The Monthly Bulletin

Sygnia Sygnals

December 2023

Welcome to our special end-of-year edition!

We're taking a last look back at 2023, highlighting what stood out for us this year. We hope you find these insights as fresh and exciting as we do. On behalf of the whole team, we wish you a joyful holiday season and a wonderful New Year!

Best wishes, *The Sygnia Investment & Marketing Team*

2023's unforgettable moments: The year's BIG surprises

By Magda Wierzycka
CEO

A struggle for the very soul of AI: The bizarre ousting and reinstatement of Open AI CEO Sam Altman highlighted a deep divide over AI development strategies and the pace of commercialisation. Given what happened, expect more, faster.

Is China's economic miracle over?: China is shifting to a more autocratic form of governance reminiscent of traditional communism, potentially leading to its first real GDP decline since 1994.

A real transformation is underway in Saudi Arabia: The progress of Saudi Arabia, especially Riyadh, in the last six years has been remarkable. It is rapidly becoming the new Dubai, with a growing emphasis on women's empowerment.

Barbie makes her story: The "Barbie" movie, which in my opinion was regressive in the way it portrayed women, emerged as the highest-grossing film of 2023, earning US$1.4bn in global box office sales.

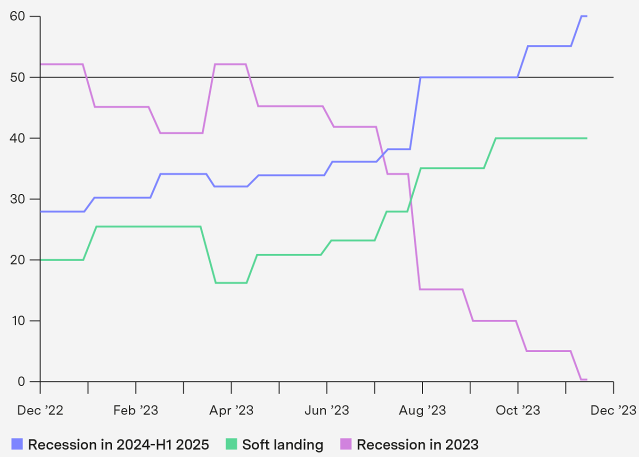
A victory that lifted a nation's spirit: I had the incredible opportunity to attend the Rugby World Cup 2023 final in Paris, and what a privilege it was to watch our team triumph! The Springbok victory felt like a much-needed escape from the many troubles our beloved nation faces.

> "The bizarre ousting and reinstatement of Open AI CEO Sam Altman highlighted a deep divide over AI development strategies and the pace of commercialisation. Given what happened, expect more, faster."
>
> – Magda Wierzycka

2023 in review: Key market insights and trends

By Kyle Hulett
Co-Head: Investments

The recession that never arrived
% probability, by forecast date



Source: JPMorgan

The growing risk of a global recession: While global growth is expected to slow to 2.9% in 2023, the most anticipated US recession of all time did not arrive. However, the risk of a global recession in 2024 has increased as central banks around the world have raised interest rates to combat inflation.

The Federal Reserve's aggressive monetary tightening: In response to soaring inflation, the US Federal Reserve embarked on its fastest rate-hiking cycle in decades, raising its benchmark interest rate by a cumulative 5.25 percentage points since March 2022, pushing mortgage rates to their highest level in two decades.

Recovery of cryptocurrency markets: The cryptocurrency market experienced a major correction in 2022 but nearly doubled in 2023. This is attributed to the banking crisis in the US reducing faith in traditional monetary systems, high inflation and the increased likelihood that a spot US bitcoin ETF will be approved.

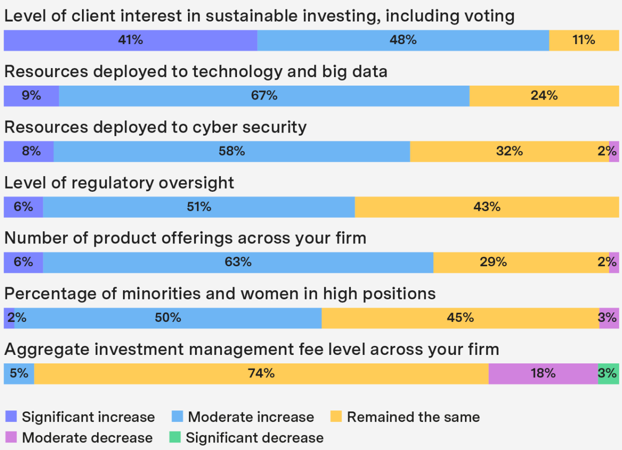
An energy revolution: The global energy transition, already fast-tracked by the need to enhance energy security and reduce fossil fuel reliance from certain regions, gained further momentum after renewed tensions in the Middle East.

Climate crisis continues to worsen: The climate crisis continued to worsen, with 2023 the hottest year on record. A number of extreme weather events occurred around the world, including heat waves, wildfires and floods. Many events put global supply chains under further pressure, causing commodity prices to surge and exacerbating food security.

The managers: Top insights of the year

By Phumlile Smith
Head: Manager Research

Pressure on asset managers has moved from fees to sustainable investing



Source: Thinking Institute – October 2023

Prioritising boutique managers: We are focusing on agile boutique managers like Visio Balanced for better small- and mid-cap performance, reducing exposure to larger funds like Allan Gray and Coronation.

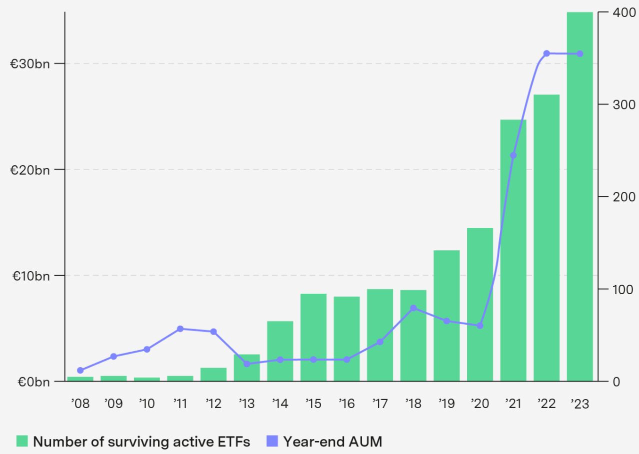
Mixing classics and boutiques: We've added the M&G SA Equity Fund for stability, while maintaining a blend with boutique managers.

Focus on sustainable investing: The pressure on asset managers has shifted from fees, which have remained stable, to a significant increase in client interest in sustainable investing, including proxy voting.

Industry consolidation imminent: Rising costs and limited investments are driving consolidations, highlighted by 10x acquiring Coreshares. A PWC report shows 73% of global asset managers are planning strategic consolidations. In South Africa, eight BEE firms have engaged in corporate activities for various reasons over the past year.

Active ETFs on the rise: Sygnia recently introduced its first actively managed ETF, the Sygnia Itrix FANG AI AMETF, reflecting a growing preference for active ETFs in the industry. PWC data indicate 20% of global active asset managers will convert their unit trusts/mutual funds into AMETFs in the next one to two years, with another 60% considering it.

The number and AUM of active ETFs has jumped



Source: Morningstar

Sygnia's elite exchange traded funds: The year's top five

By Iva Madjarova
Head: Institutional Business

Sygnia ITRIX Euro Stoxx 50 ETF: This fund achieved a remarkable 24.9% growth over the year ending 31 October, capitalising on Europe's unexpected economic resilience and a supportive stock market environment amidst earlier recession concerns linked to the energy crisis.

Sygnia ITRIX MSCI Emerging Markets 50 ETF: This fund enjoyed a 21.9% return throughout the year, witnessing notable gains, particularly in the first half of 2023. Despite challenges in China, other emerging markets played a crucial role in its impressive performance.

Sygnia ITRIX MSCI Japan ETF: Reporting an 18.0% rise in returns for the year, the fund benefitted from Japan's expansive monetary policy, a weaker currency and favourable conditions for earnings and investments in the Japanese stock market.

Sygnia ITRIX New China Sectors ETF: With a 17.3% yield for the year, the fund successfully navigated China's fluctuating stock market, rebounding from a low point in October 2022. Despite a general improvement in market sentiment, the property sector continues to be a concern.

Sygnia ITRIX S&P Global 1200 ESG ETF: This globally diversified, market-capitalisation-weighted fund with an ESG emphasis yielded a 14.0% return for the year, benefitting from a strategic reduction in exposure to high carbon-emitting companies and investments in leading global corporations.

Sygnia's premier unit trusts: Best selections of 2023

By Marius Kuyler
Investment Consultant

Peer rankings of Sygnia funds to 31 October in ASISA categories

	1 yr	3 yrs	5 yrs	Since inception
Sygnia FANG.AI Equity Fund B	1^{st}/104	18^{th}/77	1^{st}/54	1^{st}/51
Sygnia Skeleton Worldwide Flexible A	6^{th}/118	4^{th}/85	5^{th}/72	5^{th}/46
Sygnia Skeleton Balanced 40 A	8^{th}/151	51^{st}/141	4^{th}/124	2^{nd}/64
Sygnia Enhanced Income A	8^{th}/116	11^{th}/104	-	11^{th}/82
Sygnia Skeleton Balanced Absolute A	10^{th}/151	-	-	4^{th}/149

Source: Morningstar

Sygnia FANG.AI Fund: The fund experienced an exceptional year, securing a 64% return propelled by significant gains in AI frontrunners like Meta (230%) and Nvidia (208%). Companies with robust balance sheets flourished in the high-interest-rate environment.

Sygnia Worldwide Flexible Fund: As the most versatile of all funds, it achieved a 16.5% return for the year thanks to global tactical asset allocation. The fund's strategy involved being overweight in risky assets in the first half and underweight in the latter half, with substantial benefits from currency hedging.

Sygnia Skeleton Balanced 40 Fund: The fund's 9.2% return over the year was enhanced by a diverse investment strategy. While defensive income assets provided a stable base return, domestic and offshore equities contributed to the overall positive performance.

Sygnia Sygnia Enhanced Income Fund: Delivering a 9.8% return over one year, the fund's low bond holding and focus on long-term credit instruments paid off with minimal volatility, especially benefitting from the cumulative 125 basis point increase in repo rates.

Sygnia Skeleton Balanced Absolute Fund: Achieving a 9.1% return over the year, the fund's diversification strategy was key to its success. It outperformed inflation, cash, nominal bonds and SA equity and property, with interest-bearing assets providing steady income and inflation-linked bonds serving as a hedge against inflation.

> "The Worldwide Flexible Fund is the most versatile of all funds. It achieved a 16.5% return for the year thanks to global tactical asset allocation. "
>
> – Marius Kuyler

Sygnia's stewardship: The 2023 report highlights

By Nikita Hadskins
Portfolio Analyst

Proactive proxy voting: Sygnia exercises proxy voting rights and monitors the proxy voting actions of its underlying asset managers, with 7 922 votes recorded in total, of which 6.3% were dissenting votes.

Sygnia's support for South 32's climate commitment: Sygnia and other active managers voted in favour of South 32's Climate Change Report, in which they committed to net zero operational greenhouse gas emissions by 2050.

Sygnia's active role in Transaction Capital: Shareholder engagements and resolutions focused on the sudden change in strategy and asset impairments in the SA taxi business.

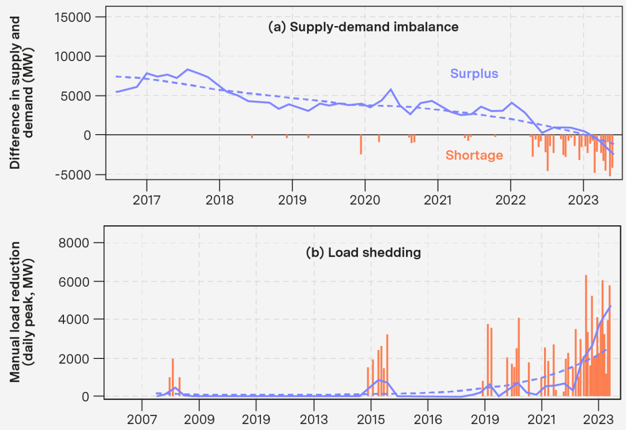
Sibanye-Stillwater's executive pay controversy: The remuneration policy and implementation resolution were rejected due to concerns over the high compensation awarded to executives despite subpar performance.

Shareholders call for more robust climate action at Sasol: Shareholders rejected Sasol's climate strategy due to the lack of science-based targets. Reporting improvements is commendable, but they failed to address the substantial impact of Sasol's operations on climate change.

South Africa in 2024: Pivotal questions

By Professor Haroon Bhorat
Chair: Investment Committee

Electricity supply-demand imbalance and load shedding in South Africa, 2007 – 2023



Source: Electricity production and consumption data provided by Eskom

Political winds: As national elections approach, there is speculation about the victors. Will we see the emergence of a new governing coalition, or perhaps a resurgence of the ANC in power? I would expect the ANC to retain power by getting close to 50% of the votes, but likely needing to form a coalition to govern.

Troubled titans: In state-owned enterprises like Transnet and Eskom, a turnaround is uncertain for 2024, with challenges in improving efficiency and reducing load shedding indicating ongoing underperformance in infrastructure provision.

South Africa's economic crossroads: Economic growth remains a focal point, with interest in whether the nation can exceed the modest forecasts of under 2% growth. I remain doubtful.

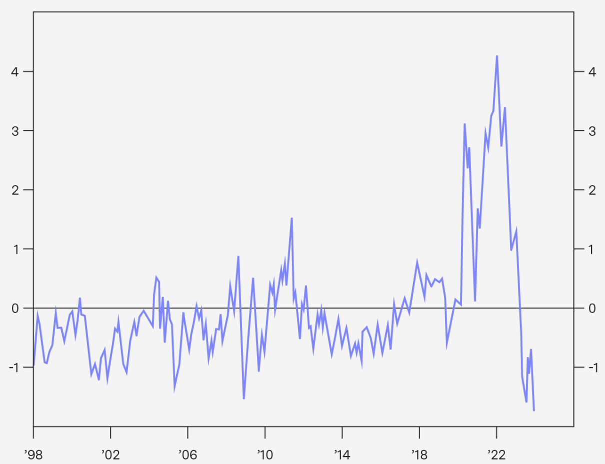
Stepping out of the shadows: South Africa is expected to exit the Financial Action Task Force (FATF) grey list by late 2024, indicating progress in financial regulation and oversight.

The interest rate rollercoaster: We appear to have reached the peak of the interest rate cycle, with a moderation likely in 2024 to stimulate economic growth.

Forecasting 2024: Our prediction for the year ahead

By Iain Anderson
Co-Head: Investments

Supply-chain bottlenecks have disappeared



Source: BCA

High interest rates continue: We expect high interest rates to persist in a tempered inflation and growth scenario, but steering clear of recession due to improving labour productivity, a robust US consumer and reduced supply-chain bottlenecks. Global growth is predicted to reach 3.2% in 2024, but challenges like China's property slump and high rates keep our focus on developed markets. Key risks for 2024 include:

- **Risk of recession:** High debt and rising interest rates could spark a recession, impacting stock markets and corporate earnings.
- **Geopolitical tensions:** Escalating conflicts among major nations could lead to trade wars or military disputes, affecting the global economy and increasing inflation.
- **Political changes:** The 2024 elections, particularly in the US and South Africa and Taiwan's 13 January election, may bring significant market impacts as a result of shifts in political dynamics.
- **Extreme weather threats:** Climate change is leading to severe weather events, with significant disruptions to global supply chains possible.
- **Technological risks:** Advancements in large language models offer benefits but also pose risks, especially in spreading misinformation.

Key indicators

		1 mo.	3 mos.	6 mos.	1 yr.	2 yrs.	3 yrs.	5 yrs.	10 yrs.
J203T	FTSE/JSE All Share Index	8.6%	2.2%	2.5%	4.7%	7.8%	14.3%	12.4%	8.9%
J200T	FTSE/JSE Top 40 Index	9.1%	1.9%	1.3%	5.1%	8.4%	14.4%	13.2%	9.1%
J210T	FTSE/JSE Resources 10 Index	5.9%	2.3%	-12.0%	-17.3%	-2.0%	9.6%	15.6%	6.0%
J211T	FTSE/JSE Industrials 25 index	10.5%	0.7%	1.9%	16.6%	7.7%	11.5%	12.8%	9.2%
J212T	FTSE/JSE Financials 15 Index	8.7%	2.3%	20.8%	9.5%	17.8%	20.6%	5.9%	8.0%
J403T	FTSE/JSE SWIX Index	8.6%	2.1%	5.2%	2.4%	6.8%	11.1%	8.8%	7.4%
J433T	FTSE/JSE Capped SWIX Index	8.3%	2.0%	5.0%	1.9%	7.1%	13.6%	8.9%	7.2%
J303T	FTSE/JSE CAPI Index	8.4%	2.1%	3.3%	3.6%	7.8%	15.3%	12.4%	8.9%
J253T	FTSE/JSE SA Listed Property Index	9.1%	1.6%	5.8%	1.4%	4.2%	16.2%	-1.8%	2.1%
ALBI	JSE All Bond Composite Index	4.7%	4.0%	11.0%	8.8%	7.6%	7.8%	8.1%	7.9%
STeFI	STeFI Index	0.7%	2.1%	4.1%	7.8%	6.4%	5.5%	5.9%	6.4%
	MSCI World Index in SA Rands	10.6%	1.7%	4.0%	26.0%	9.1%	14.5%	17.3%	15.3%
	Rand/US Dollar Exchange Rate	1.1%	0.1%	-4.4%	11.5%	8.7%	7.0%	6.7%	6.4%
	Rand/Euro Exchange Rate	4.3%	0.6%	-2.1%	18.1%	7.1%	3.8%	5.8%	4.1%
	Rand/Pound Exchange Rate	5.5%	0.0%	-2.3%	18.5%	6.4%	5.1%	6.5%	3.7%
	Headline CPI	0.9%	1.8%	3.1%	5.9%	6.8%	6.2%	5.1%	5.2%
	PPI	1.0%	3.6%	4.1%	5.8%	10.8%	9.9%	7.0%	6.4%