Market Overview

31 March 2022

seed investments

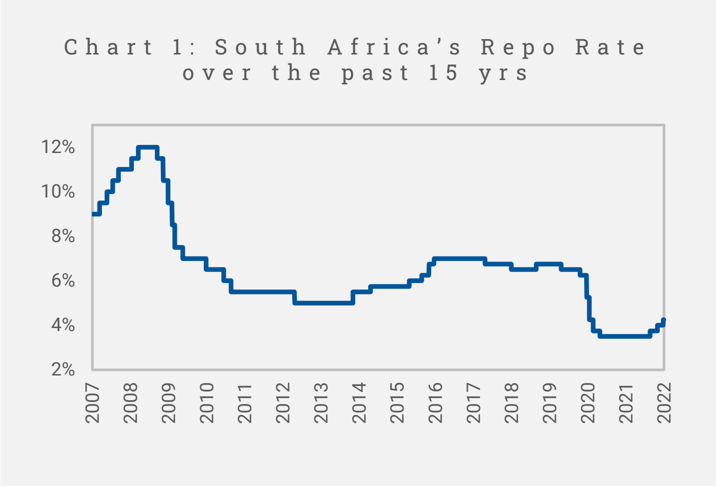
Local Market

The ongoing conflict in Ukraine remained the key driver of news headlines in March. South Africa continued to emerge as a beneficiary of the conflict as foreign interest from emerging market investors seeking a safer haven increased. As a commodity producer SA also benefited from being an alternative supplier of sanctioned Russian commodities in an already tight market. Along with those in Brazil and India, equity markets in SA were among the only major global markets to deliver a positive return for 1Q22.

Diversified miners and financial stocks were the key drivers of the local bourse's performance in the first quarter. Companies with predominantly foreign earnings, on the other hand, were hampered by a strong local currency. Naspers and Prosus continued their poor run and decreased -33% and -39% for 1Q22 respectively. The performance of their largest underlying investment, Chinese tech company, Tencent, continued to be held back by the current poor sentiment towards Chinese investments.

At its March meeting, the South African Reserve Bank delivered a much anticipated 0.25% interest rate hike, bringing the repo rate to 4.25%, as illustrated in **Chart 1** (below). This was its third consecutive hike of this tightening cycle. Two out of the five Monetary Policy Committee members voted to raise the repo rate more aggressively by 0.50%, marking the first time a 50 basis point move was favoured by any MPC member in 4 years. The trajectory for the remainder of the year is for a further increase of 0.75%. The MPC's inflation forecasts for 2022 was raised by 0.9% to 5.8% due mainly to a material increase in the price of fuel and food.

South Africa's latest unemployment data came in at 35.3% for the fourth quarter of 2021. This is up from 34.9% in the previous quarter and the highest level on record. The number of discouraged work-seekers decreased by 1.4% and the youth unemployment rate remains at a staggering 65.5%. GDP growth for the fourth quarter of last year surprised on the upside, coming in at 1.2%. This brings the annual growth rate for 2021 to 4.9%. The economy remains 1.8% smaller than it was in the first quarter of 2020, before the pandemic.



Source: Investing.com (31 March 2022)

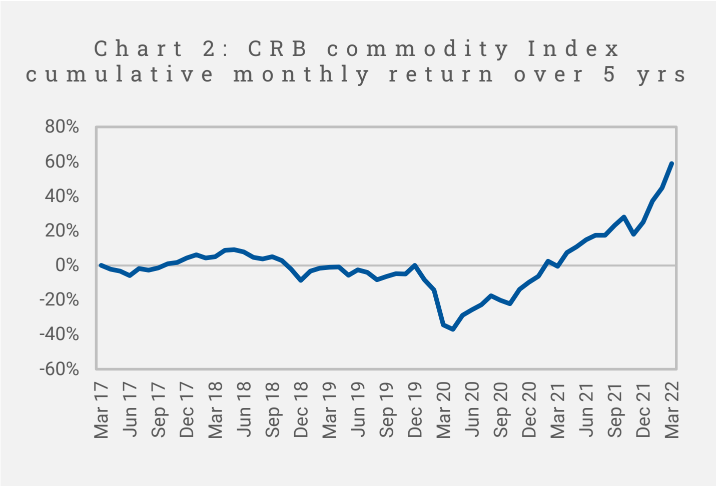
Global Market

The first quarter of 2022 has been difficult for markets across the globe with unexpected high levels of volatility. Continued uncertainty over global inflation and interest rate policy, along with risk-off investor sentiment, was reflected in broad weakness across both global equities and bonds. The tragic and destructive Russian invasion of Ukraine in the last week of February, and the unprecedented level of sanctions imposed against Russia, created even further uncertainty. Global equity markets however, started recovering in mid-March as sentiment improved somewhat.

Investor sentiment towards China has been very poor as a result of the renewed regulatory crackdown on Chinese corporates and also suspicions of China's possible support of the Russian invasion of Ukraine. A resurgence of Covid-19 cases has led to local lockdowns in multiple cities including Shanghai and Shenzhen towards the end of the month. Chinese markets were sharply down in March with the CSI 300 and Hong Kong's Hang Seng Index losing 7.8% and 3.2% respectively. Europe is also experiencing a spike in hospitalisations as a potentially troublesome Covid-19 variant is also making its way through.

At its meeting on 16 March, the US Federal Reserve announced that it would lift interest rates by 0.25%. In many ways, this was the Fed catching up to what the market was already saying. The Fed has made it clear that there will be further increases aimed at stopping the US economy from overheating and reducing inflation which is at its highest level in 40 years. The median voting member now expects seven hikes this year, and four next year. Including the US Federal Reserve and the South African Reserve Bank, 23 central banks raised rates in March.

Commodity prices continued to rocket during March, as illustrated by the CRB index in **Chart 2** (below). The CRB index is the Commodity Research Bureau Index and acts as a representative indicator of today's global commodity markets. It measures the aggregated price direction of various commodity sectors and is designed to isolate and reveal the directional movement of prices in overall commodity trades. Commodities have been well supported by supply chain bottlenecks, a resurgence in global demand, as well as the tensions between Russia and Ukraine.



Source: Investing.com (31 March 2022)

Asset Class (ZAR)	MTD	YTD	1 Year	3 Years	5 Years	10 Years
Local Equity	0.0%	3.8%	18.6%	14.2%	11.4%	11.9%
Local Property	5.1%	-1.3%	27.1%	-3.8%	-4.9%	5.0%
Local Bonds	0.5%	1.9%	12.4%	8.4%	8.9%	8.1%
Local Cash	0.3%	0.9%	3.6%	4.7%	5.5%	5.6%
Global Equity	-3.4%	-13.4%	6.2%	14.2%	13.6%	17.3%
Global Property	-0.8%	-12.3%	16.5%	8.0%	9.8%	15.5%
Global Bonds	-8.7%	-14.2%	-8.0%	0.5%	3.1%	7.2%
Global Cash	-5.4%	-8.4%	-0.9%	1.2%	2.9%	7.4%

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Local Review

Equity

Local Equities had a solid first quarter. While flat for the month of March, the JSE All Share Index still delivered 3.8% year-to-date. From a sectoral point of view, March saw financials enjoying a huge run as it climbed an impressive 12.0%. Industrials and resources, on the other hand, ended the month in the red, down 4.3% and 1.1% respectively. Foreigners were net buyers of South African Equities during March, making them net buyers of SA Equities for the second consecutive month. Our models suggest there is significant value on offer, and we are therefore increasing our equity allocations to overweight levels relative to the benchmark.

Property

After a poor start to the month, local property rallied as strong operational updates by many of the index heavyweights seemed to improve sentiment towards the sector. The SA Property Index closed March 5.1% higher. Despite the strong performance in March, the index still ended the first quarter down 1.3%. The yields on offer do not fully reflect all the underlying fundamental risks of this asset class and we therefore maintain an underweight ranking on local property.

Bonds

The JSE All Bond Index improved 0.5% in March, Year-to-date the index has appreciated 1.9%. SA government bond yields followed global yields higher and the benchmark R186 yield increased to 8.1%, from 7.9% in January. While the risk premium component has come down slightly, it remains on the high end. The yield in real terms is very attractive when compared to other asset classes and we maintain our allocation to bonds at overweight levels relative to the benchmark.

Cash

The annual inflation rate in South Africa came in unchanged at 5.7% for February. While slightly below market expectations of 5.8%, it remains close to the top of the SARB's target range of 3-6%. On a monthly basis, consumer prices inched up by 0.6%, faster than a 0.2% rise in January, but slightly below market estimates of a 0.75% increase. Cash currently delivers a negative real yield of -1.3% 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 R15.37/$, the ZAR strengthened meaningfully against the US dollar and ended March at R14.60/$. During the first quarter of the year, the rand appreciated by 8.3% relative to the greenback. At month end, the ZAR was 5% overvalued relative to the trade weighted basket of currencies on a purchasing power parity basis. Using the same methodology, the ZAR was 25% undervalued versus the USD.

Equity

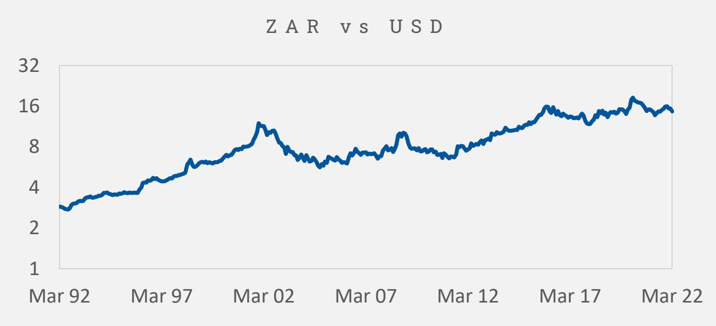
March was a mixed bag for global equity markets with major US indices recording good gains for the month, while European and Chinese equity markets struggled. In US dollar terms, the MSCI All Country World Index posted a return of 2.2% in March. The blue-chip S&P 500 increased by 3.7% and the tech-heavy Nasdaq rose by 3.4%. Emerging markets continued to struggle and the MSCI Emerging Markets Index depreciated 2.3% in March. With overall equity valuation, based on forward PE, no longer as stretched, rising input costs putting downward pressure on profit margins, and slowing revenue growth, we reduce our allocation to global equity to levels in line with the benchmark. We continue to favour allocation to high quality stocks.

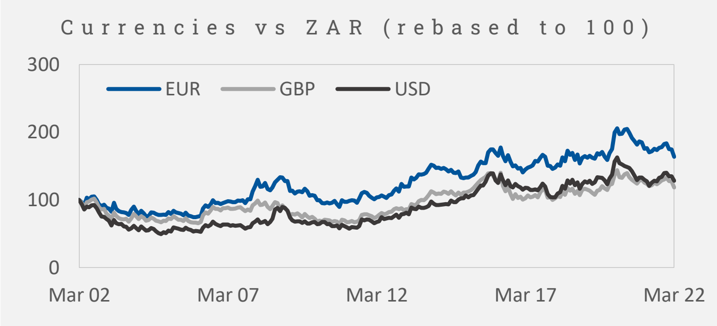
Fixed Income

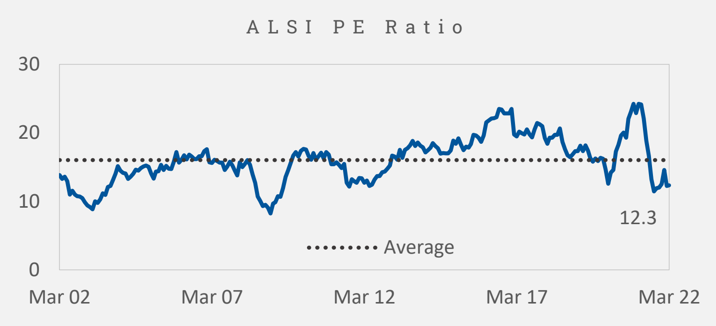
Global bond markets remained under pressure and bond yields spiked in March (bond prices and yields move in opposite directions). The US 10-year government bond yields breached 2.5% intra-month, before ending March 0.5% higher at 2.3%. BCA Research states their base case is that inflation will moderate in the coming months so there should be limited upside for bond yields.

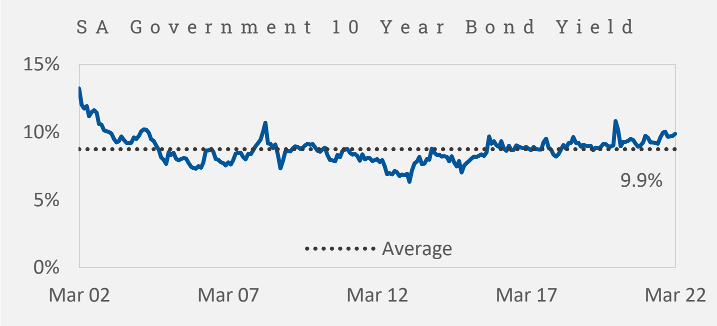
Alternative

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.