

Market Overview

February 2022

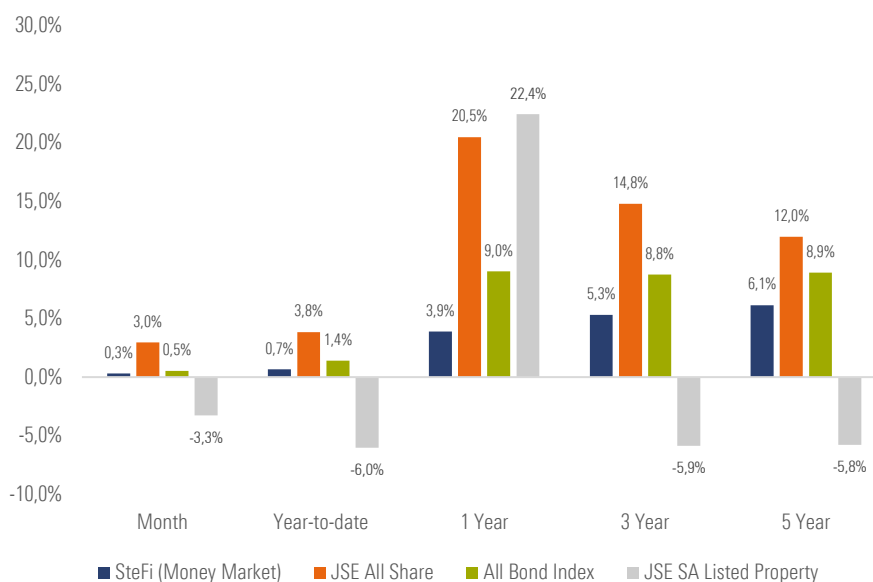
Morningstar Investment Management
March 2022

For Financial Advisers & Their Clients

Market and Economic summary

Global equity markets continued to struggle in February as market jitters around US inflation continued to drag markets lower in the first two weeks of February. As concerns of Russia invading Ukraine became a reality in the third week of February, markets moved into a sharp risk-off trade. This meant that money flowed out of emerging markets (EM), anything Russian or linked to Russia and into perceived safe-haven assets such as US treasuries and gold. This drove bond yields lower towards the end of the month and led to EM currencies weakening. Despite the recovery in developed market bonds towards the end of the month, global bonds ended the month lower. There was little room to hide in global markets in February however the two areas of the market that weathered the storm were global energy and materials.

Exhibit 1 | SA Market Performance (total returns)



Source: Morningstar Direct as at 28/02/2022. Returns are in South African Rand and have been annualised for periods longer than 1 year.

SA equities bucked the trend posting a solid positive return in February. While resources continue to be the driver of these returns, Naspers and Prosus struggled. Naspers fell by a further 21% in February bringing the 12-month share price decline to 45%. This is roughly a 60% differential in performance between Naspers and the JSE All Share Index over the last 12 months. The SWIX Index posted a return of 1.93% for February, bringing the 12-month return to 14.95%.

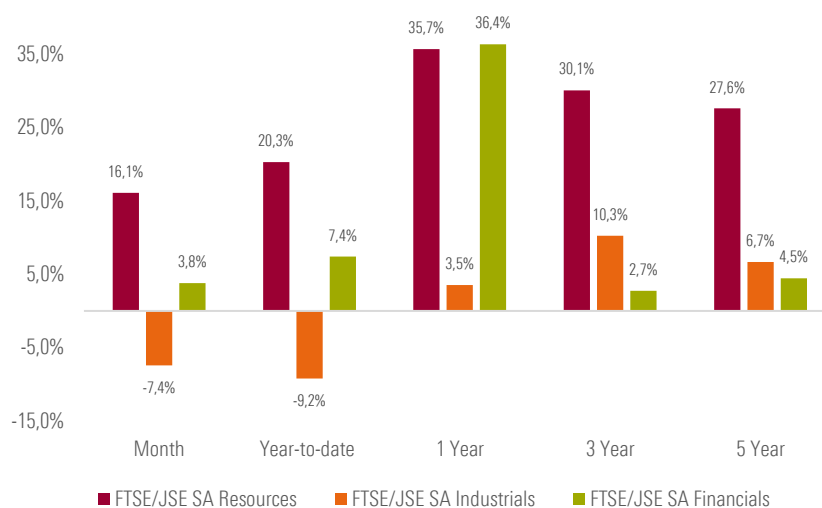
SA Government Bonds ended the month in positive territory bringing the 12-month return to 9.1%. While it certainly wasn't a smooth ride, investors were compensated for holding sovereign debt over cash.

SA Listed property continued its decline from January with the index falling 2.9% in February and bringing the year-to-date price decline in this sector to 5.7%. It is worth highlighting that the sector has still returned 22.4% to investors over the past 12 months despite the shorter-term price decline. This negative return was the result of inflation fears, an increase in the repo rate of 25bps and possibly the sector retreating after running very hard last year.

The rand was surprisingly resilient for most of February with local commentators referring to it as the "Swiss Rand". With this being said, we also witnessed the currency weaken slightly towards the end of the month - depreciating by 0.11% to end the month at R15.45/USD\$1.

Local equity sectors were led by strong performance from Resources (+16.0%) and Financials (+3.8%), while Industrials (-7.4%) ended the month lower.

Exhibit 2 | SA Sector Performance (total returns)

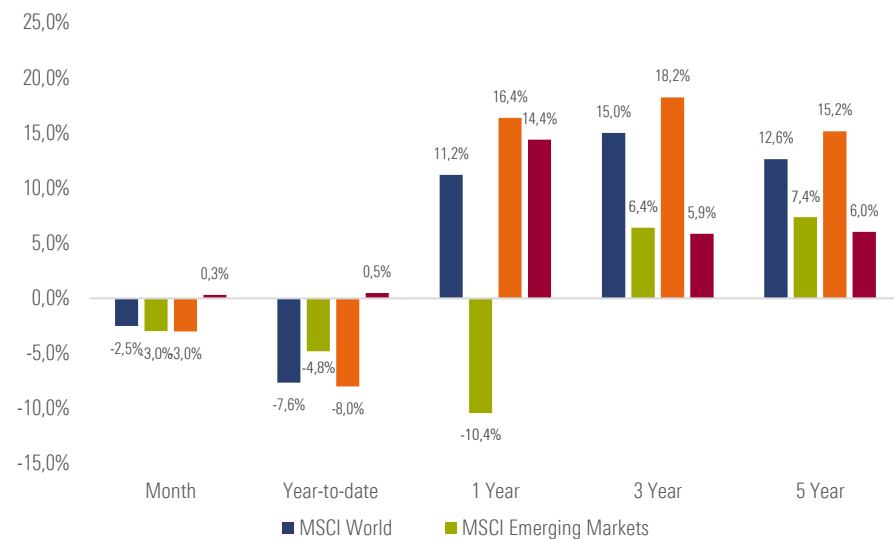


Source: Morningstar Direct as at 28/02/2022. Returns are in South African Rand and have been annualised for periods longer than 1 year.

The majority of developed equity markets ended the month lower as the Russian invasion caused investors to panic and markets to fall sharply. The **MSCI World Index** fell by 2.5% for the month bringing the year-to-date decline to 7.7%.

Emerging markets fell in line with developed markets with Russia being the main detractor - falling over 30% for the month. The **MSCI Emerging Markets Index** declined by 2.99% during February bringing the year-to-date fall to 4.8%.

Most of the major equity markets ended the month in negative territory - the **S&P 500** (-3%), Euro **STOXX** (-4.3%) and Japan's **Nikkei 225** (-1.7%) all delivered negative performance for the month, while China's Shanghai **SSE Composite** (+3.89%) and the UK's **FTSE 100** (+0.2%) were largely flat.

Exhibit 3 | International Market Performance (total returns)

Source: Morningstar Direct as at 28/02/2022. Returns are in US dollars and have been annualised for periods longer than 1 year.

Impact on client portfolios

Most of our domestic focussed portfolios generated positive returns for the month and have delivered positive returns for investors over the past year. This is a result of our healthy exposure to resource counters and domestic bonds.

Our portfolios with a large global exposure have delivered negative returns for the month due to the impact of falling global markets and a relatively flat currency.

While negative returns are hugely uncomfortable, we would encourage investors not to focus on these two month return numbers. We have indeed given back some of the returns generated over the past 18 months and we find ourselves in a situation where the range of possible outcomes is wide and impossible to predict.

In times of uncertainty, like we find ourselves in now, markets often act in unison, mass selling all assets regardless of quality or valuation. These anomalies right themselves with time and investors are rewarded for their patience.

A good example of this is the Ninety One Global Franchise fund that we hold in portfolios. A fund comprised of quality businesses generating large free cash flows and that have large sustainable business moats to ensure cash generation through the economic cycle. This fund has fallen by more than 10% in USD over the past two months due largely to indiscriminate selling. Yet the quality of the fund's holdings has not declined by 10%. We remain an investor in this fund and have confidence in both the strategy and long-term prospects for our investors, despite the short-term impact on performance.

Local Market Indices	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
JSE All Share	2.95	3.83	20.47	14.80	11.98	8.67
JSE Capped SWIX	2.69	5.14	23.06	11.30	8.11	6.05
JSE SA Listed Property	-3.26	-6.02	22.43	-5.85	-5.77	-2.99
All Bond Index	0.54	1.40	9.02	8.75	8.91	7.65
STeFI (Money Market)	0.32	0.66	3.89	5.32	6.13	6.39
Local Market Sectors	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
JSE Top 40	3.28	4.48	20.06	15.95	13.22	9.15
JSE Mid Cap	1.02	0.62	22.55	7.04	4.20	4.45
JSE Small Cap	0.54	-0.77	40.19	14.99	4.93	5.57
FTSE/JSE SA Resources	16.08	20.29	35.70	30.09	27.62	14.66
FTSE/JSE Ind/Financials	3.77	7.40	36.36	2.74	4.45	3.31
FTSE/JSE SA Industrials	-7.43	-9.21	3.54	10.27	6.68	5.29
Global Market Indices	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
MSCI World	-2.50	-7.64	11.22	15.01	12.64	10.24
MSCI Emerging Markets	-2.98	-4.81	-10.40	6.40	7.37	5.20
S&P 500	-2.99	-8.01	16.39	18.24	15.17	13.16
NASDAQ 100	-4.54	-12.65	11.06	27.20	22.87	19.34
FTSE 100	0.32	0.49	14.41	5.86	6.03	2.91
SSE Composite	3.89	-3.94	1.00	7.64	3.06	0.55
Nikkei 225	-1.67	-7.83	-13.86	8.26	8.20	7.62
FSE DAX	-6.35	-10.08	-2.93	7.40	5.25	3.47
US T-Bill 3m	0.03	0.04	0.08	0.73	1.10	0.85
Commodities	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
Oil Price Brent Crude	10.72	29.84	52.71	15.22	12.68	7.08
Gold	6.38	5.76	9.58	13.13	8.75	6.69
Platinum	4.01	10.84	-11.71	6.87	0.65	-1.44
Copper	3.70	2.90	8.73	15.13	10.94	7.84

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 28/02/2022.

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