Market Overview

30 September 2021

seed investments

Local Market

On the 30th of September, President Cyril Ramaphosa announced the move to Level 1 lockdown. Daily cases reported dropped from 20,000 per day at the peak of the third wave, to around 1,800 per day at the end of September. By month end, more than 17.5 million doses of the vaccine had been administered, with 8.8 million South Africans fully vaccinated (22% of the adult population). Caution remains an ongoing theme, as talks continue of a potential fourth wave over the December period.

The MPC met on the 23rd of September, where they unanimously decided to keep the repo-rate unchanged at 3.5%, with Prime remaining at 7%. The repo rate has remained unchanged for 15 months, despite the economy experiencing negative real rates, with inflation moving up to around 5% in recent times. Given the tone of the last MPC meeting, it is expected that the SARB will raise the repo rate when they meet in November this year.

The SA Market struggled in September, as illustrated in **Table 1** (below), due to a pull-back of the resource sector, which resulted in a 3.14% loss on the ALSI for the month. Although Naspers managed a small gain, the recent underperformance of Prosus leaves the combined effect of the two stocks down 22% in aggregate YTD.

The Mining sector also brought pain to the local market, with Platinum returning -17% and most other miners also returning negative returns in September.

Sasol, however, brought some light to the situation, returning 27% as they benefited from the global energy material shortage. Aspen, a South African pharmaceutical company, rallied strongly at 40% following the announcement of a possible partnership with Johnson & Johnson to distribute Covid 19 vaccinations in Africa.

The South African Rand was down 4% to a strong US Dollar for the month, which assisted JSE listed companies with foreign earnings. Most companies, however, suffered. It is noteworthy that the South African Rand was down less significantly against the Eur and GBP. This would suggest that some of the weakness against the Dollar could be attributed more to Dollar strength than to Rand weakness.

Global Market

The US continues to grapple the third wave of Covid, with the Delta variant causing a surge in cases and leading to more hospitalizations and deaths. It has been noted that the fear of the Delta variant has been the main motivator for more Americans to get vaccinated, with full FDA approval and vaccine mandates playing more of a minor role.

September proved to be a tough month for Global markets, as most markets closed in the red for the month. China headwinds, deepening inflation and the possibility of slowing growth had caused a dampening on the risk appetite of investors globally. Evergrande, Chinas second largest property developer, faces severe cashflow issues. With over $300 Billion in debt, and two missed interest payments, Evergrande is currently the world's most indebted company. This, along with China's aggressive and unpredictable regulations on the private sector, have caused the health of China's economy to come into question and created worry among global investors.

There was no real surprise when the FED met in September, however, it is expected to announce tapering at their next meeting on the 3rd of November, as they aim to complete balance sheet expansion midway through 2022. This tapering expectation, along with further concerns about supply backlogs, hurt most bond and equity markets during the month. The US Government had also managed to avoid a partial shutdown, at least until the 3rd of December. It was estimated that the 18th of October would mark the day that the US will no longer be able to pay its bills, unless Congress makes the decision to raise or suspend the debt ceiling.

China officially declared all crypto-currency transactions as illegal. This follows after an original decision to ban trading of crypto back in 2019, led to a continuation of trade through foreign exchanges. The price of bitcoin fell by more than $2000 in the wake of the announcement by China, but has subsequently recovered.

As illustrated in **Table 2** (below), several countries (mainly from emerging markets) have started increasing interest rates in order to combat domestic inflation concerns, and to protect against further currency weakness. Many countries reacted with increases during the month of September, as their currencies weakened against a stronger Dollar.

Table 1

SA Equity Sectors	1 Month	3 Month	YTD	1 Year
FTSE: All Share	-3.1%	-0.8%	12.2%	23.2%
FTSE: Top 40-TOPI	-3.6%	-1.6%	10.5%	20.3%
FTSE: Resource 20	-9.5%	-3.8%	8.3%	16.8%
FTSE: Industrial 25	-1.2%	-5.3%	6.5%	13.8%
FTSE: Financial 15	1.7%	12.7%	24.7%	49.7%
FTSE: Banks	0.4%	15.0%	29.7%	63.2%

Source : Bloomberg (30 September 2021)

Table 2

Country	Most Recent Rate Hike	Date
Zambia	50bps	Feb 2021
Denmark	10bps	Mar 2021
Belarus	75bps	Jul 2021
Angola	450bps	Jul 2021
Iceland	25bps	Aug 2021
South Korea	25bps	Aug 2021
Chile	75bps	Aug 2021
Uruguay	50bps	Aug 2021
Czech Republic	75bps	Sep 2021
Hungary	15bps	Sep 2021
Moldova	100bps	Sep 2021
Norway	25bps	Sep 2021
Russia	25bps	Sep 2021
Ukraine	50bps	Sep 2021
Pakistan	25bps	Sep 2021
Brazil	100bps	Sep 2021
Mexico	25bps	Sep 2021
Paraguay	50bps	Sep 2021

Source : Stanlib / Kevin Lings (30 September 2021)

Asset Class (ZAR)	MTD	YTD	1 Year	3 Years	5 Years	10 Years
Local Equity	-3.1%	12.2%	23.2%	8.6%	7.8%	11.5%
Local Property	-0.8%	26.4%	54.4%	-6.8%	-5.6%	5.5%
Local Bonds	-2.1%	5.4%	12.5%	9.1%	8.5%	8.3%
Local Cash	0.3%	2.6%	3.5%	5.1%	5.8%	5.6%
Global Equity	-0.3%	13.8%	14.9%	14.9%	15.3%	19.1%
Global Property	-2.3%	19.0%	18.8%	10.0%	7.5%	16.8%
Global Bonds	1.8%	-3.4%	-13.0%	6.0%	3.2%	7.7%
Global Cash	4.0%	2.5%	-9.7%	3.2%	3.1%	7.3%

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Local Review

Equity

After falling back 1.7% in August, local equities recorded a second consecutive negative month in September. The JSE All Share Index closed the month down 3.1%, bringing the index's year-to-date performance down to 12.2%. Resources (-9.3%) fell sharply as commodity prices came under pressure, with the most significant drops being iron ore (-23.2% in USD) and palladium (-22.6% in USD). Industrials (-0.8%) held up much better, while Financials (+2.1%) delivered a positive return. Our models suggest there is significant value on offer in the local equity market, and we are maintaining our equity allocations at levels moderately above benchmark.

Property

Local property pulled back slightly after August's strong performance, but still outperformed both Local Equities and Local Bonds. The SA Property Index delivered -0.8% for the month and has gained a spectacular 54.4% over the last 12 months. Over 3 years, however, the index has delivered a negative annualised return of -6.8%. We maintain an underweight ranking on this asset class, as the yields on offer do not fully reflect all the underlying fundamental risks.

Bonds

The JSE All Bond Index declined by 2.1% during September, on the back of a weaker currency and a higher global yield environment. Foreigners were once again net sellers of South African Bonds in September. The benchmark R186 yield ended the month 0.3% higher at 7.6% and the risk premium component within the 10-year yield remains elevated. 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 increased to 4.9% in August, up from 4.6% in July, and has now come in ahead of the 4.5% midpoint of the SARB's target range for four months in a row. Transport was the most significant contributor with petrol prices at all-time highs, while food inflation is showing signs of slowing. Cash currently delivers a negative real yield of -1.2%. While we appreciate the optionality in cash, there are several other asset classes with much higher expected real returns at the moment.

Global Review

Currency

The rand once again experienced significant intramonth volatility during September, reaching a high of R/$14.11 and a low of R/$15.17. It closed the month significantly weaker against the greenback at R15.07/$ from a starting point of R14.52/$, which can be partly attributed to dollar strength. 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 28% undervalued versus the USD.

Equity

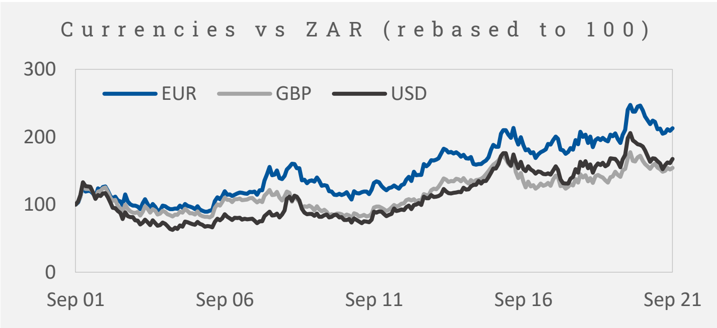
Global equities pulled back sharply during September, as uncertainty around the US tapering schedule and the debt-laden Chinese property developer Evergrande took hold. In dollar terms, the MSCI All Country World Index was down 4.1%, while the S&P 500 (-4.7%) gave up its seven-month positive streak. Emerging markets performed largely in line with their developed market peers in September. The MSCI Emerging Markets Index was down 4.0% at month end, while MSCI China (-5.0%) was even worse off. We continue to favour allocation to high quality stocks and maintain our allocation to global equity at levels just above benchmark.

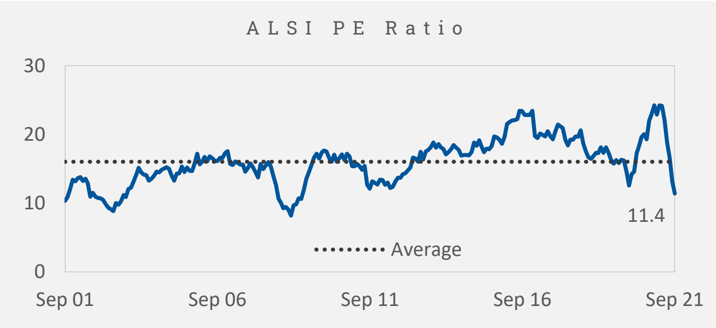
Fixed Income

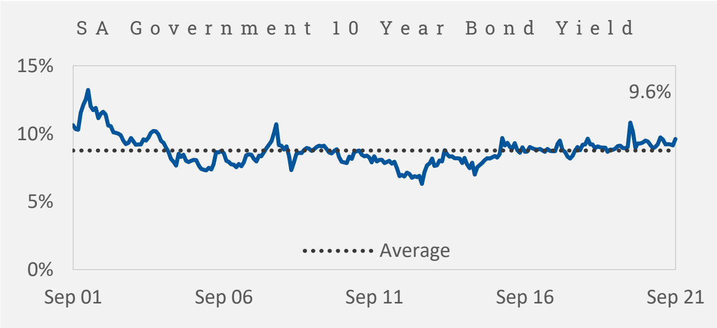
Treasury yields increased during September amidst concerns that US inflation might be stickier and more broad-based than initially expected. The US 10-year treasury bond yield ended the month at 1.5%, up 0.2% from 1.3% in August. BCA Research opines that long-term rates are likely to rise moderately over the coming 12 months and expects the 10-year yield to reach 2-2.25% 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.







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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.