Monthly market commentary | August 2023

August proved to be a volatile month for markets, having started with the downgrade of the US long-term credit rating by ratings agency Fitch who cited concerns around debt levels and standards of governance[1]. This, coupled with a deteriorating global growth environment outside of the US and sticky inflation prints, which reinforced expectations of a continued tight monetary policy stance from central banks, dented sentiment levels which led global equity markets lower and sent global bond yields to their highest levels in over 12 years.

In line with weaker sentiment, global equities (MSCI ACWI) ended August 2.8%[2] lower in USD terms. Developed Market equities (MSCI World) fell 2.4% over the month, led lower by the UK (FTSE 100) and Europe (MSCI Europe Ex UK), which both ended the month down 4.0% in USD terms[2]. The US (S&P 500) again outperformed, falling only 1.7%[2] in USD terms, as the resilient US economy continued to surprise to the upside. Emerging market equities (MSCI EM) once again trailed developed markets, ending the month 6.2% in the red[2]. Chinese equities (MSCI China) fared worst of the major EM markets, down 9.0% in USD terms[2], owing to weaker economic data and the continued property sector woes. Amid the tough global backdrop, the US dollar reinforced its "safe haven" status, strengthening against most other major currencies. Consequently, the rand weakened 5.8% relative to the US dollar, ending the month at R18.88[3].

Local equities underperformed in line with emerging market peers, with the Capped SWIX down 4.8% for the month[2]. Resources fared worst over the month, down 8.4%[2], again dragged lower by PGM miners as concerns around China weigh on metal prices. Industrials followed, down 4.7%[2], with Naspers/Prosus the primary detractors, following their major asset Tencent lower, which also fell almost 8% in the Hong Kong market. This was somewhat offset by major rand hedges BAT and AB InBev, which benefitted from rand weakness. Financials again fared the best over the month, down only 1.3%[2] as banks and insurers held up. Local property (ALPI) was the best performing local asset class over the month, up 0.8%[2].

While we saw negligible moves in yields, following the downgrade of US long-term credit by Fitch, strong US economic data prints and an upside surprise in inflation led bond yields in the US to the highest levels in seen in over 12 years, while moves elsewhere in developed markets were negligible. Global bonds (WGBI) thus ended the month down 1.4% in USD terms[2]. Local bonds (ALBI) took their cue from global markets, falling 0.2%[2], with the longer duration bonds in the seven to 12-year and 12+ years sectors dragging the asset class down. This despite inflation surprising to the downside, coming in at 4.7%[4] for July, close to the midpoint of the South African Reserve Bank's target range. Inflation-linked Bonds fared slightly better, up 0.5%[2], as real yields fell at the shorter end.

Finally, local cash (STeFI composite) ended the month up 0.7%[2], 0.25% higher than the monthly return one year prior.

Given the tough environment over the month, with most asset classes down, the portfolios proved to be resilient.

Sources:

1 https://www.fitchratings.com/research/sovereigns/fitch-downgrades-united-states-long-term-ratings-to-aa-from-aaa-outlook-stable-01-08-2023#:~:text=Fitch%20Ratings%20%2D%20London%20%2D%2001%20Aug,AA%2B'%20from%20'AAA
2 Morningstar
3 Iress
4 https://www.statssa.gov.za/?p=16550
5 Momentum Investments