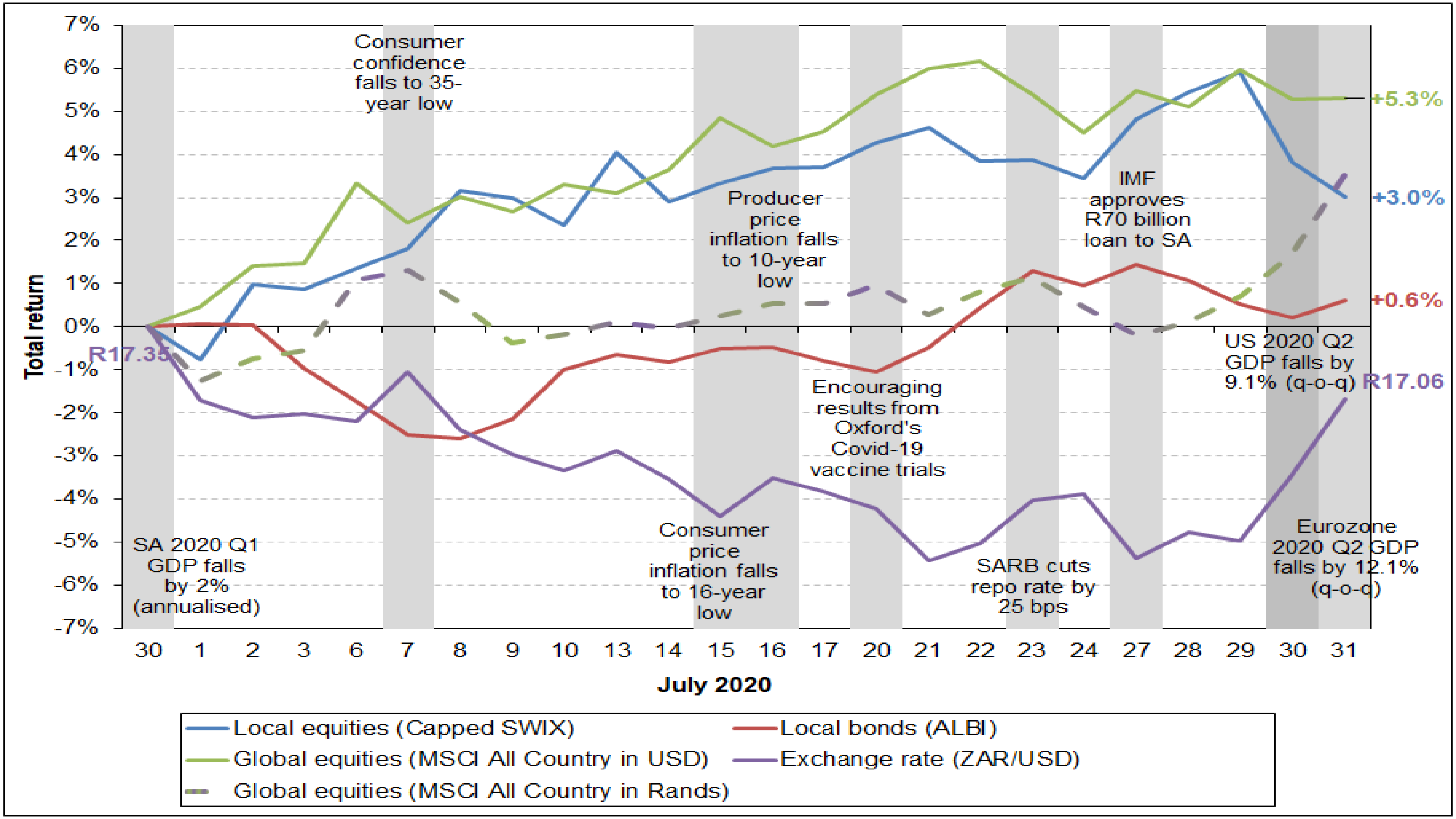
MONTH IN PICTURES

JULY 2020

MONTHLY SNAPSHOT
NOTABLE EVENTS

- On a broad level the local equity market had another good month, returning +3.0%. This return was however almost entirely driven by Resources, which was up 9.0%, while Industrials and Listed Property fell by 1.3% and 3.2% respectively. Financials managed a small gain, ending the month 0.4% higher.
- Global equities also had a good month (+5.3% in USD), with emerging markets (+8.9% in USD) outperforming developed markets (+4.8% in USD).
- Global bond yields continued their relentless march towards zero, with the yield to maturity on the FTSE World Government Bond Index ending July at just 0.24% (from 0.32% on 30 June and 1.01% at the start of the year). This resulted in a decent month (+3.6% in USD) for global bonds from a total return perspective.
- Local bond yields on the other hand didn't show much movement, and therefore delivered a relatively subdued +0.6% for the month. This was still higher than cash though (+0.4%), where returns have come under pressure following a cumulative 3.5% in interest rate cuts this year.
- The Rand strengthened against a broadly weaker US Dollar, moving from R17.35 to R17.06 (for a 1.7% gain), while weakening by 3.8% and 3.1% respectively against the pound sterling and euro.
- The weaker dollar resulted in local currency returns of +3.5% and +1.9% from global equity and bond markets for the month, outperforming their SA equivalents. Since troughing in the latter half of March however, local equities and bonds (up 45% and 21% respectively) have outperformed their global counterparts (global equities = +38% and global bonds = +8%).
- 2020 Q2 GDP figures for various regions around the world have revealed the extent to which economies have suffered from lockdown. Quarterly (unannualised) contractions for the larger economies ranged from 9.1% in the US to 20.4% in the UK. China, where the damage was mostly done in Q1 (-10.0%), bounced back strongly, recording a Q2 figure of +11.5%.
- Sharp increases in utility tariffs and fuel prices pushed local consumer price inflation (3.2% y-o-y to the end of July) back into the Reserve Bank's 3-6% target range after touching multi-year lows (2.1-2.2%) over the previous two months.

MONTHLY TIMELINE
IMPACT ON MARKETS



Source: Iress

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MARKET INDICATORS
SHORT TERM

Market indicators (% change) [1]		May 2020	Jun 2020	Jul 2020	3 months	12 months
Local equities	Capped SWIX	(0.4)	7.0	3.0	9.7	(5.1)
	Resources	5.6	8.8	9.0	25.2	29.3
	Industrials	(1.8)	8.3	(1.3)	5.0	1.5
	Financials	(3.2)	4.2	0.4	1.2	(29.7)
	Listed Property	(0.8)	13.4	(3.2)	9.0	(41.2)
Local bonds	ALBI	7.1	(1.2)	0.6	6.4	4.2
Local cash	STeFI Composite	0.5	0.4	0.4	1.4	6.7
Global equities	MSCI All Country	(1.2)	2.1	3.5	4.4	27.5
Global bonds	FTSE WGBI	(5.1)	(0.4)	1.9	(3.8)	29.5
Exchange rate	ZAR/USD	(5.3)	(1.1)	(1.7)	(7.9)	18.9
Inflation	CPI	-0.6	0.5	1.3	1.3	3.2

1. *Total returns (in Rands) for the months and periods ending 31 July 2020.*
2. *Estimated for July 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	(5.1)	(1.5)	0.7	8.9	11.4
	Resources	29.3	23.0	14.4	5.3	9.1
	Industrials	1.5	0.2	2.8	13.5	15.1
	Financials	(29.7)	(9.9)	(5.9)	6.9	8.5
	Listed Property	(41.2)	(20.2)	(10.5)	3.7	9.0
Local bonds	ALBI	4.2	7.8	7.4	7.9	8.0
Local cash	STeFI Composite	6.7	7.1	7.2	6.5	7.3
Global equities	MSCI All Country	27.5	16.6	14.0	18.5	13.6
Global bonds	FTSE WGBI	29.5	14.0	10.8	11.5	10.4
Exchange rate	ZAR/USD	18.9	9.0	6.2	8.9	6.6
Inflation	CPI	3.2	4.1	4.6	5.1	5.6

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

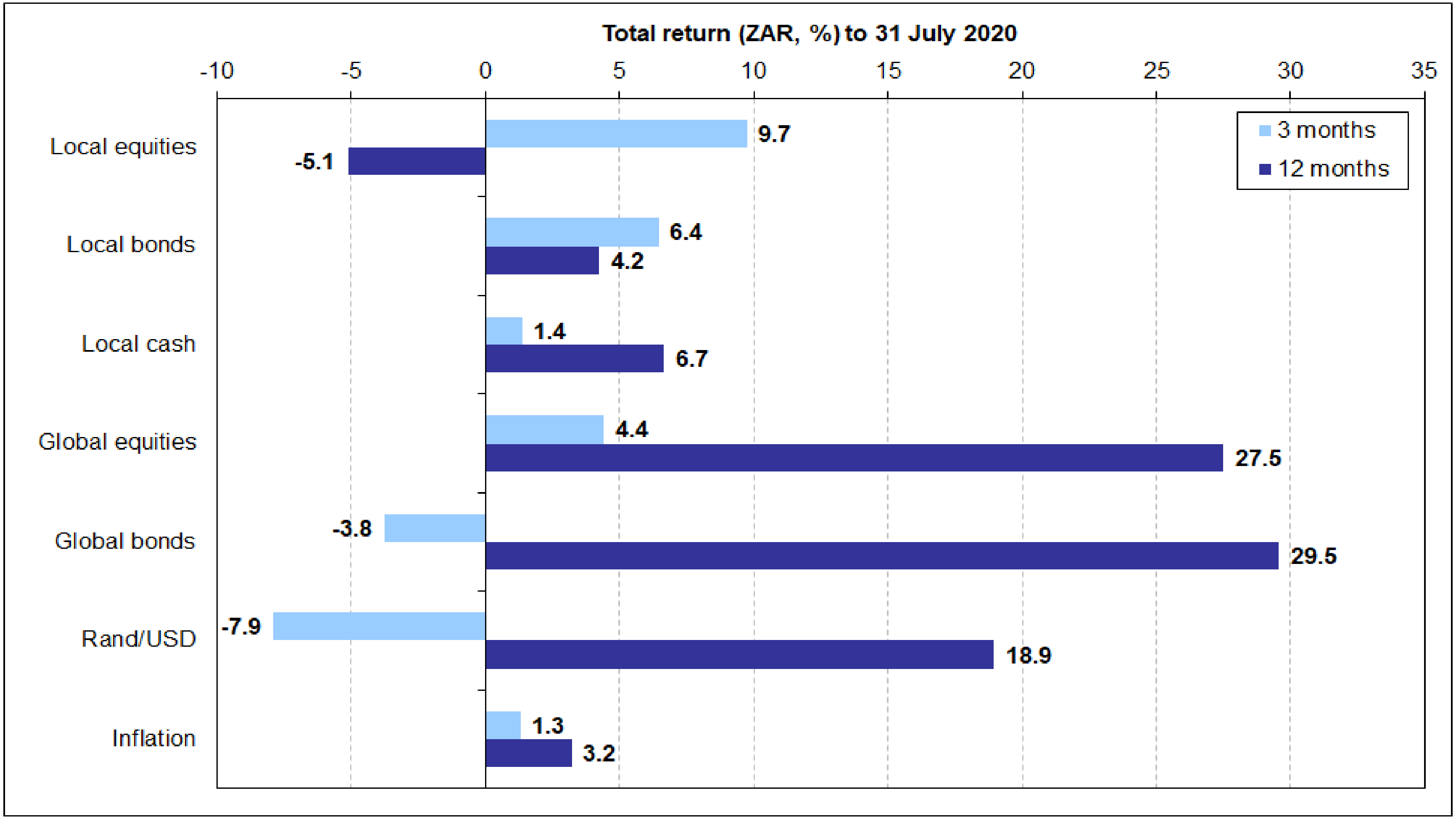
ECONOMIC INDICATORS

Economic indicators [1]	Jun 2018	Jun 2019	Apr 2020	May 2020	Jun 2020
Exchange rates:					
ZAR/USD	13.28	14.34	17.54	17.35	17.06
ZAR/GBP	17.42	17.44	21.67	21.52	22.34
ZAR/Euro	15.52	15.88	19.48	19.50	20.11
Commodities:					
Brent Crude Oil (USD/barrel)	74.06	64.30	37.84	41.27	43.52
Platinum (USD/ounce)	825.07	873.00	831.95	811.97	908.50
Gold (USD/ounce)	1,218.30	1,430.59	1,721.09	1,772.86	1,976.28

1. *Month-end prices*

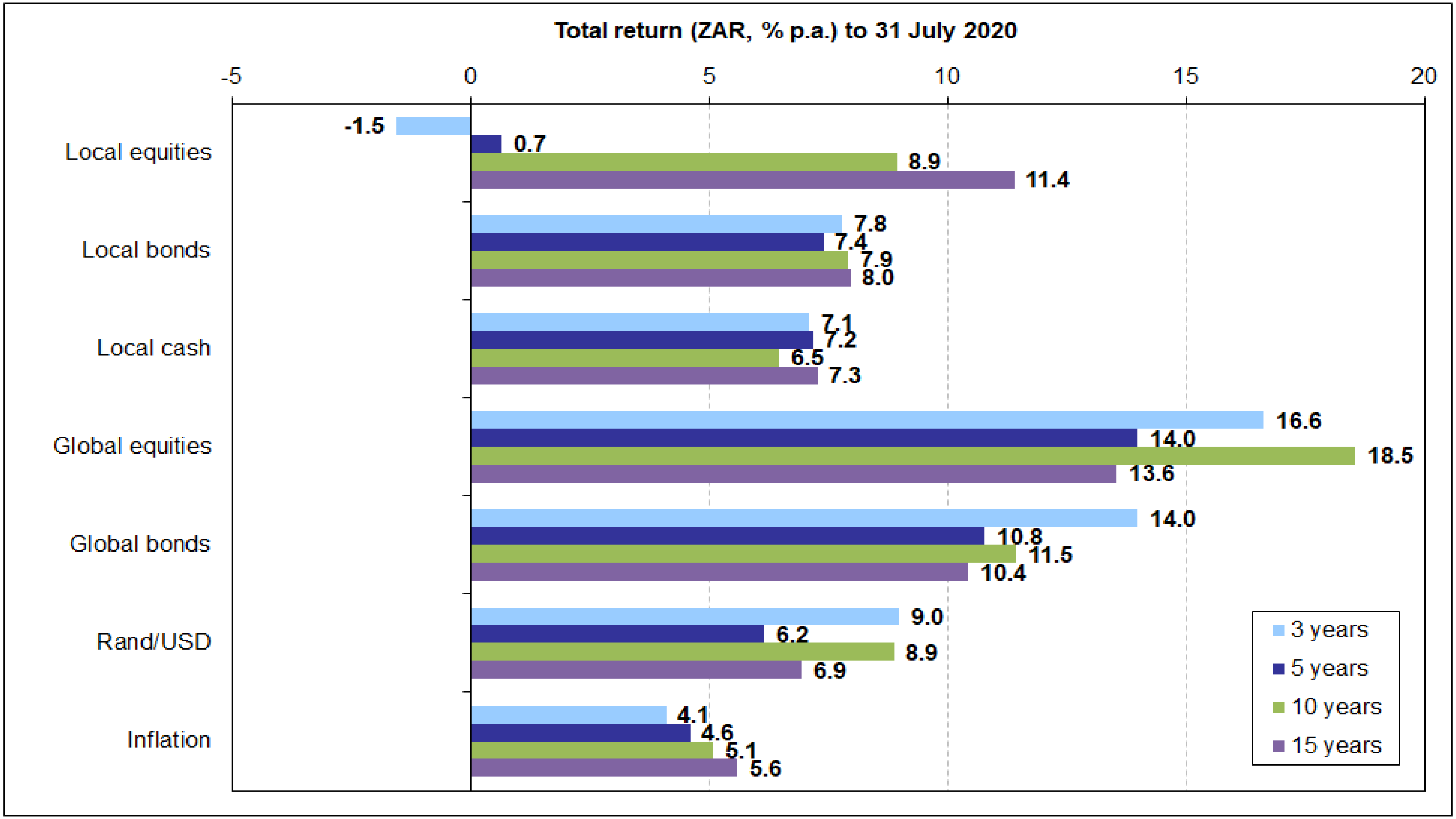
Source: Iress

ASSET CLASS PERFORMANCE
SHORT TERM



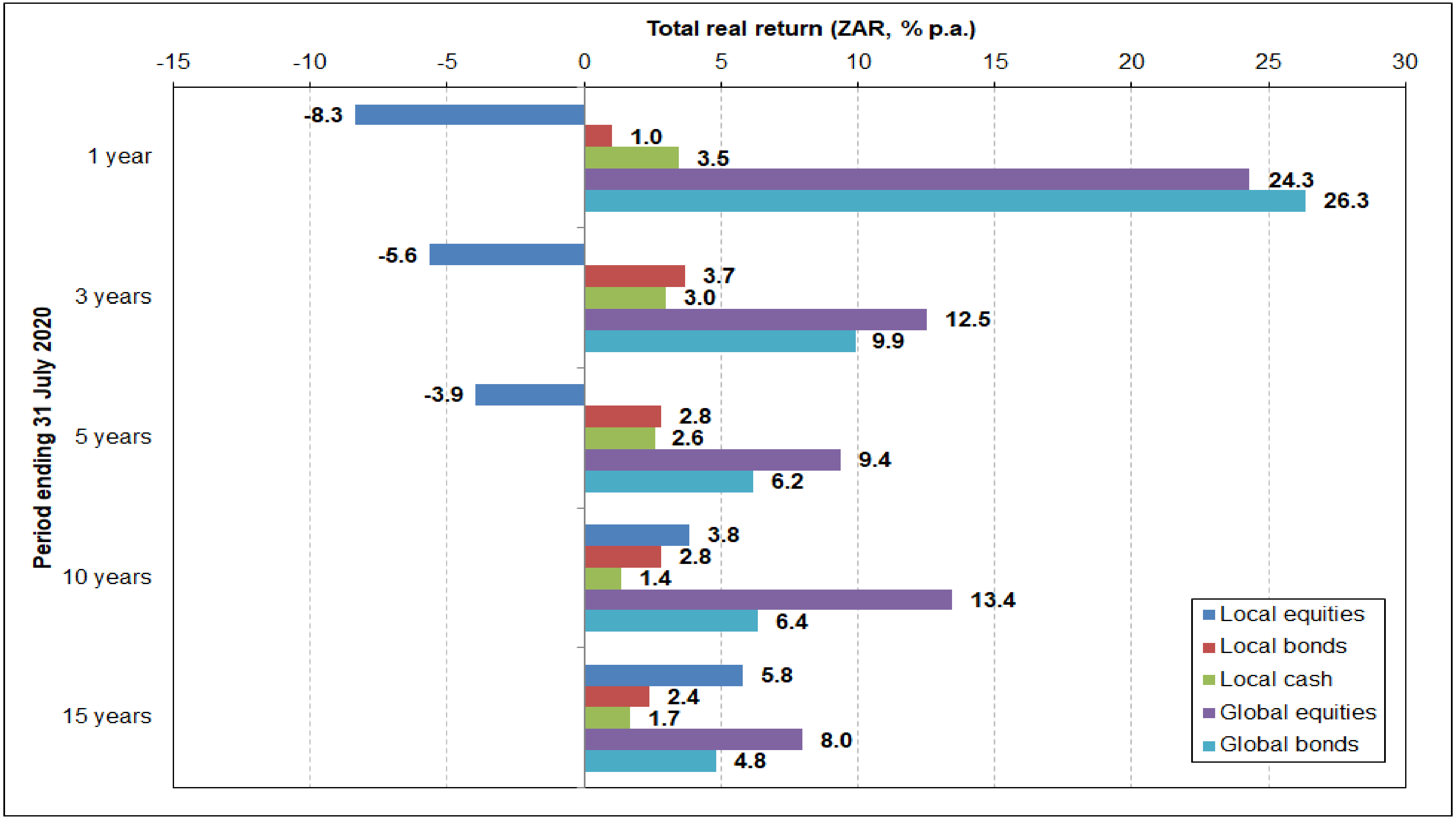
Source: Iress

ASSET CLASS PERFORMANCE
MEDIUM TO LONG TERM



Source: Iress

ASSET CLASS PERFORMANCE
REAL (EXCESS ABOVE INFLATION) RETURNS



Source: Iress

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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:

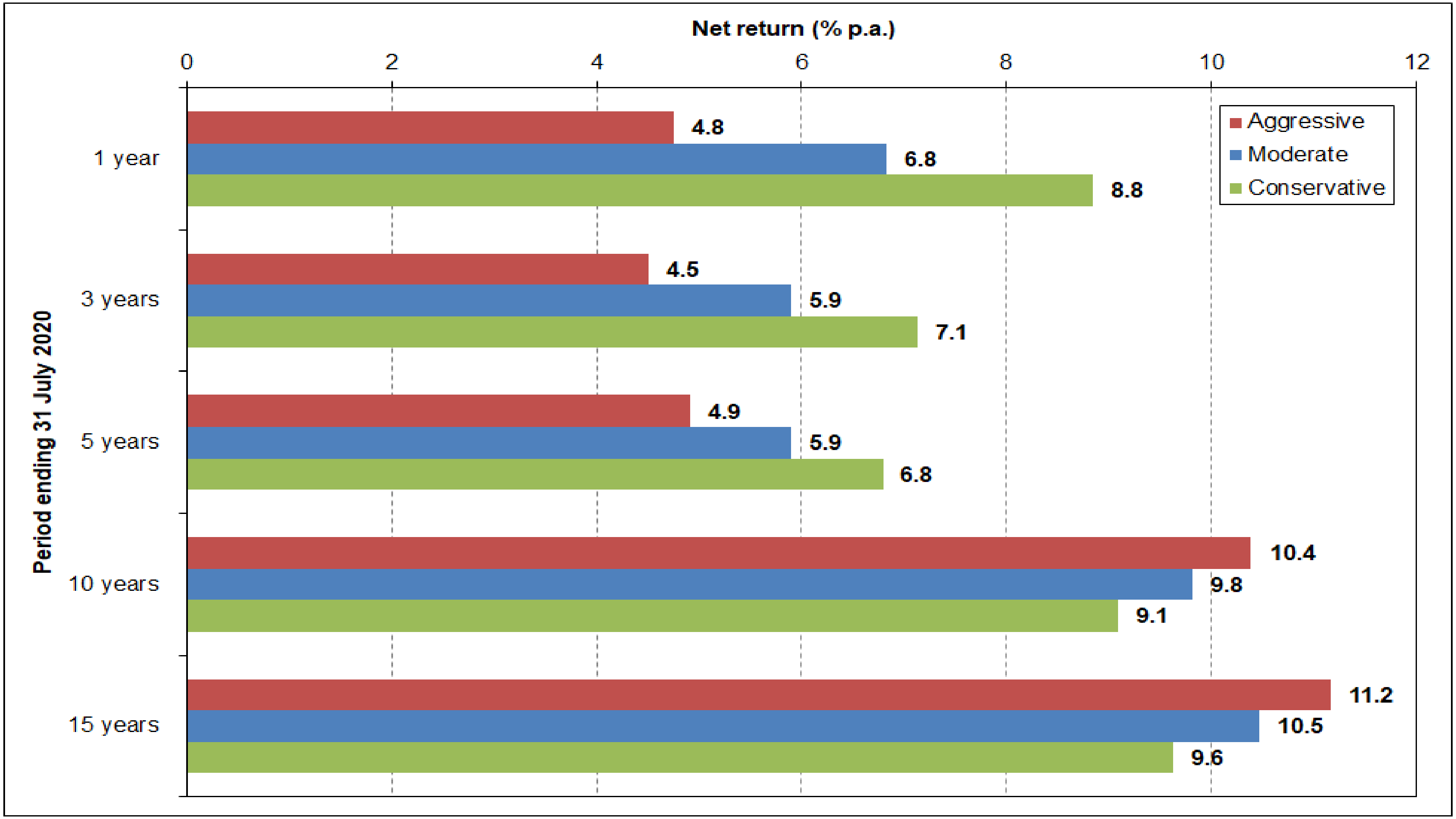
AGGRESSIVE					
Strategic allocation: LOCAL VS OFFSHORE	75%			25% (5% below regulatory maximum)	
Strategic allocation: GROWTH VS INCOME ASSETS	75%	25%		75%	25%
Strategic allocation: EQUITIES VS BONDS VS CASH	100%	75%	25%	100%	100%
Current allocation	~56%	~14%	~5%	~19%	~6%

MODERATE					
Strategic allocation: LOCAL VS OFFSHORE	75%			25% (5% below regulatory maximum)	
Strategic allocation: GROWTH VS INCOME ASSETS	55%	45%		55%	45%
Strategic allocation: 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)	
Strategic allocation: GROWTH VS INCOME ASSETS	35%	65%		35%	65%
Strategic allocation: EQUITIES VS BONDS VS CASH	100%	35%	65%	100%	100%
Current allocation	~26%	~17%	~32%	~9%	~16%

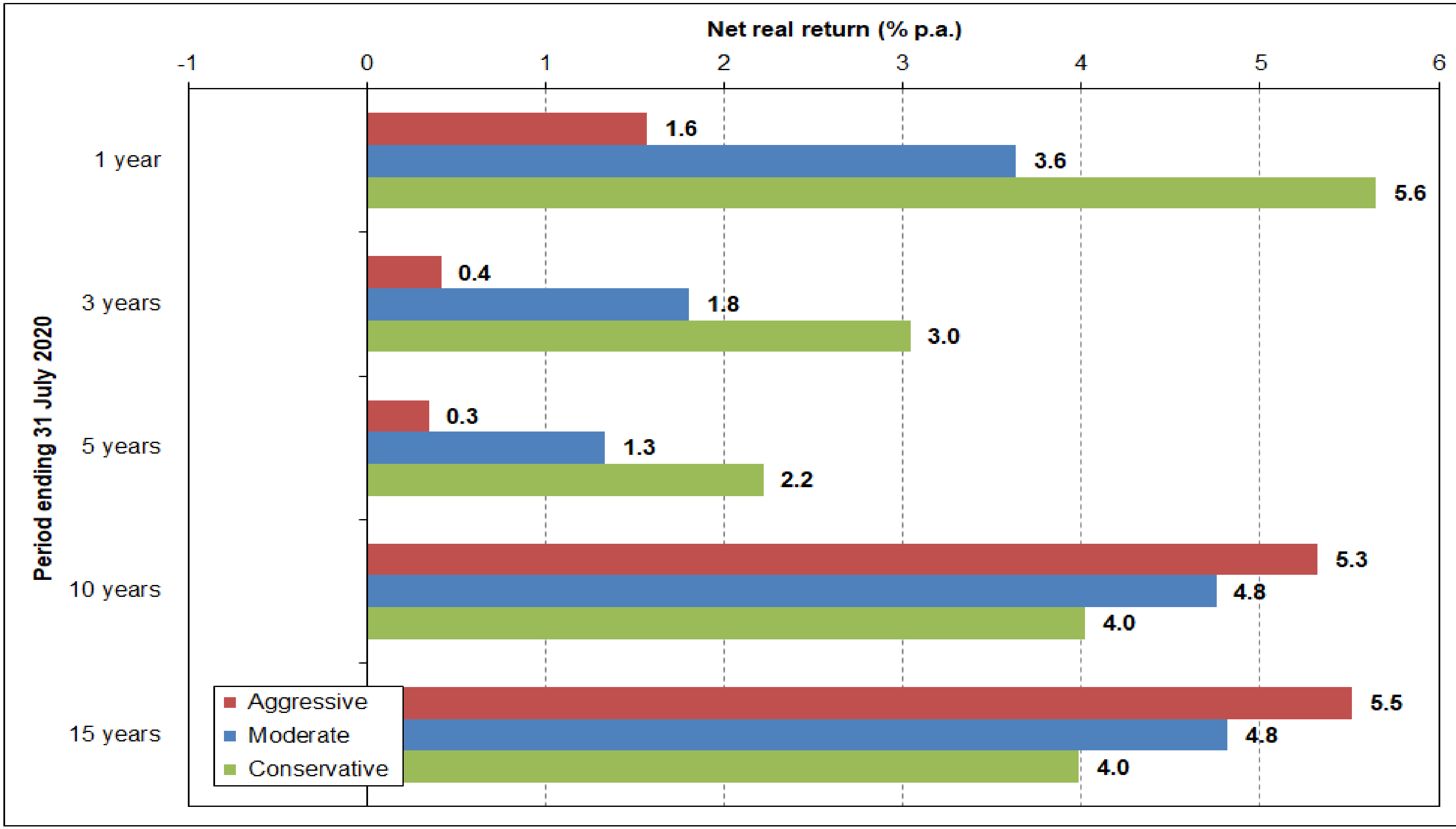
MARKET PERFORMANCE

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



Source: Iress

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



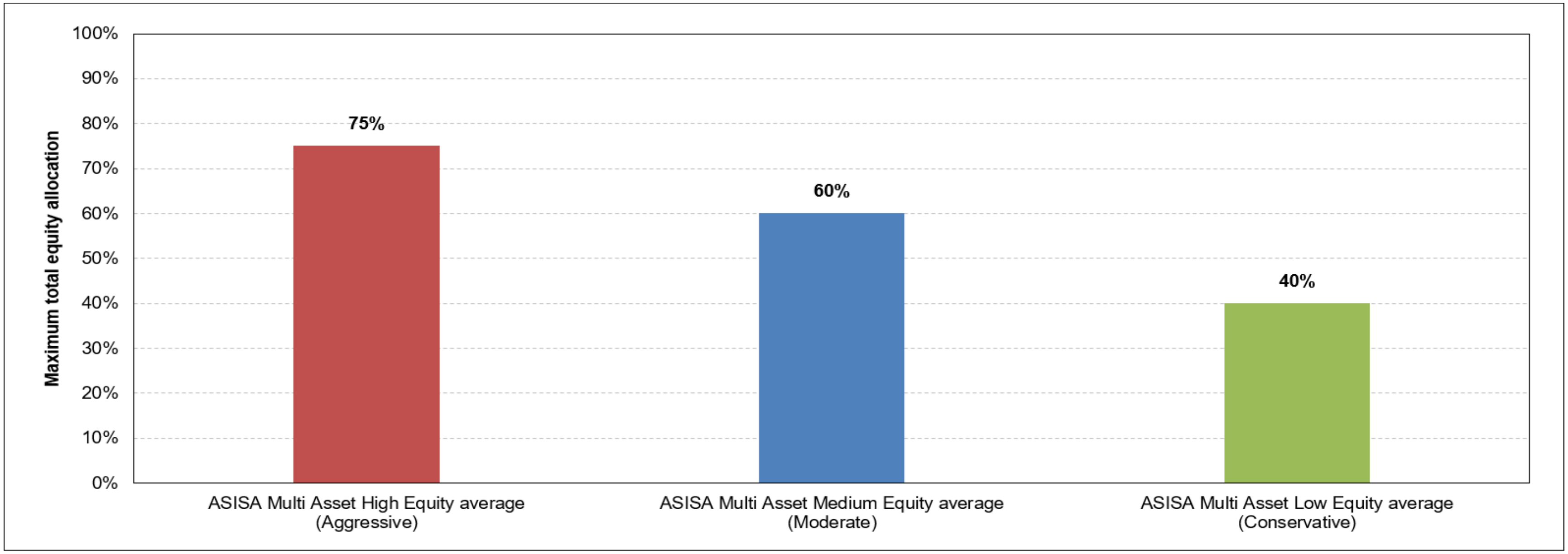
Source: Iress

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?

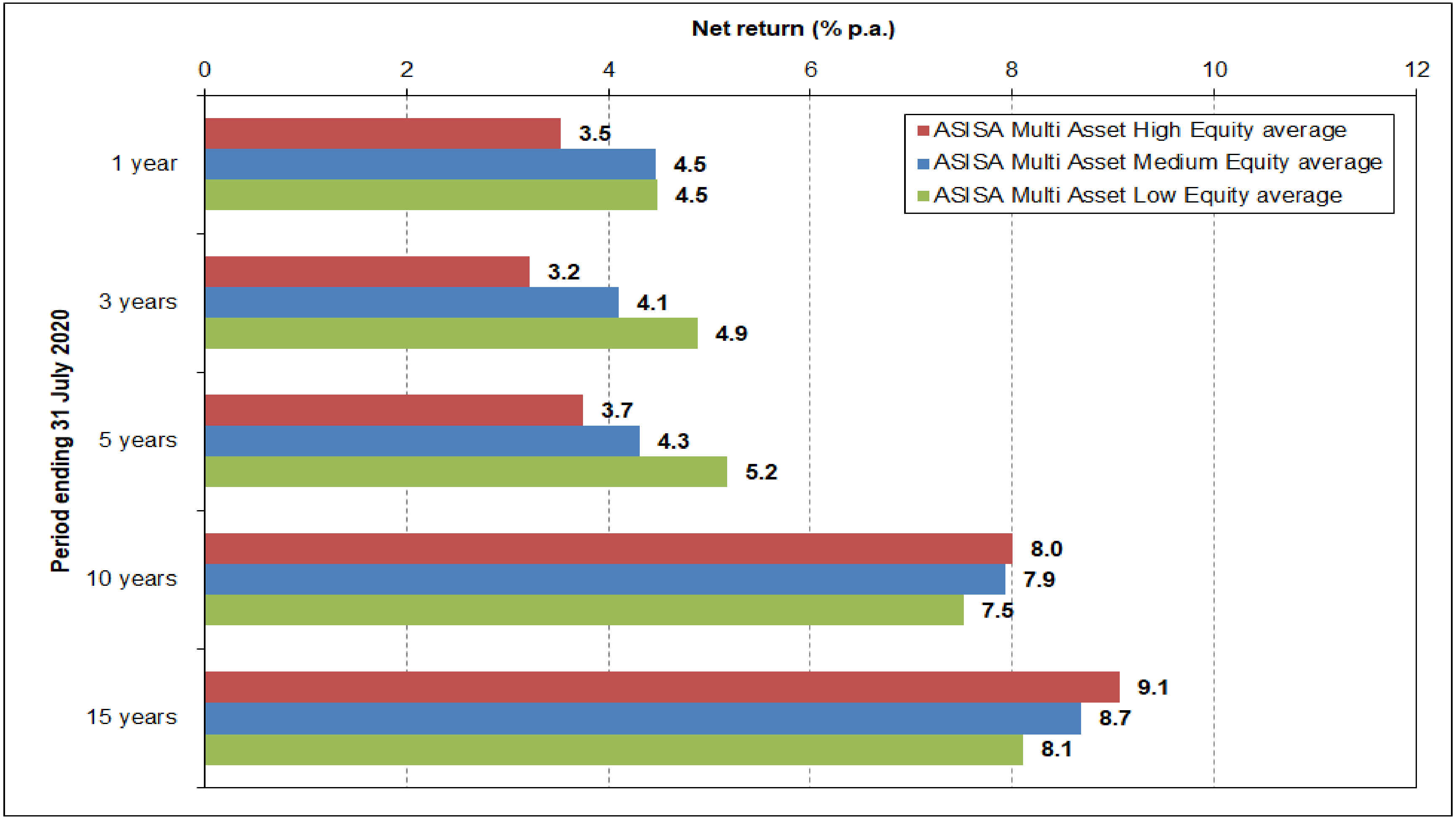
To illustrate this, we show the average returns from regulated collective investment schemes in the ASISA (Association for Savings and Investments South Africa) South Africa Multi Asset High, Medium and Low Equity categories to reflect the returns of typical Aggressive, Moderate and Conservative retirement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

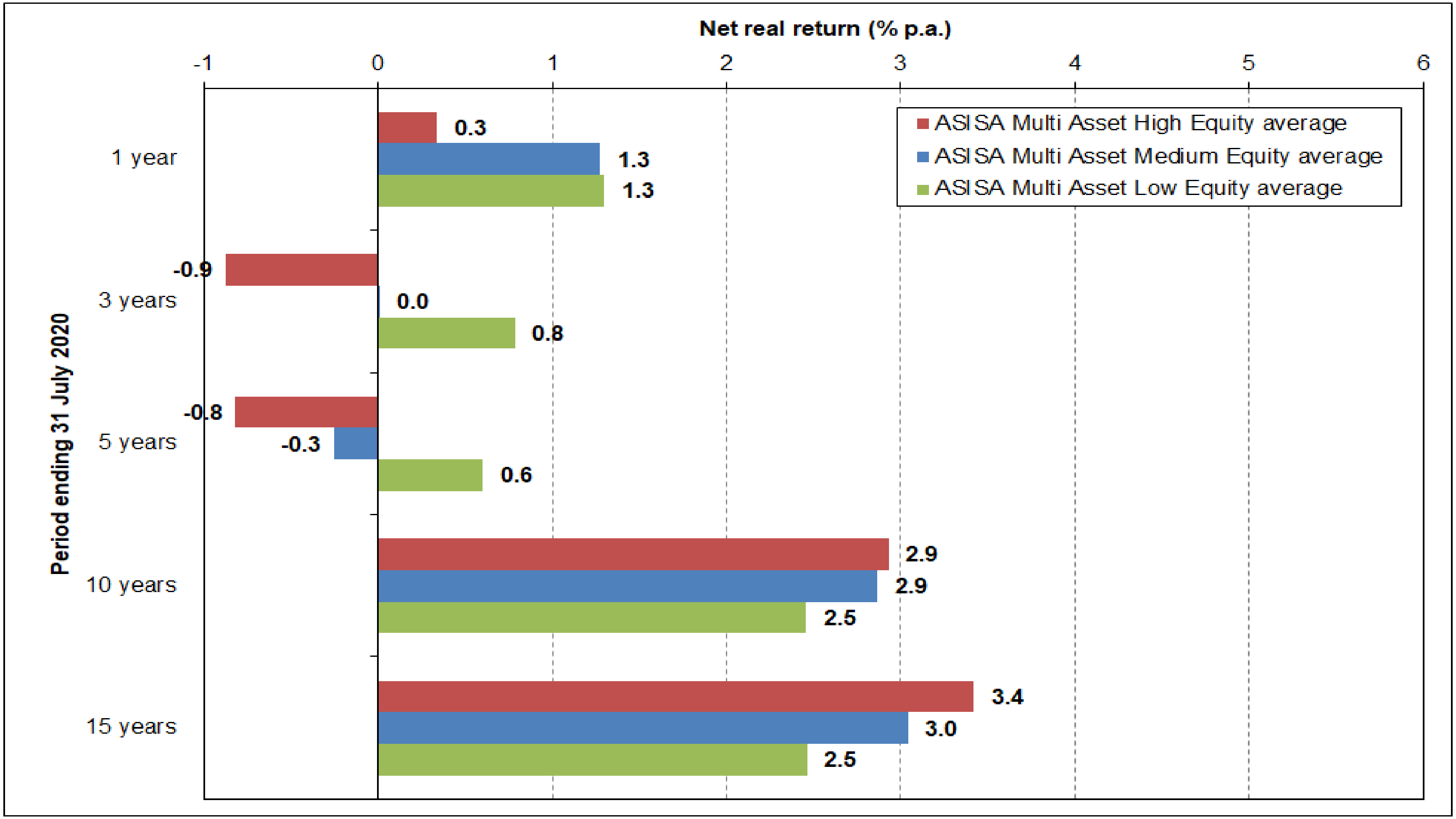
FOR BALANCED PORTFOLIOS, WHAT RANGE OF PAST NOMINAL RETURNS WAS REASONABLY ACHIEVABLE?



Source: ASISA, Morningstar

MANAGER PERFORMANCE

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



Source: ASISA, Morningstar

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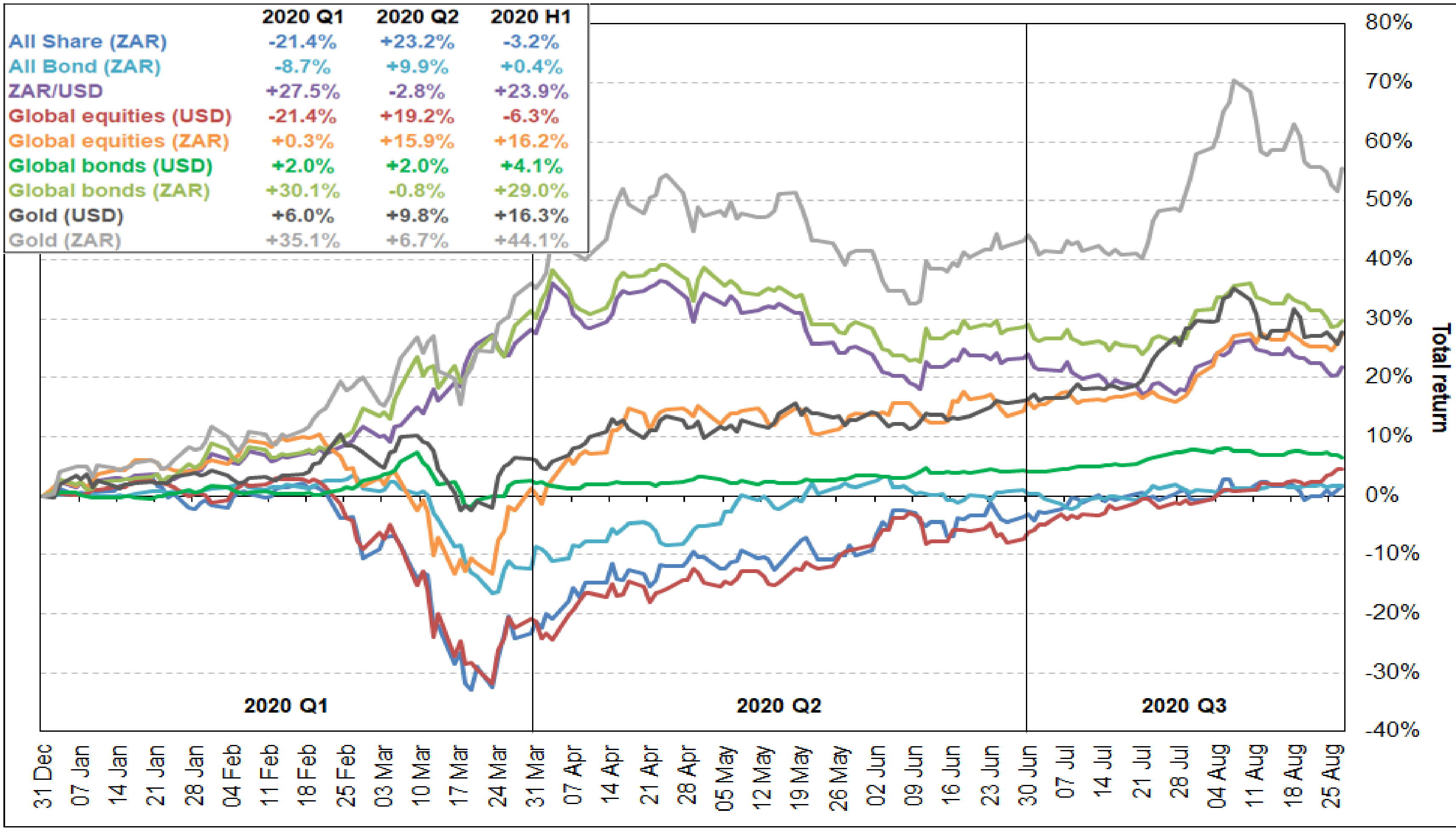
2020 YTD
MAJOR ASSET CLASSES



Source: Iress

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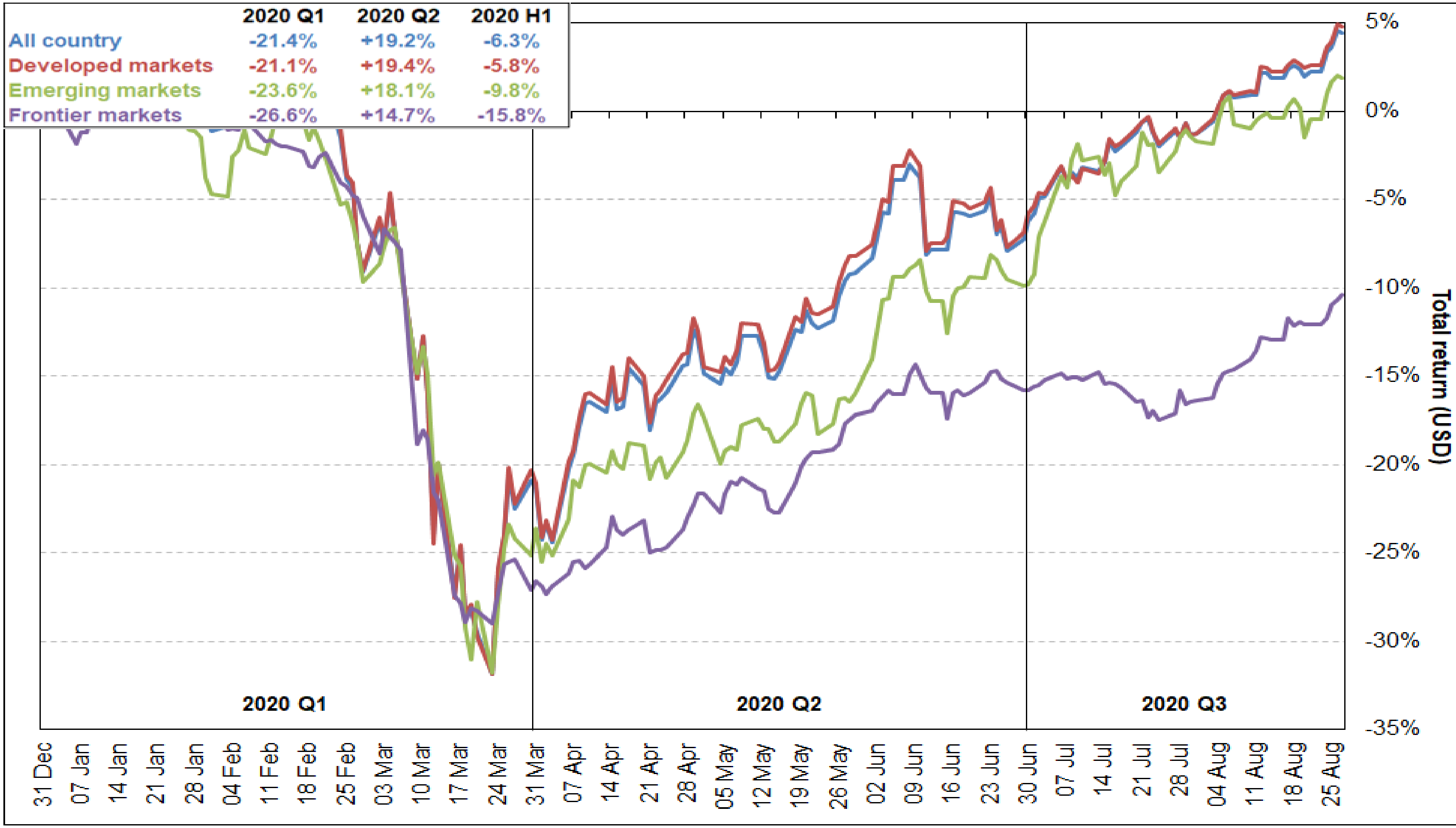
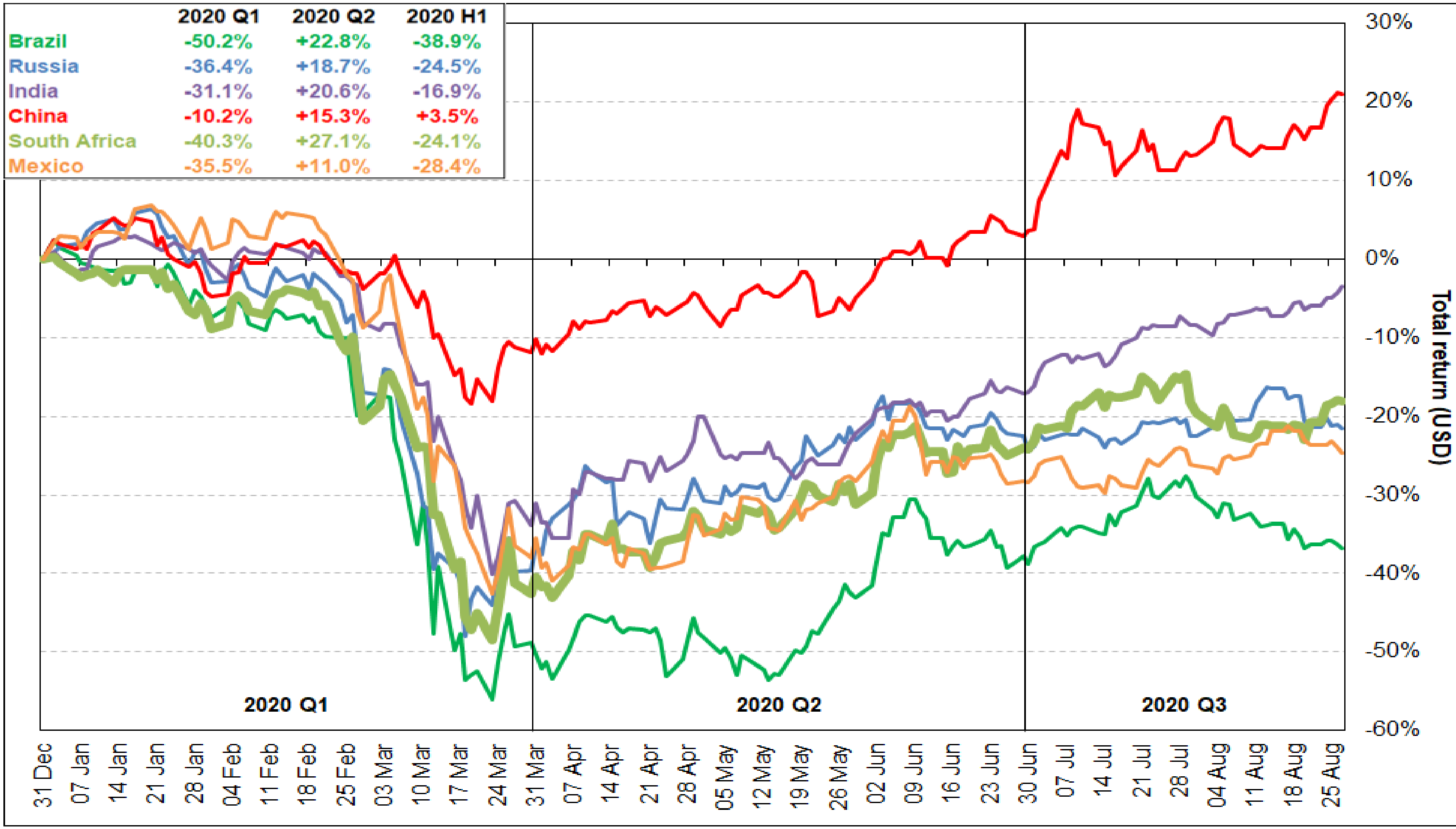
2020 YTD
GLOBAL EQUITY MARKETS (USD)



Source: Iress

2020 YTD

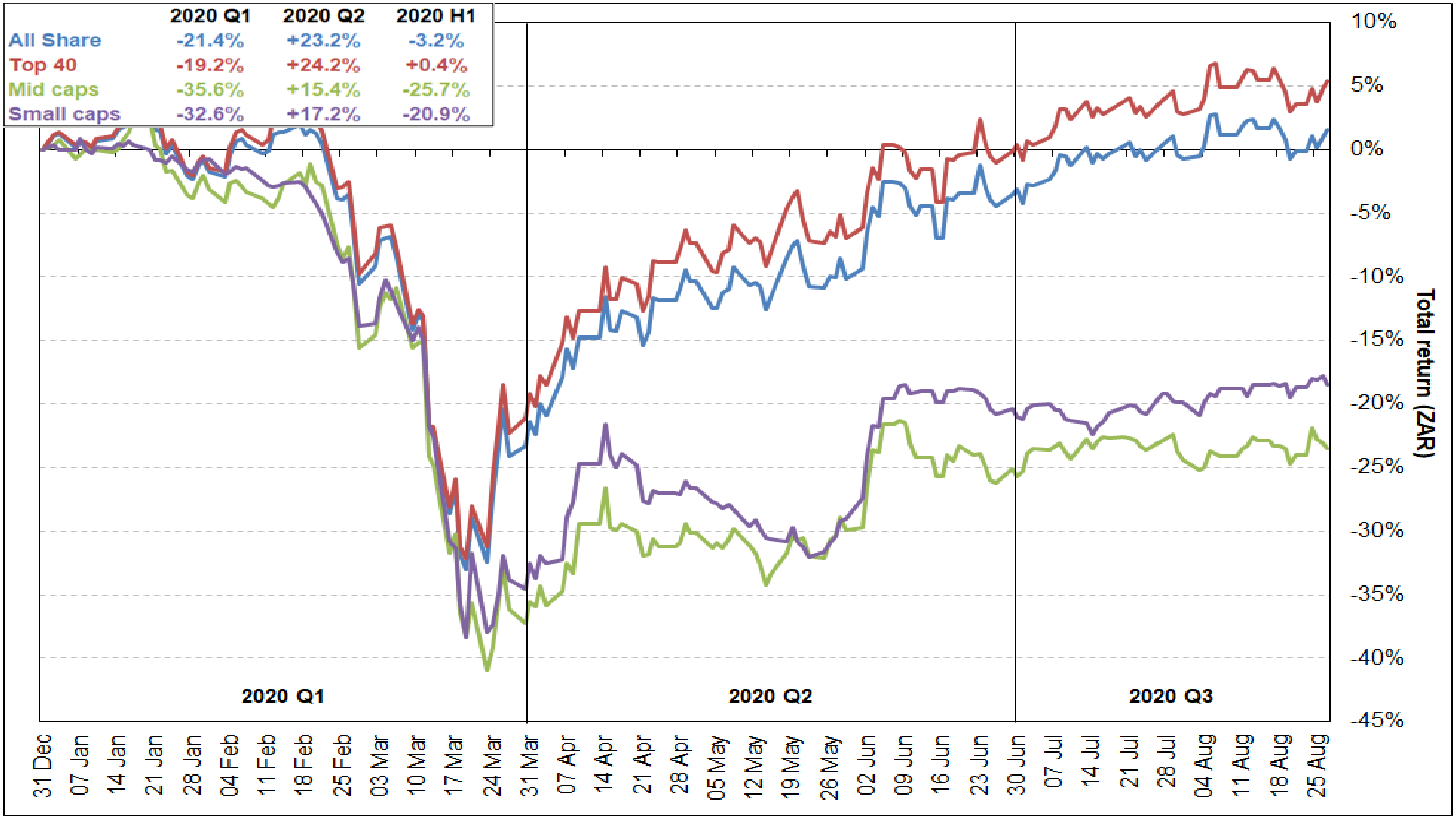
GLOBAL EMERGING EQUITY MARKETS (USD)



	2020 Q1	2020 Q2	2020 H1
Brazil	-50.2%	+22.8%	-38.9%
Russia	-36.4%	+18.7%	-24.5%
India	-31.1%	+20.6%	-16.9%
China	-10.2%	+15.3%	+3.5%
South Africa	-40.3%	+27.1%	-24.1%
Mexico	-35.5%	+11.0%	-28.4%

Source: Iress

2020 YTD
LOCAL EQUITY MARKET



Source: Iress

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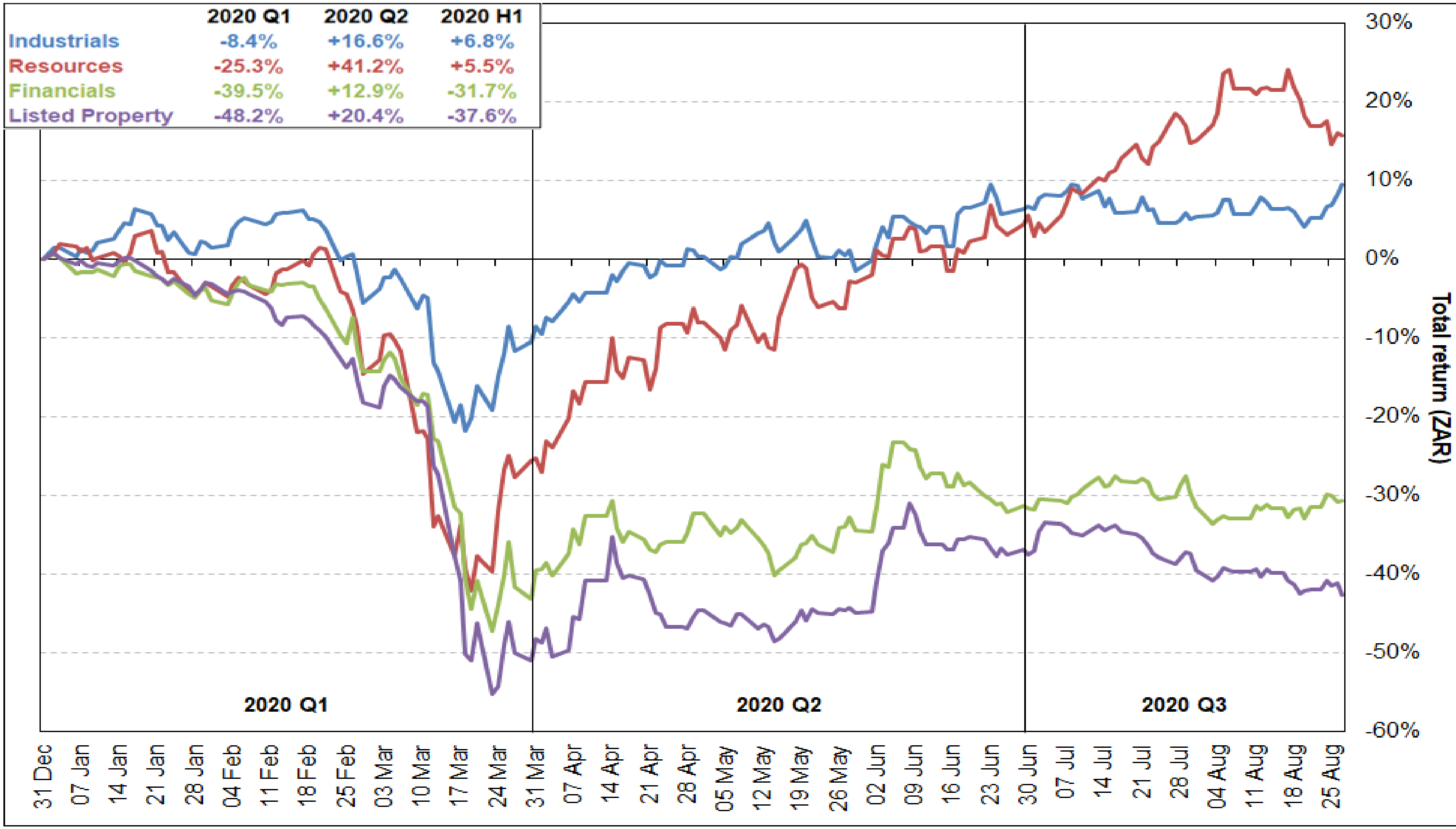
2020 YTD

LOCAL EQUITY MARKET



Source: Iress

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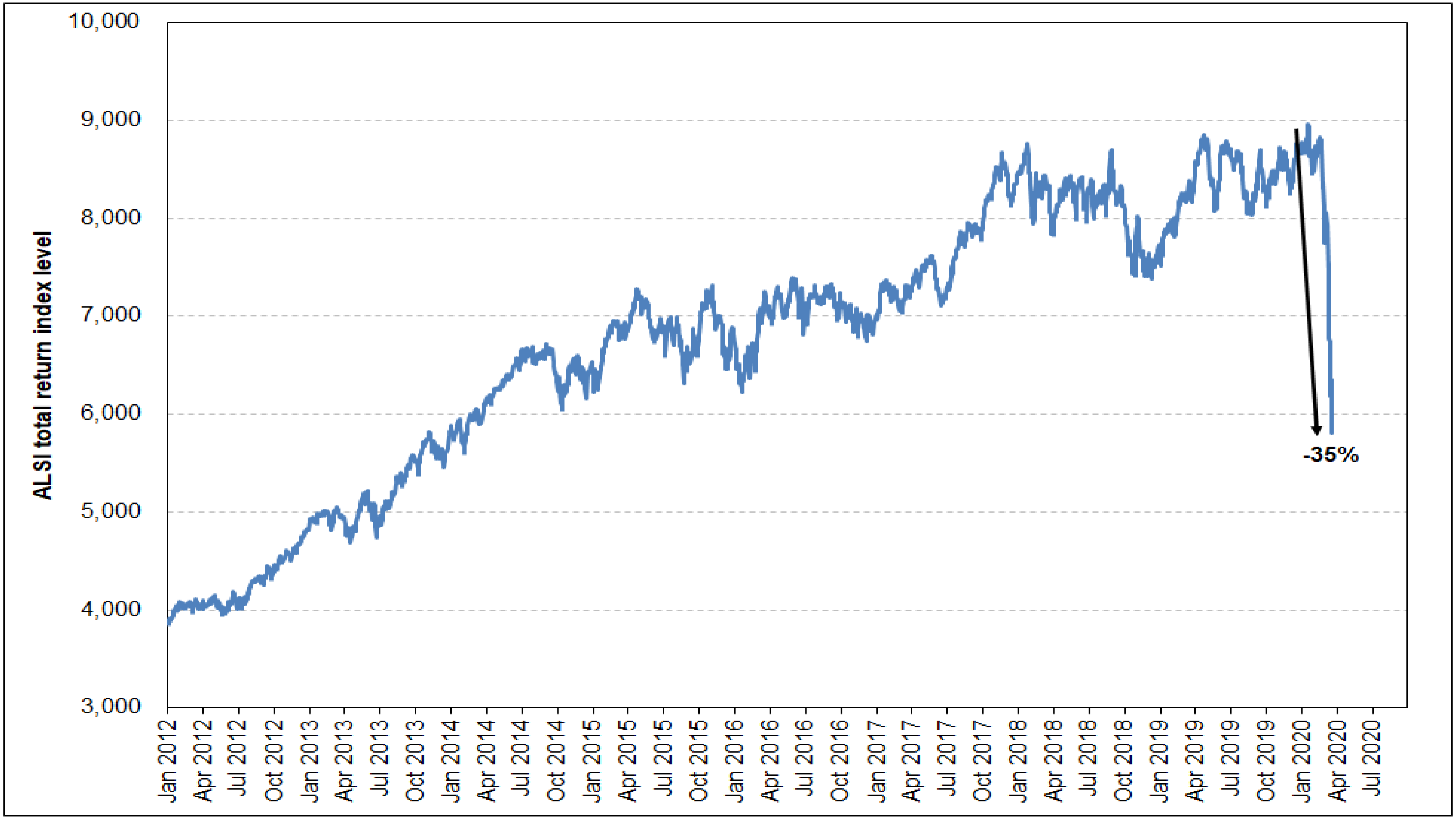
LOCAL EQUITY MARKET
COVID-19 CRASH



Source: Iress

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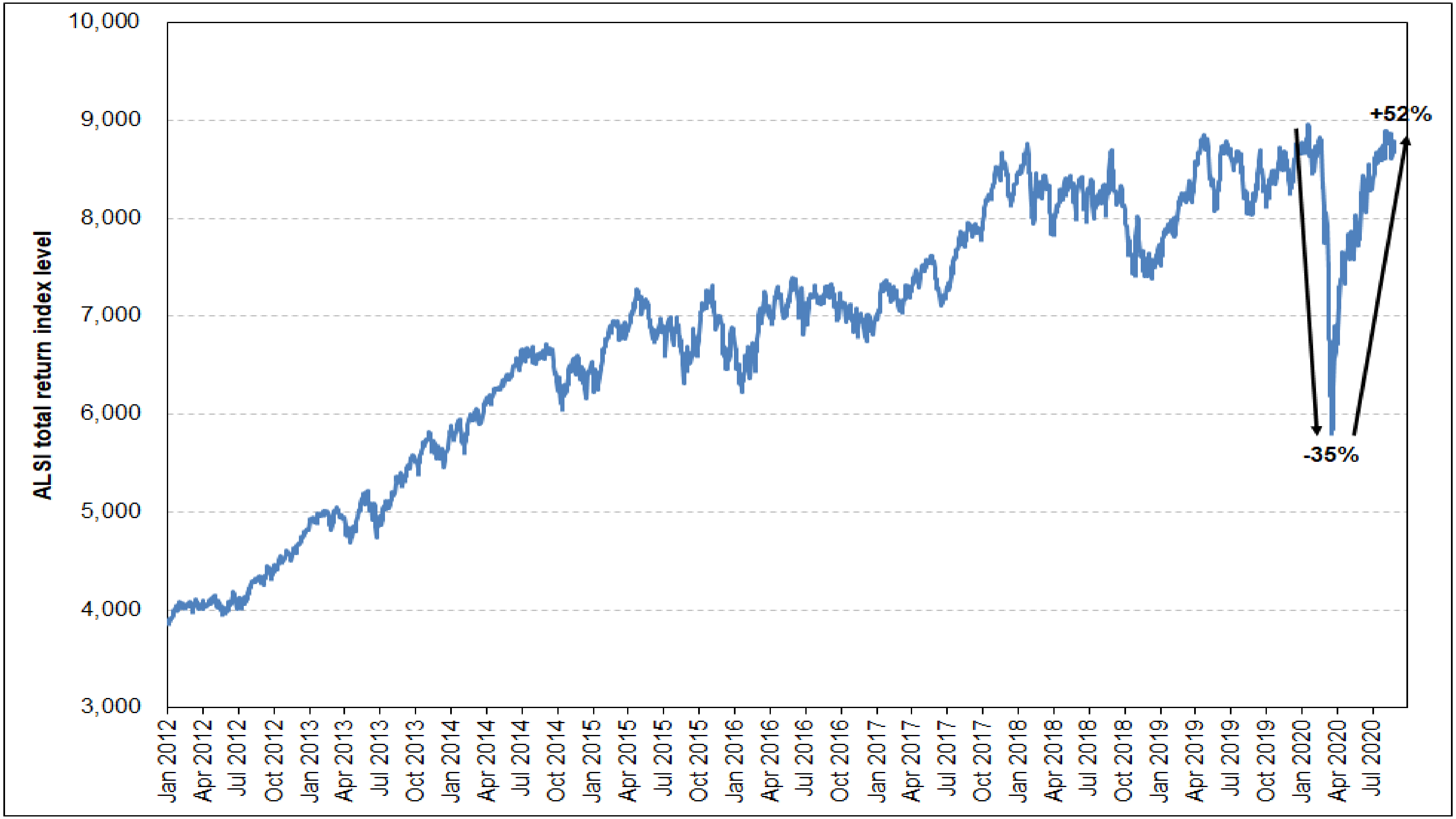
LOCAL EQUITY MARKET
WAS THAT IT?



Source: Iress

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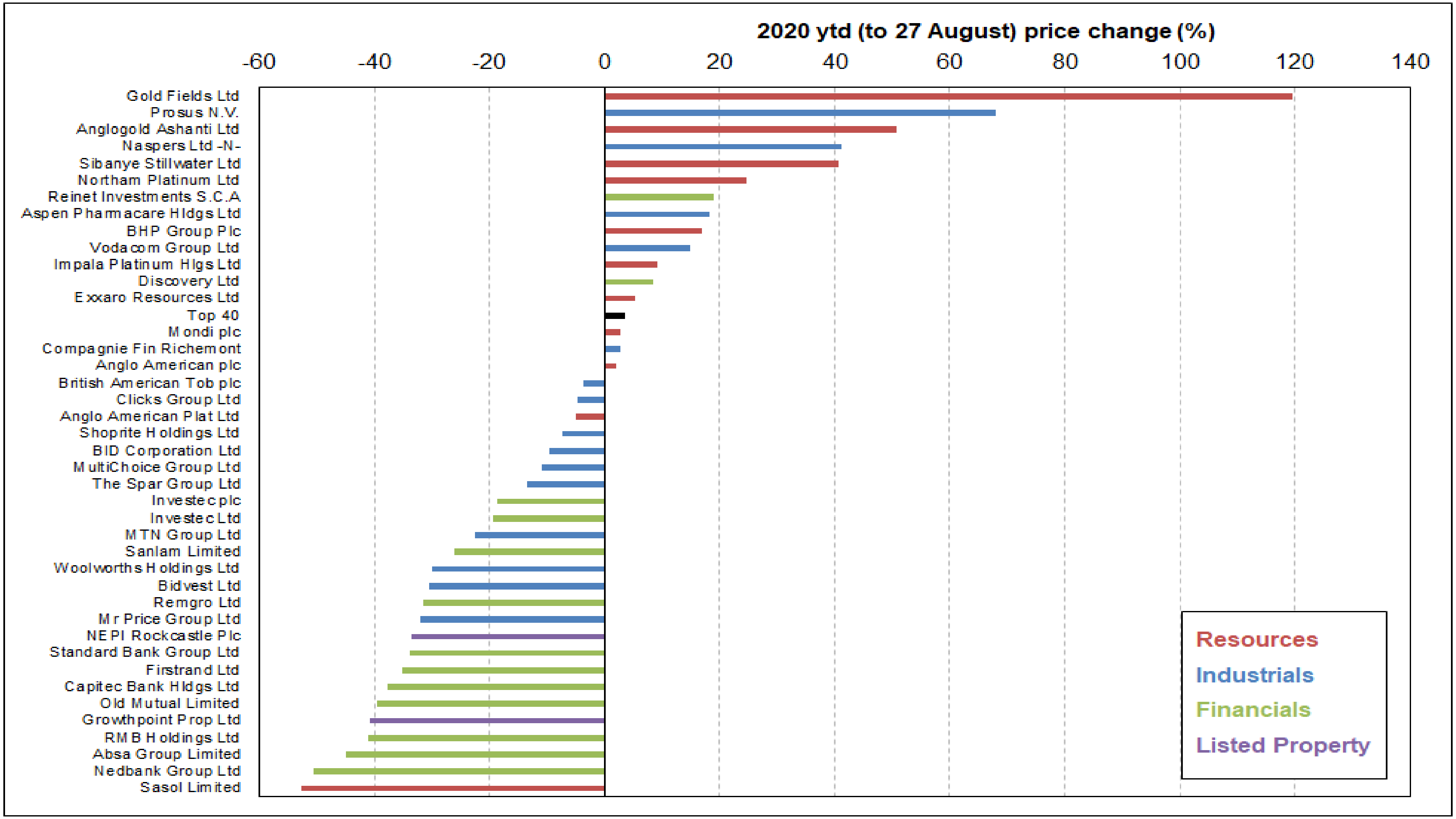
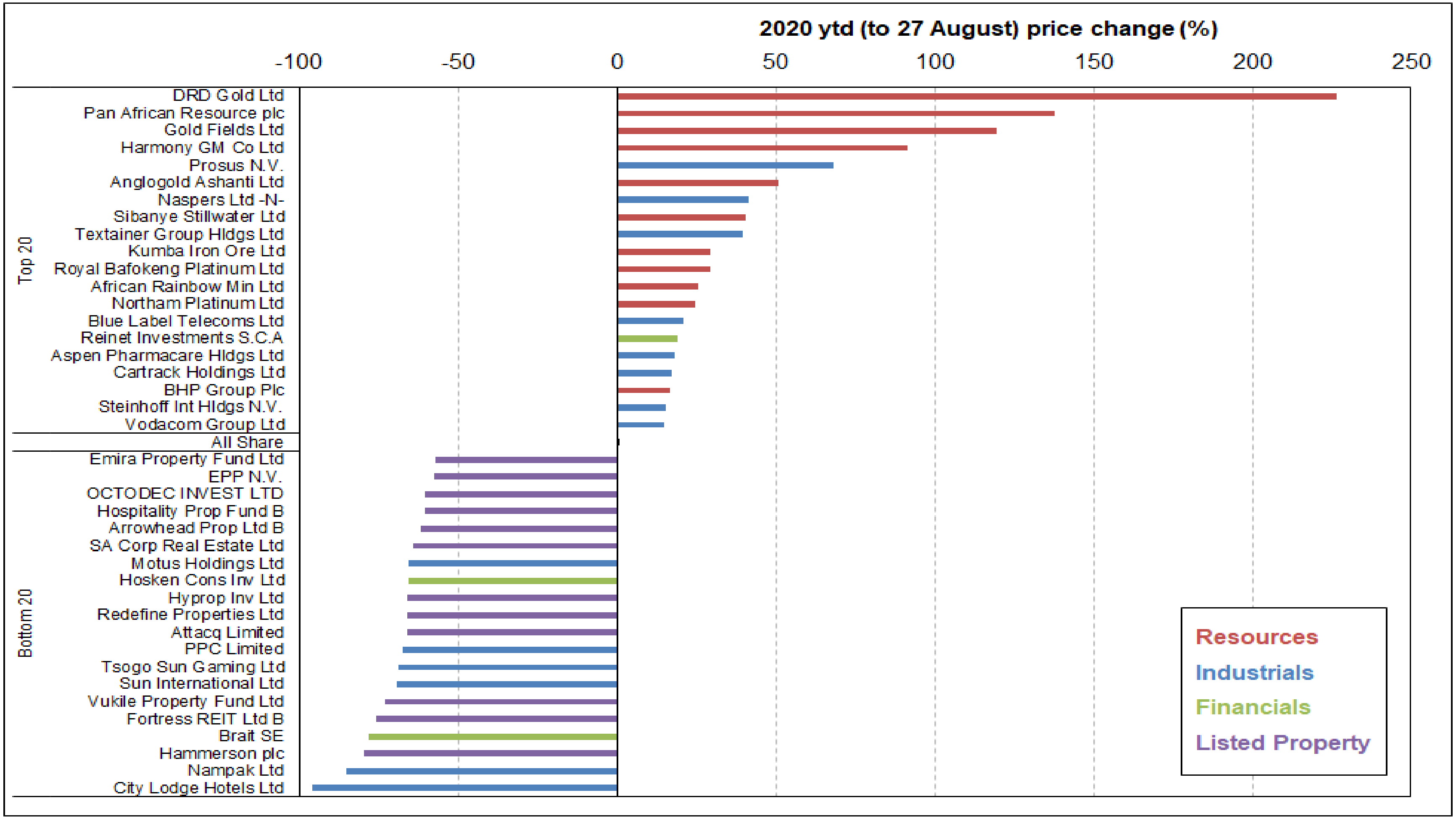
LOCAL EQUITY MARKET
TOP 40 (LARGE CAP) STOCKS IN 2020



LOCAL EQUITY MARKET
BEST & WORST PERFORMERS IN 2020



Source: Iress

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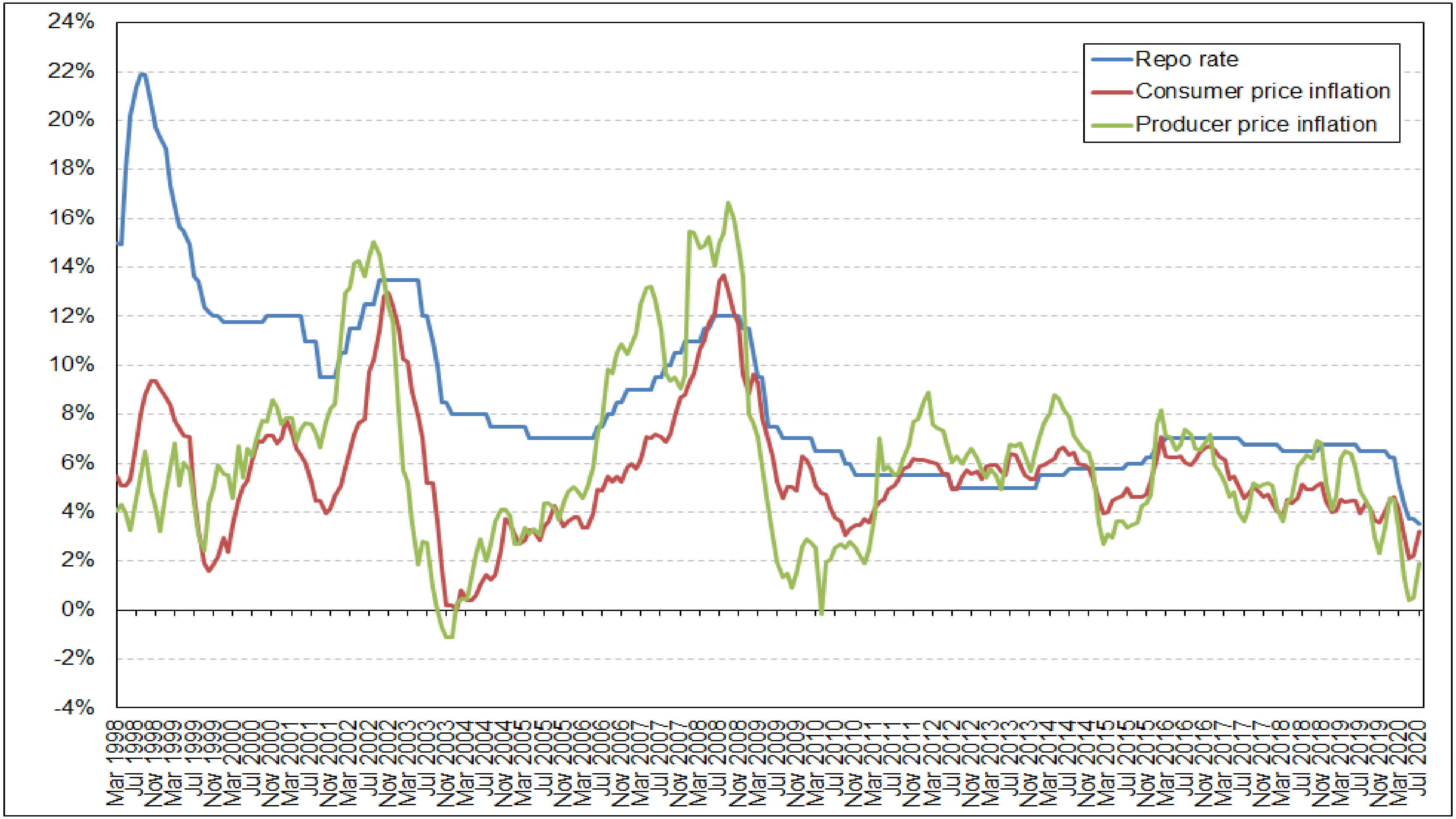
INTEREST RATES & INFLATION

INFLATION TICKS UP, BUT REMAINS LOW



Source: Iress

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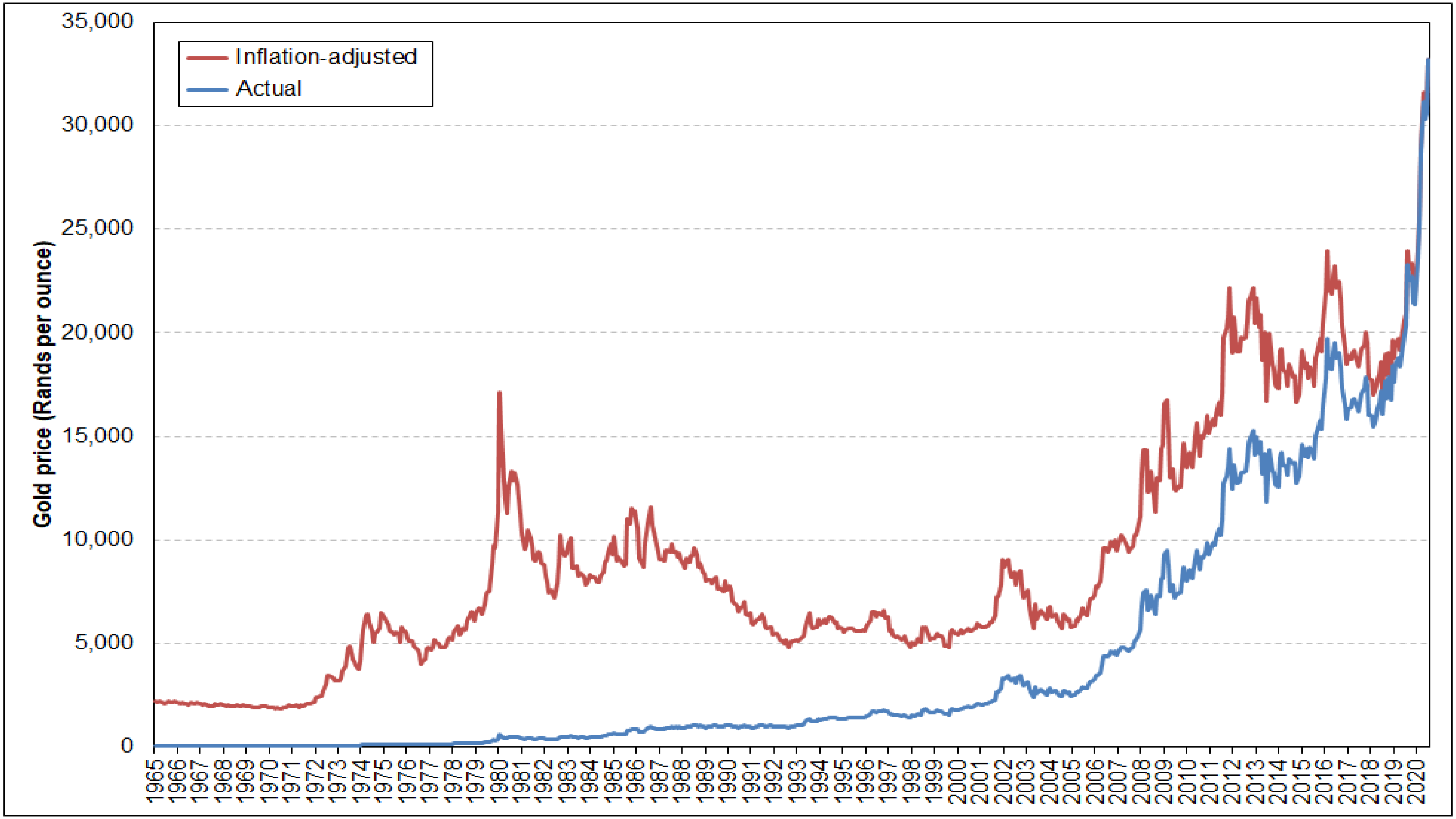
GOLD

PRICE SURGES AMID UNCERTAINTY, BUT NOT ALWAYS A ONE-WAY BET...



Source: Iress

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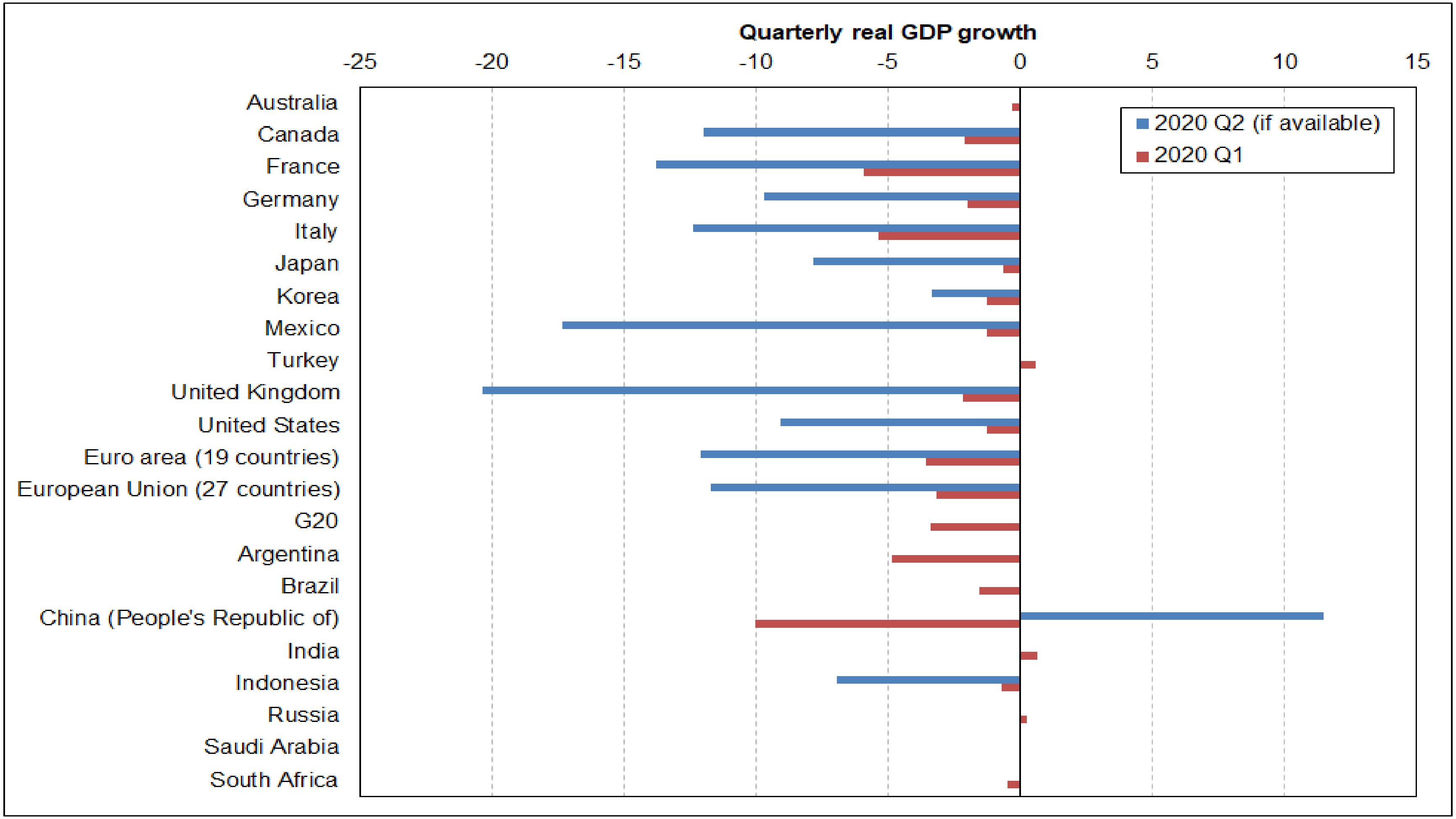
LOCKDOWN LOSSES

2020 Q2 GDP GROWTH FIGURES DEEP IN NEGATIVE TERRITORY. WHAT WILL OURS LOOK LIKE?



Source: OECD

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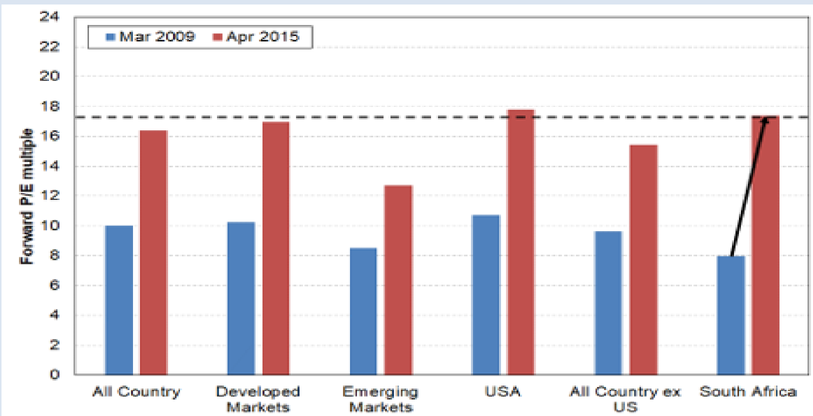
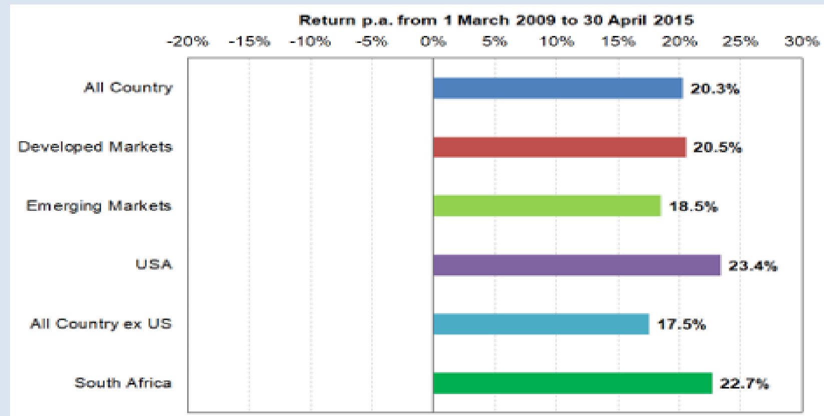
SA EQUITIES vs THE WORLD
THE GOOD (2009 to 2015)

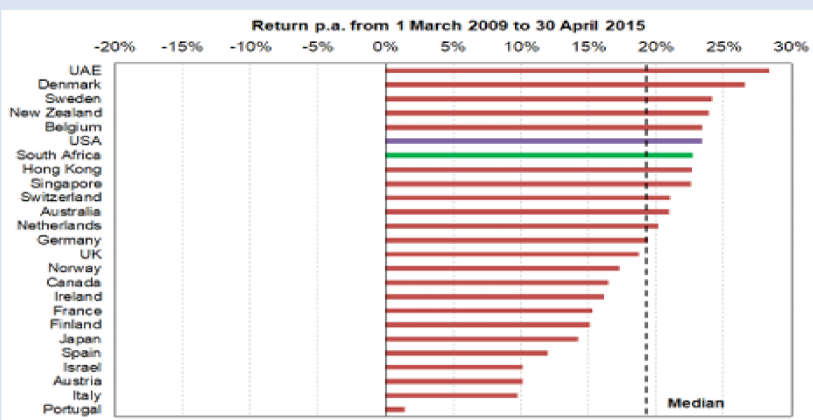
Valuations



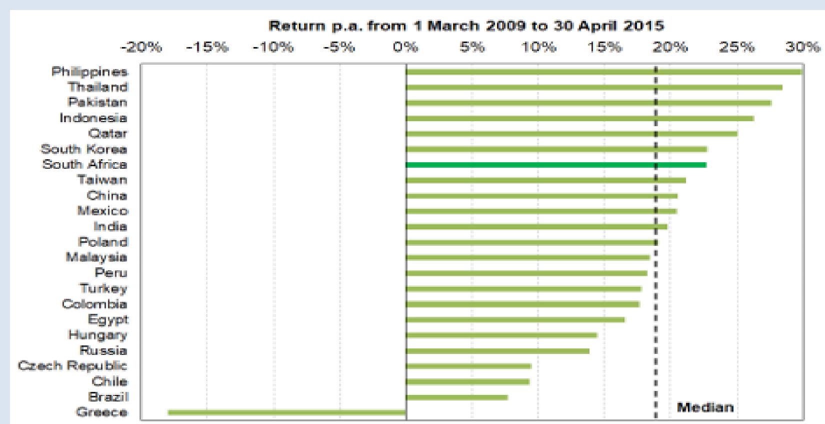
Global market returns



Developed market returns



Emerging market returns



Source: Iress, MSCI

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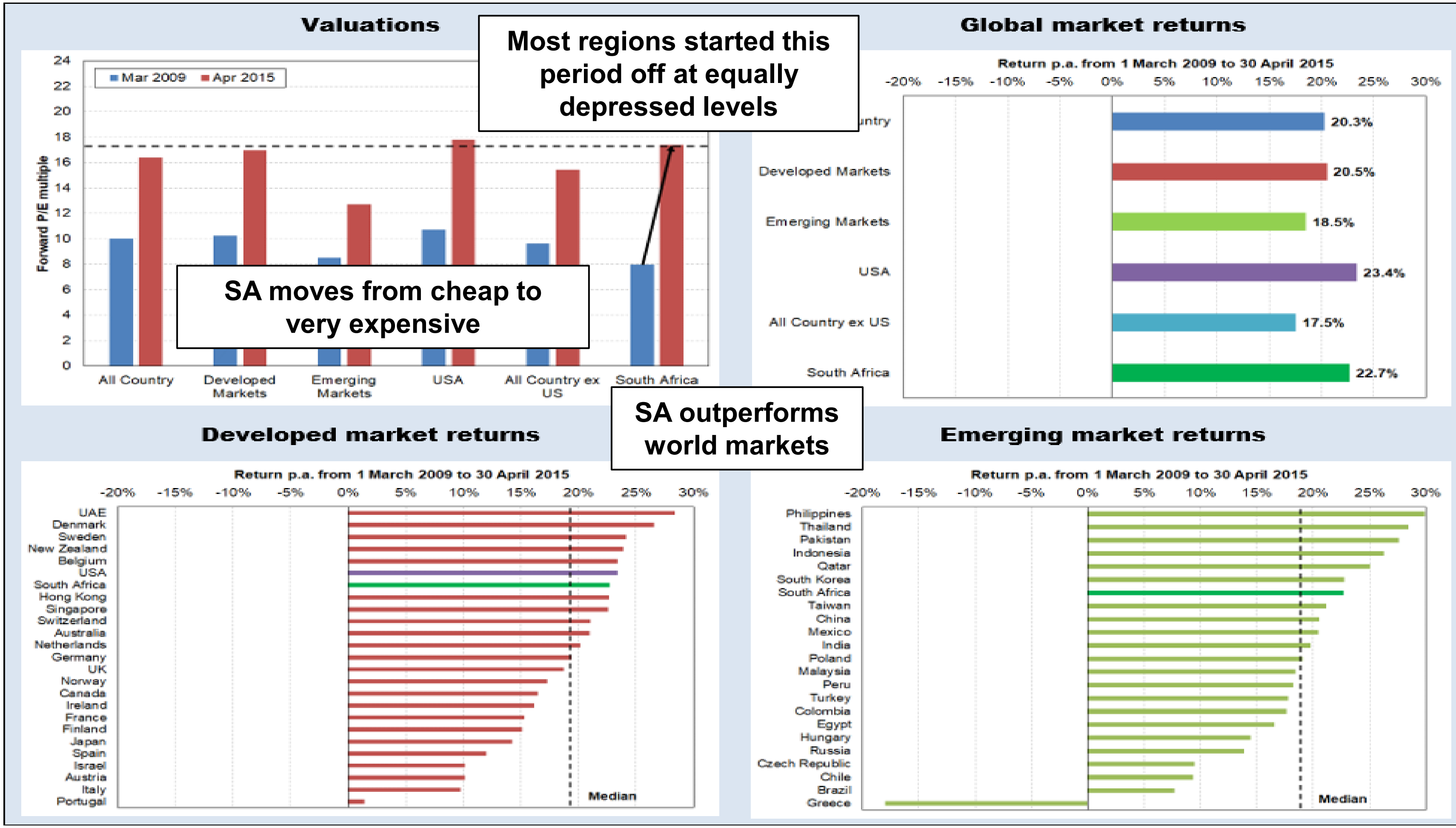
SA EQUITIES vs THE WORLD

THE GOOD (2009 to 2015)



Source: Iress, MSCI

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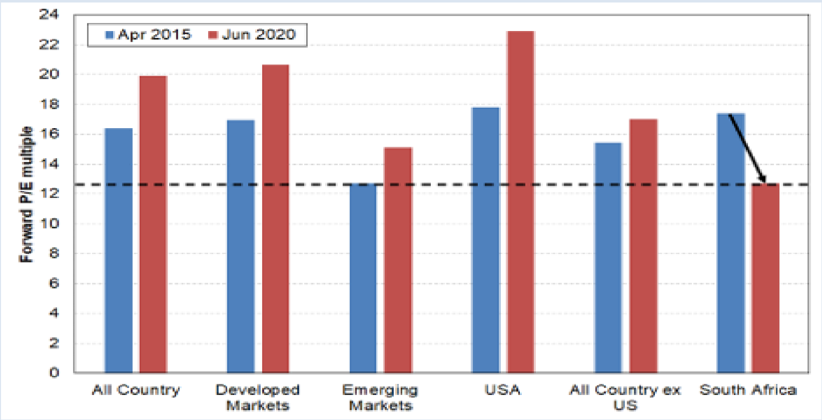
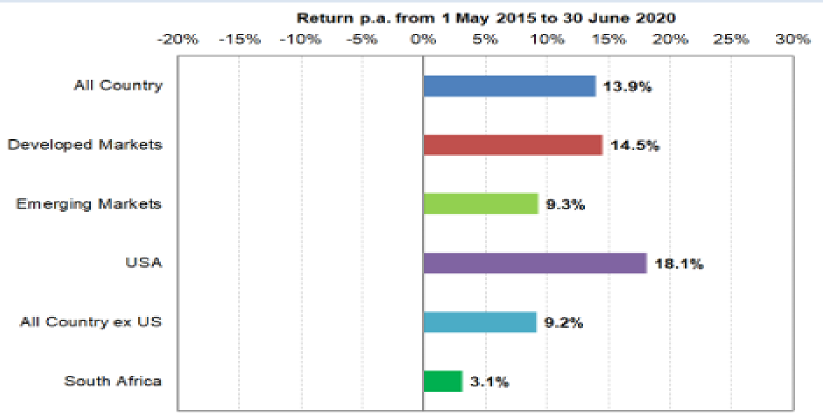
SA EQUITIES vs THE WORLD

THE BAD (2015 to 2020)

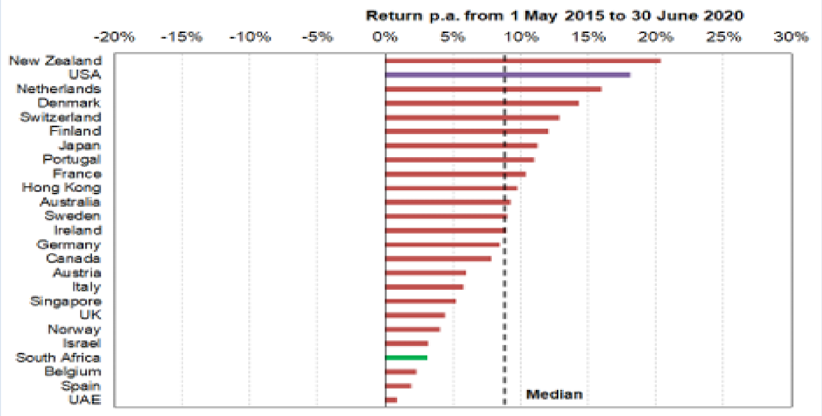
Valuations



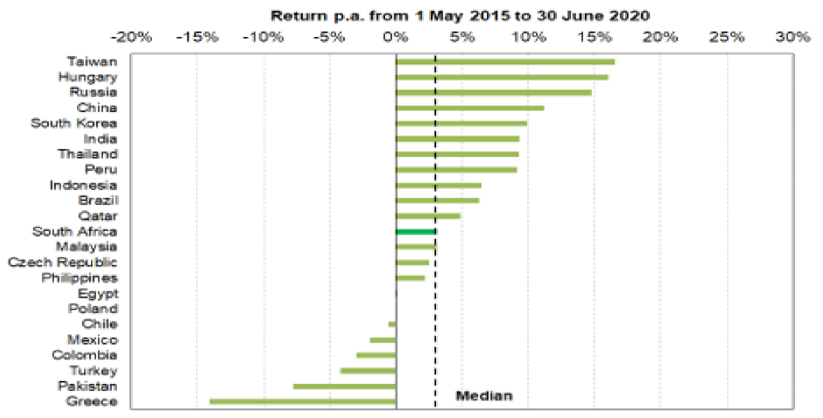
Global market returns



Developed market returns



Emerging market returns



Source: Iress, MSCI

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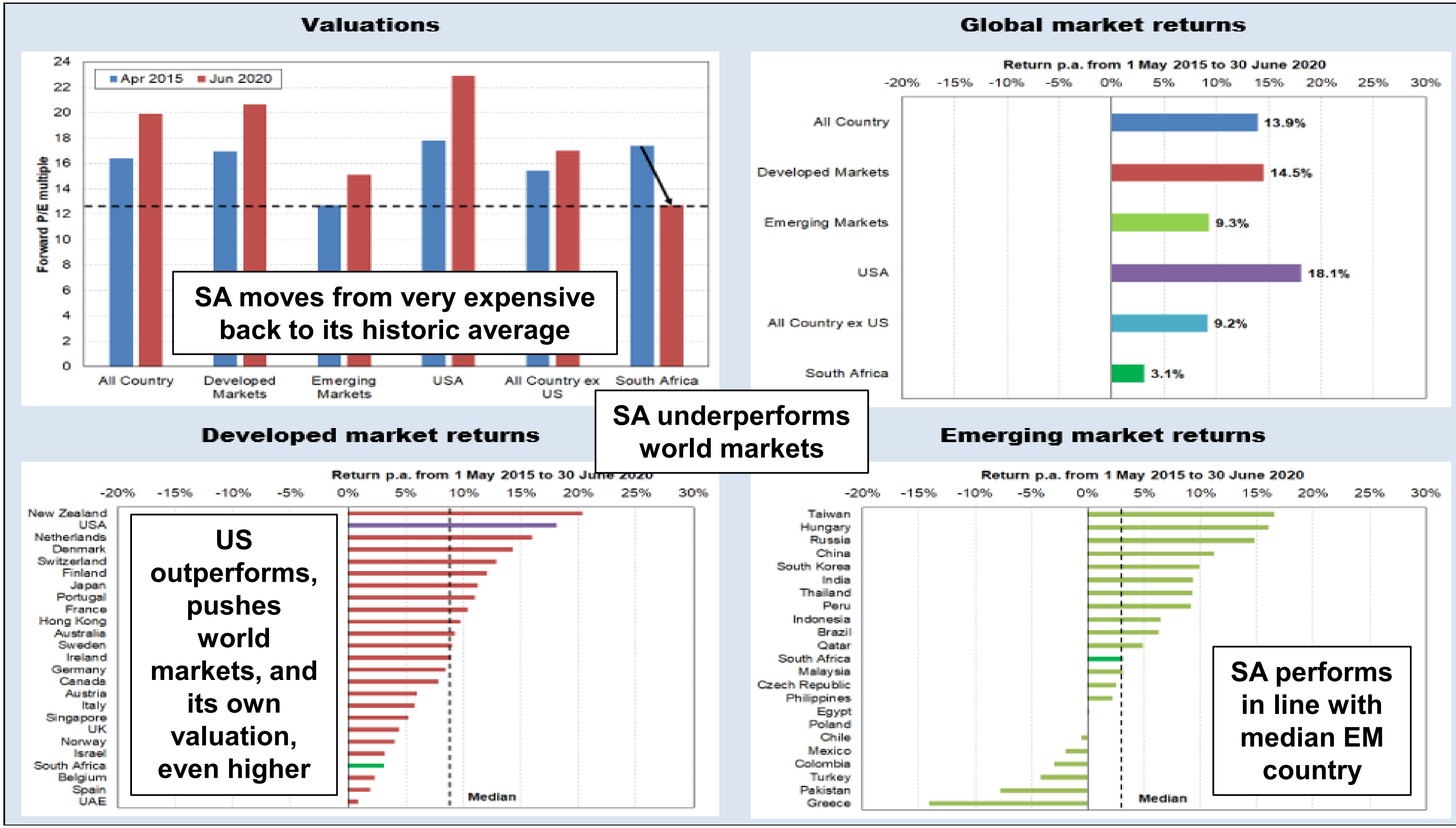
SA EQUITIES vs THE WORLD
THE BAD (2015 to 2020)



Source: Iress, MSCI

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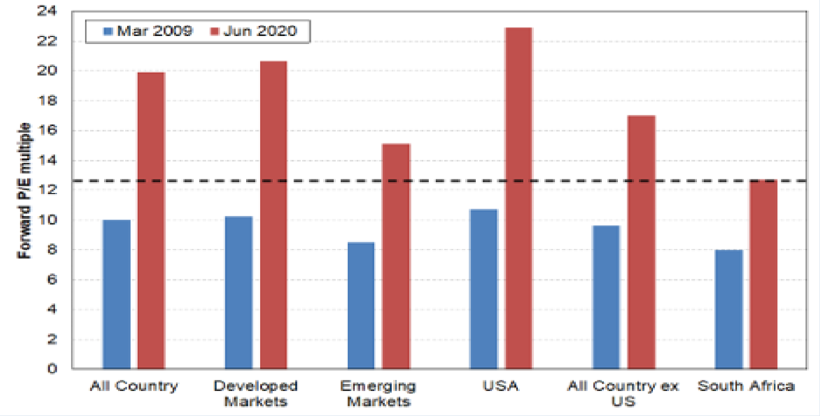
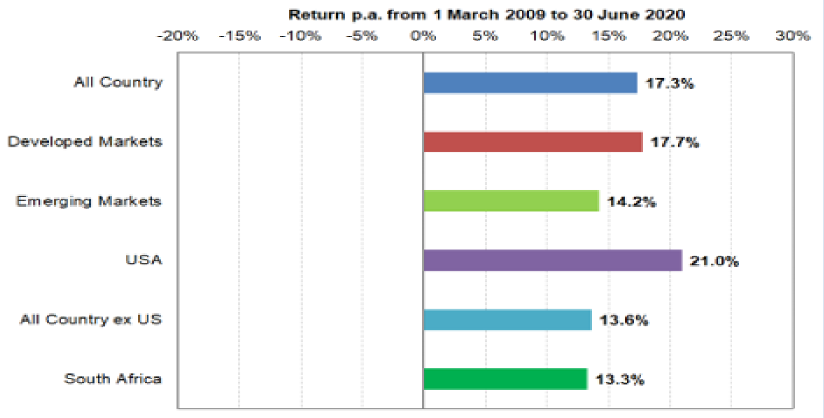
SA EQUITIES vs THE WORLD
& THE NOT-SO-UGLY (2009 to 2020)

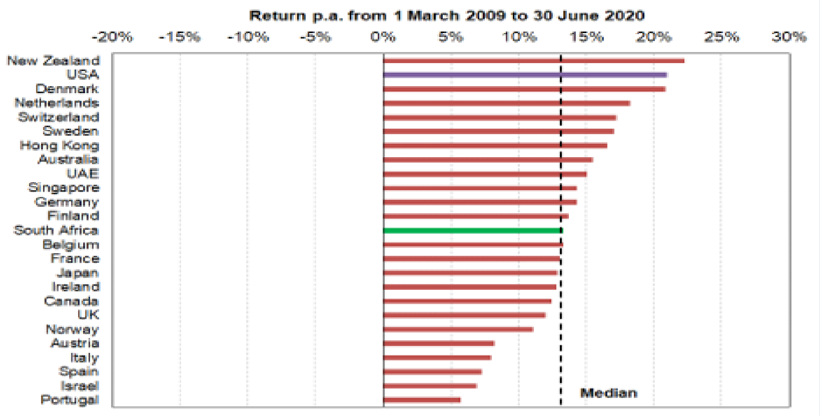
Valuations



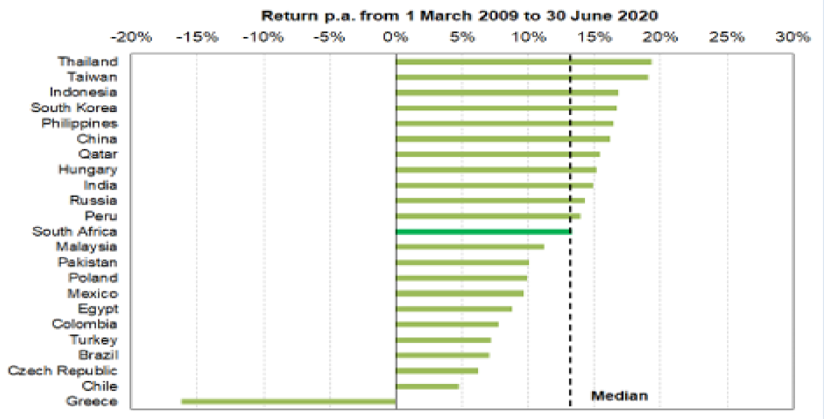
Global market returns



Developed market returns



Emerging market returns



Source: Iress, MSCI

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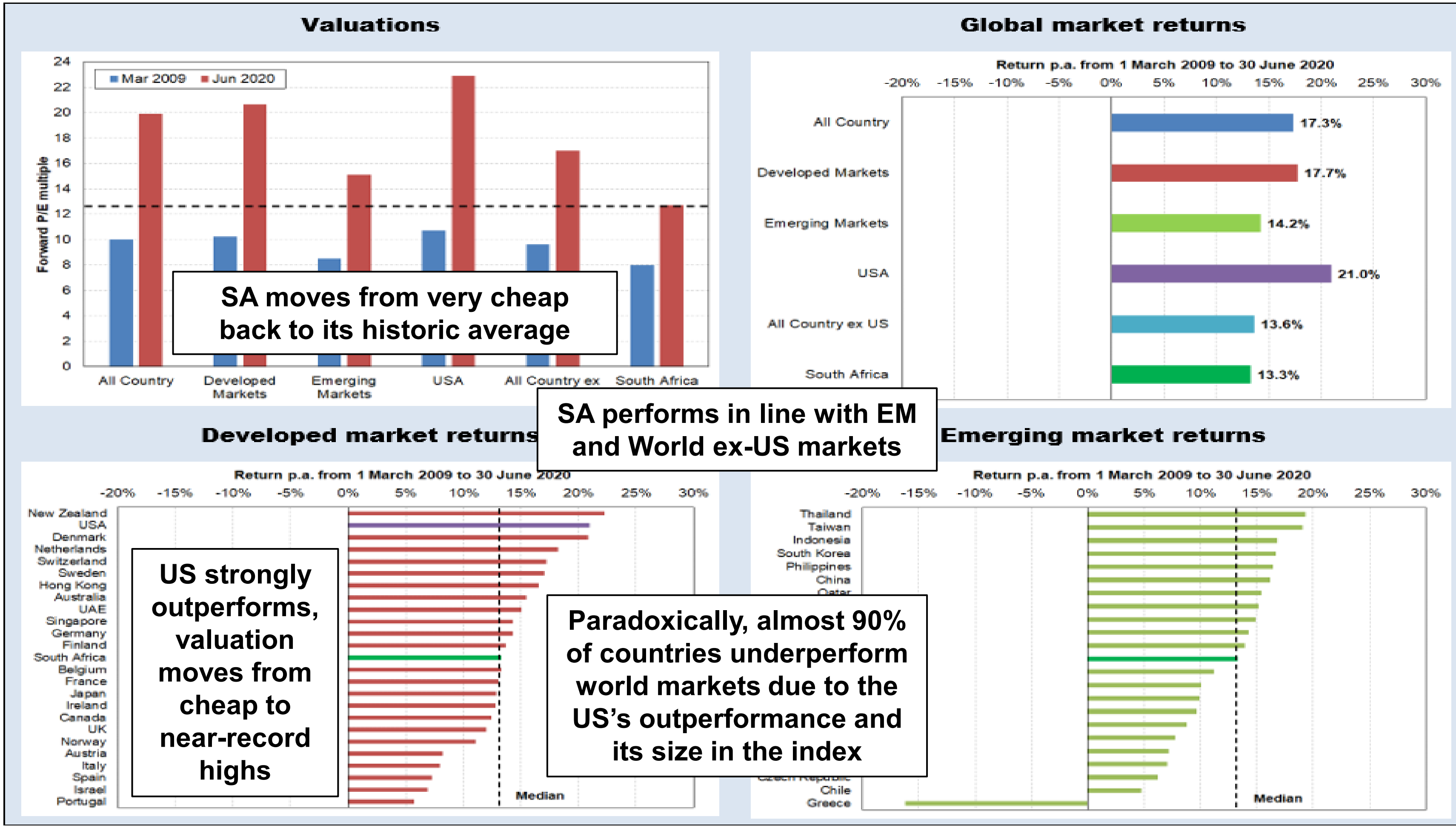
SA EQUITIES vs THE WORLD
& THE NOT-SO-UGLY (2009 to 2020)



Source: Iress, MSCI

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