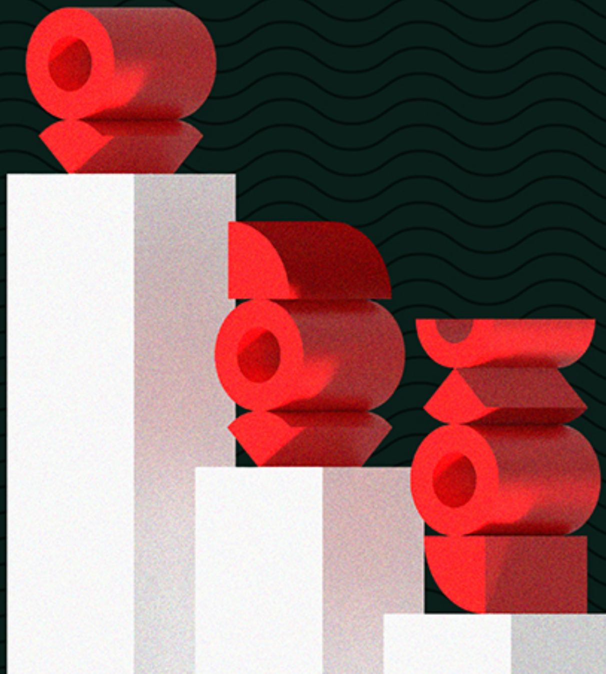
equilibrium
by momentum

market
commentary



Monthly market commentary | June 2022

June proved to be one of the worst months for markets since March 2020, both globally and locally. This is off the back of market sentiment plunging because of continued uncertainty around the conflict in Ukraine, stubbornly high inflation, tightening monetary policy and a continued slowing of the global growth environment. With inflation prints in May coming in higher than the previous peak (and higher than expected), the Fed was forced to hike rates by 0.75% in June, the largest rate hike since 1994.

All this while an increasingly hawkish outlook did little to allay market fears. Although these pillars of uncertainty have played a role in markets for a while, as the uncertainty persists, the harsher the market prices them in.

Developed market equities (MSCI World) were down 8.7%[1] in June, which is particularly significant as this is now the worst first half-year for DM equities since 1970. All developed markets played a part this month, as the US (S&P 500), Europe (MSCI Europe Ex UK), the UK (FTSE100) and Japan's (TOPIX) equity markets dropped 8.3%, 10.4%, 9% and 7.25% respectively in US dollar (USD) terms[1]. The biggest underperformer comes from the European nosedive as the region continues to face uncertainty around the Russia-Ukraine war, which is now compounded by continued fears of potential gas shortages.

Emerging market equities (MSCI EM) were also down in the month (6.7%[1]), but outperformed DM equities. This outperformance was mainly driven by the rally in China equities (MSCI China) as they were the only global market to produce positive returns (6.6%[1]) over the month. This follows on the Chinese government easing the harsh COVID-19 policies and re-opening the economy. All other EM equity markets fell victim to a demolished global market sentiment. The rand started the month at around R15.30/US$ and weakened to R16.30/US$, supporting global returns from a local standpoint.

The Capped SWIX delivered a -7.5%[1] return in June, which marks the biggest monthly fall since March 2020. This despite the technology sector rallying 34.4%[1] over the month, driven by a positive reaction to the Naspers/Prosus announcement that they would slowly start selling off parts in their Tencent stake, while aggressively implementing share buybacks. While this supported Industrials (up 0.9%[1] in the month), this was more than offset by tumultuous, negative performances in Resources and Financials, which delivered -16.3% and -13.6% respectively over the month[1]. Local property (ALPI) also came under pressure, falling 10.5%[1].

Global bonds (FTSE WGBI) closed the month -3.2%[1] in USD terms as bonds continue the uphill battle against inflationary pressures, while still contending with the dampened economic outlook following the rate hike in June, leading to increased volatility in the asset class. Local bonds followed suit as the ALBI delivered a negative 1.7%[1] return and ILBs were down 0.9%[1] for the month, with the longer end of the yield curve mostly contributing to this negative performance. This was largely off the back of higher inflation and the worsening global sentiment. On the money market side, local cash returns remained unchanged from May at a relatively low 0.4%[1] for the month.

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[1] Morningstar

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