

# **MONTH IN PICTURES**

**FEBRUARY 2021**

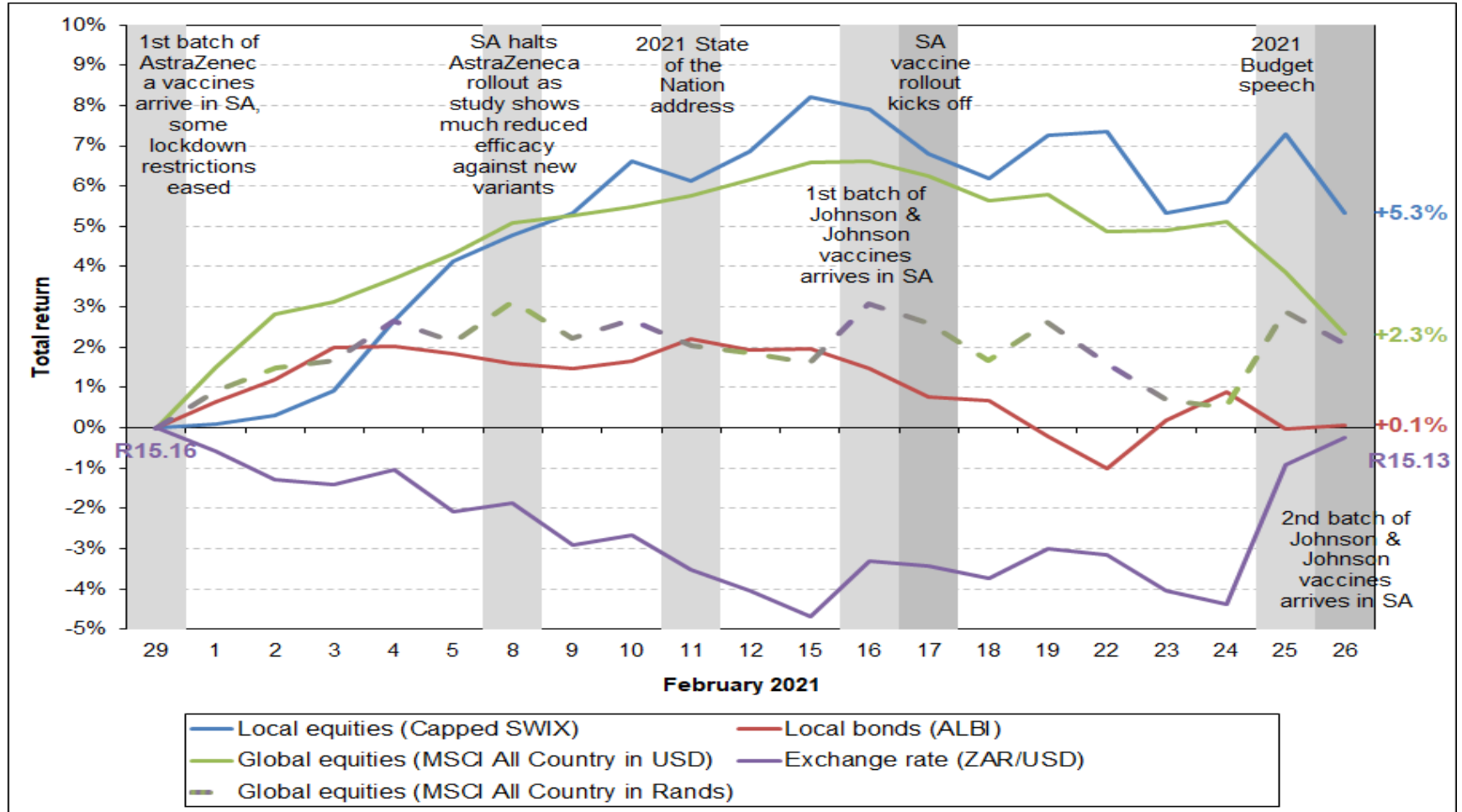
# MONTHLY SNAPSHOT

## NOTABLE EVENTS

- The local equity market continued its strong run in February, adding another month of solid returns (+5.9% for the ALSI and +5.3% for the Capped SWIX). Since the start of the 'vaccine rally' in November last year, these indices have now delivered returns of +28.3% and +26.4% respectively, and are around 70-80% higher than they were at the market lows in mid-March last year.
- Resources continued to shine, delivering a solid +11.6% while the beleaguered Listed Property sector returned an excellent +8.6%. Financials (+4.8%) also had a decent month, while the stagnant share prices of index heavyweights Naspers and Prosus (with rising global bond yields weighing on tech shares globally) resulted in a more subdued +2.3% from Industrials.
- Local bonds ended the month flat (+0.1%), with losses mostly confined to the short end, while longer term bonds benefitted from a better-than-expected Budget.
- The 2021 Budget contained some positive surprises, despite once again reminding us of the precarious state of government's finances. Examples include a much smaller than expected budget shortfall (by almost R100bn, following a welcome boost in mining royalties on the back of rallying commodity prices), government's continued commitment to reign in the unsustainable public sector wage bill, as well as some relief to overburdened taxpayers. Execution risk (especially on the wage bill) remains a risk, while many felt that the budget was still too thin when it came to much-needed structural reforms (slides 28 to 37).
- GDP figures in 2020 Q4 came in slightly above expectations, with the local economy growing by 1.5% (or 6.3% when annualised), thereby bringing the year's GDP growth to -7%. Although better than expected, and in line with what was seen in many other countries, 2020 marked South Africa's biggest economic contraction in decades (slides 24 to 27).
- The strong recovery in the local equity market has made a meaningful difference to the returns of most retirement fund portfolios. 1-year returns to the end of February should now be comfortably in double-digit territory, despite most of last year's crash still being included in this period. After spending some time sporting negative real returns over the medium term, 3- and 5-year returns are also looking much better, tracking around 2-3% p.a. above inflation (see slides 10 to 20).
- With many domestic and foreign investors giving up on SA, and despite its recent strong rally, the local equity market remains quite attractively valued when compared to global markets. Although many parts of the SA market are expected to show faster earnings growth than their emerging market peers, the JSE continues to trade at a significant discount to other markets and its longer-term average, with a forward price-earnings multiple of around 10x, compared to multiples of approximately 15x for the broader emerging market universe and 20x for developed markets (see slides 22 & 23).

# MONTHLY TIMELINE

## IMPACT ON MARKETS



# MARKET INDICATORS

## SHORT TERM

Market indicators (% change) <sup>1</sup>		Dec 2020	Jan 2021	Feb 2021	3 months	12 months
Local equities	ALSI	4.2	5.2	5.9	16.1	33.2
	Capped SWIX	5.5	3.1	5.3	14.5	23.9
	Resources	9.5	5.1	11.6	28.4	66.6
	Industrials	(1.0)	8.4	2.3	9.8	31.5
	Financials	8.3	(2.6)	4.8	10.6	(4.4)
	Listed Property	13.7	(3.2)	8.6	19.5	(15.8)
Local bonds	ALBI	2.4	0.8	0.1	3.3	8.3
Local cash	STeFI Composite	0.3	0.3	0.3	0.9	4.8
Global equities	MSCI All Country	(0.6)	2.7	2.1	4.2	25.9
Global bonds	FTSE WGBI	(3.7)	1.9	(2.7)	(4.5)	(0.1)
Exchange rate	ZAR/USD	(5.0)	3.2	(0.2)	(2.2)	(3.4)
Inflation	CPI	0.2	0.3	0.7	1.2	2.9

1. Total returns (in Rands) for the months and periods ending 28 February 2021.

# MARKET INDICATORS

## MEDIUM TO LONG TERM

Market indicators (% change) <sup>1</sup>		1 year	3 years	5 years	10 years	15 years
Local equities	ALSI	33.2	7.6	9.2	10.7	11.8
	Capped SWIX	23.9	1.7	5.2	9.5	10.8
	Resources	66.6	29.1	24.3	5.3	8.6
	Industrials	31.5	4.6	6.1	13.8	14.7
	Financials	(4.4)	(8.9)	0.1	8.6	8.1
	Listed Property	(15.8)	(13.5)	(7.6)	4.6	7.6
Local bonds	ALBI	8.3	7.1	9.8	8.6	8.1
Local cash	STeFI Composite	4.8	6.4	6.9	6.3	7.2
Global equities	MSCI All Country	25.9	19.8	13.2	17.6	13.6
Global bonds	FTSE WGBI	(0.1)	12.3	2.2	10.1	10.0
Exchange rate	ZAR/USD	(3.4)	8.6	(0.9)	8.1	6.2
Inflation	CPI	2.9	3.9	4.4	5.1	5.7

1. Total returns (in Rands) for the months and periods ending 28 February 2021.

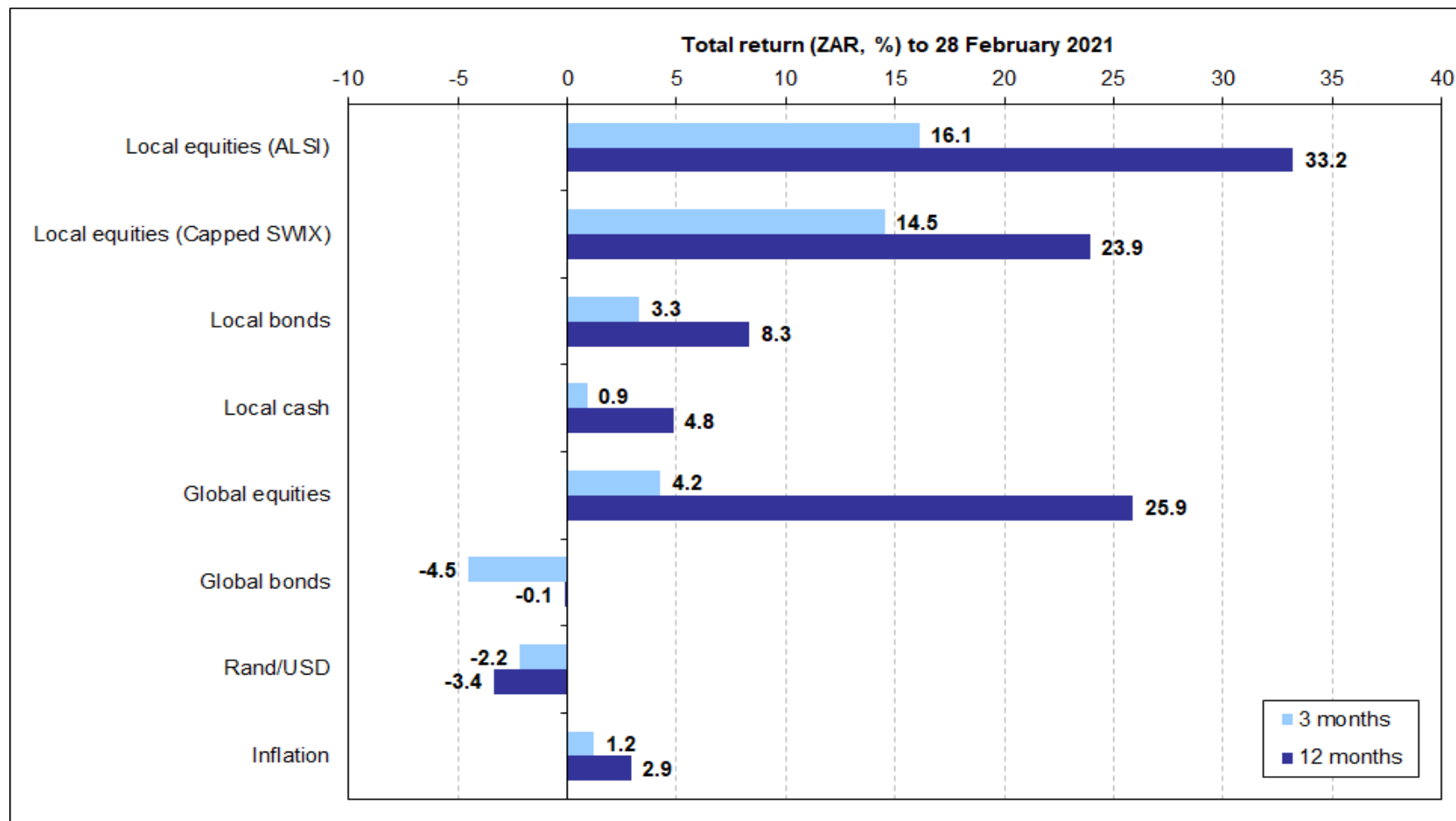
# ECONOMIC INDICATORS

Economic indicators <sup>1</sup>	Feb 2019	Feb 2020	Dec 2020	Jan 2021	Feb 2021
<b>Exchange rates:</b>					
ZAR/USD	14.09	15.65	14.69	15.16	15.13
ZAR/GBP	18.68	20.07	20.08	20.78	21.08
ZAR/Euro	16.02	17.27	17.95	18.40	18.26
<b>Commodities:</b>					
Brent Crude Oil (USD/barrel)	66.42	49.67	51.80	55.04	64.42
Platinum (USD/ounce)	871.96	881.61	1,069.93	1,082.95	1,219.21
Gold (USD/ounce)	1,323.60	1,636.68	1,894.23	1,846.97	1,770.16

1. Month-end prices

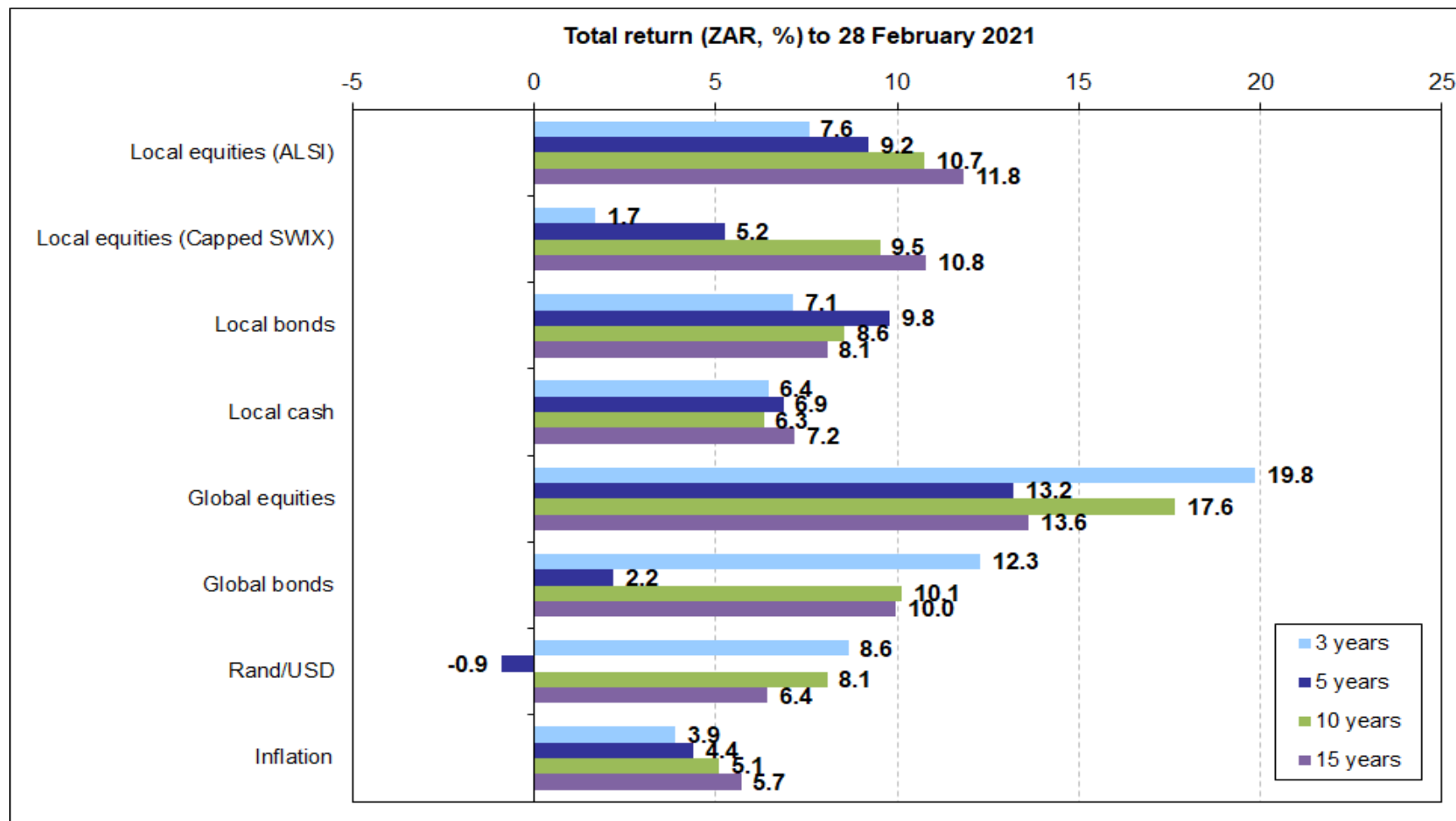
# ASSET CLASS PERFORMANCE

## SHORT TERM



# ASSET CLASS PERFORMANCE

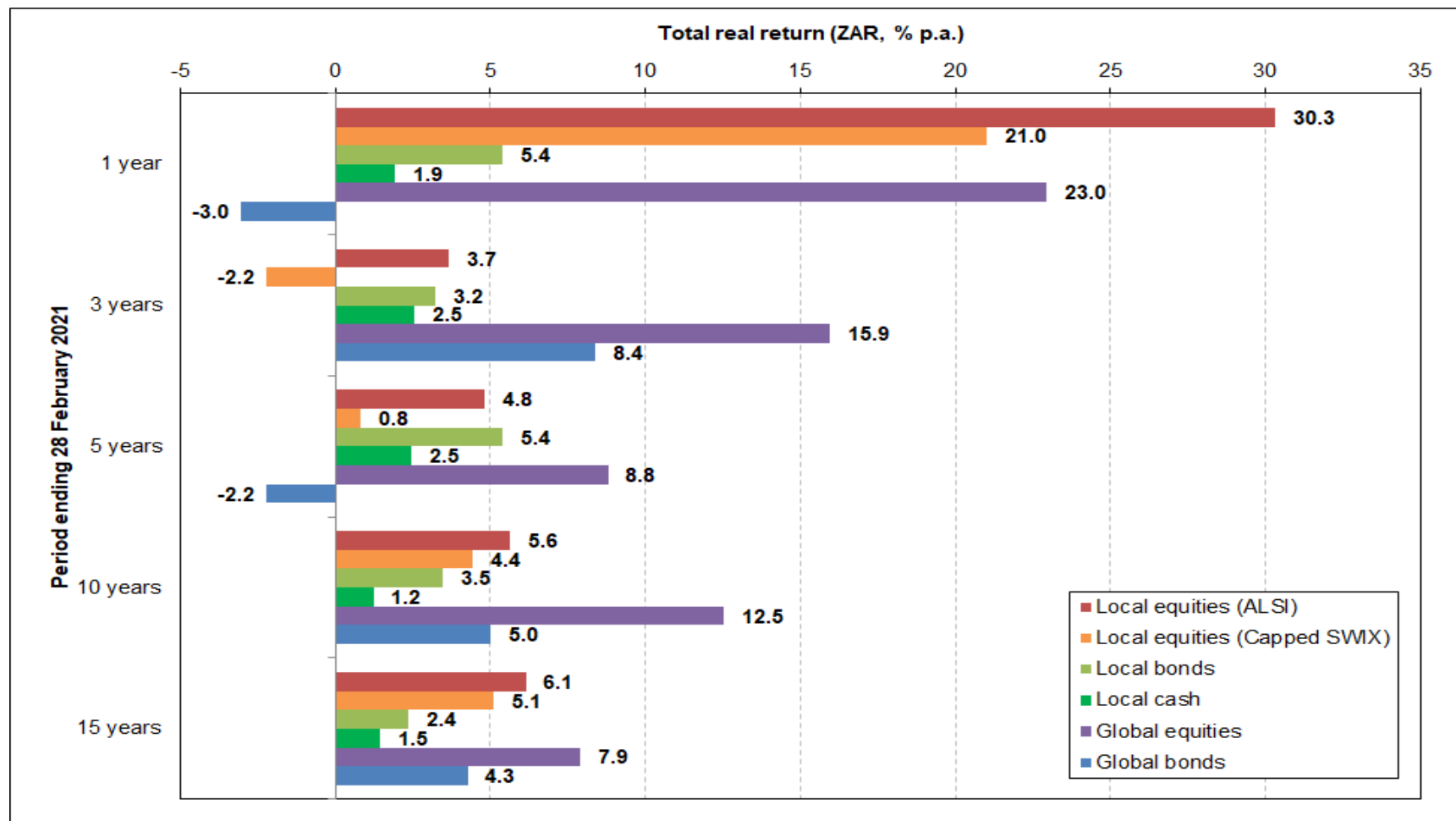
## MEDIUM TO LONG TERM





# 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%

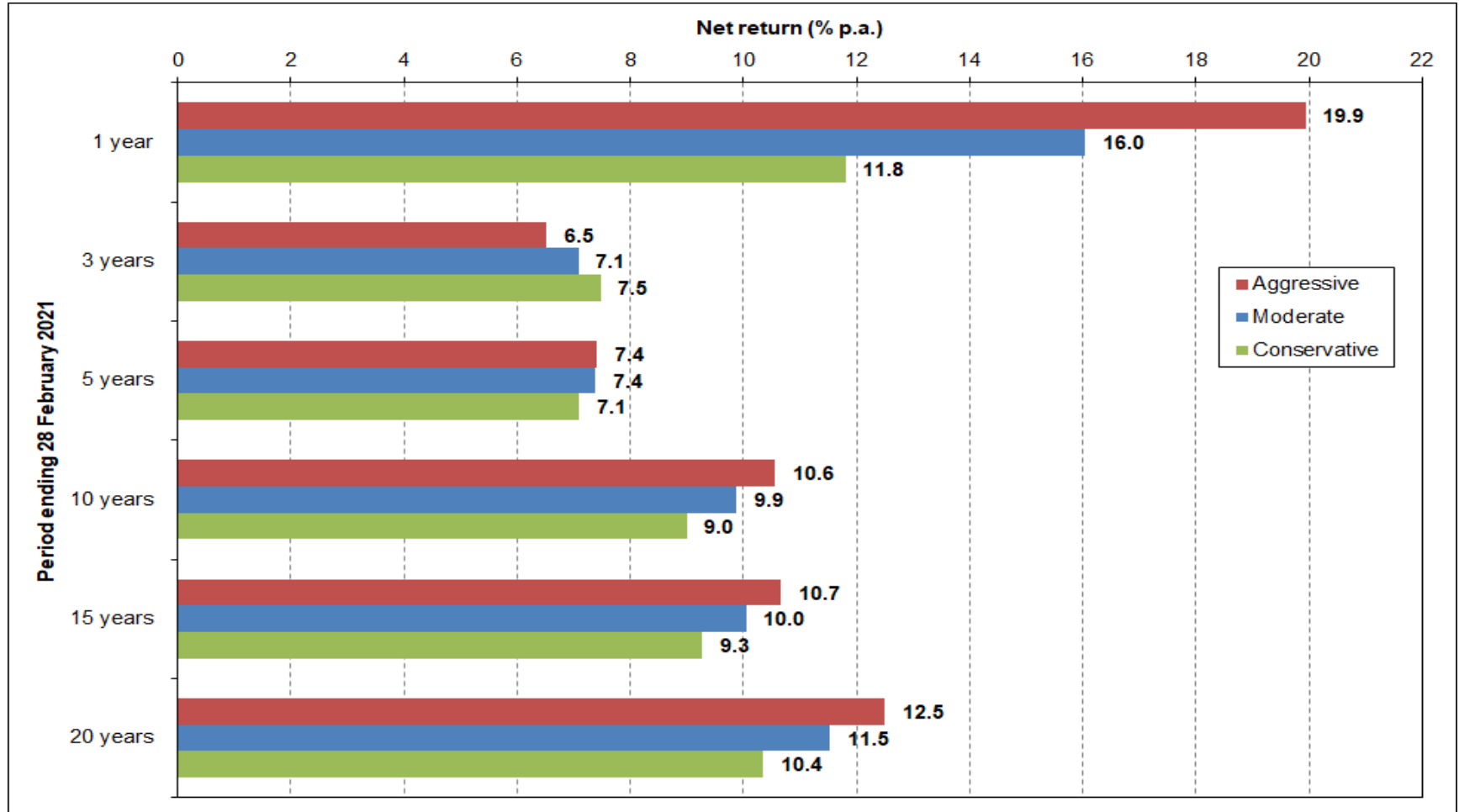
MODERATE	Strategic allocation	LOCAL VS OFFSHORE	75%			25% (5% below regulatory maximum)	
		GROWTH VS INCOME ASSETS	55%	45%		55%	45%
		EQUITIES VS BONDS VS CASH	100%	55%	45%	100%	100%
	Current allocation		~41%	~19%	~15%	~14%	~11%

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%

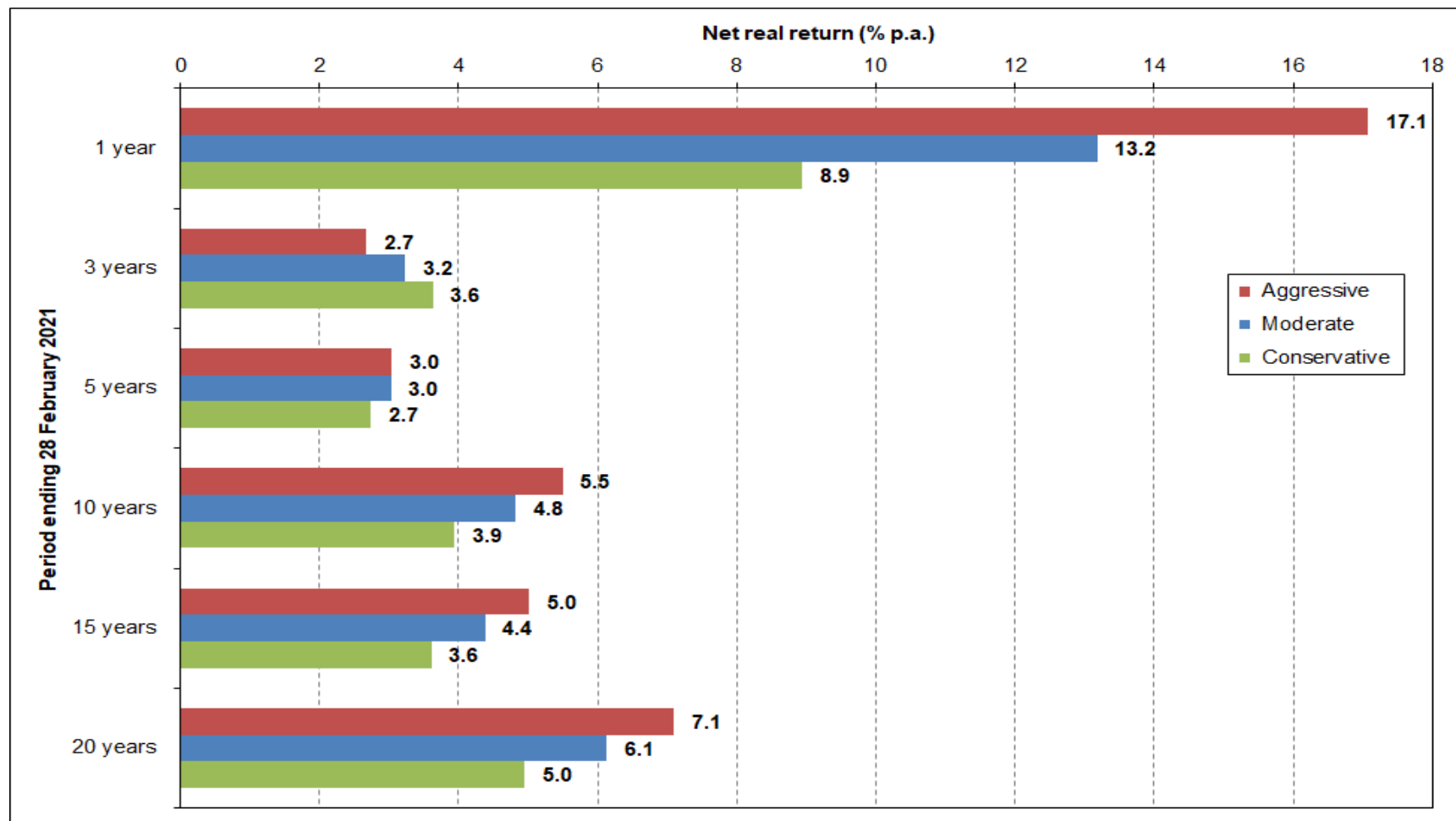
# MARKET PERFORMANCE

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

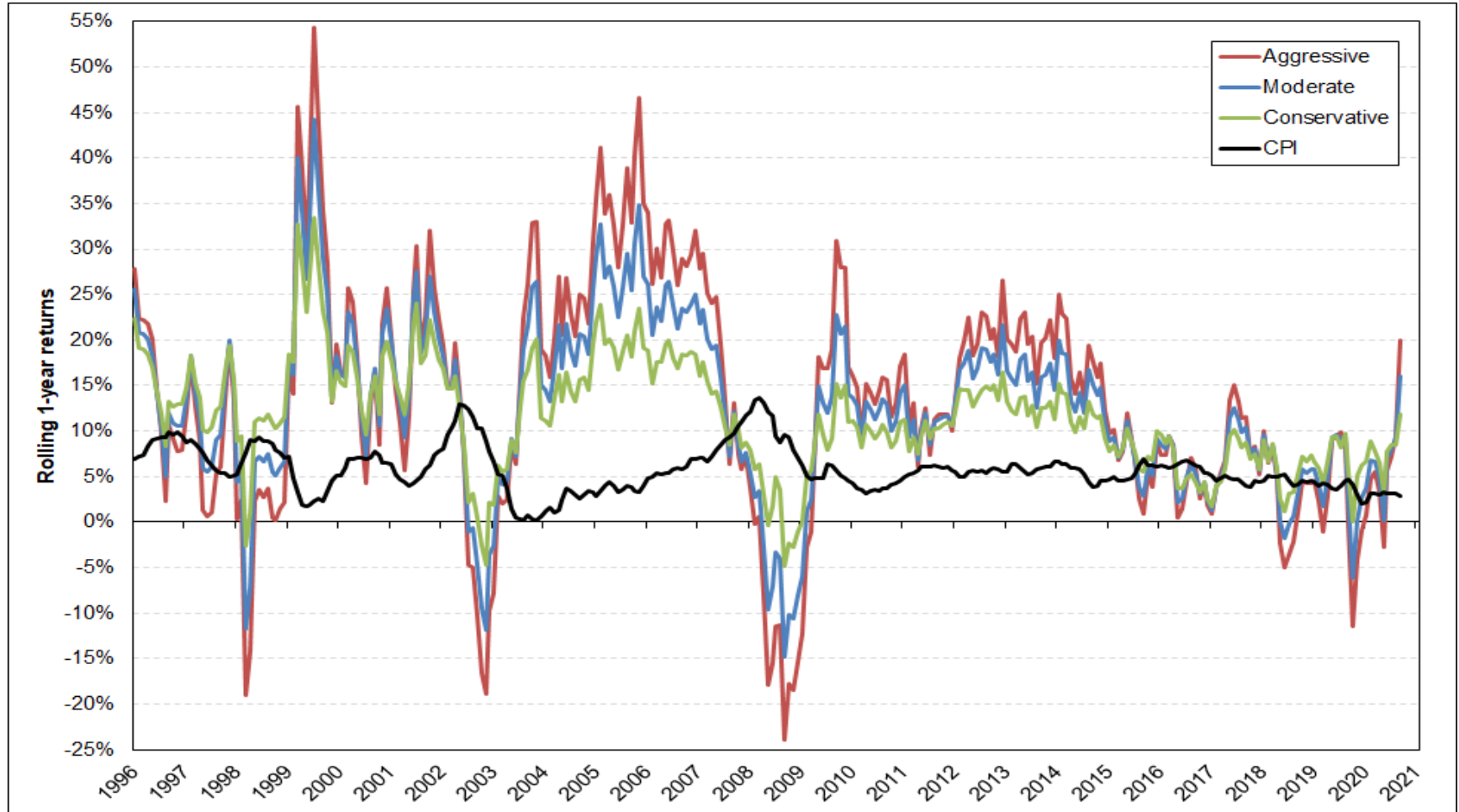


# MARKET PERFORMANCE

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

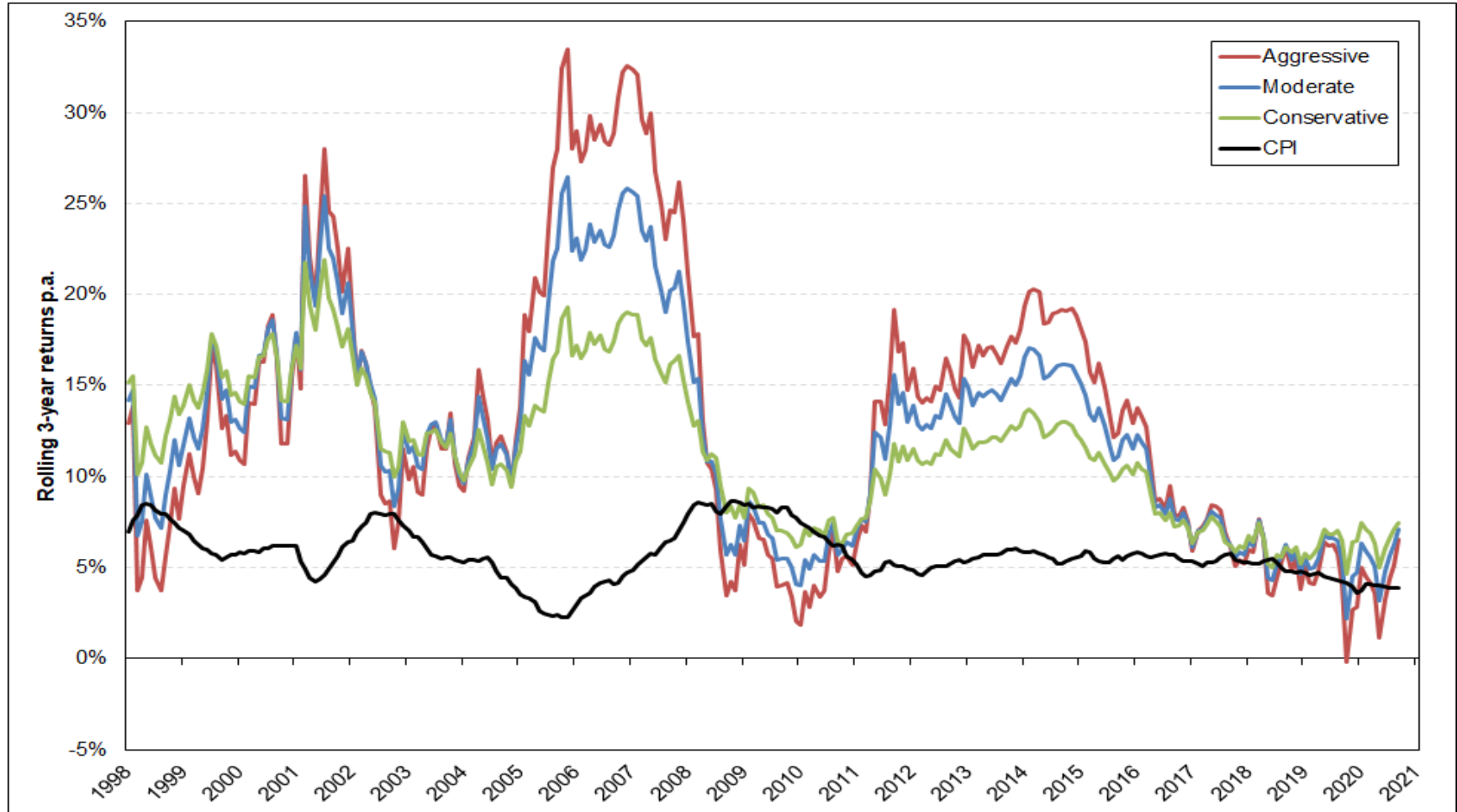


# MARKET PERFORMANCE OVER A YEAR, ANYTHING CAN HAPPEN...



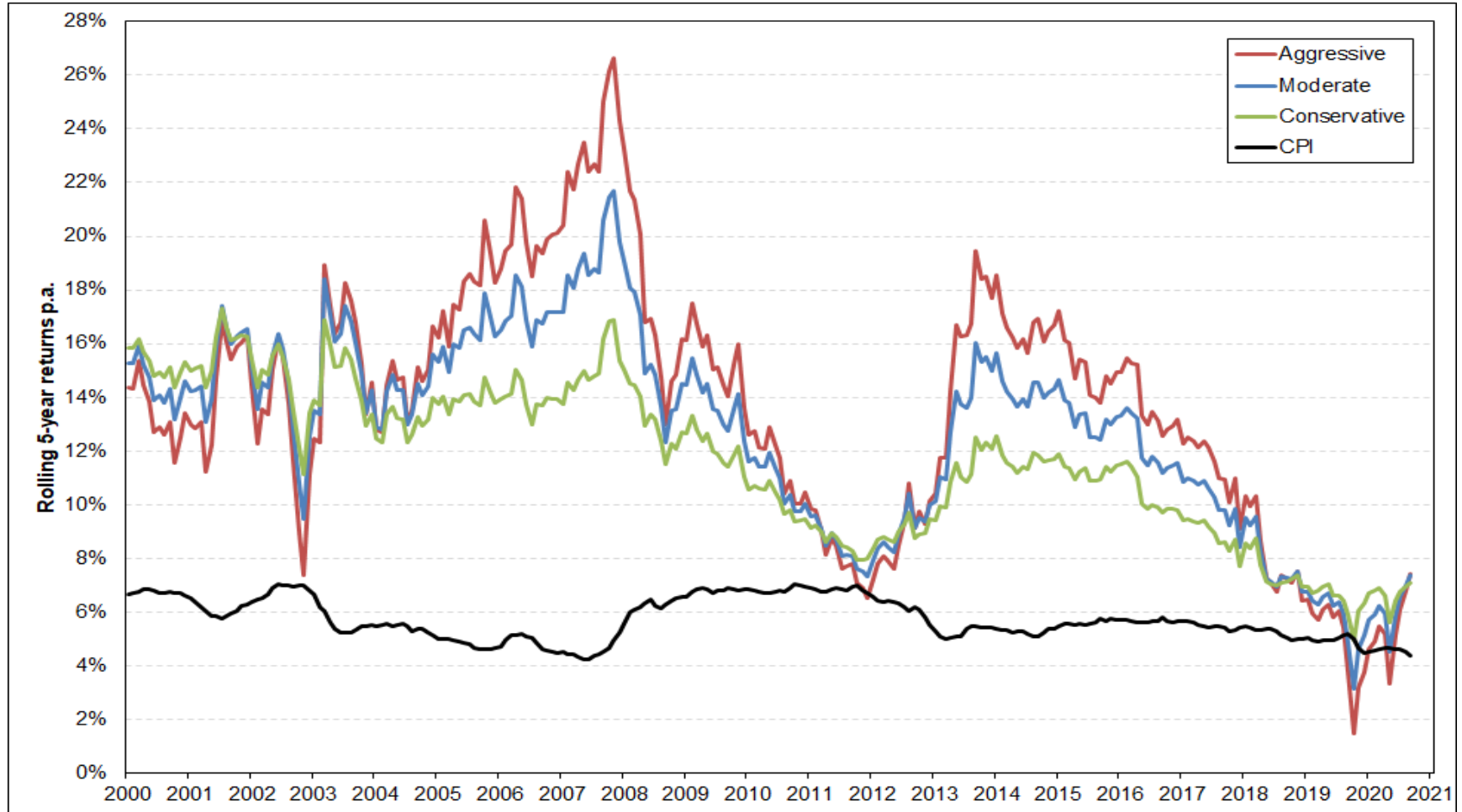
# MARKET PERFORMANCE

**...OVER 3 YEARS, LOSSES ARE LESS LIKELY, BUT  
NEGATIVE REAL RETURNS ARE NOT THAT UNCOMMON...**



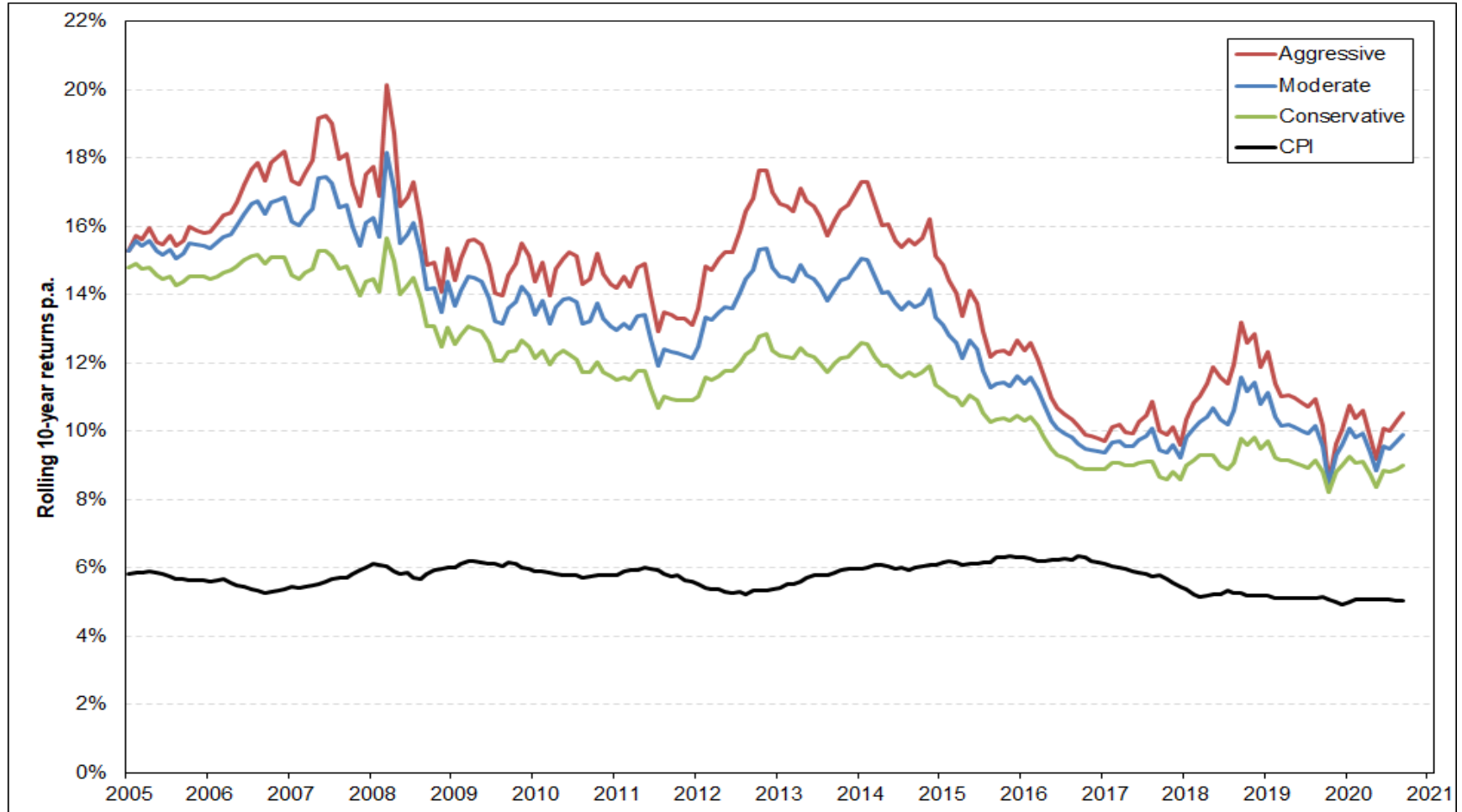
# MARKET PERFORMANCE

**...OVER 5 YEARS, LOSSES ARE UNLIKELY, AND  
NEGATIVE REAL RETURNS ARE NOT THAT COMMON...**



# MARKET PERFORMANCE

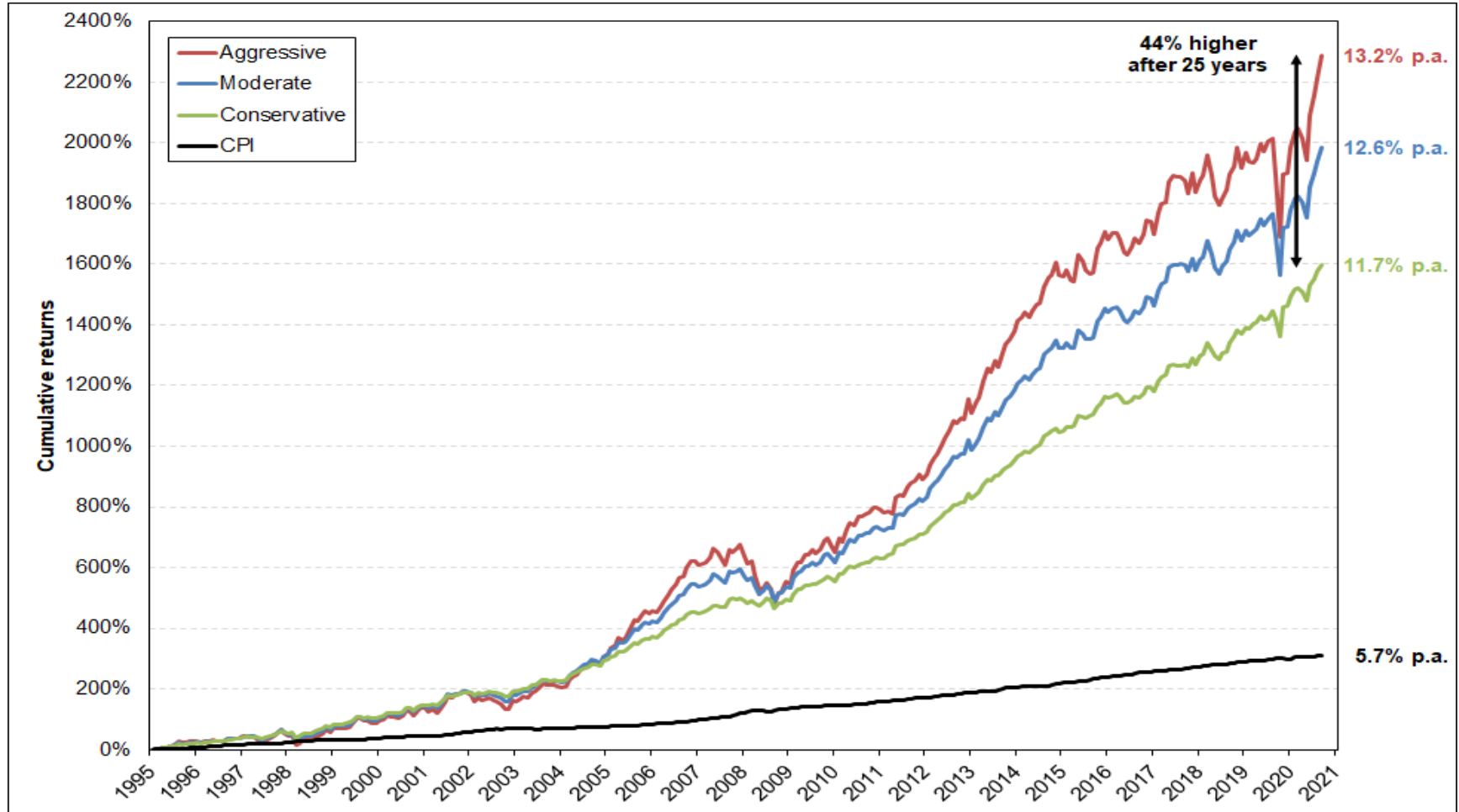
**...OVER 10 YEARS, SUFFICIENT REAL RETURNS ARE LIKELY, EVEN UNDER DIFFICULT CIRCUMSTANCES...**





# MARKET PERFORMANCE

## ...SO REMEMBER, KEEP YOUR GOALS IN MIND AND YOUR EYE ON THE PRIZE!



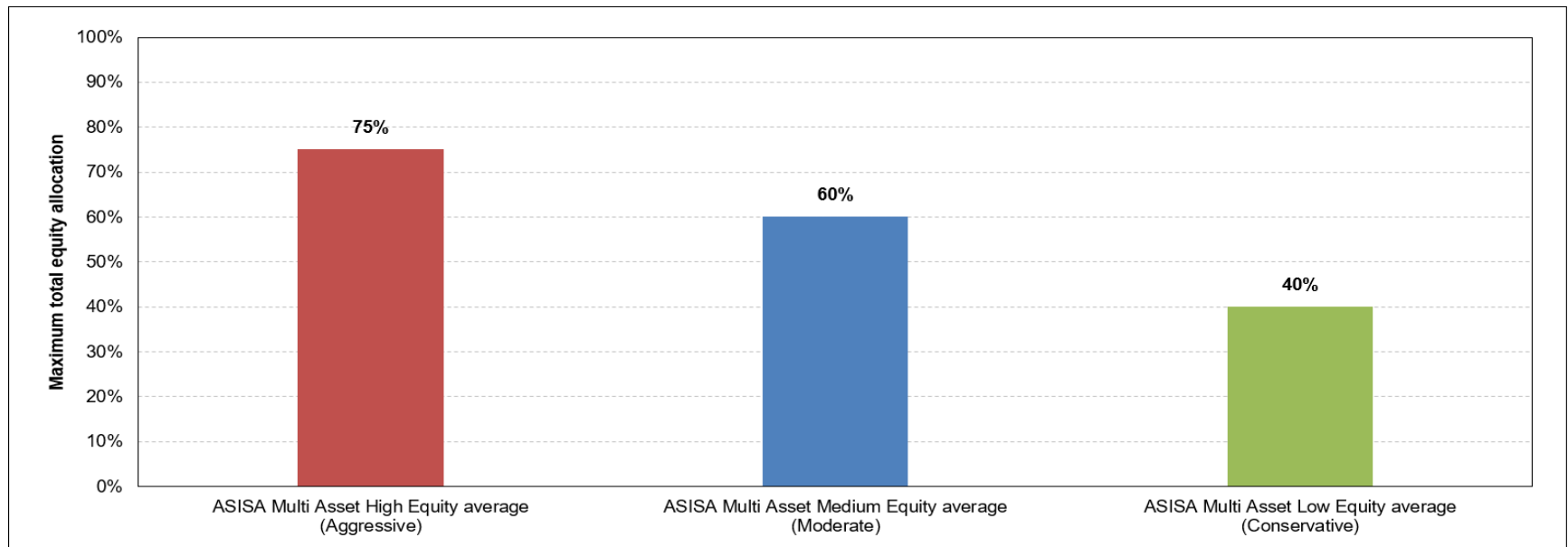
# MANAGER PERFORMANCE

## 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?

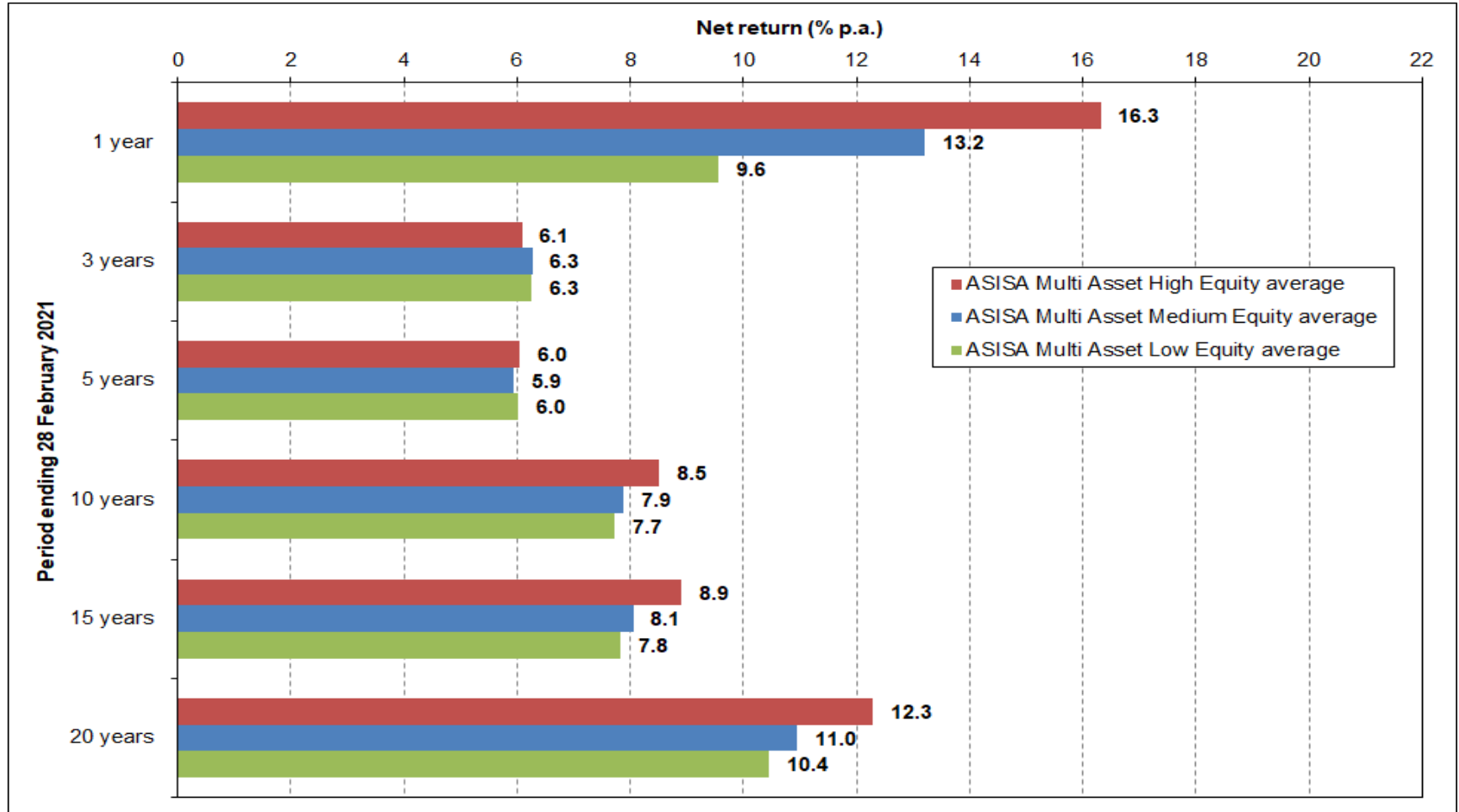
To illustrate this, we show the average returns from regulated collective investment schemes in the ASISA (Association for Savings and Investments South Africa) South Africa Multi Asset High, Medium and Low Equity categories to reflect the returns of typical Aggressive, Moderate and Conservative retirement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



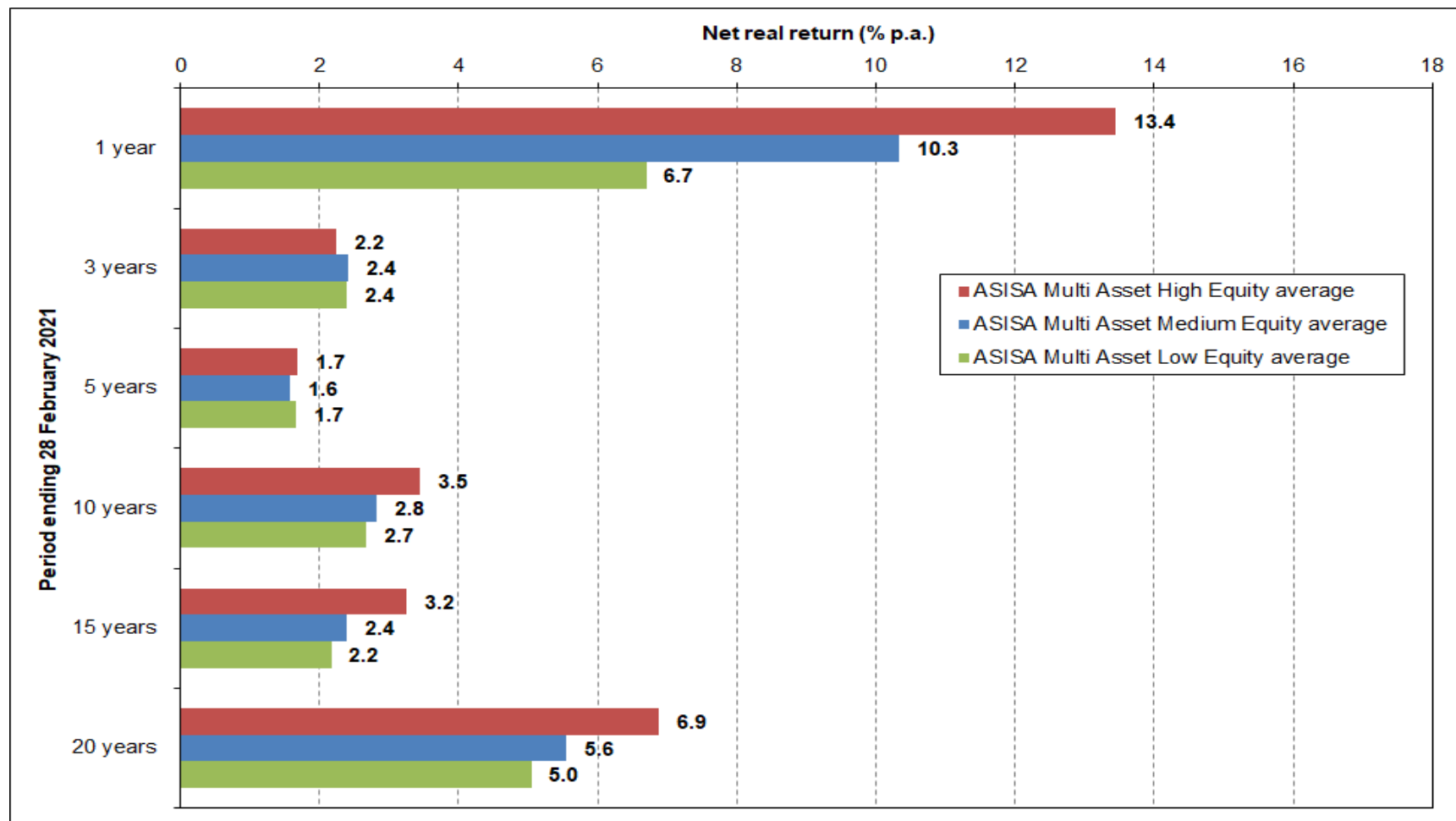
# MANAGER PERFORMANCE

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

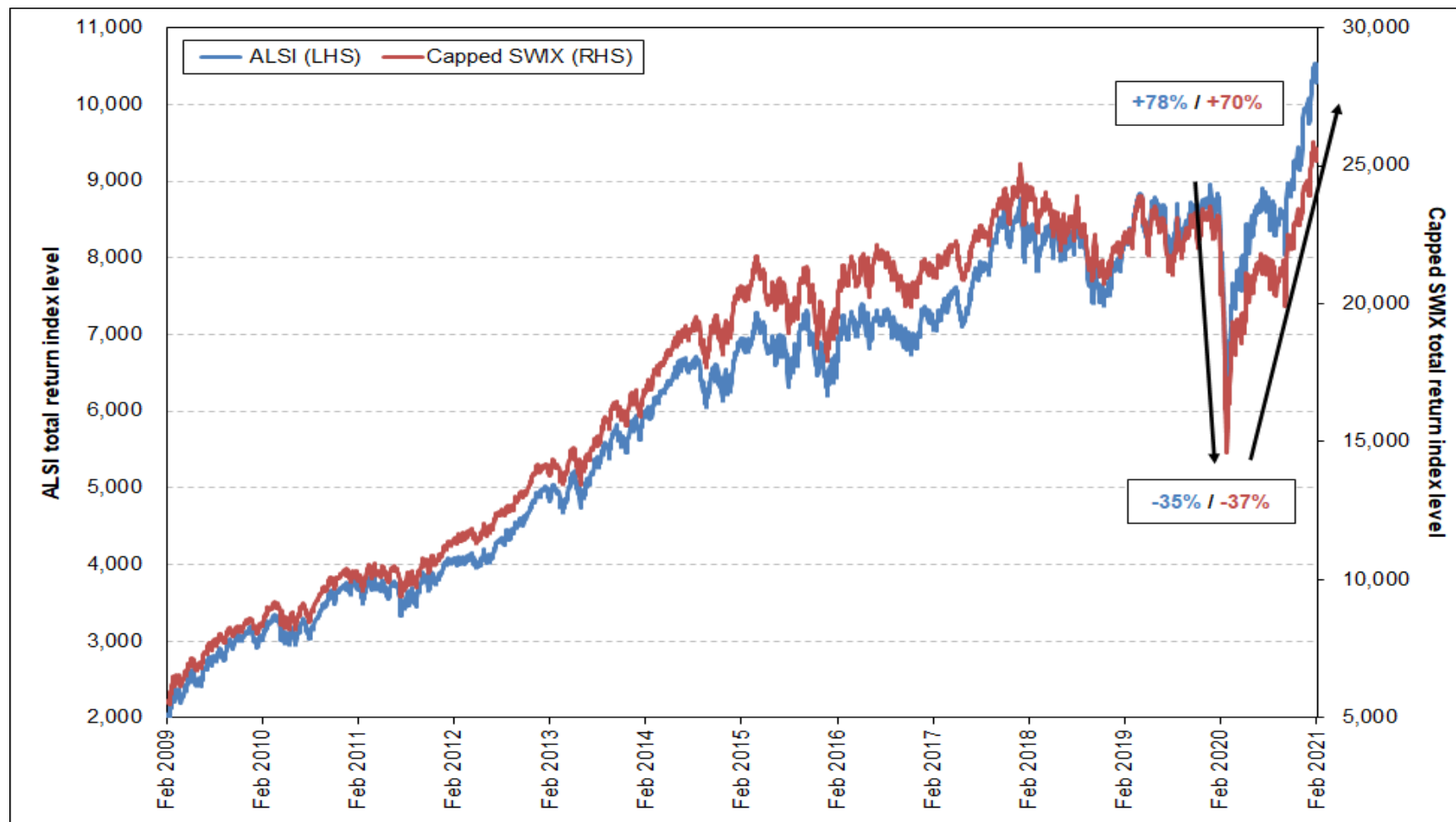


# MANAGER PERFORMANCE

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

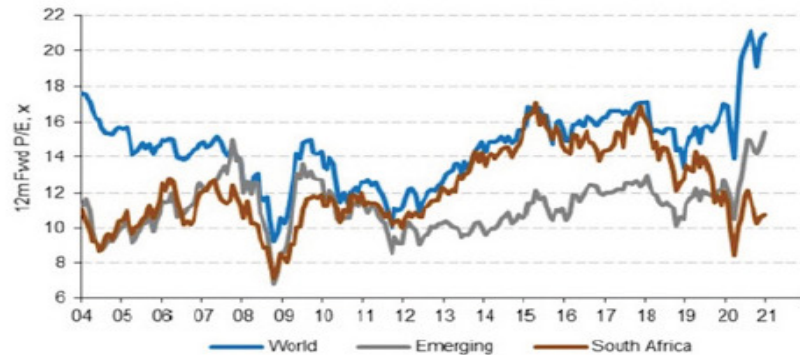


# LOCAL EQUITY MARKET TO INFINITY AND BEYOND!



# LOCAL EQUITY MARKET STILL CHEAP COMPARED TO GLOBAL MARKETS...

MSCI 12m fwd P/E ratio



Source: MSCI, FactSet.

MSCI SA vs MSCI EM: 12m fwd P/E ratio



Source: MSCI, FactSet, SBG Securities analysis

MSCI EM vs MSCI World: 12m fwd P/E ratio



Source: MSCI, FactSet, SBG Securities analysis

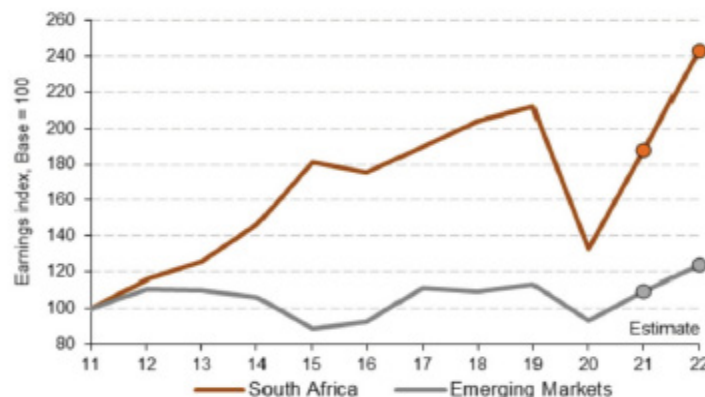
MSCI SA vs MSCI World: 12m fwd P/E ratio



Source: MSCI, FactSet, SBG Securities analysis

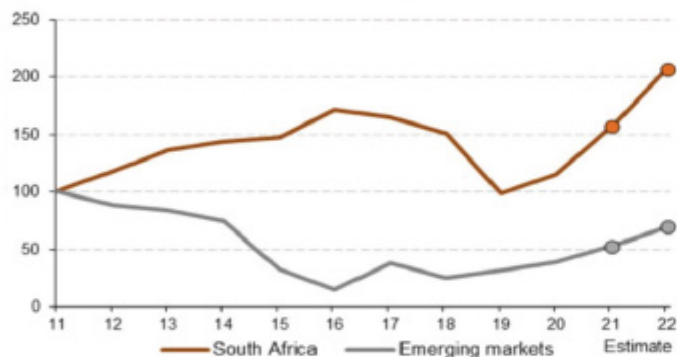
# LOCAL EQUITY MARKET ...DESPITE DECENT FUNDAMENTALS

MSCI SA VS EM BANKS' EPS GROWTH



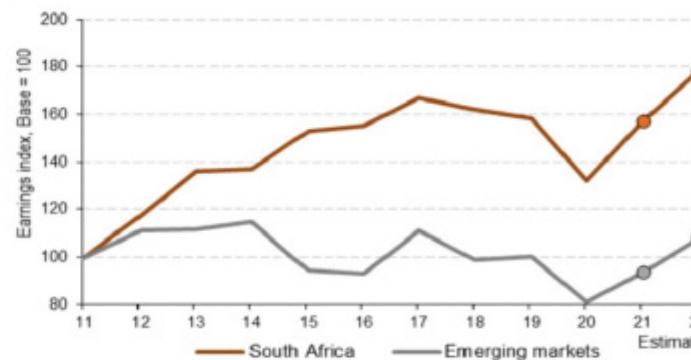
Source: MSCI, FactSet, FactSet estimates, SBG Securities analysis

MSCI SA vs EM Retailing EPS growth



Source: MSCI, FactSet, FactSet estimates, SBG Securities analysis

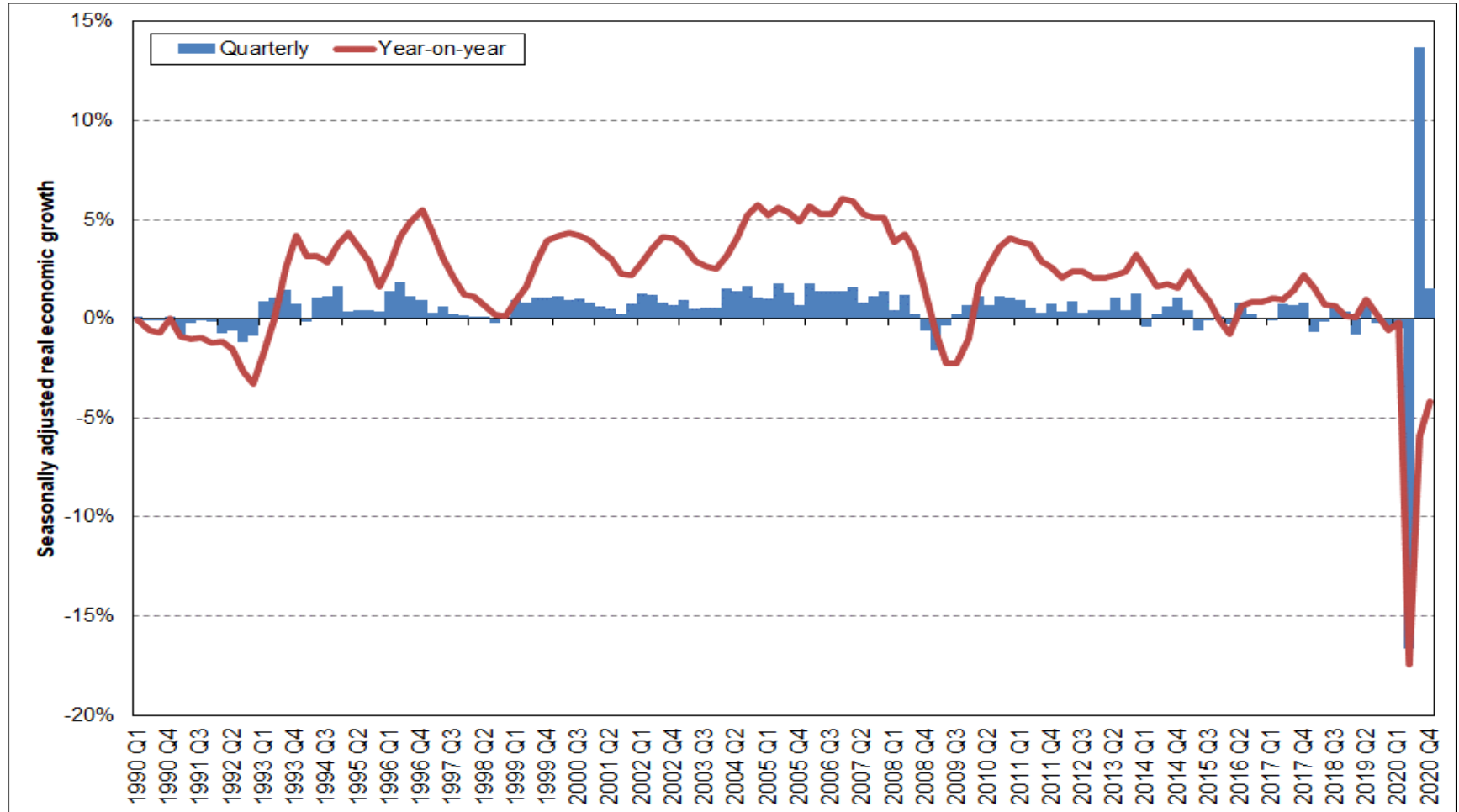
MSCI SA vs EM Food & Staples Retail EPS growth



Source: MSCI, FactSet, FactSet estimates, SBG Securities analysis

# LOCAL ECONOMY

## RECOVERY CONTINUES, BUT HARD WORK LIES AHEAD



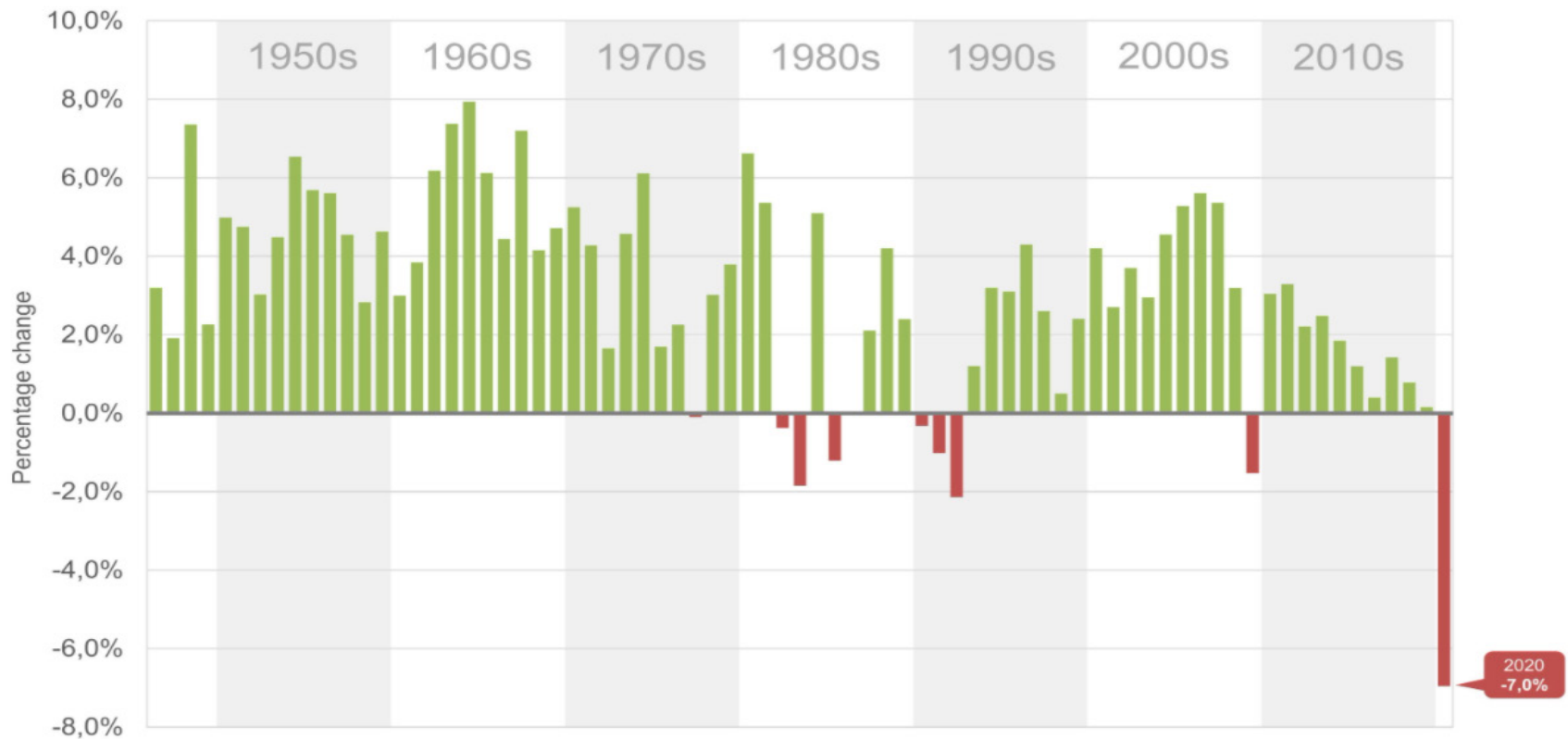


# LOCAL ECONOMY

## LONG TERM GDP GROWTH

**The South African economy contracted by 7,0% in 2020, the largest annual decrease in GDP since the end of World War II**

Annual growth, constant 2010 prices

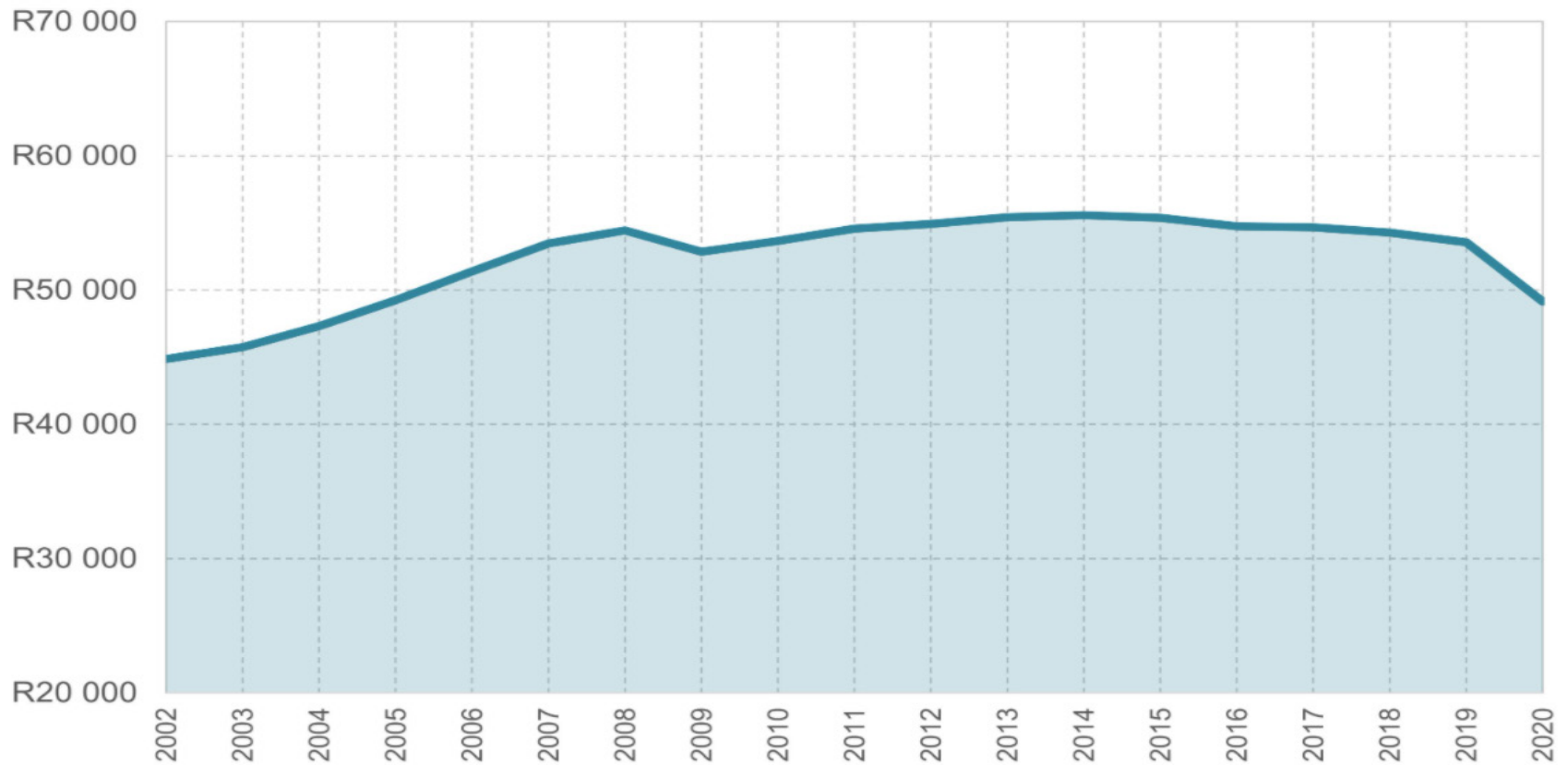


# LOCAL ECONOMY

## GDP PER CAPITA

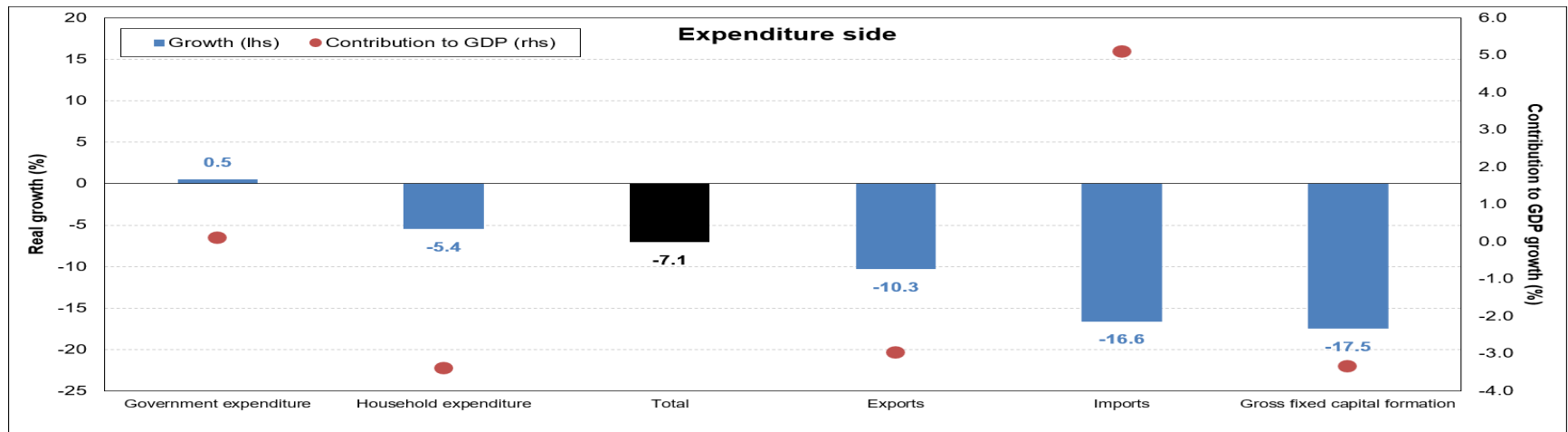
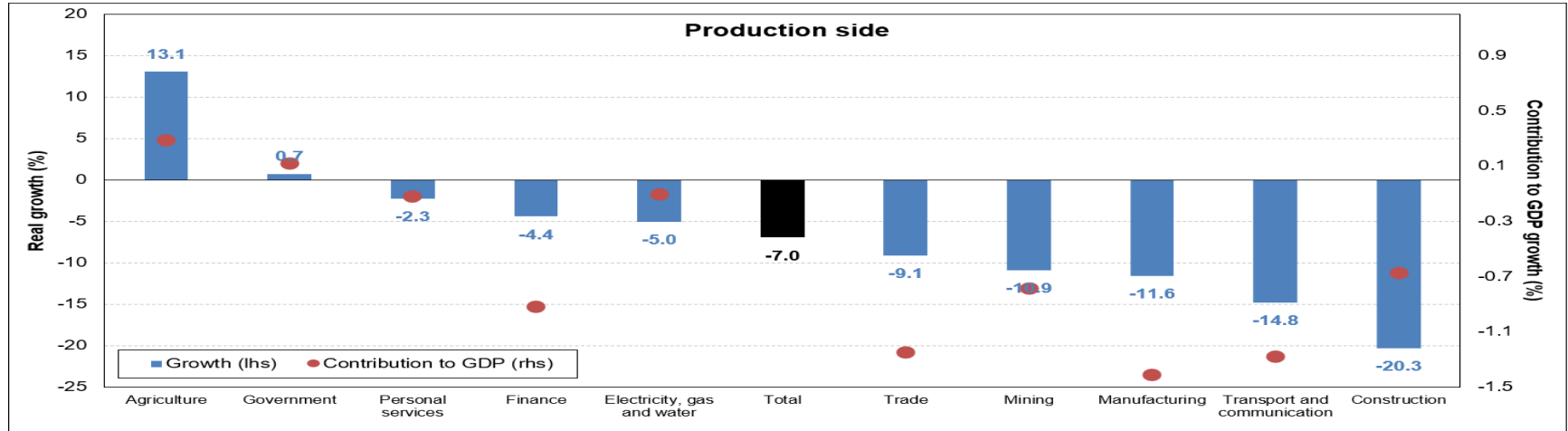
### South African GDP per capita declined in 2020 to a level last seen in 2005

GDP per capita in rands, constant 2010 prices



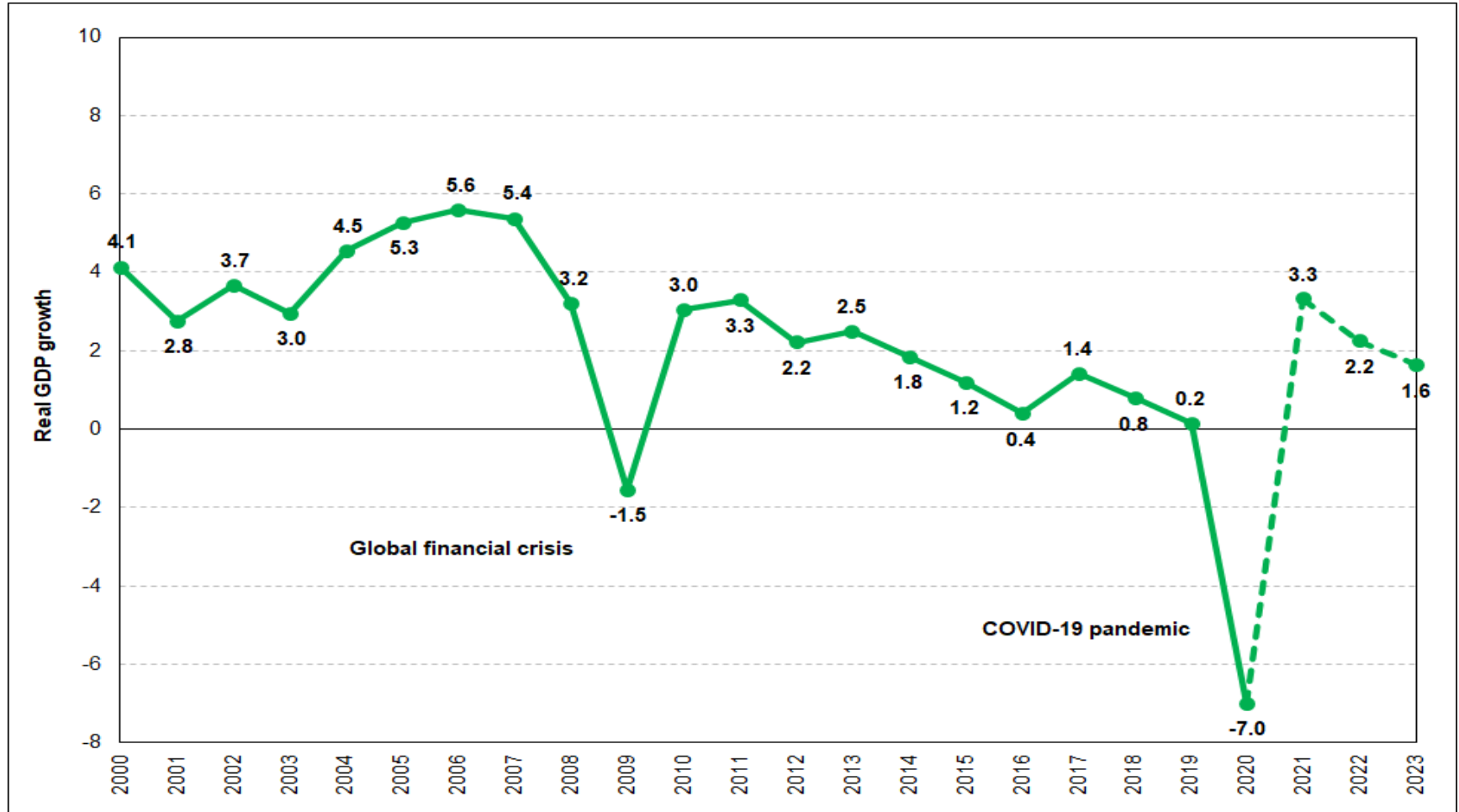
# LOCAL ECONOMY

## AGRICULTURE THE ONLY BRIGHT SPOT IN 2020



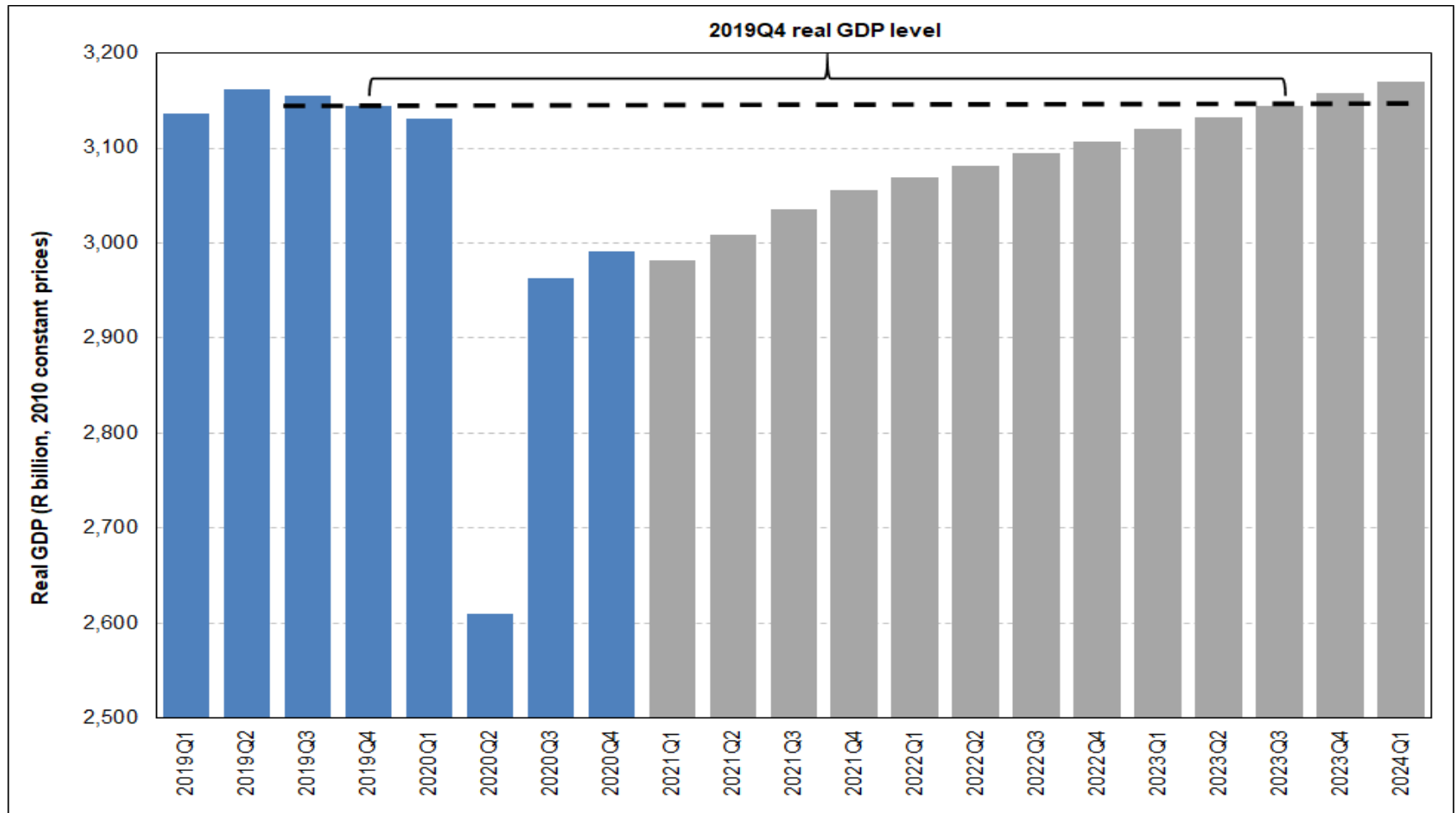
# 2021 BUDGET

## RECORD CONTRACTION, BUT ONLY A WEAK RECOVERY EXPECTED...



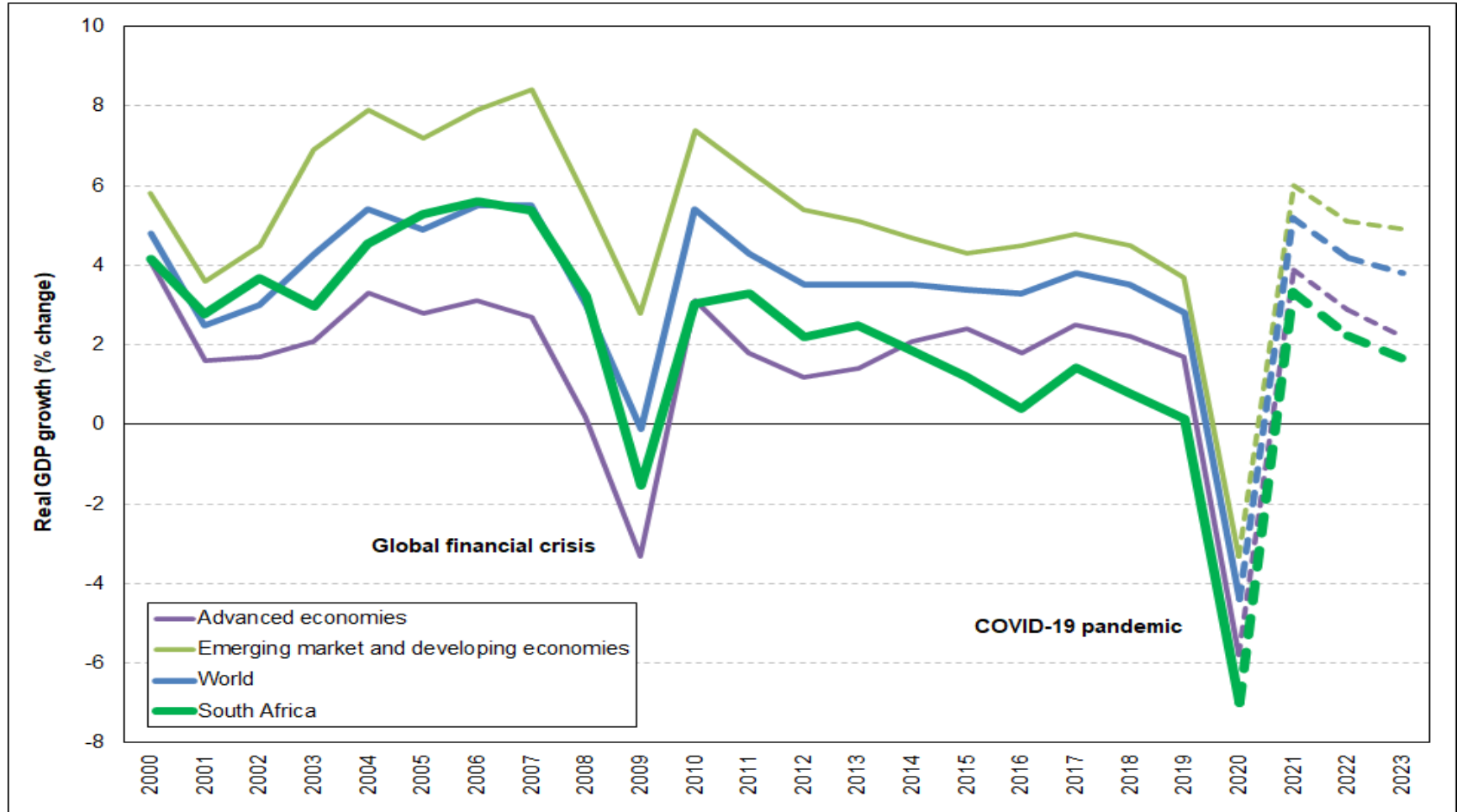
# 2021 BUDGET

## IT IS EXPECTED TO TAKE US 3 YEARS TO MAKE UP 2020's LOSSES



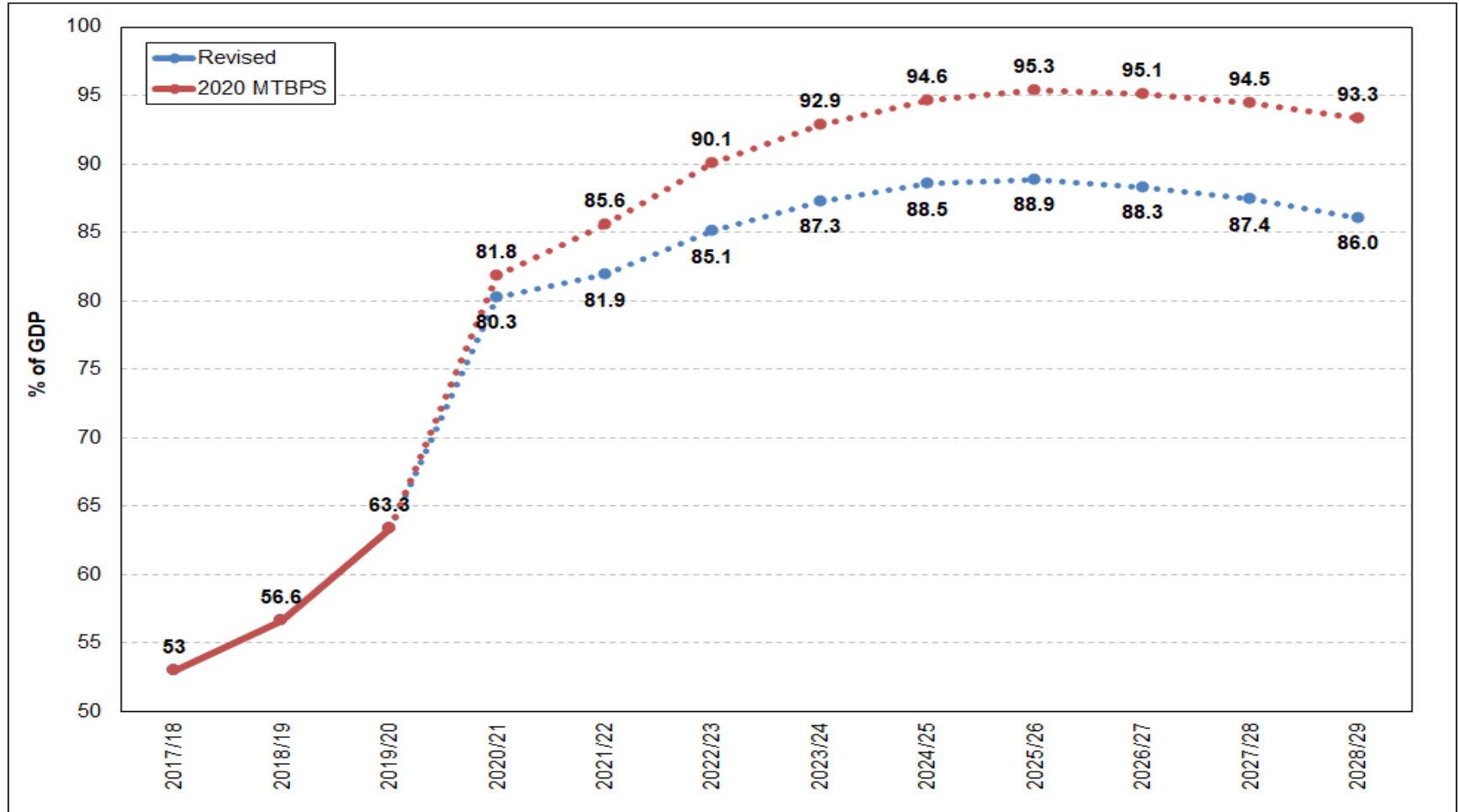
# 2021 BUDGET

IN THE ABSENCE OF STRUCTURAL REFORMS, WE'RE SET TO CONTINUE OUR POST-2009 UNDERPERFORMANCE



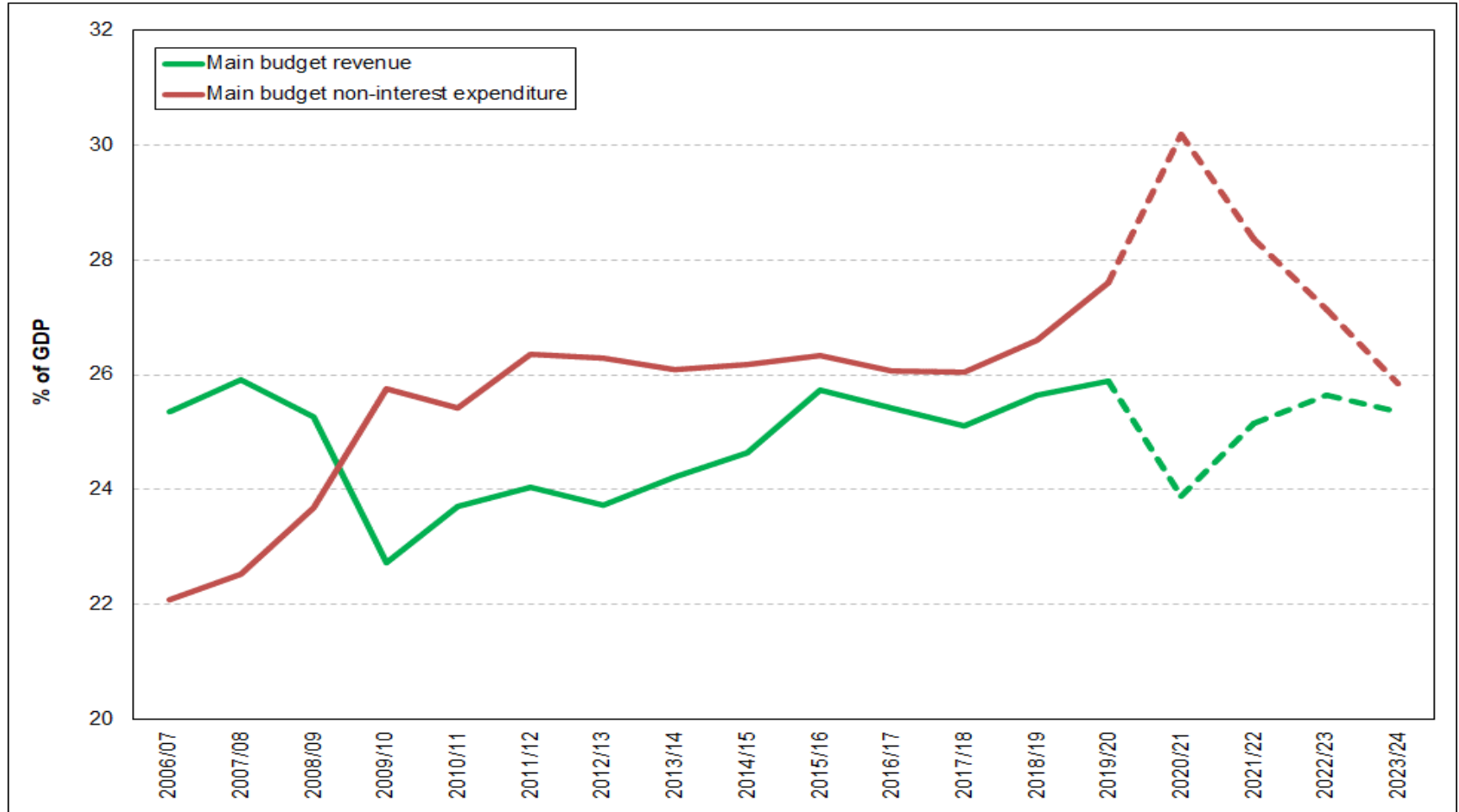
# 2021 BUDGET

## PROJECTED GOVERNMENT DEBT REVISED LOWER...



# 2021 BUDGET

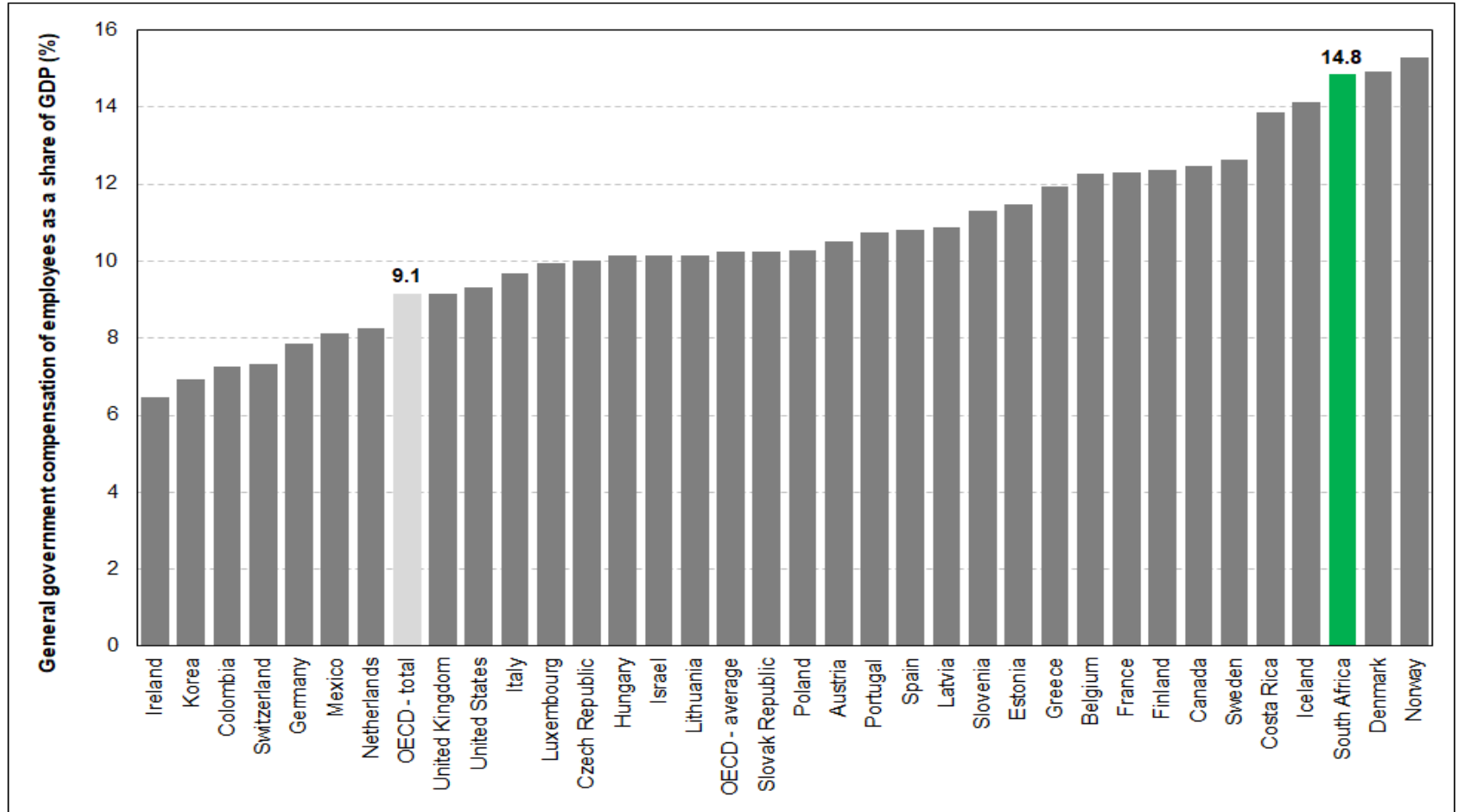
## ...AS MBOWENI TRIES TO CLOSE THE HIPPO'S JAWS...





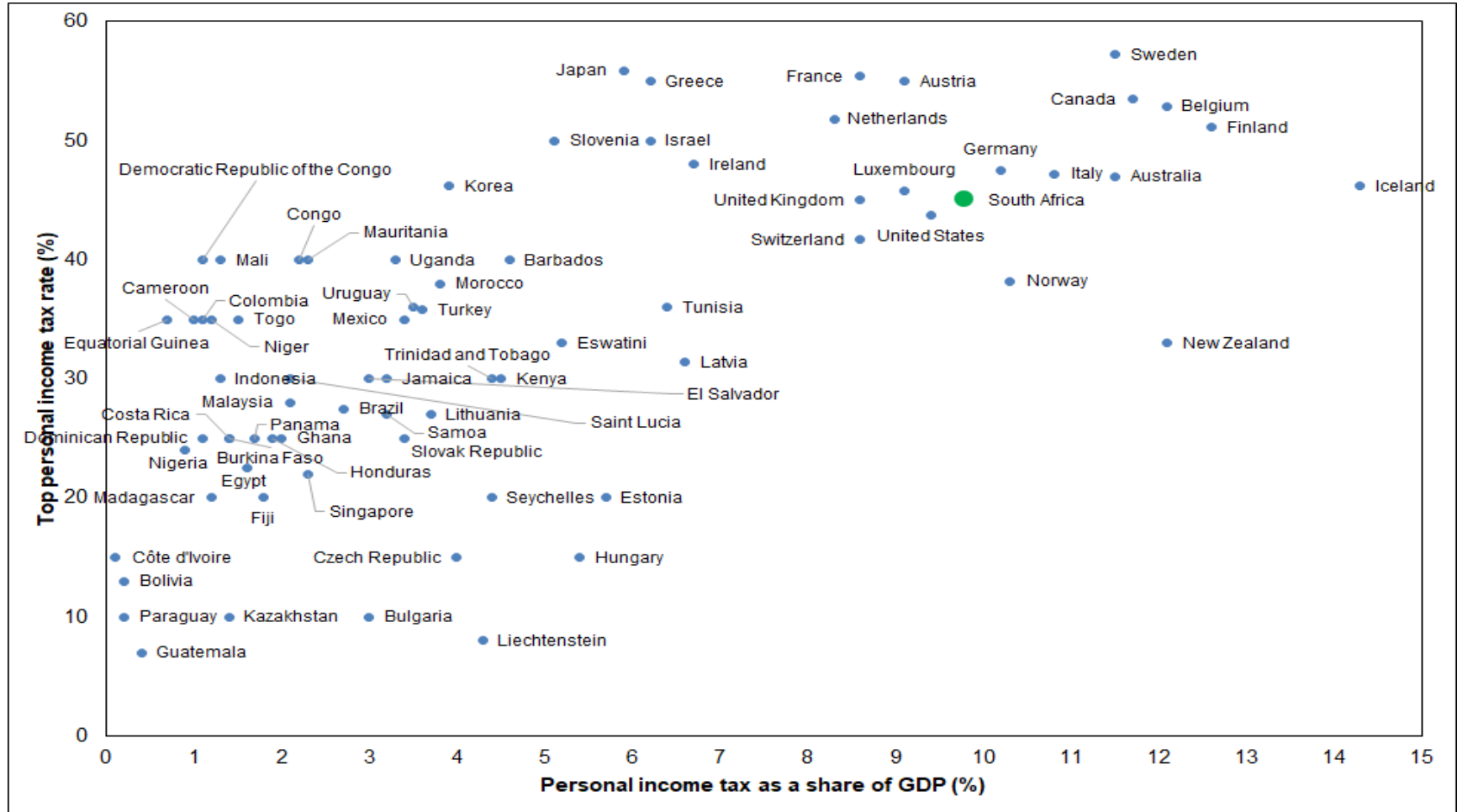
# 2021 BUDGET

## ...BUT WILL PUBLIC SERVANTS PLAY BALL?



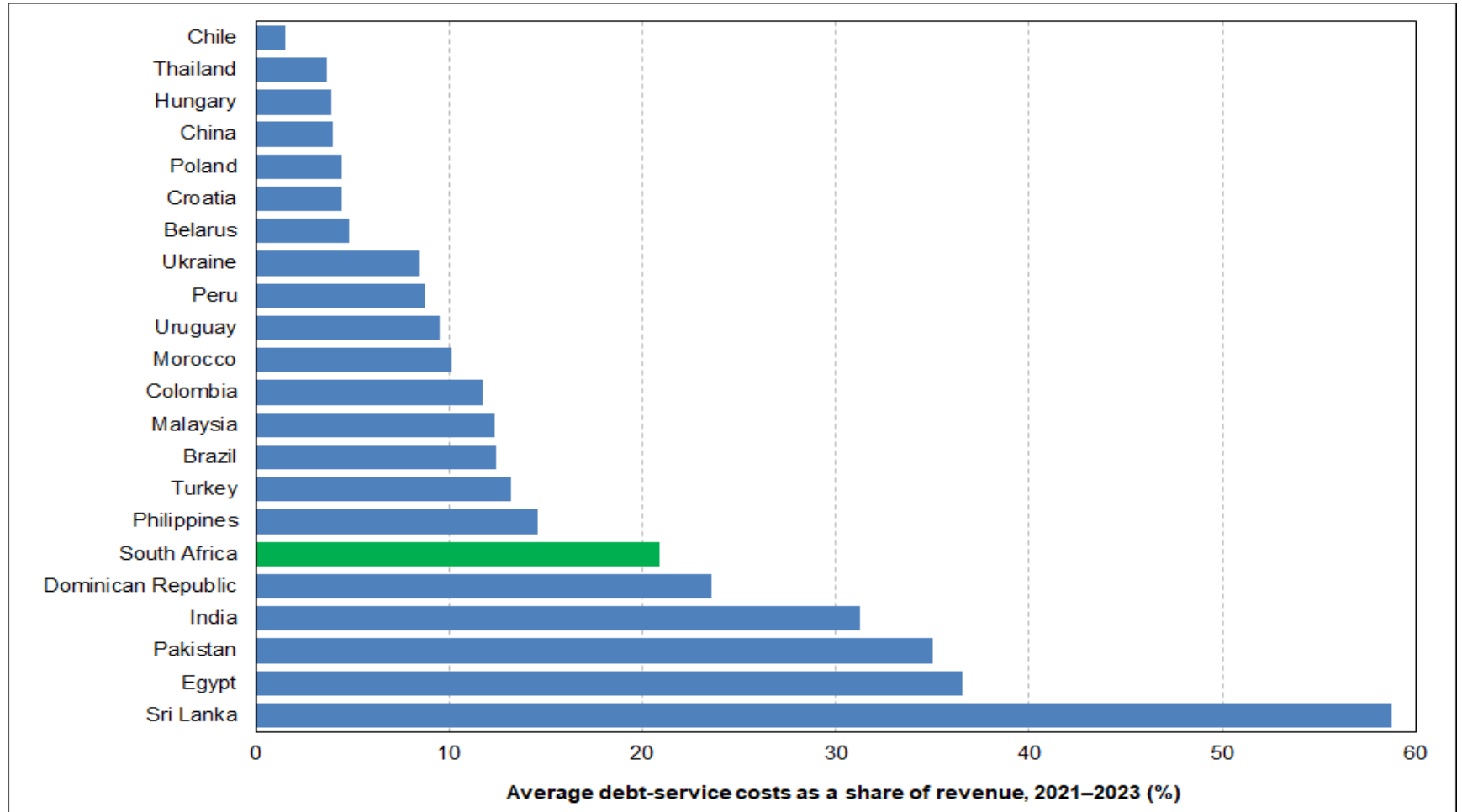
# 2021 BUDGET

## ...ALREADY TAXED LIKE 1<sup>st</sup> WORLD CITIZENS

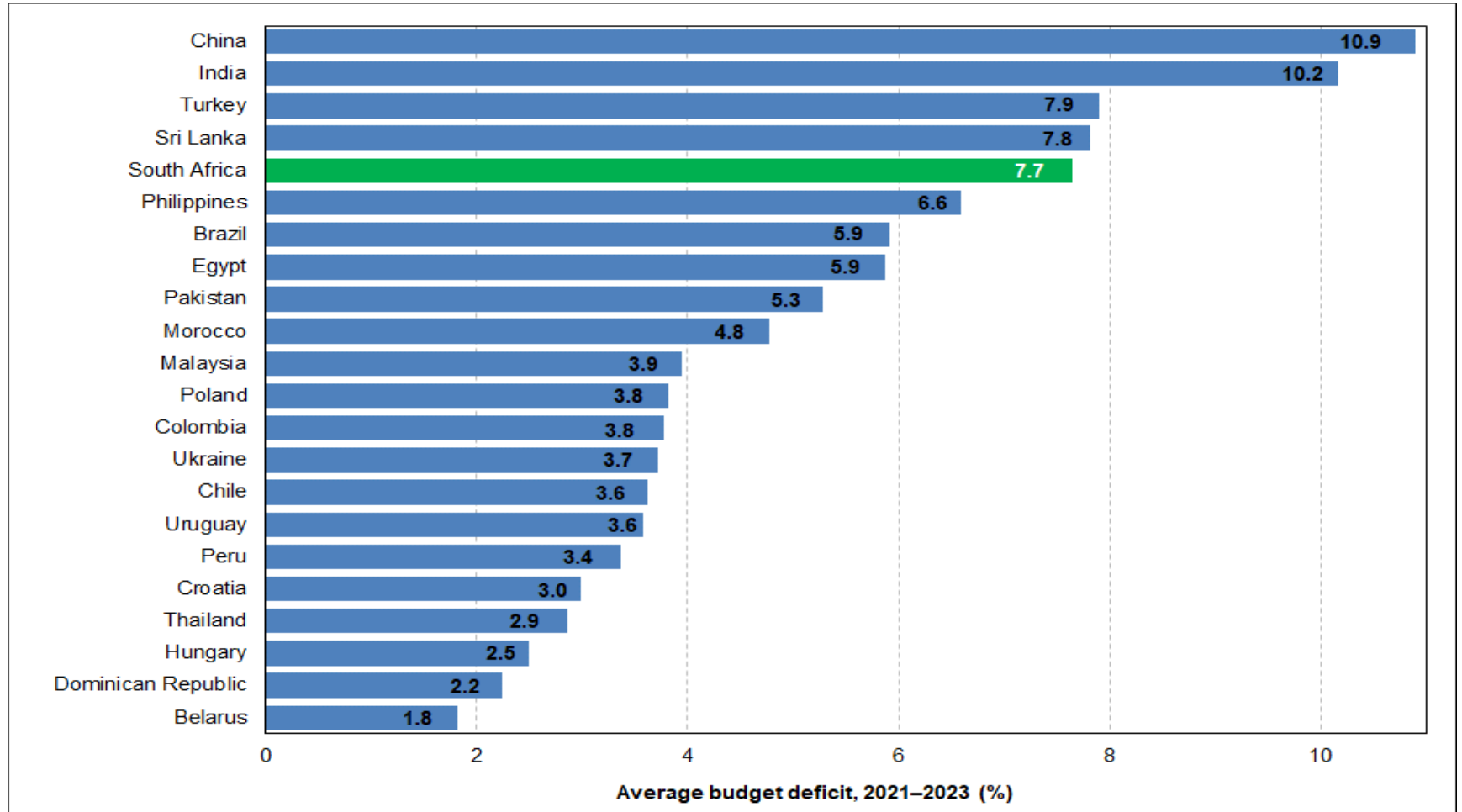


# 2021 BUDGET

## ENTERING DANGEROUS TERRITORY...

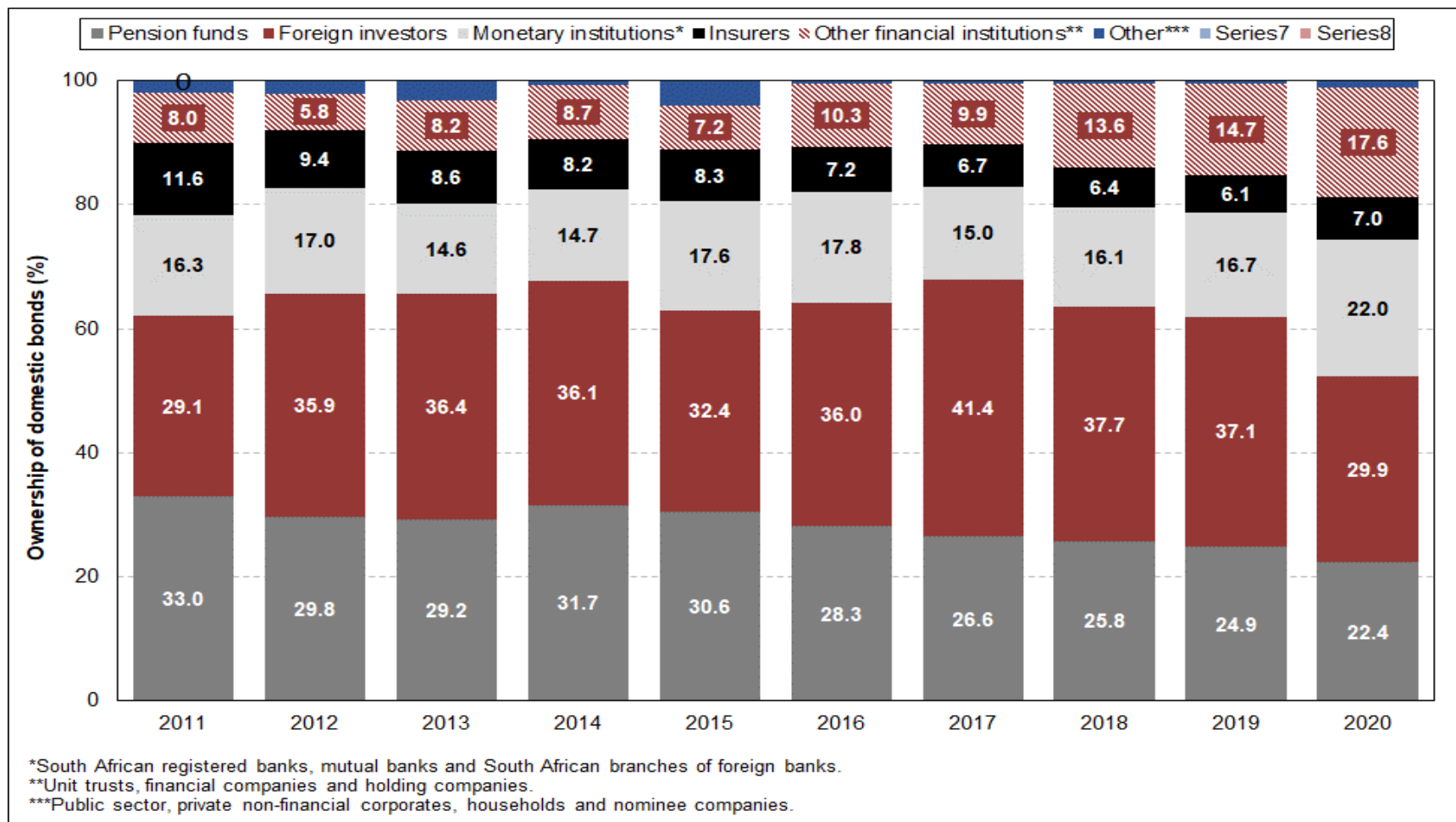


# 2021 BUDGET BIG SPENDERS



# 2021 BUDGET

## FOREIGN BOND HOLDINGS REACH MULTI-YEAR LOWS, LOCAL BANKS PICK UP THE PIECES



# BUSINESS & CONSUMER CONFIDENCE

## BUSINESS CONFIDENCE IMPROVEMENT LOSES STEAM, WHILE CONSUMER OPTIMISM CONTINUES TO RECOVER

