Market Update

August 2020

Overview

Global markets advanced on a broad front in August buoyed by hopes of an early breakthrough in terms of an effective vaccine to counter the Covid-19 pandemic. Markets in the U.S.A. forged ahead in spite of a serious escalation in cases of coronavirus with most indices reaching all-time highs. Markets remained surprisingly positive underpinned by continued support from central banks and substantial government stimulus.

The MSCI World Index comfortably outperformed the MSCI Emerging Market Index, returning 6.7% and 2.2% respectively, both in dollar terms.

Major U.S. Indices reached new record highs. Economic data continued to demonstrate the massively negative impact that the Covid-19 pandemic wreaked on the country. Wall Street was at a total disconnect with economic reality.

Eurozone equities improved with the top performers being the economically sensitive areas of consumer discretionary and industrials. Concerns rose sharply around renewed Covid-19 infections particularly in France and Spain.

U.K. shares also delivered positive results with domestic facing small and midcap counters leading the recovery. Economic data pointed to a reasonable recovery in Q3.

The Japanese market quickly regained the ground lost at the end of July and returned a healthy 8.2%. The index for leading economic indicators rose to 86.9 in July from 84.4 a month earlier. Shinzo Abe announced his resignation as prime minister citing a long standing health problem.

Emerging market equities recorded positive returns but lagged developed markets performance. Hopes for an early breakthrough in developing a Covid-19 vaccine increased.

The JSE delivered a totally lackluster performance with most sectors delivering negative returns for the month. Political infighting, corruption and load-shedding by Eskom continued to haunt the market.

Investor sentiment and risk appetite for global bonds improved in August. Government bond yields rose and the US dollar continued to decline, while corporate and emerging market bonds performed well.

Global - Slow recovery

U.S.

U.S. equities delivered stellar performance with the S&P 500, the Dow Jones Industrial and the NASDAQ all reaching record new levels. The S&P 500 returned 7.2% and the Dow Jones 7.6%. U.S./China tensions continued to escalate moving from rhetoric to closing consulates and banning individuals. Whilst economic data remained very patchy it continued to demonstrate a mild improvement but a slowed recovery.

The Federal Reserve signaled its intention to offer further monetary stimulus to the economy if necessary and indicated a move to ensure increased flexibility in this regard by adjusting its measurement of inflation.

Although the Fed sees inflation remaining benign, it is adopting average inflation targeting to provide for tolerance should the inflation rate exceed 2%. Sector performance was dominated by the IT sector followed by industrials and consumer discretionary. Energy stocks and utilities were the weakest performers alongside real estate.

Eurozone

European equities advanced with the MSCI EMU Index delivering 3.5%. However, the recovery was somewhat pedestrian when compared to the U.S. Economic data confirmed that the eurozone economy contracted by -10.1% in Q2 with the German economy's decline being lowered to -9.7%. In order to underpin economic recovery, the German government has extended it scheme to top up pay for workers affected by the pandemic to the end of 2021.

Considerable unease was evident throughout the region as Covid-19 infections continued to bubble to the surface particularly in Spain and France while some countries imposed travel restrictions. Recovery momentum was sluggish with the purchasing manager's index for August coming in at 51.6 compared to the previous month's 54.9.

U.K.

U.K. equities improved over the month albeit at a slower pace and the FTSE All Share returned 2.4%. A seasonal rebound in economic activity coupled with declining new Covid-19 infections as well as increased fiscal stimulus points to an improved economic recovery in Q3.

These factors were supportive of small and midcap equities which resulted in the market recouping some of its July losses which were aggravated by fears surrounding a possible second wave of Covid-19 infections.

Domestically focused equities outperformed as sterling strength vis-a vis the dollar impacted internationally exposed large caps.

Latest economic data confirmed that the U.K. economy had in fact entered a technical recession but investors were cheered by the fact that GDP had recovered 8.7% in June and that the outlook for Q3 growth was encouraging.

Asia - Emerging Markets

Aided by hopes of an early Covid-19 vaccine breakthrough together with positive economic data Chinese and emerging market equities performed well over the month.

Both Hong Kong and Shanghai indices rose, boosted by a steady decline in the rate of Covid-19 infections as well as positive Chinese economic data.
Chinese exports expanded strongly and Q2 earnings from major companies surprised on the upside.

Rising tensions regarding trade with the U.S. impacted negatively on the market with the sanctions against telecommunications giant Huawei causing some alarm. Nevertheless, China's commitment to Phase 1 of the China/US trade deal remains intact.

Domestic - The price of corruption

Continued political uncertainty in terms of ANC infighting and the ongoing and very concerning viability of Eskom as the major supplier of our electricity resulted in the local market bumbling along and lacking any real direction. The FTSE/JSE All Share SWIX returned a negative -1.0% for the month with the Industrial Index limping in with a positive return of 0.5%.

The worst performer was the Property Index which was down -8.6% followed by the Financials Index which was down -4.3%. The ALBI returned 0.9% whilst the Rand closed at R16.94/$.

The economy has bottomed out from the sharp contraction in activity when it came to a near stand-still in April due to the lockdown. Although the recovery is underway, it is significantly weaker than what it could've been had government stimulus been introduced sooner. The resumption of load shedding, the weak demand environment, and the lack of clarity on policy reform exacerbate the problem.

The government plans to revive and increase the use of public private partnerships and other mechanisms to partner with the private sector to deliver its planned massive R2.3 trillion infrastructure investment programme.

South Africa may be the first in Africa to produce Covid-19 vaccine. The Coalition for Epidemic Preparedness Innovations, a global organisation funding vaccine development, is considering the Cape Town-based Biovac Institute as a fill- finish site. The state vaccine company is one of a few in the country that has the capacity to package doses into sterile dispensers, if clinical trials are successful.

South Africa's headline consumer inflation rose to 3.2% year-on-year in July from 2.2% in June. On a m/m basis, the consumer price index was at 1.3% in July from 0.5% in the previous month. Core inflation was also 3.2% y/y in July compared with a rate of 3.0% in June.

The core interventions of the R500 billion corona virus aid package have failed to have the desired impact.

Where government used existing infrastructure, such as the top-ups to social grants, this has been more effective than areas where it tried to create new channels to respond via the loan guarantee scheme and the special R350 unemployment grant.

The R200 billion loan scheme guaranteed by National Treasury and administered through the banks has been disappointing.

The advent of a second wave of Covid-19 in Europe reminds us that the global battle over the pandemic is far from over and until a vaccine is widely available, economies will likely remain constrained by measures aimed at slowing the spread of the disease.

To maintain economic impetus governments need to continue to support consumer incomes and businesses until a vaccine is available. The extent to which they do so will be key to global economic growth going forward.

Aug investment market returns (%)	1M	3M	YTD	1YR	3YR	5YR	7YR	10YR
Local Equity (SWIX)	-1.03	9.50	-5.09	-0.20	-0.42	3.02	6.45	10.21
Local Listed Property	-8.59	0.36	-44.74	-44.25	-22.73	-12.18	-3.12	2.44
Local Money Market	0.40	1.31	4.12	6.55	7.08	7.17	6.82	6.46
Local Bonds	0.89	0.35	1.87	4.18	7.74	7.56	7.84	7.71
Global Developed Shares in USD	6.68	14.74	5.34	16.79	9.82	10.42	9.65	10.74
Global Emerging Shares in USD	2.21	19.53	0.45	14.49	2.83	8.66	4.92	3.76
Global Bonds in USD	-0.45	3.82	7.38	5.61	4.02	4.15	2.54	2.12
Oil in USD	3.27	17.49	-37.60	-26.47	-2.55	-7.90	-15.94	-6.84
Rand vs. USD	0.52	4.06	-17.46	-10.37	-8.45	-4.78	-6.94	-7.98

Above indices returns are gross of fees.

Contact us

Head - Investment Analytics
Clive Eggers
T +27 (0) 21 412-1062
E ceggers@gtc.co.za

Analyst - Investment Analytics
Samir Narotam
T +27 (0) 10 597-6826
E snarotam@gtc.co.za

Head - Healthcare
Jillian Larkan
T +27 (0) 21 412-1062
E jlarkan@gtc.co.za

Head - Employee Benefits Administration
Nadira Sarang
T +27 (0) 21 713-8500
E nsarang@gtc.co.za

Private Client Wealth Management
Jenny Williams
T +27 (0) 10 597-6840
E jwilliams@gtc.co.za

Employee Benefits Consulting
Toy Otto
T +27 (0) 10 597-6861
E totto@gtc.co.za

Managing Director - Risk Solutions
Roy Wright
T +27 (0) 21 286-0037
E rwright@gtc.co.za

Group Chief Operating Officer
Farhadh Dildar
T +27 (0) 10 597-6830
E fdildar@gtc.co.za

Group Chief Executive Officer
Gary Mockler
T +27 (0) 10 597-6831
E ceo@gtc.co.za

Head - Finance
Andrea Diamond
T +27 (0) 10 597-6877
E adiamond@gtc.co.za

Compliance Officer
Dale Nussey
T +27 (0) 10 597-6828
E dnussey@gtc.co.za

Director - Asset Management
Manty Seligman
T +27 (0) 10 597-6800
E mseligman@gtc.co.za

formerly Grant Thornton Capital

a GTC, The Wanderers Office Park,
52 Corlett Drive, Illovo, 2196
p P O Box 55118, Illovo, 2116

t +27 (0) 10 597 6800
e info@gtc.co.za
w www.gtc.co.za

GTC (Pty) Ltd.
reg. no. 1996/001488/07
directors: G.K. Mockler, F Dildar

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