

Quarter 2 2022 continued the downward movement seen in Quarter 1 with both shares and bonds coming under increased pressure in the second quarter as investors moved to price in further interest rate rises and an increased risk of recession...



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MONTHLY REPORT

June 2022 Market Commentary

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Market Insights

GLOBAL MARKET OVERVIEW – June 2022

Quarter 2 2022 continued the downward movement seen in Quarter 1 with both shares and bonds coming under increased pressure in the second quarter as investors moved to price in further interest rate rises and an increased risk of recession. It's been a tough first half of the year, with the tech heavy Nasdaq down by 28.49% (USD) and the S&P 500 down 20.12% (USD). In fact, it has been the worst six month start to global equity markets since 1962. Markets have faced a list of concerns. These include the Russia/Ukraine war, surging inflation, and central-bank tightening. Understandably, market volatility has sparked concern among investors. Central banks are facing a growth-inflation trade-off. Hiking interest rates too much risks triggering a recession, while not tightening enough risks causing runaway inflation. Surging energy prices from the Russia/Ukraine war and further supply-chain disruptions from China's zero-tolerance COVID-19 lockdowns have pushed inflation even higher.



However, these issues are at least well understood now by markets. At the beginning of the year, it was unclear how far inflation would surge and how aggressively central banks would respond. There was little expectation that Russia would launch a full-scale invasion of Ukraine. The war has now happened, core inflation looks to be peaking in the U.S. and markets are pricing relatively aggressive tightening paths for most central banks.

History teaches us that bear markets, such as this one, can last for a while, but eventually, give way to recoveries. How long that takes is highly variable. During the aftermath of the financial crisis of 2008-2009, it took about 30 months for markets to rise to the previous high-water mark set in August 2008. On the other hand, the recovery from the COVID bear market was sudden. The S&P 500 fell 35.4% in only six weeks in the spring of 2020 but then went on to surpass its previous all-time high by August of that year. The recovery took only four months. We don't know when the market will recover, but we do know that the kind of high-quality companies which are included in our portfolios have been proven to recover quickest when the markets turn positive.

Amid a wide equity sell-off, value has outperformed growth and quality as a style, and losses were most pronounced in January. If we look at the FTSE World Index, those sectors that have benefited from the relatively better value performance are tobacco, defence, and energy, which are in positive territory, while growth areas have struggled. However, these are short-term phenomena and performance looks very different over five years, where quality and growth have significantly outperformed value overall and technology has far outstripped those lagging value sectors.

The S&P 500 suffered its worst first half since 1970. But its dismal performance is not an indication of what's to come. Historically, there has been little to no correlation between the index's performance in the first and second half of the year. But risk of a renewed selloff in equity markets is still high as investors are only pricing a mild recession. There were fewer positive announcements than recent quarters, and some companies have made overly conservative forecasts for the coming year. Overall, however, the tone of results and guidance was still slightly better than expected.



South Africa

The local market has also come under pressure with the JSE ending the month down, as South Africa's (SA's) FTSE JSE All Share Index ended the month 8.1% lower and the FTSE JSE Capped SWIX was down 7.5%. The largest detractors on performance have been the resource and financial sectors which have lost 10.0% and 10.8% respectively, followed by industrials with -6.6%. SA-listed property also continues its descent lower and has lost 6.1%. (All MTD figures). South Africa's GDP expanded by 1.9% in the first quarter of 2022. Real GDP is now slightly higher than what it was before the Covid-19 pandemic. Trade surplus broadened to R28.35bn in May of 2022 - above market forecasts of R22bn. Inflation in South Africa came in at 6.5% in May - the highest level since January 2017 and above the upper limit of the SARB's 3-6% target range. South Africa's FNB/BER consumer confidence index deteriorated to -25 in the second quarter of 2022, from -13 in the previous period, and was well below the long-term average of +2. It was the lowest data print since Q1 1986. South African economic woes intensified with the power utility introducing stage 6 load shedding over the week due to the illegal strike. The local currency struggled, reaching an intraday low of R16.84/\$ on the back of a stronger US dollar, global recession fears and multiple breakdowns at Eskom plants.

Message from Kevin

Time in the market has been proven to grow wealth long term. Having a short-term view on markets or investing in general is a sure way to cause long term financial harm. If we look back the performance of the funds over the past decade, we can see that on average the funds we hold and invest into have produced double digit returns over this period each year on average. The advice now to all investors is to hold firm, navigate these choppy waters and wait for calmer seas. We have seen time and time again that Equity markets always recover after a sell off like this and return to higher levels. To miss this or try time the upturn is impossible unfortunately nobody has a crystal ball or can predict when this will come or how dramatic this upturn will be.

Kevin Caden CA/SA
Director

OUR PORTFOLIOS

The Iza Portfolios

The Iza Global Equity Fund declined 6.41%, while the Iza Global Balanced Fund by 5.33% and the Stable Model Portfolio by 4.04% (all GBP returns) for June.

Looking at the underlying fund managers we find that Scottish Mortgage Investment Trust had the most disappointing performance dropping 11.3% over the month. When looking at the portfolio in percentage terms, over half of it is delivering positive earnings per share. Of those producing negative earnings per share a significant proportion are still actually producing free cash flow, arguably the most important metric. Scottish Mortgage Investment Trust offers a positive element of diversification in the Iza portfolios. The trust has over 100 holdings with over 50 of these holdings unlisted, such as SpaceX. The largest fund holding, the Fundsmith Equity fund, declined by 3.0% over the month.

Fundsmith continue to evaluate their positions and have purchased two new holdings and sold two holdings in 2022. They have purchased Adobe and Mettler-Toledo which they believe can offer positive long-term growth. Looking at the Iza Global Balanced Fund for the year the fund's holding in gold has had a positive performance, up 9.0%. The structured products held by the fund have also proved a buffer against the more volatile equity holdings and are down 8.9% for the year. We have sold the fund's property holdings Catalyst Real Estate and Camino Real Estate as they unfortunately have not given the diversification as hoped and are highly sensitive to interest rate hikes. We have also recently sold our holding in the Rubrics Global Credit fund as there is added credit risk. We are building our cash reserves as we identify positive long term growth prospects and a market uptick.

Funds' Performance Summary

As at 30 June 2022 GBP	1 Month	3 Months	YTD	1 Year	3 Years*	5 Years*
Iza Global Stable Portfolio GBP	-4,04	-9,35	-15,72	-14,40	-0,88	1,77
<i>EAA Fund GBP Cautious Allocation</i>	-3,34	-5,70	-9,28	-8,18	-0,27	0,73
Iza Wealth Global Balanced A GBP	-5,33	-14,88	-25,01	-22,38	0,62	3,45
<i>EAA Fund GBP Flexible Allocation</i>	-4,04	-7,13	-10,69	-8,21	1,46	1,67
Iza Global Equity Class A GBP	-6,41	-18,68	-31,54	-29,11	2,43	8,16
<i>Benchmark (MSCI World NR)</i>	-5,21	-9,13	-11,34	-2,56	8,68	9,13

As at 30 June 2022 USD	1 Month	3 Months	YTD	1 Year	3 Years*	5 Years*
Iza Global Stable Portfolio	-7,22	-15,58	-23,19	-23,63	-2,51	0,34
<i>EAA Fund USD Cautious Allocation</i>	-6,52	-11,93	-16,75	-17,41	-1,90	-0,70
Iza Wealth Global Balanced A	-8,51	-21,11	-32,48	-31,61	-1,01	2,02
<i>EAA Fund USD Flexible Allocation</i>	-4,92	-9,39	-13,65	-12,20	1,22	1,83
Iza Global Equity Class A	-9,55	-24,64	-38,36	-37,45	-0,38	5,98
<i>Benchmark (MSCI World NR)</i>	-8,66	-16,19	-20,51	-14,34	7,00	7,67

As at 30 June 2022 ZAR	1 Month	3 Months	YTD	1 Year	3 Years*	5 Years*
Iza Global Stable Portfolio	-3,52	-5,80	-22,54	-14,62	2,34	4,85
<i>EAA Fund GBP Cautious Allocation</i>	-2,82	-2,00	-16,62	-8,42	2,97	3,77
Iza Wealth Global Balanced A	-4,82	-11,54	-31,08	-22,58	3,88	6,58
<i>EAA Fund GBP Flexible Allocation</i>	-3,52	-3,49	-17,92	-8,45	4,76	4,74
Iza Global Equity Class A	-5,90	-15,49	-37,08	-29,29	5,76	11,43
<i>Benchmark (MSCI World NR)</i>	-4,70	-5,57	-18,52	-2,81	12,21	12,43

* 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 30 June 2022	1 Month	3 Months	YTD	1 Year	3 Years	5 Years
SA						
STeFI Call Deposit ZAR	0,37	1,07	2,02	3,83	4,46	5,34
FTSE/JSE All Bond TR ZAR	-3,06	-3,71	-1,93	1,25	5,78	7,78
FTSE/JSE All Share PR ZAR	-8,14	-12,28	-10,16	-0,04	4,40	5,11
Major Equity Indices						
MSCI ACWI All Cap NR USD	-8,63	-15,85	-20,46	-16,61	5,98	6,68
S&P 500 NR USD	-8,30	-16,20	-20,15	-11,01	10,05	10,71
Global REITS						
FTSE EPRA Nareit Global TR USD	-8,34	-16,81	-19,60	-13,48	-1,27	2,38
Fixed Income						
ICE LIBOR 1 Month GBP	0,10	0,26	0,39	0,42	0,34	0,44
NYSE US 10 Yr Treasury Futures PR USD	-0,77	-3,26	-8,83	-9,30	-1,56	-0,39
Bloomberg 20-30Y Treasury Strips TR USD	-1,76	-17,09	-28,49	-24,63	-4,35	0,16
Commodity - General						
DJ Cmmnty Crude Oil TR USD	-5,74	10,03	54,88	65,16	1,74	6,38
DJ Cmmnty Silver TR USD	-6,45	-19,41	-13,37	-23,07	7,89	2,59
DJ Cmmnty Precious Metals TR USD	-2,89	-9,61	-3,54	-3,14	7,55	6,08



Get in touch

Feel free to say hello or ask any questions

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