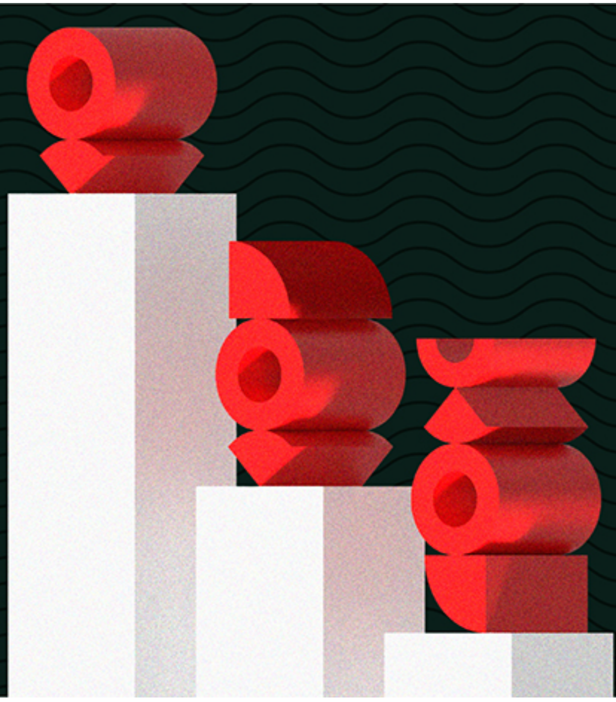
market commentary

Monthly market commentary | August 2022



The solid rebound in global markets during July proved to be short lived, with most asset classes ending August deep in the red despite an impressive start to the month. Investor sentiment remained buoyant during the first half of August as fears around the pace of monetary policy tightening eased, bolstered by impressive corporate earnings in the US, which came in ahead of expectations. By mid-month, global and local equities were up over 3%[1].

However, sentiment took a U-turn late in the month as fears around the impact of tighter monetary policy resurfaced following the extremely hawkish narrative coming from the Fed after the Jackson Hole Economic Symposium. Jerome Powell, Fed chair, stated that ‘restoring price stability will take some time and requires using our tools forcefully to bring demand and supply into better balance[2]’.

With investor sentiment coming off sharply, global equities (MSCI ACWI) ended the month down 3.7%[1] in USD terms. Developed market equities (MSCI World) were down 4.2%[1] during the month, with Europe (MSCI Europe Ex UK) and the UK (FTSE All Share) all down more than 4% in USD terms[1]. Japan continued its outperformance with the Topix down only 2.4%[1] in USD terms.

Emerging market equities (MSCI EM) fared much better and managed to deliver a positive return of 0.4%[1], with China (+0.2%), Brazil (+6.2%) and India (+4.1%) all contributing to the outperformance. The risk-off sentiment also kept the US dollar stronger against most currencies, with the rand in particular weakening by 3% relative to the greenback, cushioning global losses.

Local equities followed their global counterparts lower, with the Capped SWIX down 1.3%[1]. Resources was the worst performing sector, down 4.1%[1], as commodity prices continue to come under pressure amid fears of slowing global growth. Financials and Industrials fared better, down 2.3% and 0.6% respectively[1], with rand hedge industrials benefitting from rand weakness, while consumer-focussed stocks also weathered the sell-off. Local property (ALPI) was the worst performing local asset class, down 4%[1], as investors remain worried about rising operating costs.

Global bonds were similarly affected by the hawkish narrative coming from Fed, as the US 10Y yield rose 0.6% to end the month above at 3.2%[1], while European and UK bonds of the same tenor rose between 0.7% and 0.9%[1]. Consequently, global bonds (FTSE WGBI) ended the month down 4.4%[1] in USD terms. Local nominal bonds (ALBI) on the other hand returned 0.3%[1], with yields across the curve little-changed after coming into the month relatively high. ILBs on the other hand delivered 2.5%[1] for the month as yields fell across the curve. Finally, nominal local cash (STeFI Composite) returns continue to rise in line with increasing interest rates, with monthly returns almost 50% higher than a year ago.

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[1] Morningstar
[2] https://www.federalreserve.gov/newsevents/speech/powell20220826a.htm
[3] Momentum Investments

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