



COLUMBUS RETIREMENT FUNDS



QUARTERLY INVESTMENT REPORT – 30 JUNE 2020

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1. ECONOMIC OVERVIEW FOR THE QUARTER ENDED JUNE 2020

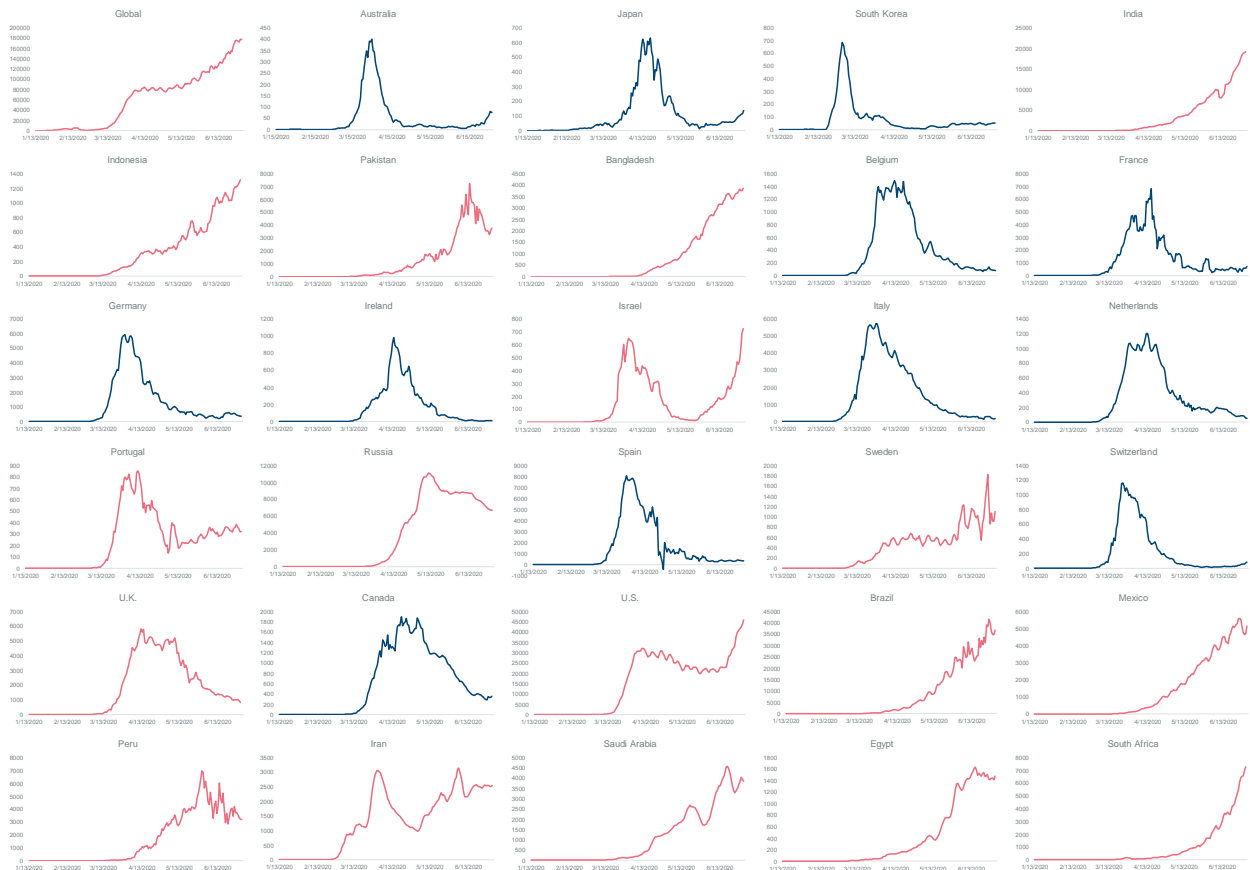
THE KEY TO UNLOCK

By early March, the number of new COVID-19 infections in China had declined significantly, while the virus was making its way into the Eurozone. Roughly a month later, the rate of new infections peaked in Italy, France and Germany, respectively. In April, the pandemic started to show signs of containment in most of the previously hard-hit regions. By May, an increasing number of countries had begun easing restrictions on movements and planning the further reopening of their borders, especially those countries that rely heavily on tourism. They were eyeing the summer holiday as a way of reviving their hospitality and tourism sectors which had been devastated by the pandemic. Generally, during the second quarter, most governments' COVID-19 focus shifted from imposing lockdowns to searching for ways to unlock their economies securely.

As lockdowns have eased by varying degrees across the world, re-opening optimism has made its way from consumer behaviour to stock markets. Regions hit by the pandemic early, such as China and most of Western Europe, managed to contain the spread, while others, such as Australia, New Zealand, South Korea, Japan, Hong Kong and Taiwan, were able to avoid a full-blown local outbreak. New cases in developing economies are still climbing as they are behind the progression curve. However, reported COVID-related fatality rates are much lower than in the developed world, partly due to younger demographics. The actual case-related fatality rates may never be known, but rather inferred from each country's excess mortality figures throughout the pandemic.

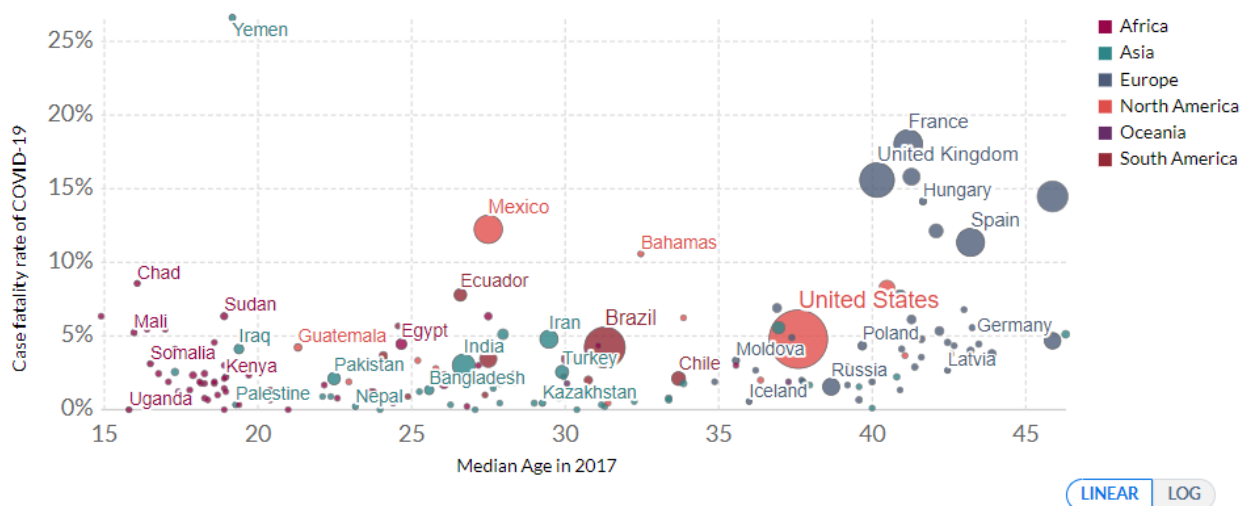
Figure 1: 5-day rolling average of new COVID-19 cases as at 2 July 2020





Source: Bloomberg

Figure 2: COVID-19 case-related fatality rates vs median age of population



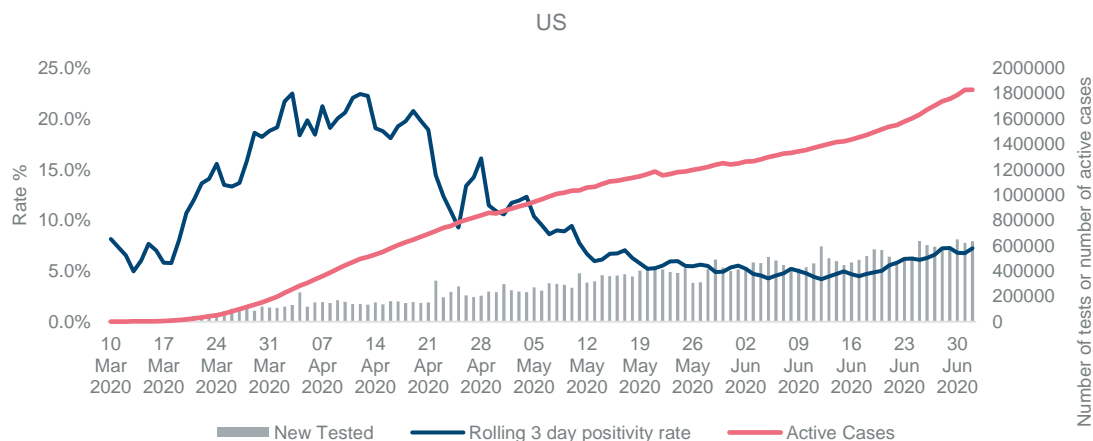
Source: European CDC – Situation Update Worldwide – Last updated 8th April, 11:30 (London time); UN Population Division
 Note: Only countries with more than 100 confirmed cases are included.
 OurWorldInData.org/coronavirus • CC BY

Source: ourworldindata

There are no signs of a second wave in Europe, while some eastern European countries are still experiencing the first wave. However, there were reports of more than 300 new local transmissions linked to a major wholesale fresh produce market in Beijing, and new cluster infections in certain parts of Australia and a number of meat plants in Germany. The Chinese local health authorities acted swiftly and, through high levels of testing and contact tracing, managed to prevent a massive second wave as the new surge bore a strong resemblance to the outbreak linked to the Wuhan seafood market in January. While the European Union reopened its borders to countries with similar coronavirus risk profiles in time for the summer tourist season, the course of

the pandemic took a different turn in the US. Cases have continued to surge in the sun-belt states of the US, with some states pausing their re-opening efforts. The state of New York, once the coronavirus epicentre in the country, introduced a requirement that visitors from high infection-rate states undergo a 14-day period of quarantine in view of fears about a resurgence in the infection rate.

Figure 3: US rolling 3-day positivity rate, testing, active cases



Source: Bloomberg

We believe the probability of lockdowns being re-imposed in the US and other epicentres is relatively low, for three reasons.

The first relates to the polarised view of the public towards the pandemic. Whether face coverings should be made compulsory, what the workplace protection measures should be, and the trade-off between economic interests and public health are all hotly debated issues. The US' increasingly bipartisan approach to handling the pandemic makes it look like a political game.

Secondly, apart from the public health concerns, the economic costs of lockdowns inevitably start to weigh in, especially in countries like South Africa. One may not be a fan of Donald Trump, but sometimes it is difficult not to agree with him that, from both health and economic perspectives, "the cure cannot be worse than the problem itself".

Thirdly, the global case-related fatality rate is trending lower, at least for now. Even though a vaccine may only be available, at the earliest, by the end of this year or early next year, there are three treatments known to either lower the death rate or shorten the recovery period, especially among severely ill COVID-19 patients: Remdesivir, Dexamethasone and the convalescent plasma of recovered patients. In China, the government has already begun inoculating members of high-risk groups (due to the nature of their work or their need to travel) with vaccines under development, as a part of a clinical trial.

We may see a 90% economy, at its best. That is with refined responses to contain the spread and prevent any new clusters of transmissions developing into a full-blown outbreak, so that the world can return to some degree of normality until such time as everyone gets the much-coveted jab in the arm.

WALL STREET WHIPLASH

The impact of COVID-19 on equity markets is unique. At first, the market treated the virus like the 2003–2004

SARS (Severe Acute Respiratory Syndrome) since it looked like an epidemic confined to China. That was until cases started being reported in South Korea and Italy, and the fear factor kicked in. The pandemic spread through Italy and Spain like wildfire, with daily news headlines reporting dire death tolls and record-high numbers of new infections. People expected worse scenarios in developing nations because of their poorer healthcare facilities.

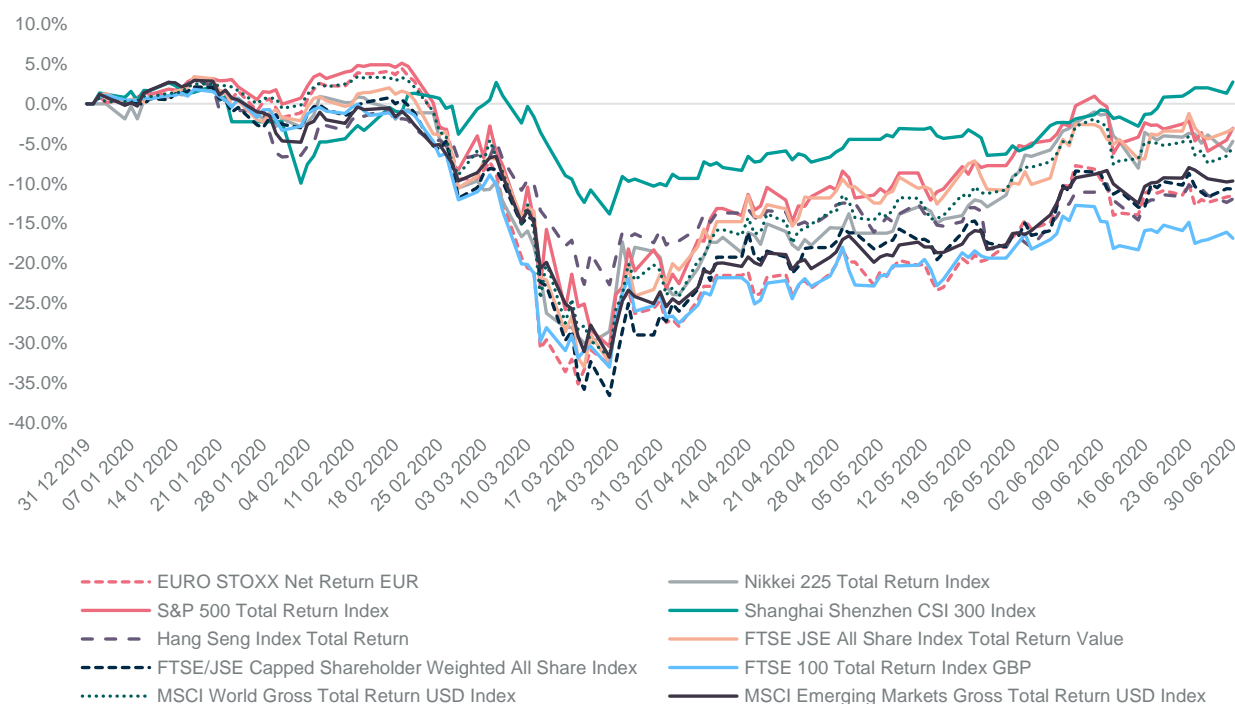
As the number of cases started to peak in Europe and to flatten and trend downwards in the US – mainly concentrated in the state of New York, the country's epicentre – it seemed that the coronavirus may have indeed succumbed to the warmer weather. The unprecedented and timely fiscal and central bank stimulus acted to bridge the gap created by the temporary loss of income, convincing the market that the government would do whatever it took to support the economy. This, together with reopening optimism and month-on-month improvements in economic indicators, was a further boost to market confidence. Most of the equity markets rallied, producing one of the best quarters in their history, South Africa included. Global supply chain disruptions were no longer a concern, overshadowed by people's eagerness to return to normal life.

Figure 4: Performance of major indices and asset classes

30 June 2020 (ZAR)	1M	3M	YTD	1 Year	3 Year (annualised)	5 Year (annualised)	10 Year (annualised)
FTSE/JSE ALSI Total Return	7.7%	23.2%	-3.2%	-3.3%	5.1%	4.2%	10.9%
FTSE/JSE Capped SWIX Total Return	7.0%	21.6%	-10.7%	-10.8%	-0.8%	0.1%	
S&P 500 Total Return	0.8%	17.7%	20.5%	32.4%	21.8%	18.9%	23.7%
STOXX 600 Total Return	3.2%	13.6%	9.4%	16.7%	10.4%	9.3%	15.1%
Nikkei 225 Total Return	0.9%	15.1%	18.9%	31.9%	18.0%	14.5%	18.3%
MSCI World Total Return	1.5%	16.7%	17.5%	27.4%	18.0%	15.5%	20.0%
MSCI ACWI Total Return	2.1%	16.6%	16.9%	26.4%	17.4%	15.0%	19.1%
MSCI EM Total Return	6.2%	15.4%	12.3%	19.4%	12.5%	10.9%	12.5%
STEFI	0.5%	1.5%	3.2%	6.9%	7.2%	7.2%	6.5%
ALBI	-1.2%	9.9%	0.4%	2.8%	8.1%	7.5%	8.3%
IGOV	-0.9%	4.7%	-2.4%	-3.2%	0.7%	2.1%	6.0%
WGBI	-0.5%	-0.4%	29.4%	28.9%	14.4%	11.4%	11.1%
SAPY Total Return	13.4%	20.4%	-37.6%	-40.0%	-18.3%	-9.1%	4.7%
MSCI US REIT Total Return	1.9%	9.1%	1.4%	7.3%	10.1%	11.8%	18.4%
STOXX 600 Real Estate Total Return	1.6%	7.6%	-0.2%	14.8%	8.2%	7.4%	16.1%
Crude Oil	15.2%	76.7%	-22.5%	-23.8%	4.6%	-1.5%	2.2%
Aluminium	3.4%	3.6%	11.3%	10.8%	4.0%	6.5%	6.4%
Copper	10.6%	18.6%	21.1%	23.6%	10.5%	8.3%	7.7%
Gold	2.9%	12.9%	17.4%	26.3%	12.8%	8.7%	3.7%
Platinum	-2.1%	12.0%	6.7%	22.4%	6.0%	1.9%	2.1%
Nickel	0.0%	0.0%	0.0%	0.0%	13.4%	4.5%	1.7%
Palladium	-0.9%	-19.7%	24.2%	55.7%	45.3%	32.7%	25.8%
Iron Ore	2.5%	18.7%	41.8%	7.2%	28.4%	17.9%	
USDZAR	-1.1%	-2.7%	23.9%	23.2%	9.9%	7.4%	8.5%
GBPZAR	-0.7%	-2.9%	15.9%	20.3%	8.1%	2.4%	6.5%
EURZAR	0.1%	-1.0%	24.2%	21.7%	9.3%	7.5%	7.6%
JPYZAR	-1.2%	-3.1%	24.7%	23.1%	11.3%	10.1%	6.4%

Source: Bloomberg

Figure 5: Performance of major equity indices YTD 2020 as at 30 June 2020 (local currencies)



Source: Bloomberg

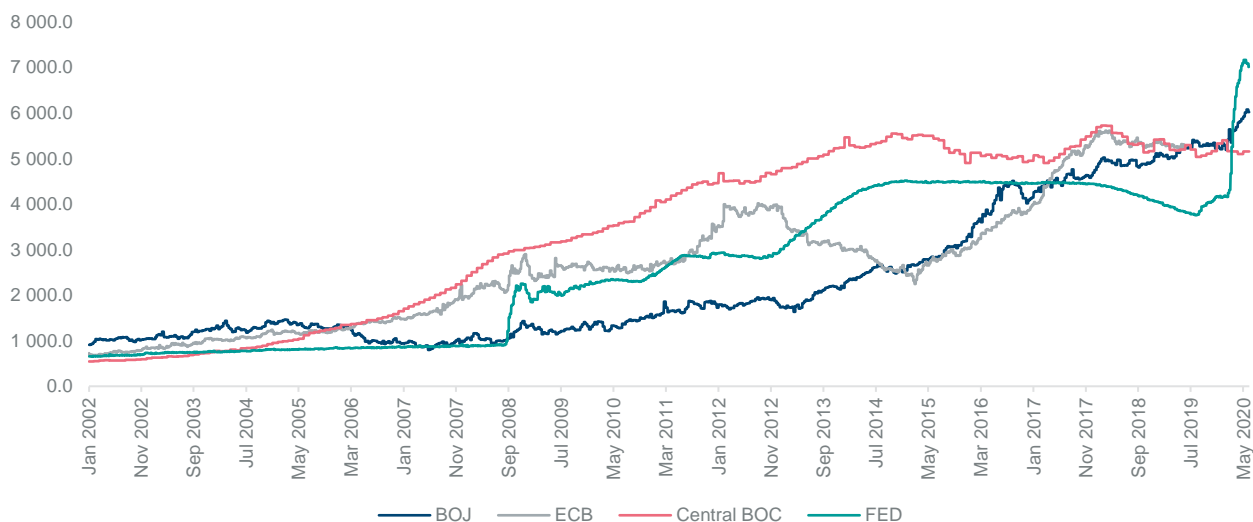
The rally we have seen across global equity markets since late March was mainly driven by the coordinated policies of central banks in purchasing government securities. Central banks became market makers and provided the safety net for the further bottoming out of the capital market, hoping that by injecting liquidity into the financial system and reflating financial assets, some of the excess liquidity would be transmitted into the real economy and stimulate some growth – enough for it to stay afloat and hasten its recovery rate. The risk-free rate is zero for most of the developed markets, making equities and gold only some of the traditional options available as a good store of wealth. Governments also implemented unprecedented support programmes as it is the entire economy (not just investment banks as in 2008) that needs CPR to resuscitate it from the COVID-19 self-induced coma.

Figure 6: G7 Policy moves

	Monetary Policy	Fiscal Policy
U.S.	Rates cut to 0-0.25%. Unlimited asset purchases.	\$2.9 trillion stimulus (15% of GDP).
Japan	Short-term rate at -0.1%; 10-year yield target at 0%, with no limit on JGB purchases. REIT and ETF purchases doubled. CB and CP purchases more than tripled.	¥234 trillion yen stimulus (42% of GDP). Package includes existing measures.
Germany	ECB deposit rate at -0.5% already testing effective lower bound.	€220 billion stimulus (6.6% of GDP).
France	Asset purchases expanded by €120 billion by year end. Pandemic Emergency Purchase Program to buy €1.35 trillion of bonds.	€57 billion stimulus (2.6% of GDP).
Italy	Rates cut to 0.1%. Purchase of £300 billion in bonds.	€75 billion stimulus (4.2% of GDP).
U.K.	Rates cut to 0.25%. Program to buy C\$5 billion a week of government bonds.	£107 billion stimulus (5.1% of GDP).
Canada		C\$324 billion stimulus (14% of GDP).
Note: Green = adequate policy response Orange = partial policy response Red = so far policy response insufficient Colors based on Bloomberg Economics' judgement, noting limited space for conventional monetary response.		

Source: Bloomberg

Figure 7: Central bank balance sheets in US\$ billions



Source: Bloomberg

The nature of the equity market recovery has been rather uneven, with the TMT (technology, media and telecommunications) sector being the clear winner as people have streamed hours of videos during lockdowns and increased their reliance on online shopping and video meetings. The share prices of Amazon and Netflix rose by 56% and 47%, respectively, in the year to date. Some sectors remained net losers for the year, such as the banking, energy and automobile sectors. The S&P 500 Banks, Energy and Automobile indices fell by 36%, 36% and 28%, respectively, over the same period.

Figure 8: US equity performance in US\$



Sources: Bloomberg, AlpineMacro, FANG stocks (Facebook, Apple, Amazon, Netflix, Alphabet), Four Horsemen stocks (Microsoft, Cisco, Intel and Oracle), Blue Chip stocks (Coca-Cola, Walt Disney, General Electric, IBM, Johnson & Johnson, McDonald's, Merck and Procter & Gamble)

Figure 9: Cumulative total return of the S&P 500, Nasdaq and Dow Jones Industrial Average for the year to date

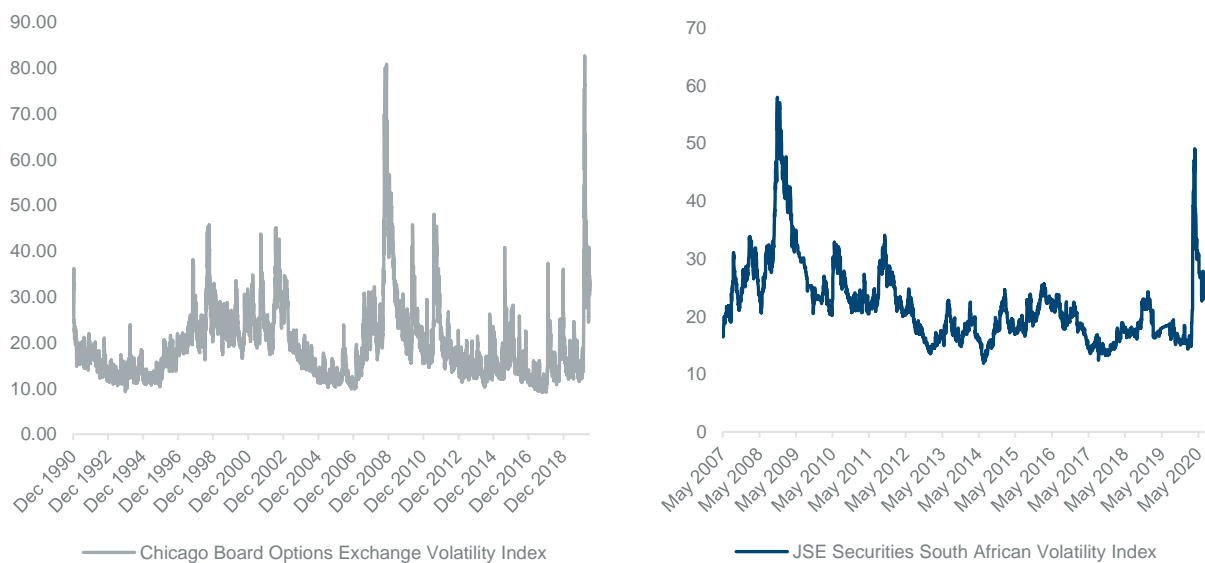
as at 30 June 2020 in US\$



Source: Bloomberg

Both the Chicago Board Options Exchange Volatility Index and the JSE Securities South African Volatility Index receded from the peak levels seen in March but remained elevated and increased slightly in late June in the face of renewed concerns about surging COVID-19 cases in the US.

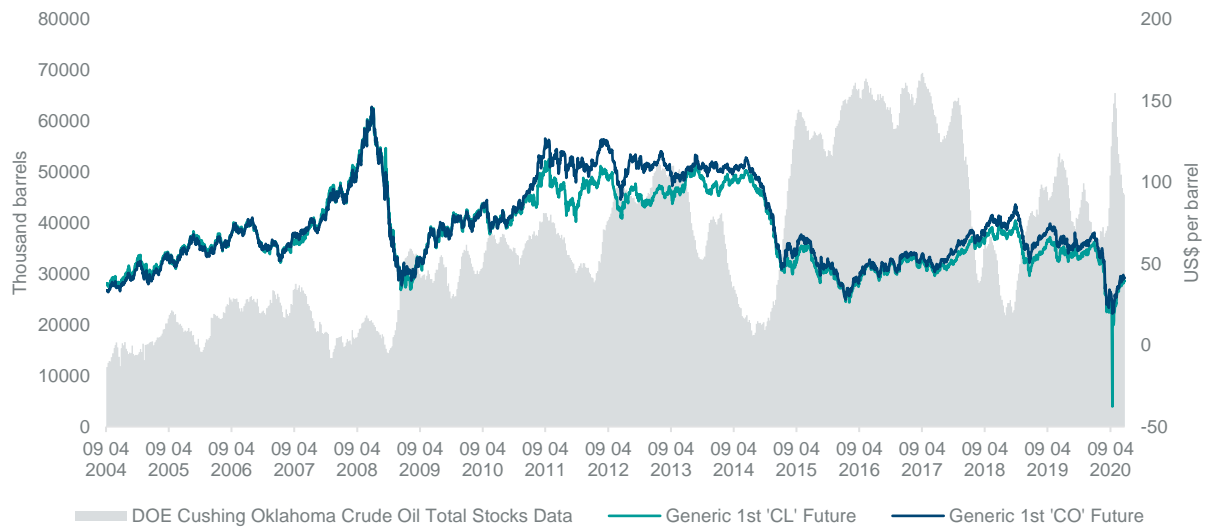
Figure 10: VIX and SAVI



Source: Bloomberg

The oil price also recovered to US\$39–US\$40 per barrel by the end of June as reopening measures boosted the demand outlook, while production cuts were a favourable factor in supply and demand dynamics.

Figure 11: Oil price movements



Source: Bloomberg

SAME STORM, DIFFERENT BOAT

The paradox is that the measures implemented to contain the spread of the coronavirus – and not the virus itself – were the main culprit that sent shockwaves through economies around the world. However, the fact remains that had these measures not been introduced, the public health crisis could have triggered an even greater disruption to the world order. The experience of the pandemic could not be more pronounced for Wall Street vs Main Street, high-income vs lower-income earners, young vs old, or developed countries vs developing countries. The list is endless. The level of polarisation has been unprecedented.

Pandemics generally exacerbate existing trends. Income inequality, for instance, has widened in the face of COVID-19; so has geopolitical fragmentation. While higher-income groups with white-collar jobs are more likely to be able to work from home and still have access to the stock market, low-income earners tend to work in sectors such as hospitality and retail, among the hardest hit by the pandemic, with limited pension savings. For many people in this category, accessing the stock market and performing tasks remotely is impossible.

When we compared developed and developing countries, we noted that most developing countries cannot implement similar magnitude of monetary and fiscal stimulus programmes that the developed world can. Most of the developing nations can only resort to borrowing instead of pushing the limits of the privilege of holding the reserve currency, even though they need the stimulus packages as much as the developed world. While many go jobless and experience a loss of income due to layoffs or business disruptions, the experience of developed and developing countries is still very different. In the US, the average unemployment insurance payment is \$378 per week, and the CARES Act tops it up by another \$600 per week. The combined unemployment benefits during the subsidy period amount to \$978 per week, which is higher than the median weekly income of \$936 per week for a full-time employee.

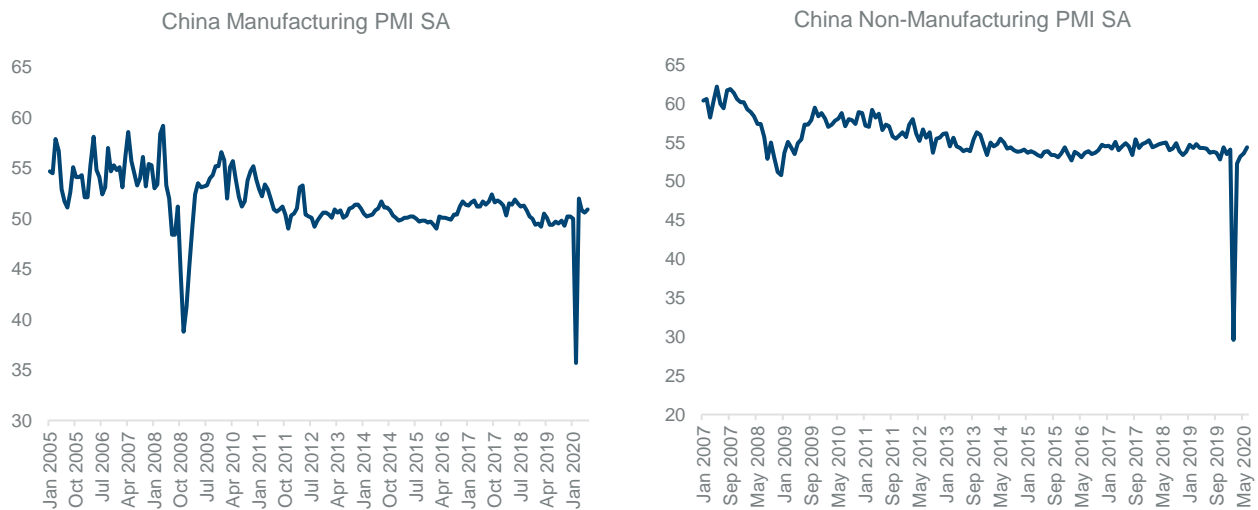
As the pandemic spreads and reaches a peak in different regions at different times, the current economic conditions also differ, offering potential lessons for what lies ahead.

STEADY RECOVERY IN THE FAR EAST

China's GDP contracted by 6.8% year on year in the first quarter of 2020 as the government implemented lockdowns in February and March. The pandemic peaked and was contained by the end of March. It is therefore natural to expect that the worst economic data should be restricted to Q1, with April onwards focusing on a path to recovery.

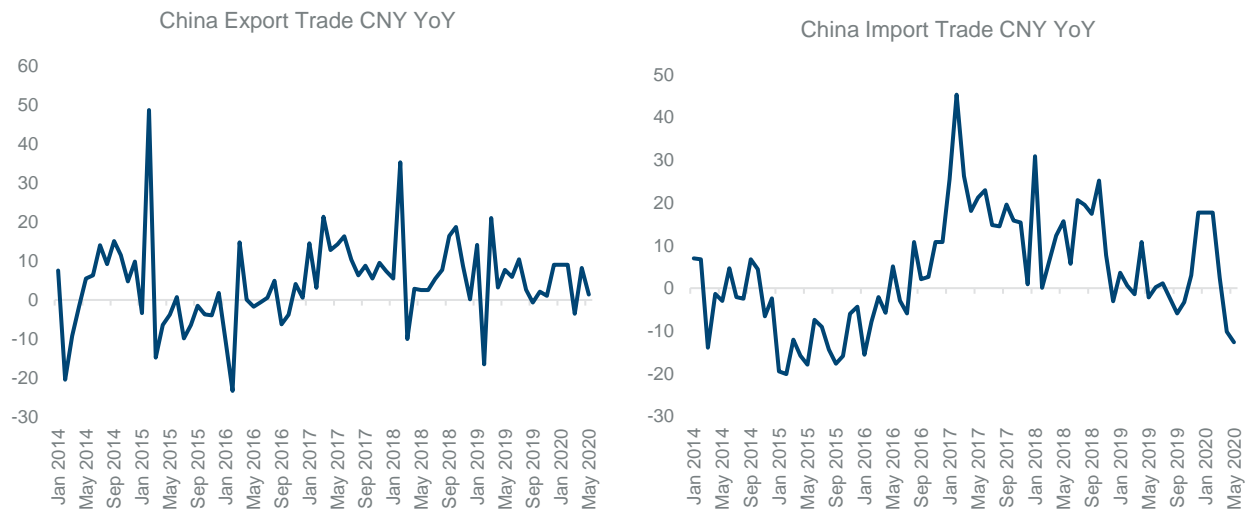
The slump in the PMI numbers in February this year was much more severe than that experienced during the great financial crisis and the subsequent rebound was correspondingly sharp. Business activity and non-manufacturing recovered to an expansionary pattern in Q2, while manufacturing PMI improved to slightly above the neutral level of 50, which is a statistically neutral reading.

Figure 12: China PMIs



Source: Bloomberg

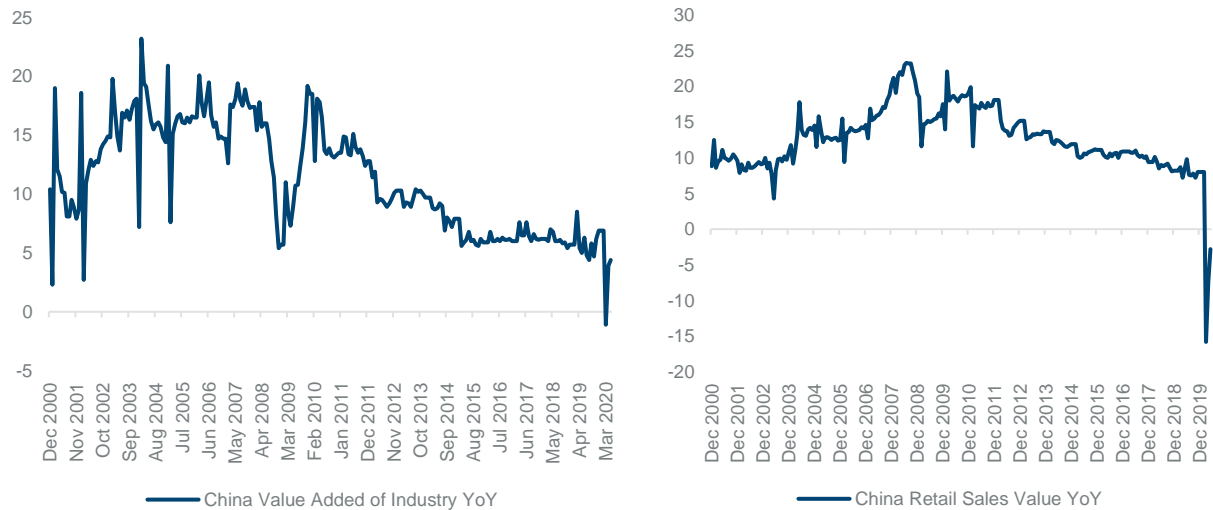
Figure 13: China exports and imports YoY%



Source: Bloomberg

Chinese exports have in general fared much better than imports. Exports recovered from -3.5% year on year in March to 8.2% in April but weakened to 1.4% in May. Import growth remained in negative territory, suggesting lacklustre domestic demand. Industrial production year on year recovered to 4.4%, still below the pre-pandemic level of 6–7%. Retail sales also slowed their decline from -15.8% year on year in March to -2.8% in May 2020. The China Industrial Enterprises Total Profits recovered from -34.9% year on year in March to 6.0% in May. However, in terms of the year to date, its value was still -19.3% year on year in May. Although slightly better than the April figure of -27.4%, this represents profit lost to date.

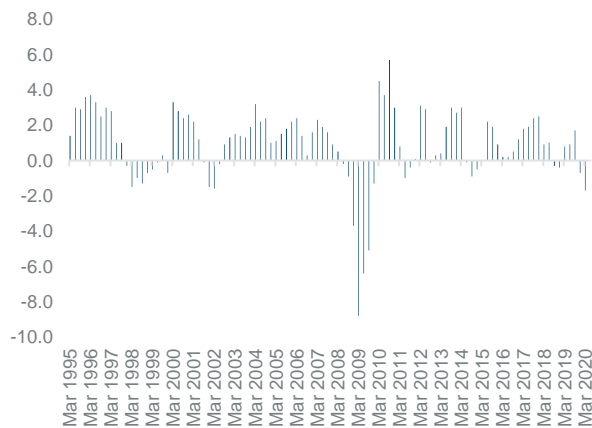
Figure 14: China industrial production and retail sales YoY%



Source: Bloomberg

Japan and South Korea were similar in that both avoided major local coronavirus outbreaks. However, Japan's GDP began its contraction in Q4 2019.

Figure 15: Japan real GDP YoY%



Source: Bloomberg

Figure 16: Japan imports and exports

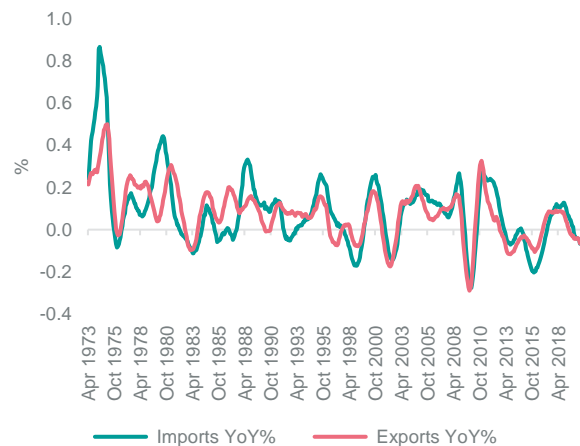
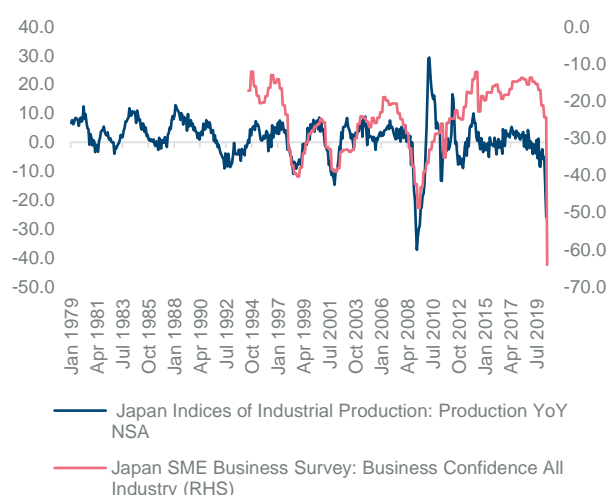


Figure 17: Japan retail sales and consumer confidence



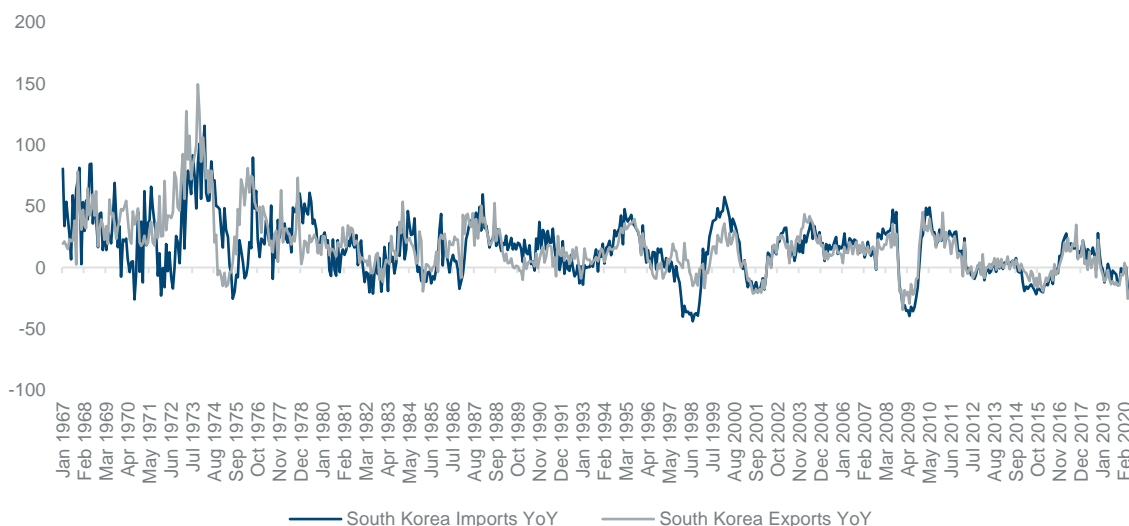
Figure 18: Japan industrial production and business confidence



Source: Bloomberg

Import and export growth continued their downward trend in May. Japan's retail sales growth year on year weakened after October 2019 and slumped to -13.9% in April before improving slightly to -12.3% in May. While consumer confidence weakened over the same period, it bottomed out in April to 23.6 and then recovered to 30.5 in June. We expect the gradual recovery in retail sales in June to follow the same direction as the confidence index. Industrial production year on year crumbled to -25.9% in May, with SME business confidence also declining to -64.1 in June. The business sector seemed to display less exuberance than consumers. Korean imports and exports similarly troughed in April and May, recovering to -11.4% and -10.9% in June. Exports to China suffered a blow in April, falling to -18.2%, while imports from China were down 9.6% in May. Both recovered in June to 9.5% and 2.9%, respectively, year on year. Trade activities should continue to improve in Q3 2020 for the three countries.

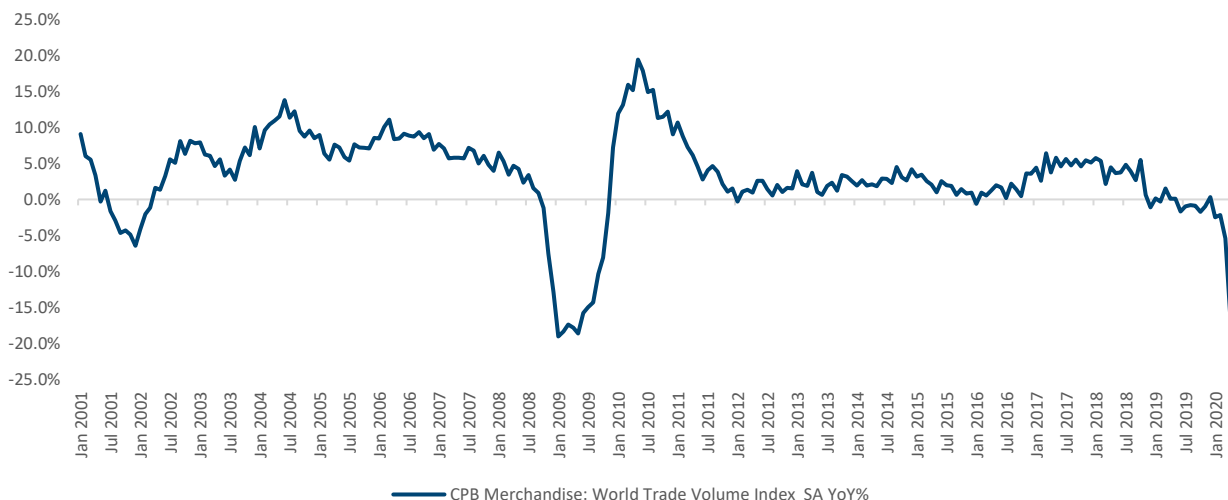
Figure 19: Korean imports and exports



Source: Bloomberg

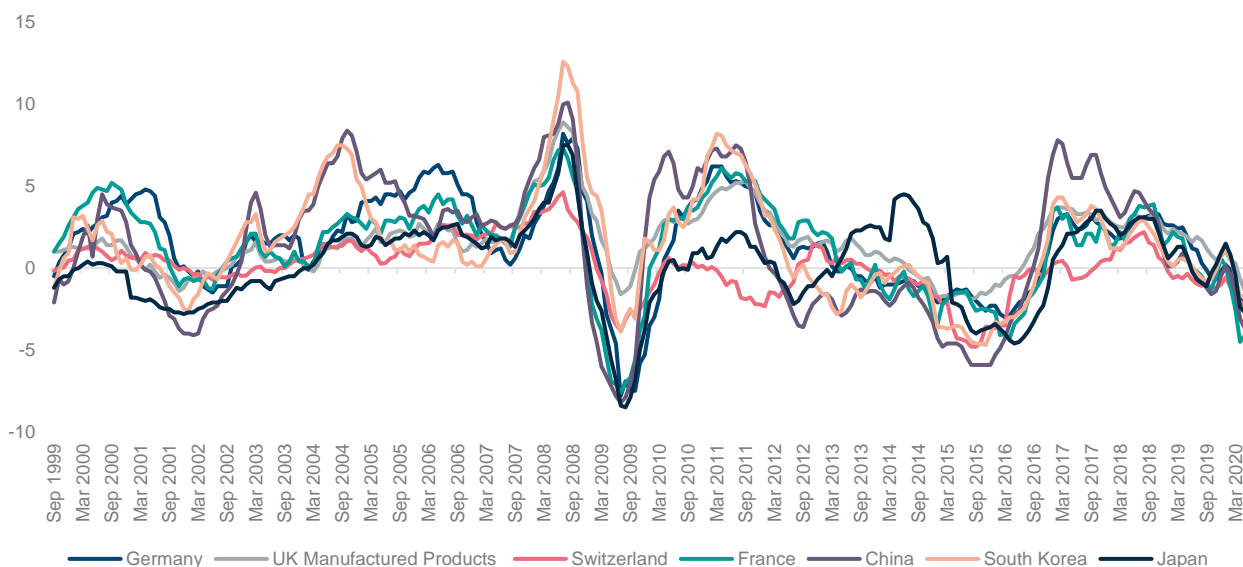
The volume of world trade dropped by 16% in April, year on year. Producer price indices displayed a similar weakening trend over the same period.

Figure 20: World trade volume YoY%



Source: Bloomberg

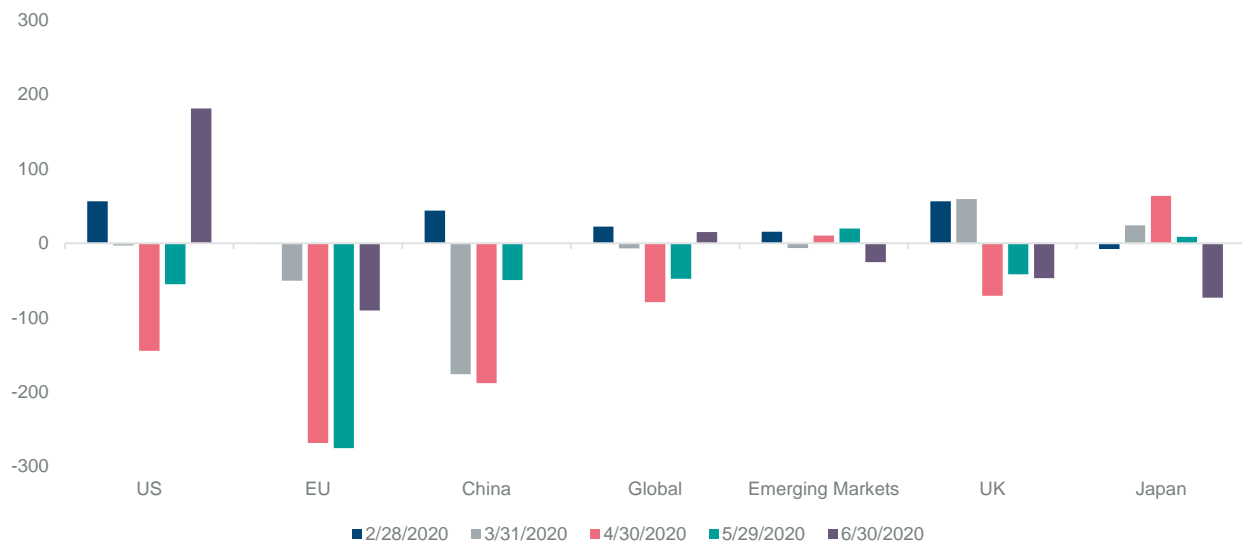
Figure 21: Producers' Price Index



Source: Bloomberg

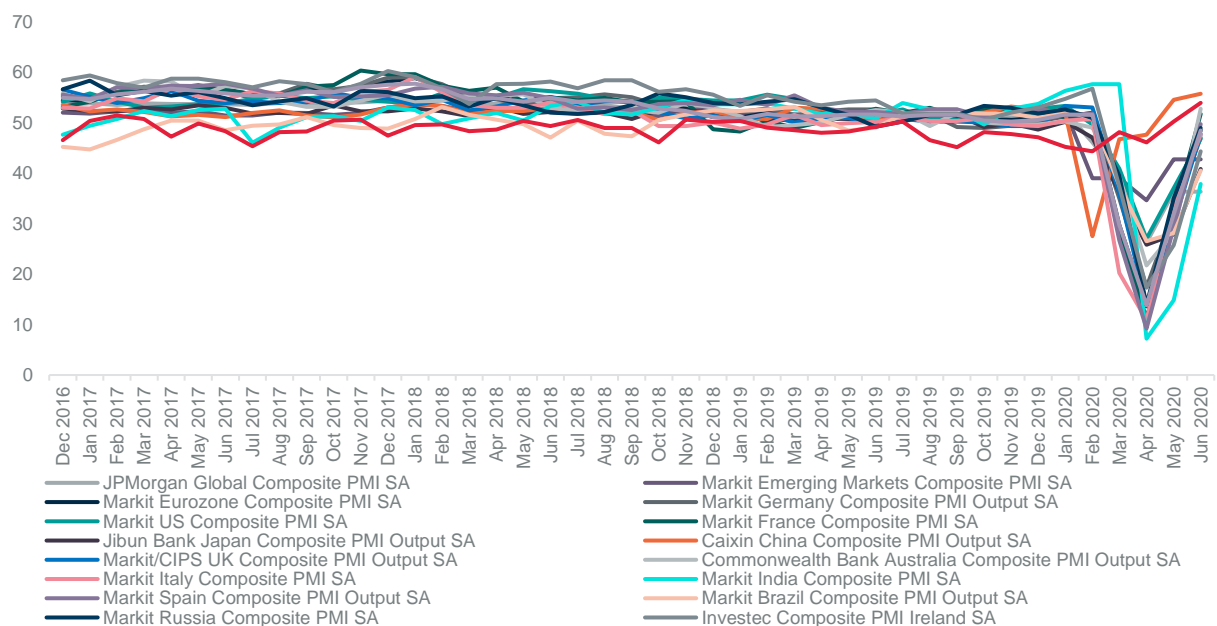
Economic surprise indices deteriorated significantly for China in March and April as it rode the COVID-19 wave, and hurt the EU in April and May. Economic data released in June were in line with market expectations for China and exceeded expectations for the US (mainly due to the growth in payroll numbers). For the EU, the UK and Japan, economic data releases still missed market expectations in June. Global PMIs crashed in April as factories came to a halt due to lockdowns. Most recovered to slightly below the pre-pandemic levels, albeit still in contraction, in June.

Figure 22: Economic Surprise Index



Source: Bloomberg

Figure 23: Global PMIs

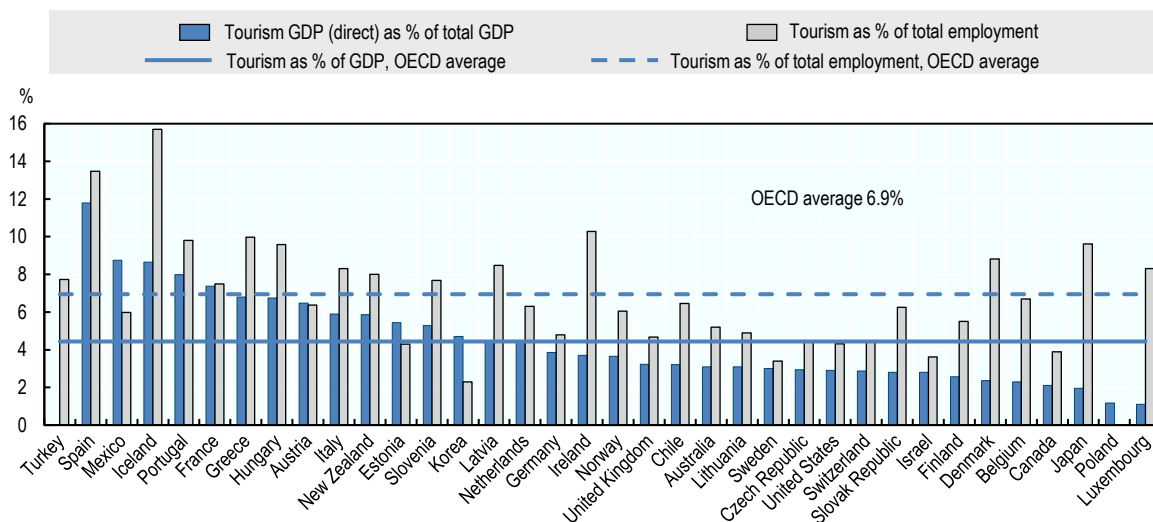


Source: Bloomberg

TIME FOR A ROMAN HOLIDAY

Many of the countries most reliant on tourism are in Europe. Without the imminent threat of a second wave of the coronavirus, these countries are eager to leverage the summer holiday season to jump-start a V-shaped economic recovery.

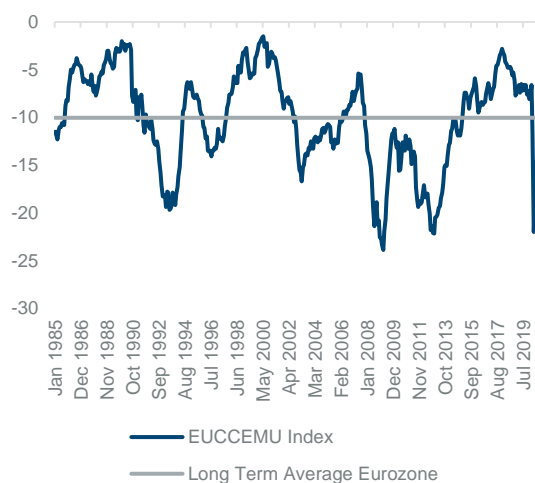
Figure 24: Tourism as % of GDP and % of total employment in 2018 or later



Source: OECD

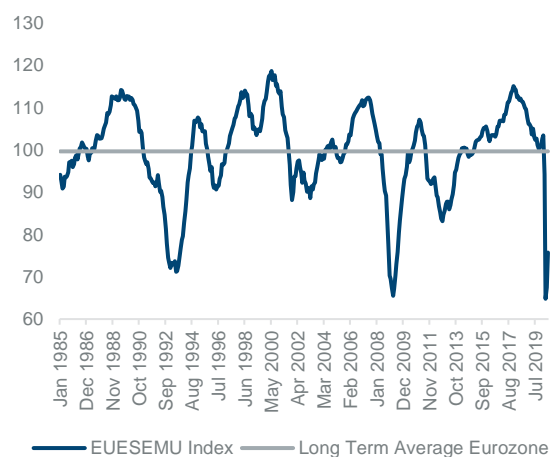
Sentiment trends in Europe followed a similar pattern to that of Japan with the recovery in consumer confidence leading that of business confidence. Consumer confidence plunged to -22 in April and recovered to -14.7 in June, still below the long-term average and the level of -5–6 before the pandemic. Economic sentiment dropped to 64.8 (roughly the level last seen during the financial crisis) and recovered to 75.7 in June, but still a long way from its long-term average of 100.

Figure 25: European Commission Consumer Confidence Indicator Eurozone



Source: Bloomberg

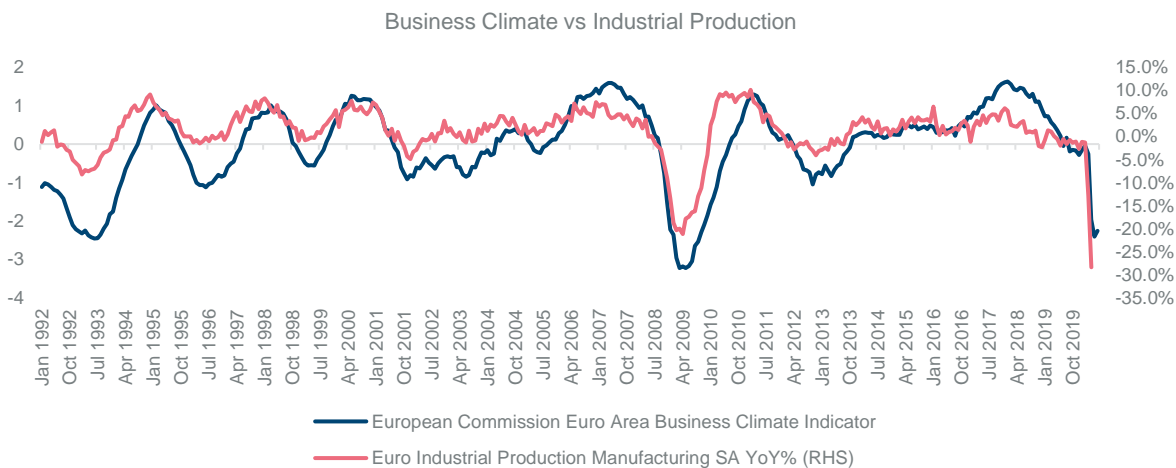
Figure 26: European Commission Economic Sentiment Indicator Eurozone



Industrial production and retail sales contracted by 28.4% and 19.6%, respectively, in April (the latest data available). The slowdown in consumption pushed the savings ratio higher in France, from 15.1% in Q4 2019 to 19.6% in Q1 2020, and to a lesser extent in Germany, from 11.1% in Q4 2019 to 12.4% in Q1 2020. The business climate fell to -1.97 in April and bottomed out in May at -2.41. Although it improved slightly to -2.26, it was not out the woods yet. Q1 GDP for the Euro Zone contracted by 3.1% year on year. Euro Zone imports and exports were down by 0.8% and 3.5%, respectively, in Q1 2020 with Q2 data not yet released. PMI numbers reached troughs in April before proceeding on a recovery path in May and June, although all measures were still below the neutral level of 50, in the range 45–47. We have not seen a V-shaped recovery yet, but a slow recovery has nevertheless been evident. The probability of a recession remains elevated for the region. Europe's inflation rate rose to 0.3% in June.

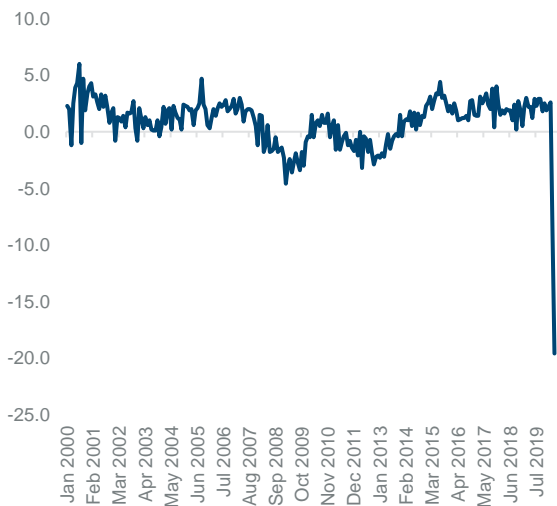
Germany's unemployment rate increased from 5% in Q1 to 6.2% in Q2, which is much lower than that of the US. This is due to the structure of its furlough programmes. Major European countries have implemented job retention schemes. The UK government will pay 80% of the gross wages (up to £2,500 per month). The French and German governments are much more generous, paying 70% of the gross salary for salaries up to €6,927 per month and 60–67% of net wages up to a maximum of €6,700 per month, respectively. Many of these programmes come with a high degree of flexibility, such as allowing staff to work part-time and employers filing only partial claims in order to reduce the burden on the finance ministry.

Figure 27: Business climate and industrial production



Source: Bloomberg

Figure 28: Eurostat retail sales Eurozone volume YoY WDA



Source: Bloomberg

Figure 29: Eurozone and German PMIs

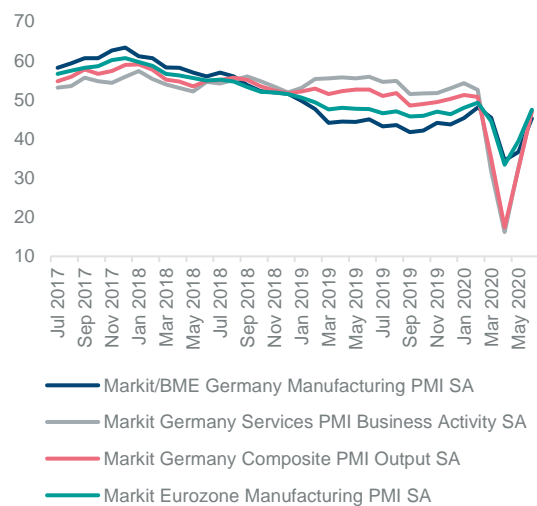
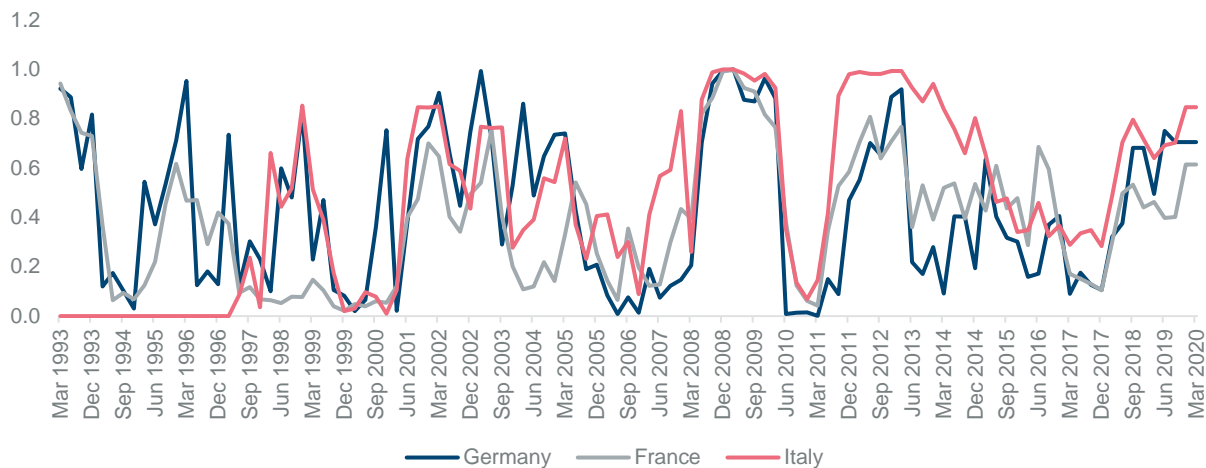


Figure 30: Bloomberg GDP-based probability of recession



Source: Bloomberg

Figure 31: Germany exports YoY%



Figure 32: China car sales YoY%

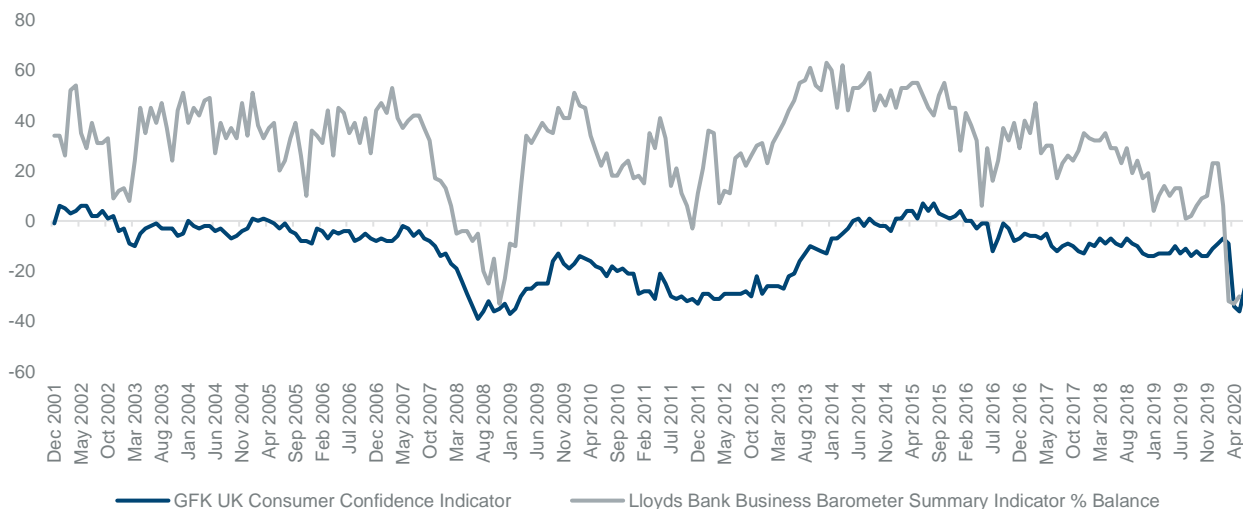


Source: Bloomberg

Germany's exports plunged by 31% year on year in April, which is unsurprising given the fact that lockdowns affected logistics and demand patterns. According to VDA, German passenger car exports year on year declined by 92% and 67%, respectively, in April and May. Car sales in China grew by 7.2% in April, prompted by stimulus packages aimed at promoting electric vehicle sales. Furthermore, some consumers avoided using public transportation in order to reduce the chances of catching the coronavirus. According to the Economic Intelligence Unit, electric vehicle sales have proven more robust than fossil fuel cars in most markets as many European countries, including France, Germany and Spain, have similarly rolled out stimulus packages to encourage sales of electric vehicles. It is not surprising that Tesla's share price has risen by 189% in the year to date as the company has reported three consecutive quarters of profits, one-quarter of profit away from being included in the S&P 500 Index. Tesla's market capitalisation as at 3 July 2020 was equivalent to the combined capitalisation of Fiat Chrysler, Ford Motor, General Motors, Bayerische Motoren Werke (BMW), Volkswagen and Daimler.

UK consumer confidence bottomed out in May instead of in April, like other European peers, which reflects the lagged onset of the pandemic. The GfK UK Consumer Confidence Indicator increased from -36 in May to -27 in June while the Lloyds Bank Business Barometer Summary Indicator dropped from 6 in February to -33 in April before improving slightly to -30 in May. Over the quarter, the probability rate of the UK experiencing a recession over the next 12 months increased from 37.5% to 100%, according to Bloomberg.

Figure 33: UK consumer and business sentiment



Source: Bloomberg

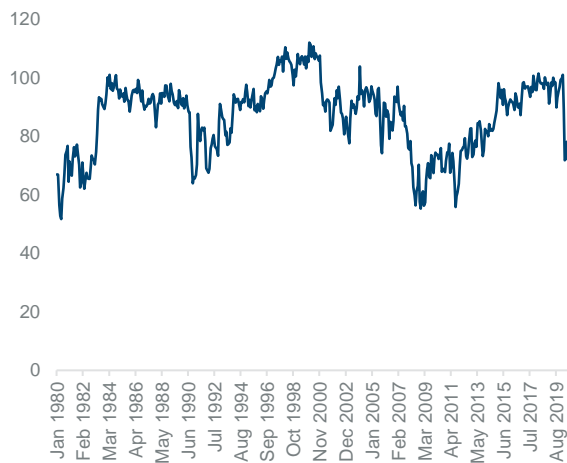
RESTORING THE GOLDILOCKS ECONOMY

The US never had a nationwide lockdown in the sense that its peers, China and Europe, did. The federal response to the pandemic has been controversial, with much of the decision-making left to the governors of the individual states. The shape of the US economy was much more resilient than that of other developed world regions before the onset of the pandemic and the case-related fatality rate has also been much lower, thanks to the discovery in recent months of several effective treatments for severely ill patients.

Fiscal and monetary policies have so far been very effective in cushioning the economy and the financial system from the shock of the pandemic. This has enabled companies to hibernate and employees to live on unemployment insurance benefits, rather than go bankrupt. The case of the US is unique as the country had managed to contain the outbreak well by early June, with a persistent decline in new daily cases. However, the decision to wear a mask or not has become politicised along the way, with some claiming that the wearing of a mask tramples on individual freedoms. Scientists are often mocked and the country's leadership is sending mixed messages about the precautions that the public should take to curb the spread of the virus. Reopening efforts began to stumble as numbers of new infections spiked in late June in states such as Florida and Arizona. Some local authorities have rolled back the opening of certain businesses and effectively paused their operations. However, as we saw earlier, equity markets continued their relentless climb, regardless of the direction of the COVID-19 trajectory in the US or the world. Every piece of positive news about COVID-19 prompted big leaps in the market; also, every piece of bad news, which triggered anticipation and talks of fiscal or monetary stimulus, propped up the market. The question is: how and when will the pandemic end? But for now, the market is pricing in a goldilocks scenario.

The US' GDP of 2.3% in Q4 2019 slowed to 0.3% in Q1 2020 year on year. The University of Michigan Consumer Sentiment Index dropped from 101 in February to 71.8 in April and then improved to 78.1 in June. The Conference Board Consumer Confidence Index followed the same sort of pattern, dropping from 132.6 in February to 85.7 in April and improving to 98.1 in June. The Bloomberg US Weekly Consumer Comfort Index dropped from 67 in February to 35 in May, before rising again to 43 in June. Overall, US consumer sentiment has been much more resilient than that in the EU as it has never reached the lows seen during the 2008 financial crisis.

Figure 34: University of Michigan Consumer Sentiment Index



Source: Bloomberg

Figure 35: Conference Board Consumer Confidence Index

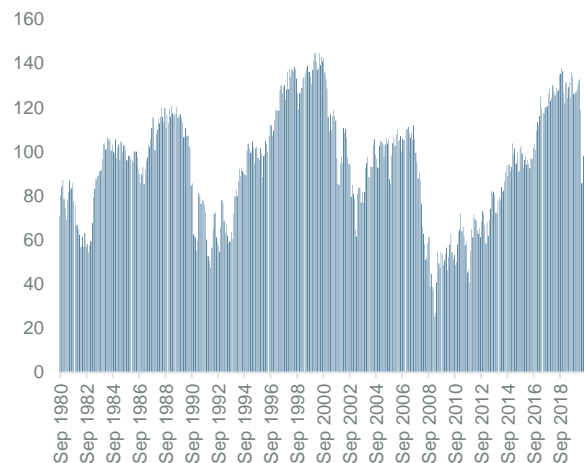
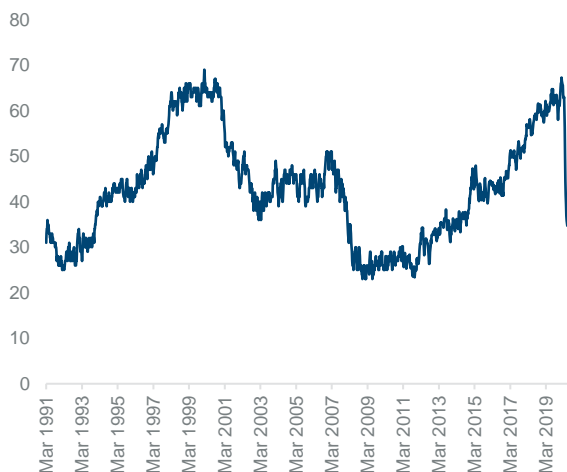
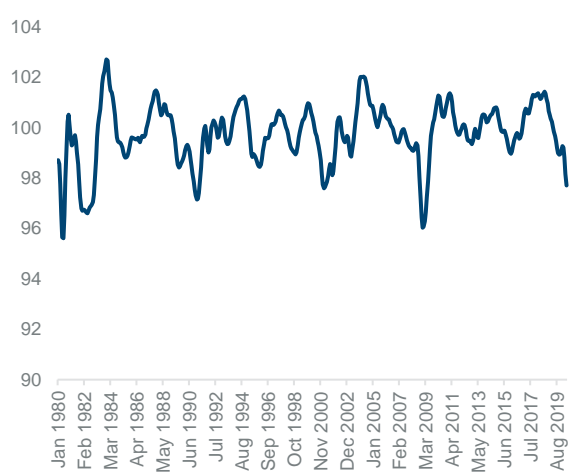


Figure 36: Bloomberg US Weekly Consumer Comfort Index



Source: Bloomberg

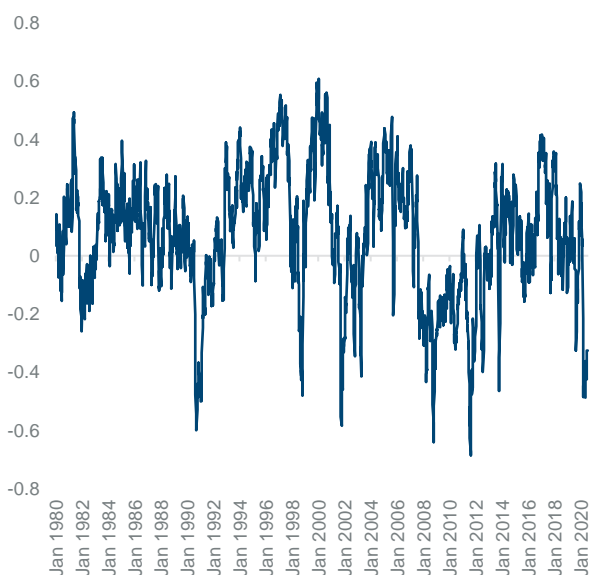
Figure 37: USA Business Tendency Manufacturing Confidence Composite OECD



The USA Business Tendency Manufacturing Confidence Composite dropped to 97.7 in May, which was still above the 96.1 seen during the 2008–2009 period. The Dallas Fed Manufacturing Production Outlook rebounded from -55.6 in April to 13.6 in June. The US Federal Reserve Bank of New York Weekly Economic Index slumped to -11.35 in early May before making a slow recovery to -7.91 by late June.

The chart displays the monthly change in the labor force over a 16-year period. The y-axis represents the change in the number of people, ranging from -80 to 60. The x-axis shows time in months, with labels every two months from June 2004 to April 2020. The data shows a general upward trend until mid-2005, followed by a period of volatility and a sharp decline starting in late 2007, reaching a low of approximately -40 in mid-2009. The labor force then recovered, with a peak around 35 in late 2017, followed by a decline and a final sharp drop to -60 in April 2020.

**Figure 40: US Federal Reserve Bank of San Francisco
Daily News Economic Sentiment**



The chart displays the monthly change in the number of people in the labor force. The y-axis represents the change in millions, ranging from -14 to 6. The x-axis shows time from January 2008 to January 2020. The data shows a significant dip in early 2009, reaching approximately -4 million, followed by a recovery to around 4 million by late 2009. The labor force then fluctuates between 1 million and 3 million until early 2020, when it drops sharply to approximately -12 million.

A line graph titled "Monthly Temperature Anomalies" showing fluctuations over time. The y-axis ranges from -30 to 15 in increments of 5. The x-axis shows months from Mar 1960 to Jul 2018, with labels every three years. A dark blue line plots the anomalies, which fluctuate around zero. Notable features include a sharp dip below -5 in late 1974, a peak above 2 in early 1983, another dip below -5 in late 2009, and a peak above 2 in early 2015. The overall trend shows increasing variability and higher average values towards the end of the period.

The US unemployment rate shot up to 14.7% in April and, surprisingly, improved to 11.1% in June. The number of unemployment benefit claims has declined, however, and the pace of the decline has slowed. The monthly change in non-farm payroll numbers in May surprised even the most optimistic economists, according to Bloomberg. The growth in payroll numbers was partly due to reopening efforts and partly due to the financial assistance provided under the CARES Act which includes forgivable loans for small businesses. Business

owners may qualify for low-interest loans, granted under the Paycheck Protection Program (PPP), a worker-retention incentive in which the level of debt forgiveness depends on the extent of payroll reduction. Borrowers who laid off workers and reinstated their jobs before 30 June could recover the credit as a way of extinguishing the loan. In a similar vein, the Coronavirus Economic Stabilization Act of 2020, which provides financial relief to airlines and other industries, stipulates that some borrowers must retain at least 90% of their employees through to 30 September 2020.

Figure 42: U-3 US unemployment rate

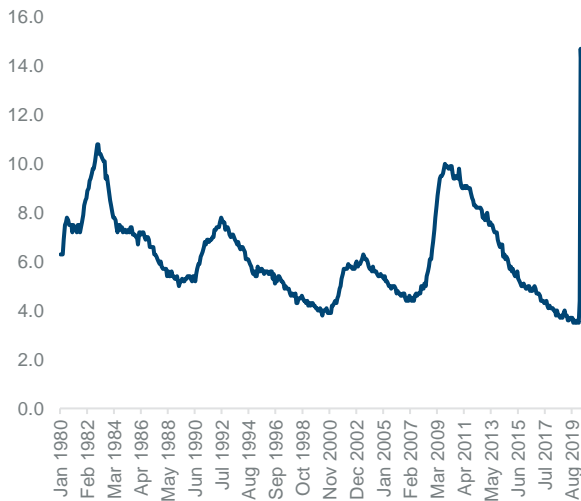
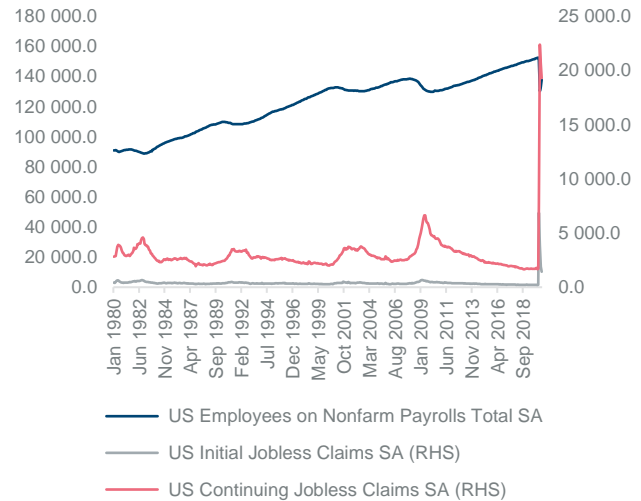
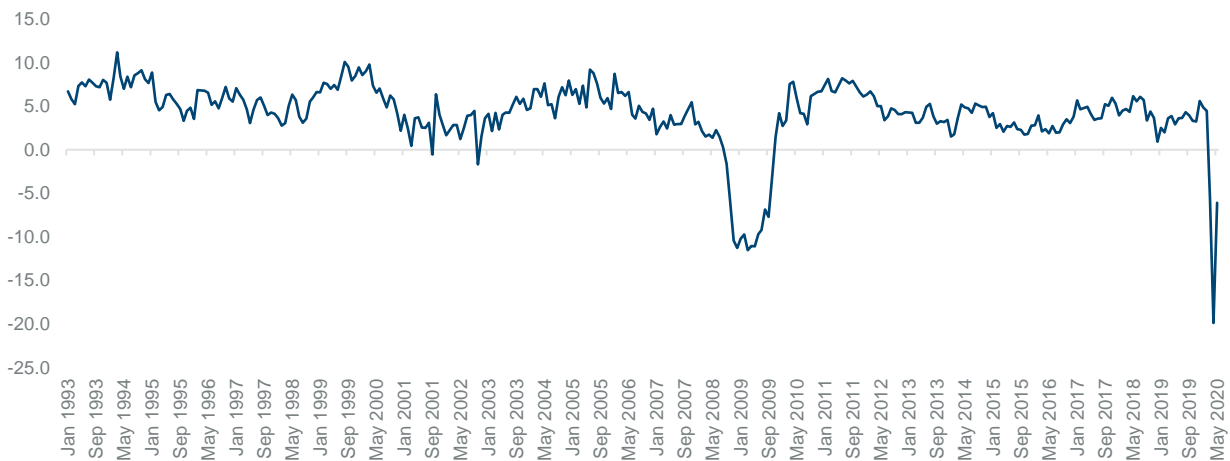


Figure 43: Payroll and jobless claims



Source: Bloomberg

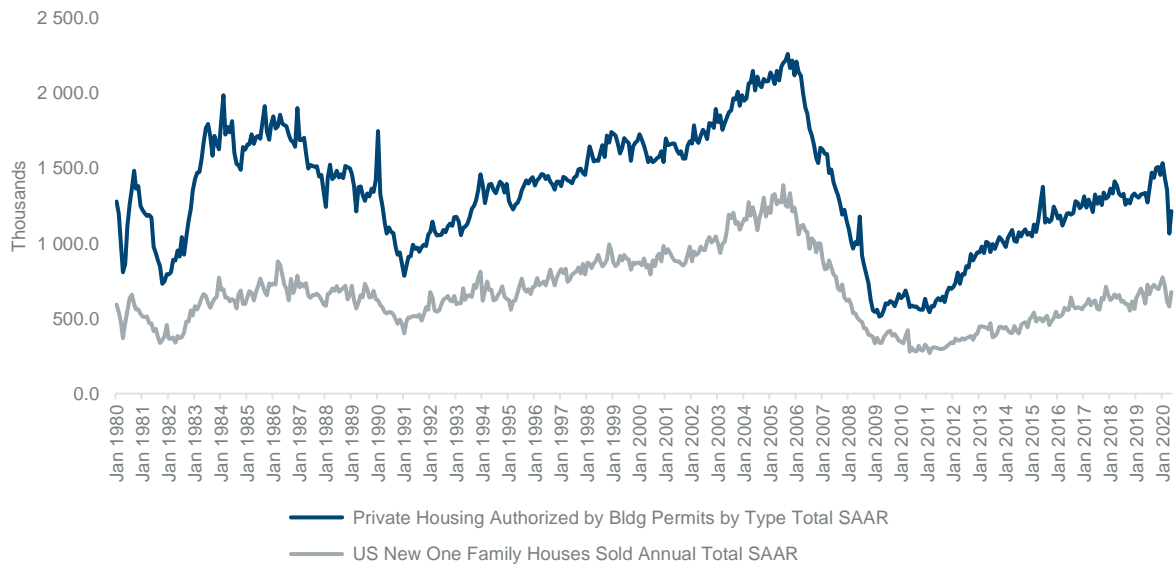
Figure 44: Retail sales excl autos and gas stations, seasonally adjusted YoY%



Source: Bloomberg

The year-on-year growth rate in retail sales slowed to -19.9% in April before improving to -6.1% in May. It is interesting that even with unemployment benefits of close to \$1,000 per week, people's anxiety about the pandemic and the uncertain job outlook still hurt retail sales in the US. New and existing home sales, as well as the issue of private housing building permits all slowed in April but have since showed signs of a recovery.

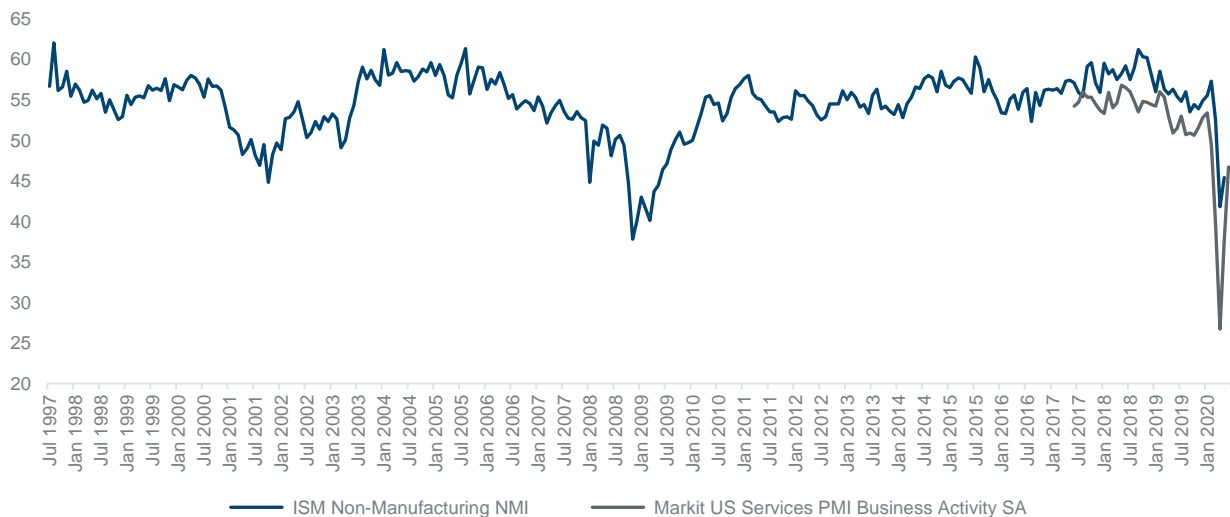
Figure 45: US housing market



Source: Bloomberg

The US non-manufacturing sector continued its contraction but improved as the Institute for Supply Management (ISM) Non-Manufacturing Index dropped from 52.5 in March to 41.8 in April and then rose to 45.4 in May. Business activities slumped to 26.7 in April but by June had improved to 46.7 .

Figure 46: ISM Non-Manufacturing Index



Source: Bloomberg

The growth rates of US exports to and imports from China tumbled more sharply to -42.6% and -36.5%, respectively, in March, year on year. This was due to weaker demand from China, factory closures and logistics problems as the country was then in full lockdown mode. Conditions improved in April and May, but year-on-year growth remained in the red for both exports to and imports from China (-10.5% and -6.6% in May, respectively). Both the US and China have indicated that the Phase 1 trade deal remains intact and they are committed to honouring its terms. However, the COVID-19 pandemic has slowed its implementation. On 18 June, the US Chamber of Commerce urged Beijing to step up its purchases of US goods and services, as agreed under the trade deal, which are valued at US\$200 billion over two years.

Total exports and imports continued to contract from March through to April and May, at the rate of -32.1% and -24.6%, respectively. With no signs of improvement, the US trade deficit increased to US\$54.6 billion in May. The latest US industrial production year-on-year growth rate was -5.5% in March, while the current account deficit was 2.13% over the same period.

Figure 47: US exports to and imports from China



Source: Bloomberg

Figure 48: US imports and exports

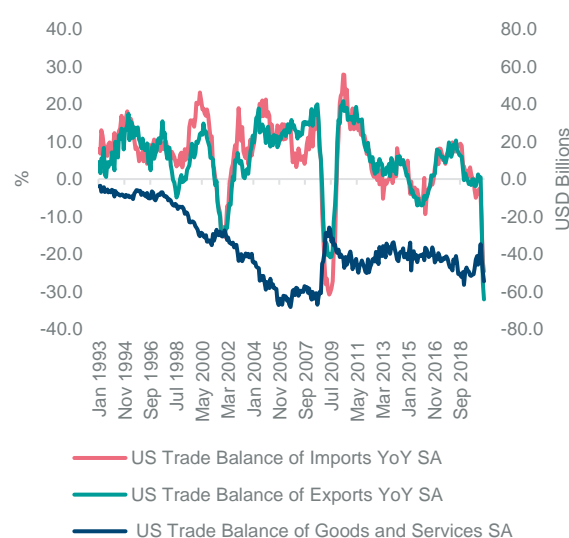
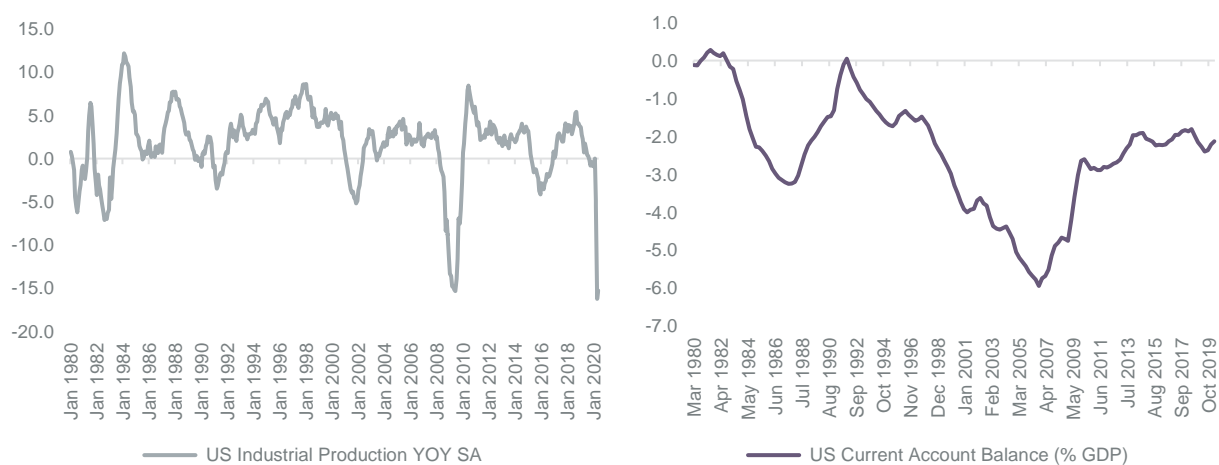


Figure 49: US current account balance and industrial production



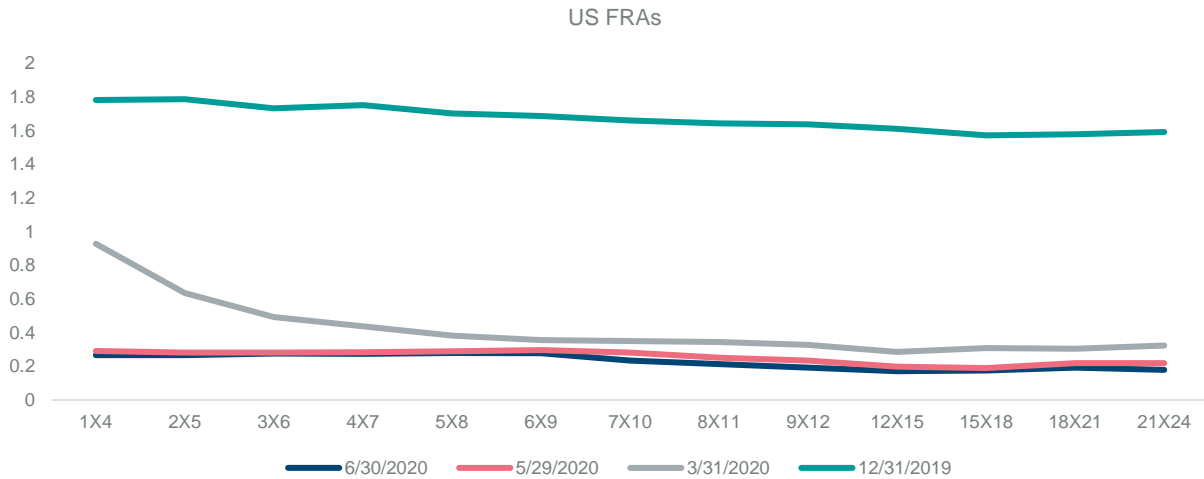
Source: Bloomberg

In general, the US economic data releases have been moving in the right direction but have fallen short of market expectations from time to time.

ZERO RATE EXPECTATION

We see that the current US FRA (forward rate agreement) rates are not pricing in any cuts in the coming months. In this regard, the Federal Reserve indicated in June that interest rates would remain near zero until at least 2022, allowing the economy to recover from the COVID-19 crisis. Inflation in the US slowed from 1.5% in March to 0.1% in May.

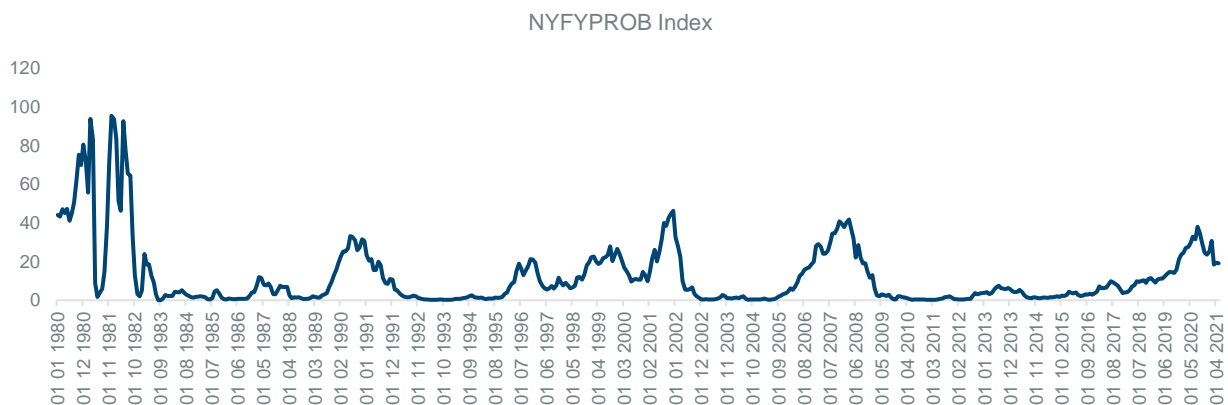
Figure 50: US FRAs



Source: Bloomberg

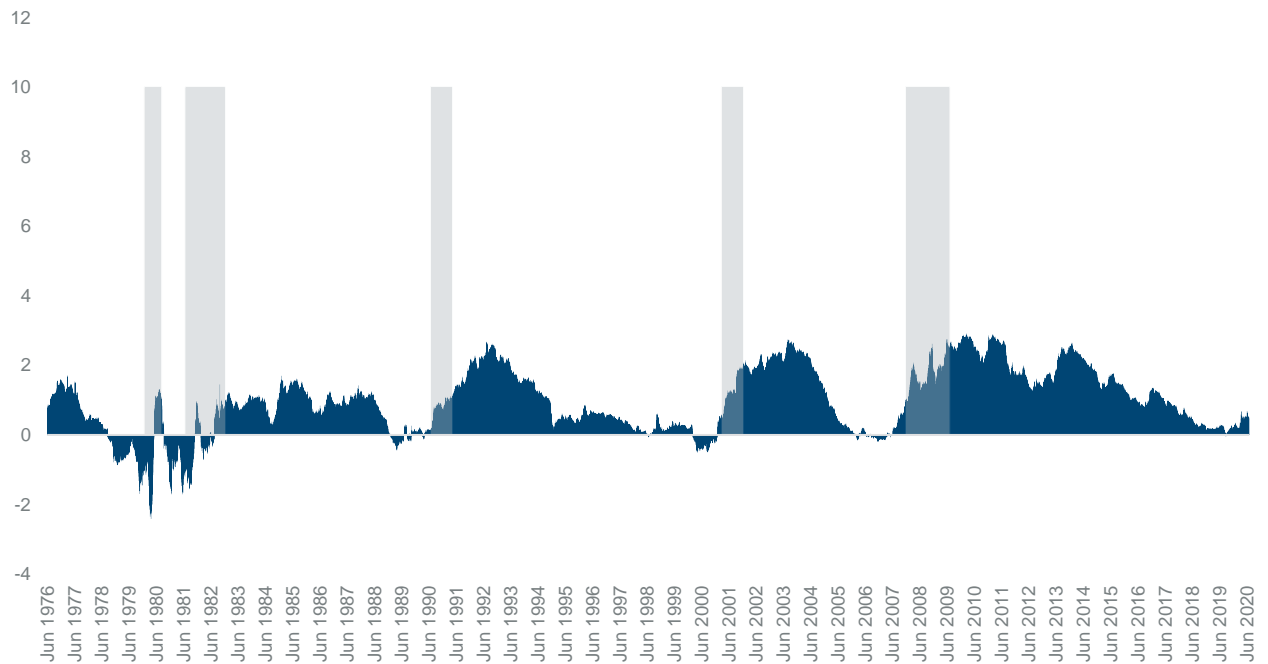
The probability of a US recession within the next 12 months, as predicted by the US Treasury spread, decreased from 30.7% in February to 19.1% in May. A Bloomberg survey of over 50 economists, however, suggested a 100% median reading for the probability of recession. The spread between the 10-year Treasury bond and the 3-month Treasury bill subsided from 120bps in late March to 53 bps in June. The spread between the 10-year and 2-year Treasury bonds stood at 51bps.

Figure 51: Probability of a US recession predicted by the Treasury spread



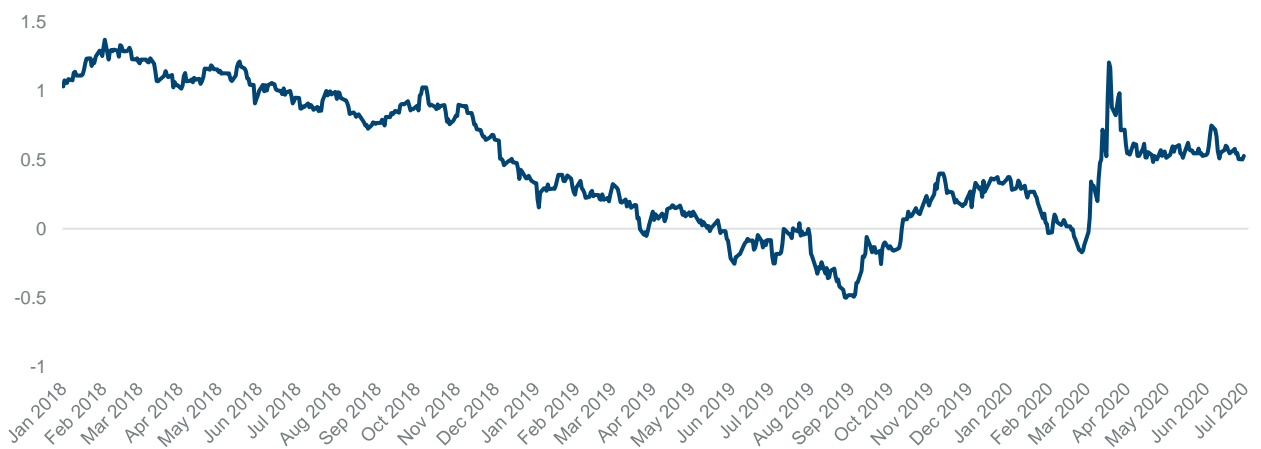
Source: Bloomberg

Figure 52: 10-year vs 2-year US Treasury bond yield spread vs US recession



Source: Bloomberg

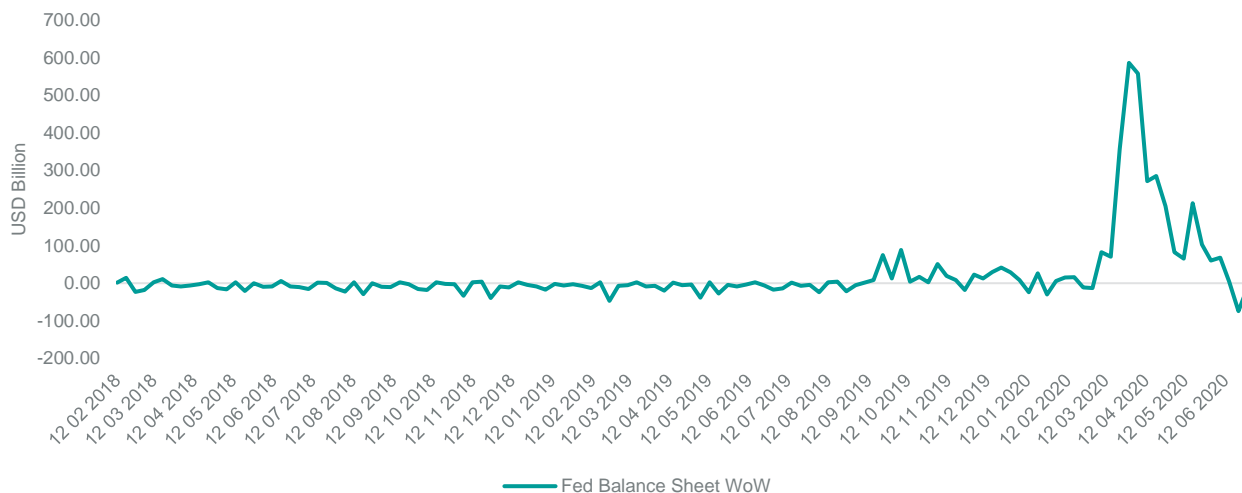
Figure 53: 10-year vs 3-month Treasury bond yield spread



Source: Bloomberg

The Federal Reserve balance sheet expanded by close to US\$3 trillion between 1 March and the end of June. The rate of asset purchases by the Fed has slowed in recent weeks. We expect asset price reflation to follow the same dynamic.

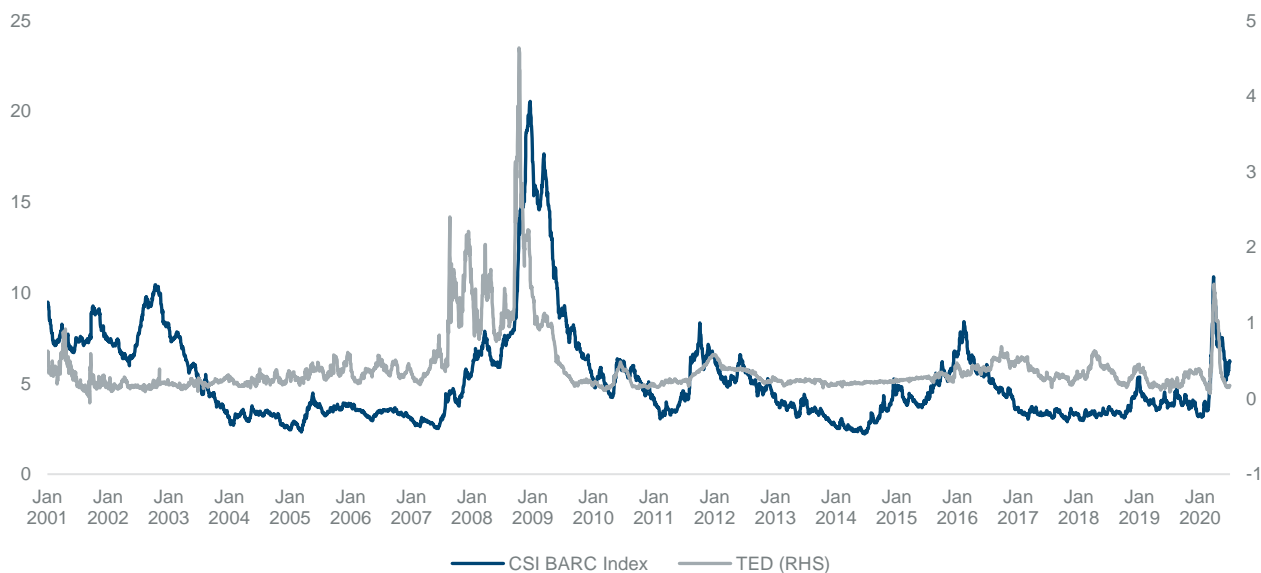
Figure 54: Fed rate of buying week on week



Source: Bloomberg

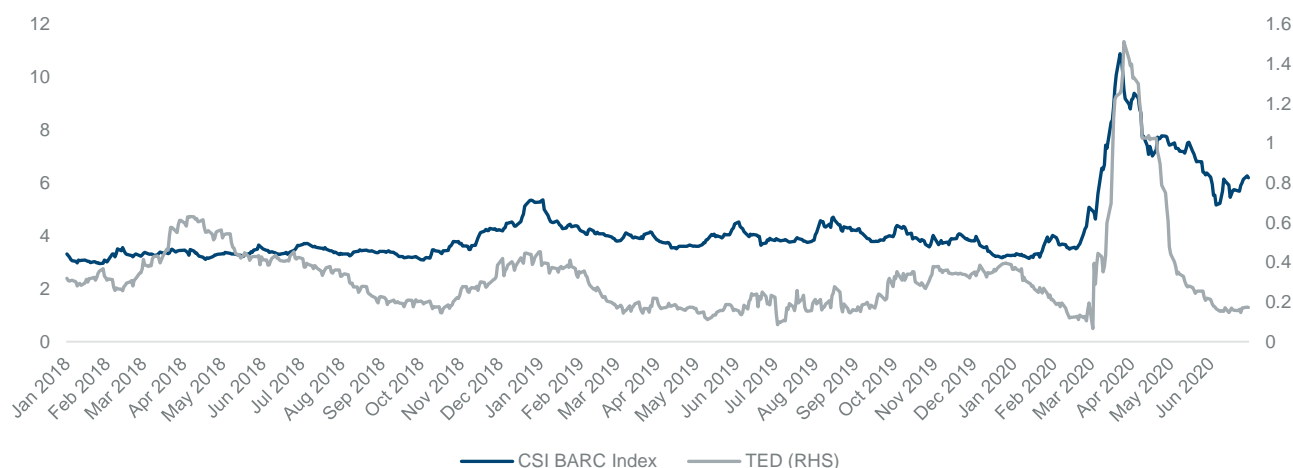
The TED spread is an indicator of the perceived credit risk of the general economy and the perceived risk in the financial system. Despite the spike in late March, the elevation in the TED spread was much tamer than in 2008. It has since returned to the pre-pandemic level, showing the ability of large commercial banks in the US to access funding at a similar cost, pre- and during the pandemic. At the same time, banks have been more willing to use the excess liquidity to lend to customers, which is very different from what happened during the credit crunch in 2008.

Figure 55: BARC spread and TED spread since '01



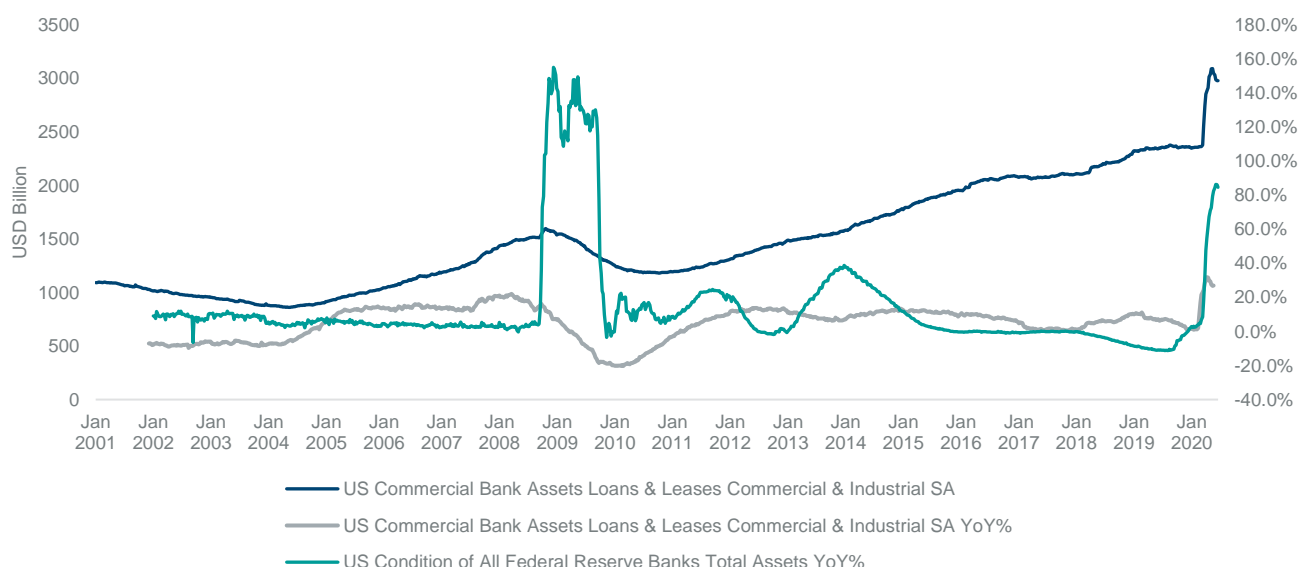
Sources: Bloomberg (The BarCap US Corporate HY YTW - 10-Yr Treasury Spread is calculated by taking the Barclays Capital US Corporate High Yield Index Yield to Worst minus the US Generic Government 10-Year Yield. The TED spread is the difference between the three-month Treasury bill and the three-month LIBOR in US\$.)

Figure 56: BARC spread and TED spread since '18



Source: Bloomberg

Figure 57: US commercial bank loans vs Fed balance sheet YoY%



Source: Bloomberg

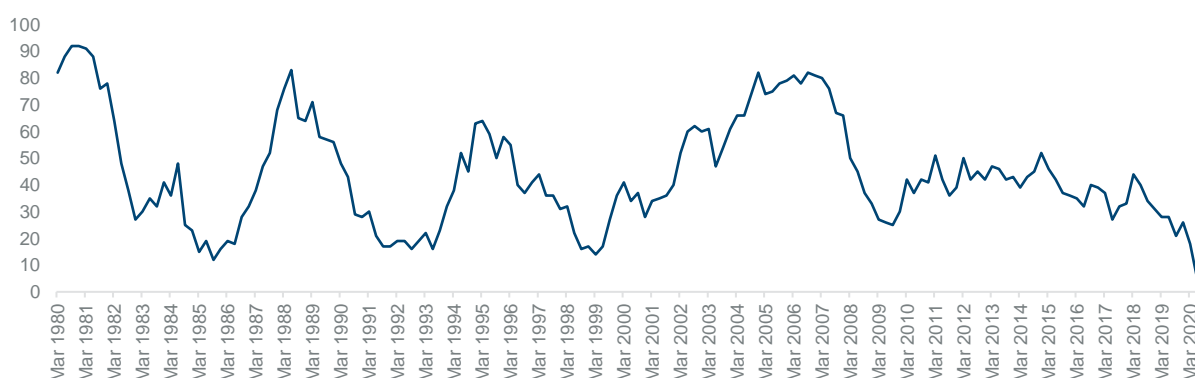
It would be interesting to see the impact of COVID-19 on the US bankruptcy filings, which are not yet available. The trajectory of the COVID-19 crisis can be likened to Donald Trump's administration – i.e. extremely unpredictable – and so the pathway to economic recovery remains uncertain. We will see in the coming weeks whether the surge in the infection rate will lead to a spike in deaths, which will dent some of the reopening efforts, or whether any of the relief programmes will be extended past their deadlines. Despite current levels of uncertainty, the fact that the economy was in a much healthier state prior to the pandemic and there is now room for optimism in the face of a practically limitless stimulus means that the US will most likely outperform its other, developed-country peers when it comes to speed of recovery. The question is: how many unexpected speed bumps it will encounter along the way?

SOUTH AFRICA

ADDING INSULT TO INJURY

The significant economic challenges that South Africa has faced over the last few years have been exacerbated by the COVID-19 pandemic. We have also experienced delays in data releases from Stats SA due to lockdowns, thus negatively impacting data and survey collection and further obscuring domestic economic conditions. For instance, the South Africa Consumer Confidence Index for April was not published and the CPI for April was only published in late June. We all know the directions of the indicators but it is the movement intensity that would indicate what to expect. The Bureau of Economic Research Business Confidence Index showed a decline from 18 to 5 from the end of March to the end of June. This is the lowest level since the inception of the index.

Figure 58: BER SA Composite Business Confidence Index



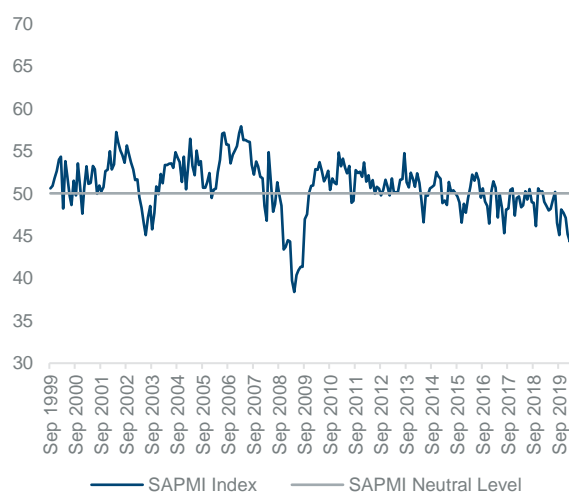
Source: Bloomberg

Figure 59: SACCI Business Confidence Index



Source: Bloomberg

Figure 60: SA PMI Barclays Index



The SA Chamber of Commerce and Industry (SACCI) Business Confidence Index weakened slightly from 89.9 in March to 77.8 in April 2020, another all-time low. The SA PMI, on the other hand, improved to 53.9 in June, but there are concerns about the manufacturing sector's ability to sustain its expansionary trend for a prolonged period. The jump was mainly driven by a revenge-style surge in business activity and new orders in the wake of the easing of the lockdowns, with some degree of improvement in purchasing commitments. However, the labour market, according to the PMI surveys, remained in a state of deep contraction. South Africa's GDP, which has been negative for two consecutive quarters since Q4 last year, contracted by 2% (annualised) in Q1 2020.

Figure 61: SA GDP constant prices YoY% SAAR

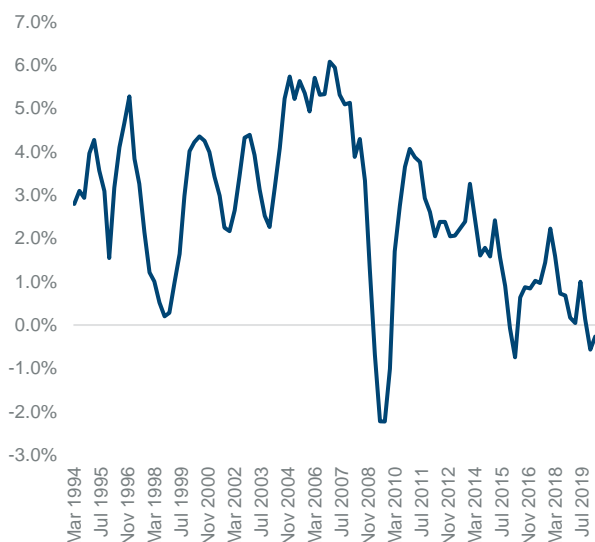
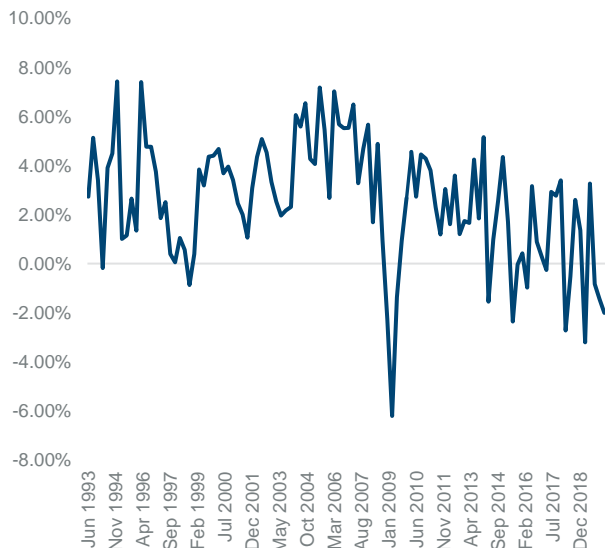


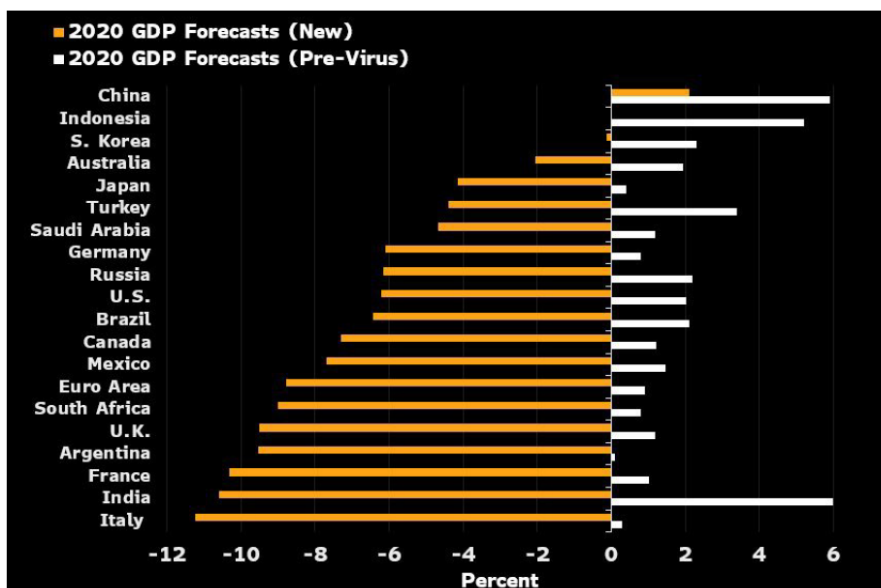
Figure 62: SA constant GDP QoQ% SAAR



Source: Bloomberg

The Reserve Bank and the National Treasury see the economy contracting by 7% and 7.2%, respectively, this year. That would be the biggest decline since the Great Depression when GDP fell by 6% in 1931. In line with Bloomberg Economics, they expect South Africa's economic contraction for 2020 to be one of the deepest among major economies. South Africa's unemployment rate increased from 29.1% in Q4 2019 to 30.1% in Q1 2020. The unemployment figures are yet to reflect the damage done by the COVID-19-induced lockdowns.

Figure 63: Bloomberg GDP forecasts pre-pandemic and latest

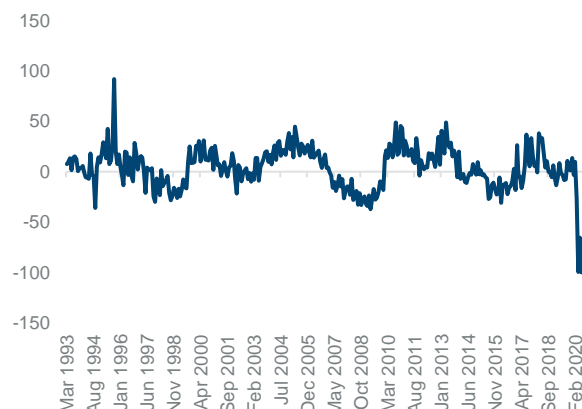


The year-on-year growth in retail sales weakened to 0.1% in February and then jumped to 3.8% in March. We believe that stocking up of inventory in preparation of the lockdowns was the key contributor. The year-on-year growth in total and new car sales came to a complete halt in April, improved slightly in May (-68% and -65%, respectively) and then improved further in June (-30.7% and -33.4%, respectively) as global facilities reopened and production in the domestic motor industry resumed. Building plan data have not been updated since February but we expect the numbers to be severely impacted by the nationwide lockdowns and subdued consumer and commercial demand for property refurbishments and new developments in the current difficult economic climate.

Figure 64: Retail sales real YoY% SA



Figure 65: New car sales YoY%



Source: Bloomberg

The number of company liquidations in South Africa was 0 in April due to the lockdown but 195 were reported in May. Business conditions remain extremely challenging for certain sectors, even as the economy reopens, such as the tourism and hospitality sectors. Some entities are claiming business disruption pay-outs from short-term insurers in order to survive.

Figure 66: South African company bankruptcies

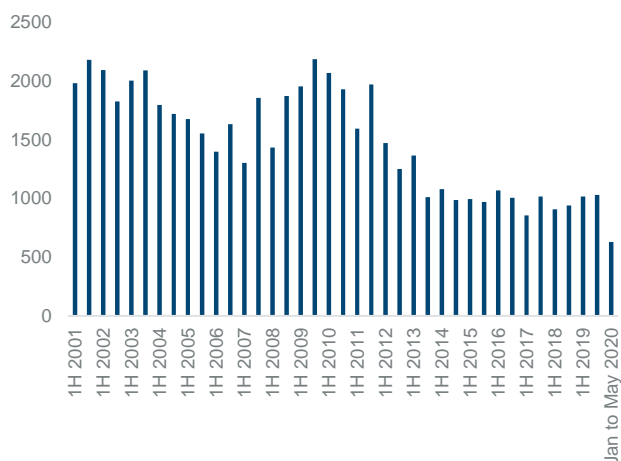


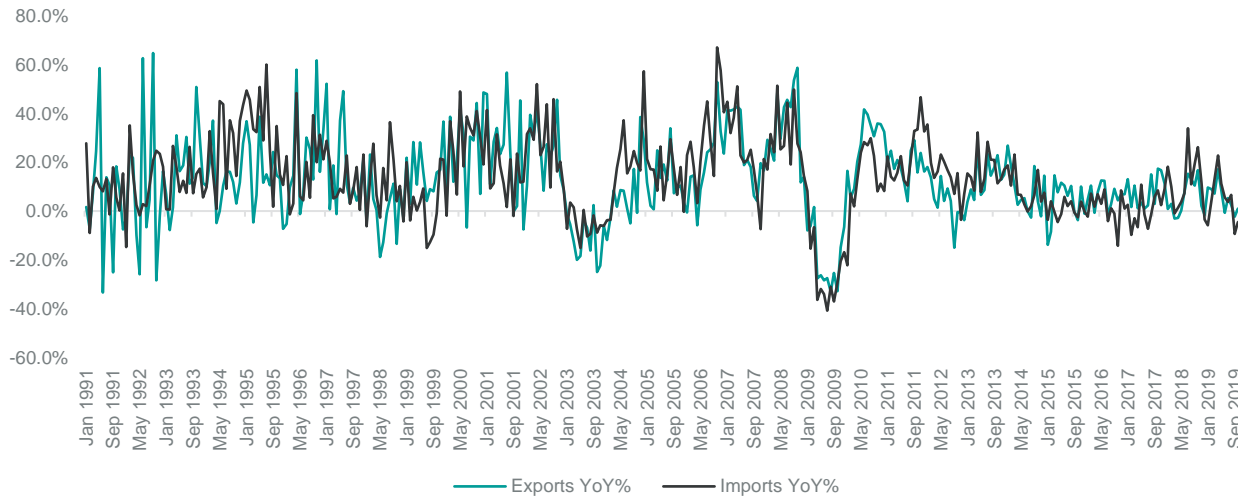
Figure 67: Current account deficit % of GDP



Source: Bloomberg

The current account deficit improved from 1.3% of GDP in Q4 2019 to a current account surplus of 1.3% in Q1 2020 (for the first time in 17 years). The positive balance was mainly driven by the trade surplus, which widened from R14 billion to R24 billion over the quarter. Exports were then negatively affected in April (49.9% year on year) but improved in May (-8.9%). Imports sustained less of a blow in April (-18%) but continued to decline in May (-22%). This should result in a smaller trade surplus in Q2 2020.

Figure 68: Imports and exports YoY%



Source: Bloomberg

The current account surplus may help to take some of the pressure off the rand, which has weakened from R14/\$ to R19/\$ over the period 31 Dec 2019–23 April 2020 – a whopping 36% drop in value. The rand managed to recover to R17.35/\$ by the end of June. Investors remain concerned about risks associated with the spread of the coronavirus and the effect on South Africa's strained public finances. However, speculators have become more bullish about the rand since May.

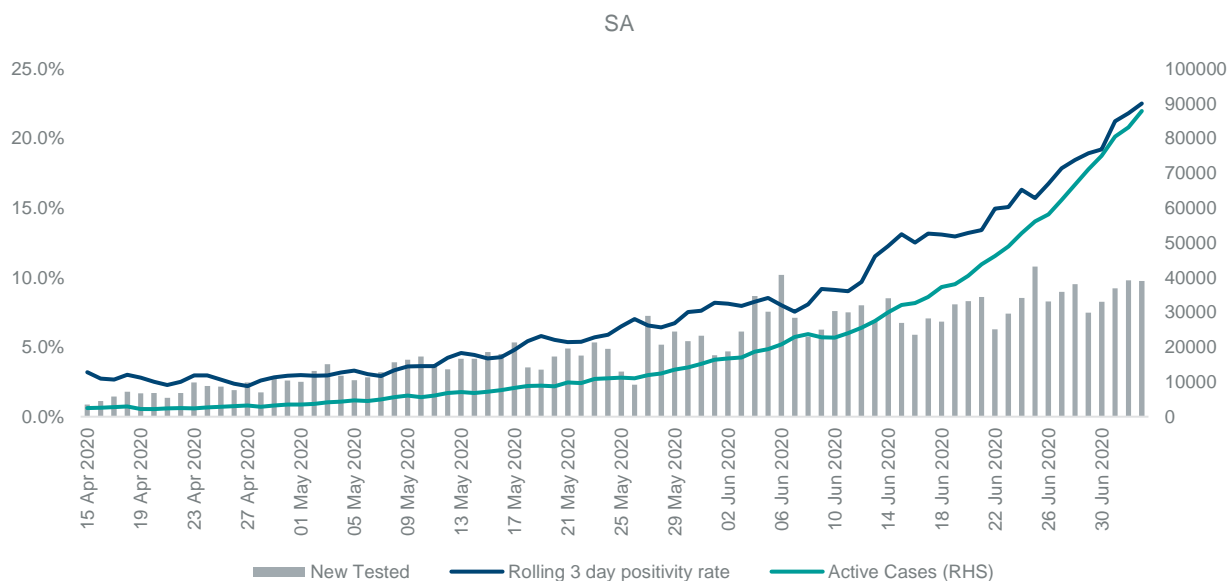
Figure 69: CFTC CME South African rand non-comm net contracts/combined



Source: Bloomberg

The near-term economic outlook is highly dependent on how the coronavirus pandemic plays out in the country. The rolling 3-day average positivity rate raced past 22% and active cases also grew exponentially towards the 100,000 mark. Fortunately, the case-related fatality remained below 2%. The surge in new cases in recent months, and the prospect of many more to come in the coming weeks, will subject the local health infrastructure to its ultimate stress test.

Figure 70: South Africa rolling 3-day positivity rate and active cases as at 3 July 2020



Source: Bloomberg

RE-BUDGETING REALISTICALLY

Re-budgeting is never ideal. In reality, the only time that an individual needs to re-budget is usually when they realise that they have been living beyond their means. However, re-budgeting offers a chance to correct a previously chosen path and provides a reality check from which viable solutions can be formulated to prevent circumstances deteriorating any further.

COVID-19 could not have come at a worse time for South Africa since the country has been suffering from its longest-ever economic downturn, having missed out on a globally synchronised growth path over the past decade. While investors welcomed the pro-growth budget speech delivered by the Finance Minister in February, they have become increasingly concerned about the risk of poor implementation, particularly as wage talks and spending cuts have always been met with much resistance from the unions. Then COVID-19 struck and South Africa was downgraded by Moody's in late March. The country then exited the WGBI Index in April due to a rebalancing delay as a result of COVID-19.

The South African Reserve Bank acted swiftly and lowered the policy rate from 6.5% to 3.75% between March and May. It also introduced additional measures such as the Intraday Overnight Supplementary Repurchase Operations (IOSROs), together with the Main Refinancing Operations, to enhance market liquidity. At the same time, the government rapidly introduced direct support measures and loan guarantees to support extremely vulnerable, low-income families and small and medium enterprises.

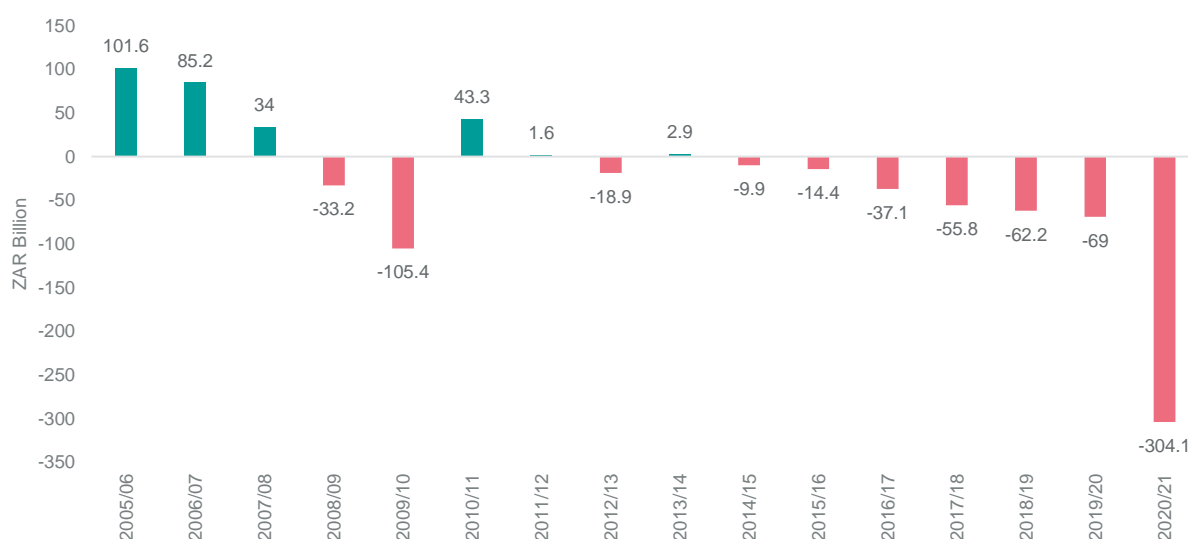
Figure 71: South African government fiscal relief programs during the COVID-19 pandemic as of June 2020

South Africa's Fiscal Policy Responses
Low-income families would receive US\$30/month.
Department of Trade and Industry created a US\$173 million relief fund for industrial spending.
On April 23, a US\$26 billion package was announced. US\$5.7 billion would be for a job creation and protection programme, and US\$2.8 billion would be used for welfare grants to the poor and unemployed.
The April 23 package would be funded by the redirection of US\$7.3 billion in existing budgetary spending and additional domestic and international borrowing.
On June 24, a revised budget was announced, which allocated an additional US\$2 billion to frontline pandemic response services and the healthcare sector. An additional US\$1.5 billion would be allocated to the Department of Social Development, and an additional US\$1.1 billion would be allocated for job creation and protection. The budget increase would be paid for by tax increases in the coming years.
The government also committed US\$29 million to an SME relief fund, and US\$0.9 million to the New Solidarity Fund, which would be open to contributions from businesses and individuals.
US\$11.3 billion of the April 23 relief package would be for bank loan guarantees to SMEs. 700,000 businesses were expected to benefit.
SMEs in distress would be eligible for a deferral of payments to the Unemployment Insurance Fund (UIF) to avoid lay-offs, as well as a deferral on income taxes.

Source: Institute of International Finance

While the nation fights the coronavirus, the question many investors have anxiously asked is: how will the country fund these policy responses and avoid a fiscal cliff? In addition to the R26 billion in tax relief and delays in tax collection, the measures put in place to curb the spread of the virus have curtailed consumer spending and business activities, and are expected to severely affect the collection of tax revenues. In terms of the supplementary budget, the gross tax revenue for the 2020/21 fiscal year has been revised downwards by R300 billion, from R1.43 trillion announced in the February budget to R1.12 trillion.

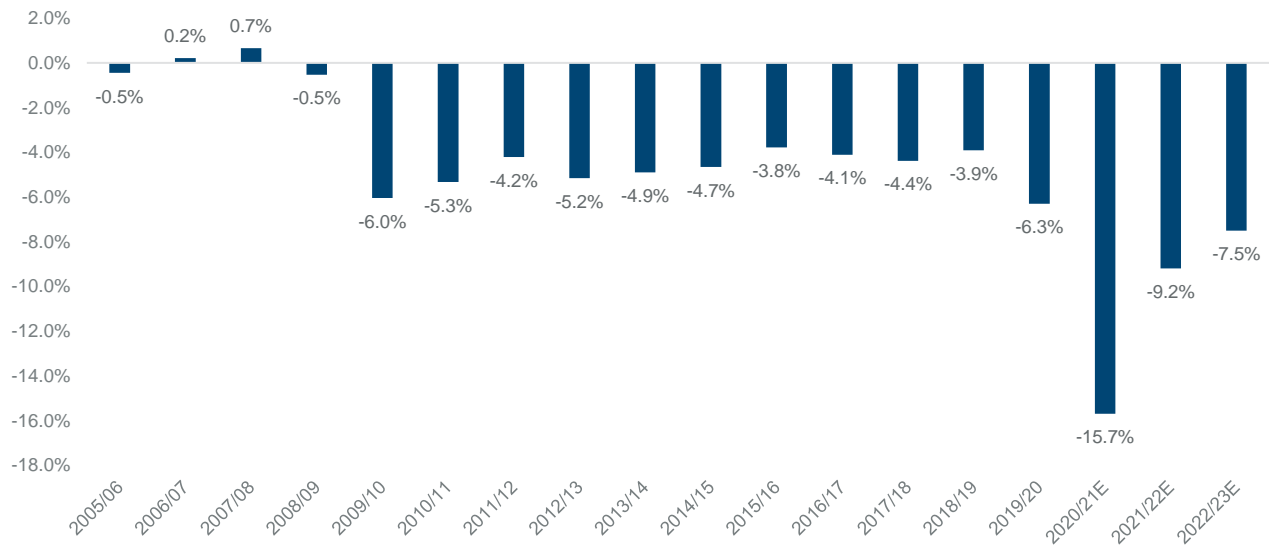
Figure 72: Tax revenue relative to the main budget forecast



Source: National Treasury

Consequently, the consolidated budget deficit for 2020/21 fiscal year will swell to R761.7 billion or 15.7% of GDP, compared to the 6.8% budget deficit forecasted in February. The upward trend in fiscal expenditures and subdued growth in tax revenues over the past decade, and now COVID-19, have seen the budgetary gap widen astronomically.

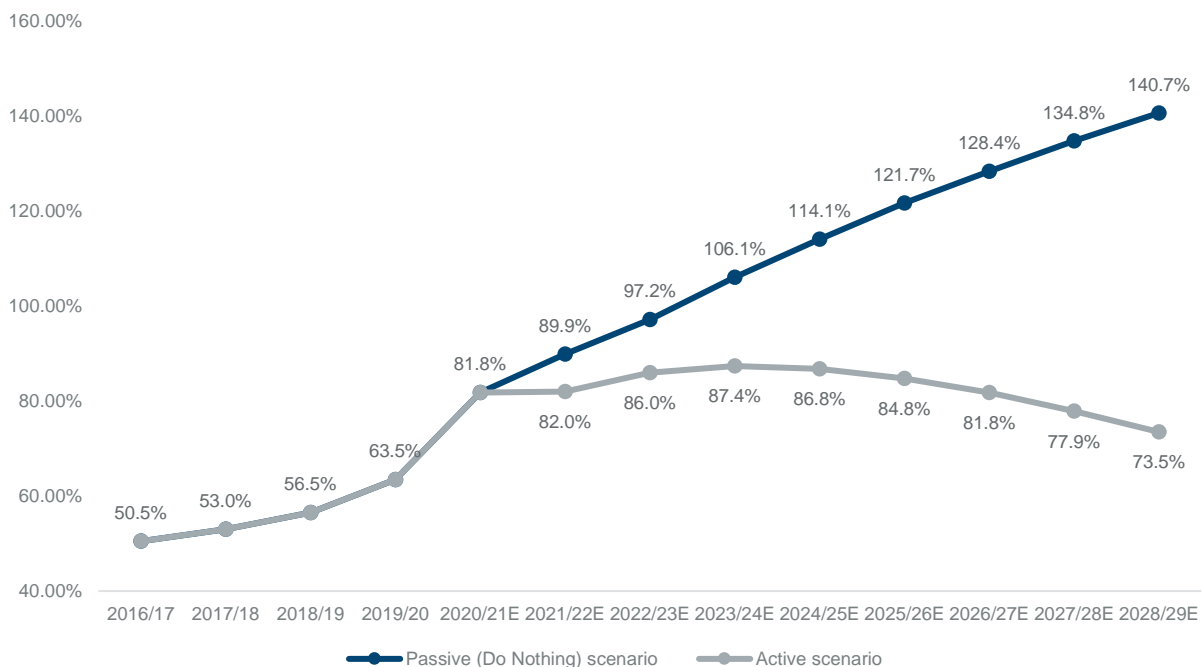
Figure 73: Budget balance-to-GDP%



Source: Bloomberg, National Treasury

Ultimately, the government will need to fund its budget through borrowing, pushing the debt-to-GDP ratio into unsustainable territory. The National Treasury has presented two scenarios: one passive or maintaining the status quo and one proactive involving cash management, spending cuts and zero-based budgeting to bring about some level of debt stabilisation over the medium to long term. Although the National Treasury seems to have the will, the execution risk remains high.

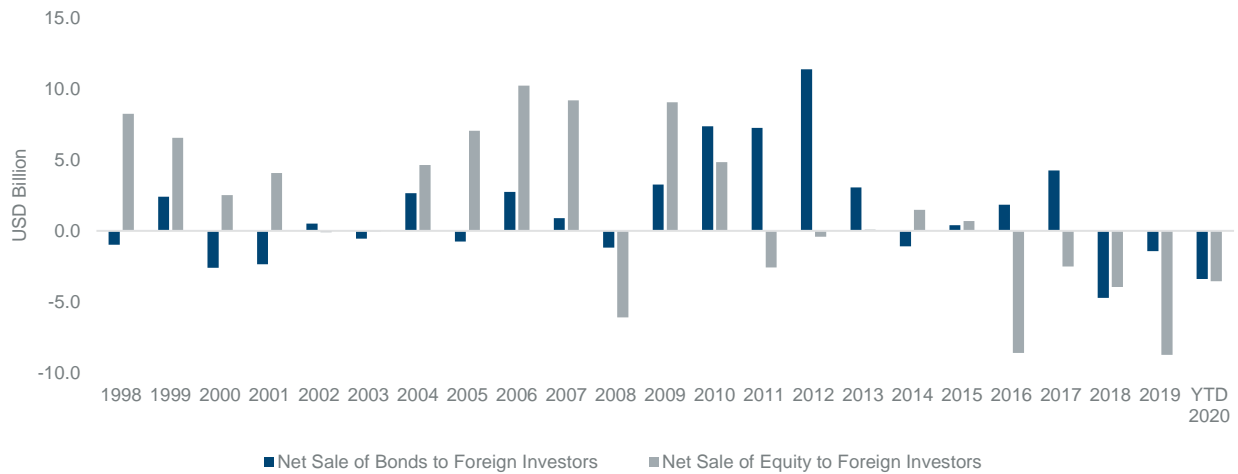
Figure 74: Debt-to-GDP%



Source: National Treasury, Nedbank

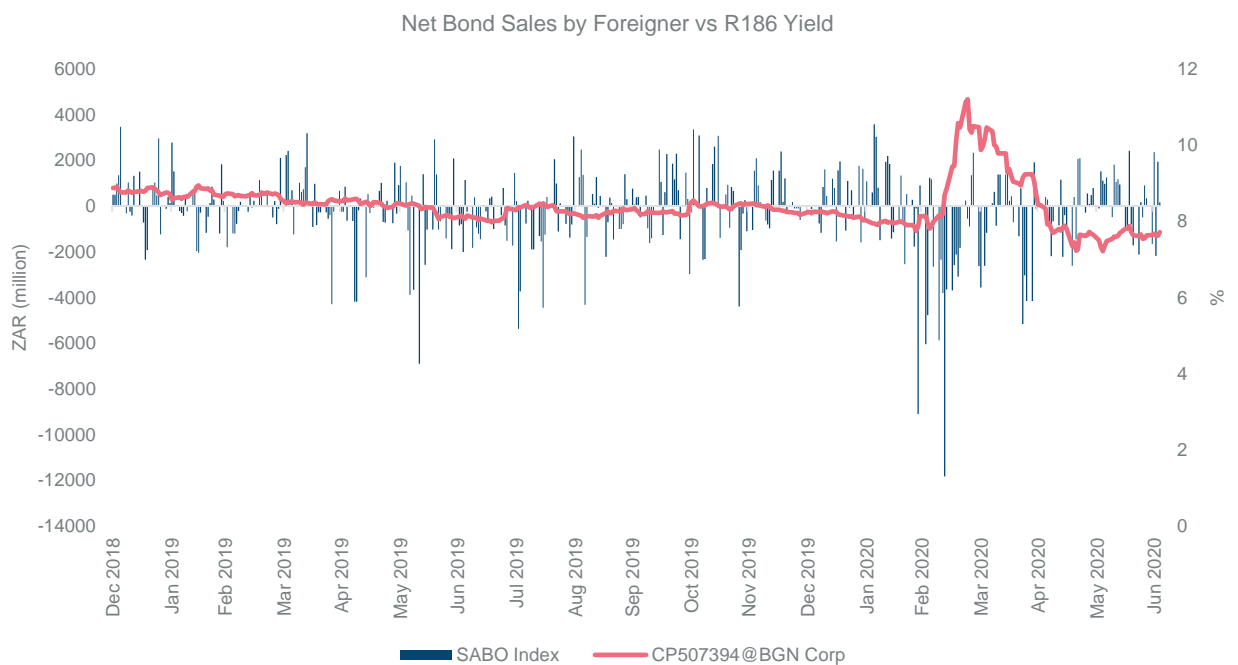
Developing countries are considered more vulnerable to the economic fallout caused by the coronavirus pandemic. By the end of June 2020, foreign investors were net sellers of US\$3.4 billion worth of local bonds and US\$3.5 billion worth of local equities. Bond yields have since recovered from the March highs, but flows from offshore investors remain volatile.

Figure 75: Net bonds and equity sales by foreign investors



Source: Bloomberg

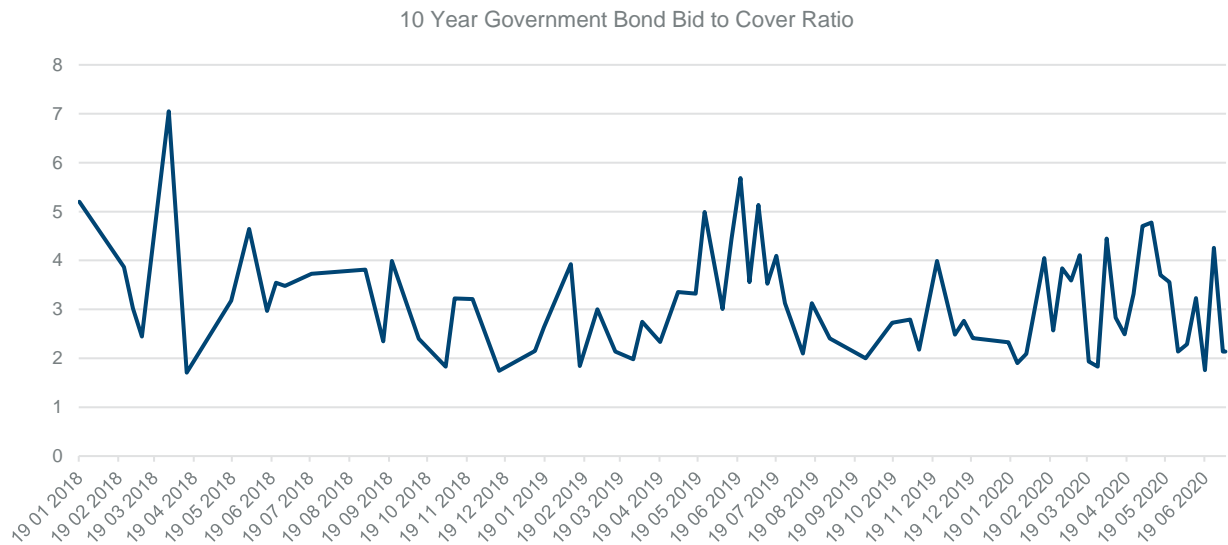
Figure 76: Bond sales and yield



Source: Bloomberg

The bid-to-cover ratio for the 10-year government bond auction dropped 1.76x in mid-June before recovering to 4.26x in late June, and then returning to 2x in early July.

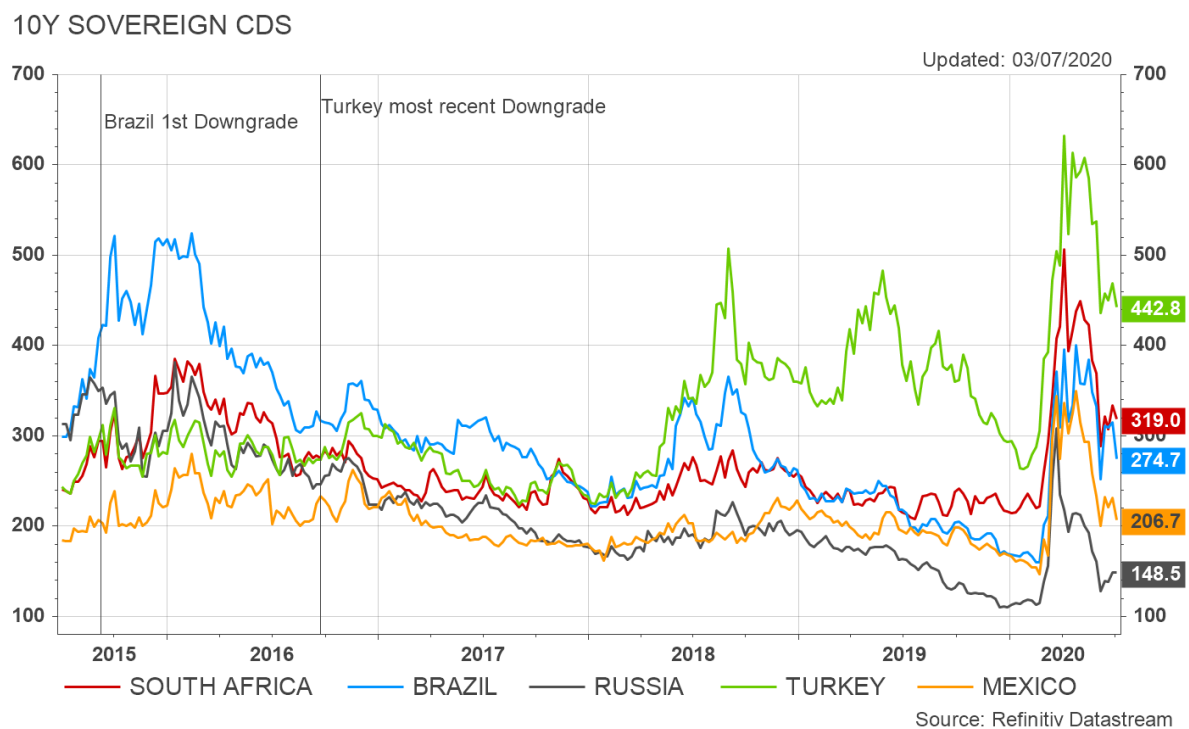
Figure 77: 10-year government bond bid-to-cover ratio



Source: Bloomberg

The 10-year credit default spread receded from their March highs but remained elevated for South Africa. From a real yield perspective, South African bonds remain attractive when compared to other EM peers.

Figure 78: 10-year CDS (credit default swap) spread



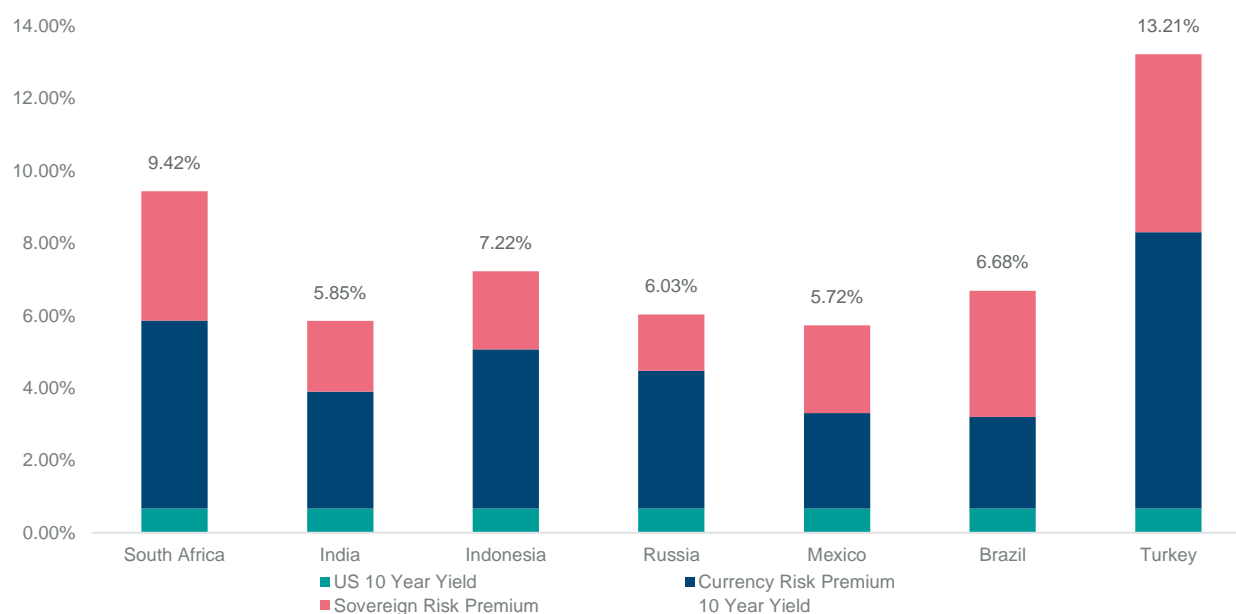
Source: Reuters

Figure 79: SA real yield and ratings vs other EM peers as at 3 July 2020

	South Africa	India	Indonesia	Russia	Mexico	Brazil	Turkey
10-Year Yield	9.42%	5.85%	7.22%	6.03%	5.72%	6.68%	13.21%
Inflation	3.0%	5.8%	1.96%	3.0%	2.8%	1.9%	12.6%
Inflation Expectation	3.50%	4.80%	2.70%	3.40%	2.90%	2.50%	10.50%
10-Year Real Yield	6.42%	0.01%	5.26%	3.03%	2.88%	4.80%	0.59%
10-Year Real Yield based on inflation expectation	5.92%	1.05%	4.52%	2.63%	2.82%	4.18%	2.71%
Currency Risk Premium	5.19%	3.22%	4.39%	3.80%	2.63%	2.53%	7.63%
Sovereign Risk Premium	3.56%	1.95%	2.16%	1.56%	2.42%	3.48%	4.91%
US 10-Year Yield	0.67%	0.67%	0.67%	0.67%	0.67%	0.67%	0.67%
S&P Rating - Foreign Currency	BB-	BBB-	BBB	BBB-	BBB	BB-	B+
Moody's Rating - Foreign Currency	Ba1	Baa3	Baa2	Baa3	Baa1	Ba2	B1

Source: Bloomberg

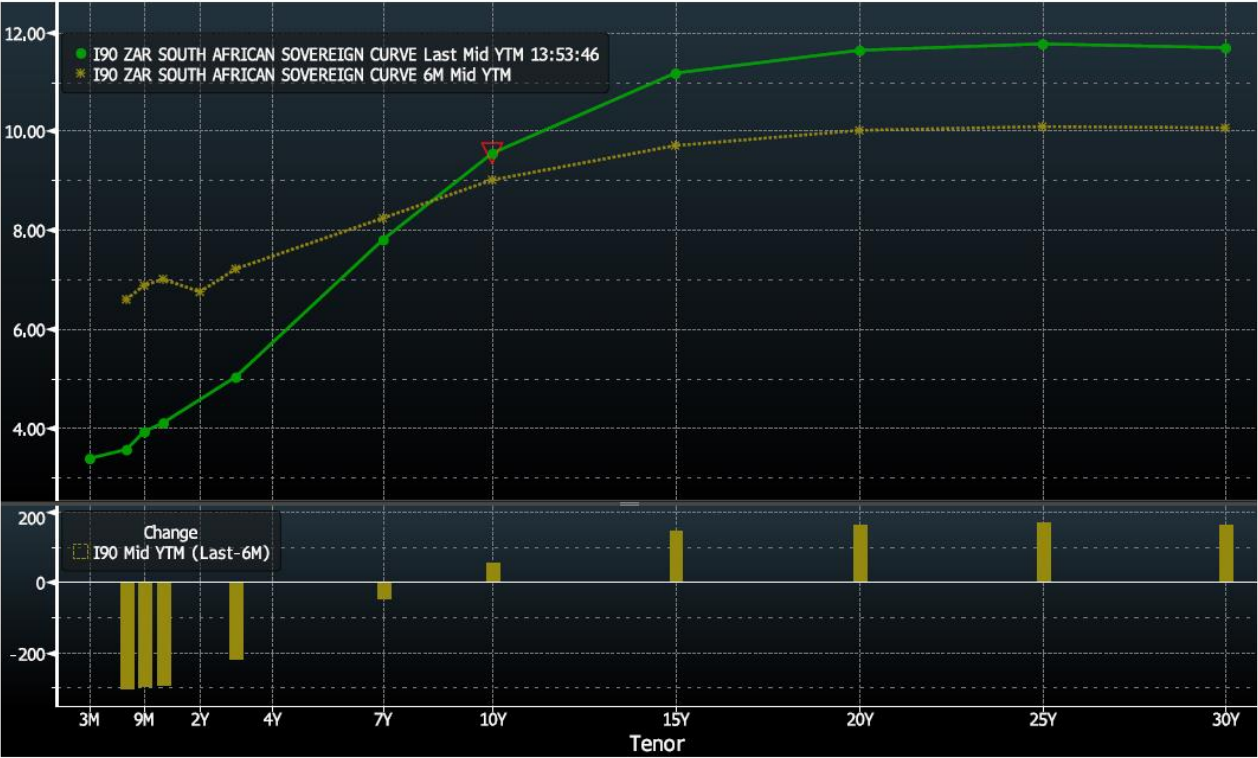
Figure 80: SA bond yield vs other EM peers as at 3 July 2020



Source: Bloomberg

The concern, however, is the steepening of the yield curve, indicating that government borrowing has become increasingly expensive to fund due to the lack of demand on the longer maturity bonds.

Figure 81: SA bond yield curve

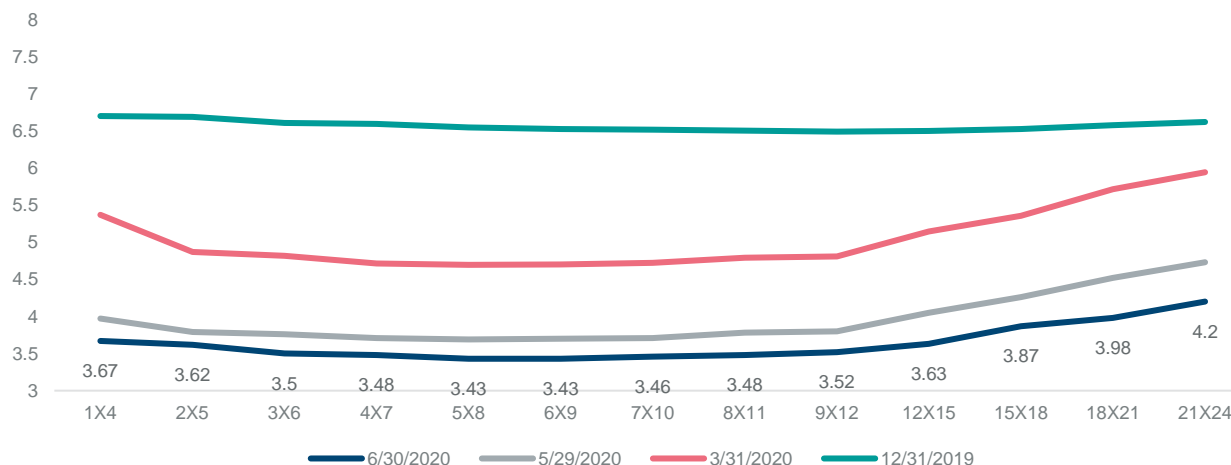


Source: Bloomberg

INTEREST RATE OUTLOOK

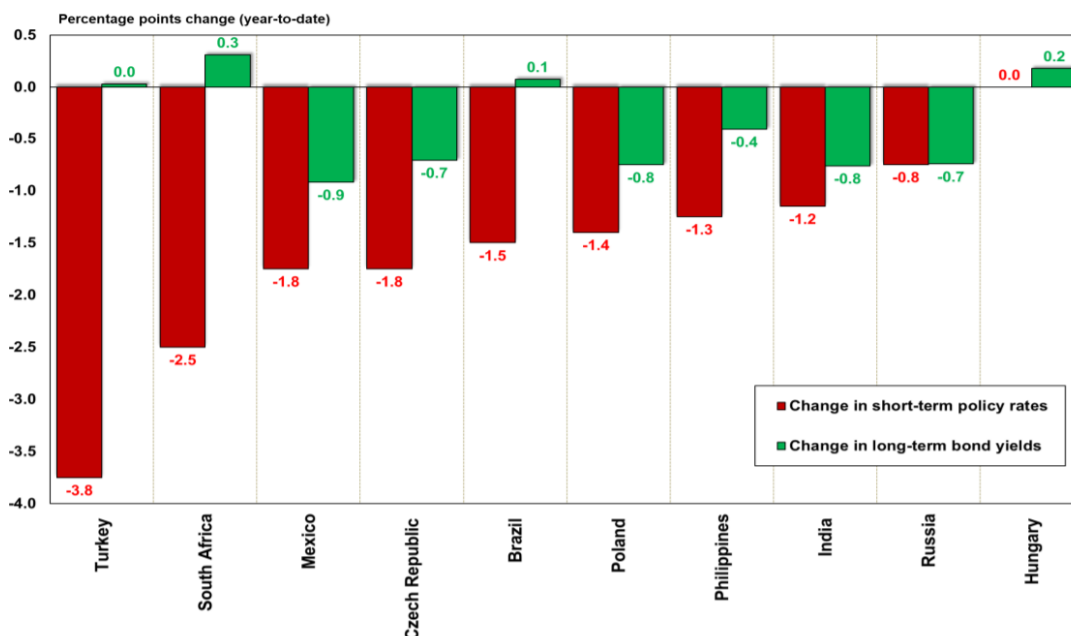
After the MPC cut the repo rate from 6.5% at the beginning of the year to 5.25% in March, it went further and reduced the rate by another 100bps and 50bps on 15 April and 22 May to 3.75%. Judging from the FRAs, the market is anticipating a further 25bps rate cut by the end of 2020. The SARB, however, has forecast another two repo rate cuts of 25 bps in the next two quarters. South Africa's rate cut has been much greater than that of other EM peers in response to the COVID-19 pandemic. South Africa's inflation rate fell to 3% in April, the lowest reading in almost 15 years. Statistics South Africa said the reading was based on a limited sample, collected primarily via online pricing, as staff were working from home and so the major contributor to April's decline in the headline number was the fuel price.

Figure 82: FRAs



Source: Bloomberg

Figure 83: South Africa policy rate and yield movements vs EM peers



Source: Nedbank

A FINAL WORD

The pandemic has intensified existing trends – from geopolitical fragmentation and racial conflicts to accelerated automation and digitisation. Governments, companies and individuals will certainly learn from these experiences, searching for smarter ways of doing business and making smarter life choices. The Chinese government repeatedly highlights the strategic importance of blockchain technology and is allocating more and more resources to accelerate the development of blockchain technology and industrial innovation.

Geopolitical tensions remain elevated, from the US-China and US-EU tariff wars and threats and India/China border disputes, to the new Hong Kong security law which is drawing massive criticism of its anti-democracy intent, the uncertainty of the BREXIT deal as the deadline looms and the US election outcome. Any one of the above issues would have jangled investors' nerves, with COVID-19 now adding significantly to global uncertainty.

While the IMF projected a deeper recession and slower recovery for the world economy in its latest update, with global GDP expected to contract by 4.9% this year vs 3% in its April forecast, the IMF has also revised the growth forecasts for advanced economies from a 6.1% contraction two months ago to an 8% contraction. Furthermore, EMs' anticipated contraction is expected to deepen from 1% forecasted in April to 3%. On a more positive note, the IMF still expects the Chinese economy to expand by 1% this year.

Figure 84: IMF growth projections in June

Latest World Economic Outlook Growth Projections

(real GDP, annual percent change)	PROJECTIONS		
	2019	2020	2021
World Output	2.9	-4.9	5.4
Advanced Economies	1.7	-8.0	4.8
United States	2.3	-8.0	4.5
Euro Area	1.3	-10.2	6.0
Germany	0.6	-7.8	5.4
France	1.5	-12.5	7.3
Italy	0.3	-12.8	6.3
Spain	2.0	-12.8	6.3
Japan	0.7	-5.8	2.4
United Kingdom	1.4	-10.2	6.3
Canada	1.7	-8.4	4.9
Other Advanced Economies	1.7	-4.8	4.2
Emerging Markets and Developing Economies	3.7	-3.0	5.9
Emerging and Developing Asia	5.5	-0.8	7.4
China	6.1	1.0	8.2
India	4.2	-4.5	6.0
ASEAN-5	4.9	-2.0	6.2
Emerging and Developing Europe	2.1	-5.8	4.3
Russia	1.3	-6.6	4.1
Latin America and the Caribbean	0.1	-9.4	3.7
Brazil	1.1	-9.1	3.6
Mexico	-0.3	-10.5	3.3
Middle East and Central Asia	1.0	-4.7	3.3
Saudi Arabia	0.3	-6.8	3.1
Sub-Saharan Africa	3.1	-3.2	3.4
Nigeria	2.2	-5.4	2.6
South Africa	0.2	-8.0	3.5
Low-Income Developing Countries	5.2	-1.0	5.2

Source: IMF, World Economic Outlook Update, June 2020

INTERNATIONAL MONETARY FUND

IMF.org

Source: IMF

Some argue that this economic crisis is unlike any other crisis we have seen – not due to weaknesses in the underlying global economy but due to an unprecedented public health crisis. Once lockdowns are lifted, businesses should be able to return to normal and the damage can be limited, given a relatively strong financial system. The extent of the damage, however, will depend on how well and how quickly countries manage to contain the outbreak and what structural behavioural changes are evident in consumers and businesses which, if not effectively executed, may hurt certain sectors permanently.

In the end, if the number of business liquidations remains limited, economic recovery may take place sooner. Yet despite governments' efforts, some jobs cuts are unavoidable in the short term as companies adjust to a COVID-19 world. The airline industry has suffered the hardest blow due to extensive travel restrictions. Boeing has so far laid off close to 7,000 workers as a result of the pandemic, while Airbus and Air France have announced their intention to cut 15,000 and 7,500 jobs, respectively. The UK aviation industry, in turn, is looking to lose over 20,000 jobs. German airline, Lufthansa, also plans to lay off 22,000 workers. But the bloodshed in the job market is not limited to aviation. IBM has announced job cuts, AT&T is to close 250 stores and retrench over 2,400 technicians, and Renault plans to cut 15,000 jobs. In the UK, BP and luxury fashion house, Mulberry, have announced their intention to axe 10,000 jobs and 25% of the workforce. Even the industrial conglomerate, Thyssenkrupp, which makes elevators and submarines, has said it will cut 3,000 jobs over the next three to six years. Locally, Sasol, Sibanye, Arcelor Mittal, Edgars, Bidvest, Tiger Brands, Telkom and Cell C have all announced plans to retrench staff over the next 6 to 18 months. The car rental and hospitality sectors are also victims.

Equity markets have been fairly resilient, boosted by government and central bank stimulus packages and a high degree of confidence in the likelihood of an effective vaccine being developed, with promising candidates including Moderna (Phase 3 clinical trial to start in July), AstraZeneca/Oxford (Phase 2 data to become available soon), Johnson & Johnson (starting Phase 1 and 2a clinical trials in July) and Pfizer/BioNTech (Phase1 result was promising). The list goes on.

The equity market has currently priced in the assumption that the worst of the pandemic is behind us and that the gulf between the stock market and the real economy does not signal a serious disconnection but rather a difference in timing. Let us hope that this is indeed the case and, despite COVID-19 having thrown South Africa's many shortcomings into sharper relief (fiscal deterioration, corruption, high unemployment, SOE woes), that leaders will emerge with the wisdom, political will and determination to turn the pandemic into an opportunity for restoration and renewal.

2. PERFORMANCE OF THE FINANCIAL MARKETS – AS AT 30 JUNE 2020

Index	1 Month	3 Months	1 Year	3 Years (p.a.)	5 Years (p.a.)	7 Years (p.a.)	10 Years (p.a.)
Local Equities (ALSI)	7.7%	23.2%	-3.3%	5.1%	4.2%	7.9%	10.9%
Resources 20	8.6%	40.6%	11.7%	24.1%	9.5%	6.6%	4.6%
Industrials	8.3%	16.6%	4.0%	2.5%	3.3%	8.4%	14.6%
Financials	4.2%	12.9%	-34.5%	-8.5%	-5.3%	2.7%	7.9%
Local Equities (SWIX)	8.1%	22.1%	-6.1%	2.0%	2.1%	7.0%	10.6%
Local Equities (Capped SWIX)	7.0%	21.6%	-10.8%	-0.8%	0.1%	5.5%	
Large Cap (ALSI Top 40)	7.8%	24.2%	-0.5%	6.7%	4.8%	8.5%	11.2%
Local Equities (SWIX Top 40)	8.4%	23.4%	-2.9%	3.3%	2.5%	7.6%	
Mid Cap	6.1%	15.4%	-17.6%	-3.5%	-0.6%	3.8%	8.0%
Small Cap	11.3%	17.2%	-22.9%	-11.6%	-5.8%	1.2%	6.5%
Listed Property	13.4%	20.4%	-40.0%	-18.3%	-9.1%	-2.5%	4.7%
Capped Listed Property	13.4%	19.2%	-42.7%	-21.8%	-12.7%	-4.6%	
Local Bonds (ALBI)	-1.2%	9.9%	2.8%	8.1%	7.5%	7.3%	8.3%
1 - 3 years	0.9%	6.2%	10.6%	9.7%	9.0%	8.2%	8.0%
3 - 7 years	0.5%	12.8%	11.2%	10.4%	9.8%	8.9%	9.1%
7 - 12 years	-1.7%	13.2%	5.3%	9.0%	8.4%	7.7%	8.9%
+12 years	-2.0%	8.0%	-2.3%	6.3%	6.0%	6.4%	7.8%
Inflation Linked Gov. Bonds (IGOV)	-0.9%	4.7%	-3.2%	0.7%	2.1%	3.9%	
Local Cash	0.5%	1.5%	6.9%	7.2%	7.2%	6.8%	6.5%
International Equities (MSCI)	1.5%	16.3%	27.4%	17.9%	15.4%	18.1%	20.0%
International Equities (MSCI EM)	6.2%	15.0%	19.4%	12.4%	10.8%	12.3%	12.4%
USA S&P 500 COMPOSITE	0.7%	16.7%	29.8%	19.3%	16.5%	19.1%	21.1%
UK FTSE 100	0.4%	5.8%	2.3%	3.8%	6.2%	8.3%	11.0%
EURO STOXX 50	6.1%	14.9%	13.3%	7.0%	6.3%	9.5%	10.1%
JAPAN NIKKEI 225	0.6%	14.1%	24.4%	14.2%	11.3%	14.3%	15.6%
International Bonds (World Government Bond Index)	-0.5%	-0.7%	28.8%	14.3%	11.3%	10.8%	11.1%
South African Inflation (CPI) (2m lag)	-0.6%	-0.8%	2.1%	3.6%	4.5%	4.8%	4.9%
Dollar/Rand Exchange	-1.1%	-2.7%	23.2%	9.9%	7.4%	8.4%	8.5%
Euro/Rand Exchange	0.1%	-1.0%	21.7%	9.3%	7.5%	6.1%	7.6%
Rand/Yen Exchange	1.2%	3.2%	-18.7%	-10.2%	-9.2%	-6.6%	-6.0%
Pound/Rand Exchange	-0.7%	-2.9%	20.3%	8.1%	2.4%	5.3%	6.5%

Note: All international indices are shown in rand terms

3. INVESTMENT PERFORMANCE TO 30 JUNE 2020

Portfolio	Quarter		1 Year		3 Year		5 Year		10 Year	
	Actual	Bench mark	Actual	Bench mark	Actual	Bench mark	Actual	Bench mark	Actual	Bench mark
CRF Balanced Plus ¹ (Gross)	14.7%	18.1%	3.6%	-0.2%	6.0%	5.4%	6.5%	5.0%	n/a	
CRF Balanced Plus (Net)	14.6%		3.1%		5.4%		5.9%		n/a	
Target (CPI+6)	2.3%		9.0%		9.9%		10.7%			
CRF Balanced ² (Gross)	13.1%	17.6%	4.1%	0.2%	6.3%	5.7%	6.6%	5.3%	11.8%	11.0%
CRF Balanced (Net)	13.0%		3.7%		5.7%		5.9%		11.1%	
Target (CPI+5)	2.0%		8.0%		8.9%		9.7%		10.0%	
CRF Inflation Plus ³ (Gross)	8.2%	1.8%	3.1%	7.0%	6.6%	7.9%	6.4%	8.7%	8.8%	9.0%
CRF Inflation Plus (Net)	8.0%		2.5%		5.8%		5.6%		8.0%	
Target (CPI+4)	1.8%		7.0%		7.9%		8.7%		9.0%	
CRF Stable ⁴ (Gross)	0.1%	0.8%	4.5%	3.0%	6.0%	3.9%	6.5%	4.7%	9.2%	5.0%
CRF Stable (Net)	-0.1%		4.0%		5.4%		5.9%		8.6%	
Target (CPI)	0.8%		3.0%		3.9%		4.7%		5.0%	
CRF Money Market ⁵ (Gross)	1.7%	1.5%	8.2%	6.9%	8.6%	7.2%	8.6%	7.2%	7.7%	6.5%
CRF Money Market (Net)	1.6%		8.0%		8.3%		8.3%		7.4%	
Target (STeFi)	1.5%		6.9%		7.2%		7.2%		6.5%	

Benchmarks used are as per the Funds IPS. Detailed notes are below.

Returns greater than 1 Year are annualized.

All net returns are netted as per the Alexander Forbes Total Investment Charges (TIC) Report as at 31 March 2020. Only the policy fees and net priced fund charges are netted off in order to provide an estimate of net returns.

Note 1: Benchmark: Composite: 65% SWIX, 20% All Bond Index (ALBI), 5% Short Term Fixed Interest Index (STeFI), 10% MSCI World Index.

Note 2: Benchmark: Composite: 60% SWIX, 25% All Bond Index (ALBI), 5% Short Term Fixed Interest Index (STeFI), 10% MSCI World Index.

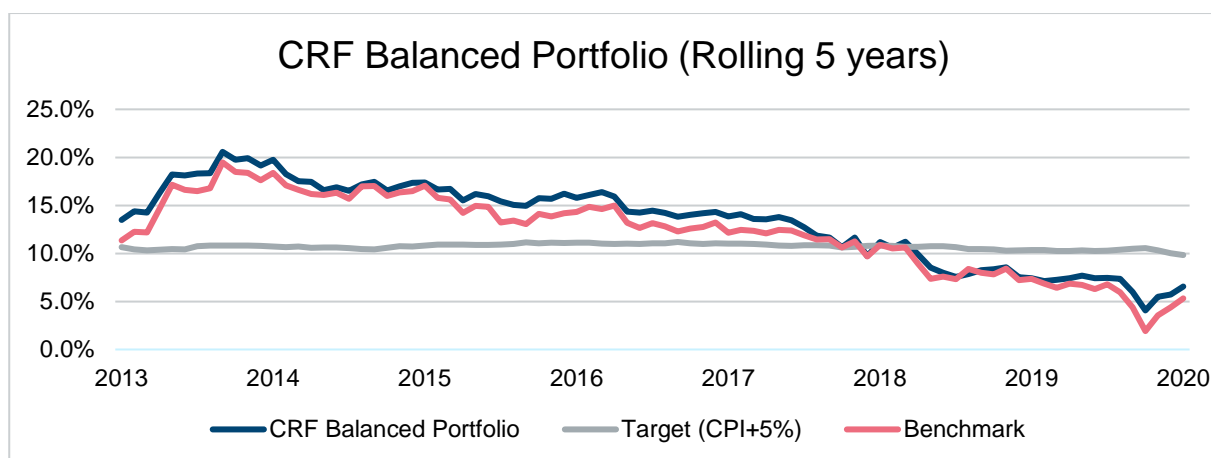
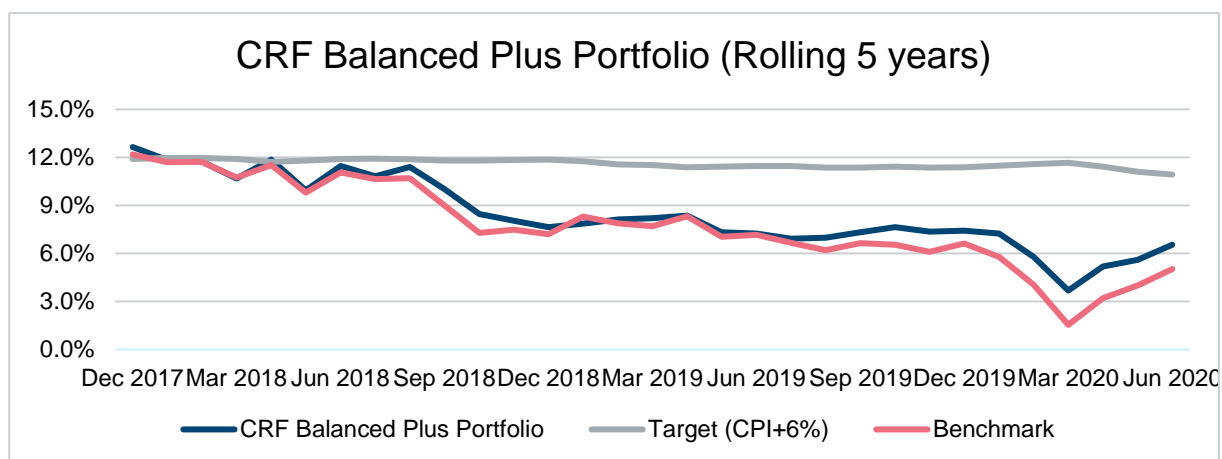
Note 3 - 5: Benchmarks are same as Targets (CPI + 4%, CPI & STeFI respectively) shown above.

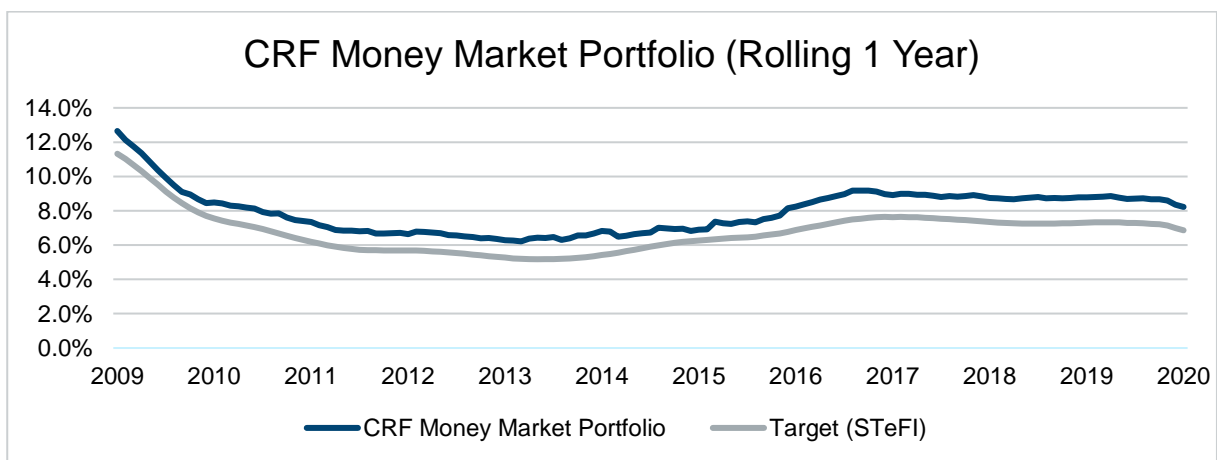
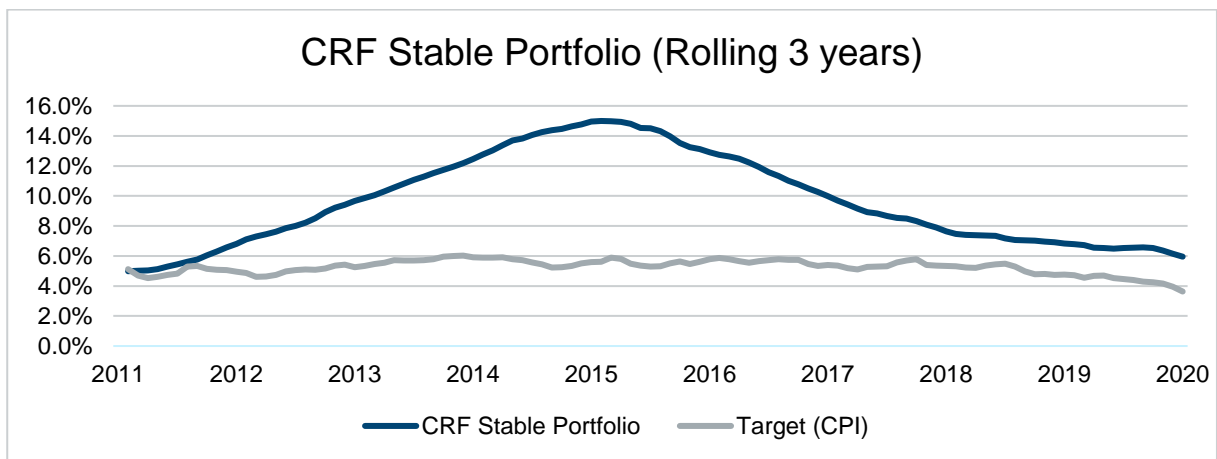
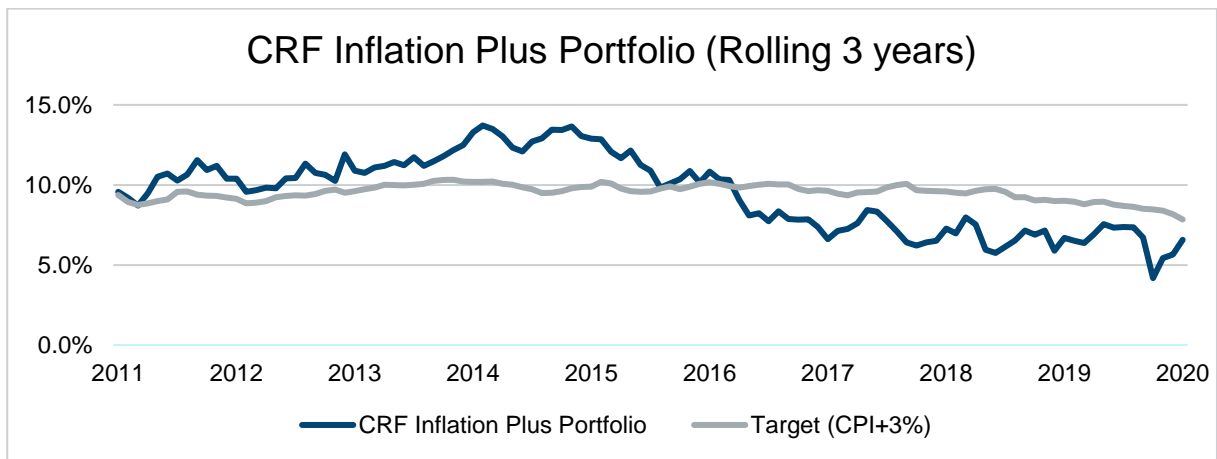
Portfolio	Investment Returns						
	2019	2018	2017	2016	2015	2014	2013
CRF Balanced Plus Portfolio	11.0%	3.9%	10.6%	4.9%	9.9%	7.0%	26.1%
CRF Balanced Portfolio	10.9%	4.2%	10.6%	4.7%	9.3%	8.5%	23.9%
CRF Inflation Plus Portfolio	8.9%	6.9%	9.8%	3.5%	8.6%	7.7%	16.3%
CRF Stable Portfolio	5.1%	5.2%	8.2%	7.1%	7.6%	15.4%	15.9%
CRF Money Market Portfolio	8.7%	8.8%	8.8%	8.9%	8.3%	6.9%	6.8%

4. ROLLING RETURNS VS TARGETS AND BENCHMARK

The following section shows the performance of the portfolios against their CPI & composite benchmarks where applicable. We have used the mid-point or actual stated time horizon for each portfolio. The only exception is the CRF Balanced Plus where we have used 5 years. Since the data we received having only a 7-year history. We have decided to keep it consistent with the Balanced portfolio until a bit more data is available.

Note: CPI is lagged in all charts in this section





5. ASSET ALLOCATION – JUNE 2020

	CRF Balanced Plus Portfolio	CRF Balanced Portfolio	CRF Inflation Plus Portfolio	CRF Stable Portfolio	CRF Money Market Portfolio
Domestic Equity	40.1%	37.3%	25.9%	33.7%	0.0%
Global Equity	25.7%	24.1%	8.3%	14.6%	0.0%
Total Equity	65.8%	61.4%	34.2%	48.3%	0.0%
Domestic Property	2.0%	2.0%	2.5%	10.2%	0.0%
Global Property	0.7%	0.7%	0.6%	0.4%	0.0%
Total Property	2.7%	2.7%	3.1%	10.6%	0.0%
Domestic Bonds	14.7%	17.0%	24.5%	30.0%	30.5%
Global Bonds	1.0%	1.1%	7.0%	1.9%	0.0%
Total Bonds	15.7%	18.1%	31.5%	31.9%	30.5%
Domestic Cash	4.5%	4.8%	13.3%	5.9%	69.5%
Global Cash	5.1%	5.9%	7.0%	3.0%	0.0%
Total Cash	9.6%	10.7%	20.3%	8.9%	69.5%
Domestic Alternatives	4.5%	5.2%	10.5%	0.0%	0.0%
Global Alternatives	0.3%	0.0%	0.0%	0.0%	0.0%
Total Alternatives	4.7%	5.2%	10.5%	0.0%	0.0%
Domestic Balanced	0.0%	0.0%	0.0%	0.0%	0.0%
Global Balanced	0.0%	0.3%	0.3%	0.0%	0.0%
Total Balanced	0.0%	0.3%	0.3%	0.0%	0.0%
Commodities	1.5%	1.6%	0.1%	0.3%	0.0%
Total Domestic Assets	67.2%	67.9%	76.8%	80.1%	100.0%
Total Global Assets	32.8%	32.1%	23.2%	19.9%	0.0%