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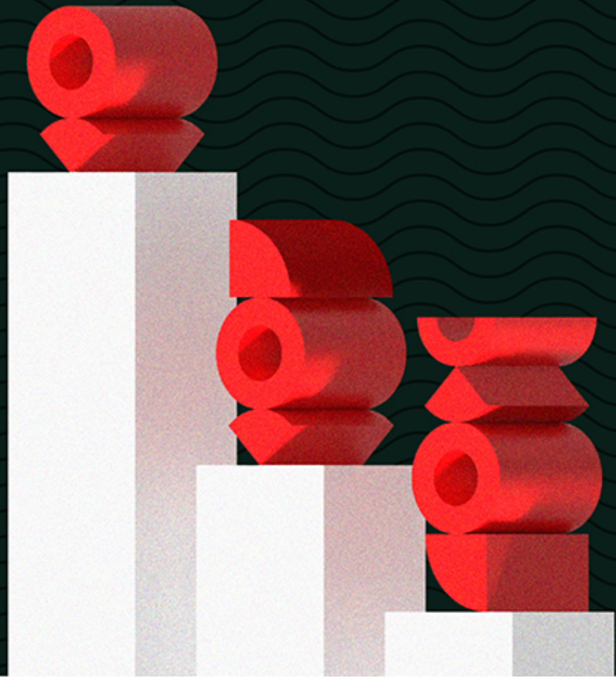
market commentary



Monthly market commentary | February 2023

February played host to two important governmental addresses: President Cyril Ramaphosa's State of the Nation Address and the National Budget Review delivered by Finance Minister Enoch Godongwana. Two major outcomes were the declaration of a National State of Disaster amidst the current energy crisis and Eskom's debt relief package of R254 billion. Although perceived as broadly positive, the addresses did little to boost confidence, given the long-standing deficiencies plaguing the country. The poor sentiment has been exacerbated by the confirmation that the Financial Action Task Force has put South Africa on the grey list. Notwithstanding the above, global news flow dominated markets as the US inflation print surprised to the upside, which dampened investor sentiment. Hence, the month of February offset some of the positive gains in January as it became clear that the fight against inflation remains relevant.

Global equities (MSCI ACWI) ended the month down 2.9% in USD terms[1]. Developed market equities (MSCI World) were down 2.4% during the month, with Europe (MSCI Europe Ex UK) down 0.9%, the UK (FTSE 100) up 0.1% and Japan (TOPIX) down 3.6% respectively in USD terms[1]. The US (S&P 500) fared similarly, down 3.6% in USD terms[1]. Emerging market equities (MSCI EM) ended their run of outperformance of their developed market counterparts, delivering -6.5% in USD terms[1]. This was mainly as a result of Chinese equities taking a big knock (MSCI China index down 10.4%[1]) as investors seemingly start to take a breather following the recent rally. The rand weakened by 5.5% relative to the US dollar, ending the month at R18.36[2], as expectations of interest rate differentials moved in favour of the US off the back of a higher global inflation backdrop relative to South African inflation, which is expected to move with the South African Reserve Bank's target range of 3% to 6% in the year.

The local equity market performed similarly, down 2.3%[1] over the month (Capped SWIX). Resources were the largest contributor to the negative return, delivering a staggering negative 13.2%[1] return, as precious metals and mining and chemicals took massive hits throughout the month. Industrials returned 1.6%[1] over the month, buoyed by support services and transportation. Financials also delivered a positive return of 2.5%[1], which was largely supported by the insurance industry gains. Local property (ALPI) ended with negative figures for the second consecutive month, delivering a negative 0.1%[1] return.

The US 10Y yield rose during the month ending at 3.9%[2]. The German and French 10-year yields both rose by 0.4%[2] and the UK 10-year jumped by 0.5% to end at 3.8%[2] as Europe's unexpectedly high inflation prints suggest that the ECB's fight against inflation remains. Consequently, this led to global bonds (WGBI) negating last month's gains with a negative 3.3% return in USD terms[1]. On the local bond front, February saw yields increasing across all areas of the curve, leaving local nominal bonds (ALBI) down 0.9%[1] for the month. Inflation-linked Bond (ILB) returns were up, delivering a positive 0.5%[1] return as we saw a flattening of the ILB curve. Finally, local cash (STeFI composite) returns remained steady throughout the month, delivering 0.5%[1].

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[1] Morningstar
[2] RMB Asset Class Returns – 28 February 2023
[3] Momentum Investments

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