Market Overview

31 May 2021

Local Market

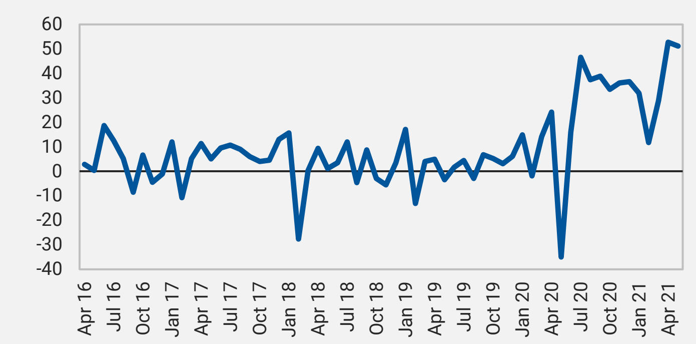
An influx of reported COVID-19 cases hit South Africa in May, leading to a steep increase in COVID-19 related hospitalisations and mortalities. As new cases started rising closer to the official threshold of a third wave, the country was moved to lockdown alert level two, limiting indoor gatherings to 100 people and extending the curfew to begin at 11pm, effective 31 May. Phase two of South Africa's vaccination programme was launched around mid-month, starting off with people aged 60 and older, with the aim of inoculating five million citizens in this category by the end of June.

In another unanimous decision, the Reserve Bank's Monetary Policy Committee kept the repo rate unchanged at 3.5% for the fifth consecutive meeting. Despite the higher-than-expected inflation figure that came in for April, the MPC expects that inflation will be contained this year and that the economy will continue to recover, though moderately. The GDP growth forecast for 2021 was revised upwards to 4.2%, from the 3.8% forecast in March, due to a strong rebound in the first quarter. Forecasts for the following two years, however, was revised down by 0.1% to 2.3% in 2022 and 2.4% in 2023.

Public enterprises minister, Pravin Gordhan, announced some good news in his budget speech in parliament, that the beleaguered Eskom had managed to reduce its debt by almost a fifth after repaying matured loans and benefiting from a strong exchange rate. On top of reducing its debt, Eskom has also been recovering money that was stolen by companies with which it did business. The power utility once again experienced a shortage of generation capacity in May which led to bouts of load shedding at very short notice.

South Africa's main budget deficit for the 2020-21 fiscal year came in smaller than the government projected after spending undershot estimates and revenue surprised on the upside. Compared to an estimated National Budget deficit of 12.3%, as presented by finance minister Mboweni during his Budget Speech earlier this year, the actual shortfall came in at 11.2% of GDP. Trade data for April was released in May, and while the values of exports declined in April, the trade surplus remained high, as illustrated below in **Chart 1**. The modest month-on-month decline in exports was largely broad-based, with only the precious metals category rising.

Chart 1: South Africa Trade Balance (Rbn)



Source: Investing.com (31 May 2021)

Global Market

After a steady start to the year, global market returns were more muted in May, balancing improving economic data with the rise in input prices and the possibility of higher inflation further down the line. COVID-19 infection rates are easing in most developed economies, with the notable exception of Japan. Ongoing vaccine rollout programmes are allowing many economies to gradually reopen, which in combination with sizeable fiscal support is supporting a big bounce in economic activity. More than 50% of the US population and more than 39 million people in the UK have received at least one vaccination shot by the end of May.

Most developed countries saw an upgrade in growth forecasts for the year. The US is now forecast to grow by 6.9% in 2021, up from 6.5%, bringing the US back to pre-crisis levels by mid-2021. Forecasts for GDP growth in the UK increased from 5.1% to 7.2%, the fastest growth since 1941. The European Union also saw an upgrade in growth forecasts, with GDP now expected to grow 4.2% for the year, up from 3.7%.

May saw a massive selloff in crypto currencies. Bitcoin dropped a staggering 35% during the month and most other cryptos followed suit. Part of the reason for bitcoin's sharp fall seems to be at least a temporary reversal in broader acceptance for cryptocurrency, as well as the risk of government intervention and weakness in more speculative areas of financial markets.

April US employment data came in surprisingly weak, with only 266 000 new jobs created, a fraction of the nearly 1 million jobs widely anticipated. US consumer prices jumped by 0.9% month-on-month in April, the most in nearly four decades and roughly triple consensus estimates. Fed officials, however, repeated assurances that inflationary pressures were likely to prove temporary and were due to "transitory supply chain bottlenecks."

The US Dollar Index weakened in May and remained below both its 200-day and 50-day moving averages. The extreme volatility in in crypto currencies, the concerns around global inflation, as well as the weaker US dollar, pushed gold prices up. As illustrated below in **Chart 2**, the yellow metal ended the month 7.8% higher, at levels not yet seen this year.

Chart 2: Gold Spot US Dollar Price (Over 10 Years)

Source: Investing.com (31 May 2021)

Asset Class (ZAR)	MTD	YTD	1 Year	3 Years	5 Years	10 Years
Local Equity	1.6%	16.0%	38.1%	10.0%	8.0%	11.0%
Local Property	-2.9%	15.4%	37.3%	-10.9%	-7.3%	4.9%
Local Bonds	3.7%	3.9%	11.1%	8.4%	9.8%	8.4%
Local Cash	0.3%	1.4%	3.6%	5.5%	6.0%	5.7%
Global Equity	-4.0%	3.5%	10.4%	16.9%	11.1%	17.5%
Global Property	-3.8%	7.8%	7.3%	11.3%	3.5%	15.2%
Global Bonds	-4.7%	-10.2%	-21.2%	6.6%	-0.3%	9.0%
Global Cash	-5.4%	-6.6%	-22.1%	4.1%	-1.5%	8.0%

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seed investments

Local Review

Equity

Local equities rose for the seventh consecutive month in May, the longest such winning streak since the beginning of 2013. The JSE All Share Index posted a 1.6% gain, pushing the index's year-to-date performance up to +16.0%. From a sectoral point of view, Financials did the heavy lifting, appreciating by an impressive +9.3%. Industrials performed in line with the All Share Index (1.6%), while the Resource sector took a bit of a breather (-1.2%). Foreigners were net sellers of South African Equities in May. Our models indicate that there is reasonable value on offer and we therefore maintain our equity allocations at levels close to benchmark.

Property

After an excellent recovery in April, local property lost some ground in May. With a number of index heavyweights recording substantial declines during the month, the SA Property Index posted a negative return of -2.9%. Uncertainty related to the implications of a third COVID-19 wave likely also led to more caution on the part of investors. Year-to-date the index has delivered 15.4%. We maintain an underweight ranking on this asset class as the yields on offer do not fully reflect all the underlying fundamental risks.

Bonds

Local Bonds had a strong month and was the best performing local asset class in May, with the JSE All Bond Index strengthening 3.7%. The benchmark R186 yield continued to decrease and ended the month at 7.3% (from 7.4% in April), while the risk premium has come down from its highs. The yield in real terms remains attractive when compared to other asset classes. We reduce allocation to bonds slightly from overweight to levels just above the benchmark.

Cash

The annual inflation rate hit a 14-month high, coming in at 4.4% for April, up from 3.2% in March. This was slightly above market expectations of 4.3% and moving closer to the midpoint of the Reserve Bank's 3%-6% inflation target range. Main upward pressure came from prices of transport, following record increases in fuels due to a rise in the global oil price. Cash currently delivers a real yield of -0.7%, 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

The Rand continued its rally and was a star performer in May. Starting at R14.50/$, it ended the month 5.2% stronger at R13.74/$. Stronger commodity prices, a bout of US dollar weakness, and the rand's excessive sell-off through the COVID-19 crisis last year, all supported the appreciation of the local currency. At month end, the ZAR was 4% overvalued relative to the trade weighted basket of currencies on a purchasing power parity basis. Using the same methodology, the ZAR was 15% undervalued versus the USD.

Equity

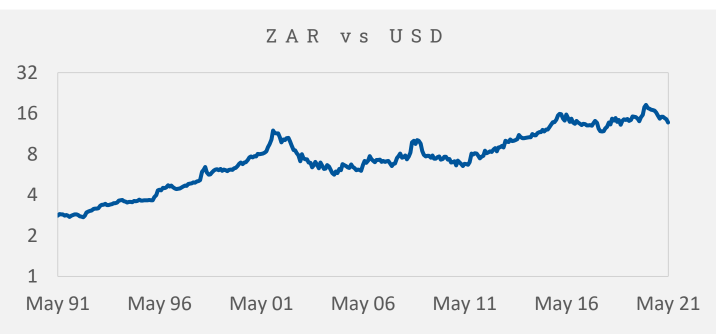
Most major world markets closed May in the green, although returns for most indices were somewhat subdued relative to previous months as inflation concerns and the pace of the global economic recovery continued to weigh on investor sentiment. The MSCI All Country World Index returned 1.6%, while the S&P 500 was up only 0.7%, all in US dollar terms. Emerging market stocks fared well, outperforming developed market stocks for the first time since January. The MSCI Emerging Markets Index gained 2.3%, with Russian and Brazilian markets amongst the best performing over the period. We continue to favour allocation to high quality stocks and maintain our allocation to global equity at levels just above benchmark.

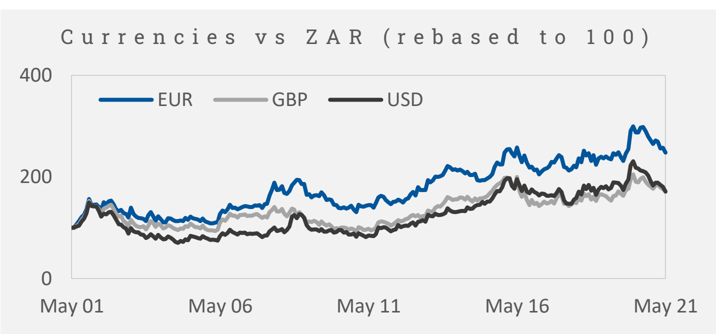
Fixed Income

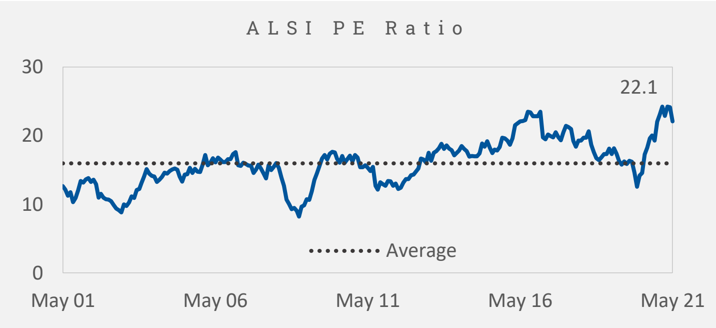
The US 10-year treasury bond yield ended the month roughly where it started, coming down only a few basis points and closing May at 1.6%. BCA Research opines that the path of least resistance for rates remains upwards if economic growth continues to recover. They expect to see the US 10-year Treasury yield at 2 - 2.25% over the next 12 months.

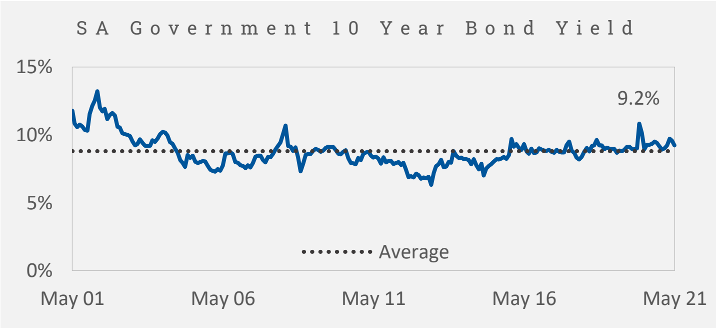
Alternative

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.