Market Overview

30 November 2021

Local Market

South Africa kicked off an eventful November with its sixth municipal election since the end of apartheid. The results delivered many surprises, as both turnout and the ANC vote dropped to record lows. Just 46% of registered voters turned out to vote, and for the first time, support for the ANC dropped below 50%. Small parties, meanwhile, collectively doubled their vote.

Finance Minister Enoch Godongwana presented his first Medium-Term Budget Policy Statement, posting an improved outlook to the February budget. He emphasised that government has "an unflinching commitment to fiscal sustainability, enabling long-term growth by narrowing the budget deficit and stabilising debt." The response to his speech was largely positive.

The country experienced yet another bout of loadshedding around mid-month, with nearly four days of stage two load shedding. Eskom announced that it had lost five major generation units, partly due to breakdowns and partly due to planned maintenance. This resulted in the loss of nearly 20 000 MW of generating capacity.

At its Monetary Policy Committee meeting on the 18th of November, the Reserve Bank decided to raise the repo rate by 0.25% to 3.75% from its record low, its first repo rate hike in three years. The rate hike comes against a backdrop of higher inflation, as well as a host of local issues that are having long-term effects on the economy – including load shedding.

The impact of the July riots on employment became evident in the third quarter numbers. As seen in **Chart 1** (below), the jobless rate hit a new record high, rising to 34.9% in Q3 2021 - the highest since the start of the Quarterly Labour Force Survey in 2008.

At the end of November, a team of South African researchers announced that they had detected a new variant of Covid-19, now called Omicron. The reaction across the globe was immediate and severe, as many countries placed South Africa on the red list once again, re-imposing travel restrictions. Destinations such as the UK, EU, US and Australia, are some countries that hastily declared travel bans to and from South Africa based on little to no scientific evidence that it would effectively combat the spread of the new variant.

Global Market

The emergence of the new Covid-19 variant, Omicron, unsettled markets in November and as infection rates increased, investors became concerned that economic activity will slow. This resulted in higher demand for safe haven assets and increased market volatility, with the VIX volatility index rising significantly. While relatively little is known about the new variant, it appears that even though the re-infection risk is higher, thus far, the symptoms are much less severe.

Federal Open Market Committee (FOMC) chair, Jerome Powell, announced early in November that the Fed would start shrinking the size of its bond purchases by USD 15bn per month. Rates were kept unchanged. He also noted that he expects the FOMC to discuss, in the December meeting, faster tapering of bond purchases due to strong inflationary pressures. The emergence of the Omicron variant, however, has caused some to question the sustainability of the economic strength and advocate for more patience.

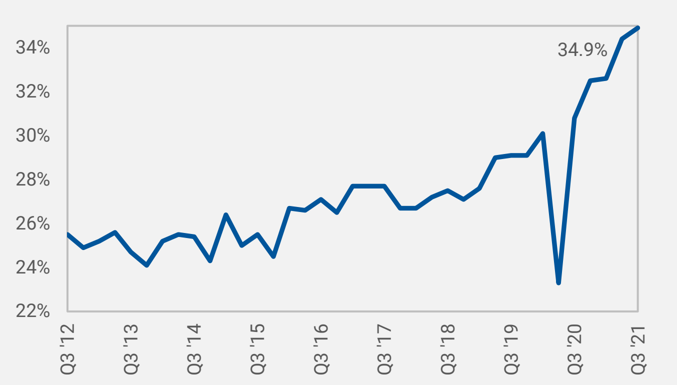
Energy prices fell substantially in November. Initially, the announcement by the US and a number of other countries about releasing strategic oil reserves led to a sharp one-day decline in the oil price. An even sharper decline followed on the news of the latest variant amid worries the new variant could result in reduced demand.

As illustrated in **Chart 2** (below), brent crude had its biggest monthly decline since March 2020, declining by 16.4% for the month.

The Turkish Lira made headlines in November is as it plummeted almost 30% to an all-time low after Turkish president Erdogan stated he was against any rate increases, leaving the Lira 45% lower against the US dollar year-to-date. Turkey's inflation is now almost 20%, and the President has fired three central bank chiefs because they did not align with his desire to keep interest rates low.

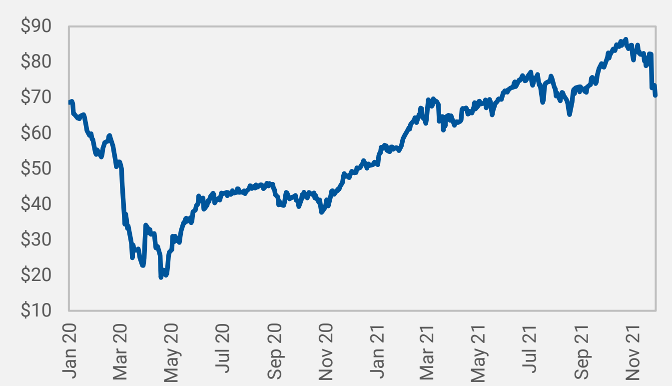
The US unemployment rate fell sharply to 4.2% in November, down from 4.6% in October and 6.3% at the start of the year. Retail sales have been growing for several months and industrial activity, as measured by the IHS Markit US Manufacturing Purchasing Managers' Index (PMI), remained in expansionary territory at 58.3 for November.

Chart 1: South Africa Unemployment Rate



Source: investing.com (30 November 2021)

Chart 2: Brent Crude Oil Price



Source: Business Insider (30 November 2021)

Asset Class (ZAR)	MTD	YTD	1 Year	3 Years	5 Years	10 Years
Local Equity	4.5%	23.3%	28.5%	15.5%	10.6%	11.4%
Local Property	2.2%	26.9%	44.3%	-5.7%	-5.0%	5.3%
Local Bonds	0.7%	5.6%	8.1%	8.4%	8.8%	8.0%
Local Cash	0.3%	3.2%	3.5%	5.0%	5.7%	5.6%
Global Equity	2.9%	24.3%	23.5%	21.7%	17.1%	19.3%
Global Property	3.7%	32.7%	31.0%	14.8%	11.5%	17.2%
Global Bonds	5.5%	2.7%	-1.4%	9.0%	5.7%	8.4%
Global Cash	5.4%	9.2%	3.6%	6.0%	4.0%	7.9%

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seed investments

Local Review

Equity

The local stock market was one of the few global exchanges to end the month in the green. The JSE All Share Index continued its positive run and increased by 4.5% in November. The strong performance was led by the resource sector (6.5%), with industrials not too far behind (5.7%). Financials struggled on the weaker rand environment and declined by 2.6%. Precious metals and mining shares closed more than 10% higher. Year-to-date performance for the All Share Index now stands at 23.3%. Our models suggest there is significant value on offer, and we therefore maintain our equity allocations at levels moderately above benchmark.

Property

Local property recovered nicely in November, despite a pullback in the last week of the month. The SA Property Index appreciated 2.2%, year-to-date the index has now delivered 26.9%. While vacancies are stabilising and the operating environment for property companies continues to improve, the yields on offer do not fully reflect all the underlying fundamental risks. As a result, we maintain an underweight ranking on this asset class.

Bonds

Despite a volatile month, local bonds improved in November with the JSE All Bond Index gaining 0.7%. Year-to-date the index has now returned 5.6%. The benchmark R186 yield ended the month slightly lower at 8.0% (from 8.2% in October) and the risk premium component keeps on growing. The yield in real terms is very attractive when compared to other asset classes and we maintain our allocation to bonds at overweight levels relative to the benchmark.

Cash

The annual inflation rate for October came in at 5%, unchanged from the previous month and in line with expectations. This is the sixth consecutive month that inflation has been above the 4.5% midpoint of the central bank's target range at which it prefers to anchor expectations. Petrol prices continued to rise, putting upward pressure on the prices of transport. Cash currently delivers a negative real yield of -1.1% and while we appreciate the optionality in cash, there are several other asset classes have much higher expected real returns at the moment.

Global Review

Currency

The Rand continued to depreciate versus the US Dollar and was the worst-performing BRICS currency for November. After starting at R15.25/$, it reached an intramonth high of R16.34/$ and ended November at R15.89/$. At month end, the ZAR was 8% undervalued relative to the trade weighted basket of currencies on a purchasing power parity basis. Using the same methodology, the ZAR was 34% undervalued versus the USD.

Equity

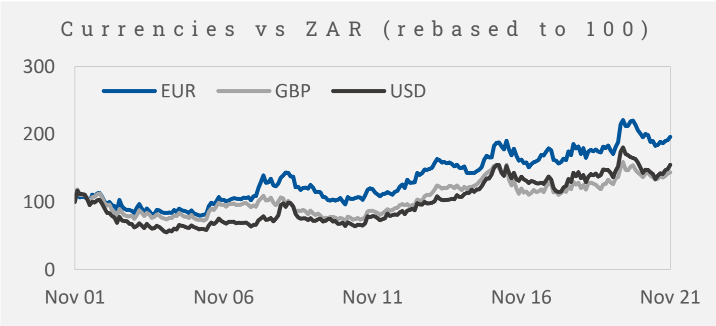
Global risk assets drifted higher for most of November until news of the new Covid-19 variant and rising infection rates unsettled the market, driving investors to safety and leaving equity markets lower for the month. In dollar terms, the MSCI All Country World Index ended November 2.4% lower. US equities seemed to escape some of the fall outs and the S&P 500 was down only 0.7%. Bearing the brunt of investor jitters, emerging markets significantly lagging their developed market peers. The MSCI Emerging Markets Index was down 4.1% over the period. We continue to favour allocation to high quality stocks and maintain our allocation to global equity at levels just above benchmark.

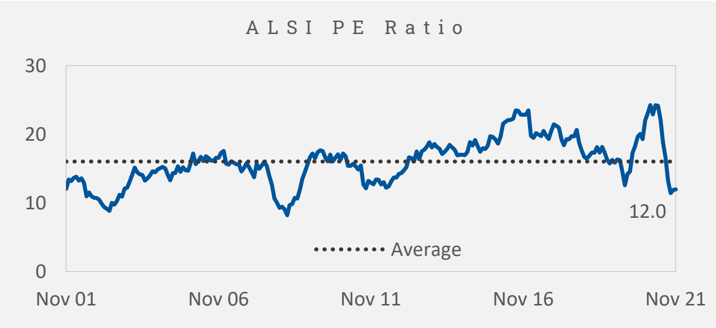
Fixed Income

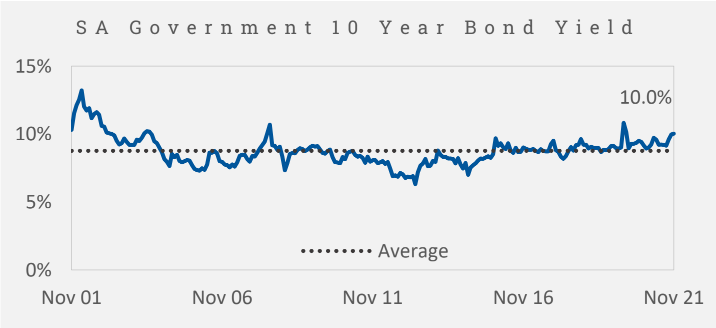
As the price of safe haven assets pushed higher, US Treasury yields fell to 1.4% from 1.6% in October (bond yields and prices move in inverse directions). BCA Research expects to see negative returns from government bonds over the next 12 months and projects a -1.1% return from 10-year US Treasury's even if the Fed does not hike until December 2022 and then raises rates by only 25bps a quarter.

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. These uncorrelated global assets are particularly attractive in low interest rate environments 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.