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Monthly market commentary | April 2022

Global markets were volatile in April due to uncertainty around the impact of higher interest rates in the US, COVID-19-related lockdowns in China and the continued conflicts between Russia and Ukraine. All these factors resulted in negative sentiment and affected the outlook for global growth. The sell-off proved to be challenging with even safe-haven assets such as US Treasuries and gold performing poorly. On the local side, SA equities followed global market trends, performing in line with their emerging market (EM) counterparts, but continue to do better than the developed market (DM) aggregate. Domestic bonds, however, displayed mixed results with the ALBI reporting slight declines, while ILBs closed the month in positive territory.

In light of downside risks to the global growth outlook and the hawkish central bank narrative, DM equities (MSCI World) were down 8.3%[1] in April. Contributing to the negative equity returns in DMs were the S&P500 and Nasdaq, which were down 8.7%[1] and 13.2%[1] respectively. Both Europe (MSCI Europe Ex UK) and the UK (FTSE100) were subdued during the month, down 6.4%[1] and 3.9%[1] respectively. due to the information technology, consumer discretionary and industrials sectors, which experienced supply chain disruptions and concerns over consumer confidence. EM equities (MSCI EM) were down 5.6%[1,] negatively affected by the risk-off environment and exposures to the Chinese equity markets following the hard lockdown to curb COVID-19 cases. The Chinese equity markets in particular were affected by a lower growth outlook and the implications of the lockdown on supply chain disruptions. Relative to the USD, the rand weakened by 8.1%[2], offsetting the negative returns from DM equities, with the MSCI World closing the month at negative 0.8%[1] in rand terms.

Focusing on the local markets, equity returns were subdued with the Capped SWIX delivering -4%[1]. Resources were the biggest contributor to the negative equity returns (down 4.8%[1]) due to weaker commodity prices off the back of softer demand. Industrials again followed global markets lower, down 1.7%[1]. Financials were supported by the reversal of provisions for bad debts and the improved financial performance of banks, up 1.7%[1]. Local property closed the month 1.4%[1] in the red due to continued fears of a delayed recovery in the sector.

From a fixed income perspective, global bonds (FTSE WGBI) closed the month 5.9%[1] down in USD terms as global yield curves continued to sell off in light of rising inflation expectations despite high risk aversion. Taking a closer look at the US, the 10-year Treasury yield increased from 2.4% to 2.9% and the two-year from 2.3% to 2.7%[3] off the back of a hawkish stance by the US Fed. The two- to 10-year yield curve (two-year minus 10-year yield) inverted early in the month, which may have signalled a recessionary environment. Local bond returns were driven by higher yields in the long to ultra-long end of the yield curve due to the volatility in global yields, while the shorter end of the curve remained relatively stable.

Consequently, the ALBI delivered negative 1.7%[1] returns for the month. In contrast, ILBs ended the month up 1.9%[1] as a result of higher inflation accruals dominated by higher fuel prices. Local cash returns remained relatively low at 0.4%[1] in the month, while the prospective nominal returns are expected to improve as the SARB continues to raise interest rates.

Momentum Investment Consulting (MIC) has re-branded and is now called Equilibrium, the branding updates will reflect for content that reflects May data to coincide with the name change in May. Visit our new website, www.eqinvest.co.za, to see our launch video as well as other exciting information about Equilibrium.

Compiled by
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[1] Morningstar
[2] RMB Asset Class returns, April 2022
[3] Schroders monthly Market Review
[4] Momentum Investments