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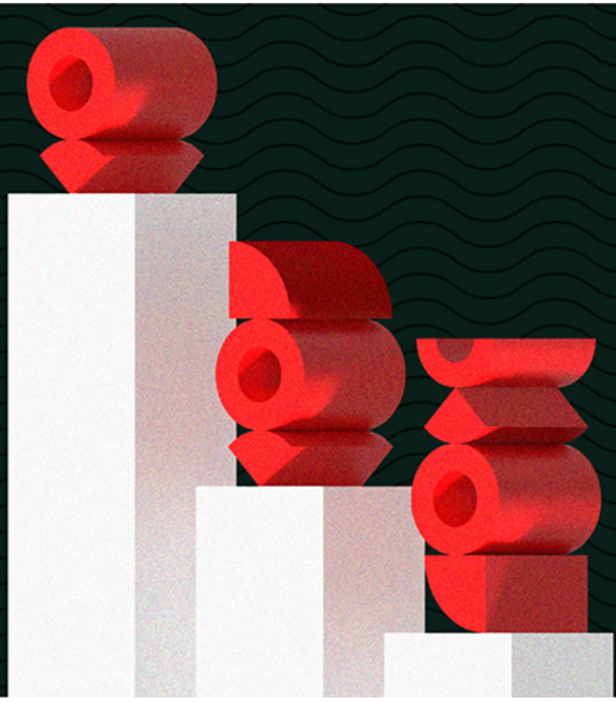
market commentary



Monthly market commentary | July 2022

Investors received slight reprieve in July following a rebound in both local and global asset classes. The rally in global asset classes was primarily driven by a shift from inflation fears in the US economy to considerations around slower economic growth with the US Federal Reserve Bank (Fed) indicating that the pace of policy tightening was likely to reduce going forward.

Locally, there was a rebound in equities, property and bonds, which was mainly driven by movements on the global front. However, ongoing domestic risks persisted, namely inflation being to the upside, higher energy prices and electricity supply challenges following the persistence of loadshedding.

Developed market equities (MSCI World) rose remarkably by 9.8%[1] in USD terms during last month. This was significant to offset the negative blows that had been felt since the beginning of the year. Most developed markets reported buoyant returns with the US (S&P 500), Europe (MSCI Europe Ex UK), the UK (FTSE All Share) and Japan (TOPIX) equity markets up 9.2%, 5.3%, 4.6%% and 3.7% respectively in USD terms[1]. Across developed markets, the sectors that delivered the highest rally were those highly sensitive to changing economic environments, namely information technology, consumer discretionary and industrial sectors.

Emerging market equities (MSCI EM) were also up during the month (1.4%[1]) but underperformed DM equities. Overall, EMs did not participate in the bounce back seen in developed markets in the month. This was largely attributable to weakness in China due to poor economic data and expansion at its slowest rate since the beginning of 2020. Rand movements were relatively stable, starting the month at around R16.40/$ and weakening slightly to R16.47/$ at the end of the month[2], although there were intra-month occurrences of volatility.

Focusing on local equities, the Capped SWIX generated a 2.8%[1] return over the month and followed the trend in developed markets. All sectors were in the green with the highest performers being industrials which rallied 5.8%, while financials and resources delivered 4.1% and 1.3% respectively[1]. Notably, South African banks rallied off the back of expected interest rate hikes and the perceived benefits for the sector while a rally in Richemont contributed meaningfully to index returns due to its relatively high weighting. Local property performed strongly with the ALPI returning 8.8%[1] during the month and receiving reprieve from the recent sharp sell-off.

Global bonds (FTSE WGBI) rebounded by 3.5%[1] in USD terms as bond yields fell in July, reducing the magnitude of the market sell-off since the beginning of the year. Notwithstanding a 0.75% interest rate hike by the Fed to constrain inflation pressures, expected slower growth in the US supported bonds as investors weighed an economic downturn and potentially more moderate interest rate rises. Local nominal bonds reported positive returns with the ALBI delivering a 2.4%[1]. Most returns were generated from longer dated and ultra-longer dated bonds supported by the South African Reserve Bank's (SARB) repo rate hike, large coupon payments and favourable index reweightings. ILBs, however, were down 1.2%[1] for the month. Although local cash returns remained muted, the asset class delivered 0.4%[1] in returns during the month and the prospects remain positive due to higher expected cash rates from further interest rate hikes.

Prepared by Equilibrium

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[1] Morningstar
[2] Momentum Investments

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