Market Overview

30 June 2021

Local Market

June saw the onset of the anticipated third wave of COVID-19 infections in South Africa. Due to the much more contagious Delta variant, daily new cases increased at a significantly faster pace than with previous waves, particularly in the economic hub of Gauteng. Towards month end, government moved the country to adjusted Level 4 lockdown. The restrictions announced included an extended curfew from 9pm to 4am, prohibition of gatherings and the banning of alcohol sales.

Department of Health data show that as at month end, the total number of confirmed COVID-19 cases since the start of the pandemic stood at 1.97mn, compared to 1.67mn at the end of May. The vaccine rollout in SA has been disappointingly slow, and by the end of June only 3 million doses had been administered. According to officials, the aim is to double daily vaccinations in July.

SA continued to report positive terms of trade, with a R54.6bn trade surplus in May, supported by a 1.5% month-on-month increase in exports. Well ahead of expectations, this was the thirteenth consecutive trade surplus and the highest surplus ever recorded in the country's history. Imports, however, contracted 0.9% month-on-month as domestic consumption and investment activity remain relatively subdued.

South Africa's national savings rate rose to an 11-year high in the first quarter of 2021, driven higher by companies and households. As illustrated in **Chart 1** (below), the rate of national savings as a ratio of GDP climbed to 18% from 14.2% in the three months through December. This reflects caution among corporates in distributing dividends to shareholders and in the spending patterns of households amid uncertainty over the pandemic.

GDP growth come in stronger than expected for first quarter. South Africa's economy grew by an annualised 4.6% quarter-on-quarter in Q1 2021, versus expectations of 3.2%. Eight out of the 10 industries reported positive growth rates in the first quarter, with mining, finance, and trade making the most significant contributions. The severity of the third Covid-19 wave, however, as well as the slow pace of the vaccine rollout, increases the risk that recovery momentum in the SA economy may slow down or even stall in the short term.

Global Market

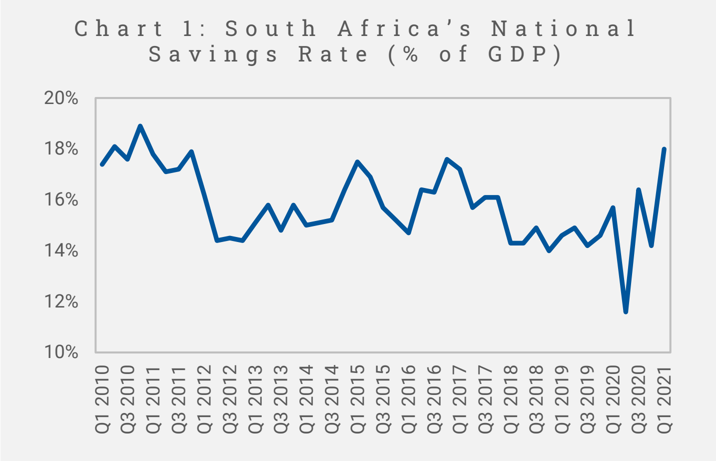
Globally, vaccination campaigns continued to accelerate in most developed economies in June, especially in Europe, which is now catching up with the UK and the US. Governments in most developed markets continued to ease COVID-related mobility restrictions and activity levels picked up. Emerging economies continued to lag on the vaccination front, cases remain very low in China and seem to have peaked in India. There are, however, concerns over the spread of the Delta variant and how this would affect the ongoing global economic recovery.

In its June meeting mid-month, the US Federal Reserve kept the benchmark rate at zero, as was broadly expected. Its 2021 inflation forecasts crept higher to 3.4%, up from its March projection of 2.4%. Most market participants were caught off guard by the Fed signaling that there could likely be two rate hikes in 2023, despite signals as recently as March 2021 that rates would remain unchanged until 2024. This news unsettled the markets, but the shock was short-lived.

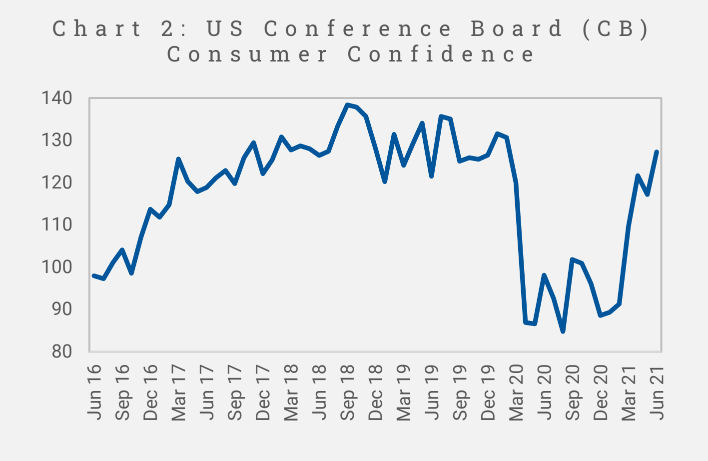
The May reading for US inflation indicated a 5% year-on-year increase, accelerating at the fastest pace in nearly 13 years as inflation pressures continued to build. Whether or not inflation is transitory is one of the biggest questions for investors right now and the outlook for US inflation and interest rates continue to dominate headlines.

The US Conference Board's June consumer confidence soared to a better-than-expected 127. This was its highest level in 16 months and up from 120 in May, as can be seen in **Chart 2** (below). Consumer confidence is a leading indicator as it can predict consumer spending, which plays a major role in overall economic activity. June's improvement came on the back of growing US labour market optimism amid a reopening of the economy, which seems to have also offset inflation concerns somewhat.

The US dollar had a strong month against most currencies and the dollar Index saw its best levels since April. Financial markets remain supported by very accommodative monetary and fiscal policies and global economic growth is expected to increase at its fastest rate in decades.



Source: bloomberg.com (30 June 2021)



Source: investing.com (30 June 2021)

Asset Class (ZAR)	MTD	YTD	1 Year	3 Years	5 Years	10 Years
Local Equity	-2.4%	13.2%	25.1%	8.1%	8.1%	10.9%
Local Property	3.4%	19.3%	25.2%	-8.9%	-6.9%	5.1%
Local Bonds	1.1%	5.0%	13.7%	9.2%	9.2%	8.5%
Local Cash	0.3%	1.7%	3.5%	5.4%	6.0%	5.7%
Global Equity	5.4%	9.2%	14.4%	16.1%	14.0%	18.4%
Global Property	5.2%	13.3%	11.6%	9.4%	5.2%	16.1%
Global Bonds	3.2%	-7.3%	-17.8%	5.0%	1.1%	9.4%
Global Cash	4.1%	-2.7%	-17.7%	2.7%	0.8%	8.5%

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Local Review

Equity

Local equities retreated for the first time since October last year, with the JSE All Share Index posting a negative return of -2.4% in June. The biggest culprit was resources (-6.4%), due to a sharp decline in metal prices. Financials also detracted (-3.0%), and Industrials was the only sector that ended the month in the green (0.4%). Despite the index remaining basically unchanged for the second quarter, it still records an impressive double-digit performance of 13.2% year-to-date, thanks to a strong first quarter. Foreigners were net sellers of SA equities in June. Our models indicate that there is still reasonable value on offer and we maintain our equity allocations at levels close to benchmark.

Property

Local property continued its recovery and the SA Property Index delivered +3.4% in June. The index has increased by a remarkable 19.3% for the first half of 2021. However, uncertainty as to the severity of the third wave of Covid-19 infections that South Africa is currently experiencing, is causing investors to remain hesitant of this asset class. 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 another good month in June and the JSE All Bond Index appreciated 1.1%, despite having net foreign selling pressure. The benchmark R186 yield increased slightly to 7.4% (from 7.3% in May) and the risk premium remains very high. The yield in real terms is still attractive when compared to other asset classes and we continue to allocate to bonds at levels just above the benchmark.

Cash

The annual inflation rate climbed to 5.2% in May, up from 4.4% in April and in line with market expectations. It is the highest inflation rate since November 2018, due largely to last year's low base. The biggest driver was the price of fuel, which is 37% more expensive than it was a year ago. Prices also increased for food and non-alcoholic beverages, as well as housing and utilities. Cash currently delivers a negative real yield of -1.5%, and while we do appreciate the optionality in cash, there are several other asset classes have much higher expected real returns at the moment.

Global Review

Currency

After being the star performer in previous months, the Rand lost significant ground in June and was the worst performing BRICS currency. Starting at R13.74/$, it ended the month 3.9% weaker against the greenback at R14.27/$. It weakened only 0.8% against the Euro and 1.1% against the British Pound. At month end, the ZAR was 2% overvalued relative to the trade weighted basket of currencies on a purchasing power parity basis. Using the same methodology, the ZAR was 21% undervalued versus the USD.

Equity

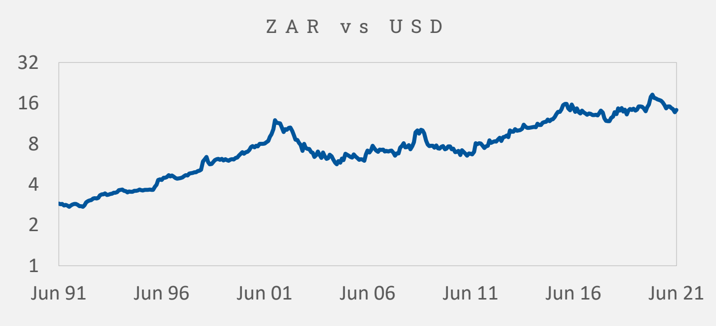
Global equity markets performed strongly in June, with many major indices recording all-time highs during the month. In dollar terms the MSCI All Country World Index was up 1.3% in June, while the blue-chip S&P 500 gained +2.3%, its fifth consecutive month of positive returns. The tech-heavy Nasdaq posted an impressive +5.5% return as investors rotated back into tech names. Emerging markets lagged, barely managing to eke out a positive return as the MSCI Emerging Markets Index was up only +0.2% for the period. We continue to favour allocation to high quality stocks and maintain our allocation to global equity at levels just above benchmark.

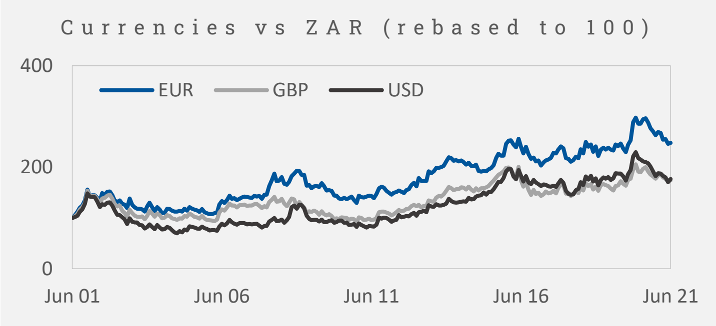
Fixed Income

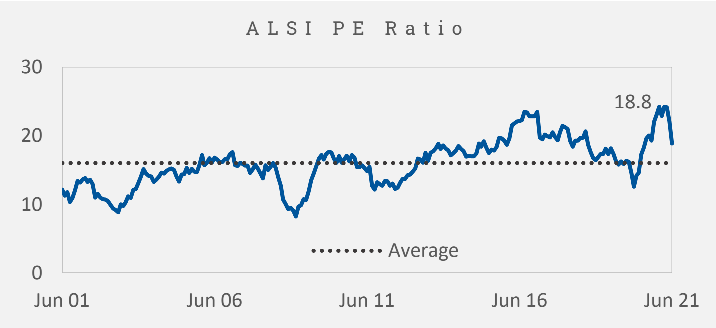
After an initial spike, The US 10-year treasury bond yield ended the month down at 1.5% (from 1.6% in May), despite inflation rising faster than expectations. BCA Research opines that long-term rates will be stable for a few months but will rise moderately later in the year as the market starts to price in a more hawkish Fed. They expect to see the US 10-year Treasury yield reaching 2% - 2.25% over the next 12 months.

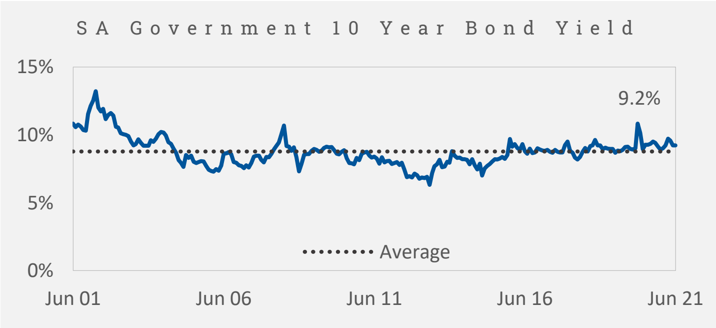
Alternative

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 these uncorrelated global assets particularly attractive as they offer an asymmetric return profile. Alternative asset classes can thus perform a useful role in multi asset portfolios as they help provide more consistent returns and while gold forms part of that cluster, we have reduced exposure to gold slightly.









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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.