

# Dear investors, you have all been gathered here today...

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South Africa**

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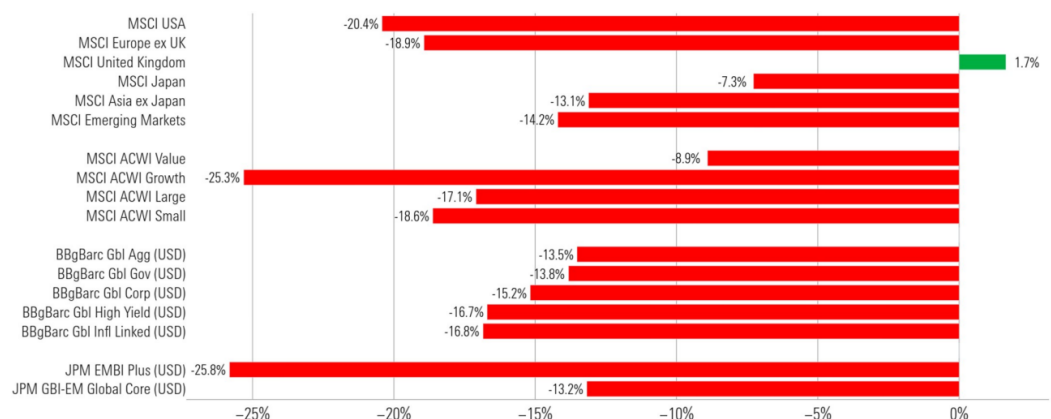
For Financial Advisors and their Clients

No one likes having to go to a party that they don't really want to go to. As you begrudgingly accept the invitation, you almost immediately start thinking about all the other ways in which you could have rather spent your time. This sentiment reminds me of the situation we find ourselves in today. I don't know about you, but I am certainly feeling like 2022 is this type of party, and it's turning out to be one I don't necessarily enjoy being at. I guess there is some comfort in knowing I'm not alone - everyone else has been forced to attend as well.

Anyone checking their investment accounts at the moment will likely flinch. The only place where you did not lose money (year-to-date) was in cash. With that said, and very important to note, is that sitting in cash did not help much in real terms either, since inflation today has reached new heights.

Below is a visual of just how brutal things are out there, whether you look at equity, growth, value, small-cap, large-cap or fixed income.

**Exhibit 1 | Global asset class returns: Year-to-Date (USD)**



Source: Clearnomics, Morningstar, MSCI, Bloomberg, JPMorgan. Data as at 1 July 2022. Past performance is a reliable indication of future returns. For illustrative purposes only.

Some other shocking statistics include:

- The S&P 500 fell 20%, on pace for its largest annual decline since 2008 and the third largest ever (after 1931 and 2008).
- The 10-Year US Treasury bond fell 11.5%, on pace for its worst year in history by a wide margin (the 11.1% record loss in 2009 was for the entire year).
- Investment Grade Bonds fell 13.9%, on pace for their worst year ever and first double-digit annual percentage decline.
- High Yield Bonds dropped 14%, on pace for their second largest annual loss after 2008.
- REITs (Real Estate Investment Trusts) fell over 19%, on pace for their largest decline since 2008.

I don't mean to add insult to injury with these statistics, but rather to share a realistic description of what has been happening in markets. While we may all feel like the economy and the markets are out to get us at the moment, these historical lows are happening to all investors.

As the second half of the year begins, the same concerns remain intact for local and global investors, namely – geopolitics and the repercussions of the war, soaring inflation and the possibility of an economic recession.

### So, if we can't forecast, what can we do?

As much as human beings and investment professionals sometimes think they know what is going to happen in the future, the truth is that no one does. Forecasting is a fool's game.

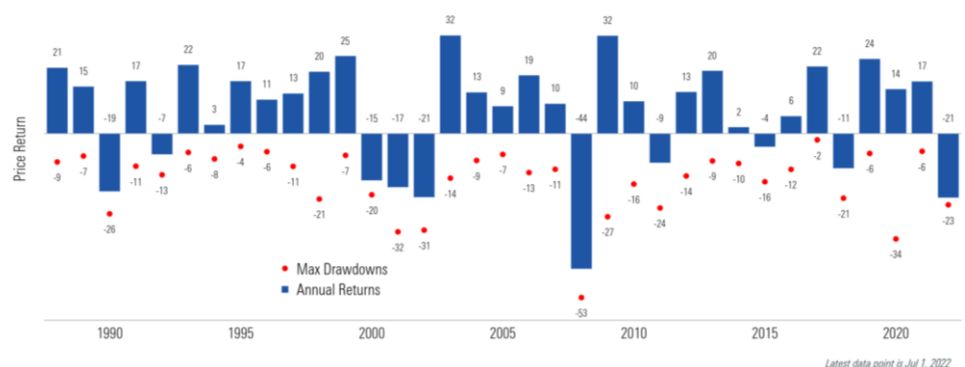
What can be done, and what will stand you in good stead is to remain informed, so that you can approach your investments with understanding and thoughtfulness. Focus on reading insightful, well-considered market commentary and analysis rather than shocking news headlines that simply blurt out that markets are bottoming out without any insights as to why this is the case. Understanding why asset classes are performing the way they do, will not only help cushion the blow during a downturn but also help you to remember that markets do turn.

Having information about the present that is quantitative and readily available unfortunately won't make you a superior investor. Having the ability to process qualitative information, being able to remove emotions from investment decision making and not capitulating at the worst possible times is what makes an above-average investor.

I've highlighted three key rules to remember below:

1. Recognise that every single year will have some drawdowns. Some might be larger than others. 2022 will certainly be one for the history books. As can be seen in the below graph, market downturns are not a new phenomenon.

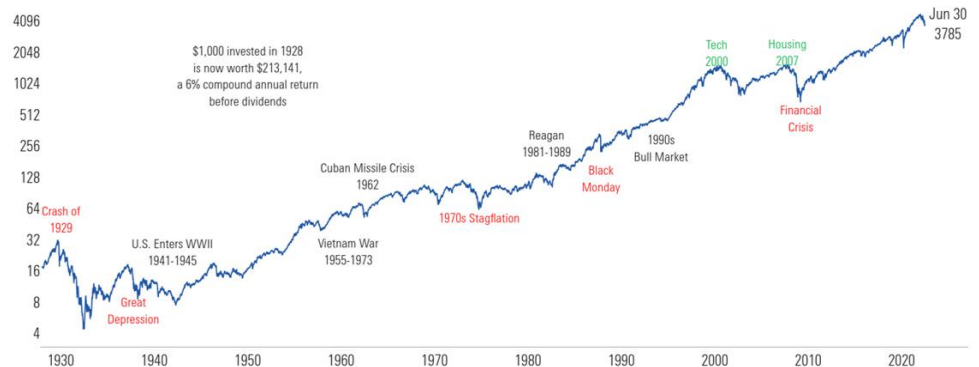
### Exhibit 2 | Global market returns and pullbacks | MSCI All Country World Index



Source: Clearnomics, Morningstar, MSCI. Data as at 1 July 2022. Past performance is a reliable indication of future returns. For illustrative purposes only.

- The long run is just a collection of short runs, and a short run can get ugly. In hindsight, things that seemed impossible to navigate at the time, are merely a blip in the bigger scheme – as illustrated by all the events in the below graph that markets have overcome over the years.

### Exhibit 3 | S&P 500 Index since 1928 (log scale)



Source: Clearnomics, Morningstar, MSCI. Data as at 1 July 2022. Past performance is a reliable indication of future returns. For illustrative purposes only.

- Expansions usually last a lot longer than contractions. Unfortunately, it is human nature to feel the pain of a contraction a lot more than the joy when markets work in your favour.

### The party is not over yet

Markets are brutal at present, and we might continue to see further sell-offs and increased volatility in the months to come. The culprits stirring up market volatility and punishing asset prices aren't hard to spot - high inflation, recession fears, quantitative tightening, rising interest rates, and the war in Ukraine, to name but a few.

In a recent interview, Howard Marks (co-founder of Oaktree Capital Management) said "If the whole financial system does not melt down, and we did not buy we did not do our job. If the whole system collapses, it doesn't matter whether you bought or not because there will be nothing left." Therefore, rest assured that we will continue to look for and find opportunities on your behalf while you sit tight. At Morningstar, we continue to follow our disciplined process and will act where and when we need to act.

### In closing

Looking ahead, we continue to believe stocks and bonds are fabulous assets to help people reach their goals, especially following the healthy rebound in yields. Following recent losses, the valuations for both stocks and bonds have improved, which is a broad positive that will help investors in the next chapter of their investment journey. A reset in prices may be welcome, especially if you are a new investor, looking to generate decent returns over the long haul. ■■■

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**Risk Warnings**

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