

MONTH IN PICTURES

JULY 2019

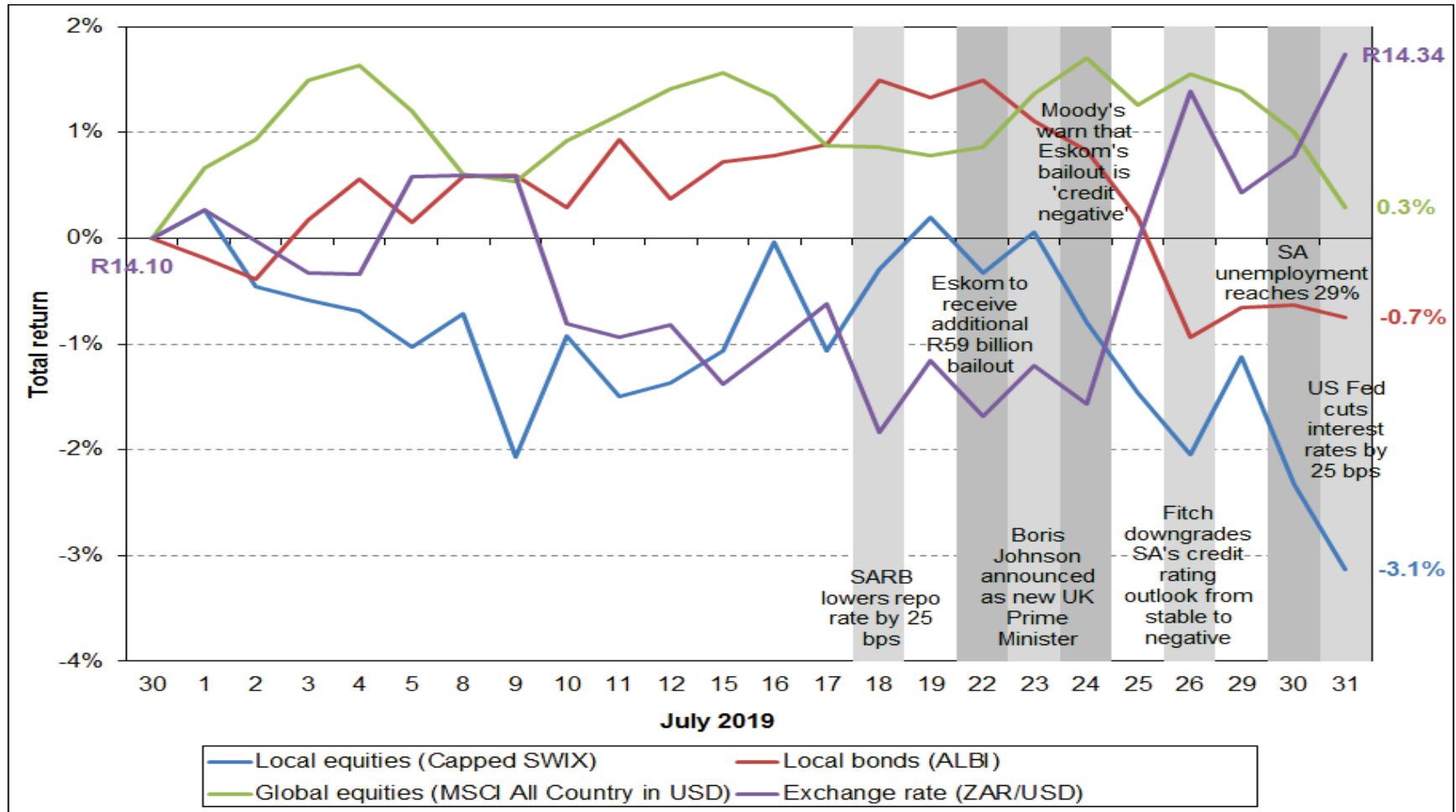
MONTHLY SNAPSHOT

NOTABLE EVENTS

- July saw the local equity market return to negative territory, with the Capped SWIX shedding 3.1%. Financials (-6.4%), Resources (-5.2%) and Listed Property (-1.2%) were the worst affected, while Industrials (+1.2%) managed to show a small gain.
- The local bond index (-0.7%) was initially boosted by expectations for, and the eventual realisation of, a 25 basis point (0.25%) cut in the repo rate, but came under renewed pressure at the end of the month after the announcement of a further R59 billion bailout for Eskom.
- A warning from Moody's that this bailout would be 'credit negative', followed by Fitch's change in their credit rating outlook for SA from stable to negative, put further strain on interest rate sensitive assets (bonds, financial stocks and the Rand).
- The Rand ended the month 1.7% weaker against US Dollar (moving from R14.10 to R14.34), but traded as low as R13.84 prior to the Eskom announcement.
- Global equities ended the month slightly up in US Dollars (+0.3%), which translated into a decent 2% gain for South African investors in local currency terms.
- The US Federal Reserve lowered interest rates by 25 basis points (its first cut in 10 years), but still managed to spook markets by seemingly not being dovish enough in their future outlook.
- Domestic economic data painted a mixed picture. While the unemployment rate rose to a disappointing multi-year high (29%), vehicle exports (+22% year-on-year) and production data (Absa PMI moving from 46.2 to 52.1) showed notable improvements.
- Unfortunately, by mid-August, global markets (including South Africa) have taken another turn south on global recession fears and Trump's announcement of a 10% tariff on the \$300 billion of Chinese imports (mostly consumer goods) that have escaped any taxation until now.

MONTHLY TIMELINE

IMPACT ON MARKETS



MARKET INDICATORS

SHORT TERM

Market indicators (% change) ¹		May 2019	Jun 2019	Jul 2019	3 months	12 months
Local equities	Capped SWIX	(4.8)	2.9	(3.1)	(5.1)	(3.5)
	Resources	(5.1)	10.2	(5.2)	(0.9)	16.5
	Industrials	(6.0)	3.8	1.2	(1.2)	(0.5)
	Financials	(2.3)	1.3	(6.4)	(7.4)	(5.5)
	Listed Property	(0.9)	2.2	(1.2)	0.1	0.1
Local bonds	ALBI	0.6	2.3	(0.7)	2.2	8.1
Local cash	STeFI Composite	0.6	0.6	0.6	1.8	7.3
Global equities	MSCI All Country	(4.1)	3.0	2.0	0.8	11.2
Global bonds	FTSE WGBI	3.7	(1.1)	1.3	3.9	13.9
Exchange rate	ZAR/USD	2.0	(3.3)	1.7	0.3	8.0
Inflation ²	CPI	0.3	0.4	0.8	1.5	4.5

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

2. Y-o-y CPI for July 2019 assumed to be equal to that of June 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	(3.5)	0.9	3.4	11.6	15.2
	Resources	16.5	16.8	(1.2)	3.8	9.7
	Industrials	(0.5)	2.3	5.7	15.8	18.5
	Financials	(5.5)	2.9	5.4	13.2	14.5
	Listed Property	0.1	(3.7)	5.0	12.0	16.8
Local bonds	ALBI	8.1	8.8	8.2	8.8	8.9
Local cash	STeFI Composite	7.3	7.4	7.1	6.5	7.3
Global equities	MSCI All Country	11.2	11.5	12.9	16.2	13.4
Global bonds	FTSE WGBI	13.9	1.9	7.0	8.4	9.3
Exchange rate	ZAR/USD	8.0	1.2	6.0	6.3	5.7
Inflation ²	CPI	4.5	4.7	5.0	5.2	5.7

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

2. Y-o-y CPI for July 2019 assumed to be equal to that of June 2019.

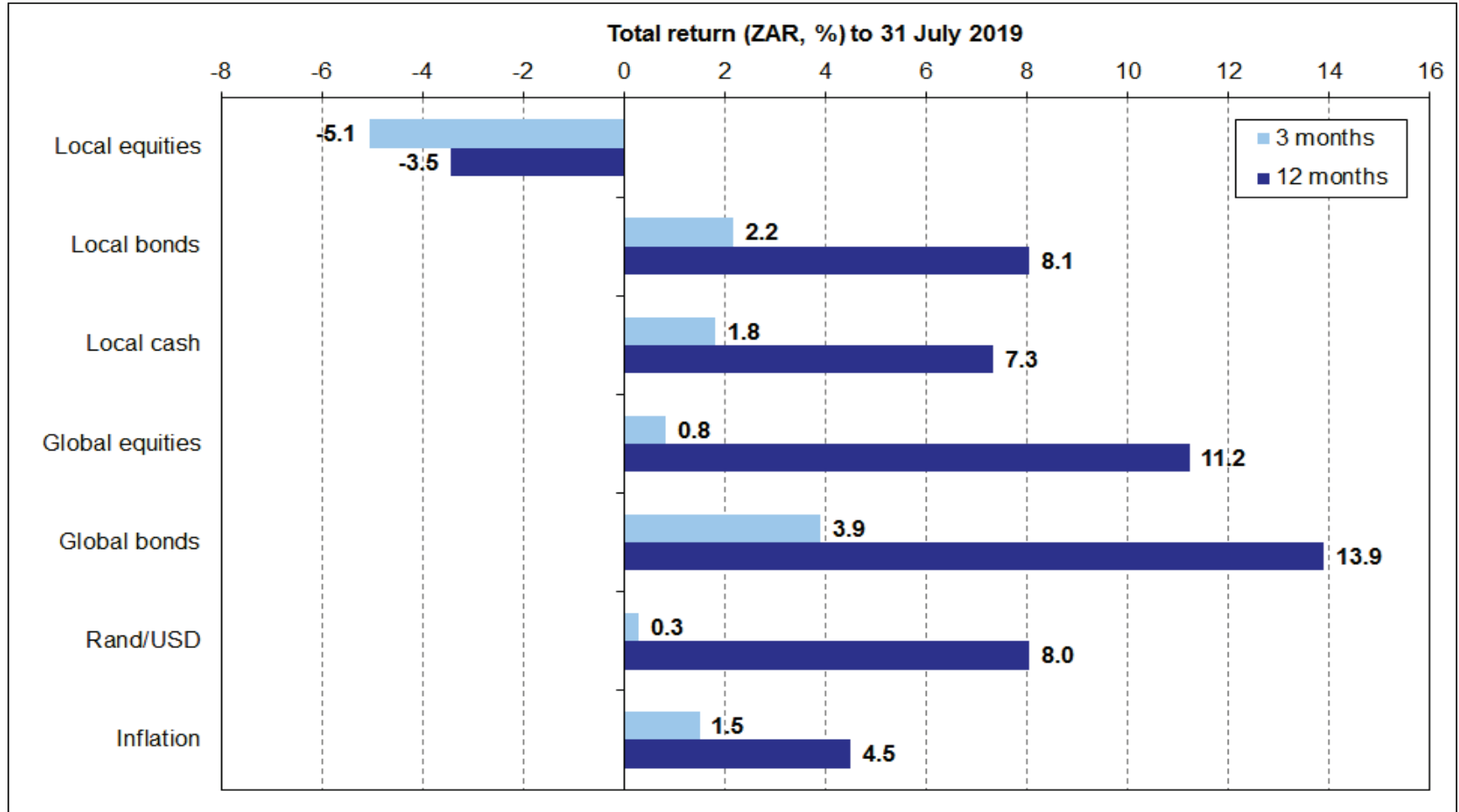
ECONOMIC INDICATORS

Economic indicators ¹	Jul 2017	Jul 2018	May 2019	Jun 2019	Jul 2019
Exchange rates:					
ZAR/USD	13.17	13.28	14.58	14.10	14.34
ZAR/GBP	17.38	17.42	18.42	17.89	17.44
ZAR/Euro	15.57	15.52	16.29	16.03	15.88
Commodities:					
Brent Crude Oil (USD/barrel)	52.72	74.06	61.63	64.41	64.30
Platinum (USD/ounce)	940.00	825.07	791.50	833.00	873.00
Gold (USD/ounce)	1,269.50	1,218.30	1,305.20	1,409.10	1,430.59

1. Month-end prices

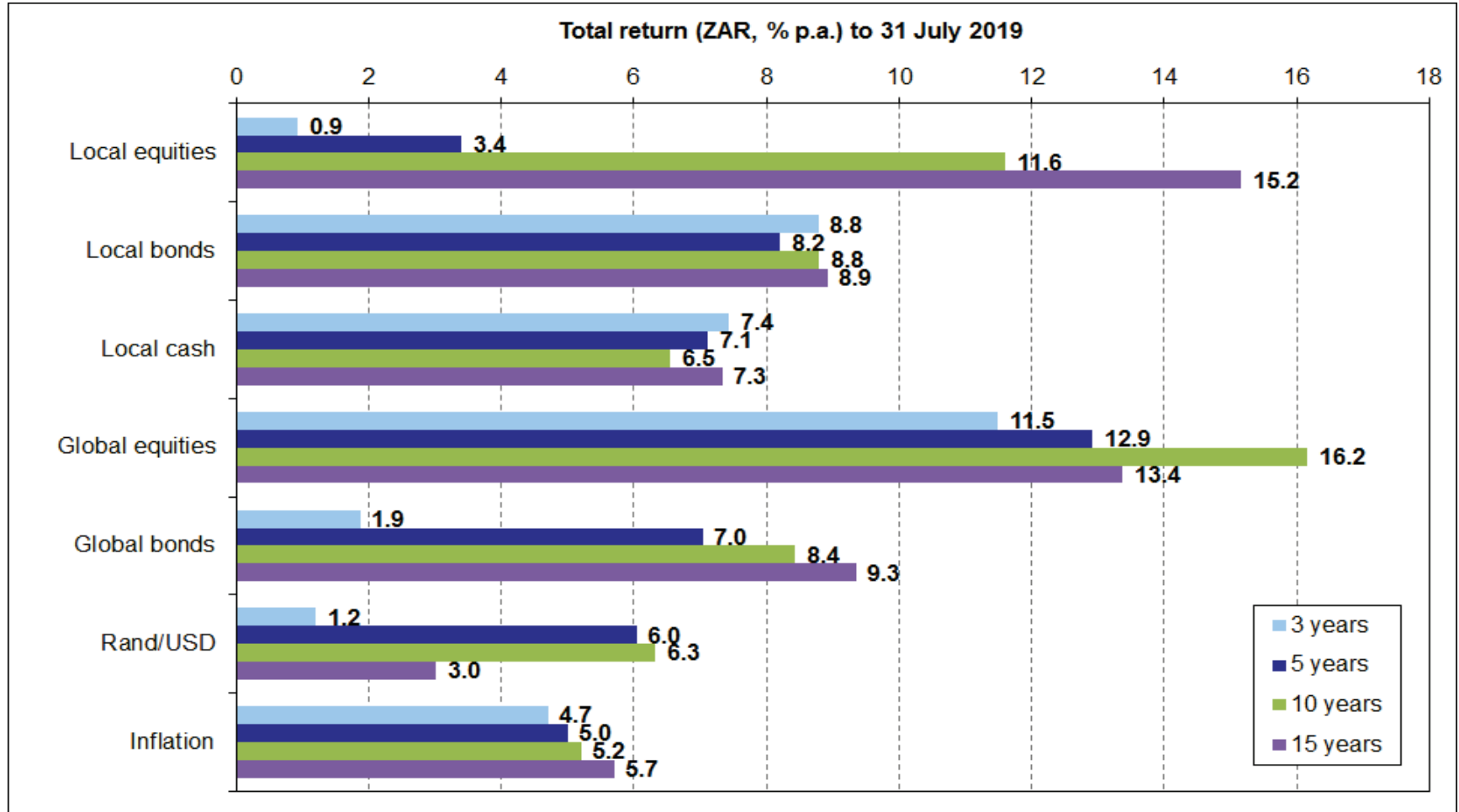
ASSET CLASS PERFORMANCE

SHORT TERM



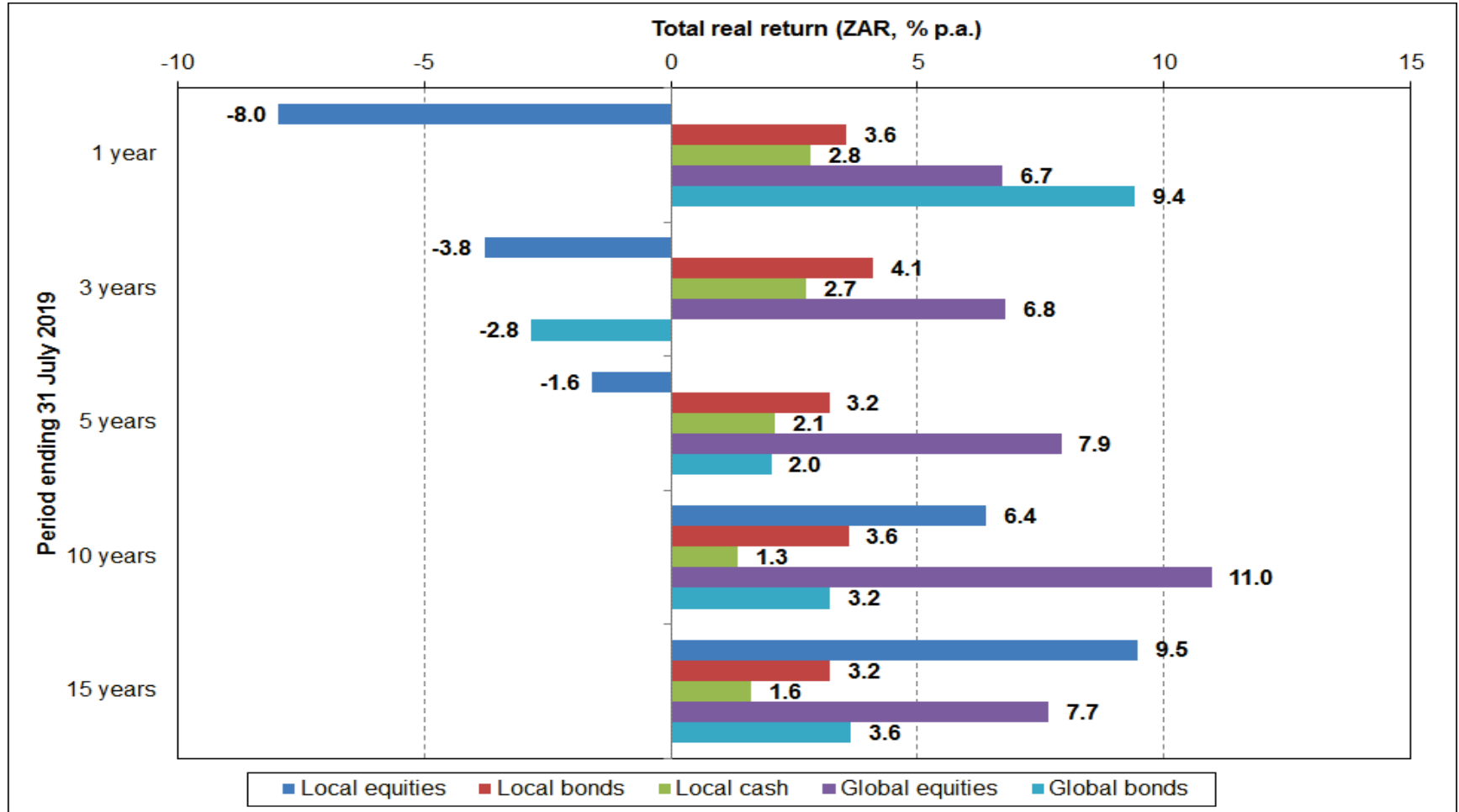
ASSET CLASS PERFORMANCE

MEDIUM TO LONG TERM



ASSET CLASS PERFORMANCE

REAL (EXCESS ABOVE INFLATION) RETURNS



MARKET PERFORMANCE

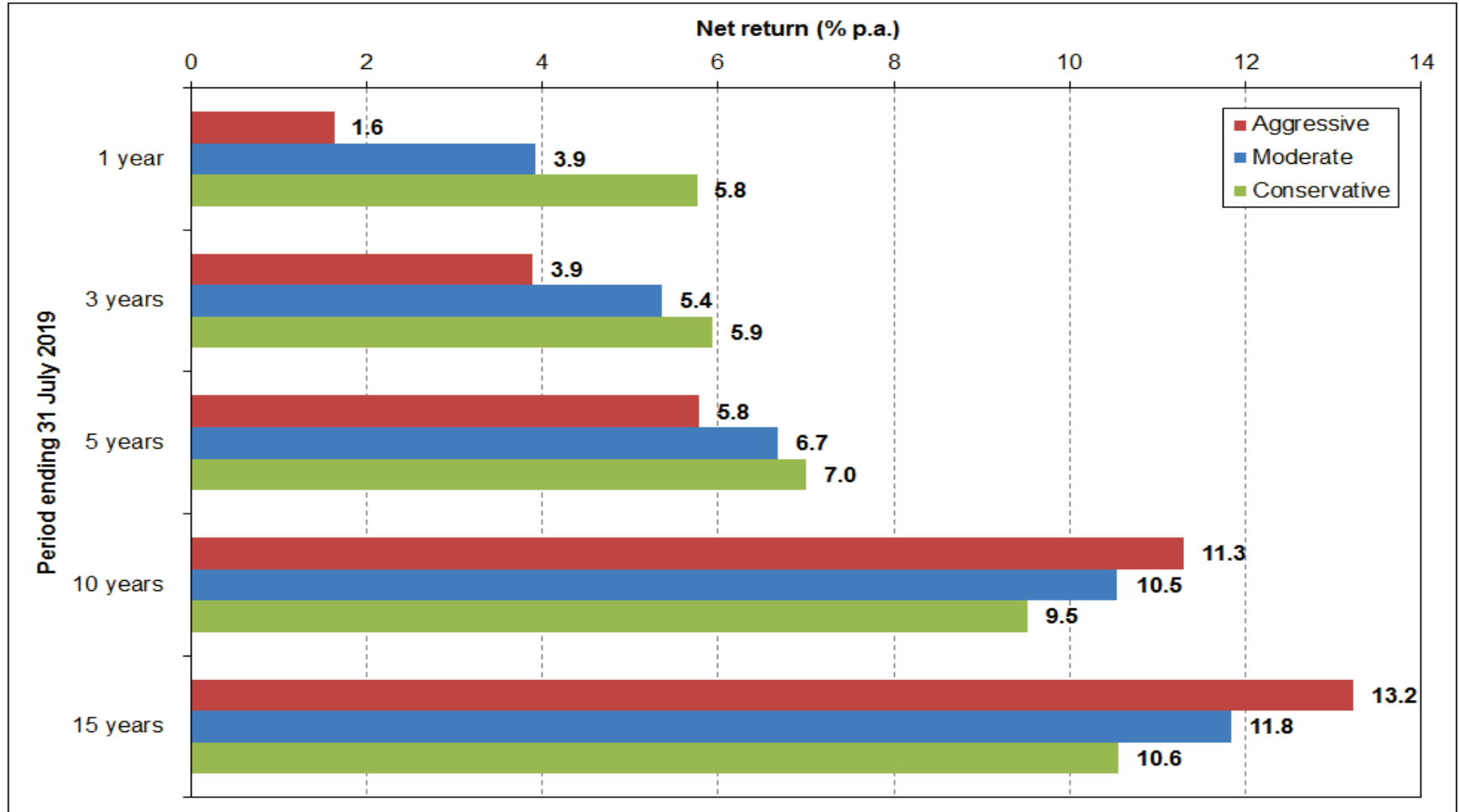
WHAT PAST RETURNS CAN INVESTORS REASONABLY EXPECT?

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%

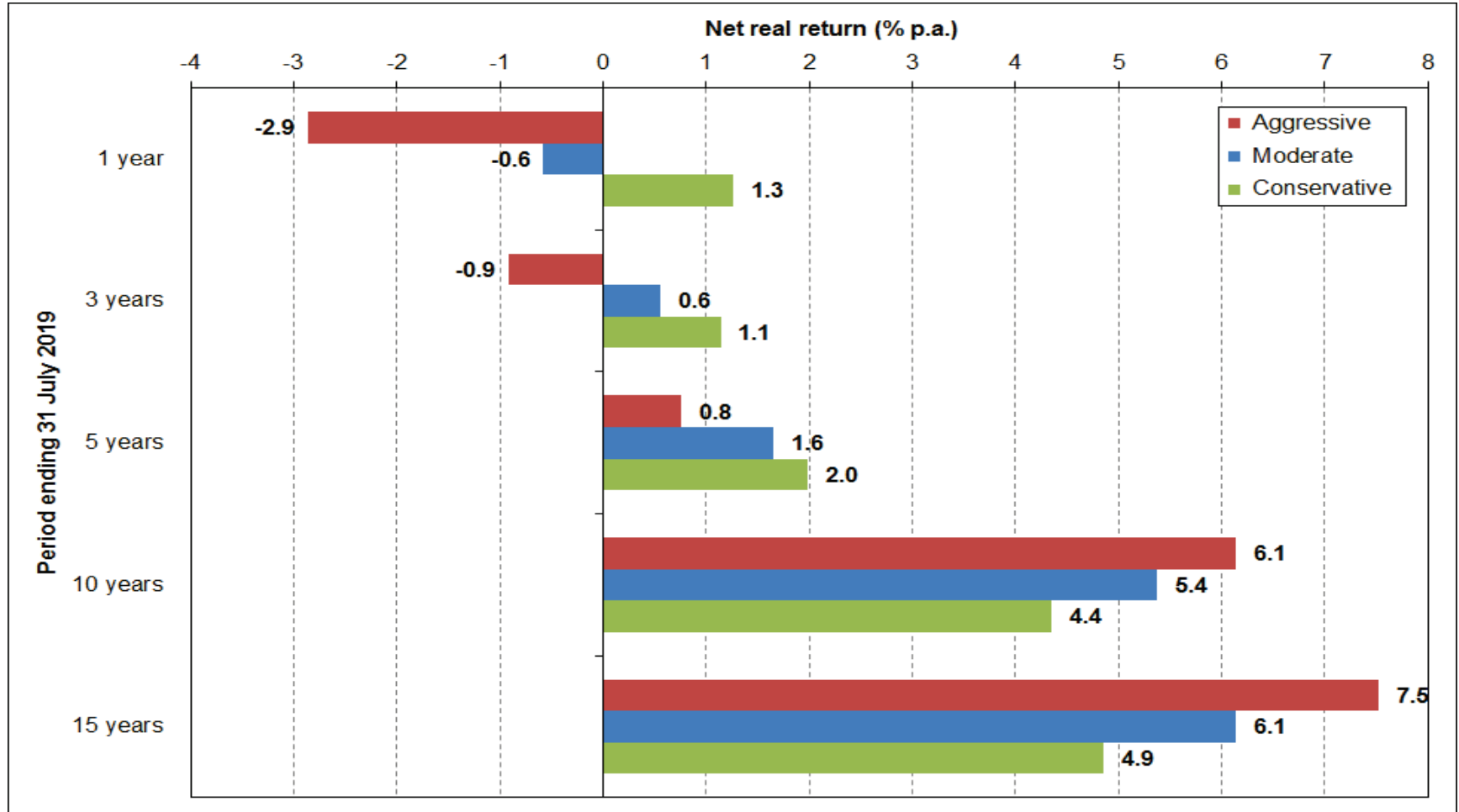
MR MARKET PERFORMANCE

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



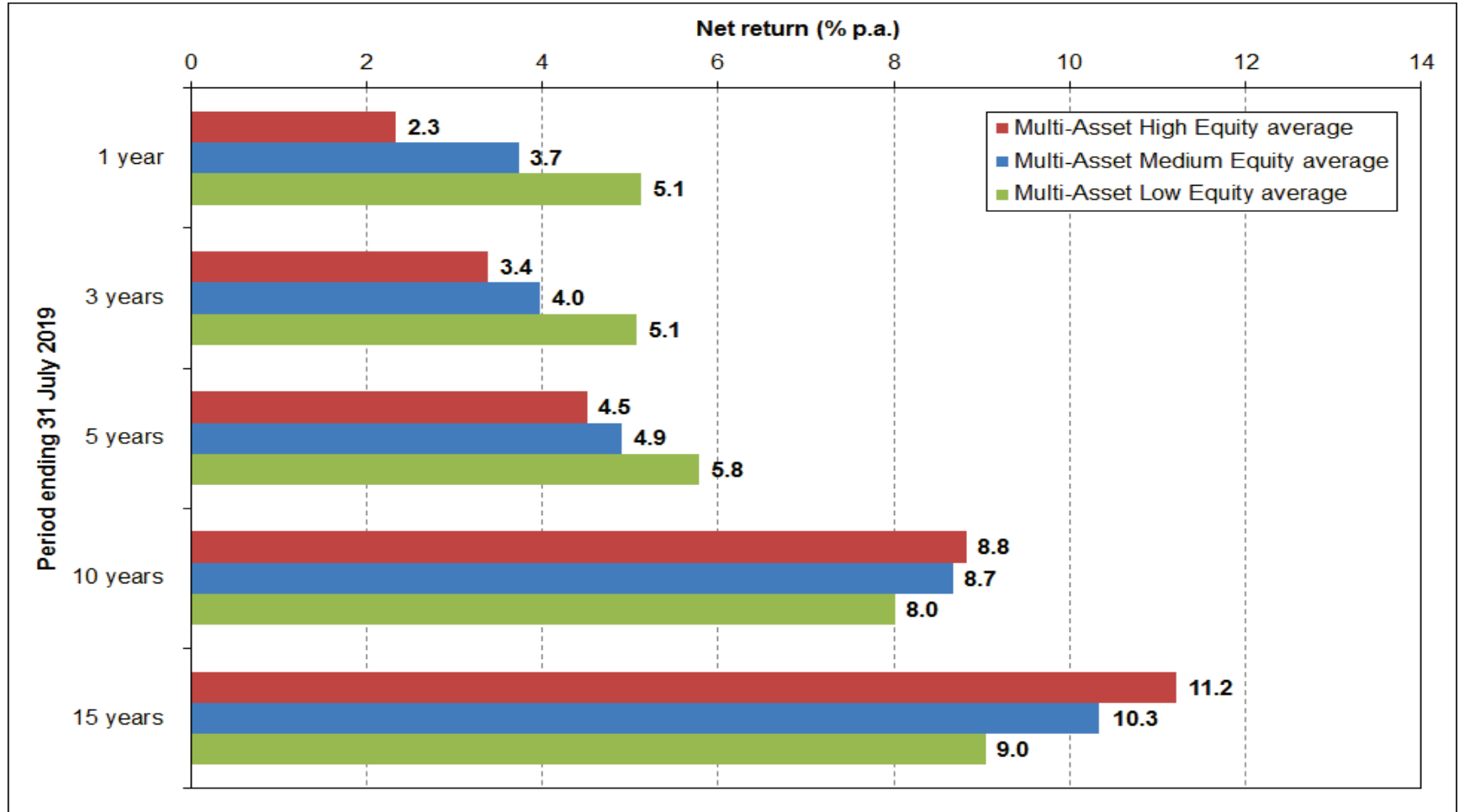
MR MARKET PERFORMANCE

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



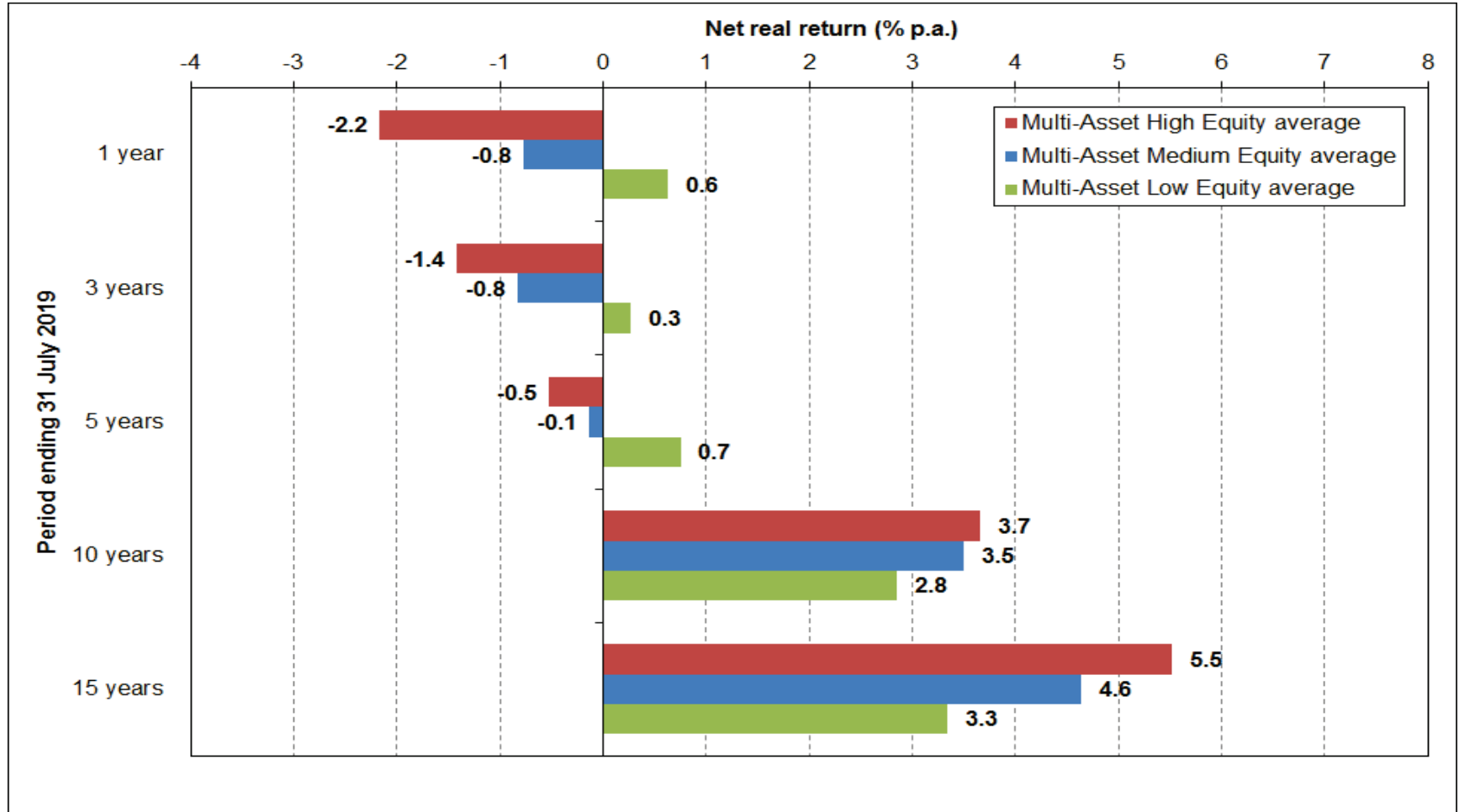
MR MANAGER PERFORMANCE

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

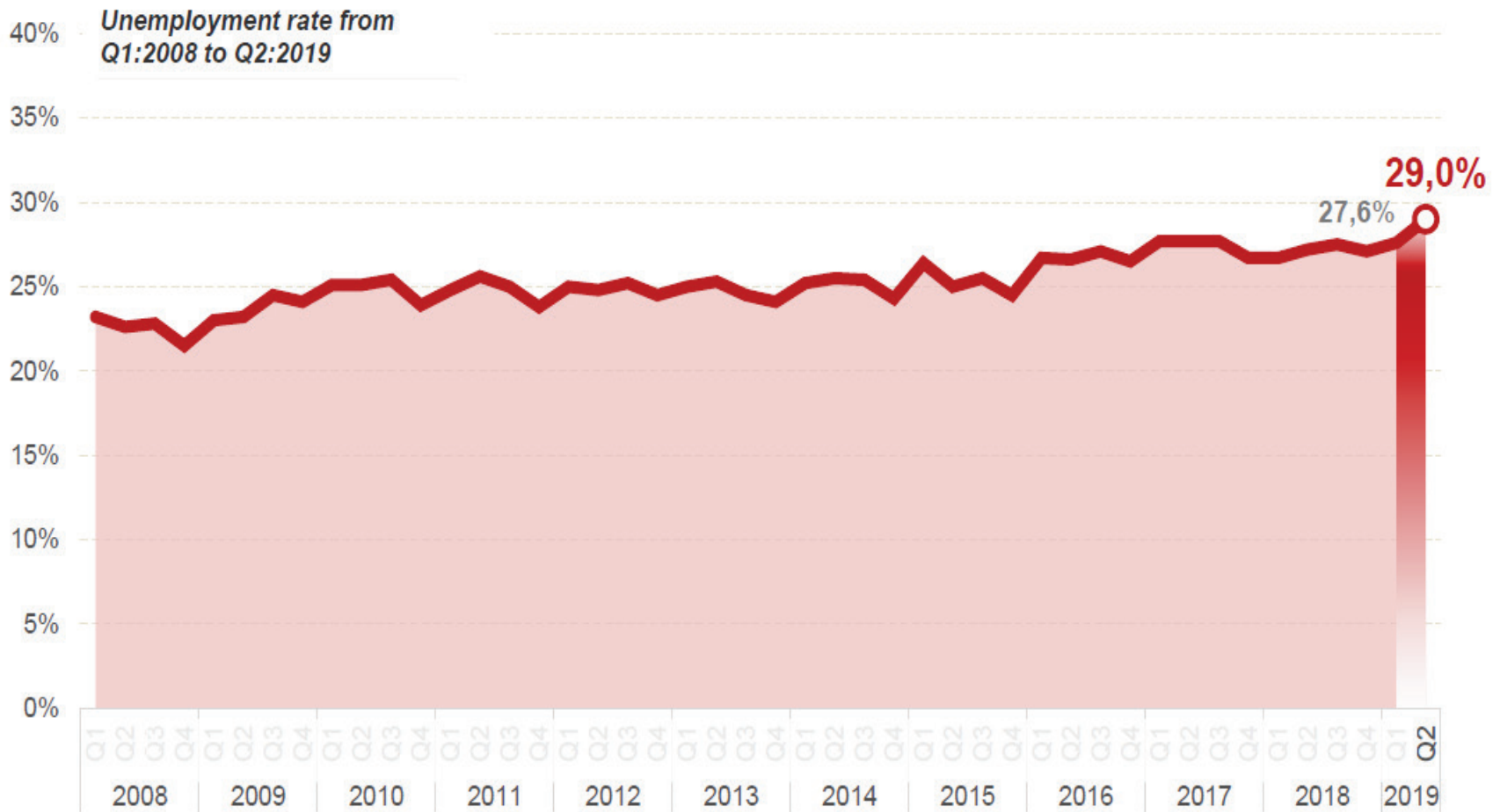


MR MANAGER PERFORMANCE

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



SA UNEMPLOYMENT REACHES A RECORD HIGH



SA UNEMPLOYMENT BREAKDOWN OF WORKING AGE POPULATION



38,4 million

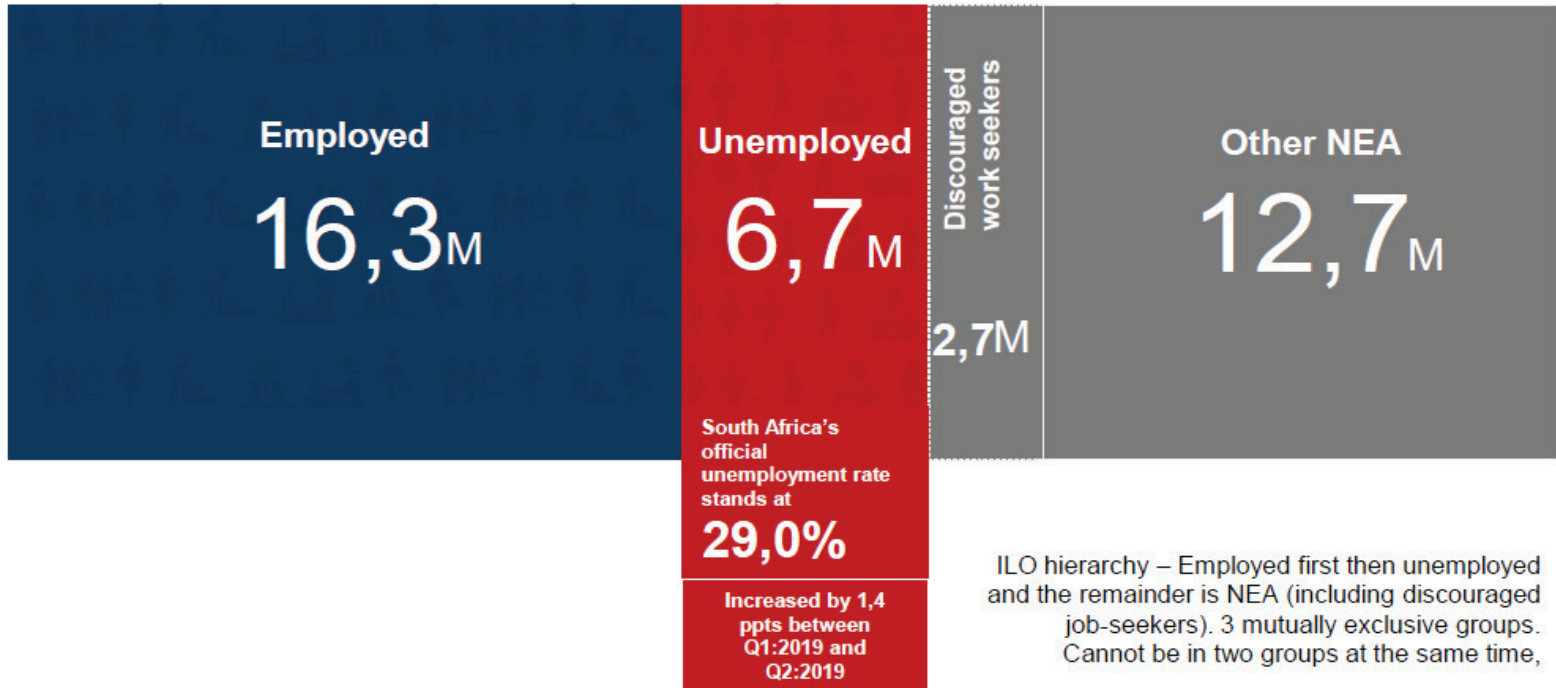
People of working age in South Africa (15 – 64 year olds)

Labour force

23,0 million

Not Economically Active

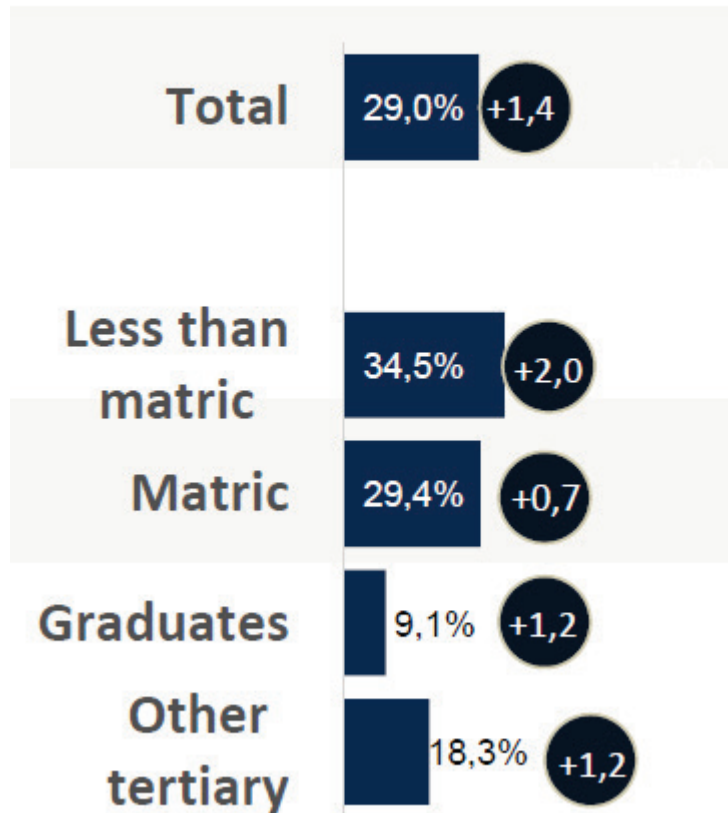
15,5 million



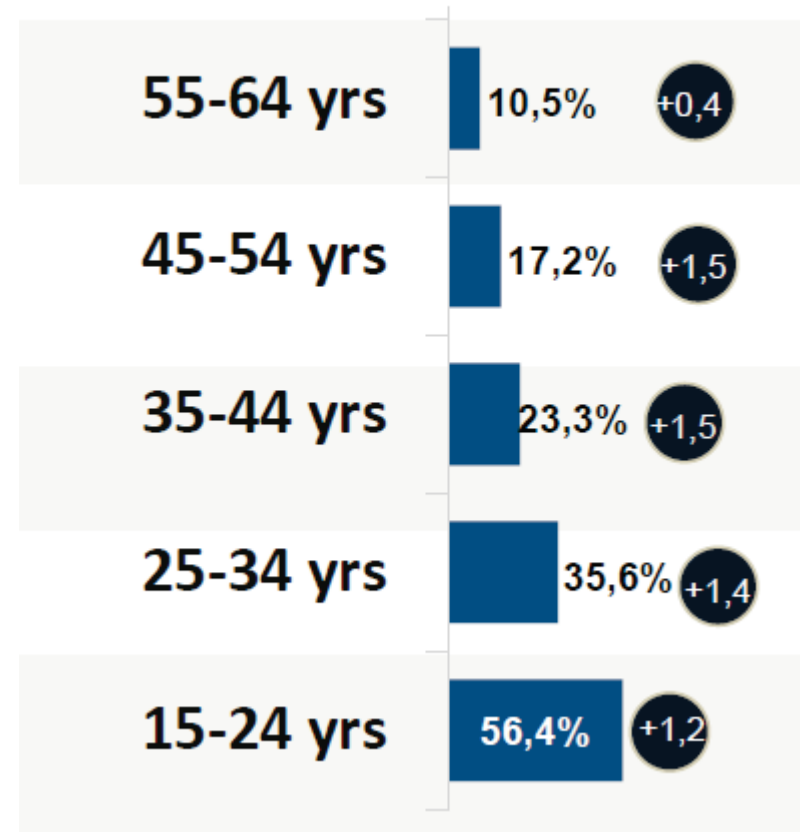
ILO hierarchy – Employed first then unemployed and the remainder is NEA (including discouraged job-seekers). 3 mutually exclusive groups. Cannot be in two groups at the same time,

SA UNEMPLOYMENT BREAKDOWN BY LEVEL OF EDUCATION AND AGE

Unemployment rate

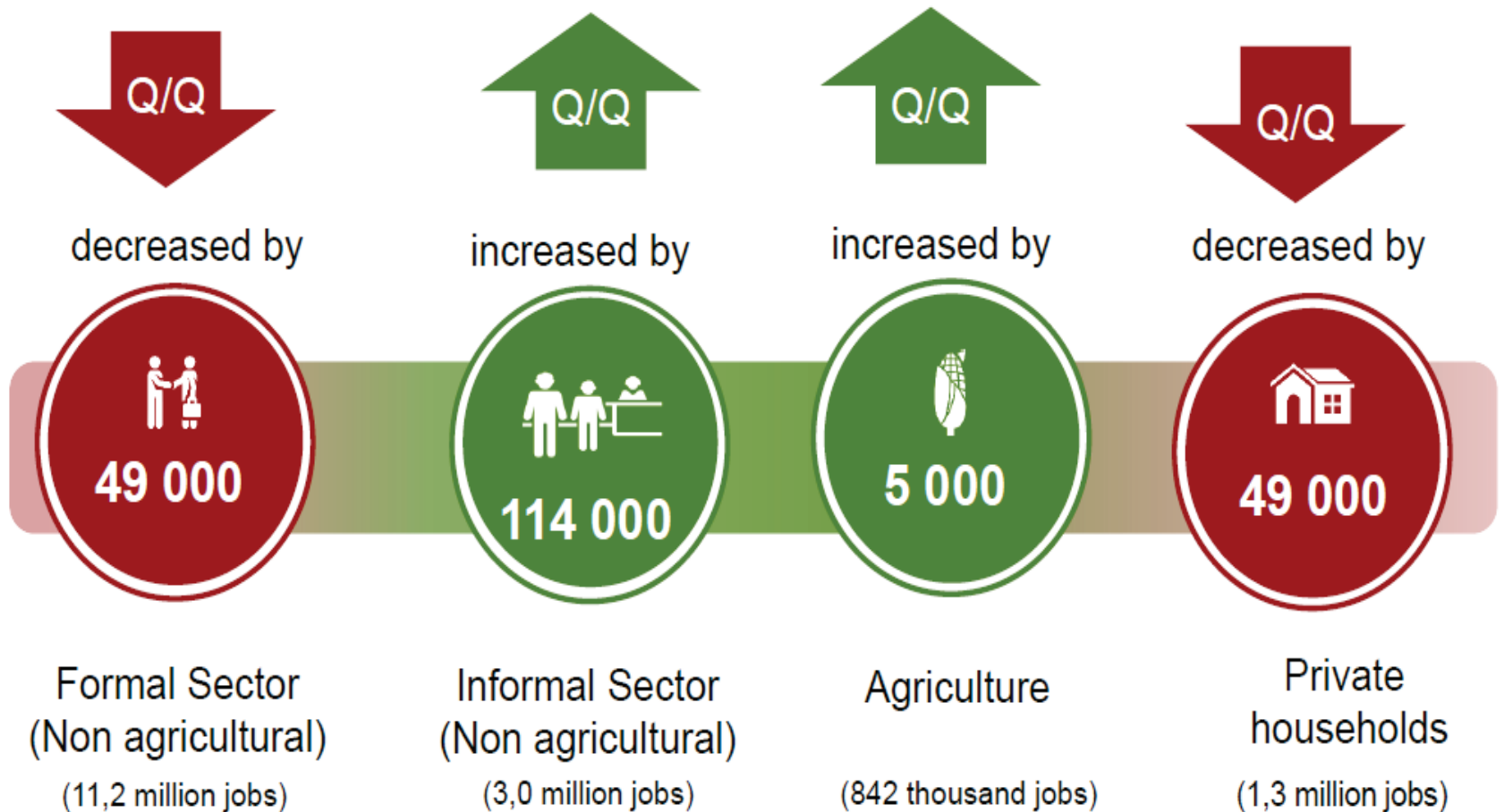


Unemployment rate

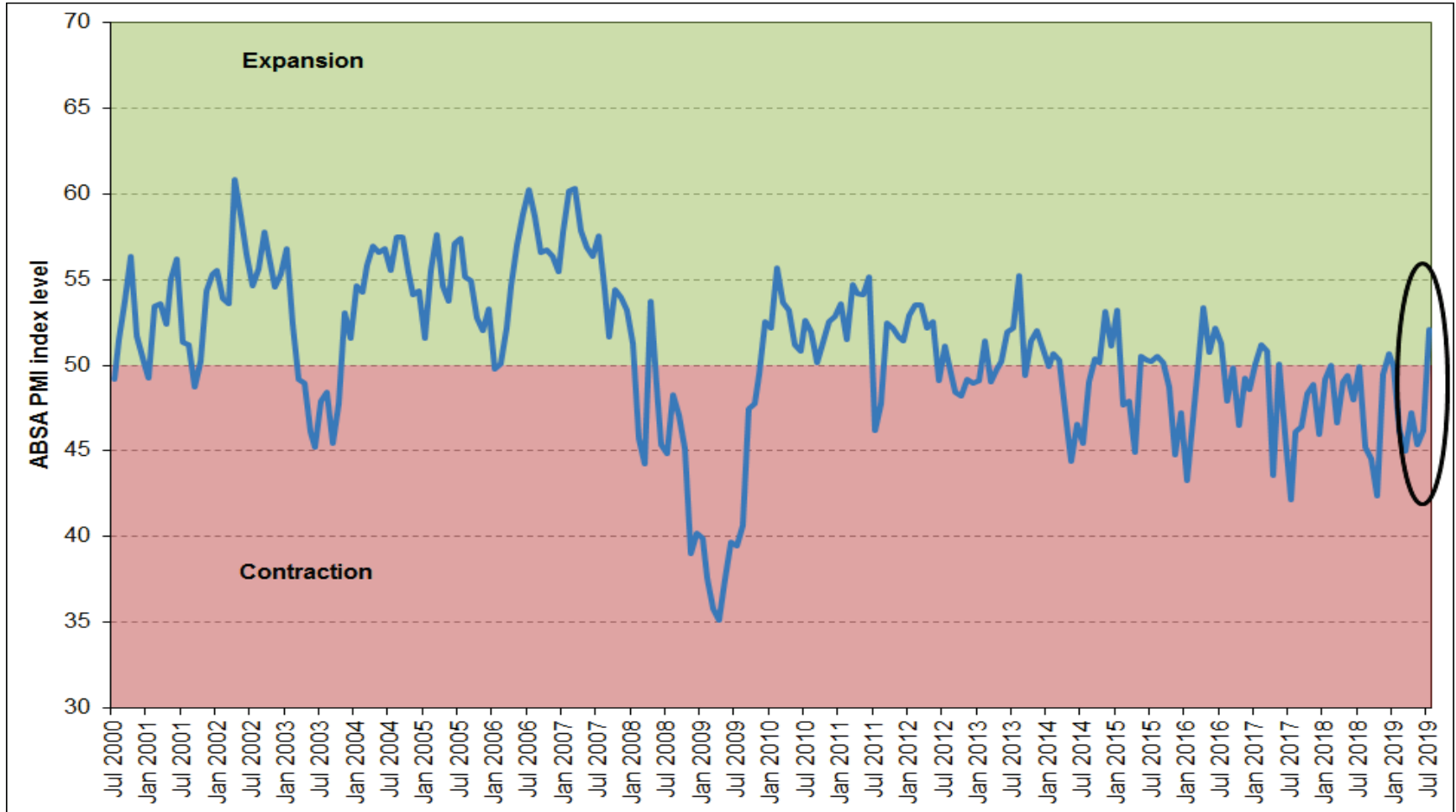


SA UNEMPLOYMENT

PRIVATE HOUSEHOLDS AND THE FORMAL SECTOR SHEDDING JOBS

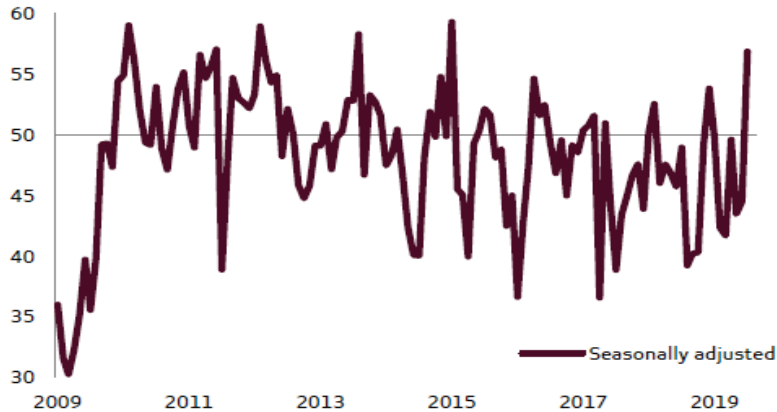


SA MANUFACTURING (ABSA PMI) GREEN SHOOTS?

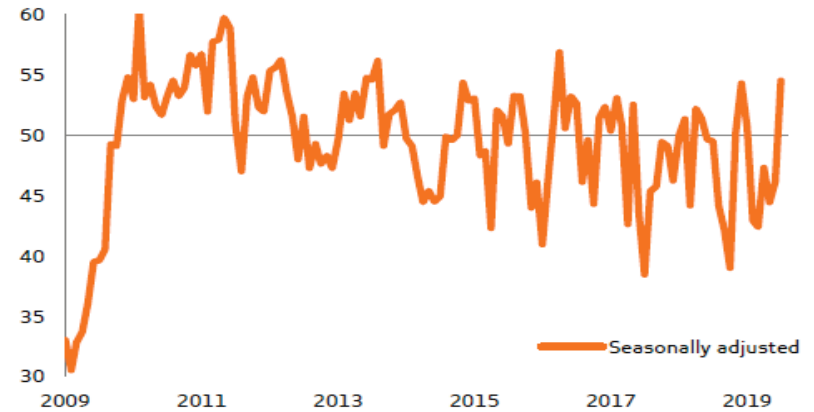


SA MANUFACTURING (ABSA PMI) IMPROVEMENT WELL SUPPORTED BY UNDERLYING SUBCOMPONENTS

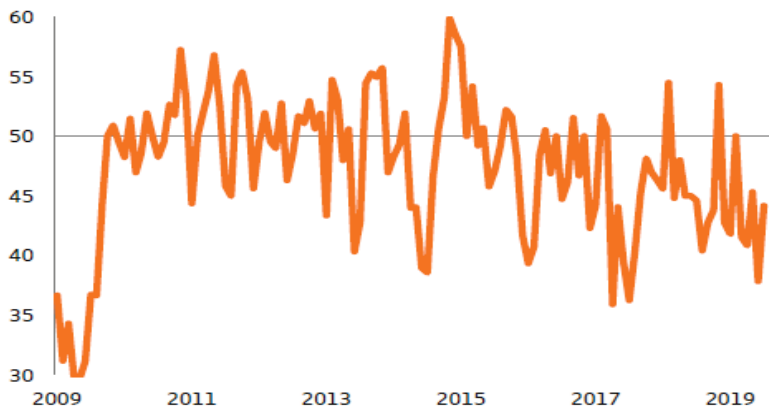
PMI: Business activity



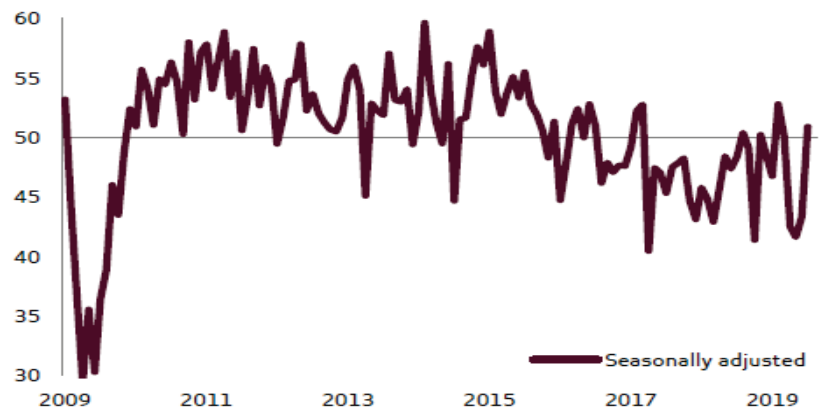
PMI: New sales orders



PMI: Purchasing commitments

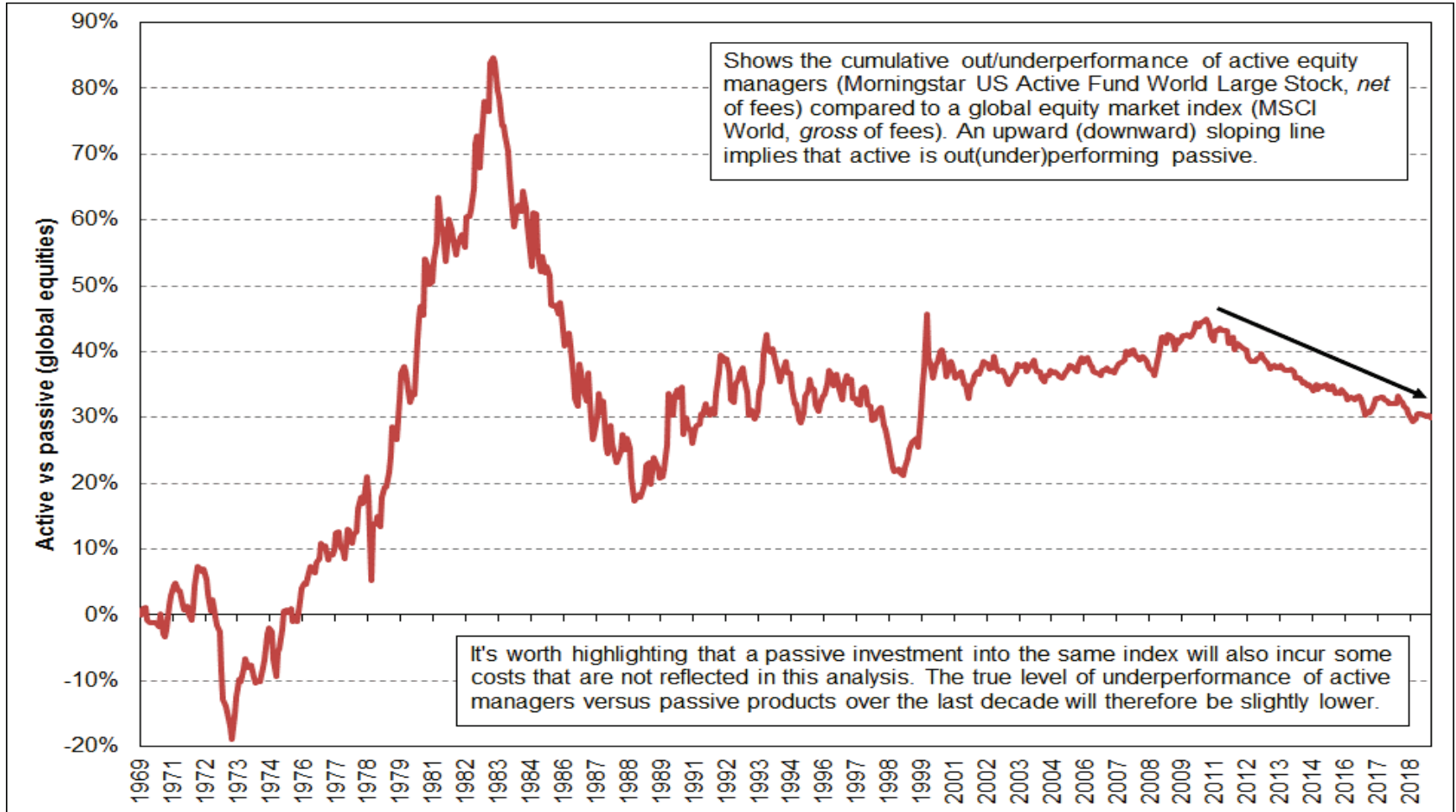


PMI: Inventories



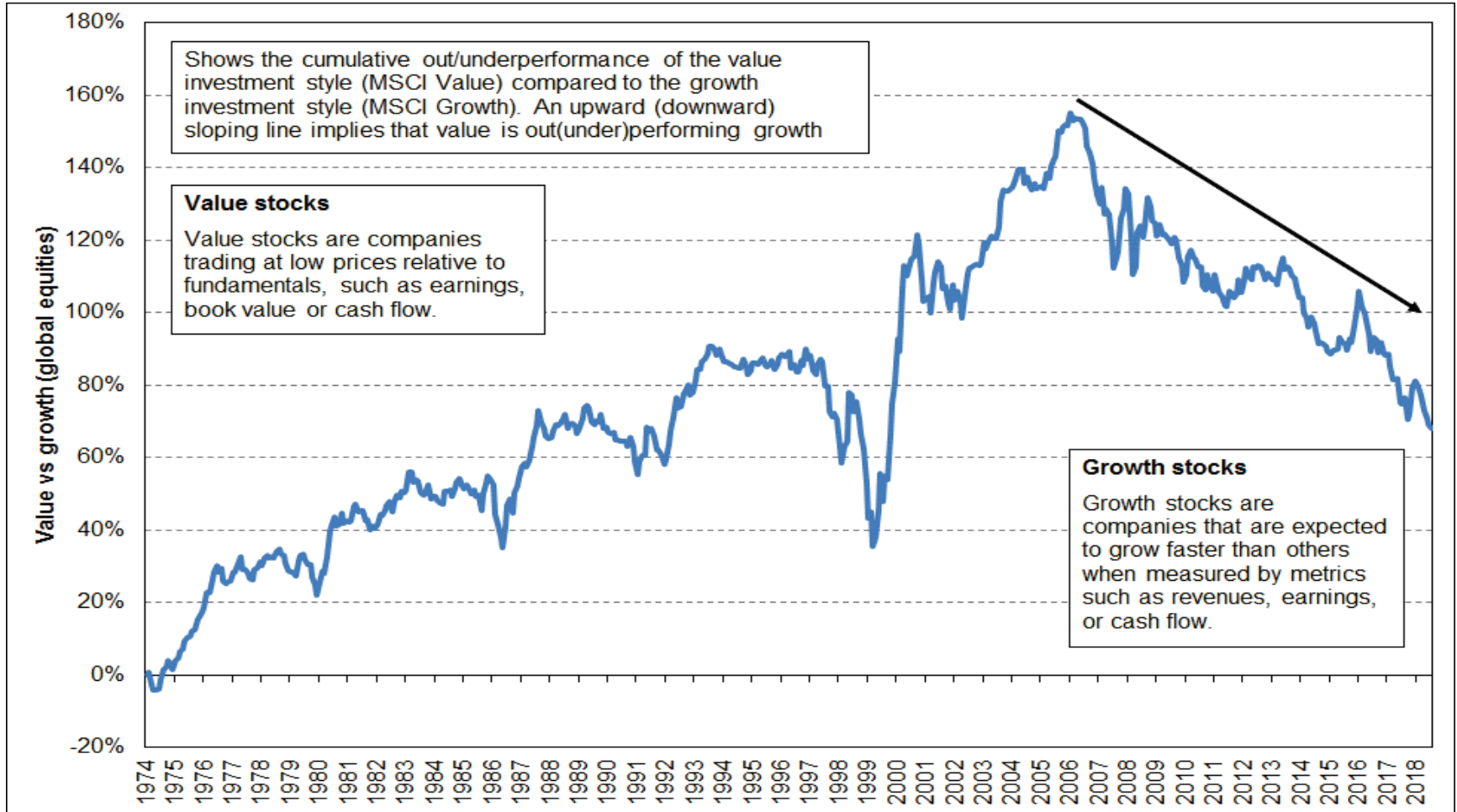
LONG TERM CYCLES

ACTIVE VS PASSIVE



LONG TERM CYCLES

VALUE VS GROWTH



LONG TERM CYCLES

EMERGING VS DEVELOPED MARKETS

