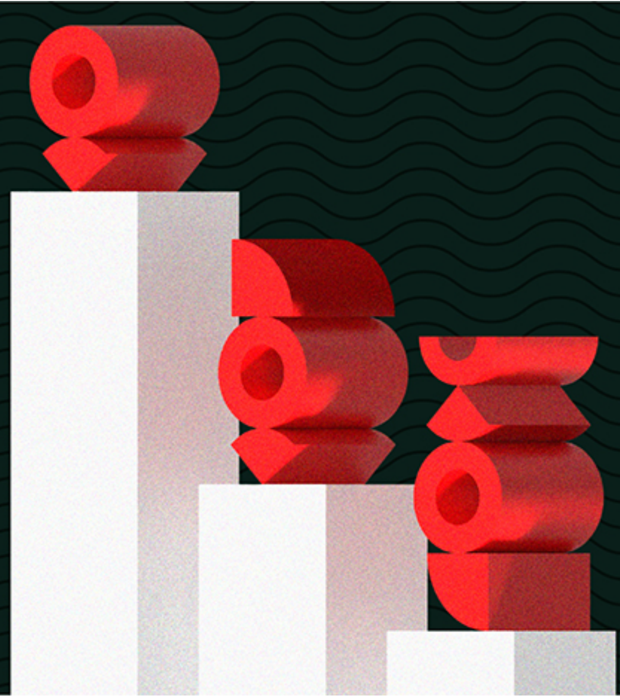
equilibrium by momentum

market commentary



Monthly market commentary | November 2022

The positive momentum in investment markets continued in November after a much-improved global risk sentiment. It was driven primarily by a lower-than-expected US inflation print which beat expectations by 0.2%. This despite global central banks continuing their aggressive rate hikes in the month. A slight relaxation in COVID-19 restrictions in China also buoyed sentiment as investors look eagerly toward the end of its zero-COVID-19 stance. Although surging cases across the country may mean that a complete end to this policy could be some way off, mounting pressures on policymakers following riots across China's major cities has already forced their hands, as we have seen further relaxation in early December. Locally, the positive reactions to the October Medium-term Budget Policy Statement (MTBPS) continued to reverberate throughout November. However, political developments around President Cyril Ramaphosa and the Phala Phala scandal spilled over into markets just after month-end amid fears that Ramaphosa may be on his way out.

Improved sentiment helped global equities' second consecutive positive month, with the MSCI ACWI rallying 7.8%[1] in USD terms. Developed market equities (MSCI World) were up 7.0% during the month, led higher by Europe (MSCI Europe Ex UK), the UK (FTSE 100) and Japan (TOPIX), which were up 11.5%, 10.8% and 9.7% respectively in USD terms[1]. The US (S&P 500) lagged other developed regions, up only 5.5%[1], as its more stretched valuations contained the rally. Emerging market equities (MSCI EM) significantly outperformed their developed market counterparts, delivering their first positive double-digit return (14.8%[1] in USD terms) since 2016. Chinese equities led the charge, with the MSCI China index up 29.7%[1] following a relaxation in COVID restrictions as well as positive talks with the US. The US dollar retreated from its highs following improved risk sentiment and expectations of a sooner Federal Reserve (Fed) pivot, with the rand strengthening 6.3% relative to the greenback and dampening global returns for local investors.

The local equity market took its cue from global markets and even outperformed in local currency terms, with the Capped SWIX up a staggering 9.6%[1]. Resources was the best performing sector, up 17.3%[1] as improved precious and industrial metals prices buoyed the mining counters. Industrials followed closely behind, up 15.1%[1], led higher by Naspers/Prosus (up almost 40%) and Richemont (up 22%), both of which benefitted from the positive moves in China. After double-digit returns in October, Financials ended the month up a solid 5.6%[1], while local property (ALPI) also participated in the buoyant markets to finish the month up 5.8%[1].

After a fourth consecutive 0.75% interest rate hike by the Fed and a somewhat less-hawkish narrative, markets seem certain of a slowdown in the pace of rate hikes. This, coupled with the downside surprise in inflation and the expectation of a slowdown in growth in 2023, resulted in declining bond yields across developed markets. The US and UK 10Y yields declined 0.4% to end the month at around 3.7% and 3.2% respectively[2], while the German and French 10Y yields fell 0.2% and 0.3% respectively[2]. This helped global bonds to a 4.5% return in the month in USD terms[1]. On the local front, an upside surprise in inflation resulted in the Monetary Policy Committee (MPC) following global central banks with a 0.75% interest rate hike. Local nominal bonds (ALBI) ended the month up 3.9%[1] off the back of a sharp decline in yields at the longer end of the curve, while ILB returns were muted, up only 0.8%[1] amid a dwindling appetite for inflation protection. Finally, local cash (STeFI Composite) returns continue to rise in line with rising interest rates, delivering 0.5%[1] in the month.

Prepared by Equilibrium

Enabling your advice outcomes

[1] Morningstar
[2] RMB Asset Class Returns – November 2022
[3] Momentum Investments

For more information and the latest DFM updates

Website: eqinvest.co.za

LinkedIn: https://www.linkedin.com/company/eq-invest/