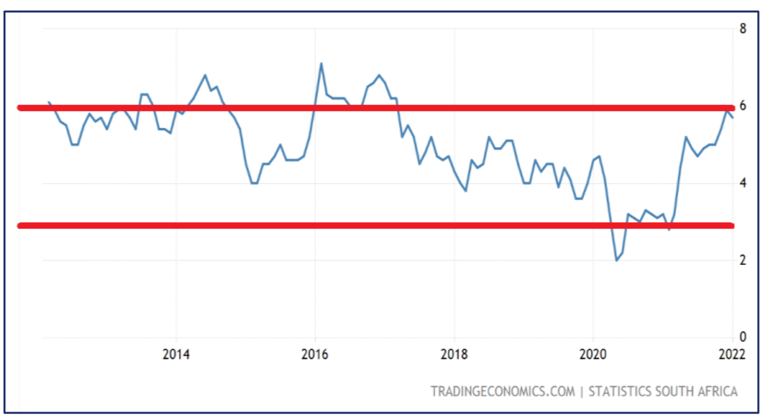
South African Market

Russian war threats against Ukraine turned into a full-scale invasion, trumping market worries about the direction and timing of the Fed's interest rate decisions. Developed and emerging markets retraced as the risk environment deteriorated. Only a few commodity exporting countries benefited from the spike up in commodity prices. Commodities responded sharply on expectations of war-related supply shortages to come. Precious metals gold and silver were also well bid on the back of the rising risk environment.

In South Africa, resources and financials pulled the FTSE/JSE Capped All Share Index up, while industrials lagged. The All-Bond Index gained, with holdings in the longer duration sectors contributing the most. South African government bonds continue to offer relatively attractive real yields. The rand was surprisingly stable given the negative global sentiment. Notwithstanding a mildly positive budget speech, the currency suffers from structurally weak longer-term fundamentals.

There were several trading updates during the month which meaningfully impacted share prices, including Telkom, which reported slowing mobile subscriber growth, and Tiger Brands, which reported lower bread volumes and margin compression due to its inability to recover cost increases. At the other end of the spectrum, the banks released better-than-expected trading updates, showing strong earnings momentum and likely more benign credit losses than anticipated. Gold mining shares lead the way as the price of gold rallied 6% during the month, with investors turning to perceived safe-haven assets on fears related to the conflict between Russia and Ukraine.

Sasol, which should have been a huge beneficiary of a higher oil price, offset that tailwind with the release of earnings which showed disappointing execution. Naspers and Prosus continued to weigh heavily on the local bourse (-22% and -26% for the month, respectively), declining by more than double the rate of their biggest investment, Tencent (-11% in SA rand terms). The pair have now lost almost half of their value in the past year. The continued softness in Tencent can at least partially be ascribed to the ongoing interference of the Chinese government in the operating models of large Chinese tech companies.



SA inflation data released during the month were largely in line with expectations +5.7%. Whilst this can be seen as a slight improvement, the figure remains near the top of the South African Reserve Bank's 3-6% target (see graph on the left). As such, the consensus is for another 25-basis point hike in the repo rate to 4.25% at the Reserve Bank's March meeting. The national budget speech delivered during the month by Finance Minister Enoch Godongwana, contained no material surprises with the windfall from higher commodity prices being used to reduce debt and fund temporary social relief grants, while fiscal consolidation remains intact. There was also a welcomed expansion of the offshore allowance for compulsory savings. The rand had a volatile month due to Russia's invasion of Ukraine causing investors to seek the comfort of safer assets.

Asset Class Performances in ZAR

As of 28th February 2022	MTD	YTD	1 Year	3 Years*	5 Years*	10 Years*
Global Equity – MSCI ACWI	(2.36)	(10.27)	9.36	17.28	15.49	18.70
Global Property - FTSE EPRA NAREIT DR	(2.76)	(11.67)	17.93	10.40	10.13	16.34
Global Bond - JPM GBI Global Traded	(0.99)	(5.96)	(3.77)	4.94	5.49	8.38
Global Cash - ICE LIBOR 1 Month	(0.10)	(3.16)	2.13	4.06	4.63	8.36
SA Equity - FTSE/JSE All Share	2.95	3.83	20.47	14.80	11.98	11.78
SA Property - FTSE/JSE SA Listed Prop	(3.26)	(6.02)	22.43	(5.85)	(5.77)	4.67
SA Bond - BEASSA ALBI	0.54	1.40	9.02	8.75	8.91	8.11
SA Cash - STeFI Call Deposit	0.29	0.61	3.58	4.73	5.52	5.58

ZAR/USD (negative = rand strength)	0.02	(3.41)	1.87	3.05	3.29	7.51
Gold	5.69	0.50	11.32	14.14	9.87	7.11
Brent Crude Oil	10.60	25.71	55.80	18.90	16.50	5.60

*Returns more than 1 year area annualized.

STAR INVESTMENT PARTNERS

Global Markets

Equity and bond markets experienced a difficult month in February as concerns surrounding the Russian invasion of Ukraine took hold. In the first half of the month, expectations for the number of interest rate hikes that would be delivered by the US Federal Reserve (Fed), the Bank of England (BoE) and the European Central Bank (ECB) ramped up quickly. Investors were concerned that the central banks may dampen growth in their efforts to get inflation under control. In the second half of the month, investors' attention was absorbed by the conflict in Ukraine. This dampened expectations for rate hikes compared with the intra-month peak, and also delivered a further hit to growth expectations.

Global stocks were negotiating the first part of February relatively well – roughly flat, in aggregate, by mid-month. US earnings were largely going according to plan, with most S&P 500 companies having reported 4Q21 earnings by month-end, and aggregate earnings growth of around 30% YoY – and close to 6% ahead of consensus analyst expectations. There were notable exceptions amongst the positive earnings surprises, including some from the darlings of the pandemic, like Facebook owner, Meta, which saw its share price fall 26% on the day after reporting earnings that included a disappointing outlook for 1Q22 revenue amidst stagnating user growth, larger-than-expected headwinds related to Apple's privacy updates, and increasing competition for advertising spend from the likes of TikTok. PayPal and Home Depot were also amongst the companies experiencing big share price declines in the wake of their results.

Towards month-end, the focus on corporate earnings shifted swiftly to the escalating conflict in Ukraine with Russian troops crossing the border, intent on forcing a regime change in their former Soviet Union neighbor. By month-end, nations around the world were scrambling to roll out sanctions against Russia and its leaders, with the conflict still raging and the endgame remaining highly uncertain. Headlines suggesting Russian president, Vladimir Putin, had put his nuclear deterrent forces on high alert, raised fears of a conflict escalating beyond Ukraine and left investors shunning risky assets (MSCI ACWI -2.3%). Russian assets bore the brunt of the sell-off and the Russian currency falling by 26%.

Russia is a significant exporter of commodities, accounting for 13% of global crude oil production, 17% of natural gas production and nearly a tenth of global wheat supplies. Brent oil ended the month at $100 per barrel and European natural gas prices rose 15% in February. Higher energy prices could fuel higher or at least more persistent inflation, eating into household incomes.

US headline inflation of 7.5% coming in ahead of expectations and higher than December's print (7%, the highest inflation level in 40-years). The spike in energy prices related to the conflict will exacerbate inflationary pressures, and markets are still anticipating that the US Federal Reserve (Fed) will deliver five 0.25% rate hikes this year.

The graph to the left is how the MSCI's index for all stock markets outside the U.S. has fared since the turn of the millennium. In price terms (dividends would change the picture), non-U.S. stocks have grown at slightly less than 1.2% per annum since 2000. The latest selloff leaves them comfortably below their pre-Global Financial Crisis peak, set on the ominous date of Halloween in 2007. They didn't scrabble back to that level until last year. Outside the U.S., this has been a bad millennium for stock market optimists, so far.

Asset Class Performances in USD

As of 28th February 2022	MTD	YTD	1 Year	3 Years*	5 Years*	10 Years*
Global Equity – MSCI ACWI	(2.25)	(7.32)	7.19	13.65	11.71	10.35
Global Property - FTSE EPRA NAREIT DR	(2.65)	(8.77)	15.60	6.98	6.52	8.15
Global Bond - JPM GBI Global Traded	(0.88)	(2.88)	(5.67)	1.69	2.03	0.75
Global Cash - ICE LIBOR 1 Month	0.01	0.02	0.10	0.83	1.20	0.74
SA Equity - FTSE/JSE All Share	3.06	7.24	18.08	11.25	8.31	3.92
SA Property - FTSE/JSE SA Listed Prop	(3.15)	(2.93)	20.01	(8.77)	(8.86)	(2.69)
SA Bond - BEASSA ALBI	0.66	4.73	6.86	5.38	5.34	0.50
SA Cash - STeFI Call Deposit	0.41	3.92	1.53	1.49	2.06	(1.85)

USD/ZAR (negative = dollar strength)	(0.02)	3.41	(1.87)	(3.05)	(3.29)	(7.51)
Gold	5.81	3.80	9.11	10.60	6.27	(0.42)
Brent Crude Oil	10.72	29.84	52.71	15.22	12.68	(1.83)

*Returns more than 1 year area annualized.

Historic Asset Class Performance Matrix

The below performance matrix shows returns (colour coded) for the 4 main indicative sources of return per asset class and separated for South Africa and Global. **All performance figures here shown in ZAR.** The performances show the one-year performance of each asset class up to the displayed date (X-axis) except for the column showing YTD returns up to 28th February 2022.

	YTD	2022/02	2021/02	2020/02	2019/02	2018/02	2017/02	2016/02	2015/02	2014/02	2013/02	2012/02	2011/02
Best	SA Equity 3.8	SA Property 22.4	SA Equity 33.2	Global Fixed Income 21.7	Global Property 36.7	SA Equity 17.4	SA Fixed Income 13.5	Global Fixed Income 39.1	SA Property 44.3	Global Equity 43.3	Global Property 43.3	SA Property 21.8	SA Equity 23.6
	SA Fixed Income 1.4	SA Equity 20.5	Global Equity 27.4	Global Property 16.3	Global Cash 21.8	SA Fixed Income 14.3	SA Property 11.0	Global Cash 35.8	Global Property 28.6	Global Property 27.3	SA Property 35.7	Global Fixed Income 15.0	Global Property 21.7
	SA Cash 0.6	Global Property 17.9	SA Fixed Income 8.3	Global Equity 15.8	Global Equity 18.4	Global Equity 7.6	SA Cash 6.9	Global Property 28.7	Global Equity 16.4	SA Equity 22.8	Global Equity 32.6	SA Fixed Income 13.6	SA Property 16.3
	Global Cash -3.2	Global Equity 9.4	SA Cash 4.0	Global Cash 14.3	Global Fixed Income 18.1	SA Cash 6.8	SA Equity 6.3	Global Equity 19.5	SA Equity 16.1	Global Fixed Income 20.7	Global Cash 20.7	Global Property 9.8	Global Equity 11.8
	Global Fixed Income -6.0	SA Fixed Income 9.0	Global Fixed Income -1.3	SA Fixed Income 8.9	SA Cash 6.6	Global Fixed Income -4.3	Global Equity 2.2	SA Cash 5.9	SA Fixed Income 15.0	Global Cash 19.9	SA Equity 19.3	SA Equity 9.6	SA Fixed Income 10.1
	SA Property -6.0	SA Cash 3.6	Global Property -1.9	SA Cash 6.6	SA Fixed Income 4.2	SA Property -6.1	Global Property -7.1	SA Property -2.0	Global Cash 8.7	SA Cash 4.8	Global Fixed Income 18.7	Global Cash 7.6	SA Cash 6.0
	Global Equity -10.3	Global Cash 2.1	Global Cash -3.5	SA Equity -5.7	SA Equity -0.9	Global Cash -8.6	Global Cash -16.7	SA Fixed Income -3.7	SA Cash 5.5	SA Property -0.3	SA Fixed Income 14.3	Global Equity 6.0	Global Fixed Income -4.1
Worst	Global Property -11.7	Global Fixed Income -3.8	SA Property -15.8	SA Property -19.1	SA Property -5.2	Global Property -11.9	Global Fixed Income -18.3	SA Equity -4.4	Global Fixed Income 5.1	SA Fixed Income -1.0	SA Cash 5.0	SA Cash 5.3	Global Cash -9.2

Source: Morningstar Direct