

MONTH IN PICTURES

OCTOBER 2018

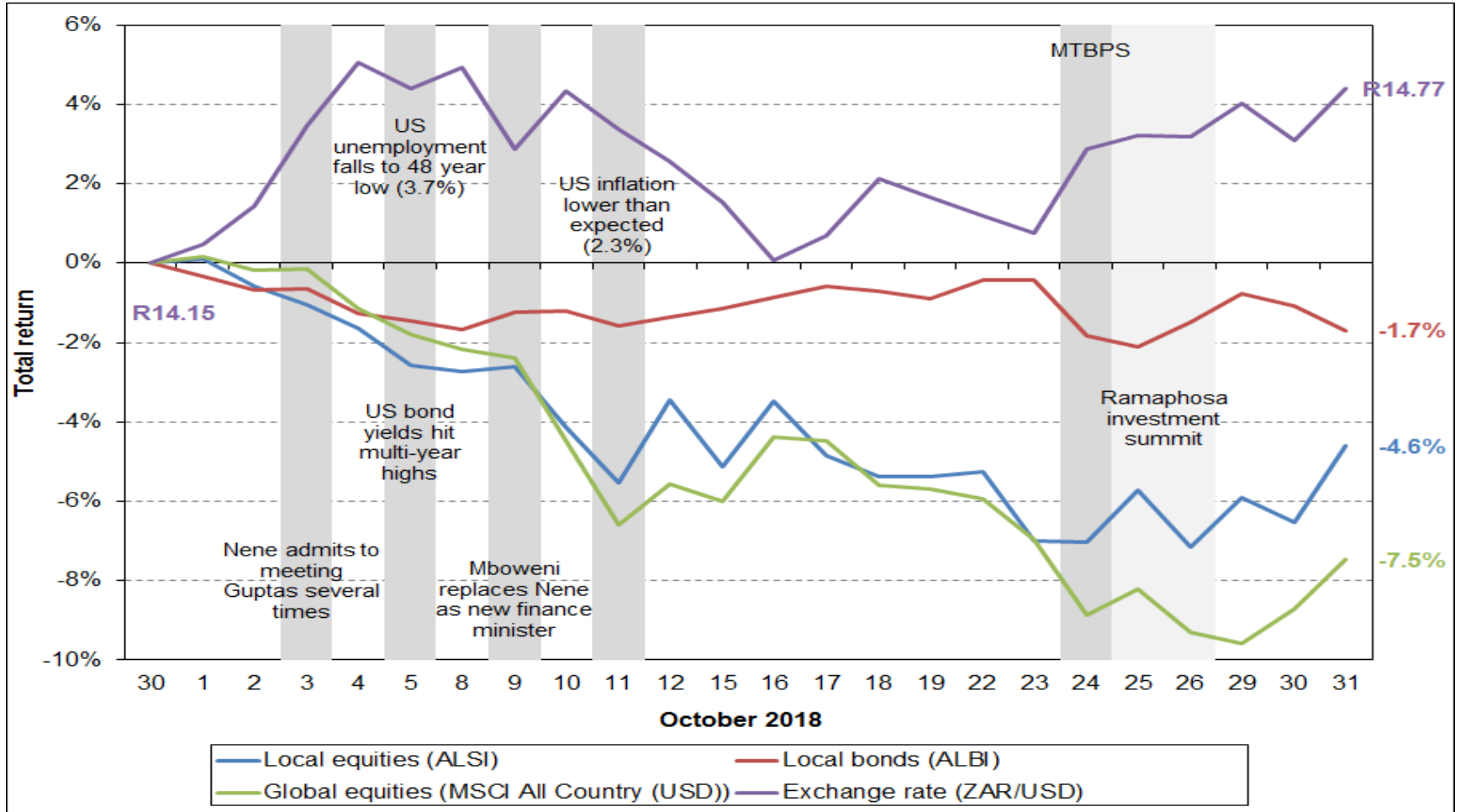
MONTHLY SNAPSHOT

NOTABLE EVENTS

- October 2018 offered very few places for investors to hide, as a cocktail of global factors continued to act as headwinds to international capital markets, including a faster than previously expected US interest rate hike trajectory, a number of disappointing earnings results from some large US corporates and European political issues (Brexit uncertainties, Italy's budget being rejected by the EU, German election results).
- After two disappointing months (-4.2% in September and -4.6% in October), the 12-month return for the local equity market is now sharply down (-8.7%). The medium term performance of this asset class therefore remains pedestrian, with the 3-year figure being barely positive (+0.6% p.a.), while the 5-year number is only just ahead of inflation (5.5% p.a.).
- Global equities also had a tough month, losing 7.5% in US Dollars, which translates to -3.4% in Rands after our local unit depreciated by 62 cents against the Dollar in October (from R14.15 to R14.77). Global equities, mainly driven by US stocks, remain the best performing major asset class of the last decade however.
- Tito Mboweni replaced Nhlanhla Nene as finance minister after it was revealed that the latter had visited the controversial Gupta family at their home several times between 2010 and 2014.
- The Medium Term Budget Policy Statement (MTBPS) painted another grim picture of SA's finances, with government debt expected to rise to nearly 60% of GDP over the coming years.
- After clocking in at 4.9% in August and September, inflation crept up to 5.1% year-on-year in October.

MONTHLY TIMELINE

IMPACT ON MARKETS



MARKET INDICATORS

SHORT TERM

Market indicators (% change) ¹		Aug 2018	Sep 2018	Oct 2018	3 months	12 months
Local equities	Capped SWIX	1.2	(4.2)	(4.6)	(7.5)	(8.7)
	Resources	5.6	1.0	(4.0)	2.5	13.9
	Industrials	1.9	(7.7)	(8.0)	(13.5)	(21.1)
	Financials	0.3	(2.0)	(3.2)	(4.9)	2.1
	Listed Property	2.1	(2.6)	(1.7)	(2.2)	(18.7)
Local bonds	ALBI	(1.9)	0.3	(1.7)	(3.3)	7.8
Local cash	STeFI Composite	0.6	0.6	0.6	1.8	7.3
Global equities	MSCI All Country	11.5	(3.2)	(3.4)	4.3	4.6
Global bonds	FTSE WGBI	10.4	(4.6)	3.2	8.7	2.5
Exchange rate	ZAR/USD	10.6	(3.6)	4.4	11.3	4.6
Inflation	CPI	-0.1	0.5	0.5	0.8	5.1

1. Total returns (in Rands) for the months and periods ending 31 October 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	(8.7)	0.6	5.5	13.0	15.6
	Resources	13.9	11.9	(0.4)	4.4	8.2
	Industrials	(21.1)	(2.9)	5.3	15.8	18.8
	Financials	2.1	1.2	8.7	15.2	15.9
	Listed Property	(18.7)	(2.6)	5.8	14.0	17.3
Local bonds	ALBI	7.8	6.6	6.7	8.4	8.3
Local cash	STeFI Composite	7.3	7.4	6.8	6.8	7.4
Global equities	MSCI All Country	4.6	10.8	15.3	15.0	13.3
Global bonds	FTSE WGBI	2.5	3.6	7.8	6.6	8.6
Exchange rate	ZAR/USD	4.6	2.3	8.0	4.2	5.2
Inflation	CPI	5.1	5.4	5.4	5.2	5.6

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

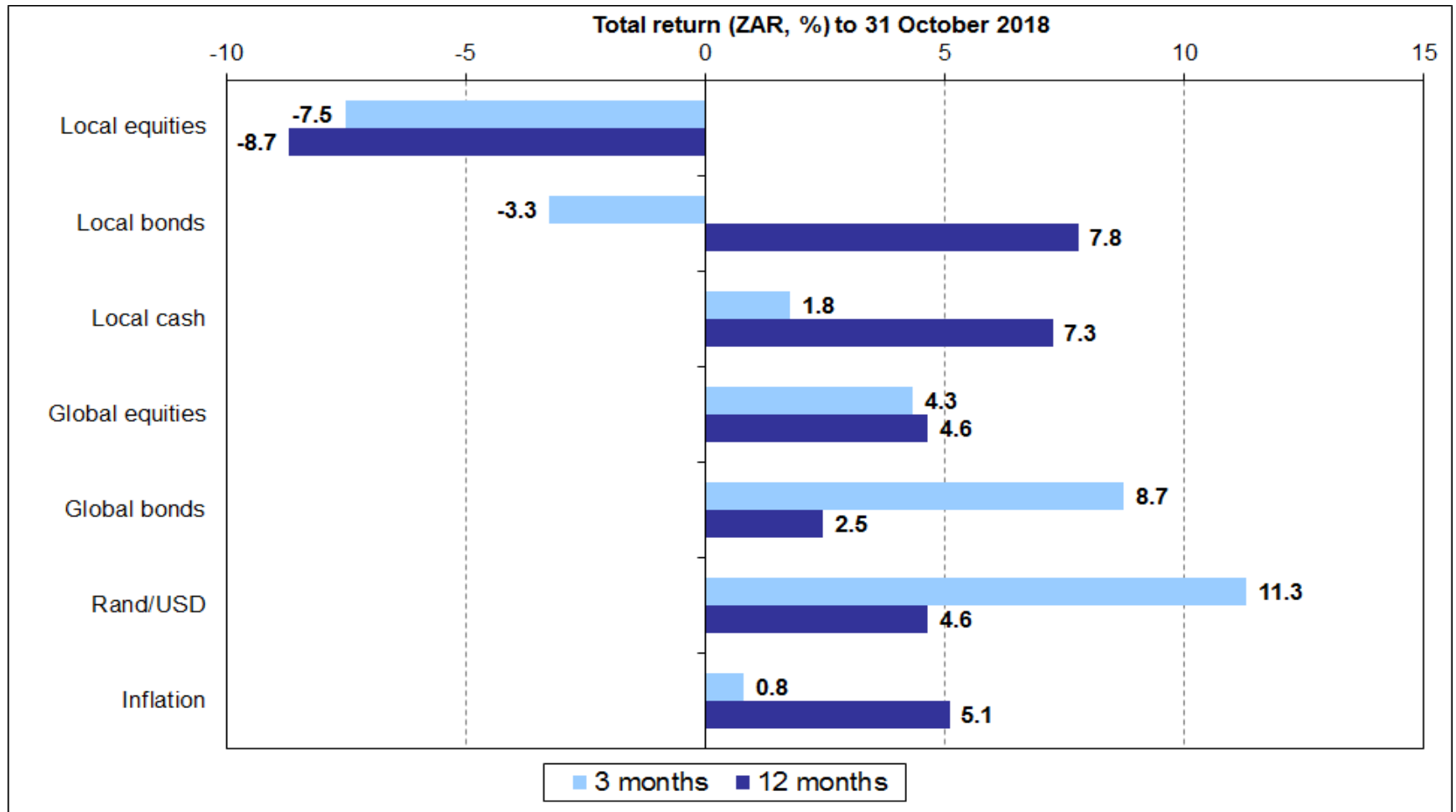
ECONOMIC INDICATORS

Economic indicators ¹	Oct 2016	Oct 2017	Aug 2018	Sep 2018	Oct 2018
Exchange rates:					
ZAR/USD	13.46	14.12	14.68	14.15	14.77
ZAR/GBP	16.48	18.77	19.03	18.44	18.87
ZAR/Euro	14.78	16.46	17.04	16.42	16.71
Commodities:					
Brent Crude Oil (USD/barrel)	48.89	61.22	77.73	82.90	74.62
Platinum (USD/ounce)	982.00	920.50	785.00	812.87	832.85
Gold (USD/ounce)	1,270.20	1,271.08	1,201.50	1,192.40	1,214.86

1. Month-end prices

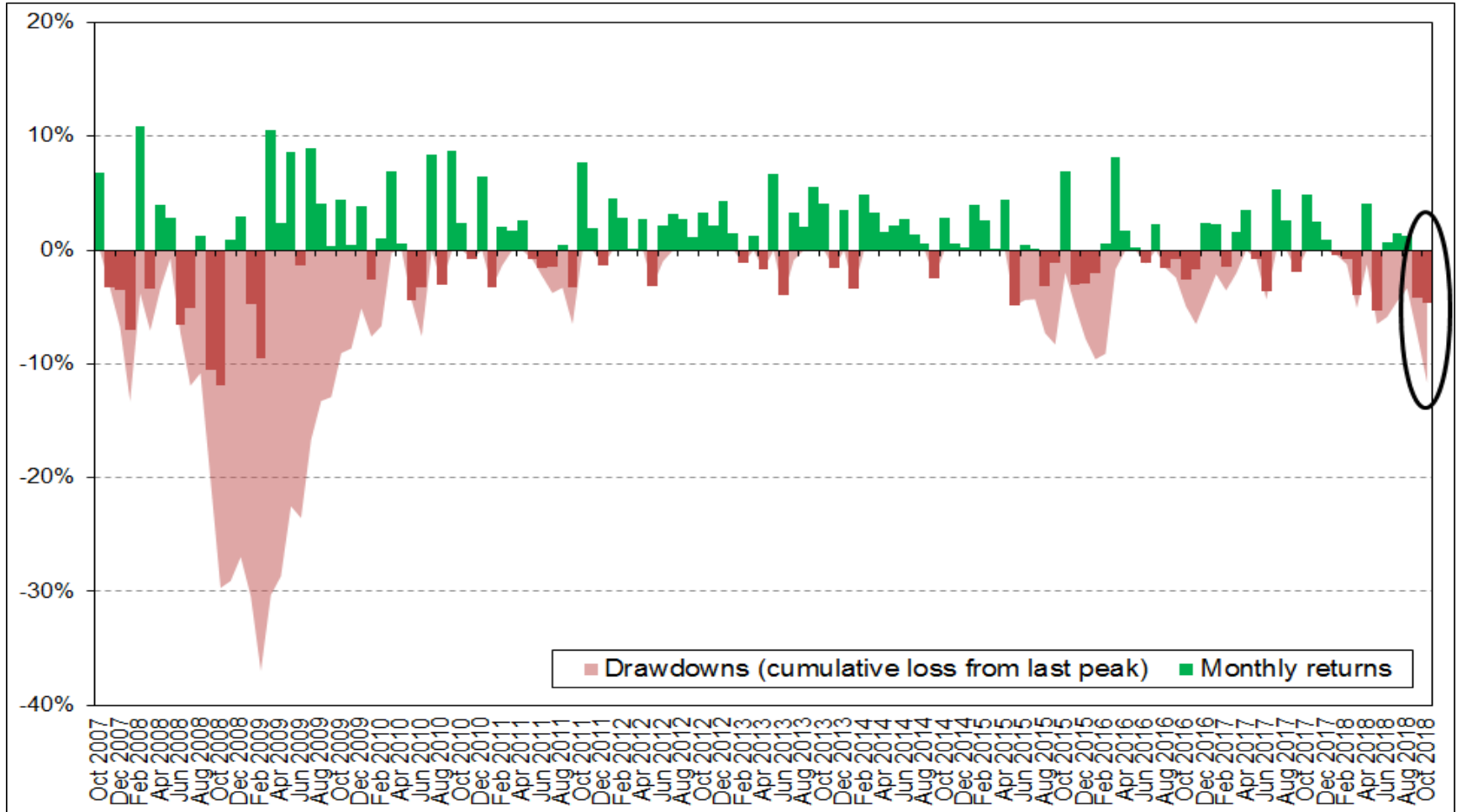
ASSET CLASS PERFORMANCE

SHORT TERM



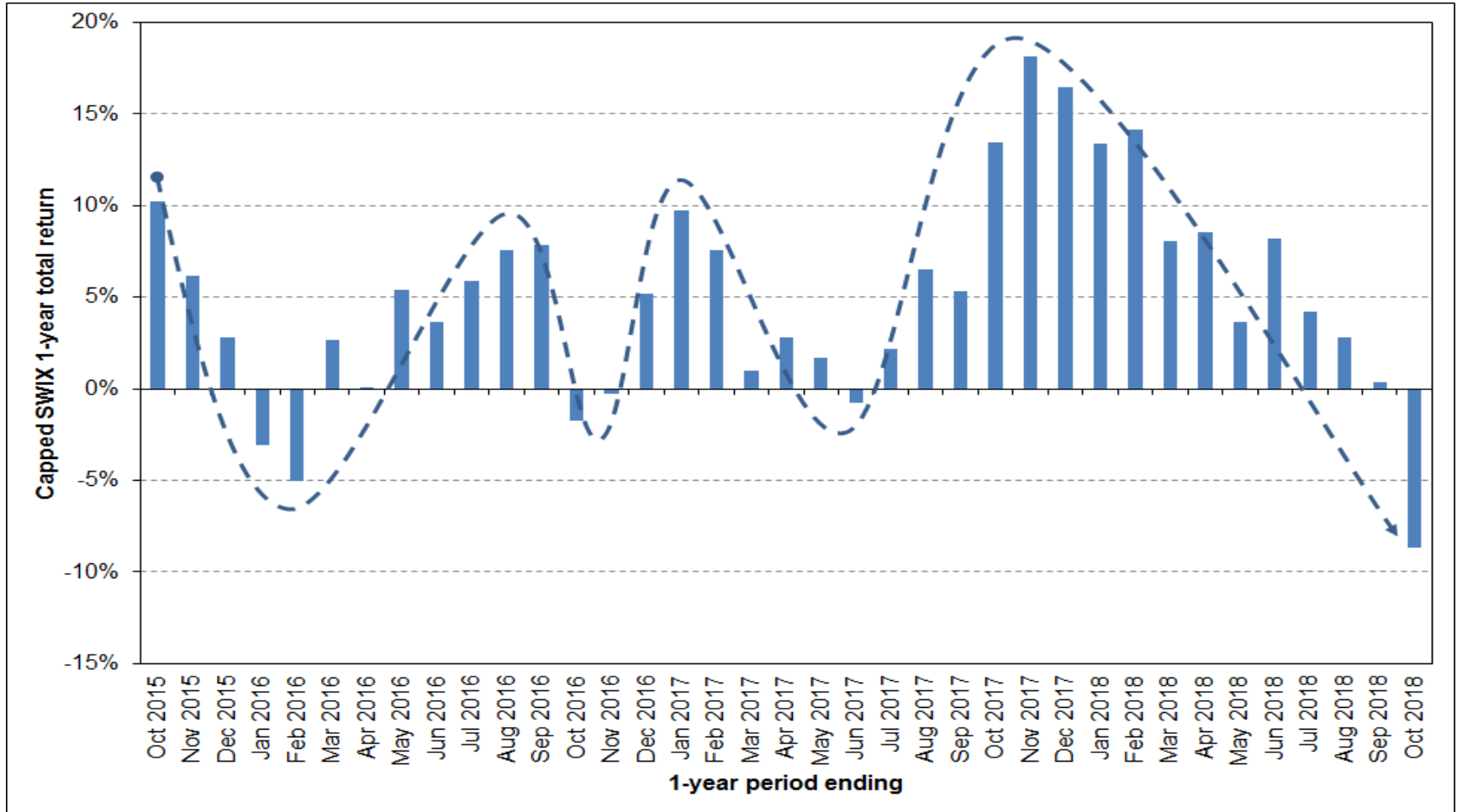
LOCAL EQUITY MARKET

IN LARGEST DRAWDOWN SINCE GLOBAL FINANCIAL CRISIS AFTER A POOR RUN IN SEPTEMBER AND OCTOBER



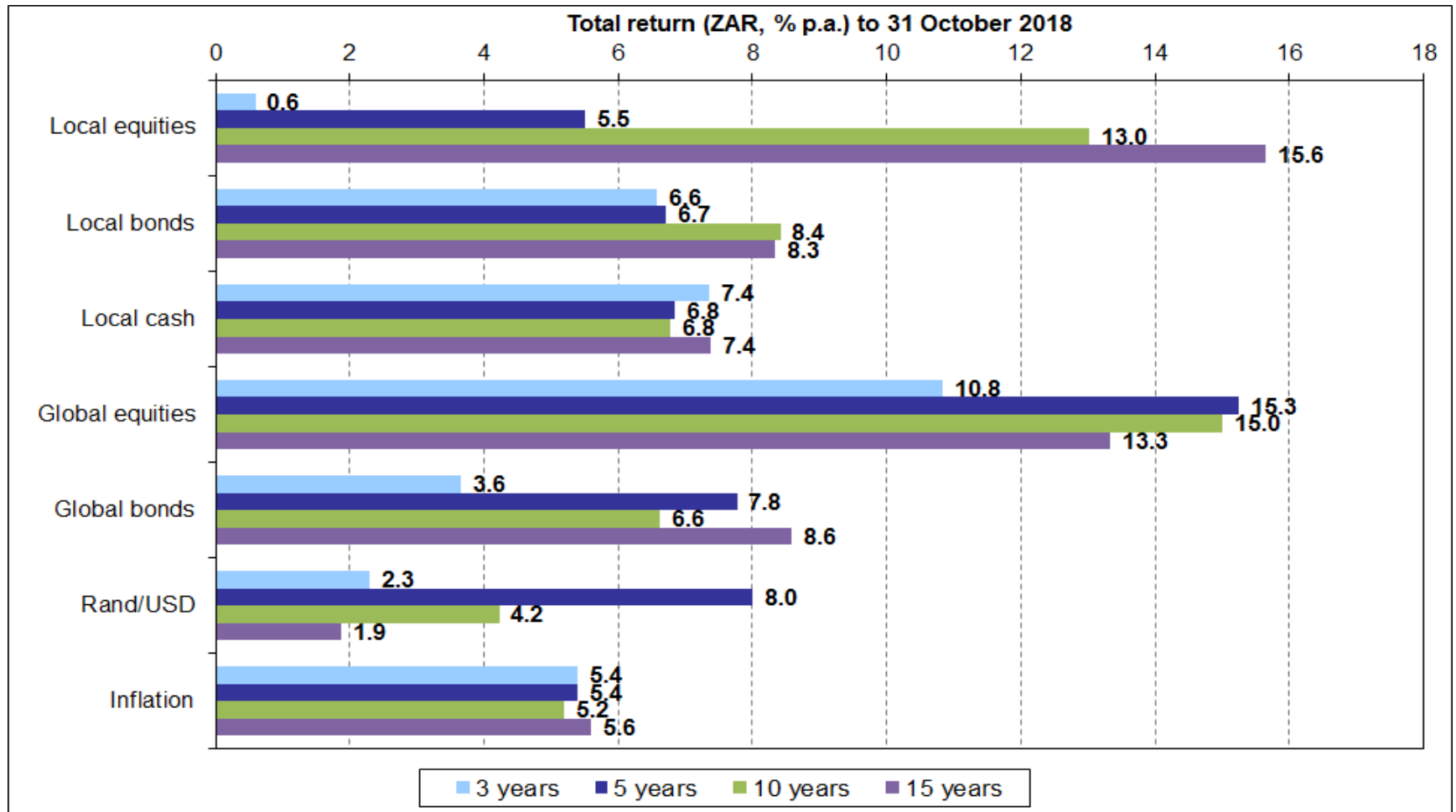
LOCAL EQUITY MARKET

THE 1-YEAR ROLLING RETURN ROLLERCOASTER



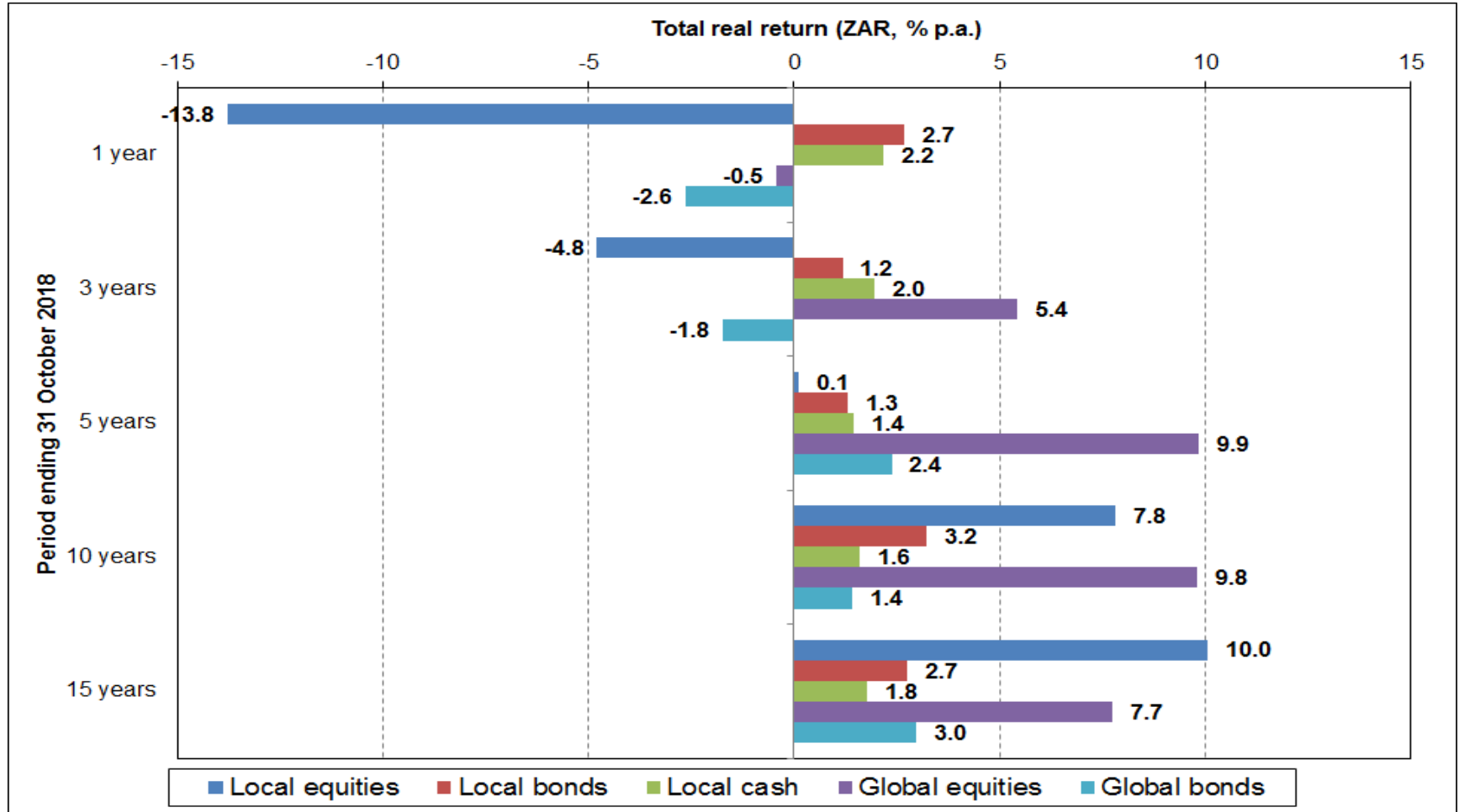
ASSET CLASS PERFORMANCE

MEDIUM TO LONG TERM



ASSET CLASS PERFORMANCE

REAL (EXCESS ABOVE INFLATION) RETURNS



MARKET PERFORMANCE

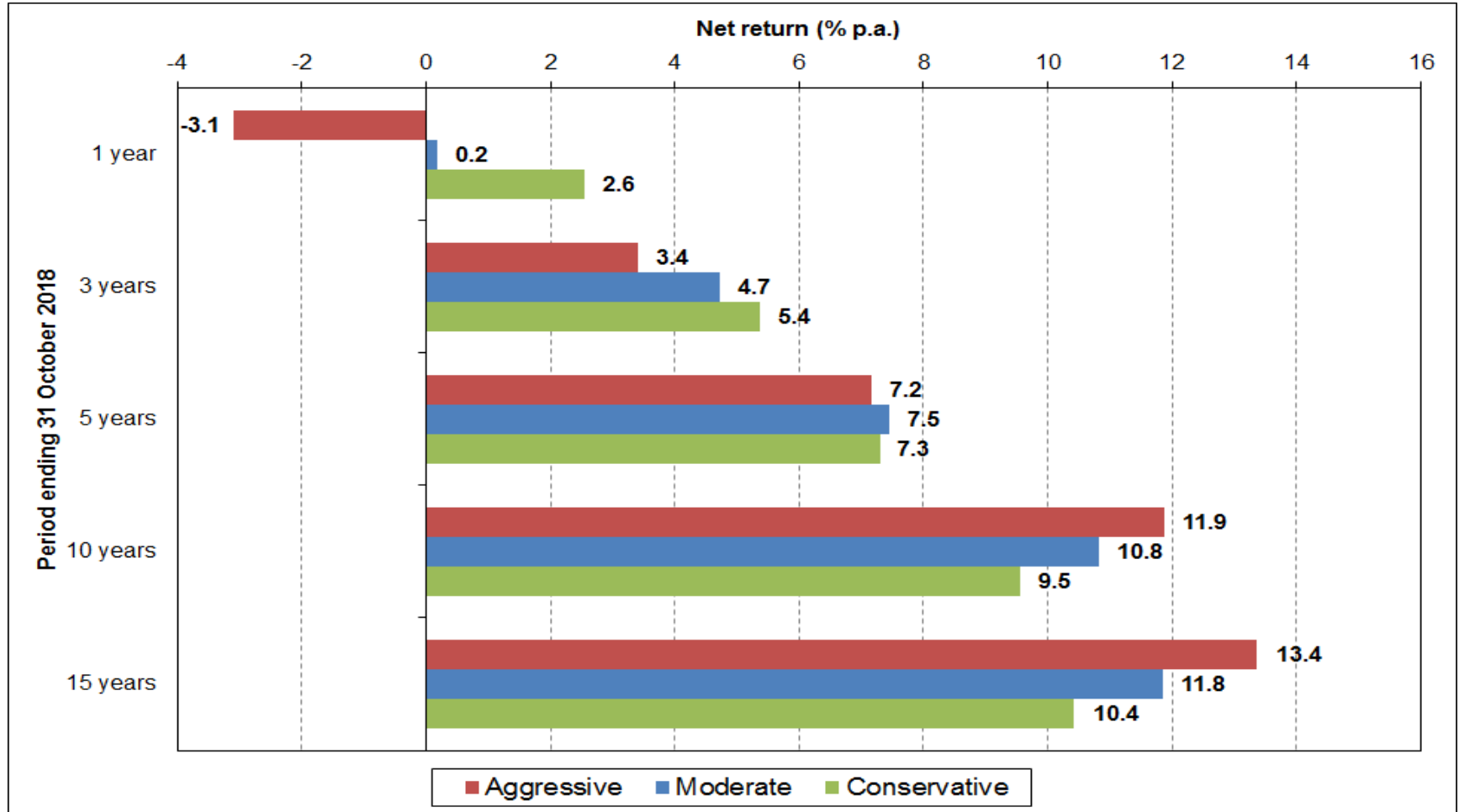
WHAT PAST RETURNS CAN INVESTORS REASONABLY EXPECT?

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%

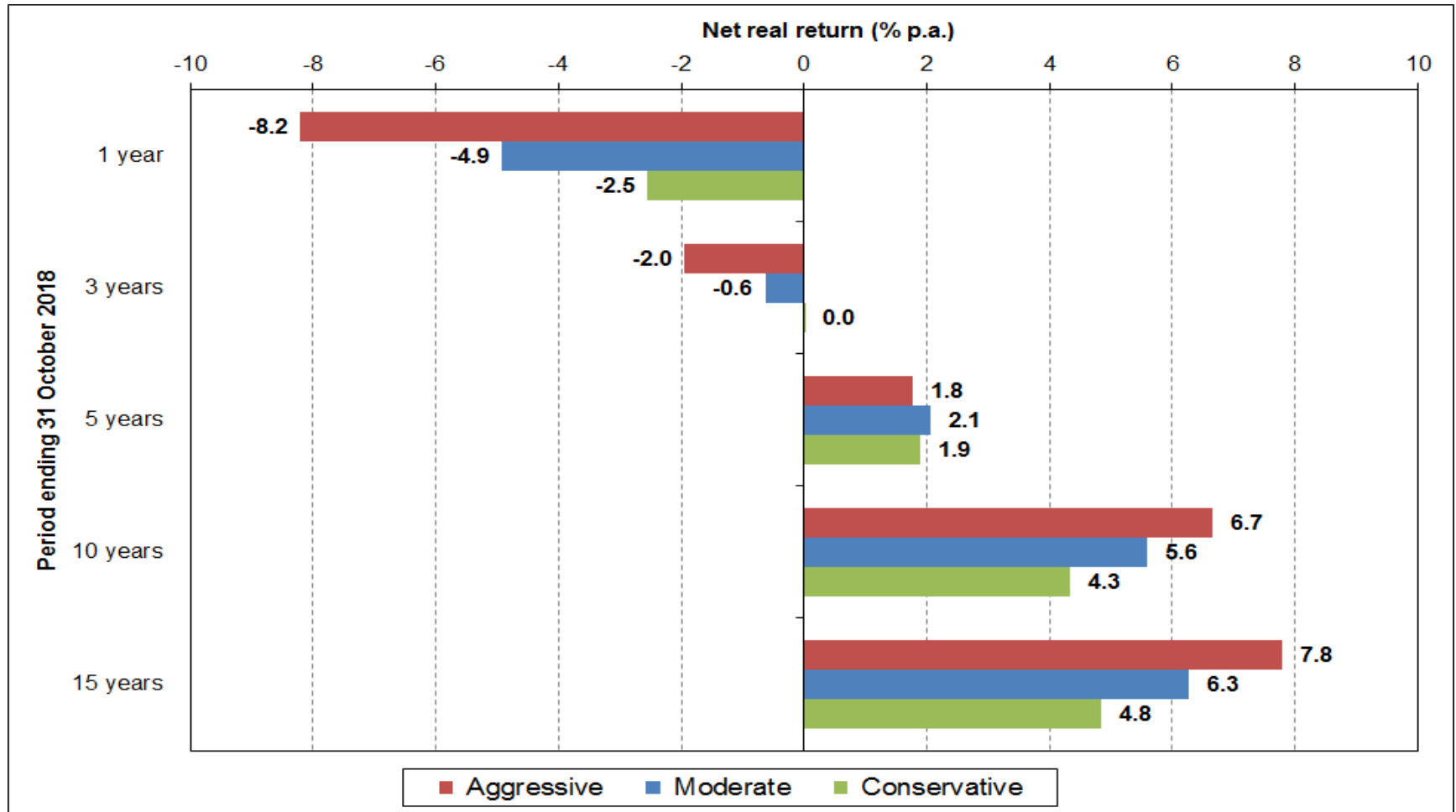
MR MARKET PERFORMANCE

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



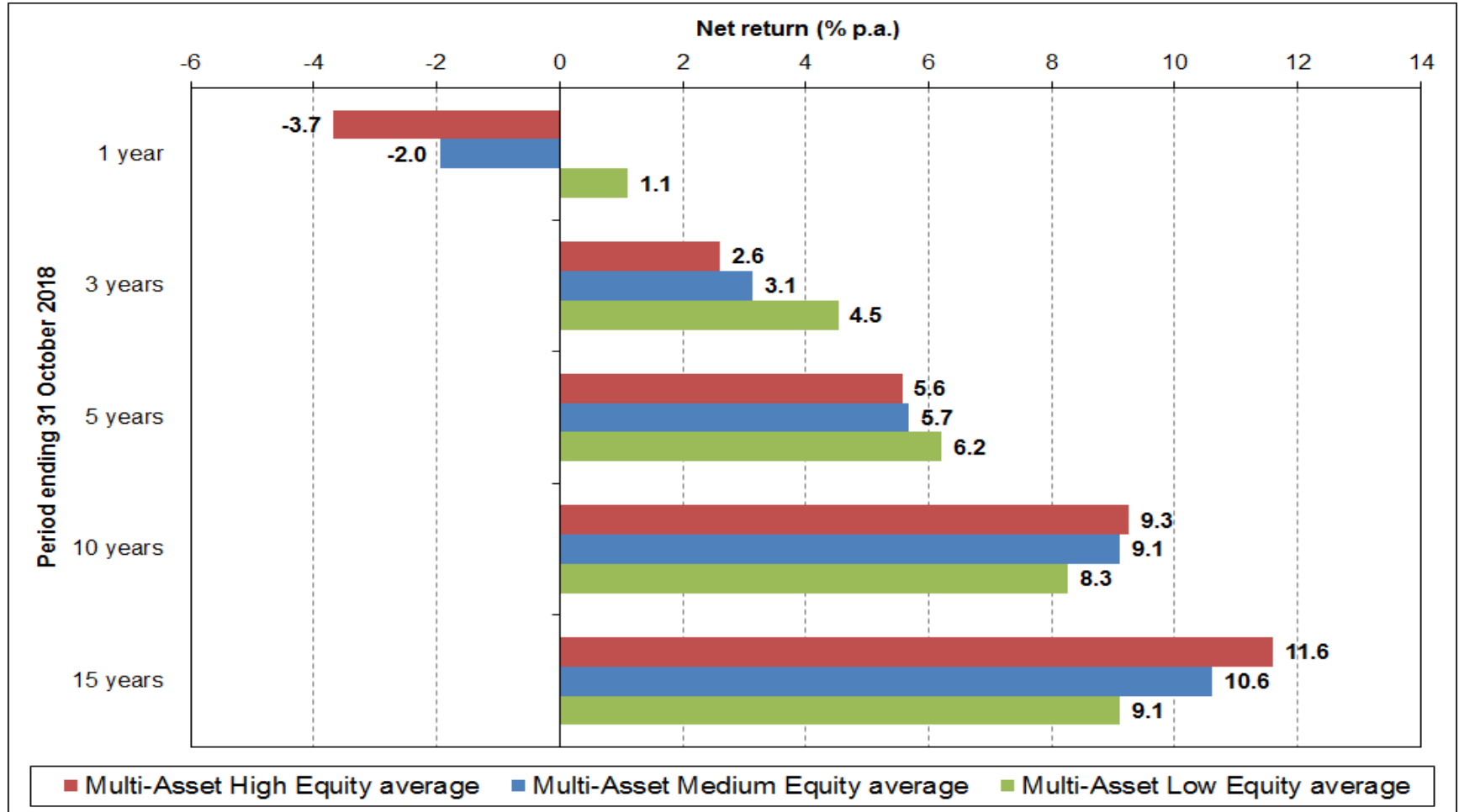
MR MARKET PERFORMANCE

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



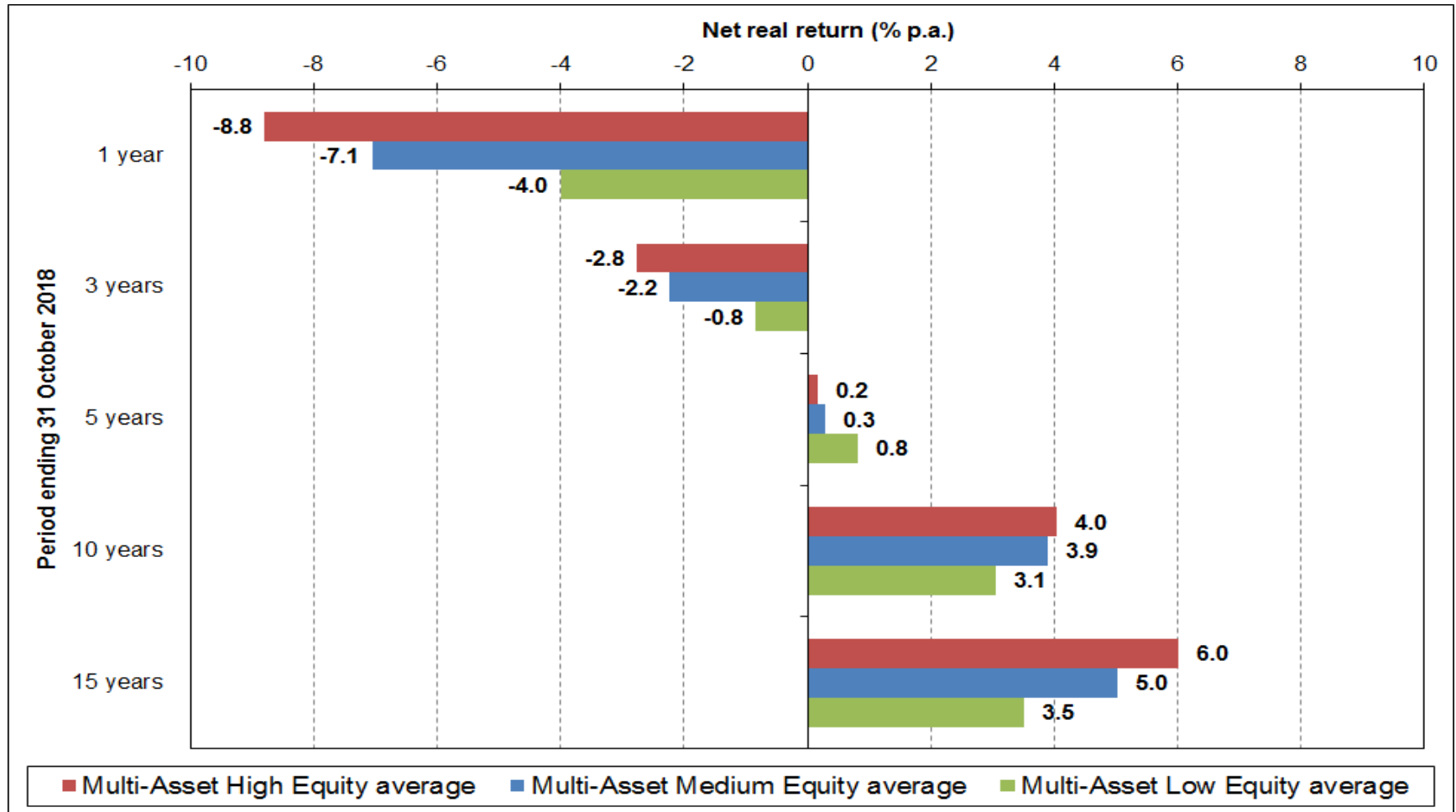
MR MANAGER PERFORMANCE

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

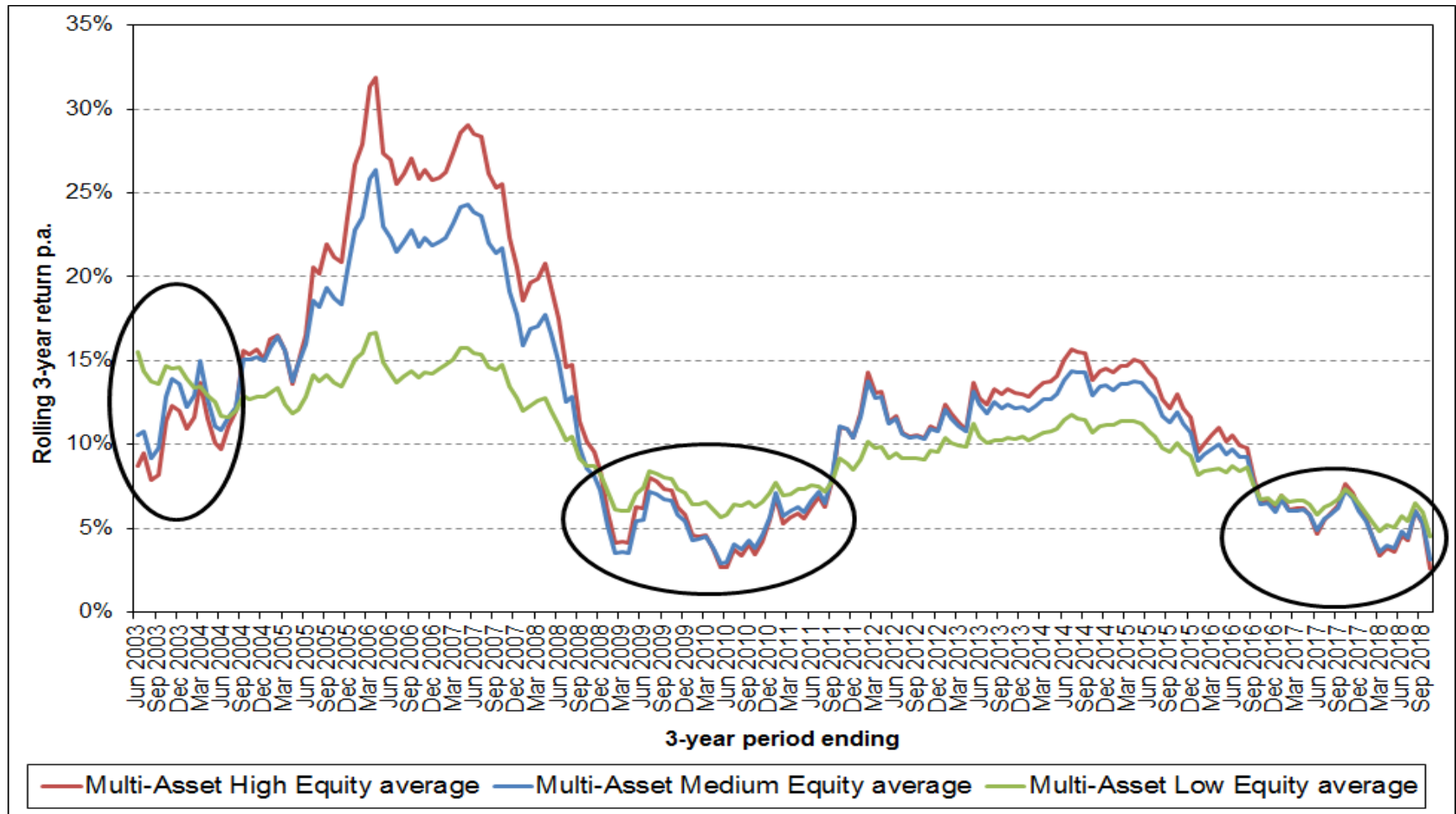


MR MANAGER PERFORMANCE

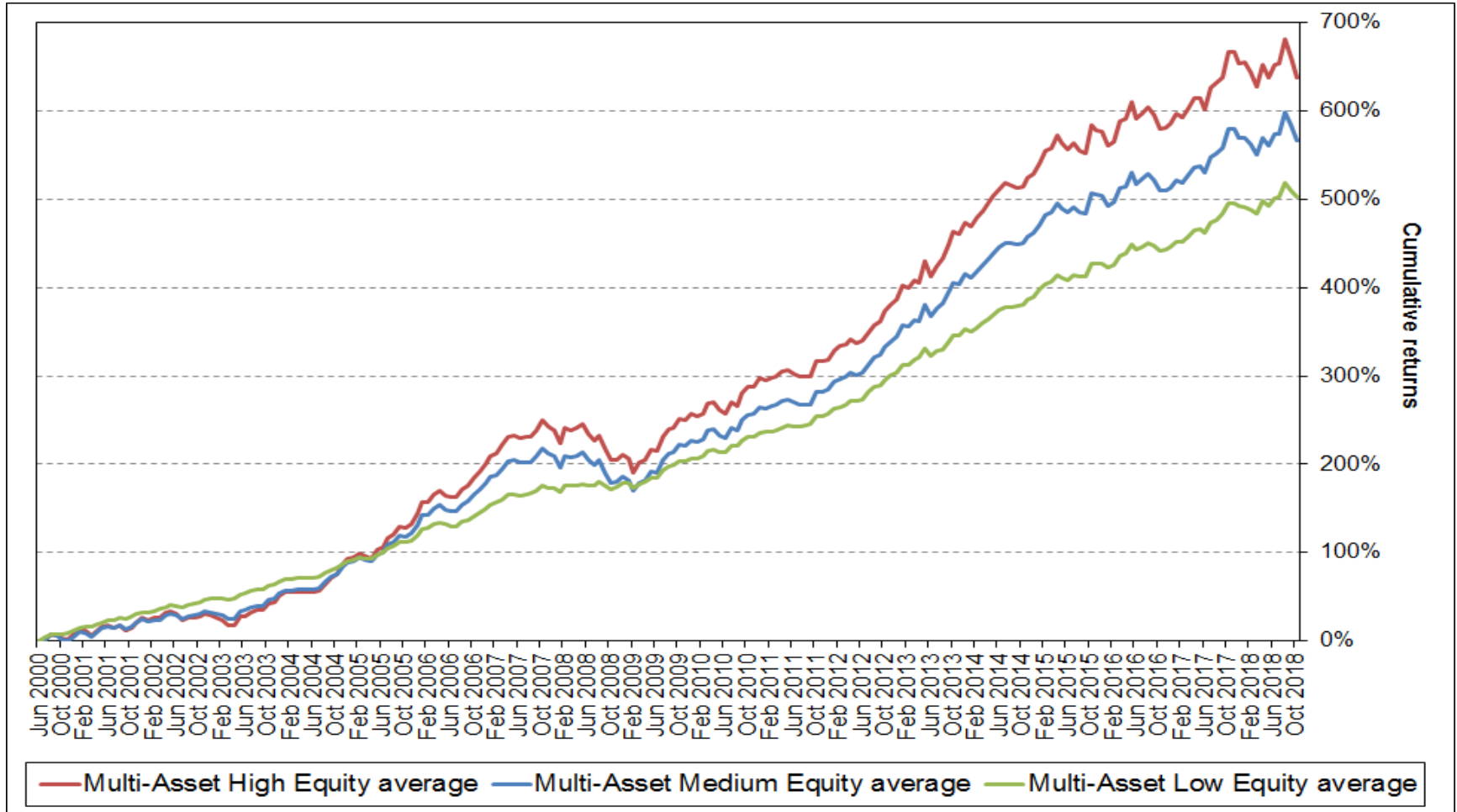
FOR BALANCED PORTFOLIOS, WHAT RANGE OF PAST REAL RETURNS WAS REASONABLY ACHIEVABLE?



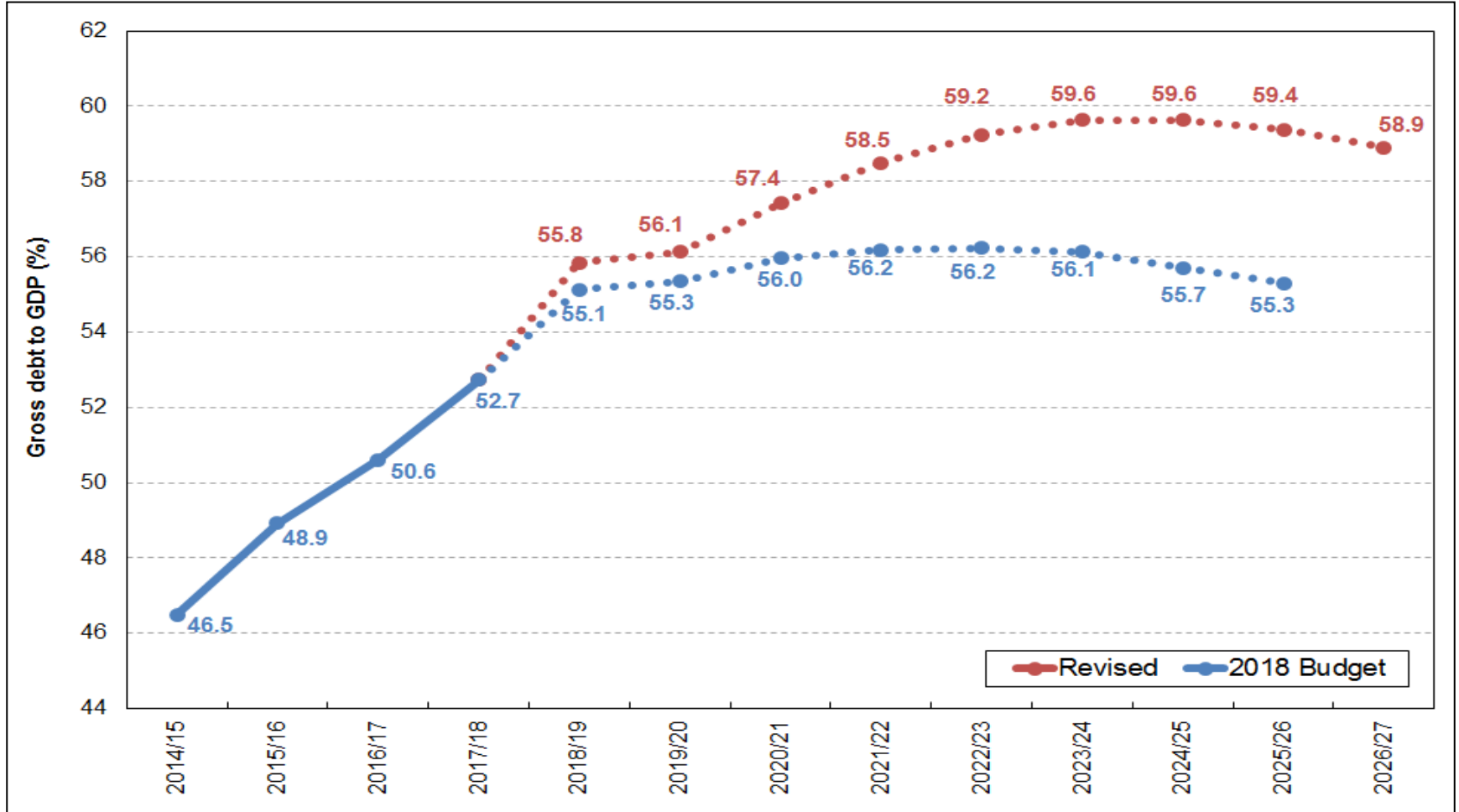
THERE WILL BE TIMES WHEN CONSERVATIVE PORTFOLIOS OUTPERFORM...



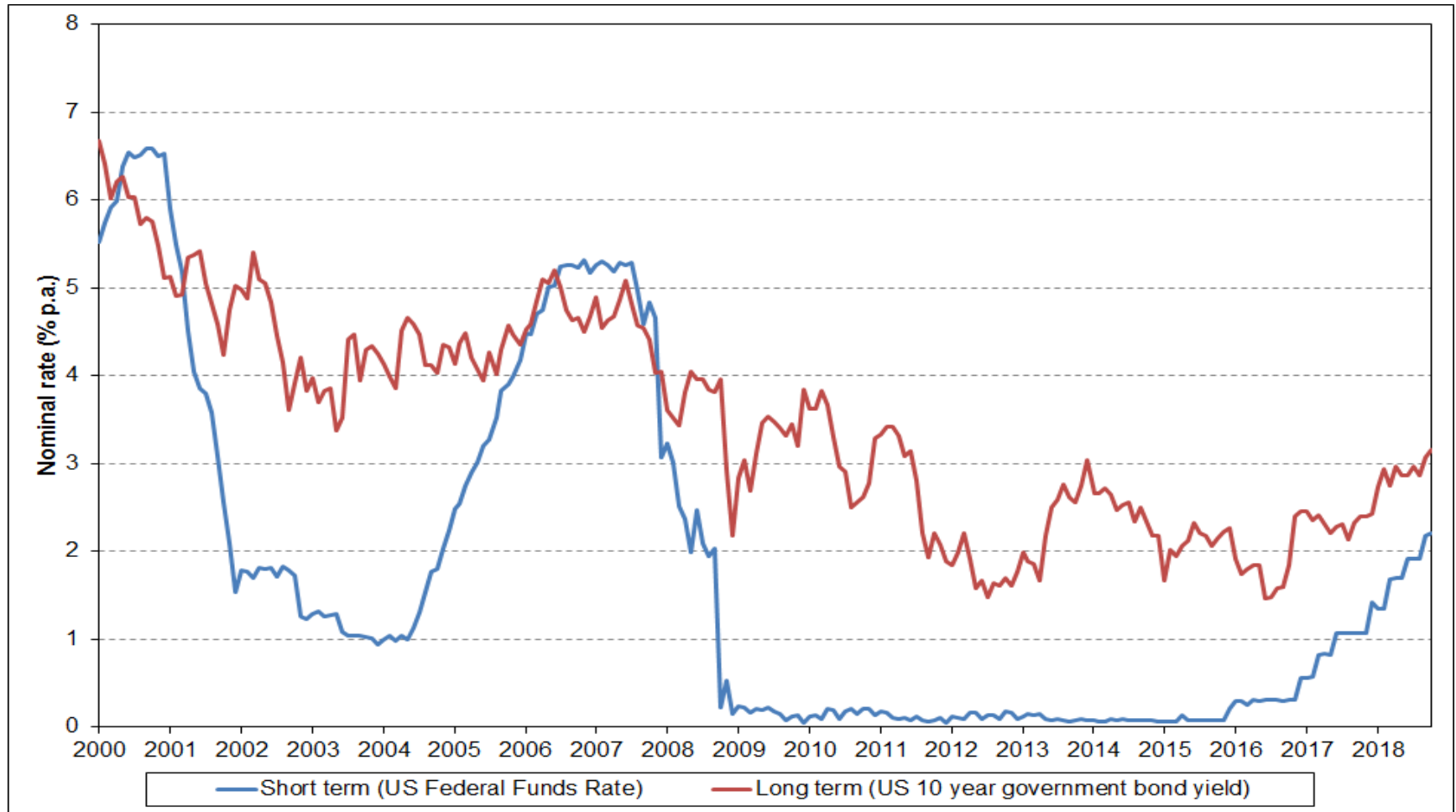
...BUT REMEMBER NOT TO LOSE SIGHT OF THE LONG TERM!



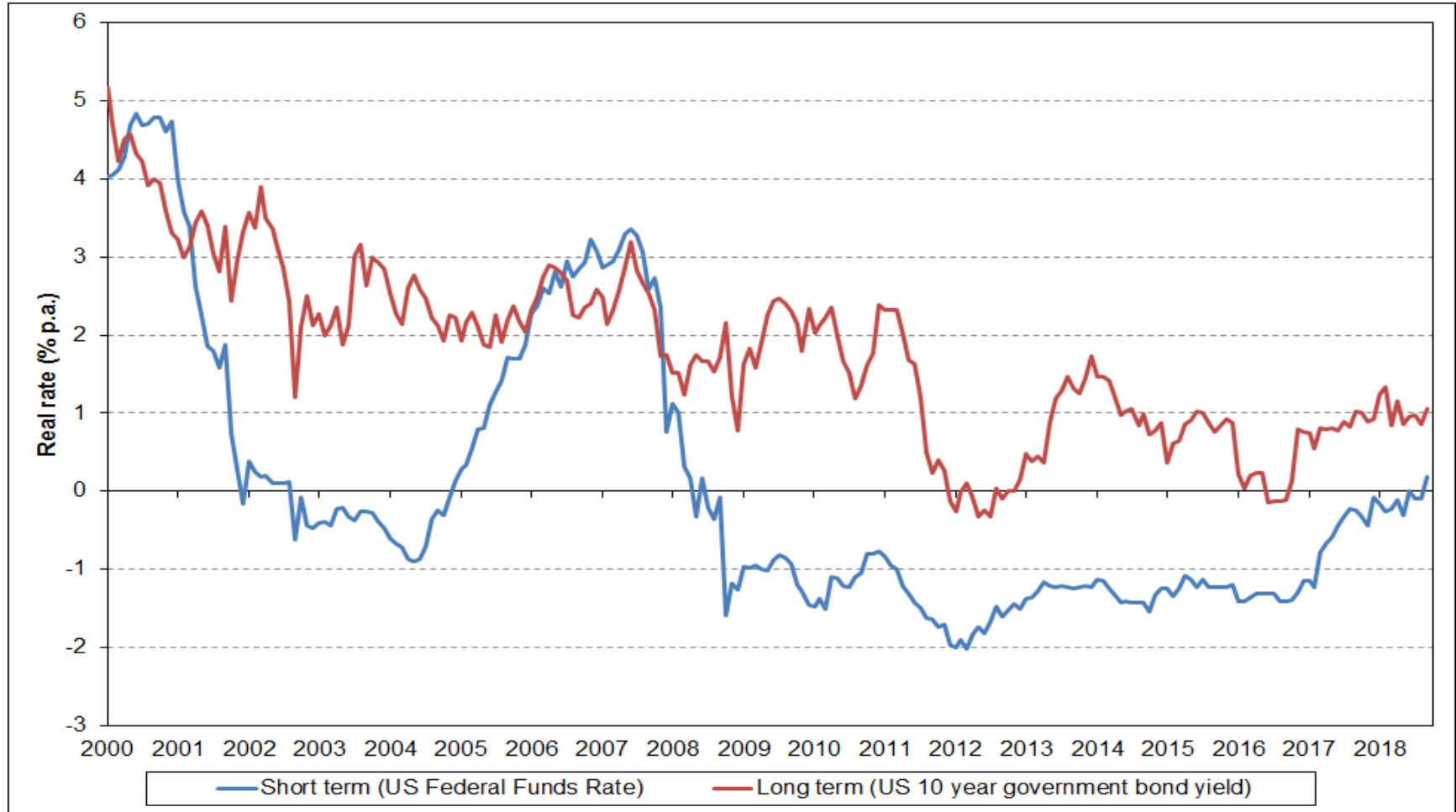
PROJECTED GOVERNMENT DEBT REVISED HIGHER, AGAIN...



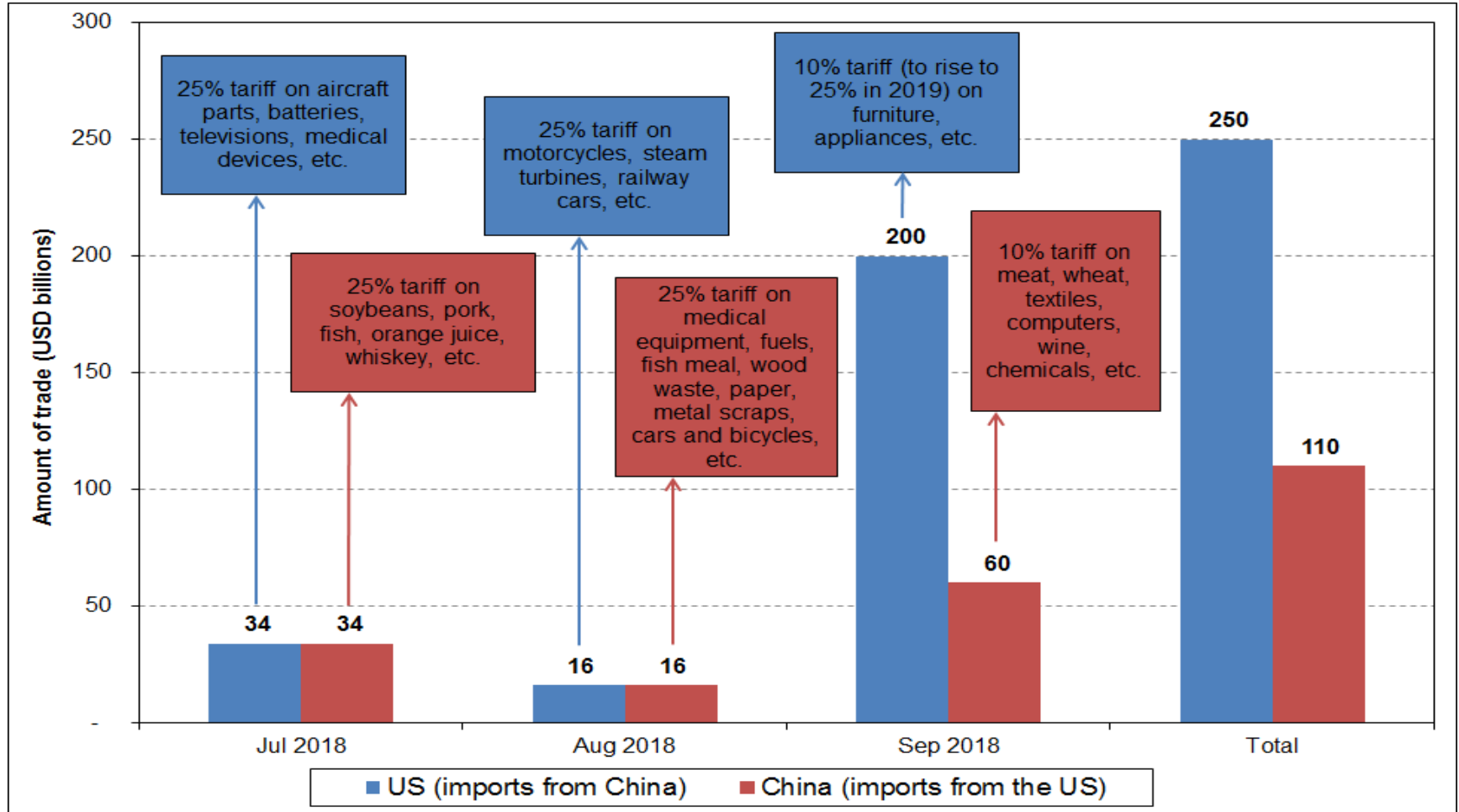
US INTEREST RATES CONTINUE TO MARCH STEADILY UPWARDS...



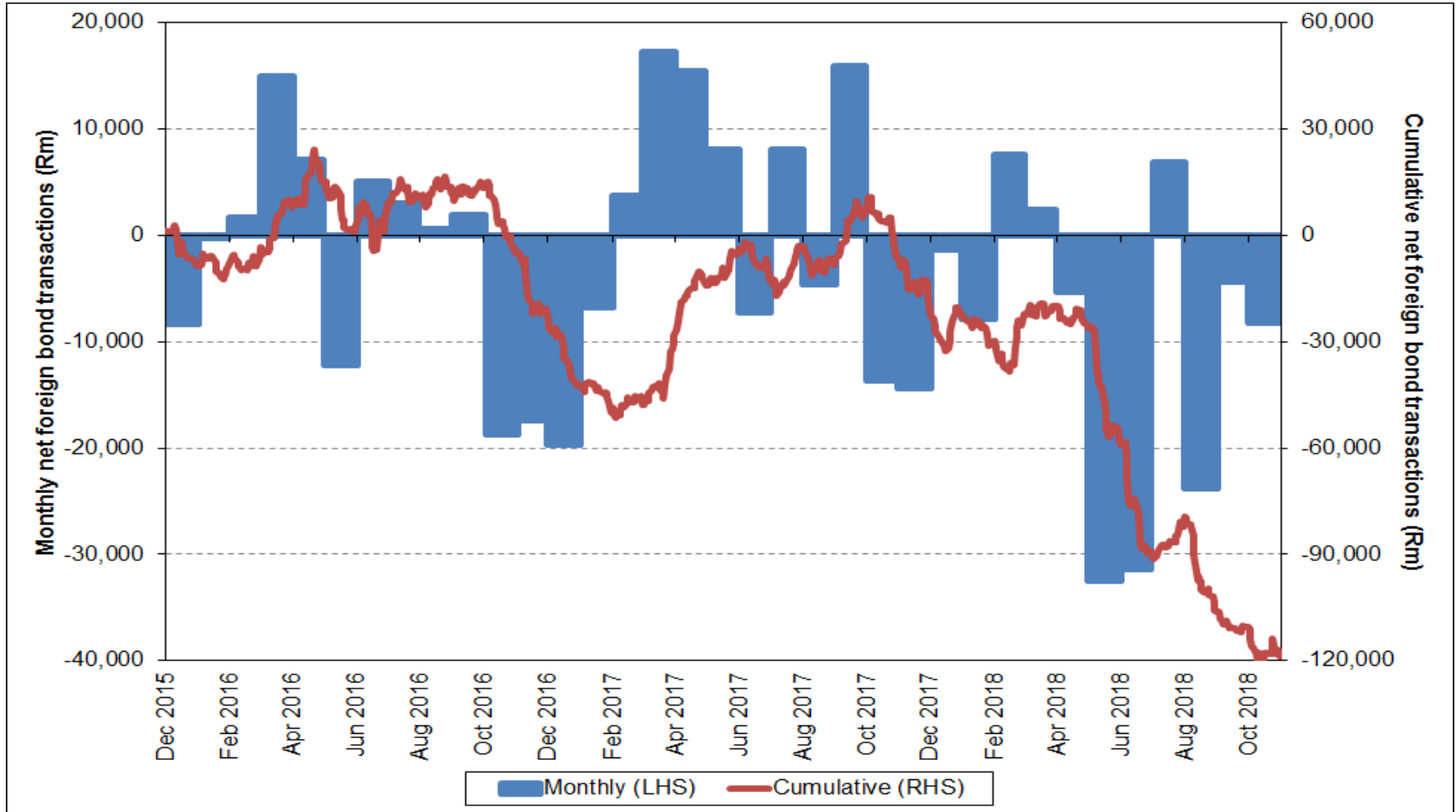
...SO US DEBT NOW OFFERS INVESTORS LOW RISK REAL RETURNS IN DOLLARS



US-CHINA TRADE WAR PICKING UP MOMENTUM



FOREIGN PURCHASES OF SA BONDS STILL LOTS OF CAPITAL LEAVING OUR SHORES...



FOREIGN PURCHASES OF SA EQUITIES

...AS HIGHER US INTEREST RATES AND TRADE WAR CONCERNS PUT PRESSURE ON EMERGING MARKETS

