

Local Market

South Africa spend August under adjusted alert Level 3 lockdown and the long tail of the domestic third wave of Covid-19 continued as the daily numbers of new cases remained elevated, averaging above 10 000. The vaccination programme opened up to all adults on the 20th of August, resulting in a renewed acceleration in the rate of daily vaccinations. South Africa, however, is still woefully behind the rest of the world in terms of the percentage of the population that has been vaccinated. According to Department of Health data, 12.6m vaccines have been administered by the end of August.

At the beginning of the month President Cyril Ramaphosa announced his long-awaited Cabinet reshuffle. The biggest surprise was Finance Minister Tito Mboweni's replacement with ANC economic policy head Enoch Godongwana. Markets responded to the move immediately, with the rand shedding about 25 cents of its value against the US dollar before later recouping some of the losses.

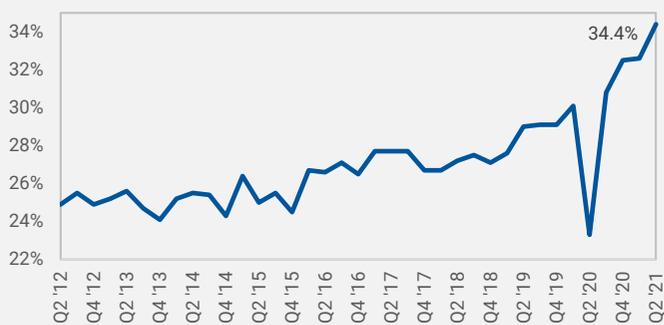
It was a month of contrasting data for the local economy. Stats SA's published updated estimates of gross domestic product (GDP) resulting from a periodic process to benchmark and rebase the statistics. Revisions to the historic GDP data showed that the GDP crash in 2020 was less than thought earlier.

The revised estimate of nominal GDP in 2020 is R5.5 trillion, an increase of 11% compared with the previous estimate of R4.9 trillion. The revision means an improvement in key economic ratios, including debt-to-GDP, which are closely monitored by rating agencies.

On the other hand, the employment situation in SA remains dismal. As seen in **Chart 1** (below), unemployment has reached a new record high of 34.4% for the second quarter of 2021, up from 32.6% in the first quarter. Only 38% of the working age population is currently employed and only 26% have a job in the formal sector, compared to 29% before the pandemic. This data does not yet include the impacts of the riots and looting that took place in July.

SA's Manufacturing PMI recovered strongly in August, bouncing to 57.9 index points from the record low of 43.5 points in July. In contrast, supplier deliveries dropped during August, suggesting that supply chains are still not working optimally, partly due to the July unrest.

Chart 1: South Africa Unemployment Rate



Source: Investing.com (31 August 2021)

Global Market

Globally, uncertainty grew in August due to concerns about the more infectious COVID-19 Delta variant and questions about vaccine efficacy. In the US, daily new infections rose to the highest level since January and concerning reports emerged from the Centers for Disease Control and Prevention, indicating that the effectiveness of the Moderna and Pfizer vaccines, and potentially other vaccines, start to fade within a relatively short period.

This, along with some disappointing economic data releases and continued reports of supply chain bottlenecks, undermined consumer confidence and weighed on investor sentiment. Increasing regulatory pressure on technology stocks and the potential geopolitical implications of the collapse of the Afghanistan government, precipitated by the US military's withdrawal from the country, also caused market jitters in August.

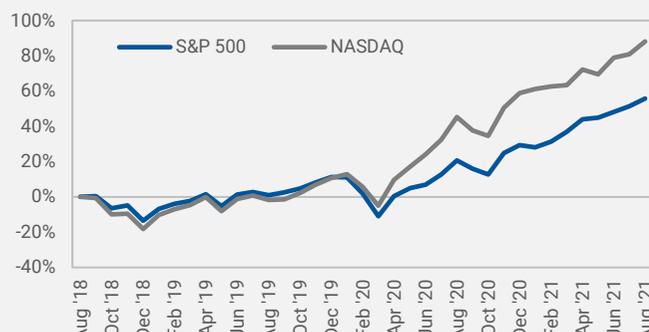
Despite the hiccups along the way, most global equity markets ended August in the green. As seen in **Chart 2** (below), major US equity indices, the S&P500 and the Nasdaq, closed at all-time highs as the US Federal Reserve appeared in no rush to move away from its massive stimulus program. This followed dovish comments made by Fed Chair Jerome Powell in his widely anticipated speech at the annual gathering of central bankers on the 27th of August.

Powell's speech was upbeat about US employment recovery, but also cautioned about uncertainty on the economic impact of the Delta variant. Although he indicated the central bank will start easing back on its bond purchases before the end of this year, he did not lay out an exact timeline for when the tapering of bond-purchasing will begin, noting that the Fed would remain cautious and is in no hurry to raise interest rates.

August also saw a broad-based sell-off on the commodities front. Gold remained nearly flat, but both platinum (-6.3%) and palladium (-3.4%) continued to decrease from July's levels. Iron ore plummeted by 13.9% and oil prices dropped 5%.

Global manufacturing PMI fell to a six-month low of 54.1 index points in August, down from 55.4 in July. The supplier deliveries element is exceptionally weak, signaling that supplier lead times remain near record levels.

Chart 2: S&P500 and NASDAQ Monthly Cumulative Return Over 3 Years



Source: Investing.com (31 August 2021)

Asset Class (ZAR)	MTD	YTD	1 Year	3 Years	5 Years	10 Years
Local Equity	-1.7%	15.9%	25.2%	8.2%	8.3%	11.4%
Local Property	7.5%	27.4%	51.0%	-7.3%	-5.3%	5.3%
Local Bonds	1.7%	7.7%	14.8%	10.0%	9.6%	8.3%
Local Cash	0.3%	2.3%	3.5%	5.2%	5.8%	5.7%
Global Equity	1.4%	14.1%	9.8%	13.8%	13.9%	19.6%
Global Property	0.4%	21.8%	16.3%	8.7%	6.2%	17.2%
Global Bonds	-1.6%	-5.1%	-16.0%	3.7%	1.5%	8.9%
Global Cash	-1.1%	-1.5%	-14.5%	0.8%	0.9%	8.3%

Market Overview

31 August 2021



Local Review

Equity

After a strong performance in July, local equities underperformed both developed and emerging market aggregates in August. The JSE All Share Index ended the month down 1.7%, bringing the index's year-to-date performance to 15.9%. Local banks were amongst the best performers resulting in Financials dominating other sectors, delivering an incredible 12.3% for the period. Resources (-4.8%) retreated as commodity prices moved sideways and Industrials dropped 4.5%. Our models suggest that local equity is starting to look cheaper with a lot of value on offer, we are therefore increasing our equity allocations to levels just above benchmark.

Property

Local property rebounded strongly and was the best performing local asset class in August as the SA Property Index improved 7.5%. Over a 12-month period the index has gained a significant 51.0%. Over 3 years, however, the index has delivered a negative annualised return of 7.3%. We maintain an underweight ranking on this asset class as the yields on offer do not fully reflect all the underlying fundamental risks.

Bonds

Despite an initial sell-off at the beginning of the month as emerging market bonds and currencies were out of favour, local bonds ended the month strong with the JSE All Bond Index appreciating 1.7%. Foreigners were net sellers of South African Bonds in August. The benchmark R186 yield ended the month largely unchanged at 7.3% and the risk premium remains very high. The yield in real terms remains 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 for a second month in a row, coming in at 4.6% in July, down from 4.9% in June and 5.2% in May and in line with expectations. Prices slowed mostly for transport, and restaurants and hotels, while it picked up for housing and utilities, on costlier electricity following a recent hike in tariffs by power utility Eskom. Cash currently delivers a negative real yield of -0.9%. While we appreciate the optionality in cash, there are several other asset classes have much higher expected real returns at the moment.

ZAR vs USD



Global Review

Currency

The local currency experienced a lot of intramonth volatility during August, reaching a high of R/\$14.22 and low of R/\$15.39. It closed the month marginally stronger against the greenback at R14.52/\$, from a starting point of R14.62/\$. 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 continued to perform strongly with many of the major indices rallying to new record highs in August. In dollar terms, the MSCI All Country World Index delivered a strong 2.5%. US stocks led the pack once again with the blue-chip S&P 500, up 3.0%, recording its seventh consecutive positive month. The index closed at all-time highs a total of 12 times during the month. The tech-heavy Nasdaq gained 4.0%. Emerging markets bounced back, slightly outperforming their developed market peers in August. The MSCI Emerging Markets Index was up 2.6% at month end. We continue to favour allocation to high quality stocks and maintain our allocation to global equity at levels just above benchmark.

Fixed Income

Treasury yields pushed higher as appetite for riskier assets dragged bond prices lower. The US 10-year treasury bond yield ended the month at 1.3%, up slightly from 1.2% in July. BCA Research opines that long-term rates are likely to rise moderately over the coming 12 months and expects the 10-year yield to reach 2.0% - 2.25% by the time of the first Fed hike.

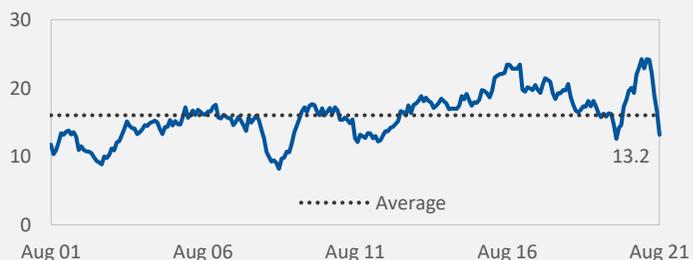
Alternative

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. While gold forms part of that cluster we have reduced exposure to gold slightly.

Currencies vs ZAR (rebased to 100)



ALSI PE Ratio



SA Government 10 Year Bond Yield



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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.