

Half year market review: Nowhere to Hide

It has been an eventful six months since 1 January 2022. On the global side the key events affecting markets have been the Russia / Ukraine war, rising global inflation, and the ongoing Chinese COVID policy. In South Africa the ongoing challenges from rolling blackouts, political turmoil leading up to the ANC elective conference, and slow economic recovery continue to dominate headlines. These factors combined with the fact that some markets were expensive by the end of 2021 has led to the performances we see below.

Asset Class	6 month return	1 year return
SA Equities (JSE All Share Index)	-8,30%	4,69%
SA Bonds (All Bond Index)	-1,93%	1,25%
SA Listed Property	-12,68%	0,22%
SA Money Market	2,17%	4,14%
Global Equities (MSCI All Countries World Index, \$)	-19,97%	-15,37%
Offshore Bonds (Bloomberg Global Bond Index, \$)	-13,91%	-15,25%
Offshore Listed Property (FTSE NAREIT Global Index, \$)	-19,60%	-13,48%
Emerging Market Equities (MSCI Emerging Market Index, \$)	-17,47%	-25,00%

How bad are these returns?

The 6 month returns above are some of the worst on record for many years.

- The S&P Index has had its worst start to a year since 1962
- The JSE Top 40 Index had its worst start to a year since 1995
- The US Bond market has had its worst start to a year ever!
- The Japanese Yen has fallen to its lowest level since 1998, and the Euro is at its worst level in 20 years
- The tech heavy NASDAQ has had its worst start to a year since 2002 (the start of the dotcom bubble bursting)

The impact of the returns of the last 6 months is now showing up in the 1 year returns for many asset classes. South African investors usually get some protection from a weaker currency when it comes to offshore returns. This time there was no such thing, as can be seen from the Rand returns of offshore investments below.

Asset Class	6 month return	1 year return
Global Equities (MSCI All Countries World Index, ZAR)	-17,9%	-2,9%
Emerging Market Equities (MSCI Emerging Market Index, ZAR)	-15,3%	-13,9%
Global Bonds (Bloomberg Global Aggregate, ZAR)	-11,6%	-2,8%
Global Property (FTSE EPRA Nareit Global, ZAR)	-17,5%	-0,7%

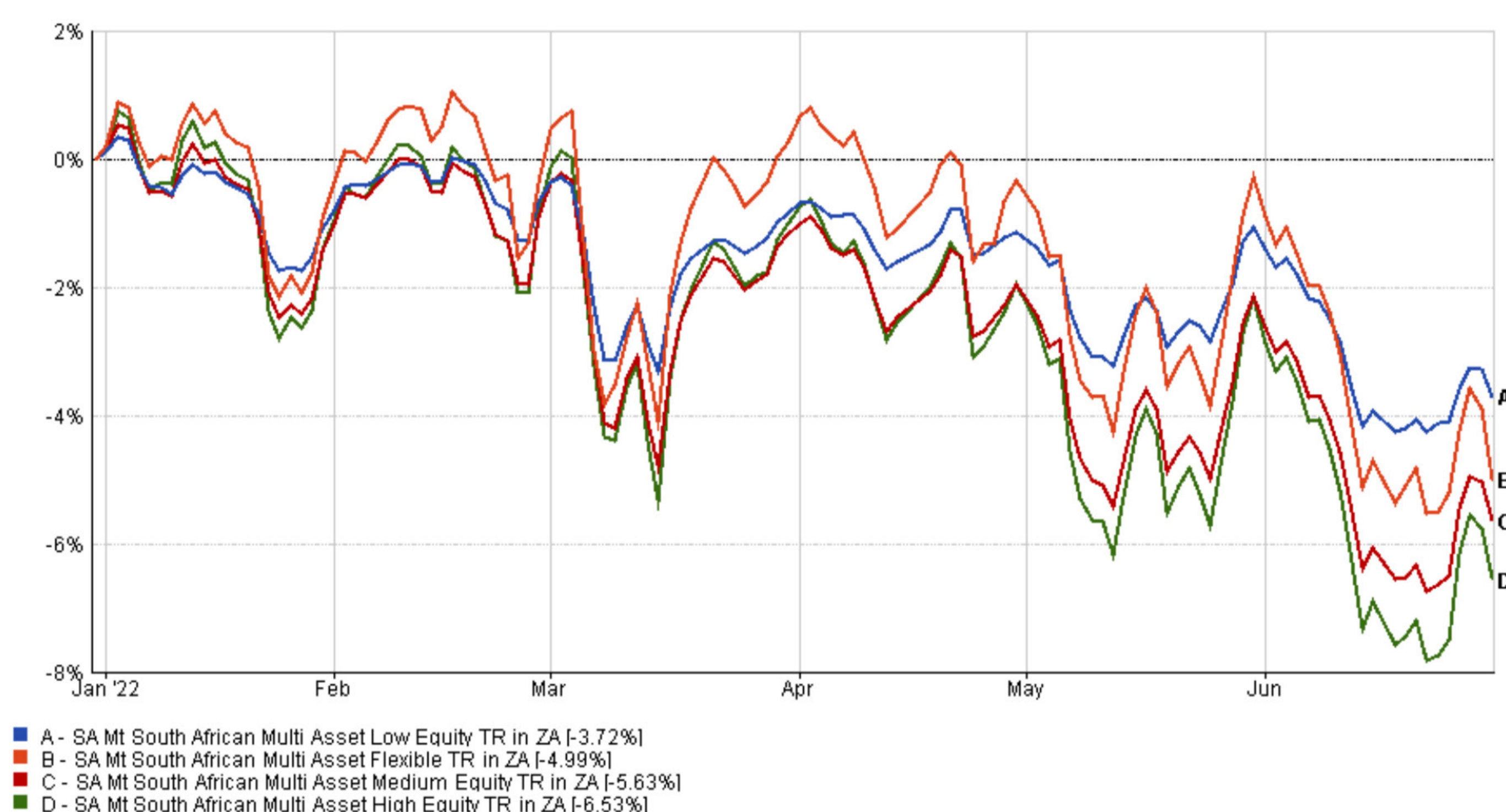
Another source of protection for South African investors during previous crises has been commodity prices. The country is a large producer of gold and platinum on the global stage.

Commodity	6 month return	1 year return
Gold Price (DGLDS)	-1,3%	1,9%
Platinum Price (PLAT)	-6,8%	-16,1%
Oil Price (BRSPOT)	47,6%	52,8%

After strong performances from gold and platinum in previous years, these commodities also experienced losses over the past 6 months. The Oil price however has been directly affected by the war in Ukraine and the resultant impact on the demand / supply characteristics of that market.

How has this affected returns from unit trust funds?

With most asset classes experiencing weaker returns over the past 6 months, it is unsurprising to see the returns from the most popular unit trust sectors as per the graph below.



The key challenge for investors is the impact of these markets on longer term returns. South Africa has been through an extended period of tough market conditions. The fallout from the public unravelling of state capture, the downgrading of the economy to junk status and the economy moving in and out of recessions during Jacob Zuma's term as president has seen returns for SA investors severely impacted.

The average balanced fund has delivered 6% p.a. over the past 5 years before any fees. This is barely in line with inflation which averaged 4.77% p.a. over that period especially after fees.

How should investors react going forward?

It is becoming increasingly difficult for investors to maintain their composure in these markets, particularly when it comes to retirement savings. Long term and short-term returns have been poor so the advice to take a long-term perspective can sound hollow. However, it is the only course of action that makes sense in the long term. US investors experienced a decade of low returns in the period 2000 to 2010. This period is referred to as the "lost decade" as investors in US shares experienced a negative return over that 10-year period. However, those who remained invested then experienced a decade of extraordinary returns as the period between 2010 and 2020 was one of the best on record.

Research from Old Mutual has shown that the JSE delivered a return of 15.8% p.a. between January 1999 and December 2021. However, investors who missed the best 60 days of trading only got a return of 3.7% p.a. That is 60 days out of over 5,500 trading days over that period. Other research along these lines have shown that the best up days often happen DURING periods of market weakness.

South Africa is facing significant challenges currently with the ruling party in conflict and therefore not managing the economy through the current crisis. Eskom as the primary power source for the economy is dysfunctional and therefore unable to support increased demand that follows an economic recovery. Wealthy and skilled taxpayers are opting to move abroad thereby exacerbating the challenging of job creation and unemployment. The period leading up to the ANC elective conference could be one of the toughest for South Africans especially if a scorched earth approach is adopted by factions within the party. This will cap growth, return prospects and investor confidence. So, the advice to remain invested becomes increasingly more difficult to bear.

Investors can now invest up to 45% of their retirement savings offshore. This is a win as investors can better protect their retirement savings against the impact of a mismanaged and deteriorating local economy. Investors can also allocate a higher portion of their discretionary investments offshore, either directly or via asset swap funds.

The advice to remain invested is the right one however, the challenge is knowing where to invest given everything that is happening now. We believe that investors should continue to apply long standing principles of diversification and maintaining exposure to growth assets over the long term. South African investors need to make a call on the extent that this applies to local assets. Our view is that the allocation to offshore assets in more stable economies makes long term sense. As always do reach out to your adviser at GMI if you want to review your portfolio. Ideally only do so because your circumstances have changed, not because of concern around markets.