Market Overview

31 December 2021

Local Market

The local market ended 2021 strongly as concerns around the Omicron COVID-19 variant receded. The spike in new infections seemed to put no major strain on the health sector and after new reported cases hit its peak in the first two weeks of December, it started declining again rapidly.

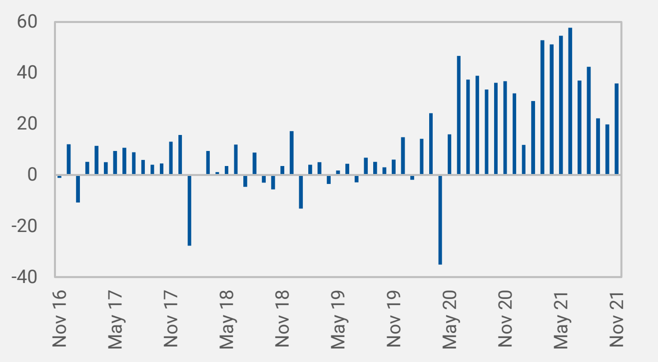
Accordingly, the National Coronavirus Command Council lifted several restrictions at the end of the month. Most notably, the midnight to 4 am curfew was lifted just in time for South Africans to see in the new year. Based on Google mobility trackers, the fourth wave did not seem to adversely impact mobility over the holiday period. This bodes well for a recovery in real GDP during the fourth quarter of 2021 from a notable Q3 contraction.

Q3 GDP came in at a disappointing 2.9% year-on-year, well below expectations of 3.8% year-on-year, and still below pre-pandemic levels with current economic output at levels similar to 2016. The setback is largely attributed to the looting in July, load-shedding, job losses, and the stricter lockdown measures which were in place during the third wave of the pandemic due to the Delta variant.

In more positive news, Fitch Ratings unexpectedly upgraded its outlook on South Africa's credit rating, providing some relief to the nation. While the company kept the SA's foreign- and local-currency ratings at 'BB- ', it revised the outlook from negative to stable. According to Fitch, the revision of the outlook reflects the faster than expected economic recovery, the surprisingly strong fiscal performance this year and significant improvements in key fiscal indicators following the rebasing of national accounts.

As illustrated in **Chart 1** (below), the South African trade surplus widened to R35.83 billion in November, from a revised surplus of R27.68 billion in October. This was more than double the market's consensus expectation of only R16.8 billion. South Africa saw a year-to-date trade balance surplus of R412.51 billion, from a surplus of R238.42 billion in the same period in 2020. This was largely due to booming commodity prices, which pushed up the value of mining exports. Exports increased by 18% year-on-year, while imports increased by 25% over the same period.

Chart 1: South Africa Trade Balance (Rbn)



Source: Investing.com (31 December 2021)

Global Market

As with the local market, global markets bounced back in December from a weak November as it became apparent that the latest COVID-19 variant was significantly less deadly than previous strains. Strong earnings growth also drove equities higher. For the 2021 calendar year, Energy, Real Estate, Technology and Financial Services were the best performing sectors, while Telecommunications lagged.

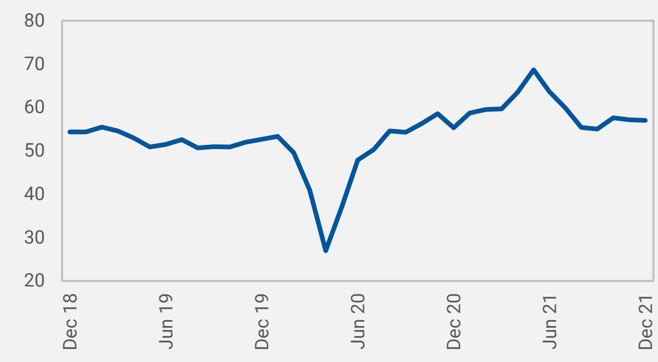
US corporate earnings released in December were particularly impressive. Corporate profits rose 3.4% in the third quarter of 2021 to a fresh record high of $2.52 trillion. The US also posted solid GDP growth for the first three quarters of 2021, with third quarter GDP growth coming in at a 4.9%. Unemployment in the US fell to 4.2%, the lowest since February 2020, from 4.6% in October.

Economic data indicates that the recovery remains well on track. Although gradually receding from their recovery peaks, forward-looking purchasing manager indices are still in expansion territory. As illustrated in **Chart 2** (below), the US composite Purchasing Managers Index (PMI) remains above the critical 50-point mark, coming in at 57 index points in December and signalling a healthy expansion in manufacturing and service activity. PMI's in the eurozone and the UK also remained expansionary territory, coming in at 58 and 57.6 index points respectively.

In response to persistently high inflation, the Federal Reserve signaled a faster pace of rate hikes in the coming year, while the European Central Bank's president on the other hand stated that a rate increase in 2022 was "very unlikely." The Fed's tapering of support has been escalated, with the Federal Open Market Committee (FOMC) announcing plans to accelerate the schedule from $15bn to $30bn per month, kicking off in January.

Most commodities saw a massive recovery during December as investors became more optimistic on the continuation of the ongoing economic rebound. Iron Ore appreciated 18.3%, Oil was up 12.4% and Palladium increased by 9.4%. Bitcoin had a rough December, declining -19% in to close at $45 658 after hitting an all-time high of near $69 000 in early November. The US dollar weakened over the month against major developed and emerging market currencies as demand for safe haven assets remained limited in this risk-on environment.

Chart 2: US Composite Purchasing Managers Index (PMI)



Source: Investing.com (31 December 2021)

Asset Class (ZAR)	MTD	YTD	1 Year	3 Years	5 Years	10 Years
Local Equity	4.8%	29.2%	29.2%	15.7%	11.4%	12.2%
Local Property	7.9%	36.9%	36.9%	-2.9%	-4.4%	5.9%
Local Bonds	2.7%	8.4%	8.4%	9.1%	9.1%	8.2%
Local Cash	0.3%	3.5%	3.5%	4.9%	5.6%	5.6%
Global Equity	3.6%	28.8%	28.8%	24.6%	18.0%	19.7%
Global Property	6.5%	41.3%	41.3%	18.1%	12.6%	17.7%
Global Bonds	-1.1%	1.6%	1.6%	6.5%	6.1%	8.2%
Global Cash	-0.4%	8.8%	8.8%	4.5%	4.4%	7.8%

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Local Review

Equity

Local equities performed well in December with the JSE All Share Index gaining 4.8%. The index ended the year up 29.2%, this was its best calendar year return in 12 years. Financials led the way in December, appreciating 8.7%. Resources delivered 5.3% and Industrials a more modest 2.9%. Foreigners were once again net sellers of South African Equities in December for the ninth month in a row. Our models suggest there is significant value on offer, and we therefore maintain our equity allocations at levels moderately above benchmark.

Property

Local property continued to rebound with the SA Property Index appreciating a further 7.9% in December. Over 1 year the index has delivered an astounding performance of 36.9%. Despite this, the longer term returns of the index remains in the red. Over 3 years the index has lost an annualised 2.9% and 4.4% per annum over 5 years. We still maintain an underweight ranking on this asset class as the yields on offer do not fully reflect all the underlying fundamental risks.

Bonds

After a 3-month slump local bonds ended the year strongly, buoyed by an increase in global risk appetite. The JSE All Bond Index was up 2.7% for the month of December, pushing the index's annual return up to 8.4%. The benchmark R186 yield decreased to 7.8% (from 8.0% in November) and while the risk premium component has come down slightly, it remains on the high end. The yield in real terms remains attractive when compared to other asset classes and we allocate to bonds at levels just above the benchmark.

Cash

The annual inflation rate in South Africa accelerated to 5.5% in November, from 5% in October and above market expectations of 5.4%. This is the highest rate since March 2017 and well above the 4.5% midpoint of the SA Reserve Bank's target range. The increase was largely a result of the higher fuel price which increased by 7.1% in the month. Cash currently delivers a negative real yield of -1.6% 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

After kicking a volatile December off at R15.89/$, the local currency ended the month only marginally weaker at R15.94/$. The rand was the worst-performing BRICS currency for the year. At month end, the ZAR was 6% undervalued relative to the trade weighted basket of currencies on a purchasing power parity basis. Using the same methodology, the ZAR was 36% undervalued versus the USD.

Equity

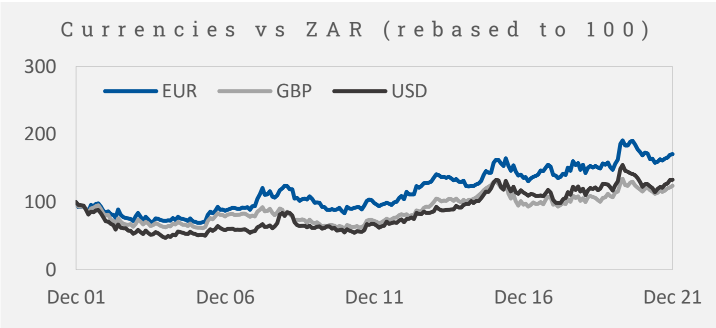
Global equities advanced in December, reversing losses made in November and ending 2021 at near all-time highs. In US dollar terms, the MSCI All Country World Index returned 4.0%, bringing the index's return for the year to 18.5%. The S&P 500 was up 4.5% for the month and recorded 70 closing highs in 2021 according to S&P Global, that's the most for a single year since 1995. Emerging markets underperformed developed market counterparts with the MSCI Emerging Markets Index advancing only 1.9% in December. Over 1 year, the index has depreciated, losing 2.5%. We continue to favour allocation to high quality stocks and maintain our allocation to global equity at levels just above benchmark.

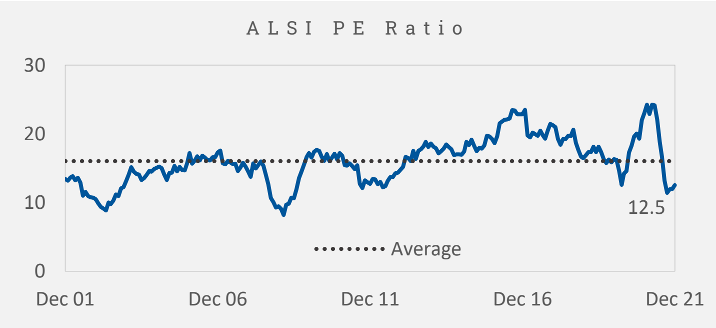
Fixed Income

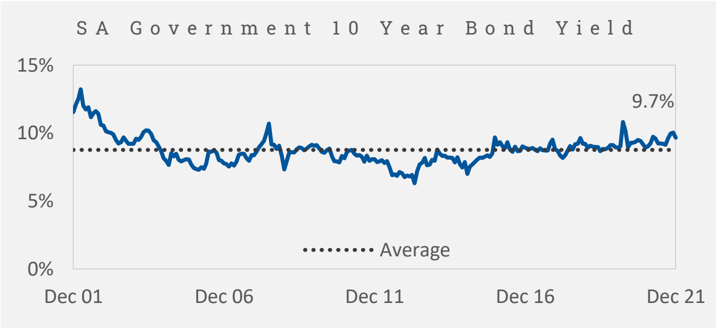
Global bonds sold off in December, capping what has been the asset class's worst year since 1994. US Treasury yields drifted slightly higher in December to 1.5%, from 1.4% in November, and up from 0.9% at the beginning of 2021. BCA Research opines that long-term rates are surprisingly low, given the hawkish pivot of the Fed and other central banks. They continue to forecast the 10-year Treasury yield to rise to anywhere from 2.0% - 2.2% 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. 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.







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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.