BRENTHURST
THE HOME OF WEALTH

LOCAL MARKETS - POSITIVE AGAINST THE GLOBAL TREND

The words 'corrections, pullbacks and headwinds' have been in the news a lot this month and there has been blood in the streets the last couple of weeks. Market pullbacks were all over the headlines, locally and abroad. Although not completely unaffected as global markets posted declines for the month, the JSE All Share Index only just ended the month in positive territory with a 0.8% month on month gain. Financials and commodities shares were the outperformers on the JSE in January with the Fini-15 rising by 3.4% MoM and the Resi-10 gaining 3.9% MoM. The Indi-25 and the SA Listed Property Index were the laggards – down 2.0% and 2.9% MoM, respectively.

Sasol (+33.2% MoM) was January's best-performing share by far. A higher oil price, refining margins and a demand recovery in the chemicals market, propelled by the easing of COVID-19 lockdown regulations, contributed to a 31% YoY revenue jump in Sasol's chemicals business. Sasol was followed by Kumba in the second spot, with a MoM share price gain of 17.5%. Sibanye Stillwater was in the third spot with a month-on-month gain of 15.1%. EOH Holdings, down 28.1% MoM, was January's worst-performing share, followed by Harmony Gold (-17.2% MoM) and AngloGold Ashanti with a 12.7% MoM decline.

INFLATION UP, ANOTHER INTEREST RATE HIKE

In local economic data, December's annual headline inflation, as measured by the consumer price index (CPI), accelerated to its highest level since March 2017, coming in at 5.9% YoY vs 5.5% in November. Stats SA said this latest release was driven by higher prices in the food and non-alcoholic beverages, housing and utilities, and fuel sub-sectors. Notably, transport prices jumped by a significant 16.8% YoY, fuelled by rising petrol and diesel prices. For 2021, headline inflation now averages out at 4.5% YoY – still in the middle of the SA Reserve Bank's (SARB's) target band of 3%-6%. At its January meeting, the SA Reserve Bank's (SARB's) Monetary Policy Committee (MPC) raised rates further with the repo rate now at 4% p.a.

VEHICLE SALES AND MANUFACTURING IMPROVE

Despite the interest rate increase of November 2021 and a continued shortage of certain models, SA's new-vehicle sales had a healthy start to the year. According to figures released by the Naamsa automotive business council, sales in January of 41,382 units were 19.5% higher than in the corresponding month a year ago. Both passenger cars and light commercial vehicles (LCVs) started the year positively, increasing 26.6% and 3.8% respectively over January 2021. Heavy trucks gained 9.6%, while medium trucks was the only segment to decline, at 4.3% down. The 2021 annual market was up 22.1% to 464,122 units over the severely impacted 2020 sales (380,206). Toyota retained its market leadership in January with 12,480 sales, ahead of VW (5,393), Suzuki Auto (3,232), and Hyundai (2,668).

In other good news, SA's manufacturing sector made a bright start to 2022 as a monthly gauge of sentiment rebounded in January after a slowdown due to closures caused by the Omicron variant-driven fourth wave of Covid-19 at the end of 2021. The Absa purchasing managers' index (PMI), which also provides an early indicator of underlying economic activity, rose to 57.1 index points in January after a dip to 54.1 in December. For an SA economy that is widely anticipated to slow in 2022, it is encouraging news, showing improving health for a sector that accounts for about 13% of GDP.

INTERNATIONAL MARKETS
- A WILD RIDE ON MARKETS IN JANUARY

January was a volatile month for world markets (MSCI World Index -5.3% MoM – its worst start to the year since 2016) as concerns over spiralling inflation, higher interest rates, and geopolitical tensions (the standoff over Ukraine and the potential of an escalating military conflict between Russia and NATO) weighed on sentiment. Although US markets recovered during the last few trading days of the month, January saw Wall Street suffering its worst start to the year since the global financial crisis (GFC) of 2008. The blue-chip S&P 500 gauge plummeted by 5.9% in January – its biggest MoM drop since the start of the pandemic, while the Dow Jones ended the month 4.0% lower and the tech-heavy Nasdaq fell by 10.1% MoM.

The UK's blue-chip FTSE 100 ended 1.1% higher MoM. In January, official statistics showed that UK GDP surpassed pre-COVID levels for the first time in November, expanding 0.9% MoM. Meanwhile, in December UK inflation hit its highest level (of 5.4%) in 30 years.

In Europe's largest economy, Germany, the DAX closed January 3.4% down, while the eurozone's second-biggest economy, France's CAC Index fell by 3.0% MoM. On a QoQ basis, preliminary seasonally adjusted eurozone GDP advanced 0.3% in 4Q21 (in line with market expectations), while YoY, seasonally adjusted GDP climbed 4.6% in 4Q21 after a 3.9% YoY gain in 3Q21.

ASIA ALSO HIT BY VOLATILITY

In Asia, Hong Kong's Hang Seng Index was up 2.3% MoM, while the Shanghai Composite Index sank by 7.6% MoM. On the economic data front, China's official manufacturing purchasing managers index (PMI) fell to 50.1 in January vs December's 50.3 print. China's 4Q21 GDP rose 4% YoY, according to that country's National Bureau of Statistics and, for 2021, China's economy grew by 8.1% (its fastest growth in a decade) as industrial production advanced steadily through the end of the year and offset a drop off in retail sales, according to official data. Japan's benchmark Nikkei closed January 6.2% lower.

Sources: Anchor Capital; Business Day

SMART TIP - HOW INVESTORS SHOULD RESPOND TO THE MARKET VOLATILITY

Financial advisors at Brenthurst Stellenbosch, Ruan Breed and Stefan Janse van Vuuren, say often, market selloffs create an opportunity for investors to buy various assets at a discounted rate. Investors usually end up burning their own fingers (or wallet) by acting in a state of panic.

By now, the rotation from growth to value stocks is no surprise anymore, with the aim to invest capital into existing and stable businesses with large cash surpluses on their balance sheets. These companies have enough 'fat around the bone' to absorb the bumpy rides in the markets, and to cash in on opportunities on a global scale.

Furthermore, these value-orientated companies are also earning income from global streams and are thus not bound to the US borders. A company that boxes in this category for example is Microsoft, with a market cap of roughly $2.3T. Microsoft is diversified in several ways:

- Revenue streams
- Product range
- Demographic reach

Brenthurst aims to build portfolios that have sufficient diversification and exposure to various geographical regions, sectors, and world economies.

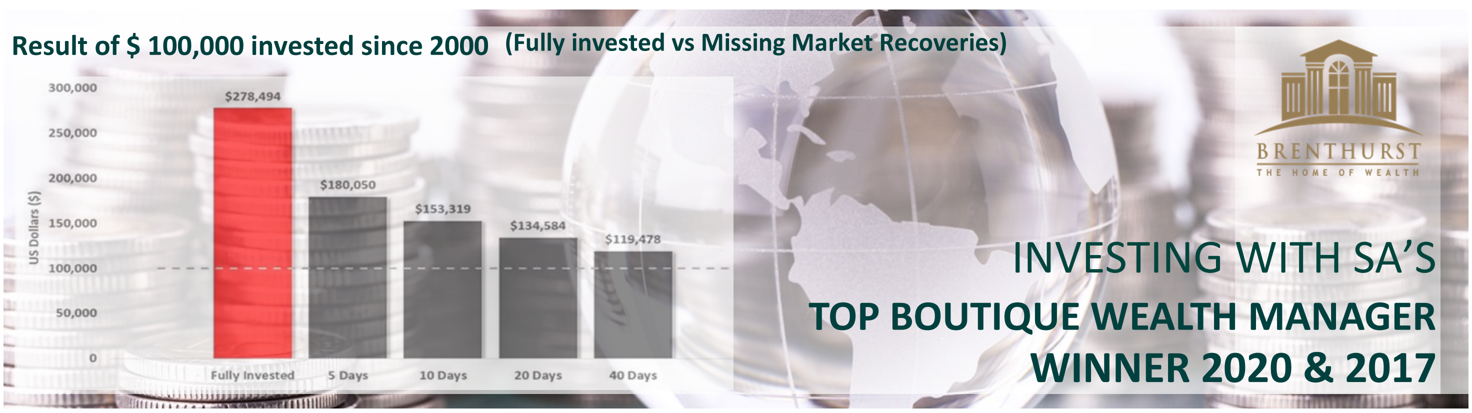
Equities remain the preferred asset class as it has the biggest potential source of growth for investment portfolios, and by constructing a well-balanced portfolio, investors can stimulate the growth in their investment portfolios without concentrating their capital on certain markets.

Globally, interest rates remain extremely low, leaving equity investments as the best alternative. Local properties might have recovered well over the short term, but with COVID still being a part of our lives and the negative outlook on the local economy, property as an overall asset class is likely to face nasty resistance against growth.

A well-balanced portfolio will give clients the best exposure to capital protection, with enough stimulus for growth in the portfolio. We are keeping our fingers on the pulse and use various experienced fund managers who can pull the right strings at the right times in order to shake off excessive risk and capitalize on opportunities.

Another important factor to remember is this: time in the markets is more important than timing the market. Here is a depiction of the outcome of missing certain best days in the market:

MISSING THE BOUNCE BACK



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