

MONTH IN PICTURES

MARCH 2019

MONTHLY SNAPSHOT

NOTABLE EVENTS

- Depending on which index one looks at, March either sustained (ALSI = + 1.6%) or paused (Capped SWIX = -0.2%) the equity market rally that kicked off in mid-December. The resources sector (+4.7%) was once again an important contributor to the ALSI's outperformance (which has a higher weighting to this sector), with Industrials (+2.9%), Financials (-4.0%) and Listed Property (-1.5%) lagging.
- This phenomenon (the ALSI strongly outperforming the SWIX indices) is also now evident all the way up to three years, as Resources (+17.8% in 2019 Q1, +41.6% over the last 12 months and +22.2% p.a. over the last three years) strongly outperformed Industrials (+7.4%, -3.7% and 0.6% p.a.), Financials (-0.4%, -5.8% and 2.8% p.a.) and Listed Property (+1.5%, -5.7% and -3.8% p.a.) over these same periods.
- Over the above periods the ALSI therefore returned +8.0%, +5.0% and 5.7% p.a. compared to just +3.9%, -2.6% and 2.1% p.a. from the Capped SWIX.
- By the end of March the Rand had given up its 2019 gains versus the US Dollar, falling by 2.9% during the month (and therefore ending the first quarter 1.0% weaker) after continued bouts of stage 4 load shedding and comments on the Reserve Bank's nationalisation added to deteriorating emerging market sentiment.
- The weakening Rand provided a small boost to the already-strong Dollar returns of global equity markets (+12.3%), over the quarter (which also recovered nicely after a tough 2018), which therefore yielded a solid Rand return of 13.4%.
- Over the last year the Rand is 22.6% weaker against the Dollar (coming from a high base after early 2018's 'Ramaphoria' rally), leading to large local currency gains from offshore assets (+26.5% and +20.7% from equities and bonds respectively).
- Local bonds had a decent quarter (+3.8%), but is only 3.5% higher over the last 12 months, with a high base playing a similar role here. Local bond performance over the last three years remain strong (+10.1% p.a.), with a *low* base this time (shortly after 'Nenagate') lifting the returns of this asset class.
- South Africa escaped a move closer to junk status yet again when Moody's postponed its much anticipated scheduled review of South Africa's credit rating. This implies that our rating with this agency remains at one notch above non-investment grade, with a stable outlook.

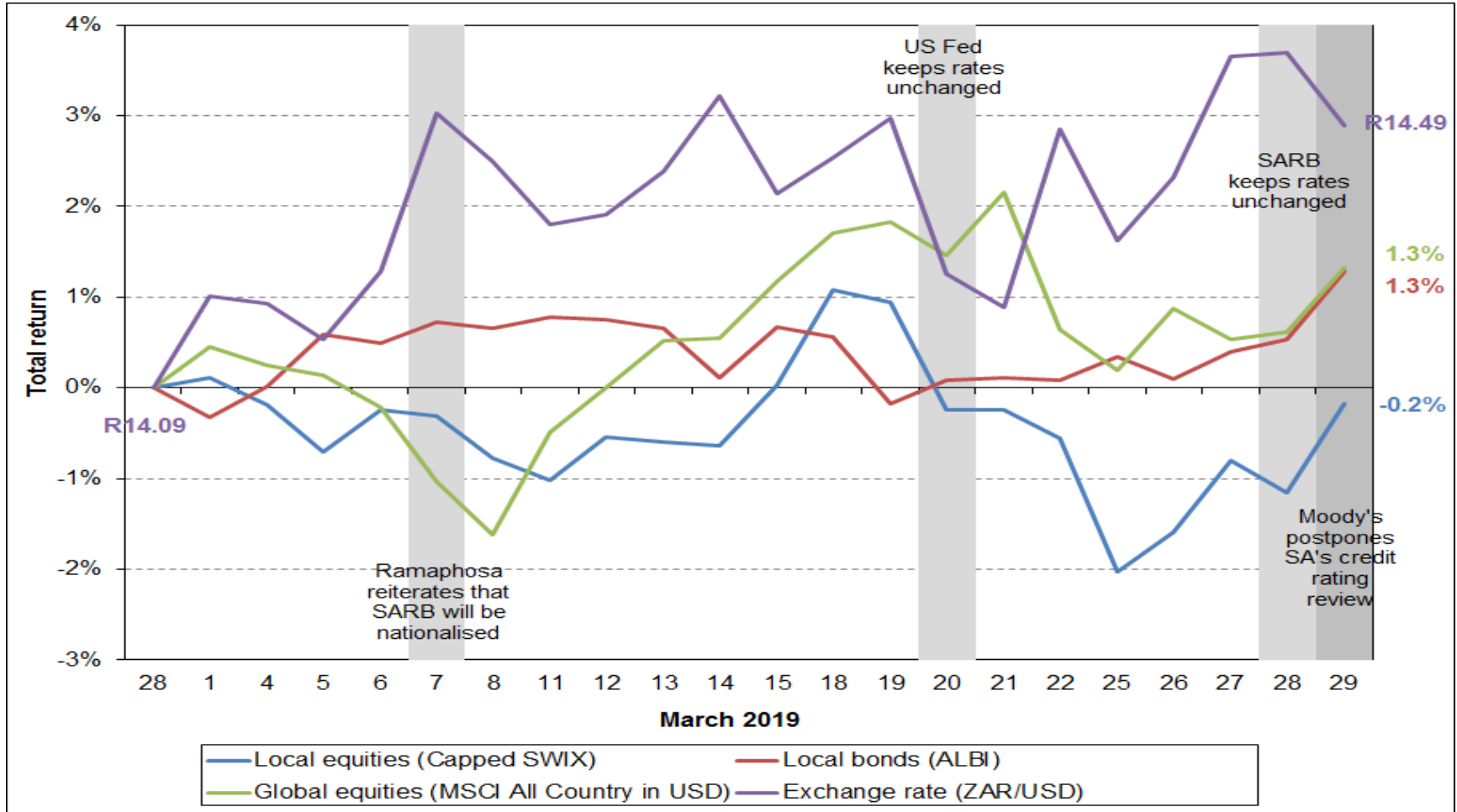
MONTHLY SNAPSHOT

NOTABLE EVENTS (CONTINUED)

- The RMB/BER Business Confidence Index declined by a further three points to 28 in 2019 Q1. This is the lowest level since the 27 index points recorded in 2017 Q2, and before that, the deep recession of 2009.
- The Brexit can was kicked further down the road as the British parliament continued to reject all of Prime Minister May's proposals. In early-April the deadline by which the UK had to leave the EU was therefore shifted to 31 October 2019 (from 12 April 2019 previously).
- The US Fed kept interest rates on hold at 2.25-2.50%, and now expects no more hikes in 2019 and only one hike in 2020. Along with a more dovish interest rate outlook, the Fed also announced that it will conclude the shrinking of its balance sheet (quantitative tightening) at the end of September this year.
- As expected, the South African Reserve Bank also kept interest rates unchanged (repo = 6.75% and prime = 10.25%). In addition, the Reserve Bank cut its expectations for economic growth to 1.3% for 2019 and 1.8% in 2020 (down from 1.7% and 2.0% previously). Similarly, in its latest World Economic Outlook, the IMF cut our growth forecast by 0.2% to 1.2% and 1.5% for 2019 and 2020 respectively.
- Inflation to the end of March came in slightly below market expectations, edging up to 4.5% year-on-year, from 4.1% the previous month.
- The beginning of March also marked the 10th year since global equity markets bottomed after the Global Financial Crisis. Returns since then have been strong, with global equity markets (MSCI All Country) delivering a cumulative return of more than 250% in US Dollars. The US stock market has been the undisputed leader, yielding a total return of more than 370%, compared to South Africa's total Dollar gain of just over 150%. While our market's underperformance is often (and perhaps understandably) blamed on local factors, it is worth noting that when the US's performance is removed from the global figures, global equity markets have not done much better, delivering just 160% over the same period.

MONTHLY TIMELINE

IMPACT ON MARKETS



MARKET INDICATORS

SHORT TERM

| Market indicators (% change) ¹ | | Jan 2019 | Feb 2019 | Mar 2019 | 3 months | 12 months |
|---|------------------|----------|----------|----------|----------|-----------|
| Local equities | Capped SWIX | 2.8 | 1.2 | (0.2) | 3.9 | (2.6) |
| | Resources | 3.3 | 9.1 | 4.7 | 17.8 | 41.6 |
| | Industrials | 0.9 | 3.5 | 2.9 | 7.4 | (3.7) |
| | Financials | 6.0 | (2.1) | (4.0) | (0.4) | (5.8) |
| | Listed Property | 9.2 | (5.7) | (1.5) | 1.5 | (5.7) |
| Local bonds | ALBI | 2.9 | (0.4) | 1.3 | 3.8 | 3.5 |
| Local cash | STeFI Composite | 0.6 | 0.5 | 0.6 | 1.8 | 7.3 |
| Global equities | MSCI All Country | (0.4) | 9.2 | 4.3 | 13.4 | 26.5 |
| Global bonds | FTSE WGBI | (6.4) | 5.4 | 4.2 | 2.7 | 20.7 |
| Exchange rate | ZAR/USD | (7.7) | 6.3 | 2.9 | 1.0 | 22.6 |
| Inflation | CPI | (0.2) | 0.8 | 0.8 | 1.4 | 4.5 |

1. Total returns (in Rands) for the months and periods ending 31 March 2019

MARKET INDICATORS

MEDIUM TO LONG TERM

| Market indicators (% change) ¹ | | 1 year | 3 years | 5 years | 10 years | 15 years |
|---|------------------|--------|---------|---------|----------|----------|
| Local equities | Capped SWIX | (2.6) | 2.1 | 5.1 | 13.6 | 15.1 |
| | Resources | 41.6 | 22.2 | 0.9 | 5.4 | 9.2 |
| | Industrials | (3.7) | 0.6 | 6.3 | 17.9 | 18.2 |
| | Financials | (5.8) | 2.8 | 7.6 | 15.8 | 14.9 |
| | Listed Property | (5.7) | (3.8) | 5.6 | 12.4 | 17.0 |
| Local bonds | ALBI | 3.5 | 10.1 | 8.3 | 8.7 | 8.9 |
| Local cash | STeFI Composite | 7.3 | 7.4 | 7.0 | 6.6 | 7.3 |
| Global equities | MSCI All Country | 26.5 | 10.9 | 14.1 | 17.4 | 13.5 |
| Global bonds | FTSE WGBI | 20.7 | 0.6 | 7.2 | 6.5 | 8.9 |
| Exchange rate | ZAR/USD | 22.6 | (0.4) | 6.6 | 4.2 | 5.7 |
| Inflation | CPI | 4.5 | 4.8 | 5.0 | 5.2 | 5.6 |

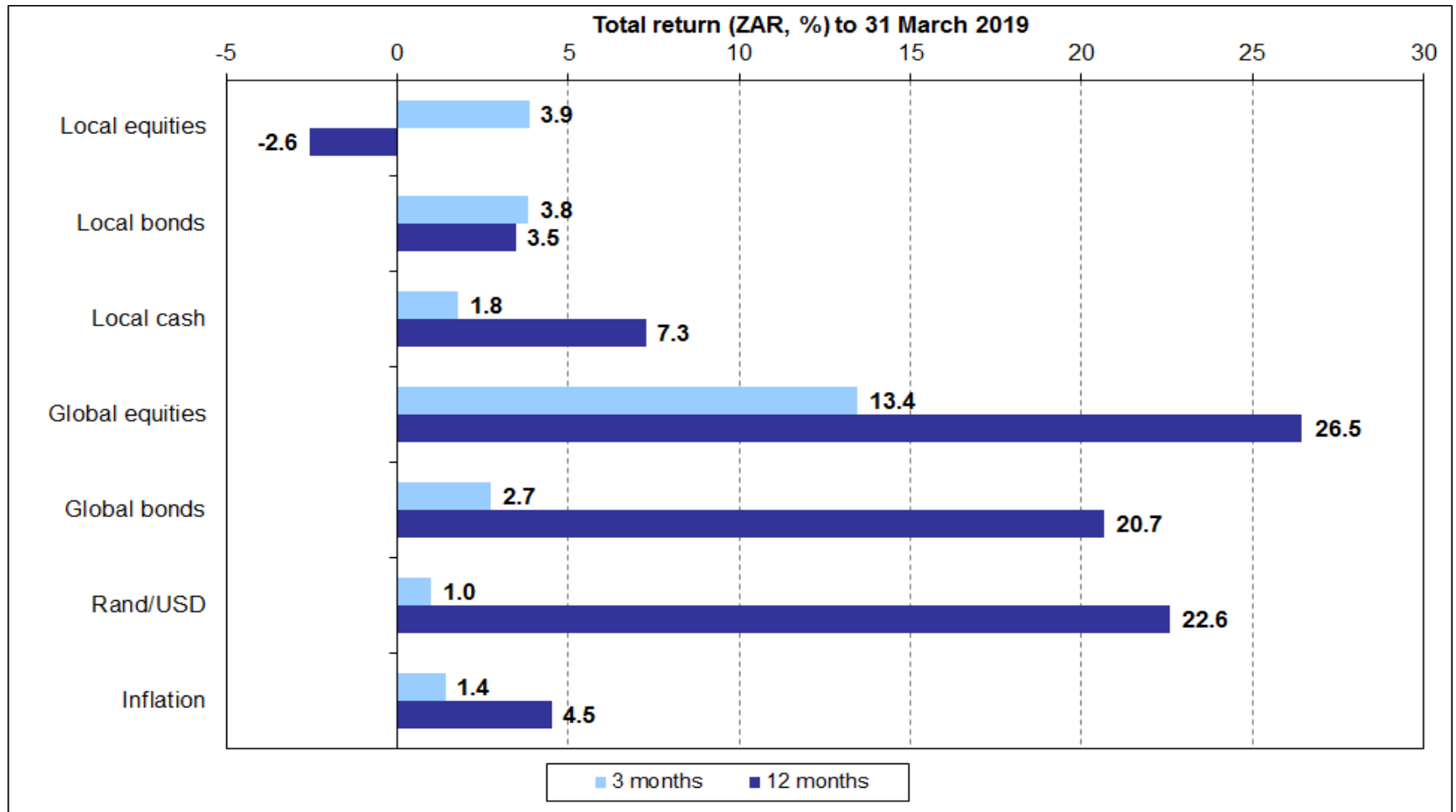
1. Total returns (in Rands) for the months and periods ending 31 March 2019

ECONOMIC INDICATORS

| Economic indicators ¹ | Mar 2017 | Mar 2018 | Jan 2019 | Feb 2019 | Mar 2019 |
|----------------------------------|----------|----------|----------|----------|----------|
| Exchange rates: | | | | | |
| ZAR/USD | 13.41 | 11.82 | 13.25 | 14.09 | 14.49 |
| ZAR/GBP | 16.63 | 16.61 | 17.36 | 18.68 | 18.90 |
| ZAR/Euro | 14.30 | 14.59 | 15.17 | 16.02 | 16.26 |
| Commodities: | | | | | |
| Brent Crude Oil (USD/barrel) | 53.53 | 69.41 | 61.10 | 66.42 | 67.59 |
| Platinum (USD/ounce) | 950.50 | 930.28 | 817.61 | 871.96 | 845.50 |
| Gold (USD/ounce) | 1,249.10 | 1,325.03 | 1,320.20 | 1,323.60 | 1,291.91 |

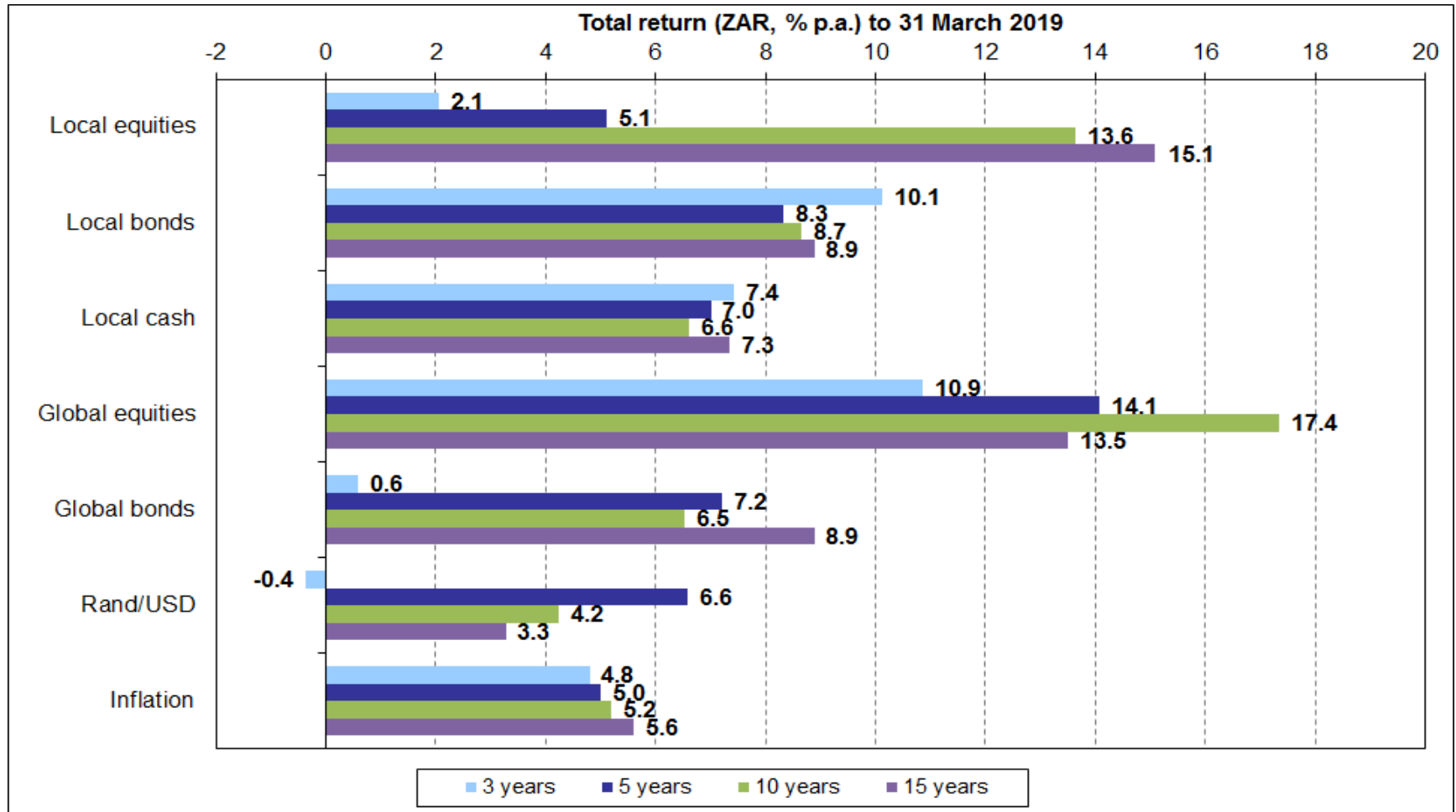
1. Month-end prices

ASSET CLASS PERFORMANCE SHORT TERM



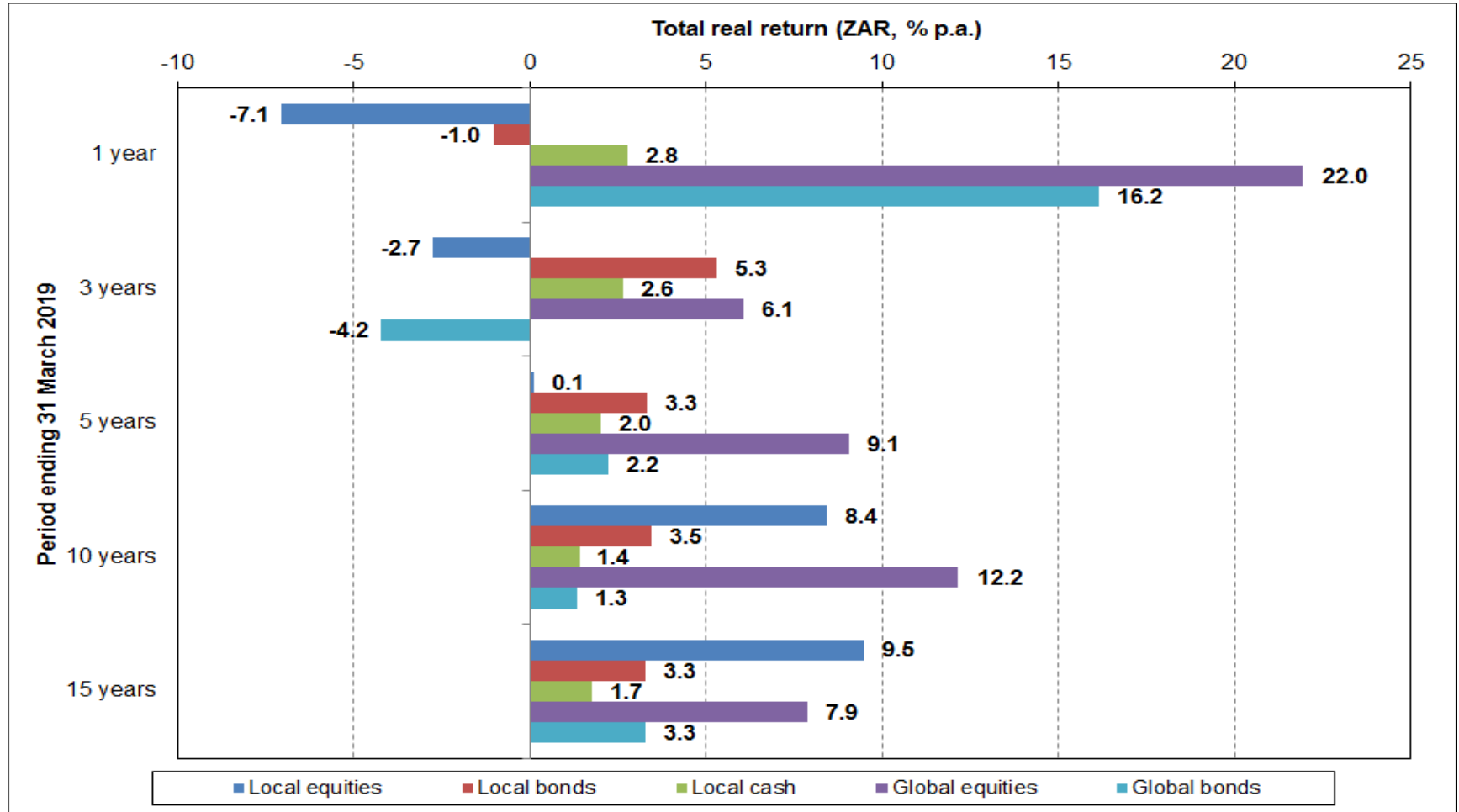
ASSET CLASS PERFORMANCE

MEDIUM TO LONG TERM



ASSET CLASS PERFORMANCE

REAL (EXCESS ABOVE INFLATION) RETURNS



MARKET PERFORMANCE

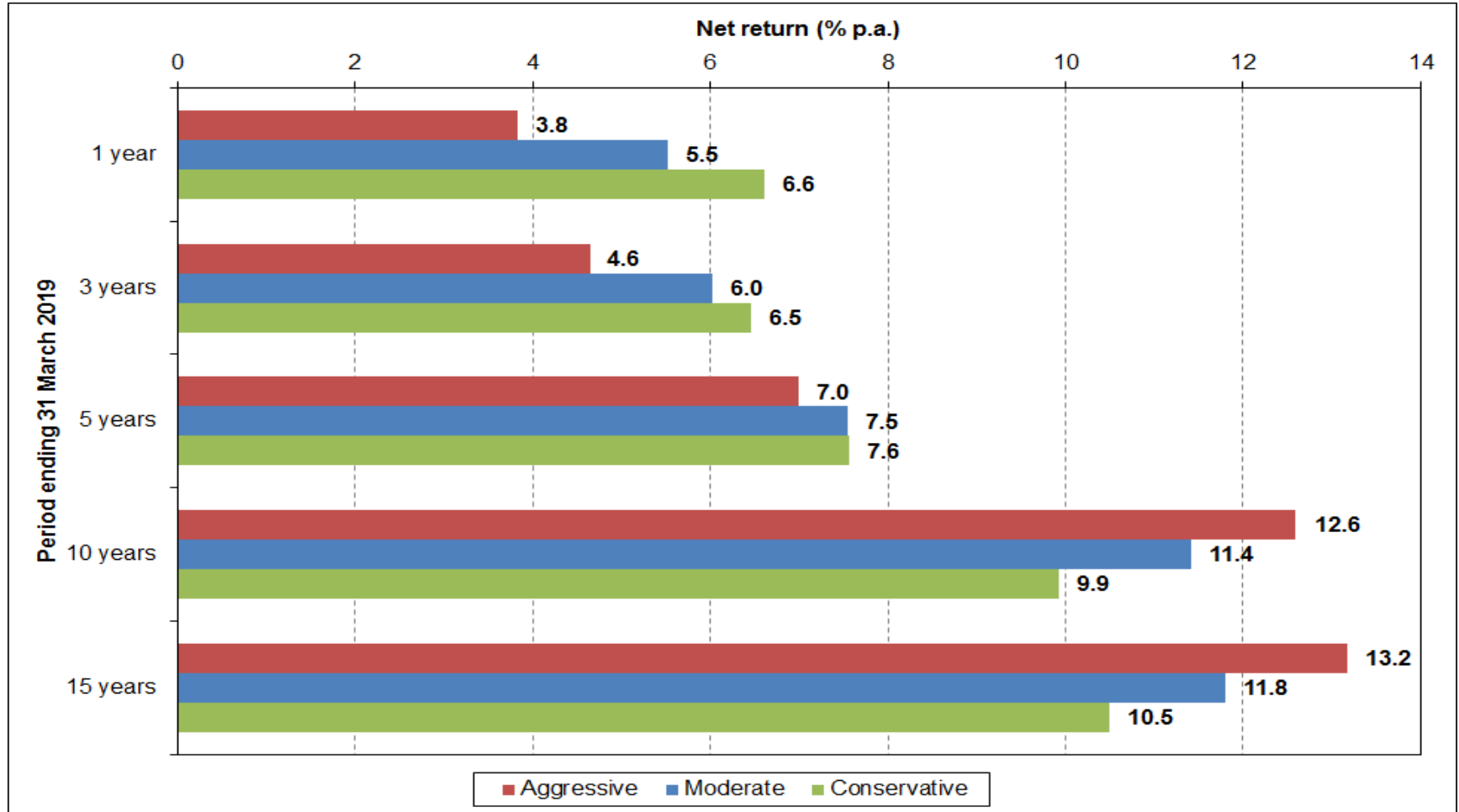
WHAT PAST RETURNS CAN INVESTORS REASONABLY EXPECT?

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% |

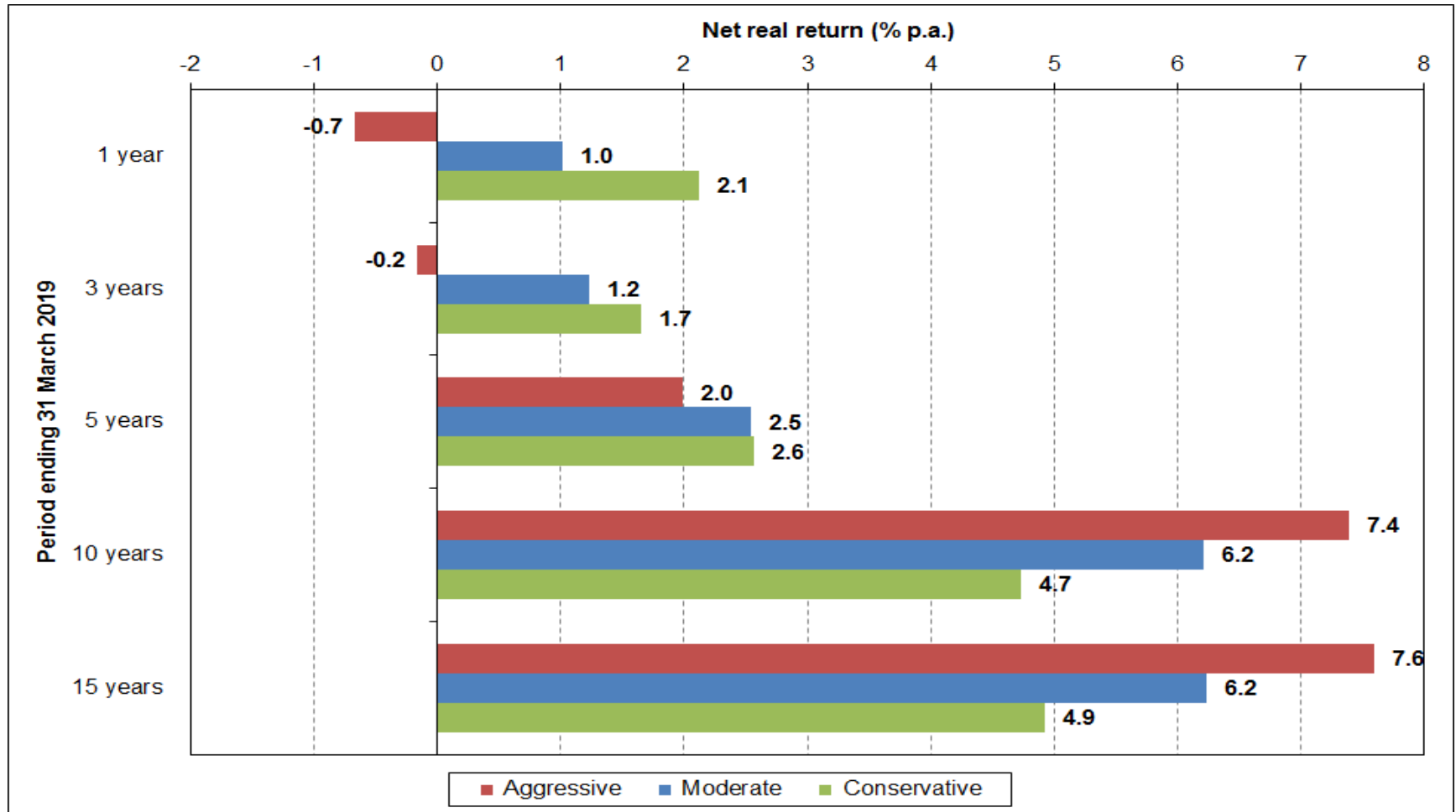
MR MARKET PERFORMANCE

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



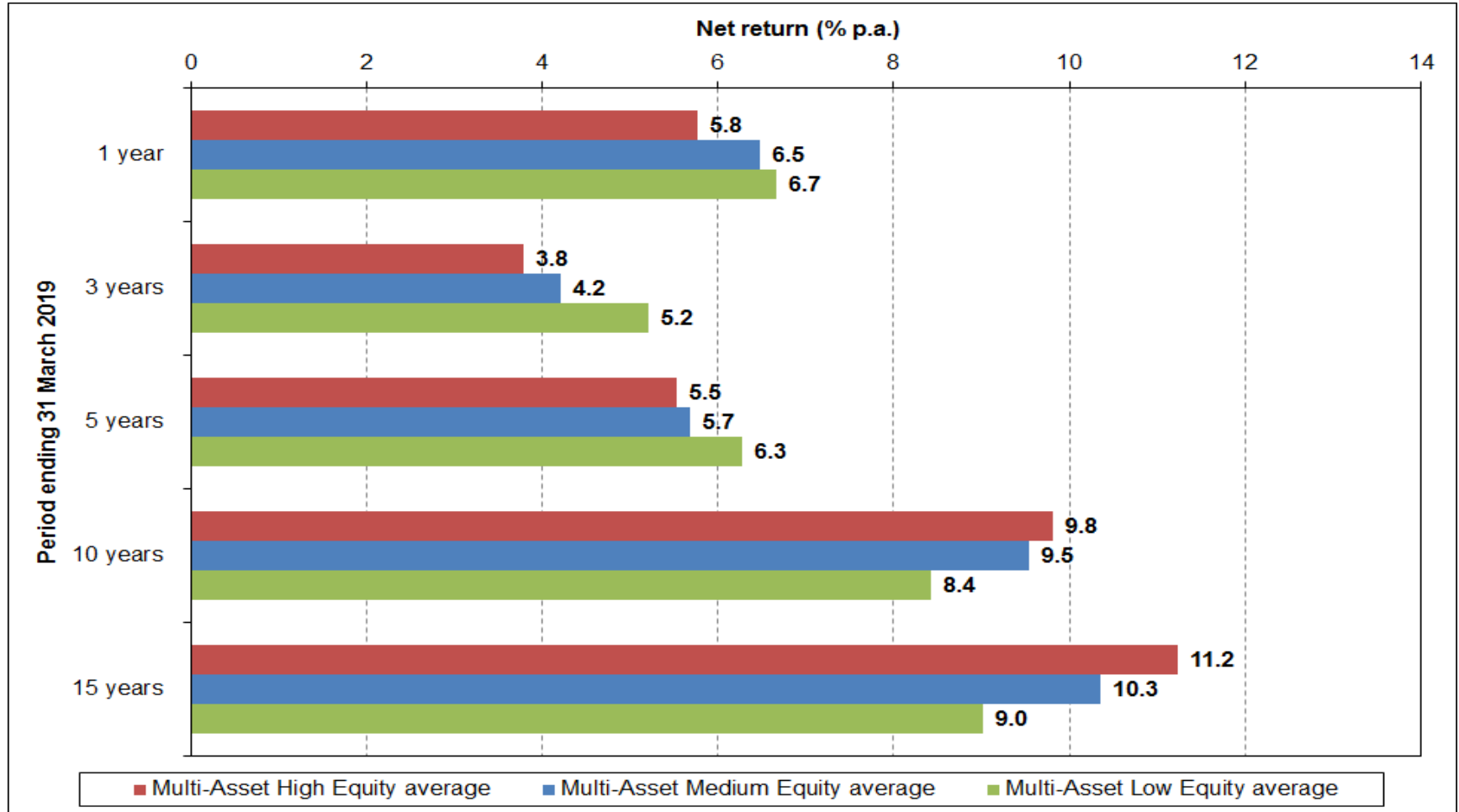
MR MARKET PERFORMANCE

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



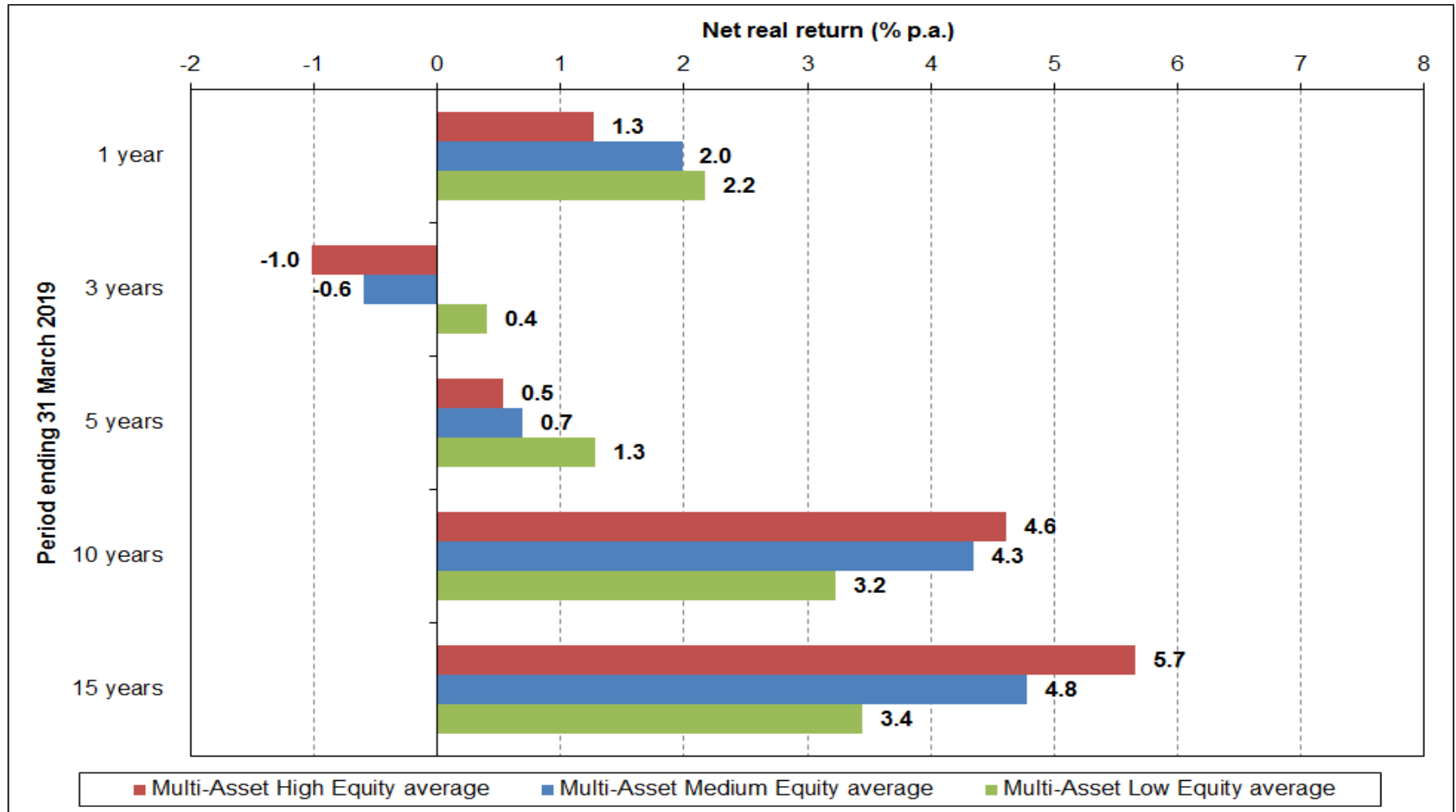
MR MANAGER PERFORMANCE

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

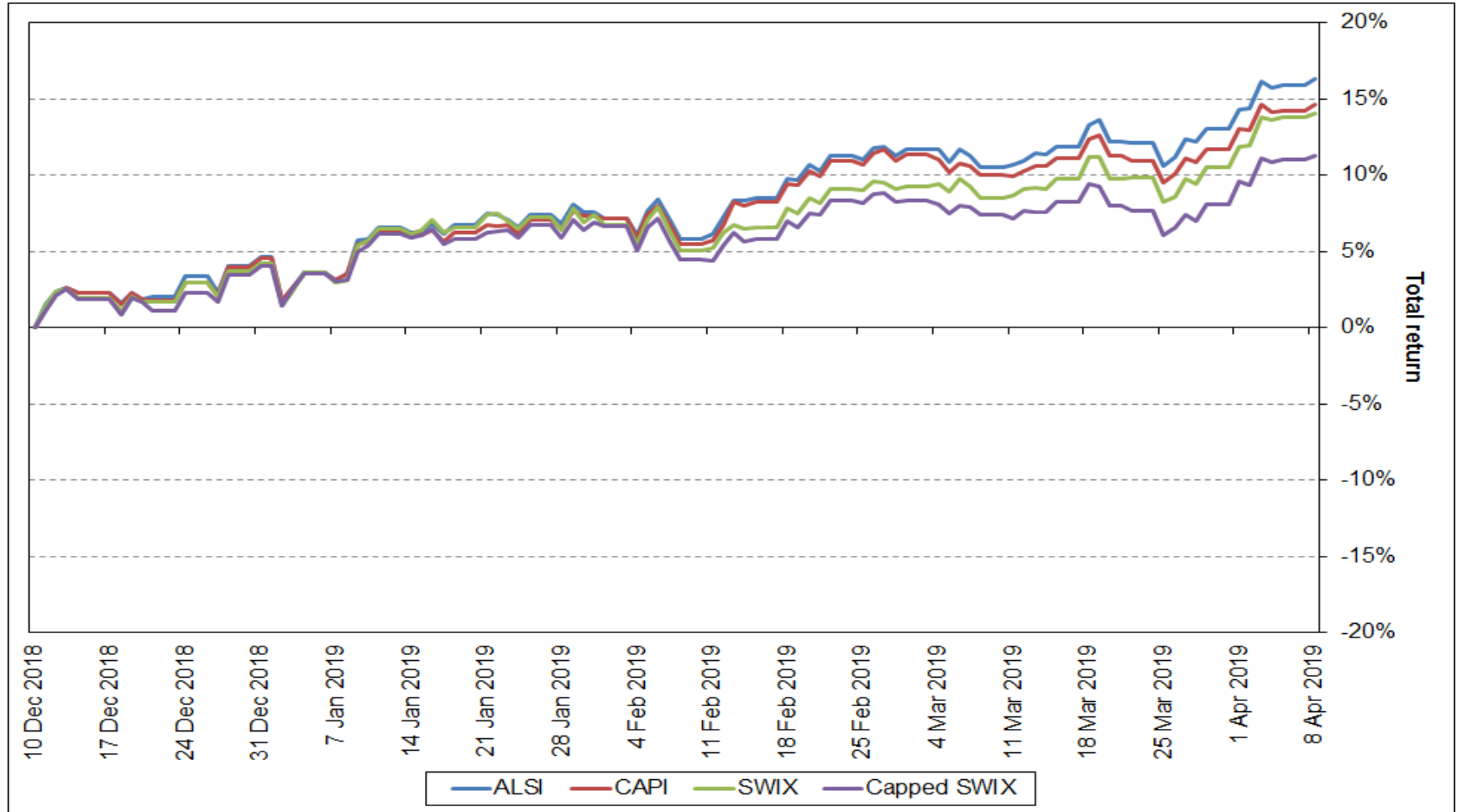


MR MANAGER PERFORMANCE

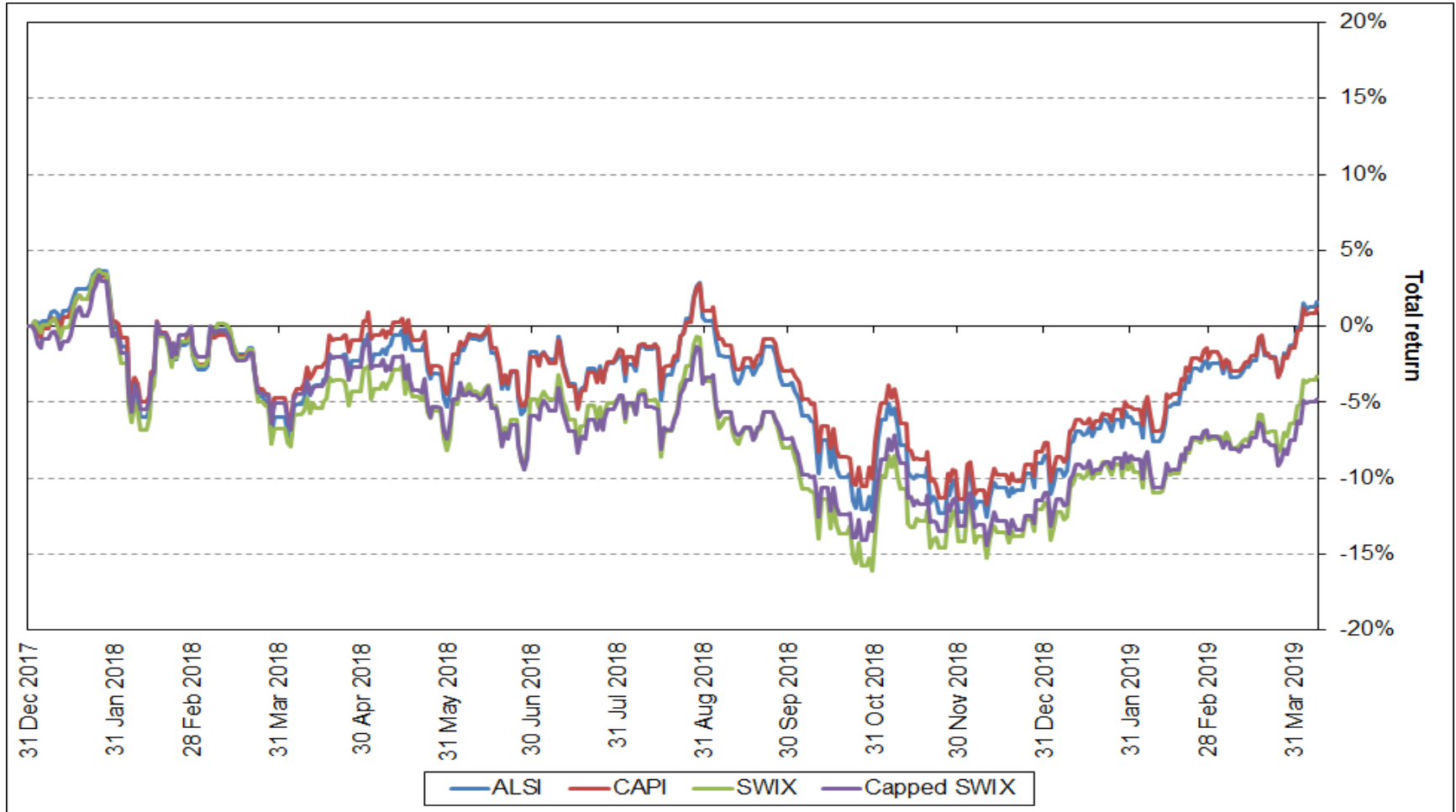
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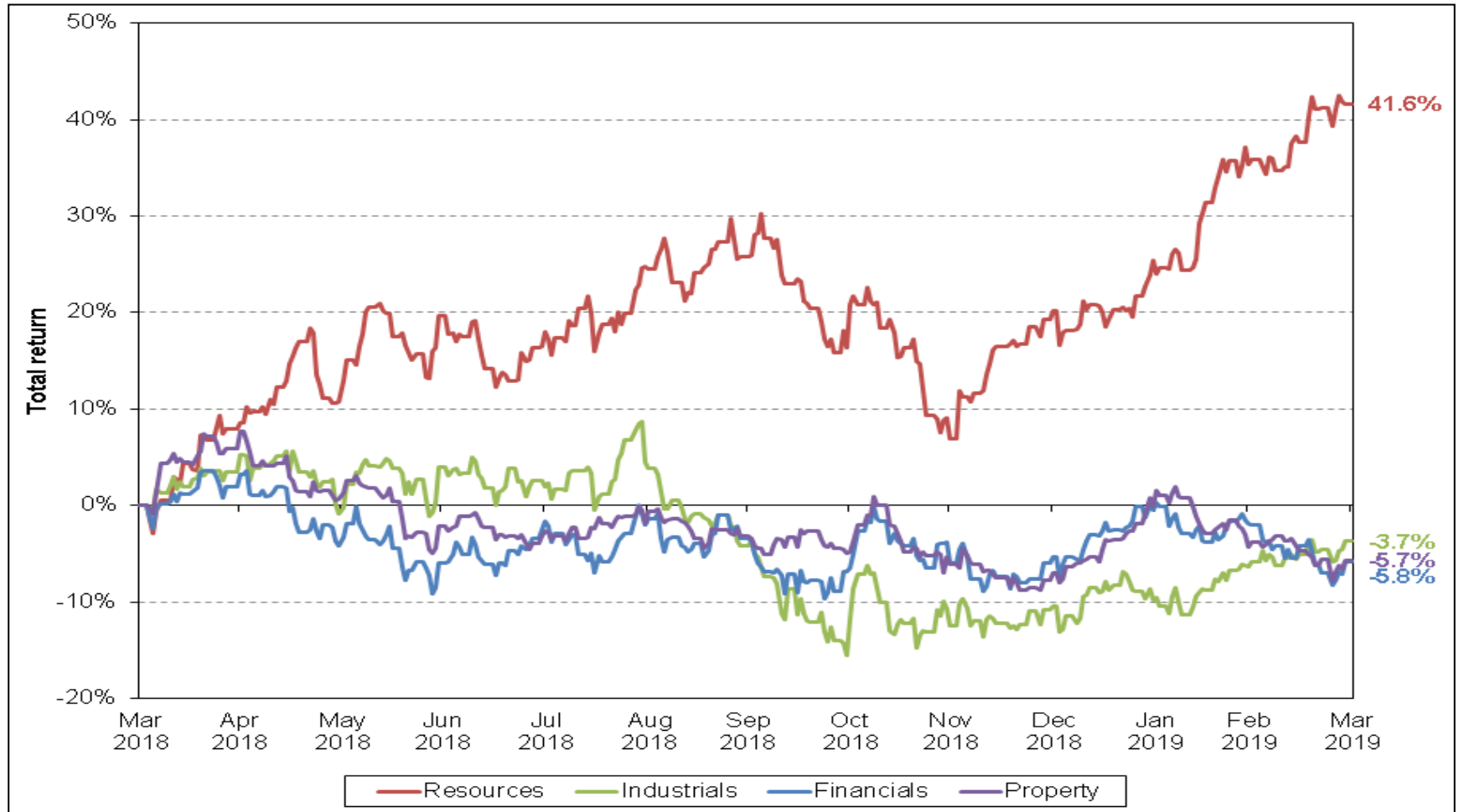
SA EQUITY MARKET STRONG RETURNS SINCE DECEMBER LOWS...



SA EQUITY MARKET ...BUT STILL RECOVERING 2018 LOSSES

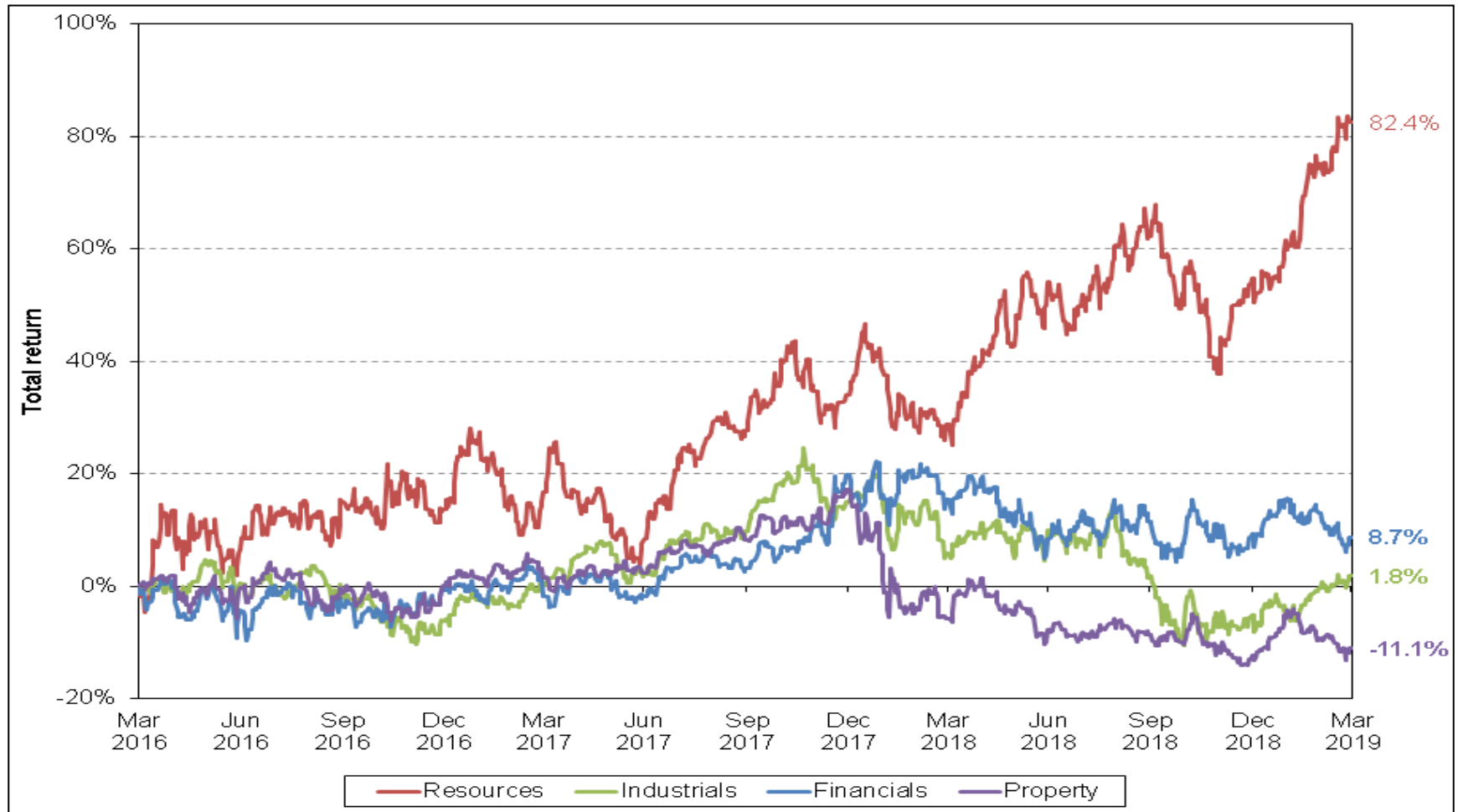


SA EQUITY MARKET BOUNCE BACK MOSTLY DRIVEN BY RESOURCE STOCKS...



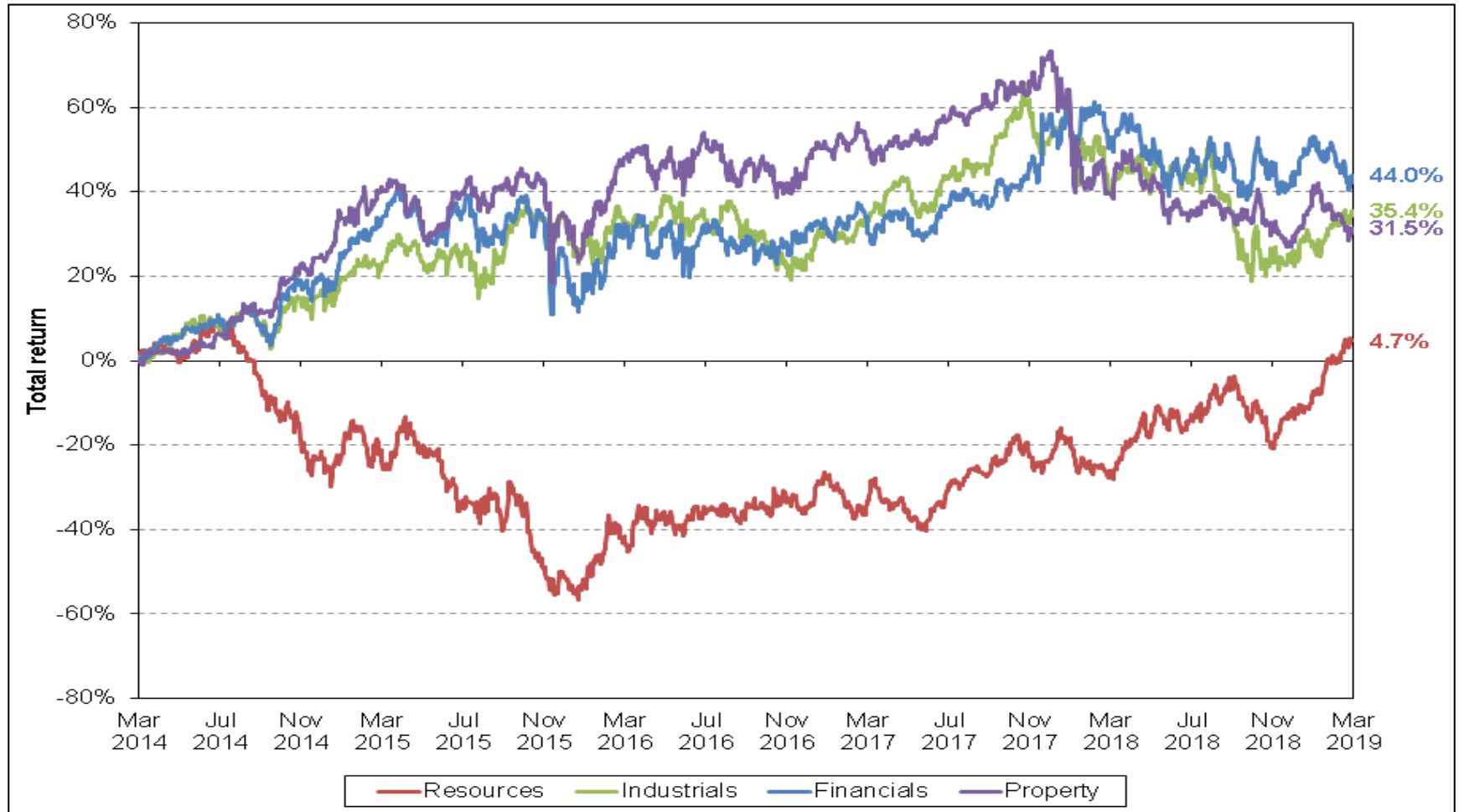
SA EQUITY MARKET

...WHICH REMAINS THE ONLY SECTOR WITH DECENT RETURNS OVER THE LAST THREE YEARS...



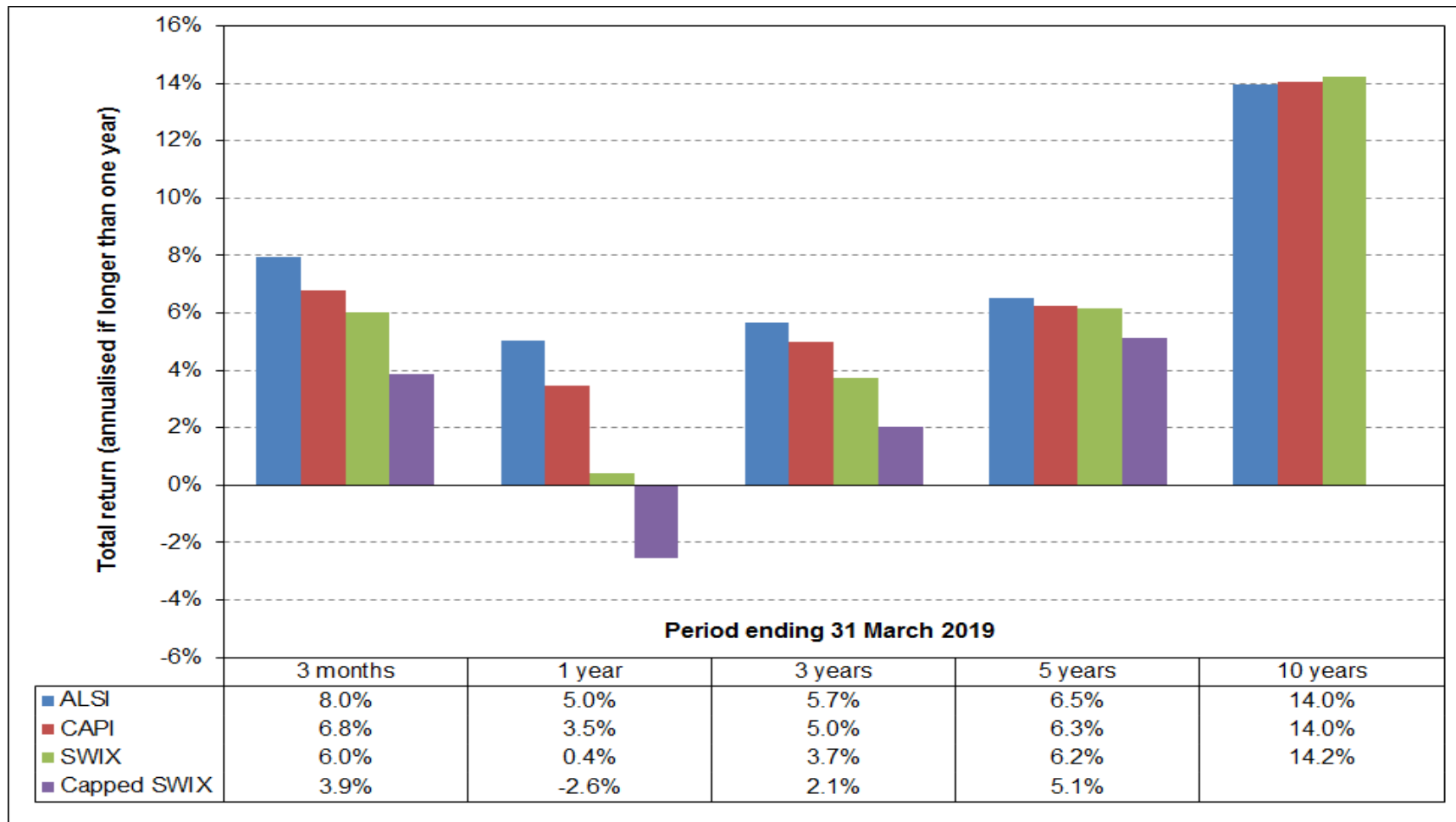
SA EQUITY MARKET

...BUT STILL ONLY BARELY BREAKING EVEN OVER THE LAST FIVE

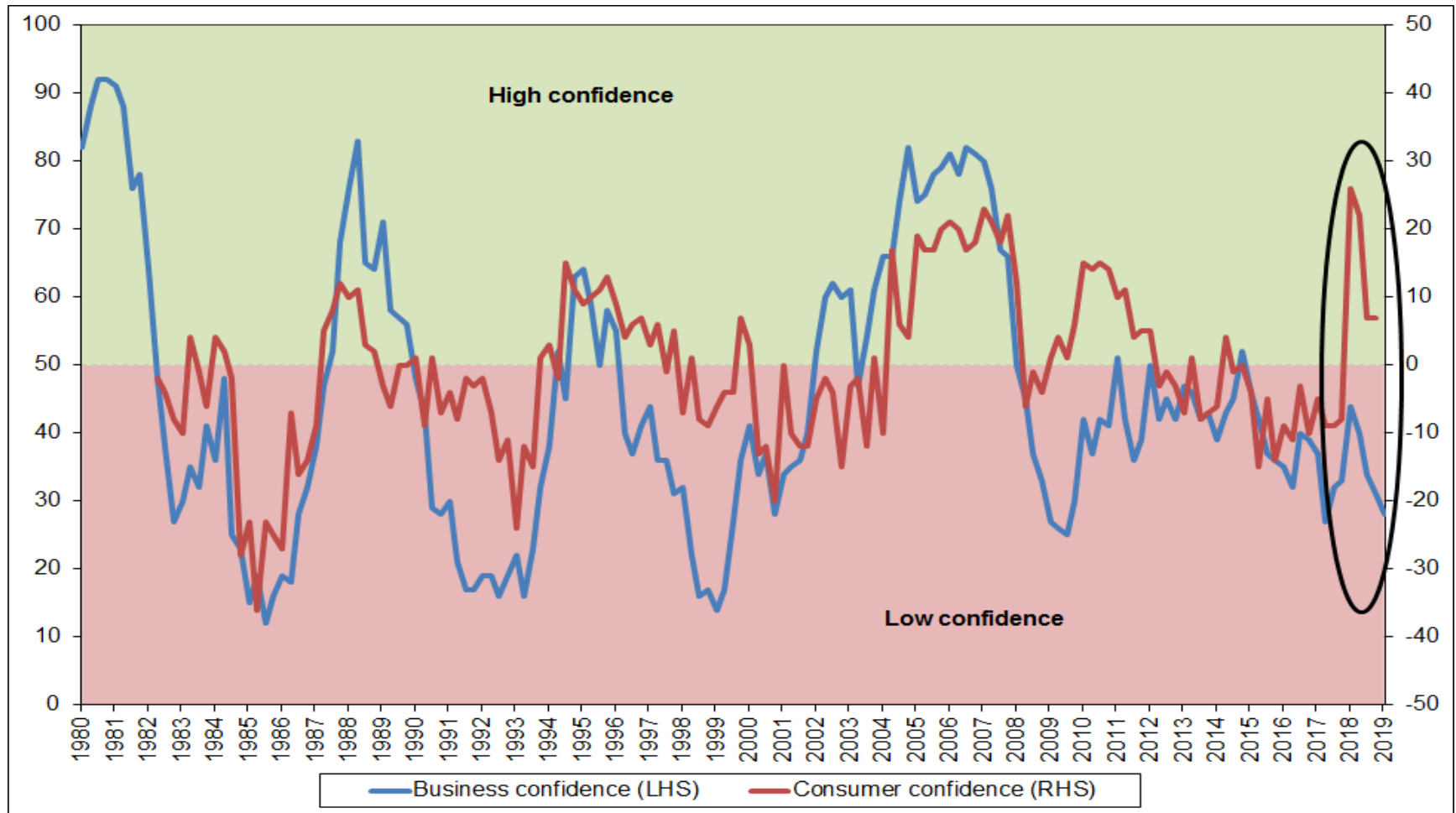


SA EQUITY MARKET

ALSI OUTPERFORMS OVER THE SHORT TO MEDIUM TERM AS RESOURCES RUN HARD



RMB/BER BUSINESS CONFIDENCE INDEX REMAINS DEPRESSED



WORLD EQUITY MARKETS (IN USD) SINCE GLOBAL FINANCIAL CRISIS LOWS

