Seed Weekly

Current Market Volatility

The "January effect" hypothesizes that the stock market tends to rise in January more than other months. This was first observed by Sidney Wachtel an investment banker in 1942. Having held for some time, more recent data particularly in the last 20 years, shows the effect being less pronounced.

Market	Index	Base Currency	MTD	1 year
Local Market	FTSE/JSE All Share Index TR ZAR	South African Rand	-0.2%	21.9%
Global Market	MSCI All Country World Index NR USD	US Dollar	-7.9%	8.1%
US Market	S&P 500 NR USD	US Dollar	-9.2%	16.5%

Source: Morningstar Direct (27 January 2022)

The South African market has offered a safer space so far this year and over the last year. Given that the global economy is growing and that we are likely moving past the worst of the Covid-19 epidemic, it is somewhat surprising that markets are in this territory.

Why are Markets Experiencing a High Level of Volatility?

This is mostly to do with higher inflation, rising interest rates, and tapering of monetary stimulus. With monetary easing having supported asset prices, the market has been spooked by the move to a tightening regime. Furthermore, inflation which was always suspected to result from excessive money printing seems to have arrived although some (like the Fed) maintain it is likely only transitory though prolonged. Added to this is the threat of geopolitics and Covid-19 creating much angst among investors.

Economic and Market Dynamics

Raising interest rates normally signifies a strong economy as it makes sense to raise rates when the economy is growing. Although global growth prospects are being downgraded, the global economy is still expected to grow above average, driven by consumption and capital expenditure. Though abating, Covid-19 still poses a risk to global economic growth.

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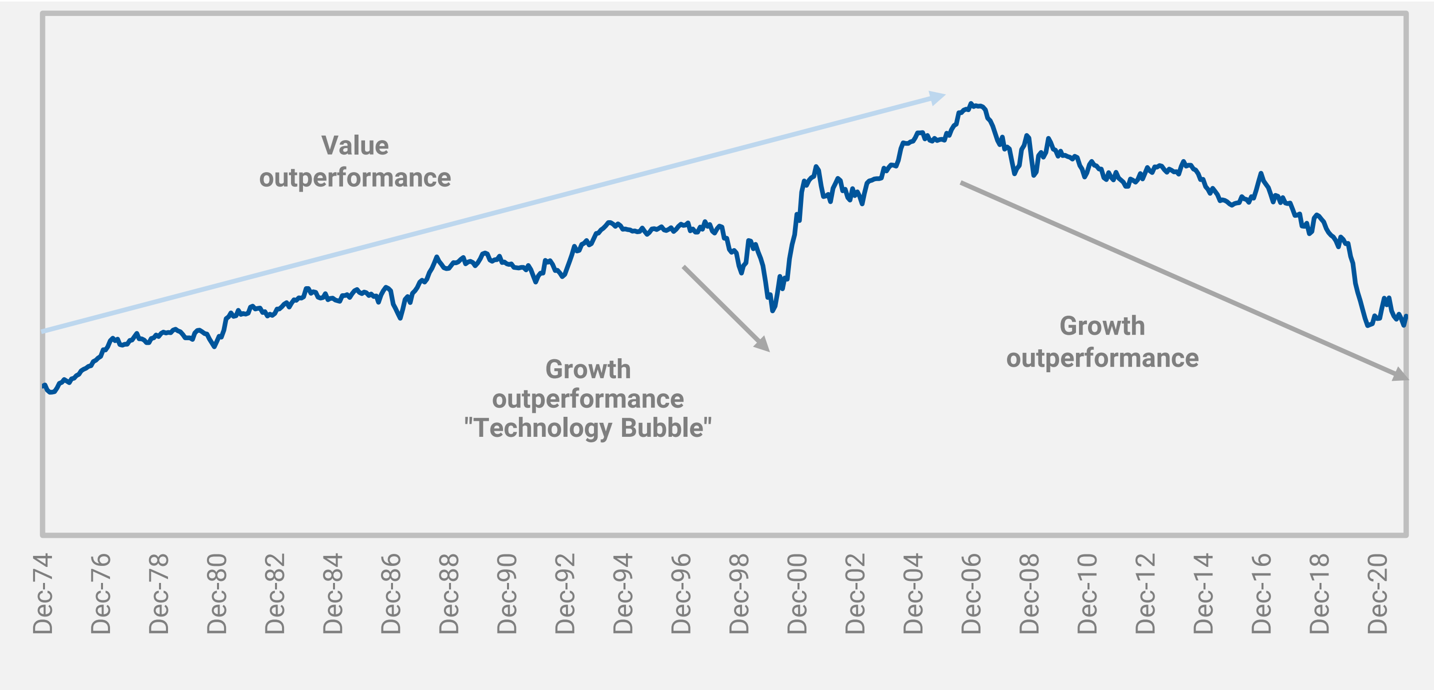
Is it Finally Time for Value?

Performance MSCI World Value / MSCI World Growth



Source: Morningstar Direct (31 December 2022)

The market is worried about the upside potential in global equities because of the lofty valuations. Sections of the market believe value shares will perform better in a higher interest rate environment given history hence the rotation we have seen into cyclical (economically sensitive) shares. Growth shares like technology have been key beneficiaries of excessive money printing hence are feeling the brunt of the market given the move to cut stimulus. While valuations look expensive for some high-quality shares, underlying company fundamentals and prospects for growth still look good. Time will tell whether these type of shares or value shares, perform better.

Final Word

Investors are often encouraged to be patient but in times like these, patience and endurance are tested. It is useful to remember that it is the nature of the market to go through drawdown periods in achieving long term growth. The S&P 500 growth and drawdowns since 1928 in the chart below illustrate this.

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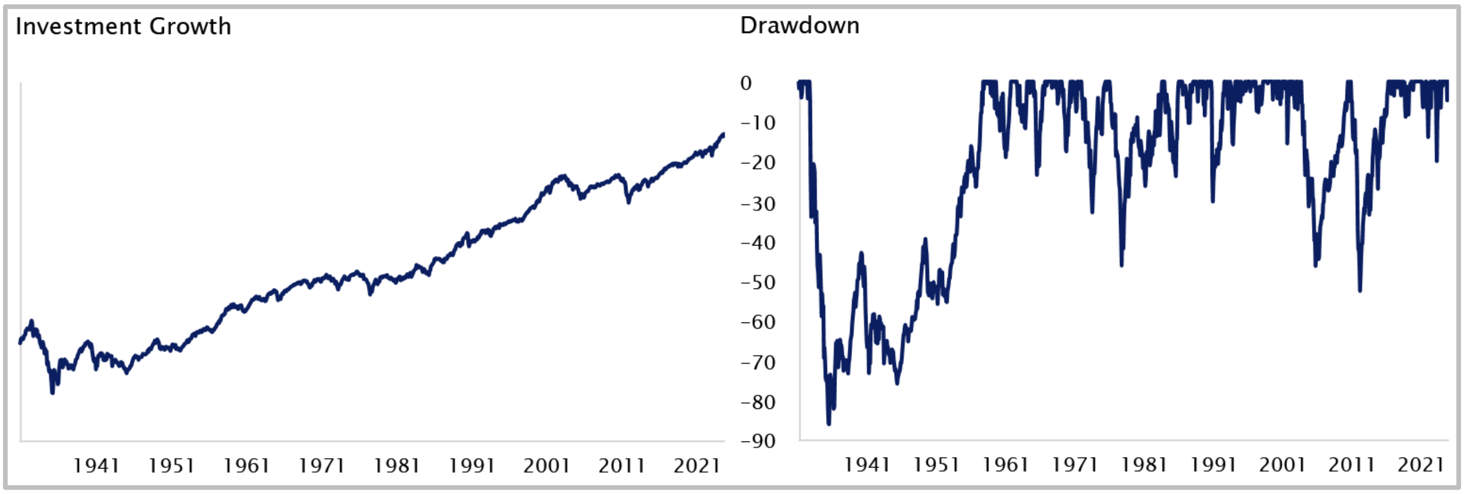

Source: Morningstar Direct (31 December 2022)

Volatile times come with opportunities for long term rewards in the market. It however is important to approach cautiously because not everything that looks like an opportunity is one. Seed has the tools and solutions to help you filter through real market opportunities. We look forward to working with you to make the client investment journey a prosperous one.

Kind Regards,

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Head of Research

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