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Monthly market commentary | February 2022

During February, geopolitical uncertainties stemming from the Russia-Ukraine conflict dominated global markets. In addition, concerns about inflation and perceptions on monetary policy in the US put further downward pressure on global equity and bond markets. On a slightly more positive note, it was noted in the national budget speech that tax collections were higher due to earnings surprises from the mining sector. This improved performance is expected over a medium-term horizon.

As a reflection of increased market volatility, developed market equities (MSCI World) ended the month down 2.5%[1] in USD terms. The returns from US equities (S&P500) were hampered at negative 3%[1] as rising inflation and higher bond yields resulted in downward revisions to the corporate earnings outlook[2]. Interestingly, Europe (MSCI Europe Ex UK) was the worst performing developed market. It ended the month down 3.9%[1] in USD terms due to uncertainties created by its significant reliance on Russia for crude oil and natural gas imports at 25% and 40% respectively[2].

Emerging markets (MSCI EM) underperformed developed markets, down 3%[1] as a result of Russian equities and risk aversion by investors, which affected other emerging markets[3]. Relative to the USD, the rand depreciated by 0.1%[4] due to a less significant flight from risky markets and asset classes.

From a local perspective, equities continued to deliver positive returns in the month, as the Capped SWIX gained 2.7%[1] off the back of improved commodity prices. Resources was consequently the best performing sector, up 16%[1], driven by higher prices of gold and platinum group of metals (PGMs). Financials rallied by 3.6%[1] off the back of higher banking shares, while Industrials followed global markets lower, down 7.4%[1]. Local property remained under pressure, falling 3.2%[1], as the prospect of further rate hikes had a negative effect on share prices.

On the fixed income front, global bonds (FTSE WGBI) were down 2.1%[1] for the month in USD terms while the negative returns were slightly offset by the weakening of the rand. Although the US 10-year yield increased marginally by 0.1% to end the month at 1.83%[4], there remains a hawkish sentiment from the Fed on the back of continued high inflation prints.

Local bonds reflected an increase in shorter-dated bond yields, while the long end of the curve remained relatively stable due to expectations of further interest rate hikes by the SARB (short end of the curve) and the significant risk premium that has already been priced in for longer-dated bonds. The ALBI consequently delivered a positive 0.5%[4] return for the month. Due to a compression in longer-dated real yields, ILBs were up 2.1%[4]. The demand for longer-dated ILBs has historically been driven by investors with mandates for asset and liability matching, such as long-term insurers and pension funds. Local cash delivered 0.3%[1] in the month and the prospective nominal returns are expected to improve as the SARB continues to raise interest rates.

Compiled by
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[1] Morningstar
[2] JP Morgan Monthly Market Review, February 2022
[3] Schroders monthly Market Review
[4] RMB Asset Class returns, February 2022
[5] Momentum Investments