

MONTH IN PICTURES

JUNE 2020

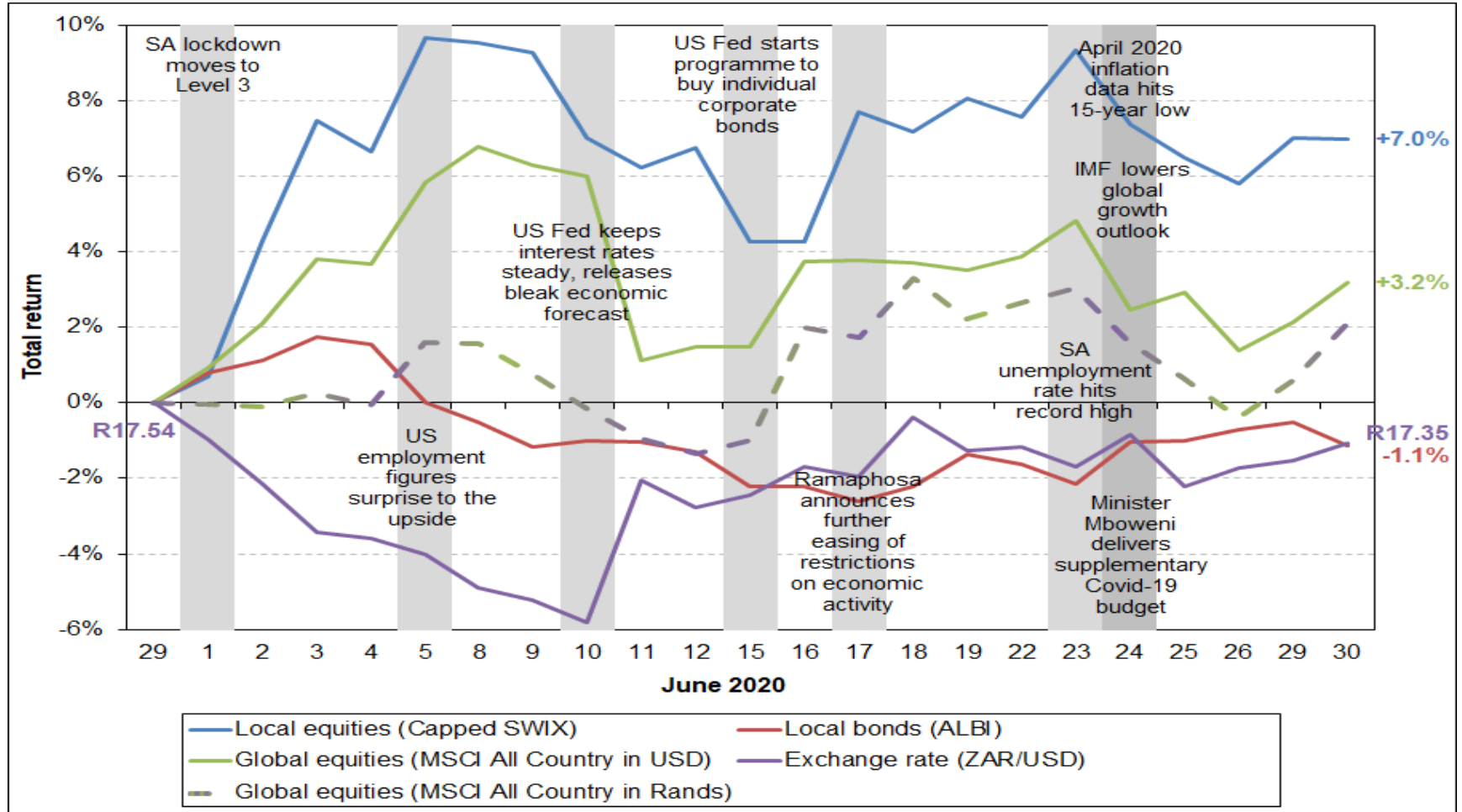
MONTHLY SNAPSHOT

NOTABLE EVENTS

- The local equity market's recovery continued in June, with local stocks recording a gain of 7% for the month. After a dismal first quarter, 2020 Q2 ended up ranking as one of the best, closing more than 20% higher. On a broad level the main indices are now not far off the levels they have languished at for the last couple of years now.
- June was the local bond market's turn to take a bit of a breather, with a decline of 1% after gaining more than 11% over the previous two months. After taking quite a beating in 2020 Q1, local bonds ended up having a solid second quarter (+9.9%).
- After two strong months, global equity returns were more subdued in June (+3.2% in USD). With yields at record lows, global bonds had another slow month, delivering a USD return of just 0.6%.
- The Rand strengthened by 2.8% against the dollar in 2020 Q2 (and by 1.1% in June), resulting in local currency returns of +15.9% and -0.8% from global equities and global bonds, respectively.
- April and May's inflation figures were finally released during June and July and unsurprisingly showed a marked slowdown in pricing pressure. To end-May consumer and producer price inflation increased by just 2.1% (a 16-year low) and 0.4% (a 10-year low) respectively over the last year.
- The local economy suffered its third quarterly decline in a row, contracting by an annualised 2.0% in 2020 Q1. While this was better than expected, the full effects of the pandemic and subsequent containment measures will only show up in quarter two's figures.
- The IMF revised its global growth outlook for 2020 downwards by 1.9% to -4.9%. For South Africa they expect a contraction of 8.0% for the year, down from -5.8% in April.
- These developments gave the South African Reserve Bank enough room at their July meeting to cut interest rates for the fifth time this year (by another 25 basis points). This brings the repo rate to a historic low of just 3.5% after starting the year at 6.5%.
- Mr Mboweni's Covid-19-induced supplementary budget predictably contained a lot of bad news, with plunging revenues and increased spending putting government's balance sheet under immense pressure.
- With two tumultuous quarters behind us, the average balanced fund ended June not far off the level it started the year at. While this is encouraging (and perhaps surprising) following the bloodbath in 2020 Q1, medium term returns remain quite low.

MONTHLY TIMELINE

IMPACT ON MARKETS



MARKET INDICATORS

SHORT TERM

Market indicators (% change) ¹		Apr 2020	May 2020	Jun 2020	3 months	12 months
Local equities	Capped SWIX	14.2	(0.4)	7.0	21.6	(10.8)
	Resources	23.0	5.6	8.8	41.2	12.4
	Industrials	9.6	(1.8)	8.3	16.6	4.0
	Financials	11.9	(3.2)	4.2	12.9	(34.5)
	Listed Property	7.0	(0.8)	13.4	20.4	(40.0)
Local bonds	ALBI	3.9	7.1	(1.2)	9.9	2.8
Local cash	STeFI Composite	0.5	0.5	0.4	1.5	6.9
Global equities	MSCI All Country	14.9	(1.2)	2.1	15.9	25.7
Global bonds	FTSE WGBI	5.0	(5.1)	(0.4)	(0.8)	28.7
Exchange rate	ZAR/USD	3.8	(5.3)	(1.1)	(2.8)	23.1
Inflation	CPI ²	-0.5	-0.6	0.4	-0.7	2.1

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

2. Estimated for June 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	(10.8)	(0.8)	0.1	9.5	11.7
	Resources	12.4	24.6	10.5	5.0	8.8
	Industrials	4.0	2.5	3.3	14.6	15.8
	Financials	(34.5)	(8.5)	(5.3)	7.9	9.0
	Listed Property	(40.0)	(18.3)	(9.1)	4.7	9.6
Local bonds	ALBI	2.8	8.1	7.5	8.3	8.0
Local cash	STeFI Composite	6.9	7.2	7.2	6.5	7.3
Global equities	MSCI All Country	25.7	16.7	14.3	18.4	13.4
Global bonds	FTSE WGBI	28.7	14.3	11.3	11.1	10.1
Exchange rate	ZAR/USD	23.1	9.9	7.4	8.5	6.6
Inflation	CPI ²	2.1	3.7	4.5	5.0	5.6

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

2. Estimated for June 2020.

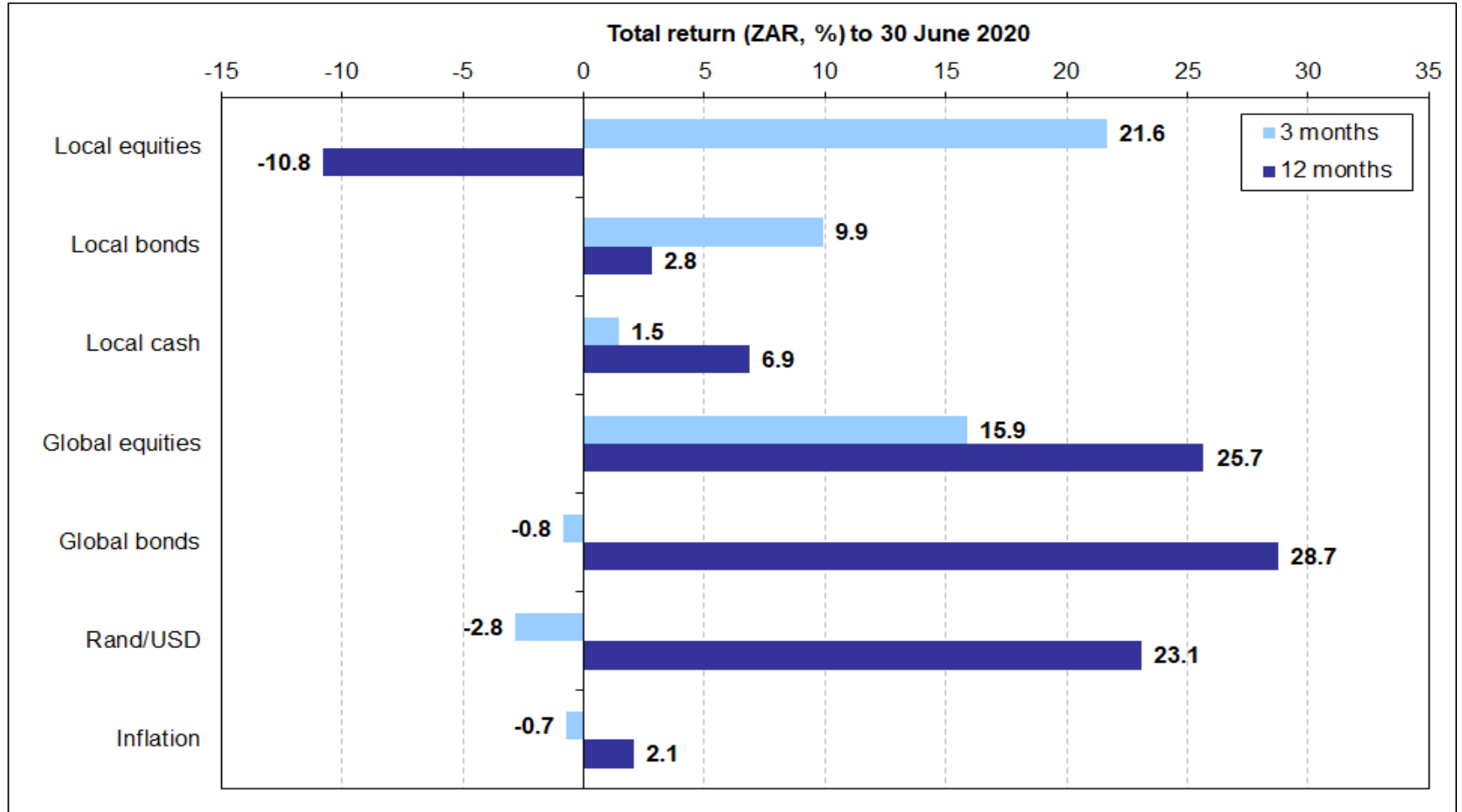
ECONOMIC INDICATORS

Economic indicators ¹	Jun 2018	Jun 2019	Apr 2020	May 2020	Jun 2020
Exchange rates:					
ZAR/USD	13.73	14.10	18.53	17.54	17.35
ZAR/GBP	18.13	17.89	23.33	21.67	21.52
ZAR/Euro	16.04	16.03	20.29	19.48	19.50
Commodities:					
Brent Crude Oil (USD/barrel)	79.24	64.41	26.48	37.84	41.27
Platinum (USD/ounce)	850.00	833.00	777.47	831.95	811.97
Gold (USD/ounce)	1,252.70	1,409.10	1,717.01	1,721.09	1,772.86

1. Month-end prices

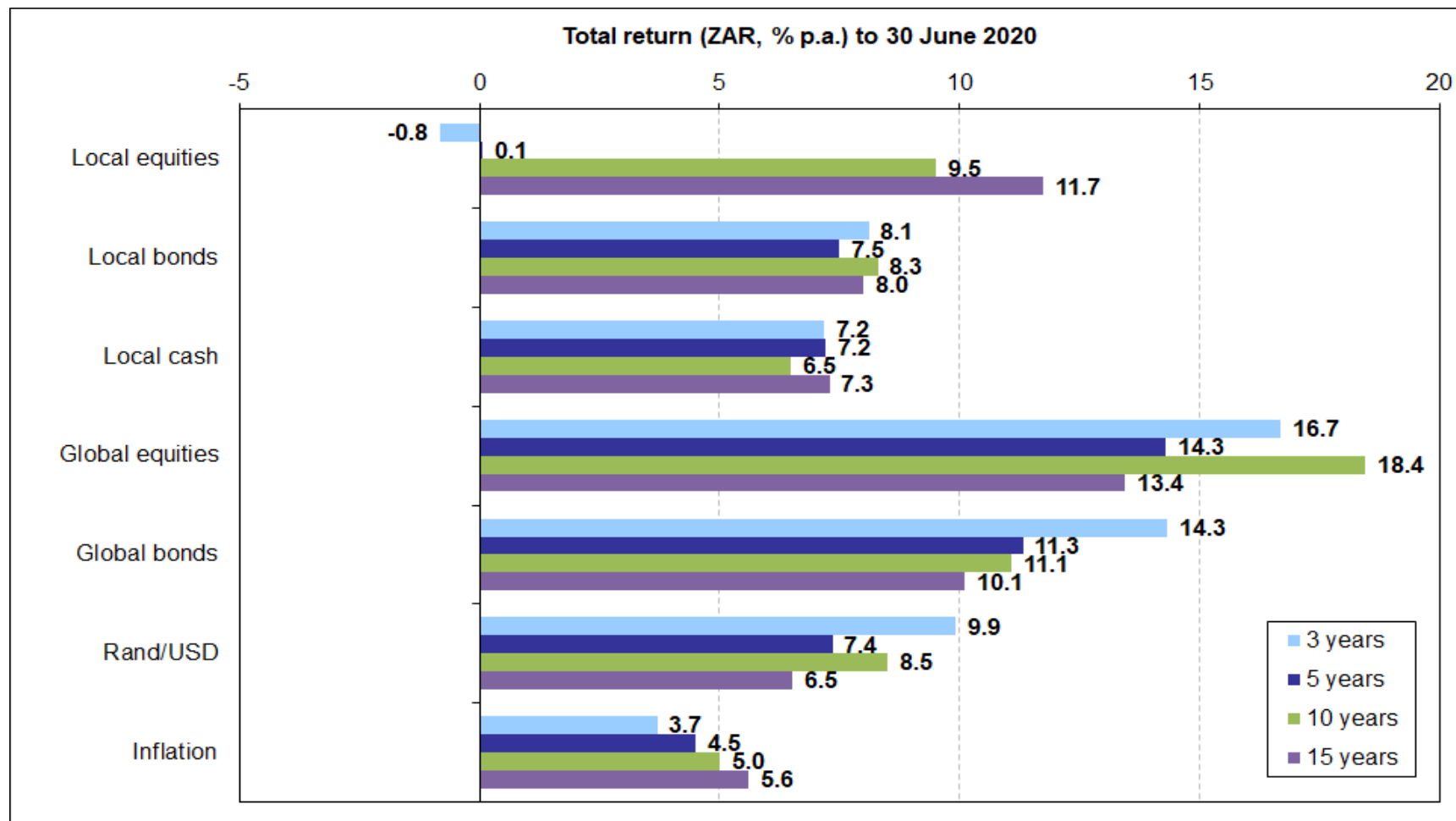
ASSET CLASS PERFORMANCE

SHORT TERM



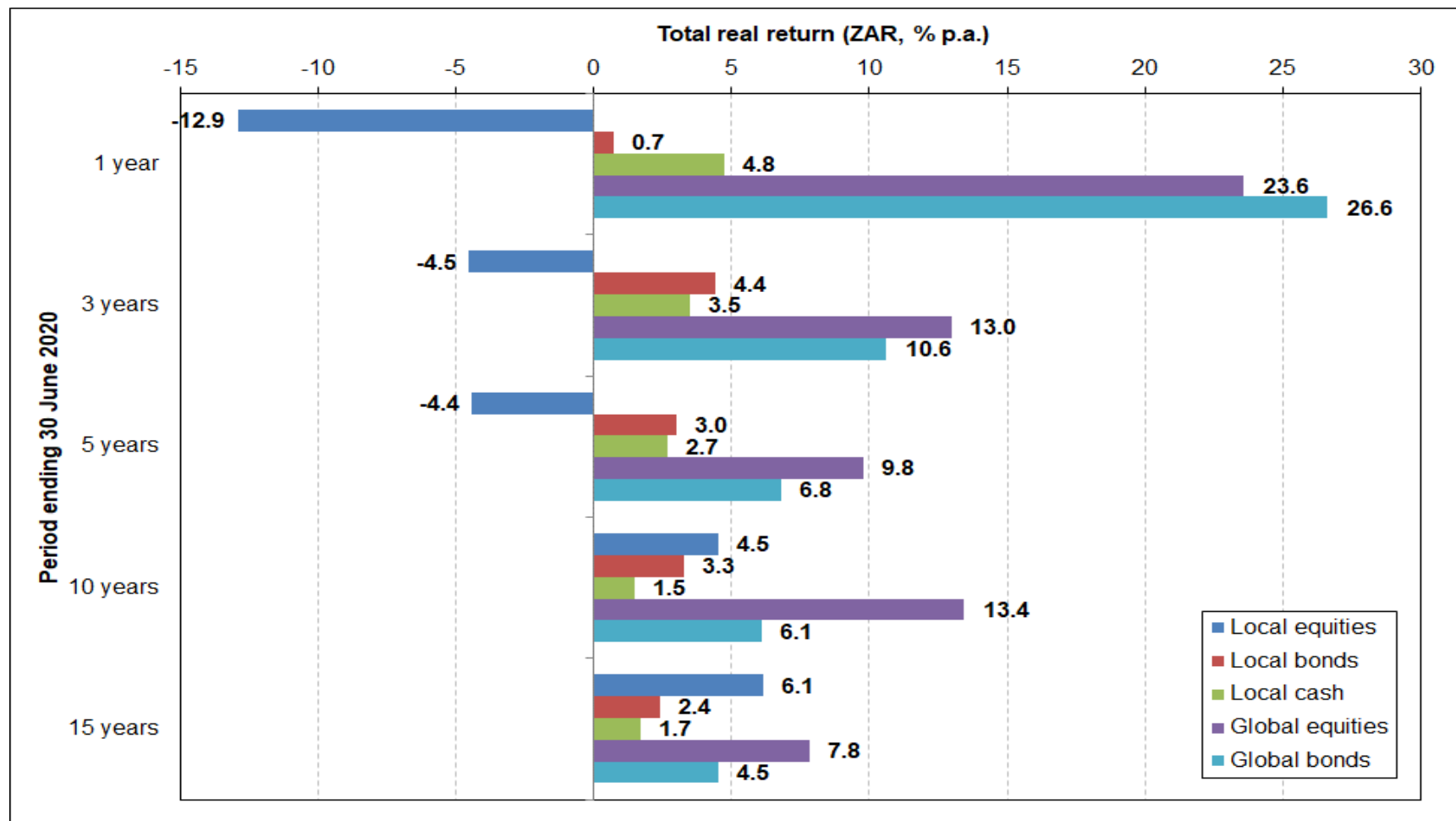
ASSET CLASS PERFORMANCE

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:

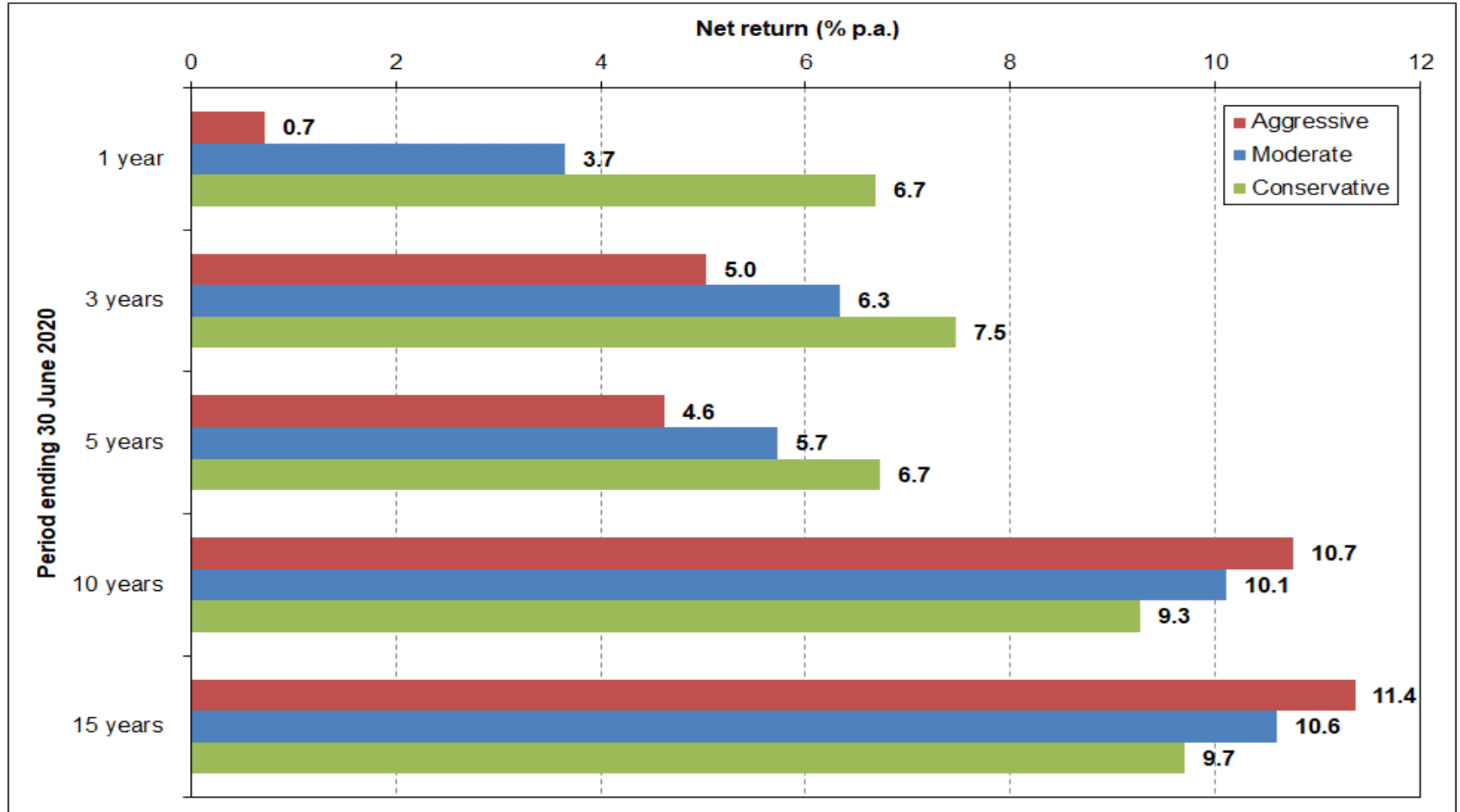
AGGRESSIVE	Strategic allocation	LOCAL VS OFFSHORE	75%			25% (5% below regulatory maximum)	
		GROWTH VS INCOME ASSETS	75%	25%		75%	25%
		EQUITIES VS BONDS VS CASH	100%	75%	25%	100%	100%
	Current allocation		~56%	~14%	~5%	~19%	~6%

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%

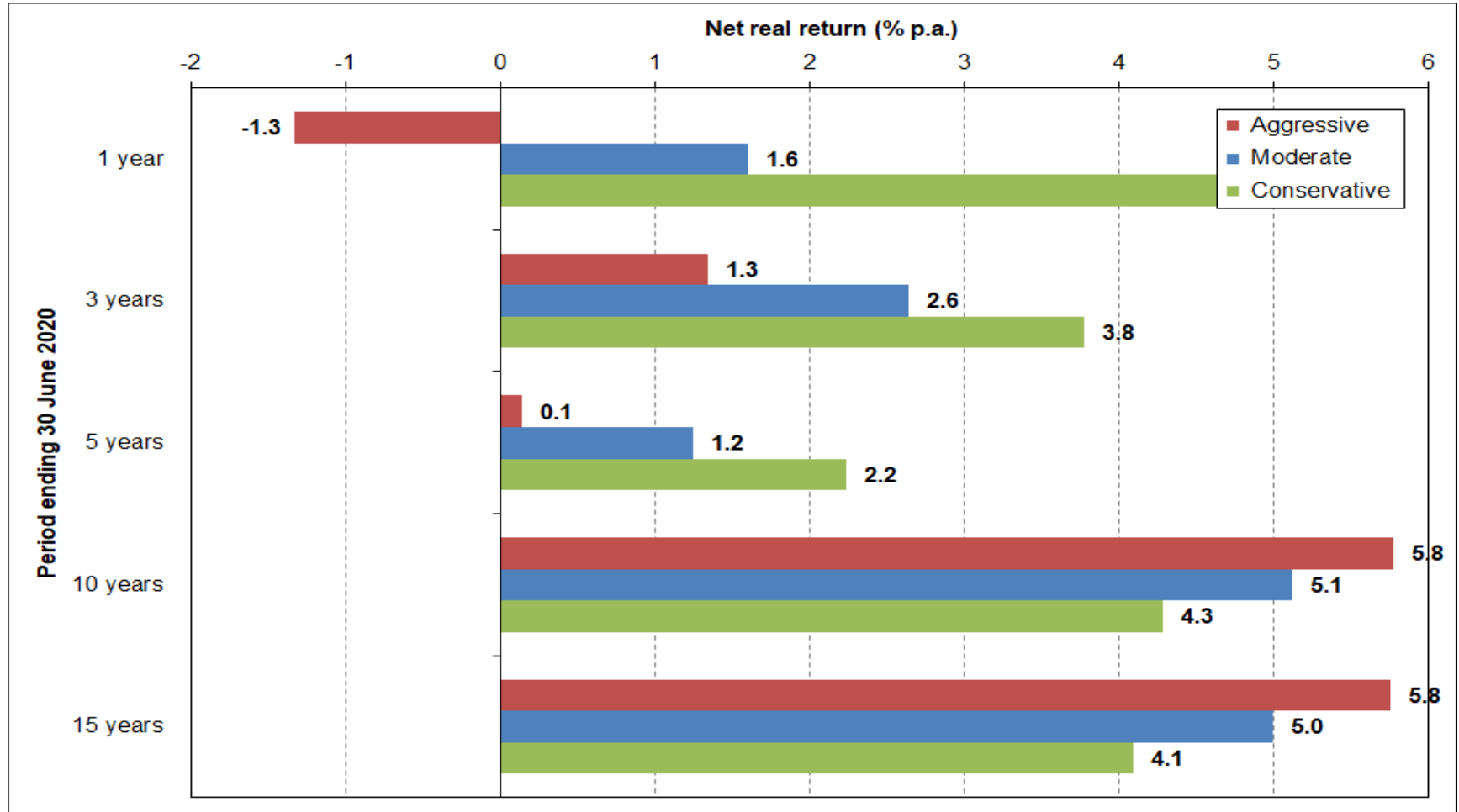
MARKET PERFORMANCE

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?



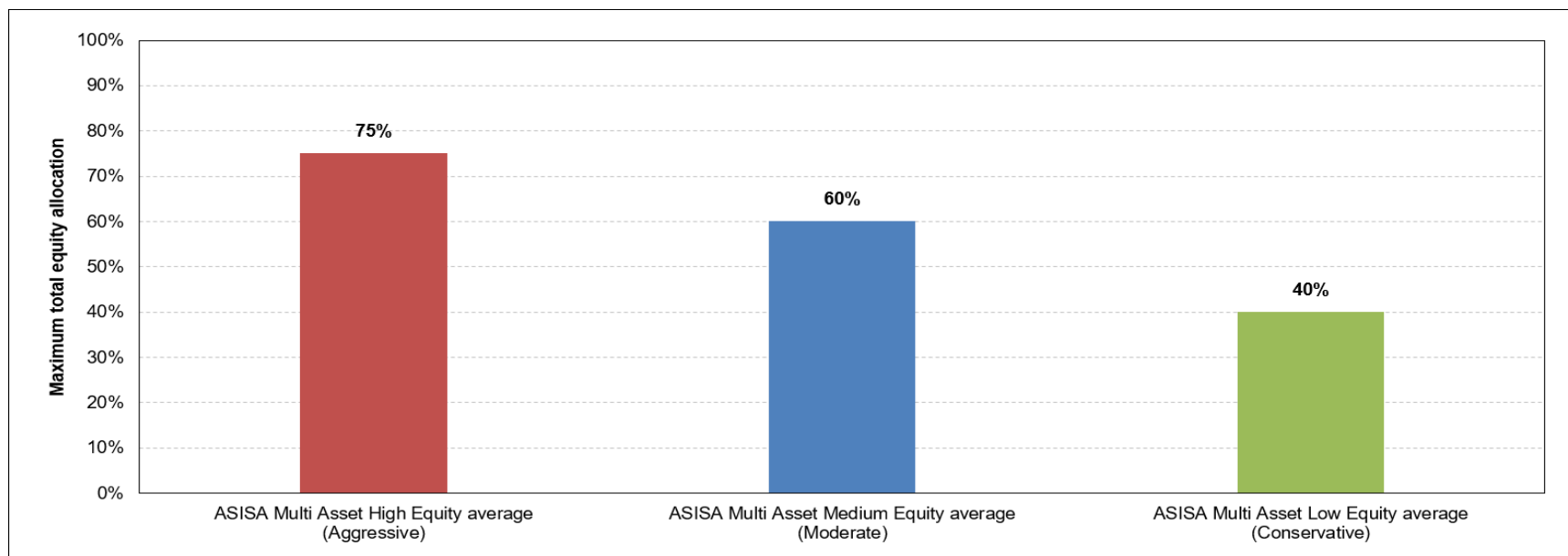
MANAGER PERFORMANCE

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?

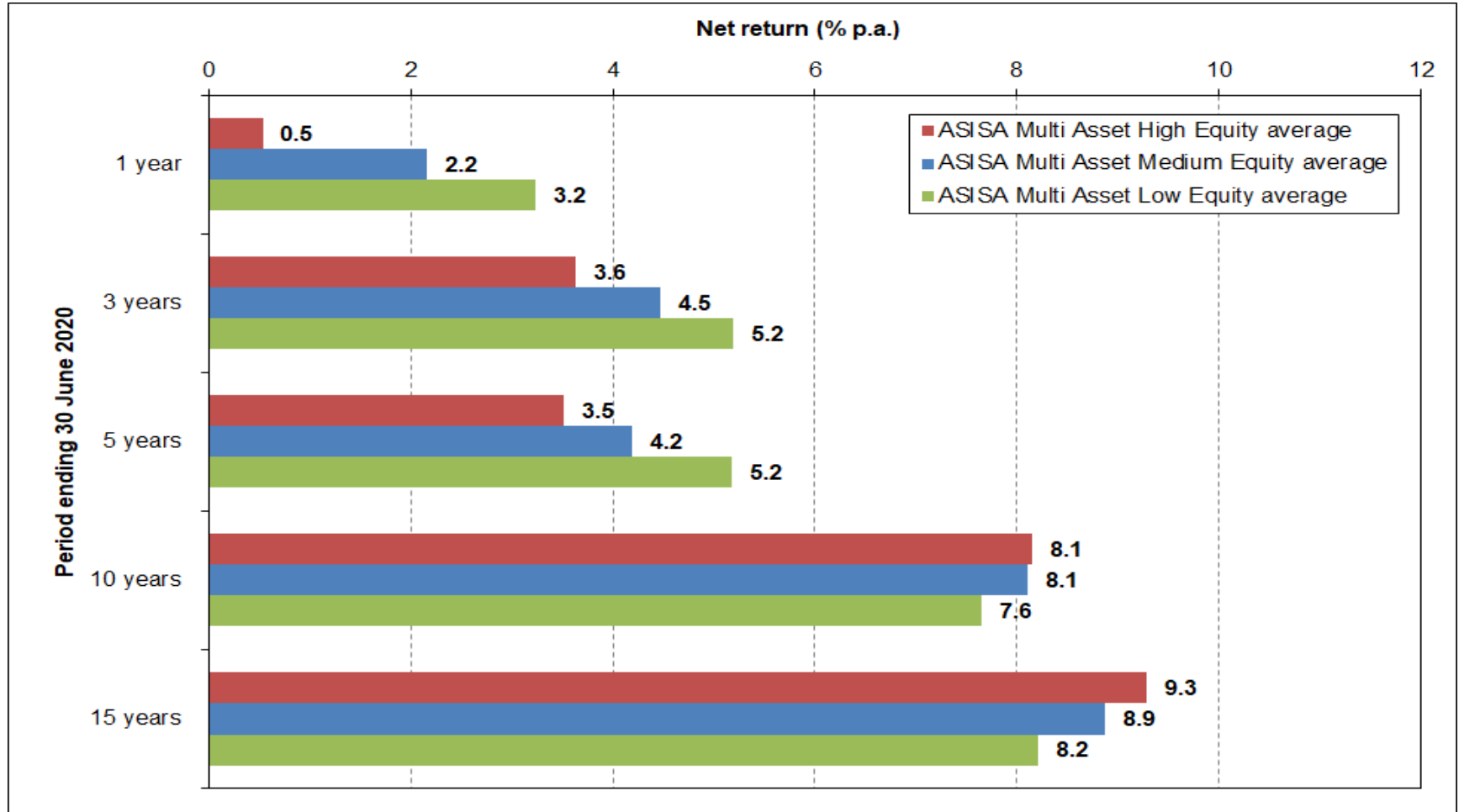
To illustrate this, we show the average returns from regulated collective investment schemes in the ASISA (Association for Savings and Investments South Africa) South Africa Multi Asset High, Medium and Low Equity categories to reflect the returns of typical Aggressive, Moderate and Conservative retirement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



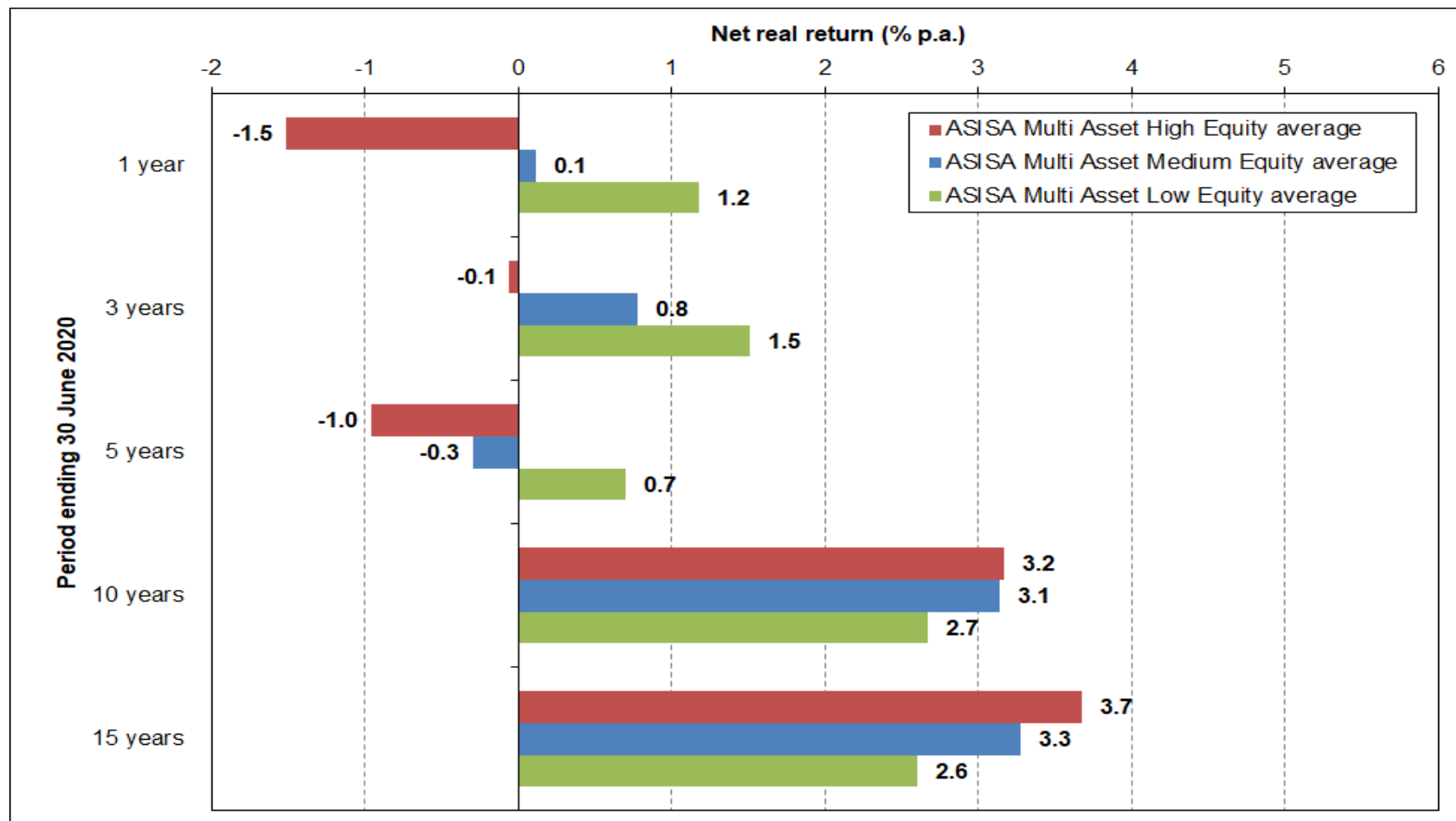
MANAGER PERFORMANCE

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

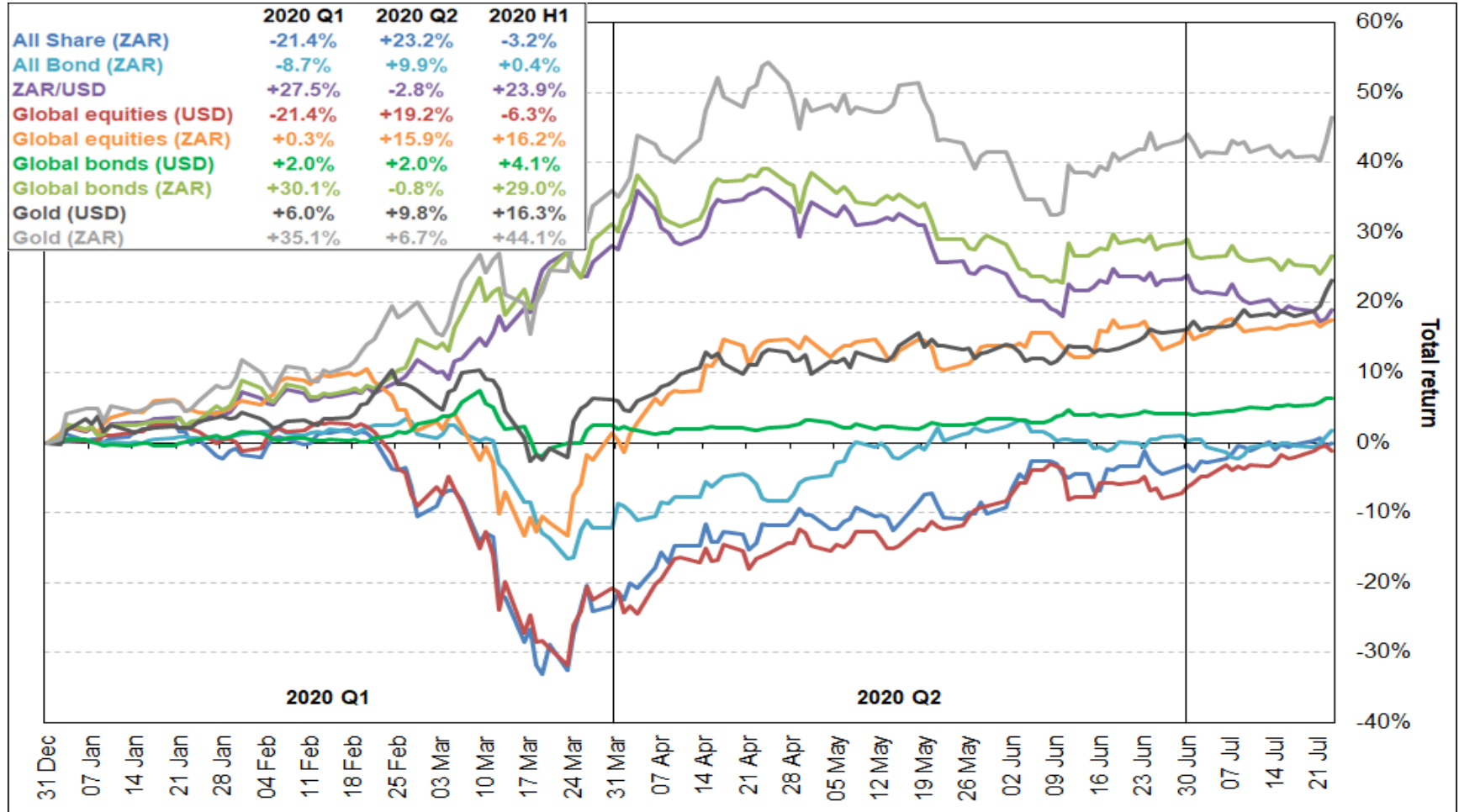


MANAGER PERFORMANCE

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

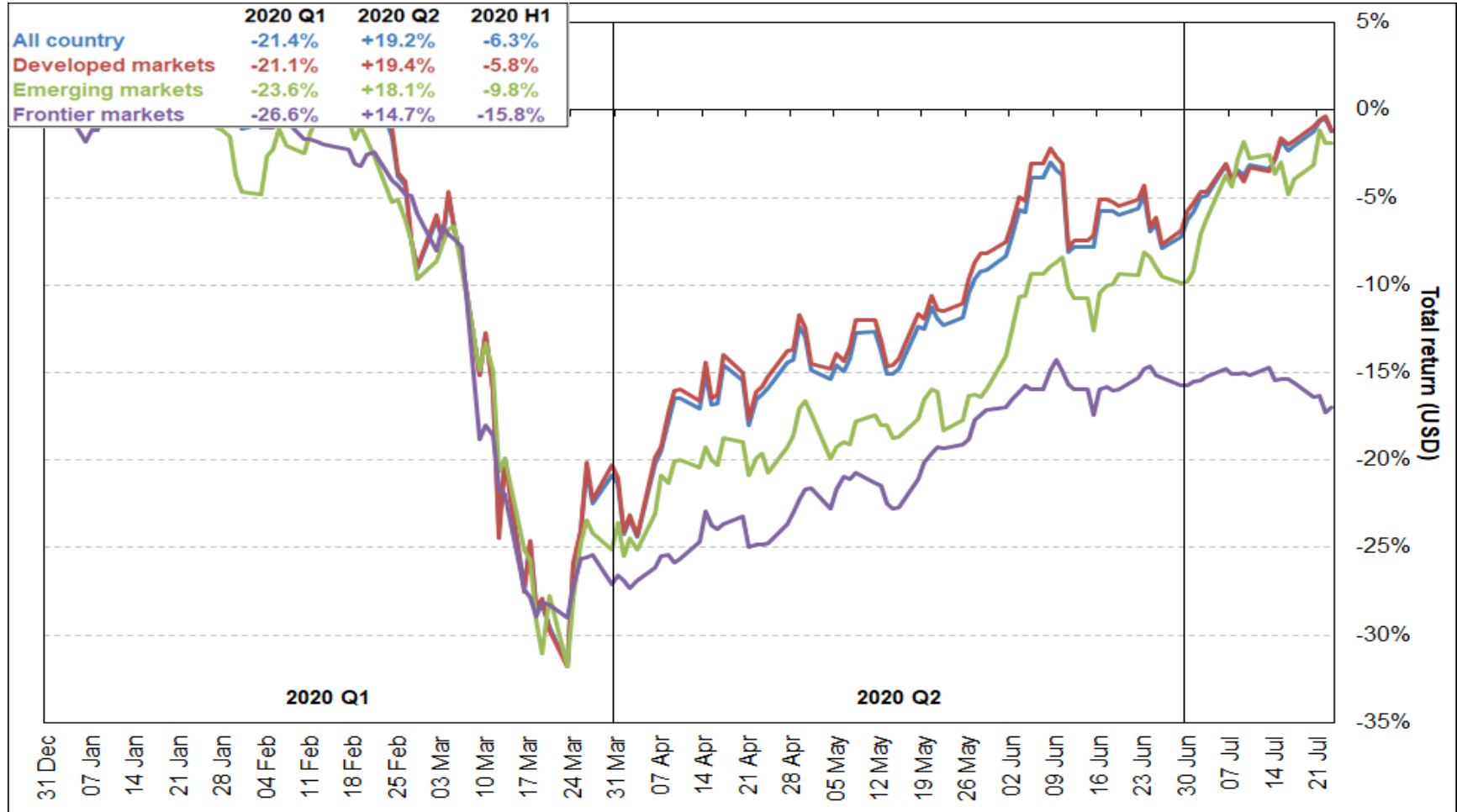


2020 YTD MAJOR ASSET CLASSES



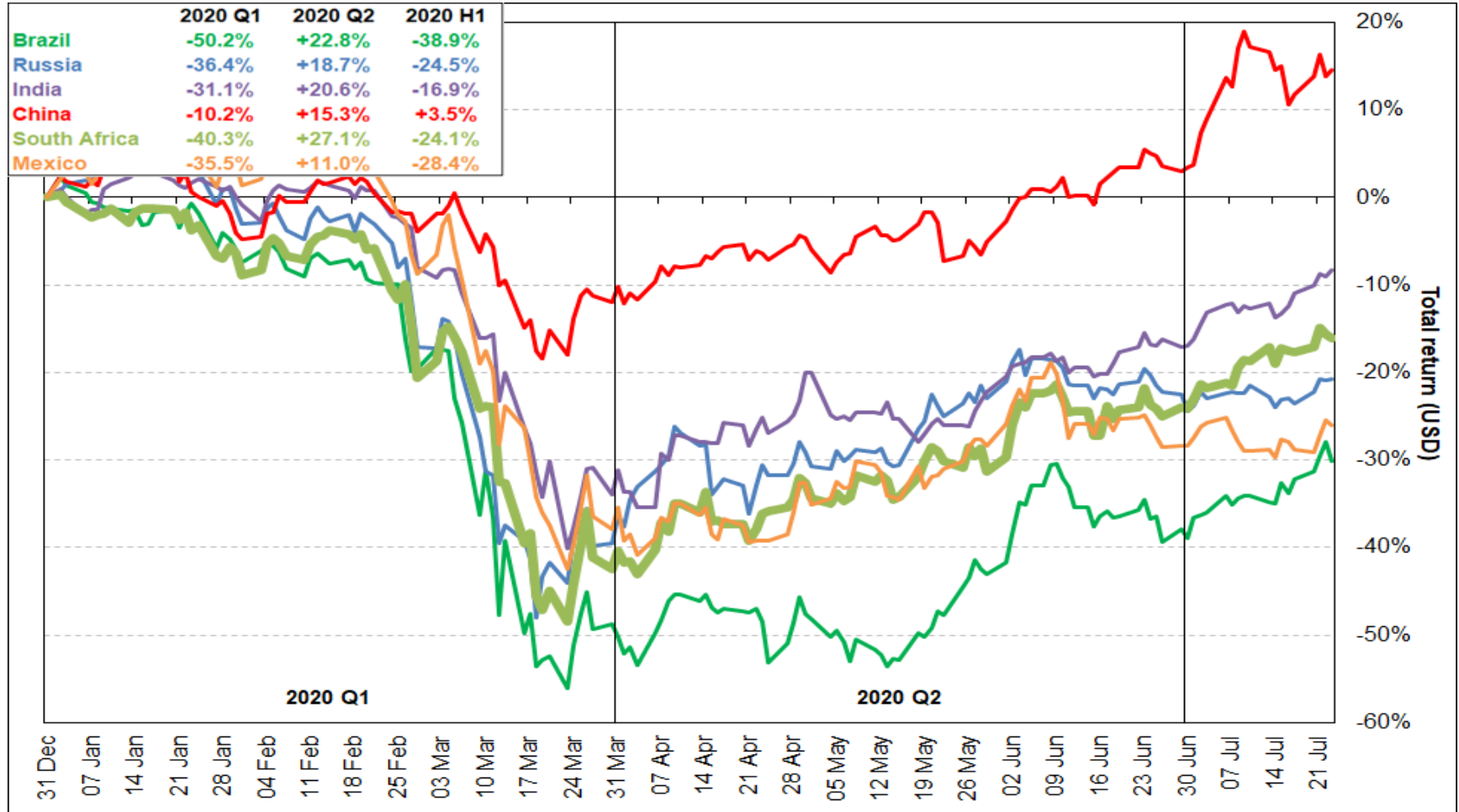
2020 YTD

GLOBAL EQUITY MARKETS (USD)

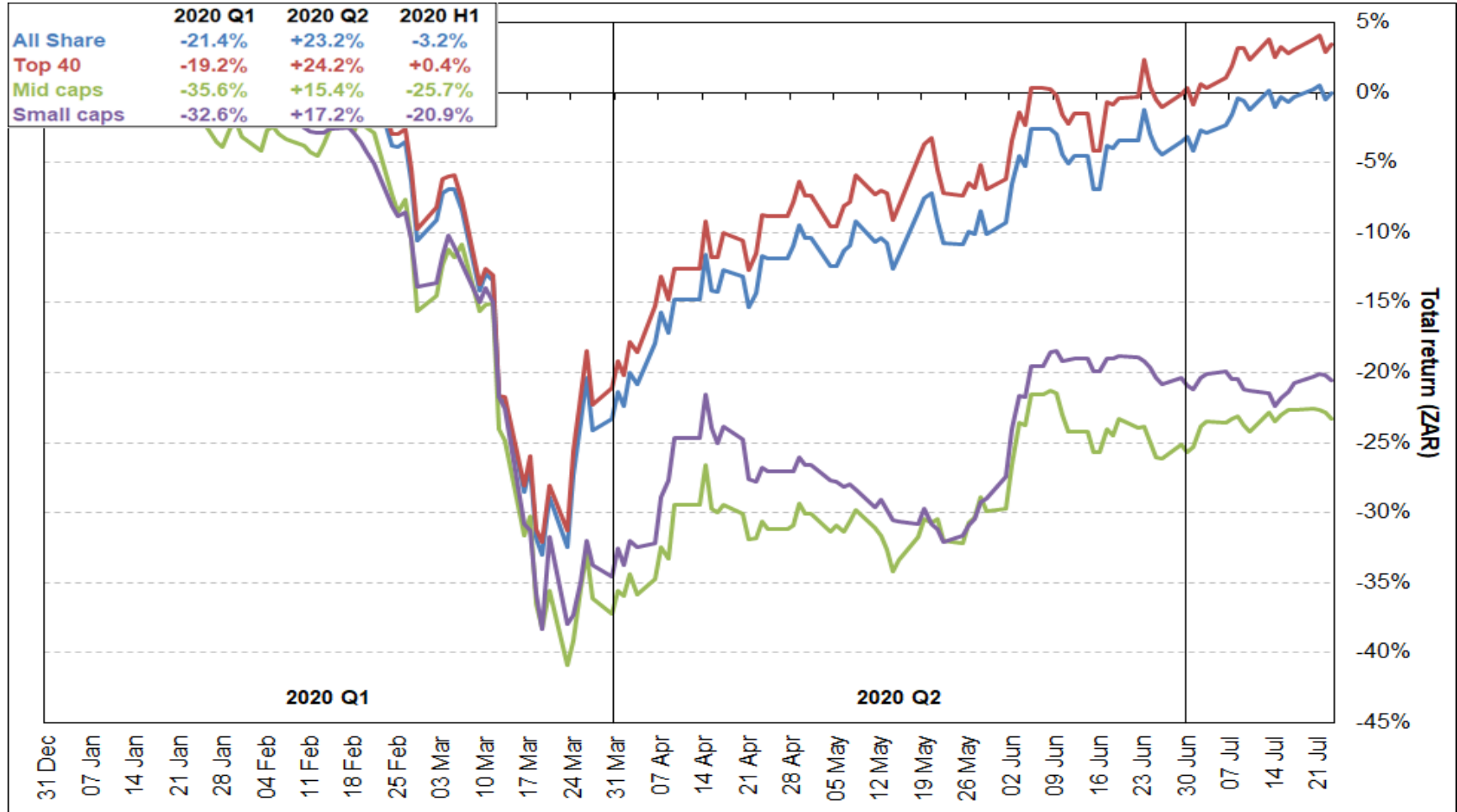


2020 YTD

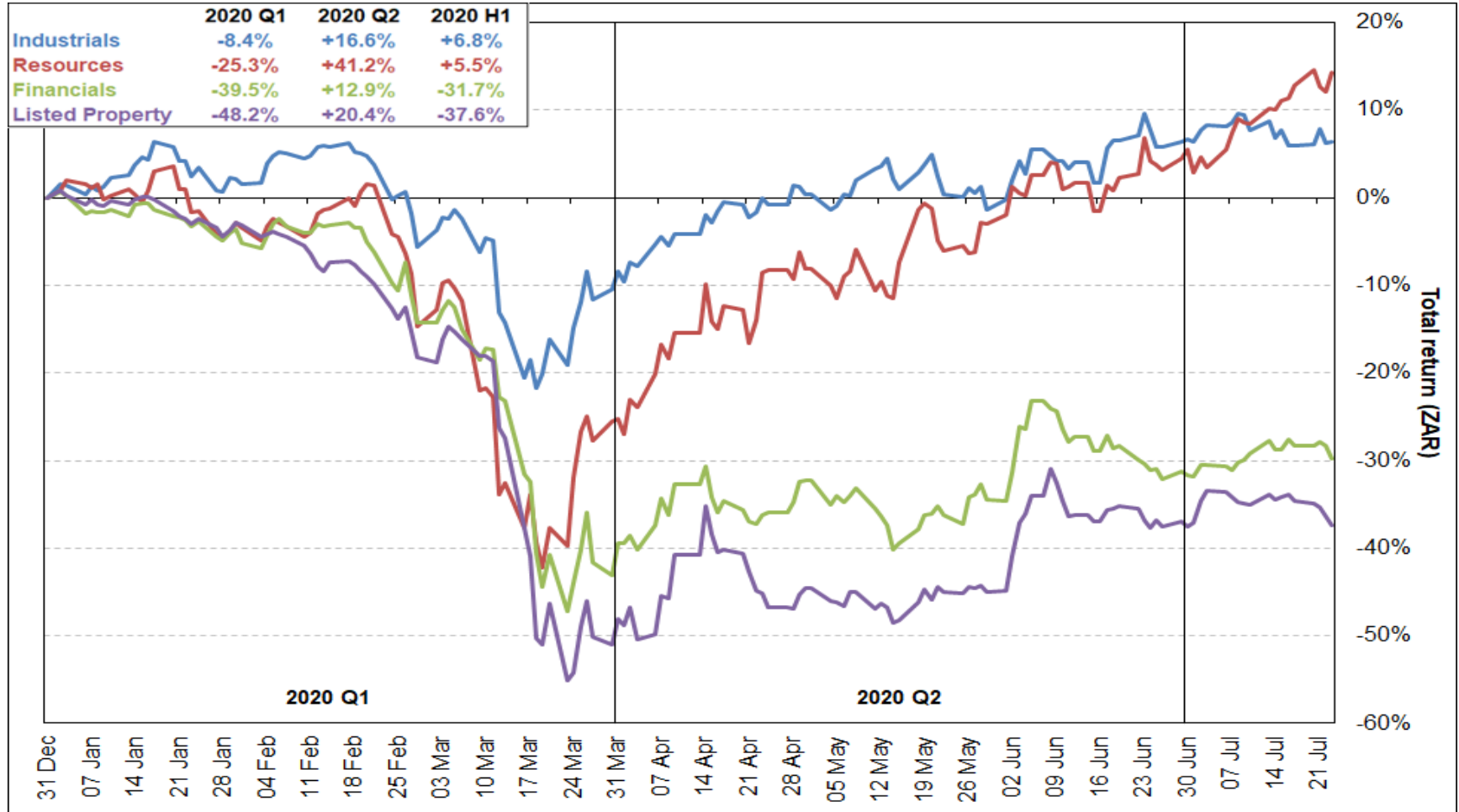
GLOBAL EMERGING EQUITY MARKETS (USD)



2020 YTD LOCAL EQUITY MARKET

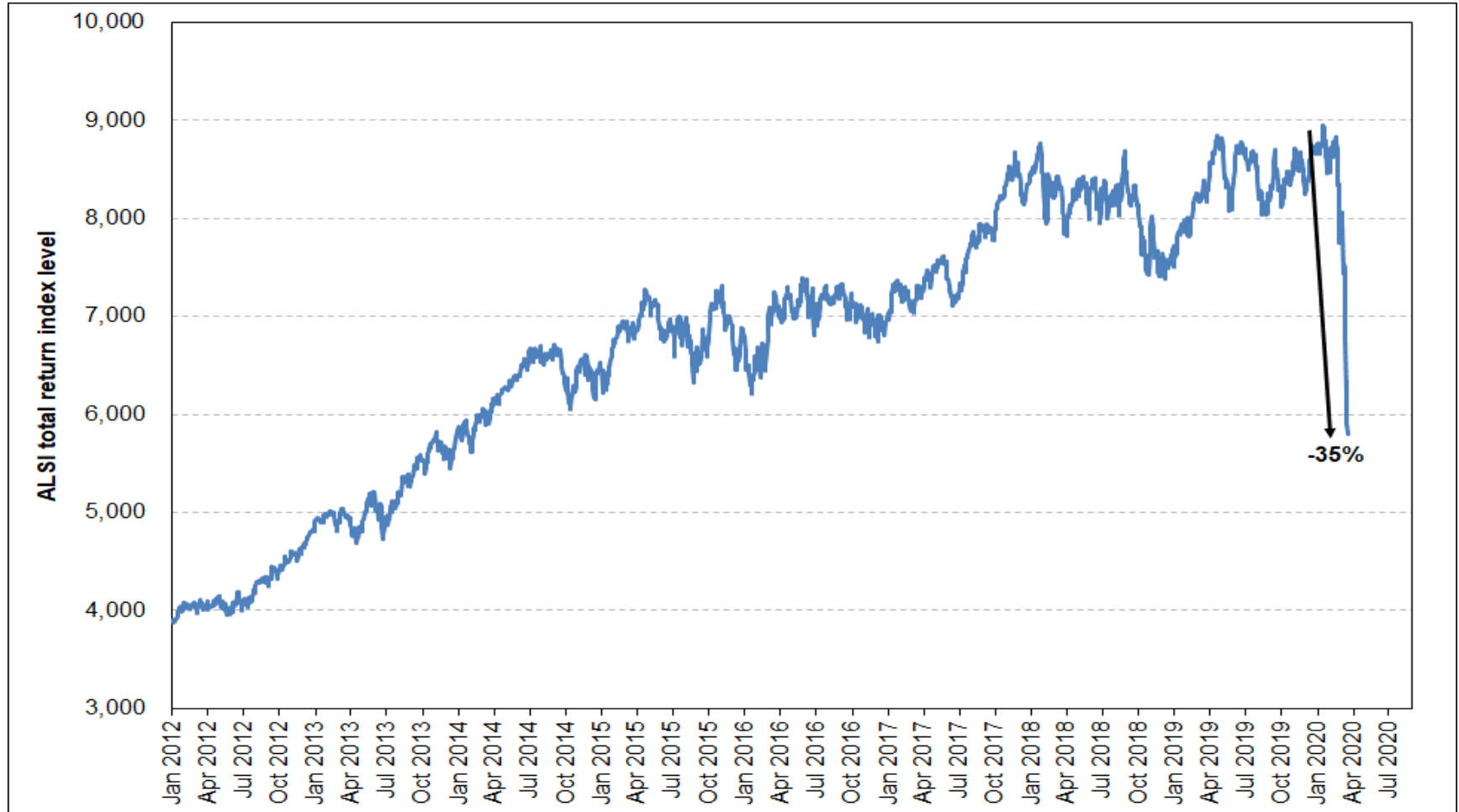


2020 YTD LOCAL EQUITY MARKET



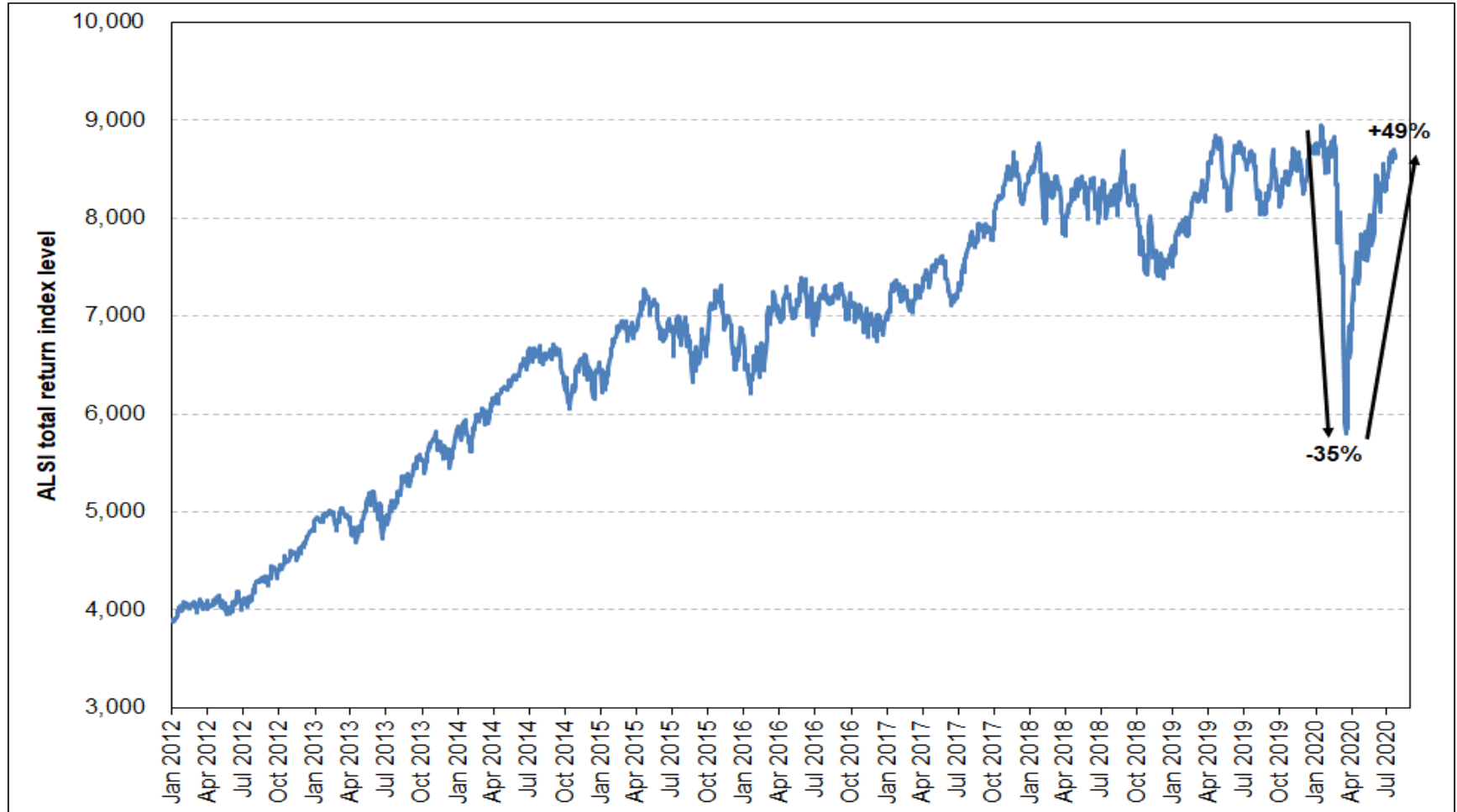
LOCAL EQUITY MARKET

COVID-19 CRASH



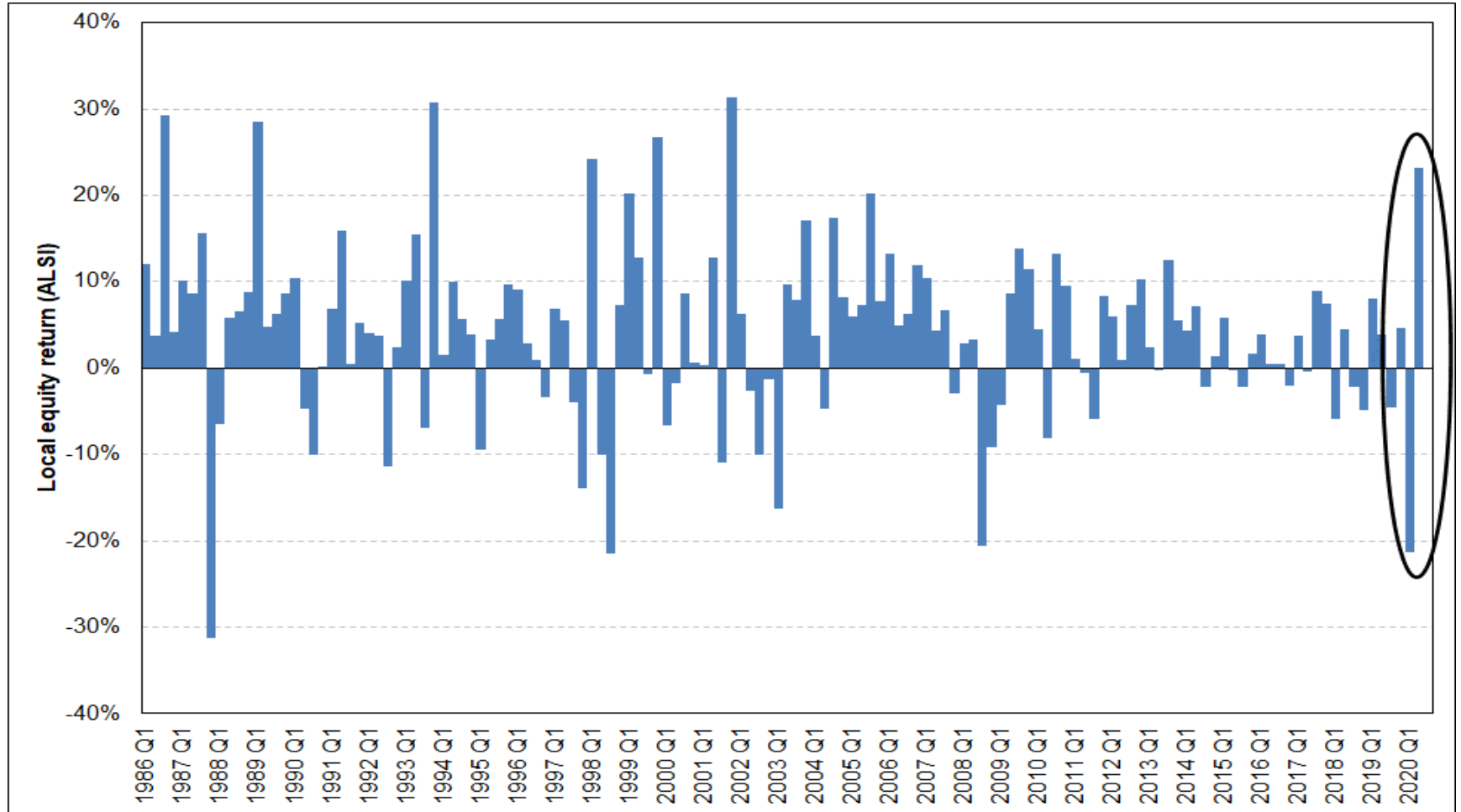
LOCAL EQUITY MARKET

BLINK AND IT'S GONE?



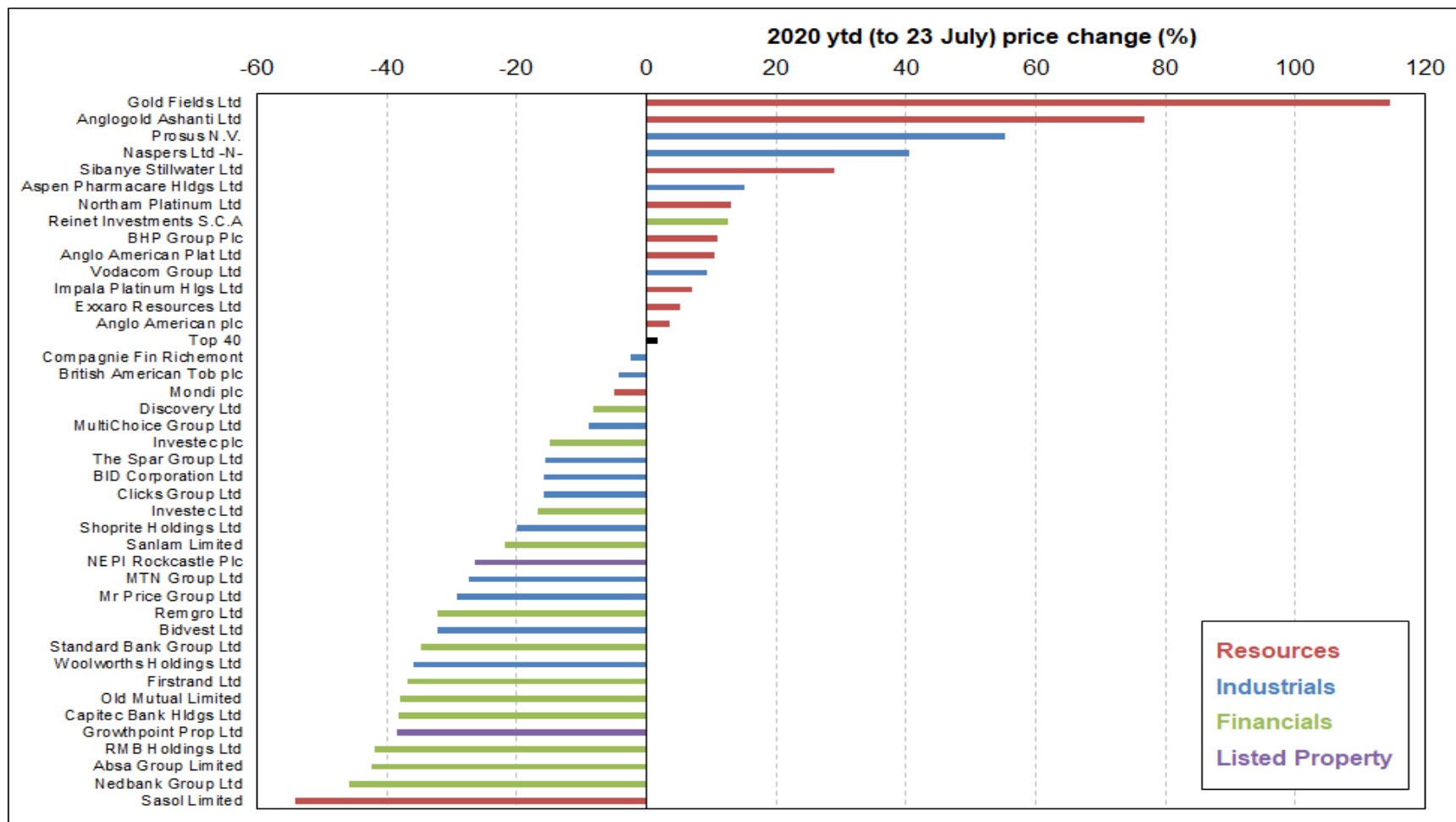
LOCAL EQUITY MARKET

BEST AND WORST QUARTERS IN TWO DECADES



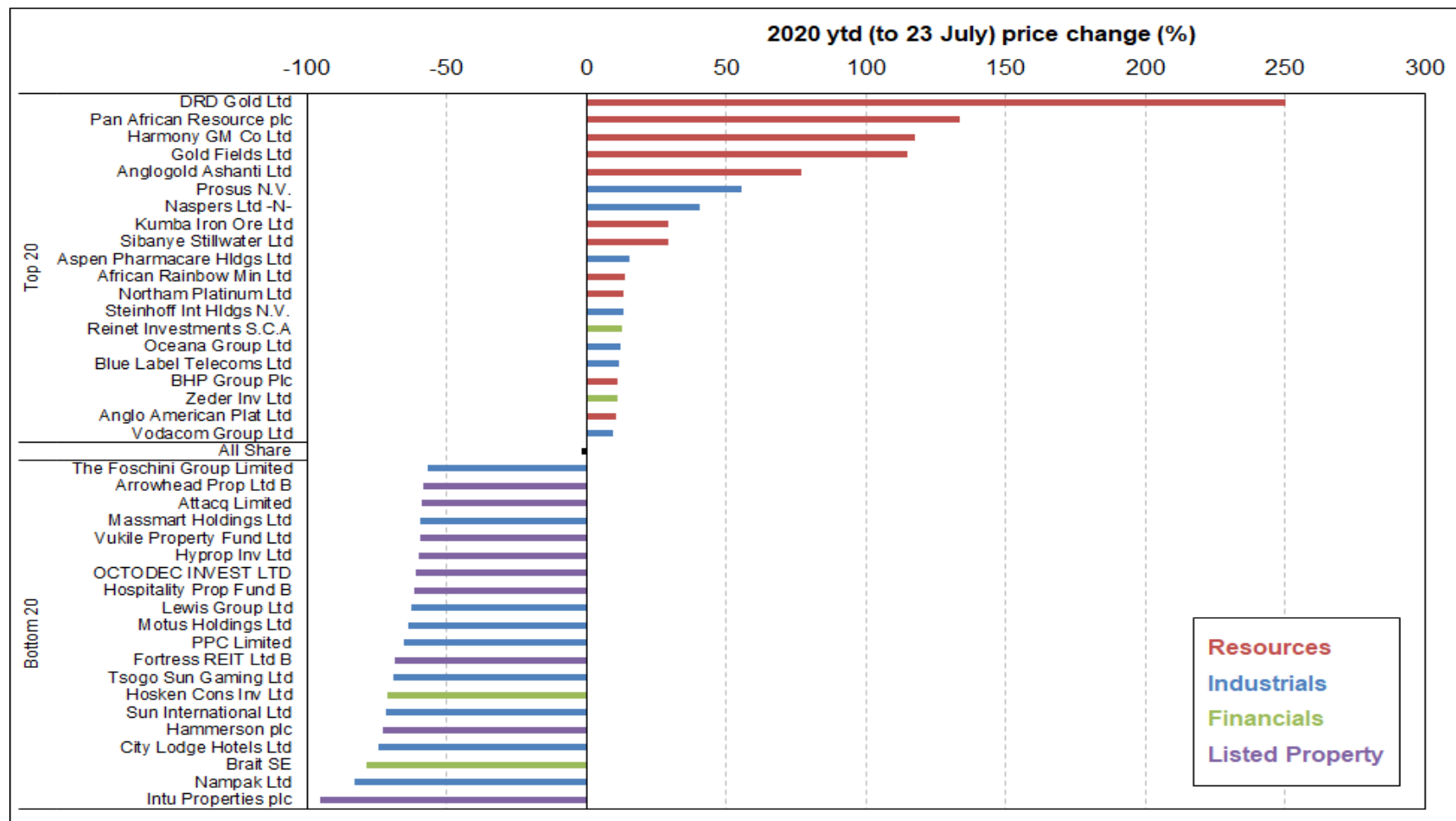
LOCAL EQUITY MARKET

TOP 40 (LARGE CAP) STOCKS IN 2020



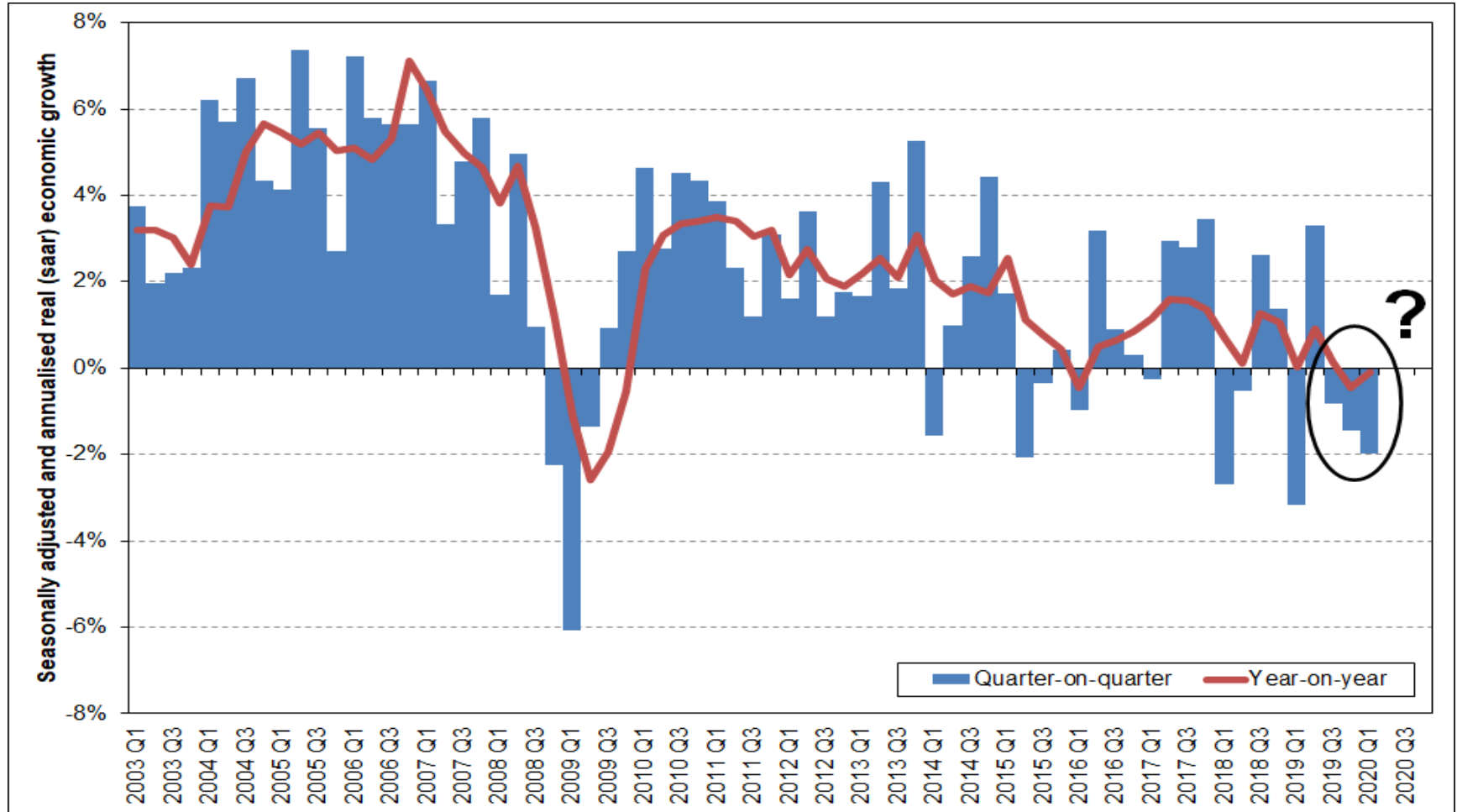
LOCAL EQUITY MARKET

BEST & WORST PERFORMERS IN 2020



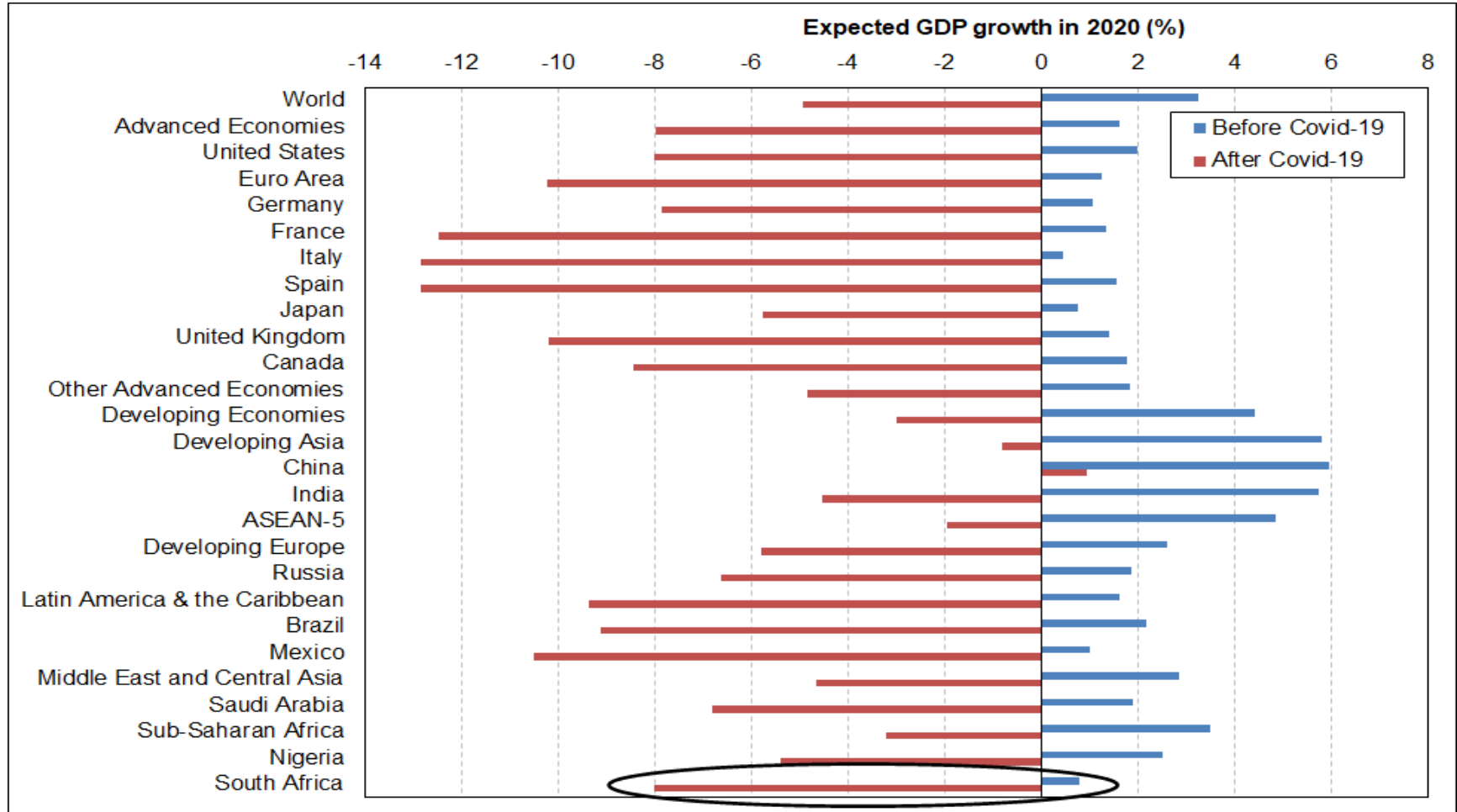
LOCAL ECONOMY

THREE CONSECUTIVE CONTRACTIONS, BUT WHAT COMES NEXT?...



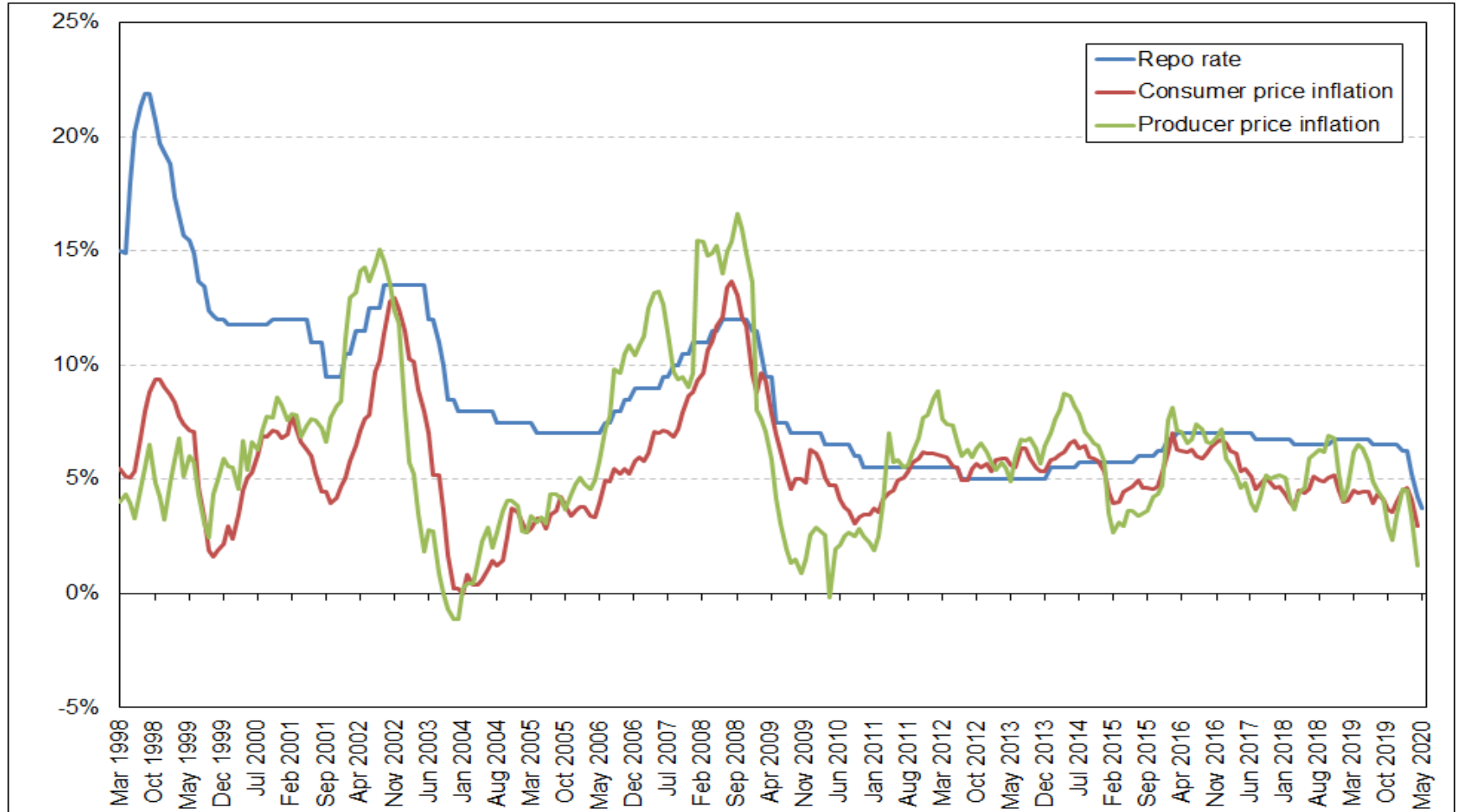
LOCAL ECONOMY

...PROBABLY A CONTRACTION OF 8% IN 2020,
ACCORDING TO THE IMF

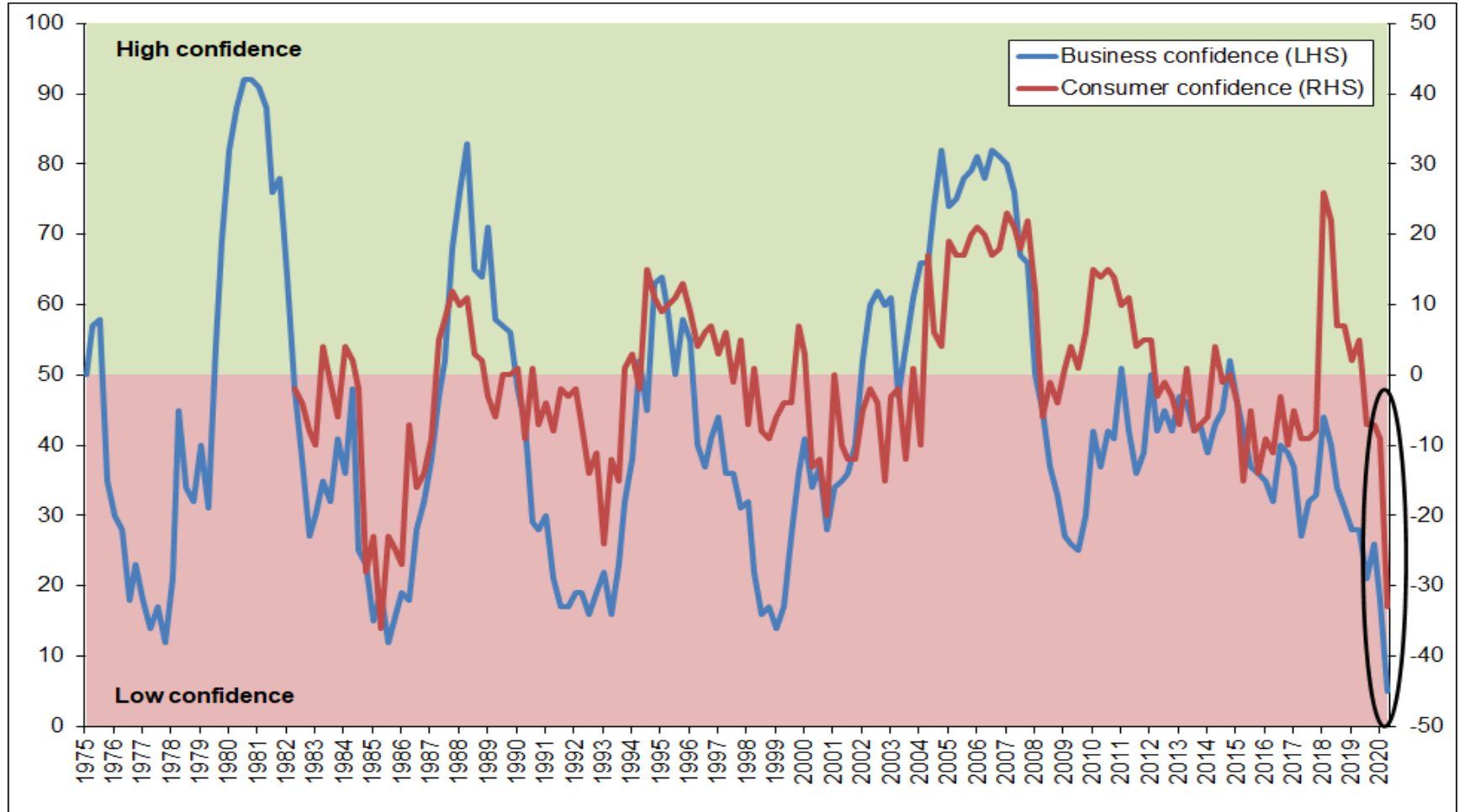


REPO RATE

YET ANOTHER CUT, AS INFLATION HITS MULTI-YEAR LOW & ECONOMY STUTTERS

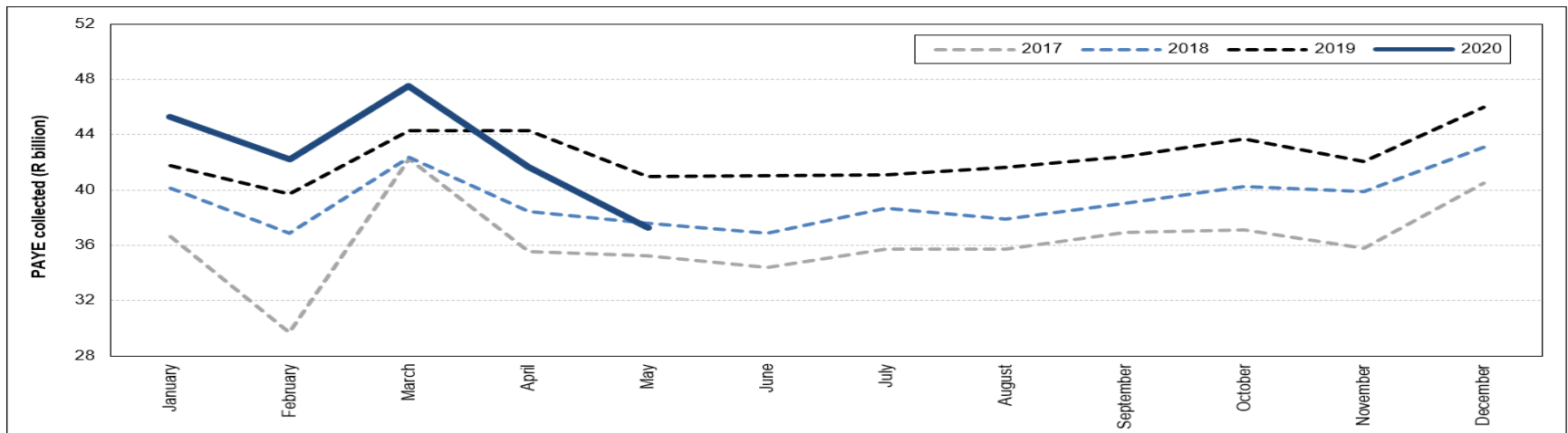
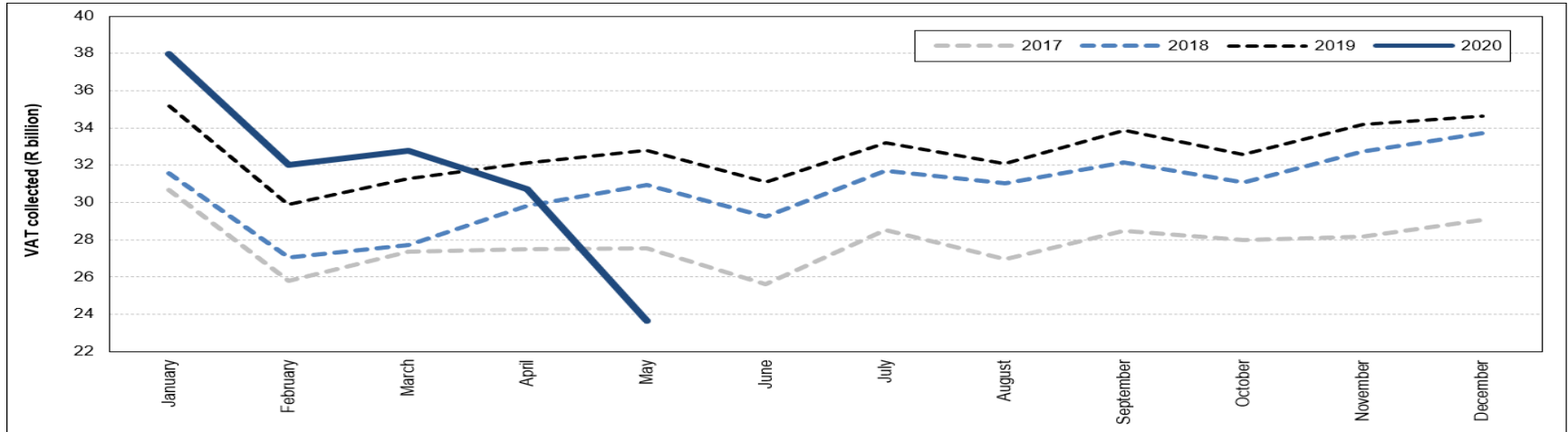


CONSUMER CONFIDENCE FOLLOWS BUSINESS CONFIDENCE SHARPLY LOWER



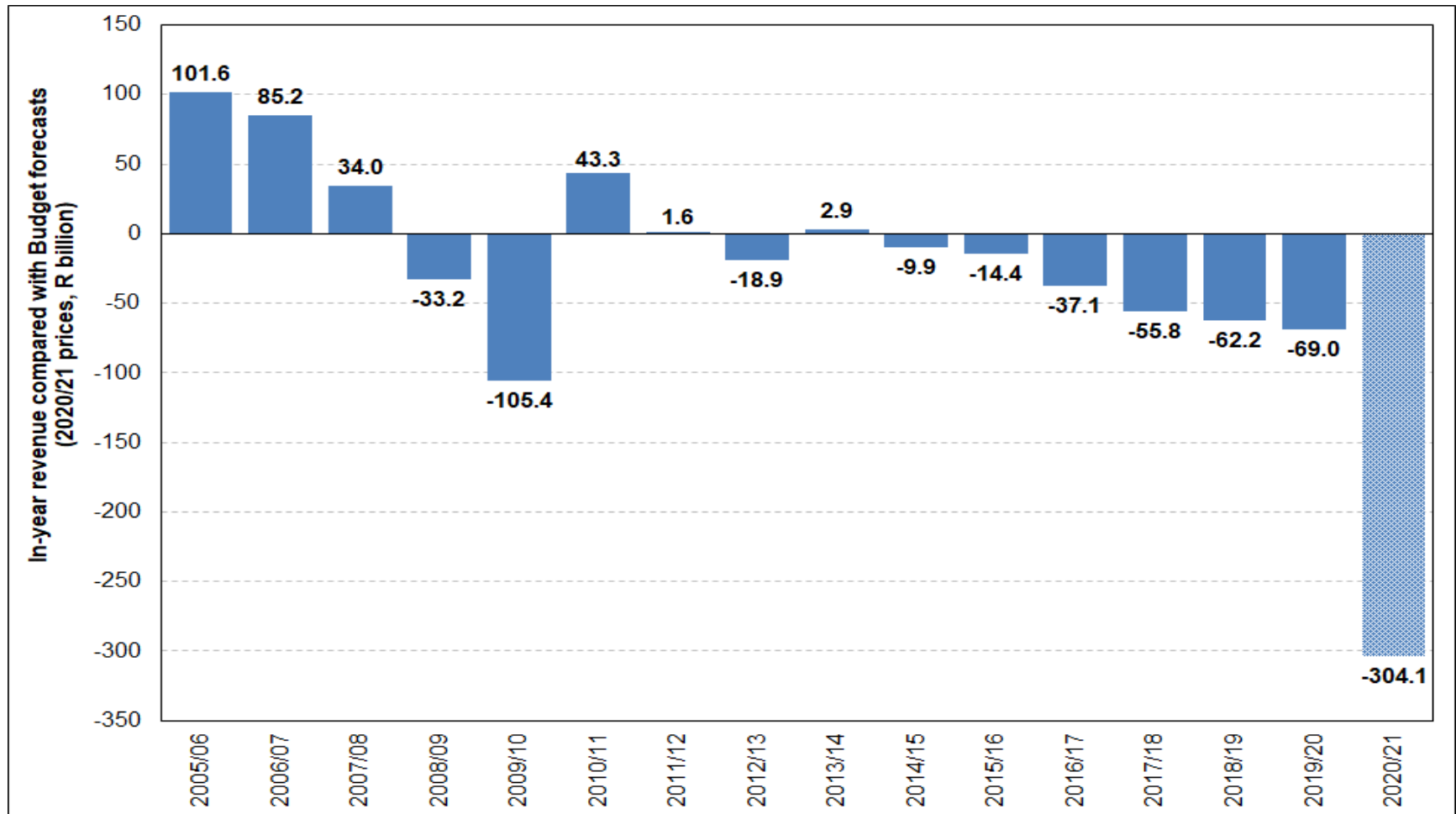
SUPPLEMENTARY BUDGET

PLUMMETING TAX COLLECTIONS

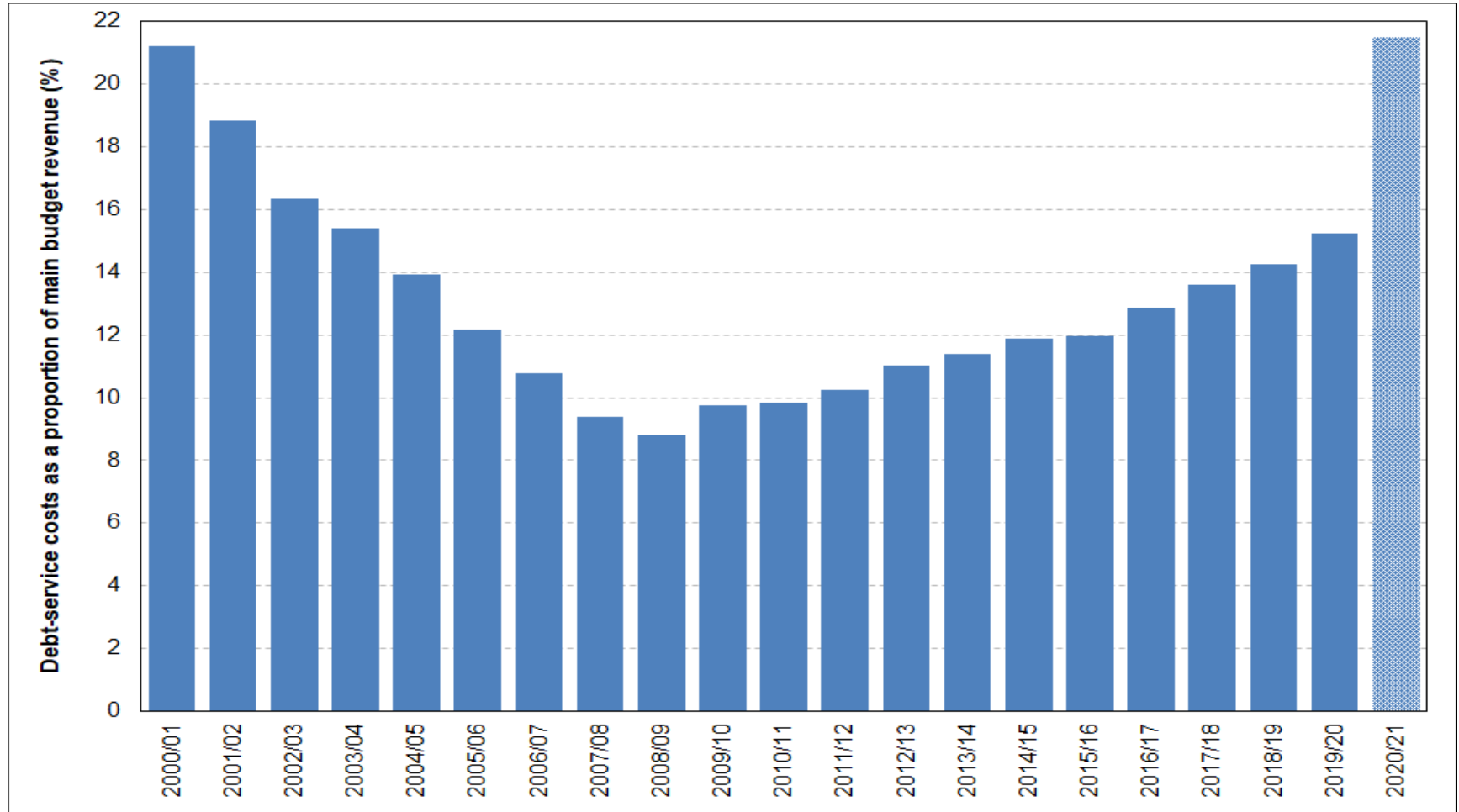


SUPPLEMENTARY BUDGET

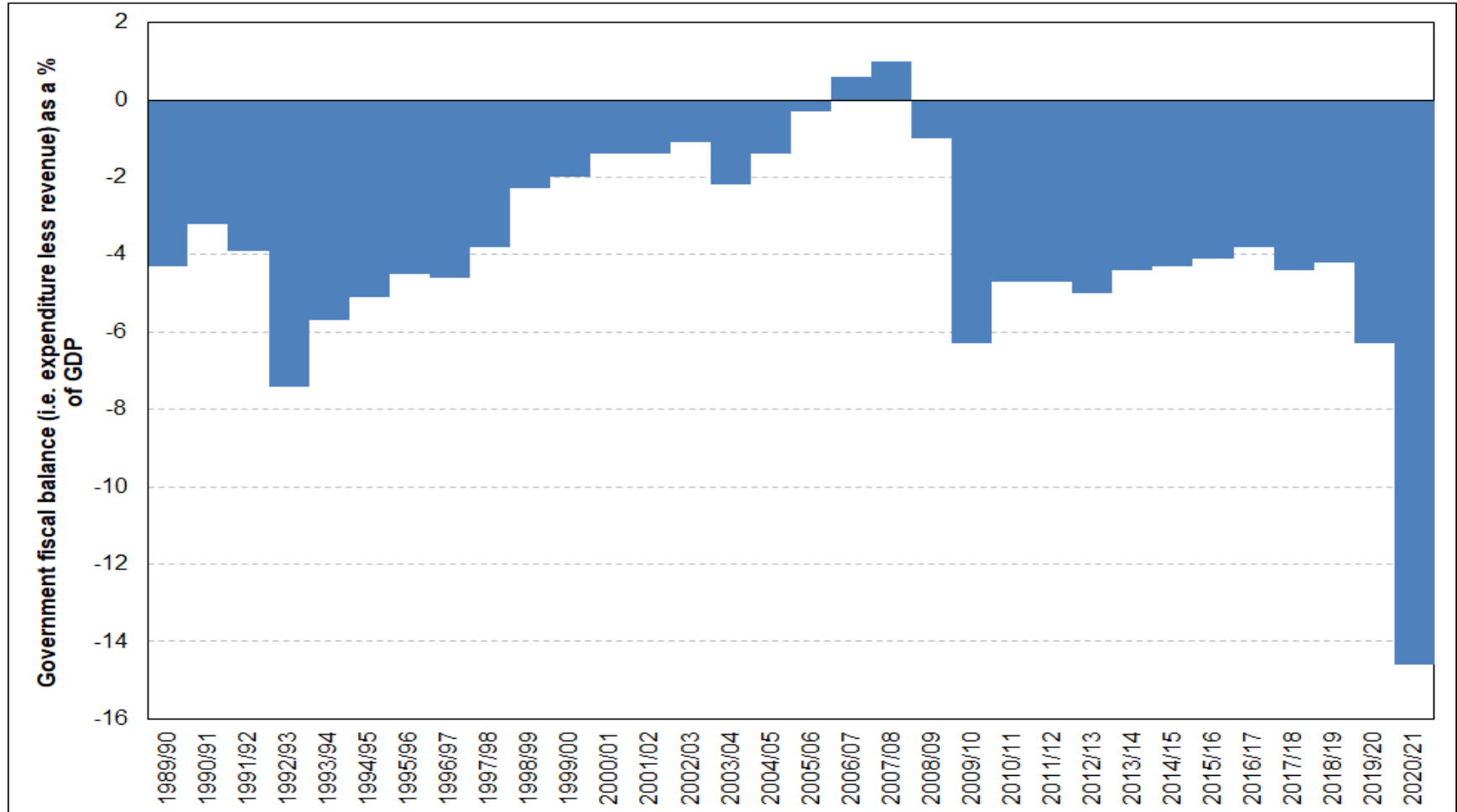
+ A MASSIVE DROP IN EXPECTED GOVERNMENT REVENUE



SUPPLEMENTARY BUDGET + SPIRALLING DEBT SERVICE COSTS



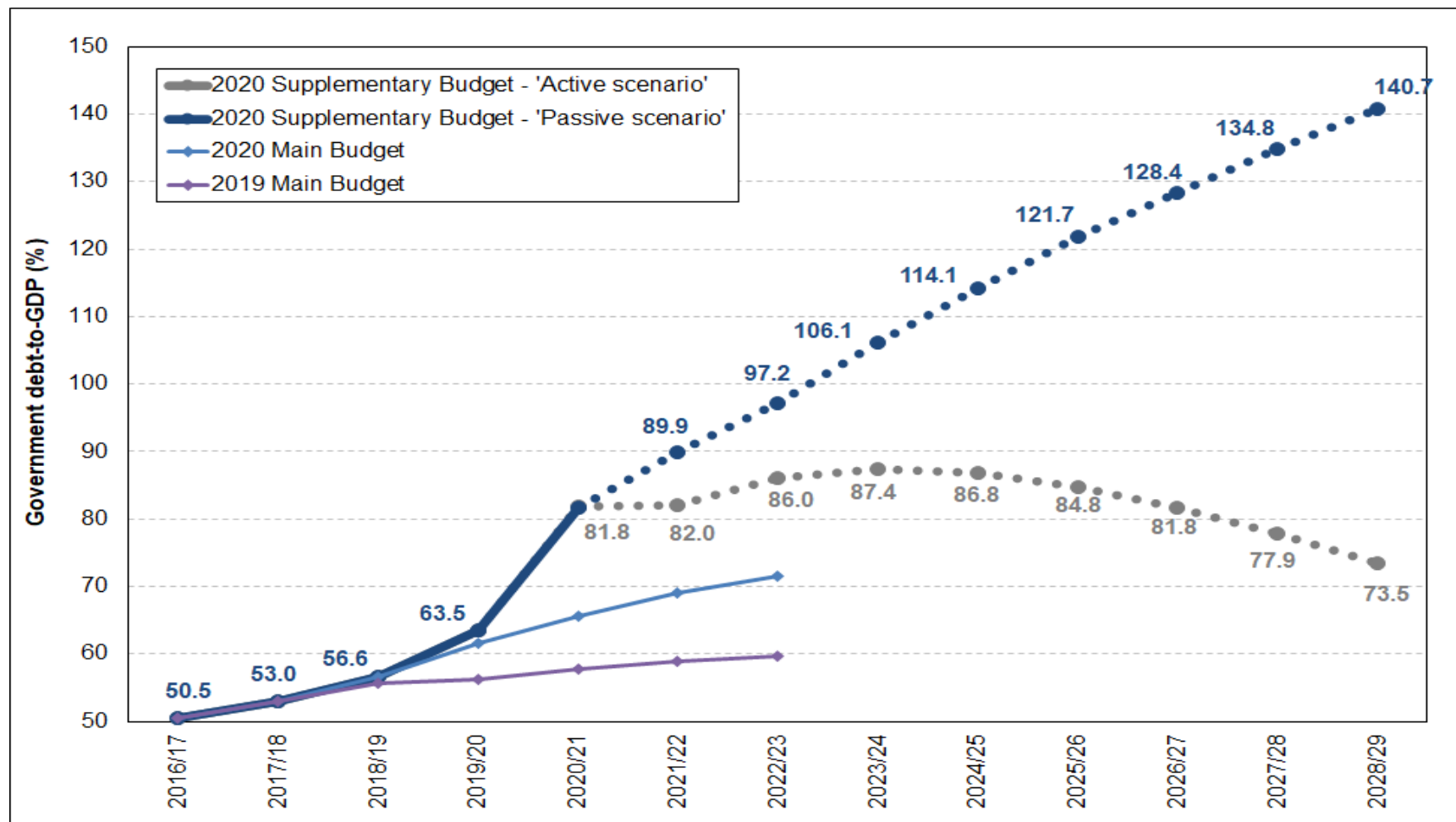
SUPPLEMENTARY BUDGET & A PROPENSITY TO SPEND MORE THAN WE EARN



SUPPLEMENTARY BUDGET

= BIG PROBLEMS

WHICH ROAD WILL WE NOW TAKE?



SUPPLEMENTARY BUDGET

'OUR HERCULEAN TASK IS TO CLOSE THE MOUTH OF THE HIPPOPOTAMUS!' – TITO MBOWENI

