IN THIS MONTH'S NEWSLETTER

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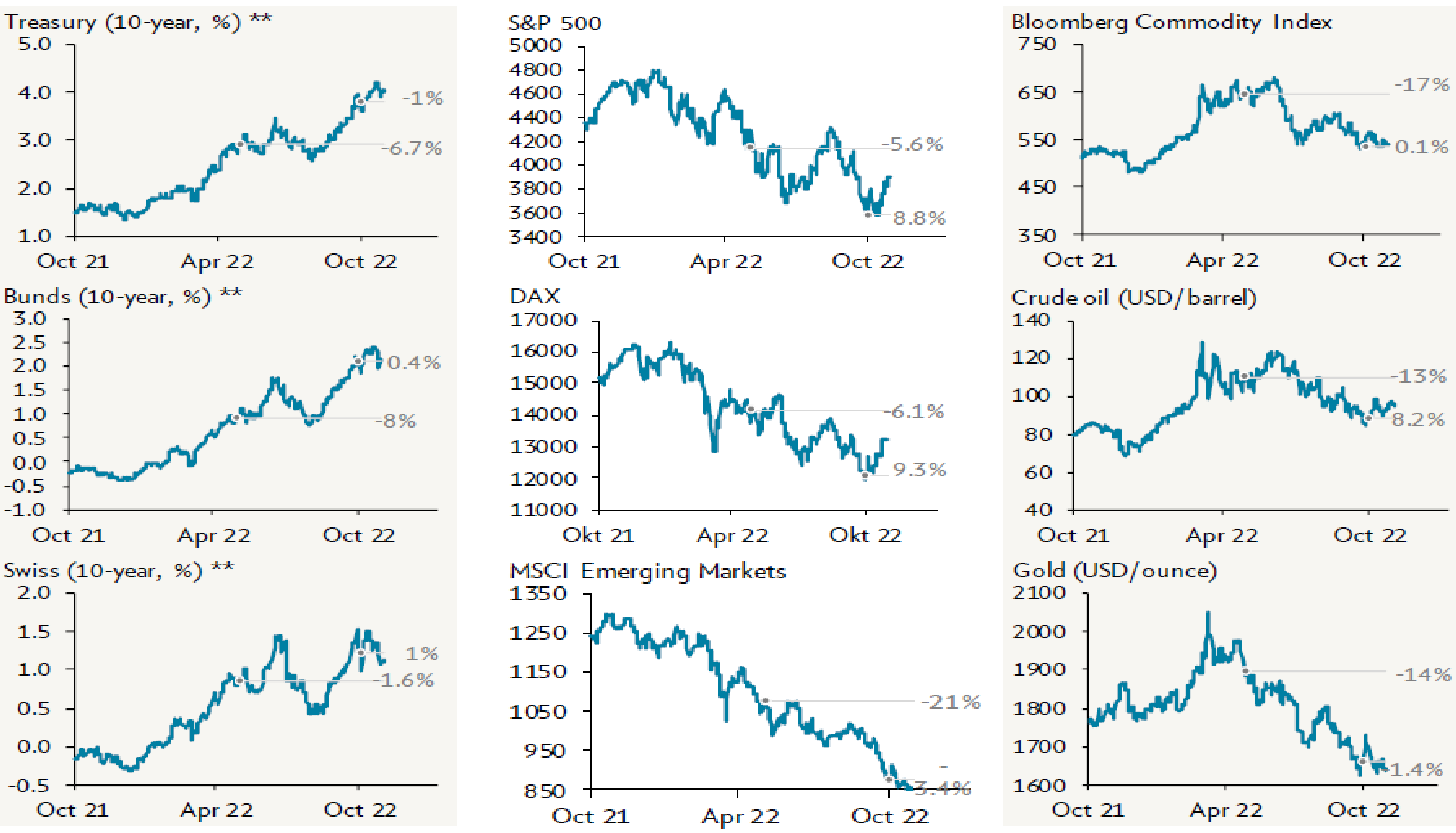
"Stability leads to instability. The more stable things become and the longer things are stable, the more unstable they will be when the crisis hits."

- Hyman Minsky

MARKET OVERVIEW

Review (1-month and 6-month performance)



Source: Julius Bear, 02/11/2022

VEGA Asset Management (Pty) Ltd • Reg No 2001/017303/07
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MW von Wielligh (Non-executive Chairman) • FP du Plessis (Managing Director) • CP Bester (Non-executive Director)

	Last	Month %	YTD %	5Y ann. %
MSCI World	2548	7.70	-19.72	6.95
S&P 500	3872	8.02	-17.72	10.42
NASDAQ 100	10988	4.04	-29.31	11.36
EURO STOXX 50	3618	9.10	-13.15	2.88
MSCI EM	848	-3.40	-29.22	-2.93
HANG SENG	15472	-7.70	-31.71	-8.65
US Equities Volatility Index (VIX)	25.88	5.74	-8.66	10.20

Source: Edmond De Rothschild

The third quarter reporting season kicked off in October and so far it has been weaker than normal in terms of positive earnings and revenue surprises.

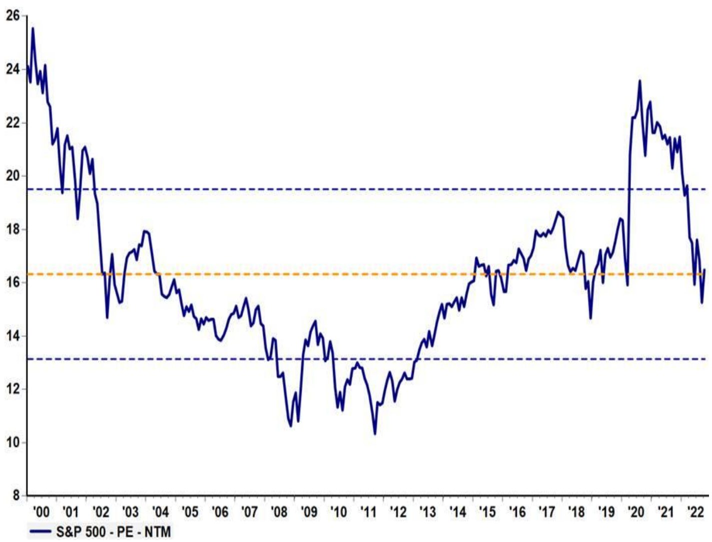
Bank of America's CEO said that their customers' transactions increased by 10% in September 2022 and the first half of October 2022 compared to a year ago. Its customers' account balances remain higher than before the coronavirus pandemic struck in 2020. This indicates that the average US citizen is still in a good position to spend. It is good news for economic growth but may force the Fed's hand to push rates even higher.

The market is still worried that the **Fed** seems to be much more concerned with inflation than economic growth. Central banks are worried that runaway prices will become entrenched. Shelter (rental) inflation and wage inflation concern the Fed the most and are the most difficult to get under control. Most prices started to decrease in the US in October except for shelter, which makes up around 33% of the index. However, the shelter inflation index is measured in such a way that more recent data has a smaller weight than older data. Recent data show that prices are decreasing.

In **China**, the 20th Party Congress concluded on 22 October and the Politburo Standing Committee was formed. The new Standing Committee has only three members from the 19th including President Xi. The four new members are former colleagues or close allies of President Xi. According to President Xi, the focus for the next 5 years will be "Chinese modernization" and that common prosperity is a key element to achieving this goal. The Hong Kong/offshore Chinese market fell sharply after the congress (Hang Seng Index -6%). The main focus of investors before the congress was on the zero Covid 19 policy. This has now shifted to the broader policy direction.

It is important to remember that the markets are forward-looking and investor sentiment usually turns before GDP growth returns. Company valuations have come down considerably. The **S&P 500** valuation is back below its longer-term average. When the US rates and the US dollar peak, we could see the start of the next bull market.

Figure 1: S&P 500 forward P/E over the last 22 years



Source: FactSet

Company News:

Intuitive Surgical reported an increase of 11% in sales year on year. The company's adjusted earnings per share were 7% ahead of consensus. Intuitive Surgical provided an update to its full-year outlook and expects procedure growth to stabilize at 15%. The company said that hospital expenditures are holding up better than expected. Intuitive Surgical is trading at a forward P/E of 36x (its 5-year average forward P/E is 65x).

Alphabet disappointed the market with an unexpected slowdown in its core search ads business, driven by the stronger dollar and economic uncertainty, which is increasing hesitancy in ad spending. Third quarter revenues grew 6% year over year, the expectation was for growth of 9%. Google cloud recorded revenue growth of 38% for the quarter.

Alphabet is currently trading at a 40% discount to its long-term P/E. Even though the shorter term could be challenging, the counter offers sound long-term value at current levels.

Company News Continued:

The market did not respond well to **Microsoft's** earnings results. This was mainly due to Azure cloud business growing by 35% versus 36,5% expected. The projected growth for the next quarter for Azure was also weaker than expected. Microsoft's adjusted revenue grew by 11% in the first quarter (constant currency growth of 16%) and margins held up remarkably well (operating margin: 43%). Microsoft is currently trading at a forward P/E of 26x, (a 30% discount to its long-term average). Microsoft remains one of our top picks as it proves to be resilient in tough times and still delivers a return on equity of more than 40%. Microsoft has a net cash position of $13bn.

Coca-Cola beat market expectations. The company showcased its strong pricing power in a volatile environment. Organic revenue grew 16% and the operating margin is still relatively stable at 28%. Volume growth was up 4% despite price increases of 12%. The company has also gained market share in the total non-alcoholic ready-to-drink beverages. Coca-Cola is currently trading at a P/E of 26x and a dividend yield of 3%.

Johnson & Johnson reported third-quarter revenue of $23bn, an 8% y/y increase. This was slightly ahead of expectations, thanks to a good performance across all divisions. According to management hospital procedures picked up following an unusual summer trough. The company lowered revenue guidance to reflect the headwinds from the continued US dollar strength. Johnson & Johnson is trading on a dividend yield of 3% and a forward P/E of 16x.

S&P Global reported decent third-quarter results. Revenue missed consensus expectations by 2%, which can be attributed to rating weakness. Adjusted earnings per share beat expectations by 5% thanks to strong operating margins. S&P Global is trading on a forward P/E of 24x, which is 25% below the 5-year average of 32x.

Amazon's earnings did not meet the market's expectations. On the contrary, third-quarter revenue grew by 15%. US dollar strength and inflation continued to put pressure on revenue growth and profit margins. The two most critical segments, Amazon Web Services, and advertising grew 27% and 25% year-over-year. These numbers remain very impressive, however, Amazon's valuation demands better growth. Amazon is currently trading on a forward P/E of 62x which is 25% below its 5-year average of 77x.

Visa delivered strong fourth-quarter results beating both revenue and earnings growth expectations. The beat was driven by solid payments volume and strong international revenue from improving cross-border volumes. Payment volume increased by 10% year-over-year in constant currency terms. Interesting to see that travel-related cross-border volume is now 16% above pre-Covid levels. With these results, Visa just proved again that its business model is very resilient. Visa is trading on a P/E of 26x, which is almost 30% lower than its 5-year average.

Ericsson reported strong top-line results in the third quarter, beating consensus estimates by 2,5%, but supply constraints and a lower gross margin resulted in a miss on adjusted operating profit by 15%. Ericsson remains well-positioned to participate in the global 5G rollout. Ericsson is trading on a forward P/E of 9x and a dividend yield of 4%.

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

Best performing	%	Worst performing	%
Intuitive Surgical	+32%	Meta Platforms	-31%
Shopify	+27%	NetEase	-26%
Exxon Mobil	+27%	Alibaba	-21%
Netflix	+24%	Adidas	-17%
Harley-Davidson	+24%	Tencent	-16%

Source: FactSet

	Last	Month %	YTD %	5Y ann. %
JSE All Share	66672	4.60	-9.56	2.36
JSE Resources	62595	3.90	-11.26	10.47
South Africa 10Y Bond	10.85%			
Net Foreign Equity Flow	-R2.9bn			
Net Foreign Bond Flow	-R23.2bn			
USDZAR	18.3075	-1.13	-15.44	-5.55
EURZAR	18.1555	-2.31	-1.32	-2.18

Source: RMB

Investors continue to see value in South African equities, with the **JSE All Share Index** up 4,6% in October. All sectors were in the green; the biggest gainer was the financial sector returning 12,7% for the month. South African listed property was close second returning 9,4% for the month (-12,4% YtD). The **rand** continues to lose ground against the dollar as elevated inflation and economic uncertainty continue to keep the greenback bid. The rand hit a high of R18.57 against the dollar following the inflation release but has since pulled back to trade at R18.31.

Finance Minister Enoch Godongwana delivered his second **Medium-Term Budget Policy Statement (MTBPS)** which saw a better-than-expected market-friendly fiscal statement, detailing a substantially improved fiscal situation and a significant further reduction in fiscal risk. However, detail around the restructuring of Eskom's debt was deferred to the February 2023 Budget, despite Minister Godongwana's guidance that this detail would be unpacked in the medium-term Budget. This could impact Treasury's – and the Minister's – credibility going into the next Budget policy, but overall, all other aspects of the statement were largely positive with a great mix including deficit reduction, debt ratio stabilisation and extra spending.

The big news in South Africa over the past two weeks has been the **Transnet** strike. As Transnet works to normalise operations in the wake of a wage strike, it is counting the cost of cable theft and vandalism as criminals took advantage of the industrial action, with replacement cable expected to cost as much as R24 million on one key corridor alone. Transnet experienced a considerable loss in volume – as much as 82% in one week. This, in turn, resulted in 257 trains being stranded across the network, although 234 of these had been cleared.

Water restrictions began in Gauteng in early October, even though most dams are nearly full. Part of the reason for this is due to an insufficient electricity supply, to pump water to where it is needed from the reservoirs where it is located. Another reason appears to be old infrastructure in the reticulation system that has not been maintained over time.

Company News:

Naspers and Prosus: It was a busy month for the group as the internet company announced that the agreement to acquire BillDesk has been terminated as certain conditions of the transaction have not been met.

Secondly, both companies plunged more than 15% in a single day - erasing a combined R432 billion from their market caps (which is equivalent to MTN's total value). This came after news that Chinese President Xi Jinping secured a historic third term as president and his decision to hand key economic posts to loyalists who back his zero-Covid strategy. Naspers is currently trading on a discount of 48% to NAV and Prosus on a discount to NAV of 41%.

Astral Foods Limited: The poultry processing company stated in its FY22 trading statement that it expects EPS to be between 118% and 128% higher compared to the prior year. However, the outlook for at least the next six months will be negatively impacted by extraordinarily high feed input costs, difficulties at the group's broiler operations which are not able to fully recover record high feed input costs and severe operational disruptions on the back of Eskom load shedding. Astral is currently trading on an attractive forward P/E of 7x and a dividend yield of 4%.

Figure 3: October 2022 Top 5 best and worst performing South African shares

Best performing	%	Worst performing	%
Sappi	+29%	Murray & Roberts	-23%
Investec Ltd	+26%	Telkom	-21%
Capitec	+22%	Raubex	-19%
Standard Bank	+19%	Prosus	-16%
Harmony Gold	+19%	Naspers	-16%

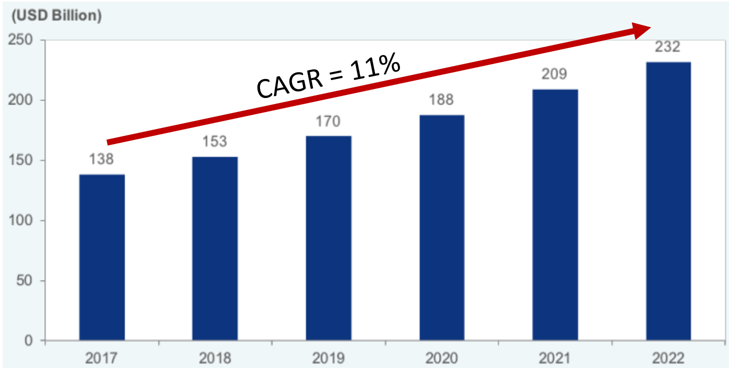
Source: FactSet

In an incrementally digitised world, we live in an era where cyberspace has become indispensable for our everyday activities. The digital era has entered all aspects of our lives – from working, banking, shopping, and so on. These advancements have made our lives without a doubt easier. However, our increasing reliance on cyberinfrastructure makes us more vulnerable to cyberattacks.

According to the University of Maryland's Clark School of Engineering, a cyber-attack occurs every 39 seconds and affects at least one in three Americans each year.

The global cybersecurity market grew from $3.5 billion in 2004 to about $138 billion in 2017 – over 39x in 13 years. In 2017, the aerospace and defence vertical had the largest share of the cybersecurity market. However, going ahead government, banking, financial services and insurance, IT, and telecom verticals are expected to gain traction. From 2017 to 2022, the cybersecurity market is expected to grow at a CAGR of 11% p.a. to reach $232 billion.

Figure 4: Estimated cybersecurity market growth



Source: Statista,2018

How do we protect ourselves against enemies we cannot see or hear and do not even know of?

The answer lies in creating an effective cybersecurity program and structure. Today the cybersecurity market is fragmented and there are different products and solutions that target different needs. Cybersecurity products can be divided into many groups and subgroups:

- **Network security equipment:** is one of the largest markets and includes all appliances that protect the network traffic. Among the products in this group are firewalls and intrusion detection and prevention systems. The largest players within network security equipment are Palo Alto Networks, Cisco, Check Point Software and Fortinet.
- **Endpoint security:** focuses on protecting end-user devices such as desktops and laptops from being exploited during cyberattacks. Within this segment, we are seeing a radical shift in market shares, with incumbents (Symantec, McAfee, Trend Micro) that are anchored to on-premises architectures, losing ground to cloud-native players (CrowdStrike and Carbon Black).
- **Email security:** focuses on protection against malicious attacks hidden in emails but also ensures the security of data contained in outbound traffic. In addition to Microsoft, the largest players are Symantec and Cisco.
- **Identity and access management:** for a long period of time, passwords were the main if not the only method of authentication and when in the wrong hands, giving unauthorised access to internal networks, devices, and professional information. This segment of cybersecurity is benefiting from the transition to the cloud and the shift towards zero-trust securities and is expected to grow in the high single digits in the next few years. Microsoft, Okta, SailPoint, Oracle, and IBM are the largest providers.
- **Cloud security:** Cloud workload protection platforms offer network segmentation, traffic visibility, configuration, and vulnerability measurement. The market for cloud security offerings is fragmented and still in its infancy but Gartner, a technological research firm values this sector at USD 1 billion. Some of the main providers within the cloud space are Zscaler, Palo Alto Networks and Cloudflare.
- **Application security:** protects data or codes within an application (app) from being stolen or hijacked. Application security includes all processes that minimise vulnerabilities during the software development cycle and solutions to find, fix and prevent security issues. The market is still relatively small, with the main players being Zscaler and Symantec.

How do we invest in the leading cybersecurity companies?

Picking the best cybersecurity stocks can be challenging. Cybersecurity is a large chunk of the technology space. Every sector of the economy needs software to help keep data and critical systems secure. Many companies are operating in this niche, each with its own take on structuring a security platform. As a result, we prefer to have exposure to the attractive cybersecurity sector via the **ETFMG Prime Cyber Security ETF (HACK).**

The ETFMG Prime Cyber Security ETF has been around since 2015 and has amassed $1.9 billion in assets. It is also rebalanced quarterly, has an annual expense ratio of 0.6%, and has more than doubled in value since its inception. This ETF is made up of 65 stocks which means far less portfolio concentration of top names in the industry and more of the fund's investments spread out into smaller companies and international investments.

Figure 5: ETFMG Prime Cyber Security ETF Performance

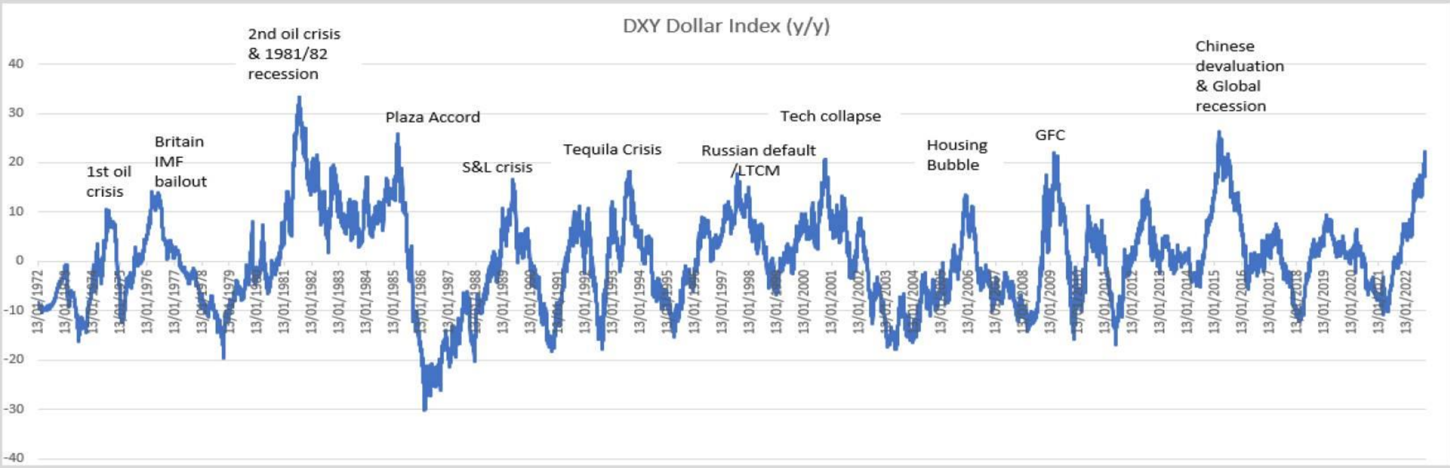
	CUMULATIVE				ANNUALIZED				
	1 MONTH	3 MONTH	YTD	SINCE INCEP.	1 YEAR	3 YEARS	5 YEARS	10 YEARS	SINCE INCEP.
MARKET PRICE	-4.18%	-21.97%	-25.41%	90.27%	-24.26%	5.66%	9.37%		8.79%
NAV	-4.13%	-21.81%	-25.40%	90.42%	-24.15%	5.64%	9.42%		8.80%
INDEX	-4.10%	-21.85%	-25.20%	96.71%	-23.68%	6.10%	9.83%		9.27%

Figure 6: Top 10 Holdings (%)

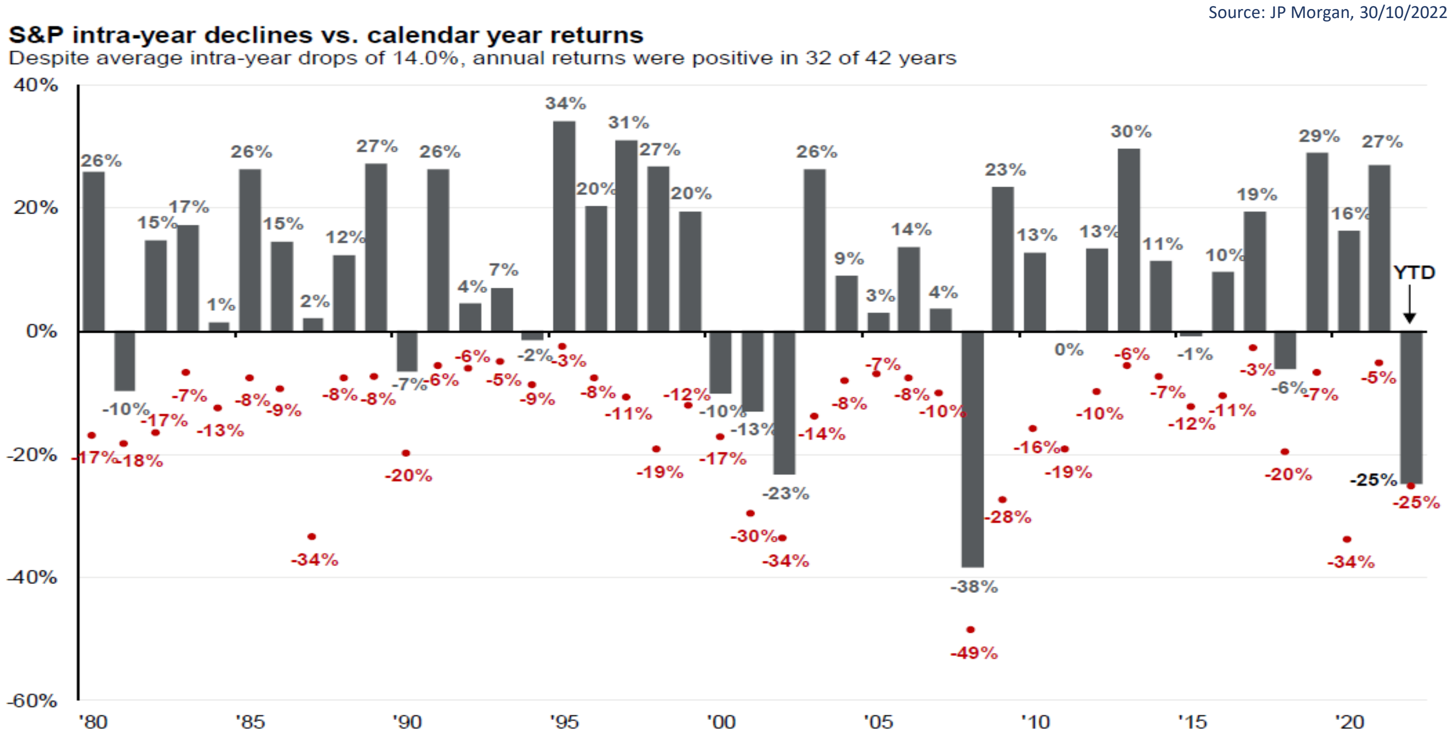
Bae Systems	4,98	Verisign	4,47
Crowdstrike Holdings	4,67	Okta	4,34
Palo Alto Networks	4,60	Akamai Technologies	4,29
Fortinet	4,50	Leidos Holdings	4,18
Cisco Systems	4,49	Splunk	3,93

Source: ETFMG Fact Sheet, 30/10/2022

GRAPH OF THE MONTH



Source: JP Morgan, 30/10/2022



Source: JP Morgan, 30/10/2022

Sources: Edmond De Rothschild, ETFMG, FactSet, JP Morgan, Julius Baer, RMB, Statista.

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