

After a difficult April, investors gained some relief thanks to a brief market rally over the last few days of the month. The rally saw the major stock indices end the month in the black...



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OUR

MONTHLY REPORT

May 2022 Market Commentary

May 2022

Market Insights

GLOBAL MARKET OVERVIEW – May 2022

After a difficult April, investors gained some relief thanks to a brief market rally over the last few days of the month. The rally saw the major stock indices end the month in the black (the MSCI ACWI All Cap NR USD +0.05%, S&P 500 NR USD + 0.13%). Despite the gains towards the end of May there was significant intra-month volatility. US Tech stocks had another negative month as the Tech focused Nasdaq 100 index ended the month -1.50% lower in USD. The largest constituents of the Nasdaq contributed to its negative month, as Tesla and Meta saw a drawdown of 12.92% & 3.41% (USD) respectively. Commodities continued to outperform returning 1.5% over the month with oil and wheat prices continuing to rise. Oil prices rallied 9.5% (USD) in May. The last time we saw prices this high was in 2008.



The key macro risks of war in Ukraine, tightening monetary policy, inflation risks globally and severe Covid lockdown in China has caused markets to lack clear direction for a change in sentiment. The Federal Reserve (Fed) increased interest rates by 50bps in May. Having pre-warned the market in April, the Fed hike was in line with market expectations and so did not prompt a jump in US treasury yields. Markets are currently pricing another two successive 50bps hikes in June and July.

The concerns around inflation, geopolitical tensions and monetary tightening have meant that the market sentiment remains negative currently. The major topic continues to be inflation and whether it has peaked, this remains to be seen. The economic data has evidenced early signs of an inflation slowdown but not enough of a reduction for sentiment to change. There is anticipation for an equity market rally if inflation subsides and recession fears fade. What is apparent is that the correlation in global markets and in growth and tech stocks over the past six months has been due to the current macro environment and high stock valuations, and not due to stock or company specific problems.

The recent market sell-off has been indiscriminate and all asset classes have been adversely affected – with exception being commodities. On a positive note, financial markets do not go up or down forever. The markets will stabilise and in time revert to fair value. On a long-term basis, there are opportunities in profitable stocks, but there will still be high volatility. We continue to favour high quality companies exemplifying pricing power and competitive advantages. The one constant element seen during a crisis is that short term correlations between different assets converge, resulting in SA bonds and global equities selling off at the same time for example. We trust that the fundamentals will come to the fore again, as investment order returns and some normality is restored

May failed to provide the catalyst that global markets are waiting for. What is clear is that there are signs that markets have potentially bottomed out. We saw a break in the seven-week negative weekly closing streak for the S&P500 over May. Central banks continued to grapple with inflation. Margins have started to come under pressure, particularly in consumer facing companies, and pricing power is likely to be a key driver of relative equity performance moving forward.



South Africa

The JSE ended the month relatively flat, as the FTSE JSE All Share Index closed the month 0.5% lower (-2.2% YTD). The current global supply chain issues, and last year's civil unrest are still impacting the retail sector. Massmart ended the month 12% lower. Headline inflation was measured at 5.9% for the latest April reading - the 12th consecutive month in which inflation has been higher than the midpoint of the SARB's target range. The SARB increased interest rates by 50 basis points on May 26. This was the biggest upward adjustment in six years. While inflation has spread rapidly across the globe, South Africa's inflation rate has been relatively controlled. For the first time in nearly two decades, our inflation is tracking below the global average. Forecasts for GDP growth have been reduced due to the weaker global environment, tightening monetary policy, increase in loadshedding and the global supply chain issues. Current forecasts expect GDP growth of 1.8% in 2022. On a positive note, South Africa's unemployment rate declined slightly to 34.5% in Q1 2022 (from 35.3% in Q4 21) - the first decline in seven quarters. One of the key contributors to South African asset performance has been the country's position as a commodity exporter. Higher commodity prices have been driven by the war in Ukraine, underinvestment in production, and a global move to onshore supply chains. These higher commodity prices, particularly for platinum group metals, have led to an improvement in South Africa's current account. All performance figures above in ZAR unless otherwise stated.

Message from Kevin

The Iza Fund range is comprised of quality growth companies which have weathered extreme stress cycles previously. The average age of the 29 stocks in Fundsmith's portfolio is 90 years. The companies have survived wars, market crashes, financial crises, and pandemics due to their defensive nature, strong business models and ability to increase profits on free cash flow generated. Scottish Mortgage has for over a century been at the forefront of finding the best global companies at infancy stage which have returned the highest upside to investors over the long run. When we couple these long-term defensive companies with the latest exciting growth and tech stocks, we feel that this will lead to the best chance of generating above index returns over the long term.

Kevin Caden CA/SA
Director

OUR PORTFOLIOS

The Iza Portfolios

The Iza Global Equity Fund declined 6.4%, while the Iza Global Balanced Fund by 5.4% and the Stable Model Portfolio by 2.6% (all GBP returns) for May.

Looking at the underlying fund managers we find that Scottish Mortgage Investment Trust had the most disappointing performance dropping 11.8% over the month. Scottish Mortgage's share price is still up 98.7% over the past five years, despite recent market lows. Scottish Mortgage focuses on the long term and aims to achieve returns over a 7-year period, as it is over this period that the companies, they invest into, can achieve sustainable competitive advantages and managerial excellence. The equity fund's largest fund holding, the Fundsmith Equity fund, declined by 4.7% over the month. This decline was broad based as most of the top 10 had a negative price performance month.

One positive holding was Fundsmiths core holding Philip Morris International Inc which rallied by 7.3%, as the market recognized its defensive nature. Looking at the balanced fund, for the year the fund's holding in gold has had a positive performance, up 7.0%. The structured products held by the fund have also proved a buffer against the more volatile equity holdings and are only down 5.6% for the year. The fund's property holdings have unfortunately not given the diversification hoped for with Catalyst Real Estate down 8.8% and Camino Real Estate down 14.4% on a year-to-date basis. Catalyst had delivered positive performance for the year, at the start of the month. Looking ahead, historically the month of June has been the weakest month of the year for equities. Given this, it is likely that the coming month will see further price pressure on the markets.

Funds' Performance Summary

| As at 31 May 2022 GBP | 1 Month | 3 Months | YTD | 1 Year | 3 Years* | 5 Years* |
|---|--------------|---------------|---------------|---------------|--------------|--------------|
| Iza Global Stable Portfolio GBP | -2,63 | -4,39 | -12,51 | -9,10 | 1,22 | 2,59 |
| <i>EAA Fund GBP Cautious Allocation</i> | <i>-0,58</i> | <i>-2,29</i> | <i>-6,14</i> | <i>-4,10</i> | <i>1,35</i> | <i>1,31</i> |
| Iza Wealth Global Balanced A GBP | -5,47 | -7,08 | -20,78 | -14,26 | 3,37 | 4,53 |
| <i>EAA Fund GBP Flexible Allocation</i> | <i>-0,97</i> | <i>-1,66</i> | <i>-6,75</i> | <i>-2,93</i> | <i>3,67</i> | <i>2,31</i> |
| Iza Global Equity Class A GBP | -6,40 | -10,11 | -26,85 | -19,50 | 6,00 | 9,52 |
| <i>Benchmark (MSCI World NR)</i> | <i>-0,31</i> | <i>0,37</i> | <i>-6,47</i> | <i>7,36</i> | <i>12,65</i> | <i>10,25</i> |

| As at 31 May 2022 USD | 1 Month | 3 Months | YTD | 1 Year | 3 Years* | 5 Years* |
|---|--------------|---------------|---------------|---------------|--------------|-------------|
| Iza Global Stable Portfolio | -2,41 | -10,02 | -17,93 | -18,86 | 1,05 | 1,98 |
| <i>EAA Fund USD Cautious Allocation</i> | <i>-0,36</i> | <i>-7,91</i> | <i>-11,56</i> | <i>-13,86</i> | <i>1,18</i> | <i>0,70</i> |
| Iza Wealth Global Balanced A | -5,25 | -12,71 | -26,20 | -24,02 | 3,20 | 3,92 |
| <i>EAA Fund USD Flexible Allocation</i> | <i>-0,62</i> | <i>-4,10</i> | <i>-9,16</i> | <i>-7,03</i> | <i>4,03</i> | <i>2,86</i> |
| Iza Global Equity Class A | -6,19 | -15,57 | -31,86 | -28,57 | 4,59 | 8,17 |
| <i>Benchmark (MSCI World NR)</i> | <i>0,08</i> | <i>-5,72</i> | <i>-12,97</i> | <i>-4,82</i> | <i>12,65</i> | <i>9,72</i> |

| As at 31 May 2022 ZAR | 1 Month | 3 Months | YTD | 1 Year | 3 Years* | 5 Years* |
|---|--------------|---------------|---------------|---------------|--------------|--------------|
| Iza Global Stable Portfolio | 0,64 | -12,60 | -20,03 | -8,38 | 2,99 | 5,88 |
| <i>EAA Fund GBP Cautious Allocation</i> | <i>2,76</i> | <i>-10,68</i> | <i>-14,21</i> | <i>-3,33</i> | <i>3,12</i> | <i>4,56</i> |
| Iza Wealth Global Balanced A | -2,29 | -15,07 | -27,59 | -13,58 | 5,18 | 7,88 |
| <i>EAA Fund GBP Flexible Allocation</i> | <i>2,36</i> | <i>-10,11</i> | <i>-14,76</i> | <i>-2,16</i> | <i>5,48</i> | <i>5,59</i> |
| Iza Global Equity Class A | -3,26 | -17,84 | -33,13 | -18,86 | 7,85 | 13,03 |
| <i>Benchmark (MSCI World NR)</i> | <i>3,04</i> | <i>-8,25</i> | <i>-14,50</i> | <i>8,21</i> | <i>14,62</i> | <i>13,79</i> |

* 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 May 2022 | 1 Month | 3 Months | YTD | 1 Year | 3 Years | 5 Years |
|---|---------|----------|--------|--------|---------|---------|
| SA | | | | | | |
| STeFi Call Deposit ZAR | 0,36 | 1,03 | 1,64 | 3,74 | 4,51 | 5,38 |
| FTSE/JSE All Bond TR ZAR | 1,01 | -0,23 | 1,17 | 5,59 | 7,69 | 8,25 |
| FTSE/JSE All Share PR ZAR | -0,47 | -5,25 | -2,19 | 6,08 | 9,01 | 6,12 |
| Major Equity Indices | | | | | | |
| MSCI ACWI All Cap NR USD | 0,05 | -6,02 | -12,95 | -7,65 | 11,50 | 8,76 |
| S&P 500 NR USD | 0,13 | -5,27 | -12,92 | -0,73 | 15,85 | 12,78 |
| Global REITS | | | | | | |
| FTSE EPRA Nareit Global TR USD | -4,21 | -5,35 | -12,28 | -5,17 | 2,43 | 4,39 |
| Fixed Income | | | | | | |
| ICE LIBOR 1 Month GBP | 0,09 | 0,22 | 0,28 | 0,33 | 0,33 | 0,42 |
| NYSE US 10 Yr Treasury Futures PR USD | 0,54 | -6,00 | -8,12 | -8,08 | -0,99 | -0,40 |
| Bloomberg 20-30Y Treasury Strips TR USD | -3,80 | -21,09 | -27,21 | -19,30 | -3,34 | 0,73 |
| Commodity - General | | | | | | |
| DJ Cmmnty Crude Oil TR USD | 11,21 | 26,19 | 64,31 | 94,69 | 6,79 | 6,52 |
| DJ Cmmnty Silver TR USD | -5,97 | -11,11 | -7,40 | -23,20 | 12,11 | 2,95 |
| DJ Cmmnty Precious Metals TR USD | -3,85 | -4,46 | -0,67 | -7,24 | 11,24 | 6,07 |



Get in touch

Feel free to say hello or ask any questions

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