

As EMs Go So Goes SA – Except for This Time – Commentary March 2022

While the ALSI ended the month at 0.0% in ZAR terms, it was another month of significant outperformance over global Emerging Markets, as represented by the MSCI Emerging Markets Index. The FTSE JSE All Share returned 5.8% in USD terms, while the MSCI EM Index returned -2.3%. For the year-to-date, the ALSI is up +13.4% vs the MSCI EM Index of -7.0% - an outperformance by the local market of over 20%.

Elsewhere the US indices were up in USD terms for March, but still down overall for the year-to-date. Global Value slightly underperformed Growth, but for the year-to-date Value is still nearly 10% ahead, while the MSCI World remains marginally ahead of MSCI EM.

These results are summarised in Table 1 below.

Table 1. South African and global equity returns (USD) for March 2022*

	Mar-22	YTD 2022
FTSE/JSE ALSI (ZAR)	0.0%	3.8%
FTSE/JSE ALSI (USD)	5.8%	13.4%
MSCI World	2.7%	-5.2%
MSCI EM	-2.3%	-7.0%
MSCI Value	2.3%	-0.7%
MSCI Growth	3.2%	-9.6%
S&P 500	3.7%	-4.7%
Nasdaq 100	4.3%	-8.9%

*Total return indices, Source: Factset

We note the ALSI has outperformed the MSCI EM Index consistently since October 2021 and examine in this note possible reasons for this. We begin by considering a longer term chart of the ALSI relative to MSCI EM, set out in Chart 1 below.

Chart 1. Relative performance of the FTSE JSE ALSI and the MSCI EM Index



Source: Factset

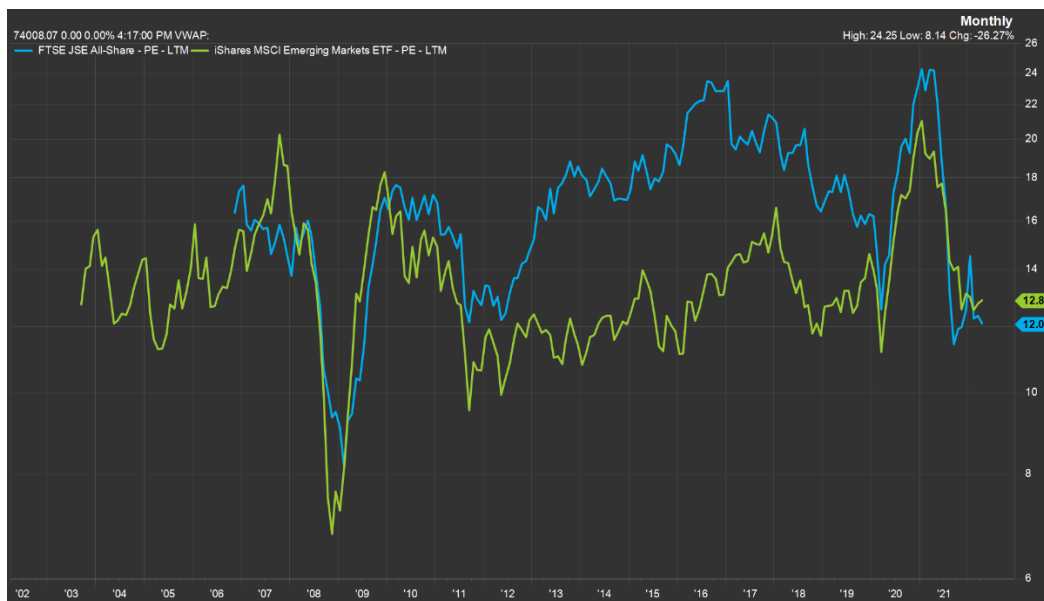
We observe, first of all, the significant correlation of USD performance. The ALSI has outperformed overall, but primarily due to better recovery from the recessions in 2001 and 2008. For the 10-year period starting in 2010 to the pandemic in 2020, the two indices have virtually identical performance.

Of importance here is also the 5-year period of, effectively, flat performance, in ZAR terms, of the ALSI from 2015 to 2020. The popular narrative has been that this was due to poor economic performance over the period. Consideration of Chart 1 above suggests otherwise. It would appear our market has merely followed global EMs, quite closely, in USD terms, not only from 2015 to 2020, but from 2010 onwards, and possibly prior.

Of note further, is the subject of the current discussion – the outperformance of the ALSI since October 2021, which is very irregular in historical context. Again, the popular narrative here has been that the South African market represents “value”, is “cheap”, and should be bought as better returns are sure to materialise. Indeed, these have materialised. But why? And more importantly why in such dramatically different fashion to other EMs?

We consider below one measure of valuation – the PE of the ALSI and the MSCI EM Index. Chart 2 below sets out the PEs of the ALSI and the iShares MSCI EM ETF as a proxy for the index.

Chart 2. PEs of the FTSE JSE ALSI vs iShares MSCI EM ETF



Source: Factset

From the chart above it is readily apparent that far from any significant undervaluation, the ALSI PE has in fact been higher than the MSCI EM for close to a decade between 2010 and 2020. Most recently the PEs have been close to identical. Yet the SA market is outperforming strongly. So what gives?

Well, if the PEs are identical and the SA market is outperforming, than there is only one possible answer and that is that earnings in SA, in USD terms, must be stronger relative to EMs.

This is indeed the case, confirmed by a consideration of the ALSI earnings per share ("EPS") set out in Chart 3 below.

Chart 3. FTSE JSE ALSI EPS



Source: Factset

Finally we consider in Chart 4 below, the EPS for the FTSE JSE RESI Index (Resources).

Chart 4. FTSE JSE RESI EPS



Source: Factset

We note the similar pattern of Resources EPS to that of the ALSI. Without overwhelming the reader with charts, we also note while the JSE's Industrial Index is showing strength in earnings, the Financial Index EPS still has to reach pre-pandemic levels.

It is not unreasonable to conclude, therefore, that the JSE's current outperformance is driven primarily by stronger Resources earnings as opposed to any sort of undervaluation to global EMs. Earnings in SA are far stronger than those of the broader EM Index. South Africa certainly seems to be a major beneficiary of the latest commodity boom, driven both by inflationary pressures and the conflict in Ukraine. As always though, it is worth noting, commodities are cyclical, and the current performance is far above previous highs, so, as far as the future is concerned, buyer beware.