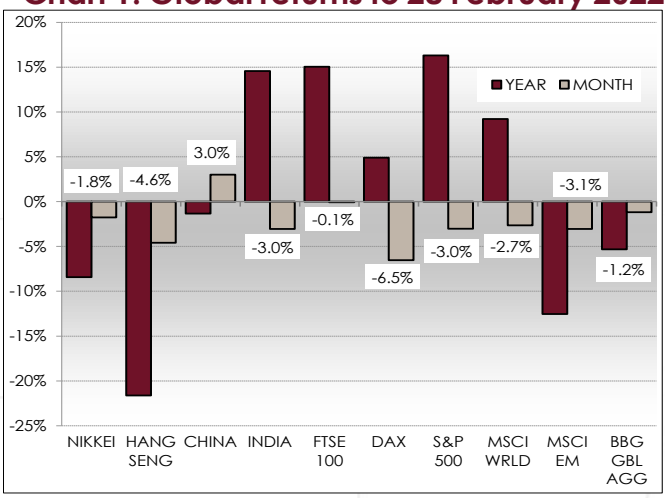
February in perspective – global markets

Where does one even start when summarizing market activities like those that we experienced during February? In short it was a tale of two halves. The first half was dominated by ongoing concern about rising inflation and interest rates, and a robust US labour market. The second half of the month was dominated by the Russian invasion of Ukraine, and all that goes with that.

Chart 1: Global returns to 28 February 2022



I can't offer any particular wisdom about the Russian invasion of Ukraine, other than what is out there already. I will say though, it is hard to see this war ending any other way than very badly. It is unique in many respects though; while there are definite elements of conventional war occurring in that region, another war is taking place in the economic and cyber realms, the likes of which no one has ever experienced. The consequences are therefore hard to predict and are exacerbated by the fact that there were pre-existing economic realities, like strongly rising inflation and significant global supply chain bottlenecks, that won't go away just because of the war. On the contrary, the surging oil price will exacerbate the inflationary pressures, and many supply chain issues will only get worse, all making for a murky future. The consolation is that history shows us the worst possible time to sell one's investments is during times of crisis. So we encourage investors to "sit this one out", provided of course they have a long enough time horizon to claw back the substantial losses which have already occurred and are likely to continue in the short-term.

The MSCI World index declined 2.7% in February while the MSCI Emerging Market index fell 3.1%. Developed market declines included those of Germany, which fell 6.5%, the Hong Kong market fell 4.6% (they are currently struggling with their own Covid crisis), the NASDAQ (tech-heavy) market lost 3.4%, the US equity market 3.0%, and the Swiss market 2.0%. Amongst emerging markets, India and Turkey lost 3.1% and 2.9% respectively, while the Chinese and South African markets each rose 3.0%, the latter being driven by surging commodity prices. Special mention should be made of the Russian equity market, which lost 34.7% in February, while their currency lost an additional 27.8% (and a whole lot more in early March). If one thing is clear so far from Russian President Putin's actions, it is that the economic cost of his decision to invade Ukraine is going to be enormous and has already had a dramatic effect on the lives of ordinary Russian citizens. Sadly, the whole world will also pay a high price, not to talk of the poor Ukrainians.

Some interesting market movements during February included the US Mid and Small cap returns of 1.0% and 1.3% - not quite what one would expect, when markets declined. As the uncertainty grew towards the end of the month, the view prevailed that any central bank action to slow rising prices might be tempered by considerations surrounding the war in Ukraine. Consequently, bond yields (interest rates) fell and bond prices rose towards the end of the month, but not enough to erase the sharp movements during the initial weeks of the month. The Bloomberg Global Aggregate Bond index fell 1.2%, bringing its decline for the year so far to 3.3%. It is worth highlighting that the US and German equity markets have declined by 8.0% and 9.0% respectively so far this year. The Russian equity market has lost 41.3% during the first two months of this year.

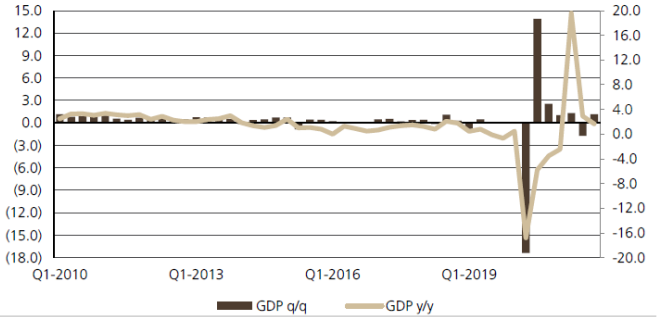
The war in Ukraine had a dramatic effect on certain commodity prices, given that Russia is a large commodity producing country. The oil price rose 10.4% and the price of platinum 5.2%. Given that Russia is the largest producer of palladium one would have thought that its price would have surged, but it actually fell 0.3%.The price did rise 23.2% in January though, the market having correctly anticipated the potential supply problems. The price of aluminium, another large export of Russia's, rose 11.5%. For all the turbulence in global markets, currency markets were relatively calm, other than the ruble of course, and there were no dramatic movements in these markets.

What's on our radar screen?

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

- *The SA economy:* The SA economy grew at a quarterly, un-annualized rate of 1.2% during the last quarter of 2021 (Q4); it contracted 1.7% during Q3. That brought the annual rate of growth to the end of December to 1.7%, down from Q3's annual rate of 2.9%. For 2021 as a whole, the SA economy grew 4.9%, the fastest pace since 2007. Of course, it was off a distorted, pandemic base. UBS estimate that the economy will reach pre-pandemic levels only in Q2 of 2022. Chart 2 provides an historic perspective of the economy's growth – or lack thereof.

Chart 2: SA economic growth (%)



Source: UBS

Headline annual inflation in February remained at 5.7%, although the monthly increase rose from 0.2% in January to 0.6% in February. The 5.7% increase in prices comprised an 8.1% increase in the price of goods, and a 3.1% rise in the price of services. Transport prices, which include

fuel, rose 14.3% during the past year. At its most recent meeting, the SA Reserve Bank (SARB) increased its official interest rate by 0.25%, to 4.25%. This leaves South Africa's prime overdraft rate at 7.75%.

- *US economy:* For good reason, investors continue to focus on global inflation, which at this point is not showing much inclination to subside. US February headline inflation rose 0.8% month-on-month, and 7.9% on an annual basis, the highest rate since January 1982. Energy prices rose at an annual rate of 25.6%, while services inflation is running at an annual rate of only 4.4%. The core i.e. excluding food and energy prices, annual inflation rate came in at 6.4%. Not unexpectedly, the US Federal Reserve (the Fed) increased their target interest rate by 0.25% to "0.25% to 0.5%", the first rise since 2018 and the first of many to come in this rate tightening cycle. The Fed signalled its intention to set a target range for inflation of between 1.75% and 2.0%, based on their assumptions (which include a US 2022 economic growth rate of 2.8%). One must say their target rate looks rather pathetic against the current rate of 7.9%, with many projecting that inflation will eventually breach the 10.0% level in the coming months. US retail sales rose only 0.3% in February, although that was off a high base (4.9%) in January. Sales at fuel stations rose 5.3% month-on-month, as the sharp increases in fuel prices starting having an effect. Excluding the rise in fuel prices, retails sales actually declined 0.2%.
- *Developed economies*: The Australian economy grew at a quarterly rate (so Q3 to Q4 growth) of 3.4% during Q4. Household consumption grew 6.3%, providing a strong boost to the Q4 growth rate. The economy declined 1.9% in Q3. The 3.4% Q4 growth brought the annual rate (so Q4 2020 to Q4 2021) to 4.2%, up from 3.9% in Q3. Headline inflation in the UK rose to 6.2% in February, from 5.5% in January. Core inflation rose from 4.4% in January to 5.2%. The Bank of England (BoE) estimates inflation will rise to about 8.0% in Q2, even though its own inflation target is only 2.0%. The BoE increased the official interest rate by 0.25% to 0.75%, its third hike since December 2021. The market seems to be pricing in another 1.25% of rate increases during this tightening cycle.

- *Emerging economies*: The Brazil central bank continued to raise their Selic interest rate, doing so by 1.0%, from 10.75% to 11.75%. This increase was less than the 1.5% rate hike at the previous meeting. The annual rate of headline inflation rose to 10.5% in February, from 10.4% in January. Fuel prices in Brazil increased by 33.3% during the past year. Turkey's headline inflation rate rose to a two decade high of 54.4% in February, up from 48.7% in January. The annual core rate of inflation in February was 44.1%. Producer price inflation (PPI) rose at a rate of 105.5%, the highest since 1995, as food and energy prices surged (this reading occurred before Russia invaded Ukraine, so much worse is still to come).

The Sri Lankan central bank continued its rate tightening cycle, increasing rates by 1.5% at its recent meeting, from 6.5% to 7.5%. Headline inflation rose to 15.1% in February, from 14.2% in January. Their foreign exchange crisis continues unabated. The Central Bank of Taiwan (CBC) raised its benchmark discount rate by 0.25% to 1.375% from a historic low of 1.125% where it had remained since the March 2020 rate cut in response to the global Covid-19 pandemic. The 0.25% hike is a significant move; the CBC has not pursued a rate hike of this scale since 2007. The unexpected rate hike reflects the CBC's concerns over rising inflation, the economy's outlook, and the normalisation of monetary policy among major central banks.

Moving on to China, retail sales there rose at an annual rate of 6.7% (from 1.7% in December), higher than expected. The data was rather distorted however, and one suspects this rate of growth is unsustainable, particularly in the light of Russia's attack on Ukraine. Industrial production rose at an annual rate of 7.5% (December 4.3%) and fixed asset investment at a rate of 12.2% (2.0%). The Russian central bank retained its official interest rate at 20.0%.

Obituary: Shane Warne, 1969 - 2022

I am no great fan of Shane Warne, but I guess the same holds true for many fellow South Africans of most Australian sports people, given the intense rivalry on the sports fields over so many decades. Rather begrudgingly though, I will acknowledge him to be one of the greatest, if not *the* greatest spin bowlers of all time.

That said, my decision to honour him with an obituary in *Intermezzo* has more to do with my colleague, Shane Packman – and certain clients it must be said – never speaking to me again if I don't devote a section to the legendary bowler. It is worth noting that Shane, of Maestro Investment Team fame, himself a capable and enthusiastic bowler, was actually named after Shane Warne, so this tribute is a rather personal and fitting one for all of us, notwithstanding my initial, cynical comments.

Shane Warne was one of Wisden Cricket Almanac's five best cricketers of the 20th century, but also one of the great sporting characters. The hedonistic Australian, who died aged 52, revived the nearly extinct art of leg-spin bowling, while embodying an unapologetic bad-boy version of masculinity that was itself going out of date.

Raised in the Melbourne suburbs, Warne dreamt of playing Australian-rules football, but wasn't good enough. Cricket was his second choice. On his first visit to England in 1993, he became an instant superstar. Leg-spin bowling, which bounces and then spins away from a right-handed batsman, is so difficult to execute that few 1990s batsmen had encountered it. Australia deliberately didn't use Warne much in warm-up matches and he concealed his full repertoire, so when he bowled his first ball in Test cricket in England to Mike Gatting, the veteran was unprepared.

The "ball of the century" bounced outside Gatting's leg stump, then turned well over 2 feet to hit the off stump. The Englishman walked off, eyebrows raised, before glancing back uncomprehending.

"Warney", as everyone in cricket called him, was soon being followed down streets by flocks of photographers. By his own admission he became "a bit big-headed". The tabloid newspapers, then in their heyday, kept catching him having affairs, to the distress of his wife, Simone Callahan. There were cricketing scandals, too: in 1994, a bookmaker paid him $5 000 (which he immediately lost in a casino) for passing on information about the pitch and the weather. I should hasten to add here that Maestro's Shane has already displayed significantly greater competence and aptitude for matters financial! In 2003 Shane Warne was banned for taking a forbidden diuretic. His mantra, "always shoot the messenger", seldom worked. He and Australia's captain Steve Waugh irritated each other.

Much as Warne resembled an ordinary punter who had wandered out of the pub on to the field, he was an obsessive professional in his own way. He wished he could prepare for matches with a smoke and cup of tea in the pavilion while he thought through each batsman's dismissal, but Australia made him do boring fielding drills.

He strolled rather than ran in to bowl and imparted spin with his middle finger, while simultaneously making the ball drift against the spin. His precision transformed what had been the riskiest form of bowling into a nailed-on certainty. He planned each six-ball over ball by ball, imagining the shot he wanted the batsman to play, then bowling to induce it. "I wanted to make every ball an event," he said.

He loved being Shane Warne, humiliating batsmen with his rich verbal repertoire. "There are no mates on a cricket field," he said, and international sport wasn't the village green. His favourite easy victim, was South Africa's Daryll Cullinan, whom he always welcomed to the wicket with glee. "I've been waiting 10 months to bowl at you again, Daryll," he is once said to

have called out, to which Cullinan replied, in possibly his sole victory over Warne: "You look as if you've spent all that time eating." Larger than life, Warne was also large in life.

After his great Australian team had won six straight Ashes series against England, Simone finally left him during the seventh, in 2005, flying home from England with their three children. He played a brilliant series, even if Australia lost. He must have decimated British economic productivity: millions spent weekday afternoons glued to the screen for just one more over of Warne. England's fans chanted, "Where's your missus gone?", but also, "We wish you were English". In 2007, Australia won his last Ashes series 5-0 and he took his 700th Test wicket, a first in Test history.

Cricket author Simon Lister calls Warne the complete sporting hero: the technical perfection of racing driver Michael Schumacher, the strategic brilliance of chess player Bobby Fischer, and the lifestyle of driver James Hunt.

Warne also incarnated an aspect of the Australian national spirit: he was a "larrikin", a misbehaving young man with a heart of gold. Though judged unfit for the Test captaincy (arguably the most hallowed role in Australian life), he showed himself an astute leader. His two-year engagement to British actress Elizabeth Hurley didn't make it to the altar. He inspired at least 15 books about his life, the recent documentary Shane, and a musical. "The overriding thing," he said, "is that I put a big smile on a lot of people's faces."

By a fluke of fate, Warne died on Cullinan's birthday. His final tweet was for Australian cricketer and coach Rod Marsh, who predeceased him by hours: "RIP mate♥."

Quotes of the month

The "Peace Dividend" has run out

Julius Bär Group Chief Investment Officer Yves Bonzon wrote the following a week into the Russian invasion of Ukraine: "What we are essentially witnessing while watching the war in Ukraine unfold is the end of the post-cold-war 'peace dividend'. The neoliberal era, with its relentless globalization and focus on economic prosperity, as opposed to ideological dominance, might sometimes be under-appreciated for the huge benefits it has brought to the global economy. One of its main merits was the decrease in political and macro-economic uncertainties, further bolstering economic prosperity.

"This era is over; the 'peace dividend' has run out. We are entering a new phase of geopolitical confrontation and higher volatilities. You can see the paradigm shift with a naked eye: Germany, as a response to the new era ushered in by the war and in a complete turnaround from its usually preferred economic and diplomatic tools, announced an additional €100bn of increased military spending. Switzerland has announced it will fully second the European Union's sanctions against Russia. The change in the air is palpable. For investors, this means that political and geopolitical factors will increasingly overtake endogenous market signals, as they have been increasingly doing in recent years".

Calling a spade a spade

Business Maverick interviewed *Neal Froneman, the CEO of Sibanye Stillwater*, on 8 March. Never one to pull his punches, I thought parts of the interview were worth sharing. Asked in an interview after the company unveiled record earnings about the social, policy and investment climate in South Africa, Froneman replied: "My view is now that we are practically a failed state. It starts with inequality and poverty.

"This is not a mining issue; this is a national issue. This is a lack of leadership. This is a lack of people at the highest levels taking proper action against lawlessness, against crime, and it filters all the way down through the system. But, ultimately, because there is no economic growth, people are poor, people are angry, and, of course, there is a lack of capacity to deliver services."

"Because the law is not enforced you get these mafias and you get this lawlessness, as there are no repercussions for that. And because mining companies are seen as prosperous, and they do have services, they get targeted because everyone wants a part of it," Froneman said.

"This kind of stuff is on the rise and it will stay on the rise until there is proper economic growth. And economic growth is only going to happen when you stop having ideologies of communism, socialism, and you have an investor-friendly climate and you don't talk about expropriation without compensation. I could go on for a long time," Froneman said. "Government leadership has created this problem and they are doing nothing. The government can't deal with it because it goes against their ideology. There is neither the capacity nor the competence to deal with it."

Froneman also expressed concerns about the run-up to the ANC elective conference later this year: "It is going to get much worse towards the end of the year as we move towards the national ANC conference. That's when you are going to find those with hidden agendas destabilizing regions."

He went on to say that business needed to step into the breach and, in many cases, fill the role of the state. SA mining companies are widely credited with providing the National Treasury with liquidity as their record profits translated into record tax and royalty flows to the fiscus.

"But they still have to splash out extra cash to maintain services that they have effectively already paid for. We have started recognizing that if we want to operate, unfortunately we're going to have to become part of providing services to the communities that surround us. Government is too useless to do it."

He also had some choice words for the shambolic state of the Department of Mineral Resources and Energy, which has overseen a massive backlog of mining rights applications and often seems incapable of doing its most basic tasks. This has led to a dramatic decline in exploration projects, so that South Africa now accounts for less than 1% of global exploration spend.

"Whether it's a simple thing like implementing an exploration policy, government can't do it; it can't even fix its bloody admin systems to sign off mining licenses. It's a pathetic state of affairs," Froneman said.

Straight from the horse's mouth

In a recent speech in front of business economists, *Chairman of the US Federal Reserve, Jerome Powell*, left no doubt on where he sets his priorities: "the labour market is very strong, and inflation is much too high" was his opening remark. So there you have it, plain and simple. No surprises as to where US interest rates are headed.

Gone is the world as we knew it

"The Russian invasion of Ukraine has put an end to the globalization we have experienced over the last three decades," wrote *Larry Fink, the Chairman of BlackRock*. The company oversees $10tn assets and is the largest investment manager in the world.

Charts of the month

As you are aware, the Russian invasion of Ukraine has thrown many markets into complete turmoil. I'd like to start off sharing a few charts, which illustrate this point. In many cases, the charts are a few days old and the extreme movements depicted have only got worse. But you will "get the picture" by looking at the charts, which represent only a fraction of the chaos and turmoil experienced during the past few weeks.

Oil and natural gas markets

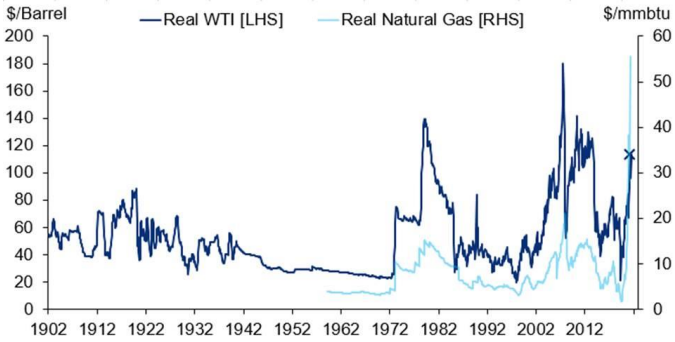
Chart 3 puts the recent spike in oil and gas (especially in Europe) into historical perspective. For oil, inflation-adjusted prices were actually higher in 2008 than they were in the 1970s. However in the 1970s, two abrupt spikes after a couple of Bretton Woods decades occurred where the price of oil was stable in nominal terms. So the subsequent shock was dramatic.

In terms of today, the real price of oil is still not beyond the late 1970s or 2008 peaks, and economies are less energy intensive, but it's moving into the highest percentiles in history. It's worth noting that the early pandemic period saw the lowest real price in history and futures briefly traded in negative nominal terms.

Natural Gas on the other hand, is in uncharted territory relative to anything seen through history. The moves are incredible.

Deutsche Bank's European economists suggest that a 50% spike in oil prices and a 100% spike in gas prices that last across the year (coupled with trade impacts, and other effects), would reduce European growth by 2.5% - 3.0% for 2022. Oil is up about 25% and Gas prices are up over 100%. So we're at the severe scenario for gas and half way there for oil which brings big European growth risks, not to mention inflationary ones. However, these would have to be sustained to have the full impact. So while the risks are getting serious for growth, remember that a day is a long time in markets at the moment, let alone the full year.

Chart 3: Oil and Natural Gas prices in real terms



Source: Deutsche Bank

Further dislocation in the commodity complex

The commodity complex has experienced some of the worst dislocation. *Deutsche Bank's Jim Reid* wrote the following on 7 March: "The week has started with a major increase in oil on the back of weekend comments from US Secretary of State Blinken raising the prospect of banning Russian crude imports. This follows the biggest week on record for our Commodity index (13.4%), eclipsing anything seen in the 1970s.

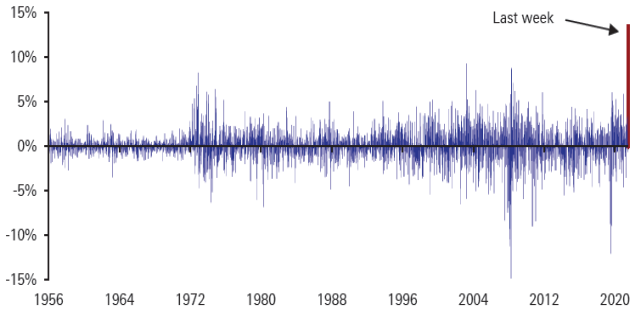
"This is only the 7th day of March but at the time of writing here are the moves so far this month for a selection of commodities: UK natural gas 218%, wheat 46%, palladium 36%, WTI oil 30%, Brent oil 26%, nickel 20%, iron ore 14%, aluminium 14%, and copper 13%. By the time you read this, prices will probably change and gas in particular continues to trade in phenomenal intra-day ranges.

"Before today's move the rolling 3-month move in this overall commodity index was 35.9%, just below the highest ever which was the 41.9% seen in the three months to 11 August. We could easily beat this if markets continue to trade as they are.

"It's going to be increasingly hard to ignore the comparisons to the 1970s as the commodity price action is increasingly resembling this. While oil hasn't spiked by as much as in the 1970s (it more than tripled during the first oil shock from late1973), gas has increased by a much greater amount than at any point in history and the broader pace of the commodity rally is in many cases now beyond that seen in the 1970s".

Chart 4: Thomson Reuters Commodity index

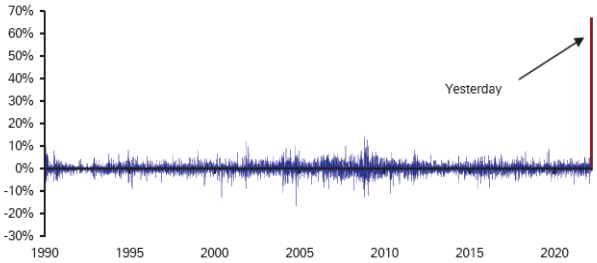
Weekly move in the CRB Commodity index



Source: Deutsche Bank

One notable market which has experienced extreme movements is the price of nickel which shot up a remarkable 66.0% on 7 March. Its surge comes on the back of a huge short squeeze and margin calls after fears of shortages due to the Russian/Ukraine conflict; Russia produces around 17% of top grade nickel.

Chart 5: Daily movements in Nickel price (%)



Source: Deutsche Bank

The nickel market has itself been the subject of a unique "short squeeze", in which one of the world's largest nickel users sold metal short in the expectation of a decline in the price.

Nickel prices doubled on Tuesday, 8 March, and briefly rose above a record $100 000 a ton (compare that to the price shown in Chart 6, below; the chart only shows the closing prices) as banks and brokers rushed to close part of a huge position amassed by Xiang Guangda, the billionaire founder of China's leading stainless steel producer Tsingshan Holding Group.

The unprecedented nickel price spike, exacerbated by Russia's invasion of Ukraine, resulted in an enormous margin call, which Xiang Guangda couldn't provide. The London Metal Exchange (LME) closed the market for a week, much to the ire of all participants, and took the unprecedented step of cancelling a number of trades. The profit embedded in those trades is believed to have exceeded $3.5bn, so you can understand why certain participants were unhappy! The LME eventually re-opened the markets, but to be honest its credibility is now so seriously tarnished one wonders how long the 145-year old organization can last in its current form. We certainly haven't heard the last chapter of the "Great Nickel Squeeze on the LME in March 2022". The daily price history of nickel is shown in Chart 6.

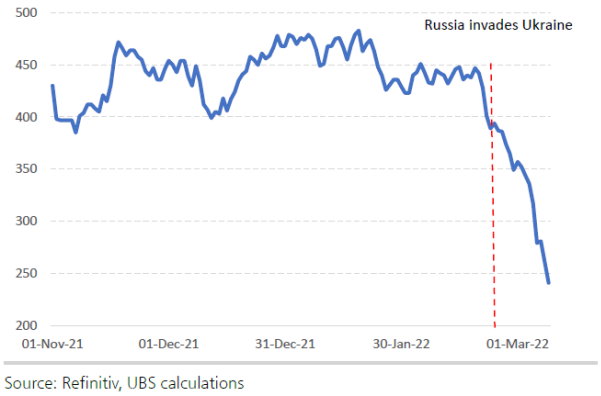
Chart 6: Nickel price history

Source: Tradingeconomics.com

More extreme market movements

Still on the topic of extreme market movements, without going into too much detail, here are two more. We don't often feature charts of the number of ships moving around the world, but just to show how far-reaching the consequences of the Russian invasion are, across so many different markets and areas of the global economy, Chart 7 highlights the number of ships bound for Russia. When reviewing this sector of the economy, and considering the important part of the supply chain that shipping comprises, it is easy to understand that the Russian invasion is going to exacerbate an already constrained global supply chain.

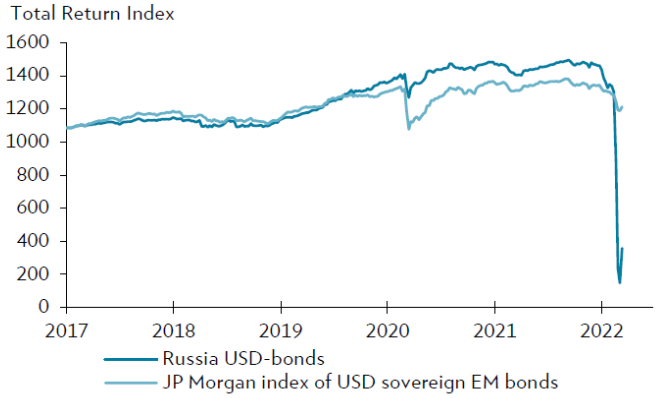
Chart 7: Number of ships destined for Russia



Source: Baader Bank

A final chart on selected extreme movements seen in recent weeks, Chart 8 depicts the price of Russian bonds, depicted against the JP Morgan Emerging Bond market index. There are so many variables that impact on Russian bonds, we could be here all day discussing them. Suffice to say that Russian bond investors are most likely not the happiest investors at the moment. Concepts like "permanent loss of capital" come to mind rather quickly.

Chart 8: Russian bonds vs JPM EM bond index

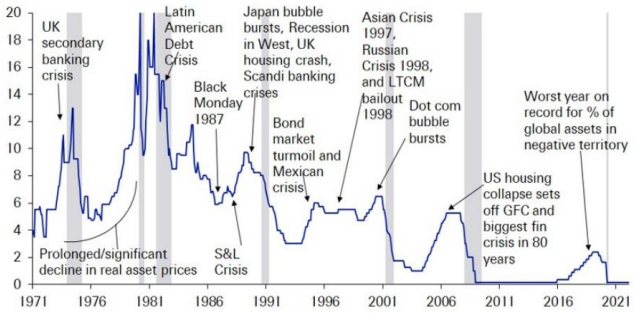


Source: Julius Bär

When rates rise, something nasty usually happens

I found Chart 9 useful in placing the recent bond market movements into perspective. Remember that when bond yields (interest rates) rise, prices decline. Below the chart, I include comment from *Deutsche Bank's Jim Reid*.

Chart 9: Fed Funds Rate and financial crises



Source: Deutsche Bank

"As we start the hiking cycle, it's worth highlighting that hiking cycles in the fiat money era (1971-), when debt has been constantly increasing, have generally eventually led to a financial crisis somewhere around the world.

"With US equities still at some of their highest valuations in history, with global housing having boomed during the pandemic, and with global debt at record highs, the Fed (and other central banks) shaking the tree is sure to bring something we can add to the events shown in the graph.

"The one caveat is that monetary policy usually acts with a lag. So, the problems associated with tomorrow's hiking cycle start won't be immediate. To paraphrase Warren Buffet, the tide will have to go back a fair bit from here to see who has been swimming naked. With inflation as high as it is, the Fed really have no choice but to take us back from high tide, but history suggests consequences".

Placing the start of 2022 into perspective

I have commented extensively in letters to clients that the first few months of 2022 represented one of the worst starts to a year that I can remember. Julius Bär placed this into perspective, as their comment below, written on 16 March, bears out, together with Chart 10.

"This year is the fifth worst start for the S&P500 since 1927. Equity markets are going through significant geopolitical and macro-economic shocks, the latter including persistently higher inflation, which led the US Federal Reserve to start the interest rate lift-off. In the past (Chart 10), equity markets usually rebounded after such a bad start of the year, with the exception of the two-year span of the Global Financial Crisis (GFC, 2008 – 2009) and the 2001 dot-com bubble,

which coincided with the 11 September terrorist attacks.

"At present, we believe the market could only get worse if the war escalates, which would likely lead to additional sanctions and further destabilise the supply-demand balance, increasing inflationary pressures while lowering growth expectations. Declining demand, coupled with lower investment activity, would add margin pressure and credit losses.

"In the short term, we therefore continue to suggest being well diversified in times of elevated political risks, with add-on defensive names … and a barbell strategy between value and growth. Within value sectors, we continue to favour financials, which are well positioned to benefit from the higher yield environment and their large dividend and buy-back programmes. However, we would couple this with information technology stocks, which continue to be well supported by structural growth drivers, translating into higher earnings growth potential".

Chart 10: The S&P500's 5th worst start since 1927

#	Year	Event	YTD*	16/03 to YE
1	2009	GFC	-16.24%	47.39%
2	2020	Covid-19	-16.09%	38.55%
3	1935	New deal	-13.37%	63.18%
4	2008	GFC	-12.27%	-29.88%
5	2022	Current	-10.57%	X
6	2001	Dot-com bubble	-11.11%	-2.17%
7	1982	Oil crisis	-10.69%	28.50%
8	1960	Autos recession	-8.60%	6.16%
9	1948	Post WWII	-8.10%	8.11%
10	1968	Post Korean war	-7.64%	16.57%

Source: Julius Bär

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	**Feb**	**2.6%**	**0.5%**	**17.2%**
JSE All Share Index	*Feb*	*3.0%*	*3.8%*	*20.5%*
Morningstar sector ave	*Feb*	*2.2%*	*3.2%*	*20.7%*
Maestro Growth Fund	**Feb**	**0.4%**	**-2.2%**	**3.9%**
Fund Benchmark	*Feb*	*1.7%*	*1.7%*	*15.0%*
Morningstar sector ave	*Feb*	*0.6%*	*-0.8%*	*12.8%*
Maestro Balanced Fund	**Feb**	**0.7%**	**-2.0%**	**3.8%**
Fund Benchmark	*Feb*	*1.4%*	*1.4%*	*13.4%*
Morningstar sector ave	*Feb*	*0.6%*	*-0.9%*	*11.2%*
Maestro Global Balanced Fund	**Feb**	**-3.0%**	**-14.1%**	**-16.7%**
Benchmark	*Feb*	*-2.2%*	*-9.2%*	*5.4%*
*Sector average **	*Feb*	*-1.8%*	*-9.0%*	*3.8%*

* Morningstar Global Multi Asset Flexible Category

Notwithstanding the returns listed in Table 1, our longer-term returns for our investment solutions are listed in the table below. All returns are for periods to 28 February, and are taken from Morningstar's monthly unit trust survey. Returns are shown on a net basis i.e. after all fees have been deducted.

Table 2: The Maestro Equity Prescient Fund

Morningstar (ASISA) South Africa Equity General - February 2022						
	3 mths	6 mths	1 year	3 years	5 years	10 years
Maestro Equity Prescient Fund	***5.2%***	***11.0%***	***17.2%***	***10.9%***	***4.7%***	***7.3%***
Maestro Equity Fund benchmark	4.2%	12.0%	14.8%	12.4%	10.4%	12.4%
SA Peer Group Average	7.7%	11.3%	20.7%	11.6%	8.2%	9.4%
Maestro position within Group	126	93	114	70	103	55
Number of participants	168	167	164	146	118	65
Quartile	3rd	3rd	3rd	3rd	4th	4th

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

Table 3: The Maestro Growth Fund

Morningstar (ASISA) South Africa Multi-Asset High Equity - February 2022						
	3 mths	6 mths	1 year	3 years	5 years	10 years
Maestro Growth Fund	***-0.3%***	***2.6%***	***3.9%***	***8.0%***	***6.0%***	***7.7%***
Maestro Growth Fund benchmark	5.4%	10.1%	15.0%	12.7%	11.0%	11.0%
SA Peer Group Average	2.4%	5.8%	12.8%	9.7%	7.7%	8.7%
Maestro position within Group	189	184	197	149	138	59
Number of participants	205	205	205	185	154	68
Quartile	4th	4th	4th	4th	4th	4th

Table 4: The Maestro Balanced Fund

Morningstar (ASISA) South Africa Multi-Asset Medium Equity - February 2022						
	3 mths	6 mths	1 year	3 years	5 years	10 years
Maestro Balanced Fund	***-0.2%***	***2.7%***	***3.8%***	***7.7%***	***5.5%***	***7.3%***
Maestro Balanced Fund benchmark	4.7%	8.7%	13.4%	11.8%	10.4%	10.4%
SA Peer Group Average	2.0%	5.1%	11.2%	8.8%	7.4%	8.2%
Maestro position within Group	94	90	97	73	67	33
Number of participants	97	97	97	90	73	38
Quartile	4th	4th	4th	4th	4th	4th

Table 5: Maestro Global Balanced Fund

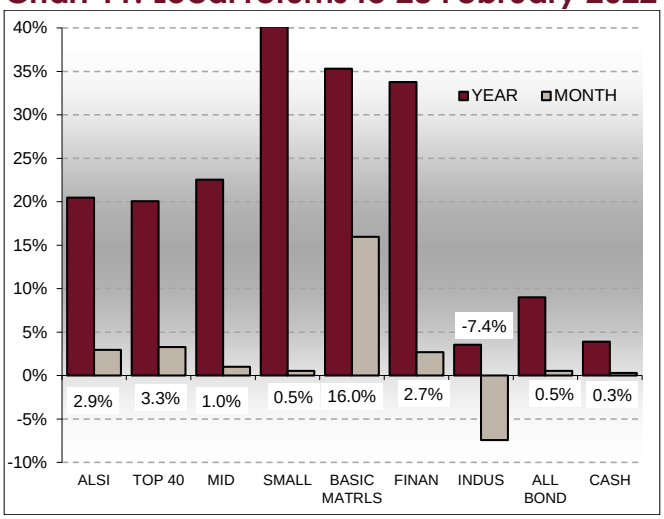
Morningstar (ASISA) Global Multi-Asset Flexible - February 2022						
	3 mths	6 mths	1 Year	3 Years	5 Years	10 years
Maestro Global Balanced Fund	***-14.3%***	***-10.6%***	***-16.9%***	***5.2%***	***N/A****	***N/A****
Global Balanced Fund benchmark	-7.1%	1.2%	5.4%	11.9%	10.9%	13.5%
SA Peer Group Average	-7.6%	-0.3%	3.8%	10.2%	9.8%	12.0%
Maestro position within Group	45	45	41	28	N/A	N/A
Number of participants	46	46	42	30	22	12
Quartile	4th	4th	4th	4th	N/A	N/A

February in perspective – local markets

For the second consecutive month, the South African markets held up remarkably well, as did the rand. A key consideration in this regard is the strong commodity markets and precious and industrial metals in particular. The All Share index rose 3.0%, bringing its year-to-date return to 3.8% (remember the comparable MSCI World index return is -7.9%), although that hides a large discrepancy between the Industrial index, which fell 7.4% in February (Naspers fell 21.7%) and the Basic Material index, which surged 16.0% during the month, bringing its year-to-date i.e. two-month return to 20.1%.

The Large, Mid and Small cap indices rose 3.3%, 1.0%, and 0.5% respectively. The All Bond index rose 0.5%, now boasting a year-to-date return of 0.5%. The rand dollar ended the month virtually unchanged, but it was rather volatile intra-month, as events unfolded in Ukraine. As long as commodity prices remain firm, one can expect the rand to be relatively firm. All in all then, a very tricky, volatile, and unprofitable month on global equity markets but a surprisingly strong one on local markets.

Chart 11: Local returns to 28 February 2022



It is hard to know how to end an "investment letter" when one looks up and sees war, chaos, and carnage on the TV alongside. Companies that had multi-billion dollar valuations just a few weeks ago, have all but imploded and seen their value obliterated. Here the likes of Sberbank (until recently Russia's largest bank) and Gazprom (until recently Russia's largest petroleum company and in 2020 the 32nd largest publically traded company in the world) come to mind.

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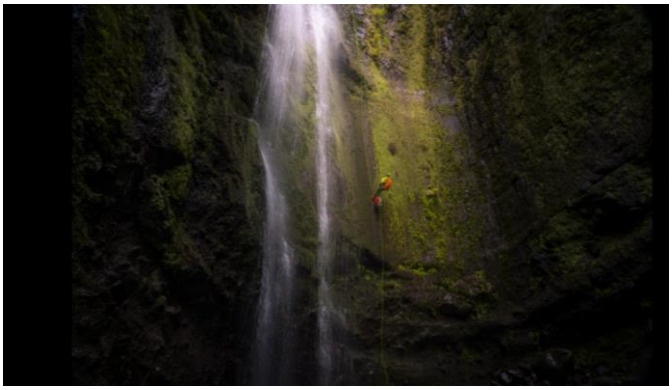
At the time of writing the Russian equity market remains closed, but in London the value of these two former giants has declined to, effectively, 1 pence; technically they can't decline lower than that. BP has endured a $20bn write down on the fire sale of its investment in Russian oil giant Rosneft. Never before have I ever seen such dramatic efforts on the part of corporates to rid themselves of any Russian asset or association.
Most of humanity – South Africa being a cringeworthy, and embarrassing exception – across the commercial, artistic, industrial, and sporting worlds, have rallied to universally condemn Russia's declaration of war against Ukraine. While this is uplifting to see and offers a glimpse of hope for humanity, there will most surely be a very high cost, however defined, of this action that is impossible to avoid.

The prices of oil and natural gas have surged, and the cost to Europeans in particular will be exorbitant and inescapable. This will further fuel prevailing rampant price increases (inflation) around the world. The major global supply bottlenecks are likely to get worse and delay the "return to normal" (whatever that means these days) even longer.



All is not lost, though. Over time we have come to believe, and have confidence in, mankind's ability to adapt. While the almost universal condemnation of Russia's actions has been encouraging to say the least, this time will pass, and we are certain that in due course we will again be reporting positive medium-term returns.

Now is not the time to sell one's investments if you have a long-term horizon. By all means, review one's investment strategy, but take care of bringing about any material changes in times of such extreme volatility. Without under-estimating the current global crisis, or trivializing the investment climate and geo-political problems, not to talk of the humanitarian crisis and suffering, we are of the view that investors should "sit this out". If one has some investable capital currently outside of the markets, we think it is appropriate to start "sharpening one's pencil" and giving thought to what looks the most attractive within the broader equity markets. No one rings a bell at the end of a crisis or the bottom of the market. History has shown that it is worth taking on at least some additional risk when the times seem darkest. One needs to take a holistic and sober view of one's own circumstances and time horizon; we are comfortable that Maestro can do this with, and for, its clients and "walk this journey" with them.

So while the gravitas of the prevailing global geo-political environment is not lost on us – after all we did say earlier in this letter that there is no way this crisis can end other than badly – we encourage those with cool heads and strong stomachs. We believe this market crisis will pass. Through it all we plan to still invest in quality companies with strong earnings outlooks and balance sheets, unique abilities and leadership, operating in the exciting industries we favour, many of which are nascent in their development.

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

Data that Dazzles

(Another) great day in the office?

Blackstone Inc. CEO Stephen Schwarzman drew in $1.1bn during 2021 as one of the highest, or potentially the highest, paid executive on Wall Street, The Wall Street Journal reported recently. Citing regulatory filings, the newspaper said Schwarzman took in $941.6m in dividends based on his 19% stake in Blackstone. He also earned $160.3m in compensation, which includes profits based on investment performance and a base salary of $350 000. Schwarzman, 75, co-founded the firm in 1985 and continues to work as CEO, but President Jonathan Gray runs the company on a day-to-day basis. Blackstone shares are up 4.1% so far in 2022 compared to a dip of 3.4% by the S&P500. Blackstone shares have gained 77.4% in the past 12 months, compared to rise of 16.6% by the S&P500 over the same time period.

So what's with the pics?

The results of the Sony World Photography Awards competition were recently announced. I have chosen a selection from the "Travel" category, for your enjoyment. I will surely include a few more in coming editions, but you are welcome to browse through them by clicking here.