sasfin Wealth

Sasfin BCI Stable Fund

Quarterly Update – Q2 2022

June 2022

S Asset Managers

Global Market Developments

The IMF has cut its forecast for global growth and expects a slowdown from 6.1% in 2021 to 3.6% in both 2022 and 2023 and its medium-term target has been cut to 3.3%. Revisions are possible to the downside. Reasons given for the latest cut to the growth forecast include the effects of the Ukraine/Russia conflict where both economies are expected to decline and in addition will have a knock-on effect on trading partners, the effects on the Chinese economy of their zero-COVID policy and the consequential effects on global supply chains and the risk of social unrest because of rising food and fuel prices.

Prices have surged around the world. Initially the increases were related to supply chain bottlenecks following COVID restrictions, then rising energy prices which were later further impacted by the conflict between Russia and Ukraine. This also saw upward pressure on food prices. However, while inflation was earlier seen as being of a transient nature, it spread to most commodities and became more generalized with wage demands increasing. Many economists believe that inflation will slowly start declining in the next few months, but there is little evidence yet to support this view. Prices are rising by 9.1% a year in the UK - the highest rate for 40 years. The Bank of England has warned inflation might reach 11% within months, as the prices of fuel, energy and food put pressure on household budgets. US inflation also rose in June to 9.1%, again the highest rate in more than 40 years. Sri Lanka inflation rose to 54.6% from an annual 5.7% a year ago, contributing to social unrest, a warning for other countries facing similar issues.

Major Central Banks around the world have applied Quantitative Easing (QE) from 2009. Since the onset of the COVID pandemic, interest rates were artificially pushed to record low levels and additional large scale asset buying programs were introduced to support economies. The Fed in the USA has started the reversal of QE, switching to Quantitative Tightening (QT), with a massive $9 trillion balance sheet as a base. We expect to see rising interest rates across most major economies, as well as reversal of the large asset buying programs. While the consequences for markets of this tightening phase is uncertain, the risks are high that this phase may be negative for markets.

The S&P 500 rose strongly by 279.0% over the 10 years to December 2021, but then fell by 20.6%% in the first half of 2022. Technically this is a bear market. The tech heavy Nasdaq rose an even more impressive 500.5% over the 10-year period but collapsed by 29.6% over the last quarter. Some analysts are questioning whether a combination of slowing economic growth and tightening monetary policy as well as rising global tension could result in further major stock market corrections. The US 10-year bond yield rose from 0.92% at the start of 2021 to 1.49% at the close of 2021 and rose further to 3.02% at the end of June 2022. The Fed Fund rate has increased from almost zero at the beginning of this year to 1.5% currently and is projected to reach 3.5% at the end of the year.

Local Market developments

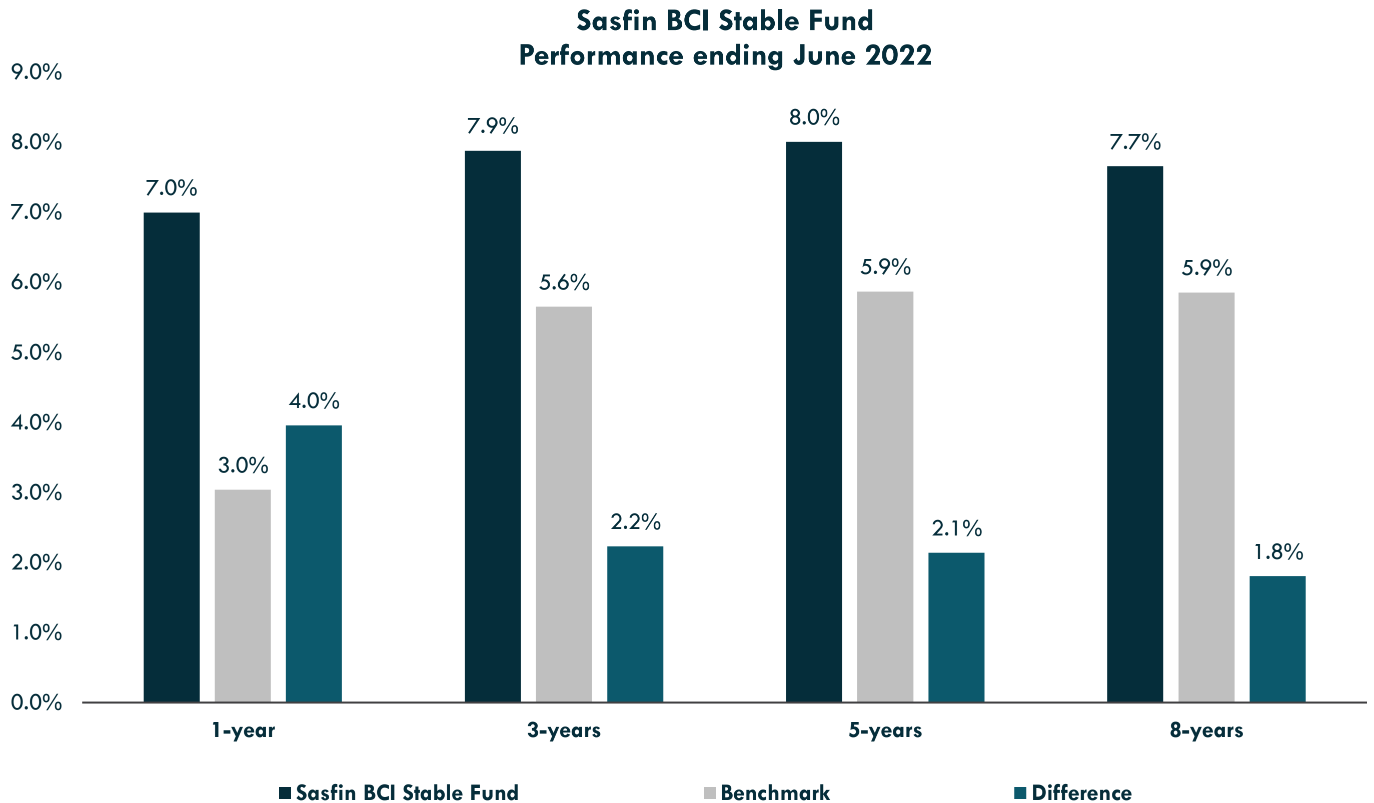
The SA Reserve Bank (SARB) recently revised its forecasts for GDP growth in South Africa up to 2.0% for 2022 but revised down its forecasts for both 2023 and 2024 to 1.3% from the previous projections of 1.9% for both years. The SARB commented that public sector investment remains weak, and though household spending remains strong, it is likely to weaken next year because of high inflation, lower asset prices and higher interest rates. They believe that tourism, hospitality, and construction should recover. With inflation in South Africa hitting 7.4% in June, well above the 3-6% target band, the SARB had little option but to raise interest rates in July. The Repo rate is now at 5.5%, up from 3.75% at the beginning of the year.

The JSE All-Share Index lost 11.7% for the quarter and over the full year to June 2022 delivered a lacklustre return of 4.7%. These returns were better however than international markets, where the MSCI World $ Stock market Index lost 16.2% for the quarter and 14.3% for the 12 months.

While the 10-year SA Government bond yield rose from 9.23%% to 10.91% over the past 12 months, the high running yields helped the All-Bond Index to return a modest 1.3% for the year. SA Inflation Linked Bond Index produced a return of 10.6% for the year to June 2022.

Fund Strategy and Performance

The SA Reserve Bank is widely expected to further hike interest rates. Nevertheless, with 10-year bond rates of almost 11%, we believe that investors are adequately compensated for risk and accordingly over the past year we have increased our fixed rate bonds to a full exposure, within our long-term strategic limits. In the longer term we believe that there is a risk of further increasing inflation and accordingly we are monitoring our bond position closely. Furthermore, our largest category exposure is to inflation linked bonds, which offer some protection to investors if inflation rises. Credit exposure is limited as we see risk in the credit space, without seeing great protection from the credit spreads in the market.



In equities we have invested in selected opportunities. We are cognizant of the risks facing the broad economy, and the pressure this could place on general corporate earnings. It may take several years to fully recover from the pandemic, while last July's social unrest highlights the issues facing SA.

Despite a large downward correction in property values, we maintain a modest position in this asset class until there is more evidence of where equilibrium market rentals may settle.

The Fund has enjoyed solid but stable returns to 30 June 2022, yielding 7.0% over the past year and 11.5% p.a. over the last 2 years. This compares to the Fund's benchmark of 3.0% and 6.9% p.a. respectively, which is represented by the average of the (ASISA) SA Multi-asset Low Equity category. The fund's long-term target is CPI plus 4%. Performance was enhanced by some outstanding increases in prices of the shares selected for the portfolio, including Sasol (+72%), Lewis (+45%), Thungela (+43% since purchase) and Omnia (+31%.) Going forward we will continue with our objectives of inflation beating returns, while controlling risk through both strategic asset allocation and individual security selection.

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