Quarterly Market Commentary

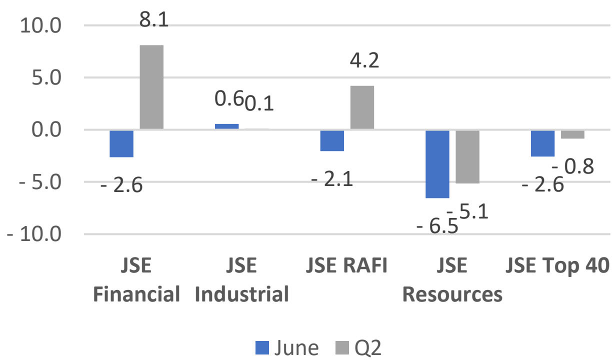
Q2 2021

SA Market Overview

As has been the theme over the pandemic era, most South African asset class returns are being driven by the overall global market sentiment. With its relatively liquid capital markets compared to most other emerging economies, South Africa has long been a lightning rod for emerging market capital flows, with increased risk appetites driving capital flows into the SA currency, equities and bonds.

South African listed property has continued its recovery over the past quarter, with a strong performance of +3.4% in June and +12% over the quarter. The asset class still has negative annualized performance over the past 3 and 5 years and has underperformed short term cash over the past 10 years.

SA bonds had a strong month up +1.1%, bringing the quarterly return to a healthy +6.9%. Local Equities struggled over the past month, down (2.4%) reversing almost all the gains made earlier in the quarter.



The graph shows the June and Q2 returns for the major sub-indices of the JSE.

This pull back in SA equity was primarily led by lower commodity prices especially in the precious metal category.

Corruption

The South African government has taken meaningful steps toward public accountability for political wrongdoing. The ruling party, the ANC, has taken a stand against corrupt members by forcing members that are facing criminal charges to vacate their positions until a verdict is reached. This action is widely seen as a move by supporters of President Ramaphosa within the party against ANC Secretary General Ace Magashule. Magashule is a powerful figure within the party and has fought strongly against this decision.

Another prominent member caught in the line of fire is Health Minister Zweli Mkhize, who after being implicated in a PPE tender irregularity scandal was suspended with immediate effect. Late in June President Ramaphosa also stated that he was seriously considering removing Mkhize from office permanently.

In perhaps the most newsworthy of the anti-corruption developments is the issue of a warrant for the arrest of former President Jacob Zuma, who in an attempt to avoid answering corruption charges refused an order of the highest court in the country and was found in contempt. The Constitutional Court of South Africa sentenced him to jail for a period of 15 months on charges of contempt of court. At the time of writing this report Zuma is now in jail serving his sentence. This is a great victory for SA's constitutional democracy and the rule of law.

Economic Metrics

The state of South Africa's fiscus has been the central theme of most conversations regarding capital markets in South Africa. While the government debt load has ballooned to levels never seen, as a result of pandemic era relief, the debt servicing cost has remained fairly stable. This is however likely to worsen over time, as historic debt that is cheaper to service expires.

The South African budget deficit turned out to be smaller than expected for the 2020/21 financial year, the budget deficit came to 11.2% of GDP significantly lower than the revised estimate of 12.3%. The undershoot was largely due to lower-than-budgeted spending as well as significantly higher than expected revenue collection.

Another tailwind for the SA economy has been the consistent trade account surplus over the past quarter, the surplus is largely due to a reduced demand for foreign product in South Africa as well as a surge in commodity prices as a result of high demand for industrial metals abroad.

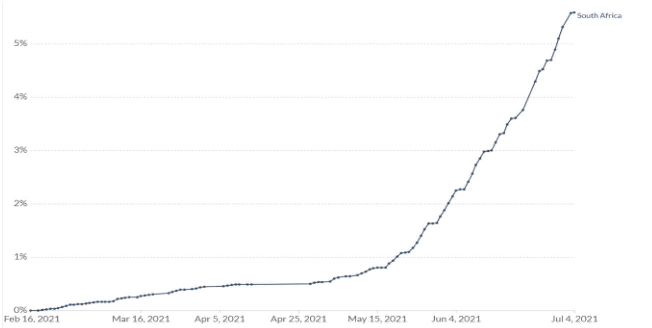
The same scenario that led to the trade account surplus has also led to a significant appreciation of the South African rand over the quarter. After a slight depreciation in June, the Rand ended the quarter up 3.4% against the Dollar bringing the YTD gains to 2.7%.

Covid – 19

South Africa is in the midst of a third wave of Covid-19 infections. The newly arrived 'Delta variant' was first discovered in India as the subcontinent was experiencing record breaking infections, and it has now been found to be significantly more transmissible than the previous two variants seen in the country. Government has reacted by increasing restrictions to an amended lockdown level 4. This includes an earlier curfew, a restriction on sit-down eating at restaurants, a complete ban on the sale of alcohol, and a ban on leisure travel to-and-from the province of Gauteng. These measures are aimed at limiting the spread of the virus while making it possible for most economic sectors to remain active.

This new wave comes amidst a struggle to vaccinate the population as quickly as possible, as there is a significant shortage of vaccine doses in developing nations including SA.

To date there have only been 3.31 million people vaccinated in the country, which represents a mere 5.6% of the population. The graph below shows the proportion of South Africans vaccinated as a percentage of the population. An online version of the graph is available here.



Policy and Economic Reforms?

In major policy news, President Ramaphosa has announced that he is considering overhauling the BEE system currently in place. He stated that he is looking into reforms that will bring with them more widespread empowerment as well as less restrictive business practices.

The Governor of the Reserve Bank is pushing to lower the bank's inflation target range. This is effectively a way of forecasting a higher future growth trajectory as the neutral policy rate (usually seen as the midpoint of the target range) is the perceived inflation rate at which the country's output will grow at its long-term sustainable trend.

After years of mismanagement and government bailouts, the National Treasury announced that the national air carrier SAA will be partially sold off to a private partner. The partnership will entail Takatso Consortium acquiring 51% of the ailing state airline. The consortium brings experience to the fold as they already manage the budget airline LIFT. This bodes well for the reform narrative in the country, as the deal would significantly reduce the state aid required to keep the company afloat. Could this lead to other SOE's entering into public/private partnerships and ultimately reduce the funding demands put on taxpayer funds?

Global Market Overview

The main driver of global capital market performance remains the expectations over policy normalization from major central banks. As seen in the paragraphs to follow, the US federal reserve has brought up their timeline for monetary policy normalization significantly. This news flow combined with labour market reports were the main shocks to market performance over the quarter.

Bond markets reacted negatively to the news of possible sooner than later rate hikes. Spreads widened significantly and continued to trade at elevated levels. The overall effect was a (0.8%) performance from global bonds in June, decreasing the quarterly return of +1.1%.

The global property market had significant increases over the past quarter, with house prices in major metropolitan areas surpassing levels set before the pandemic shock, the quarterly return of global property assets was +10.2% and +35.7 over the past year .

US stimulus & taxes

US President Joe Biden had initially put forward an infrastructure plan to the tune of roughly $2 trillion, this was received positively by market participants, although most did not believe that the Democratic lawmakers could garner enough support to pass said bill.

Eventually bipartisan support was gathered for a much smaller infrastructure spending bill totaling $579 billion. The merits of this spending plan are currently being argued in the House of Congress but is expected to be signed by the President in its current form.

Since the Presidential inauguration, there has been speculation over how, the Democratic Party led government expects to fund the massive amounts of stimulus generated during the pandemic period. The answer has come from the Biden administrations plans for tax reform. President Biden revealed plans to increase the capital gains tax rate and also reforms on the transfer of wealth upon death. These proposals will effectively increase the highest rate at which capital gains are taxed from 23.8% to 43.4%.

US Treasury Secretary Janet Yellen has also embarked on a mission to put in place a global minimum corporate tax rate of at least 15%. The goal of this plan is to eliminate the relative attractiveness of tax haven jurisdictions, as well as to enhance the ability of governments to collect tax from multi-national companies that do business in their specific jurisdictions.

Although markets reacted negatively to the news of possible increased taxes, it was much more muted than originally expected before the Biden Administration took office.

Monetary Policy

The quarter experienced market speculation of monetary tapering and Central Banks easing market fears by supplying ever more dovish guidance. This cycle was broken by the US Federal Reserve in June, as they increased both growth and inflation estimates for the US economy.

The increased forward estimates were paired with the Fed bringing forward their timeline of monetary policy normalization, the Fed now expects to apply two rate hikes by the end of 2023.

Market participants reacted quickly, and we saw large drawdowns in riskier assets, however, most assets recovered these losses within a week and the quarter saw US equities reach a new high.

The Fed is following their own earlier guidance in their decision making, as they previously stated that their main goal is that of full employment. The most recent US jobs report showed an increase of 850,000 jobs, indicating a healthy recovery in the labour market. The report was mixed however, as the unemployment rate increased to 5.9%, still a fair margin from full employment.

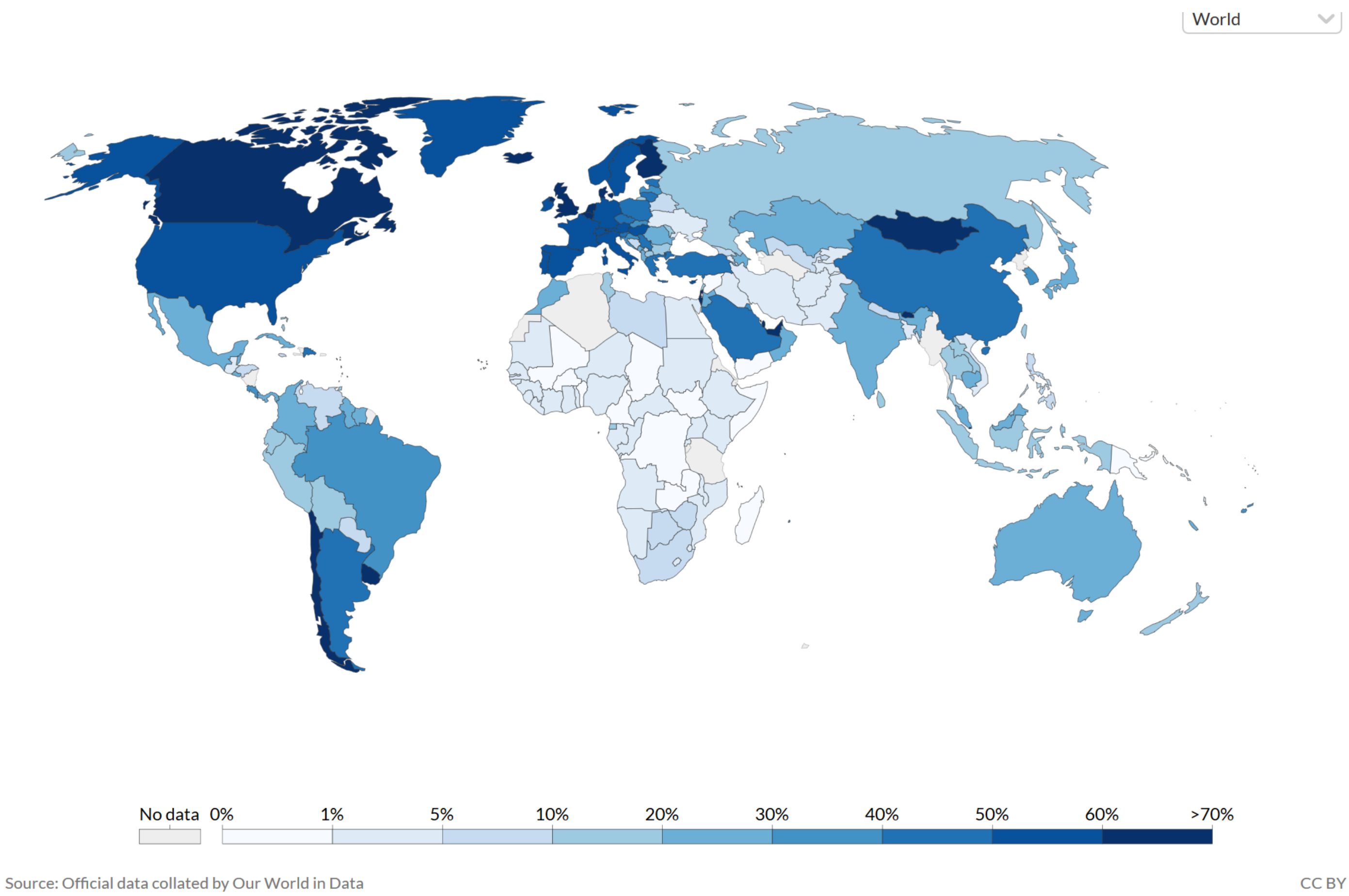
STAR INVESTMENT PARTNERS

Crypto Crackdown

Over the quarter we saw Chinese officials take a stand against crypto assets. The Chinese government barred any licensed entity from conducting any crypto related business. This led to other governments speaking out as well, most notably US lawmakers called for Crypto based assets to be more heavily regulated for tax & anti-money laundering purposes. This sent crypto assets and currencies plunging, the most notable being Bitcoin, which lost roughly 38% of its value in May. June did not bring any respite to crypto traders, with Bitcoin falling further, bringing the quarterly return to (42%).

The global Covid-19 vaccine drive has been moving ahead at a steady pace, the caveat being that there are significant disparities between developed nations and emerging economies. Britain and the US have largely seen a return to pre-pandemic life, this has been evident with New York dropping all outdoor restrictions and the UK putting an end to all restrictions early in the third quarter.

The map below shows the percentage of each country's population that has received at least one vaccine. To access an interactive online version of this map, please click here.



ANNEXURE A

Asset Class Performance (ZAR)

As of 30 June 2021	MTD	QTD	YTD	1 Year	3 Years*	5 Years*	10 Years
Global Equity – MSCI ACWI	5.35	3.74	9.85	16.49	16.36	14.55	19.01
Global Property - FTSE EPRA Nareit DR	5.16	6.59	13.31	11.57	9.42	5.15	16.11
Global Bond - JPM GBI Global Traded	3.22	(2.27)	(7.30)	(17.83)	5.02	1.05	9.44
Global Cash - ICE LIBOR 1 Month	4.08	(3.28)	(2.74)	(17.71)	2.73	0.76	8.54
SA Equity - FTSE/JSE All Share	(2.43)	0.05	13.20	25.07	8.09	8.11	10.92
SA Property - FTSE/JSE SA Listed Prop	3.37	12.12	19.30	25.17	(8.86)	(6.85)	5.08
SA Bond – FTSE/JSE ALBI	1.09	6.86	5.00	13.67	9.24	9.16	8.53
SA Cash - STeFI Call Deposit	0.28	0.86	1.72	3.54	5.39	5.97	5.69

Asset Class Performance (USD)

As of 30 June 2021	MTD	QTD	YTD	1 Year	3 Years*	5 Years*	10 Years
Global Equity – MSCI ACWI	1.22	7.29	13.00	41.75	14.79	15.13	10.46
Global Property - FTSE EPRA Nareit DR	1.04	10.23	16.57	35.76	7.94	5.69	7.77
Global Bond - JPM GBI Global Traded	(0.82)	1.07	(4.64)	(0.01)	3.60	1.57	1.58
Global Cash - ICE LIBOR 1 Month	0.01	0.02	0.05	0.13	1.33	1.27	0.75
SA Equity - FTSE/JSE All Share	(6.25)	3.46	16.45	52.19	6.63	8.66	2.96
SA Property - FTSE/JSE SA Listed Prop	(0.68)	15.95	22.73	52.31	(10.09)	(6.38)	(2.46)
SA Bond – FTSE/JSE ALBI	(2.86)	10.50	8.01	38.32	7.76	9.72	0.74
SA Cash - STeFI Call Deposit	(3.64)	4.31	4.65	25.99	3.96	6.50	(1.89)

STAR INVESTMENT PARTNERS

Historic Asset Class Performance Matrix

The below performance matrix shows returns (colour coded) for the 4 main indicative sources of return per asset class and separated for SA and Global. All performance figures here shown in ZAR. The performances show the one-year performance of each asset class up to the displayed date (X-axis) except for the column showing YTD returns up to 30 June 2021.

	YTD	2021/06	2020/06	2019/06	2018/06	2017/06	2016/06	2015/06	2014/06	2013/06	2012/06	2011/06	2010/06
Best	SA Property 19.3	SA Property 25.2	Global Fixed Income 29.7	Global Property 11.8	Global Equity 16.9	SA Fixed Income 7.9	Global Property 42.5	SA Property 27.0	Global Equity 32.9	Global Equity 42.9	SA Property 26.3	SA Equity 24.6	Global Property 36.5
	Global Property 13.3	SA Equity 25.1	Global Equity 25.2	SA Fixed Income 11.5	SA Equity 15.0	Global Equity 7.1	Global Fixed Income 34.6	Global Equity 15.6	SA Equity 32.7	Global Property 34.5	Global Property 25.9	Global Property 23.2	SA Property 29.0
	SA Equity 13.2	Global Equity 16.5	Global Cash 25.0	Global Fixed Income 8.7	Global Property 11.2	SA Cash 7.0	Global Cash 21.1	Global Property 15.3	Global Property 24.5	SA Property 24.0	Global Fixed Income 25.0	SA Property 20.5	SA Equity 21.8
	Global Equity 9.8	SA Fixed Income 13.7	SA Cash 6.0	Global Equity 8.0	SA Fixed Income 10.2	SA Property 2.8	Global Equity 16.6	Global Cash 14.3	Global Fixed Income 14.1	Global Cash 21.7	Global Cash 20.9	Global Equity 16.4	Global Equity 12.8
	SA Fixed Income 5.0	Global Property 11.6	Global Property 5.0	SA Cash 6.6	SA Cash 6.7	SA Equity 1.7	SA Property 11.0	SA Fixed Income 8.2	Global Cash 7.3	SA Equity 21.0	SA Fixed Income 14.6	SA Fixed Income 11.3	SA Fixed Income 9.9
	SA Cash 1.7	SA Cash 3.5	SA Fixed Income 2.8	Global Cash 5.4	Global Fixed Income 6.4	Global Cash -9.9	SA Cash 6.3	SA Cash 5.6	SA Property 6.0	Global Fixed Income 15.4	Global Equity 12.9	SA Cash 5.6	SA Cash 6.8
	Global Cash -2.7	Global Cash -17.7	SA Equity -3.3	SA Equity 4.4	Global Cash 6.3	Global Property -11.8	SA Fixed Income 5.2	Global Fixed Income 5.6	SA Fixed Income 5.5	SA Fixed Income 6.2	SA Equity 9.2	Global Fixed Income -2.6	Global Fixed Income 3.5
Worst	Global Fixed Income -7.3	Global Fixed Income -17.8	SA Property -40.0	SA Property 0.8	SA Property -9.9	Global Fixed Income -14.5	SA Equity 3.8	SA Equity 4.8	SA Cash 5.0	SA Cash 4.8	SA Cash 5.3	Global Cash -11.3	Global Cash -0.5

Source: Morningstar Direct