

MONTH IN PICTURES

**NOVEMBER
2020**

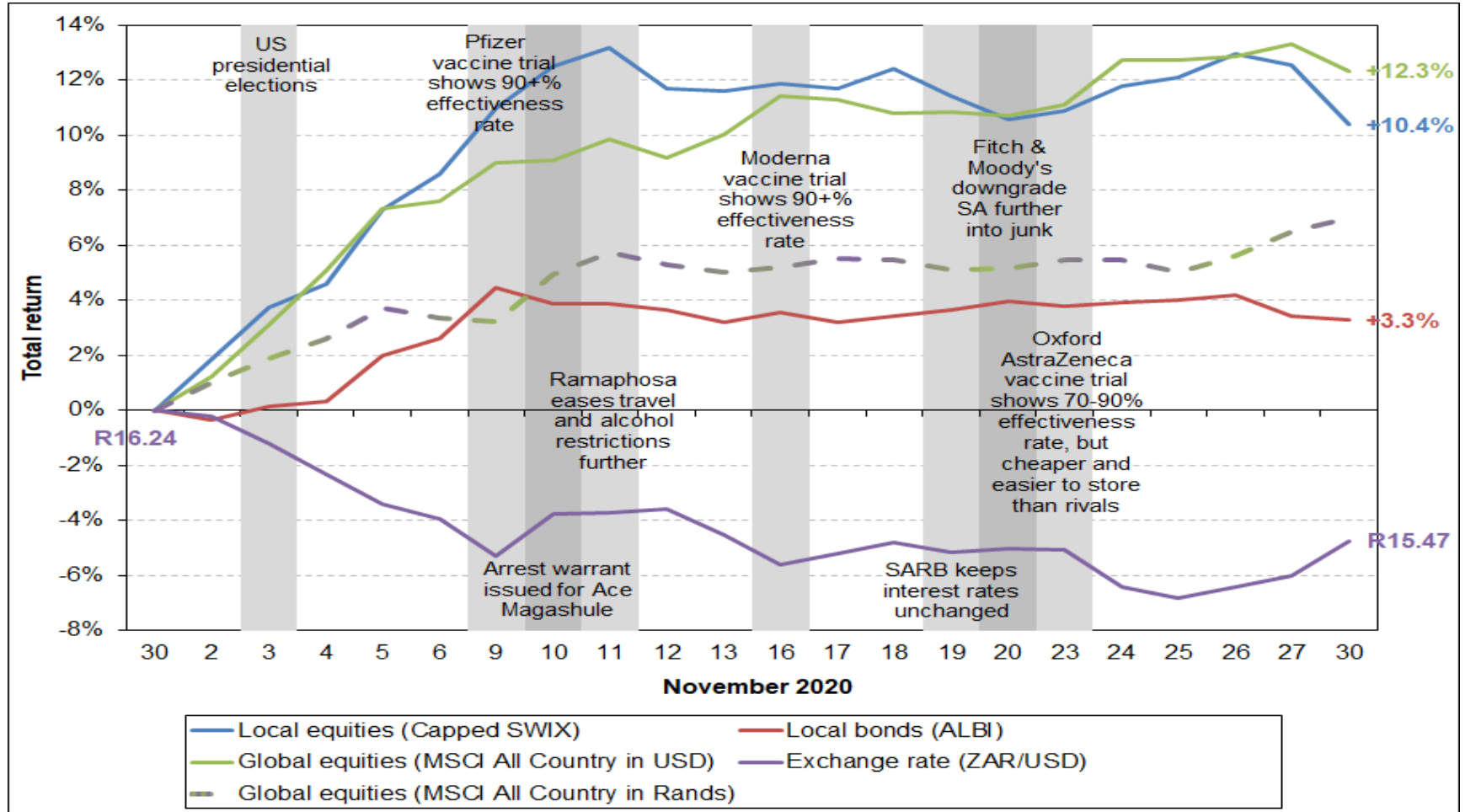
MONTHLY SNAPSHOT

NOTABLE EVENTS

- After a sharp sell-off in the second half of October, equity markets had a very strong November, with promising vaccine-related news and a Joe Biden victory in the US presidential elections boosting optimism.
- The local equity market (as measured by the Capped SWIX) enjoyed double digit gains (+10.4%), with many of the beaten down cyclical stocks showing strong gains. The sectors most exposed to these, such as Financials (+17.1%) and Listed Property (+17.5%) therefore led the pack, with the more rand hedge heavy Industrials (+8.0%) and Resources (+10.9%) sectors bringing up the rear.
- The local bond market also had a good month, returning +3.3% as the hitherto unpopular longer end of the yield curve (i.e., bonds with maturities longer than 12 years) gained 5.3% compared to a loss of 0.1% for bonds in the 1- to 3-year range.
- The Rand continued its good run, gaining more than 2% against the Pound and Euro and nearly 5% against the US Dollar. The Rand is now around 10-20% stronger against these currencies than it was just a couple of months ago.
- Global equity markets also put in a double-digit performance in November (+12.3% in USD), but a stronger Rand resulted in a lower, but still decent, 7% gain in local currency terms. Global bonds edged 1.6% higher when measured in US Dollars, which translated into a Rand loss of 3.3%.
- In its final meeting of the year, the SA Reserve Bank kept the repo policy rate on hold at 3.5%.
- The local economy bounced back strongly from a low base in 2020 Q3, growing by a better than expected 13.5% (or 66.1% when annualised) after contracting by a downwardly revised 16.6% in Q2. Despite this rebound, the economy is still 5.8% smaller than it was at the end of 2019 and 6.0% down from Q3 last year.
- South Africa is on track for its first annual current account surplus (i.e., more money flowing into the country, than out) in many years as the latest numbers revealed a record surplus of R297.5 billion in 2020 Q3. Our trade balance (exports less imports) hit all-time highs (R453.6 billion), assisted by low oil prices, high precious metal prices, bumper harvests and lower imports due to a weak local economy.
- As we move into the festive season South Africa's infection rates are unfortunately on the rise again, but November's strong markets have at least pushed the year-to-date performance of most retirement funds back into positive territory.

MONTHLY TIMELINE

IMPACT ON MARKETS



MARKET INDICATORS

SHORT TERM

Market indicators (% change) ¹		Sep 2020	Oct 2020	Nov 2020	3 months	12 months
Local equities	Capped SWIX	(1.1)	(4.2)	10.4	4.6	(1.7)
	Resources	(3.4)	(10.8)	10.9	(4.4)	18.4
	Industrials	(1.5)	0.4	8.0	6.8	15.7
	Financials	2.3	(5.8)	17.1	12.9	(25.3)
	Listed Property	(3.0)	(8.5)	17.5	4.3	(43.6)
Local bonds	ALBI	(0.0)	0.9	3.3	4.1	8.0
Local cash	STeFI Composite	0.3	0.3	0.3	1.0	5.7
Global equities	MSCI All Country	(4.3)	(5.4)	7.0	(3.2)	21.5
Global bonds	FTSE WGBI	(1.3)	(3.3)	(3.3)	(7.6)	15.0
Exchange rate	ZAR/USD	(1.1)	(3.1)	(4.8)	(8.7)	5.6
Inflation	CPI	0.2	0.3	0.0	0.3	3.2

1. Total returns (in Rands) for the months and periods ending 30 November 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	(1.7)	(2.9)	1.5	8.6	10.9
	Resources	18.4	17.8	20.1	3.9	7.5
	Industrials	15.7	(0.9)	3.0	13.1	15.0
	Financials	(25.3)	(9.6)	(4.1)	7.8	8.6
	Listed Property	(43.6)	(22.9)	(11.9)	2.4	8.0
Local bonds	ALBI	8.0	10.0	8.4	8.2	8.1
Local cash	STeFI Composite	5.7	6.7	7.0	6.4	7.2
Global equities	MSCI All Country	21.5	13.6	12.4	18.3	13.5
Global bonds	FTSE WGBI	15.0	9.0	6.1	10.7	10.1
Exchange rate	ZAR/USD	5.6	4.2	1.4	8.1	6.0
Inflation	CPI	3.2	4.0	4.6	5.1	5.6

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

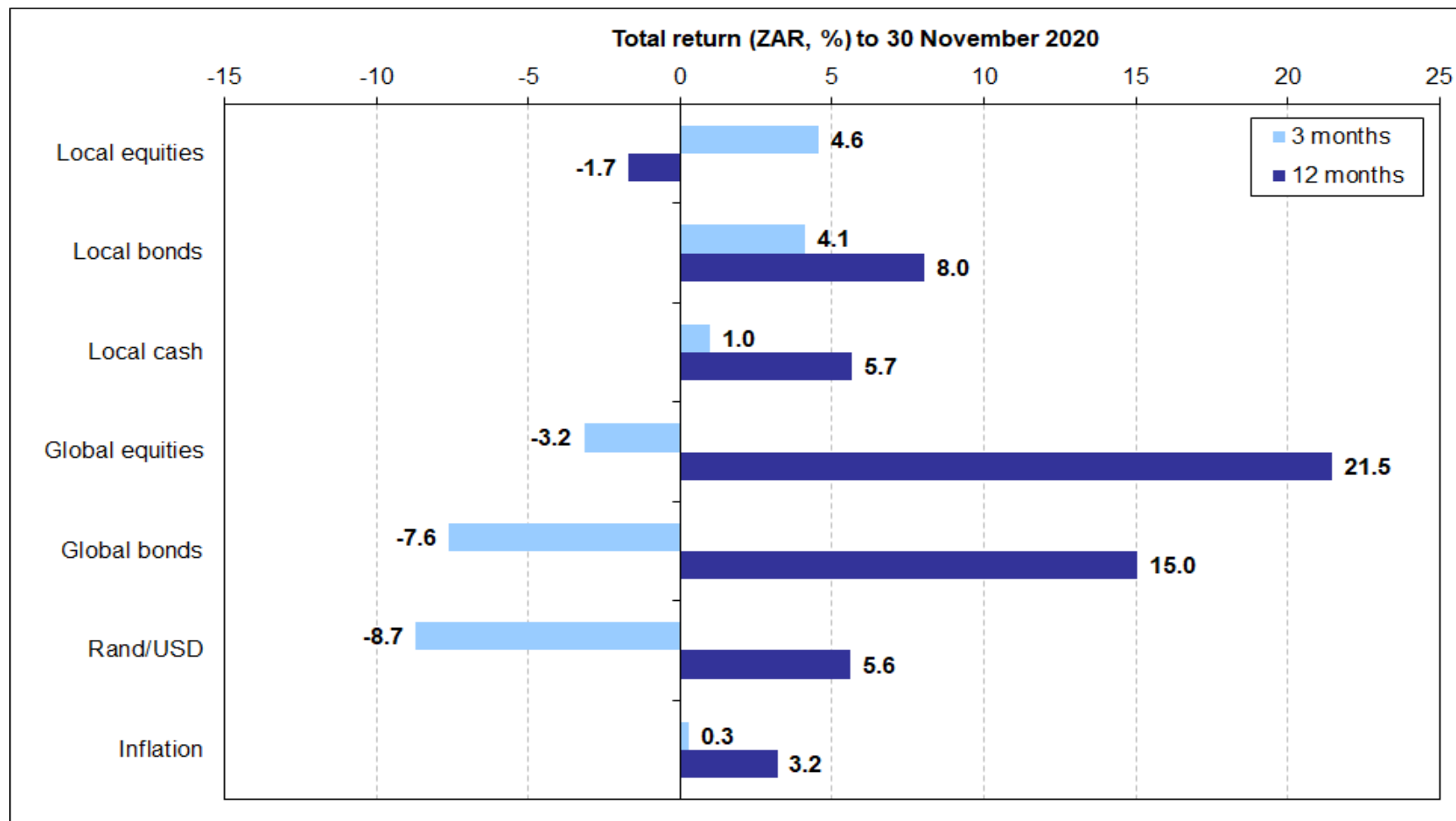
ECONOMIC INDICATORS

Economic indicators ¹	Nov 2018	Nov 2019	Sep 2020	Oct 2020	Nov 2020
Exchange rates:					
ZAR/USD	13.87	14.65	16.76	16.24	15.47
ZAR/GBP	17.67	18.93	21.65	21.05	20.60
ZAR/Euro	15.69	16.14	19.64	18.90	18.45
Commodities:					
Brent Crude Oil (USD/barrel)	59.14	62.48	42.30	37.94	47.88
Platinum (USD/ounce)	811.49	895.75	869.88	849.00	959.51
Gold (USD/ounce)	1,224.37	1,456.26	1,887.90	1,877.90	1,776.30

1. Month-end prices

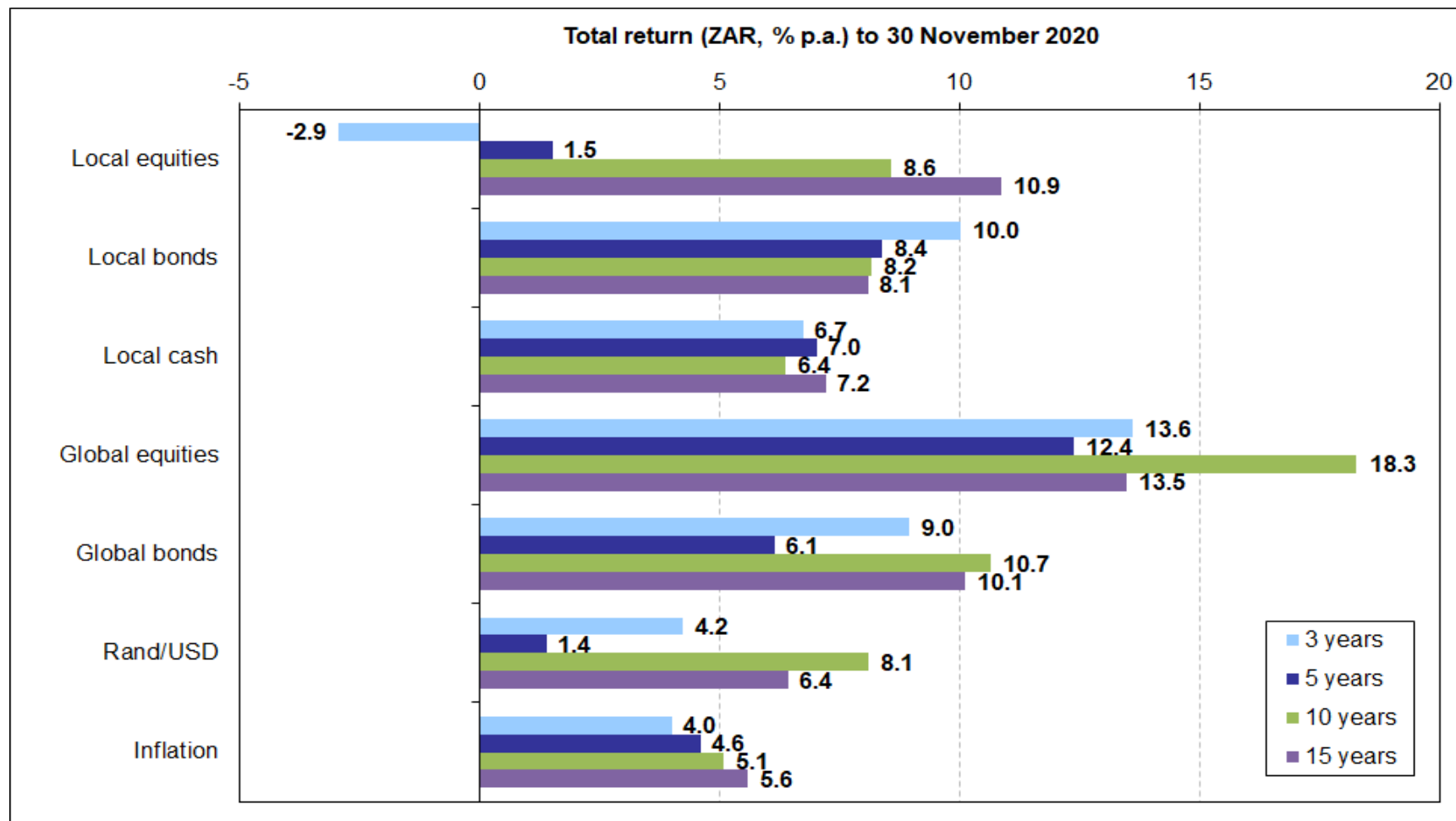
ASSET CLASS PERFORMANCE

SHORT TERM



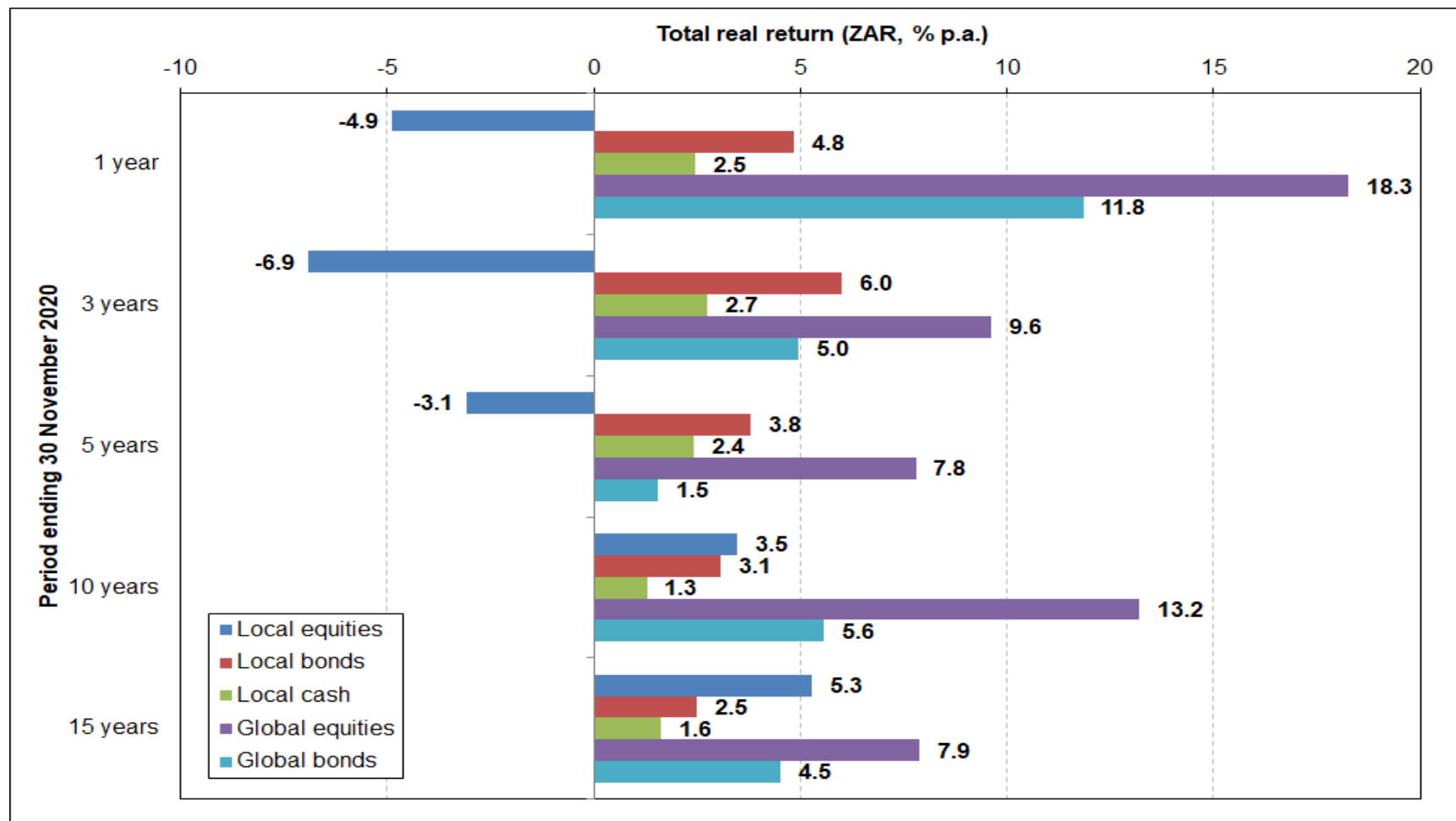
ASSET CLASS PERFORMANCE

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:

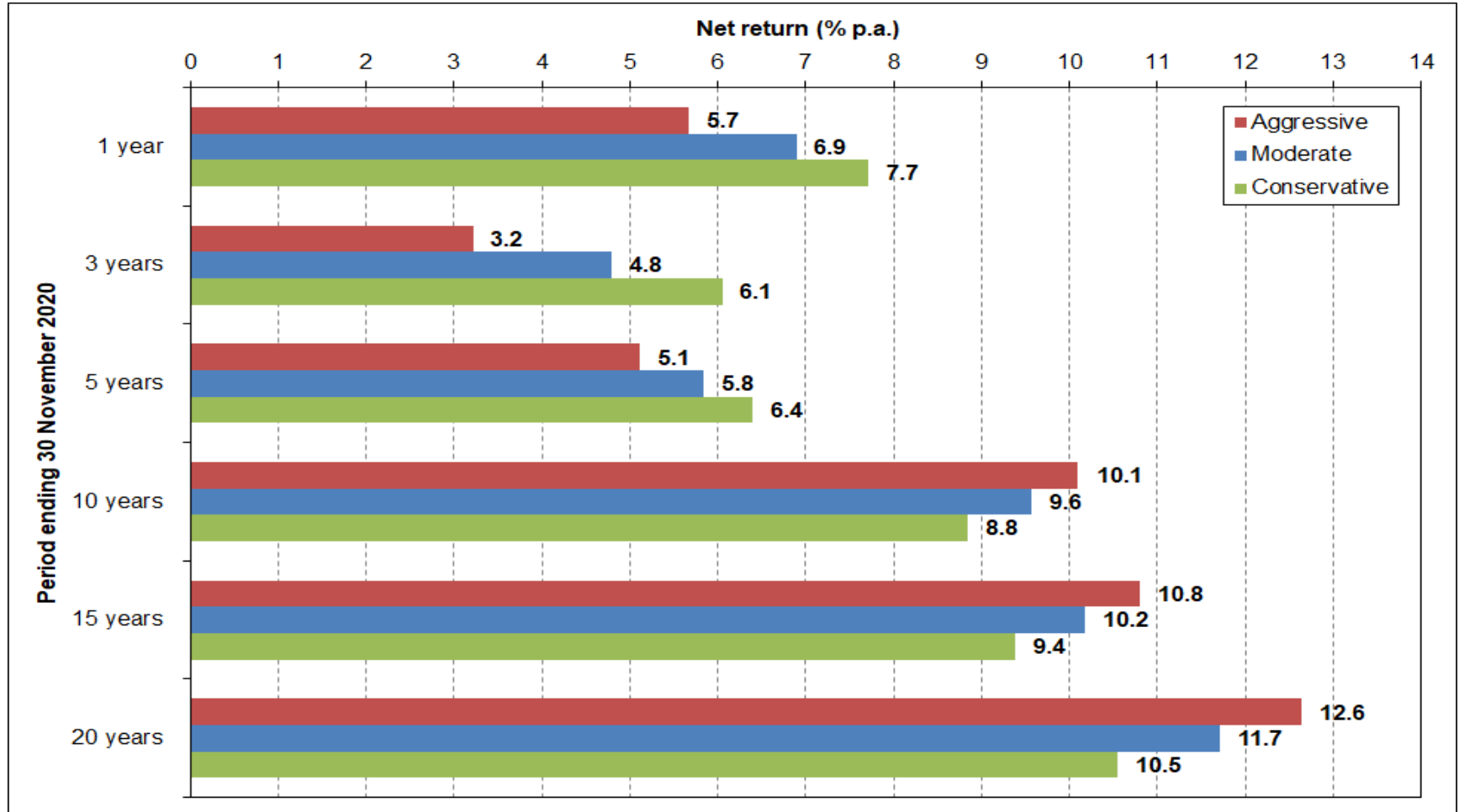
AGGRESSIVE	Strategic allocation	LOCAL VS OFFSHORE	75%			25% (5% below regulatory maximum)	
		GROWTH VS INCOME ASSETS	75%		25%	75%	25%
		EQUITIES VS BONDS VS CASH	100%	75%	25%	100%	100%
	Current allocation		~56%		~14%	~5%	~19%

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%

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%

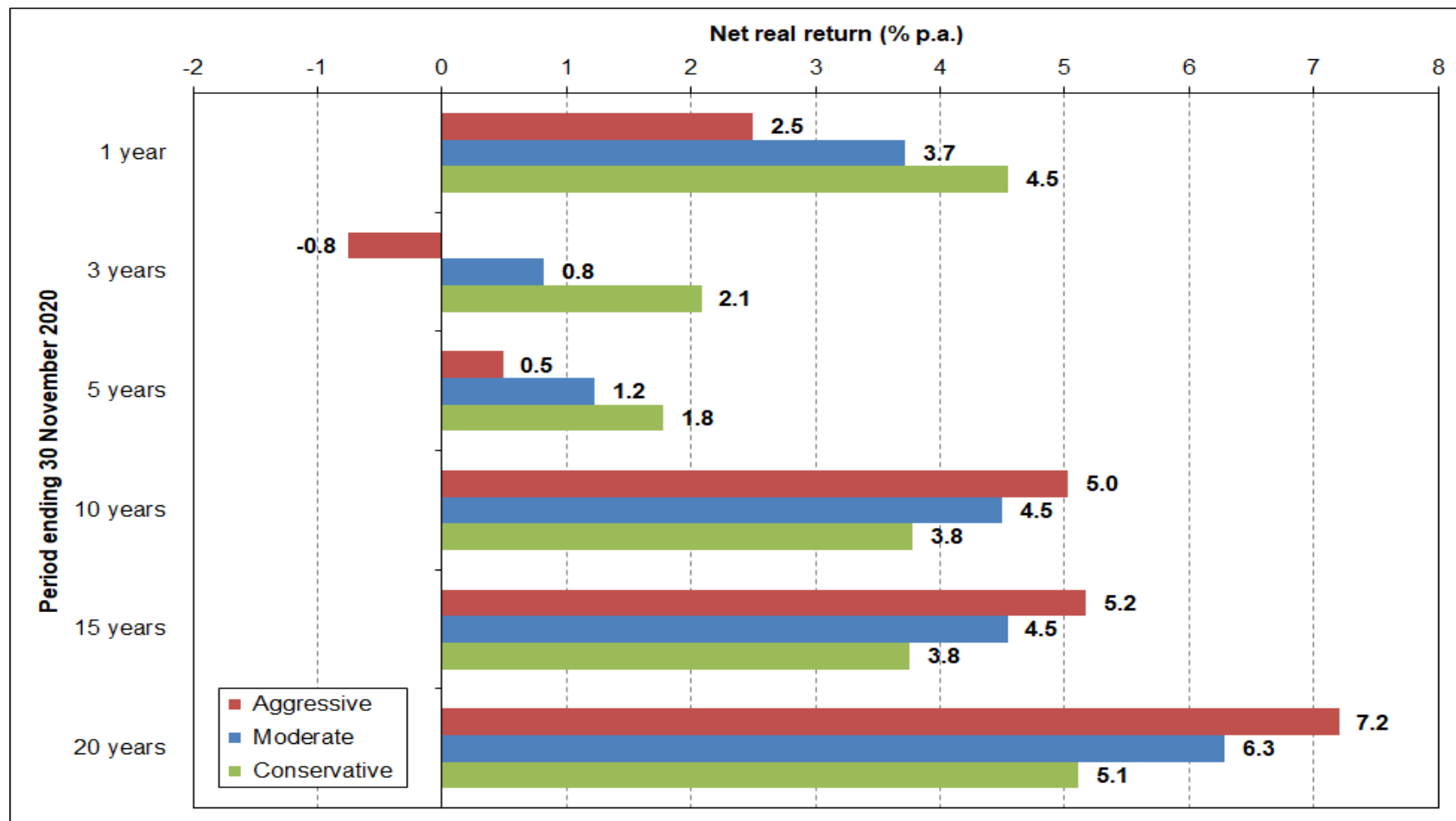
MARKET PERFORMANCE

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?



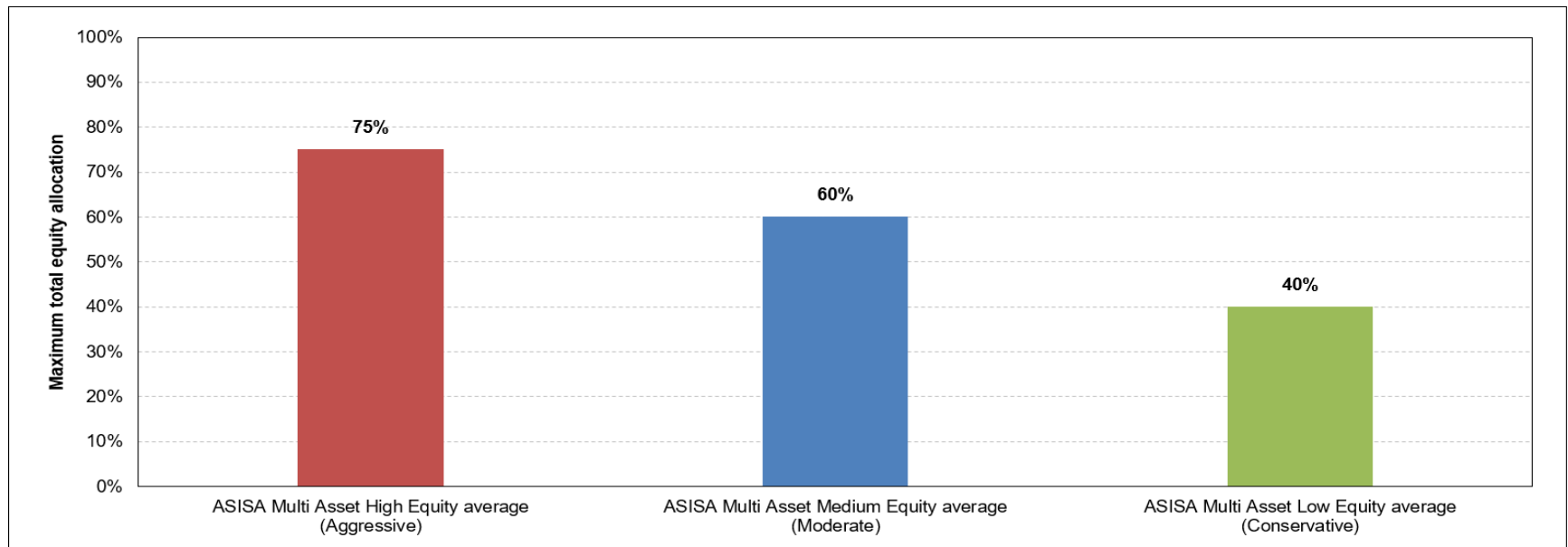
MANAGER PERFORMANCE

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?

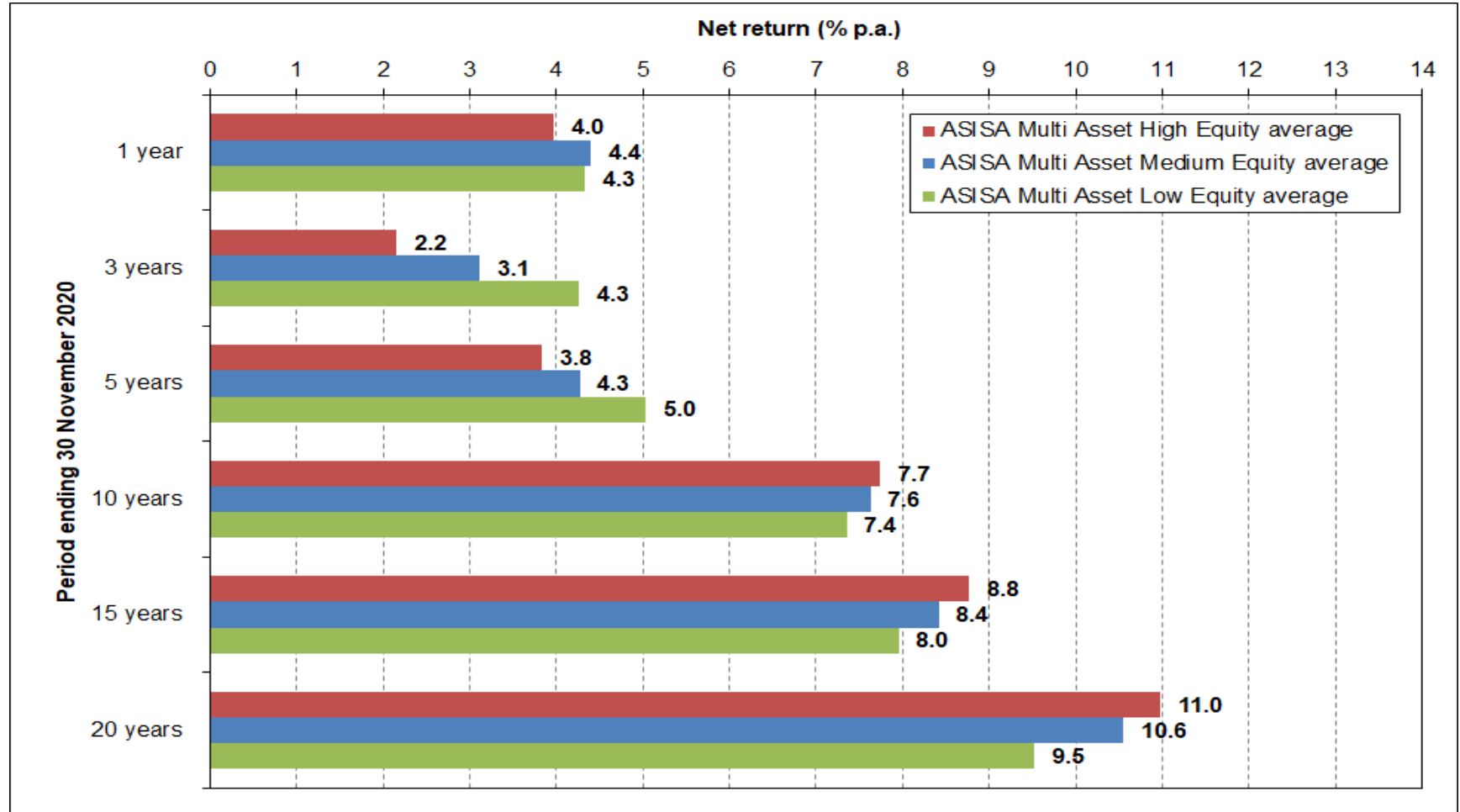
To illustrate this, we show the average returns from regulated collective investment schemes in the ASISA (Association for Savings and Investments South Africa) South Africa Multi Asset High, Medium and Low Equity categories to reflect the returns of typical Aggressive, Moderate and Conservative retirement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



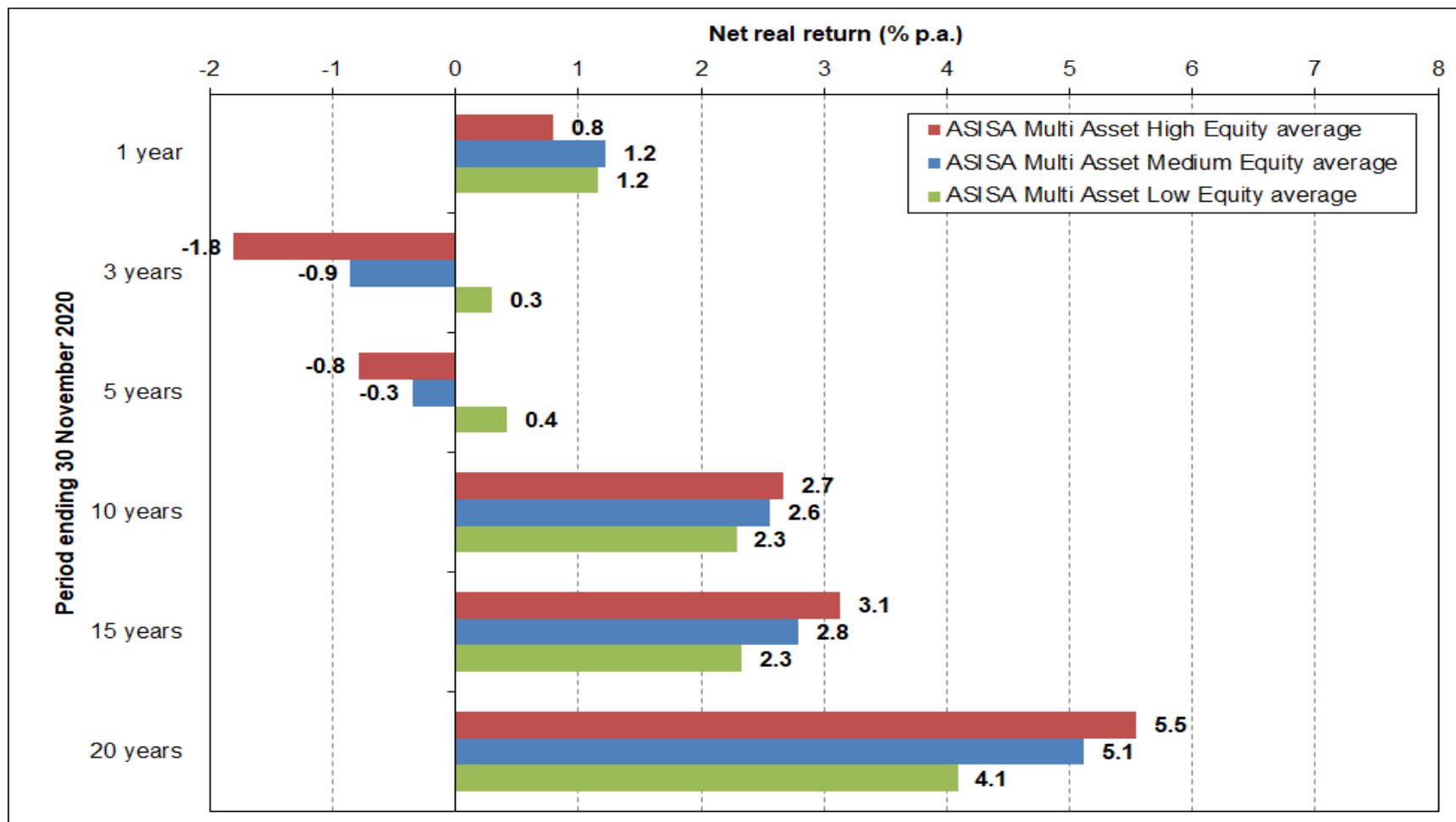
MANAGER PERFORMANCE

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

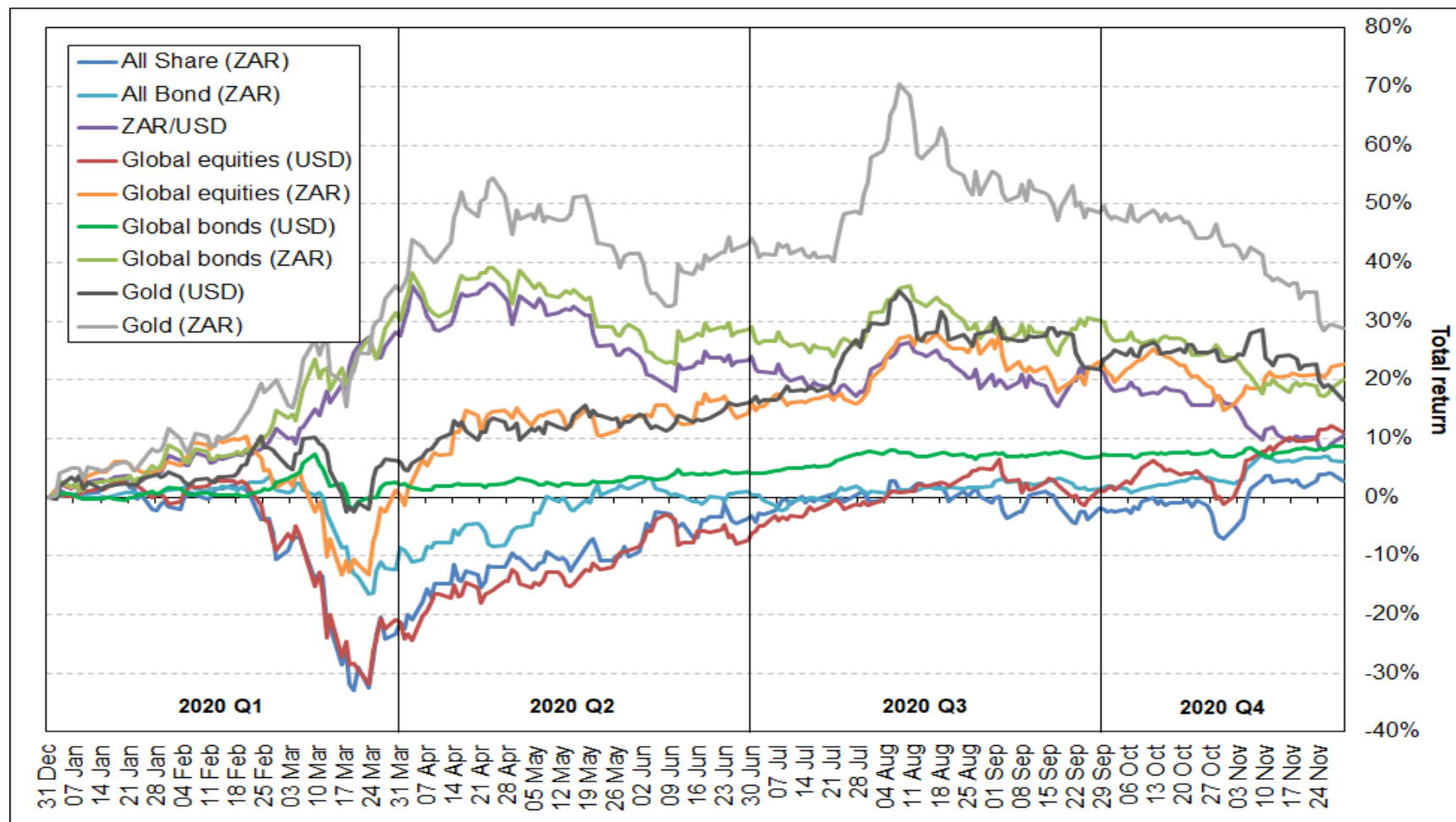


MANAGER PERFORMANCE

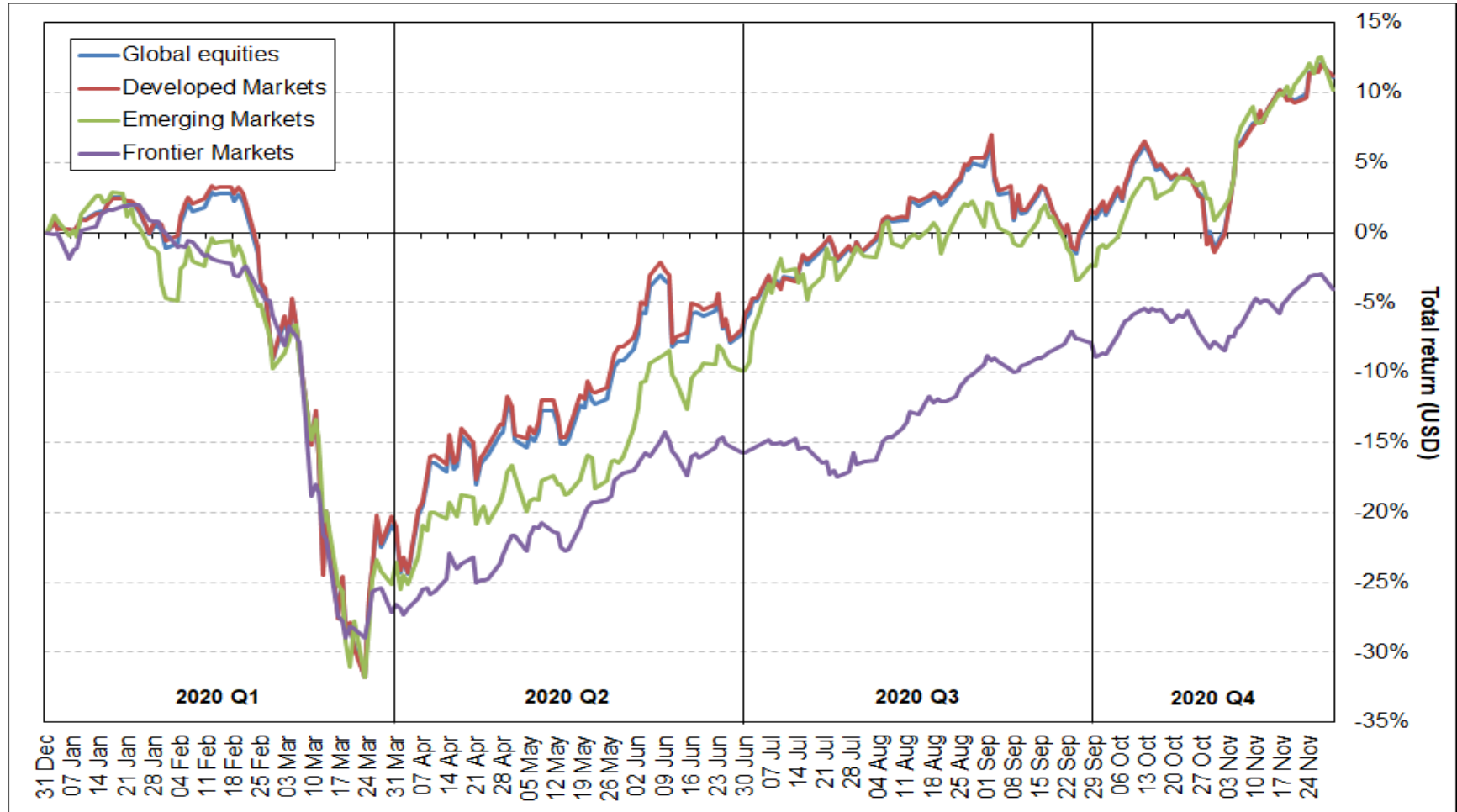
FOR BALANCED PORTFOLIOS, WHAT RANGE OF PAST REAL RETURNS WAS REASONABLY ACHIEVABLE?



2020 YTD MAJOR ASSET CLASSES

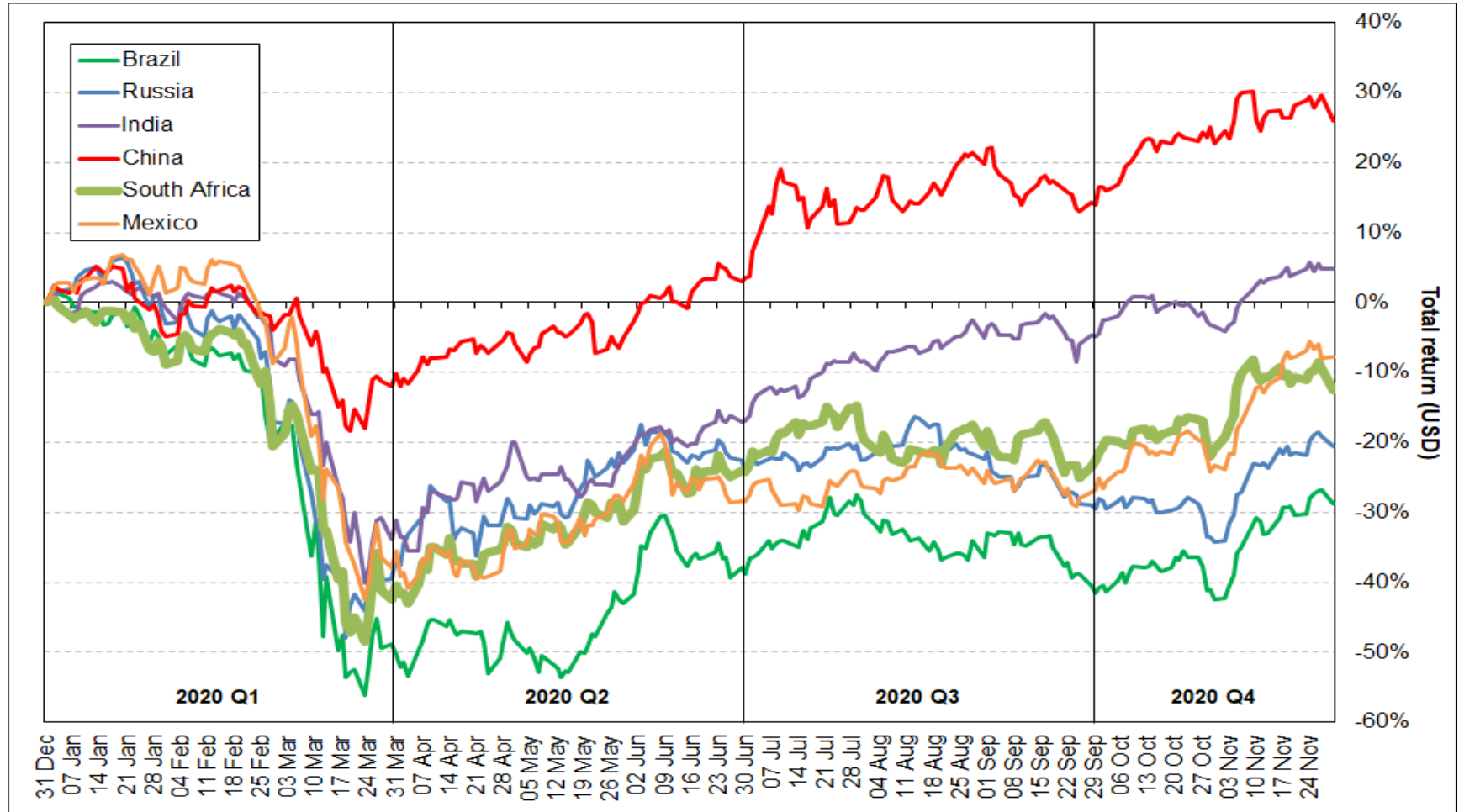


2020 YTD GLOBAL EQUITY MARKETS (USD)

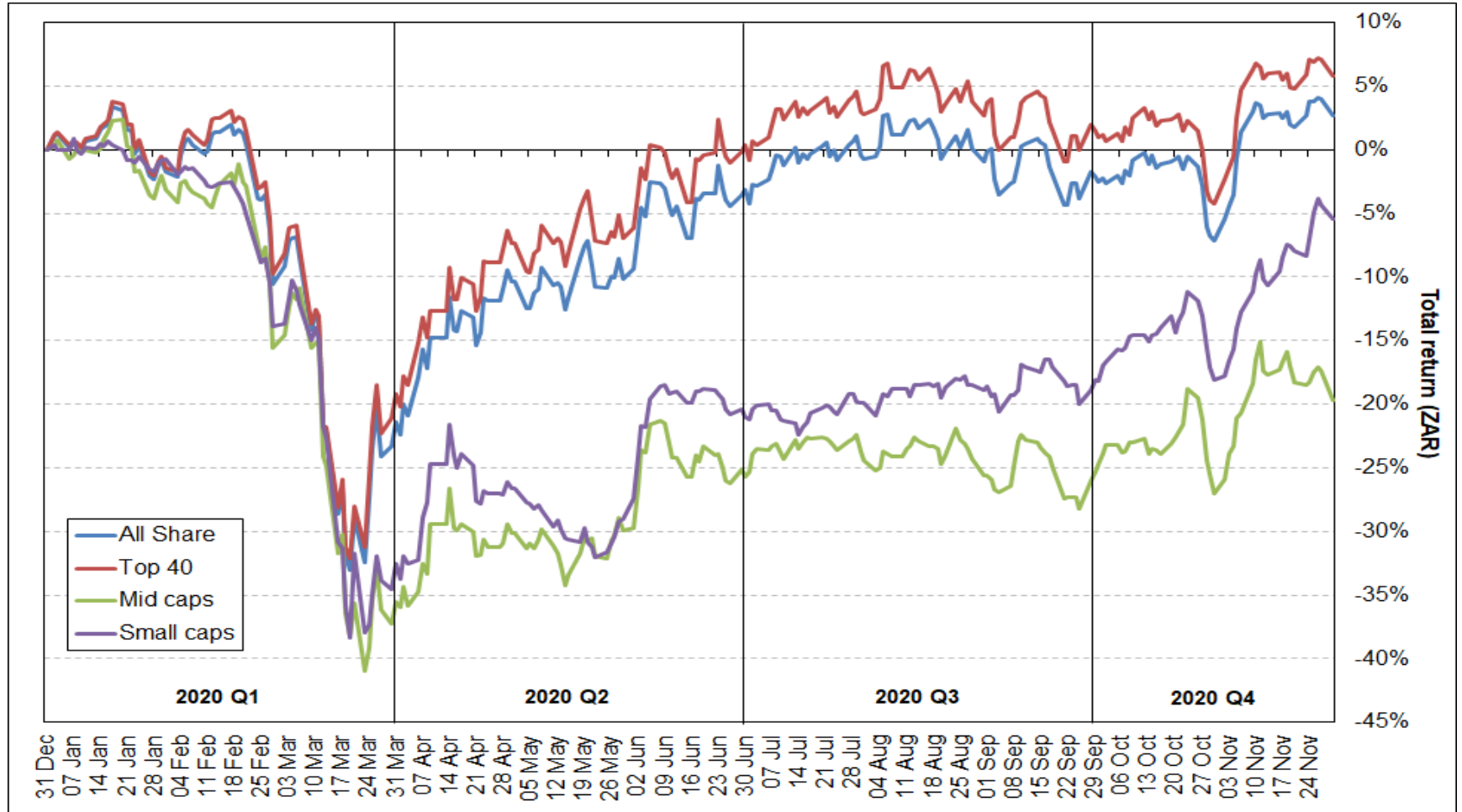


2020 YTD

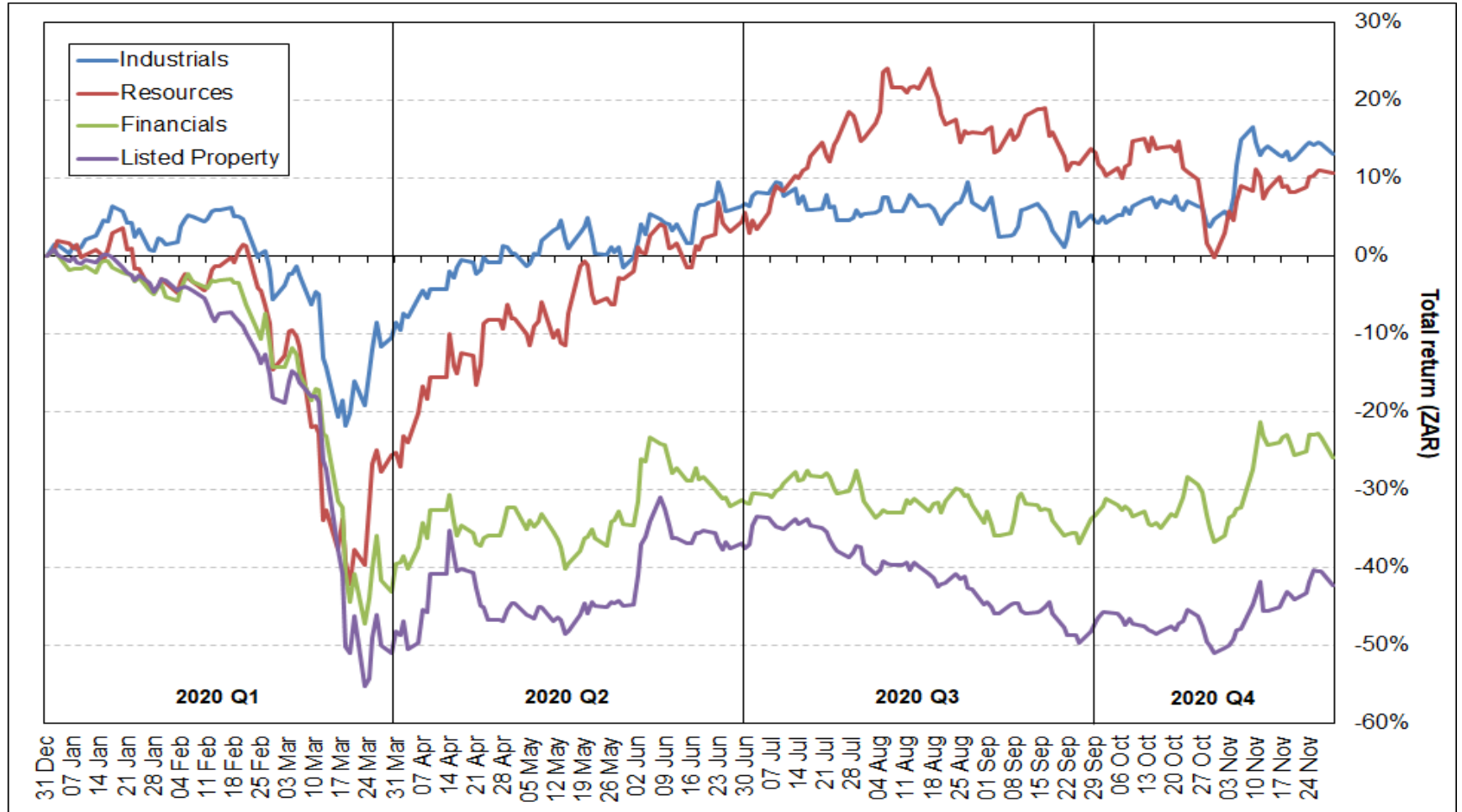
GLOBAL EMERGING EQUITY MARKETS (USD)



2020 YTD LOCAL EQUITY MARKET

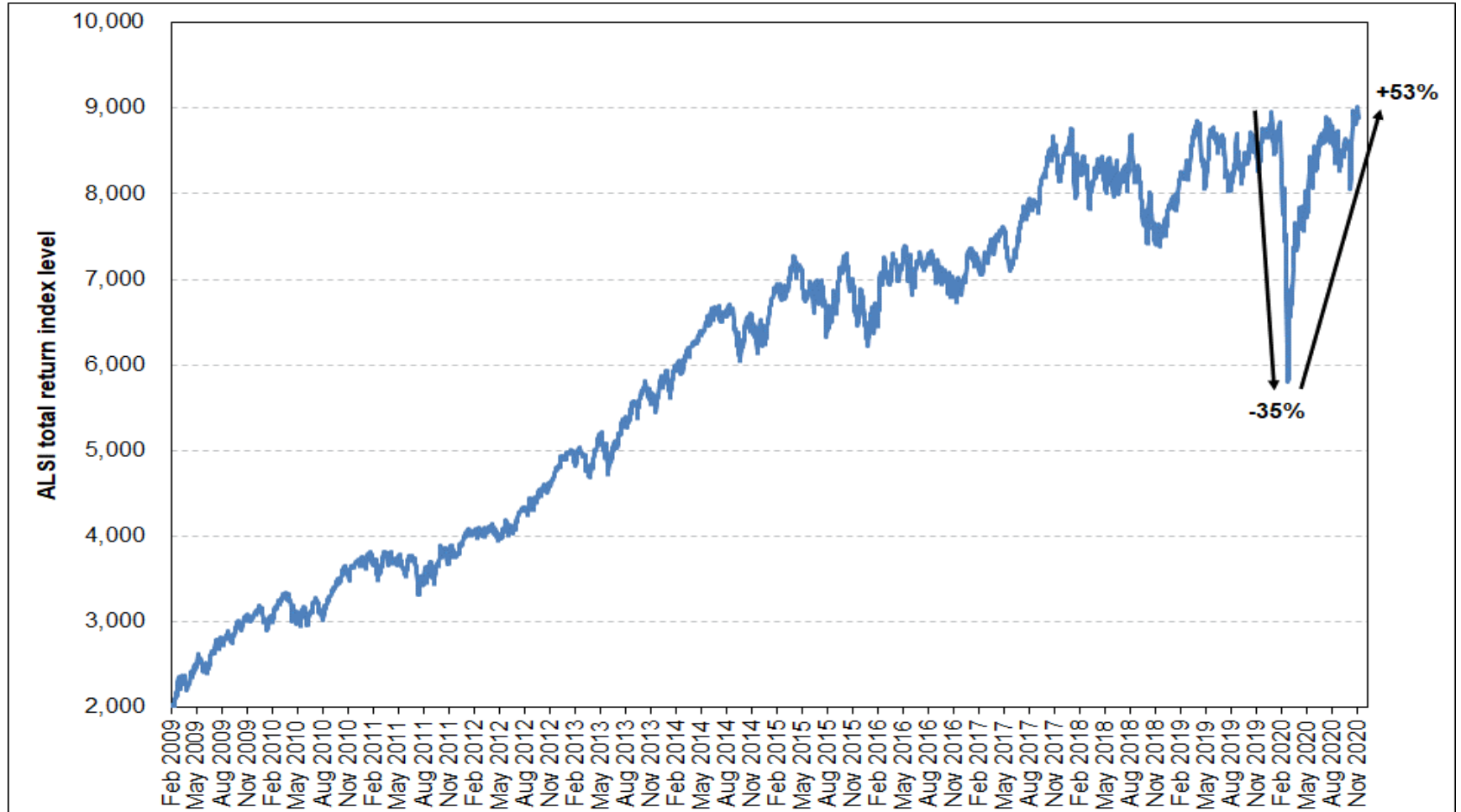


2020 YTD LOCAL EQUITY MARKET



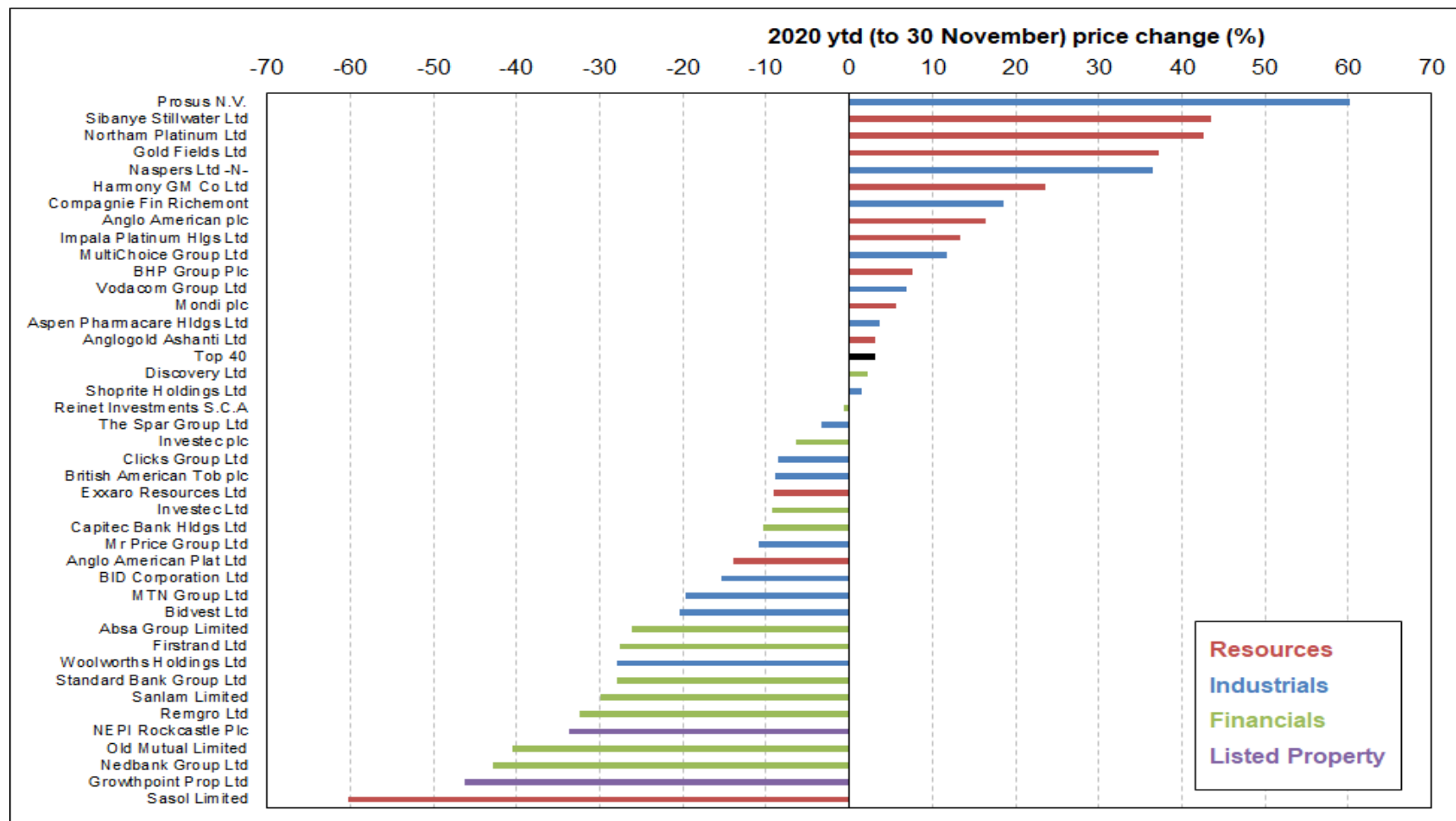
LOCAL EQUITY MARKET

HOPEFULLY THE WORST IS NOW OVER



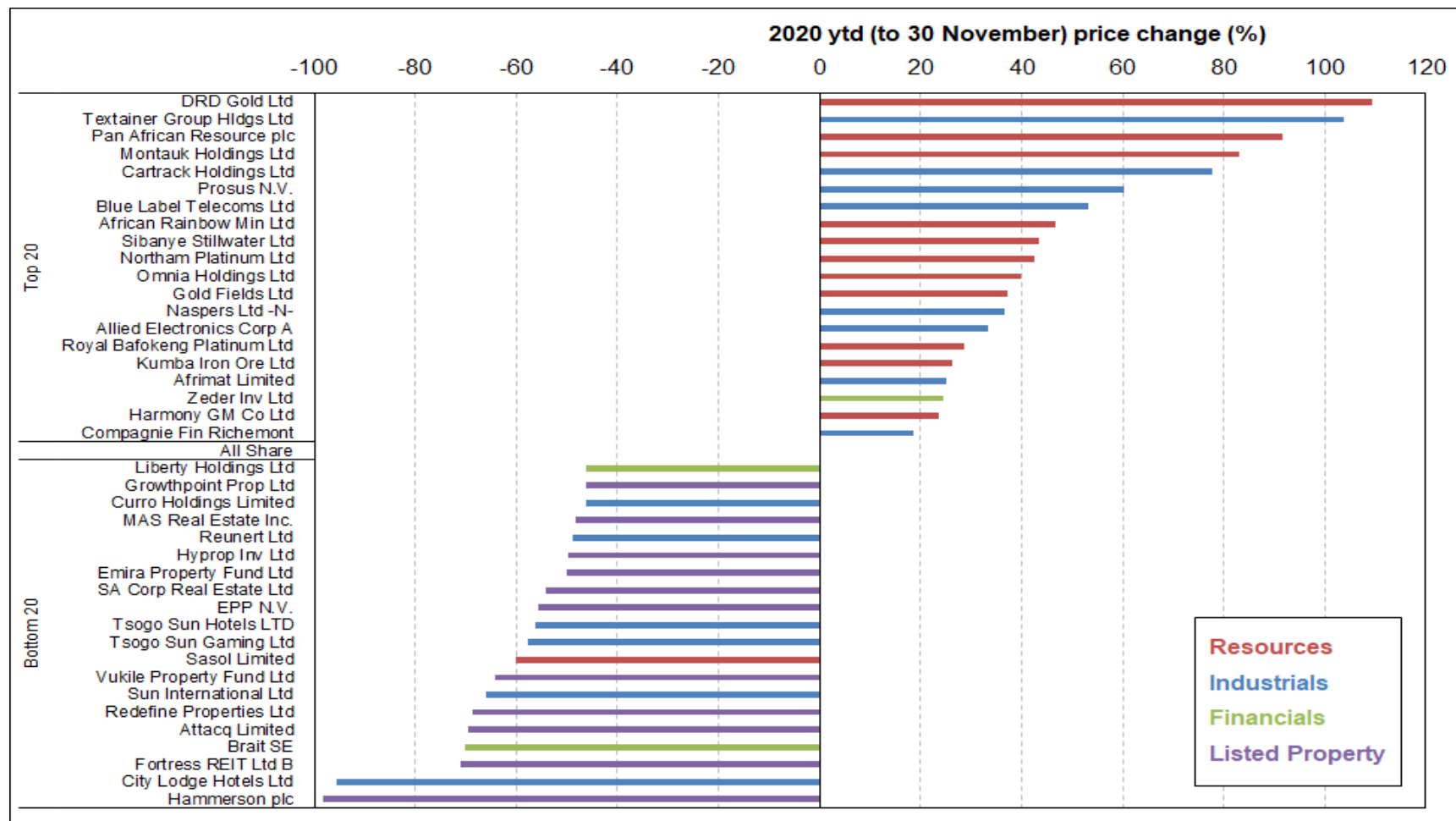
LOCAL EQUITY MARKET

TOP 40 (LARGE CAP) STOCKS IN 2020



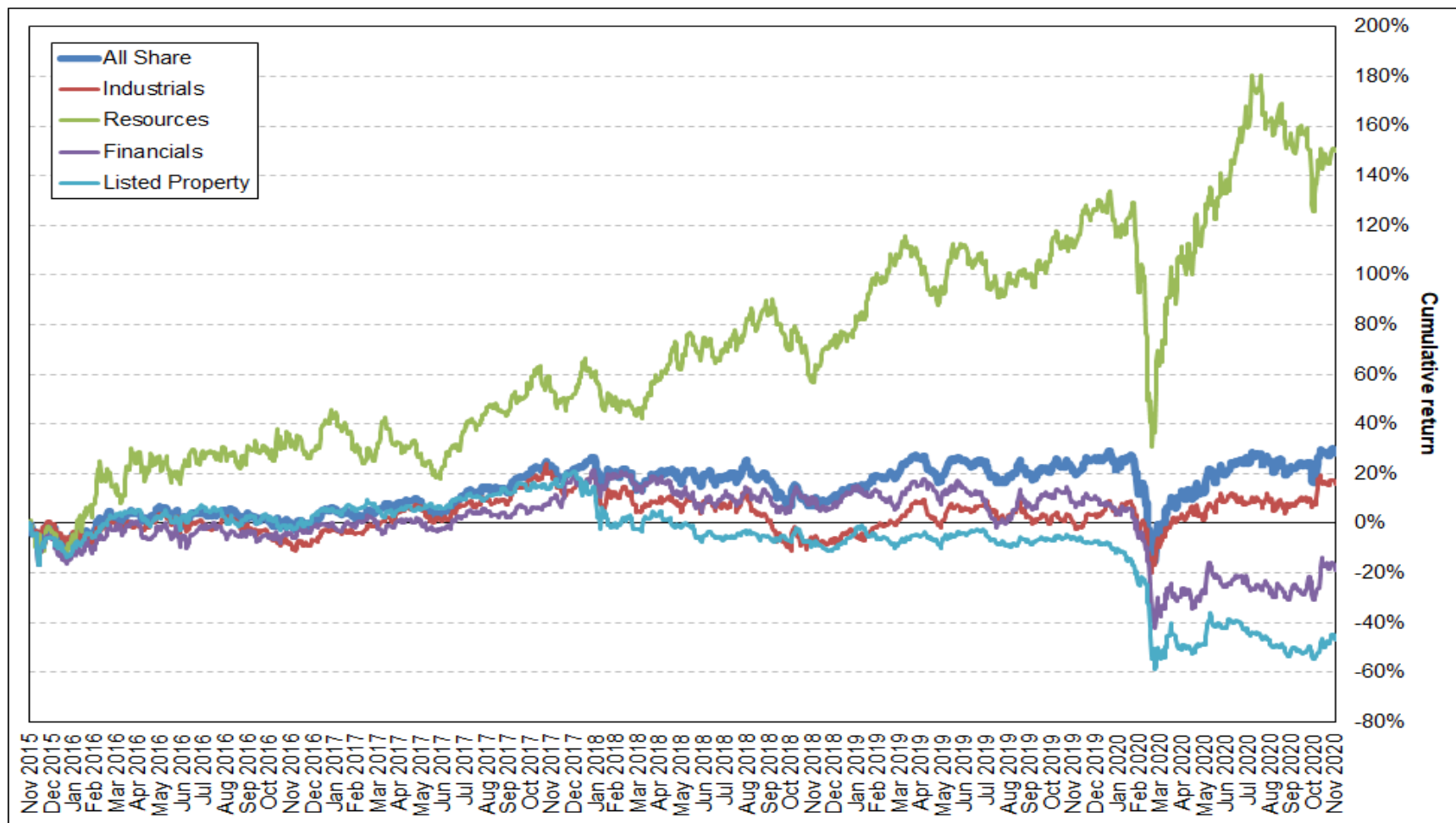
LOCAL EQUITY MARKET

BEST & WORST PERFORMERS IN 2020

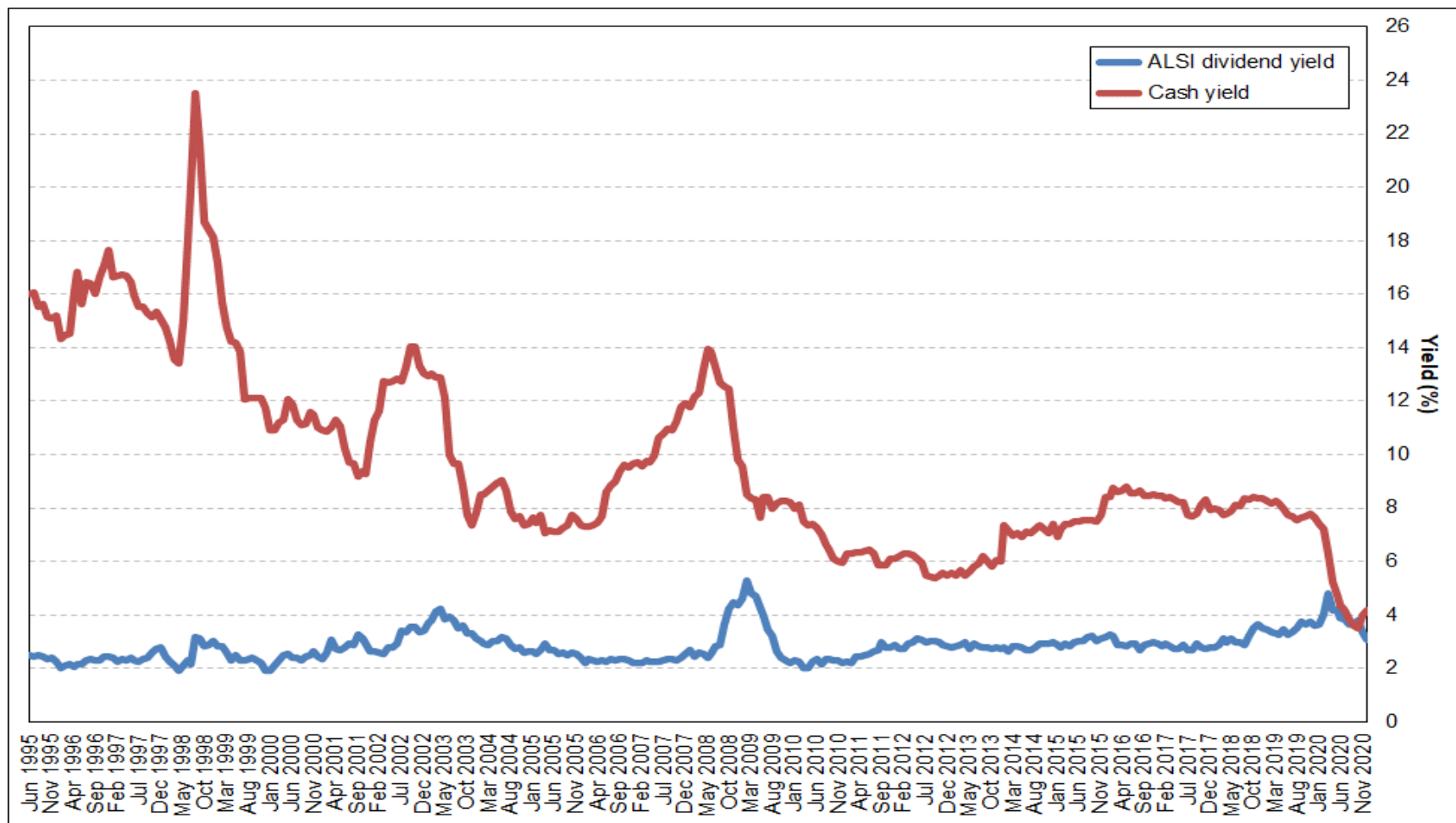


LOCAL EQUITY MARKET

RESOURCES THE ONLY REAL WINNER OVER THE LAST FIVE YEARS

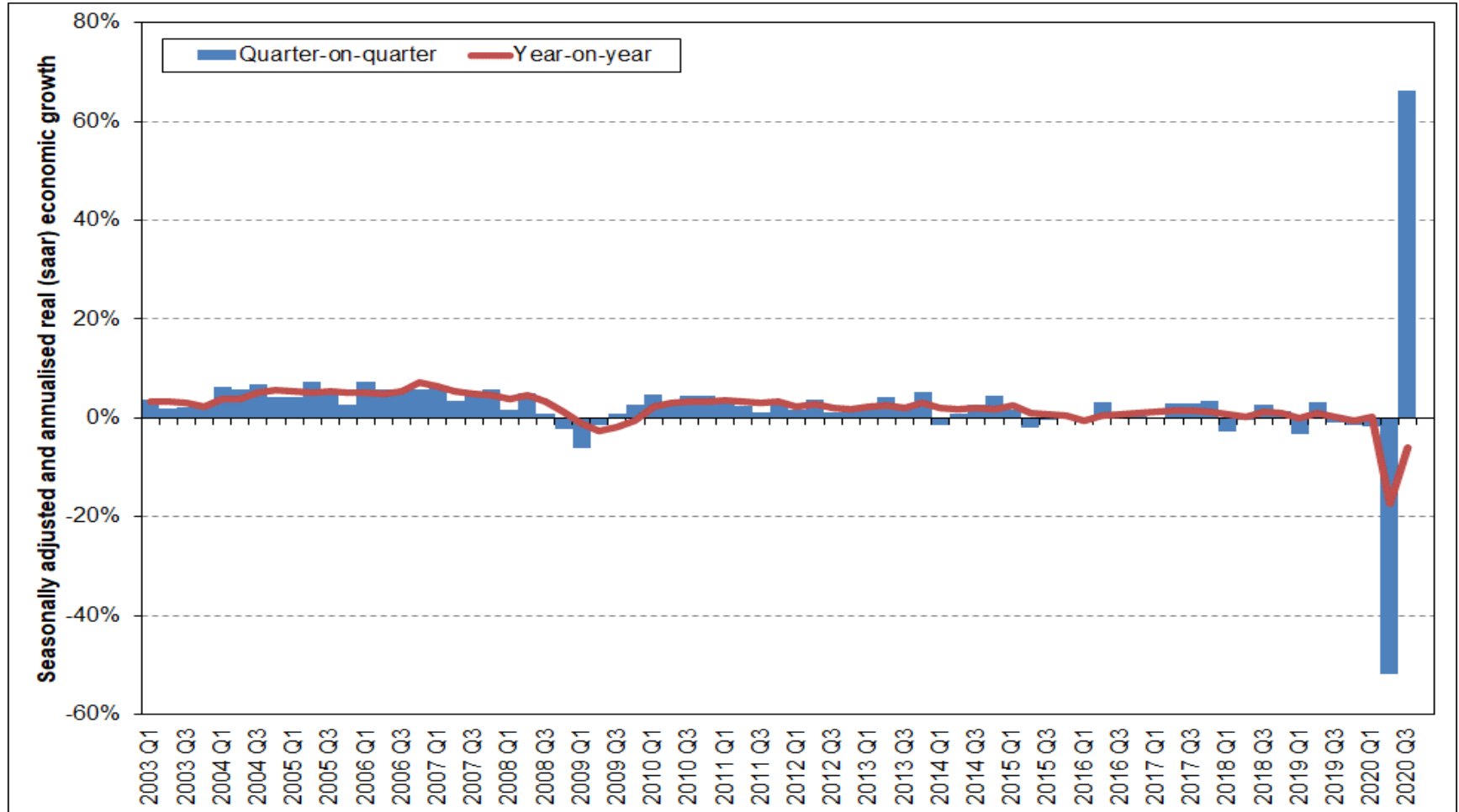


LOCAL EQUITY MARKET IS CASH NOW TRASH?



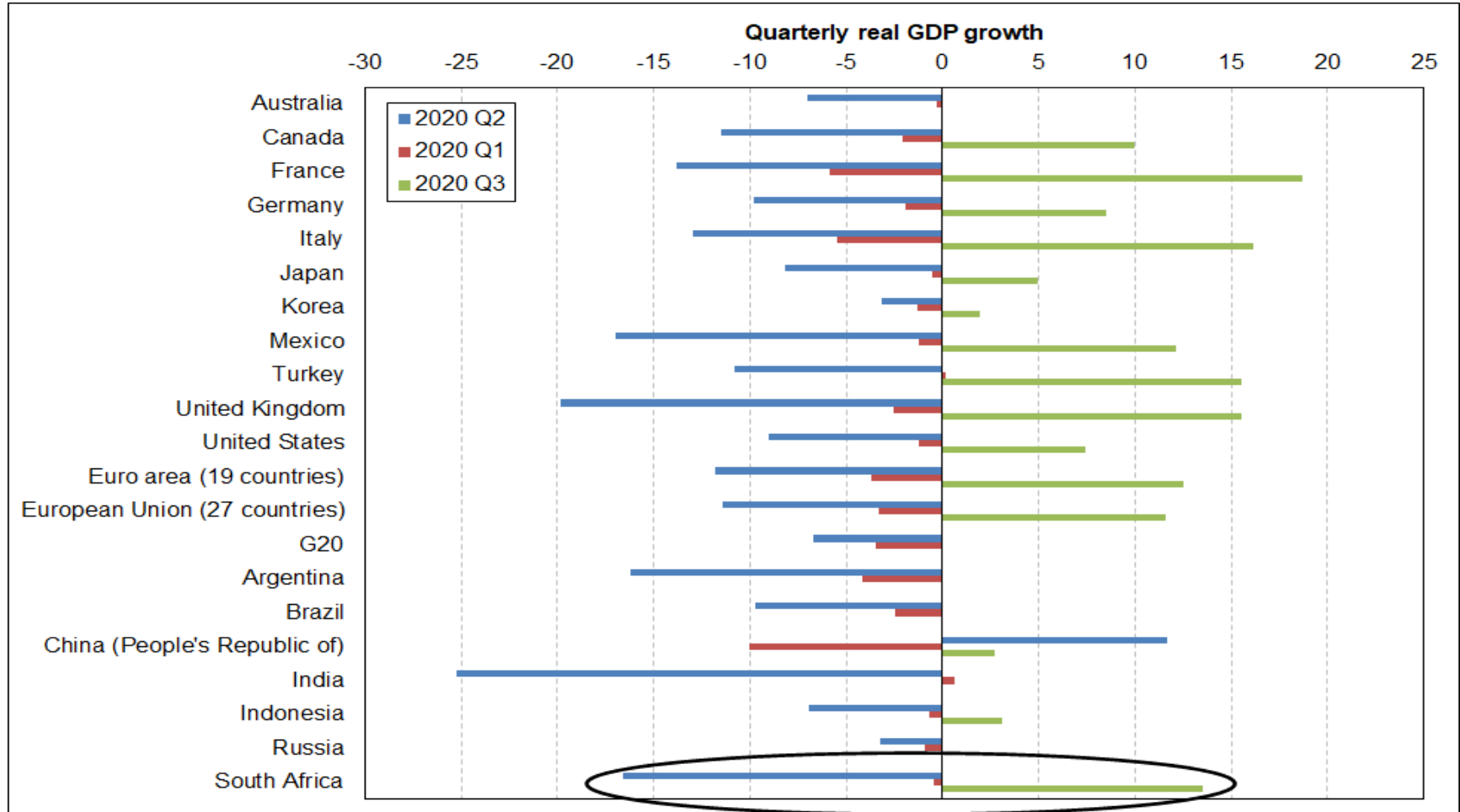
LOCAL ECONOMY

STRONG RECOVERY IN 2020 Q3 FROM THE LOW BASE SET IN Q2, BUT STILL BELOW 2019 LEVELS



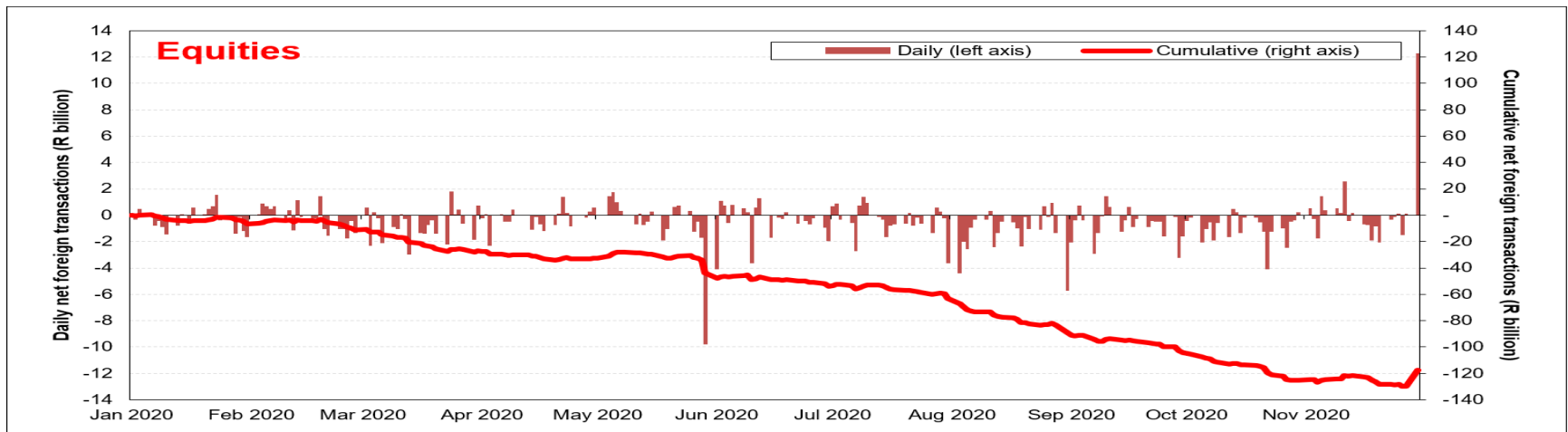
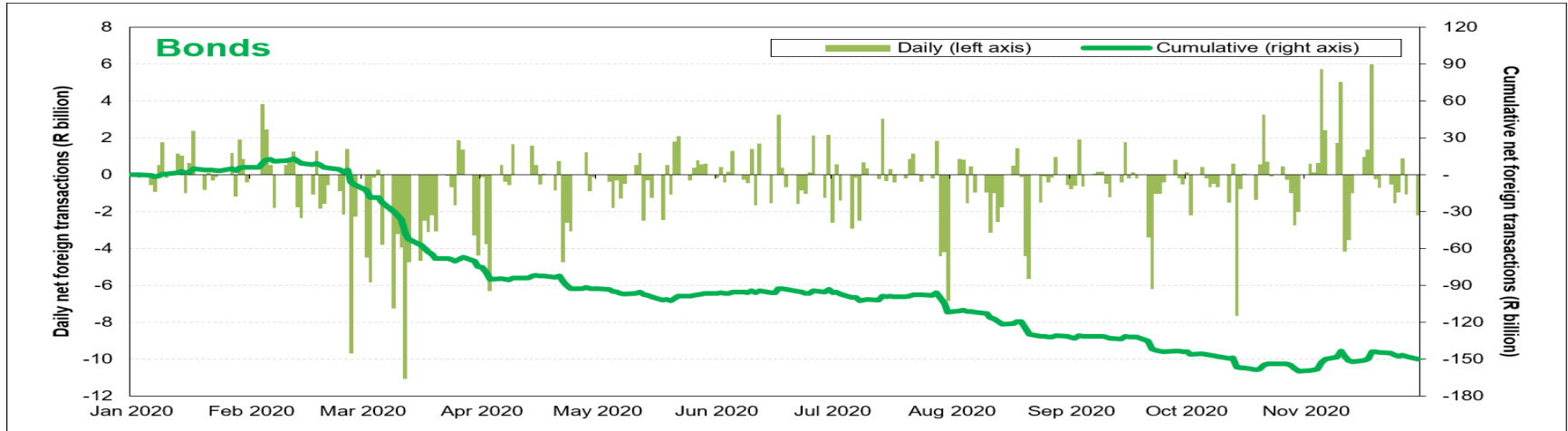
GLOBAL ECONOMIES

SOUTH AFRICA FOLLOWING A SIMILAR PATTERN



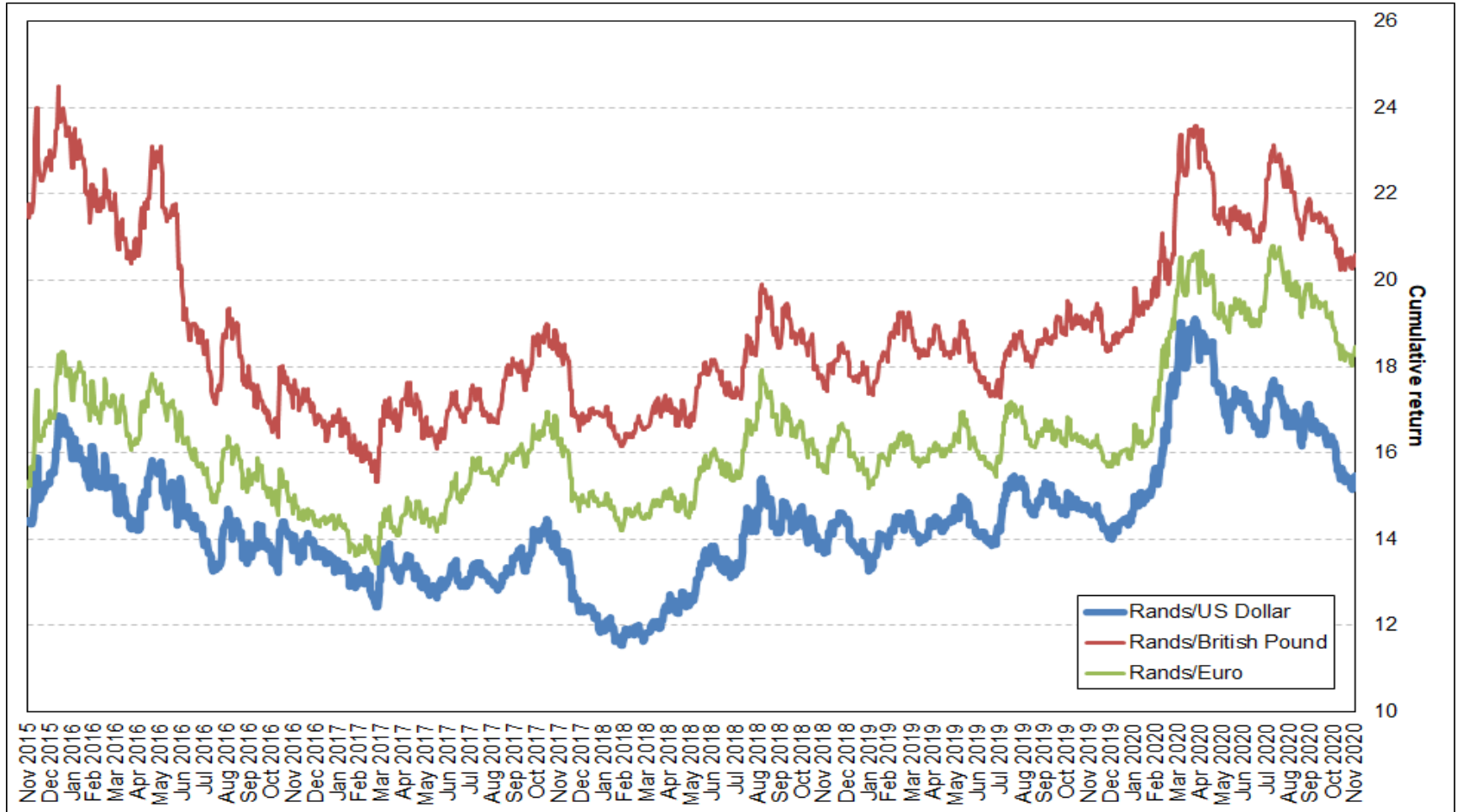
FOREIGN TRANSACTIONS

ARE FOREIGNERS RETURNING TO OUR MARKET?



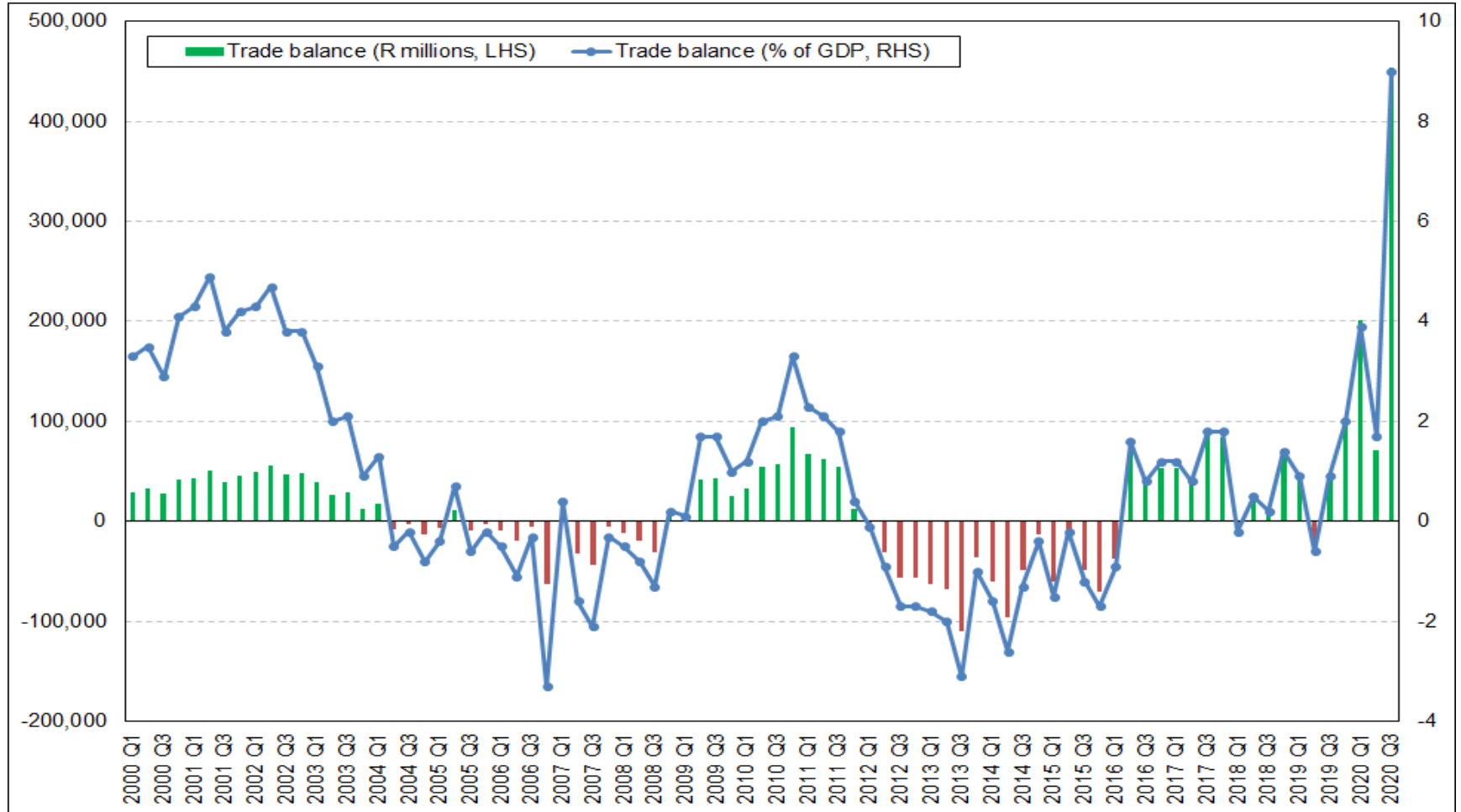
FOREX MARKET

RAND STRENGTHENS AGAINST MAJOR CURRENCIES...



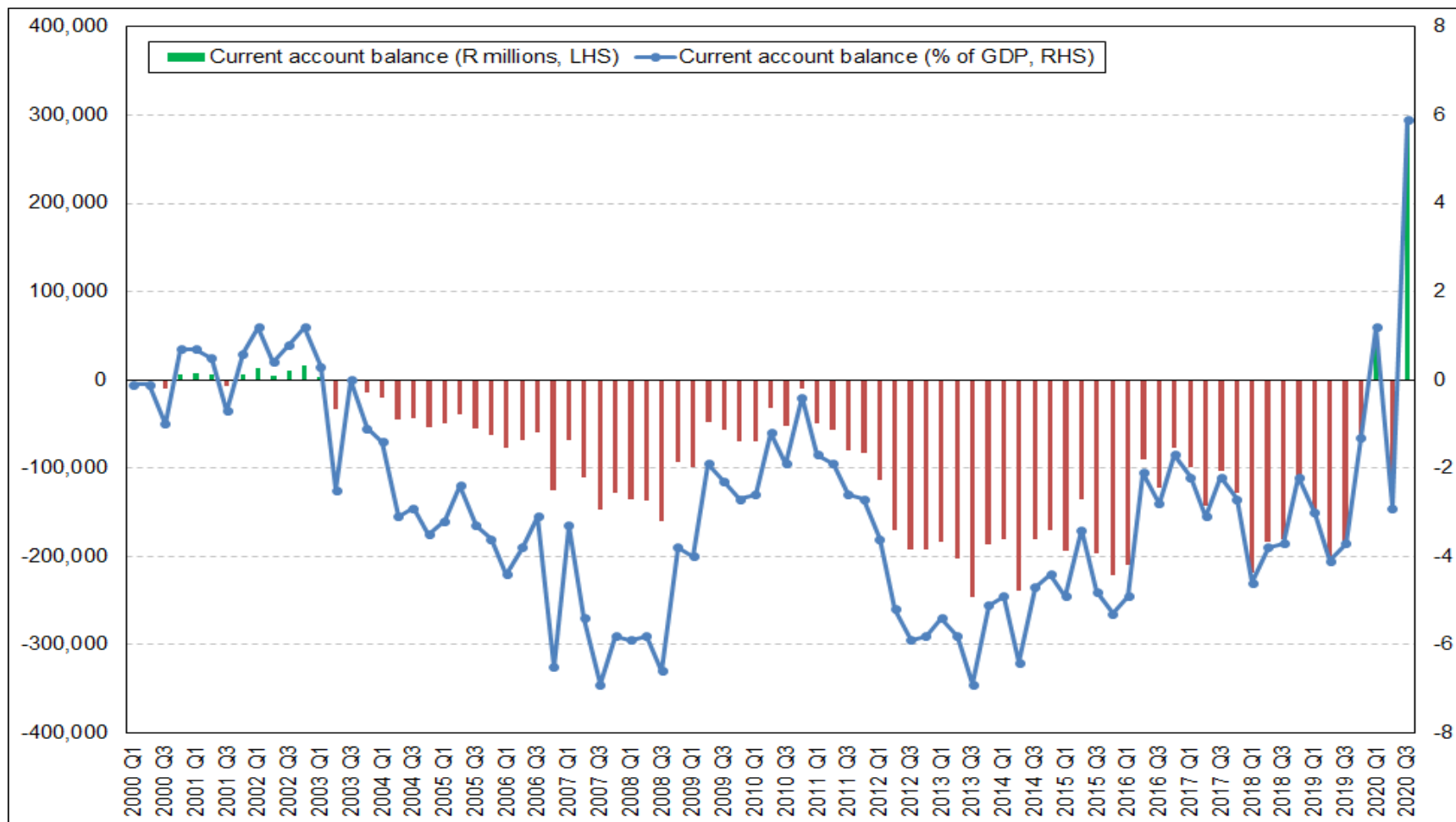
TRADE BALANCE

...AS A RECORD TRADE SURPLUS...

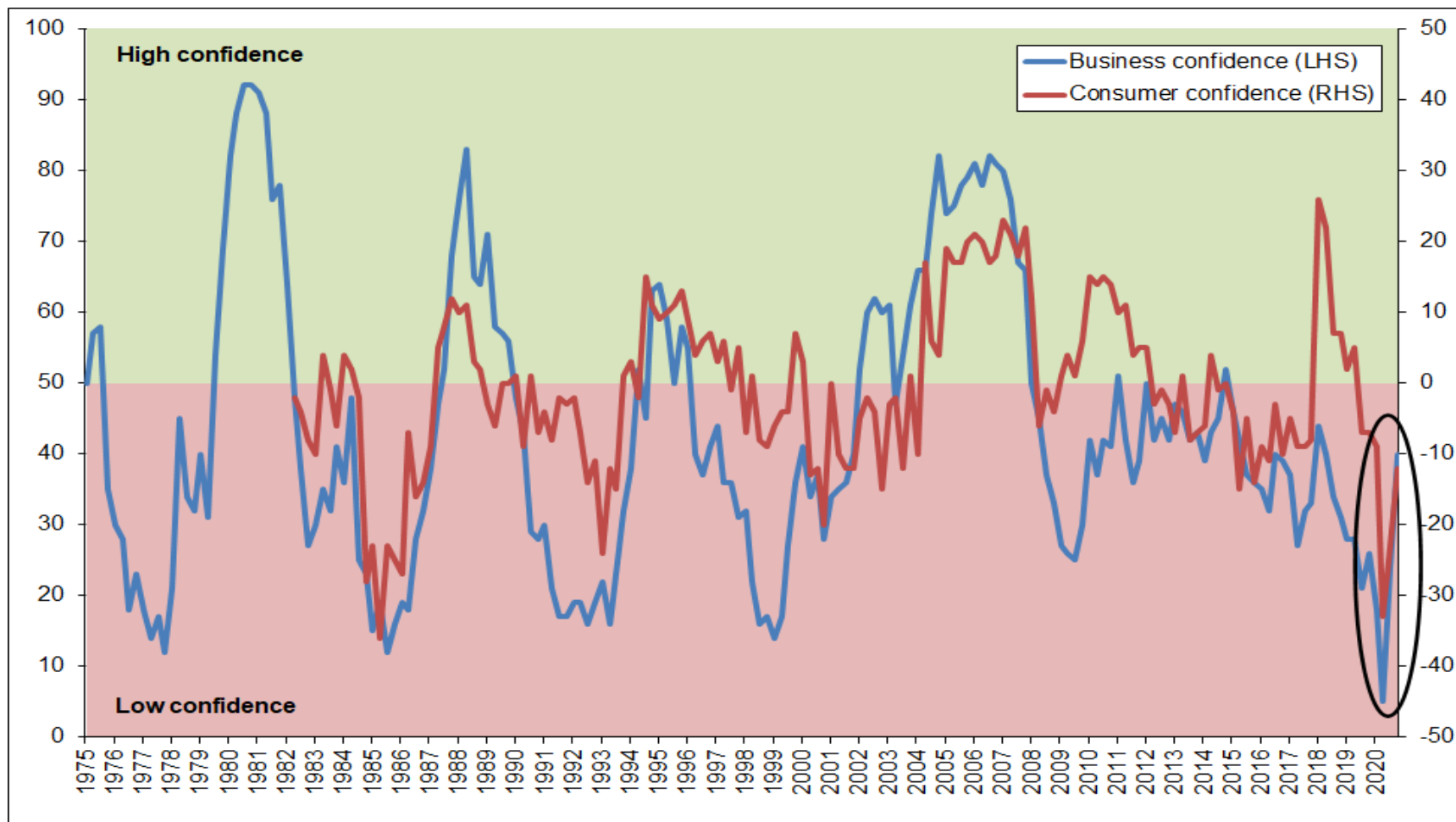


CURRENT ACCOUNT

...BOOST SOUTH AFRICA'S CURRENT ACCOUNT



SA CONSUMER CONFIDENCE FOLLOWS BUSINESS CONFIDENCE HIGHER, BUT STILL BELOW NEUTRAL



ASISA HIGH EQUITY SECTOR IN 2020

PORTFOLIOS THAT WEATHERED SELL-OFF WELL NOT PARTICIPATING AS STRONGLY IN THE RECOVERY

