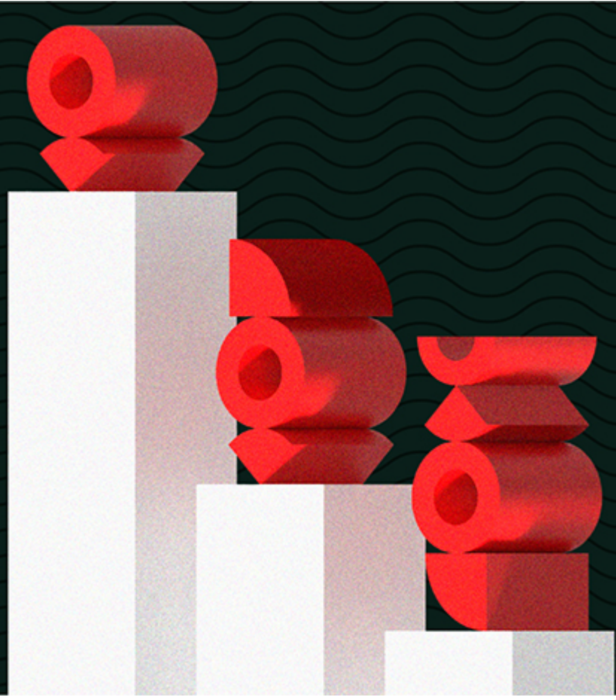
equilibrium by momentum

market commentary



Monthly market commentary | September 2023

September provided little reprieve from August's woes, as both local and global markets fell for the second consecutive month. Although most major central banks did not hike interest rates in September, the US Federal Reserve (Fed) worsened investor sentiment by indicating that interest rates would remain at their elevated levels for longer than market expectations. Despite the fall in most local asset classes, the resources sector managed to buck the trend, delivering a positive return for the month.

Global equities (MSCI ACWI) ended the month 4.1%[1] lower in US dollar (USD) terms, largely driven by developed market equities (MSCI World), which fell 4.3%[1] over the month. Within developed markets, the US (S&P 500) and Europe (MSCI Europe Ex UK) fared the worst, both of which fell by more than 4.7% in USD terms[1]. The UK outperformed its developed market peers, falling only 1.4%[1] in the month. Emerging market equities (MSCI EM) outperformed developed market equities, ending the month down only 2.6%[1]. The outperformance was largely carried by India (MSCI India), which was up 1.7% in USD terms[1], as investors switching out of Chinese equities seemingly moved to Indian markets. Although the rand endured a somewhat volatile month, the local currency held up nicely given the strengthening USD amidst investor risk aversion and elevated global interest rates. Consequently, the rand weakened a quarter of a percent relative to the USD, ending the month at R18.92[2] to the dollar, although this quickly reversed early in October.

Local equities (Capped SWIX) ended the month down 3%[1], eroding all gains for the year and pushing the year-to-date return into the red. Resources had a positive month, up 1.2%[1] following a dismal August. Rising energy prices and resilient industrial metal prices were the main drivers of the positive performance, although gold miners proved to be a large drag on performance throughout the month. Industrials followed on from a tough August, down 4.1%[1], with Naspers and Prosus dragging the sector down once again, compounded by a tough month from the consumer discretionary subsector. Financials fared similarly, falling 3.8%[1] as banks and life insurers were sold off, while local property (ALPI) reacted similarly to changes in sentiment, ending the month down 3.8%[1].

Global bonds (WGBI) ended the month down 3.2% in USD terms[1], with a large contributor to increasing yields being the heightened risk of a US government shutdown. Although the local inflation figures for August came in lower than expected, local bonds (ALBI) also endured a tough month, falling 2.3%[1] as yields followed global counterparts higher. Pain was felt mostly at the the longer end of the yield curve, with rising yields in the seven to-12-year and 12+ year areas of the curve leading to losses of more than 2.8%[1] each. Inflation-linked bonds fared slightly better but still did not escape September's tough environment, falling 1.1%[1], with the longer end of the curve driving negative returns as was seen in nominal bonds. Finally, local cash (STeFI composite) ended September 0.7%[1] higher, with prospects of further upward moves in the monthly returns from this point fairly muted given the South African Reserve Bank's monetary policy expectations.

Prepared by Equilibrium

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[1] Morningstar
[2] RMB asset class returns – September 2023
[3] Momentum Investments

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