

OCTOBER 2023

ECONOMIC AND MARKET OVERVIEW

SOUTH AFRICA IN REVIEW

President Cyril Ramaphosa opened the AGOA Forum in Johannesburg with a call for a “long-haul” extension of the duty-free access to the US market for 35 African countries. The African Growth and Opportunity Act (AGOA), valued at about \$4.5-billion a year, is up for renewal by Congress in 2025. US President Joe Biden said on Thursday he “strongly supported” the reauthorisation of AGOA beyond 2025 when it comes up for renewal. South Africa’s participation in this initiative is key to our future economic growth. The United States and China are South Africa’s two largest export partners making up equal parts of almost a quarter of the country’s exports.

South Africa’s headline inflation increased by more than expected in September, at 5.4%. This is predominantly due to the impact of higher fuel prices. In the northern hemisphere inflation in the European Union however dropped to its lowest level in two years coming in at 2.9% in October – down from the previous month’s 4.3%.

South Africa’s Electricity Minister Kgosisentsho Ramokgopa’s doggedly upbeat take of the ‘phenomenal improvement’ and ‘magnitude of strides’ in reducing rotational power cuts signalled how the election campaigning is set to unfold. The Daily Maverick reports that the governing ANC have started emphasising their achievements and talking about improvements and successes as their 2019 election manifesto reviews unfold as initial electioneering for the 2024 poll.

Support for the ANC appears to be continuing to drop ahead of the 2024 national and general elections, with a new survey by the Social Research Foundation (SRF) pegging its potential share of the vote next year at 45%. The ANC took 57% of the vote nationally in 2019, down from 62% of the vote in 2014 elections, a trend that continued at local government level in 2021.

GLOBAL MARKETS IN REVIEW

October did not turn out to be the month of peace in the Middle East.

On 7 October conflict between Hamas and Israel flared up and this has dominated global geo-political events since. According to the BBC it even prompted President Volodymyr Zelensky to admit that the Israel-Gaza war is "taking away the focus" from the conflict in Ukraine. He added this was "one of the goals" of Russia, which launched a full-scale invasion of Ukraine in February 2022.

The market impact (including the effect on the price of oil) of the conflict in Gaza and Israel has been limited thus far.

In a newsletter to clients Credo reports that today, the US is largely energy independent thanks to, among other things, the wonders of fracking. A sustained spike in the oil price from these already-elevated prices is therefore unlikely.

WeWork, once the poster child of the co-working phenomenon, filed for bankruptcy in the United States.

Investors had privately valued the firm at some \$47bn at its height in early 2019. However, WeWork shares have lost around 99% of their value this year, with existing liabilities of nearly \$50 billion.

"People should not be worried about the impact of AI on jobs because education reforms will boost skills."

These were the words of UK prime minister Rishi Sunak at the UK's first Artificial Intelligence safety summit. He added that new tools should be seen as a "co-pilot" to help people at work, rather than replacing them. The summit preceded the signing of the Bletchley Declaration on AI safety. This is a statement signed by representatives and companies of 28 countries, including the US, China, and the European Union. It aims to tackle the risks of so-called frontier AI models - the large language models developed by companies such as OpenAI.

MARKET PERFORMANCE

October turned out to be a tough month for markets as only South African bonds (thanks to a rally late in the month) and cash yielded positive returns. Equities around the globe sold off and the US Dollar weakened against indications that central banks will hold interest rates at their current elevated levels. The absence of any strong signals that economic growth and inflation are at levels that will require monetary easing soon contributed to the market pullback this month.

The S&P500 sold off a little over 2% in US Dollar terms, while the Euro Stoxx 50 receded by 2.6% in euros. Locally the JSE All Share Index gave up 3.5% taking the index down more than 10% over the last three months. Gold experienced a sharp rally (up 7.4% in US Dollars) in response to investors' concerns about the potential escalation of conflict in the Middle East.

Alongside cash, South African bonds printed a positive return for the month as investors showed appreciation for the attractive real yields on offer – long term South African bonds now yield more than 6% above inflation. Despite the deteriorating fiscal outlook for the South African government these instruments provide an attractive long term risk-return profile.

| MARKET INDICES ¹ | 31 OCTOBER 2023 | | |
|--|-----------------|-----------|----------------------|
| (All returns in Rand except where otherwise indicated) | 3 months | 12 months | 5 years ² |
| SA equities (JSE All Share Index) | -10.4% | 8.3% | 9.8% |
| SA property (S&P SA Reit Index) | -7.8% | -9.7% | -6.9% |
| SA bonds (SA All Bond Index) | -0.9% | 7.9% | 7.9% |
| SA cash (STeFI) | 2.1% | 7.6% | 5.9% |
| Global developed equities (MSCI World Index) | -4.3% | 13.3% | 14.1% |
| Emerging market equities (MSCI Emerging Markets Index) | -7.3% | 13.5% | 7.0% |
| Global bonds (Bloomberg Barclays Global Aggregate) | -0.3% | 3.8% | 3.2% |
| Rand/Dollar ³ | 5.4% | 2.0% | 4.9% |
| Rand/Sterling | -0.6% | 7.5% | 3.8% |
| Rand/Euro | 1.1% | 9.1% | 3.4% |
| Gold Price (USD) | 0.7% | 21.4% | 10.4% |
| Oil Price (Brent Crude, USD) | 2.2% | -7.8% | 3.0% |

1. Source: Factset

2. All performance numbers in excess of 12 months are annualized

3. A negative number means fewer rands are being paid per US dollar, so it implies a strengthening of the rand

DID YOU KNOW?

4 things you need to know about Artificial Intelligence

Everywhere we look there are frightening and bewildering stories about Artificial Intelligence “creating fake news”, “steal our jobs” or more generally “winning the war between man and machine”. In fact, before we know it, it will “take over the world”. Or not...

Artificial Intelligence is much more likely a technology that will replace many menial and complex tasks allowing humans to think more. It may take over tasks, but in the process many different jobs will be created allowing humans to go where no one has gone before. Perhaps you should view AI like you do the iPhone, or spreadsheets. Another new technology that enables human endeavour and unleashes further creativity.

Here are four things to remember about AI:

01

AI is as old as the first atom bomb

Its origin is in an idea called artificial neural networks. It's really like a team of interconnected workers that need to solve a problem. Every time it solves the problem it remembers the way it got there and as it tries myriad other approaches it stores each improvement in the process. This technology is interwoven into our daily lives. It suggests music we should listen to or movies we should watch. It completes our sentences when we type or questions when we search for something on the web, and on social media it suggests every next move we may want to take. Our interaction with the neural networks are becoming so human-like that it almost seems like we're interacting with a human. It's therefore useful to remember the second thing about AI:

02

AI cannot think or feel

When we interact with AI chatbots like ChatGPT or Bard it's easy to think that the human-like response comes from a thinking and feeling being who understands what they are saying. As it stands AI cannot think or feel. It cannot love or hate. It cannot understand the consequences of its answers to our questions. ChatGPT and its peers are really very sophisticated sentence completers which has learned from human information. In many ways it's like a combination of all the talking parrots that ever existed. But a parrot nevertheless. It can however do something that talking parrots cannot do, which is...

Source: BBC, The Open University

03

AI makes information (stuff) up

Chatbots can have a dubious relationship with the truth. This is called AI hallucinations, or more generally “making stuff up”. AI does not yet have the ability to distinguish between truth and lies which means that any answer or content generated by AI still needs to be validated by a human mind. AI will always be influenced by the data it trains on, and if it's trained on garbage don't expect any better outcomes than blatant nonsense.

04

AI has phenomenal potential

Just like antibiotics, bar codes, spreadsheets and smart phones contributed to the modern economy we have today AI is likely to play a pivotal role in the world that we're going to shape in future. AI is busy transforming industries such as healthcare and education allowing professionals in these worlds to spend more time on research and innovation. The AI revolution has the ability to enhance and speed up work in many fields from journalism and animation to law enforcement and software programming. It allows humans to tackle serious issues such as climate change and personal well-being and everything in-between.

As AI evolves (and it does so at a rapid pace) governments and regulators will have to think about the ethical and moral implications of this tool. But will it take over the world? Even though it's probably the most complex and advanced tool that exists it's unlikely to rule the world, because it's still a tool. It's up to us to decide how we use it.

Disclaimer

For internal use only. The information provided is of a general nature only and does not take into account investor's objectives, financial situations or needs. The information does not constitute financial product advice and it should not be used, relied upon or treated as a substitute for specific, professional advice. It is, therefore, recommended that investors obtain the appropriate legal, tax, investment and/or other professional advice and formulate an investment strategy that would suit the investor's risk profile prior to acting on such information and to consider whether any recommendation is appropriate considering the investor's own objectives and particular needs. Although the information provided and statements of fact are obtained from sources that Atom Capital considers reliable, we do not guarantee their accuracy, completeness or currency and any such information may be incomplete or condensed. No guarantee of investment performance should be inferred from any of the information contained in this document. Collective Investment Schemes in Securities ("CIS") are generally medium to long term investments. The value of participatory interests may go down as well as up and past performance is not necessarily a guide to future performance.

Any opinions, statements and information made available, whether written, oral or implied are expressed in good faith. Views are subject to change, without prior notice, on the basis of additional or new research, new facts or developments. All data is in base currency terms unless otherwise indicated, and sourced as disclosed.