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SASFIN BCI Stable Fund Quarterly Update

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GLOBAL MARKET DEVELOPMENTS

The IMF in October further reduced its forecast for global growth from 6.0% in 2021 to 3.2% in 2022 and 2.7% in 2023. This is the weakest growth profile since 2001, except for the global financial crisis and the acute phase of the COVID-19 pandemic. Global economic activity is experiencing a broad-based and sharper-than-expected slowdown, with inflation higher than seen in several decades. The cost-of-living crisis, tightening financial conditions in most regions, Russia's invasion of Ukraine, and the lingering COVID-19 pandemic all weigh heavily on the outlook.

Prices have surged around the world. Initially the increases were related to supply chain bottlenecks following COVID restrictions, then rising energy prices which were later further impacted by the conflict between Russia and Ukraine. This also saw upward pressure on food prices. However, while inflation was earlier seen as being of a transient nature, it became more generalized with wage demands increasing. While many economists believe that inflation will slowly start declining in the next few months, there is concern that inflation may be sticky on the downside. UK inflation rose to 10.1% in September, matching the 40-year high recorded in July this year. In the USA inflation eased slightly in September to 8.2%, but the core rate which excludes volatile food and energy, rose to 6.6%, the highest in 40 years and above market expectations of 6.5% signaling that inflationary pressures remain elevated. The IMF analysis highlights that more backward-looking expectations require stronger and more frontloaded monetary tightening to reduce risks of inflation de-anchoring. Risks of a sustained wage-price spiral appear limited since underlying inflation shocks come from outside the labor market and monetary policy is tightening aggressively.

Major Central Banks around the world have applied Quantitative Easing (QE) from 2009. Since the onset of the COVID pandemic, interest rates were artificially pushed to record low levels and additional large scale asset buying programs were introduced to support economies. The Fed in the USA has started the reversal of QE, switching to Quantitative Tightening (QT), with a massive $9 trillion balance sheet as a base. We expect to see further rising interest rates across most major economies, as well as reversal of the large asset buying programs. While the consequences for markets of this tightening phase is uncertain, the risks are high that this phase may be negative for markets.

The S&P 500 rose strongly by 279.0% over the 10 years to December 2021, but then fell by 24.8%% in the first nine months of 2022. Technically this is a bear market. The tech heavy Nasdaq rose an even more impressive 500.5% over the 10-year period but collapsed by 32.4% over the nine months ended September 2022. Some analysts are questioning whether a combination of slowing economic growth and tightening monetary policy as well as rising global tension could result in further major stock market corrections, even off this substantially lower base. The US 10-year bond yield rose from 0.92% at the start of 2021 to 1.49% at the close of 2021 and rose further to over 4% in October 2022. The Fed Fund rate has increased from almost zero at the beginning of this year to 3% currently and is projected to reach 4-4,25% at the end of the year.

Local Market developments

The SA Reserve Bank (SARB) recently revised its forecasts for GDP in South Africa down from 2.0% to 1.9% for 2022 but revised up its forecasts for 2023 and 2024 to very modest levels of 1.4% and 1.7% respectively. The SARB commented that Private investment has strengthened on the back of the recovery, but public sector investment remains weak. Household spending remains supportive of growth but is likely to soften next year. Tourism, hospitality and construction should see stronger recoveries as the year progresses. With inflation in South Africa remaining elevated at 7.5% in September, well above the 3-6% target band, the SARB had little option but to raise interest rates in November. The Repo rate is now at 6.25%, up from 3.75% at the beginning of the year.

The JSE All-Share Index lost 1.9% for the quarter and over the full year to June 2022 delivered a lackluster return of 3.5%. International markets generally performed poorly and the broad MSCI World $ Stock market Index lost 5.5% for the quarter and 15.1% for the 12 months.

With the 10-year SA Government bond yield rising further than expected from 9.62%% to 11.28% over the past 12 months, the All-Bond Index returned a small loss of 1.3%, year-to-date. SA Inflation Linked Bond Index produced a return of 2.3% year-to-date to September 2022 with a good running yield being offset by the short-term mark to market effect of rising yields.

Fund Strategy and Performance

The SA Reserve Bank is widely expected to further hike interest rates. Nevertheless, with 10-year bond rates of over 11%, we believe that investors are adequately compensated for risk and accordingly over the past year we have increased our fixed rate bonds to a full exposure, within our long-term strategic limits. In the longer term we believe that there is a risk of further increasing inflation and accordingly we are monitoring our bond position closely. Furthermore, our largest category exposure is to inflation linked bonds, which offer some protection to investors if inflation remains high. Credit exposure is limited as we see risk in the credit space, without seeing great protection from the credit spreads in the market.

In equities we have invested in selected opportunities. We are cognizant of the risks facing the broad economy, and the pressure this could place on general corporate earnings. It may take several years to fully recover from the pandemic, while last July's social unrest highlights the issues facing SA.

Despite a large downward correction in property values, we maintain a modest position in this asset class until there is more evidence of where equilibrium market rentals may settle.

The Fund has enjoyed solid but stable returns to 30 September 2022, yielding 5.6% over the past year and 11.6% p.a. over the last 2 years. This compares to the Fund's benchmark of 1.5% and 6.6% p.a. respectively, which is represented by the average of the (ASISA) SA Multi-asset Low Equity category. The fund's long-term target is CPI plus 4%. Performance was enhanced by some outstanding increases in prices of the shares selected for the portfolio, including Thungela (+104% since purchase), VIVO Energy (+38% to disposal), African Rainbow Minerals (+28%) and Gold Fields (+20%.) Going forward we will continue with our objectives of inflation beating returns, while controlling risk through both strategic asset allocation and individual security selection.

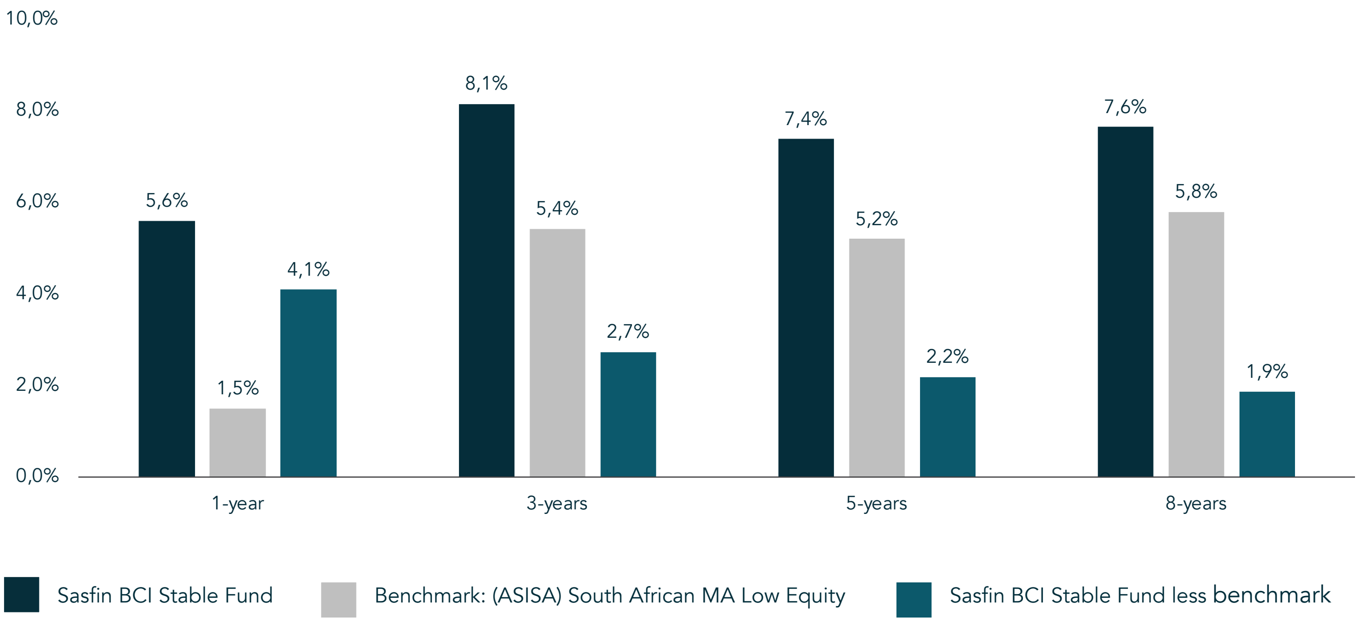
Errol Shear

Portfolio manager

Sasfin Asset Managers

Performance

Sasfin BCI Stable Fund
Performance ending September 2022



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