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Monthly market commentary | October 2021

Following a tumultuous September, global markets veered back on course in October, driven higher by promising corporate earnings across most major developed markets[1]. In the US, over 50% of corporates had reported by month-end, with approximately 80% of those comfortably beating consensus estimates[2]. Markets were further buoyed by a seemingly more positive outcome in the troubled Chinese property sector, which also helped commodity prices advance. Despite the optimism in capital markets, inflation fears persisted as global supply chains remain severely disrupted and energy prices continue to soar, while the COVID-19 Delta variant continues to spread rapidly, although improving vaccination rates has shifted investor focus towards normalisation in the global economy[4].

With a strong start to earnings season, the MSCI World rallied 5.7% in the month[5]. US equities fared best, delivering the highest monthly returns since the announcement of effective COVID-19 vaccinations in November last year[2]. The broader S&P 500 and tech-heavy Nasdaq delivered returns of 6.9% and 7.3% respectively, with both indices reaching all-time highs numerous times in the month[5]. Tesla was a standout performer, climbing 44%[2], pushing SA-born Elon Musk further ahead as the world's wealthiest person[6]. Shares in Europe and the UK also benefitted from stronger earnings announcements, with the MSCI Europe ex-UK and FTSE 100 up 4.7% and 3.9% respectively in USD terms. Emerging markets (MSCI EM) lagged developed markets in the month, up only 1%[5]. Chinese stocks (MSCI China) outperformed the broader index in the month as the Chinese tech heavyweights Alibaba, JD.com and Tencent followed their western counterparts higher[2]. This was, however, offset by a sharp sell-off in Brazilian equities as fears grew around Brazil's fiscal position amid an already-dire inflation environment. Global market returns were further supported by a mild weakening in the rand, which sold off roughly 1.2%[3] in the month.

Local equities followed their global counterparts higher in the month, as the Capped SWIX rallied 2.7%[3] owing to a massive turnaround in mining shares as well as Naspers and Prosus. Resources was the best performing sector in the month, up 8.4%, as the precious metal miners (PGMs in particular) and industrial materials subsectors both delivered returns in the high teens[3]. RB Platinum delivered a massive 47.6% in the month following a takeover bid from Impala Platinum, a deal which would see the combined entity become the world's largest PGM producer[2]. Industrials followed closely behind, rallying 6.8% off the back of a combined 7.5% return from Naspers and Prosus, with the large rand hedges of AB InBev (up 8%) and Richemont (up 21%) also contributing. The impressive run in Financial shares came to an end in the month as the sector sold off 3.8%, driven lower by banks (down 5.4%) and life insurers (down 2.5%)[3]. In line with financials, local property sold off 1.7%, led lower by Growthpoint, which was down 9.4%[2,5].

On the fixed income front, global bond yields broadly rose in the month[4] as the market grappled with the possibility of a more sustained inflation environment as global supply chains remain constrained, leading to concerns around imminent monetary policy normalisation. Climbing COVID-19 case numbers in the northern hemisphere, owing to the rampant Delta variant, also weighed on sentiment, although the market was buoyed as the US avoided technical default, with policymakers agreeing to raise the US debt ceiling[2]. As a result, global bonds were down 0.4%% for the month in USD[4], although rand weakness pushed the rand returns into marginally positive territory. Local bond yields also rose in October, with the 3 to 7-year and 7 to 12-year areas of the curve the worst performing, down 1.6% and 1.4% respectively, while the long-end (12+ years) was marginally positive as the high coupons compensated for the marginal sell off in yields[3]. As a result, the ALBI ended the month in the red, down 0.5%[3]. ILBs once again outperformed nominal bonds, delivering a positive return of 0.5% in the month, benefitting from strong inflation carry[3]. Finally, local cash delivered a mere 0.3% in October, although the pressure to hike rates is climbing as markets have priced in an aggressive rate-hiking cycle[5].

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[1] https://www.schroders.com/en/za/intermediary/insights/markets/monthly-markets-review---october-2021/
[2] Anchor Capital October 2021 commentary
[3] RMB Asset Class returns, October 2021
[4] https://am.jpmorgan.com/gb/en/asset-management/per/insights/market-insights/market-updates/monthly-market-review/
[5] Morningstar, Momentum Investments
[6] https://www.bloomberg.com/news/articles/2021-11-01/elon-musk-is-now-three-times-richer-than-warren-buffett

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