

**Review period: June 2022**

## Introduction

In the month of June, local equity markets recorded their biggest decline since March 2020, tracking global peers. Miners were among the worst performers in June as commodity prices dropped on the back of slower global economic growth. Globally, it was yet another devastating month for the stock market. Rising interest rates, the continued lockdown in China and the ongoing war in Ukraine brought concerns of a possible global economic recession.

## Domestic Highlights

### Gross Domestic Product (GDP), first quarter 2022

According to Stats SA, South Africa's GDP increased by 1.9% on a quarter-on-quarter (qoq) and seasonally adjusted basis in the first quarter (Q1) of 2022, representing a second consecutive quarter of upward GDP growth. Eight industries recorded positive growth between the fourth quarter (Q4) and Q1 of 2022. On a quarterly basis, six of the ten industries made positive contributions to GDP growth, the manufacturing sector was the leading contributor, adding 0.6 percentage points (pps), followed by the trade and finance sectors which contributed 0.4 pps each.

Agriculture, electricity, and construction were flat, while mining production was the only detractor (-0.1 pps). Expenditure on real GDP increased by 1.9% in Q1 2022 from 1.5% in the previous quarter, lifted mainly by household consumption spending and fixed investment. Consumption spending by government also increased modestly, and inventory rundown declined. In contrast, net exports contributed negatively to growth in expenditure on GDP in Q1 2022. On a year-on-year (yoy) basis, GDP advanced 3% from 1.7% in the previous quarter. The size of the economy is now at pre-pandemic levels with real GDP slightly higher than what it was before the COVID-19 pandemic.

## SA economy

South Africa's annual headline consumer price inflation increased from 5.9% in April to 6.5% in May, higher than consensus estimates and officially breaching the 6% upper limit of the South African Reserve Bank's (SARB) 3% to 6% target band. According to Stats SA, the largest contributors to the annual increase was transport (15.7% vs 14.7% in April) and food & non-alcoholic beverages (7.6% vs 6%). Sunflower oil (40%) was the key driver in the food & beverage component. Although transport and food remained the main drivers of inflation, the upward pressure on prices in May was more broad-based than in previous months.

Costs were also higher for housing & utilities (4.9% vs 4.8% in April) with electricity and other fuels (14.4%) being the key driver. The annual core inflation (which excludes prices of food, non-alcoholic beverages, fuel, and energy) rose from 3.9% in April to 4.1% in May, the highest since August of 2019. In the month of June, the rand lost 4.1% against the dollar, 1.7% against the euro and 0.6% against the pound.

	Jan'22	Feb'22	Mar'22	Apr'22	May'22	Jun'22
CPI (y/y)	5.7%	5.7%	5.9%	5.9%	6.5%	6.8% (forecast)
PPI (y/y)	10.1%	10.5%	11.9%	13.1%	14.7%	17.5% (forecast)

Sources: Trading Economics

	30 June 2020	30 June 2021	30 June 2022
USD/ZAR	17.21	14.27	16.27
GBP/ZAR	21.48	19.73	19.81
EUR/ZAR	19.45	16.91	16.06

Source: IRESS

## SA markets

Local markets extended their losses as the FTSE/JSE All Share Index was down 8.29%. SA industrials outperformed, buoyed by share price gains in Naspers (+38.1% MoM) and Prosus (+30.1% MoM). Financials and industrials ended the month in negative territory, while resources were the month's biggest losers. In terms of market cap, mid-caps returned -9.36% while large caps (-8.07%) and small caps (-7.29%) also posted negative returns for the month.

South African listed property fell for the third month, losing 10.47%. On the fixed income side, SA bonds performed poorly in the month as the FTSE/JSE All Bond returned -3.06% with most of the losses experienced in the longer end of the curve. The 12 years+ area returned -3.58% while the 7- to 12-year area was down -3.31%. The 3- to 7-year area as well as the 1- to 3-year area also sold off, losing 1.44% and 0.87%, respectively. Inflation-linked bonds were down 1%, while cash was up 0.40%.

Foreigners were net sellers of R21.0 billion worth of SA equities and net sellers of R19.7 billion worth of SA bonds, during the month.

LOCAL RETURNS IN ZAR				
2021	April 2022	May 2022	June 2022	Year-to-date
SA SMALL CAPS 59.08%	SA SMALL CAPS 2.28%	SA BONDS 1.01%	SA CASH 0.40%	SA CASH 2.19%
SA PROPERTY 38.63%	SA CASH 0.36%	SA CASH 0.39%	SA BONDS -3.06%	SA SMALL CAPS -1.66%
SA EQUITY 29.23%	SA PROPERTY -1.46%	SA TOP 40 0.01%	SA SMALL CAPS -7.29%	SA BONDS -1.93%
SA MID CAPS 28.88%	SA BONDS -1.67%	SA SMALL CAPS -0.30%	SA EQUITY -8.01%	SA MID CAPS -6.60%
SA TOP 40 28.40%	SA MID CAPS -2.51%	SA PROPERTY -0.32%	SA TOP 40 -8.07%	SA EQUITY -8.30%
SA BONDS 8.40%	SA EQUITY -3.66%	SA EQUITY -0.36%	SA MID CAPS -9.36%	SA TOP 40 -8.54%
SA CASH 3.81%	SA TOP 40 -4.02%	SA MID CAPS -1.16%	SA PROPERTY -10.47%	SA PROPERTY -13.47%

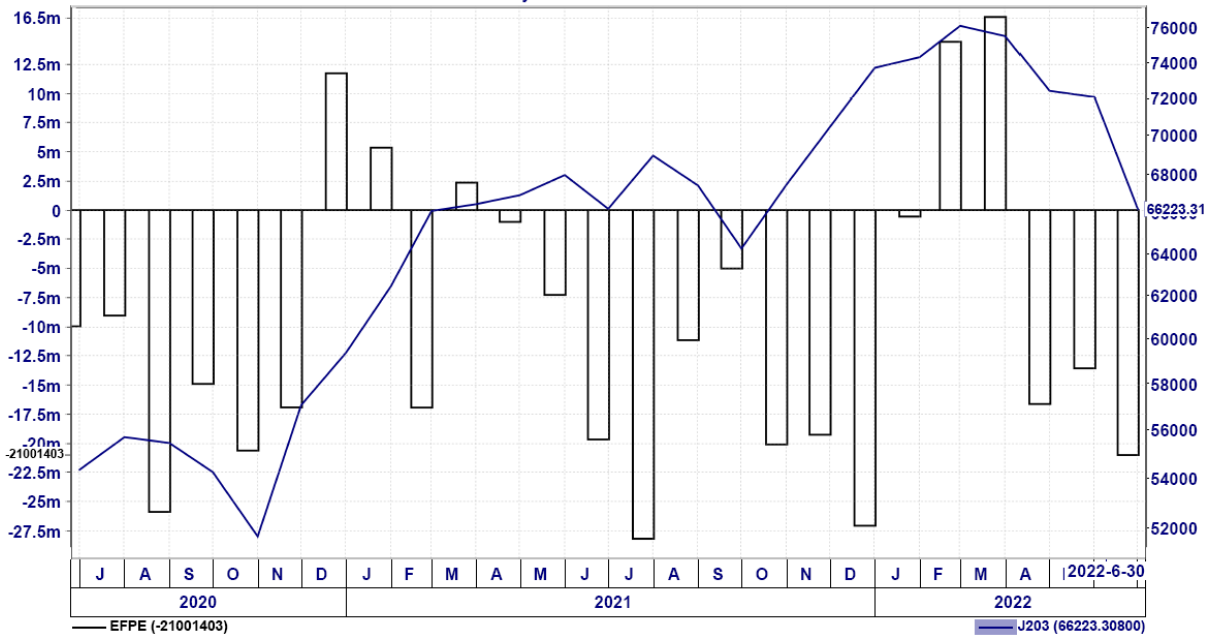
Source: Morningstar & Glacier Research

In terms of sector performances, SA industrials were the top-performing sector for the month, returning 0.93%. Financials pulled back significantly from their prior month gains, returning -13.30% for the month. Resources and industrials were down 16.33% and 5.13%, respectively.

LOCAL SECTOR RETURNS IN ZAR				
2021	April 2022	May 2022	June 2022	Year-to-date
CONSUMER SERVICES 76.32%	CONSUMER GOODS 2.30%	GENERAL RETAILERS 5.54%	SA INDUSTRIALS 0.93%	FINANCIALS 1.30%
GENERAL RETAILERS 65.87%	INDUSTRIALS 1.28%	FINANCIALS 3.49%	CONSUMER SERVICES -2.72%	CONSUMER GOODS -0.39%
RESOURCES 32.31%	CONSUMER SERVICES -0.46%	RESOURCES -0.42%	CONSUMER GOODS -4.03%	RESOURCES -5.61%
INDUSTRIALS 30.72%	GENERAL RETAILERS -0.81%	INDUSTRIALS -0.60%	INDUSTRIALS -5.13%	GENERAL RETAILERS -5.91%
FINANCIALS 29.59%	SA INDUSTRIALS -1.73%	CONSUMER GOODS -1.19%	GENERAL RETAILERS -9.77%	INDUSTRIALS -15.39%
SA INDUSTRIALS 26.45%	RESOURCES -4.82%	SA INDUSTRIALS -2.17%	FINANCIALS -13.30%	SA INDUSTRIALS -15.68%
CONSUMER GOODS 22.28%	FINANCIALS -6.13%	CONSUMER SERVICES -6.67%	RESOURCES -16.33%	CONSUMER SERVICES -24.22%

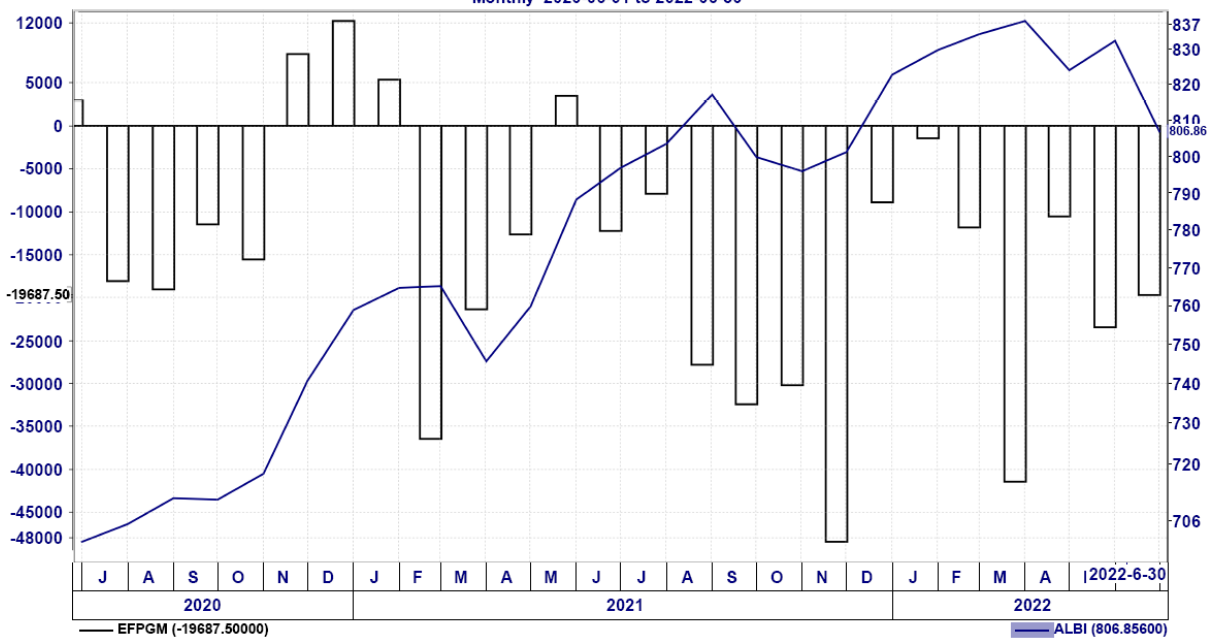
Source: Morningstar & Glacier Research

FOREIGN TRANSACTIONS EQUITIES - NET (R'000) , FTSE/JSE : AFRICA ALL SHARE INDEX  
Monthly 2020-06-01 to 2022-06-30



Source: IRESS June 2022

FOREIGN TRANS BESA - NET (RM) -TOTAL CONSIDERATION , ALBI TOTAL RETURN INDEX - JSE ASSA  
Monthly 2020-06-01 to 2022-06-30



Source: IRESS June 2022

## Global markets

Global equities experienced its worst month of performance this year with falls across the board. Significant volatility experienced during the month driven by key macroeconomic risks in the form of surging inflation, tightening monetary policy by global central banks and escalating fears of a potential US recession, weighed heavily on global markets.

As a result, losses were widespread across developed and emerging markets, but some respite in Chinese shares resulting from positive news flow allowed emerging markets to outperform developed markets. The MSCI EM, S&P 500, MSCI World ACWI and MSCI World retreated 6.65%, 8.25%, 8.43% and 8.66%, respectively, in dollar terms. From a sector perspective, healthcare was the strongest performing sector, while energy and materials, the two commodity sectors, were the key detractors as the possibility of a recession weighed on commodity prices.

Headlines continue to be dominated by deteriorating global economic growth prospects and talks of a possible recession. Furthermore, inflationary pressures continue to persist on the upside indicating that it's not as transitory as previously thought. This had ignited expectations of more aggressive rate hikes from the Fed. Sovereign bond yields in the US rose during the month (implying a capital loss) with the US 10-year treasury note increasing from 2.84% to 3.01%, as investors are pricing in a more aggressive monetary policy tightening path for global central banks. Similarly, the 10-year UK gilts also rose from 2.10% to 2.23%. On a global equity style basis, value declined the most (-8.84%) with growth not too far behind (-8.47%) as high growth stocks continued to face valuation compressions due to higher discount rates. This was followed by quality (-7.83%) and momentum (-7.50%).

## United States

US equity markets ended the month of June lower as all three major US indices – NASDAQ, S&P 500 and Dow Jones – retreated significantly. The tech-heavy NASDAQ retreated as tech stocks continued to struggle from valuation compressions. Macroeconomic risks of inflation and interest rate hikes continued to weigh negatively on market sentiment. US inflation data showed that headline inflation was up 8.6% year-on-year, higher than expectations, with food and energy prices accounting for majority of the monthly increase. The Fed responded by raising interest rates by 75bps with the market now expecting the Fed to act more aggressively to rising cost pressures. The NASDAQ, S&P 500 and Dow Jones Industrial Average declined 8.65%, 8.25% and 6.56%, respectively, in US dollar terms. On a positive note, the labour market remained resilient with the unemployment rate remaining at 3.6%.

## Eurozone

European equity markets declined during June, erasing gains in the previous month. Macroeconomic risks continued to plague market sentiment resulting from high inflation, slowing growth and the war in Ukraine.

On the macroeconomic front, the Eurozone Purchasing Managers' Composite Index (PMI) fell to 51.9 in June from 54.9 in the previous month. The sharp drop in the PMI has raised concerns about growth in the region being impacted by the Russian-Ukraine war as both manufacturing output and new orders declined. Inflation in the region rose to 8.6% in June, largely driven by rising food and fuel prices. On a positive note, the Eurozone GDP grew faster than initially estimated in Q1 of 2022, revised up to 0.6% from 0.3%, despite challenges faced on the macroeconomic front. Furthermore, the labour market continued to provide some respite, as unemployment remained at multi-decade lows of 6.8%.

## United Kingdom

UK equity markets closed lower in June amid concerns over rising inflation and deteriorating global growth. The FTSE 100 finished 5.53% lower in pound sterling terms. UK's inflation rose to a 40-year record high of 9.1% up from 9.0% in the previous month, driven largely by rising food and energy prices, increasing pressure in the cost of living. The Bank of England subsequently raised interest rates by 25bps to 1.25%. The market is anticipating another 25bps hike in July given the central bank's expectation of inflation peaking at 11%. Furthermore, UK's GDP declined 0.3% between March and April. Consensus estimates had expected growth of 0.1%, as rising prices hit household spending and business activity. Signs of slowing economic growth can be seen in UK labour market as unemployment rose to 3.8%, above its multi-decade low.

Spot Rates	30 June 2020	30 June 2021	30 June 2022
EUR/USD	1.12	1.19	1.05
GBP/USD	1.24	1.38	1.22
USD/JPY	107.92	111.10	135.73

Source: IRESS

## Emerging markets and Asia

Emerging market equities delivered negative returns during the month, albeit outperforming their developed market counterparts. The MSCI EM index returned -6.65%, while the MSCI World index delivered -8.66% in US dollar terms. The Latin America region was the leading detractor, as escalating fears of a potential US recession caused equities in commodity-driven markets to price in lower commodity prices. The outperformance in emerging markets were largely driven by a strong showing from Chinese equities as the Shanghai Composite Index rose 7.5%. Sentiment in China was positive due to the Chinese government's fiscal support, easing of harsh COVID-19 lockdown restrictions and potential signs of tailwinds in the Chinese tech sector as Alibaba surged 18% after news that the IPO of Ant Group, the company's financial services division was being reconsidered.

GLOBAL RETURNS IN ZAR				
2021	April 2022	May 2022	June 2022	Year-to-date
GLOBAL PROPERTY 41.28%	UK EQUITY 3.99%	EURO EQUITY 2.40%	CHINA EQUITY 12.35%	UK EQUITY -8.86%
US EQUITY 39.84%	GLOBAL BONDS 2.31%	UK EQUITY -0.29%	GLOBAL BONDS 1.75%	CHINA EQUITY -9.82%
GLOBAL EQUITY 32.36%	GLOBAL EM 2.22%	CHINA EQUITY -0.41%	GLOBAL EM -1.86%	GLOBAL BONDS -11.64%
UK EQUITY 27.52%	GLOBAL PROPERTY 2.16%	GLOBAL BONDS -1.06%	US EQUITY -3.55%	GLOBAL EM -15.45%
EURO EQUITY 24.56%	EURO EQUITY 0.49%	GLOBAL EQUITY -1.10%	GLOBAL EQUITY -3.98%	US EQUITY -17.84%
CHINA EQUITY 14.96%	GLOBAL EQUITY -0.75%	US EQUITY -1.22%	UK EQUITY -4.30%	GLOBAL EQUITY -18.40%
GLOBAL EM 5.89%	US EQUITY -1.20%	GLOBAL EM -2.76%	GLOBAL PROPERTY -4.44%	GLOBAL PROPERTY -19.66%
GLOBAL BONDS 3.54%	CHINA EQUITY -2.80%	GLOBAL PROPERTY -5.74%	EURO EQUITY -6.39%	EURO EQUITY -22.57%

Source: Morningstar & Glacier Research