

THE YEAR THAT LIES AHEAD: 2022

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Firstly, what a 2021! Despite all the noise, the market volatility and everything that went with it, 2021 was a fantastic year for clients that stayed invested. Starting with global returns, developed market equities returned 21.8% and offshore property 26.1%, with the detractor being emerging market equities returning -2.5% (all in US dollars). Closer to home, SA equity returned 27.1%, SA property 38.6% and SA bonds 8.4% (all in ZAR). These are fantastic returns!

Looking forward to the expectations for 2022, we believe there are a couple of key themes that will be focused on and that will potentially cause volatility in investment markets, but these shouldn't unsettle you as a long-term investor.

THEME 1 – US CENTRAL BANK

The US central bank (known as the Federal Reserve or Fed) is slowing down its support of the US economy and this support (bond buying programme) will likely end in March 2022. Why are they slowing down the support of the US economy? Unemployment has dropped dramatically in the US since the Covid-19 crisis hit and it is nearing full employment. Secondly, inflation is a concern in the US, currently sitting at approximately 7% (higher than in South Africa – yes, higher than South African inflation).

Lastly, we are expecting interest rates to rise in the US, but hopefully modestly. Markets don't like rising interest rates, and hence the volatility we expect in 2022.

THEME 2 – UNCERTAINTY DUE TO DIVERGENT CENTRAL BANK BEHAVIOUR

We will in all likelihood see a divergence in approaches implemented by central banks globally. The likes of the Bank of England have already increased interest rates, even though this was not expected. The European Central Bank stated that they will be more cautious in their approach of unwinding the support of the local economy and increasing interest rates.

The key message coming from central banks is that they want to be accommodative, as they are aware of the inflationary challenges being created by, for example, supply chain issues, increased spending – specifically in developed markets, etc. But there is the risk of policy error increasing interest rates too quickly and too aggressively, which impairs the recovery of economies.

THEME 3 – LOCAL NOISE

Closer to home, we have our own challenges that need to be managed by the ruling party. Simply put, we need to ensure that our budget is managed efficiently, and Finance Minister Godongwana definitely stuck to this path in his recent Medium-Term Budget Policy Statement, but there definitely still is implementation risk.



In December this year, the ANC will hold its elective conference and will decide on a party leader. President Ramaphosa is saying all the right things, but the state-owned enterprises still face many challenges, and the cogs unfortunately take a long time to turn.

THEME 4 – SA RELIANCE ON GLOBAL CONDITIONS

In closing, from a market return point of view, South Africa is reliant on what happens in global markets. This also influences the rand and the volatility thereof. A prime example is 2021, and the phenomenal returns experienced once again highlight the disconnect between people on the street in South Africa and the companies listed on the Johannesburg Stock Exchange. For example, our commodity companies are reliant on demand outside of South Africa, China being a key trade partner. We must not forget that we are an emerging market – as soon as there are some concerns about global growth, inflation in developed markets, etc. investors have the tendency to “dump” riskier assets and rush to safe havens like the US dollar!

THEME 5 – STICKING TO YOUR PLAN IS CRITICAL

2022 will likely be a bumpy ride, and although that does not mean we won't experience positive returns over time, positive returns are not guaranteed year on year. Therefore, we believe that diversified portfolios and the need for clients to stay committed to their long-term investment strategies will be the most appropriate way to ride out volatility and increase the likelihood of long-term portfolio growth.

