



GLOBAL MARKET OVERVIEW – October 2022

Global equities bounced off their lows in October as the S&P gained 7.99% (USD), The Dow Jones Industrial Average® gained 13.95% (USD) and the tech heavy Nasdaq 100 gained 4.00% (USD) for the month of October.

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MONTHLY REPORT

October 2022 Market Commentary

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Market Insights

GLOBAL MARKET OVERVIEW – October 2022

Global equities bounced off their lows in October as the S&P gained 7.99% (USD), The Dow Jones Industrial Average® gained 13.95% (USD) and the tech heavy Nasdaq 100 gained 4.00% (USD) for the month of October. Value stocks outperformed growth as earnings season kicked into high gear and Federal Reserve (FED) watch continued. The market appears to have taken some support from the idea the FED could soon begin to scale back on the pace of its tightening program in the months ahead. With a 75bps rate hike announcement at the 11/2 meeting, the focus now turns to the language used by Fed Chair Jerome Powell regarding pausing to evaluate the impacts of policy decisions to date. Futures markets are currently pricing in a 50bps hike in December, followed by another 25bps in January 2023. Global equities rallied in October as earnings came in better than expected, not that earnings were good, but the expectations had been much worse. The rise came in spite of the FED confirming that tighter monetary policy is still needed to contain elevated inflation. Economic data was also mixed. Industrial data looks set to weaken further at the start of Q4, with the 'flash' composite purchasing managers' index (PMI) falling from 49.5 to 47.3 in October.



Global Overview

Geopolitical risks remained at the forefront of investors' minds, with tensions between Russia and Ukraine escalating further. However, there were some reasons for optimism. Global supply chain constraints continued to ease, and European governments took further steps to dampen the impact of the energy crisis and mitigate the risks of a harsh recession. The combination of high inflation and solid labor markets continued to support hawkish action from central banks. The European Central Bank (ECB) announced another jumbo rate hike of 75 basis points (bps) on 27 October and the Federal Reserve (Fed) followed suit at its meeting in early November.

The US economy showed some signs of softening in October. A slowdown in both housing starts and home sales highlight how higher mortgage rates are weighing on the sector. The labor market remains the bright spot as highlighted by the September jobs report. The unemployment rate fell to a new record low of 3.5% with a stable participation rate of 62.3%, while average hourly earnings rose 0.3% month-over-month (m/m). In aggregate, data released in October kept up the pressure on the Fed.

Microsoft Corp, Google-owner Alphabet Inc. Amazon.com Inc., and Apple Inc have all suffered sharp drawdowns since their earnings results in October. Meta's stock has been punished horribly for a disappointing revenue forecast, despite Mark Zuckerberg asking for patience given the social-media giant's growing investments, particularly in the metaverse. The high-growth tech names are prone to fears of rising interest rates. Since many of them are valued based on their projected profits far into the future. As we move past the halfway point of this earnings season, with just under 54% of companies reporting, 71% of S&P 500 companies reported a positive earnings surprise, with 68% reporting a positive revenue surprise.

Corporate earnings in 3Q have met consensus expectations thus far, although the hurdle is low as economic headwinds continue to mount. A stronger US dollar has weighed on S&P 500 sales growth, while sticky wage growth has limited profit margins. Most US companies have seen their stock prices decline by at least -25% from recent highs. A swift recalibration of interest rates and valuations has led to an indiscriminate sell-off in equities despite still resilient fundamentals.

South Africa



Local Equities rallied as the FTSE JSE All Share Index gained 4.6% in October and the FTSE JSE Capped SWIX gained 5.3% for the month. Financials were the top contributor adding 12.7% for the month and property gaining 9.4%. The biggest detractors were Naspers and Prosus as they both declined -16% during October. The Medium-Term Budget Policy Statement showed strong terms of trade for FY2022/2023 as a result of higher commodity prices, while signs of progress in addressing corruption also lifted sentiment. South African tax collections were 9% higher than the same period last year. South Africa's annual inflation rate eased for the second consecutive month to 7.5% in September 2022. The South African Reserve Bank (SARB) remains concerned about increasing wage pressures. It looks as if the 7% wage increase at Eskom has become the benchmark for other pay settlements. Emerging markets such as South Africa have to respond to rate hikes in the US by making similar adjustments to their own rates, otherwise they face the risk of capital flight and a declining exchange rate. The Monetary Policy Committee (MPC) of the SARB is in the process of normalizing interest rates after the exceptionally low rates which prevailed during the pandemic. Members of the MPC indicate a normal repurchase rate is about 7%. South African miners lost c. R815m (\$44 million) in export revenue per day during the Transnet workers' strike. The institutional collapses of Eskom and Transnet are proving to be severe impediments to economic growth

All performance figures in ZAR unless otherwise stated.

OUR PORTFOLIOS

View from Alpine Macro

Growth stocks have led the broad market into the bear phase. By the same token, they will likely lead other segments out of the bear market. With rate expectations still highly volatile, high-multiple stocks will continue to be depressed in the near term. However, if our view proves to be correct that inflation will fall quickly, growth stocks will likely outperform the benchmark in a sustainable recovery. Investors may still want to park their capital in the defensive sector in the short run, but they should also be aware that defensive stocks have massively outperformed the market, cyclicals, and growth stocks in particular. Any good news on inflation or clear signs of a cracking labor market in the U.S. could lead to a rapid shift in favor of growth

Alpine Macro

The Iza Portfolios

The Iza Global Equity Fund declined by -0.93%, while the Iza Global Balanced Fund declined by -0.48% and the Stable Model Portfolio gained 0.73% (all GBP returns) for October.

Analysing our underlying fund managers, we find that the decline was largely due to the earnings results from Microsoft Corp, Google-owner Alphabet Inc. Amazon.com Inc., Apple Inc and Meta. Smithson Investment Trust was the fund's biggest contributor gaining 7.00% for the month. Smithson completed the purchase of a position in IDEX, a diversified manufacturer of industrial, life sciences and safety products with a track record of supplementing organic growth with bolt-on acquisitions at attractive returns. Fundsmith Equity Fund purchased a stake in Otis and began a currently small holding in Apple.

Fundsmith's top 5 contributors in the month were Visa, Stryker, Adobe, IDEXX and Novo Nordisk. The top 5 detractors were Meta Platforms, Estée Lauder, Microsoft, Amazon, and L'Oréal. October was a better month for global bond markets, with the UK as the notable outperformer. U.S. treasuries underperformed other major markets. The Invesco Sterling Bond fund gained 5.23% for the month. Looking ahead to November we will see the remainder of the Q3 '22 earnings season, as well as a slew of key economic data, including the Fed's rate hike decision, CPI data release and Initial Jobless Claims. We expect that the markets will remain under pressure and volatility will remain high.

Funds' Performance Summary

As at 31 October 2022 GBP	1 Month	3 Months	YTD	1 Year	3 Years*	5 Years*
Iza Global Stable Portfolio GBP	0,73	-5,61	-16,50	-16,65	-1,24	0,92
<i>EAA Fund GBP Cautious Allocation</i>	<i>0,87</i>	<i>-5,21</i>	<i>-11,75</i>	<i>-11,12</i>	<i>-1,81</i>	<i>-0,06</i>
Iza Wealth Global Balanced A GBP	-0,48	-6,70	-23,94	-24,24	1,60	2,77
<i>EAA Fund GBP Flexible Allocation</i>	<i>0,61</i>	<i>-5,13</i>	<i>-12,86</i>	<i>-11,88</i>	<i>0,35</i>	<i>0,65</i>
Iza Global Equity Class A GBP	-0,93	-7,72	-29,42	-30,40	4,33	7,35
<i>Benchmark (MSCI World NR)</i>	<i>3,92</i>	<i>-1,54</i>	<i>-5,97</i>	<i>-2,94</i>	<i>10,32</i>	<i>9,45</i>

As at 31 October 2022 USD	1 Month	3 Months	YTD	1 Year	3 Years*	5 Years*
Iza Global Stable Portfolio	3,40	-11,00	-28,08	-28,94	-5,41	-2,14
<i>EAA Fund USD Cautious Allocation</i>	<i>3,54</i>	<i>-10,60</i>	<i>-23,33</i>	<i>-23,41</i>	<i>-5,97</i>	<i>-3,12</i>
Iza Wealth Global Balanced A	2,19	-12,09	-35,52	-36,53	-2,57	-0,29
<i>EAA Fund USD Flexible Allocation</i>	<i>2,23</i>	<i>-5,29</i>	<i>-15,24</i>	<i>-15,24</i>	<i>0,07</i>	<i>0,63</i>
Iza Global Equity Class A	1,74	-13,03	-40,17	-41,69	-1,07	3,48
<i>Benchmark (MSCI World NR)</i>	<i>7,18</i>	<i>-6,85</i>	<i>-20,07</i>	<i>-18,48</i>	<i>6,11</i>	<i>6,37</i>

As at 31 October 2022 ZAR	1 Month	3 Months	YTD	1 Year	3 Years*	5 Years*
Iza Global Stable Portfolio	6,25	-0,50	-17,69	-16,21	1,45	3,60
<i>EAA Fund GBP Cautious Allocation</i>	<i>6,39</i>	<i>-0,08</i>	<i>-13,01</i>	<i>-10,65</i>	<i>0,87</i>	<i>2,60</i>
Iza Wealth Global Balanced A	4,97	-1,65	-25,03	-23,84	4,37	5,50
<i>EAA Fund GBP Flexible Allocation</i>	<i>6,12</i>	<i>0,01</i>	<i>-14,10</i>	<i>-11,41</i>	<i>3,09</i>	<i>3,33</i>
Iza Global Equity Class A	4,50	-2,73	-30,43	-30,03	7,18	10,20
<i>Benchmark (MSCI World NR)</i>	<i>9,61</i>	<i>3,79</i>	<i>-7,31</i>	<i>-2,43</i>	<i>13,33</i>	<i>12,36</i>

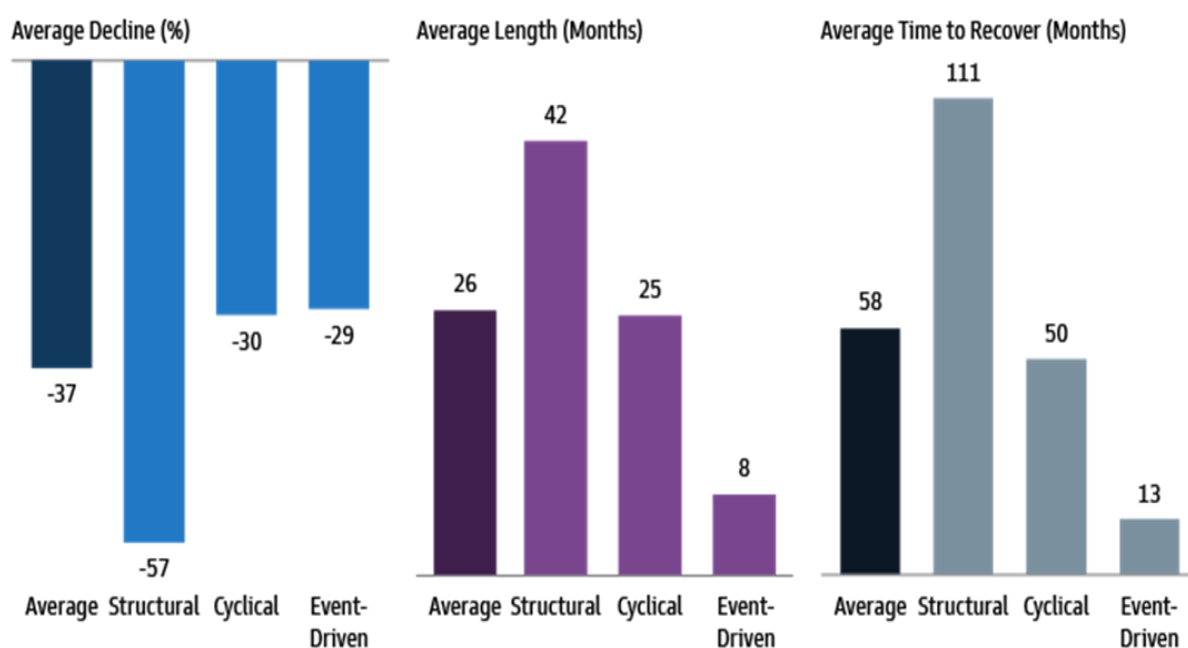
* ZAR returns are for illustrative purposes and based on GBPZAR exchange rates only, which may differ from actual feeder fund return figures. The Iza Global Equity Fund launched 2 Oct 2020, the Iza Global Balanced Fund launched 25 Apr 2018; historic performance figures are back-tested.

Market Insights

This year has seen no shortage of market swings, with the S&P 500 down over -20% year-to-date. However, given the absence of structural imbalances, we believe current market volatility is more in line with a cyclical bear market than a potentially deeper and longer structural bear market. We explore the differences between each of the three bear markets—structural, cyclical, and event-driven—and introduce important factors when identifying market bottoms. We distinguish between bear market rallies, as we experienced this summer, and the start of a new bull market. As such, we believe that not all bear markets are created equally (Exhibit 1), and that understanding the current bear market can inform the timing and magnitude of the recovery.

Type of Bear Market	Definition	Status
Structural	Triggered by structural imbalances and financial bubbles	Financial risk remains contained and private sector healthy
Cyclical	Typically a function of rising rates, impending recession, and falling profits	Elevated inflation and rising rates, though policy remains accommodative and private sector strong
Event-Driven	Triggered by a one-off shock	Vulnerable to COVID-19, trade, and geopolitical events

Equity contractions during past bear markets have usually been accompanied by significant fixed income gains, making bonds a diversifier for S&P 500 returns. This year, significant re-pricing has occurred alongside a complex macro setting, creating a headwind for all core assets.

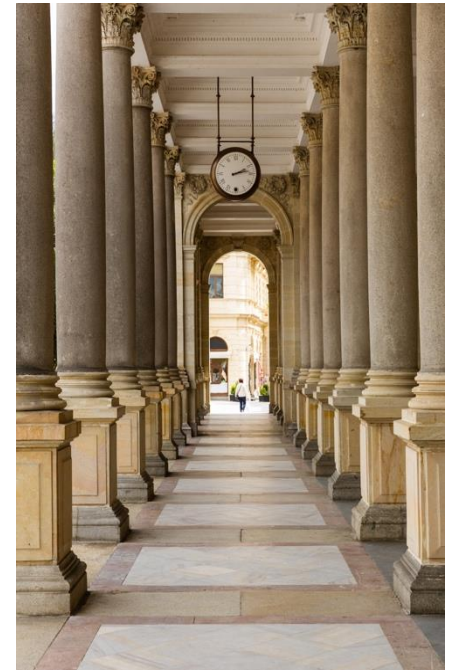


The bear market rally this past summer, markets reflected growing confidence that inflation and interest rates were peaking. History suggests that when the Federal Reserve (Fed) is the cause of a correction, it is often also the cure that enables the recovery. With the expectation that the Fed continues to hike rates through early 2023, we do not think a genuine bear market trough has been reached because we believe: 1) core inflation and rates have not come down convincingly, 2) economic growth will likely continue to weaken, and 3) valuation and investor positioning have not yet reflected market capitulation. Volatility around market troughs is often a result of investor perception shifting between a soft landing, which is likely to end around a peak in policy, and a hard landing, which requires lower valuations and economic growth bottoming. To be sure, the Fed's policy path and questions regarding a peak in inflation and rates remain uncertain. As such, we may see more episodic volatility in the near-term. We believe that ultimately, the strength of the private sector and the absence of structural sources of weakness in the economy mean that this bear market may not see the worst second-or-third order effects traditionally associated with structural bear markets. Long-term investors may be best positioned to stay the course, with a recovery likely, yet tough to time.

Source: Haver Analytics, GS Global Investment Research, and GS Asset Management.

Asset Class Performance (Base Currency)

As at 31 October 2022	1 Month	3 Months	YTD	1 Year	3 Years	5 Years
SA						
STeFI Call Deposit ZAR	0,49	1,37	3,84	4,45	4,32	5,24
FTSE/JSE All Bond TR ZAR	1,07	-0,75	-0,29	3,07	6,23	7,86
FTSE/JSE All Share PR ZAR	4,62	-3,28	-9,55	-1,18	5,72	2,48
Major Equity Indices						
MSCI ACWI All Cap NR USD	6,13	-7,52	-21,20	-20,30	4,76	4,96
S&P 500 NR USD	8,06	-5,98	-18,02	-15,01	9,67	9,86
Global REITS						
FTSE EPRA Nareit Global TR USD	2,07	-15,62	-27,43	-24,74	-6,52	-0,27
Fixed Income						
ICE LIBOR 1 Month GBP	0,22	0,57	1,08	1,10	0,49	0,56
NYSE US 10 Yr Treasury Futures PR USD	-1,31	-8,77	-15,00	-14,65	-4,23	-1,72
Bloomberg 20-30Y Treasury Strips TR USD	-8,70	-22,15	-43,26	-42,49	-14,19	-4,52
Commodity - General						
DJ Cmmnty Crude Oil TR USD	10,76	-9,01	35,47	24,18	-0,46	0,60
DJ Cmmnty Silver TR USD	0,74	-5,26	-18,41	-20,60	0,19	1,32
DJ Cmmnty Precious Metals TR USD	-1,01	-6,63	-11,73	-10,43	1,50	3,86



Get in touch

Feel free to say hello or ask any questions

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