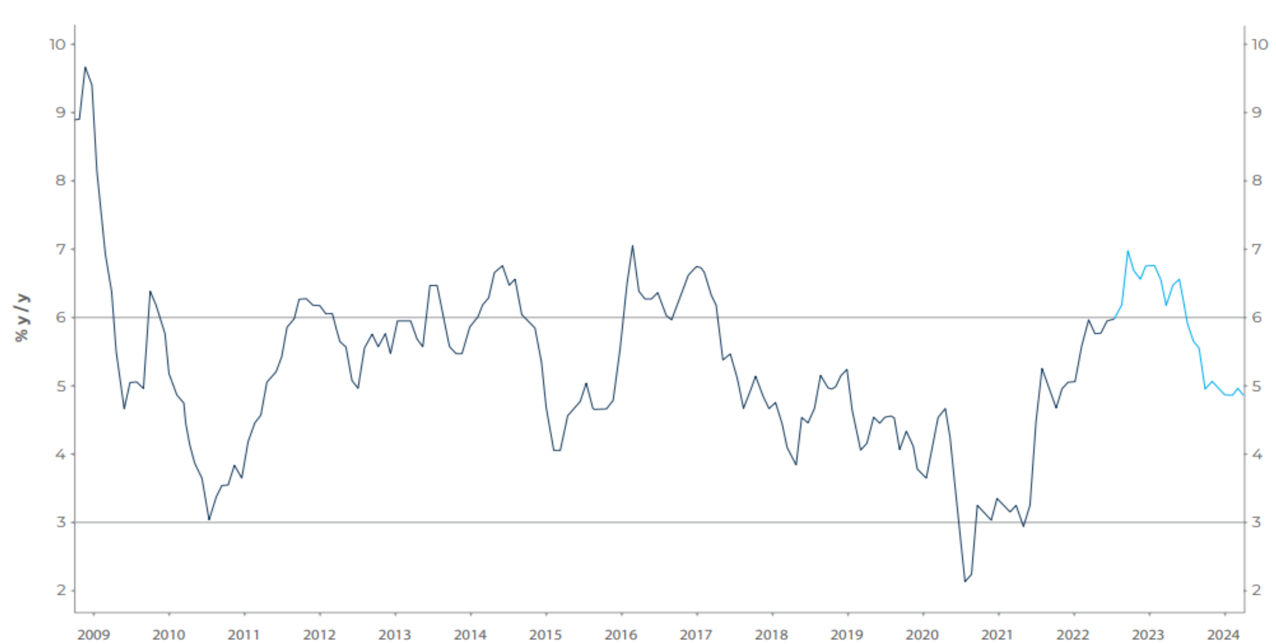
South African Market

The local stock market was slightly negative in May, following on from a volatile April, as it rallied alongside global markets in the last few days of the month with the FTSE/JSE All Share Index ending at (0.36% MoM). Both the industrial and resource sectors dragged down performance after losing (2.36%) and (0.32%) respectively, while financials were up amongst the best performers up 4.16% at the end of May. This is in stark contrast to the previous month where financials were down almost (7.8%). The financial sector remains bullish against the background of a stronger Rand. The FIN15 index (normally a proxy of domestic market sentiment), gained 1.3% last week. This is the fourth consecutive week of increase, and the index is now 11.3% up for the year. The ALSI index is now (0.32%) down since January 1, 2022, but remains one of the strongest equity markets in the world.

The South African Reserve Bank also raised the repo rate by 50 basis points, the biggest increase since 2016, this was a preventative move to protect the Rand currency and to assist with calming the inflation rate. The latest month YoY inflation rate was 5.9% and is the 12th consecutive month in which the inflation rate has been higher than the midpoint of the SARB's target range. The latest interest rate adjustment takes the bank's key rate to 4.75% and the prime lending rate of commercial banks to 8.25%. Key inflation drivers were, once again, food and non-alcoholic beverages, housing, and utilities as well as transport – all the usual suspects that have been driving prices of late. This along with the fact that South Africans are having to deal with rolling blackouts which are hindering business activity. As such, our manufacturing production fell by (0.8%) year-on-year in March, and this coupled with rising costs of food and fuel can have a sustained impact on economic growth.

SOUTH AFRICA HEADLINE CPI FORECAST

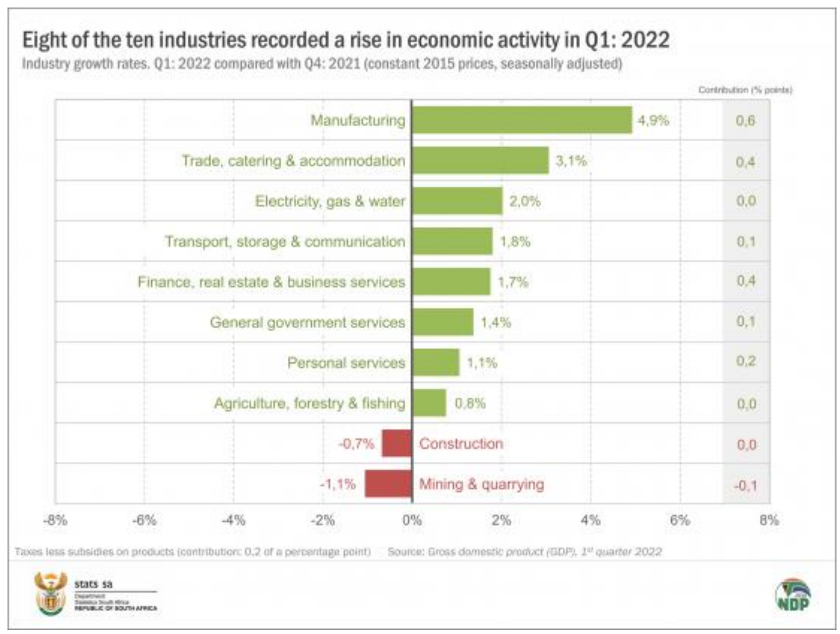


Source: Stats SA

The Rand had a volatile month on the back of interest rate hikes by the Federal Reserve, that caused it to hit a mid-month low of R16.32 against the greenback. However, the SARB rate hike subsequently pushed the Rand back below the psychological R16 level and the currency ended the month up 1.2% and 0.9% against the Dollar and Pound respectively but lost (0.7%) against the Euro. S&P Global Ratings affirmed SA's sub-investment grade rating in May, but unexpectedly upgraded the outlook from stable to positive. This upgrade was in a large part due to strong commodity prices which are boosting the country's tax income and exports, while also highlighting the progress in SA's fiscal position.

The latest Quarterly Labour Force Survey (QLFS), released by *Stats SA* on 31 May, show that South Africa's unemployment rate declined slightly to 34.5% in 1Q22 from 35.3% in 4Q21. There were 7.9m unemployed people in the country in 1Q22, meaning that 370,000 jobs were gained QoQ. Economic activity is broadly normalising from the Covid-19 shock as most major lockdown restrictions were removed, and companies' profitability is returning. Simultaneously, more people returned to the labour market as improving conditions increased job seekers' confidence in finding jobs. Despite these positive moves, at the end of the day, SA's official unemployment rate remains the highest on a list of 82 countries monitored by Bloomberg. Strict labour laws, stagnant productivity, bureaucratic hurdles, and a skills shortage have essentially stymied the ability of local companies to hire additional workers.

South African gross domestic product (GDP) returned to pre-pandemic levels after expanding by 1.9 percent in the first quarter of 2022, representing a second consecutive quarter of upward growth. This growth was more than expected and well above market estimates of a 1.2% rise. The sharp increase in manufacturing output was mainly driven by a rise in the production of petroleum and chemicals, food and beverages, and metals and machinery. On the downside, both mining and construction contracted in the first quarter. As the recent KwaZulu-Natal floods occurred outside of the reporting period of Q1, their impact will be seen in the Q2 figures.



Data collected by the Department of Trade, Industry and Competition shows that more than 800 companies were impacted by the floods, causing about R7 billion worth of damage in the province.

Asset Class Performances in ZAR

As of 31st May 2022	MTD	YTD	1 Year	3 Years*	5 Years*	10 Years*
Global Equity – MSCI ACWI	(1.36)	(14.81)	5.36	14.59	12.99	17.59
Global Property - FTSE EPRA NAREIT DR	(6.11)	(15.93)	10.22	6.40	8.93	14.12
Global Bond - JPM GBI Global Traded	(1.47)	(13.48)	(2.12)	(0.01)	2.98	5.95
Global Cash - ICE LIBOR 1 Month	(1.39)	(2.18)	13.86	2.99	4.62	6.97
SA Equity - FTSE/JSE All Share	(0.36)	(0.32)	11.03	12.98	9.79	11.58
SA Property - FTSE/JSE SA Listed Prop	0.05	(2.62)	15.54	(4.97)	(5.23)	4.50
SA Bond - BEASSA ALBI	1.01	1.17	5.59	7.69	8.25	7.88
SA Cash - STeFI Call Deposit	0.36	1.64	3.74	4.52	5.38	5.55

ZAR/USD (negative = rand strength)	(1.20)	(1.97)	7.71	2.04	3.55	6.23
Gold	(5.11)	(2.01)	9.03	12.38	8.90	6.35
Brent Crude Oil	10.70	54.21	101.28	26.81	23.61	8.15

*Returns more than 1 year are annualized.

STAR INVESTMENT PARTNERS

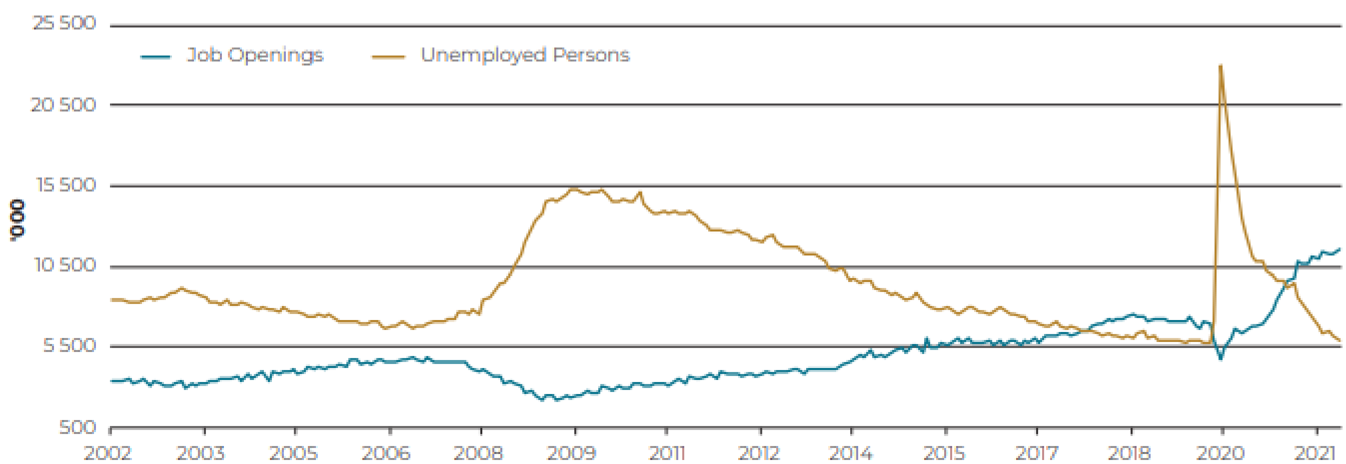
Global Markets

A rally in the last few days of May saw the global markets eke out a small gain for the month of May with the MSCI ACWI at +0.1% MoM. Most major developed market (DM) stock indices managed to end the month higher (Eurostoxx 50 +1.3% MoM, Nikkei 225 +1.6% MoM) including the US' S&P 500 (+0.2% MoM). Emerging markets (EMs) fared slightly better than their DM peers for the second consecutive month (MSCI EM +0.5% MoM) with China and Brazil leading the way (Shanghai Composite +4.8% MoM, Brazilian Bovespa +3.2% MoM).

YoY inflation in the US slowed to 8.3%, from 8.5% from the previous month. Despite this modest decline, inflation remains much higher than the 2% target and combined with the tight labour market gives the Federal Reserve room for more interest rate hikes. Inflation remains at a level unseen since the 1980s, so it comes as no surprise then that the Fed have essentially guaranteed another 50-basis-point hikes at both their June and July meetings before reassessing thereafter. In an attempt to tame inflation, the BOE hiked interest rates by 25-basis-points to a 13-year high of 1% at their meeting in May, while UK infaltion is sitting at a 40-year high of 9%, mainly due to rising prices for electricity, gas and fuels. Brent Crude Oil at the end of May was at a two-month high of more than $123 a barrel after the European Union agreed to ban most Russian oil imports.

Quantitative tightening by global central banks initially dampened sentiment for stocks in May, however, the realisation that we may have reached peak inflation in the US and announcements by Shanghai to ease Covid restrictions subsequently lifted the mood. This left the the stock market seeking to find a direction to move in. It was however another poor month for US tech stocks as the tech-heavy Nasdaq 100 Index ended May lower (-1.5% MoM) pushing it further into bear market territory. This also included drawdowns from the FAANG stocks, which were all down at the end of May, with Netflix again the biggest loser. As US companies wrapped up 1Q22 earnings announcements in May, retailers Walmart (-16% MoM) and Target (-29% MoM) delivered the biggest shocks as they trimmed profit forecasts on rising cost pressures and signs that customers were favouring grocery and essential purchases over the higher-margin discretionary purchases.

Job openings vs unemployed persons:

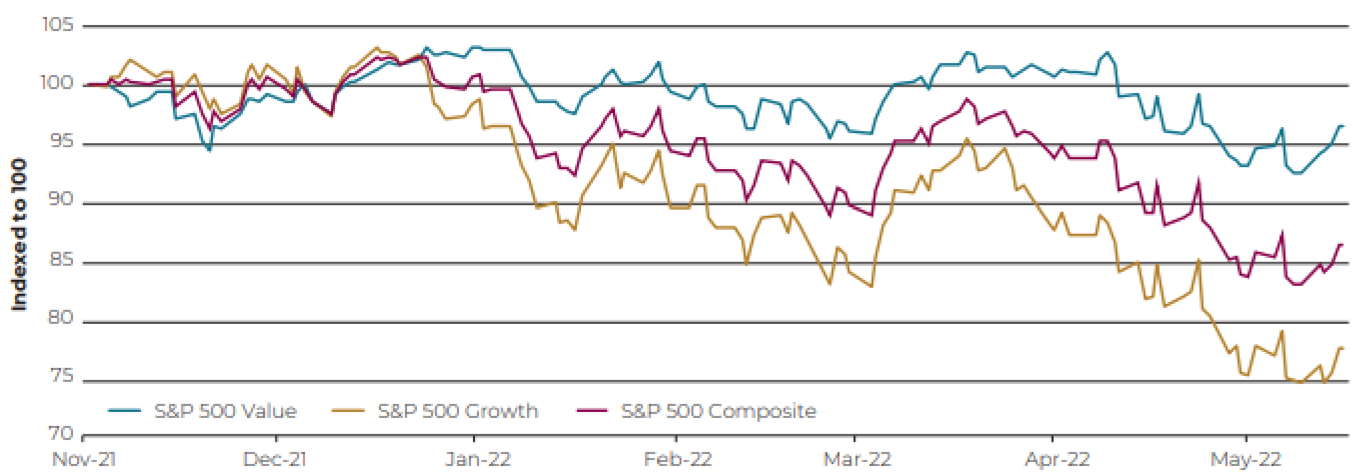


Source: Refinitiv Datastream

The pace at which the US continues to add jobs is astonishing and continues to contribute to an already tight labour market. The US economy managed to add 428 000 jobs in April, marking the 12th consecutive month that they have added above 400 000 jobs. There are a currently record two vacancies for every unemployed person and as can be seen in the previous graph, this is only the second time in 20 years that the supply of jobs outnumber the demand for workers. The US is however starting to show signs of a slowdown with the Institute of Supply Management's Manufacturing Purchasing Managers Index (ISM Manufacturing PMI) falling for the second consecutive month to 55.4 in April compared to 57.1 in March. This marks the weakest level since July 2020 and can be attributed to labour shortages, supply chain issues and stubbornly high demand.

Equities have already sold off sharply so far this year. However, much of this reflects the impact of higher interest rates pulling down price: earnings multiples. The more expensive and interest-rate sensitive growth stocks have fallen much more than cheaper value shares. Indeed, growth shares meet the standard definition of a bear market, while value shares have barely budged. The bond market seems to be becoming more sensitive to an economic slowdown, with long yields having shot up this year, they've pulled back a bit in the past two weeks.

CHART 4: US EQUITY PRICES IN 2022



The current turmoil in global markets is not just contained to equity markets, as recently we have seen this is spreading to other asset classes and prices alike.

STAR INVESTMENT PARTNERS

Asset Class Performances in USD

As of 31st May 2022	MTD	YTD	1 Year	3 Years*	5 Years*	10 Years*
Global Equity – MSCI ACWI	0.12	(12.76)	(7.24)	12.02	9.28	10.75
Global Property - FTSE EPRA NAREIT DR	(4.71)	(13.90)	(2.96)	4.01	5.35	7.48
Global Bond - JPM GBI Global Traded	0.00	(11.39)	(13.83)	(2.26)	(0.40)	(0.21)
Global Cash - ICE LIBOR 1 Month	0.08	0.19	0.24	0.68	1.18	0.75
SA Equity - FTSE/JSE All Share	1.12	2.09	(2.25)	10.44	6.18	5.09
SA Property - FTSE/JSE SA Listed Prop	1.54	(0.27)	1.72	(7.10)	(8.35)	(1.58)
SA Bond - BEASSA ALBI	2.52	3.61	(7.04)	5.27	4.69	1.61
SA Cash - STeFI Call Deposit	1.85	4.10	(8.67)	2.17	1.91	(0.59)

ZAR/USD (negative = rand strength)	2.23	2.18	(11.83)	(1.95)	(3.43)	(5.85)
Gold	(3.69)	0.36	(4.01)	9.86	5.32	0.17
Brent Crude Oil	12.35	57.93	77.21	23.96	19.55	1.86

*Returns more than 1 year are 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 31st May 2022.

	YTD	5/2022	5/2021	5/2020	5/2019	5/2018	5/2017	5/2016	5/2015	5/2014	5/2013	5/2012	5/2011
Best	SA Cash 1.6	SA Property 15.5	SA Equity 38.1	Global Fixed Income 29.6	Global Property 26.3	SA Fixed Income 10.4	SA Fixed Income 13.4	Global Property 40.5	SA Property 31.7	Global Equity 24.0	Global Equity 49.2	Global Fixed Income 30.4	Global Property 23.3
	SA Fixed Income 1.2	Global Cash 13.9	SA Property 37.3	Global Equity 26.9	Global Fixed Income 18.6	Global Equity 8.6	SA Cash 7.0	Global Fixed Income 38.7	Global Property 22.6	SA Equity 21.8	Global Property 41.8	Global Cash 25.7	SA Equity 23.2
	SA Equity -0.3	SA Equity 11.0	Global Equity 12.5	Global Cash 23.1	Global Cash 17.7	SA Equity 8.0	SA Property 3.7	Global Cash 29.7	Global Equity 21.6	Global Property 17.1	SA Equity 30.7	Global Property 21.0	SA Property 20.3
	Global Cash -2.2	Global Property 10.2	SA Fixed Income 11.1	SA Fixed Income 6.4	Global Equity 12.7	SA Cash 6.8	SA Equity 2.2	Global Equity 23.1	Global Cash 15.2	Global Fixed Income 10.5	SA Property 27.0	SA Property 19.5	Global Equity 15.1
	SA Property -2.6	SA Fixed Income 5.6	Global Property 7.3	SA Cash 6.3	SA Fixed Income 7.7	Global Property 0.9	Global Equity -1.0	SA Property 9.4	SA Fixed Income 9.4	SA Property 7.0	Global Cash 17.8	SA Fixed Income 11.1	SA Fixed Income 11.4
	Global Fixed Income -13.5	Global Equity 5.4	SA Cash 3.6	Global Property 1.8	SA Cash 6.6	Global Fixed Income -2.3	Global Property -14.6	SA Equity 6.3	SA Equity 8.5	Global Cash 5.4	Global Fixed Income 12.2	Global Equity 10.1	SA Cash 5.7
	Global Equity -14.8	SA Cash 3.7	Global Fixed Income -21.2	SA Equity -6.0	SA Equity 2.4	Global Cash -2.5	Global Cash -15.6	SA Cash 6.2	Global Fixed Income 7.5	SA Cash 5.0	SA Fixed Income 11.5	SA Cash 5.3	Global Fixed Income -0.3
Worst	Global Property -15.9	Global Fixed Income -2.1	Global Cash -22.1	SA Property -45.9	SA Property -4.8	SA Property -6.5	Global Fixed Income -16.8	SA Fixed Income 1.0	SA Cash 5.6	SA Fixed Income 2.8	SA Cash 4.9	SA Equity 5.1	Global Cash -11.0

Source: Morningstar Direct