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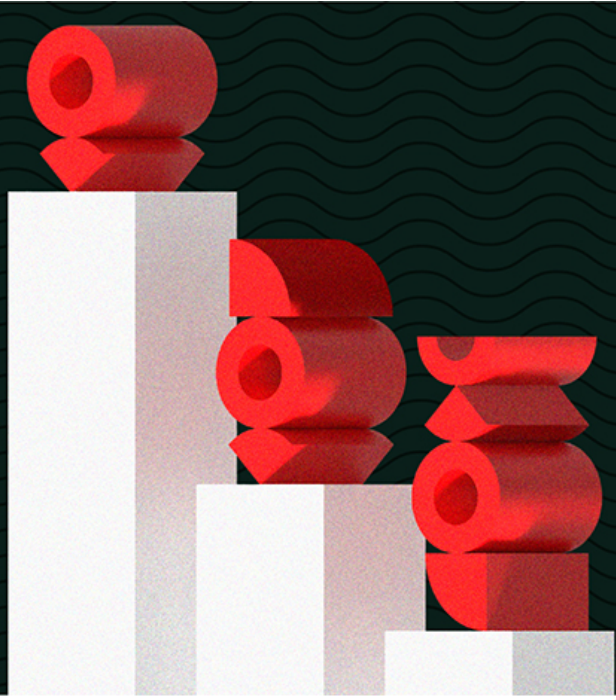
market
commentary



## Monthly market commentary | January 2023

**January proved to be a great start to 2023 as the South African (SA) market followed global markets higher, buoyed by the staggering optimism toward China's growth prospects as their economy continues to reopen after easing COVID-19 restrictions. Despite the positive story told by returns, sentiment towards SA remains negative. With a relatively soft month for the US dollar against other currencies, the rand was one of three major currencies to weaken against the US dollar over the month as non-residents remain persistent net sellers of both SA bonds and equities. This paints a picture of negative sentiment towards SA, as investors hold fears of how the persistent energy crisis will affect the country's economic growth. Globally, the US markets looked positive as both market expectations of a continued slowdown in the Federal Reserve Bank interest rate hikes and an 'in-line-with-expectations' US inflation print encouraged investors.**

Global equities (MSCI ACWI) ended the month up 7.2% in USD terms[1]. Developed market equities (MSCI World) were up 7.1% during the month, supported by Europe (MSCI Europe Ex UK), the UK (FTSE 100) and Japan (TOPIX) – up 9.3%, 6.8% and 6.0% respectively in USD terms[1]. The US (S&P 500) kept pace by delivering 6.3% in USD terms[1], mainly supported by staggering rallies in the tech and energy sectors (NASDAQ up 10.7% in USD terms[1]). Emerging market equities (MSCI EM) outperformed their developed market counterparts for the third consecutive month, delivering 7.9%[1] in USD terms. This was mainly supported by the continued rally of Chinese equities, with the MSCI China index up 11.8%[1] as optimism over an economic normalisation from the world's second largest economy continues to brew. The rand weakened by 2.2%, ending the month at R17.41 to the US dollar, despite reaching R16.69 mid-month[2].

The local equity market performed similarly, up 7% over the month[1]. Industrials contributed most to January's positive performance, returning 12.8% over the month[1], largely driven by the technology sector as we saw massive gains in Naspers and Prosus off the back of the improved China outlook. Resources followed with a 7.1% positive return[1], with chemicals and industrial materials supporting returns to a large extent as China's reopening increases the perceived demand for industrial commodities. Financials lagged the other sectors, delivering a 4%[1] return over the month as the sector remains under pressure from negative investor sentiment. Local property (ALPI) ended its three-month rally with a -0.8% return over the month[1].

The US and UK 10-year yields both declined during the month, ending at 3.5% and 3.3% respectively[2], while the ECB's expected 0.5% February rate hike saw the German and French 10-year yields drop by 0.3% and 0.4% respectively[2]. This led to global bonds (WGBI) delivering a much needed positive 3.2% return in USD terms[1]. On the local bond front, the positive perception of the SA Reserve Bank's (SARB) slowdown in interest rate hikes outweighed the negative impacts of a foreign investor exodus, leaving local nominal bonds (ALBI) up 2.9%[1] for the month. Inflation-linked bond returns were down, delivering a negative 1.1%[1] return over the month[1] as December's CPI inflation surprised slightly to the downside. Finally, local cash (STeFI composite) returns continue to increase in line with rising interest rates, delivering 0.6%[1] in the month.

**Prepared by Equilibrium**

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[1] Morningstar
[2] RMB Asset Class Returns – 31 January 2023
[3] Momentum Investments

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