

Prosperity

August 2024

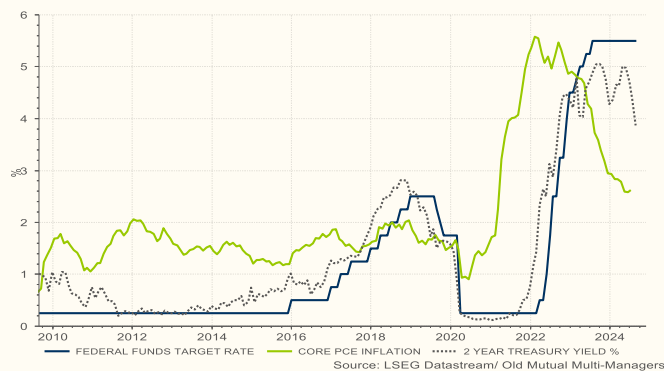
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Private Clients
by  Old Mutual Wealth

ECONOMIC UPDATE

August began with sharp sell-off in equity markets as investors grew increasingly concerned about the rising risk of a US recession. The downturn was exacerbated by the unwinding of several popular trades, including selling volatility protection, leveraging cheap Japanese yen to invest elsewhere, and betting heavily on the AI boom through the Magnificent Seven stocks.

In the midst of this market turmoil, expectations for US interest rate cuts surged, leading to a rally in bonds that resulted in lower yields. There were even calls for an emergency rate cut. Fortunately, the equity market sell-off was brief, as US economic data remains fairly robust. Consumer spending is healthy, though households are more cautious and price conscious. The labour market has cooled, with hiring slowing but without a notable increase in layoffs. Corporate profits have not declined to the extent that would necessitate widespread job cuts. So, while the US economy is expected to slow from the strong growth seen in the first half of the year, this does not imply a collapse.



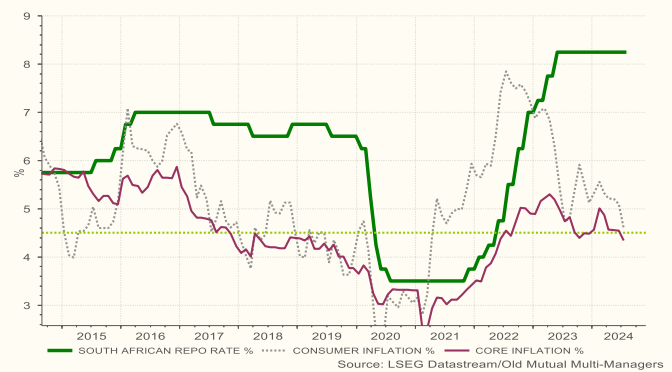
The Federal Reserve is poised to prevent any severe downturn. During a high-profile speech at the annual central banking symposium in Jackson Hole, Wyoming, Fed Chair Jerome Powell indicated that the time has come to lower interest rates to prevent a cooling labour market from deteriorating further. The cutting cycle is expected to begin in September, although Powell did not specify the extent of the cuts.

Importantly, the Fed can now shift its focus towards the employment aspect of its dual mandate since inflation concerns have largely dissipated for now. Although inflation remains above target, it is gradually declining.



With US interest rate cuts on the horizon, the dollar has softened from its elevated levels, providing some global relief. A strong dollar makes it more expensive for governments and companies outside the US to service their dollar-denominated debt. Since most trade is still conducted in dollars, a strong dollar also disrupts global commerce, placing upward pressure on inflation and interest rates in other countries.

SA is one such country affected by the strong dollar. As the dollar surged in recent years, the rand weakened, prompting the Reserve Bank to raise interest rates to keep inflation and expectations in check. However, with US rate cuts and a softer dollar, the Reserve Bank can now focus more on domestic conditions and less on international factors. Local inflation declined further in July, dropping more than expected to 4.6% year-on-year.



Core inflation, excluding volatile food and fuel items, fell to 4.3% year-on-year. Coupled with a stronger currency and stable global oil prices, this points to an improved inflation outlook. This opens the door for the Reserve Bank's Monetary Policy Committee to begin a gradual easing cycle in September.

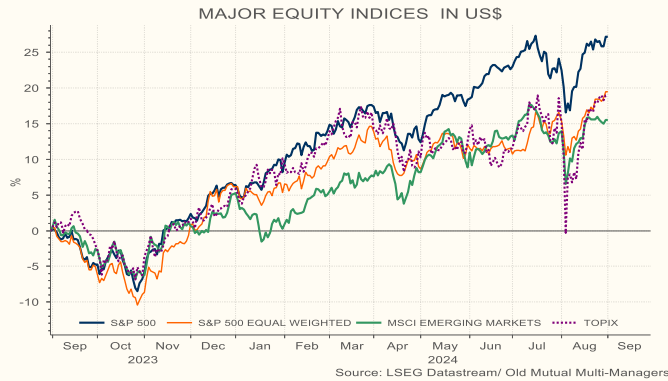
Lower interest rates should provide relief to stressed consumers. According to the Reserve Bank's data, the share of after-tax household income devoted to debt payments increased to 9.2% in the first quarter, the highest level since 2010. While this ratio is not as extreme as the 13% seen in 2008, it is approaching uncomfortable levels, and any relief will be welcomed. Small businesses will also benefit from lower rates.

In addition to lower inflation and interest rates, the improved electricity supply situation – SA passed the 150-day mark with no load shedding this month – signals a better growth outlook in the medium term. Progress is also being made in the country's ports and railways, though much work remains.

This improvement should contribute to a somewhat better fiscal outlook as tax revenues should rise. The October Medium Term Budget will update the fiscal projections, but with declining debt risks, investors are likely to demand a smaller premium for lending to the SA government. This should translate to lower bond yields, further stimulating economic activity.

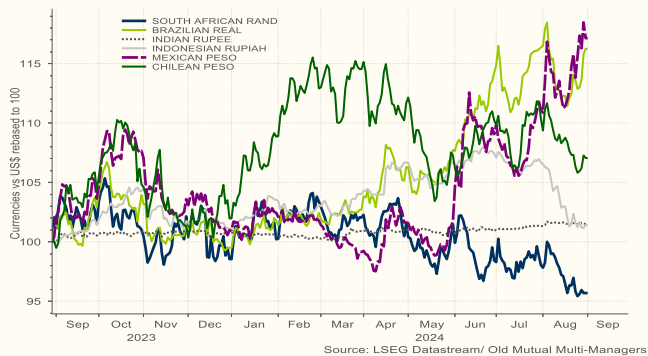
Therefore, while the government of national unity is still in its early days and faced some high-profile internal disagreements, SA appears to be entering a positive cycle where improvements in various areas reinforce one another. Although there are still numerous challenges, the outlook has brightened after several years of gloom.

MARKET UPDATE



After major losses across global equity markets at the beginning of August, most markets rebounded as talks of US interest rate cuts resurfaced. The MSCI World Index closed the month with a 2.7% gain. In the US, the Dow Jones reached new highs (+1.8%), the S&P 500 rose by 2.3%, and the Nasdaq finished August with a more modest increase of 0.6%. Meanwhile, the UK's FTSE-100 edged up slightly by 0.1%.

Asian markets delivered mixed results. The Shanghai Composite Index fell by 3.3%, while the Hang Seng gained 3.7%, and Japan's Nikkei slipped by 1.2% in August.



On the local front, the JSE All Share Index gained 1.2% in August, setting a record high of 84,553 on 27 August. Industrials (+4%) and Financials (+5.5%) posted solid monthly gains, while Resources declined by 10.1% as commodity prices weakened. The rand strengthened by 2.2% against the US dollar, closing at R17.8217/US\$. Gold continued its rally, ending the month 2.3% higher at US\$2,503.03/oz. In contrast, Brent crude fell by 2.4% in August, and the platinum price dropped by 5%.

GLOBAL EQUITIES



Stryker

Stryker, a leader in orthopaedic and neurological medical devices, delivered strong second quarter 2024 results that surpassed expectations. Organic sales grew by 9%, an impressive achievement given the high base in the second quarter of 2023 where sales rose by 12%. Revenue rose 9% to US\$5.4bn, while adjusted earnings per share increased by 11.4% to US\$2.81. All divisions reported solid growth, with balanced growth also coming from both the US and International markets. Within the international segment, Emerging Markets, Australia, New Zealand and Japan were the standouts.

On the merger and acquisition front, management was optimistic, highlighting the recent bolt-on acquisitions of specialised surgical products and technology. The group has a sizeable deal pipeline and given its strong balance sheet position, we expect acquisitions to continue to augment the group's organic growth. With better-than-expected performance in the first half of the year, management raised their expectations for the remainder of the year, with sales now forecast to grow by about 10% and margins increasing by 100bps. While the guidance reflects the short-term outlook, we expect the same drivers – namely increased demand for innovative and non-invasive surgery – to drive Stryker's performance over the longer term.



Diageo

Full year 2024 proved to be a challenging period for both the beverage industry and Diageo. The company faced a volatile operating environment characterised by pressure on consumer discretionary spending and lingering supply chain issues. As a result, Diageo's financial results and operational performance fell short of expectations. Revenue for FY 2024 decreased by 1.3%, totalling US\$20.3bn. Positively, productivity improvements and cost-saving measures led to an 8.2% increase in operating profit (US\$6bn). Higher finance charges, exceptional once-off items and increased taxes caused net income to decline by 7% to US\$4.2bn. While cash flow from operations remained strong, higher debt levels pushed the debt leverage ratio to the upper end of management's target range of 2.5 – 3 times net debt to EBITDA.

Volumes fell by 8.3m equivalent units in FY 2024, primarily due to challenges in the Latin America and Caribbean (LAC), North America (NAM), and Africa regions, while other regions maintained stable volumes. Nearly half of the volume decline stemmed from inventory normalisation efforts in LAC. In NAM, volumes declined by 2.3m equivalent units due to a cautious consumer environment and ongoing retailer de-stocking as retailers take a cautious approach to the consumer recovery. In Africa, volumes declined due to price increases driven by currency devaluation. Diageo

remains confident that volumes will recover as the consumer environment improves. However, this confidence was not well-received by the market, with the company's share coming under pressure following the results announcement.



Amazon

Amazon reported a strong second quarter 2024 result, with sales at the upper end of management's guidance and operating income well ahead of expectations. Growth in sales and profitability was driven by strong demand for Amazon Web Services (AWS) cloud and generative-AI related hardware, software and services. Growth in North America and International e-commerce operations was driven by a sustained double-digit growth run rate in third party seller services (+13%), advertising (+20%) and subscription services (+11%).

Cash flow generation has recovered meaningfully supported by stronger profitability and reduced capital expenditure on the fulfilment network. Looking ahead, management is focused on reducing the cost to serve in order to support customers' demand for value while maintaining fast delivery times. In AWS, management is increasing infrastructure investment to support increased demand. Management remain optimistic about the group's prospects, particularly AWS, while acknowledging the challenging retail consumer environment.



Berkshire Hathaway

Berkshire Hathaway reported strong operational half year results. Operating earnings for the six months to June were US\$22.8bn versus US\$18.1bn for the same period last year. This increase of 26% was largely driven by a strong performance in the insurance segment, which reported stellar underwriting and investment income results. Despite the strong performance in Berkshire's operating business, overall earnings attributable to shareholders was down to US\$43.1bn (from US\$71.4bn in the prior year) due to unrealised gains in the group's equity investments. Berkshire's investment portfolio continued to benefit from strong equity markets, however, this was not to the same extent as in the early part of last year. During the current reporting period, Berkshire realised gains on equity sales of US\$58.2bn compared to US\$3.3bn in the prior year.

A key headline from the results was the significant cash pile that Berkshire continues to build up. The group reported a record US\$276.9bn cash on its balance sheet. This has risen from US\$163.3bn last year. A large part of this has come from Berkshire selling some of its larger investment portfolio holdings such as Apple and Bank of America. The vast majority (US\$235bn) of the group's cash is invested in US treasury bills. Share buybacks slowed in the second quarter to US\$345m, down from US\$2bn in each of the last two quarters.



Zoetis

Zoetis delivered a strong second quarter result, with total revenue increasing by 11%. The US reported 12% growth, while international operations grew by 10%. Both companion animal and livestock sales grew 12% and 9%, respectively. Despite a 7% year-on-year decline in net income, when excluding US\$87m in divestiture and acquisition costs, operational net income increased by 18%.

The business remains solid, supported by a durable global portfolio and a steady pipeline of new, innovative products. Companion animals benefited from strong demand for osteoarthritis and dermatology treatments. Livestock growth was supported by a softer prior year comparable in the US and hyperinflationary environments internationally. Notably, Librela (osteoarthritis pain medication for dogs) gained traction among vets, despite concerns around side effects and a continued trend of declining vet visits.

Zoetis received five treatment approvals in the quarter, predominantly geared towards fish and dogs, and invested further in Diagnostics, with a launch a new analyser in H2. Looking ahead, the group raised its FY 2024 revenue guidance by US\$50m to US\$9.10 – US\$9.25bn and increased its diluted earnings per share guidance by US\$0.07 to US\$5.78 – US\$5.88. A new US\$6bn repurchase programme was also announced, demonstrating management’s commitment to returning value to shareholders.



Walt Disney

Media and entertainment giant, Walt Disney reported mixed results for the third quarter. The Entertainment division saw its profitability triple, rising from US\$408m to US\$1.2bn, driven by reduced losses in the Direct-to-Consumer (DTC) portfolio and strong performance in Content Sales and Licensing due to the record success of Inside Out 2. Conversely, the Experiences division reported a steeper-than-expected slowdown in profitability. This was due to reduced demand in the US where consumers are under increased financial pressure, while attendance at Disneyland Paris was impacted by the timing of the Olympics.

Despite the challenges in the Experiences division, the strong performance in Entertainment ultimately allowed management to upgrade their full year adjusted earnings per share guidance from 25% to 30%.

LOCAL EQUITIES



Mondi

Global leading paper and packaging company, Mondi reported pleasing first-half results that met management and investor expectations. Earnings before interest, tax, depreciation and amortisation (EBITDA) fell by 17% year-on-year to EUR565m due to lower prices and higher costs. However, this was partially offset by improving order books and volumes, with the second quarter of 2024 benefiting from a EUR40m forestry fair value gain and deferred maintenance.

Sequentially, EBITDA grew from the second half of FY 2023, aided by lower input costs and price increases across paper grades. Group revenue fell 4%, as prices, despite increasing, remained below H1 2023 levels. Input costs were well managed and showed signs of stabilising, ultimately limiting EBITDA margin contraction from 17.5% to 15.1%. Underlying earnings per share fell 25% to EUR50.5 cents and cash generated from operations declined by 33% to EUR372m. An interim dividend of EUR23.33 cents was declared, flat year-on-year, while net debt rose 34% to EUR1.6 bn, with 80% of the EUR1.2 bn investment programme expected to be completed by the end of FY 2024.

Management anticipate stable costs in the second half, with higher price increases expected to boost EBITDA. However, deferred maintenance and a forestry fair value loss are expected to partially offset this improvement.

GLENCORE

Glencore

Glencore reported half-year 2024 results that initially seem weak, but when considered alongside the low prices of their commodities, the outcome is reasonable. As largely expected, energy markets normalised following the volatility of 2022 and 2023. Notably, thermal coal and gas prices declined significantly, averaging between 22% and 36% lower. The metals sector had mixed results, with copper and zinc markets benefiting from favourable conditions, characterised by low treatment and refining charges. As a result, adjusted earnings before interest tax and depreciation (EBITDA) fell by 33% to US\$6.3bn, while adjusted EBIT saw a steeper drop of 55% to US\$2.9bn. Earnings per share declined from US\$0.36 to -US\$0.02, highlighting a significant drop in profitability.

Strategically, Glencore’s board decided to retain its coal and carbon steel materials business rather than pursue a demerger. This decision came after extensive shareholder consultations and internal analysis, with most shareholders favouring retention. The

primary rationale is that keeping these operations within Glencore will enhance the company's cash-generating capacity, enabling it to fund opportunities in transition metals, particularly its copper growth projects. Additionally, this strategy is expected to accelerate and optimise the return of excess cash flow to shareholders.



Standard Bank

Africa's largest financial services provider, Standard Bank reported a resilient half-year performance amid a challenging credit market in SA. The group's headline earnings rose 17% in constant currency, driven by solid growth in Corporate and Investment Banking, Insurance and Asset Management as well as Personal and Private Banking. However, a stronger rand against other African currencies led to a more modest 4% growth in the group's reported headline earnings.

Management highlighted the challenges faced in the local retail credit market as customers face considerable financial strain, particularly those with home loans. The group, however, maintains that credit losses have peaked and that forecasted interest rate cuts will bring welcomed relief to the clients. Standard Bank expects a 25bps interest rate cut in SA in September and November and a further 50bps reduction in the first half of 2025. For full-year 2024, management expect banking revenue to grow in the low single digits.

Looking ahead, management remain committed to their full-year 2025 targets, aiming for a return on equity of 17% - 20% (HY 2024: 18.5%) and a cost-to-income ratio of 50% (HY 2024: 49.7%). The group increased its dividend pay-out slightly to 56%, translating into an 8% increase in the interim dividend to R7.44 per share.



MTN

Consistent with the tough macroeconomic backdrop in some of the group's key markets, MTN reported weak half year 2024 results. As previously communicated by the group's management, the reported results were severely impacted by the devaluation of the Nigerian Naira and to a lesser extent, the temporary suspension of services in Sudan due to conflict in the region. As a result of these two headwinds, reported group revenue fell 19.8% to R90.8bn with service revenue (which excludes device and SIM card revenue) down 20.8% to R85.3bn. Reported earnings before interest tax and depreciation (EBITDA) for the group fell 41.2% to R29.0bn. Consequently, the group's EBITDA margin was 11.6% lower at 32%.

Despite the weak reported numbers, a key takeaway from the results was the strong operational (constant currency) performance. Excluding the impact of the Naira devaluation, group service

revenue rose 12.1% to R107.7bn. On a constant currency basis, EBITDA remained unchanged from the prior year with a comparable EBITDA margin of 39.2%. Notwithstanding the current tough macro environment, the respectable operational performance gives us confidence that once the macro headwinds abate, the group remains well positioned to deliver solid returns.

Some of the metrics that highlight MTN's commercial momentum include the increase in the group's active data subscribers (up 9% to 150m), fintech transaction volumes (up 17% to 9.7bn) and the solid performance in other regions such as Ghana and Uganda that are increasingly significant profit contributors. We expect Ghana to be a larger contributor to profit than Nigeria in 2024 and 2025, thanks in part to the 20.4% increase in EBITDA from Ghana. During the period, MTN's operations across the continent were able to remit R6.7bn to the group. This figure includes the previously delayed 2023 dividend from Nigeria, which speaks to early signs of stabilisation accessing foreign currency within the country. Given MTN's recent share price weakness, the company is trading below our estimate of fair value.



Bidcorp

Diversified food services group, Bidcorp reported strong full year results in a turbulent environment characterised by declining food inflation and weak economic growth across operating regions. Despite moderating inflation, revenue was up 15.5% (+7.5% in constant currency) and headline earnings per share rose to R24.05 (+15.5%). Group trading profit margin was up slightly to 5.4% as the increase in gross margins offset the higher cost of doing business. The board declared a final dividend of R5.65 per share, bringing the full year dividend to R10.90 per share (+16%).

Performance was mixed across operating regions. Europe delivered a record performance, while revenue growth in Australia and New Zealand was muted as consumers continue to be affected by high inflation. The group is starting to see signs of improvement in its UK operations. Weak performance in China was offset by strong growth in South Africa.



BHP Group

BHP Group delivered a strong set of full year results despite economic uncertainty, meeting production guidance across all commodities and achieving record production at its Western Australia Iron Ore, Spence and Carrapateena operations. Alongside this, the group's focus on cost management within an inflationary environment further bolstered the results. Favourable commodity prices, particularly in copper and iron ore, provided further tailwinds to the solid operational performance.

The quality of BHP's assets is reflected in its high earnings before interest, tax, depreciation, and amortisation (EBITDA) margin of 52% and a solid return of 27% on capital employed. BHP's strong operational performance translated into good cash flows, which, along with asset sales, helped reduce debt, fund capital expenditure and return capital to shareholders. However, attributable profit fell 39% due to exceptional items of US\$5.8bn, including a non-cash impairment of their nickel operations and a charge related to the Samarco Dam failure.

Looking ahead, softening demand from China suggests a cautious outlook for commodity prices, particularly iron ore. However, BHP remains optimistic about the longer-term prospects for copper, expecting a deficit in the second half of this decade. The company anticipates a mid-single digit increase in copper production for financial year 2025, while iron ore production is expected to remain at current levels. Mining at the Nickel operations is currently suspended due to the pricing environment, and coal production is expected to decline in the coming financial year as BHP winds down thermal coal operations and has sold its metallurgical coal assets in the past year.

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