

Quarter 3 | 2023

# Business E-Brief

Your quarterly Fund Performance update

## Global Equities in Q3:

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# DPF Q3 2023 E-Brief

## Q3 Report Back

**Global investors faced a downturn in the third quarter, despite a strong start in the first half of the year. Negative returns were recorded across the majority of asset classes.**

Global Equities endured declines in the quarter due to high-sustained interest rates, weak corporate earnings, slowing growth, a bearish economic outlook, decreased investor confidence amidst sector rotation, and geopolitical tensions. Mega Cap Growth Stocks, such as the Magnificent Seven (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla), lost momentum in Q3 as investors grappled with the implications of a prolonged period of elevated inflation and interest rates. Global Fixed Income Markets struggled in the quarter primarily due to rising interest rates. Emerging Market pessimism weighed on the asset class's performance during the quarter. Debswana Pension Fund's Net Total Assets decreased by 0.42 percent from BWP 10,527 billion in Q1 to BWP 10,483 billion. Growth for the quarter was underpinned by Domestic Assets particularly, Botswana Equities and Botswana Bonds. Domestic Equity markets had a positive performance for the quarter driven by mining, tourism, financials, consumer staples, and brewery sectors. The Domestic Bond Market similarly generated positive results, spurred by increased government auctions and a rise in the yield curve. Global investor sentiment in the third quarter was generally cautious and risk-averse, and this was evident in the negative performance across most offshore asset classes. The S&P 500 index declined by 3.8 percent in the third quarter, curtailed by a

decline in the Magnificent Seven stocks, which account for approximately 28 percent of the S&P 500's total market capitalization weight. Technology stocks grappled with persistently high inflation and concerns about possible economic weakness.

Elevated inflation was a dominant theme in the quarter, driven by strong demand, geo-political tensions, supply chain disruptions, rising energy prices, wage growth, and housing costs. Inflation in the United States was 3.7 percent in September 2023, 0.7 percent higher than June 2023, further moving away from the Fed's 2 percent target. Global bonds experienced a challenging third quarter; the Bloomberg Global Aggregate Bond Index fell by 3.6 percent, propelled by elevated inflation, tightening monetary policy, and geopolitical concerns. Similarly, Emerging Market (EM) equities and bonds were negative in the quarter due to inflationary pressures, rising interest rates, a sluggish Chinese economy, domestic political issues, and slowing global growth. China and the country's stock markets continued to face headwinds in the third quarter of the year; the country's economic recovery remains weak, and the trajectory of the economic recovery is unclear. Overall, the United States dollar continued to remain resilient in Q3. The U.S. Dollar Index (DXY) closed out Q3 generating 3.2 percent and had a streak of eleven consecutive weekly gains. The dollar's performance has been underpinned by rising interest rates, safe-haven demand, a relatively strong US economy, and the underperformance of other major currencies.

The top-performing asset class for the Fund was Botswana Equities, which increased 9.03 percent (in BWP). The next top-performing asset class for Quarter 3 was Botswana Bonds, which rose 2.47 percent, followed by Global Cash, which advanced 1.37 percent. Global Property, Botswana Property, and Botswana Cash were flat for the quarter.

The Fund's Market Channel increased 0.76 percent during the quarter; the Conservative Channel rising 1.00 percent and the Pensioner Channel improving 0.68 percent."

African Equities, African Private Equity, Global Bonds, Global Equities, Emerging Market Bonds, Emerging Market Equities and China A-Share Funds were all in negative territory for the quarter declining: 6.22 percent, 0.34 percent, 1.46 percent, 5.69 percent, 2.00 percent, 2.34 percent, 4.98 percent, respectively. The worst-performing Asset Class for the quarter was African Equities which fell 6.22 percent.

On a twelve-month basis, the Fund generated positive returns net of investment fees. During the 12-month period, the Market Channel delivered 17.59 percent, while the Conservative Channel rose 15.93 percent and the Pensioner Channel generated 14.78 percent. During the period under review, returns remained consistent with Debswana Pension Fund's Life Stage Model's investment strategy, whereby the most aggressive Market Channel outperformed the most while the least aggressive Pensioner Channel registered relatively lower returns.

## Portfolio performance as at 30<sup>th</sup> September 2023

### Life Stage Channel Returns

Fund	3 Months to Sep 23	6 Months to Sep 23	12 Months to Sep 23	36 Months to Sep 23	60 Months to Sep 23	Since Inception (Aug 04)
Market	0.76	5.70	17.59	8.64	8.51	12.13
Conservative	1.00	5.50	15.93	7.68	7.93	10.36
Pensioner	0.68	5.01	14.78	7.06	7.70	11.16
Contingency	0.78	5.20	15.33	6.97	7.59	12.76

## Asset Class Returns

	Q2 2023	Q3 2023
Asset Class	%Returns (Net)	%Returns (Net)
Botswana Bonds	1.97%	2.47%
Botswana Cash	0.26%	0.03%
Botswana Equities	4.45%	9.03%
Botswana Property	2.22%	0.48%
African Equities	10.06%	-6.22%
African Private Equity	-0.71%	-0.34%
Global Bonds	0.84%	-1.46%
Global Cash	2.29%	1.37%
Global Property	2.49%	0.00%
Global Equities	7.99%	-5.69%
Emerging Market Bonds	6.52%	-2.00%
Emerging Market Equities	5.31%	-2.34%
China Funds	-7.63%	-4.98%

## Benchmark Asset Class Returns as at 30<sup>th</sup> September 2023

Asset Class	Benchmark	1M (%)	QTR (%)	YTD (%)	1Y (%)	2Y (%)	3Y (%)	5Y (%)
Local Equities	Botswana Domestic Companies Index	3.06 ▲	9.84 ▲	20.15 ▲	27.55 ▲	21.06 ▲	16.09 ▲	9.23 ▲
Bonds	Fleming Aggregate Bond Index	0.74 ▲	2.04 ▲	5.73 ▲	6.92 ▲	6.72 ▲	2.92 ▲	3.96 ▲
Global Equities	MSCI World (BWP)	-3.73 ▼	-2.41 ▼	19.15 ▲	25.29 ▲	8.80 ▲	14.12 ▲	12.85 ▲
Emerging Markets	MSCI EM (BWP)	-2.02 ▼	-1.86 ▼	9.20 ▲	14.75 ▲	-1.52 ▼	3.76 ▲	5.79 ▲
Global Property	FTSE EPRA/NAREIT Developed Rental Index - (BWP)	-5.72 ▼	-5.05 ▼	2.41 ▲	5.06 ▲	-2.13 ▼	7.14 ▲	5.05 ▲
Global Bonds	Bloomberg Barclays GABI - (BWP)	-2.32 ▼	-2.53 ▼	4.88 ▲	5.04 ▲	-0.88 ▼	-1.74 ▼	3.50 ▲
African Equities	FTSE/JSE African 30 (BWP)	-21.55 ▼	-18.91 ▼	-22.56 ▼	-19.09 ▼	-13.38 ▼	-3.96 ▼	-1.29 ▼
Exchange Rate	USD/BWP	0.62 ▲	1.09 ▲	7.25 ▲	2.73 ▲	9.90 ▲	5.58 ▲	5.21 ▲

### Inflation

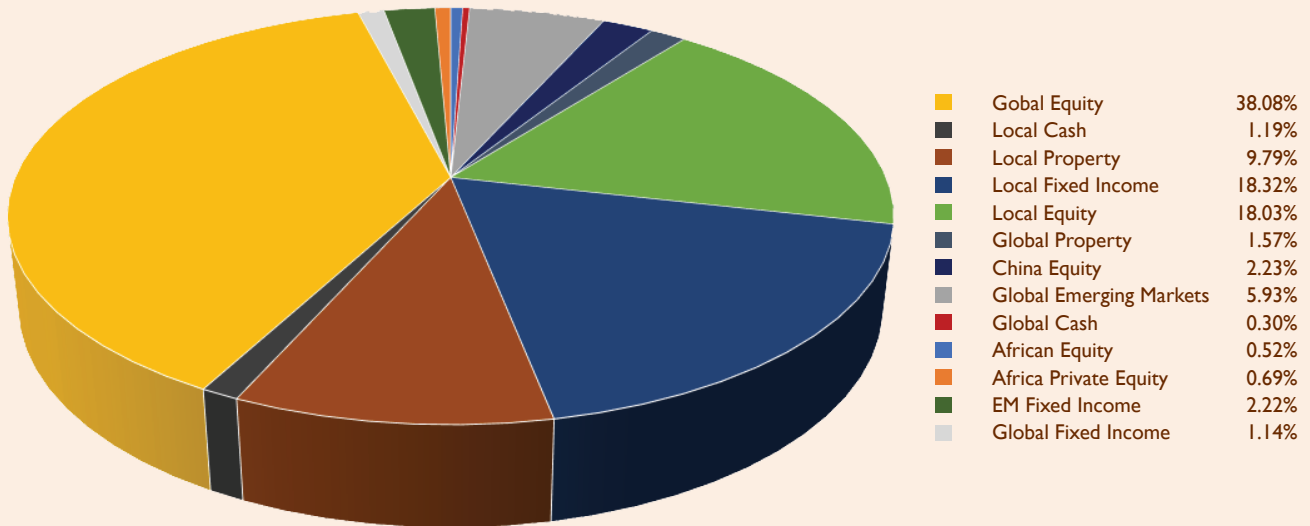
The annual inflation rate decreased marginally from 3.2 percent in September to 3.1 percent in October 2023.

### Interest Rates

At the meeting held on October 26, 2023, the Monetary Policy Committee (MPC) of the Bank of Botswana maintained the Monetary Policy Rate (MoPR) at 2.65 percent. Inflation remains within the Bank's medium-term objective range of 3-6 percent.

According to the Bank of Botswana, the increase in inflation in the quarter was mainly due to the upward adjustment in domestic fuel. The Monetary Policy Committee (MPC) believes that inflation will remain in the target range in the medium term. However, inflation could be higher than expected if international commodity prices rise significantly, supply chain disruptions persist, and global economic integration weakens. Additionally, possible increases in prices controlled by the government (such as electricity and water tariffs) could also push inflation higher. However, weaker domestic and global economic activity, the potential for disinflation from higher interest rates, and a decline in international commodity prices could also lead to lower inflation than expected.

## Asset Class Weights 30<sup>th</sup> September 2023



NB: Market performance results sourced from RISCURA

## Global Market Update - Quarter ended 30<sup>th</sup> September 2023

**M**arkets rerated in the third quarter of the year as investors became dovish and more cautious, as the high levels of inflation indicated that rates would remain high and there would be no rate cuts in the short term.

In the United States, the Magnificent Seven stocks were the main drivers of equity market performance in the first half of the year, generating on average 92 percent. In the third quarter of the year, major technology stocks tumbled and were the biggest drag on performance. The largest losses from the Magnificent Seven stemmed from Tesla, which has lost 23 percent after gaining 117 percent between January and July. The best performer since July was Microsoft, which only lost 2.2 percent. These seven counters and equity markets overall endured headwinds from slowing growth, elevated inflation, monetary policy tightening, and rising bond yields. Rising inflation poses a substantial threat to the growth potential of growth stocks, diminishing their future earnings prospects and dampening investor interest. The current market environment favours value rather than

growth stocks and sectors, while there could be a rotation to value-style investing moving forward. Most sectors were in the red in the quarter, particularly the Information Technology, Real Estate, and Utility sectors.

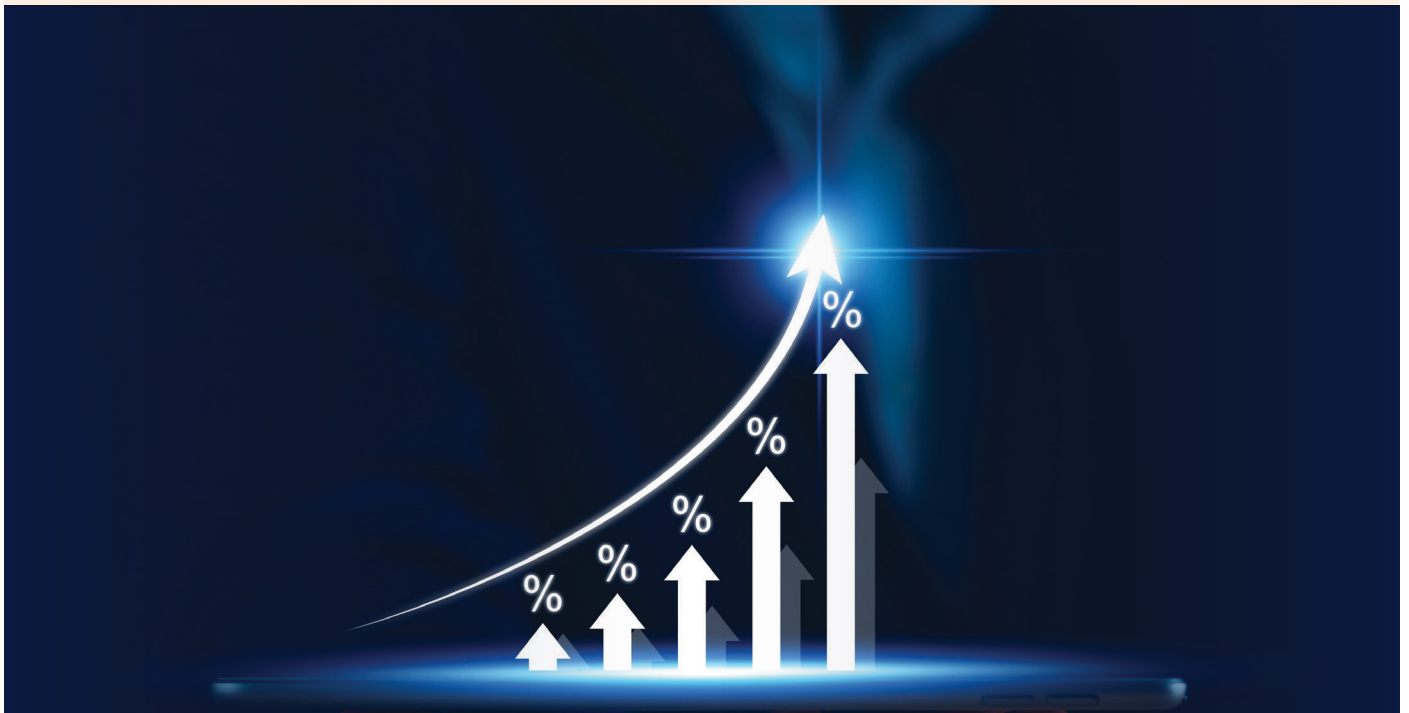
The top-performing sector, and one of the few positive performers in the US market, was the Energy Sector. The strong performance from the Energy Sector stemmed from increased demand, reduced supply, dwindling inventories, and rising oil and natural gas prices. The Federal Reserve raised interest rates only once in the quarter. Rates are expected to remain steady with no further cuts in the future if inflation remains elevated. Global Bonds struggled in the quarter once again. Global Corporate Bonds out-performed Government Bonds in Q3 2023; spreads narrowed across both investment grade and high-yield bonds. The US 10-year government benchmark bond rose from 3.81 percent to 4.57 percent, with the two-year going from 4.87 percent to 5.05 percent. The Bloomberg Barclays Global Aggregate Bond Index declined by 3.6 percent in the quarter. The Euro-zone economy underperformed expectations in the third quarter.

## Global Market Update - Quarter ended 30<sup>th</sup> September 2023 continued

The Euro-zone declined by 0.1 percent versus a forecast flat (0.0) growth rate by analysts. The Euro-zone economy faced challenging conditions, including mounting inflationary pressures, elevated interest rates, and a gradual tightening of fiscal policy. European Equities similarly struggled due to concerns about the impact of interest rate rises on economic growth. Negative performance was derived from the Consumer Discretionary sector and the IT sector.

There was some positive performance from the Energy, Financial, and Real Estate sectors. Japan's positive momentum continued in Q3. The Japanese stock market defied expectations and held its ground against mounting global headwinds. Large-growth stocks declined, but performance was driven by small-capitalization and value stocks. The performance of Japanese counters was fueled by strong corporate earnings, a positive earnings outlook, a weakening

yen, and strong domestic demand. The 10-year Japanese government bond yield was 0.78 percent at the end of the quarter. Asia, including Japan, continued to struggle in the quarter, with most jurisdictions posting negative performances. China continued grappling with a series of challenges in the quarter that resulted in an overall negative performance. The main detractor of performance for the Equity market was the property sector, which is under tremendous debt pressure. Beijing has in the past utilised the property sector to help stimulate its economy, but it has struggled to do so recently, and this has further dampened investor sentiment. Emerging Markets had a negative performance for the quarter. Elevated inflation and high interest rates in Developed Markets have caused a decline in the risk appetite of Global Investors and, subsequently, a lack of interest in riskier Asset Classes such as Emerging Markets Equities.



## Market Review - Quarter ended 30<sup>th</sup> September 2023

**A**ccording to Statistics Botswana, the real Gross Domestic Product increased by 3.4 percent compared to the 5.1 percent growth registered in the same quarter of the previous year.

The growth was attributed to the rise in real value added of Finance Insurance and Pension Funding of 7.9 percent and Mining and Quarrying industries of 5.9 percent. All other industries recorded positive growth of

more than 1.5 percent, with the exception of Water and Electricity which decreased 38.8 percent, and Diamond Traders which fell 22.4 percent.

The Bank of Botswana's Quarter Business Expectations Survey states that firms are more optimistic about business conditions in the third quarter compared to the previous survey (second quarter of 2023).

The overall economy and different sectors are forecast to have improved performance in the quarter.

Companies are cautiously optimistic, as they still expect tight access to all markets and hawkish central banks to be the biggest challenges to their performance in the future. Lastly, businesses expect cost pressures to be elevated in the third quarter due to relatively high fuel prices.