WARWICK WEALTH

The Investment Specialists

March 2023

WEALTH MATTERS

In this issue

Introduction and welcome from Warwick Wealth Managing Director, Marc Wiese

Welcome to our March 2023 edition of Wealth Matters. Given the current global market volatility, it is timely to revisit some core investment principles that have proven to be effective over time.

Investment principles for volatile markets

In times of heighted market volatility and financial stress, it is important for investors to remain disciplined and not give way to rash decision-making. Investors should remain cognisant of key investment principles that have held true over many market cycles. Investors that remain disciplined and adhere to these principles will be rewarded in the long run.

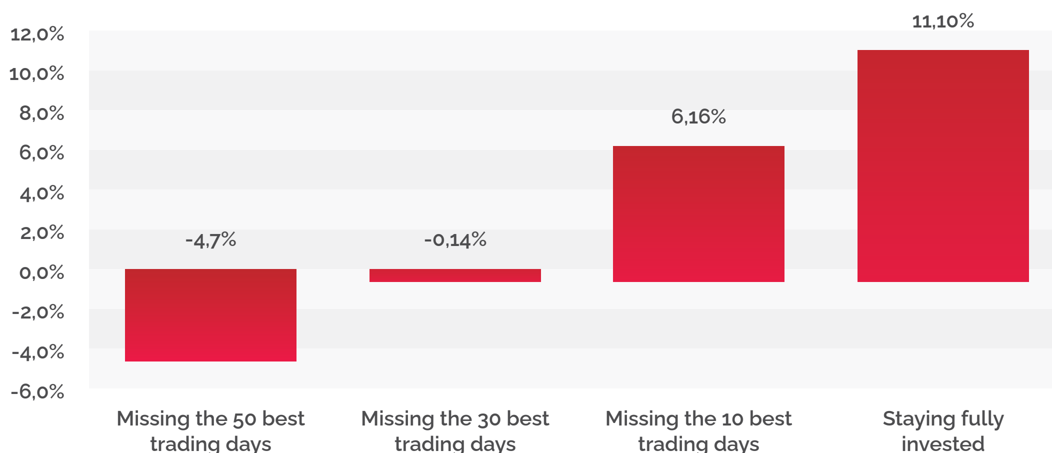
What is driving current market volatility?
A combination of high global inflation, together with the recent banking failures in the US, with the attendant concerns of a contagion effect are sending ripples through global markets and emerging markets in particular. South Africa falls into this basket, and we are experiencing the turbulence of headwinds that are blowing from the North. But as we have learnt from decades of experience and wealth management, it is imperative for investors to adhere to the following investment principles that have remained true over multiple market cycles:

Volatility is normal, maintain a long-term investment horizon.
Market volatility is a normal occurrence and increases in periods of uncertainty brought on by an environment of heightened macroeconomic risk. The best tool in reducing volatility is a long-term investment time horizon. Investors that adopt a long-term approach to investing have a better chance of reaching their investment goals than those who react to short-term market fluctuations. Furthermore, staying invested over the long term can help reduce volatility, as fluctuations in investment returns tends to smooth out over time. Moreover, market volatility is not all bad as it provides buying opportunities where quality assets can be acquired at attractive prices.

It's about time in the market, not timing the market.
Correctly timing the market is very difficult and doing so consistently is even more so. A strategy of jumping in and out of the market at the correct time relies more on guess work and luck than calculated and thorough investment analysis. As market volatility increases, investors may feel the natural tendency to want to move out of the market to avoid further losses. This move can, however, lock-in losses that could otherwise have recovered over time. It is, therefore, important for the investor to avoid trying to time the market.

Selling at the wrong time and missing just a few days of a market recovery can have a significant negative long-term impact on your portfolio. Looking at the FTSE/JSE Capped Shareholder Weighted Index (JSE Cap SWIX) over 10 years, if an investor stayed fully invested over the 10-year period, the annualised return would be 11.10%. Missing just 10 of the best trading days over the 10 years, investors would only experience a 6.16% annualised return. At the extreme end, missing 50 of the best trading days in the 10-year period, the annualised return would be - 4.7%.

ANNUALISED RETURNS FOR THE JSE CAP SWIX



Source: Bloomberg, Cadiz: Period measured between 1 July 2012 to 30 June 2022

Diversification

A golden rule in investing is to diversify. Diversifying your portfolio remains key to reducing volatility and risk, which can help smooth out returns over time. The key to diversification is to invest in assets that are uncorrelated or negatively correlated with one another. This can be achieved by investing across asset classes (cash, bonds, and equities) and within asset classes (industry sectors, geographic areas, and investment styles). Moreover, not all financial markets move together. At any time, one asset class may be leading the markets and another asset class may be lagging the market. It is, therefore, crucial to have exposure to a mix of assets to ensure a more stable investment experience.

Hold your nerve

In the current volatile environment, it is very easy to lose your nerve and give way to rash decisions in reaction to adverse market events. It is crucial for investors to maintain calm in times like these and stick to their carefully thought-out investment strategy. Furthermore, it is important to note that the fundamentals of investing do not change in periods of financial stress but continue in both good and bad times.

Conclusion

At Warwick, we wish to reassure clients that we are fully focused on protecting your investments from permanent capital losses, by ensuring that you are invested in a diverse portfolio of quality assets that we expect to compound growth over the long-term. Furthermore, we believe that the composed and consistent investor will be rewarded in the long run for following the investment principles that have remained true over many market cycles.

One major benefit of private client wealth management is that you have a dedicated professional wealth specialist or financial advisor just one call away. So, if you have any concerns of any nature whatsoever, please simply call your wealth specialist, or contact us on our Toll-free number **0800 50 50 50**, or email us on **clientcare@warwickwealth.com**

Please take the time to read through the interesting and informative articles in this edition of the Wealth Matters and I look forward to communicating with you again next month.

Sincerely,

Marc Wiese, Warwick Wealth Managing Director

FINANCIAL MARKETS REVIEW FOR MARCH

International Markets

While our regular market commentary is for the month of February, events in early March have subsequently impacted on markets and require some analysis.

The big news unnerving markets at the time of writing is the failure of US-based Silicon Valley Bank (SVB), which impacted US175bn in deposits and US$209bn in assets. Two other US banks, Signature Bank and Silvergate Capital, have suffered the same fate. In the case of Silvergate, which was heavily exposed to the crypto sector, it has closed its doors and returned assets to its investors. On a different scale entirely, Credit Suisse has sought and received $54bn in support from the Swiss Central Bank. The reassuring news of this support saw shares in Credit Suisse recover significantly. Depositors in both SVB and Signature Bank will receive all their money back and while the US banking system is coming under increasing scrutiny, Treasury Secretary, Janet Yellen, has assured the investing public that the US banking system is sound and that, "Americans can feel confident that their deposits will be there when they need them". Indeed, unlike the 2008 crisis, authorities have responded quickly and decisively to this mini-banking collapse, with Yellen commenting, "This week's actions demonstrate our resolute commitment that depositors' savings remain safe."

Market volatility will be the watchword in coming weeks until the banking system has fully stabilised and we maintain a close watching brief on all developments.

World markets presented a mixed bag of performances in February after a good start to 2023, with higher-than-expected US inflation data putting a dampener on hopes that the US Federal Reserve would soon be able to pause its monetary tightening policy and ease rates before year end. Instead. the persistently stubborn high inflation awakened expectations that the Fed would continue to increase rates for some time to come. Additionally, continued concerns around US/Sino relations regarding Russia also added to the negative sentiment.

US equity markets ended the month lower as volatility continued to set the tone. The Dow dropped by 4.2% for the month, the S&P 500 was weaker by 2.6% and the Nasdaq declined by 1.1%, with most large US corporates having reported their fourth quarter 2022 earnings.

Economic data in the US weighed on investor sentiment as both US unemployment and inflation data dampened hopes of early rate cuts. Inflation had slowed again in January, albeit at a slower pace than the market had expected, as CPI came in at 6.4% vs a previous reading of 6.5% and consensus expectations of 6.2%. Core CPI, in a similar vein, slowed down to 5.6% in January vs a previous of 5.7% and consensus of 5.5%.

Existing home sales for January also dropped to their lowest in 12 years, but consumer spending, jumped by 1.8%, its biggest increase since March 202. Exceeding expectations, retail sales jumped by 3% as spending on cars, furniture and clothing took centre stage. Unemployment data indicated that the US created around 500 000 new jobs, a surprise strengthening in activity, which added to the inflation data. As a result, markets have extrapolated this strength and are now pricing in an increase in the Fed benchmark rate to between 5.25% and 5.50% by July 2023, which is an upward adjustment of almost 50 basis points since the start of February 2023.

Unlike their US counterparts, European markets had a positive close to February, with all the major indices closing more than 1% higher.

The UK FTSE 100 ended up by 1.3%, its best February return since 2019, as inflation numbers eased for the third consecutive month coming in at 10.1% vs the December reading of 10.5%. Although this slowdown has eased the pressure on the Bank of England to raise rates, it remains close to the 40-year highs reached at the tail end of 2021. In addition, to mitigate any fallout caused by the Northern Ireland Protocol, the British Prime Minister signed a new trade deal with the EU on February 27th.

The Dax in Germany increased by 1.6%, with inflation continuing to climb (8.7% in January vs a previous of 8.1%) as food and energy prices remained persistently high, as the Russian Ukrainian war grinds on. In a similar vein, the CAC in France closed higher by 2.6%, with inflation numbers also climbing (7.2% in January vs a previous reading of 7.0% in January), with higher food and energy prices sustaining the pressure. Inflation in the Eurozone eased, coming in at 8.6% vs a previous reading of 9.2%.

Asian markets also displayed a mixed bag of returns in February, with Chinese investors taking some profits post the relaxation of the government's onerous Covid restrictions which had boosted the market. The Hang Seng closed the month down by 9.4%, the Shanghai Composite eked out a marginal gain of 0.7%. Chinese economic data recovered in February with official manufacturing PMI at 52.6 vs January's 50.1, which exceeded the consensus expectation of 50.5. Non-manufacturing PMI, a measure of business sentiment in the construction and services industry, rose to 56.3 from the January number of 54.4. As we reiterate monthly, the 50-point mark separates contraction from expansion.

In Japan, the Nikkei closed the month firmer by 0.4%, as economic data showed the economy had averted entering a recession. The GDP print came in at 0.6%, much less than the consensus of 2.0%, while the inflation rate rose to 4.3% in January vs the December print of 4.0%, impacted by an increase in the prices of raw imported commodities and a weaker yen. Core inflation soared to a 41-year high of 4.2% in January, exceeding the Bank of Japan's target for nine consecutive months. Rhetoric emanating from the BoJ indicated no immediate revision of its target inflation of 2%, issued in 2013, and that there is no rush to alter its ultra-accommodative monetary policy stance, as a tightening monetary policy could further slow the economy.

FINANCIAL MARKETS REVIEW FOR MARCH

Local Markets

The events in early March have also had an impact on the local market and require some analysis. We started 2023 with a rally in developed and emerging markets on the back of expectations that the US Federal Reserve would slow the pace of interest rate hikes, and in early February world markets started to pull back, as data suggested that the US economy was more resilient than expected.

With the news of US banking failures, the SA market, like most other stock markets around the world continued to retreat. What is important to note, however, is that our banks are well capitalised and regulated, but unfortunately not immune to a decline in sentiment and increased volatility.

Market volatility will continue in coming weeks while the banking system stabilises, and we will continue to watch these developments closely. We will include further insights into the developments in our next edition of Wealth Matters.

As with the US markets, the local market experienced a pullback in February, with the All-Share index down by 2.2%. At the time of writing the All-Share index had given back all the gains of 2023 and was flat year to date.

The biggest contributor to the market weakness was the Resources Index, down by 13.2% (BHP Group down by almost 7%, Amplats by 21%, Sasol by 14%, Anglos 14%), followed by the Property sector, down by 0.7%, while Industrials were up 1.7% on the back of decent performances from Richemont (almost 6%), and Financials ending up by 2.5%.

In February Finance Minister, Enoch Godongwana, delivered a benign budget, with the primary fiscal intent unchanged, and the focus on debt stabilisation via fiscal consolidation. The Minister also announced a major debt relief programme for the energy utility Eskom, as rolling blackouts continued to impact and the worsening energy crisis continues to cast a shadow over the country's growth outlook. This was highlighted by the President declaring the 20-year self-made electricity crisis, a national State of Disaster with immediate effect on 09th February. Adding further grist to the mill, the Financial Action Task Force (FATF) grey-listed South Africa on the 24th of February. This means that we are seen as having compliance issues/shortcomings that are a threat to international financial system stability and constitutes a serious reputational blow. As a result, we are now subject to increased scrutiny and leaving the country open to adverse economic consequences in trade and transactions with other countries.

On the economic front, inflation data (CPI) for January slowed for the third consecutive month to 6.9% vs the December reading of 7.2%, with the main contributors being food, transport, and miscellaneous goods. Food inflation jumped to a 14-year high of 13.4% yoy, while retail sales shrank in December by 0.6% as retailers and consumers grappled with the ongoing rolling blackouts, elevated prices, and the increasing cost of living.

Fixed Income

As reported above, South Africa's Finance Minister, Enoch Godongwana, delivered his annual budget policy statement to parliament on 22nd February 2023. Much of the budget focussed on revisions to outlooks due to the big State-Owned Enterprise (SOE) bailouts announced early in the speech. The main point to ponder from this year's budget is the major debt relief for ESKOM, amounting to R254 billion. The government opted not to take the debt onto its own balance sheet as initially tabled, but rather to take over all debt servicing cost for the ailing SOE over the next three years. While this has a severe short-term impact on the government's debt metrics, most rating agencies and investors have been accounting for the ESKOM debt as government debt since the power utility started experiencing severe financial trouble.

The major theme in global markets remains the path of key central banks' policy stance. With inflation slowing over the past few months, investors were pricing in a less severe rate path, yet these hopes were quashed in February as US inflation was worse than expected and the labour market in the world's largest economy remained robust. The Fed and ECB did as anticipated in raising their policy rates by 25 basis points (bps) and 50bps respectively.

The South African money market curve steepened markedly during February. Investors seem to be wary of the assumption that rates will decrease by the first quarter of 2024 as expected a month or so ago. This can be seen by the 3-month Jibar rate decreasing by 2bps and the 12-month Jibar rate increasing by 32bps. These rates have increased by 323bps and 280bps respectively over the past 12 months given the policy rate increases. The STeFI index (a widely used cash-equivalent benchmark) returned 0.54% for the month.

While published numbers suggest that non-residents sold R78 billion worth of South African Government bonds, this does not account for the maturity of the R2023 on the 28th of February. This will present as a large outflow until we see reinvestment in due course. The short-end of the curve came under pressure during the month, with the R186 and R2030 both recording yield increases of 44bps, while the longer-end, (while still increasing), saw a much more muted move resulting in bear flattening of the yield curve. The R2048 yield increased by 18bps. The short end of the curve (1- to 3-years) returned -0.01%, while the long-end (12-years+) returned -0.60%. The All-Bond index came under pressure and returned -0.87%.

The South African inflation-linked bond curve flattened slightly during February, with the short-dated I2025 yield increasing by 3.5bps and the long-end of the curve remaining flat. During the budget statement, the Minister announced that Treasury will be lowering weekly inflation-linked bond issuance over the fiscal year, bringing some support to the asset class. The short-end of the curve returned 0.49%, while the long-end returned 0.62% for the month of February. The South African inflation linked index (CILI) returned 0.45%.

This month, Warwick Gauteng Senior Wealth Specialist, Mathew Pellatt, discusses the psychology of investing and provides some useful guidelines for private clients.

The Psychology of Investing: Understanding the Mindset Behind Investor Behaviour

As the introduction to this month's Wealth Matters has emphasised, adopting an appropriate mindset and consistent approach to private wealth management is key, particularly during times of economic uncertainty and market volatility. As Warwick Wealth Specialists, it is our duty to help clients achieve their financial goals through sound investment management strategies. While investment performance is undoubtedly crucial, I cannot overemphasise the importance of investor behaviour in determining investment success.

Investor behaviour refers to the actions taken by an investor in response to market fluctuations, economic conditions, and other external factors that may impact an investment portfolio. It encompasses the emotional and psychological biases that can lead investors to make impulsive decisions based on fear, greed, or over confidence.

The reality is that investors are human, and emotions can cloud judgment, leading to poor investment decisions that can be detrimental to long-term financial goals. Studies have shown that investors who make decisions based on emotion, or short-term thinking, tend to have lower returns compared to those who adhere to a disciplined investment approach.

Here are a few key reasons why investor behaviour matters in investment management:

1. Emotions can lead to irrational decisions

Investors often make decisions based on fear, such as selling shares during a market downturn or buying during a rally out of FOMO (fear of missing out). These emotional reactions can lead to poor investment performance and may hinder long-term financial goals. Instead, investors should focus on their investment strategy and stick to it, even when markets are volatile.

2. Over confidence can lead to excessive risk-taking

Some investors may become over-confident when their investments perform well, leading them to take on excessive risk in search of higher returns. This behaviour can lead to significant losses if the market turns against them. Investors must remember that investing involves risk, and no one can predict the future with certainty.

Mathew Pellatt , Warwick Wealth Gauteng Senior Wealth Specialist

3. Short-term thinking can harm long-term goals

Investors who focus on short-term market movements and try to time the market are likely to miss out on long-term gains. It is challenging to predict market movements consistently, and trying to do so can lead to missed opportunities and increased trading costs. Instead, investors should focus on a long-term investment approach that aligns with their financial goals.

4. Discipline is critical for investment success

Discipline is crucial in investment management, and investors must stick to their investment plan, regardless of short-term market fluctuations. A disciplined approach involves developing an investment strategy that aligns with long-term financial goals, diversifying investments across various asset classes, and maintaining a well-balanced portfolio.

In conclusion, while investment performance is undoubtedly crucial, investor behaviour plays a significant role in determining investment success. Investors who adhere to a disciplined investment approach and avoid making emotional decisions based on short-term market movements are more likely to achieve their long-term financial goals. As a Warwick Wealth Specialist, my role is to help clients develop an investment strategy that aligns with their financial goals and provide guidance to ensure they remain on track.

Warwick Wealth has identified Appleton, The Fiduciary Specialists, to provide Will drafting and deceased estate administration services to its select client base. This month, Appleton Managing Director, Lauren Hean, provides insights into the challenges at the Master's Office and what they are doing to work through the issues.

Deceased Estate Administration

An appeal to Parliament to intervene with the Master's Office

Lauren Hean, Appleton Managing Director

All senior Appleton staff are active members of the Fiduciary Institute of South Africa. **What is FISA?** The Fiduciary Institute of Southern Africa (FISA) is the only professional body focusing solely on fiduciary practitioners in Southern Africa.

FISA is a non-profit organisation with individual fiduciary practitioner members. It sets high minimum standards for the profession and provides consumer education on fiduciary matters. FISA members come from trust companies and banks, as well as the legal, accounting, and financial planning professions. **What do FISA members do?** FISA members do estate planning, draft wills, administer trusts, deceased estates, and beneficiary funds, and administer client assets. FISA members collectively manage several hundred billion Rands. They draft several thousand Wills each year and administer around 50 percent of deceased estates reported to the Office of the Master of the High Court.

FISA helps to smooth processes for members and the public, through its good working relationship with the Master's Office and the SARS.

So, it was alarming to hear first-hand at the March FISA meeting of the structural problems besetting the Master's Office, with Cape Town being but one example. Of the 39 posts available at the Cape Town Master's Office, 14 remain unfilled. While five individuals have recently been promoted from the position of Estate Controller to that of Assistant Masters, the Estate Controller positions have not yet been filled. The recently-implemented 'self-help' system trialled at the Master's Office has also been halted due to POPIA concerns. There is currently an eight-month backlog of post at the Cape Town Master's Office, with no plan to clear this. Such is the fraud risk at the Master's Office that inventory lists are no longer reflecting bank account details to avoid fraudulent behaviour.

We are informed that it is not unusual for Master's Office staff to be seen milling round outside the building, that time-keeping is often desultory and that staff motivation levels are low.

With all of this in mind, we have written to Parliament to ask it to investigate these issues, to call the Department of Justice and the Chief Master to account to the Justice Committee and to provide an implementable turn-around plan that will be closely monitored and regularly evaluated. We will report back on any progress that is made in this regard, but in the meantime, please be assured of our best attention and service at all times, despite these extremely trying circumstances.

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