

Economic Overview

US inflation has been more persistent than expected, which will most likely see the US Fed raise rates earlier than originally forecast. At the end of 2021 US dollar liquidity was tight but is expected to improve as money that has been sterilized at the Fed comes back into the banking system (a function of US Money Market funds' actions). In Q2 2022 we are likely to see two forces at play one being a headwind of higher Fed Funds Rate and the other a tailwind of improved US dollar liquidity. As this US dollar liquidity declines and rates rise in the second half of 2022, we are likely to see equity markets come under pressure. Chinese economic growth has weakened because of an over geared listed property sector which has been forced to reduced property investment. This has impacted demand for commodities and seen declines in their prices. We expect some stabilization in Chinese economic growth but expect growth to remain below trend.

Coal shortages are likely to keep energy (oil and gas) prices high for the duration of the Northern Hemisphere winter. The SA economic growth forecasts have been lowered on the back of lower global economic forecasts. Into 2022 we see a rebound in consumer spending and remain positive on Financials and Platinum Group Metals given their projected future deficits. Overall, we remain positive on SA equity on a valuation basis.

Market Overview

Global equity markets peaked in November before declining and then firming up in the latter part of December. In rand terms the Resource sector rebounded sharply, returning 22% for the quarter. Other returns for the quarter were Industrials +17%, Property +8% and Financials +2%. In the fourth quarter of 2021, the MSCI world index was up 14%. For the year Property returned 37%, Resources 32% Financials 27% and Industrials 24%; the rand depreciated by 9% against the US dollar and the MSCI world index was up 31%.

Over the last year the SA equity market (industrials) was impacted by the decline in Tencent (held by both Naspers and Prosus), while strong second half earnings growth saw the SA equity market outperform. Going forward we expect equity returns to be more subdued as earnings growth slows and rising interest rates become a headwind to equity valuations.

Portfolio Activity

During the fourth quarter we bought Nedbank, Glencore, Pick & Pay, Alviva Holdings, Bidvest Group and Netcare. We sold out of Investec Property Fund, Royal Bafokeng Platinum, MTN, AECI and Northam Platinum. The portfolio increased by 8.9% for the quarter with the last month of the quarter up 2.5%.

Positive contributions were attributable mainly to Royal Bafokeng Platinum, Goldfields, SYGUS, Sygnia Itrix, and Satrix World ETF. Losses were attributable to Spar, WBHO, Standard Bank, Naspers, and Investec Property Fund. For the past 12 months the portfolio has increased 15.4% with the benchmark, the ASISA SA Medium equity, up 17.3%.