

# **MONTH IN PICTURES**

**JUNE 2022**

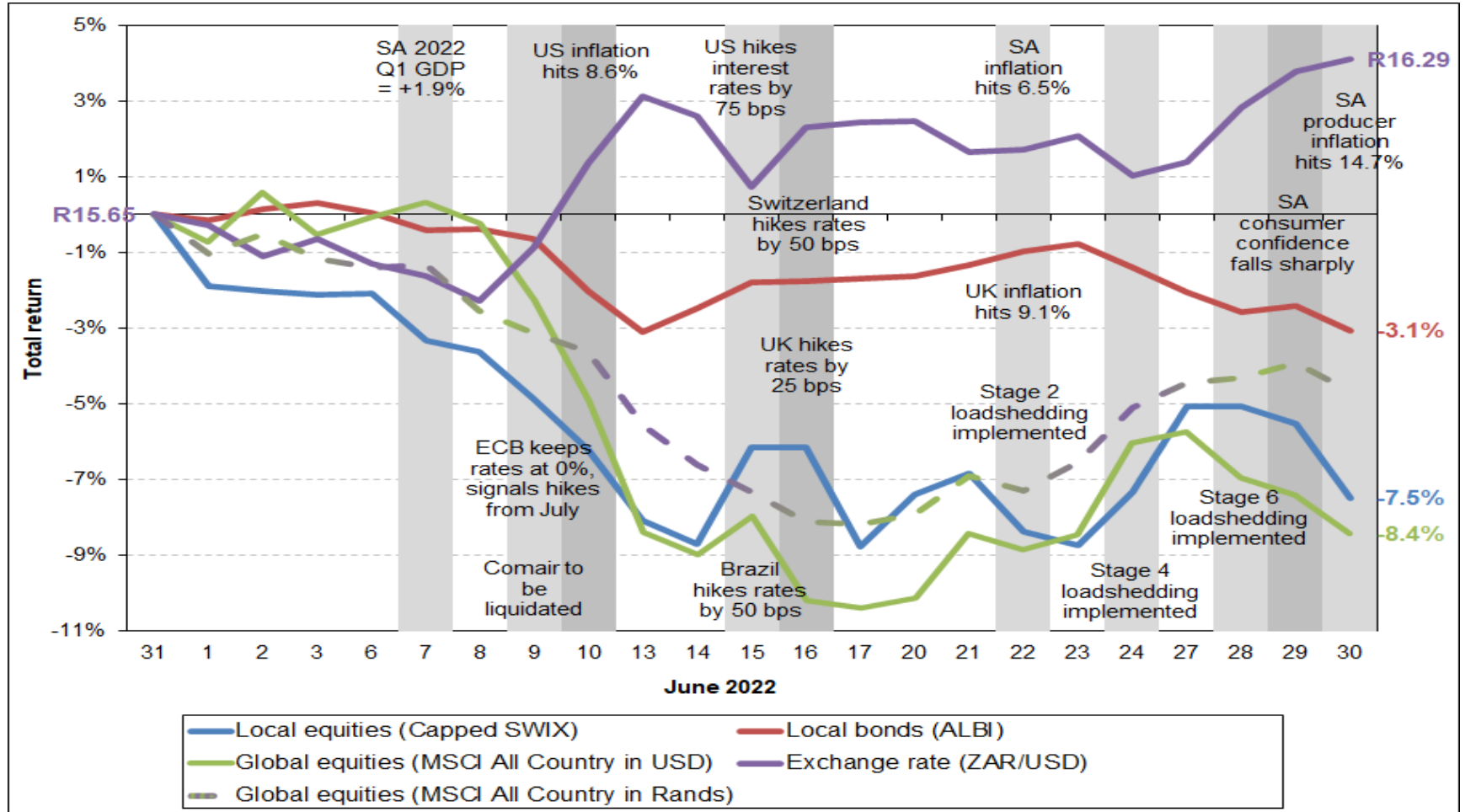
# MONTHLY SNAPSHOT

## NOTABLE EVENTS

- May's late-stage recovery was unfortunately short-lived after persistent higher-than-expected multi-decade high inflation numbers, the hawkish response by global central banks and rising recession fears rattled global markets in June.
- Global equities and bonds lost a further 8.4% and 3.4% in US Dollars (USD) respectively, but a strong USD cushioned the blow for local investors, resulting in slightly better Rand returns of -5.9% and +1.6% from these asset classes.
- Local markets suffered similar losses, with the ALSI down 8%, the Capped SWIX returning -7.5% and local bonds losing 3.1%.
- US inflation hit a new four-decade high of 9.1%, prompting the US Fed to implement another 75 basis point (bp) interest rate hike on top of the one announced in June (taking rates to 2.25-2.50%). Local inflation jumped to a less dramatic 13-year high of 7.4%, but the SARB followed suit (as did many others) by announcing a hike of the same size locally, bringing the repo rate to 5.5%.
- Fears that rising interest rates could tip economies into recession appeared well-founded when the US's 2022 Q2 real GDP print (-0.9%) proved to be its second consecutive contraction (Q1 = -1.6%). This was perhaps not *that* surprising given the high hurdle set by current inflation rates.
- 2022 Q2 was therefore a tough one for the markets, as the above events led to widespread losses across most asset classes. Local equities and bonds fell by 11% and 4% over the quarter, respectively, while their global equivalents suffered USD losses of 16% and 9% over the same period. The Rand weakened sharply against a surging Dollar, leading to slightly better local currency returns of -6% and +2% from global equities and bonds, however. In this difficult environment the average balanced fund ended Q2 with a loss of around 5-6%.
- After being largely shielded from the global turmoil in Q1, local markets are now also in negative territory on a year-to-date (YTD) basis, unfortunately, with returns of -5% to -8% from local equities (depending on the index) and -2% from local bonds. These returns are still much better than those delivered by global markets, however, where equities and bonds yielded steep YTD local currency losses of 18% and 13%, respectively. After a small fall in Q1, the average balanced fund's YTD loss now stands at roughly 6-7%.
- Over the last year local markets have delivered lowish positive returns (equities = 5-7% & bonds = 1%), but the Rand returns from global markets are now in negative territory (equities = -4% & bonds = -5%). This resulted in the 1-year return from the average balanced fund tumbling from 11-12% at the end of Q1 to just 3-4% currently, which is unfortunately now below inflation. Average medium-term returns have also dropped a bit over the quarter, and now stands at around 7% p.a. over the last 3 to 5 years.

# MONTHLY TIMELINE

## IMPACT ON MARKETS



# MARKET INDICATORS

## SHORT TERM

Market indicators (% change) <sup>1</sup>		Apr 2022	May 2022	Jun 2022	3 months	YTD	12 months
Local equities	ALSI	(3.7)	(0.4)	(8.0)	(11.7)	(8.3)	4.7
	Capped SWIX	(3.9)	0.5	(7.5)	(10.6)	(4.6)	6.9
	Resources	(4.8)	(0.4)	(16.3)	(20.7)	(5.6)	10.7
	Industrials	(1.7)	(2.2)	0.9	(3.0)	(15.7)	(6.3)
	Financials	(6.1)	3.5	(13.3)	(15.8)	1.3	17.6
	Listed Property	(1.4)	0.0	(10.3)	(11.6)	(12.7)	0.2
Local bonds	ALBI	(1.7)	1.0	(3.1)	(3.7)	(1.9)	1.3
Local cash	STeFI Composite	0.4	0.4	0.4	1.2	2.2	4.2
Global equities	MSCI All Country	(0.4)	(0.9)	(4.7)	(5.9)	(18.5)	(3.9)
Global bonds	FTSE WGBI	1.9	(1.1)	0.8	1.6	(12.9)	(5.0)
Exchange rate	ZAR/USD	8.3	(1.1)	4.1	11.5	2.2	14.1
Inflation	CPI	0.6	0.7	1.1	2.5	4.2	7.4

1. Total returns (in Rands) for the months and periods ending 30 June 2022.

# MARKET INDICATORS

## MEDIUM TO LONG TERM

Market indicators (% change) <sup>1</sup>		1 year	3 years	5 years	10 years	15 years	20 years
Local equities	ALSI	4.7	8.2	8.7	10.5	9.1	13.0
	Capped SWIX	6.9	6.8	5.9	9.1	-	-
	Resources	10.7	17.3	22.7	7.9	5.2	9.3
	Industrials	(6.3)	5.2	3.8	10.7	11.4	15.4
	Financials	17.6	0.4	3.4	8.5	7.8	12.2
	Listed Property	0.2	(9.0)	(7.3)	2.7	6.6	13.9
Local bonds	ALBI	1.3	5.8	7.8	7.2	8.2	9.2
Local cash	STeFI Composite	4.2	5.0	5.9	6.1	6.8	7.4
Global equities	MSCI All Country	(3.9)	11.4	11.8	16.6	10.8	9.7
Global bonds	FTSE WGBI	(5.0)	0.4	3.3	6.4	7.8	5.4
Exchange rate	ZAR/USD	14.1	4.9	4.5	7.2	5.8	2.3
Inflation	CPI	7.4	4.8	4.7	5.2	5.6	5.4

1. Total returns (in Rands) for the months and periods ending 30 June 2022.

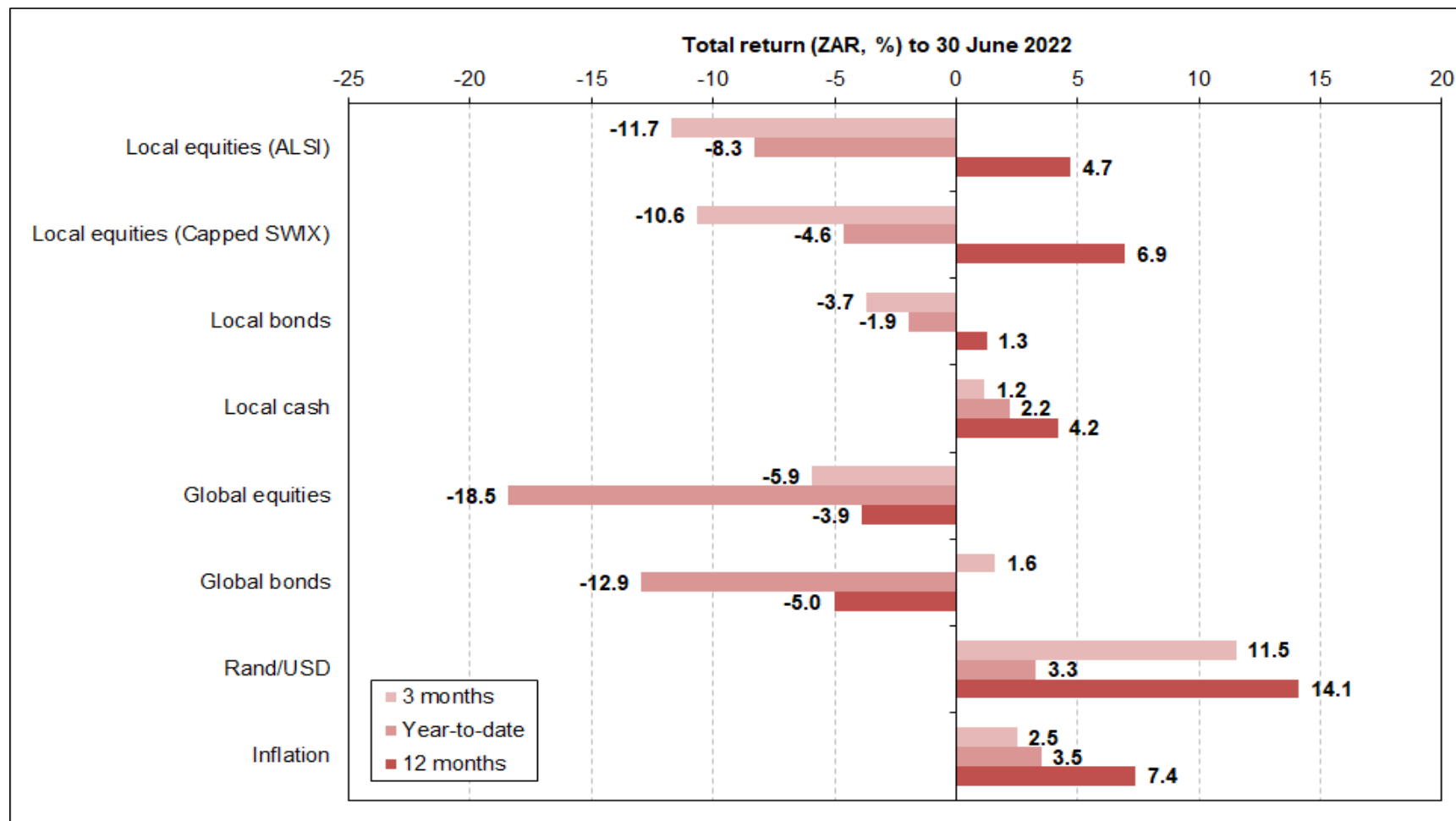
# ECONOMIC INDICATORS

Economic indicators <sup>1</sup>	Jun 2020	Jun 2021	Apr 2022	May 2022	Jun 2022
<b>Exchange rates:</b>					
ZAR/USD	17.35	14.27	15.81	15.65	16.29
ZAR/GBP	21.52	19.75	19.88	19.72	19.82
ZAR/Euro	19.50	16.93	16.67	16.79	17.06
<b>Commodities:</b>					
Brent Crude Oil (USD/barrel)	41.27	74.62	107.14	115.60	109.03
Platinum (USD/ounce)	811.97	1,072.50	939.00	966.13	916.50
Gold (USD/ounce)	1,772.86	1,761.22	1,897.26	1,854.81	1,815.02

1. Month-end prices

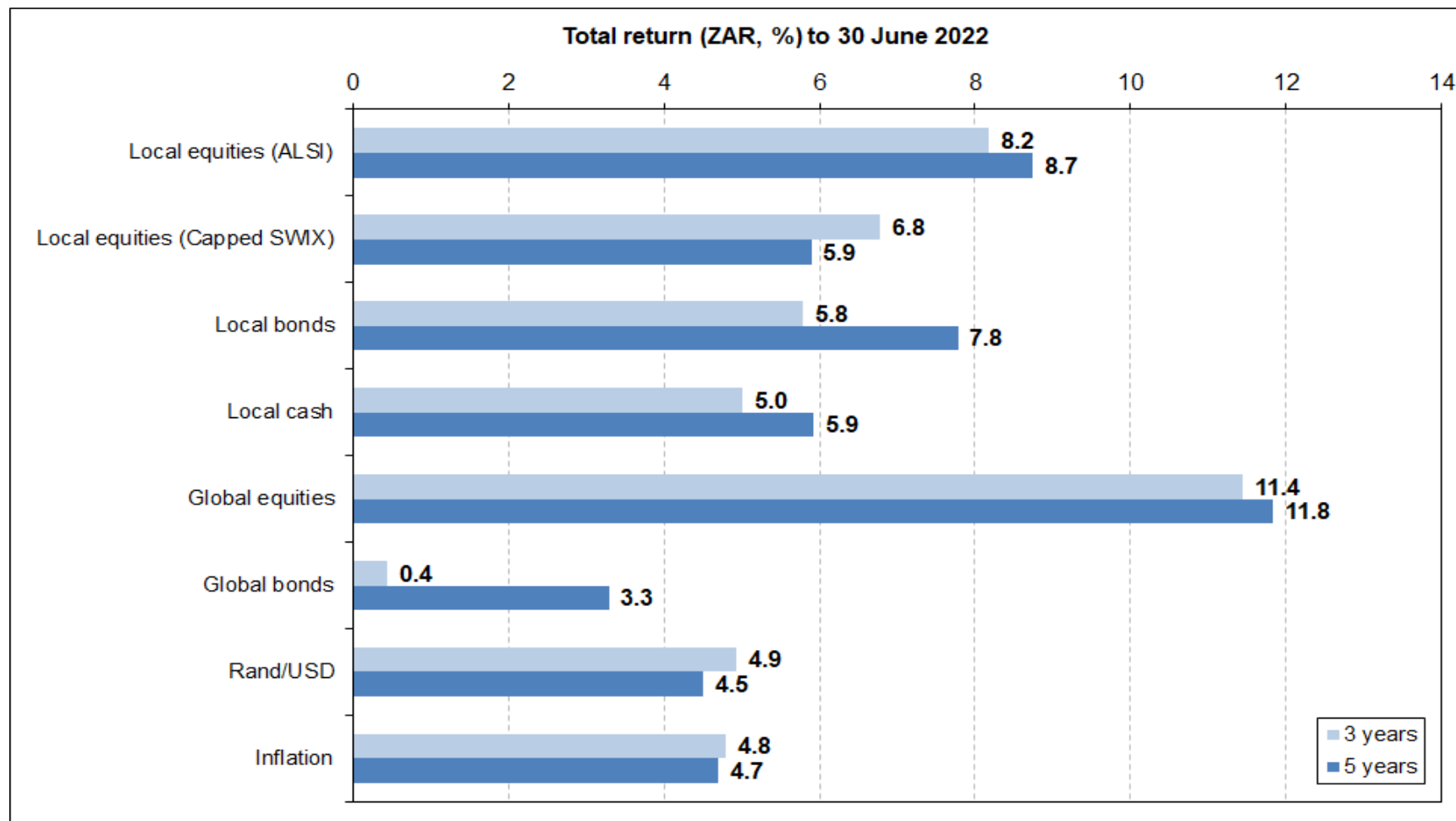
# ASSET CLASS PERFORMANCE

## SHORT TERM



# ASSET CLASS PERFORMANCE

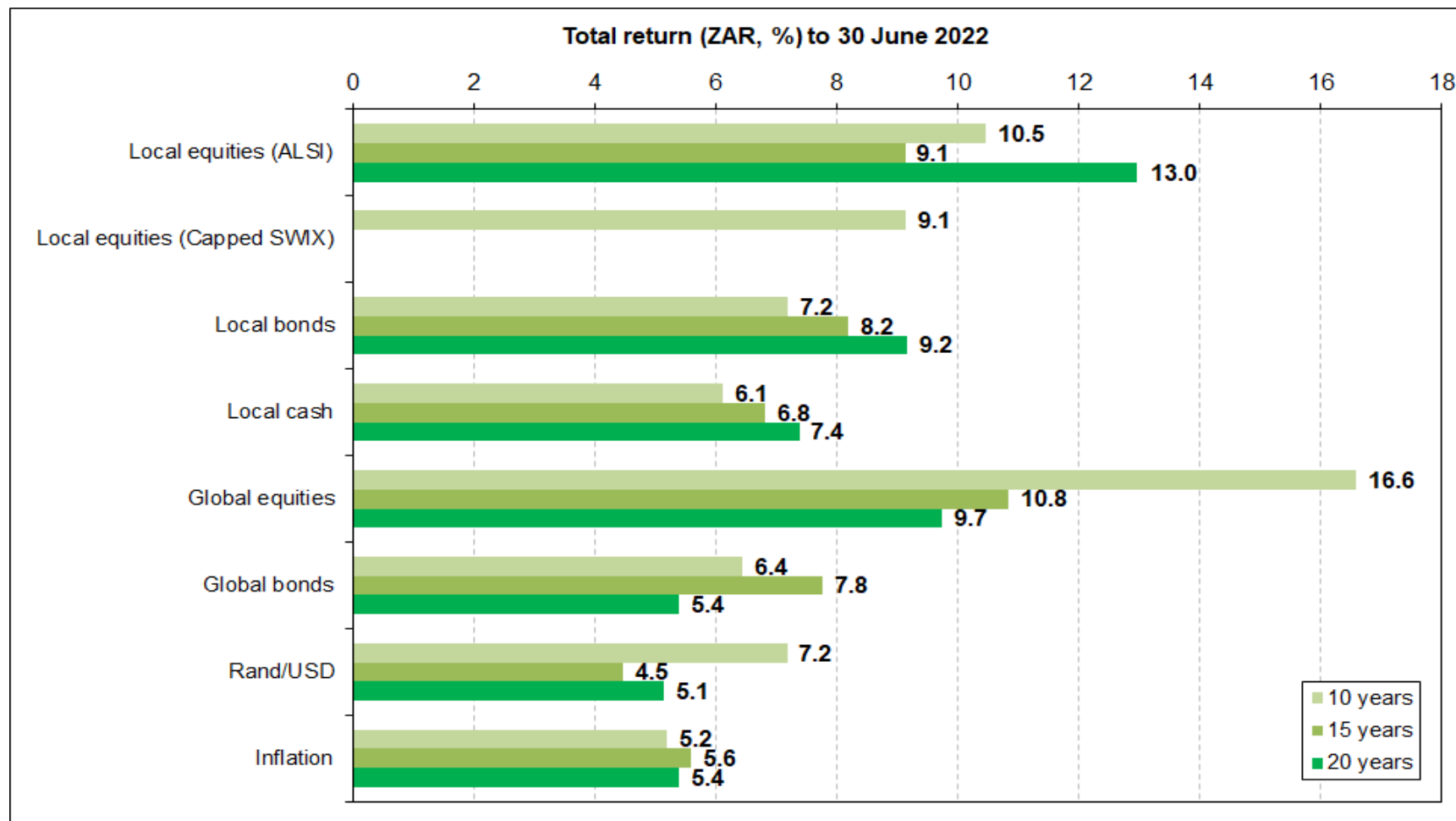
## MEDIUM TERM





# ASSET CLASS PERFORMANCE

## LONG TERM



# 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%

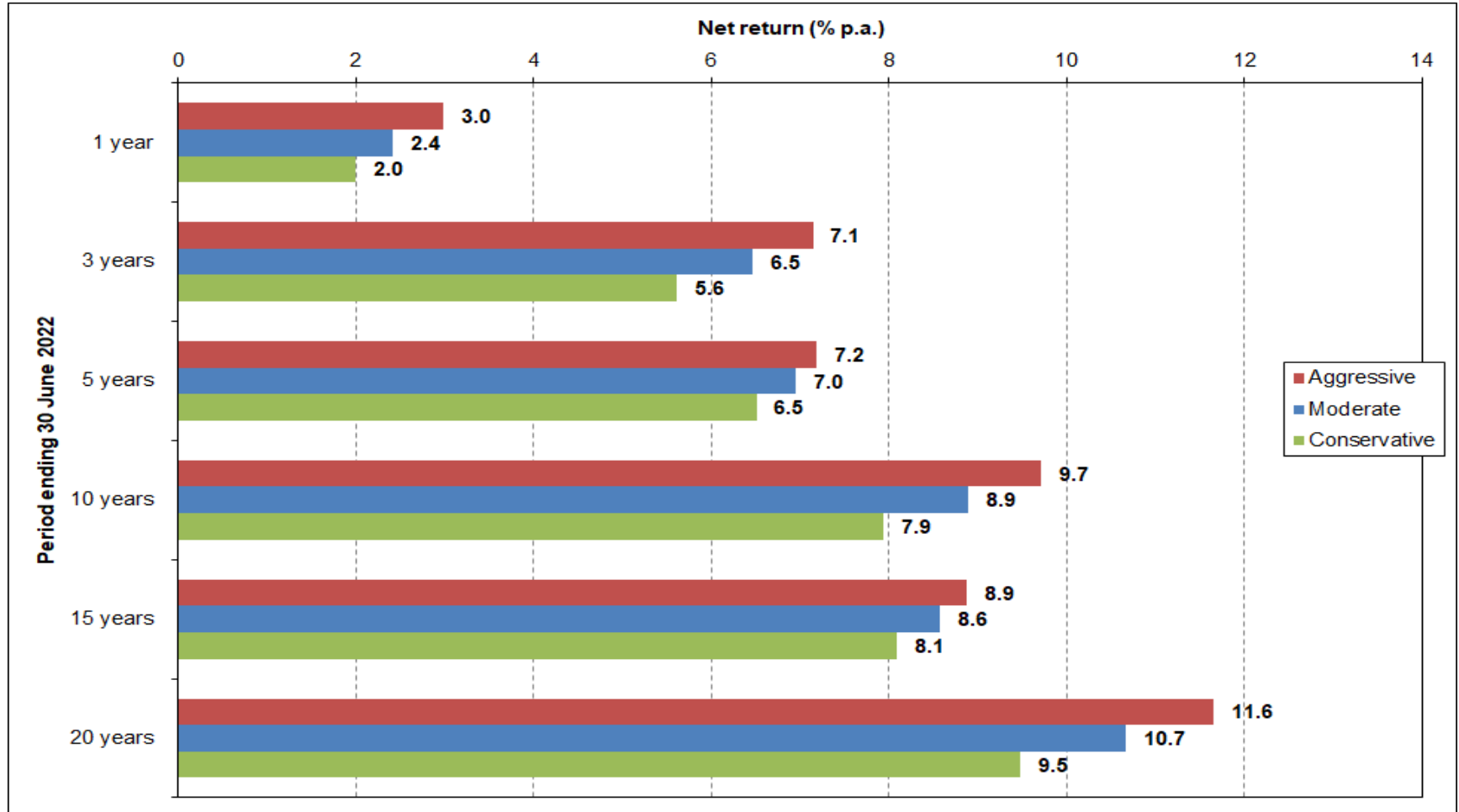
MODERATE	Strategic allocation	LOCAL VS OFFSHORE	75%			25% (5% below regulatory maximum)	
		GROWTH VS INCOME ASSETS	55%	45%		55%	45%
		EQUITIES VS BONDS VS CASH	100%	55%	45%	100%	100%
	Current allocation		~41%	~19%	~15%	~14%	~11%

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%

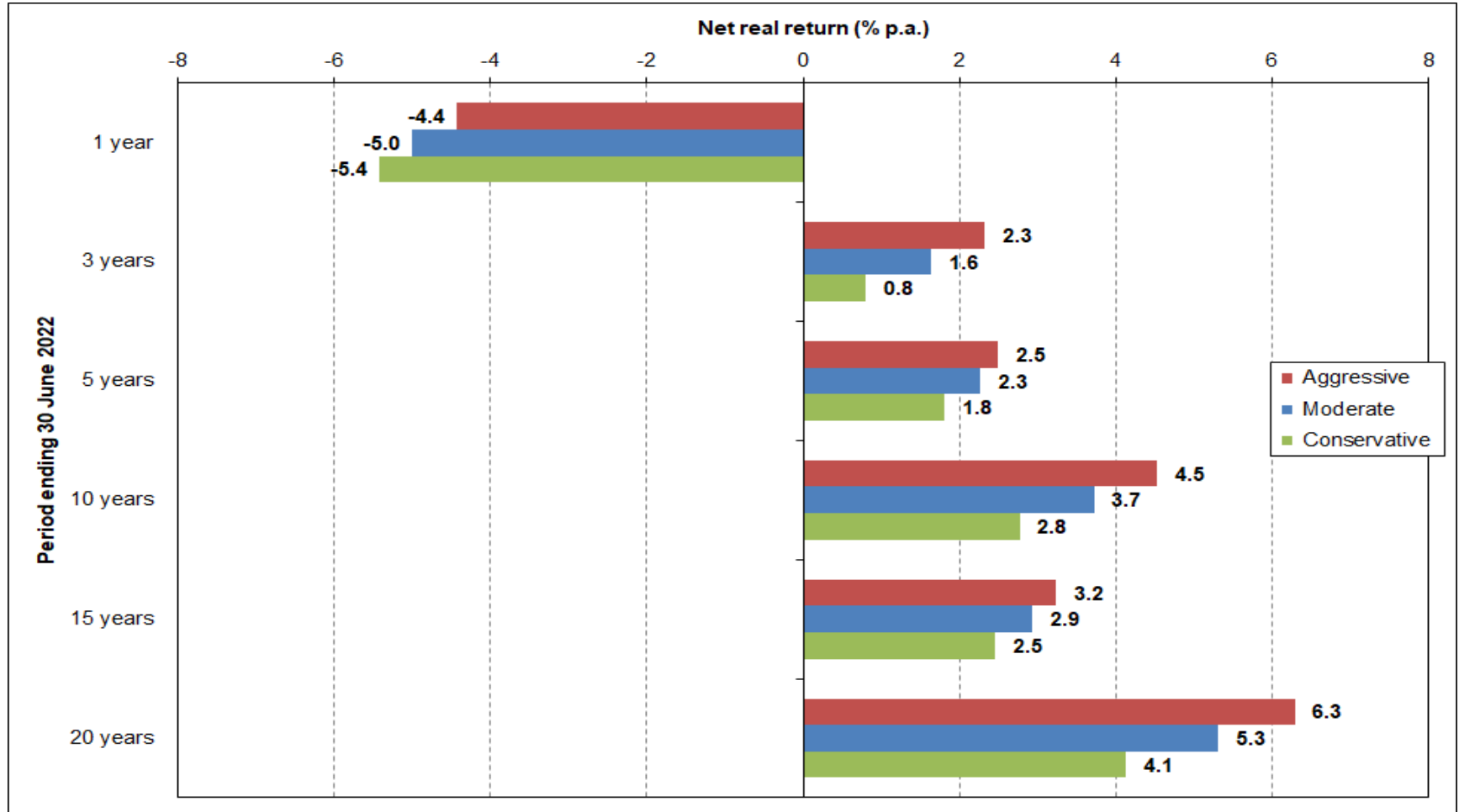
# MARKET PERFORMANCE

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



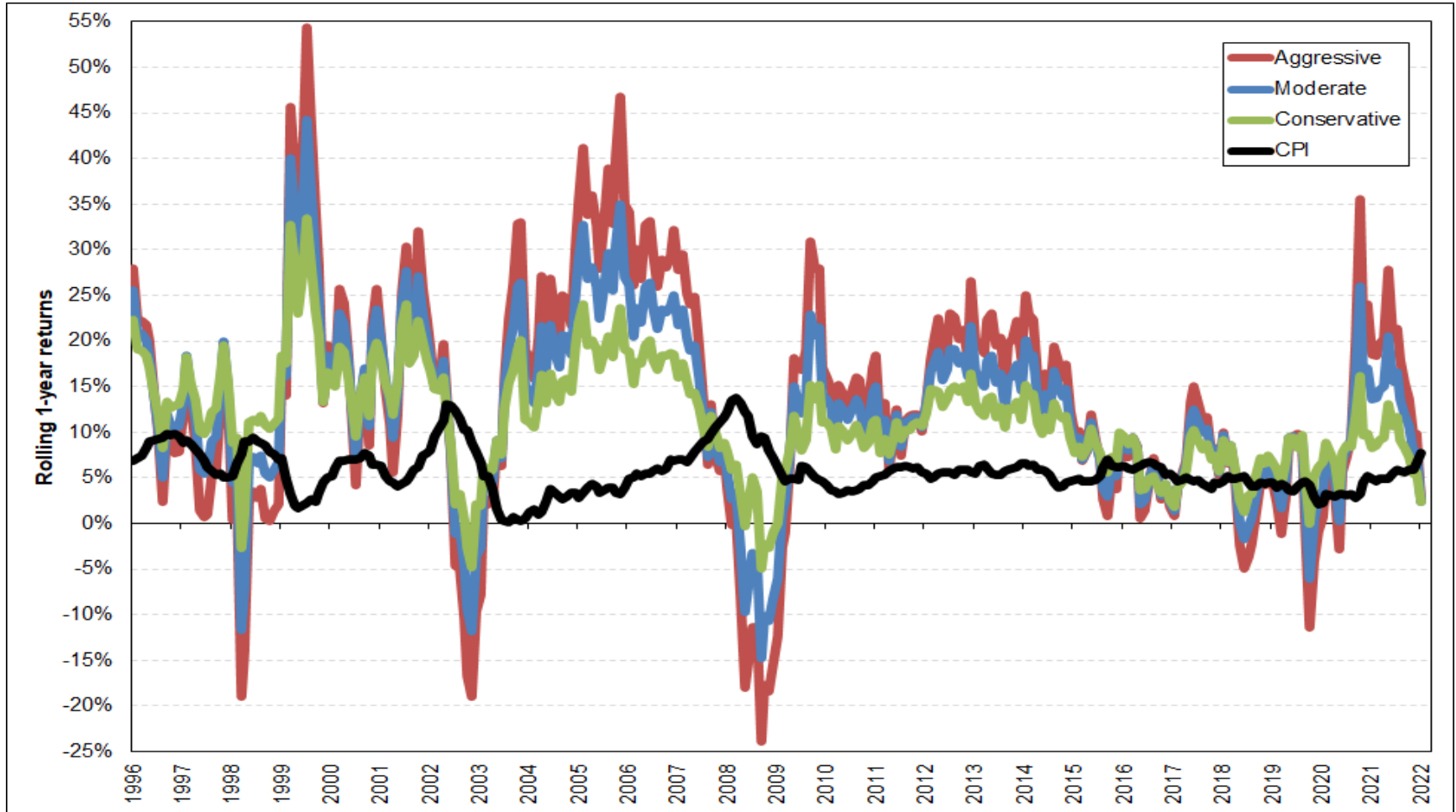
# MARKET PERFORMANCE

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



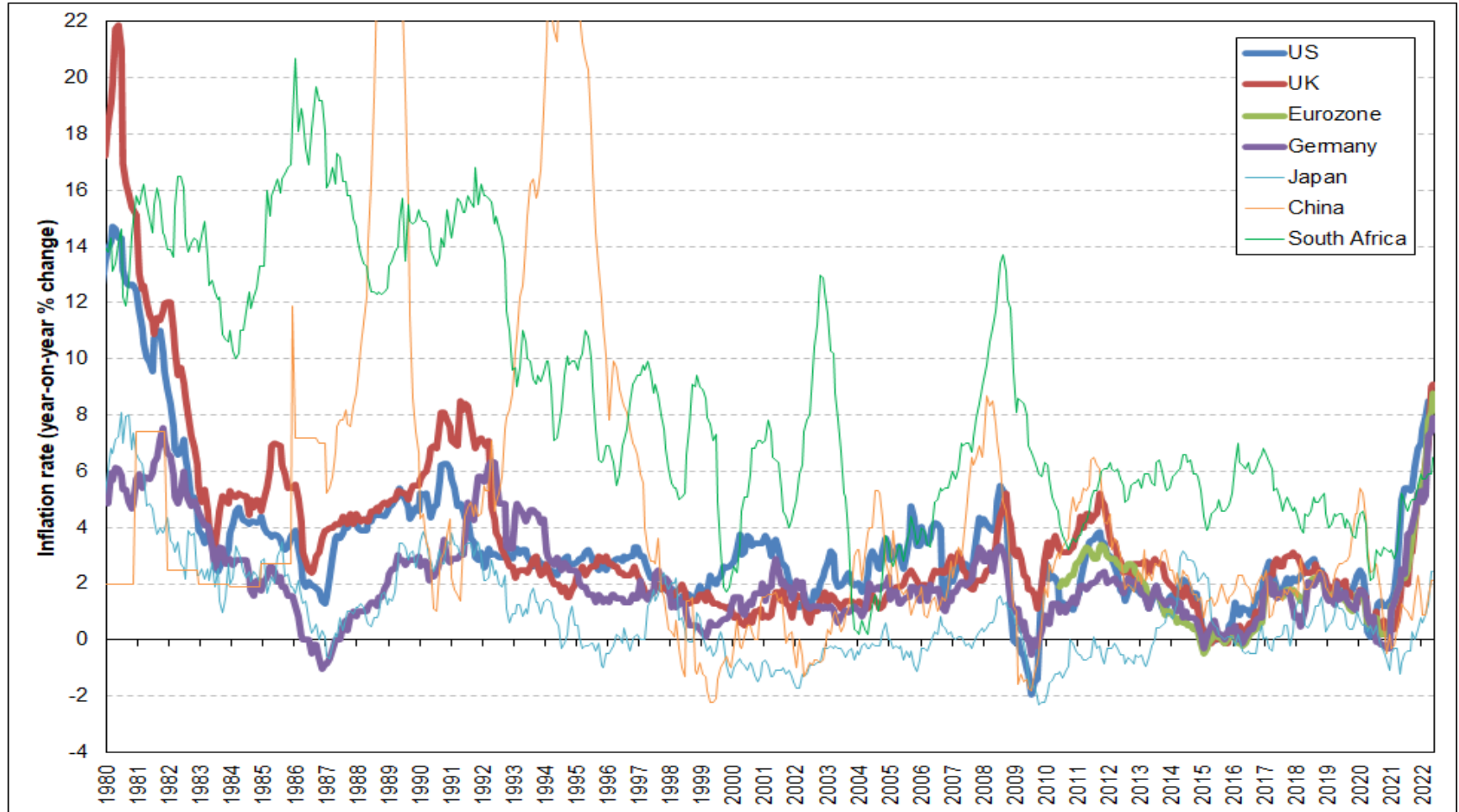
# MARKET PERFORMANCE

## 1-YEAR RETURNS TRENDING SHARPLY LOWER...



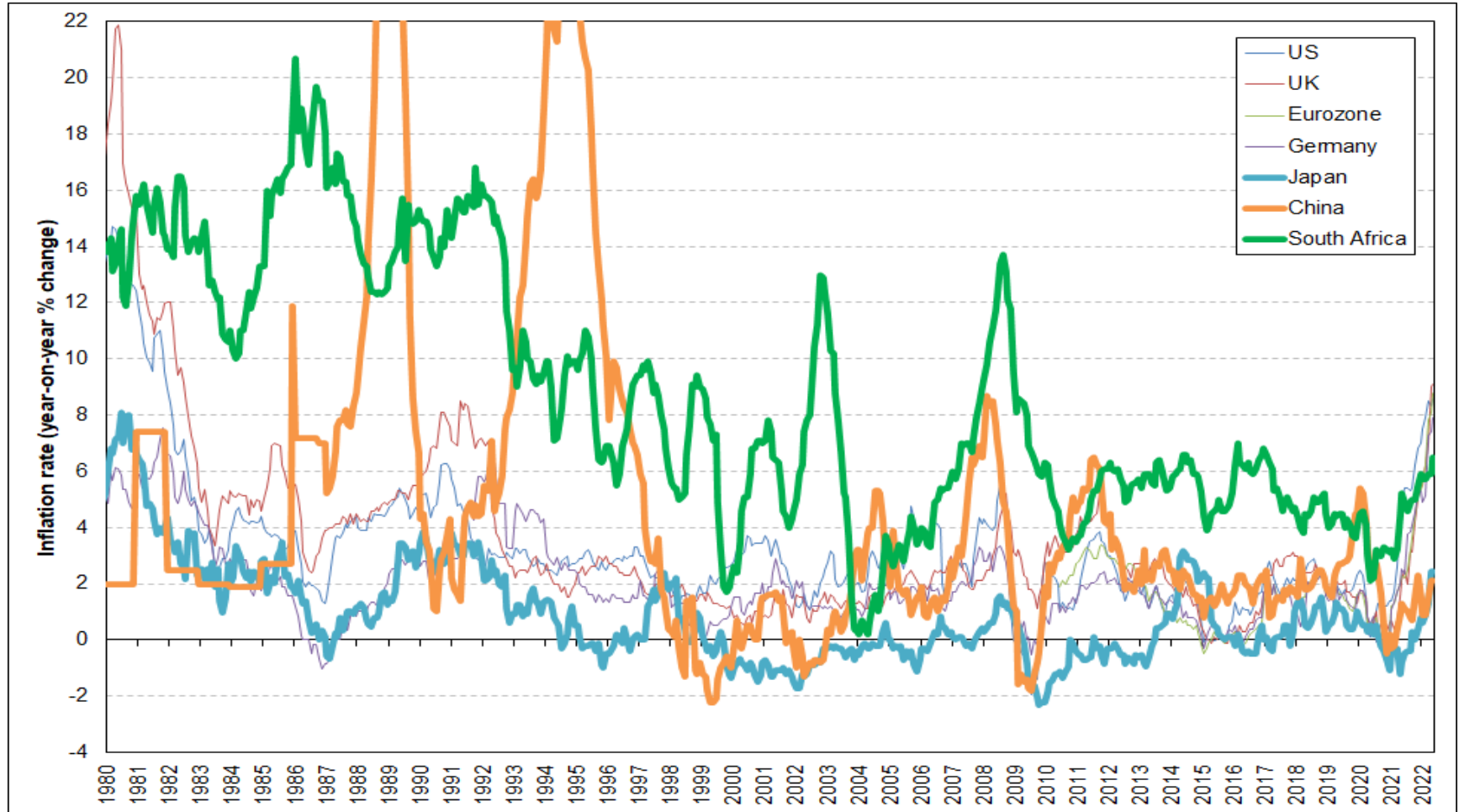
# INFLATION

## AT MULTI-DECADE HIGHS IN THE WESTERN WORLD



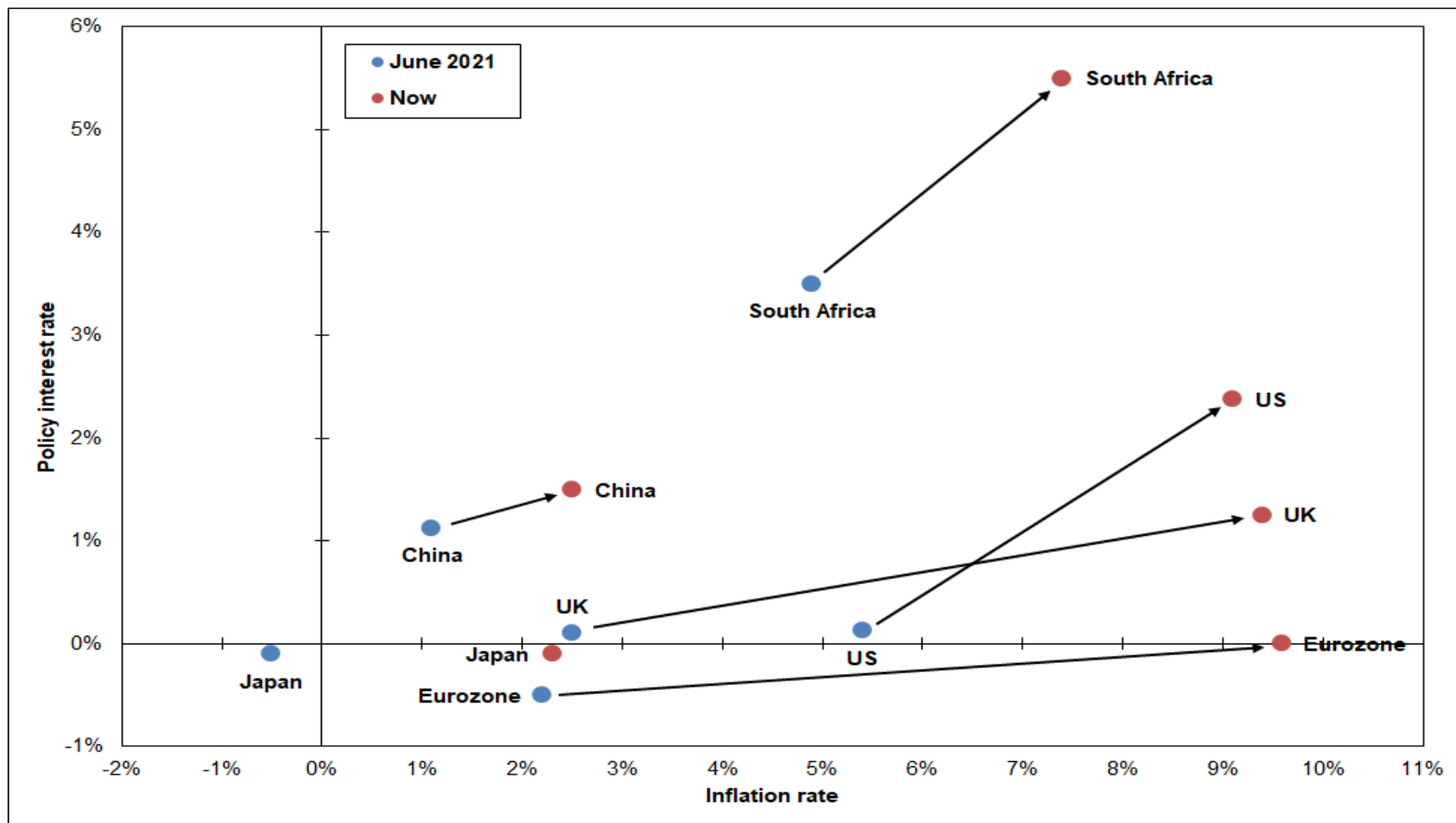
# INFLATION

## STILL OK IN THE EAST, BUT LOCAL INFLATION ALSO CLIMBING



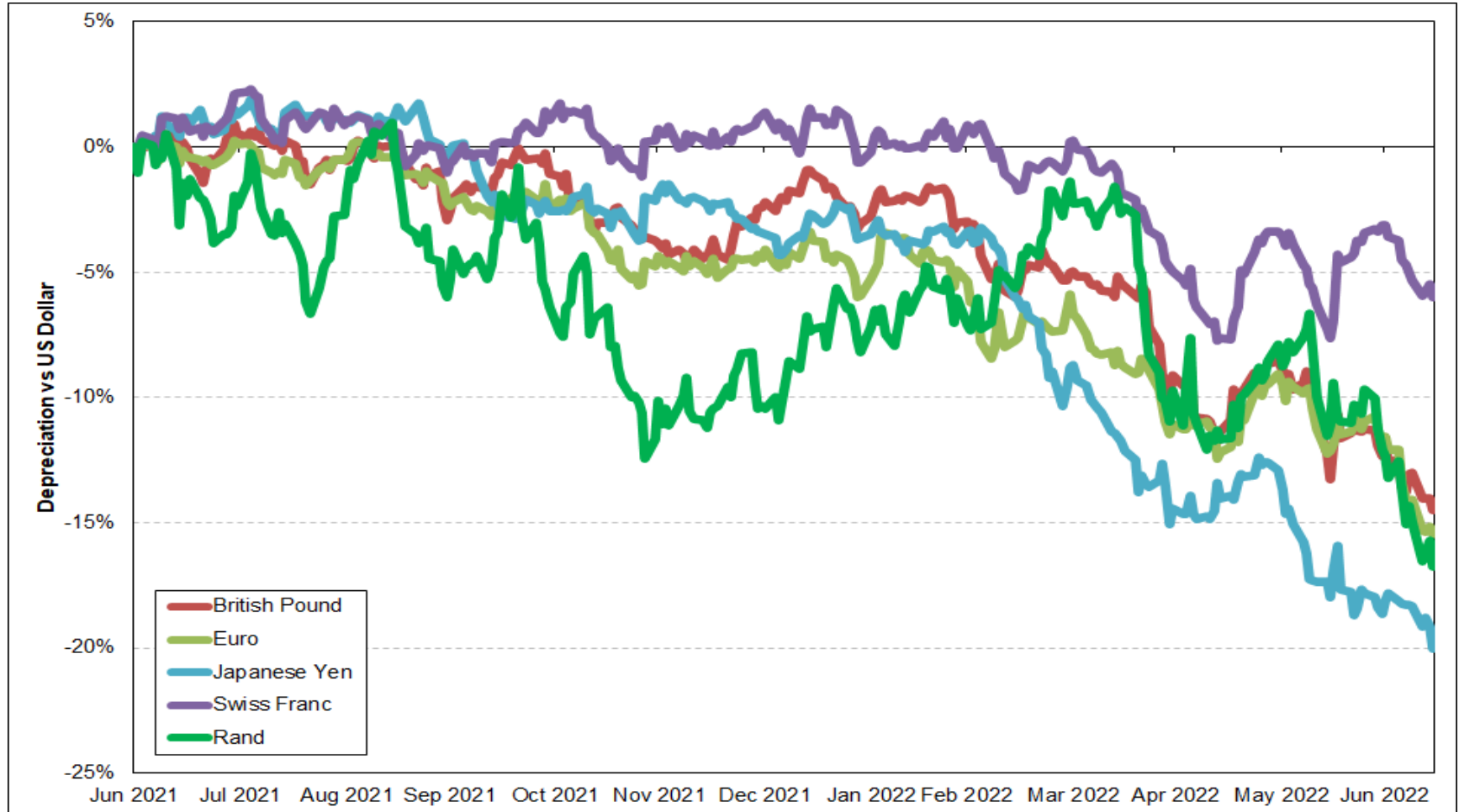
# INTEREST RATES

## (SOME) CENTRAL BANKS FIGHTING BACK



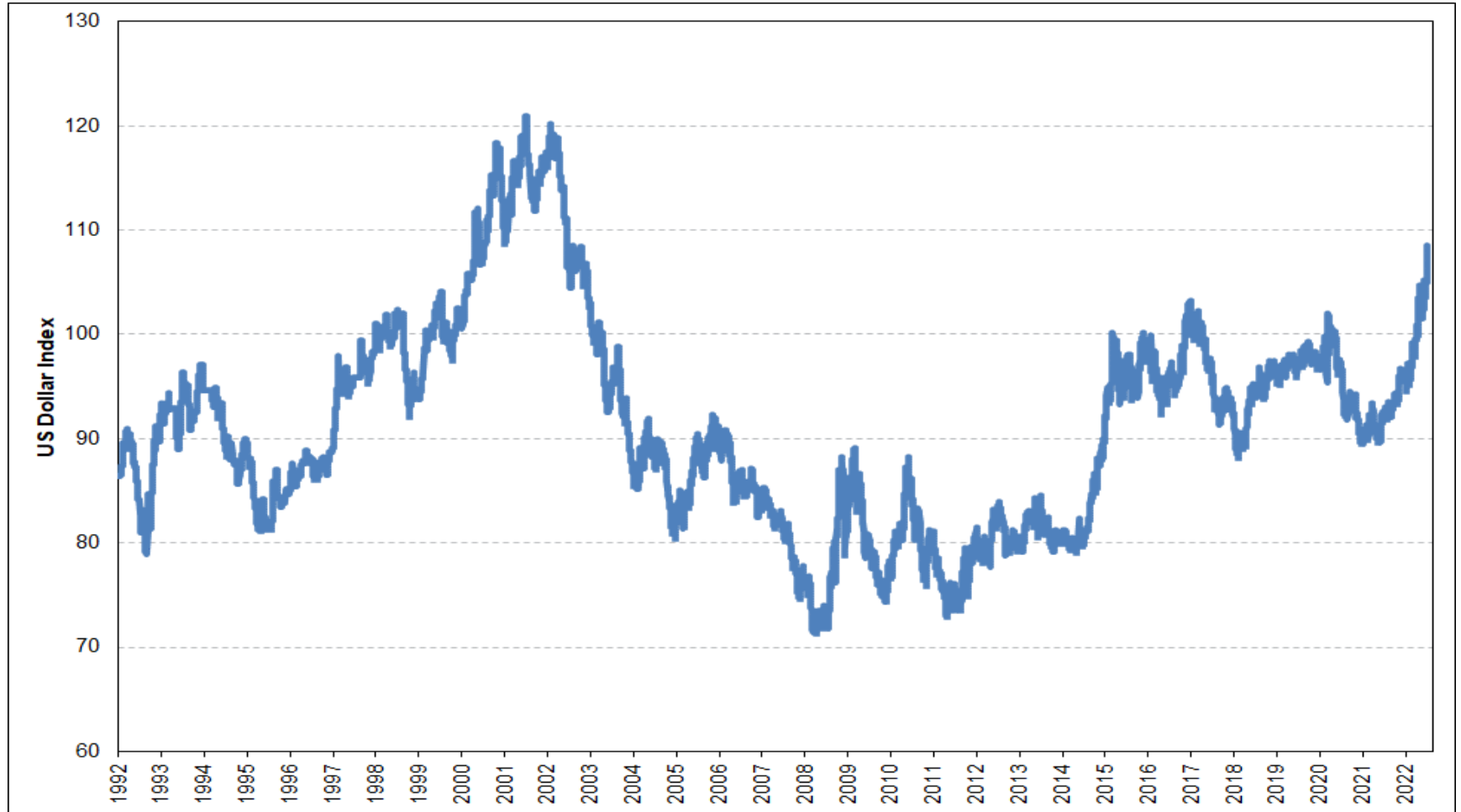


# CURRENCIES US DOLLAR ON A TEAR...



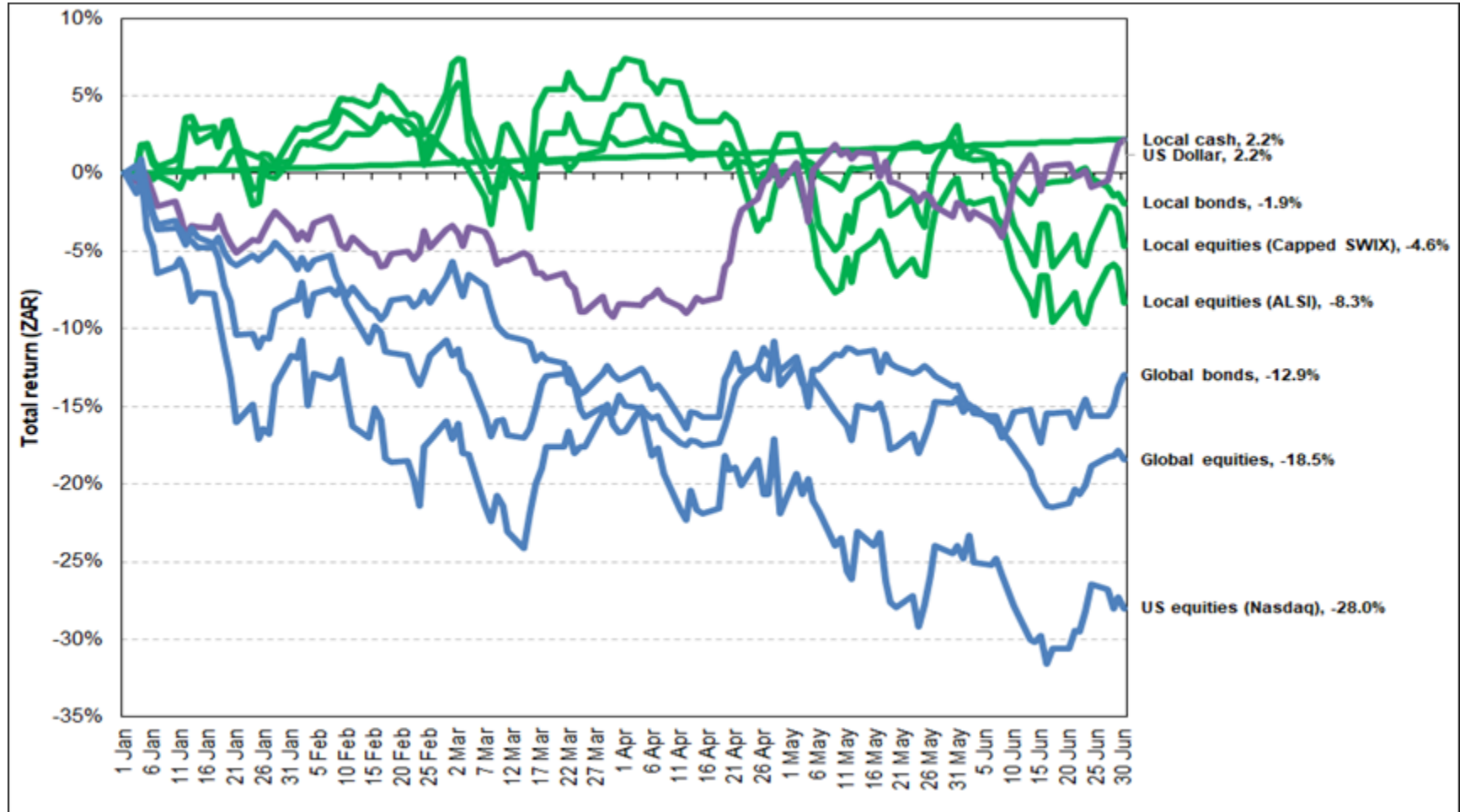
# CURRENCIES

## ...AND APPROACHING TWO-DECADE HIGHS



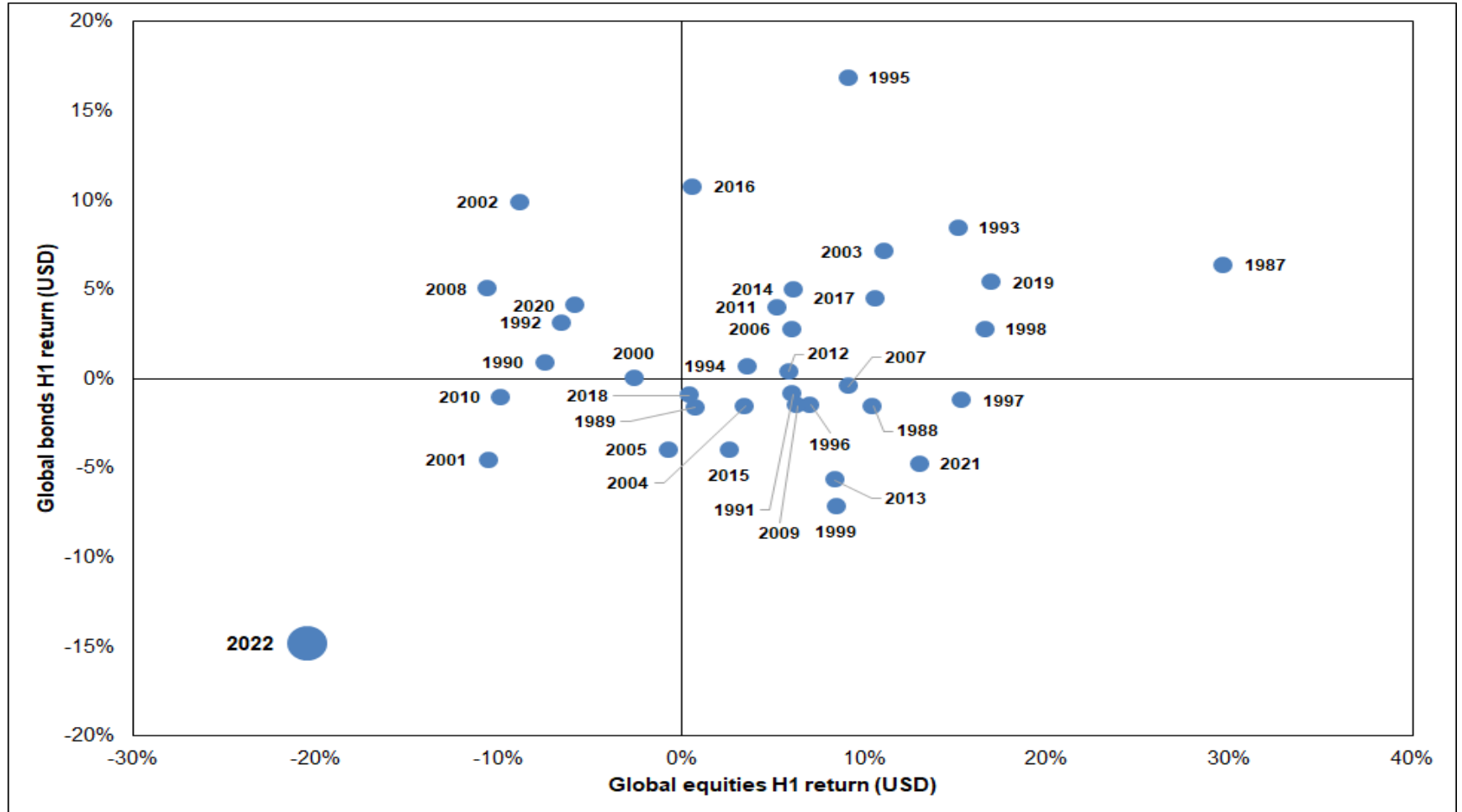
# GLOBAL MARKETS

## 2022 HAS BEEN A TOUGH YEAR...



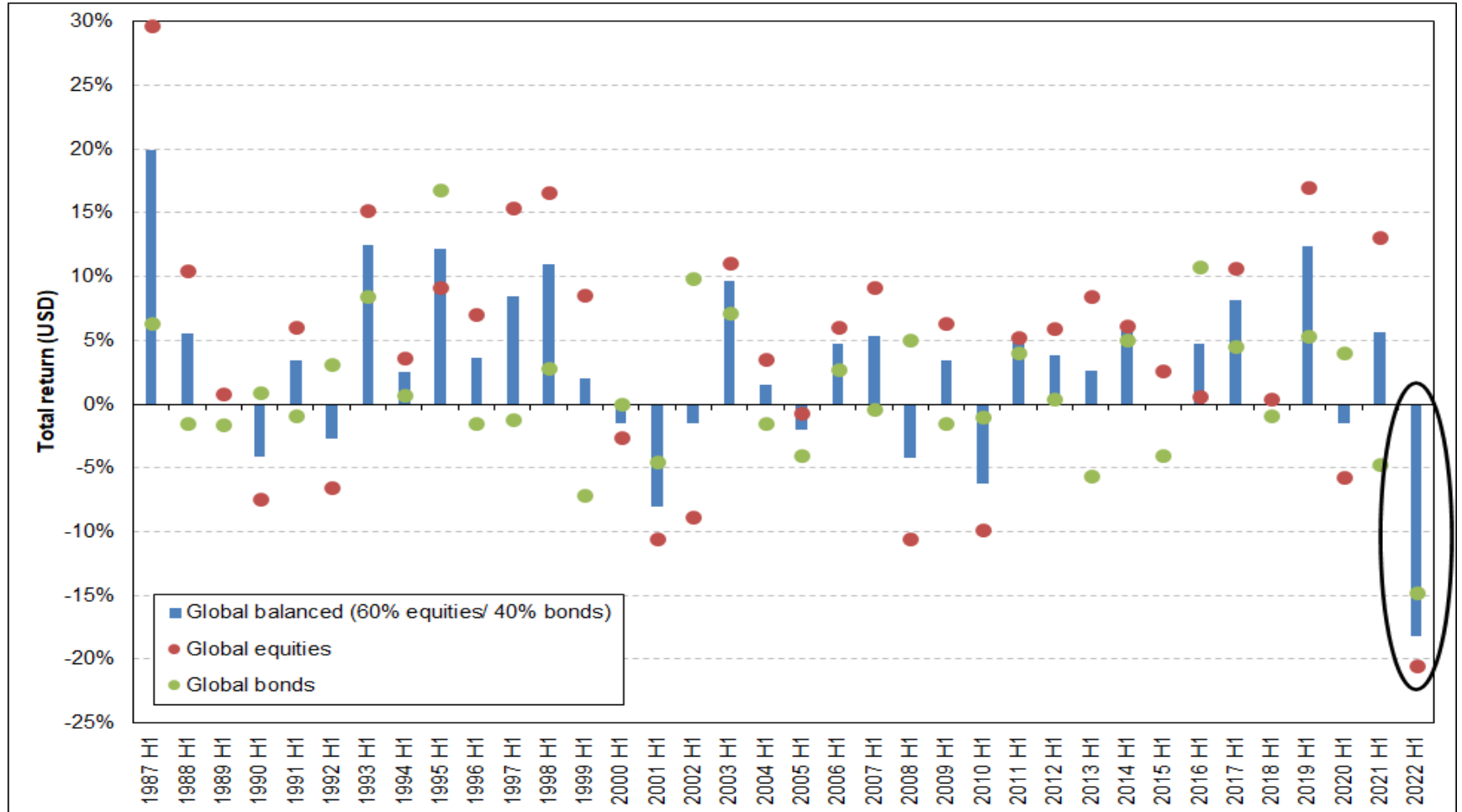
# GLOBAL MARKETS

## ...WITH NOWHERE TO HIDE...



# GLOBAL MARKETS

**= WORST START TO A YEAR FOR THE TRADITIONAL '60/40' GLOBAL BALANCED PORTFOLIO IN DECADES**



# GLOBAL MARKETS

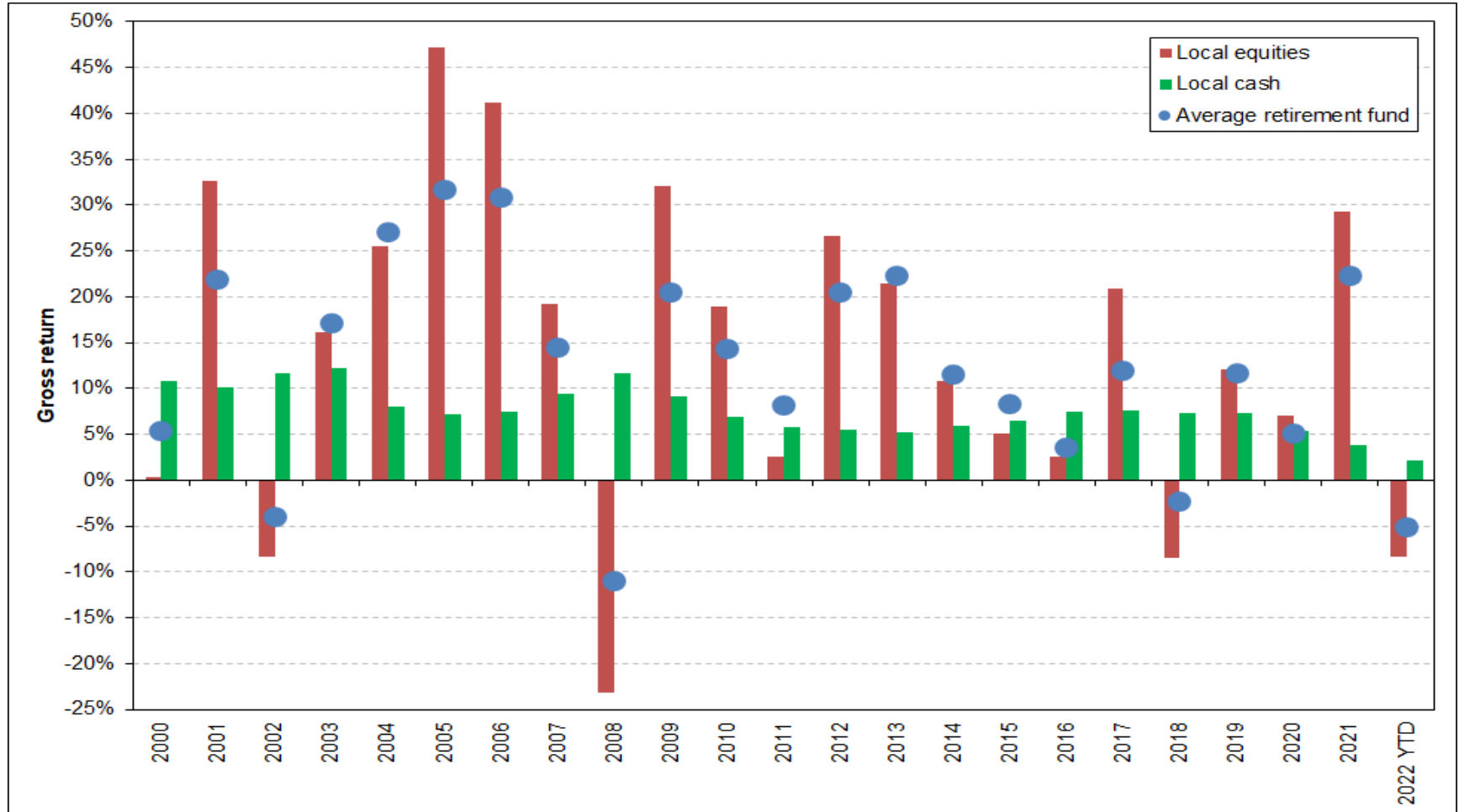
## LOTS OF RED...

### BUT LOCAL WAS LEKKER(DER) OVER THE LAST YEAR

Total asset class returns (in %) at 30 June 2022					
Asset classes		3 months		6 months	
Local	Equities	ALSI	-11.7	-8.3	4.7
		CAPI	-11.4	-7.1	6.8
		SWIX	-10.6	-5.5	2.8
		Capped SWIX	-10.6	-4.6	6.9
		Resources	-20.7	-5.6	10.7
		Industrials	-3.0	-15.7	-6.3
		Financials	-15.8	3	17.6
		Property	-11.6	-12.7	0.2
		Top40	-11.8	-8.5	4.6
		Mid Cap	-12.7	-6.6	3.9
		Small Cap	-5.5	-1.7	19.5
		Value	-12.2	0.8	19.5
		Growth	-11.3	-12.8	-5.6
	Interest-bearing	ALBI	-3.7	-1.9	1.3
		ALBI (1-3 yrs)	0.0	1.3	4.3
		ALBI (3-7 yrs)	-0.5	0.3	2.6
		ALBI (7-12 yrs)	-3.4	-2.3	0.2
		ALBI (12+ yrs)	-5.2	-2.5	1.4
		Government bonds	-3.7	-2.0	1.1
		Non-government bonds	-3.6	-1.3	2.5
		Inflation-linked bonds	2.9	3.3	10.7
		Cash	1.2	2.2	4.2
		ZAR/USD	11.5	2.2	14.1
Global (ZAR)	Equities (All Country)	Equities (All Country)	-5.9	-18.5	-3.9
		Equities (Developed)	-6.5	-18.8	-2.3
		Equities (Emerging)	-1.3	-15.8	-14.7
		Bonds	1.6	-12.9	-5.0

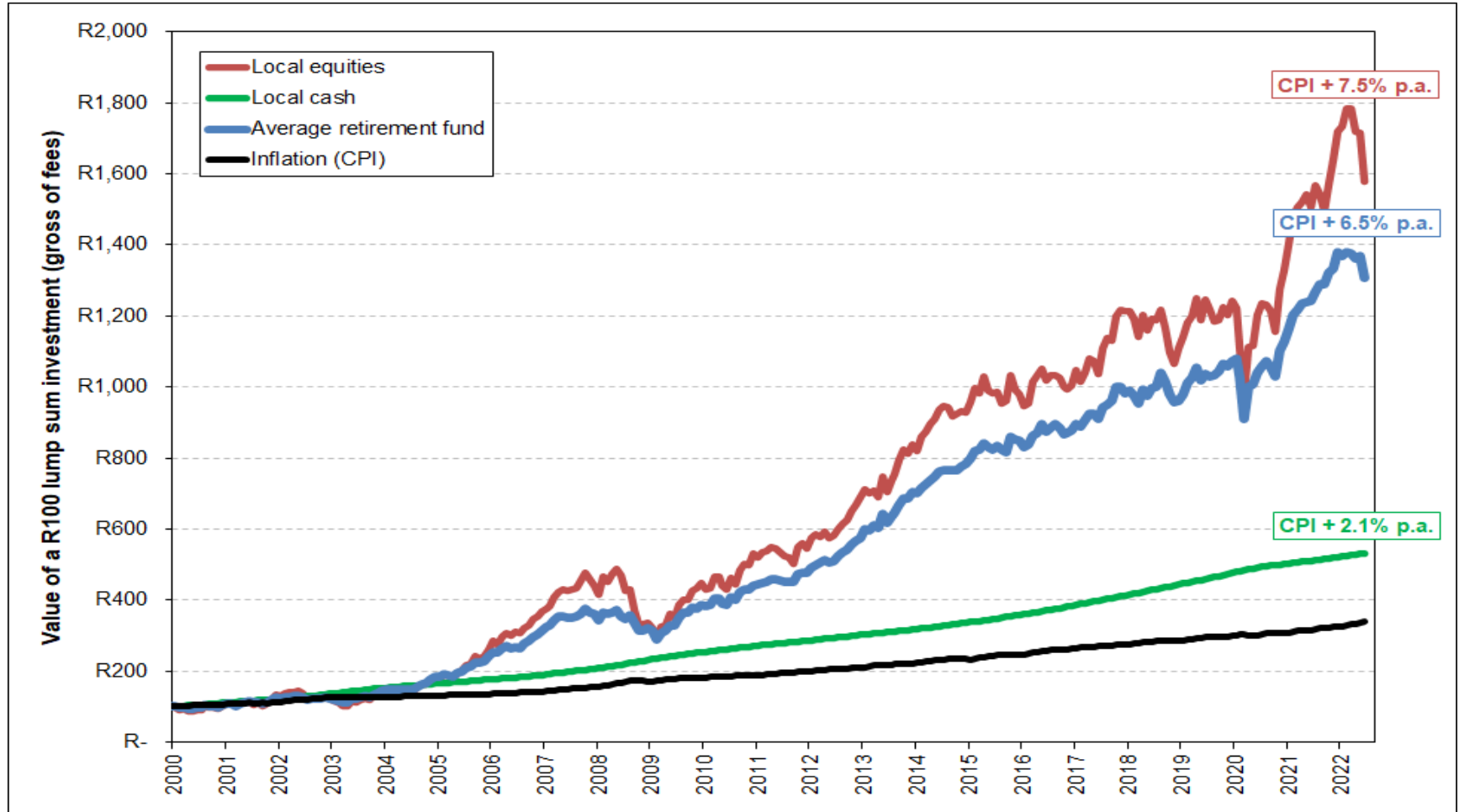
# KEEP CALM AND STAY INVESTED

## EQUITIES ARE VOLATILE OVER THE SHORT TERM...



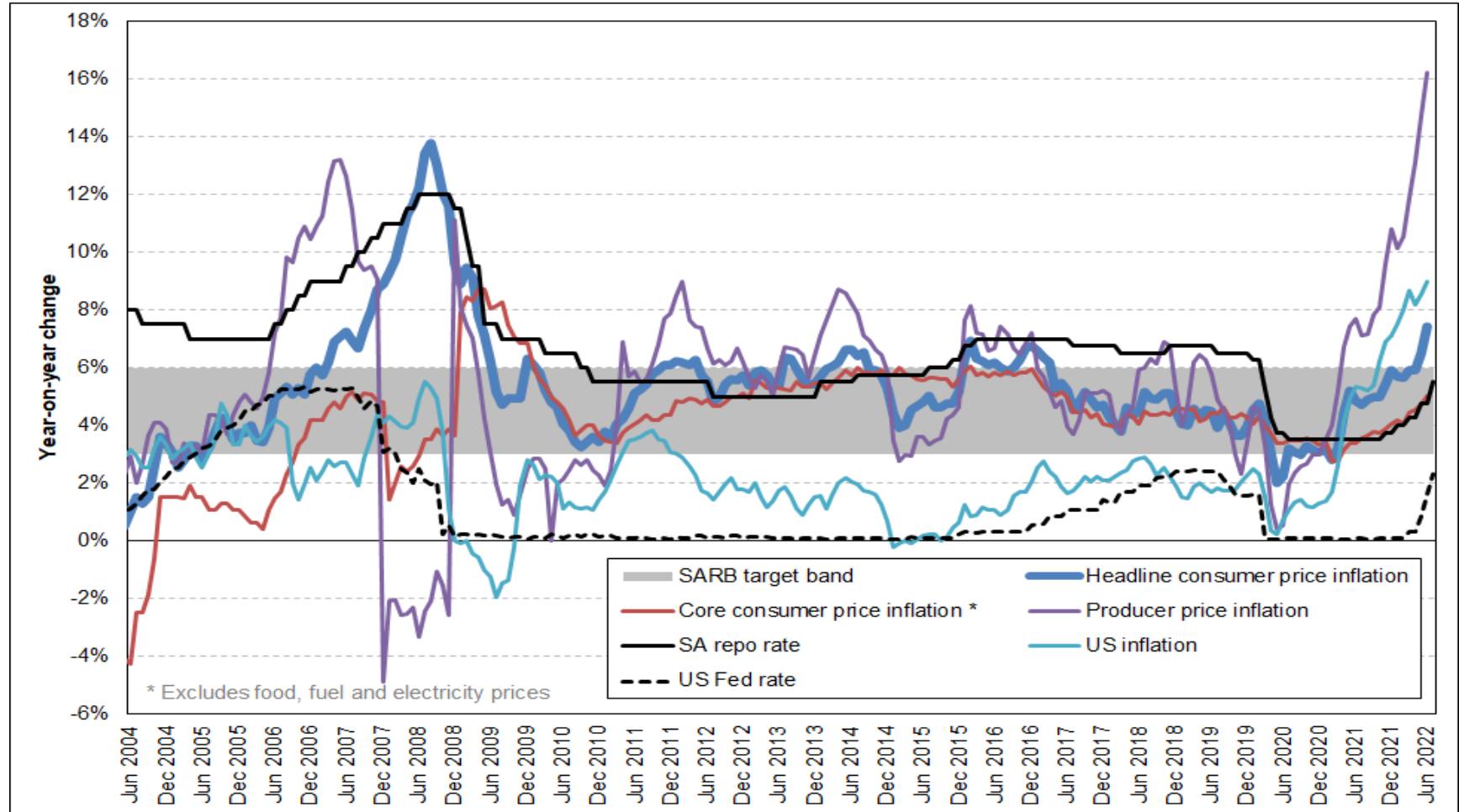
# KEEP CALM AND STAY INVESTED

## ...BUT REMAIN OUR BEST BET FOR WEALTH CREATION OVER THE LONG TERM





# INTEREST & INFLATION RISING, AND INPUT COSTS TAKING STRAIN



# SA CONFIDENCE TAKES A KNOCK, ESPECIALLY AMONG CONSUMERS

