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Monthly market commentary | September 2021

After seven consecutive months of positive returns, global equity markets bucked the trend in September as most major markets fell sharply[1], with a slew of bad news weighing on investor sentiment. Global risk appetite waned on the possibility of higher inflation and tighter monetary policy, a stalemate over the US Debt ceiling, potential contagion from an increasingly worrisome Chinese economy and market as well as ongoing concerns around global growth as the COVID-19 Delta variant proves ever more relentless[2].

Given the discouraging macroeconomic and market environment, the MSCI World Index fell 4.1% in the month[5]. Looking at data since 1964 for the S&P500, the month of September has historically been the worst for US markets, and this again seems to be the case as the S&P500 fell 4.8% in USD[1,3]. Major tech shares proved to be the culprit as the tech-heavy Nasdaq fared poorer, falling 5.7% in USD terms. Elsewhere in developed markets, European equities (MSCI Europe ex-UK) fared worse, falling 5.5%[5] in USD, while UK (FTSE 100) held up better given its less stretched valuations, falling only 2.2%[5]. Emerging markets (MSCI EM USD) fared marginally better during September, falling only 4%[5]. While the index was weighed down by growth concerns in China, stemming from fears regarding Evergrande's (the world's largest real estate developer) $300 billion debt pile and a possible default, strong performance from Indian and Russian markets, whose significant exposure to energy counters has benefitted from the recent sharp increases in energy prices, helped curb losses. Global market returns were, however, cushioned by a sharp weakening in the rand which expectedly sold off 3.7%[1] amid the global fears noted above.

On the local front, equities took their cue from global markets as the Capped SWIX sold off 1.4%[3]. Resources were once again the worst performing sector, falling 12.3%[1] in the month as industrial and precious metal miners sold off aggressively in line with falling commodity prices amid fears around Chinese demand (Industrial) and chip shortages (precious metals). Industrials were marginally negative in the month, falling 1.4% as local retailers sold off[1], while financial shares continued their impressive run, positing positive gains of 1.3%[1]. Local property held up marginally better, falling only 0.8% in the month with the sector continuing to be carried by the higher yielding counters.

Turning to fixed income, global bond yields sold off in the month as fears around inflation and tighter monetary policy resurfaced, exacerbated by concerns of a potential US default as politicians quarrel over the raising of the US debt ceiling. As a result, global bond returns were negative 1.8% for the month in USD[4], although rand weakness pushed the rand returns into positive territory. As with local equity, local bonds also took their cue from global markets. Local bond yields rose in the month, with the long-end rising greater off the back of global risk-off sentiment. As a result, ALBI returns for the month were negative 2.1%[3]. With near-term inflation locally well contained, ILBs were better off than nominals as yields on shorter-dated ILBs came down in the month, contributing to ILBs (IGOV) delivering a positive return of 0.3%[3]. Finally, local cash again returned 0.3% as the South African Reserve Bank's Monetary Policy Committee unanimously voted to keep interest rates unchanged in the month.

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[1] Momentum Investments
[2] Anchor Capital September 2021 commentary
[3] RMB Asset Class returns, September 2021
[4] https://am.jpmorgan.com/gb/en/asset-management/per/insights/market-insights/market-updates/monthly-market-review/
[5] Morningstar