

# **MONTH IN PICTURES**

**JULY 2021**

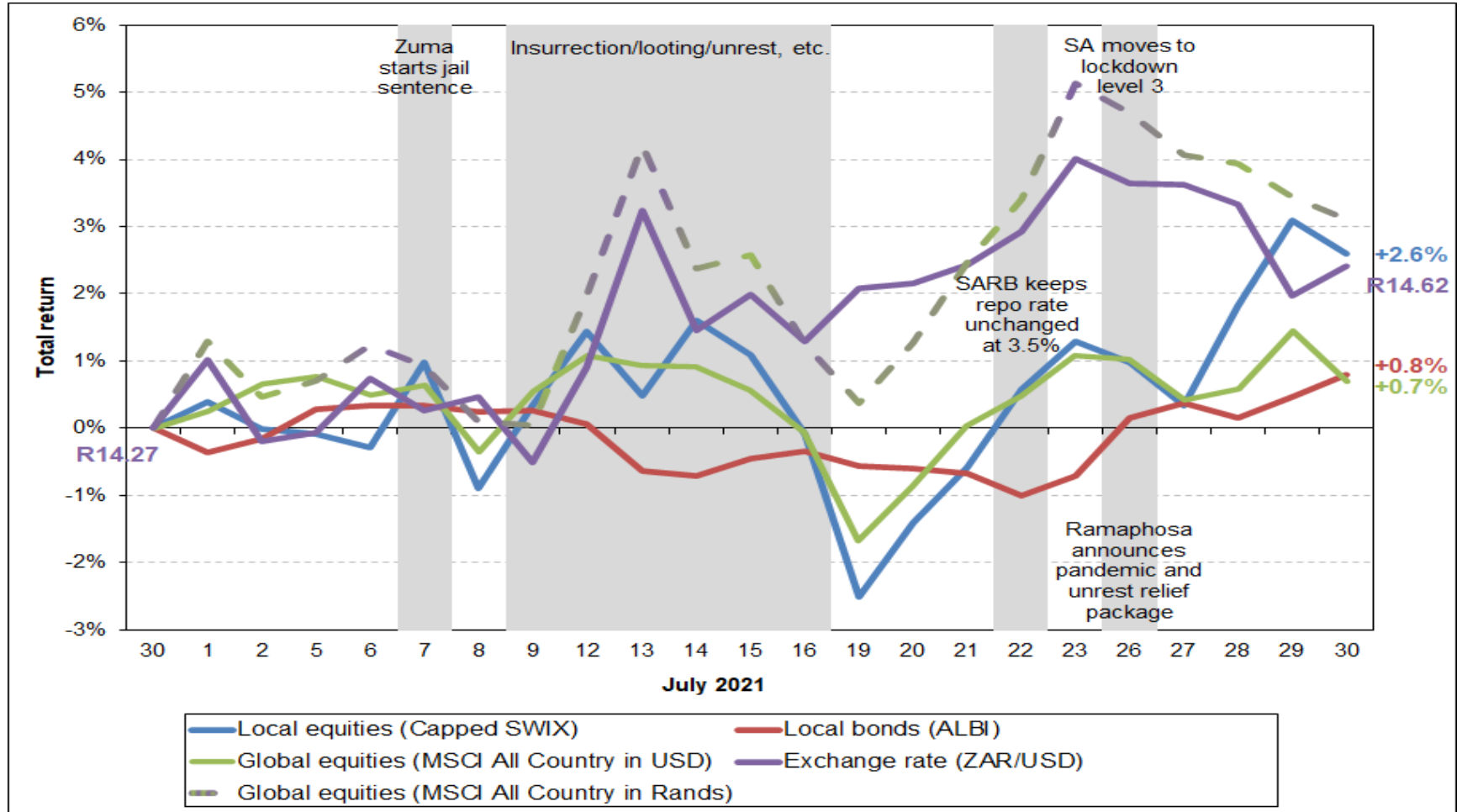
# MONTHLY SNAPSHOT

## NOTABLE EVENTS

- The local equity market ended the month higher against all odds (ALSI = +4.2% & Capped SWIX = +2.6%), as widespread looting and unrest locally, coupled with a renewed crackdown by Chinese regulators globally, were offset by very strong results from local resource counters.
- The unrest unsurprisingly put some pressure on those sectors more exposed to the local economy, but Financials (-1.2%) and Listed Property (-0.6%) held up remarkably well, ending the month only marginally lower. Although the Chinese regulatory crackdown impacted two of South Africa's largest growth stocks (Naspers and Prosus ended the month 6-7% down), strong results from Richemont (+8%) managed to push Industrials (+0.9%) into positive territory. Resources (+11.7%) had a very good month on the back of strong financial results from local miners.
- Local bonds also managed to eke out a positive return (+0.8%) in July, although the Rand came under some pressure, depreciating by more than 2% against the major currencies.
- On a broad level global markets had a positive month, with USD returns of +0.7% from global equities and +1.6% from global bonds. Emerging market equities (-6.7% in USD) came under heavy pressure though, with a steep sell-off in Chinese stocks (-13.8% in USD) being the main detractor.
- Inflation continued to trend lower from its recent highs, clocking in at 4.6% year-on-year (y-o-y) after reaching 5.2% y-o-y at the end of May. The South African Reserve Bank therefore kept the repo rate at 3.5%, and still expects the economy to grow at 4.2% in 2021, with the better-than-expected growth in Q1 being fully offset by the output losses in July (estimated at R50 billion)
- South Africa's unemployment rate unfortunately reached new record highs in 2021 Q2, with the official rate coming in at 34.4%, while under the expanded definition it reached 44.4%. We now have the dubious distinction of sporting the highest official unemployment rate in the world, which is likely to deteriorate even further once the recent unrest-related job losses (estimated at 150,000) is taken into account.
- A comprehensive overhaul and update of the methods and data used by Stats SA showed that the local economy is 11% larger than previously estimated. Although certain metrics (like GDP-per-capita and debt-to-GDP) will improve as a result, the revised historic growth rates are similar in magnitude and pattern than the previous series, and South Africa retains its position as the third largest economy in Africa.

# MONTHLY TIMELINE

## IMPACT ON MARKETS



# MARKET INDICATORS

## SHORT TERM

Market indicators (% change) <sup>1</sup>		May 2021	Jun 2021	Jul 2021	3 months	12 months
Local equities	ALSI	1.6	(2.4)	4.2	3.2	27.1
	Capped SWIX	2.9	(3.0)	2.6	2.4	27.1
	Resources	(1.2)	(6.4)	11.7	3.2	32.7
	Industrials	1.6	0.4	0.9	2.9	22.1
	Financials	9.3	(3.0)	(1.2)	4.7	29.2
	Listed Property	(2.9)	3.4	(0.6)	(0.2)	28.5
Local bonds	ALBI	3.7	1.1	0.8	5.7	13.9
Local cash	STeFI Composite	0.3	0.3	0.3	0.9	3.9
Global equities	MSCI All Country	(3.8)	5.3	3.1	4.5	14.1
Global bonds	FTSE WGBI	(4.4)	2.8	4.1	2.3	(15.3)
Exchange rate	ZAR/USD	(5.2)	3.9	2.4	0.8	(14.3)
Inflation	CPI	0.1	0.2	1.1	1.5	4.6

1. Total returns (in Rands) for the months and periods ending 31 July 2021.

# MARKET INDICATORS

## MEDIUM TO LONG TERM

Market indicators (% change) <sup>1</sup>		1 year	3 years	5 years	10 years	15 years
Local equities	ALSI	25.1	8.1	8.1	10.9	11.1
	Capped SWIX	27.6	4.8	4.3	9.8	10.6
	Resources	29.6	20.9	20.6	5.7	6.3
	Industrials	19.4	6.2	5.5	13.5	14.9
	Financials	31.3	(3.1)	0.6	9.1	8.7
	Listed Property	25.2	(8.9)	(6.9)	5.1	9.5
Local bonds	ALBI	13.7	9.2	9.2	8.5	8.6
Local cash	STeFI Composite	4.0	6.0	6.6	6.3	7.1
Global equities	MSCI All Country	14.6	16.1	13.9	18.4	12.7
Global bonds	FTSE WGBI	(17.1)	4.9	1.1	9.3	8.2
Exchange rate	ZAR/USD	(17.7)	1.3	(0.6)	7.8	4.7
Inflation	CPI	4.6	3.9	4.3	5.0	5.6

1. Total returns (in Rands) for the months and periods ending 31 July 2021.

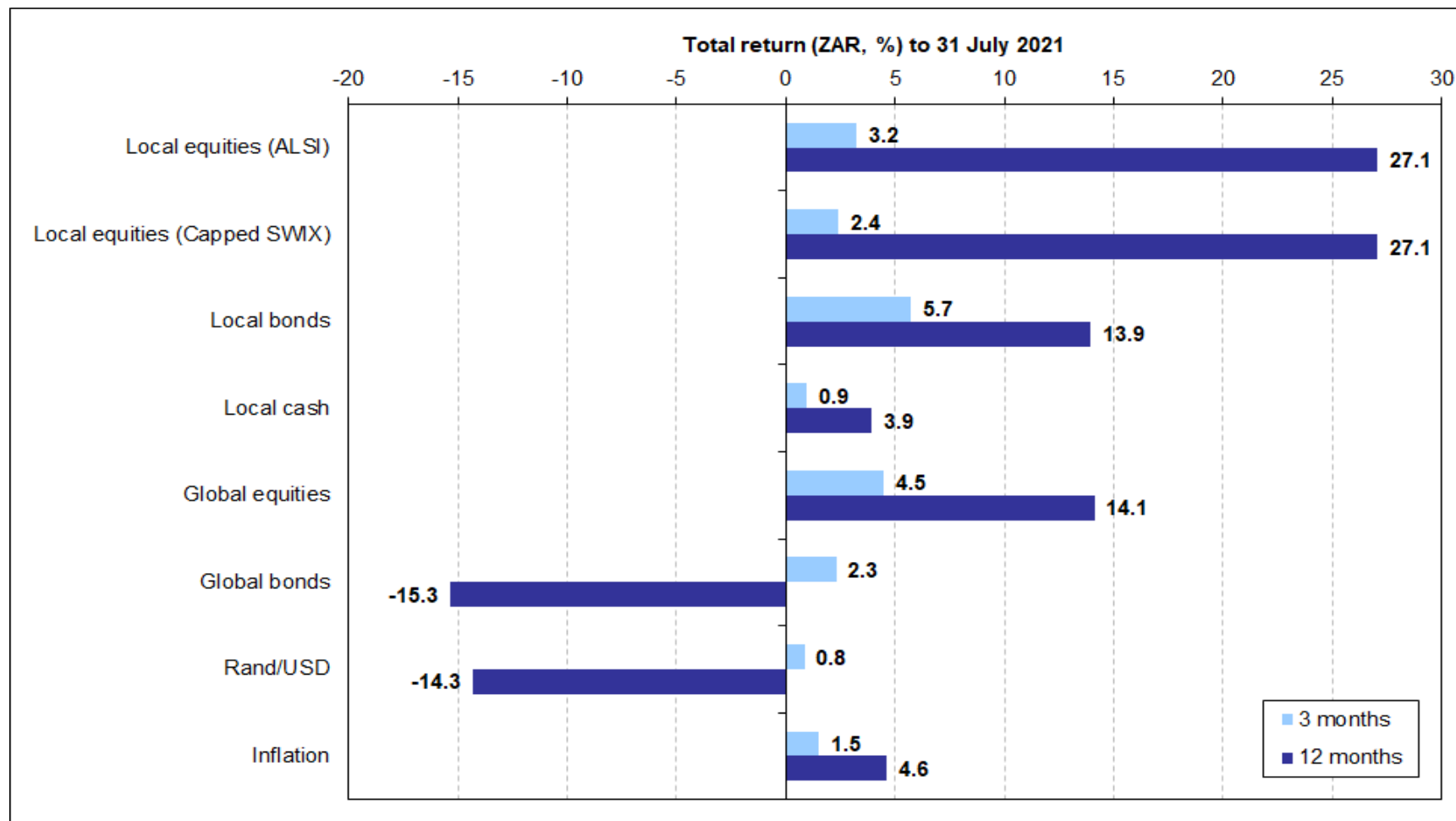
# ECONOMIC INDICATORS

Economic indicators <sup>1</sup>	Jul 2019	Jul 2020	May 2021	Jun 2021	Jul 2021
<b>Exchange rates:</b>					
ZAR/USD					
ZAR/GBP	14.34	17.06	13.74	14.27	14.62
ZAR/Euro	17.44	22.34	19.53	19.75	20.31
<b>Commodities:</b>	15.88	20.11	16.80	16.93	17.34
Brent Crude Oil (USD/barrel)					
Platinum (USD/ounce)	64.30	43.52	69.33	74.62	75.41
Gold (USD/ounce)	873.00	908.50	1,182.43	1,072.50	1,065.10

1. Month-end prices

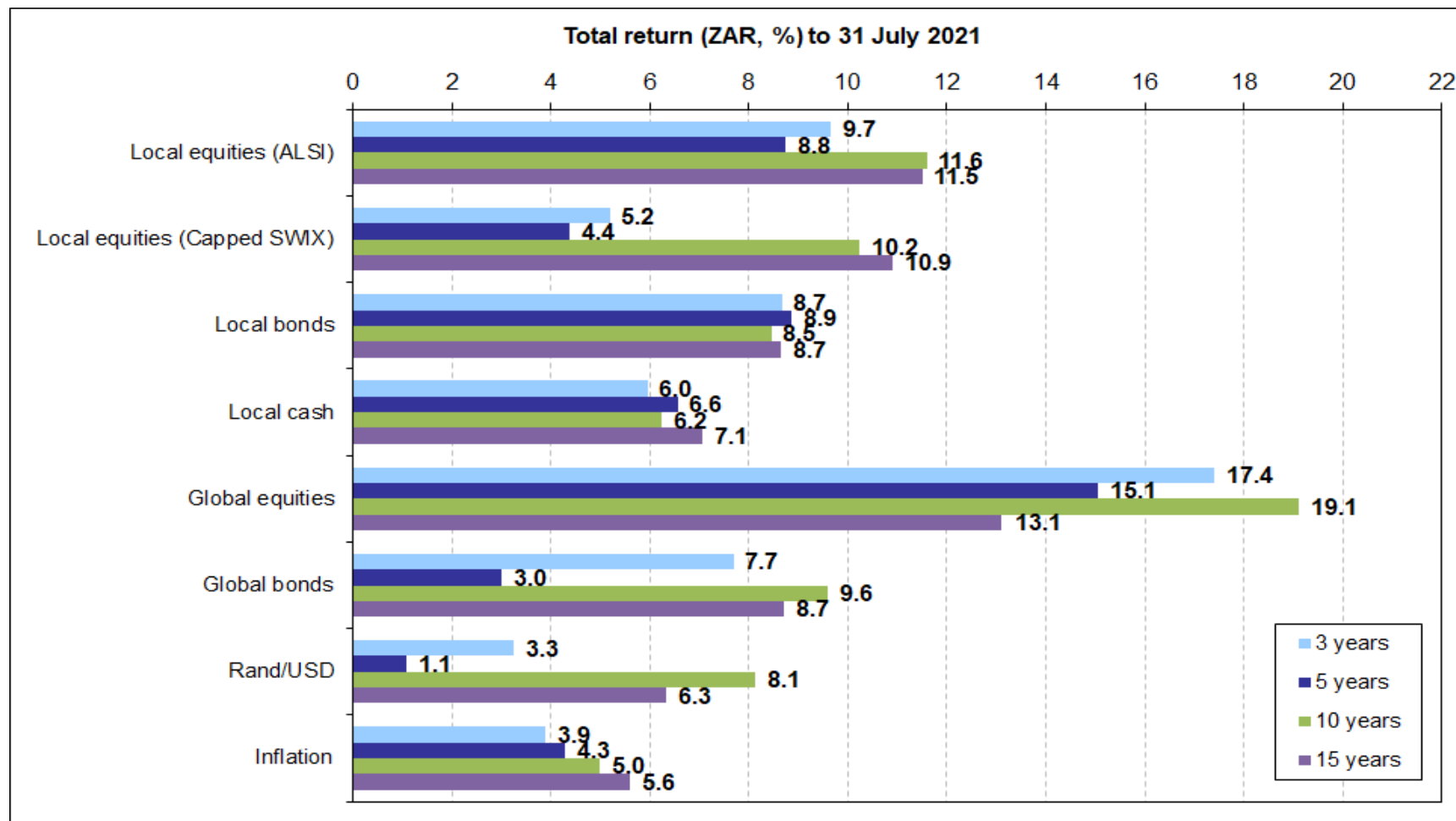
# ASSET CLASS PERFORMANCE

## SHORT TERM



# ASSET CLASS PERFORMANCE

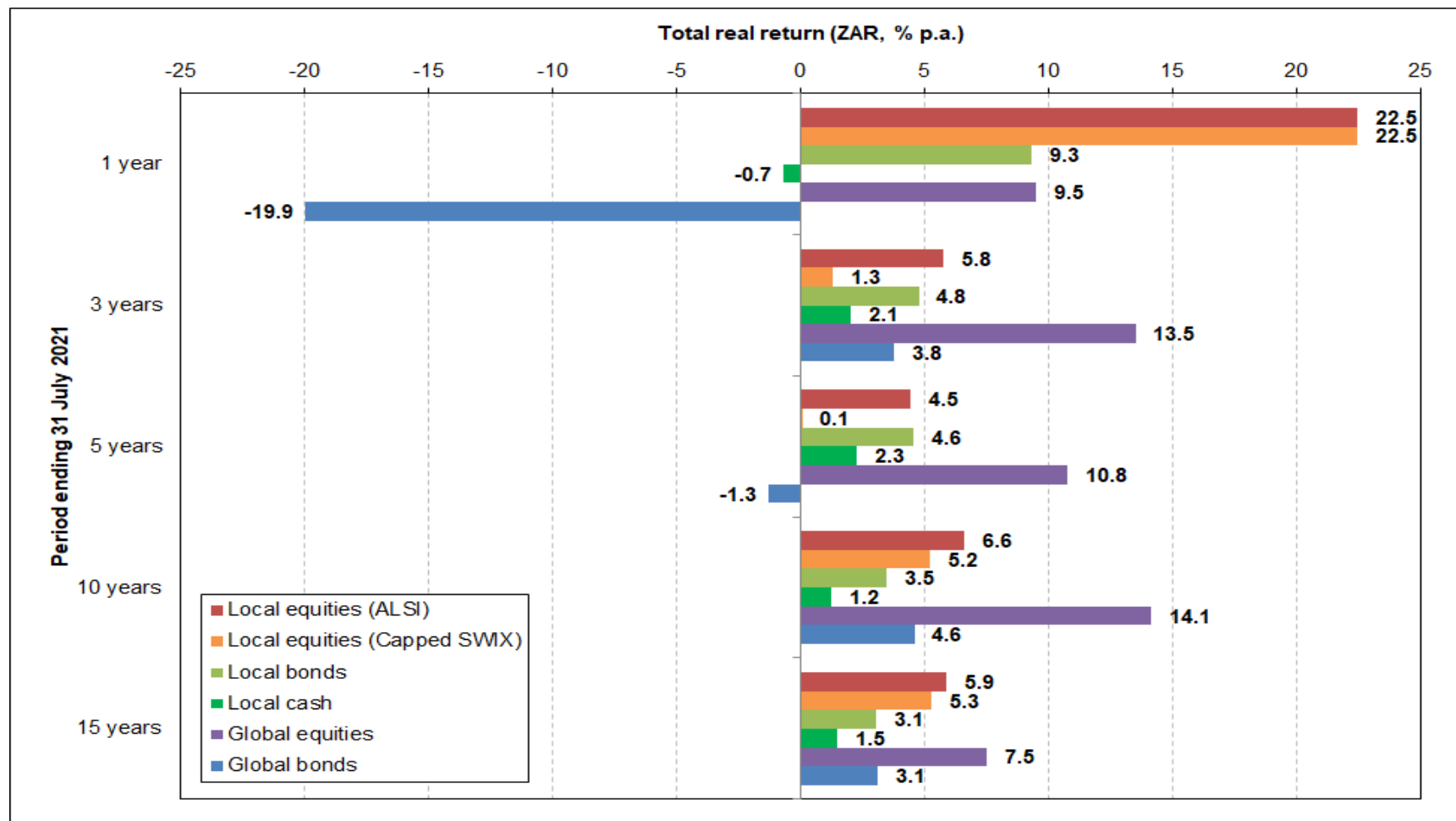
## MEDIUM TO LONG TERM





# 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%

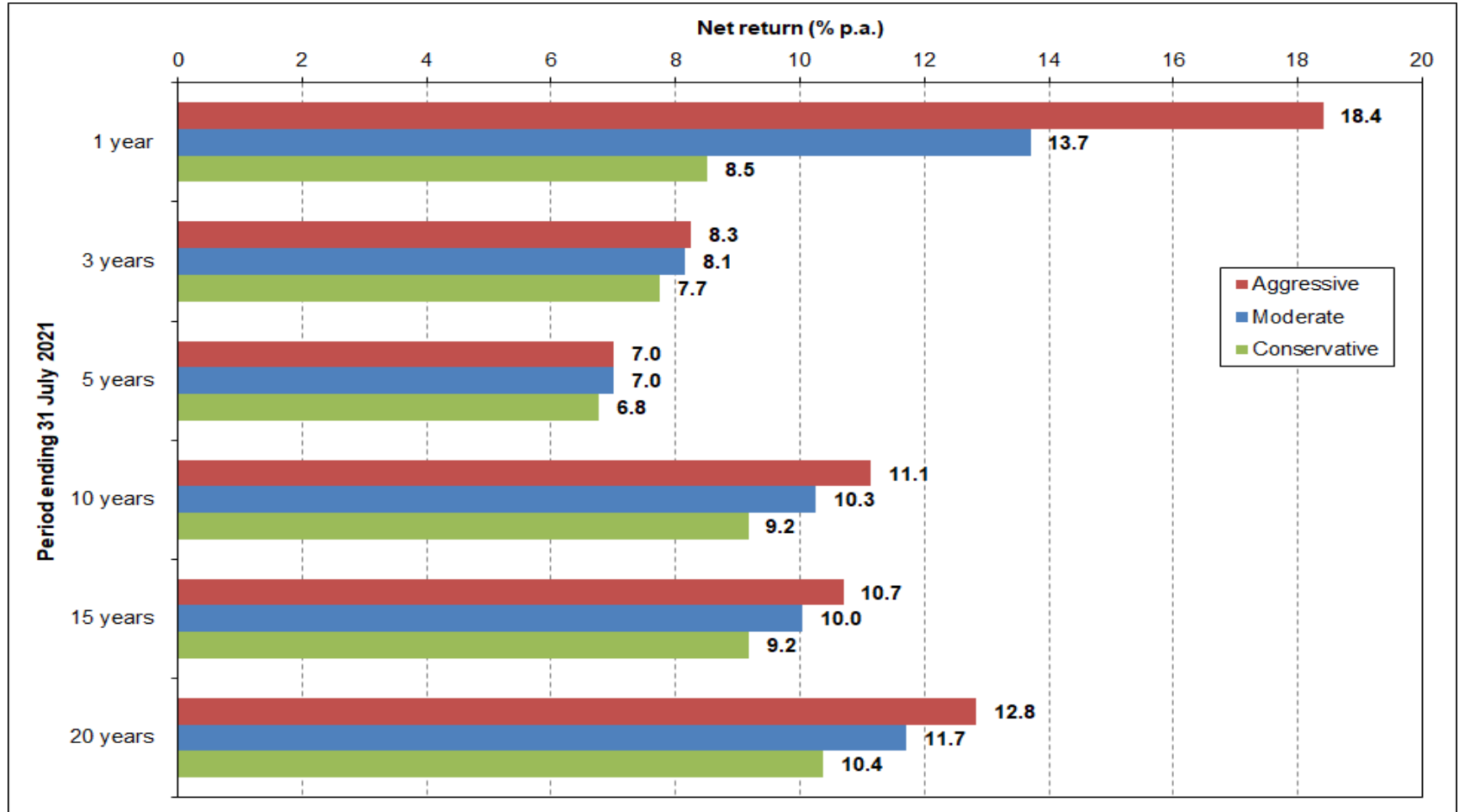
MODERATE	Strategic allocation	LOCAL VS OFFSHORE	75%			25% (5% below regulatory maximum)	
		GROWTH VS INCOME ASSETS	55%	45%		55%	45%
		EQUITIES VS BONDS VS CASH	100%	55%	45%	100%	100%
	Current allocation		~41%	~19%	~15%	~14%	~11%

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%

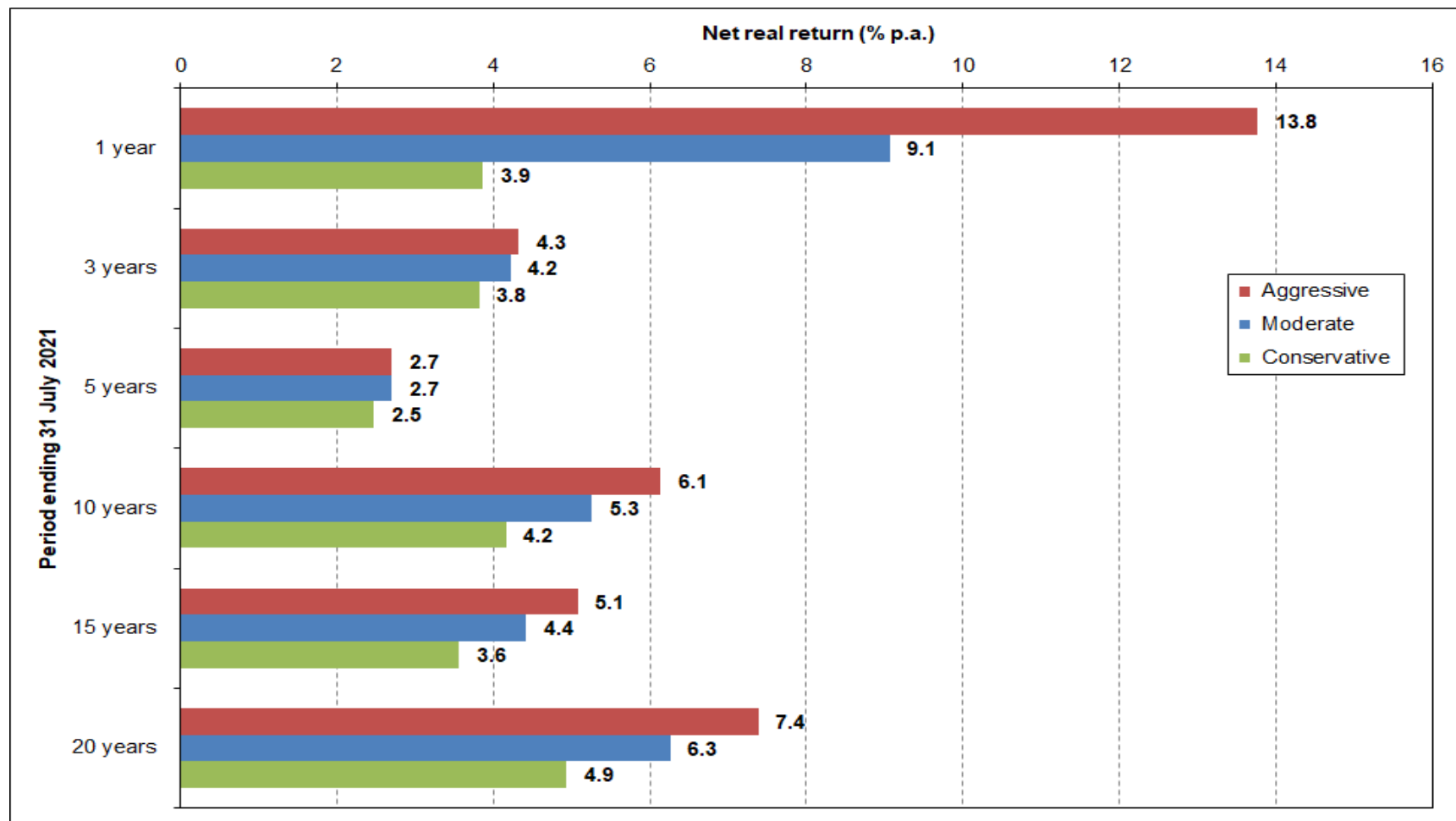
# MARKET PERFORMANCE

## 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?



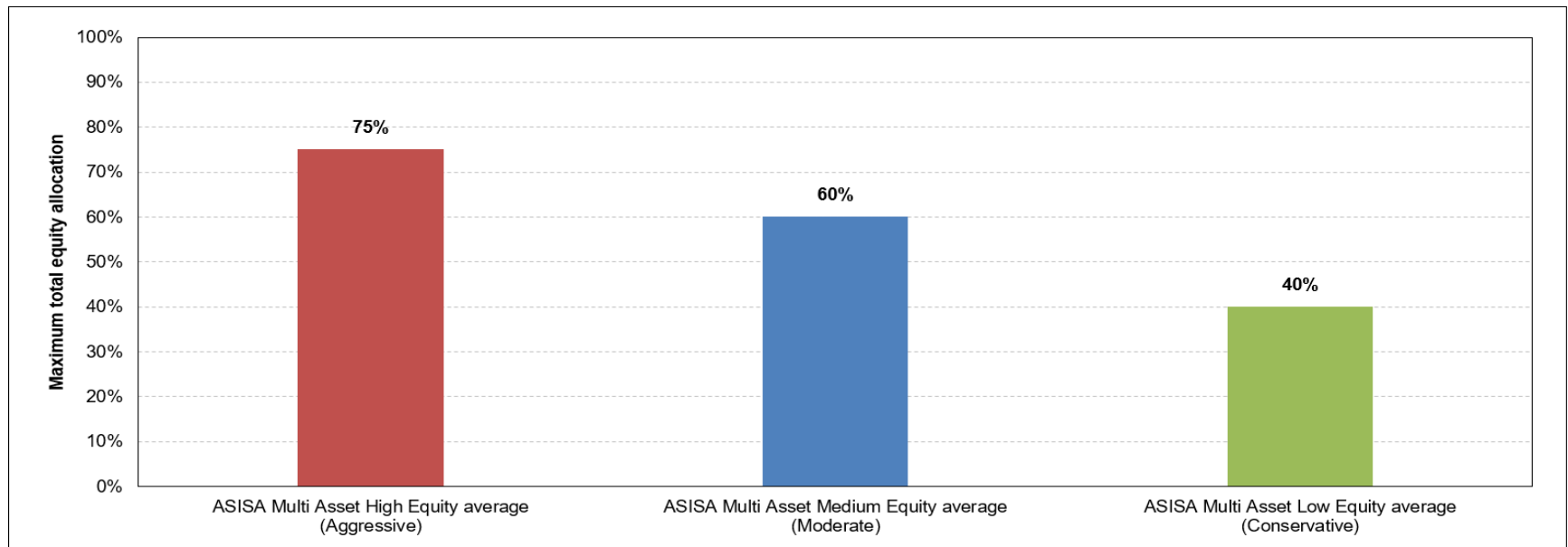
# MANAGER PERFORMANCE

## 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?

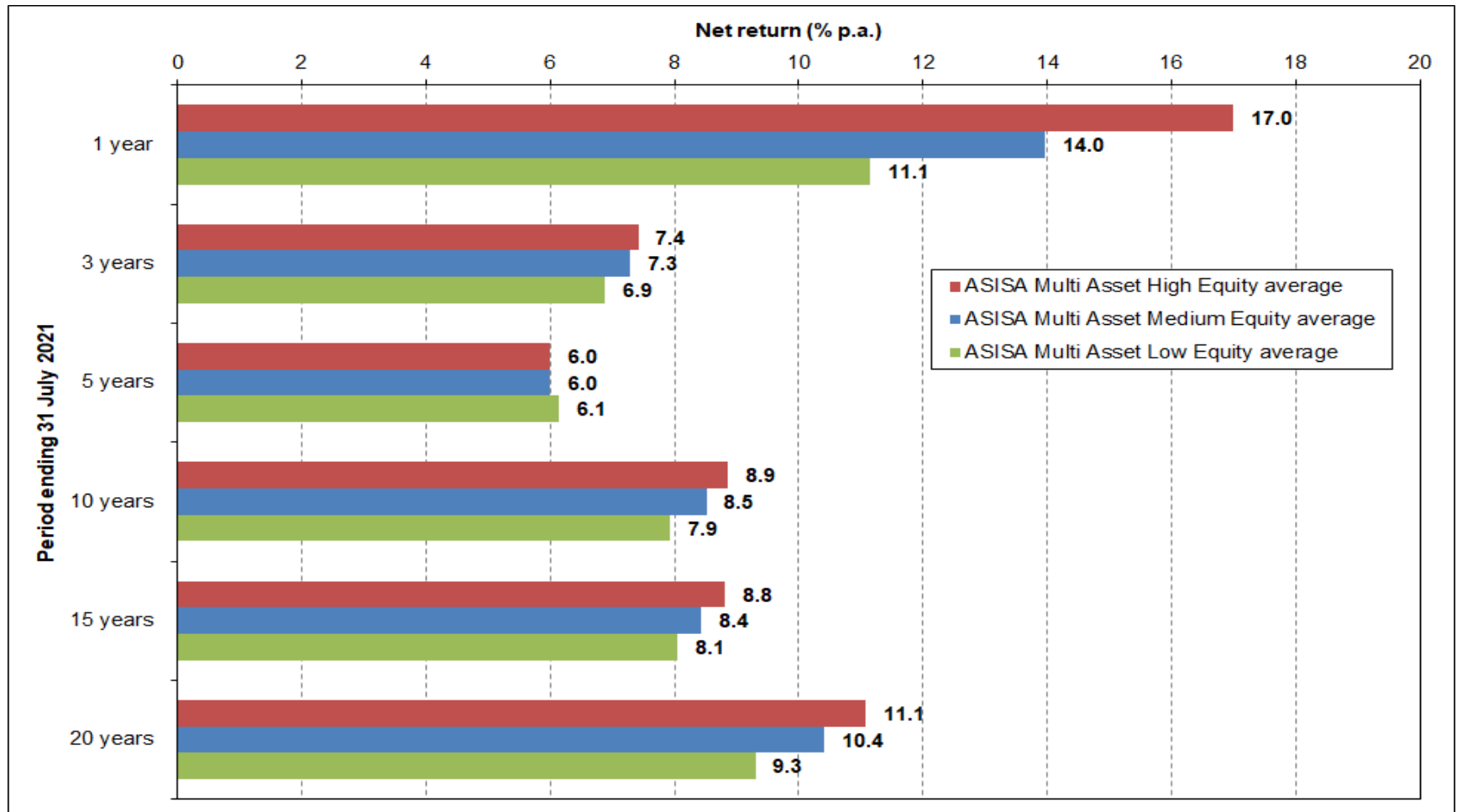
To illustrate this, we show the average returns from regulated collective investment schemes in the ASISA (Association for Savings and Investments South Africa) South Africa Multi Asset High, Medium and Low Equity categories to reflect the returns of typical Aggressive, Moderate and Conservative retirement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



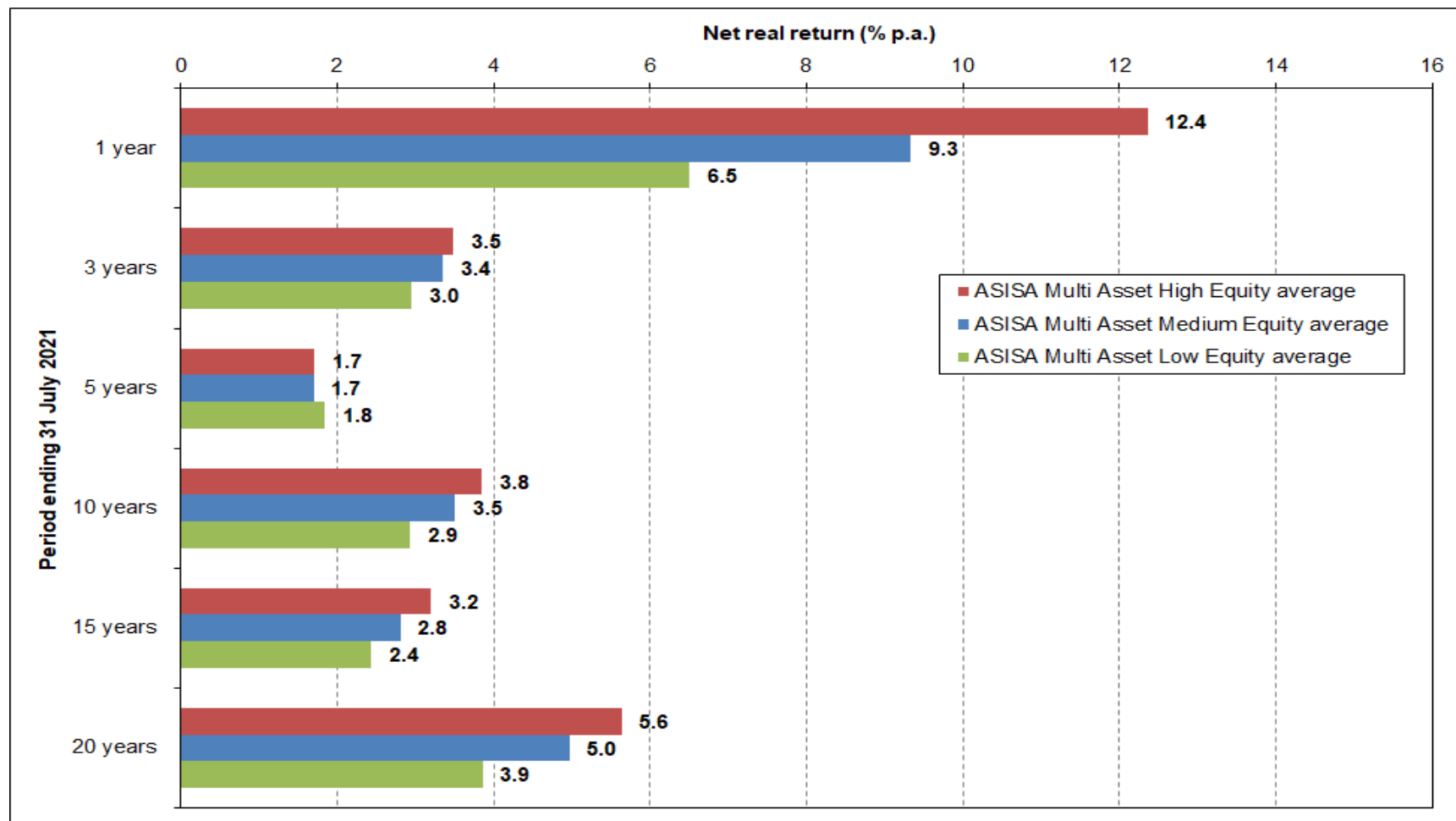
# MANAGER PERFORMANCE

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



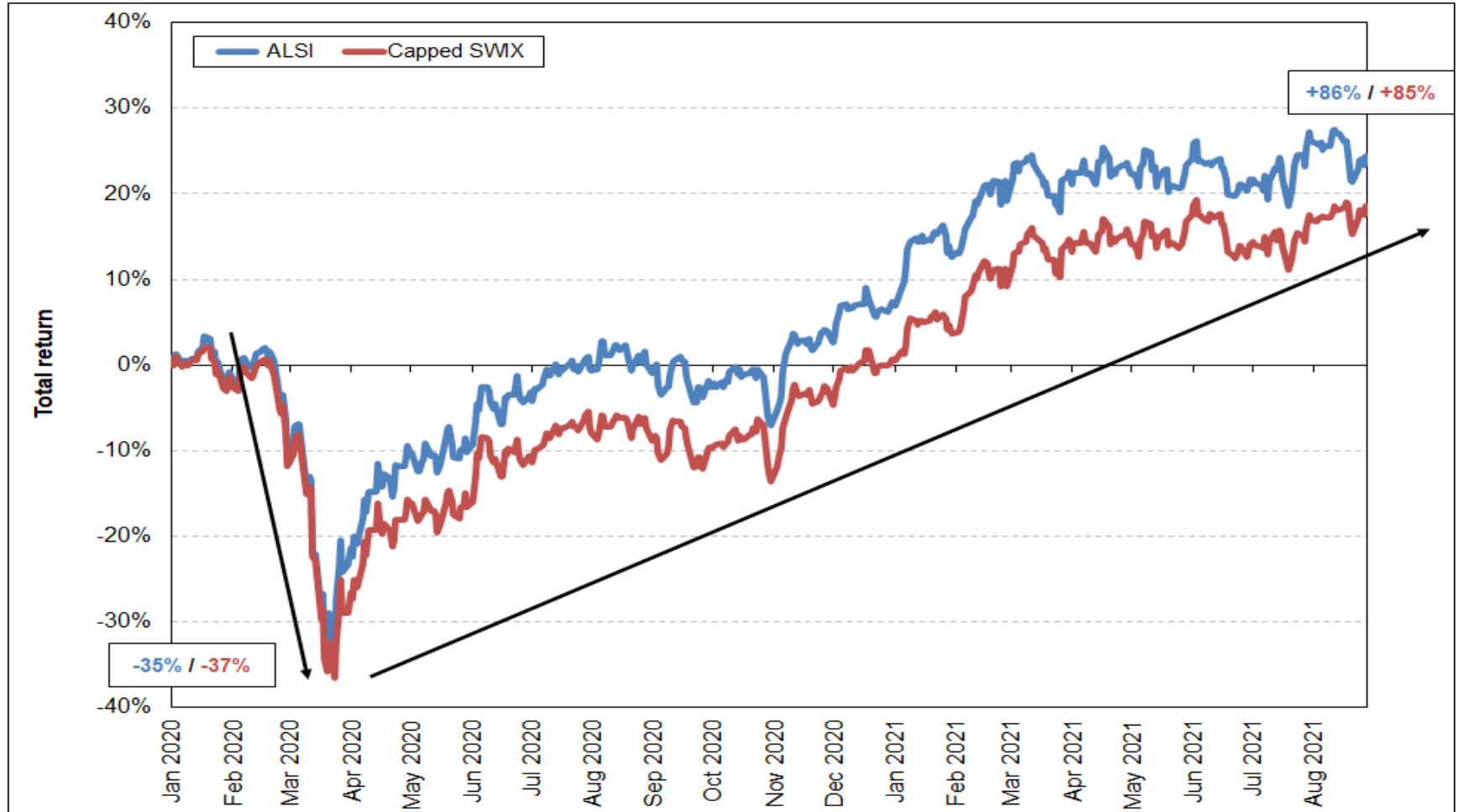
# MANAGER PERFORMANCE

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



# LOCAL EQUITY MARKET

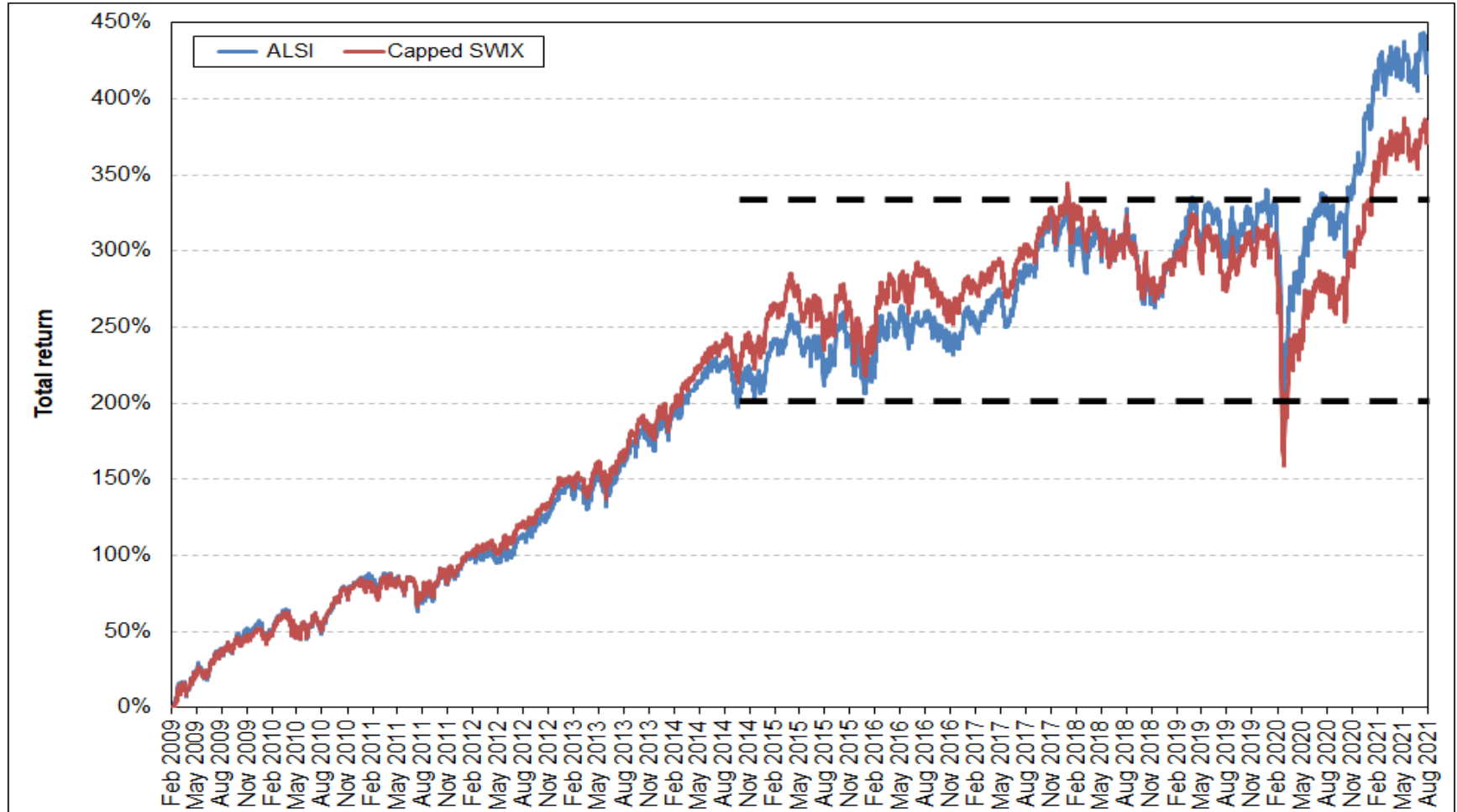
## SPECTACULAR RECOVERY, BUT NOW TREADING WATER





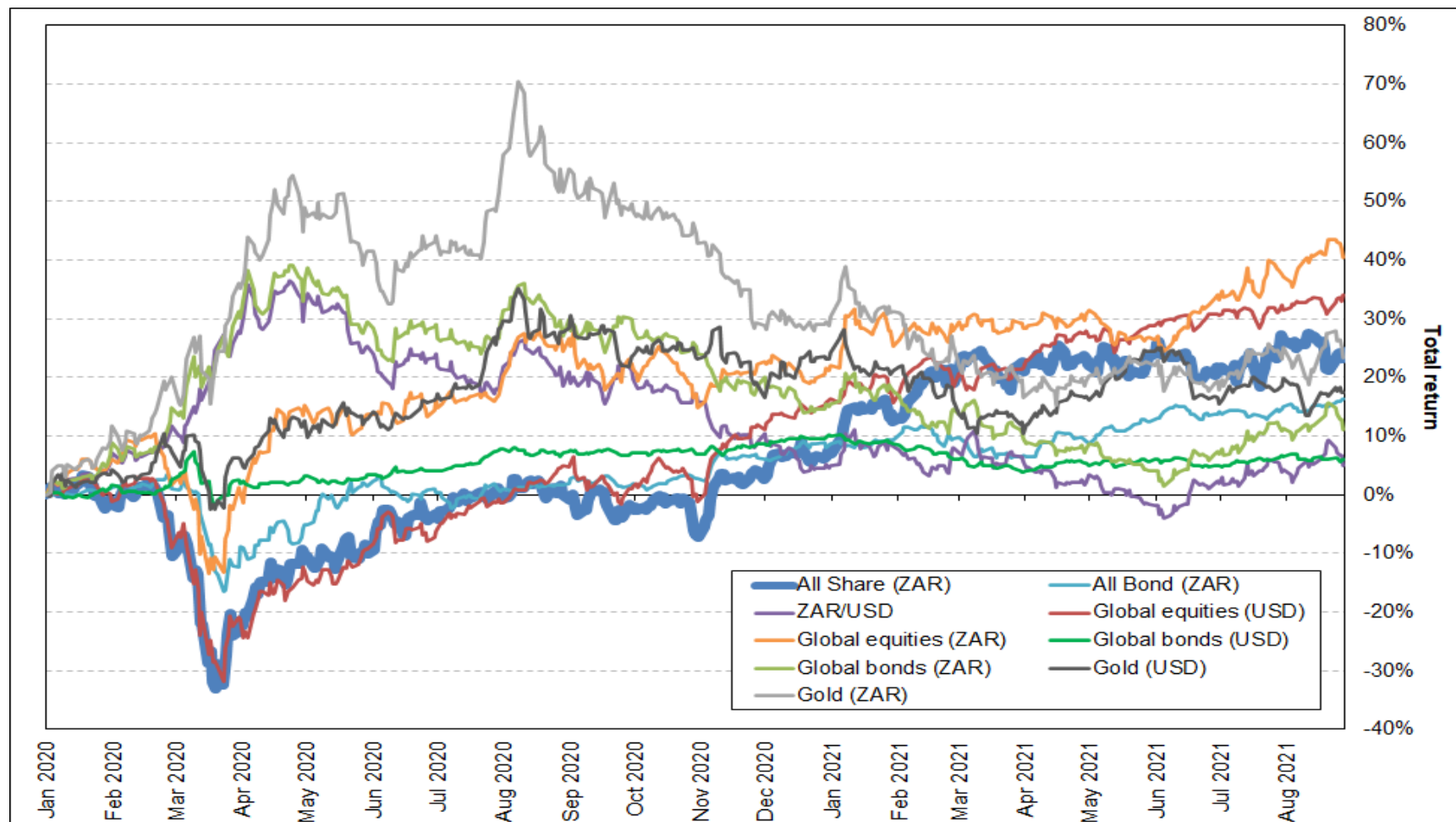
# LOCAL EQUITY MARKET

## ARE THE LEAN YEARS BEHIND US NOW?



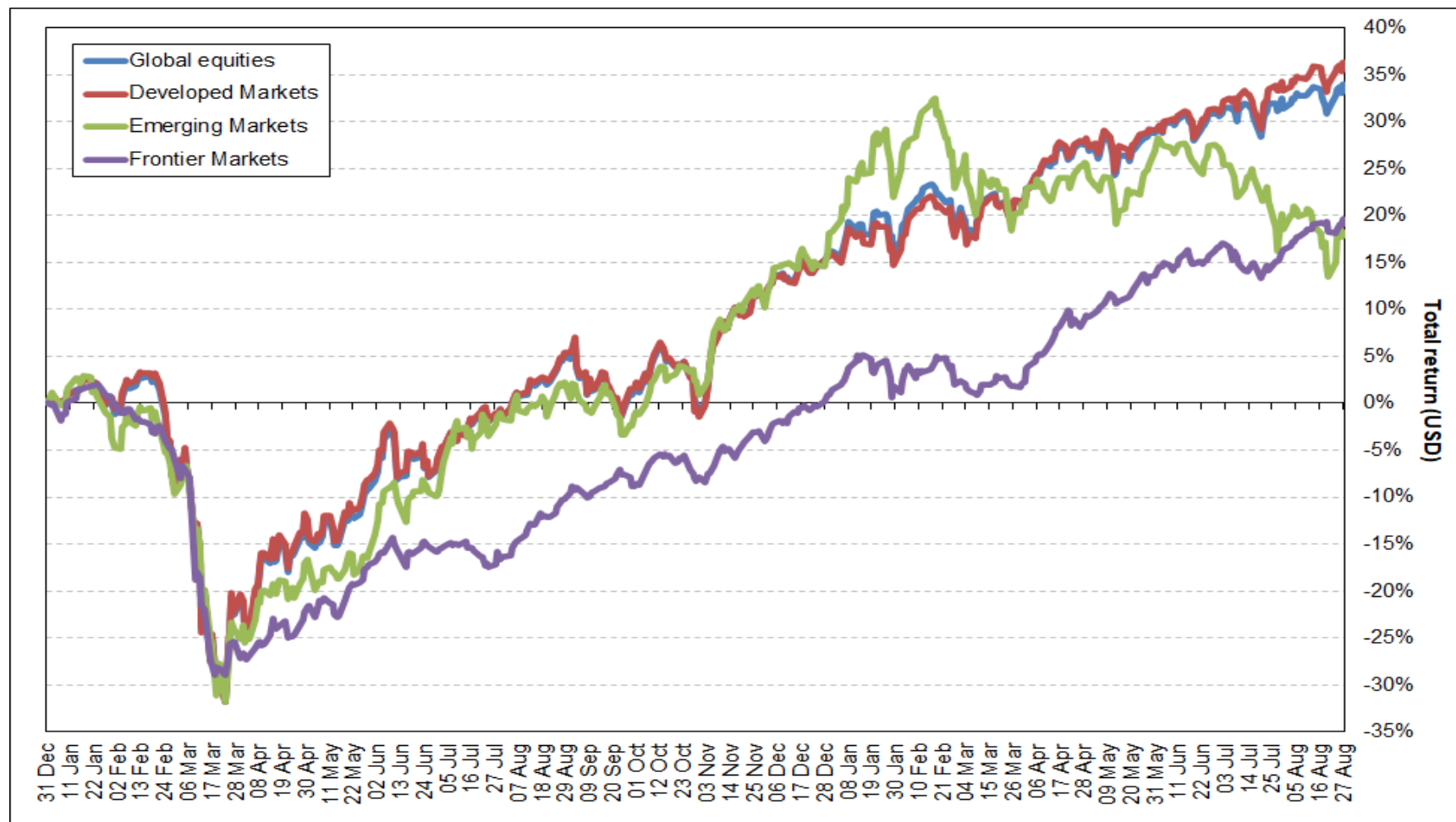
# MAJOR ASSET CLASSES

## EQUITIES IN THE LEAD



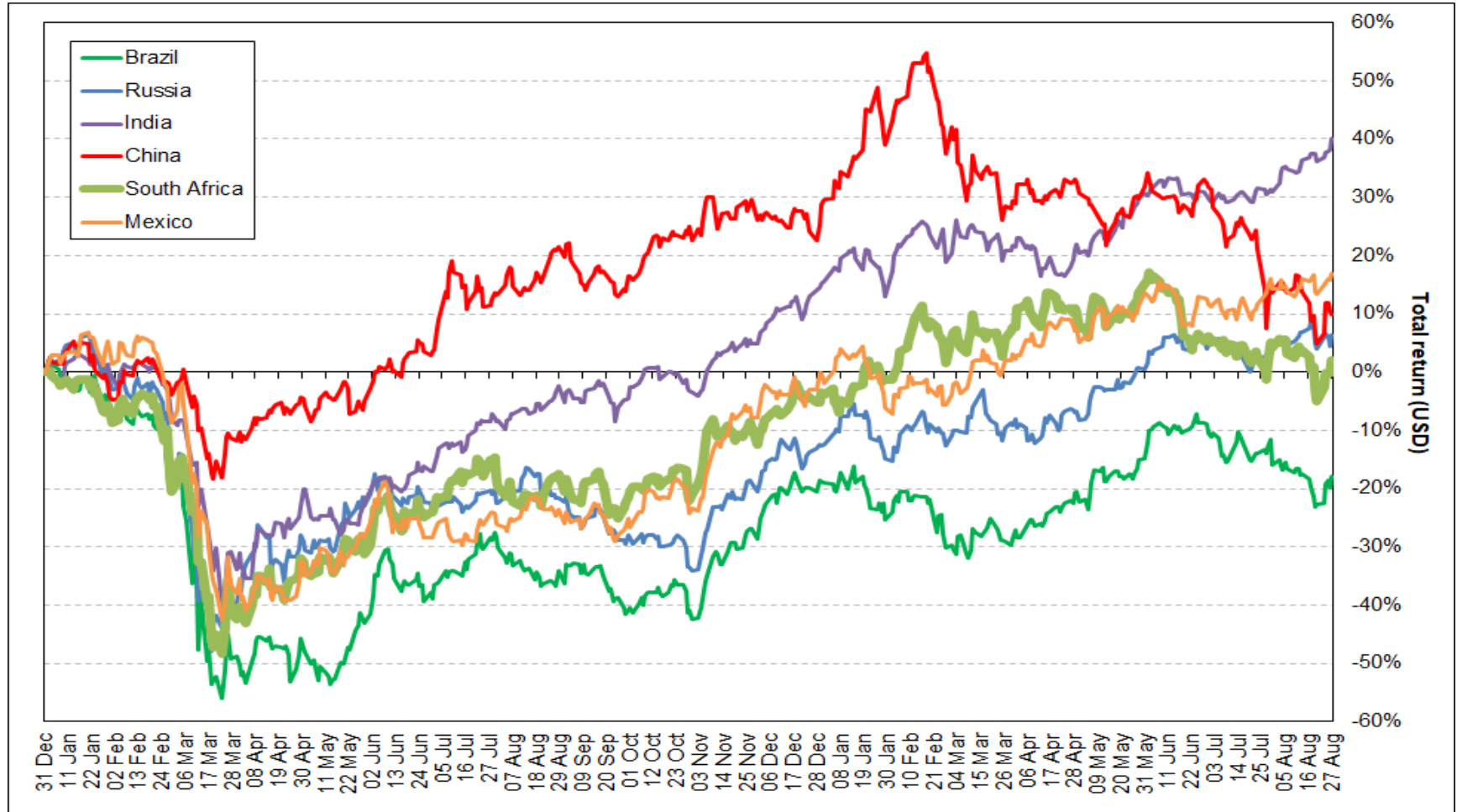
# GLOBAL EQUITY MARKETS (USD)

## EMERGING MARKETS COME UNDER PRESSURE...



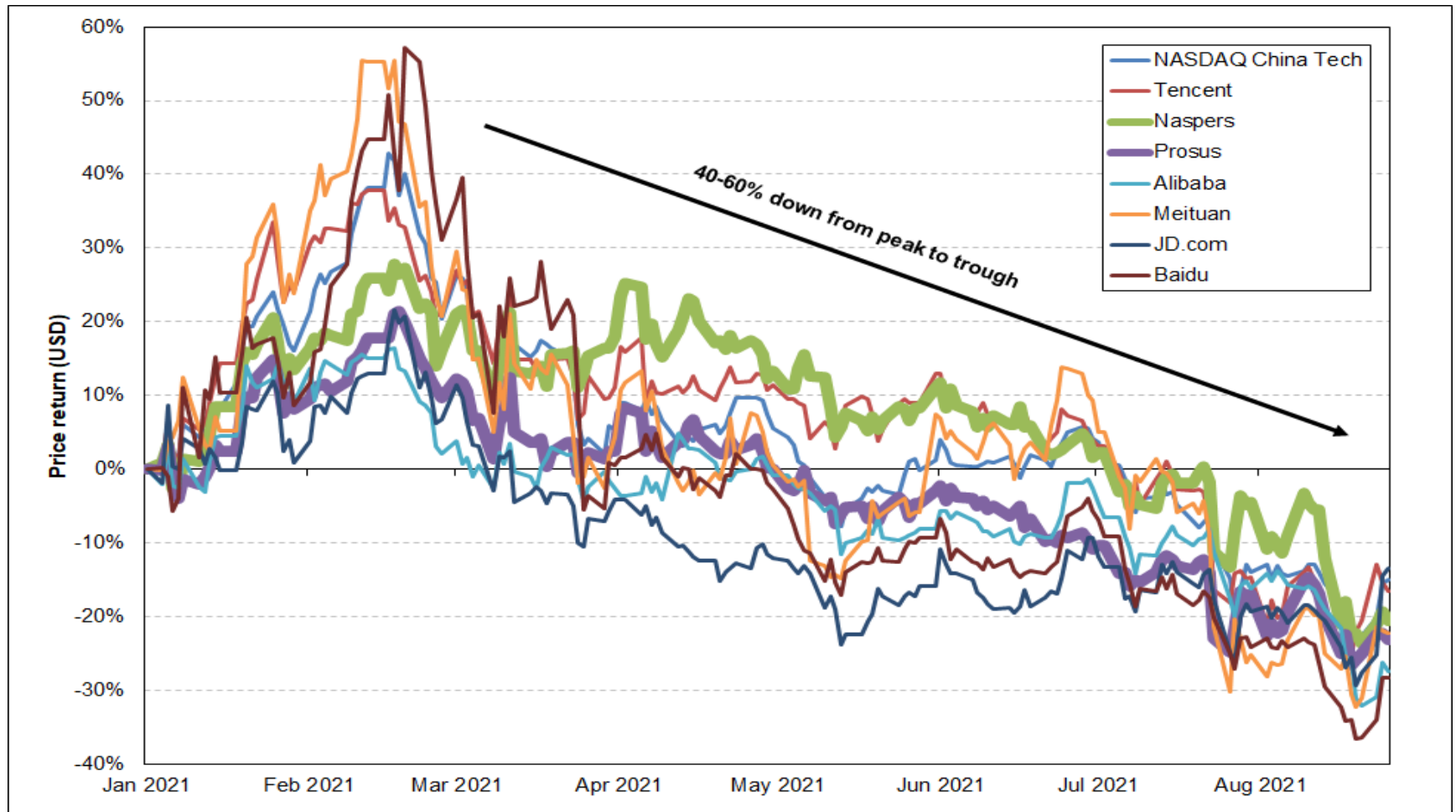
# EMERGING EQUITY MARKETS (USD)

## ...AS CHINESE STOCKS TAKE A BEATING...



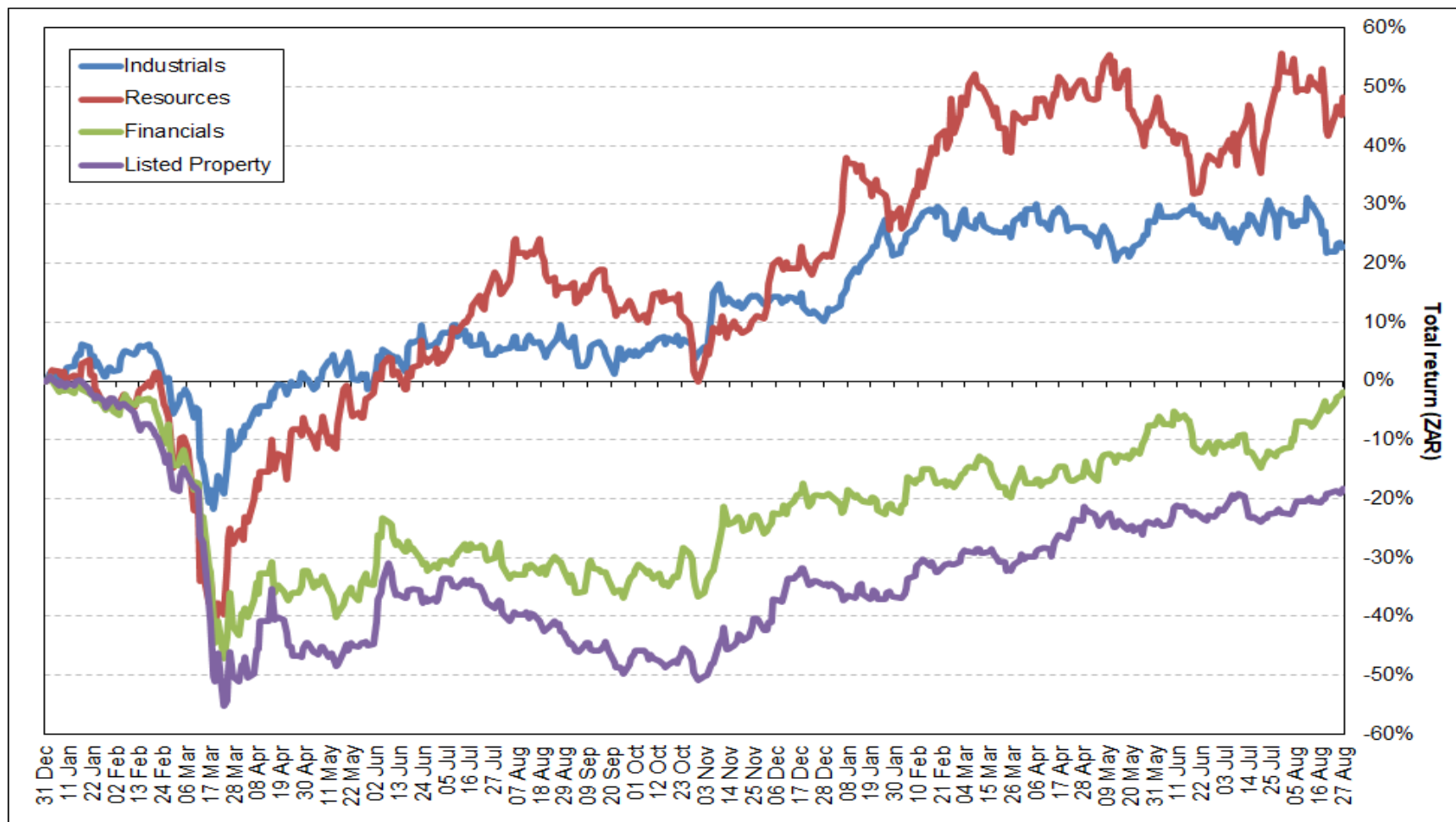
# CHINESE TECH STOCKS (USD)

## ...AMID CRACKDOWN BY CHINESE REGULATORS



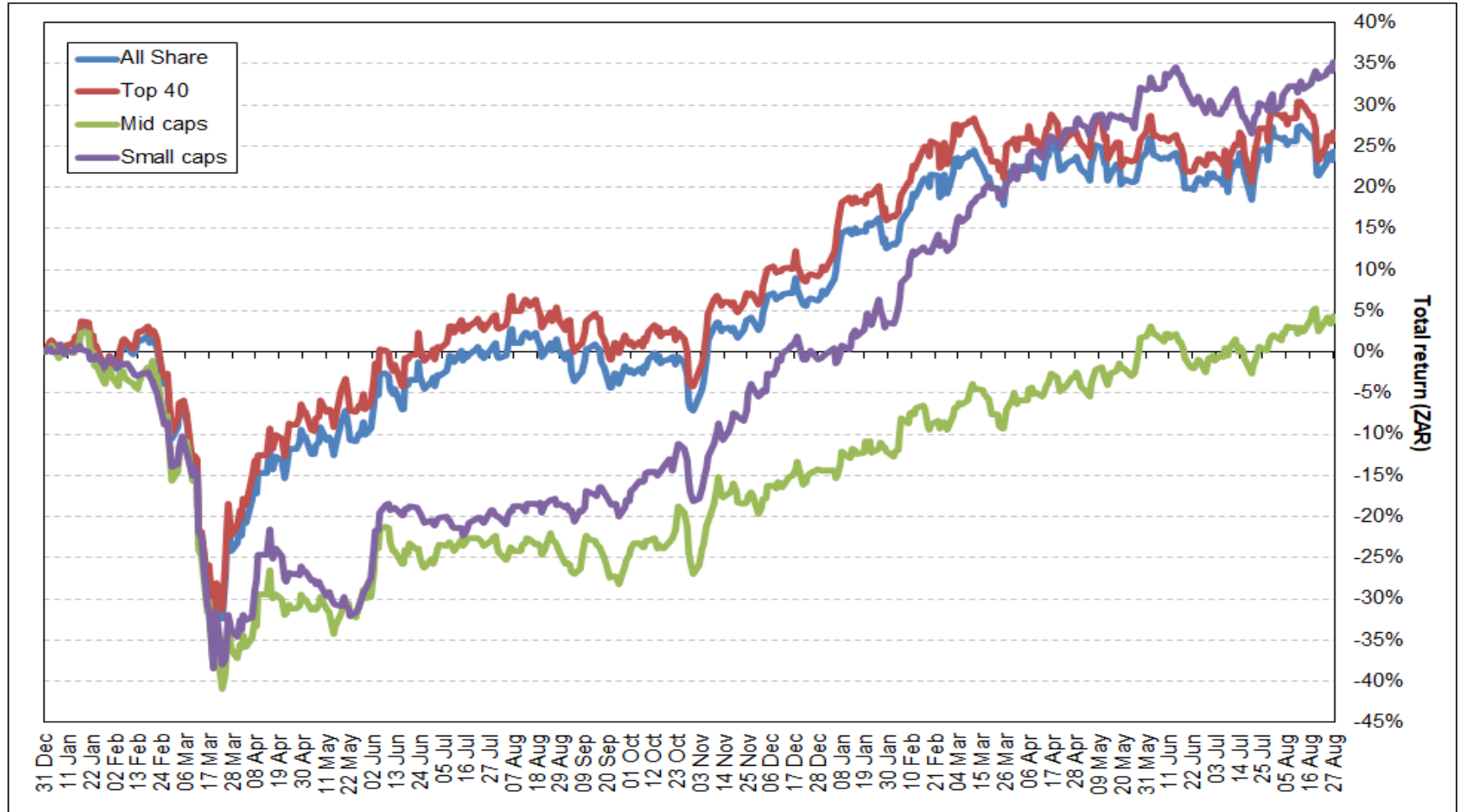
# LOCAL EQUITY MARKET SECTORS

## FINANCIALS & LISTED PROPERTY CONTINUES RECOVERY, INDUSTRIALS & RESOURCES LOSE STEAM



# LOCAL EQUITY MARKET CAPS

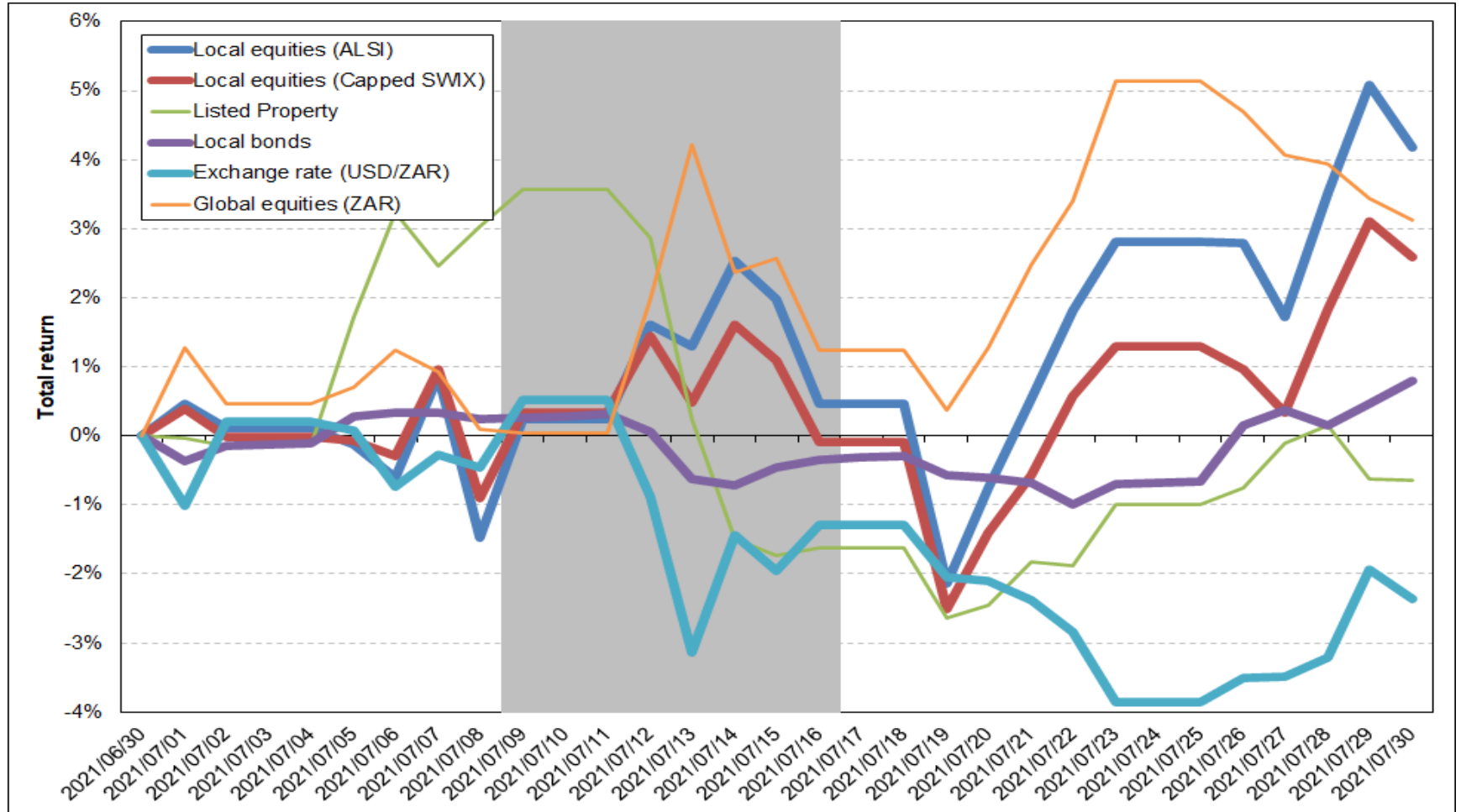
## SMALL CAPS IN THE LEAD!





# JULY UNREST

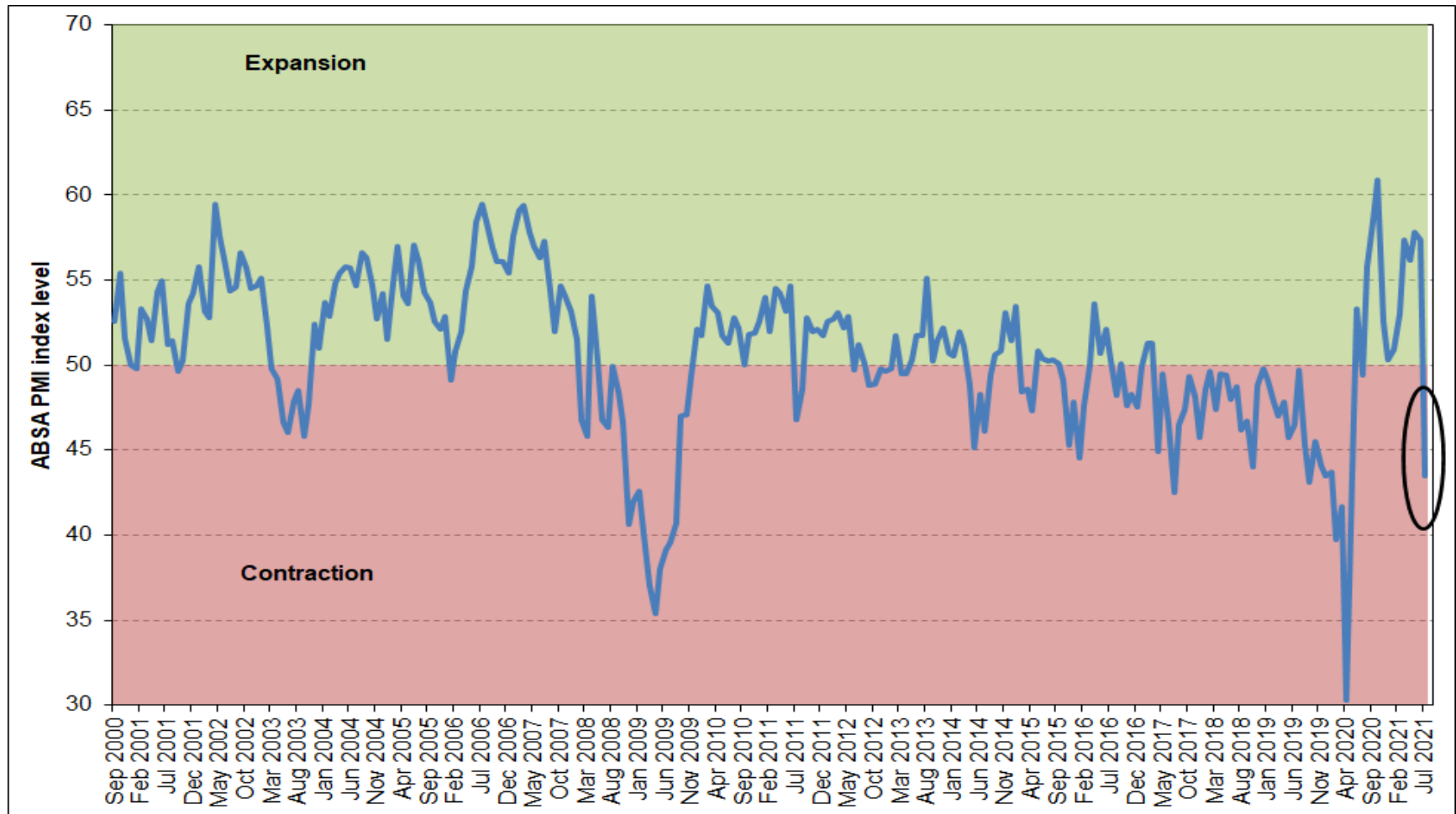
## IMPACT ON MARKETS FAIRLY LIMITED...





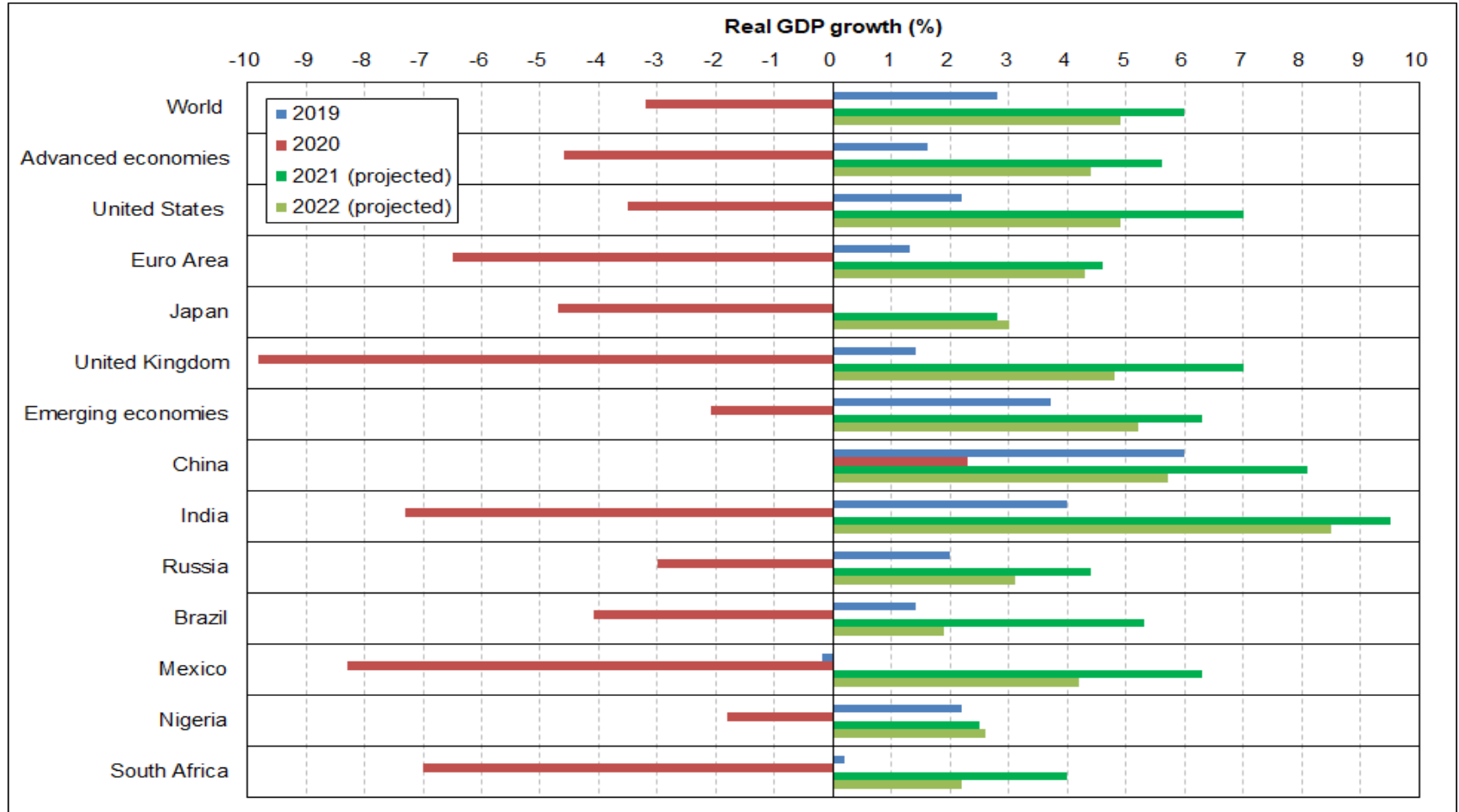
# UNREST

## ...BUT MANUFACTURING SECTOR HIT HARD



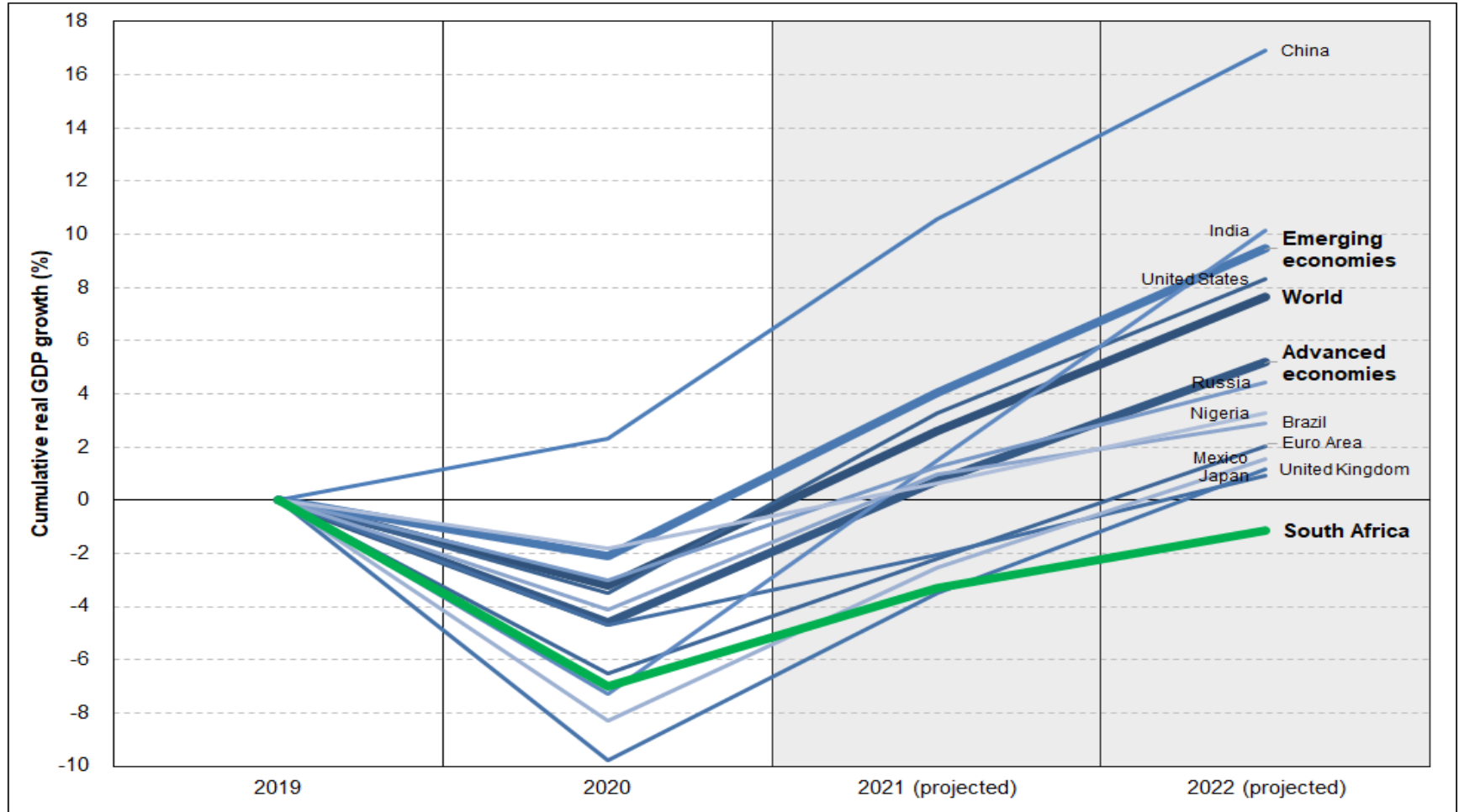
# GLOBAL ECONOMIC GROWTH

## STRONG RECOVERY EXPECTED

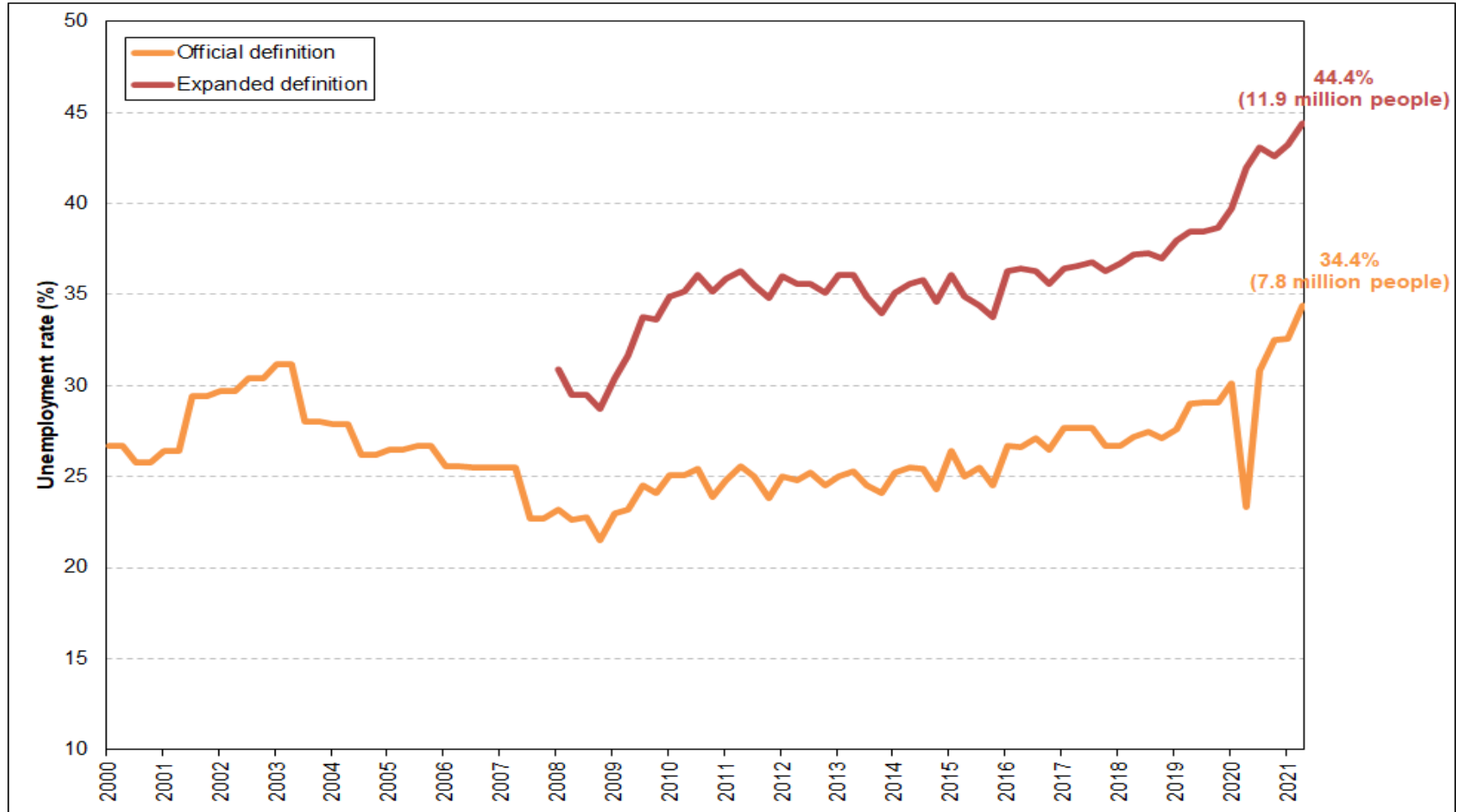


# GLOBAL ECONOMIC GROWTH

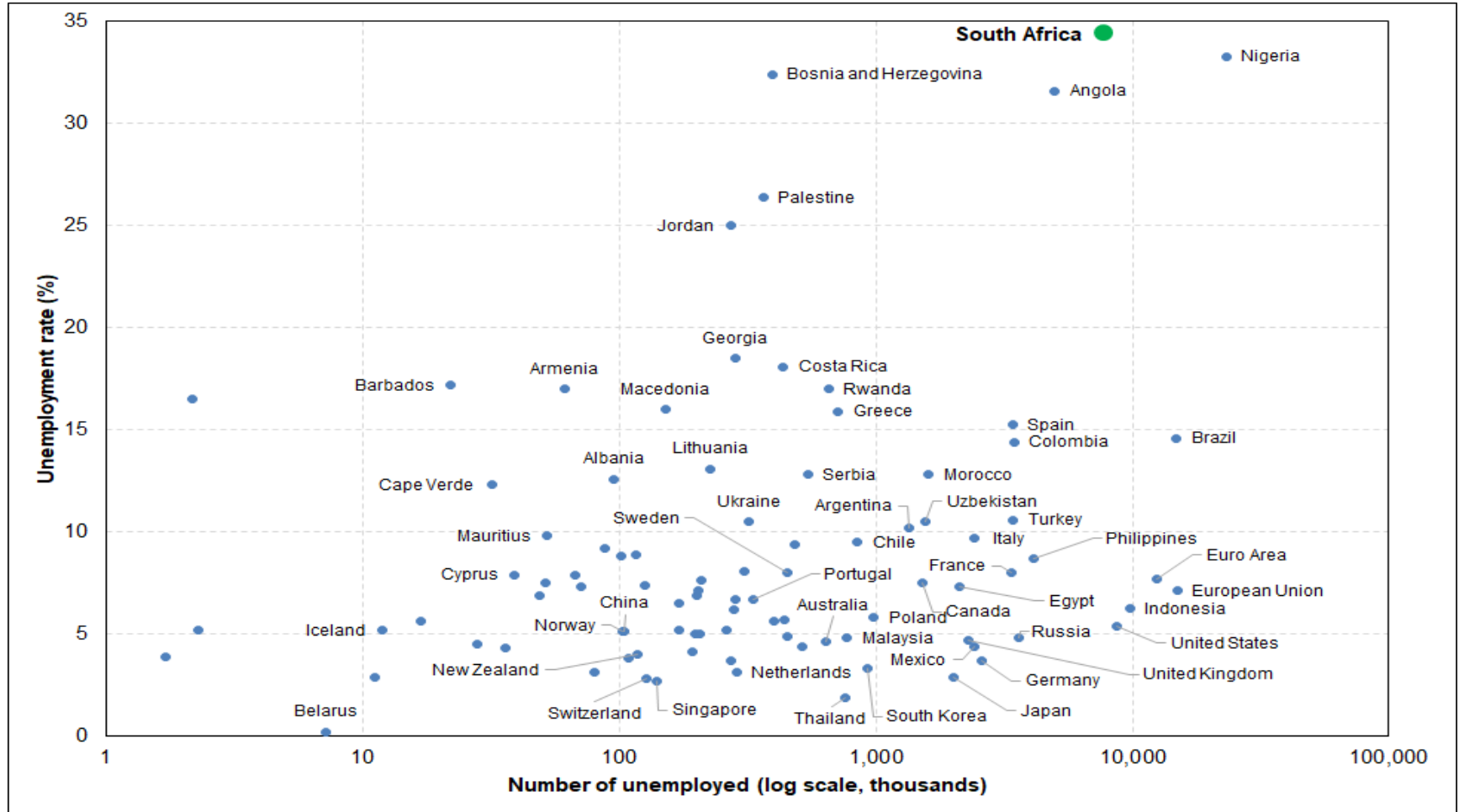
## MANY COUNTRIES AT PRE-COVID LEVELS WITHIN A YEAR, BUT SA CONTINUES TO LAG



# SA UNEMPLOYMENT HITS NEW RECORD HIGHS...

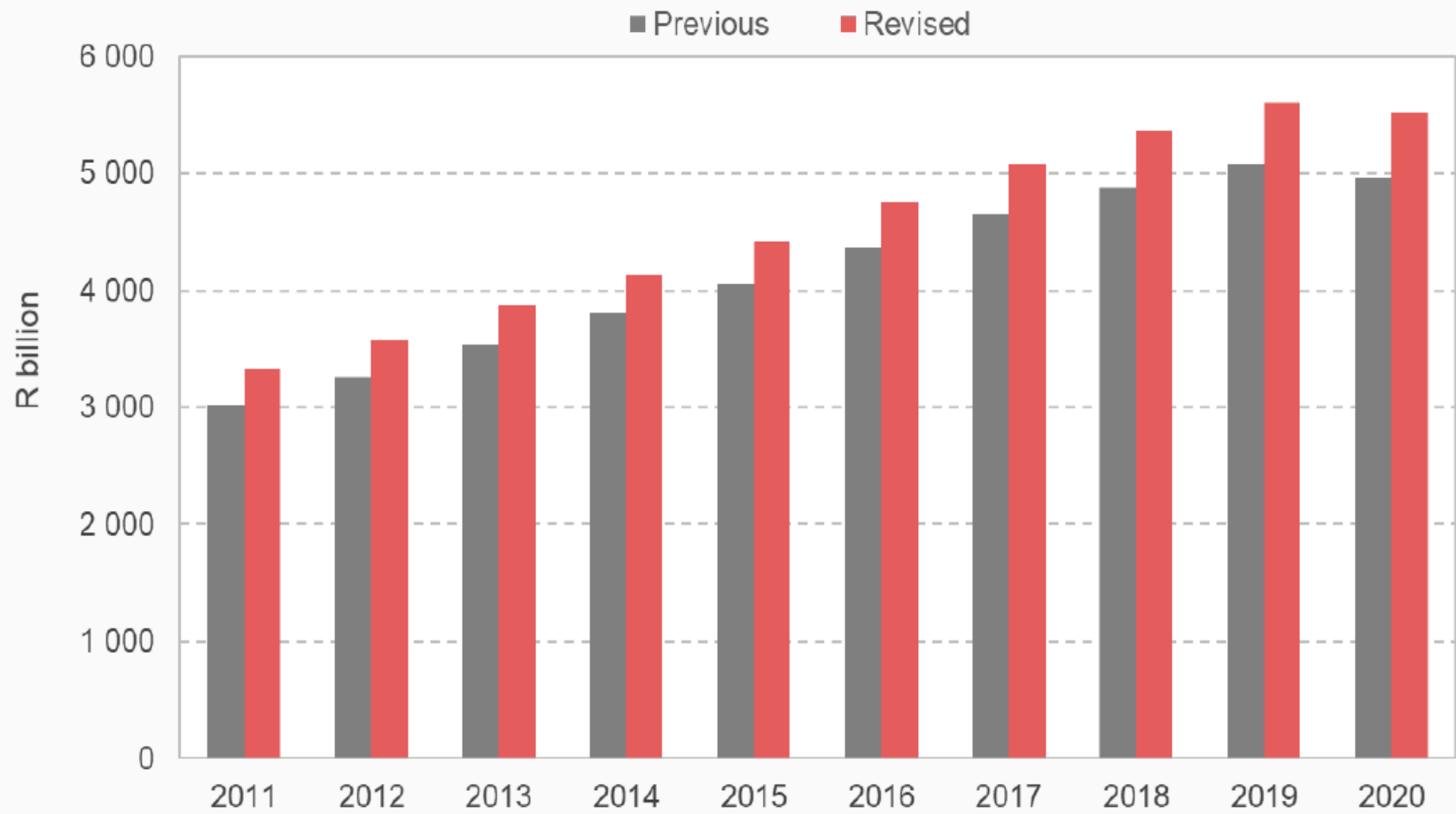


# SA UNEMPLOYMENT ...AND NOW THE WORST IN THE WORLD



# SA ECONOMY

## REVISED 11% LARGER FOLLOWING LATEST REBASING AND BENCHMARKING EXERCISE

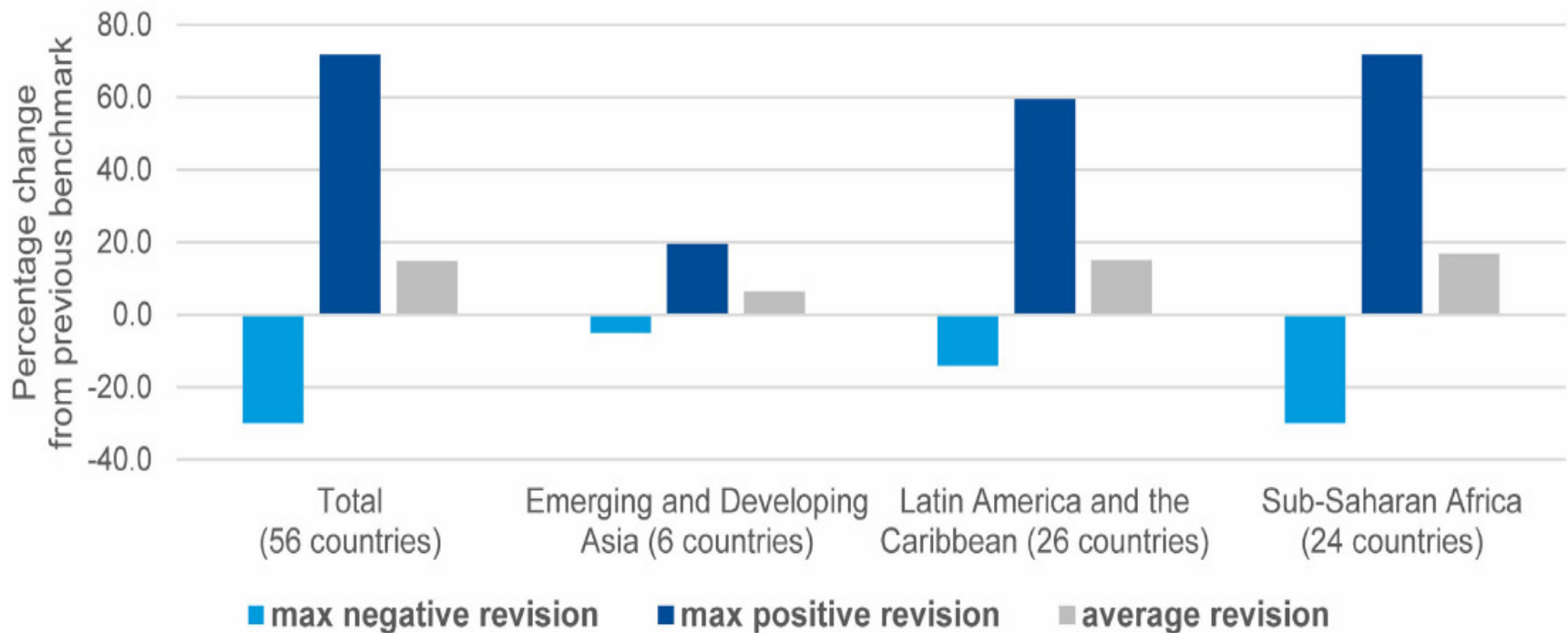


# SA ECONOMY

**REVISIONS LIKE THIS ARE DONE REGULARLY, AND THE SIZE OF SA'S REVISION IS NOT UNUSUAL**

## How does this compare with other regions of the world?

Recent GDP revisions from benchmarking exercises (selected countries). Preliminary data from IMF survey (2019)

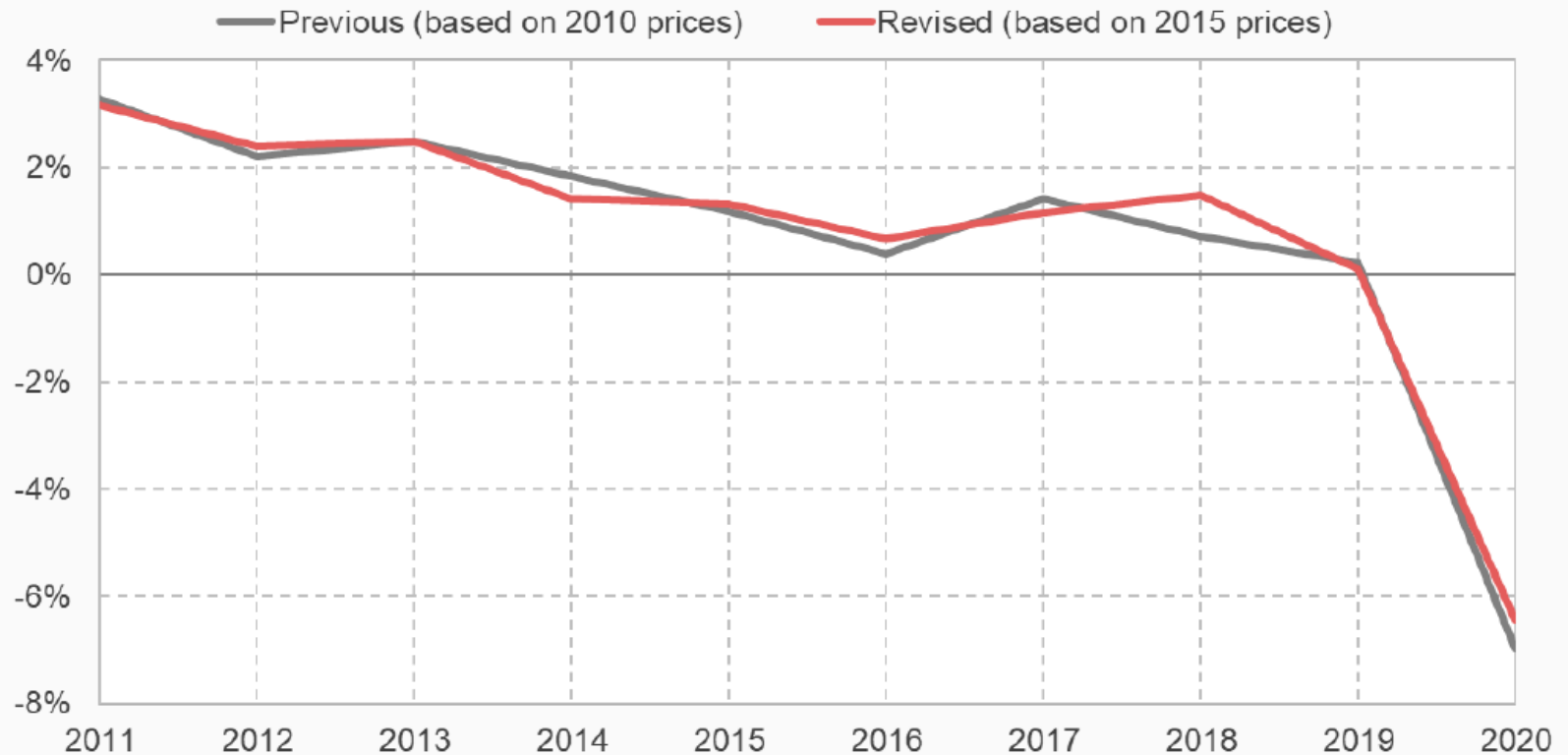


# SA ECONOMY

## PREVIOUS VS REVISED GROWTH RATES

South African GDP growth rates are similar in magnitude and in pattern

Previous and revised real GDP growth rates from 2011 to 2020





# SA ECONOMY REMAINS THE THIRD LARGEST IN AFRICA

