

MONTH IN PICTURES

**SEPTEMBER
2018**

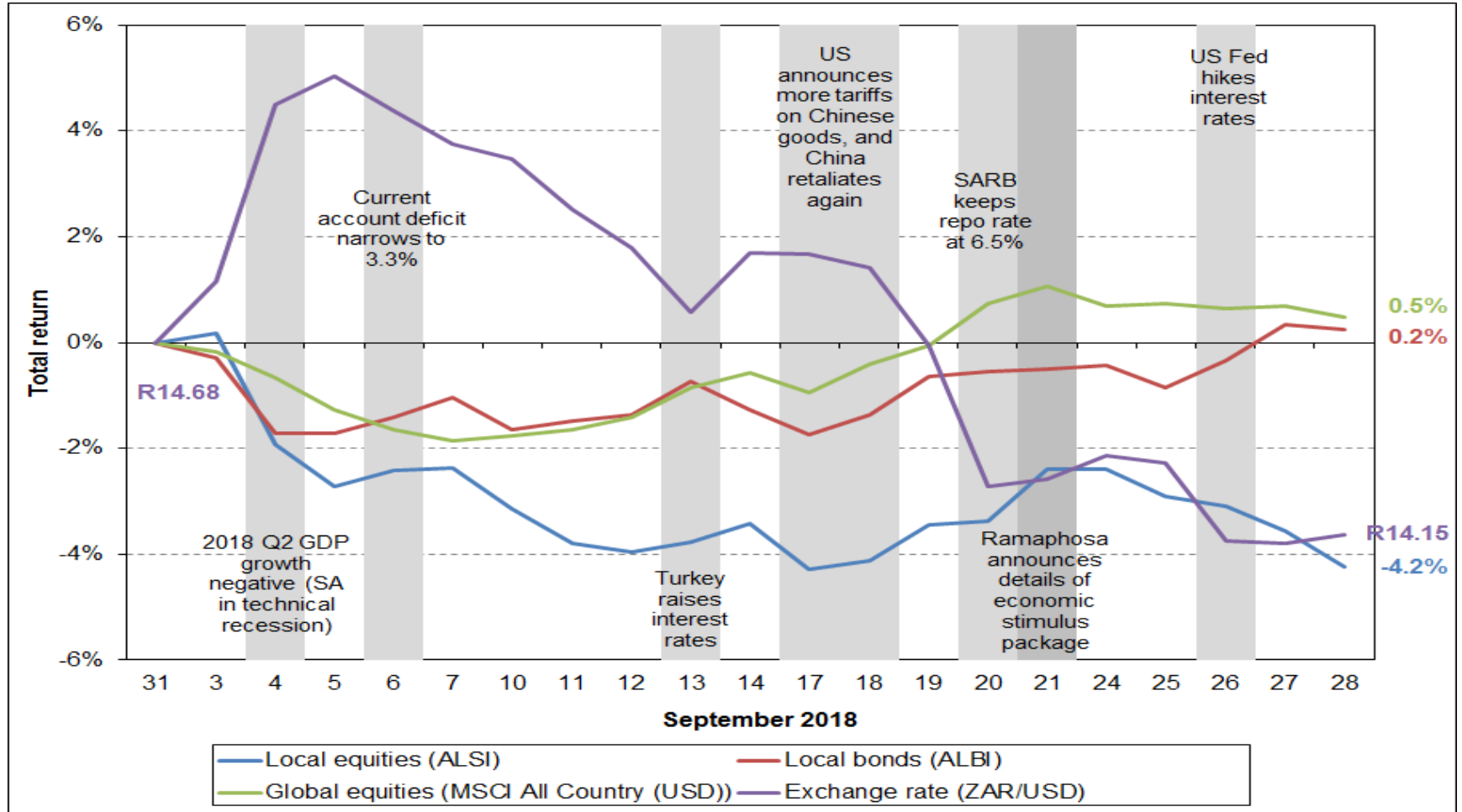
MONTHLY SNAPSHOT

NOTABLE EVENTS

- The local equity market ended September sharply down (-4.2%), driven lower by Industrials (-7.7%), Financials (-2.0%) and Listed Property (-2.6%), while Resources continued its strong run by gaining another 1.0%. Resources therefore remains the top-performing sector over the medium term, yielding a solid 15.7% p.a. over the last three years, compared to the fairly mediocre returns of 4.6% p.a., 2.5% p.a. and -1.4% p.a. produced by Financials, Industrials and Listed Property respectively.
- After depreciating sharply through August and early September (eventually peaking at R15.42 to the US Dollar), the Rand rallied strongly to end the month at R14.15 to the greenback.
- Global equity markets made a small gain in September (+0.5% in US Dollars), but Rand strength eroded these gains for local investors (-3.2% in Rands).
- These gains continued to come mainly from the US market, with trade wars (Trump imposed tariffs on a further \$200bn of Chinese goods in September) and higher US interest rates (the US Fed hiked rates by 25 basis points for the eighth time since December 2015) continuing to put emerging markets under pressure.
- With global interest rates rising, global bond returns were also negative (-0.6% in US Dollars and -4.2% in Rands), which means that local long term investors had very few places to hide in September.
- Despite a weaker Rand and higher oil prices, inflation to the end of August surprised on the downside, coming in at 4.9% year-on-year (down from 5.1% in July), compared to market expectations of 5.2%.
- In a fairly close call the SA Reserve Bank kept interest rates on hold in September, but may not be able to do so much longer as many of our emerging market peers embark on rate hiking cycles to protect their currencies against the surging US Dollar.
- September also marked the 10-year anniversary of the largest corporate bankruptcy in US history (Lehman Brothers), which at the time triggered a worldwide collapse in global equity markets as the credit crisis unfolded. Despite these losses, even an unfortunate investor who invested a lump sum when equity markets peaked just before the crash would still have seen gains of 9.0% p.a. over the ensuing ten year period, compared to just 7.0% p.a. in cash (see slides 21 to 24 for more information).

MONTHLY TIMELINE

IMPACT ON MARKETS



MARKET INDICATORS

SHORT TERM

Market indicators (% change) ¹		Jul 2018	Aug 2018	Sep 2018	3 months	12 months
Local equities	Capped SWIX	1.4	1.2	(4.2)	(1.7)	0.4
	Resources	(1.4)	5.6	1.0	5.2	26.9
	Industrials	(2.0)	1.9	(7.7)	(7.8)	(7.7)
	Financials	4.7	0.3	(2.0)	2.8	8.1
	Listed Property	(0.5)	2.1	(2.6)	(1.0)	(15.7)
Local bonds	ALBI	2.4	(1.9)	0.3	0.8	7.1
Local cash	STeFI Composite	0.6	0.6	0.6	1.8	7.3
Global equities	MSCI All Country	(0.4)	11.5	(3.2)	7.6	15.3
Global bonds	Citigroup WGBI	(3.3)	10.3	(4.2)	2.2	3.8
Exchange rate	ZAR/USD	(3.3)	10.6	(3.6)	3.1	4.5
Inflation	CPI ²	0.8	-0.1	0.5	1.2	4.9

1. Total returns (in Rands) for the months and periods ending 30 September 2018

2. Y-o-y CPI for September 2018 assumed to be equal to that of August 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	0.4	4.5	7.4	12.1	16.7
	Resources	26.9	15.7	1.0	2.9	9.3
	Industrials	(7.7)	2.5	7.7	16.2	20.2
	Financials	8.1	4.6	10.9	13.8	16.9
	Listed Property	(15.7)	(1.4)	6.8	13.5	18.4
Local bonds	ALBI	7.1	7.7	7.2	8.6	8.6
Local cash	STeFI Composite	7.3	7.3	6.8	6.8	7.4
Global equities	MSCI All Country	15.3	14.9	17.0	14.8	14.0
Global bonds	Citigroup WGBI	3.8	2.7	7.5	7.8	8.4
Exchange rate	ZAR/USD	4.5	0.8	7.1	5.6	4.9
Inflation	CPI ²	4.9	5.4	5.3	5.2	5.5

1. Total returns (in Rands) for the months and periods ending 30 September 2018

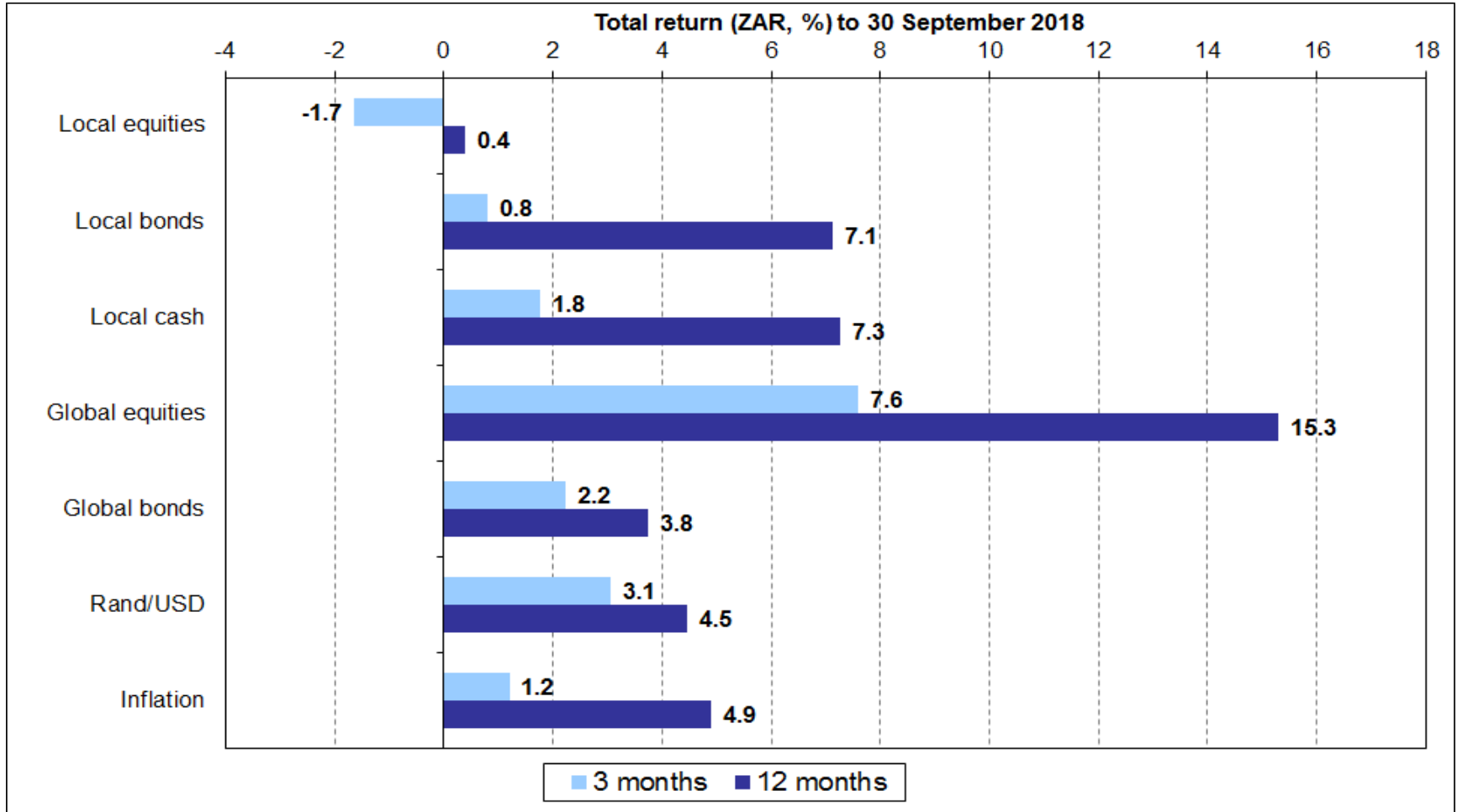
2. Y-o-y CPI for September 2018 assumed to be equal to that of August 2018

ECONOMIC INDICATORS

Economic indicators ¹	Sep 2016	Sep 2017	Jul 2018	Aug 2018	Sep 2018
Exchange rates:					
ZAR/USD	13.72	13.55	13.28	14.68	14.15
ZAR/GBP	17.59	18.03	17.42	19.03	18.44
ZAR/Euro	15.43	16.01	15.52	17.04	16.42
Commodities:					
Brent Crude Oil (USD/barrel)	50.00	56.79	74.06	77.73	82.90
Platinum (USD/ounce)	1,026.50	912.00	825.07	785.00	812.87
Gold (USD/ounce)	1,312.00	1,278.50	1,218.30	1,201.50	1,192.40

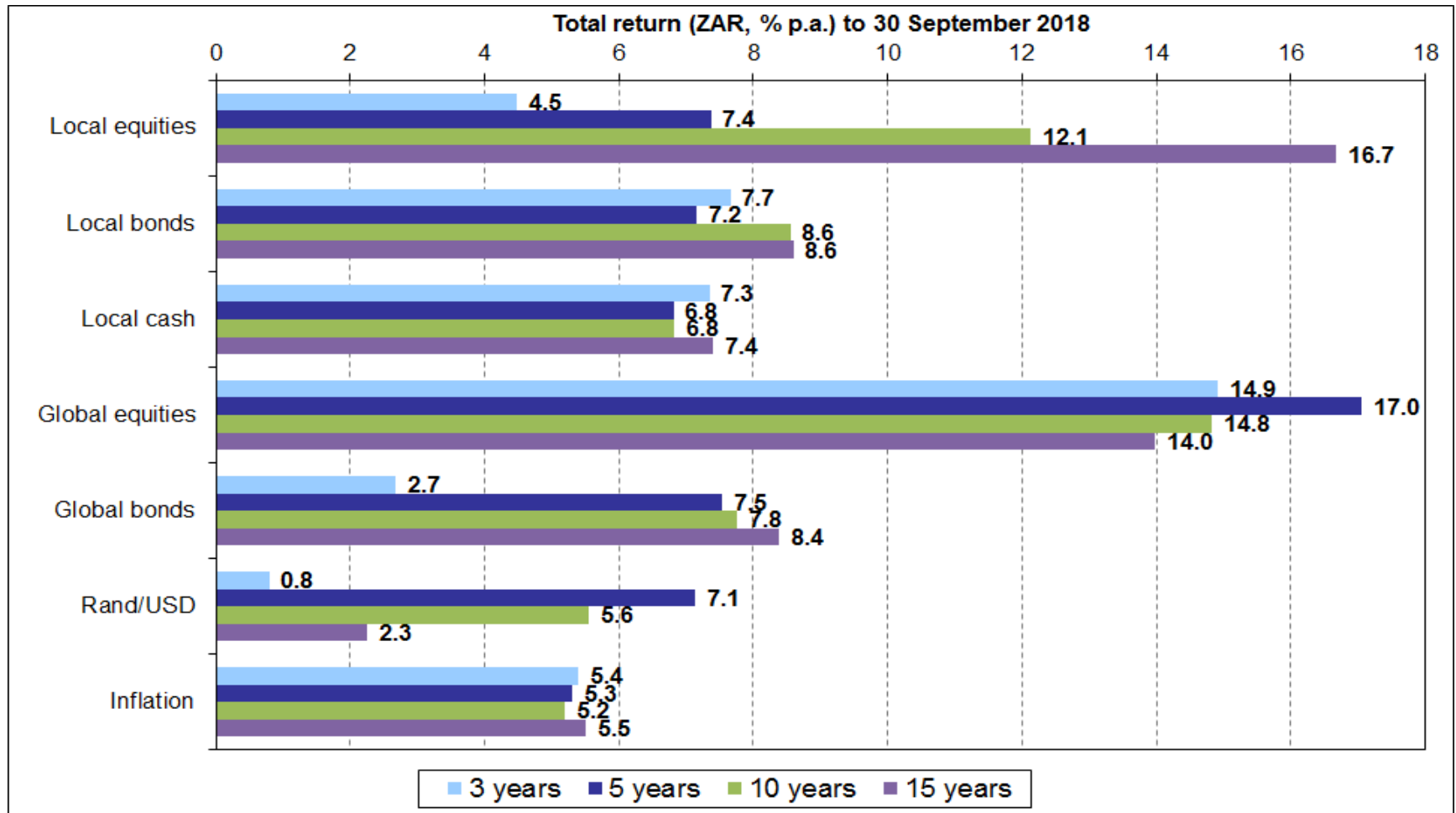
1. Month-end prices

ASSET CLASS PERFORMANCE SHORT TERM



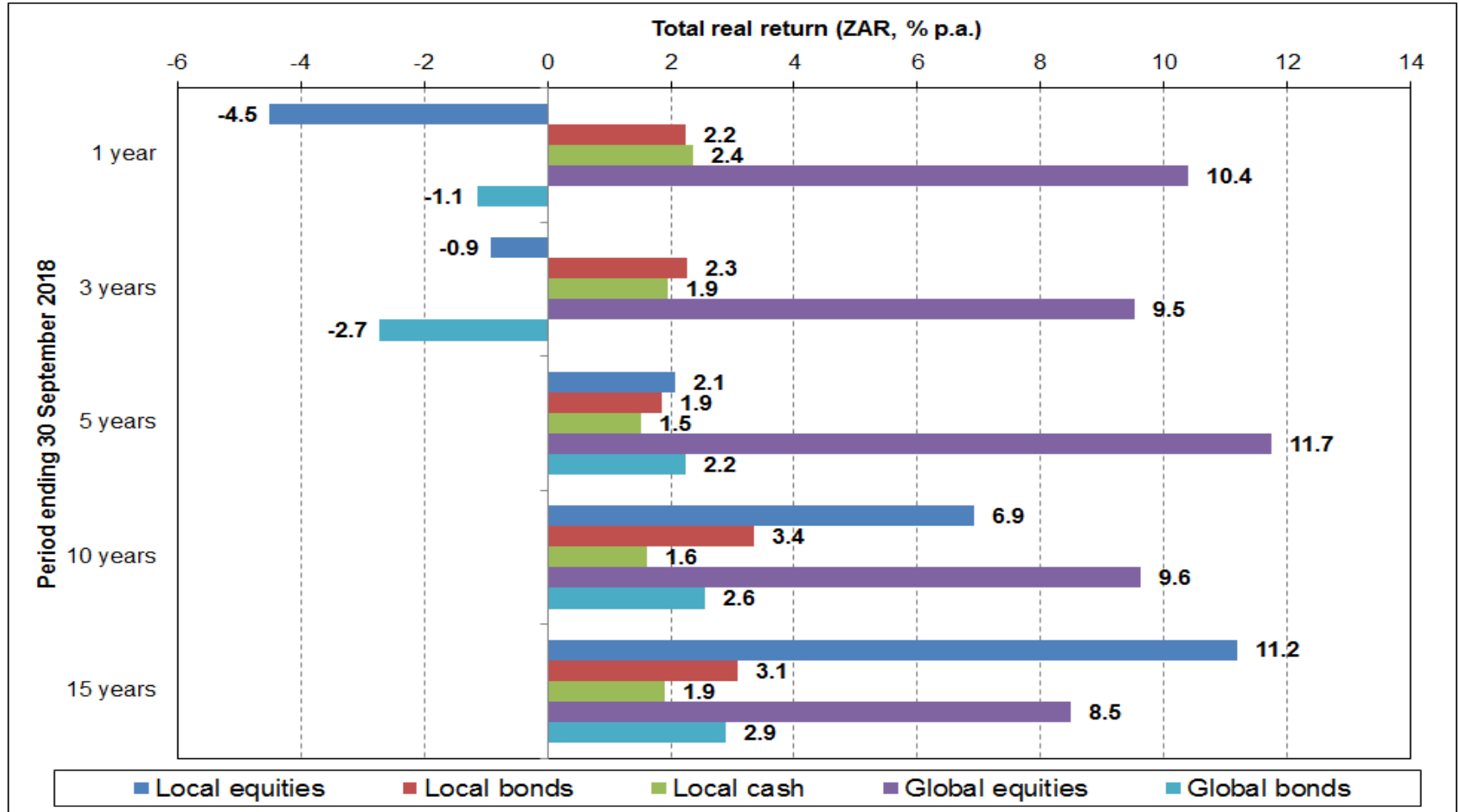
ASSET CLASS PERFORMANCE

MEDIUM TO LONG TERM



ASSET CLASS PERFORMANCE

REAL (EXCESS ABOVE INFLATION) RETURNS



MARKET PERFORMANCE

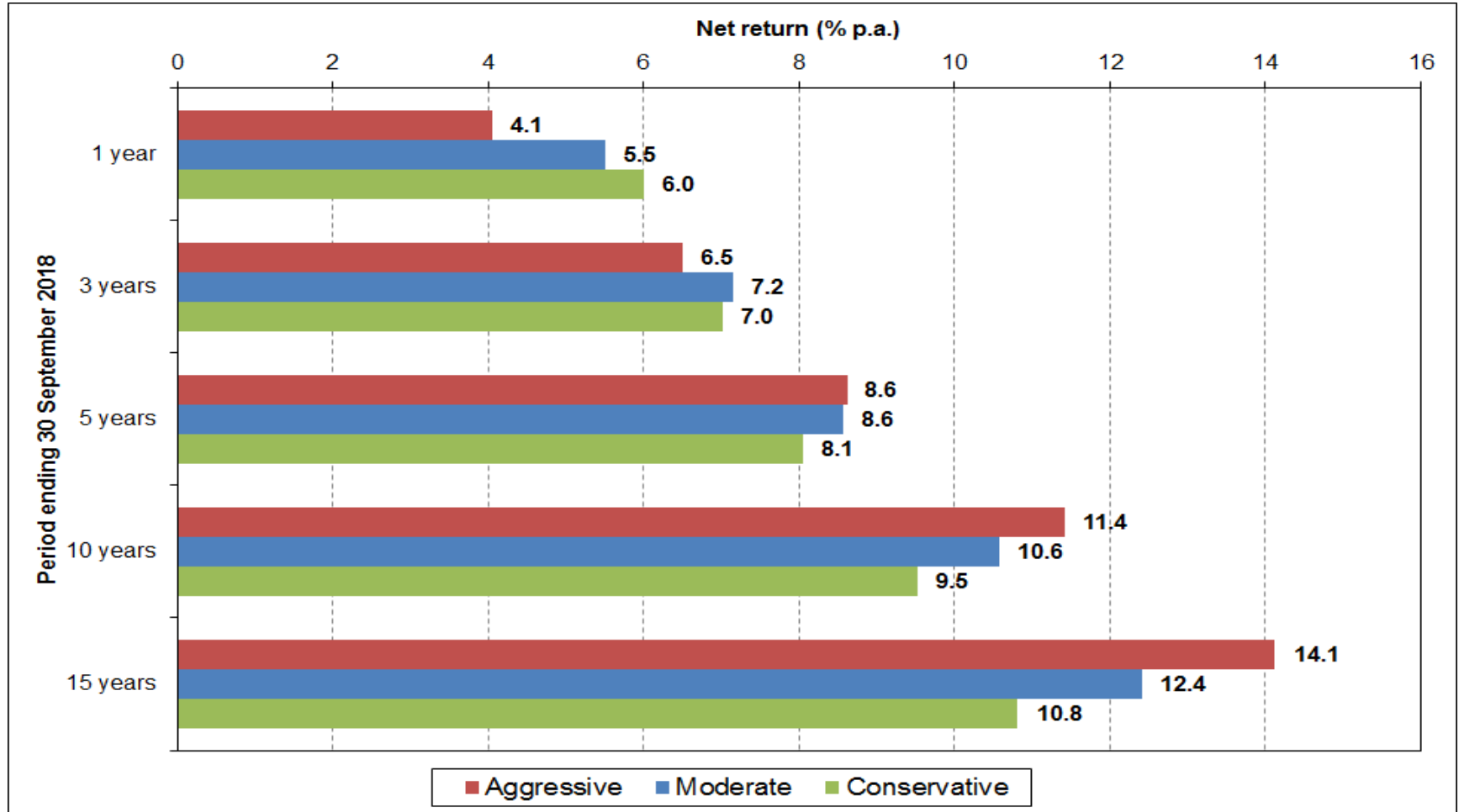
WHAT PAST RETURNS CAN INVESTORS REASONABLY EXPECT?

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%
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%

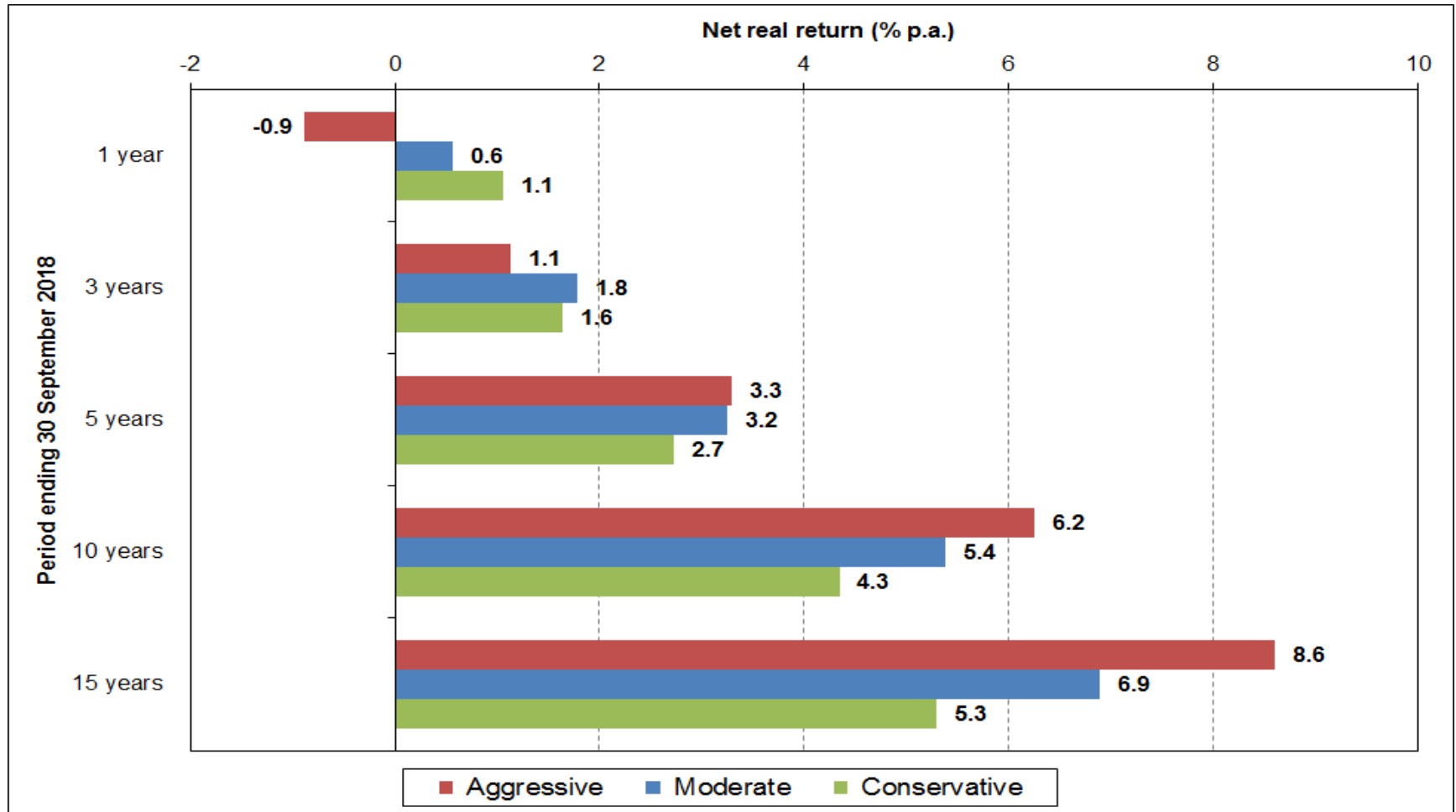
MR MARKET PERFORMANCE

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



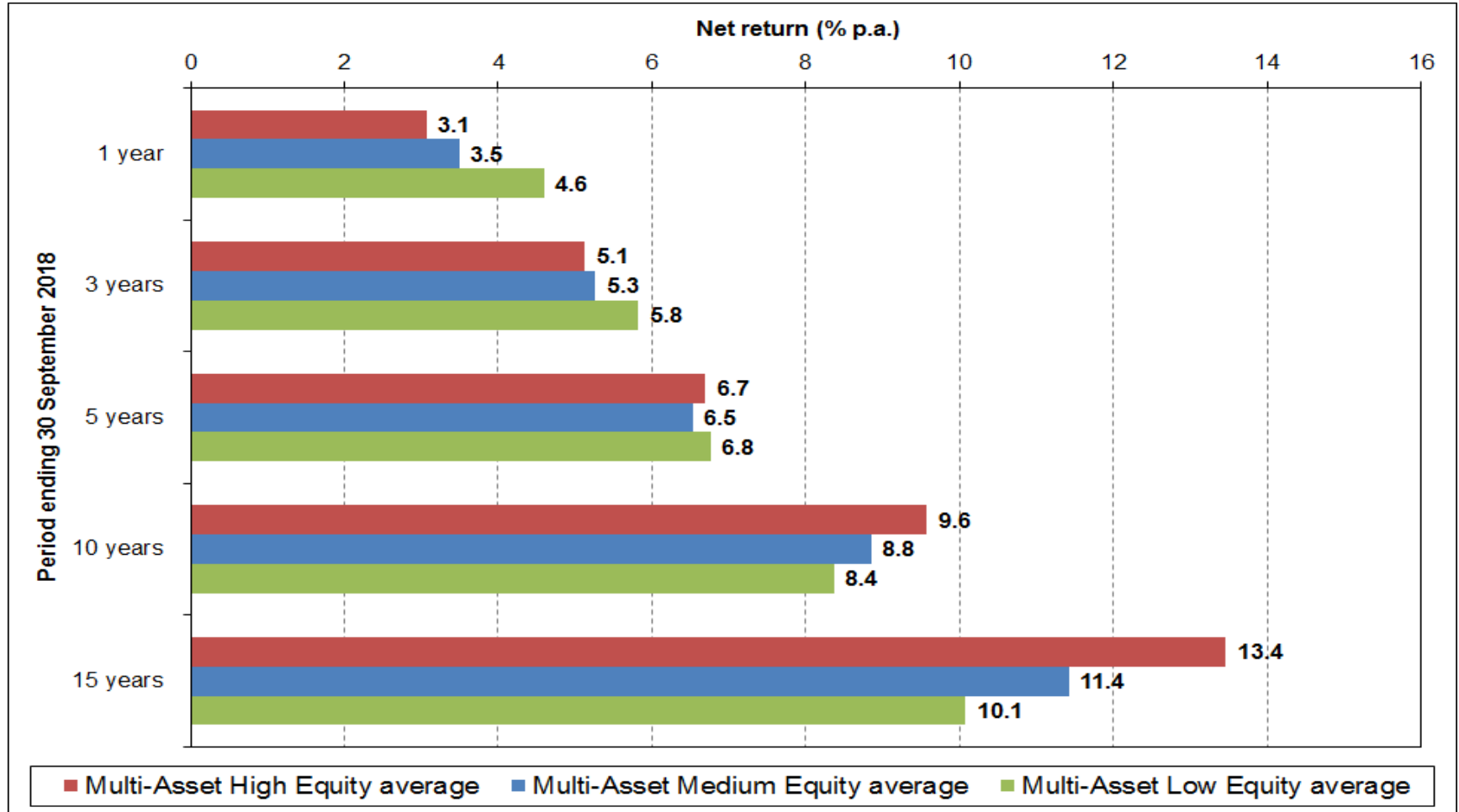
MR MARKET PERFORMANCE

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



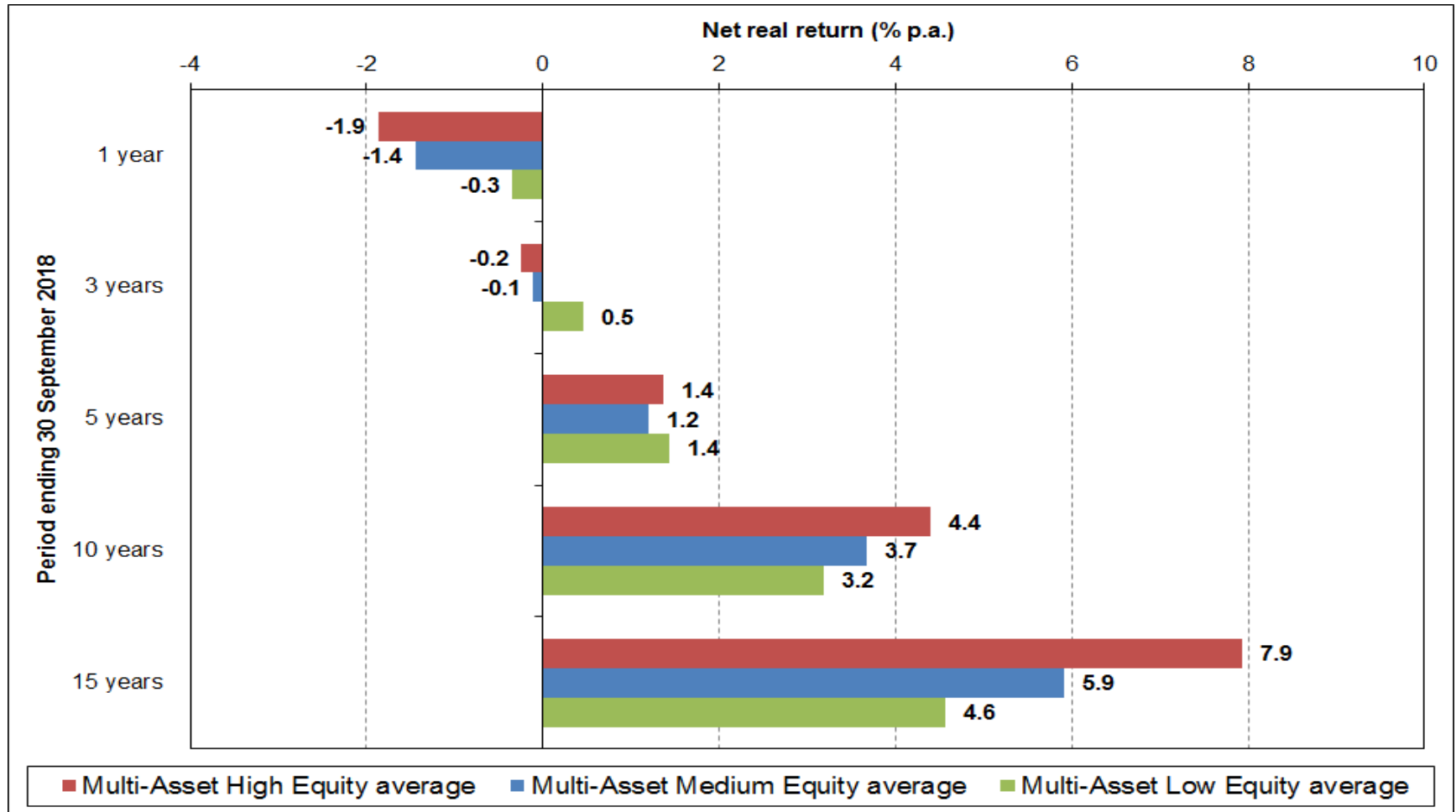
MR MANAGER PERFORMANCE

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



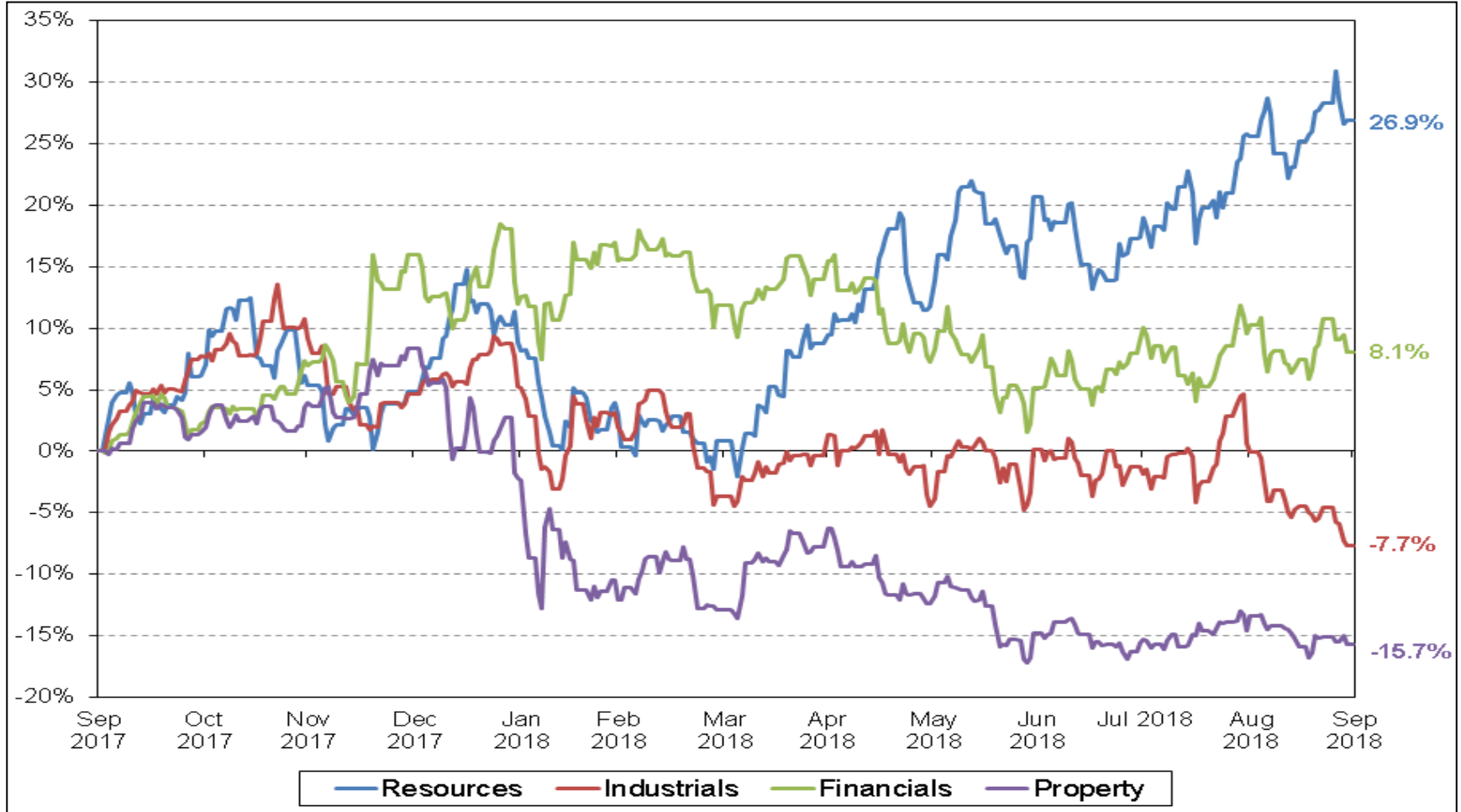
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FOR BALANCED PORTFOLIOS, WHAT RANGE OF PAST REAL RETURNS WAS REASONABLY ACHIEVABLE?



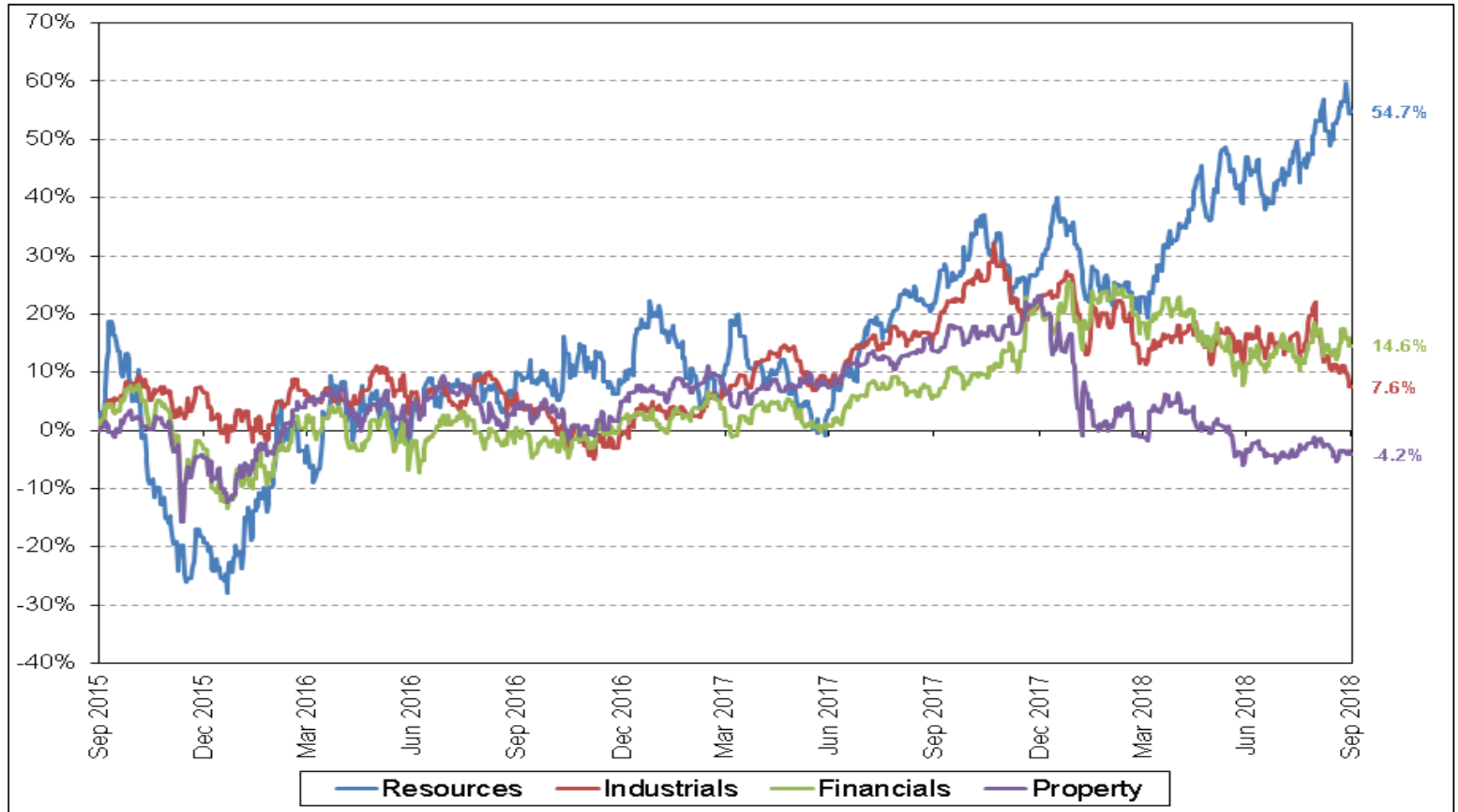
JSE SECTOR RETURNS

RESOURCES SURGE AHEAD...



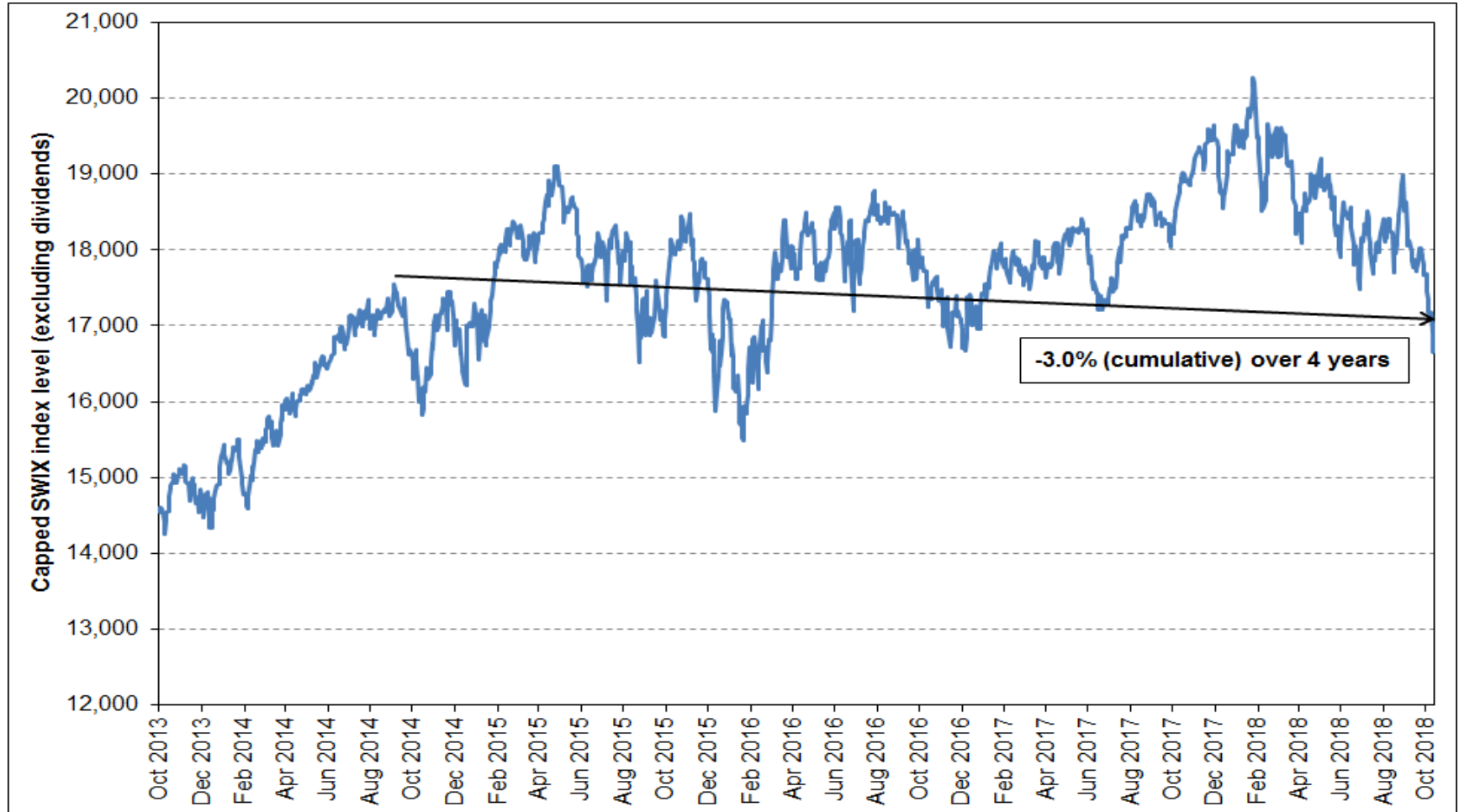
JSE SECTOR RETURNS

...MAKING IT THE ONLY SECTOR ABLE TO PROVIDE MEANINGFUL RETURNS OVER THE LAST THREE YEARS



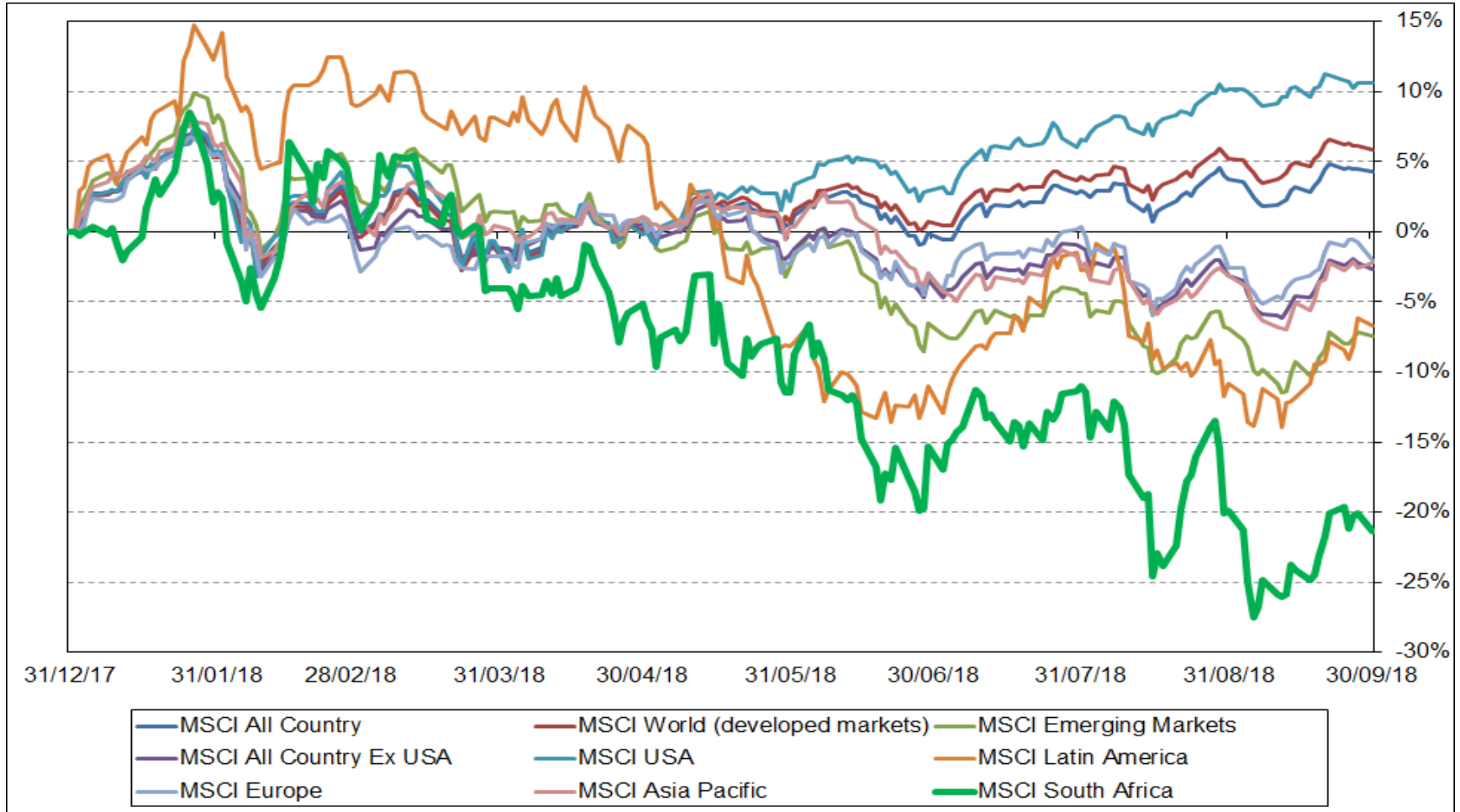
LOCAL EQUITY MARKET

WHERE IS THE CAPITAL GROWTH?

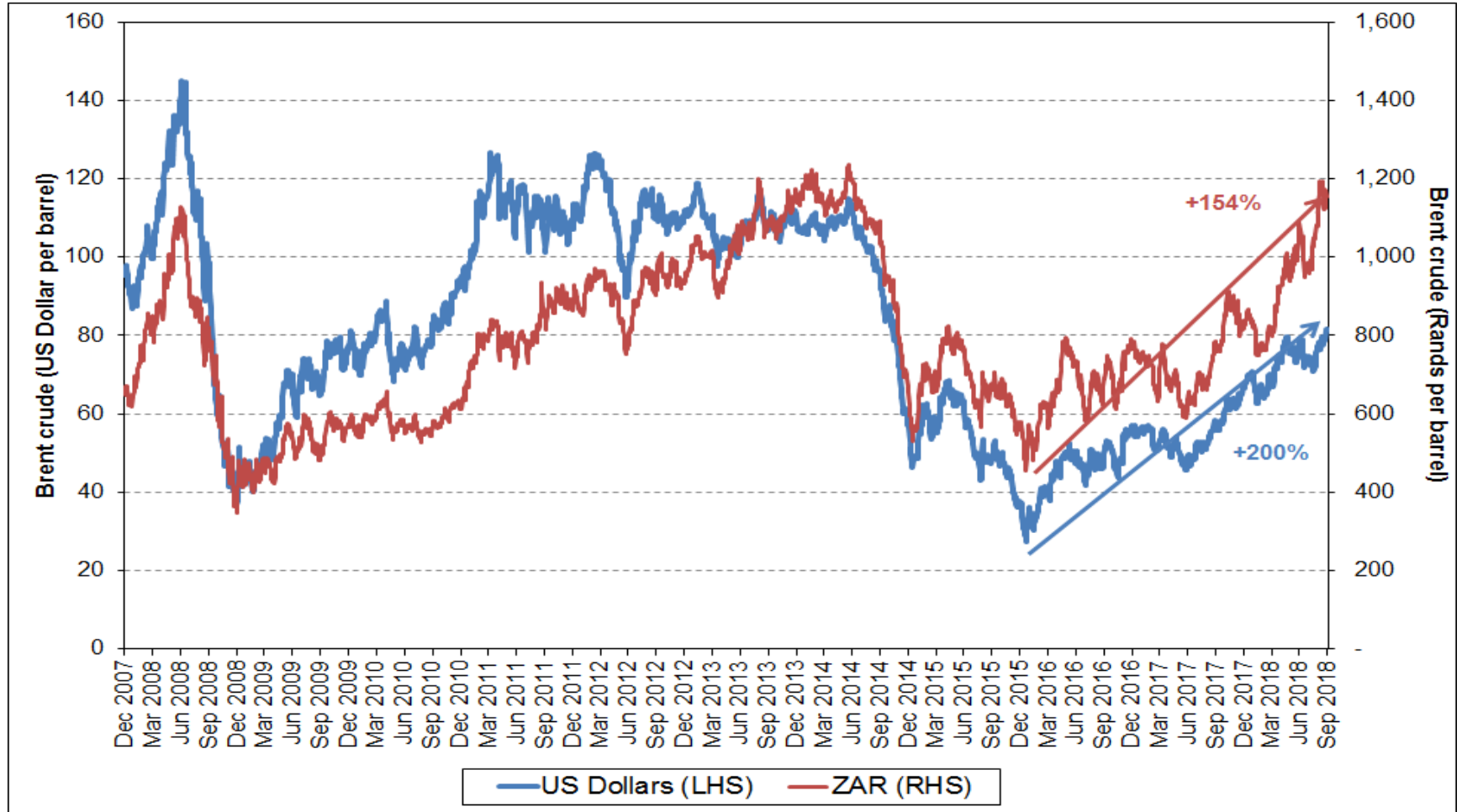


GLOBAL EQUITY MARKETS

US CONTINUES TO MARCH UPWARDS, EMERGING MARKETS LAGGING, SA IN DOLLAR BEAR MARKET...

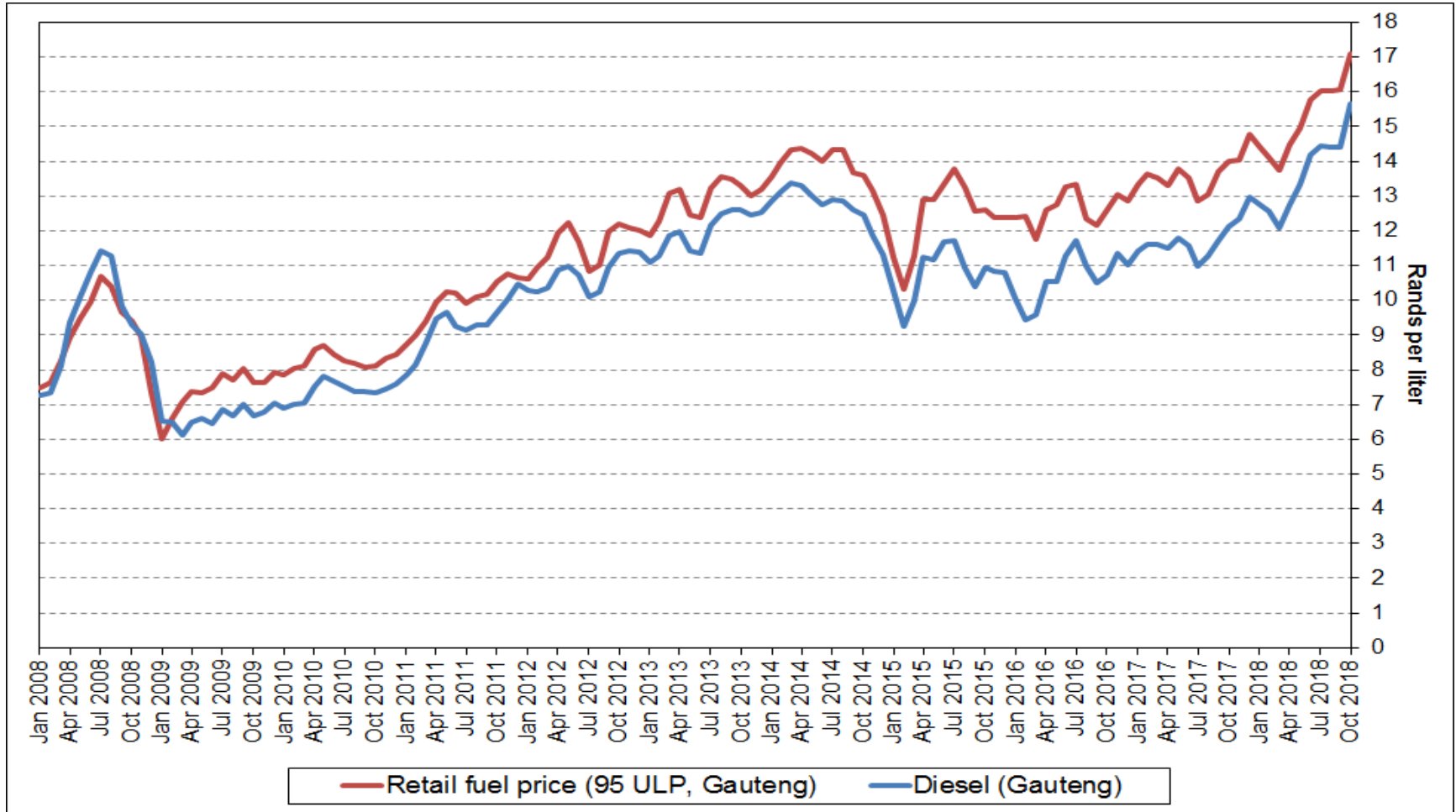


OIL PRICE SURGES HIGHER ON GEOPOLITICAL CONCERNS (IRAN, VENEZUELA) HURRICANES AND SHALE PRODUCTION BOTTLENECKS



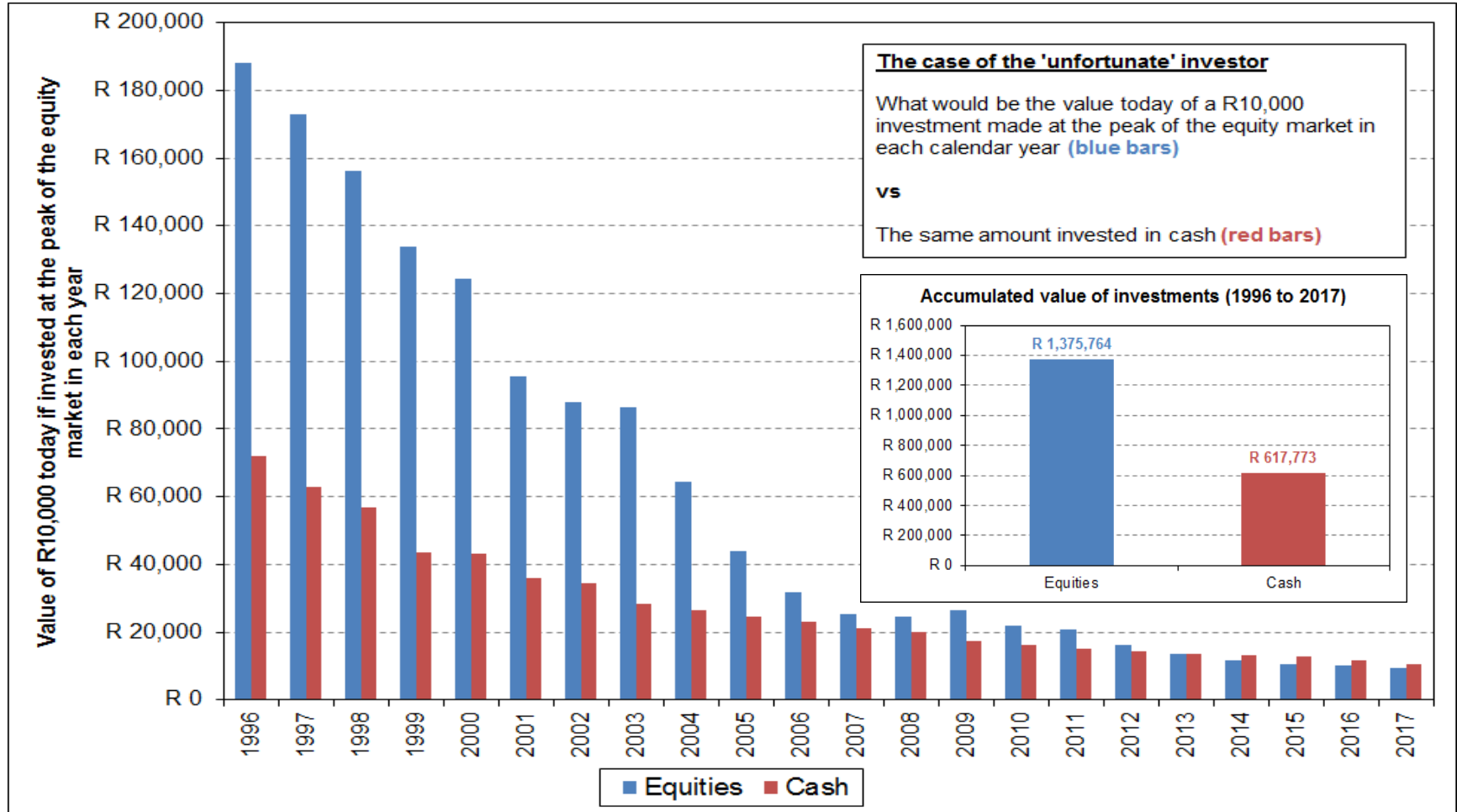
PAIN AT THE PUMPS

AS FUEL PRICES HIT RECORD HIGHS ON WEAK RAND AND HIGH OIL PRICES



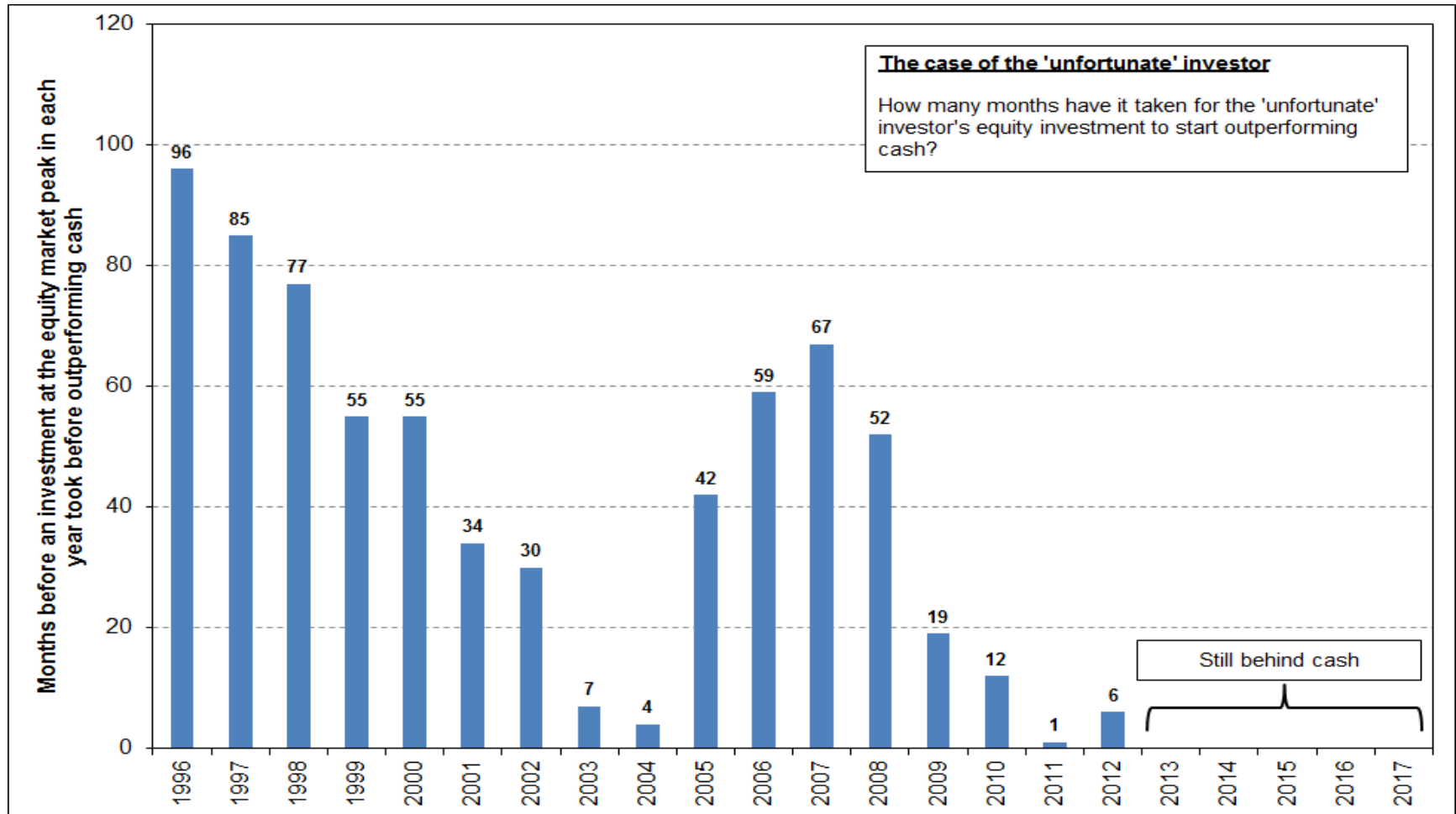
EQUITIES VS CASH

THE 'UNFORTUNATE' INVESTOR



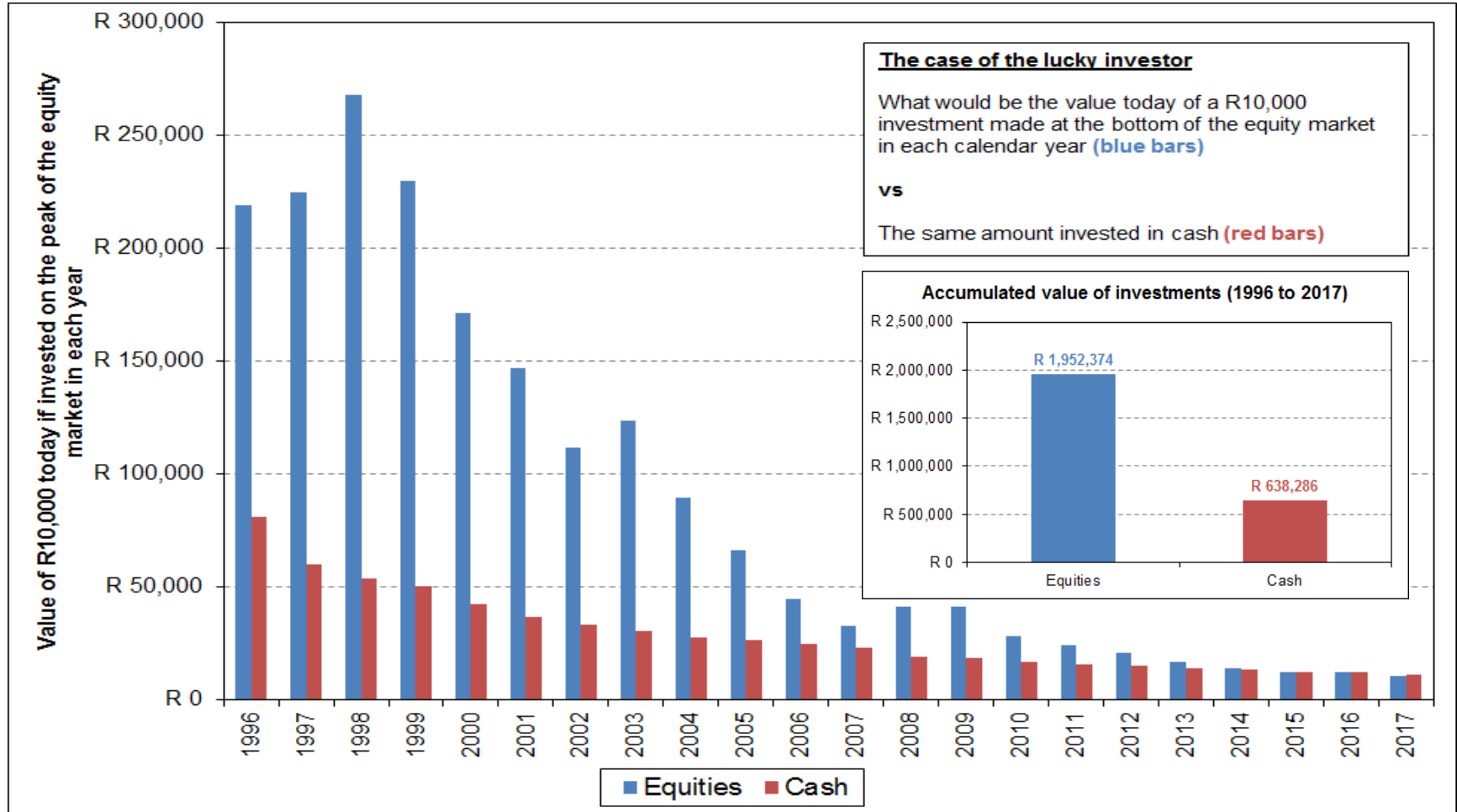
EQUITIES VS CASH

THE 'UNFORTUNATE' INVESTOR



EQUITIES VS CASH

THE LUCKY INVESTOR



EQUITIES VS CASH

THE LUCKY INVESTOR

