
**JULY 2022**

Dear CRF Member,

Across the board, June was a very poor month for financial markets and all asset classes sold off as uncertainty escalated in the wake of rampant inflation in the US and rapidly rising interest rates. The Rand depreciated by over 4% during the month but this was not enough to provide a positive return from offshore equity. Local asset classes ended the month firmly in negative territory. The returns for the month of June 2022 are shown below:

| | 1 month | 3 months | 6 Months | 1 year |
|---|---|---|---|---|
| **SA Equity (Capped SWIX)** | -7.5% | -10.6% | -4.6% | 6.9% |
| **SA Bonds (ALBI)** | -3.1% | -3.7% | -1.9% | 1.3% |
| **SA Property (ALPI)** | -10.3% | -11.6% | -12.7% | 0.2% |
| **SA Cash (STeFI)** | 0.4% | 1.2% | 2.2% | 4.2% |
| **SA Inflation Linked Bonds (CILI)** | -0.9% | 2.9% | 3.3% | 10.7% |
| **Global Equity (MSCI World ($))** | -8.7% | -16.2% | -20.5% | -14.3% |
| **Global Equity (MSCI World (R))** | -4.0% | -6.0% | -18.4% | -1.7% |
| **Global Bonds (WGBI ($))** | -3.1% | -8.9% | -14.8% | -16.8% |
| **Global Bonds (WGBI (R))** | 1.8% | 2.1% | -12.5% | -4.5% |

The returns of the CRF portfolios (net of all fees) to the end of June 2022 were as follows:

| Portfolio | 1 month | 3 months | 6 months | 1 year |
|---|---|---|---|---|
| **CRF Aggressive Portfolio** | -4.1% | -4.0% | -3.8% | 6.9% |
| **CRF Growth Portfolio** | -3.9% | -3.6% | -3.9% | 5.9% |
| **CRF Moderate Portfolio** | -1.4% | -0.8% | -1.1% | 6.3% |
| **CRF In-Fund Pension Portfolio** | -1.2% | 1.3% | 2.3% | 9.0% |
| **CRF Money Market Portfolio** | -1.0% | 0.4% | 1.4% | 3.7% |
| **CRF Shari'ah Portfolio** | -3.9% | -4.8% | -5.6% | 5.4% |
| **CRF Children’s Benefit Portfolio** | -1.7% | -0.8% | -0.2% | 6.3% |

Despite the negative returns in June 2022, the CRF Aggressive, Growth, Moderate and In-Fund Pension portfolios continued to perform significantly better than other Local Government funds and in the 2021-2022 financial year, all of these portfolios were top quartile relative to other Local Government funds tracked by CRF.

As inflation continued to increase in the US and other developed market economies, the US Federal Reserve announced a 0.75% increase in interest rates on the 15th of June, which was much higher than the 0.5% expected. This is the largest hike that has been seen since 1994 and follows previous increases of 0.25% and 0.50% earlier this year. The Fed has been at pains to stress that the US economy is still in good shape. For example, US non-farm payrolls overshot expectations in May and increased after a strong increase in April as well. The solid payrolls data suggests that the labour market remains strong as businesses scramble to fill open positions. The unemployment rate remained unchanged at 3.6% but labour force participation increased marginally. However, the two- to ten-year segment of the US yield curve inverted in late March for the first time since 2019 and again in June 2022. The US yield curve has typically inverted between 6 and 24 months before an actual recession since 1955. So, while the US Fed remains optimistic, there is definitely risk of a US recession in 2023, if history repeats itself.

The Russia-Ukraine conflict continued, and the EU has formally adopted its 6th package of sanctions against Russia. EU leaders have agreed to cut 90% of Russian oil imports by the end of the year. Meanwhile, contrary to most other economies, the Russian central bank cut its key rate by 150 bps to 9.5%, the rate is now at its pre-war level. The bank expects Russian inflation to average between 14% and 17% in 2022.

The Organisation for Economic Co-operation and Development (OECD) published its revised economic forecasts and global growth is expected to slow sharply this year. World GDP growth is expected at 3% (from a previous estimate of 4.5%) this year and 2.8% in 2023, while the inflation projections now stand at nearly 9% (double previous estimates) in OECD countries in 2022.

Locally, the BER's business confidence index fell. The deterioration in confidence came as the floods in KwaZulu-Natal damaged businesses and halted operations at vehicle manufacturing plants as well as Durban's port. Our hearts go out to all those affected by this tragedy. Business confidence has also taken a knock from the re-introduction of loadshedding by Eskom. There was an extensive loss in generation capacity amid the ongoing impact of labour unrest and maintenance backlogs, with the loadshedding being ramped up to Stage 6.

Financial markets fell in June as the markets recalibrated for a deteriorating outlook and increased uncertainty regarding growth, inflation and earnings. Markets are moving on short-term data points rather than taking a long-term view. Members should avoid focusing on the short-term, especially for your retirement savings. During periods of change, negative markets or dislocation, opportunities are available for long term investors and CRF are certainly taking advantage of those on behalf of members.

Kind regards,

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Principal Executive Officer



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