Market Overview

30 June 2022

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Local Market

The local market followed global markets lower in June with the JSE ending the month in the red. Local equities recorded its biggest monthly fall since the start of the pandemic in March 2020 as the possibility of a meaningful slowdown in global economic growth increased. Challenges at SA's power utility also added to pessimism as striking Eskom employees exacerbated the already challenged state of the utility's ability to meet the country's energy needs. Loadshedding was moved to Stage 6 for the first time since December 2019, with the country clocking up 62 days of blackouts in the first half of the year.

On the local economic data front, SA's economic recovery from the depths of the pandemic-induced lockdowns seems to have been faster than anticipated. South Africa's GDP expanded by 1.9% quarter-on quarter in the first quarter of 2022, ahead of most forecasts and the second consecutive quarter of GDP growth. Year-on-year, GDP was up 3%. Real GDP is now slightly higher than what it was before the Covid-19 pandemic.

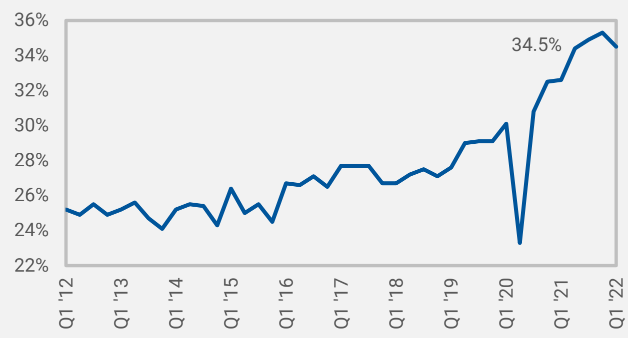
The current account figures for the first quarter of 2022, also released in June, showed the current account surplus widening to 2.2% of GDP – an increase from the upwardly revised 2.1% for the fourth quarter of 2021. Another positive print was the decline in South Africa's unemployment rate.

As illustrated in **Chart 1** (below), the unemployment rate fell to 34.5% in 1Q22, from 35.3% in 4Q21, the first decline in seven quarters.

Absa Purchasing Managers' Index signaled a contraction in output for a third consecutive month, declining to 52.2 index points in June from 54.8 in May. The average level for the second quarter, 45, was much lower than the average recorded in the first quarter, at 58.9. The destructive flooding in KwaZulu-Natal in April, sustained supply chain friction and significant load-shedding has weighed on output.

On the pandemic front, Department of Health data show that 36.8mn vaccine doses have been administered as at 30 June versus 36.1mn as at end of May. The total number of confirmed Covid-19 cases in SA since the start of the pandemic stood at 4mn at month end, compared to 3.96mn on 31 May.

Chart 1: South Africa Unemployment Rate



Source: investing.com (30 June 2022)

Global Market

It's been a tough first half of the year for global investors as markets faced a laundry list of concerns. These included new COVID-19 lockdowns and an economic slowdown in China, the Russia and Ukraine war, surging inflation, and central-bank tightening. June was exceptionally gloomy as global inflation data deteriorated even further, raising recession fears and expectations of steep interest rate hikes by the US Federal Reserve to combat inflation.

May Inflation, released in June, accelerated by 8.6% year-on-year, the biggest increase since December 1981. In response to the much-higher inflation print, the Federal Reserve Bank hiked its main policy rate by 0.75 basis points – its largest increase in 28 years. The rate hike was higher than had been expected. There was no change in the Fed's guidance to winding down the balance sheet, which started at the beginning of June at a rate of US$50bn per month and will ramp up to US$95bn per month by September.

A bright spot in June was Chinese markets which made a strong comeback as China emerged from its Covid lockdowns. Supportive monetary policy in China also helped sentiment and the Shanghai Composite Index ended the month up +7.5%.

Geopolitical tensions remained elevated as the war in Ukraine continued with Russia expanding its territorial gains in eastern Ukraine. Restrictions on Russian energy imports to Europe were tightened, exacerbating the energy shortfalls there and leading to fears of rationing later in the year.

Commodities sold off as investors positioned for the possibility of commodity demand slowing if a recession were to occur. Iron ore, platinum and palladium dropped by -13%, -7% and -3% respectively, all in US dollar terms. Gold, while trading higher towards month-end, still ended June down -1.6% on the strength of the US dollar. As illustrated in **Chart 2** (below), the yellow metal has been struggling over recent months due to the Fed's aggressive and hawkish campaign.

The oil price, while still up +48% year-to-date, was down in June as OPEC and its allied oil-producing countries decided on 30 June to increase crude production. The cryptocurrency sell-off also continued and bitcoin fell by -40% in June, closing at a two-year low. Down -51% in Q2, bitcoin had its worst quarter in more than a decade.

Chart 2: Gold Spot US Dollar Price over 10 years

Source: investing.com (30 June 2022)

Asset Class (ZAR)	MTD	YTD	1 Year	3 Years	5 Years	10 Years
Local Equity	-8.0%	-8.3%	4.7%	8.2%	8.7%	10.5%
Local Property	-10.3%	-12.7%	0.2%	-9.0%	-7.3%	2.7%
Local Bonds	-3.1%	-1.9%	1.3%	5.8%	7.8%	7.2%
Local Cash	0.4%	2.0%	3.8%	4.5%	5.3%	5.5%
Global Equity	-3.7%	-18.1%	-3.3%	11.7%	11.9%	16.6%
Global Property	-4.4%	-19.7%	0.2%	5.5%	7.9%	13.5%
Global Bonds	1.9%	-11.9%	-3.4%	1.0%	3.5%	6.7%
Global Cash	5.3%	3.0%	15.1%	5.8%	5.8%	8.0%

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Local Review

Equity

After performing better than emerging market peers for most of the year, local equities underperformed in June. The JSE All Share Index depreciated by 8.0%, despite a strong rally in index heavyweights Naspers (38%) and Prosus (30%). Anglo American lost 24% as miners were amongst the worst performers in June. Year-to-date the local bourse has delivered -8.3%. From a sectoral point of view, both resources and financials posted a double-digit negative return, down 16.3% and 13.3% respectively. Industrials managed to end the month in the green, returning 0.9%. Our models suggest there remains significant value on offer, and we therefore maintain allocation to local equity at levels moderately above benchmark.

Property

June was a tough month for the listed property sector. The SA Property Index declined by 10.3%, bringing the index's year-to-date performance down to -12.7%. Negative sentiment and the spike in bond yields were key contributors to the weakness in the sector. We maintain an underweight ranking on this asset class as the yields on offer do not fully reflect all the underlying fundamental risks.

Bonds

Local bonds had the worst month since March 2020 and the JSE All Bond Index ended June down 3.1%. Year-to-date, the index has returned -1.9%. Bond yields spiked and the benchmark R186 yield increased to 8.9%, from 8.3% in May. June saw a large foreign selling of SA bonds and the risk premium component 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 quickened to 6.5% in May, from 5.9% in April and March. This was above market expectations of 6.2% and broke through the upper limit of the SARB's target range of 3%-6%. It was the highest reading since January of 2017. Prices continued to accelerate mostly for transport, on account of fuels, and food and non-alcoholic beverages. Costs were also higher for housing and utilities. Cash currently delivers a negative real yield of -1.5% and while we do appreciate the optionality in cash, there are several other asset classes have much higher expected real returns at the moment.

Global Review

Currency

After clawing back 1.0% in May, the rand ended June 4.1% weaker against a strong US Dollar. After starting the month at R15.65/$, the local currency fell to its weakest level against the greenback in over a year, ending June at R16.29/$. 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 41% undervalued versus the USD.

Equity

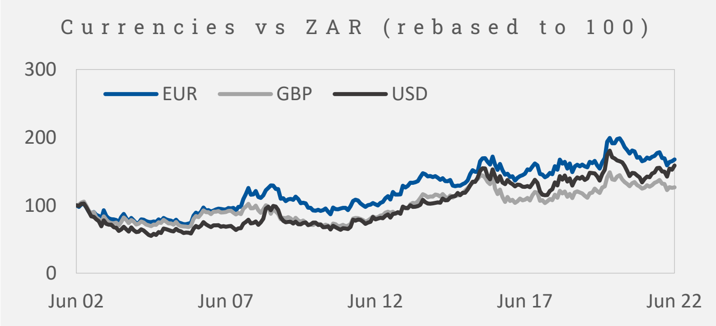
June was the worst month this year for global equity markets. In US dollar terms, the MSCI All Country World Index declined 8.4% for the month, bringing the index's year-to-date return to -20.2%. Tech shares were still amongst the biggest losers, with the tech-heavy Nasdaq 100 Index down 9% in June and down 29% year-to-date. The S&P 500 declined 8.3%, with the energy sector (-17%) the worst-performing sector. Emerging markets outperformed their developed market counterparts, predominantly thanks to a strong performance by Chinese shares. The MSCI Emerging Markets Index ended June -6.7% lower. We continue to favour allocation to high quality stocks and maintain our allocation to global equity at levels in line with the benchmark.

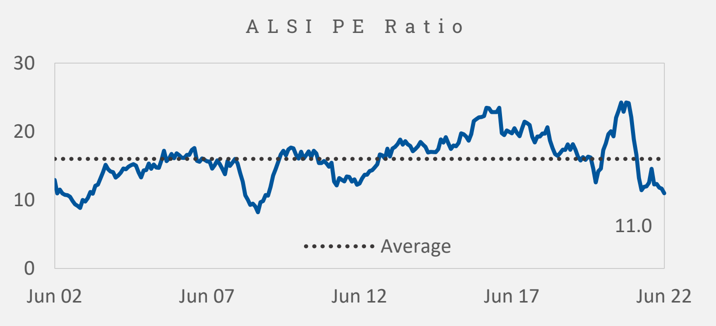
Fixed Income

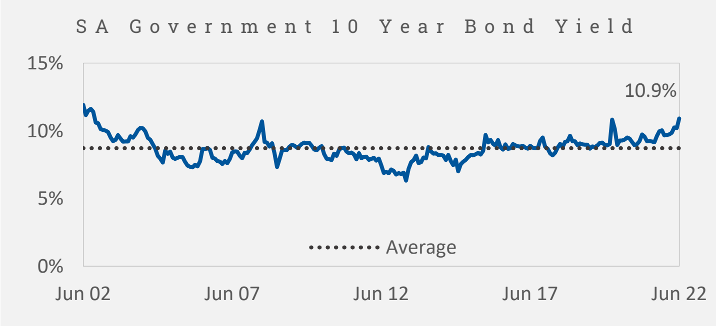
Global bond yield spiked with the US 10-year government bond yields reaching an intra-month high of 3.5%, the highest level since 2011. US 10-year bond yields fell into month-end, settling at 3.0% (0.2% ahead of their May close). The Bloomberg Global Bond Index was down 3.2% for the month, leaving it 14% lower year-to-date.

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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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.