Monthly market commentary | December 2022

December ended on a muted note both locally and globally. All eyes were on Parliament and the ANC's 55th National Elective Conference to see whether President Cyril Ramaphosa would stave off threats from the Phala Phala scandal and secure a second term in charge of the ruling party. Globally, the US Federal Reserve (Fed) broke its sequence of four successive 0.75% rate hikes by delivering a somewhat expected 0.5% rate hike. The negative narrative coming from the Fed tamed this news, indicating that members have grown pessimistic of expected US economic and labour market activity in 2023.

Global equities (MSCI ACWI) fell 3.9% in USD terms, bringing the yearly performance to -18.4%[1]. Developed market equities (MSCI World) were down 4.3% during the month (-18.1% for the year), with muted returns from Europe (MSCI Europe Ex UK), the UK (FTSE 100) and Japan (TOPIX), none of which gave higher than a 1% return in USD terms[1]. The US (S&P 500) performed worse than other developed regions (down 5.8%) largely because of a brutal month for the tech sector, bringing the yearly performance to -18.5% in USD terms[1]. Emerging market equities (MSCI EM) once again outperformed their developed market counterparts, delivering a softer negative blow (-1.4%[1] in USD terms) although the yearly return still lagged at a staggering -20.1%[1] in USD terms. Chinese equities continued to rally, with the MSCI China index up 5.2%[1] as investors remain positive about COVID-19 policy relaxation and talks with the US. The rand strengthened further in December by 1%, ending the month (and year) at R17.04 to the US dollar[2].

The local equity market performed similarly - down 2.8% over the month - which left the market in positive territory over the year at 4.4%[1]. Resources contributed the most to December's negative performance, returning -3.5% over the month, but still ending the year in positive territory (8.6%)[1]. Industrials were also negative over the month (-0.3%), which left the sector down 3.7% for the year[1]. After positive returns in November, Financials negated that performance with a -5.2% return over December, but still proving to be the best performing sector over the year with a 10.2% return[1]. Local property (ALPI) managed to stay in the green over the festive season, delivering a 1.1% return, leaving the asset class down 1.9% for the year[1].

Despite a slowdown in the pace of rate hikes by the Fed, the narrative in the market remains negative with the shared view of a hawkish Fed. Developed market bonds yields rose across the board, leading to global bonds (WGBI) delivering a negative 0.2% return over December in USD terms and ending a tumultuous year for global bonds, down -18.3%[1]. On the local front, local nominal bonds (ALBI) ended the month up a muted 0.6% (4.3% for the year)[1], with only marginal movements in the yield curve observed. ILB returns were up for a second consecutive month, delivering a 2.6%[1] return in December off the back of November's headline CPI inflation that surprised slightly to the downside, leaving the yearly return at 4.3%[1] for the asset class. Finally, local cash (STeFI Composite) returns continue to rise in line with rising interest rates, delivering 0.5%[1] in the month. As an indication of how tough the year was, local cash proved to be one of the best performing asset classes, ending the year up 5.2%[1].

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

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