

Earnings pushed back the bear in July, with the S&P 500 ending the month up 9.19% (USD). The Dow Jones Industrial Average (.DJI) rose by 6.73% (USD) for the month and the Nasdaq Composite (.IXIC) added 11.89% (USD)...



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OUR

MONTHLY REPORT

July 2022 Market Commentary

July 2022

Market Insights

GLOBAL MARKET OVERVIEW – July 2022

Earnings pushed back the bear in July, with the S&P 500 ending the month up 9.19% (USD). The Dow Jones Industrial Average (.DJI) rose by 6.73% (USD) for the month and the Nasdaq Composite (.IXIC) added 11.89% (USD). The S&P 500 and Nasdaq have now posted their biggest monthly percentage gains since 2020 (Post covid rally). Ironically, concern over earnings was what pushed stocks down in June (-8.39%) to kill the bull and secure the bear's place. US large-cap tech companies saw some of the biggest share price rallies as earnings announcements and forward guidance were generally not as dire as investors or markets were expecting. Positive forecasts from Apple Inc (AAPL.O) and Amazon.com Inc (AMZN.O) showed resilience in mega-cap growth companies to survive an economic downturn. US equity levels have priced in a mild recessionary outcome, with market expectations running ahead of economic signals. While there are multiple potential paths for equities, we expect any evidence of receding inflation, shifting Fed policy tone, and limited earnings impact to register as catalysts for higher prices and lower volatility.



US Federal Reserve (Fed) raised rates by another 0.75%, taking the Fed Funds rate to a range of 2.25 to 2.5%, and remains hawkish. While there were no new hawkish surprises and Chair Powell noted that at some point rate hikes will slow down (which markets took favorably), the key messages remained hawkish, with Powell noting that inflation is too high, the Fed is strongly committed to bringing it under control, another 0.75% hike is on the table for September. On the data front, US GDP contracted 0.9% on an annualized basis in Q2 following a decline of 1.6% in Q1. But with inventories playing a big role in the fall and payrolls still strong, it's unlikely to be classified as a recession by the National Bureau of Economic Research (NBER).

Interest rates have risen, rhetoric around recession has increased, and uncertainty about the future abounds, our underlying fund managers do not focus on making macro predications but instead trying to own the most exceptional growth companies that are the infrastructure for the next decade. The success of Amazon and Tesla wasn't to do with fed decisions, interest rates or inflation. They were deep underlying secular shifts in their respective industries. Scottish Mortgage base their thesis on three drivers, Energy transition, intersection of healthcare and technology and continuing digitalization of the economy.

For example, Scottish Mortgage invest into a company called Climeworks that filters CO₂ directly from the ambient air through an adsorption-desorption process and stores the CO₂ underground permanently. They have the only operational facility in the world like this and have the first mover advantage over competitors. Looking at the intersection of healthcare and technology Moderna Inc which is one of the largest underlying stock holdings in the Iza portfolios has the potential to transform how we develop vaccines in the future. They are using big data artificial intelligence and machine learning to run millions of miniaturized experiments. This has a significant impact on the future of the healthcare sector which usually develops at a very slow pace. To oppose these thesis's, you need to look at the inverse on how the world could look in the next decade. The inverse would be the increased use of fossil fuels, lengthy and costly drug development and enterprises not using cloud services.

Whether considered value or growth the only real difference between investors is their time horizon: some focus on the long-term growth potential of cashflows whereas others prefer to concentrate on near-term cashflows that are underappreciated. This is the critical point that is currently moving markets so violently.



South Africa

The South African stock market had a positive month as the JSE All Share index gained 4.1%. Naspers and Prosus end the month -0.5% and 2.4% respectively. Richemont gained 15% for the month on the back of beating forecasts expectations. Industrials and financial gained 5.8% and 4.6% respectively. South African listed property ended its three-month losing streak and posted a monthly gain of 8.7%. Despite a volatile month the rand remains one of the better performing currencies against the US dollar YTD. SA headline inflation increased to a 13-year high of 7.4% in June 2022 remaining well above the upper limit of the SARB's 3–6% target range. Core CPI, which excludes volatile items such as food and energy, also increased to 4.4% in June from 4.1% in the prior month. The ABSA PMI, plunged in July, as the worst spate of power blackouts on record curtailed production, alongside a deteriorating global economic backdrop, which is affecting major trade partners. The gauge fell to 47.6 in July, signifying a weak start to Q3 for the manufacturing sector (which accounts for 13% of national GDP), and the first below-50 reading since the July unrest last year. Business confidence has fallen to the lowest level since Q1 2020, pre-COVID, while consumer sentiment is at levels last seen in 1986.

All performance figures in ZAR unless otherwise stated.

Message from Kevin

The ability of a company to compound long term earnings / cashflows is of prime importance to us. We remain confident that the companies within our underlying fund managers can be profitable over our longer-term investment horizon and we believe that there is significant upside potential over the next 5 years. Regardless of the short-term macro forecasts the future is one of digitization and dematerialization. When you take a longer-term perspective, what happens in any particular year becomes insignificant in the fullness of a company's lifetime.

Kevin Caden CA/SA
Director

OUR PORTFOLIOS

The Iza Portfolios

The Iza Global Equity Fund rallied by 11.71%, while the Iza Global Balanced Fund by 8.71% and the Stable Model Portfolio by 4.97% (all GBP returns) for July.

Looking at the underlying fund managers we find that Scottish Mortgage Investment Trust contributed the most to performance increasing 20.5% over the month. Their largest portfolio holding Moderna Inc rallied 19.90% (USD) for the month on the back of a blowout earnings report. Scottish Mortgage continue to monitor their private holdings and regularly update valuations with the aim of holding private companies at 'fair value'. During H1 2022, 351 revaluations have been performed on the private companies held by Scottish Mortgage. The largest fund holding, the Fundsmith Equity fund, increased by 7.30% over the month.

The fund's largest detractor for the year PayPal has gained more than 31.61% (USD) after the payments company reported strong earnings and a new information-sharing agreement with activist firm Elliott Management. Looking at the Iza Global Balanced Fund the structured products held by the fund have also had a positive month increasing by 5.3% and proving to be a buffer against the more volatile equity holdings. For the year the funds holding in gold has had a positive performance, up 6.2%. Looking ahead there are some signs that inflationary pressures are easing. However, we continue to proceed with caution. In the near term, we think the risk-reward for broad equity indexes will be muted. Equities are pricing in a soft landing yet the risk of a deeper 'slump' in economic activity is elevated.

Funds' Performance Summary

As at 31 July 2022 GBP	1 Month	3 Months	YTD	1 Year	3 Years*	5 Years*
Iza Global Stable Portfolio GBP	4,97	-1,92	-6,18	-10,64	-0,02	2,57
<i>EAA Fund GBP Cautious Allocation</i>	2,62	-1,38	-6,90	-6,42	0,10	1,16
Iza Wealth Global Balanced A GBP	8,71	-2,71	-18,48	-16,21	2,32	4,93
<i>EAA Fund GBP Flexible Allocation</i>	2,90	-2,32	-8,15	-6,10	1,83	2,08
Iza Global Equity Class A GBP	11,71	-2,14	-23,52	-21,39	4,47	10,29
<i>Benchmark (MSCI World NR)</i>	7,72	1,79	-4,50	3,78	9,80	10,57

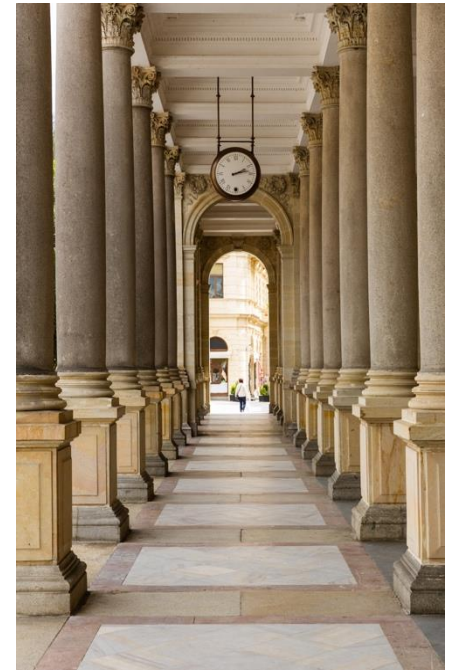
As at 31 July 2022 USD	1 Month	3 Months	YTD	1 Year	3 Years*	5 Years*
Iza Global Stable Portfolio	4,89	-5,04	-4,46	-21,08	-0,39	0,80
<i>EAA Fund USD Cautious Allocation</i>	2,54	-4,49	-5,18	-16,86	-0,27	-0,61
Iza Wealth Global Balanced A	8,63	-5,83	-16,76	-26,65	1,95	3,16
<i>EAA Fund USD Flexible Allocation</i>	3,36	2,40	-7,34	-10,79	2,11	2,17
Iza Global Equity Class A	11,63	-5,28	-31,20	-31,16	2,85	7,75
<i>Benchmark (MSCI World NR)</i>	7,94	-1,34	-14,19	-9,16	9,57	8,81

As at 31 July 2022 ZAR	1 Month	3 Months	YTD	1 Year	3 Years*	5 Years*
Iza Global Stable Portfolio	6,80	-1,30	-12,27	-11,78	5,21	5,90
<i>EAA Fund GBP Cautious Allocation</i>	4,42	-0,76	-12,94	-7,61	5,33	4,44
Iza Wealth Global Balanced A	10,61	-2,10	-23,77	-17,28	7,67	8,34
<i>EAA Fund GBP Flexible Allocation</i>	4,70	-1,71	-14,11	-7,30	7,15	5,40
Iza Global Equity Class A	13,66	-1,53	-28,48	-22,39	9,93	13,87
<i>Benchmark (MSCI World NR)</i>	9,61	2,43	-10,69	2,46	15,54	14,16

* ZAR returns are for illustrative purposes and based on GBPZAR exchange rates only, which may differ from actual feeder fund return figures. The Iza Global Equity Fund launched 2 Oct 2020, the Iza Global Balanced Fund launched 25 Apr 2018; historic performance figures are back-tested.

Asset Class Performance (Base Currency)

As at 31 July 2022	1 Month	3 Months	YTD	1 Year	3 Years	5 Years
SA						
STeFI Call Deposit ZAR	0,40	1,13	2,43	3,94	4,40	5,30
FTSE/JSE All Bond TR ZAR	2,44	0,31	0,47	2,88	6,90	7,98
FTSE/JSE All Share PR ZAR	4,09	-4,84	-6,48	-0,05	6,67	4,54
Major Equity Indices						
MSCI ACWI All Cap NR USD	7,13	-2,08	-14,79	-11,09	8,33	7,58
S&P 500 NR USD	9,19	0,26	-12,81	-5,06	12,79	12,23
Global REITS						
FTSE EPRA Nareit Global TR USD	6,96	-6,09	-14,00	-9,80	0,92	3,22
Fixed Income						
ICE LIBOR 1 Month GBP	0,12	0,31	0,51	0,54	0,36	0,46
NYSE US 10 Yr Treasury Futures PR USD	2,20	1,96	-6,83	-8,65	-0,70	-0,01
Bloomberg 20-30Y Treasury Strips TR USD	1,91	-3,70	-27,12	-26,59	-3,81	0,80
Commodity - General						
DJ Cmmnty Crude Oil TR USD	-3,87	0,78	48,89	56,38	0,33	3,81
DJ Cmmnty Silver TR USD	-0,59	-12,55	-13,88	-21,60	5,23	2,25
DJ Cmmnty Precious Metals TR USD	-2,00	-8,49	-5,46	-6,48	6,06	5,27



Get in touch

Feel free to say hello or ask any questions

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