OLD MUTUAL
EMPLOYEE GROUP IN SUPERFUND

INVESTMENT UPDATE

AUGUST 2023

IN THIS EDITION WE PROVIDE

- **A market overview;**
- **An investment performance update as at 31 July 2023;**
- **A link to a MindSpace article titled: "A guide to the Two-Pot System"; and**
- **Connect with your Fund.**

MARKET OVERVIEW

Market Outlook

The second quarter of the year was no less bumpy than the first. Financial markets have continued their roller coaster ride as they adjust to an era of higher inflation and higher interest rates. The returns for the major asset classes are shown in the table on the right.

	3 Months	6 Months	1 Year
SA Equity (Capped SWIX)	1.2%	3.6%	13.5%
SA Bonds (ALBI)	-1.5%	1.8%	8.2%
SA Property (ALPI)	1.0%	-3.9%	8.9%
SA Cash (STeFI)	1.9%	3.7%	6.8%
SA Inflation Linked Bonds (CILI)	-0.7%	0.2%	1.2%
Global Equity (MSCI World ($))	6.8%	15.1%	18.5%
Global Equity (MSCI World (R))	13.7%	27.8%	36.7%
Global Bonds (WGBI ($))	-1.8%	1.7%	-2.5%
Global Bonds (WGBI (R))	4.6%	12.9%	12.4%

Global markets

A large-scale United States (US) banking crisis seems to have been averted after fears in the first quarter of 2023, but it may well have knock-on effects in the US over the coming months. Global equity markets were up in April, but then falling in May as concerns heightened, with forecasts for economic activity worsening, weighing heavily on investor sentiment. June saw the markets rally once again as consensus was reached politically around the US debt ceiling. In the US, mega-cap tech shares have continued to push higher, defying the general sentiment and in a continuing trend of the seven major tech stocks driving market performance. This sector of the US equity market does not look too attractive compared to other sectors and regions, which are trading at lower valuations.

Emerging markets were weighed down by Chinese stocks as recent Chinese economic data has been disappointing with all the major economic data releases in May falling short of expectations, including retail sales and industrial production. Import numbers fell, suggesting that the much-anticipated boom in Chinese economic activity post the lifting of previous Covid lockdowns is not as strong as expected. Although the markets participated somewhat in the June rally, performance from these markets continues to be very much muted.

In line with market expectations, the US Federal Reserve (Fed) hiked interest rates by 0.25% at the start of May. For the first time in over a year, however, they stopped guiding for additional hikes. The Fed will adopt a wait-and-see, data-dependent approach, to see how tightening lending standards in the wake of the recent banking crisis will impact economic activity.

After growing by 2.0% in 2022, the SA economy is expected to slow in 2023 as loadshedding continues at a high intensity throughout the year. Consumer spending and consumption are expected to weaken, and weak economic activity is likely to impact employment. Additionally, the expected slowdown in developed markets will reduce demand for our exports (even as our imports continue to grow). Growth is expected to improve in the next few years as electricity supply and other structural constraints slowly ease.

The Rand was the weakest major currency in May, driven lower by plunging investor confidence as the government scrambled to defend itself against accusations by the US ambassador that South Africa (SA) had supplied weapons to Russia. The government's cost of borrowing spiked, with the 10-year government bond yield rising by more than 1% during the month, to 12.4%, matching the level seen at the depth of the initial Covid pandemic sell-off in March 2020. The currency recovered somewhat in June but remains vulnerable.

The impact of lower growth and lower demand has been seen in the financial markets keeping prices low. Retailers have faced the double whammy of a public with less money and rising costs, particularly those resulting from the need to generate their own electricity. June once again saw stronger markets with both equity and bond markets going up.

Inflation has been much "stickier" than expected. The impact of local interest rate hikes is not dampening inflation as quickly as expected, given that much of the inflation pressure is coming from the supply side, rather than being driven by excess demand. The South African Reserve Bank (SARB) has remained determined to see inflation fall to within the 3% to 6% target band and for it to return sustainably to the midpoint of the target. The SARB raised interest rates by 0.5% at its May meeting. This was double the expected 0.25% and takes the repo rate to 8.25%. It will become increasingly more difficult to justify further rate hikes though, as it becomes clear how weak economic activity in SA is.

Homeowners are feeling the squeeze. The monthly repayment on a R1 million bond (if you assume the interest rate as prime + 1%) has jumped from around R8 300 to R11 500. This is almost 40% more. There is less money at the end of each month to spend on discretionary items which is why consumer spending has fallen. There is some light at the end of the tunnel as petrol inflation declined in May pulling inflation down lower. The Rand oil price is currently 20% lower than a year ago, and the recent firming in the rand means there might be petrol price cuts in the pipeline.

Good savings habits, however, are hard to develop but they may pay off in the long term. Members can overcome the impacts of inflation by using investment portfolios that target returns more than inflation. Letting the powper of compounding work through preserving these savings creates long-term wealth. This is why OMEGS offers members various investment options based on their preferences and investment horizon that target up to inflation plus 7% over the longer term.

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INVESTMENT PERFORMANCE SUMMARY AS AT 31 JULY 2023

Category	Portfolio	1 Year	3 Years	5 Years	10 Years
Default	Old Mutual Absolute Smooth Growth	11.1%	11.5%	7.8%	10.2%
	Target: Inflation + 6%	**11.0%**	**12.1%**	**11.1%**	**11.5%**
Market-Linked	Old Mutual Multi-Managers Inflation Plus 5 - 7% Strategy	14.6%	15.1%	10.0%	10.5%
	Old Mutual Profile Edge 28	9.6%	15.2%	8.8%	9.8%
	Coronation Managed	17.3%	15.7%	10.6%	10.2%
	Target: Inflation + 6%	**11.0%**	**12.1%**	**11.1%**	**11.5%**
	M&G Balanced	14.5%	15.4%	9.5%	10.3%
	Old Mutual Balanced Index Fund	14.3%	13.0%	8.2%	9.1%
	Target: Inflation + 5%	**10.0%**	**11.0%**	**10.1%**	**10.4%**
Smooth Bonus	Old Mutual Absolute Smooth Growth	11.0%	11.5%	7.8%	10.2%
	Target: Inflation + 6%	**11.0%**	**12.1%**	**11.1%**	**11.5%**
	Old Mutual Coregrowth 100	8.6%	8.0%	7.3%	9.0%
	Target: Inflation + 3%	**7.9%**	**8.9%**	**8.0%**	**8.3%**
Shari'ah	Old Mutual Investment Group Shari'ah Composite Fund	14.0%	13.4%	8.2%	9.1%
	Target: Inflation + 4.5%	**9.4%**	**10.5%**	**9.6%**	**9.9%**
Money Market	Old Mutual SA Money Market	7.6%	5.3%	6.2%	6.7%
	Target: Inflation	**4.7%**	**5.7%**	**4.9%**	**5.1%**

MINDSPACE ARTICLE

A guide to the Two-Pot System

With the implementation date just around the corner, the basic outline of National Treasury's proposed Two-Pot System for retirement savings is well known by now. It's a major industry reform, designed to promote preservation of retirement savings while providing limited early access to a portion of those savings, in case of an emergency.

"Two-Pot is a major feature of the bigger picture of retirement-industry reforms," says Michelle Acton, Retirement Reform Executive at Old Mutual.

Click here to read the full article.

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For a copy of the Rule Amendment Summary for Old Mutual SuperFund for the years ending 30 June 2020, 2021, and 2022, access the information below:

- 2020
- 2021
- 2022