

# **MONTH IN PICTURES**

**OCTOBER 2020**

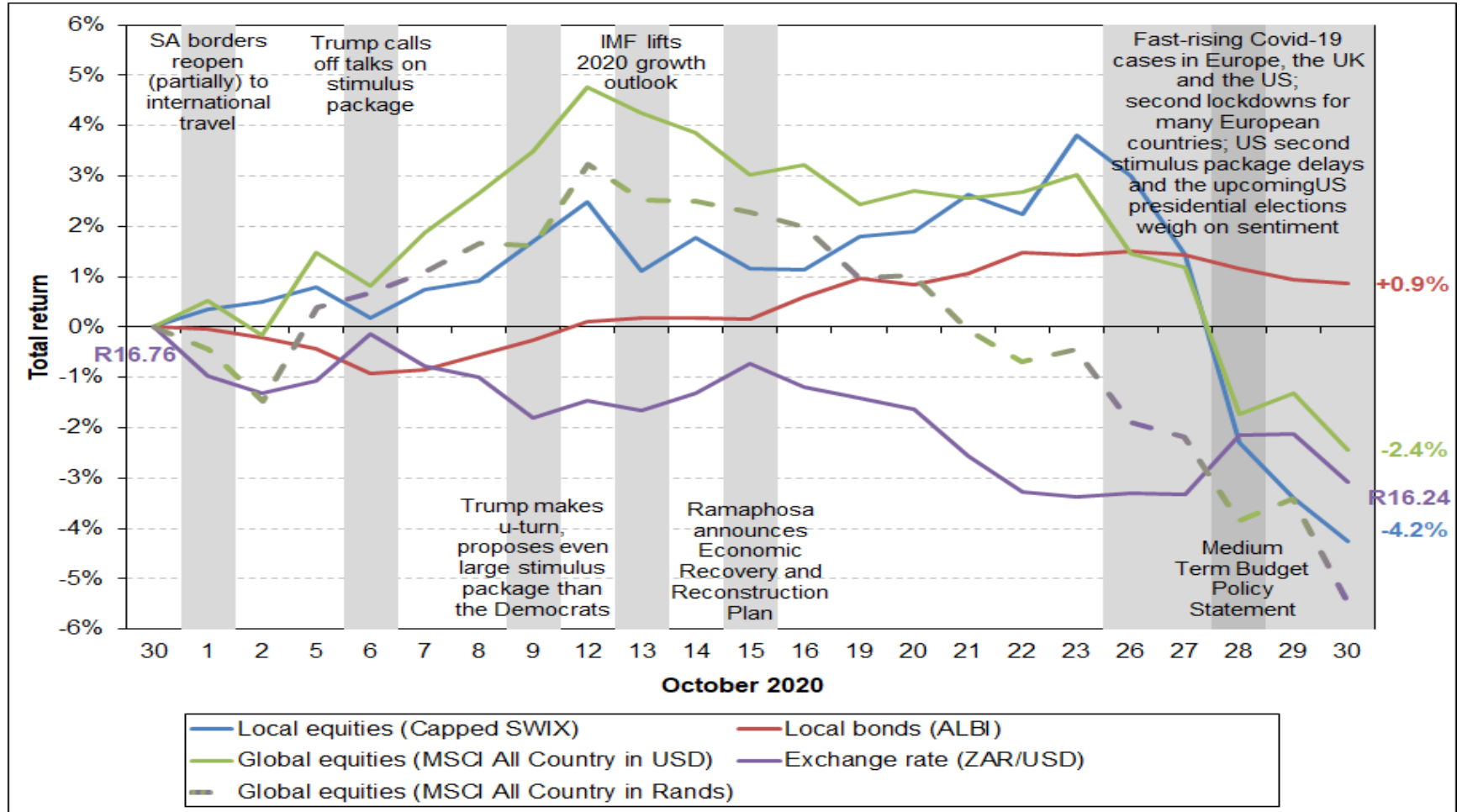
# MONTHLY SNAPSHOT

## NOTABLE EVENTS

- For most of October it looked like the local equity market's two month losing streak would be broken, as it entered the last week of the month already nearly 4% higher (as measured by the Capped SWIX) from its September close. A mix of global developments, including a continued surge in coronavirus cases in Europe, the UK and the US, the subsequent reintroduction of lockdown measures in some of these regions, delays in approving further fiscal stimulus packages in the US and of course the highly divisive US presidential elections weighed on sentiment. The local equity market retreated by nearly 8% amid this uncertainty, resulting in a decline of 4.2% for the month. Resources (-10.8%) led the losses, followed by Listed Property (-8.5%) and Financials (-5.8%), while Industrials (+0.4%) managed to eke out a small gain.
- Despite losing 6% over the last 3 months, the local equity market still ended October nearly 35% higher than its March lows.
- The Rand continued to strengthen against major currencies in October, ending the month around 3-4% stronger against the US Dollar, British Pound and Euro.
- Global equity markets followed a similar trajectory as the JSE, moving from nearly +5% at mid-month to -2.4% (in USD) at the end of October. With a stronger Rand, global equities ended the month 5.4% lower in local currency terms.
- Ramaphosa's Economic Reconstruction and Recovery Plan and Mboweni's Medium Term Budget Policy Statement (MTBPS) did little to impress investors and rating agencies, despite a stronger focus on investment (as opposed to consumption) spending and efforts at fiscal consolidation. In fact, after expressing their doubts around implementation just after the MTBPS, Fitch and Moody's downgraded SA further into junk territory in November.
- SA's unemployment figures ticked up sharply, with the official rate moving from an artificially low 23.3% in 2020 Q2 to 30.8% in Q3, despite 543,000 job seekers finding employment. Under the expanded definition, which includes discouraged job seekers, unemployment increased from 42.0% to 43.1%. As explained last month, many people are still classified as 'Not Economically Active' (or NEA) in the 'Other' category, skewing the official numbers. If we adjust the numbers to account for this (i.e. by including everyone but the *productive* NEA population (students, home-makers, etc.)), we saw unemployment falling from 47.5% to 45.4% in Q3, compared to 40.0% just before lockdown in Q1.
- Business confidence continued to improve during the fourth quarter, but remains below the neutral 50-point level.
- The SA Reserve Bank kept the repo rate unchanged at 3.5% at their November policy meeting, while inflation crept higher in October (from 3.0% to 3.3%).
- Markets have staged a strong recovery in November as promising vaccine trial results and a Joe Biden victory in the US presidential elections boosted optimism. By mid-month the local equity market was up nearly 12%, global equity markets were 10% higher (in USD) and the Rand was 5% stronger against the US Dollar. These gains have managed to push the year-to-date performance figures of equity markets and most retirement fund portfolios back into positive territory.

# MONTHLY TIMELINE

## IMPACT ON MARKETS



# MARKET INDICATORS

## SHORT TERM

Market indicators (% change) <sup>1</sup>		Aug 2020	Sep 2020	Oct 2020	3 months	12 months
Local equities	Capped SWIX	(0.9)	(1.1)	(4.2)	(6.1)	(12.2)
	Resources	0.7	(3.4)	(10.8)	(13.2)	5.8
	Industrials	0.5	(1.5)	0.4	(0.6)	4.4
	Financials	(4.2)	2.3	(5.8)	(7.7)	(37.1)
	Listed Property	(8.6)	(3.0)	(8.5)	(18.9)	(51.6)
Local bonds	ALBI	0.9	(0.0)	0.9	1.7	4.9
Local cash	STeFI Composite	0.4	0.3	0.3	1.1	5.9
Global equities	MSCI All Country	5.4	(4.3)	(5.4)	(4.6)	12.8
Global bonds	FTSE WGBI	(1.2)	(1.3)	(3.3)	(5.6)	14.0
Exchange rate	ZAR/USD	(0.7)	(1.1)	(3.1)	(4.8)	7.6
Inflation	CPI	0.2	0.2	0.3	0.3	3.3

1. Total returns (in Rands) for the months and periods ending 31 October 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	(12.2)	(5.3)	(1.1)	7.4	10.4
	Resources	5.8	13.2	12.3	2.8	7.0
	Industrials	4.4	(2.9)	1.2	12.3	14.5
	Financials	(37.1)	(13.0)	(7.7)	5.8	7.6
	Listed Property	(51.6)	(26.5)	(14.7)	0.7	6.7
Local bonds	ALBI	4.9	8.5	7.5	7.6	8.0
Local cash	STeFI Composite	5.9	6.8	7.1	6.4	7.2
Global equities	MSCI All Country	12.8	10.6	11.7	17.4	12.9
Global bonds	FTSE WGBI	14.0	9.5	7.4	10.7	10.0
Exchange rate	ZAR/USD	7.6	4.8	3.3	8.8	6.1
Inflation	CPI	3.3	4.0	4.6	5.1	5.6

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

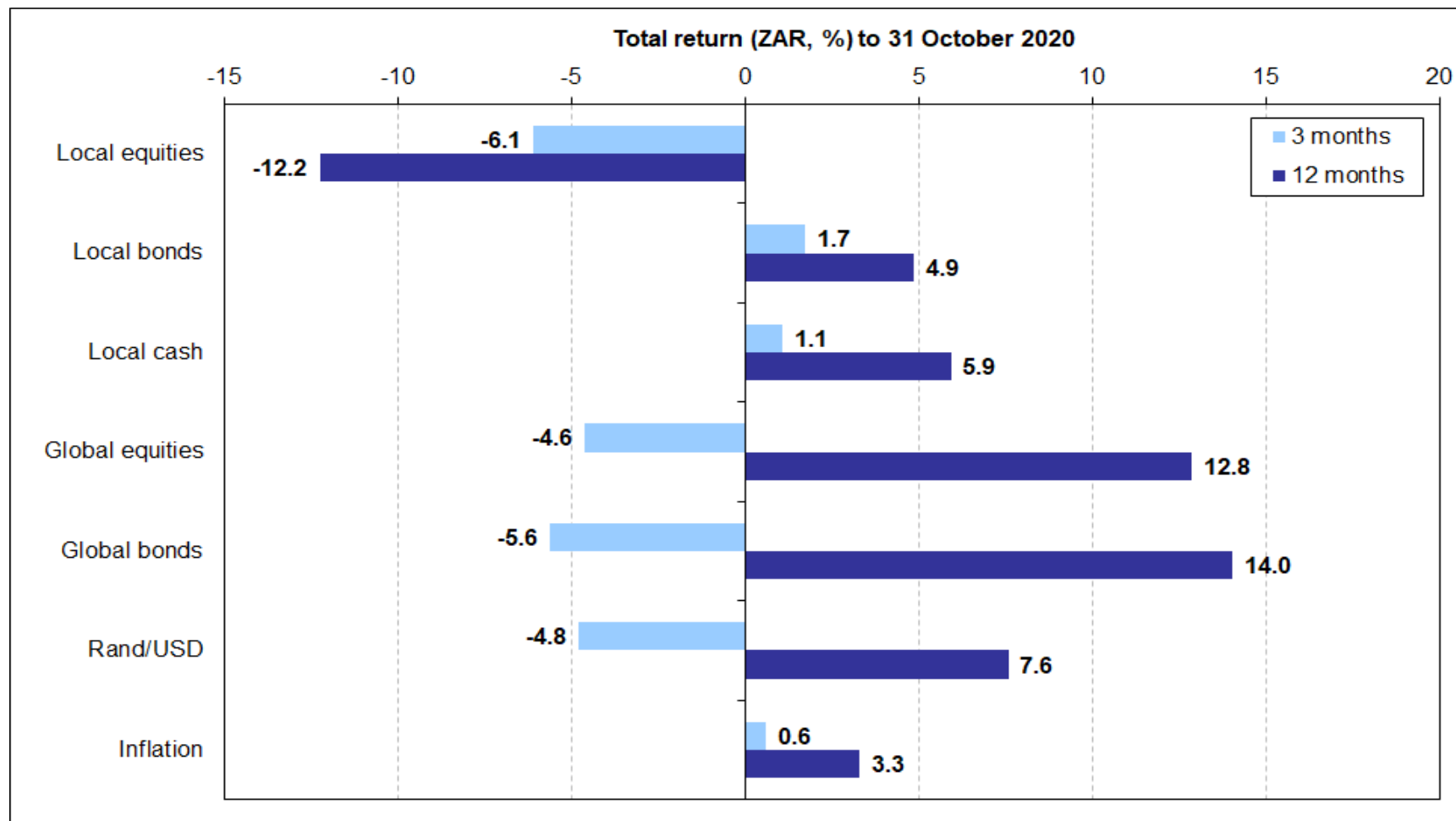
# ECONOMIC INDICATORS

Economic indicators <sup>1</sup>	Oct 2018	Oct 2019	Aug 2020	Sep 2020	Oct 2020
<b>Exchange rates:</b>					
ZAR/USD	14.77	15.09	16.94	16.76	16.24
ZAR/GBP	18.87	19.53	22.64	21.65	21.05
ZAR/Euro	16.71	16.84	20.22	19.64	18.90
<b>Commodities:</b>					
Brent Crude Oil (USD/barrel)	74.62	60.23	45.28	42.30	37.94
Platinum (USD/ounce)	832.85	927.95	930.39	869.88	849.00
Gold (USD/ounce)	1,214.86	1,500.09	1,958.40	1,887.90	1,877.90

1. Month-end prices

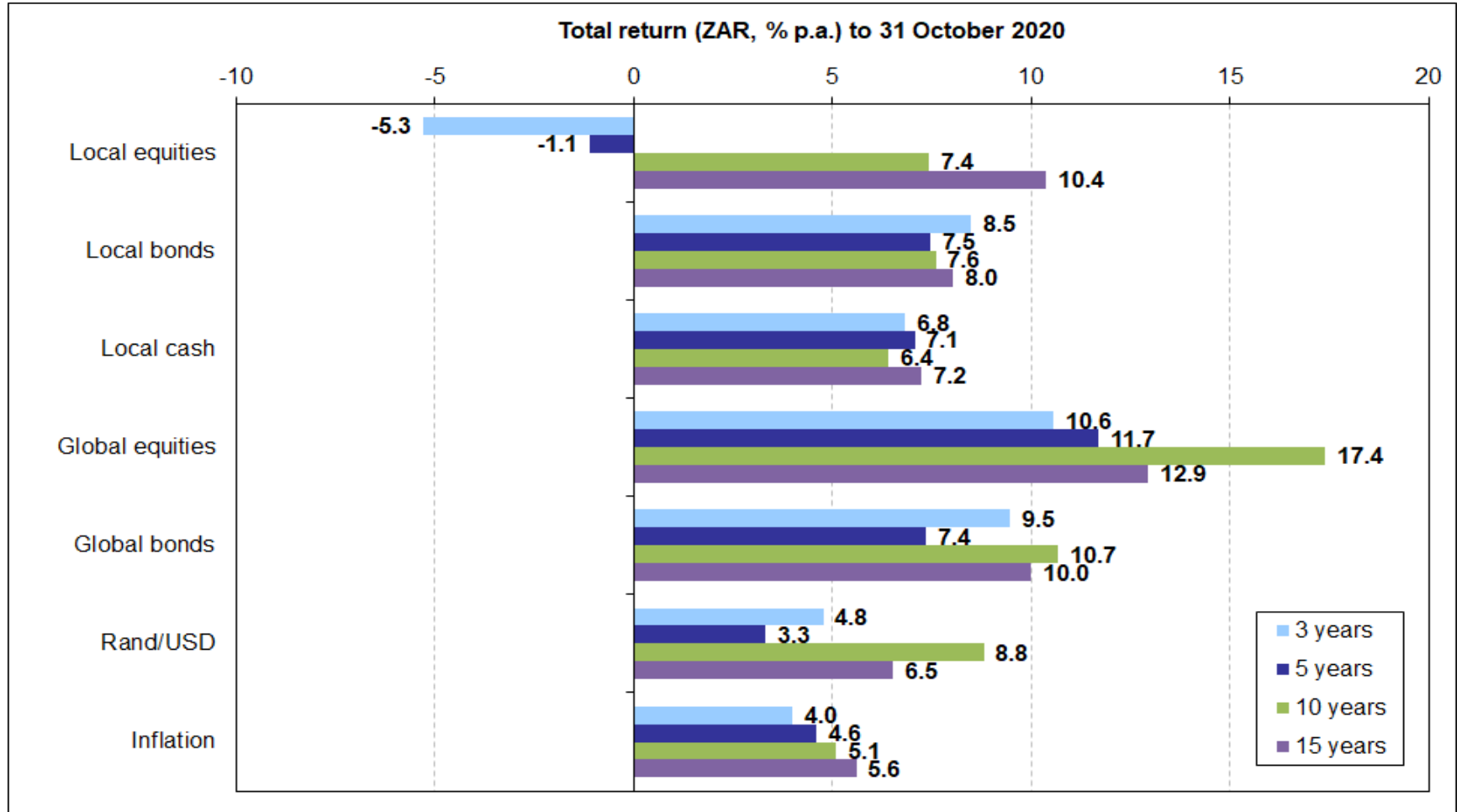
# ASSET CLASS PERFORMANCE

## SHORT TERM



# ASSET CLASS PERFORMANCE

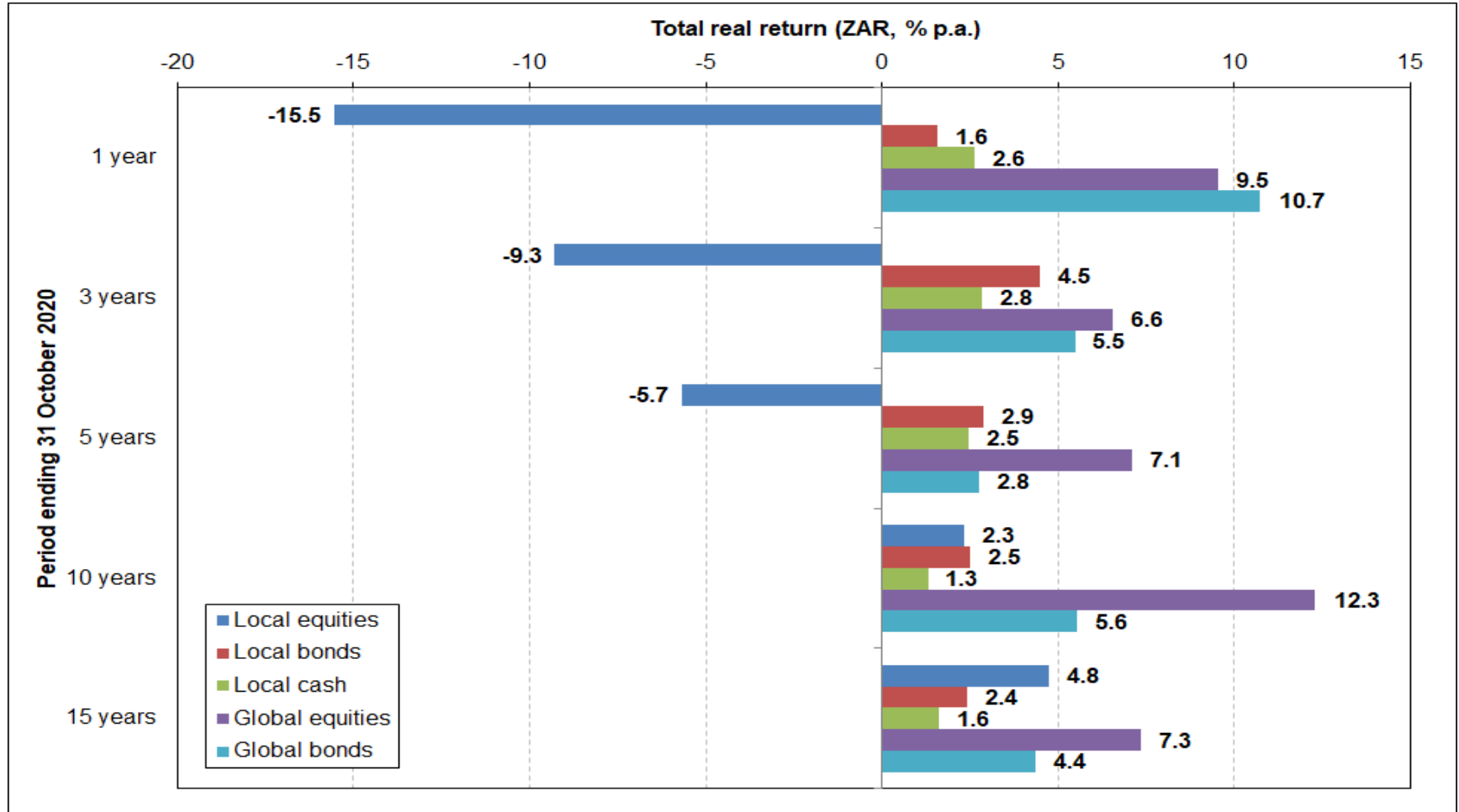
## MEDIUM TO LONG TERM





# 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%

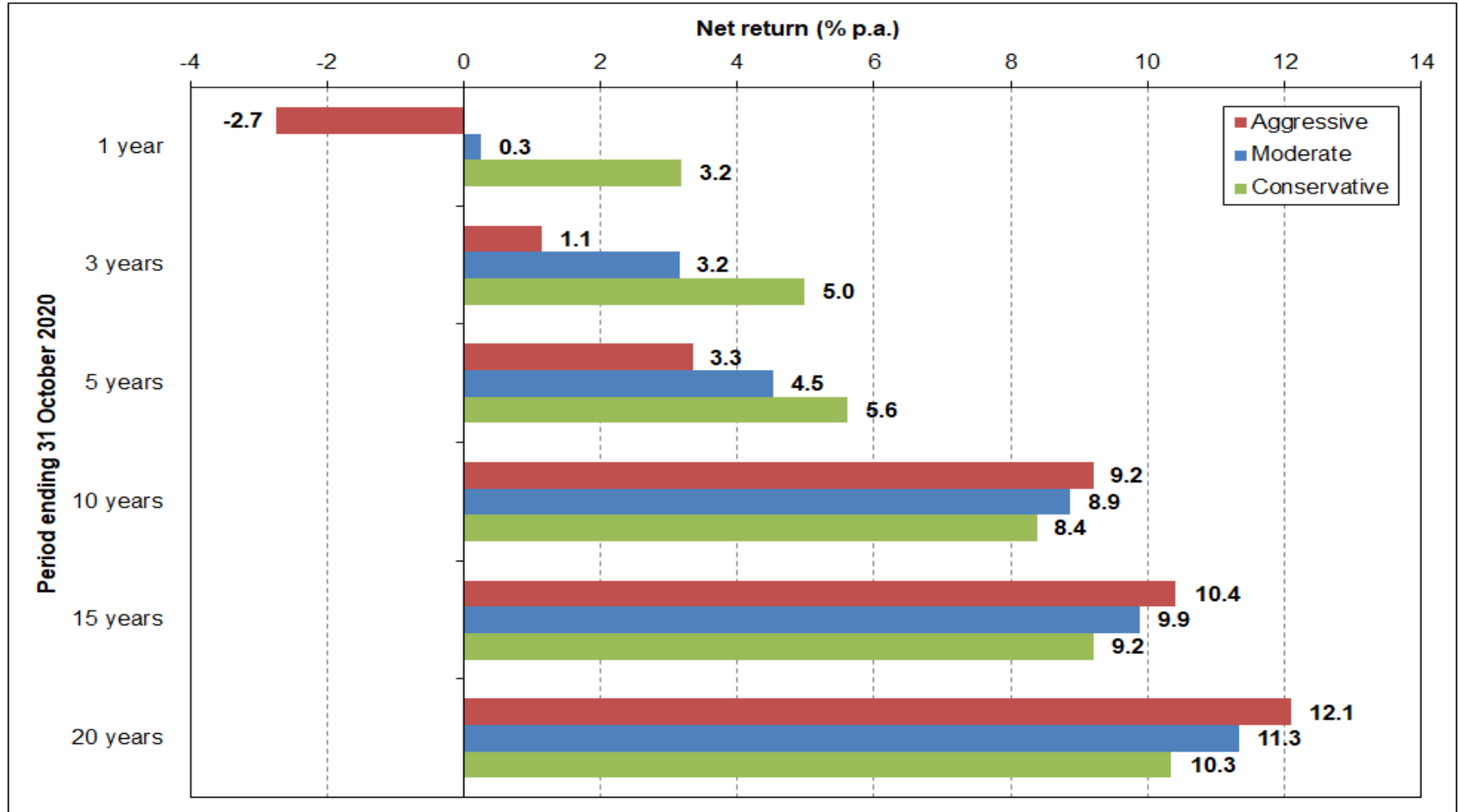
MODERATE	Strategic allocation	LOCAL VS OFFSHORE	75%			25% (5% below regulatory maximum)	
		GROWTH VS INCOME ASSETS	55%	45%		55%	45%
		EQUITIES VS BONDS VS CASH	100%	55%	45%	100%	100%
	Current allocation		~41%	~19%	~15%	~14%	~11%

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%

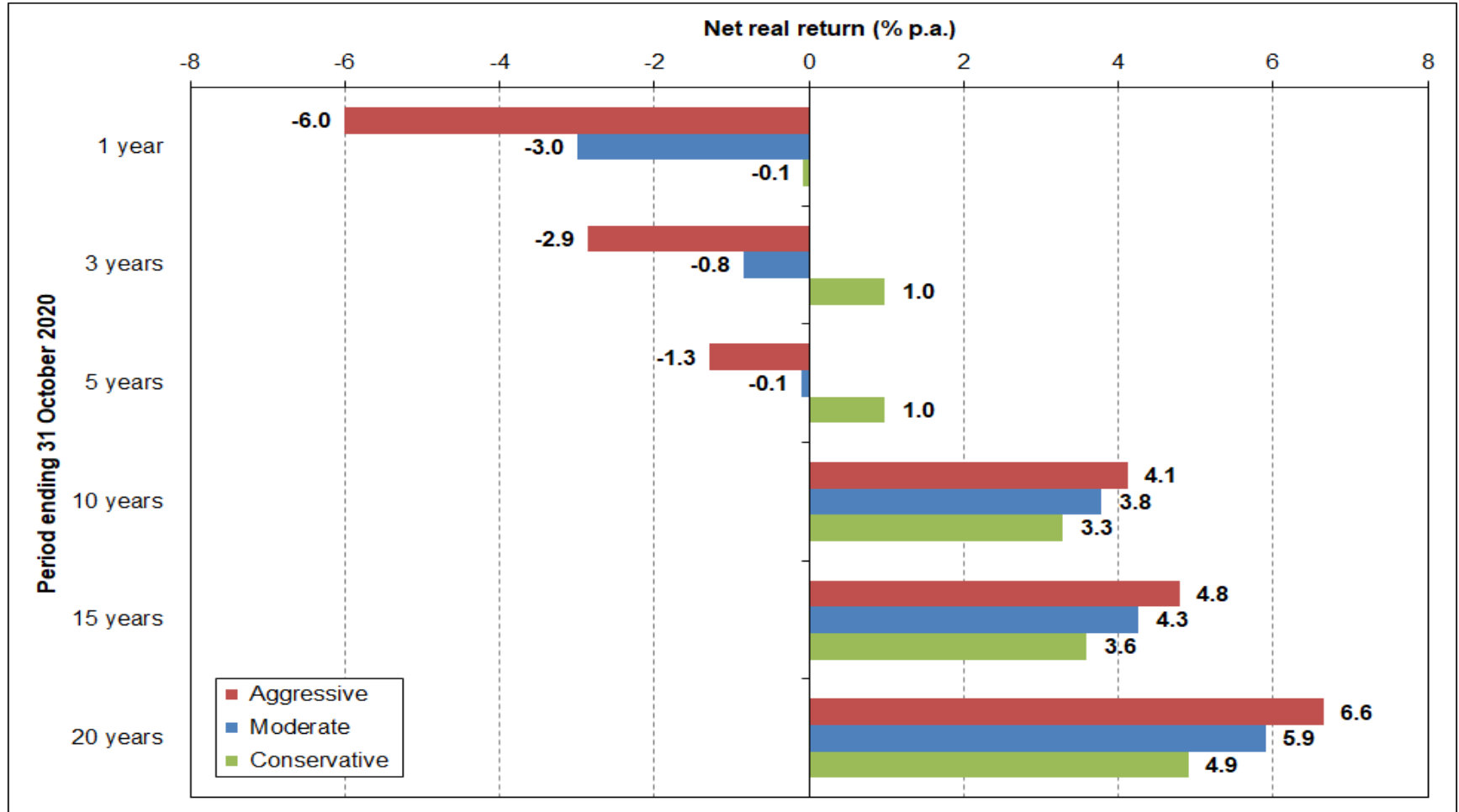
# MARKET PERFORMANCE

## 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?



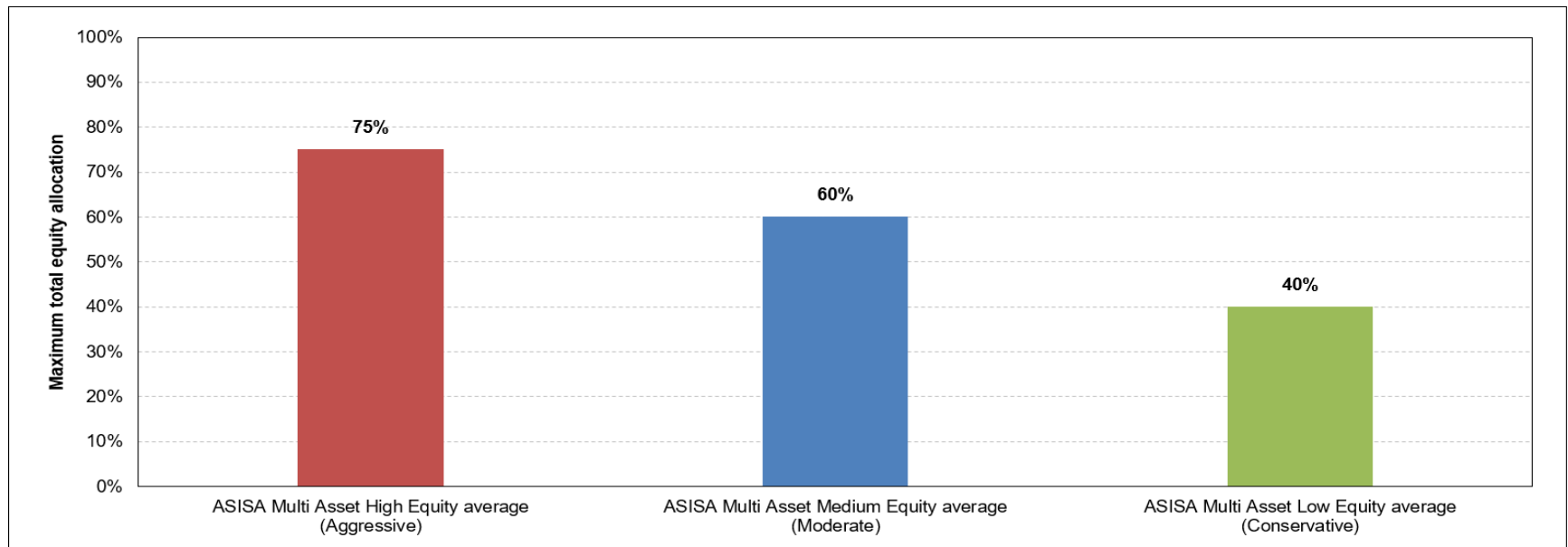
# MANAGER PERFORMANCE

## 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?

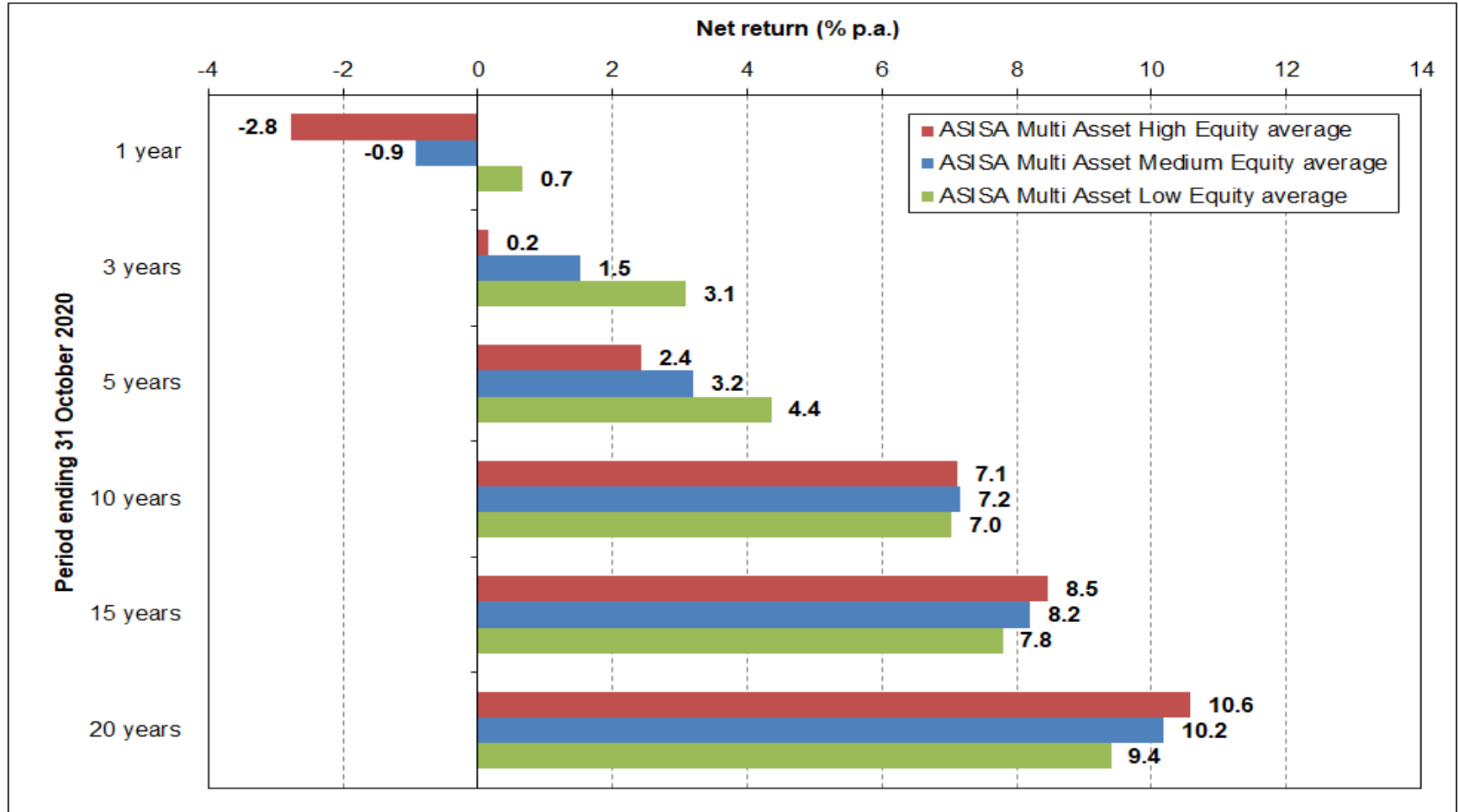
To illustrate this, we show the average returns from regulated collective investment schemes in the ASISA (Association for Savings and Investments South Africa) South Africa Multi Asset High, Medium and Low Equity categories to reflect the returns of typical Aggressive, Moderate and Conservative retirement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



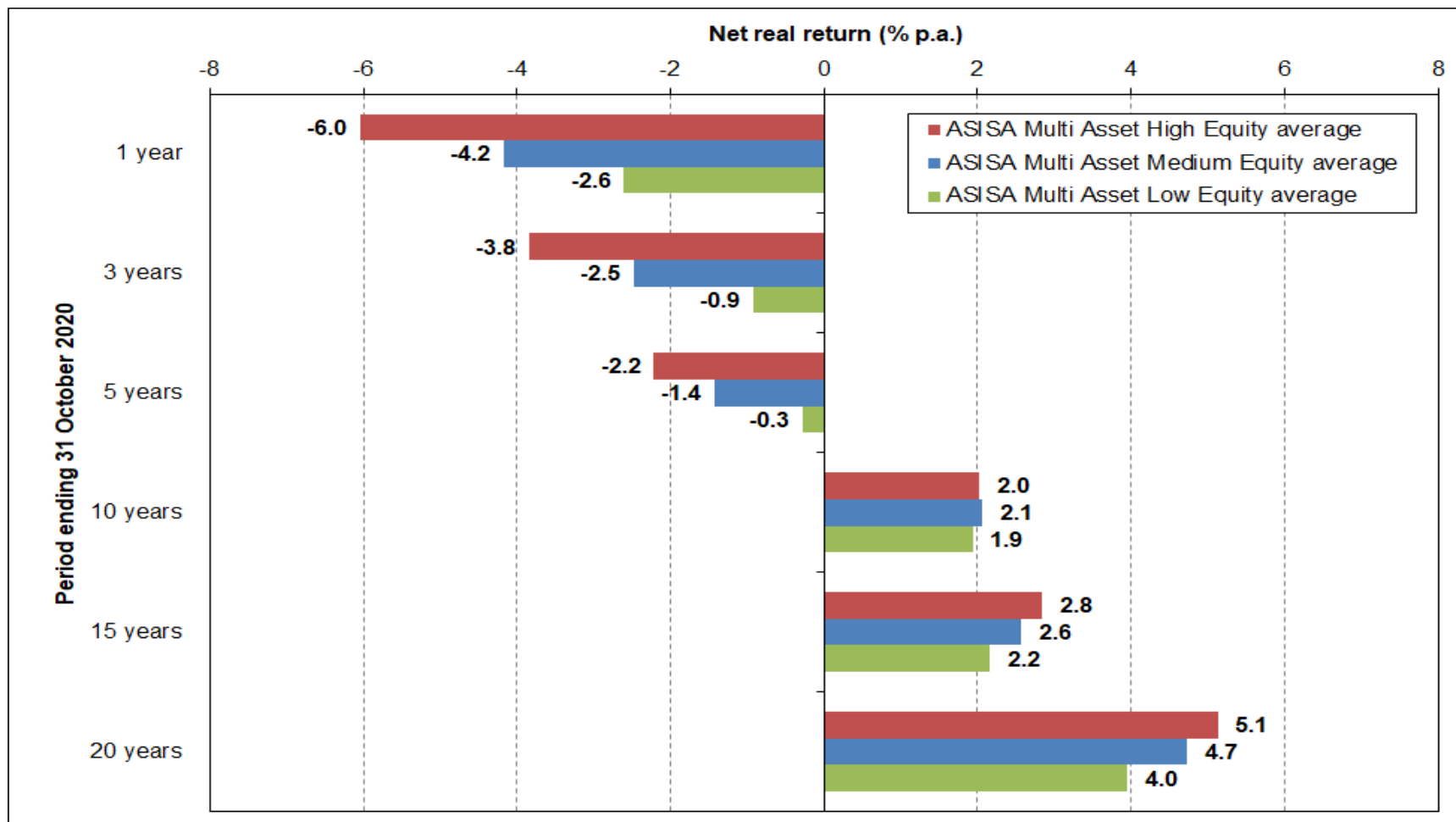
# MANAGER PERFORMANCE

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

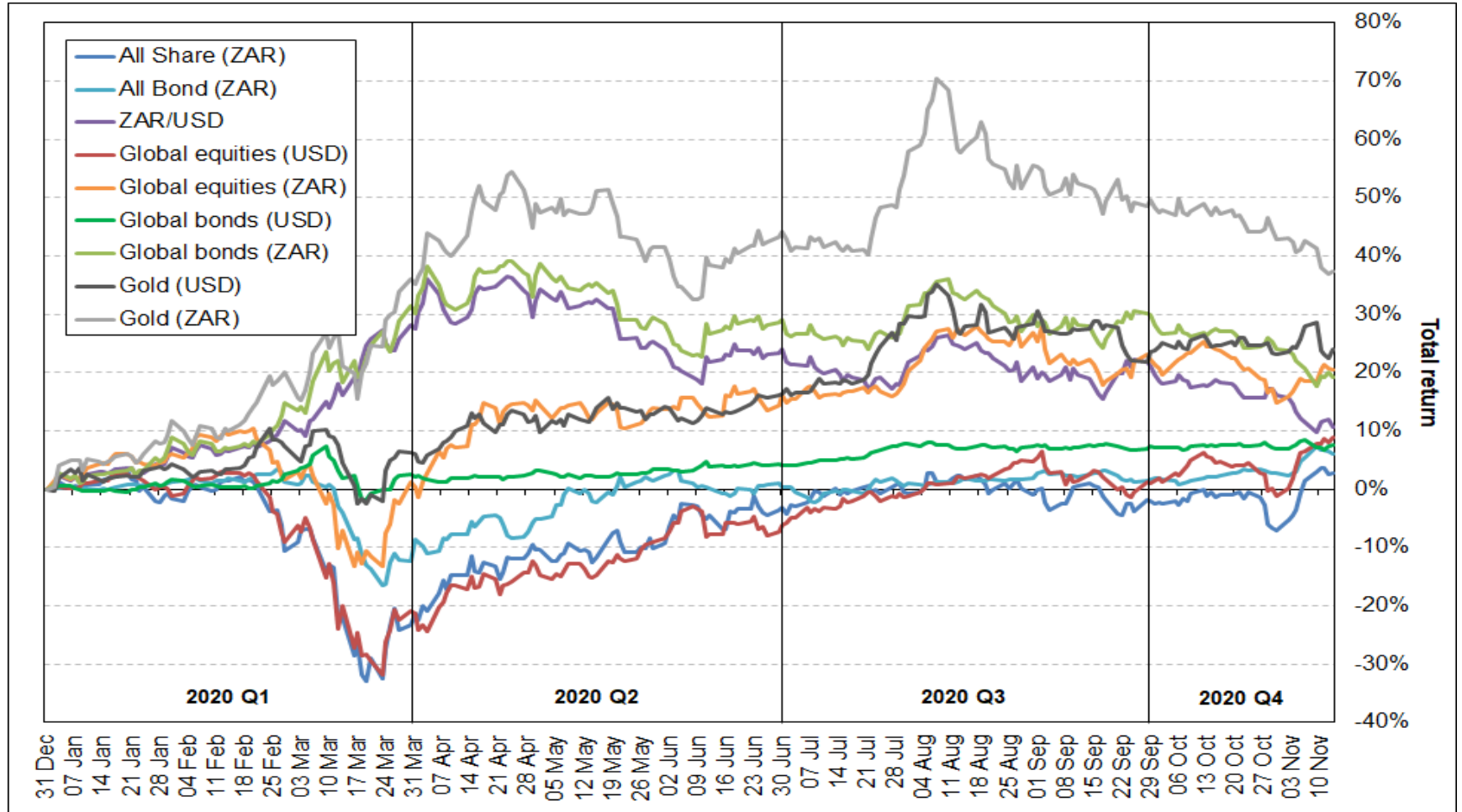


# MANAGER PERFORMANCE

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

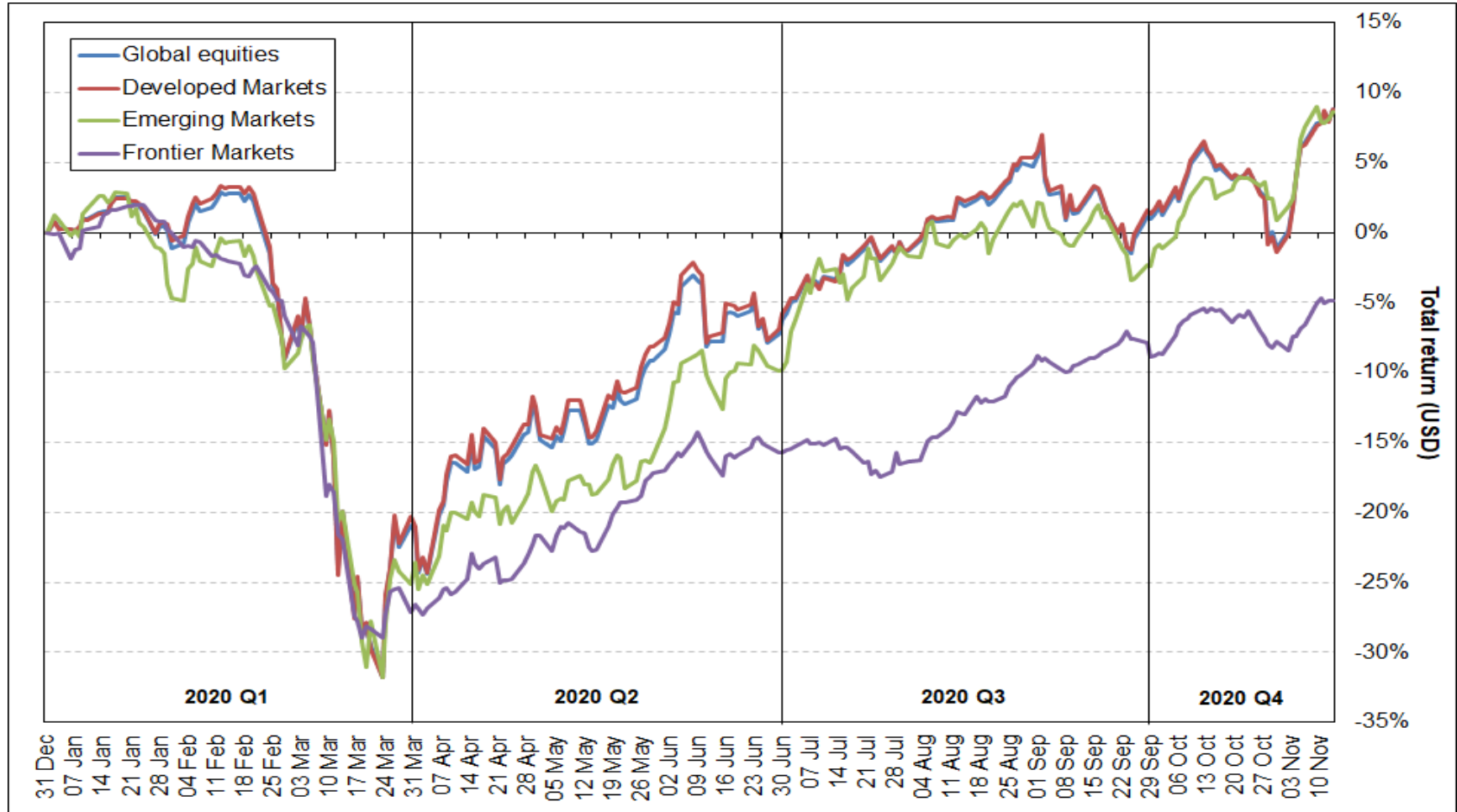


# 2020 YTD MAJOR ASSET CLASSES



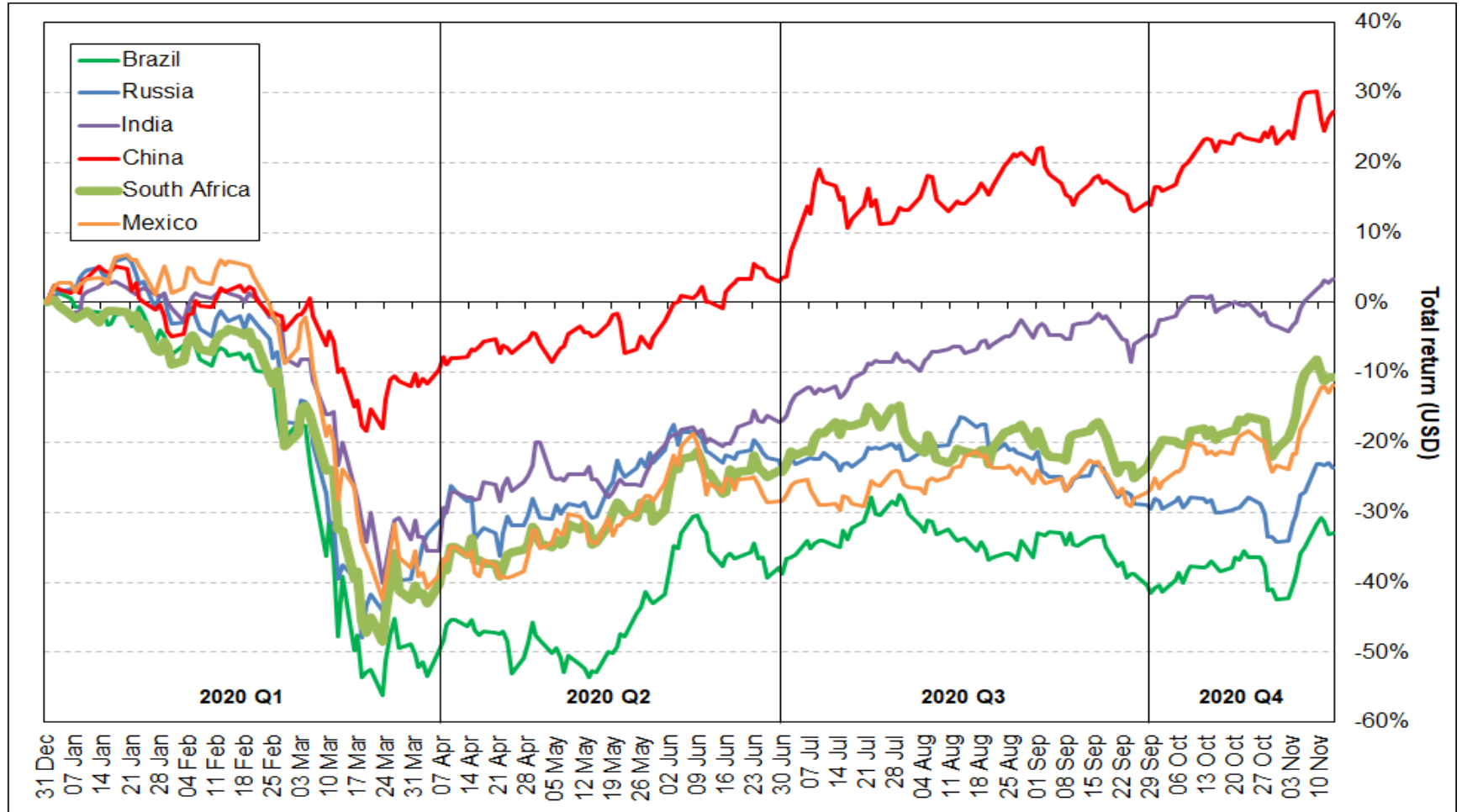


# 2020 YTD GLOBAL EQUITY MARKETS (USD)

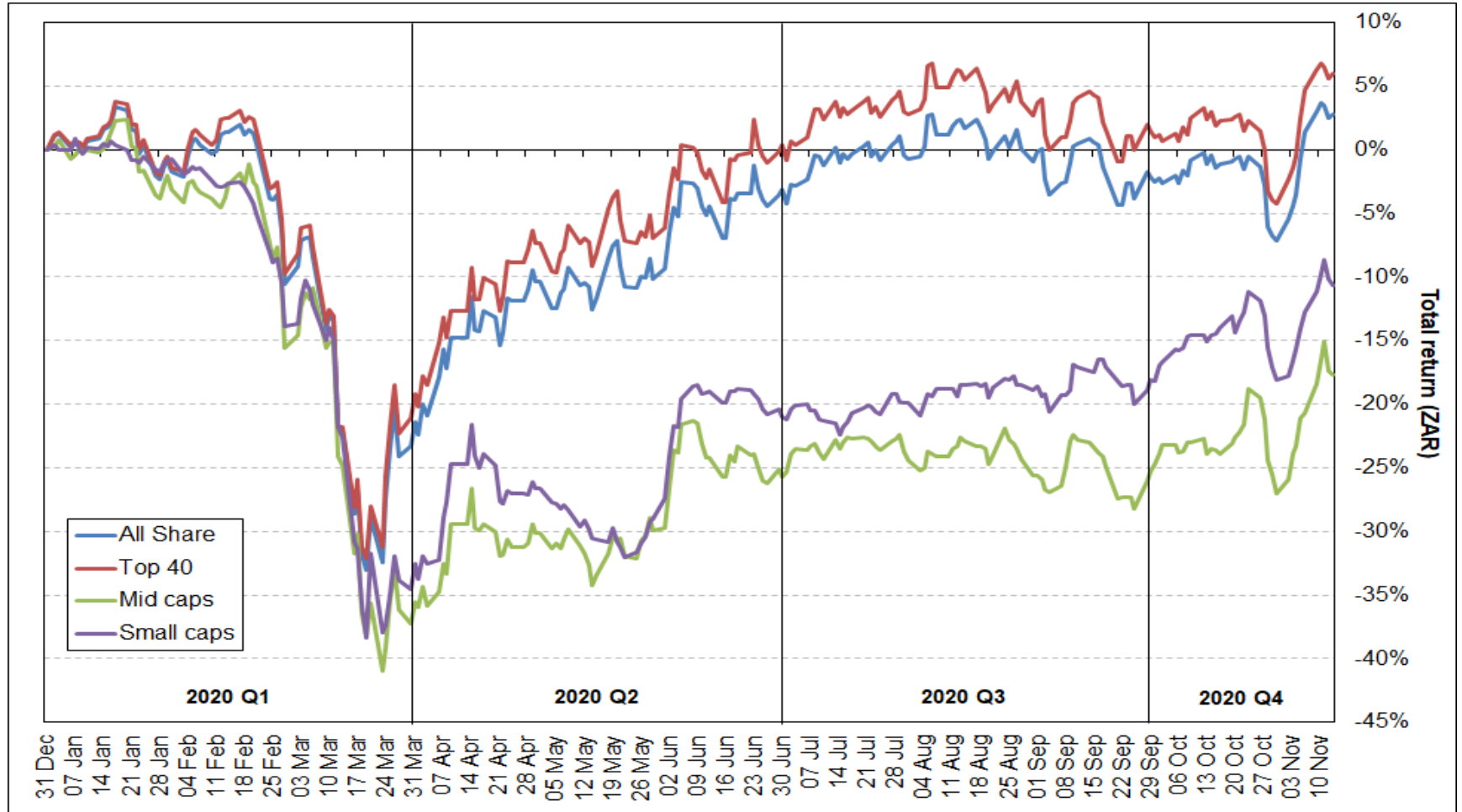


# 2020 YTD

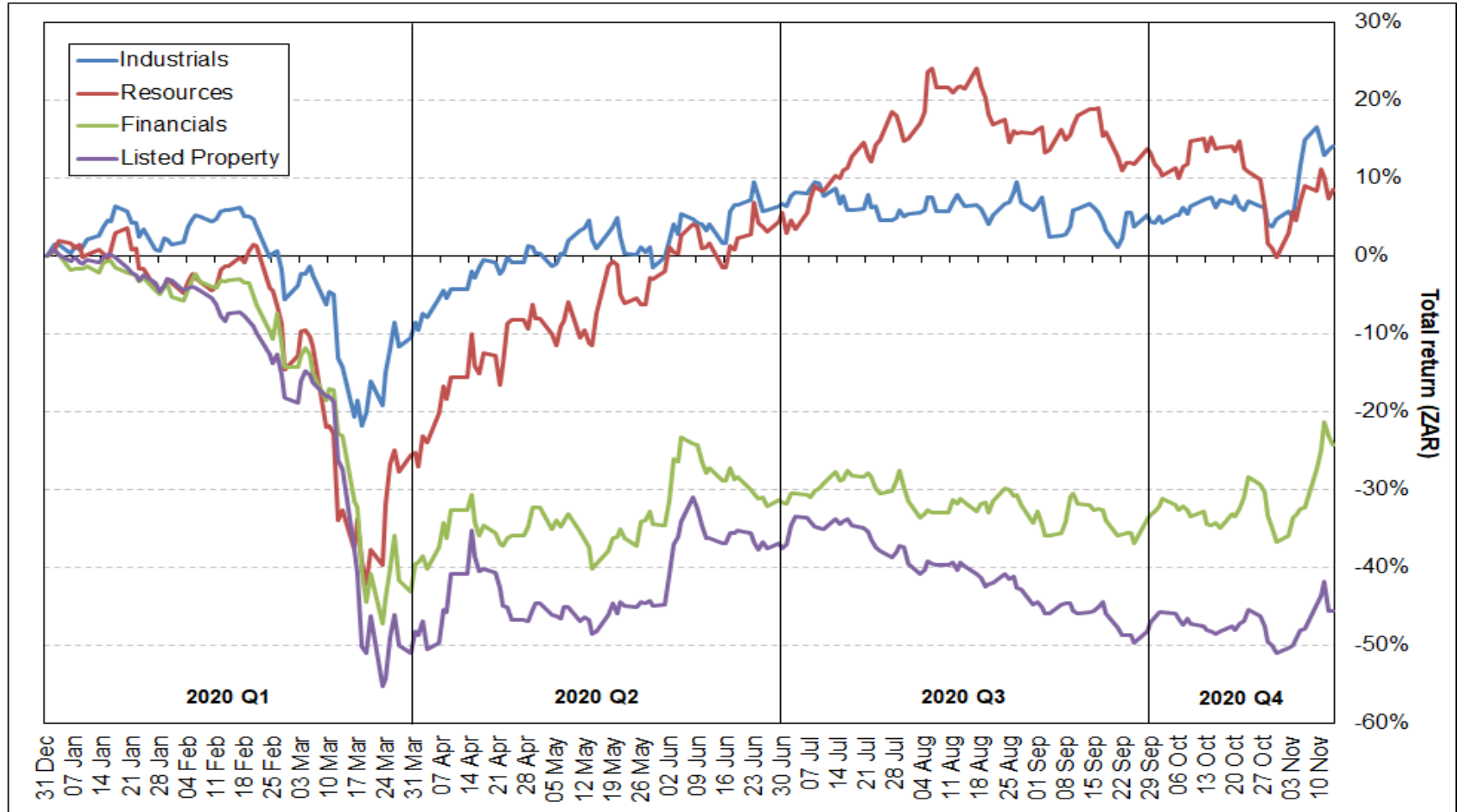
## GLOBAL EMERGING EQUITY MARKETS (USD)



# 2020 YTD LOCAL EQUITY MARKET

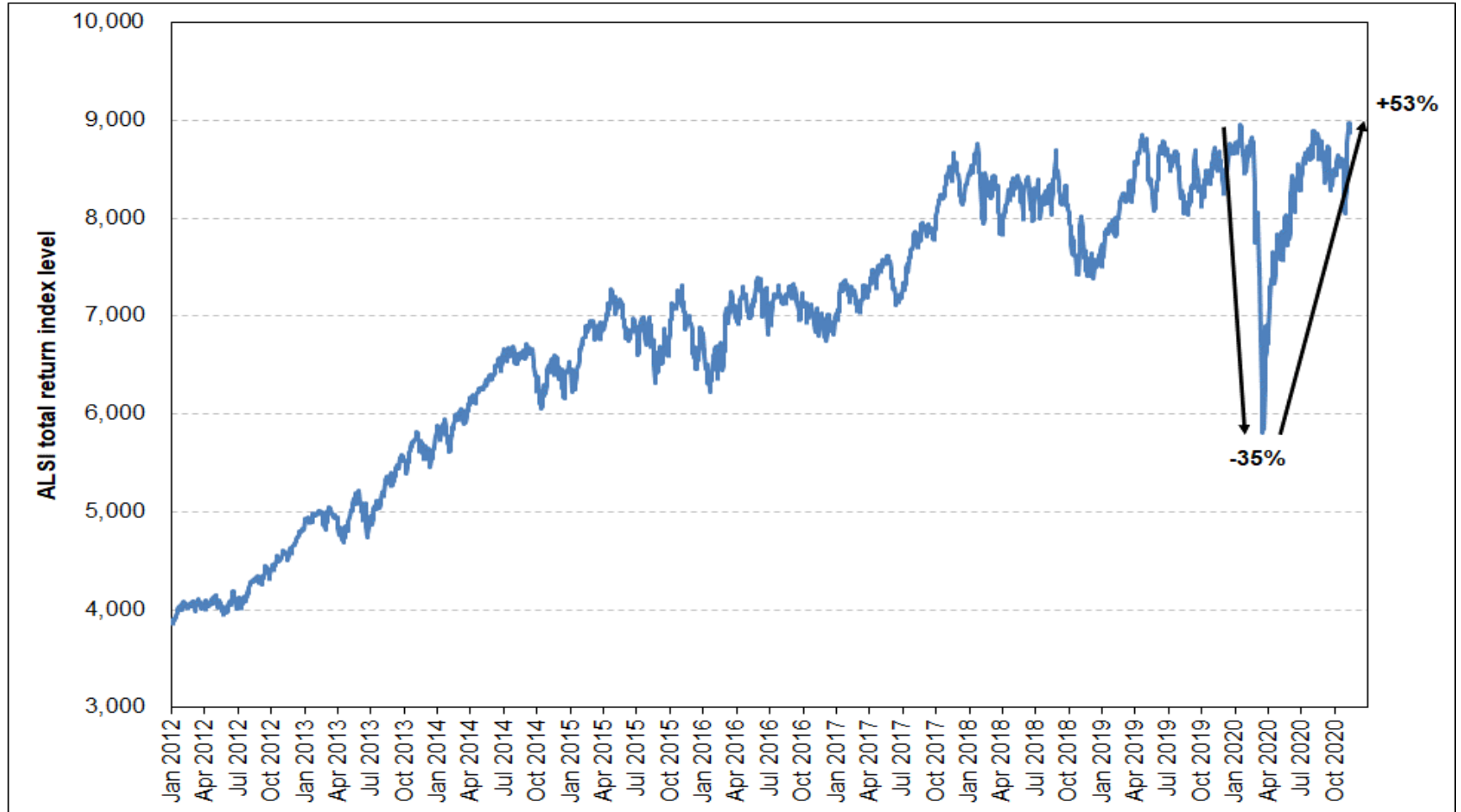


# 2020 YTD LOCAL EQUITY MARKET



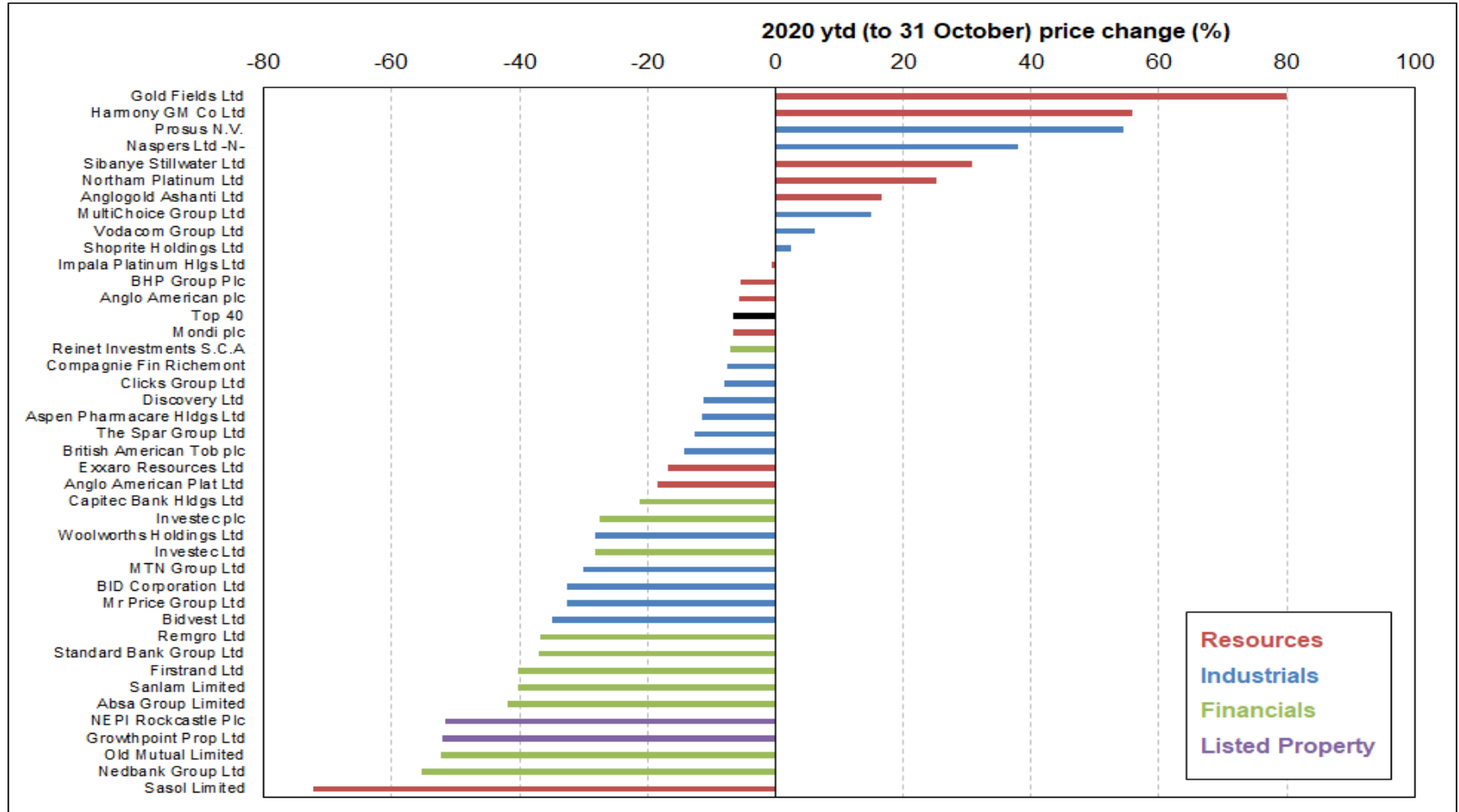
# LOCAL EQUITY MARKET

## HOPEFULLY THE WORST IS NOW OVER



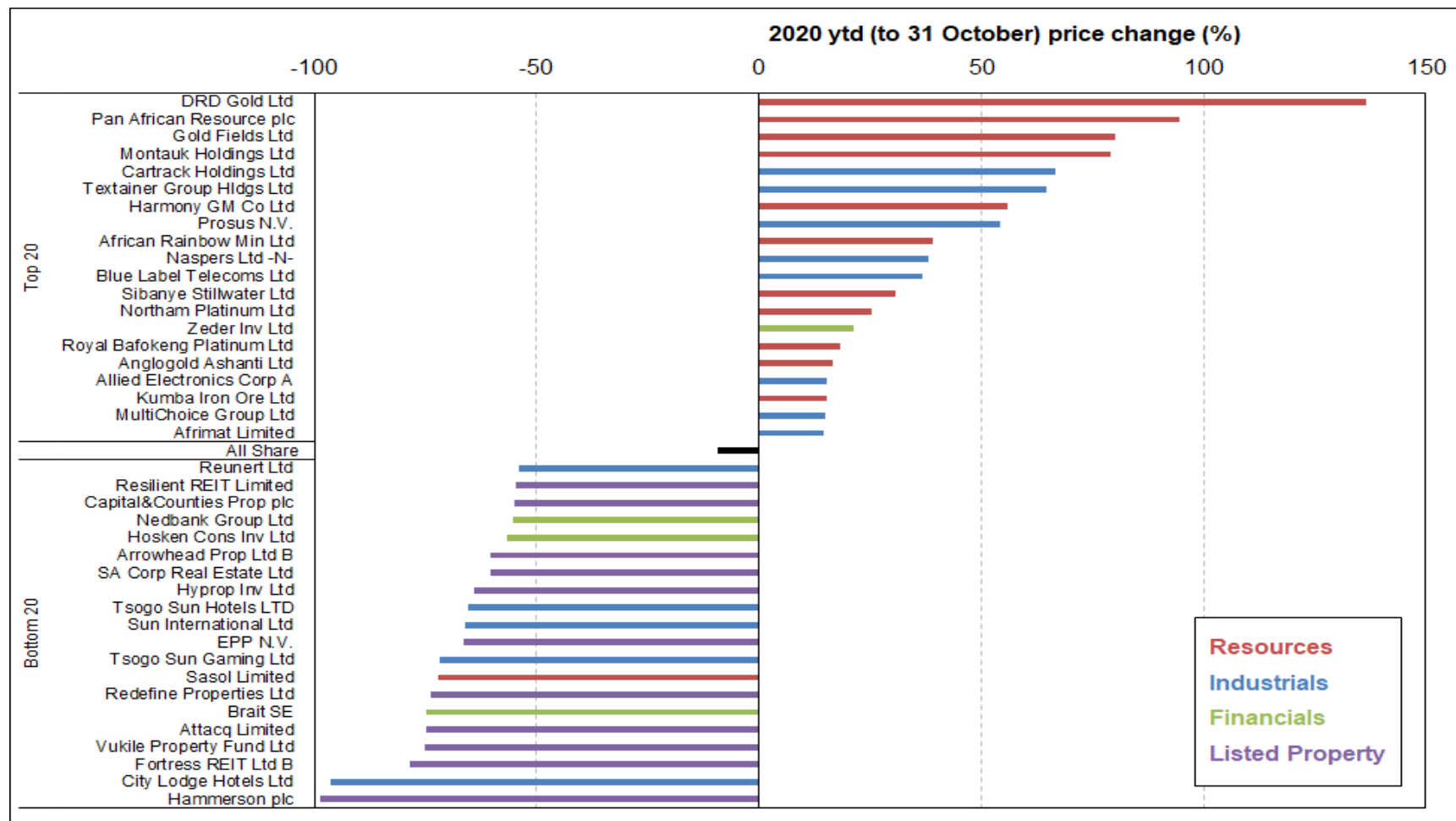
# LOCAL EQUITY MARKET

## TOP 40 (LARGE CAP) STOCKS IN 2020



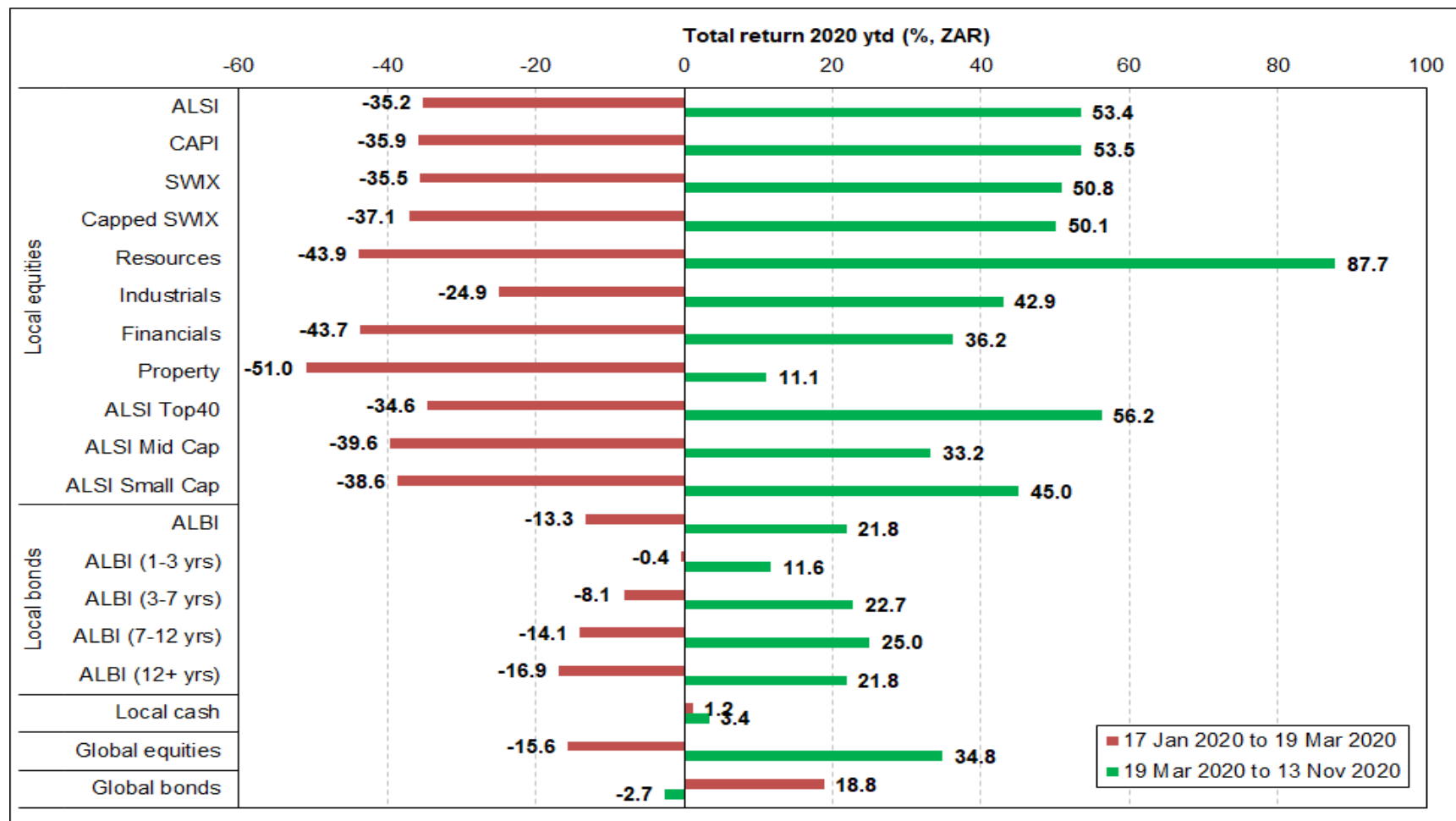
# LOCAL EQUITY MARKET

## BEST & WORST PERFORMERS IN 2020



# MARKETS IN 2020

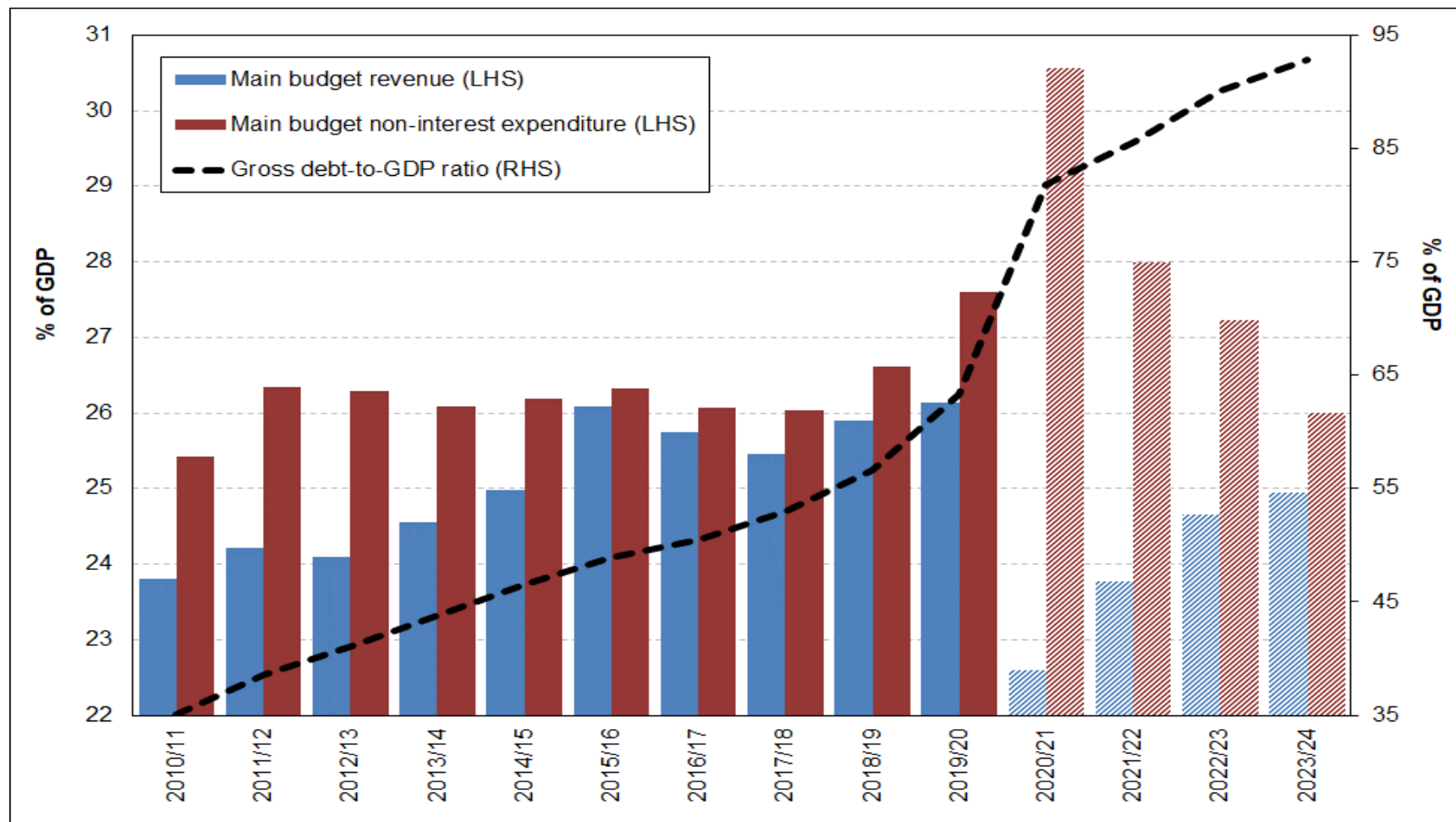
## ANOTHER LESSON FOR INVESTORS: DON'T PANIC NEAR THE BOTTOM!





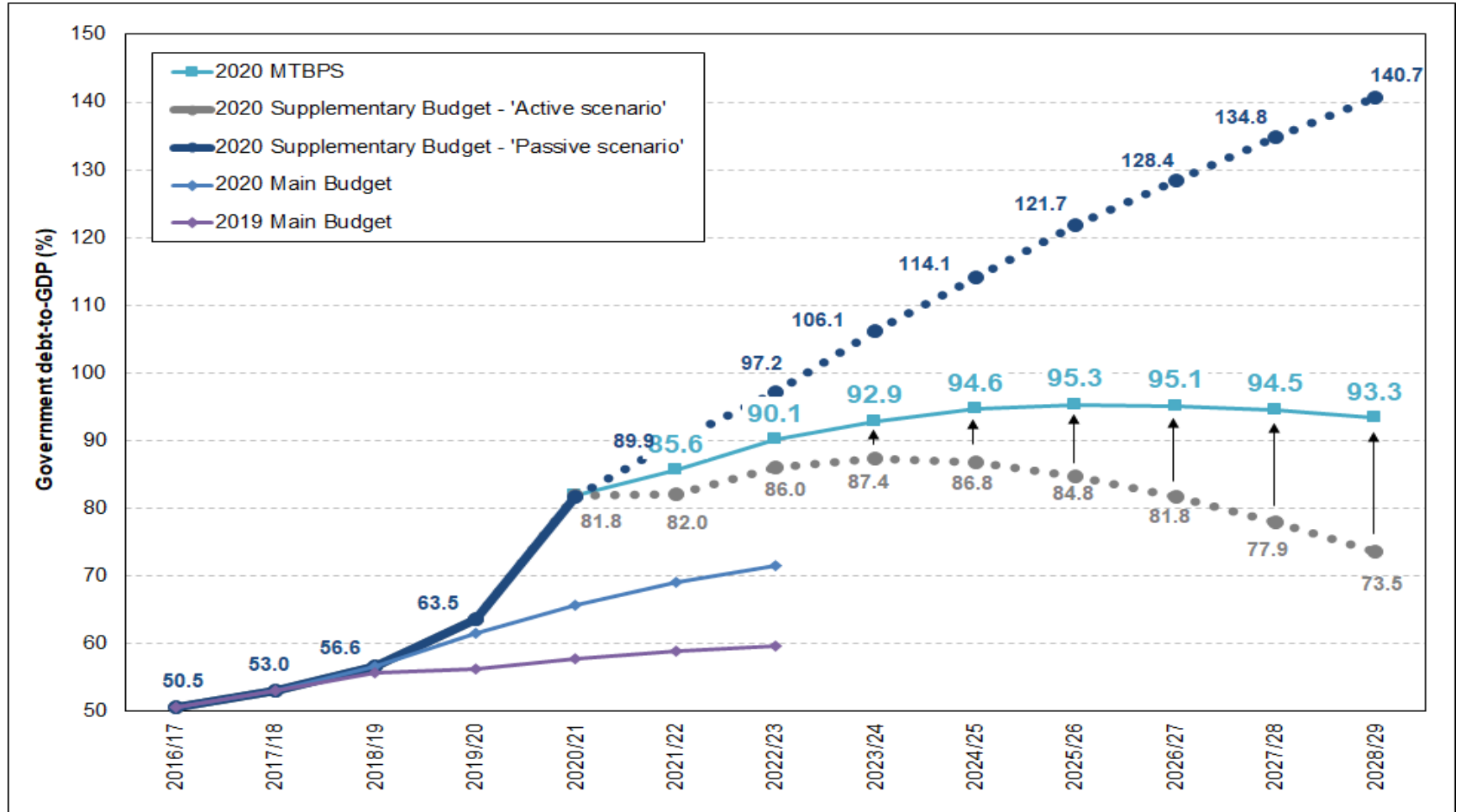
# MTBPS

## IF ONLY WE LIVED WITHIN OUR MEANS IN THE 'GOOD' OLD DAYS...



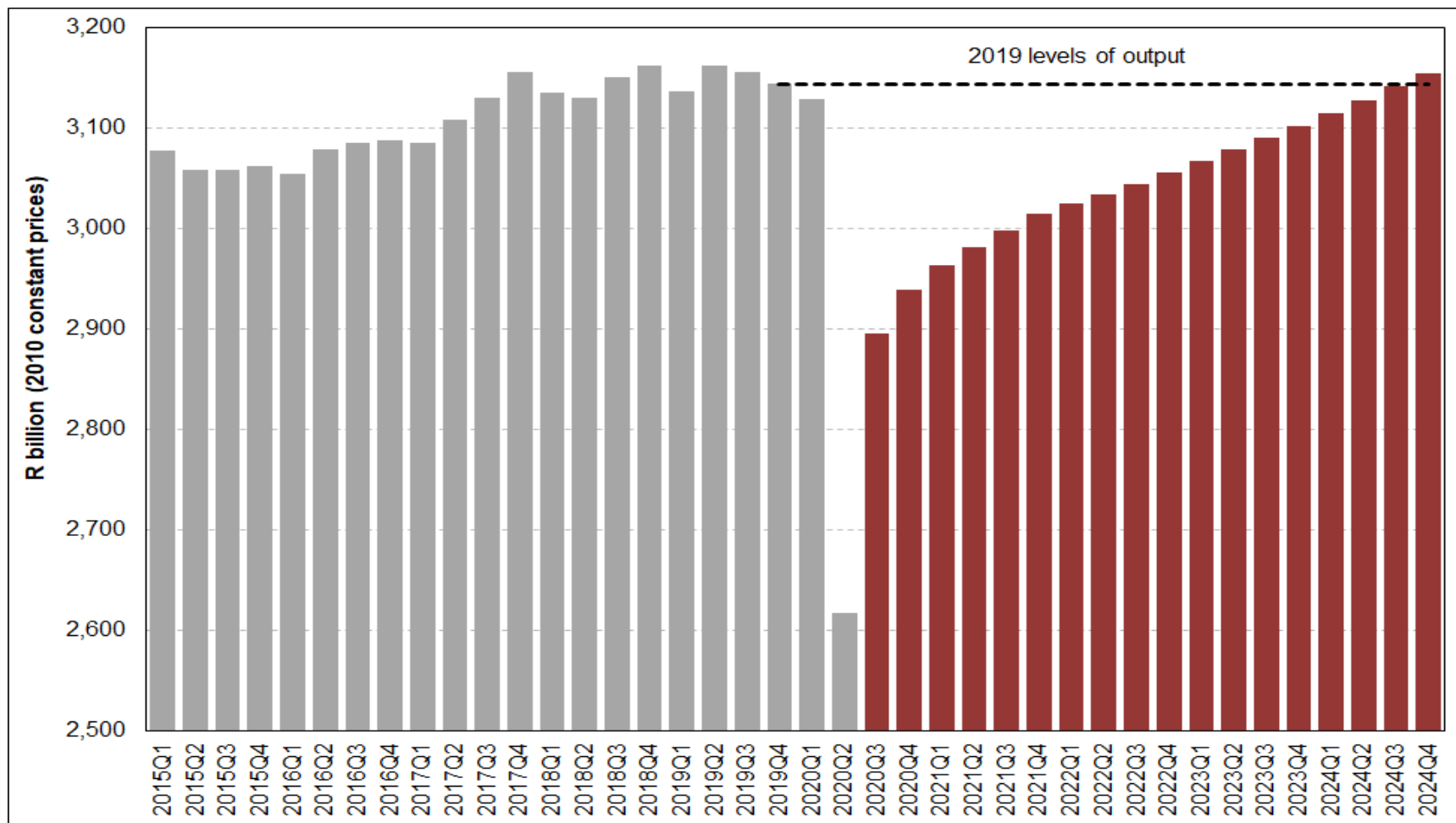
# MTBPS

## A FAMILIAR STORY...

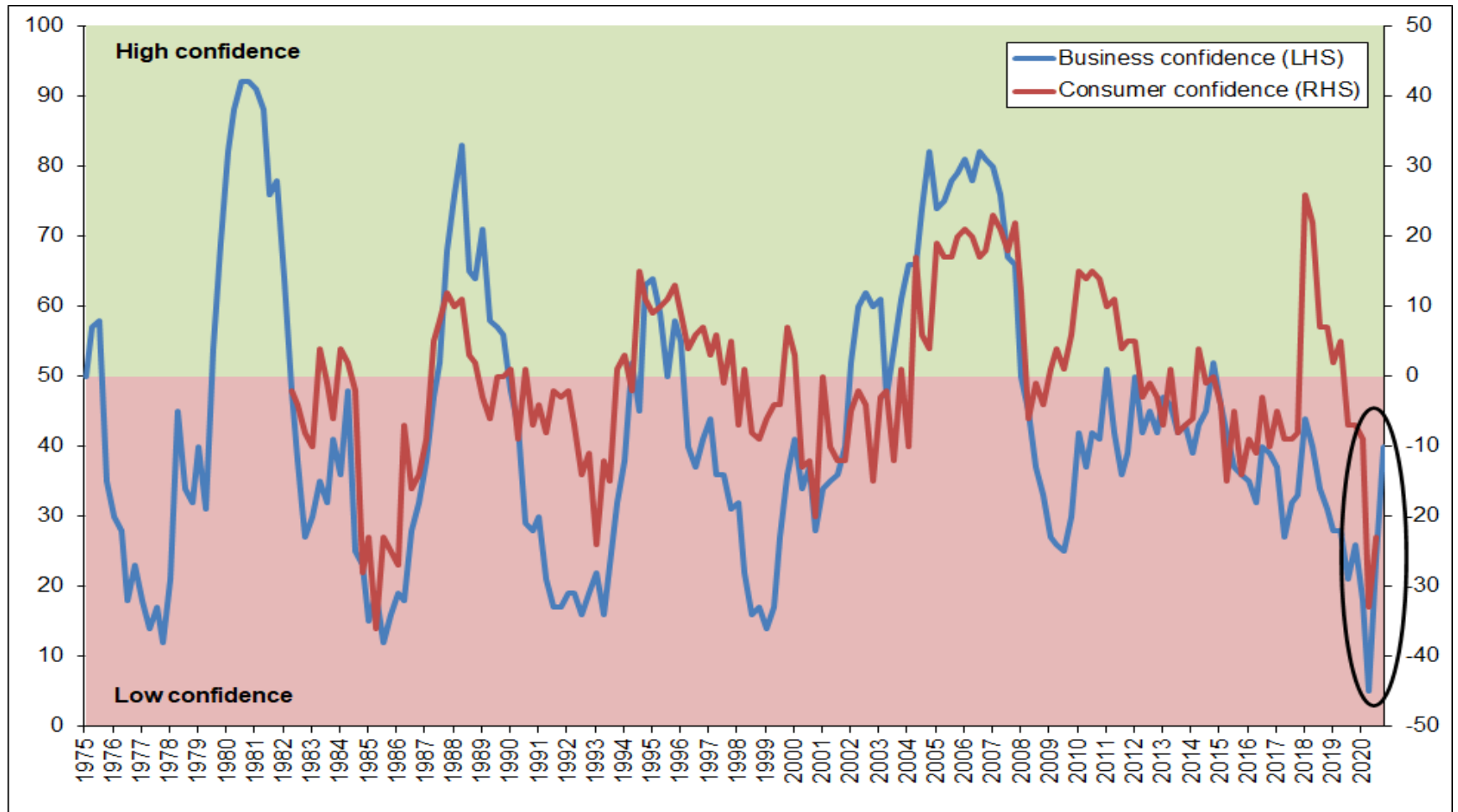


# MTBPS

## ECONOMIC RECOVERY ESTIMATED TO TAKE FOUR YEARS...

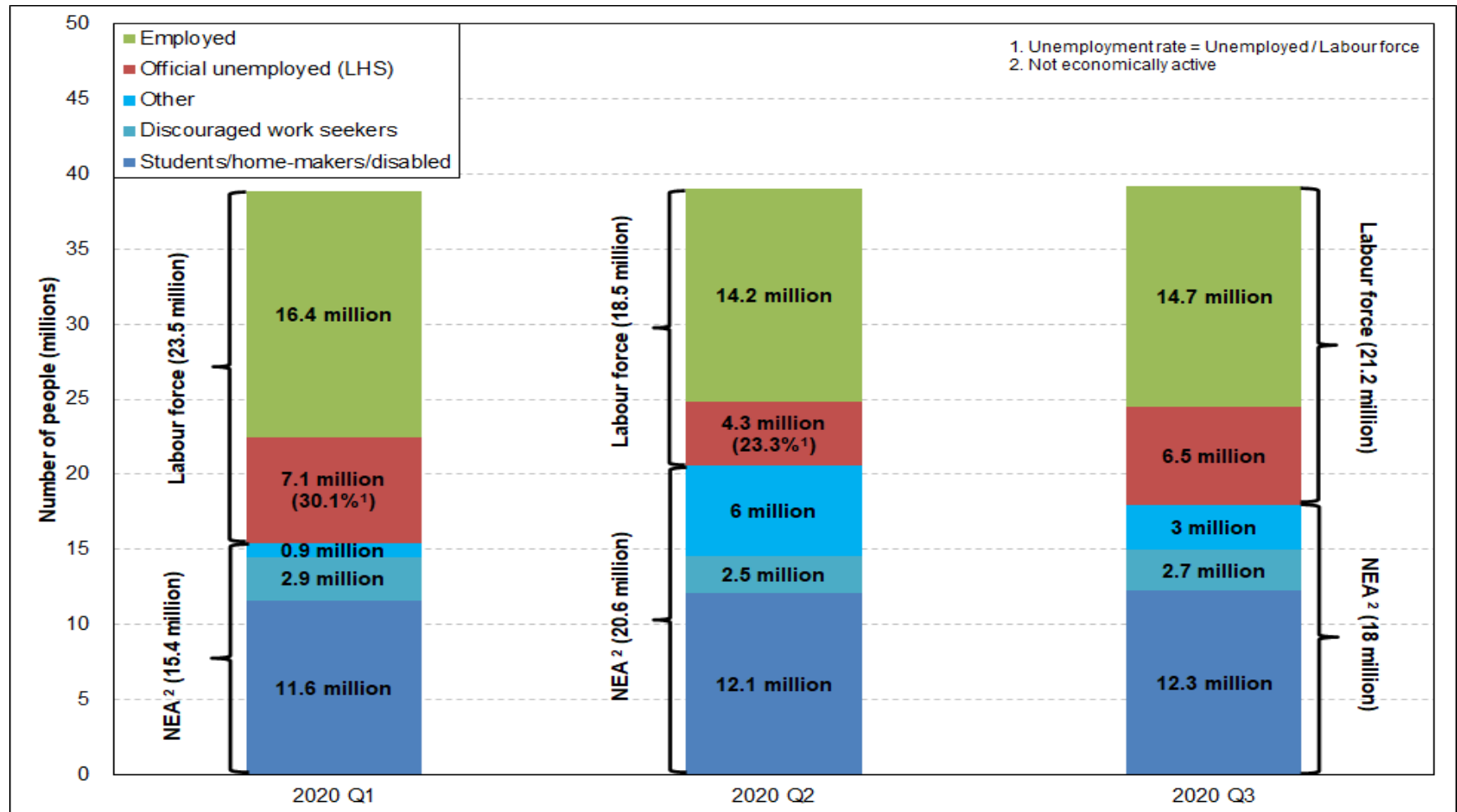


# SA BUSINESS CONFIDENCE ON THE MEND, BUT STILL BELOW NEUTRAL. WILL CONSUMER CONFIDENCE FOLLOW?



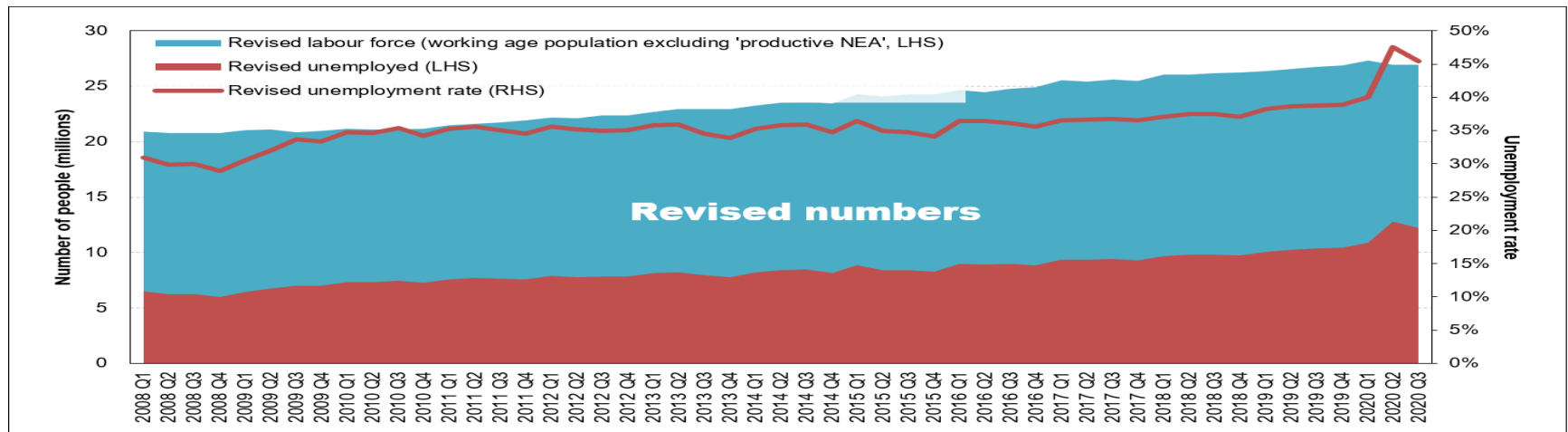
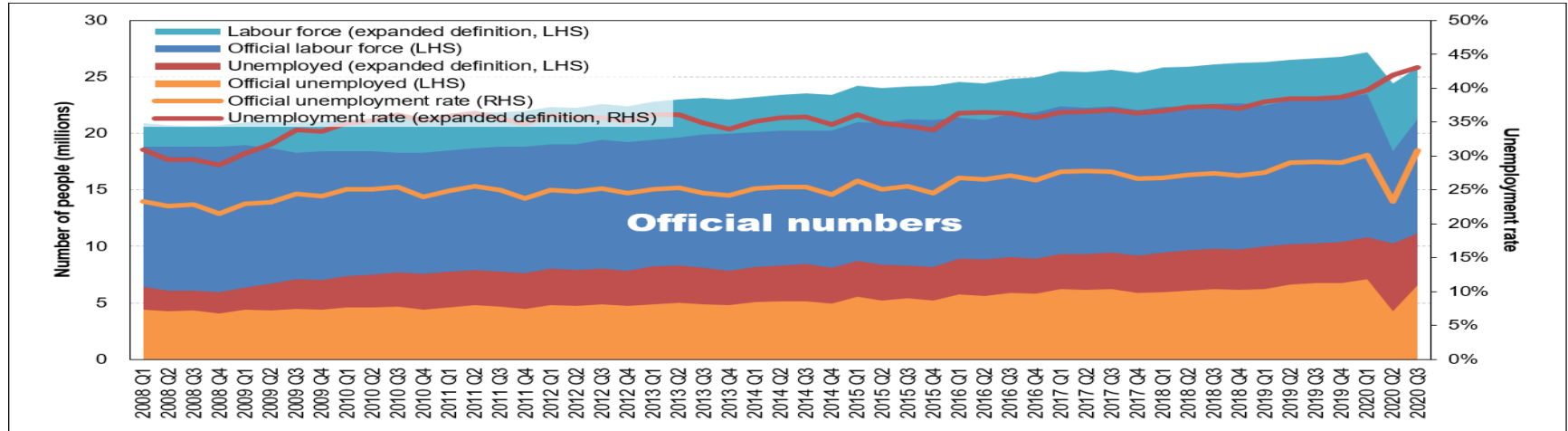
# SA UNEMPLOYMENT

## 0.5 MILLION OF 2.2 MILLION JOBS LOST IN Q2 RECOVERED...



# SA UNEMPLOYMENT

## ...BUT QUANTUM AND TREND REMAIN FRIGHTENING



# SA CREDIT RATINGS REACHES LOWEST LEVELS YET...

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	
		A+																												A1	
	Upper medium grade	A																												A2	
		A-																												A3	
		BBB+																												Baa1	
	Lower medium grade	BBB																												Baa2	
BBB-																													Baa3		
Sub-investment grade ("junk")		BB+																												Ba1	Negative
	Non-investment grade / speculative	BB																											Ba2		
		BB-																											Ba3		
		Highly speculative	B+																											B1	
	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		
		DD																											/		
		D																											/		



# SA CREDIT RATINGS

## ...FOLLOWING SECOND DOWNGRADES FROM MOODY'S AND FITCH THIS YEAR

Rating		S&P			Fitch			Moody's		
		Nov 2019	Mar 2020	Nov 2020	Nov 2019	Mar 2020	Nov 2020	Nov 2019	Mar 2020	Nov 2020
Investment grade	Prime	AAA	AAA	AAA	AAA	AAA	AAA	Aaa	Aaa	Aaa
	High grade	AA+	AA+	AA+	AA+	AA+	AA+	Aa1	Aa1	Aa1
		AA	AA	AA	AA	AA	AA	Aa2	Aa2	Aa2
		AA-	AA-	AA-	AA-	AA-	AA-	Aa3	Aa3	Aa3
	Upper medium grade	A+	A+	A+	A+	A+	A+	A1	A1	A1
		A	A	A	A	A	A	A2	A2	A2
		A-	A-	A-	A-	A-	A-	A3	A3	A3
	Lower medium grade	BBB+	BBB+	BBB+	BBB+	BBB+	BBB+	Baa1	Baa1	Baa1
		BBB	BBB	BBB	BBB	BBB	BBB	Baa2	Baa2	Baa2
		BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	Baa3	Baa3	Baa3
Sub-investment grade ("junk")	Non-investment grade / speculative	BB+	BB+	BB+	BB+	BB+	BB+	Ba1	Ba1	Ba1
		BB	BB	BB	BB	BB	BB	Ba2	Ba2	Ba2
		BB-	BB-	BB-	BB-	BB-	BB-	Ba3	Ba3	Ba3
	Highly speculative	B+	B+	B+	B+	B+	B+	B1	B1	B1
		B	B	B	B	B	B	B2	B2	B2
		B-	B-	B-	B-	B-	B-	B3	B3	B3
	Substantial risks	CCC+	CCC+	CCC+	CCC+	CCC+	CCC+	Caa1	Caa1	Caa1
		CCC	CCC	CCC	CCC	CCC	CCC	Caa2	Caa2	Caa2
		CCC-	CCC-	CCC-	CCC-	CCC-	CCC-	Caa3	Caa3	Caa3
	Extremely speculative	CC	CC	CC	CC	CC	CC	Ca	Ca	Ca
	Default imminent	C	C	C	C	C	C	Ca	Ca	Ca
	In default	RD / DDD	RD / DDD	RD / DDD	RD / DDD	RD / DDD	RD / DDD	C	C	C
		DD	DD	DD	DD	DD	DD	/	/	/
		D	D	D	D	D	D	/	/	/
Outlook		Negative	Stable	Stable	Negative	Negative	Negative	Negative	Negative	Negative