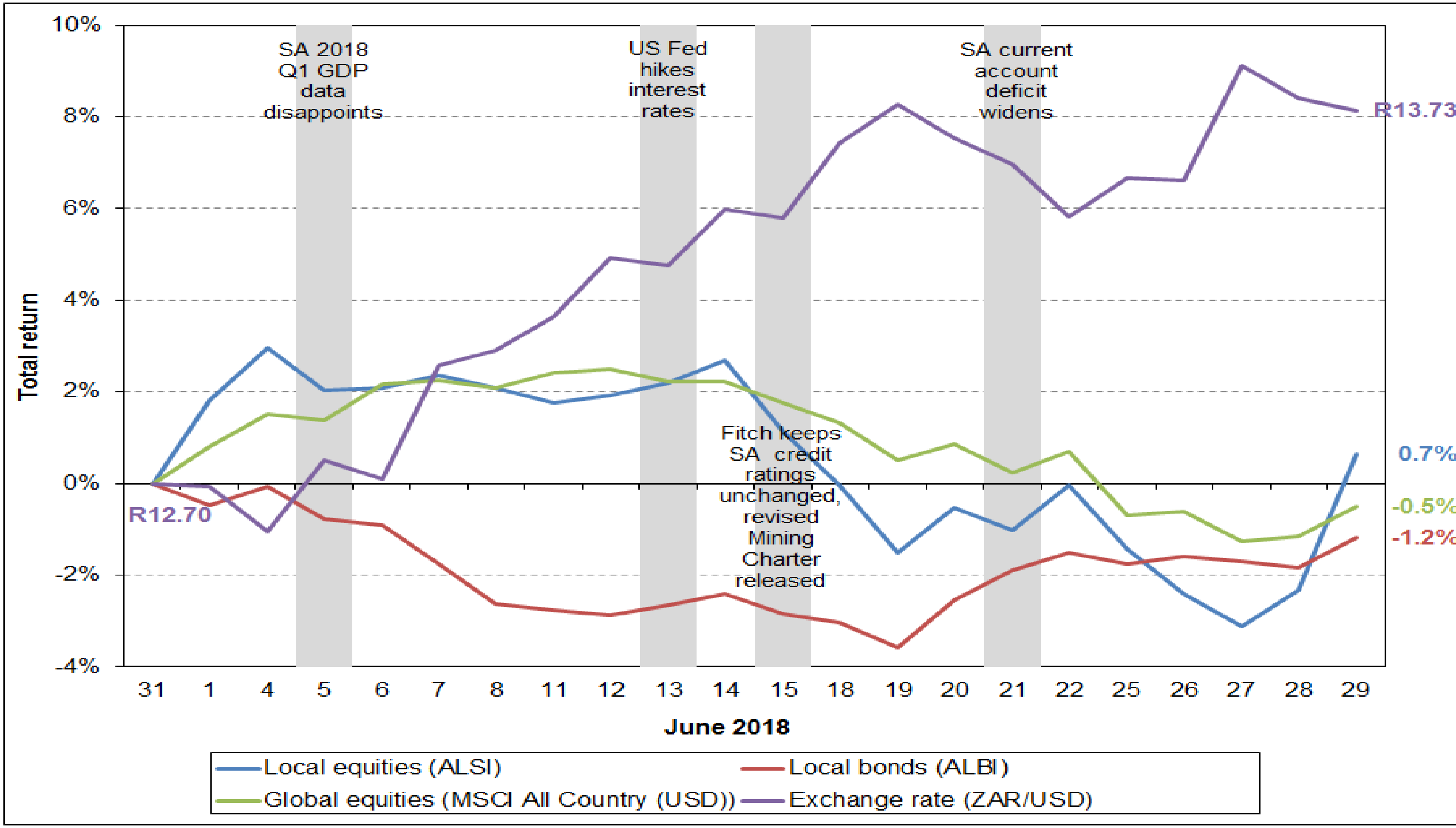
MONTH IN PICTURES

JUNE 2018

MONTHLY SNAPSHOT
NOTABLE EVENTS

- Local equities (Capped SWIX) ended a volatile month 0.7% up, driven by rand hedge resource and industrial counters. The second quarter still ended in negative territory (-0.8%) though, pushing the year-to-date returns down to -5.9%, following a poor first quarter (-5.0%). The 12-month return is however still positive (+8.2%), boosted by the low base set last year.
- There's been a wide divergence in the fortunes of the major underlying equity sectors in 2018, with Resources (+15.0%) far outperforming Industrials (-4.3%), Financials (-9.4%) and Listed Property (-21.4%), while large cap stocks (-0.5%) have outperformed mid (-10.5%) and small (-5.7%) caps. The more resource-heavy ALSI (-1.7%) is thus ahead of the SWIX indices (-5.9% and -4.8% for the capped and non-capped versions respectively) this year.
- The Rand, along with most other emerging market currencies, had a torrid month, depreciating by 7-8% against major developed market currencies. This was driven by two major factors: The escalation of trade war rhetoric and higher interest rates in the developed world. Developed world assets are seen as safer in an uncertain environment, and investors are, for the first time in many years, earning a decent yield on US Treasuries.
- The US Fed hiked interest rates by 25 basis points and now forecasts two further rate hikes for the remainder of 2018, instead of one.
- Against this backdrop the second quarter saw large outflows from emerging bond markets (including our own), with local bonds recording their third negative monthly return in a row, ending the quarter 3.8% down. Local bond performance over the last 12 months remains solid however (+10.2%) following strong returns after the ANC elective conference in December last year.
- Tumbling exports led to SA recording a trade deficit for the first quarter in two years. As a result, our current account deficit widened to 4.8% of GDP, putting further pressure on the Rand.
- The consumer remains under pressure, as a weak Rand and higher oil prices lift fuel prices to record highs in addition to April's VAT hike.

MONTHLY TIMELINE
IMPACT ON MARKETS



Source: IRESS

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MARKET INDICATORS
SHORT TERM

Market indicators (% change) [1]		Apr 2018	May 2018	Jun 2018	3 months	12 months
Local equities	Capped SWIX	4.1	(5.3)	0.7	(0.8)	8.2
	Resources	8.5	4.0	6.0	19.6	42.1
	Industrials	5.2	(5.1)	4.2	4.0	7.5
	Financials	3.2	(6.3)	(2.9)	(6.0)	10.5
	Listed Property	7.7	(5.9)	(3.5)	(2.2)	(9.9)
Local bonds	ALBI	(0.7)	(2.0)	(1.2)	(3.8)	10.2
Local cash	STeFI Composite	0.6	0.6	0.6	1.8	7.4
Global equities	MSCI All Country	6.5	2.1	7.6	17.0	17.0
Global bonds	Citigroup WGBI	3.0	0.3	8.0	11.5	6.4
Exchange rate	ZAR/USD	5.4	1.9	8.1	16.1	5.1
Inflation	CPI [2]	0.8	0.2	0.2	1.2	4.4

1. *Total returns (in Rands) for the months and periods ending 30 June 2018*
2. *Y-o-y CPI for June 2018 assumed to be equal to that of May 2018*

MARKET INDICATORS
MEDIUM TO LONG TERM

Market indicators (% change) [1]		1 year	3 years	5 years	10 years	15 years
Local equities	Capped SWIX	8.2	3.6	10.0	10.6	17.3
	Resources	42.1	6.5	3.6	(2.4)	9.7
	Industrials	7.5	5.6	11.9	16.7	21.7
	Financials	10.5	3.3	11.7	14.8	16.5
	Listed Property	(9.9)	0.9	6.7	16.0	18.4
Local bonds	ALBI	10.2	7.8	7.4	9.8	8.7
Local cash	STeFI Composite	7.3	7.3	6.7	6.9	7.5
Global equities	MSCI All Country	17.0	13.2	17.5	12.5	13.3
Global bonds	Citigroup WGBI	6.4	7.1	7.9	8.1	7.6
Exchange rate	ZAR/USD	5.1	4.1	6.8	5.8	4.2
Inflation	CPI [2]	4.4	5.2	5.4	5.4	5.4

1. *Total returns (in Rands) for the months and periods ending 30 June 2018*
2. *Y-o-y CPI for June 2018 assumed to be equal to that of May 2018*

Source: IRESS

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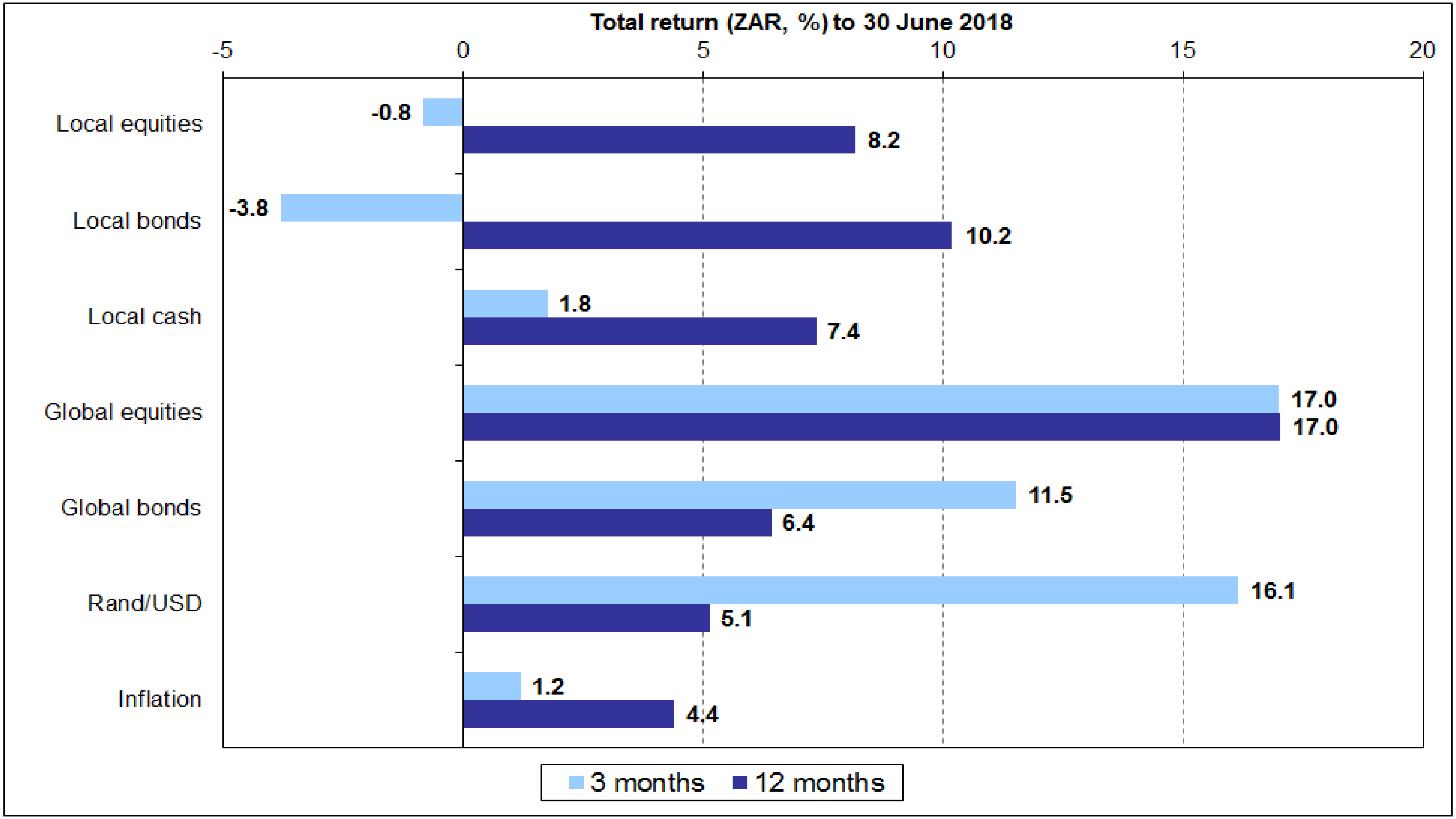
ECONOMIC INDICATORS

Economic indicators [1]	Jun 2016	Jun 2017	Apr 2018	May 2018	Jun 2018
Exchange rates:					
ZAR/USD	14.70	13.06	12.46	12.70	13.73
ZAR/GBP	19.56	16.97	17.15	16.89	18.13
ZAR/Euro	16.31	14.92	15.05	14.85	16.04
Commodities:					
Brent Crude Oil (USD/barrel)	50.06	48.77	74.67	77.80	79.24
Platinum (USD/ounce)	1,023.00	926.50	906.17	912.66	850.00
Gold (USD/ounce)	1,321.86	1,241.60	1,317.26	1,305.23	1,252.70

1. *Month-end prices*

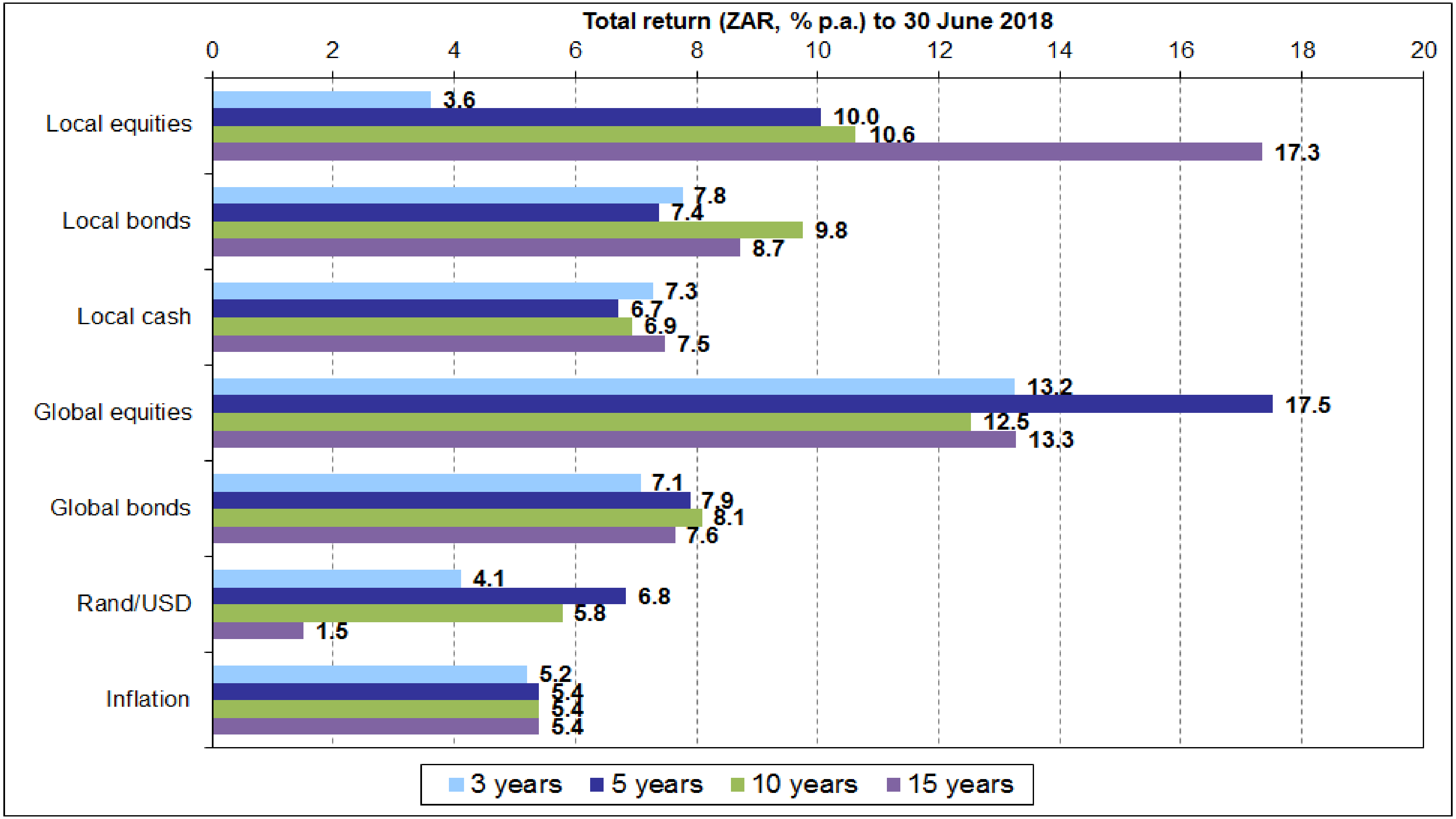
Source: IRESS

ASSET CLASS PERFORMANCE
SHORT TERM



Source: IRESS

ASSET CLASS PERFORMANCE
MEDIUM TO LONG TERM



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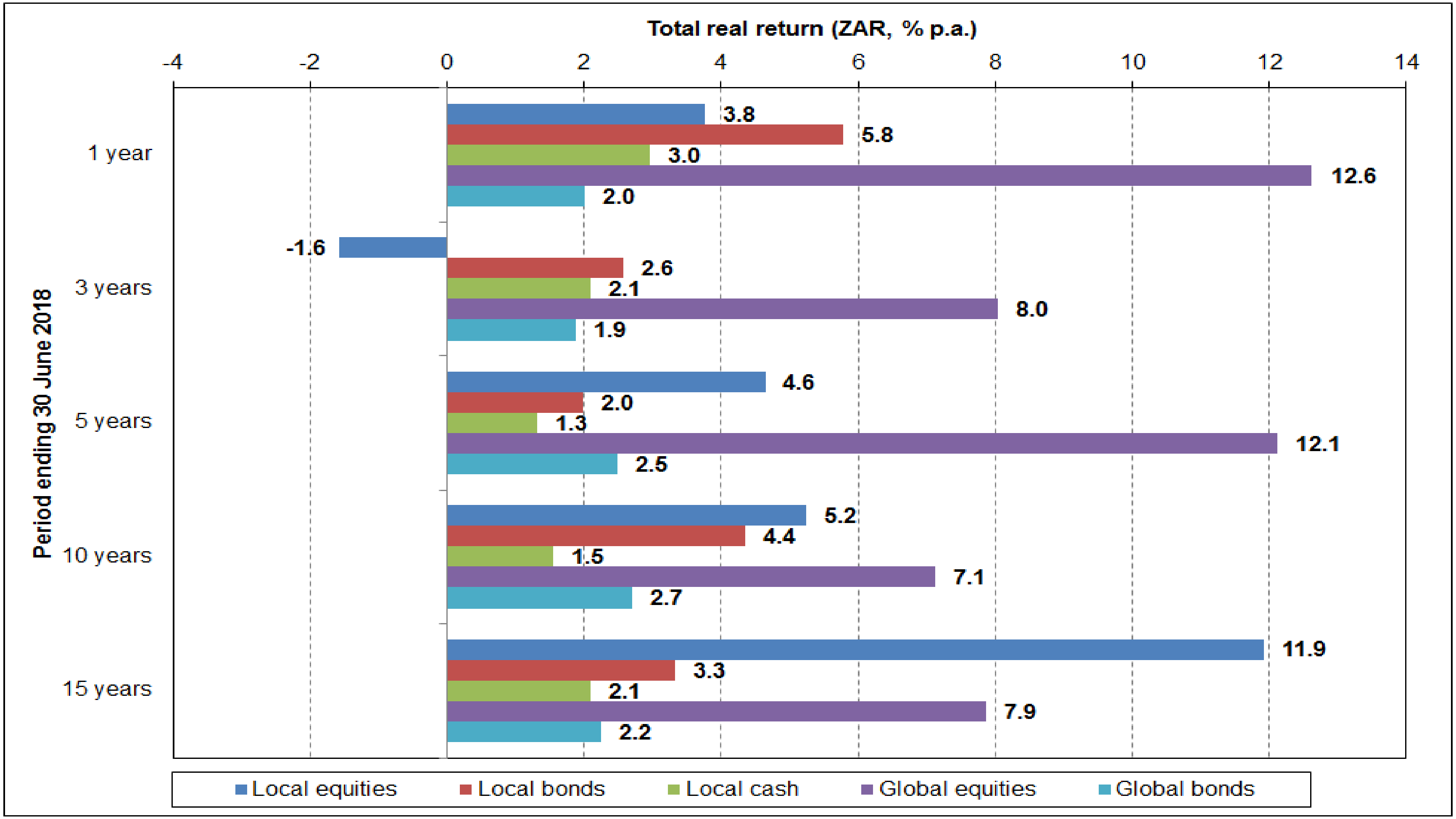
ASSET CLASS PERFORMANCE

REAL (ABOVE INFLATION) RETURNS



Source: IRESS

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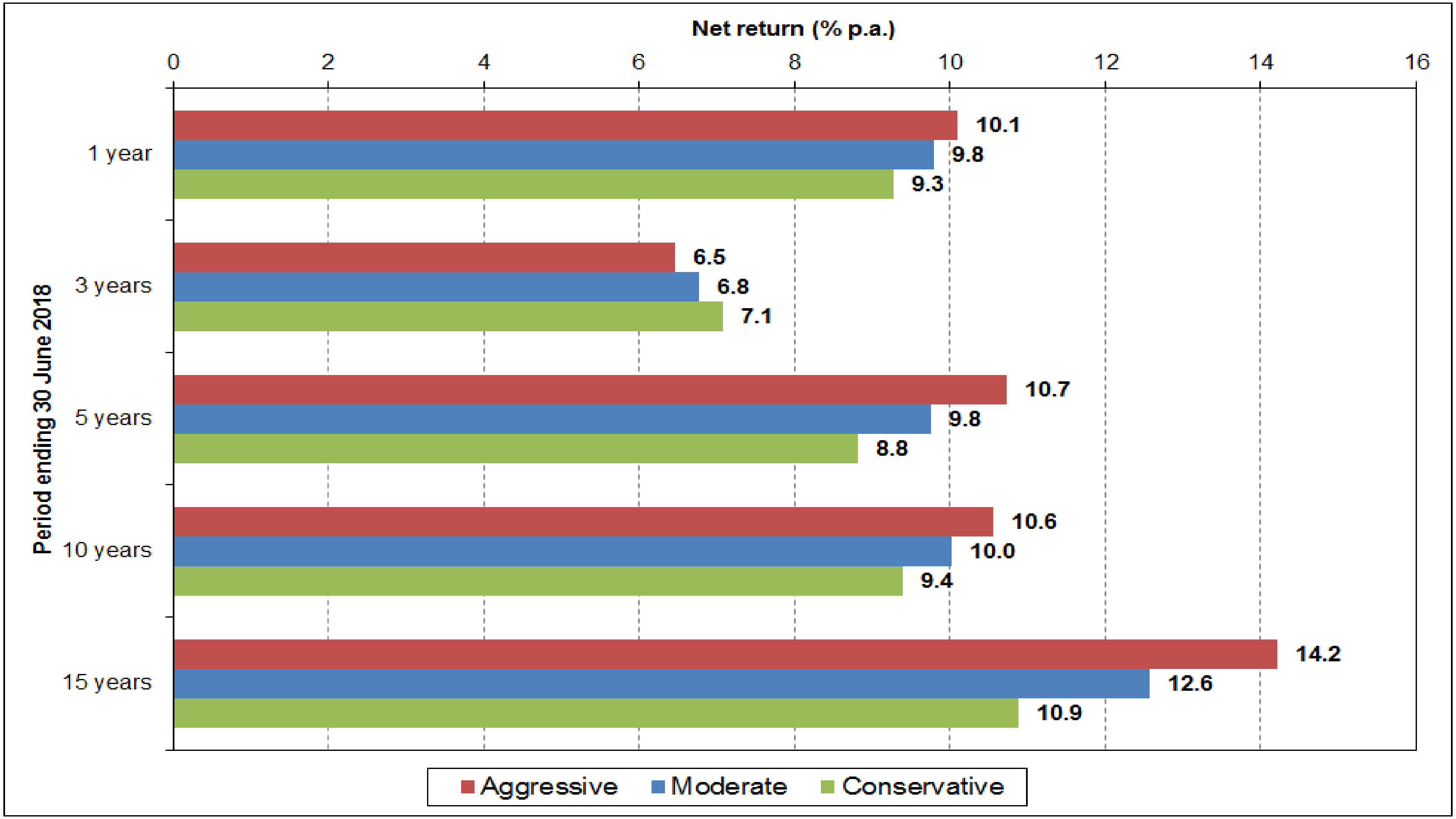
PORTFOLIO PERFORMANCE
WHAT RETURNS CAN MEMBERS REASONABLY EXPECT?

Given the performances of the various asset classes (see earlier slides), what returns can members reasonably expect from their portfolios (see next two slides), assuming the following asset class allocations:

Asset class	**Asset class allocation per risk profile**		
	Aggressive	**Moderate**	**Conservative**
Local equities	55%	40%	25%
Global equities	20%	15%	10%
Total growth assets	**75%**	**55%**	**35%**
Local bonds	15%	25%	30%
Local cash	5%	15%	25%
Global bonds	5%	5%	10%
Total income assets	**25%**	**45%**	**65%**
TOTAL	**100%**	**100%**	**100%**

PORTFOLIO PERFORMANCE

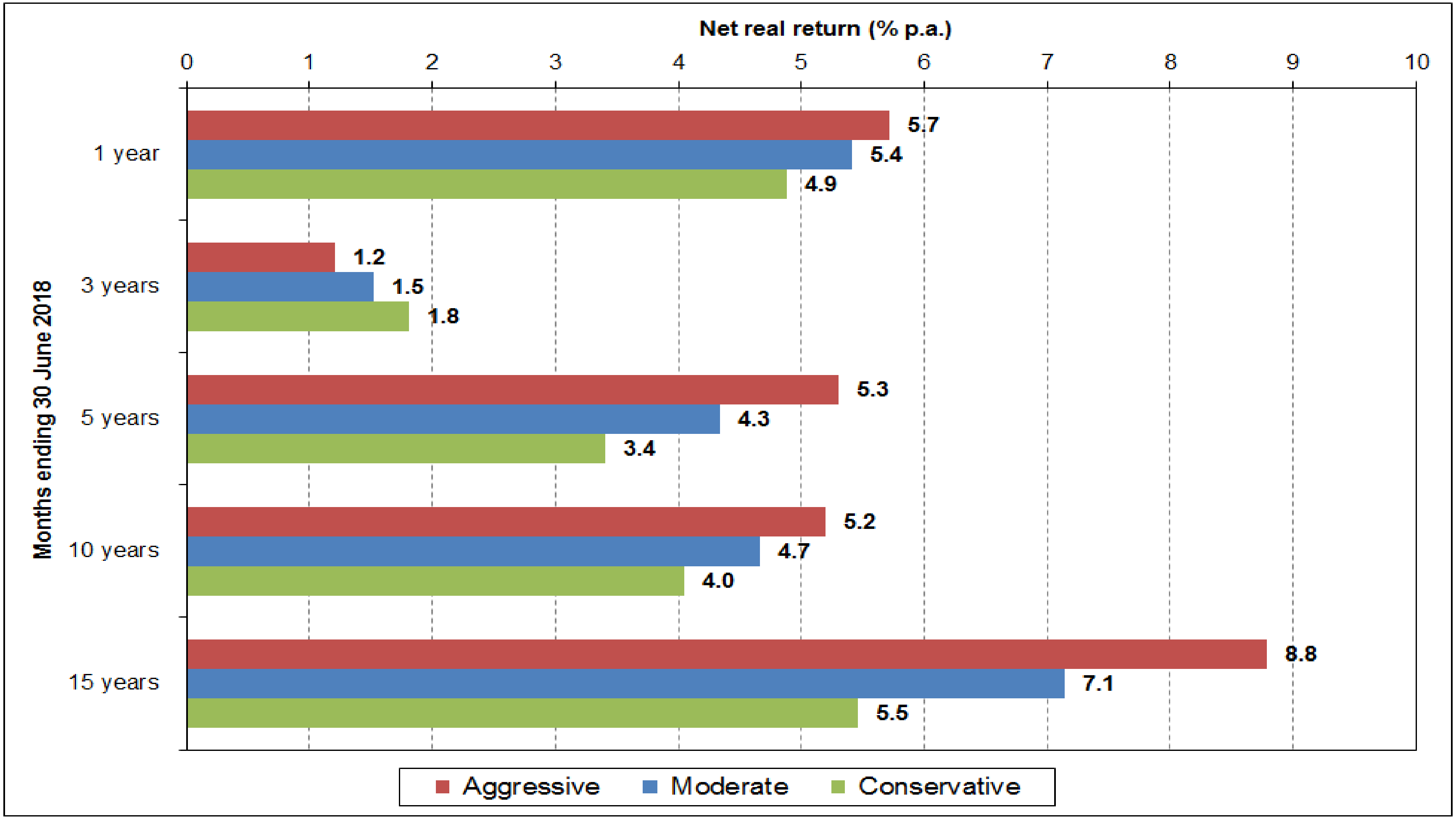
WHAT NOMINAL RETURNS CAN MEMBERS REASONABLY EXPECT?



Source: IRESS

PORTFOLIO PERFORMANCE

WHAT REAL RETURNS CAN MEMBERS REASONABLY EXPECT?



Source: IRESS

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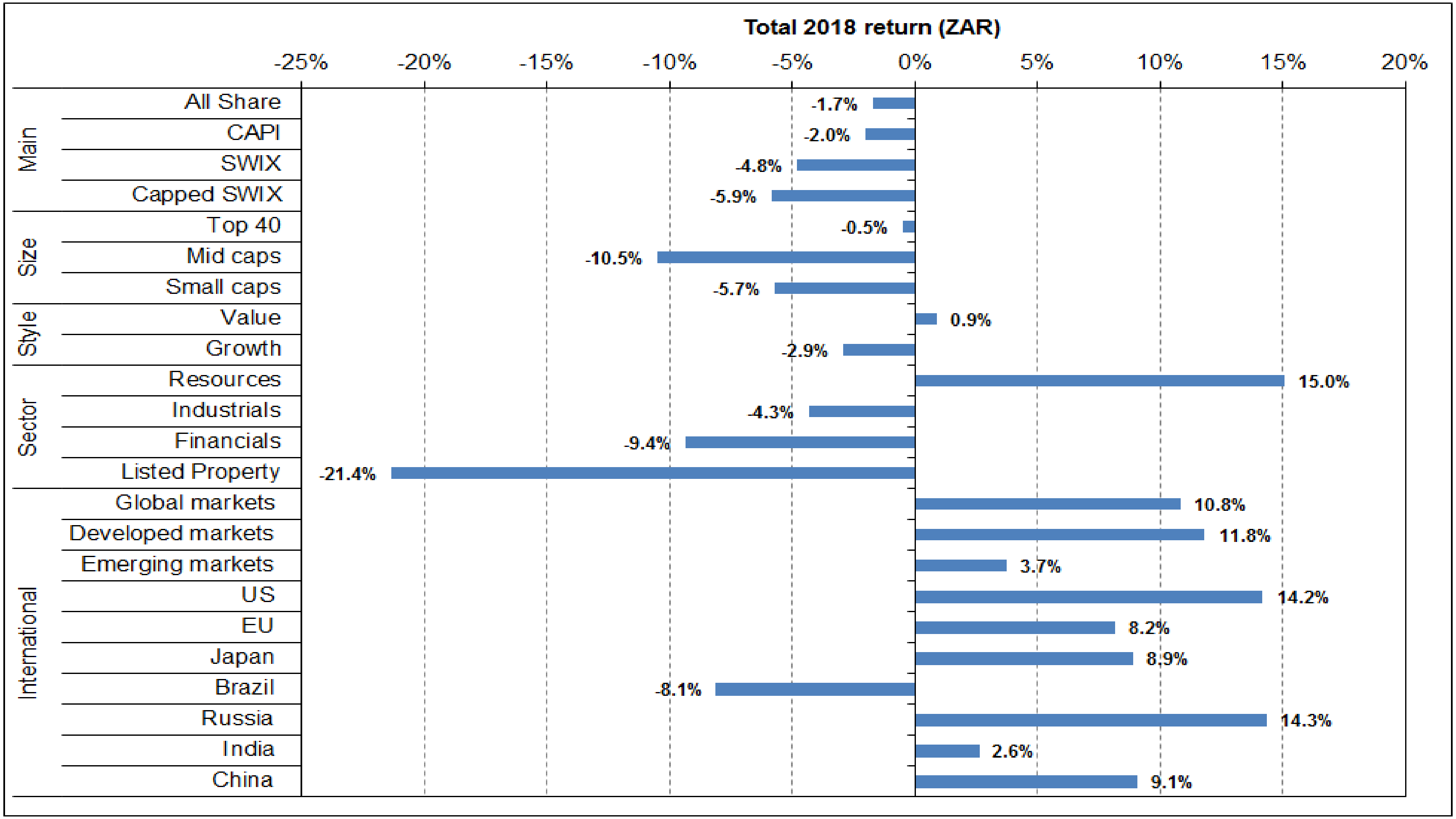
EQUITY MARKETS
WHAT HAS (AND HASN'T) WORKED IN 2018?



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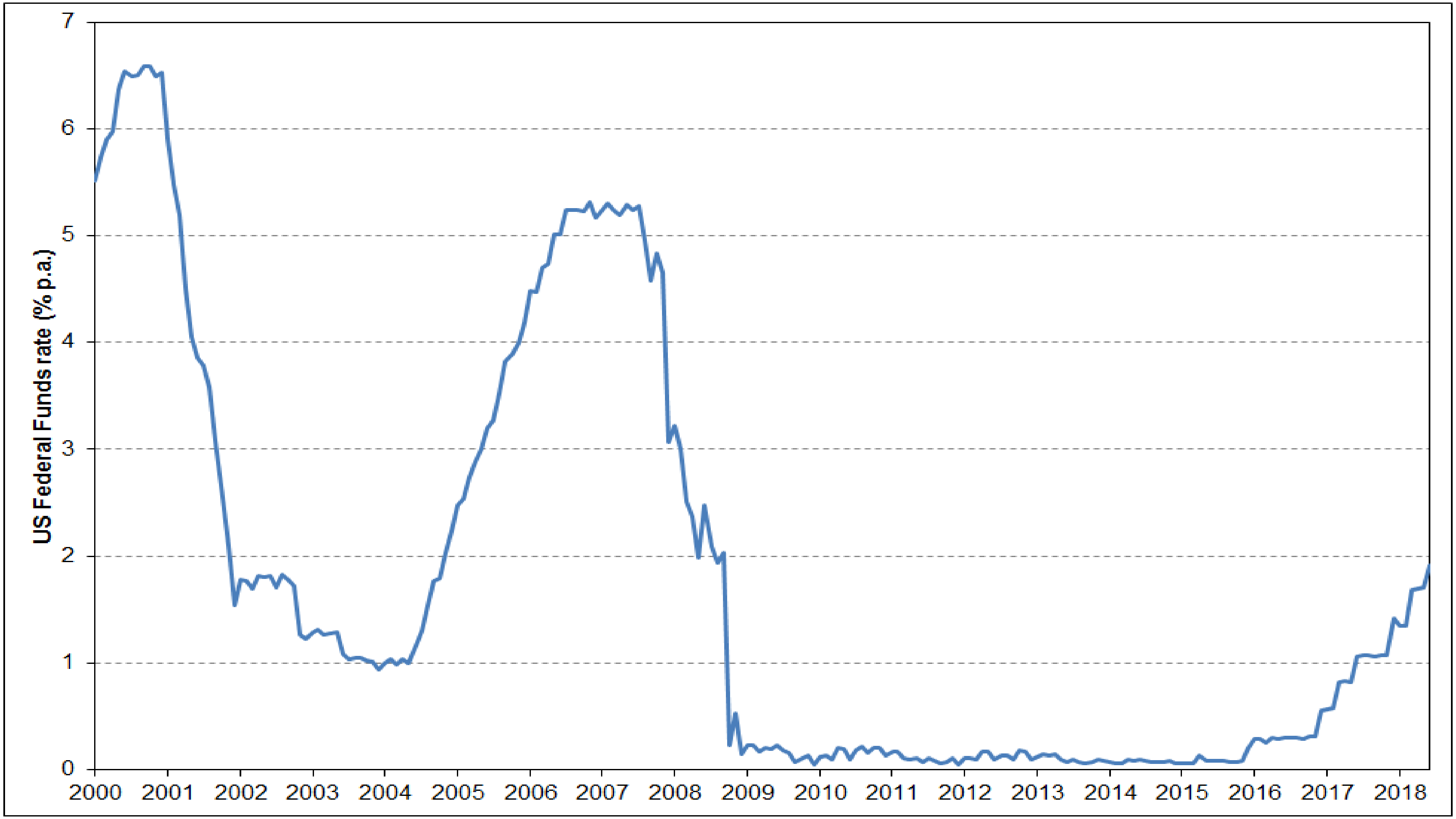
US INTEREST RATES
SLOWLY RISING FROM RECORD LOWS



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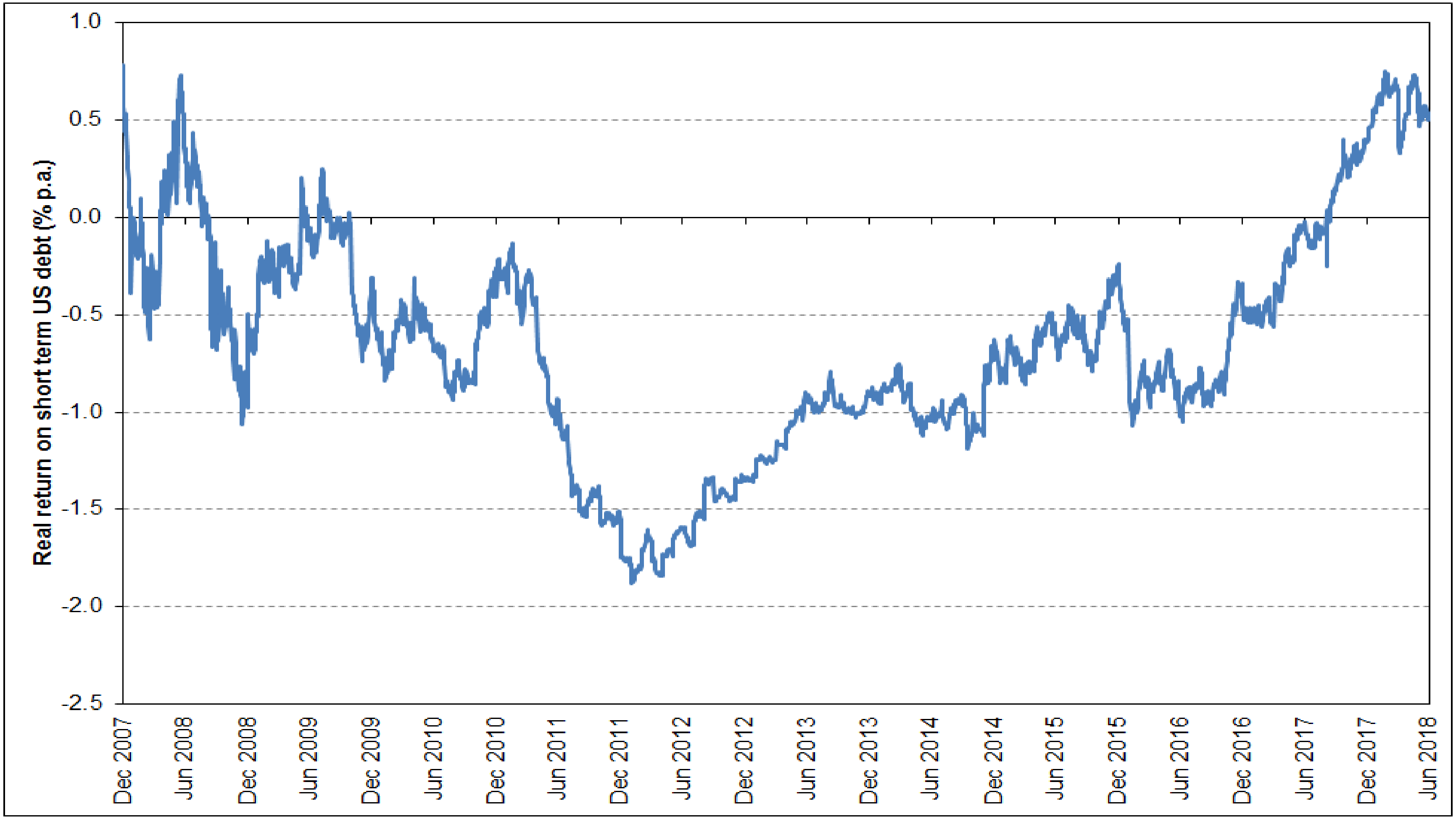
US INTEREST RATES

US INVESTORS FINALLY EARNING REAL RETURNS ON SHORT-TERM US DEBT!



Source: IRESS

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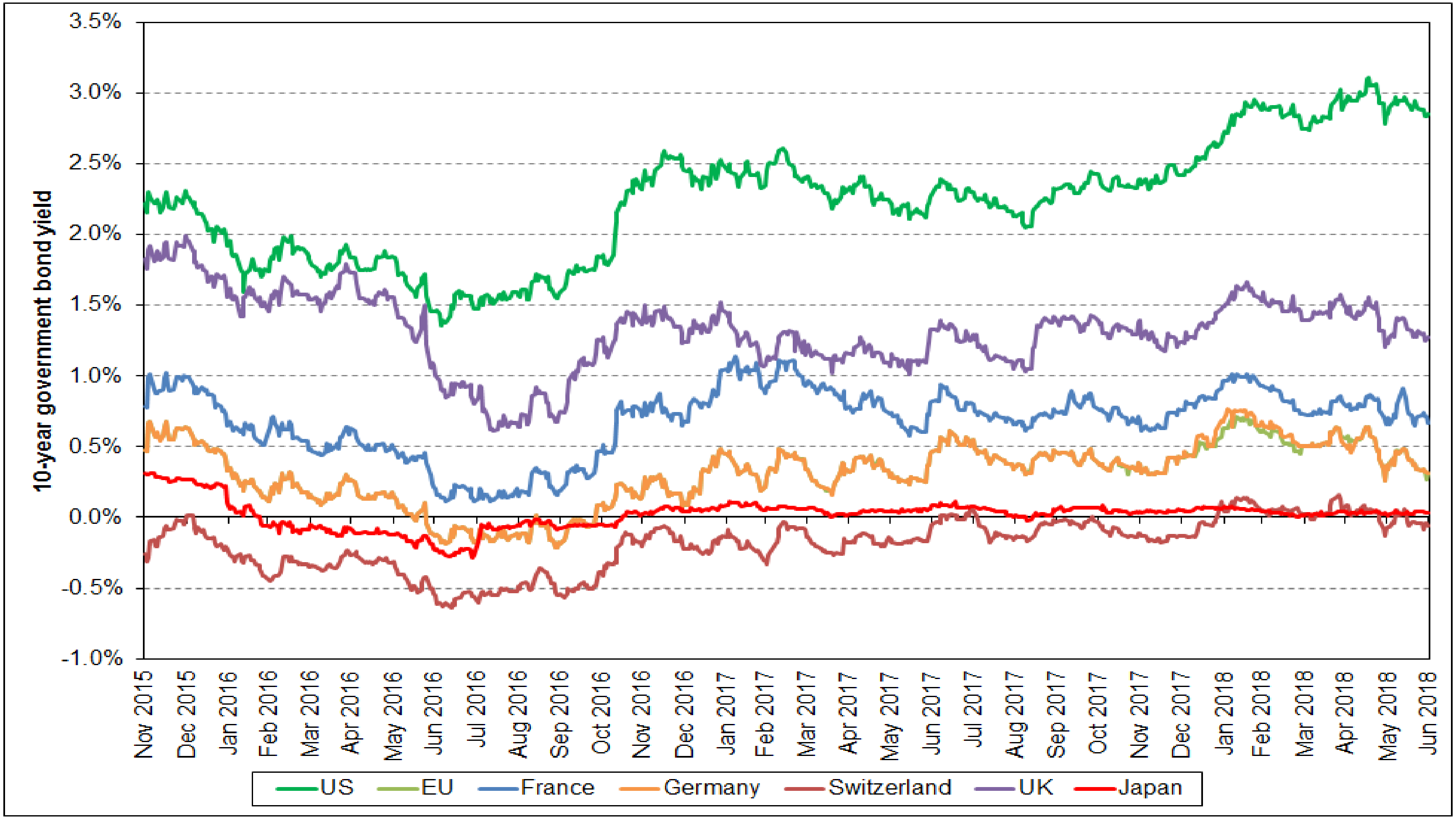
US INTEREST RATES

US BOND YIELDS INCHING HIGHER, BUT EUROPEAN AND JAPANESE YIELDS REMAIN LOW



Source: IRESS

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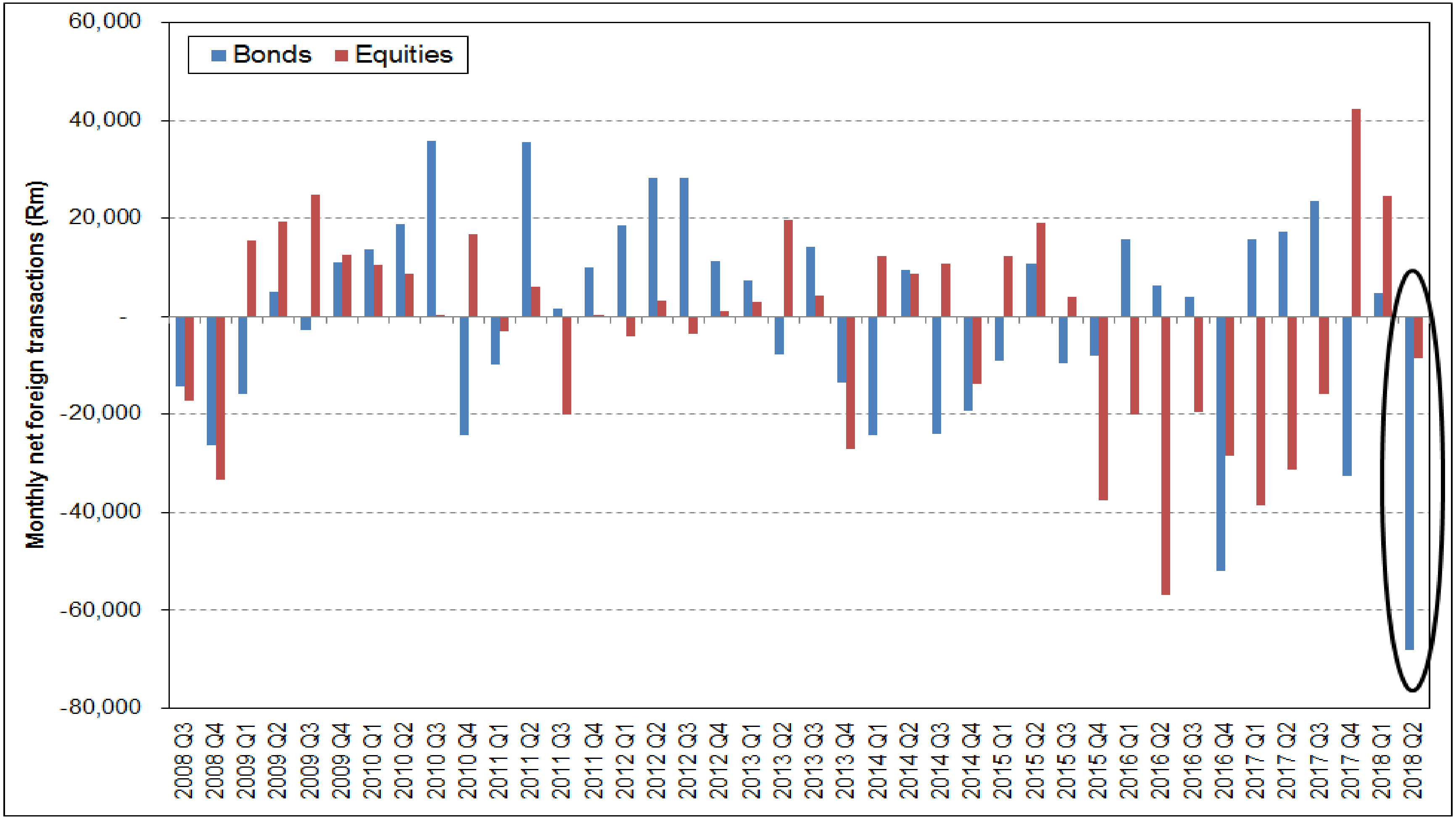
NET FOREIGN PURCHASES

FOREIGN SENTIMENT TURNS SHARPLY NEGATIVE AS US INTEREST RATES INCREASE



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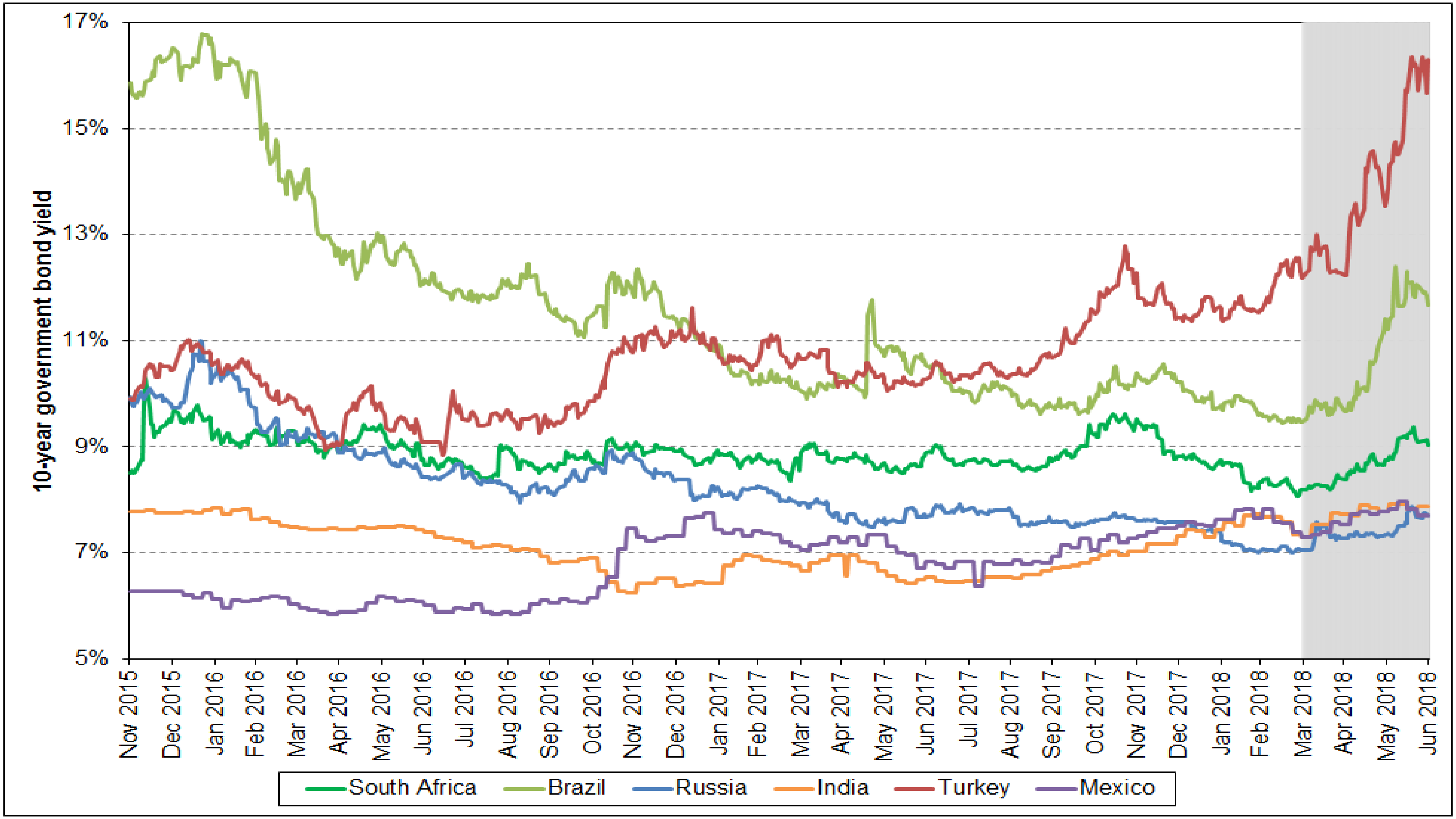
EMERGING MARKET BOND YIELDS

SA NOT ALONE AS EMERGING MARKETS SELL-OFF PUSHES BOND YIELDS HIGHER



Source: IRESS

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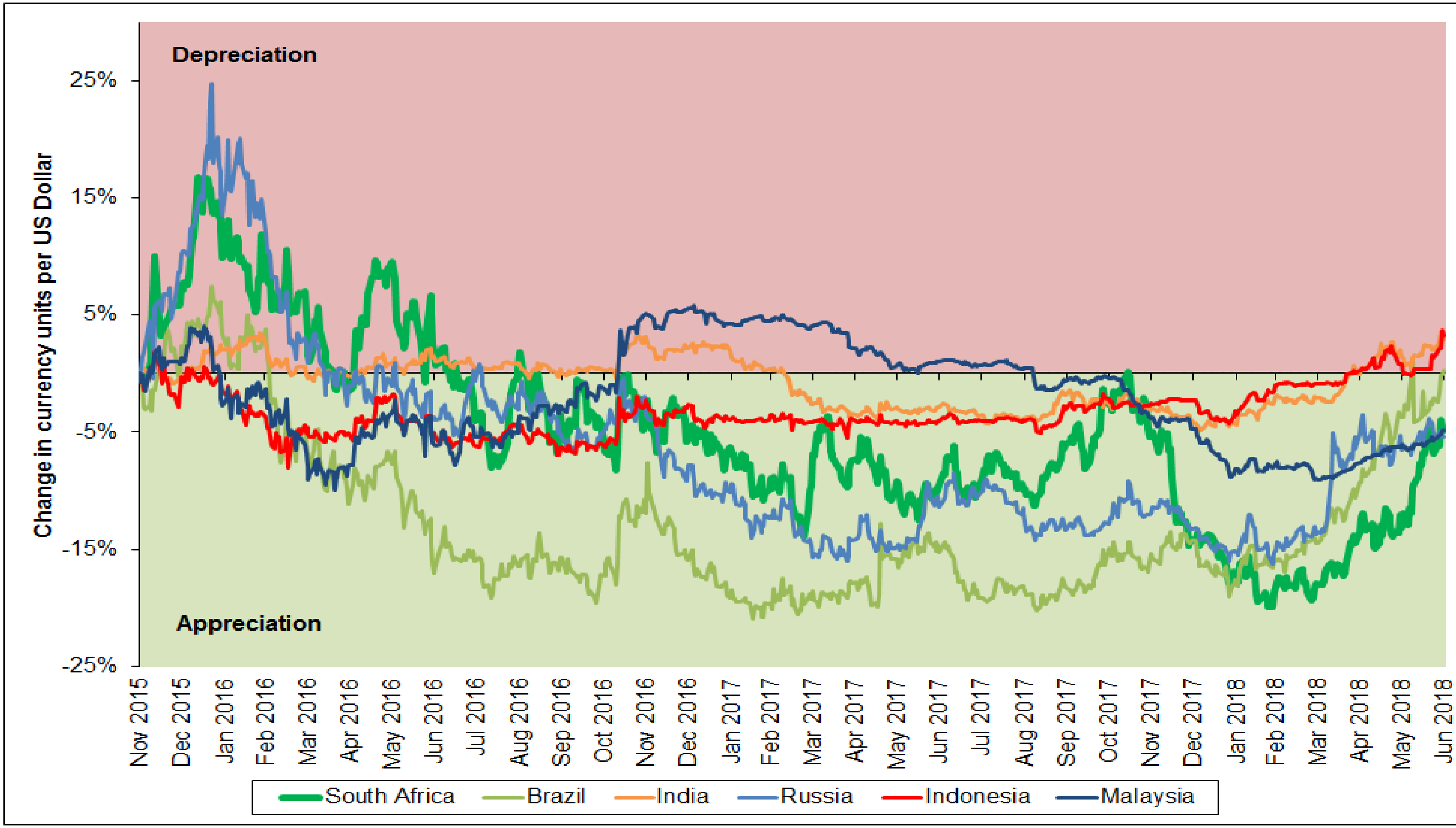
EMERGING MARKET CURRENCIES

SA NOT ALONE AS EMERGING MARKETS SELL-OFF PUNISHES CURRENCIES



Source: IRESS

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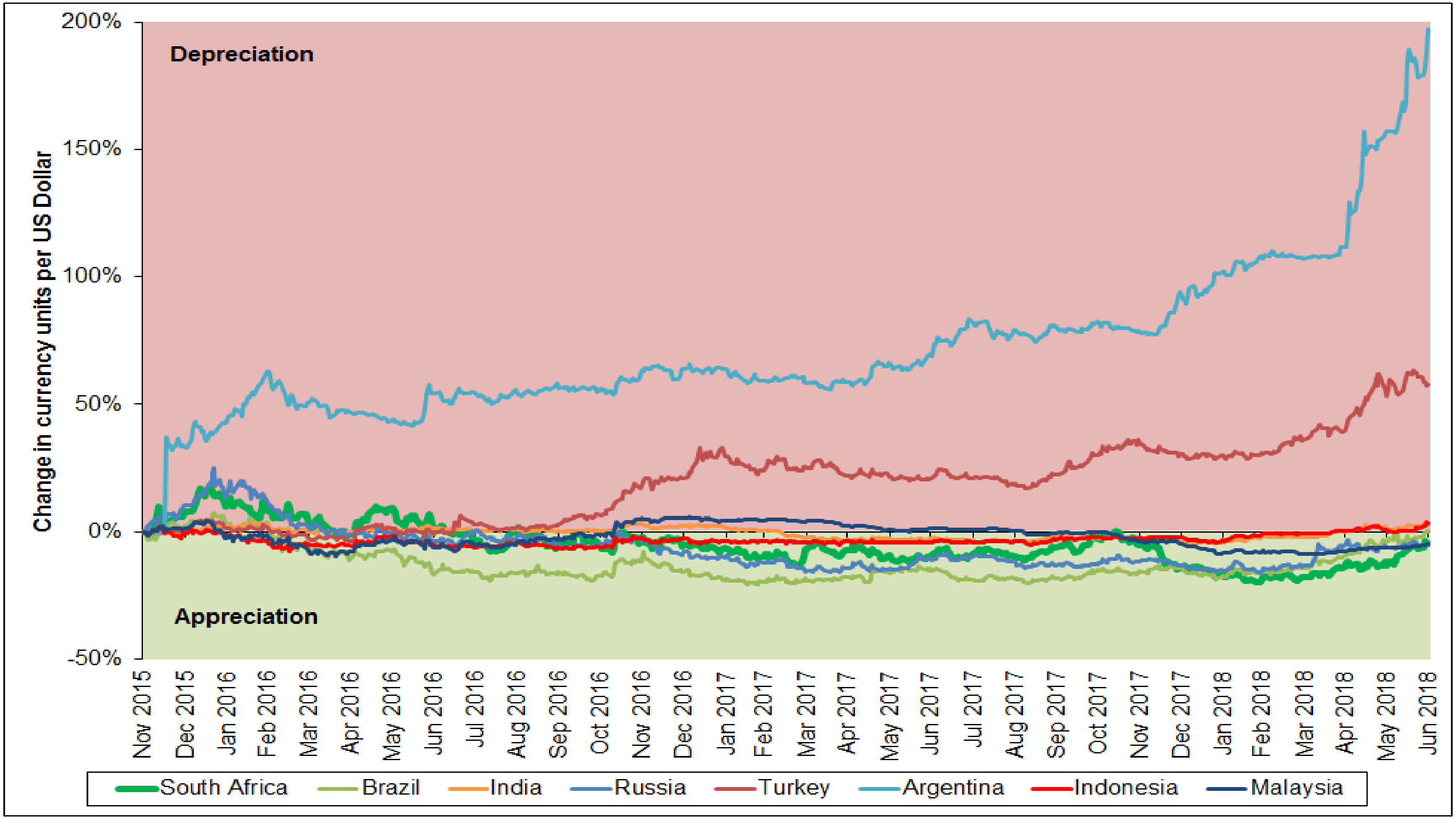
EMERGING MARKET CURRENCIES
...ESPECIALLY THOSE OF TURKEY AND ARGENTINA



Source: IRESS

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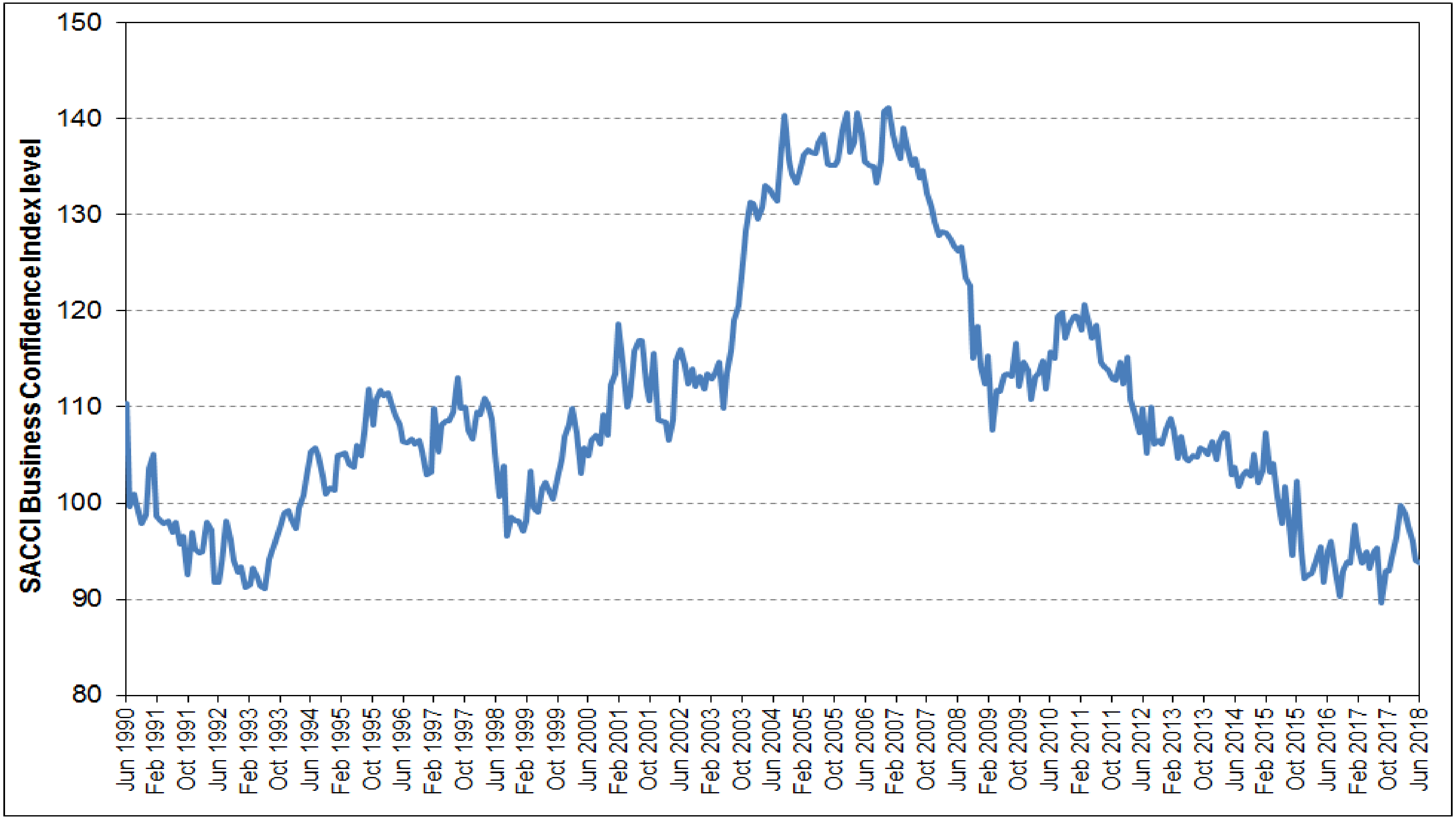
SACCI BUSINESS CONFIDENCE INDEX
CONFIDENCE REMAIN LOW



Source: IRESS, SACCI

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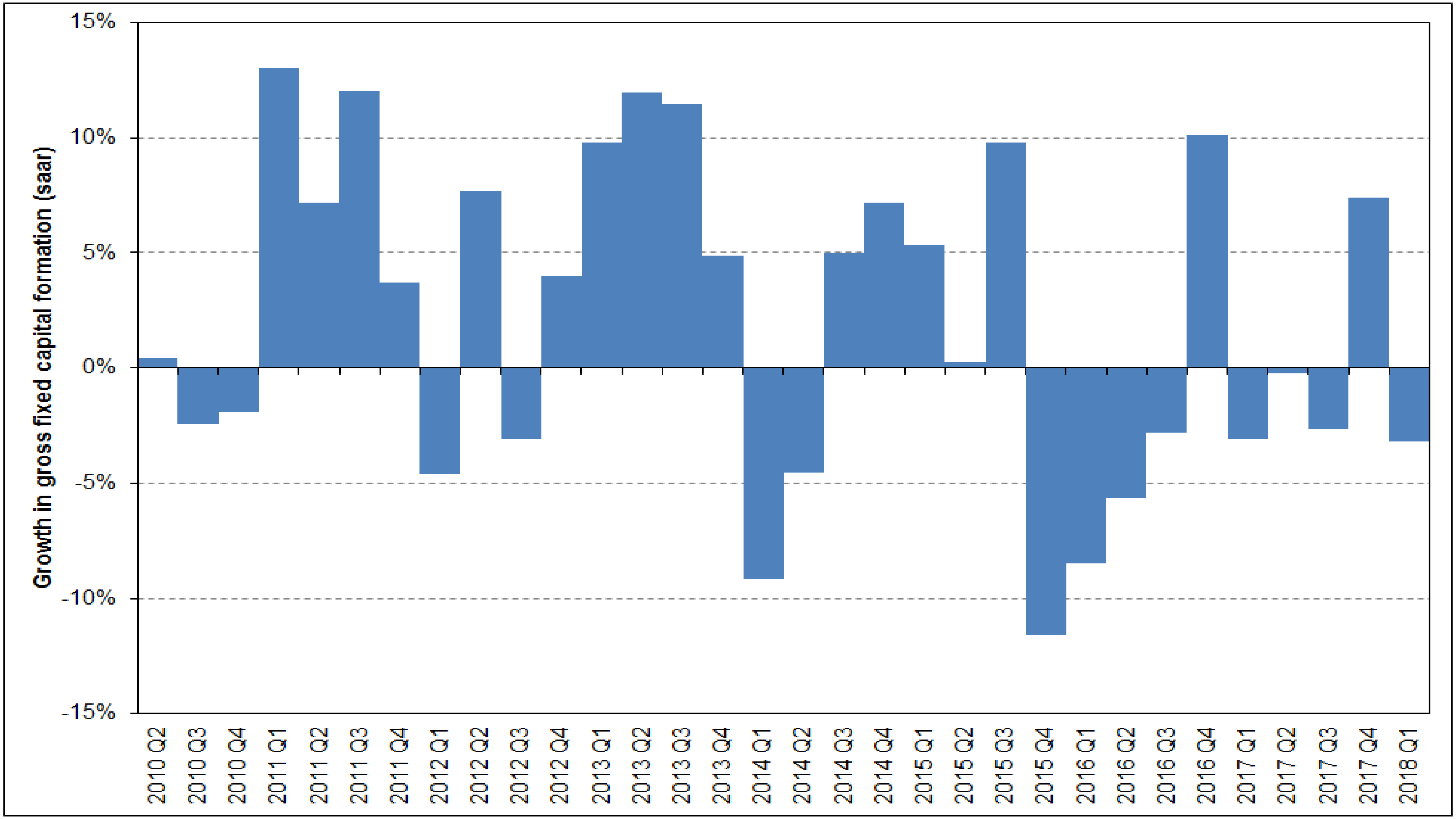
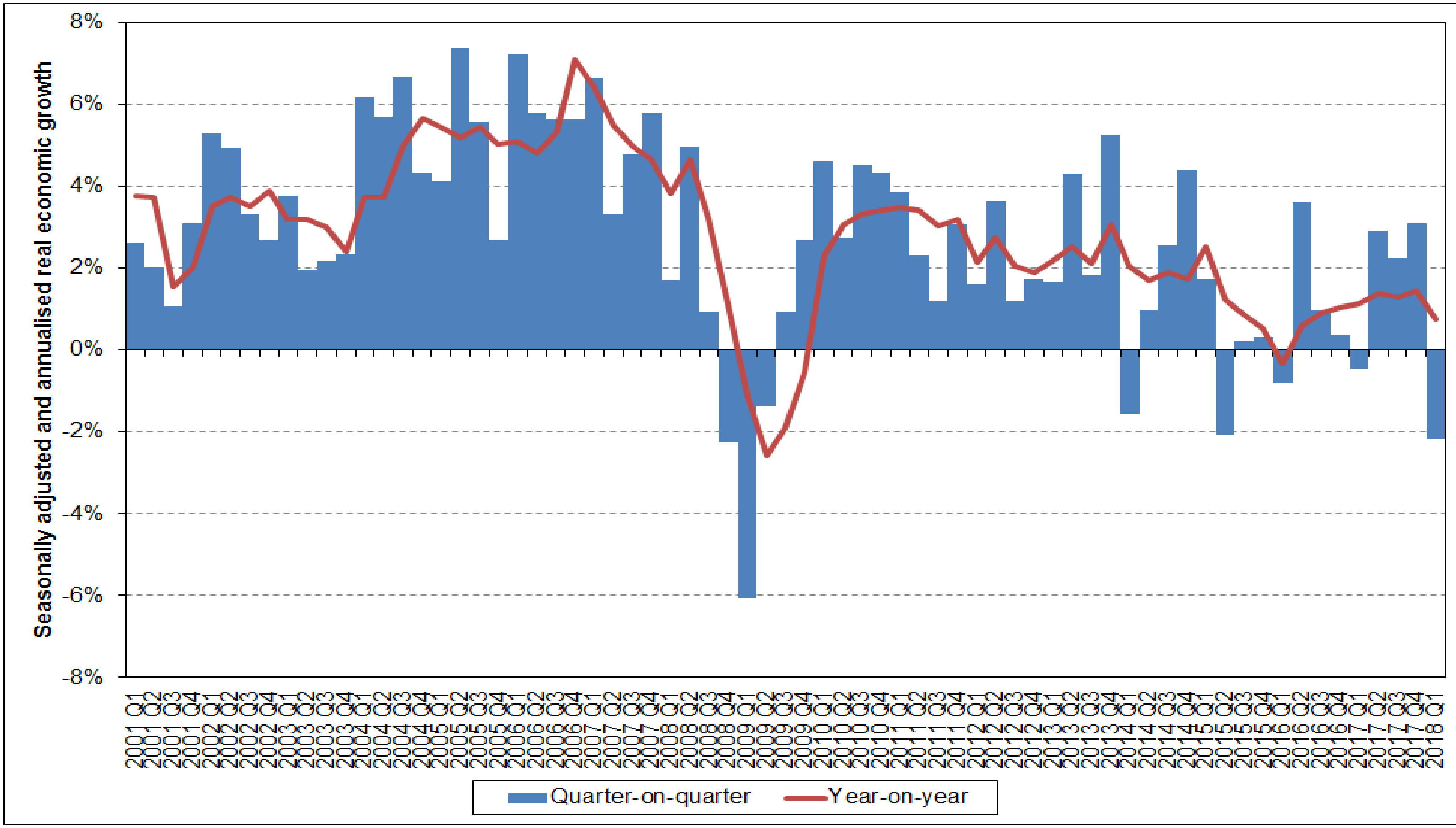
LOW CONFIDENCE = LOW INVESTMENT



Source: StatsSA

= LOW GROWTH



Source: StatsSA

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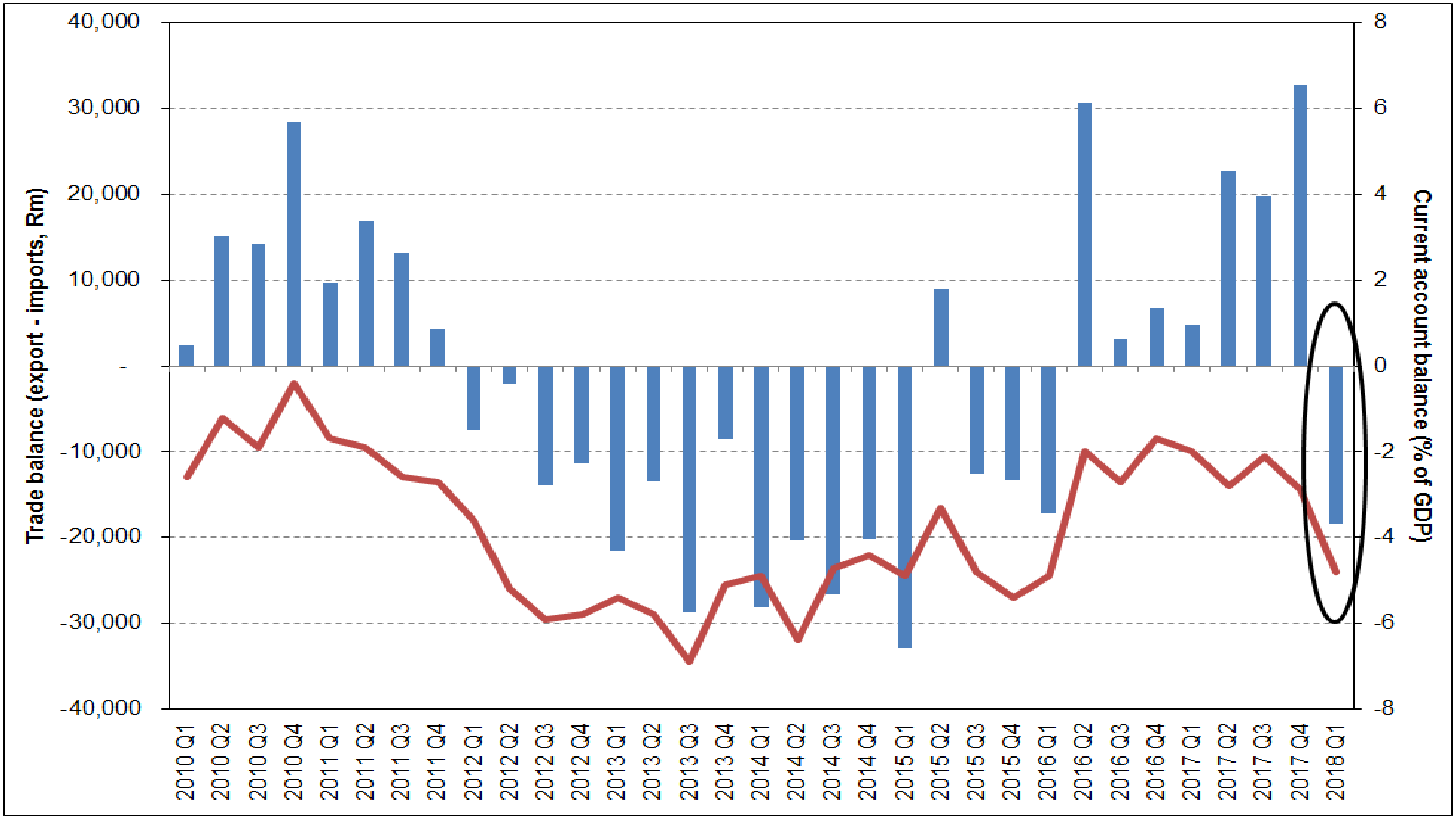
CURRENT ACCOUNT DEFICIT
WIDENS AS EXPORTS TUMBLE, PUTS FURTHER PRESSURE ON THE RAND



Source: IRESS

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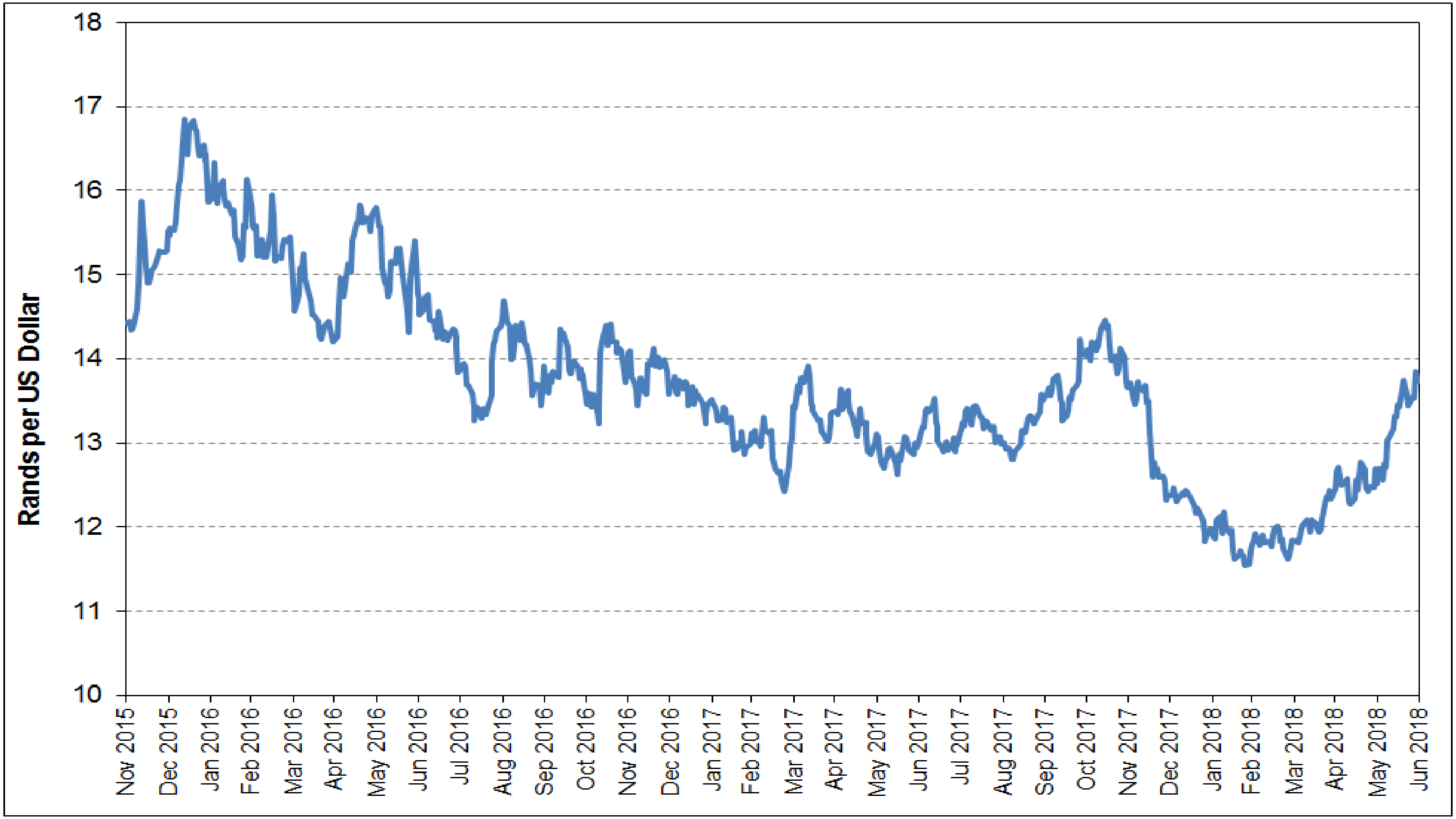
WEAKENING RAND



Source: IRESS

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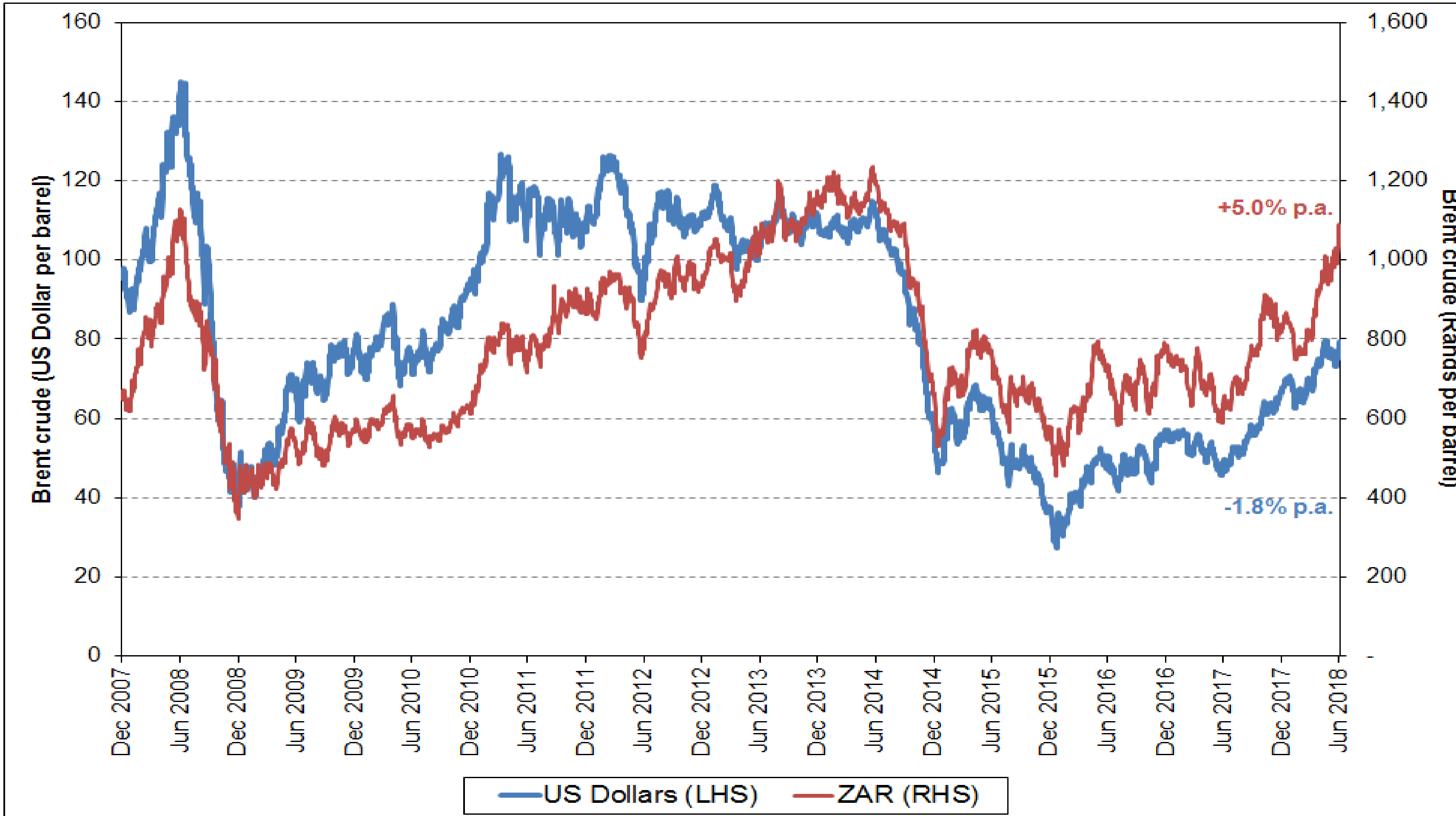
+ RISING OIL PRICE



Source: IRESS

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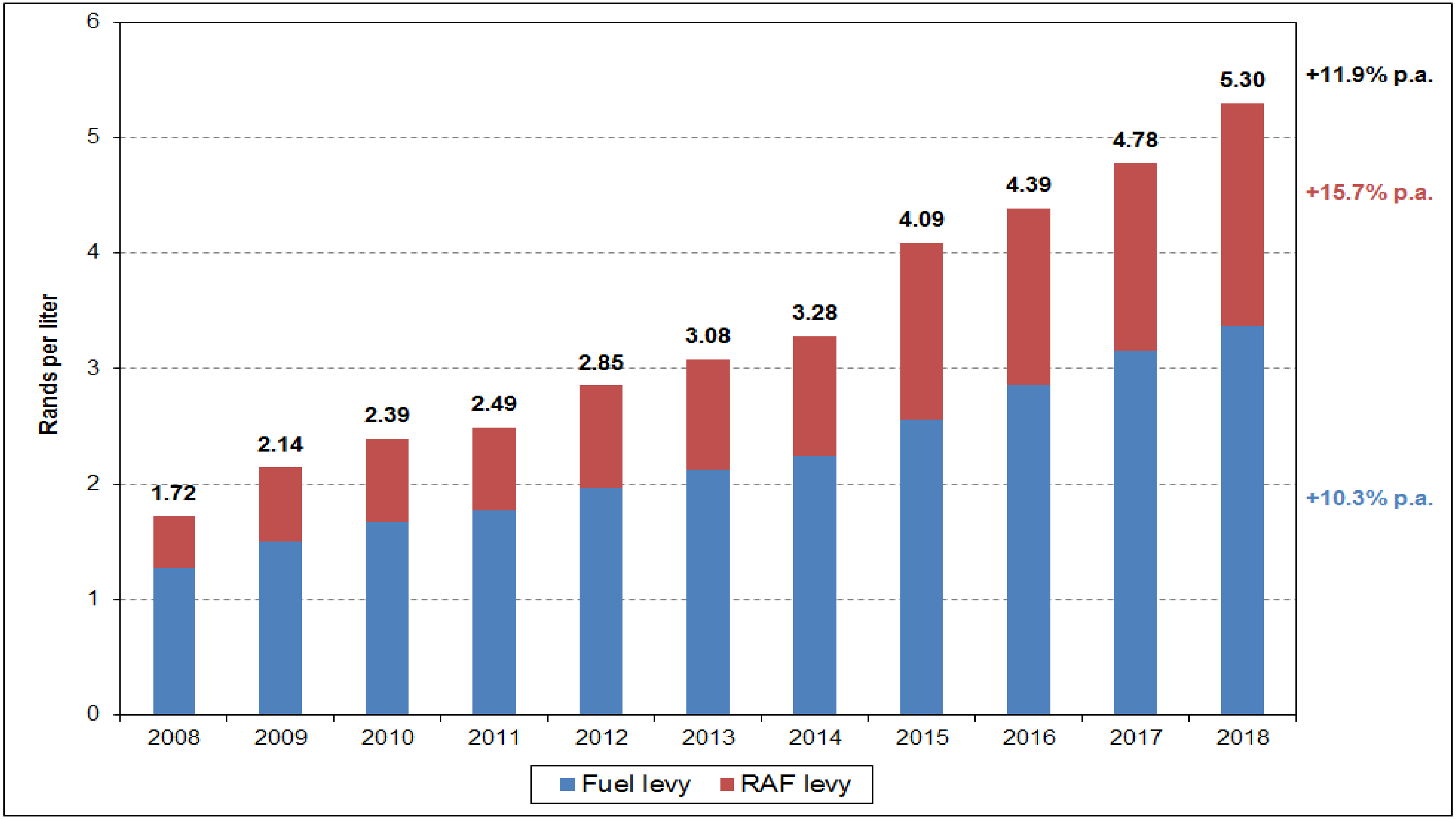
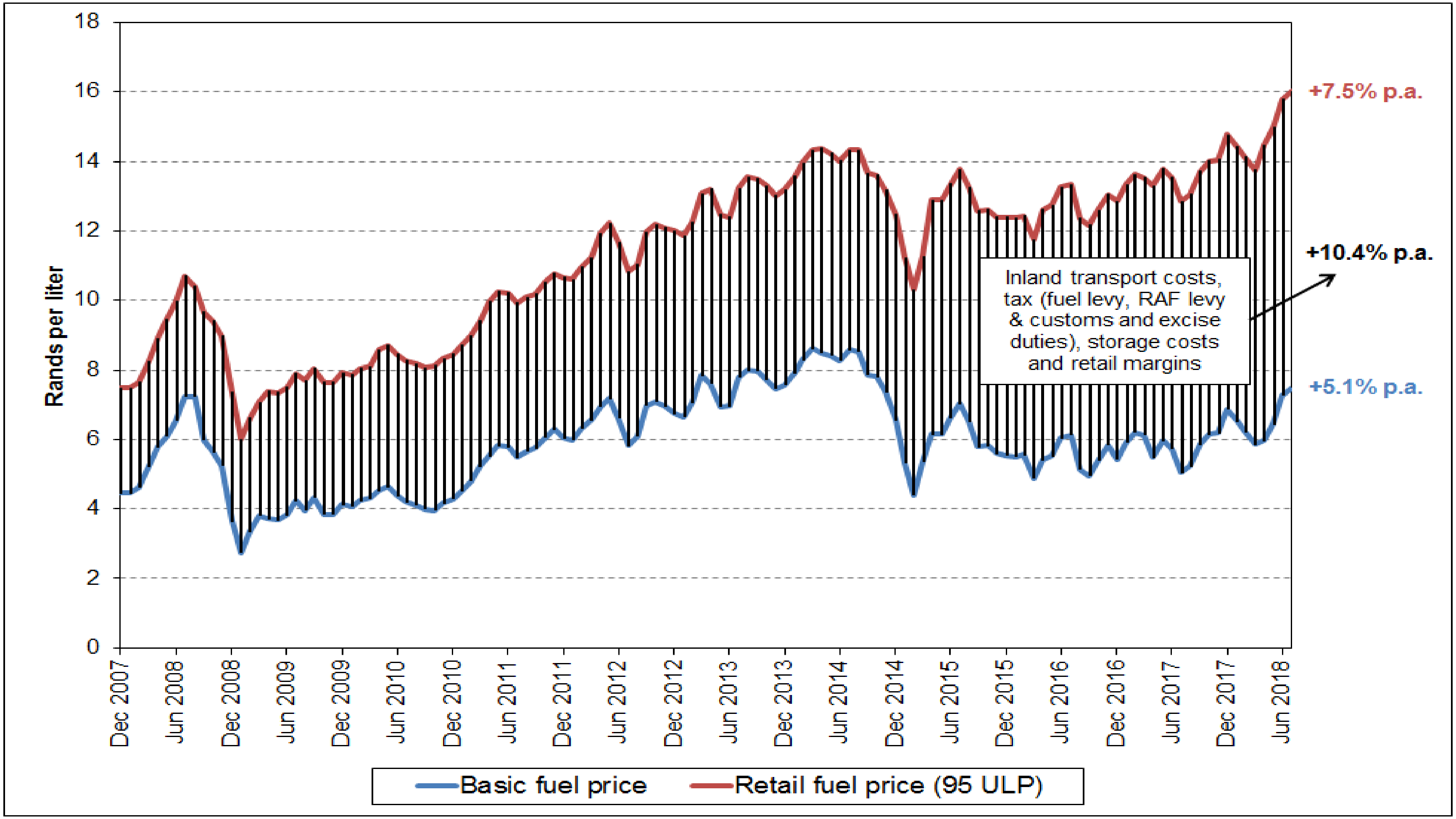
+ HIGHER FUEL TAXES



Source: IRESS

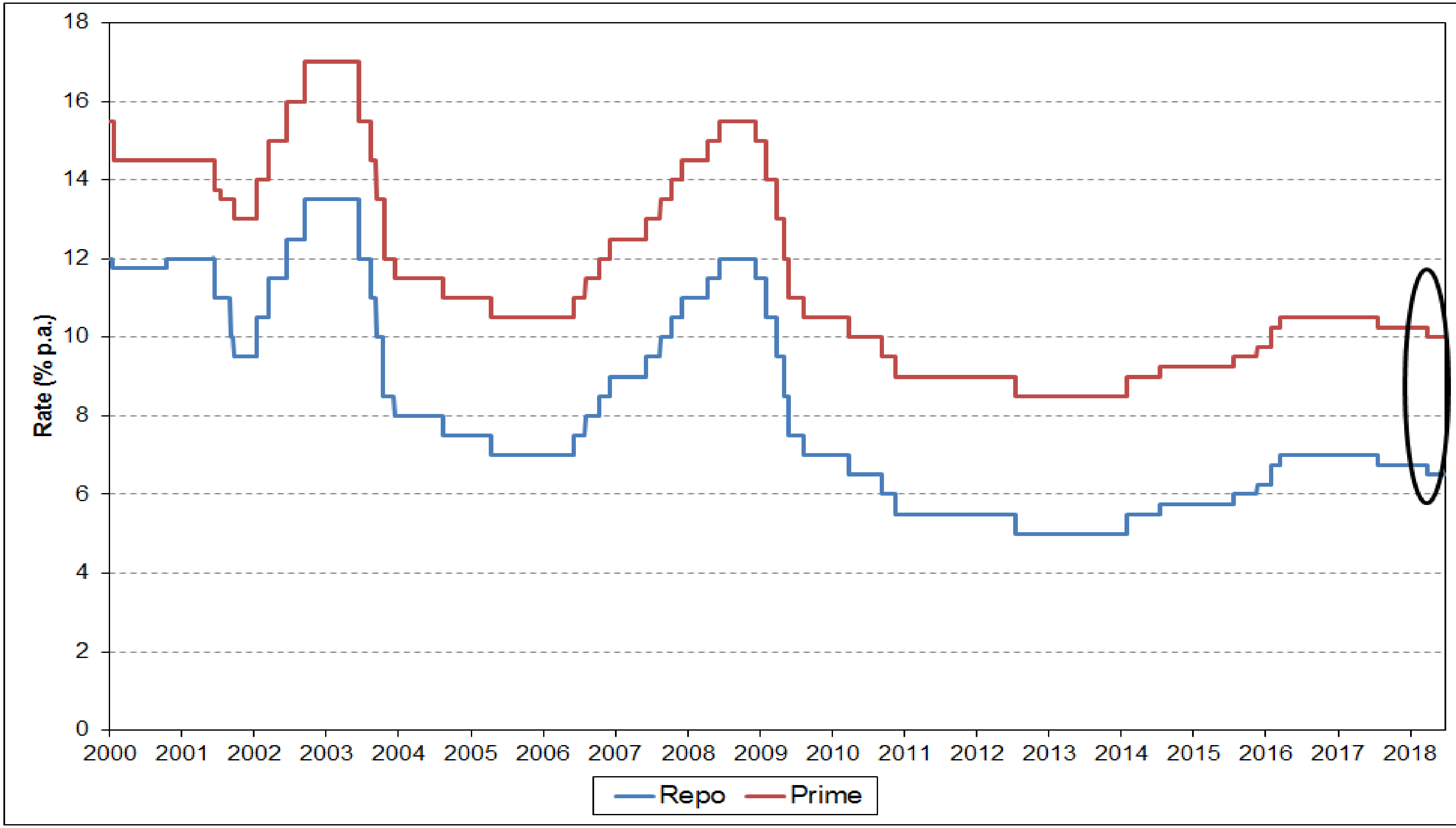
= RECORD HIGH FUEL PRICES



Source: IRESS

SA INTEREST RATES

ODDS OF ANOTHER NEAR-TERM INTEREST RATE CUT PROBABLY NOW GONE



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