

Market Overview

June 2022

Morningstar Investment Management
July 2022

For Financial Advisers & Their Clients

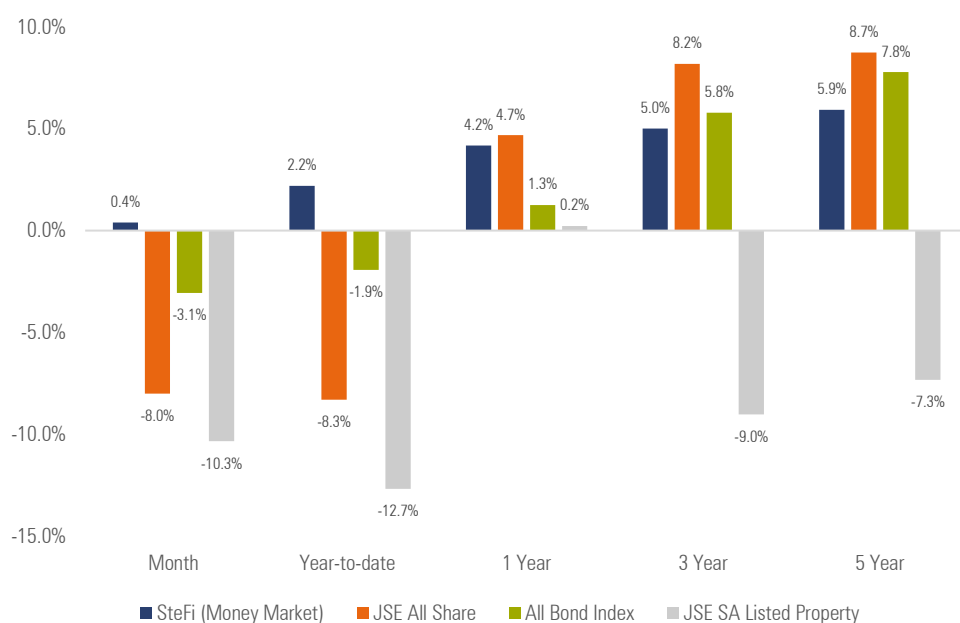
Market and Economic summary

Global markets continued to sell off over the month as rising interest rates and persistently higher inflation point to an especially negative outlook for short-term asset prices. Increasing fears of a potential global recession further contributed to elevated volatility across both developed and emerging markets as investors remain sceptical of the ability of central bankers to balance the trade-off between growth and inflation.

The US Federal Reserve hiked interest rates by a further 0.75% at the meeting in early June to follow the 0.50% increase in May. Inflation continues to be less transient than some market pundits were initially suggesting as global supply chain shortages persist and energy and food prices remain elevated due to the ongoing Russian invasion of Ukraine. The US inflation print came in at 8.6% (year-on-year to the end of May), the highest reading since 1981 while Eurozone inflation registered 8.1% and UK inflation hit a new multi-decade high of 9.1%.

Global equities experienced another turbulent month as all major developed markets ended lower. The S&P 500 fell 8.3% in June and recorded its largest first-half contraction since 1970. Emerging Markets were relatively stronger over the month as the easing of COVID-19 restrictions helped Chinese equities move higher in June.

Exhibit 1 | SA Market Performance (total returns)



Source: Morningstar Direct as at 30/06/2022. Returns are in South African Rand and have been annualised for periods longer than 1 year.

All major SA asset classes were under pressure over June with only cash generating a marginally positive return over the month. Foreigners remained net sellers of both SA equities and bonds while the rand ended the month around 4.1% weaker against the US Dollar after breaking through some resistance at R16/\$.

South African equities were down as the Resources and Financials sectors came under significant selling pressure. All the main commercial banks and insurers were down by more than 10% over the month while the leading materials companies gave back much of their gains from the start of the year. Industrials also struggled but were rescued by the re-rating of Naspers and Prosus following the announcement of an open-ended buyback programme through the intended unwinding of their holding in Tencent.

Local bonds were also not spared and were weaker over the month after posting positive returns in May. Yields on the benchmark 10-year SA government bond moved close to 11% as pressure in global fixed income markets, as well as uncertainty around the domestic outlook for inflation, continued to concern both local and foreign investors. Inflation-linked bonds fared relatively better but were also down over the month.

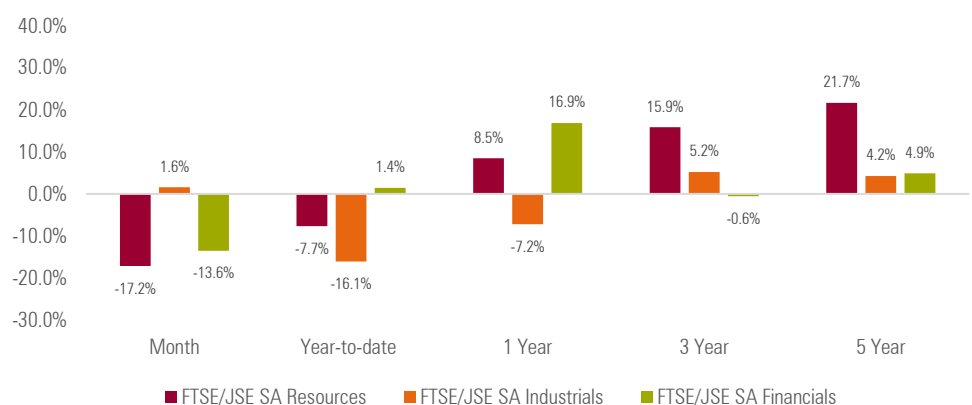
Local listed property had an especially challenging month and continues to trend lower as inflation and bond yields move higher.

Local inflation increased to 6.5% (year-on-year to the end of May) and moved through the upper limit of the Reserve Banks' 3% - 6% target band. Food and transport were the main contributors to the higher print with these costs expected to continue to apply upward pressure on inflation given the fallout from the ongoing Russian invasion of Ukraine.

SA consumer confidence, as measured by the FNB/BER Consumer Confidence Index ("CCI") dropped to its lowest level since June 2020. Excluding the COVID-19-induced Level 5 lockdown period during the initial outbreak of the pandemic in South Africa, the CCI is currently at its lowest level since 1986.

SA growth still faces significant challenges as higher global interest rates and inflation adversely affect growth prospects but there was also some good news over the month. Stats SA reported that growth for the first quarter of the year came in ahead of expectations at 1.9%. The country also continues to benefit from a strong trade surplus, as the amount by which exports exceed imports increased to over R28bn in May from a revised R16bn the previous month.

Exhibit 2 | SA Sector Performance (total returns)



Source: Morningstar Direct as at 30/06/2022. Returns are in South African Rand and have been annualised for periods longer than 1 year.

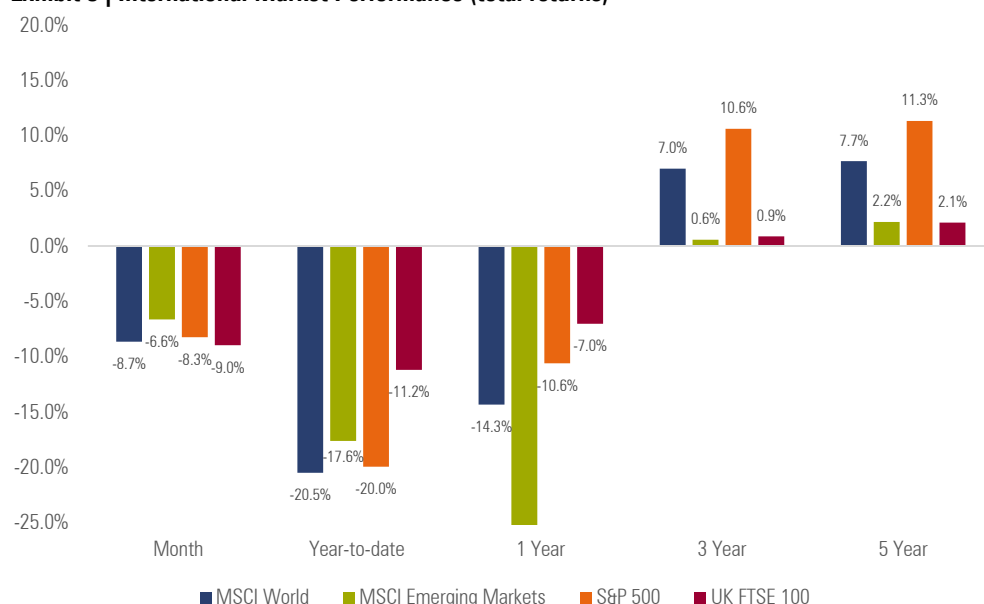
Most of the major developed equity markets ended the month in negative territory. The **MSCI World Index** delivered a return of -8.6% for the month.

Emerging market equities fared slightly better than developed markets, Chinese equities propped up the performance of the sector. The **MSCI Emerging Markets Index** delivered a return of -6.6% for the month.

Most of the major global equity markets were down for the month after concerns around global growth become front of mind for investors. The UK's **FTSE 100** (-9.0%), Germany's **FSE DAX** (-13.3%) and Japan's **Nikkei 225** (-8.2%) all delivered negative performance for the month. China's **Shanghai SE Composite** (+6.1%), which has been under significant pressure on a year-to-date basis, experienced a positive turnaround over the month.

US equities set the trend for developed markets. The **S&P 500** (-8.3%) and **NASDAQ 100** (-8.9%) continued to fall as technology companies' growth and earnings expectations came under persistent investor scrutiny.

Exhibit 3 | International Market Performance (total returns)



Source: Morningstar Direct as at 30/06/2022. Returns are in US dollars and have been annualised for periods longer than 1 year.

Impact on client portfolios

Most portfolios struggled to generate positive performance over the month. This was largely due to weak performance from risk assets including equities and listed property. 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. 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. 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	-8.01	-8.30	4.69	8.18	8.74	7.00
JSE SA Listed Property	-10.33	-12.68	0.22	-9.03	-7.33	-3.48
All Bond Index	-3.06	-1.93	1.25	5.78	7.78	7.43
STeFI (Money Market)	0.40	2.19	4.18	5.01	5.93	6.30
Local Market Sectors	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
JSE Top 40	-8.07	-8.54	4.62	8.56	9.33	7.21
JSE Mid Cap	-9.36	-6.60	3.92	4.55	4.50	4.32
JSE Small Cap	-7.29	-1.66	19.48	15.00	6.40	5.56
FTSE/JSE SA Resources	-16.33	-5.61	10.71	17.25	22.67	13.05
FTSE/JSE Ind/Financials	-13.30	1.30	17.57	0.36	3.37	2.37
FTSE/JSE SA Industrials	0.93	-15.68	-6.33	5.19	3.80	4.03
Global Market Indices	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
MSCI World	-8.63	-20.29	-13.94	7.52	8.22	8.11
MSCI Emerging Markets	-6.56	-17.47	-25.00	0.92	2.55	3.16
S&P 500	-8.25	-19.96	-10.62	10.60	11.31	11.14
NASDAQ 100	-8.94	-29.22	-20.38	15.42	16.37	15.91
FTSE 100	-8.97	-11.21	-7.03	0.88	2.12	1.54
SSE Composite	6.06	-11.10	-8.65	5.39	1.52	-4.28
Nikkei 225	-8.20	-21.43	-23.63	1.36	3.73	4.32
FSE DAX	-13.29	-26.02	-27.44	-1.82	-1.01	1.32
US T-Bill 3m	0.13	0.37	0.40	0.57	1.11	0.90
Commodities	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
Oil Price Brent Crude	-6.54	47.61	52.82	19.93	19.09	8.81
Gold	-1.18	0.62	3.05	8.85	7.90	6.48
Platinum	-5.82	-5.42	-14.35	3.50	-0.33	-2.44
Copper	-13.24	-14.95	-12.17	11.34	6.89	5.36

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 30/06/2022.

About the Morningstar Investment Management Group

Morningstar's Investment Management group, through its investment advisory units, creates investment solutions that combine award-winning research and global resources with proprietary Morningstar data. Morningstar's Investment Management group provides comprehensive retirement, investment advisory, and portfolio management services for financial institutions, plan sponsors, and advisers around the world.

Morningstar's Investment Management group comprises Morningstar Inc.'s registered entities worldwide including: Morningstar Investment Management LLC; Morningstar Investment Management Europe Limited; Morningstar Investment Management South Africa (Pty) Ltd; Morningstar Investment Consulting France; Ibbotson Associates Japan, Inc; Morningstar Investment Adviser India Private Limited; Morningstar Investment Management Asia Ltd; Morningstar Investment Services LLC; Morningstar Associates, Inc.; and Morningstar Investment Management Australia Ltd.

About Morningstar, Inc.

Morningstar, Inc. is a leading provider of independent investment research in North America, Europe, Australia, and Asia. The company offers an extensive line of products and services for individual investors, financial advisors, asset managers, retirement plan providers and sponsors, and institutional investors in the private capital markets. Morningstar provides data and research insights on a wide range of investment offerings, including managed investment products, publicly listed companies, private capital markets, and real-time global market data. The company has operations in 27 countries.

Important Information

The opinions, information, data, and analyses presented herein do not constitute investment advice; are provided as of the date written; and are subject to change without notice. Every effort has been made to ensure the accuracy of the information provided, but Morningstar makes no warranty, express or implied regarding such information. The information presented herein will be deemed to be superseded by any subsequent versions of this document. Except as otherwise required by law, Morningstar, Inc or its subsidiaries shall not be responsible for any trading decisions, damages or losses resulting from, or related to, the information, data, analyses or opinions or their use. Past performance is not a guide to future returns. The value of investments may go down as well as up and an investor may not get back the amount invested. Reference to any specific security is not a recommendation to buy or sell that security. There is no guarantee that a diversified portfolio will enhance overall returns or will outperform a non-diversified portfolio. Neither diversification nor asset allocation ensure a profit or guarantee against loss. It is important to note that investments in securities involve risk, including as a result of market and general economic conditions, and will not always be profitable. Indexes are unmanaged and not available for direct investment.

This commentary may contain certain forward-looking statements. We use words such as “expects”, “anticipates”, “believes”, “estimates”, “forecasts”, and similar expressions to identify forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results to differ materially and/or substantially from any future results, performance or achievements expressed or implied by those projected in the forward-looking statements for any reason.

The Report and its contents are not directed to, or intended for distribution to or use by, any person or entity who is not a citizen or resident of or located in any locality, state, country or other jurisdiction listed below. This includes where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Morningstar or its subsidiaries or affiliates to any registration or licensing requirements in such jurisdiction.

The Report is distributed by Morningstar Investment Management South Africa (Pty) Limited, which is an authorized financial services provider (FSP 45679), regulated by the Financial Sector Conduct Authority.

Morningstar South Africa

5th Floor
20 Vineyard Road
Claremont
7708
+27 21 201 4645