ today means GFECRA has ballooned to around R500 billion. Treasury will now tap R150 billion rand of those gains to pay down debt and reduce the government's annual gross borrowing requirement from R553 billion in 2023/24 to R428 billion in 2026/27. It also means the debt-to-GDP ratio is projected to stabilise at 75.3% in 2025/26, a lower and earlier peak than projected in last year's MTBPS. This seems to be a sensible approach, but it is important to note that future GFECRA transfers are likely to be much smaller.

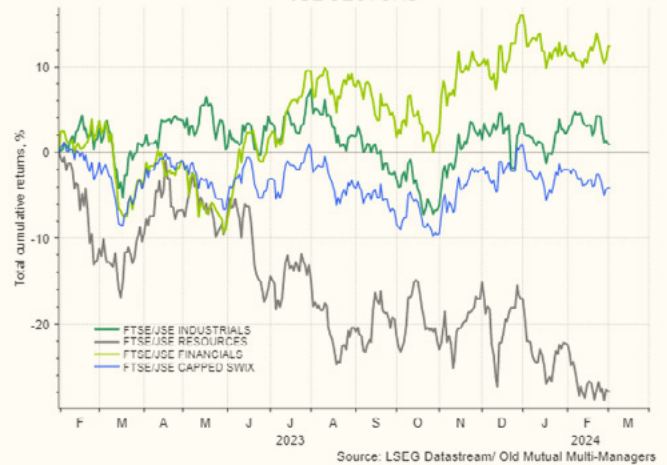
Whether the Budget projections are realised will depend largely on whether economic growth expectations are met. Treasury expects real GDP growth of 1.3% in 2024. This is projected to rise to 1.8% in 2026. The Budget Speech places a great emphasis on achieving faster economic growth through structural reforms, including streamlining public-private partnerships and infrastructure funding mechanisms. This is vital, since only sustained faster economic growth can ultimately get the state's finances under control.

MARKET UPDATE

Despite continued concerns around China's economy, worsening Middle East geopolitical tensions, and higher-than-expected January US inflation data, most global equity markets ended February higher, with the MSCI World Index up 4.3%.

In the US, the Nasdaq closed at an all-time high and soared 7.2% in February. The S&P 500 rallied 5.2% for the month, and the Dow Jones was 2.2% higher. In the UK, the FTSE 100 was flat. China's Hang Seng Index had its strongest month in just over a year, rising by 6.6% in February. The Shanghai Composite Index also performed well (+8.1%). Japan's Nikkei hit a high on 26 February, closing at 39 233.71. The index ended February up 7.9%.

JSE SECTORS



Locally, the JSE lagged major global and emerging markets, with the JSE All Share Index declining 2.4% in February. Resources were hardest hit (-7.2%), while losses across financials (-0.8%) and industrials (-0.6%) were more muted. The rand continued to weaken against the US dollar, down 2.7% in February, ending at R19.2061. Brent crude was up 2.3%, putting more pressure on local fuel prices. Although platinum fell 4.6% during the month, gold was up 0.2%, ending at US\$2 043/oz as metal prices started to rally towards the end of the month on global rate cut hopes.

GLOBAL EQUITIES

DIAGEO

Diageo

Global spirits leader, Diageo, reported weak interim results characterised by declining organic sales (-0.6%) and volumes (-5%). Overstocking and a consumer downturn in Latin America (LAC) drove the poor result, with a recovery only expected towards June 2024. Positively, organic sales excluding Latin America grew 2.5%, with Africa (+9.3%) and Asia Pacific (+5.9%) showing good growth. Diageo's tequila-led global growth strategy penetrated new markets and was a meaningful contributor to growth in Europe and Asia Pacific. With commodity inflation finally showing signs of moderation (corn lower, aluminium moderating), the group produced a strong cost result. Although the operating margin declined by 53 basis points (ex-LAC), this decline was entirely driven by marketing expenses, which are essential for consumer-facing companies. To this point, the group delivered US\$335m in productivity savings over the half-year period and is on track to exceed their FY22-24 productivity savings target of US\$1.5bn.

Taken together, earnings per share fell 17% to US98.6 cents, primarily driven by once-off items (supply agility programme, brand impairment, litigation). Free cash flow, however, benefitted from improvements in working capital management, growing US\$498m to US\$1.4bn. The strong cash flow result allowed management to declare an interim dividend of 40.50 US cents, up 5% from the prior period.

Honeywell

Honeywell

Honeywell's full year 2023 performance was in line with management's initial guidance, reporting sales of US\$36.7bn, up 4% organically. This performance was achieved within a challenging environment for two of the group's four divisions: namely Building Technologies (HBT), and Safety and Productivity Solutions (SPS). Demand for building products weakened during 2023, driving HBT to report a 1% decline in organic revenue in the fourth quarter of 2023. SPS experienced one of its worst quarterly growth periods during the last quarter, reporting a 24% decline in organic revenue growth.

Honeywell benefited from its diverse portfolio, with growth in Commercial Aerospace and a recovery in Defence, Space and Chemical Processing offsetting weakness experienced by traditional short-cycle businesses. Management's stringent cost control and productivity and efficiency enhancements, together with lower inflation, drove operating margin expansion of 120bps. This exceeded management's initial guidance and supported a 5% increase in the group's overall adjusted earnings per share. Honeywell expects to generate free cash flow of US\$5.6bn - US\$6bn in 2024, some of which may be used to fund the acquisition of Carrier's Global Access Solutions Business for which the group has agreed to pay US\$4.95bn. The acquisition is expected to close in the third quarter

of 2024 and will allow Honeywell to scale its cloud-based digital access and asset safety solutions.

While management remain optimistic about the group's prospects (particularly in sustainable energy solutions and quantum computing) and reaffirmed their long-term target of 8% - 12% growth in adjusted earnings per share, the team acknowledged the prevailing challenging operating environment and guided for organic sales growth of 0% - 3% in the first quarter of 2024. This guidance underperformed analyst expectations and caused a negative reaction to the overall result after its release.

amazon

Amazon

Amazon reported a strong set of full year 2023 results, with all three divisions achieving double-digit sales growth. Operating profit doubled to US\$36.9bn as the group continued to optimise its now expanded delivery and logistics network across both US and international markets. Net income turned positive following a recovery in operational profitability and an increase in the value of the group's investment in Rivian Automotive.

Free cash flow also turned positive (US\$36.8bn), supported by reduced capital investments as the expansion of the group's delivery and logistics network has been substantially completed. Amazon's prospects remain attractive, with strong growth momentum in demand for advertising, Amazon Prime membership, third-party seller services and AWS cloud and generative-AI solutions.

stryker

Stryker

Stryker, a leader in orthopaedic and neurological medical devices, reported full-year 2023 results that outperformed both guidance and expectations, with revenue and earnings growing by 11.5% and 13.5% (on an organic basis, after adjusting for currency and once-off items), respectively. Both operating segments (MedSurg and Neurotechnology; and Orthopaedics and Spine) performed well, benefitting from strong procedural demand that drove unit volumes, as well as pricing in select market segments.

Geographically, 2023 marked the sixth consecutive year that international sales growth (excluding the impact of Chinese volume-based pricing) outpaced growth in the US. With supply chains mostly stabilised and the continued easing of cost pressures, the group's gross margin grew to 63.7%. Improved gross profitability, strong sales growth and good cost control drove operating margin expansion from 15.4% to 19%. Benefitting from the strong sales and operating result, earnings per diluted share increased 33.7% to US\$8.25. On an organic basis, earnings per diluted share increased 13.5% to US\$10.60.



DanaHER

Healthcare group, DanaHER Corporation, reported a weak set of results for the 2023 full year. However, given management's prior guidance and the tough comparable period a year ago when the group was enjoying the benefits of increased COVID testing, the results were well received by the market. Revenue for the group declined 10.3% during the period to US\$23.9bn. The group's biotechnology segment (which provides bioproduction tools for drug makers) was the laggard, with a 18% decline in revenue. Given the lower volumes, group margins contracted, which caused earnings per share to decline to US\$7.58, from US\$9.71. Despite the weak numbers, it is worth noting that both revenue and earnings per share were largely in line with management's guidance. This means that the weakness in the current period was largely anticipated following the strong performance in 2022.

More positively, DanaHER's free cash flow conversion improved over the period from 103% of earnings to 121%. This is a continuation of a trend we have seen in DanaHER, where cash generation exceeds reported accounting earnings. Management provided a cautious outlook for the first half of 2024, with the second half of the year appearing to be a potential inflection point for the bioprocessing market, which has recently been impacted by reduced funding for start-up biotech firms and customer destocking. Beyond the current year, we expect DanaHER to return to normal growth patterns, which include earnings increases of low double digits and cash conversion ahead of reported earnings.



Alphabet

Alphabet reported solid 2023 full-year results that exceeded expectations on both revenue and earnings per share growth. Revenue growth in Google Advertising (+6%) was soft while Google Cloud reported strong mid-twenties growth. Total revenue rose 9%, with Google subscriptions, platforms and devices (+19.4%) supplementing cloud growth. Operating income was up 12.6%, with good margin expansion across Google Services (Advertising, hardware, Play store, subscriptions) and Google Cloud. Taken together with a gain on equity instruments and a slightly lower tax rate, earnings per share grew 27.2% to US\$5.8.



S&P Global

Financial information services provider and credit rating agency, S&P Global, reported full year 2023 results that were largely in line with expectations. Revenue for the period was up 12% to US\$12.5bn, while earnings per share (US\$12.60) were slightly below the average analyst forecast of US\$12.62. The 2023 reporting period was characterised by a recovery in all the group's segments, as higher market returns, and increased bond issuance were the key drivers of revenue growth after a disappointing 2022.

Given the importance of debt issuance trends for S&P Global, management provided an updated outlook on the debt market. Compared to the same period last year, management is forecasting 11% higher corporate debt maturities over the next five years. In total, this translates into over US\$12tr in corporate debt that is expected to be refinanced over the coming years. This should continue to provide a tailwind for the group, thereby driving profitability.



Kenvue

Following its separation from Johnson and Johnson last year, consumer health and branded products group, Kenvue reported its maiden full year results as a standalone company. While reported revenue (+3% to US\$15.4bn) and earnings per share (US\$1.29) met expectations, management's cautious outlook for 2024 led to share price weakness on the day. Kenvue's gross margin increased to 58.4%, driven by favourable product mix, pricing and supply chain improvements. This improvement was despite a currency headwind of 1.1%. However, operating margins were weaker, largely due to the initial costs associated with operating as an independent listed company and the separation costs. Nevertheless, Kenvue's adjusted operating income margin of 22.4% remains competitive relative to peers.

The consumer health industry benefits from several tailwinds. Industry growth is expected to average around 4% per annum over the next three years. Additionally, Kenvue has embarked on a multi-year strategy to increase gross margins through supply chain enhancements and various initiatives aimed at accelerating revenue growth beyond the market's average, ultimately securing a larger market share. The 2023 financial year provided a glimpse into this strategy, with a 30 bps increase in gross margins despite currency headwinds. The group further reduced debt and initiated a dividend with a payout ratio of 64%.



Zoetis

Global animal healthcare provider, Zoetis reported robust 2023 full-year results, achieving market share growth, even in the face of emerging competition. This impressive performance was attained despite initial challenges in inventory distribution and a difficult economic environment, particularly in China. Moreover, management remain confident in its ability to expand existing markets and create new ones in the future.

Companion animals remained the key growth driver in 2023, and this portfolio is expected to continue playing a pivotal role in the coming year. Zoetis' livestock portfolio experienced a resurgence in growth over the period, driven equally by price and volume. In 2023, group revenue increased 7%, reaching the upper end of management's initial guidance for the year. However, net income fell slightly below their guidance.

Looking ahead to 2024, despite competition in certain markets and economic uncertainty, management remain optimistic and

reaffirmed their commitment to four key tenets of their value proposition to investors. These include growing revenue at a pace that exceeds industry standards, strategic investments in innovation and growth capabilities, expanding margins, and returning excess capital to shareholders. Notably, over the past 11 years, Zoetis has consistently demonstrated market share growth every year, highlighting the strength of its innovative pipeline.

LOCAL EQUITIES



BHP Group

BHP Group reported resilient half-year results, slightly exceeding expectations, with both revenue and underlying earnings before interest, tax, depreciation and amortisation (EBITDA) growing relative to the previous year. This growth was driven by higher prices for copper and iron ore, in particular. Overall volumes across the group were higher, reflecting a more normalised production period, supported by the inclusion of the recently acquired OZ Minerals portfolio, which directly benefitted the copper segment.

Operationally, costs were well-managed, with group unit costs growing below input cost inflation, resulting in a stable underlying EBITDA margin of 53.3%. Despite the underlying positive performance, reported profits and basic earnings per share were significantly impacted by once-off events. BHP's Australian nickel assets were written down to zero (non-cash impairment) due to significant price weakness resulting from oversupply in the nickel market. Additionally, a US\$3.2bn income statement charge was recognised in relation to increased costs for the 2015 Samarco dam failure in Brazil. Consequently, profit after tax and earnings per share both declined by 86%.

The group generated US\$3.8bn in free cash flow following investments totalling US\$5.1bn, primarily directed towards organic development. Management guided to full year capex of around US\$10bn. Net debt increased to US\$12.6bn, still within the US\$5bn-US\$15bn target range, and is expected to remain at this level as growth spending increases towards the medium-term annual capex target of US\$11bn.



Bidcorp

Diversified food services group Bidcorp reported resilient interim results marked by diminishing demand, heightened price sensitivity following persistent inflation and a rising cost base across all operating regions. Despite moderating inflation and softening demand, revenue rose 24% (+10.8% in constant currency) and headline earnings per share rose to R11.52 (+18.6%). This robust performance was largely driven by Europe and Emerging Markets.

While the UK performed well and delivered volume growth, profitability was negatively impacted by higher input costs and reduced margins. Within Emerging Markets, the South African

operations performed strongly but macroeconomic conditions in China detracted from the half-year result. The board announced an interim dividend of R5.25 per share (+19.3%), in line with the group's dividend policy.



Glencore

Glencore's full year 2023 results, while appearing weak on the surface, demonstrated a resilient performance across the group's production commodities. In line with expectations, adjusted earnings before interest, tax, depreciation, and amortisation (EBITDA), declined by 50%. Glencore's Industrial activities, its largest EBITDA contributor, saw earnings decline 52% due to lower coal prices. EBITDA within Glencore's Marketing activities segment declined 43% but was still above management's long-term guidance range of US\$2.2bn-US\$3.2bn.

Operationally, margins held up relatively well and cash generation remained healthy, despite lower commodity and energy prices compared to 2022. Effective working capital management limited the decline in net operating cash flow to just 19.2% versus 50% lower EBITDA. However, impairment charges of US\$2.4bn (largely attributed to weak commodity prices and macro assumption changes, especially in cobalt, zinc and lead), impacted the overall results. Consequently, income after tax and earnings per share declined by 81% and 74%, respectively.



Anglo American

Anglo American reported full year results that although ahead of expectations, were meaningfully lower than last year. Against a challenging backdrop of weak PGM and diamond markets, rising input costs and slowing global growth, revenue declined 13% and underlying earnings before interest, tax, depreciation and amortisation (EBITDA) fell 31% to US\$9.9bn at a margin of 39% (vs. 47% prior). Group volumes were 2% higher, primarily driven by the ramp-up of the new Quellaveco copper mine in Peru, while group unit cost growth was well-managed at 4%. However, lower commodity prices (13% lower across the portfolio) drove the weak EBITDA result.

Within the current challenging environment, management are focusing on cash flows by controlling costs, removing marginal, unprofitable operations, and seeking potential partnerships and syndications in order to de-risk growth opportunities. Based on management comments and the data available, the company has or is approaching a cyclical earnings trough, with growth more likely than further declines expected going forward. As such, basic underlying earnings per share declined 51% to US\$2.42 and basic earnings per share (including impairments and other once-off items) declined 94% to US\$0.23.

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

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

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 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.