SIMEKA

member of Sanlam group

Trending

1 of 2021

Market Insights

For many reasons 2020 will be a year that is long remembered. 2020 proved to be a tough year for economies across the world including South Africa. However, it is worth noting that South Africa was already in a poor economic situation prior to the impacts of COVID-19. Nearly all global economies experienced a decline in growth (measure by GDP) for the 2020 year, with the exception of China.

Global economic output contracted sharply in 2020 because of measures taken to combat the COVID-19 pandemic. Presently, a global recovery is expected from 2021. The Organisation for Economic Co-operation and Development (OECD) projects global growth of 4.2% for 2021 . The OECD predicts South African GDP growth at a more modest level of 3.1% for 2021. This is largely due to long-term structural issues and challenges in the domestic economy that have not yet been addressed.

South African Indicators

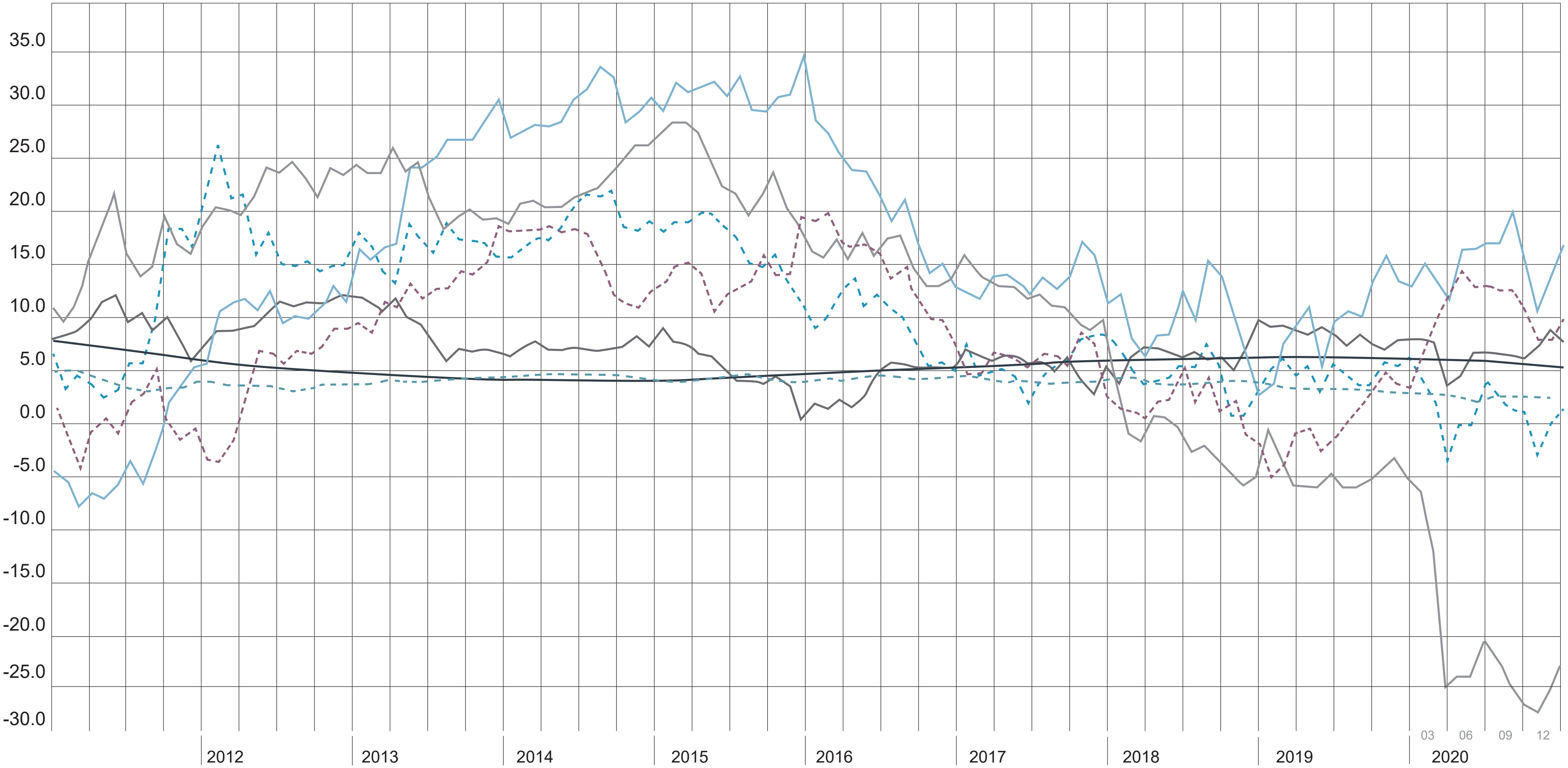
SA Indicators	31/12/2020	Year on Year
Exchange rate (Rand/US Dollar)	14.69	14.00
Exchange rate (Rand/ Euro)	17.95	15.69
Exchange rate (Rand/ UK Pound)	20.08	18.56
CPI	0.0%	3.2%
REPO rate	3.5%	6.5%
GDP (reported quarterly to end of previous quarter)	-	-6.0%
PPI	0.0%	3.0%
Gold spot per oz	1894.23	1524.46
Brent crude per barrel	$51.80	$66.15

These primarily include the unequal distribution of wealth that prevails in South Africa, which in turn results in a narrow tax base and greater reliance on social allowances, and further spillovers into an extremely strained National Budget and trade deficits, expanding debt, poor education outcomes, policy errors and uncertainty, ageing infrastructure and corruption. These challenges are not new to South Africa and little progress has been made since the end of the commodity supercycle in 2008. Robust economic growth could remain elusive for many years.

In summary, 2020 was a difficult year not only for South Africa but also the rest of the world. However we are seeing underlying economic conditions globally continue to improve. The successful distribution of vaccines should be instrumental in improving market performance this year.

Main Indices

Time Period: Since Common Inception (01/02/2008) to 31/12/2020
Rolling Window: 3 years 1 month shift



Domestic Equities (ALSI) | Domestic Bonds (ALBI) | Domestic Cash (STEFI)
Global Equities (MSCI World) | Domestic Property (ALPY) | Global Bonds (Barclays GBI) | CPI

Source: Morningstar Direct

Local Equities

As of Date 31/12/2020 Currency: South African Rand

Best → Worst	YTD	1 Year	3 Years	5 Years	10 Years	15 Years
Best	ALSI 7.0	ALSI 7.0	ALSI 3.1	ALSI 6.4	ESG 11.5	ALSI 11.5
	SWIX 2.6	SWIX 2.6	SWIX -0.3	ESG 6.1	ALSI 9.6	SWIX 11.2
	Capped SWIX 0.6	Capped SWIX 0.6	Capped SWIX -1.5	SWIX 4.6	SWIX 9.3	
Worst	ESG -1.2	ESG -0.2	ESG -2.8	Capped SWIX 3.2		

ALSI SWIX Capped SWIX ESG

Source: Morningstar Direct

Local Equities

As of Date 31/12/2020 Currency: South African Rand

Rank	YTD	1 Year	3 Years	5 Years	10 Years	15 Years
Best	Growth 24.5	Growth 24.5	Growth 8.8	Growth 12.5	Growth 15.6	Growth 14.0
	Momentum 8.7	Momentum 8.7	Momentum 2.7	Quality 4.8	Momentum 11.3	Momentum 12.7
	Quality -0.6	Quality -0.6	Quality -2.2	Momentum 4.7	Low Volatility 7.5	Quality 10.8
	Low Volatility -4.2	Low Volatility -4.2	Low Volatility -3.5	Low Volatility 1.6	Quality 7.4	Low Volatility 9.9
Worst	Value -22.1	Value -22.1	Value -12.4	Value -4.3	Value 0.5	Value 6.0

Growth Low Volatility Quality Value Momentum

Source: Morningstar Direct

Global Equities

As of Date 31/12/2020 Currency: South African Rand

Best → Worst	YTD	1 Year	3 Years	5 Years	10 Years	15 Years
Best	NASDAQ 56.4	NASDAQ 56.4	NASDAQ 35.1	NASDAQ 22.9	NASDAQ 30.6	NASDAQ 22.5
	MSCI EMG ESG 26.5	MSCI EM ESG 26.5	S&P 500 20.9	S&P 500 14.0	S&P 500 23.3	S&P 500 16.2
	MSCI EM 24.7	MSCI EM 24.7	MSCI World ESG 18.0	MSCI EM ESG 13.4	MSCI World 19.7	MSCI World 14.1
	S&P 500 24.4	S&P 500 24.4	MSCI World 17.7	MSCI EM 12.0	MSCI World ESG 19.5	MSCI ACWI GR USD 14.0
	MSCI ACWI GR USD 22.7	MSCI ACWI GR USD 22.7	MSCI ACWI GR USD 17.1	MSCI ACWI GR USD 11.7	MSCI ACWI GR USD 18.8	MSCI EM 13.1
	MSCI World 22.4	MSCI World 22.4	MSCI EM ESG 13.6	MSCI World 11.6	MSCI EM ESG 16.0	
Worst	MSCI World ESG 21.7	MSCI World ESG 21.7	MSCI EM 12.8	MSCI World ESG 111.5	MSCI EM 12.6	

S&P 500 | MSCI World | MSCI ACWI GR USD | MSCI EM | MSCI World ESG | MSCI EM ESG | NASDAQ

Source: Morningstar Direct

Global Equities

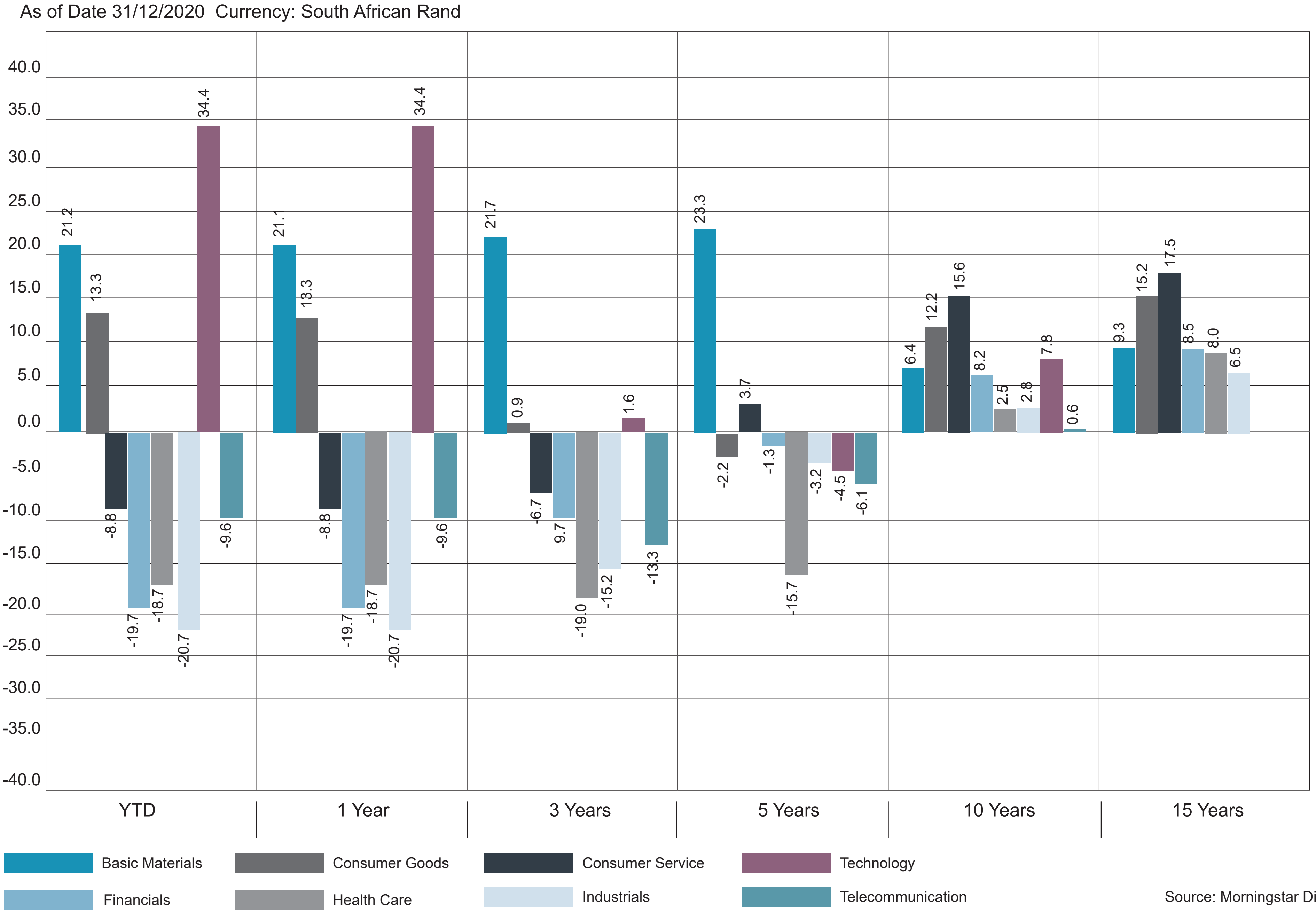
As of Date 31/12/2020 Currency: South African Rand

	YTD	1 Year	3 Years	5 Years	10 Years	15 Years
Best	Growth 40.9	Growth 40.9	Growth 26.0	Momentum 16.2	Momentum 24.2	Quality 17.6
	Momentum 35.2	Momentum 35.2	Momentum 24.1	Growth 16.2	Quality 23.3	Momentum 16.9
	Quality 28.9	Quality 28.9	Quality 23.6	Quality 15.0	Growth 22.6	Growth 16.4
	Low Volatility 8.5	Low Volatility 8.5	Low Volatility 14.4	Low Volatility 8.8	Low Volatility 19.5	Low Volatility 14.1
	High Dividend Yield 6.0	High Dividend Yield 6.0	High Dividend Yield 11.6	High Dividend Yield 7.8	High Dividend Yield 17.5	High Dividend Yield 12.7
Worst	Value 4.6	Value 4.6	Value 9.3	Value 6.8	Value 16.5	Value 11.8

Quality Momentum Low Volatility Growth High Dividend Yield Value

Source: Morningstar Direct

Local Sectors



Source: Morningstar Direct

Market Insights

A key supporting driver for financial markets in 2020, following the March crash, was the assistance monetary authorities provided by cutting interest rates and printing money to buy financial assets (the latter is called “quantitative easing”). This improved the prices of many financial assets globally, building on the recovery that took place in the second quarter of the year. A number of stock markets achieved record-high levels during the third quarter, especially markets that are dominated by tech stocks, which tended to be resilient even within economic lockdowns.

Another key driver, of note, was that the US dollar exchange rate weakened against other currencies. The US dollar has traded weaker since March 2020 because of massive increases in the money supply (by printing money) extended by the US Federal Reserve to stabilise the global financial system. Even though events in the US are half a world away from South Africa, they still have an almost immediate impact on our domestic markets. The effects were seen through the rand strengthening against a weakening dollar and through increased asset prices in South Africa as well. We have also seen government assistance in the form of increased social spending in South Africa, through the UIF grants and the SMME aids. However, it paled in comparison to US and global stimulus.

The impact of these market stabilising initiatives, the interest rate cuts and government support, have resulted in a stronger financial market performance relative to the weak economic performance seen in many countries. This is because markets tend to be forward-looking to when economies have recovered, largely due to these interventions. However, there is some concern around global stocks being priced too optimistically, trading at expensive levels. The risk is probably less in South Africa, where assets are not trading as favourable, on average. Nonetheless, the economic prospects are not as rosy in South Africa, with very high government debt and much policy uncertainty.

Investment portfolios recovered well in 2020 after recording losses of between 12% and 15% at quarter-end in March. The recovery was initially driven by fiscal and monetary stimuli, particularly in the US and Europe, but towards year-end expectations of a global economic bounce and mass vaccinations provided a positive underpin for many funds. Much of the recovery in financial markets occurred in November and December 2020 and mid-January 2021. The FTSE/JSE All Share Index TR is up approximately 25%, the FTSE/JSE Resources Index TR (total return index) gained more than 35% and the FSTE/JSE SA Listed Property Index TR bounced by more than 33%. The BEASSA ALBI is up nearly 6%. Offshore shares in ZAR have increased by 12% since October 2020 and offshore bonds are down 5%. The rand has strengthened by approximately 8% since October 2020.

After the experience in financial markets in 2020, some courage is required to make detailed projections for 2021. There is still some uncertainty in the world from the vaccines vs variants developments, but we do believe that 2021 may provide retirement funds with a more pleasing experience than 2020, and we advocate that retirement fund members maintain their long-term investment strategies.