Market Overview

30 April 2022

Local Market

In the beginning of April, President Cyril Ramaphosa announced the much anticipated end to the country's state of disaster that was implemented on the 15th of March 2020 at the start of the pandemic. The number of Covid-19 positive cases, however, started to pick up again in mid-April. While previous forecasts had pointed to a fifth Covid-19 wave beginning in SA from mid-May, it appears that the country will enter the fifth wave sooner than initially expected as the infection rate continues to increase. New Omicron sub lineages, which appear to be more infectious than previous variants, were found to account for about 70% of new coronavirus cases at the end of April.

April also brought about one of the worst natural disasters South Africa has seen, causing great economic and social damage. Heavy rainfall and flooding in KwaZulu-Natal and parts of the Eastern Cape caused extensive damage to infrastructure and resulted in an estimated 500 deaths and the destruction of more than 5000 homes. The provincial government has estimated that infrastructure repair alone will cost about R17 billion. In response to floods cabinet decided to return SA to a national state of disaster.

Data released in April showed South Africa's trade surplus widening to R45.9bn in March, the highest since June 2021 and well above market expectations. Exports for March were a whopping 32% higher than in February and 10% higher than the previous record in March 2021. The sharp rise in the country's export earnings has been fueled by further upward pressure on the prices of several of South Africa's key export commodities, especially iron ore and coal. At the end of April, the price of coal had more than doubled from its level of $157 per ton at the beginning of the year. Global demand for coal has surged due to tight supplies of alternative energy commodities and sanctions on Russian imports of coal.

As illustrated in **Chart 1** (below), the Absa Purchasing Managers' Index dropped to 50.7 points in April from 60 points in March. This is the lowest level since July 2021 when unprecedented looting and rioting shook local production and demand and is likely reflecting the effects of the KZN floods and the re-emergence of load shedding.

Global Market

Global markets sold off in April as uncertainty grew around the impact that ongoing inflationary pressures, the strict lockdowns in parts of China, Russia's continued attack on Ukraine, and supply chain disruptions will have global economic growth. The broad sell-off posed a challenge to investors as there was no place to hide with even safe havens assets such as gold and US Treasuries performing poorly in April. Bond yields continued to rise, resulting in further negative returns, and the gold price declined by -2.1% during the month.

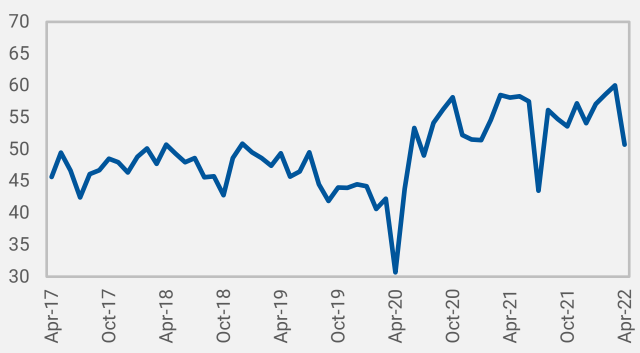
Central banks across the globe increased interest rates in April. The Bank of England announced an interest rate hike to a 13-year high of 1%, they also sent a stark warning that Britain risks a double-whammy of a recession and inflation above 10%. Australia's central bank also lifted its benchmark interest rate for the first time in more than 11 years, from 0.1% to 0.35%, and the Reserve Bank of India announced a surprise 40 basis point repo rate increase to 4.4%, the first hike in nearly four years.

The US Federal Reserve maintained a hawkish stance and raised rates by 50 bps to a range of 0.75% to 1%, in line with market expectations. They also announced that they will start to reduce the balance sheet relatively quickly from 1 June 2022. The US dollar surged to its highest level in two decades and the US Dollar Index reached new 52-week highs in April as the market discounted an even more aggressive path of hiking ahead.

The ongoing conflict in Ukraine continued to weigh on energy prices in April. As illustrated in **Chart 2** (below), the price of Brent crude oil remained above US$100 per barrel. Increasing a further 2.3% in USD over the month, oil prices have gained nearly 38% year-to-date.

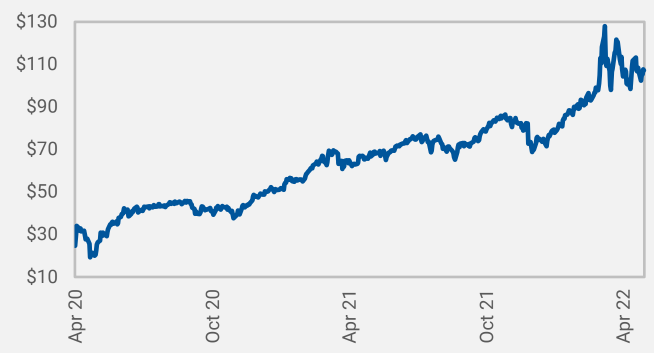
The price of natural gas jumped by 28% in April, to a level that is almost double from where it started this year. This was due to a combination of supply-side constraints and demand-side pressure. Demand for natural gas in the US increased as the West attempts to break its dependence on Russia. Simultaneously, US natural gas production has slowed.

Chart 1: Absa Purchasing Managers Index (PMI)



Source: ber.ac.za (30 April 2022)

Chart 2: Brent Crude Oil Price Over the Last 2 Years



Source: Business Insider (30 April 2022)

Asset Class (ZAR)	MTD	YTD	1 Year	3 Years	5 Years	10 Years
Local Equity	-3.7%	0.0%	13.2%	11.3%	9.8%	11.2%
Local Property	-1.4%	-2.7%	12.2%	-5.3%	-5.2%	4.6%
Local Bonds	-1.7%	0.2%	8.4%	7.6%	8.3%	7.8%
Local Cash	0.3%	1.3%	3.7%	4.6%	5.4%	5.6%
Global Equity	-0.4%	-13.7%	3.1%	13.1%	13.2%	17.3%
Global Property	2.2%	-10.5%	13.0%	9.3%	10.1%	15.3%
Global Bonds	2.3%	-12.2%	-5.3%	1.6%	3.3%	7.2%
Global Cash	8.3%	-0.8%	9.2%	4.1%	4.6%	8.2%

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Local Review

Equity

Local Equities followed global markets lower in April. The JSE All Share Index ended the month down 3.7%, bringing the year-to-date return to a flat 0.0%. From a sectoral point of view, financials were the biggest drag on performance. Being heavily impacted by the massive weakening in the rand, financials lost 6.1% by month end. Resources ended April down 4.8% and Industrials 1.7%. After two months of being net buyers, foreigners were net sellers of South African equities during April. Our models suggest there is significant value on offer, and we therefore allocate to local equity at levels moderately above benchmark.

Property

Local property performed better than both local equities and local bonds in April with the SA Property Index depreciating only by 1.4% over the period. Year-to-date however, property is still the worst performing local asset class, down 2.7%. Volatility within the sector remains elevated and 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 also ended the month in the red and the JSE All Bond Index depreciated 1.7%. Year-to-date the index has appreciated a meagre 0.2%. SA government bonds sold off alongside global bonds and the benchmark R186 yield increased to 8.3%, from 8.1% in March. While remaining on the high end, the risk premium component has continued to come down in April. 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 rose to 5.9% in March, from 5.7% in February, marginally lower than consensus of 6% and very close to the top of the SARB's target range of 3-6%. Core CPI also increased from 3.5% to 3.8%, the highest in over two years. Headline inflation continues to be dominated by higher fuel prices which rose by 7.2% in the month pushing the year-on-year increase to 33%. 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

After holding up remarkably well during the first three months of the year, the local currency lost almost all its first quarter gains during April and was the worst-performing major currency for the month. Kicking April off at R14.60/$, the rand depreciated all the way to R15.81/$ at month end, experiencing its largest decline (-7.6%) against the US dollar since March 2020. It also declined against the Euro (-3.0%) and British Pound (3.4%). At month end, the ZAR was trading at fair value, relative to the trade weighted basket of currencies on a purchasing power parity basis. Using the same methodology, the ZAR was 35% undervalued versus the USD.

Equity

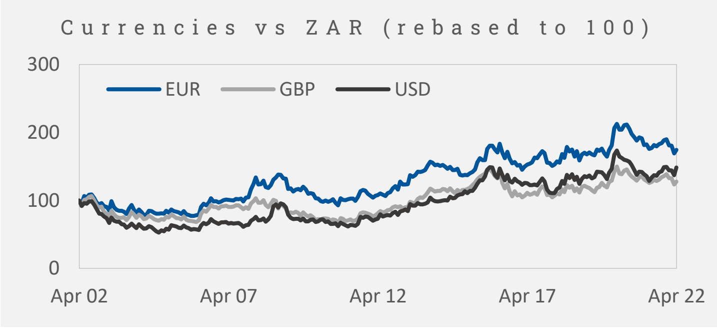
April was a brutally volatile month for world equity markets. In US dollar terms, the MSCI All Country World Index declined 8.0% for the month, resulting in a year-to-date loss of 12.9% for the index. US tech shares were amongst April's biggest losers and tech-heavy Nasdaq 100 Index experienced its worst monthly drawdown since 2008, ending April down 13.3%. The S&P 500 depreciated 8.7%. Emerging markets fared only slightly better than their developed market counterparts, with the MSCI Emerging Markets Index depreciating 5.6%. We continue to favour allocation to high quality stocks and maintain our allocation to global equity at levels in line with the benchmark.

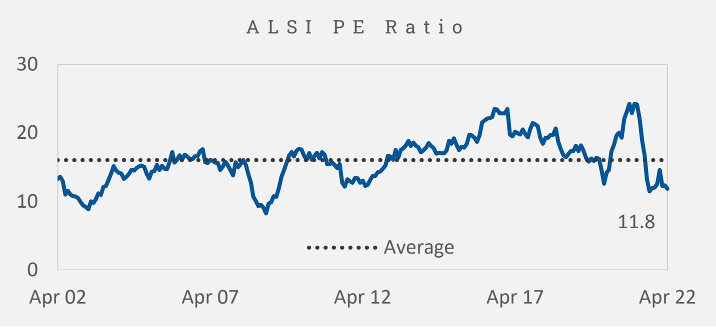
Fixed Income

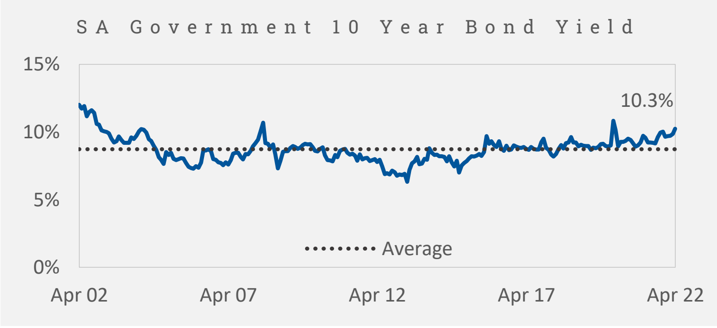
Global bonds suffered their worst month on record and the TSE World Government Bond Index lost a staggering 5.9% in April. Heightened expectations for monetary tightening pushed US 10-year government bond yields 0.6% higher to end April at 2.9%. BCA Research does not expect long-term rates to rise much over the next 6 to 9 months.

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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seed investments

Disclaimer

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.