



GLOBAL MARKET OVERVIEW – November 2022

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WHAT'S INSIDE

- >> GLOBAL MARKET OVERVIEW – NOVEMBER 2022
- >> SOUTH AFRICA
- >> THE IZA PORTFOLIOS
- >> FUNDS' PERFORMANCE SUMMARY
- >> ASSET CLASS PERFORMANCE (BASE CURRENCY)

OUR

MONTHLY REPORT

November 2022 Market Commentary

November 2022

Market Insights

GLOBAL MARKET OVERVIEW – November 2022

Equity markets continued their recovery from October's lows, with developed market equities gaining 7% and emerging market equities rallying by nearly 15%. For the month, on a total return basis the Nasdaq 100 advanced 5.60% (USD), the Dow added 6.00% (USD) and the S&P rose 5.6% (USD). The CPI disinflation equity rally helped save a dismal start to the month, giving credence to the peak inflation theme. Chair Powell's commentary on the last day of the month lowered the fear of another 75-point basis hike, sparking an end-of-month rally. The bond market also registered a strong month with yields in the US and Europe retreating significantly, leading to a 4.7% rally for the Global Aggregate Bond index. Despite headwinds from tighter monetary policy, investor sentiment improved significantly after the release of US inflation numbers for October. The 7.7% year-on-year (y/y) increase was below consensus expectations, fueling the market's hopes that US inflation has now peaked and could prove less sticky than initially feared. The idea that falling inflation could mean that the end to the rate hiking cycle is not far off, gave both stocks and bonds a boost. Labor market indicators in the US were mixed last week, with JOLTS data revealing that the number of job openings for the month of October was 10.3mm, down from the prior month's reading of 10.7mm. On the other hand, Nonfarm Payrolls rose to 263k in November and the unemployment rate remained near historical lows at 3.7%.



Global Overview

Markets rallied this month largely due to the expectation that the Fed could moderate the pace of rate increases. Federal Reserve Chair Jerome Powell spoke at the Brookings Institute, signaling a downshift in the pace of tightening of interest rates could happen as early as their next meeting in December. The last four being three-quarter point increases, pushing borrowing costs to their highest levels since 2008. Fed fund futures are now pricing a 77% chance of a 50-basis point rate hike at the December meeting. Markets reacted favorably to expectations that China is loosening its Zero Covid policy following Beijing's announcement this week that they are speeding up the rate of Covid injections to the elderly. If China's Zero Covid starts to soften, this should help in reducing global inflation as supply chain issues start to ease.

In the US, core PCE, the Fed's preferred inflation measure, fell to 5.0% year-over-year in October from 5.2% the month prior. Core services inflation, a gauge Fed Chair Powell described as the most important category for understanding the future evolution of core inflation, slowed relative to the previous print. This further reinforces the downward trend seen in the prior October CPI print.

Macro data continues to point to a resilient US economy. Retail sales were better than expected, with growth of 1.3% compared to the previous month. We continue to observe a wide gap between very negative consumer sentiment and actual consumer behavior as excess savings and a resilient labor market currently appears to be prevailing over growing concerns about a loss of consumer purchasing power. A record 196.7 million Americans went shopping in stores or online over the Black Friday weekend, according to the National Retail Federation (NRF). This was nearly a 9.4% increase from last year's 179.8 million shoppers.

Coming into 2022 technology was one of the more overvalued sectors. Yet, after falling 25.29% for the year to date, well in excess of the broader market's decline of 14.39%, we think the pendulum has swung too far and that the sector is attractive for long-term investors. We think the market has gone from being overly optimistic regarding its long-term prospects to now being overly pessimistic. While we think equities remain undervalued, we expect heightened volatility over the foreseeable future. In order to continue their rally back to fair value, we think the markets will be looking for indications that economic growth is accelerating and for further data that inflation has peaked and remains on a downward trajectory.

South Africa



On the local front the FTSE/JSE All Share Index rose by 12.23% beating the broader index. South Africa's headline GDP rose by 1.6% on a quarter on quarter seasonally adjusted basis in the third quarter of 2022. The increase in growth over the quarter was largely broad based, with only the electricity and personal services sectors detracting from the headline outcome. The primary sector of the economy rose by a notable 8.2% in Q3.22, adding 0.6% points to the top line reading on the back of gains in agricultural and mining production of 19.2%. Domestically, security of electricity supply remains a key priority. The economy cannot function optimally without access to reliable, affordable energy. South Africa's annual inflation rate ticked up to 7.6% in October, defying the South African Reserve Bank's expectations for price pressures to ease. This prompted the bank's Monetary Policy Committee to hike interest rates by an aggressive 75 basis points last week, taking the benchmark repo rate to 7%. The release of the Phala Phala report on the theft of hard currency at President Ramaphosa's game farm delivered a more negative finding than was expected. The rand moved from R16.80/USD before the release of the report, to R17.68/USD as markets feared the president would resign. South Africa's unemployment rate decreased by -1% to 32.9% in the third quarter of 2022. This is the lowest rate since Q1 of 2021.

All performance figures in ZAR unless otherwise stated.

View from Scottish Mortgage

It is important at times of stress to remember corporate potential has little to do with the cycles of greed and fear in stock markets. Powerful forces of change are creating significant opportunities. These include society's transition away from carbon-fueled transport and energy generation and the application of information technology to our understanding of the molecular basis of disease. While rising interest rates and increasing friction between the United States and China create a problematic environment to navigate, the long-term advantages of companies are often built-in periods of stress and capital shortage.

Scottish Mortgage

OUR PORTFOLIOS

The Iza Portfolios

The Iza Global Equity Fund rose by 2.59%, while the Iza Global Balanced Fund gained 2.28% and the Stable Model Portfolio gained 2.51% (all GBP returns) for November.

Looking at the underlying fund managers we find that Smithson and Scottish Mortgage were the fund's largest contributors for the month gaining 5.7% & 5.5%. The top 5 contributors in the month for Smithson were Fevertree Drinks, Domino's Pizza Group, Moncler, Fisher & Paykel and Technology One. Fundsmith Equity Fund rose 1.5% for the month. The top 5 contributors in the month for Fundsmith were L'Oréal, Novo Nordisk, LVMH, IDEXX and Nike. The structured products component of the fund gained 2.9% for the month. The Invesco Sterling Bond fund rose 4.61% and the Royal London Sterling Extra Yield fund gained 3.59% for the month

When analysing Tesla which is one of Scottish Mortgages largest portfolio holdings, we find that despite the current economic environment, Tesla has continued to increase their production capabilities and has managed to sell every car that they manufacture. Tesla's ability to manage costs in the current environment and continue to grow sales is impressive. Scottish Mortgage has made a further investment into NorthVolt and is now one of their largest holdings. Northvolt is a private European battery producer and is looking increasingly well-placed to supply the rapidly growing demand for electric vehicles. Looking ahead inflation should start to moderate as the economy slows, the labour market weakens, and supply chain pressures continue to ease.

Funds' Performance Summary

As at 30 November 2022 GBP	1 Month	3 Months	YTD	1 Year	3 Years*	5 Years*
Iza Global Stable Portfolio GBP	2,51	-1,30	-14,40	-14,72	-0,80	1,36
<i>EAA Fund GBP Cautious Allocation</i>	2,62	-0,95	-9,43	-9,11	-1,10	0,46
Iza Wealth Global Balanced A GBP	2,28	-2,50	-22,21	-22,86	1,83	3,06
<i>EAA Fund GBP Flexible Allocation</i>	2,82	-1,43	-10,40	-9,13	0,88	1,19
Iza Global Equity Class A GBP	2,59	-2,58	-27,59	-28,94	4,33	7,59
<i>Benchmark (MSCI World NR)</i>	3,40	1,59	-2,77	-0,97	10,53	10,14

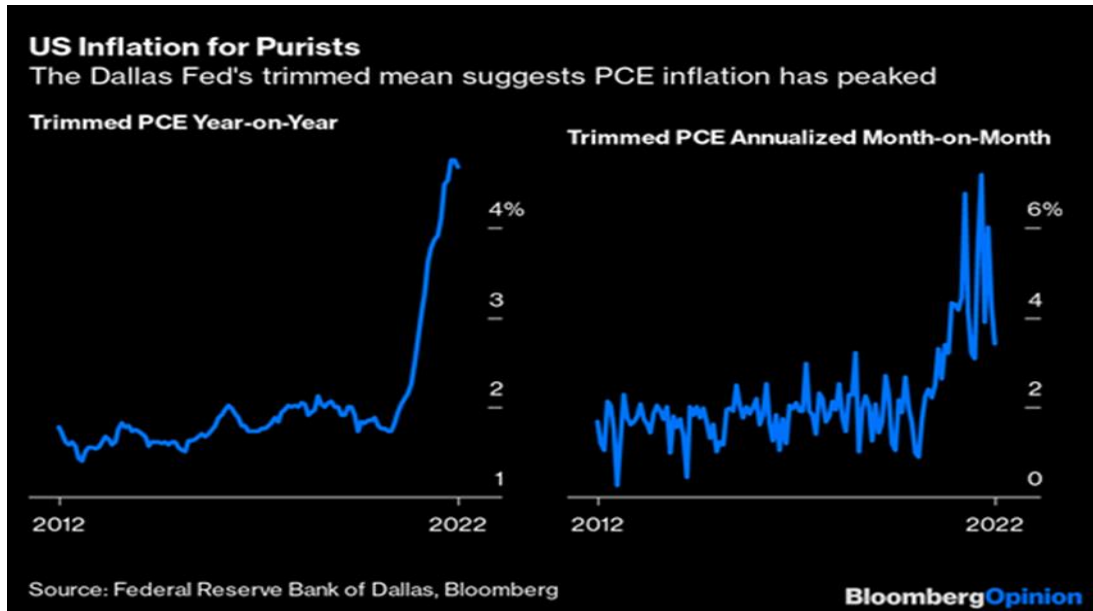
As at 30 November 2022 USD	1 Month	3 Months	YTD	1 Year	3 Years*	5 Years*
Iza Global Stable Portfolio	7,77	2,37	-22,85	-21,93	-3,31	-1,09
<i>EAA Fund USD Cautious Allocation</i>	7,88	2,72	-17,88	-16,32	-3,61	-1,99
Iza Wealth Global Balanced A	7,54	1,17	-30,66	-30,07	-0,68	0,61
<i>EAA Fund USD Flexible Allocation</i>	3,97	0,67	-12,09	-10,53	1,03	1,29
Iza Global Equity Class A	7,86	1,08	-35,46	-35,58	0,60	4,38
<i>Benchmark (MSCI World NR)</i>	6,95	3,98	-14,51	-10,86	7,53	7,35

As at 30 November 2022 ZAR	1 Month	3 Months	YTD	1 Year	3 Years*	5 Years*
Iza Global Stable Portfolio	-1,68	1,69	-19,07	-19,51	-0,24	3,41
<i>EAA Fund GBP Cautious Allocation</i>	-1,57	2,05	-14,37	-14,21	-0,54	2,49
Iza Wealth Global Balanced A	-1,90	0,46	-26,45	-27,19	2,41	5,14
<i>EAA Fund GBP Flexible Allocation</i>	-1,38	1,56	-15,29	-14,23	1,45	3,24
Iza Global Equity Class A	-1,60	0,37	-31,54	-32,93	4,92	9,77
<i>Benchmark (MSCI World NR)</i>	-0,82	4,67	-8,07	-6,53	11,15	12,37

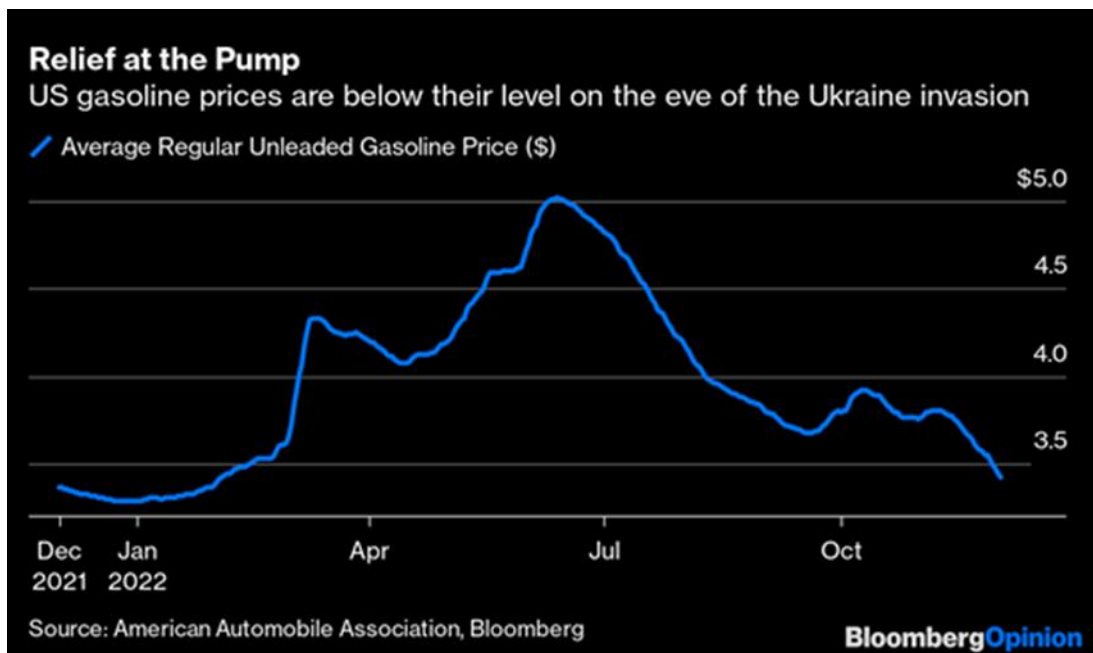
* ZAR returns are for illustrative purposes and based on GBP/ZAR exchange rates only, which may differ from actual feeder fund return figures. The Iza Global Equity Fund launched 2 Oct 2020, the Iza Global Balanced Fund launched 25 Apr 2018; historic performance figures are back-tested.

Market Insights

The latest hard data on inflation, the Personal Consumption Expenditure deflator for October, did confirm the message that inflation does look as though it may well have peaked. Using the Fed's favored measure of the "trimmed mean," which excludes the greatest outliers and takes the average of the rest, inflation did indeed tick down slightly last month, on both a year-on-year and month-on-month basis. There's still a long way to go, but it's important that this stripped-down measure of is no longer accelerating (Source: Federal Reserve Bank of Dallas, Bloomberg, John Authers)



Meanwhile, on the single most important outlier, gasoline, there is good news. Prices at the pump, as measured by the American Automobile Association, are now below their level on the eve of Russia's invasion of Ukraine. This further reduces headline inflation. This does not indicate that inflation will come down swiftly and allow the Fed to start easing in short order, but it does suggest that the economy is slowly turning in the direction that anti-inflationist want. (Source: Bloomberg, John Authers)



Asset Class Performance (Base Currency)

As at 30 November 2022	1 Month	3 Months	YTD	1 Year	3 Years	5 Years
SA						
STeFI Call Deposit ZAR	0,50	1,43	4,35	4,67	4,32	5,23
FTSE/JSE All Bond TR ZAR	3,91	2,81	3,61	6,40	7,52	8,90
FTSE/JSE All Share PR ZAR	12,23	11,26	1,52	6,18	10,57	4,60
Major Equity Indices						
MSCI ACWI All Cap NR USD	7,60	3,15	-15,21	-11,86	6,48	6,10
S&P 500 NR USD	5,52	3,49	-13,49	-9,65	10,36	10,39
Global REITS						
FTSE EPRA Nareit Global TR USD	7,97	-3,06	-21,65	-16,91	-3,80	0,80
Fixed Income						
ICE LIBOR 1 Month GBP	0,25	0,67	1,34	1,35	0,55	0,60
NYSE US 10 Yr Treasury Futures PR USD	2,39	-3,14	-12,97	-13,20	-3,21	-1,15
Bloomberg 20-30Y Treasury Strips TR USD	9,91	-10,14	-37,64	-38,98	-11,30	-2,98
Commodity - General						
DJ Cmmnty Crude Oil TR USD	-5,65	-6,54	27,82	45,66	-2,97	-1,58
DJ Cmmnty Silver TR USD	13,51	22,06	-7,39	-5,20	6,69	4,29
DJ Cmmnty Precious Metals TR USD	7,93	5,47	-4,73	-1,97	5,40	5,49



Get in touch

Feel free to say hello or ask any questions

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