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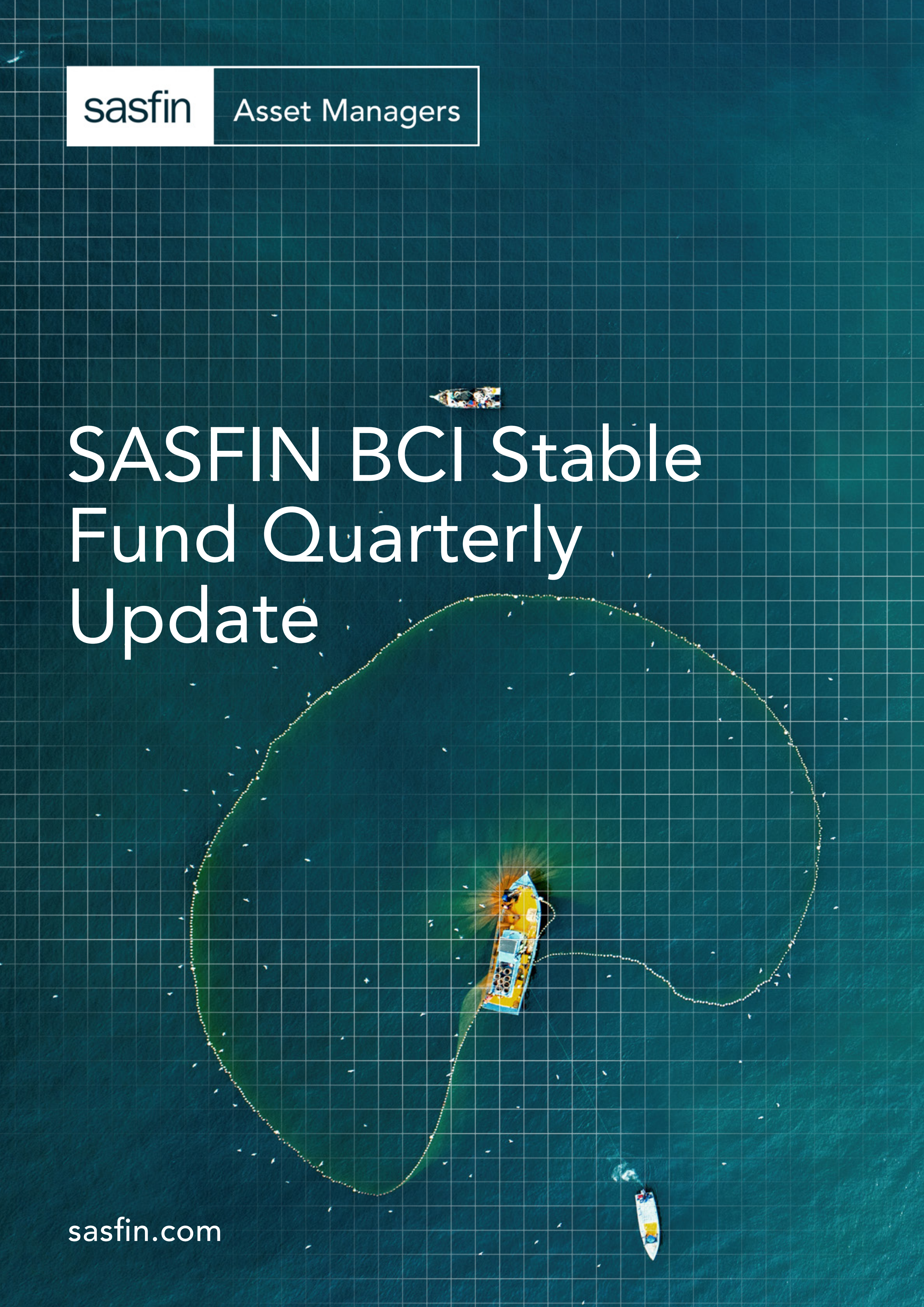

# SASFIN BCI Stable Fund Quarterly Update

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## GLOBAL MARKET DEVELOPMENTS

The IMF baseline forecast is for global growth to slow from 3.5 percent in 2022 to 3.0 percent in 2023 and 2.9 percent in 2024, well below the historical (2000–19) average of 3.8 percent. Advanced economies are expected to slow from 2.6 percent in 2022 to 1.5 percent in 2023 and 1.4 percent in 2024 as policy tightening starts to bite. Emerging market and developing economies are projected to have a modest decline in growth from 4.1 percent in 2022 to 4.0 percent in both 2023 and 2024. aided by lower international commodity prices.

The IMF forecasts that global inflation is forecast to decline steadily, from 8.7 percent in 2022 to 6.9 percent in 2023 and 5.8 percent in 2024, due to tighter monetary policy. Core inflation is generally projected to decline more gradually, and inflation is not expected to return to target until 2025 in most cases. Given the stickiness of inflation to the downside, major Central Banks are generally expected to keep interest rates high for at least the next 6 months.

US 10-year bond rates have risen from a low 0.54% in July 2020 to over 5.0% in October 2023, the highest level since 2007. Given the strength of the US economy and stickiness in inflation, interest rates may remain high for longer. Recently The Atlanta Federal Reserve Governor spoke about policy rates possibly not being cut until late 2024, compared to forecasts earlier this year that rates could be cut early in 2024. The markets will remain focused on any news which may impact the timing of the first cut in rates.

After falling by 16.8% in the 12 months to September 2022, the S&P 500 enjoyed a strong recovery in the 12 months ended September 2023 with a rise of 19.6%. Most of this growth over the past 12 months has been driven by tech stocks.

Geopolitical tensions have risen and this adds further risk to investment markets.

## Local Market developments

After the South African Reserve Bank (SARB) raised the repo rate by a cumulative 4.75% between October 2021 and May 2023, SARB poised at both the July and September 2023 meetings, citing expectations that inflation was forecast to remain within the 3-6% target band. However, at both meetings, the voting was split, with 3 in favour of no change in rates and 2 in favour of a rate increase. SARB suggested that alternative methods be considered to reduce inflation, including achieving a prudent public debt level, increasing the supply of energy, moderating administered price inflation, and keeping real wage growth in line with productivity gains. However, there is no evidence that these alternative methods are likely to be introduced any time soon. Forward rates would indicate that the SARB may be at or close to the peak of its rate hiking cycle, but that it may be some time before rates are cut.

The South African Reserve Bank in September raised its forecast for 2023 GDP growth marginally from 0.4% to 0.7%, due to expected pick up in investment spending and because spending by firms, households, public corporations, and general government remains positive (albeit modestly positive) in real terms. Their forecasts for GDP growth in 2024 and 2025 remain weak at 1.0% and 1.1% respectively. An improvement in logistics and a sustained reduction in load-shedding, or greater energy supply from alternative sources, would significantly increase growth.

For the 12 months ended September 2023, the JSE All share returned 17.7%, The Listed Property Index returned 12.9% and call averaged 7.3%. The 10-year SA Government bond yield rose from 11.28% at the end of September 2022 to 12.00% at the end of September 2023.

## Fund Strategy and Performance

Our view is that inflation is likely to decline further in major economies, as well as in South Africa, though this decline may be slow and erratic. This will allow Central Banks to pause on further interest rate hikes, but we may not see a broad reduction in interest rates until next year. As described in previous strategy updates for the Fund, we believe that with South African 10-year bond rates of almost 12%, investors are adequately compensated for risk. Accordingly, we maintain a full exposure to fixed rate bonds, within our long-term strategic risk limits. In the longer term we believe that there is a risk of further increasing inflation in South Africa and we are monitoring our bond position closely. The trend in government debt also needs to be watched. The Fund has a large exposure to inflation linked bonds, which offer some protection to investors if inflation remains high. Credit exposure is limited as we see risk in the credit space, without seeing great protection from the credit spreads in the local market.

In equities we have invested in selected opportunities. We are cognizant of the risks facing the broad economy, from weak consumer demand, declining commodity prices and loadshedding and the pressure this could place on general corporate earnings. On average these risks are considered to be largely priced in.

The Fund returns to 30 September 2023 were 8.9% over the past year and 11.0% p.a. over the last 3 years. This compares to the Fund's benchmark of 10.5% and 7.9% p.a. respectively, which is represented by the average of the (ASISA) SA Multi-asset Low Equity category. The fund's long-term target is CPI plus 4%. Performance was enhanced by some outstanding increases in prices of the shares selected for the portfolio, including Reinet (+55.6%), Gold Fields (+41.2%), Bidvest (+39.4%), Reunert (+39.1%) and Naspers (+35.7%).

The Fund is, as usual, cautiously invested, cognizant of the risks facing investment markets. Internationally there remain downward risks to equity markets as interest rates remain high and corporate profit growth remains uncertain. Domestically, loadshedding, poor consumer and business confidence, weak commodity prices and still high inflation and interest rates are a concern for investment markets. We believe that the Fund is well positioned for the risks facing the economy, while still in a position to deliver inflation beating returns from its current base over our investment horizon.

**Errol Shear**

Portfolio manager

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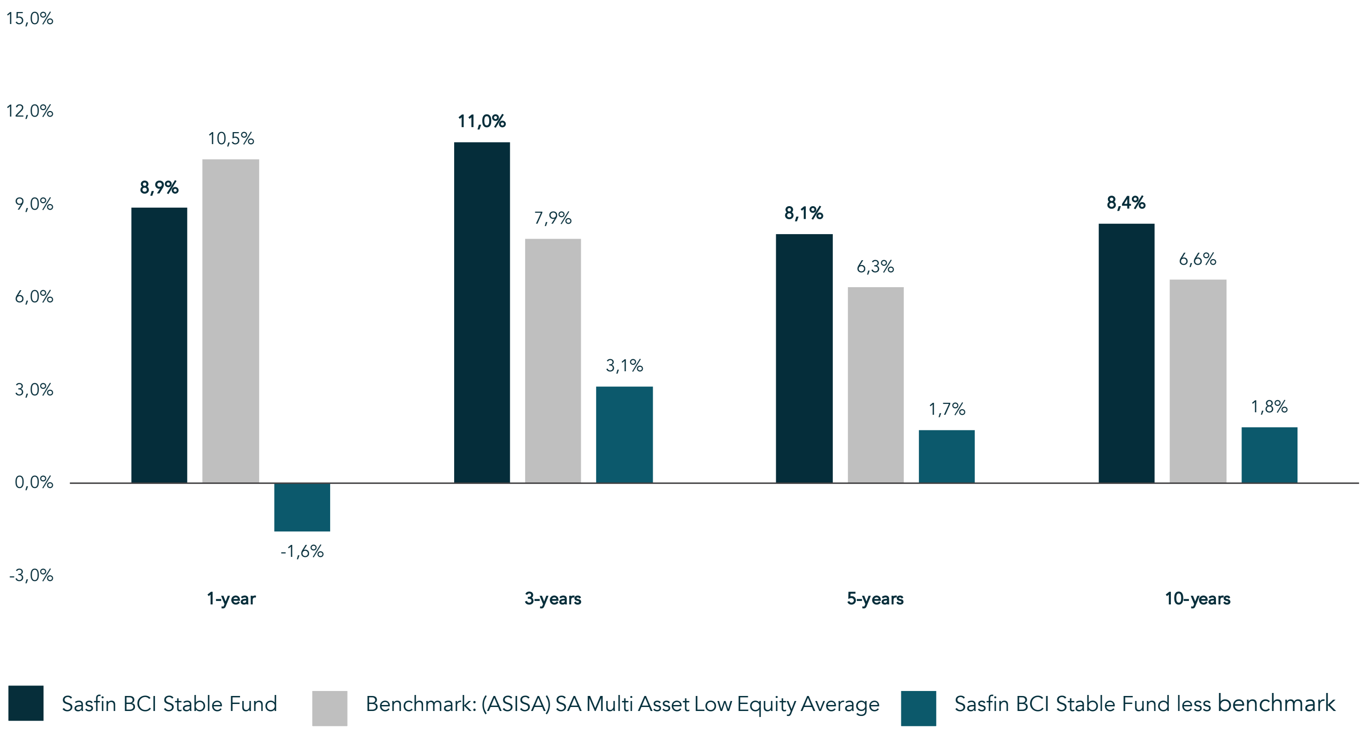
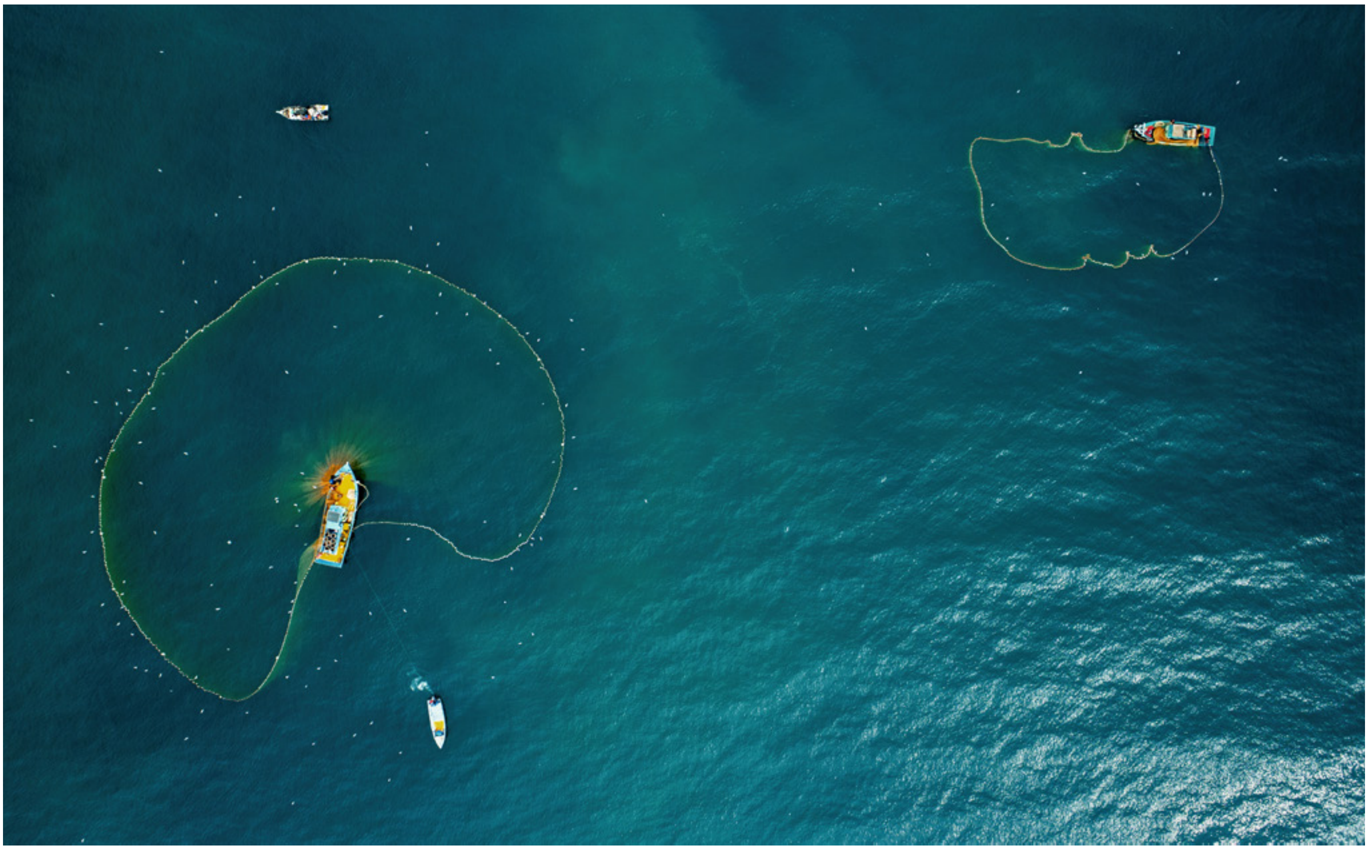
# Performance

**Sasfin BCI Stable Fund:**
**Performance ending September 2023**




## Notes:

Returns greater than 1-year are annualised; Annualised return is weighted average compound growth rate over the period measured; Actual annual figures are available to the investor on request.



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**RAGING BULL AWARDS**
2018 | 2019 | 2020 | 2021 | 2022

**MORNINGSTAR AWARDS**
2020 | 2021 | 2022

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