

**MONTH IN PICTURES**

**AUGUST 2018**

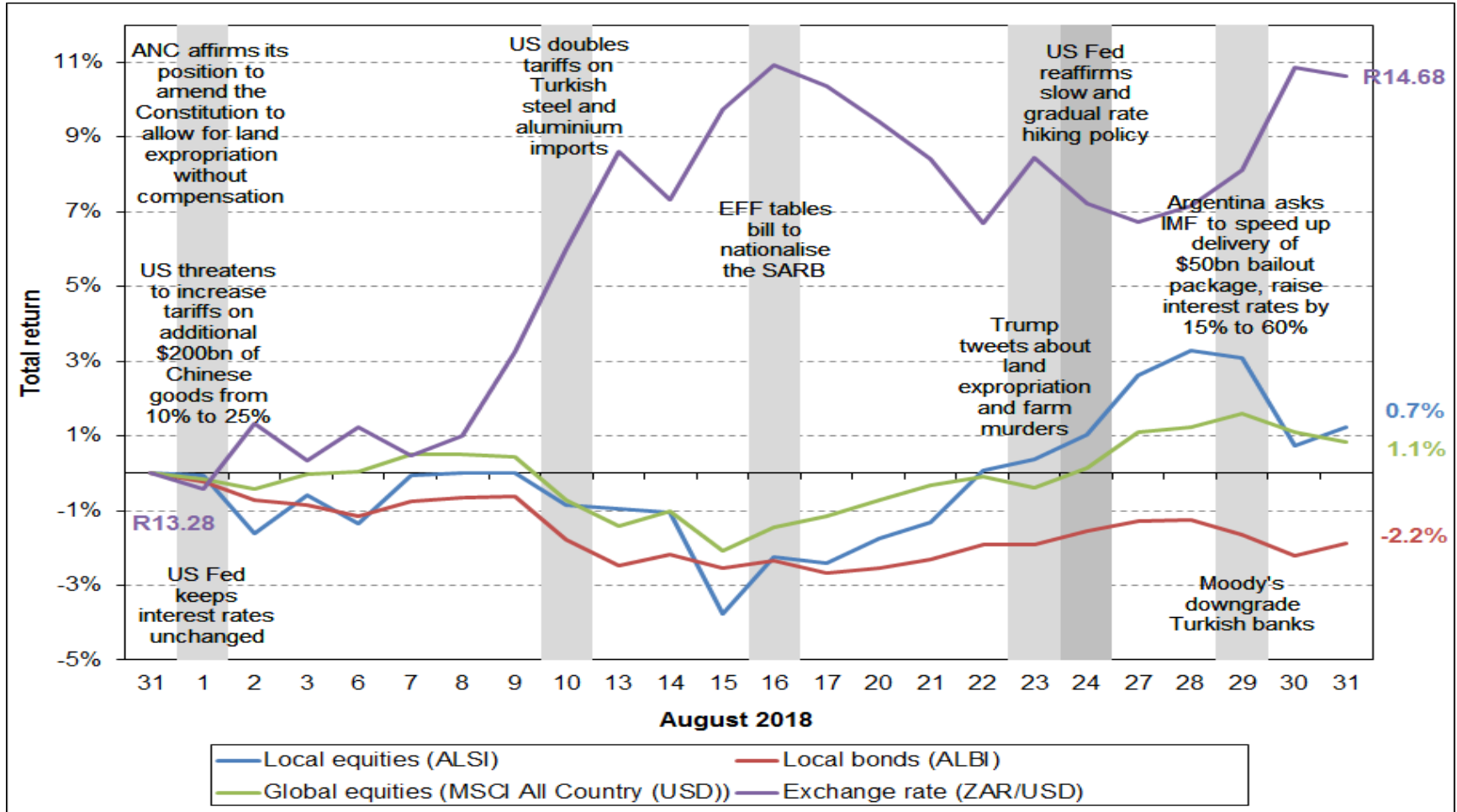
# MONTHLY SNAPSHOT

## NOTABLE EVENTS

- Local equities recorded its third consecutive monthly gain by ending August 1.2% higher. Year-to-date the index is still in negative territory however (-3.3%), while the 12-month return stands at a fairly disappointing 2.8% after the strong gains of July and August 2017 were dropped out of the rolling 12-month figure.
- After a poor second quarter emerging markets came under pressure again in August as rising US interest rates, a stronger Dollar and continued trade war talks have led to large scale outflows from their capital markets. Emerging market currencies have had a difficult 2018 as a result, with the Rand depreciating by 19% against the Dollar so far this year (slides 15 to 17) .
- The sell-off in the local bond market resulted in a loss of 1.9% for this asset class in August, but the 12-month return still clocks in at a reasonable 8.0% following strong gains from December 2017 to March 2018.
- After month-end, the news that South Africa officially entered its first recession since 2009 (the one from last year was revised away) put further pressure on the Rand. The large drop in agricultural output was the main detractor in 2018 Q2 (slides 18 to 25).
- Inflation continues to edge up, with CPI ending July at 5.1% (0.5% higher than July), while PPI (producer price inflation) crept up from 5.9% to 6.1%.
- Global assets had a fairly flat August, but did well for local investors when the Rand's depreciation is taken into account (returning 11.5% and 10.3% in Rands for global equities and bonds respectively).
- The numbers seem to indicate that the South African equity market has lagged its global peers in the post-2008 bull market. A closer investigation however reveals that this bull market has very much been driven by the US, and more specifically, by technology shares. The results also show that the South African market has performed more or less in line with most other (i.e. non US and technology) markets over this period. In addition, while the past performances of these high-flying markets are tempting, their elevated current valuation levels should also be considered (see slides 28 to 37).

# MONTHLY TIMELINE

## IMPACT ON MARKETS



# MARKET INDICATORS

## SHORT TERM

Market indicators (% change) <sup>1</sup>		Jun 2018	Jul 2018	Aug 2018	3 months	12 months
Local equities	Capped SWIX	0.7	1.4	1.2	3.4	2.8
	Resources	6.0	(1.4)	5.6	10.3	24.2
	Industrials	4.2	(2.0)	1.9	4.0	(0.4)
	Financials	(2.9)	4.7	0.3	1.9	8.2
	Listed Property	(3.5)	(0.5)	2.1	(1.9)	(12.4)
Local bonds	ALBI	(1.2)	2.4	(1.9)	(0.7)	8.0
Local cash	STeFI Composite	0.6	0.6	0.6	1.8	7.3
Global equities	MSCI All Country	7.6	(0.4)	11.5	19.5	26.4
Global bonds	Citigroup WGBI	8.0	(3.3)	10.3	15.2	10.3
Exchange rate	ZAR/USD	8.1	(3.3)	10.6	15.6	12.9
Inflation	CPI <sup>2</sup>	0.4	0.8	0.1	1.4	5.1

1. Total returns (in Rands) for the months and periods ending 31 August 2018

2. Y-o-y CPI for August 2018 assumed to be equal to that of July 2018

# MARKET INDICATORS

## MEDIUM TO LONG TERM

Market indicators (% change) <sup>1</sup>		1 year	3 years	5 years	10 years	15 years
Local equities	Capped SWIX	2.8	5.6	9.5	11.4	16.9
	Resources	24.2	11.3	1.2	0.3	8.8
	Industrials	(0.4)	6.6	10.8	16.3	20.8
	Financials	8.2	4.7	12.7	13.8	16.8
	Listed Property	(12.4)	(0.3)	8.7	13.4	18.7
Local bonds	ALBI	8.0	7.5	7.9	8.8	8.8
Local cash	STeFI Composite	7.3	7.3	6.8	6.9	7.4
Global equities	MSCI All Country	26.4	16.3	18.4	14.5	13.9
Global bonds	Citigroup WGBI	10.3	5.5	8.2	9.1	8.7
Exchange rate	ZAR/USD	12.9	3.4	7.4	6.7	4.7
Inflation	CPI <sup>2</sup>	5.1	5.3	5.4	5.2	5.5

1. Total returns (in Rands) for the months and periods ending 31 August 2018

2. Y-o-y CPI for August 2018 assumed to be equal to that of July 2018

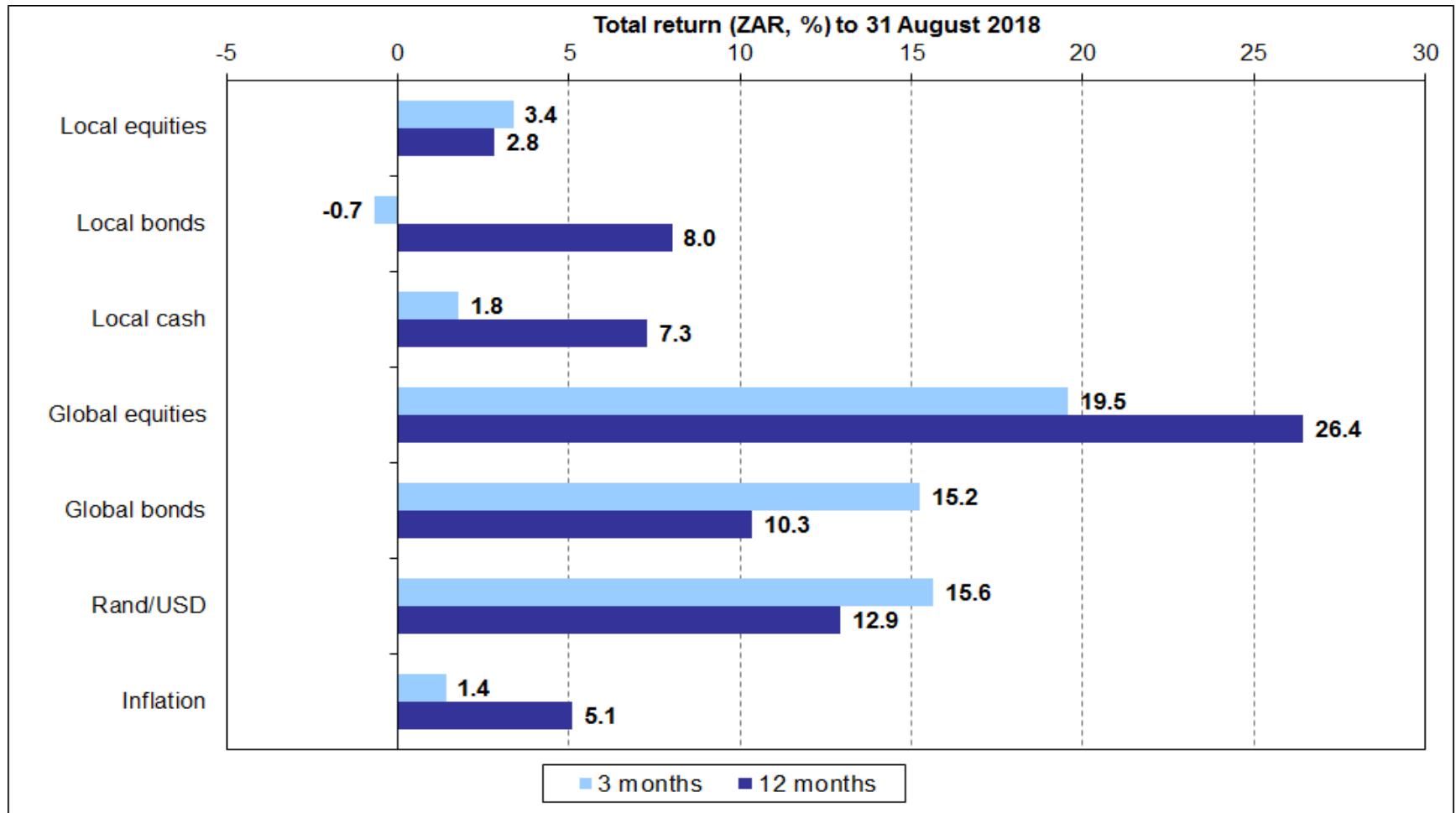
# ECONOMIC INDICATORS

Economic indicators <sup>1</sup>	Aug 2016	Aug 2017	Jun 2018	Jul 2018	Aug 2018
<b>Exchange rates:</b>					
ZAR/USD	14.69	13.01	13.73	13.28	14.68
ZAR/GBP	19.31	16.81	18.13	17.42	19.03
ZAR/Euro	16.40	15.48	16.04	15.52	17.04
<b>Commodities:</b>					
Brent Crude Oil (USD/barrel)	46.98	52.86	79.24	74.06	77.73
Platinum (USD/ounce)	1,052.50	999.00	850.00	825.07	785.00
Gold (USD/ounce)	1,308.79	1,322.20	1,252.70	1,218.30	1,201.50

1. Month-end prices

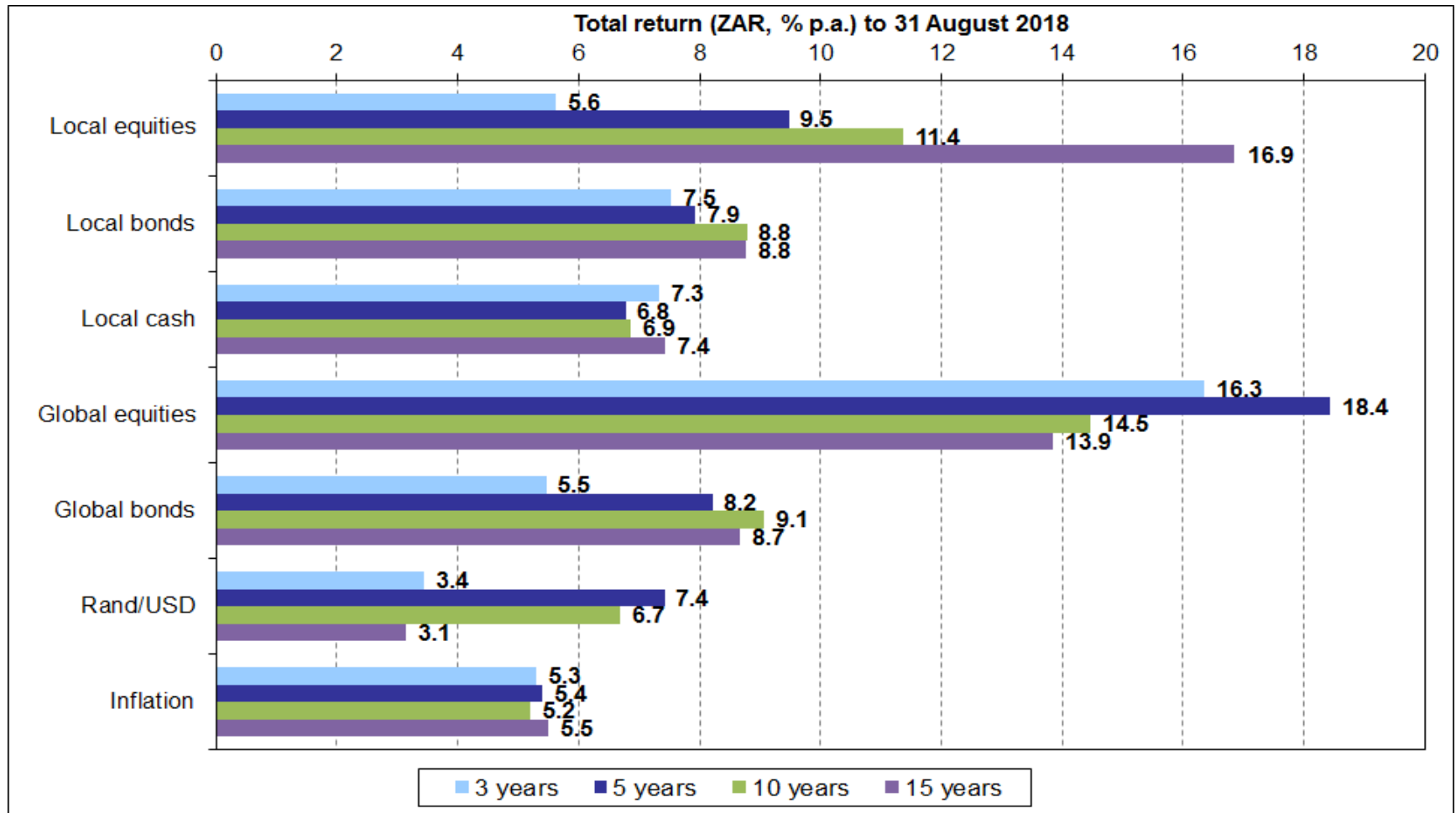
# ASSET CLASS PERFORMANCE

## SHORT TERM



# ASSET CLASS PERFORMANCE

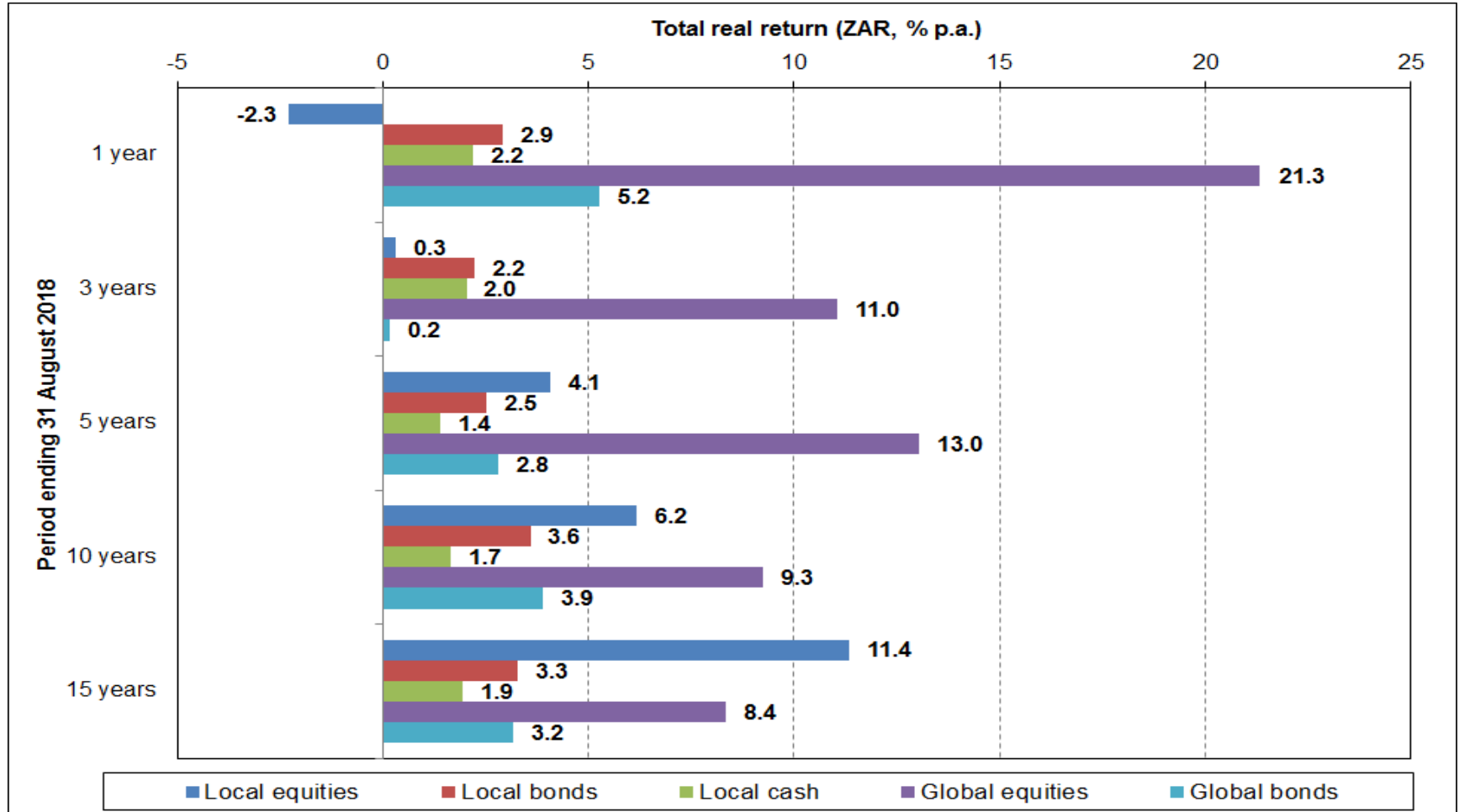
## MEDIUM TO LONG TERM





# ASSET CLASS PERFORMANCE

## REAL (ABOVE INFLATION) RETURNS



# MARKET PERFORMANCE

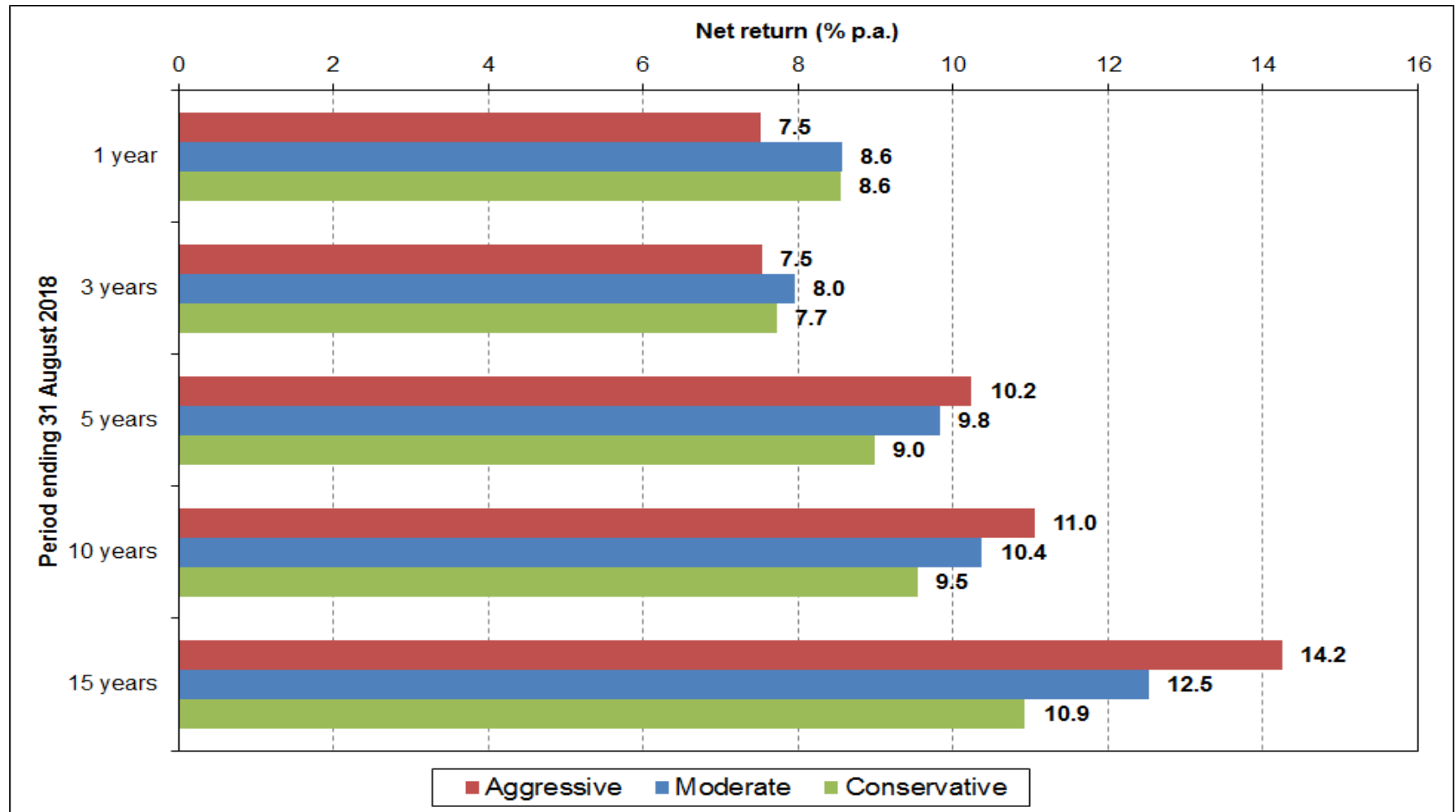
## WHAT RETURNS CAN INVESTORS REASONABLY EXPECT?

Given the performances of the various asset classes (see earlier slides), what level of returns (in both nominal and real terms) can investors reasonably expect from the market (see next two slides), assuming the following asset class allocations:

Asset class	Asset class allocation per risk profile		
	Aggressive	Moderate	Conservative
Local equities	60%	40%	25%
Global equities	15%	15%	10%
<b>Total growth assets</b>	<b>75%</b>	<b>55%</b>	<b>35%</b>
Local bonds	15%	25%	30%
Local cash	5%	15%	25%
Global bonds	5%	5%	10%
<b>Total income assets</b>	<b>25%</b>	<b>45%</b>	<b>65%</b>
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

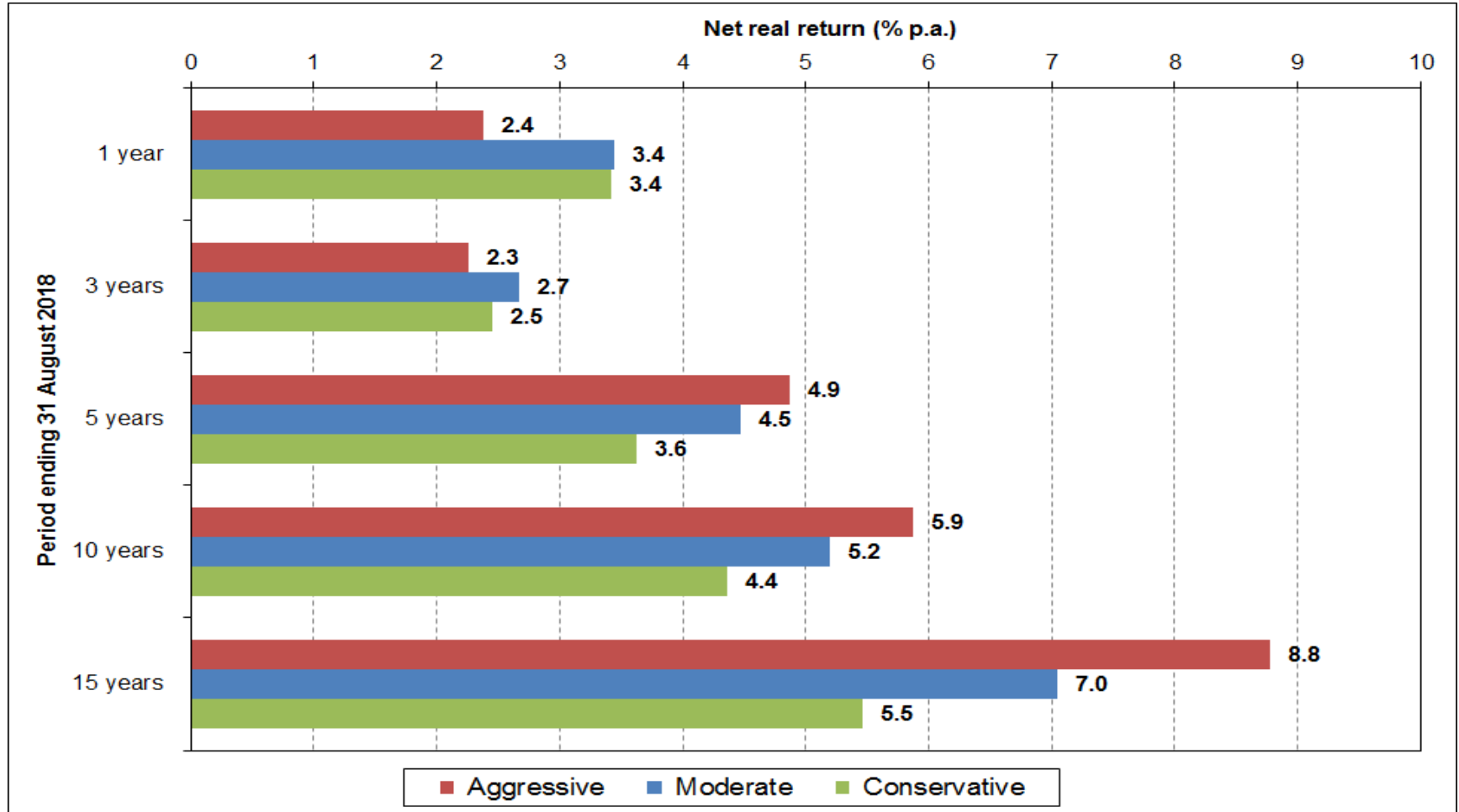
# MARKET PERFORMANCE

## WHAT NOMINAL RETURNS CAN INVESTORS REASONABLY EXPECT?



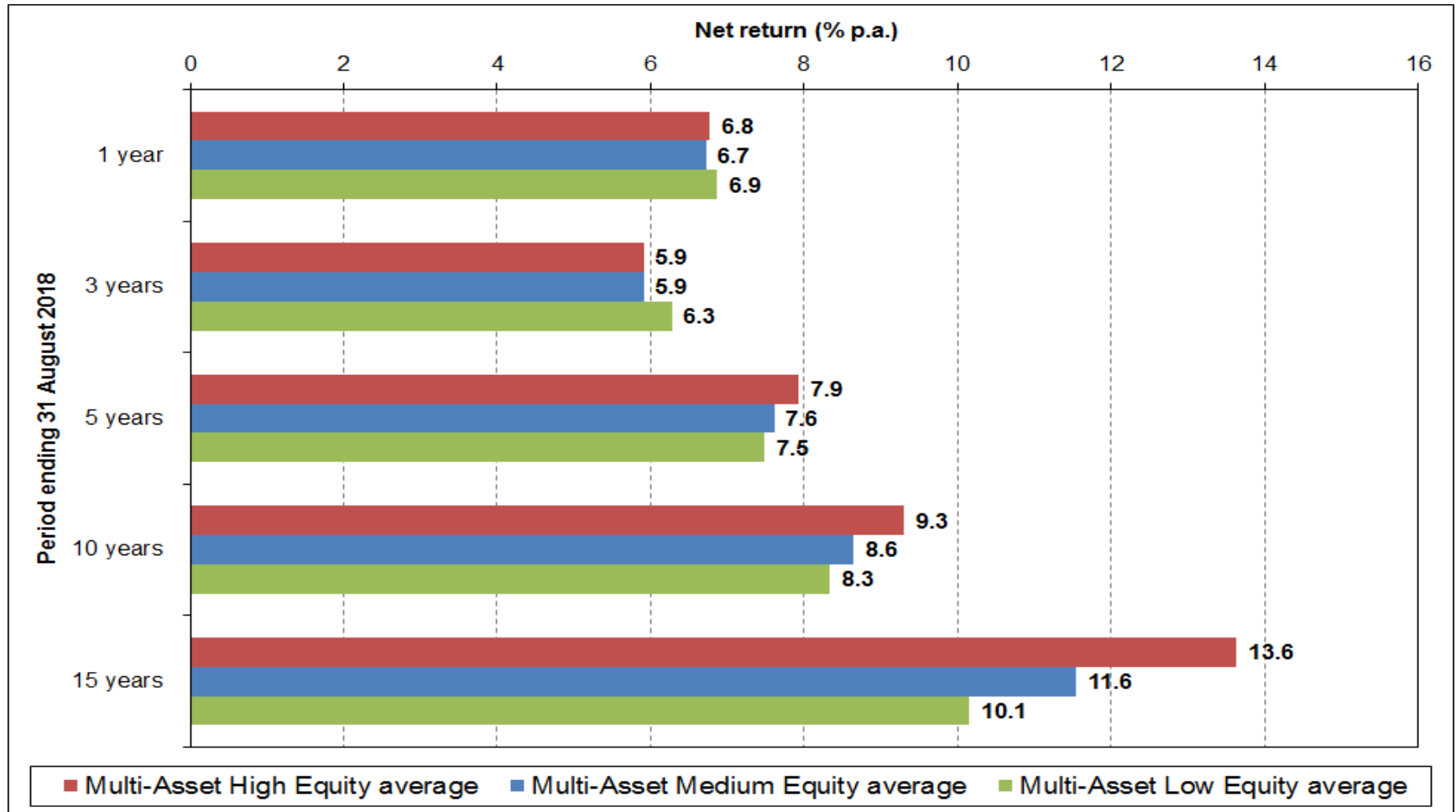
# MARKET PERFORMANCE

## WHAT REAL RETURNS CAN INVESTORS REASONABLY EXPECT?



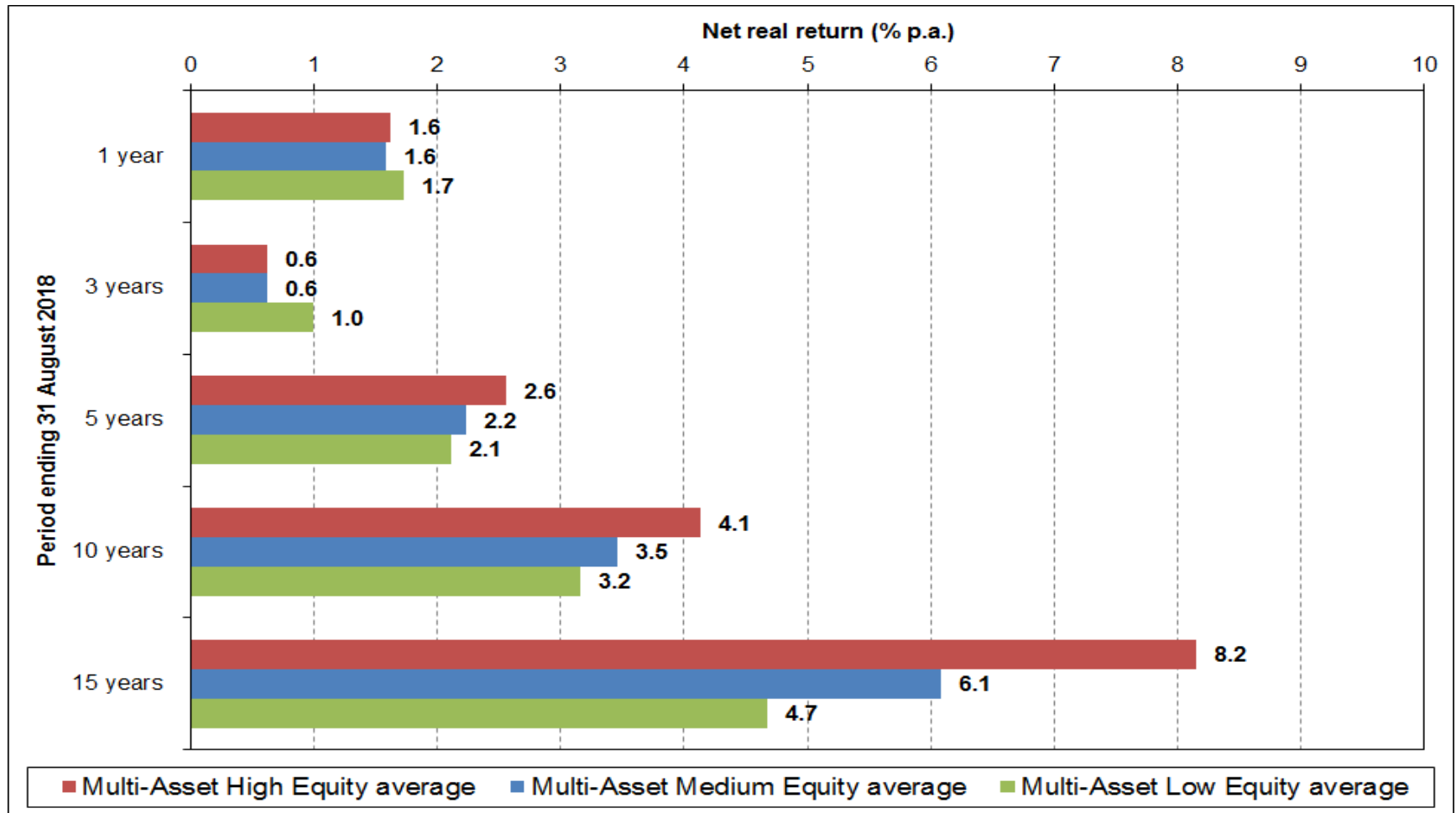
# UNIT TRUST PERFORMANCE

## WHAT NOMINAL RETURNS CAN INVESTORS REASONABLY EXPECT?

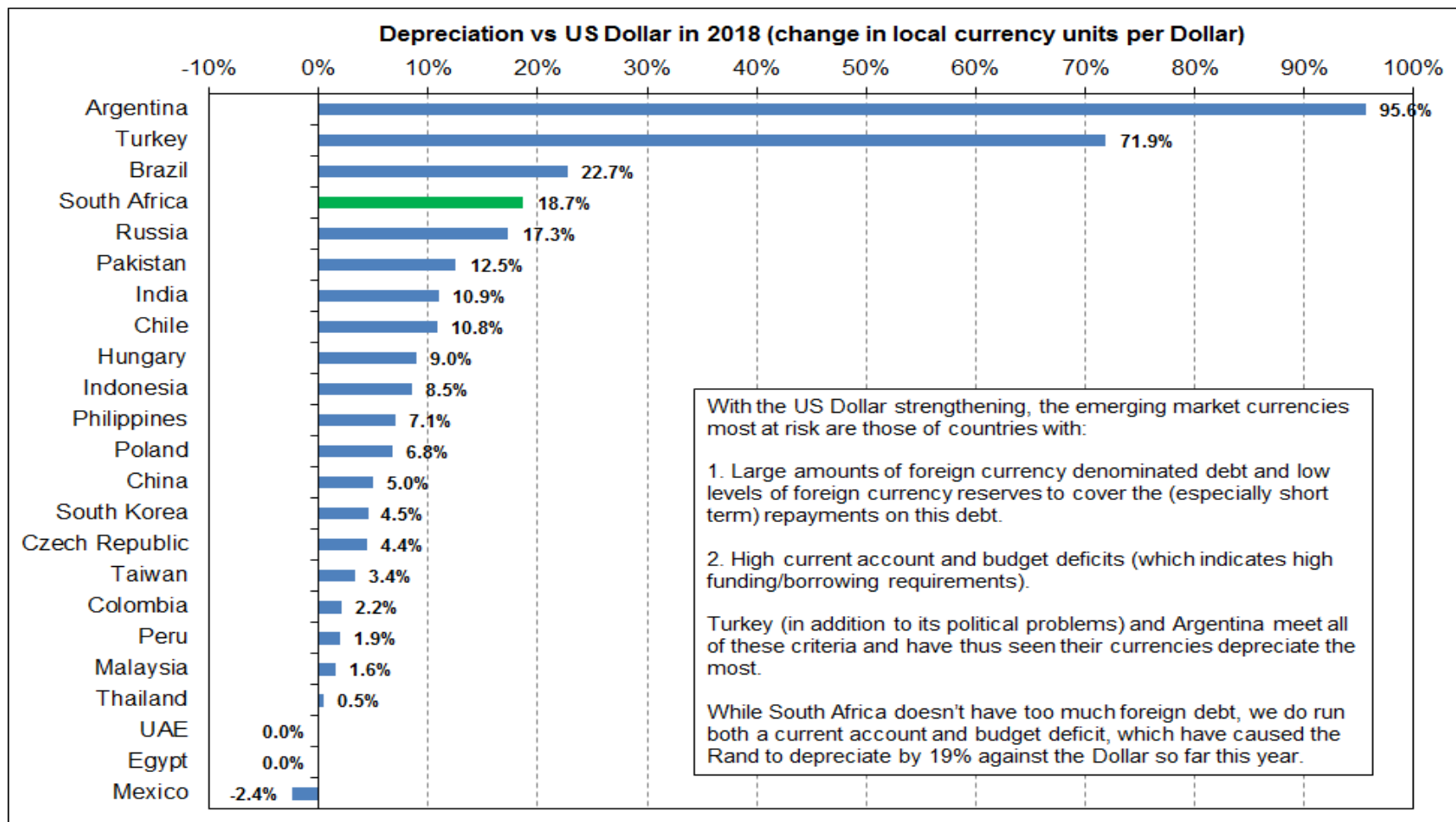


# UNIT TRUST PERFORMANCE

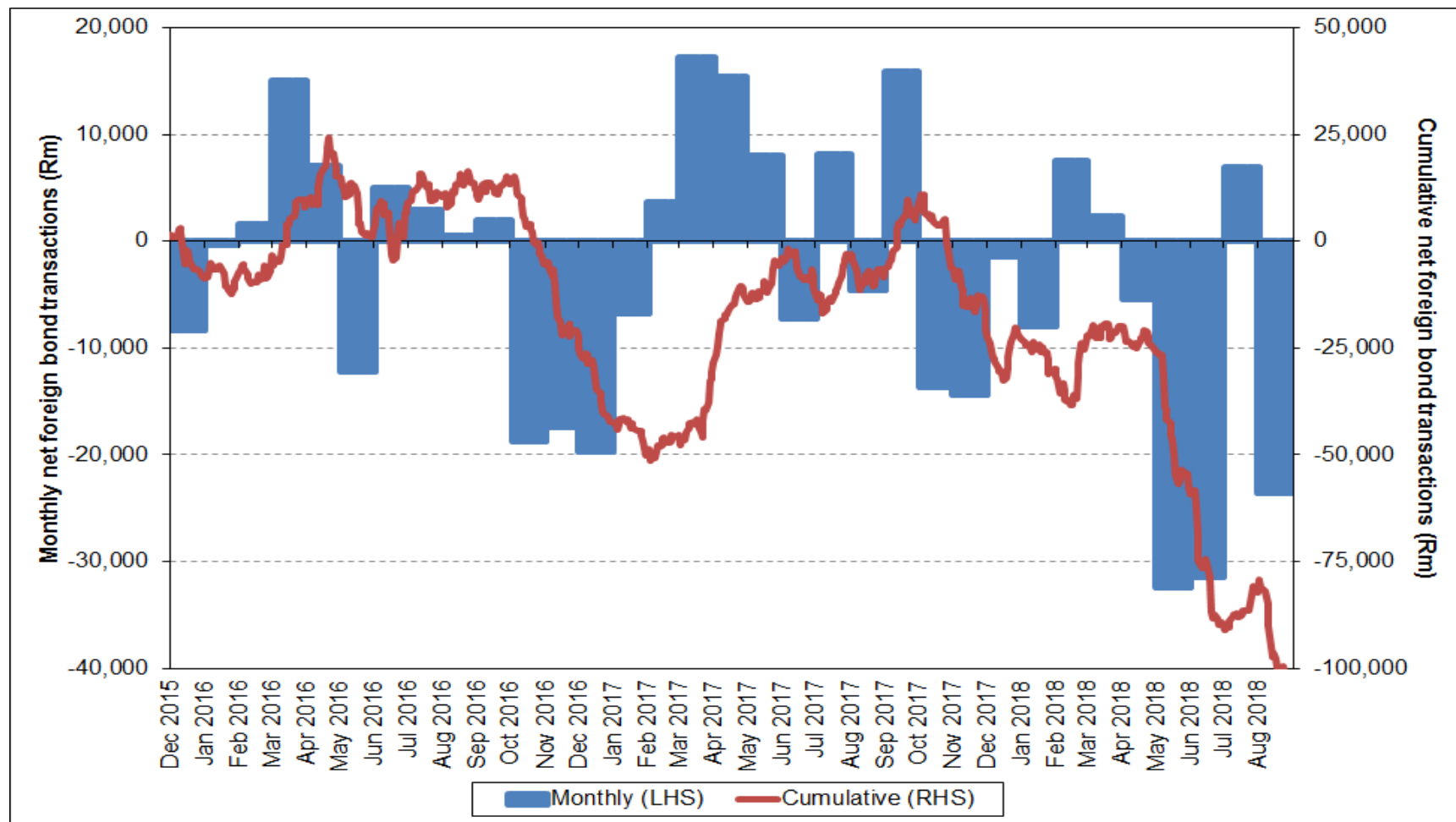
## WHAT REAL RETURNS CAN INVESTORS REASONABLY EXPECT?



# EMERGING MARKET CURRENCIES TAKING A SEVERE BEATING

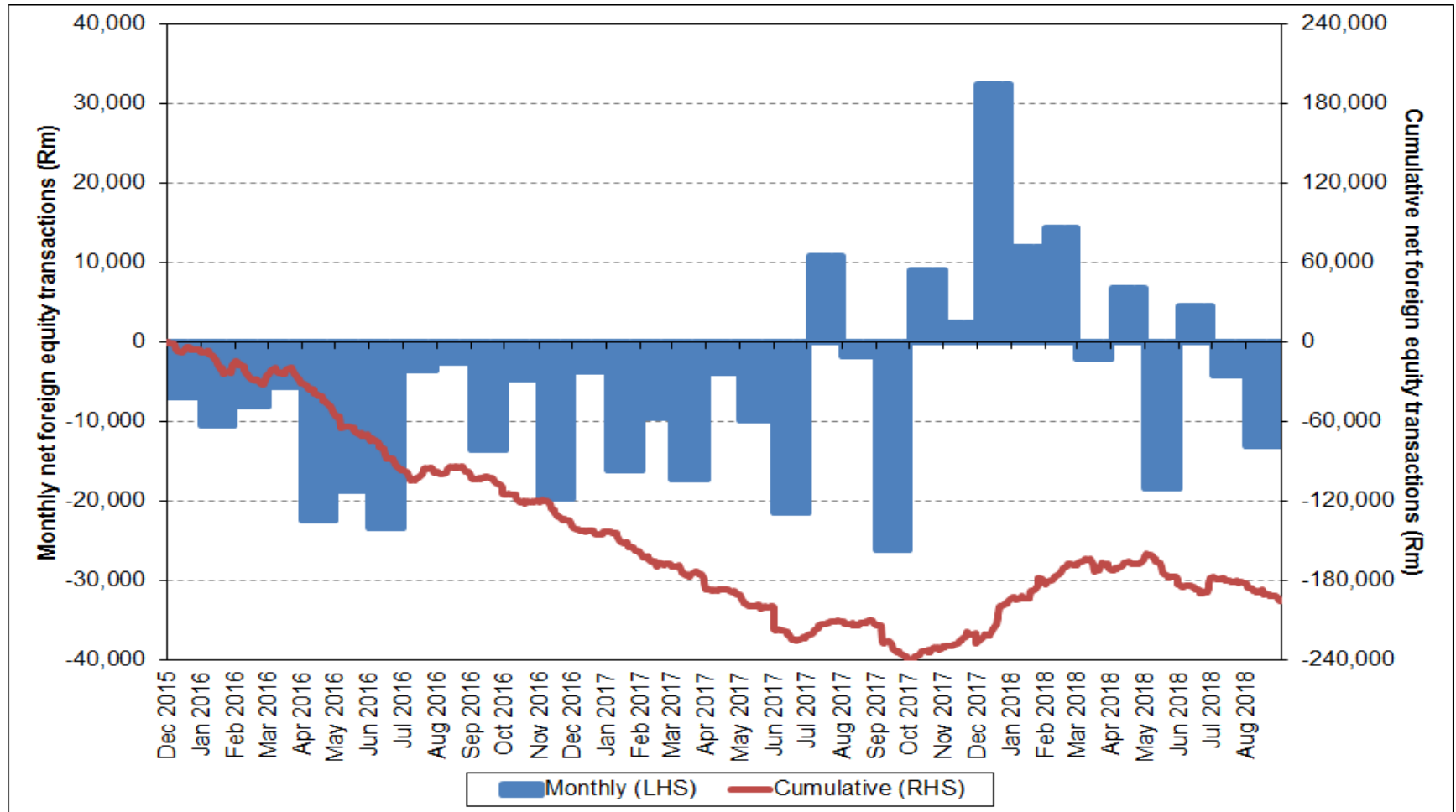


# FOREIGN TRANSACTIONS IN SA BONDS AS FOREIGNERS CONTINUE TO OFFLOAD SA DEBT



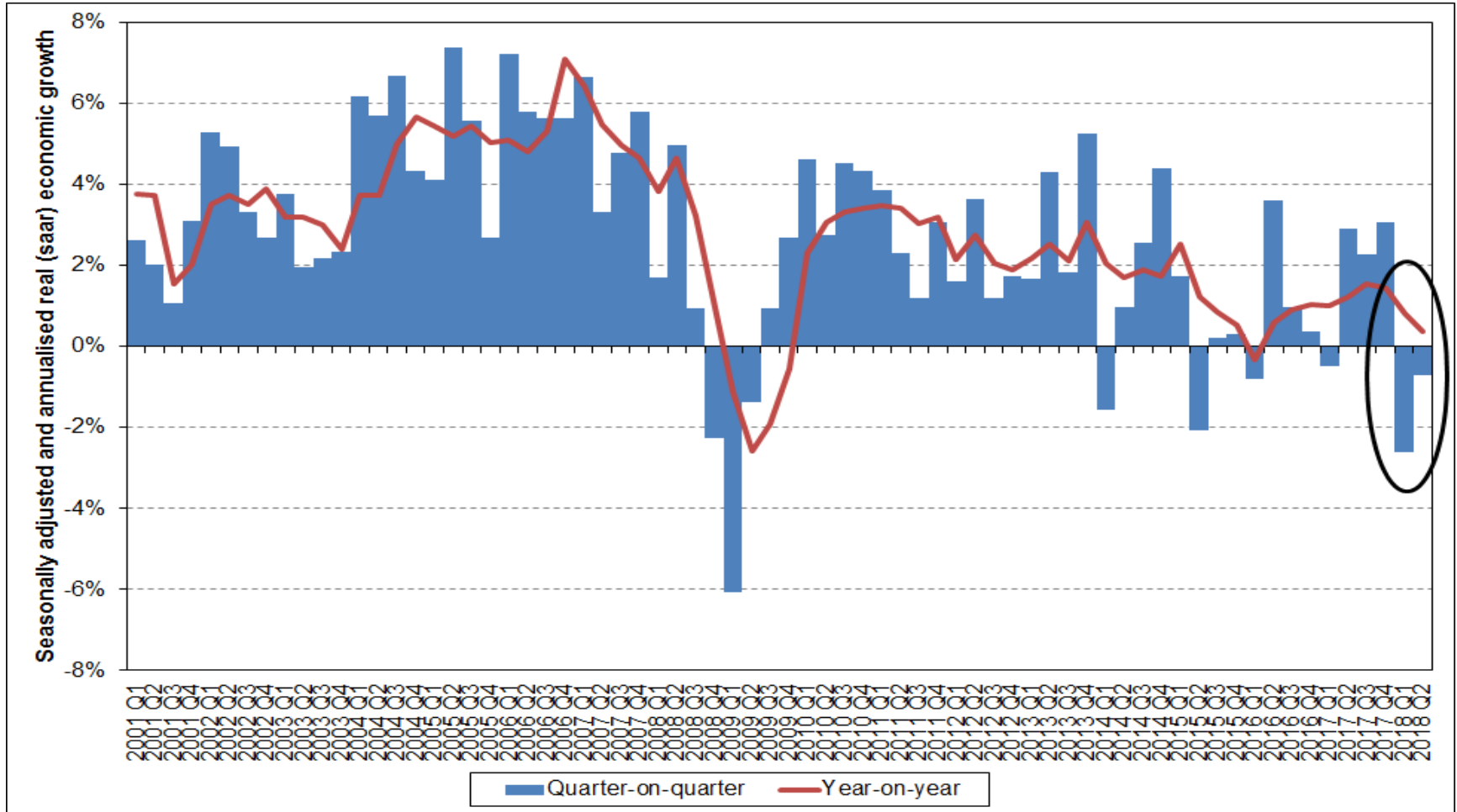


# FOREIGN TRANSACTIONS IN SA EQUITIES AND FOREIGN INTEREST IN OUR EQUITY MARKET REMAINS LOW

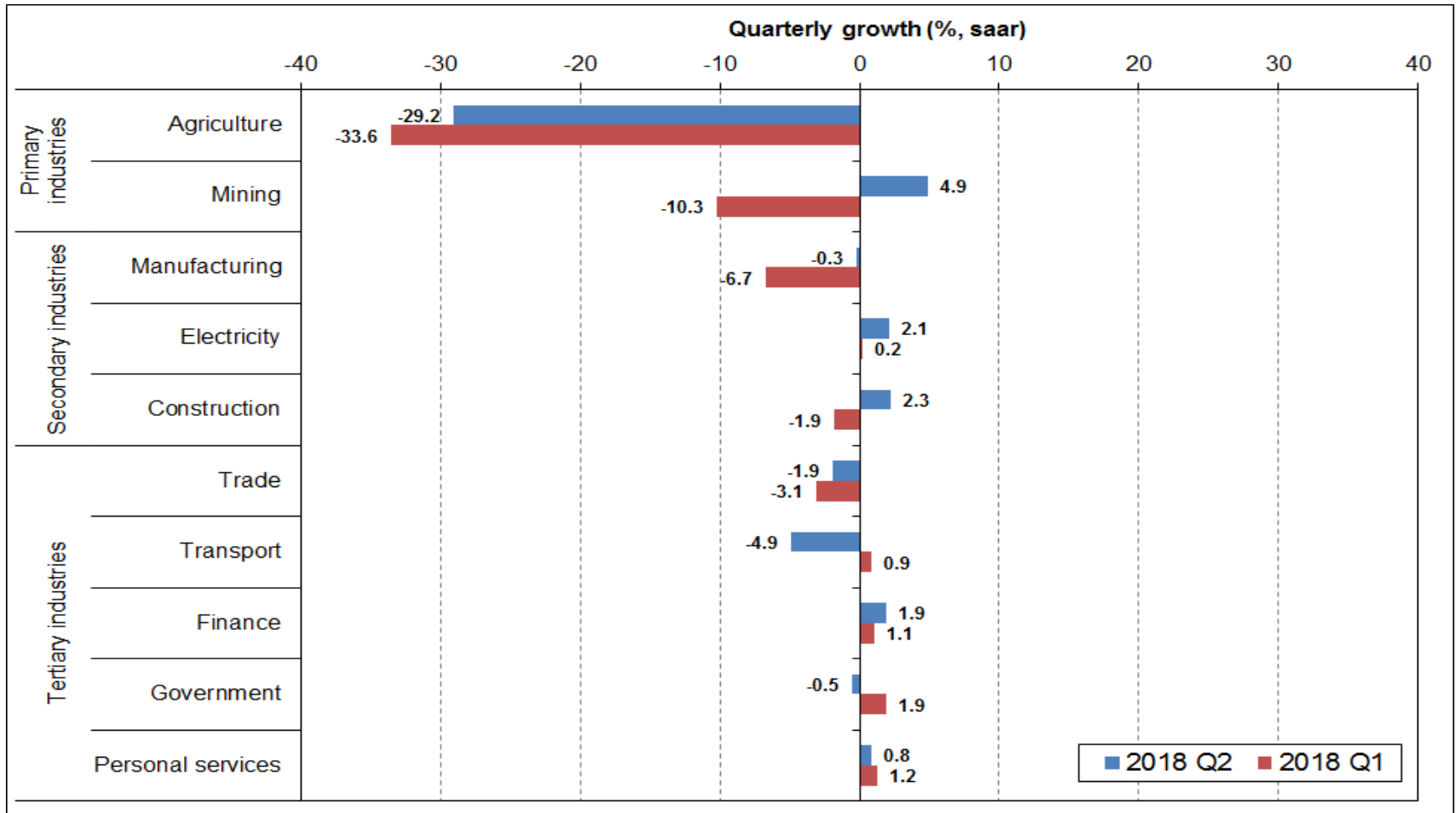


# SA ECONOMY

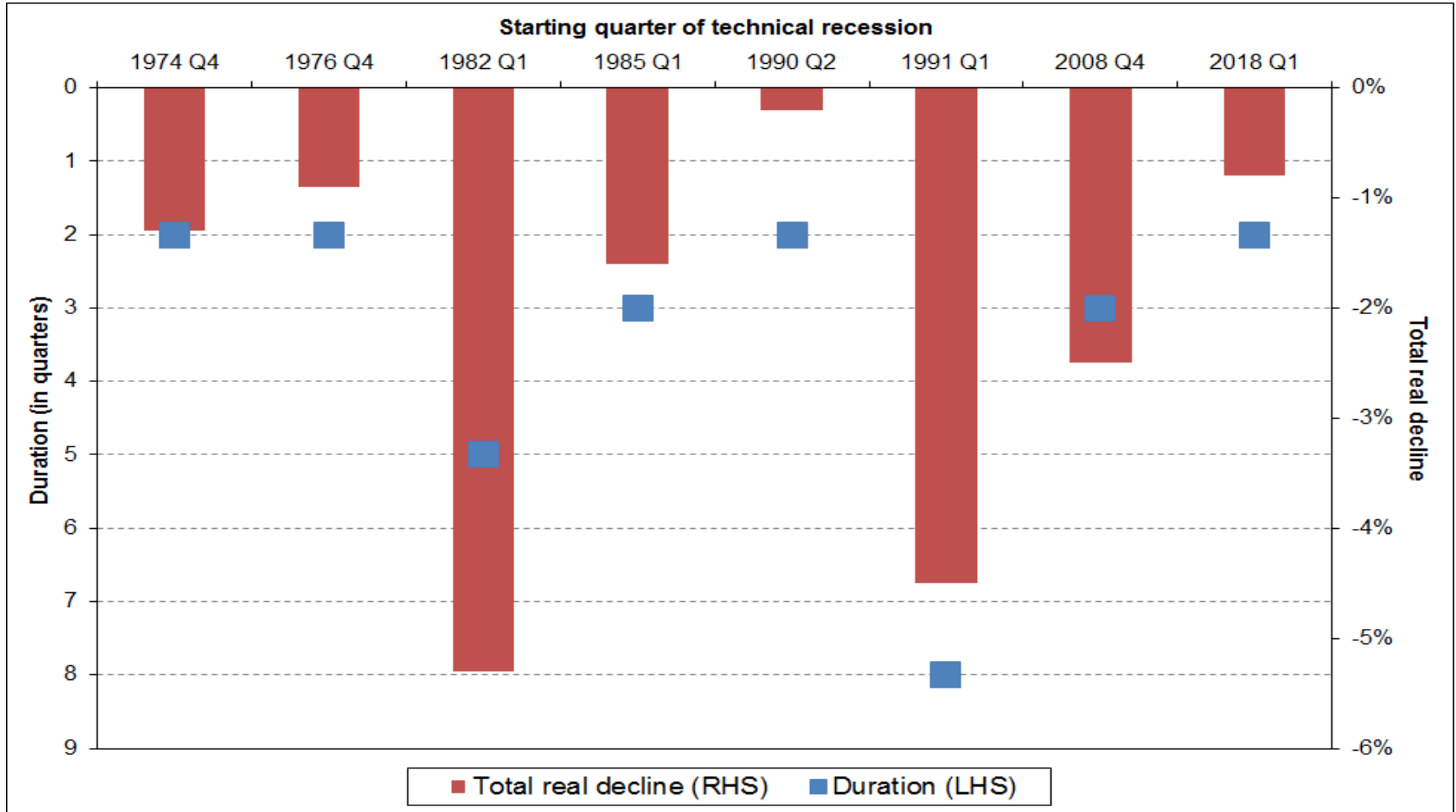
## SA ENTERS TECHNICAL RECESSION



# SA ECONOMY AS AGRICULTURAL OUTPUT SLUMPS

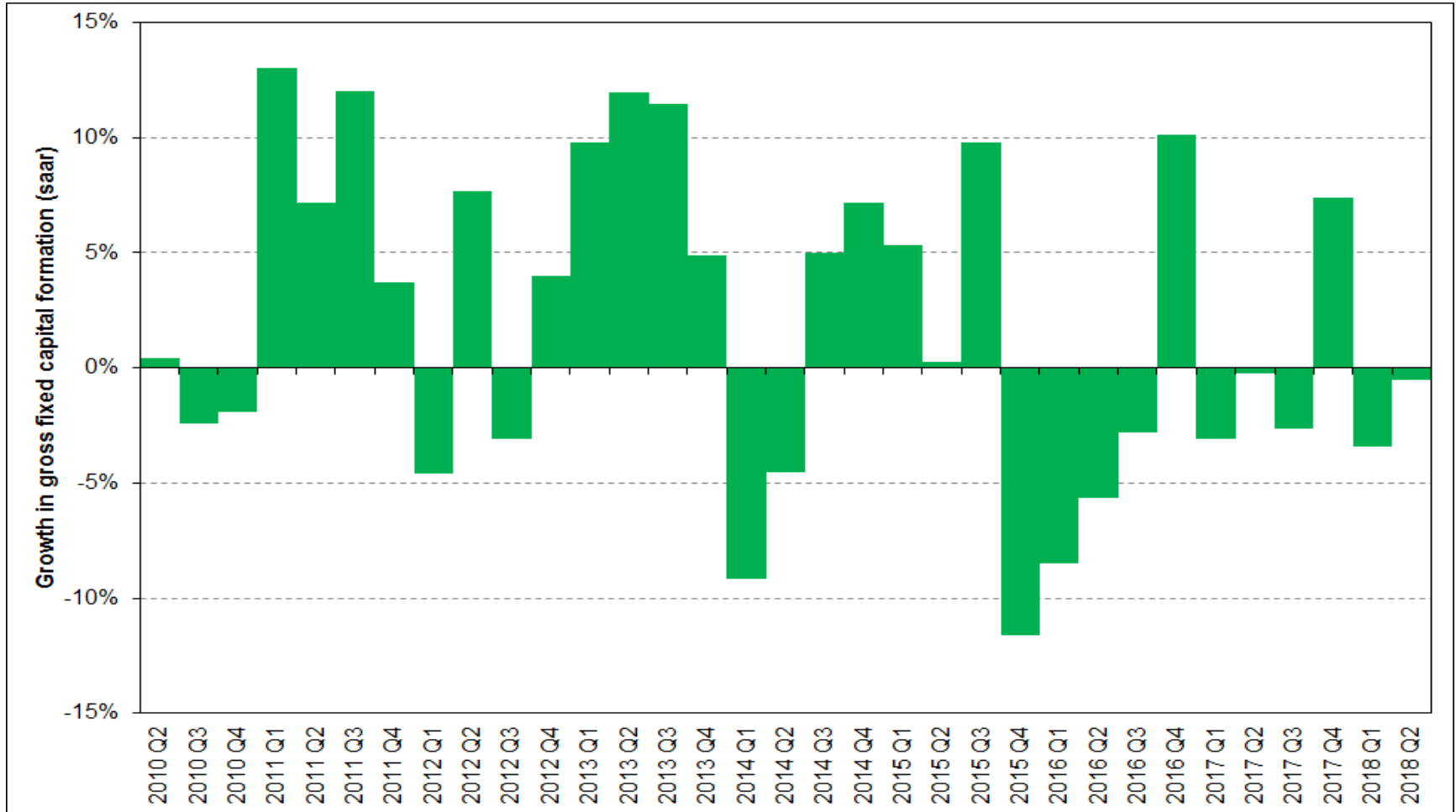


# SA ECONOMY PREVIOUS ECONOMIC RECESSIONS

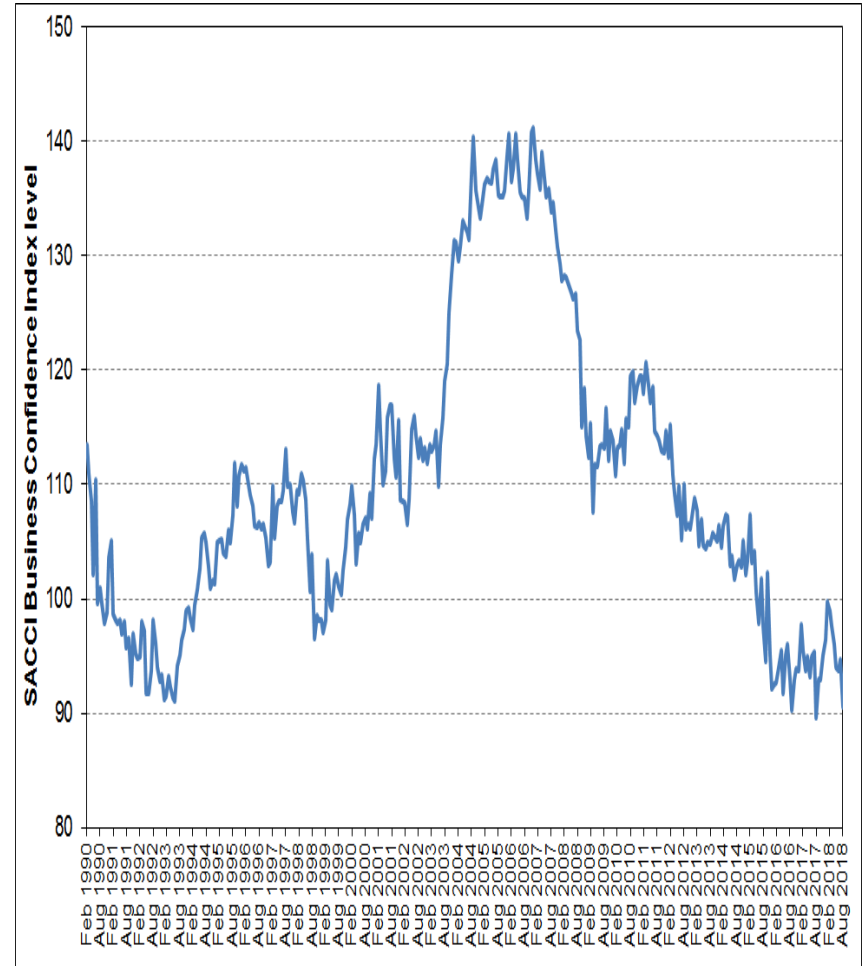
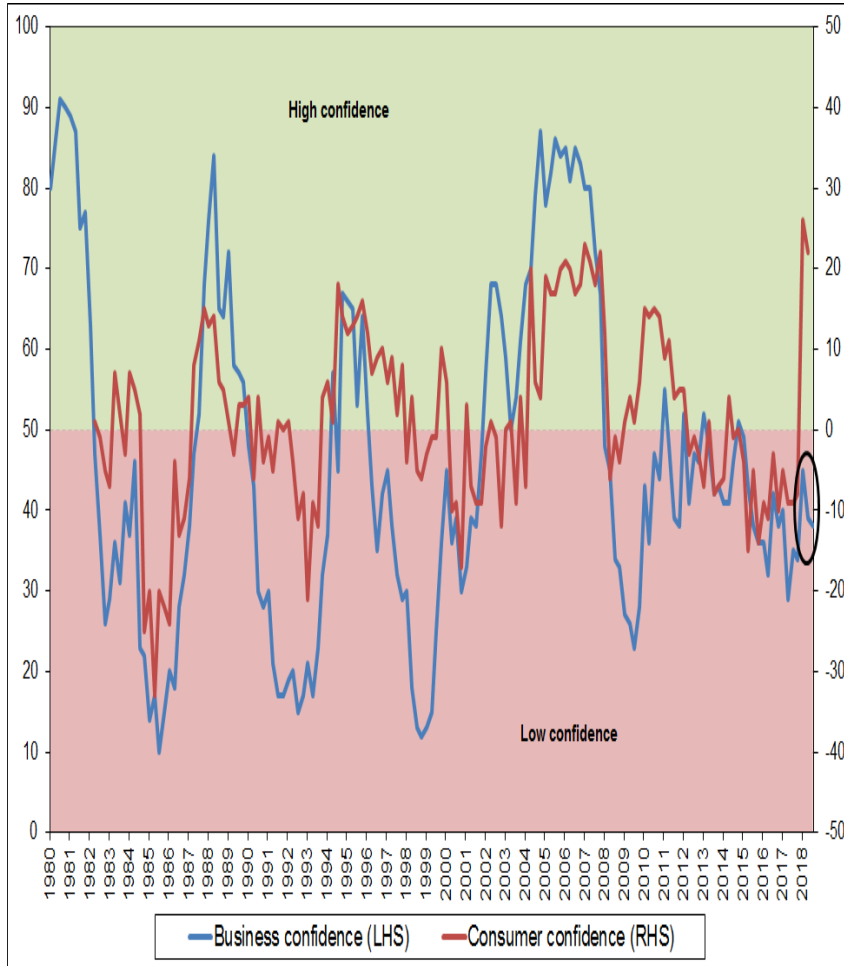


# SA ECONOMY

## FIXED INVESTMENT STILL CONTRACTING

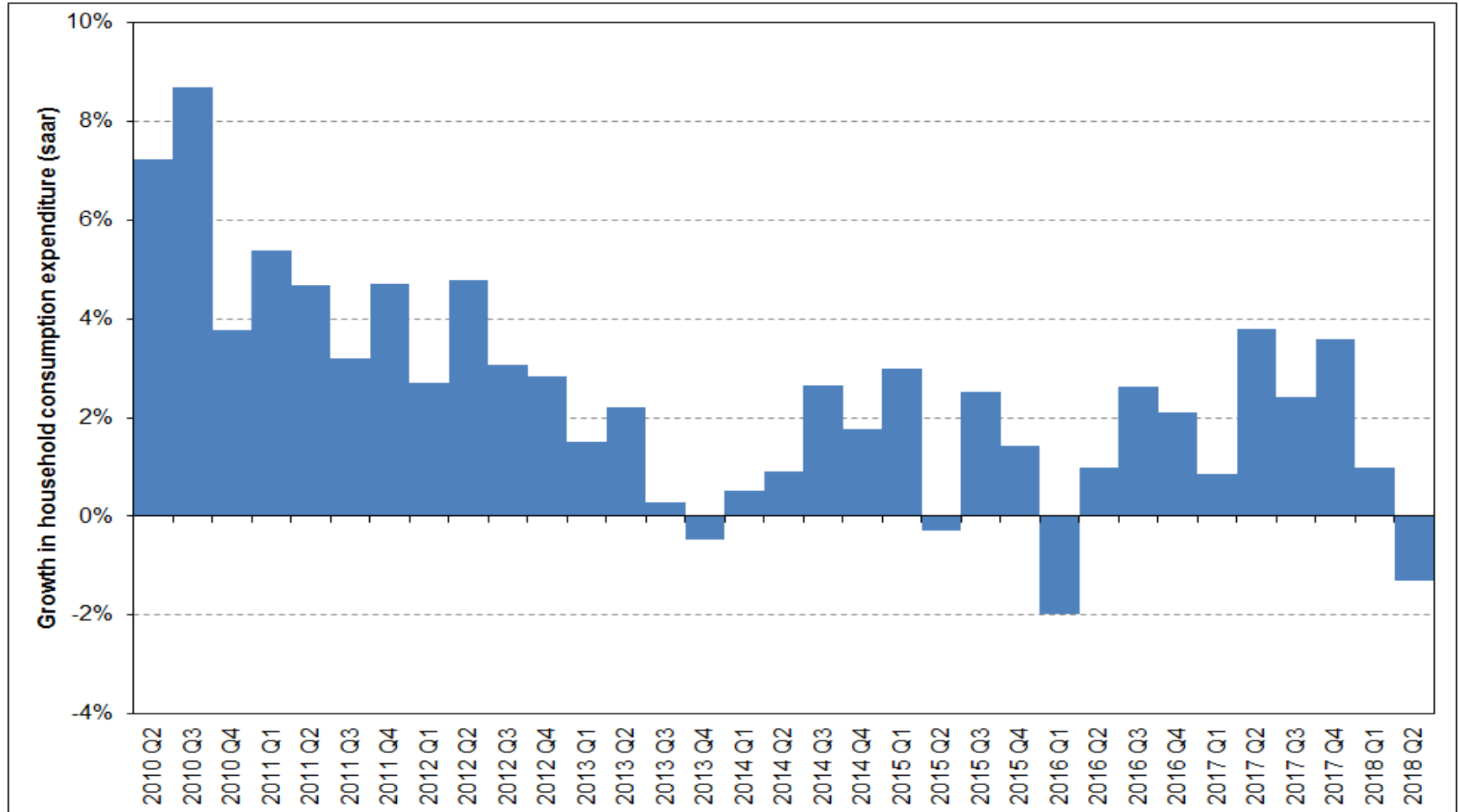


# AS BUSINESS CONFIDENCE REMAINS LOW

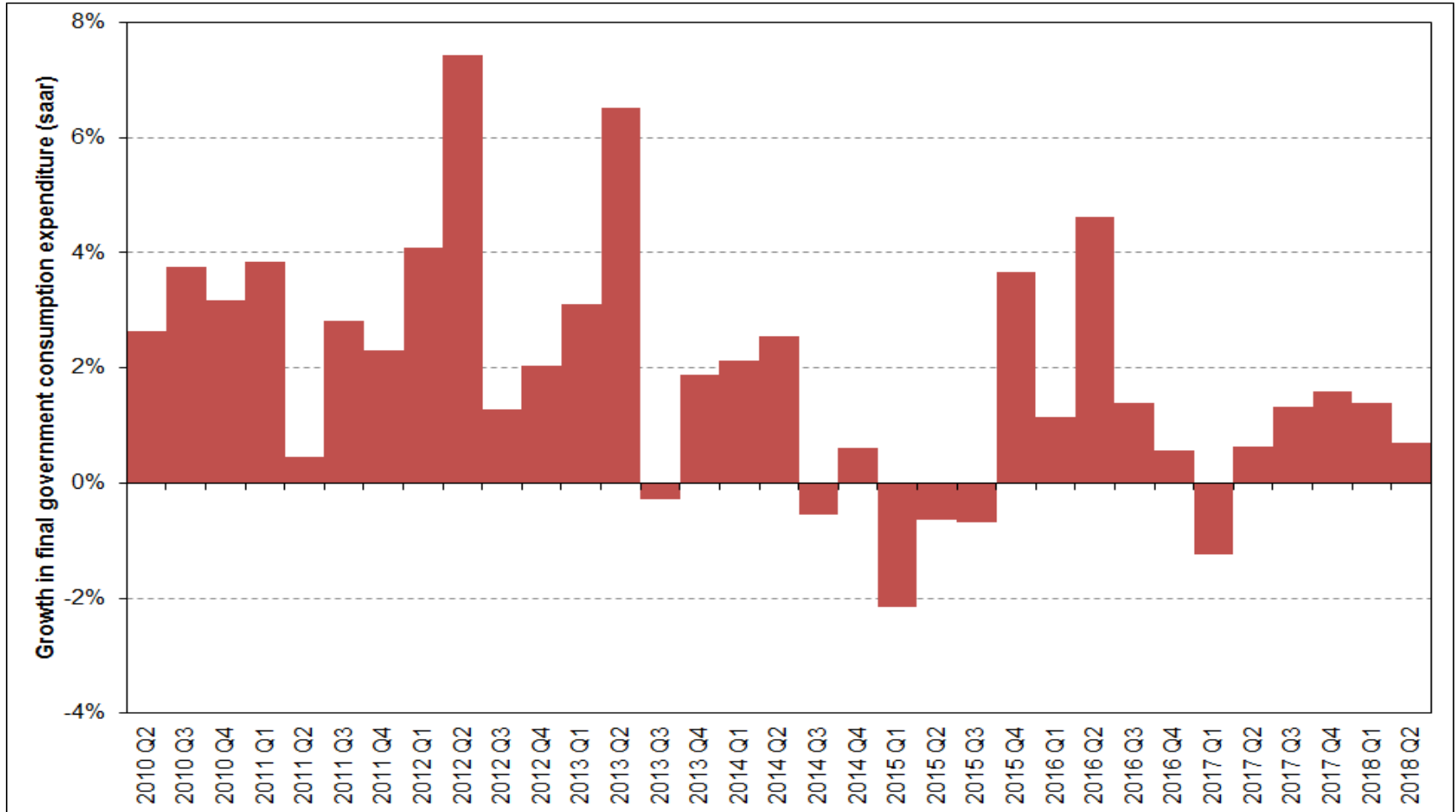


# SA ECONOMY

**CONSUMERS ALSO UNDER PRESSURE FROM WEAK RAND, HIGHER OIL PRICES AND TAX INCREASES**



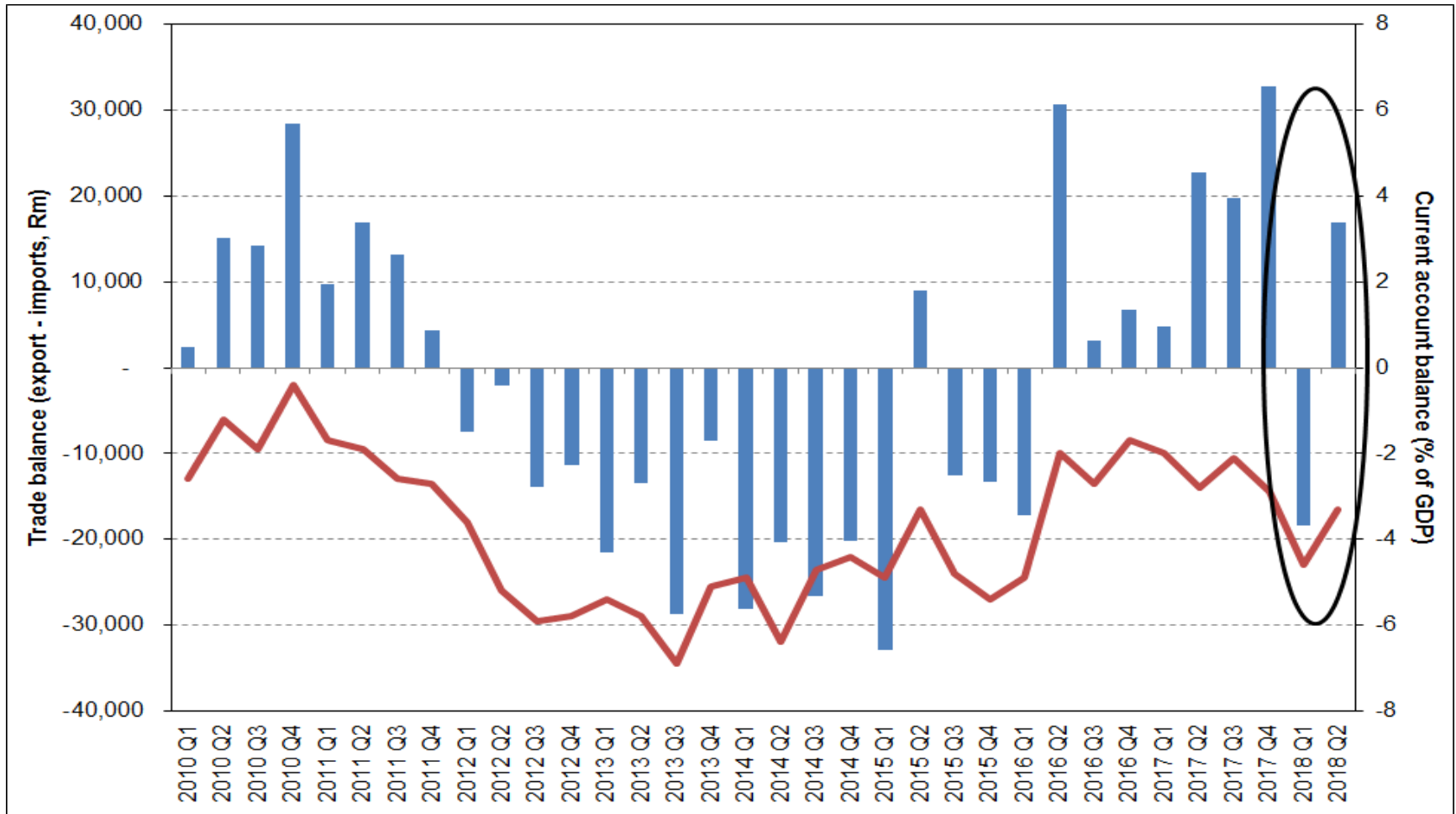
# SA ECONOMY BUT GOVERNMENT SPENDING IS STILL GROWING...





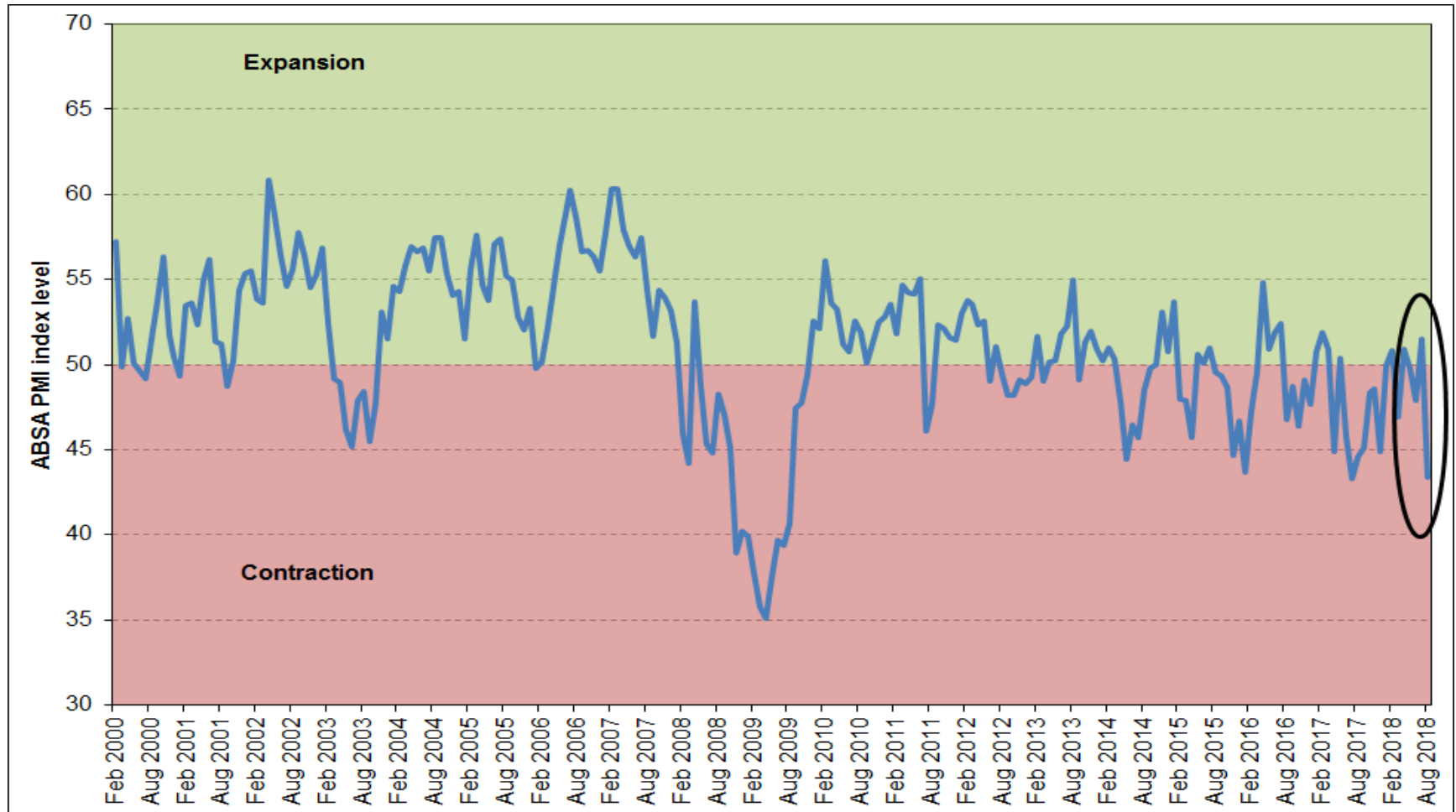
# SA ECONOMY

## CURRENT ACCOUNT DEFICIT NARROWS AS WEAK RAND AIDS EXPORTS

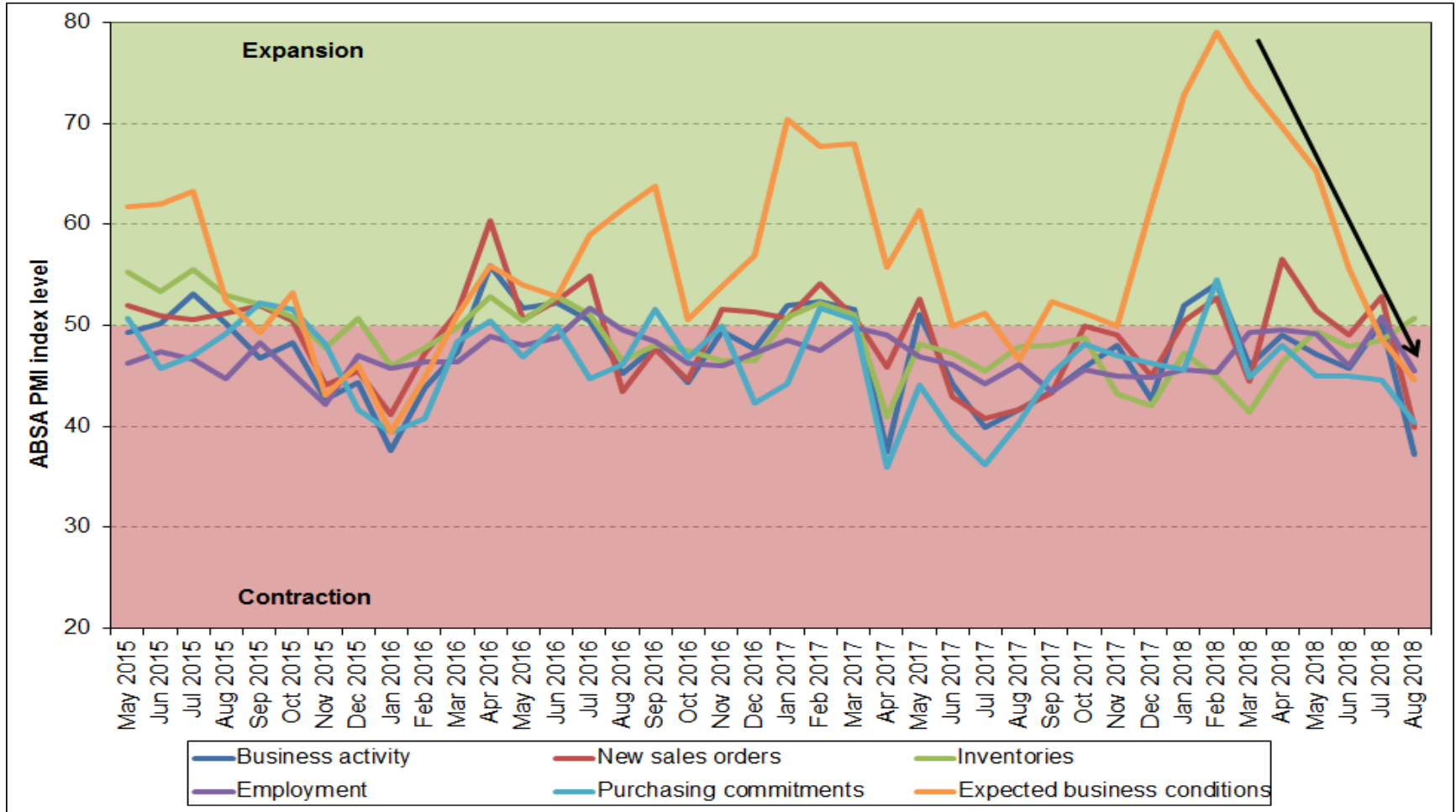


# ABSA PURCHASING MANAGERS INDEX

## MANUFACTURING SECTOR STILL STRUGGLING

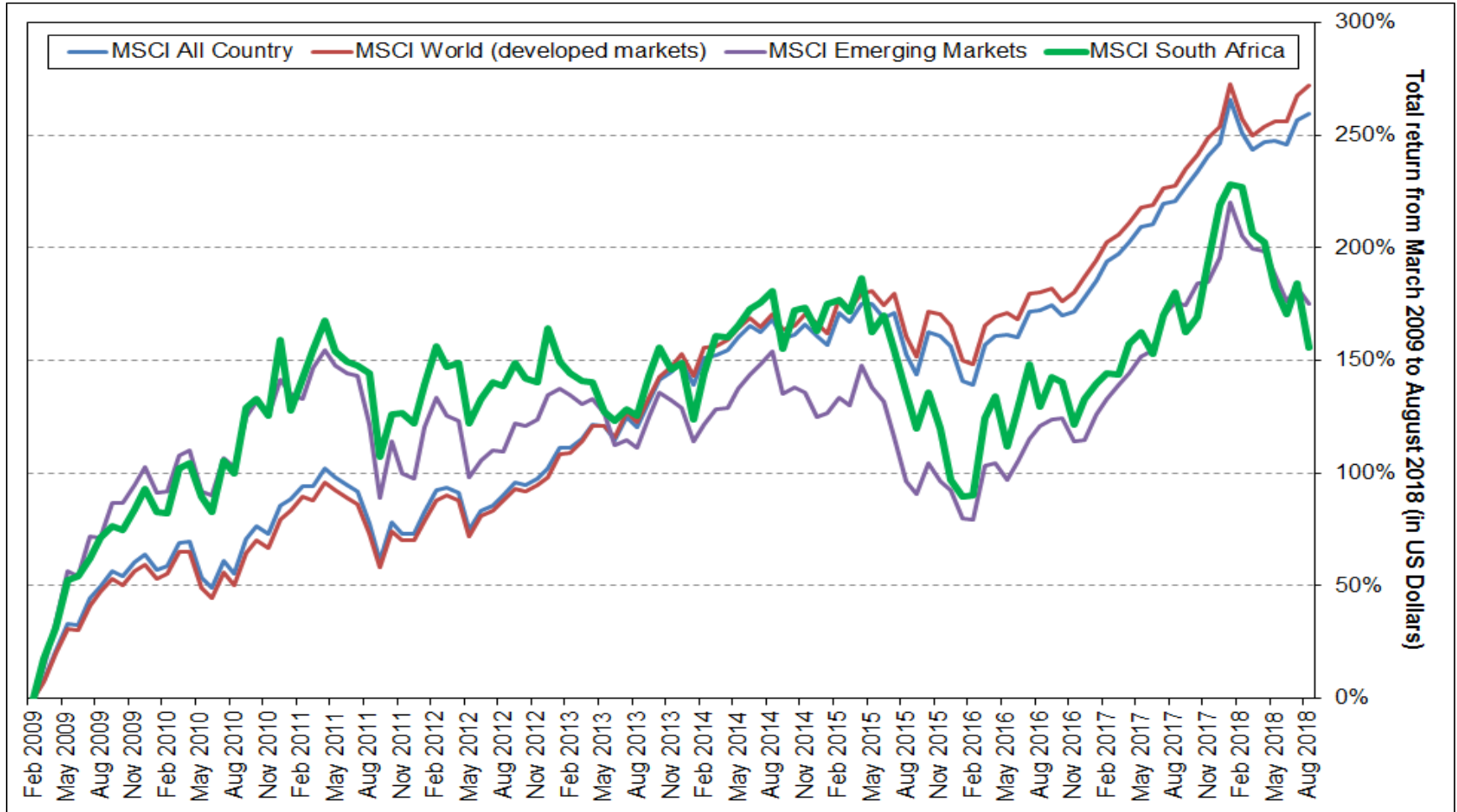


# ABSA PURCHASING MANAGERS INDEX AND EXPECTED BUSINESS CONDITIONS SHARPLY DOWN

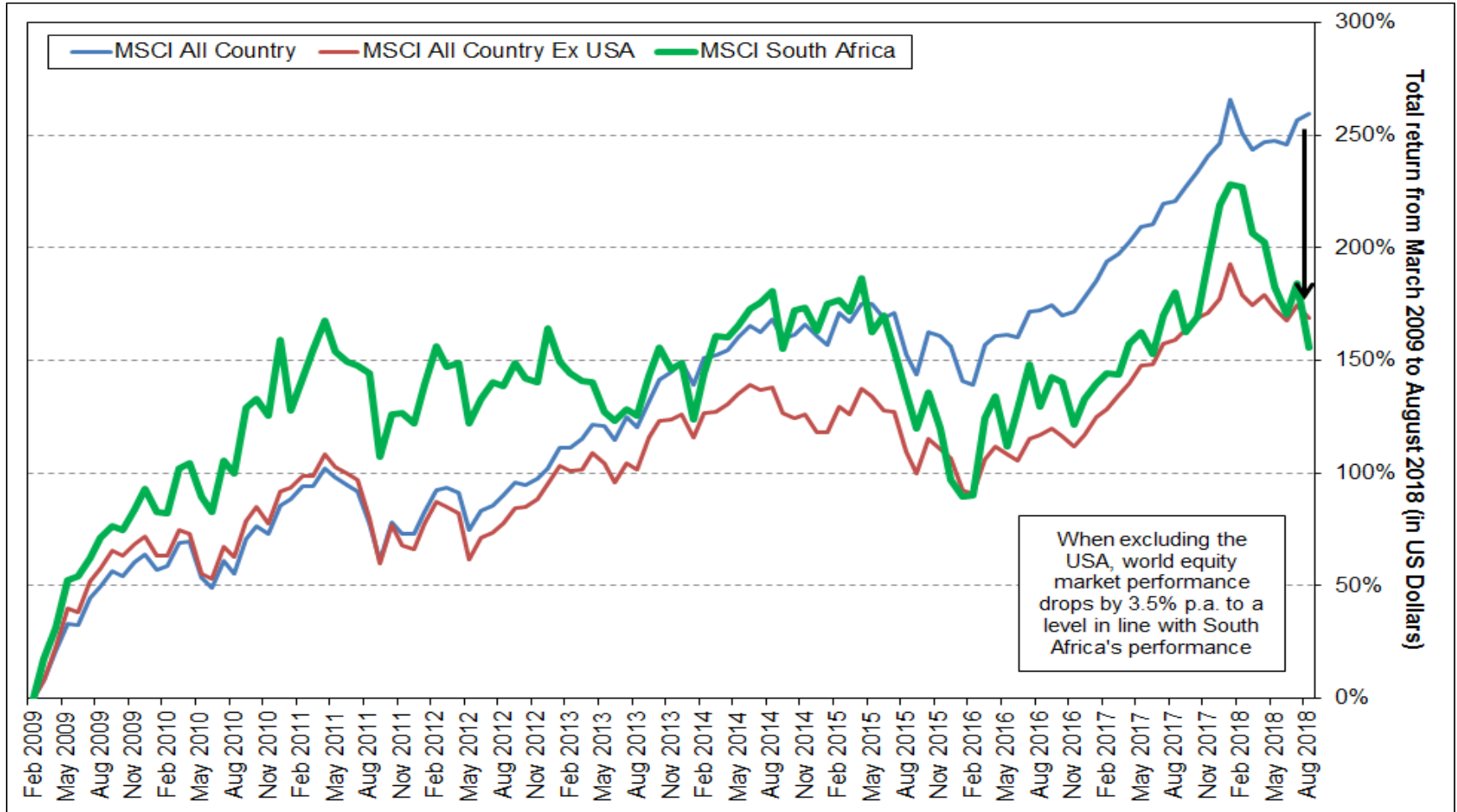


# WORLD EQUITY MARKETS

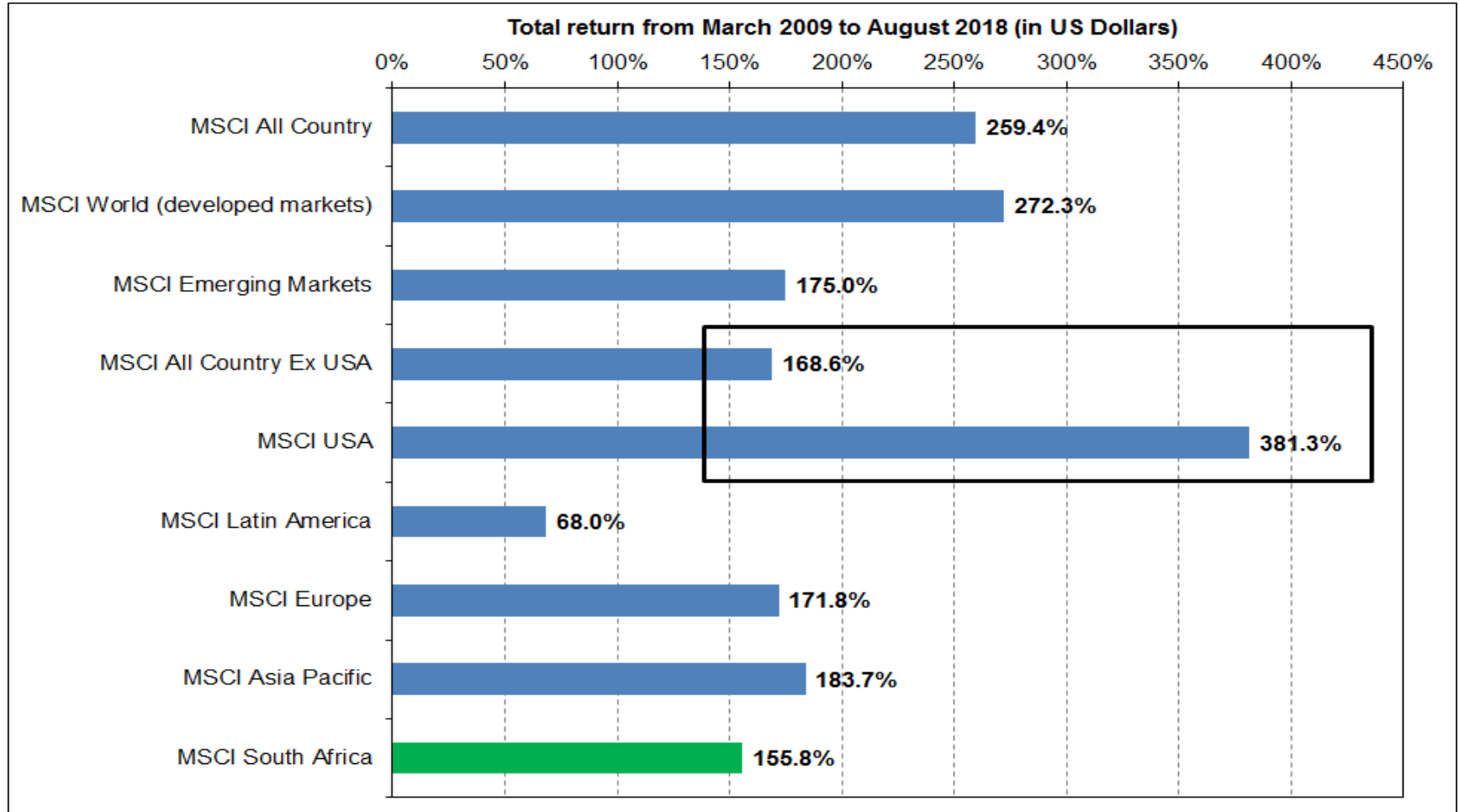
## EMERGING MARKETS APPEAR TO BE LAGGING



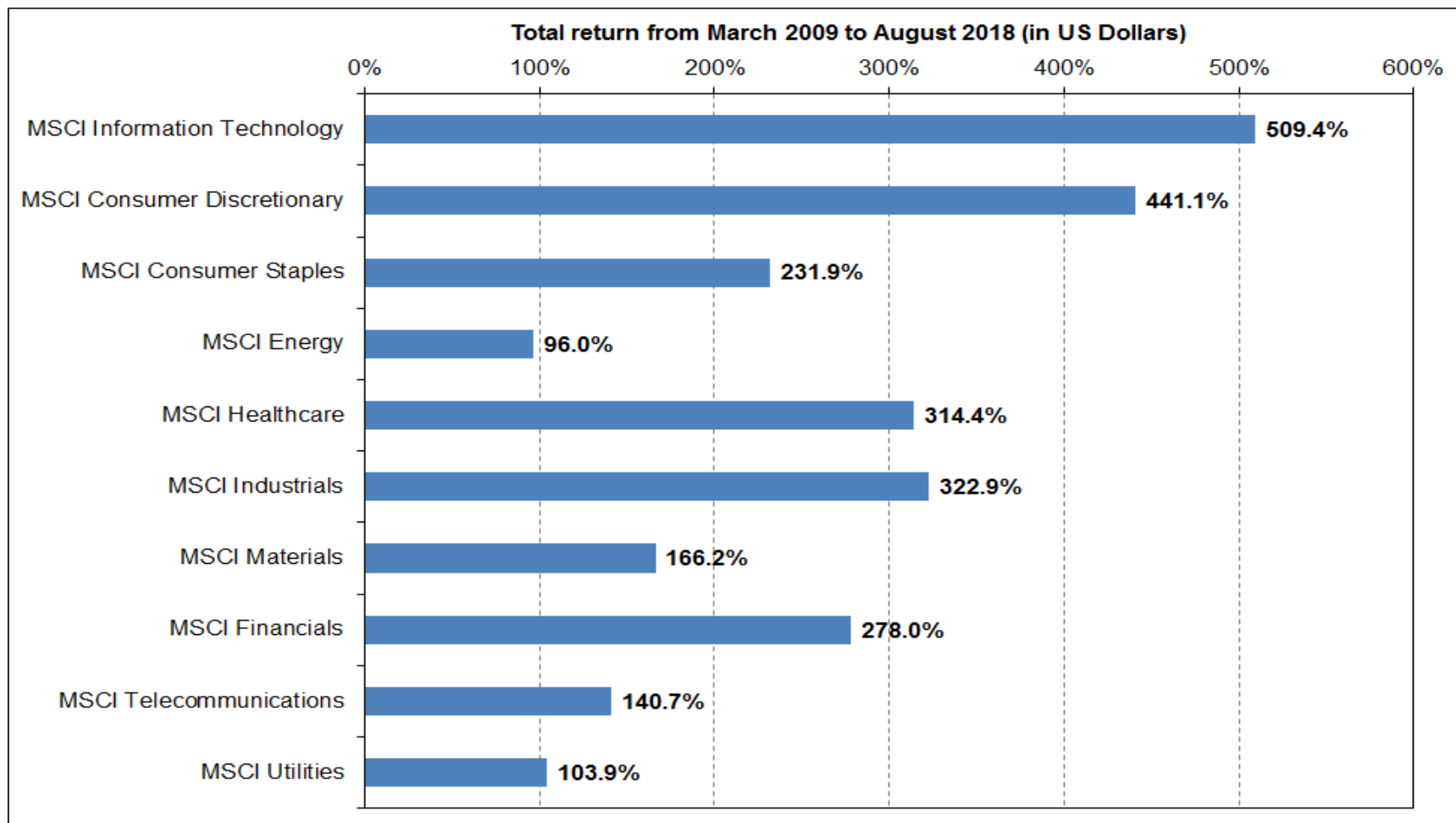
# WORLD EQUITY MARKETS BUT EVERYONE IS ACTUALLY JUST LAGGING THE US



# WORLD EQUITY MARKETS BUT EVERYONE IS ACTUALLY JUST LAGGING THE US



# WORLD EQUITY SECTORS AS INFORMATION TECHNOLOGY AND CONSUMER DISCRETIONARY SECTORS SURGE AHEAD



# TOP WORLD EQUITY SECTORS FILLED WITH HIGH-FLYING TECH BEHEMOTHS

## MSCI World Information Technology index

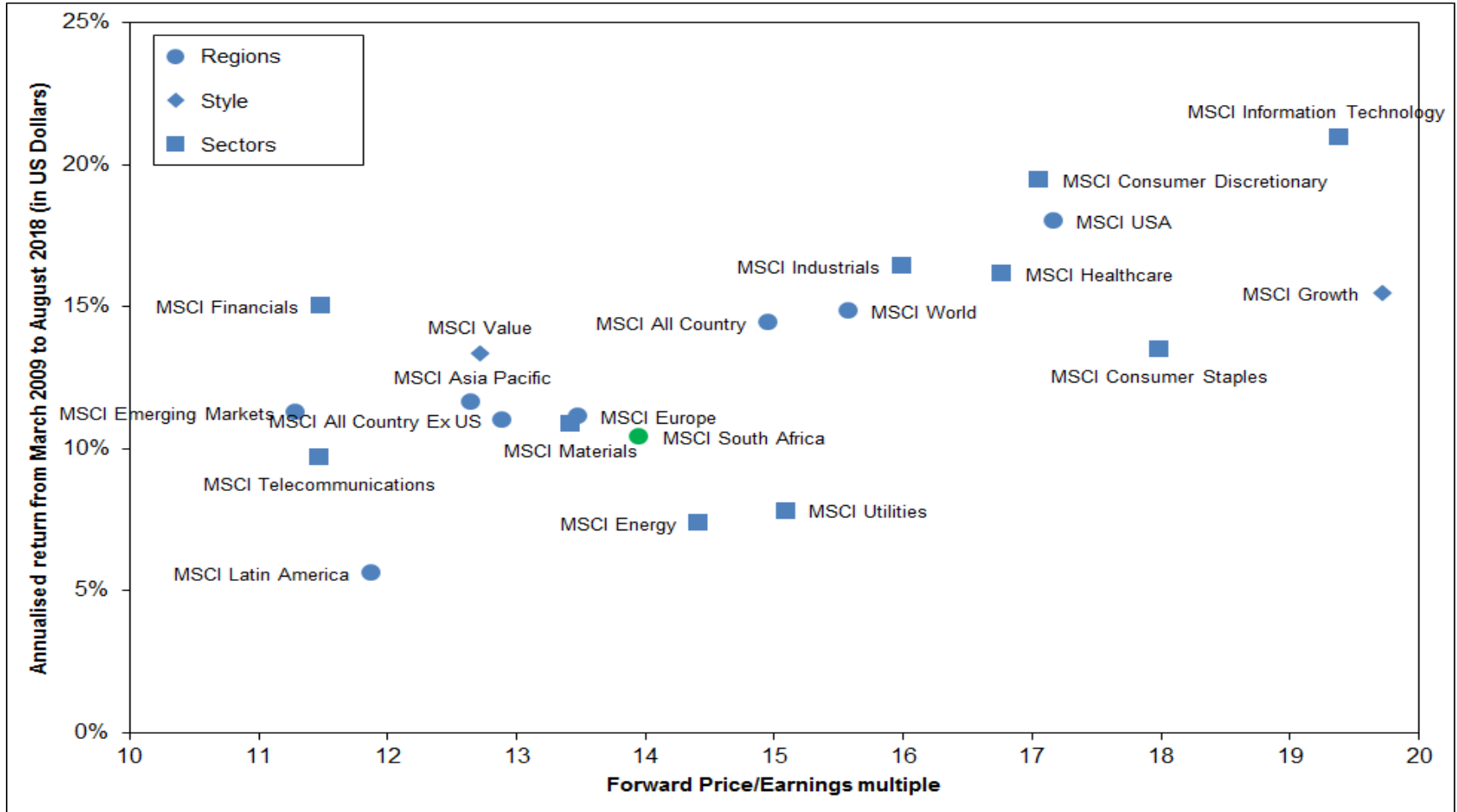
	Float Adj Mkt Cap ( USD Billions)	Index Wt. (%)
APPLE	1,155.00	14.37
MICROSOFT CORP	821.67	10.23
FACEBOOK A	421.04	5.24
ALPHABET C	383.56	4.77
ALPHABET A	367.68	4.58
VISA A	264.79	3.30
CISCO SYSTEMS	230.13	2.86
INTEL CORP	226.65	2.82
MASTERCARD A	201.23	2.50
NVIDIA	161.59	2.01
<b>Total</b>	<b>4,233.34</b>	<b>52.68</b>

## MSCI World Consumer Discretionary index

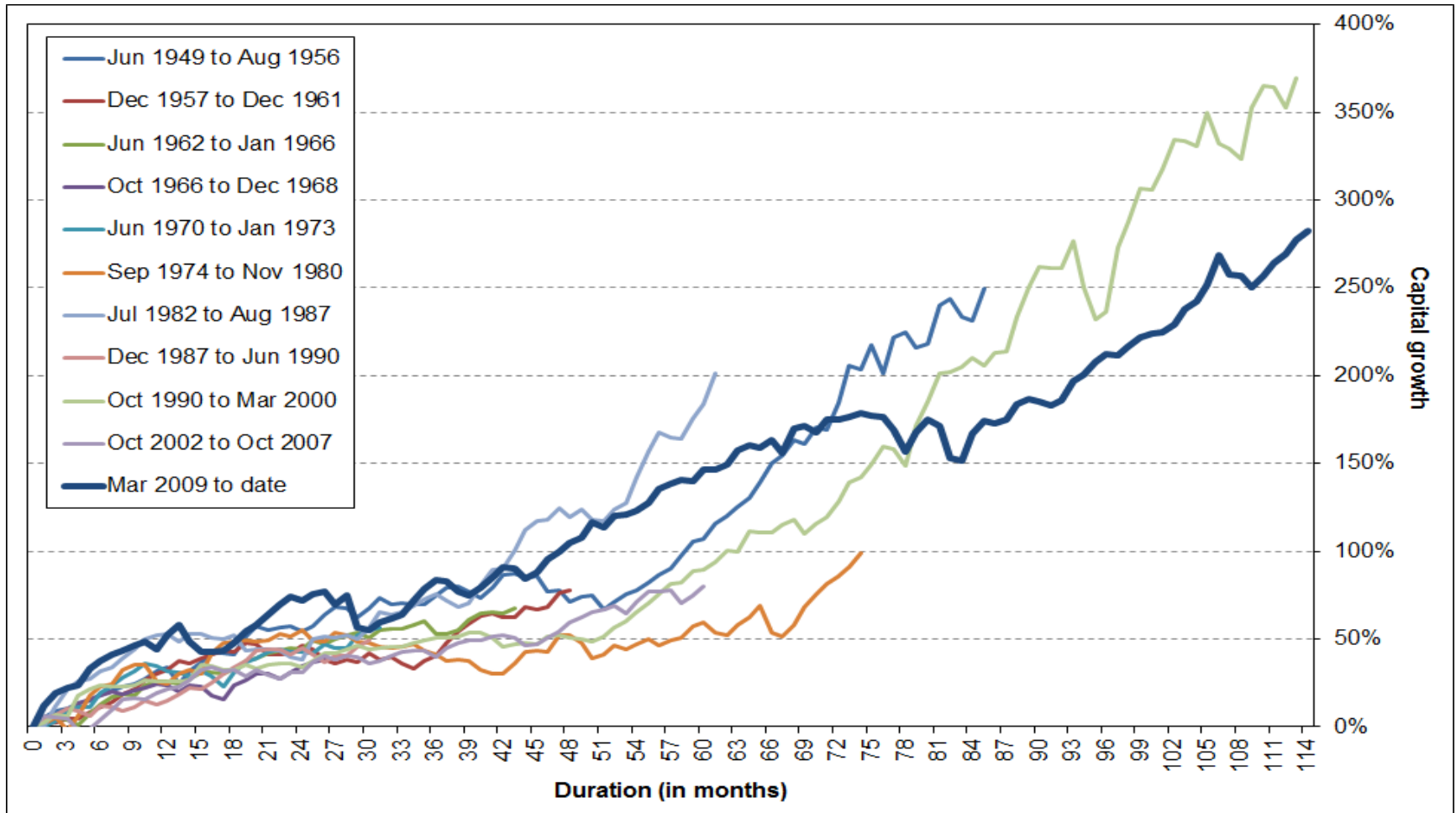
	Country	Float Adj Mkt Cap ( USD Billions)	Index Wt. (%)
AMAZON.COM	US	828.21	15.72
HOME DEPOT	US	234.45	4.45
COMCAST CORP A (NEW)	US	171.45	3.25
DISNEY (WALT)	US	168.44	3.20
NETFLIX	US	159.55	3.03
TOYOTA MOTOR CORP	JP	142.75	2.71
MCDONALD'S CORP	US	128.89	2.45
NIKE B	US	106.69	2.03
LVMH MOET HENNESSY	FR	97.93	1.86
BOOKING HOLDINGS	US	94.24	1.79
<b>Total</b>		<b>2,132.60</b>	<b>40.48</b>



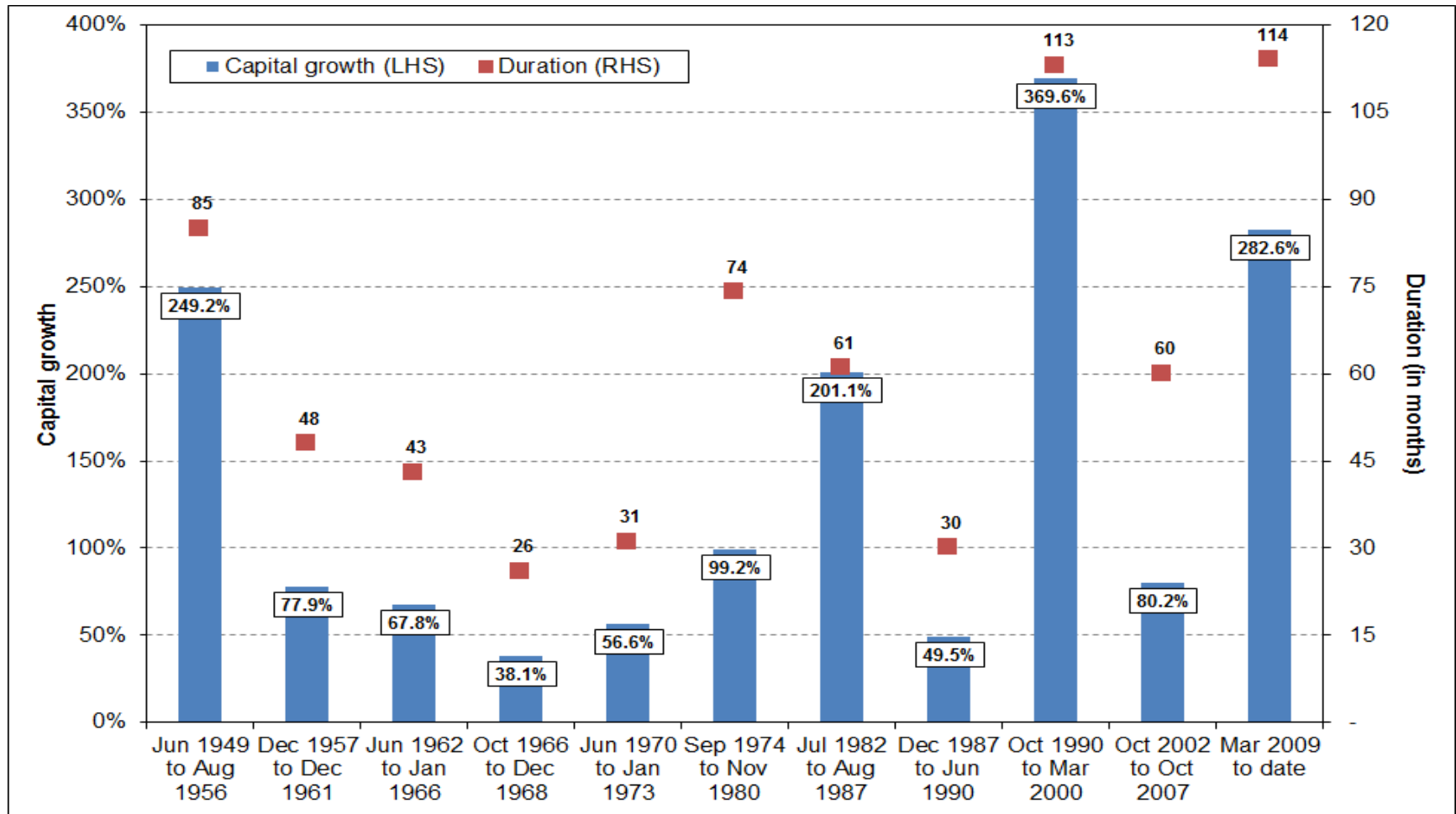
# WORLD EQUITY MARKETS BUT THESE SECTORS AND REGIONS ARE CONSIDERABLY MORE EXPENSIVE NOW



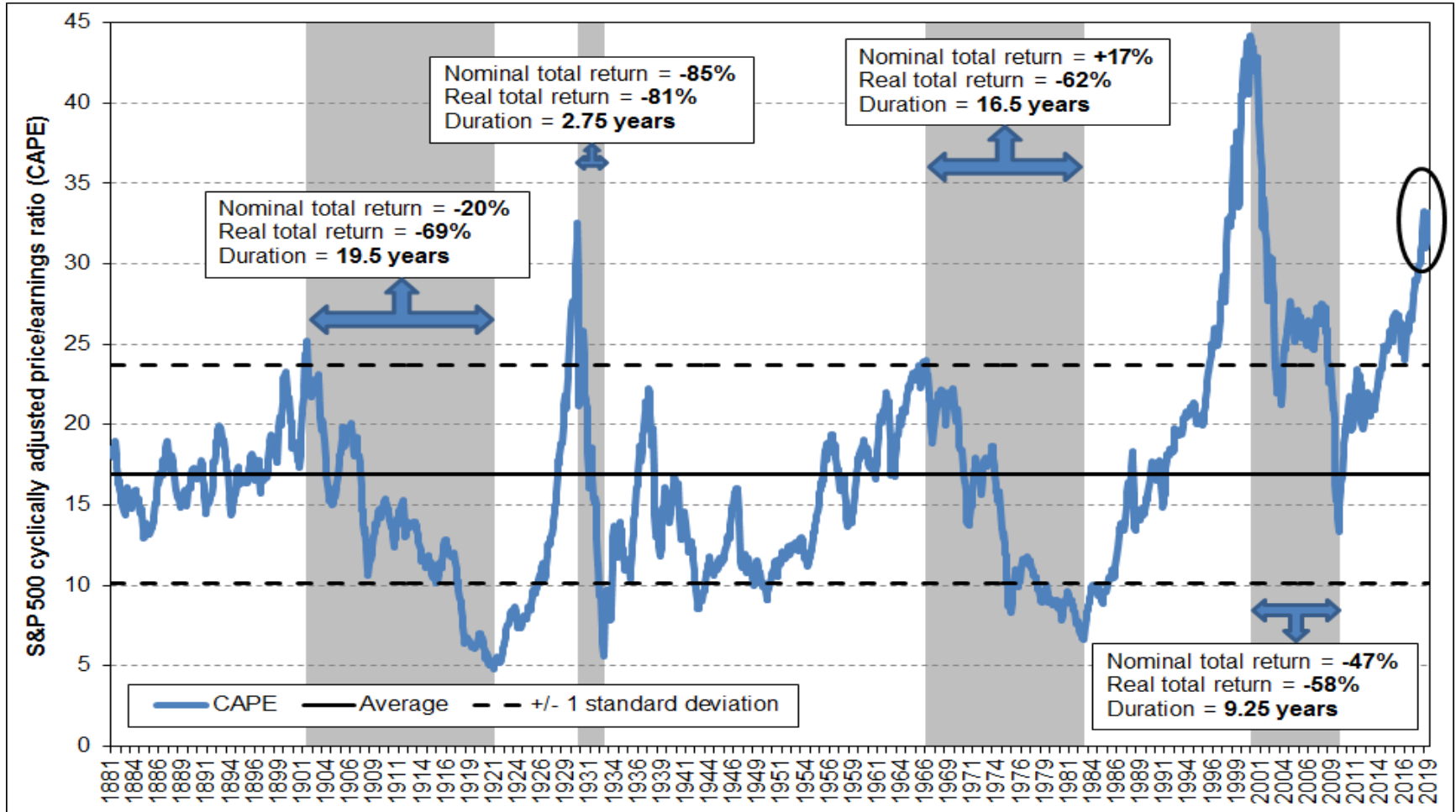
# US EQUITY MARKET: S&P 500 IN LONGEST, BUT NOT STRONGEST, BULL MARKET SINCE WWII



# US EQUITY MARKET: S&P 500 IN LONGEST, BUT NOT STRONGEST, BULL MARKET SINCE WWII



# US EQUITY MARKET: S&P 500 BUT ARGUABLY IN EXPENSIVE TERRITORY NOW



# US EQUITY MARKET: S&P 500

## HISTORICALLY, FORWARD RETURNS FROM THESE VALUATION LEVELS ARE VERY LOW

