

WARWICK

WEALTH

The Investment Specialists

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WEALTH MATTERS



In this issue

- 1 Introduction and welcome from the Warwick Wealth Managing Director
- 2 Good reasons not to exit the market
- 3 Local Markets
- 4 International Markets
- 5 Fixed Income

Introduction and welcome from Warwick Wealth Managing Director, Marc Wiese



Time is flying this year and it is hard to believe that this is already the third Warwick **Wealth Matters** since launching the newsletter. The feedback from clients and the Warwick professional network has been very encouraging and I thank you all for your helpful comments and suggestions. In this regard, I have asked a number of our regional managers and senior investment specialists to pen 'thought pieces' for **Wealth Matters** on topics of relevance and importance to our clients and professional network.

This month, Warwick Director and Regional Manager in KZN, Conrad Clifford, has scripted an insightful piece about remaining invested, despite market turbulence. Conrad has been with Warwick for over 12 years and has certainly seen the ebb and flow of financial markets over this time.

Given the current state of market flux, we have also penned an extensive article outlining some of the major trends in the local markets, supplemented by a detailed piece on international markets.

I am sure you will find these articles informative and helpful in making sense of this period of market volatility.

As ever, client care is our core purpose and should you have any questions or queries of any nature whatsoever, please do not hesitate to contact your Warwick Wealth Specialist directly, or email us on clientcare@thewarwickgroup.com, or make use of our Toll-free number: **0800 50 50 50**

Enjoy the read and I look forward to being in contact with you again next month.

A handwritten signature in black ink, appearing to read 'Marc Wiese'.

Marc Wiese, Managing Director

Good reasons not to exit the market

"It's waiting that helps you as an investor, and a lot of people just can't stand to wait." Charlie Munger

The current market turmoil may have some investors feeling like they should sell and wait on the sidelines until all settles down. Inflation, political issues, the war in Ukraine and Covid recovery, are all issues of concern. But are these matters that will permanently change world markets and does this mean that we have to re-think everything we know about investing?

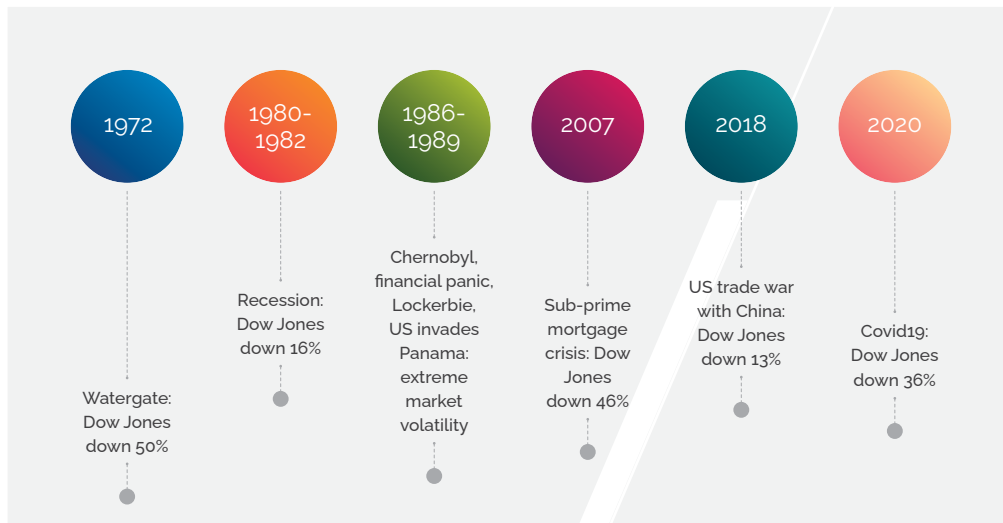
Certainly not and, in fact, we can rest assured that the current challenges are just that, the current ones.

The US market is a fair barometer for world markets, so looking back at the Dow Jones over the last 50 years, there have been many events that would have had investors feeling concerned about their investments when the markets suffered sharp declines.



Conrad Clifford, Regional Manager, KZN

LET ME HIGHLIGHT JUST A FEW EVENTS THAT YOU MAY RECALL FROM THE HISTORY BOOKS OR MAYBE IN YOUR OWN INVESTMENT JOURNEY.



Through all of these events, the prudent decision to take regarding your investments was to sit tight and not panic. A correctly structured portfolio will be diversified enough to enable you to draw on cash holdings when you need it and retain the more volatile equity assets to participate in the market recovery. After each and every event, there has been a return to growth.

We are currently in the midst of a sharp decline in global markets, which has investors feeling jittery again. The Dow Jones has declined by 25%. Rising inflation and interest rates are placing pressure on consumers throughout the world, which, in turn, places pressure on stock markets. Yet, investors should remain forward looking, as it is not the current conditions, as much as those expected to prevail in 12 months, that guide the direction of the stock markets.

The markets are currently focused on when inflation will peak and hence when interest rates will decline again. The irony is that this is being done during a time when interest rates will surely

continue to rise over the next several months. So, listen out for comments about inflation peaking and interest rates rising less than expected. Subtle positive sentiments can lead to gradual improvements in the market that one may miss while waiting for the 'big turnaround signals.'

Notably, one of the most destructive actions an investor can take is to try to time the markets. Exiting the market and hoping for more favorable conditions results in what has been coined 'behavioral tax'. This 'tax' is incurred when you miss out on those positive market movements, which generally occur after the market has suffered notable losses. A recent example was on 24/03/2020 where the one-day gain on the Dow Jones was 11.37%. You surely want to participate in gains like this.

In conclusion, at Warwick Wealth we are not immune to market declines, but seek to diversify your portfolio and limit the downside, which protects your capital and also enables an easier return to positive returns. ●

Local Markets

The local market recovered in line with global trends during July, up by just over 4% for the period. Sectors showing strength during that time were the property sector, up almost 9% for the month, followed by industrials (up almost 6%) which benefitted from perennial favourites Naspers and Prosus, as well as Richemont. Financials, which were up almost 4% and resources, up just under 1%, also performed strongly.

In corporate action, MTN announced that it was in talks to acquire Telkom, which saw its share price rally just over 19% for the month. FirstRand Ltd formally extended an offer to buy back all their outstanding listed preference shares, which helped the asset class gain just under 7% for the month.

From an economic perspective, the SARB increased rates by 0.75%, the sharpest hike in almost 20 years, as headline inflation (CPI) printed at 7.4% for June vs. the previous 6.5% for May. The

main contributors to the rise in the inflation rate were the usual suspects of food and non-alcoholic beverages, transport, housing and utilities. The print for core inflation (which excludes the volatile sectors mentioned above) came in at 4.4%, a moderate increase to the previous (May) reading of 4.1%, and below the SARB's target point mid-range. PPI also continued to exert a strain on producers, increasing by 16.2% over the year. We also saw a lacklustre increase in retail sales of 0.1% for May, vs. the revised number of a 4.3% increase in April. ●



International Markets

International markets bounced for the most part during July as fears of continued aggressive rate hikes by the US Federal Reserve eased. Poor US economic data may have swayed its hand, while decent earnings from US tech and oil giants also contributed. The S&P closed the month stronger by 9%, with the Dow Jones up almost 7%, and the Nasdaq up over 12%. On the economic side, the Fed again hiked rates by 0.75% against the backdrop of worsening inflation (June inflation surged by 9% vs. May's 8.6%), as gas prices outpaced other categories. Post the meeting, Fed Chairman, Jerome Powell reiterated that an expectation of 3.25%/3.50% would, as per market expectations, be where the benchmark rates are expected to end up.

With the exclusion of volatile categories such as food, core inflation advanced to 5.9% vs a previous reading of 6.0% and seems to have peaked in March at 6.5% and been pulling back since. GDP numbers for the second quarter also slowed to 0.9% quarter-on-quarter on an annualised basis vs the first quarter drop of 1.6%. While convention holds that two successive quarters of negative growth indicate a technical recession, this does not apply to the US, as their definition, as per the National Bureau of Economic Research includes other factors, including employment conditions. Given these factors, US is not in a recession due to its strong labour market.

European markets followed suit with their UK counterparts, up 3.5% for the month. Similar gains in Germany and France saw the Dax and the CAC up 5.5%, and just under 9% respectively. In Europe, as in the US, inflation continues to be a bugbear, reaching 8.9% YoY in May, vs the 8.1% reading in April, the 12th consecutive increase for the region. Germany, Europe's largest economy, as well as the UK and France, continued to strain under the yoke of high gas prices, with data showing in excess of 35% increase for the year, and the biggest driver of inflation in the zone.

As per the Fed reaction in the US, increased inflation also caused the ECB to hike rates by 0.5% during its July meeting and with

the expectation of increasing rates by a further 1% during the next three meetings throughout 2022. Although this rate hike breaks the cycle of negative rates, and the expected hike in September will push rates above zero for the first time in about a decade, the mood conveyed by ECB Governor, Christine Lagarde, was downbeat, as she remains bearish regarding the prospects of the Eurozone's inflation rate and its impact on economic growth.

Asian markets had a mixed month with the Hang Seng down just under 8%, the Shanghai Composite down just under 5%, and the Nikkei up just under 6%. Chinese markets bore the brunt of the Asian market weakness, as the government indicated that its strict Covid-19 policy would remain a high priority, and their tighter regulation of the tech sector would continue. Chinese manufacturing PMI contracted to 49.0 in July vs the June reading of 50.2. Meanwhile, official non-manufacturing PMI, measuring business sentiment in construction and services sector, fell to 53.8% vs the previous reading of 54.7 in June.

In Japanese economic news, July manufacturing activity grew at its slowest rate in 10 months as new orders and output contracted, while the services sector also saw a slower expansion, pointing to subdued local demand. ●

Fixed Income

The fixed income market shrugged off most headlines this month, including both the June inflation numbers as well as the SARB interest rate decision at the end of the month. Prior to these data releases, bonds were driven by international events and risk sentiment.



South African inflation jumped higher yet again, printing at 7.4% over the last year, well above the SARB target range of 3%-6%. While inflation has breached the central bank's target range for the second consecutive month, the differential between target and actual inflation is much lower in South Africa than in most other markets. Bond markets had a muted reaction to the CPI print, however, biding their time until the SARB policy announcement the following day.

Nearing the end of the month, the SARB Monetary Policy Committee (MPC) opted to raise the benchmark interest rate by 75-bps to 5.5%. Investors anticipated a hike in the rate, but the surveyed expectation was for a 50-bps increase.

Following the increase in interest rates, we saw the 3-month Jibar rate increase by 72-bps and the 12-month T-Bill average rate rising by 63-bps over the month of July, increasing the yields on money market instruments.

Foreign investors were once again net sellers of South African government bonds, with the July outflow of R27.2 billion being markedly slower than the previous month's outflow of R33.4 billion. Despite foreign selling, we saw the FTSE/JSE All Bond Total Return Index (ALBI) return 2.39% for the month. Most of the performance can be attributed to the longer-dated maturity bonds as the yield curve bull flattened.

The inflation-linked bond curve steepened noticeably over July, as investors looked through the current high level of inflation. This has been helped by the SARB's aggressive response in keeping inflation, and more importantly inflation expectations, at bay. The FTSE/JSE Inflation-Linked Index (CILI) and the FTSE/JSE Government Issued Bonds Inflation-Linked Index (IGOVI) returned -1.29% and -1.36% respectively, as the short-end linkers (1- to 3-years) returned 0.54% and the longer end (12+ years) returned -3.21% for the period. ●

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