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Investments

# H2 FUND UPDATE 2022





# economic overview



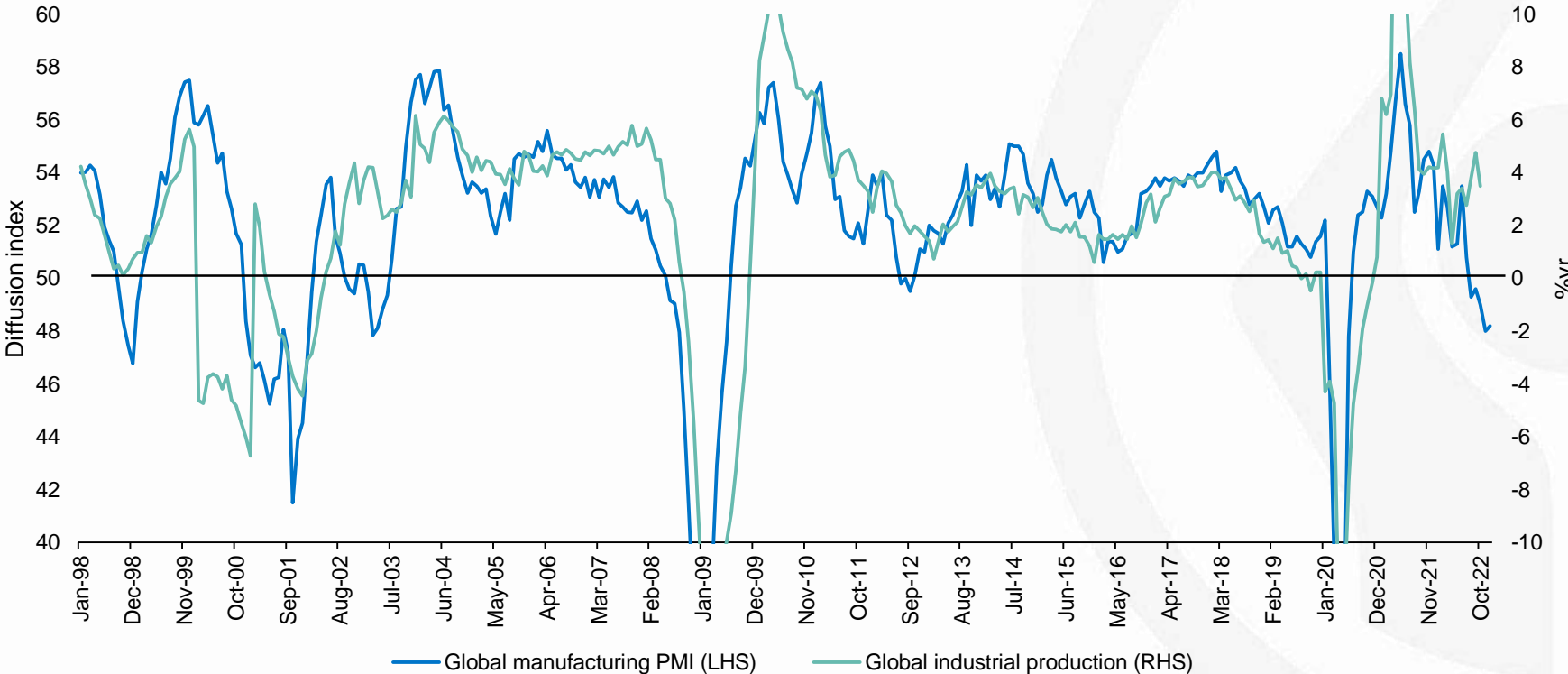
# Global economy

## From inflation to disinflation

**Confidence Rule 47:**

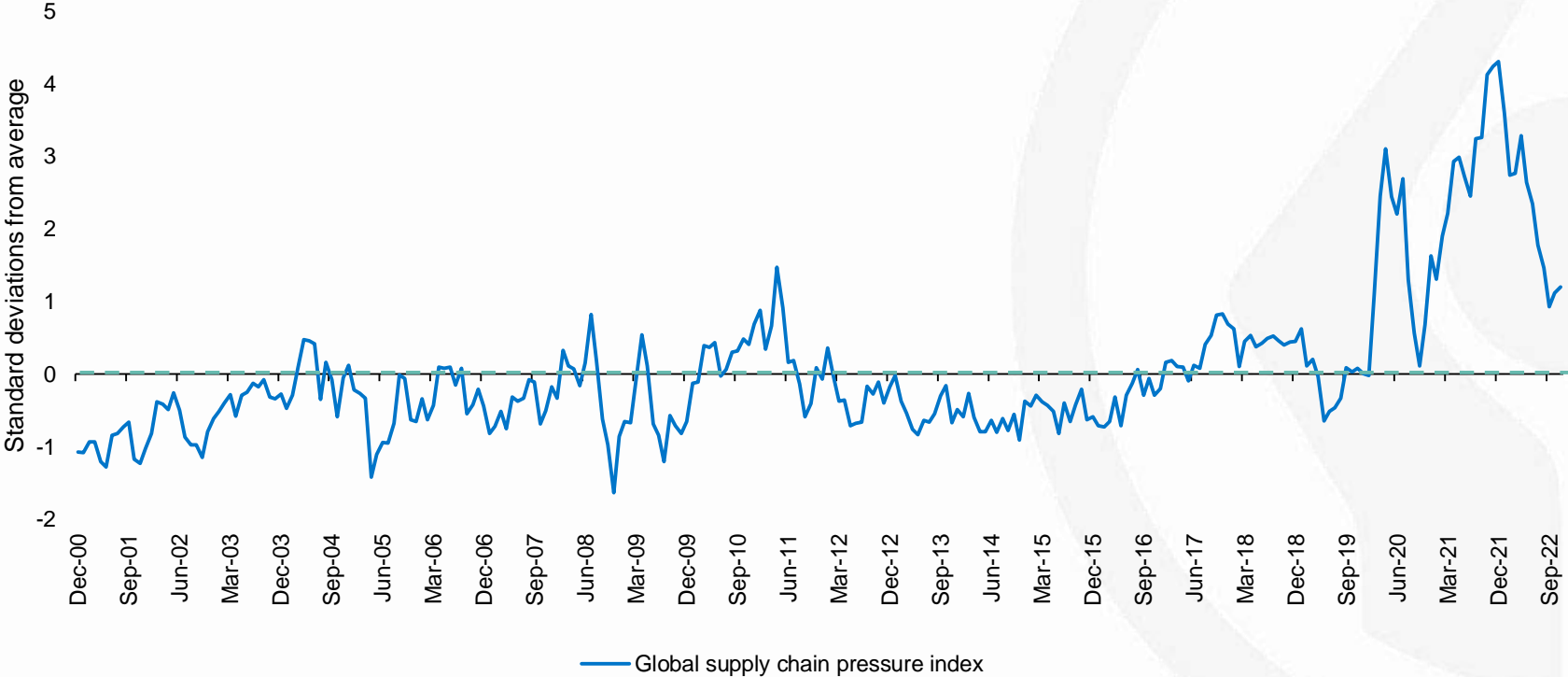
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# Global manufacturing contraction



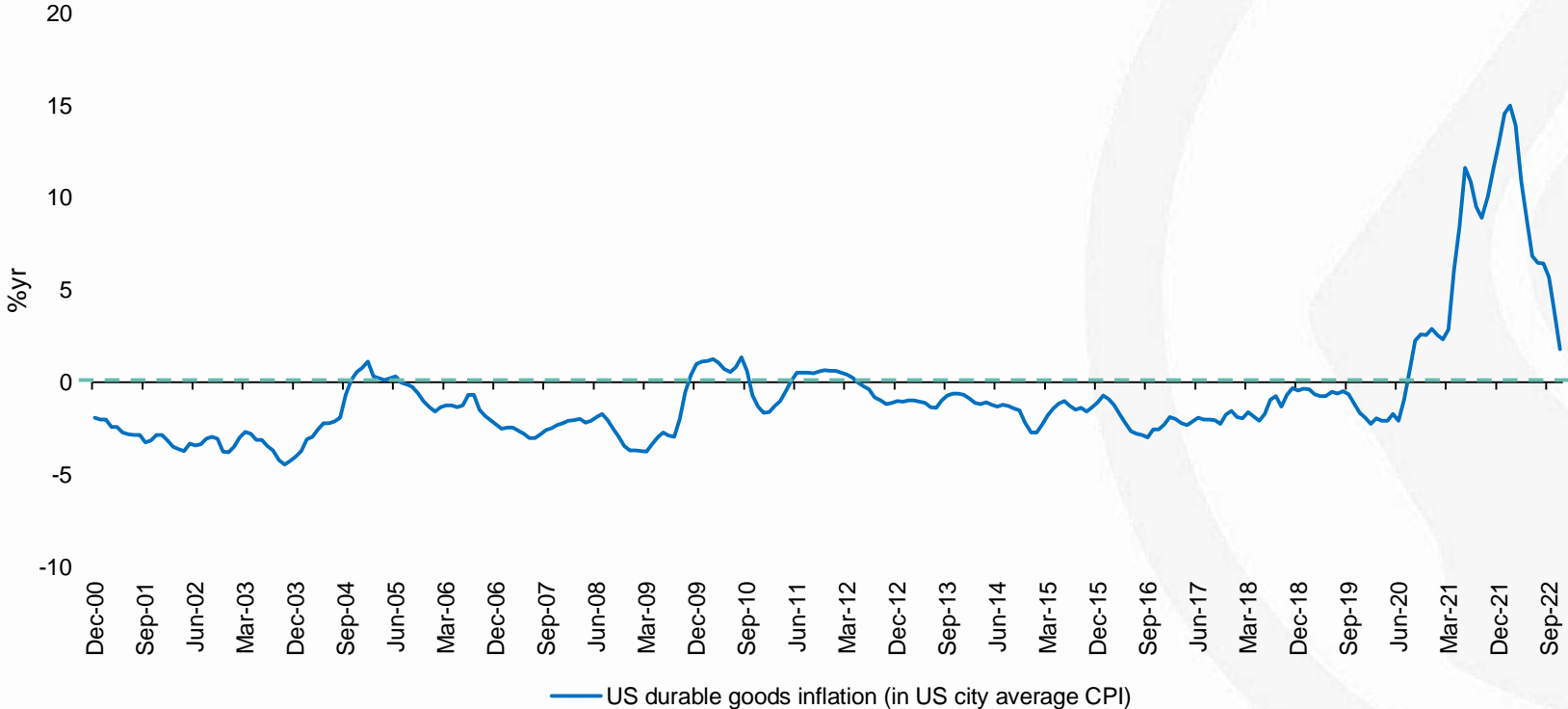
Source: Bloomberg, Sanlam Investments, January 2023

# Global supply bottlenecks easing



Source: US real inventory / sales data retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org>, December 2022 and Federal Reserve Bank of New York, Global Supply Chain Pressure Index, <https://www.newyorkfed.org/research/gscpi.html>, December 2022

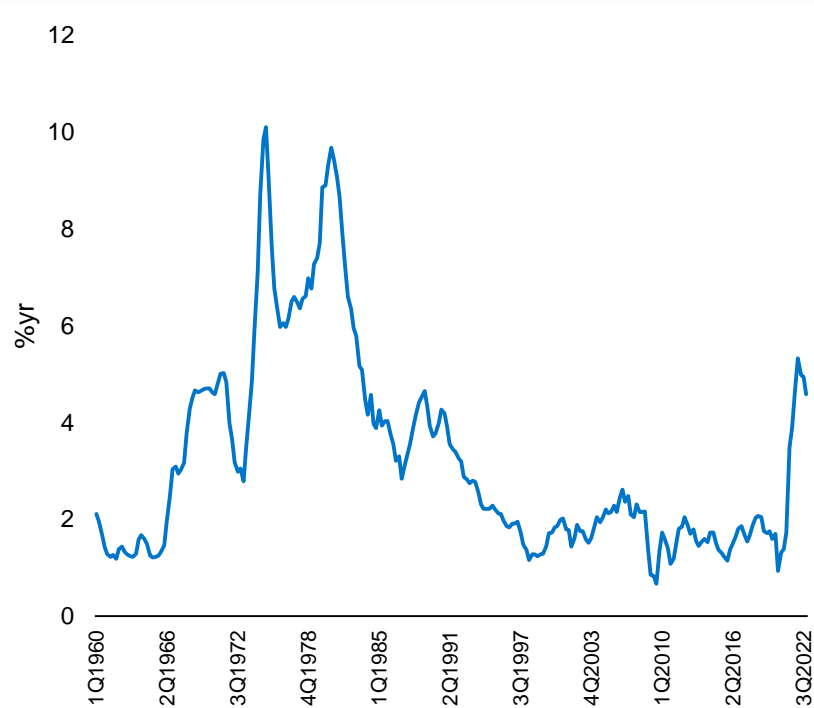
# Goods price inflation slowing



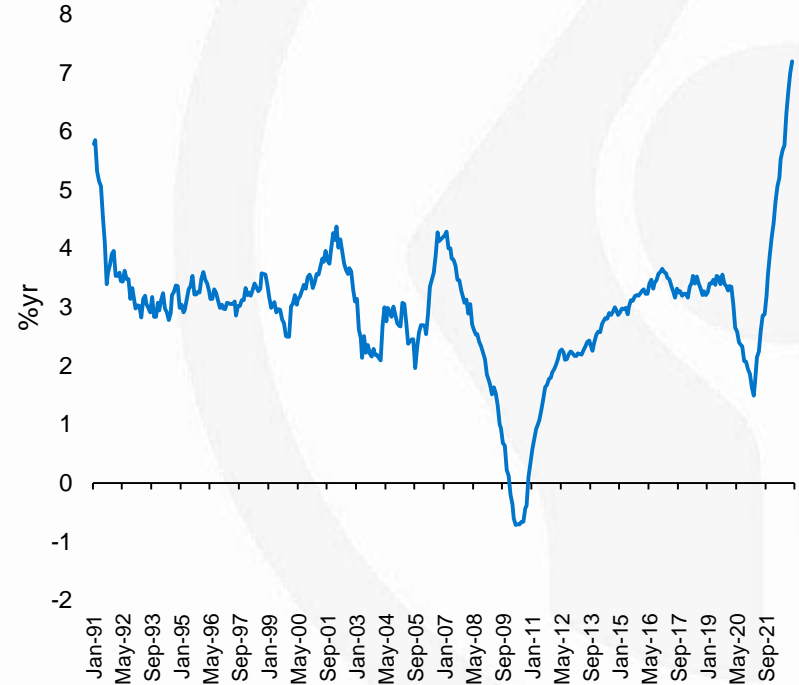
Source: Retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org>, December 2022

# Inflation is by no means low

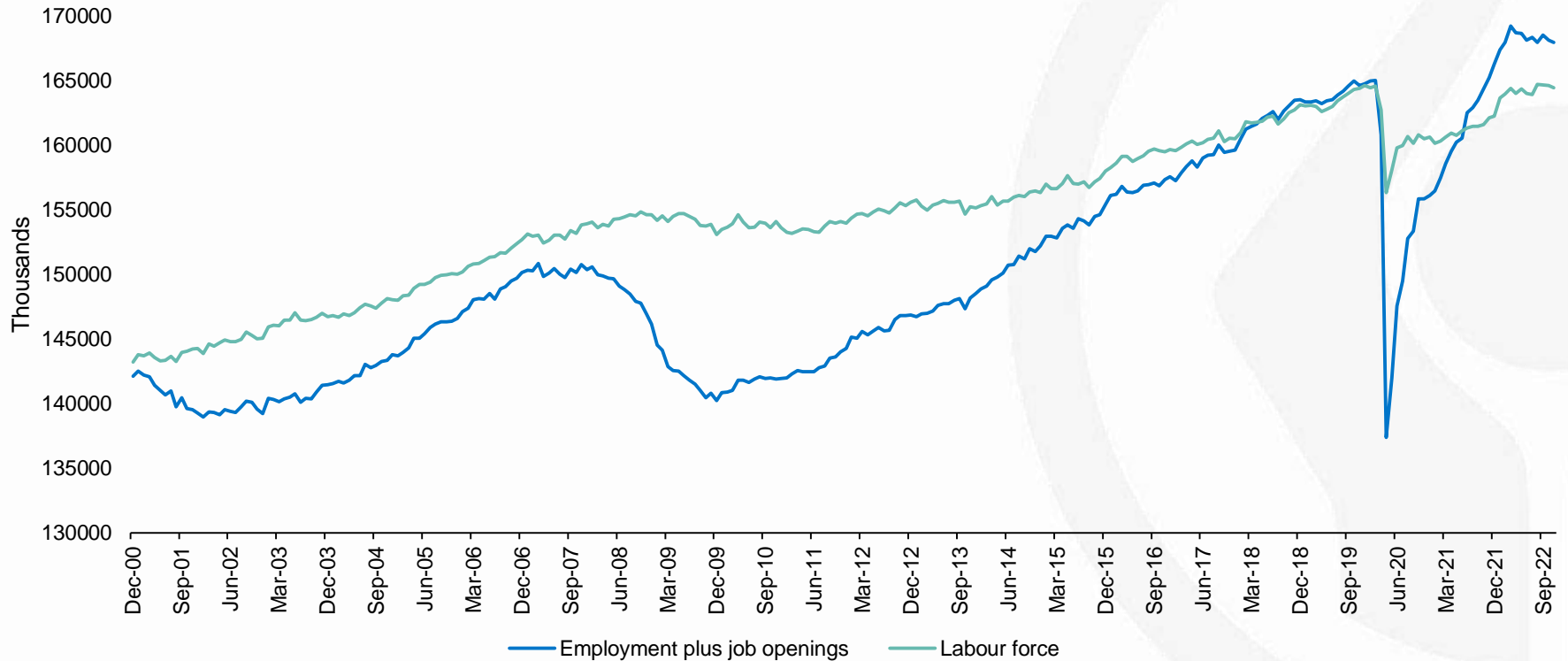
US core PCE deflator



Rent of shelter – US city average



# A structural US labour market problem



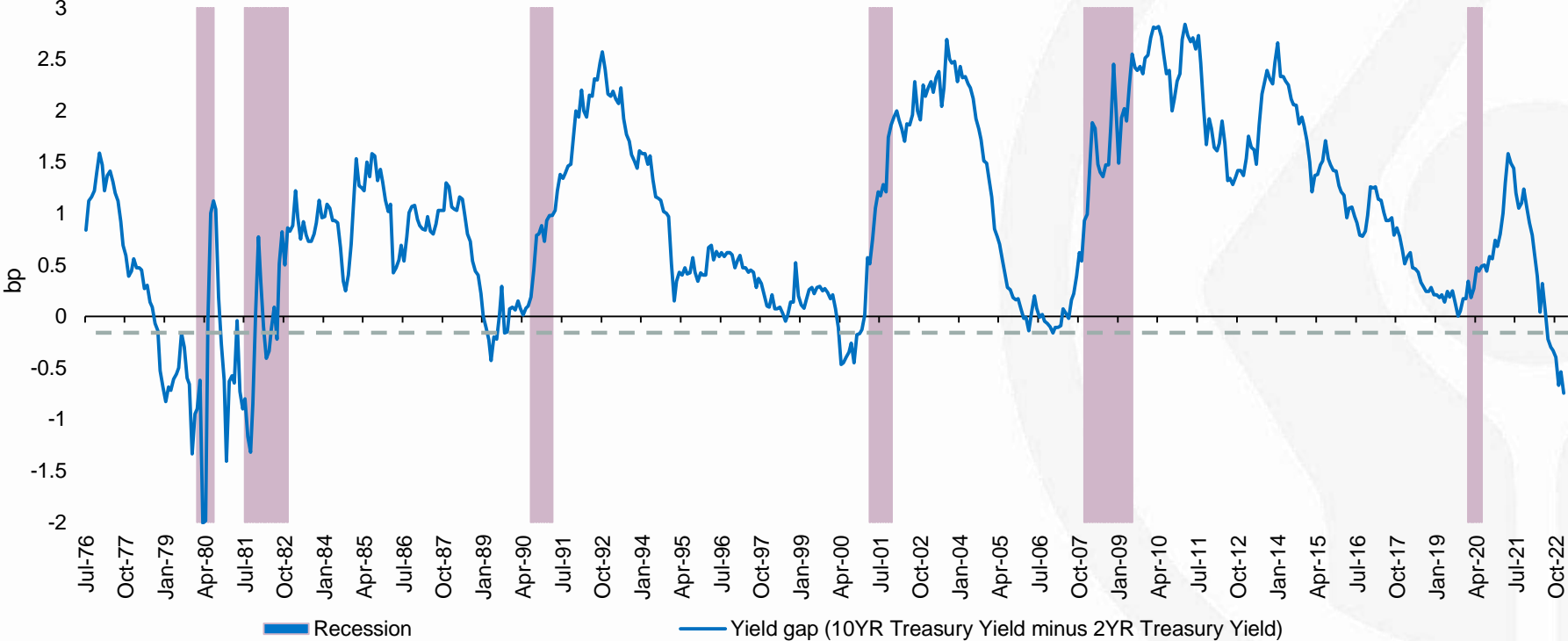


# Higher US interest rates at work



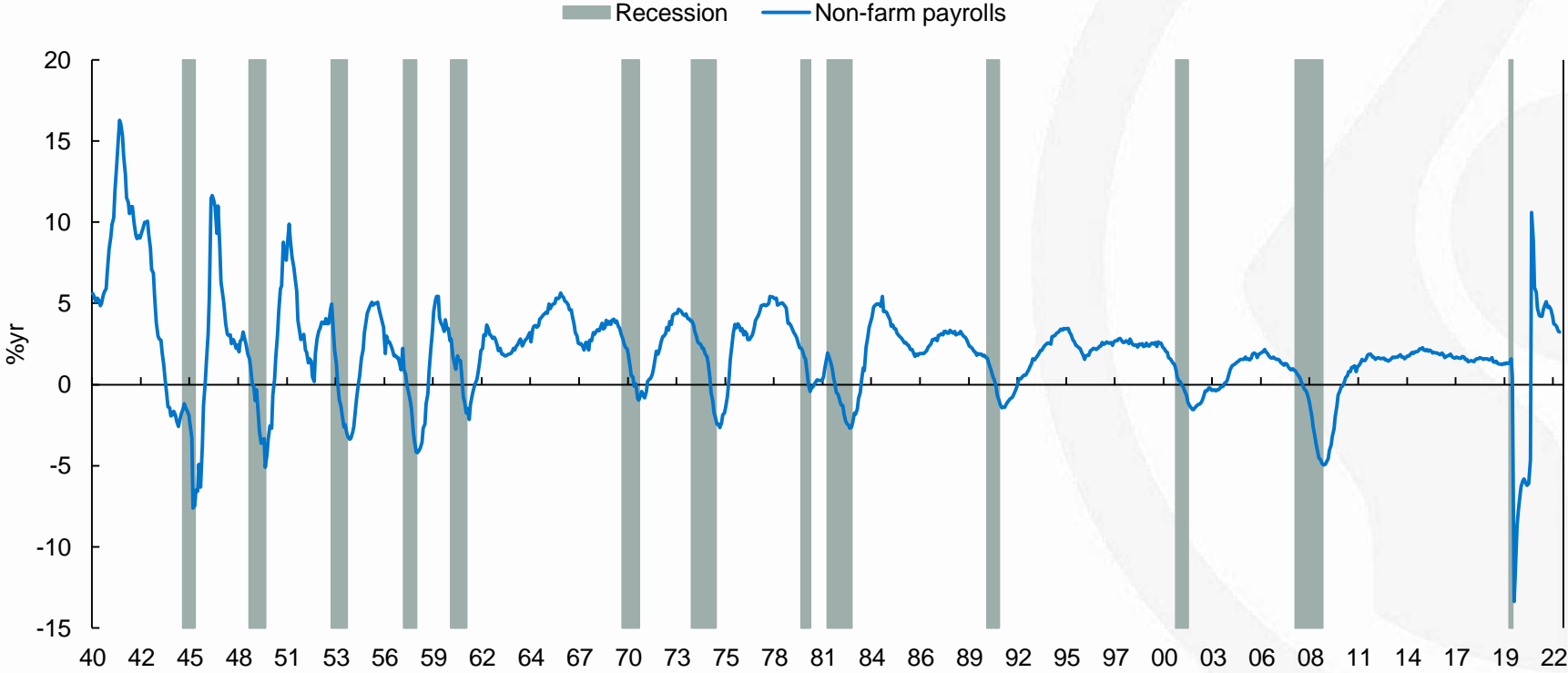
Source: Bloomberg, Sanlam Investments, December 2022

# US yield gap and recession history



Source: Data retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org>, Sanlam Investments, December 2022

# Employment and US recessions



Source: Bloomberg, Sanlam Investment, January 2023

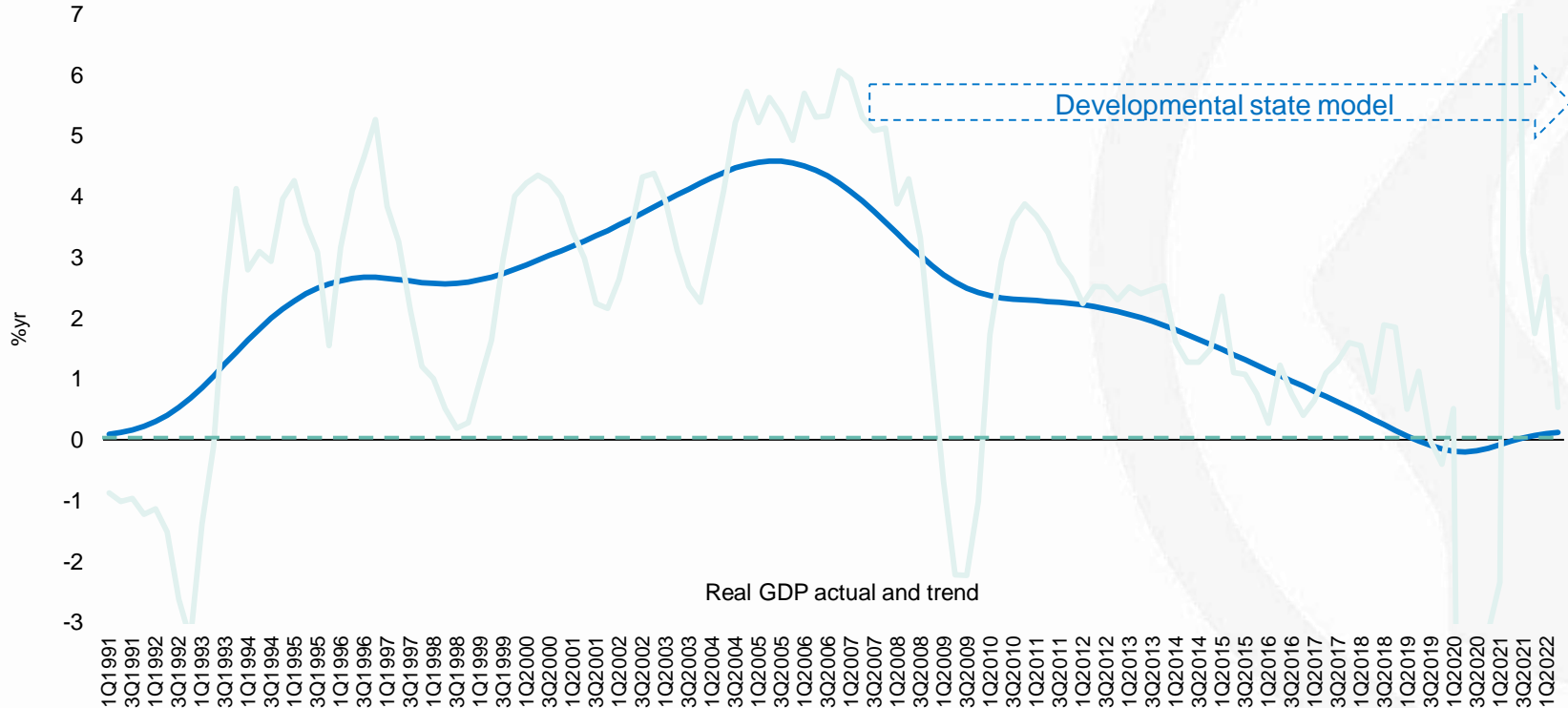


# South Africa Peaking interest rates and inflation

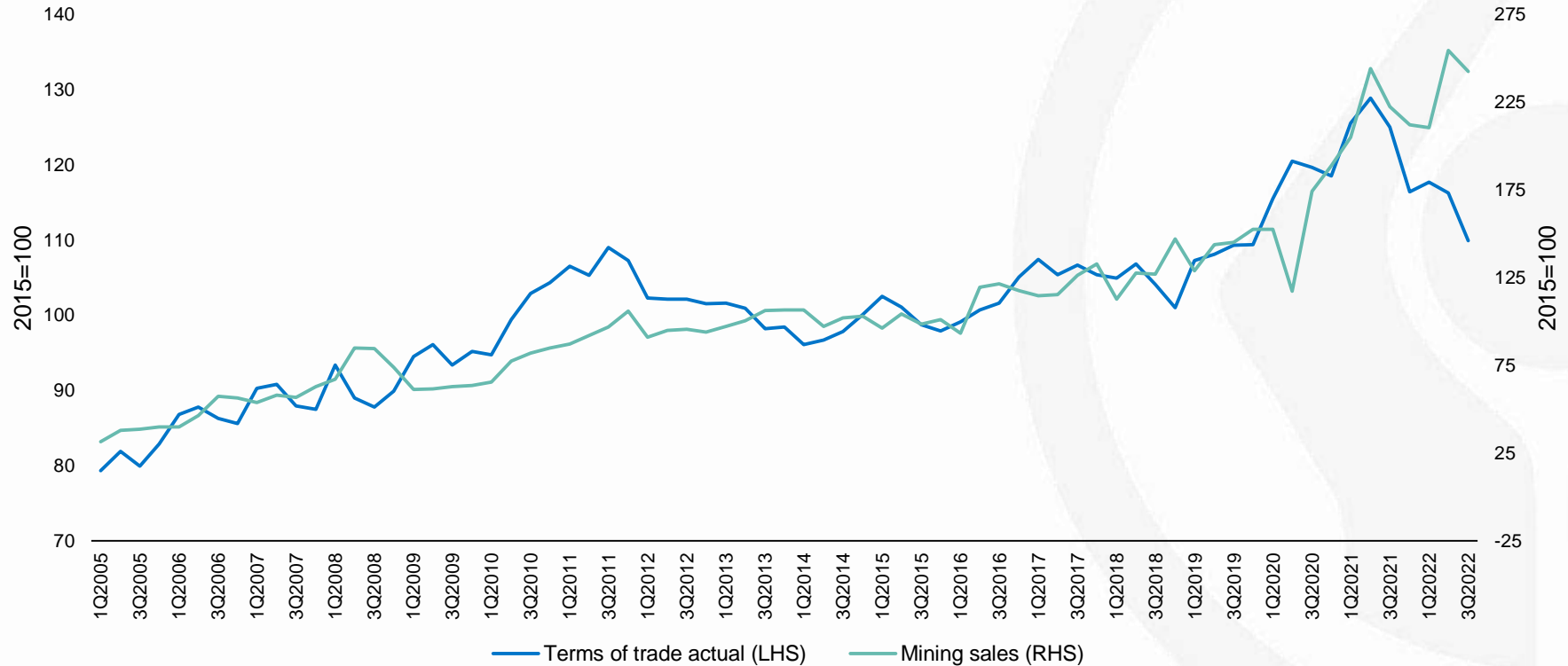
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# SA real GDP actual and trend

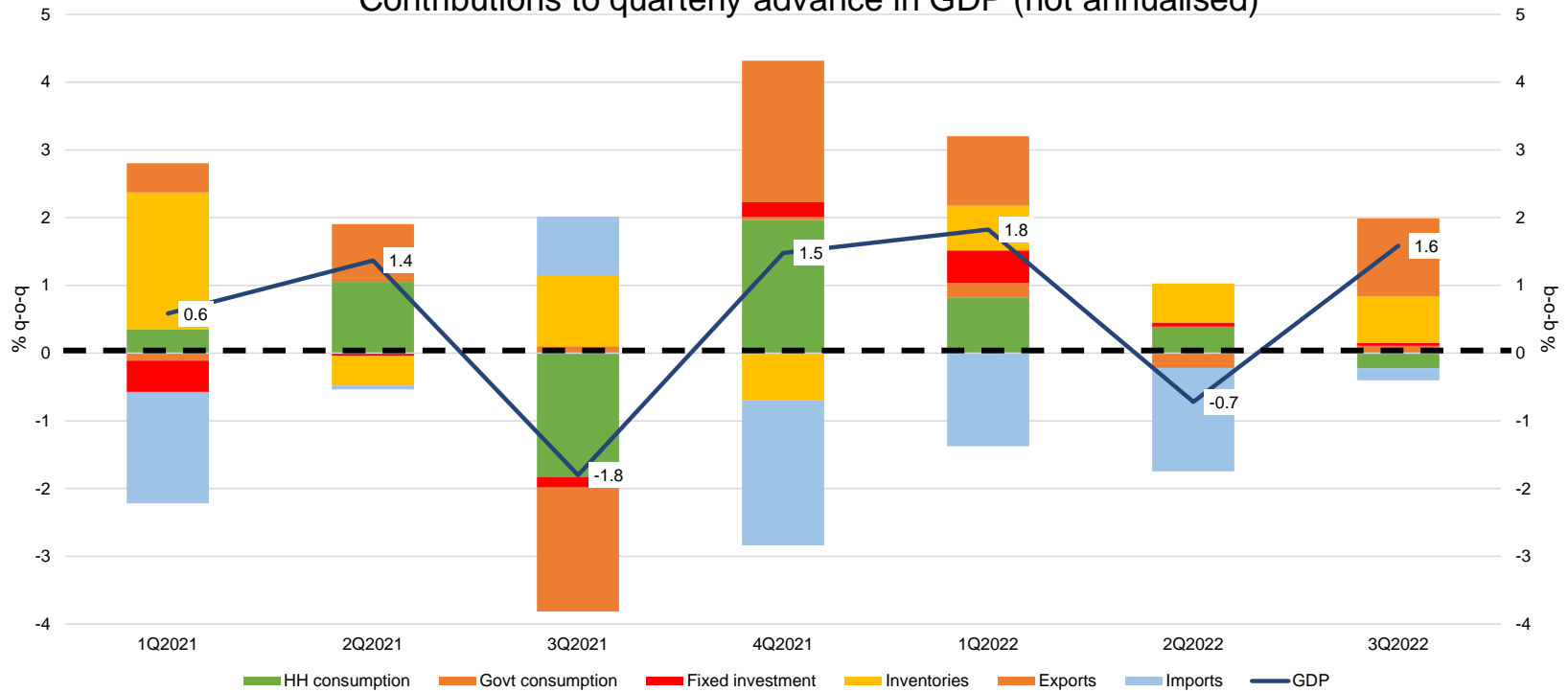


# Terms of trade boom and mining sales

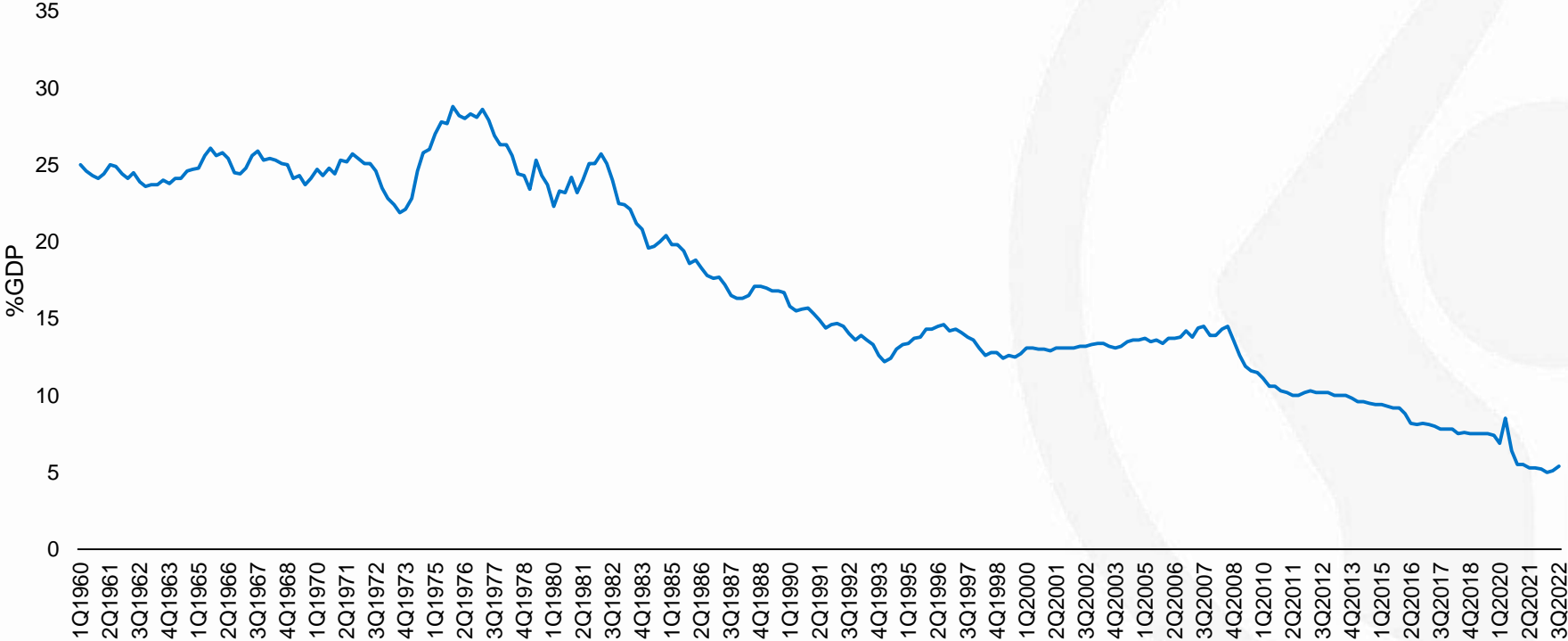


# Our cyclical GDP story

Contributions to quarterly advance in GDP (not annualised)



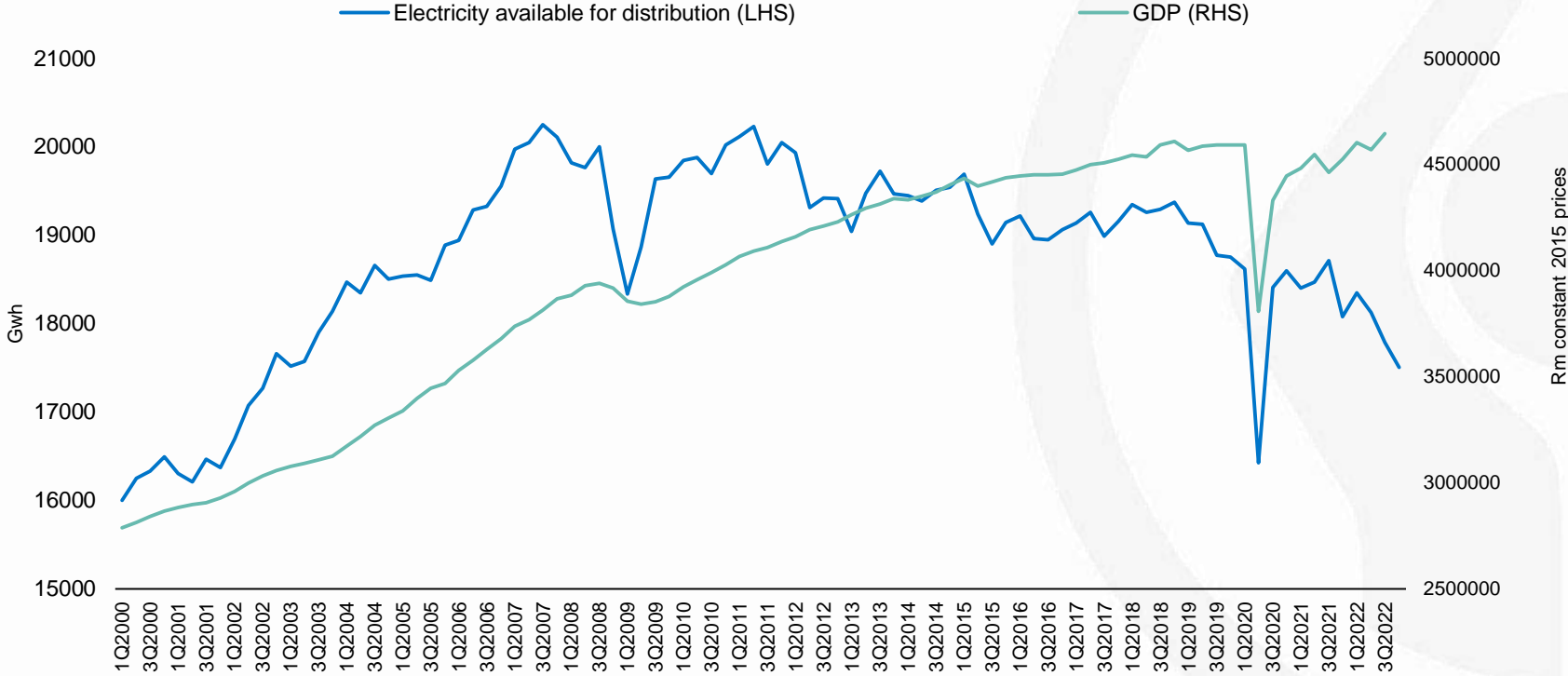
# Industrial and commercial inventories



Source: SA Reserve Bank December 2022 Quarterly Bulletin database, Sanlam Investments

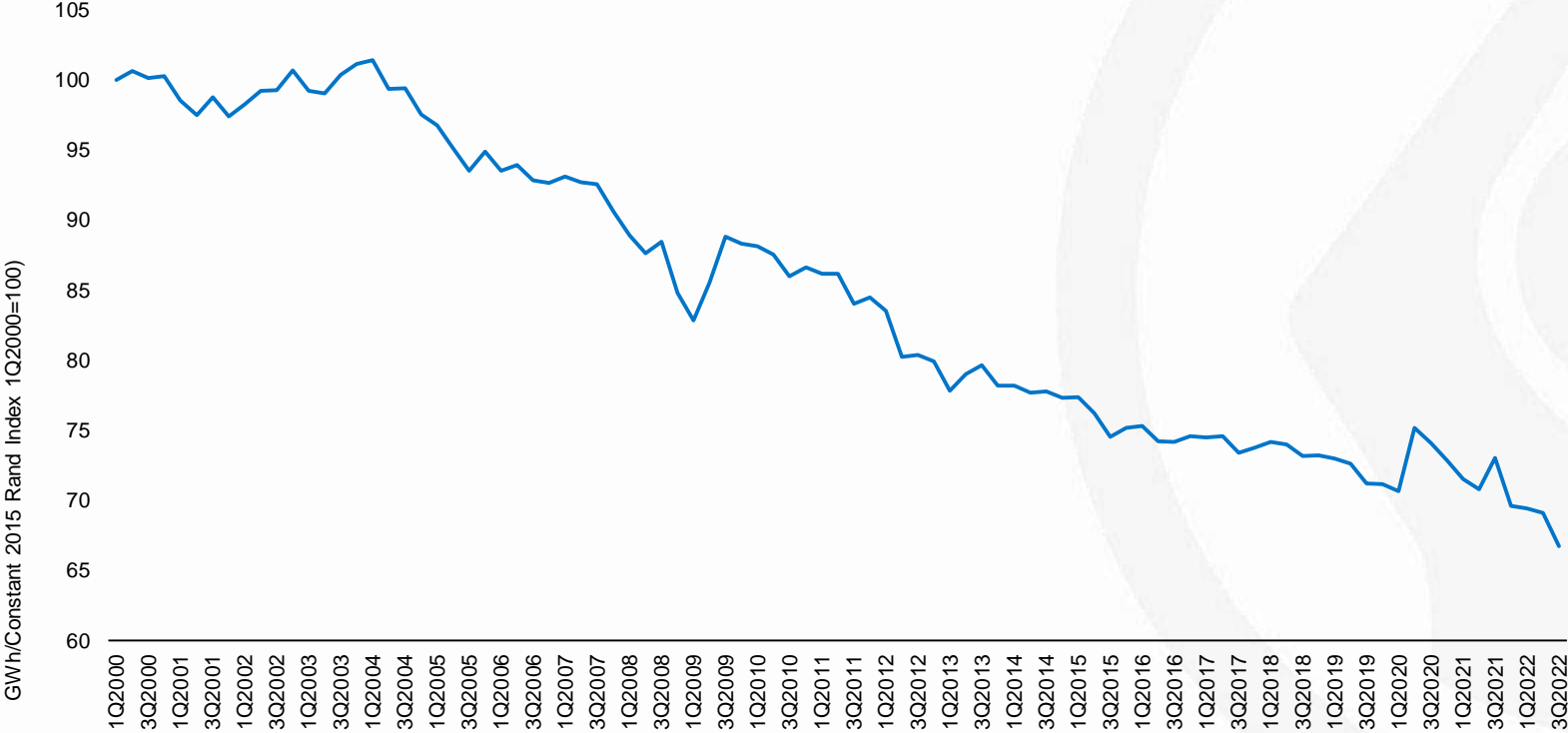


# Failing infrastructure



Source: SA Reserve Bank December 2022 Quarterly Bulletin database, Statistics SA, Sanlam Investments

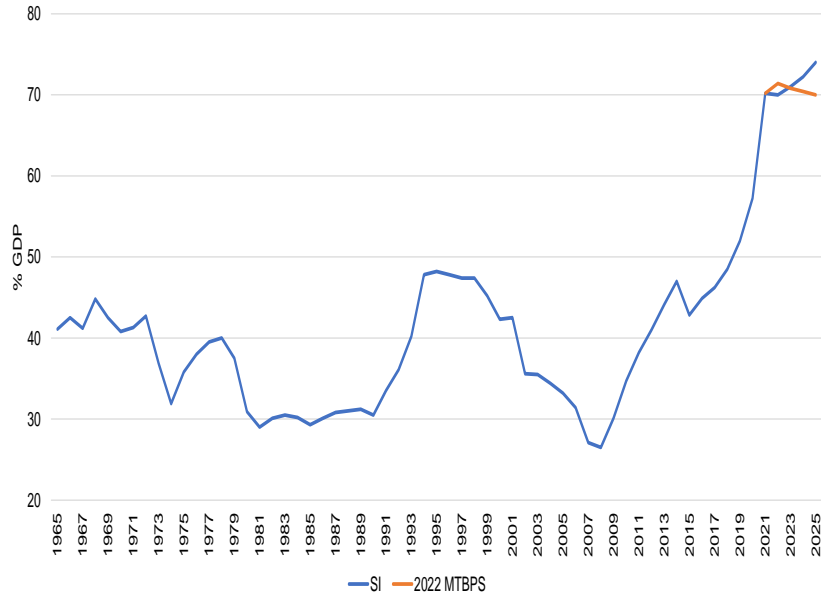
# Electricity usage efficiency improving



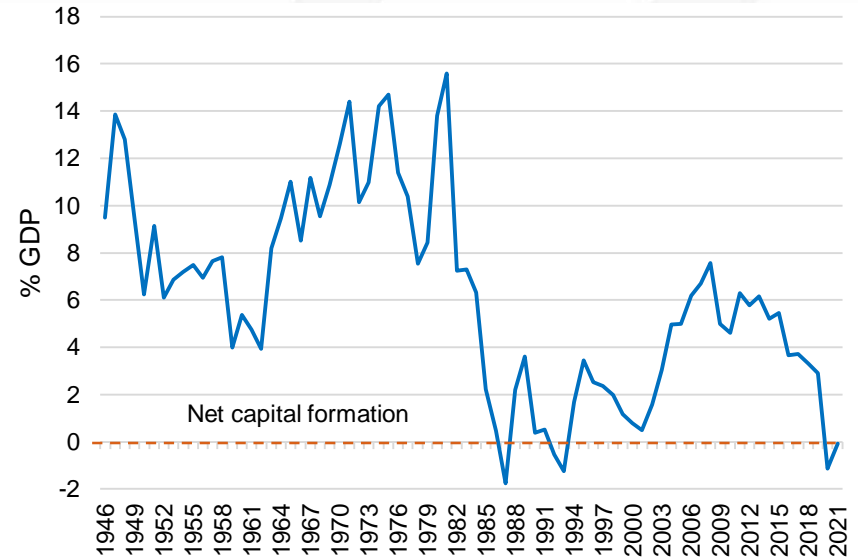
Source: Statistics SA, Sanlam Investments, December 2022

# Government borrowing crowds out investment

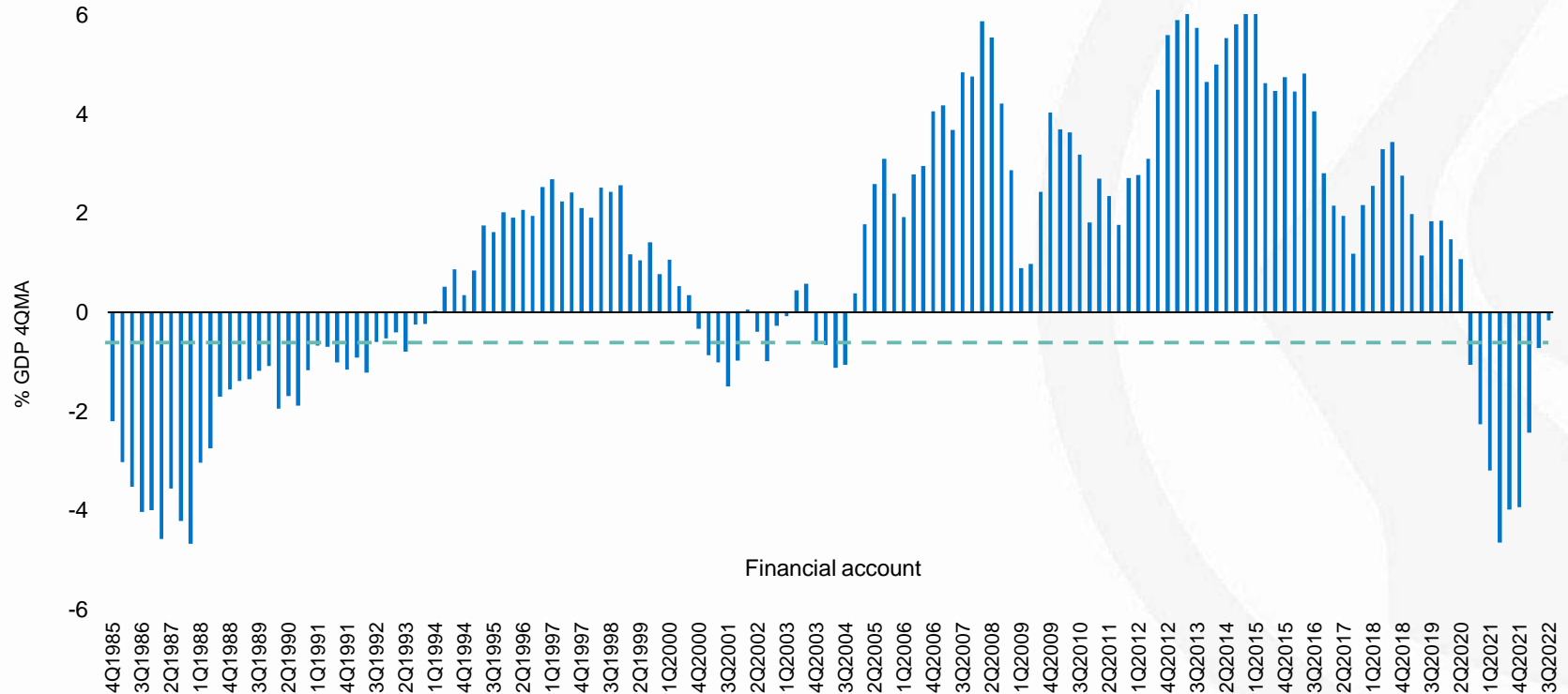
## Government debt ratio



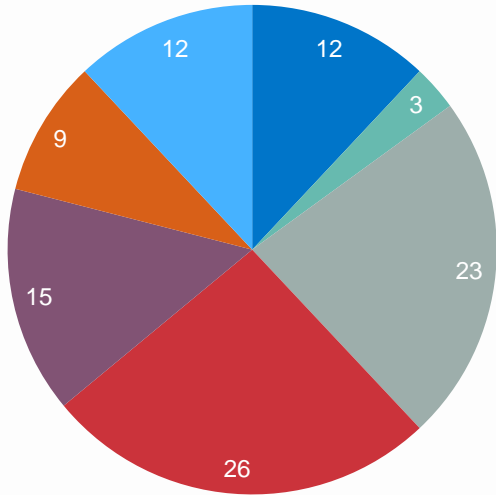
## Collapse in net new SA fixed investment



# Inadequate foreign savings inflows



# Fixing infrastructure: Operation Vulindlela



- Reform not started
- Critical challenges
- Significant challenges, intervention required
- Reform off track or delayed, but work under way
- Reform on track
- Reform completed
- Reform completed, further work needed

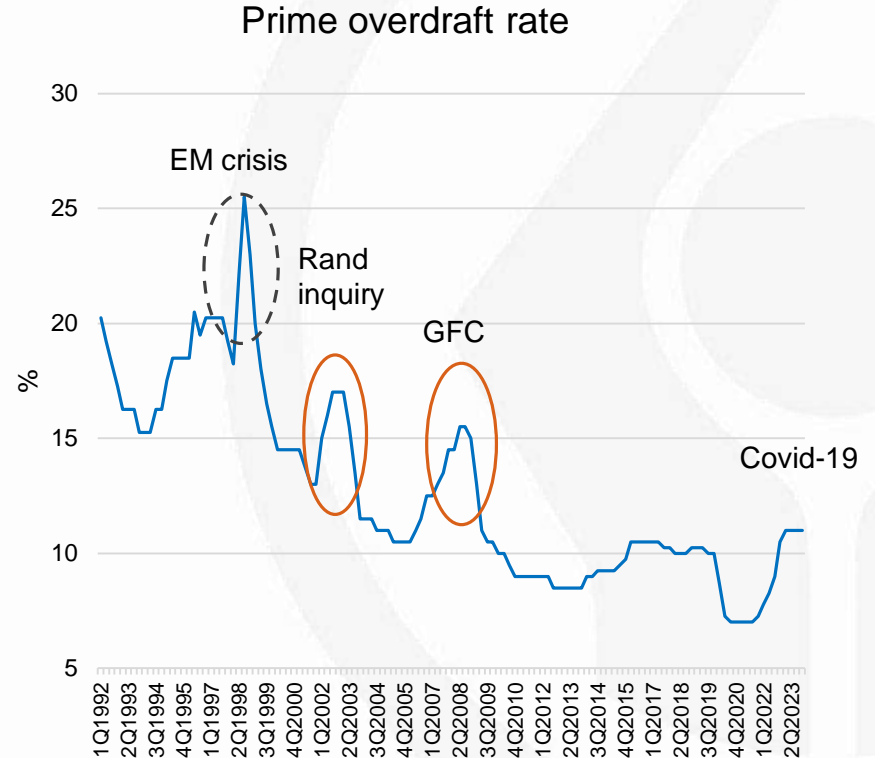
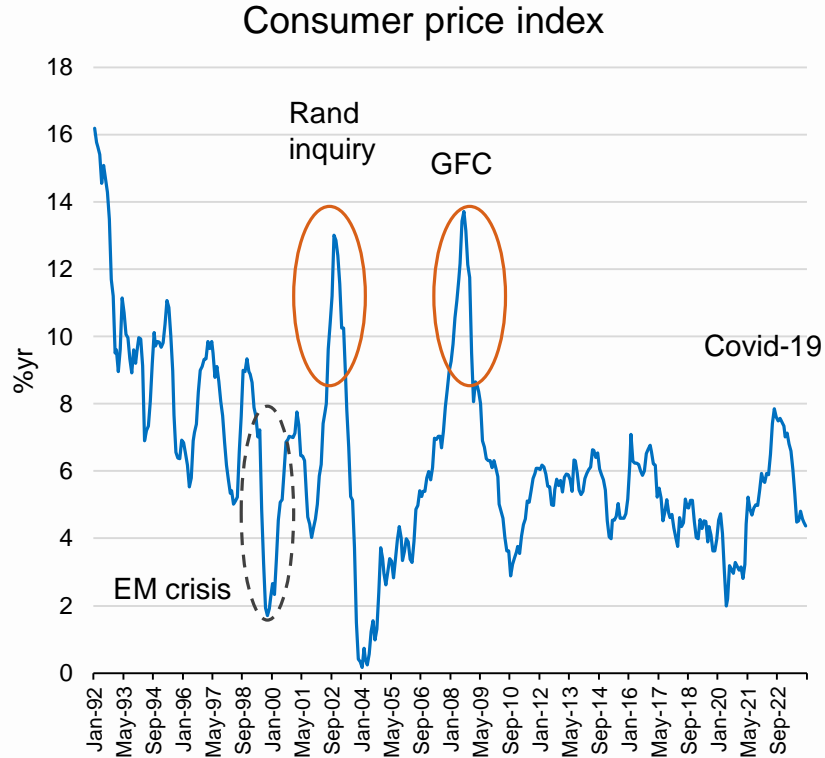
## Progress

- Electricity sector reform
- Enabling private investment in electricity/increased licensing threshold for embedded generation
- Cleared backlog of water use licenses
- Auction of high demand spectrum
- Private sector participation at container terminals
- New critical skills list
- National rail policy to modernise and reform rail

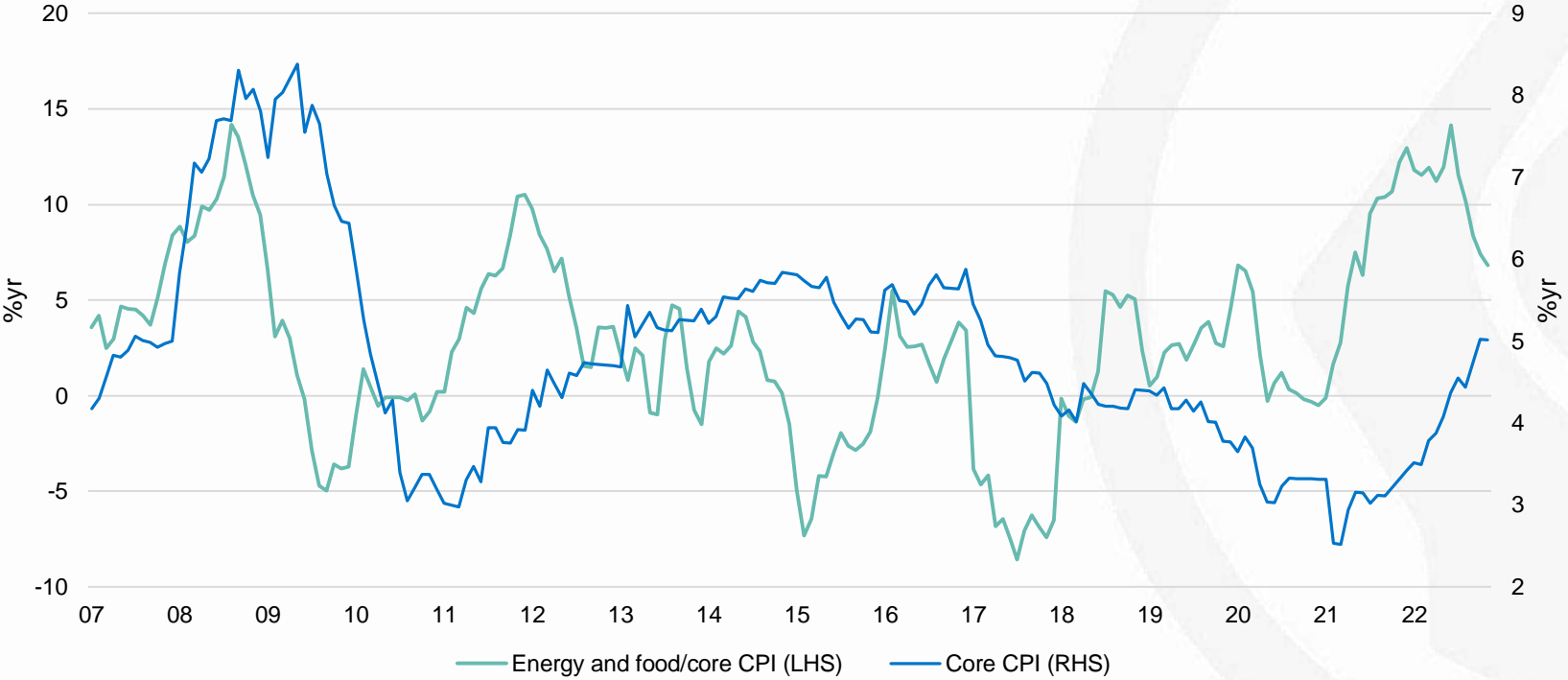
## Disappointments

- Low Eskom EAF/new generation capacity
- Inefficiency at ports
- 3rd party access to freight rail network
- Issuance of title deeds for subsidised housing

# Inflation and interest rate shocks

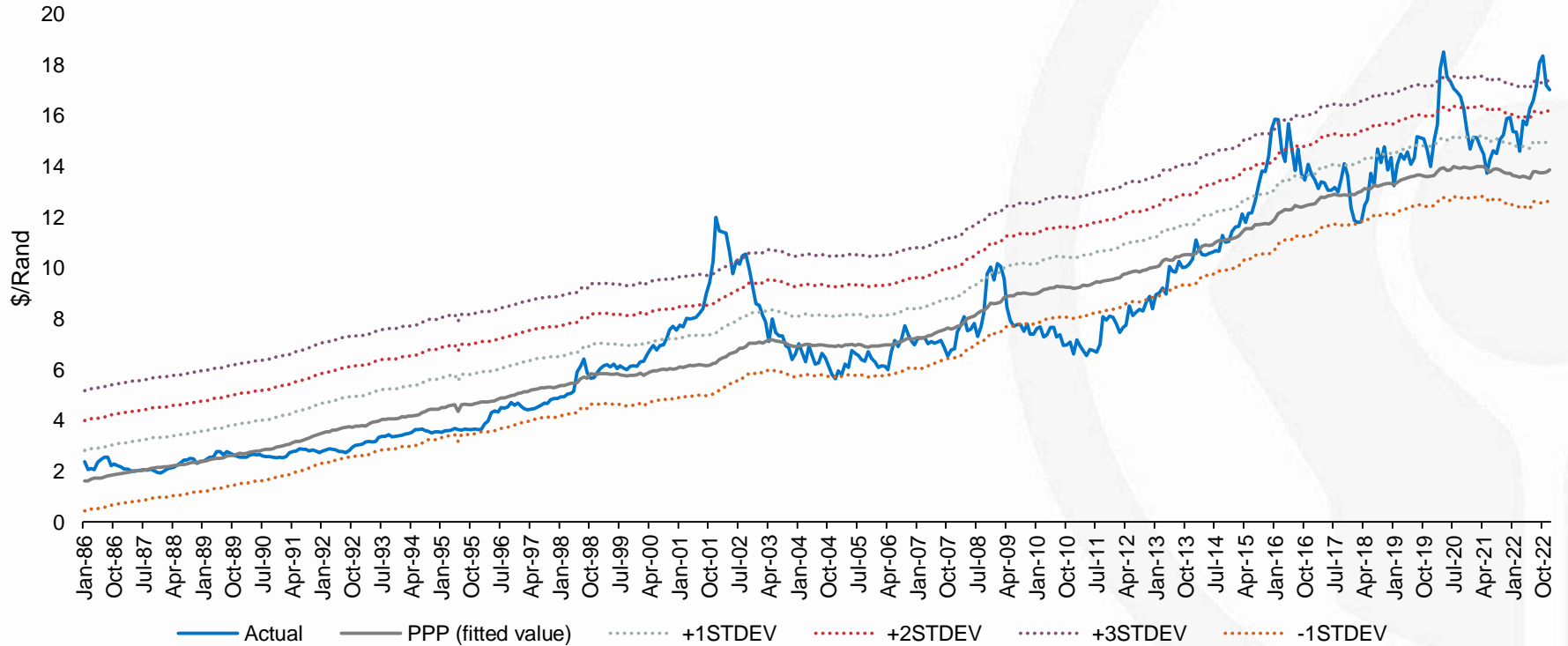


# Energy and food/core CPI



Source: IRESS, Sanlam Investments, December 2022

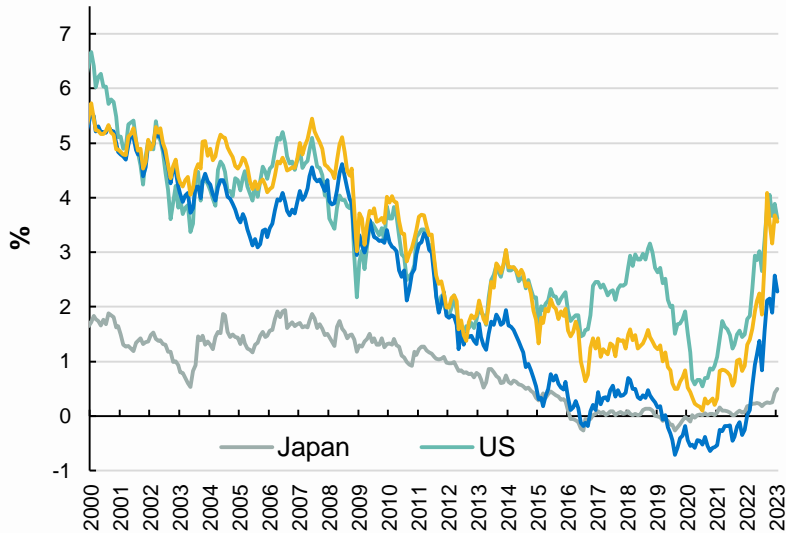
# The rand is cheap



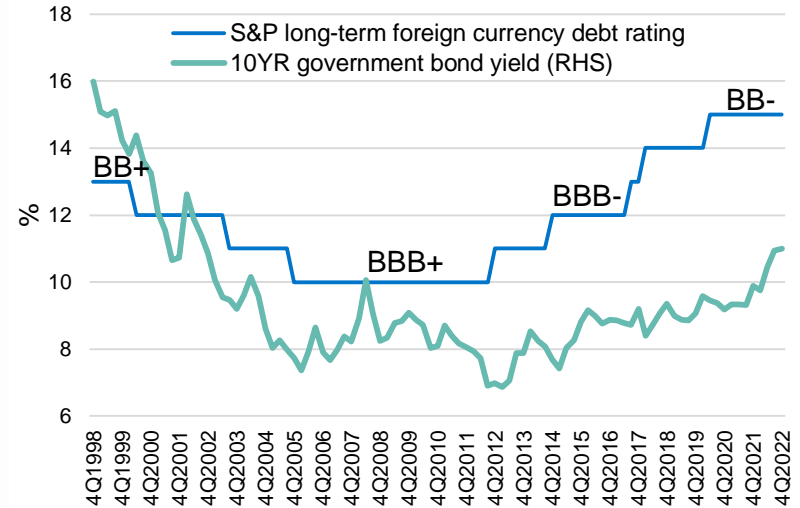


# S&P LT FC sovereign debt rating

## 10YR government bond yields



## Sovereign debt rating and bond yield



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