NEWSLETTER

September 2022 | www.vegacapital.co.za

IN THIS MONTH'S NEWSLETTER

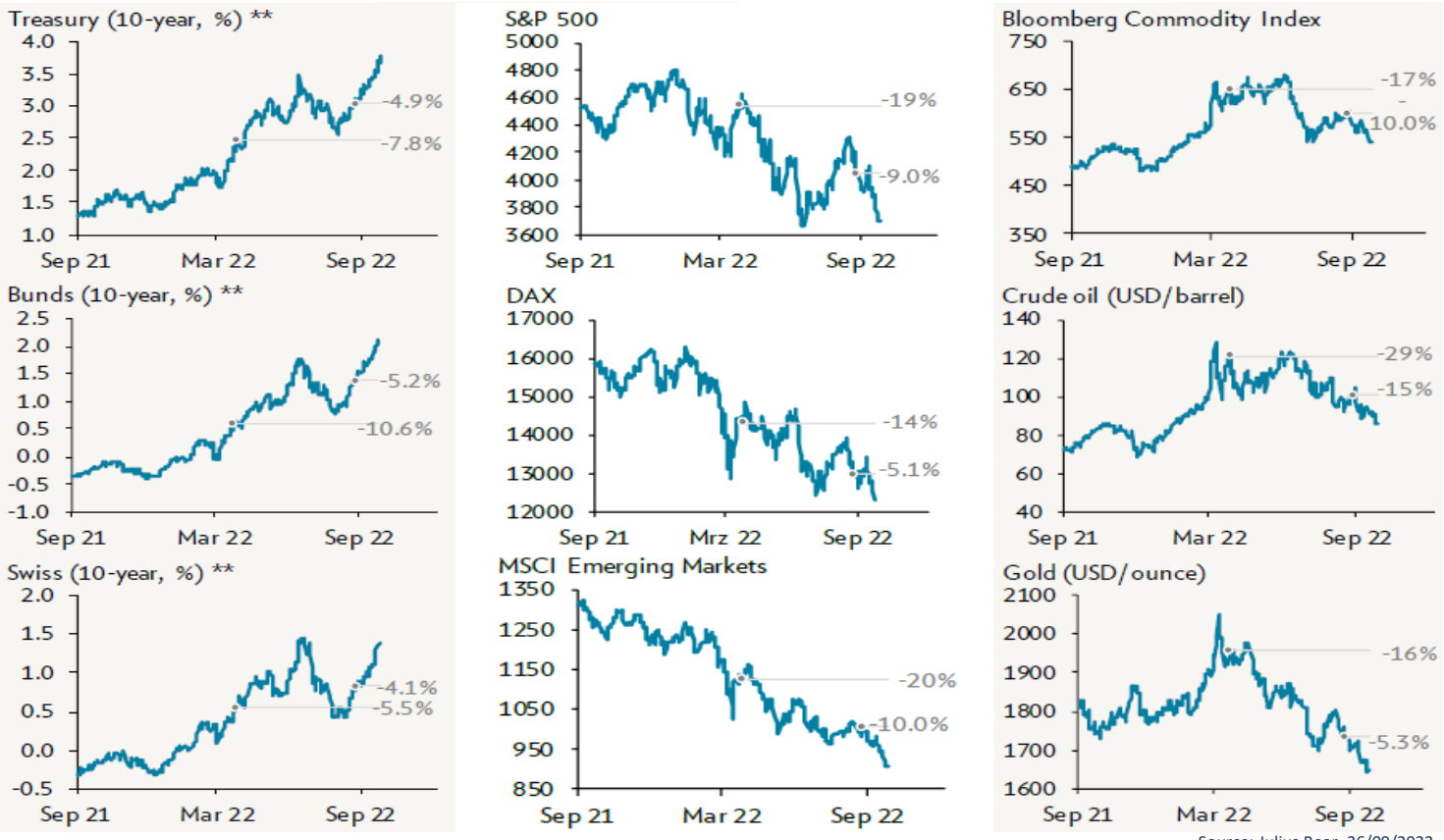
- Market overview
- Share focus: SBRN32
- Graph of the month

"There are two kinds of forecasters: those who don't know, and those who don't know they don't know"

- John Kenneth Galbraith

MARKET OVERVIEW

Review (1-month and 6-month performance)



Source: Julius Bear, 26/09/2022

INTERNATIONAL

	Last	Month %	YTD %	5Y ann. %
MSCI World	2379	-9.70	-26.71	5.86
S&P 500	3586	-9.30	-24.80	9.21
NASDAQ 100	10576	-10.60	-32.80	11.28
EURO STOXX 50	3318	-5.60	-21.01	1.56
MSCI EM	876	-11.90	-30.10	-1.76
HANG SENG	16917	-13.67	-25.33	-6.70
US Equities Volatility Index (VIX)	31.62	-6.15	-14.40	9.51

Source: Edmond De Rothschild

September lived up to its name as the worst month of the year for the stock market. The MSCI All Country World index retreated by 9.7% (down YtD 26.7%). Global monetary policy is tightening at its fastest pace since 1989, surpassing the pace that in the past has caused recessions. The US 2-year treasury yield shot up above 4% as markets priced in forecasts that are more hawkish than what was previously expected. Global equity, bond, commodity and currency markets moved into risk-off mode as demand for the US dollar increased.

The key move came from the Federal Reserve in the US, which increased rates by another 0.75%, taking it to 3.25% - the highest since January 2008. This was the fifth rate hike since March and the third consecutive 75 basis points increase.

There have been some huge moves in UK financial markets in recent weeks. The Bank of England (BoE) increased interest rates, raising its policy rate to 2.25%, the highest since 2008. The BoE expects inflation in the UK to remain above 10% over the next few months, before starting to fall back. In the wake of this decision, markets were stunned by a £220bn policy package set out by Kwasi Kwarteng, Chancellor of the Exchequer under new Prime Minister Liz Truss. Investors fear the bold tax cuts will only provide a short-term boost to the economy, while increasing debt levels and pushing inflation even higher, all at a time when the BoE is trying to reduce these price pressures. This saw the highest one-day increase in UK government bond yields since 1985, and the British pound slump to an all-time low against the US dollar in response, prompting the BoE to intervene and stabilise bond markets.

The elevated levels of global inflation are still persisting. Positive signs are that the global container freight rates are down 61% from their peak, crude oil prices are down by 40% from its recent high and second-hand car prices in the US dropped by 13% since January. These factors will eventually have a deflationary effect. However, a key contributor to core inflation in the US is the cost of rented accommodation and it is still increasing sharply. Low unemployment levels and inflation-linked wage increases are supporting the cost of accommodation in the US.

The following could surprise the markets for the right reasons and have a positive effect on share prices. Positive earnings surprises in the upcoming earnings season. Stocks are looking relatively cheap and a lot of bad news is priced in at current levels. This does not mean that we could not see further drawdowns, but it does create a larger safety margin. The main focus of the third quarter earnings season will be the forecasts of the various CEOs. A fall in core inflation globally will also provide much needed relief for central banks and markets.

There have been very few places to hide this year. Bonds, equities and most commodities struggled. The data below shows that even though the technology sector had a very rough first half of 2022, the sector still boasts a 5-year annualized return of 17% p.a. outperforming the rest of the market by a big margin. We have a long-term investment view; therefore, we focus on identifying companies and themes that should outperform the rest of the asset classes over the longer term.

Figure 1: Asset class performance

	2018	2019	2020	2021	YTD	5-year annualised
Information technology	-2.60%	47.55%	43.77%	28.21%	-25.74%	17.03%
Materials	-16.92%	23.35%	19.93%	12.19%	-16.25%	5.47%
Oil & gas	-15.84%	11.45%	-31.46%	37.71%	32.72%	7.11%
Industrials	-14.54%	27.77%	11.68%	14.10%	-17.51%	4.98%
Communications	-10.02%	27.39%	22.98%	13.02%	-29.06%	3.34%
Healthcare	2.52%	23.24%	13.52%	15.52%	-12.16%	8.85%
Financials	-16.97%	25.51%	-2.84%	24.80%	-15.93%	3.76%
Consumer cyclical	-5.51%	26.57%	36.62%	15.67%	-26.32%	9.75%
Consumer defensive	-10.10%	22.80%	7.79%	9.85%	-8.86%	5.13%
Real estate	-6.36%	22.96%	-4.99%	24.11%	-17.98%	3.40%
Utilities	1.97%	22.53%	4.76%	6.09%	-2.37%	6.27%
Government bonds	-0.38%	5.59%	9.32%	-6.04%	-16.38%	-2.27%
High yield	-4.06%	12.56%	6.91%	0.36%	-14.63%	0.19%
Brent crude oil	-19.55%	22.68%	-21.52%	43.61%	24.06%	12.99%
US natural gas	-0.44%	-25.54%	15.99%	49.43%	144.69%	24.58%
Gold	-2.14%	18.87%	24.42%	-5.74%	-6.11%	5.42%
Silver	-9.36%	15.32%	47.38%	-15.61%	-23.94%	0.32%
Platinum	-14.80%	22.05%	10.71%	-14.02%	-14.25%	-3.70%
Aluminium	-19.28%	-1.84%	10.61%	34.93%	-15.64%	2.37%
Copper	-20.28%	6.31%	25.81%	21.63%	-21.17%	2.70%
Iron ore	10.76%	28.58%	55.25%	-39.48%	12.28%	5.11%

Source: Julius Bear

Figure 2: September 2022 Top 5 best and worst performing international shares

Best performing	%	Worst performing	%
Biogen	+27%	FedEx	-29%
Regeneron	+19%	Ford	-26%
Twitter	+13%	Lumen Technologies	-25%
Zscaler	+13%	Adobe	-25%
Eli Lilly	+7%	Charter Communications	-25%

Source: FactSet

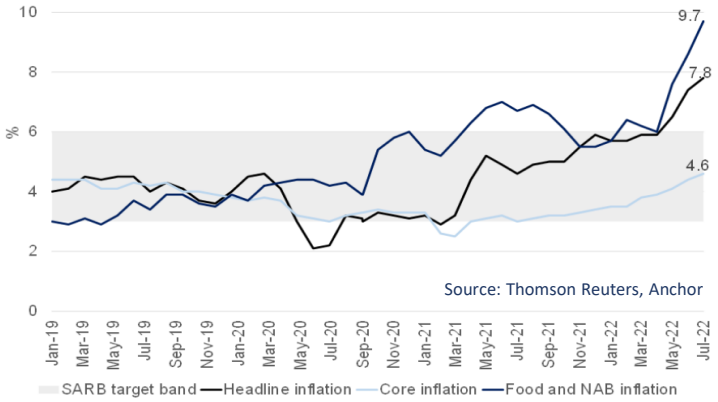
SOUTH AFRICA

	Last	Month %	YTD %	5Y ann. %
JSE All Share	63726	-5.20	-13.54	6.49
JSE Resources	60230	-1.03	-15.14	17.24
South Africa 10Y Bond	10.87%			
Net Foreign Equity Flow	-R20.8bn			
Net Foreign Bond Flow	-R21.9bn			
USDZAR	17.8937	-5.10	-13.48	-5.99
EURZAR	17.6038	-3.28	5.13	-2.25

Source: RMB

Statistics South Africa (Stats SA) reported good news as South Africa's headline inflation eased slightly from 7.8% YoY in July to 7.6% YoY in August which was lower than expected. During the month the SARB raised the repo rate by 75 basis points, taking the repo rate to 6.25% and the prime lending rate to 9.75%. The rand weakened past R18 per dollar for the first time since May 2020, as President Cyril Ramaphosa warned that rolling blackouts aren't going away any time soon. According to the Daily Maverick, 2022 has been the worst year for scheduled power cuts by the monopoly energy utility. There have been power cuts on more than 100 days this year — and 2022 was 260 days old on 18 September.

Figure 3: SA inflation, January 2019 to date (YoY % change)



Source: Thomson Reuters, Anchor

South Africa's 2Q2022 GDP decreased by 0,7%, but YoY GDP increased by 0.2%. Following the solid start to the year with 1Q2022 GDP growing by 1.9%, last year's flood damage in KwaZulu-Natal (KZN) and Eskom's implementation of load shedding weighed on activity across different parts of the economy during the quarter. Most sectors contracted in 2Q2022 with the manufacturing, agriculture, trade, and mining sectors taking the biggest knock.

On a more positive side, Stats SA reports that retail trade sales increased by 8.6% in July compared with a year ago. This is welcome news because consumer discretionary incomes have come under pressure, owing to rising interest rates and a higher cost of living. Resilience in consumer spending has been underpinned by robust growth in non-labour income, a continued drawdown in respect of savings accumulated during lockdown, as well as an increase in the use of credit.

Company News:

FirstRand (FSR) reported a record dividend of 342 cents per share (30% increase), as well as a special dividend of 125 cents per share. In total, the distribution to shareholders is R26bn. The Return on Equity (RoE) for the group increased to a respectable 21% from 18%. FirstRand is currently trading on a forward PE of 10x and a dividend yield of 4.5%.

Remgro Limited (REM) reported encouraging results as its fiber asset, Community Investment Ventures Holdings (CIVH), has gained steam during the period. The CIVH fiber entity rebounded from a loss of R435 million in 2021, to contribute R47 million to the group's headline earnings. Remgro's revenue rose to R76bn from R66bn posted in the previous year. Its diluted EPS stood at R23.13, compared with R6.26 recorded in the previous year. Remgro is currently trading on a discount to NAV of 39%.

Shoprite Holdings Ltd (SHP) reported that its revenue advanced 9.7% to R188bn. Its diluted EPS stood at R10.42c, compared with R8.74c recorded in the previous year. The group declared a final dividend of R3.67 per share, bringing the total dividend for the year to R6.00 per share (up 10%). The group opened an impressive number of new stores (117) - that's one every three days!

Property group **Attacq Ltd (ATT)** gross revenue increased by 5.5% for FY 22. The group declared a dividend of 50 cents per share (80% pay-out) after a dividend draught of more than two years. Attacq is trading on an attractive dividend yield of 8.8% and on a discount to NAV of 62%.

Figure 4: September 2022 Top 5 best and worst performing South African shares

Best performing	%	Worst performing	%
Woolworths	+14%	Murray & Roberts	-38%
Tsogo Sun Hotels	+11%	Capitec	-27%
Sibanye Stillwater	+11%	Steinhoff	-25%
Omnia	+10%	Stenprop	-23%
Anglo Gold	+8%	Cashbuild	-19%

Source: FactSet

Standard Bank Global Tech Digital Plus (SBRN32)

What is the Standard Bank Stockbroking's Global Tech Digital Plus?

- This JSE listed product provides the investor with the opportunity to receive a potential return at enhanced rates dependent on the performance of the Index. The level of the Index was determined on the initial Index observation date.
- The Digital Plus will pay a return of 70% (11.2% p.a) of the investment amount in ZAR ("Return") if the underlying index is flat or positive at maturity from the initial strike date.
- The investment also provides clients with uncapped upside, should the index performance be greater than 70% at maturity.
- The product is protected below 90%. This means that if the spot price of the index at maturity is more than 10% below the strike price, only 10% of capital is lost.
- At the end of the five-year investment term, Standard Bank will settle the market value of the investment in the form of 1nvest MSCI World Index Feeder ETF securities, equal to the value of the Global Tech Digital Plus at expiry. Alternatively, you may elect to roll the maturity proceeds into a new trance of the Global Tech Digital Plus or a similar replacement investment.

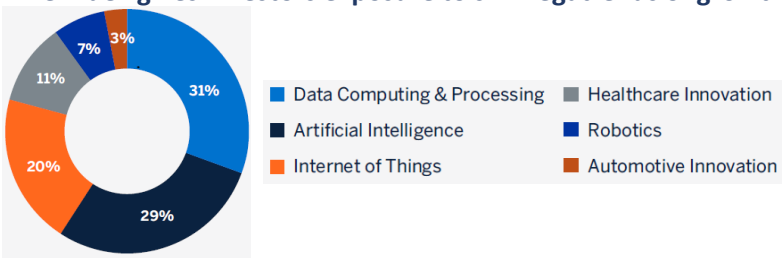
The Index

- SBRN32 is an index-linked investment referencing the performance of the NASDAQ Yewno Global Innovation Technologies ex disputable activities EUR ER 5% Index (The "Index")
- The Index tracks the 100 largest and most technologically innovative companies globally. This is ranked by market capitalization and weighted accordingly.

Top 5 constituents in the Index

1. Microsoft
2. Alphabet
3. Amazon
4. Taiwan Semiconductor Manufacturing Corp
5. Meta Platforms

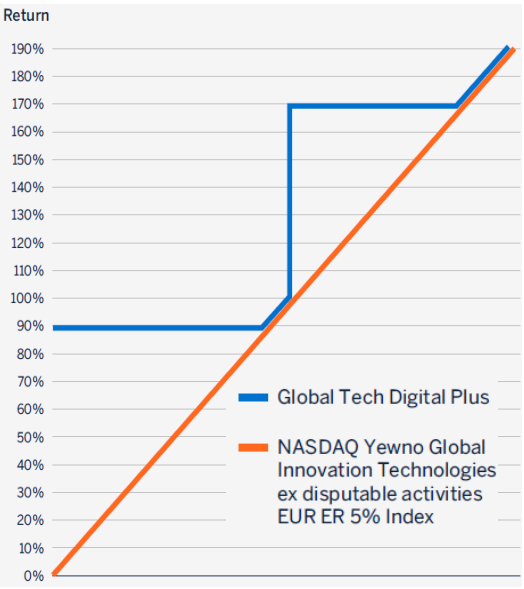
The Index gives investors exposure to six megatrends of growth



Pay-off profiles

The table below represents the possible pay-off profiles achieved modeled on an initial investment amount of R500 000. The Final Redemption Amount of the note will be used to calculate the number of 1nvest MSCI World Index Feeder ETF securities to be delivered to the investor.

INDEX PERFORMANCE SCENARIO						
Index Performance (at Maturity)	Investment Amount	Protection at Maturity	Coupon Earned	Additional Upside	Growth at Maturity	Growth realised by investor
Index Grows by 120%	R500 000	R500 000	70%	50%	R 1 100 000,00	120%
Index Grows by 110%	R500 000	R500 000	70%	40%	R 1 050 000,00	110%
Index Grows by 80%	R500 000	R500 000	70%	10%	R 900 000,00	80%
Index Grows by 50%	R500 000	R500 000	70%	0%	R 850 000,00	70%
Index Grows by 20%	R500 000	R500 000	70%	0%	R 850 000,00	70%
Index Grows by 5%	R500 000	R500 000	70%	0%	R 850 000,00	70%
Index Flat	R500 000	R500 000	70%	0%	R 850 000,00	70%
Index Declines by -5%	R500 000	R475 000	0%	0%	R 475 000,00	-5%
Index Declines by -20%	R500 000	R450 000	0%	0%	R 450 000,00	-10%
Index Declines by -50%	R500 000	R450 000	0%	0%	R 450 000,00	-10%



Source: Standard Bank

Key benefits

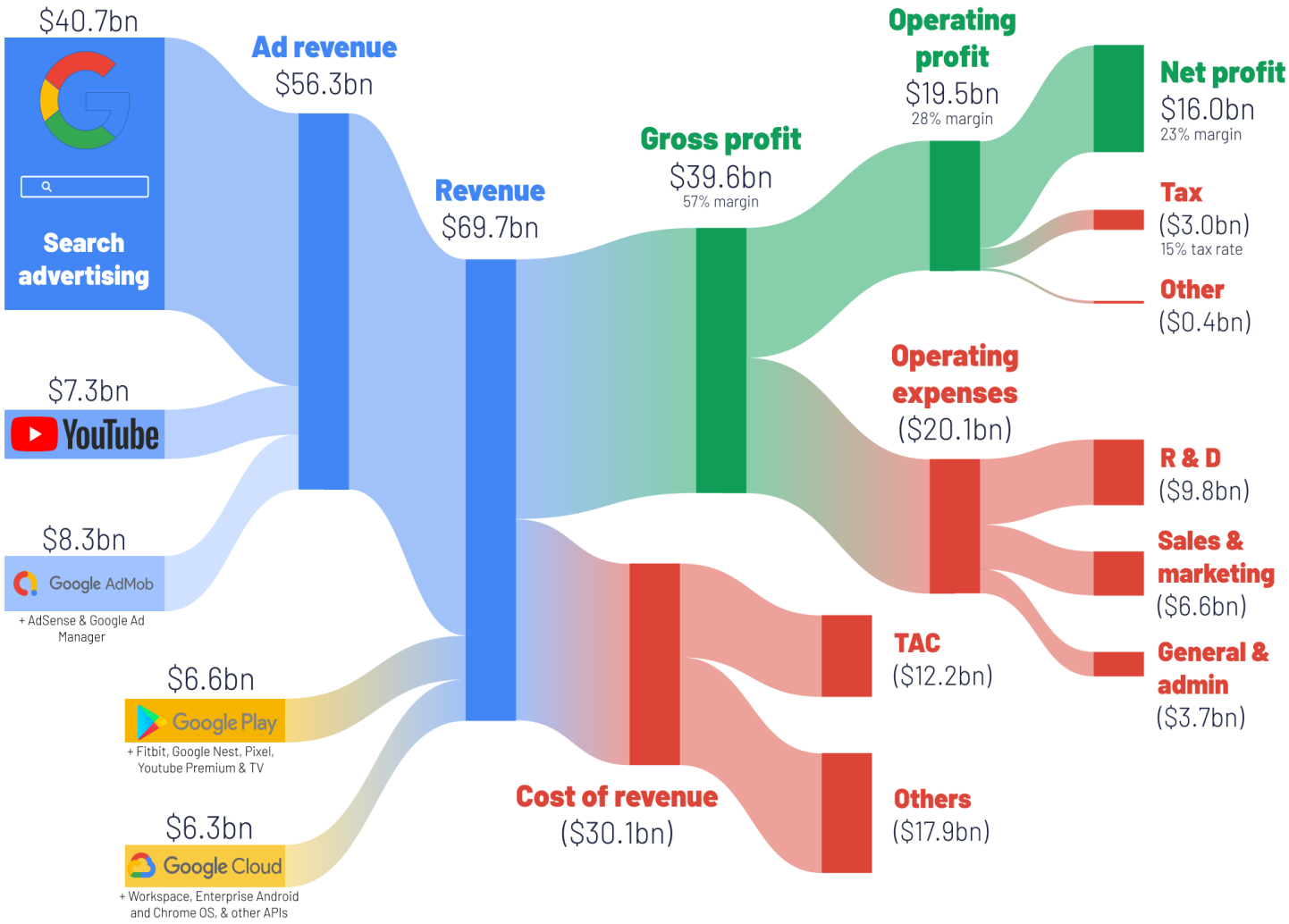
- Exposure to the biggest and most innovative 100 companies developing 25 technology sub-themes
- 70% (11.2% p.a) fixed potential return in ZAR, with further uncapped upside should the index perform better than 70% over the term
- Only putting 10% of capital at risk to any material downside moves by the index.

Key risks

- An early redemption of the Global Tech Digital Plus before maturity may result in a loss, even if the Index has performed positively
- 10% of your capital can be lost, if the Index is down 10% on the maturity date

GRAPH OF THE MONTH

Alphabet June-2022 Quarterly Income Statement



Source: Alphabet June 2022 quarterly results

genuine impact

Source: Visual Capitalist, 30/08/2022

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