OLD MUTUAL
EMPLOYEE GROUP IN SUPERFUND

QUARTERLY INVESTMENT UPDATE

JULY 2022 - Q2

IN THIS EDITION WE PROVIDE

- A market overview;
- Provide an investment performance update as at 30 June 2022; and
- Share a link to a MindSpace video about early access to retirement savings in SA.

MARKET OVERVIEW

Market Outlook

The story of the second quarter of the year has been one of heightened uncertainty. Volatility in the markets continued due to uncertainty regarding inflation and interest rate expectations; the effect of China's Covid-19 lockdowns on supply chains; the ongoing Russian invasion of Ukraine, the resulting sanctions on Russia and the economic effects of higher gas and commodity prices.

Local markets

The local markets fared slightly better than global markets through the mayhem of the quarter. While local equity markets had a strong month in March, they sold off in April, ended May more or less flat and June had only a downward trajectory in line with global markets. Resources and Industrials bore the brunt of the selloff over the quarter, with resources giving up some of their earlier stellar gains from higher commodity prices. Naspers and Prosus continued to lose ground early in the quarter as they were impacted by Tencent-specific issues. News that Tencent faced a possible fine from Chinese authorities for inadequate compliance measures kept sentiment poor despite their financial results. However, Naspers and Prosus both rallied late in the second quarter after Naspers announced that they would sell down a portion of their Tencent stake and use the proceeds to buy back Naspers and Prosus shares. Retail sales overshot expectations coming in at 3.4% year on year in April from an upwardly revised 1.7% year on year increase in March. This should support retail stocks over the short term but could be temporary as companies struggle to pass on inflationary increases to consumers who are already suffering from high fuel and food prices.

With escalating inflationary fears, inflation-linked bonds have been the asset class of choice. South African headline CPI inflation has inched higher due to the impact of increased fuel and food inflation. Fuel inflation now averages 26.0% for the year, with food inflation averaging 5.9%. Electricity prices are expected to increase by 9.61% in July following the Nersa announcement, which is lower than the 15% increase expected.

Given the higher local headline inflation and the faster pace of quantitative tightening in advanced economies, the South African Reserve Bank (SARB) increased the repo rate by 0.5% on 20 May 2022. While higher interest and inflation rates are not good for the bond market, South African bonds are still very attractively priced and offering investors good real yields.

Data showing the South African economy has been performing much better than expected was released during the quarter. Economic activity (measured as real gross domestic product, or GDP) expanded by 1.9% in the first quarter of the year compared to the fourth of last year.

Economists were pencilling in growth of 1.2%. The growth rate for the fourth quarter was also revised up, from the initially reported 1.2%, to 1.4%. In real terms, economic growth has recovered and moved beyond pre-pandemic levels. The growth has been diverse across the various sectors and while the agricultural sector has also performed well over the past two years, supported by good weather and elevated prices, it makes up a small part of the economy. The construction sector on the other hand continues to battle. It was negative in the first quarter and is still 20% below where it was on the eve of the first lockdown in 2020.

Global markets

Globally, the market has been very jittery over the course of the quarter as inflation has continued to soar in the US. US CPI climbed to a 40-year high of 8.6% for the previous 12-months in May, up from April's figure of 8.3%. In response to this persistent inflation, the US Federal Reserve (Fed) raised rates by a massive 0.75%. This is the largest hike that has been seen since 1994 and follows previous increases of 0.25% and 0.50% earlier this year.

As rates and inflation have risen, global bonds have sold-off significantly with the World Global Bond Index down over 12% in US Dollar terms since the start of the year. Whether the Fed will drive the US economy into a recession to curb inflation remains to be seen. However, global growth is likely to be very much constrained this year especially as China gradually emerges from its hard lockdown stance.

In addition to increasing interest rates, the Fed has also started on a program of quantitative tightening to shrink their $9 trillion balance sheet. This will further be a further headwind to asset prices.

US stocks continued their slide as the impact of higher inflation and higher interest rates on company earnings start being priced in by the market. In addition, US stocks were already trading at expensive valuations earlier this year. Even though 55% of companies that reported in April delivered earnings that grew slightly ahead of expectations, it was not enough to settle the markets as management teams continued to highlight inflationary pressures and supply chain challenges as risks.

US tech shares have been the biggest losers, with the tech-heavy Nasdaq 100 Index returning -13.3% in April, the worst monthly drawdown since 2008. Losses were severe for the largest tech companies as well, with Facebook parent (Meta), Amazon, Apple, Netflix, and Alphabet, falling by at least 10% collectively. This included a 24% drop for Amazon and a 50% plunge in the Netflix share price, as it saw subscriber numbers fall for the first time in a decade.

The Pound dropped to a 2022 low against the US Dollar after the US hiked rates and the Bank of England has had to raise rates again in June, the fifth consecutive rise in as many months. Conversely the Bank of Japan has continued its program of quantitative easing, buying over ¥1 billion of fixed rate bonds as the Yen slid to a 24-year low against the US Dollar.

The era of easy money and low interest rates is coming to an end as we all knew it would since it began following the global financial crisis in 2008. A period of normalisation has begun, and markets typically will overreact to any change in regime. Investors, however, need to stay the course and continue to look through the short-term volatility, taking advantage of the opportunities that the market provides to long term investors.

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INVESTMENT PERFORMANCE SUMMARY AS AT 30 JUNE 2022

The table below provides the gross return of each portfolio over the 1, 3- and 5-year periods ending 30 June 2022.

Category	Portfolio	1 Year	3 Years	5 Years
Default	Old Mutual Absolute Smooth Growth	11.6%	7.6%	7.5%
	Target: Inflation + 6%	**13.9%**	**11.1%**	**11.0%**
Market-Linked	Old Mutual Multi-Managers Inflation Plus 5 - 7% Strategy	4.7%	10.2%	8.4%
	Old Mutual Profile Edge 28	7.3%	9.2%	8.2%
	Coronation Managed	3.0%	9.9%	7.6%
	Target: Inflation + 6%	**13.9%**	**11.1%**	**11.0%**
	M&G Balanced	8.4%	8.7%	8.7%
	Old Mutual Balanced Index Fund	3.6%	6.5%	6.3%
	Target: Inflation + 5%	**12.8%**	**10.1%**	**9.9%**
Smooth Bonus	Old Mutual Absolute Smooth Growth	11.6%	7.6%	7.5%
	Target: Inflation + 6%	**13.9%**	**11.1%**	**11.0%**
	Old Mutual Coregrowth 100	8.0%	7.0%	7.5%
	Target: Inflation + 3%	**10.6%**	**8.0%**	**7.8%**
Shari'ah	Old Mutual Investment Group Shari'ah Composite Fund	4.0%	6.8%	6.8%
	Target: Inflation + 4.5%	**12.3%**	**9.5%**	**9.4%**
Money Market	Old Mutual SA Money Market	4.5%	5.2%	6.3%
	Target: Inflation	**7.4%**	**4.8%**	**4.7%**

The above summary reflects the gross performance of the underlying investment options available to OMEGS members. This performance is not necessarily an indication of future performance. Saving for retirement is part of a long-term financial planning process and we encourage you to seek financial advice before making any invested related decisions.

MINDSPACE ARTICLE

Explainer video: Early access to retirement savings in SA

South Africa's government has proposed a new system for retirement savings, which has been dubbed the two-pot system for retirement funds. This system would allow members to withdraw some of their retirement savings before retirement age, something which is currently only possible when they resign.

Click here to watch the video

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