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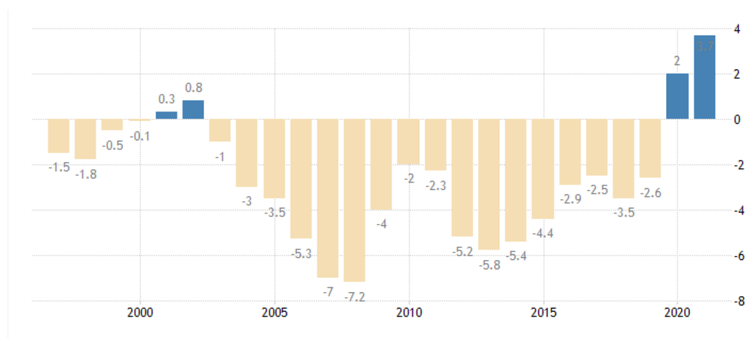
South African Market

Local investors have experienced a difficult start to the year, with both local equity and bond markets only marginally up in the first three months and their global counterparts racked up significantly negative returns in both Dollars and Rands. What started as an adverse reaction to the threat of higher interest rates required to tame persistently high inflation, turned into a collapse in response to Russia's invasion of Ukraine. As we have commented in the past, events such as wars tend to be outside the usual risk parameters set by markets, extending more into the realm of uncertainty, which, by its nature, is harder to price.

Equity markets in South Africa (along with those in Brazil and India) were the only major global markets to deliver a positive return for the first quarter of 2022, with the local bourse continuing a string of six consecutive positive monthly returns dating back to October 2021. Mining shares have been a key driver of performance this year, as elevated commodity prices have supported earnings, but the sector delivered a mixed performance in March. Diversified miners were amongst the best-performing mining shares, gold shares followed the gold price marginally higher and Sasol's share price was also up on stronger oil prices. Platinum miners were the biggest disappointment in March, hampered by weak platinum group metal (PGM) prices on concerns around softness in global vehicle manufacturing, as supply chain disruptions continue to hound the auto industry. The share prices of platinum miners were also hurt by corporate earnings announcements which highlighted extremely poor operating performances in the sector.

JSE-listed shares exposed to the domestic economy were the key drivers of March's local market performance, particularly the financial companies and clothing retailers. Naspers (-14%) and Prosus (-15%) continued their poor run of form as the performance of their largest underlying investment (Chinese tech company, Tencent) continued to be held back by poor sentiment towards Chinese investments, initially as a result of the recent regulatory crackdown on Chinese corporates and more recently related to prospects of China's possible support of the Russian invasion of Ukraine.

JSE-listed companies with predominantly foreign earnings were hampered by a strong local currency, with the rand strengthening meaningfully against the US dollar (+5.1%). Some good news is that SA reported its largest current-account surplus on record during March. Last year imports were suppressed by the impact of the pandemic, while gold exports rose. The surplus on the current account widened to 3.7% of GDP (see 25-year graph on the right illustrating the surplus).



The South African Reserve Bank (SARB) delivered a much-anticipated 0.25% interest rate hike at its March meeting. This was its third consecutive hike of this tightening cycle, though the current repo rate (4.25%) remains 2% below the level set by the SARB going into the pandemic as February's core inflation data (+3.5%) remained well within the SARB's 3%-6% target range. Headline inflation (+5.8%), which includes the volatile food and energy categories, is closer to the top-end of the range and is expected to breach that level as the Ukraine conflict puts pressure on food and energy prices. SA 10-year government bond yields followed global yields higher, briefly touching 10.7% intra-month before settling just below 10% at month-end.

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Asset Class Performances in ZAR

As of 31st March 2022	MTD	YTD	1 Year	3 Years*	5 Years*	10 Years*
Global Equity – MSCI ACWI	(3.45)	(13.37)	5.52	14.53	13.83	17.85
Global Property - FTSE EPRA NAREIT DR	(0.77)	(12.35)	16.49	7.98	9.78	15.52
Global Bond - JPM GBI Global Traded	(8.71)	(14.15)	(8.04)	0.48	3.05	7.19
Global Cash - ICE LIBOR 1 Month	(5.40)	(8.39)	(0.92)	1.22	2.94	7.44
SA Equity - FTSE/JSE All Share	0.01	3.84	18.61	14.22	11.39	11.94
SA Property - FTSE/JSE SA Listed Prop	5.05	(1.27)	27.06	(3.82)	(4.85)	4.97
SA Bond - BEASSA ALBI	0.45	1.86	12.37	8.43	8.92	8.14
SA Cash - STeFI Call Deposit	0.33	0.95	3.62	4.66	5.47	5.57

ZAR/USD (negative = rand strength)	(5.09)	(8.33)	(0.93)	0.29	1.72	6.66
Gold	(2.97)	(2.48)	11.83	12.74	8.78	6.74
Brent Crude Oil	1.04	27.02	68.06	16.93	17.36	5.24

*Returns more than 1 year are annualized.

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Global Markets

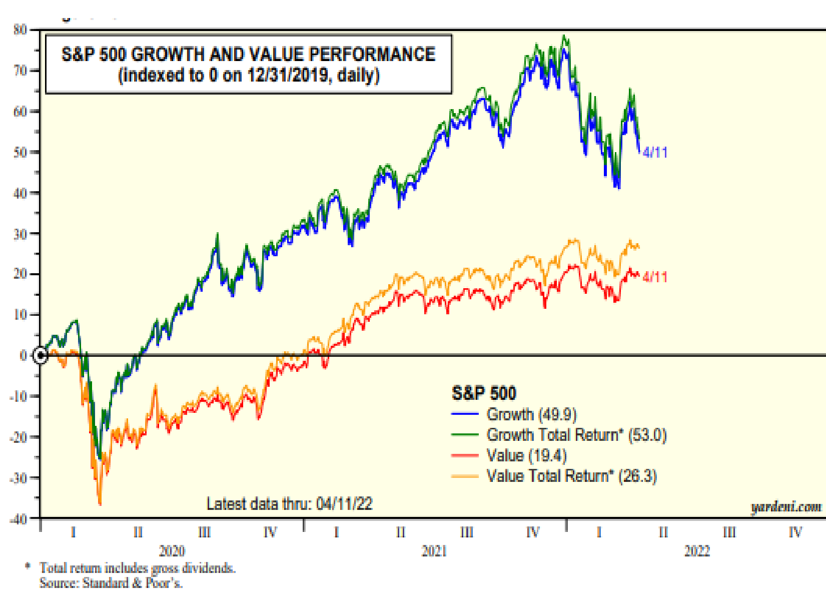
The conflict in Ukraine remained the key driver of news headlines in March but, despite this, developed market (DM) equities ended the month higher (MSCI World +2.1%). Amongst DM equities, European bourses fared worst, their proximity to the conflict, and reliance on Russian energy exports exposing them most directly to the fallout from the conflict. Uncertainty about the impact of Russian sanctions, particularly with respect to how it might affect exports of Russia's significant commodity production, remained a key driver of asset prices.

The price of Brent crude oil rose briefly above $130/bbl. during the month (the first breach of that level since 2007), but as negotiations between Russia and Ukraine ushered in the prospect of a negotiated settlement, panic-buying of oil subsided somewhat and Brent crude oil ended the month 6.9% higher at US$108/bbl. Elevated energy prices saw the S&P 500 energy sector lead the way for a second consecutive month and the sector (along with utility companies) remains the only one in positive territory for the quarter.

Emerging market stocks (EMs) had another torrid month and, much like as in February, the fortunes of the various EM countries were starkly different. The MSCI Russia Index (constituted from foreign-listed Russian companies) was marked down to zero and trading in the stocks was suspended. Even though a limited amount of trading in domestically listed Russian stocks resumed in the latter part of March, there remains material uncertainty around when, if ever, foreign investors will be able to participate in the trading of Russian securities.

China was the other major blot on the EM copybook in March. Sentiment turned considerably negative on Chinese companies in March on uncertainty about whether the Chinese government would support Russia's invasion of Ukraine. The prospect of sanctions being extended to China left foreign investors in Chinese companies scrambling to avoid a similar outcome to that experienced by Russia's foreign investors. By mid-month, the Nasdaq Golden Dragon Index of US-listed Chinese companies had lost one-third of its value. The stocks recouped some of their losses as the Chinese government stepped in to restore some calm, announcing an easing of regulatory crackdowns, which had rattled investors for the past year, while promising to support property and technology companies. However, the Chinese market rebound was hampered by the rollout of some of China's most severe Covid-19 lockdown restrictions since the start of the pandemic and its markets ended the month with significant losses.

Although the S&P 500 dipped briefly into 'correction' territory by falling more than 10% from its peak this year, it has rallied well from its trough in early March. However, there was considerable divergence beneath the headline index performance. The **S&P Growth index**, populated by shares whose valuation is more sensitive to long-term interest rates, fell (QTR -8.8%), while **the S&P Value Index**, exposed to more cyclical sectors and, crucially, resource companies, lost just 0.7% for the QTR. The graph on the right shows the difference in these index performance drivers over the last couple of years and the volatility in the growth index this year.



The underlying strength of the US economy appears to be intact, helped by the fact that it is less directly exposed to the war in Ukraine than most European countries. Not only is it geographically more remote, but neither does it have such great dependency upon some of Russia and Ukraine's exports, especially oil and gas. The US unemployment rate is back close to the pre-pandemic lows, even if that does reflect some reduction in the overall size of the working population following the 'great resignation'. Wages are rising, although not quite as fast as inflation. One ghost that rattles its chains from time to time is that of the housing crash that helped to trigger the financial crisis. Given that mortgage rates have increased along with bond yields, one should be vigilant that a replay could be imminent.

Global central banks were also very much in focus during March. The US Federal Reserve (Fed), hiked rates for the first time since 2018 (as expected) and Fed chair, Jerome Powell, delivered a message suggesting that Fed members were becoming incrementally bearish about 2022 economic growth and inflation prospects, requiring them to accelerate rate hikes and bring forward the shrinking of their balance sheet as they ramped up their fight against inflation. The European Central Bank (ECB), delivered a similar message, also guiding to an accelerated shift from accommodative to restrictive monetary policy as concerns around the lingering effects of elevated inflation trumped concerns around slowing economic growth. The hawkish shift in monetary policy catalyzed a meaningful spike in global yields, with US 10-year government yields breaching 2.5% intra-month, before ending March 0.5% higher at 2.34%.

Asset Class Performances in USD

As of 31st March 2022	MTD	YTD	1 Year	3 Years*	5 Years*	10 Years*
Global Equity – MSCI ACWI	2.10	(5.38)	6.63	14.03	11.89	10.50
Global Property - FTSE EPRA NAREIT DR	4.94	(4.27)	17.71	7.51	7.91	8.32
Global Bond - JPM GBI Global Traded	(3.46)	(6.24)	(7.07)	0.04	1.30	0.51
Global Cash - ICE LIBOR 1 Month	0.03	0.06	0.13	0.77	1.19	0.74
SA Equity - FTSE/JSE All Share	5.76	13.42	19.85	13.72	9.50	4.96
SA Property - FTSE/JSE SA Listed Prop	11.09	7.84	28.40	(4.24)	(6.48)	(1.58)
SA Bond - BEASSA ALBI	6.23	11.25	13.55	7.96	7.06	1.40
SA Cash - STeFI Call Deposit	6.10	10.26	4.71	4.20	3.67	(1.02)

USD/ZAR (negative = dollar strength)	5.09	8.33	0.93	(0.29)	(1.72)	(6.66)
Gold	2.61	6.51	13.01	12.25	6.93	0.08
Brent Crude Oil	6.85	38.74	69.83	16.42	15.35	(1.32)

*Returns more than 1 year are annualized.

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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 31st March 2022.

	YTD	2022/03	2021/03	2020/03	2019/03	2018/03	2017/03	2016/03	2015/03	2014/03	2013/03	2012/03	2011/03
Best	SA Equity 3.8	SA Property 27.1	SA Equity 54.0	Global Fixed Income 32.9	Global Property 39.9	SA Fixed Income 16.2	SA Fixed Income 11.0	Global Fixed Income 28.5	SA Property 41.4	Global Equity 35.0	Global Property 41.2	Global Property 20.5	SA Property 15.4
	SA Fixed Income 1.9	SA Equity 18.6	SA Property 34.4	Global Cash 26.3	Global Cash 24.5	SA Equity 9.6	SA Cash 7.0	Global Property 26.7	Global Property 36.1	SA Equity 23.6	SA Property 37.3	SA Property 20.3	SA Equity 15.2
	SA Cash 0.9	Global Property 16.5	Global Equity 31.1	Global Equity 8.6	Global Equity 24.5	SA Cash 6.8	Global Equity 5.8	Global Cash 21.7	Global Equity 21.6	Global Property 18.9	Global Equity 33.4	Global Fixed Income 20.0	Global Property 14.6
	SA Property -1.3	SA Fixed Income 12.4	SA Fixed Income 17.0	SA Cash 6.6	Global Fixed Income 20.5	Global Equity 2.2	SA Equity 2.5	Global Equity 16.8	Global Cash 15.4	Global Fixed Income 15.7	SA Equity 22.5	Global Cash 13.8	SA Fixed Income 8.3
	Global Cash -8.4	Global Equity 5.5	Global Property 12.5	SA Fixed Income -3.0	SA Cash 6.6	Global Fixed Income -4.9	SA Property 1.5	SA Cash 6.0	SA Equity 12.5	Global Cash 14.8	Global Cash 19.8	SA Fixed Income 13.2	Global Equity 6.7
	Global Property -12.3	SA Cash 3.6	SA Cash 3.8	Global Property -3.9	SA Equity 5.0	SA Property -7.1	Global Cash -8.3	SA Property 4.6	SA Fixed Income 12.4	SA Cash 4.9	Global Fixed Income 18.8	Global Equity 12.7	SA Cash 5.9
	Global Equity -13.4	Global Cash -0.9	Global Fixed Income -17.0	SA Equity -18.4	SA Fixed Income 3.5	Global Property -9.5	Global Property -8.3	SA Equity 3.2	Global Fixed Income 10.9	SA Property 1.1	SA Fixed Income 14.3	SA Equity 7.5	Global Fixed Income -0.5
Worst	Global Fixed Income -14.2	Global Fixed Income -8.0	Global Cash -17.2	SA Property -47.9	SA Property -5.7	Global Cash -10.4	Global Fixed Income -12.0	SA Fixed Income -0.6	SA Cash 5.6	SA Fixed Income 0.6	SA Cash 5.0	SA Cash 5.3	Global Cash -7.7

Source: Morningstar Direct