INTUITION

6 JANUARY 2023

The year in review

Having rallied hard in November, investors were hoping that December would be more of the same – a Santa Claus rally. That was not to be. Markets were volatile, but generally weaker as investors took stock of a difficult year and pondered the outlook for 2023. Looking back, it was a wild and disparate performance from equities around the world. Against all expectations, the JSE outperformed its peers, hard to believe given the extended loadhsedding and other issues. In this issue, we update a few interesting charts that put the past year into perspective.

Michael Porter

Time heals. Its hard to believe that December 2021 was marred by the outbreak of Omnicron and the chaos that it caused. This year there were no such dramas, yet markets were far more jittery. From a financial perspective, 2022 can be summed up in just one word: “inflation”. Worldwide, inflation has risen to its highest since the 1970s. Interest rates have followed. Having rallied hard in November on the prospect of a peak in inflation and China relaxing its Covid restrictions, markets were more subdued in December, reflecting the probability of a tough year ahead. Whilst inflation has probably peaked, interest rates will rise further and growth is slowing sharply across all major regions. That has equity investors nervous.

SPEED READ

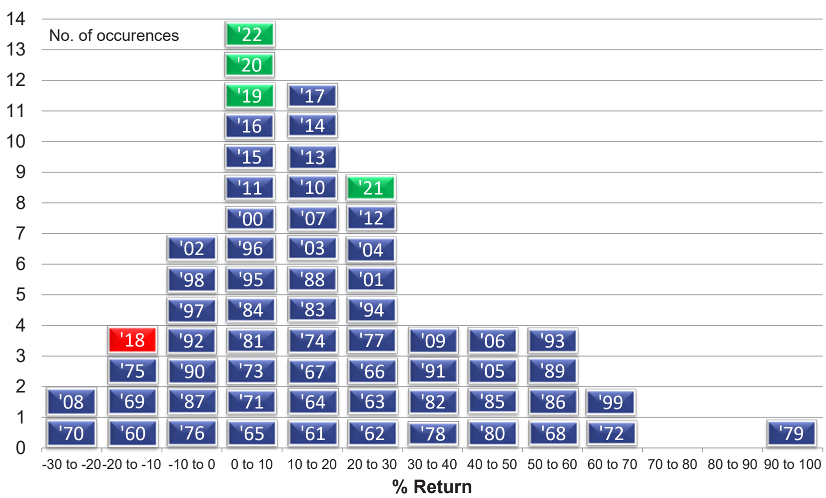
- **2022 was all about inflation and rising interest rates. Those trends are not yet over.**
- **Global equities delivered a very disparate performance.**
- **The JSE delivered muted, but positive, returns but only if dividends are included. This reinforces the core of our approach that investors focus on capital growth alone at their peril.**

This article will study a few salient charts to put the past year into perspective, and offer a pointer of what might lie ahead.

Annual SA Equity Returns

The saying that “a picture says a thousand words” is very apt for this chart. It shows annual equity returns for the JSE since 1960, broken down into different buckets. More often than not, returns for the JSE lie between 0% and 20%. This is a timely reminder than whilst markets can certainly provide fireworks from time to time (look no further than 1979!), investors should remember that investing is a marathon, not a sprint. Returns have been negative on only 13 different occasions, the last being in 2018 when the market fell by 11%. Returns in 2019 and 2020 were positive – but only just. Investors might be surprised that the JSE delivered a positive return of 3.58% in 2022, given that we experienced the worst loadshedding ever and politicial scandal continued to hamper the pace of reform. This return can be broken down into a capital return of -0.9% and a dividend return of 4.48%. This outcome is a further timely reminder of the importance of dividends. 2022 would have recorded negative returns had it been measured on capital change alone.

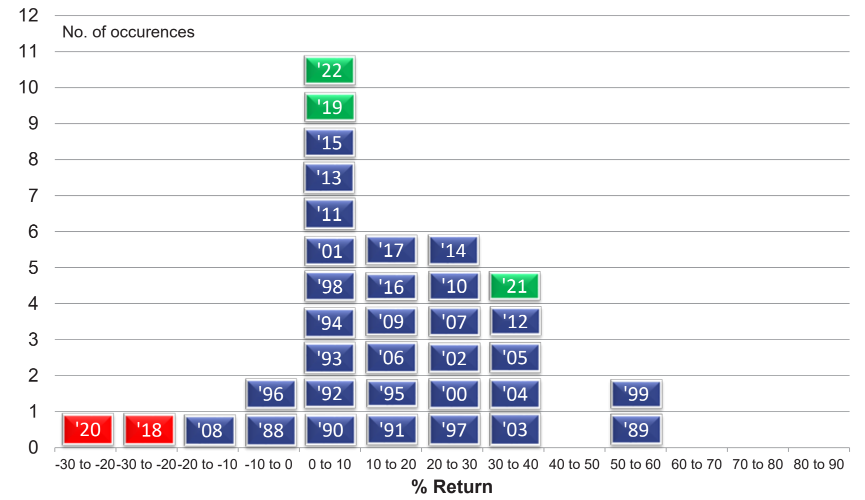
ANNUAL SA EQUITY RETURNS



Annual Listed Property Returns

This is a similar chart to the previous one, but focuses on the listed property sector specifically rather than the equity market as a whole. Over 34 years of data, listed property has delivered negative returns on just five occasions – the worst two of those being in the last 5 years. Property was hard hit during the pandemic yet the sector has recovered. After a bumper year in 2021, returns from listed property were far more muted last year. In fact, they were barely positive. Capital returns for the sector were -7.29%, but the income yield offset that to deliver a total return of 0.49%. Despite the weak performance, the sector's recovery from Covid has continued. Whilst office property remains weak given the poor economy, retail and industrial property is performing well, and the return of tourists has underpinned this further. Whilst we do not expect fireworks from listed property this year, we think the fundamental recovery will continue, led by positive rental reversions and a small decline in vacancies. That will underpin income distributions, which in turn will underpin share prices.

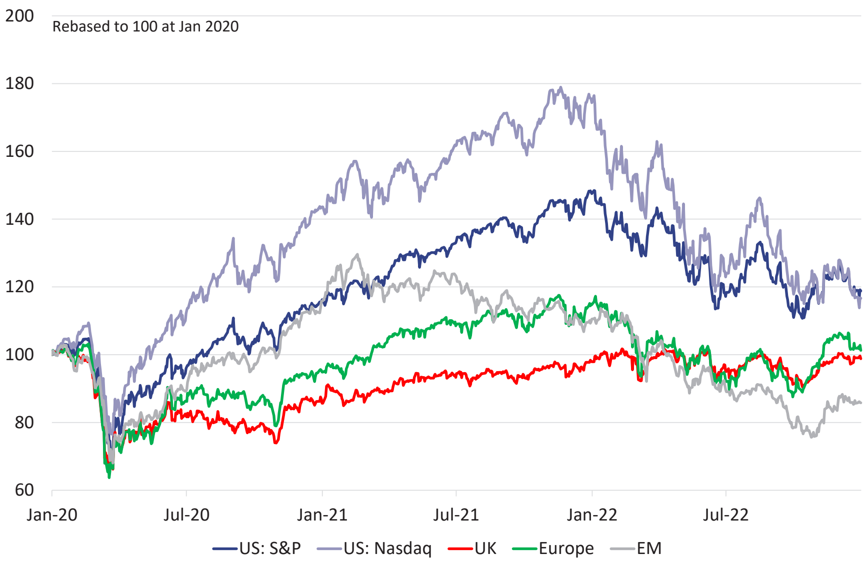
ANNUAL LISTED PROPERTY RETURNS



Global Equity Returns

The US has claimed the crown for the best performing equity market for years, but that record was broken in 2022. Again, seemingly at odds with the headlines, the UK's FTSE 100 Index was the best performer, and the only major market to deliver a positive return. In contrast, what goes up must come down! The chart alongside shows the performance of several major indices from the start of 2020 – just a few months before the Pandemic took hold. It clearly shows the strong performance of US markets, which in turn were driven by soaring tech shares (as illustrated by the Nasdaq Index). But 2022 saw a year of reckoning. Tech shares came back to earth with a bump, losing just over 30%. The broader S&P 500 Index lost 18% on a total return basis, whilst Europe and the UK delivered returns of -9.5% and +4.7% respectively.

GLOBAL EQUITY RETURNS



The tech cycle over Covid clearly illustrates the dangers of chasing past winners. Those excess returns have all disappeared as investors focus on sustainable earnings and dividends become more important to total returns. Furthermore, it is interesting to note that returns from European and UK equities have been flat over the past 3 years. It might surprise investors to know that the JSE has delivered returns of 28% over that same period (in Rands) or 5.5% when measured in US Dollars. That is worse than the US, but significantly better than many other emerging markets.

Our seminar schedule for 2023 will be published in the next few weeks. Watch this space.

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Topic: **To be confirmed**

Natal Midlands	
Date:	TBC
Venue:	Oasis Conference Centre, 72 Main Road, Howick
Morning Time:	10am for 10.30am
Evening Time:	5.30pm for 6pm

Johannesburg	
Date:	TBC
Venue:	Rosebank Union Church, Cnr William Nichol and St Andrews Road, Hurlingham
Time:	7am for 7.30am

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