WARWICK WEALTH

The Investment Specialists

December 2022

WEALTH MATTERS

In this issue

Introduction and welcome from Warwick Wealth Managing Director, Marc Wiese

We are once again at that time of year where we are buying Christmas gifts for loved ones or preparing for a well-deserved holiday. 2022 has flown by and we are already approaching the end of the year. Looking back at November, there were a couple of highlights worth noting: The South African unemployment rate decreased during the third quarter of 2022, dropping to 32.9%. South African equities, bonds and the property sector all enjoyed positive returns for the month. By contrast, the Rand depreciated by some 7% against the US Dollar over the same period. An eventful month indeed!

Entering December, the political volatility heightened immensely as several political experts expected that President Cyril Ramaphosa may potentially resign on the back of Parliament's independent panel Section 89 report into the Phala Phala saga. Subsequently, at the time of writing, the President appears to have stood his ground, fiercely contesting efforts to oust him. December will be an important month for the governing party as it heads into the ANC's 55th National Conference on Friday the 16th of December, where it will elect candidates for top posts within the party. These decisions inevitably affect us all, as the elected leaders of the ANC will be deployed into government and particularly the executive branch for the near future.

On a lighter note, we would like to wish all our clients and partners a wonderful holiday and festive season. As we head into our first post-Covid December holiday, where we can comfortably spend time with family and friends, please rest assured that Warwick are always available and keeping a keen eye on your investments.

Kindly be advised that our regional offices will be closing from Friday the 23rd of December 2022 to Friday the 6th of January 2023, we will, however, be available on our Toll-free number 0800 50 50 50 from 9am to 12pm on all business days. Should you require our assistance outside of these business hours, please leave a voice message and we will return your call as soon as possible.

Best wishes for a merry ***holiday season!***

Marc Wiese, Warwick Wealth Managing Director

Investing Internationally

Warwick Gauteng Regional Manager, Deon Myburgh, writes on why we believe you should invest internationally.

Why you should invest internationally

Warwick Wealth firmly believes that it is imperative that a well-diversified investment portfolio must have healthy offshore exposure. Indeed, all our house view models have a minimum allocation of 38% to offshore assets. Exposure to offshore assets can be via rand-denominated feeder funds, or through direct exposure to international markets and exchanges. There are a number of reasons for our view, and I will highlight a few of the more important ones below.

Diversification

Our local JSE makes up less than 1% of global investment opportunities. Our market is highly efficient, but it is very heavily weighted towards the mining and financial sectors. Several very important sectors are absent on the JSE, for example, the pharmaceutical sector, the alternative energy sector, the artificial intelligence sector, etc.

Deon Myburgh,
Warwick Wealth Regional Manager Gauteng

Quality

The business environment in South Africa is over-regulated and relatively uncompetitive due to restrictive policies and onerous requirements placed on the private sector by the government. This means that companies listed in South Africa must contend with a difficult environment when compared to our developed market peers. Companies listed in the US operate in a comparatively business friendly environment and also supply their products and services in jurisdictions where consumers have more purchasing and spending power compared to South Africa. The international companies we favour have extremely strong global income streams, for example Johnson and Johnson and Berkshire Hathaway.

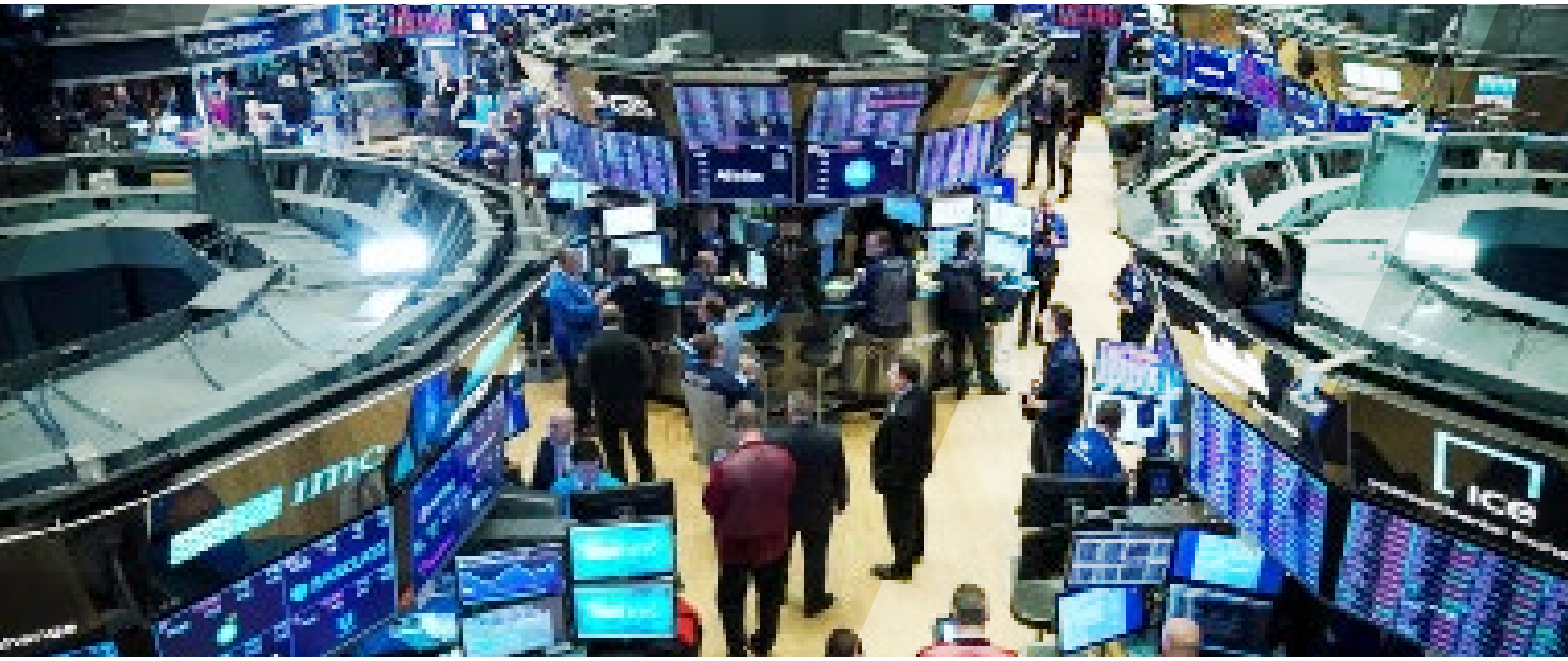
Currency

The long-term trend of the rand versus the dollar is one of steady devaluation over time. While this trend is not directly linear, over time, the rand has devalued on average around 5% per year over the last 25 years. There is no indication of a reversal of this trend, thus, having a healthy exposure to offshore growth assets (global equities) ensures you are investing in quality global businesses and in hard currency.

Politics

The last factor to consider is politics. The political landscape in South Africa is extremely volatile. The official unemployment figures illustrates that around one third of the working age population is unemployed with around 60% of the youth being unemployed. This is not sustainable over the long term and the risk is that when desperation sets in, populist policies by governments tend to follow. This could make the business environment in South Africa even more difficult for the private sector to navigate.

Given all the above, we firmly believe in healthy exposure to large global blue-chip companies with diversified global income streams, strong balance sheets and a proven track record of growing earnings over time.



MARKETS REVIEW

International Markets

In November, international markets closed in the black for the second successive month, as lower US inflation, coupled with a weaker dollar and decent earnings buoyed the markets.

The US Federal Reserve raised rates again by a further 0.75%, the fourth hike in a row, having increased a total of 3.75% since March. The message coming out of the Fed remains consistent, rates in the US will remain higher for longer, with cuts only expected later in 2024. Fed Chairman, Jerome Powell's, comments at the tail end of November hinted at the possibility of smaller rate hikes from December and that the restrictive monetary policy may remain in place until there is evidence of progress on inflation. This sentiment boosted US markets as the S&P 500 rose by 5.4%, the Dow up 5.7% and the Nasdaq up by 4.4%.

Inflation data for October came in better than expected as CPI slowed, with headline CPI coming in at 7.7% YoY, whereas consensus expectation was for a decline from 8.1% to 7.9%. Core CPI, which excludes food and energy, also came in lower at 6.3%, vs a previous reading of 6.6% in September and consensus of 6.5%.

The UK market gained a robust 6.7% for the month, despite that country's inflation reaching a 41-year high of 9.6% vs the previous reading of 8.8%. Food prices also hit a new high of 12.4%, with basic food prices (eggs, dairy products, coffee) rising significantly.

European markets followed suit, with the Dax closing the month higher by 8.6%, and the Cac up by 7.5%. Inflation numbers in Germany cooled slightly in November to 11.3% vs the previous reading of 11.6%, still staying close to its record highs. Meanwhile, French inflation numbers remained unchanged at record highs of 6.2% year-on-year.

Inflation in the Eurozone slowed more than expected in November, coming in at 10.0%, vs the revised October reading of 10.6%, which is five times the European Central Bank's inflation target of 2%, as energy and food contributed to the high inflation readings. Notably, ECB President, Christine Lagarde, reported to the EU parliament that she believed inflation in the zone had not peaked yet.

Asian market news was driven mid-month by protests against China's draconian and costly zero-covid policy curbs instituted by the government to stem the spread of the Covid-19 virus. Visuals of the heavy police presence and strict enforcement by the government weighed on the markets. Towards the end of the month, however, indications of policy relaxation and progressive reopening plans, boosted market sentiment. Despite the domestic turmoil, the Hang Seng had astrong month, closing 26.6% higher, while the Shanghai composite index was up by 8.9%.

On the economic front, Chinese PMI numbers fell to 48 in November vs the 49.2 print of October, which came in lower than consensus expectation of 49. Similarly, the non-PMI reading, which is a measure of business sentiment in the construction and services sectors, came in at a disappointing 46.7 for November vs a reading of 48.7 the previous month. A reading above 50 indicates expansion and one below indicates contraction. A large contributor to the poorer readings was the resurgence of Covid cases together with the strict zero-covid policies of China, which muted market activity.

In Japan, the Nikkei closed higher by 1.4% for November, as economic data unexpectedly shrunk in the third quarter of 2022, with GDP sliding 1.2% YoY on an annualised basis, whereas consensus had expected GDP to grow by 1.2%.

Local Market

The local market followed the international markets firmer with the All-Share index closing higher by 12.2% for November, as a potential Chinese reopening boosted sentiment. The resources sector was the star performer, with the index up by 17.3% for the month, followed by industrials up by 15.1%.

Financials and property also ended the month in positive territory, up 5.5%, and 5.2% respectively. Prosus was up by 39% for the month, Naspers up 38.7%, Anglos 23.8%, Amplats 17.5%, Richemont up 22.4%, and BHP up by 19.1%.

CPI surprised on the upside, coming in at 7.6%, vs the September reading of 7.5%. The unexpected rise in the core CPI number was broad-based, stretching beyond energy and food prices and becoming more broadly entrenched. Further to this, Stats SA data indicated that retail sales had declined by 1.9% in the third quarter of 2022, pointing to the economy tipping into recession and exacerbated by the increasing rolling electricity blackouts.

As expected, with inflationary fears still weighing and erring on the side of caution, the SARB hiked interest rates by a further 75 basis points at its final Monetary Policy Committee meeting of 2022, taking the repo rate to 7.0%. On a marginally positive note, data indicated that the official unemployment rate declined to 32.9% in the third quarter, vs 33.9% in the second, while the number of unemployed stood at 15.8 million.

Fixed Income

November continued the trend of positive performance delivered by the major domestic investment asset classes. We saw impressive returns from bonds, equities, cash, and currencies as global investors piled back into emerging markets. The positive shift in risk sentiment was propelled by less hawkish comments made by US Federal Open Market Committee (FOMC) president, Jerome Powell, as well as a lower perceived risk of a global recession.

Global central bankers continued to tighten financial conditions in November. Notably, the FOMC increased its benchmark interest rate by another outsized 75 basis points (bps) while remarking that the rate of increases will likely be lower in coming months. The South African Reserve Bank (SARB) also raised the local benchmark interest rate by 75 bps, bringing the Repurchase Rate to 7.0%. This is 25 bps higher than before the Covid pandemic.

South African money market investments were consequentially impacted by the SARB raising its benchmark interest rate. The money market curve flattened significantly with the 3-month Jibar rate increasing 68 basis points and 12-month Jibar increasing by a mere 14 basis points over the month of November. The one-year treasury bill remained unchanged over the period at 8.27% as the National Treasury elected to lower the T-bill issuance for the remainder of the year.

There was a similar trend in the South African nominal bond curve. While yields eased, the majority of the of the move was in the longer end of the yield curve, with the R186 yield decreasing by 35.5 bps and the yield of the longer dated R2040 falling by 60 bps. This translated into the long end of the All-Bond Index (12-year + term to maturity) returning 4.60% over the month and short end bonds (1- to 3- years to maturity) returning significantly less, at 1.67%. The overall return for the All-Bond Index was 3.91% for November.

As noted earlier, the October inflation print surprised slightly to the upside, rising 0.1% to 7.6%. This was mainly due to an under recovery in food prices, as the weak Rand led to higher import prices. Inflation-linked bonds recovered well as real yields continued to decline. As was the case in nominal bonds, the linker curve flattened, with the I2025 real yield declining by 4bps and the I2050 real yield falling a more pronounced 15bps. The inflation linked bond index returned 0.64%, with most of the performance attributed to the long end of the curve (12-years+) which returned 2.27%.

Lauren Hean, Appleton Managing Director

Wills and Estates

Warwick Wealth has selected Appleton to provide specialist fiduciary services to its clients. In this edition of Wealth Matters, Lauren Hean, Appleton Managing Director, discusses the importance of preparing and updating ***YOUR WILL***.

THE IMPORTANCE OF HAVING A VALID WILL

As we head into the 2022 festive season, please take just a few minutes to read through this brief check list to ensure that your Will complies with the required standards and meets your specific wishes. If you are in doubt, please call your Wealth Specialist or qualified Financial Advisor to assist and Appleton will be on standby to update all your fiduciary requirements. Remember, a Will rejected by the authorities may have dire consequences for your loved ones.

Requirements for a valid will:

- Your Will must be drafted by any person 16 years and older.
- Your intentions must be reduced to writing and preferably typed. While it is not legally necessary to be typed, this reduces the risk of contesting the document if is typed.
- You must have a nominated executor, such as Appleton
- You must have nominated beneficiaries (persons who will inherit from your estate).
- Beneficiaries must inherit specific assets and then the balance or residue of your estate not specifically bequeathed must also devolve upon specific person(s).
- Your Will must not have stipulations which do not comply with the law.
- Each page of the will must be signed in full, at the bottom of the page, by both the testator (male) and testatrix (female) and two independent witnesses who will not benefit from your estate, all signing in the presence of one another. While the law states that each page only needs to be initialled and only sign in full on the last page, to avoid confusion and contestation, all parties must sign in full.
- Witnesses must not benefit from your estate in any way, and they must be older than 14 (fourteen) years old.
- The last page must be dated in full, and the place inserted where the will was signed, and then, all parties must sign in full.
- Do not use an 'off-the-shelf' document as an instant will. While it may pass as a valid will, it may not cover all the necessary legal requirements and could lead to a host of legal and estate problems.

The importance of updating your will regularly

Some of the factors that should be looked at for updating your will are as follows:

- Changing of marital status. Please familiarise yourself, or consult with your Wealth Specialist on the distinction between a marriage that is in- or out of community of property.
- Birth of a child or grandchild.
- Entering into business on your own, or with someone else.
- Any other legal event that materially affects your business or personal status.
- Review your will annually to ensure that it remains valid and deals with all your assets.

Finally, please ensure that a signed copy of your Will is safely stored. Appleton provides such an off-site safe storage facility at no cost for all Warwick clients.

Until we speak again in 2023, please be careful, stay safe and have a wonderful Festive Season!