

Market Overview

September 2020

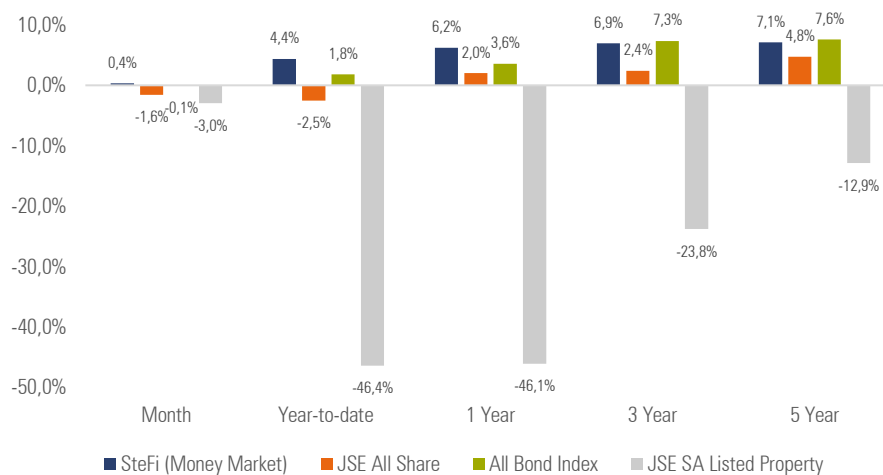
Market and economic summary

Global equity markets ended September lower, as concerns over a second wave of Covid-19 infections across Europe and the possibility of a recurrence of infections in the US winter weighed on sentiment.

US politics took centre stage during the month, ahead of what is likely to be hotly contested US Presidential Election in November. The first presidential debate between US President Donald Trump and Democratic nominee Joe Biden, was marred by President Trump refusing to declare that he will accept the election result if he loses.

The US Federal Reserve left interest rates unchanged at its meeting midway through the month, indicating that they expect interest rates to remain close to zero through 2023, further reinforcing an increased tolerance for inflation in the medium term.

Exhibit 1: SA Market Performance (total returns)



Source: Morningstar Direct as at 30/09/2020. Returns are in South African Rand and have been annualised for periods longer than 1 year.

South African equities tracked global markets lower during the month, weighed down by poor performance from some large industrial and resource shares, despite strong performance from the local banking sector.

Local bonds ended the month largely flat, as appetite for emerging market debt remained subdued, despite the attractive yields on offer.

Local listed property continued to face headwinds from uncertainty regarding earnings and distributions, which has deterred investment in the asset class due to the historical reliance on income as a source of return.

The rand was stronger against most major developed market currencies for the month, which detracted from the contribution of the performance of global asset classes.

South Africa moved to a level 1 lockdown on 21 September, as daily local Covid-19 infections continued to decline during the month and the recovery rate improved to a figure of around 90%.

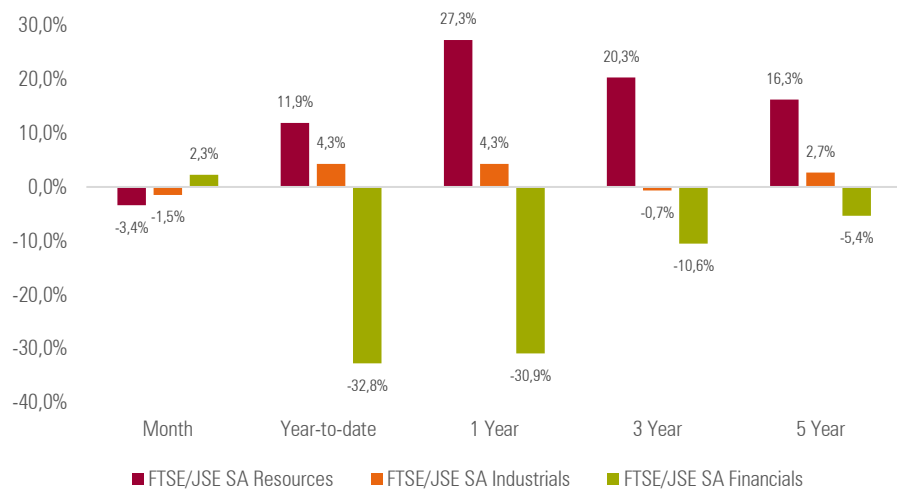
SA's Q2 2020 GDP data was released during the month, indicating that GDP fell 17.1% year-on-year for the second quarter, as the hard lockdown took its toll on the local economy.

South African Reserve Bank Governor Lesetja Kganyago announced that the Monetary Policy Committee has decided to leave the repo rate unchanged at 3.5%. The decision by the MPC was split, with 2 of the 5 members favouring an interest rate cut.

SA headline CPI fell to a year-on-year figure of 3.1% to the end of August (from 3.2% in July), close to the bottom end of the target range of between 3% and 6%.

From a local equity sector perspective, **Financials** (+2.3%) was the standout performer, while both **Industrials** (-1.5%) and **Resources** (-3.4%) ended the month lower.

Exhibit 2: SA Sector Performance (total returns)



Source: Morningstar Direct as at 30/09/2020. Returns are in South African Rand and have been annualised for periods longer than 1 year.

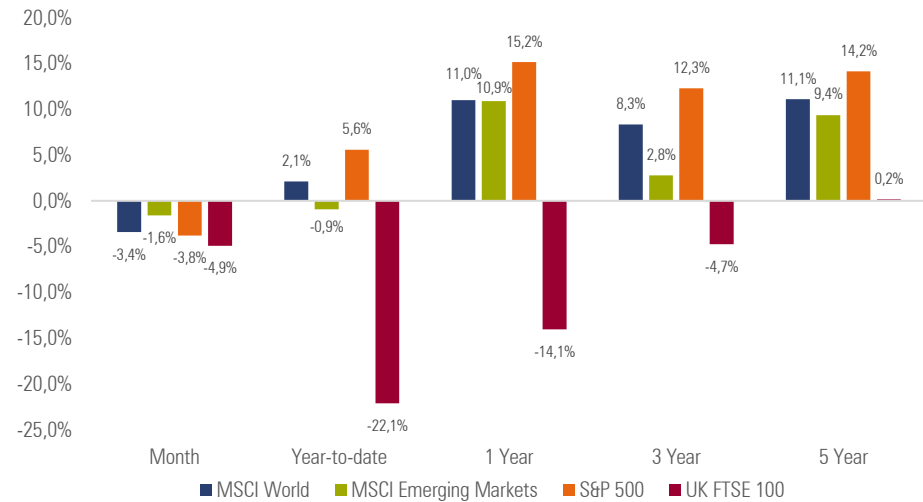
Most major developed equity markets ended the month lower, as concerns around Covid-19 infection rates and US political infighting weighed on sentiment. The **MSCI World Index** delivered a return of -3.4% for the month.

Emerging market equities outperformed developed markets slightly over the month, however, most emerging markets still struggled to generate positive returns. The **MSCI Emerging Markets Index** delivered a return of -1.6% for the month.

Most major equity markets ended the month in the red, with Germany's **FSE DAX** (-3.4%), China's **Shanghai SE Composite** (-4.6%) and the UK's **FTSE 100** (-4.9%) all ending the month lower. Japan's **Nikkei 225** (+1.3%) bucked the trend slightly, ending the month higher.

US equities also ended the month with poor performance, with both the tech heavy **NASDAQ 100** (-5.7%) and the **S&P 500** (-3.8%) ending the month lower. Technology names in the FAANG complex, including Facebook (-10.7%), Apple (-10.3%), Amazon (-8.8%), Netflix (-5.6%) and Google/Alphabet (-10.1%) came under pressure during the month.

Exhibit 3: International Market Performance (total returns)



Source: Morningstar Direct as at 30/09/2020. Returns are in US dollars and have been annualised for periods longer than 1 year.

Impact on client portfolios

Most portfolios struggled to generate positive returns for the month, weighed down by poor performance from both local and global equities. The performance of portfolios was largely dependent on the level of equity exposure, with those portfolios having significant allocations to risk assets underperforming those with more of an income focus. Portfolios with an income focus managed to eke out positive returns, despite flat performance from the local bond market.

The global market environment continues to be noisy, which is likely to continue into the fourth quarter of the year. Fluctuating Covid-19 infection rates and the US Presidential Election in November are likely to dominate news headlines for the next three months. We concede that these are important events, however, we would encourage investors not to make investment decisions based on the expected outcome of any event. News headlines can act as a distraction and impede investors from achieving their goals and we would encourage investors to continue to look through the short-term noise and focus on the long term.

Local Market Indices	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
JSE All Share	-1,58	-2,51	2,01	2,39	4,75	6,22
JSE SA Listed Property	-2,97	-46,38	-46,07	-23,80	-12,85	-4,43
All Bond Index	-0,05	1,82	3,58	7,33	7,57	7,24
STeFI (Cash)	0,35	4,38	6,20	6,93	7,11	6,80
Local Market Sectors	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
JSE Top 40	-1,67	1,00	5,59	3,57	5,26	6,58
JSE Mid Cap	1,31	-24,68	-14,96	-4,28	0,87	3,25
JSE Small Cap	0,78	-18,20	-17,60	-11,46	-4,45	0,05
FTSE/JSE SA Resources	-3,39	11,89	27,31	20,34	16,27	5,38
FTSE/JSE Ind/Financials	2,27	-32,80	-30,91	-10,56	-5,38	1,49
FTSE/JSE SA Industrials	-1,47	4,31	4,31	-0,66	2,70	6,37
Global Market Indices	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
MSCI World	-3,41	2,12	10,99	8,33	11,10	8,95
MSCI Emerging Markets	-1,58	-0,91	10,91	2,79	9,37	4,12
S&P 500	-3,80	5,57	15,15	12,28	14,15	12,68
NASDAQ 100	-5,67	31,65	48,75	25,36	23,63	21,22
FTSE 100	-4,93	-22,14	-14,05	-4,74	0,16	-0,73
SSE Composite	-4,62	7,91	16,10	-2,14	-0,32	4,16
Nikkei 225	1,30	2,73	11,29	8,89	10,80	7,90
FSE DAX	-3,35	0,62	10,44	-0,45	6,77	3,66
US T-Bill 3m	0,01	0,36	0,77	1,62	1,17	0,85
Commodities	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
Oil Price Brent Crude	-9,56	-37,95	-32,63	-10,72	-3,28	-13,01
Gold	-3,60	24,57	27,04	13,72	11,12	5,16
Platinum	-4,95	-7,14	-1,78	-1,32	-0,53	-6,46
Copper	-1,75	7,38	15,41	0,64	5,35	-1,39

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