Market Overview

31 May 2022

Local Market

May was yet another volatile month for both global and local markets. The South African stock market rallied alongside global markets in the last few days of the month following significant intramonth drawdowns. South Africa remains less impacted by the global inflationary and geopolitical environment than most other countries, as it benefits from higher commodity prices which are positively influencing tax revenues and the current account.

As illustrated in **Chart 1** (below), the South African Reserve Bank's Monetary Policy Committee stepped up efforts to fight inflation and broke precedence by hiking rates by 0.5% on the 19th of May, as opposed to the 0.25% increments that we have seen thus far in the current rate-hiking cycle. While it was the highest rate increase since 2016, the move was expected and largely already priced in by the market. The central bank also increased inflation forecasts for 2022 to 5.9% (previously 5.8%), and moved estimates higher for 2023 and 2024, while reducing growth for 2022 to 1.7% from a previously estimated 2%.

S&P Global Ratings affirmed SA's sub-investment grade rating in May, but unexpectedly upgraded the outlook on SA from stable to positive. The agency stated that recent favourable terms of trade have improved SA's external and fiscal trajectory, while the country's "reasonably large net external asset position, flexible currency, and deep domestic capital markets provide strong buffers against shifts in external financing." Bonds and the rand reacted favourably to the announcement.

Late May saw a second wave of flooding in KwaZulu-Natal, just six weeks after parts of the province were hit by flooding in which over 400 people died and infrastructure was destroyed. On the pandemic front, Department of Health data show that 36.1mn vaccine doses have been administered as at 31 May versus 34.9mn at the end of April. The total number of confirmed Covid-19 cases in SA since the start of the pandemic stood at 3.96mn at month end, compared 3.79mn on 30 April.

After robust activity in the first quarter of the year, economic data suggests some loss in momentum in the second quarter. The severe floods, record unplanned electricity outages, higher policy rates, higher domestic inflation, and a weaker global backdrop, all point to weaker growth in 2Q22.

Global Market

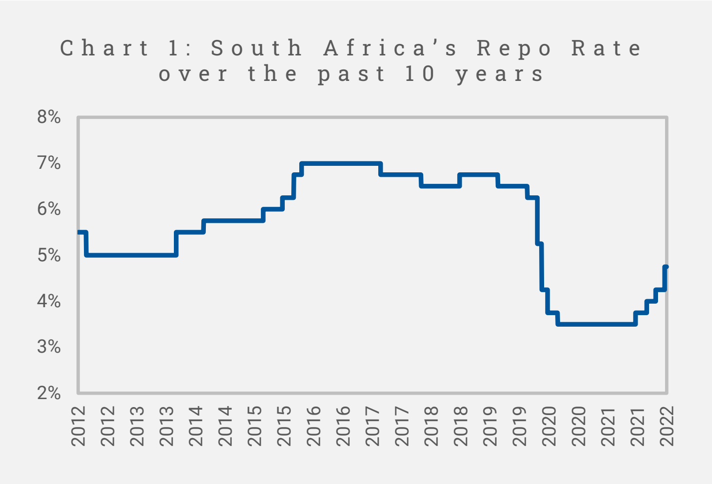
Following a torrid month in April, May began in similar fashion for global markets. Risk assets however generally stabilised after the Federal Reserve raised rates, then rallied into the back end of the month. As a result, global equities ended the month largely flat. May was also characterised by higher than expected inflation, weaker than expected economic data, and less resilient consumer spending than previously anticipated.

The US Federal Reserve delivered a much anticipated 0.5% interest rate hike at its meeting in early May, its biggest increase in more than two decades. The central bank also indicated that it would start reducing its $9 trillion balance sheet in planned phases, starting on 1 June. Over the month the Fed's tone grew increasingly hawkish while growth concerns mounted. Chair Jerome Powell stated said that policymakers will "keep pushing" until inflation falls convincingly, while adding that this may require the central bank to move "more aggressively". US inflation came in at 8.3% for April, while below the March level of 8.5%, it was above economist expectations of 8.1%.

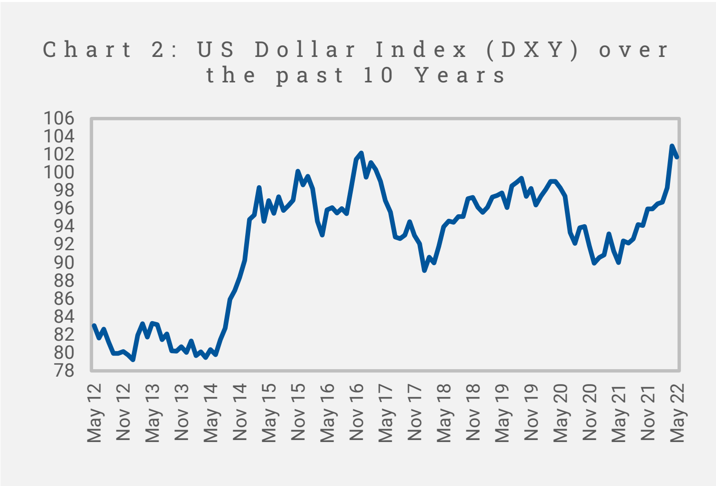
Geopolitics were less disruptive for markets in May, in the absence of major events and surprises. The conflict in Ukraine continued to drag on, now more confined to the east of the country. Relations between the US and China were again strained over Taiwan. Chinese equities rebounded on optimism that lockdowns were potentially nearing an end. China's GDP growth for 2022 is expected to moderate to 4.5% due to the strain from Covid-19 lockdowns. This is a full percentage point below the Chinese government's official target.

The US Dollar Index (DXY), which tracks the greenback against six major currencies, reached new 52-week highs in early May, but then dropped back to its 50-day moving average resistance as the dollar weakened against most major developed and emerging market currencies. As illustrated in **Chart 2** (below), the index ended May down -1.2%, its worst monthly loss in a year.

Commodities, and energy in particular, remained well supported by supply chain bottlenecks, a resurgence in global demand and the geo-political tensions between Russia and Ukraine. Brent Crude Oil ended May at a two-month high of more than $123 a barrel after the European Union agreed to ban most Russian oil imports.



Source: Investing.com (31 May 2022)



Source: Investing.com (31 May 2022)

Asset Class (ZAR)	MTD	YTD	1 Year	3 Years	5 Years	10 Years
Local Equity	-0.4%	-0.3%	11.0%	13.0%	9.8%	11.6%
Local Property	0.0%	-2.6%	15.5%	-5.0%	-5.2%	4.5%
Local Bonds	1.0%	1.2%	5.6%	7.7%	8.2%	7.9%
Local Cash	0.4%	1.6%	3.7%	4.5%	5.4%	5.5%
Global Equity	-1.4%	-14.9%	5.9%	14.3%	12.7%	17.1%
Global Property	-6.1%	-15.9%	10.2%	6.4%	8.9%	14.1%
Global Bonds	-1.5%	-13.5%	-2.1%	0.0%	3.0%	6.0%
Global Cash	-1.4%	-2.2%	13.9%	3.0%	4.6%	7.0%

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Local Review

Equity

Local Equities declined slightly in May. The JSE All Share Index was down -0.4%, bringing the year-to-date return to a negative -0.3%. With banks amongst the best performers financials rebounded sharply, increasing 3.5% in May after its selloff in April. Industrials and Resources both ended the month in the red, depreciating 2.2% and 0.4% respectively. Foreigners were net sellers of South African Equities again during May. Our models suggest there is significant value on offer, and we therefore maintain allocation to local equity at levels moderately above benchmark.

Property

Local property had a rough start to the month declining to -7.2% before recovering in the final four trading days of the month. The SA Property Index ended May flat, year-to-date the index has now delivered -2.6%. Performance across counters within the sector was mixed during the month. The yields on offer do not fully reflect all the underlying fundamental risks and we therefore maintain an underweight ranking on this asset class.

Bonds

Local Bonds were the best performing local asset class for the month. The JSE All Bond Index improved 1.0%, bringing the year-to-date performance of the asset class to 1.2%. The benchmark R186 yield ended May unchanged at 8.3% and while also largely unchanged, the risk premium component remained 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 inflation rate in South Africa for April came in unchanged at 5.9%. This was in line with market forecasts and marks the 12th consecutive month in which inflation has been higher than the 4.5% midpoint of the SARB's target range. Food and fuel inflation moderated while medical insurance and vehicle price inflation moved higher, pushing core inflation to from 3.8% to 3.9%. Headline CPI is expected to increase materially over the next two months. Cash currently delivers a negative real yield of -1.0% 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 Rand also had a highly volatile month. After kicking the month off at R15.81/$, it weakened all the way to R16.21/$ around mid-month. The local currency however managed to recover lost ground and ended the month stronger against the greenback at R15.65/$. At month end, the ZAR was trading at 2% overvalued 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

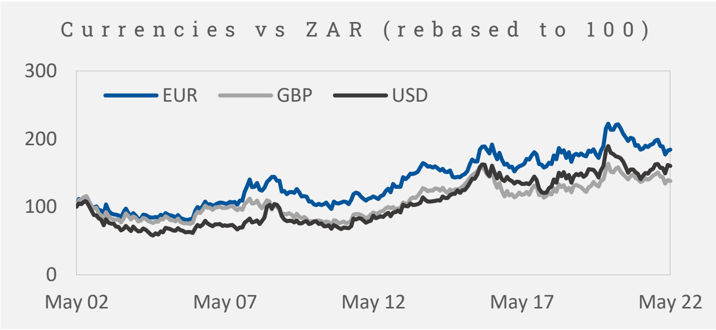
Global markets experienced high volatility as uncertainty of the impact of high inflation and rising interest rates on asset prices continued to weigh on investor sentiment. In US dollar terms, the MSCI All Country World Index ended the month up only 0.1%, bringing the index's year-to-date return to -12.8%. The S&P 500 returned 0.2% and the tech-heavy Nasdaq Composite struggled to keep up the pace, finishing May 2.0% lower. Emerging markets fared marginally better than their developed market peers, with the MSCI Emerging Markets Index appreciating 0.4%. We continue to favour allocation to high quality stocks and maintain our allocation to global equity at levels in line with the benchmark.

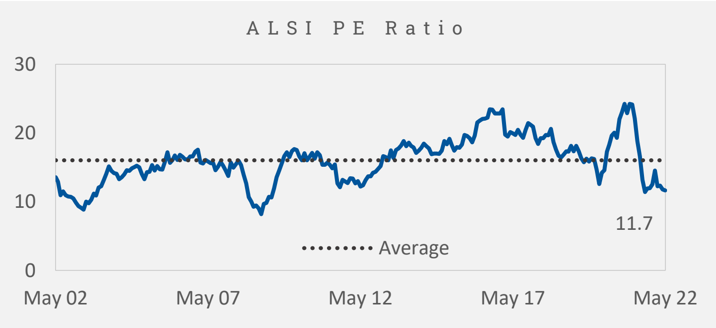
Fixed Income

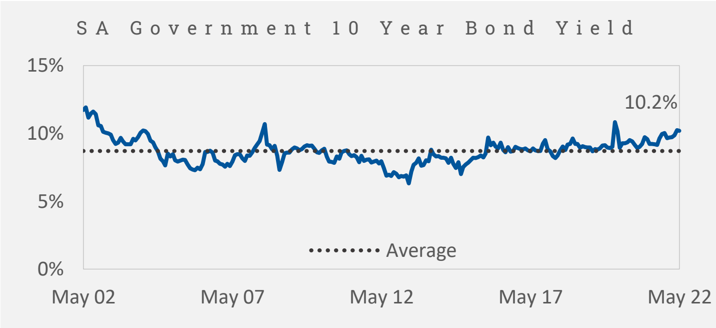
Global bonds seemed to have stabilised after a tough start to the year. The benchmark US 10-year government bond yield rose to an intraday peak of 3.2% on the 9th of May following the Fed meeting, thereafter it rallied hard to 2.7% and finally closed the month at 2.8% (from 2.9% in April).

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

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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.