

**MONTH IN PICTURES**

**AUGUST 2022**

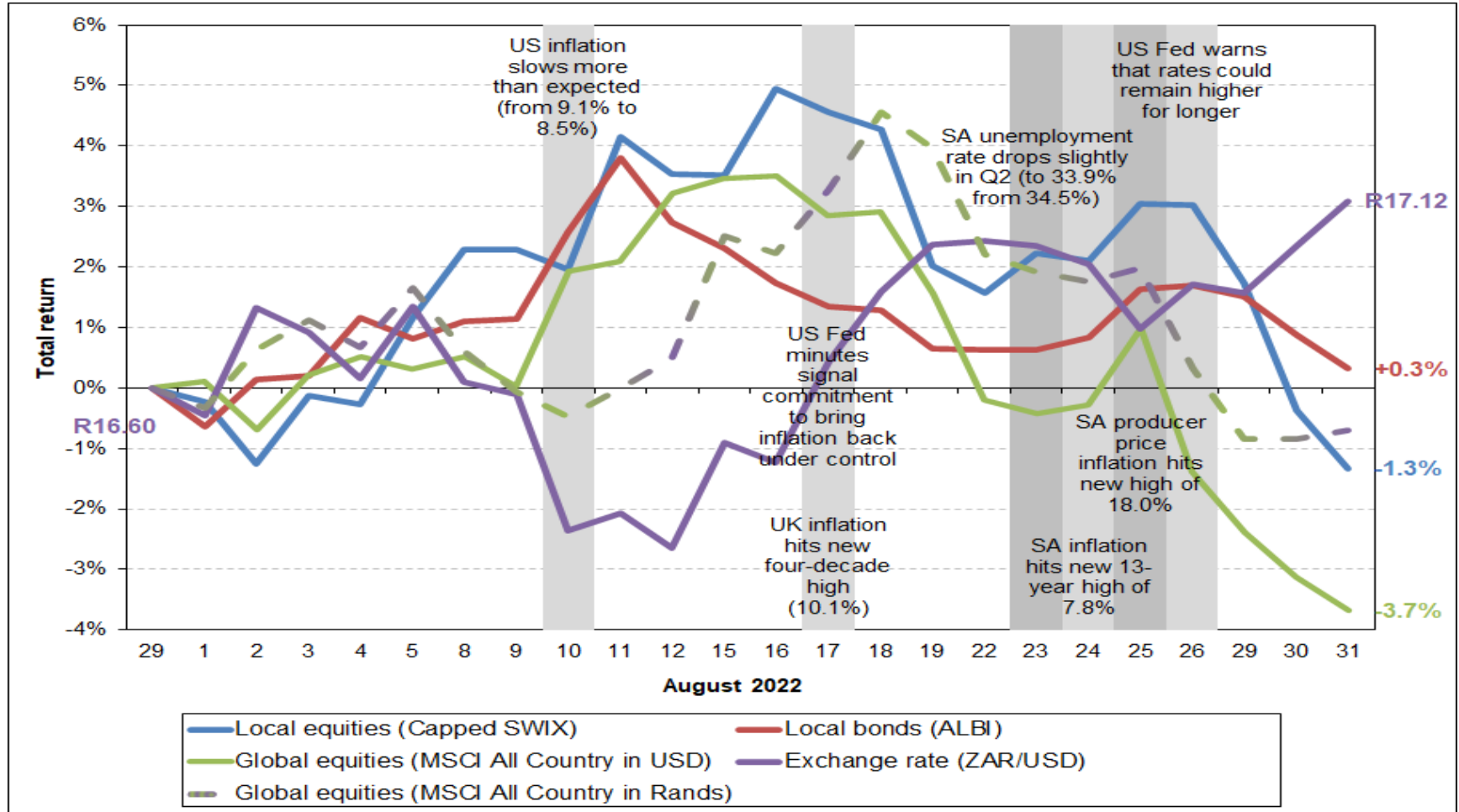
# MONTHLY SNAPSHOT

## NOTABLE EVENTS

- The first half of August continued where July left off, with markets rising on the back of easing inflation concerns and hopes of less aggressive interest rate hikes. Local and global stock markets were close to 5% up for the month at one stage (in ZAR), before these hopes were dashed by a series of hawkish comments from US Fed officials, reaffirming their commitment to keep hiking interest rates until inflation is back under control.
- Local equities ultimately ended the month in the red (ALSI = -1.8% & Capped SWIX = -1.3%), while global equities (-3.7% in USD & -0.7% in ZAR) did marginally better following a rollercoaster month for the Rand against a very strong US Dollar, during which we saw the local unit trading as low as R16.16/USD at one point, before closing the month significantly weaker at R17.12/USD
- Global bond yields continued to inch higher, resulting in yet another loss for this asset class (-4.4% in USD and -1.4% in ZAR). Local bond yields also rose, but still managed to deliver a positive return (+0.3%) given the prevailing high yields on offer.
- This does unfortunately mean that most of the major asset classes remain in negative territory on a year-to-date (YTD) basis, with global equities (-11.7%) and global bonds (-10.9%) being worst affected, despite a 7% boost from a weaker Rand (against the USD). Although the USD rate tends to dominate headlines, it should be noted that YTD the Rand has actually *appreciated* against many other major currencies, including the British Pound (by 8%), the Euro (by 5%) and the Japanese Yen (by 10%).
- On the local market equities (ALSI = -6.2% & Capped SWIX = -3.2%) are in last place YTD, while bonds (+0.8%) and cash (+3.1%) were able to produce positive returns. The average balanced fund's YTD return now stands at -3.7%.
- With negative returns from global markets (despite a substantially weaker Rand), and barely positive returns from the local market, the average balanced fund's 1-year return now stands at only +3%, but a great 2021 means that 2- and 3-year returns are still quite respectable (+10% and +8% p.a.), despite the latter period included the Covid crash of 2020 as well.
- In economic news local inflation fell back from its 13-year high of 7.8% by clocking in at 7.6% in August. Fuel price cuts were behind the monthly drop but, with a 43% increase over the last year, fuel prices remain the largest contributor to the year-on-year number.
- The local economy contracted by 0.7% in 2022 Q2, with extensive load shedding and the KZN floods weighing on output. The expectation for 2022's growth remains around +2%, however.
- A weak economy and tentative signs of inflation possibly peaking was not enough to derail the SARB or the US Fed from their rate hiking cycles, with 75 basis point hikes announced by both in September. This brings the local repo rate to 6.25% (almost back to pre-Covid levels) and its US equivalent to 3.25%.

# MONTHLY TIMELINE

## IMPACT ON MARKETS



# MARKET INDICATORS

## SHORT TERM

Market indicators (% change) <sup>1</sup>		Jun 2022	Jul 2022	Aug 2022	3 months	YTD	12 months
Local equities	ALSI	(8.0)	4.2	(1.8)	(5.9)	(6.2)	4.6
	Capped SWIX	(7.5)	2.8	(1.3)	(6.1)	(3.2)	3.7
	Resources	(16.3)	1.3	(3.8)	(18.5)	(8.1)	1.4
	Industrials	0.9	5.8	(0.4)	6.4	(11.1)	2.4
	Financials	(13.3)	3.9	(1.9)	(11.7)	3.2	8.0
	Listed Property	(10.3)	8.8	(5.4)	(7.7)	(10.1)	(3.4)
Local bonds	ALBI	(3.1)	2.4	0.3	(0.4)	0.8	1.5
Local cash	STeFI Composite	0.4	0.4	0.5	1.3	3.1	4.4
Global equities	MSCI All Country	(4.7)	9.0	(0.7)	3.2	(11.7)	(0.9)
Global bonds	FTSE WGBI	0.8	3.7	(1.4)	3.1	(10.9)	(5.5)
Exchange rate	ZAR/USD	4.1	1.9	3.1	9.4	7.4	17.8
Inflation	CPI	1.1	1.5	0.2	2.9	6.0	7.6

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

# MARKET INDICATORS

## MEDIUM TO LONG TERM

Market indicators (% change) <sup>1</sup>		1 year	3 years	5 years	10 years	15 years	20 years
Local equities	ALSI	4.6	10.8	7.2	10.1	9.2	13.6
	Capped SWIX	3.7	9.4	4.6	8.7	-	-
	Resources	1.4	18.4	17.8	7.9	5.0	9.7
	Industrials	2.4	7.7	3.4	10.2	11.5	16.2
	Financials	8.0	4.6	2.3	8.1	7.9	12.7
	Listed Property	(3.4)	(6.7)	(7.6)	1.6	6.6	13.8
Local bonds	ALBI	1.5	6.7	7.8	7.1	8.3	9.1
Local cash	STeFI Composite	4.4	4.9	5.9	6.1	6.8	7.3
Global equities	MSCI All Country	(0.9)	12.4	13.0	16.7	11.4	10.5
Global bonds	FTSE WGBI	(5.5)	(2.0)	3.2	6.2	7.5	5.3
Exchange rate	ZAR/USD	17.8	4.1	5.6	7.4	6.0	2.5
Inflation	CPI	7.6	5.2	5.0	5.3	5.7	5.3

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

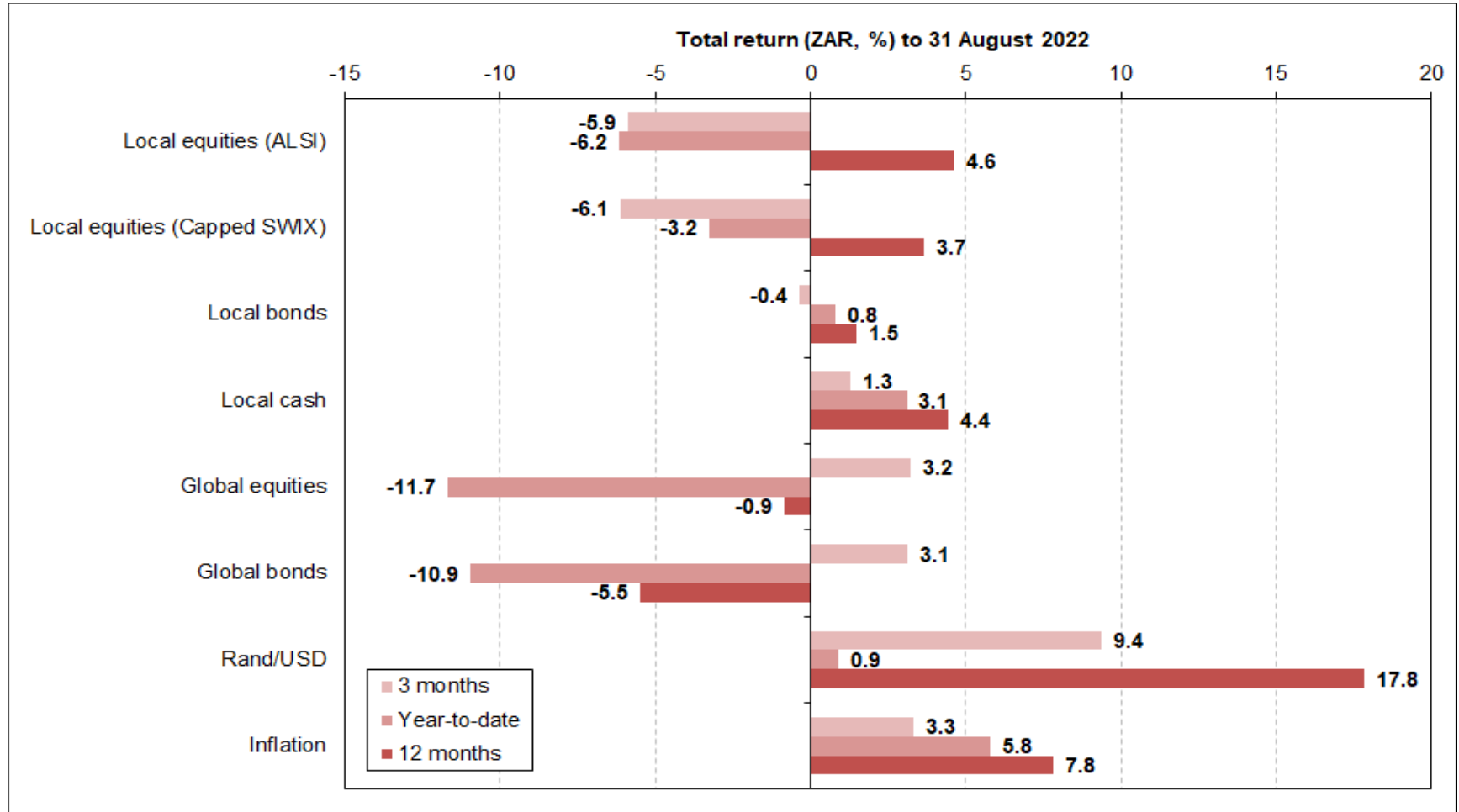
# ECONOMIC INDICATORS

Economic indicators <sup>1</sup>	Aug 2020	Aug 2021	Jun 2022	Jul 2022	Aug 2022
<b>Exchange rates:</b>					
ZAR/USD	16.94	14.52	16.29	16.60	17.12
ZAR/GBP	22.64	19.98	19.82	20.21	19.90
ZAR/Euro	20.22	17.15	17.06	16.98	17.21
<b>Commodities:</b>					
Brent Crude Oil (USD/barrel)	45.28	71.63	109.03	103.97	95.64
Platinum (USD/ounce)	930.39	1,011.00	916.50	899.50	852.50
Gold (USD/ounce)	1,958.40	1,810.58	1,815.02	1,766.34	1,720.84

1. Month-end prices

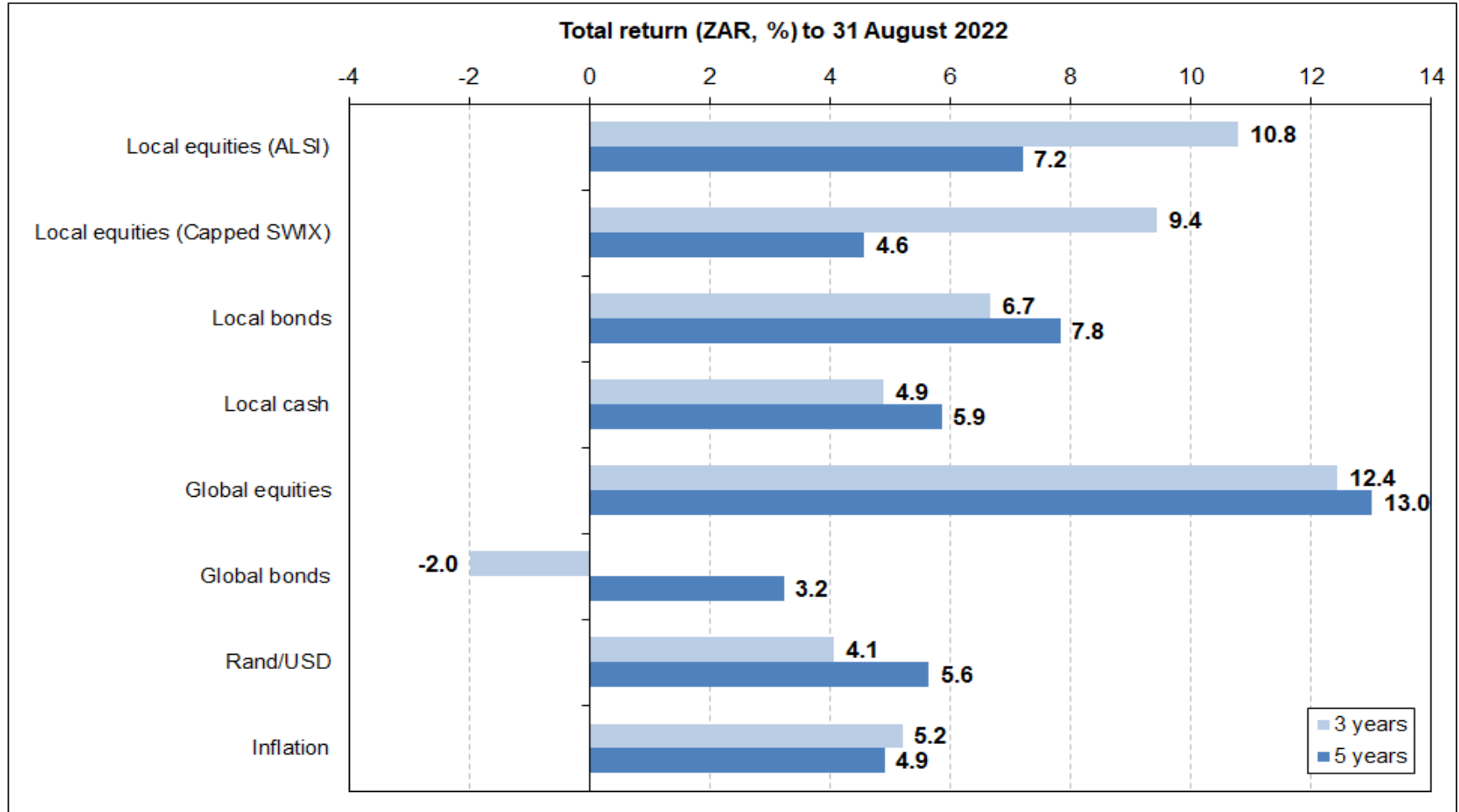
# ASSET CLASS PERFORMANCE

## SHORT TERM



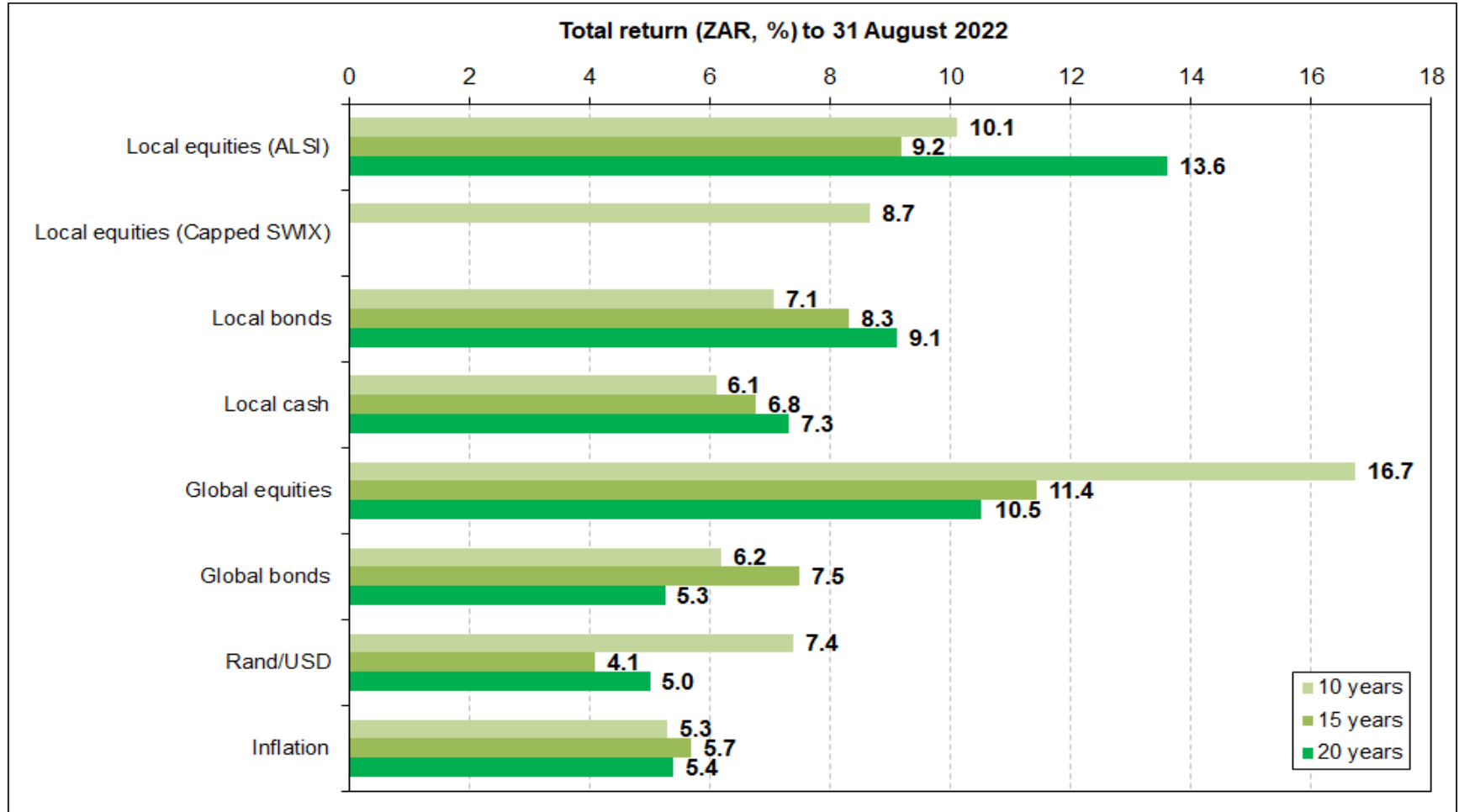
# ASSET CLASS PERFORMANCE

## MEDIUM TERM





# ASSET CLASS PERFORMANCE LONG TERM



# MARKET PERFORMANCE

## WHAT (PAST) RETURNS CAN INVESTORS REASONABLY EXPECT?

Given the performances of the various asset classes, what level of historical returns can retirement funds reasonably expect?

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:

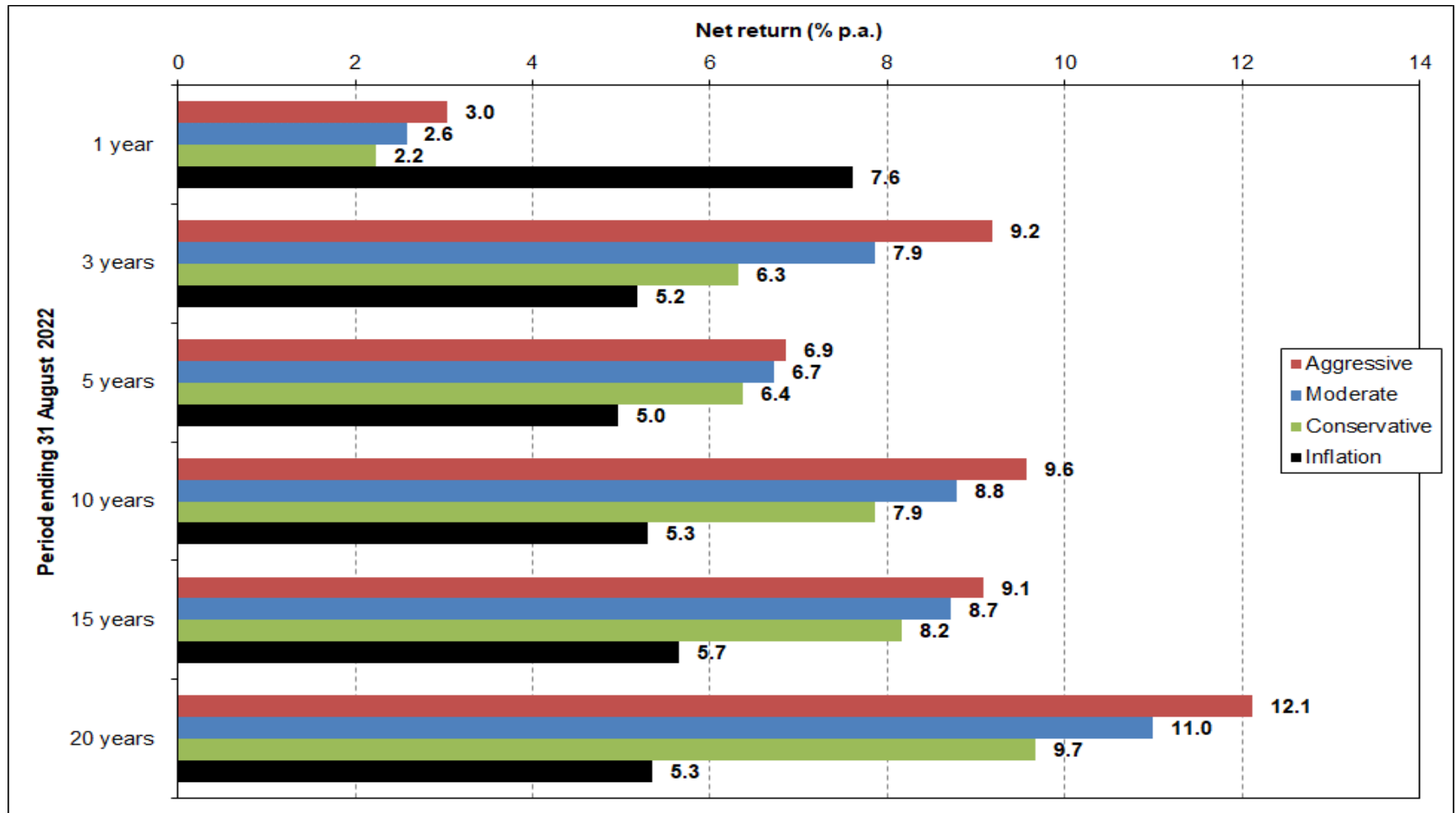
- The offshore allocation is kept at 5% below the prevailing regulatory maximum (15% to 2000, 20% to 2006, 25% to 2018, 30% to 2022 & currently at 45%), with changes to the offshore allocation made in the middle of the year in which the limit changed.
- The equity allocation varies according to the risk 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:

RISK PROFILE	Strategic allocation	LOCAL VS OFFSHORE		60%		40% (5% below regulatory maximum)	
		GROWTH VS INCOME ASSETS	EQUITIES VS BONDS VS CASH	75%	25%	75%	25%
AGGRESSIVE		100%	75%	25%	100%	100%	100%
	Current allocation	~45%	~11%	~4%	~30%	~10%	
MODERATE		100%	55%	45%	100%	100%	100%
	Current allocation	~33%	~15%	~12%	~22%	~18%	
CONSERVATIVE		100%	35%	65%	100%	100%	100%
	Current allocation	~21%	~14%	~25%	~14%	~26%	

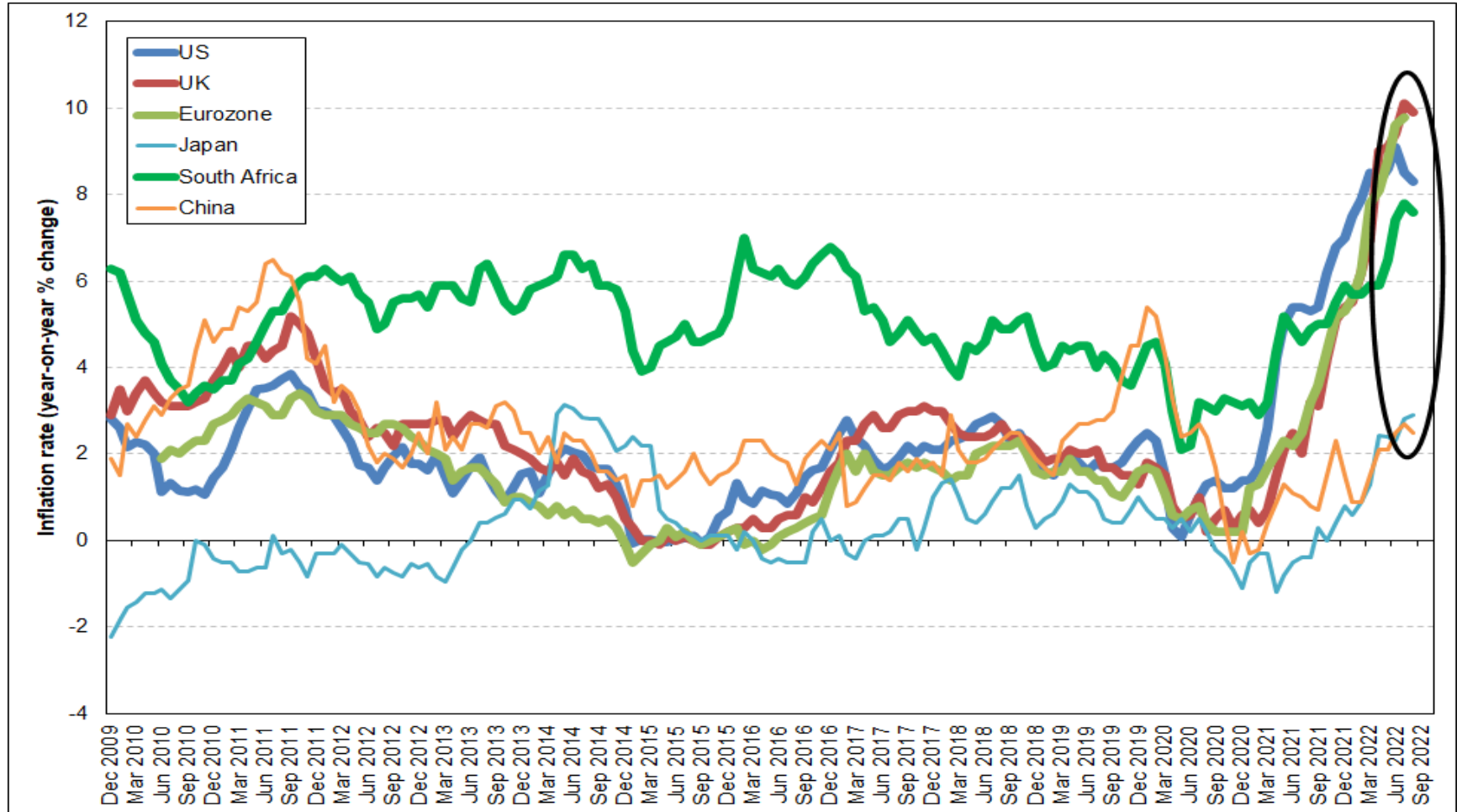
# MARKET PERFORMANCE

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



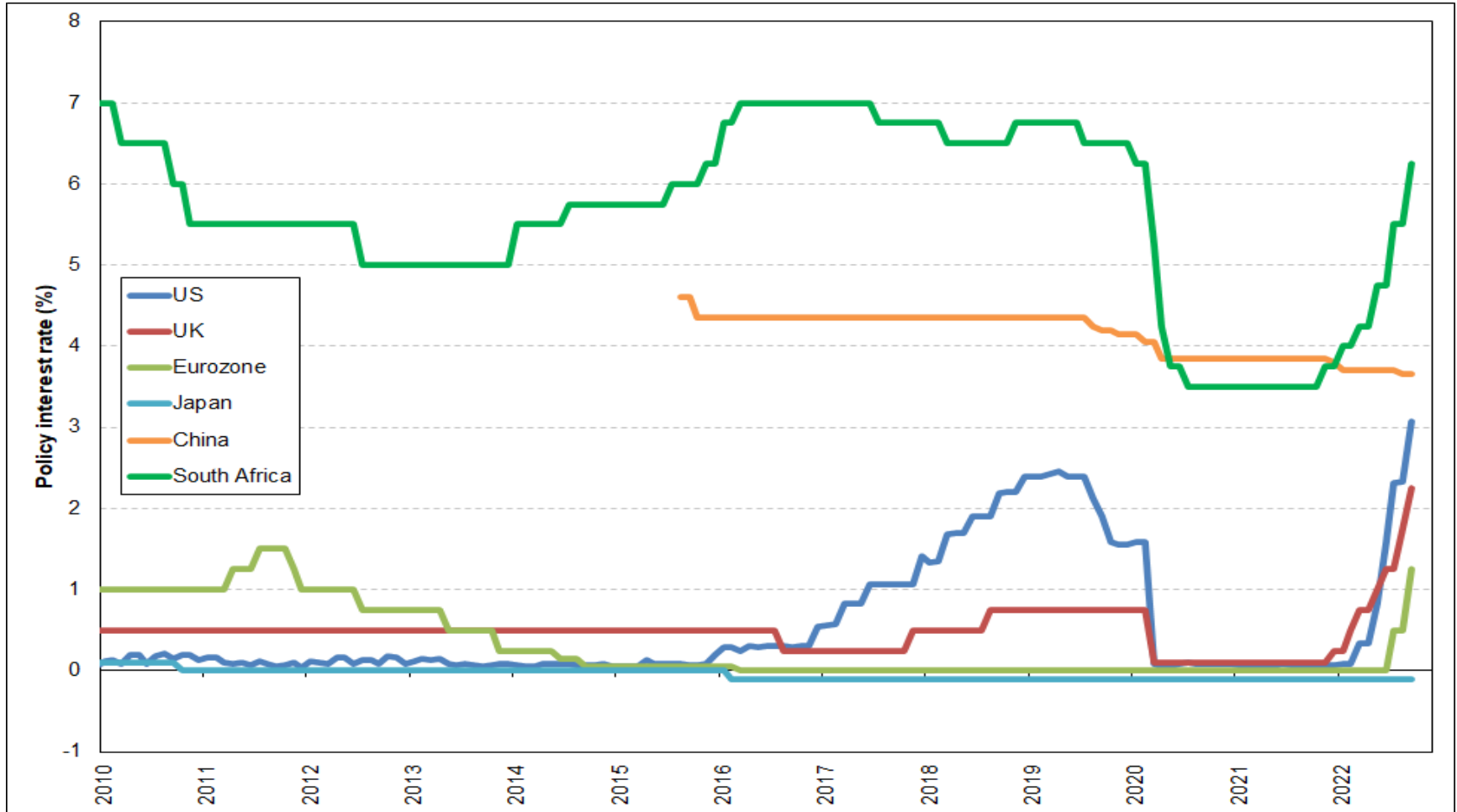
# INFLATION & INTEREST RATES

## HAS INFLATION PEAKED?



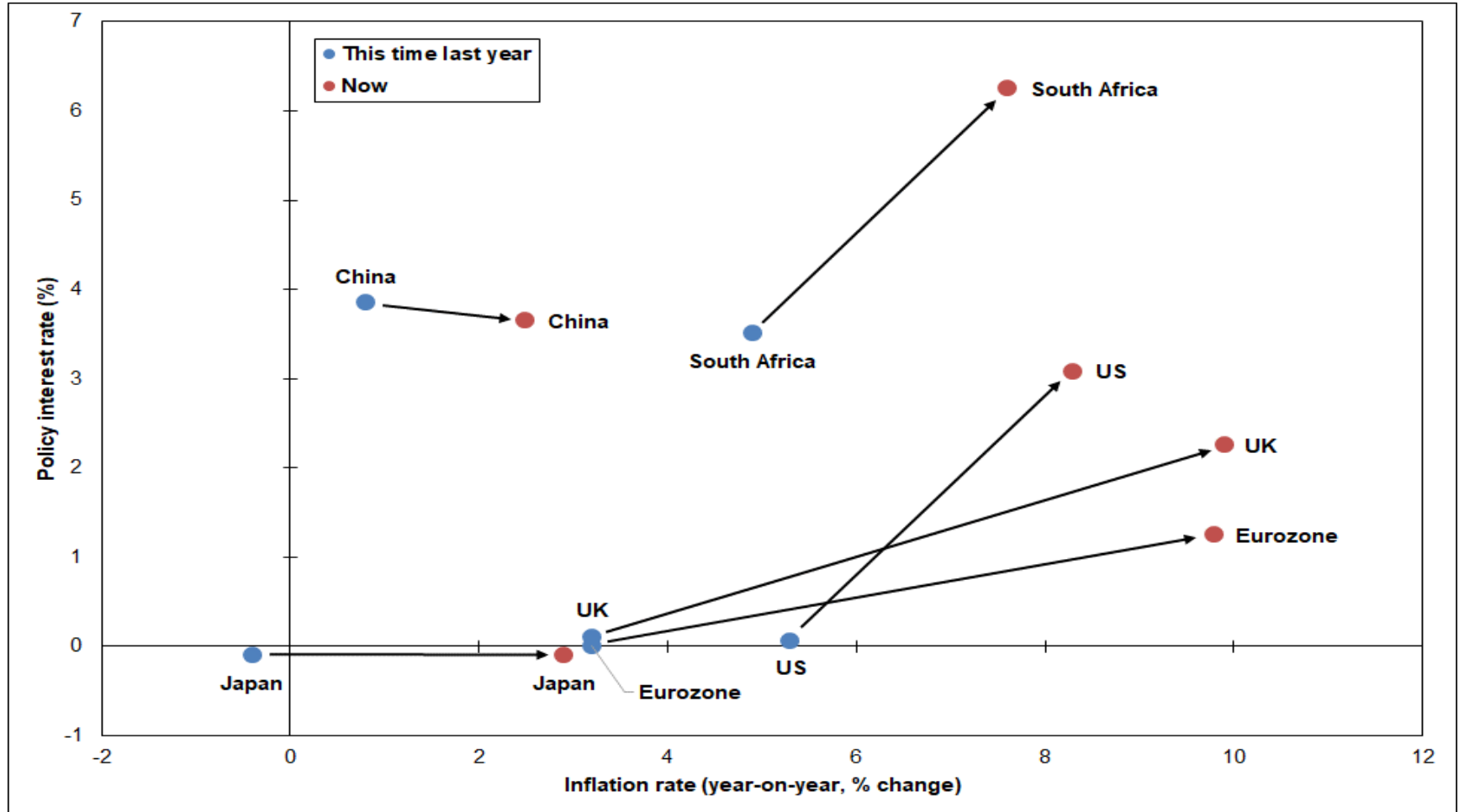
# INFLATION & INTEREST RATES

## INTEREST RATES CERTAINLY HAVEN'T!

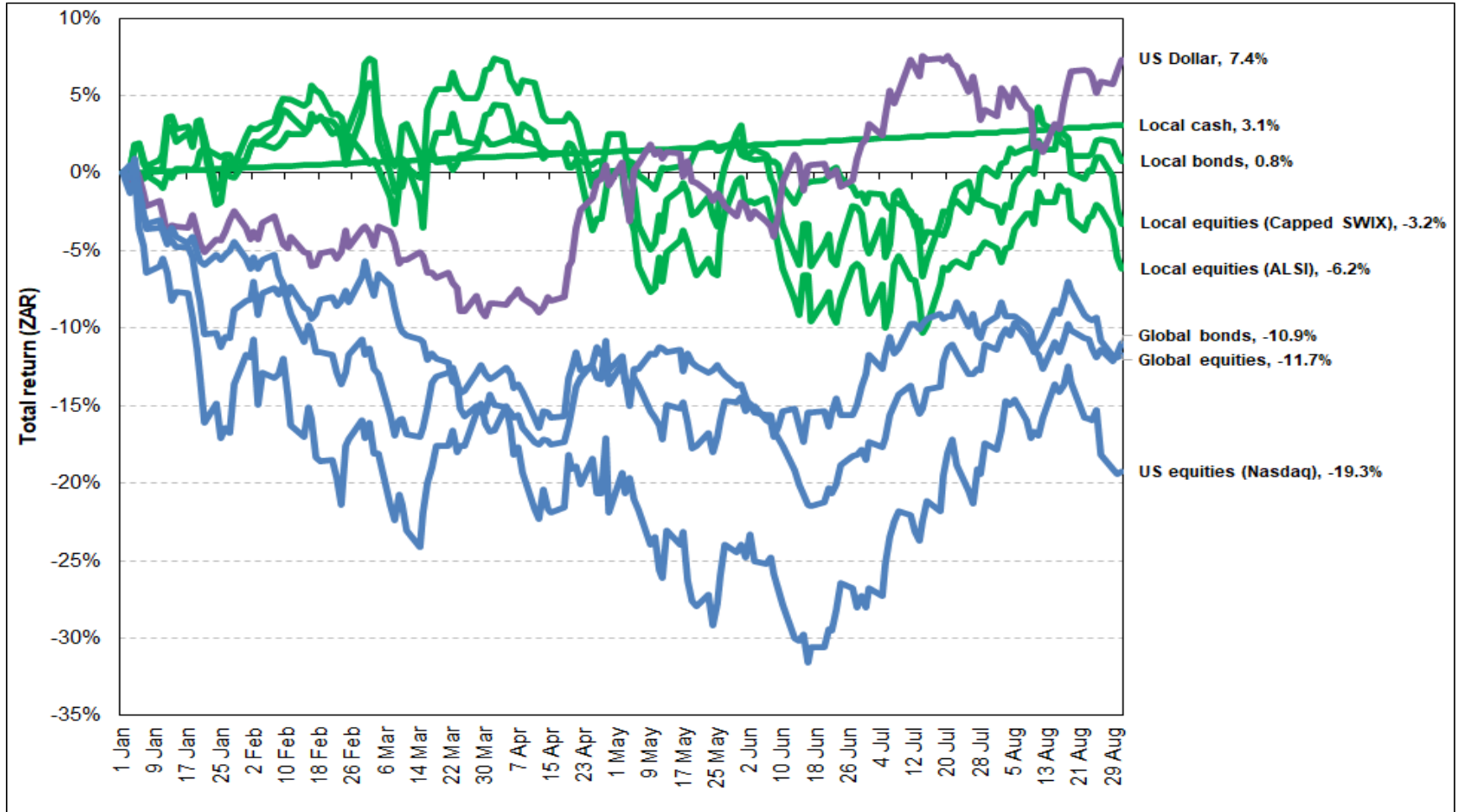


# INFLATION & INTEREST RATES

## A DRAMATIC CHANGE OVER THE LAST YEAR

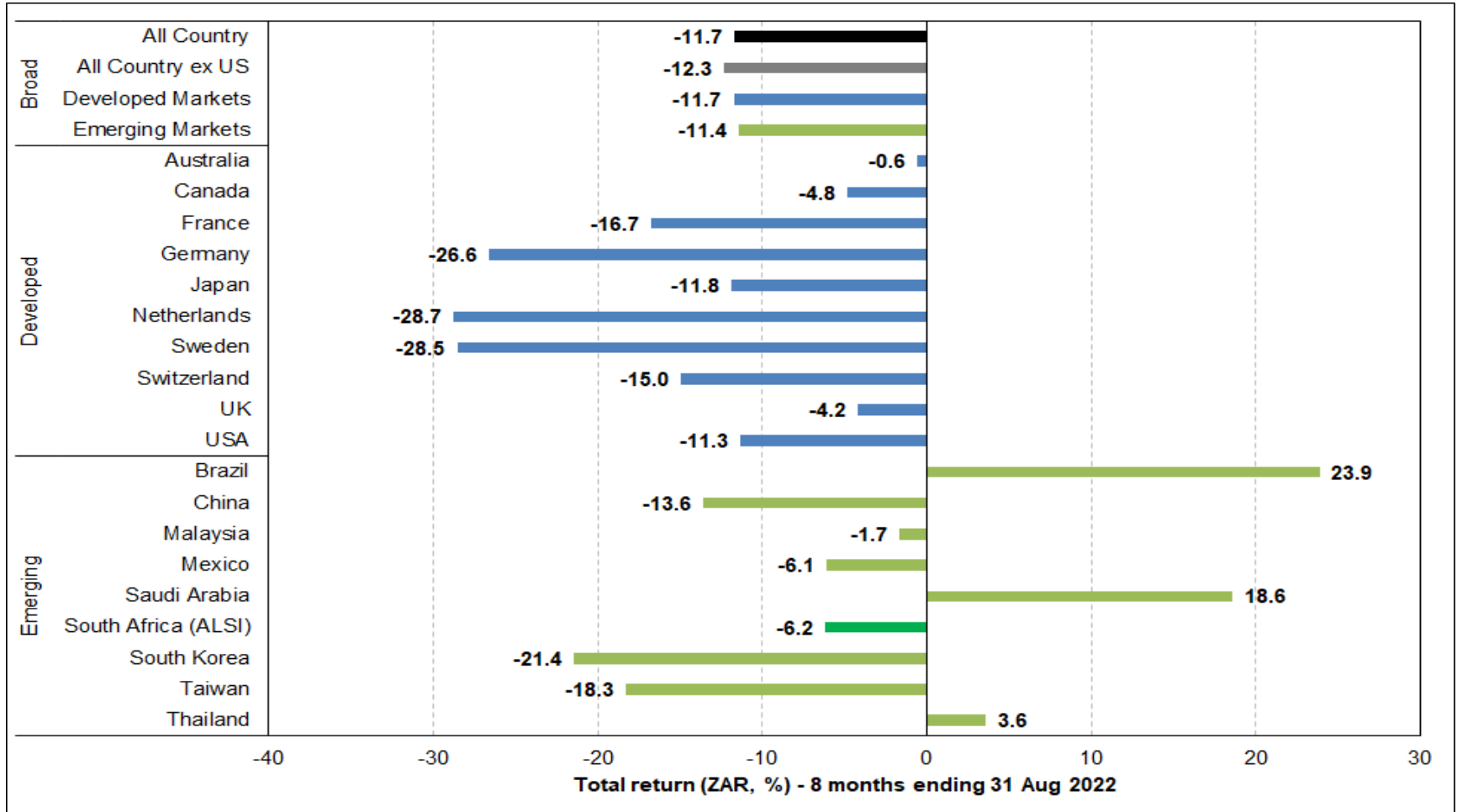


# GLOBAL MARKETS NOT LIKING THIS AT ALL!



# GLOBAL EQUITIES

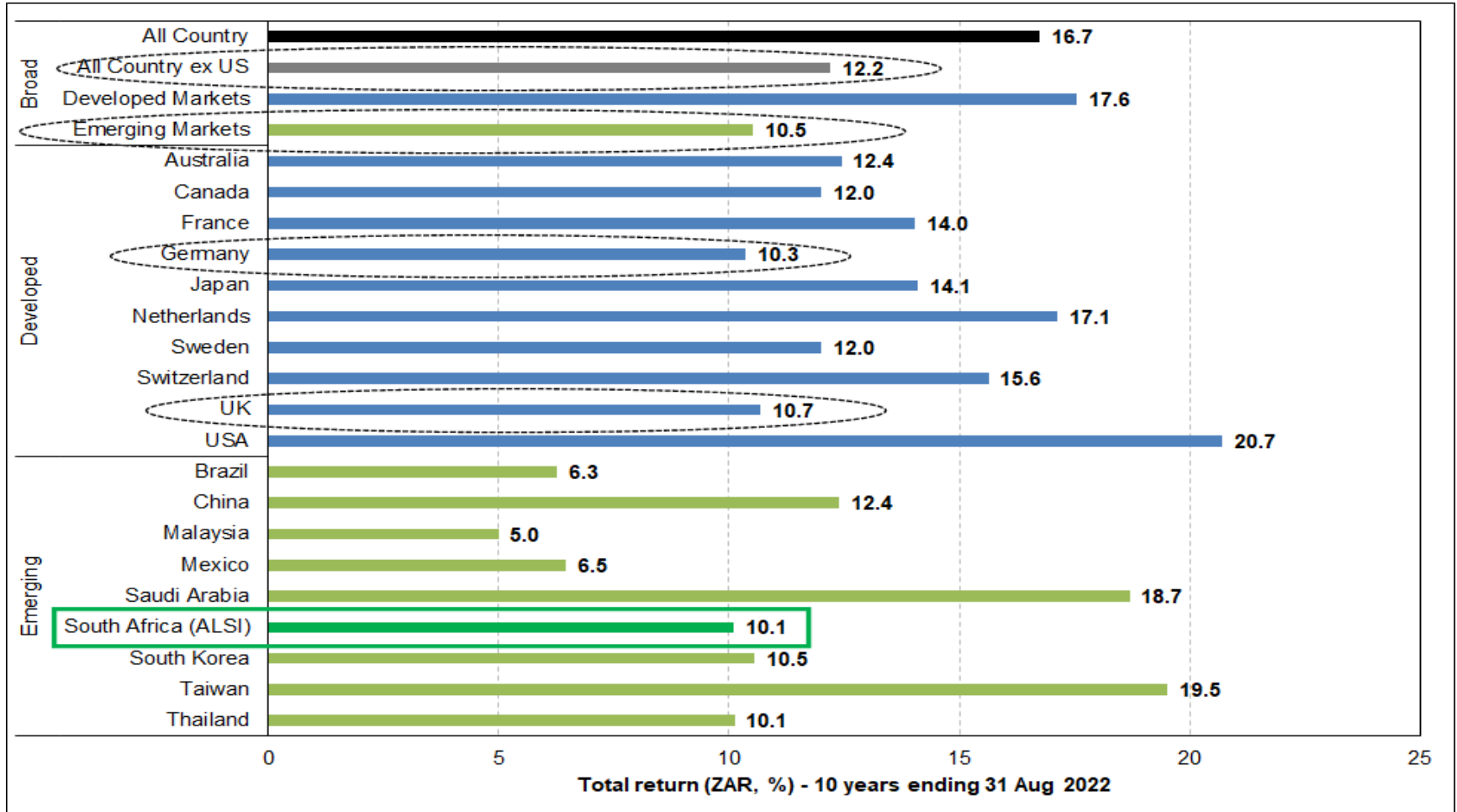
## A TOUGH 2022, ESPECIALLY IN EUROPE. SA DOING OK, RELATIVELY SPEAKING...





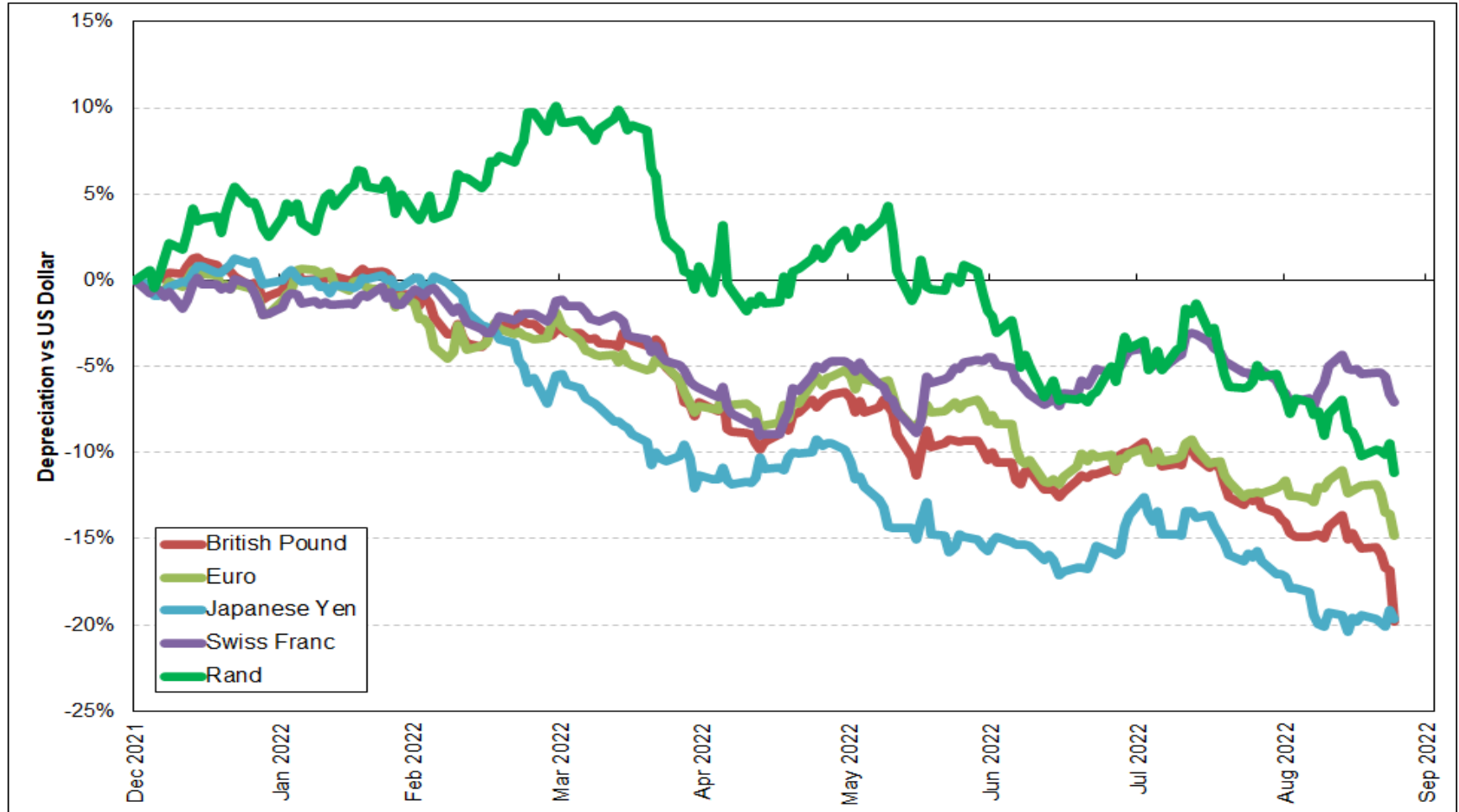
# GLOBAL EQUITIES

## SA'S LAST DECADE IN PERSPECTIVE

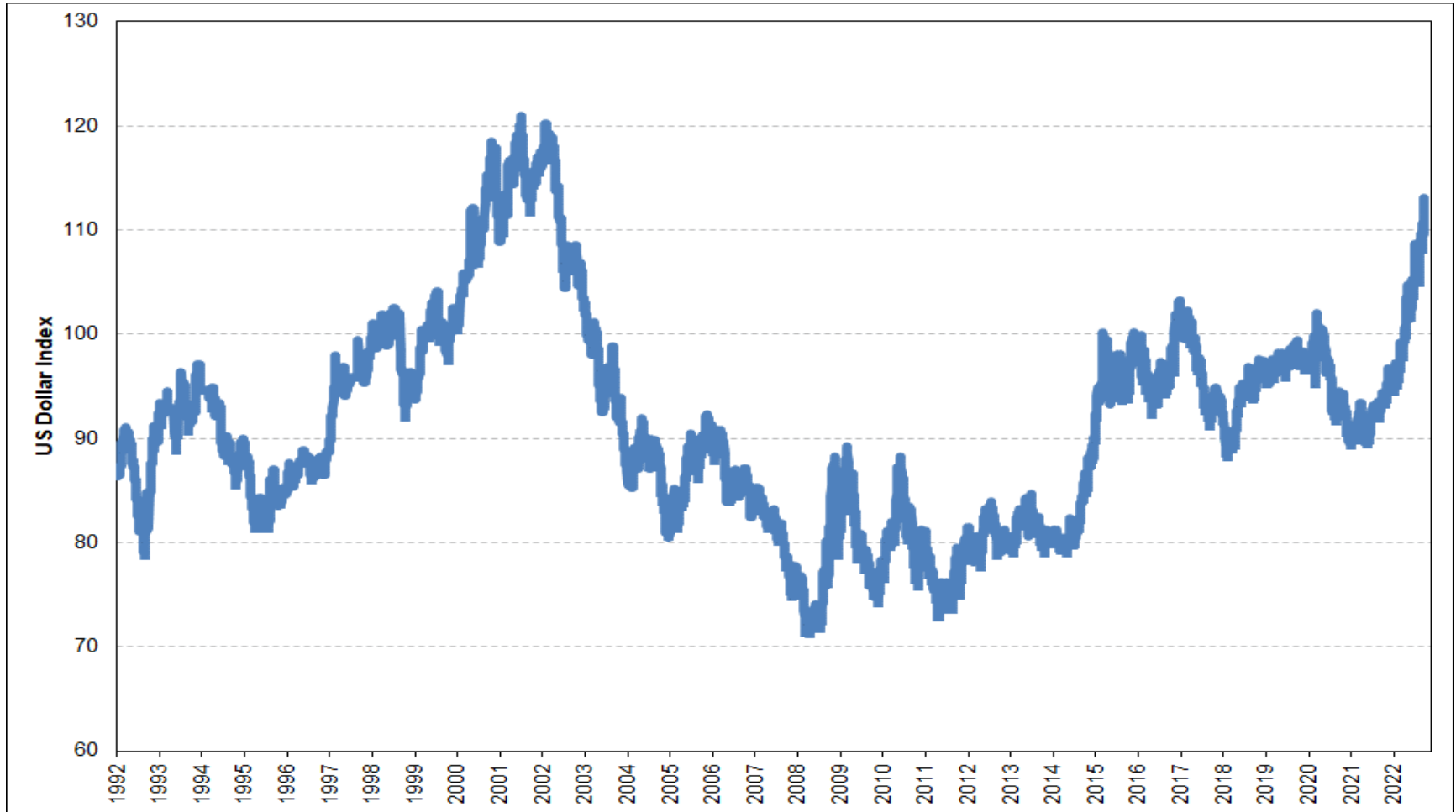


# US DOLLAR

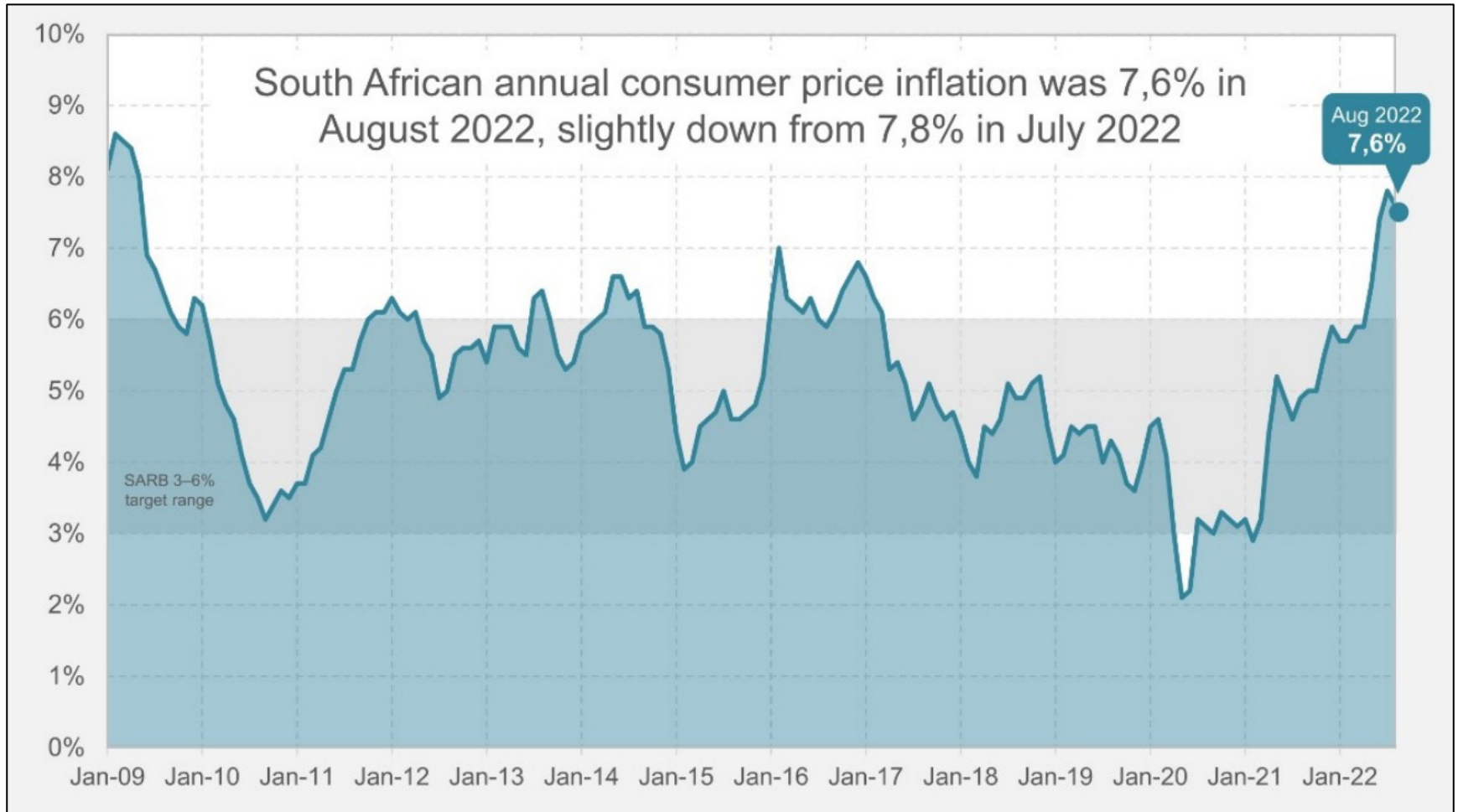
## THE RAND NOT THE ONLY UNIT SUFFERING



# US DOLLAR APPROACHING TWO-DECADE HIGHS



# SA INFLATION HAS LOCAL INFLATION PEAKED?

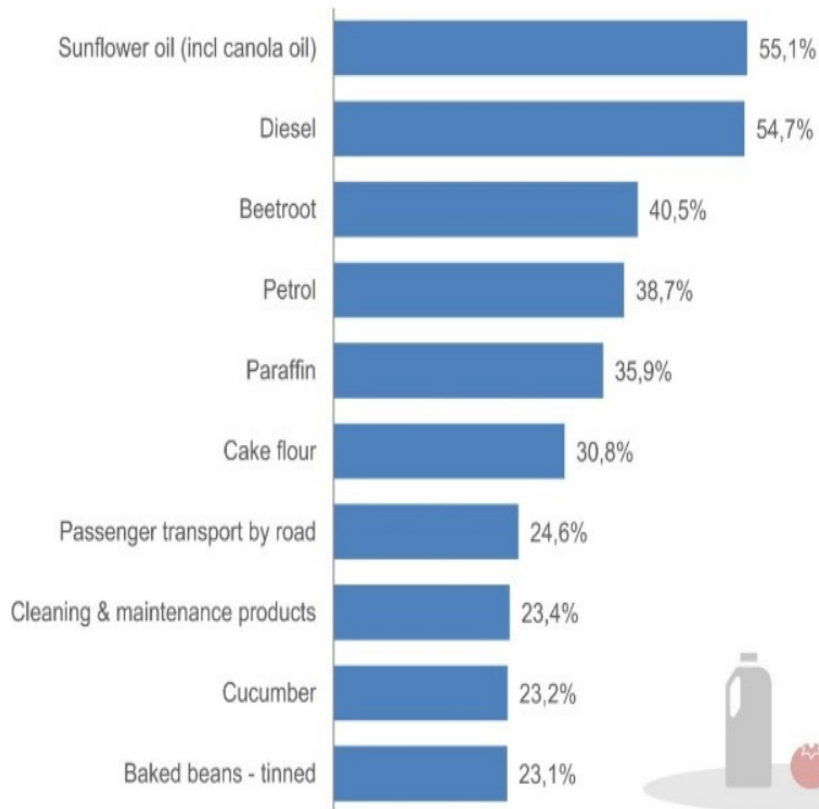


# SA INFLATION

## LET'S HOPE SO...

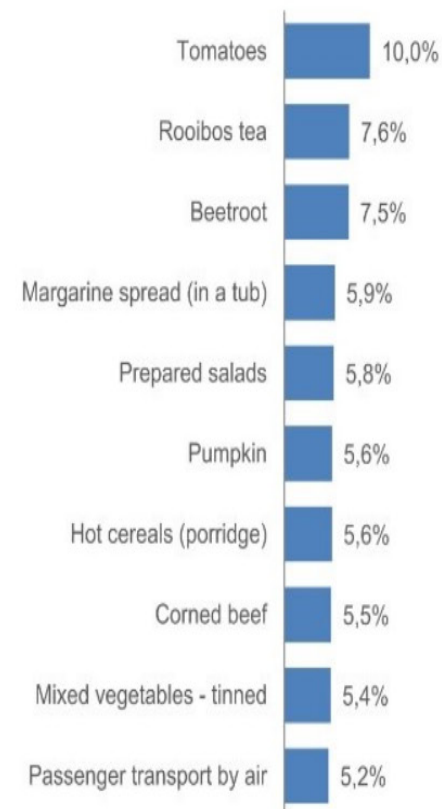
### Products that have become more expensive over the last year

Percentage change in price indices, August 2022 compared with August 2021



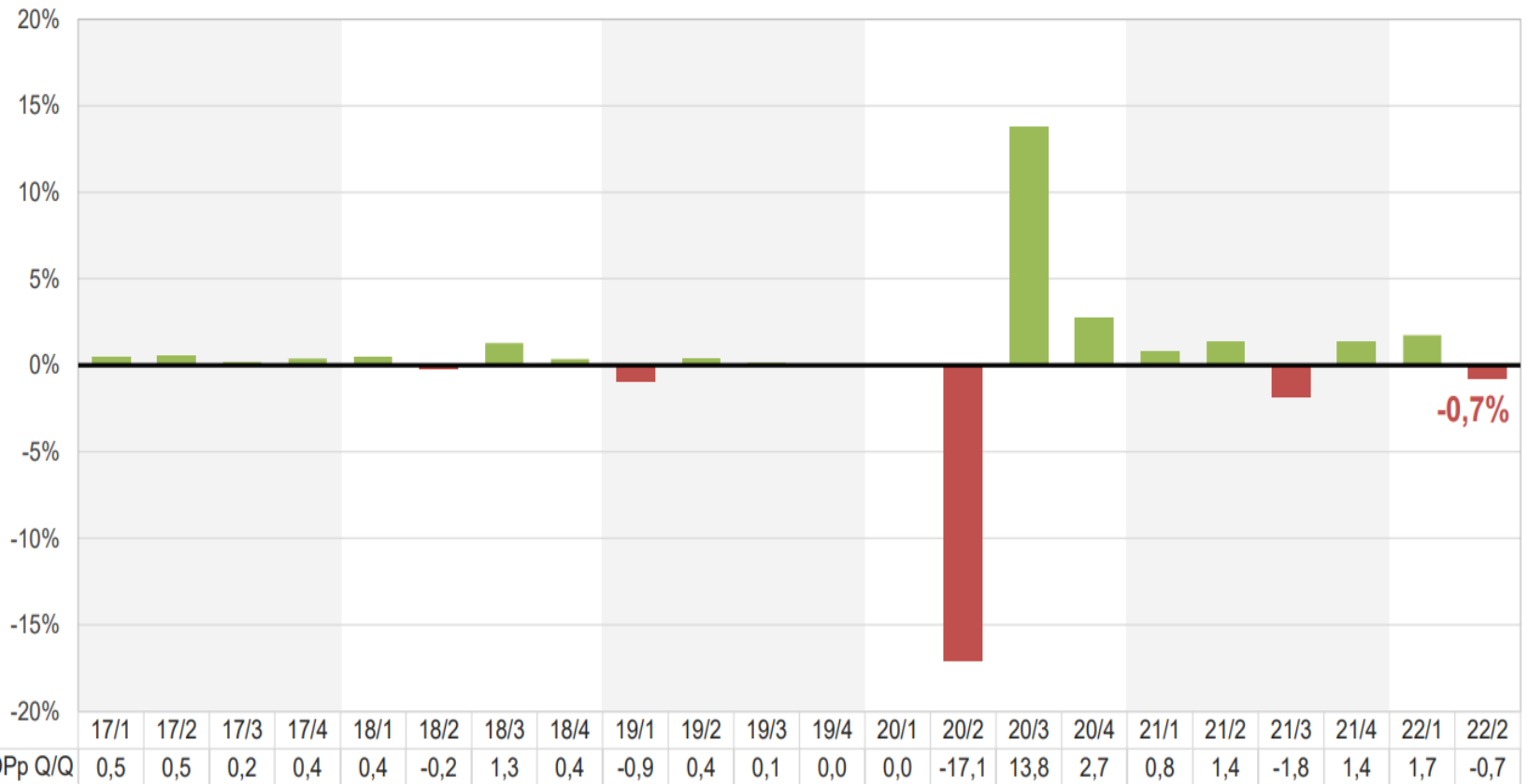
### The largest price changes between July and August

Percentage change in price indices, August 2022 compared with July 2022



# SA ECONOMY RECOVERY LOSES STEAM

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



# SA ECONOMY BACK BELOW PRE-COVID LEVELS



# SA ECONOMY

## ONLY FOUR INDUSTRIES HAVE FULLY RECOVERED

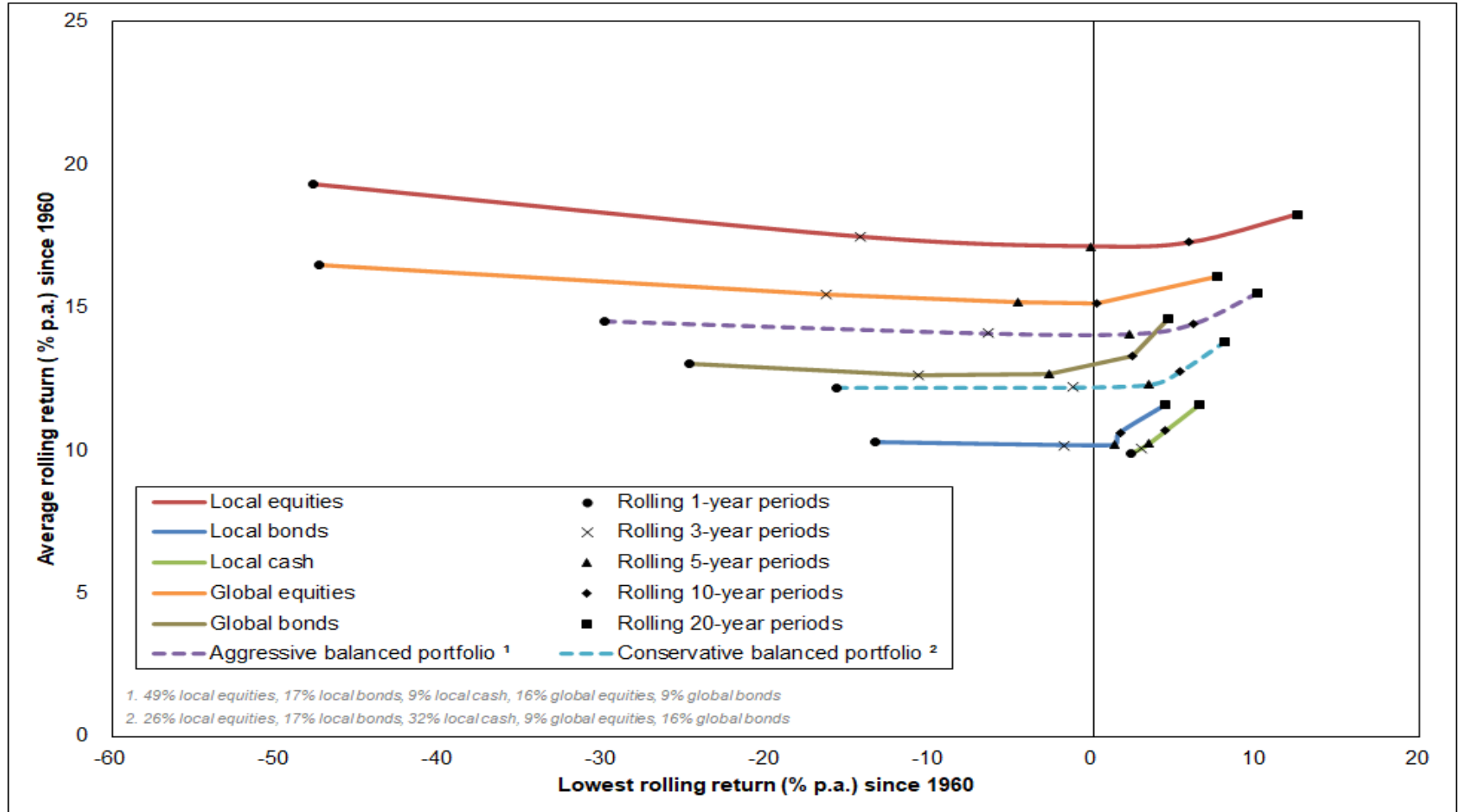
■ Less than the level in Q4: 2019
 ■ Equal to or greater than the level in Q4: 2019

Industry	Quarter										
	Q4: 2019	Q1: 2020	Q2: 2020	Q3: 2020	Q4: 2020	Q1: 2021	Q2: 2021	Q3: 2021	Q4: 2021	Q1: 2022	Q2: 2022
<b>Gross domestic product (GDP)</b>											
Agriculture, forestry & fishing											
General government services											
Finance, real estate & business services											
Personal services											
Transport, storage & communication											
Electricity, gas & water											
Trade, catering & accommodation											
Manufacturing											
Mining & quarrying											
Construction											



# LONG TERM RETURNS

## SHORT TERM STABILITY COMES AT A PRICE...



# LONG TERM RETURNS

## SHORT TERM STABILITY COMES AT A PRICE...

