

QUARTERLY MARKET INSIGHT

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At MitonOptimal we take asset allocation (AA) very seriously, taking into consideration both Strategic AA (3-7 years) and Tactical AA within the various asset classes. This quarterly piece provides insight into our short term tactical calls on a 12-month view (reviewed quarterly) and as such may diverge from our long term strategic AA views. We review our strategic AA bi-annually as we believe this is prudent practice, in a world dominated by debt de-leveraging, central bank and political interference.

Index	Q3-2022	YTD
FTSE/JSE Capped SWIX All Share	-2.43%	-6.96%
FTSE/JSE SA Listed Property	-3.54%	-15.78%
FTSE/JSE All Bond	0.60%	-1.34%
FTSE/JSE ALB 1-3 Yr	0.65%	1.97%
STeFI Composite	1.35%	3.57%
MSCI World	2.92%	-16.02%
MSCI Emerging Markets	-2.99%	-17.97%
S&P 500	4.22%	-14.57%
Global Bond Index	1.01%	-12.11%
USD Money Market	10.21%	13.30%
S&P Global REIT	-2.24%	-19.72%
Commodity Index	5.20%	27.89%

SA EQUITY

Underweight - Underperformed

It has been a rough quarter for risk assets in general. There were very few places to hide from the market carnage and, unfortunately, SA Equity was not one of them. The JSE SWIX All Share returned -2.44% for the last 3 months, with Financials leading the pack downwards with a return of -4.62%.

Although the SARB seems to have more control over our inflation figures, compared to our developed market counterparts, worries about external factors culminating with our own problems (corruption, loadshedding, GDP growth) is causing great concern.

During the quarter we saw the Fed hike rates aggressively followed by the ECB and the SARB with 75bps the general consensus. This caused a risk-off sentiment in the global markets with only the US Dollar gaining traction through all of it. This is very negative for emerging markets and South Africa was no exception. By the latter part of the quarter, we got back to stage 6 loadshedding, causing massive disruption to productivity and growth forecasts.

Given the various influences (positive and negative) on our local equity market, we remain underweight to all risk assets, including SA Equity. We do think, however, that extreme negative sentiment

could create buying opportunities at low valuations, but only when appropriate.

SA LISTED PROPERTY

Underweight - Underperformed

The sector had a troublesome start to the year and continued the trend throughout the second and third quarters. In ZAR terms the sector underperformed most other sectors returning -3.54% in the third quarter of 2022. Given the sector's deep correlation with economic growth, we don't foresee significant upside from a price perspective. The sector does, however, look attractive from a dividend yield perspective and even more so with prices coming down considerably. When focusing on certain sectors like warehousing, personal storage and convenience retail and staying away from large retail and office space, the yield and growth prospects seem considerably better.

As stated previously, we are underweight all risk assets, including SA Listed Property. There are some positive attributes to focus on, but the risk-off environment will keep

putting pressure on the sector. We therefore remain cautious, but optimistic for future buying opportunities.

SA FIXED INTEREST

Overweight – Neutral Performance

The JSE All Bond Index recovered slightly for the last quarter returning 0.6% in quarter 3, outperforming the SWIX All Share Index by just over 3%. With the Fed maintaining their hawkish nature in trying to curb a rampant inflation rate, bonds (especially emerging market bonds) were always going to come under pressure.

Although our medium- to long-term government bonds are yielding real returns in excess of 4%, selling pressure will remain as long as the Fed continues its hawkish nature. It could be said that locking in the higher yields now should bode well for future returns, but we choose to be conservative over the short-term and rather buy in when global inflation is less severe, and the Fed's hawkishness subsides.

SA CASH

Overweight - Outperformed

Our overweight exposure to cash was a significant contributor to the performance of our funds and portfolios. Being overall underweight risk assets, cash was not only a "placeholder" but also a deliberate safe haven asset allocation decision. The SteFI Composite Index returned 1.35% for the quarter, beating the SWIX All Share Index by 3.8% and the South African Multi-Asset High Equity Sector by 1.46%.

We are keeping to an overweight exposure on SA Cash, given the pressure on risk assets and to jump on buying opportunities that might arise.

GLOBAL EQUITIES

Underweight - Outperformed

Global markets remained volatile this quarter, as growth and inflationary concerns continue to wreak havoc. This sparked conversations about when rather than if a global recession is on the cards for global markets. This was echoed by Fed chair, Jerome Powell, when he spoke at the annual Jackson Hole Symposium about the unfortunate cost of reducing inflation and that Americans should brace themselves for some tough times ahead.

Since late last year we have been reducing exposure to global equities in favour of local risk assets. We have been skeptical on valuations and fundamentals for a while now, especially on US equities. During the start of the quarter this allocation decision worked in our favor, but as pressure started mounting on local assets and the US Dollar gained strength through the risk-off market, we started to reverse this allocation. Today, our allocation is still slightly in favour of local risk assets, but not as much as in March of this year.

Our allocation also favoured Developed Markets (2.22%) above Emerging Markets (-2.99%), which helped considerably during the last quarter. But, because of a strong US Dollar and a weakening ZAR, our underweight allocation to global equities was a negative relative contributor

to our overall performance. We are still not convinced that the tide has turned for global risk assets and our portfolios are still conservatively positioned.

GLOBAL FIXED INTEREST

Neutral - Outperformed

With global interest rates still very low relative to history and inflation on the rise, we have been skeptical on Global Fixed Interest for quite a while. This skepticism reduced on the back of rising bond yields over the last two months. Over the quarter we were mostly underweight the asset class but returned to neutral midway through the quarter.

It's still hard to see the benefits of taking on risk assets at this stage, but global bonds are becoming more attractive by the day. It's difficult to predict what the Fed and other reserve banks will do in an attempt to curb rampaging inflation, but we think a neutral allocation should suffice for now.

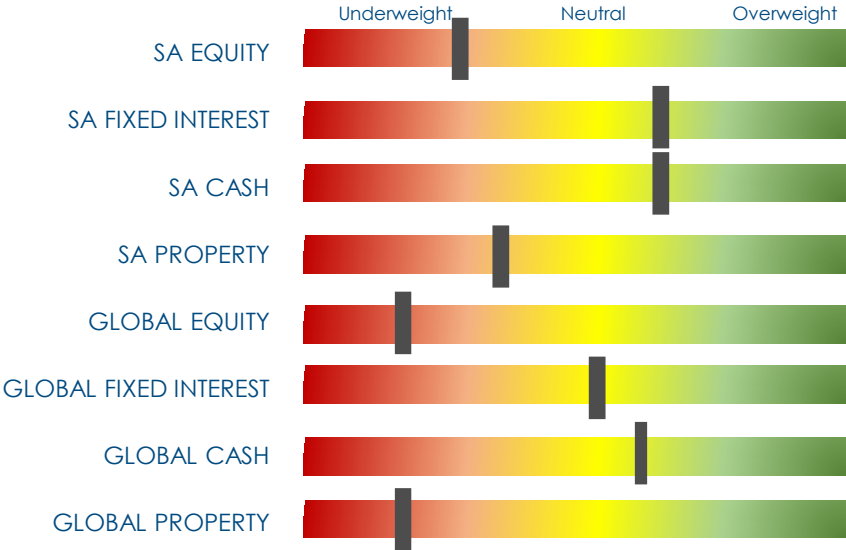
GLOBAL CASH

Overweight - Outperformed

As with local cash exposure, the global cash allocation is used as either a risk mitigator or as a place holder for future deployment into risk opportunities. Although we started off the month on a neutral to underweight allocation, it soon became clear that it was going to be difficult to find any opportunities in equities or bonds that were worth the risk. This caused us to move to an overweight allocation to global cash, although only slightly. With our global cash proxy returning 4.67% (in ZAR terms) for the quarter, this decision was definitely

PORTFOLIO ASSET CLASS WEIGHTINGS

The actual weightings are relative to each portfolio's long term neutral weighting and the actual weighting varies between different risk profiles/mandates.



a positive contributor to performance.

With sentiment to risk assets at all-time lows and threats of a global recession looming, we will continue to use this asset class as a risk mitigator but also to jump on buying opportunities that arise.

REIT Index) ended the quarter on -2.24%.

With risks to the downside still present in the risk-off environment we remain underweight the sector. But where we do own global listed property, we are focused on sectors such as warehousing, storage, data centers and infrastructure. .

GLOBAL PROPERTY

Underweight - Underperformed

Global property was also one of the asset classes that was heavily affected by the risk-off trades as well as the volatility of the war in Ukraine. Although not as overvalued as most equity counters, the dividend returns were still attractive relative to global bonds. This spread has reduced considerably over the last 3 months as bond yields shot up in anticipation of a hawkish Fed. The Global Property sector (S&P Global

Source of all data: Morningstar