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Monthly market commentary | January 2022

Following the strong gains in 2021, market participants were brought back down to earth in January as concerns around inflation, tighter monetary policy, as well as tension between Russia and Ukraine sparked a sell-off in global equity and bond markets resulting in a sharp rise in volatility.

Developed market equities (MSCI World) ended the month down 5.3%[1] in USD terms. US equities (S&P500) performed the worst of the major developed markets, down 5.2%[1], as rising real yields questioned the sustainability of the stretched valuations in the region, particularly amongst expensive technology stocks. UK, on the other hand, was the best performing developed market. It managed to eke out marginally positive returns in USD terms, benefitting from its large weighting to financials and commodity stocks, as well as its relatively low weighting to technology stocks. Emerging markets (MSCI EM) outperformed developed markets, down only 1.9%[1], as rising energy prices, amid the Russia-Ukraine tensions, supported EM oil exporters. The major Latin American markets and China also outperformed in the month. Rand strength further hampered global market returns as the currency surprisingly rallied 3.5%[2] relative to the USD, despite the risk-off environment.

In contrast to their global counterparts, local equities delivered positive returns in the month, as the Capped SWIX gained 2.4%[1] off the back of improved commodity prices. Resources was consequently the best performing sector, up 3.9%[1], with Sasol being a standout performer off the back of a sharp rise in the oil price. Financials followed closely behind, rallying 3.4%[1] off the back of a rally in banking shares, while Industrials followed global markets lower, down 1.9%[1], with rand strength weighing on returns. Local property came under pressure in the month, falling 2.9%[1], as the prospect of further rate hikes hurt share prices.

On the fixed-income front, global bond yields rose aggressively on the increasingly hawkish sentiment from the Fed and continued high inflation prints, with the US 10-year yield rising 0.3% to end the month at 1.8%[2]. As a result, global bonds (FTSE WGBI) were down 2.1%[1] for the month in USD, with rand strength exacerbating the negative returns. Local bond yield movements, on the other hand, were surprisingly muted, reflecting the significant risk premium already priced in. The shorter end of the curve, however, moved sharply higher off the back of the MPC's decision of another rate hike in January. The ALBI consequently delivered positive 0.9%[2] in the month, while ILBs were down 1.1%[2] as longer-dated real yields rose in line with global real yields. Finally, local cash delivered 0.3%[1] in the month, although prospective nominal returns are expected to improve, following the second 0.25% rate hike in as many meetings, with the SARB's model and the FRA market pricing in further rate hikes.

Compiled by

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[1] Morningstar

[2] RMB Asset Class returns, January 2022

[3] Momentum Investments