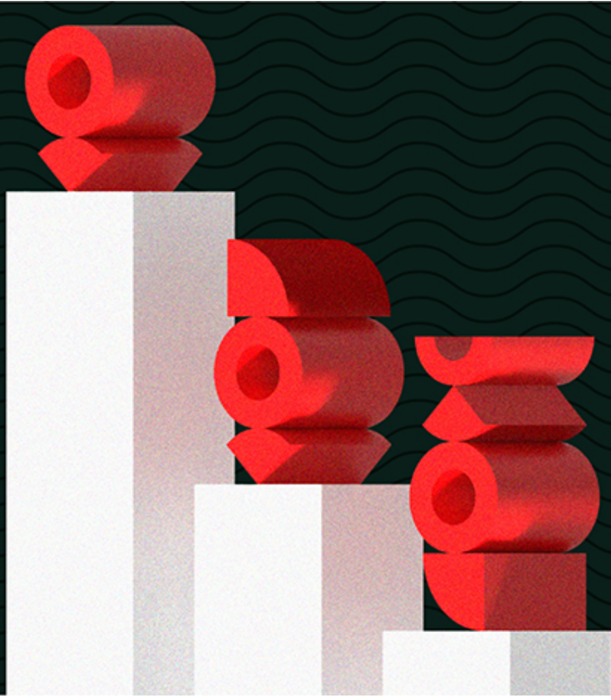
equilibrium by momentum



market commentary

Monthly market commentary | October 2022

After a tumultuous September, October brought some relief for investors. Although investor sentiment remains muted in light of continued fears of a global recession, negative sentiment dissipated to some extent. October was optimistic for Europe as investors responded positively to the several plans put forward to tackle the ongoing energy crisis. The US also had a good month, despite an unfavourable inflation print, which led investors to correctly anticipate a 0.75% interest rate hike at the beginning of November. China proved to be most topical as President Xi Jingping's reappointment came with changes in the party's leadership structure that created volatility in the Chinese markets. On the local front, the improved global investor sentiment filtered through to local markets to support positive returns.

Off the back of the somewhat improved investor sentiment, global equities (MSCI ACWI) ended the month up 6%[1] in USD terms. Developed market equities (MSCI World) were up 7.2%[1] during the month, with Europe (MSCI Europe Ex UK) 7.5%[1] higher and the UK (FTSE 100) 6.2%[1] higher in USD terms. Japan had a more muted rebound from September with the Topix 2.4%[1] higher in USD terms. Emerging market equities (MSCI EM) underperformed its developed market counterpart over the month, delivering a negative return of 3.1%[1]. This was mainly driven by a Chinese market fall of 16.8%[1] as investors grew more sceptical of Xi Jingping's leadership, with the expectation of loyalist policies and continued commitment to zero-COVID protocols. Conversely, Brazil and India were both up for the month, 8.2% and 2.6% respectively[1], which helped to cushion China's large negative return. The rand continues to struggle against a strengthening dollar, as the currency ended the month at R18.35 to the US dollar, from R18.09[1] at the end of September.

The local equity market saw a positive return, with the Capped SWIX 5.3%[1]higher. This was off the back of two consecutive negative months and was supported by positive returns from all three sectors. The standout for the month was the financial sector which was up 13.7%[1], largely supported by banks that boasted a month of strong returns (16%[2]). Resources followed in second, 3.7%[1] higher, while Industrials lagged with a return of 1.7%[1], largely as a result of the stark decline of the Naspers and Prosus share prices towards the end of the month. Local property (ALPI) also participated in the buoyant markets to finish the month up 10.5%[1].

Global bonds seemed to be relatively unfazed by the positive narrative in the equity markets, as the US 10Y yield rose 0.2% to end the month just below 4.1%[2], whereas the various European 10Y yields reacted differently to the European Central Bank's (ECB) 0.75% interest rate hike, with some increasing yields (Germany) and some decreasing yields (France)[2]. Consequently, global bonds (FTSE WGBI) ended the month down 0.5% in USD terms[1]. Local nominal bonds (ALBI) delivered a positive 1.1%[1] off the back of a steepening of the yield curve as shorter-end yields decreased over the month alongside longer dated bonds that remained steady[2]. ILBs, on the other hand, were down 1.3%[1] for the month, with the longer dated 7 to 12-years and 12+ years sectors being the significant detractors[2]. Finally, local cash (STeFI Composite) returns continue to rise in line with rising interest rates, with October's returns just above 0.5%[1].

Prepared by Equilibrium

Enabling your advice outcomes

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

For more information and the latest DFM updates

Website: eqinvest.co.za

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