Market Overview

31 January 2022

Local Market

January has been an eventful, and in many ways unnerving, start to the year. South African equities, however, bucked the global trend and ended the first month of 2022 on a positive note. Sasol was the top performer, increasing a whopping 33% for the period as it benefitted from the spike in energy prices. Local banks also had a good month as domestically focused companies benefitted from improving sentiment towards value stocks.

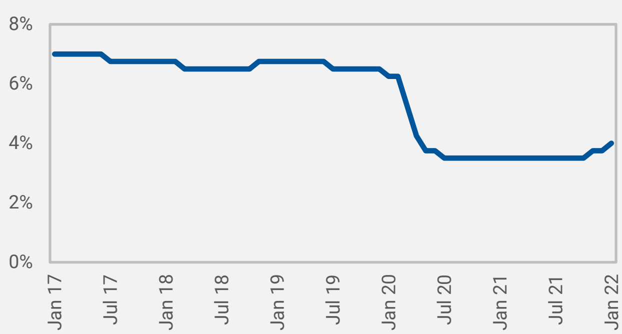
On the pandemic front, SA Covid-19 infections continued to ease. The number of excess deaths also continued to decline and was well below the level of excess deaths experienced during the first three waves of Covid-19. What is concerning is the number of people getting vaccinated each day remains extremely low, averaging only 67 000 a day in January. As at month end, Department of Health data show that 29.89mn vaccines have been administered, versus 27.95mn as at 31 December 2021.

At its January meeting, the SARB's Monetary Policy Committee raised the repo rate to 4%, as illustrated below in Chart 1. The 25 basis point increase was widely expected and came on top of a similar increase in November, making it only the second rate hike in more than three years. The MPC motivated their decision with a list of concerns, especially the faster normalisation of global policy rates and upside risks to inflation.

The Reserve Bank is walking a fine line between maintaining an accommodative policy stance to support credit demand and economic recovery and keeping local inflation in check. They believe a gradual rise in the repo rate will be sufficient to keep inflation expectations well anchored and moderate the future path of interest rates. The repo rate is expected to end 2022 at 4.91%.

The Reserve Bank also cut its economic growth forecast for 2021 to 4.8%, from an earlier estimate of 5.2%. Forecasters expect that the South African economy will expand at a substantially slower rate in 2022 than in 2021, with the Organization for Economic Development (OECD) predicting a 1.9% expansion in its latest update.

Chart 1: South Africa Interest Rate over the past 5 Years



Source: Investing.com (31 January 2022)

Global Market

Global equity markets had a volatile start to 2022 with interest rate hikes once again being the main topic of discussion in January. Developed markets struggled to absorb the expected rate hikes and inflationary pressures. This resulted in equity, property and bond indices kicking off the year in the red.

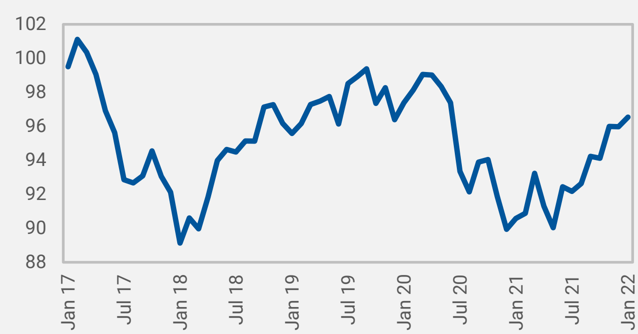
The rapid spread of the Omicron variant throughout much of the world, renewed lockdown measures, and geopolitical tensions also weighed on sentiment. Rising political tensions surrounding the build-up of Russian troops on the border of Ukraine placed pressure on an already-tight global energy market. Brent Crude closed out the month 17% higher at near $91 per barrel, the highest level since January 2014.

The US Dollar Index enjoyed a highly successful January. As illustrated below in Chart 2, it traded up sharply through the 97 level, reaching new 52-week highs. The US M2 Money Supply year-on-year growth rate for December came in above 10%. M2 is a measure of the money supply that includes cash, checking deposits, and easily convertible near money and is used as an indicator of possible increases or decreases in inflation levels.

Following January's US Federal Reserve meeting, the Fed's statement and subsequent Q&A session were more hawkish than investors expected. Jerome Powell mentioned that there would be quite a bit of room to raise interest rates without threatening the labour market. It all but confirmed widespread expectations that the first rate hike will be at the Fed's next meeting on 16 March, compared to prior expectations of a June start. The Fed also reaffirmed its plans to end its bond purchase programme in March before launching a significant reduction in its asset holdings.

The prospect of tighter central bank policy heightened market volatility. The Chicago Board Options Exchange Volatility Index (CBOE VIX) hit a 52-week high toward the end of January. US Retail sales for December came in much weaker than expected with a broad-based decline including a large fall in on-line shopping. The US unemployment rate rose to 4% in January from 3.9% in December.

Chart 2: US Dollar Index (DXY) over the past 5 Years



Source: Investing.com (31 January 2022)

Asset Class (ZAR)	MTD	YTD	1 Year	3 Years	5 Years	10 Years
Local Equity	0.9%	0.9%	23.9%	15.0%	10.6%	11.6%
Local Property	-2.9%	-2.9%	37.4%	-6.6%	-5.2%	5.1%
Local Bonds	0.8%	0.8%	8.5%	8.4%	8.9%	8.1%
Local Cash	0.3%	0.3%	3.6%	4.8%	5.6%	5.6%
Global Equity	-7.8%	-7.8%	16.4%	21.5%	15.8%	18.5%
Global Property	-9.2%	-9.2%	26.2%	13.6%	10.7%	16.3%
Global Bonds	-5.0%	-5.0%	-4.6%	7.0%	5.2%	7.9%
Global Cash	-3.1%	-3.1%	2.9%	6.2%	4.0%	7.9%

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Local Review

Equity

Local equities had a great month compared to many major markets, benefitting from improved sentiment towards emerging markets and a rally in commodity prices. The JSE All Share Index improved 0.9%, with both Financials (3.5%) and Resources (3.6%) delivering healthy returns. Industrials on the other hand, ended the month in the red, down by 1.9%. Foreigners were once again net sellers of South African Equities in January for the tenth consecutive month. Our models suggest there is significant value on offer, and we therefore maintain our equity allocations at levels moderately above benchmark.

Property

After delivering outstanding performance in November and December, local property retreated in January. The SA Property Index ended the month down 2.9%. Over 1 year the index still appreciated by 37.4%. The yields on offer do not fully reflect all the underlying fundamental risks, we therefore maintain an underweight ranking on this asset class.

Bonds

Local bonds performed almost in line with local equities as the JSE All Bond Index delivered 0.8% for the month. Foreigners were net buyers of SA Bonds in January. The benchmark R186 yield decreased slightly to 7.7% (from 7.8% in December) and 10-year government bond yields ended the month unchanged at 9.8%, despite a spike in global bond yields. The risk premium component within the 10-year yield has continued to come down from its record highs. The yield in real terms remains attractive when compared to other asset classes and we continue to allocate to bonds at levels just above the benchmark.

Cash

The annual inflation rate in South Africa accelerated further to 5.9% in December, moving closer to the top of the SARB's target range of 3-6%. This was up from 5.5% in November and above market expectations of 5.7%. The inflation rate was mainly pushed up by prices of transport amid a record rise in fuels. For 2021, inflation now averages out at 4.5% year-on-year. Cash currently delivers a negative real yield of -1.8% and while we appreciate the optionality in cash, there are several other asset classes have much higher expected real returns at the moment.

Global Review

Currency

The local currency strengthened against the US dollar in January despite the risk-off environment. After starting at R15.94/$ it ended the month an impressive 3.5% firmer against the greenback at R15.39/$. At month end, the ZAR was 3% undervalued relative to the trade weighted basket of currencies on a purchasing power parity basis. Using the same methodology, the ZAR was 31% undervalued versus the USD.

Equity

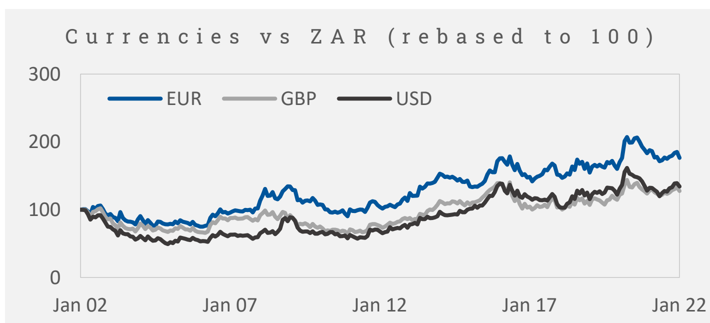
Global equity markets got off to a very poor start in January. Growth stocks were the notable underperformers and experienced their biggest monthly underperformance relative to value stocks since 1999. In US dollar terms, the MSCI All Country World Index was down 4.9% for the month, while the blue-chip S&P 500 lost 5.2%, its biggest monthly drop since the start of the pandemic. The tech-heavy Nasdaq depreciated an astonishing 10.1%. While emerging markets also had a tough start to the year, they fared substantially better than their developed market peers with the MSCI Emerging Markets Index returning -1.9% for the month. We continue to favour allocation to high quality stocks and maintain our allocation to global equity at levels just above benchmark.

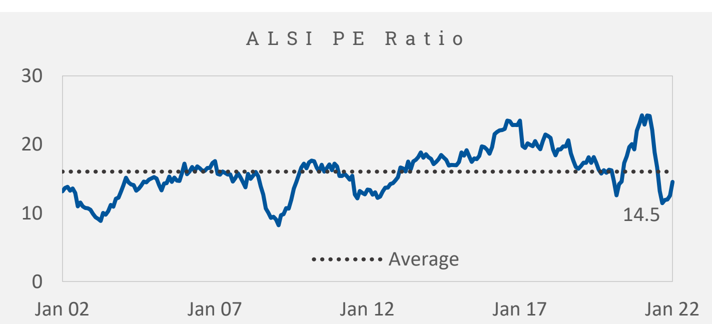
Fixed Income

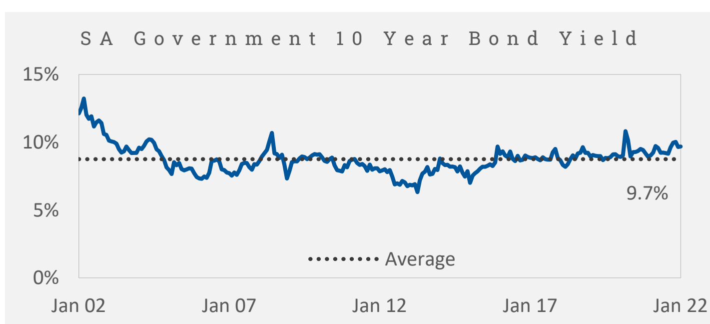
US Treasury yields climbed 0.3% higher to 1.8% in January as investors remained focused on hawkish comments from the Fed. Fed chair, Jerome Powell, didn't rule out the possibility of a rate hike every meeting in 2022 (i.e., seven hikes) causing real long-term rates to rise sharply as a result. The futures market is now pricing in five Fed hikes this year. BCA Research however expects four Fed hikes, starting in March. They still forecast the 10-year US Treasury yield to rise to 2-2.25% by year-end.

Alternative

Other asset classes that can be considered include structured notes, private equity, direct real estate, commodities, and hedge funds and can provide investors with uncorrelated returns. These uncorrelated global assets are particularly attractive in low interest rate environments as they offer an asymmetric return profile. Alternative asset classes can thus perform a useful role in multi asset portfolios as they help provide more consistent returns.







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Glossary of Terms

Annualised Return	Annualised return shows longer term performance rescaled to a 1 year period. Annualised return is the average return per year over the period. Actual annual figures are available to the investor on request.
Annualised Volatility	The deviation of the calendar month return stream, since launch, relative to its own average.
Highest and Lowest Annual Return	The highest and lowest returns, since launch, for any rolling 1 year period have been shown.
Maximum Drawdown	The maximum calendar month peak to trough loss, since launch, suffered by the Fund.
NAV	The net asset value (NAV) represents the assets of a Fund less its liabilities.
Positive Months	The percentage of calendar months, since launch, where the Fund has delivered a positive return.
Return Horizon	Minimum investment period to have a reasonable probability of receiving the benchmark return.
Risk Horizon	Minimum investment period to have a reasonable probability of receiving a positive nominal return.
Total Expense Ratio (TER)	The Fund's Total Expense Ratio (TER) reflects the percentage of the average NAV of the Fund that was incurred as charges, levies and fees related to the management of the Fund. A higher TER does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER cannot be regarded as an indication of future TERs.