Stay the course

Since the beginning of January 2022, global markets have been volatile. We have seen global markets ending the first quarter of 2022 negative for the first time in decades. The factors contributing to uncertainty in the market are the central banks' policy tightening, geopolitical risks, rising inflation, and the slowdown in the Chinese market. When the markets experience periods of volatility in the short term, the response of many investors is to move their investment portfolios from equities to cash.

Recent impact of the pandemic

In February and March 2020, the COVID-19 global pandemic proved to us once again that it is difficult to time the equity market by looking at the behaviour of macroeconomic events/factors. Post the February and March market shock, we saw the recovery of the market in the subsequent months, and by the end of 2020, South African equities had managed to return 7.0% for the year.

There has been an incredible amount of volatility in the year to date, with markets unnerved by the unknown paths of the war in Ukraine, the ongoing supply chain issues brought by COVID-lockdowns in China and aggressive central bank policy trying to tame inflation. All these factors have exacerbated concerns around global growth, which has already been slowing coming out of the post-COVID recovery.

The market is pricing in a lot of bad news, which is reflected in the performance of all major asset classes, as the chart below shows.

Table 1: Asset Class Performance

ASSET CLASS	CURRENCY	MTD	3 months	YTD
Local Equities	ZAR	-0,36%	-4,00%	-0,32%
Local Property	ZAR	0,05%	3,62%	-2,62%
Local Bonds	ZAR	1,01%	-0,23%	1,17%
Rand (relative to USD)		1,49%	-0,84%	2,41%
Developed Market Equities	USD	-0,16%	-6,28%	-13,64%
Emerging Market Equities	USD	0,14%	-7,99%	-12,53%
Global Property	USD	-4,30%	-5,34%	-12,93%
Developed Market Bonds	USD	0,27%	-8,11%	-11,06%
Emerging Market Bonds	USD	0,05%	-7,28%	-14,23%

Source: Glacier Invest, Bloomberg, 31 May 2022

Looking through the noise

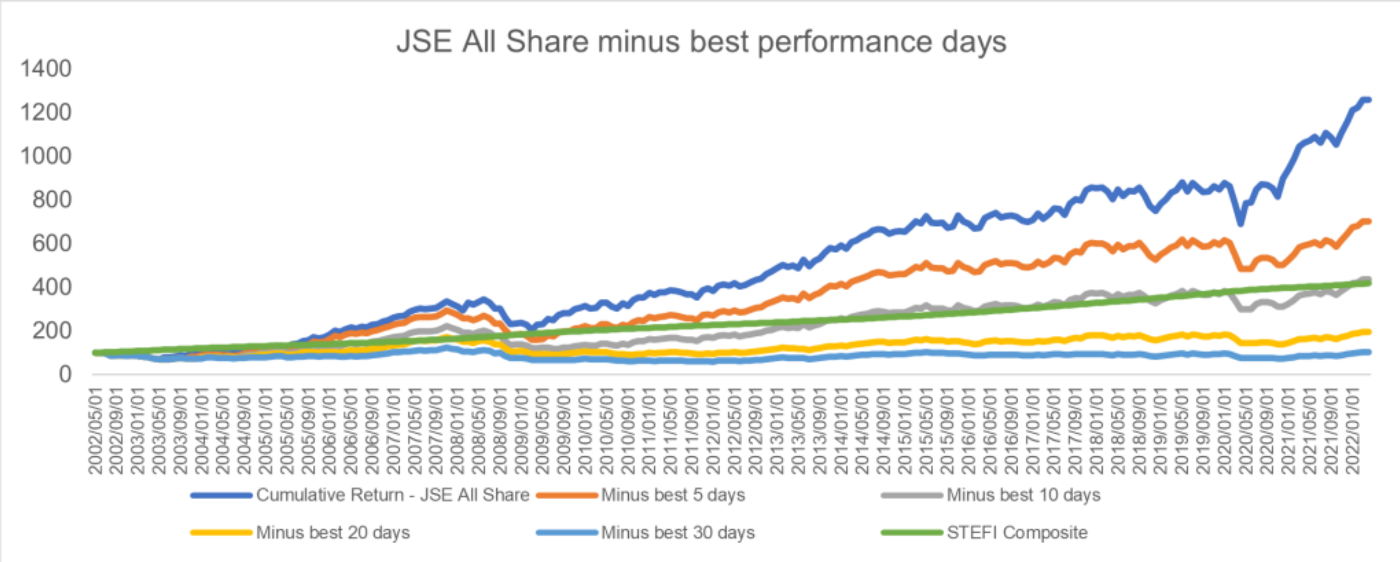
At Glacier Invest, we aim to look through the noise, projected by the news, to focus on the changing underlying fundamentals. There are certainly fundamental indicators that concern us and that raise red flags on the trajectory of global growth over the next two years. However, our view is that a sharp reversal of the economic momentum coming out of the recovery is low, and that there are probably more gains to be had from being invested in risk assets like equities over the next 12 to 18 months. While the concerns by investors amid all the uncertainty is understandable, the markets may be discounting too much bad news given the changes to the underlying fundamentals.

When it comes to your investments, you should avoid reacting to falling prices by jumping out of the market. In fact, being out of the stock market can prevent you from earning higher returns, when markets do recover. In attempting to time the market, investors try to predict when the equity market is going to move up or down and switch between equity and other asset classes accordingly. We caution you against this. Time has shown that investors are better off not reacting to short-term market movements and sticking to their long-term plans. This is because, if you sell your shares in a panic as they fall, you might miss out on the recovery as the markets rise again.

Lessons from the past

History has shown that attempting to time the market could result in you missing out on the best bounce-backs. The graph below analyses market performance for a period of 20 years, starting from March 2002. The graph illustrates how the overall performance of the index changes when investors miss the best 5, 10, 20, and 30 days of market performance by being invested in cash.

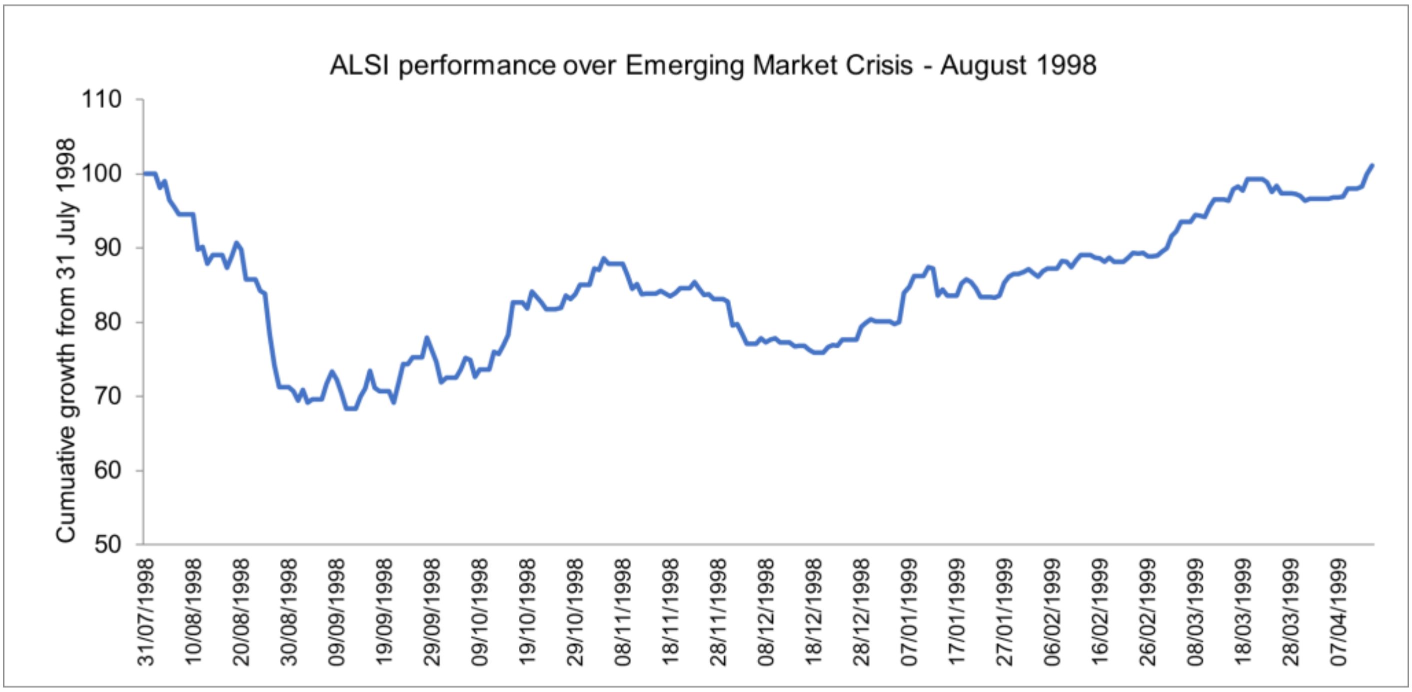
Chart 1: FTSE/JSE All Share minus best performance days



Source: Sanlam Investments Multi-Manager, Morningstar, 2022

Looking to the past, we would like to highlight two major events that impacted markets. The first example was in August 1998, when Russia defaulted on its debt obligations. This resulted in emerging markets all experiencing severe downturns, with South African equities losing 32% from the end of July 1998 to the low point in September 1998. The chart below shows that investors would have experienced a grand loss of 32% over the above-mentioned period, but by mid-April 1999 the market had recovered all its losses as demonstrated in the chart below:

Chart 2: ALSI performance during emerging market crisis of 1998

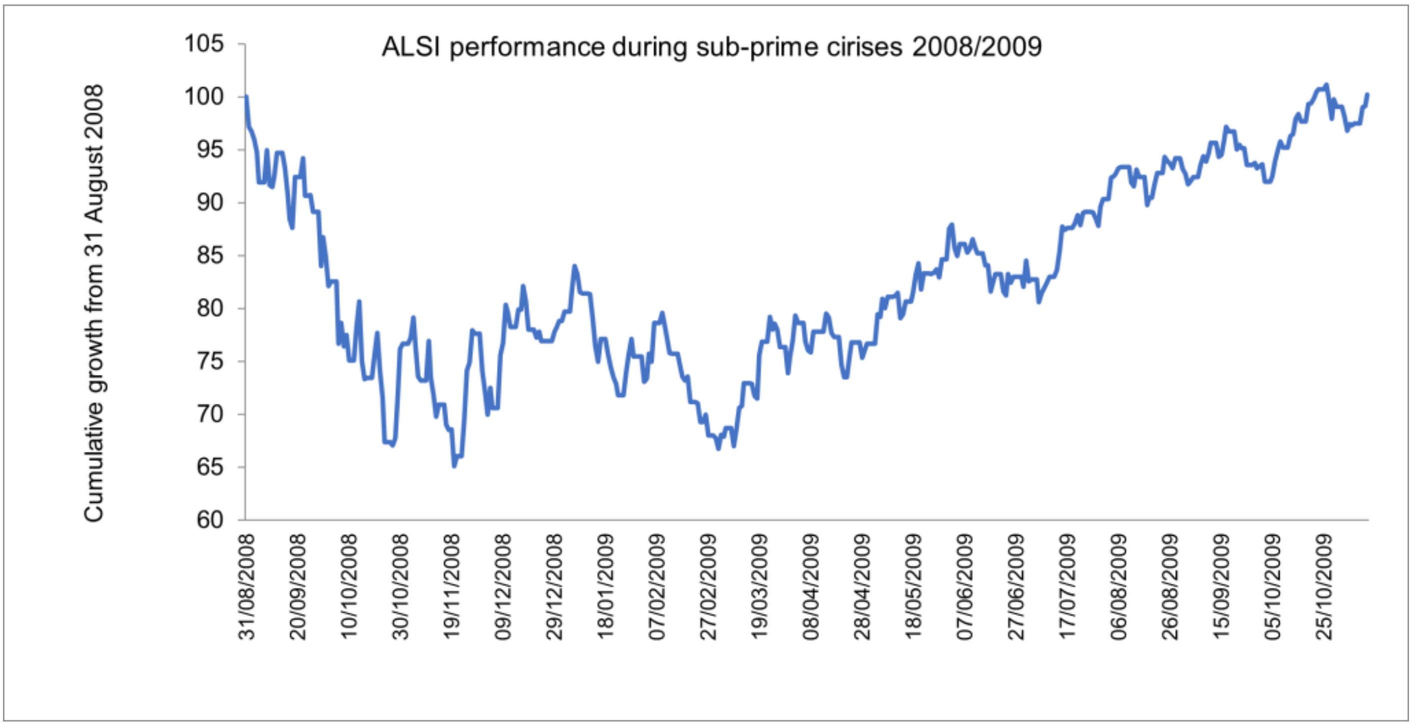


Source: Sanlam Investments Multi-Manager, Morningstar, 2022

The second event occurred in September 2008, when world financial markets came under severe pressure due to the subprime crisis, which led to the failure of massive financial institutions in the

United States. The ALSI reacted and experienced a severe downturn. By mid-November 2009, the ALSI had recovered from its lows as can be seen in the following chart:

Chart 3: ALSI performance during sub-prime crisis of 2008/2009



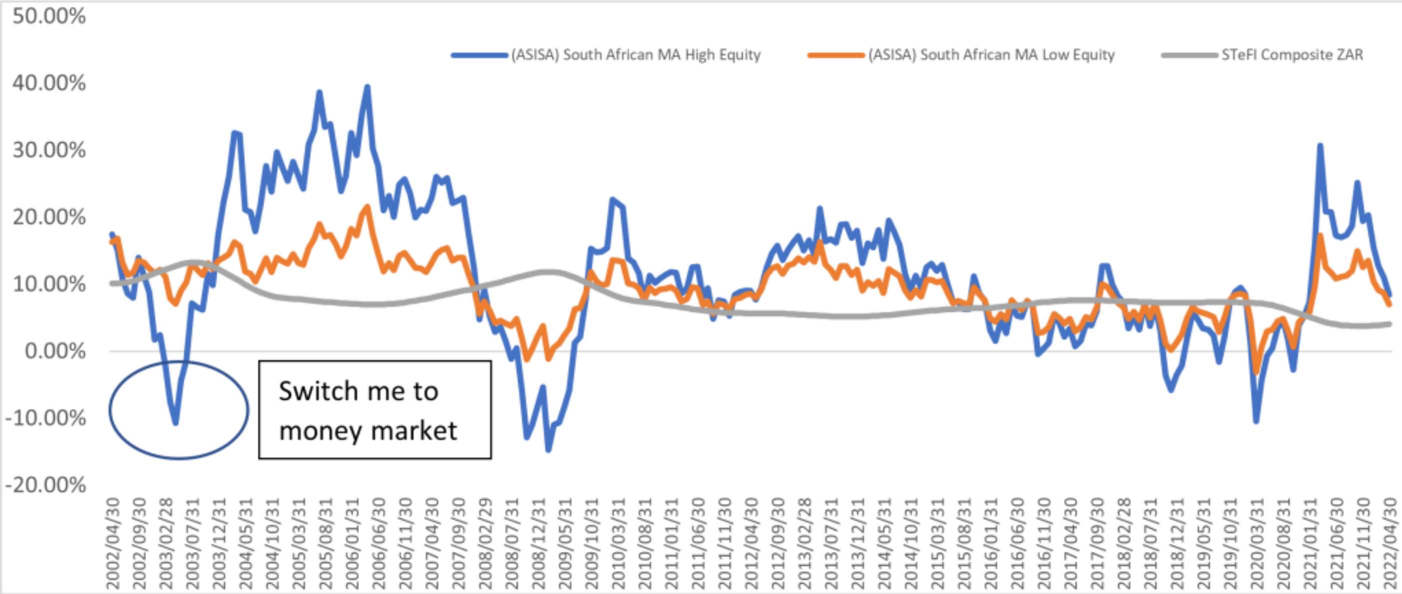
Source: Sanlam Investments Multi-Manager, Morningstar, 2022

Although human nature and emotions do tend to get the best of us in times of tribulation, the above shows that in order to not lock in their losses and recover from a market decline, investors should stick to their long-term investment goals. Thus, remaining invested through market weakness and not giving in to fear, means that your investments will be able to recoup losses as markets come back. Markets do react severely to exogenous events at times, but history has shown that for the most part, investors can count on a swift recovery.

Staying the course

If you stay invested over the long term, on average, the outcome is usually better than the market losses experienced in the short term. The skill is to ensure that you have the correct underlying strategies to navigate this volatility over the long term and to stay the course. At Glacier Invest, we are constantly reviewing our investment strategy and the asset managers we appoint. It is important that the underlying funds will first and foremost assist in meeting the objectives of our clients (with acceptable risk tolerance) and help navigate the current and ensuing market conditions over the long term.

Chart 4: Investor emotion at times of crisis



Source: Sanlam Investments Multi-Manager, Morningstar, 2022

When money markets outperform equity markets, investors fear market failure and choose to switch to cash as they believe this is the best investment strategy. However, switching from equities to cash during periods of high volatility or poor performance will mean that you miss out on the upturns when markets adjust.

Chart 5: The missed opportunity

Source: Sanlam Investments Multi-Manager, Morningstar, 2022

Any decision to get out involves a second decision of when to get back in. Many investors, however, tend to wait too long and end up missing the rebound. Remember, no one knows exactly when prices will hit bottom, and no one can accurately predict when prices will rise again. Markets don't go up all the time. Corrections of 10% or more are common and this is a normal pattern in stock market behaviour. However, you can get instances when values can fall 20% or more.

Fortunately, bull markets tend to last longer than bear markets.

We would like to leave you with some key thoughts to bear in mind during market uncertainty:

- Stick to your original investment strategy.
- Embrace volatility as it is fundamental to the world of investing.
- If you try to time the markets, you're at risk of losing out.
- Whether you switch from equities to cash, or within equity categories, losses will be made if you choose not to stay invested.
- Staying invested gives you capital protection over the long term.
- Staying the course and spending time in the market enhances your likelihood of earning solid returns during volatile periods.

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