

Market Overview

February 2020

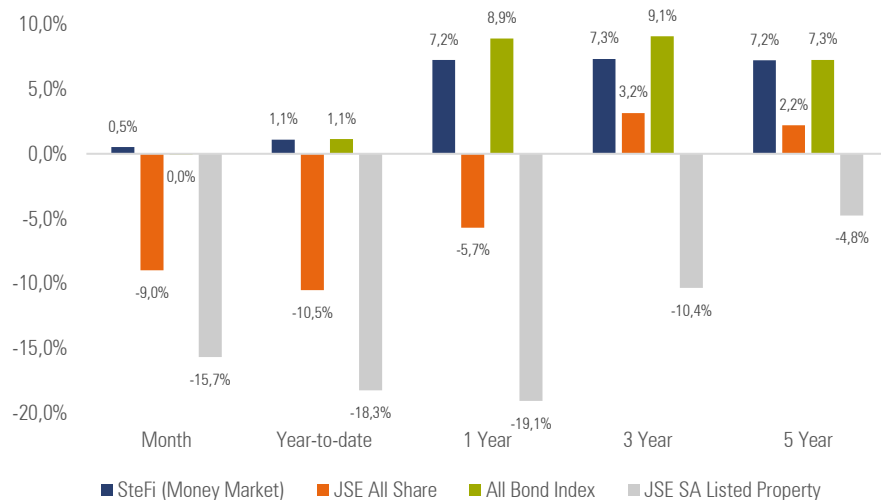
Impact on client portfolios

Investors and market participants should be aware of the Coronavirus and the equity market declines which have occurred during February on the back of concerns around its likely effect on future economic performance and company profits. During market drawdowns such as these, we believe that it is important to remain calm and not be forced into making rash short-term decisions which impede the ability of investors to achieve their financial goals. While market sell offs are never comfortable, we believe that it is important to focus on whether the moves are driven by sentiment or long-term fundamentals. In our view, many of the movements have been based on panic and emotions, as investors are not able to stomach the volatility that comes with investing in equity markets. We will continue to monitor proceedings closely, as we unpack whether rebalancing or restructuring of portfolios is prudent given the market movements.

Market and economic summary

February was a volatile month for global markets, as the spread of the Coronavirus and its likely effect on global economic growth drove investors out of equities and into perceived safe-haven assets including developed market government bonds.

Exhibit 1: SA Market Performance (total returns)



Source: Morningstar Direct as at 29/02/2020. Returns are in South African Rand and have been annualised for periods longer than 1 year.

South African equities fell during the month in line with other global equity markets, with only four shares in the top 60 of the JSE finishing the month with a positive return.

Local bonds reacted positively to the budget speech by Finance Minister Tito Mboweni, however, the asset class lost some ground towards the end of the month as yields moved higher (moving prices lower) due to sales by foreigners on the back of the de-risking trend.

Local listed property came under severe pressure during the month, as the sector faced headwinds from weak local economic conditions and global risk aversion to those asset classes perceived as risky.

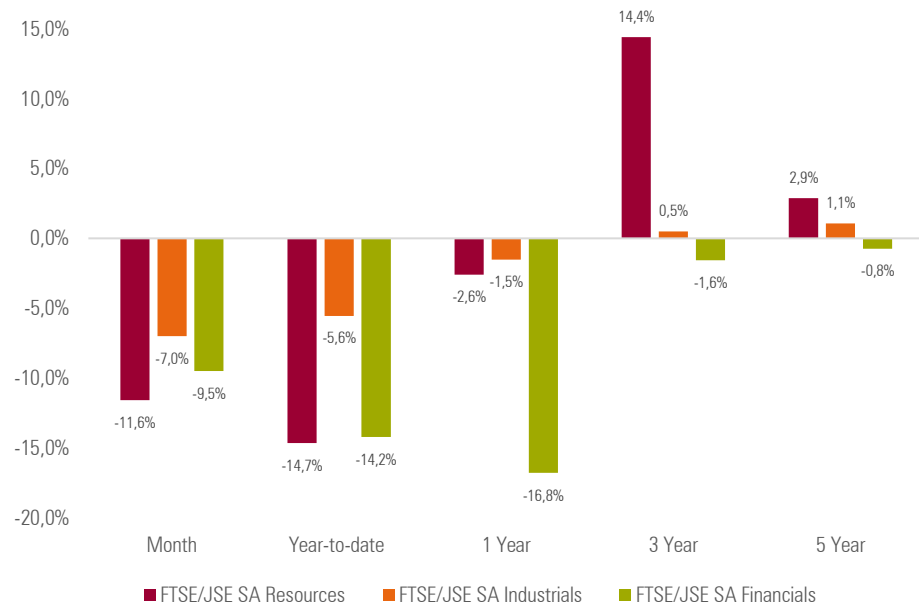
The rand was weaker against major developed market currencies during the month, which masked the negative contribution from global equity allocations slightly.

Finance Minister Tito Mboweni delivered an ambitious budget speech during the month, with the minister announcing the intention to reduce expenditure by R261 billion over the next three years, including a reduction in the government wage bill of R160 billion.

The minister also announced a downward revision of R63 billion in estimates of tax revenue for the 2019/2020 fiscal year relative to the 2019 budget, which is likely to lead to a budget deficit of 6.3% for 2019/2020.

All local equity sectors finished the month sharply lower, with **Industrials** (-7.0%) faring slightly better than both **Financials** (-9.5%) and **Resources** (-11.6%).

Exhibit 2: SA Sector Performance (total returns)



Source: Morningstar Direct as at 29/02/2020. Returns are in South African Rand and have been annualised for periods longer than 1 year.

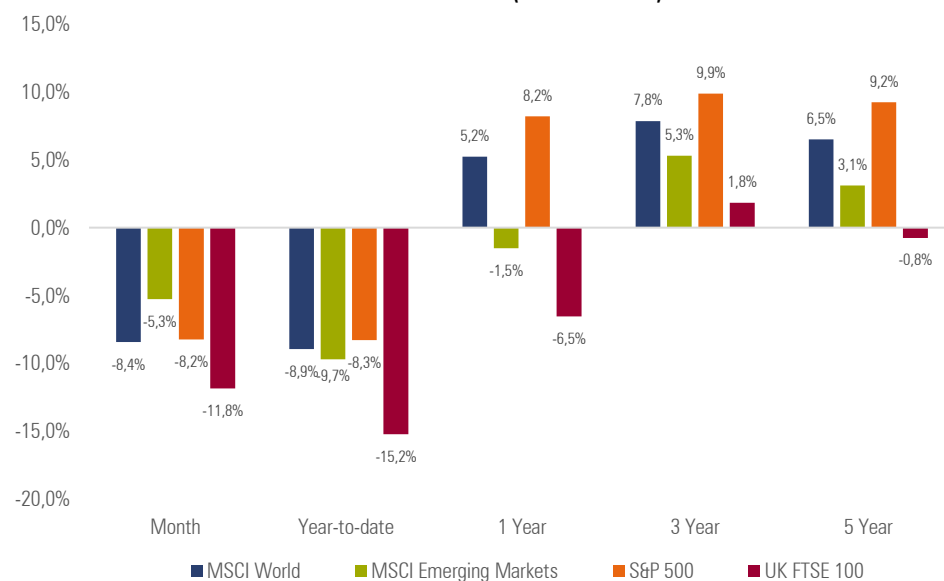
All major developed equity markets ended the month lower, as concerns around the Coronavirus took its toll on the performance of risk assets. The **MSCI World Index** delivered a return of -8.4% for the month.

Emerging market equities fared slightly better than developed market equities over the month, however, the index still ended in the red. The **MSCI Emerging Markets Index** delivered a return of -5.3% for the month.

All major equity markets ended the month lower, with China's **Shanghai SE Composite** (-4.1%), Japan's **Nikkei 225** (-8.4%), Germany's **FSE DAX** (-9.2%) and the UK's **FTSE 100** (-11.8%) all delivering poor performance.

US equities also ended the month lower, with both the **NASDAQ 100** (-5.8%) and the **S&P 500** (-8.2%) ending the month in the red.

Exhibit 3: International Market Performance (total returns)



Source: Morningstar Direct as at 29/02/2020. Returns are in US dollars and have been annualised for periods longer than 1 year.

Local Market Indices	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
JSE All Share	-8,99	-10,53	-5,71	3,15	2,21	6,86
JSE SA Listed Property	-15,69	-18,26	-19,09	-10,36	-4,76	1,73
All Bond Index	-0,04	1,14	8,91	9,07	7,25	7,10
STeFI (Cash)	0,52	1,10	7,24	7,33	7,21	6,76
Local Market Sectors	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
JSE Top 40	-8,43	-9,75	-4,63	4,42	2,46	6,96
JSE Mid Cap	-12,90	-15,61	-6,81	-2,26	0,61	5,91
JSE Small Cap	-13,28	-13,89	-16,82	-11,39	-4,37	2,96
FTSE/JSE SA Resources	-11,58	-14,66	-2,59	14,41	2,88	1,77
FTSE/JSE Ind/Financials	-9,49	-14,23	-16,80	-1,57	-0,75	6,32
FTSE/JSE SA Industrials	-7,00	-5,55	-1,52	0,50	1,06	7,92
Global Market Indices	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
MSCI World	-8,41	-8,94	5,23	7,84	6,48	8,90
MSCI Emerging Markets	-5,27	-9,68	-1,51	5,28	3,11	2,13
S&P 500	-8,23	-8,27	8,19	9,87	9,23	12,29
NASDAQ 100	-5,78	-2,94	20,46	17,91	15,07	18,90
FTSE 100	-11,82	-15,19	-6,52	1,82	-0,75	2,01
SSE Composite	-4,06	-5,90	-6,32	-4,42	-4,84	1,15
Nikkei 225	-8,38	-9,88	4,21	6,79	6,55	8,61
FSE DAX	-9,21	-12,18	-0,40	1,27	0,42	3,71
US T-Bill 3m	0,13	0,26	2,00	1,77	1,16	0,84
Commodities	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
Oil Price Brent Crude	-13,14	-23,45	-23,49	-3,14	-4,19	-10,78
Gold	1,62	6,28	22,04	8,64	5,81	0,19
Platinum	-9,18	-8,51	0,00	-5,41	-5,84	-8,30
Copper	0,04	-9,48	-14,74	-2,08	-1,07	-4,74

Disclaimer

©2020 Morningstar. All Rights Reserved. The Morningstar name and logo are registered trademarks of Morningstar, Inc. The information, data and analyses contained herein (1) includes the confidential and proprietary information of Morningstar, (2) may not be copied or redistributed, (3) does not constitute investment advice (4) is provided solely for informational purposes and therefore is not an offer to buy or sell a security, and (5) is not warranted to be correct, complete or accurate. Morningstar shall not be responsible for any trading decisions, damages, or other losses resulting from, or related to, this information, data or analyses or their use. All data sourced from Morningstar Direct. Past performance is not a guide to future returns. Morningstar Investment Management South Africa (Pty) Ltd is an authorised financial services provider (FSP 45679).

Morningstar South Africa

5th Floor
20 Vineyard Road
Claremont
7708
+27 21 201 4645