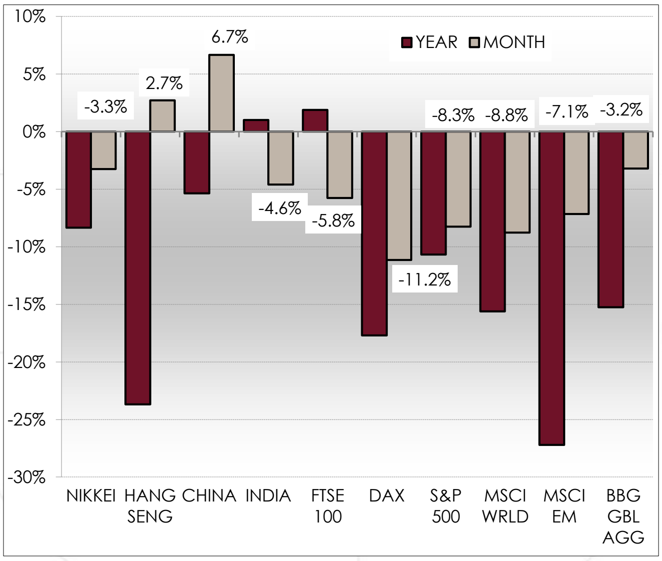
INTERMEZZO
INVESTMENT LETTER
July 2022

June in perspective – global markets

You are surely aware by now that equity markets around the world are declining sharply, with no immediate catalysts evident to arrest the weakness. Recall that April saw equity markets decline sharply (the MSCI World and S&P500 indices declined 8.4% and 8.7% respectively), but then stabilize during May (markets registered flat returns during May). The precipitous declines continued in June though.

Chart 1: Global returns to 30 June 2022



Markets declined sharply during the first half of the month (by 16 June the S&P500 had already lost 11.3% of its value since the beginning of the month) before trying to stage a rather unsuccessful recovery. June proved to be even weaker than April, as the 8.8% and 8.3% respective declines in the MSCI World and S&P500 indices attest.

The driving force throughout the month was concern about the intensity and trajectory of inflation across the world, exacerbated as it was by Russia's invasion of Ukraine. A sober realization that central banks are now significantly "behind the curve" in their actions, and the fact that there is no immediate catalyst in sight to arrest the broad-based increases in prices, drove equity and bond markets sharply lower. The rare occurrence of simultaneous bond and equity weakness wreaked havoc with returns for even the most conservatively positioned funds. I refer you to the June (accessible here) and July (to be published soon) editions of *Intermezzo* for more detail on just how bad this "start to the year" has been in terms of returns. There has literally been no place to hide, as wave after wave of nervousness, uncertainty, geopolitical risk, and political ineptitude washed over the markets on an almost daily basis.

The Margravial Opera House, Bayreuth

Source: @vivoartworld

Turning to the numbers, a good place to start would be in the currency markets. The dollar remained a safe haven of note, with the dollar DXY index rising 2.9%, bringing its year-to-date gain to 9.4% - one of the few assets to register a positive return on the month and year so far. The

"To achieve great things, two things are needed; a plan, and not quite enough time."
- Leonard Bernstein

Japanese yen and most emerging currencies wilted in the face of the greenback's strength. The Brazilian *real* lost 9.4% of its value against the dollar, the rand lost 4.9%, and the yen 5.3%. The strong dollar brought weakness to commodity prices, although fears about a possible recession in major economic blocs also contributed to the price weakness. Most importantly, the copper price lost 12.7%; copper is correctly regarded as one of the most accurate predictors of global economic activity. It is worth noting that at the time of writing the copper price is trading at a 12-month low; an ominous sign indeed. The oil price lost 6.4% during June, despite all of Russia's antics, the nickel price lost 17.6%, aluminium 13.1%, and iron ore 8.1%.

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Source: @vivoartworld

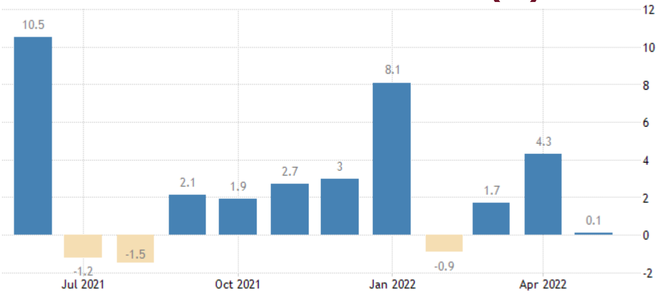
With respect to global bond markets, the Bloomberg Global Aggregate Bond index lost 3.2% in June, bringing its year-to-date decline to 13.9% - one of the worst first semester returns on record (and the records stretch back centuries!) I have already mentioned the 8.8% monthly decline in the MSCI World index, which has now lost 21.2% so far this year. The US equity market lost 8.8% and the German equity market 11.2%. The tech-heavy NASDAQ index lost 8.7%, highlighting that the severe de-rating of growth shares knows no end, while the S&P Mid and Small cap indices lost 9.8% and 8.7% on the month, respectively. The Brazilian equity market lost 11.5% and the Swiss market, which is traditionally a defensive market, lost 7.5%. The Chinese equity market was the lone standout on the month, rising 6.7%, although China finds itself in a totally different economic cycle to the rest of the world, which has been exacerbated by that country's severe lockdown policies in recent months. The Chinese equity market's year-to-date return is -6.6%, which compares favourably to the respective returns of the MSCI World index, the S&P500, and the (German) Dax index of -21.2%, -20.0%, and -19.5% over the same period.

What's on our radar screen?

Here is a summary of the things we have been keeping an eye on:

- *The SA economy:* SA retail sales grew at the paltry *annual* rate of 0.1% in May (Chart 2) – and we know that it is going to get a lot worse in June, thanks to a huge increase in the recent load-shredding burden. Retail sales grew at an annual rate of 4.3% in April. Higher interest rates and rising inflation are adding to the consumers' woes. The June reading of headline inflation came in at 7.4%, from May's 6.5%. Core inflation increased sharply to 4.4% from 4.1% in May, while services inflation is running at an annual rate of 3.9%. Headline inflation has now been above the SA Reserve Bank's target of 4.5% for more than a year. Fuel prices rose at a rate of 45.3%, while annual food inflation rose at a rate of 8.6%. In the light of this data, it was unsurprising to see the SARB lifting interest rates yet again. The repo rate rose 0.75% to 5.5%, which means banks' prime overdraft rate moves up by a similar amount, to 9.0%.

Chart 2: SA annual retail sales (%)



Source: Tradingeconomics.com

The FNB/BER Consumer Confidence index (Chart 3) confirmed the woes, falling to -25 during the second quarter of 2022 (Q2). Apart from the pandemic-induced reading of -33 during Q2 2020, the Q2 2022 reading was the lowest since Q1 1986's reading of -35. South Africans who are old enough to remember pre-internet days, will recognize 1986 as one of the bleakest in the country's history. Yes, the FNB/BER index is telling us that it is that bad again! A state of emergency was imposed in the country, following weeks of unrest (remember the United Democratic Fund [UDF]) – the PW Botha government was literally at war with the majority of its citizens. The rand had "collapsed" 28.0% from R1.94 in July 1985 to R2.69 to the dollar in December of that year. The US passed its Anti-Apartheid laws and imposed sanctions on the country. It was a particularly dark period in our history – you can read more about it here.

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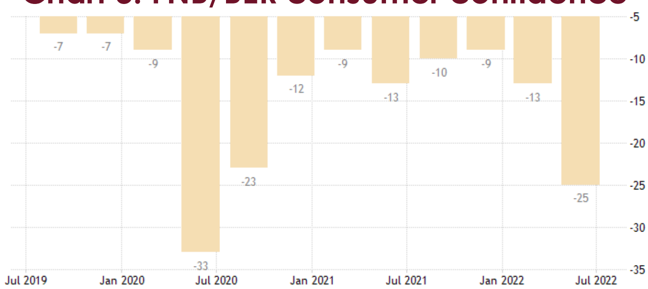
Source: @vivoartworld

Chart 3: FNB/BER consumer confidence

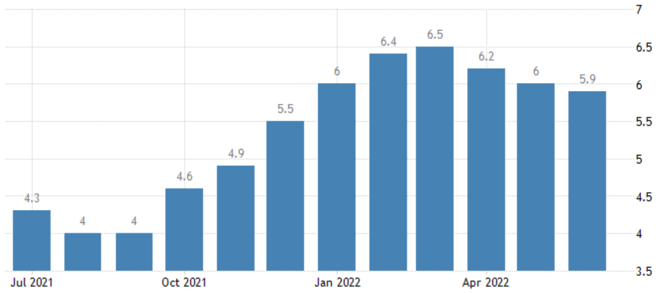


Source: Tradingeconomics.com

- *US economy:* Let's jump straight in to the most watched data in all the investment world right now – US inflation. The latter continues its relentless climb to multi-year highs: headline inflation rose from 8.6% in May to 9.1% in June, while core inflation i.e. excluding food and energy prices, rose from 6.0% to 5.9%. Both readings were higher than expected, but it is worth noting – which was perhaps missed in all the shock and excitement of the headline number –

that core inflation was lower for the third month in a row, having hit its highest recent reading of 6.5% in March (Chart 4), and the lowest reading in six months.

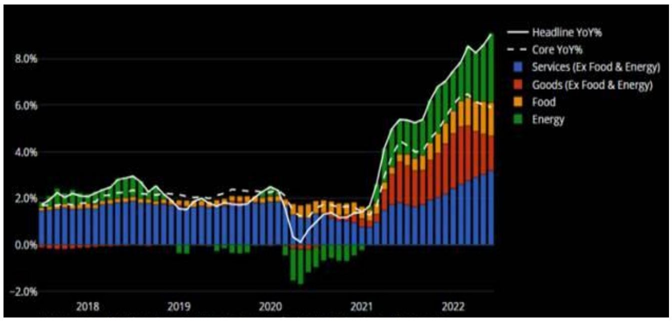
Chart 4: US core inflation – moving lower?



Source: Tradingeconomics.com

The 9.1% June headline inflation was the highest reading since November 1981. As for the details behind the number, energy prices rose 41.6%, the most since April 1980, boosted by gasoline (a 59.9% annual increase, the largest increase since March 1980), fuel oil (98.5%), electricity (13.7%, the largest increase since April 2006), and natural gas (at 38.4%, the largest increase since October 2005). Food costs surged 10.4%, the most since February 1981, with food at home jumping 12.2%, the most since April 1979. Prices also increased significantly for shelter (5.6%, the most since February 1991), household furnishings (9.5%), new vehicles (11.4%), used cars and trucks (1.7%), and airline fares (34.1%). You can see just how broad-based the price increases are, which underlines the reasons for investor concern about inflation. While Russia's invasion of Ukraine is an indirect cause of some of the price increases, you can see that the reasons behind rising prices in the US is quite different from the set of factors driving inflation in the Eurozone.

Chart 5: Contributors to US inflation



Source: Baader Bank, Bloomberg

Chart 5 shows the sources of US headline inflation. One can understand why the market is starting to factor in a 1.0% rise in interest rates, up from 0.75% expected before the data release. Producer prices don't offer any prospect of relief; producer price inflation (PPI) rose at an annual rate of 11.3% in June, from 10.9% in May.

The US labour market remains tight, with the unemployment rate declining to 3.6% in June, just above its pre-pandemic threshold. Some 372 000 jobs were created outside of the agricultural sector, which was significantly higher than the expectation of 265 000 jobs. 384 000 jobs were created in May, showing how strong that market it. Companies continue to bemoan their inability to fill vacancies and find suitably qualified staff. US retail sales rose at an annual rate of 8.4% in June, slightly higher than the 8.2% in May.

- *Developed economies*: The Australian central bank (RBA) raised interest rates by 0.5% at their July meeting, following 0.75% hikes at their May and June meetings. Consumer spending is recovering nicely from the lockdowns, and unemployment is the lowest on record, but floods in New South Wales, supply chain disruptions, and the war in Ukraine are pushing up food prices in the face of rising fuel and electricity prices. The RBA said it is watching these developments closely, but still sees inflation declining into a "neutral range" of between 2% and 3% in 2023.

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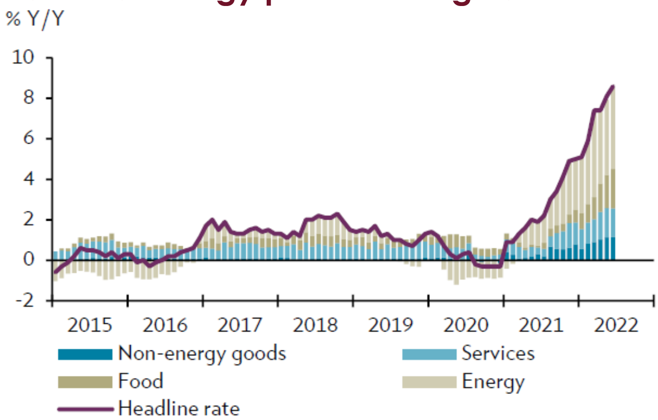
Source: @vivoartworld

German retail sales *dropped* at an annual rate of 3.6% in May; online sales declined 10.5%. This was the third consecutive month that German retail sales posted a decline on an annual basis. Eurozone inflation in June rose to 8.6% from 8.2% in May. As for the detail, major drivers of higher prices came from the energy sector (up 41.9% compared with an annual rate of 39.1% in May); food, alcohol and tobacco (up 8.9% versus 7.5% in May); and non-energy industrial goods (4.3%). Core Eurozone inflation declined to an annual increase of 3.7% in June, from May's 3.8%. Chart 6 depicts the core drivers in prices in past years, showing again just how dramatic an influence higher energy prices have been, due largely to Russia's invasion of Ukraine.

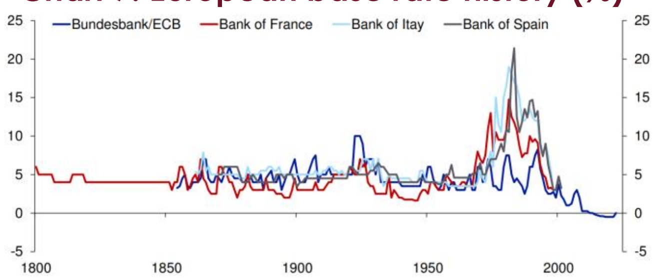
Chart 6: Energy prices driving EU inflation



Source: Julius Bär

Given the prevailing economic environment, it is hard to believe that as recently as September 2019 the European Central Bank's (ECB) inflation target was 2.0%, and the annual rate of headline inflation was all of 0.8%. The ECB deposit rate sat at -0.5%. How times have changed! It is thus not an overstatement to say that we are living in historic times, as the ECB has just raised interest rates – by 0.5% - for the first time in 11 years.

Chart 7: European base rate history (%)



Source: Baader Bank, Bloomberg

Exactly how historic the moment is, is portrayed in Chart 7, which depicts the level of European interest rates since 1800. The relevance of the chart is not so much that rates have started to rise, but just how unprecedented and historic the past eight years of negative interest rates have been.

The European Union annual headline inflation rose to 9.6% in June, from 8.8% in May. Core inflation rose to 4.6% from 4.5% in May. Remembering that the core inflation measure excludes food and inflation prices (due to their traditional volatility and not, as the joke goes, because economists never travel and don't eat!), the difference between the extent of headline and core inflation shows how significantly energy prices have risen and how they are the primary drivers behind EU inflation. The average household energy bill has risen more than 40% during the past year.

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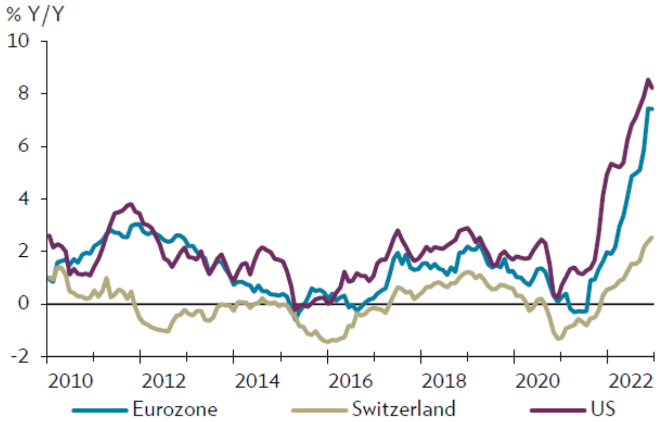
Source: @vivoartworld

UK headline inflation rose to an annual rate of 9.4% in June, from 9.1% in May, while core inflation was 5.8%, marginally lower than May's 5.9%. Energy prices rose at a rate of 57.0%, highlighting one of the major areas of concern not only in the UK, but in Europe and most other parts of the world, too. Motor fuel in the UK rose at an annual rate of 42.3%.

While on the topic of inflation, Chart 8 depicts US, EU and Swiss inflation, showing that while the latter has increased of late, it is nowhere near the heights being reached in the US and EU, and the UK (not shown on the chart) for that matter.

Chart 8: Swiss inflation low in relative terms



Source: Julius Bär

- *Emerging economies*: India's annual headline inflation rate remained steady at 7.0% in June, staying above the Reserve Bank of India's target range of 2% - 6% for the sixth consecutive month. Core inflation, however, is rising, from 5.9% in May to 6.0% in June, giving rise to expectations of further interest rate hikes in the months to come. Moving to China, that economy grew at an annual rate of only 0.4% during the second quarter (Q2), and *declined* by 2.6% quarter-on-quarter. During the first half of 2022, the economy grew at an annual rate of 2.5%, well below government's target growth rate of 5.5%. Of course China went into full lockdown mode during the quarter, and that weighed heavily on its growth rate – the Shanghai economy, for example, shrank 13.6% during Q2, and Beijing 2.9%.

Chart 9: Chinese economic activity (%)

Source: Baader Bank, Bloomberg

Moving on to the usual monthly releases of economic data – refer to Chart 9 - retail sales rose at an annual rate of 3.1% in June, up sharply from May's annual rate of -6.7%. Industrial production was up 3.9% from 0.7%, and fixed asset investment rose 6.1%, down slightly from May's 6.2%. The unemployment rate improved from 5.9% in May to 5.5% in June. However that masks the rate for young people, aged between 16 and 24, which rose from 18.4% to 19.3%, the highest on record.

The Bank of Korea raised its interest rate 0.5% to 2.25%, bringing to 1.75% the cumulative rate rise since August 2021. Headline inflation rose to 6.0% in June, while the annual rate of core inflation is currently 3.9%. Headline inflation rose to an annual rate of 7.7% in Thailand, from 7.1% in May, close to a 14-year high. The Bank of Thailand's inflation target range is 1% to 3%. Energy price inflation is 40.0%, while food prices rose 5.9% during the past year. The annual rate of core inflation in Thailand was 2.5% in June.

The central bank of Malaysia (BNM) increased its interest rate for the second time this year, raising the overnight policy rate 0.25% to 2.25%, ostensibly to combat rising prices. That said, headline inflation in Malaysia is only 2.8% at the moment. On the other hand, the central bank of Philippines (BSP) surprized markets with an inter-meeting increase of 0.75%, having raised rates by 0.25% in May and June. Headline inflation rose at an annual rate of 6.1% in June, from 5.4% in May. The BSP however, raised its growth expectation for that economy to 6.5% - 8.0% for the period 2023 – 2028.

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Source: @vivoartworld

Moving over to South America, Chile's central bank raised its interest rate by 0.75% to 9.75%, which was greater than expected. June headline inflation came in at 12.5%, with core inflation lightly lower, at 9.9%. The Chilean peso has come under enormous pressure in recent weeks, falling by around 18.0% in the last month alone. This prompted the central bank to intervene in the foreign exchange market to the extent of at least $10bn, despite saying just a week earlier that intervention is unnecessary. The central bank of Colombia increased its interest rate by 1.5% to 7.5%. Its annual headline inflation in June was 9.7%, while its core inflation rate is 8.4%. Mexico's headline inflation rate rose to a 12-year high of 8.0% in June, driven mainly by food inflation, which rose 12.9%. Core inflation is running at 7.5%.

Winter snow in Nieu Bethesda in 2021

Source: @mukti_karoo

Finally, moving on to Turkey, the land of unconventional monetary policy driven by a crazy dictator, the headline inflation rate moved up to 78.6% in June, from 73.5% in May. The core inflation rate is now 57.3%. Food prices rose at an annual rate of 93.9%, while producer inflation rose to 138.3%. Despite these remarkable rates of price increases, the central bank of Turkey deemed it appropriate to retain their official interest rate at only 14.0%, meaning that Turkey's real interest rate is around -64.6%. These policies look decidedly unsustainable and it is not too far-fetched to expect a day of reckoning to arise in due course.

Quotes of the month

On Populism and ex-British Prime Minister Johnson

I have specifically refrained from comment on the exit of British Prime Minister Boris Johnson, although I have plenty of thoughts about him and his exit.

Perhaps more importantly is what is tells up about populism and its spread around the world. I came across an excellent article on this specific topic, entitled *Boris Johnson was on the lightweight end of destructive global populism* by Bloomberg contributor Adrian Wooldridge, which I can recommend highly. You can find it by clicking here.

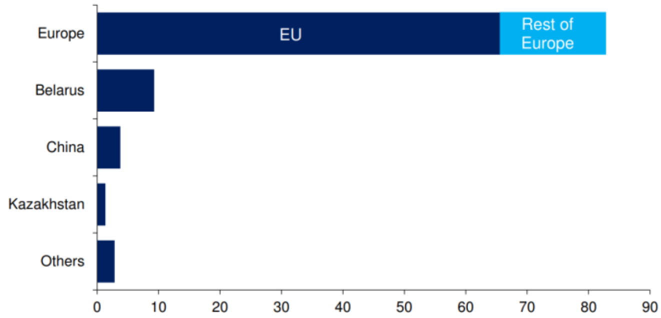
Will he or won't he

The world in general and Europe specifically was fixated, for good reason, on whether or not Russian President Putin would resume the flow of gas to Europe once planned maintenance on this Nordstream 1 pipeline was completed, scheduled for 21 July. At the time of writing is seems that the flow of gas did indeed resume, but it remains to be seen if this is sustainable and at what rate the gas will flow.

However, on 14 July *Deutsche Bank's Jim Reid* offered the following rather contrarian view, which I thought worth sharing. First, consider Chart 10, which depicts Russia's pre-invasion natural gas exports via pipeline by destination in 2021.

Chart 10: Russian gas flow pre-invasion

Russia's pre-invasion flow of gas by destination (%)



Source: Deutsche Bank

Jim Reid commented as follows: "I've been brainstorming with Adrian Cox in my team and picked on the view that's gaining momentum that Russian President Vladimir Putin will completely turn off the natural gas taps to Europe when the current maintenance period on Nordstream 1 ends next Thursday, July 21. Game theory and history suggest the opposite.

"There's no shortage of justified concern in Europe. Dutch front-month gas prices have doubled in the past month, Germany has raised its gas-risk level to 'alarm' and the European Commission is reported to be making emergency plans.

"But put yourself in Putin's shoes. Europe is Russia's biggest client, accounting for more than 80% of its gas exports last year. The time and expense that Europe are incurring to recruit alternative gas suppliers, open new LNG terminals and bring coal-fired stations back online are more than matched by the time and expense that Russia will incur in building new pipelines to China and other alternative markets. It could take the best part of a decade. A Russian shutoff would be a one-way trade with little chance of reinstatement and would only stiffen the resolve of Europe in banning Russian coal by next month and most oil by early next year. The resumption of limited pre-maintenance gas delivery levels at €150 per MWh would earn Russia an invaluable €4.1bn a month.

Lichtenstein Castle

Source: @castlemypassion

"History is full of examples of restrictions to supplies that eventually backfired, including the rapid adoption of alternatives to Middle East oil following the oil crisis of the 1970s. Russia has threatened to cut off gas supplies to its neighbours dozens of times since the fall of the Soviet Union, with only limited success. Pressure now will only hasten a long-term trend in Europe to wean itself off Russian gas via a less fragmented (and less vulnerable) market; more diverse providers from North Africa, the Middle East and Norway; and greater use of alternative, domestic and more sustainable sources of energy.

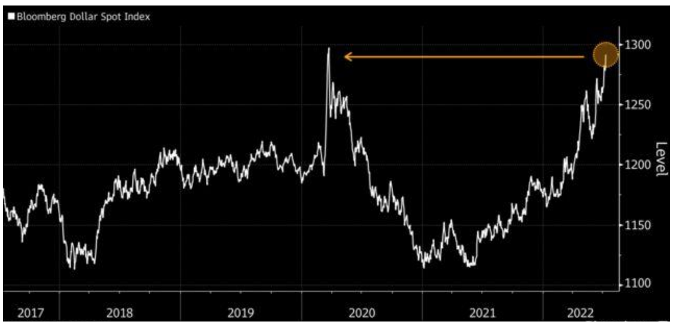
"For Putin, we believe the ideal scenario is to maintain ambiguity and opportunistically restrict gas supply enough to preserve high prices and political leverage going into the winter months, but not enough to kill off the relationship entirely. (Note: this is a deliberately one-sided view but it does articulate a credible case for why shutting the gas off might not be in Putin's interest)."

Charts of the month

The rampant greenback

The strong dollar has been the feature of the year so far. I am always amused when people express surprised at a strong dollar; you will be amazed how many analysts have been calling for a weaker dollar for many years already. Call me simple, but with US interest rates rising strongly and inflation largely out of control, what else would the currency of the largest and one of the strongest economies of the world be, other than strong?!

Chart 11: The dollar – back at pandemic peak



Source: Baader Bank/Bloomberg

Chart 11 shows that the DXY dollar index, a trade-weighted index tracking the value of the dollar, is back at the peaks it reached at the height of the pandemic in March 2020.

Europe, in turn, has a number of substantial problems related to Russia's invasion of Ukraine, not least of which are soaring energy prices and eventually inflation. Consequently the euro has been weak against the strong dollar, so weak in fact that it has fallen back close to parity with the dollar. The last time it was at this level was in 2000.

The Palace of Versailles, Paris

Source: @jeffreymilstein

How bad is bad? Well, it's very bad…

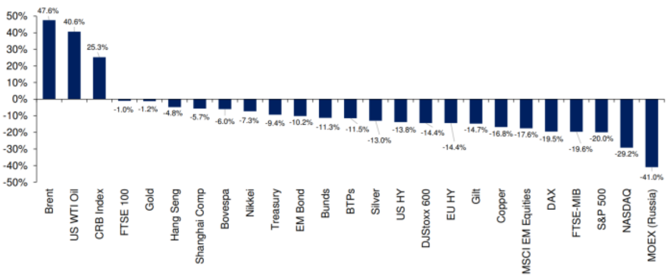
There has been much reflection and dare I say "gnashing of teeth" on the performance of bond and equity markets during the first half of this year. By all measures, it was one of the worst first semesters of all time. A few charts will illustrate just how bad it really was – there was simply no place to hide, other than dollar cash.

The Palace of Versailles gardens, Paris

Source: @jeffreymilstein

Let's start with Chart 12, which depicts the first half (H1) returns of selected assets (apologies for the small chart). Apart from Brent and WTI oil prices, and thus also the CRB Commodity index, all other asset classes produced negative returns – some of which were quite material.

Chart 12: H1 returns of selected assets (%)

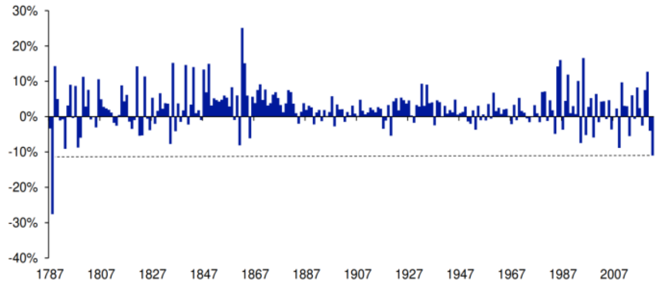


Source: Deutsche Bank

Starting from the worst returns on the right hand side of the chart, we find Russian equities in dollar terms, at -41.0%, followed by the NASDAQ index (who would ever have thought?) at -29.2%, US equities in the form of the S&P500 return of -20.0%, followed by Italian (-19.6%) and German (-19.5%) equity markets, and the MSCI Emerging market index (-17.6%).

Those who decided to take refuge in the bond market, were met with the worst H1 return since 1788 (yes, that's 1788, not a typo), shown in Chart 13. The chart depicts the H1 returns of the US 10-year Treasury bond, or its proxy, going back all the way to 1787. Like I said – nowhere to hide.

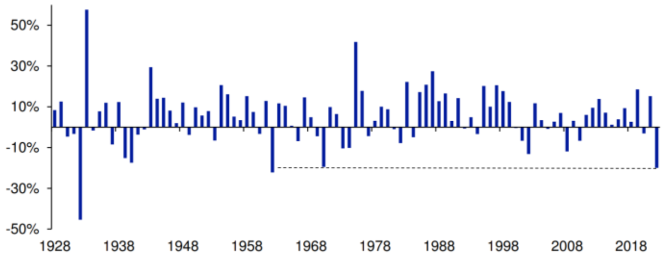
Chart 13: H1 total returns of US 10-yr proxy (%)



Source: Deutsche Bank

Focussing on the US equity market, in the form of the (large cap) S&P500 index, Chart 14 shows that US equities produced the worst H1 return this year since 1962.

Chart 14: H1 US equity (S&P500) total returns (%)

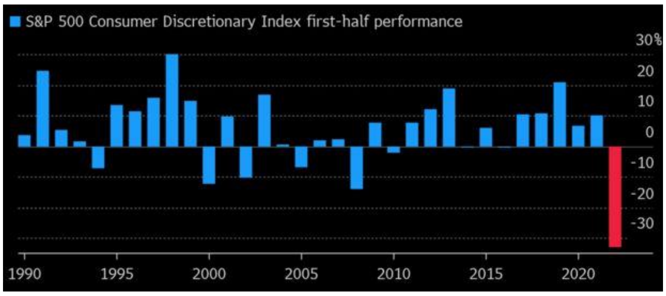


Source: Deutsche Bank

One of the worst performing sectors in the US equity market during the first semester was the Discretionary Consumer sector, which got off to its worst start ever, shown in Chart 15, below.

Chart 15: S&P Consumer discretionary sector

First semester performance (%)

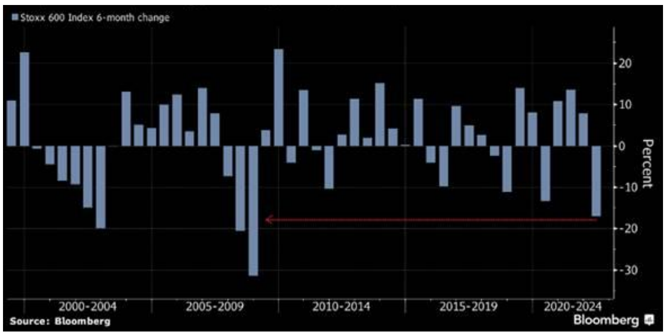


Source: Baader Bank/Bloomberg

The S&P500 Consumer Discretionary Index slumped 32%, for its worst first half of the year on record in a market strained by rising costs and surging interest rates. The sector was the biggest loser in the S&P500 Index as recession concerns weighed on shoppers' spending decisions. Adding to that wall of worry, annual US retail sales turned negative in May for the first time this year, although it rose marginally from May's -0.1% to 0.7% in June.

Moving on to European markets, Chart 16 depicts major European equities in the form the 6-month change in the Stoxx600 index. The first half of 2022 was the worst sell-off of European equities – down around 17% - for any half since 2008, which you may recall covered the peak of the Great Financial Crisis.

Chart 16: European stocks in the doldrums



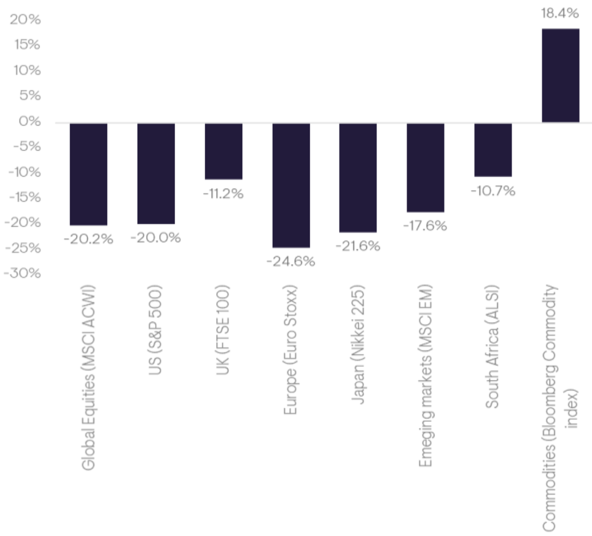
Source: Baader Bank/Bloomberg

Le Grand Trianon, Versailles, Paris

Source: @jeffreymilstein

Still on the extreme markets movements during the first half of this year, Ninety One produced the following two informative charts – the first in dollar terms and the second in rand terms.

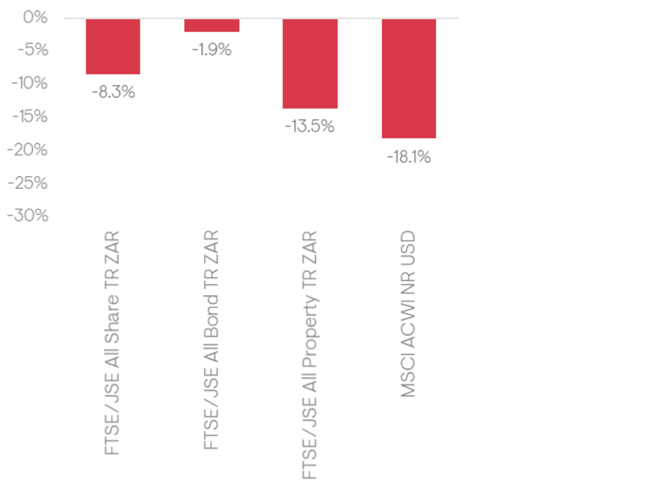
Chart 17: 1H 2022 total returns ($)



Source: Ninety One

Chart 18 depicts selected SA equity market returns in rand terms, as well as the MSCI All World Country Index (AWCI), also in rand terms. To state the obvious, there really was no place to hide during the first semester. Not even the bond market registered a positive return, despite interest rates being in excess of 10.0% throughout the period. All market returns were negative.

Chart 18: Selected SA and global rand returns



Source: Ninety One

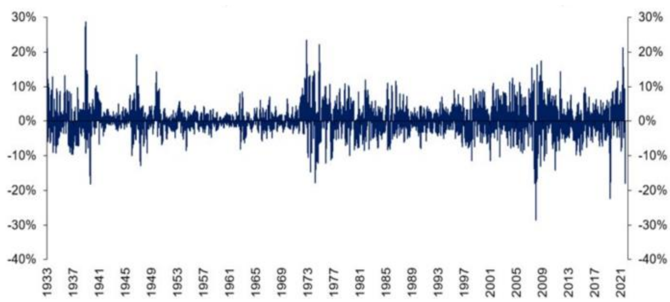
One may be tempted to review Chart 17 and think that commodities were a "safe haven" during the period, but this is a bit misleading. The war in Ukraine didn't help markets, but it did push the oil price higher, as well as the prices of a few other commodities. However, those higher prices came with enormous volatility, and at the time of writing those markets have lost most of their gains.

Jim Reid of Deutsche Bank wrote as follows on 6 July, using Chart 19 as the reference: "Earlier this year commodities and bonds saw some of their biggest moves for decades, or all time in some cases, mostly in the direction of higher yields and commodity prices.

"Over the last few days, these big moves are back again but mostly in the other direction as recession fears mount and central bank expectations are pared back.

"The rolling 20-day move in the Bloomberg Commodity Index (BCI) is now seeing the third largest decline in 90 years, behind only the Great Financial Crisis (2007/9), the initial Covid shock, and on a par with that seen in the early days of WWII in 1940. In March, we saw the fourth largest 20-day uptick after the Russian invasion of Ukraine. The start of WWII and two occasions in the 1970s were the only bigger moves".

Chart 19: Rolling 20-day change in BCI

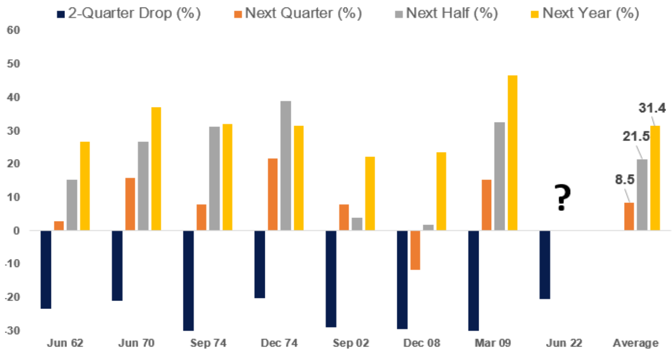


Source: Ninety One

So not only were prices weak across the board during the first half of this year, but the weakness was accompanied by unprecedented volatility.

But there is hope. Before we all run out and slit our wrists, it is useful to consider what has happened after large market declines. Of course there is no guarantee that markets will recover from their current levels, so one cannot bank on future gains. However, the past is instructive and provides some hope and food for thought. Ninety One produced Chart 20, which depicts the S&P500 returns after large declines in two consecutive quarters. The chart shows that, on average, since the early 1960s, the following quarter has produced a positive return of 8.5%. In the two consecutive quarters following these large 2-quarter declines, the S&P500 has on average gained 21.5% while over the ensuing year it has risen 31.4%. Time will tell if history repeats itself, but it does highlight the fact that *the prevailing low levels of markets*, in all likelihood, *represent the worst possible time to sell one's investments or to significantly reduce one's equity market exposure*.

Chart 20: S&P500 returns after large 2-qtr drops



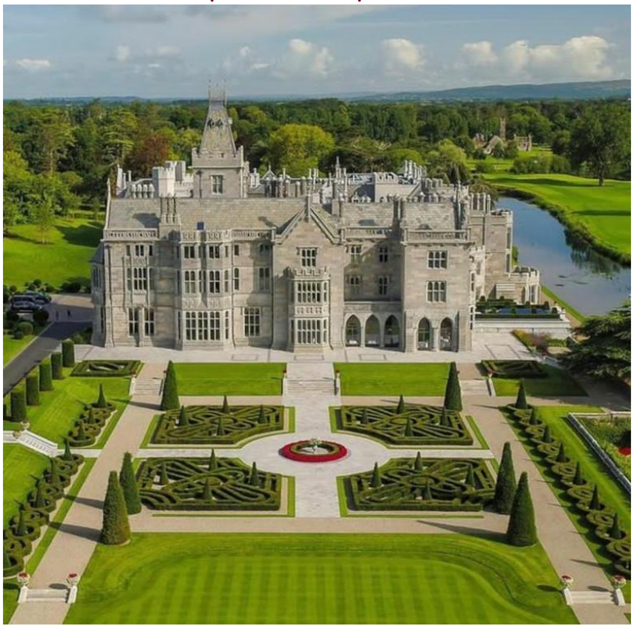
Source: Ninety One

A picture paints a thousand words
I came across Chart 21 in the Financial Times recently on 6 June, which in many respects sums up market movements during the past three years, as well as the titanic battle between the "tech universe" and the "smokestack" one, the old and the new world, even the growth versus value debate. It simply plots the market capitalization (size) history of US energy giant ExxonMobil and video-conferencing start-up Zoom on the same axis during the past three years.

Chart 21: The two halves of the pandemic

Source: Financial Times

Adare Manor, Limerick, Ireland



Source: @aidennyc

For the record

Table 1 lists the latest returns of the mutual and retirement funds under Maestro's care. Returns include income and are presented *after* fees have been charged. Fund Summaries for each respective fund listed in the table, as well as all the historic returns, are available on our website.

Table 1: The returns of funds in Maestro's care

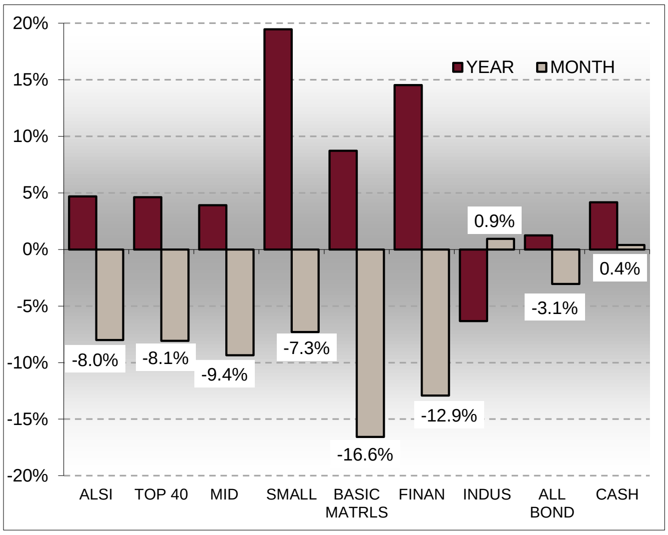
	Period ended	Month	Year to date	Year
Maestro Equity Prescient Fund	**Jun**	**-9.3%**	**-11.3%**	**0.8%**
JSE All Share Index	*Jun*	*-8.0%*	*-8.3%*	*4.7%*
Morningstar sector ave	*Jun*	*-6.9%*	*-5.4%*	*6.4%*
Maestro Growth Fund	**Jun**	**-4.6%**	**-9.8%**	**-3.9%**
Fund Benchmark	*Jun*	*-5.6%*	*-6.8%*	*3.4%*
Morningstar sector ave	*Jun*	*-4.5%*	*-6.5%*	*2.9%*
Maestro Balanced Fund	**Jun**	**-4.2%**	**-9.3%**	**-3.6%**
Fund Benchmark	*Jun*	*-4.7%*	*-5.8%*	*3.4%*
Morningstar sector ave	*Jun*	*-3.7%*	*-5.6%*	*2.9%*
Maestro Global Balanced Fund	**Jun**	**-2.7%**	**-24.5%**	**-22.7%**
Benchmark	*Jun*	*-1.8%*	*-16.3%*	*-2.8%*
*Sector average **	*Jun*	*-1.5%*	*-14.3%*	*2.8%*

* Morningstar Global Multi Asset Flexible Category

June in perspective – local markets

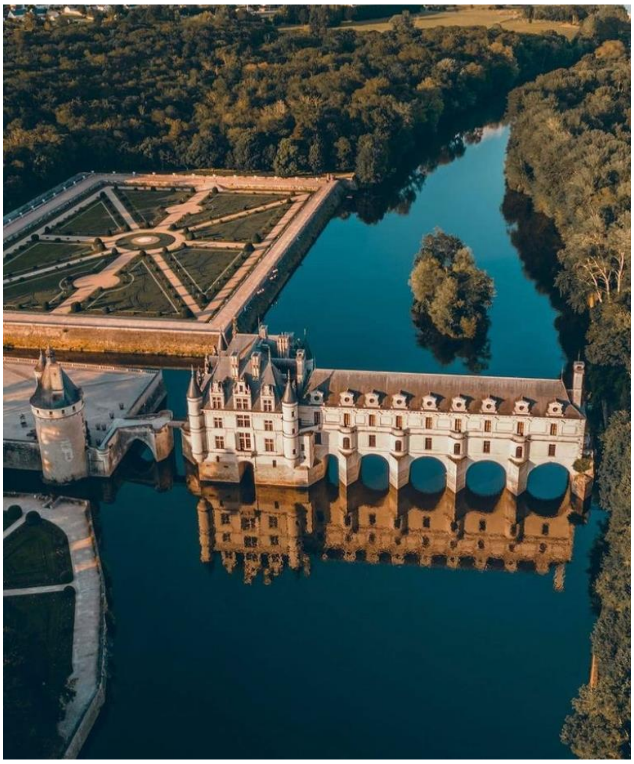
Turning to the South African market, after holding up relatively well so far this year (at the end of May, the All Share index the year-to-date return was -0.3%), the sheer weight of global market declines weighed on the SA equity market in June, as did the sharp fall in commodity prices, the combination of which resulted in the market declining 8.0% during the month.

Chart 22: Local returns to 30 June 2022



The Basic Materials index lost 16.6% and the Financial index 12.9%, although thanks to a surge in the prices of Naspers (+38.1%) and Prosus (+30.1%), the Industrial index ended the month *up* 0.9%. However, the year-to-date respective returns for these indices are very different to their June returns; the Basic Material, Financial and Industrial indices year-to-date returns are -7.2%, -1.1%, and -15.7%. The Large, Mid, and Small Cap indices lost 8.1%, 9.4% and 7.3% respectively in June – perhaps a more accurate indication of the pain all equity investors had to endure during the month. The All Bond index lost 3.1%, bringing its year-to-date return to -1.9%. The rand declined 4.9% against the dollar during the month, bringing its year-to-date decline against the greenback to (only) 2.4%. The rand's weakness weighed on the SA equity market return: it declined 12.5% in dollar terms during June.

Château de Chenonceau



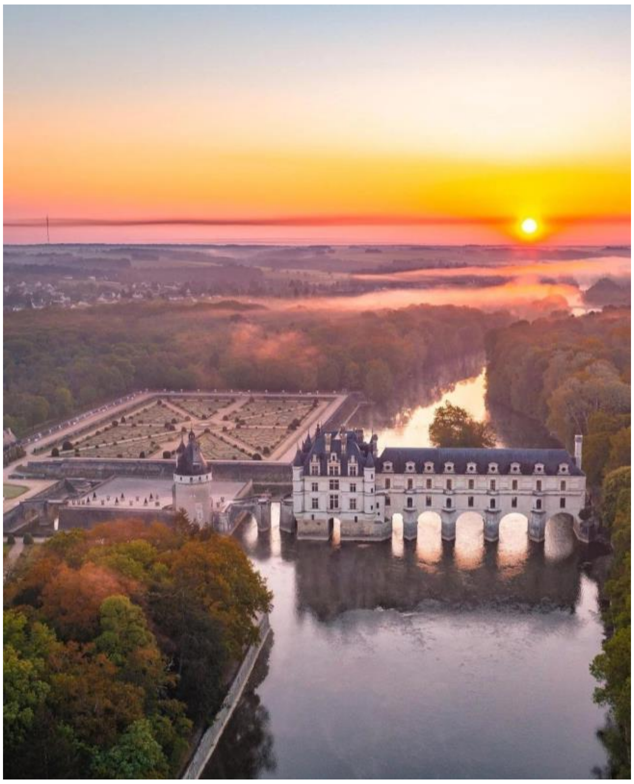
Source: @igers_valdeloire

Although there seems to be a stronger bias to equity markets so far into July, we are rather skeptical about its sustainability. Investor concerns remain focused on inflation. However, investors have an additional and significant concern, namely whether or not the global economy will enter into a recession. The prospect of slowing growth and rising inflation – stagflation of the worst kind – is very real. The world has lost confidence in the political (and hence indirectly the fiscal) leadership of most economies around the world, placing a disproportionate amount of responsibility in the hands of central bankers, as the custodians of monetary policy. Central bankers, however, have few policy tools at their disposal – primarily the supply of money (which they are currently reducing through quantitative tightening) and interest rates (which they are currently raising). In broad terms then, both of these developments are negative for equity markets, in addition to which, as everyone knows and by central bankers' own admission, raising interest rates is hardly going to bring the oil price down or alleviate, let alone resolve, lingering supply chain constraints. Higher interest rates will eventually slow economic activity down, leading to the unpleasant but real prospect of tighter monetary policy (higher interest rates) actually doing more economic damage than good. Higher interest rates are unlikely to have much effect on rising inflation though, which remains driven by supply issues (think of Russia restricting the flow of natural gas to Europe) rather than excess demand (think overzealous consumers chasing too few goods).

It is hard therefore, to see any immediate catalyst on the horizon that will improve sentiment or more importantly, arrest the relentless rise in the prices of goods and services i.e. inflation. We suspect that once there is clear evidence that the *rate* of inflation is slowing, markets might arrest their decline. We can easily identify a few factors that would materially improve the sentiment towards and fortunes of the markets, which are to some extent "poised", like an over-extended elastic band, for a long overdue rebound. However, we can just as easily identify a few factors that could make the present economic environment decidedly worse (imagine if Russia had to completely shut off gas supplies to Europe; think where that would leave energy prices and inflation).

We are mindful of just how far many quality companies' share prices have fallen, and know from experience that they will eventually recover, at least to some extent. Exactly when that will be, is hard to tell, although it is likely to be when capitulation sets in and is at its extreme. We don't think we are far from that point, but are also of the view that there are many reasons to continue adopting a very cautious stance; we are by no means "out of the woods yet" and suggest investors brace themselves for further weakness before things start improving, and then only slowly, until there is greater visibility and certainty about global economic and geopolitical prospects.

Château de Chenonceau



Source: @castlemypassion

File 13: Info almost worth remembering

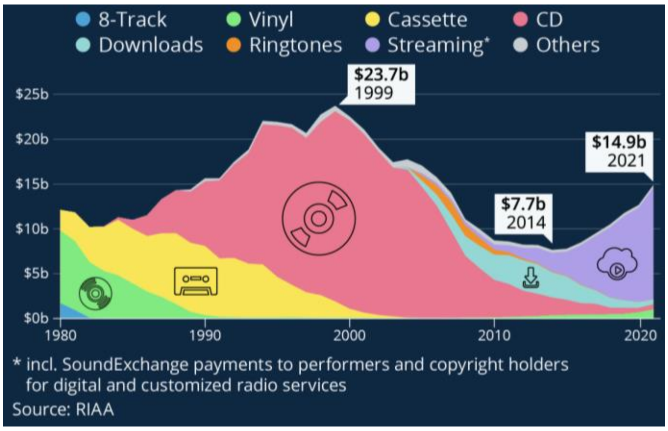
The history of music sales

As a lover of music and avid collector of CDs over man years, I found the following information interesting, sourced from Statista.

Over the past few years, streaming services such as Spotify and Apple Music have revolutionized the way we listen to music. According to recent figures published by the Recording Industry Association of America (RIAA), streaming, both ad-supported and subscription-based, accounted for 83% of music industry revenues in the US last year, up from less than 10% in 2010. At $9.5bn, paid subscriptions accounted for the lion's share of streaming revenue in 2021, which in total amounted to $12.4bn. To put that in perspective, all physical music sales combined amounted to just $1.7bn last year, with downloads adding another $587m to the music industry's total haul of $15.0bn.

Chart 23: Four decades of music sales

US recorded music revenue by format (2021 dollars)



Source: Statista

Interestingly, the streaming revolution hasn't been the first complete shift in music consumption over the past 40 years. As Chart 23 shows, based on RIAA figures, vinyl records, cassettes, CDs, and downloads have all been the predominant form of music consumption at some point during the past four decades, with the compact disc's reign particularly long and lucrative for the music industry. Inflation-adjusted music revenue peaked in 1999 at $23.7bn at a time when the CD was in its prime. That year CD sales alone amounted to $21bn, more than twice the recording industry's total revenue for 2018. After hitting a low point in 2014, the music industry started recovering: thanks to the steep increase in streaming subscriptions, 2021 marked the seventh consecutive year of rising music revenues.

Santa Maria Del Fiore, Florence

Source: @mark.wtf

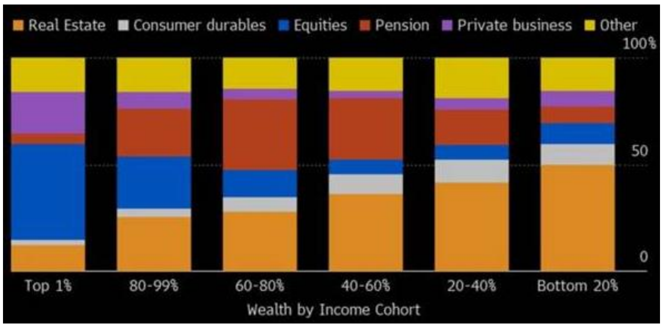
The "Top One Percenters"

The media and population at large are eternally fascinated by wealth they don't have i.e. what, and how much, "rich people" have, though the concept of "rich" and what is meant by it, is seldom defined. I found the following charts on the topic, which I thought were worth sharing, especially the second one.

Chart 24 provides a breakdown of US wealth across different asset classes, from which we can see that the "Top 1%" of wealthy Americans by income hold about half of all corporate equities and unit trusts (called mutual funds in the US), according to data released by the US Federal Reserve. The recent slump in the US equity markets would have made a dent in their collective wealth, ending a pandemic-era equity-driven boom that exacerbated wealth concentration even further. On the other hand, among the bottom one-fifth of households, about half of their wealth is held in real estate, placing them at risk if the housing market falters.

Chart 24: US household wealth distribution

Wealth by income cohort (Q1 2022)

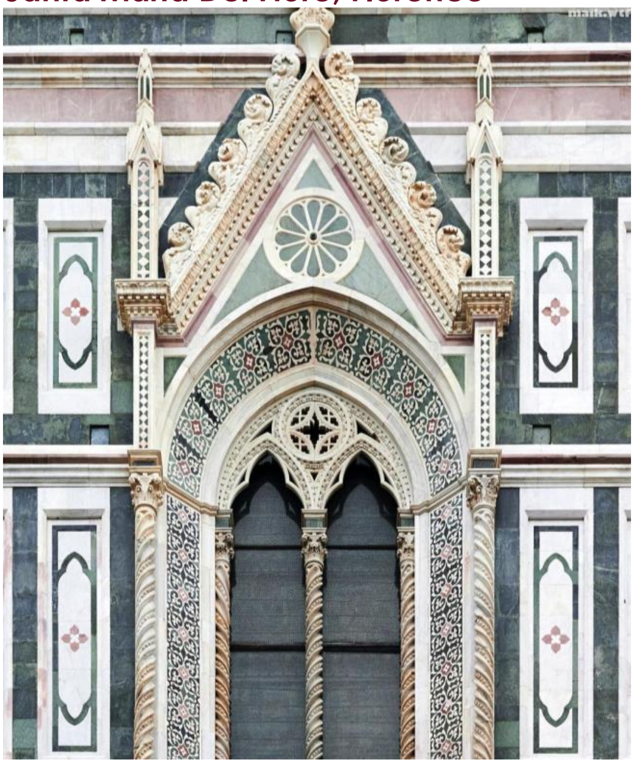


Source: Baader Bank/Bloomberg

As for the history of the "One Percenters" Chart 25 provides a fascinating analysis. The US is a bastion of the ultra-wealthy. More than half of the globe's known billionaires live in that country according to the Forbes World's Billionaires List. The reasons why wealth accumulates in the US are its favourable tax regime, including tax brackets instead of progressive taxation, low marginal, inheritance and capital gains tax rates, as well as many loopholes that are slowly getting closed. This has in the past led to instances of ultra-wealthy Americans paying lower effective tax rates than the middle class.

The anomaly of America's upper class is further exemplified by the share of wealth held by the ultra-rich, often referred to as the "One Percenters". Data from the OECD, depicted in the chart, show how the wealth held by this group of people since the year 1900 diverges from the development in two other countries, the UK and France. Other than in European nations, which started the 20th century with approximately 60% to 70% of wealth held by the Top 1%, America's super-wealthy were never this rich historically. But, as the share of 1% wealth decreased significantly in Europe and finally bottomed out, the "Top 1%" wealth in the US first decreased slightly in the first half of the 19th century before starting to rise again at the beginning of the 1980s, reaching 39% in 2014 - the latest available year with the OECD.

Santa Maria Del Fiore, Florence

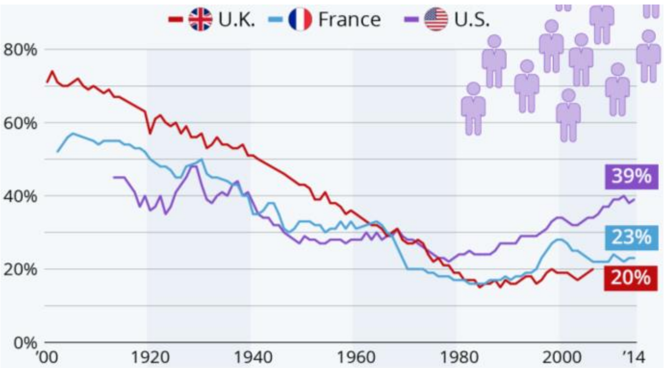


Source: @mark.wtf

Tax cuts under President Ronald Reagan reduced the US marginal tax rate drastically that decade, from around 70% to 50% in 1981, and again in 1988 to 28%. Reaganomics was designed as tax cuts across all brackets, but the far-reaching reductions to the marginal rate didn't enforce the notion that the country's rich could potentially pay a higher share of taxes than average Americans. The belief in trickle-down economics consolidated further under President George W. Bush, when the marginal tax rate sunk again from 40% to 35% and under Donald Trump, who decreased it from 40% to 37%, despite the idea already being considered debunked by the likes of the IMF by then.

Chart 25: The Fall and Rise of the US Top 1%

Share of net wealth held by the Top 1% of the wealthiest people in UK, US and France



Source: Statista

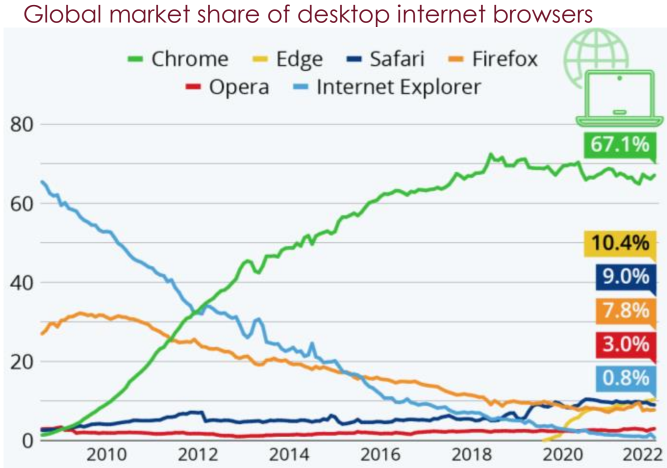
With the 2014 result, the US is coming closer again to its oldest figure in the OECD dataset. In addition, in the last couple of years the wealth of the super-rich has grown even quicker than before - gaining several percentage points, fuelled by the coronavirus pandemic.

Now you see it …

Chart 26 is self-explanatory, but I thought you'd find it interesting nonetheless. Do you remember the days when most of us never even knew what "Internet Explorer" was, whereas now we flounder if we don't have constant access to the Internet. Unlike many other charts that "show the history of things", this chart only starts in 2008! Just another reminder of how rapidly the world around us is changing.

Chart 26: Farewell Internet Explorer

Global market share of desktop internet browsers



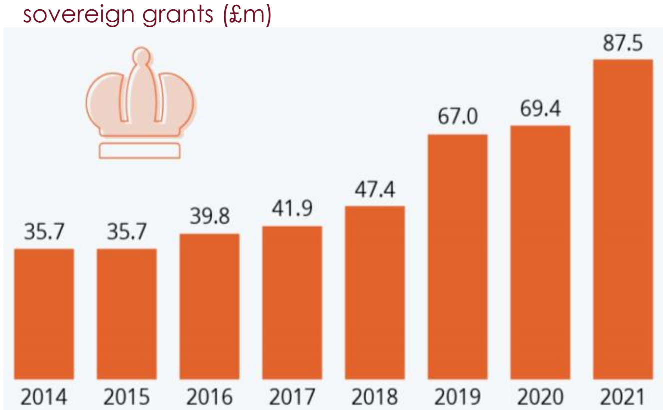
Source: Statista

How expensive can only family be?

How expensive can it be to maintain one family? The answers, as it turns out, is – very expensive. Chart 27 says it all. I wonder if we will ever reach the day, assuming the level of support required by the royal family continues to rise at its recent pace, that the UK taxpayer will eventually reach a point of saying "so far, and no further."

Chart 27: Growing cost of the Royal Family

Total net expenditure on the UK Royal Family funded by sovereign grants (£m)



Source: Statista

Let's face it, not even ex-SA President Jacob Zuma and his very extended family, or Nkandla, cost SA taxpayers that much in one year. Mind you, I suspect if one "crunches the numbers" and takes the cumulative support given to the Zulu

Royal Family, and throws in Nkandla and the Zuma family for good measure, you might not be far off these numbers.

Palais Gernier, known as the Paris Opera

Source: @jeffreymilstein

6 Rue du Lac, Bruxelles, Belgium

Source: @theworldartnouveau

So what's with the pics?

I had a portfolio lined up of Zapiro's cartoons during July, largely around load-shredding, Eskom, politics, etc. However, it was all so depressing, although amusing and spot-on with regard to the satire, that I decided to dive into the "Buildings" file on my Instagram account, and share some rather special photos of remarkable buildings, both inside and out.

As usual, I encourage you to look at the "handles" i.e. the sources of the photos, where you will find even more remarkable photos from so many talented photographers and artists.