

MONTH IN PICTURES

AUGUST 2021

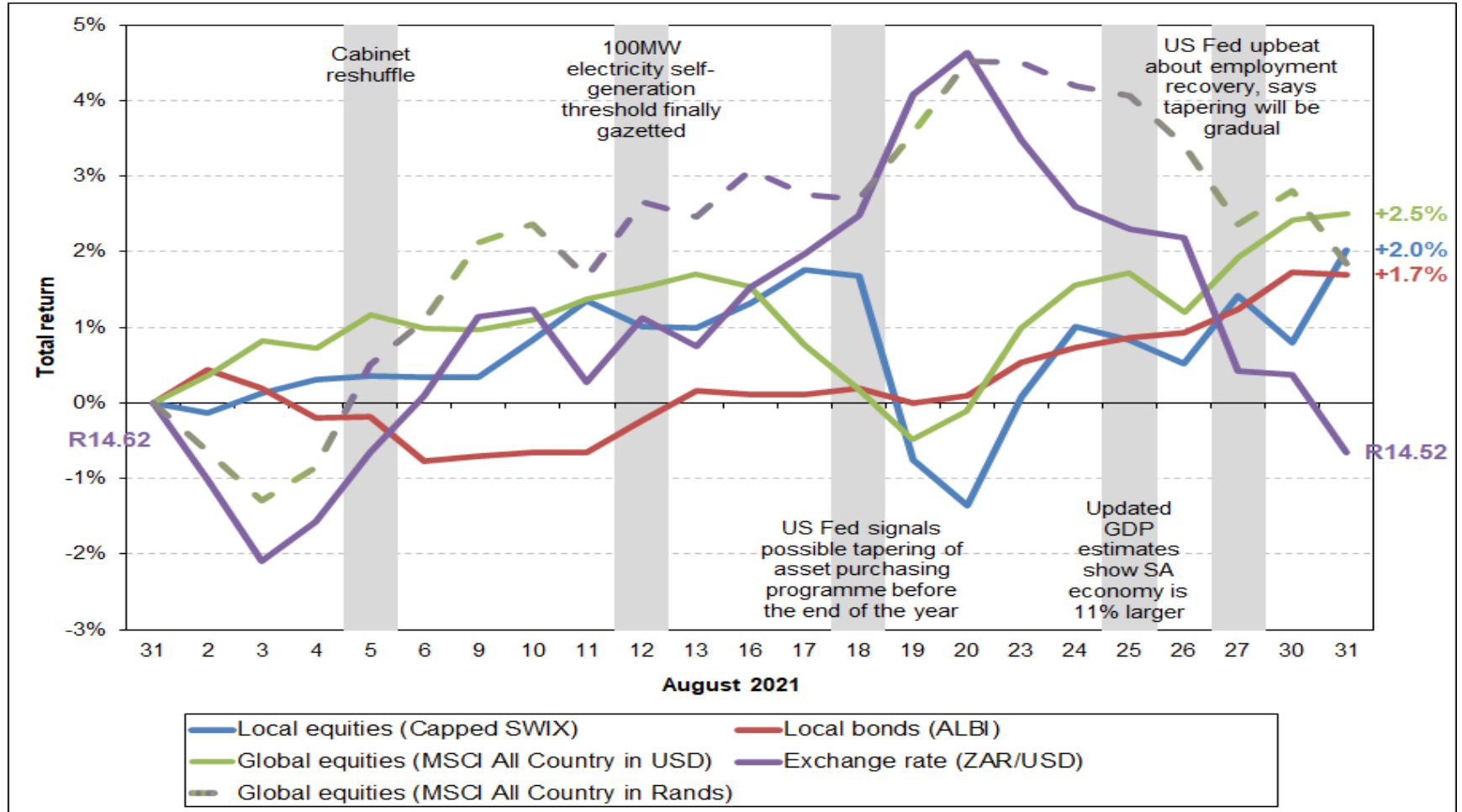
MONTHLY SNAPSHOT

NOTABLE EVENTS

- August was a mixed month for the local equity market, with the ALSI dropping by 1.7%, while the Capped SWIX gained 2.0%.
- The ALSI got pushed lower by Resources (-4.8%, following a slump in key commodity prices) and Industrials (-4.4%, as Chinese regulations aimed at “common prosperity” continued to impact JSE heavyweights Naspers, Prosus and now also Richemont), while the Capped SWIX benefitted from its higher exposure to domestic companies. Here we saw Financials take the lead (+12.3%, on the back of strong earnings results by local banks), while Listed Property (+7.5%) bounced back from July’s unrest following reports that operations would be quicker and less costly to resume than initially thought. Mid (+3.7%) and small caps (+7.0%) also handsomely outperformed the Top 40 (-2.4%).
- The latest minutes from the US Fed revealed that it expects to start cutting back on its massive \$120 billion monthly asset purchasing programme as soon as this year. The potential reduction of liquidity jolted markets (along with concerns around the rapid spread of the delta variant), before calm returned when US Fed Chair Jerome Powell assured nervous investors that any such tapering will likely be gradual, and that interest rates are unlikely to be hiked at the same time.
- The Rand had a rollercoaster month as a result, weakening from R14.62/USD to as high as R15.30, before eventually ending the month slightly stronger at R14.52, with the upwards revision in SA’s GDP (see last month’s publication for more detail) providing additional support on top of Powell’s reassurances.
- The Absa Manufacturing Purchasing Managers’ Index (PMI) made a comeback from the July disruptions, jumping from 43.5 to 57.9 in August (with 50 points being the dividing line between growth and contraction).
- The level of business and consumer confidence unsurprisingly retreated somewhat in 2021 Q3 following the unrest at the beginning of this quarter. The FNB/BER Consumer Confidence Index moving from -9 to -10 in 2021 Q3 (with a level of zero being the neutral point), while the RMB/BER Business Confidence Index fell back from a neutral level of 50 down to 43 in the latest quarter.
- The local economy expanded by 1.2% in 2021 Q2, once again beating expectations. From its lows in Q2 last year the economy is now 19.3% larger in real terms, but still 1.4% smaller than it was before the pandemic hit.
- Inflation crept back up to 4.9% year-on-year in August, with rising transport costs being the main contributor. With inflation remaining under control, the South African Reserve Bank (SARB) kept the repo rate unchanged at 3.5%. The SARB also sharply upgraded its GDP growth forecast for 2021 to 5.3% (from 4.2%), but expected growth in 2022 and 2023 was revised lower to 1.7% and 1.8% respectively (from 2.3% and 2.4% previously).

MONTHLY TIMELINE

IMPACT ON MARKETS



MARKET INDICATORS

SHORT TERM

Market indicators (% change) ¹		Jun 2021	Jul 2021	Aug 2021	3 months	12 months
Local equities	ALSI	(2.4)	4.2	(1.7)	(0.1)	25.2
	Capped SWIX	(3.0)	2.6	2.0	1.5	30.8
	Resources	(6.4)	11.7	(4.8)	(0.5)	25.5
	Industrials	0.4	0.9	(4.4)	(3.2)	16.1
	Financials	(3.0)	(1.2)	12.3	7.6	51.4
	Listed Property	3.4	(0.6)	7.5	10.4	51.0
Local bonds	ALBI	1.1	0.8	1.7	3.7	14.8
Local cash	STeFI Composite	0.3	0.3	0.3	0.9	3.8
Global equities	MSCI All Country	5.3	3.1	1.8	10.5	10.3
Global bonds	FTSE WGBI	2.8	4.1	(1.2)	5.7	(15.4)
Exchange rate	ZAR/USD	3.9	2.4	(0.6)	5.7	(14.3)
Inflation	CPI	0.2	1.1	0.4	1.8	4.9

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

MARKET INDICATORS

MEDIUM TO LONG TERM

Market indicators (% change) ¹		1 year	3 years	5 years	10 years	15 years
Local equities	ALSI	25.2	8.2	8.3	11.4	11.0
	Capped SWIX	30.8	5.5	5.1	10.4	10.7
	Resources	25.5	21.7	21.3	7.0	6.7
	Industrials	16.1	4.9	4.5	13.1	14.0
	Financials	51.4	(1.3)	2.8	10.3	9.1
	Listed Property	51.0	(7.3)	(5.3)	5.3	9.3
Local bonds	ALBI	14.8	10.0	9.6	8.3	8.8
Local cash	STeFI Composite	3.8	5.9	6.5	6.2	7.0
Global equities	MSCI All Country	10.3	13.9	14.0	19.7	12.8
Global bonds	FTSE WGBI	(15.4)	3.8	1.7	8.8	8.3
Exchange rate	ZAR/USD	(14.3)	(0.4)	(0.2)	7.6	4.8
Inflation	CPI	4.9	4.1	4.4	5.0	5.6

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

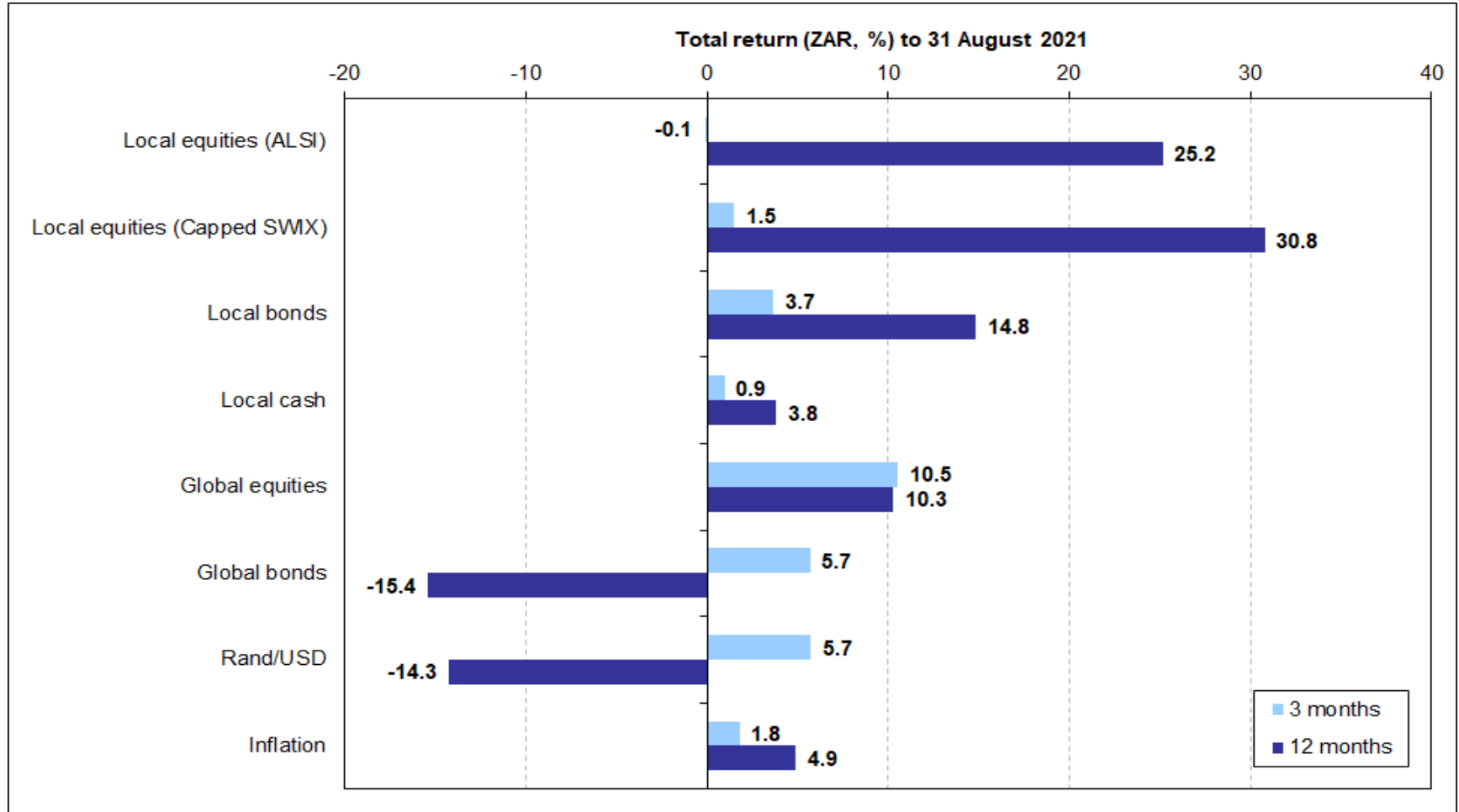
ECONOMIC INDICATORS

Economic indicators ¹	Aug 2019	Aug 2020	Jun 2021	Jul 2021	Aug 2021
Exchange rates:					
ZAR/USD	15.19	16.94	14.27	14.62	14.52
ZAR/GBP	18.46	22.64	19.75	20.31	19.98
ZAR/Euro	16.69	20.22	16.93	17.34	17.15
Commodities:					
Brent Crude Oil (USD/barrel)	58.93	45.28	74.62	75.41	71.63
Platinum (USD/ounce)	930.75	930.39	1,072.50	1,065.10	1,011.00
Gold (USD/ounce)	1,520.34	1,958.40	1,761.22	1,828.18	1,810.58

1. Month-end prices

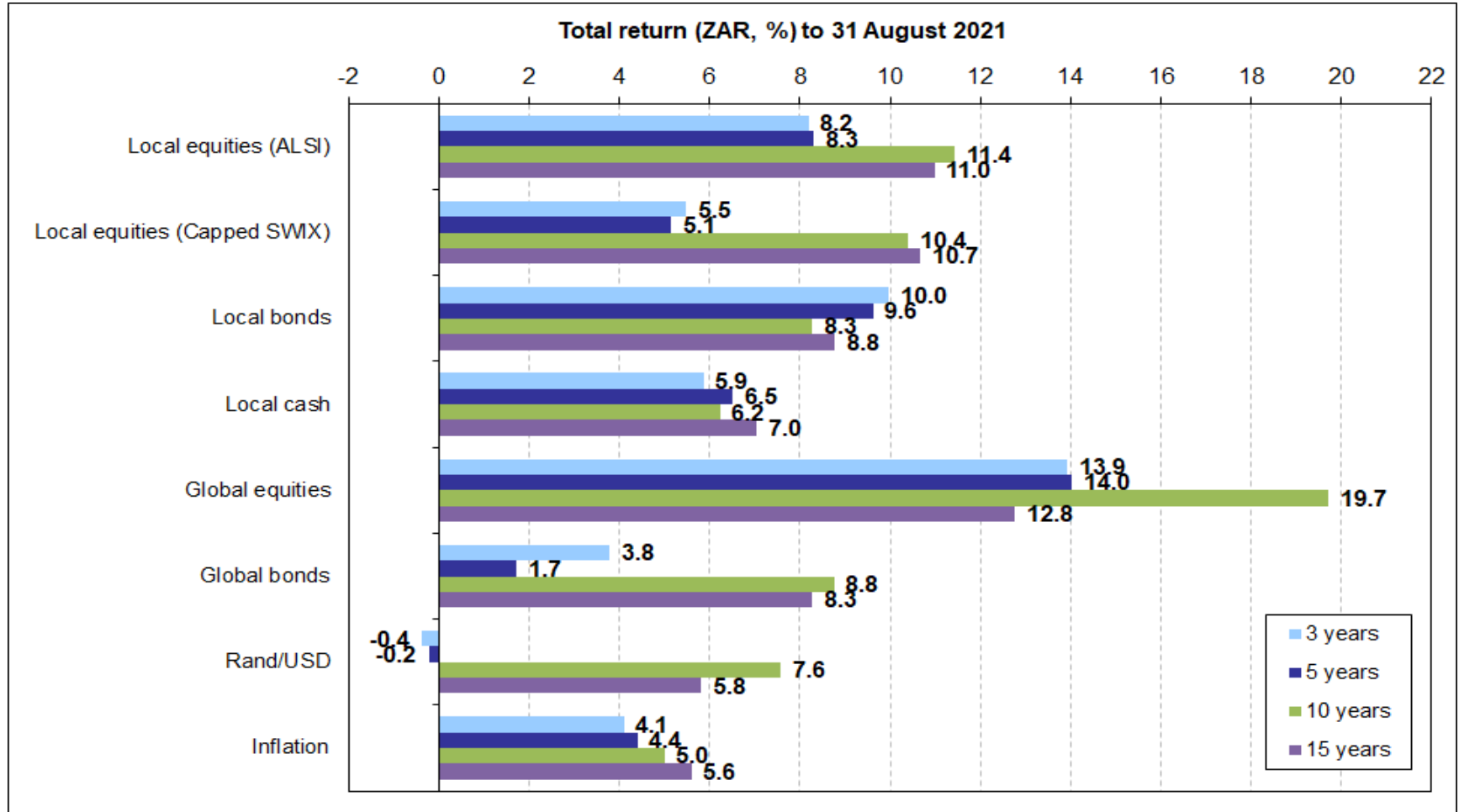
ASSET CLASS PERFORMANCE

SHORT TERM



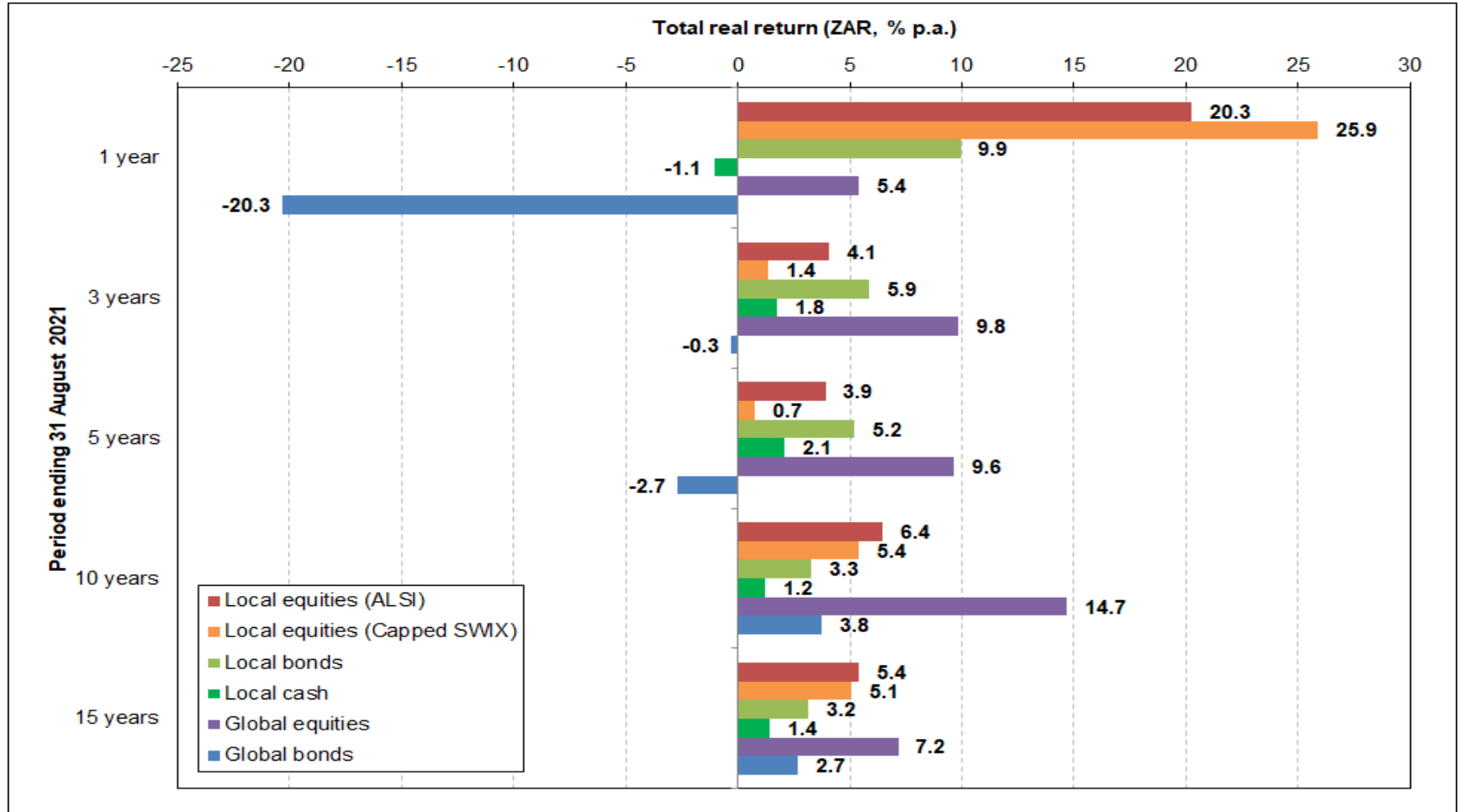
ASSET CLASS PERFORMANCE

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:

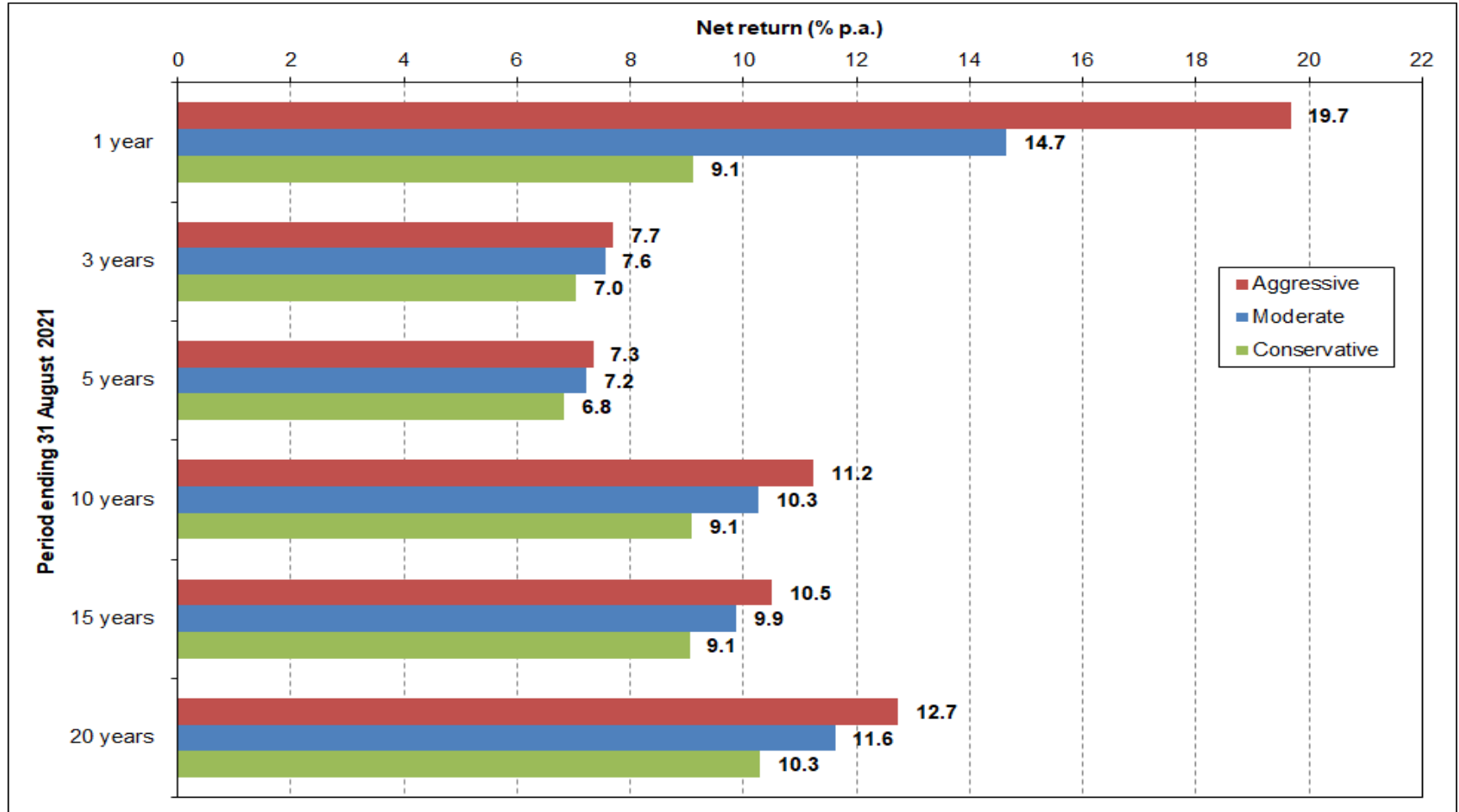
- The offshore allocation is kept at 5% below the prevailing regulatory maximum (15% to 2000, 20% to 2006, 25% to 2018 & currently at 30%).
- The equity allocation varies according to the risk profile, and is set at 75% for Aggressive, 55% for Moderate and 35% for Conservative, which applies to both 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%
	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%
	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%
	Current allocation	~26%	~17%	~32%	~9%	~16%

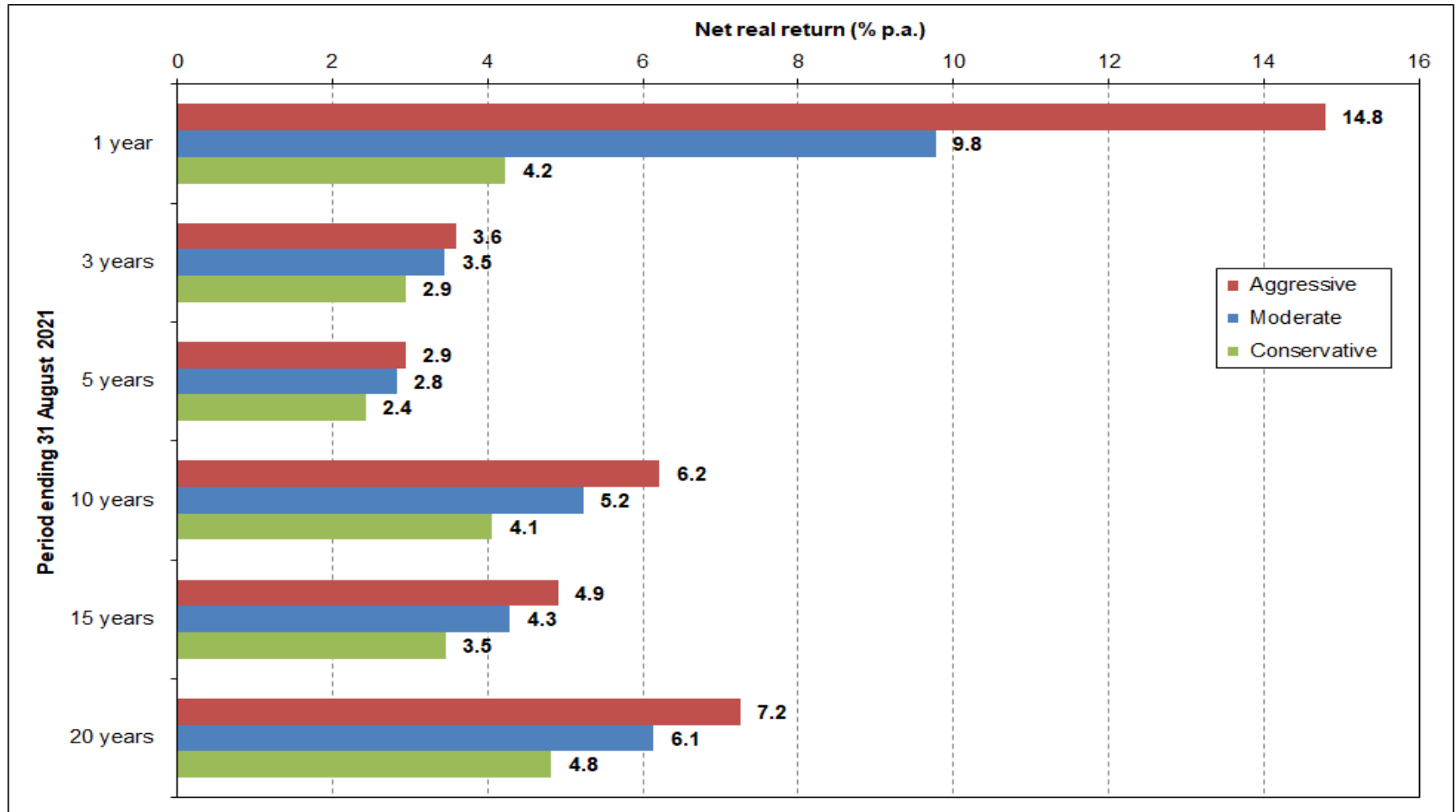
MARKET PERFORMANCE

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?



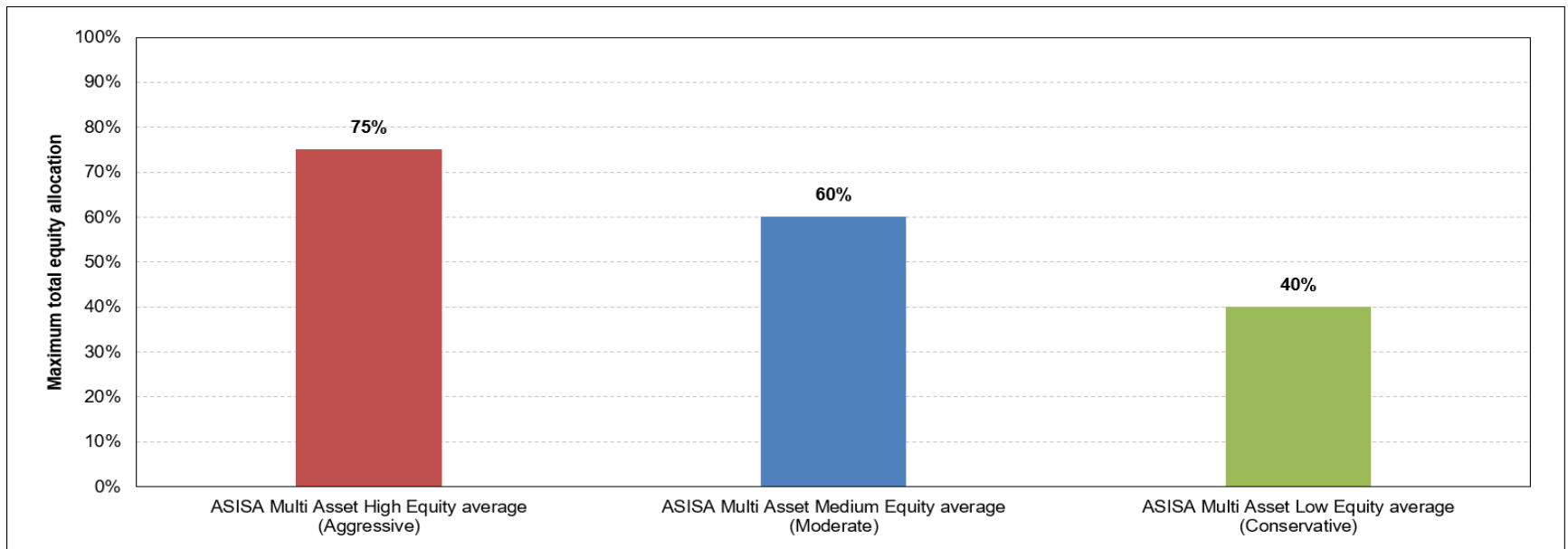
MANAGER PERFORMANCE

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?

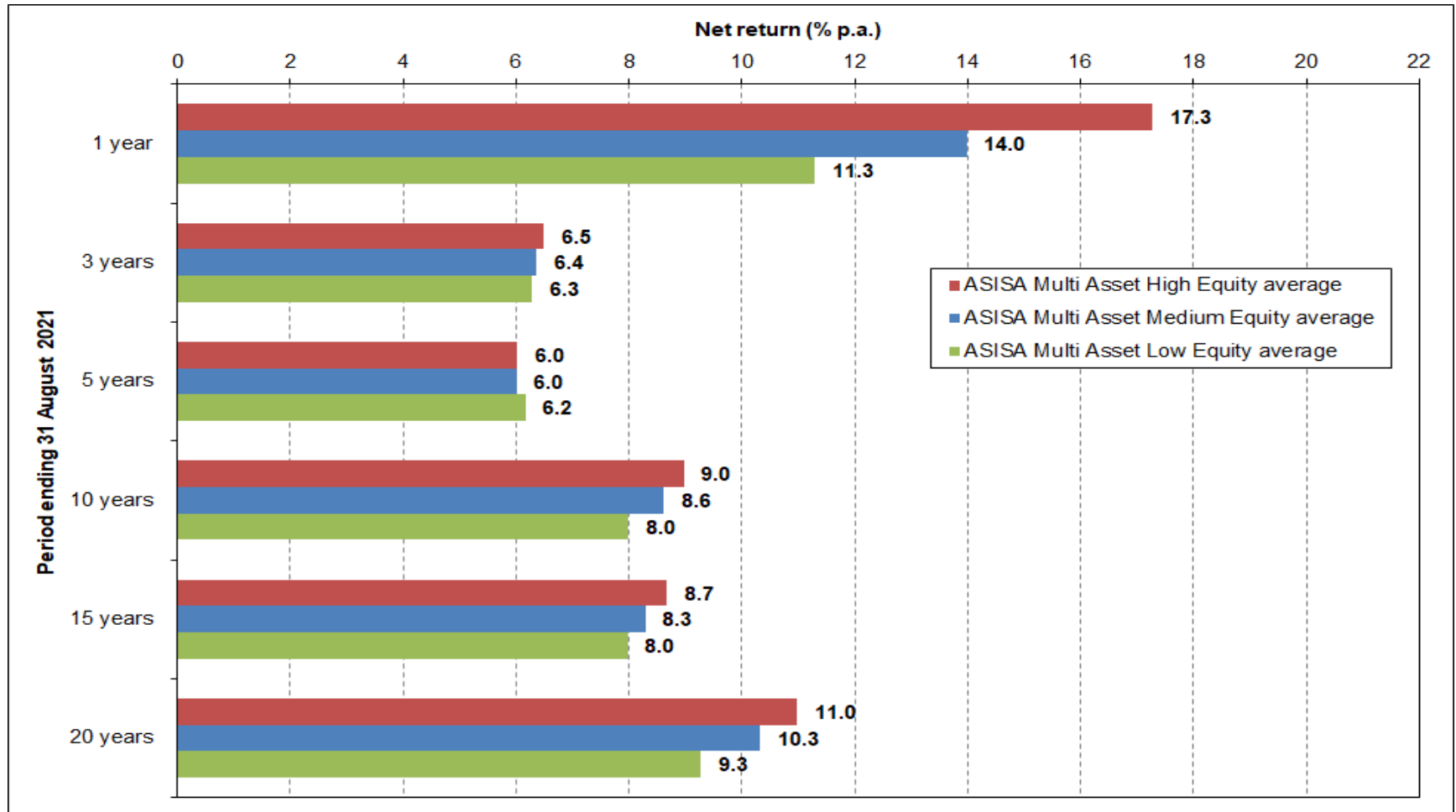
To illustrate this, we show the average returns from regulated collective investment schemes in the ASISA (Association for Savings and Investments South Africa) South Africa Multi Asset High, Medium and Low Equity categories to reflect the returns of typical Aggressive, Moderate and Conservative retirement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



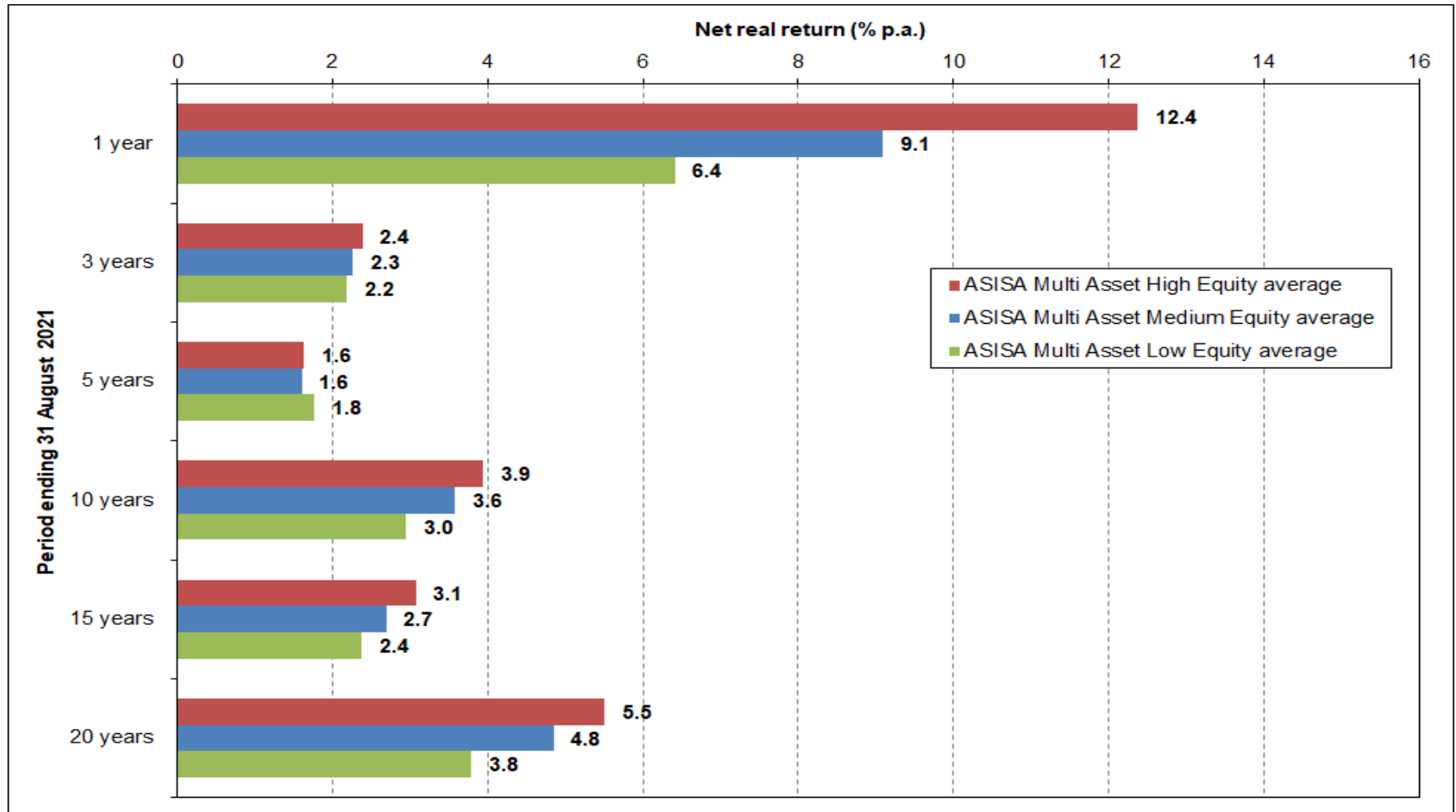
MANAGER PERFORMANCE

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



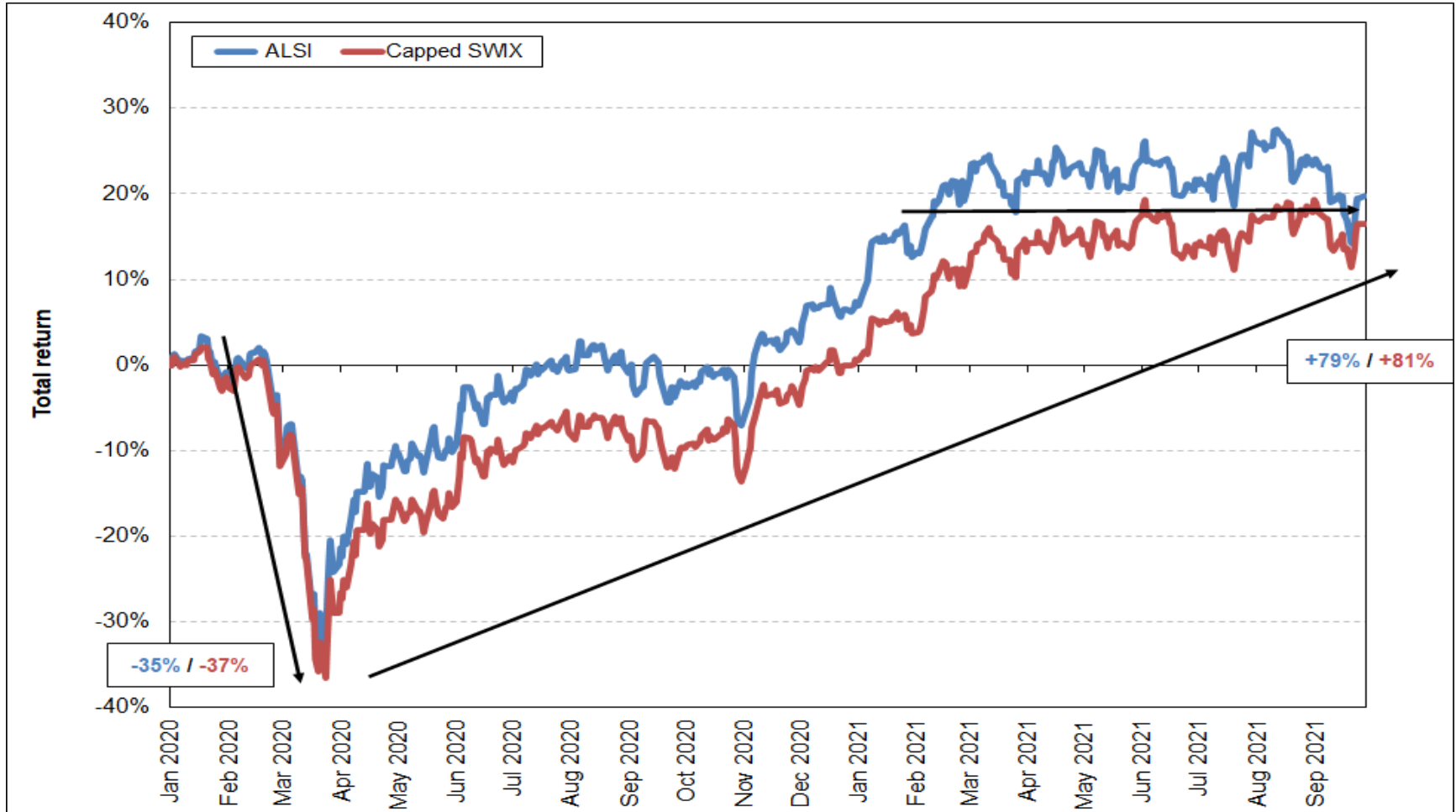
MANAGER PERFORMANCE

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

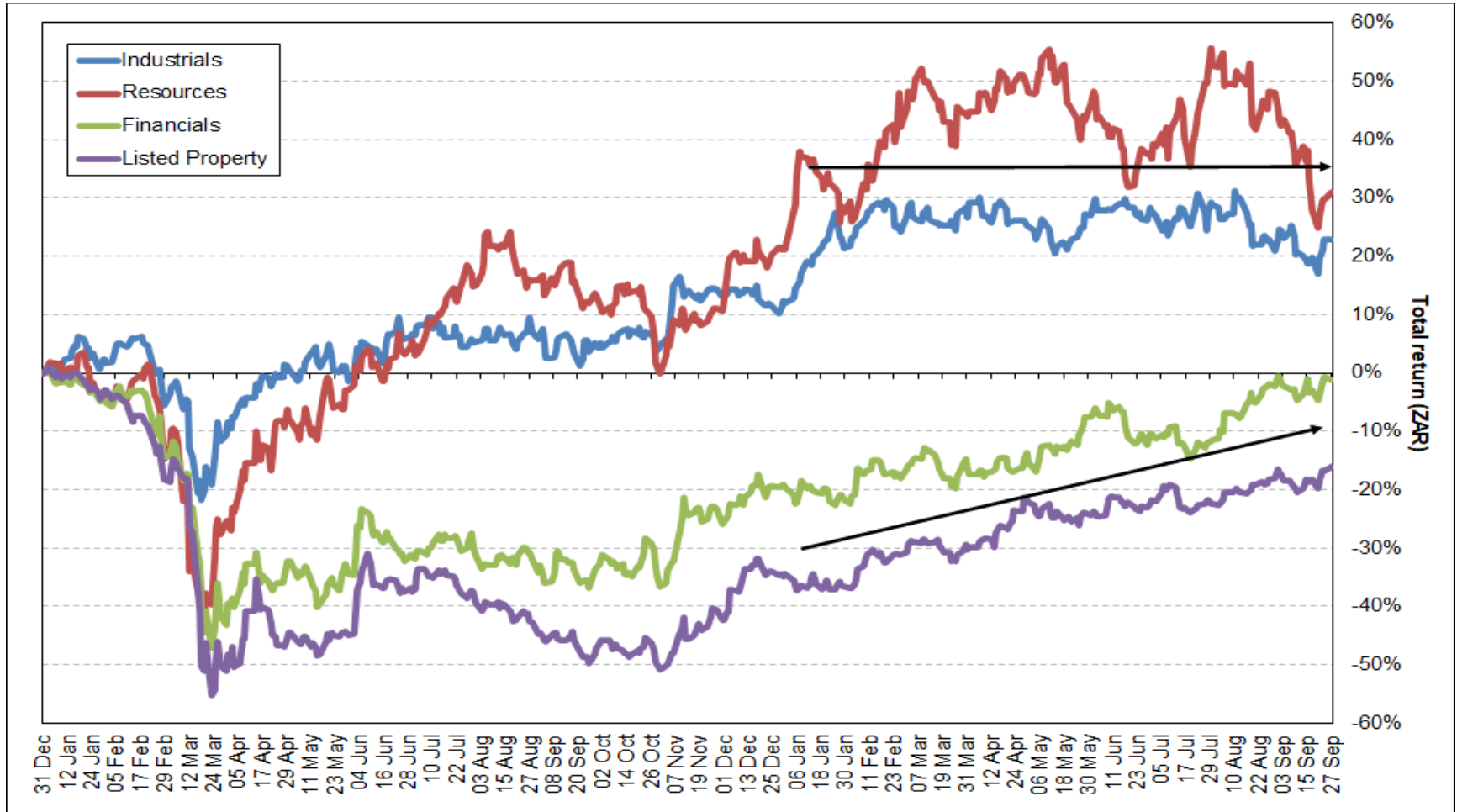


LOCAL EQUITY MARKET

BROADER MARKET STILL TRENDING SIDeways AFTER STRONG RECOVERY...

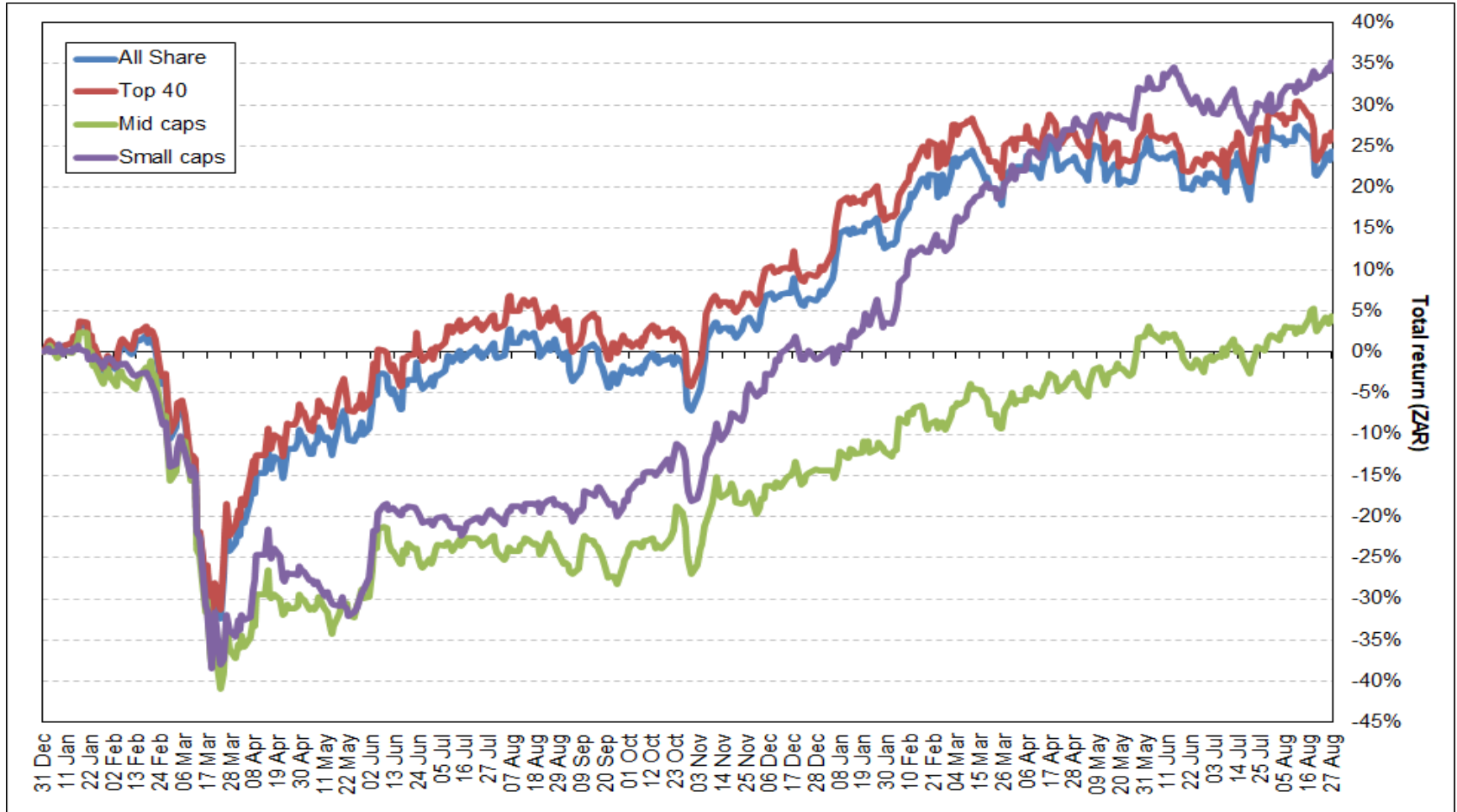


LOCAL EQUITY MARKET SECTORS ...AS RESOURCES AND INDUSTRIALS COME UNDER PRESSURE...



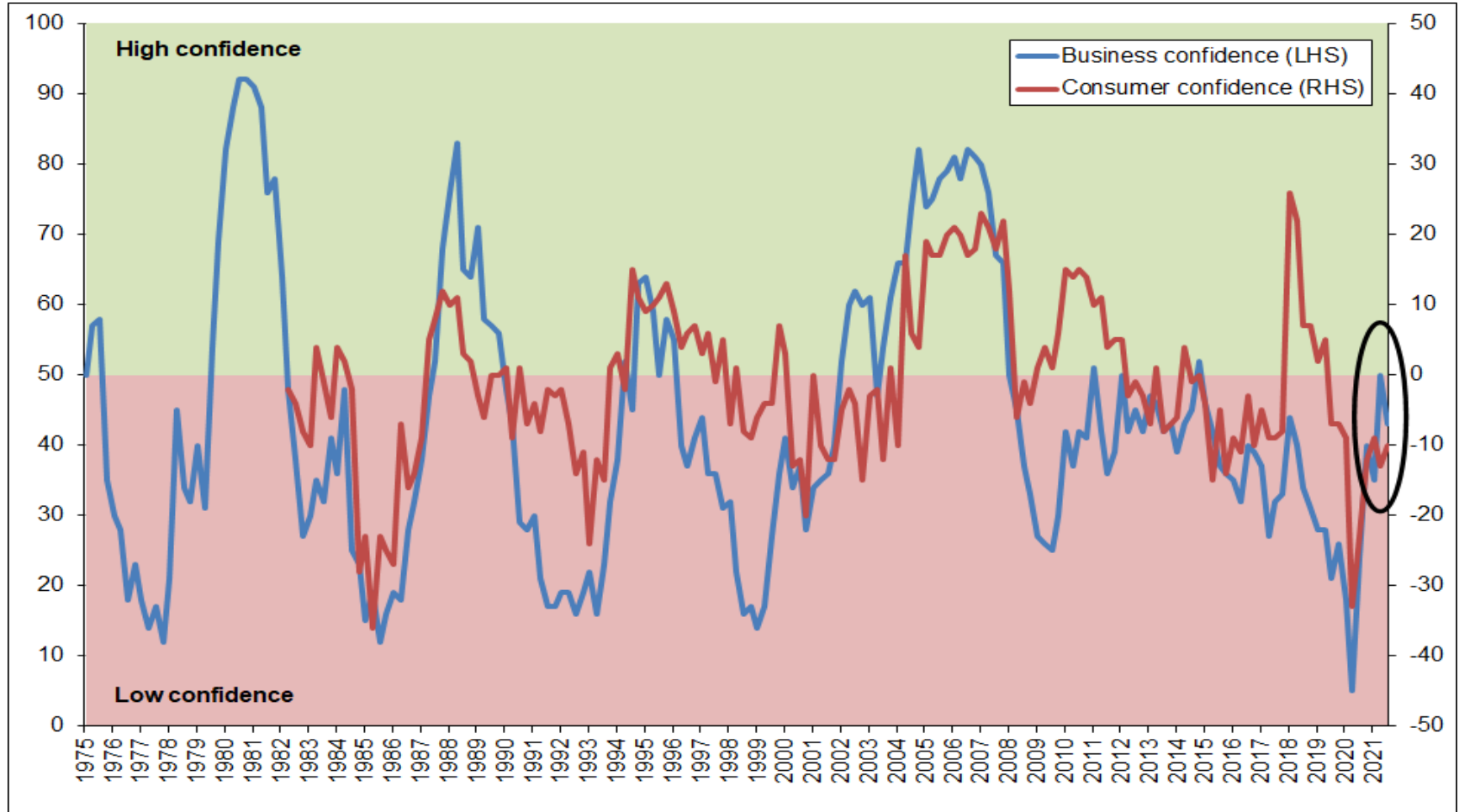
LOCAL EQUITY MARKET CAPS

...WHILE FINANCIALS, LISTED PROPERTY, MID CAPS & SMALL CAPS CONTINUE TO MAKE GAINS



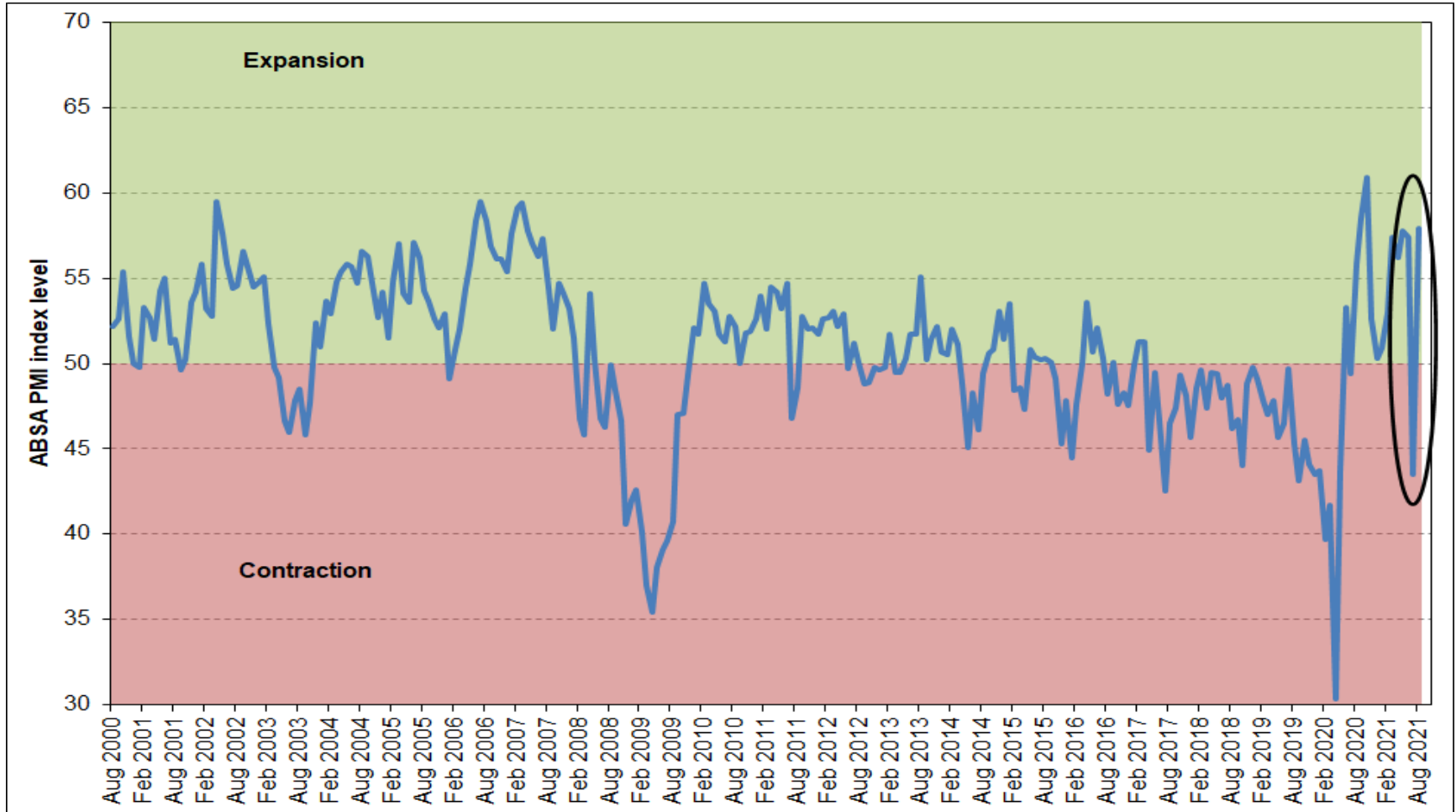
CONFIDENCE

UNREST WEAKENS BUSINESS CONFIDENCE

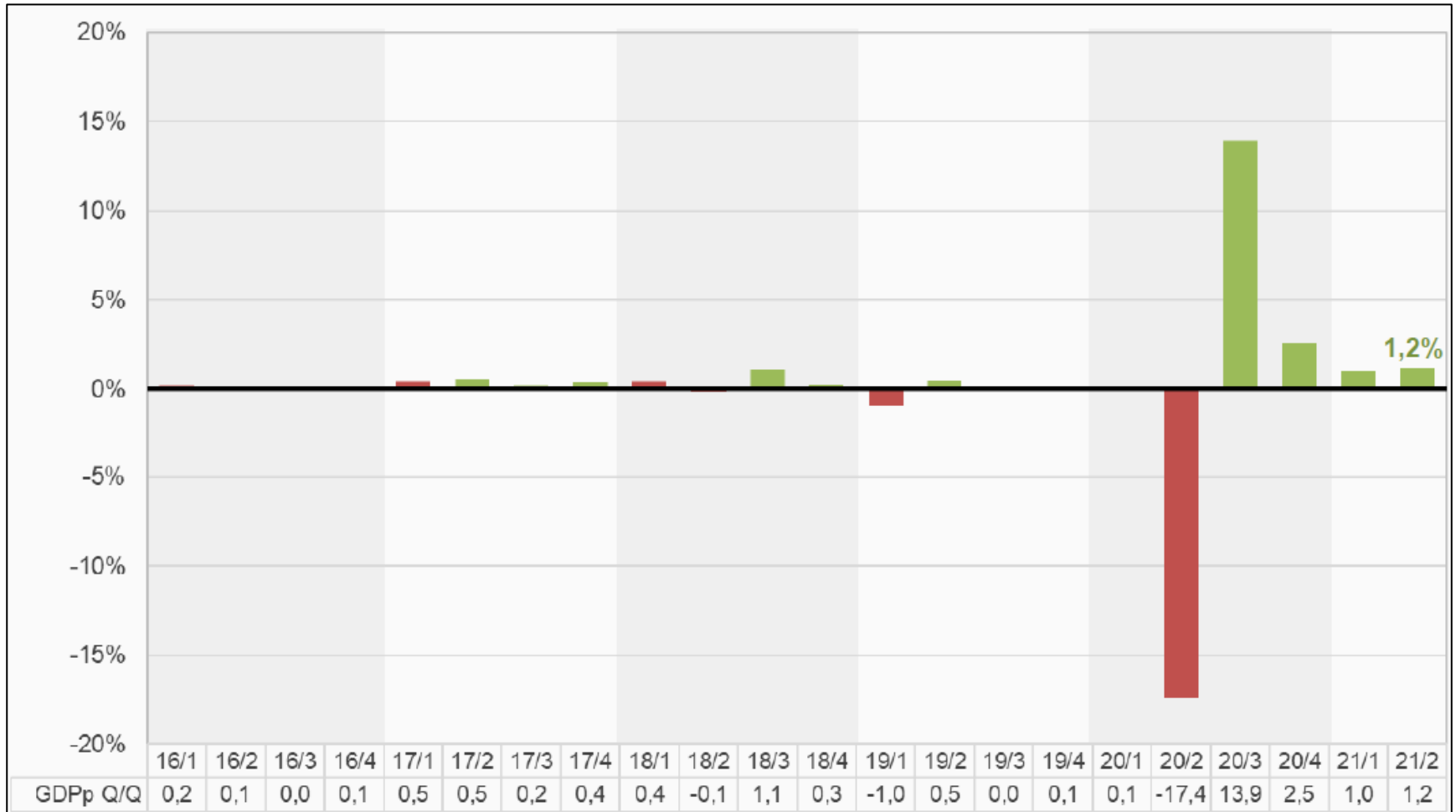


SA MANUFACTURING

SHARP REBOUND IN AUGUST FOLLOWING JULY'S DISRUPTIONS



SA ECONOMY GROWS BY 1.2% IN 2021 Q2



SA ECONOMY CONTINUES RECOVERY, BUT STILL BELOW PRE- PANDEMIC LEVELS

