






## IN THIS MONTH'S NEWSLETTER

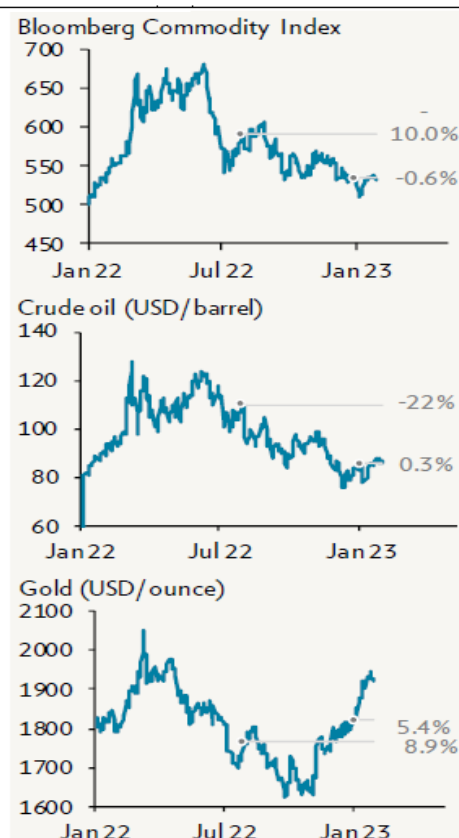
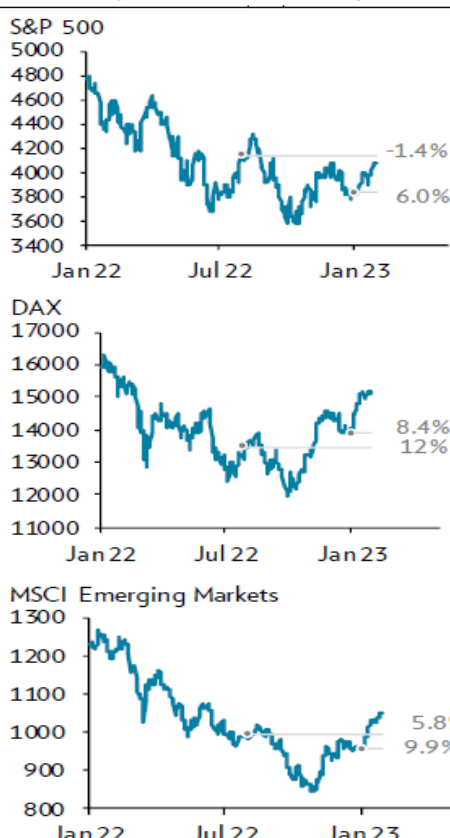
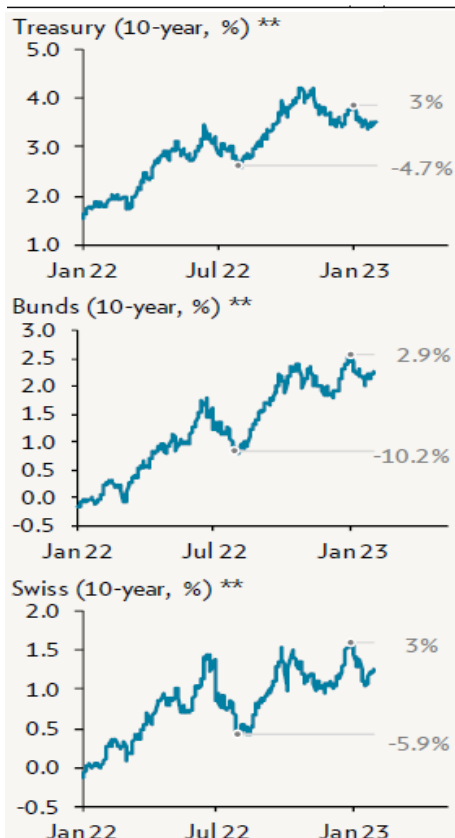
-  Market overview
-  Graph of the month
-  Tax-Free Investment Account

*"The most important quality for an investor is temperament, not intellect."*

- Warren Buffett

## MARKET OVERVIEW

Review (1-month and 6-month performance)



## INTERNATIONAL

	Last	Month %	YTD %	5Y ann. %
MSCI World	2785	7.11	7.11	7.07
S&P 500	4077	6.28	6.28	9.52
NASDAQ 100	11585	10.73	10.73	10.38
EURO STOXX 50	4163	9.94	9.94	6.24
MSCI EM	1032	7.90	7.90	-1.07
HANG SENG	21998	11.21	11.21	-4.55
US Equities Volatility Index (VIX)	19.40	-2.27	-2.27	13.47

Source: Edmond De Rothschild

Global equities had a strong start to the year, with most markets seeing gains. Fourth quarter '22 earnings season is in full swing and market sentiment has improved remarkably. At the time of writing roughly 40% of the S&P 500's market cap has reported results. So far, corporates have largely met the subdued expectations, with 69% beating expectations.

In the US the **S&P 500** (+6.3% YtD) and **Nasdaq** (+10.7% YtD) ended higher in January. In the US inflation slowed down to 6.5% (7.1% in October) confirming that inflation peaked in June last year. The main contributor to higher prices in December came once again from the rising cost of housing, which was responsible for 3.4 percentage points of the **CPI** print of 6.5%. Given that shelter inflation is a lagging indicator and that the most recent data shows that it slowed considerably, we interpret the inflation reading as encouraging.

The **Eurostoxx 50** ended 10% higher for January as chances of Europe avoiding a recession increased. The re-opening of the **Chinese economy** provided a major tailwind as Chinese consumer demand returned, supply chain bottlenecks eased and international travel resumed.

### A summary of the most noteworthy earnings:

**Moët Hennessy Louis Vuitton (LVMH)** reported exceptional results, again. LVMH beat on revenues and earnings. The key driver was its largest and most profitable division *Fashion & Leather Goods* (+20% y-o-y organic growth). We still see potential short-term upside despite the recent strong performance because of tailwinds from the Chinese re-opening. LVMH proved again that it has incredible pricing power and relatively inelastic demand for its products. LVMH remains a core holding. The group is currently trading at a forward P/E of 23x, below its long term average of 27x.

**Johnson & Johnson (J&J)** published a decent set of results. Revenue was in line with expectations while earnings were well ahead of what the market was anticipating. All business segments performed well with a further recovery in medical procedures driving medical technology performance. Management has taken a cautious approach to its initial guidance for 2023 given the many external uncertainties

J&J is currently trading on a 16x forward P/E multiple which is close to its long-term average. The company is reasonably valued and has a defensive business model.

**Intuitive Surgical (ISRG)** delivered sound results. Procedure growth for the full year came in at 18% which was well ahead of guidance at the start of 2022 ranging between 11% and 15%. The operating margin weakened to 32% from 36% in the previous year. The reasons for the weaker profit margin were higher inflation, a strong US dollar and manufacturing inefficiencies associated with supply chain issues. ISRG is a leader in the medical technology sector and a component of the iShares Medical Devices ETF. Although ISRG is trading on a pricey forward P/E of 44x, the expected earnings growth of 25% supports this valuation. The company has an attractive PEG ratio of 1.8 times.

**Microsoft**, which contributes 17% to the US Tech ETF, reported robust results in line with expectations. However, management gave a rather subdued earnings outlook for the next quarter. Azure and Dynamics 365 grew by 38% and 29% respectively. This is pleasing given that these two segments are crucial for the long-term growth of Microsoft. The company is currently trading at a forward P/E multiple of around 25 times compared to its 5-year average of 35. Microsoft is one of our largest long-term holdings. It has a wide moat and a track record of exemplary capital allocation. Accumulate during any price weakness.

### Summary

It was expected that revenue growth and margins would be under pressure due to slowing global economic growth and extreme inflation levels. However, most companies managed to cut costs effectively to keep margins relatively strong, notably in the technology and communications sectors. In line with consensus, many companies expect a weaker macroeconomic environment in the first half of 2023 and then an improvement in the second half of 2023. In summary, company profits reported so far are encouraging. In the current economic environment companies with pricing power and strong balance sheets should outperform.

**Figure 1: January 2023 Top 5 best and worst performing international shares**

Best performing	%	Worst performing	%
Lucid Group	+71%	Northrop Grumman	-18%
Warner Bros	+56%	Enphase Energy	-17%
Tesla	+41%	Pfizer	-14%
MercadoLibre	+40%	Archer-Daniels-Midland	-11%
Western Digital	+39%	NextEra Energy	-11%

Source: FactSet

## SOUTH AFRICA

	Last	Month %	YTD %	5Y ann. %
JSE All Share	79477	6.96	6.96	6.26
JSE Resources	75833	7.10	7.10	15.17
South Africa 10Y Bond	9.66%			
Net Foreign Equity Flow	-R12.4bn			
Net Foreign Bond Flow	-R9.1bn			
USDZAR	17.4258	-2.61	-2.61	-8.04
EURZAR	18.8451	-4.08	-4.08	-4.92

Source: RMB

In ZAR terms, the **JSE-All** share posted its best start to a year (+7%) since 2006 and the 4th best return over the last decade. During the month the IMF has upwardly revised its global and SA growth prospects, stating that the recent reopening of China's economy has paved the way for a faster-than-expected recovery. This bodes well for South African commodity producers and exporters as **China** is South Africa's biggest trading partner. However, Transnet's deteriorating ability to meet the demand for its rail and port transport services has further dented investor and business confidence, threatened export-led growth and put the ZAR under pressure.

In last month's newsletter, we mentioned that the **most significant risk** to South Africa is the current situation at Eskom. The most recent and escalated blackouts have led to water utilities in parts of the country issuing warnings about damage to water supply infrastructure and operations. The negative effects of the supply of water are far-reaching. Energy and water are intertwined. The water reticulation system – the transport of water from a source, the treatment of water and the distribution and delivery of water to consumers – all require electricity. A number of cities, including Johannesburg and Nelson Mandela Bay, have recently had drastic water cuts.

These experiences – as well as the growing frequency of sewage spills – have given South Africans a glimpse of what the future might hold if the energy crisis isn't properly and urgently addressed. Water shortages and prolonged cuts in supply are likely to become increasingly common. That said, non-residents remained persistent net sellers of SA Inc as the market recorded equity and bond outflows of R12.4bn and R9.1bn respectively.

We expect finance minister, Enoch Godongwana, to address the needs and challenges of South Africans in his next **budget speech** which is scheduled for 22 February 2023.

### Summary of the JSE listed earnings:

**Astral:** The group reported in its 1Q23 trading update that the poultry division is expected to incur significant losses in 1H23. This comes after the group experienced severe operational disruptions due to load shedding.

Further, the company expects its EPS to be 90% lower as compared with the same period of the prior year. Astral remains attractive and is currently trading at a forward P/E of 7x and a dividend yield of 6%.

**Karooooo:** The group reported mixed 3Q23 results, with strong revenue growth but disappointing earnings growth. The group generated R930 million in revenue for the quarter, which translated into a 29% YoY improvement. The company reported a net income of R146 million for the quarter – a slight decrease from the previous comparable period. Although this was a slight miss, it is still a significant result as the previous five quarters did not experience a net income growth of less than 28%. Cartrack subscribers increased by 14% to 1.68 million, continuing strong momentum in its core operations. Karooooo's forward P/E has now fallen below 18x, which we judge to be undemanding given the excellent growth prospects.

**Richemont:** The luxury goods retail company reported robust results which were above expectations. The company's sales increased 5% at constant rates from the previous year to EUR5.4bn. Among all regions, Europe sales climbed 17% from last year to EUR 1.28 bn. Two key global themes for 2023 are the re-opening of China and disinflation in the West. The luxury sector is at the intersection of these two themes: however, FX could be a possible headwind. The company's shares have outperformed over the last 12 months and we still see further upside. Richemont is currently trading at a forward P/E of 21.5x.

**Spar:** The group announced that Brett Botten, CEO, will retire from the company and the board on 31 January 2023. The company agreed with its auditors that a reportable irregularity concerning an alleged fictitious and fraudulent loan had occurred at the grocery retailer. At the time of writing the share price is 17% down since the allegations.

**Figure 2: January 2023 Top 5 best and worst performing South African shares**

Best performing	%	Worst performing	%
PPC	+22%	Thungela	-19%
Spar	+21%	Arcelormittal	-17%
Truworths	+20%	Raubex	-14%
Naspers	+19%	Amplats	-10%
Richemont	+18%	Metair Investments	-10%

Source: FactSet

## TAX-FREE INVESTMENT ACCOUNT

If you're looking for tax-free investment options, look no further than our Standard Bank Tax-Free Investment Account (TFIA). A TFIA was first introduced in 2015 as part of one's non-retirement savings. This promotes household savings whilst maximizing tax relief. TFIAs are most effective when started early in life, as the benefits accrue over time. Contributions are not tax deductible, but future profits are tax exempt. So, the earlier the investment starts, the more tax-free compounding takes place.

### What are the primary features of a TFIA?

- 📌 No tax on interest or other income
- 📌 No dividend taxes
- 📌 No capital gains tax
- 📌 The annual contribution limit is R36 000 per investor, and the lifetime contribution limit is capped at R500 000.

### What underlying investments can be held inside the TFIA?

- 📌 Fixed deposits
- 📌 Unit trusts
- 📌 Linked investment products
- 📌 Exchange Traded Funds (ETF's)

### Can I contribute more than R36 000 per annum to my TFIA?

The answer is yes, but not recommended. Any excess amount contributed to the TFIA during any given tax year, is penalized at 40% of the excess amount contributed. In other words, if one invested a total of R50 000 during the year, then they would be taxed R5 600 ( $40\% \times R14\ 000$ ) on the over-contribution. It is also possible for an investor to have more than one TFIA, but the total amount contributed (across accounts) each calendar year is taken into account when monitoring the annual limits. In other words, if you invest R30 000 into your first TFIA and R12 000 into your second TFIA, then you are R6 000 over your annual contribution level and hence subject to 40% tax on the excess R6 000.

### Are there any lockup periods like a retirement annuity?

Unlike a retirement annuity where your funds are locked up until you reach the age of 55, investors have access to their TFIA funds whenever they need. When making a withdrawal out of your TFIA, investors should be cautious that your annual contribution level does not change. In other words, if you have contributed R36 000 already this tax year, and then take out R6 000, you cannot now add back that R6 000 until next year, and even then, that R6 000 will then take up part of that year R36 000 limit.

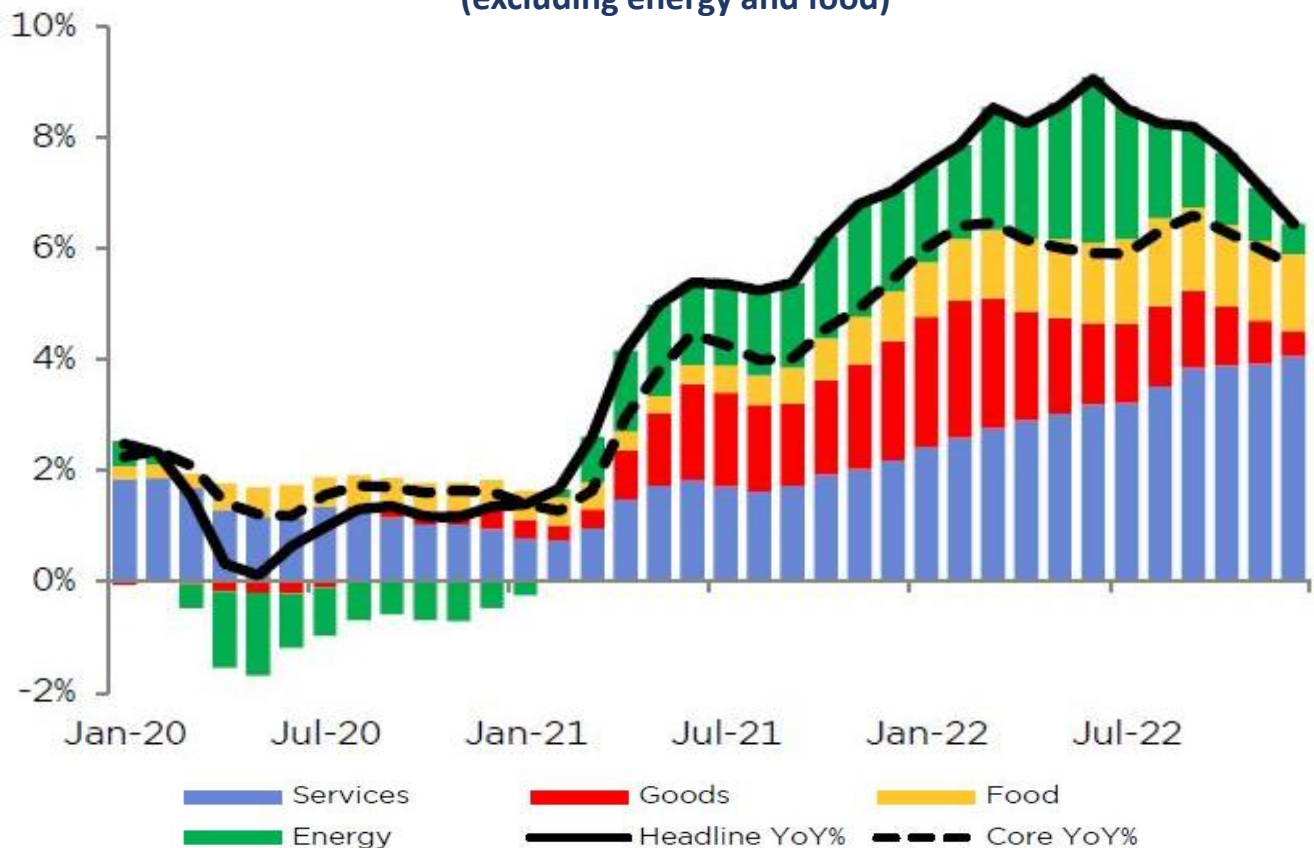
### Who can apply for a TFIA?

Anybody with a South African ID number from birth is eligible to have a TFIA. This makes the TFIA a great option for just about anyone who wants to invest, especially if you're investing for the long term. Parents can invest on behalf of their minor/child. The minor/child will use his/her own annual or lifetime limits. This is a great opportunity for families to use this benefit and allow them to donate up to R36 000 per year per child. A factor to consider is that once the child turns 18 years old, the investment will vest in their name and the child will be allowed to withdraw the funds

If you are an existing client at VEGA and have a Standard Bank equities account, then you automatically have a TFIA. If you did not know about this, please reach out to Abrie Smit ([amit@vegacapital.co.za](mailto:amit@vegacapital.co.za)) for your account number. At VEGA, you will not pay any initial fees or annual administration fees. The only fees payable are the annual management fees applicable to the underlying signed mandate. If you are interested in opening up a TFIA before the end of February 2023, then please feel free to contact either Abrie Smit or Louis Storm at [asmit@vegacapital.co.za](mailto:asmit@vegacapital.co.za) and [lstorm@vegacapital.co.za](mailto:lstorm@vegacapital.co.za).

## GRAPH OF THE MONTH

Decomposition of the US CPI general index since January 2020 compared to the core index (excluding energy and food)



Source: Edmond de Rothschild, Bloomberg

## SOURCES

Sources: BNY Mellon, Credit Suisse, Compound Advisors, Edmond De Rothschild, ETFMG, FactSet, Haver, JP Morgan, Julius Baer, Refinitive, RMB, Statista, Sygnia, Strategas, UBS

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You are more than welcome to pass this newsletter on to friends and family who may wish to learn more about investing. If you know of anybody who is interested in investing in local and offshore equities please do not hesitate to send them our contact details.

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