

MONTHLY CAPITAL MARKETS REVIEW - MAY

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Global Market

Global markets experienced predominantly bearish sentiments during the reporting period, as indicated by the MSCI World's monthly decline of 0.9% and year-to-date growth of 8.8%. Investor sentiment was primarily affected by concerns surrounding the potential US debt default, elevated inflation levels, and the looming possibility of a recession.

Investors were taken aback by unexpectedly robust labor market data in the US, which fueled apprehension that the US Federal Reserve (Fed) might opt to raise interest rates once again in June 2023. Within the commodities sector, oil prices encountered their fifth consecutive monthly decline (8.6% month-on-month) due to apprehensions regarding weakened global economic activity and its impact on demand (Figure 1)

Figure 1: Asset class and style returns

2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	YTD	May '23
Global REITS 23.0%	Small cap 32.9%	Global REITS 22.9%	Growth 3.5%	Small cap 13.3%	MSCI EM 37.8%	Global Agg -1.2%	Growth 34.1%	Growth 34.2%	Global REITS 32.6%	Cmdty 16.1%	Growth 19.9%	Growth 2.4%
MSCI EM 18.6%	Value 27.5%	Growth 6.5%	Global REITS 0.6%	Value 13.2%	Growth 28.5%	Global REITS -4.9%	DM Equities 28.4%	MSCI EM 18.7%	Cmdty 27.1%	Value -5.8%	DM Equities 8.8%	DM Equities -0.9%
Small cap 18.1%	DM Equities 27.4%	DM Equities 5.5%	Small cap 0.1%	Cmdty 11.8%	Small cap 23.2%	Growth -6.4%	Small cap 26.8%	DM Equities 16.5%	Value 22.8%	Global Agg -16.2%	Small cap 1.5%	MSCI EM -1.7%
Growth 16.6%	Growth 27.2%	Value 4.4%	DM Equities -0.3%	MSCI EM 11.6%	DM Equities 23.1%	DM Equities -8.2%	Global REITS 24.4%	Small cap 16.5%	DM Equities 22.3%	DM Equities -17.7%	Global Agg 1.4%	Global Agg -2.0%
DM Equities 16.5%	Global REITS 2.3%	Small cap 2.3%	Global Agg -3.2%	DM Equities 8.2%	Value 18.0%	Value 10.1%	Value 22.7%	Global Agg 9.2%	Growth 21.4%	Small cap -18.4%	MSCI EM 1.2%	Small cap -2.7%
Value 16.4%	MSCI EM -2.3%	Global Agg 0.6%	Value -4.1%	Global REITS 6.5%	Global REITS 8.0%	Cmdty -11.2%	MSCI EM 18.9%	Value -0.4%	Small cap 16.2%	MSCI EM -19.7%	Global REITS -0.7%	Global REITS -3.8%
Global Agg 4.3%	Global Agg -2.6%	MSCI EM -1.8%	MSCI EM -14.6%	Growth 3.2%	Global Agg 7.4%	Small cap -13.5%	Cmdty 7.7%	Cmdty -3.1%	MSCI EM -2.2%	Global REITS -23.7%	Value -1.5%	Value -4.5%
Cmdty 23.0%	Cmdty 9.5%	Cmdty -17.0%	Cmdty -24.7%	Global Agg 2.1%	Cmdty 1.7%	MSCI EM -14.2%	Global Agg 6.8%	Global REITS -10.4%	Global Agg -4.7%	Growth -29.1%	Cmdty -11.4%	Cmdty -5.6%

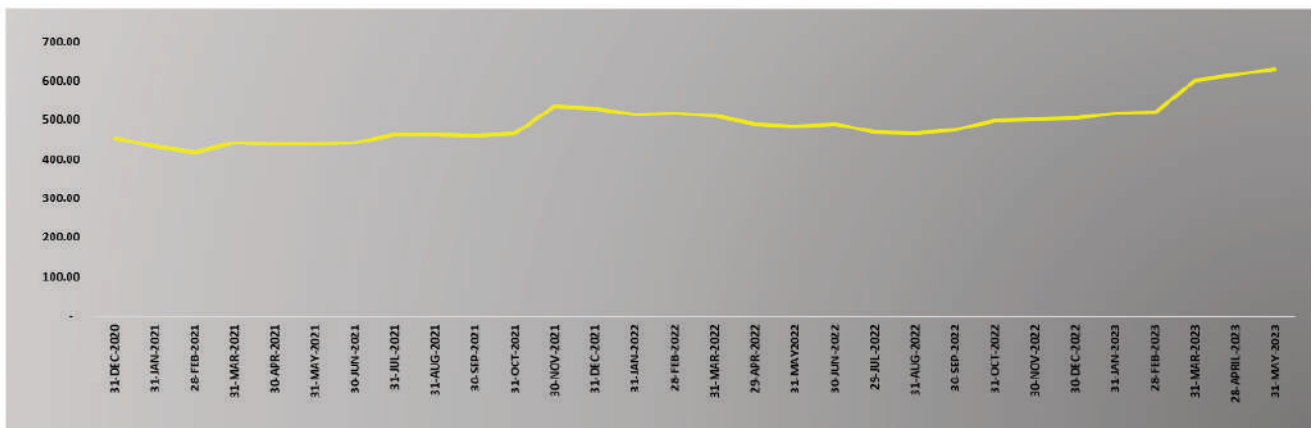
Source: Bloomberg Barclays, FTSE, MSCI & HEI Research



Domestic Market

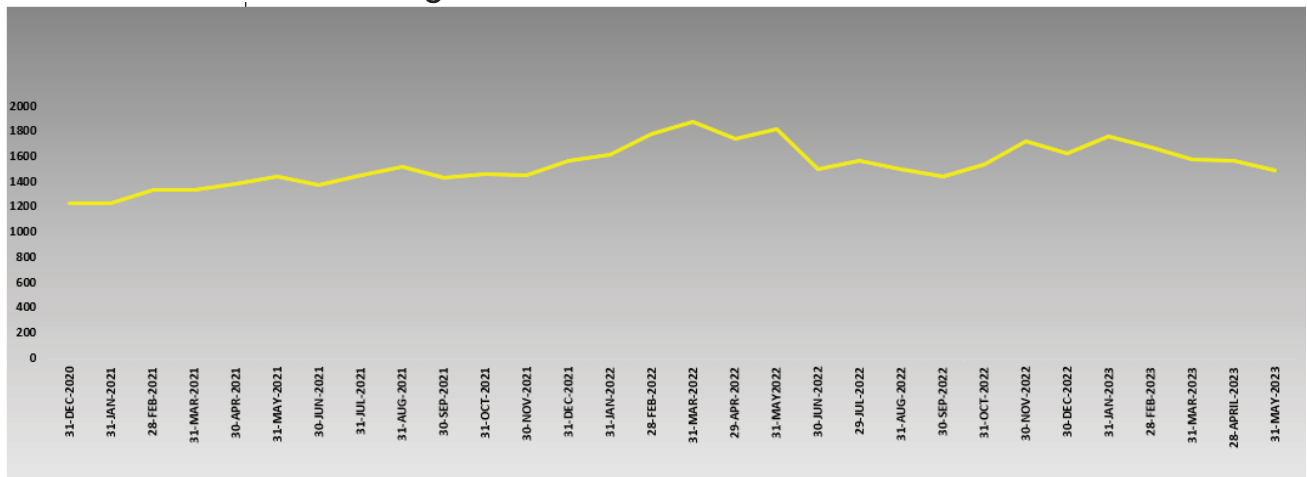
The JSE All Share Index experienced its fourth decline in six months, with a decrease of 4.03% (month-on-month). It's worth noting that the performance was influenced by the weakening of the South African currency (Figure 4). In May, the NSX Overall Index witnessed a decline, closing at 1487.83 index-points compared to 1570.22 points in April. This resulted in a month-on-month decrease of 5.2% in total return, whereas April showed a modest increase of 0.8% month-on-month. On the other hand, the NSX Local Index demonstrated a positive trend, rising by 3.1% compared to a 2.3% increase in April (Figure 2). Furthermore, the Market Capitalization on the NSX experienced a decline of 5.38% in May 2023, reaching N\$ 2,079,699,221,055. This decline was driven by a decrease in share prices on the bourse as bearish market sentiments causes investors to rebalance their portfolios. Across the board, the All Bond & Gov Index recorded a decline of 1.25% in May as displayed in Figure 7. Analyzing the yield curve, it remained relatively flat, while the benchmark exhibited significant volatility during the period (Figure 6). Lastly the Treasury Bills (TB) Index outperformed the Money Market (MM) Index in the month of May 2023 as investors evaluate market risk sentiments such as credit and liquidity risk as seen in Figure 8.

Figure 2: NSX Local Index



Source: Bloomberg, NSX & HEI Research

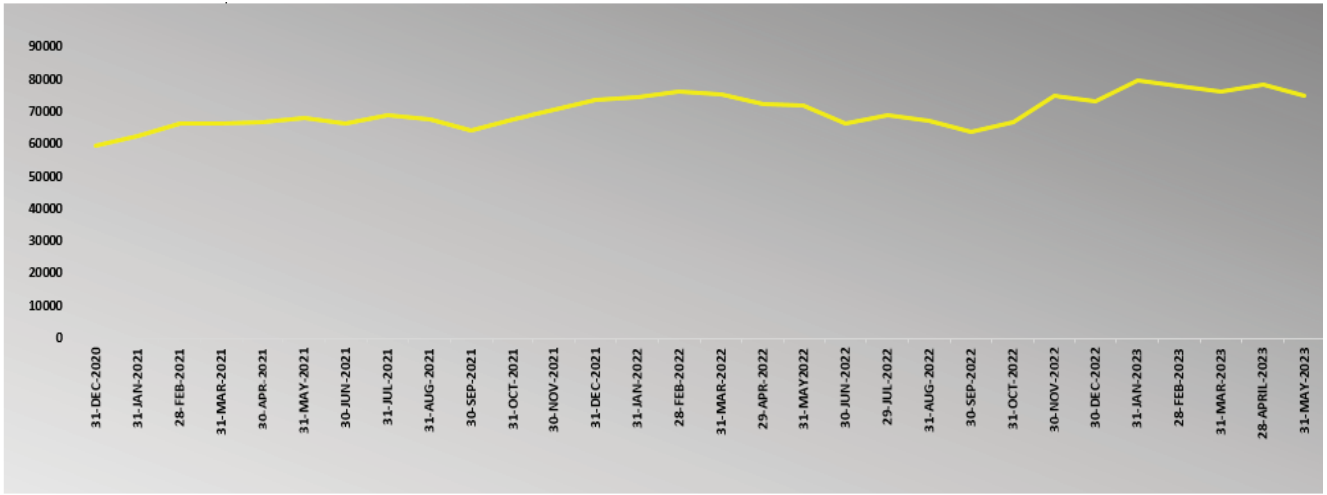
Figure 3: NSX Overall Index



Source: Bloomberg, NSX & HEI Research

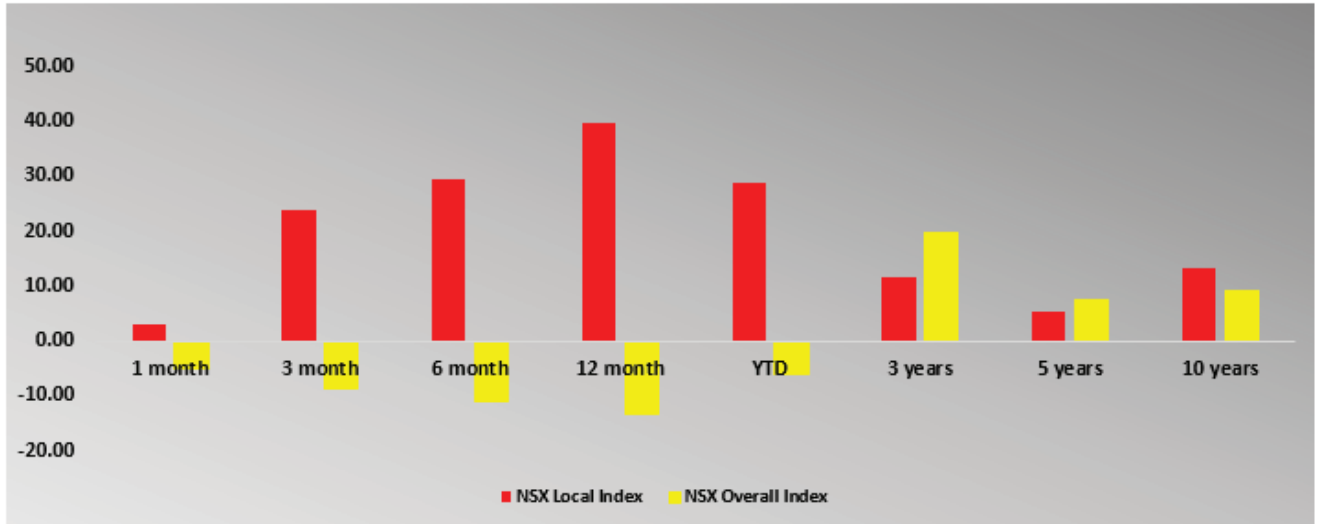


Figure 4: JSE ALSI



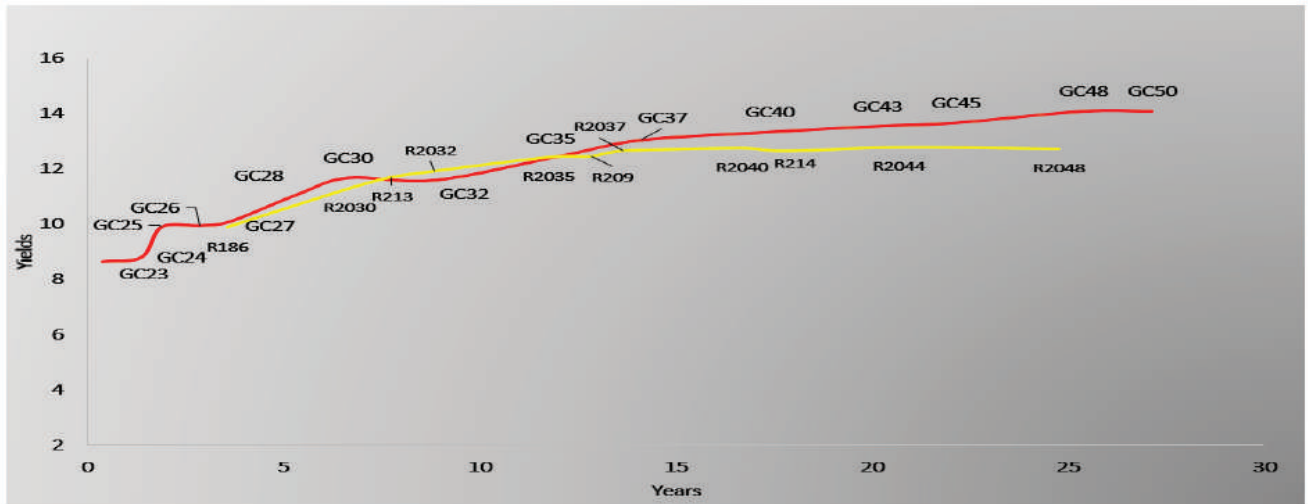
Source: Bloomberg, NSX & HEI Research

Figure 5: NSX Index Historic Returns (N\$)



Source: Bloomberg, NSX & HEI Research

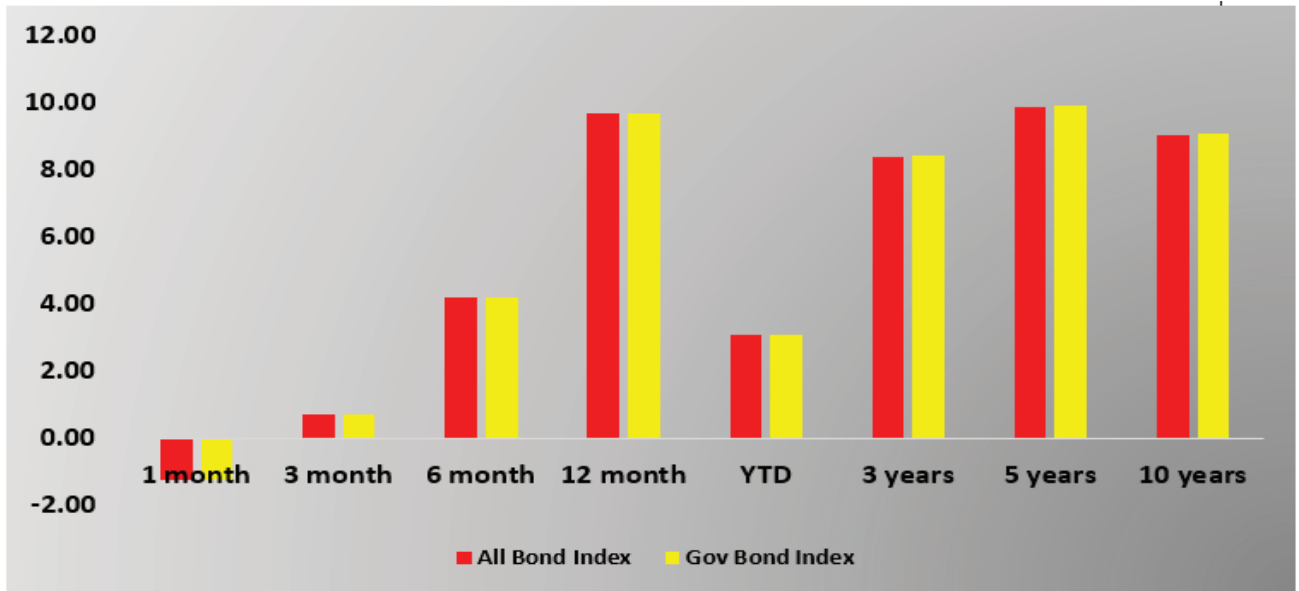
Figure 6: Bond Yield Curve as at 31 May 2023



Source: Bloomberg, NSX & HEI Research



Figure 7: Bond Performance Index (%)



Source: Bloomberg, NSX & HEI Research

Figure 8: MM & TB Index



Source: Bloomberg, NSX & HEI Research

Outlook

After analyzing the trajectory of global equities, it is evident that recent advancements in generative AI technology have significantly influenced investor sentiment, favoring AI-related equities. This shift in sentiment may indicate a bullish market outlook, with expectations of the S&P 500 experiencing notable growth. Additionally, concerns regarding the US debt ceiling have been resolved, leading to projections of easing global fixed income yields.

Furthermore, there is an anticipated surge in commodities and currencies, driven by improved market optimism resulting from slight improvements in economic growth projections. However, it should be noted that the full recovery of equities may present challenges until certain conditions are met. These conditions include the South African Reserve Bank initiating interest rate cuts and a significant reduction in load shedding, which could contribute to real economic returns and foster overall growth.

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