

# **MONTH IN PICTURES**

**JULY 2022**

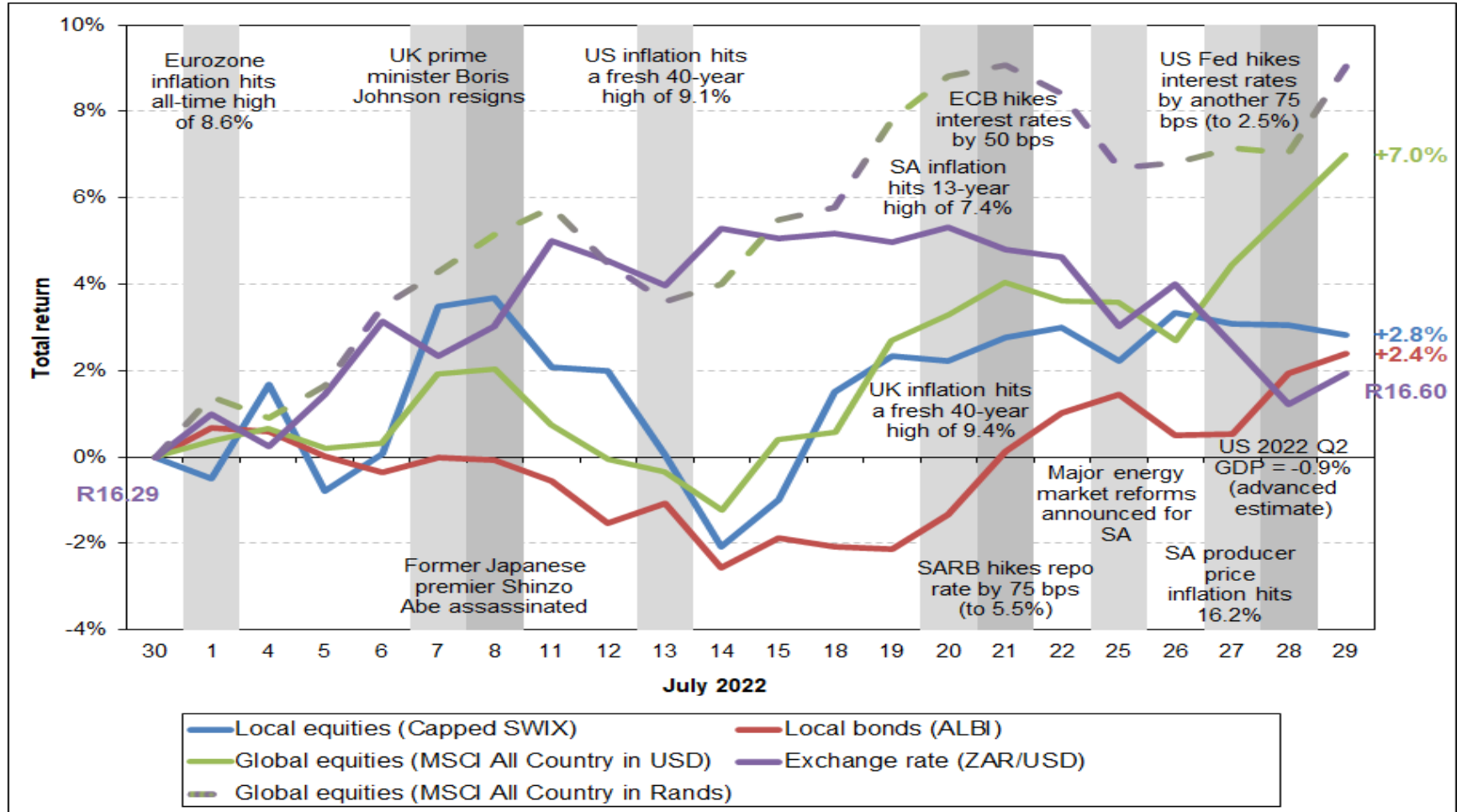
# MONTHLY SNAPSHOT

## NOTABLE EVENTS

- After six consecutive months of negative returns globally, and three locally, equity markets finally managed to make some gains in July on the back of better-than-expected company results and, counterintuitively perhaps, slowing economic growth leading to an easing of inflation and interest rate concerns. Global equities delivered +7% in USD (and +9% in ZAR), while local equities returned between +2.8% (Capped SWIX) and +4.2% (ALSI).
- Locally all the major equity sectors ended in the green, with returns of +1.3%, +5.8%, +3.9% and +8.8% from Resources, Industrials, Financials and Listed Property, respectively.
- Local and global bonds also responded well to these conditions, ending the month with ZAR returns of +2.4% and +3.7%, respectively.
- Given this backdrop the average balanced fund managed to produce a decent return of +3% in July.
- On the inflation front the US's latest CPI number slowed by more than expected, dropping to 8.5% in July after hitting a 40-year high of 9.1% in June. In the UK inflation is showing few signs of slowing anytime soon, however, with a fresh four-decade high of 10.1% being reached in their latest set of numbers.
- With July's sharp petrol price increase included in the latest numbers, local inflation reached another 13-year high of 7.8% in July (from 7.4% in June). Transport (+25%), and specifically fuel (+56%), remain the largest contributors, but food price increases (+10.1%) have now also hit double-digit territory. Core inflation (i.e., excluding food and fuel) remains reasonably well-behaved, but ticked up from 4.4% to 4.6%, while producer price inflation also hit a new high of 18% in July (up from 16.2% in June).
- These numbers will probably prompt the SARB to continue with their rate hiking cycle when they next meet in September. Following July's 75 basis point hike, interest rates are now 2% higher than this time last year, but still 1% below pre-Covid levels.
- Unemployment reduced marginally from 34.5% to 33.9% (the official number) and from 45.5% to 44.4% under the expanded definition.
- Although the third quarter has gotten off to a good start, the year-to-date (YTD) returns of some asset classes remain in negative territory. Local assets are still comfortably ahead of their global counterparts, however, with marginal losses from local equities (ALSI = -4.4% and Capped SWIX = -1.9%) and positive YTD returns from local bonds (+0.5%) and local cash (+2.6%). Global equities and bonds on the other hand are sporting YTD losses of 11% and 10%, respectively, despite a 4% depreciation in the Rand (vs the USD) over this period.
- In this environment the average balanced fund's YTD return now stands at -3%.

# MONTHLY TIMELINE

## IMPACT ON MARKETS



# MARKET INDICATORS

## SHORT TERM

Market indicators (% change) <sup>1</sup>		May 2022	Jun 2022	Jul 2022	3 months	YTD	12 months
Local equities	ALSI	(0.4)	(8.0)	4.2	(4.5)	(4.4)	4.7
	Capped SWIX	0.5	(7.5)	2.8	(4.3)	(1.9)	7.2
	Resources	(0.4)	(16.3)	1.3	(15.6)	(4.4)	0.4
	Industrials	(2.2)	0.9	5.8	4.5	(10.8)	(1.8)
	Financials	3.5	(13.3)	3.9	(6.8)	5.2	23.6
	Listed Property	0.0	(10.3)	8.8	(2.4)	(5.0)	9.7
Local bonds	ALBI	1.0	(3.1)	2.4	0.3	0.5	2.9
Local cash	STeFI Composite	0.4	0.4	0.4	1.2	2.6	4.3
Global equities	MSCI All Country	(0.9)	(4.7)	9.0	3.0	(11.1)	1.7
Global bonds	FTSE WGBI	(1.1)	0.8	3.7	3.4	(9.7)	(5.3)
Exchange rate	ZAR/USD	(1.1)	4.1	1.9	5.0	4.1	13.6
Inflation	CPI	0.7	1.1	1.5	3.3	5.8	7.8

1. Total returns (in Rands) for the months and periods ending 31 July 2022.

# MARKET INDICATORS

## MEDIUM TO LONG TERM

Market indicators (% change) <sup>1</sup>		1 year	3 years	5 years	10 years	15 years	20 years
Local equities	ALSI	4.7	10.6	8.2	10.6	9.4	14.0
	Capped SWIX	7.2	8.9	5.4	9.1	-	-
	Resources	0.4	19.9	19.9	8.2	5.2	10.4
	Industrials	(1.8)	6.8	3.8	10.8	11.7	16.3
	Financials	23.6	3.9	3.1	8.6	8.0	12.9
	Listed Property	9.7	(6.1)	(6.4)	2.7	7.1	14.2
Local bonds	ALBI	2.9	6.9	8.0	7.0	8.3	9.1
Local cash	STeFI Composite	4.3	4.9	5.9	6.1	6.8	7.3
Global equities	MSCI All Country	1.7	13.9	13.0	17.3	11.5	10.8
Global bonds	FTSE WGBI	(5.3)	1.3	3.5	6.6	7.8	5.6
Exchange rate	ZAR/USD	13.6	5.0	4.7	7.2	5.8	2.5
Inflation	CPI	7.8	5.2	4.9	5.3	5.7	5.4

1. Total returns (in Rands) for the months and periods ending 31 July 2022.

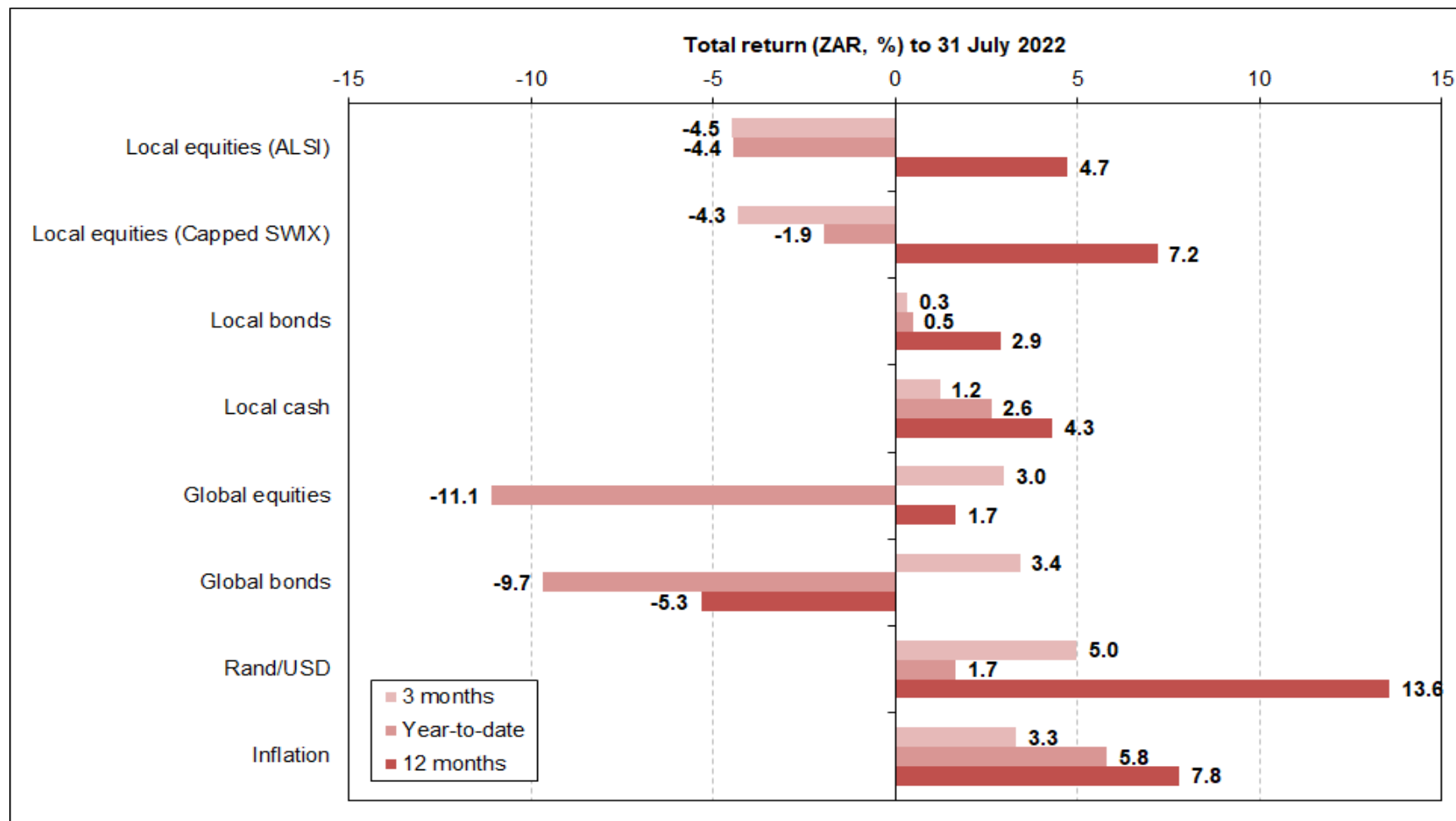
# ECONOMIC INDICATORS

Economic indicators <sup>1</sup>	Jul 2020	Jul 2021	May 2022	Jun 2022	Jul 2022
<b>Exchange rates:</b>					
ZAR/USD	17.06	14.62	15.65	16.29	16.60
ZAR/GBP	22.34	20.31	19.72	19.82	20.21
ZAR/Euro	20.11	17.34	16.79	17.06	16.98
<b>Commodities:</b>					
Brent Crude Oil (USD/barrel)	43.52	75.41	115.60	109.03	103.97
Platinum (USD/ounce)	908.50	1,065.10	966.13	916.50	899.50
Gold (USD/ounce)	1,976.28	1,828.18	1,854.81	1,815.02	1,766.34

1. Month-end prices

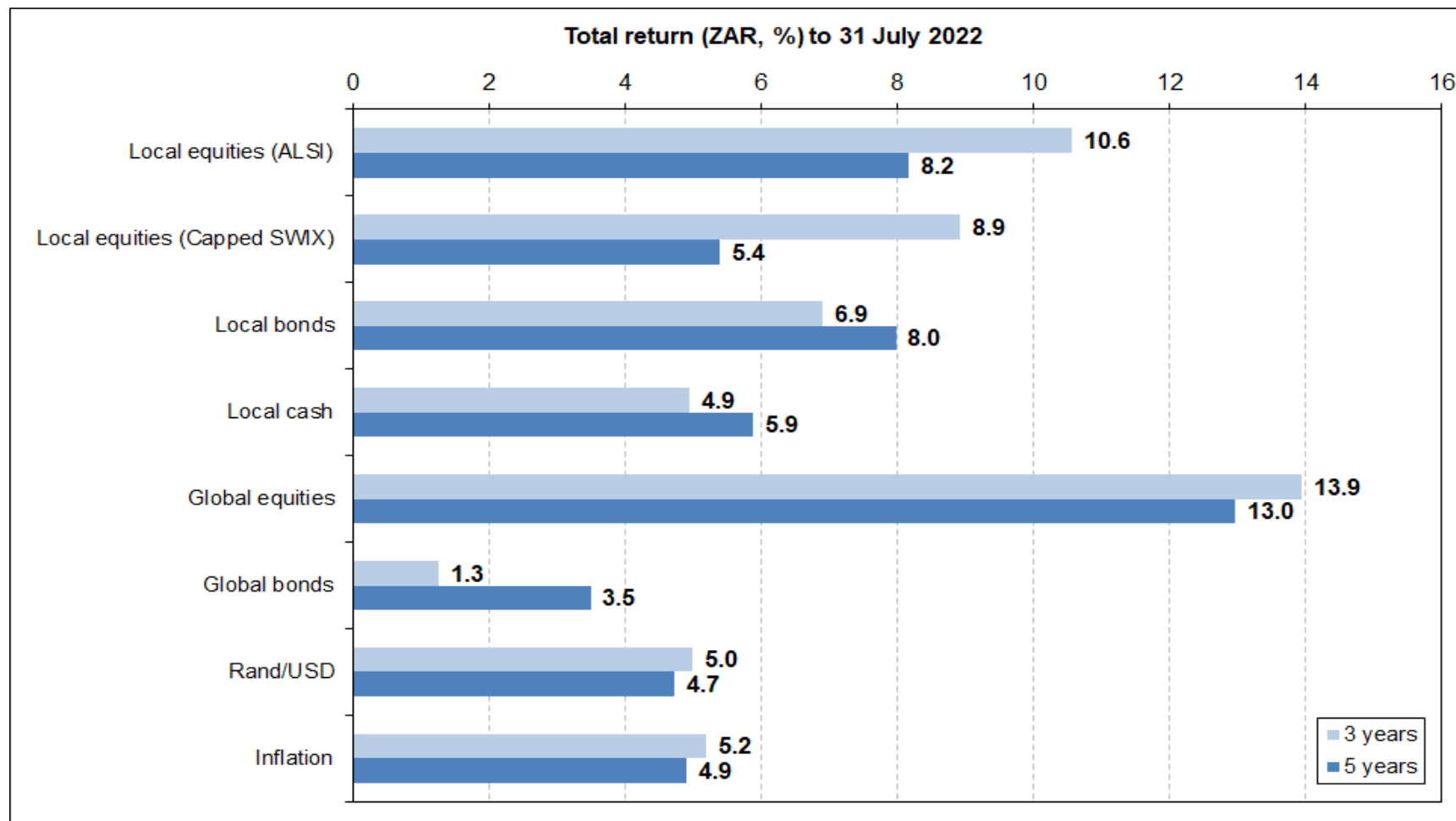
# ASSET CLASS PERFORMANCE

## SHORT TERM



# ASSET CLASS PERFORMANCE

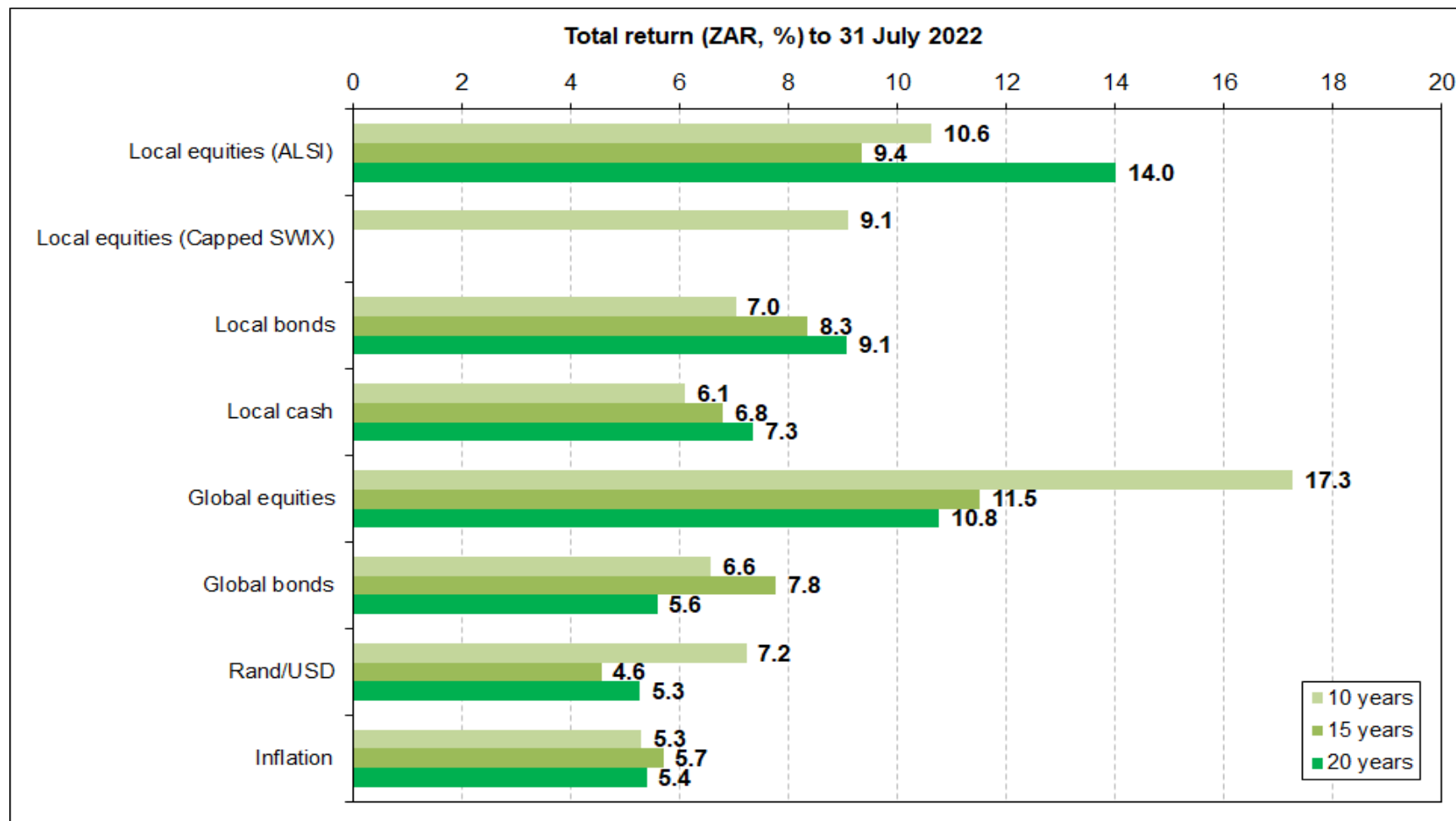
## MEDIUM TERM





# ASSET CLASS PERFORMANCE

## LONG TERM



# MARKET PERFORMANCE

## WHAT (PAST) RETURNS CAN INVESTORS REASONABLY EXPECT?

**Given the performances of the various asset classes, what level of historical returns can retirement funds reasonably expect?**

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, 30% to 2022 & currently at 45%), with changes to the offshore allocation made in the middle of the year in which the limit changed.
- 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	60%		40% (5% below regulatory maximum)	
		GROWTH VS INCOME ASSETS	75%	25%	75%	25%
		EQUITIES VS BONDS VS CASH	100%	75% 25%	100%	100%
	Current allocation		~45%	~11% ~4%	~30%	~10%

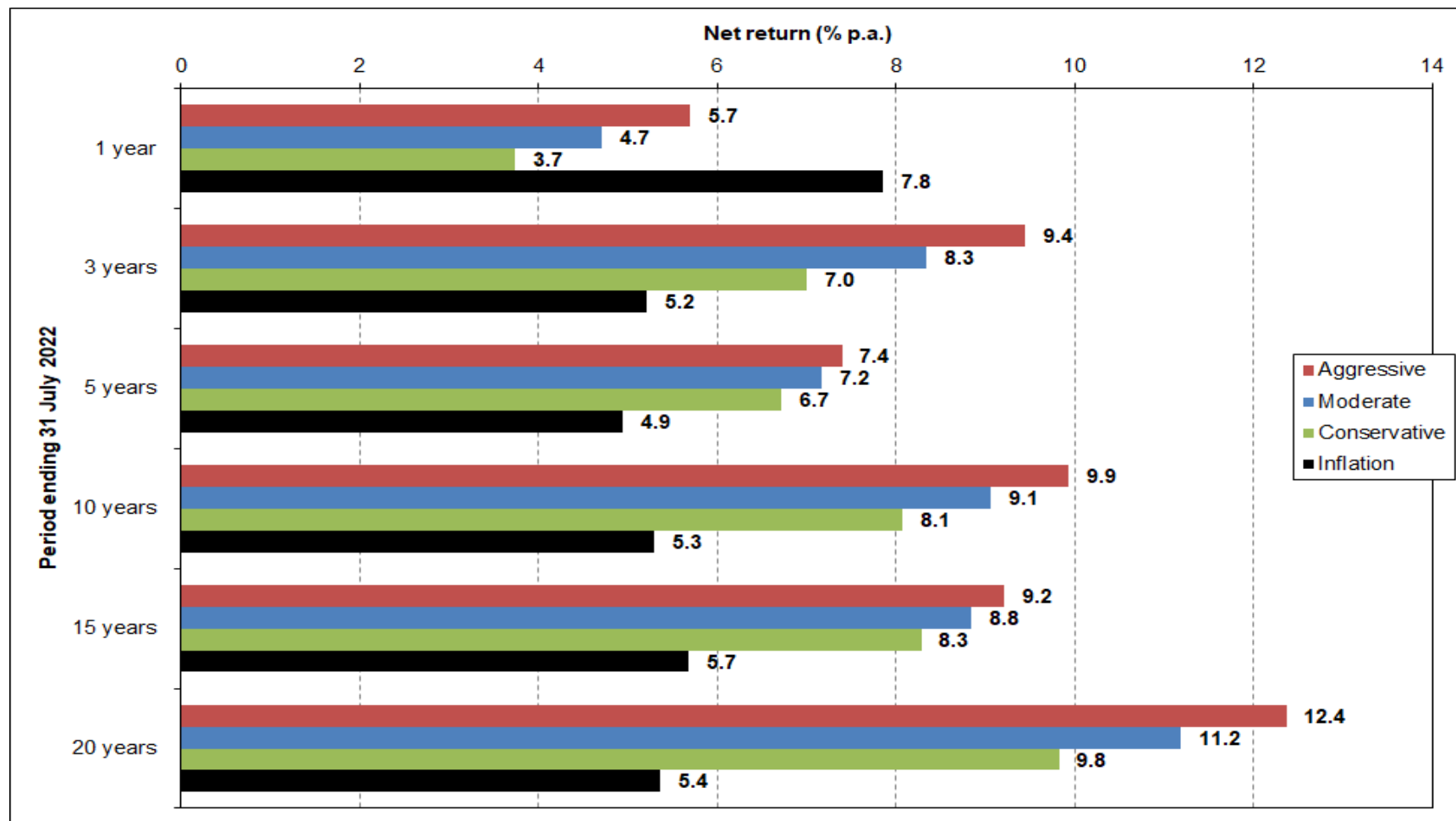
MODERATE	Strategic allocation	LOCAL VS OFFSHORE	60%		40% (5% below regulatory maximum)	
		GROWTH VS INCOME ASSETS	55%	45%	55%	45%
		EQUITIES VS BONDS VS CASH	100%	55% 45%	100%	100%
	Current allocation		~33%	~15% ~12%	~22%	~18%

CONSERVATIVE	Strategic allocation	LOCAL VS OFFSHORE	60%		40% (5% below regulatory maximum)	
		GROWTH VS INCOME ASSETS	35%	65%	35%	65%
		EQUITIES VS BONDS VS CASH	100%	35% 65%	100%	100%
	Current allocation		~21%	~14% ~25%	~14%	~26%

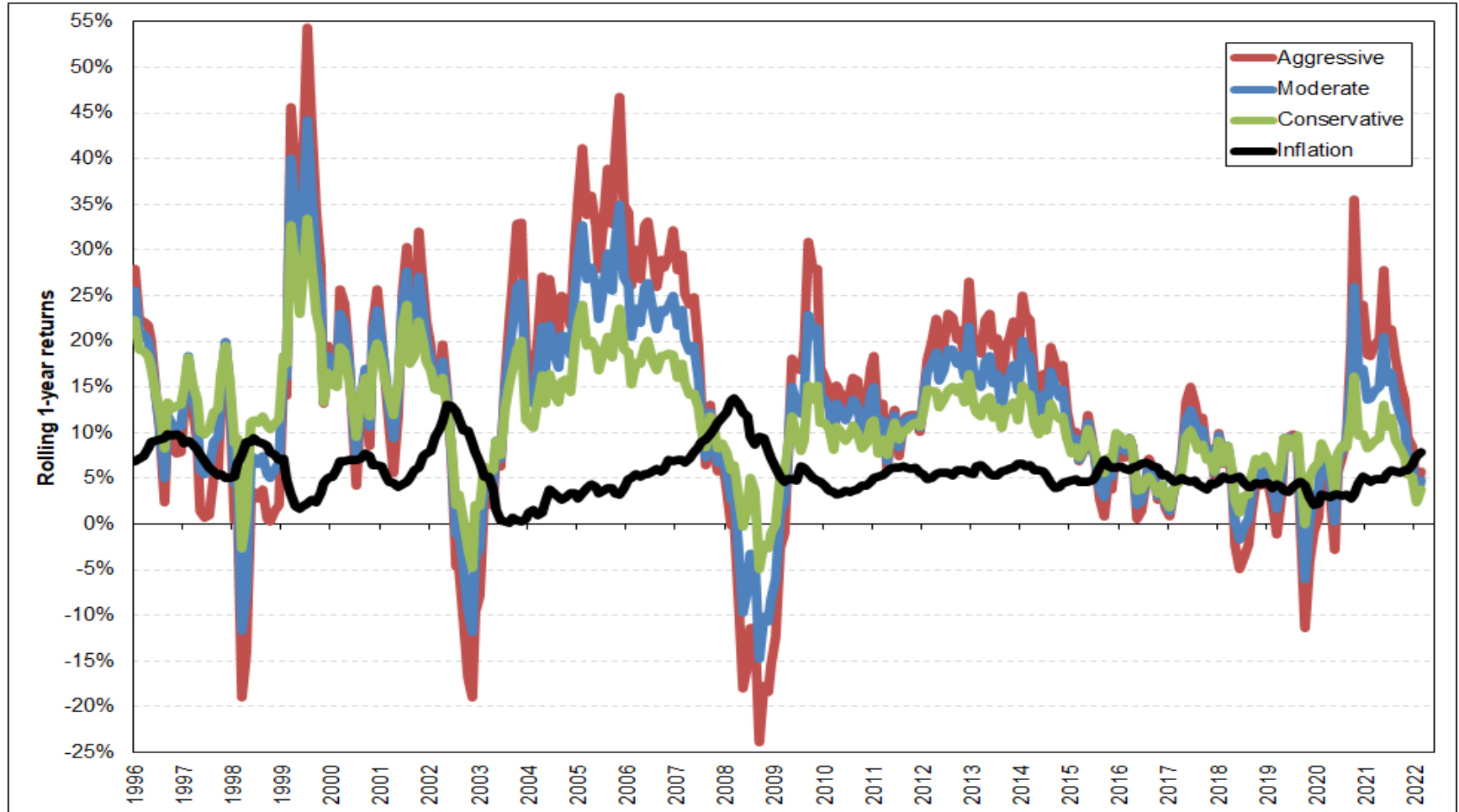
# MARKET PERFORMANCE

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



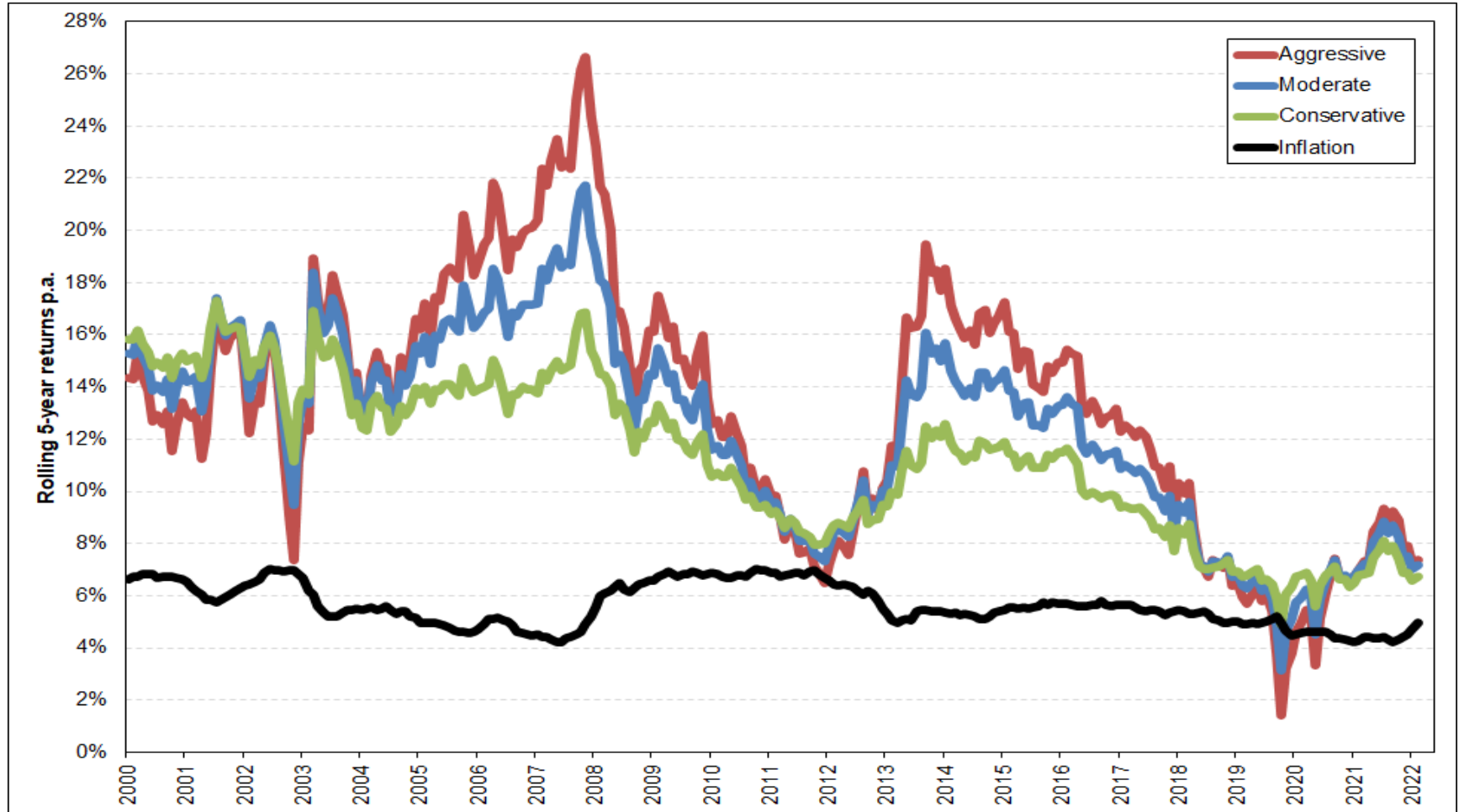
# MARKET PERFORMANCE

## SHORT-TERM RETURNS ARE VERY VOLATILE



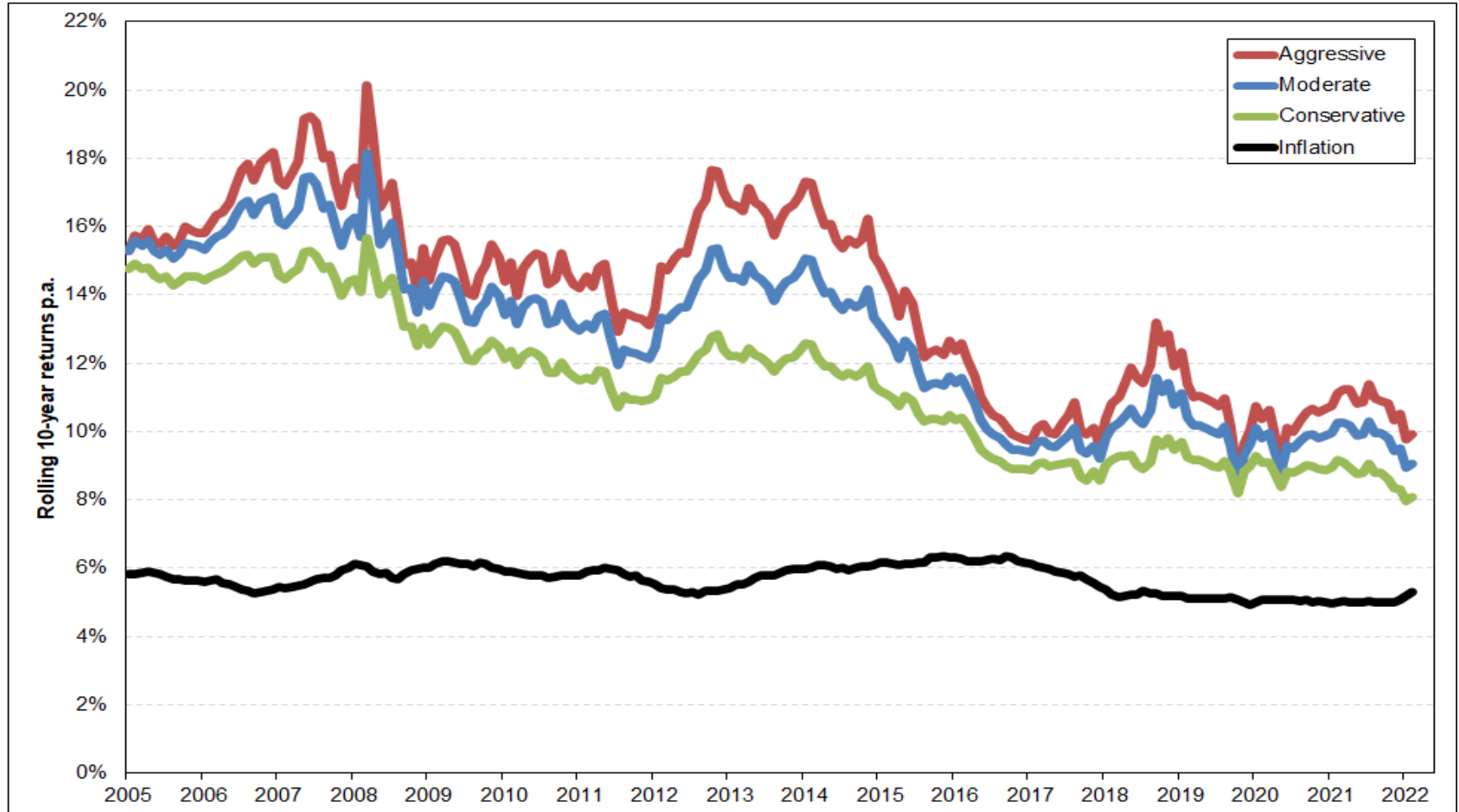
# MARKET PERFORMANCE

## MEDIUM-TERM RETURNS ARE MORE STEADY, BUT NOT ALL PLAIN SAILING EITHER



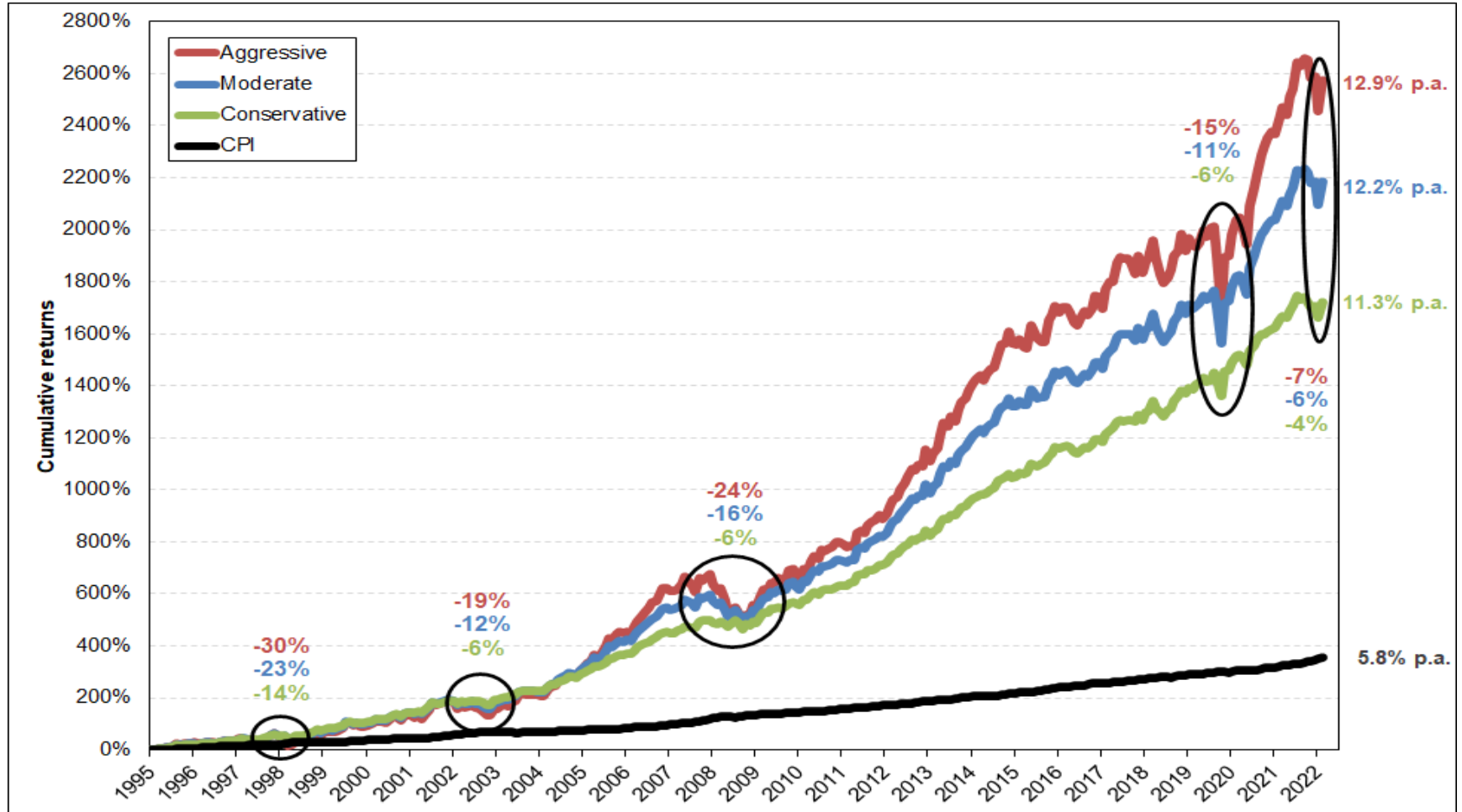
# MARKET PERFORMANCE

## LONG-TERM RETURNS HARDLY EVER DISAPPOINTS



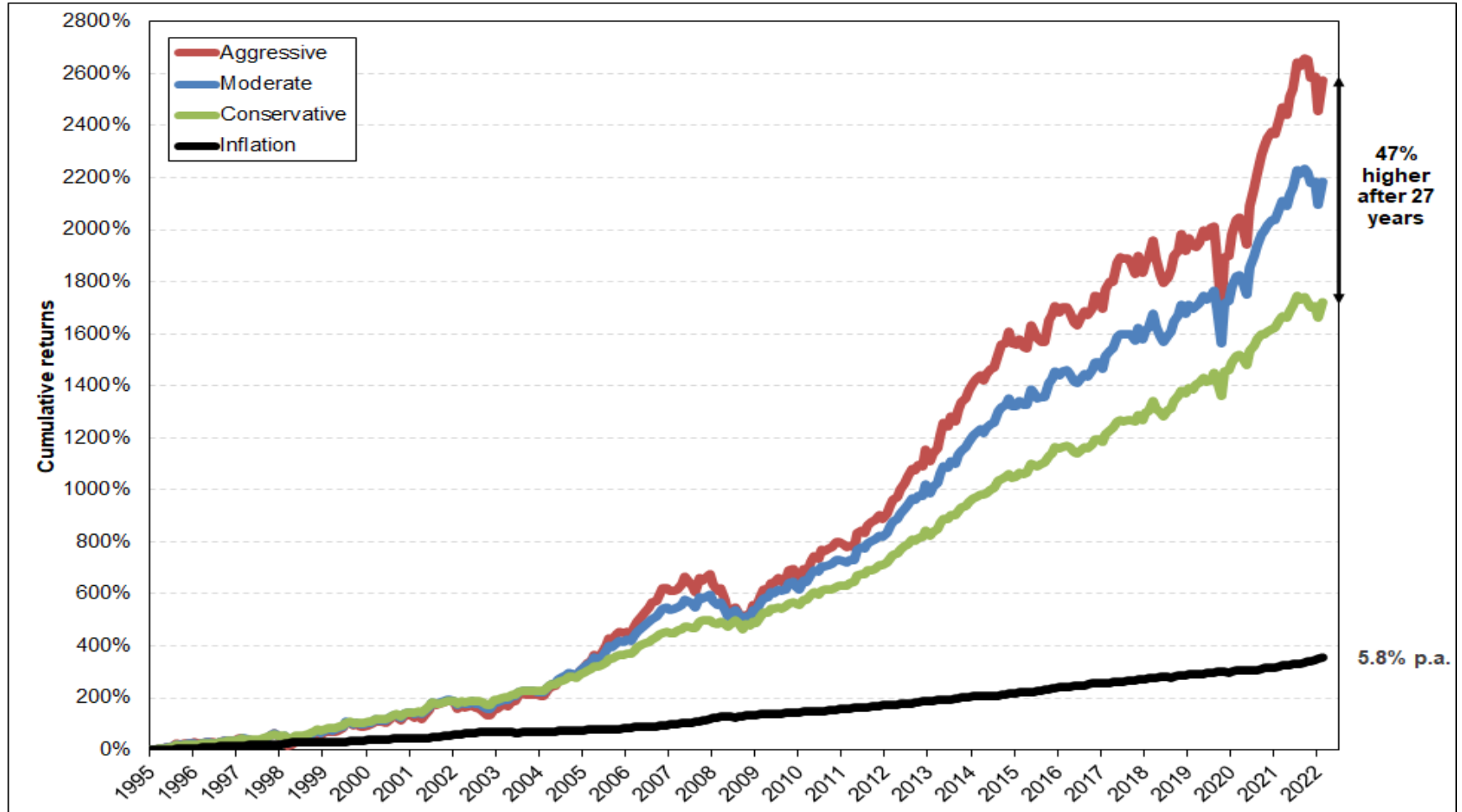
# MARKET PERFORMANCE

## CRASH?... WHAT CRASH?



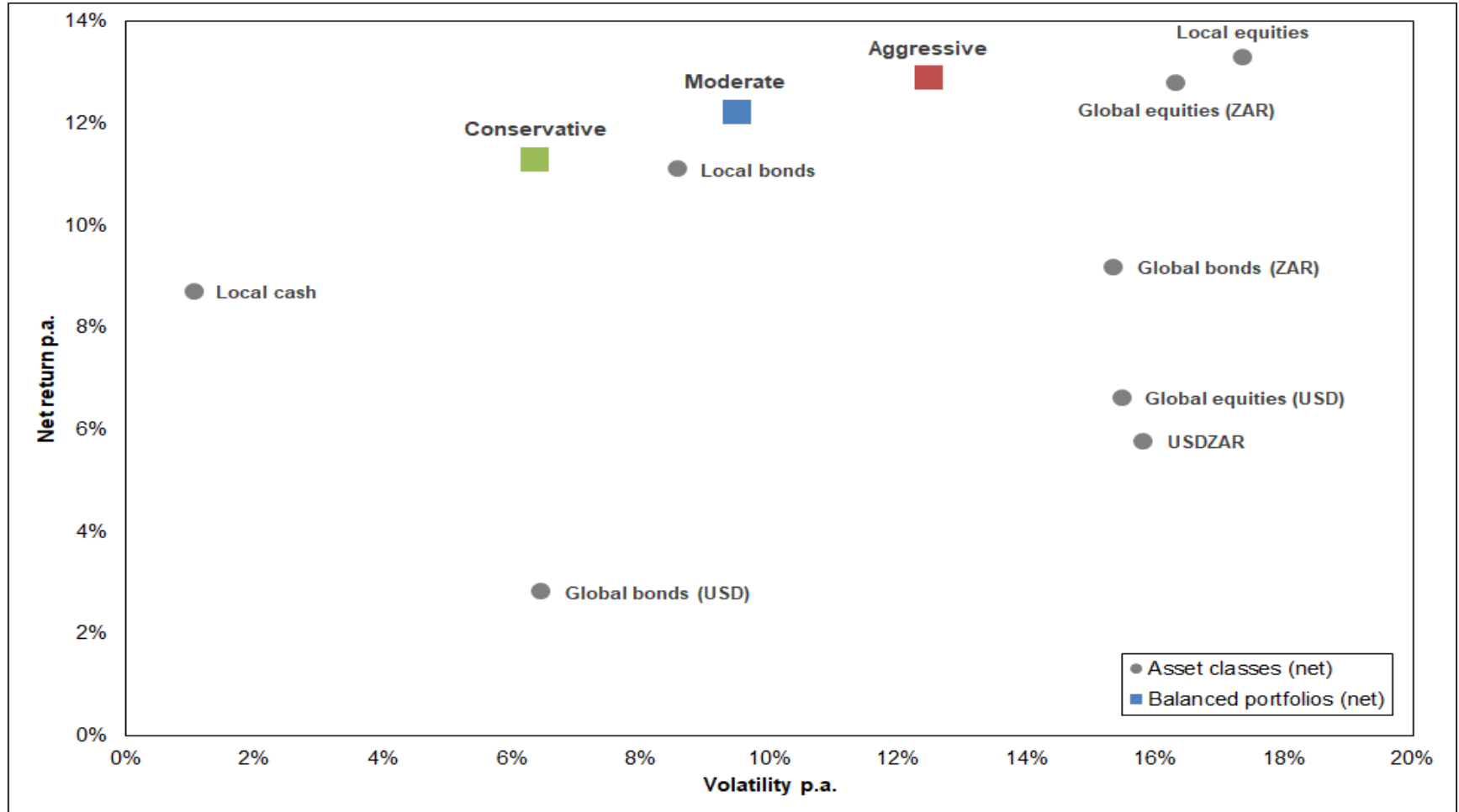
# MARKET PERFORMANCE

## THE POWER OF 1-2% P.A.





# MARKET PERFORMANCE ...AND DIVERSIFICATION

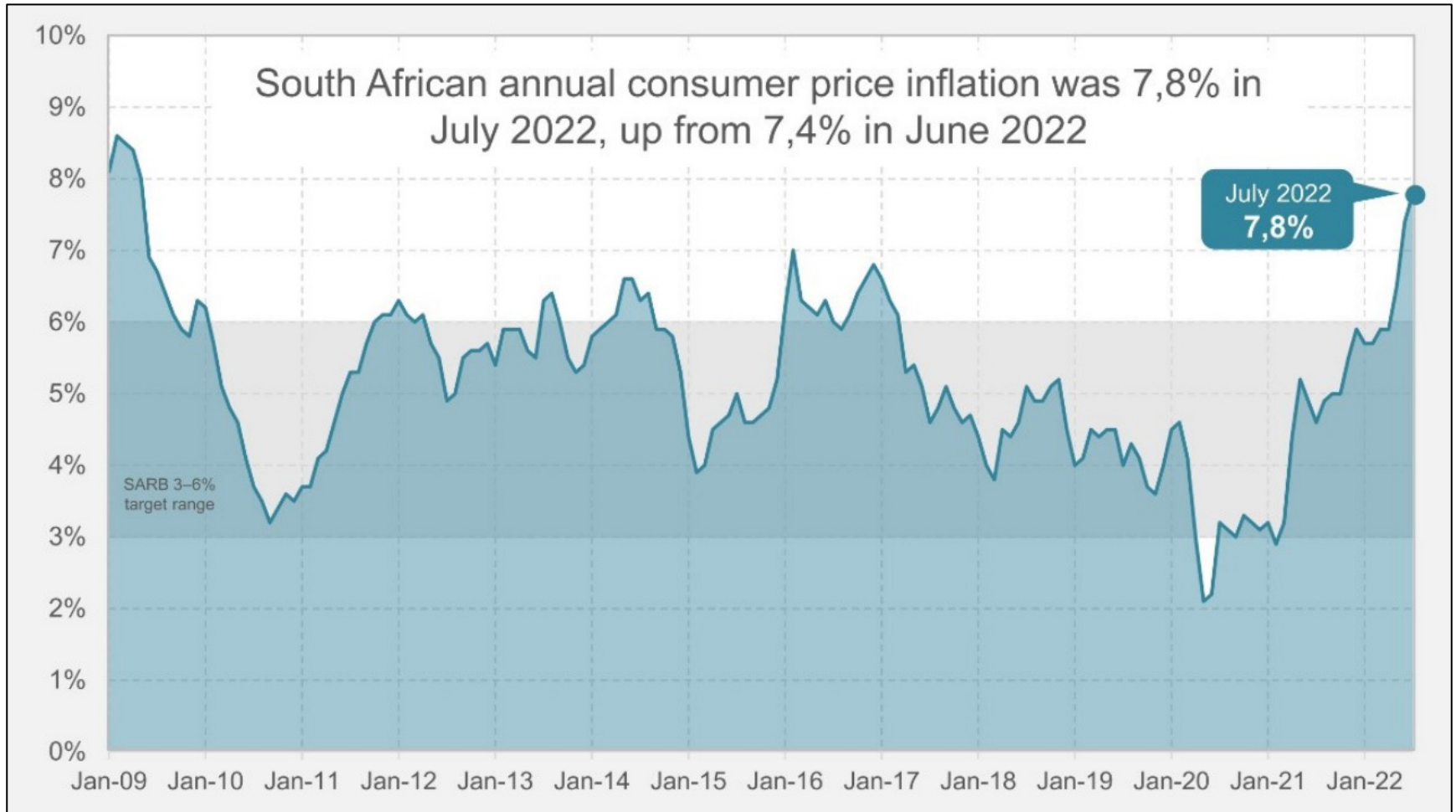


# MARKET PERFORMANCE

## GOOD LUCK TRYING TO TIME THOSE MARKETS!

Calendar year	<div> <div>Worst performer</div> <div>← net returns →</div> <div>Best performer</div> </div>								
1996	6.2%	9.1%	9.8%	10.5%	11.9%	15.9%	33.0%	44.7%	Aggressive
1997	-7.3%	1.0%	4.2%	6.0%	10.4%	16.8%	19.1%	28.7%	Moderate
1998	-6.3%	2.8%	4.6%	6.7%	11.1%	17.3%	38.9%	46.3%	Conservative
1999	0.3%	15.3%	28.2%	32.3%	33.4%	44.2%	54.4%	70.2%	Local equities
2000	0.0%	4.3%	5.6%	7.2%	9.5%	10.4%	19.0%	25.2%	Global equities (ZAR)
2001	9.7%	17.4%	24.0%	27.6%	30.4%	32.1%	32.4%	57.1%	Global bonds (ZAR)
2002	-42.5%	-14.4%	-4.6%	-2.3%	-1.1%	2.1%	11.2%	15.5%	Local bonds
2003	-11.4%	2.8%	11.8%	12.6%	14.4%	15.7%	17.6%	19.0%	Local cash
2004	-6.1%	-2.3%	7.6%	14.3%	14.8%	18.8%	23.0%	33.3%	
2005	4.4%	6.7%	10.4%	18.7%	23.8%	25.7%	32.7%	44.3%	
2006	5.1%	7.0%	17.1%	18.0%	23.8%	29.8%	33.0%	38.7%	
2007	3.8%	8.4%	8.6%	8.9%	10.4%	11.7%	13.3%	17.6%	
2008	-22.0%	-19.5%	-11.4%	-3.3%	5.0%	11.3%	16.5%	55.1%	
2009	-20.3%	-1.4%	4.2%	7.9%	8.7%	12.0%	16.8%	29.4%	
2010	-5.9%	0.4%	6.5%	9.8%	12.5%	14.5%	14.5%	20.4%	
2011	3.8%	5.3%	7.4%	8.4%	8.4%	9.2%	12.5%	29.6%	
2012	5.1%	5.8%	14.5%	15.5%	19.1%	20.4%	23.0%	28.6%	
2013	0.2%	4.8%	12.8%	16.4%	18.3%	20.2%	20.4%	50.8%	
2014	5.5%	9.7%	10.1%	10.2%	12.0%	13.6%	14.8%	15.0%	
2015	-4.3%	2.4%	6.0%	7.0%	7.1%	7.8%	30.2%	31.3%	
2016	-10.0%	-4.9%	4.4%	4.7%	4.9%	4.9%	7.0%	15.0%	
2017	-2.8%	7.1%	9.2%	9.8%	11.3%	11.6%	13.2%	16.0%	
2018	-11.3%	-3.6%	-0.2%	3.1%	4.6%	6.8%	7.3%	15.0%	
2019	3.3%	6.3%	6.9%	8.2%	9.2%	9.9%	9.9%	23.0%	
2020	0.2%	5.0%	7.3%	8.1%	8.2%	8.5%	15.6%	21.5%	
2021	0.9%	3.4%	8.0%	11.7%	16.6%	21.4%	26.6%	28.1%	
2022 YTD	-11.3%	-9.7%	-2.5%	-2.2%	-2.0%	-1.4%	0.2%	2.4%	

# SA INFLATION HITS ANOTHER 13-YEAR HIGH

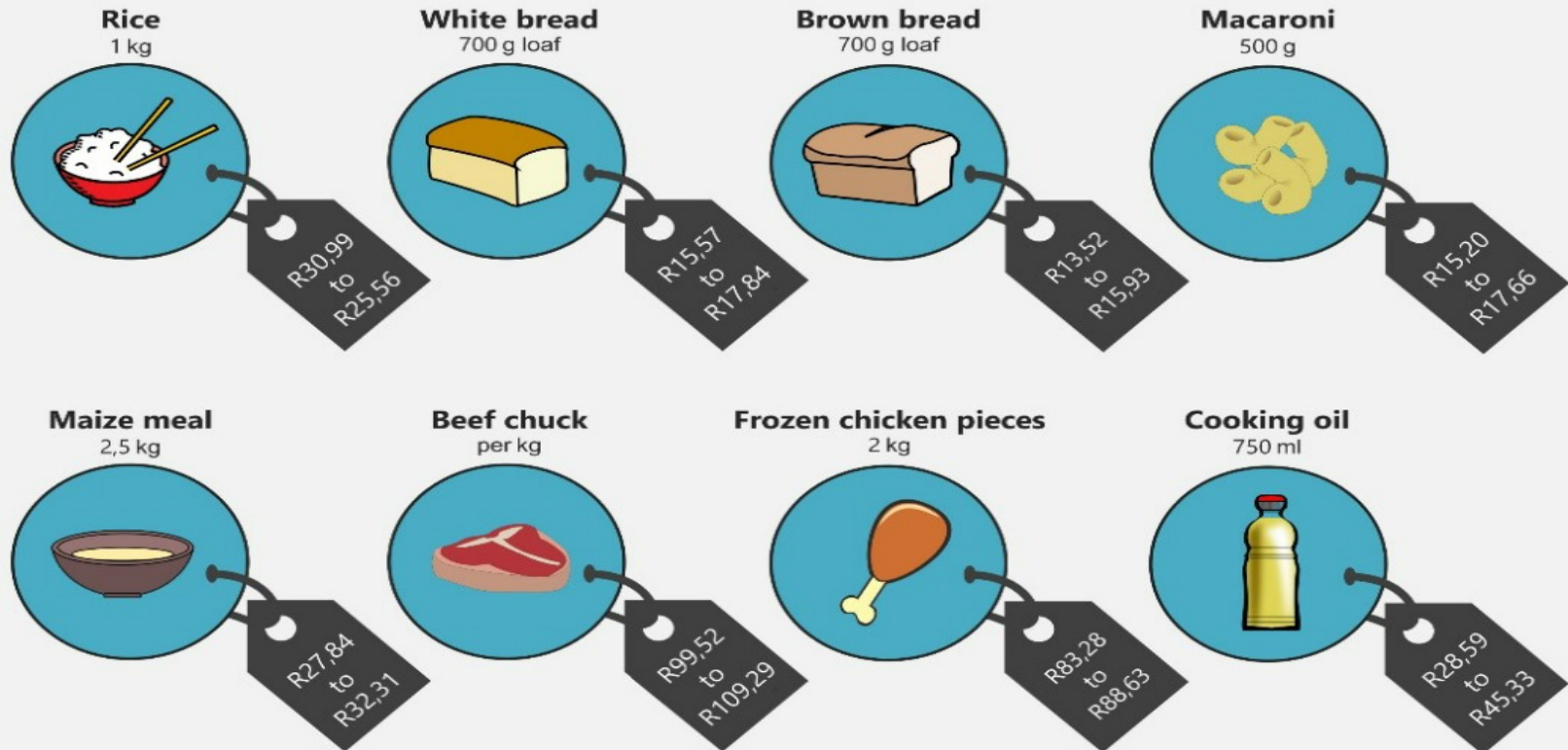


# SA INFLATION

## GROCERY CARTS ARE ALSO GETTING MORE EXPENSIVE

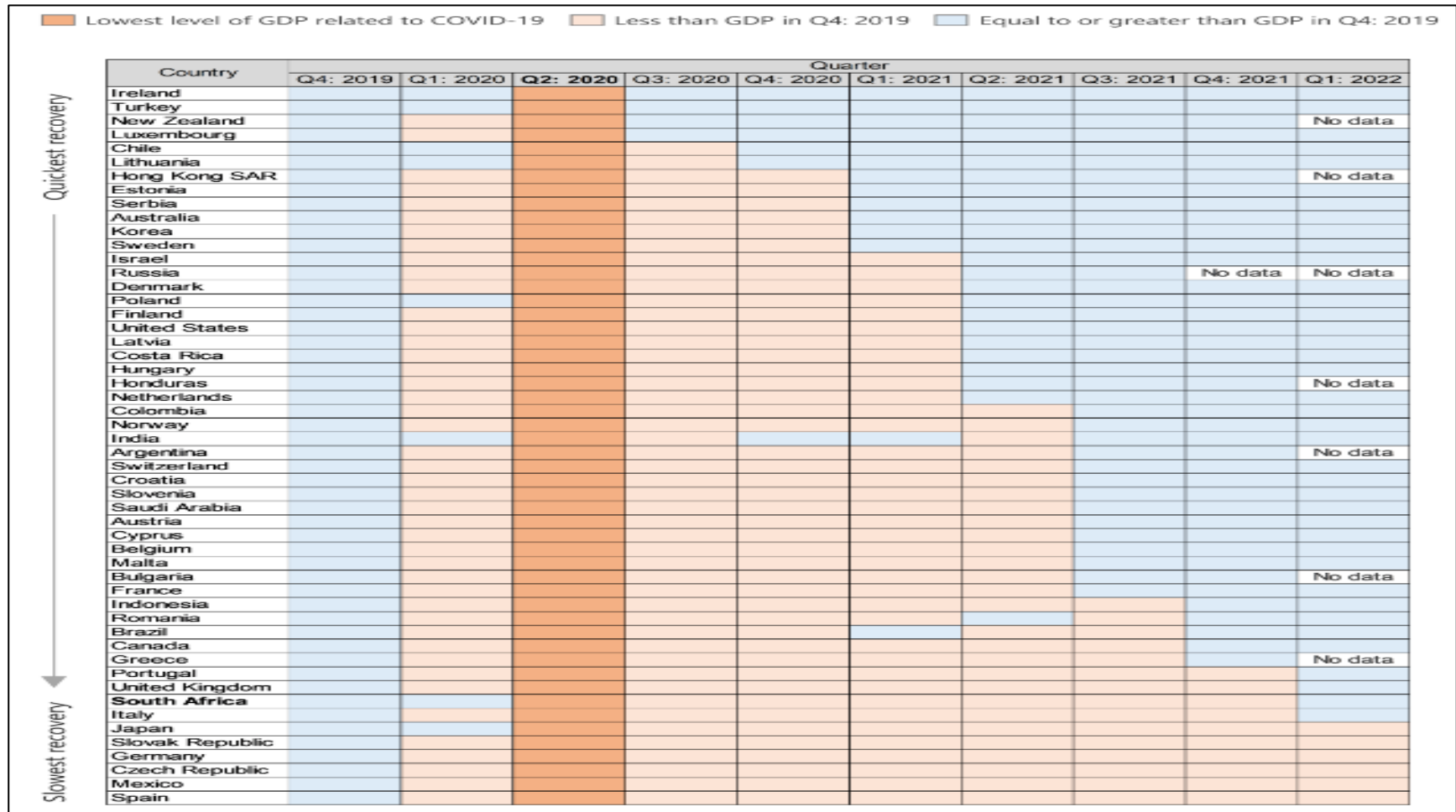
### Inflation: Price changes in the last 12 months

Average prices for selected food products: July 2021 to July 2022



# SA ECONOMY

## RECOVERY FROM COVID-19 LAGS THOSE OF MOST OTHER COUNTRIES



# SA UNEMPLOYMENT SHOWING MARGINAL IMPROVEMENT

Official vs Expanded unemployment: Q2:2012-Q2:2022

