Quarterly Market Commentary

Q3 2019

SA Market Overview

Risk-off has been a big theme this quarter, with South African markets having a rough period. Global trade worries as well as fears of a looming global recession has caused a heavy outflow from emerging market assets and risk assets as a whole. This coupled with the troubled SA fiscal situation has not boded well for SA asset classes, causing Cash to be the standout performer during the quarter, returning 1.62%, and the all bond index being the only other local asset class positive performer at 0.74% for the quarter. Both property and equities had significantly negative quarters.

Mboweni Economic revival

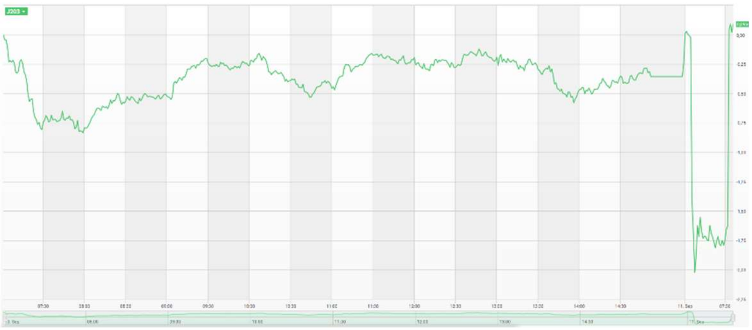
Finance Minister Tito Mboweni has released the treasuries plan to reform the SA economy. The combination of low growth and high unemployment makes the current SA economic trajectory unsustainable in the long run, thus through a number of reforms, such as the modernization of network industries and the prioritization of labour intensive industries such as agriculture, the ministry expects to create over a million job opportunities and raise the potential economic growth by 2-3 percent p.a. over the next 10 years. Markets reacted well to the growth plan, but certain political entities within the ruling ANC are not in favour of its implementation, making for a difficult road ahead.

Interest rate decisions

Despite concerns about economic growth, the SARB unanimously decided to leave its benchmark repo rate unchanged during its September meeting, after cutting the rate by 25 bps to 6.5% during July. The Reserve Bank emphasised that it would continue to focus on anchoring inflation near the midpoint of the target range and that all decisions will be heavily data driven.

Prosus Listing

Naspers management team aimed to unlock more shareholder value near the end of the quarter, by unbundling all of their foreign web-based assets, in a dual listing on the JSE and ASE, called Prosus NV. Being one of the biggest constituents of the JSE All Share Index, the share unbundling had a pronounced effect on the index value on listing day, dropping nearly 2% at the open until the Prosus shares became available, at which point the market recovered to its previous strengths. (See right a graph showing the JSE 1-day performance up until the listing of Prosus shares.)

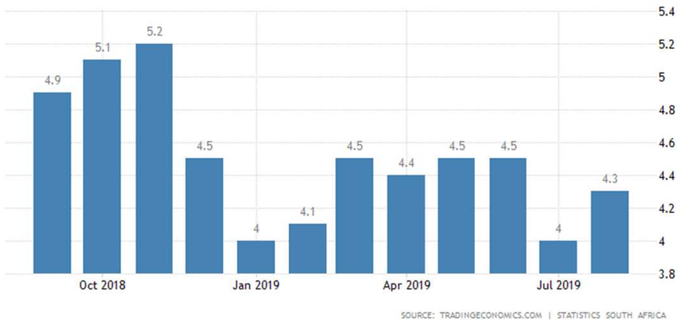


USD/ZAR

The USD/ZAR exchange rate has been a major cause of worries for many investors during the quarter, starting the quarter on a relatively stable footing at a price of 14.12, but seeing dramatic increases nearing the end of July, skyrocketing to nearly 15.50, after which, global risk appetite increased once more, sending money flowing to emerging markets, this saw the Rand recover to a point of 14.63 in early September, only to depreciate to a closing level of 15.15 at the end of the quarter. (See left a graph of the exchange rate movements during the quarter.)

Inflation

The annual inflation rate in South Africa increased to 4.3 percent in August 2019 from 4.0 percent in July, above market expectations of 4.2 percent but below the mid-point of the Reserve Bank's target range of 3-6%. Prices of housing & utilities and food were the key inflationary drivers. (1-year rolling inflation rate shown in the graph on the right.)



Global Market Overview

During the quarter, global markets reacted to many geopolitical factors, but in the end the standout event was the rate cutting cycle adopted by most developed nation central banks trying to kickstart growth in their economies. Global equities were affected by a general risk off attitude, with both property and fixed income assets reacting positively to the rate cuts. While there are fears of a looming global recession, these are being nullified by the dovish stance taken by most central banks during the period.

US China Trade talks

The quarter kicked off with renewed trade talks between US and Chinese. With trade talks concluding on 31 July with no solid progress made, markets were volatile after this, as many investors did not see a clear direction. August was plagued with more aggressive rhetoric from both the US and China, this resulted in heavy selling of risk assets, especially emerging market asset classes. The final month of the quarter has been categorized by a softening tone with the US and China both putting a hold on new tariffs and entering a new round of trade talks. The newest trade talks have not gotten off to a smooth start however, as the US has indicated that they would prefer limits on Chinese imports to the US. The ongoing tension between the two economic superpowers has long been a driver of asset returns, especially when coupled with worries about a looming global recession.

Brexit

Boris Johnson took the Prime Minister reigns from Theresa May on 23 July 2019. This move has caused even more uncertainty regarding Brexit processes especially considering Boris's hard leave stance. He was one of the biggest proponents during the leave campaign pre-referendum.

Parliamentary proceedings were Interrupted briefly during the quarter, when the Queen granted a request by Mr Johnson to prorogue the British parliament. The proroguement would entail parliament being forced into recess and having to re table all outstanding issues after said recess, thus further limiting parliaments influence over the Brexit processes. This move was seen by many as an affront to democracy. The opinion was shared by the Supreme Court, which declared the proroguement unconstitutional, thus forcing Mr Johnson to extend his no deal deadline to 31st January 2020 unless he can land a deal with the EU, that the UK Parliament approves of, before the 17th October 2019. None of this is helpful for the UK economy in the short to medium term.

Trump Impeachment talks

Where would the world be without another scandal from the Trump administration? A recent phone call between President Trump and Ukrainian President Volodymyr Zelenskiy has sparked controversy, after an apparent whistle-blower had outed Trump as having requested the foreign President to investigate claims of corruption by Trump's highest polling democratic opponent Joe Biden. This would mean that Trump had directly requested a foreign power to influence the upcoming 2020 US Presidential election.

Trump has responded with usual 'strongman' rhetoric, which did little to appease the democrats, who through House Speaker, Nancy Pelosi, has supported an impeachment investigation. An official investigation could be politically damning for the democrats, who have already dwindling support in the middle- and low-income categories. President Trump further responded by releasing transcripts of the phone call. This did nothing but anger the opposition further, as the transcripts were incomplete, as well as contained a vague reference to Biden's alleged misdeeds by President Trump.

Hong Kong Protests

The quarter saw an extreme escalation in protests in Hong Kong due to a proposed Extradition Bill that may see Hong Kong residents become subject to mainland Chinese jurisdiction, which would undermine the autonomously governed region. The protests culminated in violent clashes at many locations, most notably Hong Kong international airport. The violent protests, coupled with US-Sino trade tensions, had a notable effect on consumer spending in the region, heavily cutting retail spending especially.

On 4 September Carrie Lam, Chief Executive of Hong Kong, declared that she would officially withdraw the bill in early October, as well as deploy extra measures to calm the situation. Protests continued after the withdrawal of the bill, with the blocking of the Airport being the main goal of protesters.

Saudi Bombing

September 16th saw a drone strike on the worlds largest oil refinery in the Kingdom of Saudi Arabia, responsible for roughly 5% of global oil production. The attack was allegedly carried out by Iranian backed rebels. The attack saw Brent Crude oil make its biggest ever intraday jump to $71 per barrel, only to settle again the following day after the US opened their substantial strategic reserve.

The attack has worsened an already tense situation in the middle east, coming mere months after a US drone was shot down by Iranian forces, and a oil tanker was bombed in the Straight of Hormuz. The Brent crude oil price closed the quarter at $59.39 per Barrel, representing a quarterly decrease of 8.70%. (The graph on the right shows the 1-year movement in the Brent Crude Oil spot price up until the day after the bombing of the Saudi oil processing plant.)

Global Interest rates

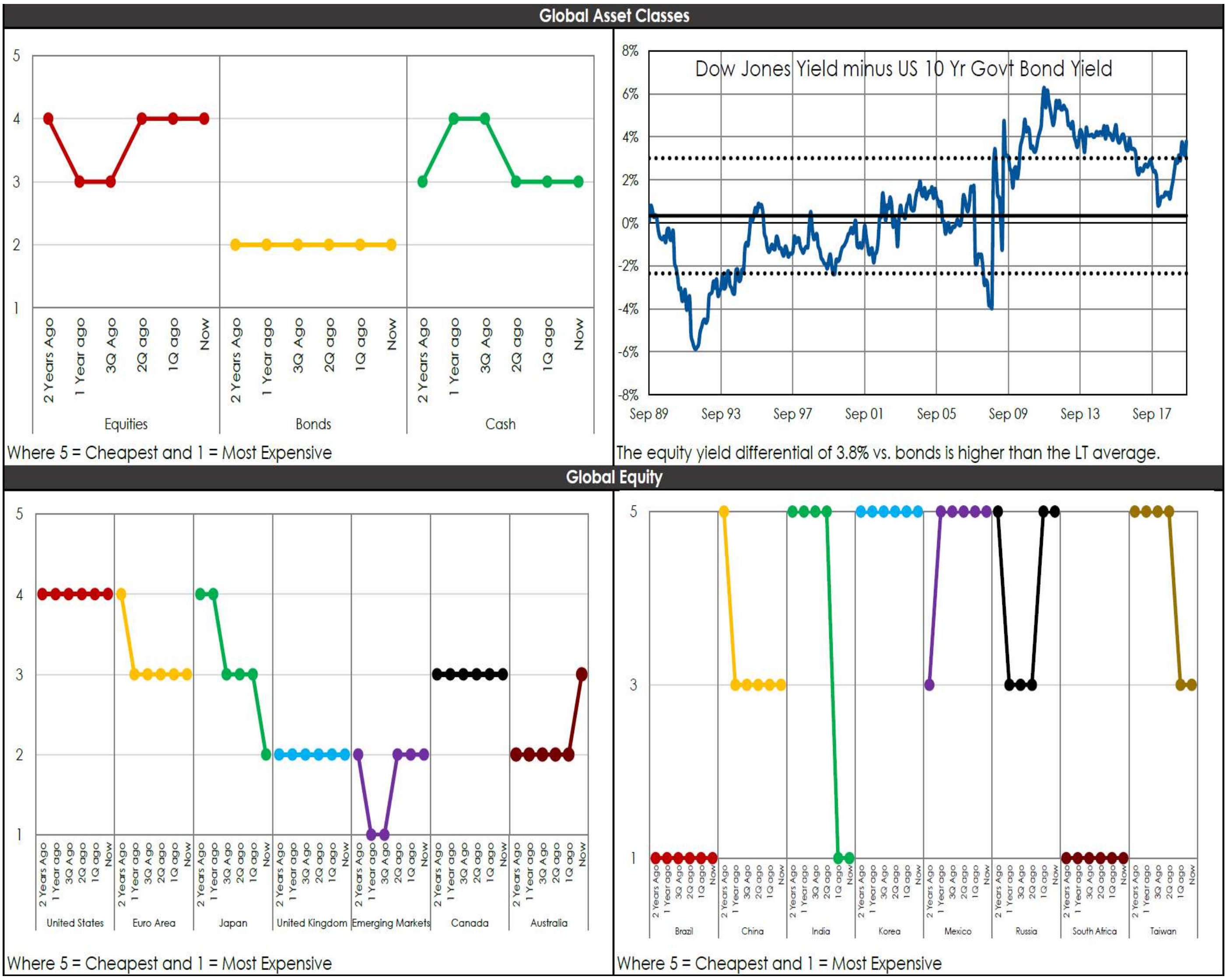
During Its September meeting, the ECB left the refinancing rate unchanged, while opting to lower the depository rate by 10 bps to -0.5%. The ECB also announced that they will be starting a new round of bond purchases to the tune of €20 bn per month in November 2019 in an attempt to kickstart economic growth in the region.

The US federal reserve also opted to lower the federal funds rate during September, now targeting a range of 1.75%-2%, only the second rate cut post the end of financial crisis. The rate cut by the federal reserve was already largely priced into the market, with futures now pointing to the dovish stance bringing more rate cuts of up to 50 bps in total by the end of 2020.

The Peoples Bank of China also cut rates from 4.35% to 4.2% during September, still pointing to a milder expansionary approach than most analysts think is necessary to curb the slowdown in Chinese economic growth. This also hints that China may be unwilling or unable to supply the stimulus to bring the global economy out of its current slump like it did in 2009 & 2016.

ANNEXURE A

Global Asset Class and Equity Valuations
(1 is negative outlook and 5 is positive outlook)



ANNEXURE B

Asset Class Performance (ZAR)

As at 30 September 2019	QTD	YTD	1 Year	3 Years*	5 Years*
Global Equity – MSCI ACWI	7.44	22.59	8.11	13.52	13.64
Global Property - FTSE EPRA Nareit DR	14.12	28.77	23.41	9.92	15.11
Global Bond - JPM GBI Global Traded	8.76	12.34	16.49	4.57	8.27
Global Cash - ICE LIBOR 1 Month	8.17	7.36	9.78	5.05	7.25
SA Equity - FTSE/JSE All Share	-4.57	7.08	1.86	5.07	5.32
SA Property - FTSE/JSE SA Listed Prop	-4.44	1.34	-2.70	-3.51	3.24
SA Bond - Beassa ALBI	0.74	8.44	11.42	8.90	8.28
SA Cash - STeFI Call Deposit	1.62	4.96	6.64	6.74	6.50

Asset Class Performance (USD)

As at 30 September 2019	QTD	YTD	1 Year	3 Years*	5 Years*
Global Equity – MSCI ACWI	-0.08	16.30	0.90	9.88	7.15
Global Property - FTSE EPRA Nareit DR	6.14	22.17	15.18	6.40	8.54
Global Bond - JPM GBI Global Traded	1.14	6.58	8.72	1.22	2.08
Global Cash - ICE LIBOR 1 Month	0.60	1.85	2.46	1.68	1.12
SA Equity - FTSE/JSE All Share	-11.25	1.59	-4.93	1.70	-0.70
SA Property - FTSE/JSE SA Listed Prop	-11.12	-3.86	-9.19	-6.60	-2.66
SA Bond - Beassa ALBI	-6.32	2.88	3.99	5.41	2.09
SA Cash - STeFI Call Deposit	-5.49	-0.43	-0.47	3.32	0.42