

The start of a new quarter did not bring a new market perspective unfortunately. March's positive performance was followed by extremely poor performance in April. Pessimism remains, with slight earnings disappointments leading to large drops...



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MONTHLY REPORT

April 2022 Market Commentary

April 2022

Market Insights

GLOBAL MARKET OVERVIEW – APRIL 2022

The start of a new quarter did not bring a new market perspective unfortunately. March's positive performance was followed by extremely poor performance in April. Pessimism remains, with slight earnings disappointments leading to large drops in share prices for some global companies. Strong corporate earnings fundamentals are being ignored and the market appears to believe that the doom and gloom is permanent. Against this backdrop the S&P 500 fell 8.7% (in USD). The Nasdaq with its tech focus dropped 13.3% (in USD) over the month – its worst monthly performance since October 2008. Looking at the latest Microsoft results (a key fund holding), we find that earnings per share beat expectations, gross and operating margin improved (to 68.4% and 41.3% respectively), and the key business growth area of cloud computing services (the Azure brand) grew revenue 49% year on year.



These are all positive points, and whilst consensus of 44 analysts have a Buy recommendation on the name with 27% average upside, the stock dropped 0.7% (in GBP) over the month and is down 10.8% (in GBP) year to date. Bottom-up company fundamentals have taken a back seat to perceived macroeconomic and policy risks.

The USD strengthened against most currencies in April as the expectations for a 0.5% increase in the Fed Funds rate grew. The market coming to terms with a 0.5% rate hike, and expectations that the hike could be larger, was one of the key reasons US markets fell during the month. The 0.5% increase came to fruition in early May. Comments from the Fed Chair that further rate hikes would be 0.5% and not 0.75% as some feared, resulted in a market bounce post-hike. However, US markets dropped the following day. Market movements remain volatile. Many commodities gave back some year-to-date gains in April as a Chinese demand slowdown due to the continued "Zero-Covid" policy looks likely. There is also the fact that USD strength is traditionally bad for commodity prices.

Global logistics issues remain prominent as seen by the increase Amazon's total operating costs, which had an adverse effect on their quarterly results that were released near month end. Operating costs grew 13.2% year on year lead by a 22.6% increase in fulfilment costs – effectively the logistics portion of Amazon.

The jobs market in the US remains tight with unemployment at 3.6% and continuing jobless claims at 1.384 million. The lowest in more than 5 decades. Looking at S&P 500 stocks that have reported quarterly results, earnings themes have revolved around economic normalization, a spending shift toward services, continued supply chain and input price pressures, pricing power, improved labour supply, and softer forward earnings guidance. According to Deutsche Bank the median earnings beat is a solid 6.2%. A concern, as highlighted by the Jefferies' Greed and Fear report is the downside risk that is the result of many large ETFs owning the same basket of large-cap stocks. If two quarters of poor performance results in mass ETF redemptions, this would trigger another leg down in many widely held stocks, in quarter three. There are definite concerns for the year ahead.

South Africa



The South African equity market didn't escape the global sell-off in April, with the FTSE/JSE All Share Index down 4.1% (ZAR terms). CPI continues to climb rising to 5.9% for March, from 5.7% in February, driven by the transport component of CPI. The reduction in the fuel price levy until the end of May will help mitigate this but does set the economy up for a larger hike in the June figure. Of concern is the potential for rising inflation to feed into wage adjustment expectations – especially in the government sector, given constrained government finances. Higher global and local interest rates will feed into the cost of borrowing for the government further exacerbating the issue. It is likely that at the SARB's next Monetary Policy Committee meeting in May rates will be hiked by a further 0.5%. Flooding in KZN caused immeasurable human suffering and a death toll that stands at over 435. Latest estimates of the cost to repair the damage stands at ZAR 17bn, putting further pressure on government finances.

The ZAR moved from 14.47 against the USD at the end of March to 15.89 at the end of April. Almost 10% weaker. The weakness against the GBP was half that amount. The return of loadshedding and constrained production volume forecasts by major South African miners weighed on the currency, as this will affect South Africa's balance of payments.

Message from Manager

Losses are painful. From a behavioural point of view humans prefer to avoid losses than acquiring equivalent gains. This is loss aversion. The pain of losing is psychologically twice as powerful as the pleasure of gaining. Focusing on short term movements and fixating on losses feeds into this heuristic. Investing is long term. In order to set themselves up to achieve their goals an investor needs to look through short term volatility and focus on the long-term strategy.

Orrin Flugel, CFA, CAIA

Fund Manager – Iza Capital Partners

OUR PORTFOLIOS

The Iza Portfolios

The Iza Global Equity Fund declined 7.2%, the Iza Global Balanced Fund by 4.9% and the Stable Model Portfolio by 3.0% (all GBP returns) for April.

Looking at the fund's underlying managers we find that Smithson Investment Trust had the most disappointing performance dropping 12.2% over the month. All the underlying funds ended the month lower. Focusing on Smithson (which targets investments in small and mid-sized companies) we find an interesting "anomaly". Whilst Smithson's share price declined 12.2% over the month, the actual NAV only declined 5.7%. This also shows the disconnect between underlying performance, and market sentiment induced price movements. On the positive side the Iza Global Balanced fund's gold position returned 2.4% and Catalyst Real Estate returned 3.2%. Some positivity.

Major holding, Fundsmith "only" fell 1.5% over the month. Within Fundsmith's top 10 holdings at month end we had dramatic differences in price performance. Novo Nordisk was up 20.4%; whereas IDEXX dropped 13.6%. The fund's underlying managers all have a long-term focus. Smithson talks about compounding value "over many years, if not decades". Fundsmith states they hold "a small number of high quality, resilient, global growth companies that are good value and which we intend to hold for a long time". These aren't all tech stocks either, 32.4% of Fundsmith is invested in Consumer Staples. They've held 12 of their 29 positions continually since fund inception. The Iza Equity Fund is designed for the long term. The investment philosophy of each underlying manager looks through the short-term noise to deliver long-term investment growth

Funds' Performance Summary

As at 30 April 2022 GBP	1 Month	3 Months	YTD	1 Year	3 Years*	5 Years*
Iza Global Stable Portfolio GBP	-2,98	-4,34	-9,80	-7,06	1,95	3,67
EAA Fund GBP Cautious Allocation	-1,87	-3,41	-5,60	-3,46	1,53	1,65
Iza Wealth Global Balanced A GBP	-4,88	-5,47	-16,20	-10,42	5,12	6,48
EAA Fund GBP Flexible Allocation	-2,23	-2,17	-5,97	-1,72	3,49	2,94
Iza Global Equity Class A GBP	-7,17	-8,82	-21,84	-15,87	8,24	12,30
Benchmark (MSCI World NR)	-3,84	-1,87	-6,18	6,40	11,81	10,83

As at 30 April 2022 USD	1 Month	3 Months	YTD	1 Year	3 Years*	5 Years*
Iza Global Stable Portfolio	-7,09	-10,47	-15,71	-15,33	0,52	2,96
EAA Fund USD Cautious Allocation	-5,99	-9,54	-11,51	-11,74	0,10	0,94
Iza Wealth Global Balanced A	-8,99	-11,60	-22,11	-18,69	3,69	5,77
EAA Fund USD Flexible Allocation	-4,08	-5,05	-8,59	-5,57	3,30	3,26
Iza Global Equity Class A	-11,19	-14,74	-27,36	-23,52	5,59	10,83
Benchmark (MSCI World NR)	-8,31	-8,17	-13,03	-3,52	10,41	10,17

As at 30 April 2022 ZAR	1 Month	3 Months	YTD	1 Year	3 Years*	5 Years*
Iza Global Stable Portfolio	1,94	-11,10	-16,18	-7,30	4,37	6,80
EAA Fund GBP Cautious Allocation	3,11	-10,24	-12,28	-3,71	3,94	4,71
Iza Wealth Global Balanced A	-0,05	-12,16	-22,13	-10,65	7,62	9,69
EAA Fund GBP Flexible Allocation	2,73	-9,09	-12,62	-1,98	5,95	6,04
Iza Global Equity Class A	-2,45	-15,27	-27,37	-16,09	10,81	15,69
Benchmark (MSCI World NR)	1,04	-8,81	-12,81	6,12	14,47	14,17

* 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.

Asset Class Performance (Base Currency)

As at 30 April 2022	1 Month	3 Months	YTD	1 Year	3 Years	5 Years
SA						
STeFI Call Deposit ZAR	0,33	0,96	1,28	3,67	4,58	5,42
FTSE/JSE All Bond TR ZAR	-1,67	-0,69	0,15	8,43	7,56	8,25
FTSE/JSE All Share PR ZAR	-4,05	-2,51	-1,72	8,22	7,36	6,12
Major Equity Indices						
MSCI ACWI All Cap NR USD	-7,94	-8,21	-12,99	-6,30	9,22	9,18
S&P 500 NR USD	-8,74	-8,26	-13,03	-0,21	13,27	13,05
Global REITS						
FTSE EPRA Nareit Global TR USD	-5,24	-3,58	-8,43	0,73	3,61	5,58
Fixed Income						
ICE LIBOR 1 Month GBP	0,07	0,17	0,20	0,24	0,32	0,41
NYSE US 10 Yr Treasury Futures PR USD	-3,03	-6,83	-8,61	-8,13	-0,44	-0,32
Bloomberg 20-30Y Treasury Strips TR USD	-12,26	-20,04	-24,33	-15,75	0,89	2,13
Commodity - General						
DJ Cmmnty Crude Oil TR USD	4,96	25,21	47,74	82,58	-2,86	3,69
DJ Cmmnty Silver TR USD	-8,39	2,69	-1,52	-11,56	13,44	4,41
DJ Cmmnty Precious Metals TR USD	-3,19	5,54	3,31	3,80	12,95	7,00



Get in touch

Feel free to say hello or ask any questions

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