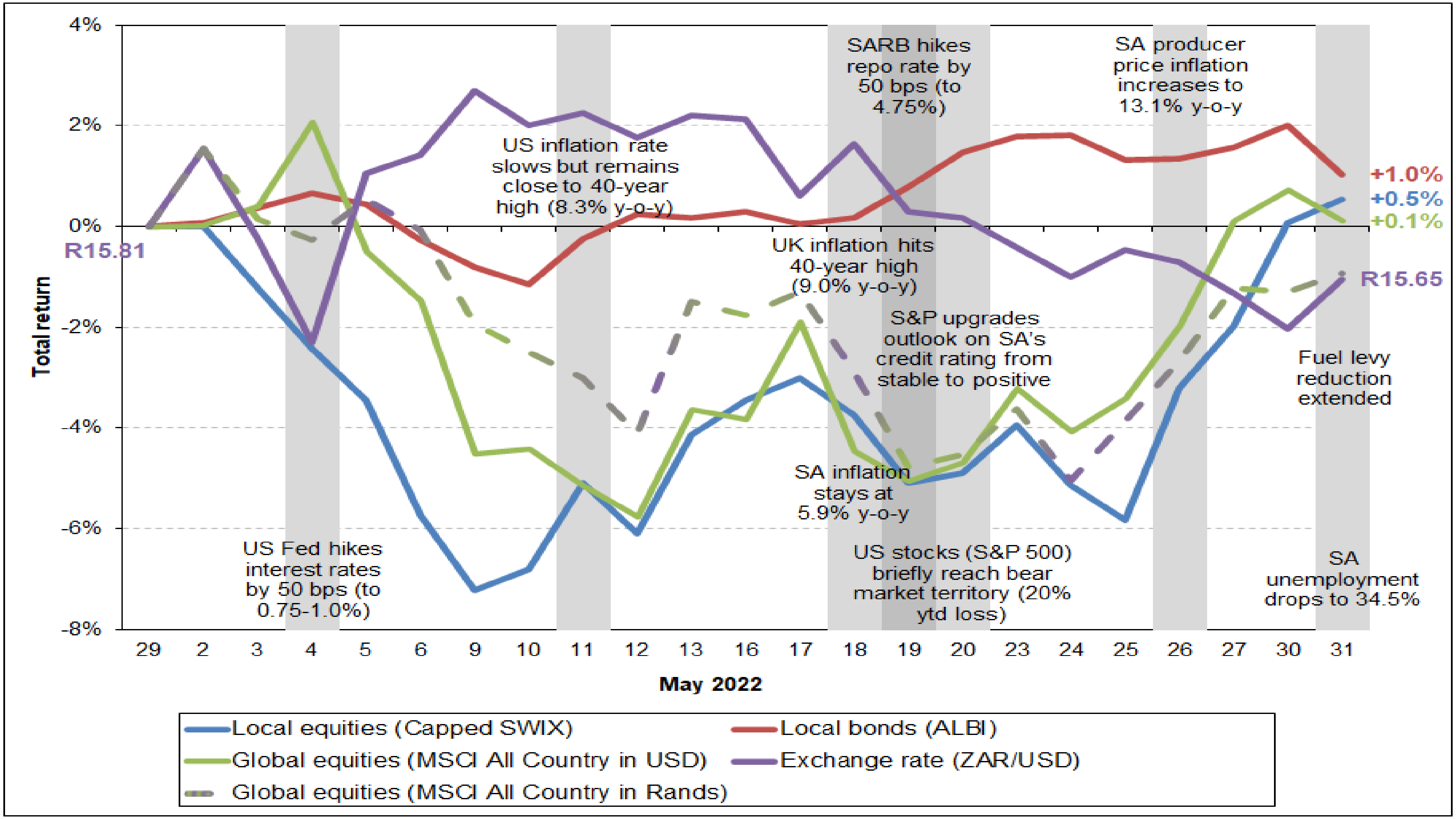
MONTH IN PICTURES

MAY 2022

MONTHLY SNAPSHOT
NOTABLE EVENTS

- Markets continued their downward trend during the first half of May, with the local equity market trading nearly 8% lower before staging a strong recovery and ending the month largely unchanged from April (ALSI = -0.4% & Capped SWIX = +0.5%).
- The trajectory of global inflation and interest rates continued to dominate financial news headlines for most of the month as central bankers desperately try to engineer a so-called 'soft landing' (taming price increases by raising interest rates whilst not causing a severe recession in the process) for their respective economies.
- After slowing to 8.3% year-on-year (y-o-y) in April, US inflation reached a new 40-year high of 8.6% in May (above market expectations), which prompted the US Fed to raise rates by another 75 basis points (bps) at their June meeting. This was their third hike this year, and the largest since 1994, and brought US short term rates to 1.75% after starting 2022 at just 0.25%. Rates are now expected to peak at nearly 4% by the end of 2023, compared to a projected 2% just a couple of months ago.
- Elsewhere inflation is also proving problematic, with the latest prints coming in at 9.1% in the UK and 8.8% in the EU, while the local inflation rate inevitably breached the upper limit of the South African Reserve Bank's (SARB's) target range after May's CPI number clocked in at 6.5%. The SARB has hiked rates by 1.25% in total since November last year (bringing the repo rate to 4.75%), and will keep a close eye on what their US counterparts are doing, so we're likely in for a steeper trajectory than initially anticipated.
- Local GDP numbers surprised to the upside in 2022 Q1, growing by 1.9% (compared to expectations of +1.2%) and finally bringing SA's broad economic output figures back to pre-Covid levels. Renewed bouts of loadshedding and flooding in KZN will unfortunately put a dampener on 2022 Q2's numbers.
- SA's unemployment numbers also improved marginally (to 34.5% from 35.3%), but regrettably remain well above the already-high pre-pandemic levels.
- Although the late-May rally brought some short term relief to markets, the sell-off continued anew in June, putting most markets under considerable pressure. As things stand the average balanced fund is now well into negative territory year-to-date (-7%) and only barely positive over the last year (+2%). Markets are likely to remain quite volatile while investors acclimatise themselves to the current environment (higher inflation and interest rates coupled with lower growth), but at least local markets still enjoy some valuation support, which should bode well for medium to longer term returns.

MONTHLY TIMELINE
IMPACT ON MARKETS



Source: Iress

MARKET INDICATORS
SHORT TERM

Market indicators (% change) [1]		Mar 2022	Apr 2022	May 2022	3 months	12 months
Local equities	ALSI	0.0	(3.7)	(0.4)	(4.0)	11.0
	Capped SWIX	1.5	(3.9)	0.5	(2.0)	12.1
	Resources	(1.1)	(4.8)	(0.4)	(6.2)	23.8
	Industrials	(4.3)	(1.7)	(2.2)	(8.0)	(6.8)
	Financials	12.0	(6.1)	3.5	8.8	31.5
	Listed Property	5.1	(1.4)	0.0	3.6	15.5
Local bonds	ALBI	0.5	(1.7)	1.0	(0.2)	5.6
Local cash	STeFI Composite	0.4	0.4	0.4	1.1	4.1
Global equities	MSCI All Country	(2.9)	(0.4)	(0.9)	(4.2)	6.2
Global bonds	FTSE WGBI	(8.2)	1.9	(1.1)	(7.5)	(3.2)
Exchange rate	ZAR/USD	(4.9)	8.3	(1.1)	1.8	13.9
Inflation	CPI	1.0	0.6	0.7	2.2	6.5

1. *Total returns (in Rands) for the months and periods ending 31 May 2022.*

MARKET INDICATORS
MEDIUM TO LONG TERM

Market indicators (% change) [1]		1 year	3 years	5 years	10 years	15 years
Local equities	ALSI	11.0	13.0	9.8	11.6	9.7
	Capped SWIX	12.1	10.6	6.8	10.2	-
	Resources	23.8	28.5	26.3	10.0	6.5
	Industrials	(6.8)	6.2	2.7	10.8	11.2
	Financials	31.5	5.7	5.9	10.4	8.6
	Listed Property	15.5	(5.0)	(5.2)	4.5	7.1
Local bonds	ALBI	5.6	7.7	8.2	7.9	8.3
Local cash	STeFI Composite	4.1	5.1	6.0	6.1	6.8
Global equities	MSCI All Country	6.2	14.4	13.0	17.2	11.1
Global bonds	FTSE WGBI	(3.2)	(0.2)	3.1	5.9	7.6
Exchange rate	ZAR/USD	13.9	2.4	3.7	6.3	5.4
Inflation	CPI	6.5	4.6	4.5	5.1	5.6

1. *Total returns (in Rands) for the months and periods ending 31 May 2022.*

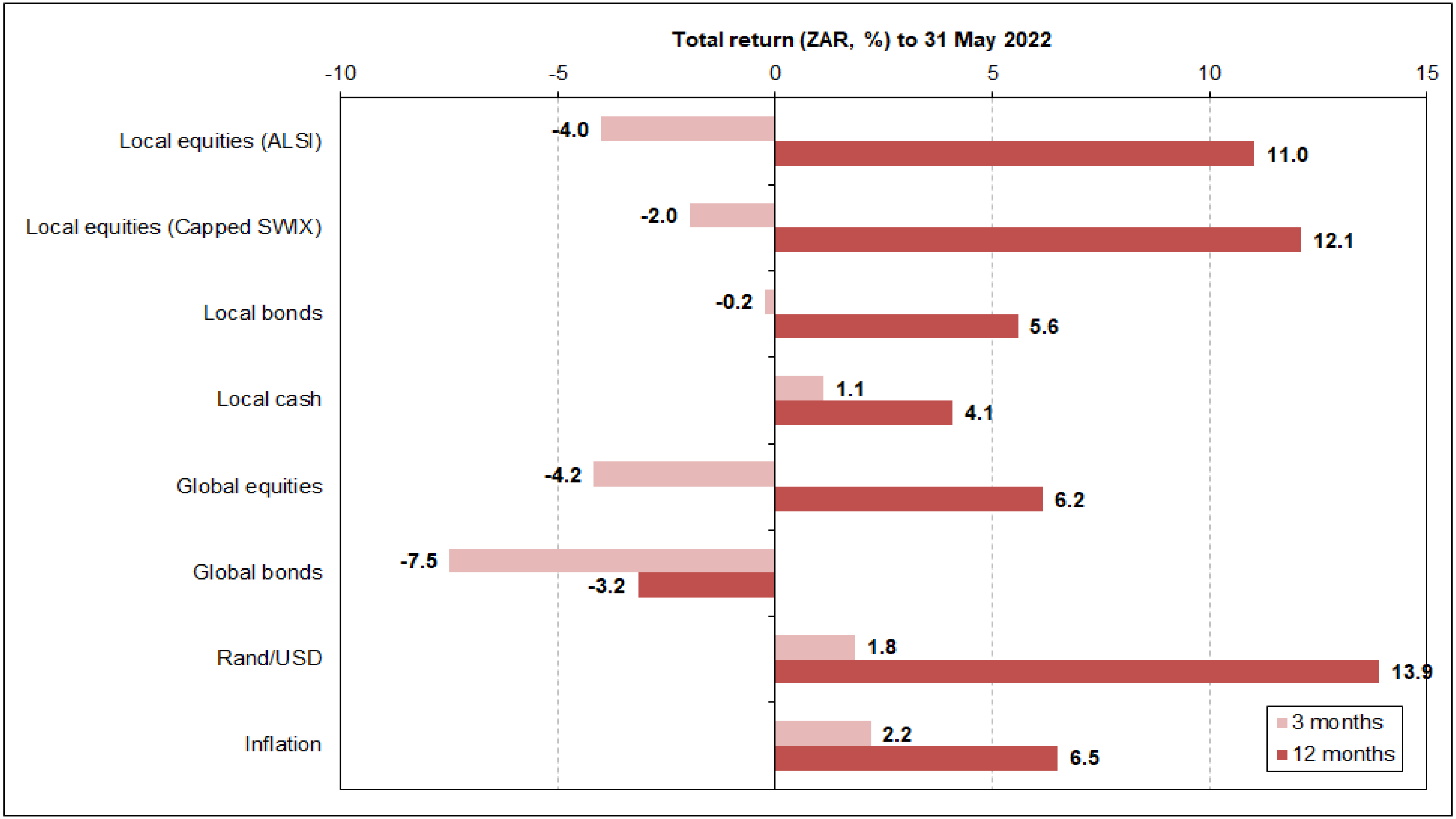
Source: Iress

ECONOMIC INDICATORS

Economic indicators [1]	May 2020	May 2021	Mar 2022	Apr 2022	May 2022
Exchange rates:					
ZAR/USD	17.54	13.74	14.61	15.81	15.65
ZAR/GBP	21.67	19.53	19.20	19.88	19.72
ZAR/Euro	19.48	16.80	16.16	16.67	16.79
Commodities:					
Brent Crude Oil (USD/barrel)	37.84	69.33	104.71	107.14	115.60
Platinum (USD/ounce)	831.95	1,182.43	992.51	939.00	966.13
Gold (USD/ounce)	1,721.09	1,896.49	1,931.73	1,897.26	1,854.81

1. *Month-end prices*

ASSET CLASS PERFORMANCE
SHORT TERM



Source: Iress

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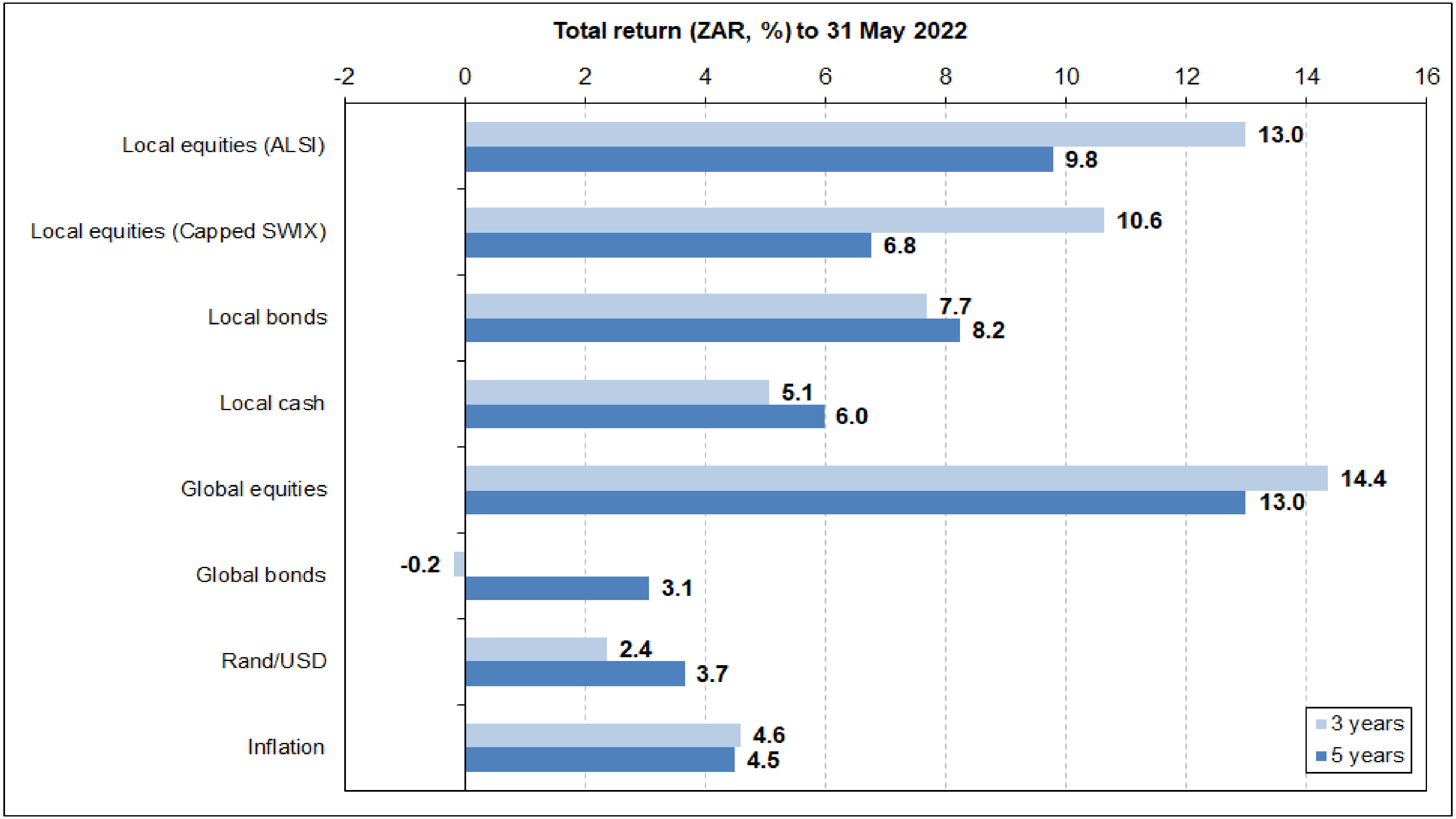
ASSET CLASS PERFORMANCE

MEDIUM TERM



Source: Iress

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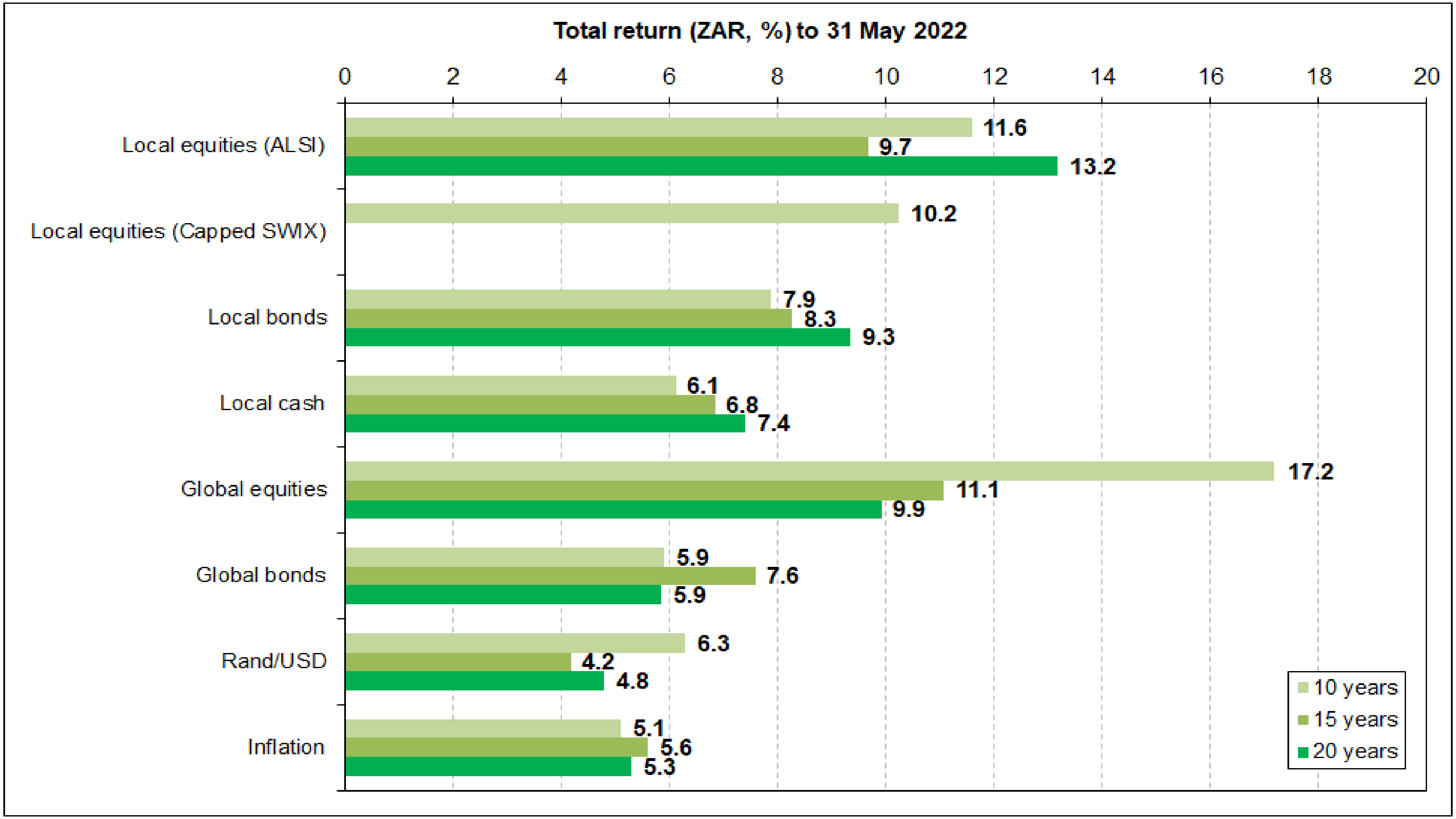
ASSET CLASS PERFORMANCE
LONG TERM



Source: Iress

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MARKET PERFORMANCE

WHAT PAST RETURNS CAN INVESTORS REASONABLY EXPECT?

Given the performances of the various asset classes (see earlier slides), what level of historical returns (in both nominal and real terms) can investors reasonably have expected from the markets?

To illustrate this, we calculated the hypothetical returns of various risk profiled 'portfolios' (Aggressive, Moderate and Conservative) using a rules-based asset allocation approach to cater for the change in the regulatory offshore allowance over time:

- The offshore allocation is kept at 5% below the prevailing regulatory maximum (15% to 2000, 20% to 2006, 25% to 2018 & currently at 30%).
- The equity allocation varies according to the risk profile, and is set at 75% for Aggressive, 55% for Moderate and 35% for Conservative, which applies to both the local (ALSI up to December 2001, SWIX up to June 2011, Capped SWIX thereafter) and offshore (MSCI All Country) portions.
- The remainder of the *local* assets is split between local bonds (ALBI) and cash (STeFI composite), with the local bond allocation being the same as the equity allocation in this sub-portion, i.e. 75% for Aggressive, 55% for Moderate and 35% for Conservative. The balance is kept in local cash.
- The remainder of the *offshore* assets is allocated to global bonds (FTSE WGBI).
- Fees are assumed at 0.4% p.a.

A graphical representation of the strategic and current asset allocations of the various risk-profiled 'portfolios' are provided below:

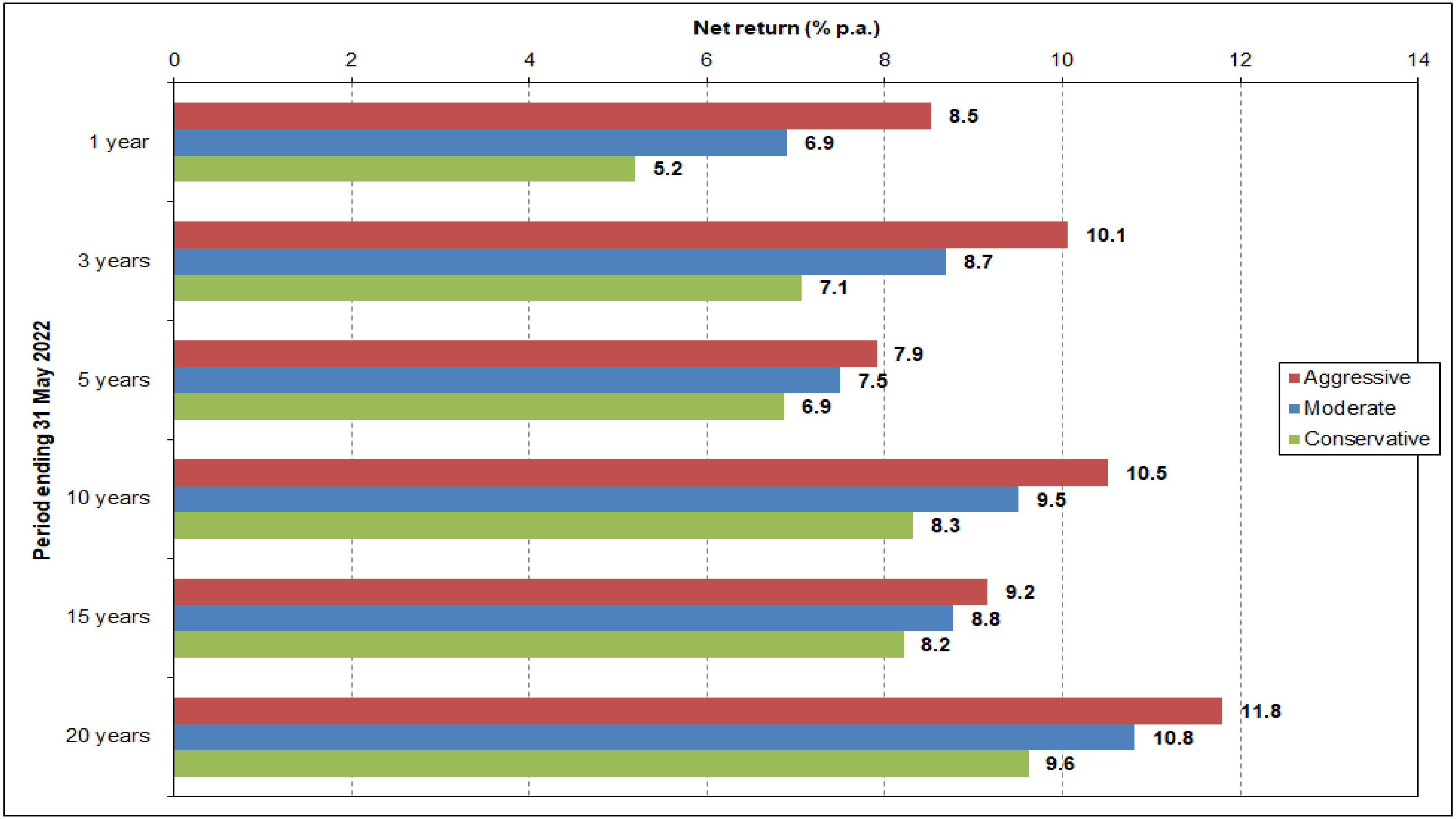
AGGRESSIVE						
Strategic allocation	LOCAL VS OFFSHORE	75%			25% (5% below regulatory maximum)	
	GROWTH VS INCOME ASSETS	75%	25%		75%	25%
	EQUITIES VS BONDS VS CASH	100%	75%	25%	100%	100%
Current allocation		~56%	~14%	~5%	~19%	~6%

MODERATE						
Strategic allocation	LOCAL VS OFFSHORE	75%			25% (5% below regulatory maximum)	
	GROWTH VS INCOME ASSETS	55%	45%		55%	45%
	EQUITIES VS BONDS VS CASH	100%	55%	45%	100%	100%
Current allocation		~41%	~19%	~15%	~14%	~11%

CONSERVATIVE						
Strategic allocation	LOCAL VS OFFSHORE	75%			25% (5% below regulatory maximum)	
	GROWTH VS INCOME ASSETS	35%	65%		35%	65%
	EQUITIES VS BONDS VS CASH	100%	35%	65%	100%	100%
Current allocation		~26%	~17%	~32%	~9%	~16%

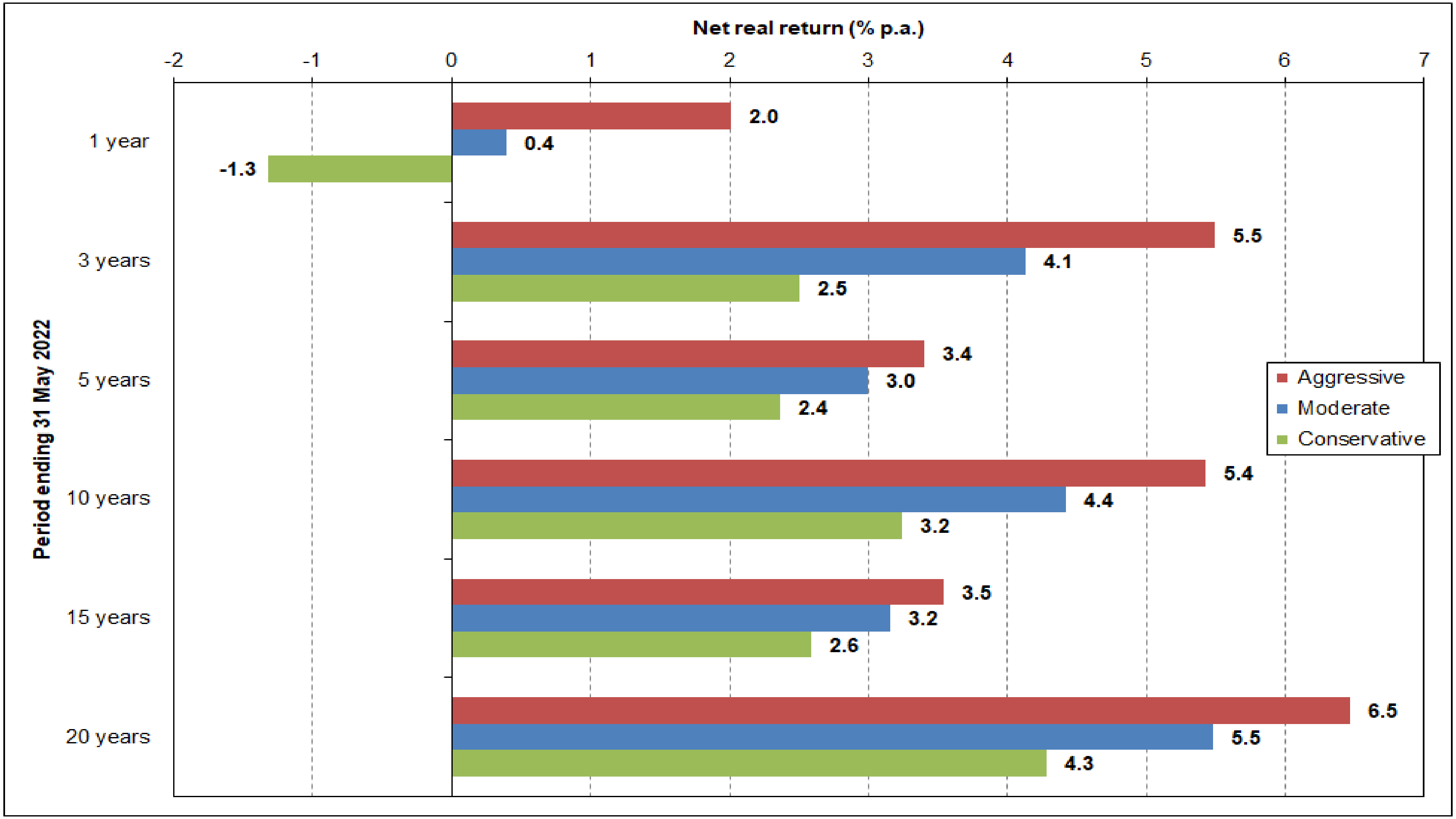
MARKET PERFORMANCE

FOR BALANCED PORTFOLIOS, WHAT RANGE OF PAST NOMINAL RETURNS WAS REASONABLY ACHIEVABLE?



MARKET PERFORMANCE

FOR BALANCED PORTFOLIOS, WHAT RANGE OF PAST REAL RETURNS WAS REASONABLY ACHIEVABLE?



Source: Iress

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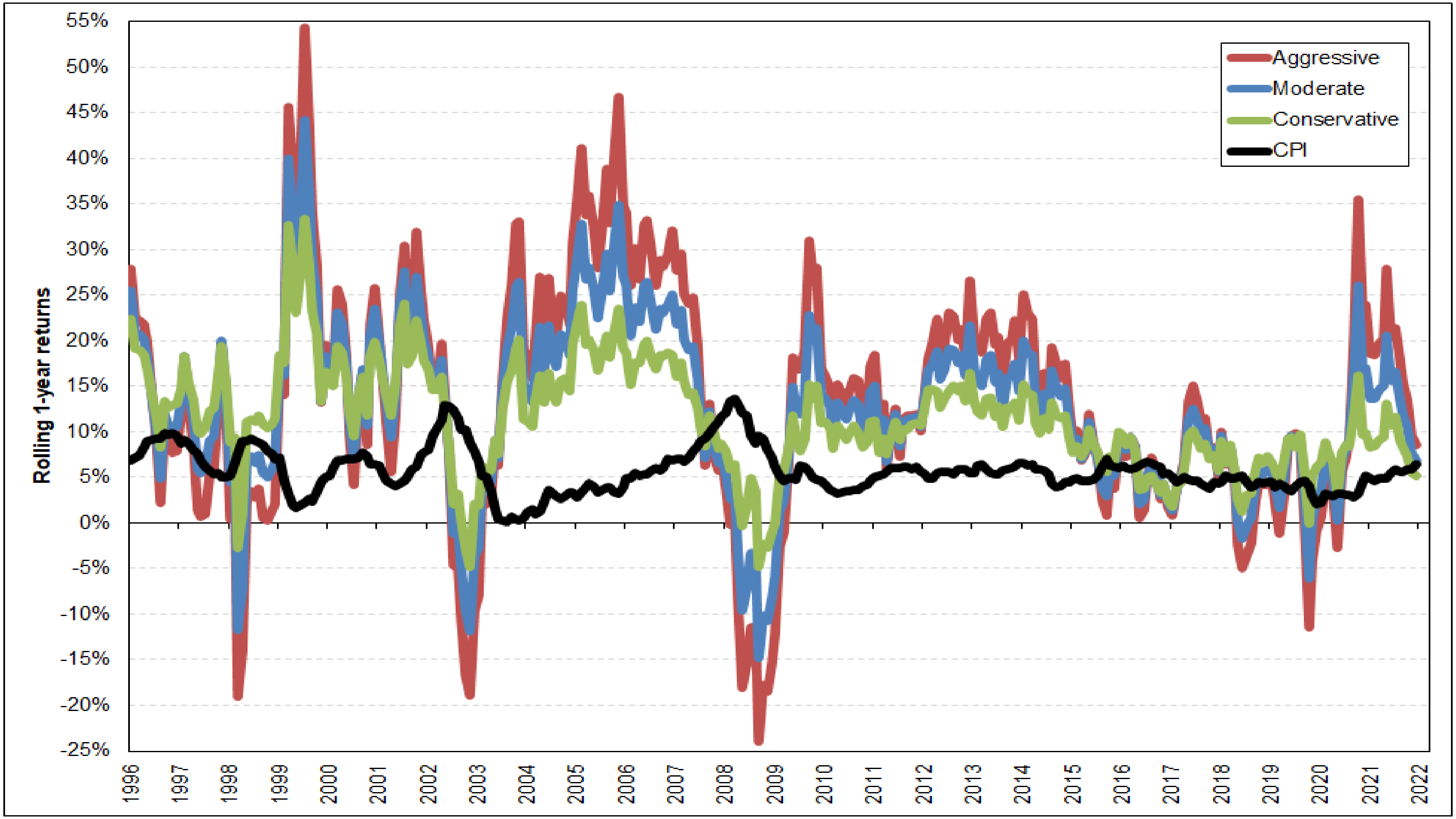
MARKET PERFORMANCE
1-YEAR RETURNS TRENDING SHARPLY LOWER…



Source: Iress

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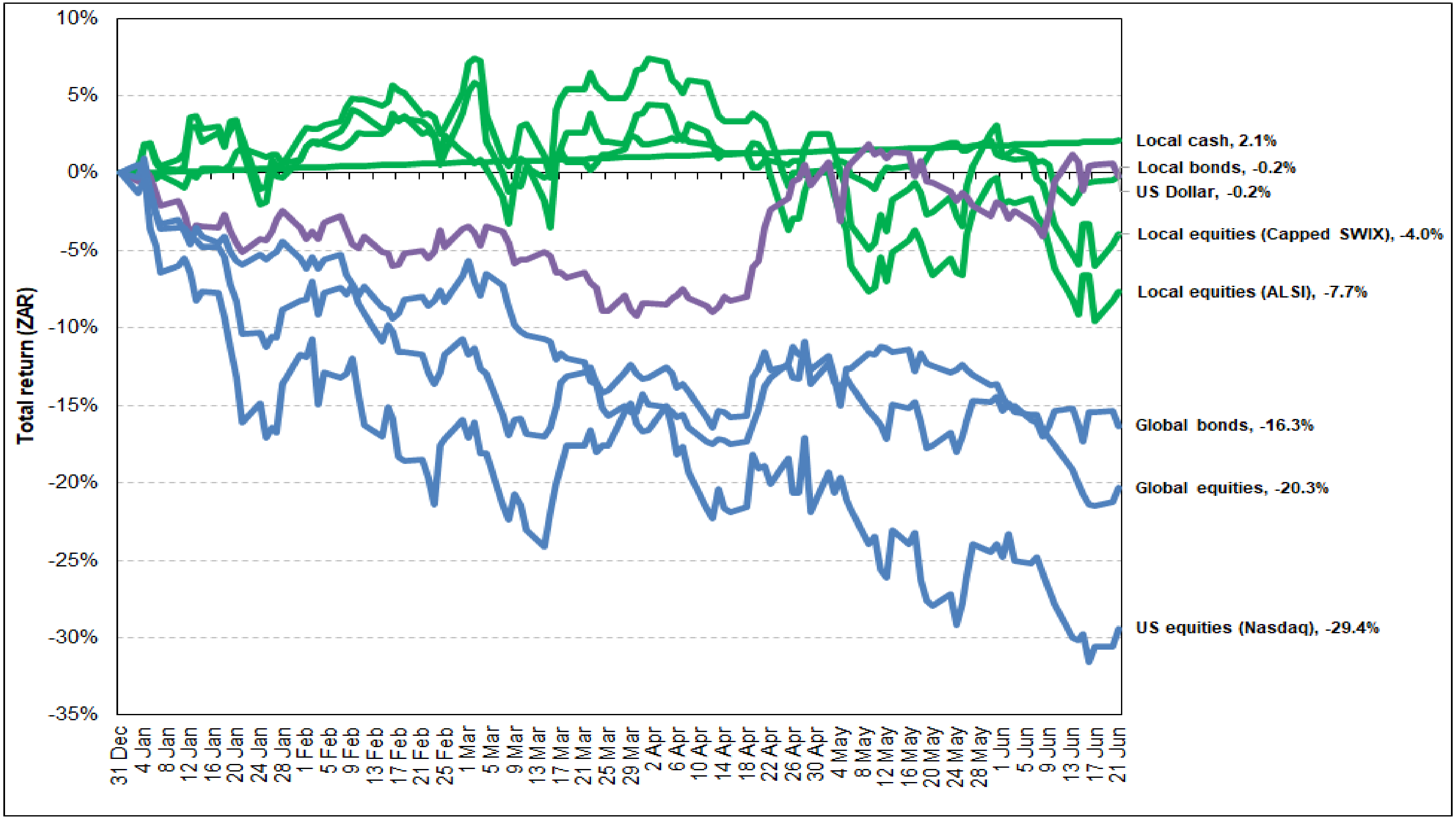
MAJOR ASSET CLASSES IN 2022

...AS GLOBAL STOCKS ENTER BEAR MARKET TERRITORY; LOCAL ASSETS DOING MUCH BETTER, BUT ALSO NOW COMING UNDER SOME PRESSURE



Source: Iress, Morningstar

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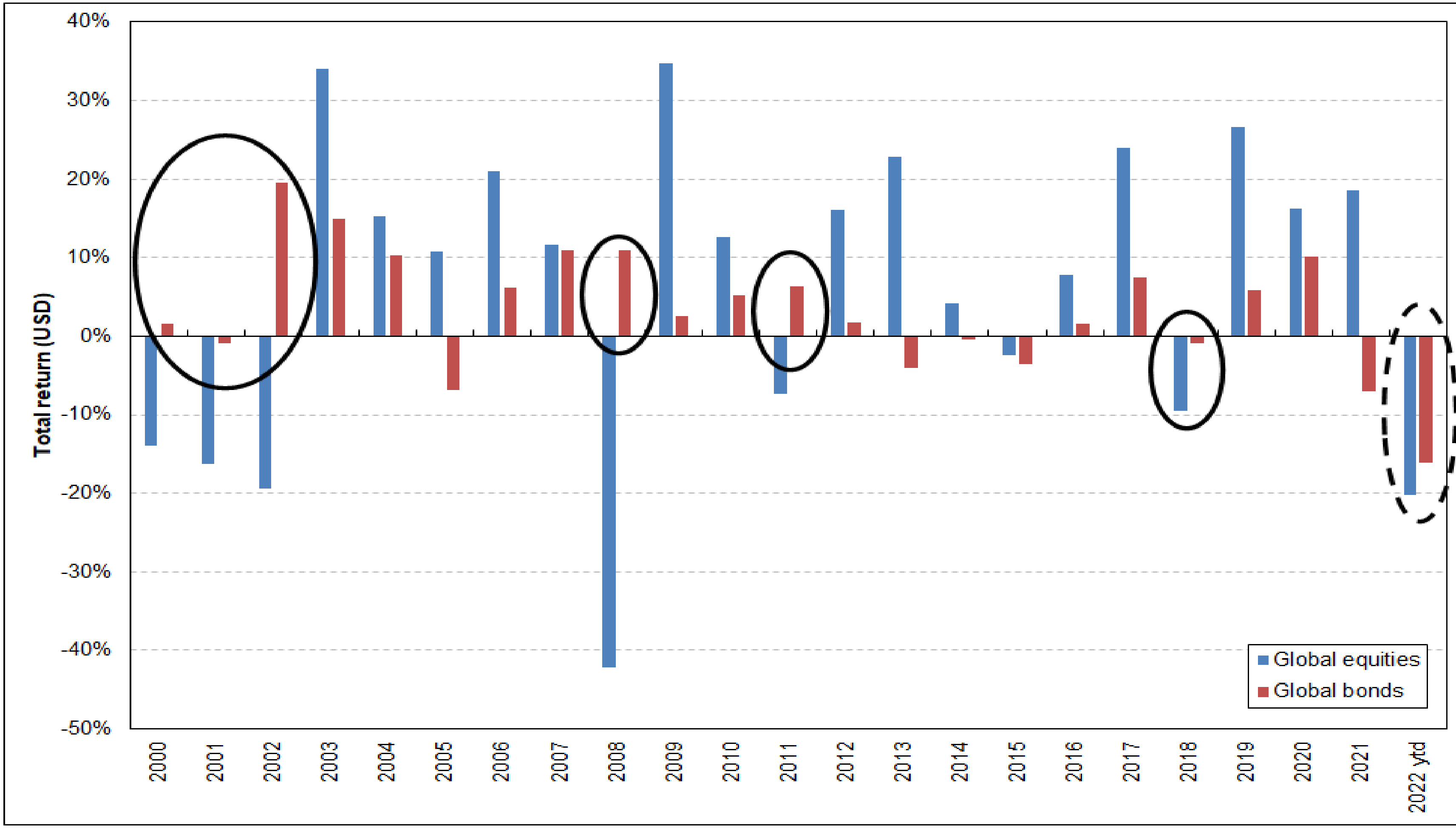
GLOBAL MARKETS

BONDS NOT PLAYING THE PROTECTIVE ROLE IT HAS IN THE PAST



Source: Iress, Morningstar

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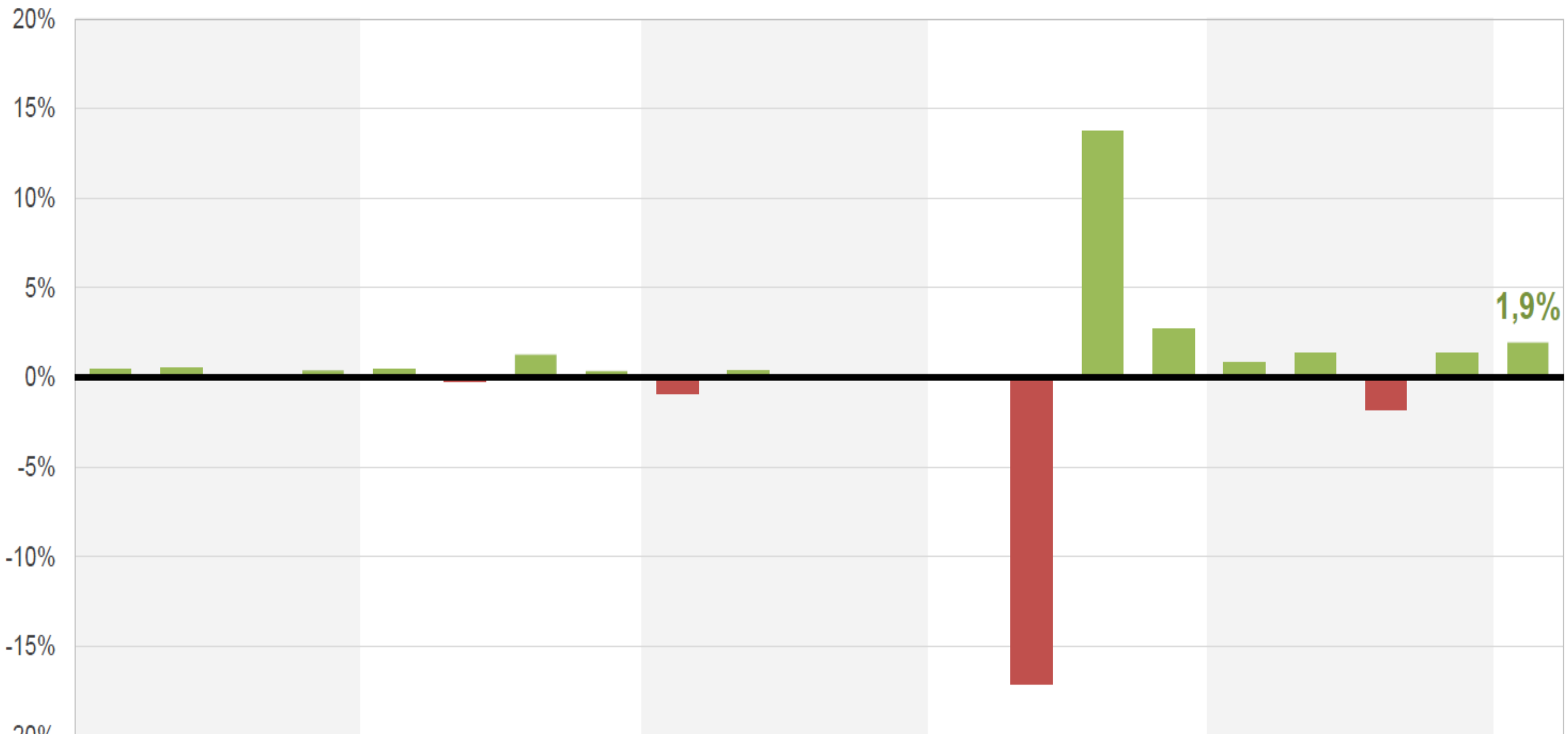
SA ECONOMY
GROWS BY 1.9% IN 2022 Q1

Quarter-on-quarter percentage change in GDP production (constant 2015 prices, seasonally adjusted)



	17/1	17/2	17/3	17/4	18/1	18/2	18/3	18/4	19/1	19/2	19/3	19/4	20/1	20/2	20/3	20/4	21/1	21/2	21/3	21/4	22/1
GDPp Q/Q	0,5	0,5	0,2	0,4	0,4	-0,2	1,3	0,4	-0,9	0,4	0,1	0,0	0,0	-17,1	13,8	2,7	0,8	1,4	-1,8	1,4	1,9

Source: StatsSA

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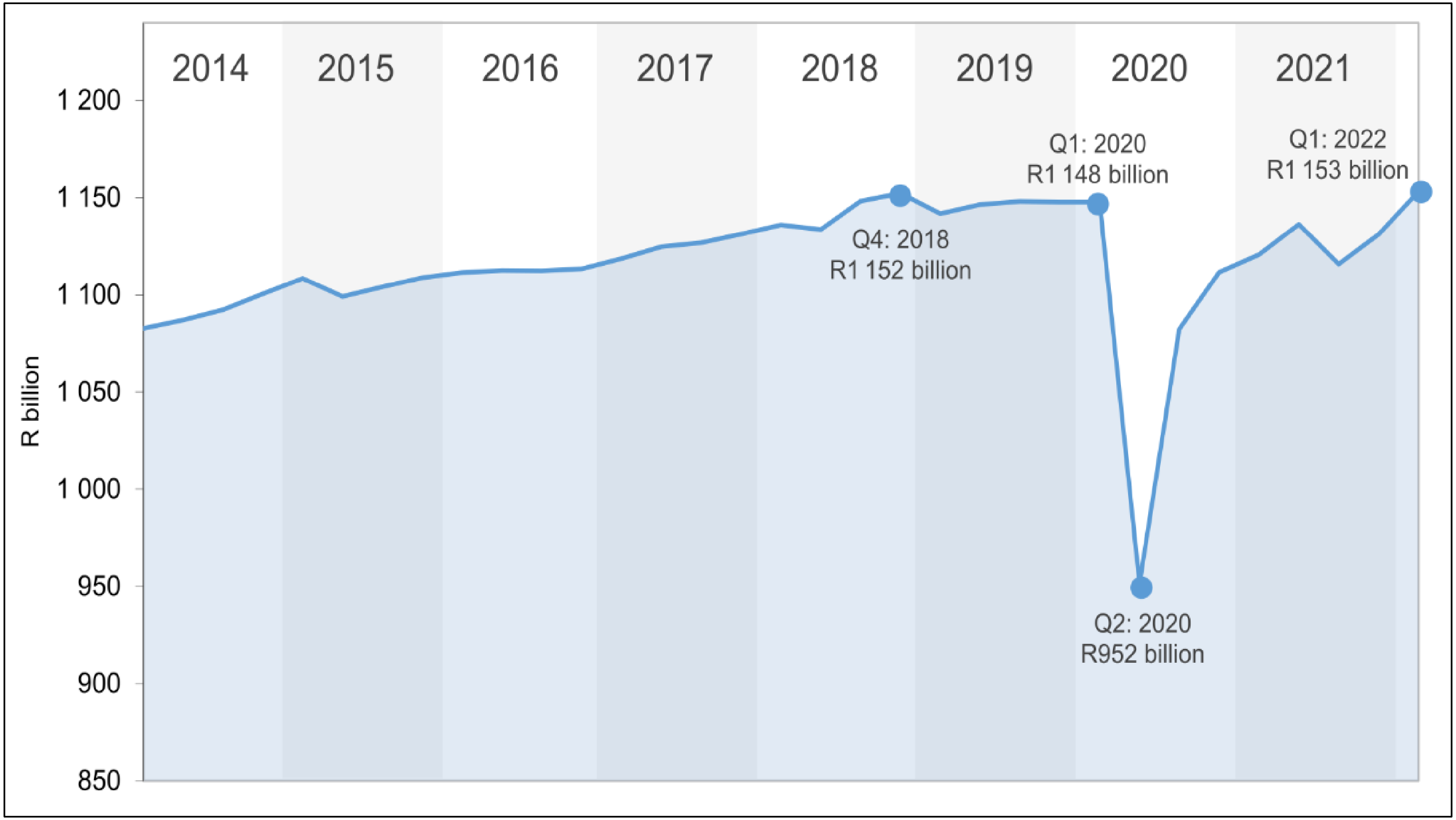
SA ECONOMY

OUTPUT FINALLY BACK AT PRE-COVID LEVELS



Source: StatsSA

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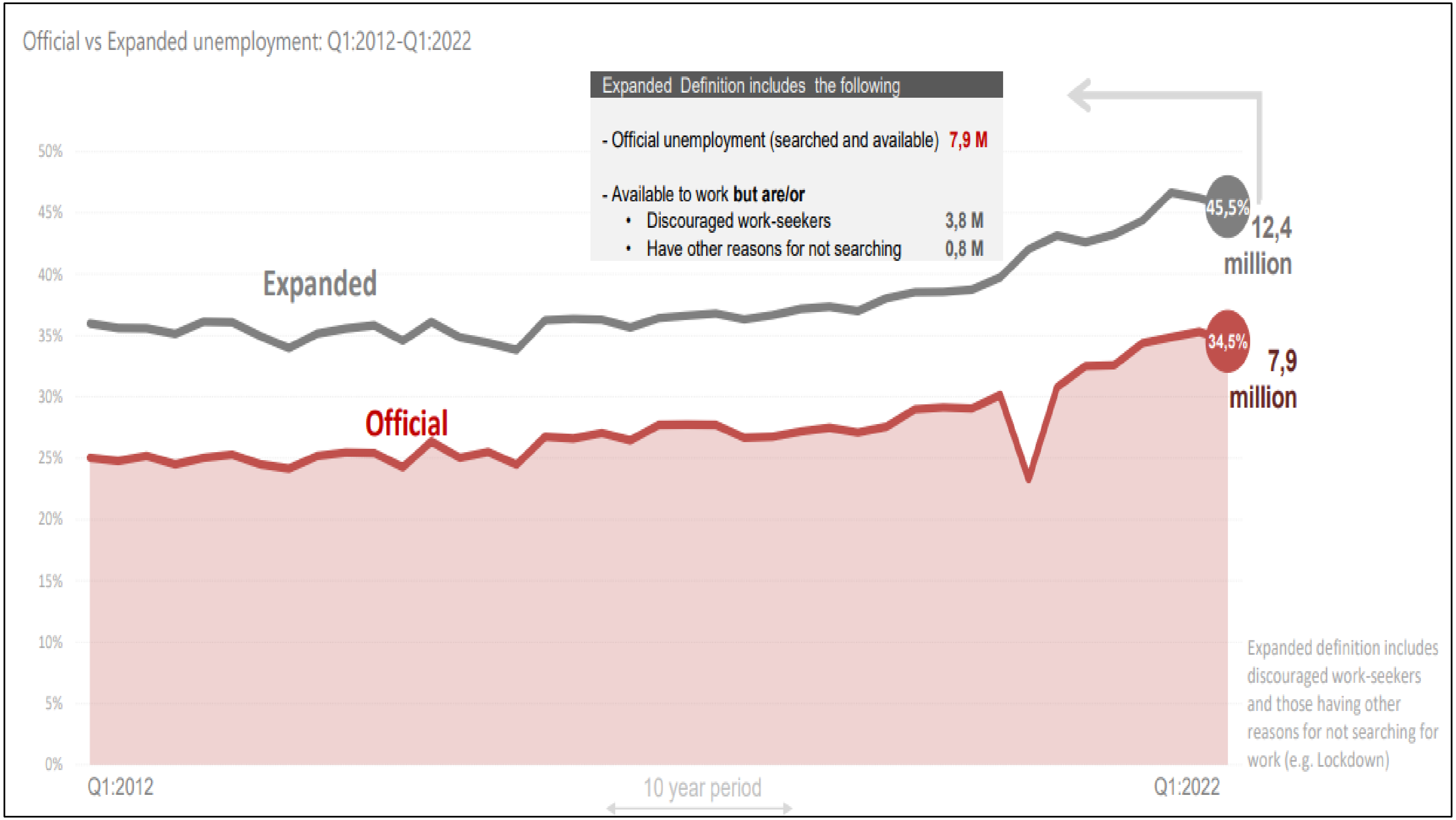
SA ECONOMY

SLIGHT IMPROVEMENT IN UNEMPLOYMENT NUMBERS, BUT STILL NOT A PRETTY PICTURE



Source: StatsSA

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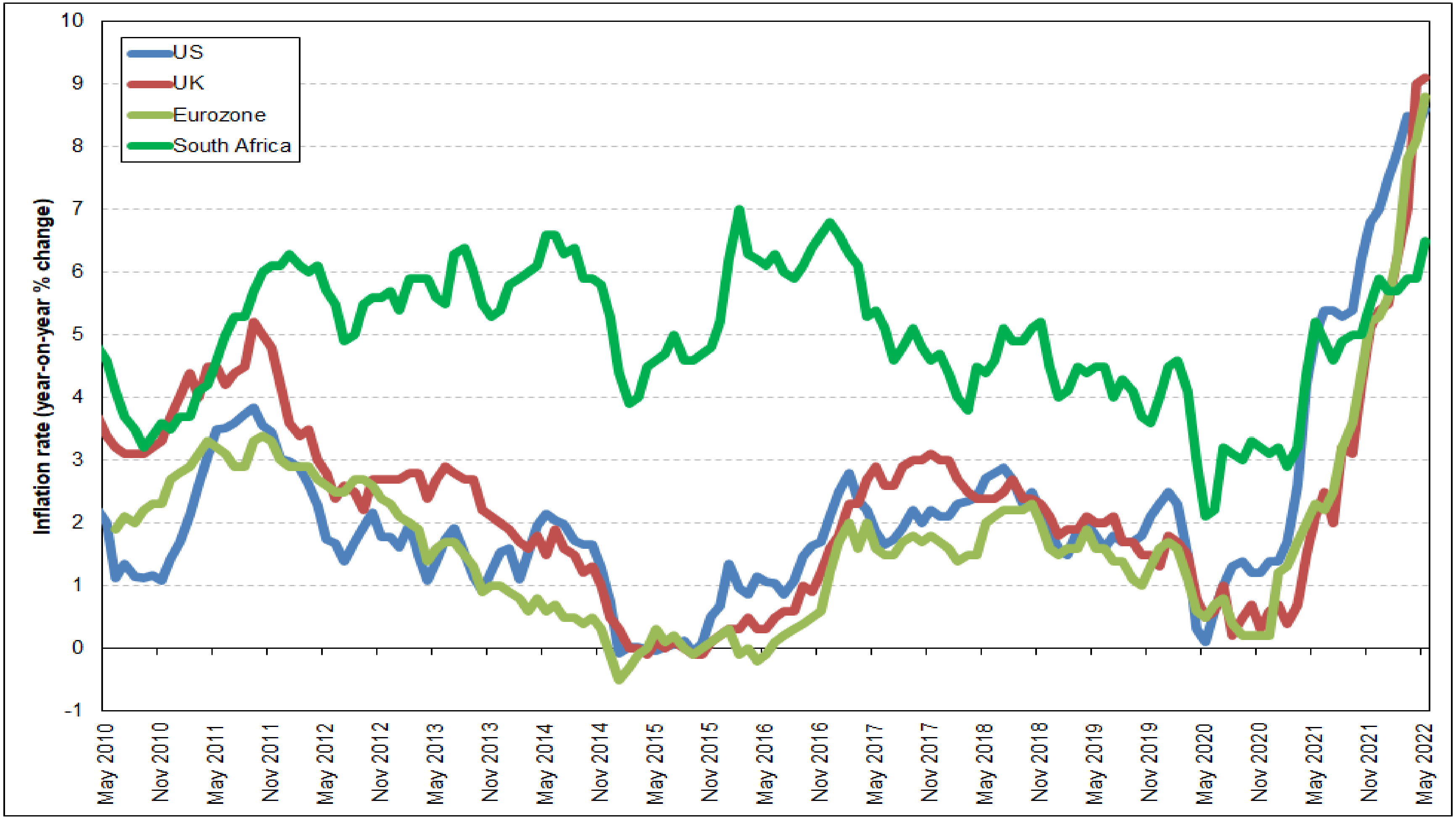
INFLATION RATES

SHOWING NO SIGNS OF SLOWING DOWN YET, BUT SA STILL DOING OK



Source: Iress

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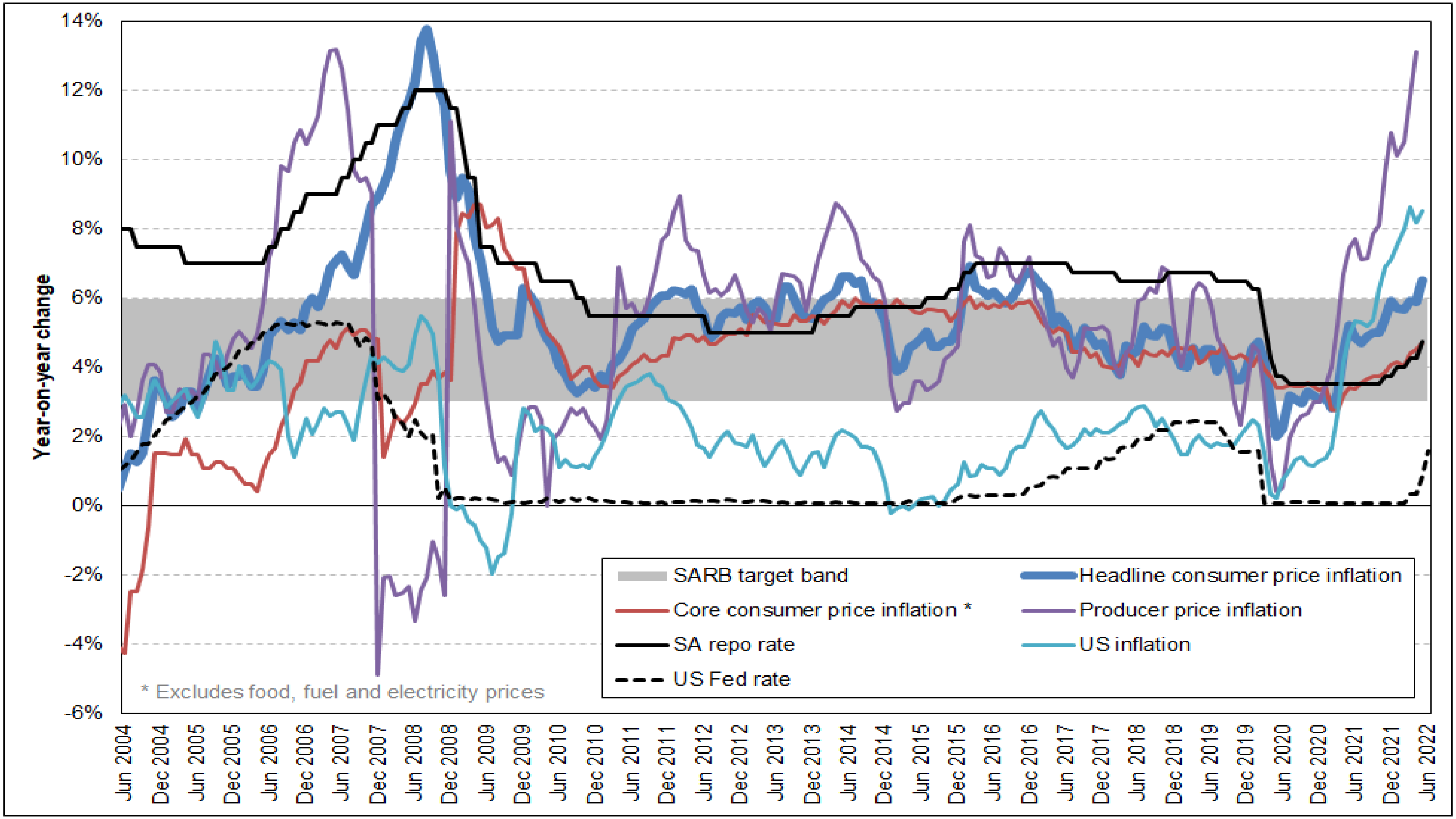
INTEREST RATES

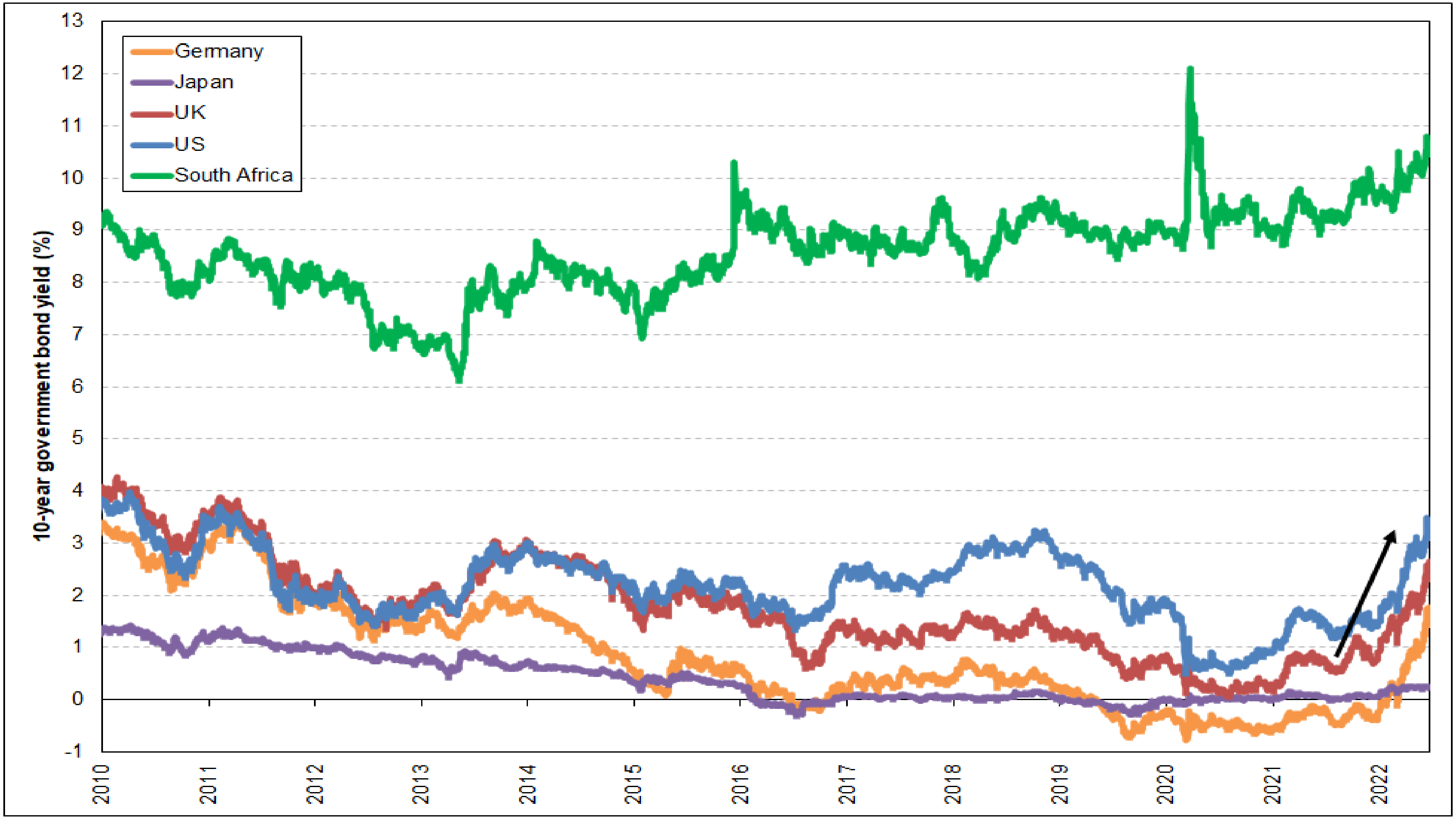
BEING RAMPED UP IN RESPONSE



Source: Iress

GLOBAL BONDS

DEVELOPED MARKET YIELDS ALSO MOVING HIGHER, SA YIELDS REMAIN ATTRACTIVE



Source: Iress

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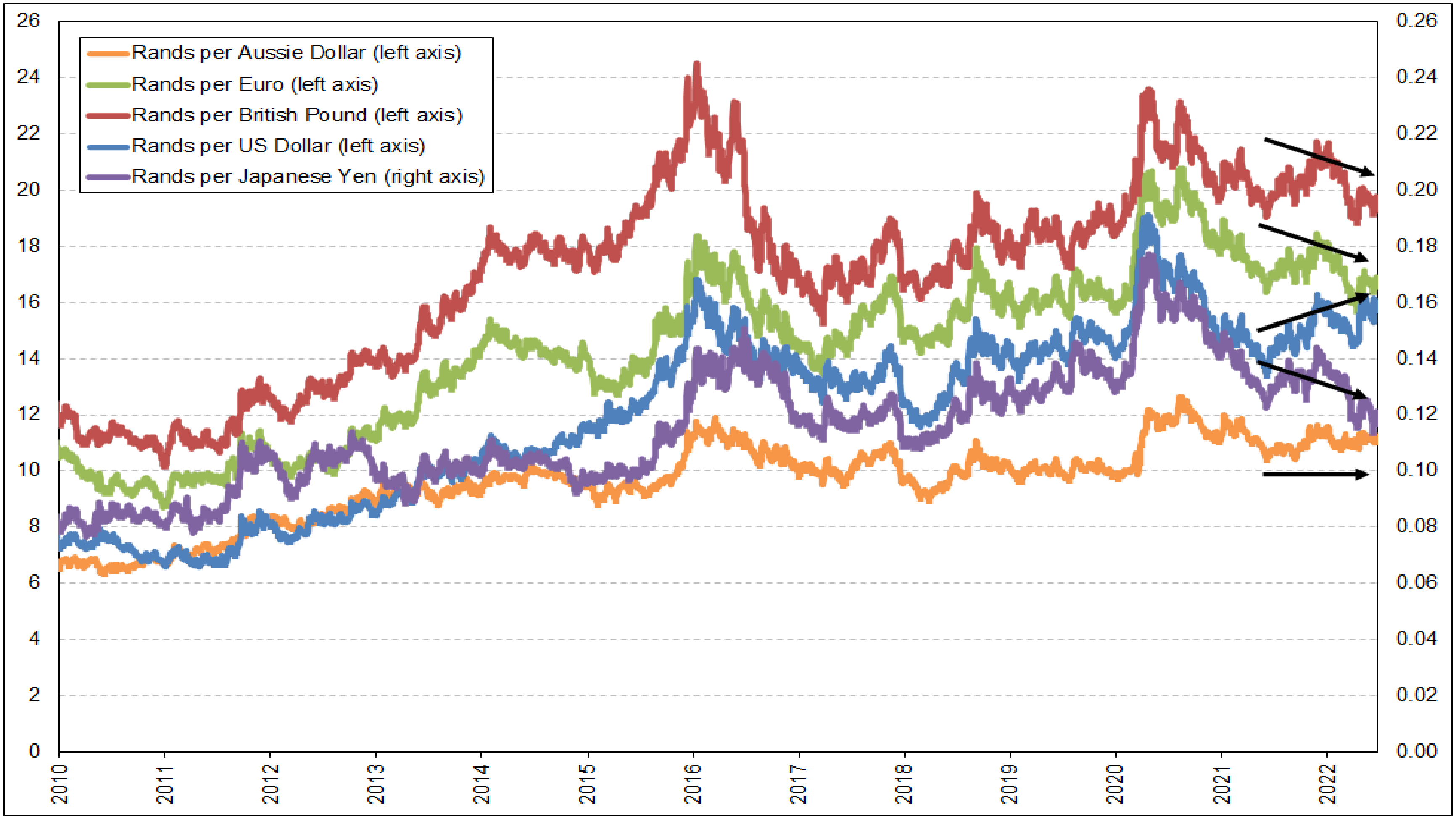
RESILIENT RAND

US DOLLAR STRONG THIS YEAR, BUT THE RAND HOLDING ITS OWN AGAINST OTHER MAJOR CURRENCIES



Source: Iress

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