SIMEKA

member of Sanlam group

Trending

2/2021

Market Insights

The fierce economic contraction that followed the outbreak of the Covid-19 pandemic and containment measures is being replaced by a breath-taking economic recovery. Growth projections have been revised upwards. The International Monetary Fund (IMF) upped its global growth projection for 2021 from 5.5% to 6% and its projection for South Africa from 2.8% to 3.1%.

The bonanza in financial markets is breath-taking. The V-shaped recovery in economies around the world is stronger than expected, fueling record prices of financial assets. In South Africa, the All Share Index TR achieved a return of 54% for the 12-month period to 31 March 2021, the All Bond Index managed a return of 17.0% and listed property realised a return of 34.4% for this period.

South African Indicators

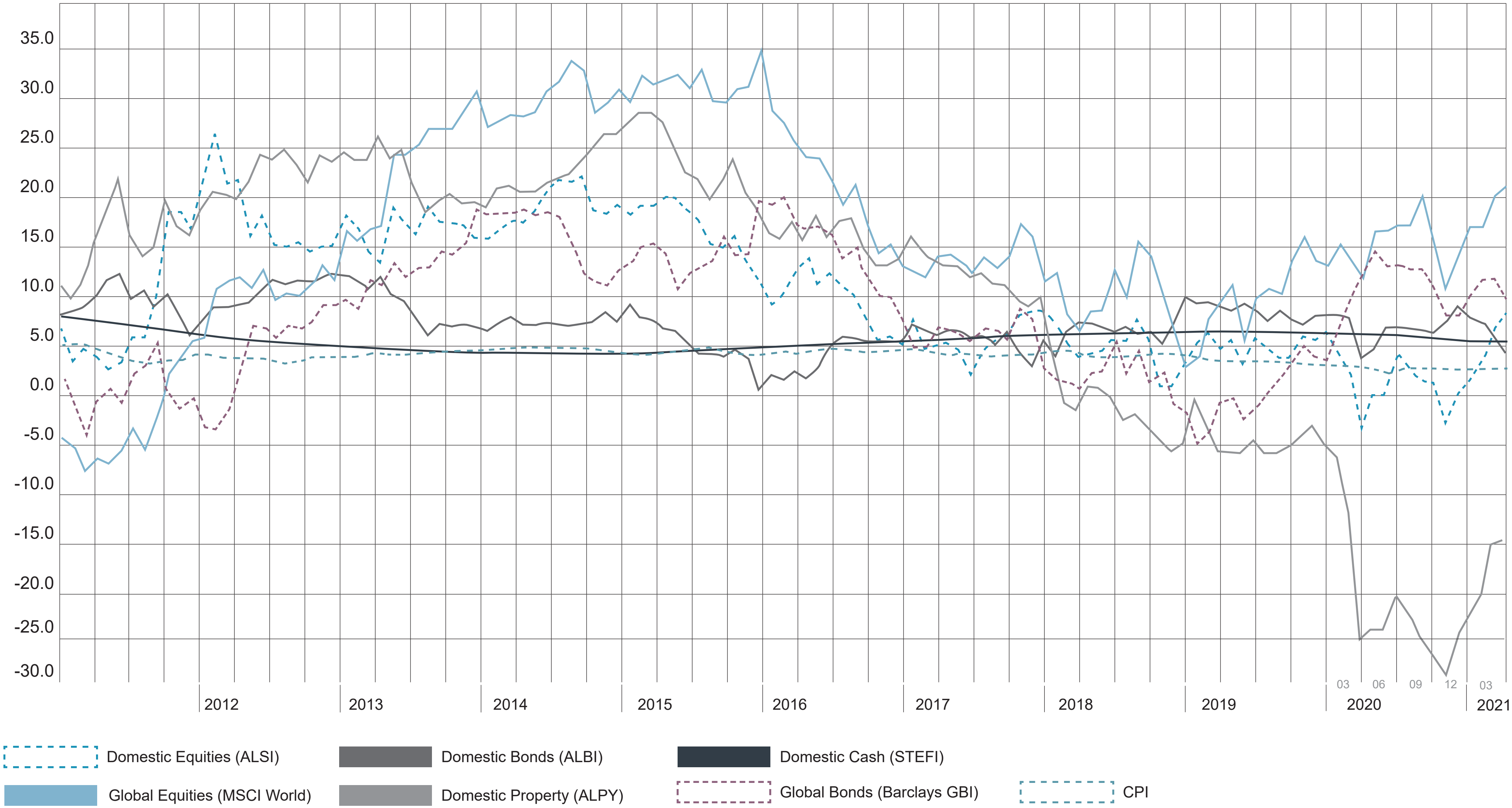
SA Indicators	31/03/2021	Year on Year
Exchange rate (Rand/US Dollar)	14.78	17.85
Exchange rate (Rand/ Euro)	17.33	19.71
Exchange rate (Rand/ UK Pound)	20.37	22.15
CPI	0.7%	2.9%
REPO rate	3.5%	5.3%
GDP (reported quarterly to end of previous quarter)	-	-4.1%
PPI	0.7%	4.0%
Gold spot per oz	1684.99	1615.31
Brent crude per barrel	$62.74	$26.35

Offshore equities contributed 28.5% and offshore interest-bearing investments lost 13.4% for the 12 months. The resources sector of the JSE climbed by 92.5% for the 12 months to 31 March 2021, compared to the 43.6% of the industrial sector and 37.8% of the financial sector.

To ensure that one does not over-estimate the bonanza of the recent market recovery, it is important to assess longer-term returns and, if possible, where one would have been if Covid never occurred. The lively returns of the 12 months to 31 March 2021 are already lifting the 3-year and 5-year results off the recent low levels, but much work still needs to be done.

Main Indices

Time Period: Since Common Inception (01/02/2008) to 31/03/2021
Rolling Window: 3 years 1 month shift



Source: Morningstar Direct

Local Equities

As of Date 31/03/2021 Currency: South African Rand

	YTD	1 Year	3 Years	5 Years	10 Years	15 Years
Best	ESG 14.8	Capped SWIX 54.2	ALSI 9.7	ALSI 8.2	ESG 13.0	ALSI 11.4
	SWIX 13.3	ALSI 54.0	SWIX 6.4	ESG 7.9	ALSI 10.9	SWIX 11.2
	ALSI 13.1	SWIX 51.5	ESG 4.6	SWIX 6.0	SWIX 10.6	
Worst	Capped SWIX 12.6	ESG 49.7	Capped SWIX 4.3	Capped SWIX 4.4		

ALSI SWIX Capped SWIX ESG

Source: Morningstar Direct

Local Equities

As of Date 31/03/2021 Currency: South African Rand

	YTD	1 Year	3 Years	5 Years	10 Years	15 Years
Best	Growth 14.8	Low Volatility 55.3	Growth 19.5	Growth 15.2	Growth 17.1	Growth 14.0
	Low Volatility 13.5	Growth 54.2	Momentum 12.3	Momentum 6.4	Momentum 12.7	Momentum 12.2
	Momentum 13.0	Momentum 51.5	Low Volatility 3.5	Quality 5.4	Low Volatility 9.0	Quality 10.6
	Quality 11.7	Value 46.6	Quality 1.8	Low Volatility 2.4	Quality 8.5	Low Volatility 9.7
Worst	Value 11.2	Quality 38.7	Value -8.4	Value -5.0	Value 1.6	Value 5.7

Growth Low Volatility Quality Value Momentum

Source: Morningstar Direct

Global Equities

As of Date 31/03/2021 Currency: South African Rand

	YTD	1 Year	3 Years	5 Years	10 Years	15 Years
Best	S&P 500 6.7	NASDAQ 39.6	NASDAQ 36.7	NASDAQ 25.3	NASDAQ 29.9	NASDAQ 22.6
	MSCI World ESG 6.2	MSCI EM ESG 34.1	S&P 500 25.7	S&P 500 16.4	S&P 500 23.2	S&P 500 16.6
	MSCI World 5.6	MSCI EM 31.4	MSCI World ESG 22.6	MSCI World 14.1	MSCI World ESG 19.5	MSCI World 14.3
	MSCI ACWI GR USD 5.2	S&P 500 29.3	MSCI World 22.1	MSCI EM ESG 14.1	MSCI World 19.5	MSCI ACWI GR USD 14.1
	MSCI EM ESG 4.7	MSCI ACWI GR USD 28.4	MSCI ACWI GR USD 21.2	MSCI World ESG 14.0	MSCI ACWI GR USD 18.6	MSCI EM 12.7
	MSCI EM 2.9	MSCI World 28.0	MSCI EM ESG 16.7	MSCI ACWI GR USD 13.9	MSCI EM ESG 16.1	
Worst	NASDAQ 2.3	MSCI World ESG 25.9	MSCI EM 15.0	MSCI EM 12.6	MSCI EM 12.5	

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 31/03/2021 Currency: South African Rand

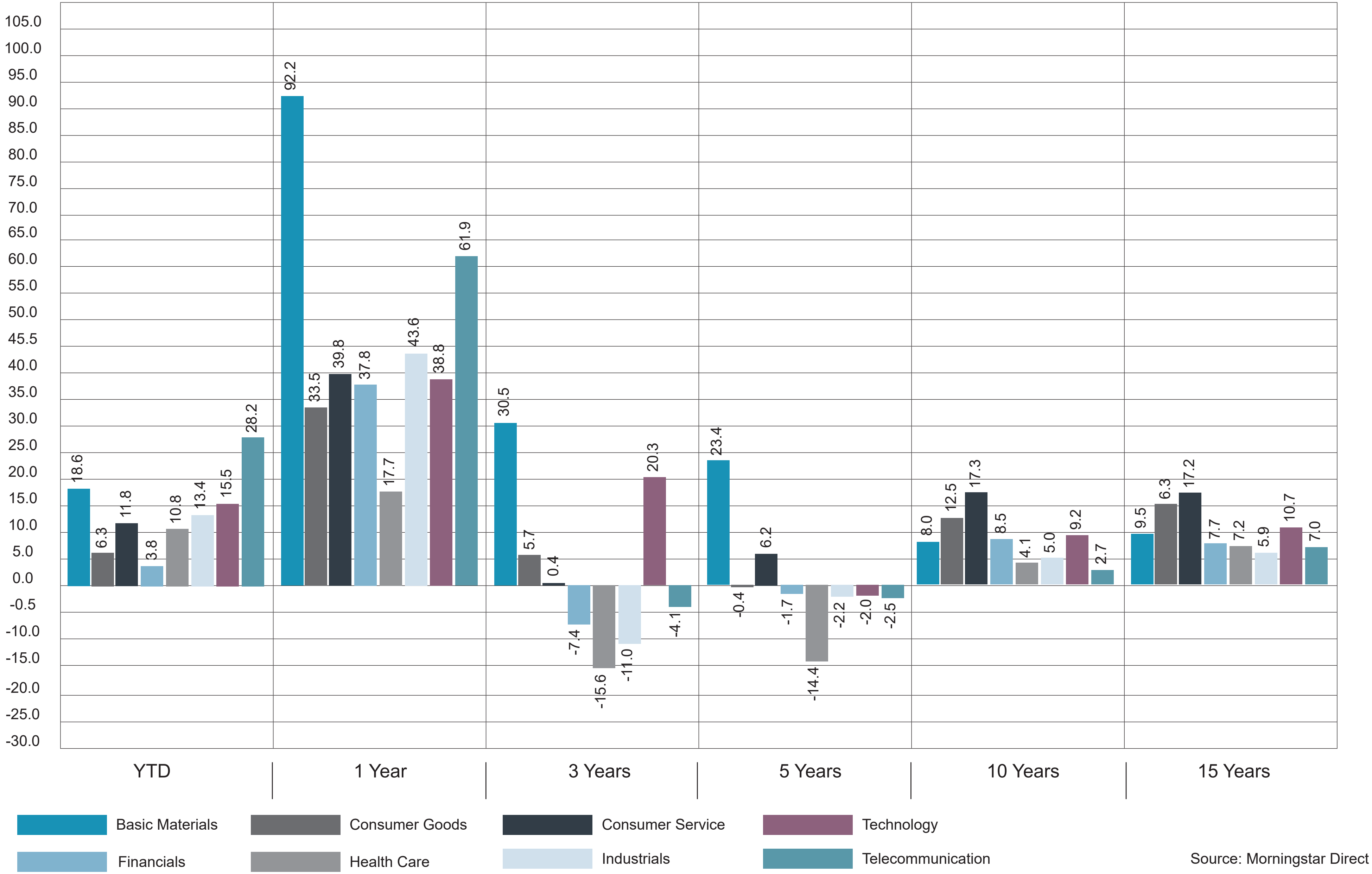
Best → Worst	YTD	1 Year	3 Years	5 Years	10 Years	15 Years
Best	Value 10.3	Growth 31.1	Growth 27.9	Momentum 17.7	Momentum 23.3	Quality 17.9
	High Dividend Yield 7.0	Momentum 24.8	Quality 26.8	Growth 17.7	Quality 23.0	Momentum 16.6
	Quality 3.5	Value 23.5	Momentum 25.2	Quality 16.6	Growth 22.0	Growth 16.2
	Low Volatility 1.9	Quality 23.2	Low Volatility 17.2	Value 10.0	Low Volatility 19.2	Low Volatility 14.4
	Momentum 1.0	High Dividend Yield 13,2	High Dividend Yield 17.0	High Dividend Yield 9.6	High Dividend Yield 17.4	High Dividend Yield 12.9
Worst	Growth 0.8	Low Volatility 2.3	Value 15.7	Low Volatility 9.1	Value 16.7	Value 12.2

Quality Momentum Low Volatility Growth High Dividend Yield Value

Source: Morningstar Direct

Local Sectors

As of Date 31/03/2021 Currency: South African Rand



Source: Morningstar Direct

Market Insights

The fate of South Africa's economy has long been driven by government policy, particularly government consumption expenditure and government fixed investments. Government's portion of the economy has risen consistently over recent decades, as it employed more people. The outbreak of the coronavirus pandemic has expedited the multi-year notion that South Africa cannot rely on government spending to drive the economy in the same way as it did over the last decade. Government can guide and encourage the private sector, but Government's cupboard is bare. Traditionally, governments rely on counter-cyclical fiscal expenditure to stimulate economic activity financed by borrowings (a Keynesian approach) or reduce the cost of money (interest rates) to encourage spending and economic activity (a monetary theory approach).

South Africa is poorly positioned to follow a fiscal approach and relies on monetary theory (reducing interest rates to stimulate economic activity). Global policy rates (e.g. the repo rate in South Africa or the fed funds rate in the US) are low already and, judging from policy statements, are likely to remain low into 2022. For lower interest rates to have an effect on economic growth, both business and consumer confidence are required. Without business and consumer confidence, lower interest rates are not likely to be as effective. Both business and consumer confidence indices reflect slow waning optimism since the peak of the commodity cycle in 2008, despite the brief Ramaphoria effect in 2018. The post-Covid recovery in business and consumer confidence is encouraging and there is speculation that the recovery may last longer than expected, initially because of lower interest rates and higher commodity prices earned by South African producers.

Investment managers are monitoring economies for signs of inflation. Bond yields often increase (the market value of bonds comes down) in anticipation of inflation, which creates pressure on share prices. Currently, there are no signs of excessive inflation, but there is a lot of discussion on the risk this poses to the global economy.