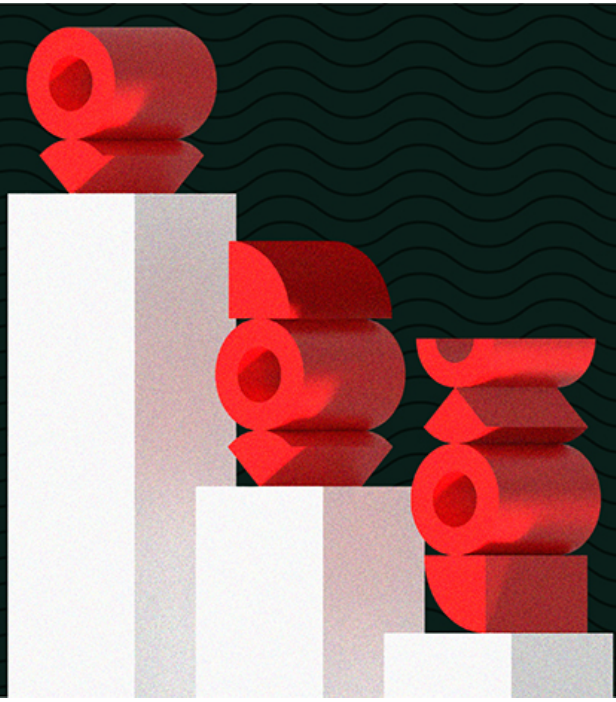
equilibrium
by momentum

market commentary



After a tough April, markets fared much better in May with the major equity indices, both globally and locally, relatively flat for the month. Intra-month volatility, however, remained uncomfortably high, as the macro risks of the ongoing war in Ukraine, global inflation pressures, tightening monetary policy, pandemic-related lockdowns in China and a slowing global growth environment continued to plague markets. Markets would have ended deeply in the red if not for a rally across global markets in the final week of the month.

Developed market equities (MSCI World) were relatively flat in May (up 0.1%[1]) thanks to a rally in the last few trading days. Developed market returns were broadly positive, with the United States (US) (S&P 500), Europe (MSCI Europe Ex UK), United Kingdom (UK) (FTSE100) and Japan's (TOPIX) equity markets up 0.1%, 0.4%, 1.5% and 1.5% respectively[1]. Only the tech-heavy Nasdaq delivered negative returns (down 1.9%[1]) as valuations remain under pressure amid tightening monetary policy globally, with all six of its largest constituents down in the month.

Emerging markets (MSCI EM) outperformed developed markets for the second consecutive month, up 0.4%[1], helped by a surge in Chinese equity markets late in the month following the easing of COVID-19 restrictions and a renewed commitment to stimulus measures from the Chinese government. Global property was the worst performing asset class, down 4.3%[1], as signs of a slowing housing market in the US and UK started to emerge. Rand returns from global equity markets were, however, pushed into negative territory as the rand strengthened by 1.0%[2] relative to the USD.

Local equities eked out positive returns in the month (0.5%) despite being down as much as 6.0%[1] at one point, with a rally in the last week of the month pushing the Capped SWIX into positive territory. Financials continue to be the best performing sector, up 4.3%[1], supported primarily by the banks subsector (up 5.9%[2]). Resources and Industrials were again negative for the month, down 0.3% and 2.4% respectively[1]. Within Resources, strong returns from diversified miners off the back of stimulus measures in China and a reopening of the Chinese economy were offset by a sell-off in precious metal miners. Industrials on the other hand were dragged down by consumer-facing sectors, although decent performance from rand hedges such as Naspers and BAT helped curb losses. Local property (ALPI) was marginally down 0.3%[1] as poor fundamentals continue to weigh on the sector.

On the fixed income front, global bonds (FTSE WGBI) were down 0.1%[1] for the month in USD terms as most global yield curves sold off in light of upward inflation pressures. In contrast to global peers, the US 10-year yield fell 0.09% to end the month around 2.85%[2]. This came as the US Federal Reserve (Fed) hiked interest rates by 0.5% in the month, highlighting the market's concerns around global growth down the line. On the local front, the South African Reserve Bank (SARB) followed the Fed's lead and hiked rates by 0.5%, citing tightening global conditions and upside risks to the inflation outlook as the primary reasons.

Despite this, local bond yields in the short-to-medium end of the curve fell, while the long end of the curve was slightly higher in line with global markets. The ALBI consequently delivered a positive 1%[1] return for the month benefitting from the high running yields along with decent capital gains in the belly of the curve. Real yields were lower across the board as market participants sought inflation protection, resulting in ILBs up 2.0%[1]. Local cash again delivered 0.4%[1], benefitting marginally from the hike in the repo rate, while the prospective nominal returns are expected to improve as the SARB continues to raise interest rates.

Prepared by Equilibrium

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[1] Morningstar
[2] RMB Asset Class returns, May 2022
[3] Momentum Investments

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