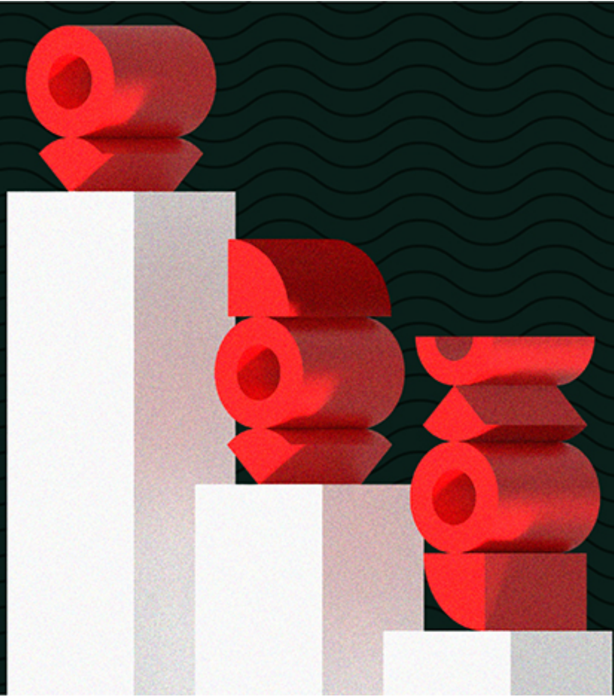
equilibrium by momentum

market commentary



Monthly market commentary | May 2023

May was an eventful month for markets, both on the local and global front. Globally, the US Federal Reserve Bank (Fed) announced a 0.25% rate hike, the tenth consecutive rate hike since March 2022. The hike, coupled with fears of a US debt ceiling default and worse-than-expected Chinese economic data, did little to support investor sentiment in the global markets. Locally, uncertainty relating to the plethora of possible outcomes associated with the Lady R debacle remains unsettling for investors. This uncertainty was compounded by the South African Reserve Bank's (SARB) rate hike of 0.50%, which led to an astonishing rand blow-out and the currency reaching unprecedented lows.

Global equities (MSCI ACWI) ended the month down 1.1% in USD terms[1]. Negative performances from Europe, with the UK down 6.3%[1] (FTSE 100) and the rest of Europe down 5.7%[1] (MSCI Europe Ex UK), were offset by a US tech rally (NASDAQ up 5.9%[1]) leading to developed market equities (MSCI World) falling just 1%[1] during the month. Emerging market equities (MSCI EM) fared slightly worse, ticking 1.7%[1] lower. China was once again guilty for dragging back EM returns, as underwhelming Chinese economic data paved the way for a steep 8.4%[1] drop in Chinese equities (MSCI China). The rand stole the spotlight in May, and weakened by 7.9%[2] relative to the US dollar. This came largely as a result of the uncertainty surrounding diplomatic consequences of Lady Russiagate, compounded by the SARB's rate hike and the consequent concerns around local growth outcomes.

Local equities tell the story of the month's negative impact on investor sentiment, falling 5.9%[1]. Resources and Industrials were both down around 2%[1] over the month, but the majority of negative performance came from Financials, delivering a negative 7.8%[1] return which, although driven by banks, was largely impacted by Transaction Capital plummeting once more, this time by some 43%[2]. On the local property front, the ALPI managed to undo last month's strong performance with a negative 5.4%[1].

Global bonds (WGBI) ended the month down 2.2% in USD terms[1] as the debt ceiling negotiations generated volatility and markets reacted to the tenth consecutive Fed rate hike. On the local bond front, the ALBI fell 4.8%[1], with the longer duration bonds most significantly hit as both the seven to 12-year and

12+ years fell by more than 5.2%[2], which was largely as a result of investor apprehension from fears surrounding Lady Russiagate. Inflation-linked Bonds fared slightly better, with a negative 2.4%[1] return that was largely driven by the 12+ years, which fell some 4.2%[2]. Finally, local cash (STeFI composite) continued to slowly tick up month-on-month and ended up 0.7%[1].

Prepared by Equilibrium

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[1] Morningstar
[2] RMB Asset Class Returns – May 2023
[3] Momentum Investments

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