# Financial Bulletin

CRF FOR LOCAL GOVERNMENT

**AUGUST 2023**

Dear CRF Member,

July 2023 was a good month for the markets with performance rebounding nicely across all asset classes, with local equities returning 4.1% and local listed property returning 2.5%. The Rand appreciated over the course of the month by approximately 6% resulting in negative returns for offshore assets. The performance of the major asset classes for July 2023, is shown below:

| | 1 month | 3 months | 6 Months | 1 year |
|---|---|---|---|---|
| **SA Equity (Capped SWIX)** | 4.1% | 1.8% | 0.9% | 14.9% |
| **SA Bonds (ALBI)** | 2.3% | 1.9% | 1.2% | 8.1% |
| **SA Property (ALPI)** | 2.5% | -2.2% | -0.8% | 2.3% |
| **SA Cash (STeFI)** | 0.7% | 2.0% | 3.8% | 7.0% |
| **SA Inflation Linked Bonds (CILI)** | 1.4% | 0.3% | 2.6% | 3.9% |
| **Global Equity (MSCI World ($))** | 3.4% | 8.5% | 11.1% | 13.5% |
| **Global Equity (MSCI World (R))** | -2.7% | 5.5% | 13.4% | 21.1% |
| **Global Bonds (WGBI ($))** | 0.3% | -1.9% | -1.2% | -3.9% |
| **Global Bonds (WGBI (R))** | -5.6% | -4.5% | 0.9% | 2.6% |

The returns of the CRF portfolios (net of all fees) to the end of July 2023 were as follows:

| Portfolio | 1 month | 3 months | 6 months | 1 year |
|---|---|---|---|---|
| **CRF Aggressive Portfolio** | 0.8% | 0.5% | 0.9% | 13.6% |
| **CRF Growth Portfolio** | 0.8% | 0.7% | 1.0% | 13.0% |
| **CRF Moderate Portfolio** | 0.8% | 2.4% | 4.5% | 13.1% |
| **CRF In-Fund Pension Portfolio** | 1.6% | 1.3% | 2.7% | 6.8% |
| **CRF Money Market Portfolio** | 1.0% | 2.5% | 4.2% | 8.2% |
| **CRF Shari'ah Portfolio** | 0.1% | -0.1% | 2.2% | 9.0% |
| **CRF Children’s Benefit Portfolio** | 1.1% | 1.9% | 3.6% | 11.7% |

While much has been written and said about a potential US recession, US economic growth remain resilient with 2023 second quarter growth surprising on the upside at 2.0% versus the 1.4% market expectation. US economic growth was buoyed by a resilient labour market, which supported consumer spending. As most US companies reported strong quarterly earnings, this helped to boost market sentiment. Of the 254 S&P 500 companies that reported, almost 80% came in above the consensus expectations.

US June headline inflation slowed to 3.0% for the 12-month period, which is its lowest level since March 2021. Despite the slowdown in inflation, the US Federal Reserve (Fed) delivered another 0.25% interest rate hike in July 2023, taking the Fed funds target rate range to 5.25%-5.5%. This is the highest the rate has been in over 22 years. The Fed Chair

Jerome Powell mentioned that the Fed would make data-driven decisions on a “meeting-by-meeting” basis in the future.

As expected, the European Central Bank and the Bank of England (BoE) both hiked by 0.25% to control inflation, which remains sticky. More interest rate hikes are still expected, particularly from the BoE. Although the equity market ended the month higher in the UK, companies are facing pressure on earnings from rising costs and a much higher cost of debt.

Locally, the South African Reserve Bank (SARB) finally paused with its rate hikes leaving the repo rate unchanged at 8.25%. Many market participants believe that this could be the top of the rate hiking cycle and that rates will remain unchanged for the rest of the year. This helped local bond returns provide a positive return in the month. However, Governor Kganyago warned that the SARB will remain vigilant and could hike interest rates again, citing food and energy inflation as major risks. SA’s inflation rate as measured by CPI slowed for a third consecutive month to 5.4%, which is the lowest it has been since October 2021. May’s CPI number was 6.3% for the 12 month period.

Both local equities and bonds ended the month up. Banks and insurance companies had a very strong month as the financials sector led the market higher. The JSE was also buoyed by the performances of Prosus (the second-biggest listed counter) and Naspers (the fifth-largest by market cap), up 2.9% and 3.4% for the month, respectively.

Looking forward, the market expects China to boost growth through stimulus measures. This will most likely benefit commodities and emerging market equities. As global inflation keeps dropping in most countries, we could be at the peak of the interest rate cycle in many countries. We are starting to see rate cuts as the Bank of Chile was one of the first to cut rates in Latin America. Markets are still in uncertain territory though and a cautious approach is still warranted.

Kind regards,

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