NEWSLETTER

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IN THIS MONTH'S NEWSLETTER

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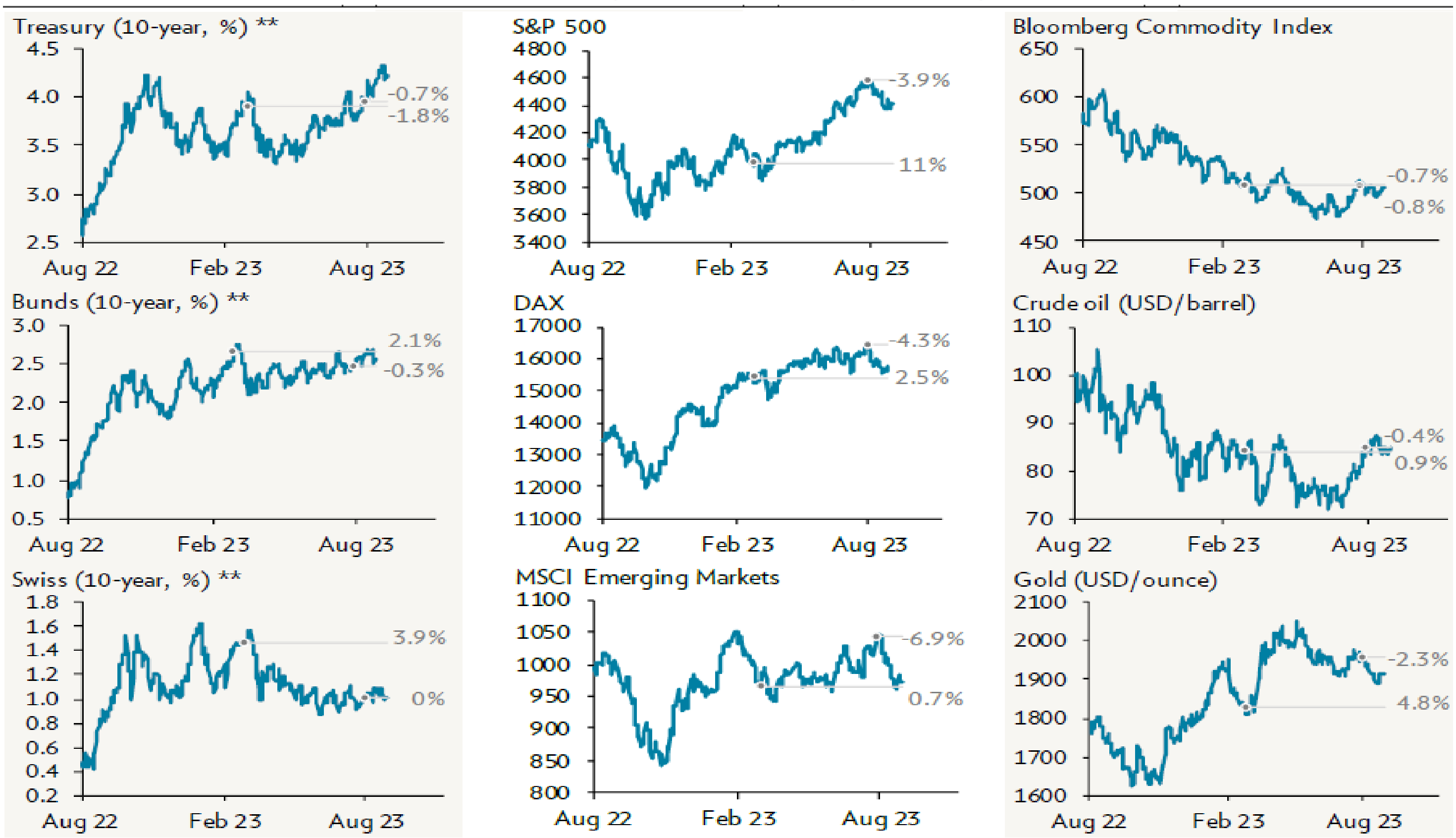
*"And there's a man with his chin in his hand,
Who knows more than he'll ever
understand…"*
- Rodriquez, *A most disgusting song*

MARKET OVERVIEW

Review (1-month and 6-month performance)



Source: Julius Bear, 29/08/2023

INTERNATIONAL

31/08/2023	Last	Month %	YTD %	5Y ann. %
MSCI World	2986	-2.52	16.55	8.91
S&P 500	4508	-1.77	18.72	11.10
NASDAQ 100	14035	-2.17	34.89	12.62
EURO STOXX 50	4297	-3.49	16.65	8.20
MSCI EM	980	-6.28	4.80	1.32
HANG SENG	18382	-8.45	-4.23	-4.92
US Equities Volatility Index (VIX)	13.57%			

Source: Edmond De Rothschild

Over the past two months, the bulk of the listed companies reported their earnings results. The mixed performance of markets over the past two months is attributable to a diverse array of news releases. On one hand, there is investor apprehension regarding the trajectory of interest rates. Conversely, the solid performance of corporate earnings has bolstered the view that most adverse scenarios have already been factored into these earnings.

Oil prices are once again demonstrating an upward trend, approaching the USD 85 per barrel mark. This resurgence is driven by the deliberate supply constraints imposed by petroleum producing nations, particularly evident in the aggressive measures undertaken by Saudi Arabia. In the United States, signs of a slowdown in activity reinforced expectations of a pause in the monetary tightening cycle. However, Jerome Powell's speech at the Jackson Hole symposium remained hawkish. The Fed could therefore raise rates, if necessary, until inflation moves closer towards the 2% target.

Company earnings:

Nvidia (NVDA) is a leading supplier of computer graphics processing units (GPUs) and a key player in artificial intelligence through its parallel Compute Unified Device Architecture ecosystem. Nvidia reported exceptional second quarter results, surpassing consensus expectations on revenues, adjusted gross and operating margins and earnings per share. Nvidia lifted its annual revenue forecast to USD 16 billion which is 30% higher than originally guided. Second quarter revenue increased 101% year over year. Revenues from data centers rose 171% year over year, driven by increased demand from cloud service providers and large consumer internet companies.

Nvidia's indisputable leadership in graphics processing units forms a critical foundation to accommodate the exponentially expanding landscape of artificial intelligence. Foreseeable growth in Nvidia's revenue is intrinsically tied to its prowess in the realm of artificial intelligence. Looking ahead, consensus estimates project an impressive average annual earnings growth rate of approximately 35% for Nvidia over the subsequent five years.

This trajectory is notably distinctive in a landscape where few companies offer such a compelling growth profile. However, it is important to acknowledge that this projection comes at a substantial valuation, as Nvidia currently trades at a price-to-earnings ratio close to 50x.

Nvidia's current valuation resides within a range from fairly priced to somewhat expensive. The trajectory of Nvidia's success is intricately tied to the projected ongoing boom in artificial intelligence. While the potential for Nvidia to emerge as a prominent beneficiary of this trend is evident, it is crucial to recognize that this investment entails a heightened level of risk due to the already considerable incorporation of rapid growth expectations.

Microsoft (MSFT) again delivered solid growth. The company outpaced analyst projections across all financial metrics, with its top-line revenue experiencing a 10% year-on-year increase in constant currency terms. This growth was primarily propelled by the cloud and productivity sector, where Azure exhibited a noteworthy 27% year-on-year growth in constant currency.

Capacity investments in front of artificial intelligence driven demand limit near term margin expansion, this is an easy trade given the projected growth that AI could contribute to revenue. Microsoft is currently positioned to be a clear leader in the AI space.

We see meaningful long term upside from AI. Azure is currently the centerpiece of the new Microsoft. Microsoft still has a considerable advantage over its competitors. This can be attributed to the switching cost, network effect and cost advantages.

Most offices around the world already use Microsoft Office, which then makes it much easier to migrate their data to Microsoft's cloud computing service than it would be to use a different service provider. Microsoft trades at a price to earnings of 28x. Although this is not necessarily a cheap valuation, we feel that this is fair due to the wide moat that Microsoft possesses and the potential for growth in revenue.

Amazon (AMZN) reported results that were better than expected. Second quarter revenue grew 11% year over year. The two most critical segments, AWS (Amazon Web Services) and advertising grew 12% and 22% year over year. Amazon has emerged as the clear e-commerce leader thanks to its size and scale, which yield an unmatched selection of low-priced goods to consumers. However, it will be AWS and advertising growth that will make up most of the future growth in revenue and earnings.

In the sphere of cloud computing, Amazon contends alongside Microsoft and Google as the three principal competitors. Currently trading at a price-to-earnings ratio of 34x, Amazon's valuation is regarded as reasonable. Given the anticipated trajectory of its growth and considering its market positioning, we keep our buy rating on Amazon.

Since the start of the new millennium, only twice has **Apple (AAPL)** experienced three consecutive quarters of decline in revenue. The first instance transpired in 2016 and the second is presently unfolding, with Apple's guidance indicating a fourth consecutive quarter of negative revenue growth on a year-on-year basis. This is worrying given that the company still trades at a price to earnings multiple of 30x. It signifies that Apple is not immune to the challenges posed by a decelerating global economic environment.

The main drivers of the disappointing results were sales of iPhones, iPads and wearables. Apple's services segment somewhat saved the revenue line. Amidst the backdrop of a global environment characterized by decelerating growth, the current valuation of Apple appears to be relatively high. This is notably attributed to the observed correlation between Apple's revenue and the trajectory of global economic growth. While acknowledging Apple's distinct competitive advantage and its status as a sound long-term investment, it is worth noting that the prevailing circumstances suggest a potential retraction in the company's share price over the near term.

Thermo Fisher Scientific (TMO) is the world's largest life sciences company, with a strong position in life science tools, diagnostics and drug contract manufacturing. The company is active along the entire value chain and is a key supplier to many biopharma and industrial companies, as well as private and public research organizations, laboratories and hospitals.

The group's results were weaker than expected due to weakness in early-stage pharma- & biotech demand. TMO's shares currently trade at a 15% discount to the life sciences sector and an unjustified 25% discount to other pharma manufacturers. The company maintains a long-term organic growth outlook of 7%-9% for 2023 – 2025 which is above the market's mid-single digit growth and implies continued share gains. We have a buy rated recommendation on TMO.

Coca-Cola (KO) reported commendable second-quarter results that exceeded expectations. Notably, net revenue demonstrated a robust 6% year-over-year increase. This impressive performance was driven by good pricing and an enhanced product mix, resulting in a notable expansion of the gross margin by 1.7%, reaching a substantial 59%. The company raised its guidance and is now expecting organic sales growth of 8% to 9% year over year.

This reaffirms the resilience of Coca-Cola's product portfolio, as the company continues to achieve revenue growth and margin expansion despite the backdrop of a global economic slowdown. Coca-Cola is currently trading at a price to earnings multiple of around 23x. We see this as fairly priced given Coca Cola's strong market position.

BAE Systems' (BA) results in August demonstrated impressive broad-based momentum across the portfolio. All metrics were comfortably ahead of consensus, full-year guidance was raised and the share buyback was extended. Looking ahead, the company is well positioned to deliver growth over the medium term, with a record GBP 66 billion order backlog, offering good earnings visibility. Revenue increased by 11% year over year and earnings increased by 18% year over year. We still see sound value in the company as many European countries are now looking to increase their defense budgets. The company trades on a price to earnings ratio of 16x and a dividend yield of 3%. We remain buyers of BAE Systems at current levels.

Abbott Laboratories (ABT), the world's largest diversified medical technology firm, maintains a prominent market position across its core sectors: Diagnostics, Established Pharmaceuticals, Medical Devices and Nutrition. In the second quarter, organic sales exhibited a 9% year-over-year decline, primarily attributable to diminished sales related to Covid-19 testing. Abbott Laboratories generates a robust free cash flow yield of 5%, which substantiates a 2% dividend yield and ongoing share repurchases. At present, the company is trading at a price-to-earnings ratio of 23x, representing a premium compared to its industry peers.

While acknowledging the exceptional nature of Abbott Laboratories, the prevailing assessment is that the company's current valuation appears elevated. As prudent investors, we intend to exercise patience and await a more favorable valuation before considering an investment in the company's shares.

Summary

Since 1Q2022 central banks have been raising interest rates at a very aggressive pace. Concurrently, the most recent economic indicators manifest discernible indications of a deceleration in economic activity, especially in Europe. On the other hand, we are close to peak interest rates and if one looks at the US, the labor market continues to send out strong signals, consumer spending remains resilient and companies are reporting solid earnings. Additionally, it is not only investors but also companies that are doing their homework and preparing for a potential recession, taking whatever steps are necessary to remain fit to survive and keep margins high.

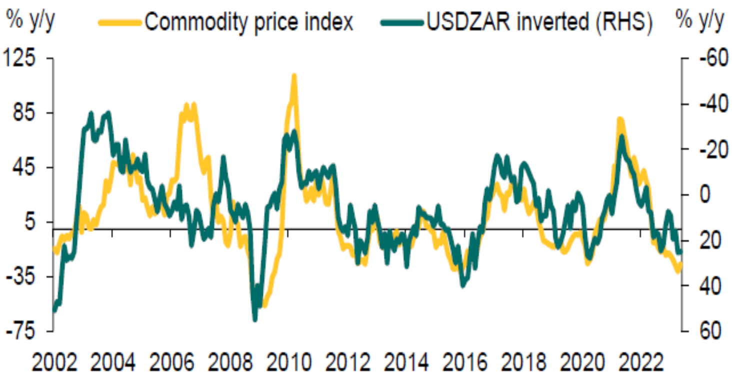
31/08/2023	Last	Month %	YTD %	5Y ann. %
JSE All Share	74954	-4.69	2.61	5.02
JSE Resources	57637	-8.20	-18.60	5.69
South Africa 10Y Bond	10.28%			
CPI	4.70%			
Prime Rate	11.75%			
USDZAR	18.6870	-3.17	-11.20	-5.13
EURZAR	20.3446	-1.72	-13.01	-3.73

Source: RMB

The JSE All Share Index ended 4.7% down for the month. South Africa's July headline CPI slowed for a fourth consecutive month, easing by more than expected to 4.7% year-on-year (the lowest reading since July 2021).

Platinum group metals (PGM) prices have faced substantial downward pressure throughout the current year. Specifically, palladium has experienced a year-to-date (YTD) decline of 32%, platinum has seen a YTD decrease of 9% and rhodium has suffered a YTD drop of 67%. Furthermore, in August, PGM prices exhibited a significant decline as a result of economic challenges affecting China, South Africa's largest trading partner. This economic downturn in China is expected to have profound ramifications for the demand for various commodities, including PGMs, within the broader resources sector.

Figure 1: Commodity index vs ZAR



Source: RMB

BRICS Summit highlights

The 15th summit of the BRICS bloc took place in August 2023. The summit revolved around the theme of "BRICS and Africa," with a focus on subjects such as climate change, the advancement of education and skills, the facilitation of the African continental free trade area and the promotion of women's empowerment.

An announcement was made regarding the inclusion of six nations into the group, effective from January 2024. These nations include Argentina, Egypt, Ethiopia, Iran, Saudi Arabia and the United Arab Emirates. The specific criteria employed in the selection of these six countries have not yet been disclosed.

Nonetheless, President Cyril Ramaphosa indicated that consensus had been reached among the BRICS members regarding the fundamental principles, benchmarks, criteria and procedures governing the process of BRICS expansion.

The rationale for the selection of the six countries is not readily apparent. Nevertheless, it stands to reason that each of the current member states would possess motives to endorse one or more of the incoming members. To illustrate, Brazil, as Argentina's principal trading ally, boasts a substantial basis for favoring Argentina's inclusion.

President Luiz Inácio Lula da Silva of Brazil himself affirmed his support for Argentina's accession. It is worth noting that each of the six newly included countries has China as its foremost import partner, with their imports originating from China accounting for a range of 17% to 29% of its total imports. Additionally, there exists noteworthy bilateral trade among the 11 member nations.

The original six BRICS members are expected to have a combined GDP of $27.6 trillion in 2023, representing 26.3% of the global total. With the new members included, the expected GDP climbs slightly to $30.8 trillion, enough for a 29.3% global share.

Company earnings:

Northam Platinum (NPH): The PGM miner, valued at about R47 billion on the JSE, released its financial results for the year ended in June, reporting a 3.8% rise in operating profit to R15 billion. Northam Platinum has declared its maiden dividend in over a decade of R2.4 billion or R6 per share, resulting from the disposal of its stake in Royal Bafokeng Platinum.

The group announced a R1 billion share buy-back program of R1 billion of its own shares. Northam is trading on a forward EV/EBITDA of 7.6x, which is a 24% premium versus the past 5-year average of 6x.

Woolworths Holdings Limited (WHL): The Woolworths group delivered strong results, although earnings growth slowed in the second half of the year. The group has seen a notable shift towards online sales, which contributed an additional 8.3% to overall turnover and concession sales.

The group's EPS saw a substantial surge of 42% to 551 cents per share, primarily driven by the profit gained from the sale of David Jones. Woolworths is currently trading on a forward PE of 17.2x which appears too expensive at this point in the cycle.

Smart Infrastructure is the outcome derived from the amalgamation of physical and digital infrastructure, thereby furnishing enhanced information to facilitate enhanced decision-making processes that are both expeditious and cost-effective.

Smart infrastructure establishes the fundamental basis for all principal facets associated with a smart city, encompassing intelligent individuals, efficient mobility, a dynamic economy, enhanced living conditions, effective governance, and an eco-conscious environment. The foundational trait that underscores the majority of these elements is their interconnectedness and data generation capability, which can be intelligently leveraged to ensure the utmost efficiency in resource utilization and performance enhancement.

Why smart infrastructure?

1. Smart Infrastructure will afford proprietors and operators the opportunity to extract greater utility from their present holdings, thereby augmenting capacity, efficiency, reliability, and resilience.

2. The attainment of heightened returns from prevailing assets will empower proprietors and operators to ameliorate service provisioning notwithstanding financial limitations, escalating resource dearth, and, within developed economies, the paucity of available greenfield areas.

3. A more profound comprehension of our infrastructure's performance shall facilitate the more streamlined conceptualization and implementation of novel infrastructure, consequently yielding enhanced efficiency and superior holistic value over its entire lifecycle.

Investment case

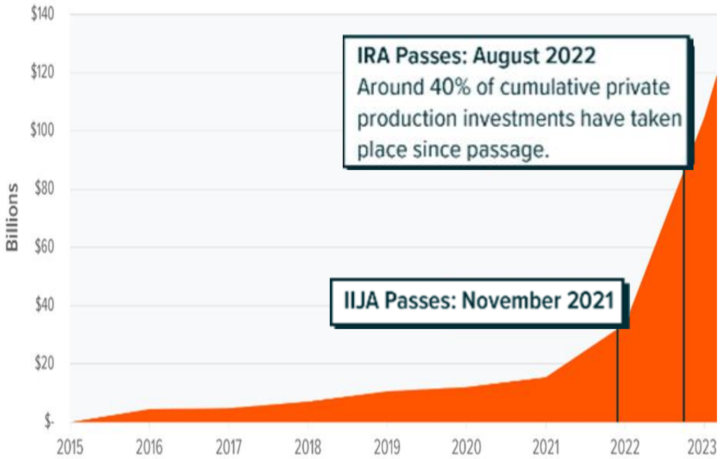
Since its passage in late 2021, the Infrastructure Investment and Jobs Act (IIJA) has been hailed as a major step toward rebuilding America’s infrastructure. From our perspective, the IIJA constitutes an investment of a generational magnitude, the effects of which are only in their nascent stages of influence upon enterprises operating within the infrastructure sector.

The Inflation Reduction Act (IRA) has been formulated with the intention of fortifying the competitive stance of the United States in domains characterized by disruptive technologies, including but not limited to renewable energy, battery technology, electric vehicles (EVs), and semiconductors.

The IRA stands as the most substantial investment ever undertaken by the United States to address the challenges of climate change, allocating approximately $370 billion to reinforce endeavors aimed at sustainability enhancement, heightened energy security and reduction in energy expenditures.

The legislative measure employs tax credits as its principal mechanism to incentivize the establishment of clean technology and renewable energy manufacturing within the nation and there exists substantiating evidence of the efficacy of this strategy. As per the White House, subsequent to the IRA's ratification in August 2022, no less than "$45 billion in private-sector investment has been announced across the U.S. clean vehicle and battery supply chain.“

Figure 3: Cumulative private EV & battery tech investments in the US ($BN)



Source: Environmental Defense Fund. (2023, March) U.S. Electric Vehicle Manufacturing Investments and Jobs

What companies should benefit from smart infrastructure?

1. **Transportation Infrastructure:** Smart transportation systems use real-time data and communication technologies to optimize traffic flow, improve safety, and reduce congestion. Examples include intelligent traffic lights, vehicle-to-vehicle (V2V) and vehicle-to-infrastructure (V2I) communication, and smart parking systems. Leading companies in this sector include Tesla, Uber, Siemens Mobility and Waymo.

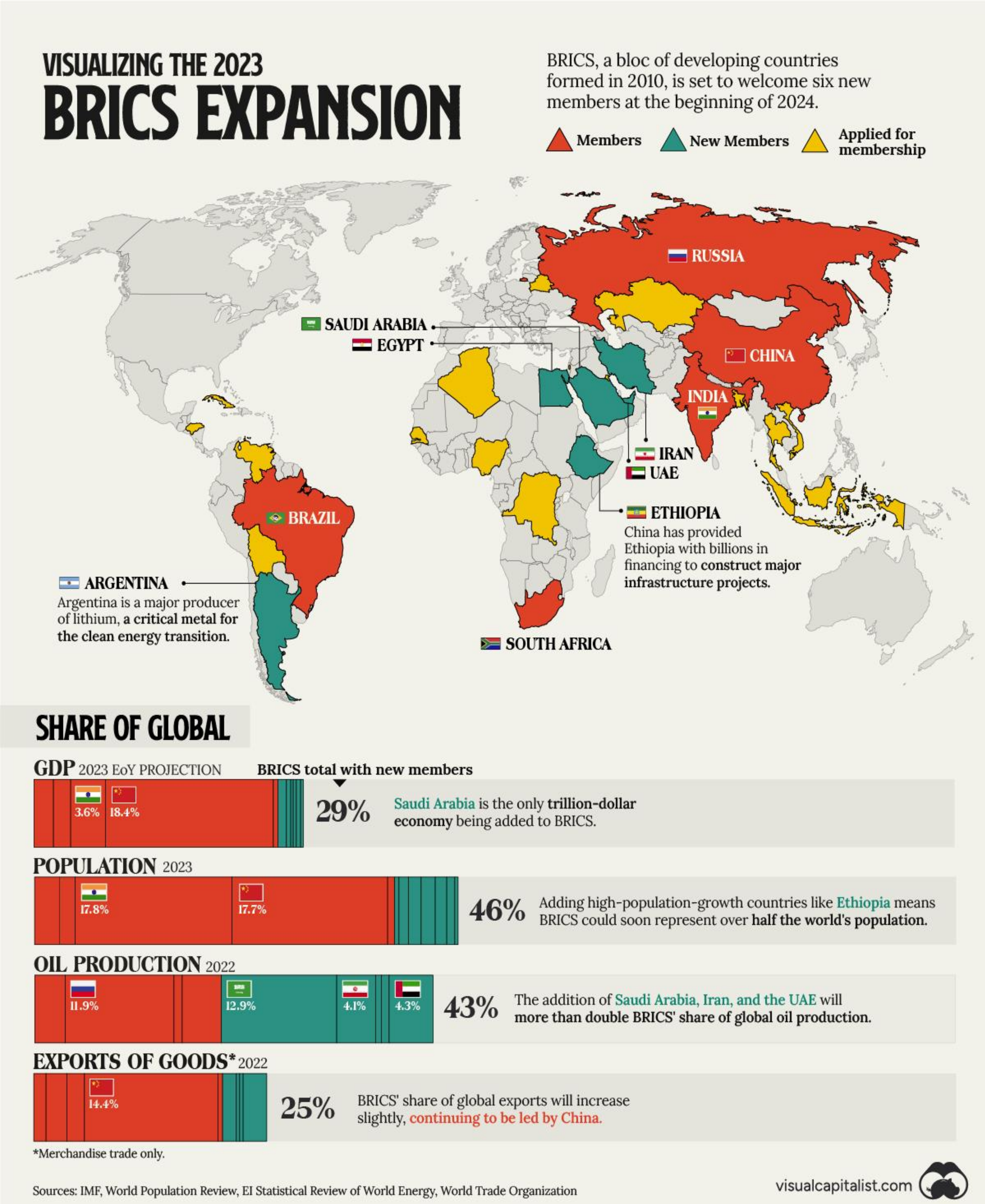
2. **Energy Infrastructure:** Smart grids enable better monitoring and management of electricity distribution, allowing for efficient load balancing, fault detection, and integration of renewable energy sources. Smart meters provide consumers with real-time energy consumption data, helping them manage their energy usage and costs. Leading companies in this sector include Siemens, General Electric, ABB and Eaton.

3. **Building Infrastructure:** Smart buildings incorporate automation, sensors, and data analytics to optimize energy usage, improve occupant comfort, and enhance security. Building management systems can control lighting, heating, cooling, and ventilation based on occupancy and environmental conditions. Leading companies in this sector include Honeywell, Schneider Electric and Siemens.

4. **Communication Infrastructure**: High-speed internet and reliable communication networks are essential for supporting various smart infrastructure systems. 5G technology, for example, enables faster and more reliable communication, which is crucial for applications like autonomous vehicles and remote monitoring. Leading companies in this sector include Cisco Systems, Ericsson, Intel and Qualcomm.

5. **Data Analytics and AI:** The integration of data analytics and artificial intelligence (AI) is a fundamental aspect of smart infrastructure. These technologies process the vast amount of data collected and provide insights for better decision-making. Leading companies in this sector include IBM, Microsoft, Amazon, Google, SAP and Schneider Electric.

GRAPH OF THE MONTH 1: THE 2023 BRICS EXPANSION



GRAPH OF THE MONTH: BRICS GLOBAL GDP AND GLOBAL POPULATION

Original BRICS Member	Country	Share of Global (%)	GDP (USD billions)	Population	Share of Global (%)
Yes	Brazil	2.0%	$2,081	216,422,446	2.7%
Yes	Russia	2.0%	$2,063	144,444,359	1.8%
Yes	India	3.6%	$3,737	1,428,627,663	17.8%
Yes	China	18.4%	$19,374	1,425,671,352	17.7%
Yes	South Africa	0.4%	$399	60,414,495	0.8%
No	Saudi Arabia	1.0%	$1,062	36,947,025	0.5%
No	Iran	0.4%	$368	89,172,767	1.1%
No	Ethiopia	0.1%	$156	126,527,060	1.6%
No	Egypt	0.4%	$387	112,716,598	1.4%
No	Argentina	0.6%	$641	45,773,884	0.6%
No	UAE	0.5%	$499	9,516,871	0.1%
-	**BRICS Total**	**29.3%**	**$30,767**	**3.7 billion**	**46.0%**
-	**Rest of World**	**70.7%**	**$74,362**	**4.3 billion**	**54.0%**

Source: Visual Capitalist

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

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