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Market update

Prepared by GTC Asset Management

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Scope

This communication provides GTC's clients with insight into recent investment market developments assisting them to make informed and appropriate investment decisions.

What has happened?

A combination of; the economic fallout from persistent supply chain disruptions, rampant inflation, and a war between two of the world's key commodity producing countries (Ukraine and Russia), has created a fear fuelled environment, causing investors around the globe to rush to sell seemingly 'risky' assets like shares, emerging market assets or currencies and buy 'safe haven' assets such as cash and gold.

Global central banks' reaction to persistently high inflation has been to enforce restrictive monetary policies including interest rate hikes and quantitative tightening, which has sparked economic recession concerns. The severity and duration of this impact is impossible to predict at this stage and it is this uncertainty that is driving investor fear.

The timing of Russia's invasion - when global markets were already subdued amid supply side and covid related concerns - further served to heighten fears. An additional contributor to the latest wave of selling has been the imposition of sanctions on the export of Russian oil and gas - a major provider of global demand. These international sanctions have contributed to a surge in oil prices and further intensified the European energy crisis.

While a return to healthier levels of global economic activity seem distant, it is important to remember that these hurdles are relatively short term in nature and akin to "noise" over the full market cycle.

What has the impact been on the markets?

South African Markets performed well in the first quarter of 2022, mainly due to strong performances from resource and financial shares. As greater fear around the severity of the abovementioned issues emerged, we saw considerable sell offs across most asset classes over recent months. The table below indicates the variation in the asset price over the period Jan to June 2022:

Asset Class (Index)	% Change for the year to 30 June 2022
Local Shares (All Share)	-8.30
Local Listed property (J253)	-12.68
Local Bonds (ALBI)	-1.93
Global Shares in USD (MSCI World)	-20.51
Global Bonds in USD (Citigroup WGBI)	-17.63
Gold	-1.53
Oil	57.34
The rand versus the dollar	-2.52

The fall in the rand to R16.30 to the dollar as at 30 June moderated the losses experienced by South African investors on international investments in rand terms.

What is likely to happen going forward?

We anticipate that volatility will remain in the market - at elevated levels - for the short term, being at least the balance of the year, due to the persistence of inflationary pressures and the continued Russian invasion. Despite this, our outlook for South African assets - as well as certain international markets - remains positive over the medium to longer term given current valuations and growth drivers over this period.

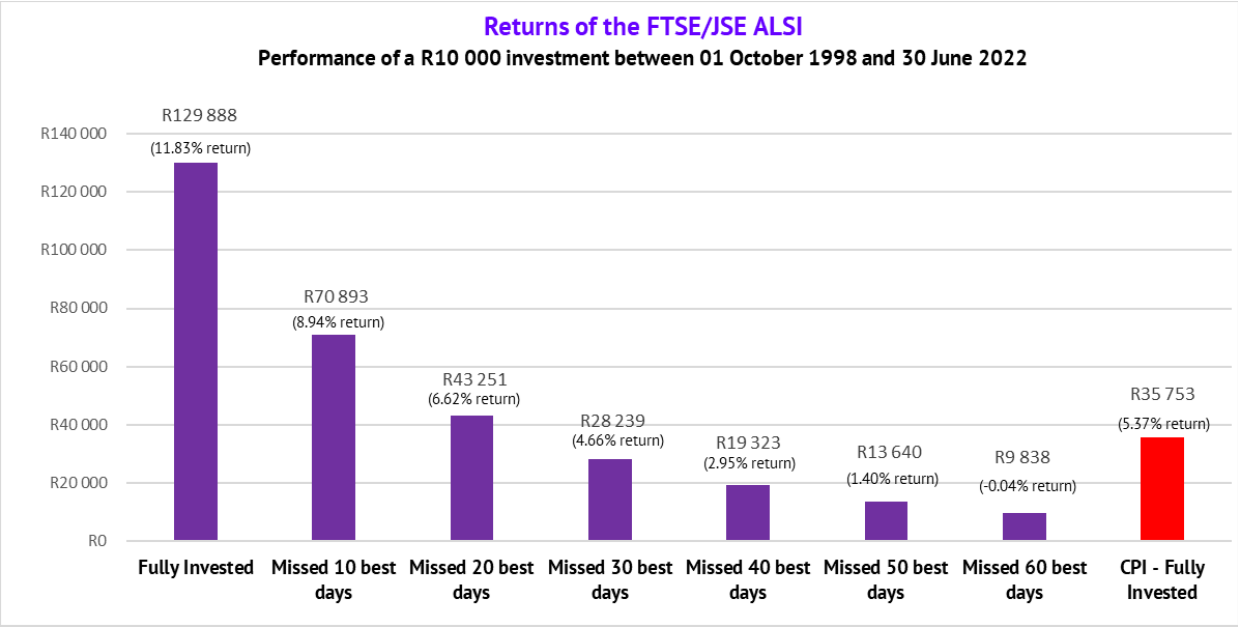
What is GTC doing?

The principles, processes and governance designed by GTC to cater for all conceivable market environments, including periods of turmoil such as this is diligently applied by GTC in the management of its clients' assets. Whilst the particulars of these developments are obviously unique, the market consequences are not and in fact are, as yet not anywhere close to the depth of the sell-off experienced in 2008 during the financial crisis or during the 2020 Coronavirus outbreak. GTC is well versed in handling market sell offs, and clients who were invested with us over the course of our history will recall the limited losses their portfolios experienced when compared to the investment markets over both periods.

We continue to work closely with our appointed asset managers and internal expertise, ensuring that the portfolios weather these conditions. Finally, our understanding of both the nature of asset class returns in volatile markets and over the long term - as well as our awareness of our clients' investment time horizons - means that the portfolios remain well positioned to deliver targeted returns into the future.

What should clients do?

The consistency of our message to investors remains the same, and that is to avoid making investment decisions based on short term market movements. More importantly, investors should avoid acting out of fear by trying to time their movements within the market. Typically, in periods of uncertainty and fear, investors are tempted to move to less risky portfolios. We felt it prudent to revisit the analysis below - which clearly illustrates that a decision to "time the market" almost always leads to a lower investment value over long periods of time - due to the investors' inability to know when share markets are going to go up or down.



The above chart is based on the South African share market (the FTSE/JSE ALSI). It illustrates the risk and impact of timing investments into, or out of, the share market. If an investor missed only 10 of the best trading days over an approximate 24-year period, that investor would effectively only earn almost half of the return achievable (R70 893 versus R129 888) had they remained fully invested, especially during negative markets. Furthermore, research by JP Morgan in the United States found that on average 6 of the best 10 trading days occurred shortly after the 10 worst trading days! These facts explain why trying to "time the market" almost always results in failure.

Given the advantages of remaining invested, as evidenced above, investors should instead ensure they are invested according to their risk tolerance and investment objective, which should not be impacted by market developments. In most cases, no action should be required from investors.

Conclusion

The review and analysis summarised in this document supports our recommendation that clients should continue to maintain investing in line with their originally identified risk and return objectives. If your circumstances have changed, or if you feel it may be time to revisit your risk and return objectives, please contact your GTC consultant.

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