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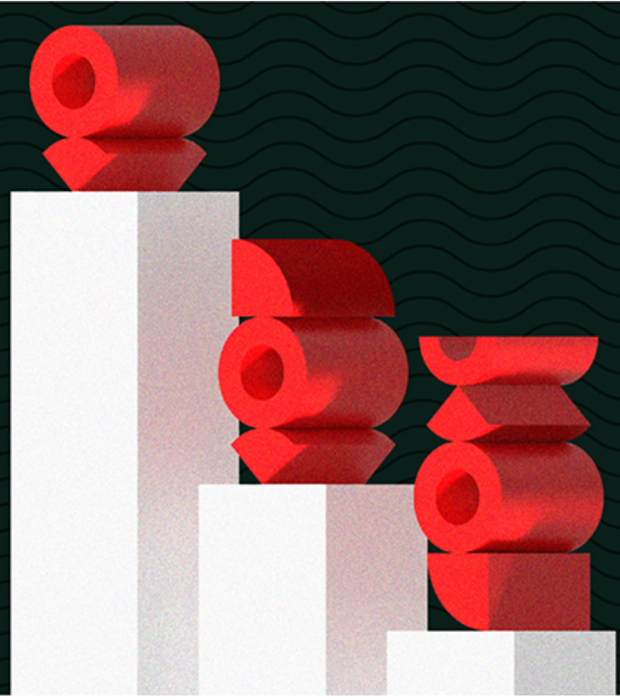
market
commentary



Monthly market commentary | September 2022

After local and global markets endured a gruelling August, September proved to be the proverbial salt in the wound. Following on from the third consecutive 0.75% hike by the Federal Reserve (Fed) as well as a higher-than-expected Consumer Price Index (CPI) print in the United States, investor sentiment was slashed in September. This was but one cloud in the global storm, as investor uncertainty continues to be maintained by ongoing geopolitical tensions. Recent notable highlights have been the Russian annexation of four regions in Ukraine, Germany with its highest increase in producer prices on record and the appointment of Liz Truss as the British Prime Minister, which was widely received in a negative light. All these geopolitical tensions, amongst others, have ultimately led to an exacerbating fear of recession among investors.

With investor sentiment further decreasing in September, global markets saw the worst monthly sell-off since March 2020, with global equities (MSCI ACWI) ending the month down 9.6%[1] in USD terms. Developed market equities (MSCI World) were down 9.3%[1] during the month, with Europe (MSCI Europe Ex UK) down 8.7%[1] and the UK (FTSE All Share) all down 9%[1] in USD terms. Japan ended its run of outperformance with the Topix down 9.5%[1] in USD terms. Emerging market equities (MSCI EM) took a bigger portion of the blow, falling 11.7%[1] in the month, with China being the main culprit with a stark -14.6%[1] over the month. India also contributed to EM's negative performance, having reversed its positive performance last month by falling 6.4%[1], despite becoming the world's fifth largest economy by overtaking the UK. The risk-off sentiment also kept the US dollar stronger against most currencies, with the rand in particular weakening by a further 5.7% relative to the dollar, which boded well for softening global losses for South African investors.

Local equities fell victim to the same factors hurting their global counterparts, with the Capped SWIX down 3.8%[1]. Resources was the only sector to deliver a positive return over the month, up 1.3%[1], where commodity prices had a bumpy month but managed to finish in green territory. Gold shares were a large contributor to Resources' positive return. Industrials and Financials fared far worse, down 6.4% and 6.2% respectively[1]. Financials came under pressure as the banks caused a drag on performance. Industrials fell as the market grappled with a weaker consumer, leading to most consumer stocks struggling over the month. Local property (ALPI) remained the worst performing local asset class, down a further 6.5%[1], as rising operating costs and increasing interest rates continue to weigh on sentiment towards the sector.

Global bonds were similarly affected by the hawkish narrative coming out of the Fed, as the US 10Y yield rose by over 0.6% to end the month above 3.8%[2], while European and UK bonds of the same tenor also rose over the month. Consequently, global bonds (FTSE WGBI) ended the month down 5.1%[1] in USD terms. Local nominal bonds (ALBI) also fell during the month to the tune of 2.9%[1], with yields across the curve rising, where the 12+ year bonds bore the brunt of the fall[2]. Similarly, longer-dated inflation-linked bonds also bore the brunt of the sell off, resulting in a fall in ILBs of 2.3% during the month[2]. Finally, nominal local cash (STeFI Composite) returns delivered 0.5%[1] in the month, proving to be one of the only safe havens for investors in the current market climate.

Prepared by Equilibrium

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

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