MONTH IN PICTURES

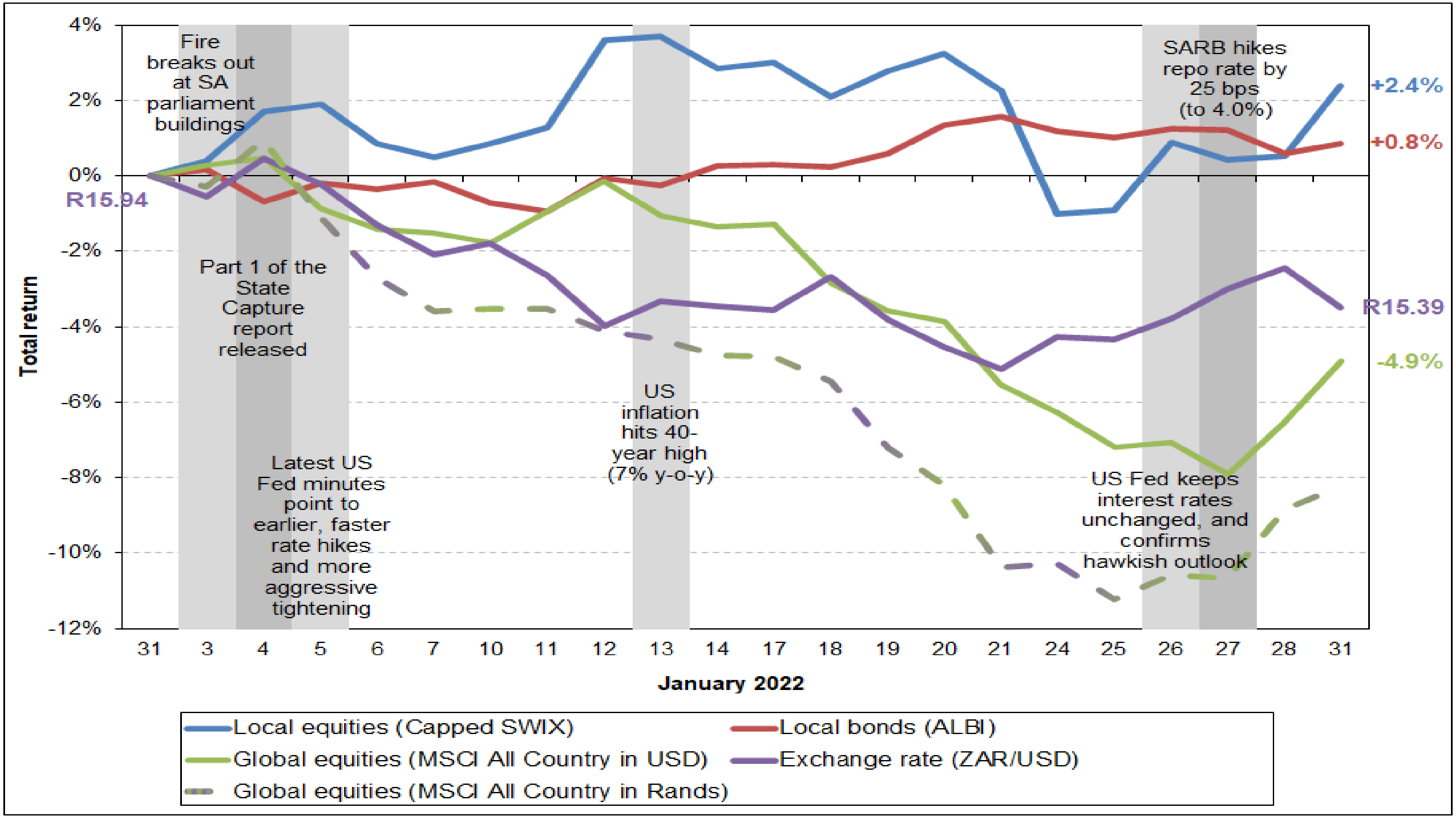
JANUARY 2022

MONTHLY SNAPSHOT
NOTABLE EVENTS

- Global markets experienced a tough start to the year as surging inflation and a faster expected pace of US monetary policy normalisation sparked a widespread sell-off in risk assets. In this regard US inflation hit a 40-year high of 7.5% in January, while the latest signals from the US Fed indicate a faster and earlier start to interest rate hikes, and a possible shrinking of their bloated balance sheet.
- In US dollar terms this resulted in a 4.9% loss from the global equity market in January, while losses on some of the tech-heavy indices were even steeper (Nasdaq 100 = -8.5%, MSCI ACWI Growth = -8.6% and MSCI ACWI IT = -8.2%).
- The sell-off was by no means universal though, with certain previously neglected sectors (Energy = +13% & Financials = +1.3%) and regions (Brazil = +13% & South Africa = +6.8%) making good dollar gains.
- The local market therefore held up surprisingly well during this turmoil, with local currency returns of +0.9% from the ALSI and a solid +2.4% from the Capped SWIX for the month, while the Rand strengthened by 3.5% against the US Dollar. Local equity market gains were however confined to Resources (+3.6%) and Financials (+3.5%), as Industrials (-1.9%) and Listed Property (-2.9%) ended the month lower.
- As things stand, the local equity market has now comfortably beaten global equities (+15%) over the last 12 months (+24% vs +15%), and is even more of an outperformer when compared to our emerging market peers (which *lost* 6% during this period)
- The SARB hiked interest rates by another 25 basis points, bringing the repo rate to 4% and the prime lending rate to 7.5%. This was mainly done in anticipation of rising US interest rates and upside risks to the local inflation outlook. Rising interest/inflation rates weren't enough to derail the local bond market though, which returned +0.8% in January compared to a rand loss of 5.5% from global bonds.
- Finance Minister Enoch Godongwana delivered a credible budget in February, with booming commodity prices gifting the fiscus with an extra R182 billion in taxes this year, compared to a tax revenue shortfall of almost the same amount the previous year. With a substantial portion of this windfall being used to reduce borrowing, government debt is now expected to stabilise at 75% of GDP (down from 95% at its worst point), while no major tax increases were announced.
- Markets didn't move much in response to the budget, with Russia's invasion of Ukraine taking center stage the following morning. Although local markets came under a bit of pressure when the news broke, they have generally held up very well this year, delivering positive returns in 2022 compared to steep losses from many global asset classes (see slide 13).

MONTHLY TIMELINE

IMPACT ON MARKETS



Source: Iress

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MARKET INDICATORS
SHORT TERM

Market indicators (% change) [1]		Nov 2021	Dec 2021	Jan 2022	3 months	12 months
Local equities	ALSI	4.5	4.8	0.9	10.4	23.9
	Capped SWIX	0.9	4.9	2.4	8.4	26.2
	Resources	6.5	5.3	3.6	16.3	30.4
	Industrials	5.7	2.9	(1.9)	6.7	14.4
	Financials	(2.6)	8.7	3.5	9.5	37.7
	Listed Property	2.2	7.9	(2.9)	7.1	37.4
Local bonds	ALBI	0.7	2.7	0.8	4.2	8.5
Local cash	STeFI Composite	0.3	0.3	0.3	1.0	3.8
Global equities	MSCI All Country	1.7	4.4	(8.2)	(2.6)	14.9
Global bonds	FTSE WGBI	4.1	(0.3)	(5.5)	(1.9)	(6.4)
Exchange rate	ZAR/USD	4.2	0.3	(3.5)	0.9	1.5
Inflation	CPI	0.4	0.6	0.2	1.2	5.7

1. *Total returns (in Rands) for the months and periods ending 31 January 2022.*

Source: Iress

MARKET INDICATORS
MEDIUM TO LONG TERM

Market indicators (% change) [1]		1 year	3 years	5 years	10 years	15 years
Local equities	ALSI	23.9	15.0	10.6	11.6	10.7
	Capped SWIX	26.2	10.8	7.2	10.4	9.9
	Resources	30.4	27.4	21.3	7.3	7.3
	Industrials	14.4	14.5	8.0	13.4	13.1
	Financials	37.7	0.8	3.7	9.9	8.2
	Listed Property	37.4	(6.6)	(5.2)	5.1	7.8
Local bonds	ALBI	8.5	8.4	8.9	8.1	8.3
Local cash	STeFI Composite	3.8	5.4	6.2	6.2	6.9
Global equities	MSCI All Country	14.9	21.3	15.7	18.5	12.1
Global bonds	FTSE WGBI	(6.4)	6.7	5.1	7.7	8.2
Exchange rate	ZAR/USD	1.5	5.1	2.7	7.0	5.1
Inflation	CPI	5.7	4.4	4.3	5.0	5.6

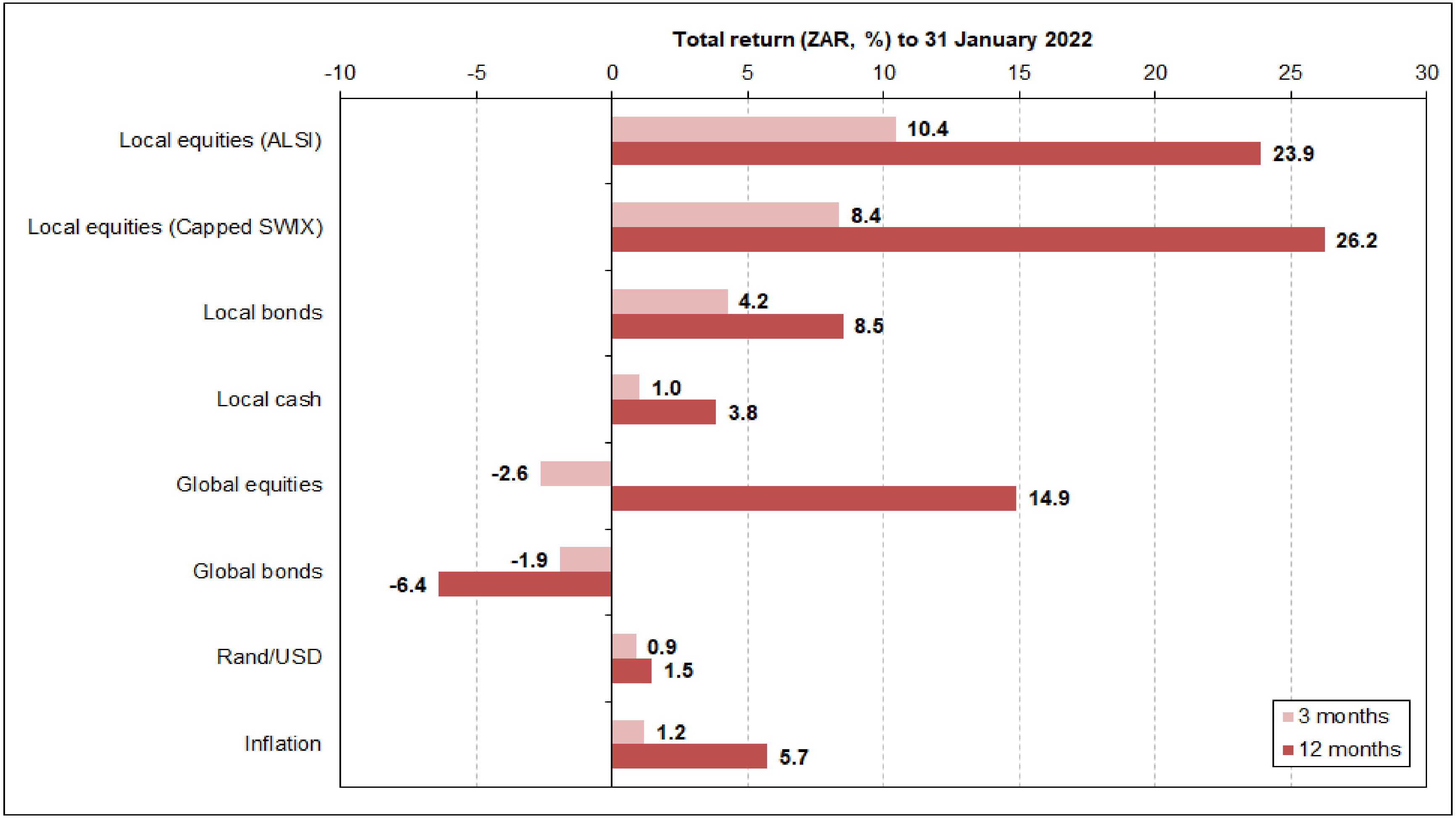
1. *Total returns (in Rands) for the months and periods ending 31 January 2022.*

ECONOMIC INDICATORS

Economic indicators [1]	Jan 2020	Jan 2021	Nov 2021	Dec 2021	Jan 2022
Exchange rates:					
ZAR/USD	15.00	15.16	15.89	15.94	15.39
ZAR/GBP	19.81	20.78	21.13	21.56	20.69
ZAR/Euro	16.65	18.40	18.01	18.13	17.28
Commodities:					
Brent Crude Oil (USD/barrel)	58.16	55.04	69.23	77.78	89.26
Platinum (USD/ounce)	957.50	1,082.95	952.76	969.00	1,018.50
Gold (USD/ounce)	1,589.69	1,846.97	1,793.14	1,829.32	1,790.62

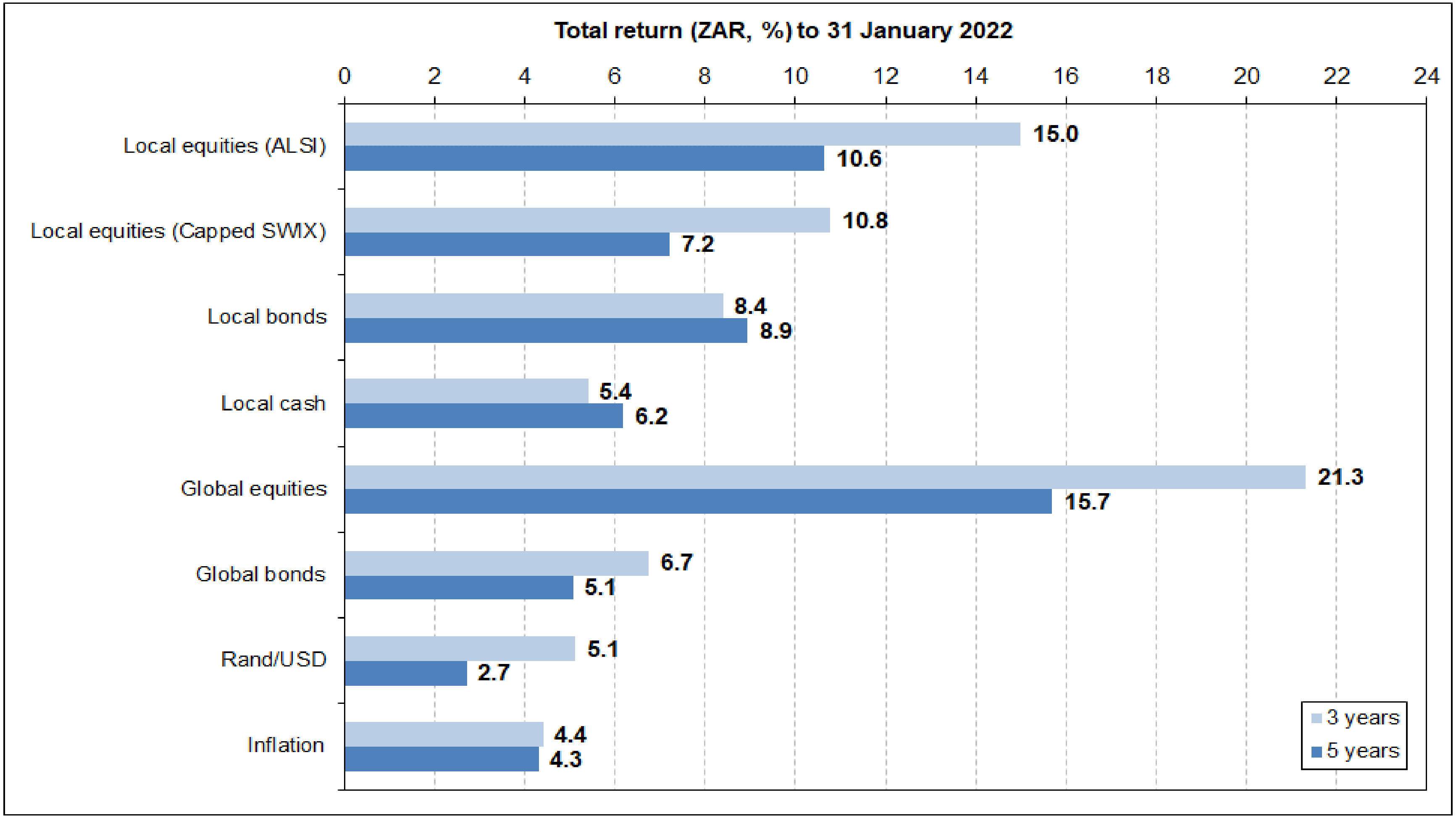
1. *Month-end prices*

ASSET CLASS PERFORMANCE
SHORT TERM



Source: Iress

ASSET CLASS PERFORMANCE
MEDIUM TERM



Source: Iress

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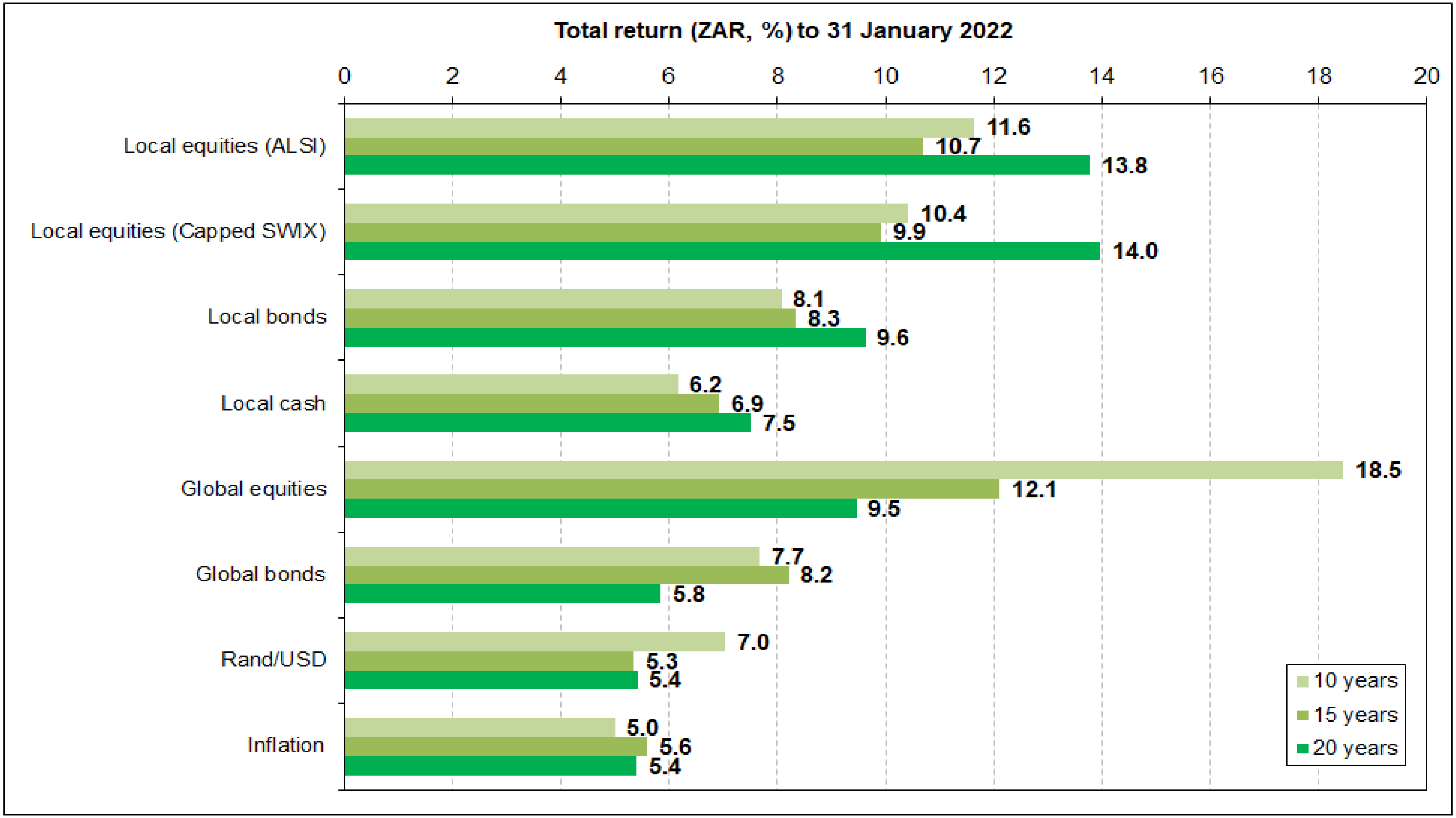
ASSET CLASS PERFORMANCE
LONG TERM



Source: Iress

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:

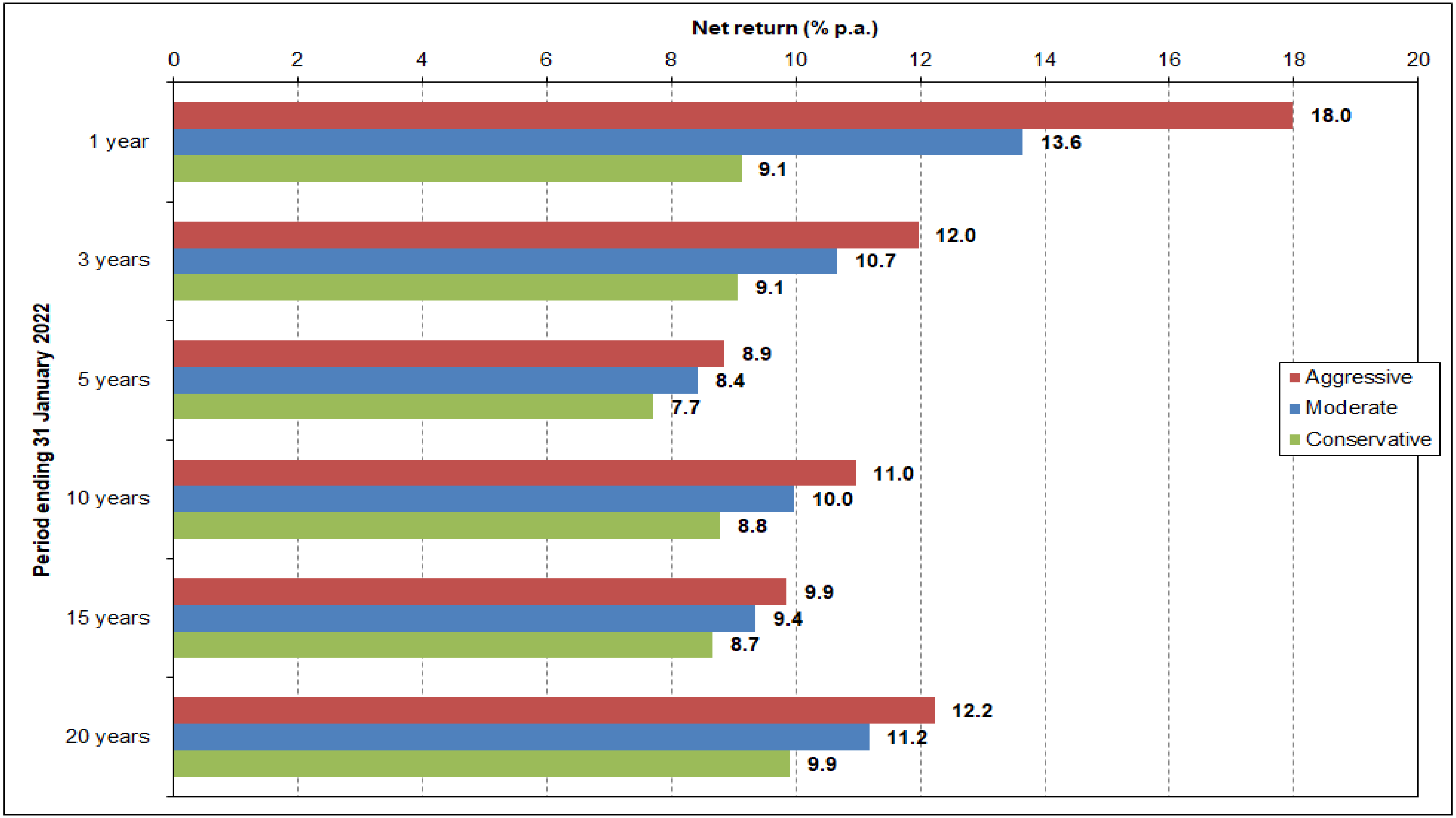
AGGRESSIVE						
Strategic allocation	LOCAL VS OFFSHORE	75%			25% (5% below regulatory maximum)	
	GROWTH VS INCOME ASSETS	75%	25%		75%	25%
	EQUITIES VS BONDS VS CASH	100%	75%	25%	100%	100%
Current allocation		~56%	~14%	~5%	~19%	~6%

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?



Source: Iress

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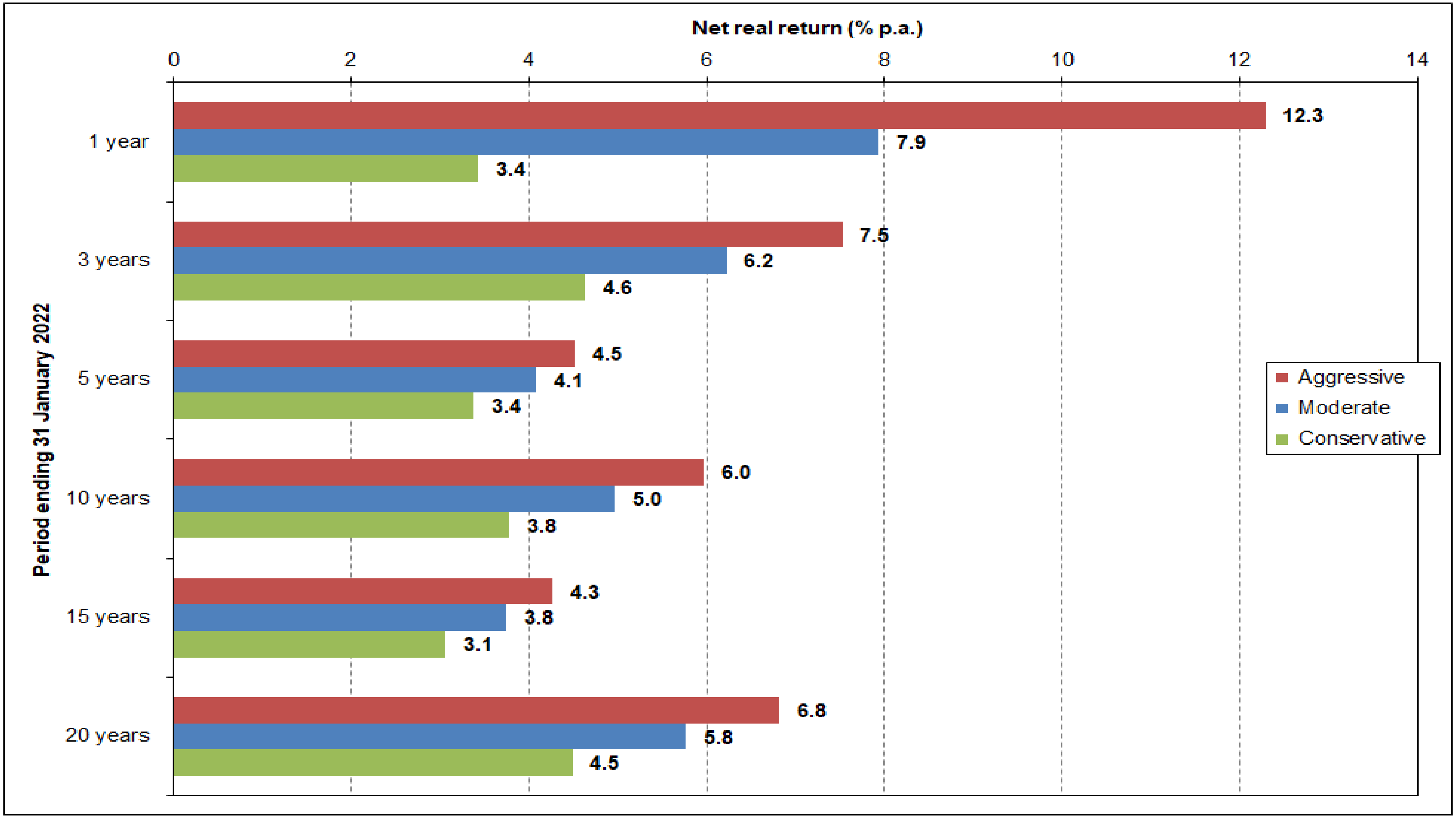
MARKET PERFORMANCE

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



Source: Iress

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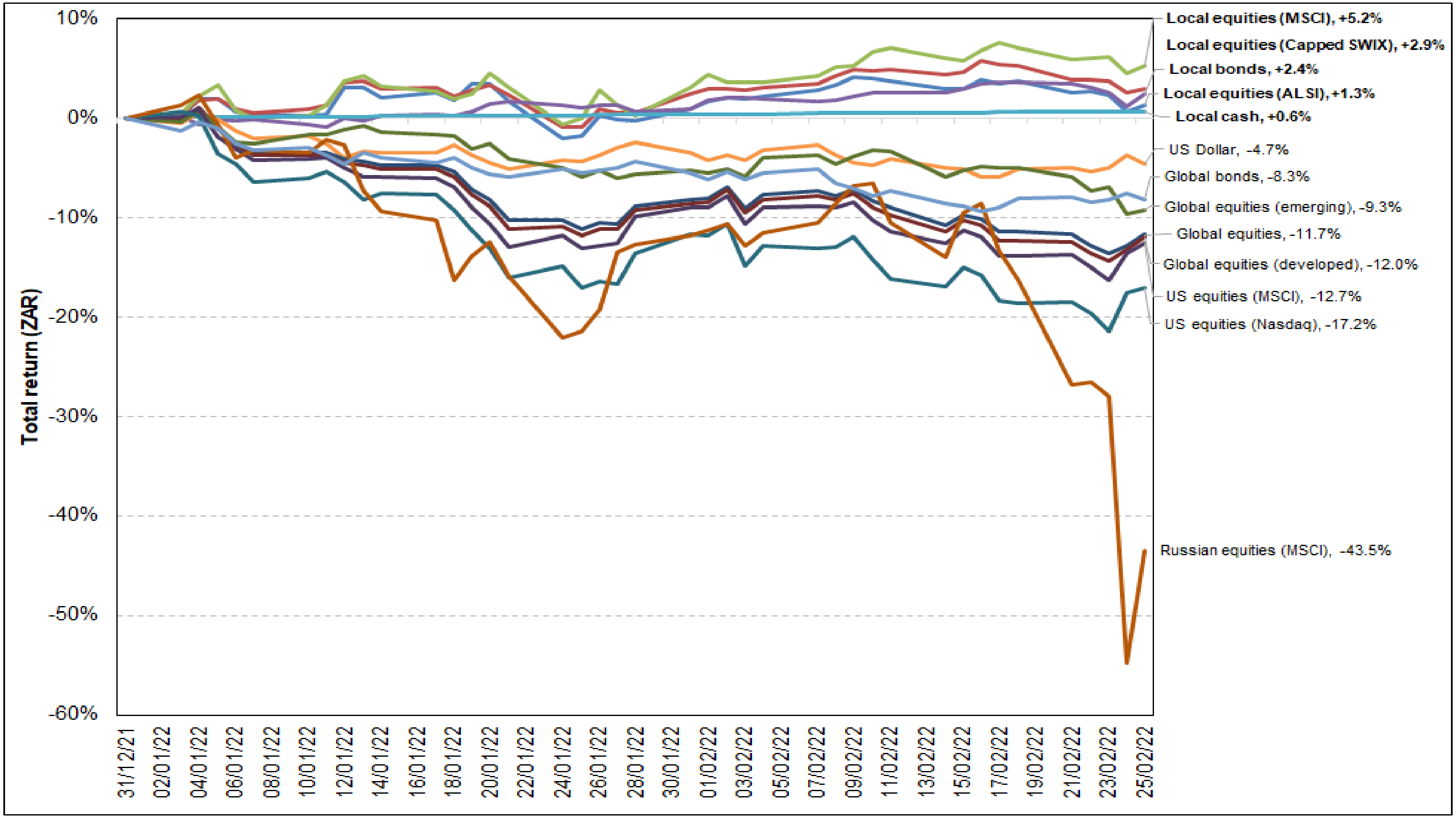
MAJOR ASSET CLASSES
LOCAL ASSETS HOLDING UP WELL AMIDST THE TURMOIL



Source: Iress

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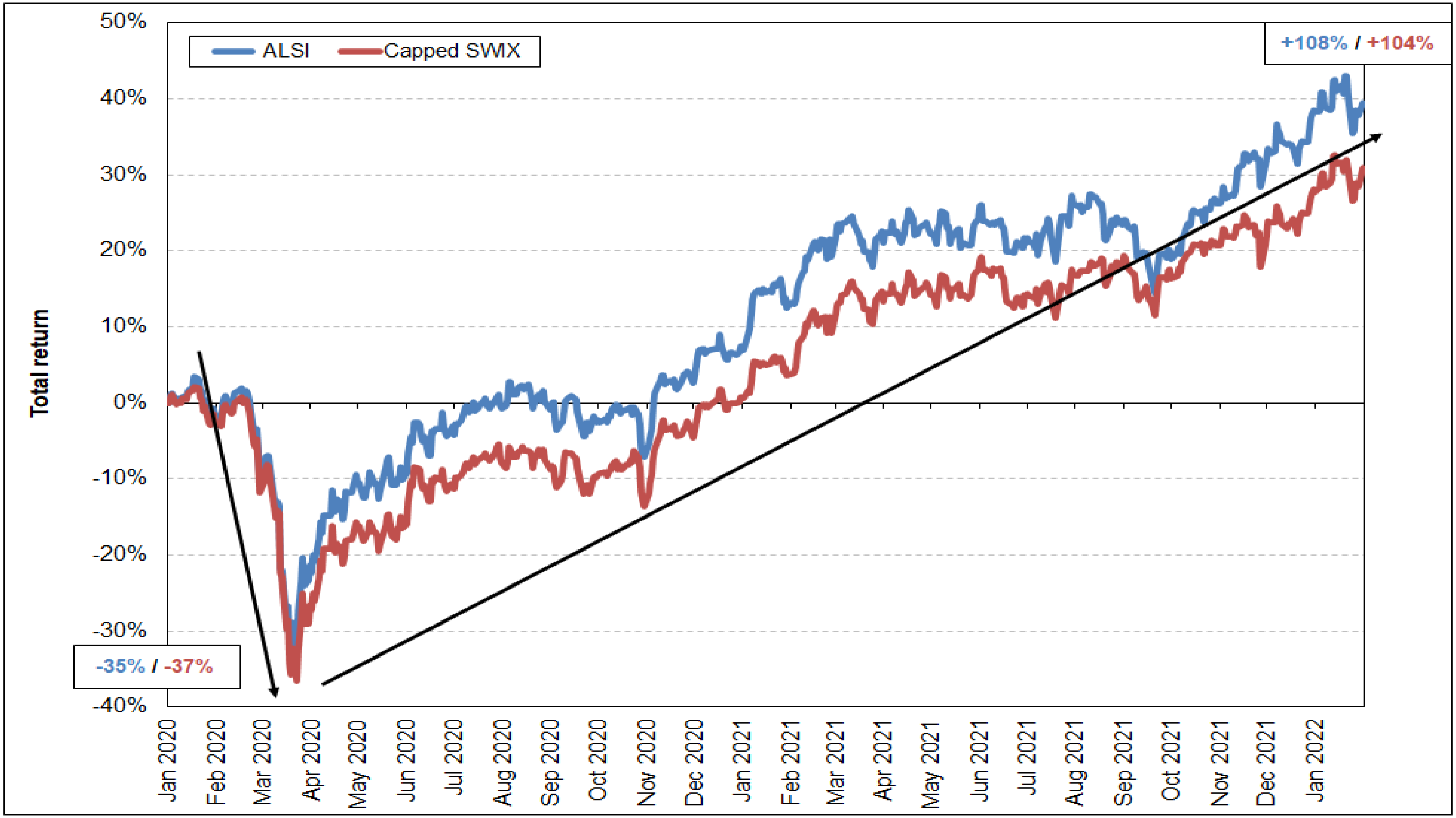
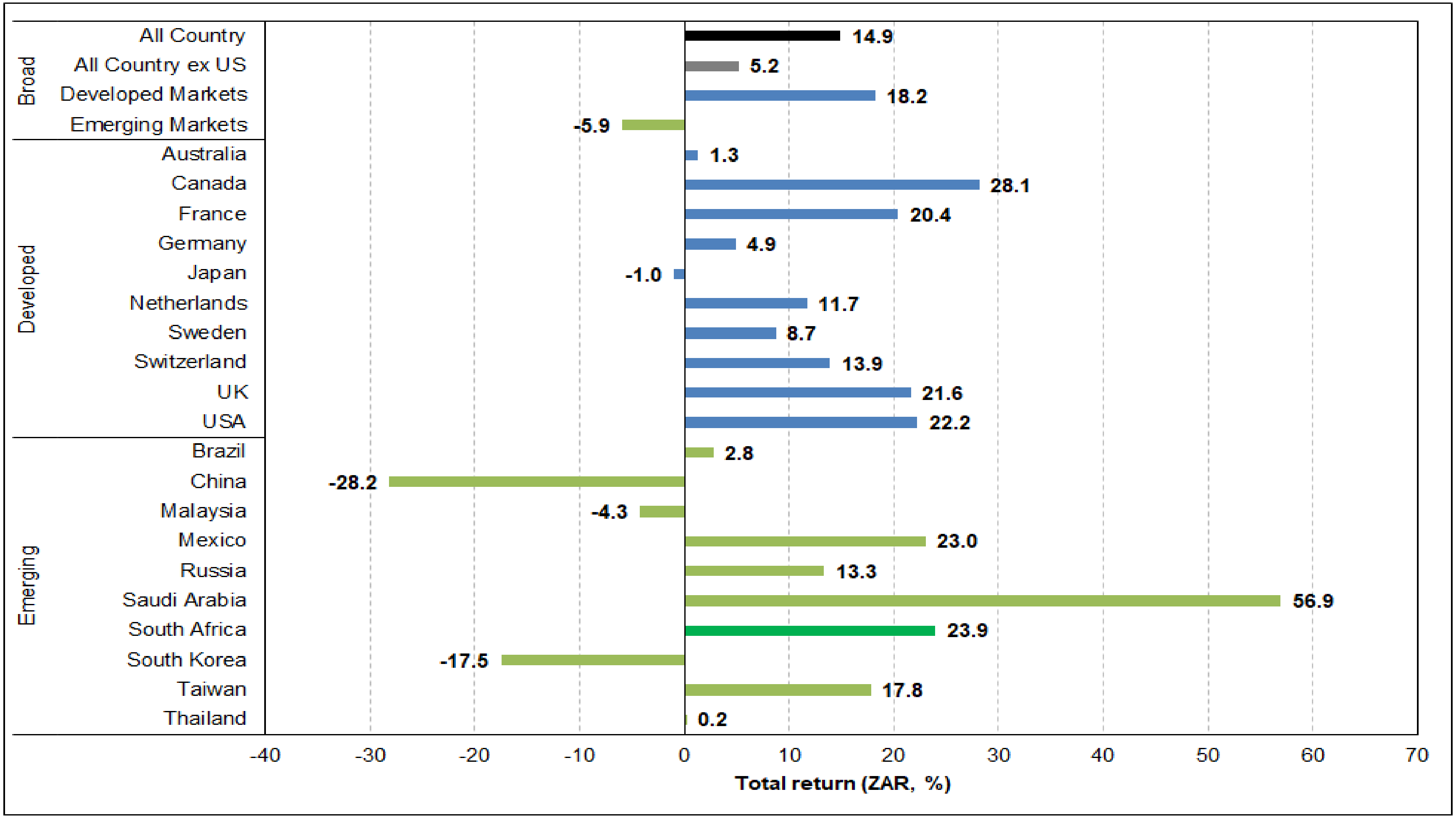
LOCAL EQUITY MARKET
CONTINUES TO MAKE GAINS



Source: Iress

GLOBAL EQUITIES
SOUTH AFRICA OUTPERFORMS OVER THE LAST YEAR



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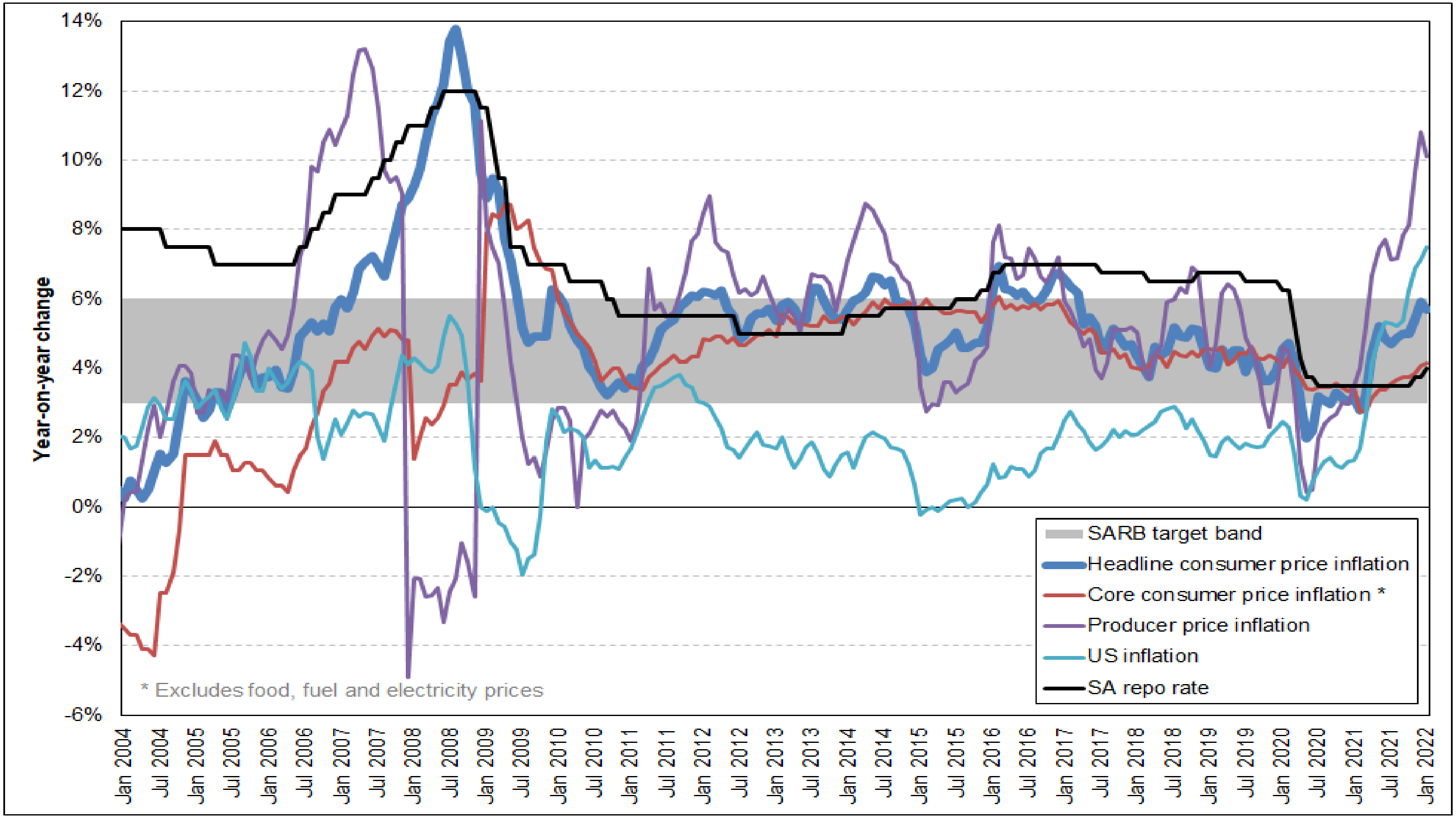
INTEREST RATES & INFLATION

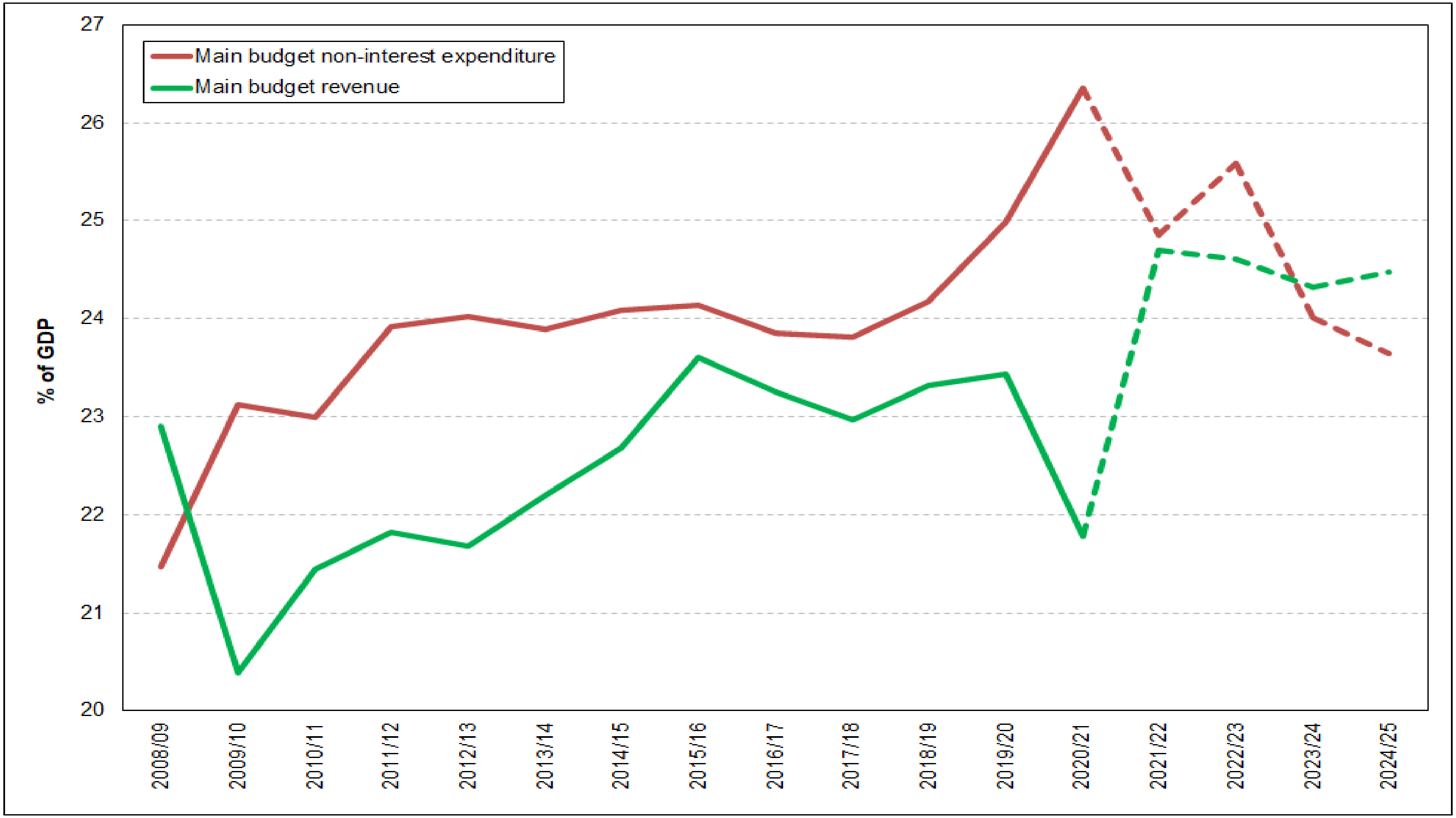
US INFLATION SPIKES, LOCAL INTEREST RATES SLOWLY RISING



Source: Iress

BUDGET 2022

MOST SOUTH AFRICANS DESPARATELY WAITING FOR THE HIPPO'S JAWS TO CLOSE



Source: National Treasury

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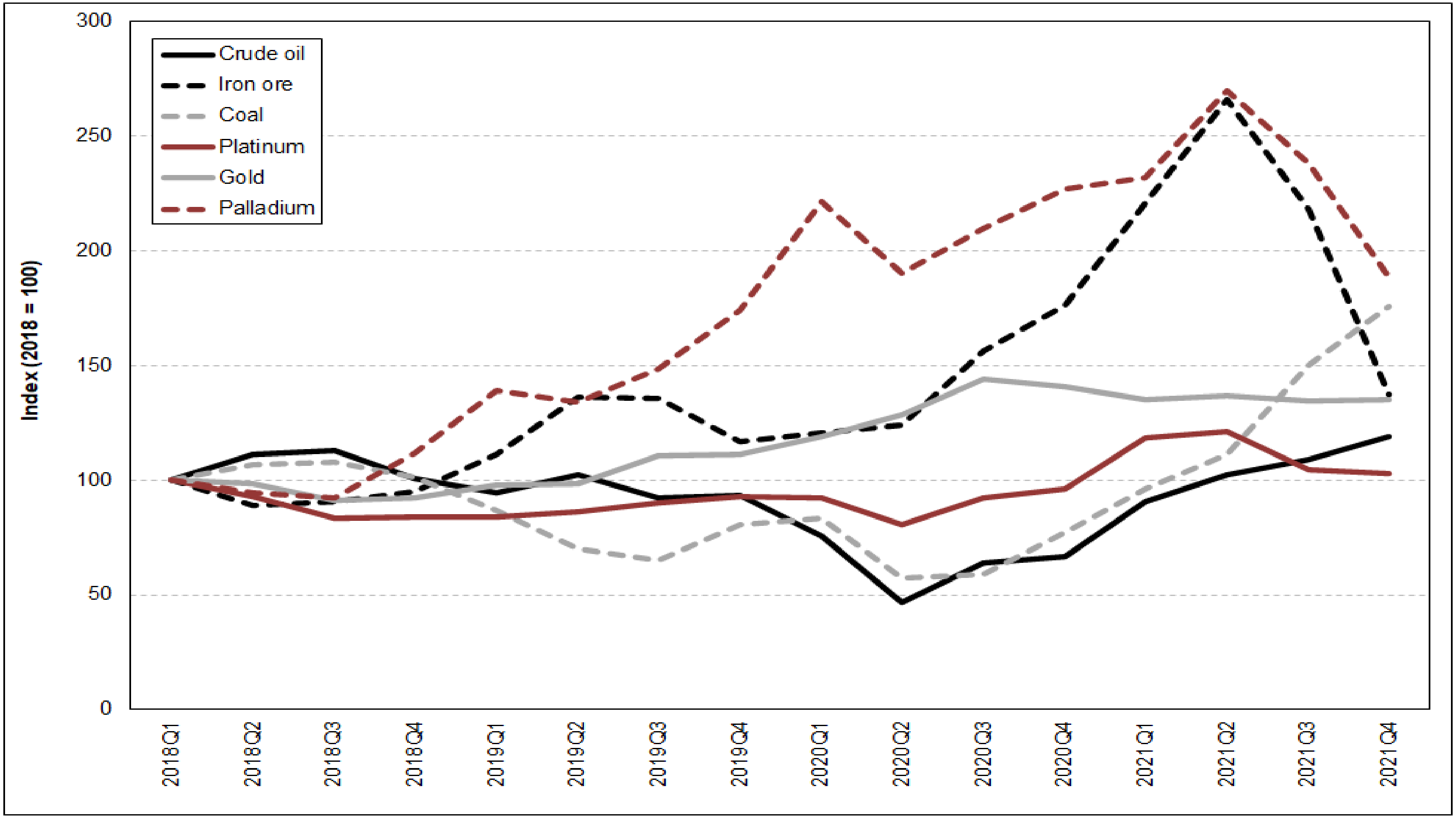
BUDGET 2022

BUOYANT COMMODITY PRICES SUPPORTING THE FISCUS...



Source: National Treasury

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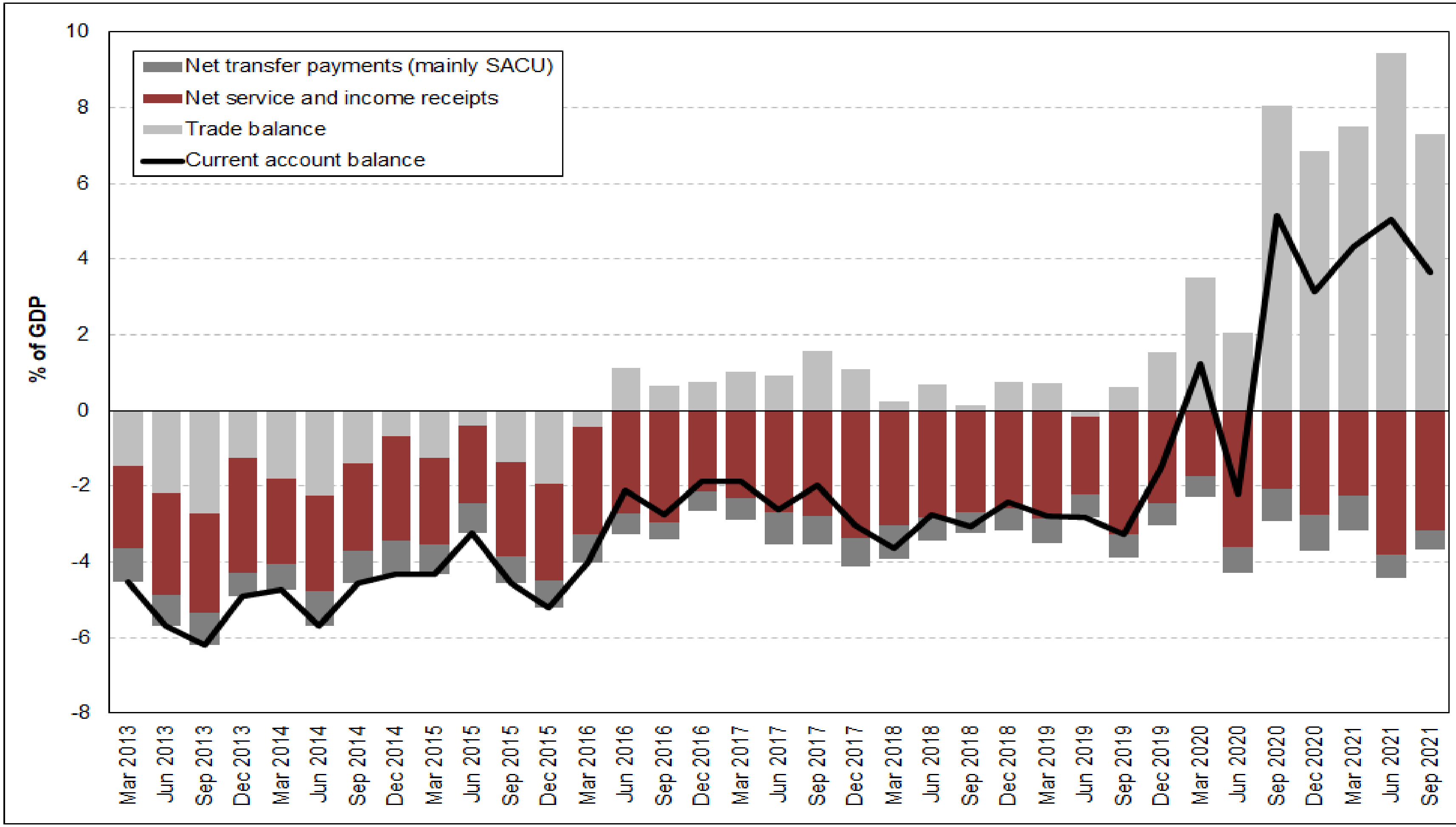
BUDGET 2022
...AND KEEPING THE CURRENT ACCOUNT IN SURPLUS



Source: National Treasury

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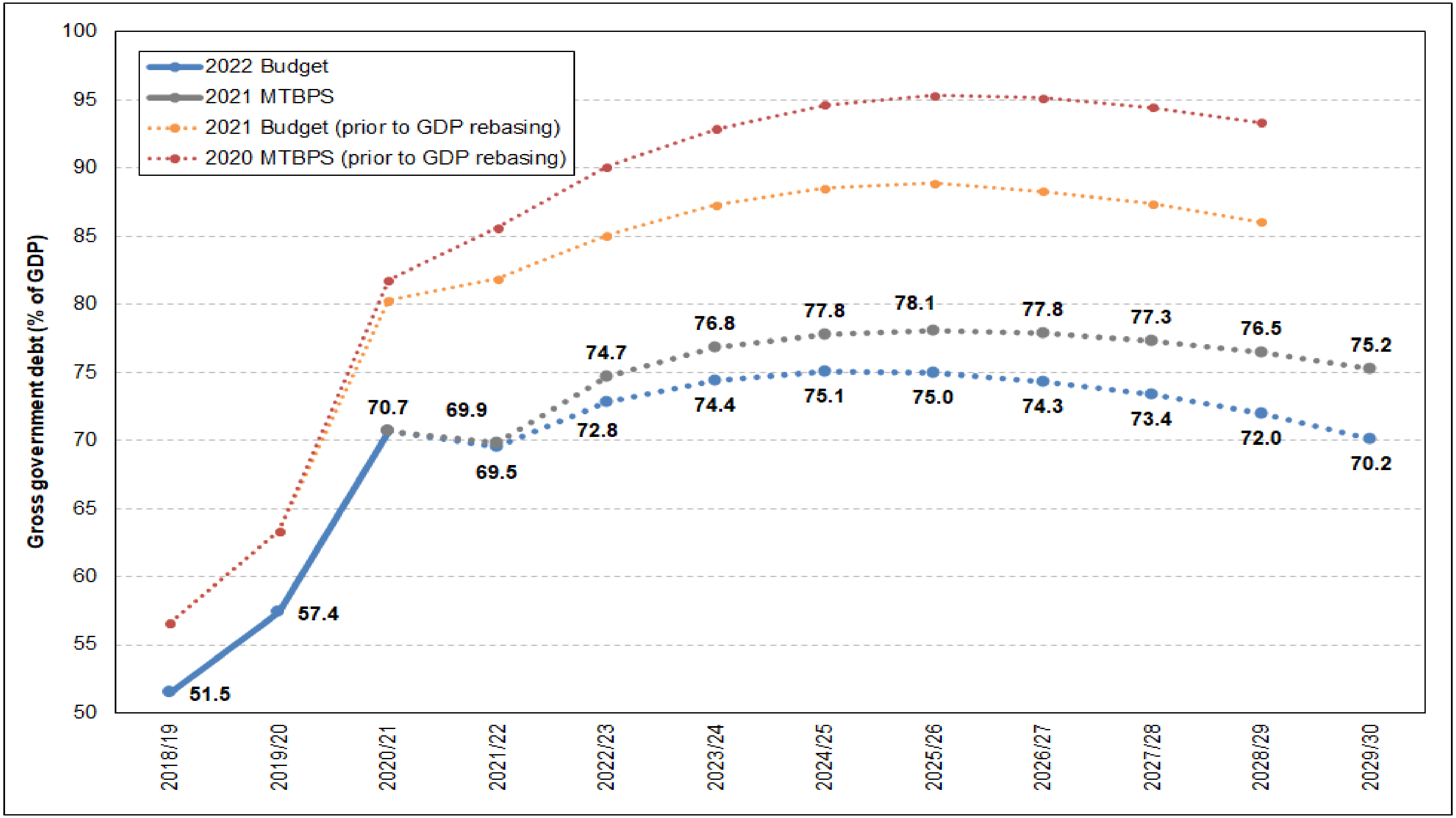
BUDGET 2022
GOVERNMENT DEBT REVISED LOWER AGAIN…



Source: National Treasury

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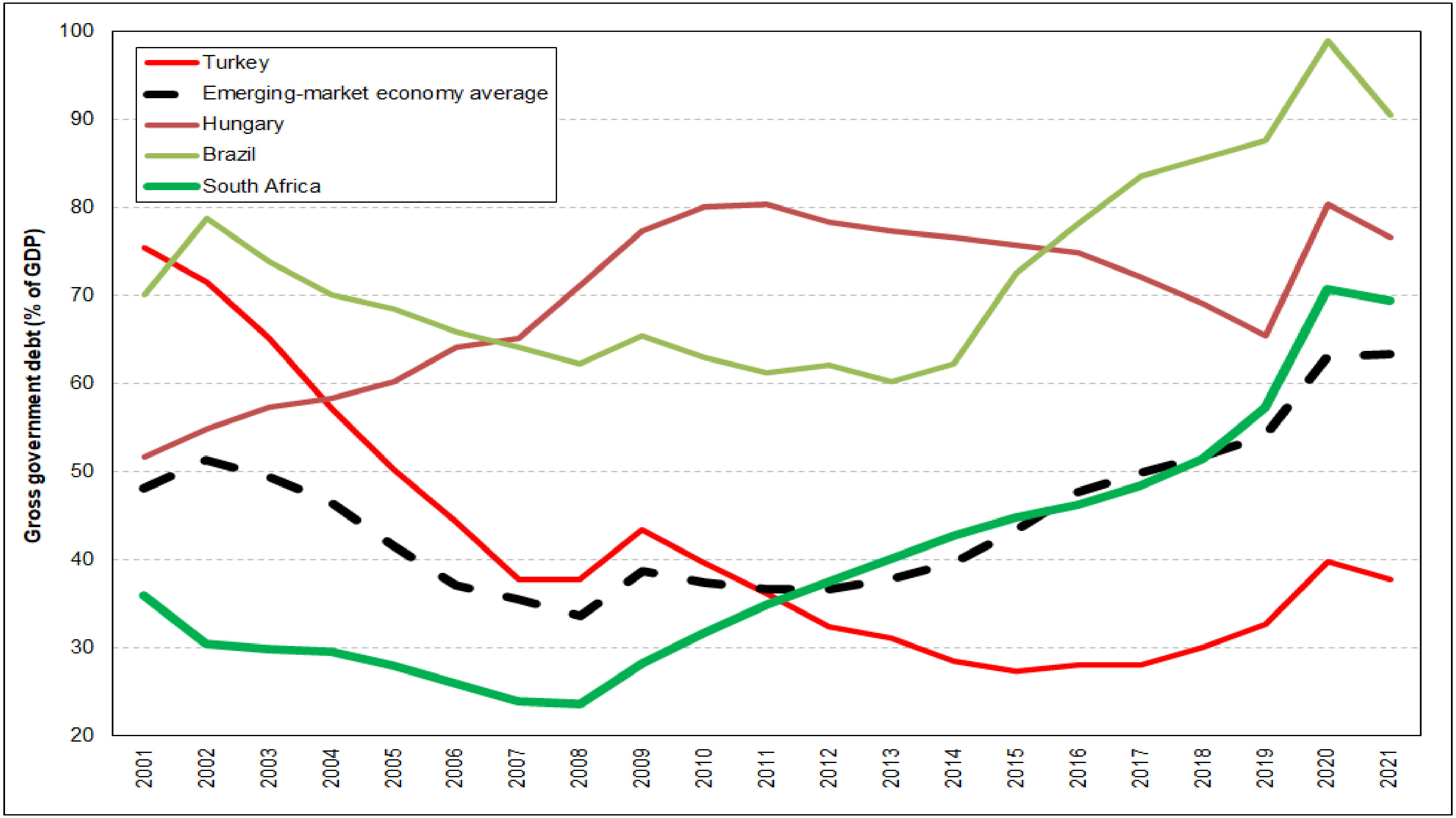
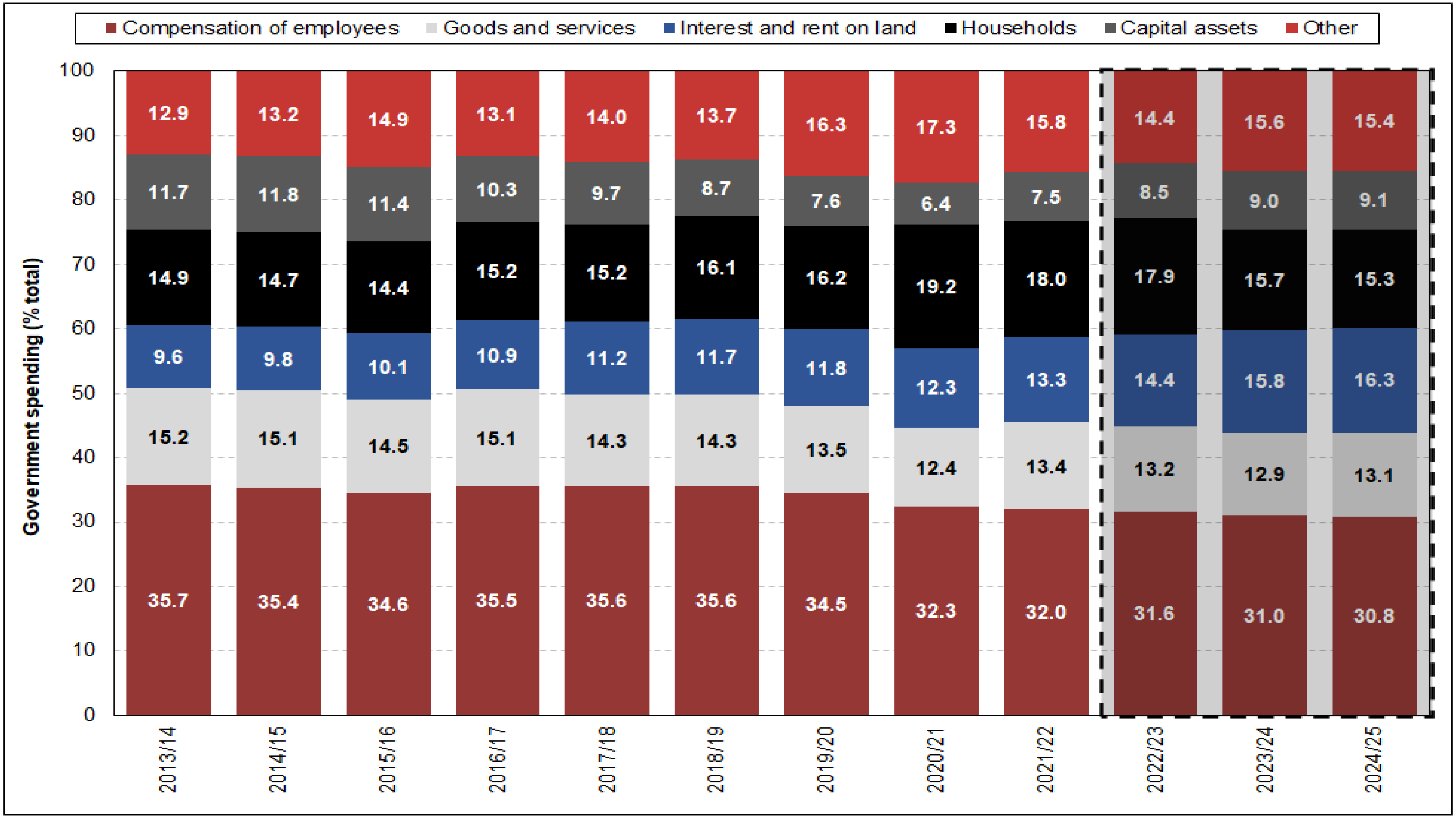
BUDGET 2022
...BUT LONG TERM TREND IS WORRYING



Source: National Treasury

BUDGET 2022

TREASURY TRYING TO REIN BACK PUBLIC SECTOR WAGES...



Source: National Treasury

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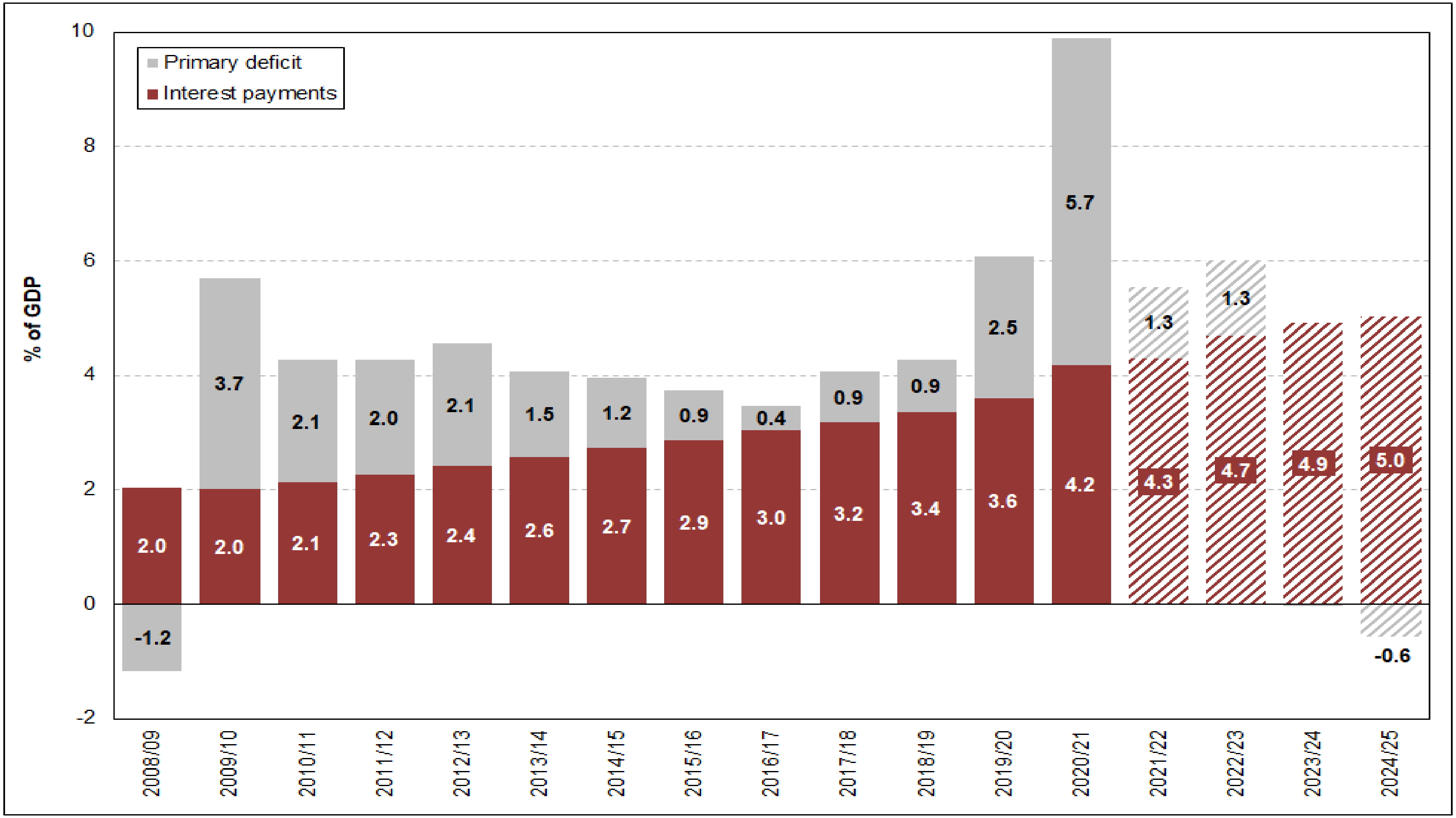
BUDGET 2022

...EXPECTING A PRIMARY SURPLUS IN 2024/25, BUT INTEREST COSTS REMAIN A CONCERN



Source: National Treasury

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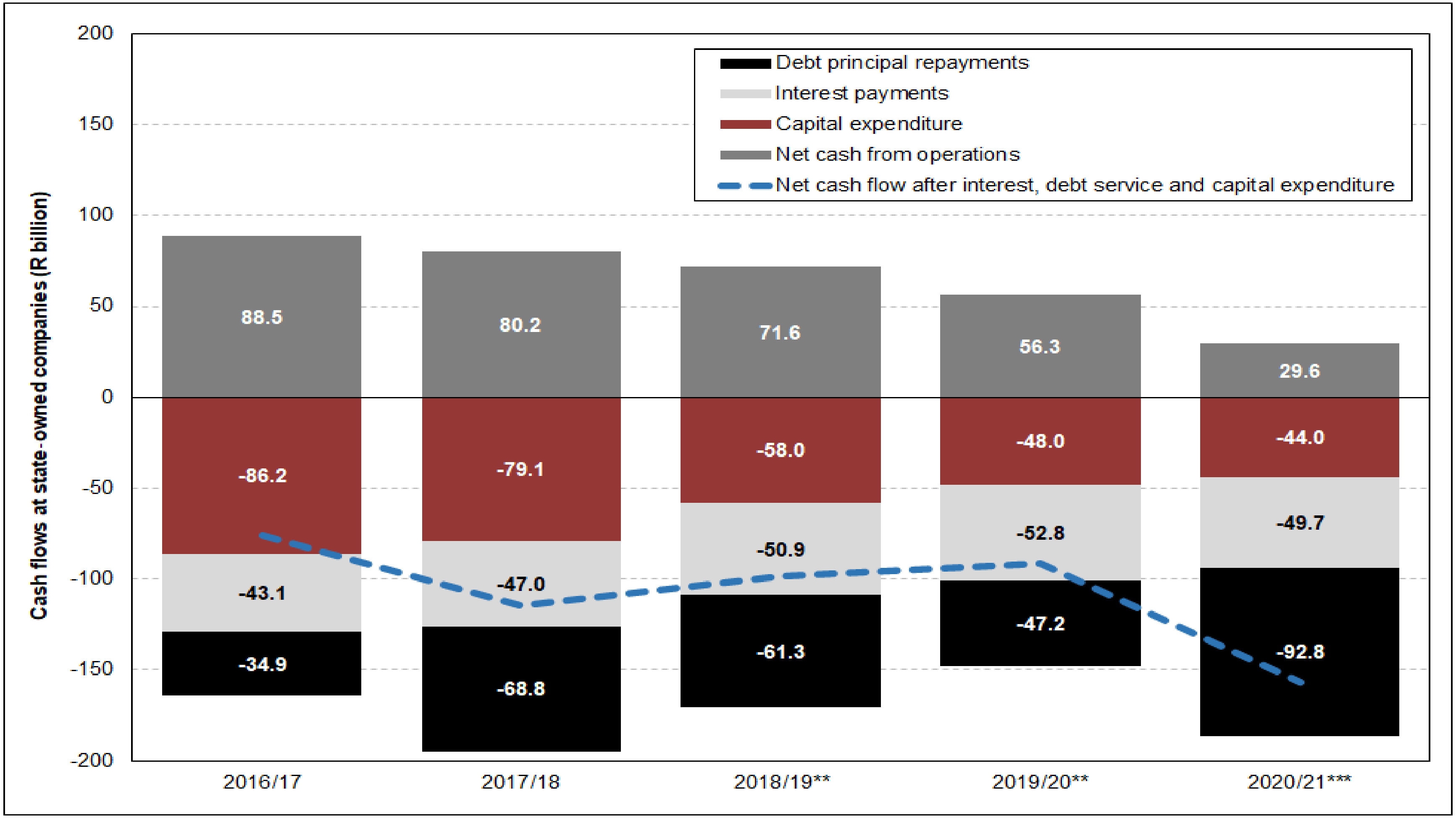
BUDGET 2022
SOE's CONTINUE TO BE A DRAG ON THE FISCUS



Source: National Treasury

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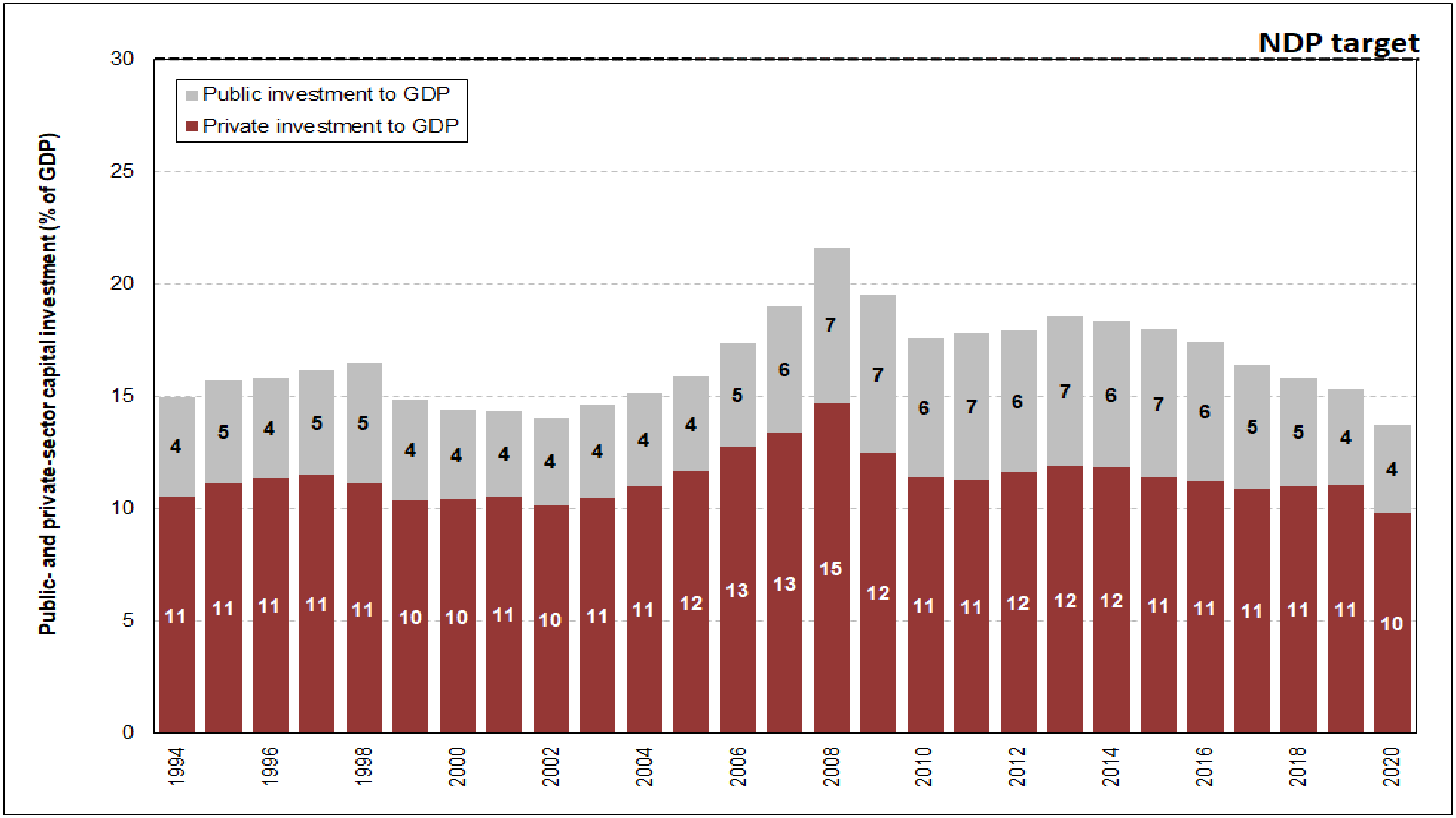
BUDGET 2022

STRUCTURAL REFORMS NEEDED TO HALT DECADE-LONG DECLINE IN INVESTMENT SPENDING



Source: National Treasury

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