

# Trendline

## Fourth quarter 2020



### Market commentary

The FTSE/JSE All Share Index (ALSI) experienced a volatile 2020 as fear around the rapid spread of the coronavirus wreaked havoc on global markets. Stimulus and relief measures taken by global central banks to support the financial markets have greatly aided in the global equity market recovery. The fourth quarter saw a substantial up-tick in investor sentiment and increased risk appetite which put the US dollar under significant pressure. Over the medium term, the domestic equity market returns remain muted delivering 0.58% over the year and -1.48% over the 3 year periods to December 2020.

The South African markets posted strong performance over the final quarter of 2020 continuing their recovery from the March lows. The FTSE/JSE ALSI returned nearly 10% while the FTSE/JSE Capped Shareholder Weighted Index (SWIX) delivered 11.5% over the quarter spurred on by some notable global macro events including the US presidential election and successful vaccine developments.

With the rotation back into undervalued stocks over the quarter, financials rallied significantly up over 20% as banks proved to be more resilient than expected. Resources continued to do well, almost 8% over the quarter as miners benefited from strong Chinese demand and overall limited global supply. Industrials returned 7.4% benefiting from and hedge shares and their exposure to strong economies.

The South African Reserve Bank's monetary policy committee kept the interest rate unchanged at 3.5% at their final meeting of 2020 even as it revised down its forecast for growth. While underlying economic conditions are easing, South Africa's recovery remains challenging. Even though inflation is under control at 3.3%, a clear and strong shift to growth is needed. The key here is growth at sustainable debt levels. The local bond market delivered 6.71% over the quarter, well in excess of cash at 0.97%.

Developed markets gained over the quarter in dollar terms, with November's performance notably strong due to the vaccine news. Overall, Joe Biden's win in the US presidential election, the \$900 billion stimulus package and successful vaccine developments drove US equity markets up considerably which further boosted returns of the MSCI Developed World Index to some 14%.

The US Federal Reserve stated that it will continue with current levels of quantitative easing and keep interest rates low. The European Central bank provided a similar message as they approved the landmark €1.8 trillion budget package which included a €750 billion recovery fund. Developed markets lost some momentum in December due to a resurgence of new Covid-19 cases which resulted in renewed lockdown measures.

Emerging markets were the star performers for the quarter with US dollar weakness magnifying gains. In dollar terms, the MSCI Emerging Market Index delivered almost 20% over the quarter, its strongest performance in over a decade which also saw it outperform the MSCI Developed World Index.

An improvement to investor risk appetite due to successful vaccine news, and the rally in commodity prices contributed significantly to the performance of emerging markets. As with developed markets, emerging markets have seen a resurgence of new Covid-19 cases, in part because of a new strain of the virus. This has added additional pressure to the already overwhelmed health care and financial sectors of emerging markets. Market volatility remains elevated as participants search for signs of a recovery to pre-Covid-19 levels.

### Investment market returns as at December 2020

| Investment market returns (%)  | 1M    | 3M     | 1YR    | 3YR    | 5YR   | 7YR    | 10YR  |
|--------------------------------|-------|--------|--------|--------|-------|--------|-------|
| Local Equity (SWIX)            | 5.47  | 11.48  | 0.58   | -1.48  | 3.21  | 4.81   | 8.48  |
| Local Listed Property          | 13.68 | 22.19  | -34.49 | -20.68 | -8.41 | -1.79  | 3.52  |
| Local Money Market             | 0.31  | 0.97   | 5.39   | 6.46   | 6.97  | 6.74   | 6.36  |
| Local Bonds                    | 2.44  | 6.71   | 8.65   | 8.88   | 10.43 | 8.22   | 8.24  |
| Global Developed Shares in USD | 4.24  | 13.96  | 15.90  | 10.54  | 12.19 | 9.18   | 9.87  |
| Global Emerging Shares in USD  | 7.35  | 19.70  | 18.31  | 6.17   | 12.80 | 6.17   | 3.63  |
| Global Bonds in USD            | 1.36  | 2.77   | 10.11  | 4.96   | 4.77  | 2.78   | 2.32  |
| Oil in USD                     | 8.04  | 19.45  | -31.55 | -7.56  | 2.50  | -14.92 | -7.99 |
| Rand vs. USD                   | -4.45 | -12.91 | 4.79   | 5.78   | 3.92  | 7.58   | 9.20  |

All returns greater than 1 year are annualised

## Change is coming - Annuitisation of Provident Funds

The **Taxation Laws Amendment Act** seeks to align the annuitisation of pension, provident and retirement annuity funds. The new legislation, effective from **1 March 2021** (referred to as **T-Day**), supports the Government's policy of encouraging members of retirement funds to secure a post-retirement income in the form of an annuity.

This update on the legislation changes details how **T-Day** will affect the payment of retirement benefits from provident funds. Our YouTube video, **Harmonisation of Provident Funds** is available to retirement fund members, their employers and all other interested parties.

**Contact us** if you would like further information on this legislative change, which will in time affect all retirement fund members.

Please **click here** to review a copy of GTC's update on the Annuitisation of Provident Funds retirement payments.



## The importance of annually reviewing your Financial Wellness Plan

The **success of a financial wellness plan** is dependent on several factors. An investor needs to have a **clear objective** of what they are trying to achieve financially, and over what **period** this investment should accumulate, and thereafter to provide for this.

Once these important criteria have been established, the desired - and required - risk parameters, building mechanisms and safety features must then be agreed and documented. This is the easy part...

Maintaining this financial plan, particularly when external investment circumstances seem to dictate otherwise, avoiding prejudice, sentiment, and herd mentality, are all requirements that need to be met (on an ongoing basis). Whilst these criteria may have seemed easy to define at the beginning, maintaining this discipline in the heat of the moment is far harder.

Additionally, circumstances seldom prevail based on the assumptions initially forecast. Continually stress testing "The Plan" for continued relevance and adherence to core principals is as much an art as it is a science. From a GTC perspective, **speaking candidly and honestly**, when it may be far easier to adopt a populist view, is a business requirement of us.

Through all of the complexities of being a professional financial advisory practice, many of which involve subjective disciplines, the one fact that we believe is indisputable is that unbiased, properly researched, impartial, statistical and empirical data, together with investment knowledge and experience, is key to the sustainable construction of a financial plan.

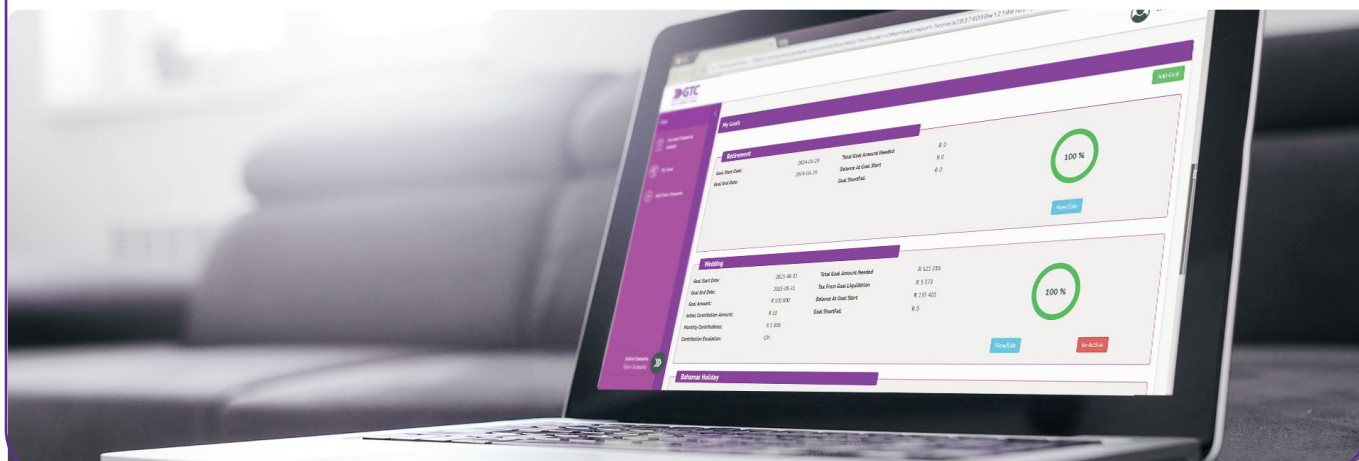
GTC uses the best technologically assimilated investment data that we can source,. We combine this with actuarially constructed time frames and investment periods, and we glean the details that we have learnt about an investors personal circumstances and investment idiosyncrasies. This allows GTC to construct a robust review process of a client's financial plan, and the underlying investments that give it substance.

This review process is undertaken based on the personal understanding of a client's affairs that we have garnered through their engagement with GTC's advisors, together with the information, investment performance records and other data encapsulated within GTC's technology suite. This component of GTC's financial advisory capability is encompassed in GTC's sophisticated financial advisory toolkit - **TrueNorth**.

The subsequent **annual review** (which GTC clients will receive early in 2021), is the **assessment of their requirements, time horizons**, desired **risk parameters**, and the prevailing **investment and economic data** we have available. This unbiased, empirically derived assessment of the Investment Mandate is an important contributor to the success of a client's designated unique **Financial Wellness objectives**.

**Non-adherence to the Investment Mandate** is as often **incorrect basic assumptions** as it is the **prevailing inaccuracy of the portfolio construction**. Statistically many investors create investment mandates that are unnecessarily conservative based on emotive and unsubstantiated tolerances of volatility and risk. Realigning investment portfolios with the original Investment Mandate is more complex than merely changing investment portfolios.

This detailed review is important, and unless it is deemed to be consistently in line with that originally nominated, should, at the very least, form the basis of a financial discussion between an investor and a member of our private client wealth management team.



## Covid-19 testing, and subsequent protocols

With the President sharing the latest - good news this time with some relaxations to the "adjusted Level 3" lockdown criteria - we assess the passing of the peak of the second wave of Covid-19. With a constant threat (or is it an inevitability?) of a third wave - due largely to the delayed release of a vaccine - many South African medical aid members may experience a Coronavirus test in their foreseeable future.

Covid-19 is covered as a **Prescribed Minimum Benefit (PMB)** by the Medical Schemes Council, meaning that all medical aids are required to cover the cost of the test and related treatments. There are however protocols that members must follow, for the test - and any subsequent treatment - to be covered by the medical aid scheme.

Typical medical aid procedures include:

1. Register a profile with the medical aid.
2. Gain a doctor's referral for the test (an important step frequently missed!).
3. Either gain a (virtual) consultation with a doctor or proceed to the test facility.
4. Members who test without a GP's referral - those that go directly to the testing facility without first registering and following existing protocols - will be liable to pay for the Covid-19 test themselves, unless their result is positive.

### Typical Covid-19 benefits for comprehensive type medical aids

| Service/Treatment         | Comment   | Covered by Medical Aid (MA) or self payment (Self) |
|---------------------------|---|--|
| Pre-testing consultations | Pre-screening risk assessment   | MA   |
|                           | Covid-19 screening consultation (referred by GP/Network GP)   | MA   |
|                           | Covid-19 test (2 p/a or 4 p/a for healthcare workers)   | MA   |
| Diagnostic set            | Pathology and radiology (blood/sputum tests and X-Rays) necessary to confirm your diagnosis and treatment requirements  | MA   |
| Follow-up consultations   | Electronic (virtual or telephonic), face-to-face GP and consultations at a casualty unit  | MA   |
| Medication                | Prescribed (approved) medication to treat Covid-19  | MA   |
| Isolation facility        | Some medical aids offer positive and high-risk members who awaiting results discounts on the costs charged by accredited isolation facilities (up to 100% of the medical aid rate or a maximum of R400 per day – max 14 days) | Self   |
| All of the above          | Without following protocol or referral  | Self   |

All medical aids have protocols and safeguards in place to limit unnecessary and unauthorised spending. Many have established networks and preferred providers to assist members in dealing with the pandemic.

We encourage all medical aid members to follow these protocols. Use the call centres and websites and follow their instructions, and in that way, ensure that your medical aid picks up the tab for the tests and treatment, and you are not left out of pocket.

## Appeal from GTC's CEO to all clients regarding the importance of having a valid and relevant Will



GTC often communicates as to the importance of one's testamentary planning. I'm currently of the opinion that I should state this more obviously, more bluntly, like: *"Ensure that your affairs are in order in the event of your death, with - at the very least - a valid Will"*.

As a professional financial advisory practice, GTC typically remains circumspect, and a little reserved - when giving such advice - avoiding the crassness of a "sales campaign". GTC will always adopt a discipline of providing advice, over selling a product.

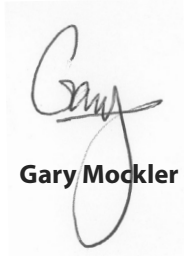
Over the past year of Covid-19, GTC has sought to remain balanced and considered in our financial planning recommendations and advice.

Sadly, I have recently been uncomfortably dislodged from this long-held stance of professional circumspection - requiring that our advice first be disseminated, then accepted, before being adopted by a client.

Covid-19 has seen a number of our clients taken too early. The reality of how quickly this disease can convert a short illness into hospitalisation and - in the instances I'm thinking of now - to death, is something I must be candid about. I'm aware of several clients who were recently in discussion with GTC regarding their Wills and testamentary affairs, who have succumbed to the disease before their affairs could be resolved.

Yes, GTC's fiduciary team can assist with the prompt construction of a professional Will, though so can many other professional advisors. This is not a sales pitch, it is a call to arms.

I respectfully ask - no, I implore - that you attend to this cornerstone of your financial planning without any further delay. Carpe diem!

A handwritten signature in black ink, appearing to read 'Gary', with a stylized flourish underneath.

**Gary Mockler - Group Chief Executive Officer**

Please [\*\*click here\*\*](#) to view an article written by Trisca Hattingh, Head of GTC's Fiduciary Services which appeared in recent weeks in hardcopy and online publications. Additionally, you can download GTC's Will information booklet [\*\*here\*\*](#).

Feel free to **contact GTC's Fiduciary Services team** for more information and assistance with your Will and/or assistance with the administration of a deceased estate.



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