

MONTH IN PICTURES

**NOVEMBER
2021**

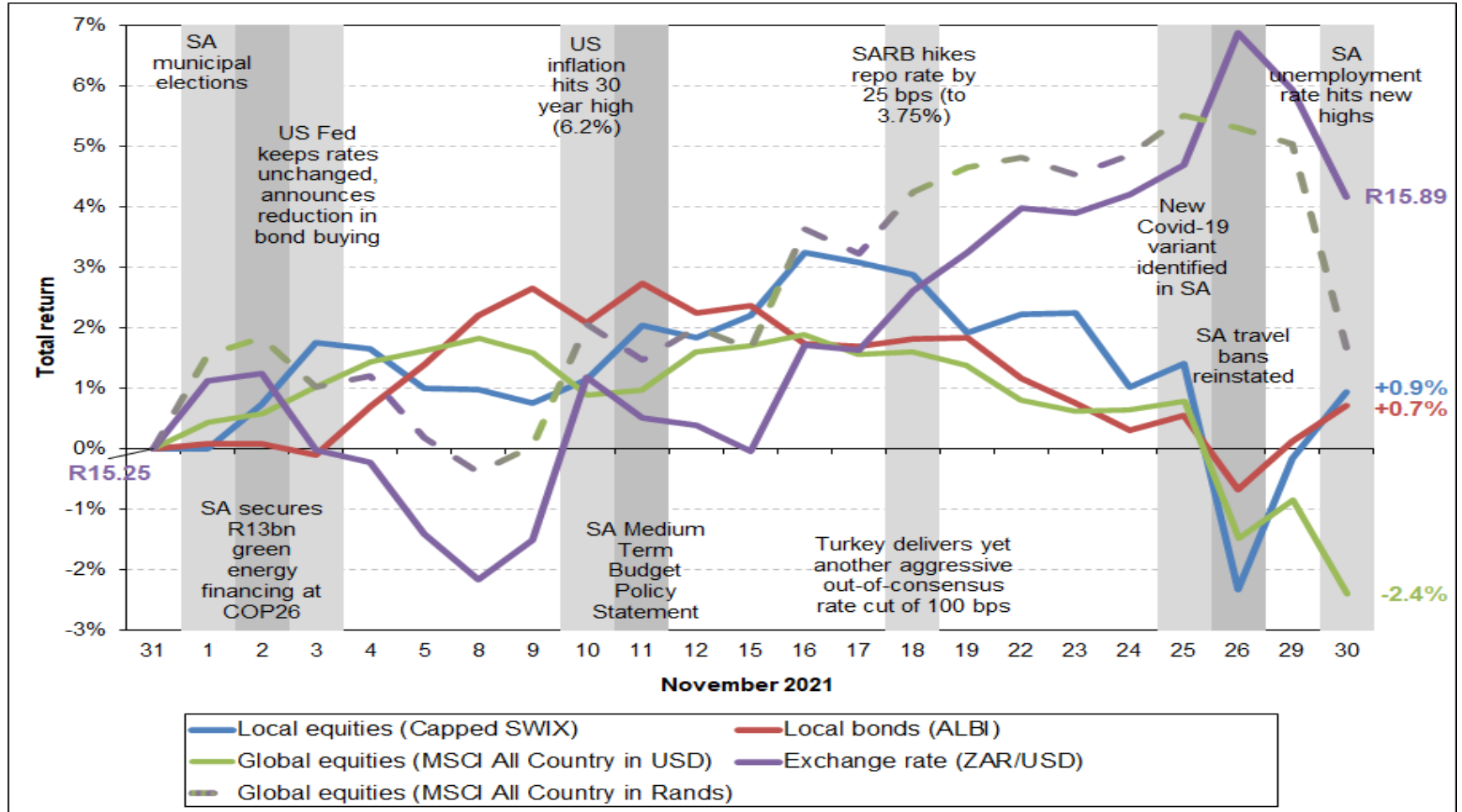
MONTHLY SNAPSHOT

NOTABLE EVENTS

- November was a busy and volatile month for investment markets, with local government elections, SA's medium term budget, Covid-19 developments and US monetary policy hogging the headlines.
- Local markets held up reasonably well under the circumstances, with the local equity and bond markets making gains (ALSI = +4.5%, Capped SWIX = +0.9% and ALBI = +0.7%). The Rand buckled under the pressure though, depreciating by 4.2% against the US Dollar, and by 1.3% and 2.5% against the British Pound and Euro, respectively.
- On the local equity market Resources (+6.5%) benefitted from ZAR weakness, while strong financial results from Richemont (+26%) and MTN (+18%) gave Industrials (+5.7%) a boost. Listed Property (+2.2%) also managed to deliver a positive return, while Financials (-2.6%) endured another negative month.
- Following the release of 2021 Q3's concerning unemployment figures (34.9% and 46.6% under the official and expanded definitions, respectively), SA's GDP numbers for the same quarter also disappointed, with a worse-than-expected contraction of 1.5%. This was the first negative quarter since last year's slump, and was mostly caused by July's unrest and the stricter lockdown restrictions during the third Covid wave.
- With the discovery of the latest Covid-19 variant (Omicron), an alarming rise in positive cases, and the subsequent reimposition of travel restrictions, Q4 GDP numbers have in all likelihood also been dealt a severe blow, which means that the local economy will struggle to grow by 5% in 2021 as was previously expected.
- After hitting a 30-year high the previous month, US inflation reached a 40-year high of 6.8% year-on-year in November. Following earlier comments from Fed officials, this probably implies an accelerated pace tapering (i.e., the winding down of the Fed's bond purchasing programme), along with a possible earlier start to their interest rate normalisation process (from current near-zero levels).
- These developments (Omicron and inflation) weighed heavily on global markets, with global equities and bonds recording US Dollar losses of 2.4% and 0.1%, respectively. The ALSI's dollar return of +0.3% therefore made it one of only a handful of exchanges to end the month in the green.
- Although this year had its fair share of drama, 2021 is nevertheless shaping up to be a pretty good year for investors, with the year-to-date (ytd) returns from local and global equity markets tracking above 20%. In the retirement fund space members should therefore be quite pleased as well, with double-digit returns from multi-asset class portfolios appearing to be the most likely outcome for this year (ytd average returns ranged from 12% to 18% for low to high equity balanced funds by mid December).

MONTHLY TIMELINE

IMPACT ON MARKETS



MARKET INDICATORS

SHORT TERM

Market indicators (% change) ¹		Sep 2021	Oct 2021	Nov 2021	3 months	12 months
Local equities	ALSI	(3.1)	5.2	4.5	6.4	28.5
	Capped SWIX	(1.4)	2.7	0.9	2.2	27.8
	Resources	(9.3)	8.4	6.5	4.7	37.5
	Industrials	(0.8)	6.7	5.7	11.9	21.7
	Financials	2.1	(3.2)	(2.6)	(3.7)	29.2
	Listed Property	(0.8)	(1.7)	2.2	(0.3)	44.3
Local bonds	ALBI	(2.1)	(0.5)	0.7	(2.0)	8.1
Local cash	STeFI Composite	0.3	0.3	0.3	1.0	3.8
Global equities	MSCI All Country	(0.5)	6.3	1.7	7.6	22.5
Global bonds	FTSE WGBI	1.4	0.8	4.1	6.4	(2.5)
Exchange rate	ZAR/USD	3.8	1.2	4.2	9.4	2.7
Inflation	CPI	0.2	0.2	0.0	0.9	5.0

1. Total returns (in Rands) for the months and periods ending 30 November 2021.

MARKET INDICATORS

MEDIUM TO LONG TERM

Market indicators (% change) ¹		1 year	3 years	5 years	10 years	15 years
Local equities	ALSI	28.5	15.5	10.6	11.4	10.8
	Capped SWIX	27.8	10.1	6.7	10.0	10.0
	Resources	37.5	30.0	20.8	6.6	6.7
	Industrials	21.7	15.3	9.0	13.5	13.9
	Financials	29.2	(1.0)	1.9	9.5	7.9
	Listed Property	44.3	(5.7)	(5.0)	5.3	8.3
Local bonds	ALBI	8.1	8.4	8.8	8.0	8.2
Local cash	STeFI Composite	3.8	5.6	6.3	6.2	7.0
Global equities	MSCI All Country	22.5	21.3	16.8	19.1	12.8
Global bonds	FTSE WGBI	(2.5)	8.6	5.4	8.1	8.5
Exchange rate	ZAR/USD	2.7	4.6	2.4	6.9	5.5
Inflation	CPI	5.0	4.0	4.4	5.0	5.6

1. Total returns (in Rands) for the months and periods ending 30 November 2021.

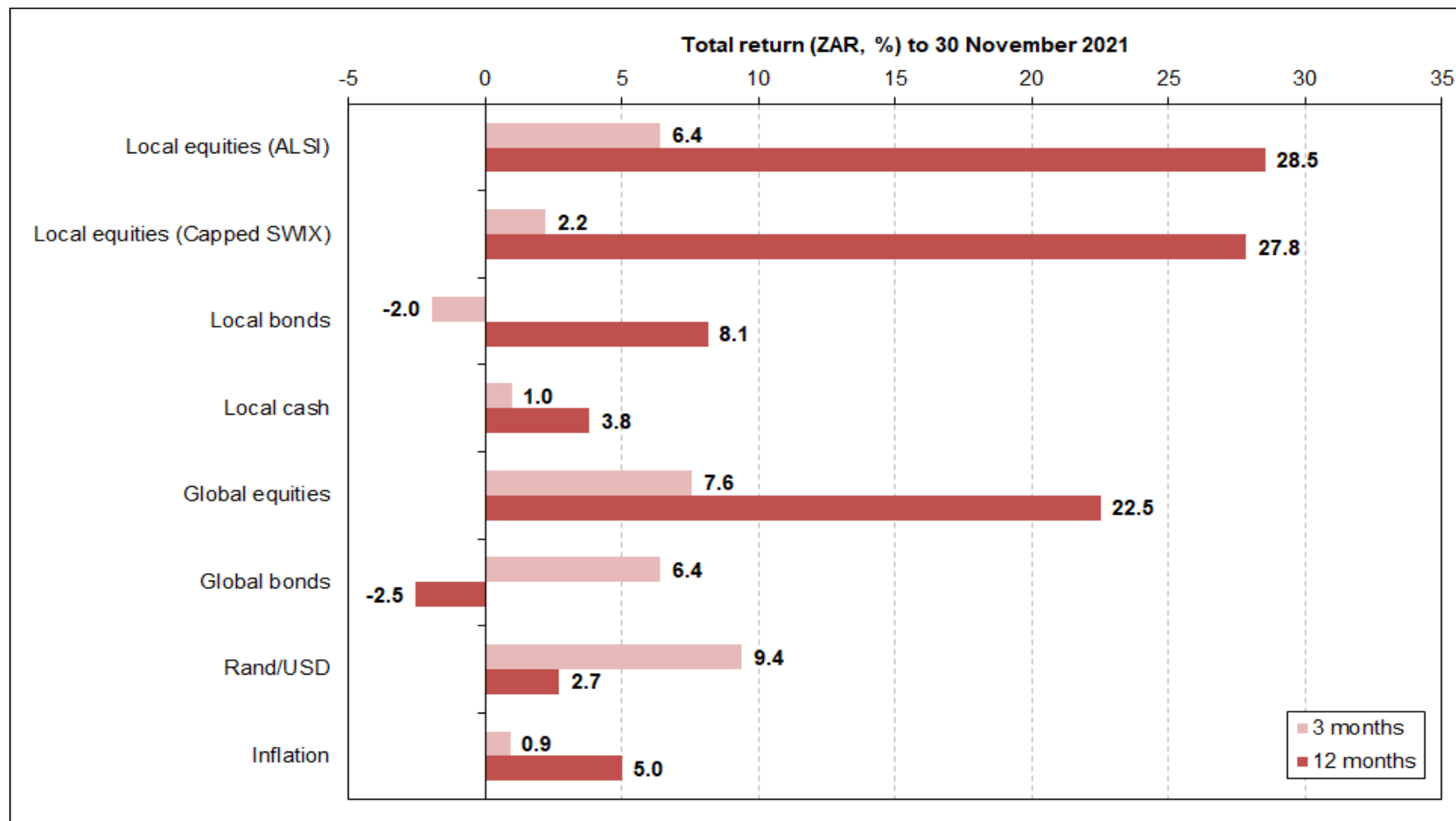
ECONOMIC INDICATORS

Economic indicators ¹	Nov 2019	Nov 2020	Sep 2021	Oct 2021	Nov 2021
Exchange rates:					
ZAR/USD	14.65	15.47	15.07	15.25	15.89
ZAR/GBP	18.93	20.60	20.31	20.86	21.13
ZAR/Euro	16.14	18.45	17.45	17.58	18.01
Commodities:					
Brent Crude Oil (USD/barrel)	62.48	47.88	78.31	83.72	69.23
Platinum (USD/ounce)	895.75	959.51	954.00	1,023.00	952.76
Gold (USD/ounce)	1,456.26	1,776.30	1,726.50	1,783.42	1,793.14

1. Month-end prices

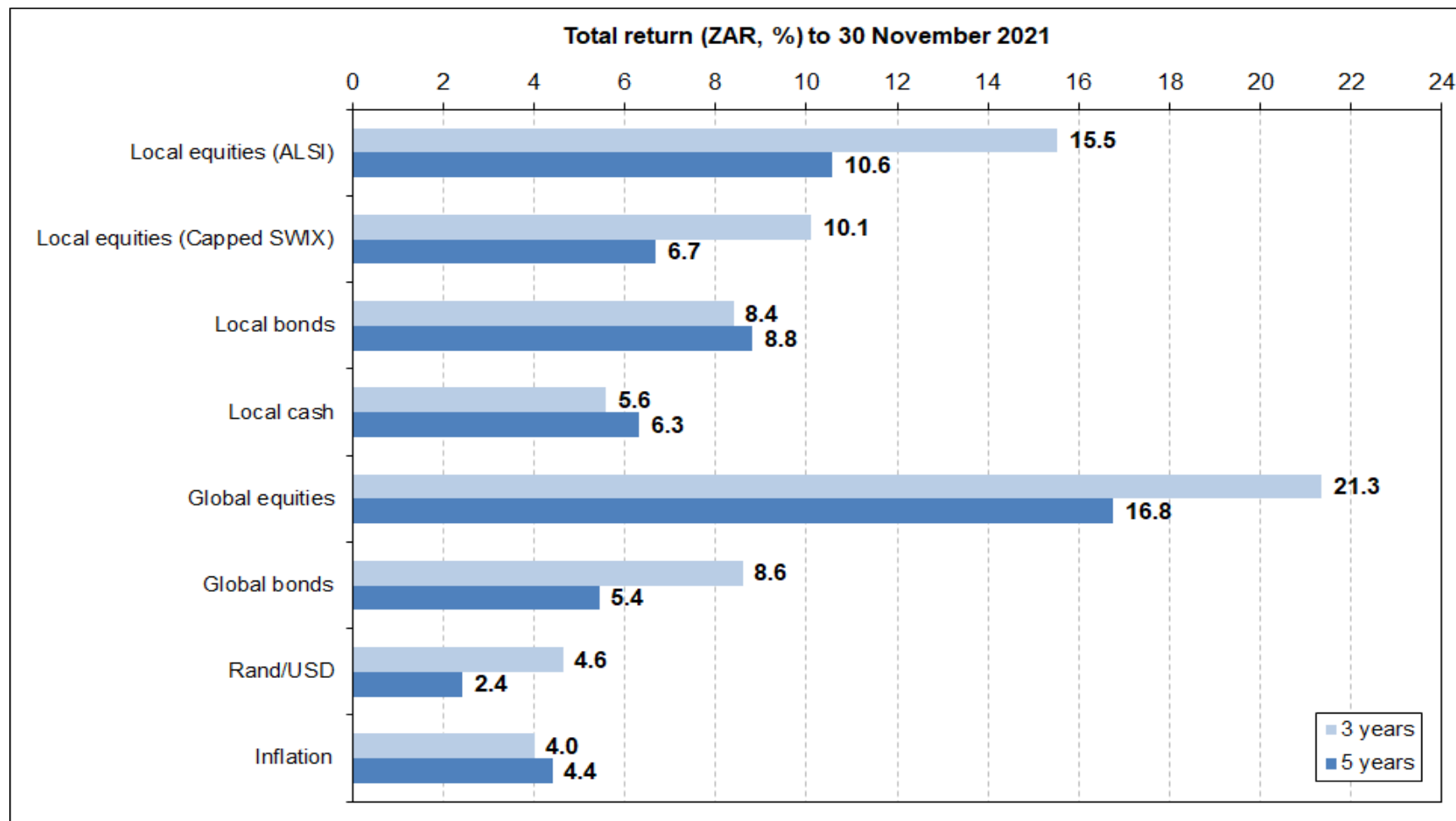
ASSET CLASS PERFORMANCE

SHORT TERM



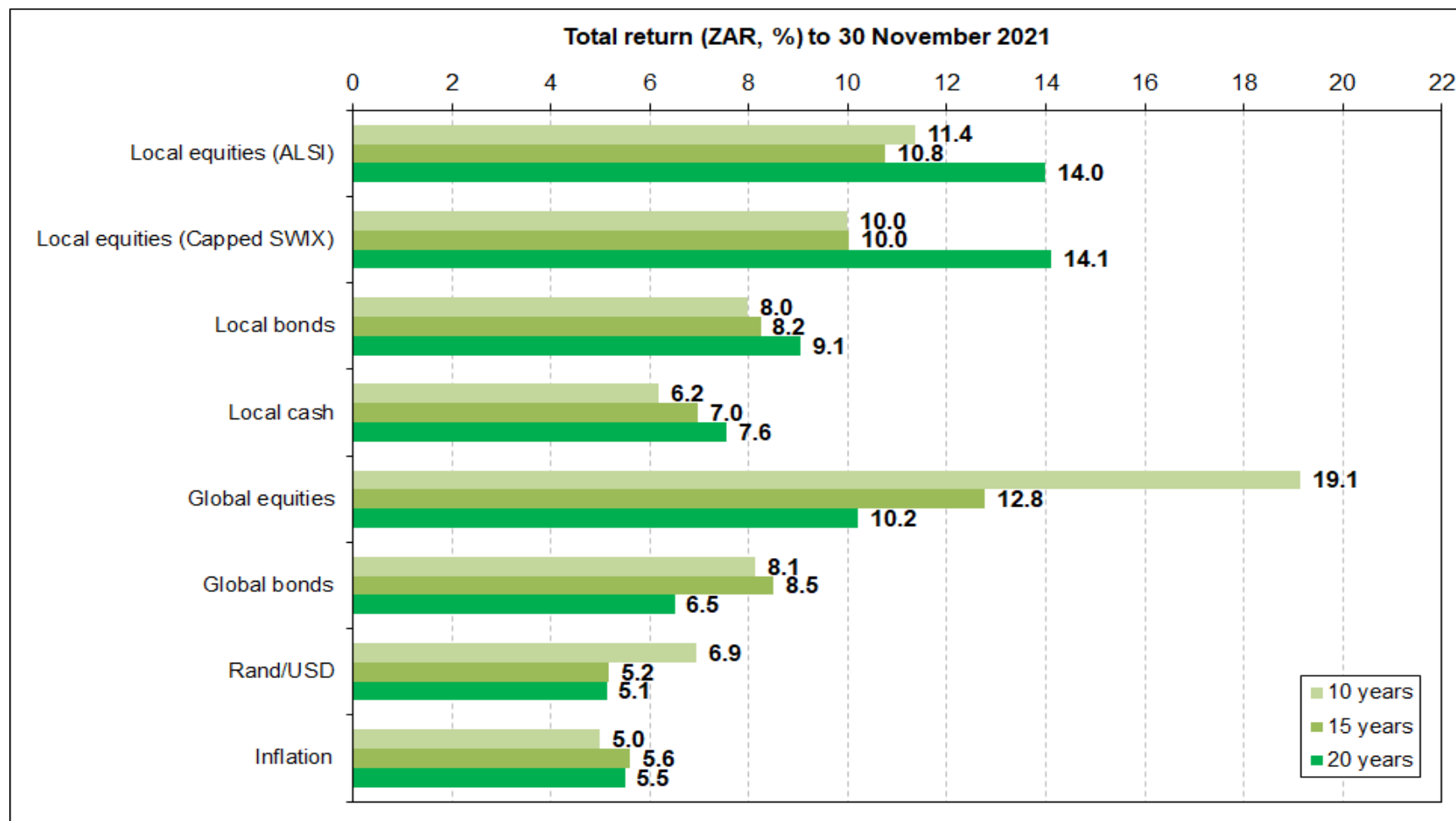
ASSET CLASS PERFORMANCE

MEDIUM TERM



ASSET CLASS PERFORMANCE

LONG TERM



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:

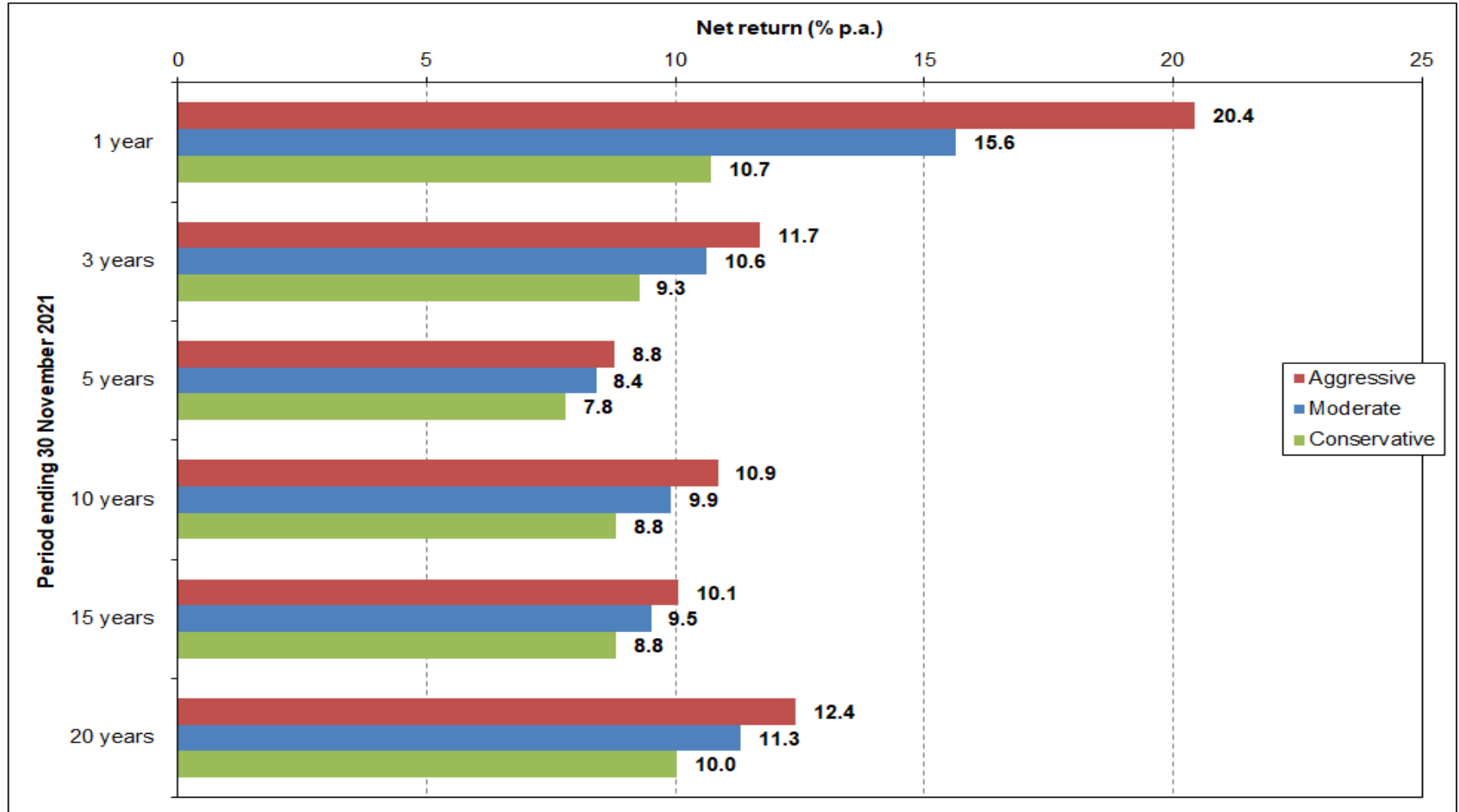
AGGRESSIVE	Strategic allocation	LOCAL VS OFFSHORE	75%			25% (5% below regulatory maximum)	
		GROWTH VS INCOME ASSETS	75%	25%		75%	25%
		EQUITIES VS BONDS VS CASH	100%	75%	25%	100%	100%
	Current allocation		~56%	~14%	~5%	~19%	~6%

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%

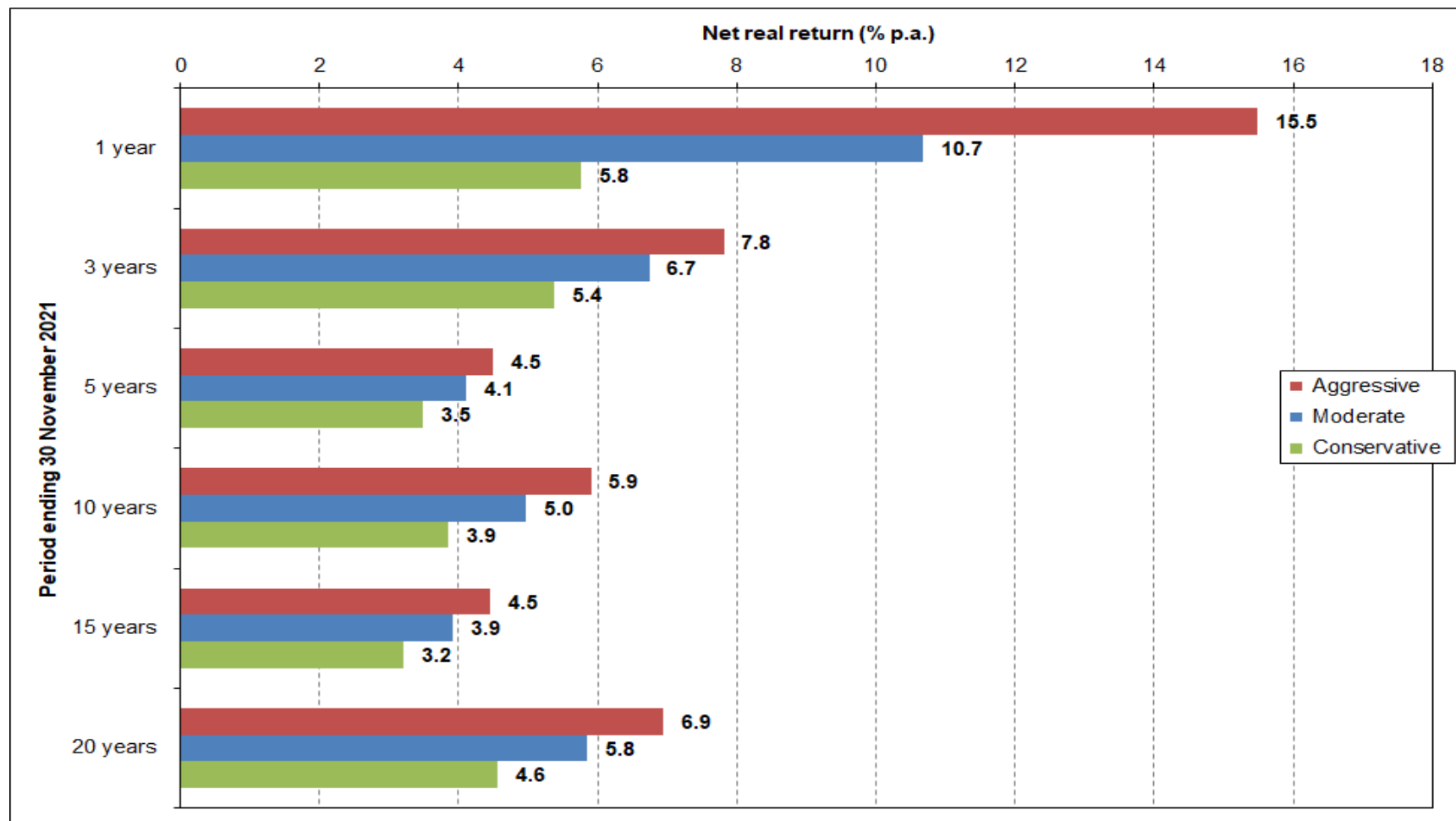
MARKET PERFORMANCE

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



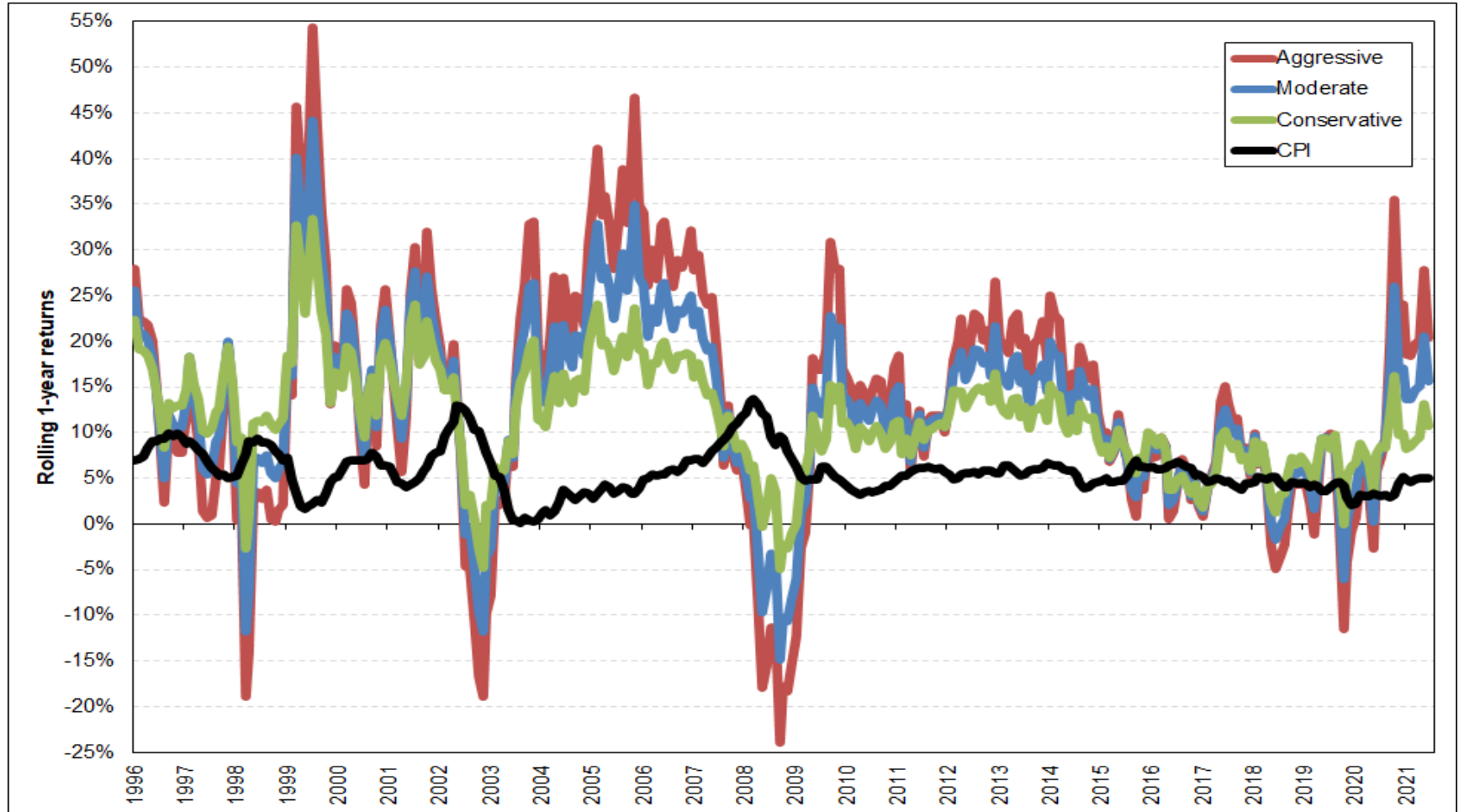
MARKET PERFORMANCE

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



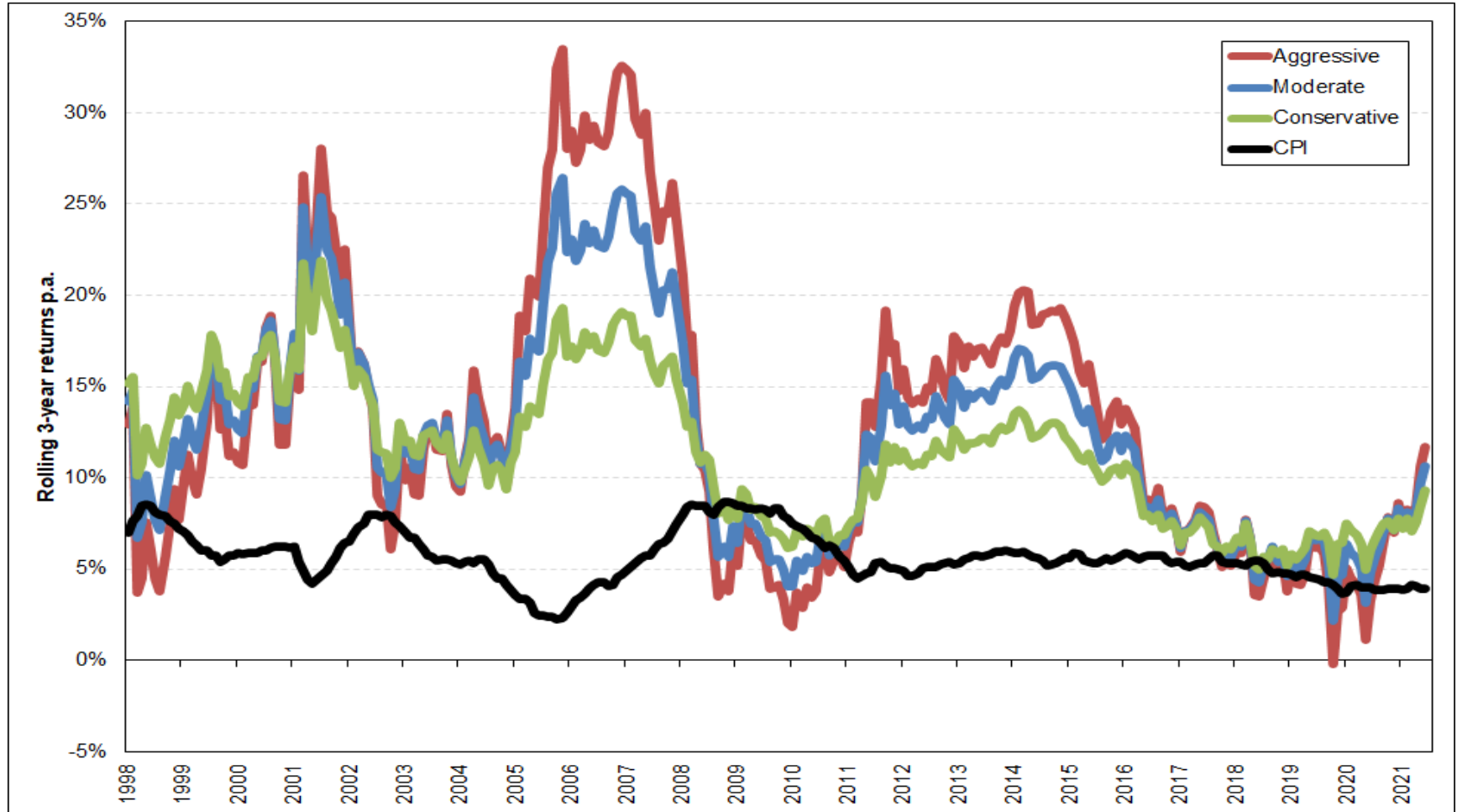
MARKET PERFORMANCE

1-YEAR RETURNS STILL STRONG



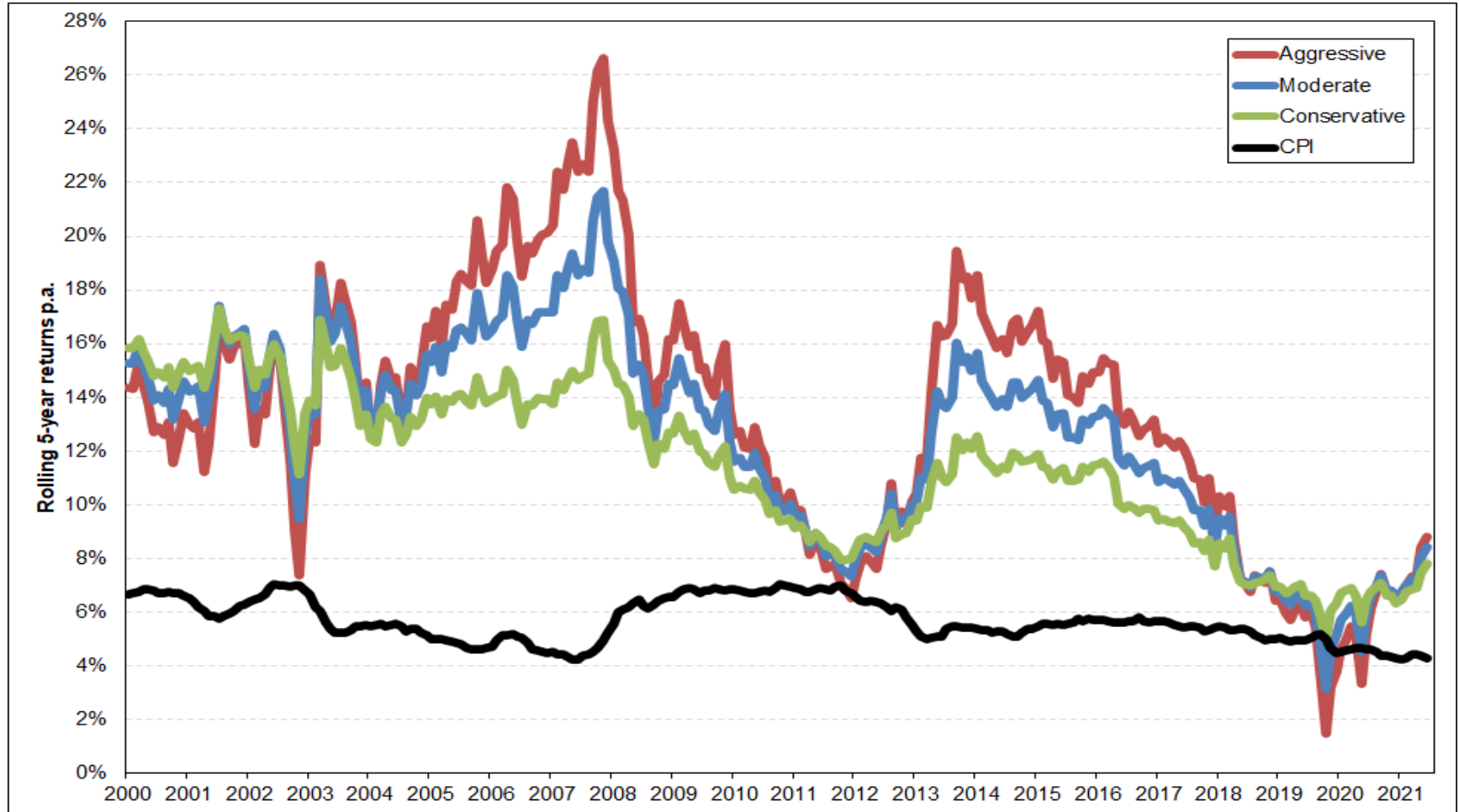
MARKET PERFORMANCE

3-YEAR RETURNS NOW BACK ON TARGET



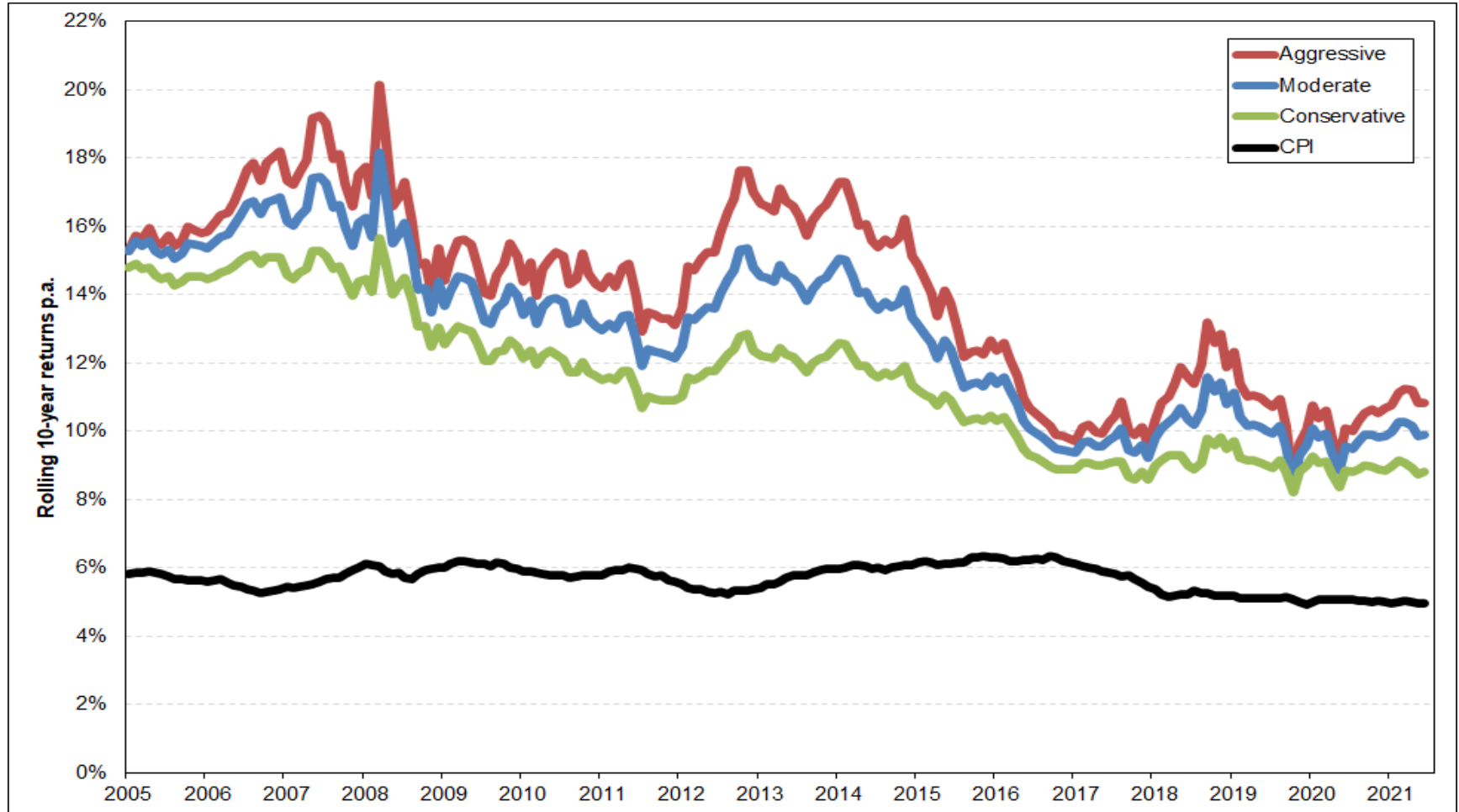
MARKET PERFORMANCE

5-YEAR RETURNS SLOWLY GETTING THERE



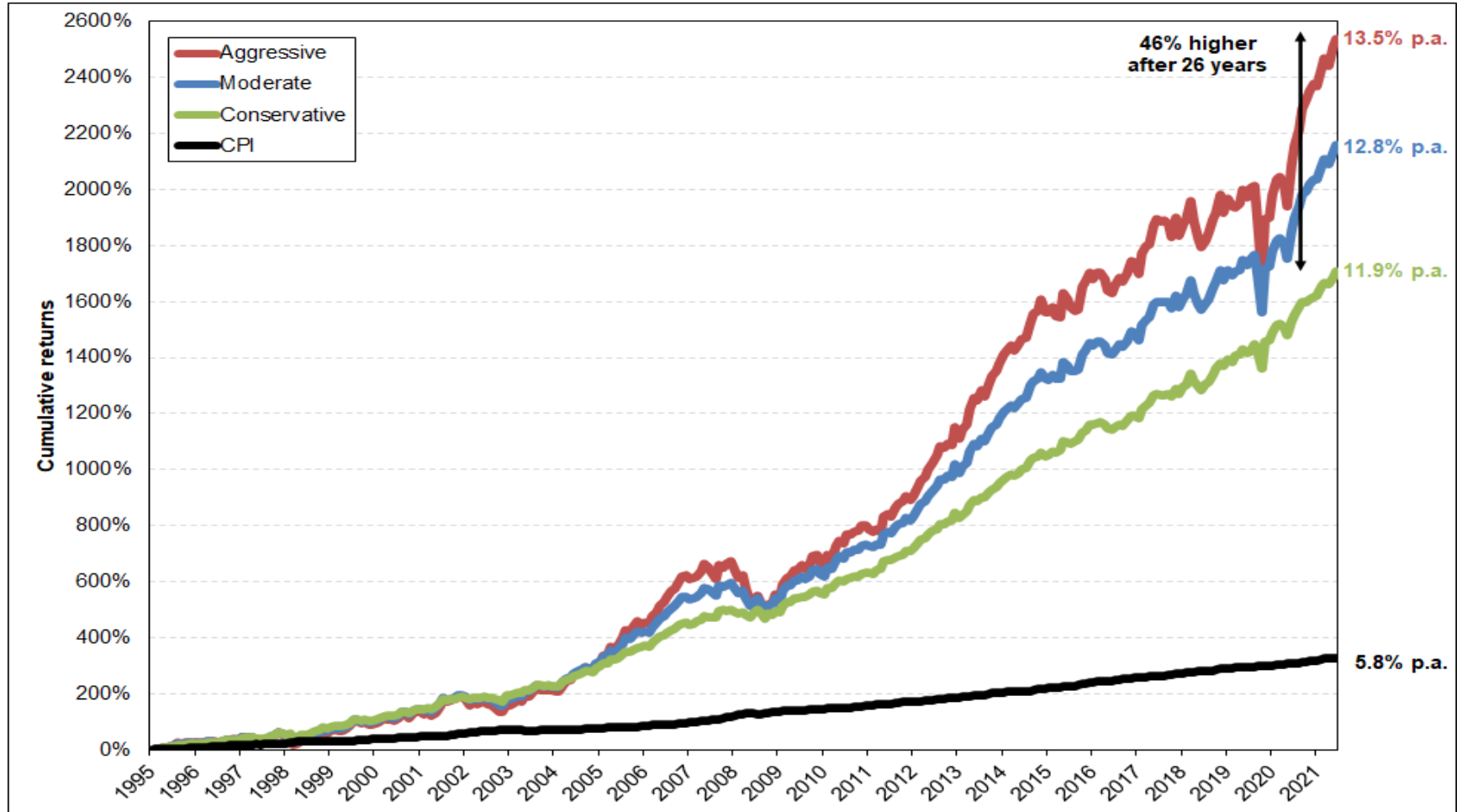
MARKET PERFORMANCE

10-YEAR RETURNS HIDE MUCH OF THE DRAMA

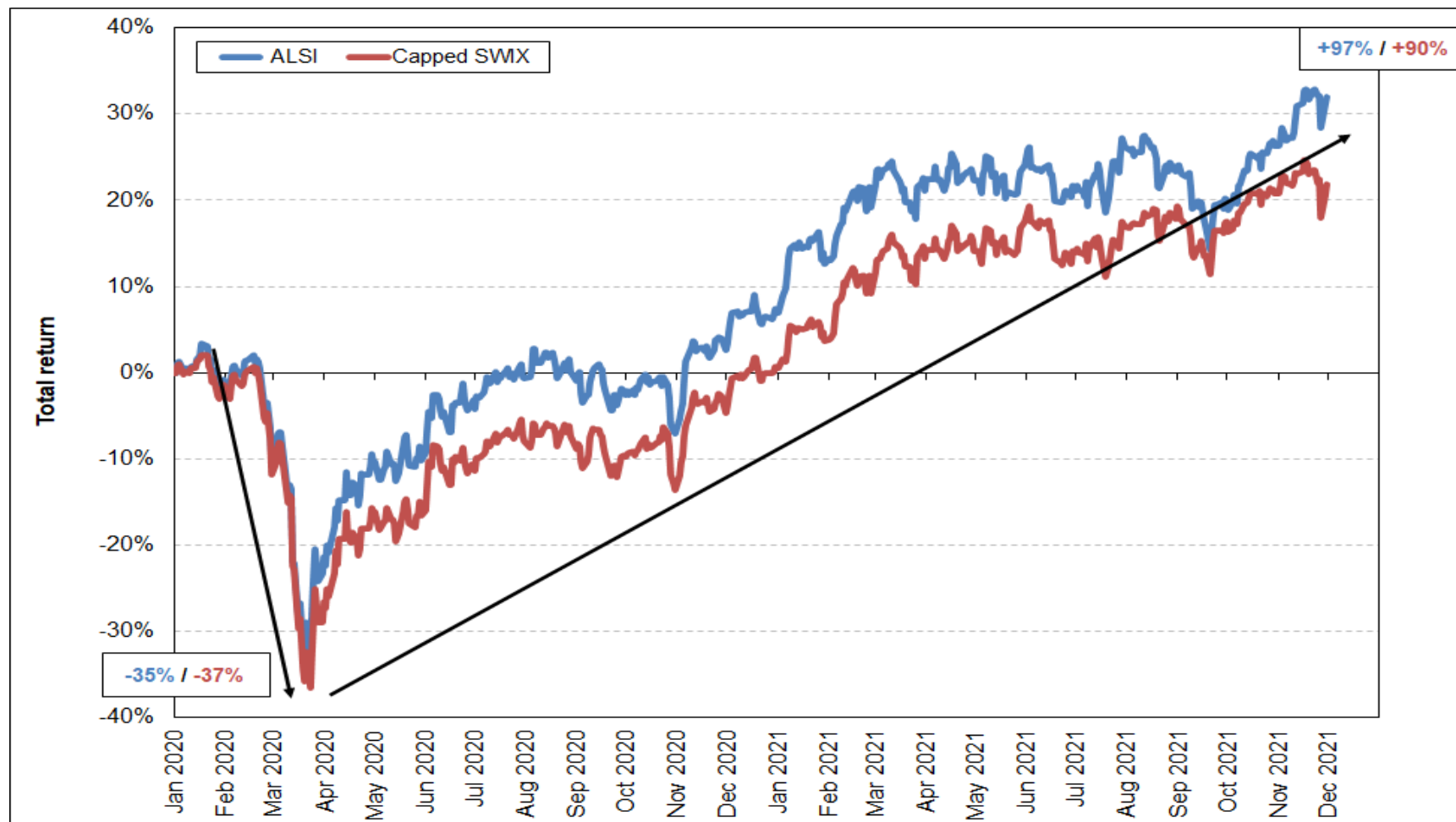


MARKET PERFORMANCE

PATIENCE PAYS OFF OVER THE LONG TERM

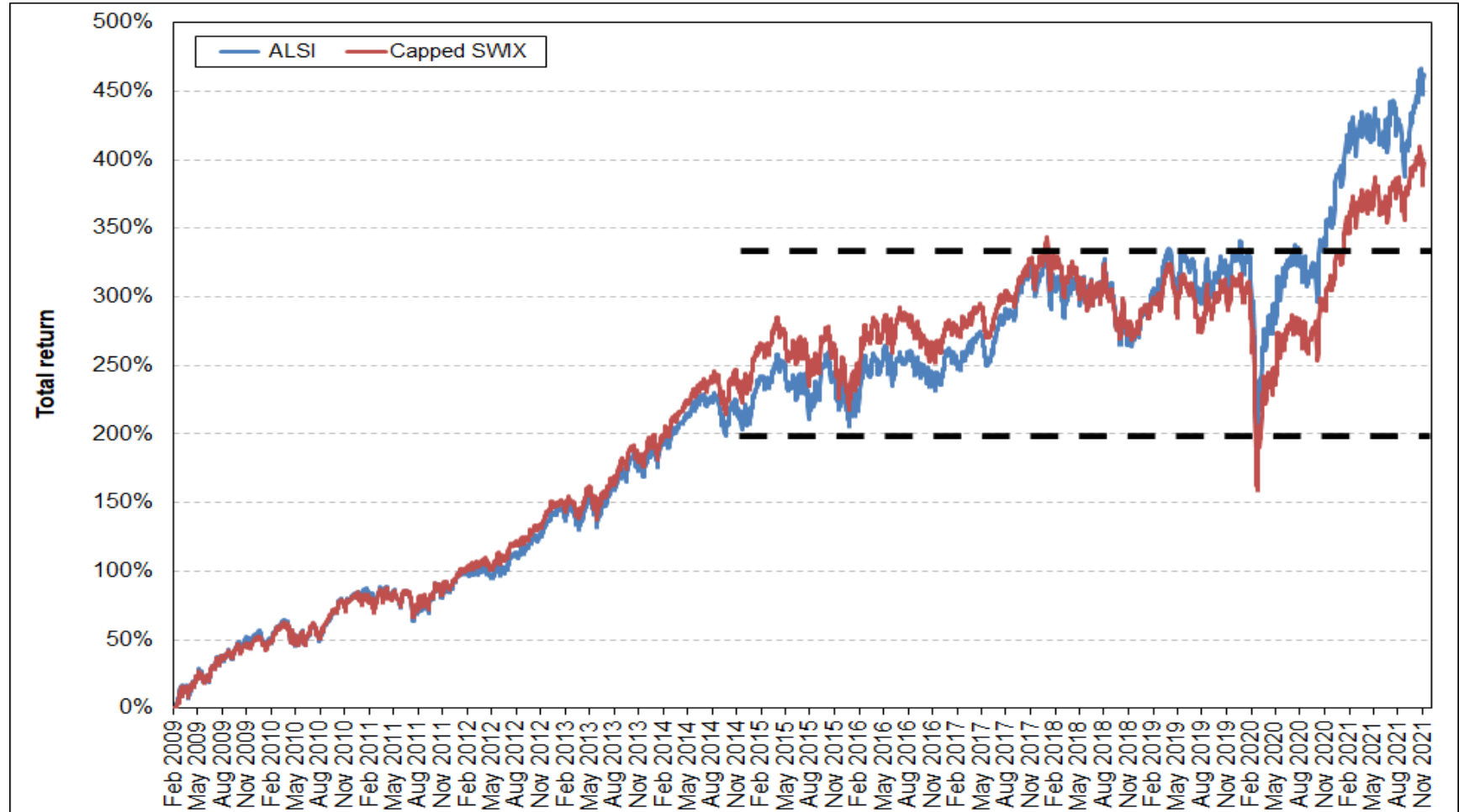


LOCAL EQUITY MARKET REACHES NEW HIGHS



LOCAL EQUITY MARKET

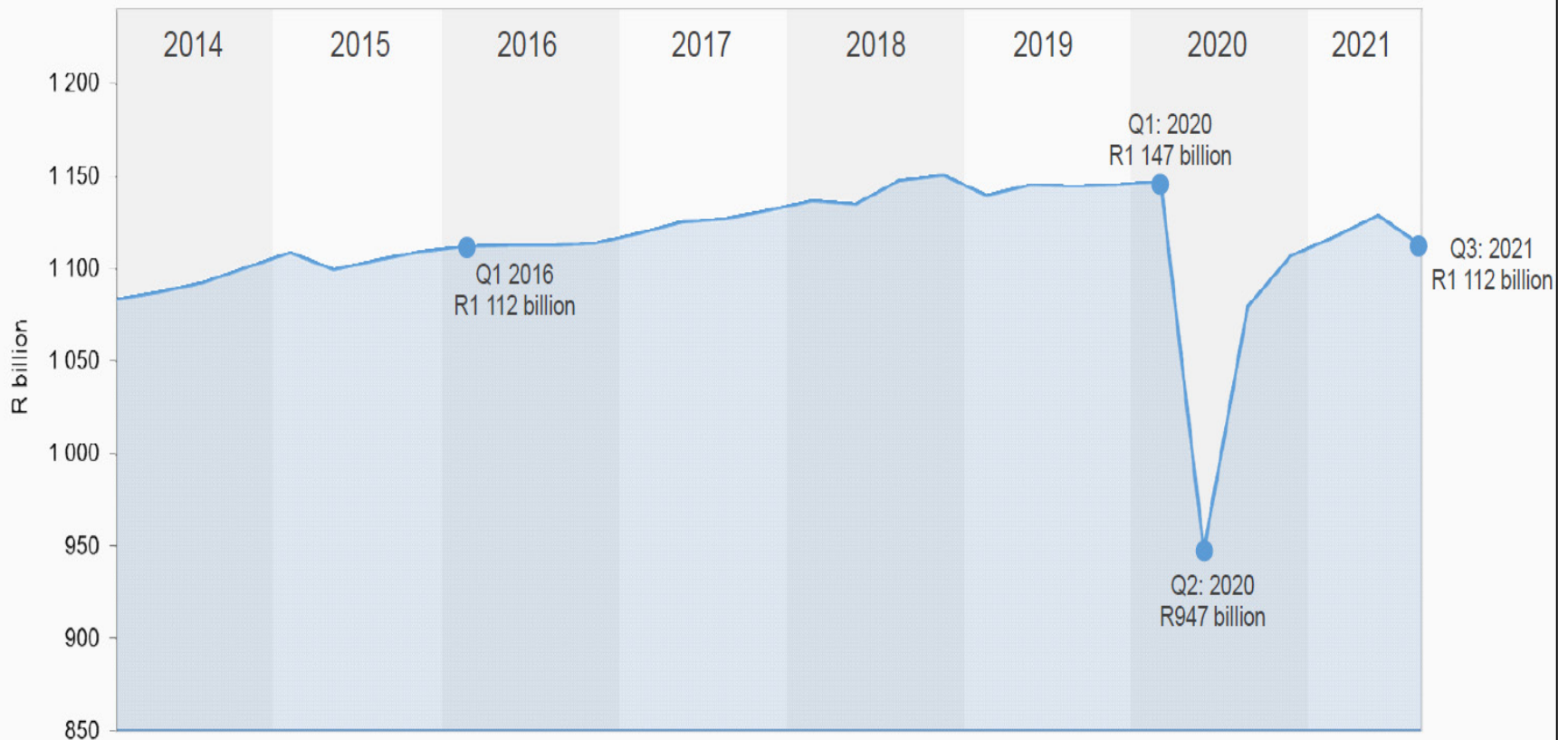
MEDIUM TERM RETURNS KEEP IMPROVING



SA ECONOMY SUFFERS ANOTHER SETBACK

In Q3: 2021, economic activity was about the same as it was in Q1: 2016

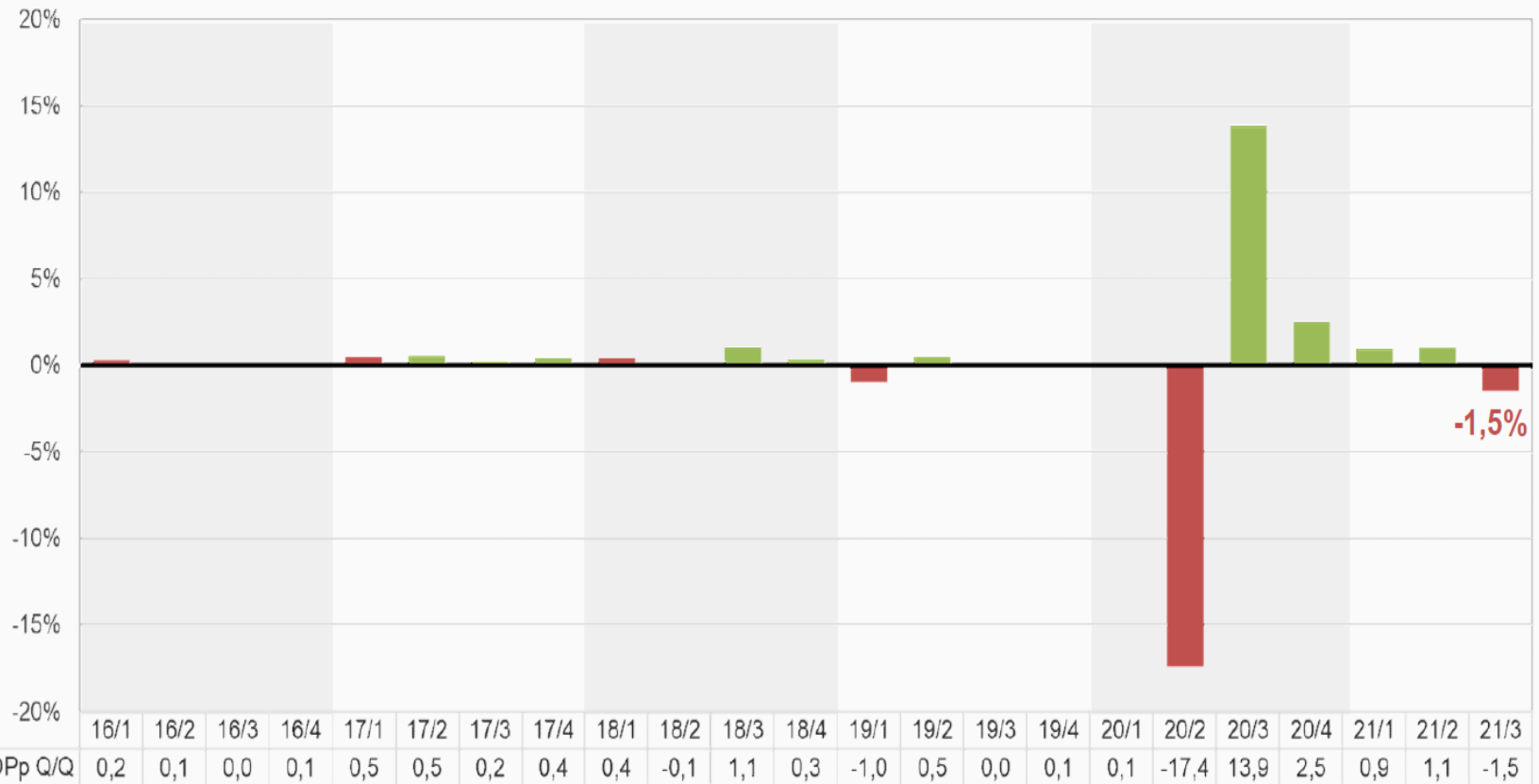
Real GDP (constant 2015 prices, seasonally adjusted)



SA ECONOMY

FIRST CONTRACTION SINCE 2020 Q2

Quarter-on-quarter percentage change in GDP production (constant 2015 prices, seasonally adjusted)



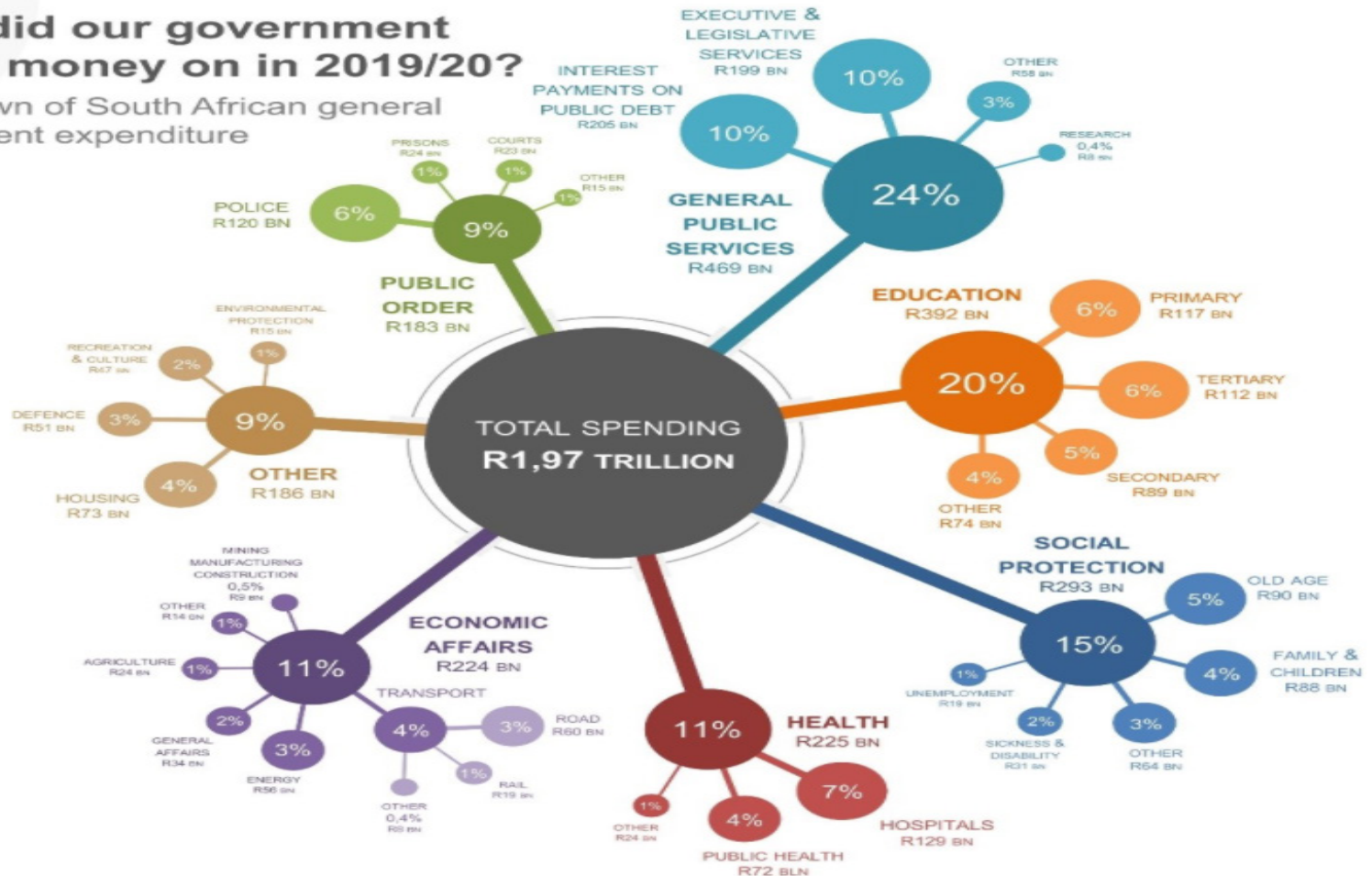
The most significant negative contributors to the contraction in Q3: 2021 were the trade, manufacturing, agriculture, and transport industries

SA ECONOMY

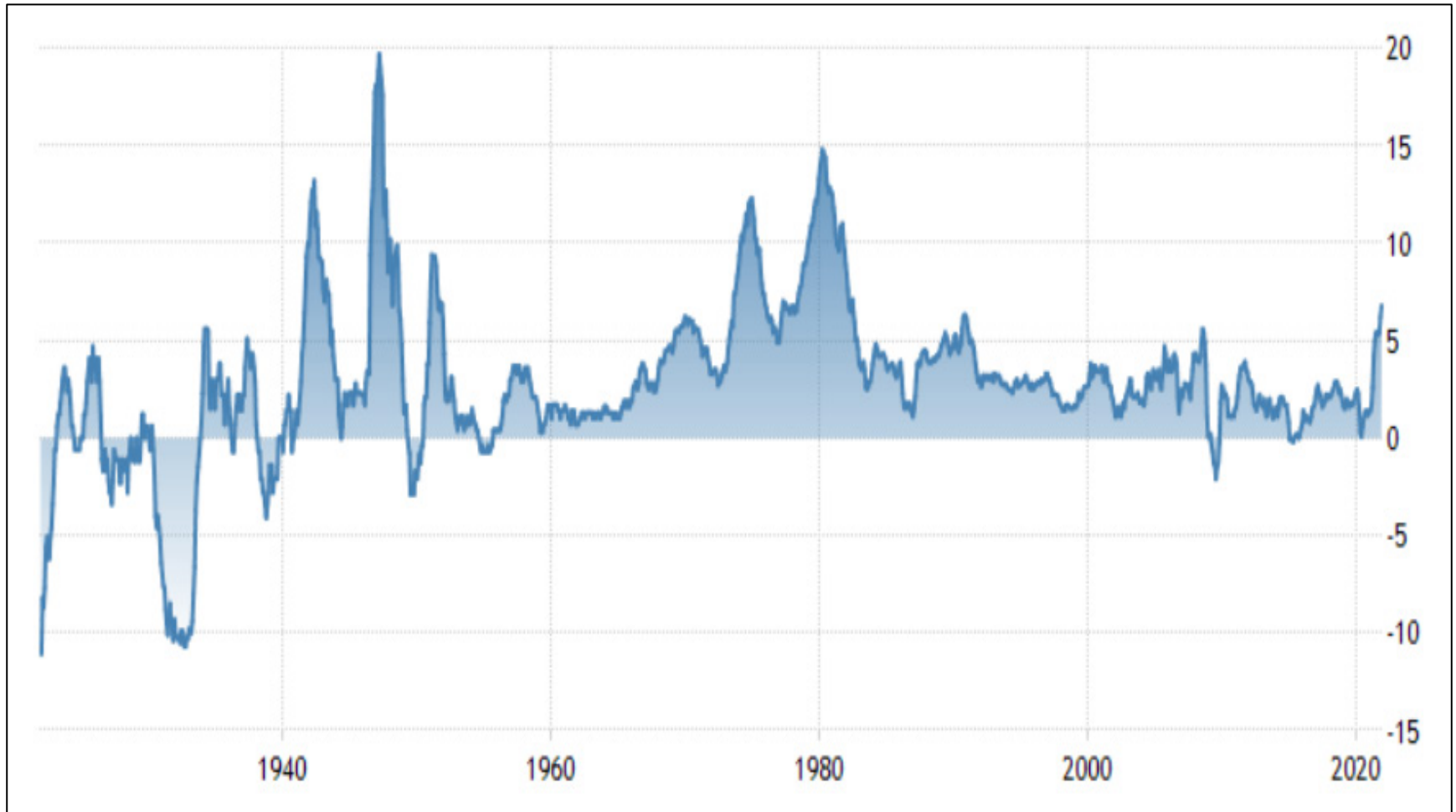
GOVERNMENT SPENDING

What did our government spend money on in 2019/20?

Breakdown of South African general government expenditure



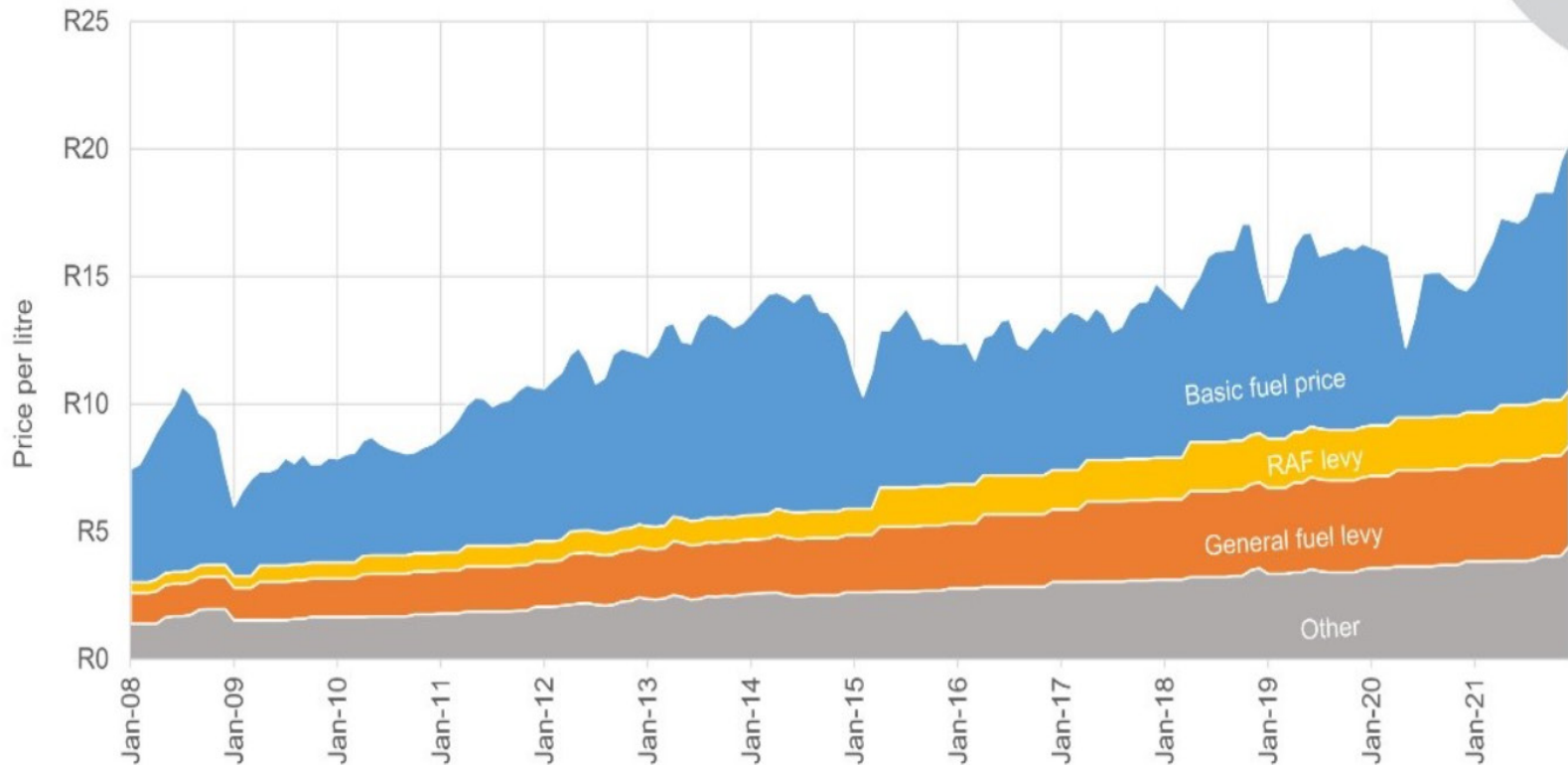
US INFLATION HITS 40-YEAR HIGH (6.8%)



PETROL PRICE BREACHES R20 PER LITRE...

Figure 2: Components that make up the petrol price have risen over time

A breakdown of the monthly per litre price of inland 95-octane petrol

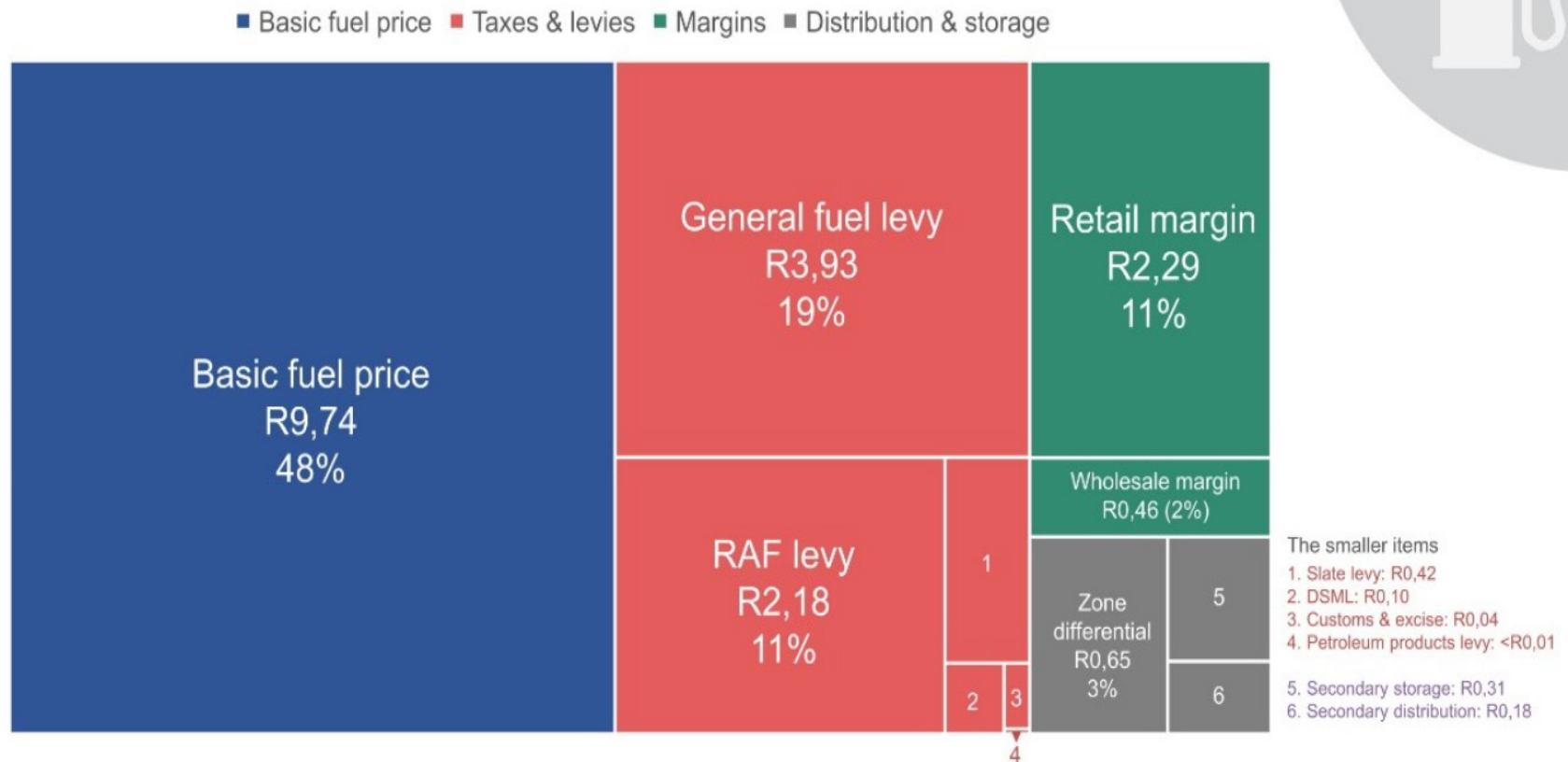


PETROL PRICE

...WITH TAXES AND LEVIES MAKING UP A BIG CHUNK...

Figure 1: Taxes and levies account for one-third of the total petrol price

Breakdown of the per litre price for inland 95-octane petrol, December 2021 (Total: R20,29)



PETROL PRICE

...AFTER INCREASING AT A RAPID RATE

Figure 3: The RAF fuel levy (as an index) recorded the biggest increase since 2008
Change in the prices of the major components that make up the total petrol price (inland 95-octane)

