South African Market

The local bourse had a good start to 2022 as it benefitted from improved sentiment towards emerging markets and a rally in commodity prices. Mining shares were amongst the best performers. The Peoples Bank of China (PBOC) has started loosening monetary policy to boost flagging economic growth and the prospect of stronger economic growth in China helped boost commodity prices and drove up the share prices of diversified miners. Geopolitical tensions surrounding the build-up of Russian troops on the border of Ukraine placed pressure on an already tight global energy market, driving Brent crude oil and thermal coal prices higher. Sasol and Thungela were the biggest local beneficiaries of spiking energy prices.

Domestically focused companies also benefitted from improving sentiment towards value stocks, with the local banks having a good month. British American Tobacco was also a beneficiary of improving sentiment towards value stocks, this despite a 3.4% headwind from rand strength against the US dollar.

The January meeting of the South African Reserve Bank (SARB) delivered a much anticipated 0.25% rate increase, the second of the current hiking cycle, pushing the repo rate to 4% – still well below the 6.25% level it was at going into the pandemic in March 2020. The increase came in the wake of the country's highest inflation print in almost 5 years (+5.9% YOY), though when stripping out the volatile food and energy components, core inflation for December came in at a much more muted 3.4% increase.

The tone of the SARB was significantly less hawkish than the market had priced for, with one SARB member even voting to keep rates unchanged, and SA 10-year government bond yields ended the month unchanged at 9.8%, despite a spike in global bond yields.

This is the highest inflation reading in just under five years (see chart on the left) and is pushing closer to the South African Reserve Bank's target range of 3-6%. The rise is predominantly due to increasing fuel costs brought about by a tightening oil market. The price of Brent Crude went up by +13.7% for the month.

The rand has strengthened year to date as the market continues to price in more rate hikes in 2022, which in turn make South African assets more attractive globally. As such the rand gained 3.4% against the dollar, 4.4% against the pound, and 4.9% against the euro.

Asset Class Performances in ZAR

As of 31st January 2022	MTD	YTD	1 Year	3 Years*	5 Years*	10 Years*
Global Equity – MSCI ACWI	(8.10)	(8.10)	15.78	21.65	15.99	19.03
Global Property - FTSE EPRA NAREIT DR	(9.16)	(9.16)	26.22	13.56	10.73	16.28
Global Bond - JPM GBI Global Traded	(5.03)	(5.03)	(4.55)	7.02	5.16	7.87
Global Cash - ICE LIBOR 1 Month	(3.06)	(3.06)	2.87	6.19	4.03	7.88
SA Equity - FTSE/JSE All Share	0.86	0.86	23.89	14.98	10.63	11.65
SA Property - FTSE/JSE SA Listed Prop	(2.85)	(2.85)	37.44	(6.65)	(5.21)	5.12
SA Bond - BEASSA ALBI	0.85	0.85	8.49	8.39	8.95	8.07
SA Cash - STeFI Call Deposit	0.32	0.32	3.55	4.80	5.57	5.59

ZAR/USD	(3.42)	(3.42)	1.65	5.04	2.67	6.99
Gold	(4.91)	(4.91)	(0.98)	13.97	8.76	5.86
Brent Crude Oil	13.67	13.67	67.75	19.77	13.45	5.00

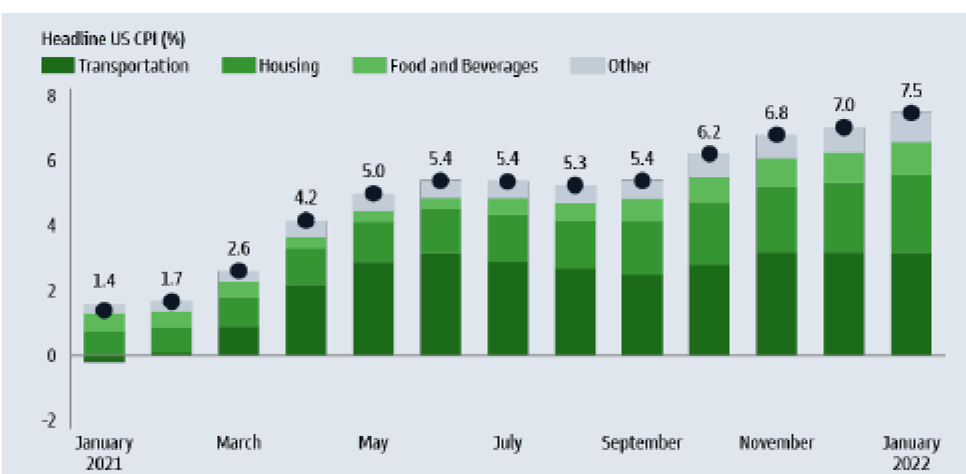
Global Markets

January was a stark reminder to investors that risks abound. Developed market equities fell sharply and volatility spiked as investors reacted to hawkish signs from the US Federal Reserve portending an unexpectedly faster rise in interest rates to reign in surging inflation. US bourses led the declines given lofty valuations, with the long duration FAANG Index falling the most.

Developed market stocks had their worst start to a year since 2016 (MSCI ACWI -5.2%). This, as the prospect of tightening monetary conditions weighed on stocks, particularly growth stocks that recorded their biggest monthly underperformance relative to value stocks since 1999 (MSCI Global Growth -9.3% vs MSCI Global Value -1.3%). The increasingly hawkish stance of the US Federal Reserve (Fed) coincided with the latest US inflation print coming in at a 40-year high (7%) and, by the end of January, markets were anticipating five US rate hikes of 0.25% each in 2022 (up from an expectation for three hikes in 2022 at the start of the year). Fed minutes also showed that members had started discussing the prospect of shrinking the Fed balance sheet once rate hikes had started. US 10-year government bonds climbed 0.3% to 1.8% during the month.

US corporates started reporting 4Q21 earnings into this volatile market, with around one-third of companies having reported by month-end. In an already tough environment for growth stocks, Netflix reported earnings ahead of expectations, but with disappointing guidance and subscriber growth the stock saw 29% (around US$77bn) wiped off its market cap in January. Credit card companies fared better during the month, surprising investors with the rate at which cross-border and travel spending on cards was returning and the share prices responded well.

Chinese equity markets, which have been amongst the worst-performing global markets for the past year, were among the best performing at the start of 2022 as the Peoples Bank of China (PBOC) moved in the opposite direction to DM central banks, loosening monetary policy in an attempt to reignite flagging economic growth. Unfortunately, geopolitical tension prevented Russian markets from participating in the EM rally as Russian troops gathered on the border with Ukraine, introducing the prospect of international sanctions on Russia and its leaders. Geopolitical tensions with one of the world's largest oil producers put pressure on already tight global energy markets and saw Brent crude oil end the month 17% higher at US$91/bbl.



Headline US inflation continues to print higher, as demand sours while supply chains remain constrained, as can be seen on the chart on the left. Market expectations are the inflationary pressures will ease over the course of the year, with core and headline CPI ending 2022 at 3.9% and 4.1%, respectively.

STAR INVESTMENT PARTNERS

Asset Class Performances in USD

As of 31st January 2022	MTD	YTD	1 Year	3 Years*	5 Years*	10 Years*
Global Equity – MSCI ACWI	(5.19)	(5.19)	12.66	15.58	12.84	11.15
Global Property - FTSE EPRA NAREIT DR	(6.28)	(6.28)	22.82	7.90	7.73	8.58
Global Bond - JPM GBI Global Traded	(2.02)	(2.02)	(7.13)	1.69	2.30	0.73
Global Cash - ICE LIBOR 1 Month	0.01	0.01	0.10	0.90	1.21	0.74
SA Equity - FTSE/JSE All Share	4.06	4.06	20.55	9.25	7.63	4.26
SA Property - FTSE/JSE SA Listed Prop	0.22	0.22	33.73	(11.30)	(7.79)	(1.84)
SA Bond - BEASSA ALBI	4.04	4.04	5.57	2.99	5.99	0.92
SA Cash - STeFI Call Deposit	3.50	3.50	0.76	(0.42)	2.70	(1.40)

USD/ZAR	3.55	3.55	(1.62)	(4.80)	(2.60)	(6.54)
Gold	(1.90)	(1.90)	(3.65)	8.29	5.81	(1.15)
Brent Crude Oil	17.27	17.27	63.22	13.80	10.37	(1.95)

Historic Asset Class Performance Matrix

The below performance matrix shows returns (color 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 31st January 2022.

	YTD	2022/01	2021/01	2020/01	2019/01	2018/01	2017/01	2016/01	2015/01	2014/01	2013/01	2012/01	2011/01
Best	SA Equity 0.9	SA Property 37.4	Global Equity 18.7	Global Equity 31.0	Global Property 19.6	SA Equity 16.1	SA Property 15.4	Global Cash 37.0	SA Property 46.4	Global Equity 42.9	Global Property 37.1	SA Property 19.1	Global Property 26.2
	SA Fixed Income 0.8	Global Property 26.2	SA Equity 14.5	Global Property 27.9	Global Cash 14.2	Global Equity 12.6	SA Fixed Income 11.9	Global Fixed Income 34.7	Global Property 31.6	Global Property 27.1	Global Equity 32.3	Global Fixed Income 18.1	SA Property 24.5
	SA Cash 0.3	SA Equity 23.9	SA Fixed Income 8.2	Global Fixed Income 20.4	Global Fixed Income 11.0	SA Fixed Income 10.8	SA Equity 10.3	Global Equity 28.0	SA Fixed Income 21.2	Global Cash 25.3	SA Property 31.0	Global Property 14.2	SA Equity 20.6
	SA Property -2.9	Global Equity 15.8	Global Fixed Income 6.7	Global Cash 15.5	SA Fixed Income 8.8	SA Cash 6.9	SA Cash 6.9	Global Property 27.6	SA Equity 17.1	Global Fixed Income 23.2	SA Equity 23.7	SA Fixed Income 13.5	Global Equity 15.7
	Global Cash -3.1	SA Fixed Income 8.5	SA Cash 4.3	SA Fixed Income 8.5	SA Cash 6.6	SA Property 3.9	Global Equity 1.3	SA Cash 5.8	Global Equity 11.0	SA Equity 14.9	Global Cash 14.8	SA Equity 10.8	SA Fixed Income 12.3
	Global Fixed Income -5.0	SA Cash 3.6	Global Cash 0.7	SA Equity 7.1	Global Equity 3.5	Global Property -5.0	Global Property -7.2	SA Equity -1.1	SA Cash 5.5	SA Cash 4.8	SA Fixed Income 13.7	Global Cash 8.9	SA Cash 6.1
	Global Equity -8.1	Global Cash 2.9	Global Property -9.3	SA Cash 6.6	SA Equity -6.1	Global Fixed Income -5.5	Global Fixed Income -14.4	SA Property -2.4	Global Cash 4.3	SA Property -0.3	Global Fixed Income 12.8	SA Cash 5.3	Global Fixed Income 0.7
Worst	Global Property -9.2	Global Fixed Income -4.6	SA Property -34.6	SA Property -9.5	SA Property -9.4	Global Cash -10.9	Global Cash -14.8	SA Fixed Income -5.6	Global Fixed Income 3.5	SA Fixed Income -2.7	SA Cash 5.1	Global Equity 5.1	Global Cash -4.6

Source: Morningstar Direct