WARWICK WEALTH

The Investment Specialists

January 2023

WEALTH MATTERS

In this issue

Introduction and welcome from Warwick Wealth Managing Director, Marc Wiese

As the world came out of the Covid 19 lockdowns and we headed into our first "unrestricted" December holiday, we hope that each and every one of you had an amazing time spent with family and friends.

As we now head into 2023, we go into a new year full of hope and promise that the world will reach some type of social and economic normality. The past couple of years have been quite the roller-coaster, bringing new challenges both anticipated and unexpected. Local and global investors faced several ups and downs as the world changed on so many fronts in such a short period of time.

The economic and market forecasts from several high-profile global firms seem to be contradictory, many of them predicting a recession in 2023. Vanguard and Bloomberg believe there is a high likelihood of a recession while Goldman Sachs puts the probability of a recession at 35%. Often recessions take economist and asset managers by surprise. This time may be the exception, however, as several qualified and experienced individuals have been predicting a recession in 2023 for months now. Paradoxically, this may be viewed as positive news, as markets nowadays are generally quite efficient and the fact that most market experts believe a recession is coming, means that a large part of it may have already been priced in. What we do know with certainty is that volatility will continue. Taking the above into account, we will continue to diversify clients through various stocks, bonds, floating rate notes and debentures into several economies and jurisdictions all over the world, which we believe will decrease risk. As no individual in the world has ever been able to accurately and consistently predict the markets and when upturns and downturns will occur, we will stick to the tried and tested adage from Warren Buffett, being: "it's not about timing the market, but about time in the market", and remain invested.

Some of the most important things for clients to keep in mind in 2023 are to stick to your guns and remain dedicated to your tailored investment plan.

Whatever 2023 may bring, know that Warwick is behind you and that we will continue to keep a keen eye on your investment management. As always, should you require any additional advice or simply wish to catch up and discuss your personal financial position or plan, please feel free to make contact with your dedicated Warwick Wealth Specialist, Planner or Advisor.

Marc Wiese, Warwick Wealth Managing Director

In this month's Wealth Matters, Warwick Free State Regional Manager, Wiann Van Zyl discusses some of the investment risks clients should be aware of and how Warwick attempts to mitigate these.

Understanding the different risks in investment planning

As 2023 lies excitedly before us, it is once again a good opportunity for clients to review their investment portfolios and understand the different types of risks that their hard-earned savings are exposed to and the investment fundamentals Warwick utilises to navigate through them on behalf of our valued clients.

Wiann Van Zyl , Warwick Wealth Regional Manager Free State

Types of investment risks

Inflation risk

Inflation risk, also known as purchasing power risk because the ability to purchase various goods and services is dependent on the changing levels of prices in an economy. The risk is that the investment will lose purchasing power over time.

Interest rate risk

The values of all financial assets are, to some extent, dependent on the interest rates in the economy. When changes in interest

rates are unexpected, the changes in asset values are said to arise from interest rate risk.

Market risk

Market risk, also known as volatility, is the day-to-day fluctuations in an asset's price.

Business risk and financial risks

Business risk is the uncertainty of the cash flows of the company. The less certain the cash flows to the company, the greater the risk will be for the investor.

Financial risk is the uncertainty of how a company finances its investments. If a business uses ordinary shares to finance investments, it incurs business risks. If the company borrows money, it must pay fixed or floating interest before providing returns to investors.

Liquidity risk

Liquidity risk is concerned with the ability to convert the value of an asset into cash relative to its market value. Investors will increase their required rates of return to compensate for liquidity risk.

Country risk

Country risk, also called political or sovereign risk, is the uncertainty of returns caused by the possibility of major change in the political or economic environment of a country.

Currency risk

Currency risk, also called exchange-rate risk, is the uncertainty of returns from assets in a foreign currency. Currency movement is difficult to predict and when an investor sells an asset in a foreign currency the conversion value becomes uncertain.

Asset allocation risk

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Nov 2022 ytd
29.6%	32.5%	35.9%	56.4	27.2%	35.1%	15.4%	21.0%	18.5%	24.1%	21.7%	37.6%	8.2%
19.0%	22.3%	35.5	30.7%	26.6%	34.2%	10.2%	17.2%	12.8%	19.4%	16.7%	36.9%	7.1%
15.0%	15.3%	26.7%	23.7%	15.9%	32.8%	6.8%	15.0%	9.2%	12.1%	8.7%	32.4%	6.0%
13.7%	15.3%	22.7%	21.5%	12.3%	26.0%	6.6%	10.8%	7.7%	12.0%	8.7%	29.2%	4.3%
9.2%	8.9%	21.7%	21.4%	11.7%	10.2%	2.6%	10.2%	6.6%	10.3%	7.0%	24.2%	3.6%
6.3%	8.9%	15.9%	19.3%	10.9%	8.0%	2.3%	6.9%	6.1%	6.6%	5.6%	8.8%	2.4%
3.5%	7.7%	11.3%	8.4%	10.6%	5.8%	-5.1%	4.6%	5.2%	3.6%	4.5%	8.4%	-0,6%
0.4%	6.2%	5.6%	5.3%	10.1%	5.1%	-7.0%	2.5%	-2.6%	3.6%	3.2%	5.5%	-9.0%
-4.8%	5.3%	5.4%	4.8%	5.8%	4.8%	-10.8	-0.9%	-8.5%	1.9%	-1.5%	3.5%	-11.8%
-9.9%	2.6%	5.1%	0.6%	5.4%	-3.9%	-11.3%	-8.5%	-25.3%	-0.5%	-34.5%	1.5%	17.2%

SA Bonds | SA Equity | SA Property | SA Cash | SA Inflation | Global Bonds | Global Equity | Global Property | US Cash | Balanced Portfolio

Source: Nedgroup Investments; Morningstar provisional data; YTD up until 30 November 2022; Balanced portfolio: 5% SA Property, 55% SA Equity, 10% SA Bond, 7.5% SA Cash, 12.5% Global Equity, 2.5% Global Property, 5% Global Bond, 2.5% Global Cash. Inflation is 1 month lagged.

The above illustrates the uncorrelated returns of global asset classes and that no asset class outperforms year-after-year.

According to the Morningstar data, if a client invested **R1,000,000** into the Balanced Portfolio at the beginning of 2010, that same R1,000,000 would be worth **R4,011,875.98** at the end of November 2022. This represents a return of **10.8%** per annum, of which the worst calendar year performance was -2.6% in 2018.

Once again, this is a reminder that we should all utilise the one and only one free lunch in investment planning: **diversification**.

Warwick offers clients investment solutions that are tailor-made to suit their specific objectives, which range from local money market to offshore share portfolios. These offerings are all regulated through FAIS, the FSCA and FICA to provide our clients with peace of mind.

Notably, Warwick operates from a Category 2 License, which allows for regular rebalancing of portfolios so that our clients are not exposed too heavily to any risk or asset class in any global market.

Another important aspect of investment planning is to regularly review your portfolio to make sure that your objective and goals are aligned with your asset allocation. Finally, at Warwick we pride ourselves as being client care centric. All staff sign a client care charter to ensure clients receive the best possible attention, care and focus they deserve. To ensure this, all Warwick investment clients are contacted at minimum every quarter and reviews are done at a minimum annually.

We wish you a successful and happy 2023 and please remember that if you have any questions relating to any investment matter, please do not hesitate to contact your dedicated Warwick professional.

MARKETS REVIEW

International Markets

International markets ended 2022 on a softer note with most international indices ending December lower, although still providing a positive fourth quarter return to cap a volatile year. The volatility was dominated by a combination of issues, being: (a) the aggressive hiking of interest rates by the various central banks to curb runaway inflation as well as recessionary fears, (b) the Russian invasion of Ukraine, which has impacted energy and food costs, as well as (c) the continuing spectre of the Covid-19 pandemic and the resurgence of cases in China, as that country was in the process of reopening its borders and reducing very strict pandemic controls.

The market indices all trended softer as the markets recorded their worst annual performance since 2008, with the S&P 500 recording a decline of 6% for the month of December and 19.4% for the year. Similar weakness impacted the Dow, which was down by 4.2% for the month and almost 9% for the year. The Nasdaq was down by over 8.5% for the month and being the worst annual performer, dropping by over 33% for the year.

On the US economic front, inflation data for November showed a slowdown for the second consecutive month, with CPI data coming in at 7.1% YoY, vs. the October reading of 7.8% YoY, being the lowest reading in almost eleven months. Core CPI, which excludes energy and food, came in lower at 6.1% YoY, vs the October reading of 6.3% YoY.

The Federal Reserve hiked rates for the fifth time in a row, this time by 0.5%, breaking the four cycles of 0.75% increases, thus raising the US interest rate to its highest level in almost 15 years. Rhetoric out of the Fed all points to increased negativity regarding labour and economic activity for 2023 and leading to the expectation of rates in the US continuing to be higher through 2023.

European markets followed the trend set by the US, with the major indices all weaker. The FTSE – 100 closed the month lower by 1.6% and eked out an annual gain for 2022 of 0.9% - one of the few markets to do so. Inflation also slowed in November, coming in at 10.7% YoY, vs the 41-year high of 11.1% in October, as fuel prices softened, which eased some of the pressure. Food and energy prices continued to be high, however, and are major components of the stubborn inflation trend. As with the continuous fight against inflation, and in keeping with its US counterpart, the Bank of England (BoE) raised rates by 0.50%, to 3.50%, the eighth increase for the year.

Similarly, both the Dax and Cac ended the month weaker by 3.3%, and 3.9% respectively and unlike their UK counterpart, ended the year weaker by 12.3% and 9.5% respectively.

In keeping with the trend set by the Fed and the BoE, the European Central Bank (ECB) raised rates by 0.5%, vs the 0.75% in both September and October, taking key rates to 2%, and reiterating the reduction in its balance sheet by EUR15bn per month until the end of 2023.

Asian markets had a mixed month, with the Hang Seng closing December stronger by 6.4%, while the Shanghai composite index ended the period lower by 2%. On an annual basis both indices ended the year lower by over 15%.

Staying in China, on the economic front, concerns were raised regarding potential shortages in the labour force and further disruptions to supply as a new outbreak of Covid occurred in December. The official manufacturing PMI fell to 47.0 in December, from the 48.0 reading in November - the biggest decline since February 2020. The official non-manufacturing PMI number for December measuring business sentiment, fell to 41.6 for December vs. the 46.7 reading of November. The 50.0-point mark separates expansion from contraction, with a reading above 50 indicating expansion and one below 50 indicating contraction.

Japan experienced a similarly weak month, with the Nikkei coming in lower by 6.7%, and 9.4% for the year. Data points to a smaller contraction in the third quarter of 2022 as GDP numbers came in at 0.8% vs. an expected 1.2%.

Local Market

The local market also trended weaker during December - down 2.4% - which constitutes a swift turnaround from the almost 13% gain made in November and delivering a decline of 0.9% for the year.

The best performing index for the month was property, closing up 0.6%, yet down 7.3% for the year, while financials were weaker by 5.3% for the month, but still higher by 5% for the year. The resources sector ended the month lower by 3.6% and down for the year by 0.2%, while industrials closed the month down by 0.2% and the year weaker by 5.4%. Richemont rose by 1.4%, BHP Group was up 0.7%, while Naspers and Prosus were up 7% and 6.6% for the month of December.

On the local economic front, CPI for November came in at 7.4%, vs the October reading of 7.6%, and the expected consensus reading of 7.5% y/y, thereby showing signs of inflation slowing. Sectors contributing to the inflation number were food, transport, and leisure; being up 12.5%, 15.3% and 8% respectively. Core inflation remained at 5% y/y, but with a moderate increase of 0.1% on a m/m basis. In addition, retail sales slowed for the month of October, declining by 0.6%, and the seasonally adjusted number declining by 1.4%.

On the political front, towards the tail end of December, Cyril Ramaphosa was re-elected as the president of the ANC, winning a second term of five years, with Paul Mashathile emerging victorious as his number two. This was despite concerns that the Phala Phala report would impact his re-election bid, as well as a last-minute attempt by the former President JG Zuma to derail Ramaphosa's re-election by filing a criminal court case against the president on the eve of the conference.

Fixed Income

December capped off a strong final quarter for domestic interest-bearing assets.

The initial bond sell-off on the first day of the month was quickly reversed as political tensions eased and Cyril Ramaphosa retained his seat at the helm of the ANC. The JSE All Bond Index (ALBI) delivered 5.68% over the fourth quarter, while the SteFi Composite Index, a cash equivalent benchmark index, returned 1.57% over the quarter.

Global inflation rates have shown signs of peaking, which has led to less hawkish central bank comments and action. The US Federal Reserve reduced the speed of its rate increases in December, opting to raise the interest rate by 50 basis points (bps) after three consecutive 75 bps increases. The comments from several US central bankers have indicated that they do, however, see a terminal rate greater than 5% which may stay high for some time.

The South African money market curve was less volatile over December, due in part to the absence of a South African Reserve Bank (SARB) Monetary Policy Committee meeting during the month. The 3-month Jibar rate increased by 6 bps to 7.26% at the end of the month and the 12-month Jibar rate increased by 16 bps to end the year at 8.68%. Over 2022 these rates have increased by 3.38% and 3.25% respectively, reflecting the tightening of financial conditions by the SARB in an effort to contain inflation.

The release of the parliamentary inquiry into President Cyril Ramaphosa's alleged actions relating to a robbery that took place on his game farm sent nominal bond markets into turmoil on the 1st of December. Soon after, however, Parliament rejected a proposal to open impeachment proceedings whereupon panic subsided, seeing bond yields decline back to levels experienced at the start of the month. The short-dated R186 yield increased by 4 bps and the longer dated R2048 rose by 7 bps during December. Over the year, the shorter end (1- to 3-years to maturity) of the yield curve performed the best, delivering a return of 5.70%, whereas the long end (12+ years to maturity) returned 3.62%.

South African inflation for November surprised somewhat to the downside, falling by 0.2% to 7.4% YoY (consensus 7.5%). Inflation-linked bonds shrugged off the lower-than-expected inflation as the inflation-linked bond index returned 2.61% in December, bringing the 2022 return to 4.24%. The performance for the year was mostly focussed on the short end of the inflation linked curve (1- to 3-years to maturity) which returned 7.33% in 2022, whereas the long end (12+ years) returned only 0.95%.

Wills and Estates

Warwick has selected Appleton – The Fiduciary Specialists – with over 150 years of collective professional experience, to provide its Wills and estate administration services to its national client base. This month, the Appleton Managing Director, Lauren Hean, discusses the need for proper and thorough estate planning as a new year's resolution!

Lauren Hean, Appleton Managing Director

Firstly, may we take this opportunity to wish all clients a very happy and successful 2023. January is the month that we make (and often break) our new year's resolution, but this year we would ask you to make one resolution and stick to it and that is plan your estate. By this we mean please ensure that not only is your Will up to date (including specifying your latest wishes), but also set up an appointment with your wealth specialist or financial advisor to ensure that your estate is optimally structured for tax purposes as well as ensuring it has sufficient liquidity and cash.

On this latter point, it is alarming to note that research indicates that less than 30% of all deceased estates have sufficient liquidity to pay for all the attendant costs involved in the administration process. Stated differently, some 70% of all estates will require the forced sale of assets or a contribution by beneficiaries to pay for the costs involved in winding up the estate. For some, leaving an insolvent or illiquid estate is "somebody else's problem". But when you consider that the "somebody else" is usually your surviving spouse or children, no responsible or caring person would want to saddle their partner or heirs with this administrative and financial burden.

So, let's examine briefly some of the costs incurred in the administration of an estate. Firstly, executors fees are statutorily prescribed as a maximum of 3,5% (plus VAT) of the gross value of the estate. Thus, an estate of R3 million will be charged an executor's fee of R105, 000 (plus VAT). While Appleton applies a competitive fee scale to its clients, the question still arises as to whether you have R120,000 cash in your bank account or near cash just to pay for the administration of your estate? Then there's conveyancing fees which are charged for the transfer of any property in your estate along with bond cancellation costs if your property is still bonded. Invariably some tax is payable to SARS and of course, estates with a net value of over R3,5 million can attract estate duty of 20% depending on allowable deductions. The Master of the High Court also claims his statutory fee, to a maximum of R7,000.00, which places a further call on the cash availability in the estate.

Finally, what is seldom considered is that fact that bills continue to pile up for the surviving spouse which can accumulate rapidly particularly in the early days after death. In this regard, one of the most traumatic things we see is the surviving spouse being left without any income and yet having to continue paying bills for private security, telephone and DSTV to avoid being cut-off for non-payment.

From the above, it is clear that estate planning is a critically important exercise and is a new year's resolution that should be made and kept. The good news is that there is an Estate Preservation Plan that can solve all of these cash and income crises that is designed specifically for estate planning purposes and your wealth specialist or financial advisor can talk you through its benefits during your consultation with them.

So, until we speak again next month, we wish you all a healthy and prosperous 2023!

WARWICK WEALTH

The Investment Specialists

0800 50 50 50

www.**warwickwealth**.com

Disclaimer: The information, opinions and recommendations contained herein are and must be construed solely as statements of opinion and not statements of fact. No warranty, expressed or implied, as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any such recommendation or information is given or made by Warwick Wealth in any form or manner whatsoever. Each recommendation or opinion must be weighed solely as one factor in any investment or other decision made by or on behalf of any user of the information contained herein and such user must accordingly make its own study and evaluation of each strategy/security that it may consider purchasing, holding or selling and should appoint its own investment or financial or other advisers to assist the user in reaching any decision. This document is for information only and do not constitute advice or a solicitation for funds. Investors should note that the value of an investment is dependent on numerous factors which may include, but not limited to, share price fluctuations, interest and exchange rates and other economic factors. Performance is further affected by uncertainties such as changes in government policy, taxation and other legal or regulatory developments. Past performance provides no guarantee of future performance.

Warwick Wealth (Pty) Ltd (Company Reg.: 2012/223370/07). An authorised financial services provider (FSP 44731).

An owner of Authorised Financial Service Providers in South Africa, Mauritius and Guernsey.