

MONTH IN PICTURES

MAY 2020

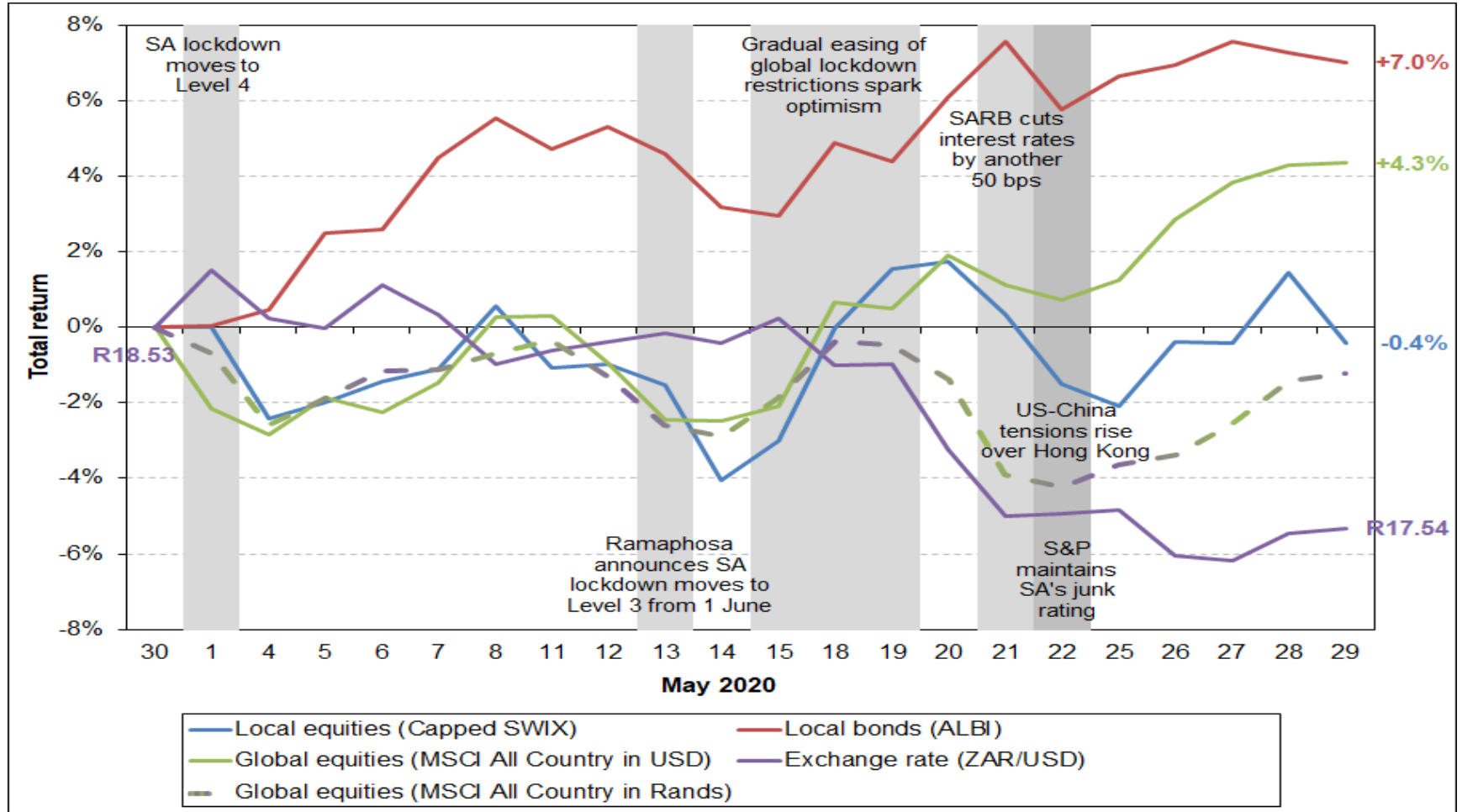
MONTHLY SNAPSHOT

NOTABLE EVENTS

- After April's strong run the local equity market took a breather in May, ending the month largely flat (ALSI = +0.3% & Capped SWIX = -0.4%).
- Global equity markets continued their recovery (+4.3% in US Dollars), with unprecedented levels of fiscal stimulus and monetary easing, hopes for possible Covid-19 treatments and vaccines and the gradual relaxing of global lockdown measures bolstering optimism.
- The Rand strengthened considerably against major global currencies, ending the month 5.3%, 7.1% and 4.0% stronger against the US Dollar, British Pound and Euro, respectively.
- With yields at historic lows, global bonds unsurprisingly delivered just 0.2% in US Dollars.
- The strong Rand however resulted in offshore asset classes yielding negative local currency returns of 1.2% (global equities) and 5.1% (global bonds) in May.
- The South African Reserve Bank announced another 50 basis point interest rate cut in May, on top of the 225 basis point cumulative reduction since the start of this year.
- Local government bond yields followed short term interest rates lower, with the 10-year yield settling at around 9%, exactly where it was before the Covid-19 and junk status double whammy. After significant losses in March, the local bond market has now gained more than 11% in just two months (+3.9% in April and +7.1% in May).
- Business confidence plummeted to an all-time low of just 5 index points during 2020 Q2, comfortably surpassing previous lows set in the late 1970s and mid 1980s. This reading implies that just about every respondent was unsatisfied with prevailing business conditions.
- SA's latest employment statistics painted a grim picture (even though the numbers are for the most part *pre*-Covid-19), with the official unemployment rate topping 30% for the first time while the expanded unemployment rate edged closer to 40%.

MONTHLY TIMELINE

IMPACT ON MARKETS



MARKET INDICATORS

SHORT TERM

Market indicators (% change) ¹		Mar 2020	Apr 2020	May 2020	3 months	12 months
Local equities	Capped SWIX	(16.7)	14.2	(0.4)	(5.3)	(14.2)
	Resources	(12.4)	23.0	5.6	13.7	13.8
	Industrials	(3.1)	9.6	(1.8)	4.3	(0.3)
	Financials	(29.4)	11.9	(3.2)	(23.5)	(36.3)
	Listed Property	(36.6)	7.0	(0.8)	(32.6)	(45.9)
Local bonds	ALBI	(9.7)	3.9	7.1	0.4	6.4
Local cash	STeFI Composite	0.6	0.5	0.5	1.6	7.0
Global equities	MSCI All Country	(1.4)	14.9	(1.2)	12.0	26.8
Global bonds	FTSE WGBI	13.3	5.0	(5.1)	12.9	27.9
Exchange rate	ZAR/USD	14.0	3.8	(5.3)	12.0	20.3
Inflation	CPI ²	0.3	0.6	0.3	1.2	4.1

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

2. Estimated for April & May 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	(14.2)	(4.2)	(1.2)	8.4	11.5
	Resources	13.8	19.9	7.0	3.6	8.4
	Industrials	(0.3)	(1.6)	1.8	13.5	15.5
	Financials	(36.3)	(10.4)	(6.1)	7.1	8.9
	Listed Property	(45.9)	(21.6)	(11.4)	3.5	8.9
Local bonds	ALBI	6.4	8.2	7.7	8.5	8.3
Local cash	STeFI Composite	7.0	7.2	7.2	6.5	7.3
Global equities	MSCI All Country	26.8	16.0	13.3	17.8	13.2
Global bonds	FTSE WGBI	27.9	14.4	11.4	11.3	10.0
Exchange rate	ZAR/USD	20.3	10.3	7.6	8.6	6.6
Inflation	CPI ²	4.1	4.3	4.9	5.1	5.7

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

2. Estimated for April & May 2020.

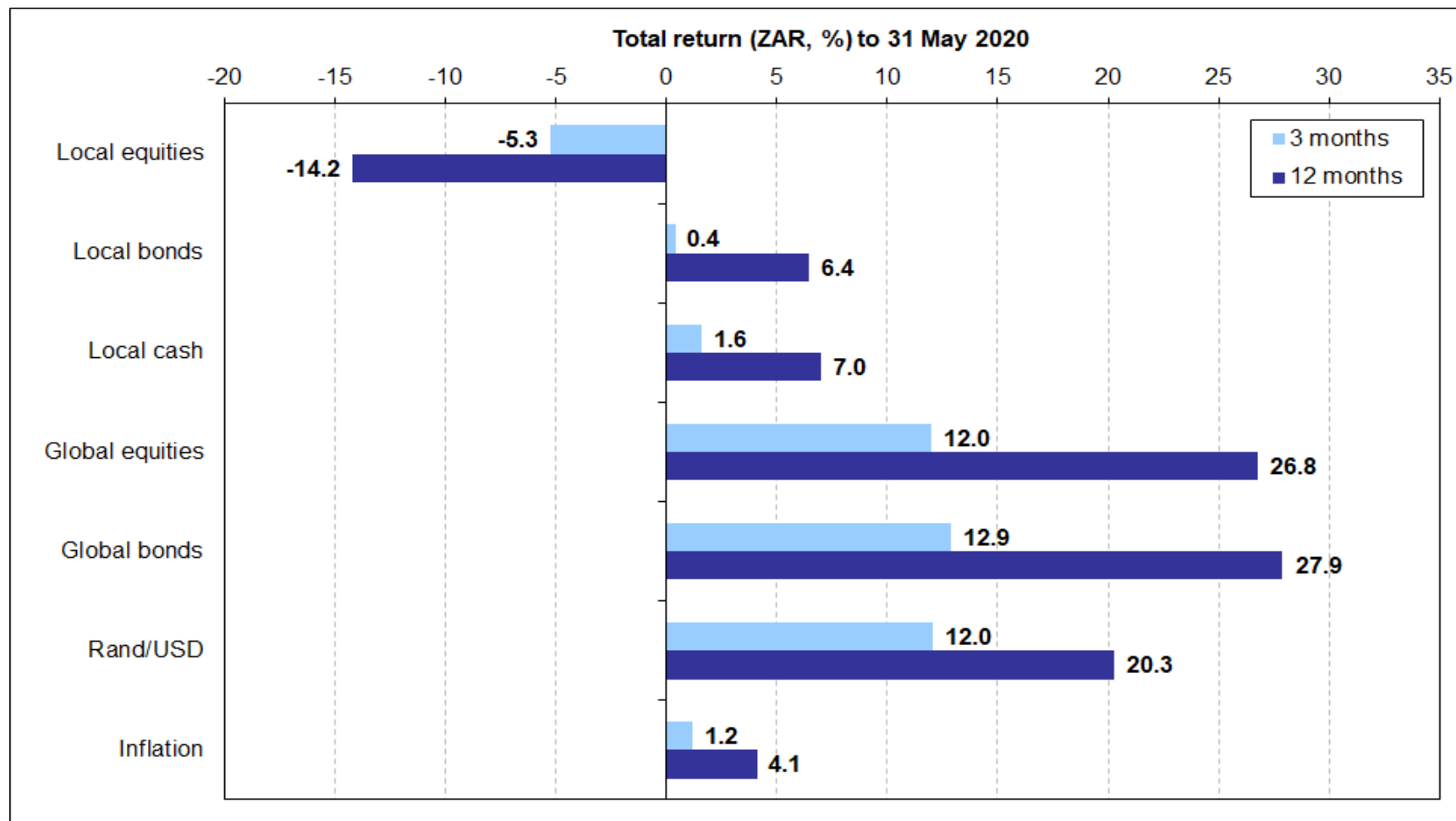
ECONOMIC INDICATORS

Economic indicators ¹	Apr 2018	Apr 2019	Feb 2020	Mar 2020	Apr 2020
Exchange rates:					
ZAR/USD	12.70	14.58	17.85	18.53	17.54
ZAR/GBP	16.89	18.42	22.15	23.33	21.67
ZAR/Euro	14.85	16.29	19.71	20.29	19.48
Commodities:					
Brent Crude Oil (USD/barrel)	77.80	61.63	26.35	26.48	37.84
Platinum (USD/ounce)	912.66	791.50	725.39	777.47	831.95
Gold (USD/ounce)	1,305.23	1,305.20	1,615.31	1,717.01	1,721.09

1. Month-end prices

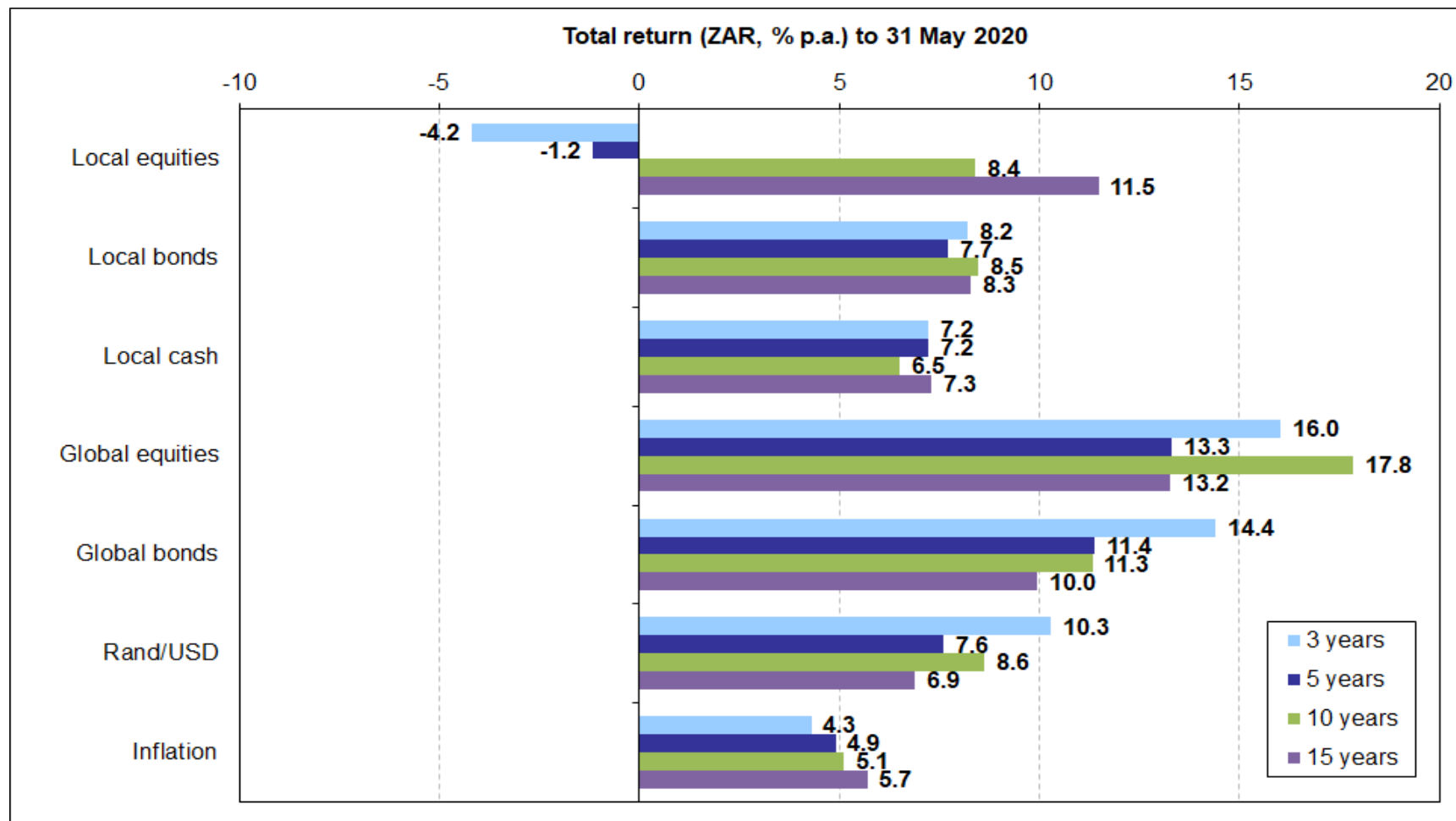
ASSET CLASS PERFORMANCE

SHORT TERM



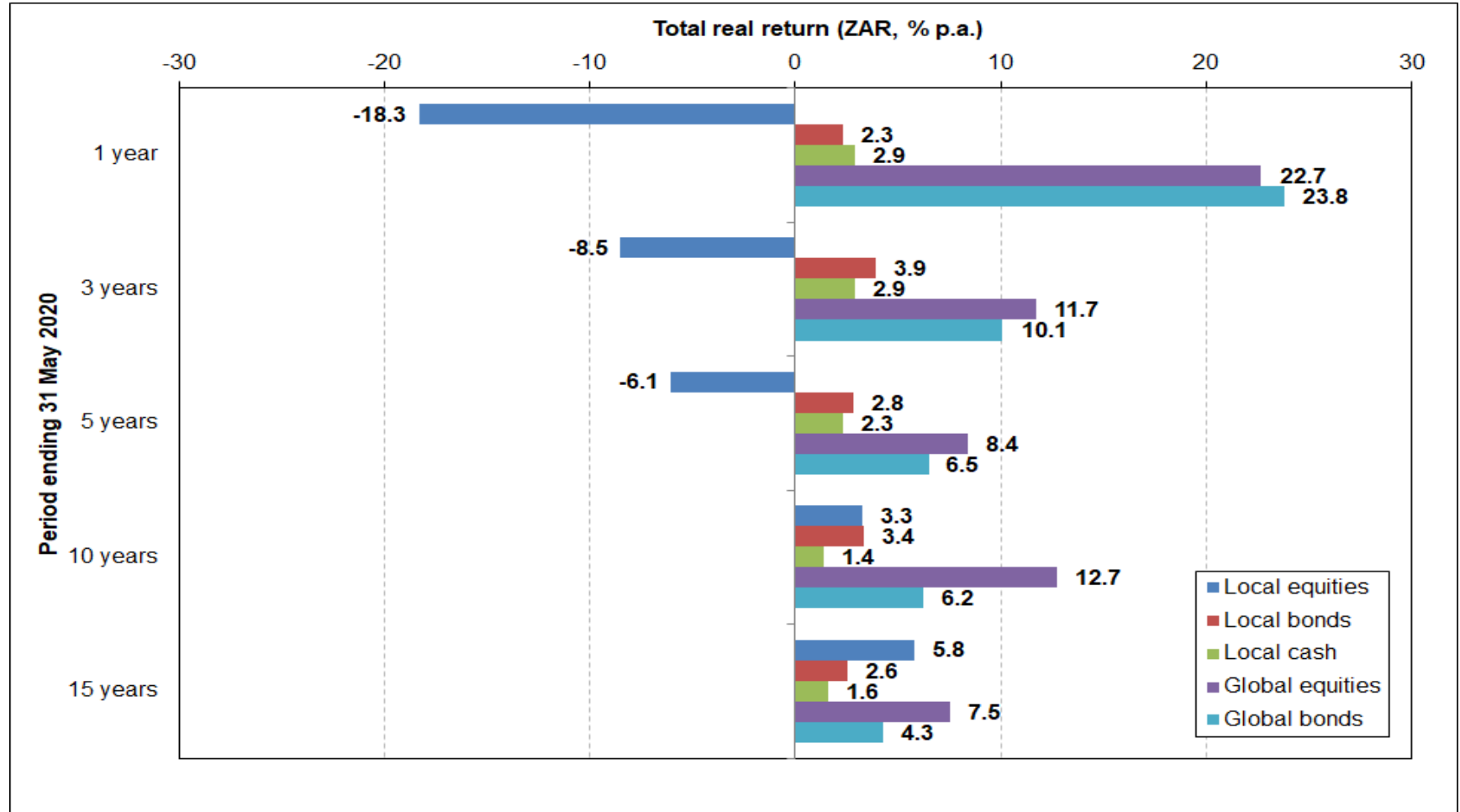
ASSET CLASS PERFORMANCE

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:

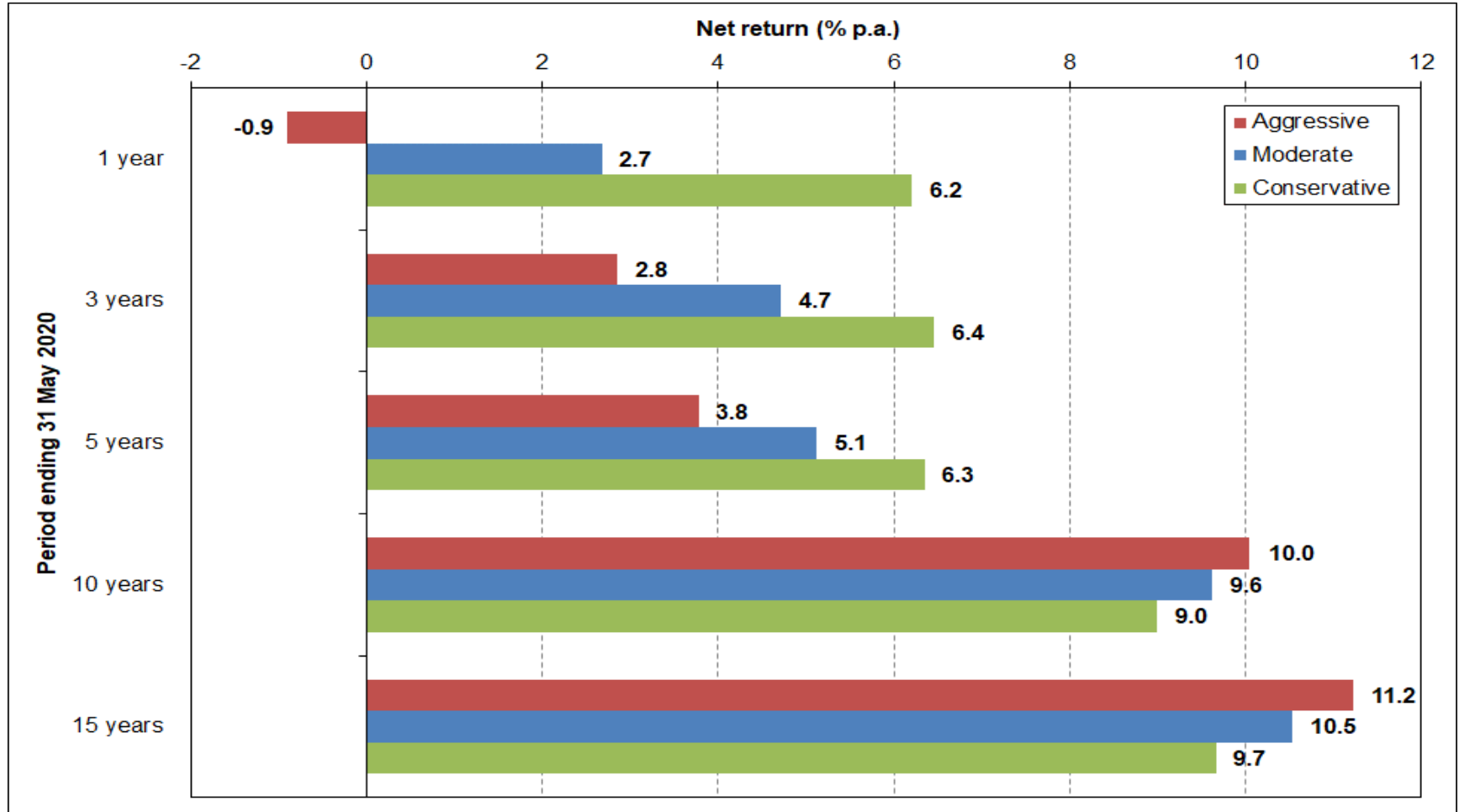
AGGRESSIVE	Strategic allocation	LOCAL VS OFFSHORE	75%			25% (5% below regulatory maximum)	
		GROWTH VS INCOME ASSETS	75%	25%		75%	25%
		EQUITIES VS BONDS VS CASH	100%	75%	25%	100%	100%
	Current allocation		~56%	~14%	~5%	~19%	~6%

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%

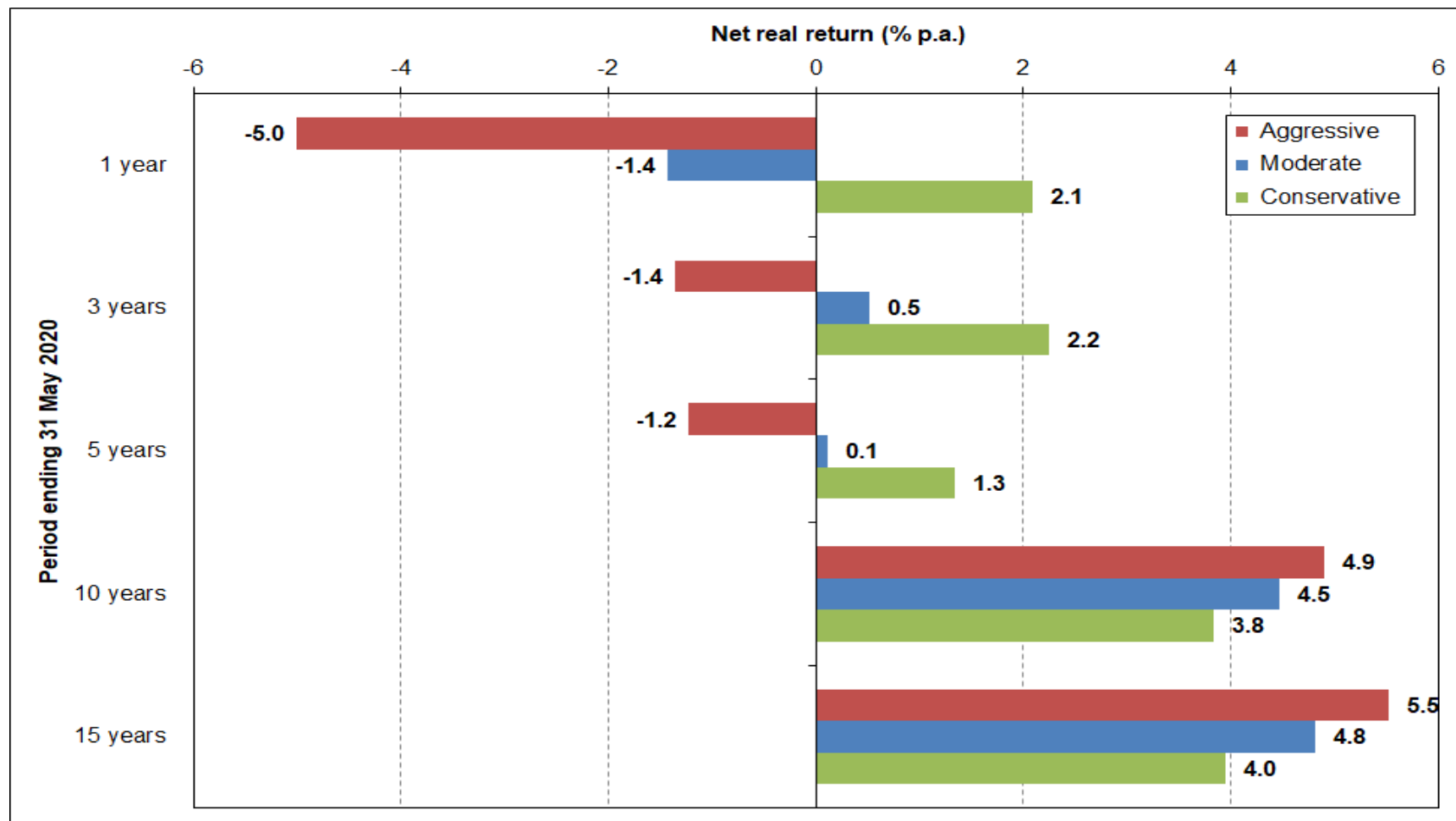
MARKET PERFORMANCE

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?



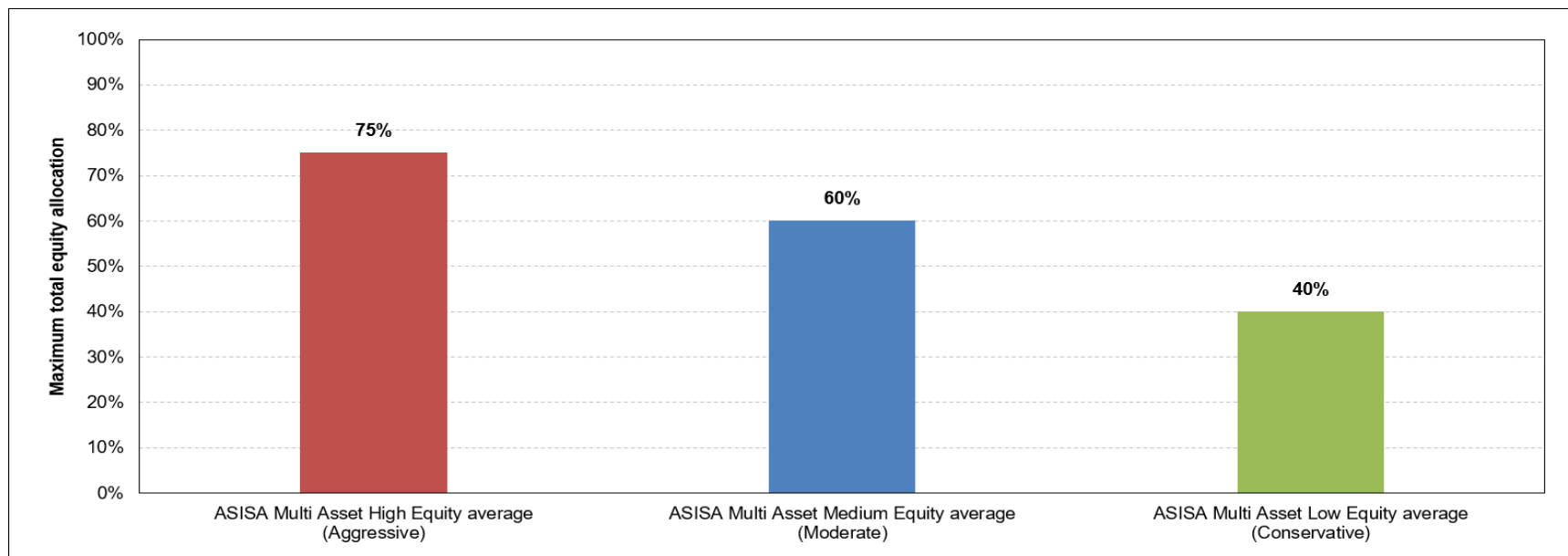
MANAGER PERFORMANCE

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?

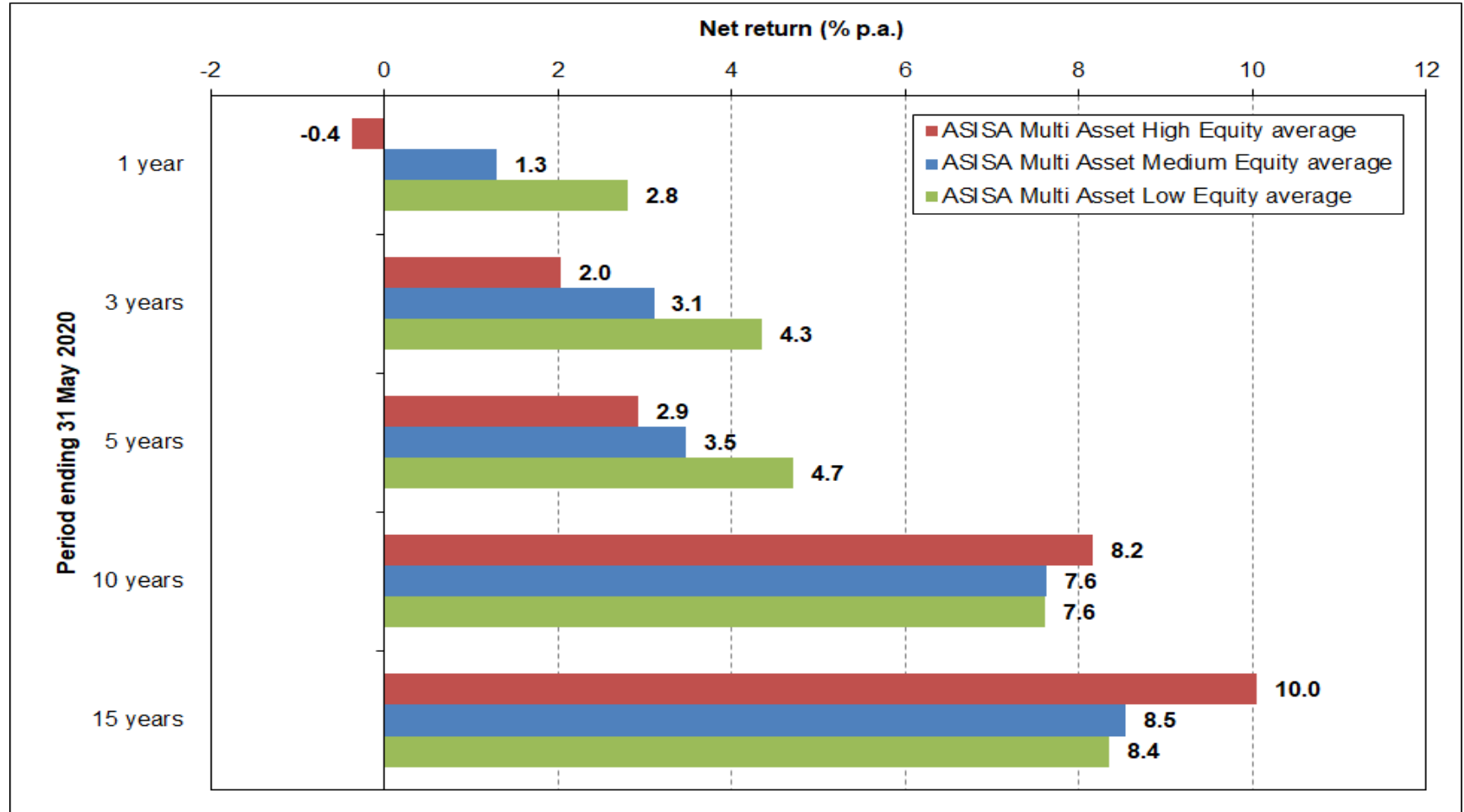
To illustrate this, we show the average returns from regulated collective investment schemes in the ASISA (Association for Savings and Investments South Africa) South Africa Multi Asset High, Medium and Low Equity categories to reflect the returns of typical Aggressive, Moderate and Conservative retirement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



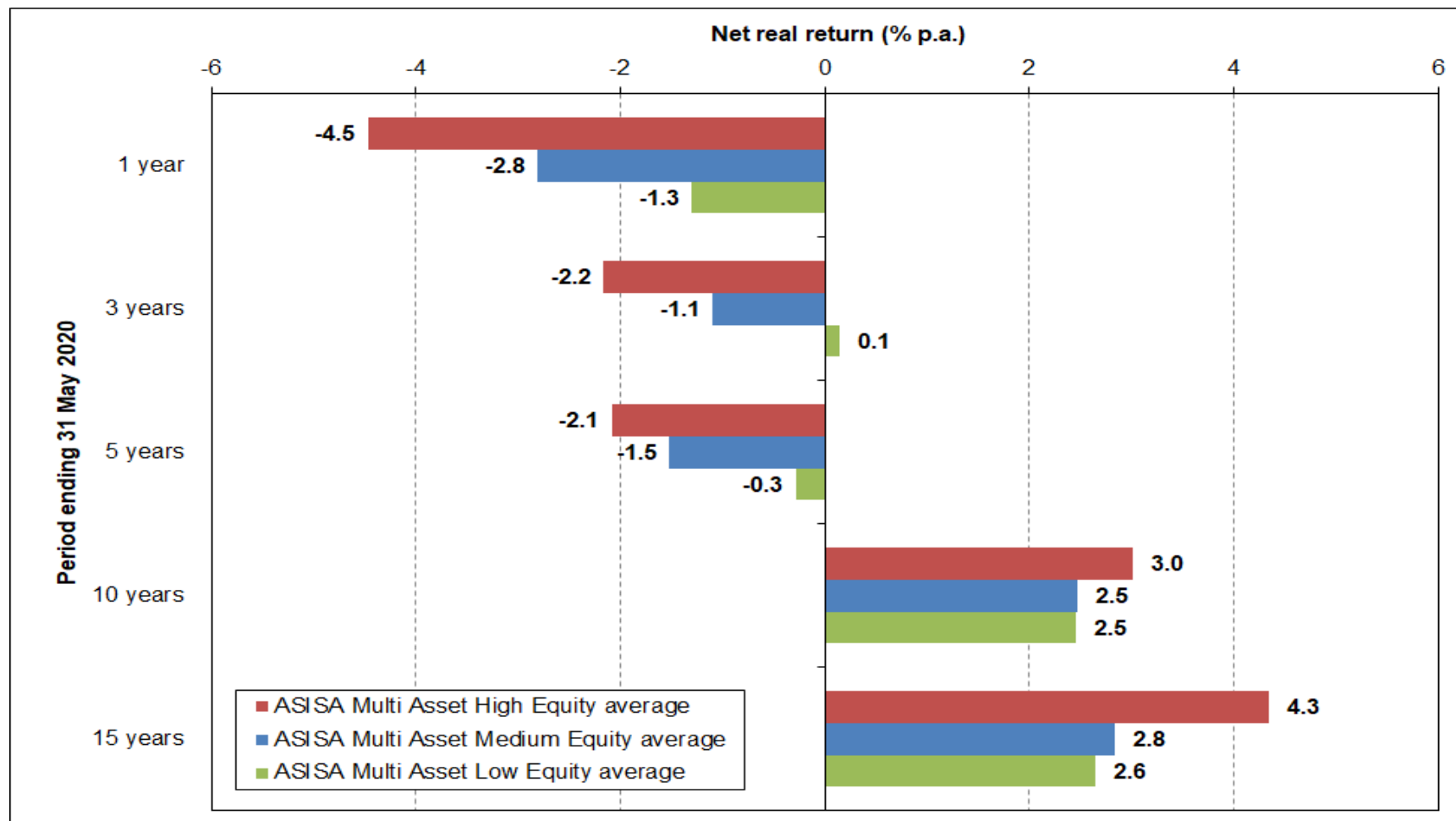
MANAGER PERFORMANCE

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

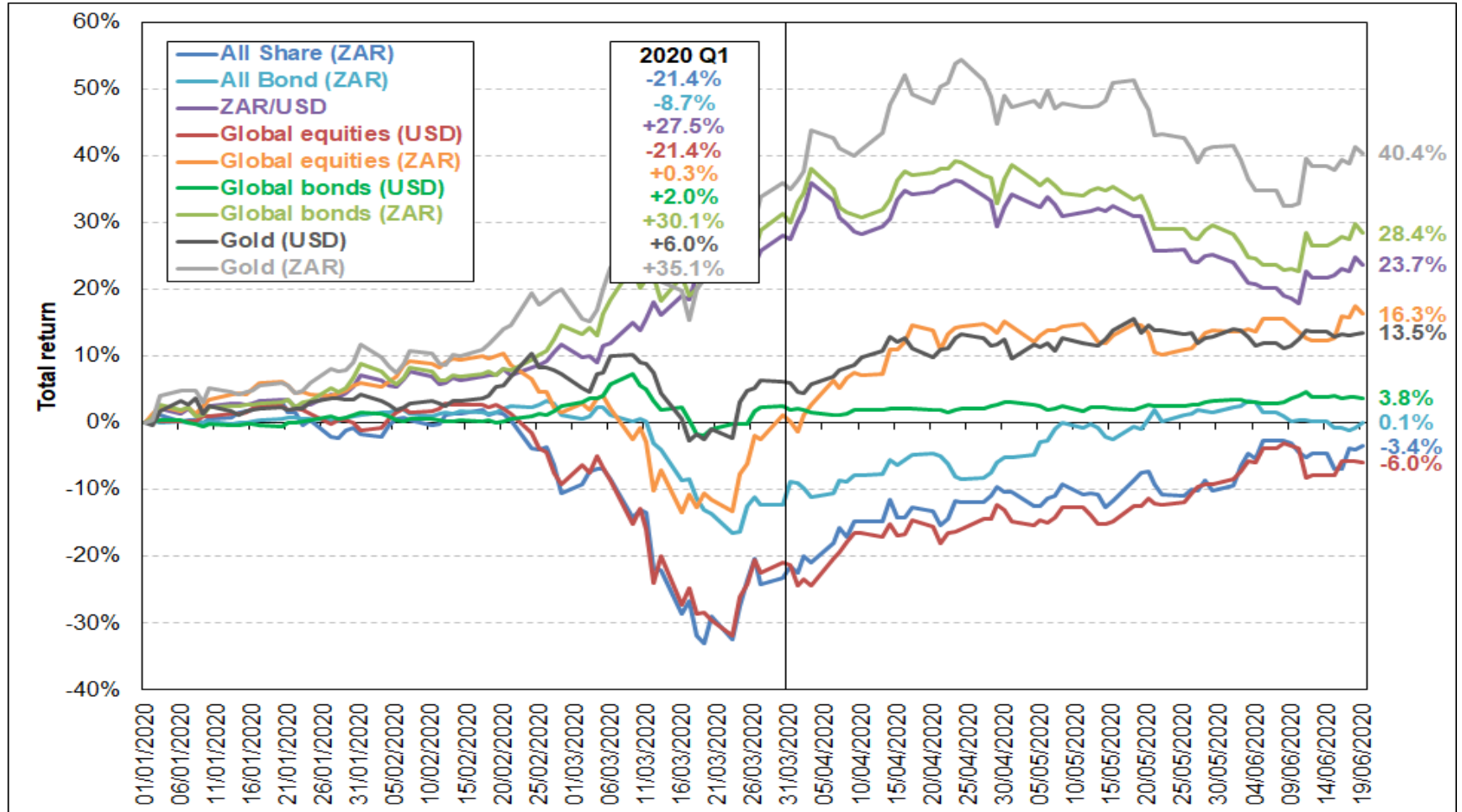


MANAGER PERFORMANCE

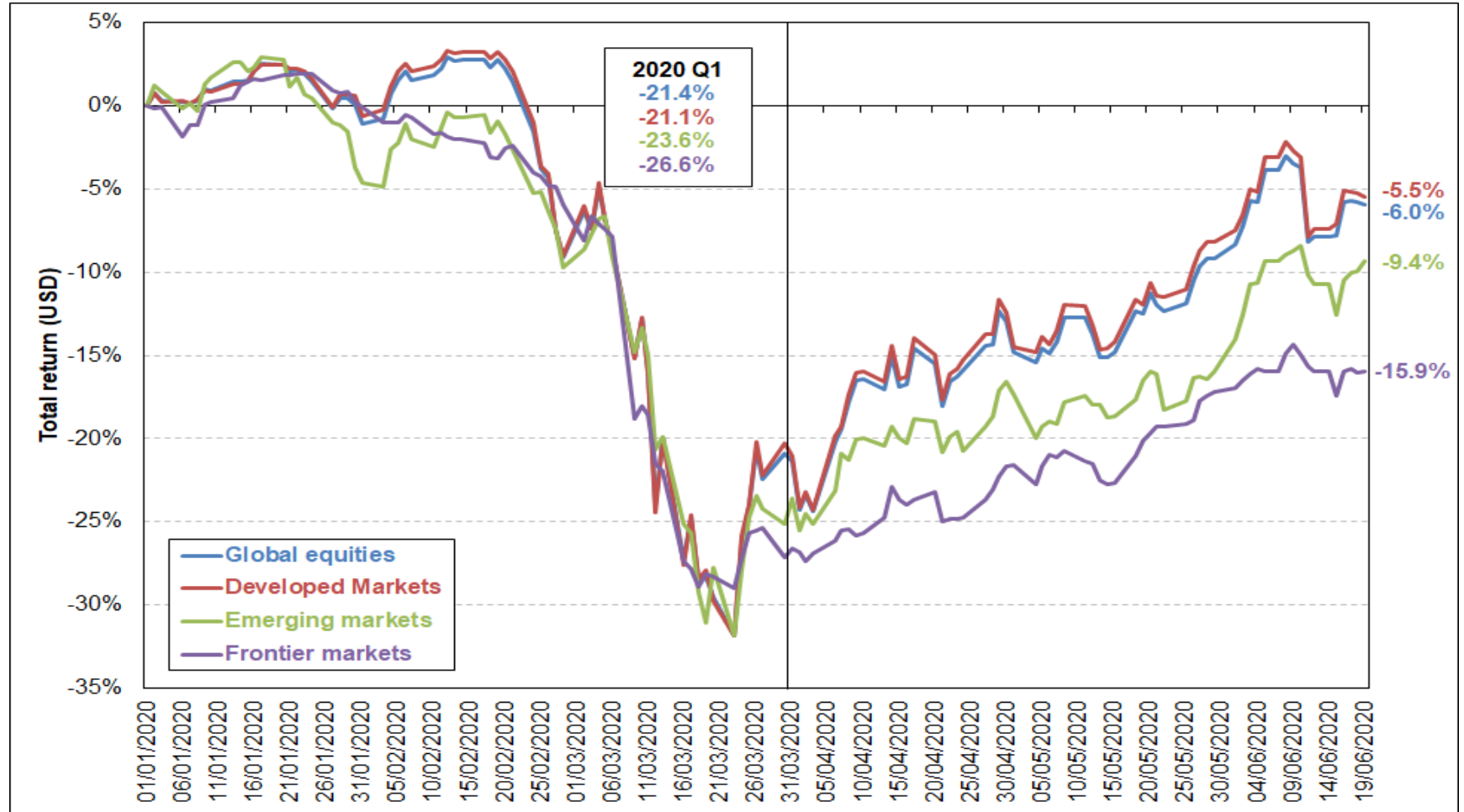
FOR BALANCED PORTFOLIOS, WHAT RANGE OF PAST REAL RETURNS WAS REASONABLY ACHIEVABLE?



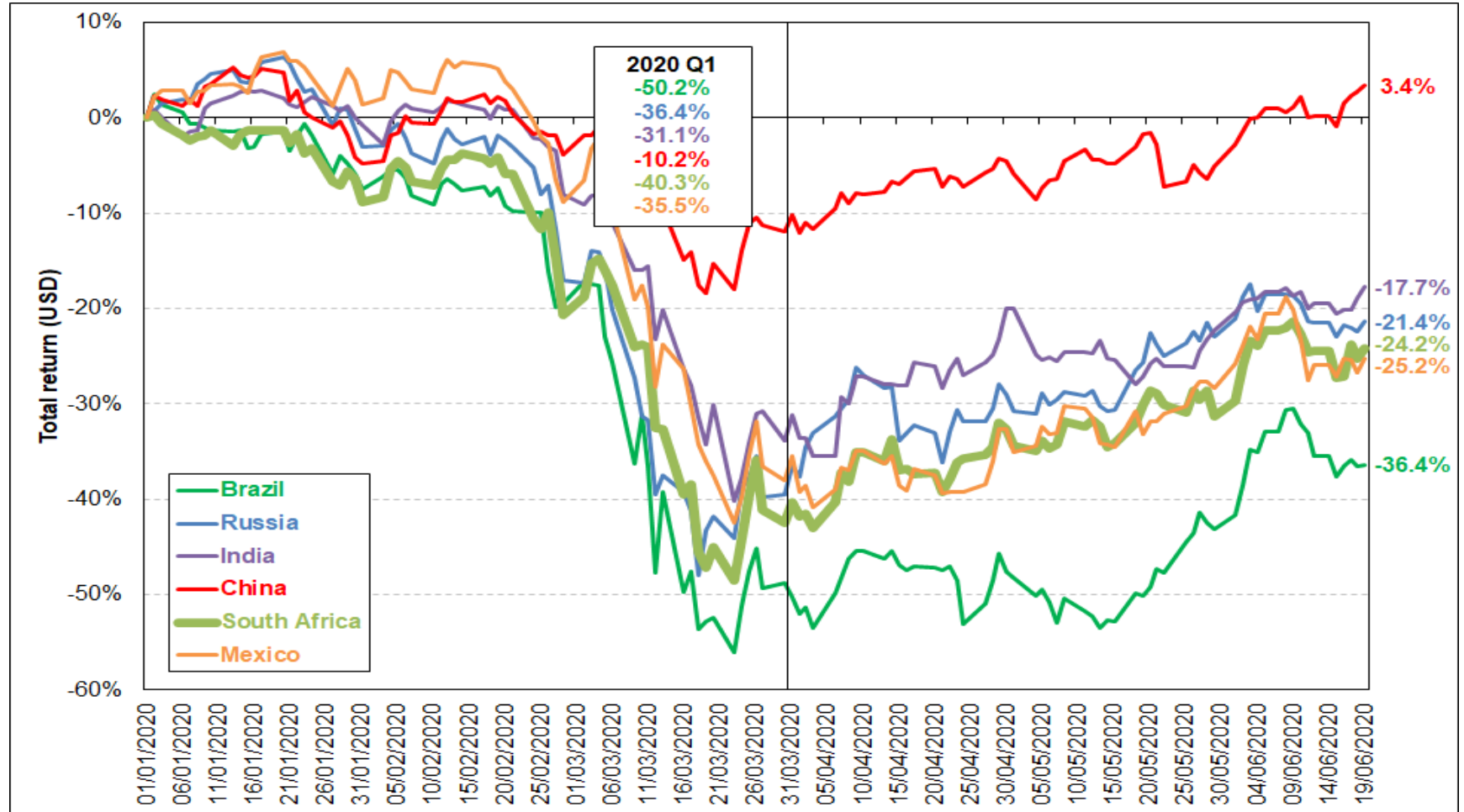
2020 YTD MAJOR ASSET CLASSES



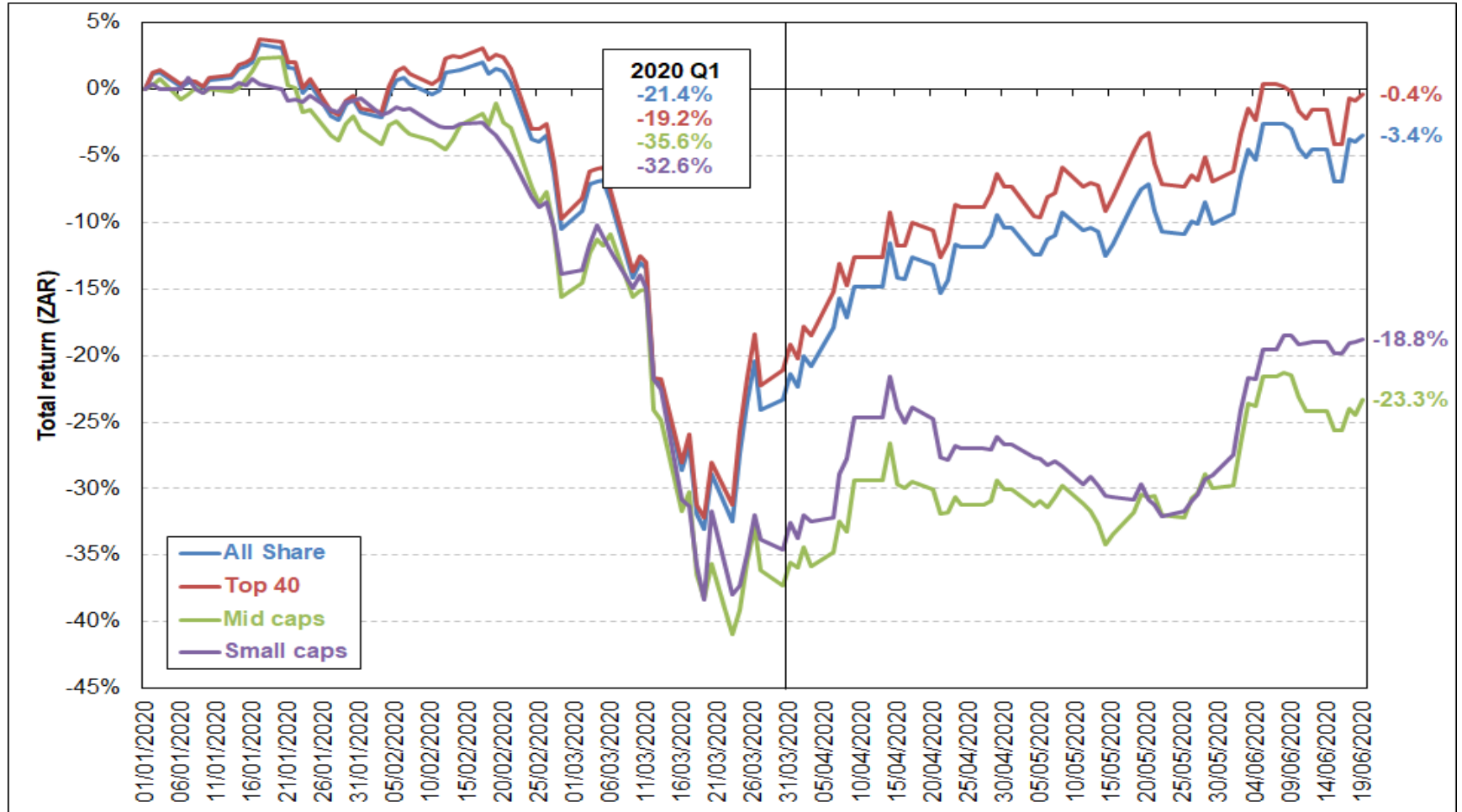
2020 YTD GLOBAL EQUITY MARKETS (USD)



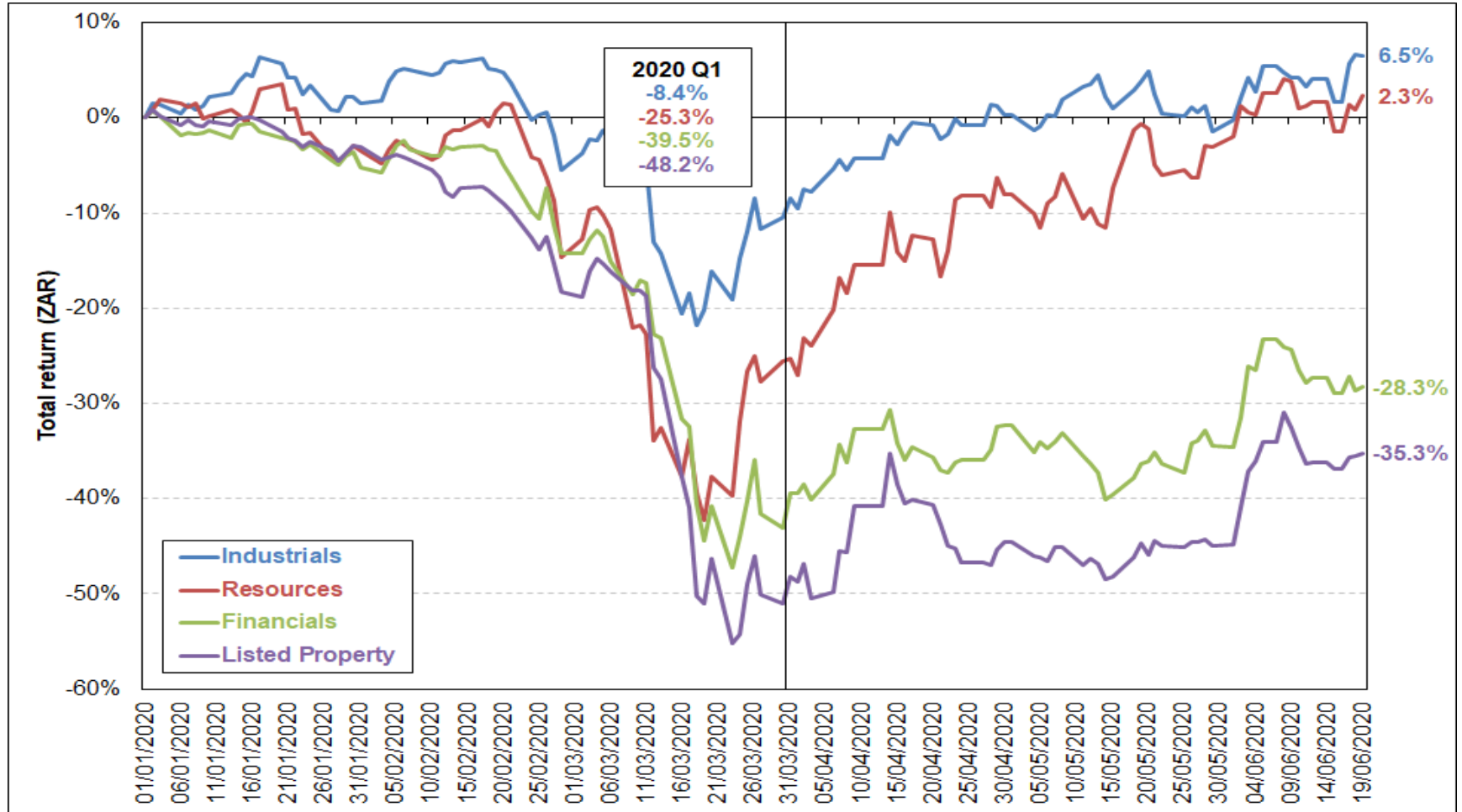
2020 YTD GLOBAL EMERGING EQUITY MARKETS (USD)



2020 YTD LOCAL EQUITY MARKET

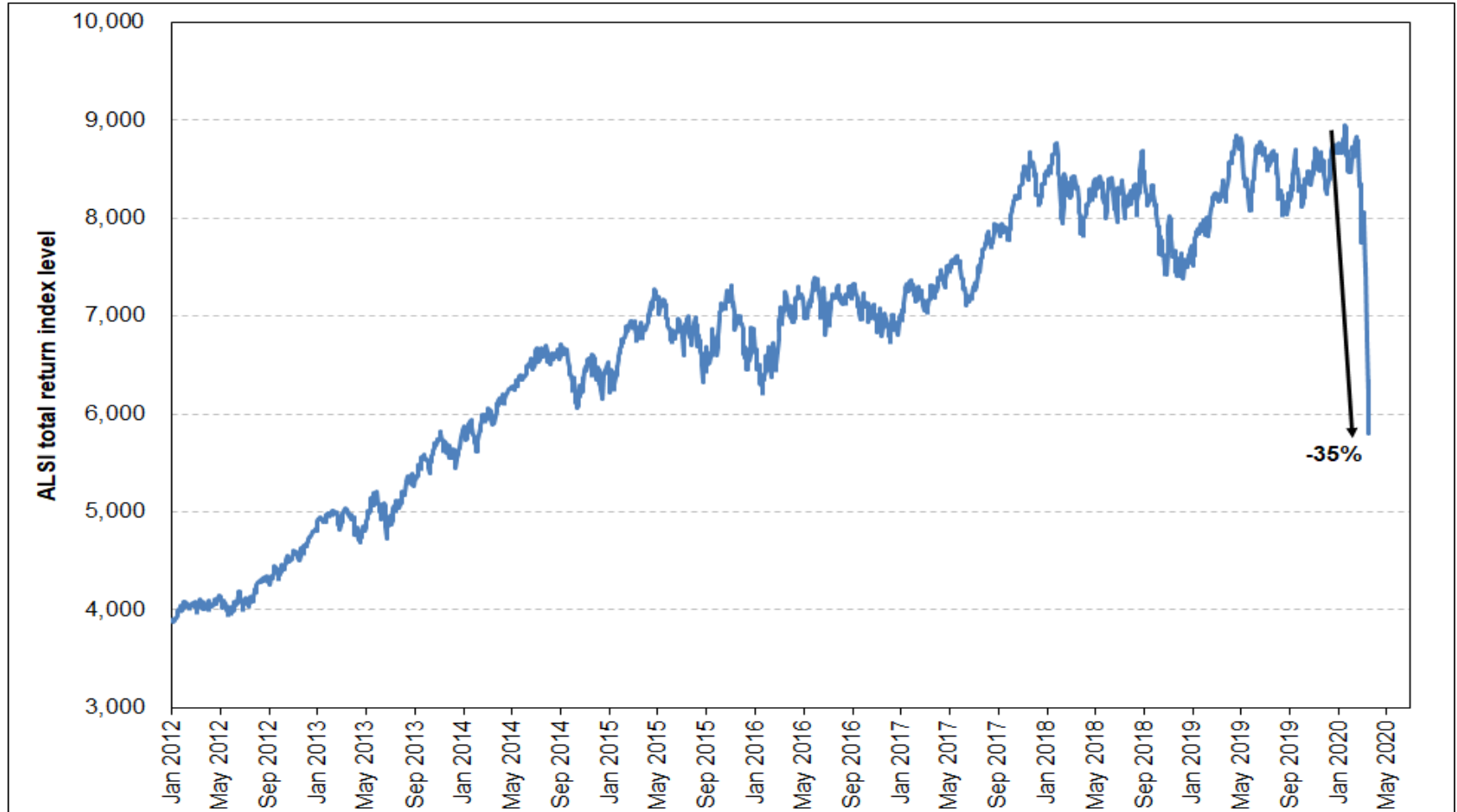


2020 YTD LOCAL EQUITY MARKET

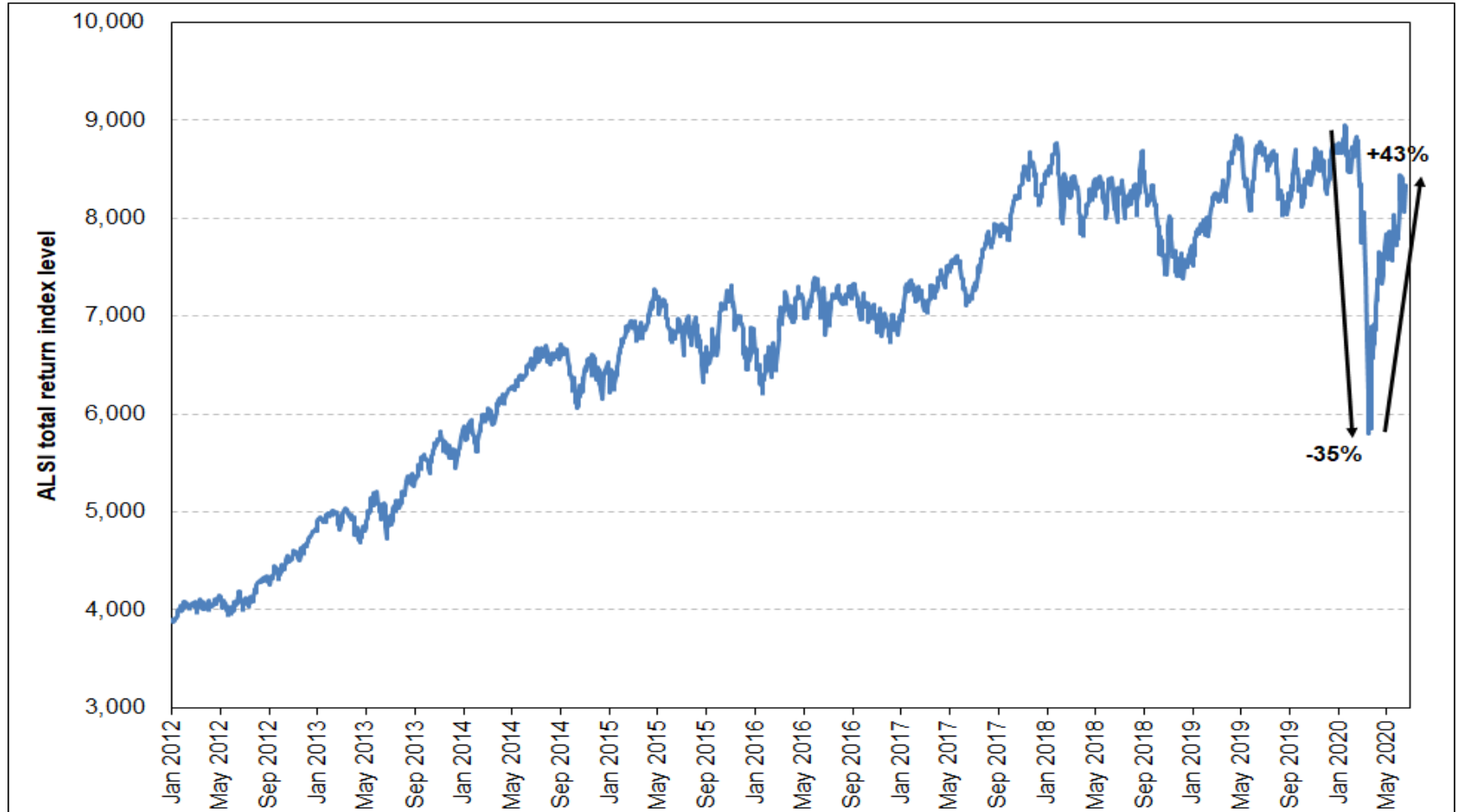


LOCAL EQUITY MARKET

COVID-19 CRASH...

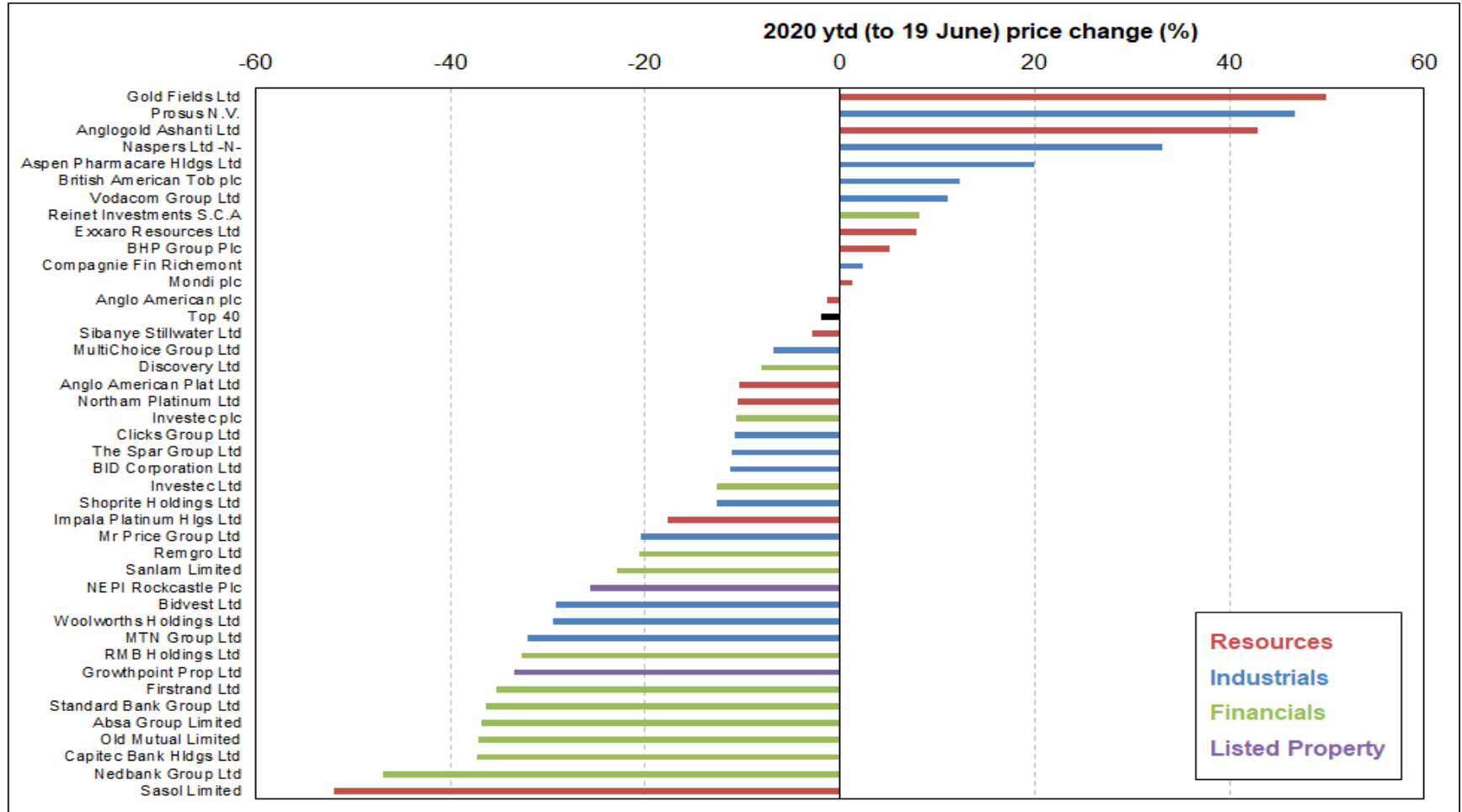


LOCAL EQUITY MARKET ...AND SUBSEQUENT RECOVERY



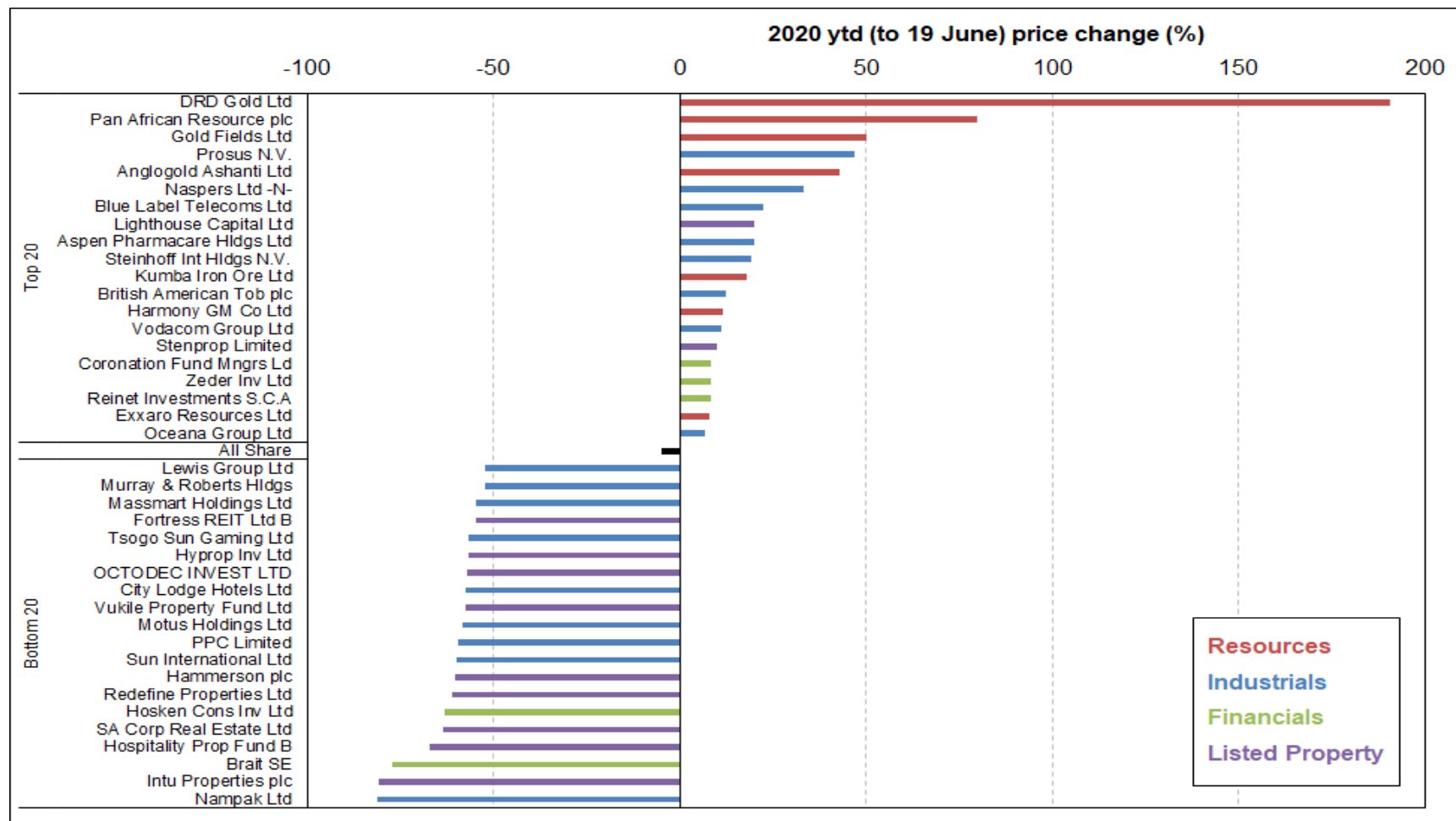
LOCAL EQUITY MARKET

TOP 40 (LARGE CAP) STOCKS IN 2020



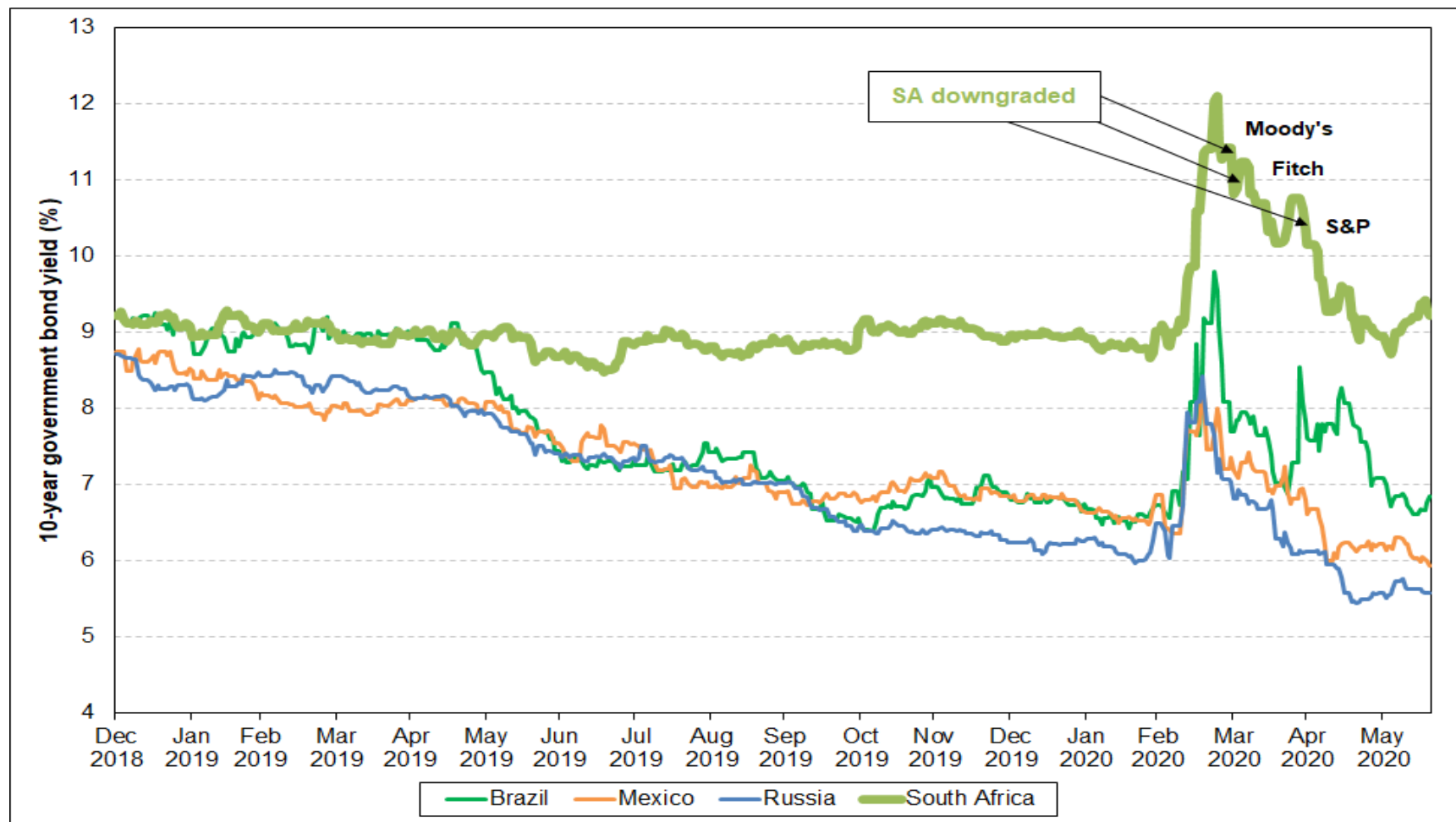
LOCAL EQUITY MARKET

BEST & WORST PERFORMERS IN 2020



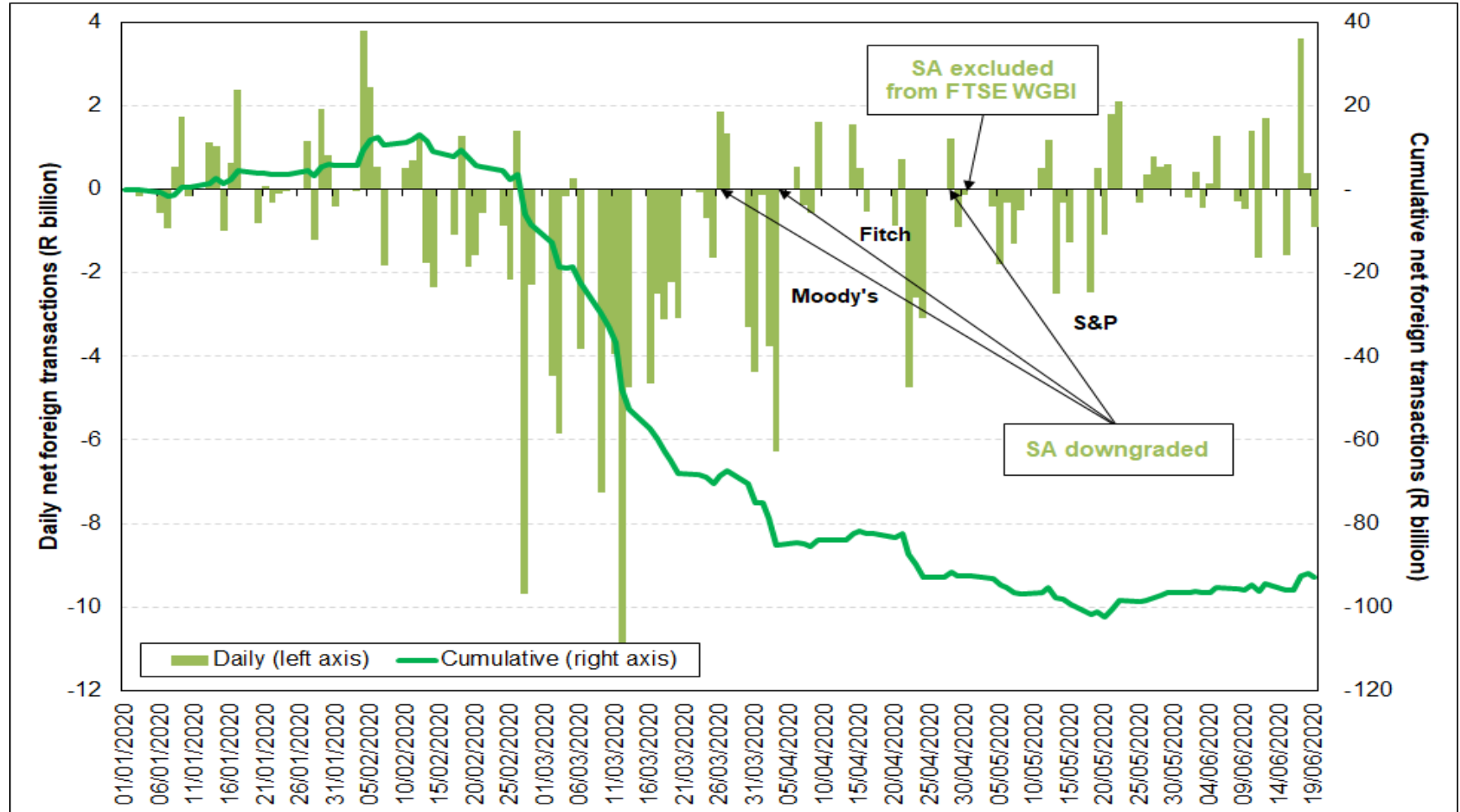
EMERGING MARKET BONDS

SA BOND YIELDS RECOVER TO PRE-PANDEMIC AND PRE-JUNK STATUS LEVELS

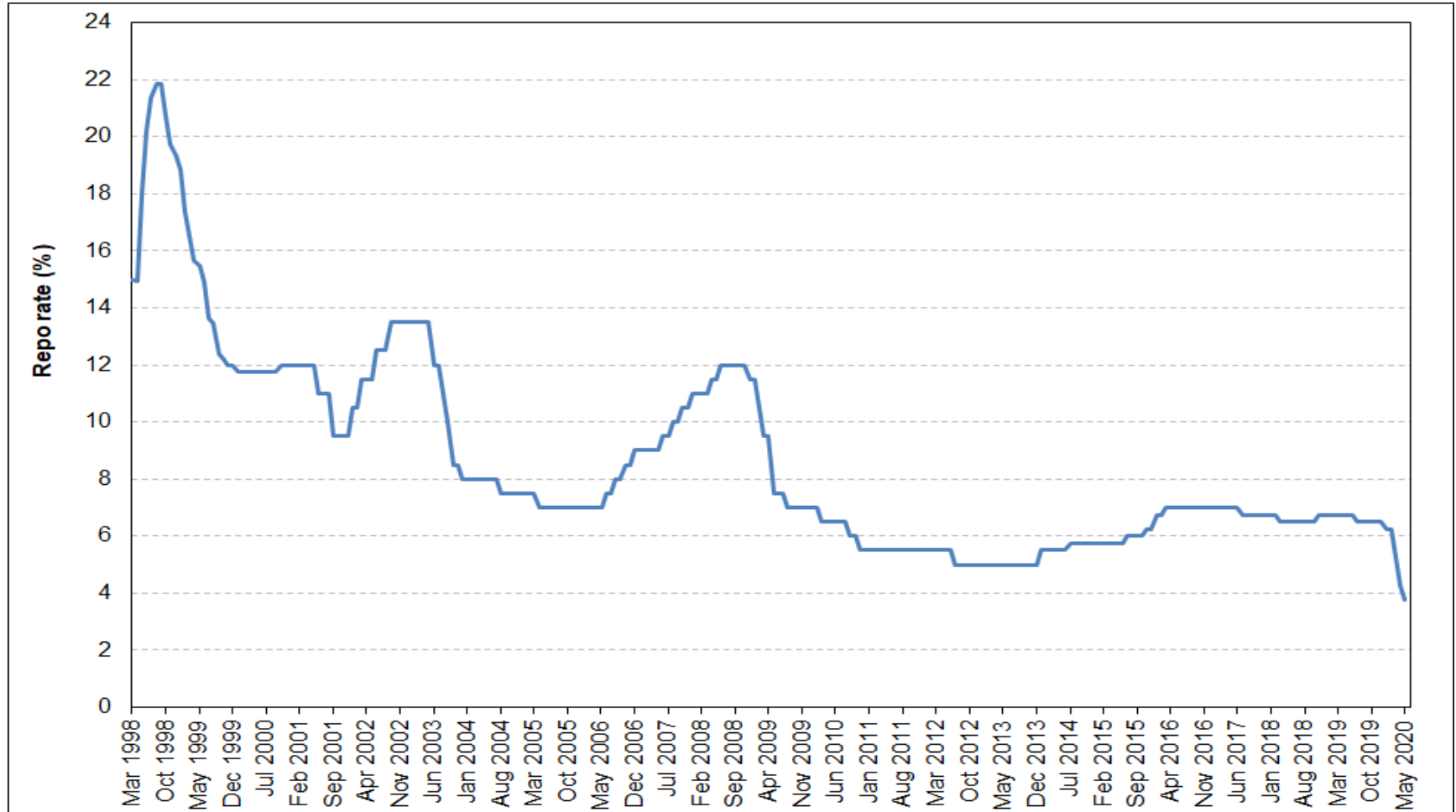


NET FOREIGN BOND TRANSACTIONS

SA SEEING SOME POST-DOWNGRADE INFLOWS

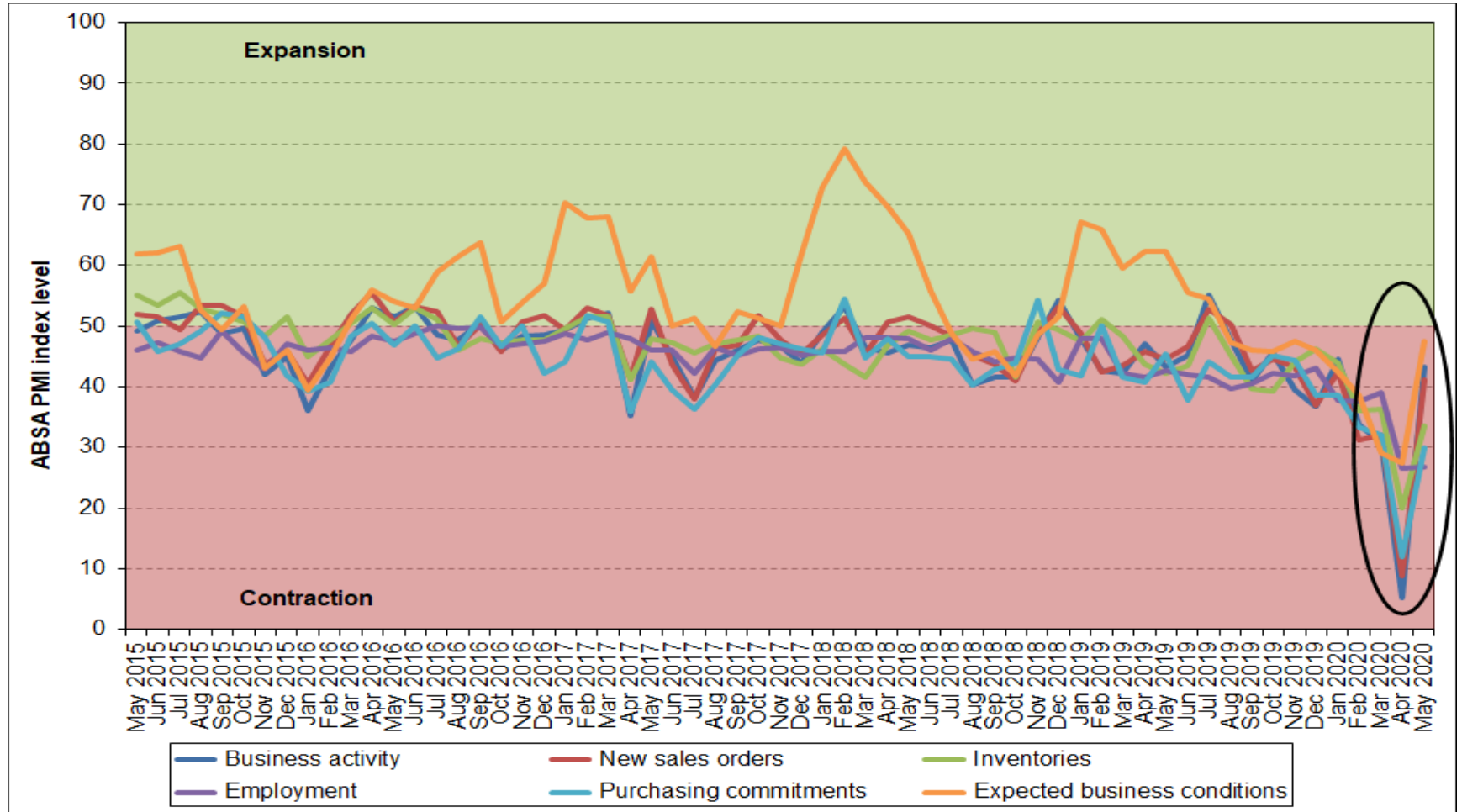


REPO RATE ANOTHER CUT!



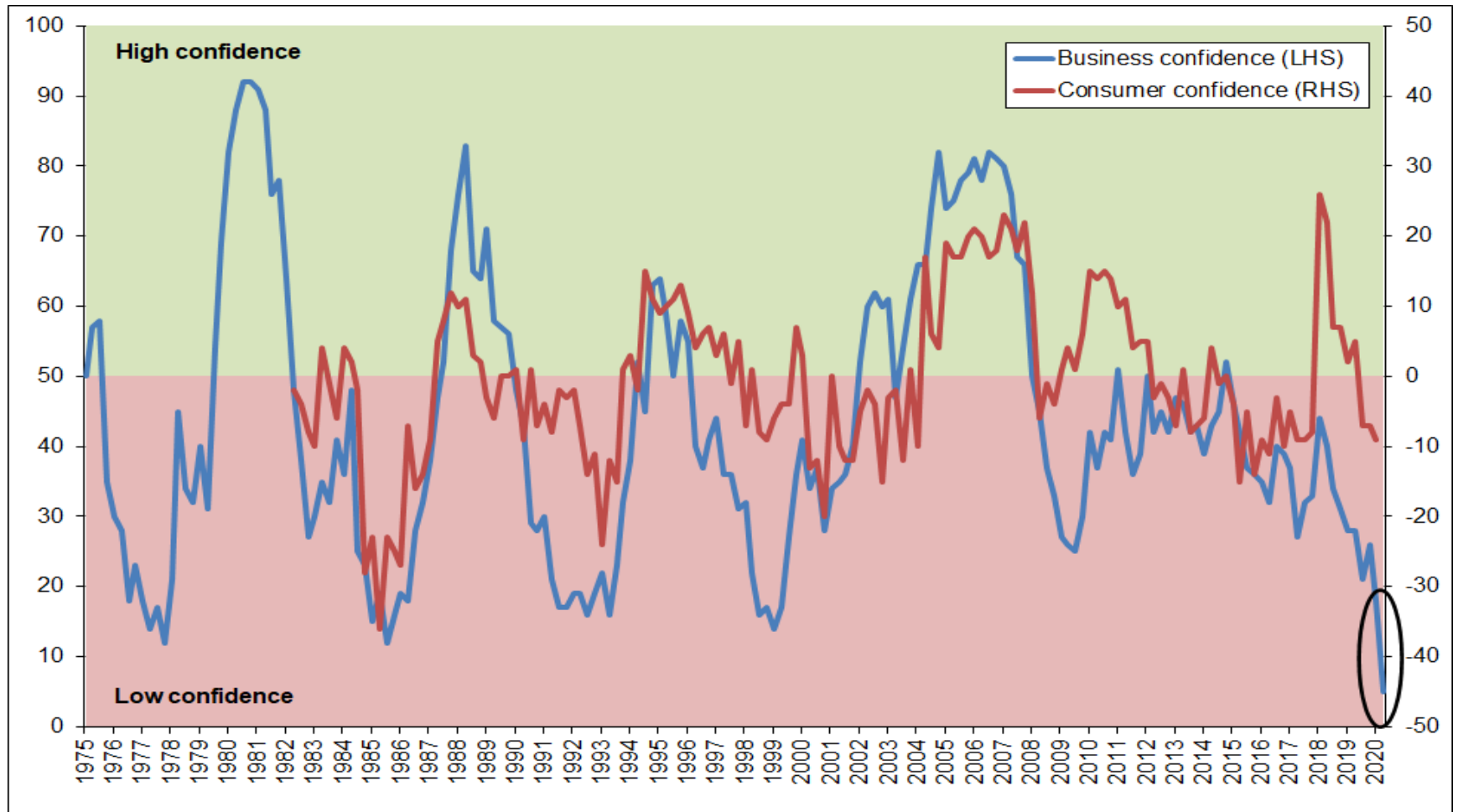
SA MANUFACTURING

ACTIVITY PICKS UP AS SA EMERGES FROM LEVEL 5 LOCKDOWN



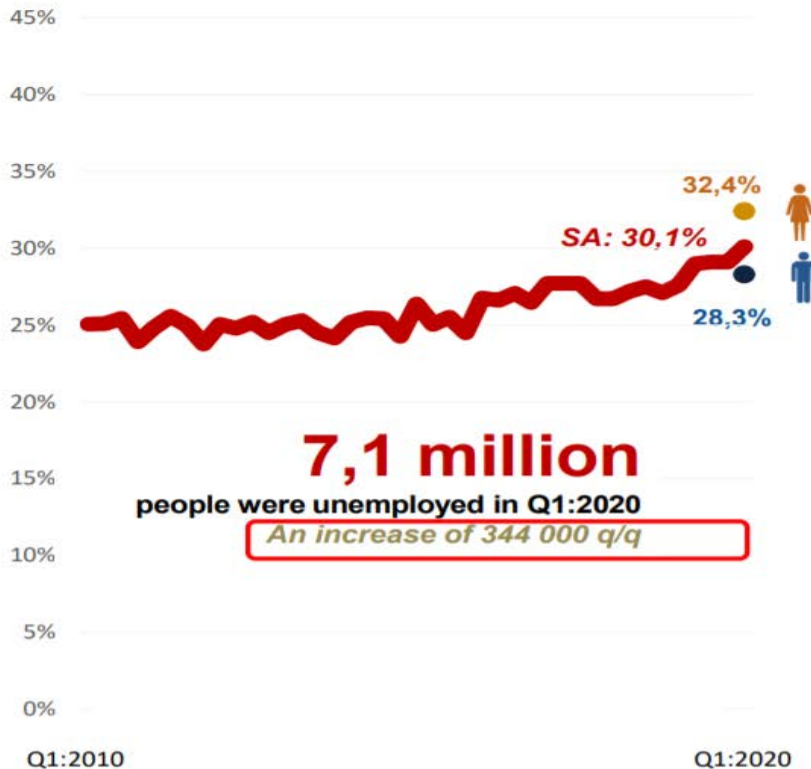
BUSINESS CONFIDENCE

PLUMMETS TO RECORD LOW



SA EMPLOYMENT IN DEEP TROUBLE EVEN BEFORE COVID-19

Official Unemployment Rate
30,1% (+1,0 % Point Change Q/Q)



Expanded Unemployment Rate
39,7% (+1,0 % Point Change Q/Q)

