NEWSLETTER

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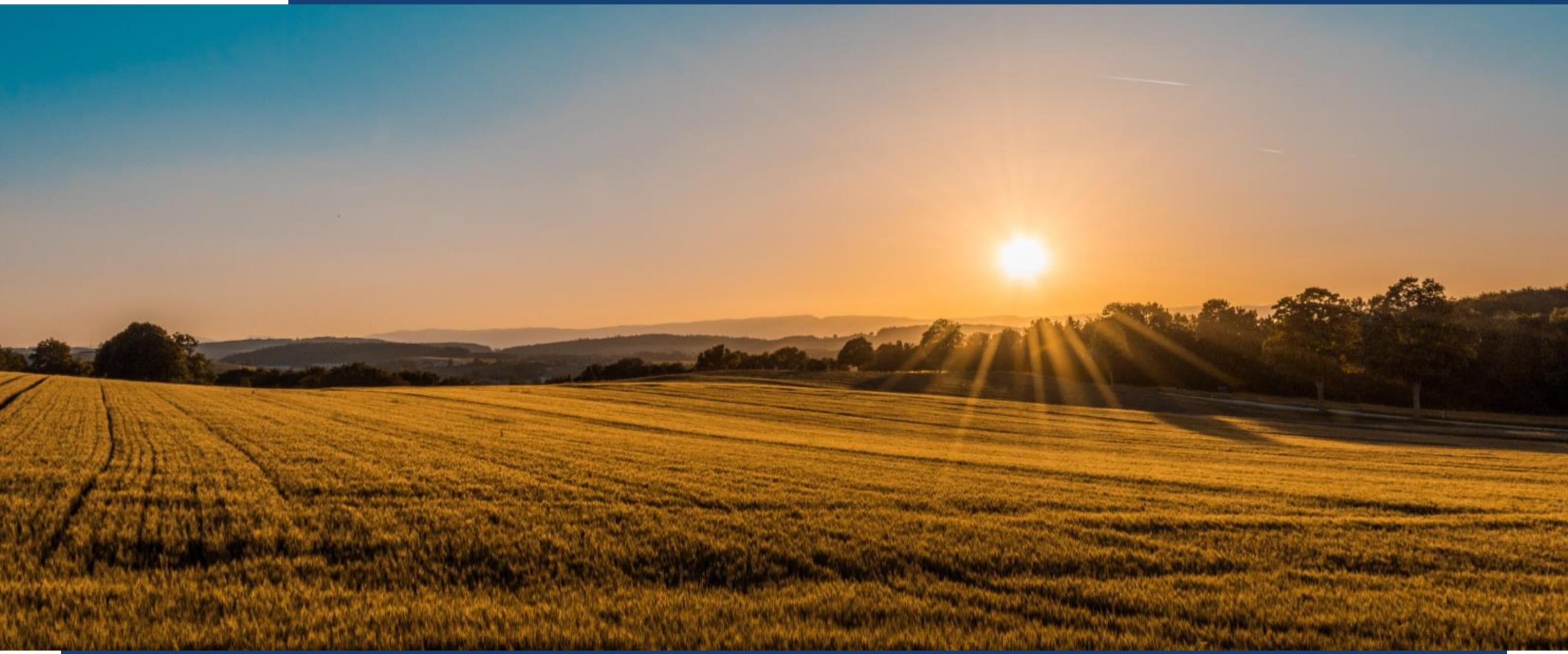


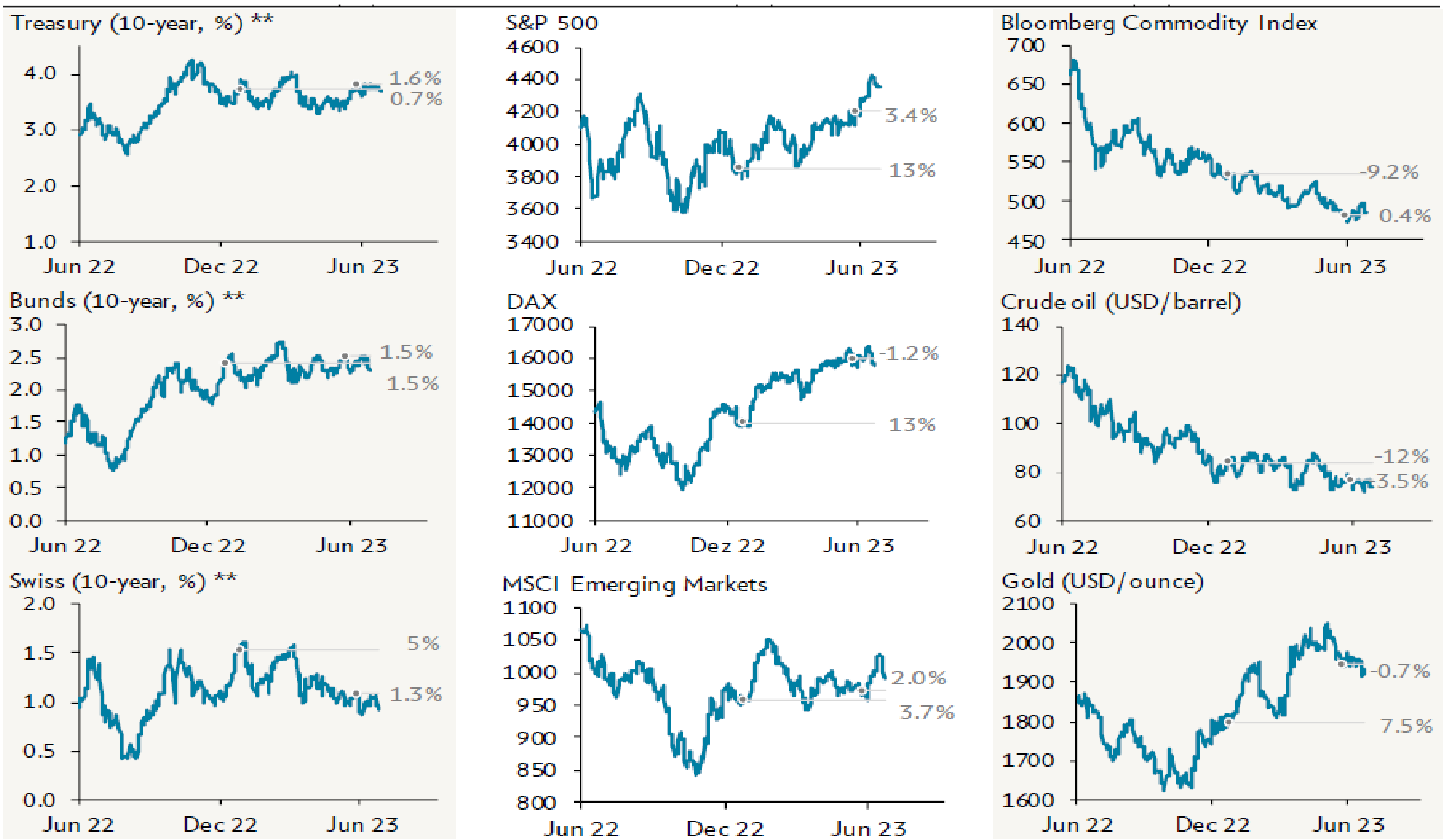
IN THIS MONTH'S NEWSLETTER

- Market overview
- Eurostoxx 50/S&P 500 Structured note
- Graph of the month

"People who treat stocks like lottery tickets generally have similar odds of winning.."
- Hendrith Vanlon Smith Jr, CEO of Mayflower-Plymouth

MARKET OVERVIEW

Review (1-month and 6-month performance)



Source: Julius Bear, 26/06/2023

30/06/2023	Last	Month %	YTD %	5Y ann. %
MSCI World	2967	6.1	15.44	9.65
S&P 500	4450	6.5	16.88	12.27
NASDAQ 100	13788	6.6	32.32	13.96
EURO STOXX 50	4399	4.3	19.18	8.68
MSCI EM	989	3.2	5.03	1.49
HANG SENG	19279	3.7	-0.87	-4.49
US Equities Volatility Index (VIX)	13.59			

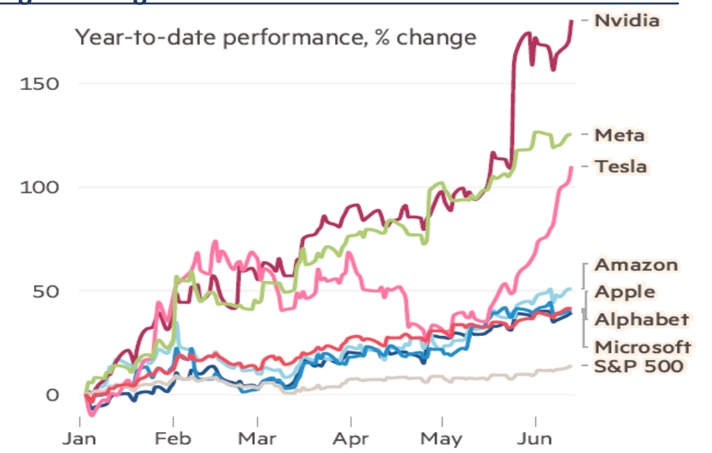
Source: Edmond De Rothschild

The first half of the year is done. In the first half of the year there have been plenty of debates about how central banks' rapid monetary tightening might affect the path of economic growth. Despite prevailing predictions of an impending recession, economies have demonstrated overall resilience during this period. The strong labour market and wage growth have bolstered consumer spending, even amidst escalating prices. In this newsletter, we will provide a brief overview of the past six months and our mid-year outlook.

During the first half of 2023, financial markets exhibited significant recovery, with the performance of the S&P 500 index reaching its highest level of concentration since 1970. A remarkable trend emerged, where over 90% of the appreciation in the US stock market could be attributed to just five stocks. Notably Apple, Microsoft, Alphabet, Amazon, Nvidia, Tesla, and Meta experienced substantial gains, ranging from 40% to 180% during this period. In contrast, the remaining 493 companies on the index showed little overall movement.

Such exceptional performance underscores the dominance of these major constituents, with Apple's market capitalization alone surpassing the combined value of the top 100 listed companies in the UK. As investors seek opportunities in a low-growth environment, they are turning to companies that can sustain strong growth rates. The outperformance of these select stocks can also be attributed to their significant involvement in the development of infrastructure for generative AI, which is projected to grow substantially in the foreseeable future.

Figure 1: Big tech stocks race ahead of the wider market



Source: Financial Times

From a macroeconomic point of view, the following factors need to be considered:

1. Investors' flight to cash has surpassed that of the pandemic and financial crisis. Investors have redirected their funds from stock and bond investments towards cash, leading to a notable increase in the US money market totals, which reached a record high of USD 5.4 trillion as of May 31, 2023.

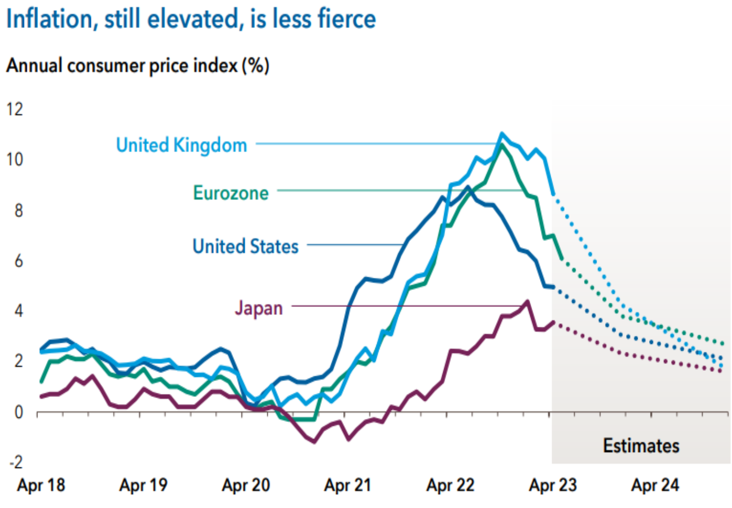
The flight to cash and cash alternatives is understandable following last year's tandem decline of stocks and bonds in the face of rising interest rates, inflation and slowing economic growth. This mountain of cash will be supportive of equity and bond markets once investor sentiment has improved.

2. Inflation has peaked as the rate-hiking cycle nears an end. Inflationary pressures in the United States, Europe and several other markets are currently following a downward trajectory. This can be attributed primarily to factors such as reduced energy prices, fewer disruptions in the global supply chain, and a consistent series of interest rate hikes implemented by central banks. Industries sensitive to interest rates, such as housing, are already experiencing the effects of these changes, with home prices declining in previously robust markets.

Inflation still remains well above the US Federal Reserve's 2% target, but monetary policy often works with long lags, so the full impact of interest rate hikes should spread to the rest of the economy over time.

Additionally, the recent turmoil in the US banking sector has the potential to further dampen economic growth, as certain banks may exercise greater caution and reduce their lending activities. When considered collectively, these factors have significantly altered the outlook for interest rates and inflation.

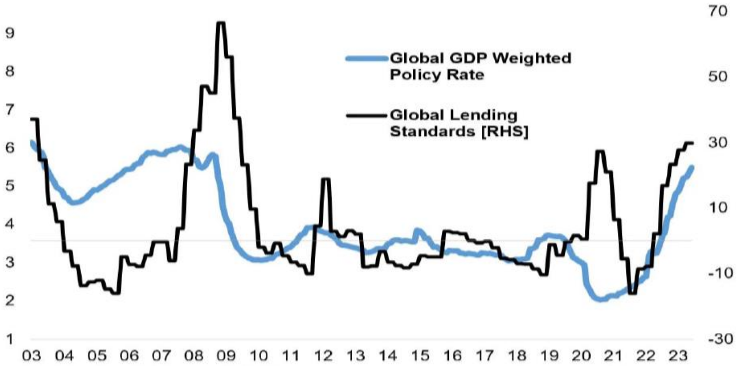
Figure 2: Inflation - Annual consumer price index



Source: Capital Group

The chart below highlights the issue of surging borrowing costs and tightening credit conditions quite well. The more stringent lending conditions will no doubt help decrease inflation and GDP growth.

Figure 3: Global lending standards & policy rates



Source: Topdown Charts

3. Risk of a US recession - "When an insight is widely held, such as the likelihood of a recession before the end of the year, it may already be priced into the market" US economist Jared Franz.

While the possibility of a US recession remains the most plausible scenario, it is noteworthy that the probability of such an event is gradually diminishing. This can be attributed to the presence of robust GDP growth and a resilient employment market within the United States. As a result, the likelihood of a soft landing is increasing. It is also worth noting that a US recession is currently priced into the market. If the US manages to avoid a recession, we could see a meaningful upside in markets.

However, should the recession scenario play out, we could see a recovery that is more robust than previous cycles.

i. Companies are expecting economic weakness and taking action, cleaning up inventories and balance sheets.
ii. The US consumer is in relatively good shape. Consumer debt is low relative to levels during the global financial crisis and other more typical recessions.
iii. Moderating inflation will support consumer strength.

4. Russian/Ukrainian war - Russia recently experienced an attempted coup orchestrated by the Wagner militia, a private group of soldiers led by Yevgeny Prigozhin, who is perceived to have close ties to President Putin.

However, this coup was unsuccessful as a sudden agreement was announced by Prigozhin on Saturday, June 24, claiming to have reached a resolution with Putin, facilitated by Belarusian President Lukashenko, an ally of Putin.

Recent developments have brought the war to a precarious state, with two potential outcomes that could significantly impact the conflict. On one hand, there is the possibility of an earlier-than-anticipated end to the war, which would have a positive effect on shares and bonds. On the other hand, there is the risk of Putin launching a larger assault in an attempt to regain dominance and bolster confidence in his leadership.

In summary, the current situation has heightened volatility in equity and bond markets due to the unpredictable nature of the conflict and its potential outcomes. The possibility of an early end to the war presents opportunities for market gains, while the risk of an escalated assault by Putin poses potential risks to market stability.

Summary

It is a great time to be an active investor. It is more important than ever to look for opportunities on a global scale, but also to keep an eye on growing risks in the markets, the economy and the world. Notably, there is a significant amount of cash currently on the sidelines, reflecting a cautious sentiment among investors.

We see promising long-term upside potential in the technology sector, particularly in companies that play a significant role in AI development. Given the prevailing low-growth environment, companies that can demonstrate strong and sustainable growth are expected to be rewarded by the market.

We also believe that bonds offer good upside potential due to recessionary fears, low inflation projections, tightening funding conditions and decreasing interest rates. Cash that is sitting on the sidelines is likely to flow to bonds first.

INCOME WITH EQUITIES TOO

Dividends can help further diversify income streams. Indeed, they have accounted for a whopping 38% and 70% of total returns in the US and Europe respectively over the past 20 years. The figure is lower in the US, where share buy-backs, another way of returning capital to shareholders, have historically played a greater role. In Europe, share buy-backs are increasingly gaining traction.

SOUTH AFRICA

30/06/2023	Last	Month %	YTD %	5Y ann. %
JSE All Share	76028	1.28	4.08	5.75
JSE Resources	61995	-8.17	-12.44	8.42
South Africa 10Y Bond	10.50%			
CPI	6.3%			
Prime Rate	11.75%			
USDZAR	18.7255	5.31	-10.27	-6.50
EURZAR	20.5190	2.75	-13.25	-5.18

Source: RMB

South African equities rebounded by 1.3% after May's 4% slump (↑4% 1H2023). Non-residents remain net sellers of SA Inc for the first half of the year. South African miners were under pressure as commodity prices falter and cost pressures increase.

Russia and the BRICS Summit: Possible change of venue

There is a possibility that South Africa may relinquish its role as the host of this year's BRICS summit in an effort to avoid international pressure to apprehend Russian President Vladimir Putin. President Putin is currently wanted by the International Criminal Court on charges of war crimes.

In light of the ongoing diplomatic efforts surrounding the situation in Ukraine, South Africa, along with five other African states, is seeking support for a new peace plan. President Cyril Ramaphosa provided Chinese leader Xi Jinping with an overview of the forthcoming visit by African leaders to Russia and Ukraine, with the aim of resolving hostilities. It remains uncertain how the African mission would complement China's ongoing peace initiative. As a signatory to the Rome Statute, the treaty that forms the basis of the court, Pretoria would be obligated to arrest Putin and subsequently transfer him to The Hague for trial.

However, China and India, if chosen as alternative hosts for the summit, would not face the same legal obligation. This has led some South African officials to propose transferring the hosting responsibility to Beijing. In conclusion, recent developments involving the Wagner group have further diminished the likelihood of Russian President Putin personally attending the BRICS Summit scheduled for August in South Africa.

AGOA sanctions

The geopolitical ramifications resulting from Russia's invasion of Ukraine have created significant disruptions in well-established relationships, posing challenges in navigating the international economic and political landscape. These disruptions have the potential to jeopardize the competitive edge of South African manufacturers on a global scale.

Of particular concern is the prospect of being excluded from the United States Africa Growth & Opportunity Act (AGOA), legislation that provides preferential trade benefits. The mere possibility of such exclusion, or the imposition of economic sanctions, has caused apprehension across various industries.

AGOA has played a crucial role in South Africa, offering substantial advantages, especially in the automotive sector. This industry has greatly benefited from preferential access to the vast US market, exporting vehicles and components valued at over R24 billion in 2022 alone. Thanks in part to AGOA, South Africa maintains a trade surplus with the United States, which remains one of the few major economies with such a surplus.

Company news

The **Naspers/Prosus** group has announced its intention to dismantle the intricate shareholding structure in order to unlock shareholder value. As a result of this unwinding process, the cross-shareholding between the two companies will be dissolved. Nevertheless, Naspers will retain a 72% voting interest and a 43% economic ownership.

Prosus will continue to operate as a subsidiary under Naspers. In an effort to facilitate this transition, both Naspers and Prosus will issue new shares to their existing shareholders, while also waiving their rights to participate in the capitalisation issues.

Renergen has reported a noteworthy 12.8% increase in liquefied natural gas (LNG) production (823 tons) for the quarter ending in May 2023. Renergen, which recently announced the successful acquisition of combined funding amounting to $750 million, provided an update stating that the United States International Development Finance Corporation (DFC) has completed the Congressional notification process for their contribution of $500 million.

It is worth mentioning that the DFC had previously funded phase one of the construction. Additionally, the group highlighted that Standard Bank has recently granted approval for a $250 million loan, dedicated to phase two of the project.

NEWS ALERT

Standard Bank clients' tax statements are now available for the 2022/2023 period on the OST platform. Please let us know if you need assistance with downloading your statements.

EUROSTOXX 50/S&P500 STRUCTURED NOTE

Worst of basket structured note salient features

- This JSE-listed instrument provides the investor with the opportunity to receive a potential return at enhanced rates in USD dependent on the performance of the worst performing index
- Term to maturity is 5 years
- Minimum investment size is **R10,000**
- Instrument's price is a function of the underlying indexes: **Euro Stoxx 50** and **S&P 500**
- At maturity, only the performance of the worst performing index between the S&P 500 and the Eurostoxx 50 is considered
- Product is designed to yield a return of **10.3% per annum in USD**, provided the worst performing index is trading higher than its initial level at maturity
- Provides 100% capital protection in USD if the worst performing index does not end 30% below the initial index level (IIL)
- Should the investor sell the product before expiration, the investor will receive the market price for the product
- Fees are included in the pricing and do not affect stated returns

The potential return outcomes

- If the worst performing index is down more than 30%; the product return will be equal to that of the worst performing index
- If the return of the worst performing index is between 0% and -30%; the product will return 0% in USD (product returns initial USD investment)
- If the return of the worst performing index is between +1% and +63%; the product will return 63% plus the initial investment (100% initial investment + 63% growth = 163% or 10,3% per annum in USD)
- The product does not have an upside cap. If the worst-performing index is up by more than 63% at expiration, the investor will participate in the full upside
- At maturity the USD return is converted to ZAR

	Eurostoxx 50	S&P 500	Investor return in USD	Comment
Scenario 1	↑23%	↑70%	↑63%	Worst-of return (↑23%) > IIL* ; payout 1,63x investment in USD
Scenario 2	↑23%	↓12%	0%	Worst-of return (↓12%) < IIL ; original investment returned in USD
Scenario 3	↑96%	↑73%	↑73%	Worst-of return (↑73%) > IIL ; return uncapped 1,73x investment in USD

*IIL : Initial index level

At maturity USD returns are converted back to ZAR →

A weaker ZAR/USD will enhance ZAR returns & vice versa

This investment might be right for you if:

- You think that the underlying will be above current levels over the next five years
- You are looking for an investment that offers enhanced upside and potential to limit the downside exposure
- You do not need immediate access to your money for the term of the investment

This investment might not be right for you if:

- You want 100% capital protection under all conditions
- You want regular dividends and income
- You cannot commit to the full term of the investment
- You do not want to take credit risk on ABSA

Top 10 constituents of the Eurostoxx 50 Index

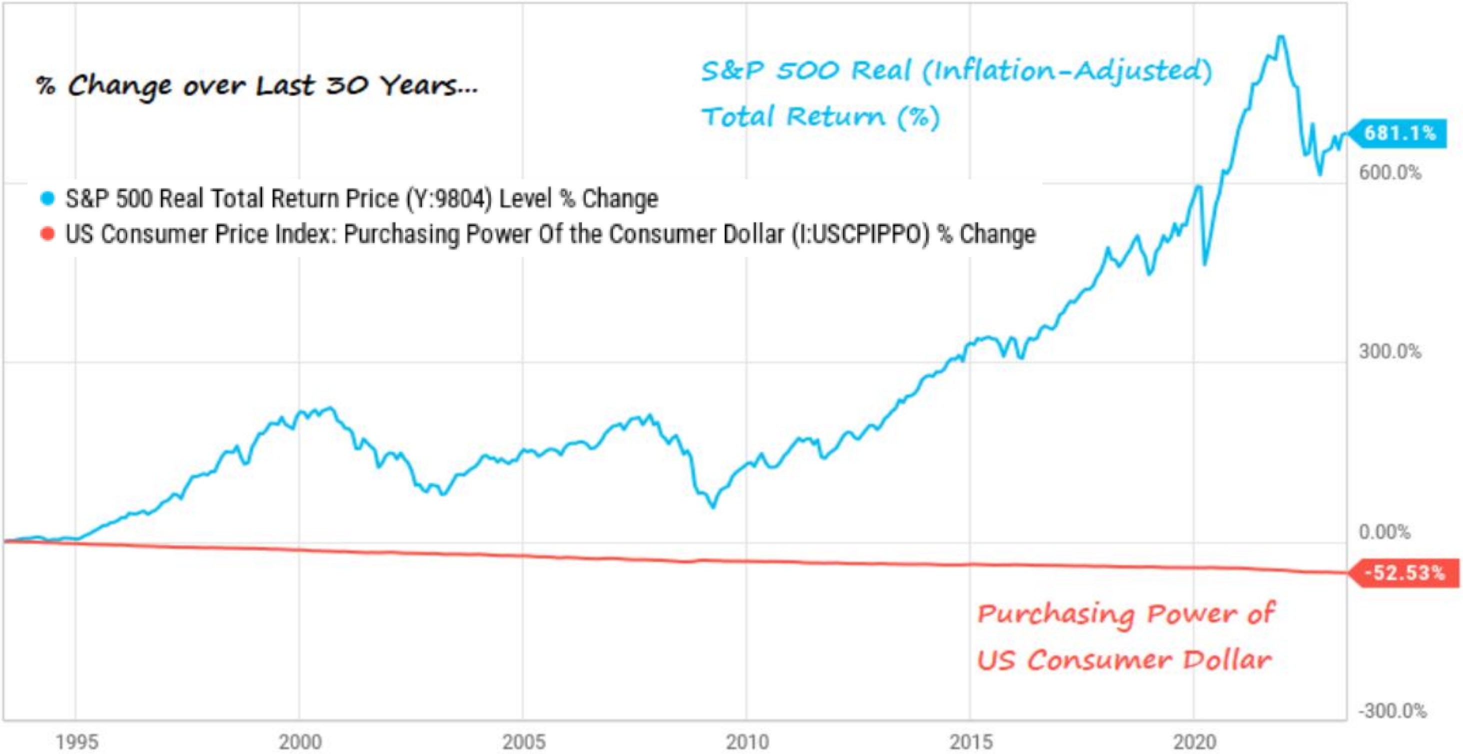
Company	Supersector	Weight (%)
ASML HLDG	Technology	8.98
LVMH MOET HENNESSY	Consumer Products & Services	7.01
TOTALENERGIES	Energy	4.39
SAP	Technology	4.15
SIEMENS	Industrial Goods & Services	3.81
SANOFI	Health Care	3.60
L'OREAL	Consumer Products & Services	3.20
SCHNEIDER ELECTRIC	Industrial Goods & Services	3.06
AIR LIQUIDE	Chemicals	2.72
ALLIANZ	Insurance	2.68

Top 10 constituents of the S&P 500 Index

Securities	% of Portfolio
Apple Inc	7.23
Microsoft Corp	6.55
Amazon Com Inc	2.69
Nvidia Corp	1.95
Alphabet Inc Class A	1.83
Berkshire Hathaway Inc Class B	1.70
Alphabet Inc Class C	1.61
Meta Platforms Inc Class A	1.53
Exxon Mobil Corp	1.40
Unitedhealth Group Inc	1.32

GRAPH OF THE MONTH: WHY YOU NEED TO INVEST, IN ONE CHART

Over the last 30 years, the purchasing power of the US consumer dollar has been cut in half due to inflation. At the same time, the S&P 500 has gained 681 (7% per year) after adjusting for inflation.



Source: Charlie Bilello

SOURCES

Sources: Bloomberg, BNY Mellon, Charlie Bilello, Credit Suisse, Compound Advisors, Edmond De Rothschild, ETFMG, FactSet, Haver Analytics, JP Morgan, Julius Baer, Morgan Stanley, Refinitive, RMB, Statista, Sygnia, Strategas, UBS

CONTACT US

Francois Du Plessis, CFP

082 492 9199

fduplessis@vegacapital.co.za

Louis Storm, CFA

083 552 2343

lstorm@vegacapital.co.za

Abrie Smit

082 087 0883

asmit@vegacapital.co.za

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