



DECODING THE MONTH

May

Commentary

A late flurry

The dominant market themes of monetary tightening, worsening inflation, COVID lockdowns in China and the ongoing war in Ukraine continue to plague the investment landscape. However, all is not doom and gloom as after seven consecutive weeks of declines, the longest losing streak since 2001, the S&P 500 logged strong gains in the last week of May to end the month in marginally positive territory.

The month-end rally may be the first indication that the pendulum might have swung too far to the pessimistic side. The most recent earnings and economic data have been varied, but they have managed to challenge the general belief that the economy is on a one-way path to a recession. Nevertheless, the main concern for investors remains focused on the Fed increasing rates too far, which could inevitably push the economy into a recession.

However, the minutes from the May Fed meeting did provide some reprieve. Most officials hinted at two 0.5% rate increases over the next two meetings (in line with what the bond market is currently pricing). The idea being that this will enable the Fed to assess the effects of policy firming later this year, potentially implying a slowdown in the pace of rate hikes later on. Should this come to fruition, it should be well received by market participants.

Locally, equities also staged a late rally with the FTSE/JSE All Share Index recovering c. 6.5% in the last few days to end the month marginally down by 0.4%. This performance has continued to be driven by the strong YTD performances in both the Resources and Financials sectors. South African bonds fared better this month with the FTSE/JSE All Bond Index ending up 1.1%.

From an economic perspective, the South African Reserve Bank's (SARB's) Monetary Policy Committee (MPC) hiked rates by 50bps (the largest hike in over six years) to try and tame inflation back to the midpoint of their target range. The MPC still remains undecided as to whether inflationary factors are transitory or not with second-round effects of higher fuel and food prices remaining a source of concern.

With so many market variables at play, we thought we would take inspiration from Red Bull Racing. If the last race in Monaco taught us anything, it is that despite various obstacles thrown your way, never underestimate the power of a good strategy.



Positioning

Large Underweight	Mild Underweight	Neutral Weight	Mild Overweight	Large Overweight
Local Income	Global Bonds & Global Equity		Local Equity	Local Bonds & Global Income

Data: Reuters. Indices are the FTSE/JSE, the MSCI and the WGBI.