

MONTH IN PICTURES

OCTOBER 2021

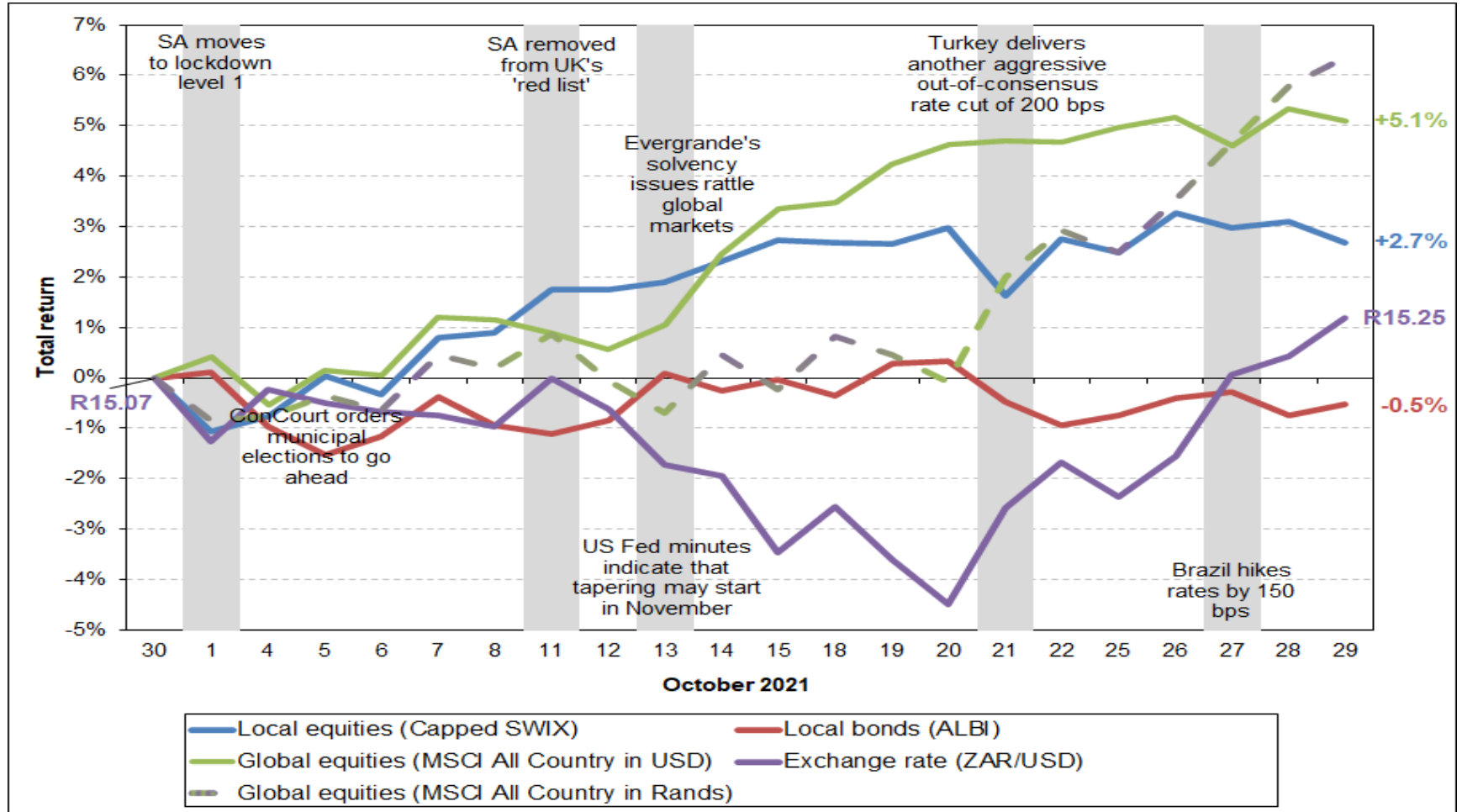
MONTHLY SNAPSHOT

NOTABLE EVENTS

- The local equity market had a good month (ALSI = +5.2% & Capped SWIX = +2.7%) as Resources (+8.4%) benefitted from a rebound in precious metal prices and thereby recovered most of September's losses. Industrials (+6.7%) also contributed, with global heavyweights Richemont (+21%), AB Inbev (+8%), Prosus (+11%) and Naspers (+4%) benefitting from a mix of good financial results, a weaker local currency and improved sentiment towards China. Financials (-3.2%) and Listed Property (-1.7%) gave back some of their strong gains from Q2 and Q3.
- With global bond yields moving higher, the ALBI suffered a 0.5% loss for the month, while inflation-linked bonds (+0.6%) and cash (+0.3%) delivered positive returns.
- Global equity markets also rebounded strongly in October, delivering a US Dollar return of 5.1% for the month as 2021 Q3 earnings results beat expectations. Developed markets (+5.7% in USD) were the main driver, with emerging markets (+1.0% in USD) providing a more subdued return. With the Rand losing 1.2% against the Dollar, the local currency return from global equities was a healthy +6.3%.
- New finance minister Enoch Godongwana delivered his first Medium Term Budget and thankfully re-affirmed government's commitment to fiscal consolidation. The faster than expected economic recovery (and the recent rebasing of our GDP numbers) has resulted in welcome improvements in many of government's fiscal metrics, but it is clear that structurally low economic growth, generous public sector wage increases, and unsustainable debt loads have taken its toll on government's finances.
- Although local inflation remains under control (Headline CPI = +5.0% and Core CPI = +3.2%), the South African Reserve Bank (SARB) hiked interest rates by 0.25% at their latest meeting (the first hike since the pandemic started), bringing the repo rate to 3.75% and the prime lending rate to 7.25%. The SARB's forecast model currently indicates that a rate hike of 0.25% in each quarter for the next 3 years could be on the cards (bringing the repo rate to 6.75%), but many economists are expecting a less aggressive hiking cycle.
- SA's latest unemployment figures continued their relentless march higher, with the official rate for 2021 Q3 clocking in at 34.9%, compared to 34.4% in the previous quarter. Under the expanded definition, which includes discouraged job seekers, unemployment now stands at a worrying 46.6% (up from 44.4% in 2021 Q2). Given that this period coincided with the third Covid wave and the social unrest in July, this result was not entirely unexpected.
- A good October 2021, combined with the temporary dips in the local equity market in the same month in 2020, 2018 and 2016, means that returns from the local equity market looks quite good when measured over the traditional 1-, 3- and 5-year periods. The same can therefore be said for most local retirement funds as well, with many balanced funds producing real returns in excess of 5% p.a. over the last 3 years. Our data shows that the last time the average balanced fund had enough support from the markets to beat this target was back in September 2016...

MONTHLY TIMELINE

IMPACT ON MARKETS



MARKET INDICATORS

SHORT TERM

Market indicators (% change) ¹		Aug 2021	Sep 2021	Oct 2021	3 months	12 months
Local equities	ALSI	(1.7)	(3.1)	5.2	0.1	36.0
	Capped SWIX	2.0	(1.4)	2.7	3.3	39.8
	Resources	(4.8)	(9.3)	8.4	(6.4)	43.2
	Industrials	(4.4)	(0.8)	6.7	1.2	24.3
	Financials	12.3	2.1	(3.2)	11.0	55.3
	Listed Property	7.5	(0.8)	(1.7)	4.8	65.9
Local bonds	ALBI	1.7	(2.1)	(0.5)	(0.9)	10.9
Local cash	STeFI Composite	0.3	0.3	0.3	1.0	3.8
Global equities	MSCI All Country	1.8	(0.5)	6.3	7.8	28.9
Global bonds	FTSE WGBI	(1.2)	1.4	0.8	1.0	(9.4)
Exchange rate	ZAR/USD	(0.6)	3.8	1.2	4.3	(6.1)
Inflation	CPI	0.4	0.2	0.2	0.9	5.0

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

MARKET INDICATORS

MEDIUM TO LONG TERM

Market indicators (% change) ¹		1 year	3 years	5 years	10 years	15 years
Local equities	ALSI	36.0	12.6	9.5	11.1	10.6
	Capped SWIX	39.8	9.1	6.1	10.1	10.2
	Resources	43.2	22.2	20.7	6.2	6.3
	Industrials	24.3	12.9	7.0	13.1	13.8
	Financials	55.3	0.0	2.5	9.9	8.3
	Listed Property	65.9	(6.8)	(6.1)	5.0	8.5
Local bonds	ALBI	10.9	9.5	8.3	7.9	8.3
Local cash	STeFI Composite	3.8	5.7	6.4	6.2	7.0
Global equities	MSCI All Country	28.9	18.7	17.6	18.8	12.6
Global bonds	FTSE WGBI	(9.4)	5.1	4.6	7.8	8.2
Exchange rate	ZAR/USD	(6.1)	1.1	2.5	6.7	5.0
Inflation	CPI	5.0	4.0	4.4	5.0	5.6

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

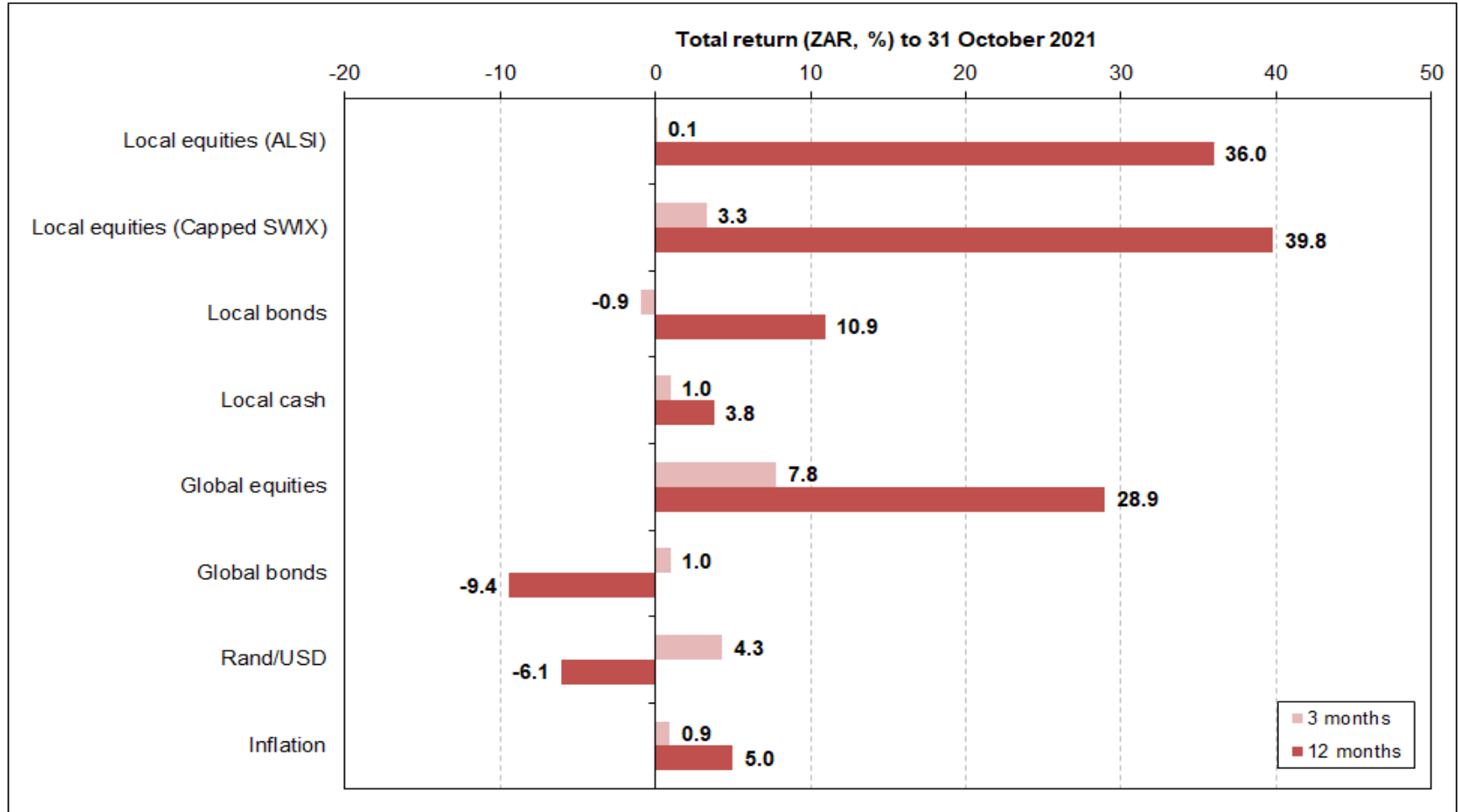
ECONOMIC INDICATORS

Economic indicators ¹	Oct 2019	Oct 2020	Aug 2021	Sep 2021	Oct 2021
Exchange rates:					
ZAR/USD	15.09	16.24	14.52	15.07	15.25
ZAR/GBP	19.53	21.05	19.98	20.31	20.86
ZAR/Euro	16.84	18.90	17.15	17.45	17.58
Commodities:					
Brent Crude Oil (USD/barrel)	60.23	37.94	71.63	78.31	83.72
Platinum (USD/ounce)	927.95	849.00	1,011.00	954.00	1,023.00
Gold (USD/ounce)	1,500.09	1,877.90	1,810.58	1,726.50	1,783.42

1. *Month-end prices*

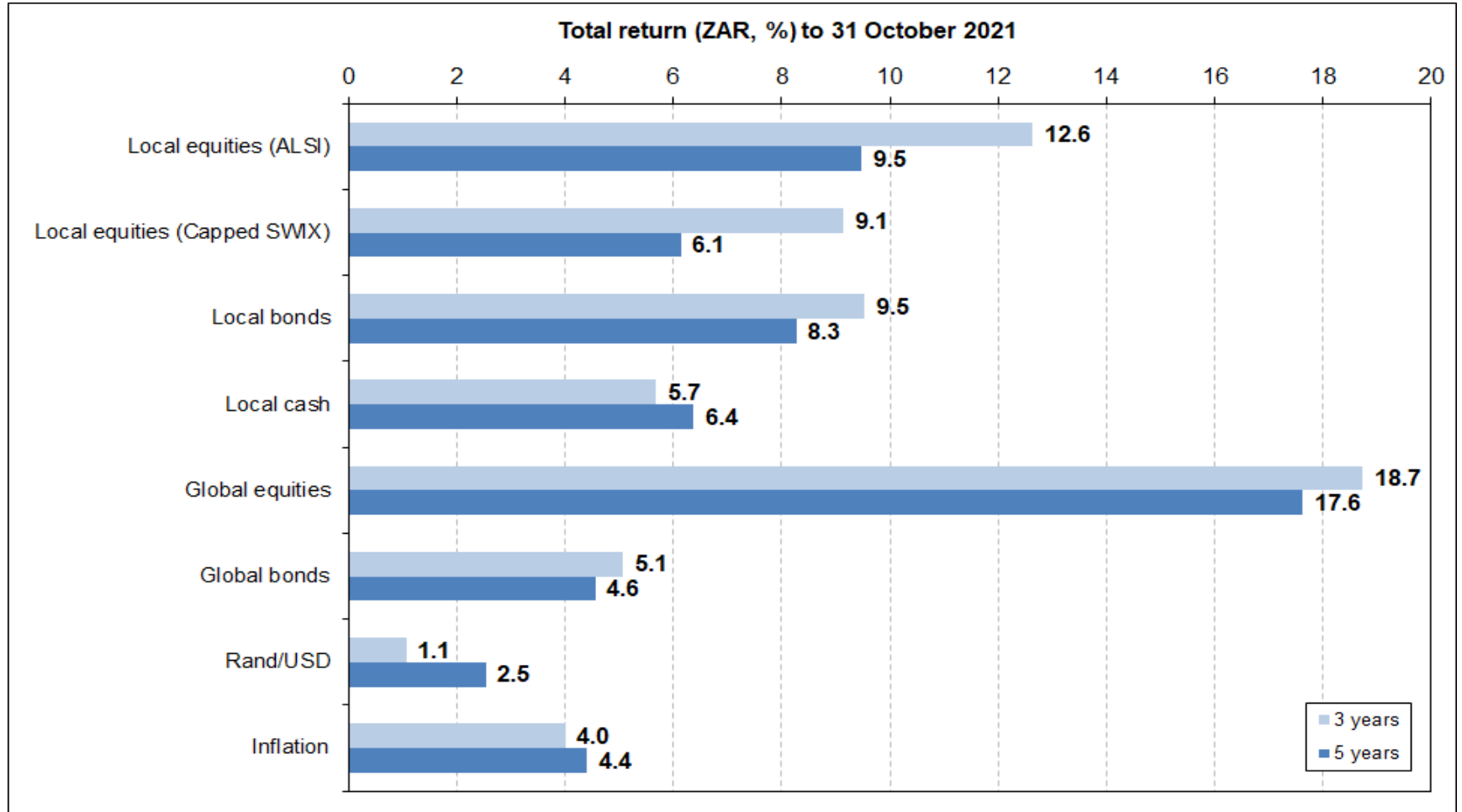
ASSET CLASS PERFORMANCE

SHORT TERM

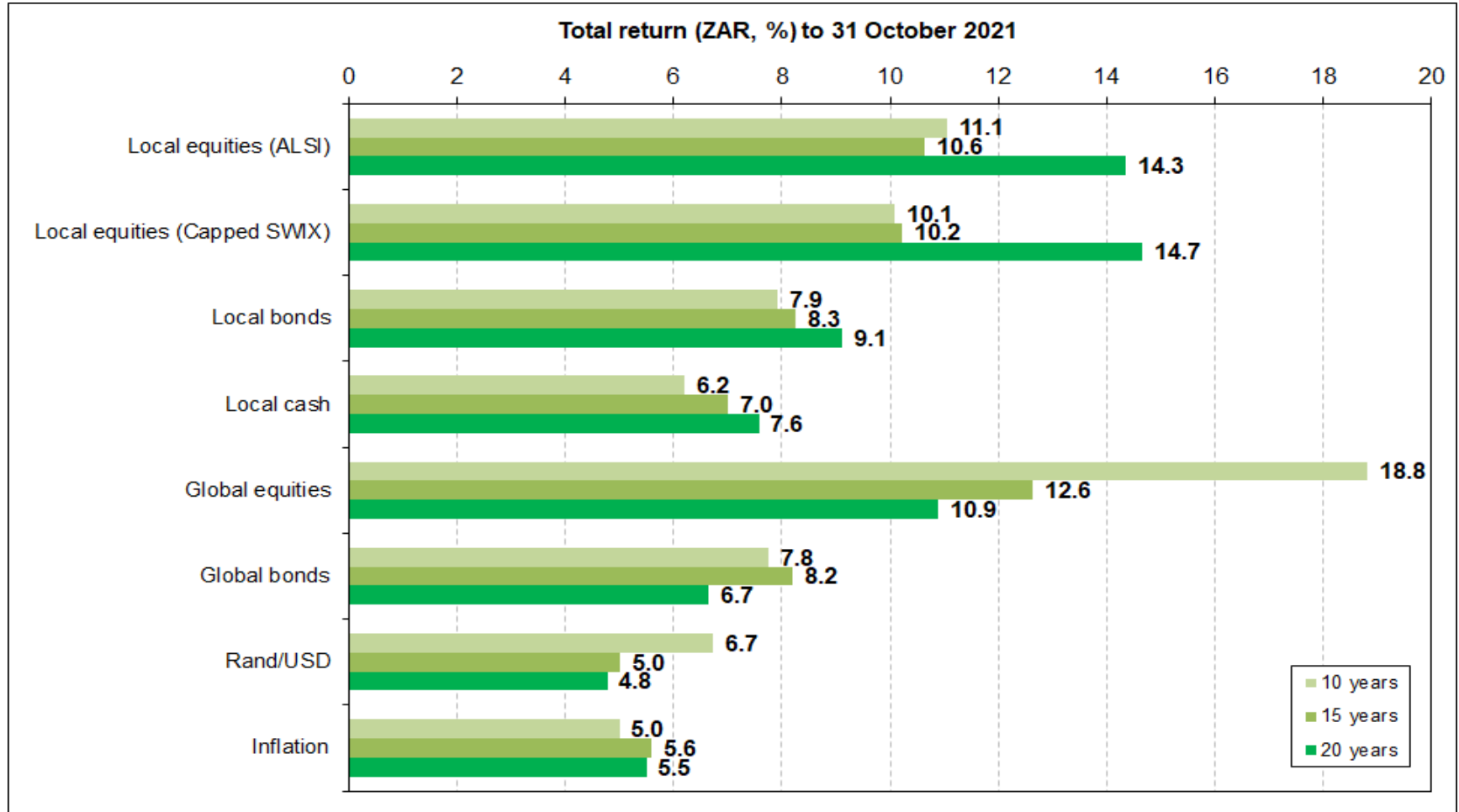


ASSET CLASS PERFORMANCE

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:

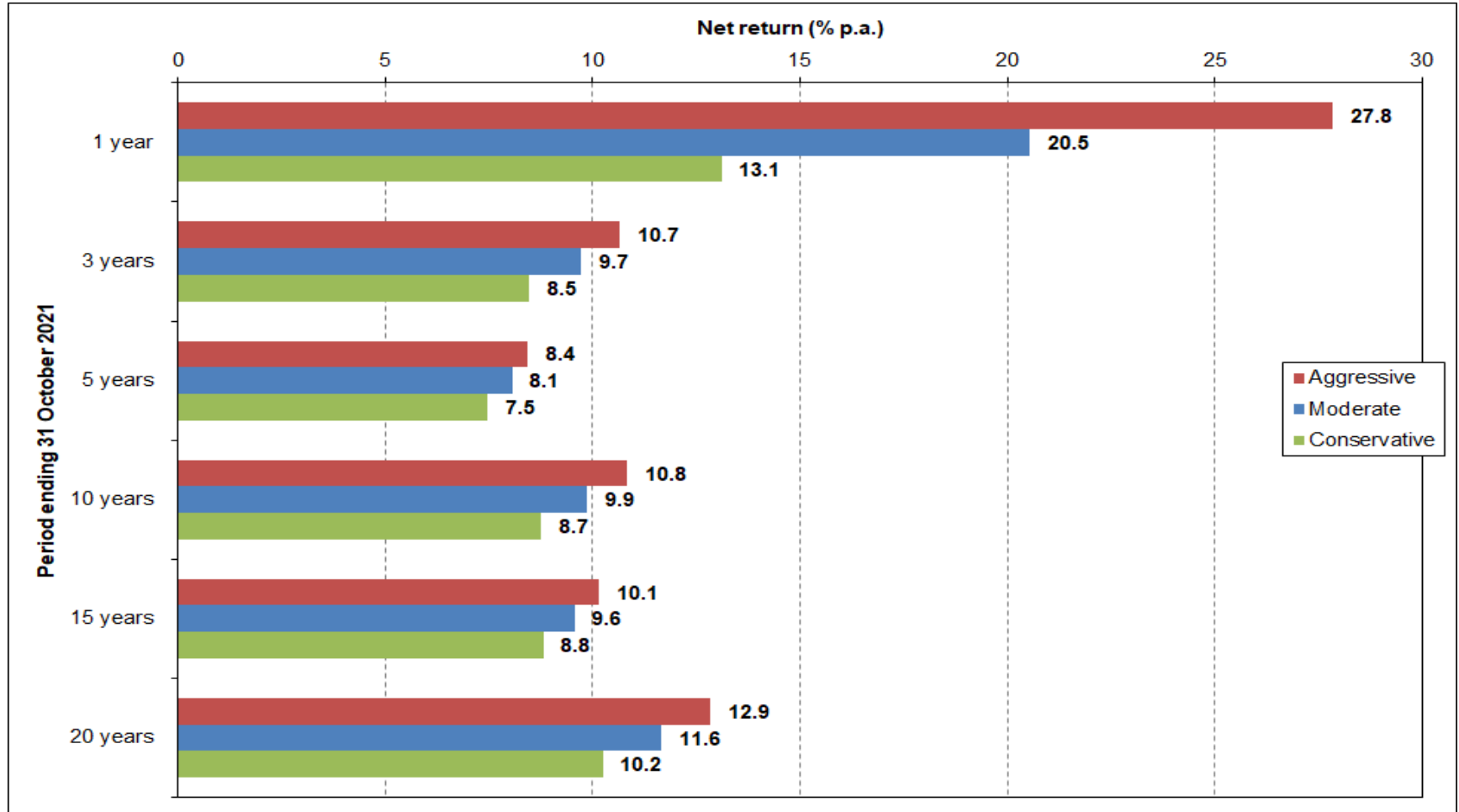
- The offshore allocation is kept at 5% below the prevailing regulatory maximum (15% to 2000, 20% to 2006, 25% to 2018 & currently at 30%).
- The equity allocation varies according to the risk profile, and is set at 75% for Aggressive, 55% for Moderate and 35% for Conservative, which applies to both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

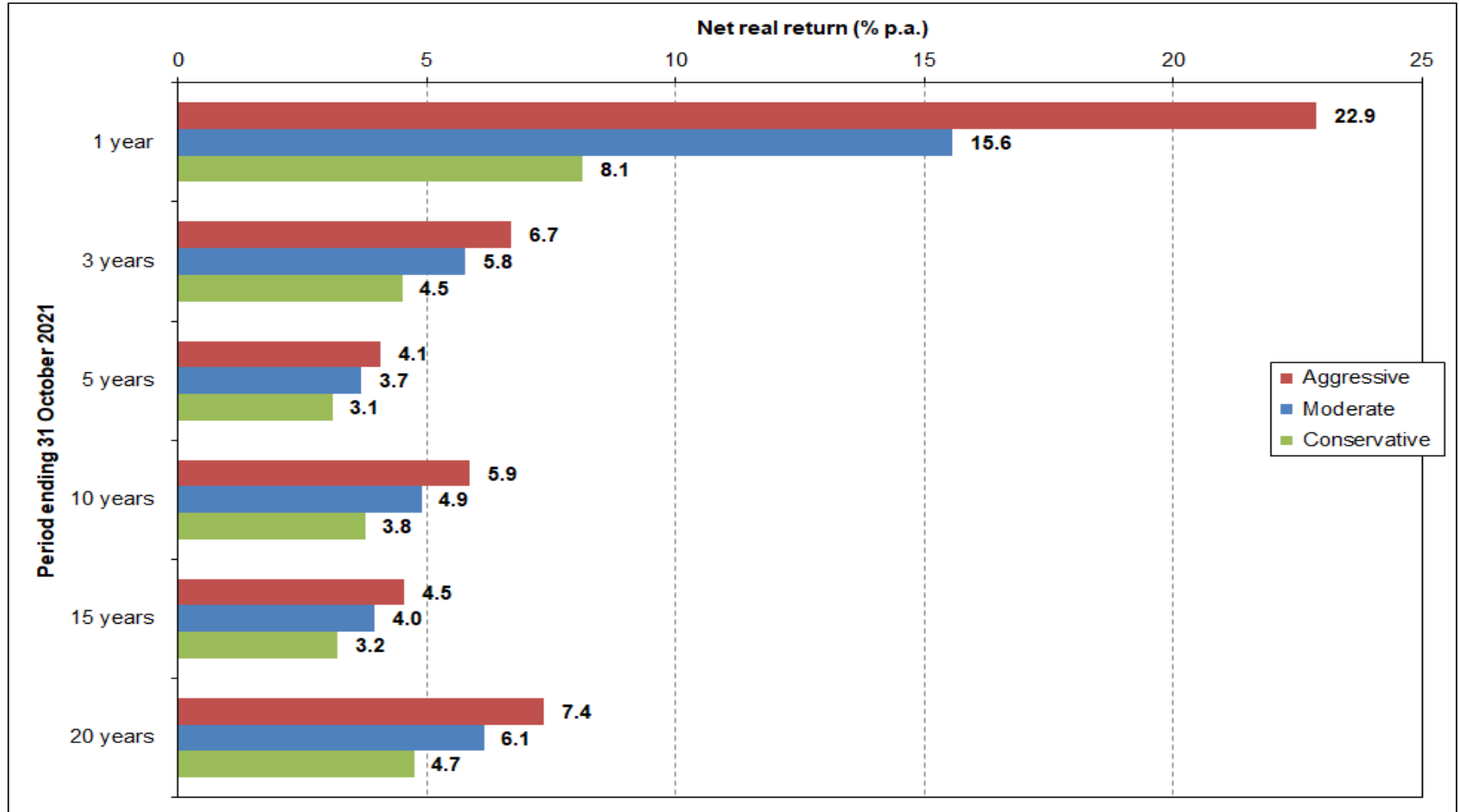
MARKET PERFORMANCE

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



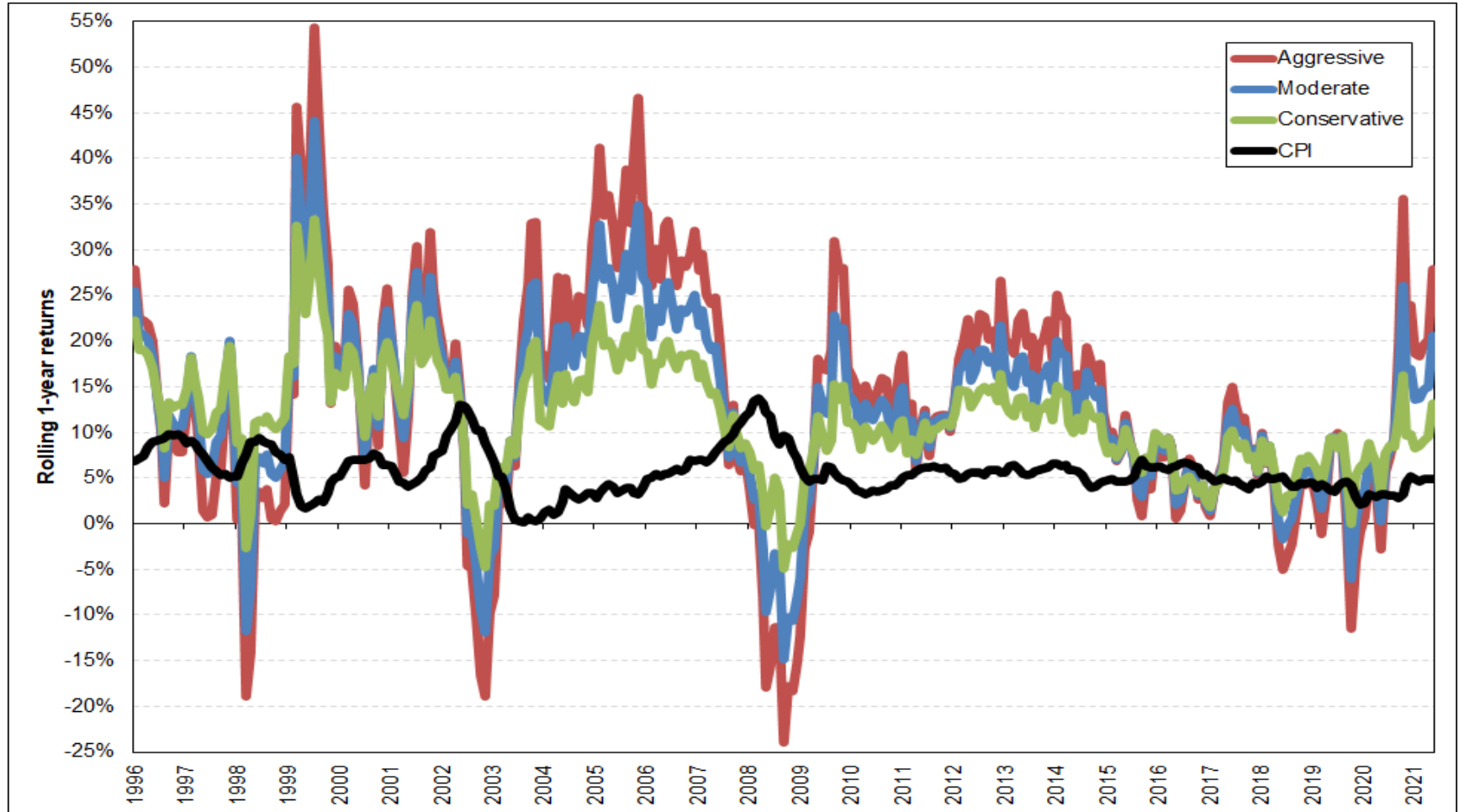
MARKET PERFORMANCE

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



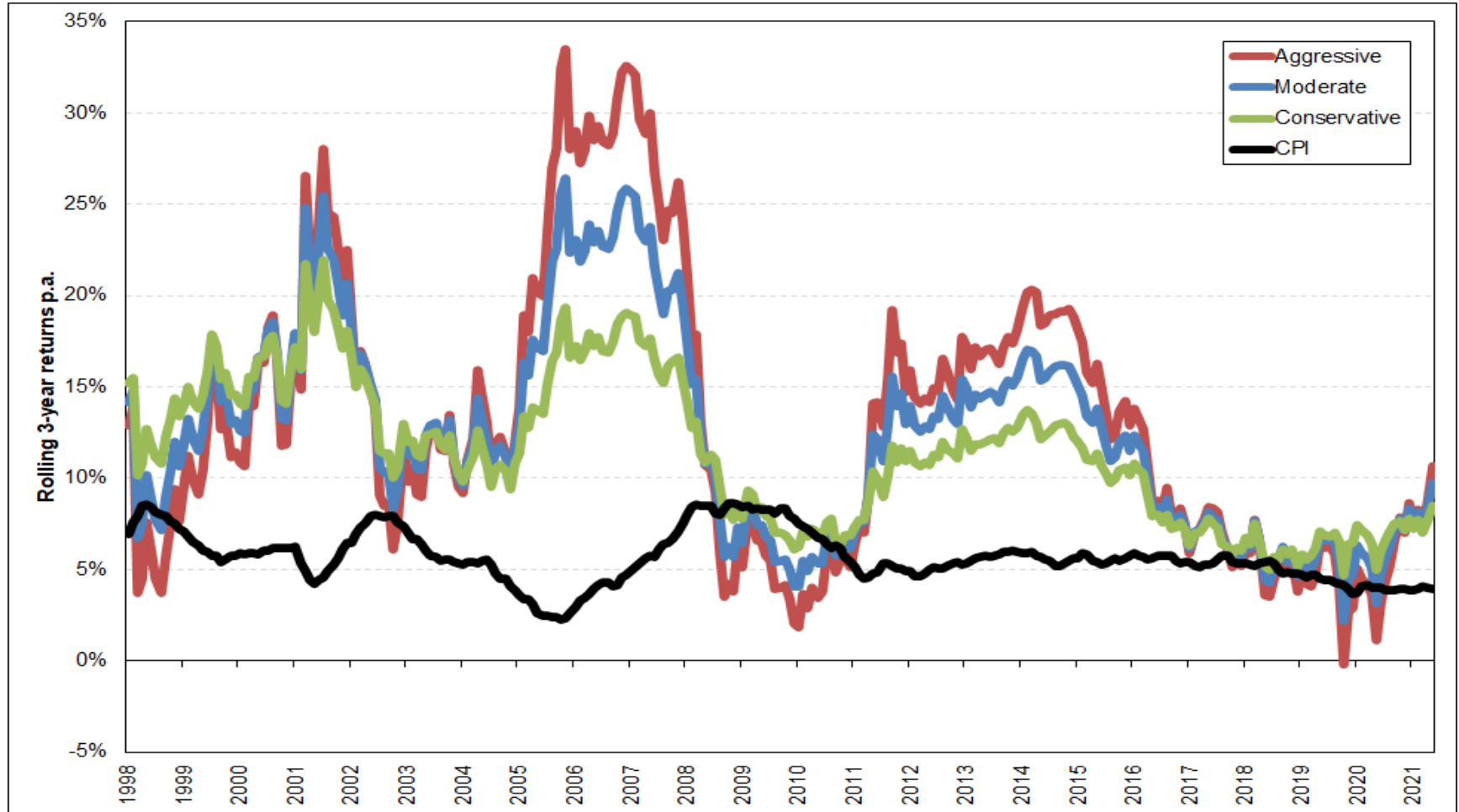
MARKET PERFORMANCE

1-YEAR RETURNS SPIKE AGAIN



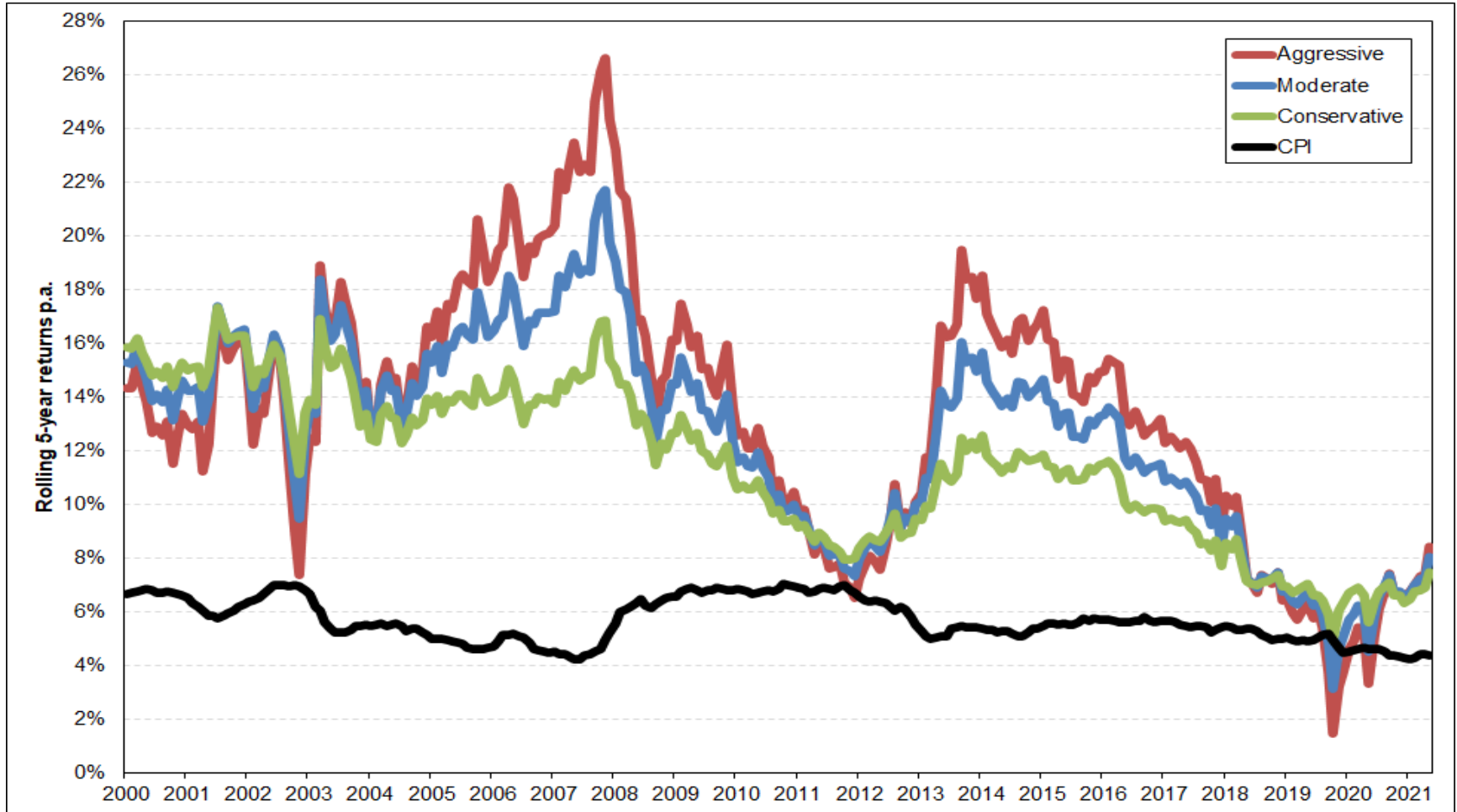
MARKET PERFORMANCE

3-YEAR RETURNS NOW LOOKING HEALTHY



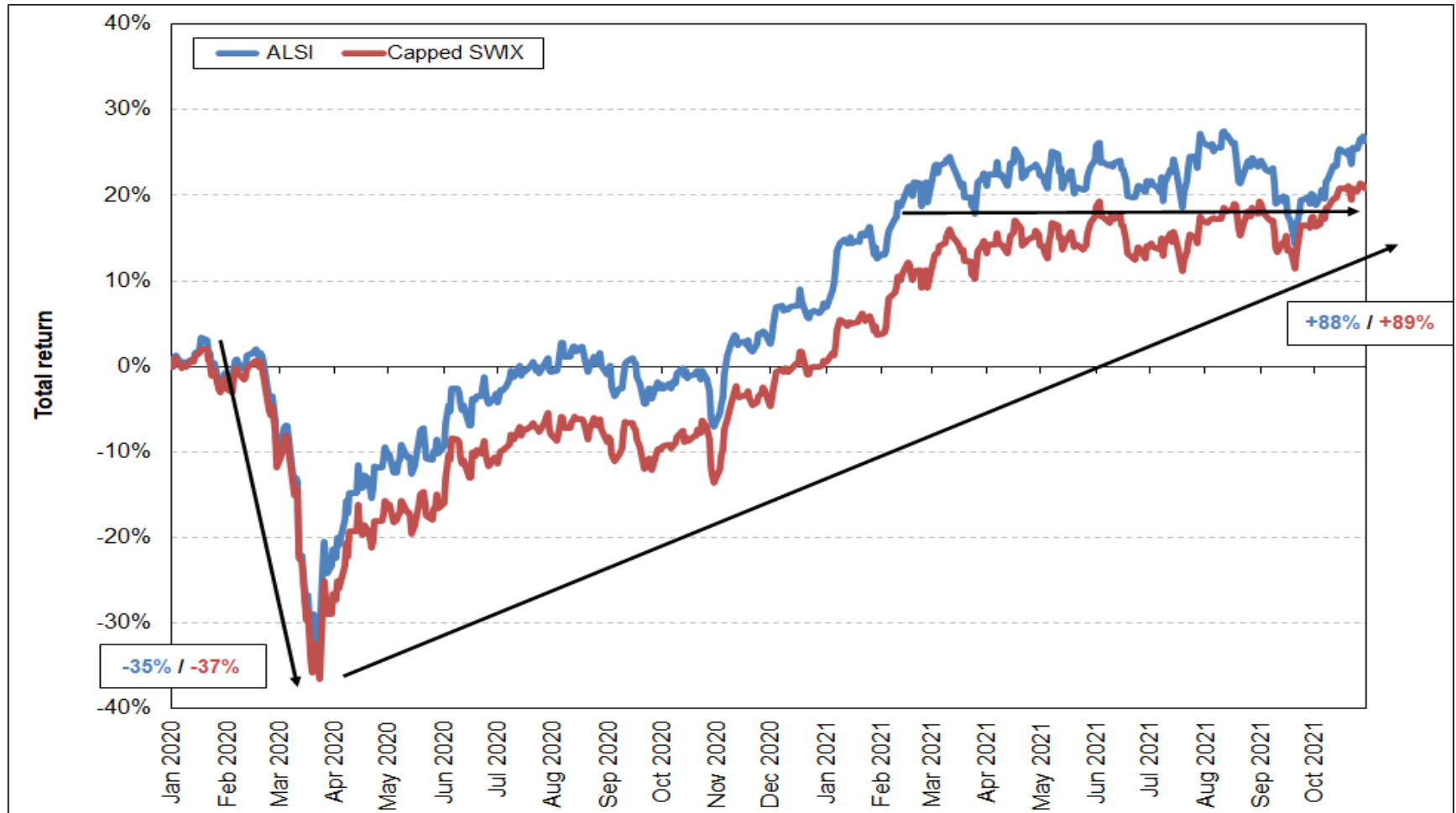
MARKET PERFORMANCE

5-YEAR RETURNS ALSO LOOKING MUCH BETTER



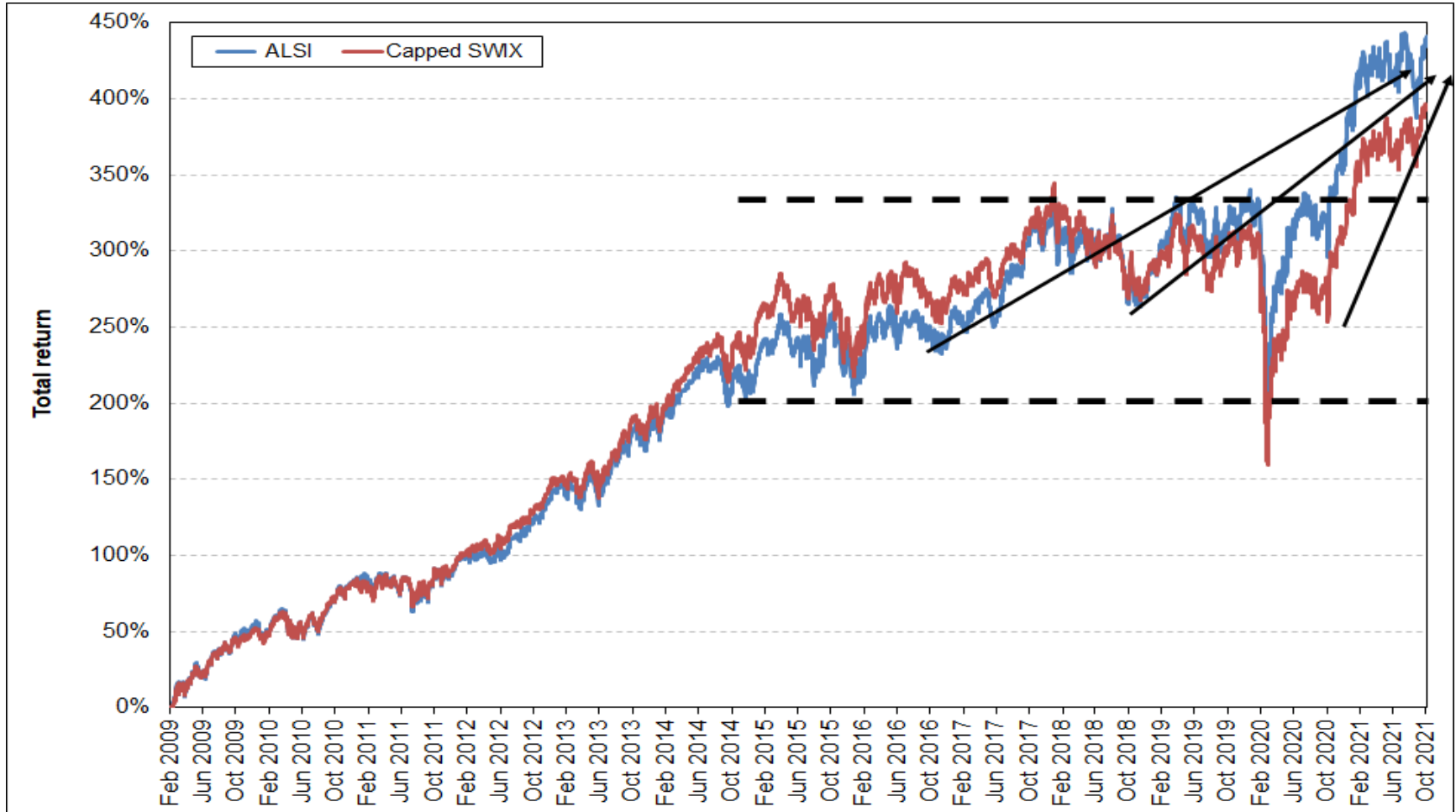
LOCAL EQUITY MARKET

GOOD MONTH, BUT NOT MUCH GROWTH IN RECENT MONTHS



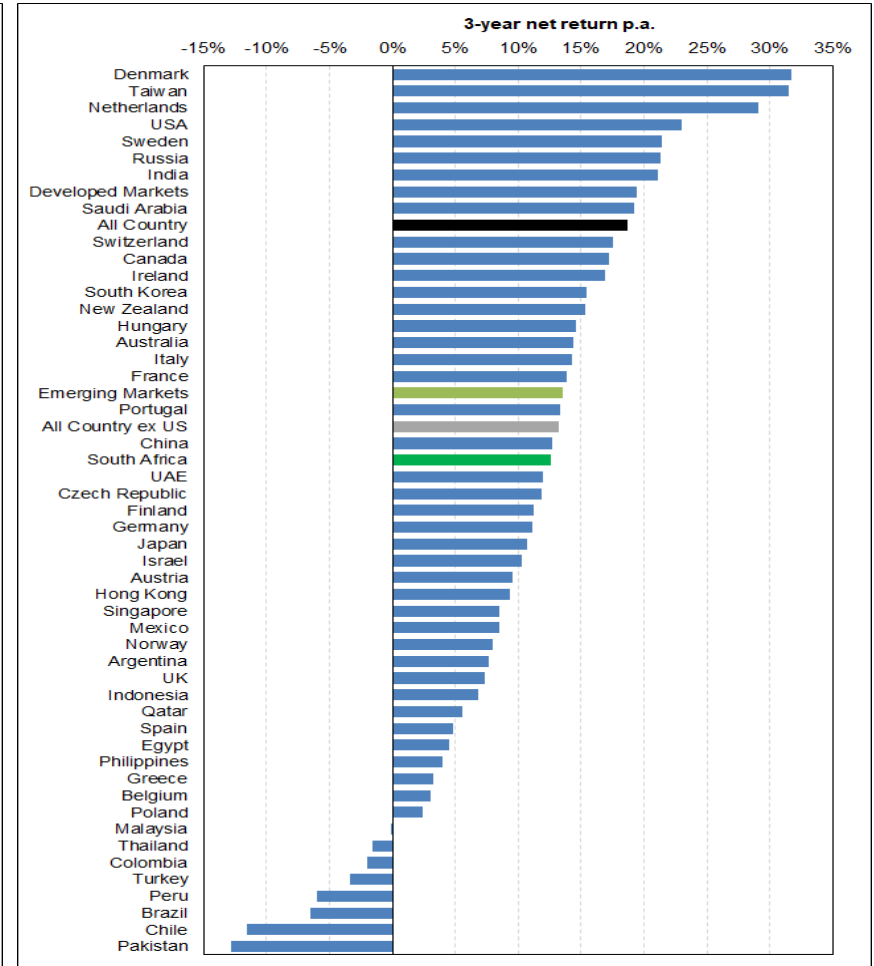
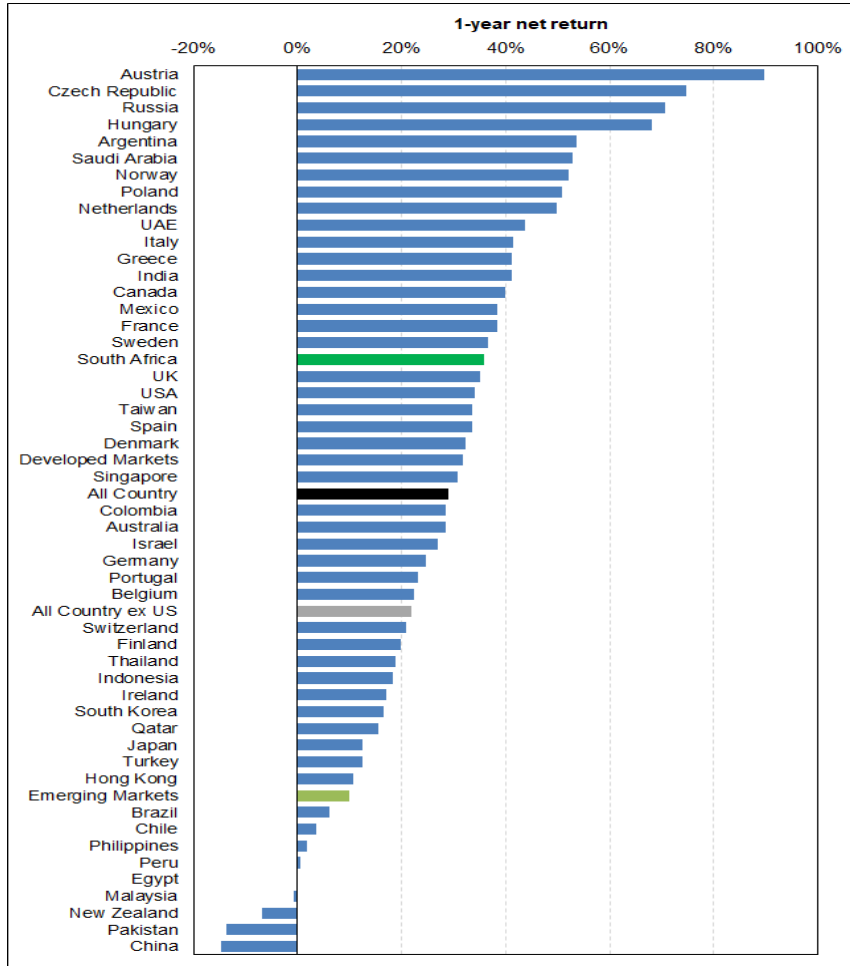
LOCAL EQUITY MARKET

MEDIUM TERM RETURNS MUCH IMPROVED



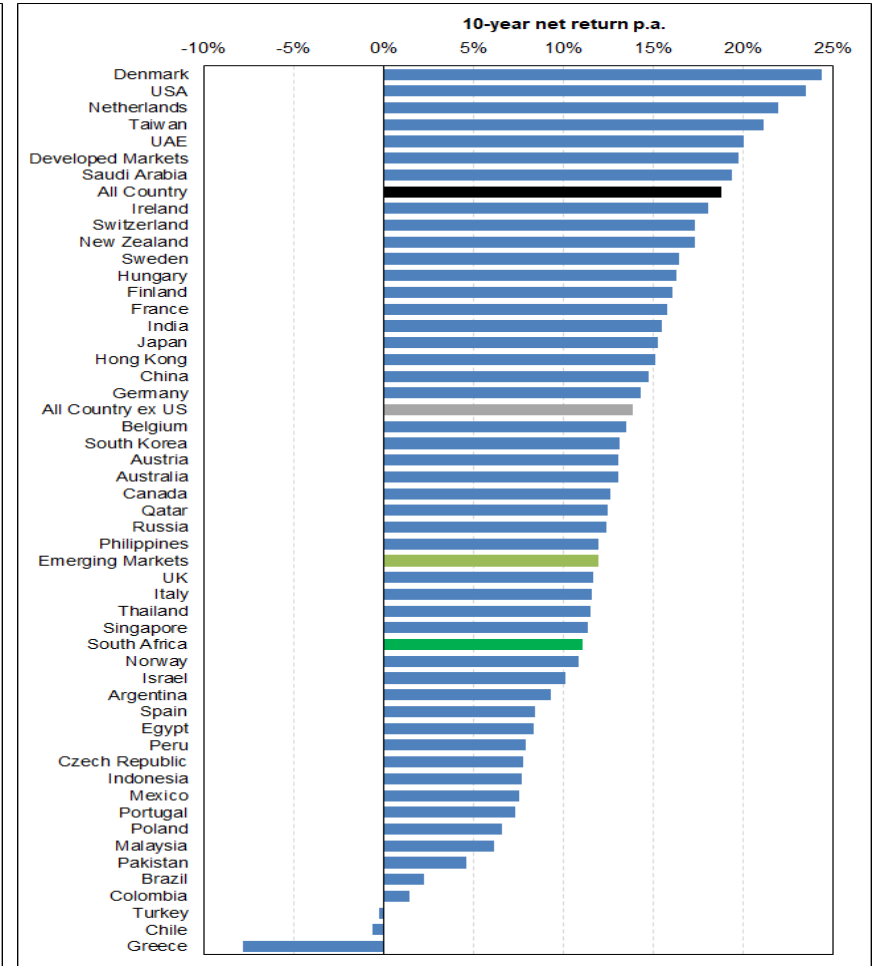
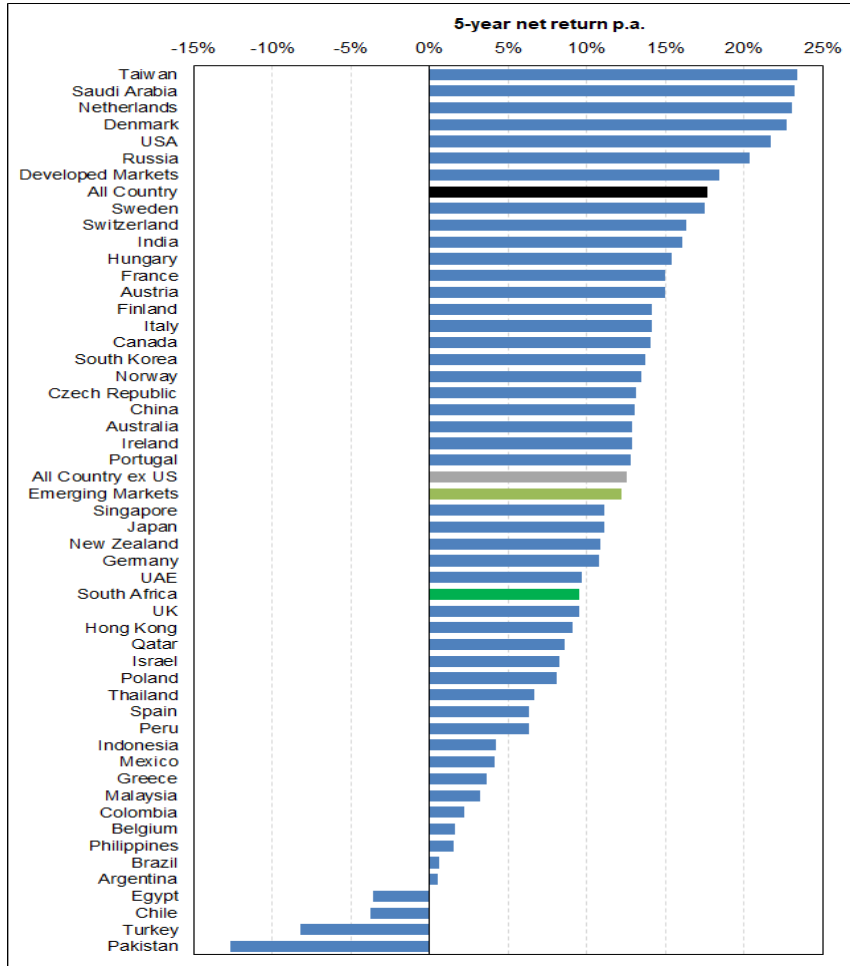
GLOBAL EQUITY MARKETS

SHORT TERM: SA DOING REASONABLY WELL



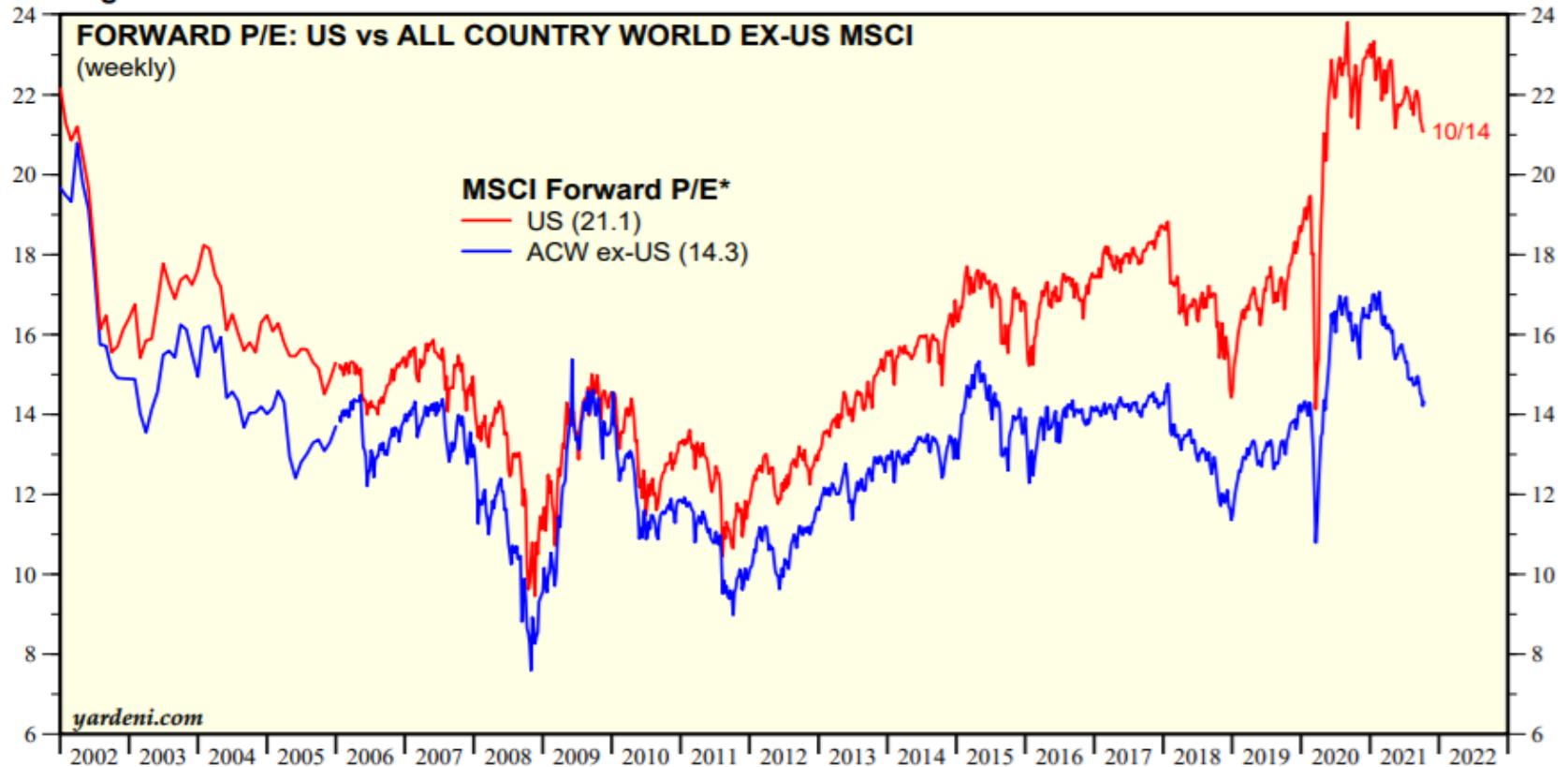
GLOBAL EQUITY MARKETS

MEDIUM TERM: SA UNDERPERFORMS, USA LIFTS WORLD MARKETS



EQUITY MARKET VALUATIONS BUT IS THE US MARKET NOW A BIT STRETCHED?

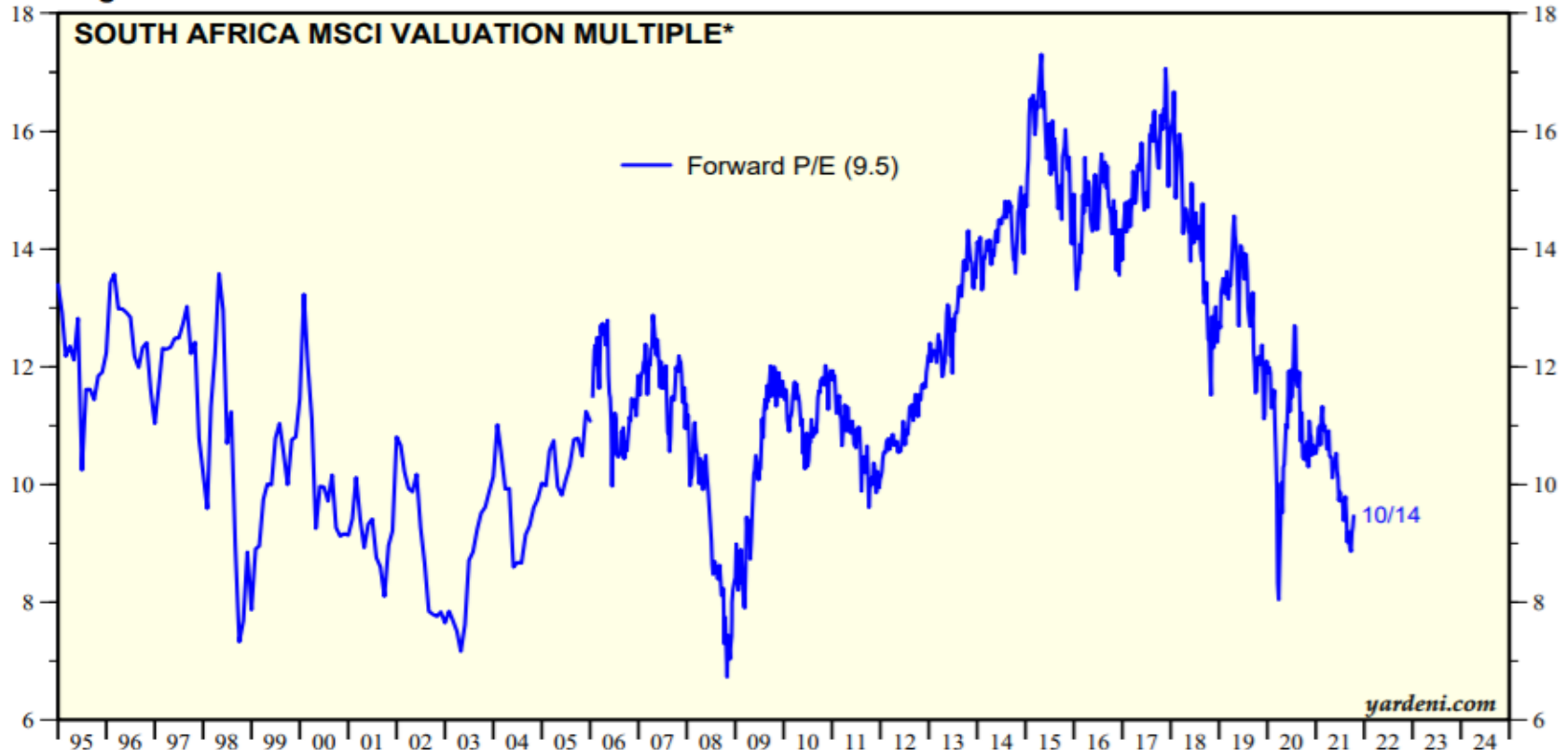
Figure 4.



* Price divided by 12-month forward consensus expected operating earnings per share. Monthly through December 2005, weekly thereafter.
Source: I/B/E/S data by Refinitiv and MSCI.

EQUITY MARKET VALUATIONS AND IS SOUTH AFRICA NOW A BARGAIN?

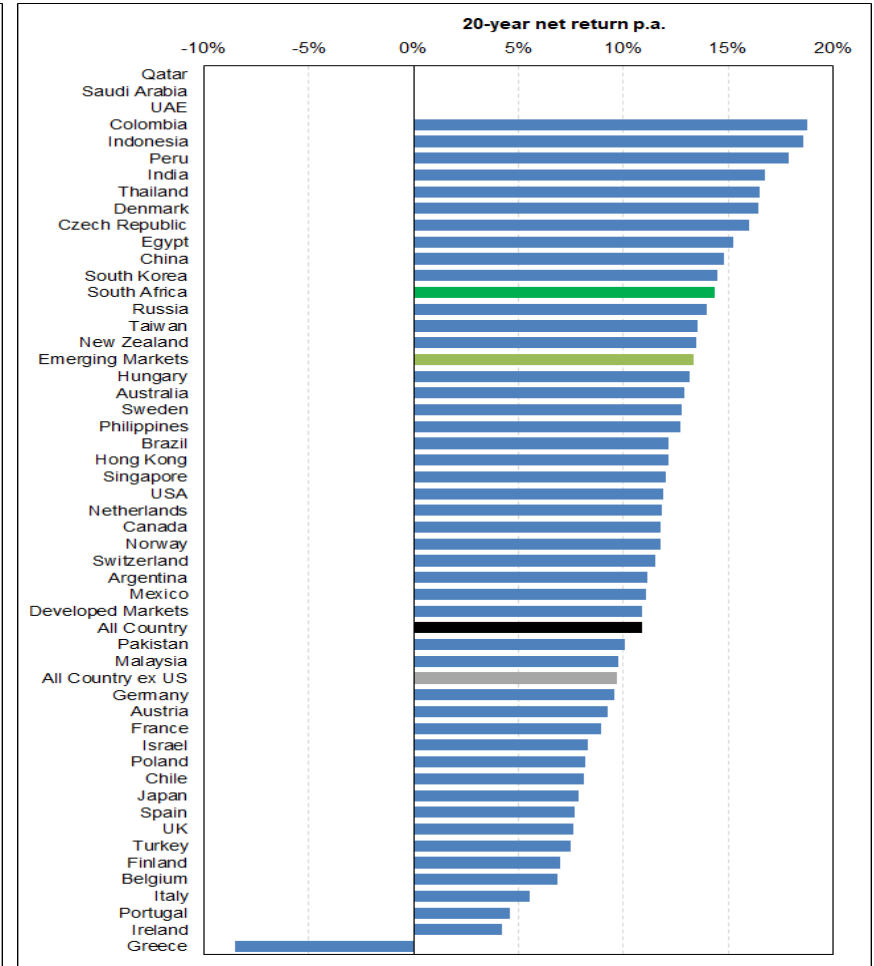
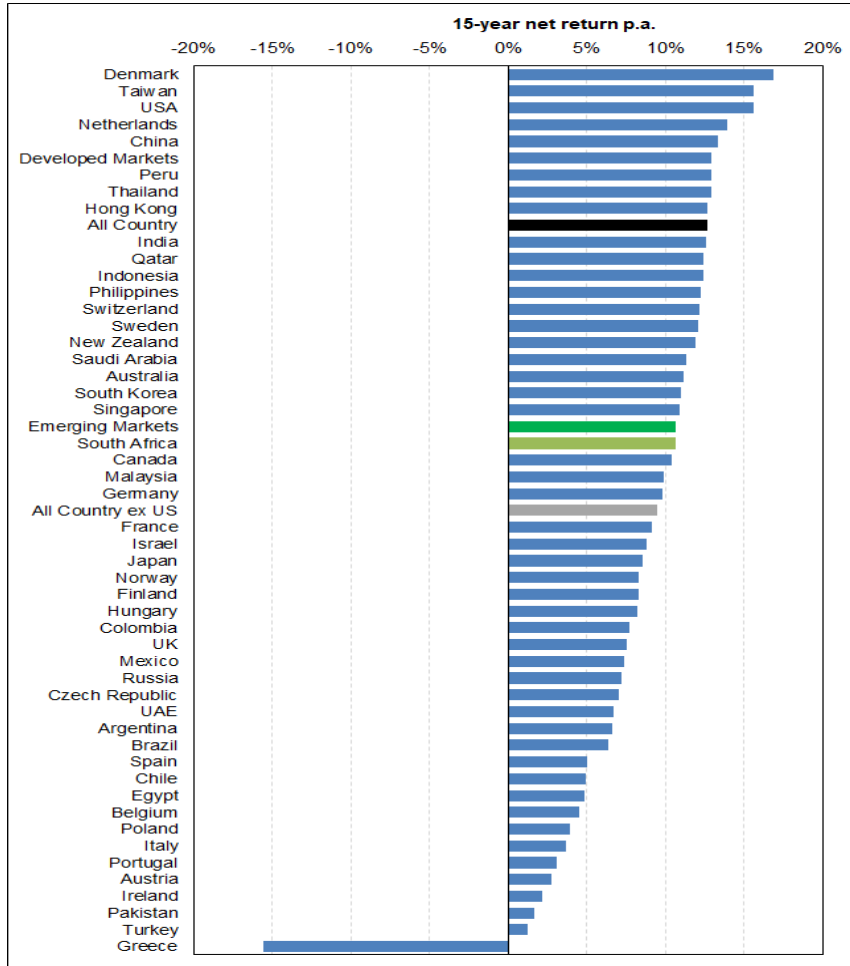
Figure 10.



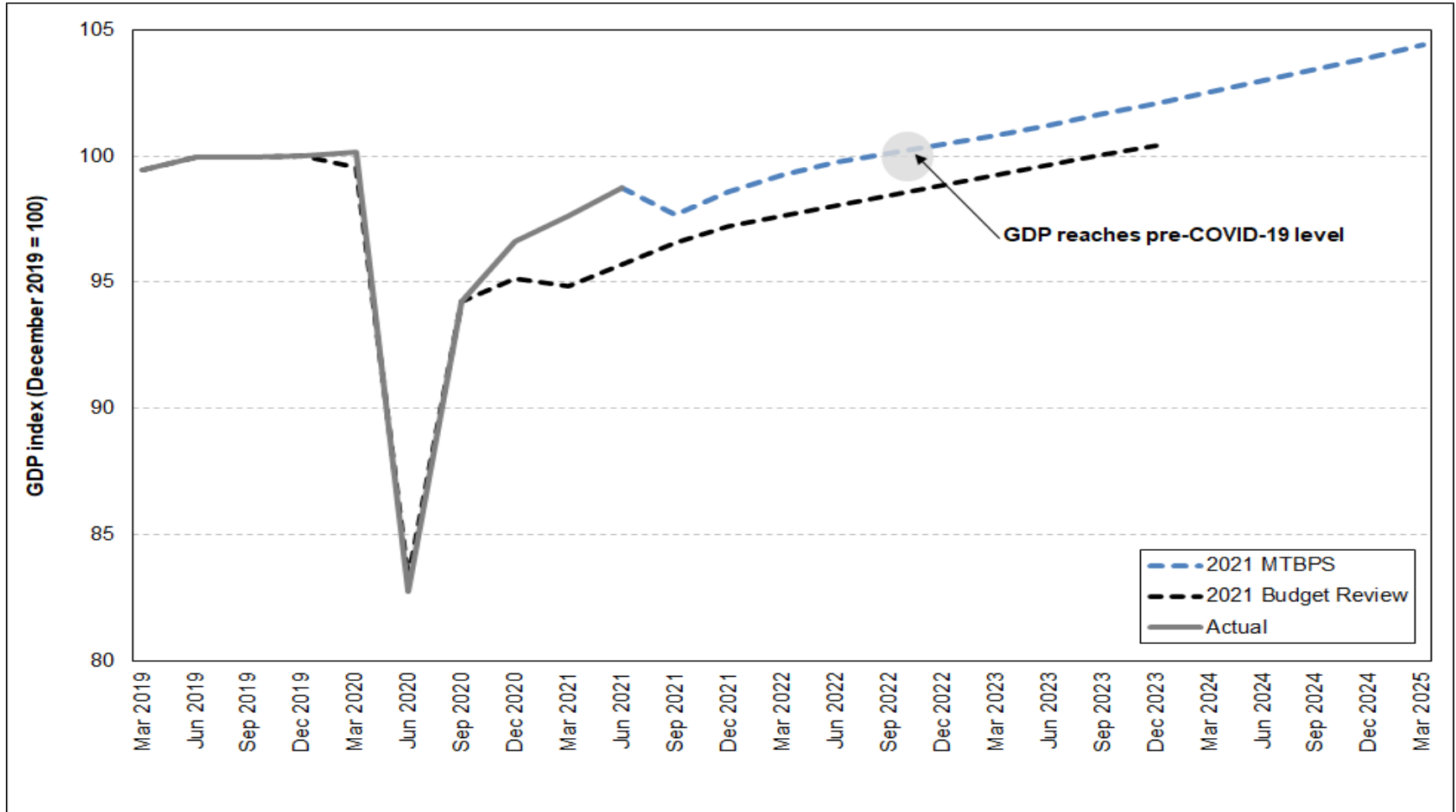
* Price divided by forward consensus expected earnings per share. Monthly data through December 2005, weekly thereafter.
Source: I/B/E/S data by Refinitiv.

GLOBAL MARKETS

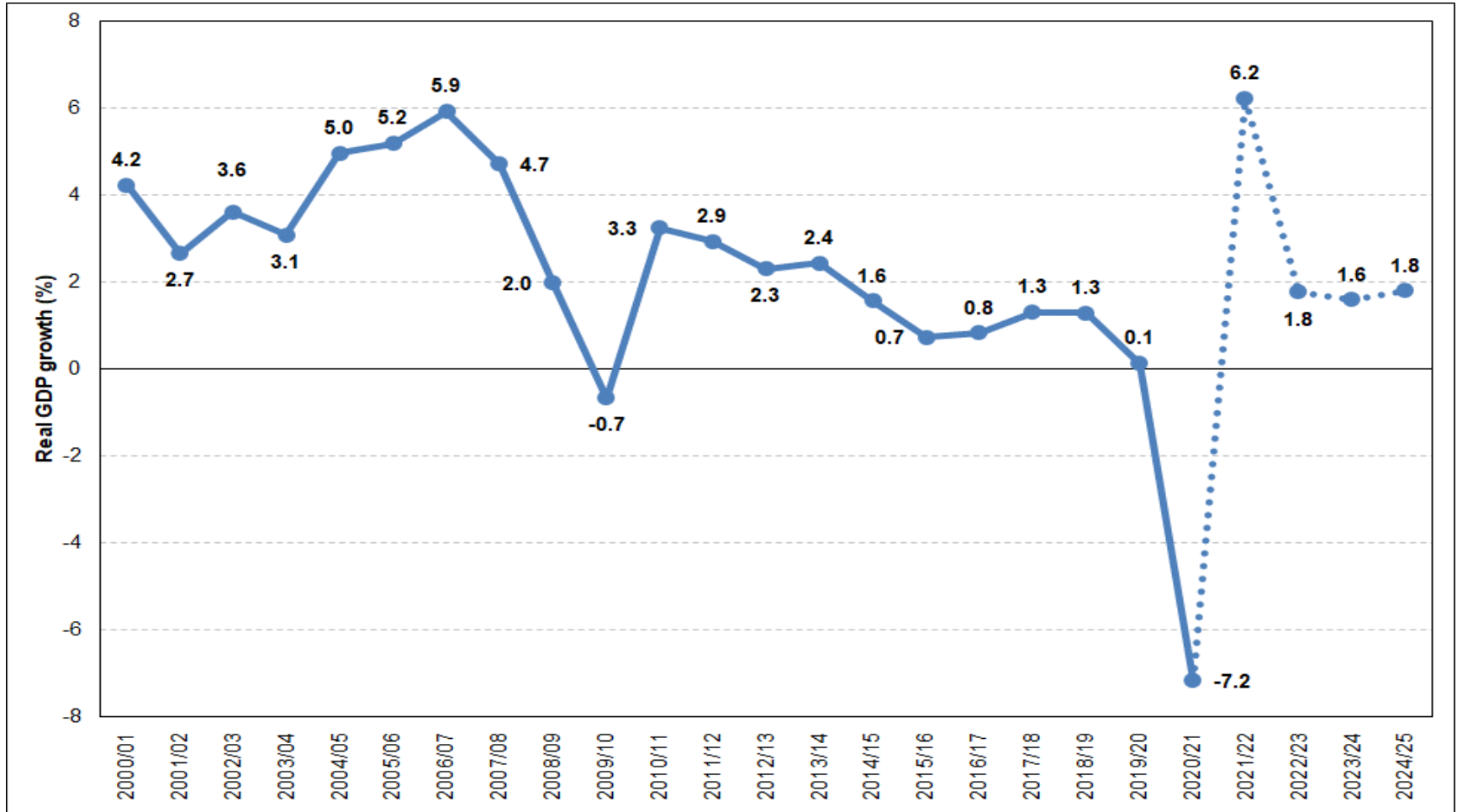
LONG TERM: SA DOING QUITE WELL



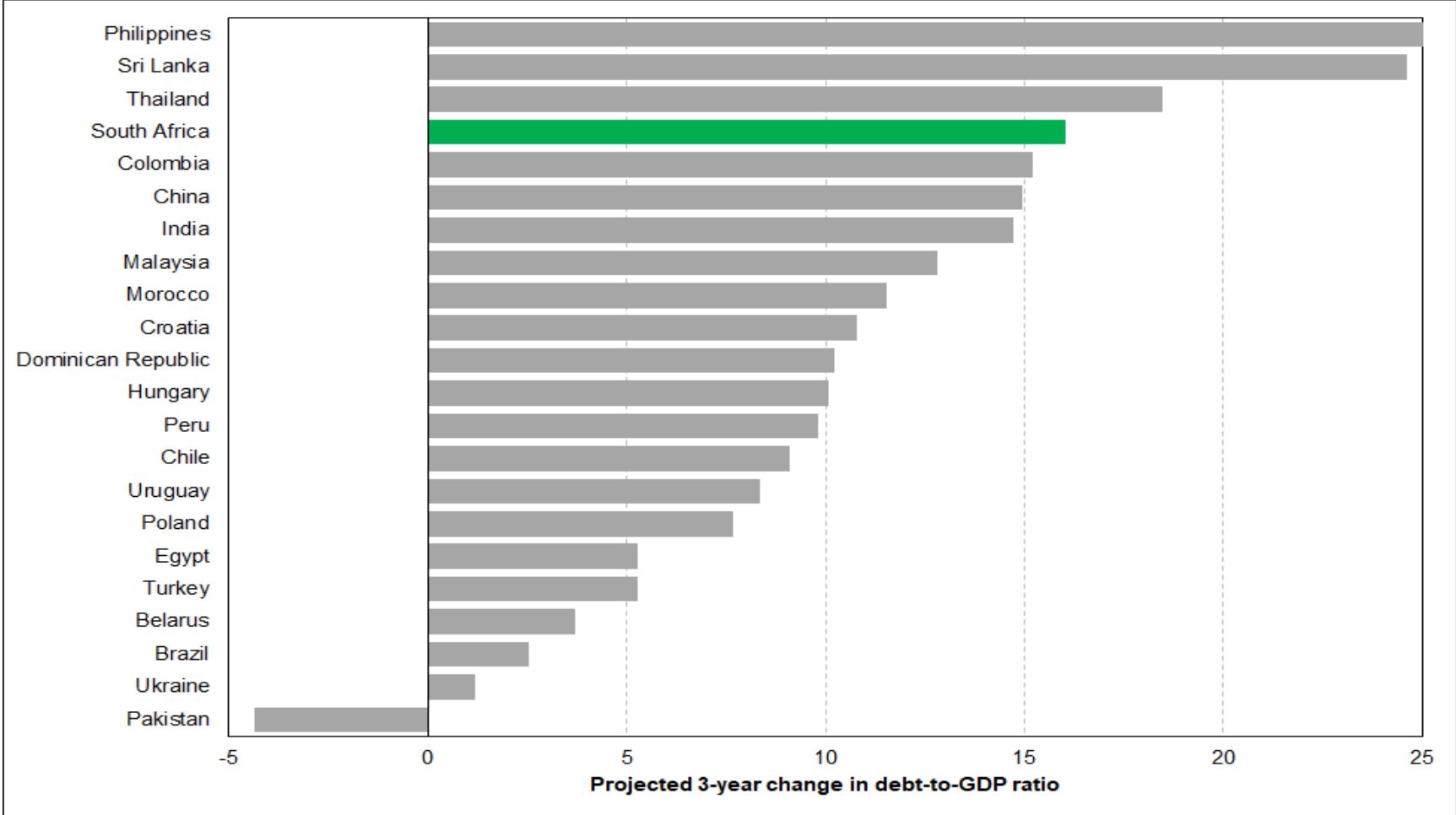
MEDIUM TERM BUDGET ECONOMIC RECOVERY QUICKER THAN EXPECTED...



MEDIUM TERM BUDGET ...BUT BACK TO WEAK GROWTH THEREAFTER

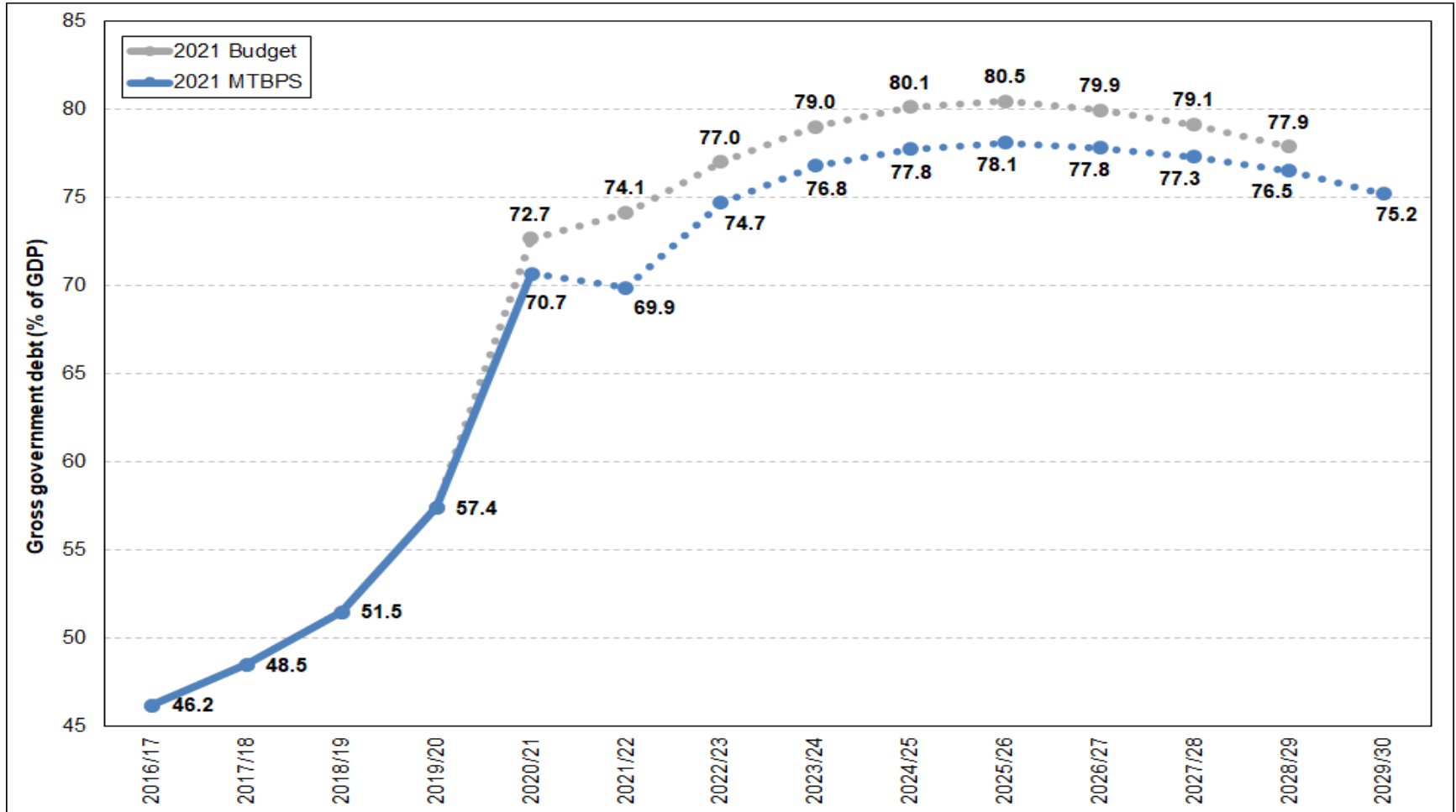


MEDIUM TERM BUDGET LARGE INCREASE IN DEBT EXPECTED...



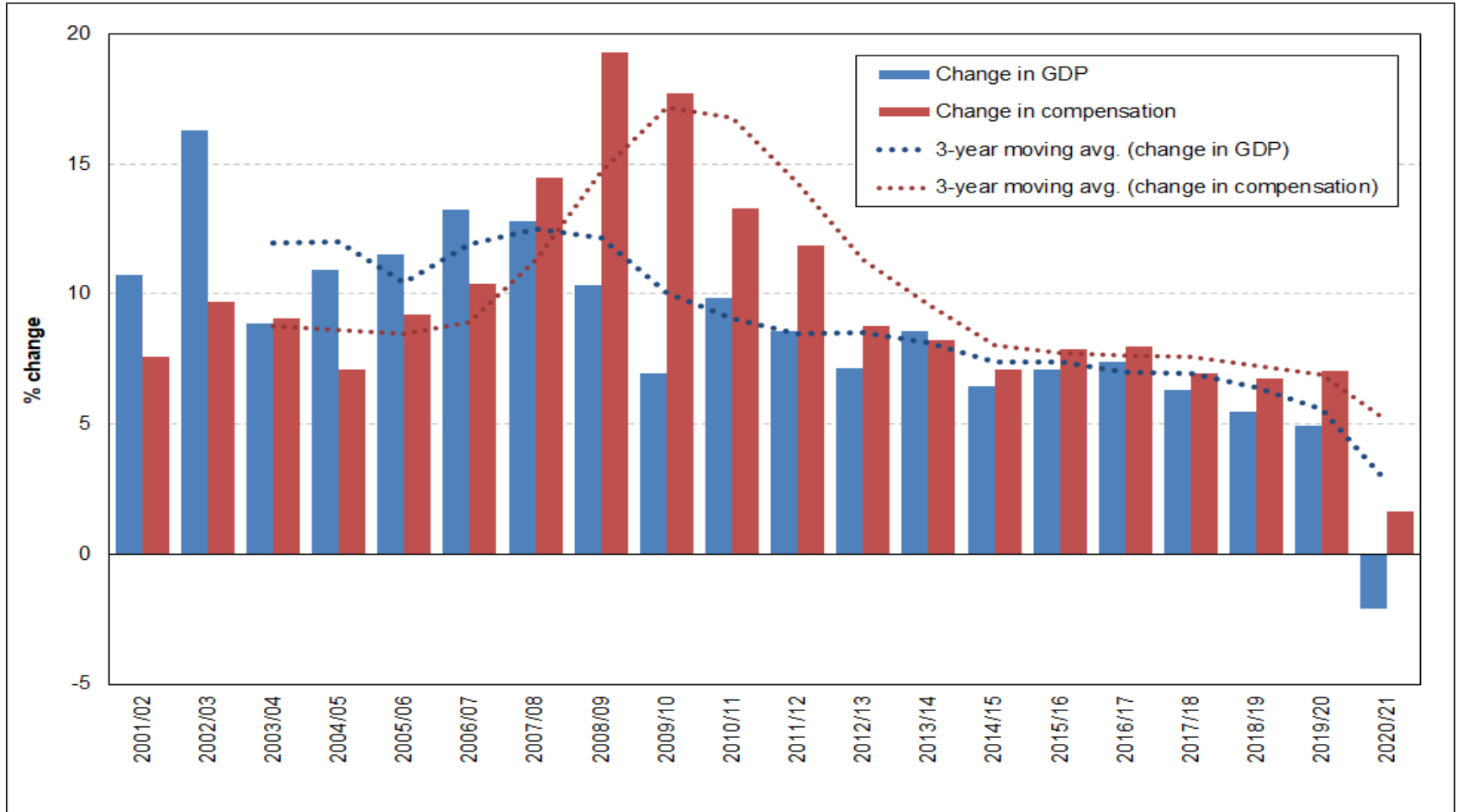
Source: National Treasury

MEDIUM TERM BUDGET ...BUT STILL AN IMPROVEMENT FROM THE MAIN BUDGET

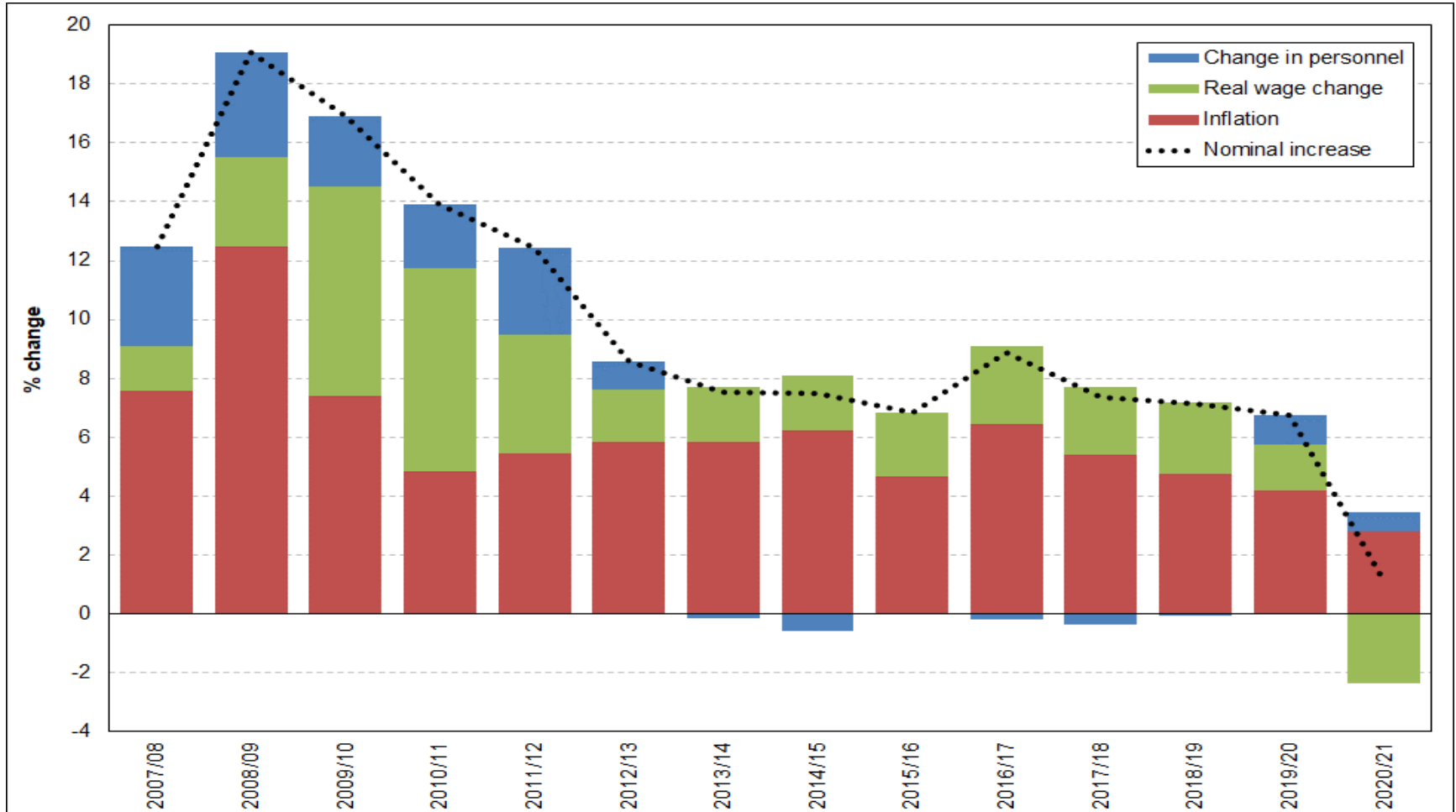


MEDIUM TERM BUDGET

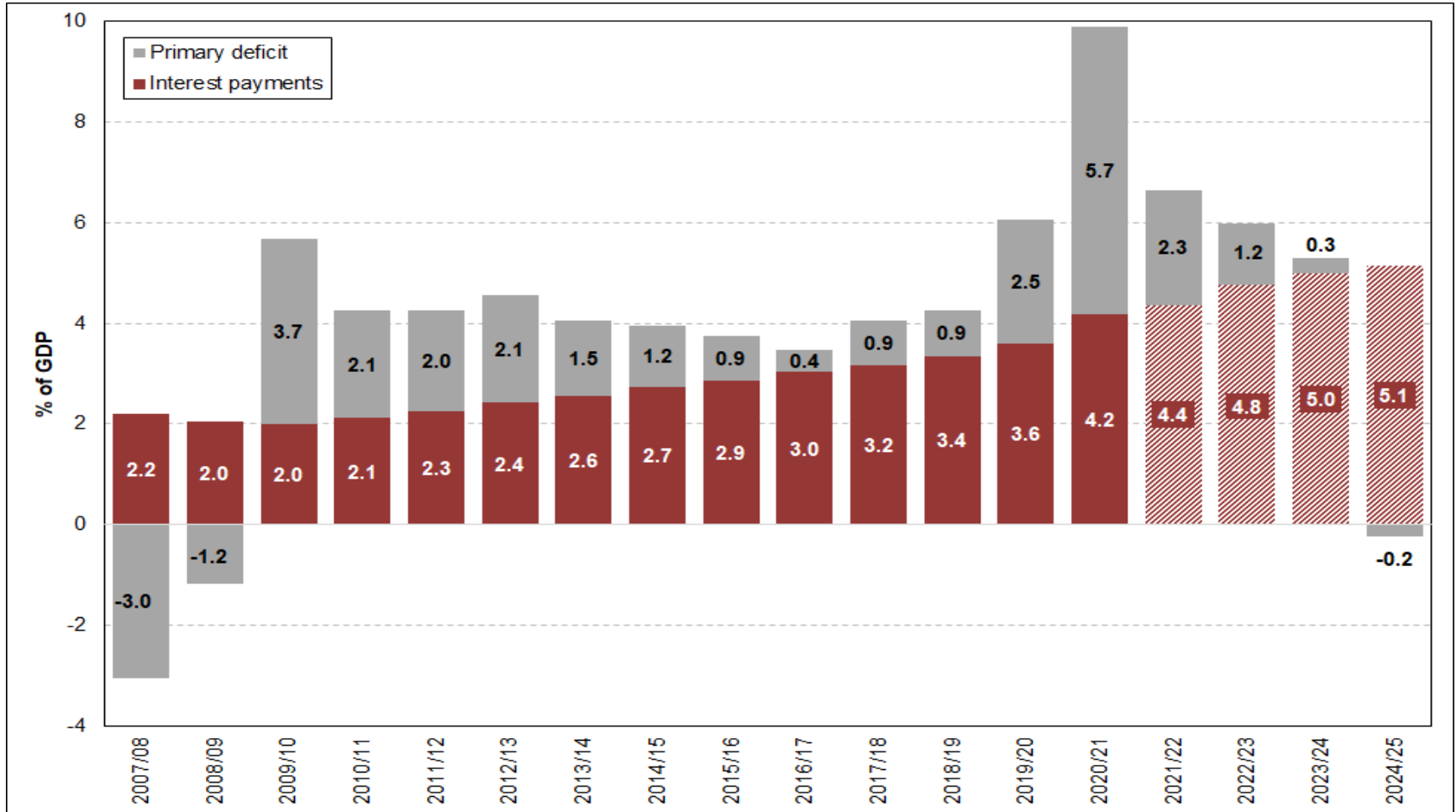
PUBLIC SECTOR WAGE GROWTH OUTPACED ECONOMIC GROWTH BY 2% PER YEAR...



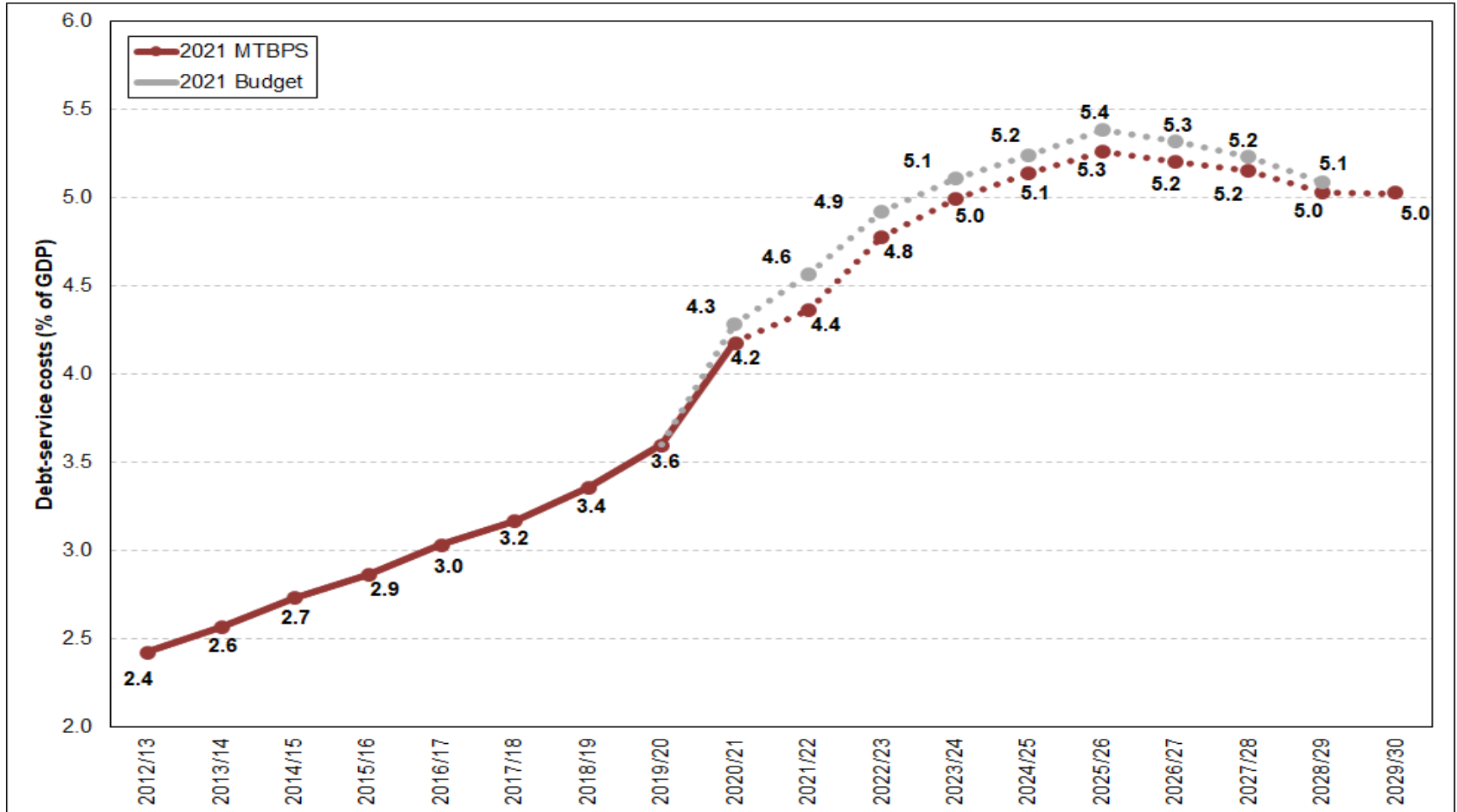
MEDIUM TERM BUDGET ...AND INFLATION BY NEARLY 3% PER YEAR...



MEDIUM TERM BUDGET ...LEADING TO PERSISTANT BUDGET DEFICITS...

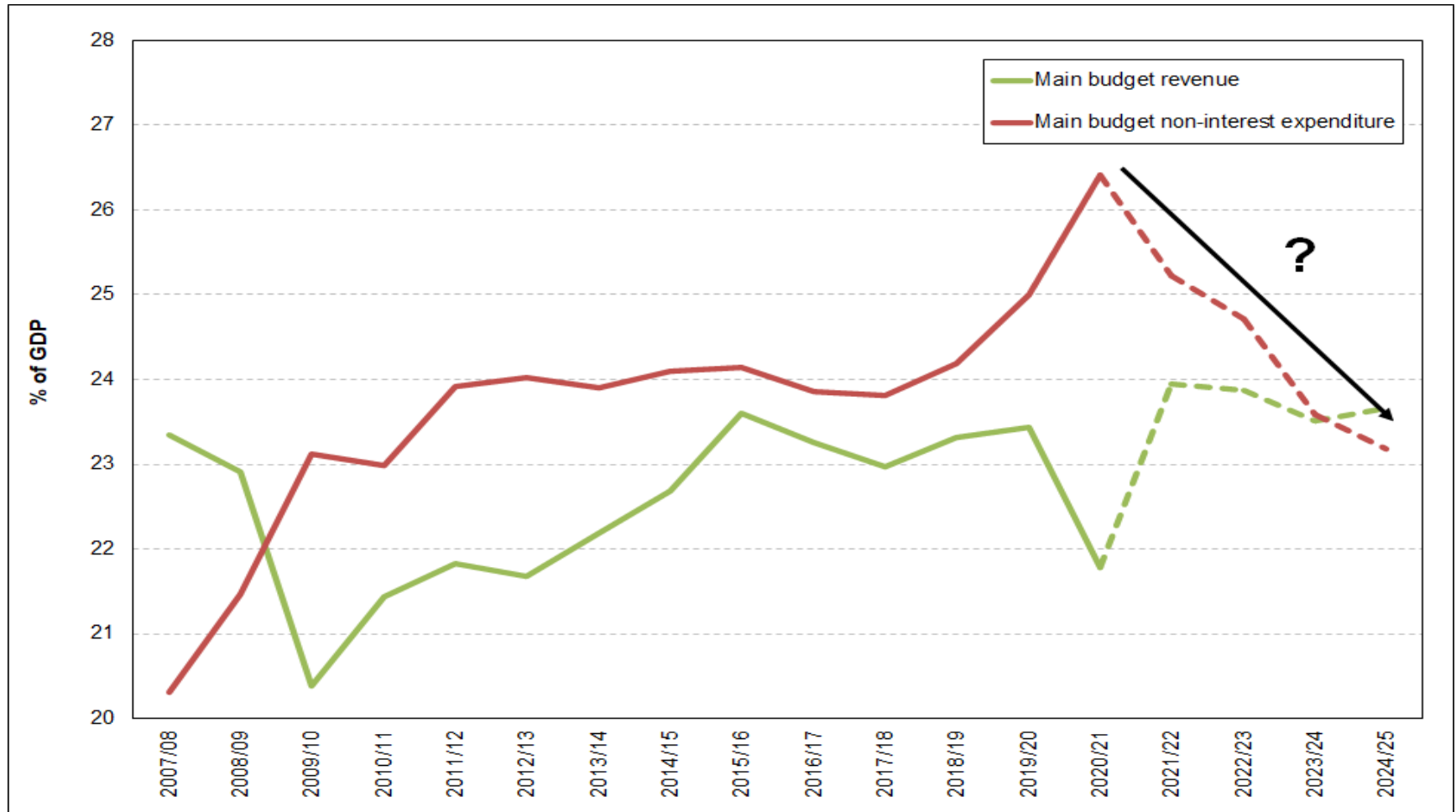


MEDIUM TERM BUDGET ...AND EXPENSIVE DEBT



MEDIUM TERM BUDGET

WILL WE BE ABLE TO START LIVING WITHIN OUR MEANS?



US INFLATION HITS 30-YEAR HIGH



SA UNEMPLOYMENT HITS ALL-TIME HIGH

