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Monthly market commentary | August 2021

While the COVID-19 Delta variant continues to run riot, with daily cases climbing across the globe, this has been overshadowed by the positive sentiment around the continued reopening of the global economy and upside earnings surprises, resulting in global equity markets posting their seventh consecutive positive monthly return. Markets were further buoyed late into the month with a more dovish narrative coming out of the Fed's Jackson Hole Symposium[1 2].

Amid the positive macroeconomic backdrop, the MSCI World Index rallied 2.5% in the month in USD terms[2]. US markets once again lead from the front as the S&P500 gained 3%, driven higher by Financials and Communication services (which include the likes of Alphabet, Facebook and Netflix). Japan's TOPIX (up 3.2% in USD terms) was the only developed market (DM) region to outperform the US, driven by strong corporate earnings announcements. The UK (FTSE All Share) and Europe (MSCI Europe ex-UK) posted positive returns of 2.7% and 2.3% respectively as restrictions continue to be lifted following very successful vaccination programs, which have led to a significant reduction in hospitalisations among vaccinated individuals who contract the virus[2].

Despite continued pressure on Chinese stock markets, emerging markets (MSCI EM) marginally outperformed their developed market counterpart to end the month 2.6% higher, driven by strong returns from Indian and Russian equities (up 8.7% and 3.6% respectively)[3]. Rand returns from global markets were, however, slightly weaker with the rand strengthening 0.6% relative to the US Dollar as fears around Fed policy, which weighed on the rand earlier in the month, subsided following a more dovish narrative[4].

On the local front, the so-called SA Inc shares continued to rally as earnings came in comfortably ahead of expectations, aiding the Capped SWIX up 2% for the month. Contrasting returns were once again seen at a sector level, with financials up 12.4%, while industrials and resources retraced 5.2% and 4.9% respectively[4].

Financials were led by SA banks who have benefitted from better-than-expected credit losses, allowing them to unwind provisions made last year.[3] Industrials continue to be dragged down by Naspers, which offset strong returns from domestic industrials, while resources came under pressure from falling commodity prices which hurt diversified and precious metal miners (down 3% and 10.8% respectively)[4]. In line with the other domestically exposed shares, local property delivered strong returns of 7.5% in the month[4].

Turning to fixed income, the local bonds (ALBI) registered another positive month, up approximately 1.7% as yields fell, while ILBs lagged slightly at 1.2% and local cash up marginally at 0.3%. Despite foreign outflows and a rise in the US 10-year yield, the yield curve continued to flatten as the longer dated bonds fell sharply resulting in outperformance in that area of the curve[4].

Global bond yields across developed markets were higher in the month as fears around tighter monetary policy rose. This, combined with a marginal strengthening in the Rand, resulted in a negative 1.7% return for the month[4].

Compiled by
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Sources:

[1] https://www.schroders.com/en/insights/economics/monthly-markets-review---august-2021/

[2] https://am.jpmorgan.com/gb/en/asset-management/adv/insights/market-insights/market-updates/monthly-market-review/

[3] Anchor Capital August 2021 commentary

[4] RMB Asset Class returns, August 2021

[5] Momentum Investments