NAVIGA

Newsletter

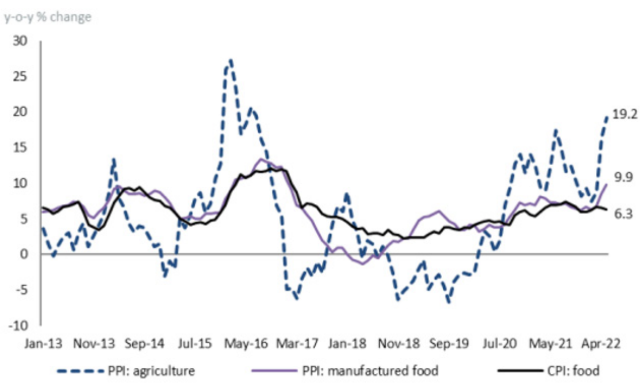
May 2022

MARKETS AND ECONOMICS

After experiencing a downward trend for most of the month of May, and reaching intra-month drawdowns of between 4.5% and 6%, both local and global markets posted a relatively strong rally in the last few days of the month to offset the majority of losses. This rally was driven by some upbeat corporate results and earnings, expectations around peaking inflation figures, and Chinese stimulus being rolled out to offset recent lockdowns. The United States Federal Reserve (Fed) increased interest rates by 0.5% for the first time since 2000 and comments from the President of the European Central Bank, Christine Lagarde, suggest that they could start an interest rate hiking cycle in July. The markets were relieved to hear that the Fed members are not considering a 0.75% hike at the next meeting, with the potential for the Fed to hit pause on rate increases later in the year amidst slowing economic growth indicators, adding further support to the end-of-month rally.

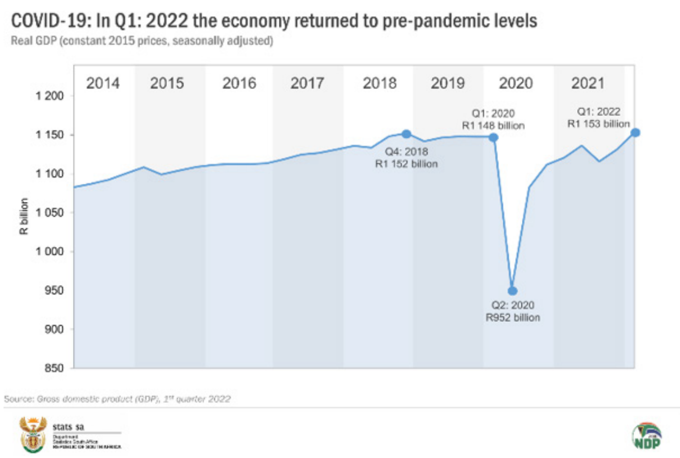
Less aggressive rate bets led to the dollar taking a bit of a breather towards the end of the month, benefitting the rand. This did, however, lead to losses on most offshore exposures for the local investor, as asset class returns were unable to outperform exchange rate movements. Value counters significantly outperformed growth stocks throughout May, with especially tech shares being punished again, while energy counters benefitted from higher oil prices.

On the local economic front, the South African Reserve Bank also increased rates by 0.5%, with the potential for another 50 basis-point hike in July. This was in the face of rising near-term inflation pressures, as the producer price inflation (PPI) measure rose significantly more than expected for the second consecutive month (see graph). Rising input costs are forcing producers to pass these costs on to consumers and is a big risk for food prices. The gap between price pressures in the supply chain and at the consumer level are likely to close in the coming months.



Source: Stats SA

On a positive note, the ratings agency S&P Global upgraded the South African sovereign rating from stable to positive in May, citing the improved fiscal picture as well as the expectation that the current account remains in surplus. We also heard at the end of the month that the general fuel levy reduction of R1.50 per litre would be in place for another month, after which it will be halved to R0.75 per litre in July, and will end in August. This will provide some much-needed short-term relief for consumers. Furthermore, a host of data released by Statistics South Africa during May points to a positive drive by the internal trade sector and its contribution to the gross domestic product, contributing to the higher than expected 1.9% economic growth experienced in the first quarter and taking us back to pre-pandemic levels. The short-term factors of flooding in KwaZulu-Natal and electricity disruptions will, however, continue to dampen growth potential.



Despite continued uncertainties and concerns, we remain cognisant of a range of potential catalysts, as discussed in last month's commentary. We also continue to advocate for calm and patience, and continued investment contributions in the current environment, despite the downward trend, as contributions and higher allocations at lower market levels reduce the average entry price, which will increase the long-term potential returns.

JSE All Share - 0,36% | 72 094,87	**MSCI World (USD)** 0,08% | 2 791,01	**MSCI EM (USD)** 0,44% | 1 077,67
SA Bonds 1,01% | 832,32	**SA Property** 0,05% | 326,50	**CPI (y/y)** 5,90% | 102,40
Gold - 2,24% | 1 854,81	**Platinum** 2,89% | 966,13	**Oil** 7,90% | 115,60
$/R - 1,05% | 15,65	**€/R** 0,73% | 16,79	**£/R** - 0,83% | 19,72

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