Market Overview

28 February 2022

Local Market

February was yet another eventful month for both local and global markets. South African assets have held up particularly well once again as higher oil prices, an uptick in the price of safe-haven gold and higher industrial metals prices boosted local companies. The South African stock market was amongst only a few major global markets to end February in positive territory.

On the 10th of February, President Cyril Ramaphosa delivered the State of the Nation Address (SONA), where he announced that the disaster regulations which had been in place for nearly two years might be allowed to lapse in March. The president also announced the extension of the R350 monthly Covid-19 social relief grant for unemployed adults for another year. While offering much-needed support to the poor, the grant has placed a significant strain on government finances. The president stated that this grant would eventually be replaced by another form of support in the future.

In general, the SONA was well received and included some encouraging proposals, such as the creation of a dedicated capacity within the Presidency to cut back red tape across government, reduction of the regulatory burden on informal businesses, and a review of labour market regulations affecting small businesses.

Finance Minister Enoch Godongwana delivered the budget speech on the 23rd of February. Economic growth has been revised downward from 4.8% in 2021, to 2.1% in 2022 and averaging at 1.8% over the subsequent three years. The budget deficit is projected to narrow from 5.7% in 2021/2022 to 4.2% in 2024/2025. The speech also included some tax relief measures, such as a slight reduction in the corporate income tax rate, enabled by commodity-spurred growth in tax revenue.

The first batch of SA activity data for 2022 indicated that the local economy started the year on a solid footing. The Purchasing Managers' Indices, as well as vehicle sales, rose in January. The RMB/BER Business Confidence Index (as illustrated in **Chart 1** below) increased to 46 in the first quarter of 2022, after remaining unchanged at 43 points in the fourth quarter of 2021. The improvement in sentiment points to the economic recovery, temporarily interrupted in the third quarter of last year, having continued into 2022.

Global Market

Globally, the month started with a continuation of concerns around elevated global inflation levels as another above-consensus US inflation print dominated financial market headlines. The headline US inflation figure for January, released early in February, increased to 7.5% year-on-year, up from December's 7.0%. Stock market futures declined following the report, with rate-sensitive tech stocks hit especially hard. US government bond yields also rose sharply, with the benchmark 10-year Treasury note touching 2%, its highest since August 2019.

On the 24th of February Russia launched its invasion of Ukraine, marking the start of the largest military conflict in Europe since World War II. The situation escalated when President Putin placed Russia's nuclear forces on high alert, frustrated by fierce resistance from the Ukrainian military and ever harsher Western sanctions. By month-end, nations around the world were scrambling to roll out sanctions against Russia, with the conflict still raging and the endgame remaining highly uncertain. Headlines suggested that Putin had put his nuclear deterrent forces on high alert, raising fears of the conflict escalating beyond Ukraine.

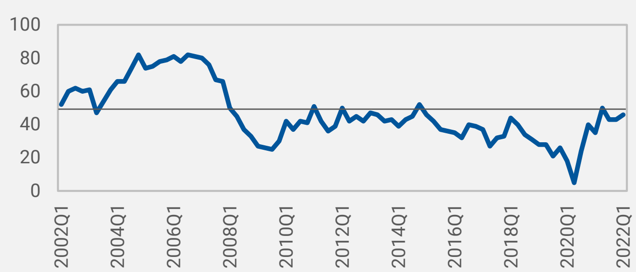
The MOEX Russia Index suffered the fifth worst (-33%) one day index sell off of all time, when compared to 90 other global markets tracked by Bloomberg. The MSCI Russia Index was down 53% at month end and the Russian currency fell 26%. Volatility in the US reached two-year highs.

Russia's role as the third-largest oil producer globally, caused heightened anxiety about the impact that the conflict might have on global energy supplies. Brent crude oil spiked 11% for the month, to end February above $100 per barrel (as illustrated below in **Chart 2** below). This caused the S&P 500 energy sector to increase 7%, the only sector to end the month in positive territory.

While geopolitical tensions dominated headlines in February, there were various positive economic data releases. The IHS Markit Manufacturing Purchasing Managers' Index ticked higher to 57.3 in February, from 55.5 in January, signalling a strong upturn in the manufacturing sector. Output expectations have also been buoyed by manufacturers' predictions of greater continuity in the supply chain and labour conditions.

Chart 1

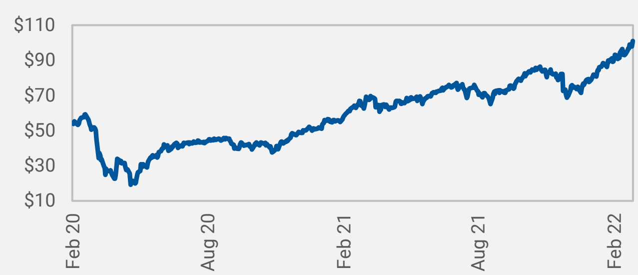
RMB/BER Business Confidence Index over the last 20 Years



Source: ber.ac.za (28 February 2022)

Chart 2

Brent Crude Oil Price over the last 2 Years



Source: Business Insider (28 February 2022)

Asset Class (ZAR)	MTD	YTD	1 Year	3 Years	5 Years	10 Years
Local Equity	2.9%	3.8%	20.5%	14.8%	12.0%	11.8%
Local Property	-3.3%	-6.0%	22.4%	-5.8%	-5.8%	4.6%
Local Bonds	0.5%	1.4%	9.0%	8.7%	8.9%	8.1%
Local Cash	0.3%	0.6%	3.6%	4.7%	5.5%	5.6%
Global Equity	-2.7%	-10.3%	10.0%	17.0%	15.2%	18.0%
Global Property	-2.8%	-11.7%	17.9%	10.4%	10.1%	16.2%
Global Bonds	-1.0%	-6.0%	-3.8%	4.9%	5.5%	8.2%
Global Cash	-0.1%	-3.2%	2.1%	4.1%	4.6%	8.2%

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seed investments

Local Review

Equity

February was another solid month for local equities, the JSE All Share Index appreciated 2.9%. Year-to-date the index has delivered 3.8%, making it one of the top performing equity indices for the first two months of the year. From a sectoral point of view, Resources enjoyed another huge run in February, returning 16.1% for the month. Financials was up 3.8% and Industrials ended the month in the red, down 7.4%. Foreigners were net buyers of South African Equities during February, making them net buyers of SA Equities for the first time in eleven months. Our models suggest there is significant value on offer, and we therefore maintain our equity allocations at levels moderately above benchmark.

Property

Local Property was under pressure in February and the SA Property Index was down -3.3%, decreasing for the second month in a row. The invasion of Ukraine weighed on the sector. Even though direct exposure to Ukraine is limited, the property sector has significant exposure to Central and Eastern European countries bordering Ukraine. The yields on offer do not fully reflect all the underlying fundamental risks, we therefore maintain an underweight ranking on this asset class.

Bonds

Despite a sharp sell-off in the last week of the month, local bonds managed to record a positive return as the high yields compensated for the decline in capital value. The JSE All Bond Index gained 0.5% in February. The benchmark R186 yield increased to 7.9%, from 7.7% in January, and the risk premium component remains elevated. The yield in real terms is very attractive when compared to other asset classes and we increase allocation to bonds to overweight levels relative to the benchmark.

Cash

The annual inflation rate in South Africa eased to 5.7% in January of 2022, from a near five-year high of 5.9% in December. This was in line with market expectations. Prices slowed mostly for transport, health and communication. In contrast, prices rose faster for food, housing and utilities. Cash currently delivers a negative real yield of -1.5% 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

Starting at R15.39/$, the local currency ended the month largely unchanged against the greenback at R15.37/$. The rand improved against the Euro (0.3%) and the British Pound (0.4%). At month end, the ZAR was 2% 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

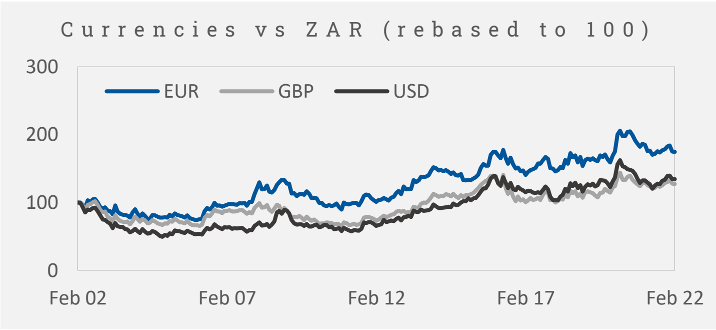
Global markets were fairing relatively well for the first part of February, with aggregate earnings growth ahead of consensus analyst expectations. Towards month-end, however, the focus shifted to the conflict between Russia and Ukraine and markets went into a tailspin. In US dollar terms, the MSCI All Country World Index ended February down 2.3%, while the S&P 500 lost 3.0%. Emerging markets were only slightly behind their developed market counterparts, with the MSCI Emerging Markets Index depreciating 3.0% in February. Performance within the index, however, was highly divergent. The MSCI BRIC (Brazil, Russia, India and China) Index lost a whopping 6.3%. We continue to favour allocation to high quality stocks and maintain our allocation to global equity at levels just above benchmark.

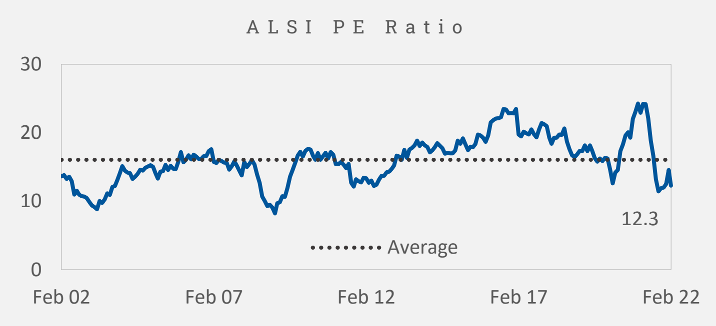
Fixed Income

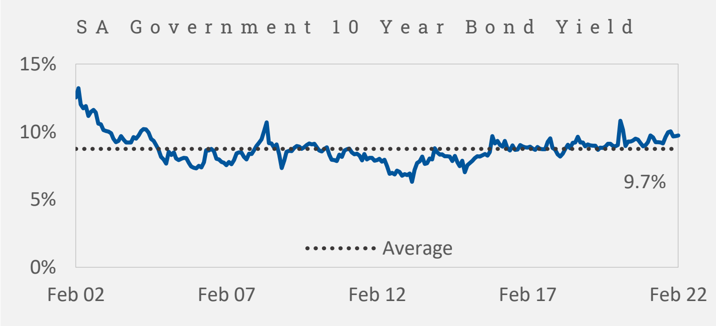
US 10-year government bond yields retreated from their mid-month highs of 2.1% to end the month roughly where it started, at 1.8%, as investors shifted towards less risky assets. BCA Research states, that with inflation set to peak and the Fed likely to be less hawkish than the market has priced in, they do not see the 10-year US Treasury yield rising more than another 25 basis points or so above its current level this year.

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.