

Market Overview

July 2020

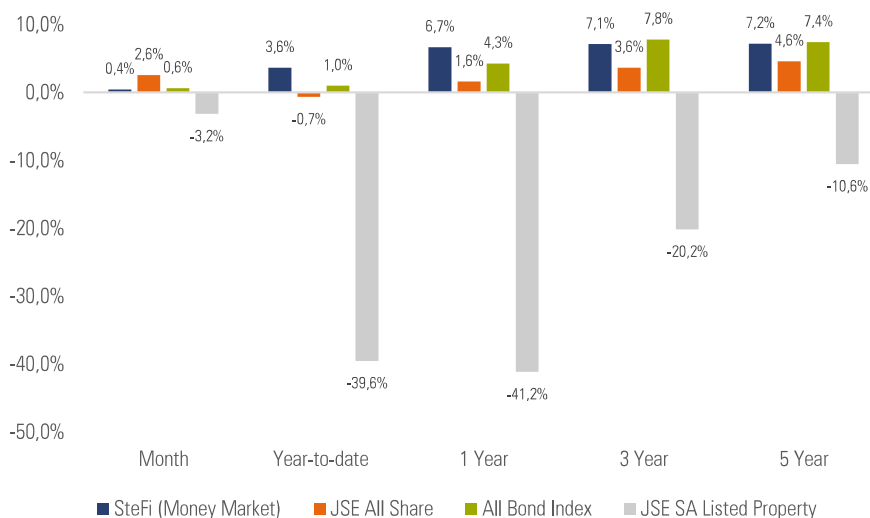
Market and economic summary

Markets continued to climb higher in July, as investors shrugged off poor economic data releases and company earnings announcements, preferring to focus on the substantial liquidity injected by major central banks and governments across the globe.

In a continuation of the recent trend, it was the large global technology companies that drove equity markets higher, with Facebook, Apple, Amazon and Alphabet (Google) all beating Q2 2020 earnings expectations.

Economic data released in July was far less impressive, with US GDP contracting by around 33% on an annualised basis for Q2 2020, the largest contraction in close to 80 years.

Exhibit 1: SA Market Performance (total returns)



Source: Morningstar Direct as at 31/07/2020. Returns are in South African Rand and have been annualised for periods longer than 1 year.

The South African equity market also moved higher in the month, however, local equities lagged other emerging markets, which rallied significantly during July. The local market was weighed down by weak performance from some large industrial index constituents.

There was divergent performance from a sector perspective, with resources (particularly gold and platinum counters) being the most significant driver of positive performance.

Local bonds ended the month higher, supported by the attractive yields on offer relative to the declining yields on cash, subsequent to the interest rate cuts by the South African Reserve Bank (SARB) of 3% since the start of the year.

Local listed property had a poor month, with disappointing company earnings updates and concerns around the prospects of physical property as an asset class acting as headwinds for the sector.

The rand had mixed fortunes against major developed market currencies during the month. Broad US dollar weakness was supportive of the prospects of the rand against the greenback, while the local currency gave up some ground against both the euro and the pound sterling.

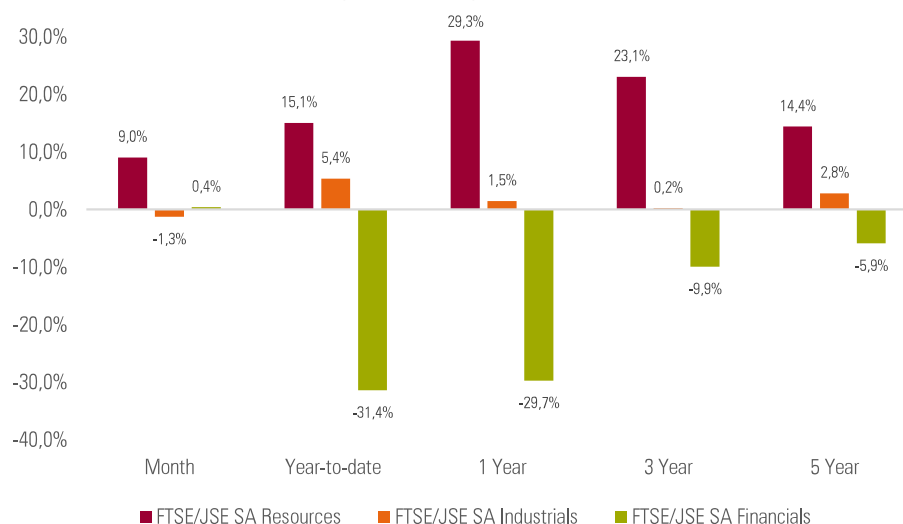
The SARB cut the repo rate by another 0.25% at the July Monetary Policy Committee (MPC) meeting, revising down its inflation and growth forecasts at the same time. This brings the policy rate to a level of 3.5%, its lowest in close to 50 years.

SA headline CPI rose to a year-on-year figure of 2.2% to the end of June (from 2.1% in May), well below the midpoint of the target range of 4.5%.

SA's terms of trade continued to improve in June, with the trade balance widening further to a surplus of R47 billion (the largest since January 1990), as exports jumped 10% to R116 billion and imports fell 19% to R70 billion.

Local equity sector performance was mixed, with **Resources** (+9.0%) delivering strong performance, while **Financials** (+0.4%) and **Industrials** (-1.3%) fared slightly worse.

Exhibit 2: SA Sector Performance (total returns)



Source: Morningstar Direct as at 31/07/2020. Returns are in South African Rand and have been annualised for periods longer than 1 year.

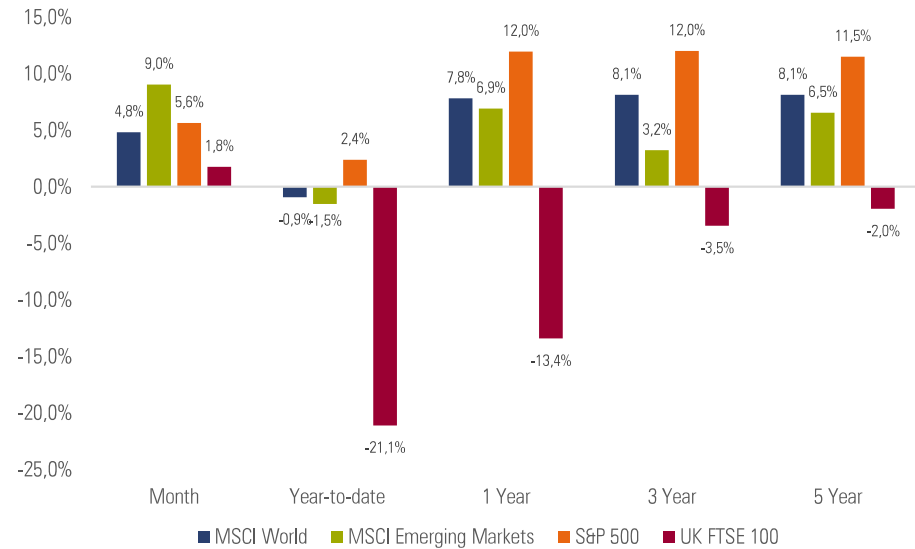
Most major developed equity markets ended the month higher, however, there was significant divergence between the core developed market regions. The **MSCI World Index** delivered a return of +4.8% for the month.

Emerging market equities once again outperformed developed market equities, supported by strong positive moves in the prices of major commodities over the month. The **MSCI Emerging Markets Index** delivered a return of +9.0% for the month.

The performance of the major equity markets was mixed, with China's **Shanghai SE Composite** (+12.4%) and Germany's **FSE DAX** (+5.3%) delivering strong returns, while the UK's **FTSE 100** (+1.8%) and Japan's **Nikkei 225** (-0.6%) fared slightly worse.

US equities delivered strong performance for the month, with the technology heavy **NASDAQ 100** (+7.4%) being the standout, and the **S&P 500** (+5.6%) also ending the month significantly higher.

Exhibit 3: International Market Performance (total returns)



Source: Morningstar Direct as at 31/07/2020. Returns are in US dollars and have been annualised for periods longer than 1 year.

Impact on client portfolios

Most portfolios managed to deliver decent returns for the month, largely driven by strong performance from local and global equity allocations. The performance was largely driven by the level of allocation to equities, with those portfolios with higher allocations to equities outperforming those with more of an income focus. Portfolios with an income focus also managed to deliver positive returns for the month, as the high running yield from SA government bond allocations contributed positively to performance over the month.

We are pleased by the returns generated by client portfolios for the month. While there is still a significant amount of economic uncertainty around, given the continued spread of Covid-19 and the reintroduction of lockdowns in some cases, markets continue to show resilience to the uncertainty. We would encourage investors to continue to focus on their long-term financial goals and avoid behaviour which may impede their ability to reach these goals.

Local Market Indices	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
JSE All Share	2,56	-0,68	1,58	3,63	4,58	7,65
JSE SA Listed Property	-3,19	-39,55	-41,19	-20,18	-10,55	-2,37
All Bond Index	0,61	0,97	4,25	7,79	7,40	7,49
STeFI (Cash)	0,42	3,62	6,66	7,10	7,18	6,81
Local Market Sectors	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
JSE Top 40	2,43	2,81	4,62	4,93	5,13	8,08
JSE Mid Cap	1,71	-24,40	-14,49	-4,43	0,08	3,94
JSE Small Cap	1,29	-19,93	-22,34	-11,44	-5,49	0,90
FTSE/JSE SA Resources	9,04	15,06	29,31	23,05	14,41	7,20
FTSE/JSE Ind/Financials	0,40	-31,41	-29,71	-9,92	-5,90	2,55
FTSE/JSE SA Industrials	-1,28	5,38	1,46	0,22	2,82	7,66
Global Market Indices	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
MSCI World	4,82	-0,93	7,82	8,12	8,13	8,91
MSCI Emerging Markets	9,03	-1,52	6,92	3,22	6,54	4,72
S&P 500	5,64	2,38	11,96	12,01	11,49	12,21
NASDAQ 100	7,41	25,55	40,37	24,18	20,26	21,16
FTSE 100	1,77	-21,10	-13,42	-3,45	-1,96	0,17
SSE Composite	12,40	8,31	11,35	-0,84	-4,27	5,53
Nikkei 225	-0,62	-4,60	5,80	6,59	6,42	7,75
FSE DAX	5,30	-2,09	7,29	0,63	3,11	4,10
US T-Bill 3m	0,01	0,34	1,08	1,67	1,17	0,84
Commodities	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
Oil Price Brent Crude	5,22	-34,39	-33,56	-6,31	-3,67	-12,22
Gold	11,13	29,72	37,64	15,73	12,34	5,91
Platinum	11,18	-4,94	3,67	-1,19	-1,56	-6,35
Copper	6,77	4,72	8,79	0,52	4,32	-0,76

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