

MONTH IN PICTURES

**SEPTEMBER
2020**

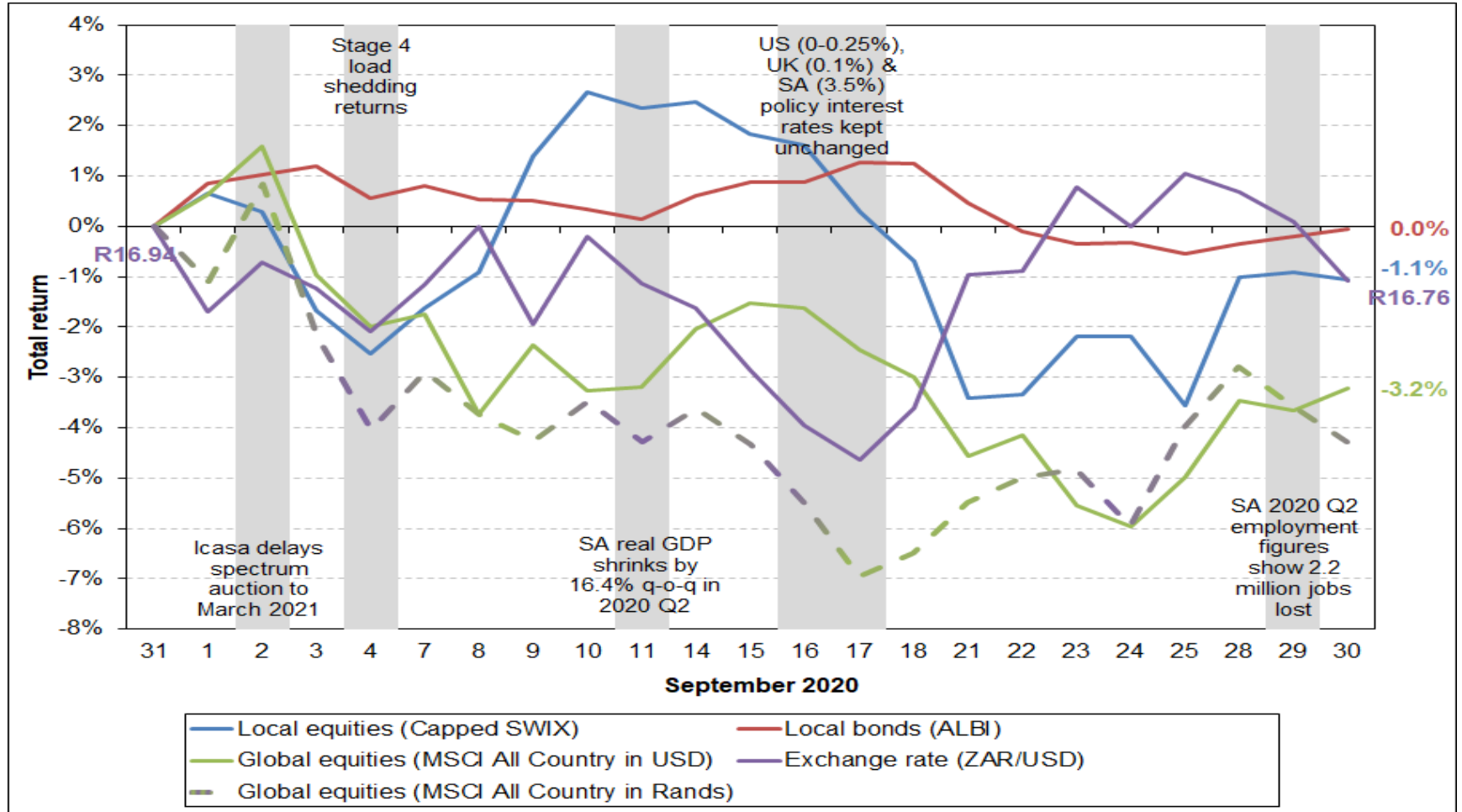
MONTHLY SNAPSHOT

NOTABLE EVENTS

- Local equities (as measured by the Capped SWIX) contracted for a second month in a row, ending September 1.1% down. This was mostly driven by a weakening of those stocks that have weathered the earlier part of 2020 relatively well (mostly large cap multinationals and resource stocks). The long suffering 'SA Inc' portion of the market on the other hand had a relatively good month (e.g. banks = +9% and retailers = +11%), but still trade well below their pre-pandemic levels. At major sector level Financials (+2.3%) was the only positive sector, while Industrials (-1.5%), Resources (-3.4%) and Listed Property (-3.0%) came under pressure.
- Despite spending the last two months in retreat, the local equity market still managed to eke out a positive return (+1.0%) in the third quarter, which was rather uneventful when compared to the first two (2020 Q1 = -26.6% and Q1 = +21.6%).
- Resources (+6.0%) were the main contributor to equity returns in the third quarter, Industrials (-2.3%) and Financials (-1.6%) made small losses, while Listed Property (-14.1%) continued to get pummelled.
- Year-to-date (ytd) the Capped SWIX is still down nearly 10%, while the ALSI is only 2.5% lower than it was at the start of the year. The ALSI's higher weighting to Naspers/Prosus (+29%/+46% ytd) and resources (+12% ytd), and lower exposure to financials (-33% ytd) and listed property (-46% ytd) was largely responsible for this divergence.
- Global equity markets recorded its first negative month (-3.2% in USD) since March, as a resurgence of Covid-19 infections in the developed west prompted the reintroduction of lockdown measures, while US politicians continued to squabble over a new round of fiscal stimulus measures.
- The Rand was one of the few currencies to strengthen against the US Dollar in September (by 1.1%), which pushed the negative dollar return of global stocks deeper into the red when measured in local currency terms (-4.3% in ZAR).
- South Africa's latest employment numbers showed that 2.2 million people lost their jobs in 2020 Q2. Somewhat counterintuitively though the official unemployment rate dropped (from 30.1% to 23.3%) due to the way StatsSA classified those unable/unwilling to look for jobs during lockdown (i.e. as not economically active). The expanded unemployment rate, labour force participation rate and absorption rate reflects a more accurate picture and is shown in slide 39.
- September's inflation rate clocked in at 3.0% year-on-year, down from 3.1% at the end of August.
- On the reform side there were some good news in September, with several corruption-related arrests, while progress is being made on procuring power from private producers.

MONTHLY TIMELINE

IMPACT ON MARKETS



MARKET INDICATORS

SHORT TERM

Market indicators (% change) ¹		Jul 2020	Aug 2020	Sep 2020	3 months	12 months
Local equities	Capped SWIX	3.0	(0.9)	(1.1)	1.0	(5.0)
	Resources	9.0	0.7	(3.4)	6.0	27.3
	Industrials	(1.3)	0.5	(1.5)	(2.3)	4.3
	Financials	0.4	(4.2)	2.3	(1.6)	(30.9)
	Listed Property	(3.2)	(8.6)	(3.0)	(14.1)	(46.1)
Local bonds	ALBI	0.6	0.9	(0.0)	1.5	3.6
Local cash	STeFI Composite	0.4	0.4	0.3	1.2	6.2
Global equities	MSCI All Country	3.5	5.4	(4.3)	4.4	22.3
Global bonds	FTSE WGBI	1.9	(1.2)	(1.3)	(0.6)	18.2
Exchange rate	ZAR/USD	(1.7)	(0.7)	(1.1)	(3.4)	10.7
Inflation	CPI	1.3	0.2	0.2	1.7	3.0

1. Total returns (in Rands) for the months and periods ending 30 September 2020.

MARKET INDICATORS

MEDIUM TO LONG TERM

Market indicators (% change) ¹		1 year	3 years	5 years	10 years	15 years
Local equities	Capped SWIX	(5.0)	(2.4)	1.1	8.2	10.5
	Resources	27.3	20.3	16.3	4.9	7.6
	Industrials	4.3	(0.7)	2.7	12.4	14.3
	Financials	(30.9)	(10.6)	(5.4)	6.2	8.0
	Listed Property	(46.1)	(23.8)	(12.9)	1.8	7.5
Local bonds	ALBI	3.6	7.3	7.6	7.6	8.0
Local cash	STeFI Composite	6.2	6.9	7.1	6.4	7.3
Global equities	MSCI All Country	22.3	15.0	14.6	18.5	13.6
Global bonds	FTSE WGBI	18.2	12.0	8.0	11.2	10.5
Exchange rate	ZAR/USD	10.7	7.3	3.9	9.2	6.7
Inflation	CPI	3.0	4.0	4.6	5.1	5.6

1. Total returns (in Rands) for the months and periods ending 30 September 2020.

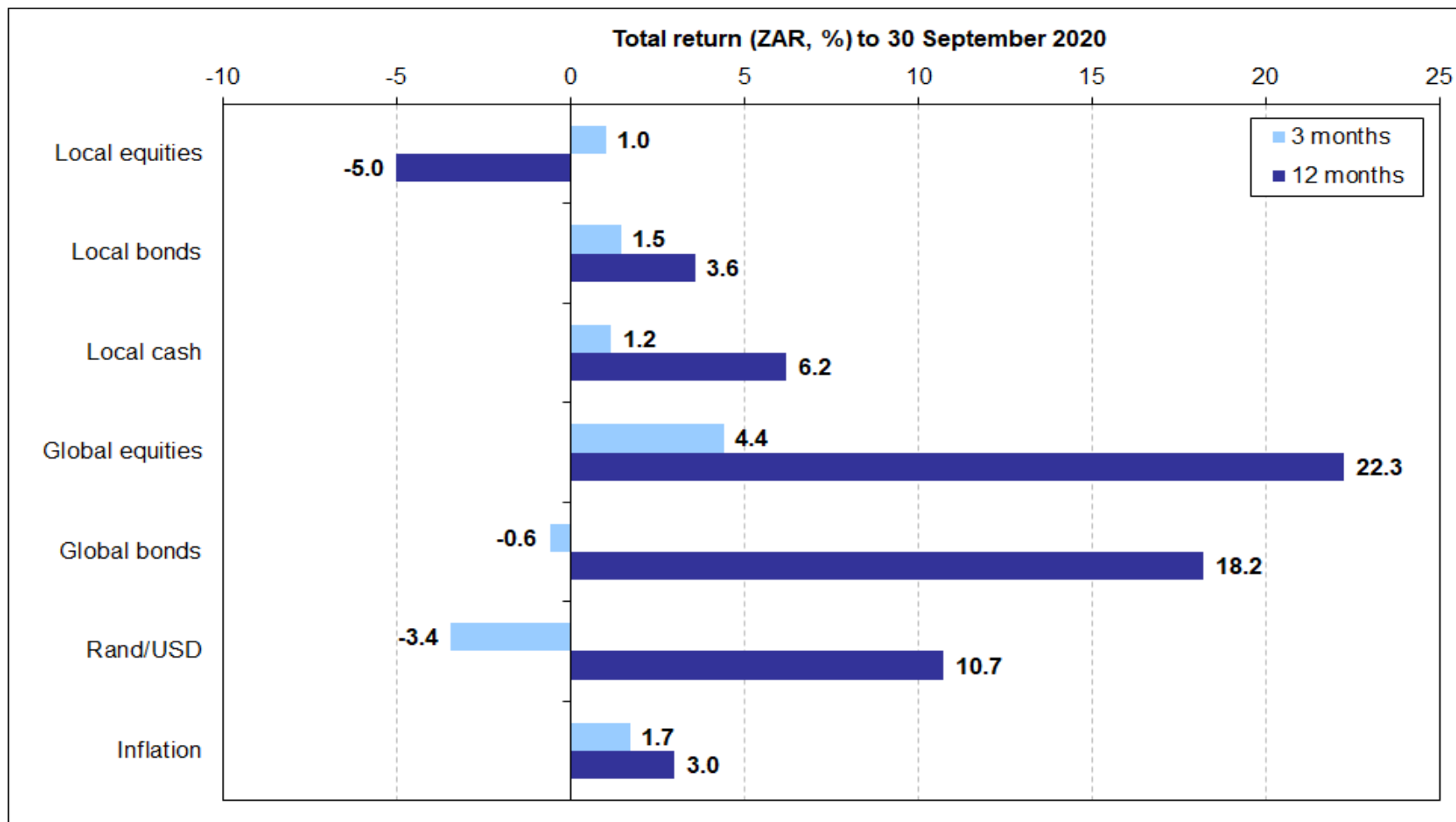
ECONOMIC INDICATORS

Economic indicators ¹	Sep 2018	Sep 2019	Jul 2020	Aug 2020	Sep 2020
Exchange rates:					
ZAR/USD	14.15	15.14	17.06	16.94	16.76
ZAR/GBP	18.44	18.61	22.34	22.64	21.65
ZAR/Euro	16.42	16.50	20.11	20.22	19.64
Commodities:					
Brent Crude Oil (USD/barrel)	82.90	60.78	43.52	45.28	42.30
Platinum (USD/ounce)	812.87	930.55	908.50	930.39	869.88
Gold (USD/ounce)	1,192.40	1,490.27	1,976.28	1,958.40	1,887.90

1. Month-end prices

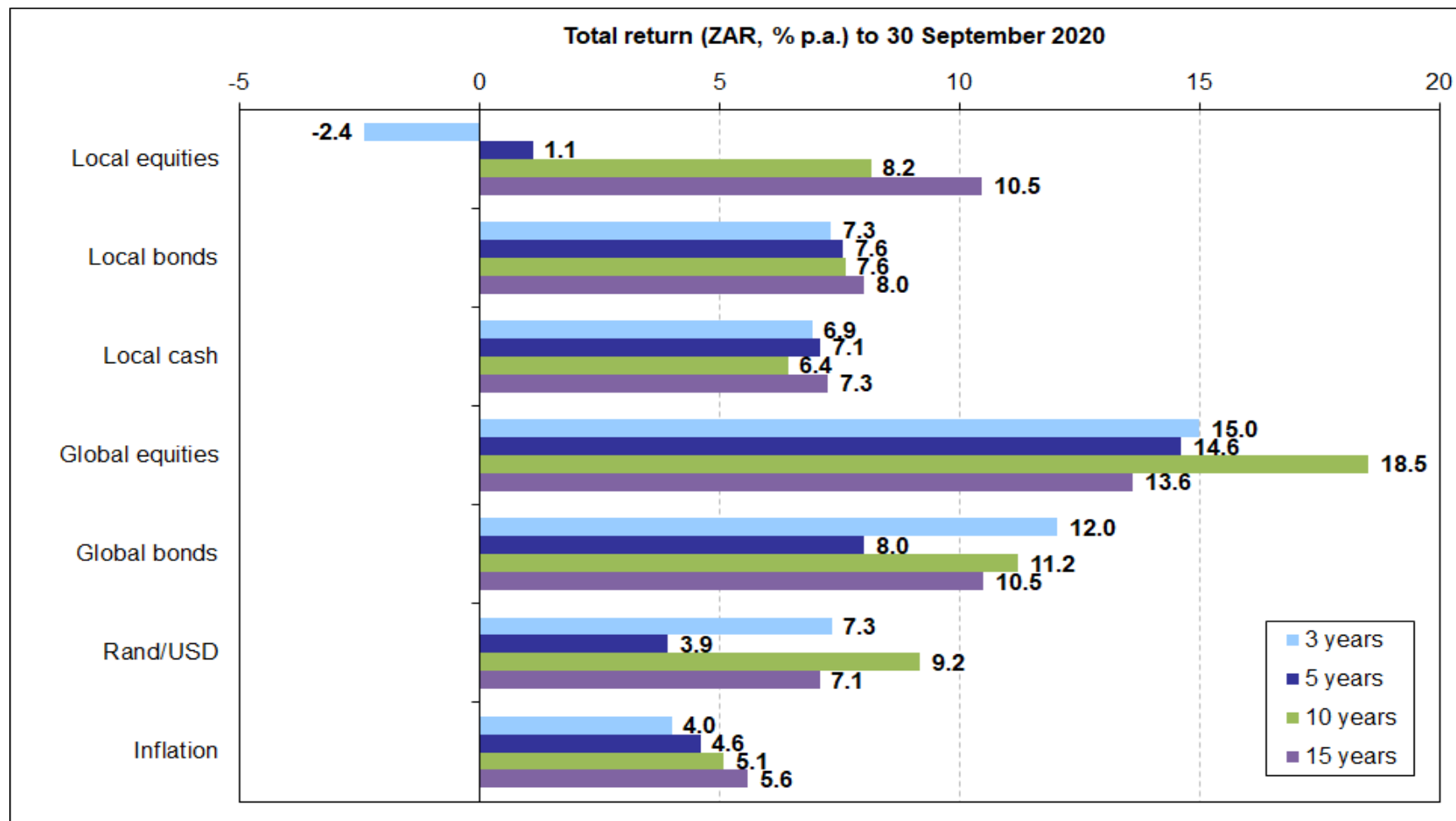
ASSET CLASS PERFORMANCE

SHORT TERM



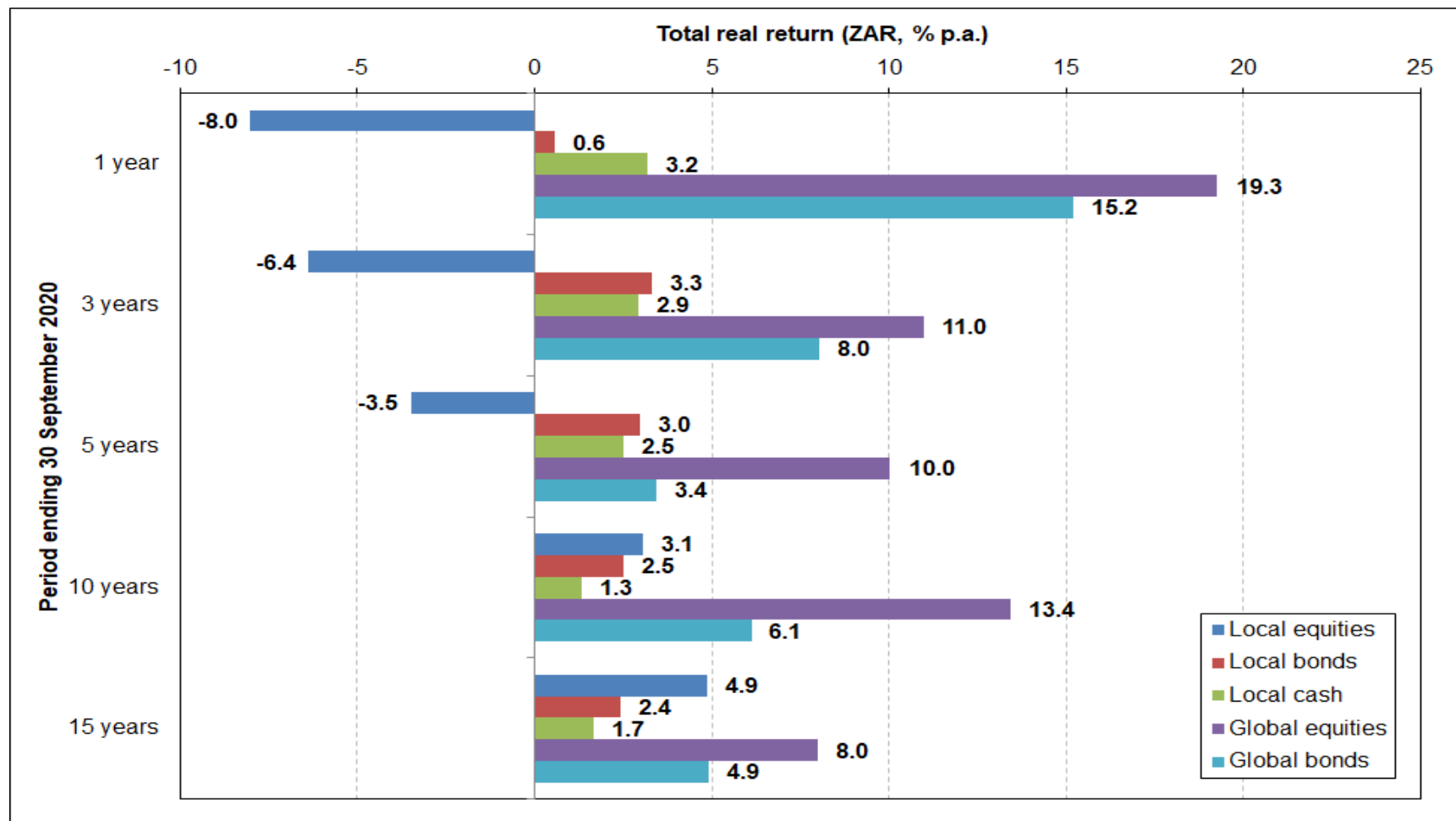
ASSET CLASS PERFORMANCE

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 historical returns (in both nominal and real terms) can investors reasonably have expected from the markets?

To illustrate this, we calculated the hypothetical returns of various risk profiled 'portfolios' (Aggressive, Moderate and Conservative) using a rules-based asset allocation approach to cater for the change in the regulatory offshore allowance over time:

- The offshore allocation is kept at 5% below the prevailing regulatory maximum (15% to 2000, 20% to 2006, 25% to 2018 & currently at 30%).
- The equity allocation varies according to the risk profile, and is set at 75% for Aggressive, 55% for Moderate and 35% for Conservative, which applies to both the local (ALSI up to December 2001, SWIX up to June 2011, Capped SWIX thereafter) and offshore (MSCI All Country) portions.
- The remainder of the *local* assets is split between local bonds (ALBI) and cash (STeFI composite), with the local bond allocation being the same as the equity allocation in this sub-portion, i.e. 75% for Aggressive, 55% for Moderate and 35% for Conservative. The balance is kept in local cash.
- The remainder of the *offshore* assets is allocated to global bonds (FTSE WGBI).
- Fees are assumed at 0.4% p.a.

A graphical representation of the strategic and current asset allocations of the various risk-profiled 'portfolios' are provided below:

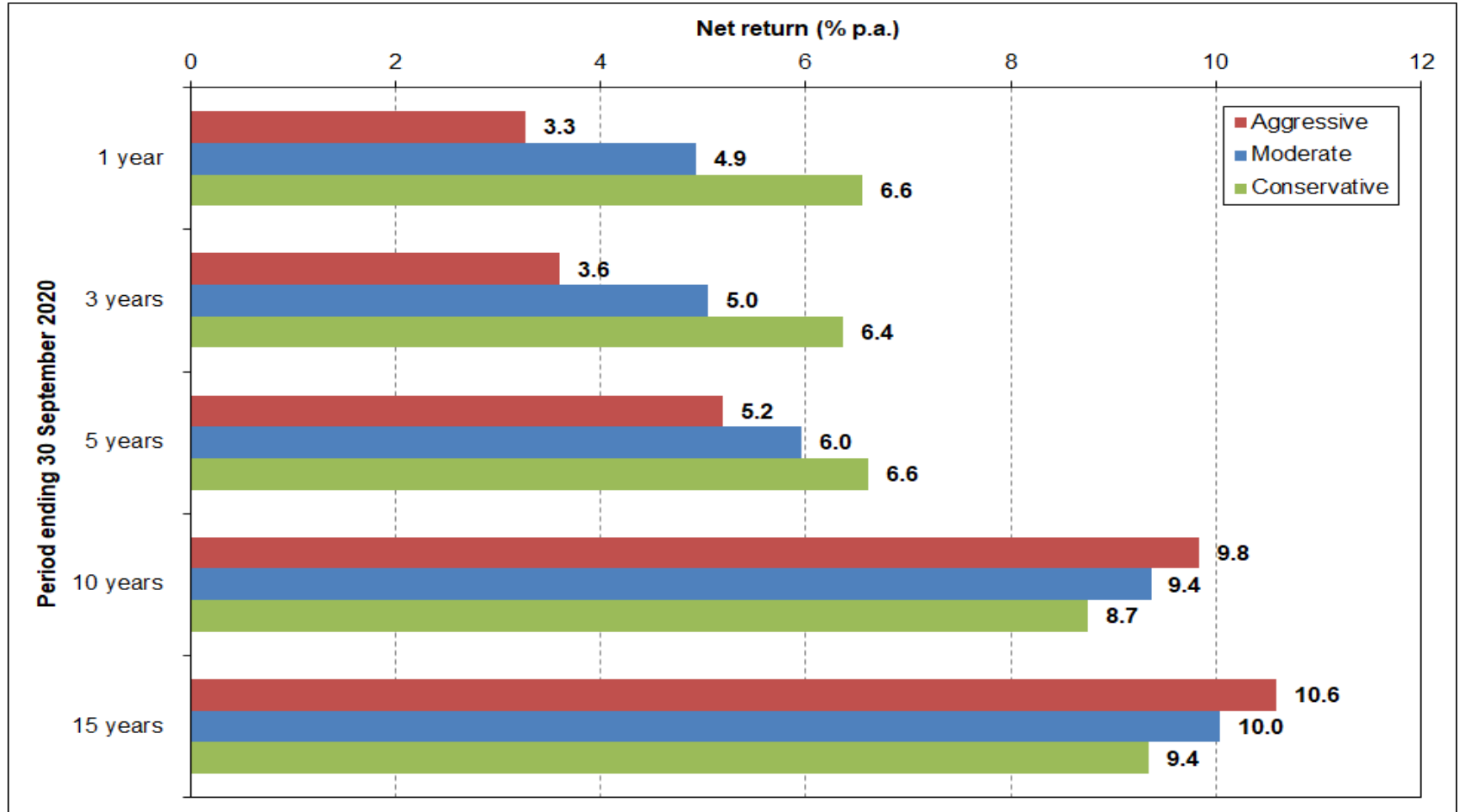
AGGRESSIVE	Strategic allocation	LOCAL VS OFFSHORE	75%			25% (5% below regulatory maximum)	
		GROWTH VS INCOME ASSETS	75%	25%		75%	25%
		EQUITIES VS BONDS VS CASH	100%	75%	25%	100%	100%
	Current allocation		~56%	~14%	~5%	~19%	~6%

MODERATE	Strategic allocation	LOCAL VS OFFSHORE	75%			25% (5% below regulatory maximum)	
		GROWTH VS INCOME ASSETS	55%	45%		55%	45%
		EQUITIES VS BONDS VS CASH	100%	55%	45%	100%	100%
	Current allocation		~41%	~19%	~15%	~14%	~11%

CONSERVATIVE	Strategic allocation	LOCAL VS OFFSHORE	75%			25% (5% below regulatory maximum)	
		GROWTH VS INCOME ASSETS	35%	65%		35%	65%
		EQUITIES VS BONDS VS CASH	100%	35%	65%	100%	100%
	Current allocation		~26%	~17%	~32%	~9%	~16%

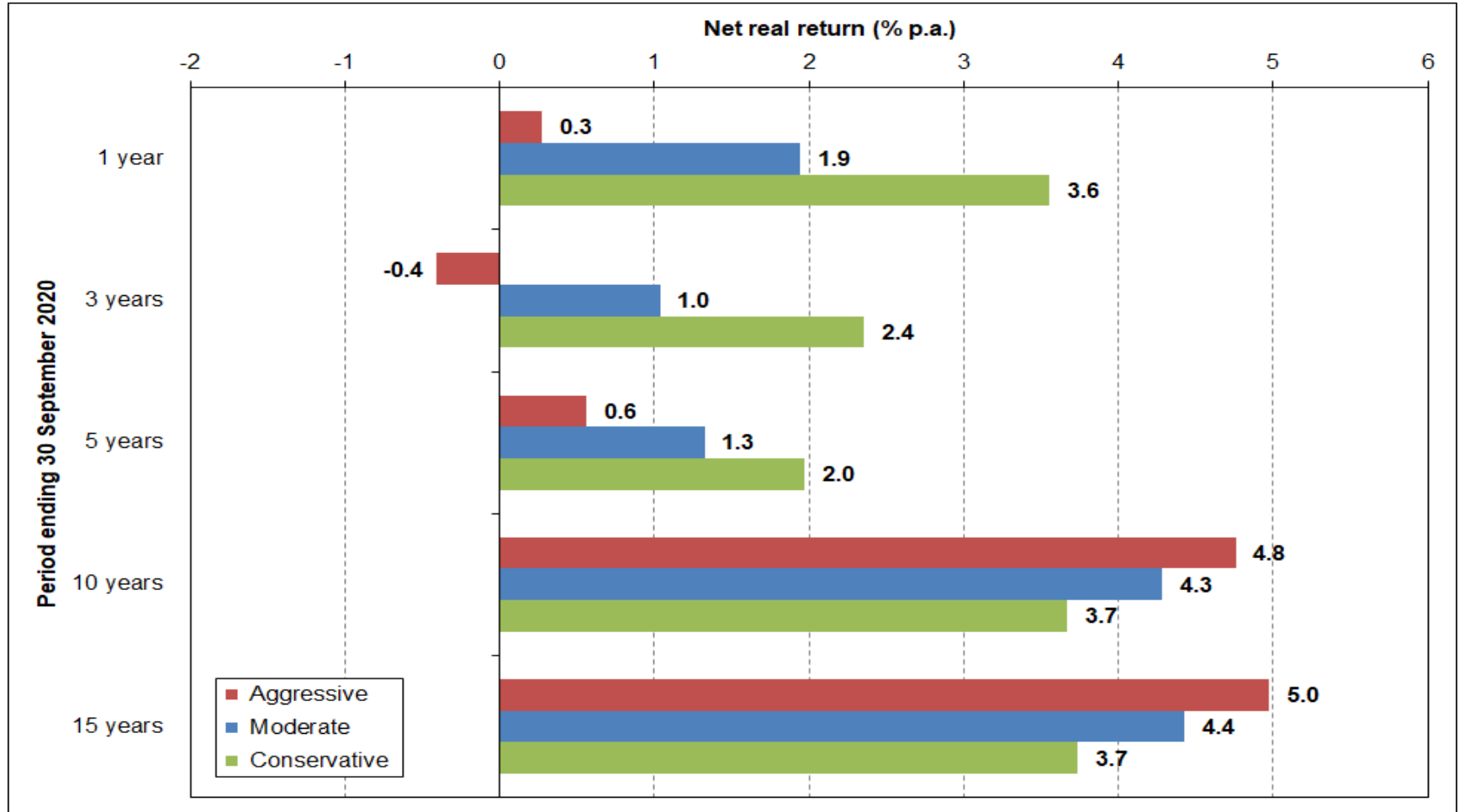
MARKET PERFORMANCE

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



MARKET PERFORMANCE

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



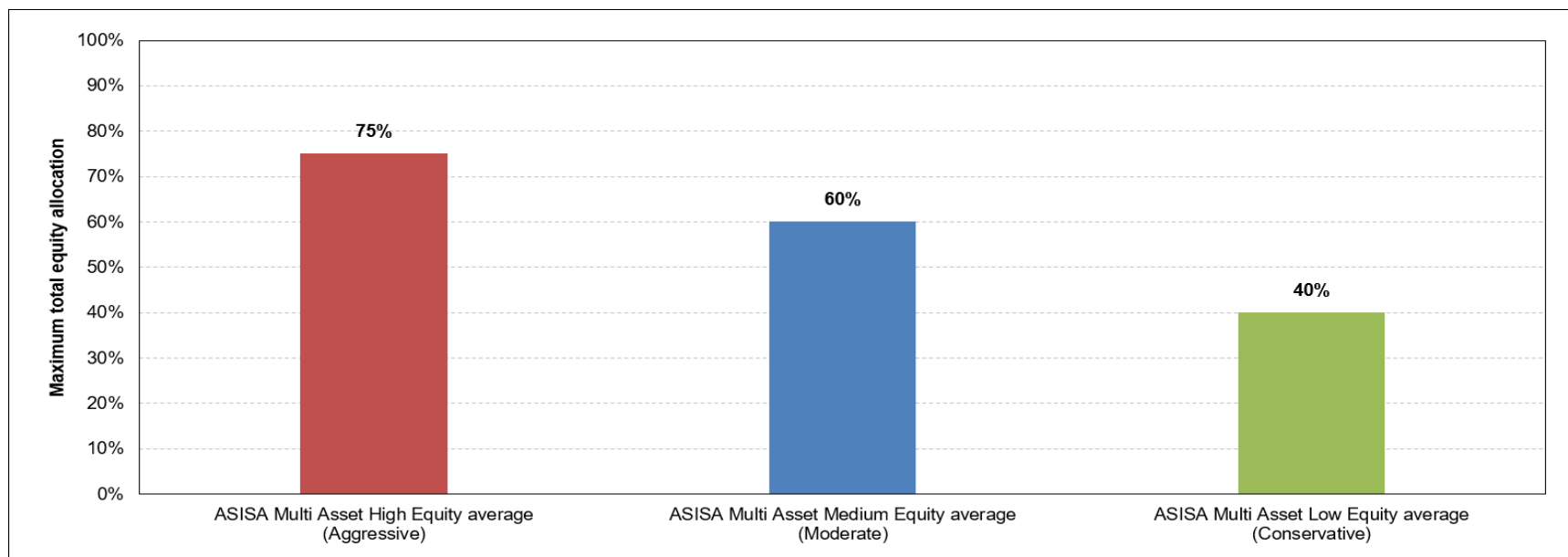
MANAGER PERFORMANCE

WHAT PAST RETURNS CAN INVESTORS REASONABLY EXPECT?

Given what markets have delivered (see earlier slides), what level of returns (in both nominal and real terms) has the average *investment manager* delivered in this environment?

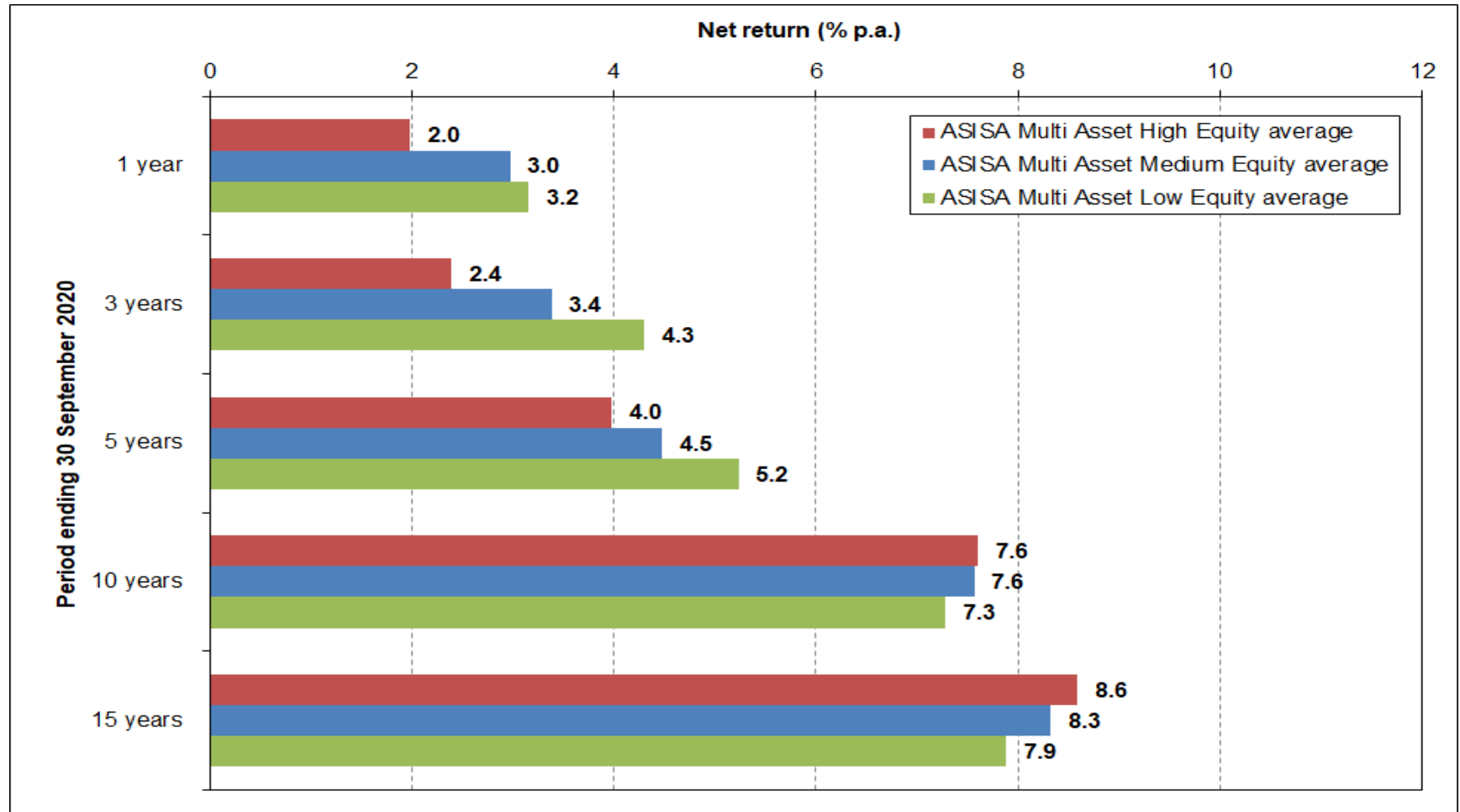
To illustrate this, we show the average returns from regulated collective investment schemes in the ASISA (Association for Savings and Investments South Africa) South Africa Multi Asset High, Medium and Low Equity categories to reflect the returns of typical Aggressive, Moderate and Conservative retirement fund portfolios.

The asset allocations of the portfolios in these categories are regulated by Regulation 28 of the Pension Funds Act, but ASISA also sets limits on the total equity allocations of these portfolios, as shown in the graphic below:



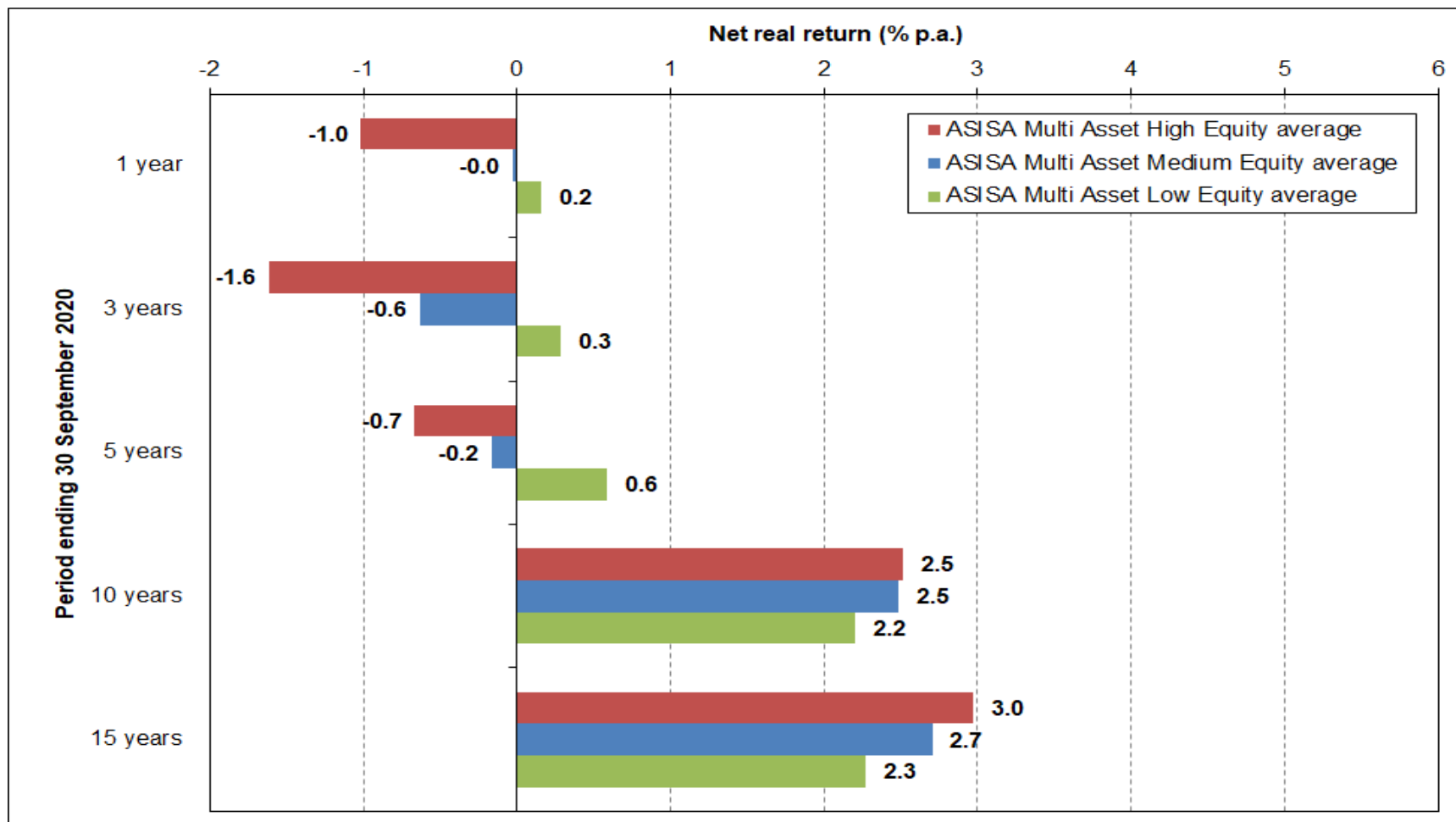
MANAGER PERFORMANCE

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

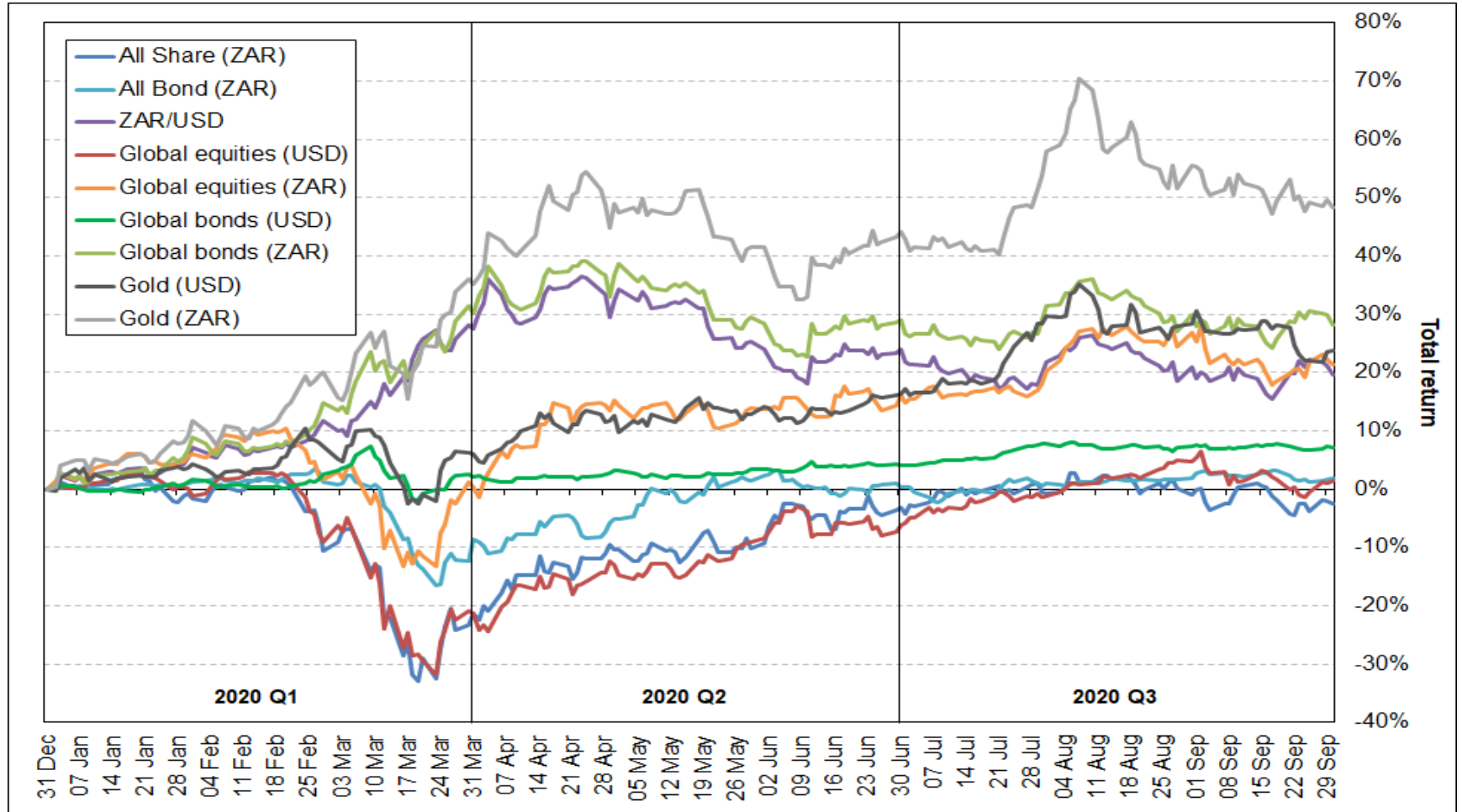


MANAGER PERFORMANCE

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

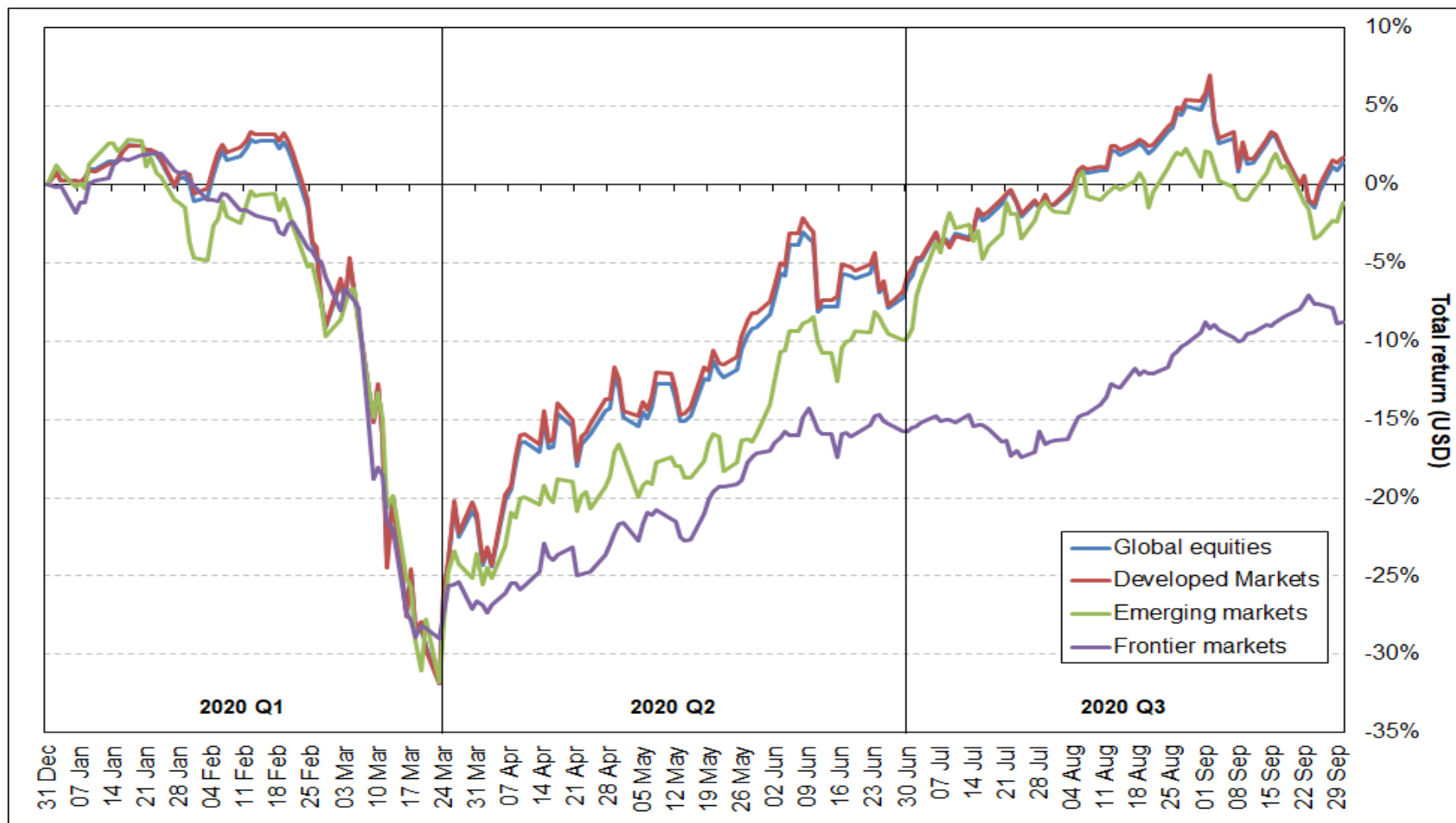


2020 YTD MAJOR ASSET CLASSES



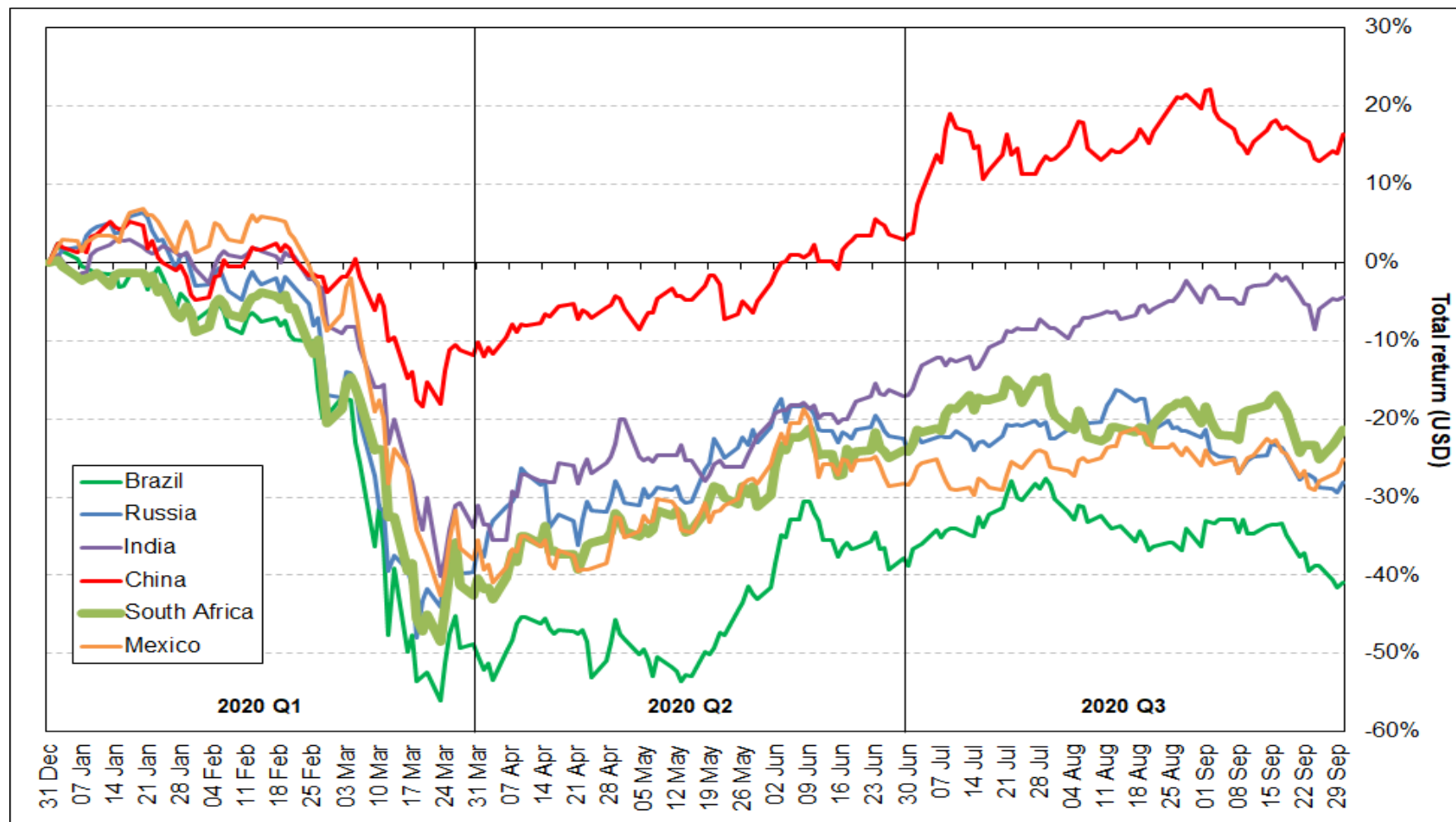
2020 YTD

GLOBAL EQUITY MARKETS (USD)

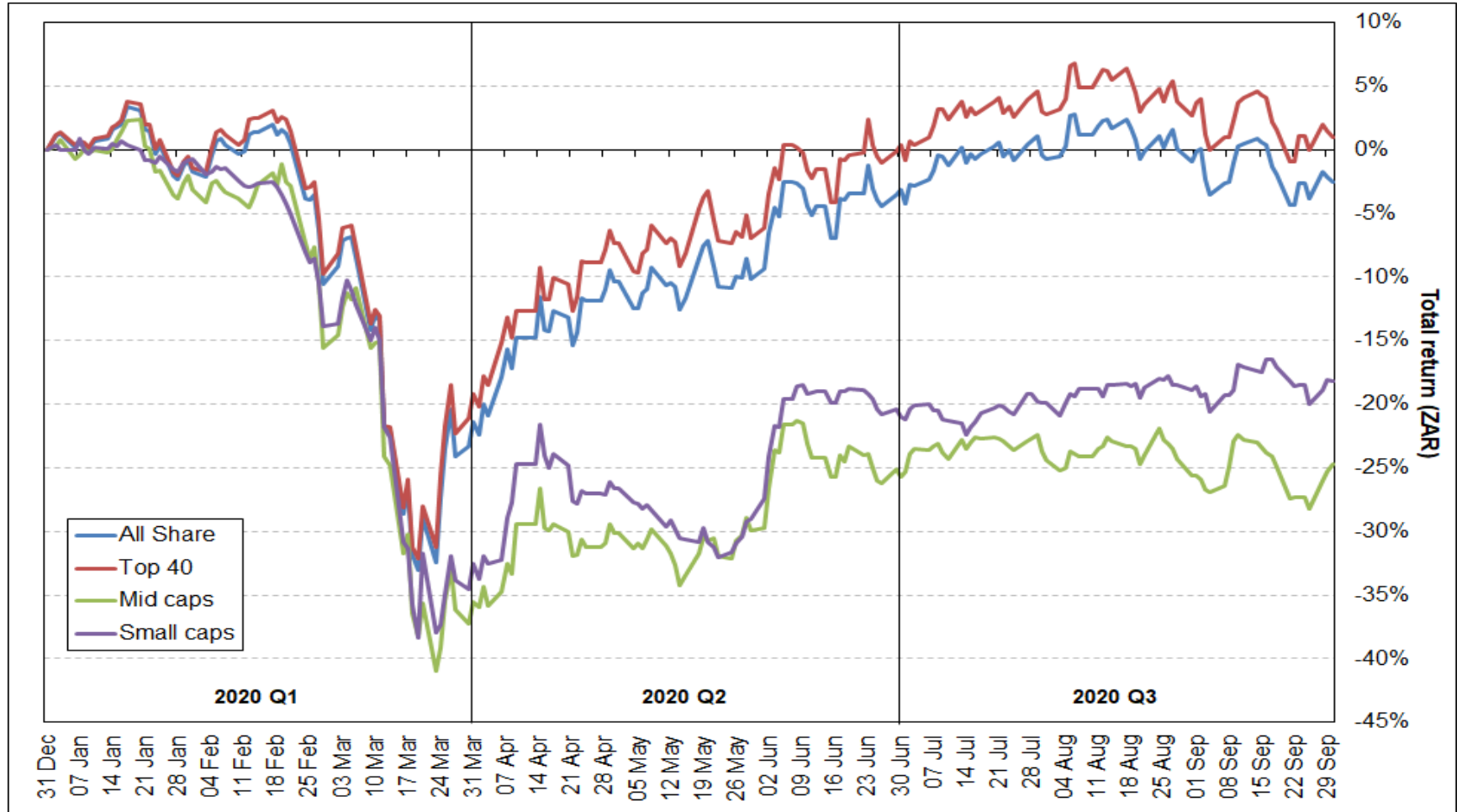


2020 YTD

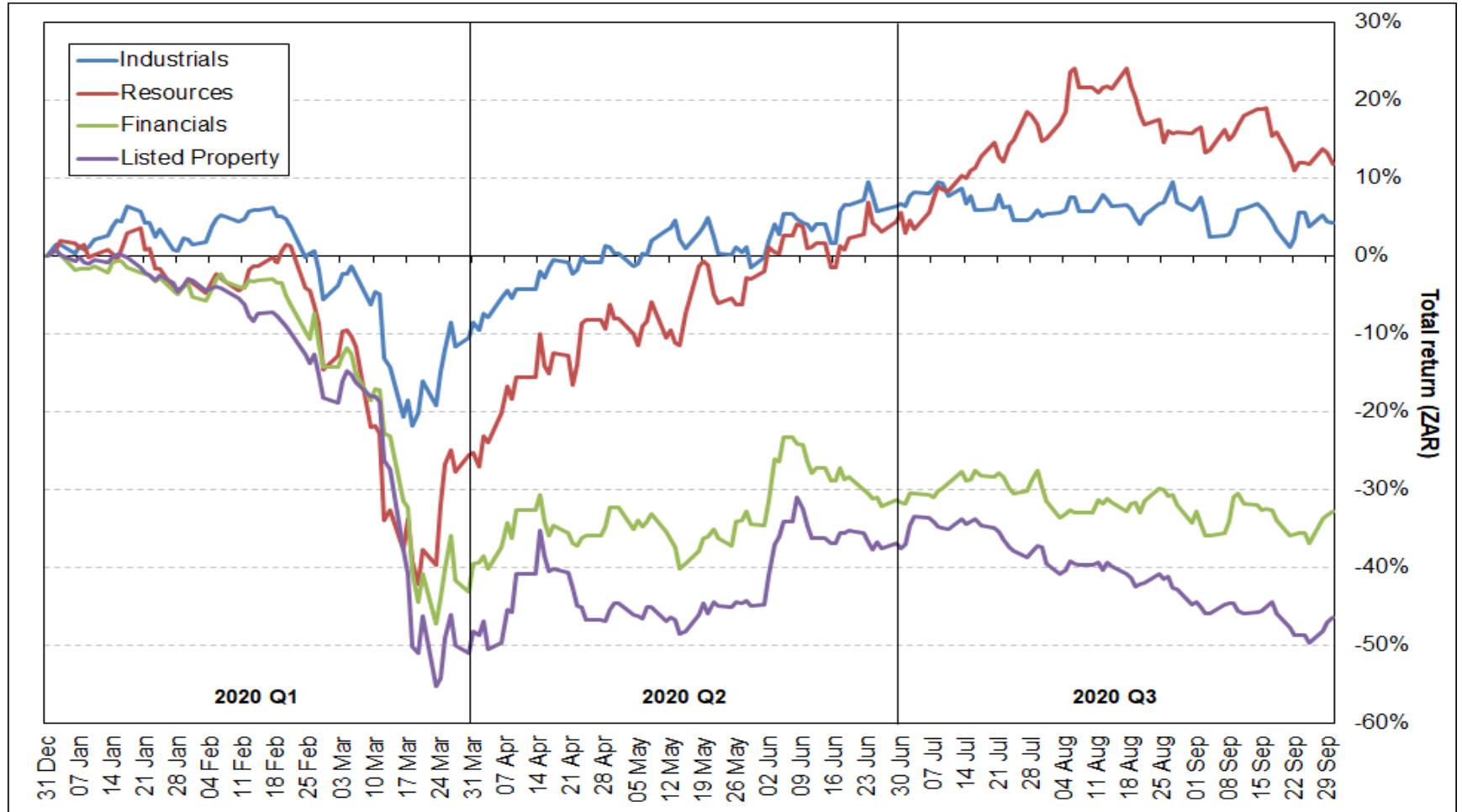
GLOBAL EMERGING EQUITY MARKETS (USD)



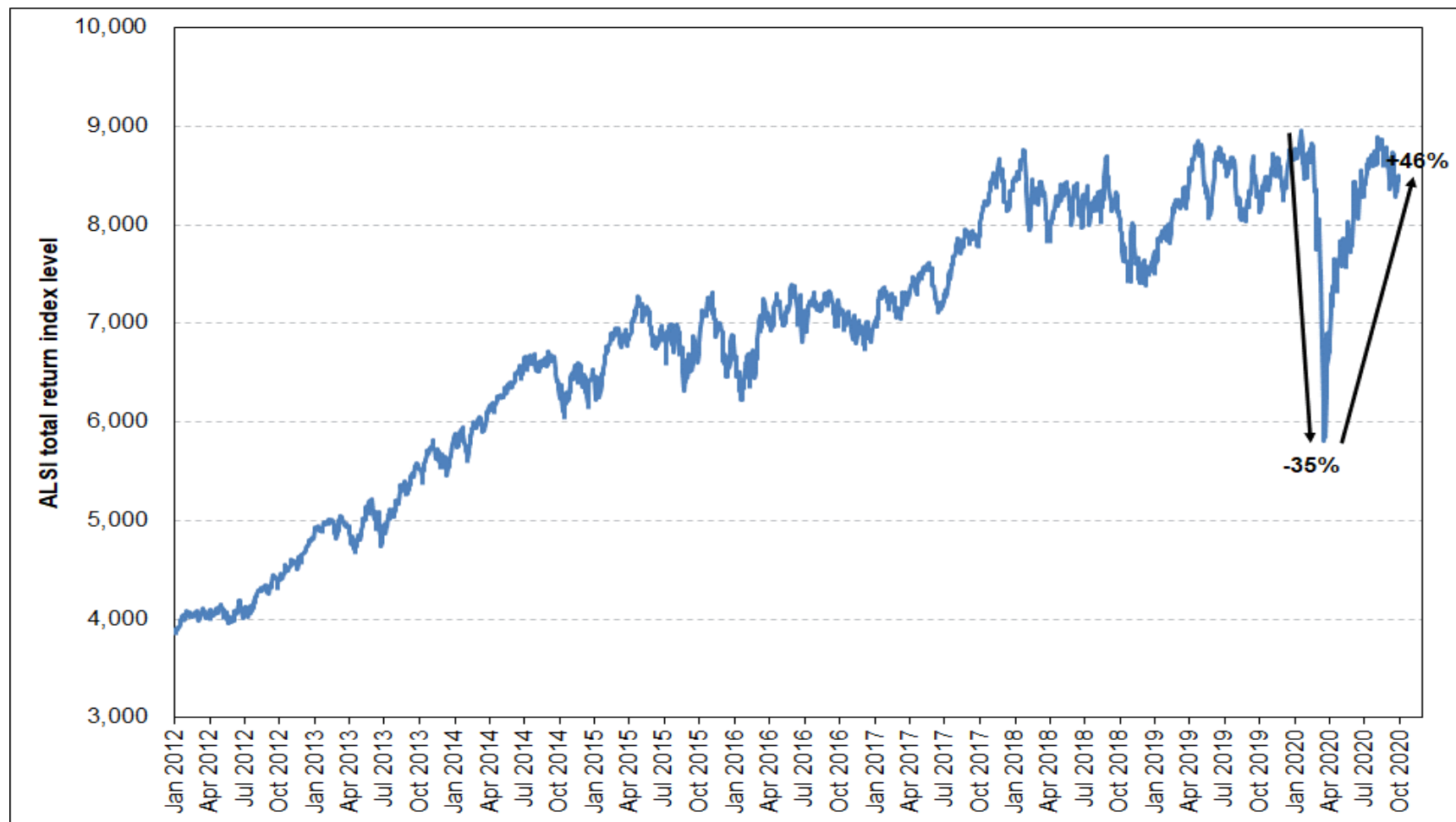
2020 YTD LOCAL EQUITY MARKET



2020 YTD LOCAL EQUITY MARKET

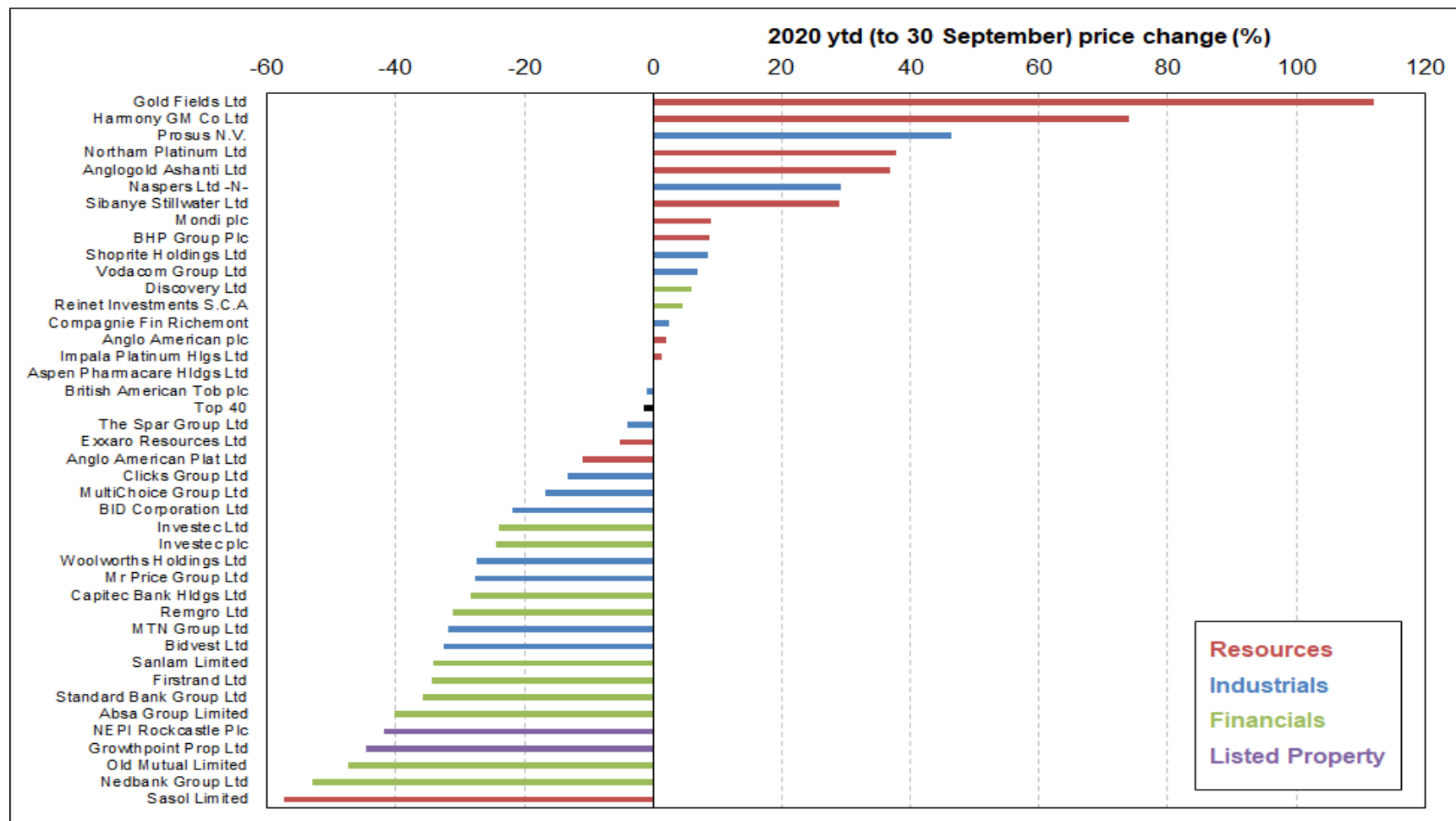


LOCAL EQUITY MARKET IS THE RECOVERY LOSING STEAM?



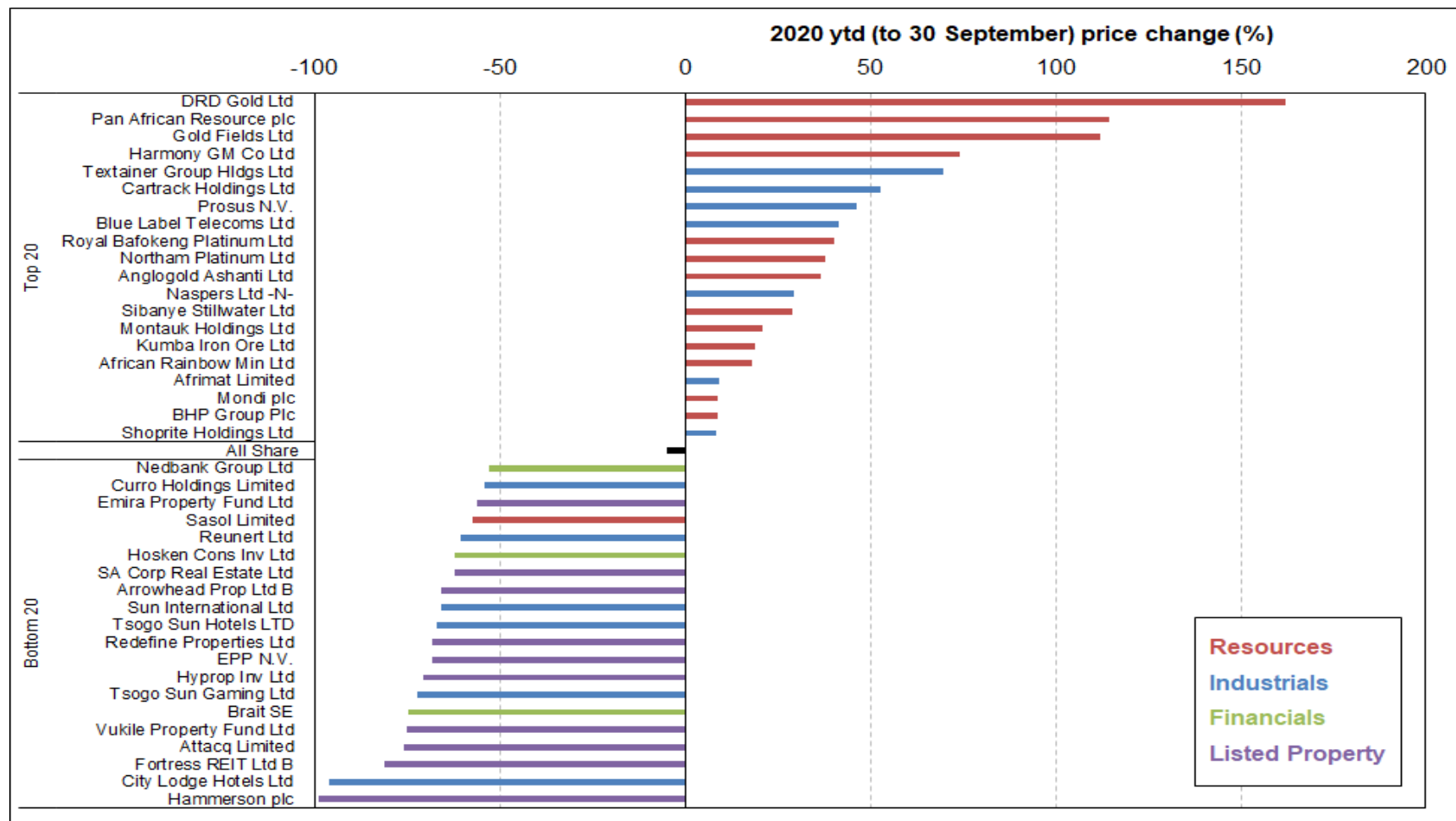
LOCAL EQUITY MARKET

TOP 40 (LARGE CAP) STOCKS IN 2020



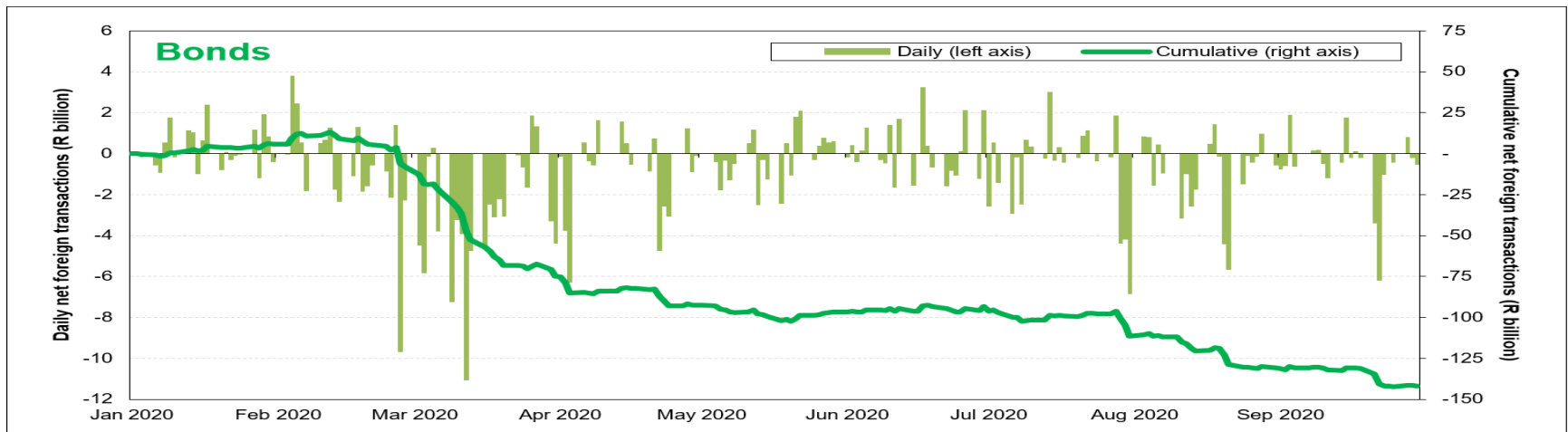
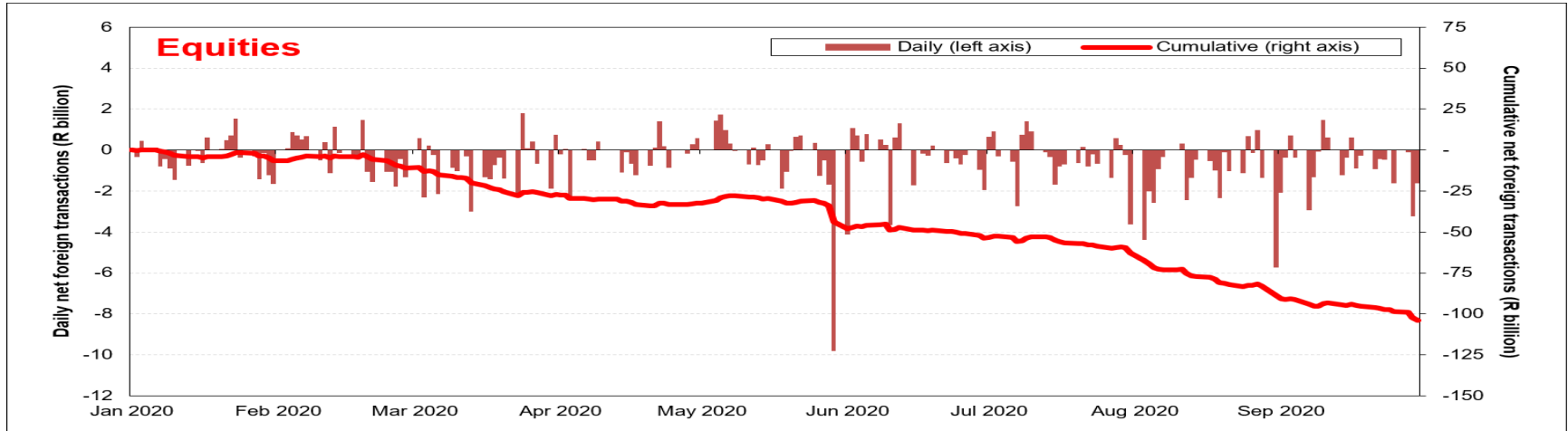
LOCAL EQUITY MARKET

BEST & WORST PERFORMERS IN 2020



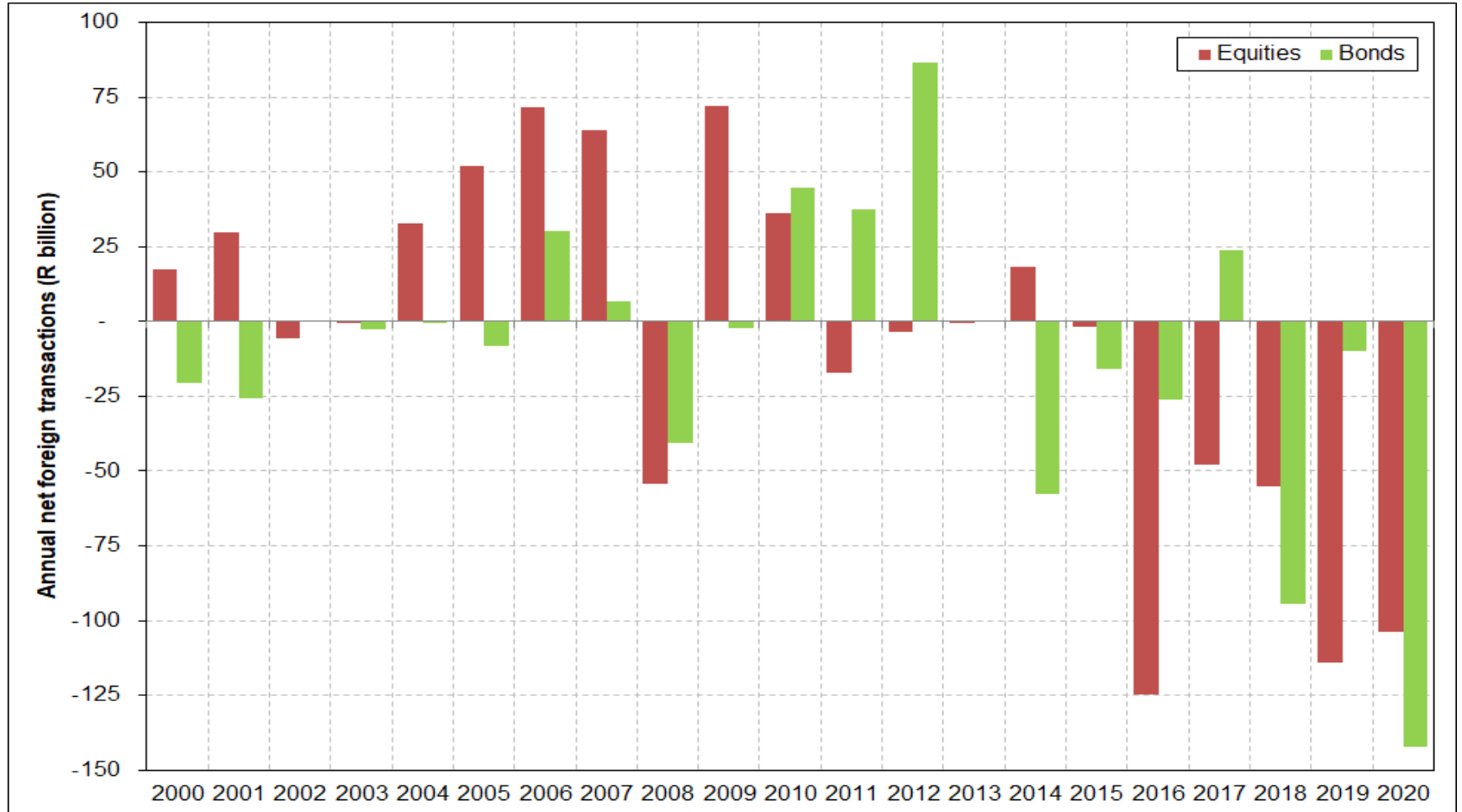
FOREIGN TRANSACTIONS

SELLING CONTINUES UNABATED IN 2020...



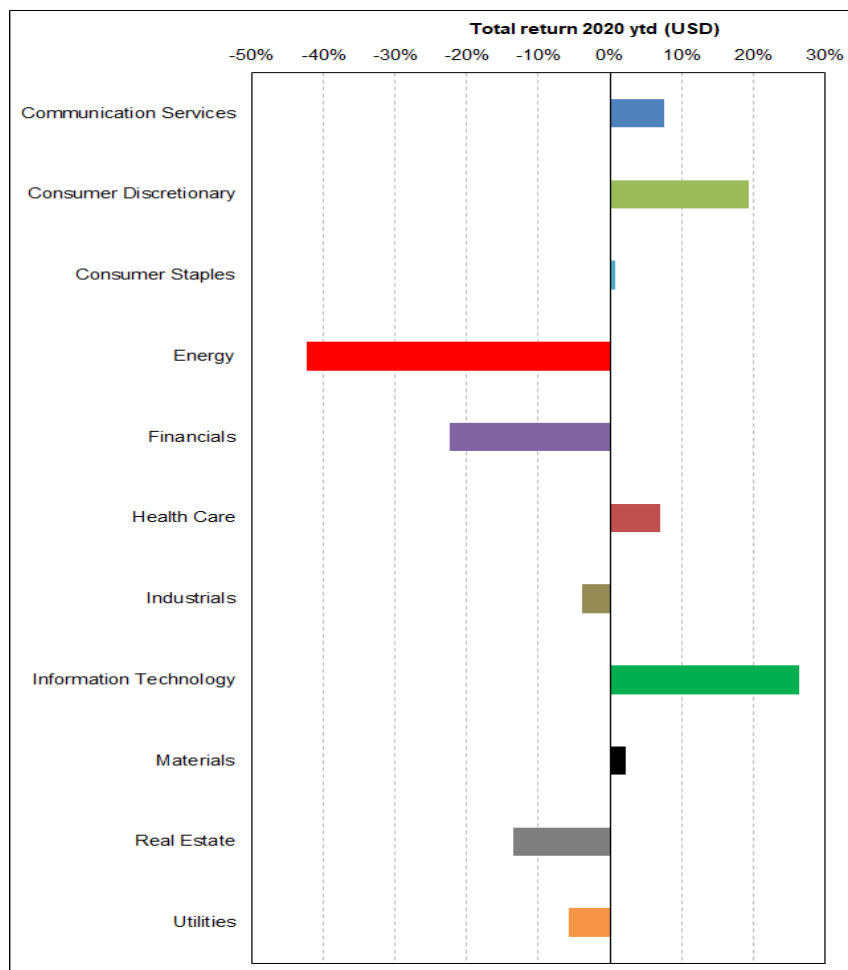
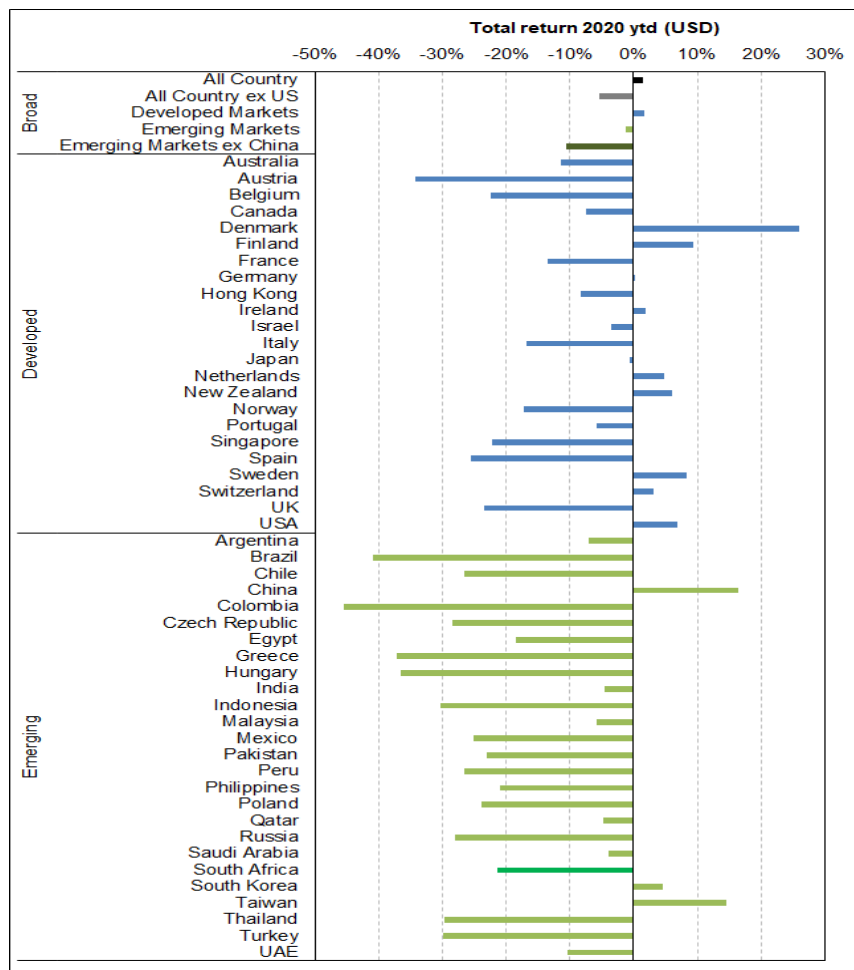
FOREIGN TRANSACTIONS

...AS IT HAS FOR THE LAST FIVE YEARS



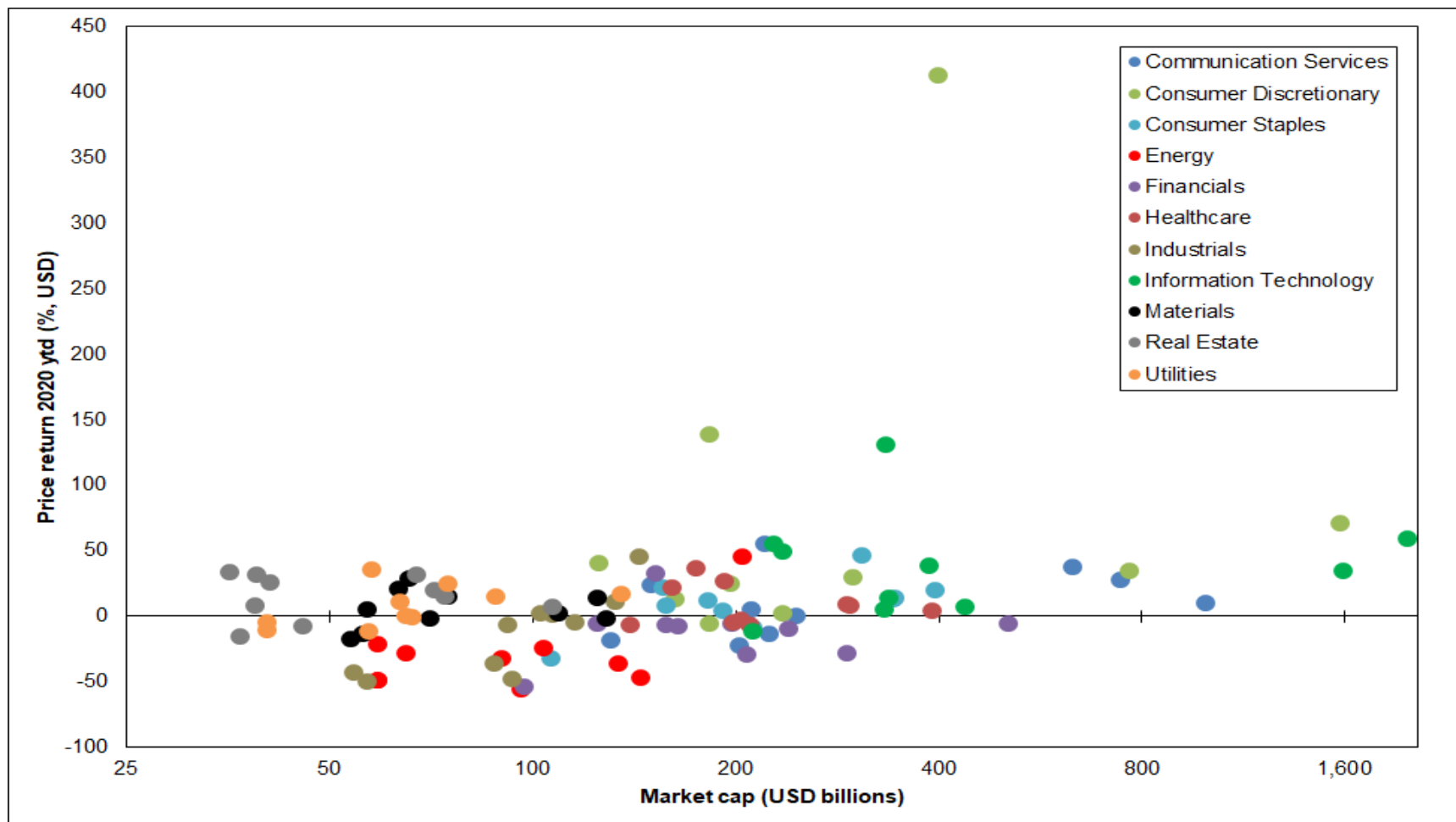
GLOBAL EQUITY MARKETS IN 2020

LOSSES RECOVERED, BUT DRIVEN BY A HANDFUL OF COUNTRIES AND SECTORS



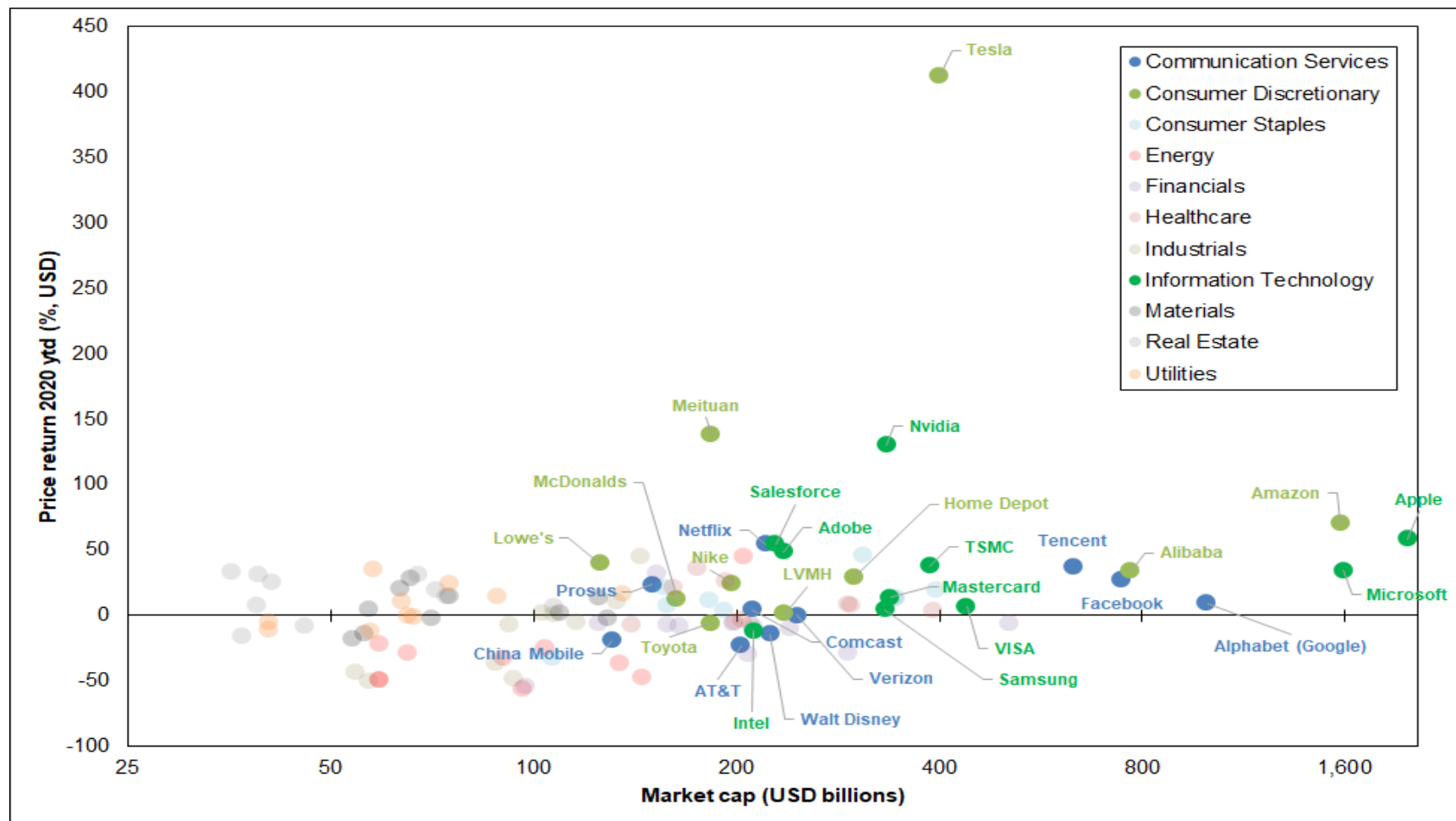
LARGEST STOCKS PER SECTOR

2020 PERFORMANCE VS MARKET CAP



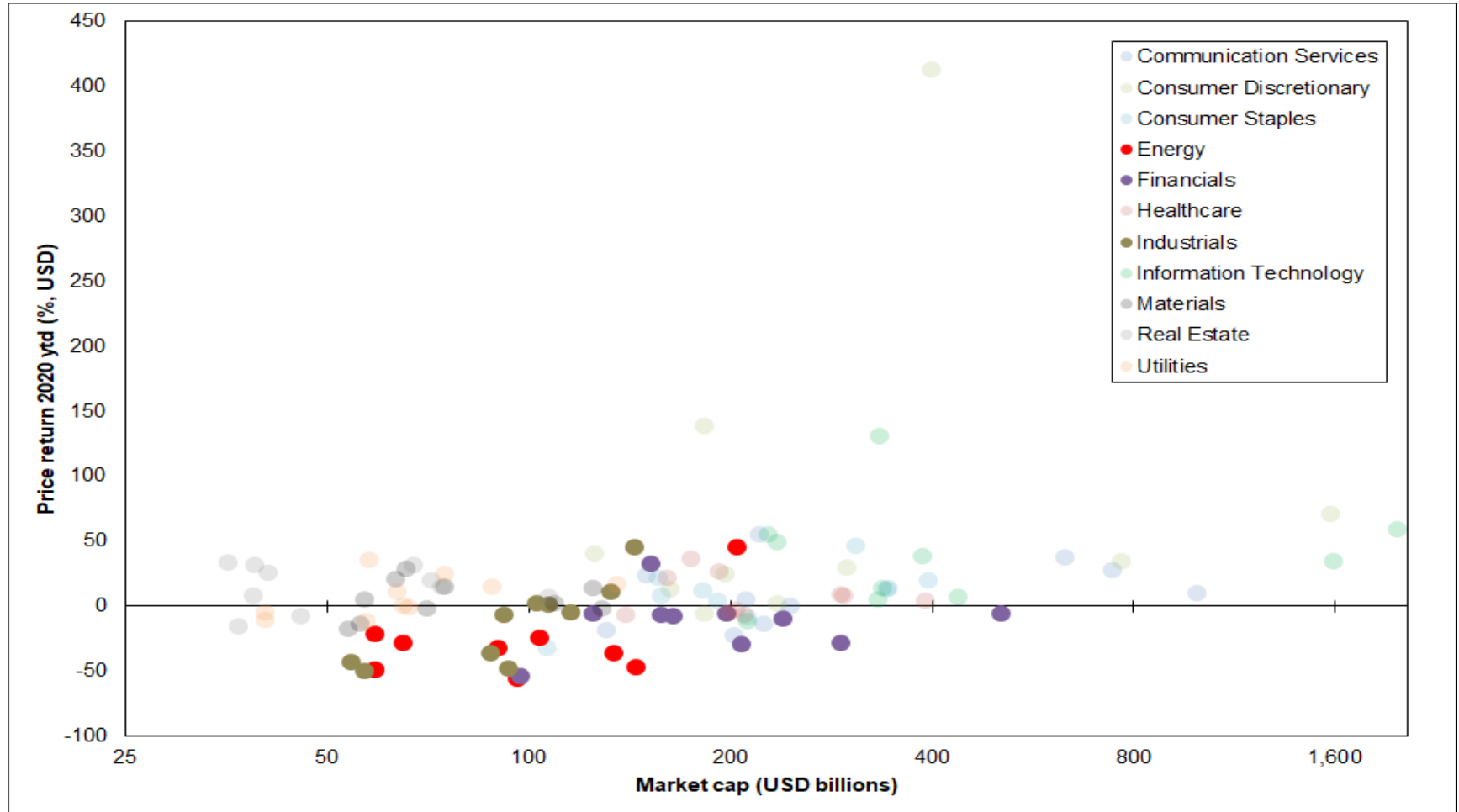
LARGEST STOCKS PER SECTOR

SECTORS WITH LARGE CAP TECH NAMES DOMINATE



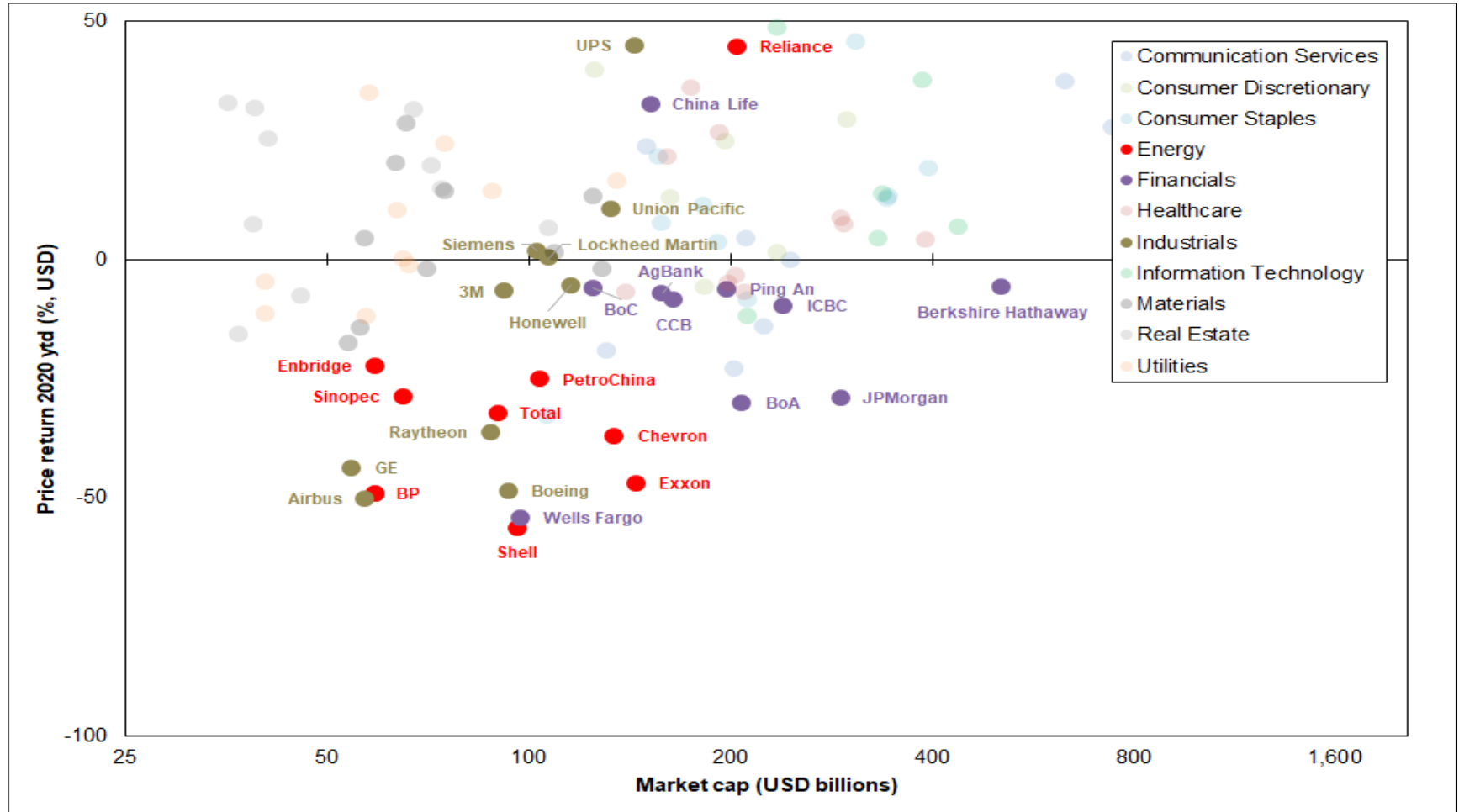
LARGEST STOCKS PER SECTOR

ENERGY, FINANCIALS AND INDUSTRIALS SUFFER



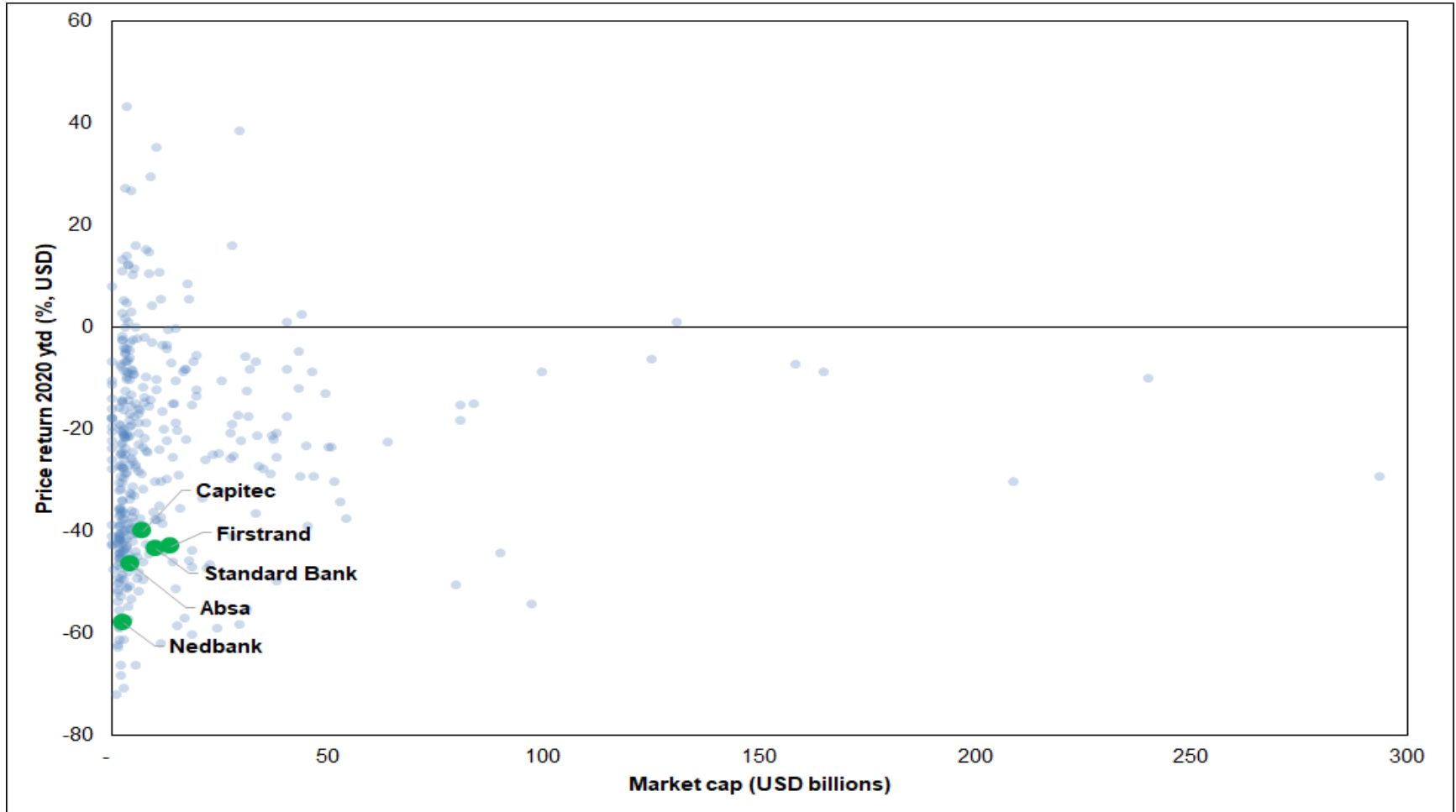
LARGEST STOCKS PER SECTOR

ENERGY, FINANCIALS AND INDUSTRIALS SUFFER



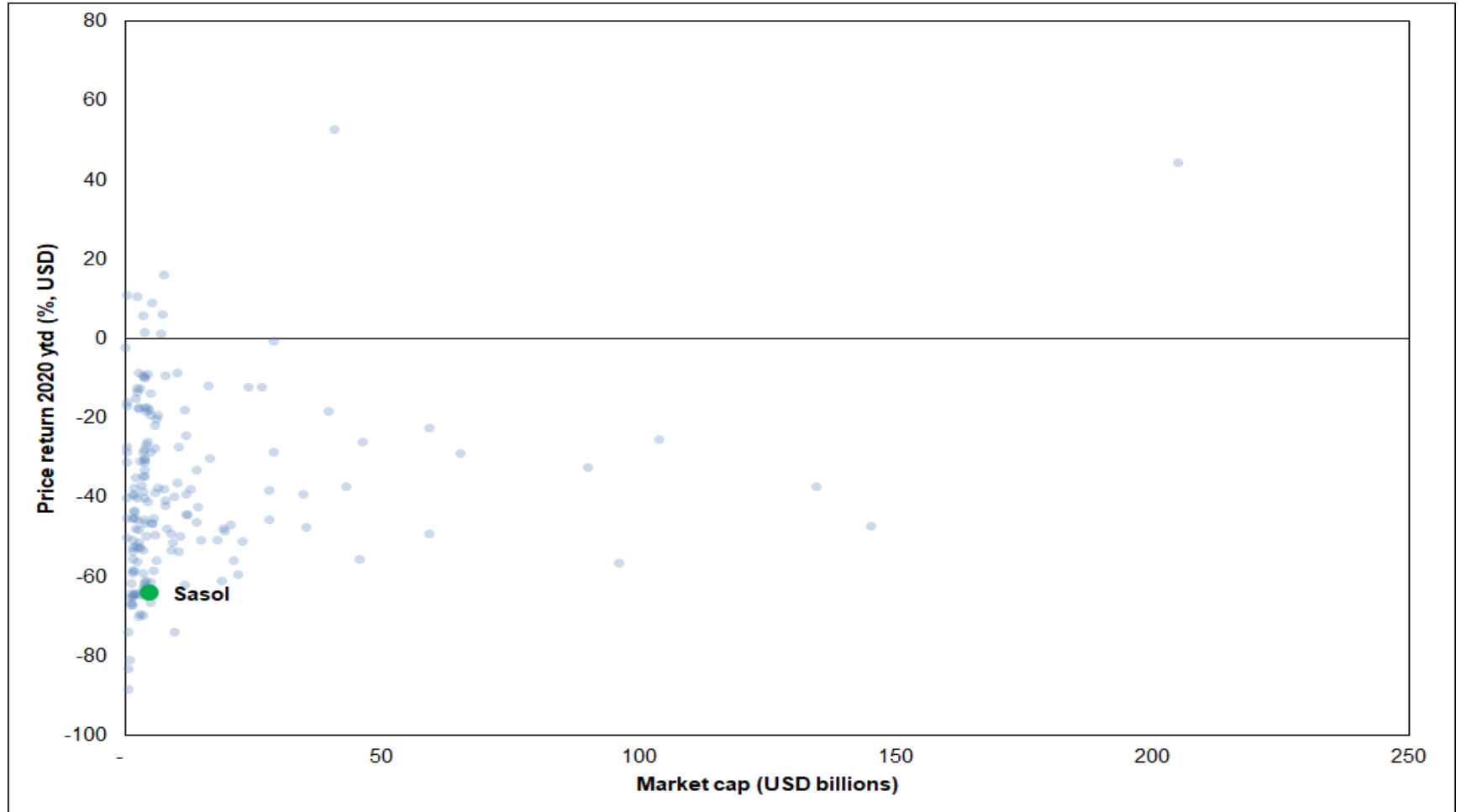
GLOBAL BANKS

SA BANKS NOT ALONE AT THE BOTTOM...



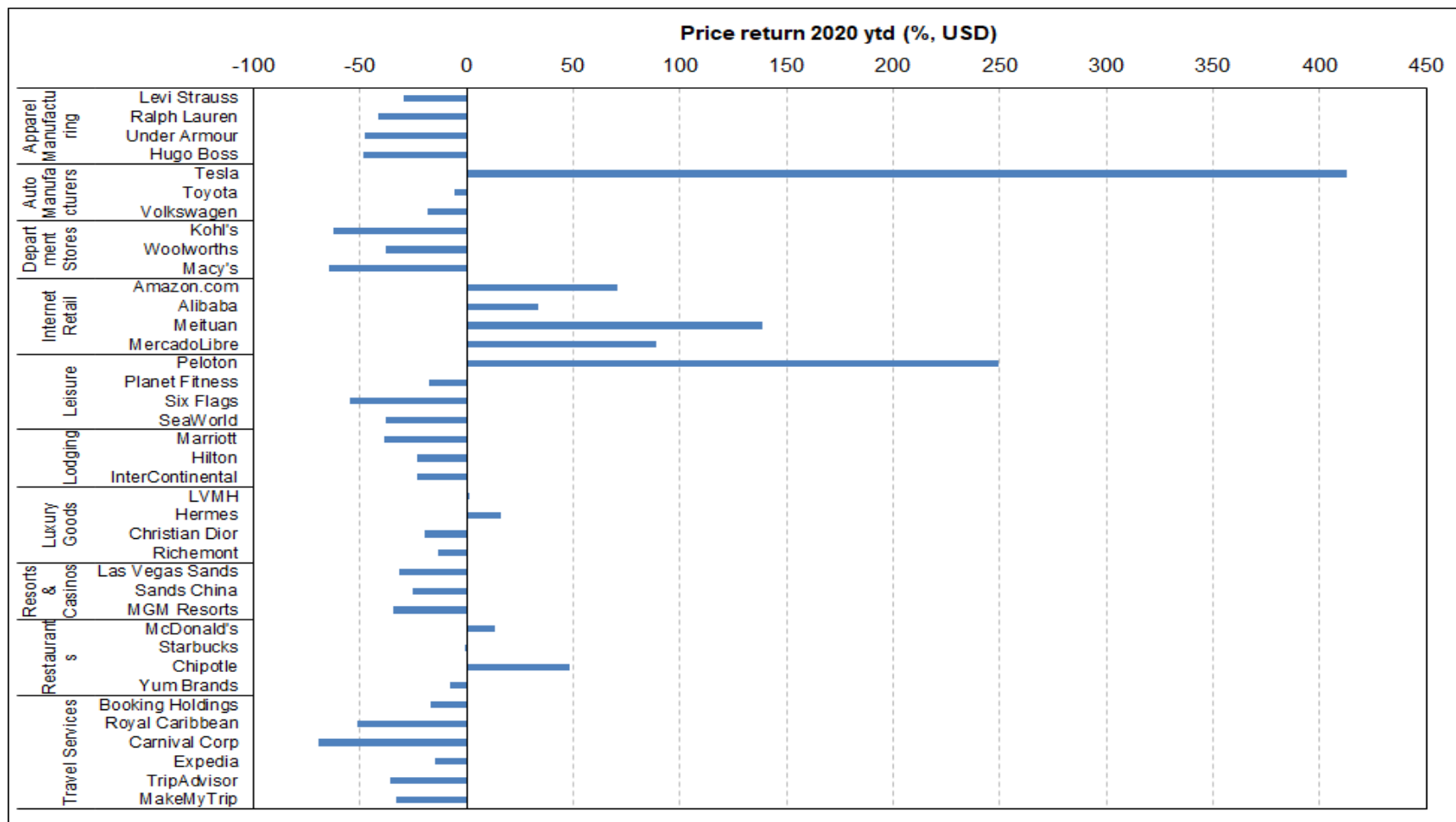
GLOBAL ENERGY STOCKS

...AND NEITHER IS SASOL



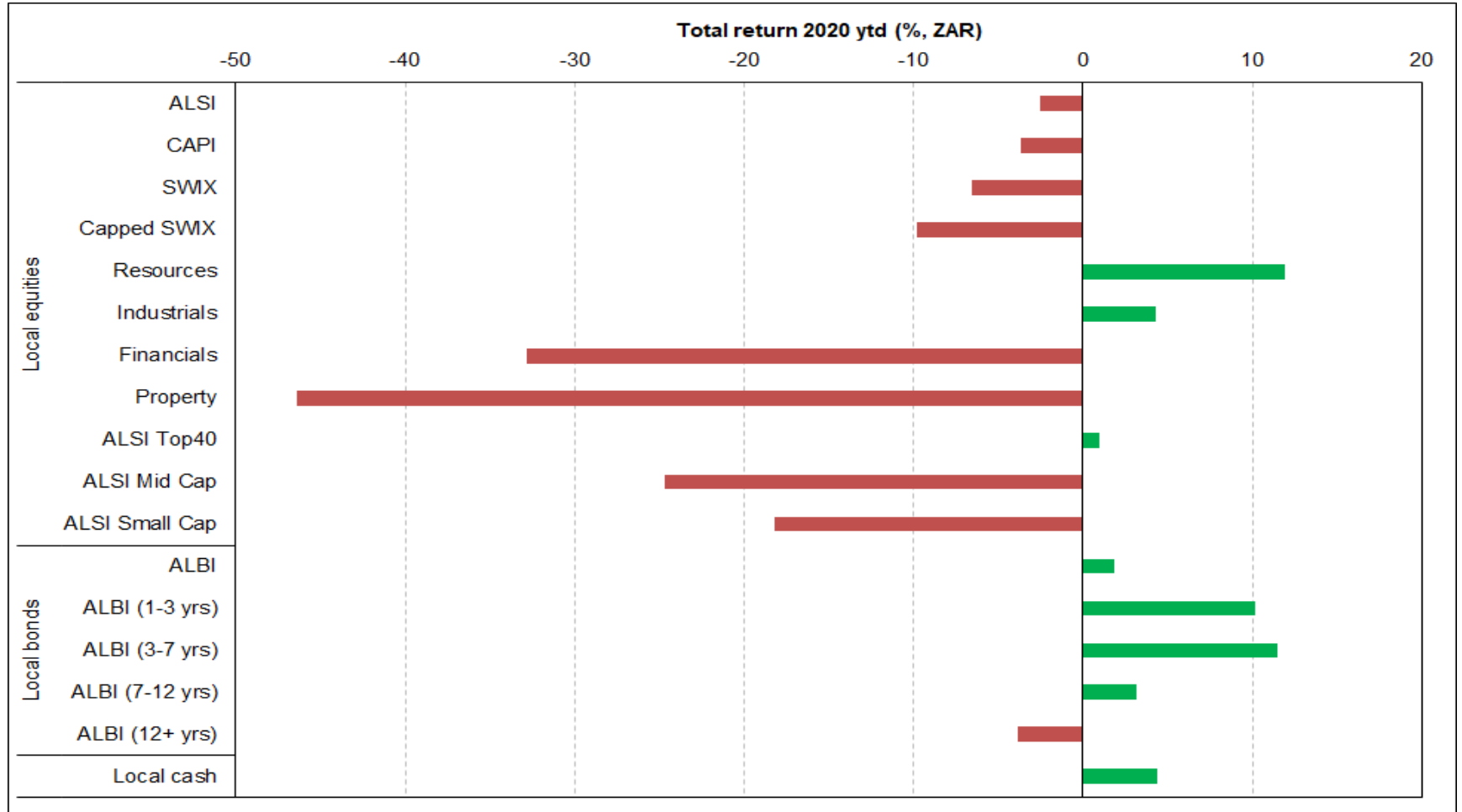
CONSUMER DISCRETIONARY STOCKS

MASSIVE DIVERGENCE BETWEEN WINNERS AND LOSERS



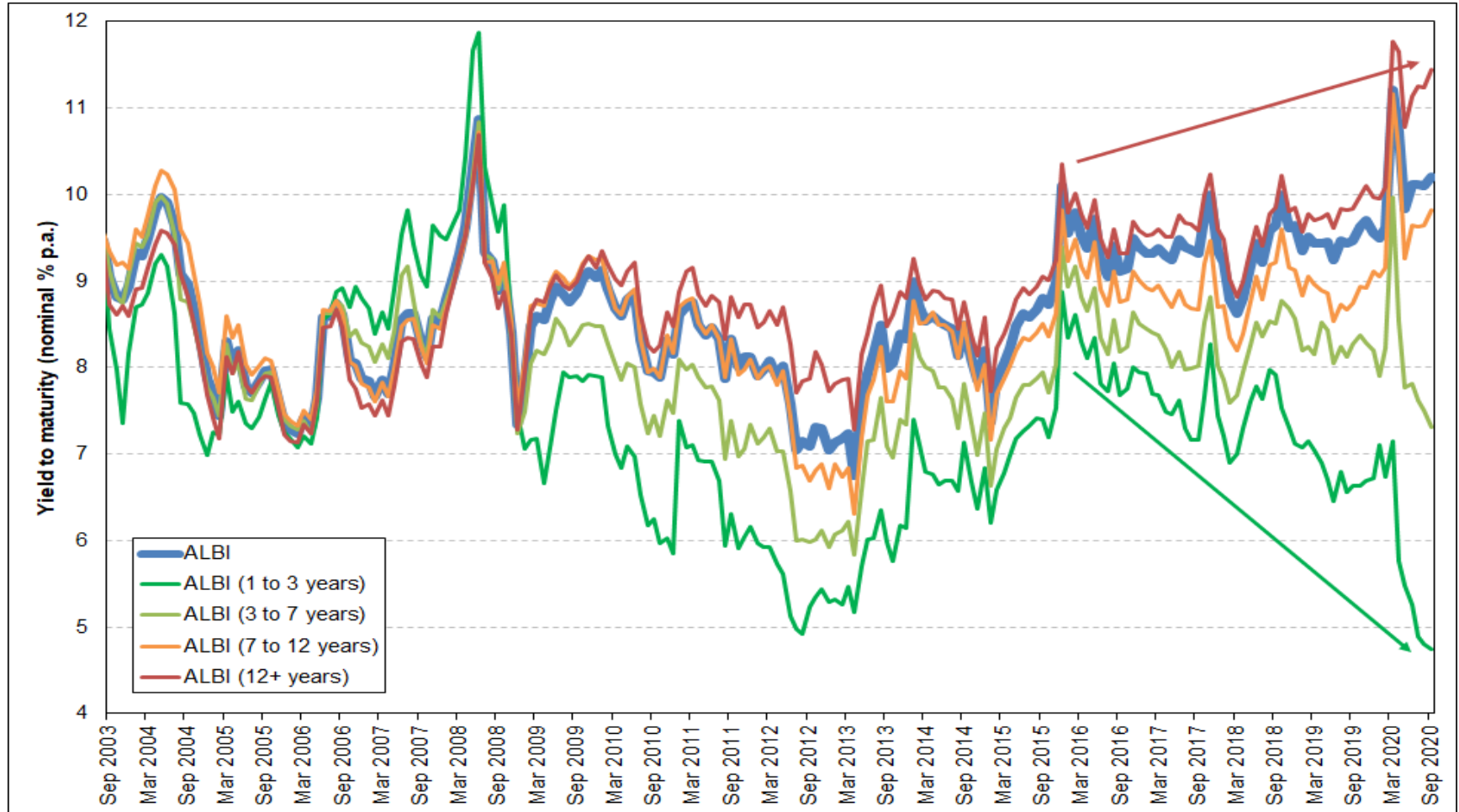
LOCAL MARKETS IN 2020

RECOVERY JUST AS NARROW



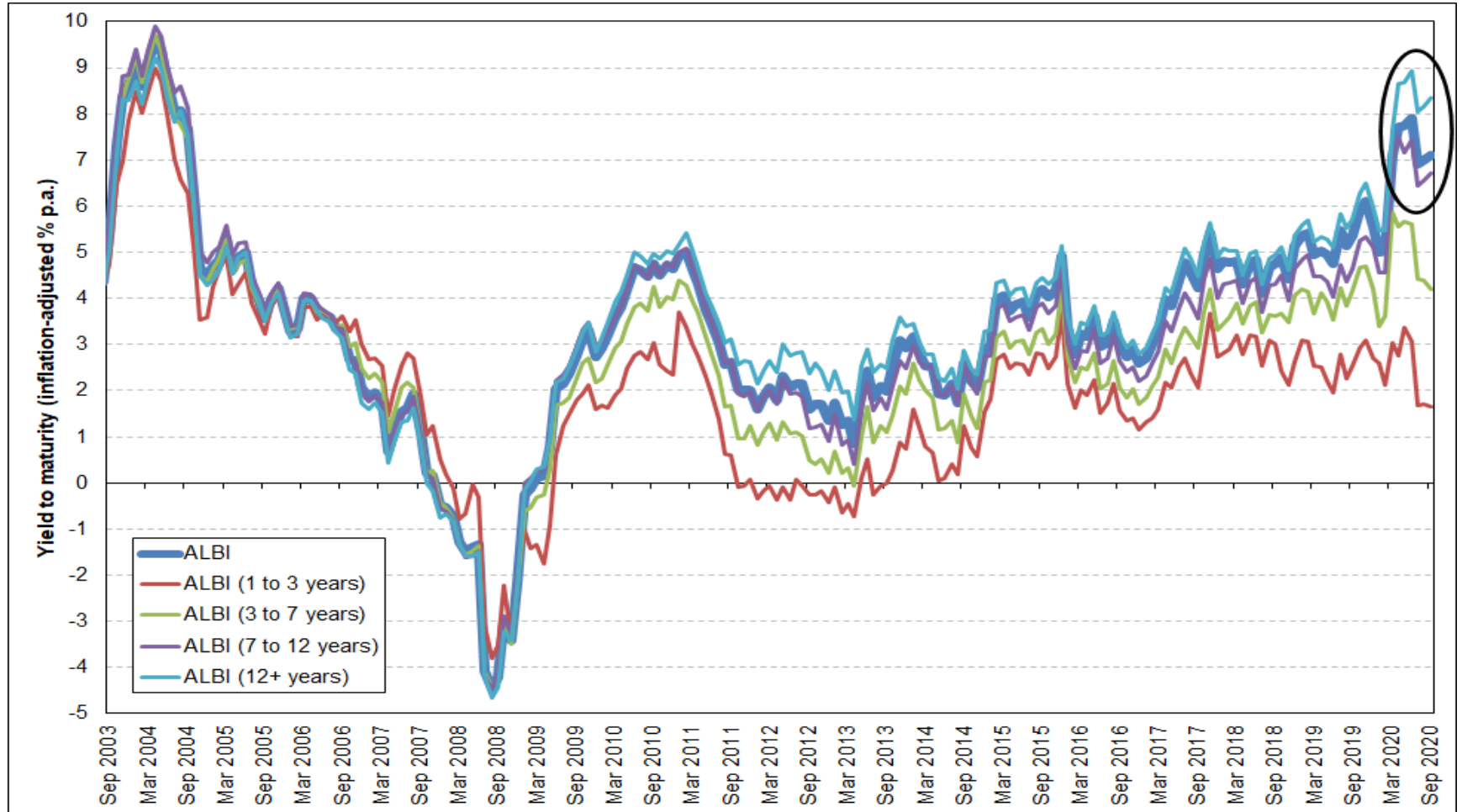
LOCAL BOND MARKET

SHORT TERM YIELDS PUSHED LOWER BY INTEREST RATE CUTS, LONG TERM YIELDS REMAIN ELEVATED



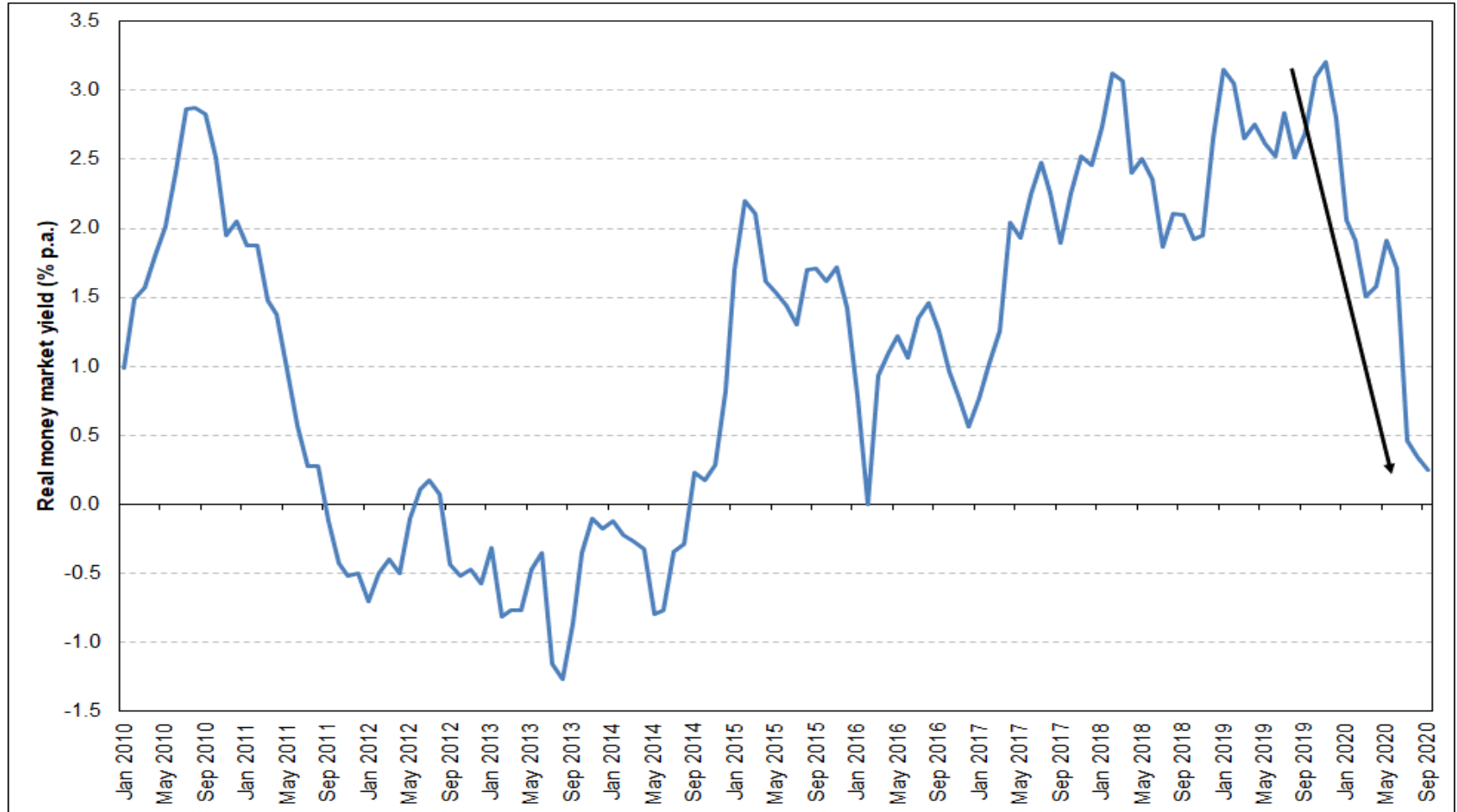
LOCAL BOND MARKET

EQUITY-LIKE REAL RETURNS AT THE LONG END...



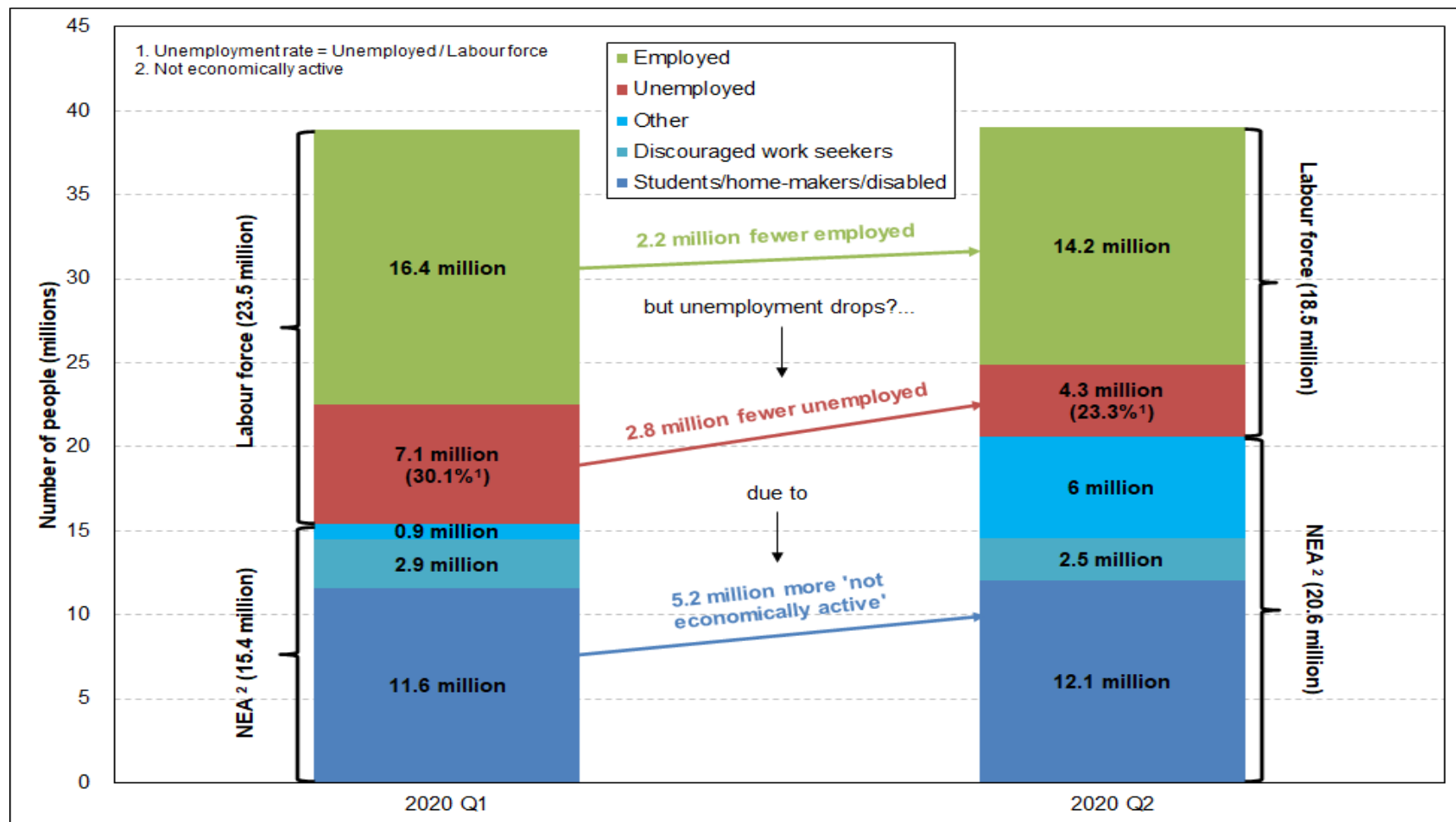
LOCAL MONEY MARKET

...WHILE REAL MONEY MARKET YIELDS HAVE EVAPORATED



SA EMPLOYMENT

2.2 MILLION LOST THEIR JOBS, BUT UNEMPLOYMENT RATE DROPS?



SA EMPLOYMENT

A MORE ACCURATE PICTURE OF 2020 Q2's JOB LOSSES

