

Market Overview

July 2022

Morningstar Investment Management
August 2022

For Financial Advisers & Their Clients

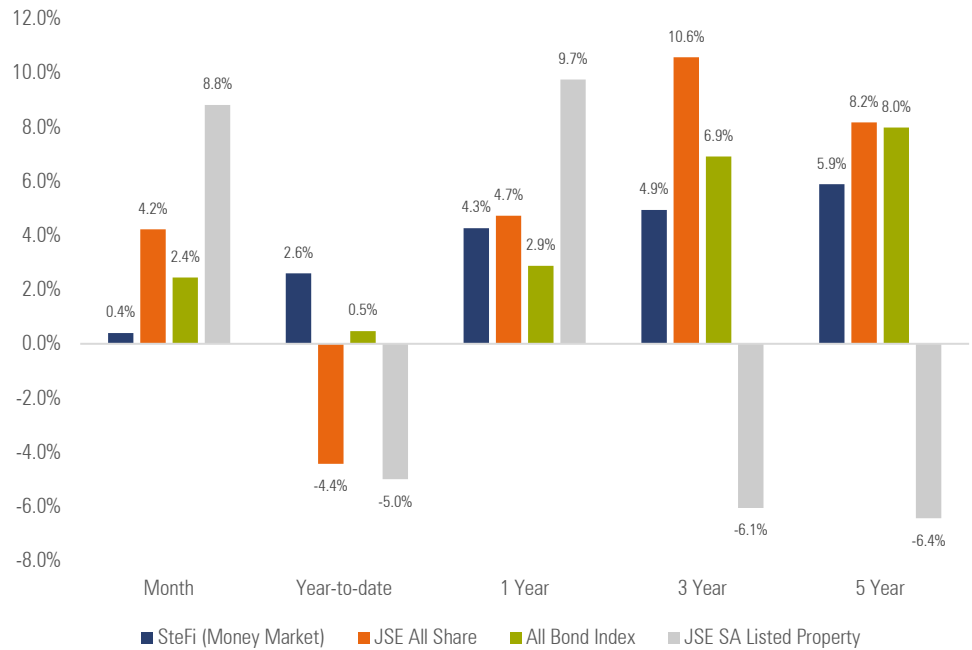
Market and Economic summary

Global markets staged a rebound in July; however, the final reported moves masked the volatile markets experienced during the month. The focus for investors shifted from rising inflation to slower economic growth and the expectations that the US Federal Reserve will not have to raise its policy rate as much as previously expected, all of which led to elevated volatility in July. Inflation continues to be an overriding theme for markets, as inflation prints continue to come in higher than expected, which has resulted in continued pressure on central banks to balance the trade-off between growth and inflation.

The annual inflation rate in the US accelerated to 9.1% (year-on-year to the end of June), the highest since November 1981, and above market forecasts of 8.8%. Meanwhile, in the EU, inflation increased to a new record high of 8.9% (year-on-year to the end of June), also ahead of market expectations. The annual inflation rate in the UK increased to 9.4% in June of 2022, which is the highest rate since 1982, and slightly above market forecasts of 9.3%.

Inflation prints spurred central banks to continue aggressive monetary tightening, with the US Federal Reserve raising the target range for the fed funds rate by 0.75% (to 2.25% - 2.5%) during its July 2022 meeting, the fourth consecutive interest rate hike. The European Central Bank hiked interest rates by 0.5% during its July 2022 meeting, the first increase since 2011. This ended a period of eight years of negative interest rates.

US GDP for Q2 2022 came in below expectations, falling 0.9% quarter on quarter in Q2 2022, following a 1.6% drop in Q1, leading the US into a technical recession. Despite this, the official definition of a recession in the US involves other factors, including conditions of employment. Therefore, it is unlikely that the US is officially in a recession given that the labour market is still strong and that the negative Q1 2022 number was primarily a function of higher-than-normal imports.

Exhibit 1 | SA Market Performance (total returns)

Source: Morningstar Direct as at 31/07/2022. Returns are in South African Rand and have been annualised for periods longer than 1 year.

South African asset classes followed their global peers higher in July, as markets rebounded strongly from a tough month in June.

South African equities moved higher in July, supported by positive performance across all local equity sectors. Resources managed to end the month in positive territory, despite commodity prices coming under pressure slightly due to concerns around slowing global growth and the increased possibility of a recession. Industrials and Financials, meanwhile, both delivered respectable performance in July.

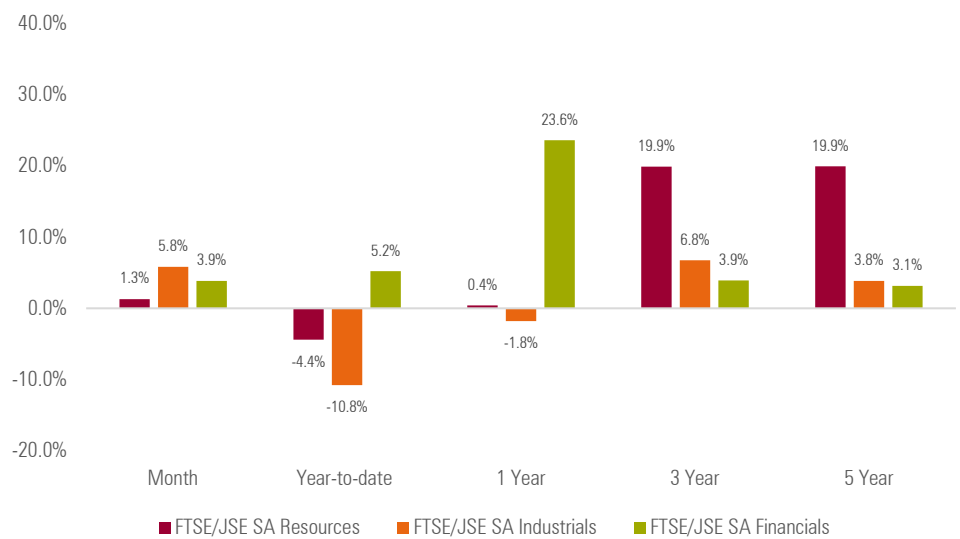
Local bonds rebounded strongly during July, after a difficult month in June. The yields on the shorter end of the curve ended higher on the back of expectations of further interest rate hikes, whilst the longer end of the curve ended lower on the back of attractive valuations as well as the global risk-on environment.

Property rebounded strongly and was the best performing local asset class in July. Large index constituents including Redefine and Growthpoint delivered strong performance over the month.

Local inflation increased to 7.4% (year-on-year to the end of June), above market expectations of 7.2% and well above the upper limit of the South African Reserve Bank's (SARB) target range of 3%-6%. It was the highest reading in 13 years as prices continued to accelerate, mostly for the transport and the housing and utilities categories.

The SARB's Monetary Policy Committee raised interest rates by 0.75% at their meeting in July, which was slightly more than the expected 0.50% hike. This raised the repo rate to 5.5%, with the SARB signalling that further interest rate increases may be on the cards. This is the fifth consecutive rate hike since November last year, delivering the biggest increase in borrowing costs in almost 20 years.

Whilst SA continues to have inflation at the top of its agenda, there was also some good news over the month. Cyril Ramaphosa announced that Eskom will develop a feed-in tariff system to buy energy from households and businesses with rooftop solar. This will allow procurement of independently produced electricity to assist with reducing load shedding.

Exhibit 2 | SA Sector Performance (total returns)

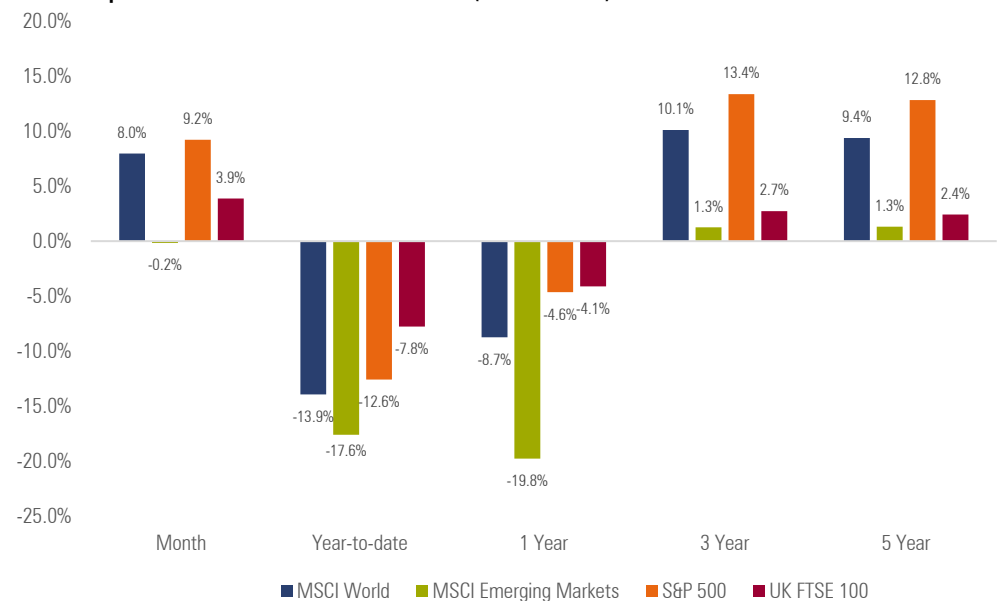
Source: Morningstar Direct as at 31/07/2022. Returns are in South African Rand and have been annualised for periods longer than 1 year.

Most of the major developed equity markets ended the month in positive territory after a tough June. The **MSCI World Index** delivered a return of +8.0% in July, well ahead of its emerging market peers.

Emerging market equities underperformed developed market equities slightly, with Chinese equities being the largest detractor. The **MSCI Emerging Markets Index** ended the month down -0.2%.

Most of the major global equity markets rebounded strongly after the June slump and ended the month in positive territory. The UK's **FTSE 100** (+3.9%), Germany's **FSE DAX** (+2.9%) and Japan's **Nikkei 225** (+7.1%) all delivered positive performance for the month. China's **Shanghai SE Composite** (-4.9%) was under significant pressure in July, reversing some of the positive performance that came in June.

US equities performed well in July, after a difficult start to the year. The **S&P 500** (+9.2%) rose strongly along with the technology-heavy **NASDAQ 100** (+12.6%).

Exhibit 3 | International Market Performance (total returns)

Source: Morningstar Direct as at 31/07/2022. Returns are in US dollars and have been annualised for periods longer than 1 year.

Impact on client portfolios

Following a tough June performance, it was rewarding to see all portfolios generate a positive performance over the month of July. This was largely due to a rebound in performance from risk assets including equities and listed property. Rand weakness over the month did provide a tailwind to the performance of global asset classes, which assisted the rand investors' return over the month.

We remain comfortable with the current positioning of client portfolios, both from an asset allocation and a manager selection perspective. We will continue to follow our valuation driven approach by allocating assets to the most attractive areas of the market from a reward-for-risk perspective. We are confident that we will continue to deliver on the specific investment objectives of each client portfolio independent of the prevailing market environment.

Local Market Indices	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
JSE All Share	4,22	-4,43	4,72	10,57	8,17	7,55
JSE Capped SWIX	2,83	-1,94	7,19	8,92	5,39	5,00
JSE SA Listed Property	8,81	-4,99	9,75	-6,05	-6,44	-3,01
All Bond Index	2,44	0,47	2,88	6,90	7,98	7,65
STeFI	0,40	2,60	4,26	4,94	5,88	6,28
Local Market Sectors	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
JSE Top 40	4,03	-4,86	4,11	10,98	8,59	7,68
JSE Mid Cap	4,36	-2,52	5,51	6,76	4,43	5,23
JSE Small Cap	5,87	4,11	27,92	17,00	7,46	6,52
FTSE/JSE SA Resources	1,28	-4,40	0,41	19,88	19,94	14,70
FTSE/JSE Ind/Financials	3,85	5,21	23,59	3,92	3,14	2,37
FTSE/JSE SA Industrials	5,82	-10,78	-1,80	6,75	3,84	4,69
Global Market Indices	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
MSCI World	7,97	-13,94	-8,74	10,11	9,37	9,02
MSCI Emerging Markets	-0,16	-17,61	-19,77	1,25	1,32	4,19
S&P 500	9,22	-12,58	-4,64	13,36	12,83	12,22
NASDAQ 100	12,60	-20,30	-12,80	19,15	18,20	17,16
FTSE 100	3,88	-7,76	-4,11	2,73	2,42	1,81
SSE Composite	-4,89	-15,45	-8,23	4,27	-0,15	-2,82
Nikkei 225	7,08	-15,86	-14,67	3,56	4,92	5,27
FSE DAX	2,88	-23,89	-25,41	0,43	-0,77	1,38
US T-Bill 3m	0,19	0,56	0,59	0,58	1,13	0,93
Commodities	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
Oil Price Brent Crude	-4,18	41,44	44,12	19,07	15,88	11,23
Gold	-3,50	-2,90	-3,96	7,09	6,70	6,91
Platinum	-1,98	-7,30	-14,85	0,61	-1,07	-1,37
Copper	-5,37	-19,51	-19,98	9,59	4,21	5,91

Note: The performance of Local Market Indices and Local Market Sectors is quoted in rands and the performance of Global Market Indices and Commodities is quoted in US dollars. All data is sourced from Morningstar Direct as at 31/07/2022.

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