

# MONTH IN PICTURES

MARCH 2020

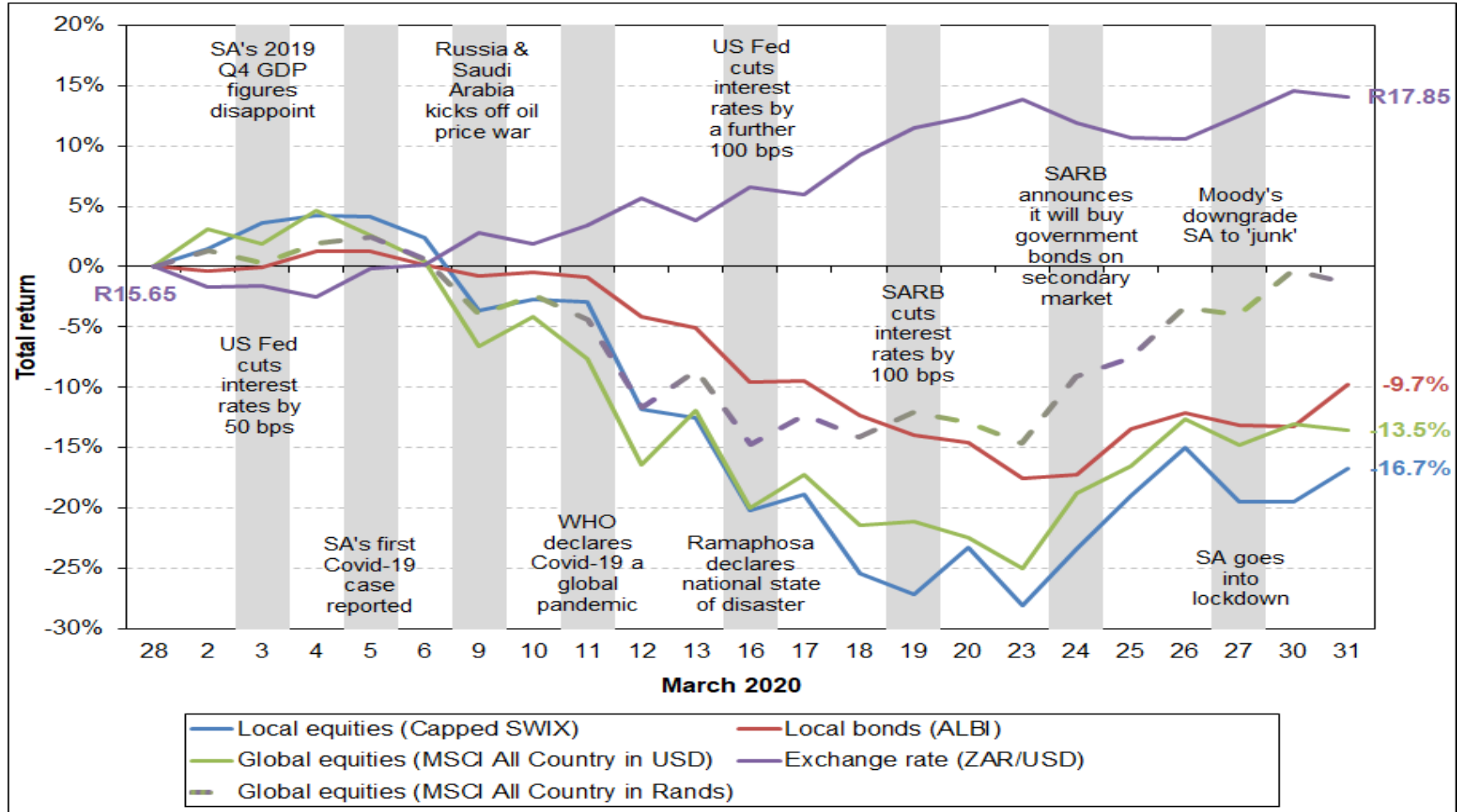
# MONTHLY SNAPSHOT

## NOTABLE EVENTS

- Amidst the Covid-19 pandemic, and the subsequent measures to try and contain it, global equity markets continued their downward spiral in the first half of the month before rebounding sharply during the second. Despite recovering somewhat, global equity markets still ended March 13.5% lower (in USD) while the local equity market suffered local currency losses of between 12% on the low side (ALSI) and almost 17% on the high side (Capped SWIX).
- This pushed 2020 Q1's local equity returns deep into negative territory, with returns of -21.4% for the ALSI and a staggering -26.6% for the Capped SWIX, thereby recording their worst quarterly performances since 1998.
- During the quarter, the rand-hedge-dominated industrials sector (-8.4%) held up best, while falling commodity prices (excluding gold) pushed the resources index 25.3% lower. With their large exposures to the domestic economy, financial (-39.5%) and listed property stocks (-48.2%) were particularly hard hit.
- As global investors scrambled for safety and liquidity following widespread shutdowns of economic activity, emerging markets saw large outflows from their capital markets in March. With South Africa being one of the most liquid, our currency (14.0% weaker against the US Dollar) and bond market (down 9.7%) therefore came under significant pressure. For the quarter, the Rand depreciated by 27.5% against the greenback and the bond market lost 8.7%.
- The yields on developed market debt trended even lower during the quarter, which resulted in a small positive US Dollar return of 2% from global bonds. Coupled with a much weaker Rand, this asset class (which unfortunately (in hindsight) is not widely held by local managers due to their very unattractive yields heading into this crisis) would have returned a solid 30% in local currency terms, while global equities ended the quarter basically flat (+0.3%) in Rands.
- Global central banks responded swiftly by cutting interest rates, with South Africa's implementing two 100 basis point cuts (the first in March, followed by another one in April), while governments around the world (including our own) also announced aggressive fiscal stimulus packages.
- South Africa was dealt a further blow at the end of the month when Moody's finally (and unsurprisingly) downgraded us to non-investment grade. Following the heavy Covid-19 related sell-offs earlier in the month the reaction from the bond market was relatively muted, however.
- With the short and medium term returns of most asset classes (especially local equities) now in deeply depressed territory, returns from typical retirement fund portfolios (to the end of March) have unfortunately trended lower as well. Returns for many portfolios over the last year is likely to be negative, while returns over the last 3 to 5 years range from slightly negative to the low single digits (on an annualised basis, see slides 11 & 14). While markets have continued their recovery in April, it is still too early to tell if we're out of the woods just yet.

# MONTHLY TIMELINE

## IMPACT ON MARKETS



# MARKET INDICATORS

## SHORT TERM

Market indicators (% change) <sup>1</sup>		Jan 2020	Feb 2020	Mar 2020	3 months	12 months
Local equities	Capped SWIX	(2.6)	(9.5)	(16.7)	(26.6)	(24.5)
	Resources	(3.5)	(11.6)	(12.4)	(25.3)	(18.5)
	Industrials	1.6	(7.0)	(3.1)	(8.4)	(7.2)
	Financials	(5.2)	(9.5)	(29.4)	(39.5)	(38.8)
	Listed Property	(3.1)	(15.7)	(36.6)	(48.2)	(47.9)
Local bonds	ALBI	1.2	(0.0)	(9.7)	(8.7)	(3.0)
Local cash	STeFI Composite	0.6	0.5	0.6	1.7	7.2
Global equities	MSCI All Country	6.0	(4.1)	(1.4)	0.3	9.3
Global bonds	FTSE WGBI	8.9	5.4	13.3	30.1	30.8
Exchange rate	ZAR/USD	7.2	4.3	14.0	27.5	23.2
Inflation	CPI	0.3	1.0	0.3	1.5	4.1

1. Total returns (in Rands) for the months and periods ending 31 March 2020.

# MARKET INDICATORS

## MEDIUM TO LONG TERM

Market indicators (% change) <sup>1</sup>		1 year	3 years	5 years	10 years	15 years
Local equities	Capped SWIX	(24.5)	(7.4)	(3.8)	6.6	10.8
	Resources	(18.5)	8.4	2.1	0.1	7.0
	Industrials	(7.2)	(1.9)	0.5	12.4	15.1
	Financials	(38.8)	(12.2)	(8.0)	5.8	8.5
	Listed Property	(47.9)	(23.0)	(13.5)	2.8	9.0
Local bonds	ALBI	(3.0)	5.3	5.2	7.4	7.6
Local cash	STeFI Composite	7.2	7.3	7.2	6.5	7.3
Global equities	MSCI All Country	9.3	11.7	11.1	15.8	12.9
Global bonds	FTSE WGBI	30.8	14.7	11.2	11.8	10.5
Exchange rate	ZAR/USD	23.2	10.0	8.0	9.4	7.3
Inflation	CPI	4.1	4.2	5.0	5.1	5.7

1. Total returns (in Rands) for the months and periods ending 31 March 2020.

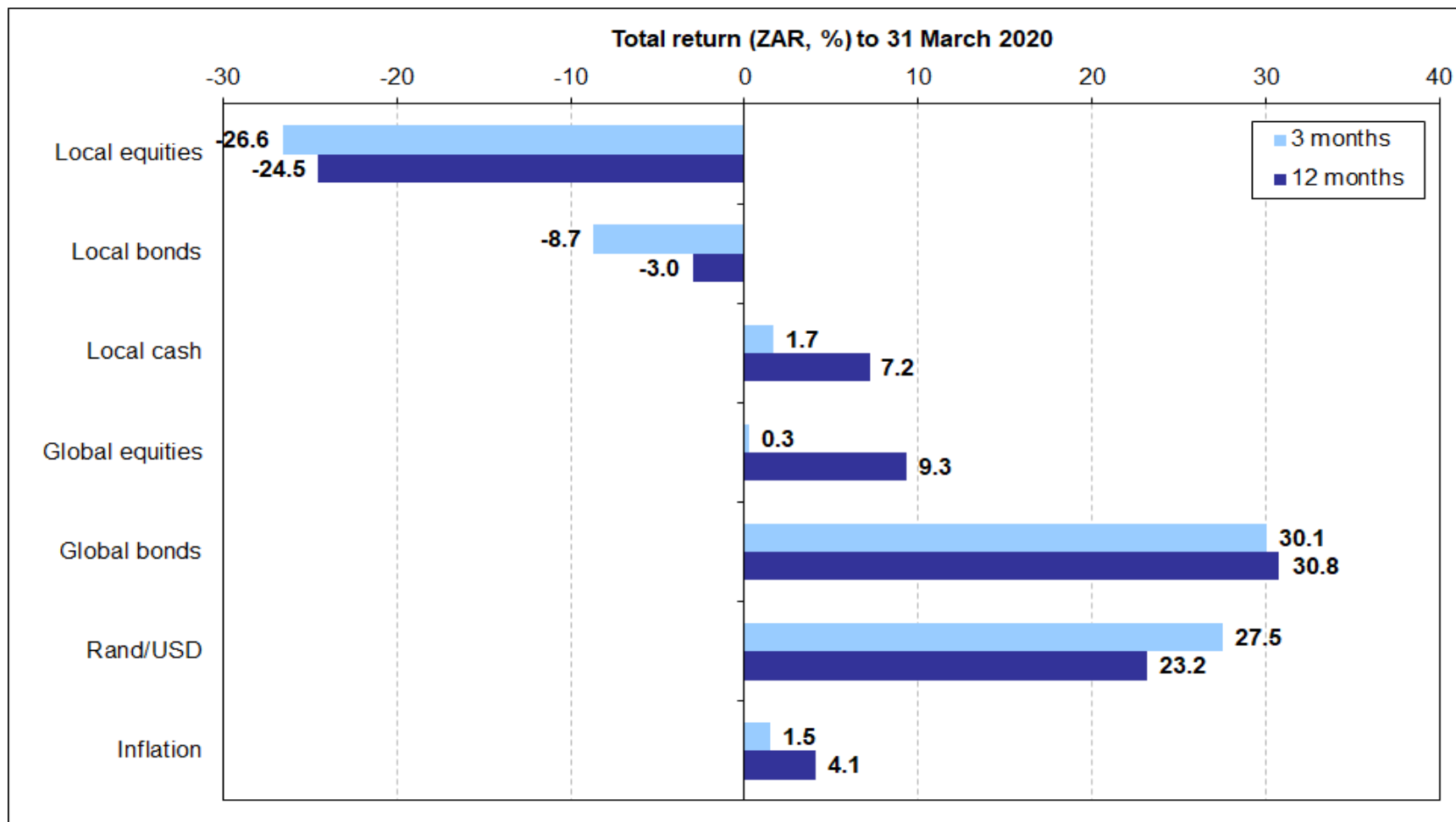
# ECONOMIC INDICATORS

Economic indicators <sup>1</sup>	Mar 2018	Mar 2019	Jan 2020	Feb 2020	Mar 2020
<b>Exchange rates:</b>					
ZAR/USD	11.82	14.49	15.00	15.65	17.85
ZAR/GBP	16.61	18.90	19.81	20.07	22.15
ZAR/Euro	14.59	16.26	16.65	17.27	19.71
<b>Commodities:</b>					
Brent Crude Oil (USD/barrel)	69.41	67.59	58.16	49.67	26.35
Platinum (USD/ounce)	930.28	845.50	957.50	881.61	725.39
Gold (USD/ounce)	1,325.03	1,291.91	1,589.69	1,636.68	1,615.31

1. Month-end prices

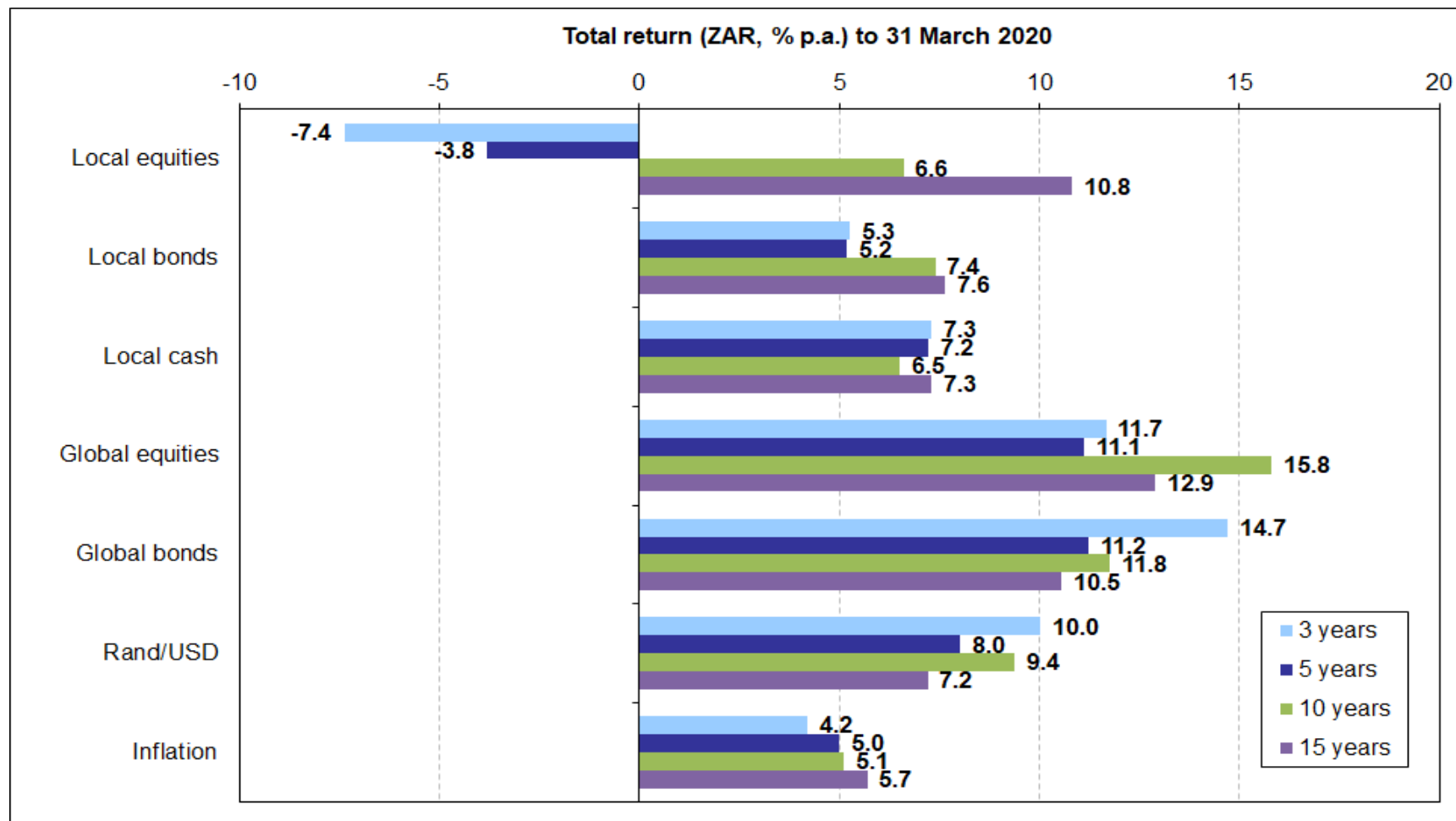
# ASSET CLASS PERFORMANCE

## SHORT TERM



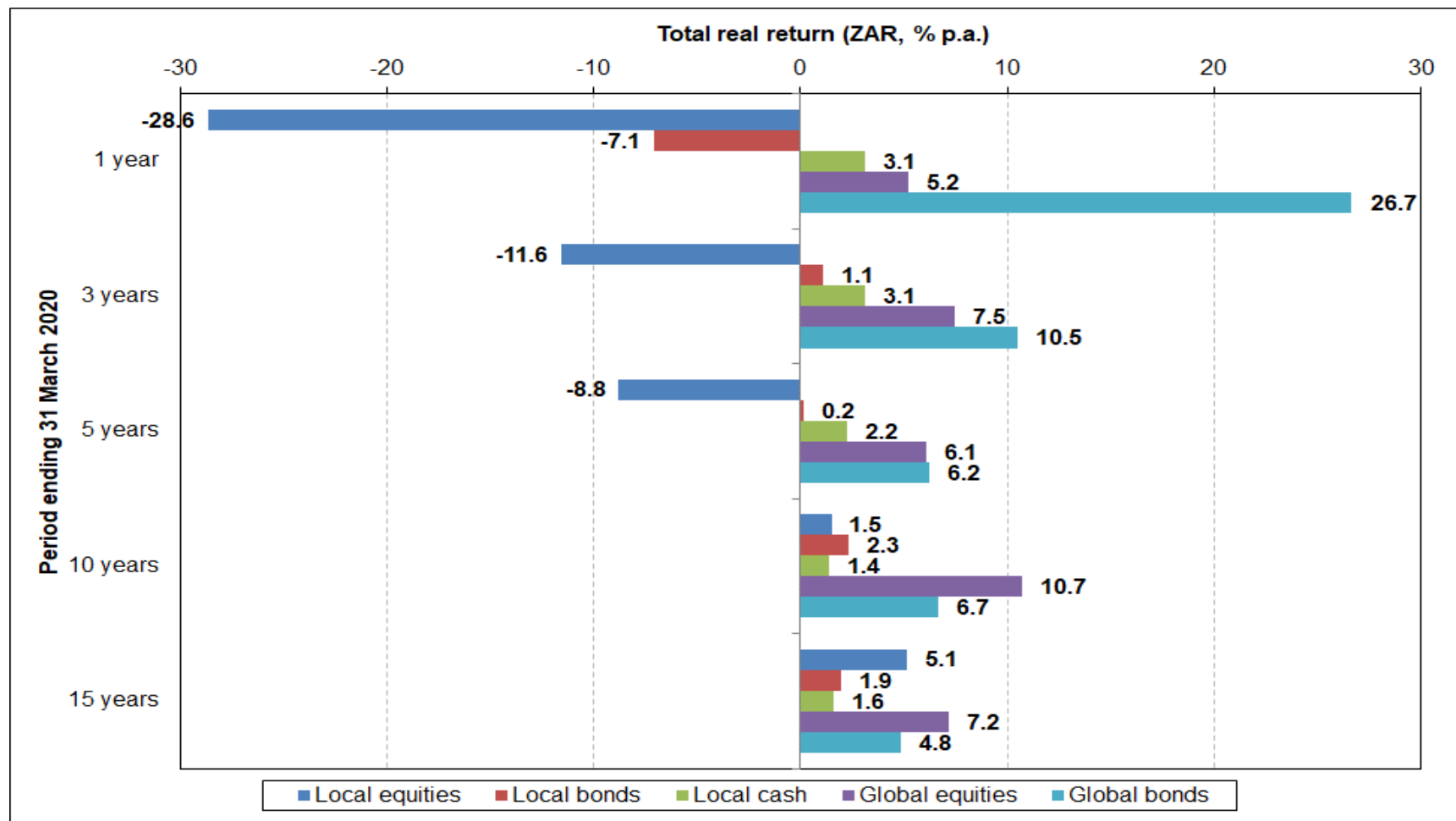
# ASSET CLASS PERFORMANCE

## MEDIUM TO LONG TERM



# ASSET CLASS PERFORMANCE

## REAL (EXCESS ABOVE INFLATION) RETURNS



# MARKET PERFORMANCE

## WHAT PAST RETURNS CAN INVESTORS REASONABLY EXPECT?

Given the performances of the various asset classes (see earlier slides), what level of historical returns (in both nominal and real terms) can investors reasonably have expected from the markets?

To illustrate this, we calculated the hypothetical returns of various risk profiled 'portfolios' (Aggressive, Moderate and Conservative) using a rules-based asset allocation approach to cater for the change in the regulatory offshore allowance over time:

- The offshore allocation is kept at 5% below the prevailing regulatory maximum (15% to 2000, 20% to 2006, 25% to 2018 & currently at 30%).
- The equity allocation varies according to the risk profile, and is set at 75% for Aggressive, 55% for Moderate and 35% for Conservative, which applies to both the local (ALSI up to December 2001, SWIX up to June 2011, Capped SWIX thereafter) and offshore (MSCI All Country) portions.
- The remainder of the *local* assets is split between local bonds (ALBI) and cash (STeFI composite), with the local bond allocation being the same as the equity allocation in this sub-portion, i.e. 75% for Aggressive, 55% for Moderate and 35% for Conservative. The balance is kept in local cash.
- The remainder of the *offshore* assets is allocated to global bonds (FTSE WGBI).
- Fees are assumed at 0.4% p.a.

A graphical representation of the strategic and current asset allocations of the various risk-profiled 'portfolios' are provided below:

AGGRESSIVE	Strategic allocation	LOCAL VS OFFSHORE	75%			25% (5% below regulatory maximum)	
		GROWTH VS INCOME ASSETS	75%	25%		75%	25%
		EQUITIES VS BONDS VS CASH	100%	75%	25%	100%	100%
	Current allocation		~56%	~14%	~5%	~19%	~6%

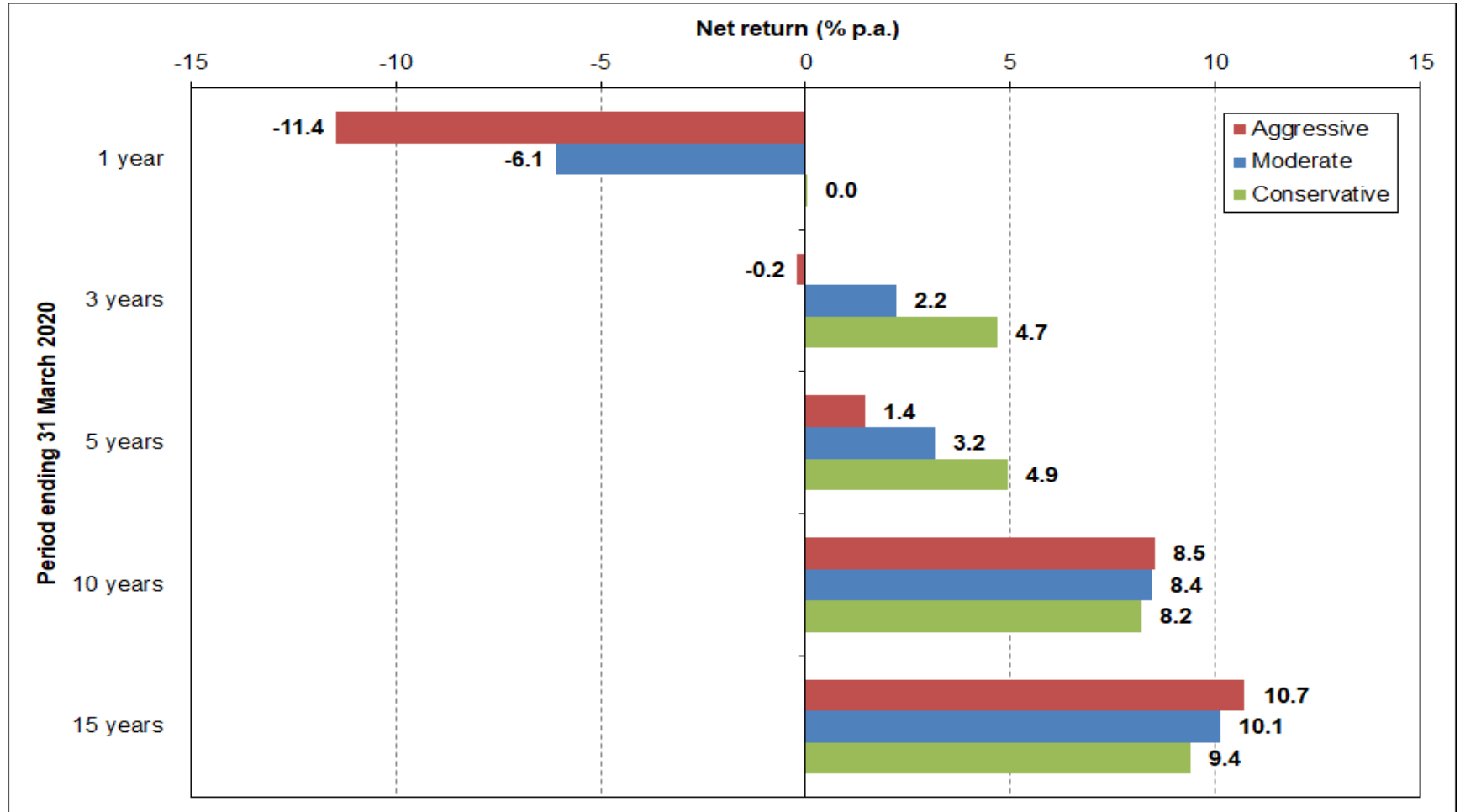
MODERATE	Strategic allocation	LOCAL VS OFFSHORE	75%			25% (5% below regulatory maximum)	
		GROWTH VS INCOME ASSETS	55%	45%		55%	45%
		EQUITIES VS BONDS VS CASH	100%	55%	45%	100%	100%
	Current allocation		~41%	~19%	~15%	~14%	~11%

CONSERVATIVE	Strategic allocation	LOCAL VS OFFSHORE	75%			25% (5% below regulatory maximum)	
		GROWTH VS INCOME ASSETS	35%	65%		35%	65%
		EQUITIES VS BONDS VS CASH	100%	35%	65%	100%	100%
	Current allocation		~26%	~17%	~32%	~9%	~16%

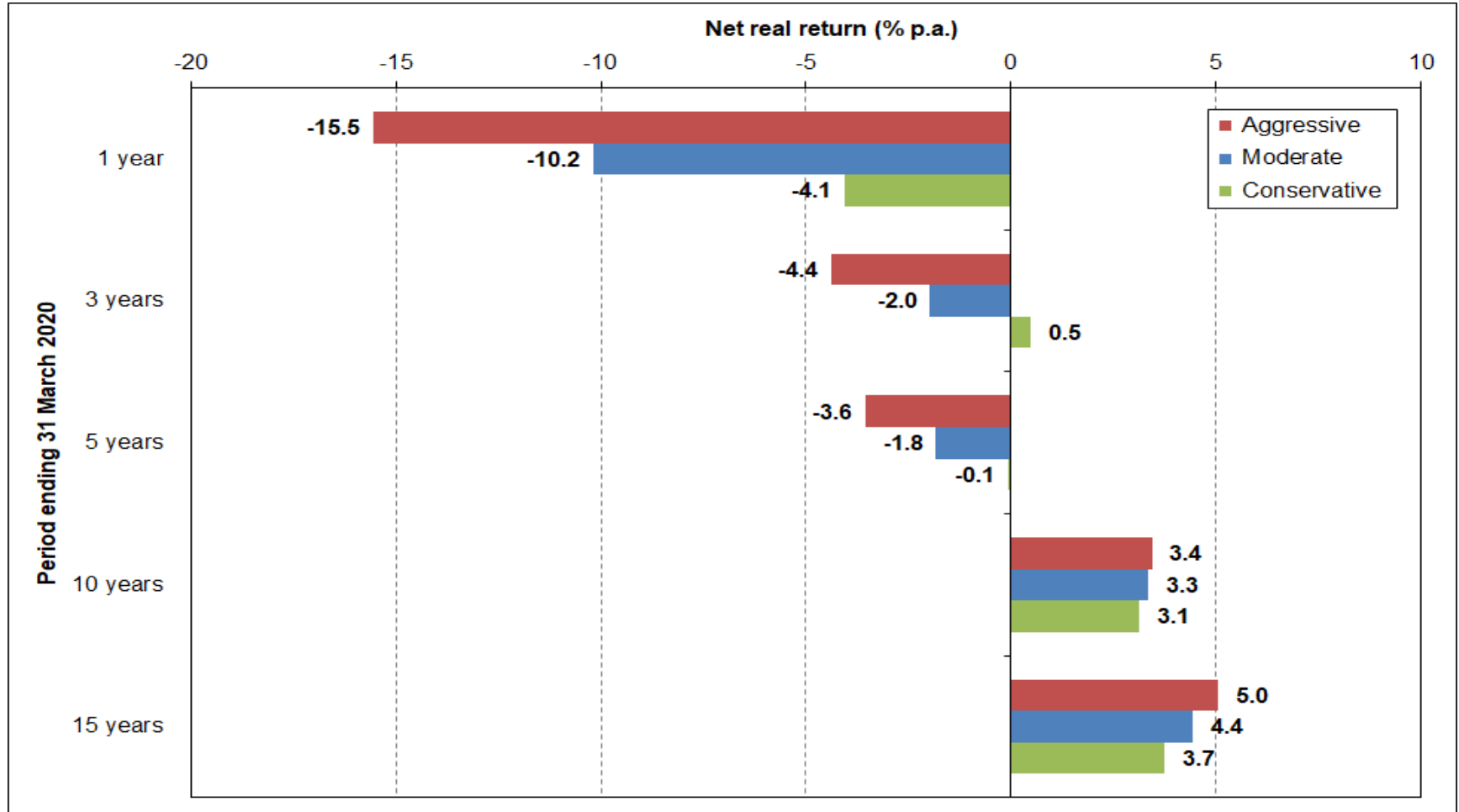
# MARKET PERFORMANCE

## FOR BALANCED PORTFOLIOS, WHAT RANGE OF PAST NOMINAL RETURNS WAS REASONABLY ACHIEVABLE?



# MARKET PERFORMANCE

## FOR BALANCED PORTFOLIOS, WHAT RANGE OF PAST REAL RETURNS WAS REASONABLY ACHIEVABLE?



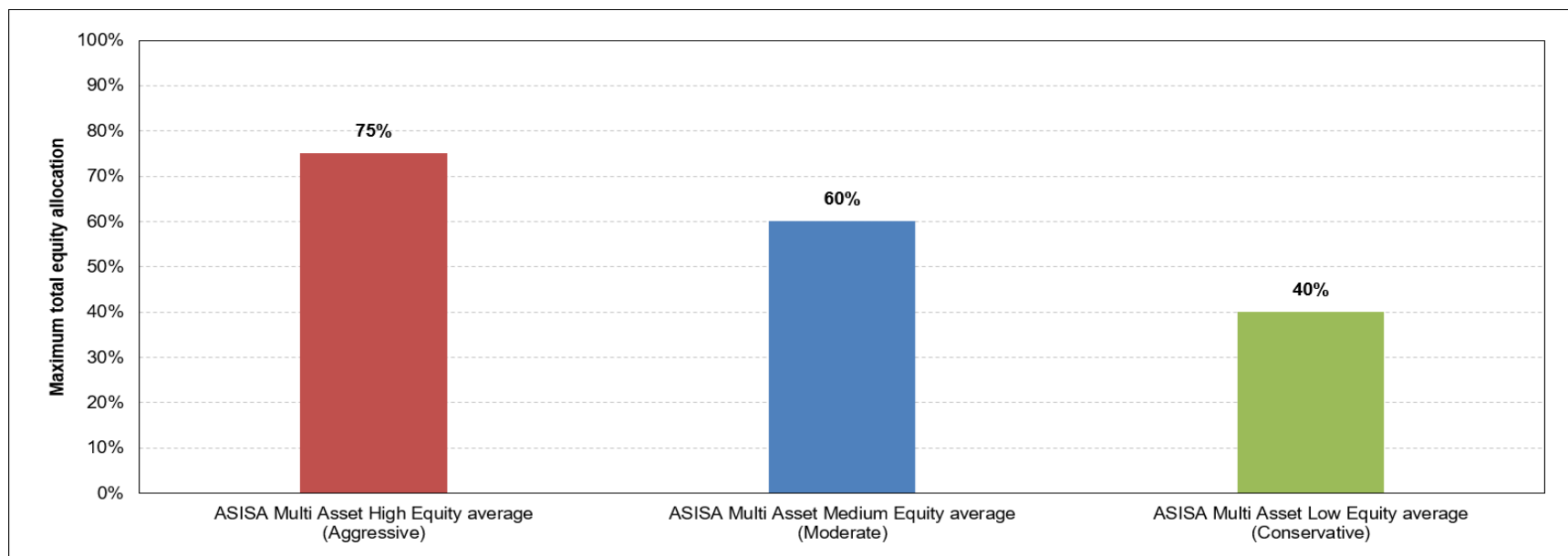
# MANAGER PERFORMANCE

## WHAT PAST RETURNS CAN INVESTORS REASONABLY EXPECT?

**Given what markets have delivered (see earlier slides), what level of returns (in both nominal and real terms) has the average *investment manager* delivered in this environment?**

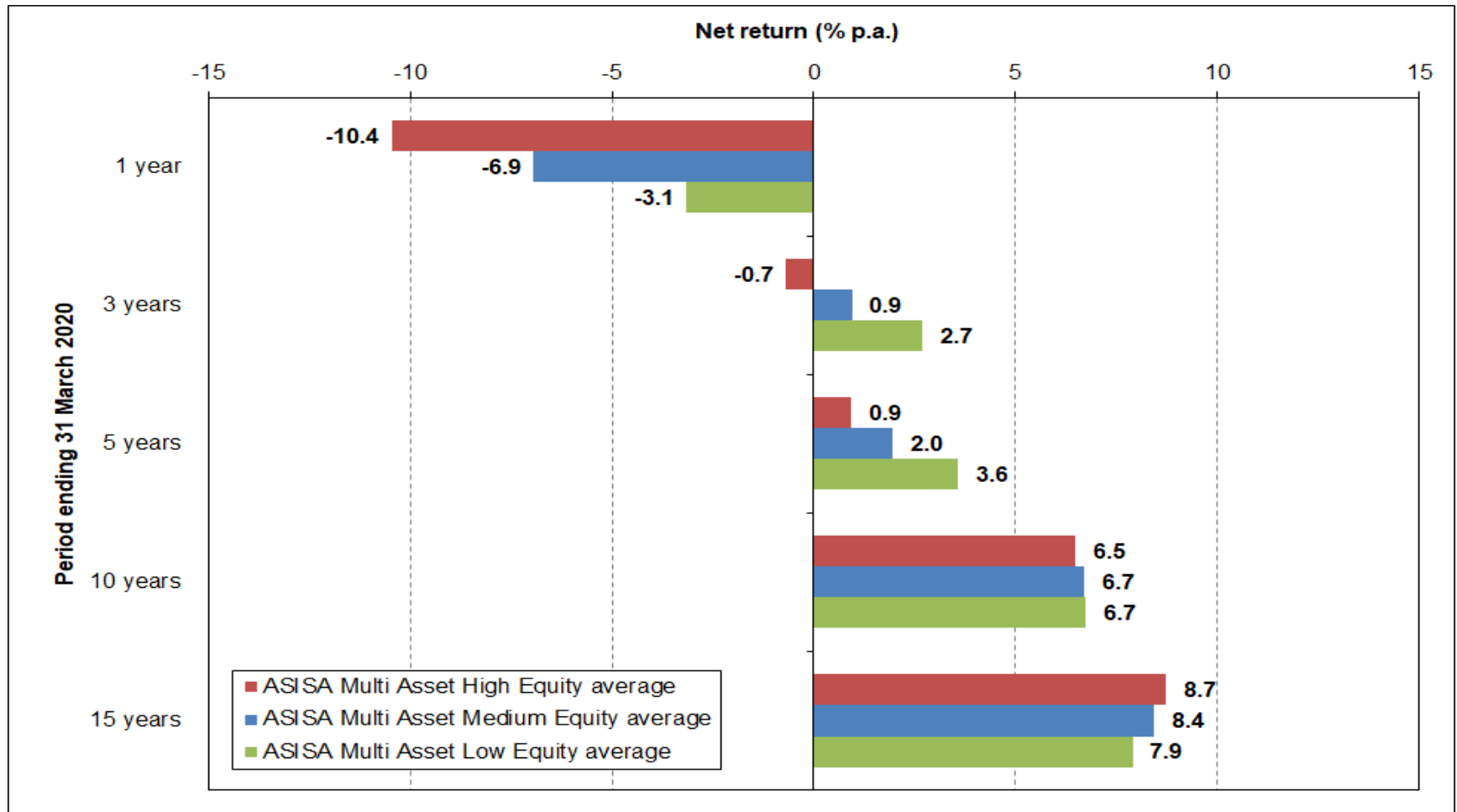
To illustrate this, we show the average returns from regulated collective investment schemes in the ASISA (Association for Savings and Investments South Africa) South Africa Multi Asset High, Medium and Low Equity categories to reflect the returns of typical Aggressive, Moderate and Conservative retirement fund portfolios.

The asset allocations of the portfolios in these categories are regulated by Regulation 28 of the Pension Funds Act, but ASISA also sets limits on the total equity allocations of these portfolios, as shown in the graphic below:



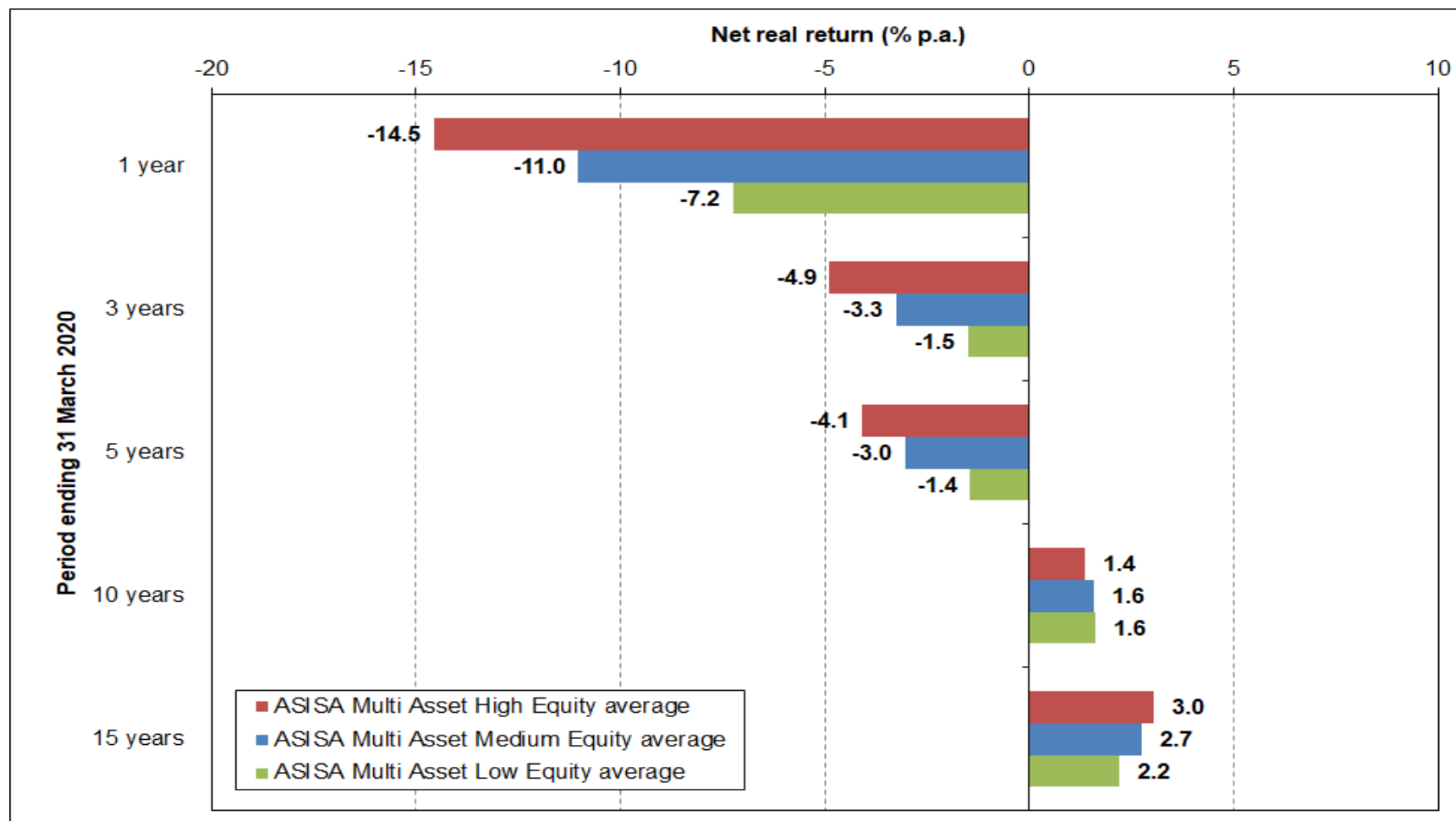
# MANAGER PERFORMANCE

## FOR BALANCED PORTFOLIOS, WHAT RANGE OF PAST NOMINAL RETURNS WAS REASONABLY ACHIEVABLE?



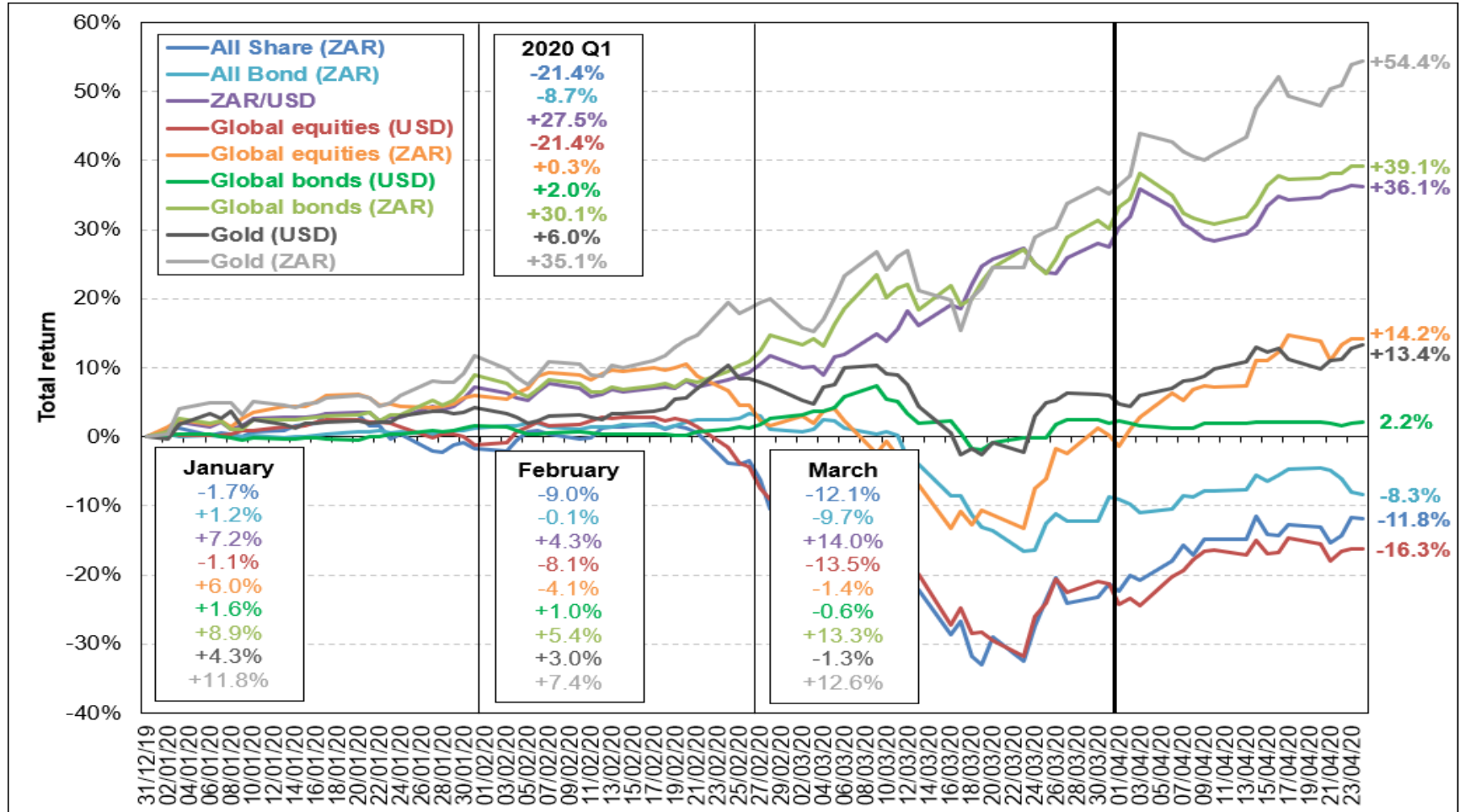
# MANAGER PERFORMANCE

## FOR BALANCED PORTFOLIOS, WHAT RANGE OF PAST REAL RETURNS WAS REASONABLY ACHIEVABLE?

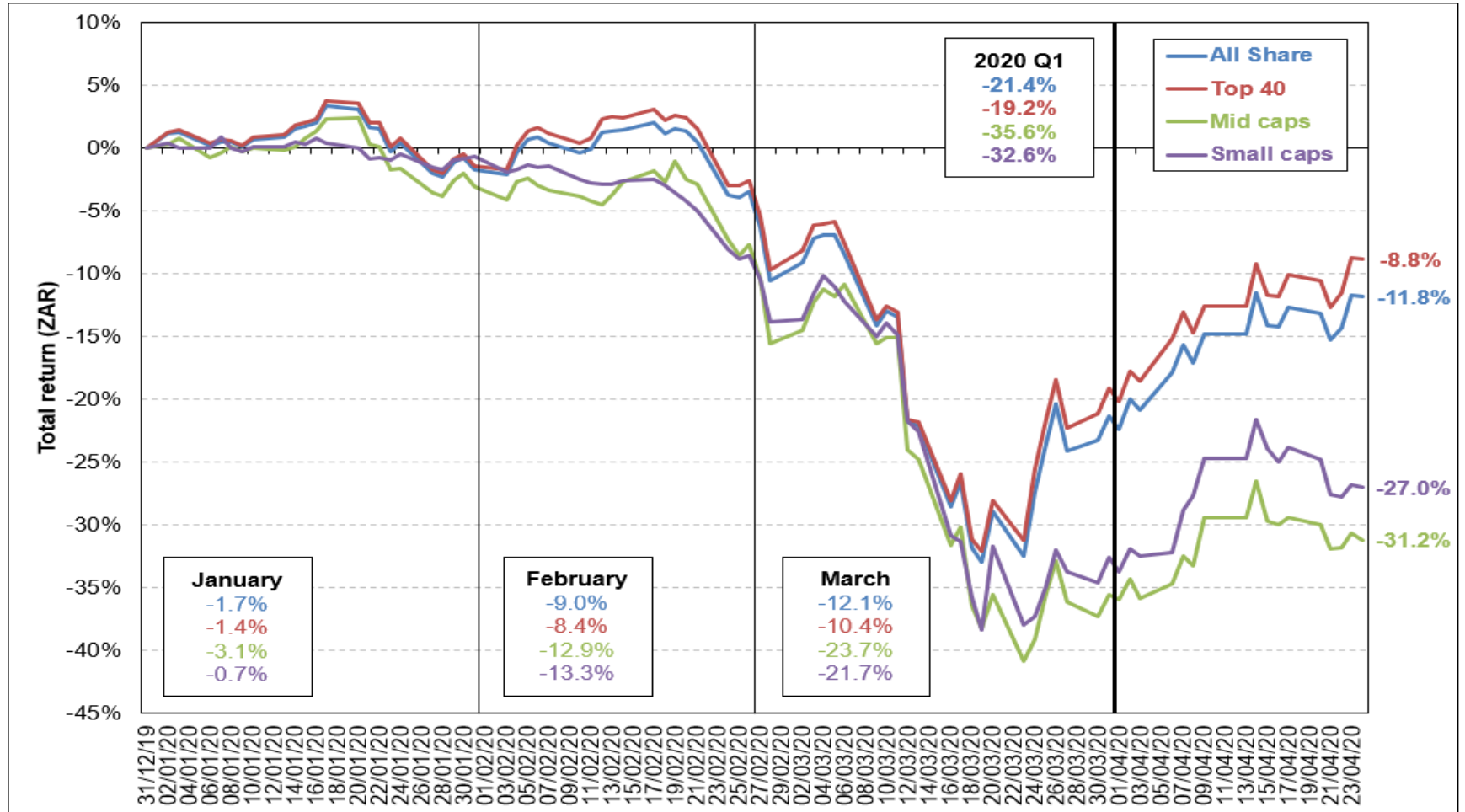


# 2020 Q1

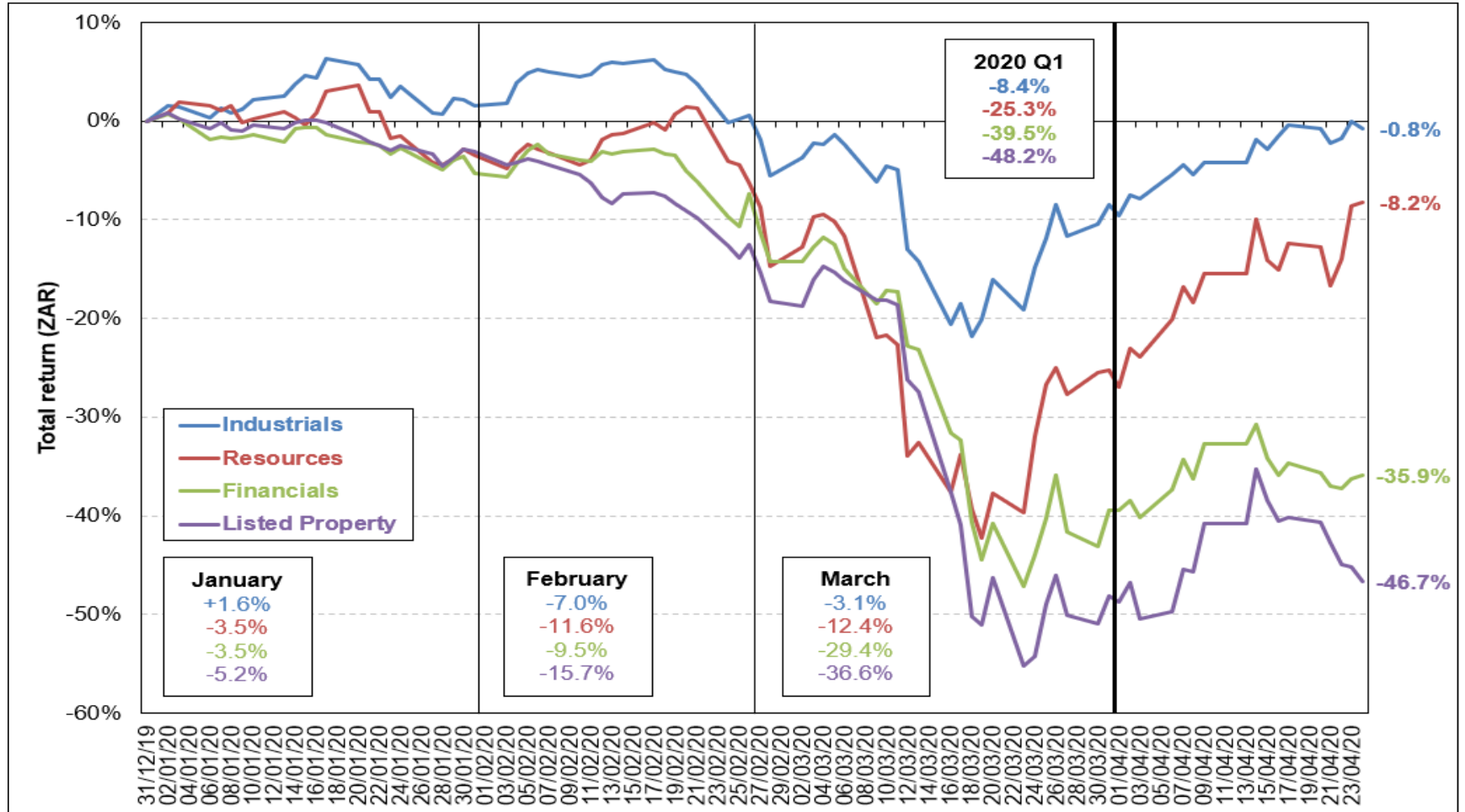
## MAJOR ASSET CLASSES



# 2020 Q1 LOCAL EQUITIES

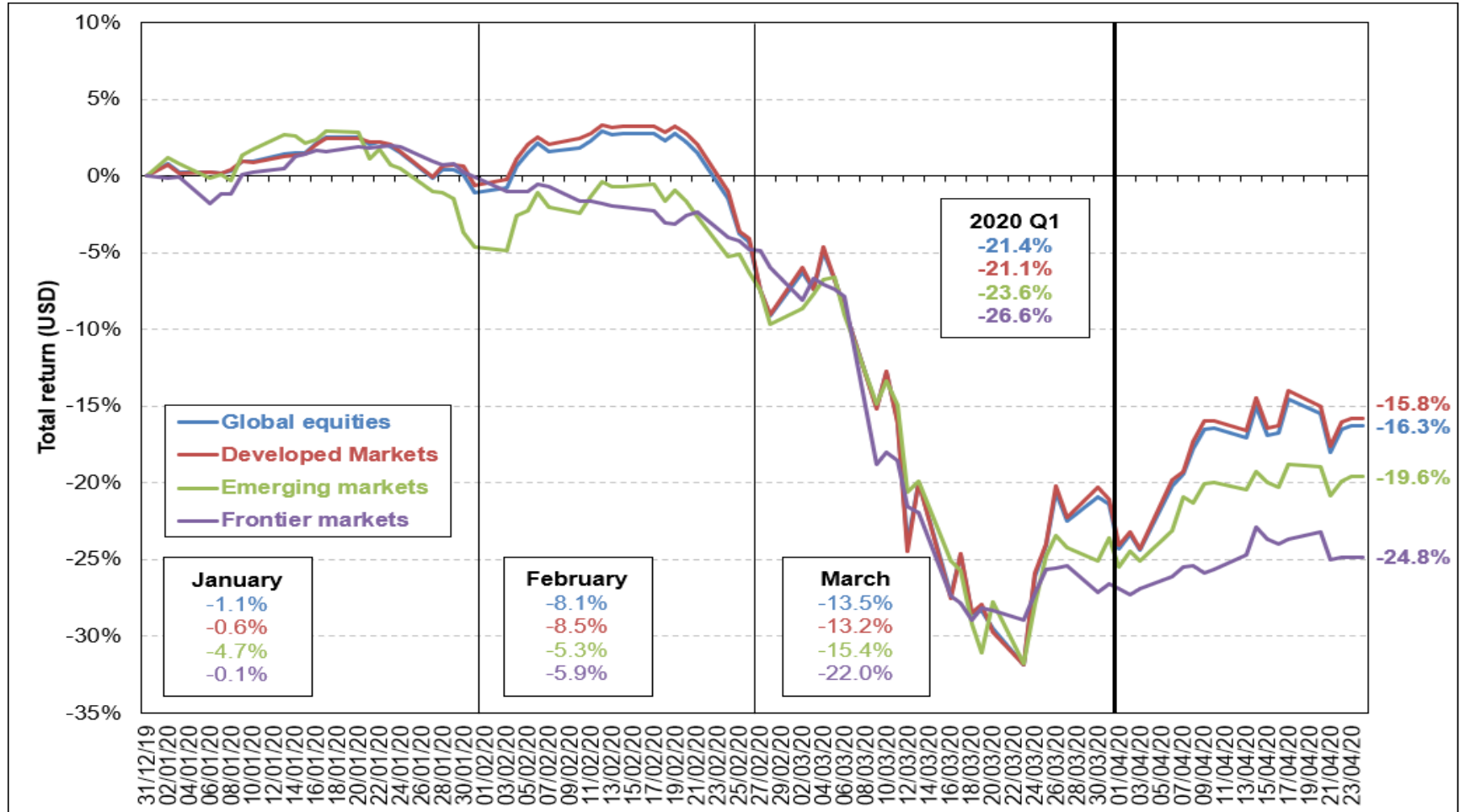


# 2020 Q1 LOCAL EQUITIES



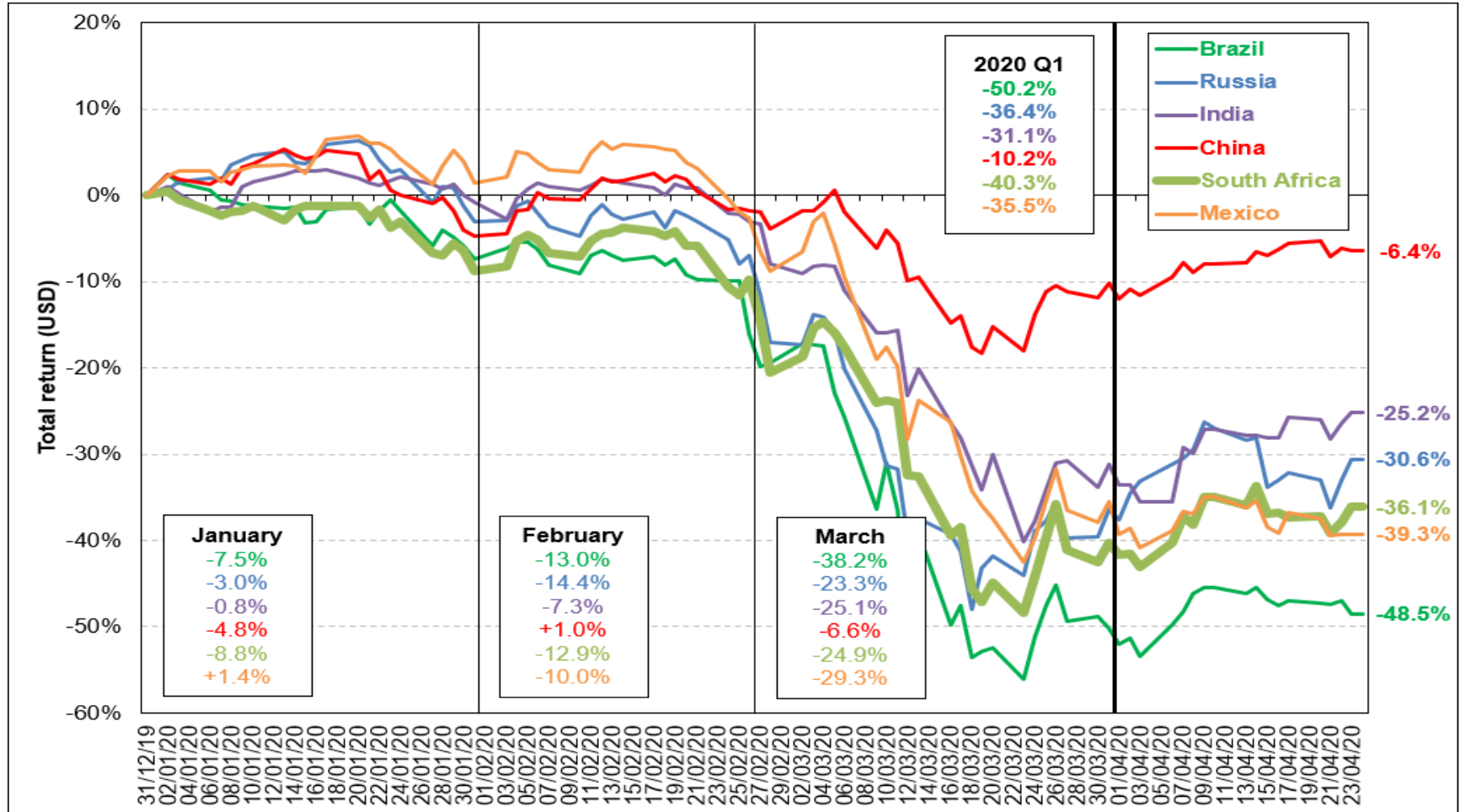
# 2020 Q1

## GLOBAL EQUITY MARKETS (USD)



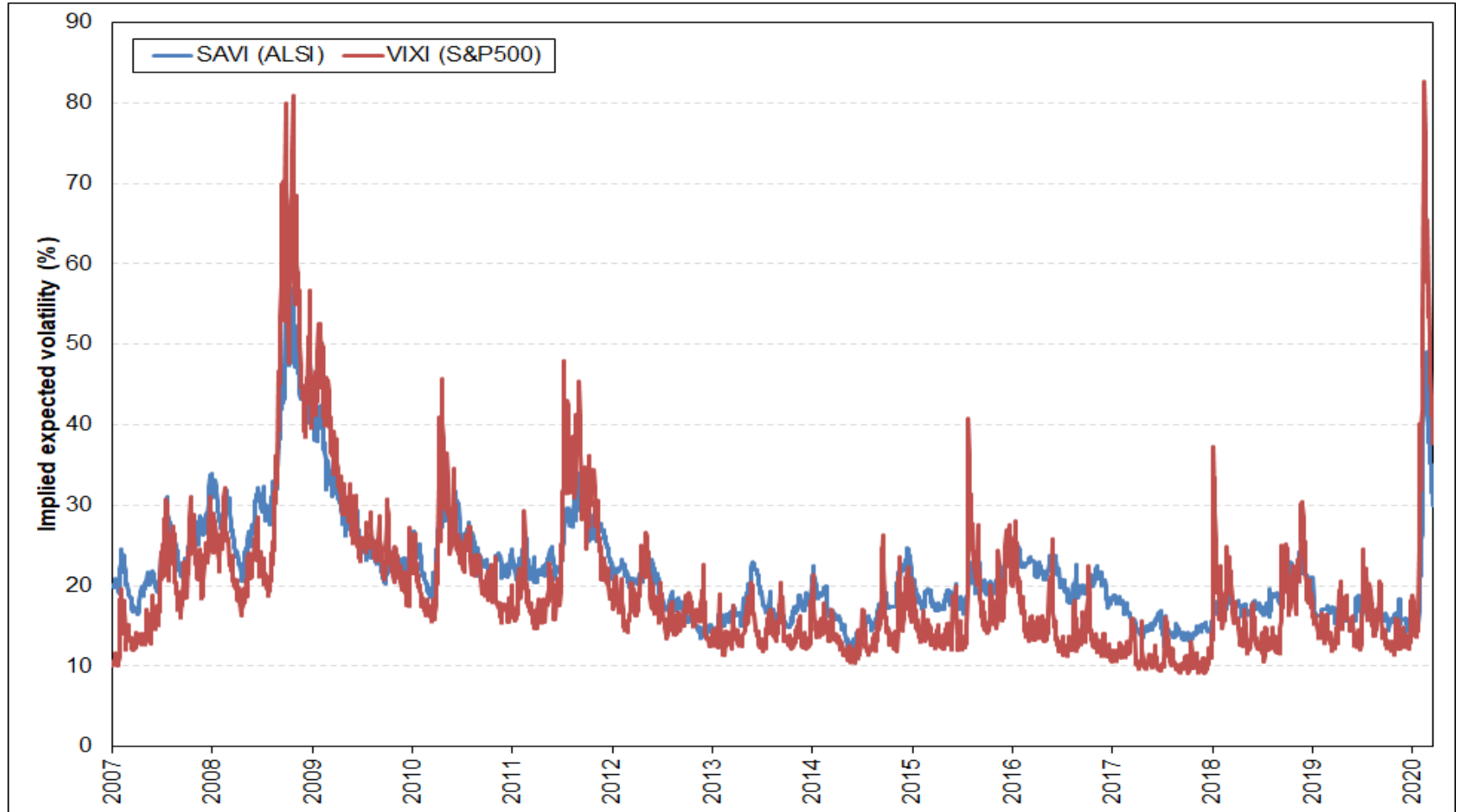
# 2020 Q1

## GLOBAL EMERGING EQUITY MARKETS (USD)



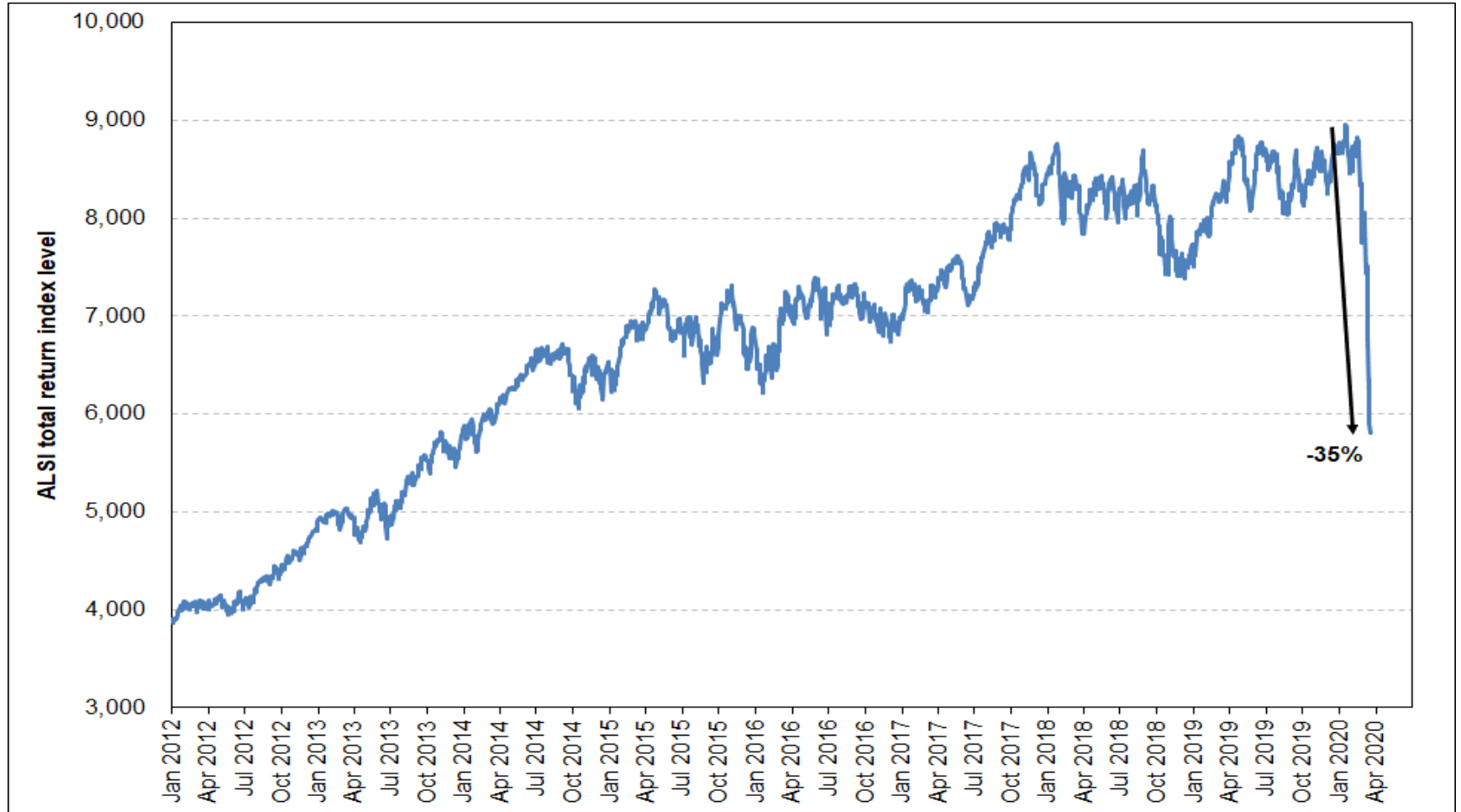
# STOCK MARKET 'FEAR GAUGE'

## SPIKES TO LEVELS LAST SEEN IN 2008

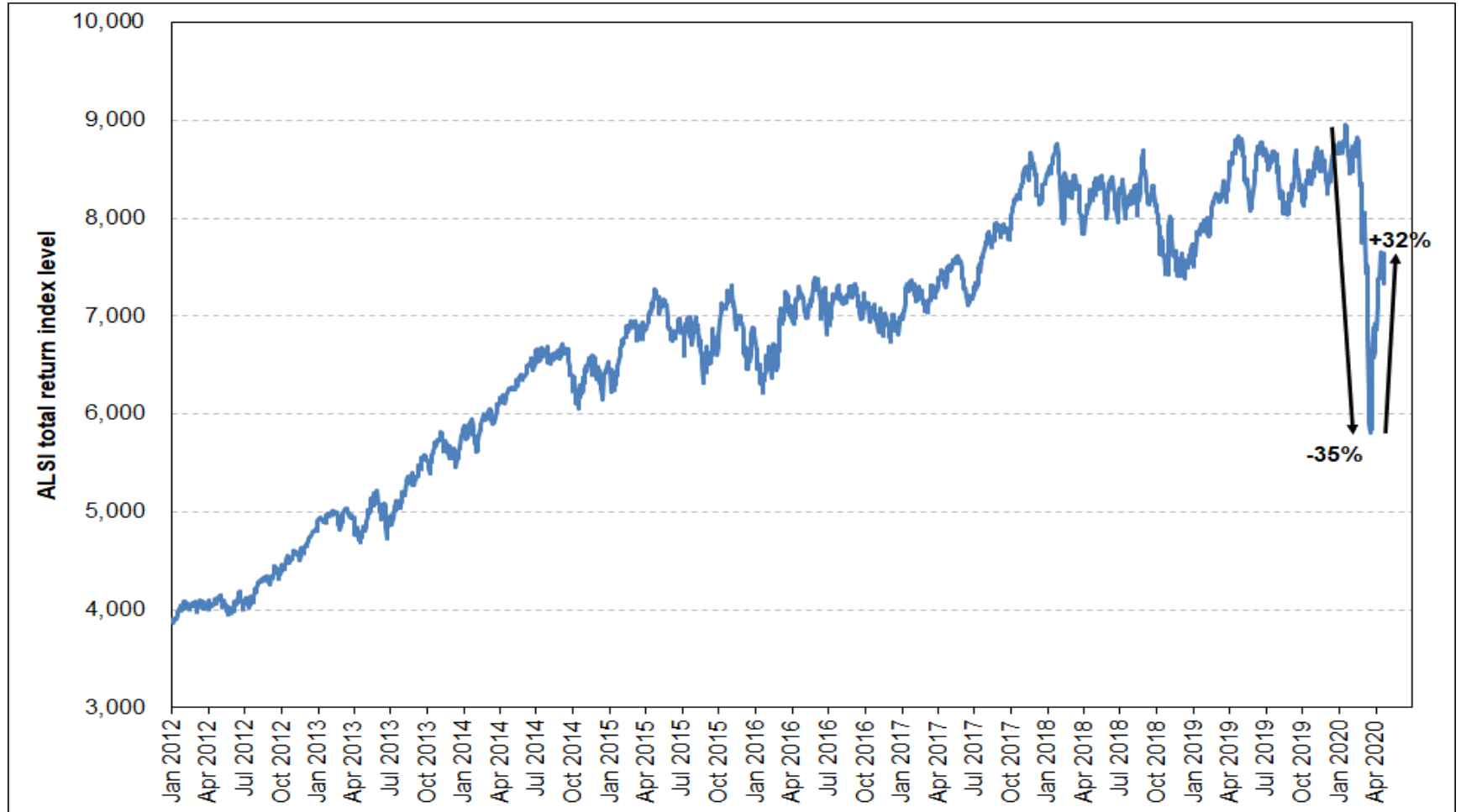


# LOCAL EQUITY MARKET

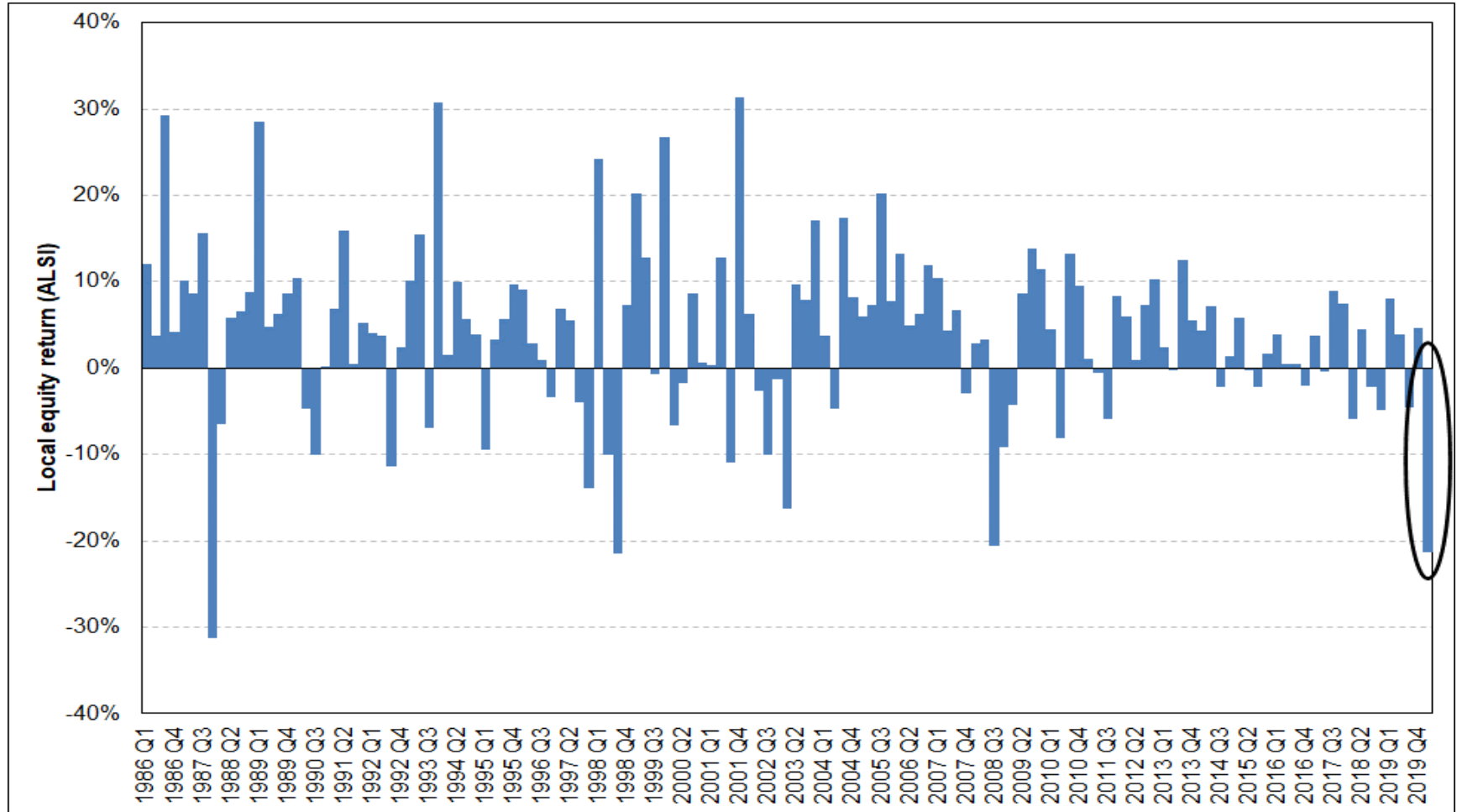
## COVID-19 CRASH...



# LOCAL EQUITY MARKET ... AND RECENT REBOUND

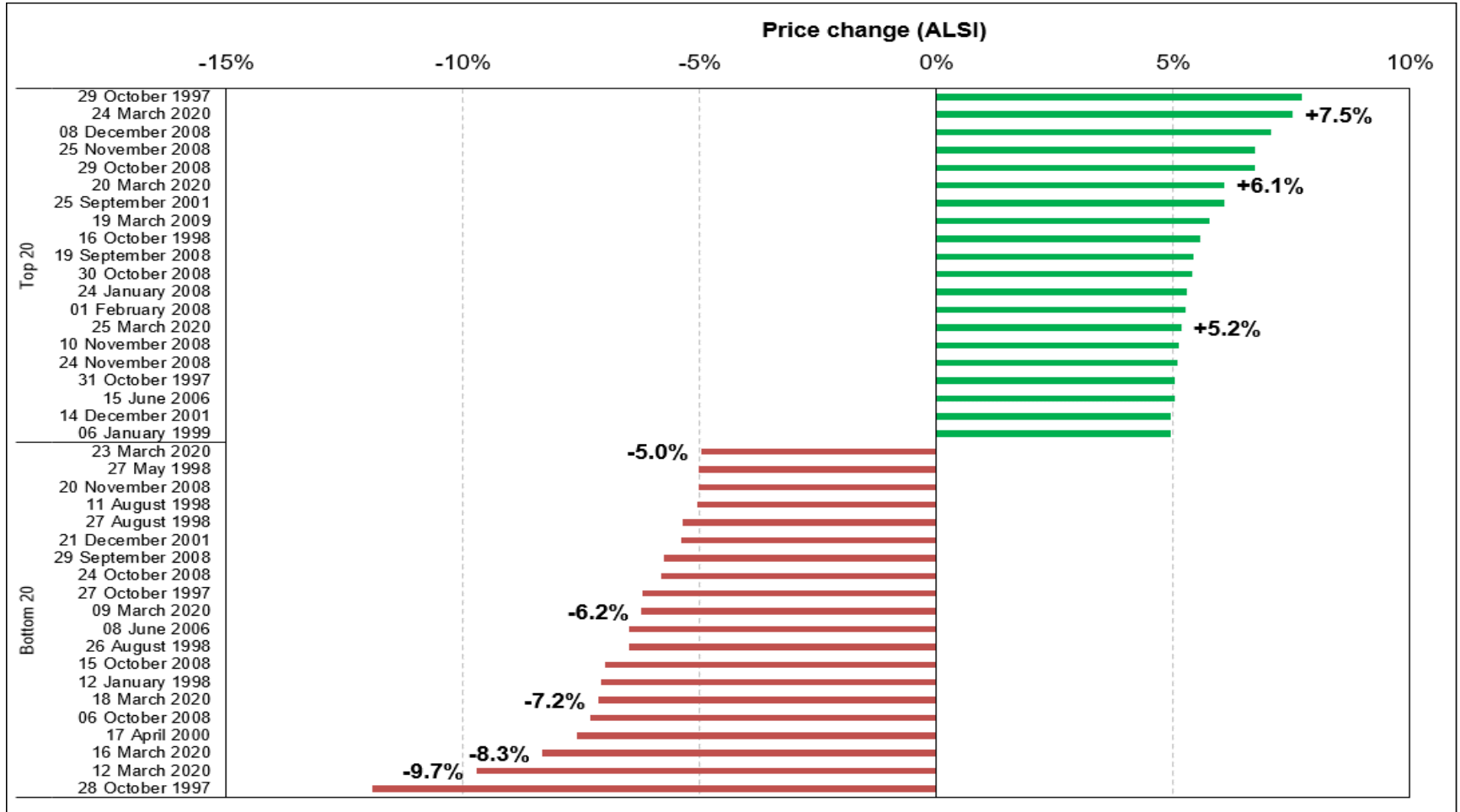


# LOCAL EQUITY MARKET WORST QUARTER SINCE 1998...



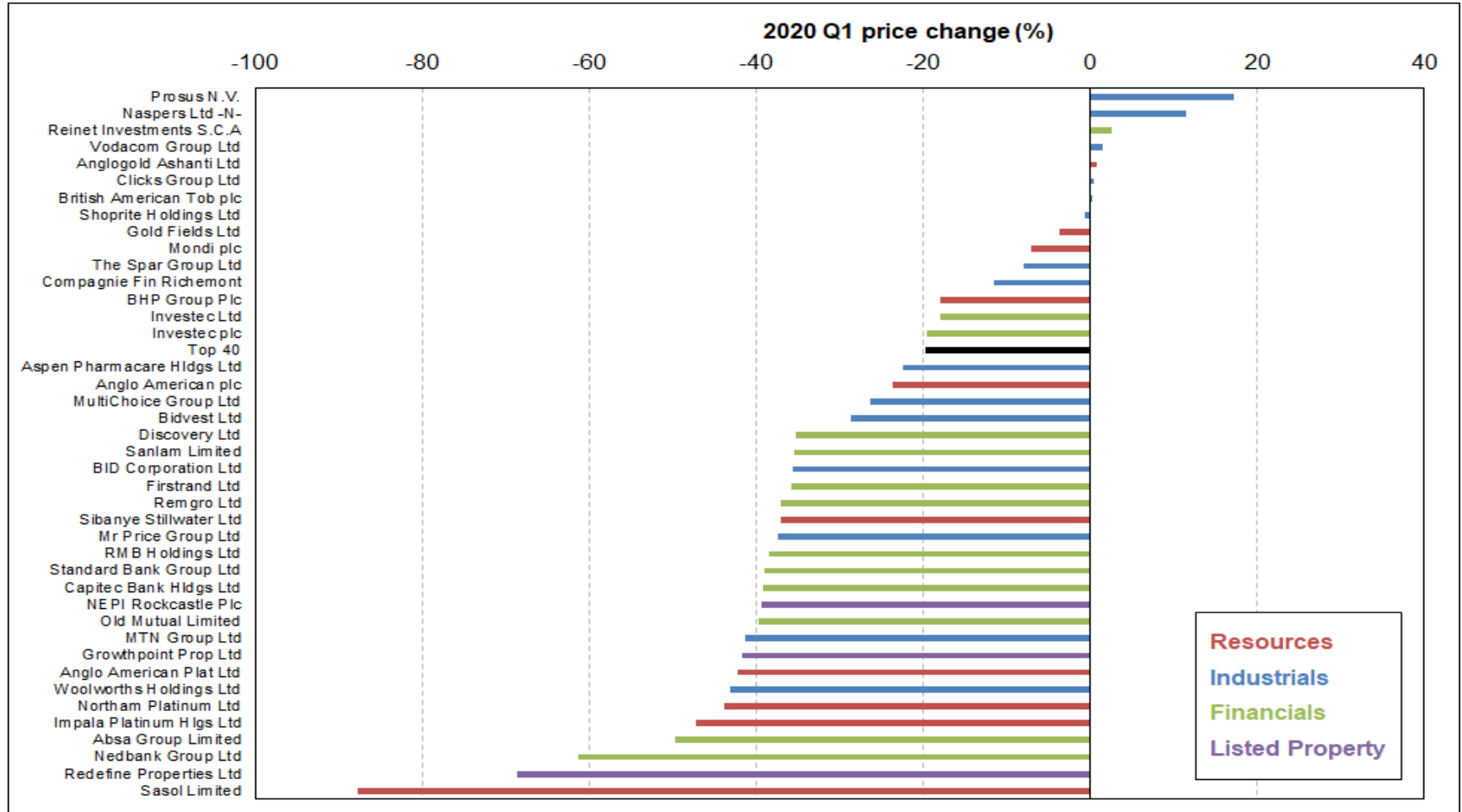
# LOCAL EQUITY MARKET

## ...WITH SOME OF THE BEST AND WORST DAYS EVER



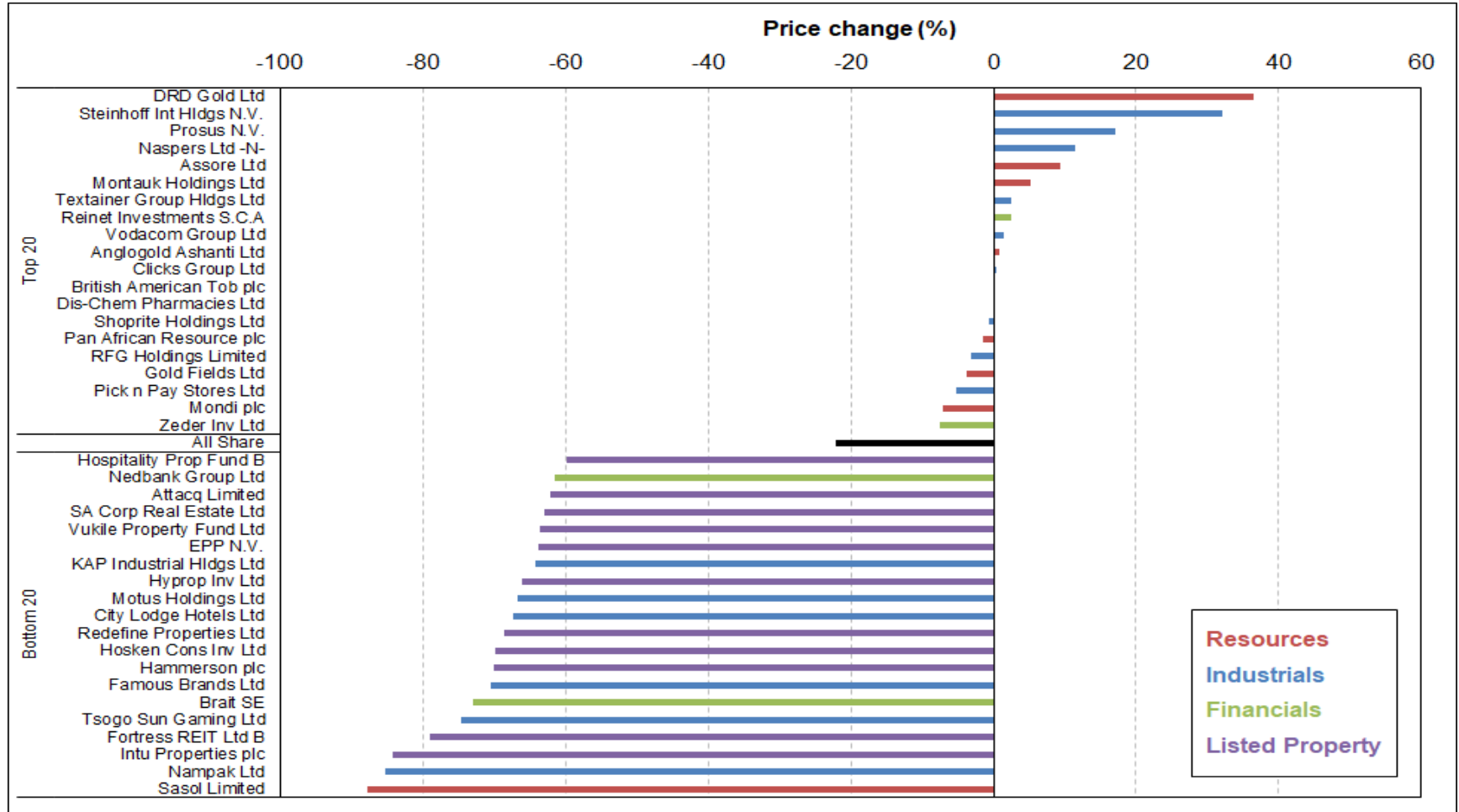
# LOCAL EQUITY MARKET

## TOP 40 (LARGE CAP) STOCKS IN 2020 Q1



# LOCAL EQUITY MARKET

## BEST & WORST PERFORMERS IN 2020 Q1



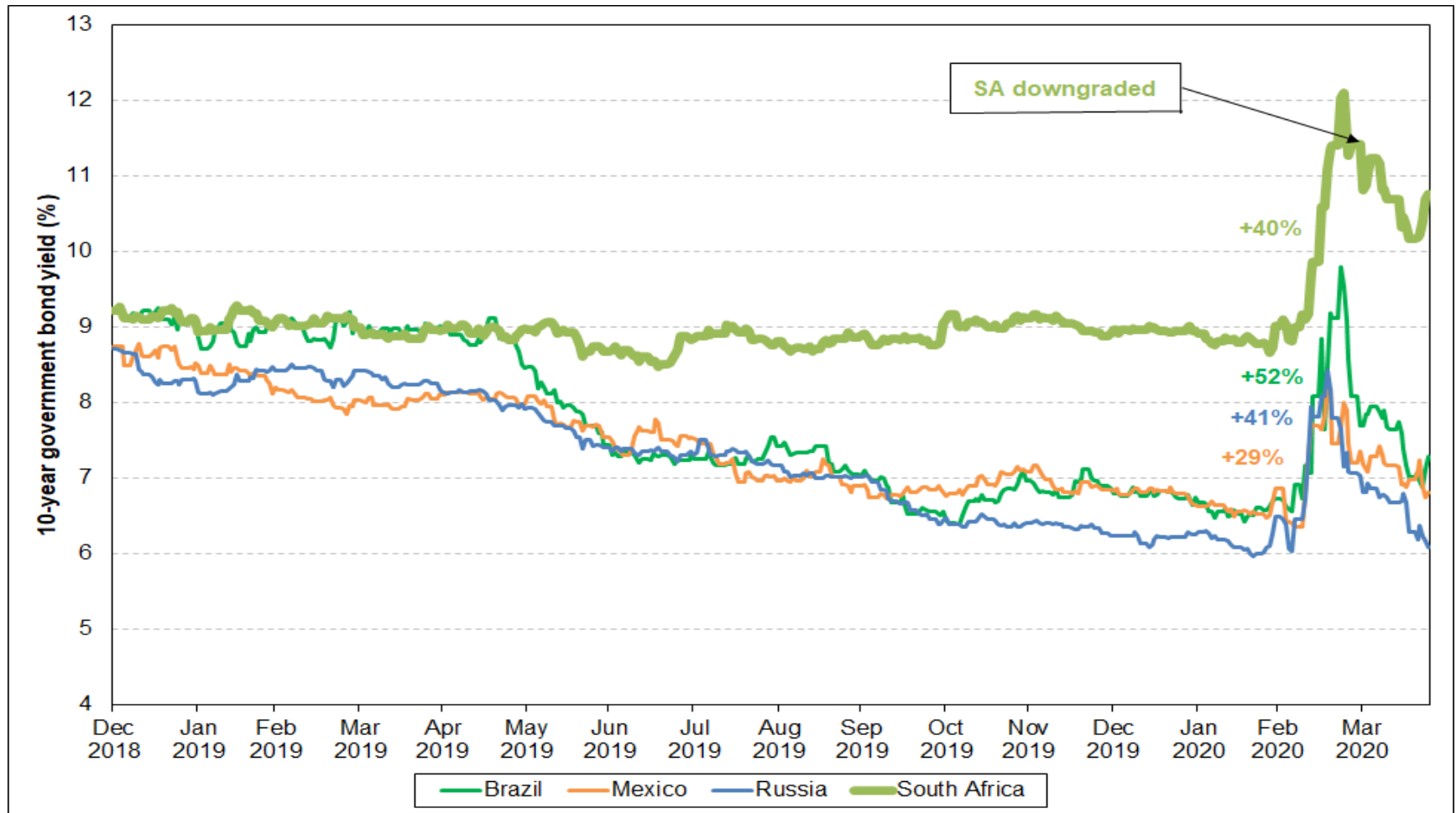
# CREDIT RATING DOWNGRADE

## COVID-19 PROVES TO BE THE LAST STRAW FOR MOODY'S, FITCH RUBS SALT IN OUR WOUNDS

Foreign currency rating		S&P	Year																				Moody's	Current outlook							
		Fitch	94	95	96	97	98	99	00	01	02	03	04	05	06	07	08	09	10	11	12	13			14	15	16	17	18	19	20
Investment grade	Prime	AAA																												Aaa	Negative
	High grade	AA+																												Aa1	
		AA																												Aa2	
		AA-																												Aa3	
	Upper medium grade	A+																												A1	
		A																												A2	
		A-																												A3	
	Lower medium grade	BBB+																												Baa1	
		BBB																												Baa2	
BBB-																													Baa3		
Sub-investment grade ("junk")	Non-investment grade / speculative	BB+																												Ba1	Negative
		BB																											Ba2		
		BB-																											Ba3		
	Highly speculative	B+																												B1	Negative
		B																												B2	
		B-																												B3	
	Substantial risks	CCC+																												Caa1	Negative (since Nov 2019)
		CCC																												Caa2	
		CCC-																												Caa3	
	Extremely speculative	CC																												Ca	
	Default imminent	C																												Ca	
	In default	RD / DDD																												C	
DD																													/		
D																													/		

# EMERGING MARKET BONDS

## YIELDS SPIKE AMIDST LIQUIDITY CRUNCH & FLIGHT TO SAFETY...



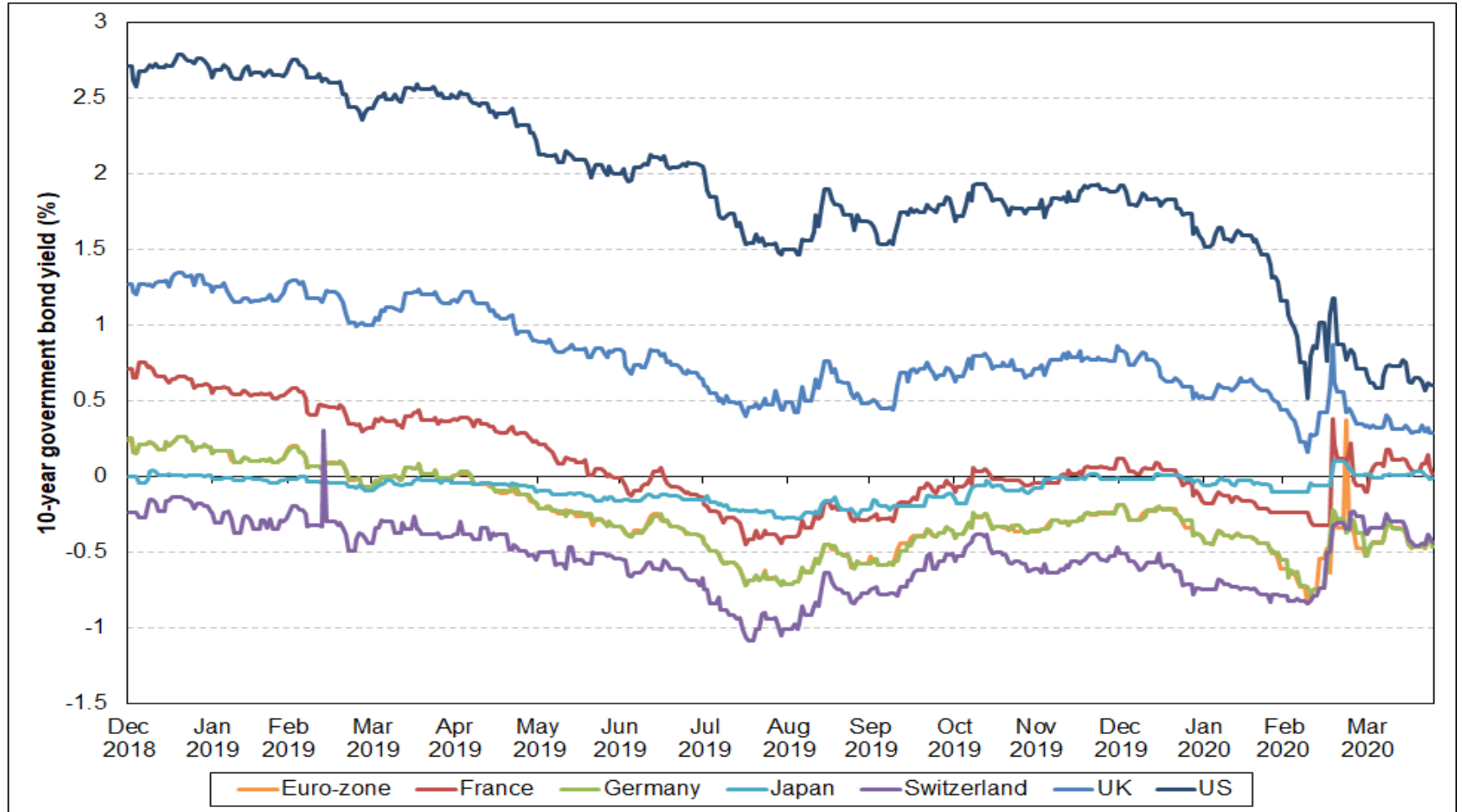
# EMERGING MARKET BOND YIELDS

## ...REGARDLESS OF RATING ACTION

Rating		S&P		Fitch		Moody's	
		2019	2020	2019	2020	2019	2020
Investment grade	Prime	AAA	AAA	AAA	AAA	Aaa	Aaa
	High grade	AA+	AA+	AA+	AA+	Aa1	Aa1
		AA	AA	AA	AA	Aa2	Aa2
		AA-	AA-	AA-	AA-	Aa3	Aa3
	Upper medium grade	A+	A+	A+	A+	A1	A1
		A	A	A	A	A2	A2
		A-	A-	A-	A-	A3	A3
	Lower medium grade	BBB+	BBB+	BBB+	BBB+	Baa1	Baa1
		BBB	BBB	BBB	BBB	Baa2	Baa2
		BBB-	BBB-	BBB-	BBB-	Baa3	Baa3
Sub-investment grade ("junk")	Non-investment grade / speculative	BB+	BB+	BB+	BB+	Ba1	Ba1
		BB	BB	BB	BB	Ba2	Ba2
		BB-	BB-	BB-	BB-	Ba3	Ba3
	Highly speculative	B+	B+	B+	B+	B1	B1
		B	B	B	B	B2	B2
		B-	B-	B-	B-	B3	B3
	Substantial risks	CCC+	CCC+	CCC+	CCC+	Caa1	Caa1
		CCC	CCC	CCC	CCC	Caa2	Caa2
		CCC-	CCC-	CCC-	CCC-	Caa3	Caa3
	Extremely speculative	CC	CC	CC	CC	Ca	Ca
	Default imminent	C	C	C	C	Ca	Ca
	In default	RD / DDD	RD / DDD	RD / DDD	RD / DDD	C	C
		DD	DD	DD	DD	/	/
		D	D	D	D	/	/
Brazil (no change, yet...)		Mexico (downgraded)		Russia (no change, yet...)		South Africa (downgraded)	

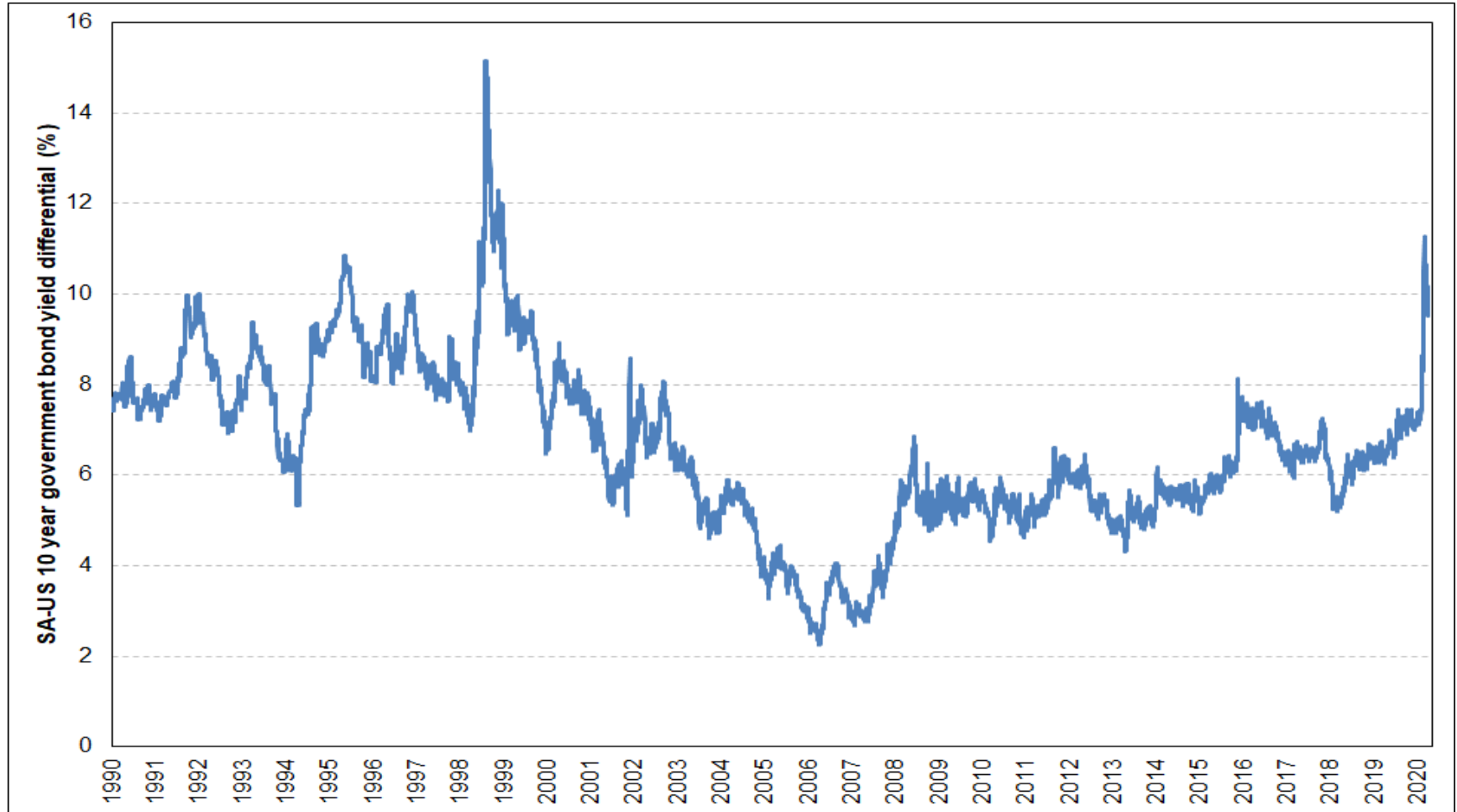
# DEVELOPED MARKET BONDS

## AS YIELDS TREND EVEN LOWER...



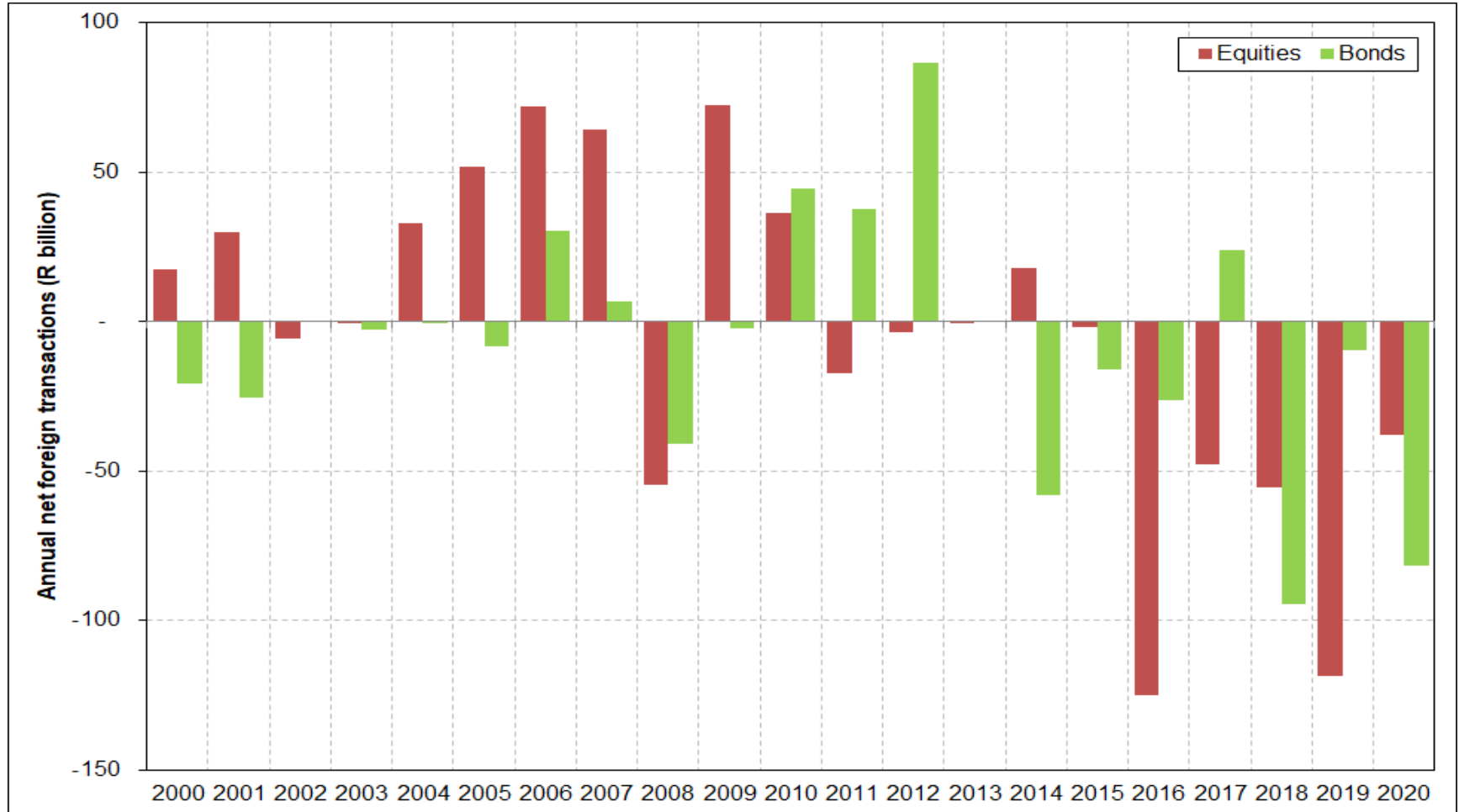
# DEVELOPED MARKET BONDS

## ...THE GAP BETWEEN SA AND US BOND YIELDS REACHES 20-YEAR HIGH



# NET FOREIGN TRANSACTIONS

## LARGE SCALE SELLING CONTINUES IN 2020



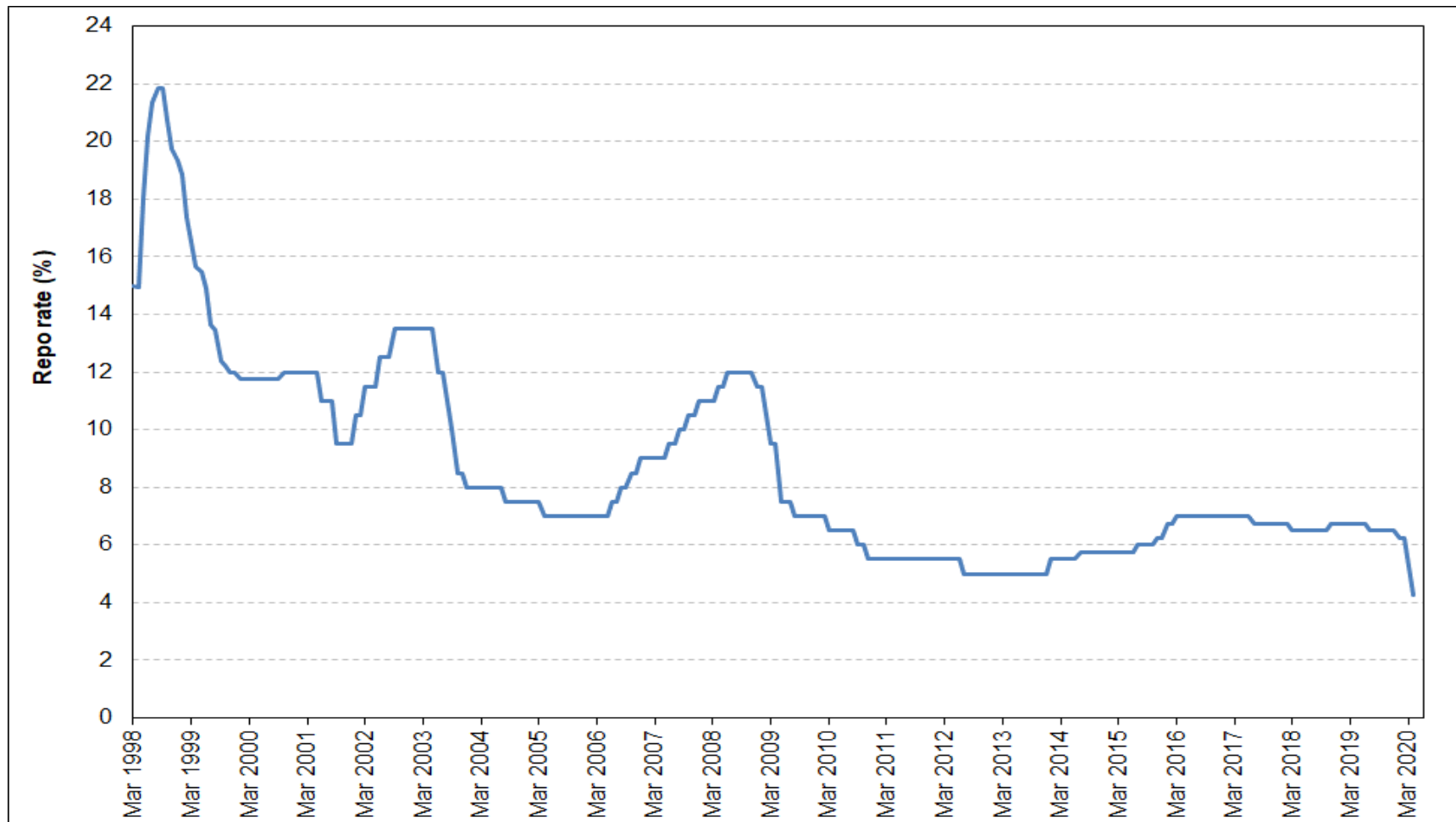
# NET FOREIGN TRANSACTIONS

## MOST OUTFLOWS IN MARCH, PRE-DOWNGRADE

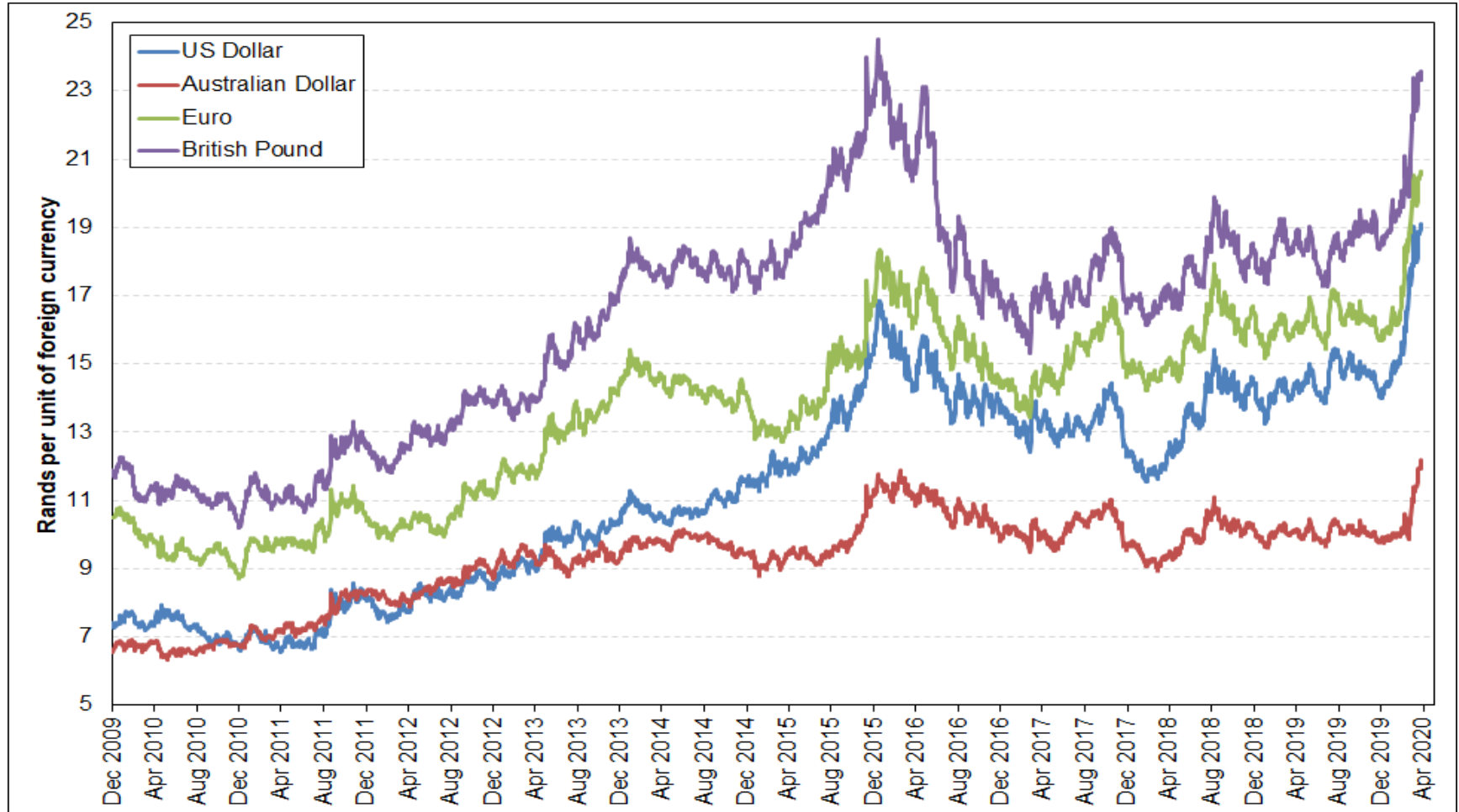


# REPO RATE

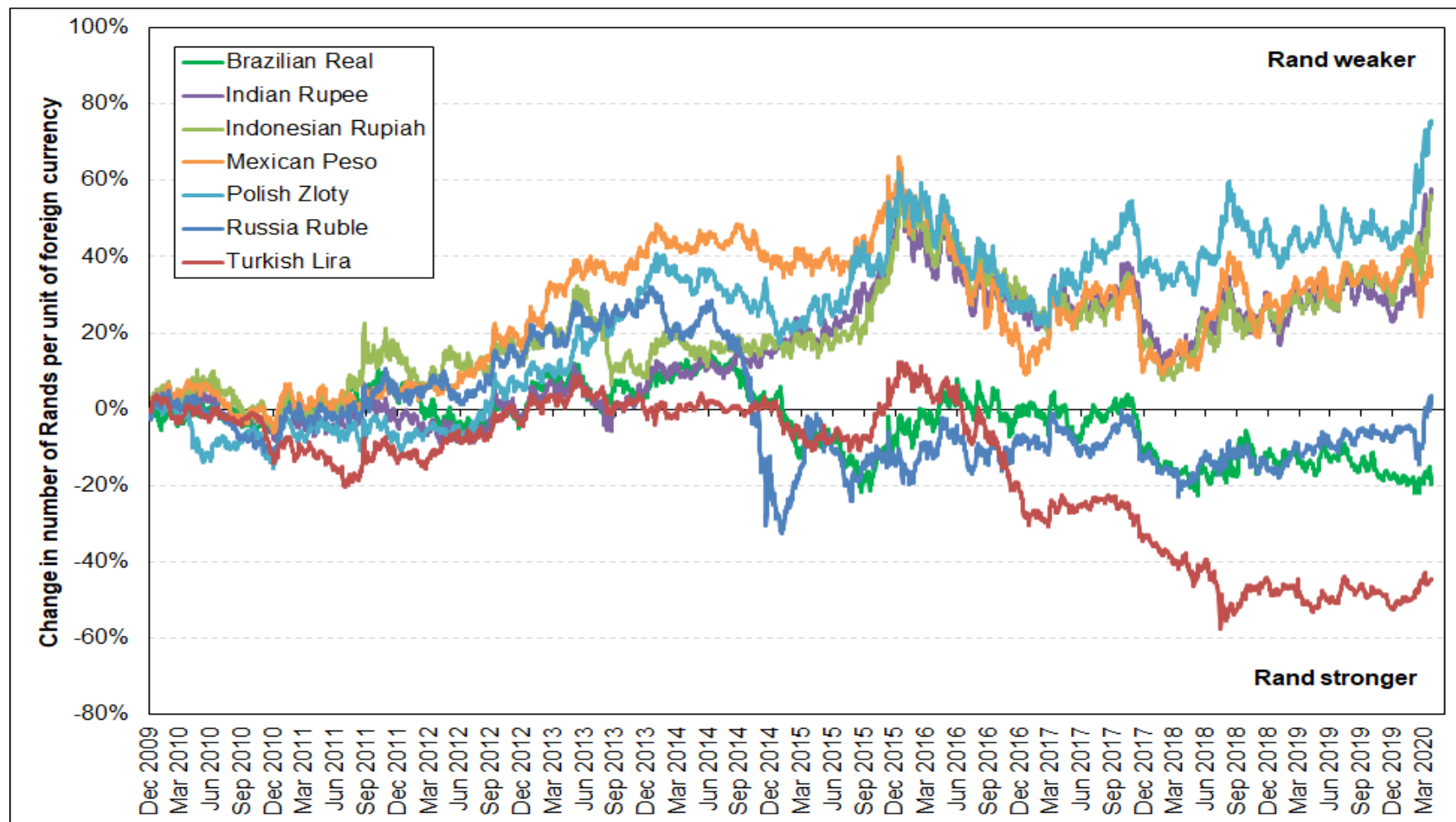
HITS ALL-TIME LOW AS THE SARB TRIES TO PROVIDE SOUTH AFRICANS WITH SOME RELIEF



# EXCHANGE RATE VS DEVELOPED MARKET CURRENCIES



# EXCHANGE RATE VS EMERGING MARKET CURRENCIES



# EXCHANGE RATE

## COMBINATION OF STRONG DOLLAR AND WEAK RAND

