

Market Overview

September 2022

Morningstar Investment Management
October 2022

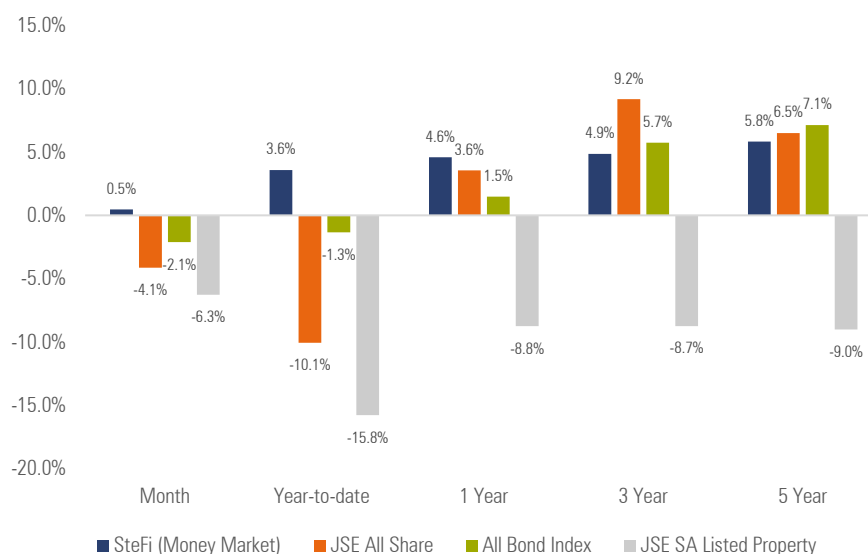
For Financial Advisers & Their Clients

Market and Economic summary

Global markets continued their downward trend and ended the month significantly lower, capping off a volatile and particularly weak quarter. Global markets continued to face multiple headwinds in September; including elevated inflation leading to higher interest rates, continued geopolitical instability, UK fiscal lapses, China's COVID-19 lockdowns, and global supply chain disruptions, to name a few. Given the prevailing environment, investors continued to focus on the increasing probability of a recession and what the cost would be to global economic growth, which led to a decline in asset prices in September. The decline was broad based, with global equities leading the fall, and global bonds recording their worst monthly decline since the early 1980's.

Global inflation prints continue to remain elevated, with some developed economies showing recent declines in inflation. The annual inflation rate in the UK edged lower to 9.9% (year-on-year to the end of August), from 10.1% in July, which was the first time in 11 months that inflation has eased. Euro area inflation increased marginally to 9.1% (year-on-year to the end of August), to a new record high, as energy costs remain elevated. US headline inflation eased for a second straight month to 8.3% in August of 2022, from 8.5% in July. This is the lowest reading in four months. On the other hand, US core inflation surprised to the upside, and printed at 6.3% (year-on-year to the end of August), ahead of market expectations of 5.9%. China's annual inflation fell to 2.5% (year-on-year to the end of August), from July's 2-year high of 2.7%, and less than market forecasts of 2.8%. The slowdown in consumer prices came amid efforts from Beijing to ease the impact of the pandemic.

Central banks continue to target inflation by aggressively hiking interest rates. During the September meeting, the Bank of England raised its key interest rate by 0.5% to 2.25%, the 7th consecutive rate hike, pushing borrowing costs to the highest since 2008. The European Central Bank raised interest rates by 0.75% in its September 2022 meeting, matching expectations from most analysts. The US Federal Reserve raised the federal funds rate by 0.75% to the 3%-3.25% range during its September 2022 meeting, in line with market forecasts, and the third straight three-quarter point increase. This pushed borrowing costs to the highest since 2008.

Exhibit 1 | SA Market Performance (total returns)

Source: Morningstar Direct as at 30/09/2022. Returns are in South African Rand and have been annualised for periods longer than 1 year.

South African asset classes proved more resilient than their global peers, but ended lower in September, as investor pessimism filtered through to South African asset classes.

South African equities ended September in the red, with most sectors posting a negative performance. Resources proved more resilient, and posted a positive return, given the firmer commodity complex and weak rand. Financials trended lower as banks came under pressure, driven largely by Capitec, which fell -24.0% after their results pointed to a slowdown in earnings. Industrials came under pressure following a resilient August return and posted the lowest return of the SA equity sectors.

Local bonds ended the month lower but fared better than developed market peers. The yield curve shifted higher, and prices fell by the end of September, driven largely by indiscriminate selling across most asset classes.

Local property had yet another tough month, as inflation and bond yields moved higher. For the second month in a row, listed property was the worst performing asset class during the month of September.

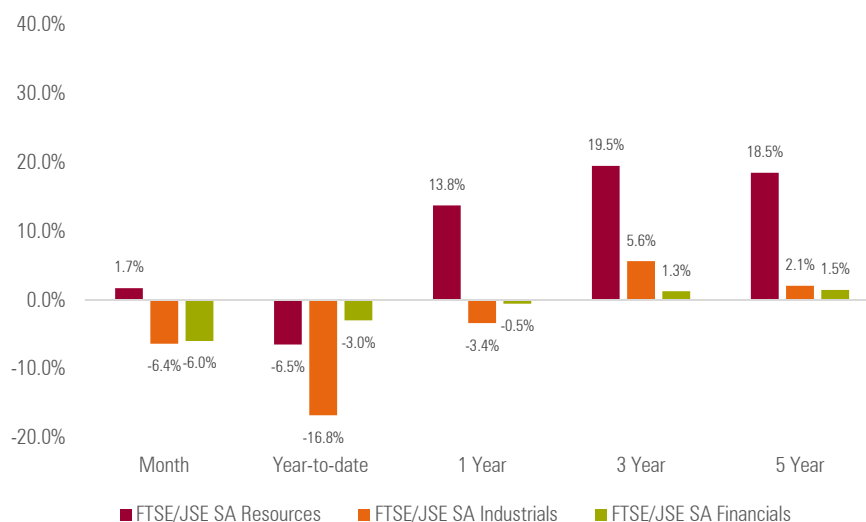
In line with other global peers, South Africa's annual inflation rate eased to 7.6% (year-on-year to the end of August) from an over 13-year high of 7.8% in July. Inflation, however, remains above the upper limit of the South African Reserve Bank's target range of 3%-6%. Prices fell mostly for transport (21.2% vs. 25% in July), of which fuel (43.2% vs. 56.2%) was the largest contributor. The annual core inflation rate fell to 4.4% in August of 2022, from a near five-year high of 4.6% in the previous month.

Given the persistently high inflation and in line with global peers, the South African Reserve Bank raised its benchmark repo rate by 0.75% to 6.25% in the September 2022 meeting, in line with analysts' forecasts. This is the sixth consecutive rate hike since November 2021, driven by price pressures posed by a weakening currency and the ongoing monetary policy tightening by the US Federal Reserve.

South Africa posted a surprise current account deficit of R87 billion in Q2 of 2022, compared with a surplus of R157 billion in Q1. It was the first current account deficit posted since the second quarter of 2020.

Manufacturing production in South Africa rose 3.7% (year-over-year to the end of July), below market estimates of 4%, following three consecutive months of downturn. There was a solid rebound in sales of food and beverages and motor vehicles, parts and accessories and other transport equipment.

Exhibit 2 | SA Sector Performance (total returns)



Source: Morningstar Direct as at 30/09/2022. Returns are in South African Rand and have been annualised for periods longer than 1 year.

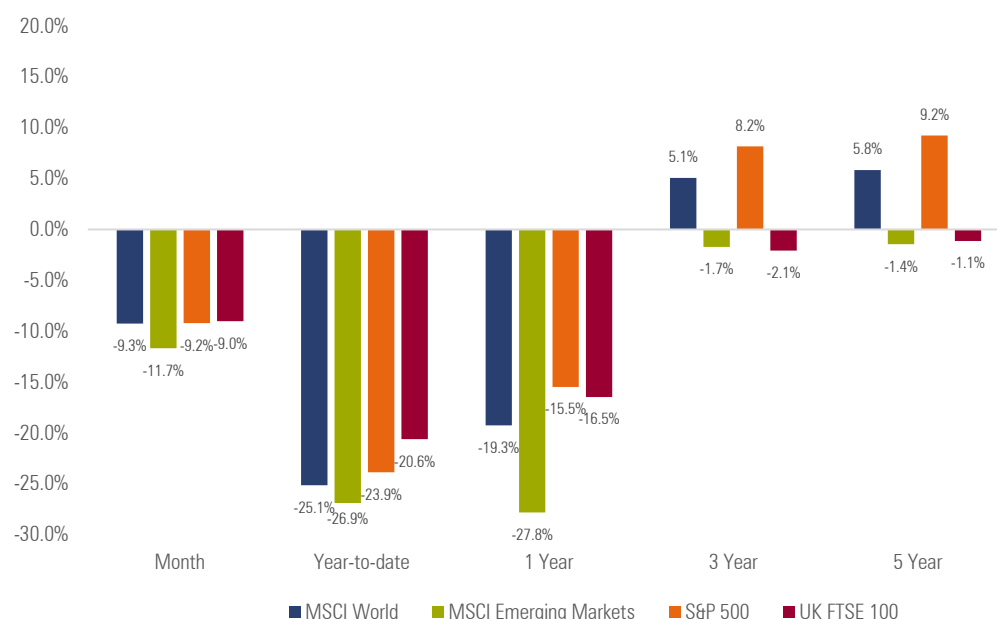
Most of the major developed equity markets ended the month in negative territory, after a particularly weak September. The **MSCI World Index** delivered a return of -9.3% in September, marginally ahead of its emerging market peers.

Emerging market equities underperformed developed market equities in September, giving up the August outperformance. The **MSCI Emerging Markets Index** ended the month -11.7% lower in September.

All the major global equity markets fell significantly in September. The UK's **FTSE 100** (-9.0%), Germany's **FSE DAX** (-8.1%) and Japan's **Nikkei 225** (-10.8%) all delivered negative performance for the month. China's **Shanghai SE Composite** (-8.2%) continued to come under pressure in September.

US equities had a volatile and particularly weak September. The US equity selloff was relatively broad based, with the technology-heavy **NASDAQ 100** (-10.6%) leading the declines. The **S&P 500** (-9.2%) ended the month lower and is down over -23% year-to-date.

Exhibit 3 | International Market Performance (total returns)



Source: Morningstar Direct as at 30/09/2022. Returns are in US dollars and have been annualised for periods longer than 1 year.

Impact on client portfolios

Following the negative performance in August, markets continued their downward trend in September and most portfolios struggled to generate meaningful performance over the month. Investors had nowhere to hide in September as sentiment deteriorated and caused indiscriminate selling across asset classes. Rand weakness over the month did provide a tailwind to the performance of global asset classes, however, this was largely insufficient to compensate for negative hard currency returns from major global equity markets.

We remain comfortable with the current positioning of client portfolios, both from an asset allocation and a manager selection perspective. After the volatile moves of September, we are reminded that economic events such as possible recessions and the uncertainties that come with them bring out behavioural biases and focus investors on the short term. It remains important to not make assumptions about where the market or the economy will go from here. As it stands, global equity prices are in a similar place to where they were in the last quarter of 2020. For those still investing, the outlook is improving as lower prices imply higher returns. Valuations, on almost every measure, continue to improve.

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 and ensure we build robust portfolios. 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	-4,13	-10,06	3,55	9,18	6,49	7,03
JSE Capped SWIX	-3,84	-6,96	1,12	7,77	4,16	4,85
JSE SA Listed Property	-6,28	-15,78	-8,75	-8,74	-9,02	-4,80
All Bond Index	-2,11	-1,34	1,48	5,74	7,13	7,36
STeFI (Money Market)	0,46	3,57	4,59	4,86	5,83	6,27
Local Market Sectors	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
JSE Top 40	-4,43	-11,02	3,45	9,52	6,68	7,02
JSE Mid Cap	-2,83	-5,90	-2,30	5,45	3,87	5,34
JSE Small Cap	-2,01	2,98	11,99	18,06	6,75	6,85
FTSE/JSE SA Resources	1,72	-6,48	13,74	19,50	18,49	16,13
FTSE/JSE Ind/Financials	-5,95	-2,97	-0,55	1,27	1,47	1,89
FTSE/JSE SA Industrials	-6,35	-16,75	-3,36	5,64	2,07	3,72
Global Market Indices	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
MSCI World	-9,25	-25,13	-19,25	5,06	5,84	8,48
MSCI Emerging Markets	-11,67	-26,89	-27,80	-1,71	-1,44	4,26
S&P 500	-9,21	-23,87	-15,47	8,16	9,24	11,40
NASDAQ 100	-10,55	-32,35	-24,72	13,21	13,95	15,94
FTSE 100	-9,02	-20,60	-16,46	-2,08	-1,14	1,38
SSE Composite	-8,18	-25,32	-22,76	1,57	-3,29	-1,68
Nikkei 225	-10,82	-26,86	-30,61	-1,93	1,82	5,09
FSE DAX	-8,05	-34,30	-32,90	-4,32	-4,79	1,38
US T-Bill 3m	0,27	1,07	1,08	0,63	1,19	1,00
Commodities	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
Oil Price Brent Crude	-8,84	13,09	12,02	13,11	8,86	8,92
Gold	-2,57	-7,43	-4,08	4,02	5,43	5,97
Platinum	2,25	-9,91	-10,28	-1,35	-1,25	-0,71
Copper	-0,95	-21,10	-15,42	10,11	3,35	5,98

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 30/09/2022.

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