Market Overview

31 July 2021

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Local Market

July 2021 was a tough month for South Africans, a month that will certainly be marked in history by the social unrest that ravaged the country. What started as protests in response to the incarceration of former president, Jacob Zuma, quickly escalated into wide-scale looting and vandalism in most of KwaZulu-Natal and parts of Gauteng. The unrest resulted in over 300 deaths and had a serious impact on supply chains, investor confidence, and prices, and is estimated to have an approximate R50bn impact on the national GDP of South Africa.

South Africans also spent most of July under adjusted Level 4 lockdown, with movement and economic activity further restricted due to a surge in new COVID-19 cases which surpassed the peak infection rates experienced in the two previous waves. Toward month end, it seemed as though the country has largely passed the third wave. Restrictions were relaxed once again, and the country moved to adjusted alert Level 3 lockdown on 26 July. The vaccination rollout programme continued to gather momentum and by the end of July 7.6m people have been vaccinated.

The Reserve Bank's Monetary Policy Committee once again kept the repo rate unchanged at 3.50%, the prime rate therefore also remains at 7%. It maintained its GDP growth forecast but flagged upside risks to domestic inflation. The upside risk to inflation puts a hike in play at end of 2021 or early 2022.

Commodity markets continued to hold up in July. The boom in commodity prices this year has been extremely beneficial for the SA fiscus and the economy as a whole. According to Bloomberg, South Africa is number 10 on the list of countries that have gained the most from the commodities boom in terms of the country's net exports in proportion to its GDP. In US dollar terms, Copper increased by 3.7% during July, while Gold increased by 3.3%. Both Platinum and Palladium prices however decreased from June's levels.

With precious metal and mineral exports now representing 52% of SA total exports, the strong demand for commodities contributed significantly to another record month of trade for South Africa. As seen in **Chart 1** (below), the trade surplus in widened to a new record high of R57.6bn in June.

Global Market

Most Global markets had a positive July, although market volatility picked up towards the end of the month as sentiment turned risk-off amid concerns of the rise of the more contagious Covid-19 Delta variant and the potential impact it would have on global economic recovery. Vaccination programmes in developed markets continued pace and should alleviate a resurgence of COVID-19 as data gathered so far suggests that the vaccines remain effective against new variants in preventing serious illness.

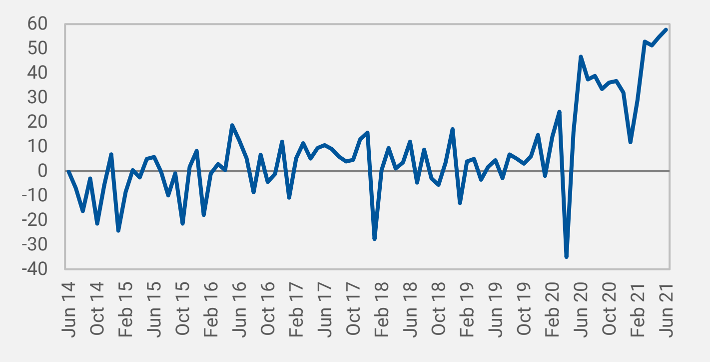
The key new market development that dominated headlines in July was in China, where regulation was proposed to prohibit commercial profit in the online education sector. The regulatory clampdown on tech businesses was a long time coming and is part of China's ongoing drive to assess and control the societal influence of large companies. It resulted in a month of substantial losses for Chinese equities. As seen in **Chart 2** (below), the MSCI China A Onshore and MSCI China indices lost 5.1% and 13.8% respectively. Investors remained cautious despite China's regulators saying its policy actions were to improve the sector and create a more equal competitive landscape.

With most market sectors returning to full capacity, including tourism and travel, the US unemployment rate has continued to decline, reaching 5.4% during July, down from 5.9% in June. Economists predict that the unemployment rate will reach 4.5% by the end of 2021. With the goal of keeping inflation above 2% over the longer period, the Federal Reserve Bank decided to hold interest rates. The central bank also acknowledged that there was upside risk to the inflation outlook but retained the view that this will likely prove mostly transitory.

US GDP accelerated by 6.5% during the second quarter, after gaining 6.3% in the first quarter. While this was the strongest quarterly GDP rise in 20 years, it was a disappointing number as it was well below consensus economists' forecasts of 8.4% GDP growth. The underperformance was largely attributed to shrinking inventories, as producers struggled to keep up with robust consumer demand.

After a 0.3% decline in the first quarter of the year, the eurozone GDP grew by 2.2% in the second quarter, officially taking the region out of recession.

Chart 1: South Africa Trade Balance (Rbn)



Source: Investing.com (31 July 2021)

Chart 2: China vs EM Return (2-year Cumulative Return)

Source: Morningstar Direct (31 July 2021)

Asset Class (ZAR)	MTD	YTD	1 Year	3 Years	5 Years	10 Years
Local Equity	4.2%	17.9%	27.1%	9.7%	8.8%	11.6%
Local Property	-0.6%	18.5%	28.5%	-8.9%	-7.6%	4.8%
Local Bonds	0.8%	5.9%	13.9%	8.7%	8.9%	8.5%
Local Cash	0.3%	2.0%	3.5%	5.3%	5.9%	5.7%
Global Equity	3.2%	12.6%	14.4%	18.0%	15.0%	19.1%
Global Property	7.1%	21.3%	17.7%	13.3%	6.8%	17.0%
Global Bonds	4.1%	-3.5%	-15.6%	8.2%	2.9%	9.7%
Global Cash	2.5%	-0.3%	-14.0%	5.1%	2.4%	8.9%

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Local Review

Equity

After losing some ground in June, local equities recovered nicely in July, with the JSE All Share Index posting a strong 4.2% return. This pushed the index's year-to-date performance up to 17.9%. Resources dominated from a sectoral point of view, delivering a double digit return of 11.7%. Industrials was up a meagre 0.9%, while Financials ended the month in the red, declining -1.2%. Foreigners were once again net sellers of South African equities in July. Our models indicate that there is reasonable value on offer, and we maintain our equity allocations at levels close to benchmark.

Property

Despite having a strong start to the month, local property ended up being the worst performing local asset class for the period, bearing the brunt of the of the domestic unrest in July. The SA Property Index ended July down 0.6%. Year-to-date, however, local property remains slightly ahead of local equity, with the index standing at 18.5%. 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 green month in July and the JSE All Bond Index improved 0.8%, despite having continued net foreign selling pressure. After an initial spike, local yields followed global yields lower. The benchmark R186 yield decreased slightly to 7.3% (from 7.4% in June) and the risk premium is at the highest it's been in two decades. The yield in real terms is 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 eased to 4.9% in June, down from the two-and-a-half-year high of 5.2% in May and slightly higher than market expectations of 4.8%. There was a slowdown in prices of transport, alcoholic beverages and tobacco, recreation and culture, and clothing and footwear. Prices rose for housing and utilities and household contents and services. Cash currently delivers a negative real yield of -1.2%, 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

The local currency had a volatile month due to the social unrest, reaching a high of R15 to the dollar at its peak. ZAR closed the month at R14.62/$, from a starting point of R14.27/$. Weakening for a second month in a row, the rand was also the second worst performing BRICS currency in July. 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 24% undervalued versus the USD.

Equity

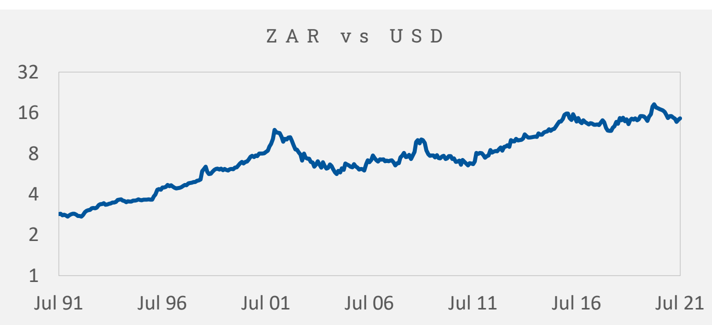
Global equity markets delivered a positive return for the sixth-consecutive month. In dollar terms, the MSCI All Country World Index appreciated 0.7% in July. US stocks were among the best performers, with the S&P 500 up 2.4% as large US corporates started reporting surprisingly strong second quarter earnings. Emerging markets, on the other hand, fared poorly in July. The MSCI Emerging Markets Index had its worst month since March and was down 6.7% at month end. The index was weighed down heavily by Asian markets and particularly the Chinese tech heavyweights. We continue to favour allocation to high quality stocks and maintain our allocation to global equity at levels just above benchmark..

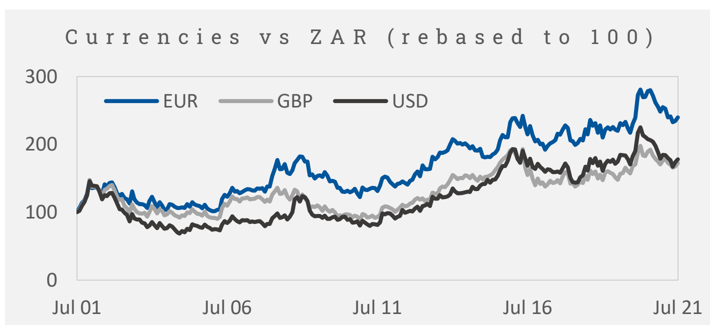
Fixed Income

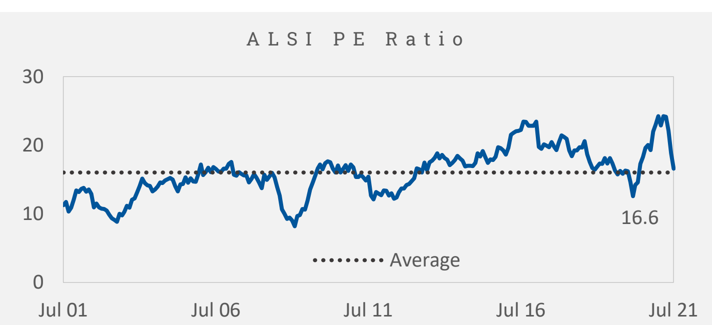
The US 10-year treasury bond yield continued its recent decline, ending the month at 1.2% (from 1.5% in June), further retracing the large move higher seen in the first quarter. BCA Research opines that long-term rates will rise moderately to 1.75% by year-end and should reach 2%-2.25% by the time the Fed starts hiking in late 2022.

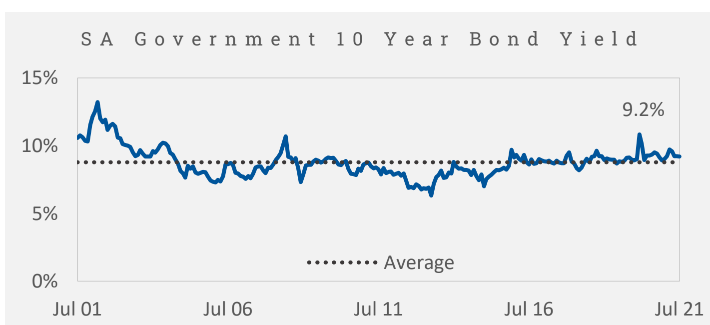
Alternative

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.