OLD MUTUAL
EMPLOYEE GROUP IN SUPERFUND

QUARTERLY INVESTMENT UPDATE

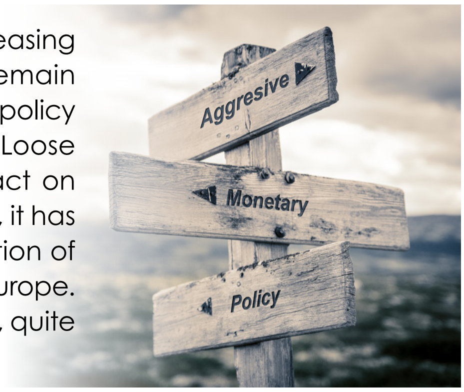
NOVEMBER 2022 - Q3

IN THIS EDITION WE PROVIDE

- A market overview;
- An investment performance update as at 30 September 2022; and
- A link to a MindSpace article about "Our view on the recent updates to the two-pot retirement system".

MARKET OVERVIEW

Market Outlook



As global inflation intensifies and economic growth weakens under increasing pressure from a rising interest rate environment, investment markets remain volatile. The world has now entered a new phase of tight monetary policy and higher interest rates after decades of the complete opposite. Loose monetary policy and low interest rates were bound to have an impact on inflation at some point and while inflation was moderate for many years, it has risen dramatically to the highest levels in 40 years due to the combination of supply-side constraints, the Covid-19 pandemic, and the energy crisis in Europe. Central banks have tried to contain inflation by increasing interest rates, quite aggressively, relative to previous rate hiking cycles.

Local markets

The local markets have continued to fare slightly better than global markets during the third quarter. This quarter, the resources sector was the best-performing sector with financials being the weakest. Across the asset classes, cash preserved capital as expected while nominal bonds strengthened. The listed property maintained its volatility and despite rallying in July 2022, the pressures of slower economic growth and higher interest costs saw the sector sell-off in both August and September 2022.

The South African Reserve Bank (SARB) raised interest rates by another 0.75% at its September 2022 meeting to take the repo rate to 6.25%. This is the 6th consecutive hike since the monetary policy regime started to shift in November 2021, taking the total increase in interest rates to 2.75%.

Inflation in South Africa is highly likely to have peaked at 7.8% in July 2022 which is well above the inflation target set by the SARB, due to an expected peak in fuel prices. In August inflation toned-down back to 7.6%. On the other hand, food price pressures remain. It is expected that inflation will fall back to within the target band in 2023 and possibly fall even more in 2024. While inflation continues to breach the upper 6% limit, the SARB will continue to be cautious over the coming months, with the market pricing in further interest rate hikes both for the rest of this year and 2023.

The local economy contracted by 0.7% in the second quarter of the year and this outcome was not surprising given international and domestic economic shocks such as the ongoing war in Ukraine, the resultant energy crisis in Europe, rising inflation, supply chain disruption and the floods in Kwa-Zulu Natal.

Local business confidence fell to its lowest in the third quarter of 2022 since the first quarter of 2021. Confidence fell off the back of inventory and supply shortages and delays caused by load-shedding. The 2022 power outages caused by load-shedding are the worst in living memory and with little relief in sight, it is difficult to estimate the eventual cost to the ecoload-shedding national psyche. Retailers and wholesalers, however, remain confident citing strong consumer spending, which may help to sustain this sector.

Global markets

Global equity and bond markets were hit by a fierce sell-off in September to end a volatile quarter in negative territory. Local investors were cushioned by a weaker Rand. The Federal Reserve of the US raised the federal fund rate by 0.75% both in July and September 2022. This means that the most important interest rate for the global economy has risen over six-fold in the space of just six months! This had a very negative impact on government bonds worldwide (with yields rising and prices falling), and risky asset classes.

Sweden increased their rates by 1%, the largest hike in 30 years, in a country that had maintained negative interest rates. The European Central Bank also had sub-zero rates as late as June this year. The era of zero or negative interest rates seems to be over, apart from Japan. Seasoned investors may see this as a return to "normal" times, akin to the pre-global financial crisis in 2008. This is yet to be seen, though. It could be that the world experiences stagflation (a period of persistently high inflation combined with high unemployment and stagnant demand) as experienced in the late 1970s and early 1980s. The uncertainty on which regime we are likely to experience is what is creating anxiety and volatility in financial markets.

The pace of interest rate increases is also raising fears that the US may induce a recession in 2023 to contain inflation. This could tip other countries and regions into a recession as well.

The cost-of-living crisis

Inflation is one of the biggest concerns for households that will possibly look to aggressively curb spending with escalating food and energy bills and higher costs of debt. Many households have become used to government help during difficult periods and while they may now expect government support once again, they are far less likely to receive it in such a direct way. In the UK, rising inflation has been dubbed the "cost-of-living crisis", as home energy bills are set to triple in as little as a two-year period if the government doesn't cap prices. Europe is facing an even more serious crisis, with energy supplies from Russia having been cut given the ongoing war in Ukraine.

The British pound tumbled to record lows against the US Dollar and UK bond prices fell steeply in response to the new British finance minister Kwasi Kwarteng's "mini" budget, which included £45 billion in unfunded tax cuts. The fall in bonds triggered a liquidity crisis among many UK-defined benefit pension funds that have used long-dated bonds to hedge their future pension obligations. The Bank of England had to step in by temporarily purchasing long-dated UK government bonds to restore order in the market.

Luckily, local pension funds have not faced anything of this nature given the high prevalence of defined contribution funds and the bond market which has been relatively more stable. This environment can, however, be unsettling for investors. A focus on investing for life expectancy is important as it forces one to invest for the long term and to avoid becoming overly concerned with short-term market moves. We would encourage OMEGS members to stay the course and stick to their long-term investment strategy.

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Sukha & Associates - **Primary Asset Consultants to OMEGS**

INVESTMENT PERFORMANCE SUMMARY AS AT 30 SEPTEMBER 2022

The table below provides the gross return of each portfolio over the 1, 3- and 5-year periods ending 30 September 2022.

Category	Portfolio	1 Year	3 Years	5 Years
Default	Old Mutual Absolute Smooth Growth	11.1%	7.8%	7.4%
	Target: Inflation + 6%	**13.9%**	**11.4%**	**11.2%**
Market-Linked	Old Mutual Multi-Managers Inflation Plus 5 - 7% Strategy	0.8%	10.0%	7.0%
	Old Mutual Profile Edge 28	1.3%	9.1%	7.0%
	Coronation Managed	1.3%	9.9%	6.6%
	Target: Inflation + 6%	**13.9%**	**11.4%**	**11.2%**
	M&G Balanced	3.1%	9.0%	7.2%
	Old Mutual Balanced Index Fund	-0.8%	6.4%	4.9%
	Target: Inflation + 5%	**12.9%**	**10.4%**	**10.1%**
Smooth Bonus	Old Mutual Absolute Smooth Growth	11.1%	7.8%	7.4%
	Target: Inflation + 6%	**13.9%**	**11.4%**	**11.2%**
	Old Mutual Coregrowth 100	8.1%	7.2%	7.5%
	Target: Inflation + 3%	**10.7%**	**8.3%**	**8.0%**
Shari'ah	Old Mutual Investment Group Shari'ah Composite Fund	2.4%	7.1%	5.7%
	Target: Inflation + 4.5%	**12.3%**	**9.9%**	**9.6%**
Money Market	Old Mutual SA Money Market	4.8%	5.1%	6.2%
	Target: Inflation	**7.5%**	**5.1%**	**4.9%**

The above summary reflects the gross performance of the underlying investment options available to OMEGS members. This performance is not necessarily an indication of future performance. Saving for retirement is part of a long-term financial planning process and we encourage you to seek financial advice before making any investment related decisions.

MINDSPACE ARTICLE

Our view on the recent updates to the two-pot retirement system

Old Mutual Corporate has welcomed further clarity announced by National Treasury regarding the proposed new two-pot pension system and the speed at which the government is moving on the issue.

Click here read the full article

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