Market Overview

30 April 2021

Local Market

South Africa continued with phase one of the COVID-19 vaccination programme in April, with nearly 330 000 health workers vaccinated by month end, out of a total of 1.2 million targeted. Phase two is scheduled to start in mid-May, focusing on individuals of 60 years and older, those that have comorbidities, and frontline workers. As at the end of April, enough vaccines had been secured for 46 million of SA's roughly 60 million population.

The country remains at lockdown level 1, as COVID-19 infection rates continue to stay stable, although an increase in infections in certain provinces, like the North West and Free State, are being monitored. With 'COVID fatigue' and the potential of a new variant posing a threat to the rate of infection, concerns around a possible third wave remain.

The local equity market was held back in April by index heavy weights, such as Naspers (-6.3%), British American Tobacco (-4.4%), and Amplats (-7.8%). Naspers and Prosus shares sold off after Prosus announced plans to sell 2% of its stake in Chinese tech giant Tencent, which will reduce its share from 30.9% to 28.9%. After another stellar month in April, the local property index is now up 60% since November, although still around 40% below its late 2017 highs. Year-to-date, property has been the best performing domestic asset class, illustrated in **Chart 1** (below).

On the economic front, trade data bounced back strongly. Retail sales for February (released in April) increased by 2.3% year-on-year in February versus January's 3.5% decline. It was the first gain in retail activity since March of last year. South Africa's trade surplus widened to R52.77bn in March compared to February's revised R31.22bn surplus, beating market forecasts of R25bn. This is the largest monthly trade surplus on record, topping the previous high seen in June last year.

Exports continued to surge, rising 28.9% month-on-month in April, while imports advanced by 16.3%. Most commodities enjoyed a great month during April. Palladium was the biggest winner, gaining 13.56% to all-time new highs. Copper was a close second, gaining 11.85% over the period.

Global Market

The massive COVID-19 outbreak in India in April has caused alarm globally and served as a harsh reminder that we are still in the depths of the pandemic. Global markets, and especially emerging markets, still have much to be concerned about. India is facing a dire situation, they are the first country to report more than 400 000 new cases on a single day and have reported 7 million cases in April alone.

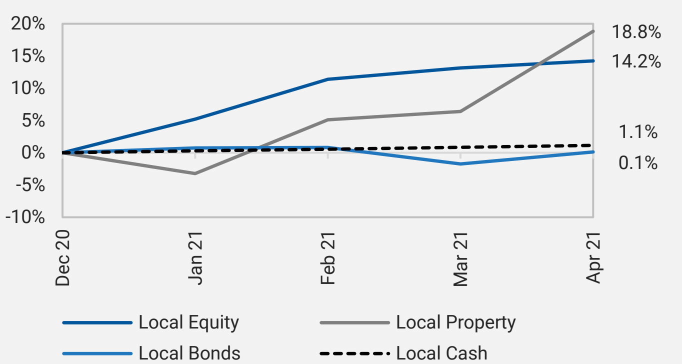
Despite the uncertainty surrounding new strains outbreaks of the virus, as well as concerns around vaccine efficiency, April saw a much more positive picture emerge on the global economic outlook. Monetary and fiscal policy remain highly accommodative, and consumers are gradually becoming more confident.

US GDP growth accelerated to 6.4% quarter-on-quarter annualised in the first quarter of 2021, driven by a sizeable 10.7% jump in consumption. This was above market expectations of a 6.1% expansion and was likely buoyed by the two rounds of stimulus cheques in the quarter. The consensus forecast is for 8.1% growth in the second quarter, after which growth in the US and every major economy will inevitably slow back to more normal levels in the second half of the year.

The US Dollar Index again weakened in April, as illustrated in **Chart 2** (below), and broke below both its 200-day and 50-day Moving Averages. The US M2 Money Supply year-on-year growth rate reached a new all-time high for the eleventh time since early 2020. M2 is a measure of the money supply that includes cash, checking deposits, and easily convertible near money. The US M2 Money Supply is used as an indicator of possible increases or decreases in inflation levels.

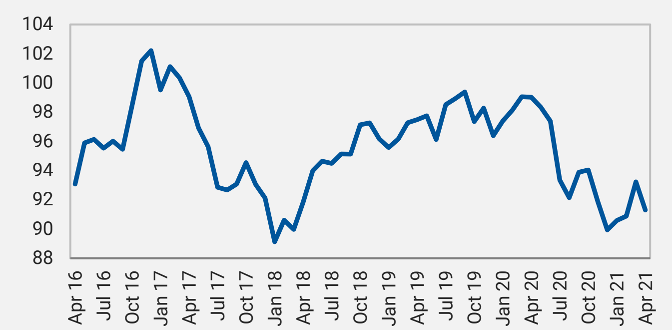
Investors grew even more concerned about possible rising inflation after President Biden put forward an additional US$1.8trn programme at the end of April, aimed at providing support for children and families. This comes less than a month after Biden issued a US$2trn infrastructure proposal. The Biden administration proposes to pay for these packages over 15 years by hiking taxes of both high-net-worth Americans as well as corporates.

Chart 1: Local Market Indices year-to-date returns



Source: Seed Investments, Morningstar Direct (30 April 2021)

Chart 2: US Dollar Index (DXY) over the past5 years



Source: Investing.com (30 April 2021)

Asset Class (ZAR)	MTD	YTD	1 Year	3 Years	5 Years	10 Years
Local Equity	1.0%	14.2%	36.4%	8.1%	8.0%	10.7%
Local Property	11.7%	18.8%	40.3%	-11.8%	-7.4%	5.2%
Local Bonds	1.9%	0.1%	14.7%	6.4%	8.7%	8.2%
Local Cash	0.3%	1.1%	3.6%	5.6%	6.1%	5.7%
Global Equity	2.5%	7.8%	15.1%	19.1%	14.4%	18.1%
Global Property	5.3%	12.0%	7.8%	14.2%	6.6%	16.1%
Global Bonds	-0.7%	-5.8%	-20.6%	8.5%	2.5%	10.0%
Global Cash	-1.7%	-1.2%	-20.9%	6.7%	1.7%	9.0%

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Local Review

Equity

Local equities posted its sixth consecutive month of positive returns in April, the longest positive streak in almost 7 years. Even though it remained in positive territory, the JSE All Share Index only appreciated by 1.0% and, excluding Cash, was the worst performing local asset class for the month. The index's performance was led by the resource sector that was up 2.9% in April as it benefitted from higher metal prices. Financials delivered 1.5%, while Industrials was down 1.2%. Year-to-date local equities have returned 14.2%. Our models indicate that there is reasonable value on offer and we therefore maintain our equity allocations at levels close to benchmark.

Property

Local property had an excellent month in April and the SA Property Index improved by 11.7% as most of the index's constituents recorded positive returns. The sector has experienced a massive recovery over the last few months but remains 19.7% below its January 2020 level. The outlook for local property remains very volatile and the yields on offer do not fully reflect all the underlying fundamental risks. We maintain an underweight ranking on this asset class.

Bonds

A stronger rand provided support for local bonds and the JSE All Bond Index posted a return of 1.9% in April, outperforming developed and emerging market aggregates and pushing the year-to-date performance back into the green (0.1%). The benchmark R186 yield decreased slightly from 7.5% to 7.4% and the risk premium remains on the higher end. The yield in real terms is very attractive when compared to other asset classes and we allocate to bonds at overweight levels relative to the benchmark.

Cash

The annual inflation rate rose to 3.2% in March, up from 2.9% in February and in line with market expectations. It remains near the bottom of the Reserve Bank's 3%-6% inflation target range. Main upward pressure came from prices of food and non-alcoholic beverages, as well as transport. Cash currently delivers a real yield of 0.5% and while we appreciate the optionality in cash, we recognise that several other asset classes have much higher expected real returns at the moment.

Global Review

Currency

After a particularly strong start to the month, the rand came under pressure towards month-end. From a starting point of R14.78/$, it still ended the month stronger at R14.50/$. At month end, the ZAR was at fair value relative to the trade weighted basket of currencies on a purchasing power parity basis. Using the same methodology, the ZAR was 17% undervalued versus the USD.

Equity

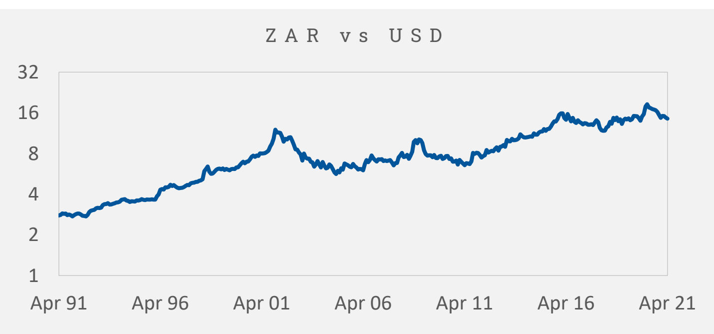
Risk assets continued to push higher in April and global equities rallied as US corporate earnings and economic activity surprised on the upside. Vaccine rollouts in major developed markets gathered momentum, also adding to positive sentiment. The MSCI All Country World Index increased 4.4% in Dollars (2.5% in Rand terms). Although emerging markets underperformed their developed market counterparts, sentiment was generally positive towards emerging markets in April as the economic data, on aggregate, surprised on the upside. The MSCI Emerging Markets Index rose 2.5% in USD over the period. We continue to favour allocation to high quality stocks and maintain our allocation to global equity at levels just above benchmark.

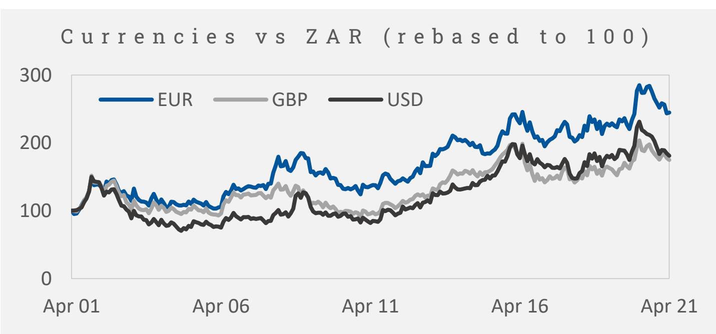
Fixed Income

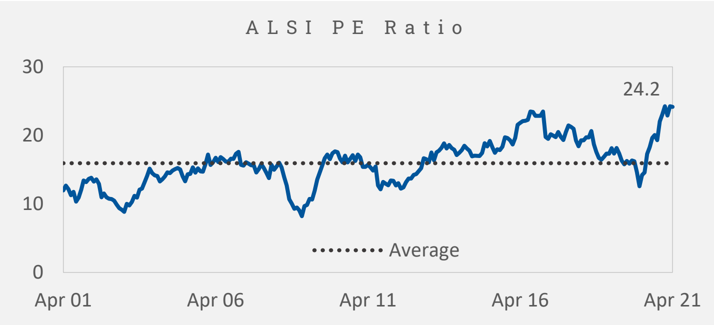
After climbing steadily over the last few months, the US 10-year treasury bond yield took a breather in April and came down to 1.6%, from a high of 1.7% in March. At their meeting in late-April, the Federal Reserve Bank agreed to maintain the status quo on abundant monetary stimulus. BCA Research opines that if economic growth remains as robust as expected, the path of least resistance for long-term yields is upwards.

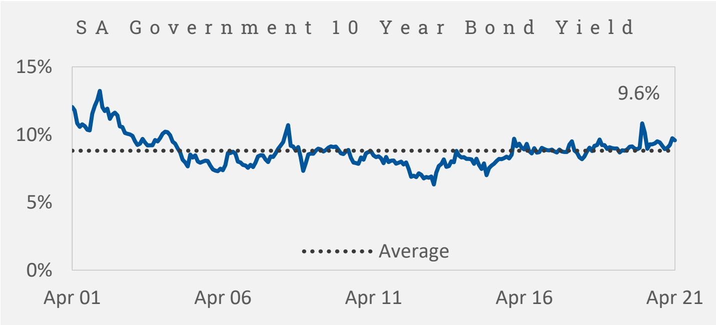
Alternative

Other asset classes that can be considered include structured notes, private equity, direct real estate, commodities, and hedge funds and can provide investors with uncorrelated returns. Interest rates have been slashed to all-time lows, making alternatives particularly attractive as they offer an asymmetric return profile. Gold especially should retain its purchasing power and remains an attractive real asset to own at this time. Alternative asset classes can thus perform a useful role in multi asset portfolios as they help provide more consistent returns.









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Glossary of Terms

Annualised Return	Annualised return shows longer term performance rescaled to a 1 year period. Annualised return is the average return per year over the period. Actual annual figures are available to the investor on request.
Annualised Volatility	The deviation of the calendar month return stream, since launch, relative to its own average.
Highest and Lowest Annual Return	The highest and lowest returns, since launch, for any rolling 1 year period have been shown.
Maximum Drawdown	The maximum calendar month peak to trough loss, since launch, suffered by the Fund.
NAV	The net asset value (NAV) represents the assets of a Fund less its liabilities.
Positive Months	The percentage of calendar months, since launch, where the Fund has delivered a positive return.
Return Horizon	Minimum investment period to have a reasonable probability of receiving the benchmark return.
Risk Horizon	Minimum investment period to have a reasonable probability of receiving a positive nominal return.
Total Expense Ratio (TER)	The Fund's Total Expense Ratio (TER) reflects the percentage of the average NAV of the Fund that was incurred as charges, levies and fees related to the management of the Fund. A higher TER does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER cannot be regarded as an indication of future TERs.