WARWICK WEALTH

The Investment Specialists

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WEALTH MATTERS

In this issue

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Introduction and welcome from the Warwick Wealth Managing Director

THANK YOU!

A big "thank you" to all of our clients, merger partners and professional network members who commented so positively on our first edition of Wealth Matters. It is greatly appreciated and we have taken on board all of your inputs and will incorporate all the feedback wherever possible. Please keep the feedback and input coming so we can continue to add value to you.

Each month, one of our Regional Managers and Wealth Specialists will craft a commentary on an important aspect of private wealth management, but this month, I focus on inflation and its impact on our clients.

Enjoy the read and please be in touch with us directly or through one of our offices nationwide, or call us Toll-free on **0800 50 50 50**.

Enjoy the read and I look forward to being in touch again in July!

Marc Wiese, Managing Director

THIS TOO SHALL PASS

What are the expectations for the future and how do we believe this will impact the local and international stock markets?

The World Bank has noted that: "Global inflation is expected to moderate next year, but it will likely remain above inflation targets in many economies". The expectation, therefore, is that as global interest rates increase and as supply chains operate more optimally, we will see a more normalised inflation rate. Yet the Russian – Ukraine war may still continue for some time and therefore will likely cause a longer-term elevated global inflation scenario.

WHAT DOES HIGHER INFLATION MEAN FOR OUR CLIENTS?

South Africa has not been able to avoid increased inflation. As the cost of imported goods and commodities rise, so has the South African inflation to 6.5%, notably being higher than the SARB's target band of between 3% and 6%.

In order to curtail the effects of inflation, the South African Reserve Bank has increased the Repo rate to 4.75%, taking the prime rate to 8.25%. The average homeowner with a 20-year bond and a prime interest rate, will therefore be paying approximately R312 per month more for each R1m on their bond, further removing cash from potentially stimulating the economy.

Yet, as the Reserve Bank increases interest rates, many of our fixed income portfolios also have increased interest payable and therefore provided an increased investment return for our clients. Most of our clients' investment portfolios in South Africa have a significant fixed income component which will benefit from increased interest rates.

Looking at the local and international stock markets, we have seen a significant pull-back in the market during 2022. The old saying of "greed vs fear or Bulls vs Bears" has never rung truer. Global investors and financial markets are always torn between the two.

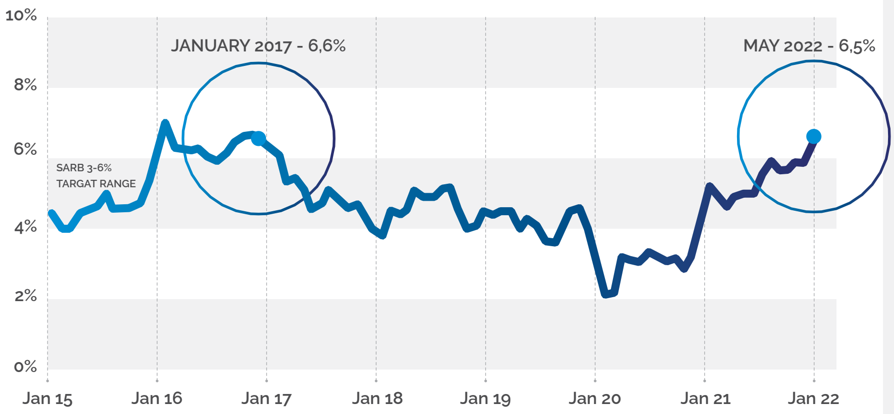
As at the date of writing, the S&P 500 had declined 21% year to date, raising the question, has the market priced in all the global concerns and has it bottomed? The simple reality is that no one can always accurately time or call the market. What we do know is the best strategy in extremely volatile periods is to remain invested, as stock markets ALWAYS recover and grow in the long term.

Therefore, investors must remember that long-term growth is coupled with volatility, but at the end of the day THIS TOO SHALL PASS.

The above being said, it should be noted that active and prudent financial advisors and asset managers must not simply sit back in times of market declines and volatility - solid research, backed by logical investment decisions is cardinal.

We would, therefore, wish to provide clients with peace of mind that we are constantly monitoring your investment holdings, asset allocation and risk to return profiles.

SOUTH AFRICAN ANNUAL CONSUMER PRICE INFLATION WAS 6,5% IN MAY 2022, THE HIGHEST RATE SINCE JANUARY 2017



International Markets

A Disorderly Adjustment

International capital markets have come under significant pressure during June, notably since the Fed validated market expectations last week by hiking its policy rate by 75 bps and reinforced its hawkish rhetoric as it seeks to combat inflation. The market's initial positive reaction quickly gave way to renewed anxiety as the debate grows as to whether the Fed's new policy path will be sufficient to bring inflation under control, how quickly, and at what cost to the economy.

As of writing, global equities have now fallen by > 23% in the year to date, while areas such as technology and Europe have underperformed this. The sell-off hasn't been limited to equities – global bonds have also fallen sharply as yields have surged to keep pace with the shift in central bank rate expectations.

The combination of much stronger than expected CPI data, interest rates which are still too low in nominal (and real) terms for the current economic environment, and ongoing concerns about the supply of key commodities have created a toxic environment for most asset classes, and this month is seeing a collapse in investor sentiment and the current bout of indiscriminate selling. But enough of the negatives, even though it is easy to be drawn to this side of the equation when anxiety levels spike sharply higher. We believe that forecasts of inevitable recession are still premature at this point. While U.S. growth is slowing and inflation and gas prices are high, the job market is still very strong, household and business finances are in great shape, and there are few fundamental excesses that point to a major unwinding over the next year.

Bond and equity markets are both very oversold at this point, and in many cases for equity markets, are trading below their pre-Covid levels, thus giving back the abnormal gains made by several sectors during the 2020/1 growth rally.

Bonds could stabilize, after touching 3.5% for the US ten-year last week, and possibly experience a rally in coming weeks. The Fed has already downgraded growth expectations for 2023, and other economies are following suit. Real yields remain low by historical standards, although on a five year forward basis have moved back into positive territory.

Stocks have already been de-rated aggressively, with the forward P/E ratio falling from above its peak level above 20 to below 15 times. Prices will remain sensitive to interest rates, especially still expensive US growth stocks whose valuations have been more sensitive to rising bond yields than their value counterparts. Despite their severe underperformance this year, they remain vulnerable to the underlying cyclical uptrend in bond yields and are not immune to a softening of demand following the pandemic-driven boom in tech spending.

Looking forward, we expect that earnings will be the key driver for sector leadership in the year ahead. So far, global earnings expectations have held firm in level terms, although growth momentum is slowing in some sectors, especially those exposed to rising input costs and consumer inflation. Notwithstanding the risk of a near-term earnings growth scare, we expect 12-month forward earnings to have a positive bias if global economic growth proves as resilient as we expect.

Indeed, history augurs well for equities should the global economic expansion be sustained, even with a reduction in the headline growth rate in 2023.