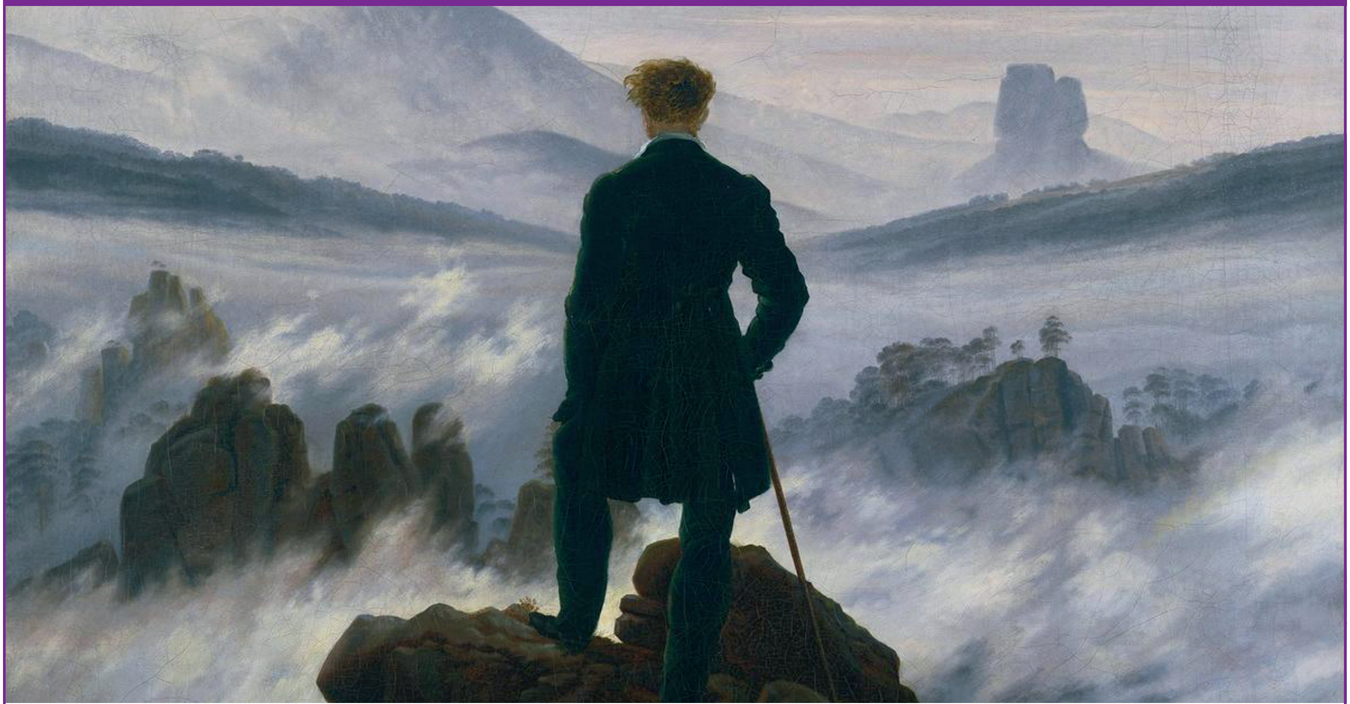
Market Update

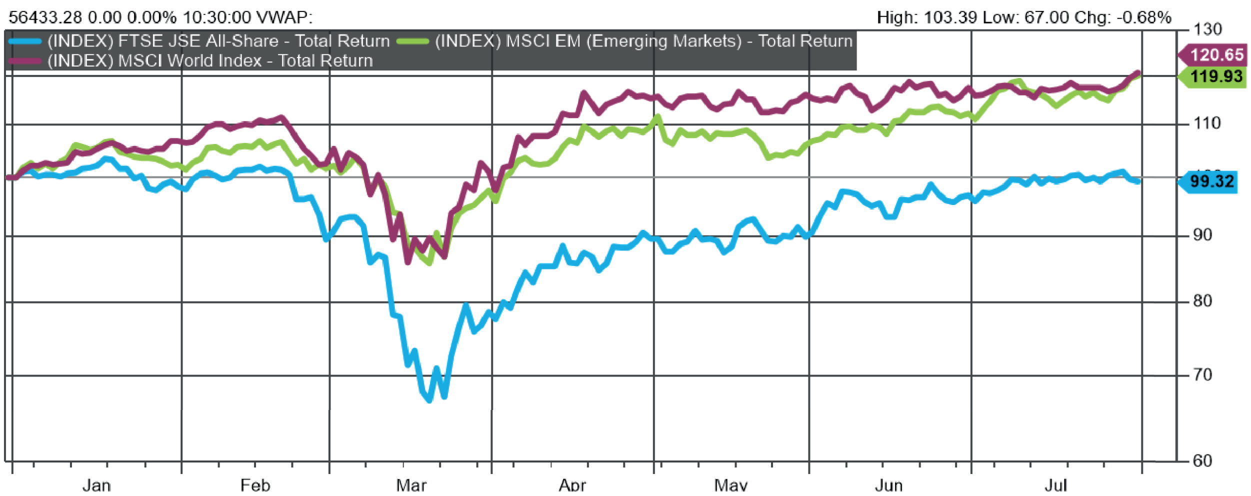
July 2020



Overview

Global equity markets surprised on the upside with the MSCI Emerging Market Index comfortably outperforming the MSCI World Index returning 8.9% and 4.8% respectively. This even though underlying economic data remained cause for concern as the Covid-19 pandemic continued to sweep across the globe and many economies remained in some form of lockdown. Markets remained buoyant, underpinned by continued support from central banks and substantial government stimulus measures.

FTSE JSE ALL-Share **Daily**



Source: Factset/GTC

GLOBAL

U.S.

The severity of the economic impact of the coronavirus was amply demonstrated by the US GDP for Q2 declining by an annualised rate of 32.9% compared with the previous quarter. While this confirms the extent of the economic decline, investors have been more focused on the recovery aspects displayed by some economic data. US retail sales grew 5.6% in June following on the record rise of 8.5% in May driven largely by those unemployed receiving support measures from the US government. It provided $1,200 stimulus cheques as well as $600 per week in unemployment benefits. As consumer spend is the main driver of U.S. GDP these relief measures helped keep the economy ticking over. The S&P 500 returned 5.6%.

U.S. equities continued to gain with robust earnings from Amazon, Apple and Facebook exceeding market expectations and helping improve market sentiment. The Federal Reserve kept its key policy rate unchanged but at the same time issued a note of caution indicating that economic recovery was likely to be slower than expected. However, the Bank remains resolute in its intention to provide whatever is necessary in terms of fiscal policy support to return the economy to full production.

Initial jobless claims rose significantly to 1.4 million but there was a decline in continued claims to 16.2 million. With the $600 weekly unemployment benefit ending this month, further relief measures from Congress are expected despite the current impasse between the major political parties. Energy stocks eased on the back of the sharp decline in the oil price. There has been a sharp deterioration in U.S./China relations which has been exacerbated by the imposition of new security laws in Hong Kong.

Eurozone

The MSCI EMU returned a negative -1.4% for the month confirming the severity of the downturn in economic activity in Q2. Fears of a possible second wave of the coronavirus pandemic unnerved investors and market sentiment remained for the most part negative. Eurozone GDP for Q2 contracted -12.1% with German GDP down -10.1%.

Some earnings numbers from technology and industrial companies displayed an uptick in economic activity but the market was dragged down by energy and financial counters. Eurozone PMI increased from June's 48.5 to 54.8 in July indicative of a more optimistic view for the economies going forward. Of major significance was the announcement by the EU of the scale of the recovery fund which was approved after protracted and at times fiery negotiation. The fund will consist of Euro 390 billion in grants and Euro 360 billion in loans.

The magnitude of this recovery package is likely to have a marked effect on particularly those economies worst impacted by the coronavirus.

Business confidence reached a 5-month high. German business confidence rose by 4.2 points from the previous month to a five-month high of 90.5 in July recovering from an all-time low reached in April and beating market expectations of 89.3. The gauge measuring companies' expectations for the coming months improved considerably to 97.0 vs 91.6 in June. Germany is South Africa's second biggest trading partner.

U.K.

Despite an improvement in economic data in the later part of Q2 , increasing numbers of coronavirus infections put the brakes on what had been an uptick in economic activity. Several economically sensitive areas of the market underperformed as investor sentiment waned amid concern of a possible increase in lockdowns throughout the country.

Economic data confirmed that the UK economy had begun to recover in May with the easing of lockdown restrictions. The latest monthly estimate of GDP indicated that the economy had grown by 1.8% in May, compared to a contraction of -20.3% in April. Buoyant retail sales for June indicated some sign of an improving economy.

EMERGING MARKETS

Emerging market equities performed strongly in July. This despite further acceleration in new cases of Covid-19 in certain EM countries and a major escalation in US-China relations. Tensions between the US and China escalated after Washington ordered Beijing to close its Houston consulate, with Chinese officials strongly condemning the move and threatening retaliation.US dollar weakness and continuing improvement in economic data following ongoing monetary and fiscal support, lifted market sentiment.

The Chinese economy grew 3.2% y/y in Q2 of 2020, reversing a -6.8% contraction in Q1 and beating market consensus of 2.5% growth amid relaxed lockdown measures.

China's economic recovery is vulnerable to losing momentum as key trading partners struggle with resurgences of the deadly coronavirus and resort to fresh measures to control its spread. Exports from China increased by 0.5% y/y in June after a -3.3% decline in the previous month and beating market expectations of a -1.5% decline. China remains South Africa's biggest trading partner.

DOMESTIC

In line with global markets the FTSE/JSE SWIX Index rose for the month returning 2.4% in total return terms. Market volatility was pronounced as news of vaccine developments ebbed and flowed and U.S./ China relations blew hot and cold. Despite the market improvement the FTSE/JSE SWIX Index remained in negative territory for the year to date returning a negative -4.1%. Over the month the Resources Index was the best performer returning 8.3% while the Property Index delivered a negative -3.2%. The JSE All Bond Index delivered 0.6%. The Rand declined to R17.06/$.

CPI rose to 2.2% y/y in June from a low of 2.1% in May. On a m/m basis the consumer price index was 0.5% in June from -0.6% in May. Core inflation, which excludes prices of food, non-alcoholic beverages, fuel and energy was 3.0% y/y in June compared with 3.1% in May. On a m/m basis core inflation rose 0.3% from -0.2% in May.

The government will have to spend an addition R37.8 billion this year if it is to fulfill a 2018 agreement to give civil servants above-inflation increases. National Treasury has told the courts that the government cannot afford it and it would be a debt for future generations to pay.

Government has gazetted details of 51 infrastructure projects that have been declared strategically important and will be fast-tracked to secure the necessary approvals. Of the R340 billion needed to develop the projects, the necessary sovereign guarantees and approvals for increased borrowing have been secured. These projects will hopefully assist in a post coronavirus economic recovery.

The International Monetary Fund has agreed to extend a R70 billion loan to support South Africa's response to the impacts of Covid-19 on the economy. S.A. will only start repaying the loan in 2023. It is payable over 3.25 to five years at 1.1% interest. It must be repaid in eight equal installments. SA has told the IMF that it will seek consensus within the government to introduce a "debt ceiling", which will set a self-imposed limitation on how much the government can borrow in the future.

Eskom has started to repair the design flaws at all twelve units of Medupi and Kusile (six each) power stations. It costs R300 million to fix one unit and means that each unit is out of action for more than four months. Units 3 and 6 at Medupi have now been modified.

Mining production decreased by -29,8% y/y in May 2020. The largest contributors were iron ore, PGMs and manganese ore. Seasonally adjusted mining production increased by 44,0% in May 2020 compared with April 2020. This followed month-on-month changes of -36,8% in April 2020 and -19,3% in March 2020.

Given the high uncertainty around the outlook for the virus and the hoped for development of a vaccine we continue to encourage clients to maintain their current investment strategy in line with their long term investment objectives.

July investment market returns (%)	1M	3M	YTD	1YR	3YR	5YR	7YR	10YR
Local Equity (SWIX)	2.37	9.57	-4.10	-1.69	0.72	2.59	6.91	9.99
Local Listed Property	-3.19	8.97	-39.55	-41.19	-20.18	-10.55	-2.37	3.67
Local Money Market	0.44	1.41	3.71	6.77	7.15	7.20	6.82	6.48
Local Bonds	0.61	6.44	0.97	4.25	7.79	7.40	7.49	7.93
Global Developed Shares in USD	4.78	12.75	-1.26	7.23	7.52	7.52	8.31	9.61
Global Emerging Shares in USD	8.94	17.84	-1.72	6.55	2.84	6.15	4.34	3.33
Global Bonds in USD	3.63	4.50	7.86	8.91	4.59	4.34	2.54	2.36
Oil in USD	5.20	54.71	-39.57	-34.54	-3.57	-8.00	-15.66	-7.63
Rand vs. USD	2.03	7.85	-17.88	-16.77	-8.15	-5.82	-7.44	-8.12

Above indices returns are gross of fees.

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