

Stock markets experienced a third consecutive month of decline, as the Dow Jones Industrial Average dropped by 1.3% (USD), the S&P 500 slipped 2.1% (USD), and the NASDAQ lost 2.8% (USD) for the month...



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OUR

# MONTHLY REPORT

October 2023 Market Commentary

October 2023

Market Insights

## GLOBAL MARKET OVERVIEW – October 2023

Stock markets experienced a third consecutive month of decline, as the Dow Jones Industrial Average dropped by 1.3% (USD), the S&P 500 slipped 2.1% (USD), and the NASDAQ lost 2.8% (USD) for the month. On a global scale, Emerging Markets saw a 3.9% (USD) decrease, while EAFE (Europe, Australasia, and the Far East) suffered a 4.0% (USD) decline. Among different stock categories, small and mid-cap stocks were hit the hardest, with the Russell 2000 plummeting by 6.8% (USD), whereas the larger-cap Russell 1000 fared relatively better with a 2.4% (USD) decrease. In October, both bond and stock markets experienced declines simultaneously due to a sharp rise in bond yields and increased global geopolitical uncertainty, which negatively impacted market sentiment. Notably, commodities stood out as a strong performer during this period, with energy prices surging and investors turning to gold as a safe-haven asset. The bond market continued its downward trend in October, with global bonds witnessing a 1.2% decrease for the month. The US 10-year Treasury yield surpassed the 5% mark for the first time since 2007. This increase was driven by a combination of robust economic data, which made the prospect of "higher for longer" interest rates more likely, and concerns regarding the sustainability of government finances. The rise in yields was observed not only in the global government bond market but also in credit markets, causing spreads to widen. This widening of spreads had a negative impact on the monthly returns for both investment-grade and high-yield bond markets.



### Global Overview

Global stock markets experienced a decline due to the expectation of "higher for longer" interest rates, which negatively affected equity valuations. Additionally, the Israel-Hamas conflict dampened investors' appetite for risk. Developed market equities saw a 2.9% (USD) decrease over the month, while emerging market stocks fell by 3.9% (USD). Notably, growth stocks showed greater resilience compared to their value counterparts, with a return of -2.4% (USD) for growth stocks versus -3.4% (USD) for value stocks during the month.

Commodity prices saw a reversal of some of their year-to-date declines in October, as the broad Bloomberg Commodity Index increased by 0.3% (USD). The tragic events unfolding in the Middle East prompted a flight to safety, leading to a rise in gold prices. Meanwhile, concerns about the potential disruption of oil supplies in a wider regional conflict boosted oil prices, although the price of Brent Crude remained below its peak in September. In the UK, despite a notable emphasis on the energy sector, the FTSE All-Share experienced a 4.1% decline in October. While still the top performing regional market year to date, Japanese equities struggled to maintain momentum in October. The TOPIX Index fell 3.0%, despite continued weakness in the yen.

The MSCI Europe ex-UK Index declined 3.3% on the month, as cracks continued to emerge in the economic outlook for the eurozone. In China, there were positive surprises in third quarter GDP, industrial production, and retail sales. Nonetheless, continued weakness in the real estate sector, and reports of new US restrictions on AI chip exports to China further dampened market sentiment.

Cash has been king since the Federal Reserve began its fight against inflation, while stocks have taken a dive. Now, the appeal of cash is fading, and a select group of stocks looks more interesting. The flow of money into cash-like investments is waning. The net movement into short-term Treasury bill funds last week was just under \$2 billion, a number that has consistently declined from the peak of near \$10 billion in 2022. Equities have the potential to perform well over the next few months as signs that the economy is slowing down raise expectations that the Fed could cut interest rates within a year. The rate of inflation is on the decline. Lower inflation, and the reduced interest rates it can bring, are what the stock market wants to see. The S&P 500 averages a 9.5% annualized gain in each month leading up to a rate cut after the final increase in a tightening cycle. That equates to a 0.8% gain for each month.

# South Africa

In October, the South African stock market experienced its third consecutive month of losses, echoing the negative trend seen in global equity markets. This decline pushed the overall performance for the year further into negative territory, with a year-to-date loss of 3.2%. The primary factor behind this downward trend appeared to be geopolitical uncertainties, which had a more significant impact than the usual influence of higher interest rates on the price of precious metals. Despite the challenging market conditions, there were a few exceptions at the company level that showed positive performance, such as Tiger Brands, which saw a 12% increase in its stock value month-on-month. This boost was attributed to the announcement of new management, raising hopes of a potential turnaround in the company's fortunes. South Africa's recent inflation data revealed that headline inflation had accelerated to 5.4% year-on-year, driven by rising food and energy prices, in line with expectations. On the other hand, core inflation which excludes volatile categories, slowed to 4.5% year-on-year, coming in below the anticipated rate of 4.7%. While the US dollar had been strong in recent months due to higher US interest rates and general risk aversion in the global markets, the South African rand managed to hold its ground relatively well. In fact, it was among a small group of currencies that strengthened against the US dollar in October, posting a 1.5% month-on-month increase.

All performance figures in ZAR unless otherwise stated.



## Quote from Warren Buffett

“The stock market may behave like a wildly unpredictable crowd in the short run, influenced by emotions, news, and rumors. However, over the long term, the market tends to reflect the true value of businesses. In the short term, prices may swing based on fear or greed, but over time, the intrinsic value of a company becomes the primary driver. So, don't let the daily market fluctuations distract you. Focus on the enduring fundamentals of the businesses you own or plan to invest in.”

Warren Buffett

## OUR PORTFOLIOS

### The Iza Portfolios

The Iza Global Equity Fund declined by 4,06% (GBP) in October. While the Iza Global Balanced Fund declined by 2,61% (GBP) for the month. The Stable Model Portfolio declined by 1,17% (GBP) for the month.

In the last month, we've closely observed the evolving macro and geopolitical landscapes. As a result, strategic adjustments have been made to our portfolio to better align with upcoming opportunities and the inherent risks in the current macro environment. Specifically, we've divested a portion of our Smithson holdings within the Iza Global Balanced Fund. To capitalize on perceived opportunities and navigate the risks, we've opted to increase our bond exposure. This adjustment involves acquiring 7-10 year US Treasury bonds. Our rationale for this move is rooted in the belief that the Federal Reserve is approaching the end of its interest rate cycle. The potential in the bond market hinges on the outcomes tied to the Federal Reserve's decisions on interest rates. Anticipating that the Fed maintains the existing interest rate levels, we project a yield of approximately  $\pm 5\%$  on our US Treasury holdings. Conversely, if the Fed opts to decrease interest rates, the yield may diminish. However, this will lead to capital appreciation on our bond holdings.

Within the Iza Global Equity Fund, our ongoing commitment is to maintain our holdings at their designated target weights. Our confidence persists in the belief that the selected fund managers will deliver superior performance in the long run, irrespective of the prevailing short-term macroeconomic conditions.

## Funds' Performance Summary

As at 31 October 2023 GBP	1 Month	3 Months	YTD	1 Year	3 Years*	5 Years*	Since Inception*
Iza Global Stable Portfolio GBP	-1,17	-2,61	0,58	2,41	-1,63	1,68	6,93
EAA Fund GBP Cautious Allocation	-1,87	-3,84	-0,37	1,74	1,13	1,65	3,58
Iza Wealth Global Balanced A GBP	-2,61	-5,49	-1,17	-0,17	-3,10	2,34	7,02
EAA Fund GBP Flexible Allocation	-2,01	-4,26	-1,77	-0,26	0,70	1,29	6,30
Iza Global Equity Class A GBP	-4,06	-8,26	-2,57	-1,50	-4,84	4,86	12,49
Benchmark (MSCI World NR)	-2,33	-3,84	6,94	4,83	10,46	9,39	8,46

As at 31 October 2023 USD	1 Month	3 Months	YTD	1 Year	3 Years*	5 Years*	Since Inception*
Iza Global Stable Portfolio	-1,54	-7,65	0,93	8,13	-3,83	0,51	3,11
EAA Fund USD Cautious Allocation	-2,24	-8,88	-0,02	7,46	-1,07	0,48	-0,24
Iza Wealth Global Balanced A	-2,98	-10,53	-0,82	5,55	-5,30	1,17	3,20
EAA Fund USD Flexible Allocation	-2,18	-6,38	0,56	2,91	0,78	1,99	9,62
Iza Global Equity Class A	-4,43	-13,15	-2,02	4,37	-7,80	3,01	9,43
Benchmark (MSCI World NR)	-2,90	-9,31	7,88	10,48	8,14	8,27	7,88

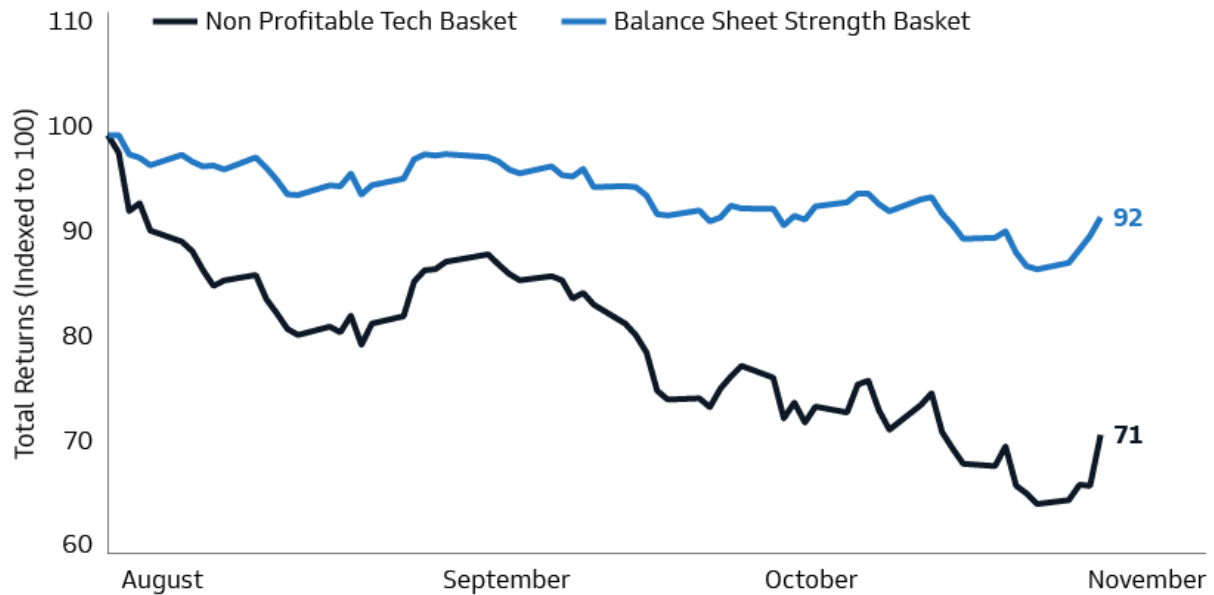
As at 31 October 2023 ZAR	1 Month	3 Months	YTD	1 Year	3 Years*	5 Years*	Since Inception*
Iza Global Stable Portfolio	-4,70	-6,09	12,40	10,67	1,05	5,89	11,36
EAA Fund GBP Cautious Allocation	-5,38	-7,28	11,34	9,95	3,88	5,86	7,87
Iza Wealth Global Balanced A	-6,09	-8,87	10,44	7,88	-0,46	6,58	11,45
EAA Fund GBP Flexible Allocation	-5,51	-7,68	9,77	7,79	3,44	5,48	10,70
Iza Global Equity Class A	-7,49	-11,54	8,88	6,45	-2,25	9,20	17,15
Benchmark (MSCI World NR)	-5,82	-7,28	19,51	13,29	13,47	13,92	12,95

\* ZAR returns are for illustrative purposes and based on GBPZAR exchange rates only, which may differ from actual feeder fund return figures. The Iza Global Equity Fund launched 2 Oct 2020, the Iza Global Balanced Fund launched 25 Apr 2018; historic performance figures are back-tested.

# Market Insights

A challenging operating environment has started to separate many strong business models from the weak. While the recent S&P 500 correction has spared few companies, those with strong balance sheets have weathered the storm better than unprofitable technology names, demonstrating the quality of companies that many investors favour today. With the S&P 500 cost of capital at its highest level in roughly a decade, we believe dispersion among index constituents will continue.

Source: GS GIR and GS Asset Management. As of November 2, 2023.



Historical periods of S&P 500 total returns greater than 10% from January through July followed by a drawdown from August through September have yielded strong fourth quarter returns. Specifically, the index has provided fourth quarter returns of 6.3%, on average, while delivering positive performance in every instance. The recent rate surge may have delayed this rally, but history suggests a strong close to the year may still be achieved.

Source: GS GIR and GS Asset Management. As of November 2, 2023.

S&P 500 Performance Trend			
	Jan-Jul (%)	Aug-Sep (%)	Oct-Dec (%)
1961	14.89%	-0.95%	7.16%
1975	29.45%	-4.68%	8.75%
1985	14.16%	-5.22%	14.16%
1986	11.76%	-1.53%	3.67%
1988	10.09%	-0.11%	2.34%
1998	15.48%	-8.58%	1.57%
2023	19.52%	-6.31%	-

# Asset Class Performance (Base Currency)

As at 31 October 2023	1 Month	3 Months	YTD	1 Year	3 Years	5 Years
<b>SA</b>						
STeFI Call Deposit ZAR	0,67	2,00	6,39	7,51	5,14	5,42
FTSE/JSE All Bond TR ZAR	1,71	-0,90	3,20	7,91	7,26	7,89
FTSE/JSE All Share PR ZAR	-3,77	-11,81	-4,65	4,47	10,46	5,86
<b>Major Equity Indices</b>						
MSCI ACWI All Cap NR USD	-3,36	-10,09	5,62	9,32	6,41	7,06
<b>Global REITS</b>						
FTSE EPRA Nareit Global TR USD	-4,80	-13,46	-8,97	-4,14	-0,07	-0,96
<b>Fixed Income</b>						
NYSE US 10 Yr Treasury Futures PR USD	-1,75	-5,11	-6,97	-5,76	-8,05	-2,04
Bloomberg 20-30Y Treasury Strips TR USD	-8,33	-22,60	-21,82	-16,14	-23,49	-6,01
<b>Commodity - General</b>						
DJ Cmmnty Crude Oil TR USD	-8,68	3,72	8,14	1,82	44,24	-3,76
DJ Cmmnty Silver TR USD	2,72	-8,21	-4,38	20,22	-1,49	8,62
DJ Cmmnty Precious Metals TR USD	6,57	-0,85	6,36	20,78	1,12	9,44



## Get in touch

Feel free to say hello or ask any questions

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