NAVIGA

Newsletter

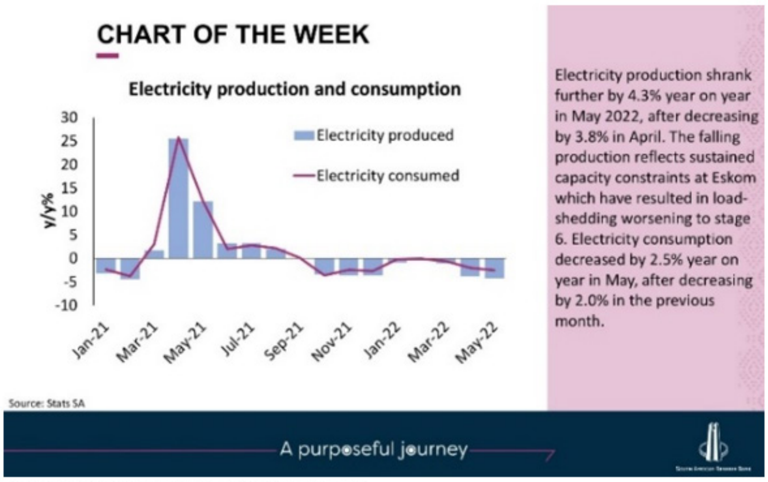
June 2022

MARKETS AND ECONOMICS

It was another tough month for the financial markets, as selling pressures seemed to accelerate towards the end of the second quarter of 2022. These drawdowns came amid ongoing growth concerns linked to rising interest rates in the face of spiking inflation. While central banks seem confident that they will be able to limit the impact on growth, the more hawkish tones and the rate increases from the United States (US), Europe, the United Kingdom, and South Africa (SA), amongst others, have investors worried. The uncertainty and growth concerns led to the dumping of almost all growth and risk assets, as well as bonds. The only beneficiaries were cash and the US dollar. Further dampening global sentiment has been China's approach to COVID infections, with their zero-COVID policy leading to further supply-chain interference and activity restrictions.

On the back of the above, developed market equities officially went into a bear market (meaning that there was more than a 20% drawdown from the peak) during the month. Technology shares and energy counters felt the impact the worst, the latter being influenced by a large drop in oil prices, as investors priced in potential lower demand amid slowing economic growth. In terms of the local market, the factors above overpowered the benefit of attractive valuations, leading to a very similar experience with sharp sell offs in especially equities and property.

Apart from the global factors, local sentiment was also given a big knock during the month as load shedding was, once again, implemented. Employee strikes and capacity constraints at Eskom have resulted in decreased production, forcing the country into Stage 6 load shedding. Although the strike has been resolved, a lack of maintenance, corruption, and a repairs backlog could take a significant time to resolve. As we are still in winter, demand will likely remain high and this will lead to a further risk of breakdowns.



Source: South African Reserve Bank, Twitter (@SAReserveBank), 8 July 2022

With regards to some economic updates, while core inflation seems to be peaking in some global economies, South African inflation surprised on the upside in June. The figure (for May) was recorded at 6.5% year-on-year, primarily driven, once again, by transport (owing to fuel prices), while food prices also experienced price pressure. Unfortunately, with another fuel price increase implemented at the start of the month, this segment is likely to remain inflationary. The breach of the inflation target's upper band, and the expectation that inflation could still go higher locally, has resulted in many market participants expecting another 0.5% interest rate hike at the next Monetary Policy Committee meeting. Some have even called for a 0.75% hike.

On a more positive note, local gross domestic product (GDP) figures pointed to much better-than-expected growth for the first quarter of 2022, with the economy expanding 1.9% quarter-on-quarter. This expansion means that the real GDP is now back to its pre-pandemic level. Furthermore, government has finally removed the remaining lockdown restrictions, allowing all venues to return to 100% capacity, as well as removing the requirement that tourists need to show proof of vaccination or a negative COVID test when visiting SA. This should provide a very welcome boost to many industries.

JSE All Share - 8,01% | 66 223,31	**MSCI World (USD)** - 8,66% | 2 546,19	**MSCI EM (USD)** - 6,65% | 1 000,67
SA Bonds - 3,06% | 806,86	**SA Property** - 10,33% | 289,44	**CPI (y/y)** 6,50% | 103,10
Gold - 2,15% | 1 815,02	**Platinum** - 5,14% | 916,50	**Oil** - 5,68% | 109,03
$/R 4,09% | 16,29	**€/R** 1,61% | 17,06	**£/R** 0,53% | 19,82

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