

Market Overview

August 2020

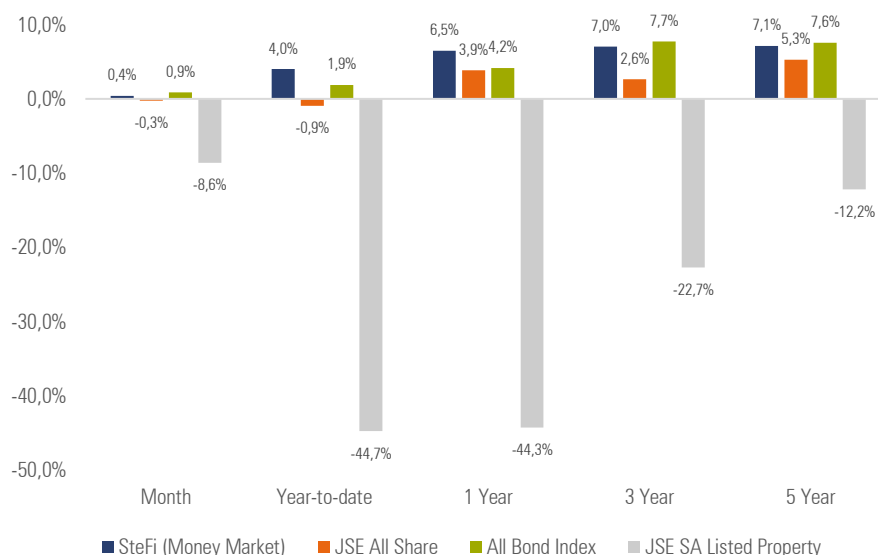
Market and economic summary

Global equity markets continued their upward trajectory in August, buoyed by strong returns from US equities, on the back of renewed hopes for a Covid-19 vaccine and progression in trade talks between the US and China.

US Federal Reserve (Fed) Chair Jerome Powell announced at the annual Fed symposium in Jackson Hole that the Fed would switch to inflation targeting, which appears to suggest that interest rates will remain low for quite some time, even if price pressures start to come through.

US corporate earnings reporting for the second quarter of 2020 came to an end during the month, with overall earnings down close to -7% year-on-year, which was ahead of expectations. There was, however, significant divergence between different sectors and companies, with those sectors most severely affected by the Covid-19 pandemic such as energy and financials being the hardest hit.

Exhibit 1: SA Market Performance (total returns)



Source: Morningstar Direct as at 31/08/2020. Returns are in South African Rand and have been annualised for periods longer than 1 year.

South African equities were largely unchanged for the month, however, from a sector perspective, financials and property counters performed poorly during August, while resources and industrials ended the month largely flat.

Local bonds ended the month higher, while inflation linked bonds were the standout local asset class, generating strong returns after a difficult start to the year.

Local listed property continued to be out of favour, with only four counters in the SA Listed Property (SAPY) Index ending the month with a positive return. The sector remains plagued by falling distributions as well as increasing loan to value ratios for some counters.

The rand had mixed fortunes against major developed market currencies during the month. Expectations of a longer low interest rate environment in the US led to rand strength against the greenback, however, the rand ended the month slightly weaker against both the euro and the pound sterling.

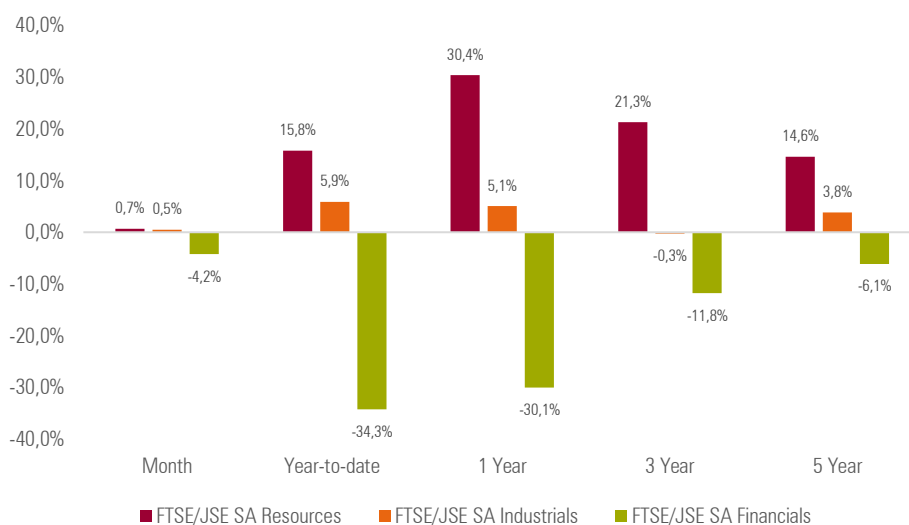
South Africa moved to a level 2 lockdown on 18 August, with President Ramaphosa announcing the lifting of bans on the sale of alcohol and cigarettes in the process. This comes as Covid-19 infections appear to have peaked, with daily new confirmed cases moving lower to around 2,000 at the end of August.

SA headline CPI rose to a year-on-year figure of 3.2% to the end of July (from 2.2% in June), supported by the easing of lockdown restrictions and increases in fuel and municipal tariffs.

South Africa recorded another trade surplus in July, largely on the back of increased appetite for exports in line with a rebound in global demand and subdued imports.

From a local equity sector perspective, **Resources** (+0.7%) and **Industrials** (+0.5%) ended the month largely flat, while **Financials** (-4.2%) ended the month lower.

Exhibit 2: SA Sector Performance (total returns)



Source: Morningstar Direct as at 31/08/2020. Returns are in South African Rand and have been annualised for periods longer than 1 year.

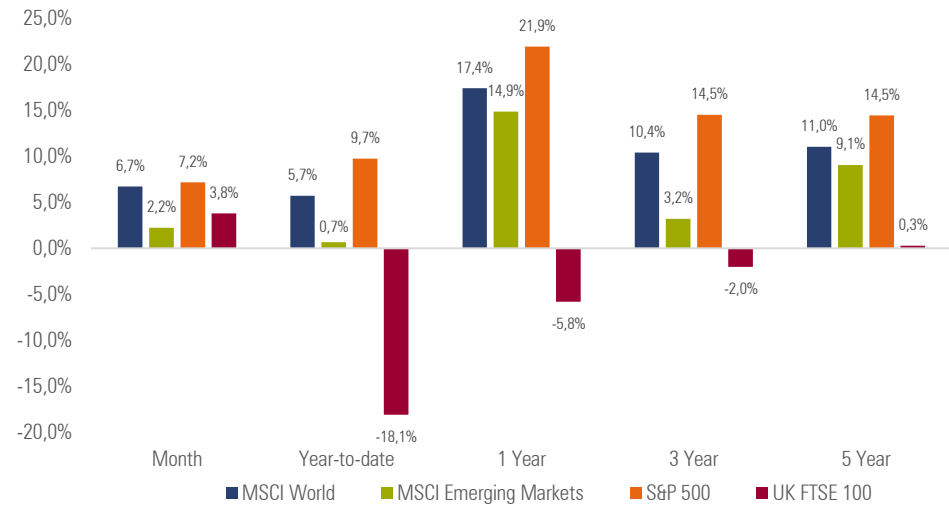
Most major developed equity markets ended the month higher, supported by positive news on trade talks and the pace of the global economic recovery from Covid-19. The **MSCI World Index** delivered a return of +6.7% for the month.

Emerging market equities lagged developed markets slightly during the month, however, most emerging markets managed to generate positive returns during August. The **MSCI Emerging Markets Index** delivered a return of +2.2% for the month.

Most major equity markets delivered strong returns, with Germany's **FSE DAX** (+6.3%), Japan's **Nikkei 225** (+6.3%), China's **Shanghai SE Composite** (+4.5%) and the UK's **FTSE 100** (+3.8%) all ending the month higher.

US equities were the primary driver of strong global equity market performance for the month, with both the tech heavy **NASDAQ 100** (+11.1%) and the **S&P 500** (+7.2%) ending the month with strong returns.

Exhibit 3: International Market Performance (total returns)



Source: Morningstar Direct as at 31/08/2020. Returns are in US dollars and have been annualised for periods longer than 1 year.

Impact on client portfolios

Most portfolios managed to deliver positive returns for the month, largely driven by strong performance from global equity allocations. Allocations to SA equities did act as a slight headwind, particularly for those portfolios with significant allocations to financials and property counters. Portfolios with an income focus also managed to generate decent returns, supported by strong returns from local inflation bonds along with positive performance from nominal bonds.

We are pleased by the returns generated by client portfolios for the month. While short term performance is never a focus for us, we are encouraged by the fact that investors have been rewarded for staying the course after significant market volatility in the first quarter of the year. We will continue to follow a valuation driven approach to investing, tilting portfolios towards those areas of the market that offer superior reward for risk. 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	-0,26	-0,94	3,85	2,64	5,29	7,22
JSE SA Listed Property	-8,59	-44,74	-44,25	-22,73	-12,18	-3,12
All Bond Index	0,89	1,87	4,16	7,74	7,56	7,84
STeFI	0,39	4,02	6,46	7,02	7,14	6,81
Local Market Sectors	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
JSE Top 40	-0,09	2,72	7,40	4,02	6,03	7,59
JSE Mid Cap	-1,65	-25,65	-16,20	-6,35	-0,34	3,77
JSE Small Cap	1,37	-18,83	-16,43	-11,66	-4,99	0,81
FTSE/JSE SA Resources	0,65	15,81	30,39	21,29	14,64	6,20
FTSE/JSE Ind/Financials	-4,21	-34,30	-30,05	-11,80	-6,13	2,06
FTSE/JSE SA Industrials	0,46	5,87	5,08	-0,27	3,84	7,52
Global Market Indices	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
MSCI World	6,72	5,73	17,41	10,42	11,04	10,26
MSCI Emerging Markets	2,24	0,68	14,88	3,21	9,05	5,31
S&P 500	7,19	9,74	21,94	14,52	14,46	13,80
NASDAQ 100	11,16	39,56	59,00	27,77	24,54	23,05
FTSE 100	3,80	-18,10	-5,80	-2,02	0,29	0,77
SSE Composite	4,45	13,13	22,64	-0,93	-0,30	5,40
Nikkei 225	6,31	1,42	14,21	9,13	9,10	8,97
FSE DAX	6,33	4,10	17,75	2,60	6,13	5,44
US T-Bill 3m	0,01	0,35	0,92	1,64	1,17	0,85
Commodities	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
Oil Price Brent Crude	4,57	-31,39	-25,07	-4,74	-3,51	-12,46
Gold	-0,38	29,22	28,07	14,27	11,52	4,96
Platinum	2,76	-2,31	-0,96	-1,93	-1,50	-6,72
Copper	4,37	9,30	18,50	-0,31	5,72	-0,75

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