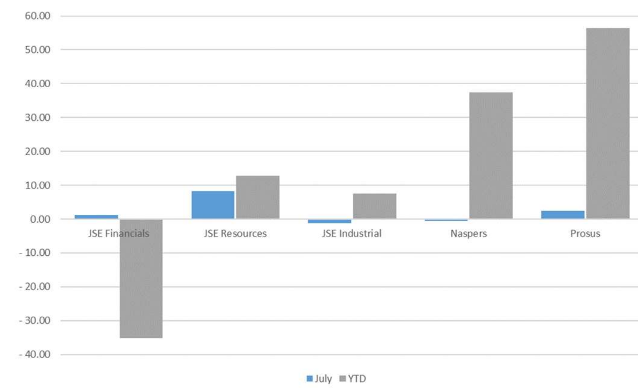
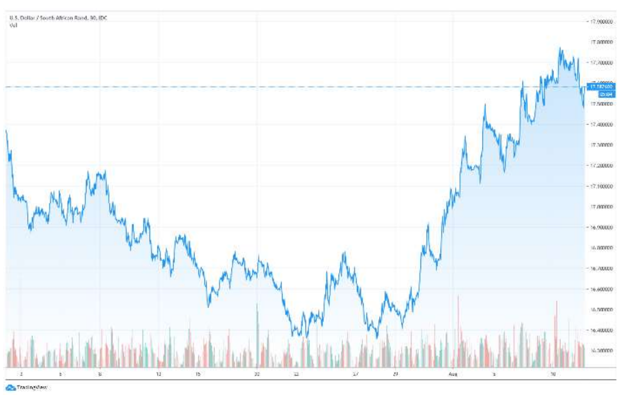
July 2020 Market Commentary

SA Market Overview

Equity markets in South Africa followed much of the global trend in July with the JSE All-Share showing a near perfect correlation to the main global indices. This is due to most markets being swayed by the same trends in risk on/off over the last few months and local events taking a backseat to these international developments. SA Equity was the standout performer among local asset classes, continuing its recovery after the Covid-selloff by returning 2.56% in July, nearly completing the recovery of the selloff in March. Local property reversed some of the previous months gains, returning to the ongoing trend of underperformance by the industry, the local property market lost (3.19%) during the month, thus bringing the YTD return to (39.55%). The graph on the right shows the **July** and **YTD** performance of various JSE sectors, as well as that of Naspers and Prosus, which collectively make up 35% of the JSE top-40 index.



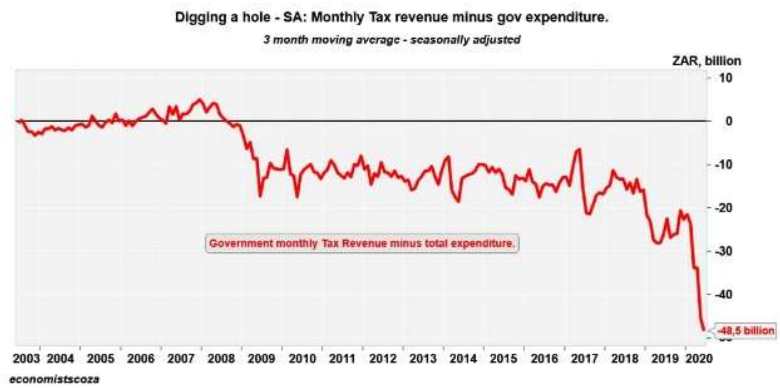


The South African Rand was on the front foot for most of July, broadly appreciating from 17.20 to 16.30 or +5.3% against the Dollar between the start of the month and the 27th, this was quickly reversed in the last three trading sessions of July with one day seeing the worst Rand depreciation since May, causing the local unit to end the month only 1.80% stronger than where it started. The graph on the **left** shows the performance of the USDZAR during July and post month end.

The South African Reserve Bank opted to cut rates by a further 25 basis points on July 23rd, bringing the total rate cuts in response to the Covid-19 pandemic to 2.75% and 3.00% YTD. The reserve bank is able to do this because of the low inflation rate data that has been seen in the recent past (June 2.1% and July 2.2% YoY change). The inflation outlook is also positive but with a weak Rand being a possible dampener.   The Reserve Bank has also slowed it's purchasing of bonds in the secondary market, thus showing that they believe that the market is acting in a more rational manner, this also supports the thesis that this recent rate cut is intended as economic growth supportive.

South African Airways has been in the news again during the month after the National Treasury agreed to mobilize funds (R21 billion) needed to save the airline. The Finance Minister later clarified this stating that they are mobilizing funds & not funding the rescue plan, apart from the employees the country as a whole must be asking why to save this wreck. Another struggling SOE, The Landbank, that has been mostly profitable and self-sustaining since 2006, but was badly affected by Covid-19 and lockdown regulations nearly defaulted, needing an emergency cash injection of R5.7 billion and a further R17 billion likely to be required. This this National Treasury intervention is considered necessary as the Landbank provides upwards of 28% of agricultural debt financing in the country and is needed to maintain essential local food security.

President Cyril Ramaphosa surprised many during the month by reimplementing the ban on alcohol and a 9pm nationwide curfew. The governments logic underlying the decision is stated to have been the dramatic increase in hospitalizations due to casualties linked to the use of alcohol and the increase in Covid-19 cases caused by increased socializing. While most citizens would agree that we need to make sacrifices during this time, it is hard to see how the government can deal with maintaining decreases in tax revenue from the (legal) sale of alcohol when it is now running a monthly income deficit of R50 billion.



With South African national debt already at an all-time high in relation to GDP, the staggering growth in debt due to Covid-19 should be worrying to all market participants. During July, the IMF approved an emergency loan of $4.3 billion, the African Development Bank approved a loan of R5 billion, and the BRICS New Development Bank approved a loan of $1 billion to the South African government as part of Covid-19 relief packages. While all developing nations require some form of assistance in these times, the worrying fact is that the quarterly budget deficit has already outstripped the total of these loans, leaving investors more concerned about South Africa's fiscal state.

Global Market Overview

Global markets were buoyed during the month by signs of an economic recovery in most major markets including China, USA and the Eurozone, this in spite of the fact that both the US and many countries in the eurozone experienced a surge in cases of Covid-19 during July. The escalating tensions between China and the US, were not enough however for markets to underperform. Global equities came close to reversing their YTD losses by returning +5.22%, closely followed by global bonds returning +3.32% in July, continuing their stellar calendar year performance of 8.07% in USD.

Tensions between US and China have once again flared up. The Hong Kong security bill passed into law by Beijing via a back door in the Basic Law governing the City has spurred outrage across the globe and in particular by the US President Donald Trump. The US has passed (or proposed) numerous sanctions directly linked to this bill in the past month or so, but tensions reached a fever pitch when the US gave the Chinese laughably short notice to vacate their consulate in Houston, Texas. This resulted in Chinese officials retaliating and forcibly closing the US consulate in Chengdu China.

US partisanship has never been more pronounced than it has been over the past year, especially when it comes to China, this was briefly muted due to the bipartisan support for aid packages during the Covid-19 induced panic that has swept capital markets and society as a whole earlier this year. The bipartisan support has however run dry again, with the Republican leaders proposing another relief package which the Democrats do not think covers enough. This has led to the latest relief bill being held up in the House of Representatives for weeks, leading to President Trump using an Executive Order to pass the most pressing parts of the Republican bill early in August. The effects of this intervention could be far reaching as it will deepen the already strained political divide in American society while possibly winning Trump additional support from the multi-millions of recently unemployed who will benefit most from his actions.

In another jarring political move, Donald Trump floated the idea of extending the US election past the November 3rd date. This was based on his unsubstantiated belief that voting-by-mail will lead to unprecedented election fraud, a claim said to be baseless by most election experts. The US political system did its job however with almost unilateral outrage by both parties, quickly forcing Trump to backtrack on these statements.

The price of gold surged to new highs during July, now sitting at $2025 per ounce, this indicates that market participants are uncertain of the current rally as gold and equities have historically had an inverse price relationship. The fact that both gold and US equities have reached new highs is quite likely due to investors hedging (with gold) their preferred equity long positions against another possible market downturn. The graph on the **right** shows the Gold spot price over the month of July.

Asset Class Performances in ZAR

As at 31st July 2020	MTD	YTD	1 Year	3 Years*	5 Years*
Global Equity – MSCI ACWI	3.12	19.38	28.08	16.36	14.26
Global Property - FTSE EPRA Nareit DR	1.49	(0.30)	5.24	8.91	8.95
Global Bond - JPM GBI Global Traded	1.26	31.61	31.21	14.05	10.81
Global Cash - ICE LIBOR 1 Month	(1.98)	22.34	21.69	10.83	7.57
SA Equity - FTSE/JSE All Share	2.56	(0.68)	1.58	3.63	4.58
SA Property - FTSE/JSE SA Listed Prop	(3.19)	(39.55)	(41.19)	(20.18)	(10.55)
SA Bond - Beassa ALBI	0.61	0.97	4.25	7.79	7.40
SA Cash - STeFI Call Deposit	0.32	3.01	5.78	6.36	6.49

Asset Class Performances in USD

As at 31st July 2020	MTD	YTD	1 Year	3 Years*	5 Years*
Global Equity – MSCI ACWI	5.22	(1.97)	6.60	6.87	7.61
Global Property - FTSE EPRA Nareit DR	3.55	(18.13)	(12.41)	0.03	2.61
Global Bond - JPM GBI Global Traded	3.32	8.07	9.21	4.75	4.36
Global Cash - ICE LIBOR 1 Month	0.01	0.46	1.29	1.79	1.31
SA Equity - FTSE/JSE All Share	4.64	(18.44)	(15.45)	(4.82)	(1.51)
SA Property - FTSE/JSE SA Listed Prop	(1.22)	(50.36)	(51.05)	(26.69)	(15.75)
SA Bond - Beassa ALBI	2.65	(17.09)	(13.23)	(1.00)	1.15
SA Cash - STeFI Call Deposit	2.36	(15.41)	(11.96)	(2.31)	0.29