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Monthly market commentary | March 2022

Global risk sentiment continues to be marred by the war between Russia and Ukraine, which at the time of writing, has entered its sixth week. As peace talks continue to stall, bringing with it bouts of volatility, and considering the recent killing of civilians in Bucha, the European Union and the United States are considering tougher sanctions against Russia. All the while, upward pressures on global inflation continue as energy and commodity prices soar and supply-chain disruptions persist. On top of that, central banks globally are becoming increasingly hawkish with 23 central banks hiking rates in March, including the US Federal Reserve and the South African Reserve Bank[1].

Despite the downside risks to the global growth outlook and the hawkish central bank narrative, developed market equities (MSCI World) recovered somewhat in March, up around 2.7%[2]. Developed market returns were well supported by gains in the US with the S&P500 and Nasdaq up 3.7% and 3.5% respectively[2]. Both, Europe (MSCI Europe Ex UK) and the UK (FTSE100) lagged in the month, down 0.2% and 0.5% respectively, as rocketing energy, gas and food prices dented sentiment. Emerging markets (MSCI EM) lagged developed markets, down 2.7%[2], dragged down by Chinese equity markets which came under pressure following renewed lockdowns as a result of a surge in COVID-19 cases, while trading was suspended on Russia resulting in the MSCI Russia being marked down to zero. Relative to the USD, the rand strengthened by 5.0%[3], more than offsetting the positive returns from DM equities and exacerbating the poor returns from EM equities.

From a local perspective, equities continued to deliver positive returns in the month, as the Capped SWIX gained 1.5%[2]. Financials was the best performing sector, up 12.2%[2], supported by banks and insurers. Resources gave up some of their strong gains in February, falling 2.0%[2] as the Precious Metals and Mining subsector sold off in light of weaker commodity prices. Industrials again followed global markets lower, down 4.9%[2] driven by the sell-off in Naspers and Prosus whose primary underlying investment, Tencent, continues to come under pressure, while rand strength also hampered the performance of rand hedges Richemont, BAT and AB InBev. Local property recovered in the month and was the best performing local asset class, up 4.4%[2], in line with the rally in SA Inc counters.

On the fixed income front, global bonds (FTSE WGBI) were down 3.4%[2] for the month in USD terms as global yield curves across the board sold off in light of rising inflation expectations. The US 10-year yield rose 0.50% to end the month around 2.3%[3] as the Fed hiked interest rates for the first time since 2018, with market participants more concerned with the very hawkish narrative that came with the announcement. Local bond yields rose at the short end of the curve as the SARB raised the repo rate by 0.25% for the third consecutive time, while the long-end of the curve remained relatively stable, given the significant risk premium that has already been priced in for longer-dated bonds, thus absorbing the volatility in global yields. The ALBI consequently delivered a positive 0.5%[2] return for the month benefitting from the high running yields. In line with global markets, longer-dated real yields sold off as ILBs ended the month down 0.7%[2]. Local cash delivered 0.4%[1] in the month, benefitting from the hike in the repo rate, while the prospective nominal returns are expected to improve as the SARB continues to raise interest rates.

Compiled by
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[1] https://www.moneyweb.co.za/moneyweb-opinion/the-relentless-march-of-interest-rates/
[2] Morningstar
[3] RMB Asset Class returns, March 2022
[4] Momentum Investments