

MONTH IN PICTURES

APRIL 2020

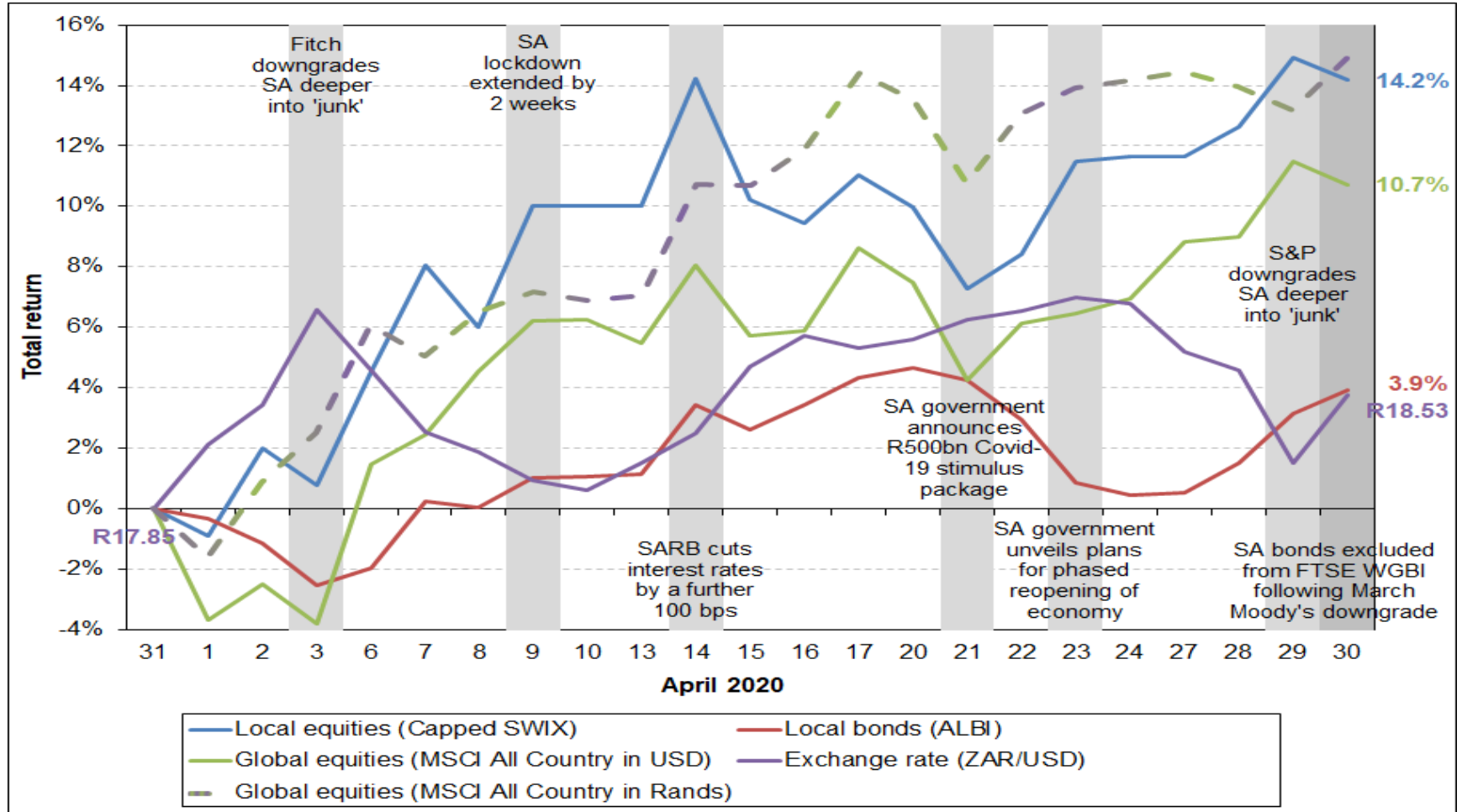
MONTHLY SNAPSHOT

NOTABLE EVENTS

- Financial markets continued their recovery in April, with the local equity market notching up one of its best months in many years (+14%). Global equity markets also rallied hard, ending the month 10.7% higher in US Dollars.
- Locally resource stocks took the lead in April (+23.0%), but Industrials (+9.6%), Financials (+11.7%) and Listed Property (+7.0%) had strong showings as well.
- The Rand continued to weaken, at some point trading at record highs above R19 to the Dollar before closing the month at R18.52. This provided a boost to offshore returns, with global equities and bonds delivering local currency returns of 14.9% and 5.0% respectively.
- Fitch and S&P followed Moody's with more downgrades, pushing South Africa deeper into junk territory. While SA's bonds were officially excluded from the FTSE World Government Bond Index (WGBI) at the end of April (due to the Moody's downgrade in March), yields continued their decline and foreign outflows to date (+/-R30 billion) ended up being very much on the lower side of expectations. Amidst these developments the ALBI still managed to deliver a positive 3.9% in April after a dreadful March (-9.7%).
- South African authorities joined their global counterparts by announcing an aggressive fiscal stimulus package totalling R500 billion (around 10% of GDP) in response to the Covid-19 economic fallout.
- The South African Reserve Bank announced another 100 basis point interest rate cut in April, followed by a further 50 basis point cut in May. The repo rate is now at its lowest level ever (3.75%, after a cumulative 2.75% cut this year) and could trend even lower in the months to come.
- While the sharp recovery since end-March has helped (with many balanced funds recording double-digit returns in April), the local equity market is still 10% lower than the start of this year after having traded largely sideways over the latter half of the 2010s. This means that medium term (3 to 5 years) returns for typical retirement fund portfolios unfortunately remain very much in depressed territory (i.e. in the low to mid single digits).

MONTHLY TIMELINE

IMPACT ON MARKETS



MARKET INDICATORS

SHORT TERM

Market indicators (% change) ¹		Feb 2020	Mar 2020	Apr 2020	3 months	12 months
Local equities	Capped SWIX	(9.5)	(16.7)	14.2	(14.0)	(17.9)
	Resources	(11.6)	(12.4)	23.0	(4.8)	2.3
	Industrials	(7.0)	(3.1)	9.6	(1.2)	(4.6)
	Financials	(9.5)	(29.4)	11.9	(28.5)	(35.7)
	Listed Property	(15.7)	(36.6)	7.0	(42.8)	(46.0)
Local bonds	ALBI	(0.0)	(9.7)	3.9	(6.3)	0.1
Local cash	STeFI Composite	0.5	0.6	0.5	1.6	7.1
Global equities	MSCI All Country	(4.1)	(1.4)	14.9	8.7	23.1
Global bonds	FTSE WGBI	5.4	13.3	5.0	25.4	39.9
Exchange rate	ZAR/USD	4.3	14.0	3.8	23.5	29.5
Inflation	CPI ²	1.0	0.3	0.6	1.9	4.1

1. Total returns (in Rands) for the months and periods ending 30 April 2020.

2. Estimated for April 2020.

MARKET INDICATORS

MEDIUM TO LONG TERM

Market indicators (% change) ¹		1 year	3 years	5 years	10 years	15 years
Local equities	Capped SWIX	(17.9)	(4.3)	(2.1)	8.0	12.1
	Resources	2.3	16.2	4.8	2.4	9.1
	Industrials	(4.6)	(0.5)	1.6	13.3	16.2
	Financials	(35.7)	(9.9)	(6.6)	6.9	9.4
	Listed Property	(46.0)	(21.4)	(12.3)	3.3	9.3
Local bonds	ALBI	0.1	6.1	6.1	7.7	7.8
Local cash	STeFI Composite	7.1	7.3	7.2	6.5	7.3
Global equities	MSCI All Country	23.1	16.5	14.2	17.3	14.3
Global bonds	FTSE WGBI	39.9	16.2	12.7	12.2	11.0
Exchange rate	ZAR/USD	29.5	11.5	9.5	9.6	7.7
Inflation	CPI ²	4.1	4.3	4.9	5.1	5.7

1. Total returns (in Rands) for the months and periods ending 30 April 2020.

2. Estimated for April 2020.

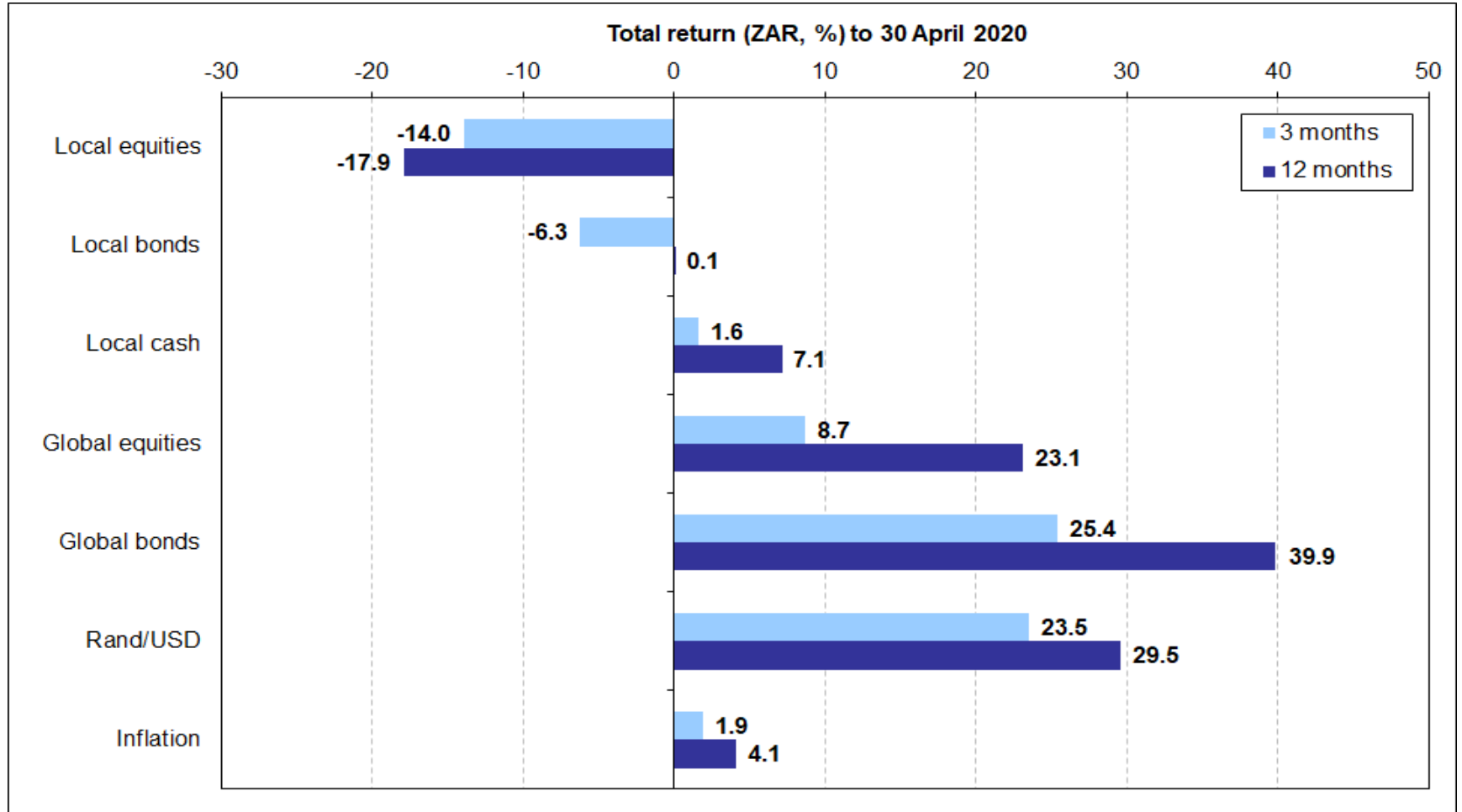
ECONOMIC INDICATORS

Economic indicators ¹	Apr 2018	Apr 2019	Feb 2020	Mar 2020	Apr 2020
Exchange rates:					
ZAR/USD	12.46	14.30	15.65	17.85	18.53
ZAR/GBP	17.15	18.64	20.07	22.15	23.33
ZAR/Euro	15.05	16.04	17.27	19.71	20.29
Commodities:					
Brent Crude Oil (USD/barrel)	74.67	71.65	49.67	26.35	26.48
Platinum (USD/ounce)	906.17	897.94	881.61	725.39	777.47
Gold (USD/ounce)	1,317.26	1,283.40	1,636.68	1,615.31	1,717.01

1. Month-end prices

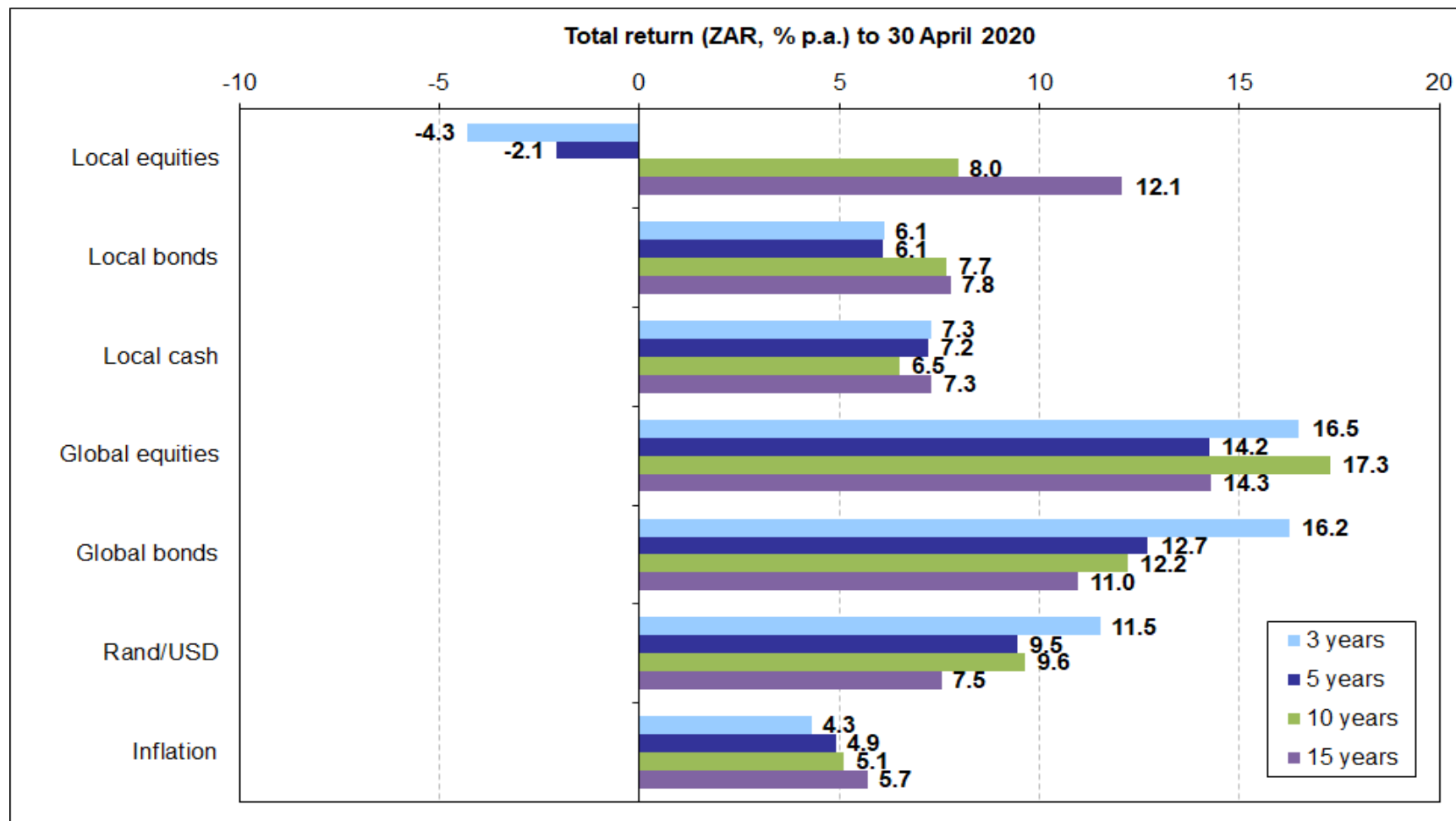
ASSET CLASS PERFORMANCE

SHORT TERM



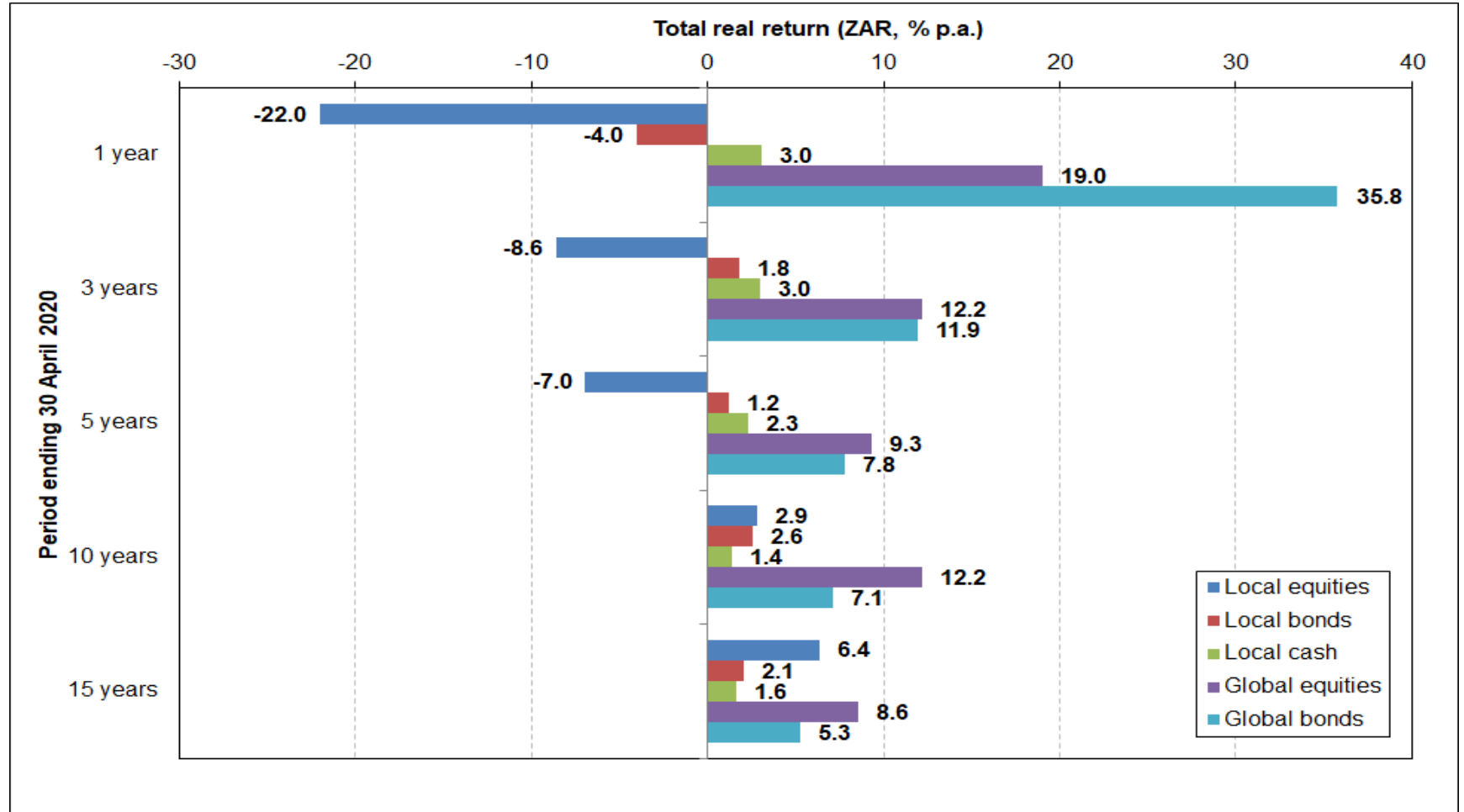
ASSET CLASS PERFORMANCE

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:

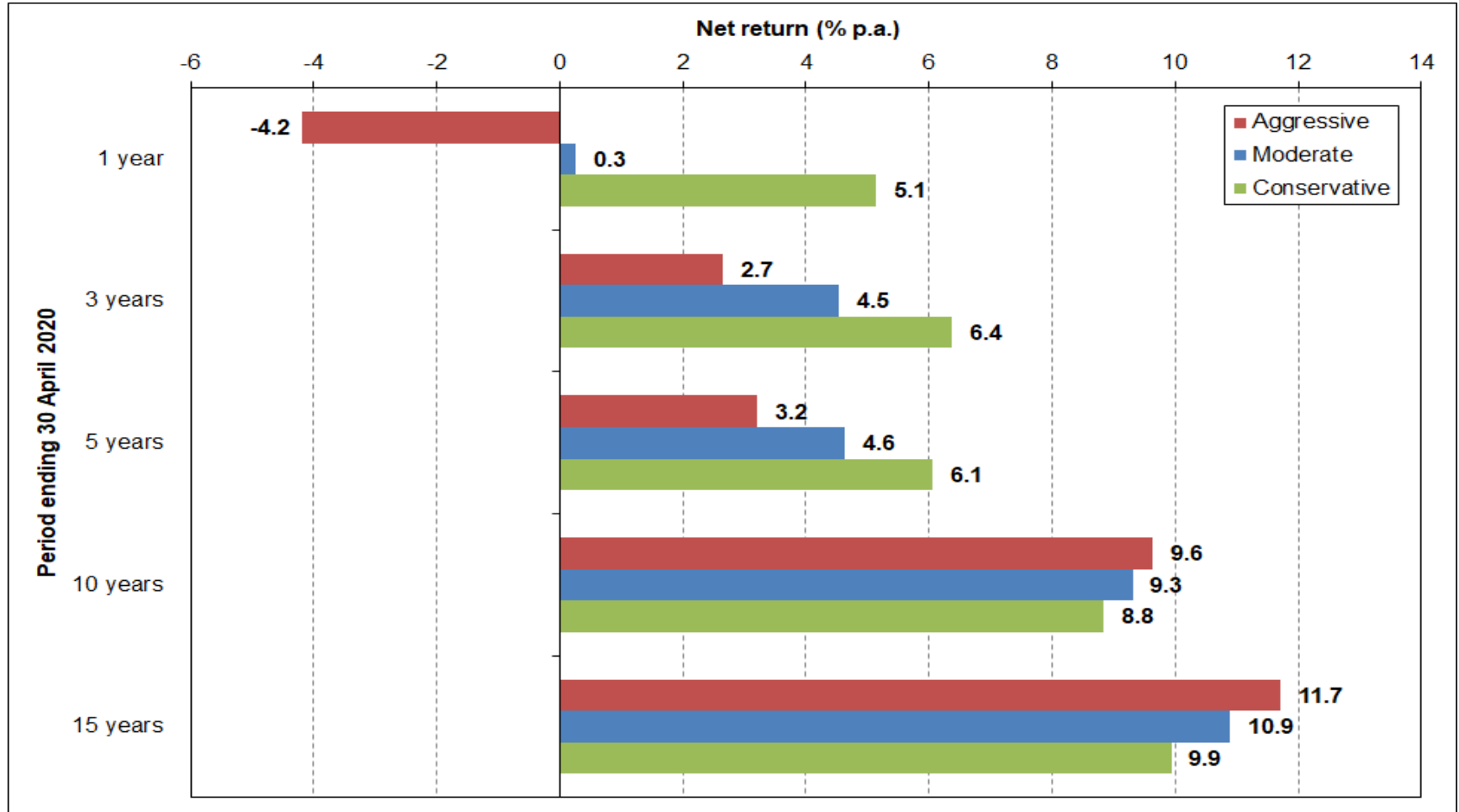
AGGRESSIVE	Strategic allocation	LOCAL VS OFFSHORE	75%			25% (5% below regulatory maximum)	
		GROWTH VS INCOME ASSETS	75%	25%		75%	25%
		EQUITIES VS BONDS VS CASH	100%	75%	25%	100%	100%
	Current allocation		~56%	~14%	~5%	~19%	~6%

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%

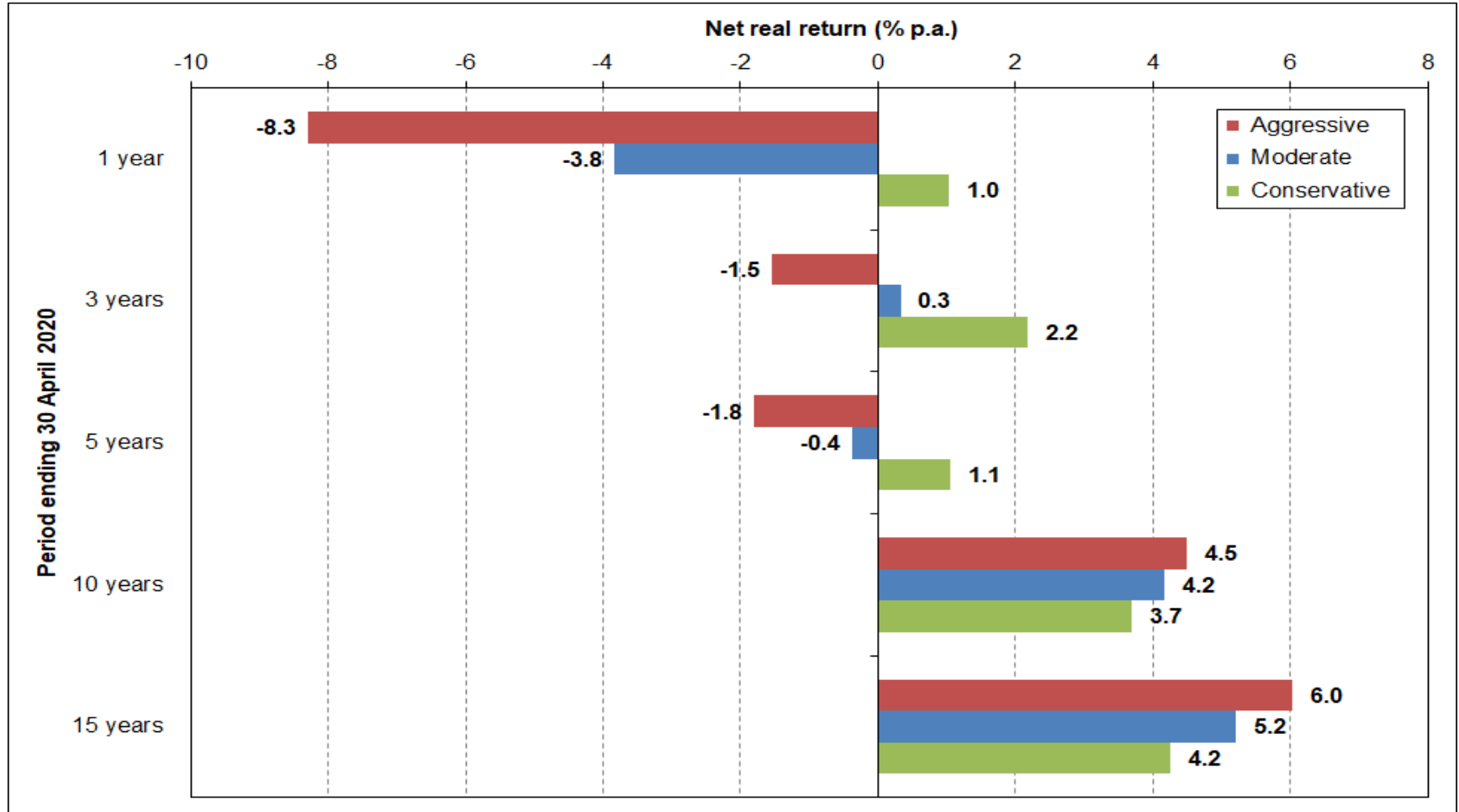
MARKET PERFORMANCE

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?



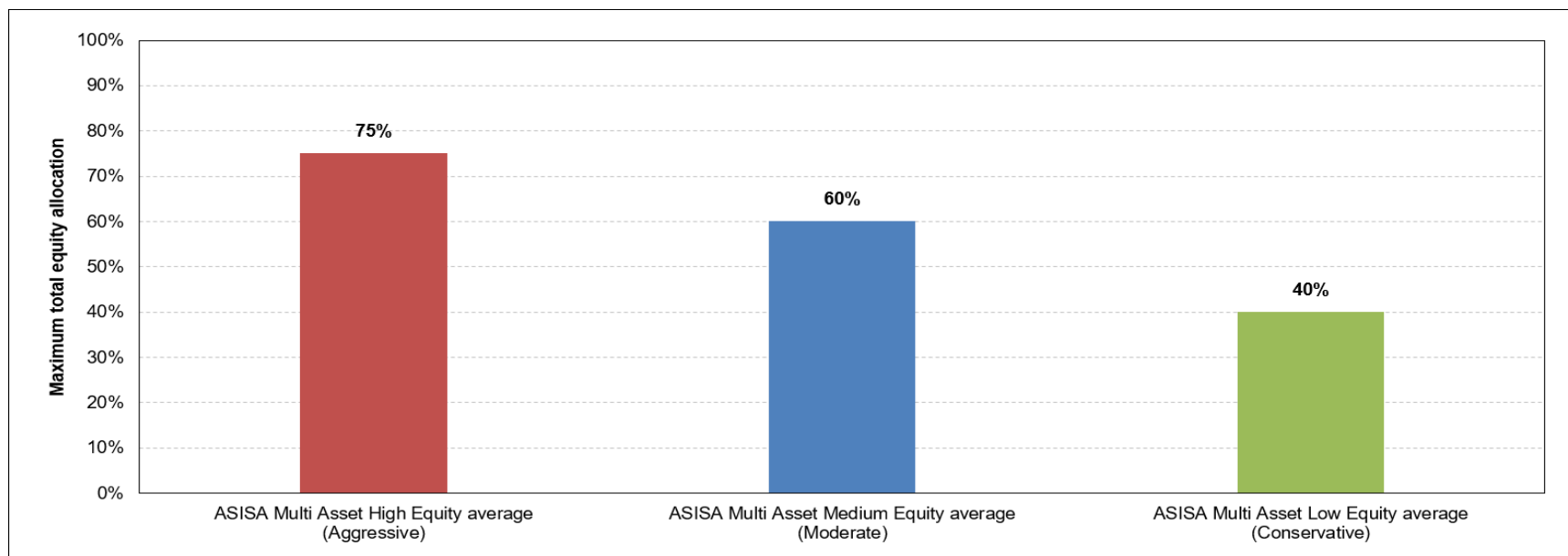
MANAGER PERFORMANCE

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?

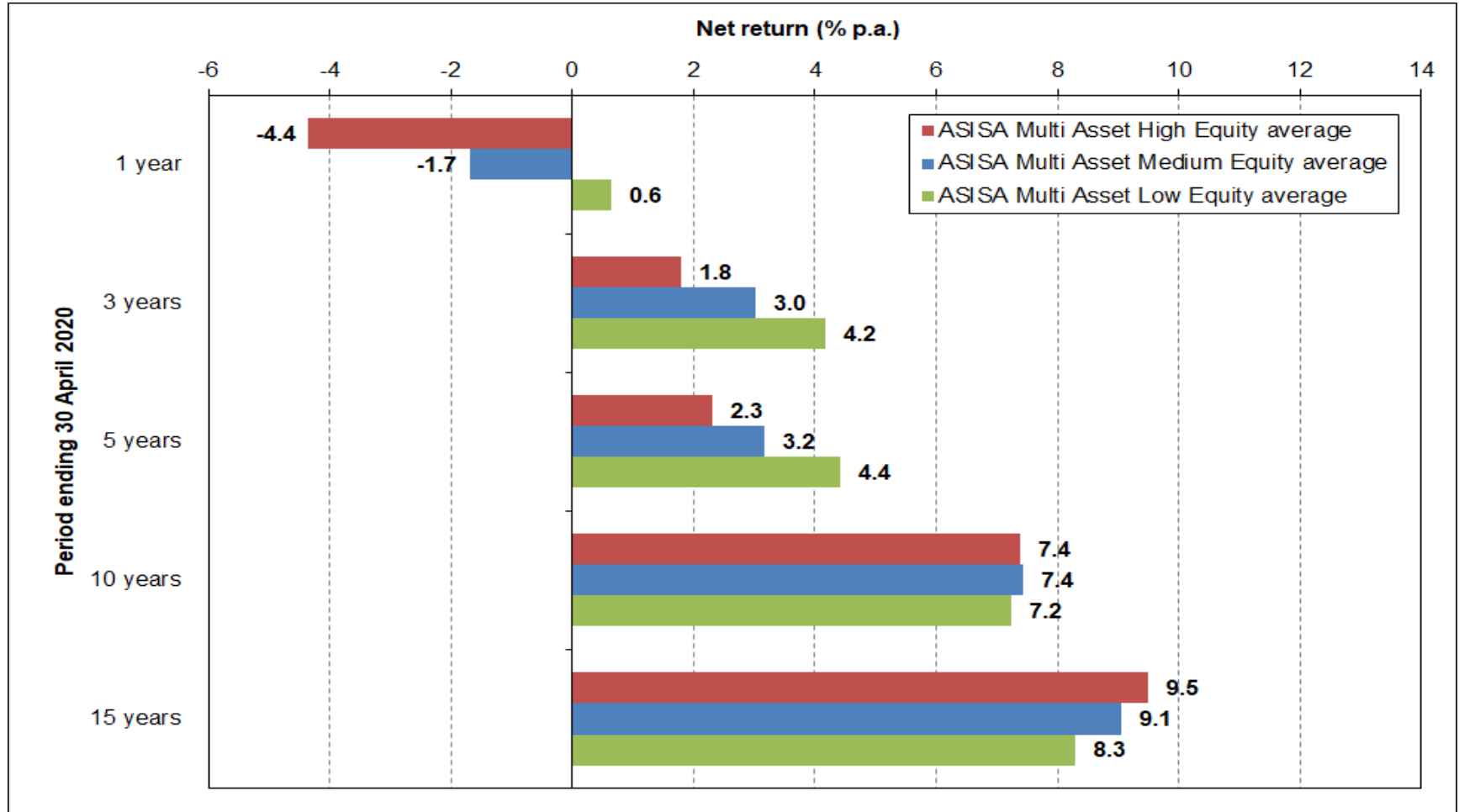
To illustrate this, we show the average returns from regulated collective investment schemes in the ASISA (Association for Savings and Investments South Africa) South Africa Multi Asset High, Medium and Low Equity categories to reflect the returns of typical Aggressive, Moderate and Conservative retirement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



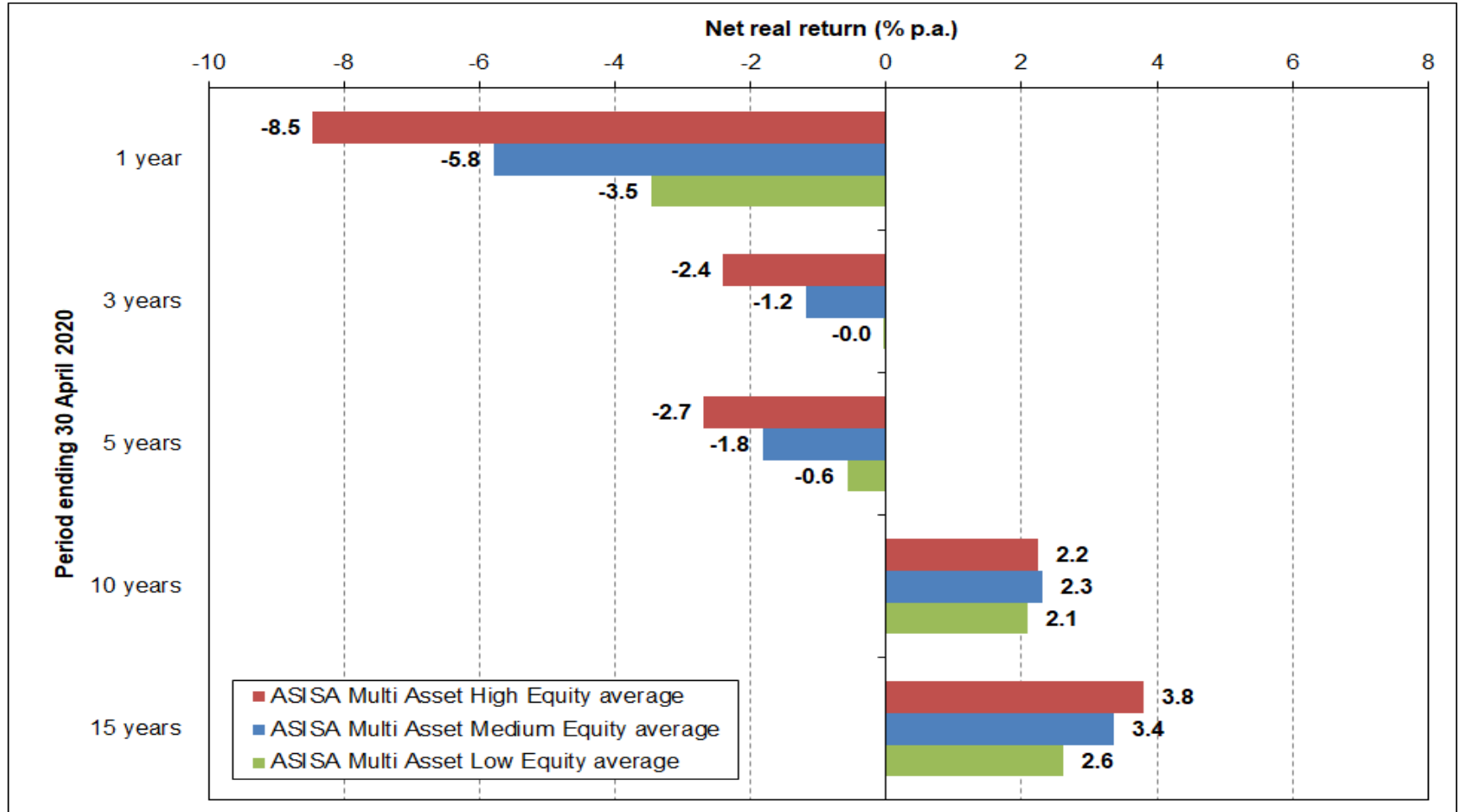
MANAGER PERFORMANCE

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

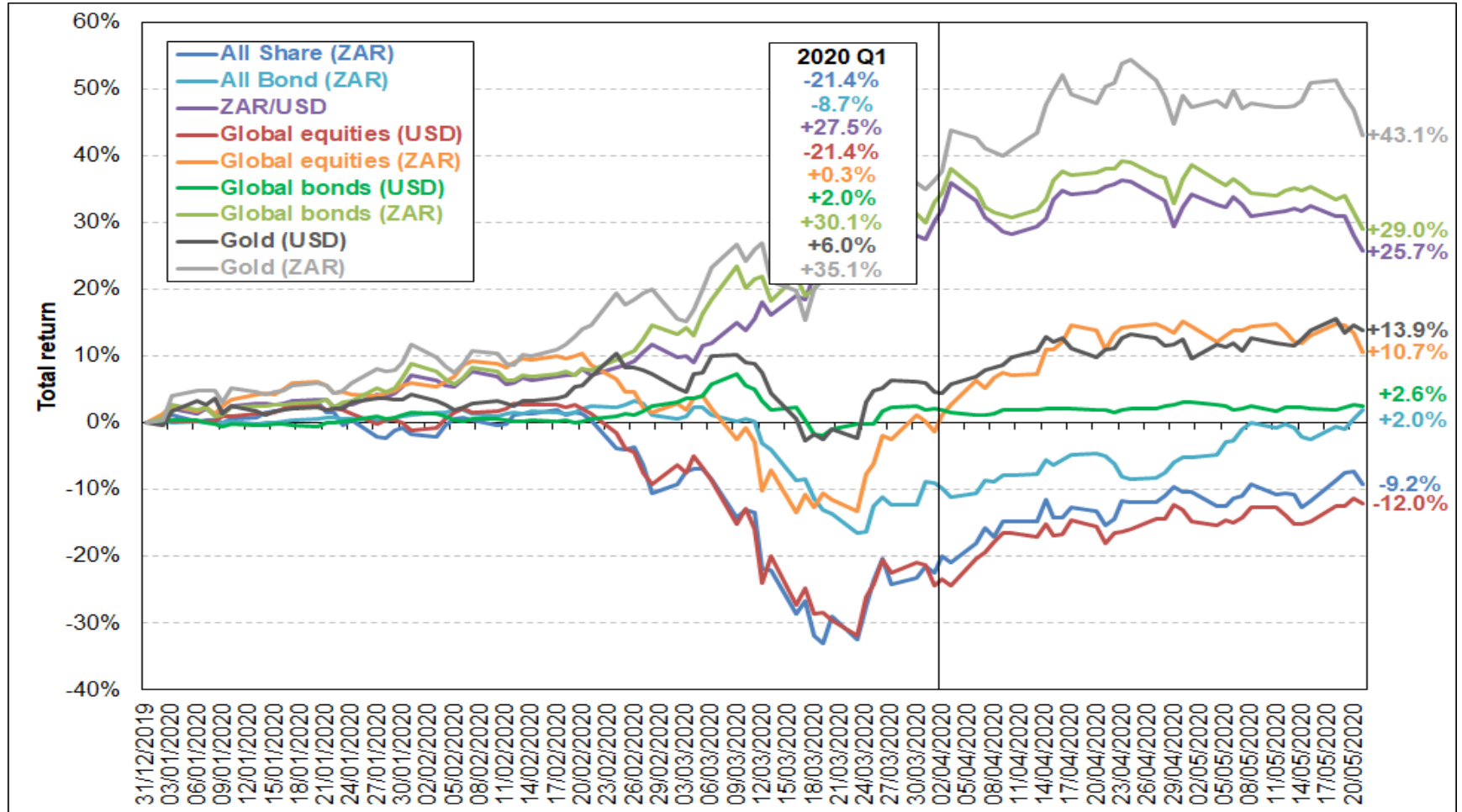


MANAGER PERFORMANCE

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

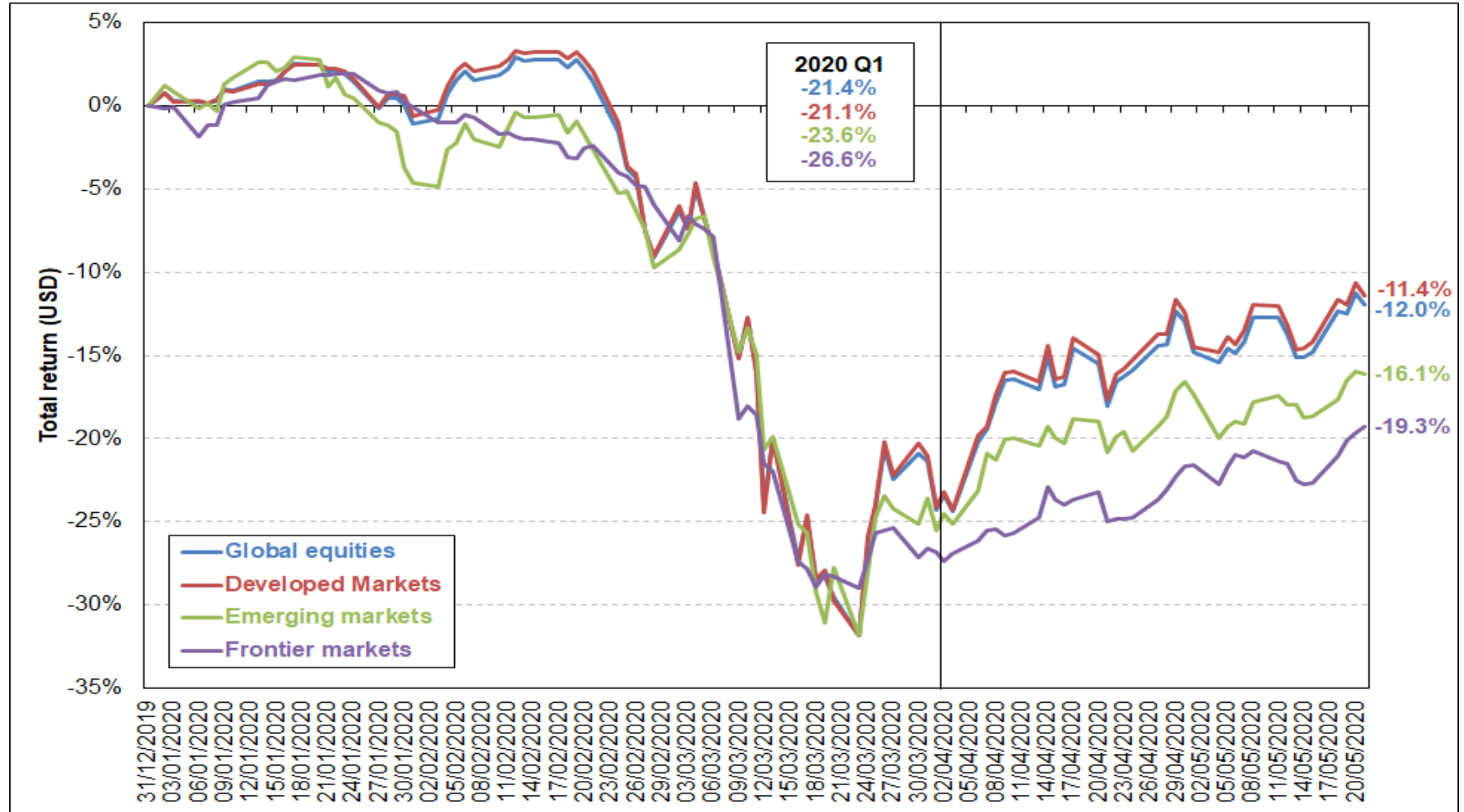


2020 YTD MAJOR ASSET CLASSES



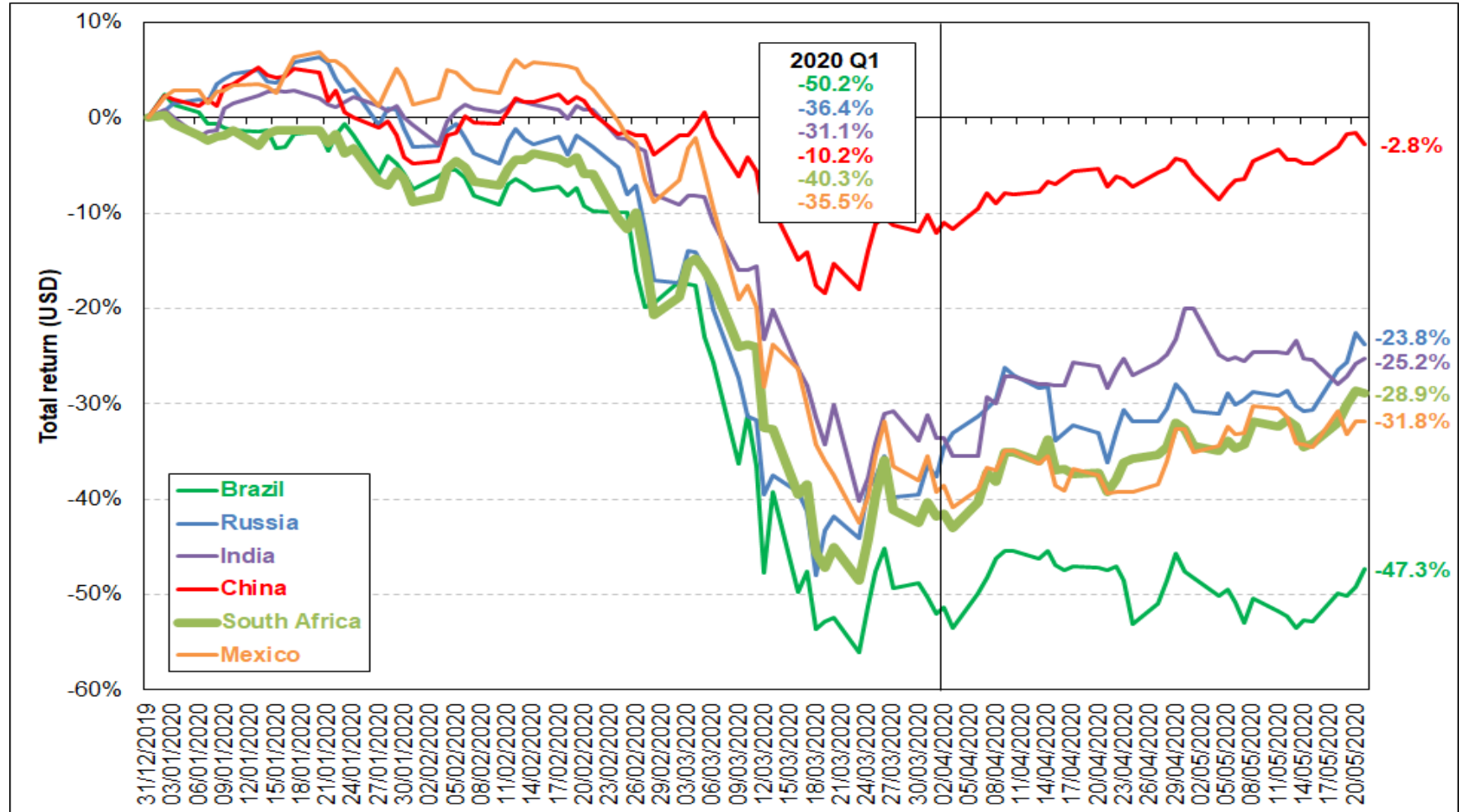
2020 YTD

GLOBAL EQUITY MARKETS (USD)

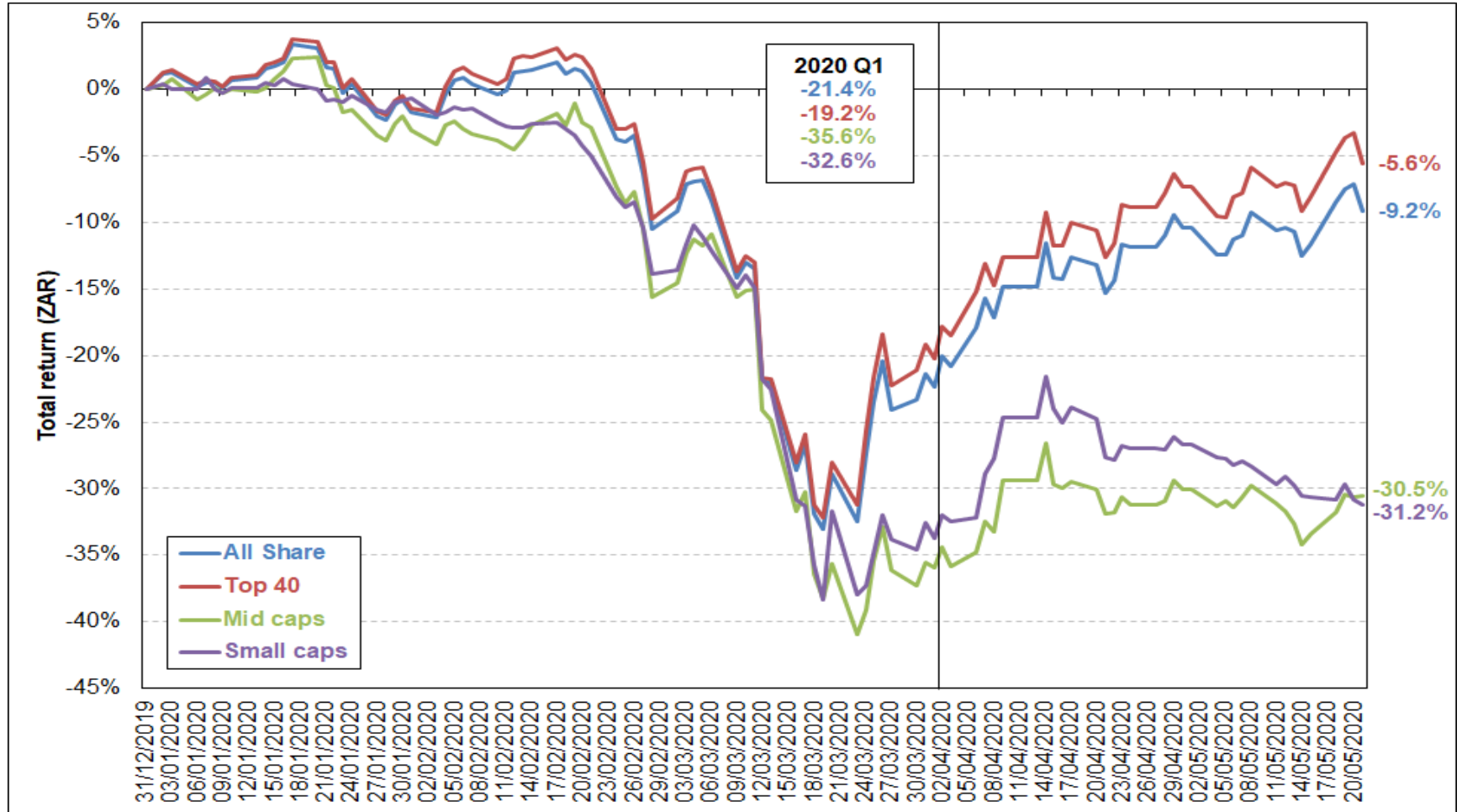


2020 YTD

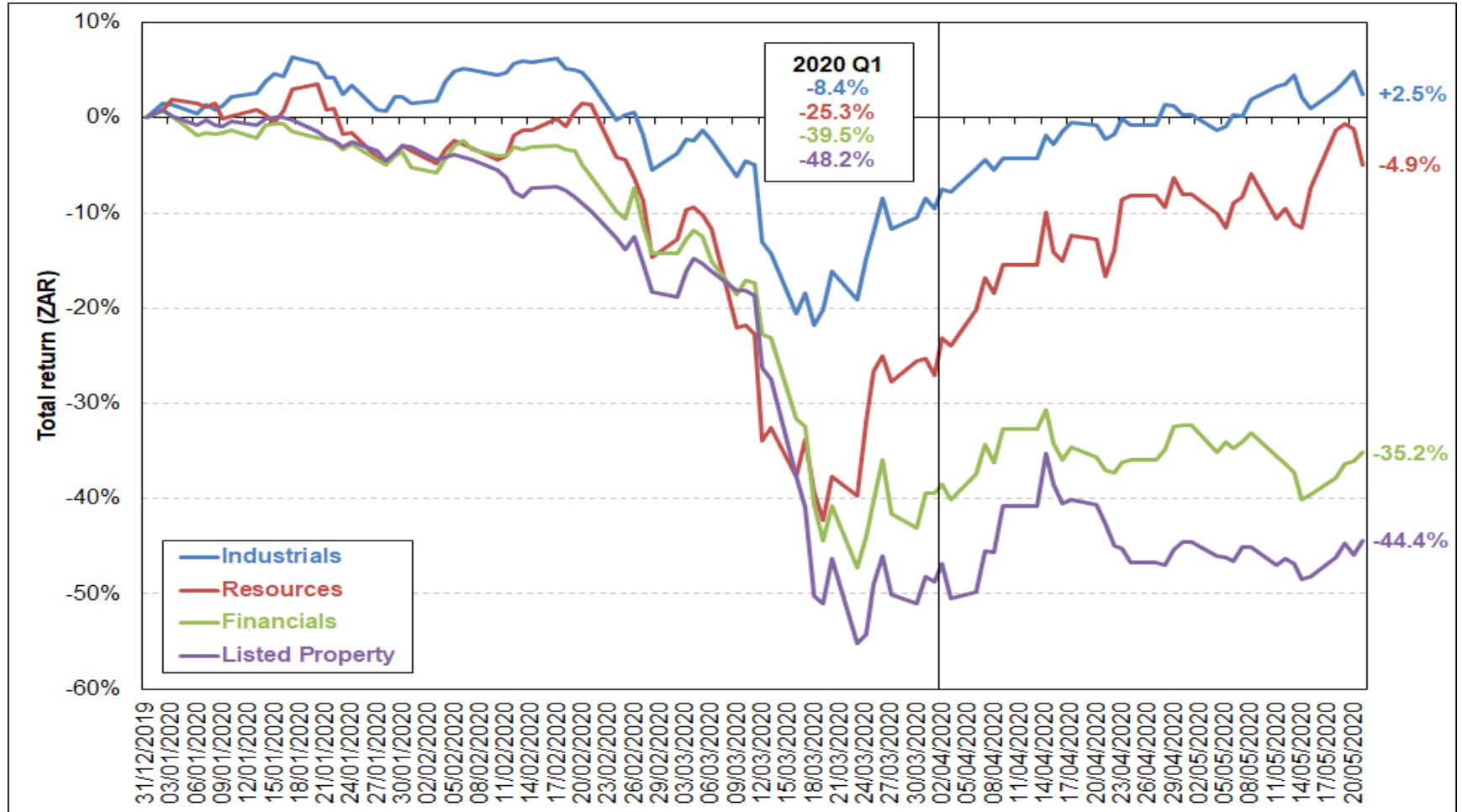
GLOBAL EMERGING EQUITY MARKETS (USD)



2020 YTD LOCAL EQUITY MARKET

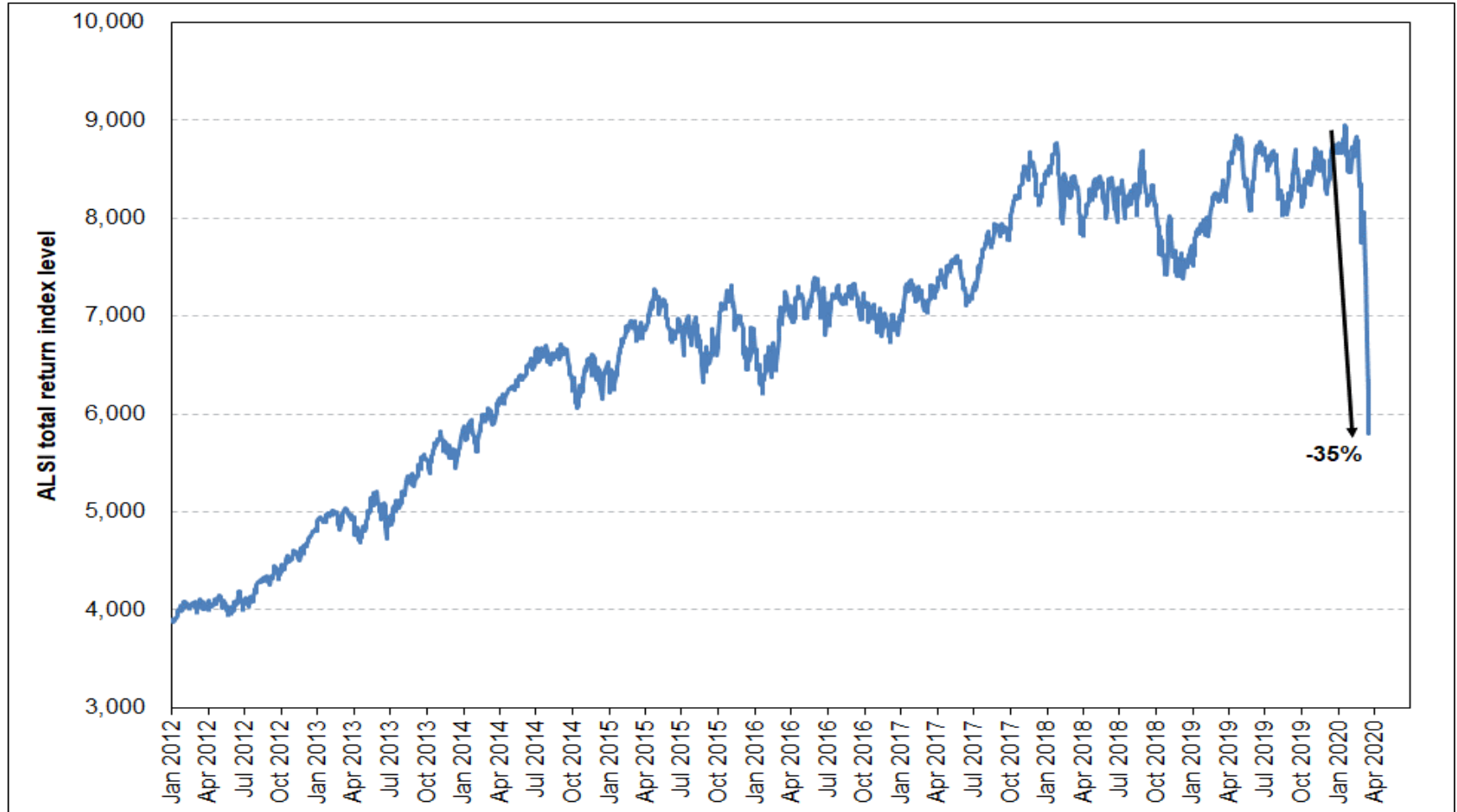


2020 YTD LOCAL EQUITY MARKET

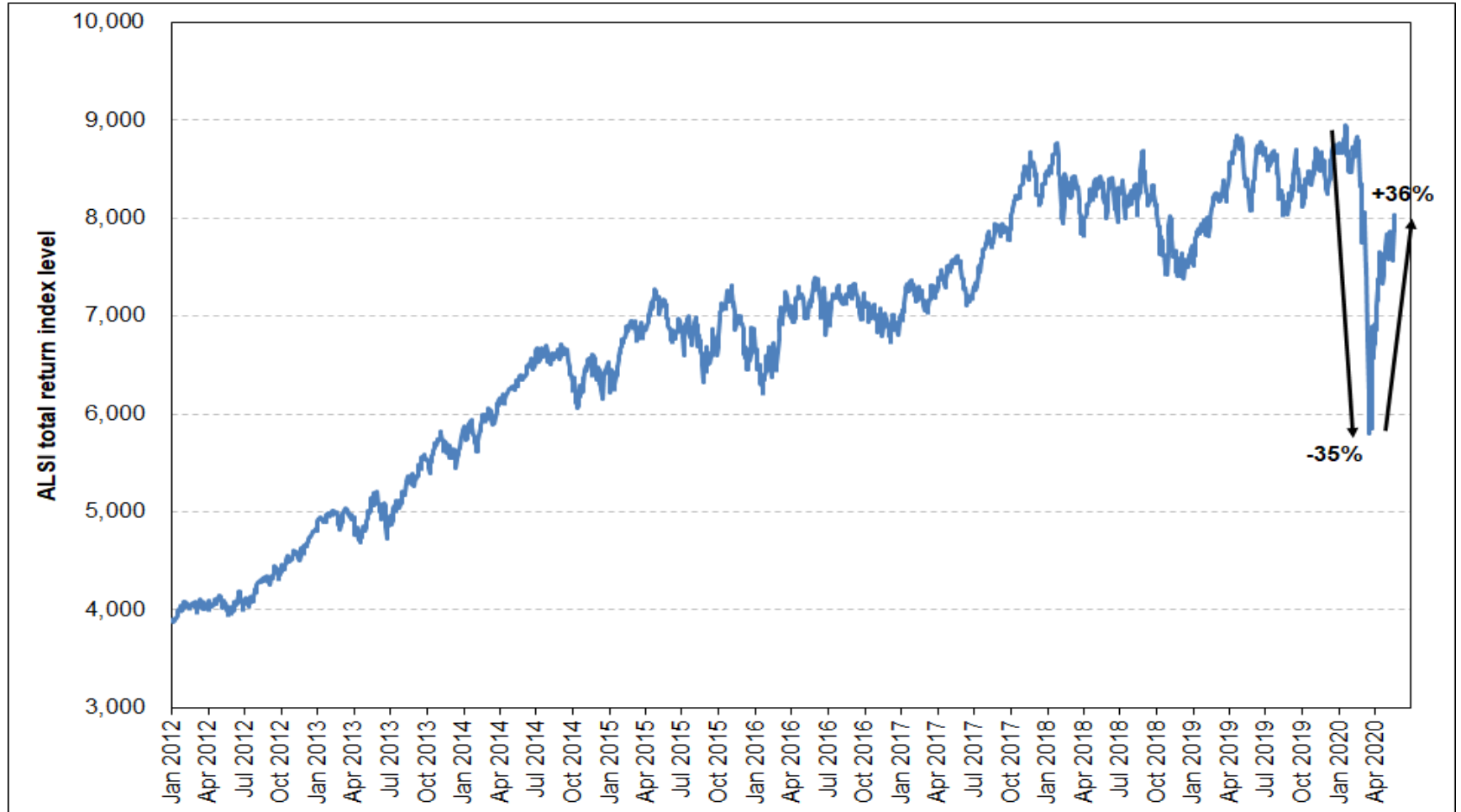


LOCAL EQUITY MARKET

COVID-19 CRASH...

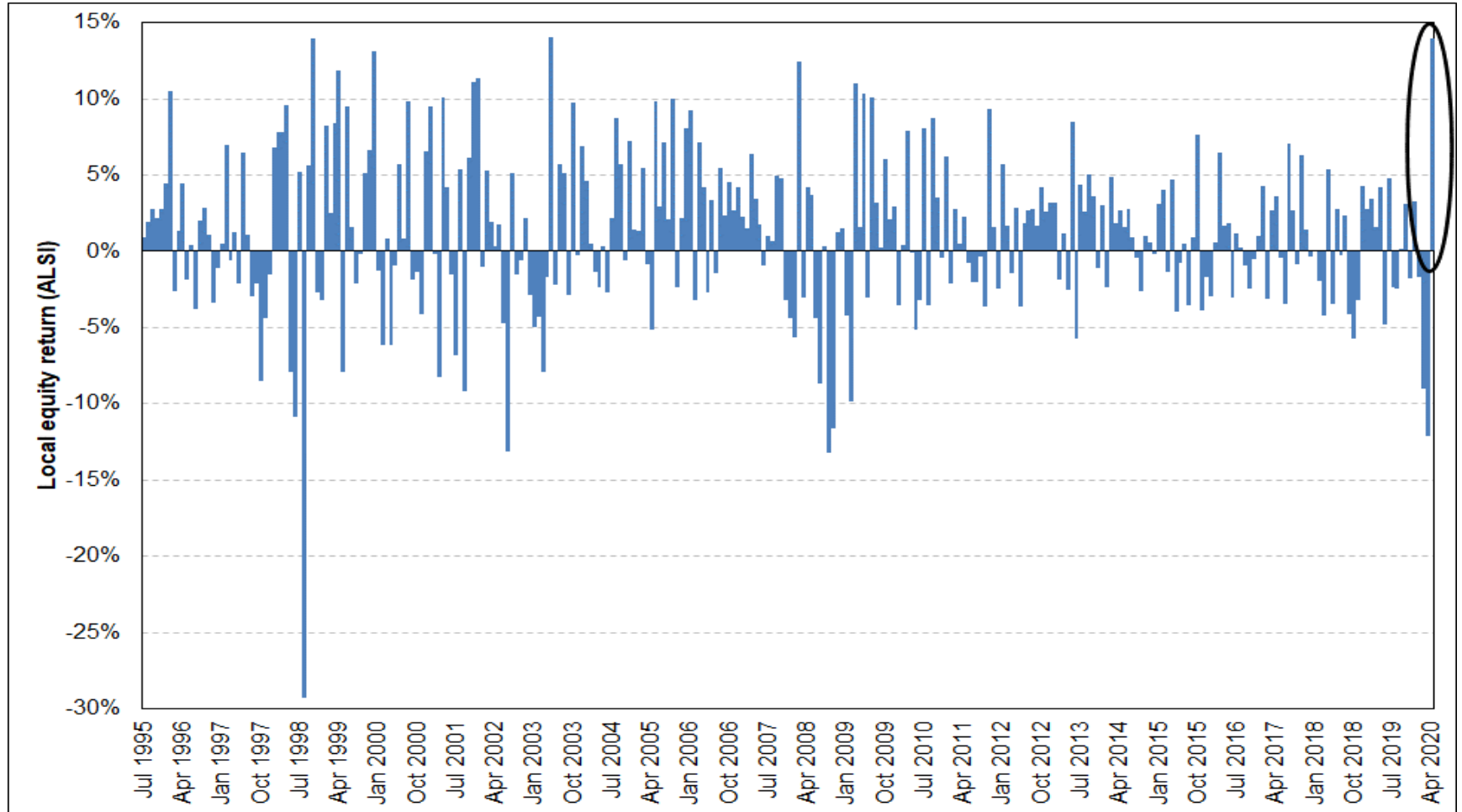


LOCAL EQUITY MARKET ...AND RECENT REBOUND



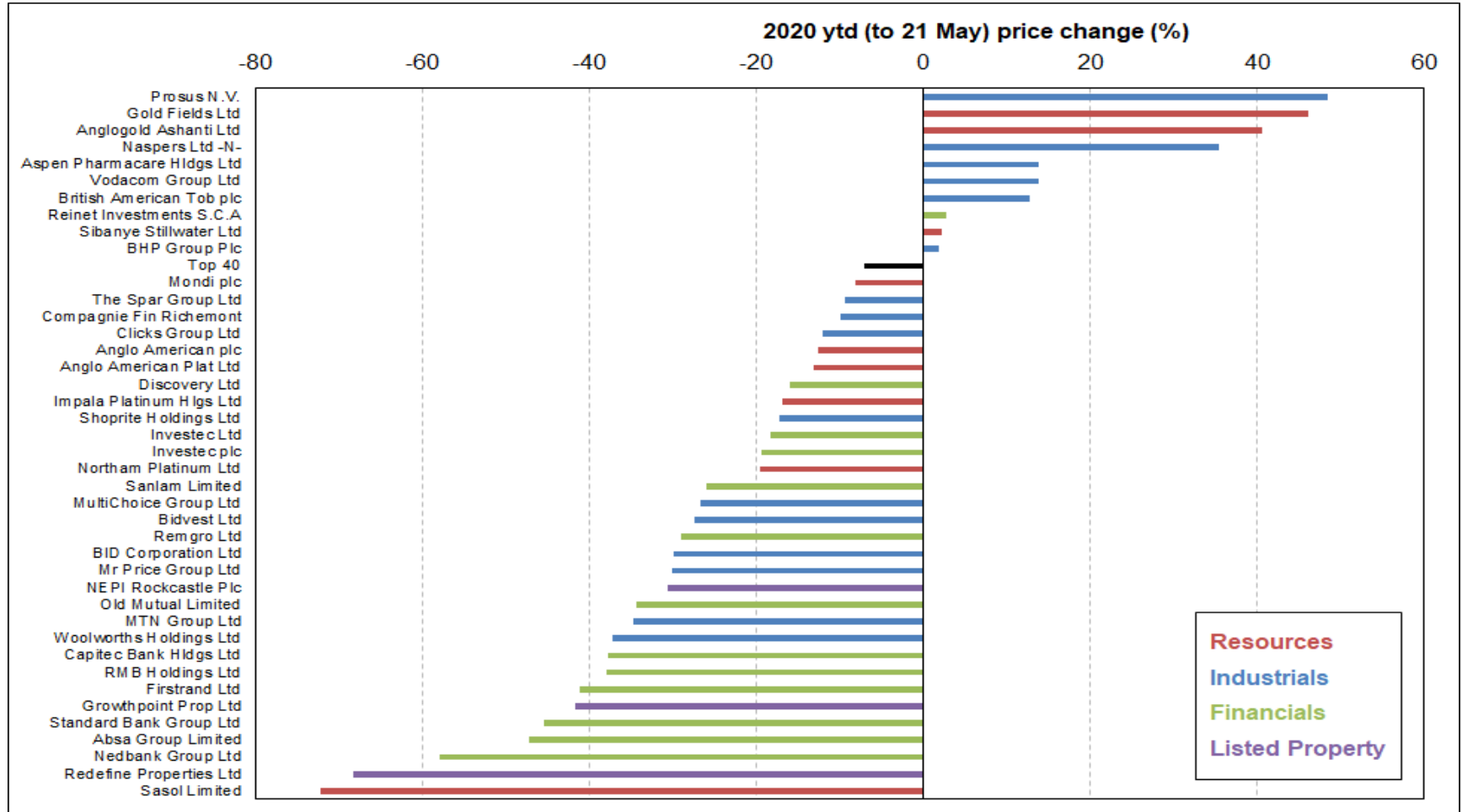
LOCAL EQUITY MARKET

WORST MONTHS SINCE 2008, FOLLOWED BY BEST MONTH SINCE 2003



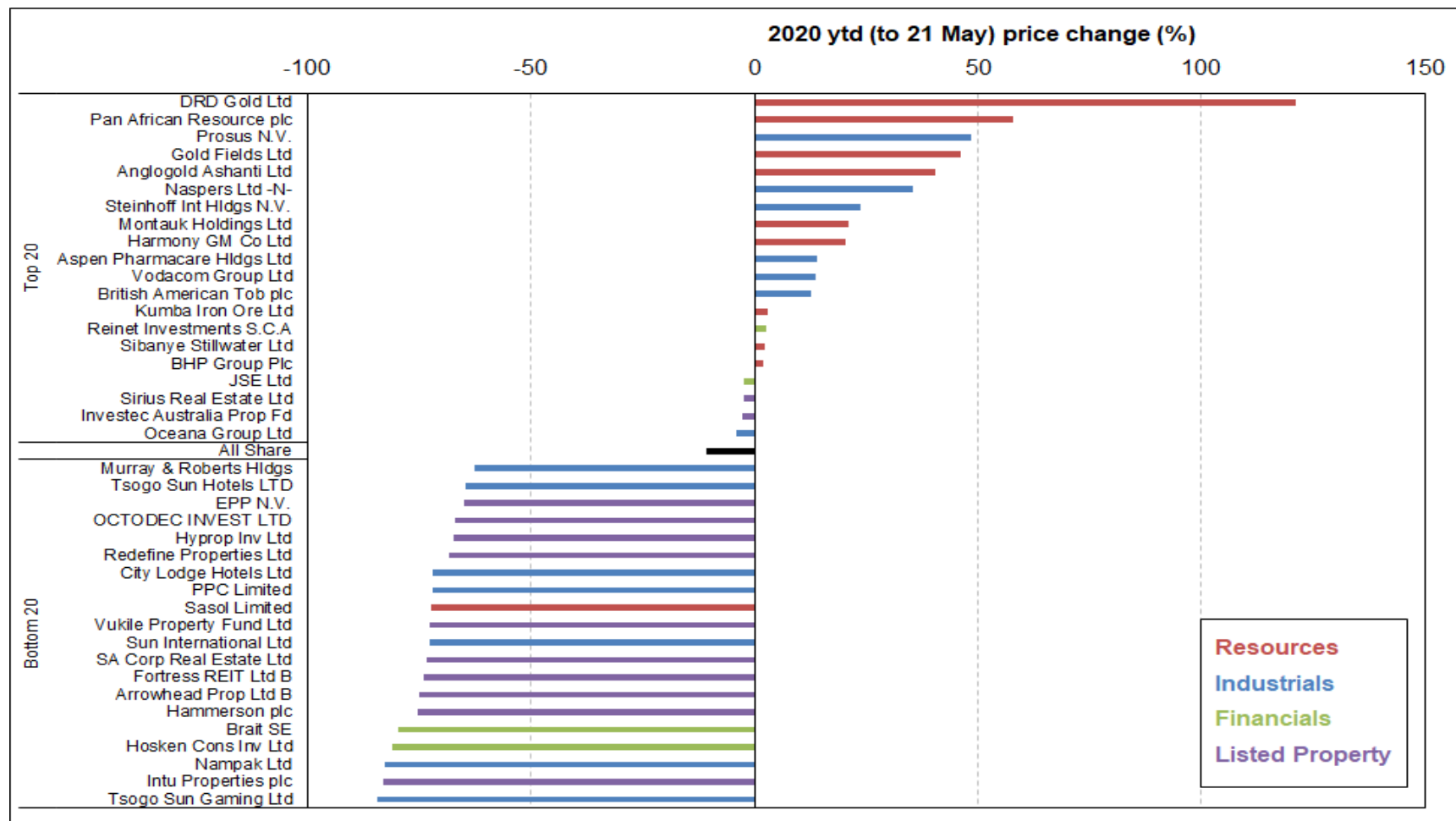
LOCAL EQUITY MARKET

TOP 40 (LARGE CAP) STOCKS IN 2020



LOCAL EQUITY MARKET

BEST & WORST PERFORMERS IN 2020



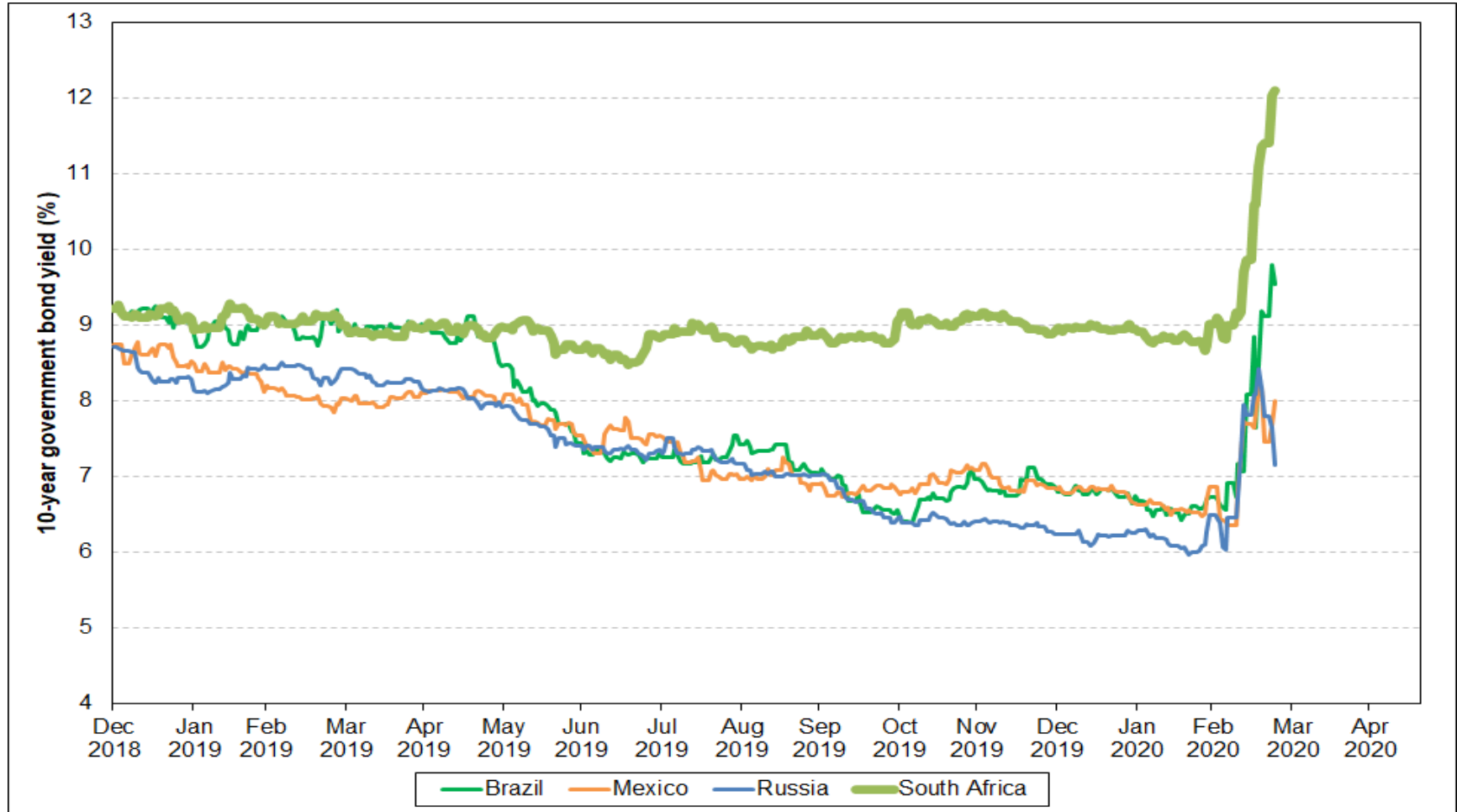
CREDIT RATINGS

TRIPLE DOWNGRADE ☹️

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	Stable
		CCC																												Caa2	
		CCC-																												Caa3	
	Extremely speculative	CC																												Ca	
	Default imminent	C																												Ca	
	In default	RD / DDD																												C	
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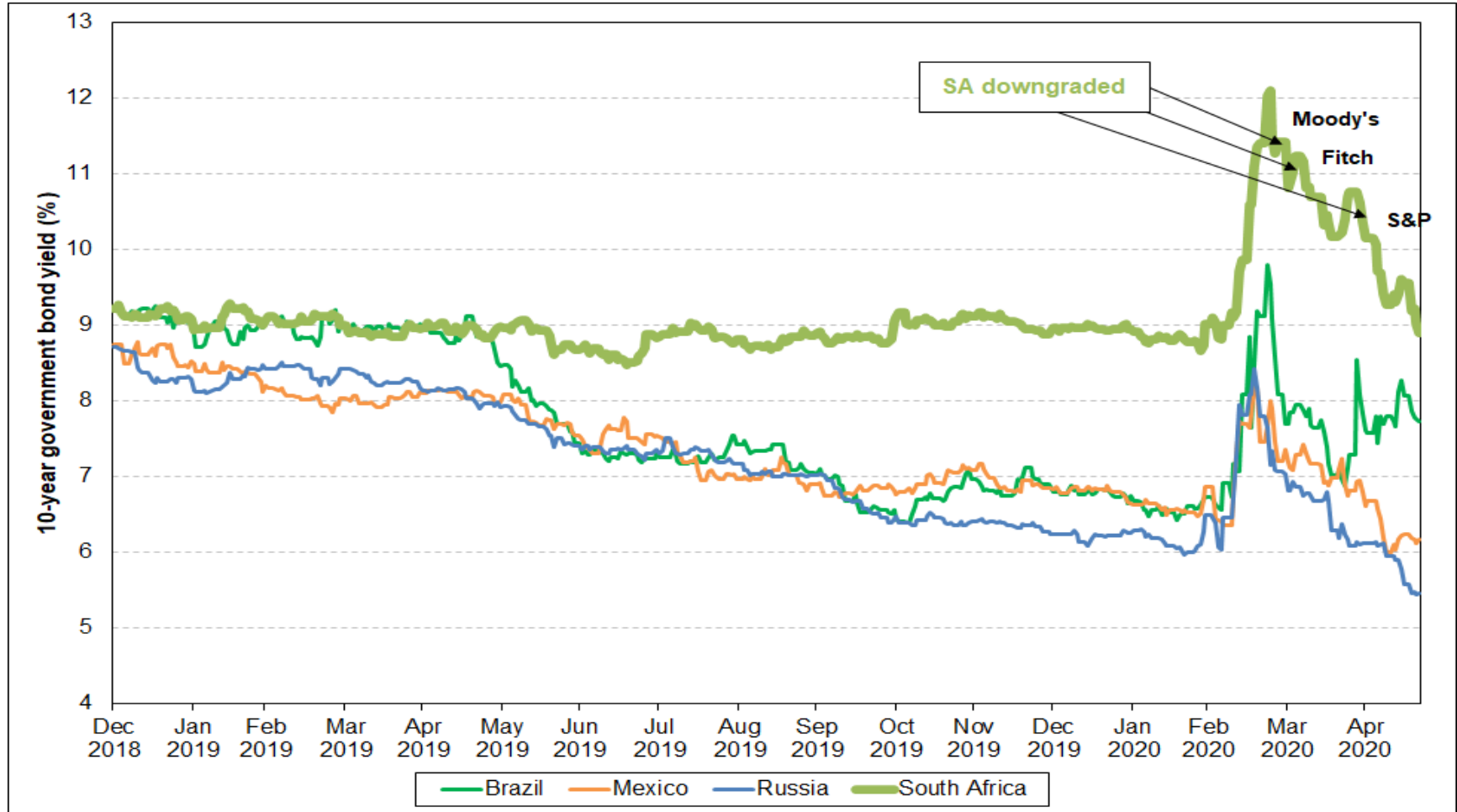
EMERGING MARKET BONDS

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



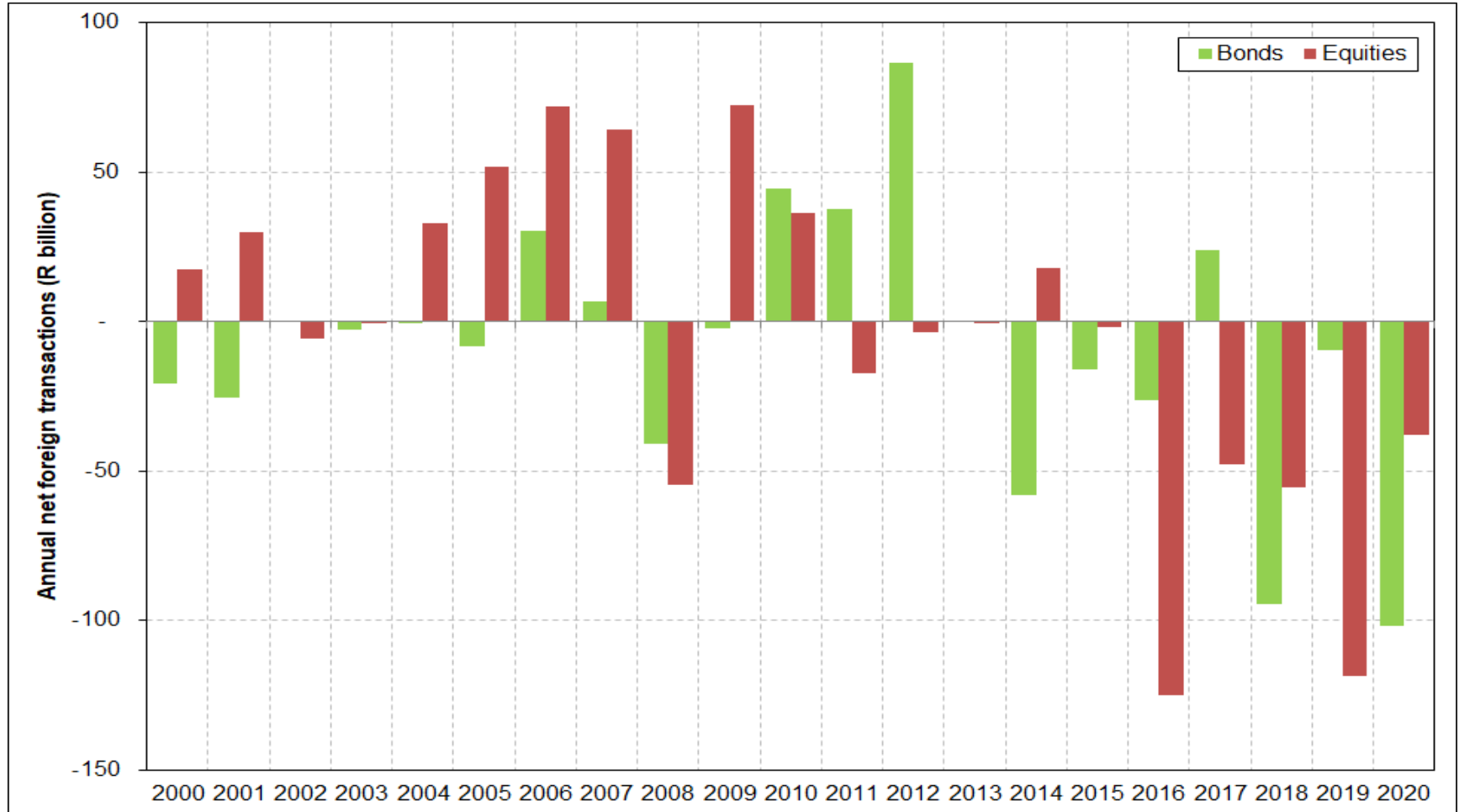
EMERGING MARKET BONDS

SA BOND YIELDS RECOVER TO PRE-CRISIS LEVELS DESPITE DOWNGRADES



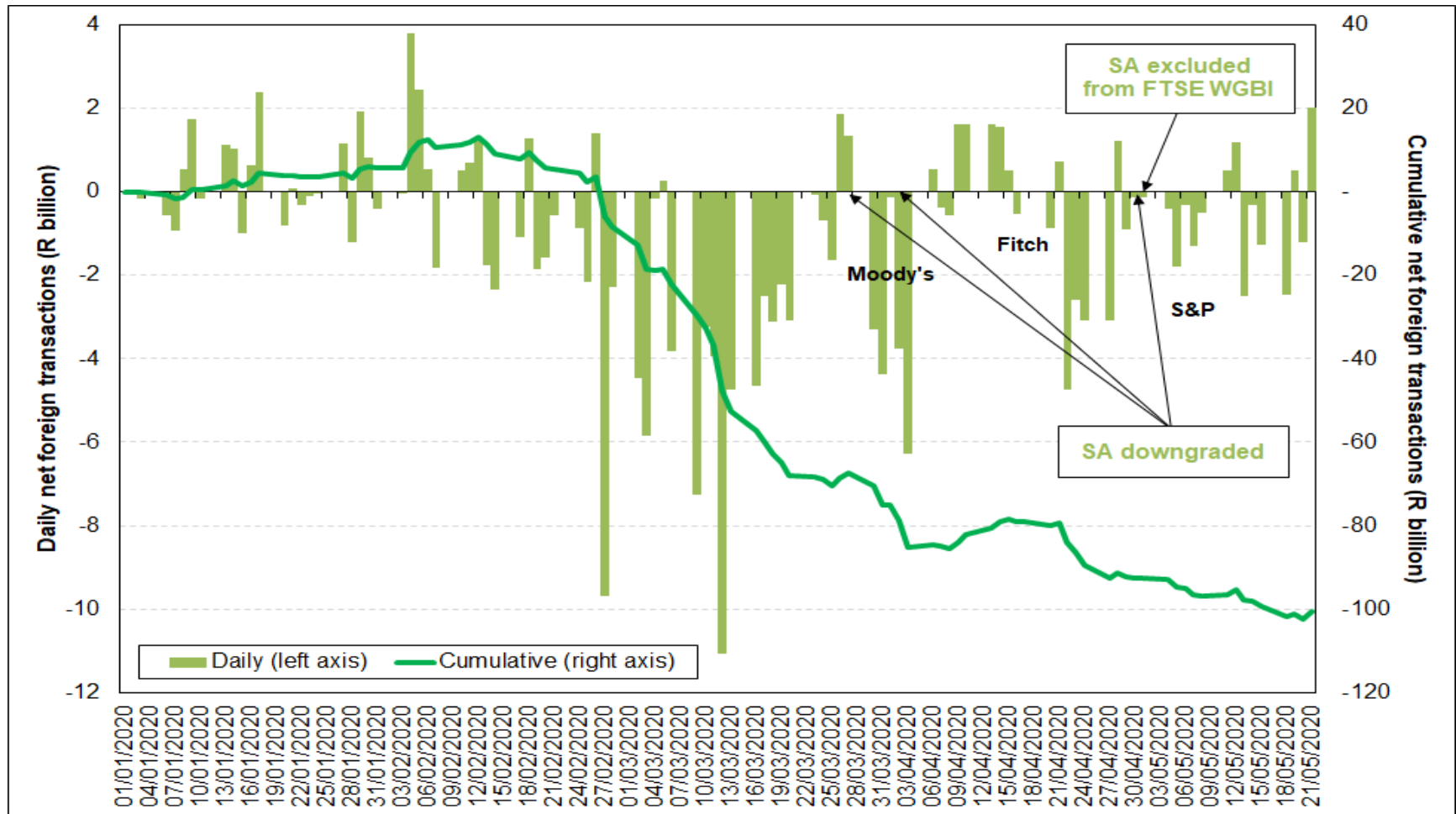
NET FOREIGN TRANSACTIONS

LARGE SCALE SELLING CONTINUES IN 2020



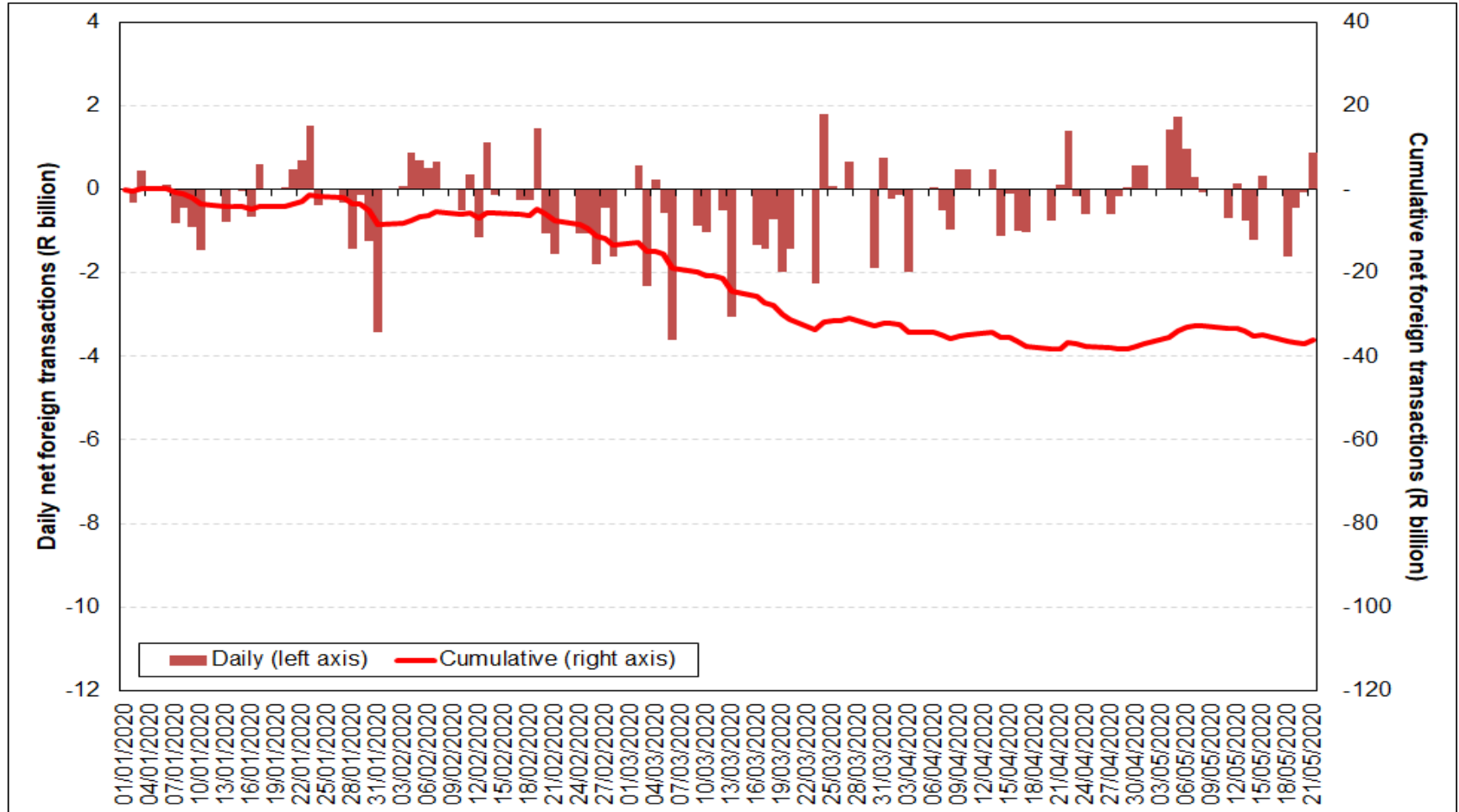
NET FOREIGN BOND TRANSACTIONS

POST-DOWNGRADE OUTFLOWS MUCH LOWER THAN EXPECTED

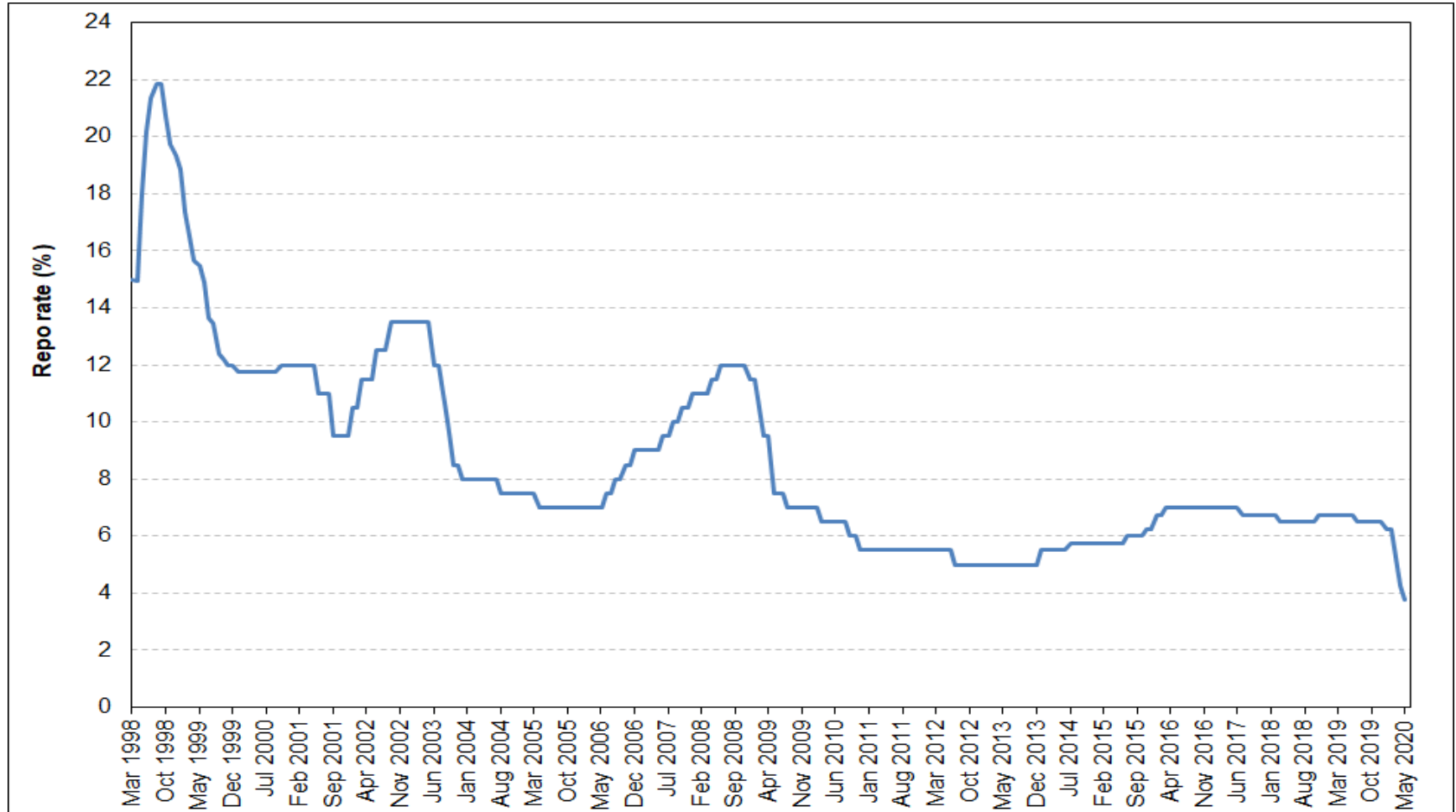


NET FOREIGN EQUITY TRANSACTIONS

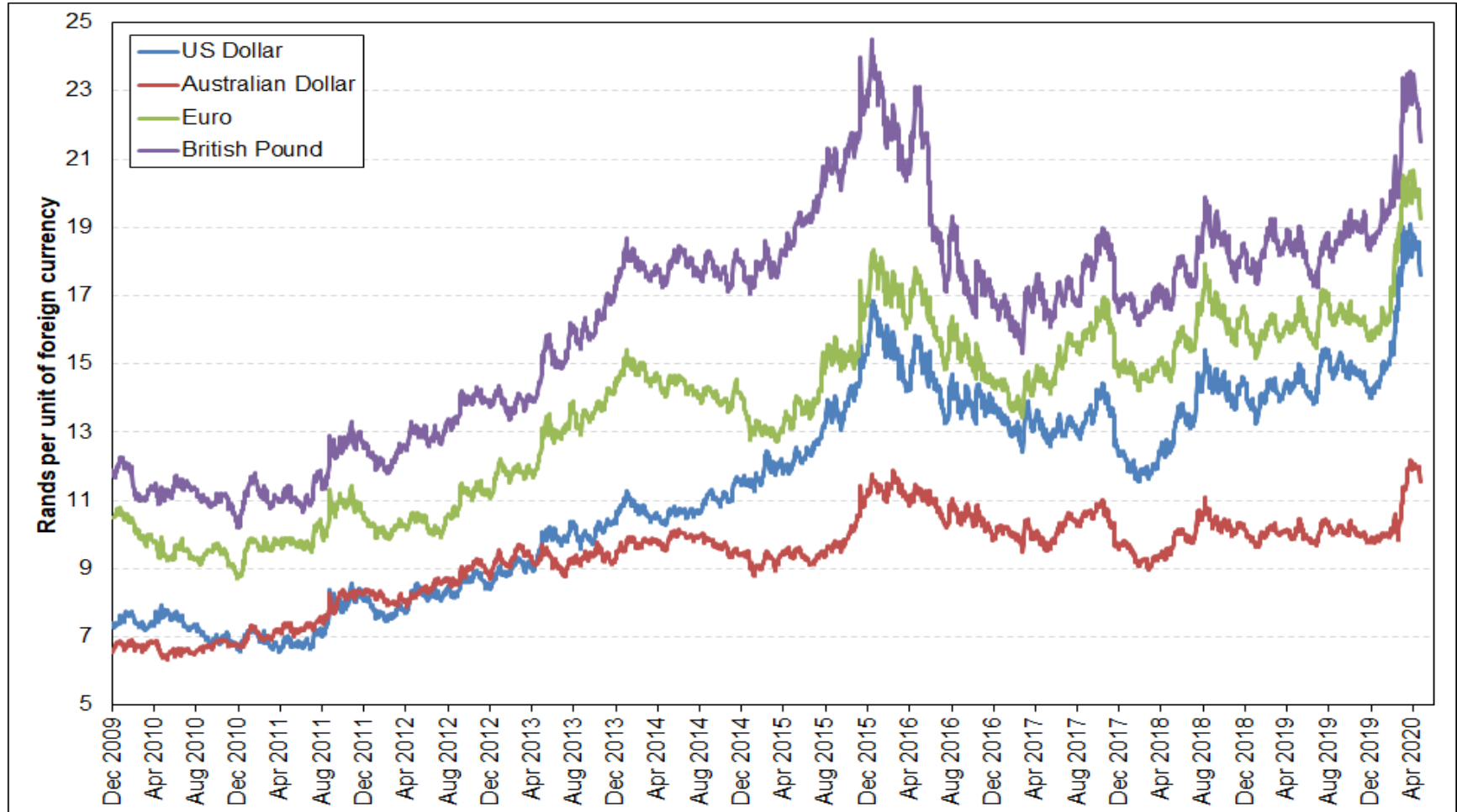
CONSIDERABLY LESS ACTION ON THE EQUITY SIDE



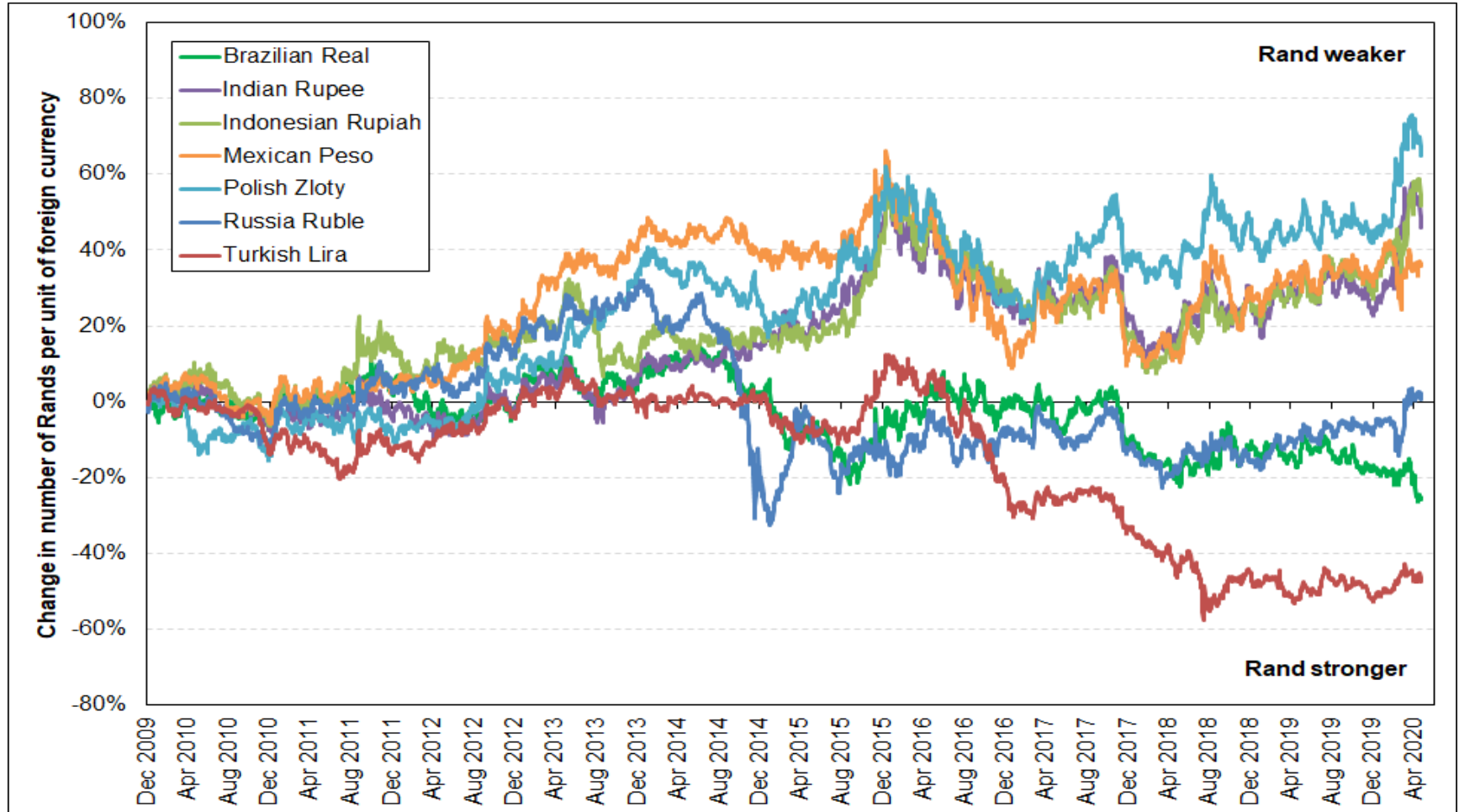
REPO RATE ANOTHER CUT!



RAND VS DEVELOPED MARKET CURRENCIES SHOWING SOME RECOVERY

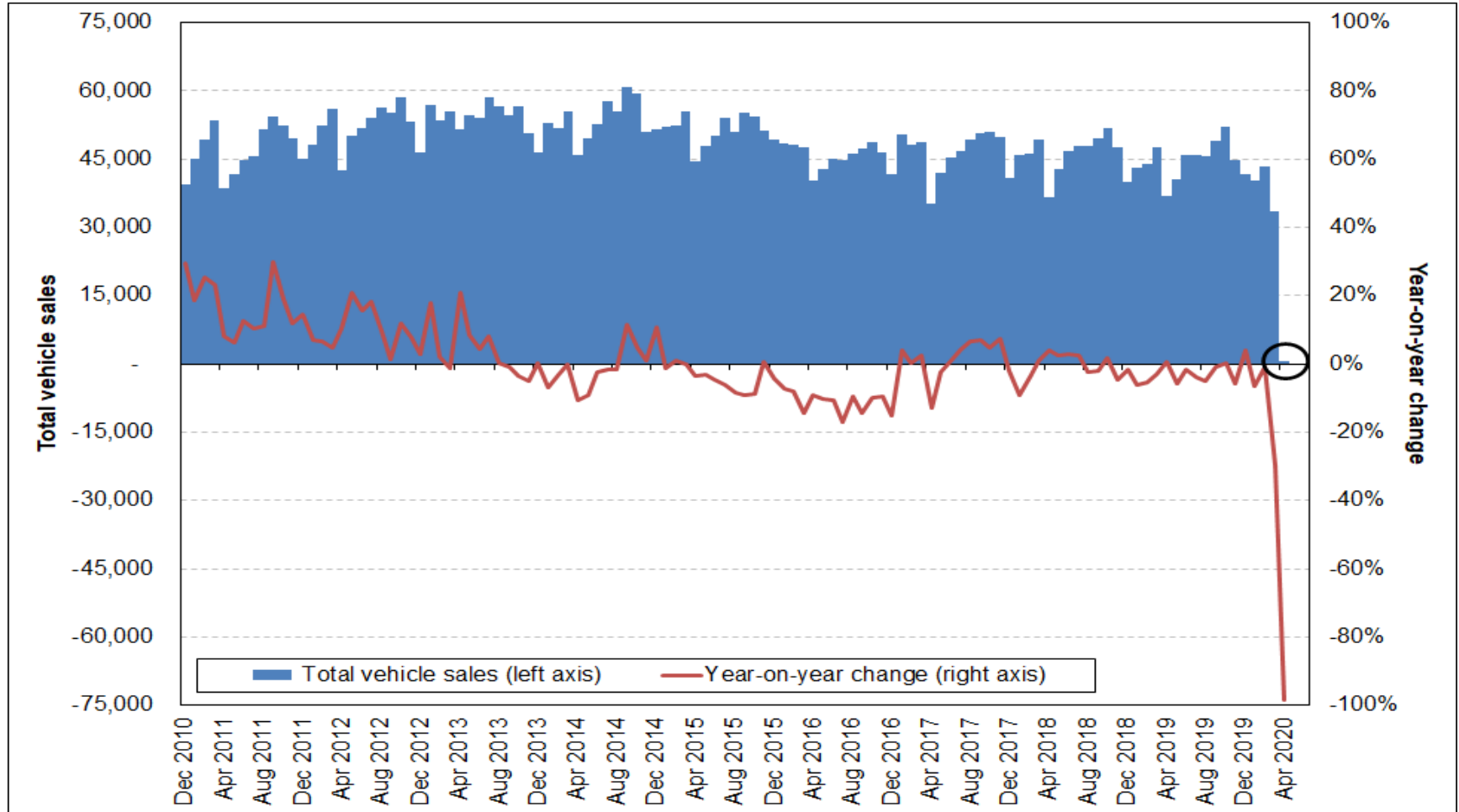


RAND VS EMERGING MARKET CURRENCIES SHOWING SOME RECOVERY



LOCKDOWN ECONOMIC IMPACT

VEHICLE SALES FALL OFF A CLIFF



LOCKDOWN ECONOMIC IMPACT

MANUFACTURING SECTOR HIT HARD

