

# **MONTH IN PICTURES**

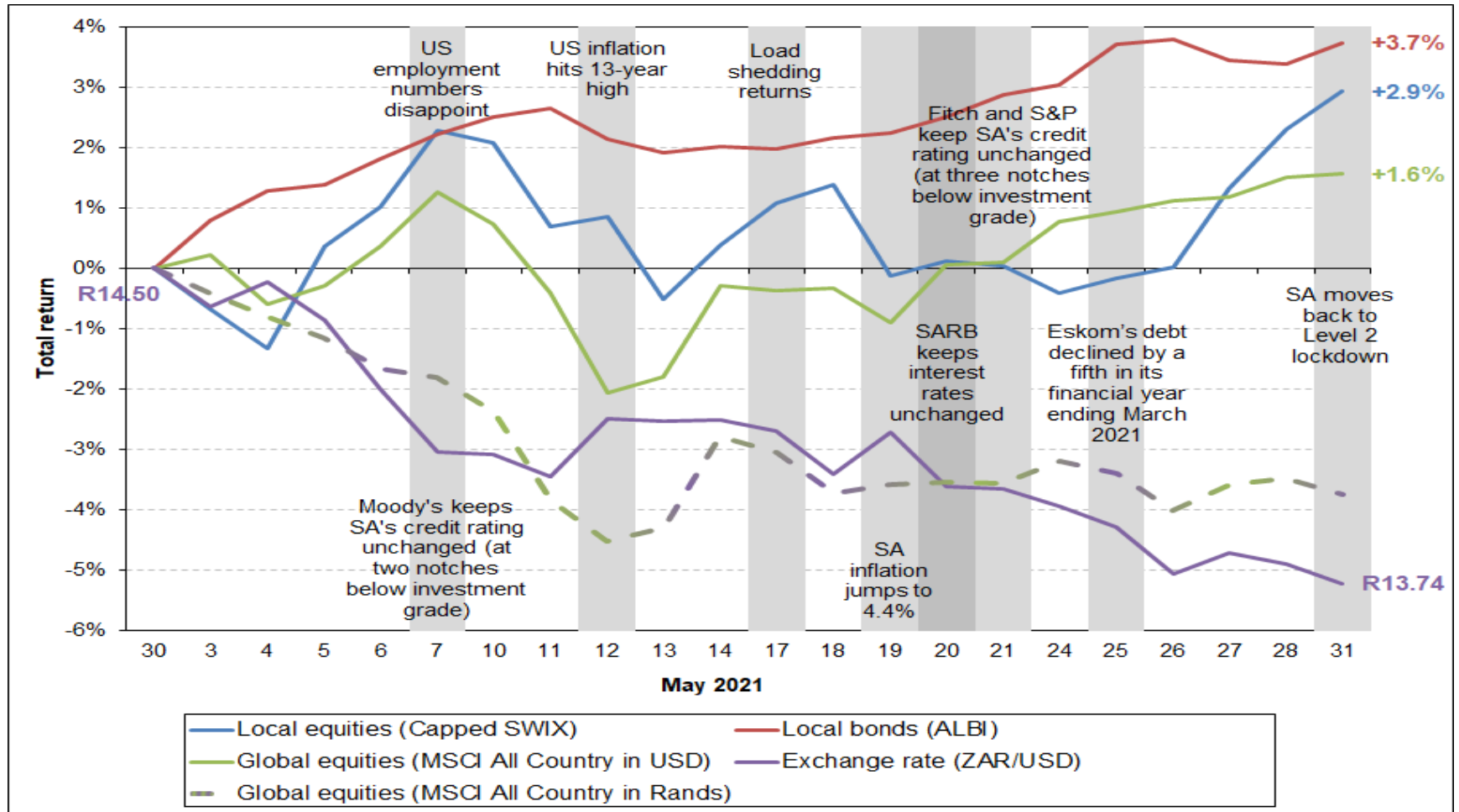
**MAY 2021**

# MONTHLY SNAPSHOT

## NOTABLE EVENTS

- May marked the seventh consecutive month of gains for the local equity market (ALSI = +1.6% and Capped SWIX = +2.9%), and thereby its longest winning streak in more than 8 years. Financials (+9.3%) was the standout performer, while Industrials (+1.6%) also ended the month in positive territory. Resources (-1.2%) came under pressure and Listed Property (-2.9%) gave back some of its strong April gains. Mid (+6.2%) and small (+3.3%) caps also enjoyed a particularly strong month, bring their 12-month returns to +45% and +86%, respectively, compared to +38% for the ALSI.
- SA bonds (+3.7%) was the best-performing major asset class for local investors in May, with longer term bonds (7-12 years = +3.5% and 12+ years = +5.8%) responsible for most of the gains.
- Global asset classes yielded positive USD returns in May (equities = +1.6% and bonds = +0.9%), but with the Rand strengthening by more than 5% against the Dollar, these asset classes delivered local currency losses of 3.8% and 4.4%, respectively.
- SA's GDP numbers surprised on the upside once again, with real economic growth in 2021 Q1 coming in at +4.6% (annualised). The mining (+18.1%) and finance (+7.4%) sectors were the major contributors on the production side, while household consumption (+4.7%) was the main contributor when measured from the expenditure side.
- Despite increasing by just 0.1% month-on-month, inflation for the year ended May reached 5.2% (from 4.4% in April), with the low base from last year and sharp increases in food and fuel prices again being the main contributors. US inflation hit similar numbers (5% y-o-y) but, despite igniting inflationary fears, global central banks believe these spikes are temporary and have mostly kept their policy interest rates unchanged.
- Although consumer confidence fell back slightly, business confidence numbers moved decisively higher in 2021 Q2, with the RMB/BER Business Confidence Index reaching a level of 50 (from 35 in the previous quarter, and a low of just 5 a year ago). This means that the number of respondents satisfied with prevailing business conditions now equal those that are unsatisfied, an outcome we have not seen in years, which should bode well for economic growth in the coming quarters. Interestingly, the survey was conducted in the second half of May, which coincided with an uptick in Covid cases, the return of load shedding, and the introduction of stricter lockdown measures, but before the good news around license-free electricity self-generation (from 1 MW to 100 MW) was announced.
- In other good news SA managed to escape the month without any further credit rating downgrades, while Eskom announced that it managed to reduce its massive debt pile by nearly a fifth during its last financial year (from R484 billion to R401 billion).
- SA's unemployment numbers unfortunately continued their relentless march higher, with the official rate hitting an all-time high of 32.6% (or 43.2% under the expanded definition).
- This was one of the factors contributing to SA's continued slip towards the bottom of the latest world competitiveness rankings, with SA slipping to the 62<sup>nd</sup> position (out of 64 countries surveyed).

# MONTHLY TIMELINE IMPACT ON MARKETS



# MARKET INDICATORS

## SHORT TERM

Market indicators (% change) <sup>1</sup>		Mar 2021	Apr 2021	May 2021	3 months	12 months
Local equities	ALSI	1.6	1.0	1.6	4.2	38.1
	Capped SWIX	3.7	0.8	2.9	7.6	40.8
	Resources	1.2	2.9	(1.2)	2.8	50.6
	Industrials	1.9	(1.2)	1.6	2.3	28.9
	Financials	1.7	1.5	9.3	12.8	41.0
	Listed Property	1.2	11.7	(2.9)	9.8	37.3
Local bonds	ALBI	(2.5)	1.9	3.7	3.0	11.1
Local cash	STeFI Composite	0.3	0.3	0.3	0.9	4.1
Global equities	MSCI All Country	0.3	2.4	(3.8)	(1.2)	11.1
Global bonds	FTSE WGBI	(4.4)	(0.8)	(4.4)	(9.2)	(19.7)
Exchange rate	ZAR/USD	(2.3)	(1.9)	(5.2)	(9.2)	(21.7)
Inflation	CPI	0.7	0.7	0.1	1.4	5.2

1. Total returns (in Rands) for the months and periods ending 31 May 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	38.1	10.0	8.0	11.0	11.5
	Capped SWIX	40.8	6.1	4.7	9.9	11.0
	Resources	50.6	26.0	21.7	6.1	7.5
	Industrials	28.9	7.5	4.7	13.3	14.7
	Financials	41.0	(3.1)	0.8	9.3	8.8
	Listed Property	37.3	(10.9)	(7.3)	4.9	8.2
Local bonds	ALBI	11.1	8.4	9.8	8.4	8.3
Local cash	STeFI Composite	4.1	6.1	6.7	6.3	7.1
Global equities	MSCI All Country	11.1	16.9	11.2	17.6	12.8
Global bonds	FTSE WGBI	(19.7)	6.6	(0.1)	9.0	8.4
Exchange rate	ZAR/USD	(21.7)	2.7	(2.6)	7.3	4.9
Inflation	CPI	5.2	3.9	4.3	5.0	5.6

1. Total returns (in Rands) for the months and periods ending 31 May 2021.

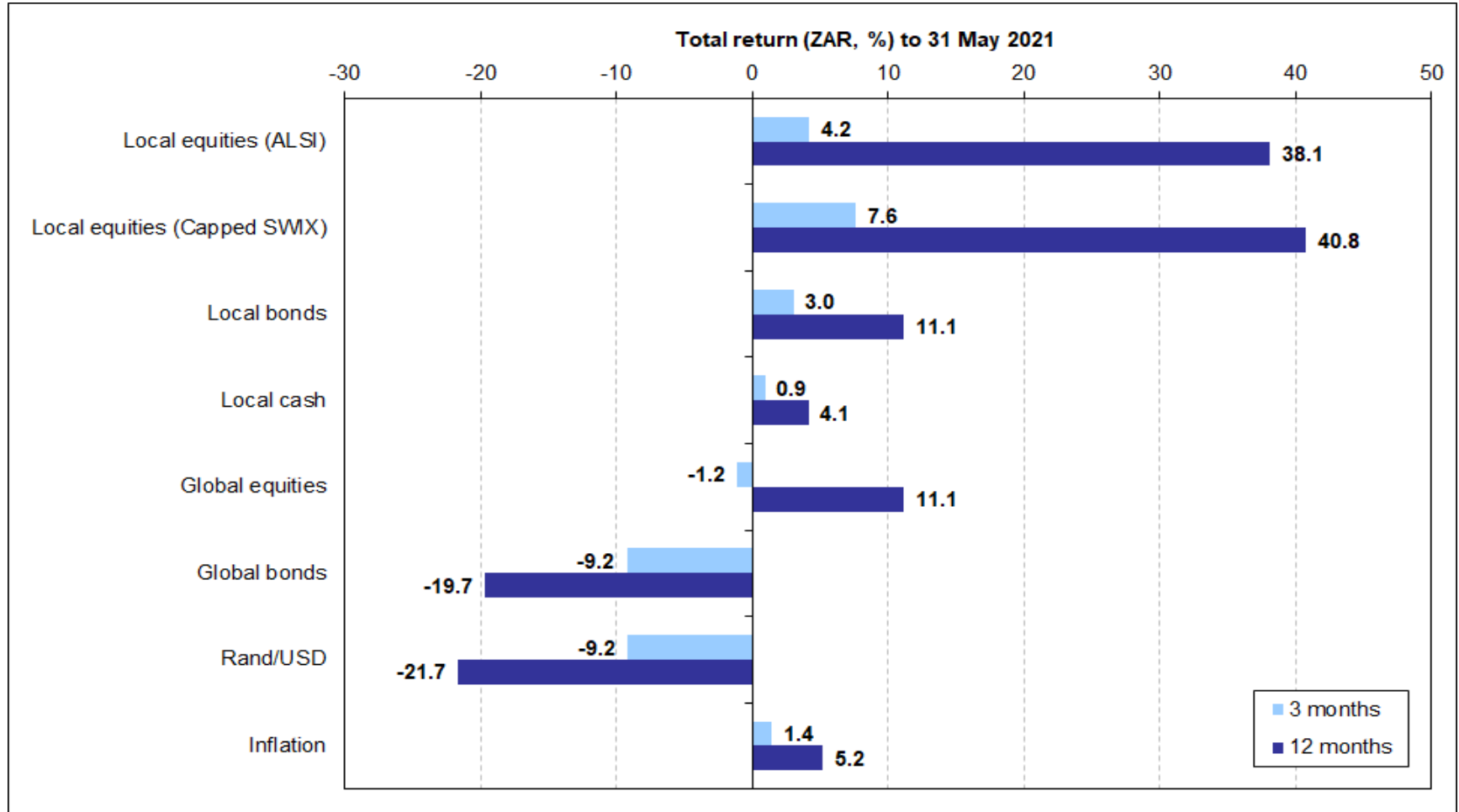
# ECONOMIC INDICATORS

Economic indicators <sup>1</sup>	May 2019	May 2020	Mar 2021	Apr 2021	May 2021
<b>Exchange rates:</b>					
ZAR/USD	14.58	17.54	14.78	14.50	13.74
ZAR/GBP	18.42	21.67	20.37	20.03	19.53
ZAR/Euro	16.29	19.48	17.33	17.42	16.80
<b>Commodities:</b>					
Brent Crude Oil (USD/barrel)	61.63	37.84	62.74	66.76	69.33
Platinum (USD/ounce)	791.50	831.95	1,157.85	1,200.98	1,182.43
Gold (USD/ounce)	1,305.20	1,721.09	1,684.99	1,772.10	1,896.49

1. *Month-end prices*

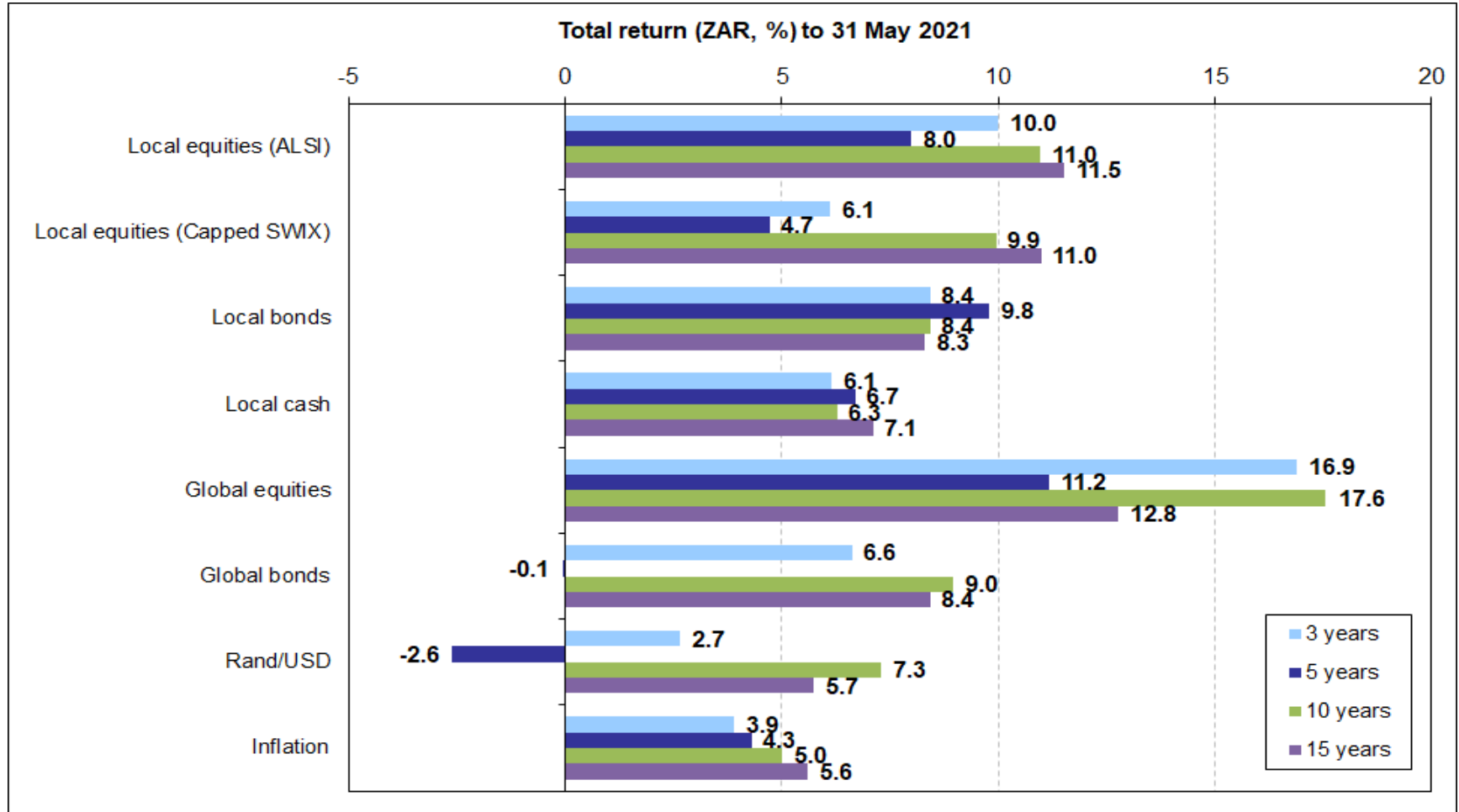
# ASSET CLASS PERFORMANCE

## SHORT TERM



# ASSET CLASS PERFORMANCE

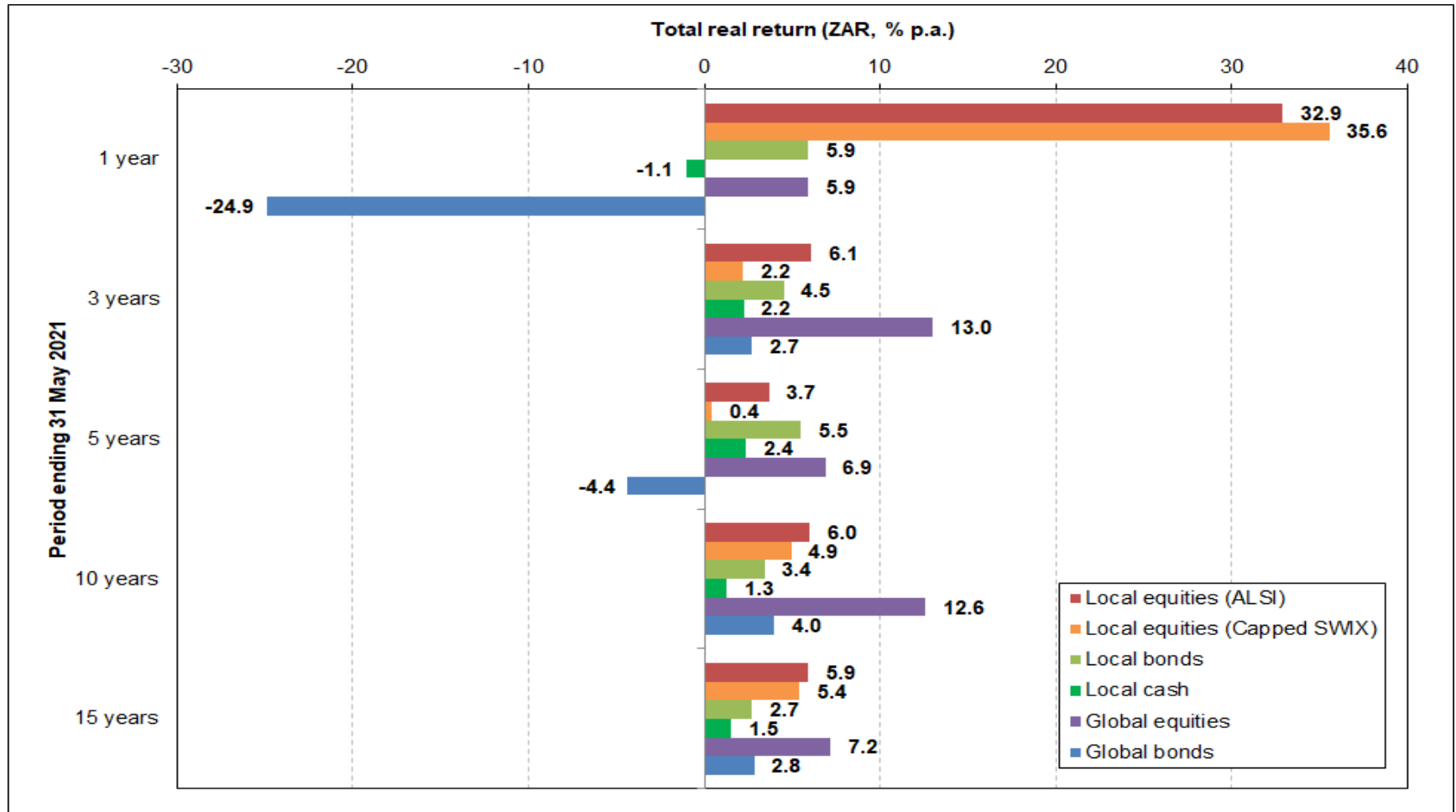
## MEDIUM TO LONG TERM





# 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:

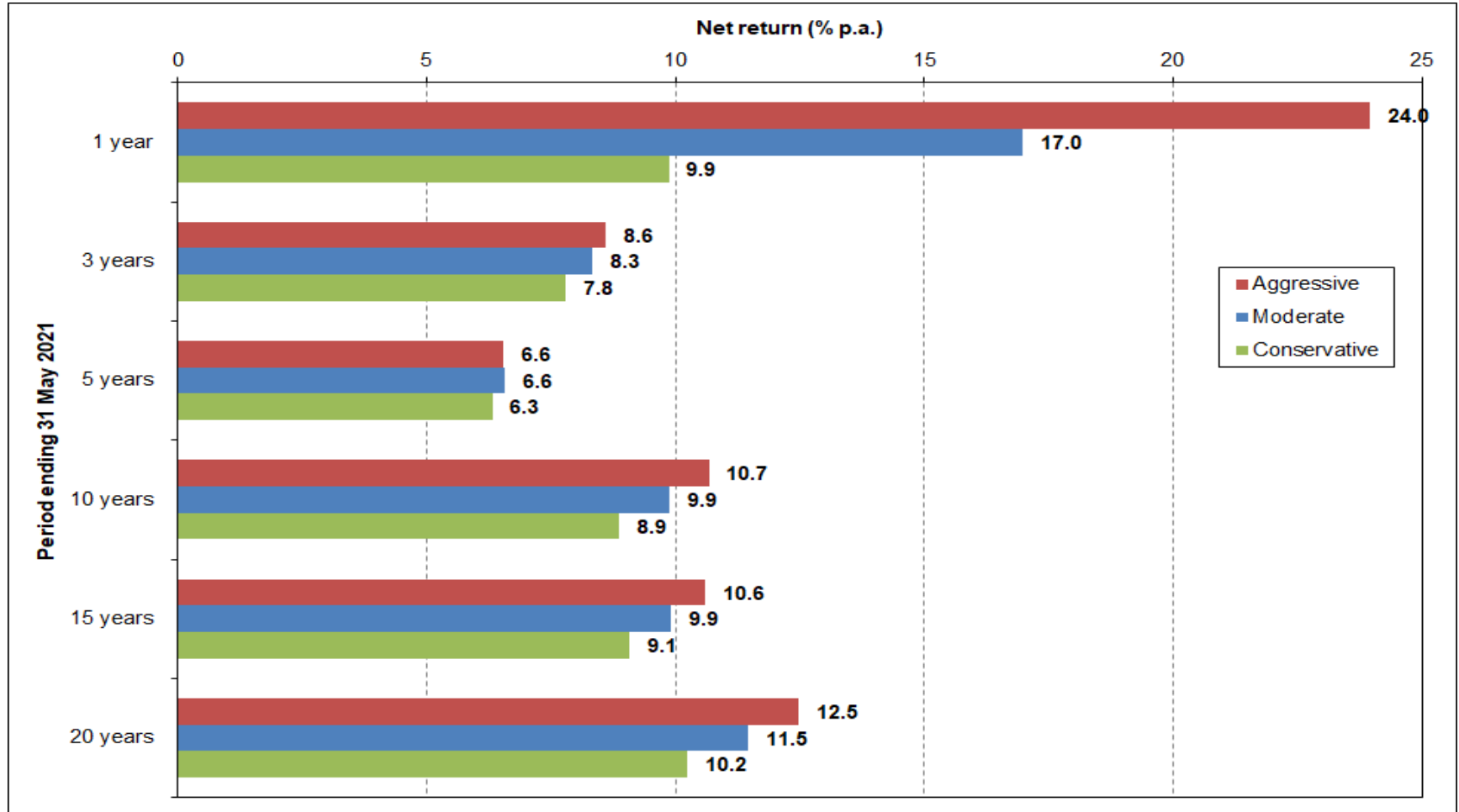
- The offshore allocation is kept at 5% below the prevailing regulatory maximum (15% to 2000, 20% to 2006, 25% to 2018 & currently at 30%).
- The equity allocation varies according to the risk profile, and is set at 75% for Aggressive, 55% for Moderate and 35% for Conservative, which applies to both 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%
	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%
	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%
	Current allocation	~26%	~17%	~32%	~9%	~16%

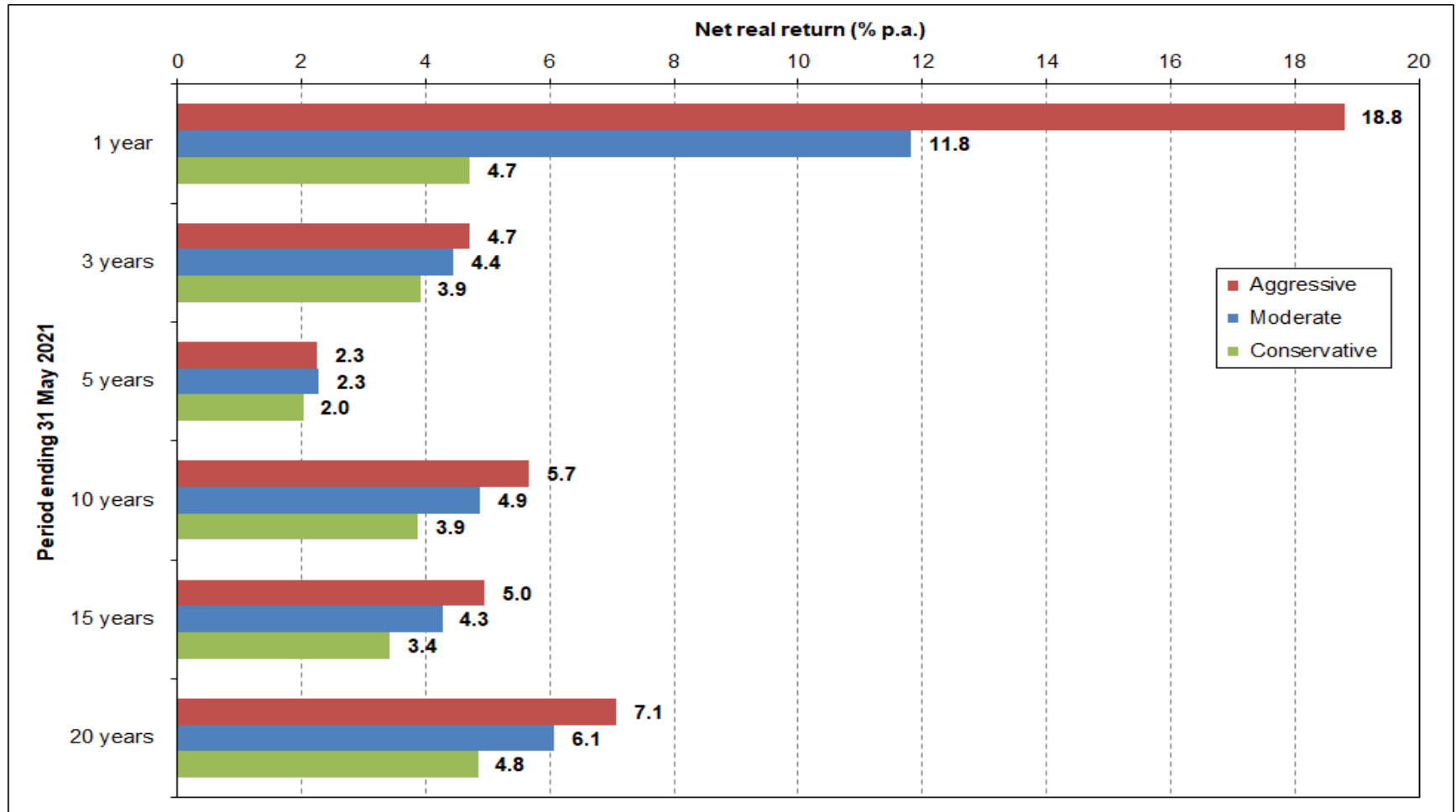
# MARKET PERFORMANCE

## 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?



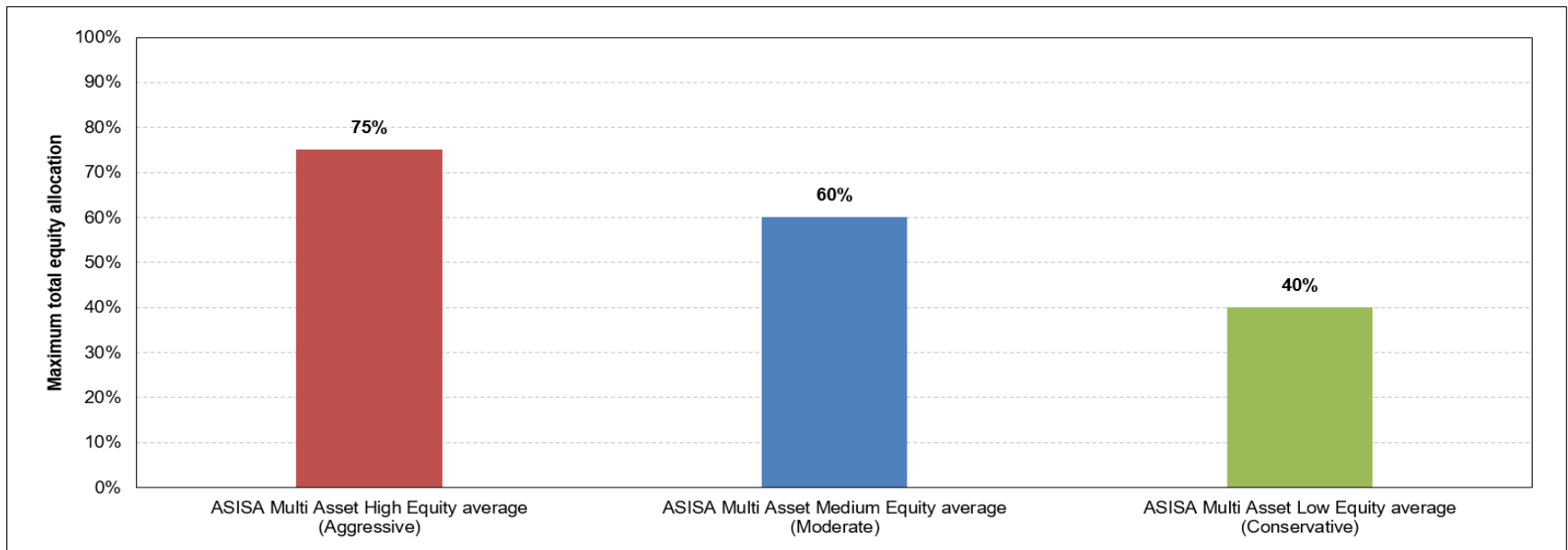
# MANAGER PERFORMANCE

## 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?

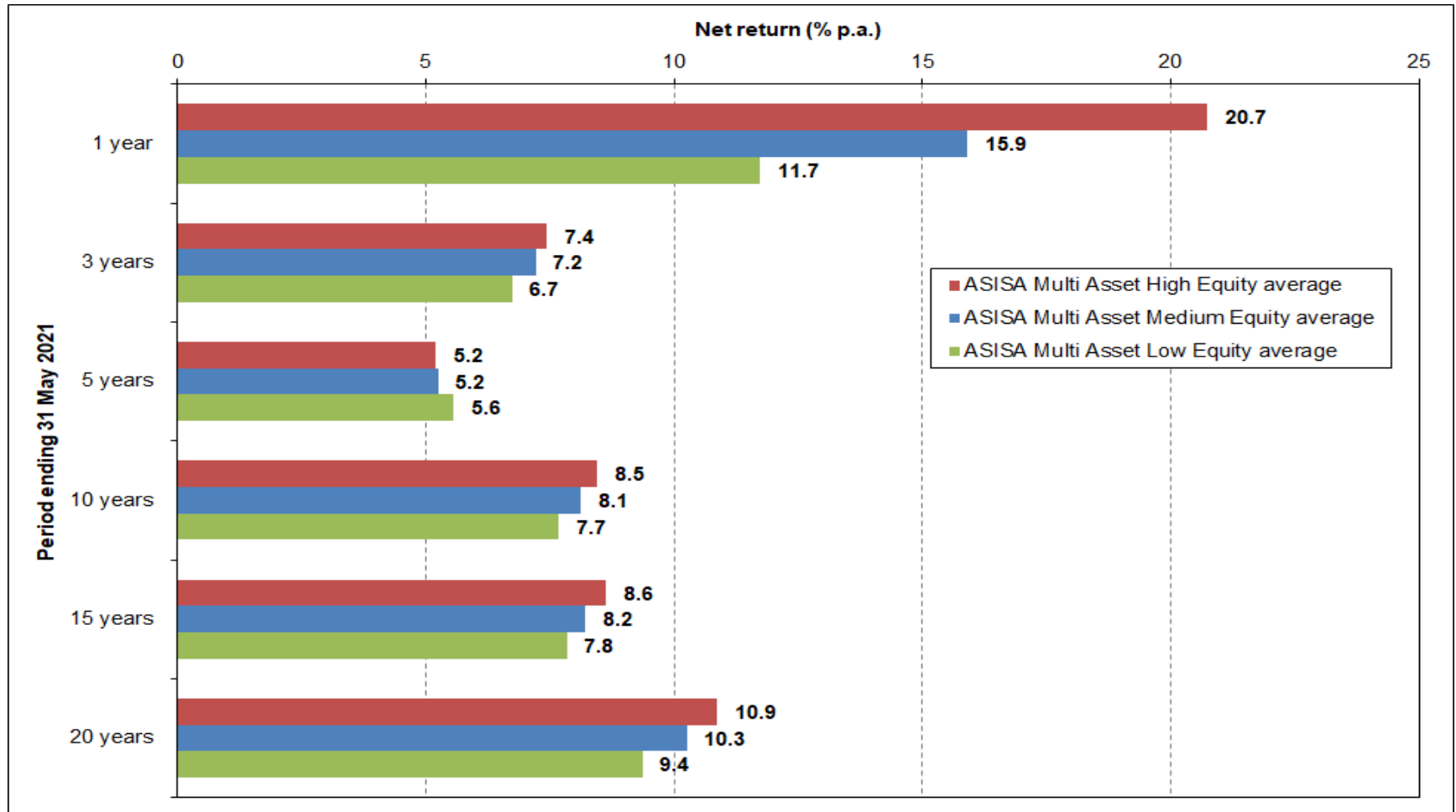
To illustrate this, we show the average returns from regulated collective investment schemes in the ASISA (Association for Savings and Investments South Africa) South Africa Multi Asset High, Medium and Low Equity categories to reflect the returns of typical Aggressive, Moderate and Conservative retirement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



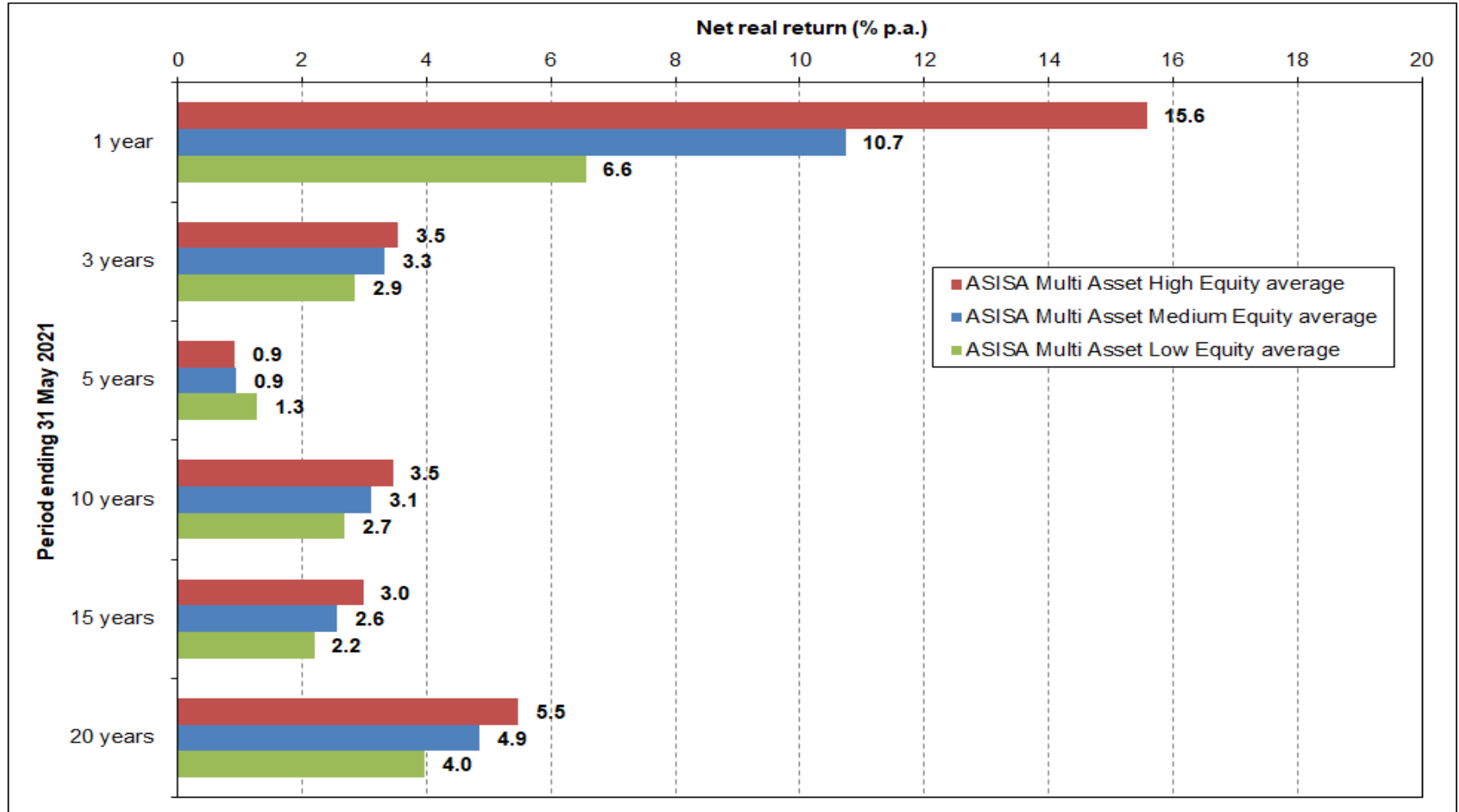
# MANAGER PERFORMANCE

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



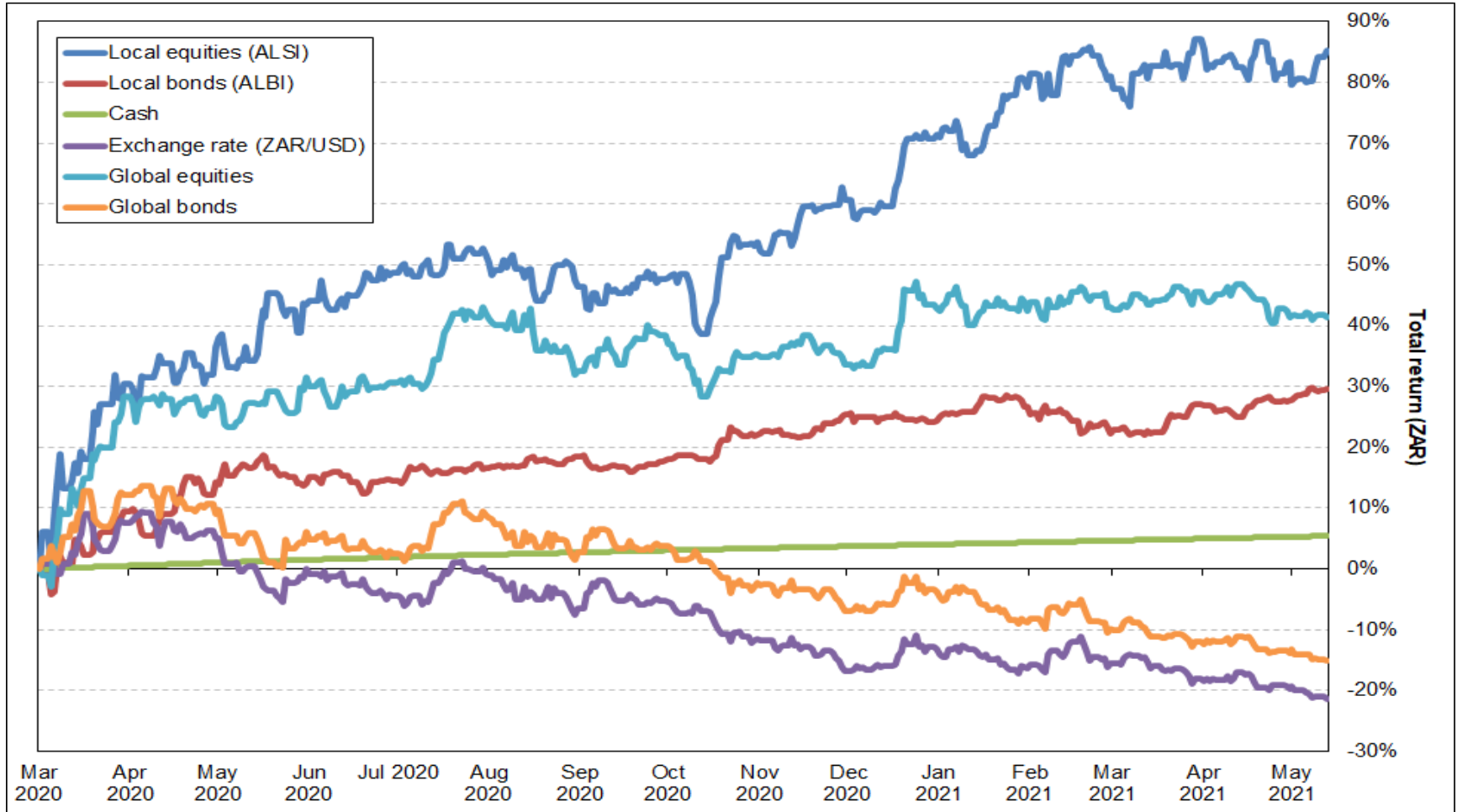
# MANAGER PERFORMANCE

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



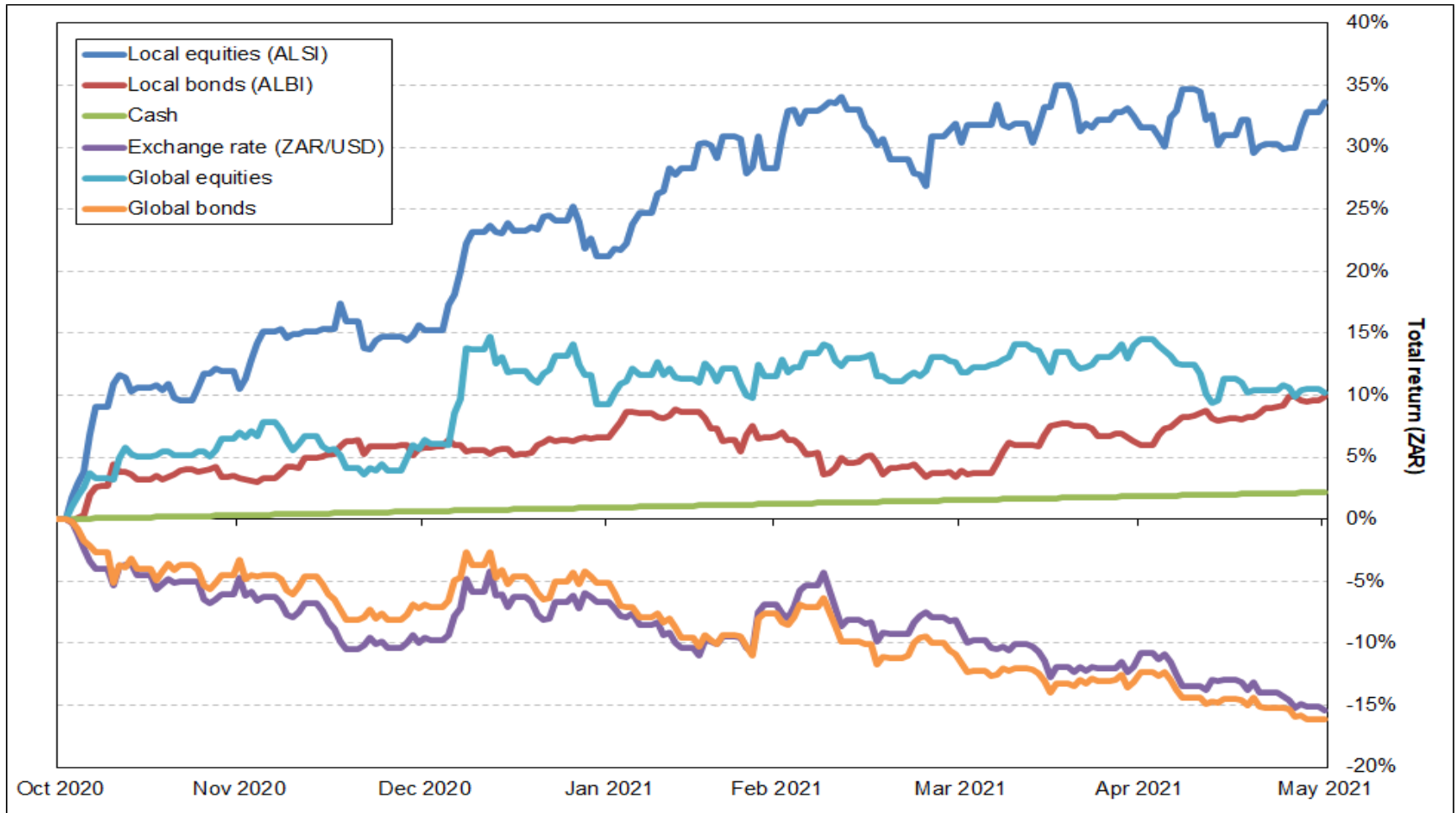
# POST-CRASH PERFORMANCE

## LOCAL ASSET CLASSES DOING WELL...

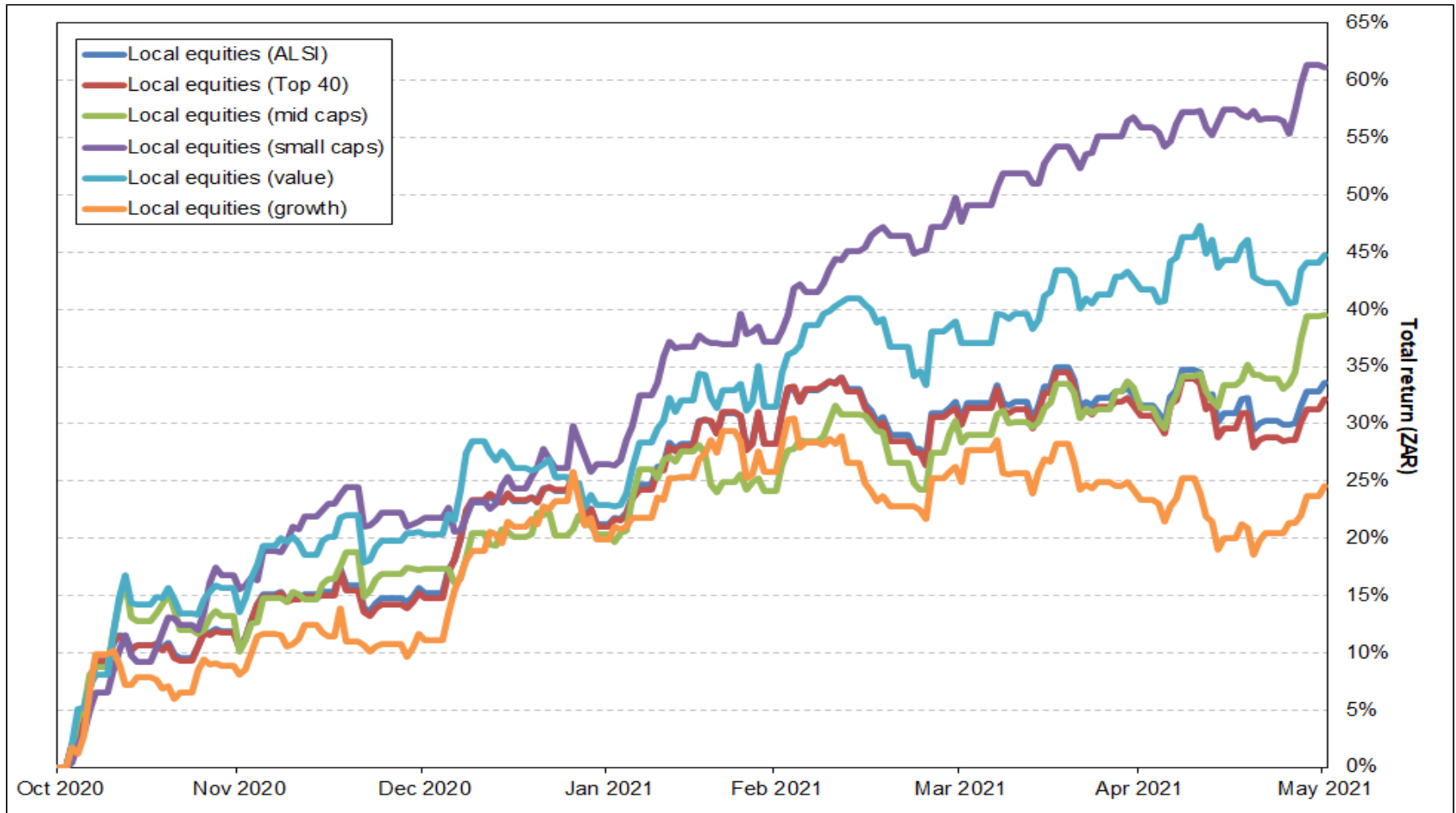




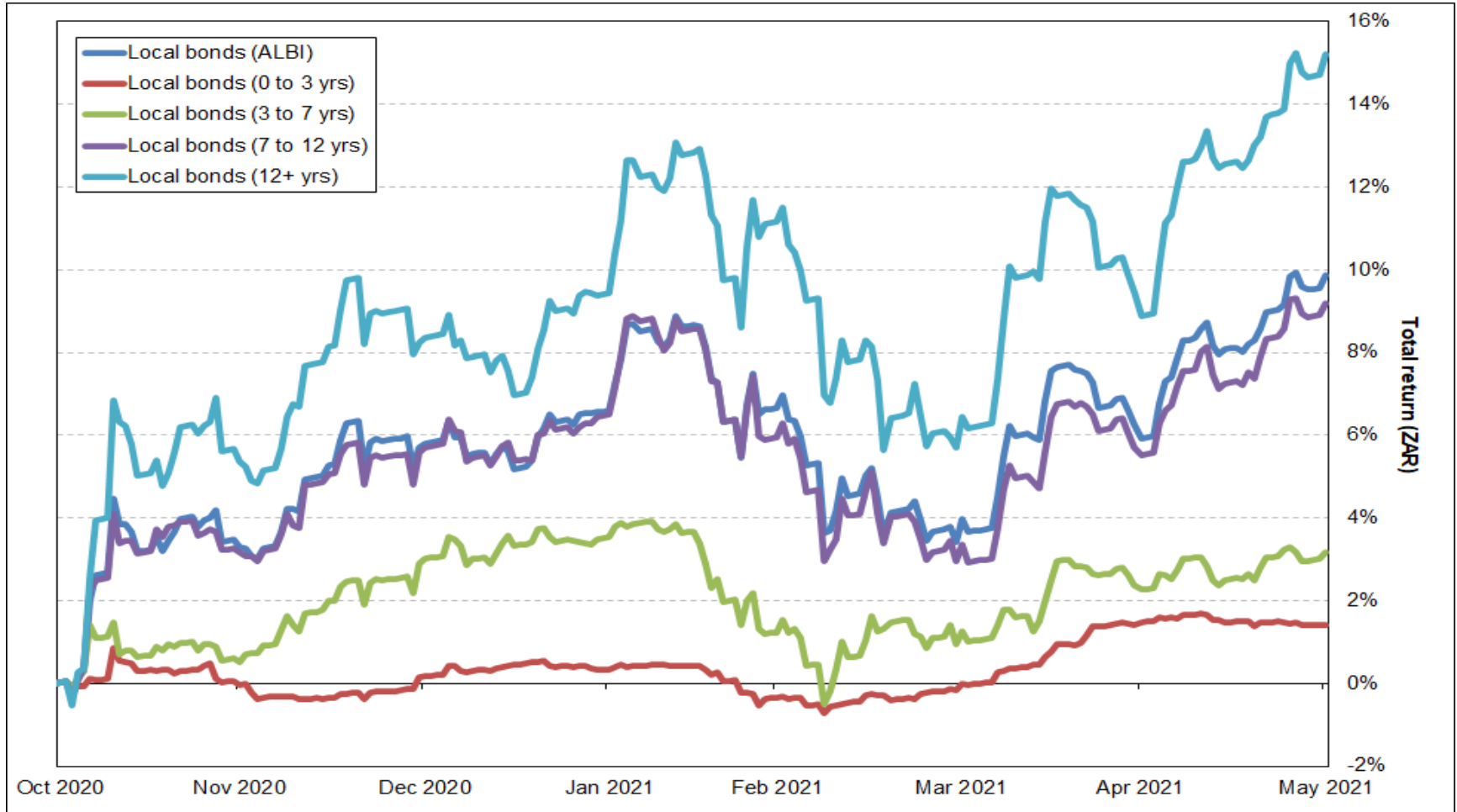
# POST-CRASH PERFORMANCE ...ESPECIALLY SINCE THE VACCINE ANNOUNCEMENTS IN NOVEMBER LAST YEAR...



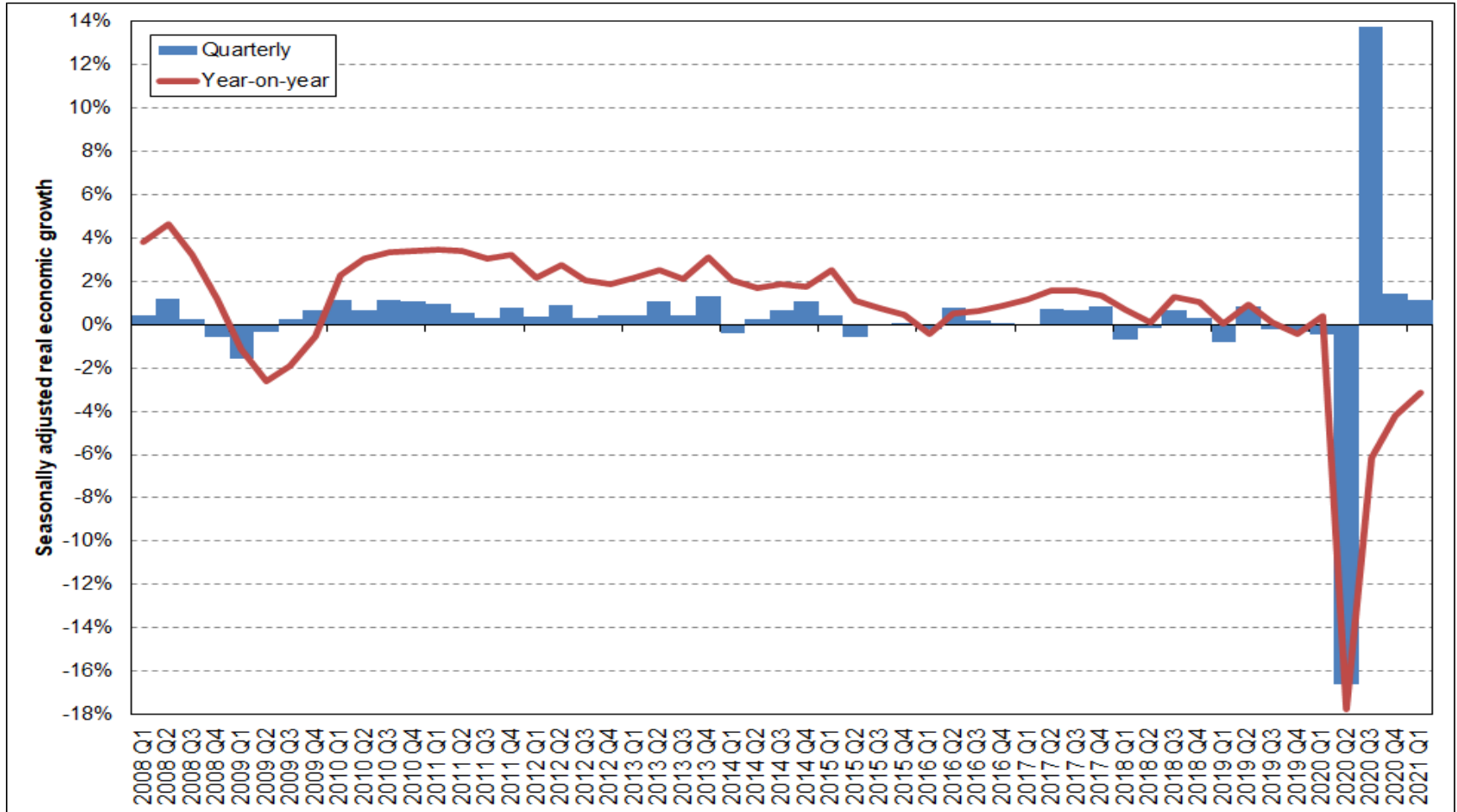
# POST-CRASH PERFORMANCE ...WITH SMALL CAPS AND VALUE STOCKS OUTPERFORMING WITHIN THE EQUITY MARKET...



# POST-CRASH PERFORMANCE ...AND LONG DURATION BONDS TAKING THE LEAD IN THE BOND MARKET

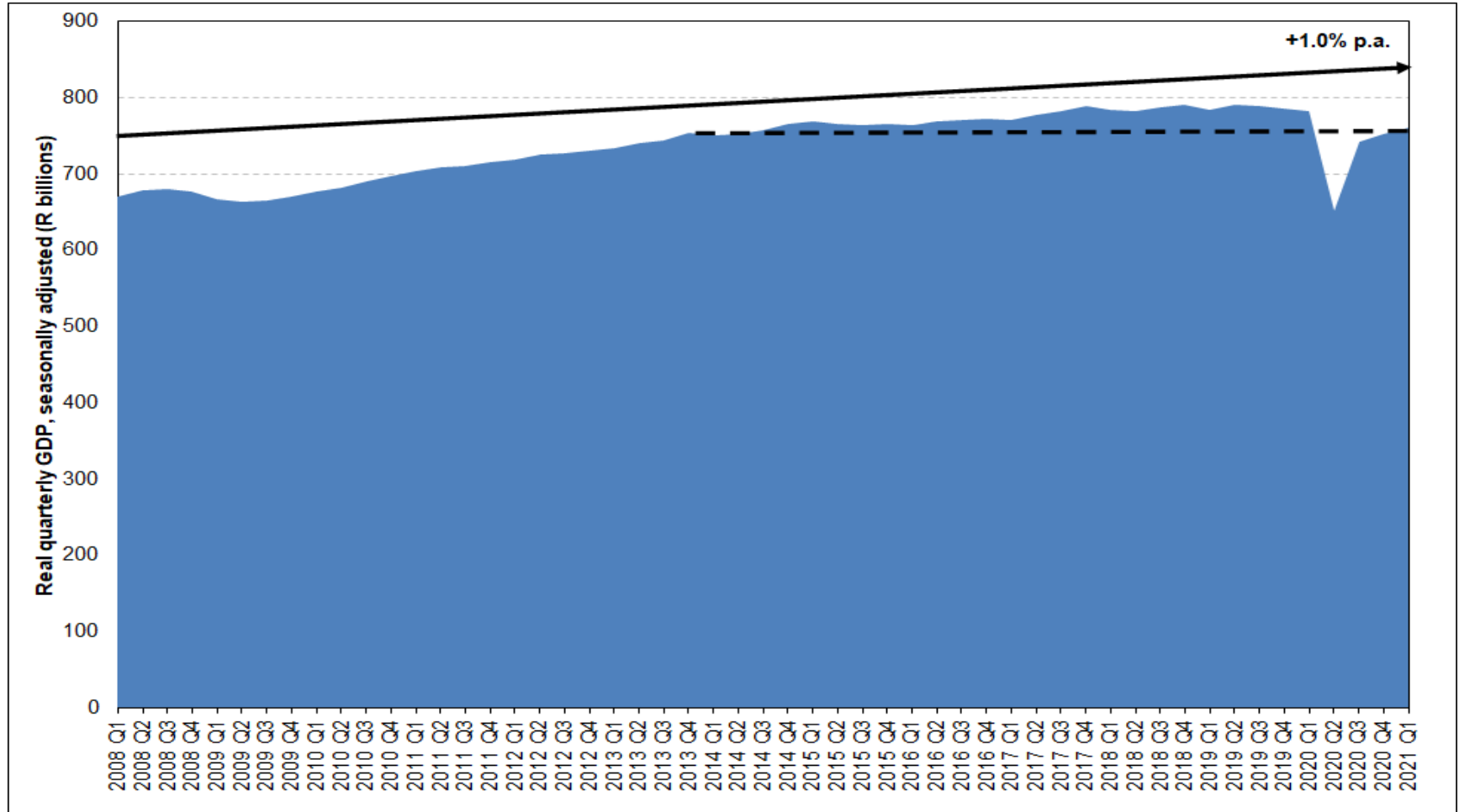


# SA ECONOMY RECOVERY CONTINUES...

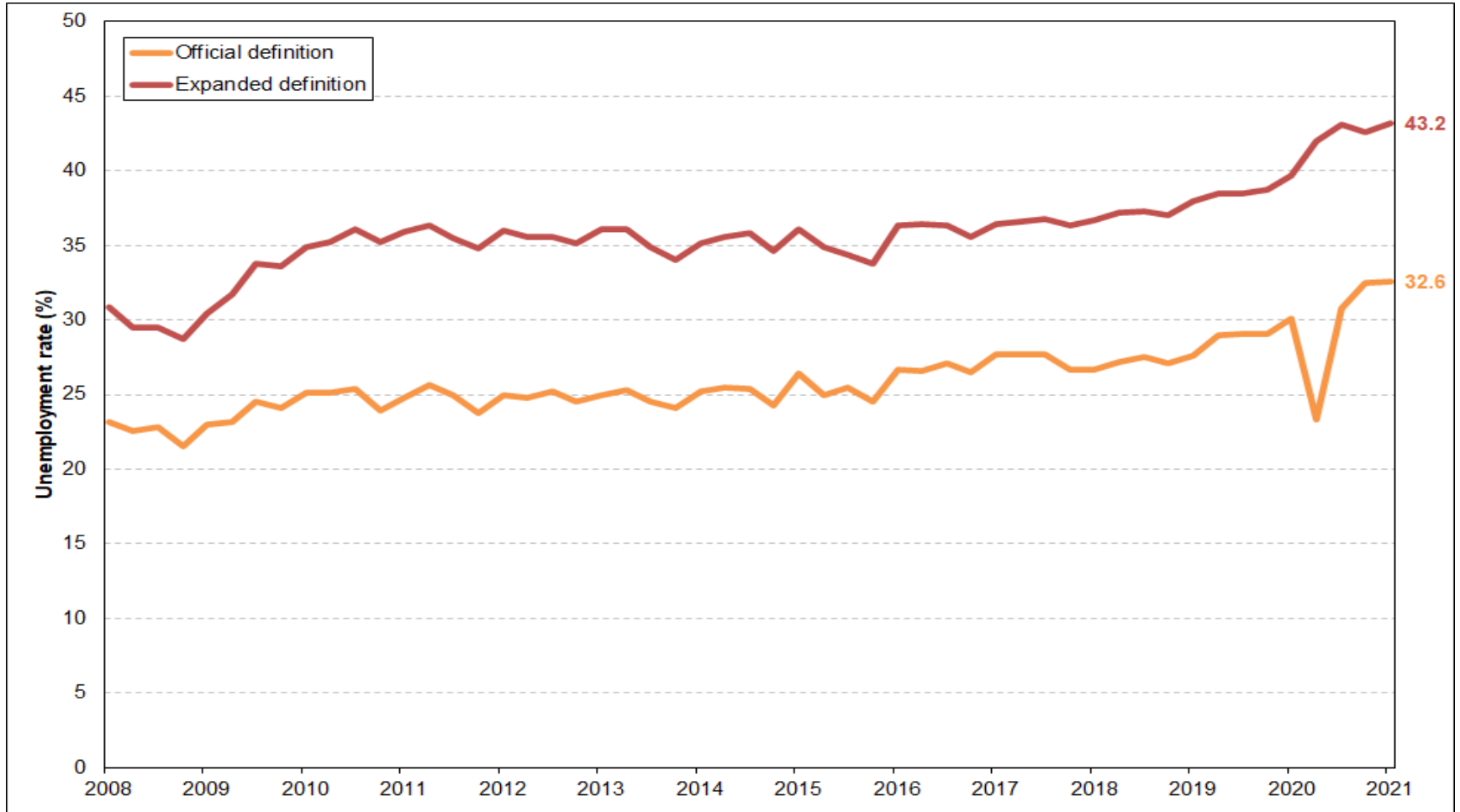


# SA ECONOMY

## ...BUT LACK OF GROWTH REMAINS A PROBLEM

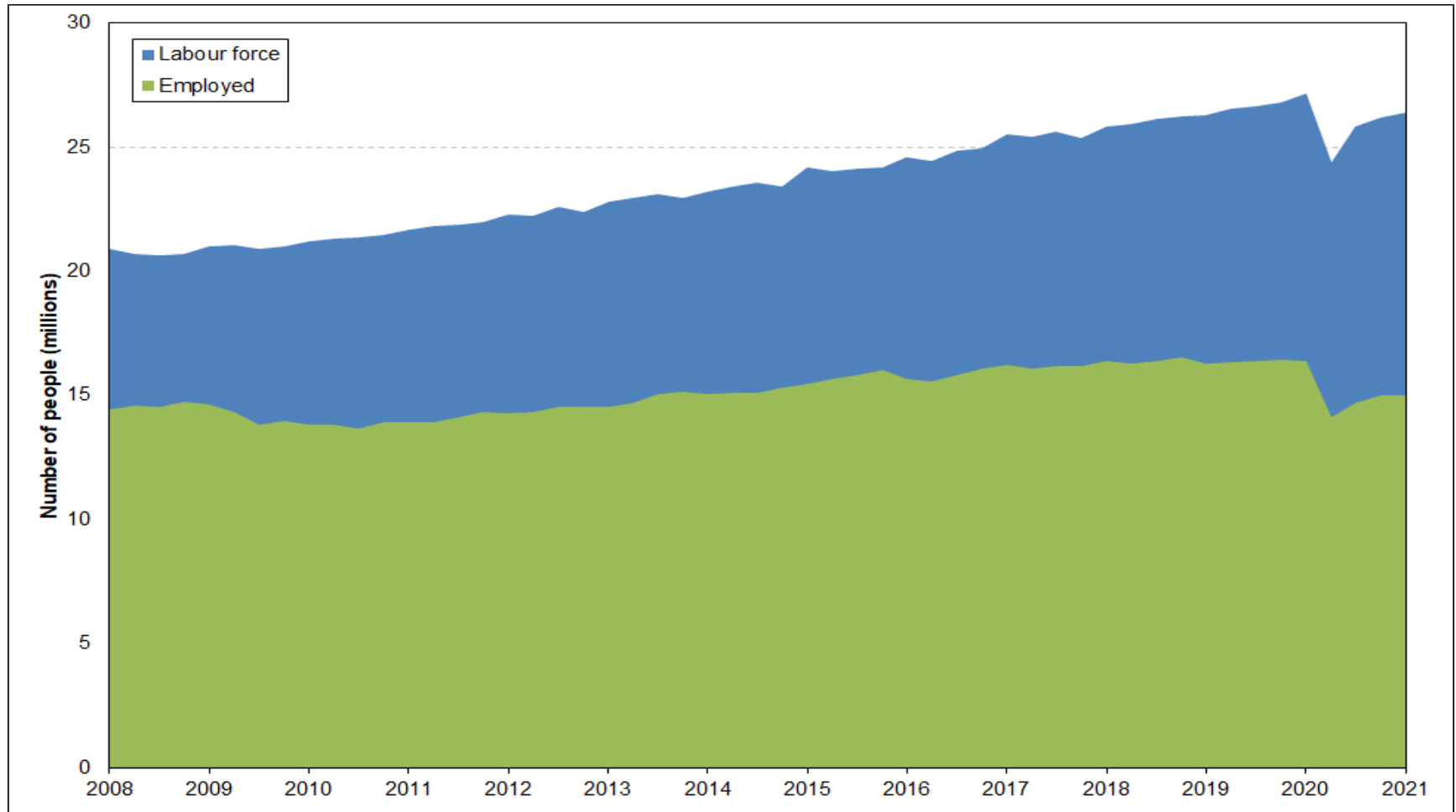


# SA UNEMPLOYMENT ...AND A BIG CONTRIBUTOR TO UNEMPLOYMENT...



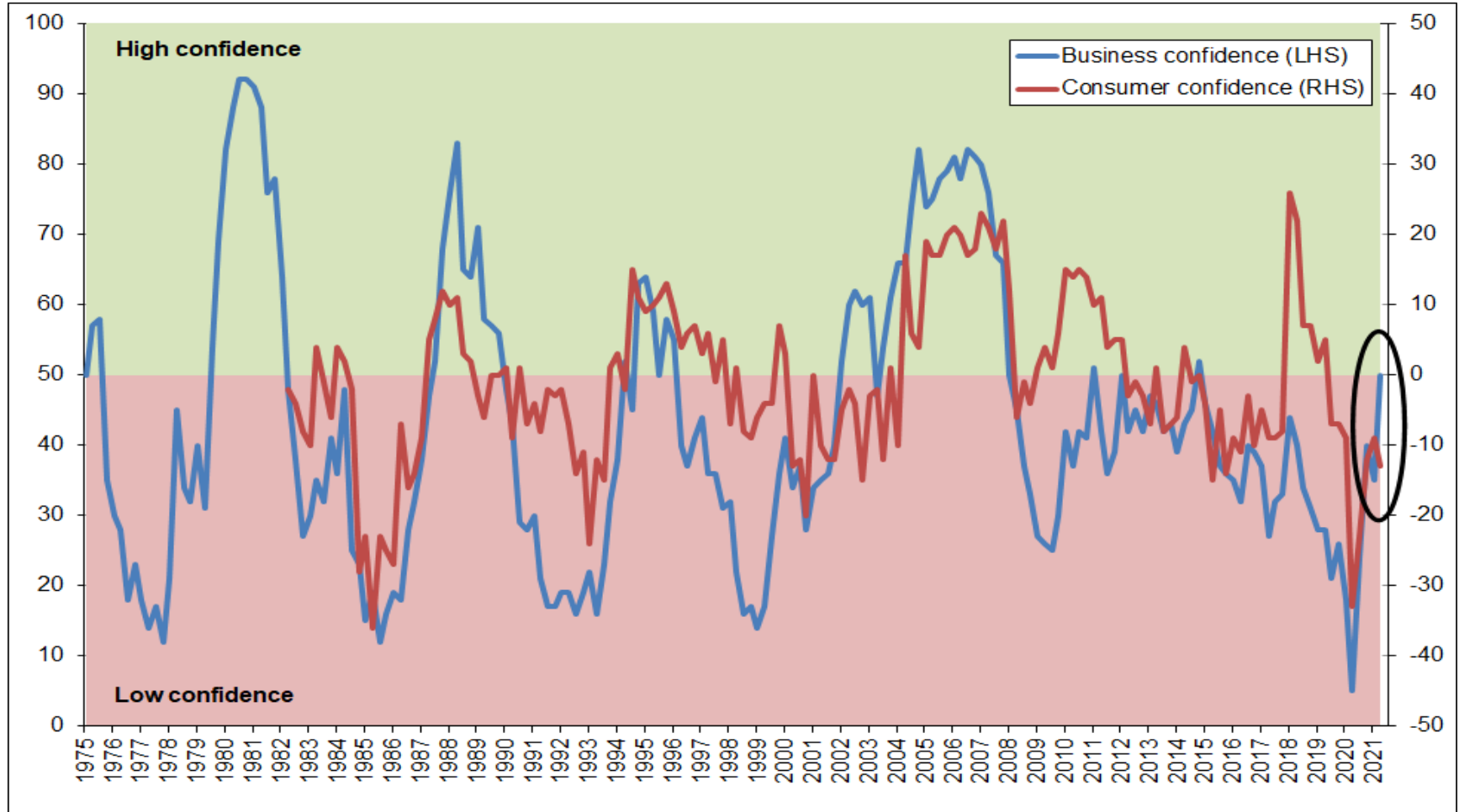
# SA UNEMPLOYMENT

...AS LABOUR FORCE CONTINUES TO GROW, WHILE HARDLY ANY JOBS ARE BEING ADDED



# SA CONFIDENCE

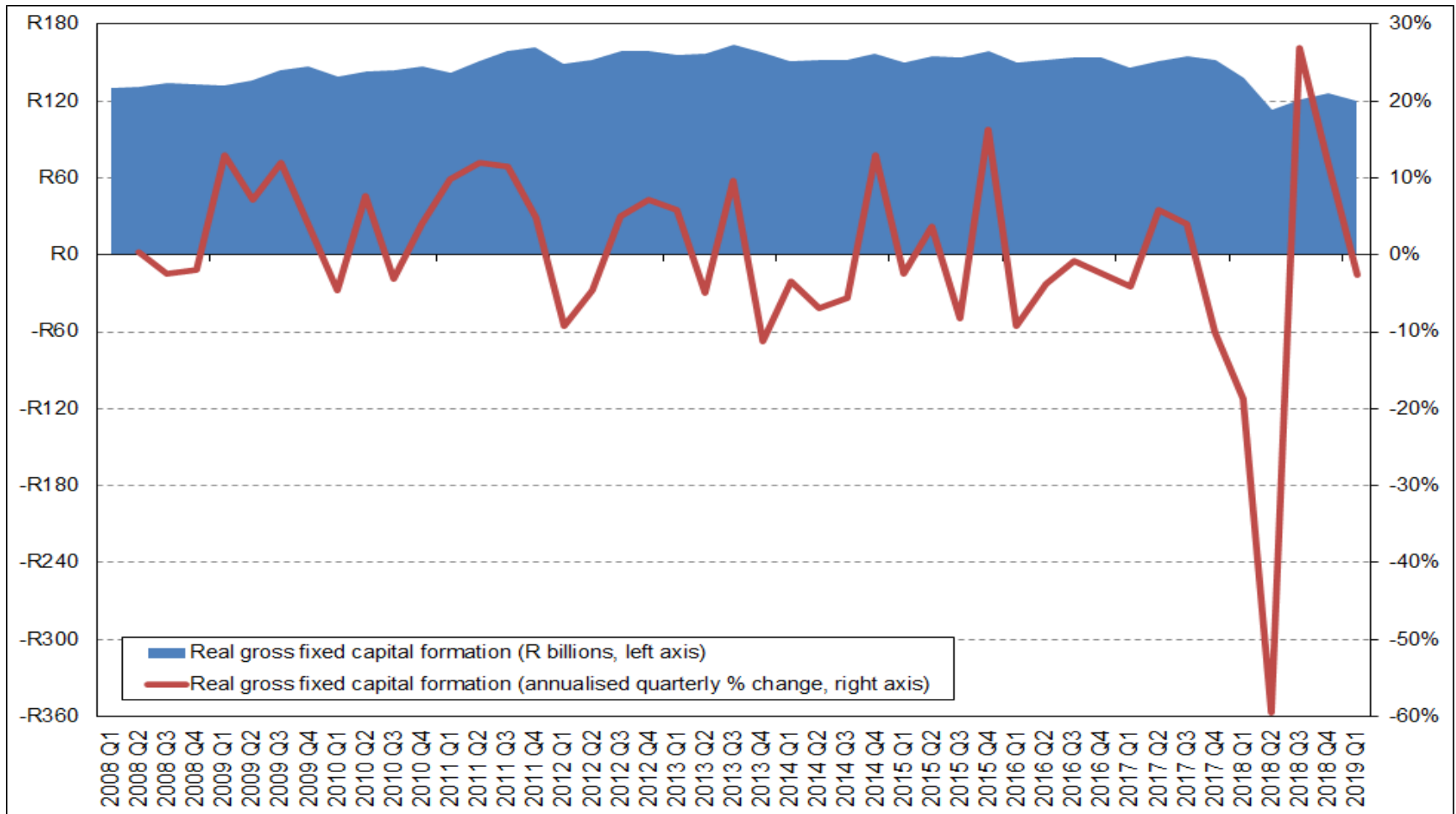
## BUSINESS CONFIDENCE SHOWS BIG IMPROVEMENT...





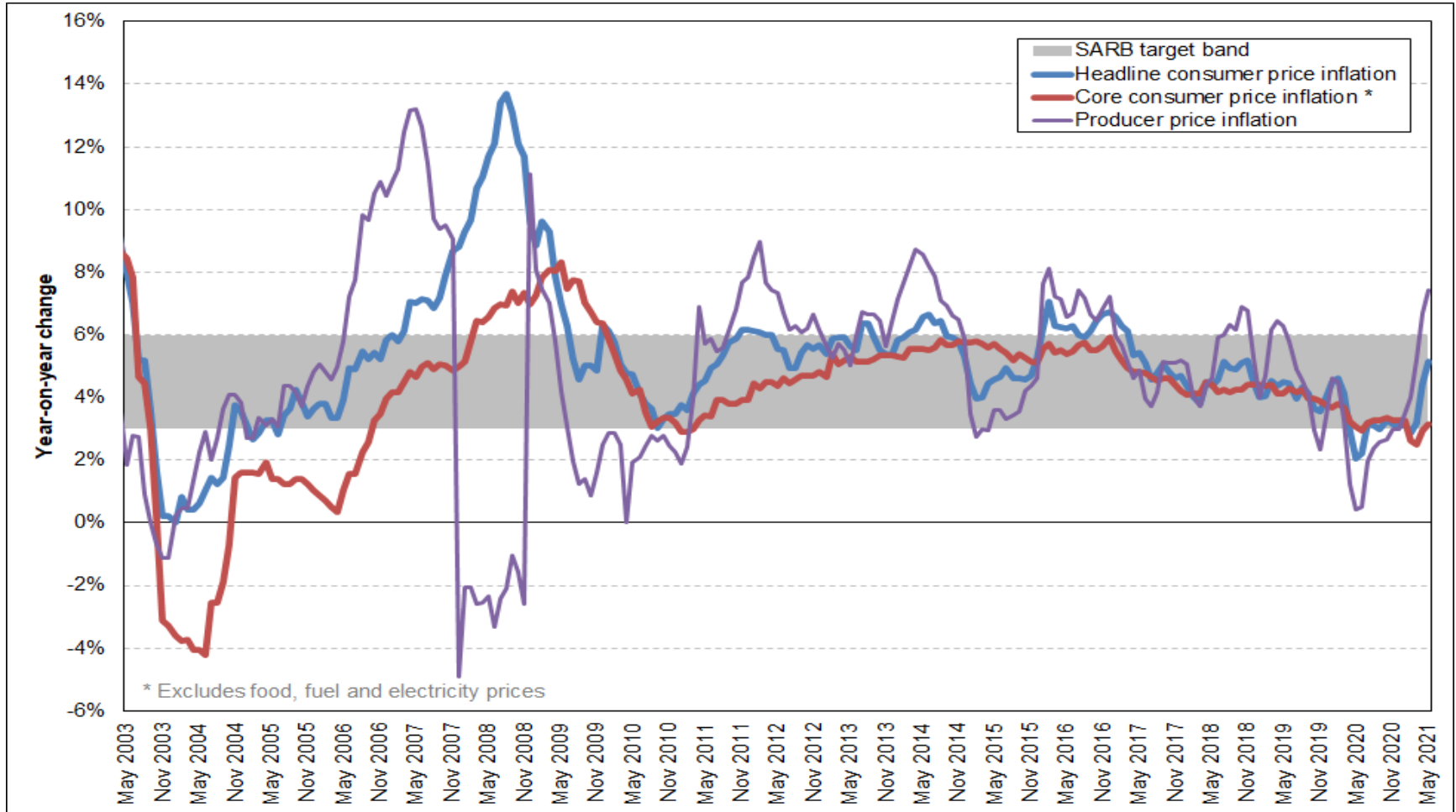
# SA FIXED INVESTMENT

...WHICH WILL HOPEFULLY BOOST GROWTH IN INVESTMENT  
AFTER DECADE-LONG HIATUS

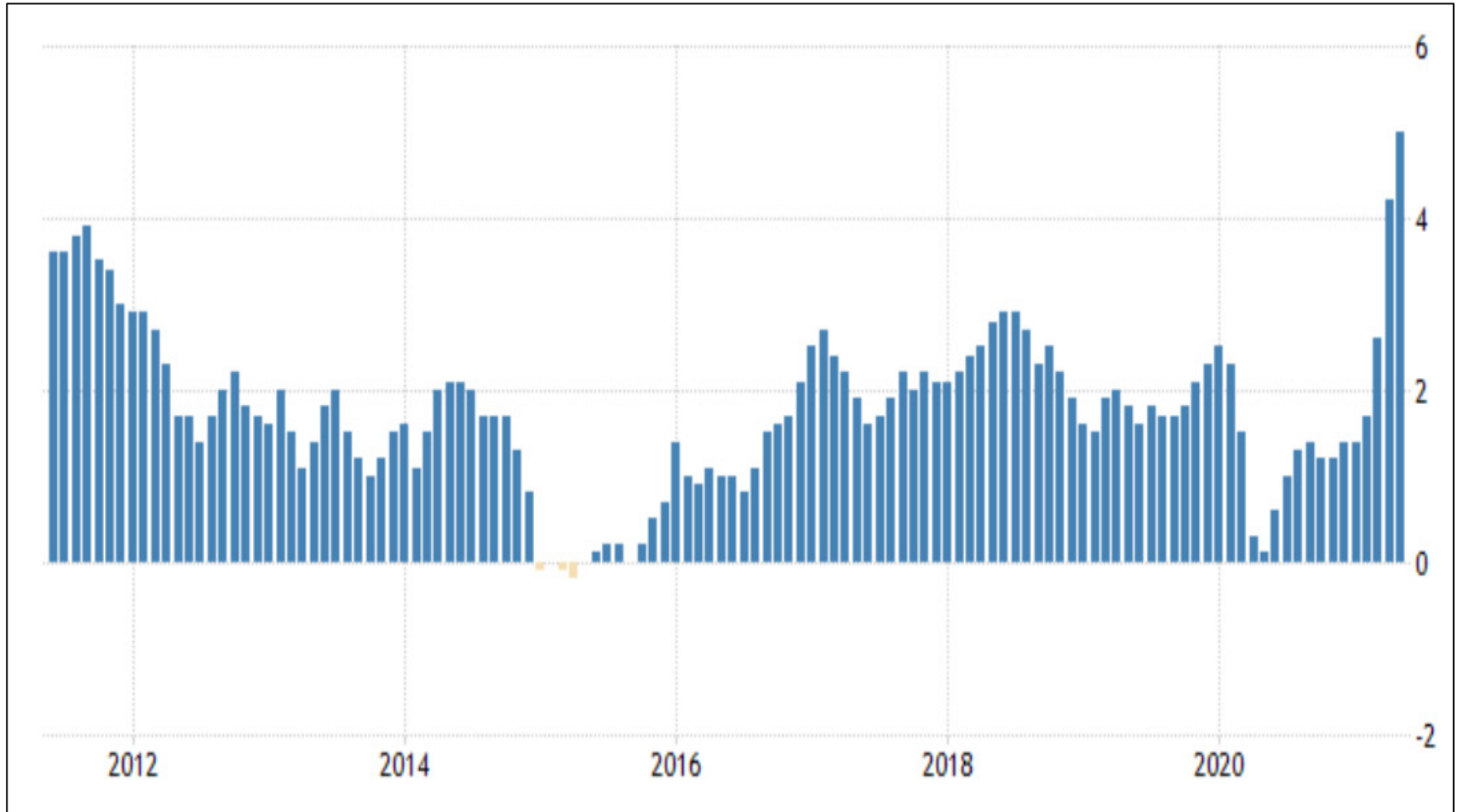


# SA INFLATION

## STILL MOVING HIGHER OFF LOW BASE AND SHARP INCREASES IN FOOD AND FUEL PRICES...

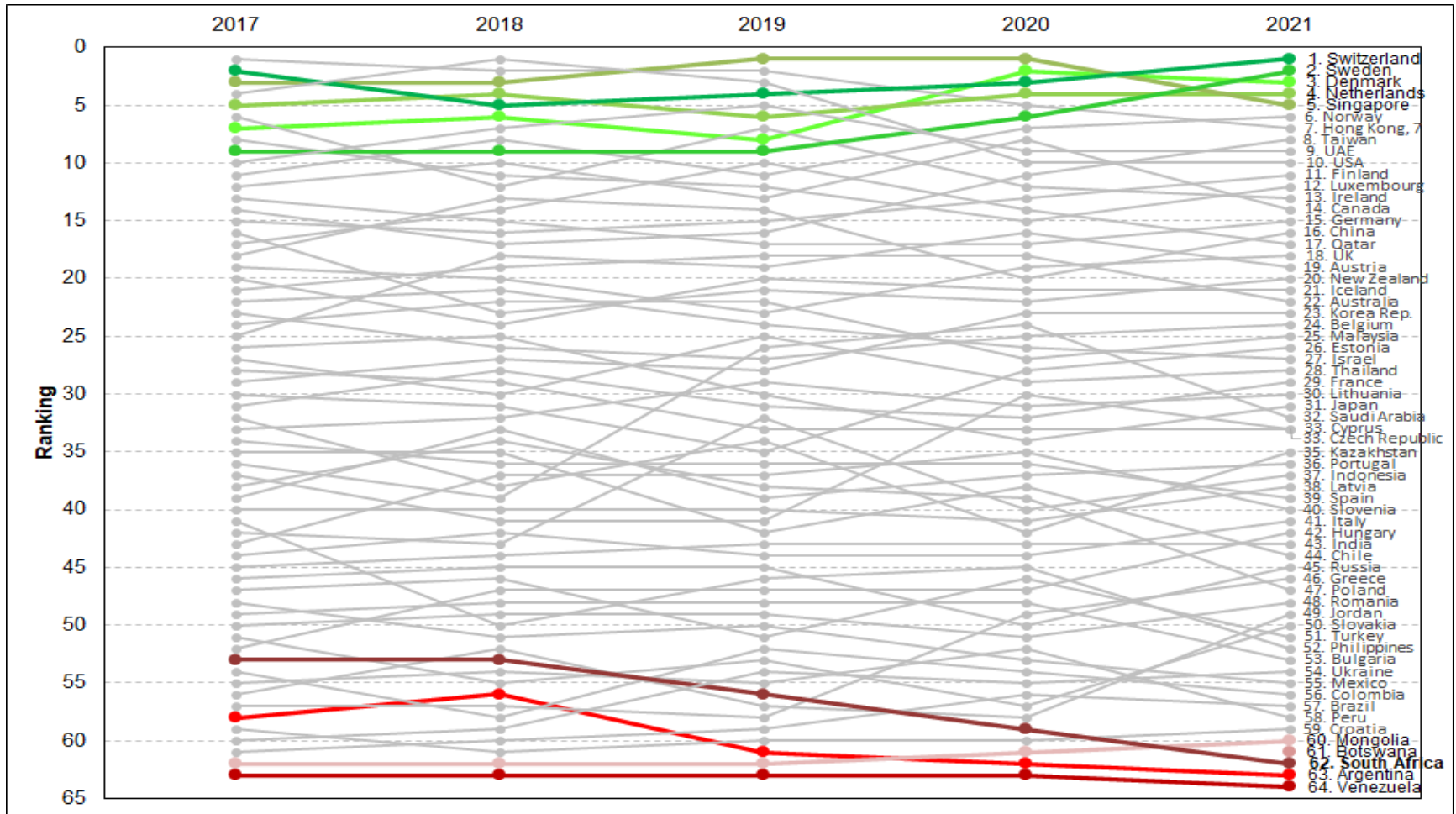


# US INFLATION ...AND WE'RE NOT ALONE



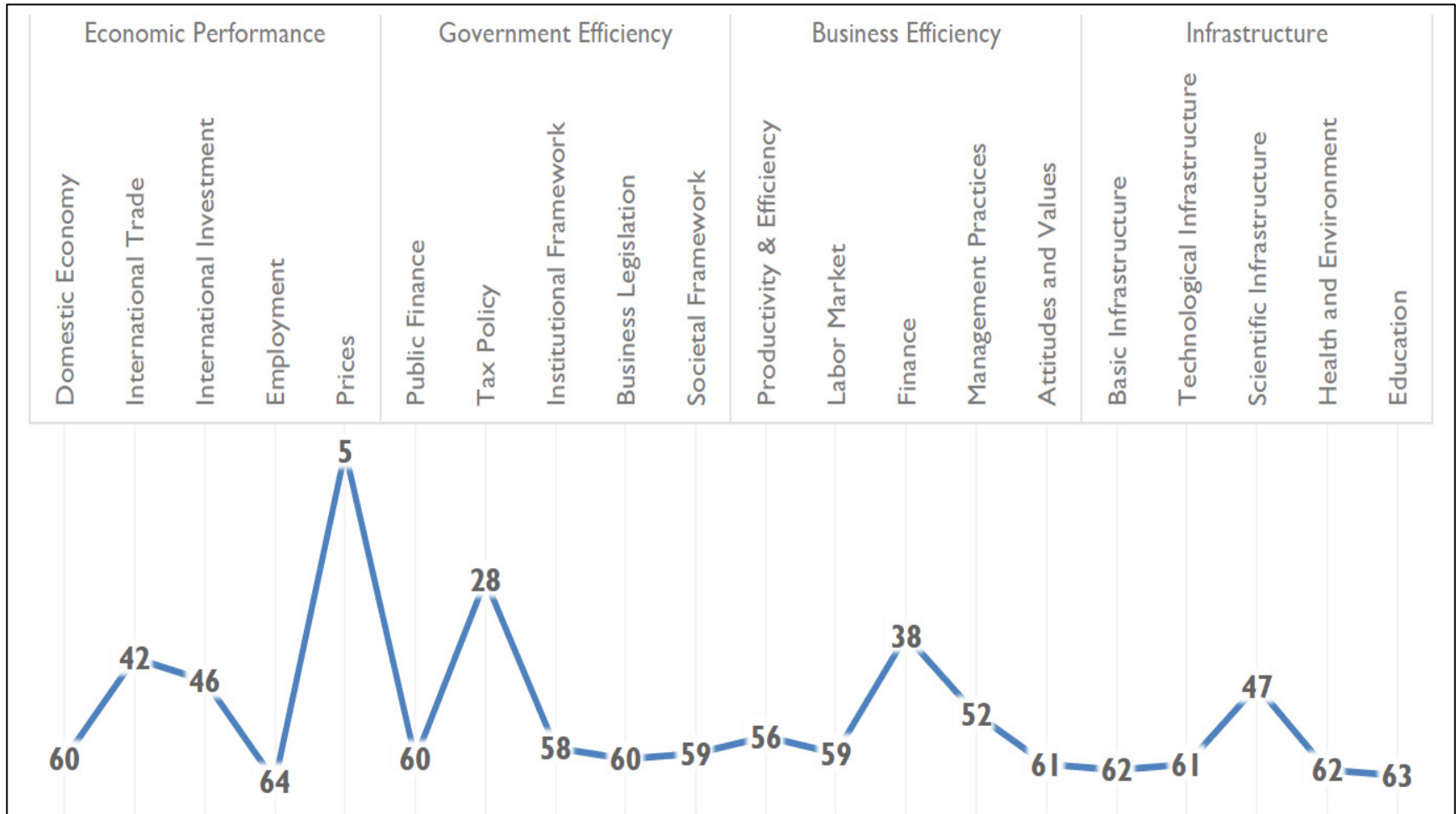
# WORLD COMPETITIVENESS SURVEY

## SA SLIPS DOWN THE RANKINGS...



# WORLD COMPETITIVENESS SURVEY

## ...SCORING NEAR THE BOTTOM IN MANY CATEGORIES



# WORLD COMPETITIVENESS SURVEY

## SA's BIGGEST IMPROVEMENTS AND DECLINES

### COMPETITIVENESS EVOLUTION

The criteria below highlight the 15 biggest Improvements and the 15 biggest Declines in the overall performance of the economy. They are determined by the largest percentage changes in the value of each criterion from one yearbook to the next.

IMPROVEMENTS	WCY	WCY	DECLINES	WCY	WCY
	2020	2021		2020	2021
1.2.02 Current account balance	-3.20	2.17	1.1.14 Real GDP growth	0.2	-7.0
2.4.07 Government subsidies	0.94	0.37	1.1.18 Gross fixed capital formation - real growth	-0.93	-17.45
4.2.07 Internet users	422	511	1.1.15 Real GDP growth per capita	-1.64	-8.28
1.5.01 Consumer price inflation	4.13	3.27	3.2.14 Labor force long-term growth	2.04	-4.48
4.5.03 Total public exp. on education per student	1,473	1,740	1.4.04 Employment - long-term growth	-4.14	-12.32
3.4.09 Entrepreneurship	4.21	4.87	2.3.08 Exchange rate stability	0.081	0.223
1.5.06 Gasoline prices	0.90	0.76	2.1.02 Government budget surplus/deficit (%)	-6.26	-12.25
3.3.01 Banking sector assets	96.94	108.46	1.2.12 Exports of commercial services (\$bn)	14.11	7.76
1.2.09 Exports of goods (%)	25.61	28.40	2.3.12 Bureaucracy	2.04	1.14
1.5.02 Cost-of-living index	61.30	55.10	2.4.09 State ownership of enterprises	3.47	2.10
4.2.10 Digital/Technological skills	5.08	5.51	2.3.13 Bribery and corruption	1.15	0.72
3.4.05 Corporate boards	5.11	5.54	1.2.13 Exports of commercial services (%)	4.01	2.57
3.4.03 Opportunities and threats	5.28	5.67	2.1.07 Public finances	2.55	1.64
3.2.04 Remuneration of management	46,502	43,111	2.3.10 Adaptability of government policy	2.74	1.77
3.3.10 Stock market capitalization (%)	291.18	310.87	2.3.11 Transparency	3.89	2.54

# WORLD COMPETITIVENESS SURVEY

## SA's KEY ATTRACTIVENESS INDICATORS

### KEY ATTRACTIVENESS INDICATORS

From a list of 15 indicators, respondents of the Executive Opinion Survey were asked to select 5 that they perceived as the key attractiveness factors of their economy. The chart shows the percentage of responses per indicator from the highest number of responses to the lowest.

