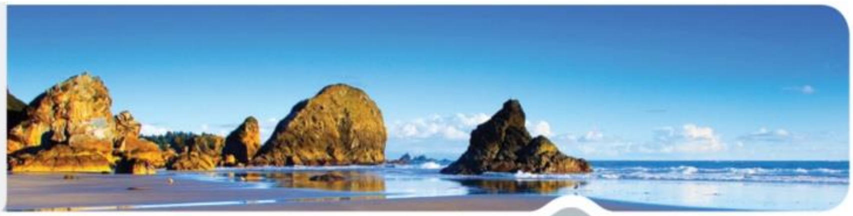

Perspectives | Monthly Market Review

August 2020

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All Share

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Industrials

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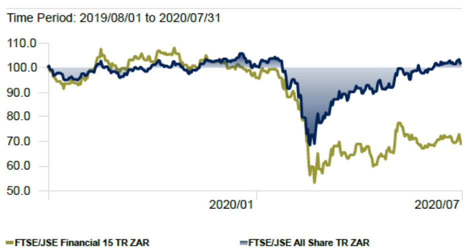


Index	Value	July (%)	YTD (%)
All Share	55,722	▲ 2.6%	▼ 0.7%
S&P 500	3,271	▲ 5.6%	▲ 2.4%
FTSE 100	5,898	▼ 4.2%	▼ 20.4%
Rand/USD	17.03	▼ 2.0%	▲ 21.8%
Rand/GBP	22.35	▲ 4.1%	▲ 20.7%
Gold ($)	1,963	▲ 9.5%	▲ 29.2%
Plat ($)	912	▲ 8.5%	▼ 6.1%
Brent ($)	43	▲ 5.2%	▼ 34.4%

Market Report

Emerging Markets Beat as Investor Optimism Grows

Political tensions remained in the forefront over the month. The US, UK, Australia and the EU took additional measures against China over its treatment of Hong Kong, including sanctions, bans on Huawei involvement in 5G networks and suspension of extradition treaties. The US shut the Chinese consulate in Houston, formally expressed opposition to Chinese maritime claims and announced its departure from the World Health Organization.

Global markets recorded a fourth consecutive positive month, with the S&P 500 Index's 5.6% return in July enough to push it into positive territory since the beginning of the year (+2.4%). However, it is still behind the tech-heavy Nasdaq 100 Index which is up 20.4%. The Nasdaq extended its lead in July as the 2nd quarter results, released in the month, displayed the dominance of the large-cap US technology stocks (AAPL +16.5%, FB +11.7%, NFLX +7.4%, and GOOGL +4.9%). Two-thirds of S&P 500 companies reported 2nd quarter results in July, with aggregate earnings down 11% Year-on-Year. The US financial sector was one of the sectors dragging the averages down. US large-cap banks and consumer finance company's earnings were hit as they reserved $36.9bn in the 2nd quarter of 2020 against potential future bad debts. Energy companies also recorded an earnings slump (-75% Year-on-Year) as they reported results for a quarter where brent crude oil averaged $33/bbl – more than 50% lower than the same period last year where the average oil price was $68/bbl.

Major central banks took something of a back seat over the past month, having already flooded the market with liquidity and taken rates close to their lower bounds. However, governments have been under pressure to provide further fiscal support. Congress debated the extent to which unemployment benefits should be extended and whether further stimulus cheques should be provided, with a deal proving difficult to get over the line. The Democrats and Republicans seem to have run into a stalemate as the US Congress was unable to reach a deal by month-end on new US fiscal stimulus measures estimated to be $1trn, as enhanced unemployment benefits of $600 per week for 30mn unemployed Americans ran out at the end of July.

On the other side of the pond, European leaders reached agreement on a EUR750bn stimulus package in a significant step for the EU in bringing a closer fiscal relationship among its member states, although these member states still need to get the additional budget approved by their respective parliaments. Importantly, the recovery fund will be backed by common bond issuance by the European Commission. This is a significant step toward potential fiscal integration across the EU and has increased appetite for European assets. Unfortunately, the announcement of a stimulus plan did little to stimulate European stocks, with the Eurostoxx 50 Index down 1.5% for the month. Developed markets (MSCI World +4.8%) lagged emerging markets (MSCI EM +8.9%) in July thanks to a strong performance from the BRIC's countries due to more risk on investor sentiment seen during the month.

Global central banks continue to do what they can to keep interest rates abnormally low and seem unlikely to abandon that strategy any time soon. That, along with the prospects of heightened geopolitical risks and increasing debt burdens, has sent investors flocking to gold, which had its best month (+11%) since 2012 as it hit an all-time high of $1,983/oz at the end of July, leaving it up 30% for the year. The US dollar had a poor month as investors found more optimism and moved away from the safe haven currency, recording declines for the month of 5.5% against the GBP, 4.8% against the EUR and 2% against the YEN.

US equity markets were strong despite a resurgence in COVID-19 infections which saw some US states having to reintroduce movement restrictions. The risk of an increase in Covid cases as economies reopen is leading to a potentially more stop-start and geographically differentiated recovery, though an effective vaccine would clearly be a strong catalyst for a more sustained economic rebound. In saying this, Moderna reported the production of antibodies in all patients tested in a COVID-19 vaccine trial, providing some hope for the prospect of an effective vaccine being produced sooner than expected.

The latest US nonfarm payroll data showed that the unemployment rate declined to 10.2% in July from 11.1% in June as employment rose by 1.8 million. Although at a slower pace than the increases of 2.7 and 4.8 million recorded in May and June, July's continued improvement reflects the opening up of more activity with many of the jobs 'created' in the leisure and hospitality (about a third of total jobs gained), retail trade and other services sectors. Despite the further uptick in employment, so far less than half of the jobs lost in April have been recovered.

The Bank of England's (BoE) Monetary Policy Committee voted unanimously to leave its key policy interest rate unchanged at a record low of 0.1%. The committee also voted unanimously for the BoE to still cap its asset purchase programme at the current level of £745bn. The bank expects UK GDP to have been more than 20% lower in the 2nd quarter of 2020 compared to the last quarter of 2019. The BoE upwardly revised its GDP outlook for 2020 to a 9.5% expected contraction compared to the 14% decline. However, the bank expects that UK GDP will not return to its pre-virus level until the end of 2021, while warning that the number of unemployed people in the UK will double to 2.5 million by the end of 2020.

Gold Sets All Time High and SA Benefits

The South African stock market had a good month (ALSI +2.6% for the month) although we note that, while it led global markets in June, it lagged its emerging market peers in July (MSCI EM +8.9%). July's stock market performance was predominantly down to the basic materials sector, which was up 9.1% with gold miners leading from the front once again (+23%) off the back of a 9% rally in the rand gold price (which is now up 59% Year-To-Date). Gold shares have more than doubled since the beginning of this crisis, with platinum stocks not far behind gaining 20.7% for the month of July and up 9.3% for the year.

Companies that derive most of their earnings locally were largely flat. Those JSE-listed companies with predominantly foreign earnings also had a weak month, down 4% in aggregate as the rand strengthened by 1.5%, ending the month at R17.07/$1 after declining from a mid-month high of R16.40/$1. Since the beginning of the year, gold miners, Naspers and Prosus have collectively contributed 10% to the performance of the FTSE/JSE Capped SWIX Index while domestically focussed shares have cost the index 14% leaving it down 8% for the year. SA-listed property's rally in June was short lived, as the sector experienced another negative month (-3.2%), its fifth negative month this year, leaving the local property index down 40% for 2020.

Core inflation data for May and June were released during July, with core inflation hovering around 3% for both months, towards the bottom of the SA Reserve Bank's target range. The Reserve Bank's Monetary Policy Committee eased monetary policy yet again in response to the deepening recession and benign inflationary environment. In May the MPC cut interest rates by 50 bps. This was followed by a further 25 bps reduction in July, taking the cumulative decline since the start of the year to an aggressive 300 bps. The decision in July was the SARB's fifth interest rate cut for the year, lowering the repo rate to 3.5% and the prime lending rate to 7%. The May and July decisions were outcomes of split votes. In May three committee members voted for a 50 bps cut and two favoured a more modest 25 bps. In July three members voted a 25 bps cut and two preferred no change. The lack of consensus within the MPC suggests that the interest rates cycle is nearing its trough, with the future trajectory from these low levels less apparent.

South Africa's manufacturing output fell by 16.3% in June as the nationwide lockdown and the impact of the Covid-19 pandemic continued to suppress economic activity. While the decrease was larger than any month between January 2015 and December 2019, it was still lower than April and May this year, when factory output slumped by 49.3% and 32.4%. This indicates that factories are slowly upping their production as they try to return to 2019 levels, but have not reached last year's levels yet. According to Stats SA, the output of iron and steel, food and beverages, and motor vehicles suffered the largest drops when compared to the same period last year.

The SARB lowered its government bond purchases even further to R2.5bn in July, from R5bn in June and R10.2bn in May. This brings total SARB government bond holdings to R38.4bn. In March, the central bank announced that it would commence buying government bonds in the secondary market in an attempt to reduce price volatility in the wake of the COVID-19 financial shock. SA's 10-year government bond yield ended the month roughly where it started (9.7%) recovering from a brief sell-off above 10% during the month.

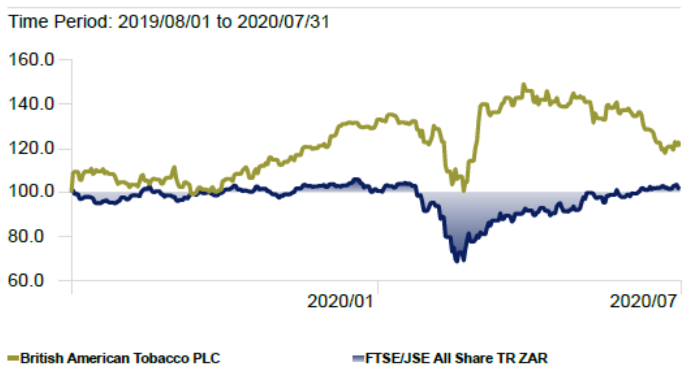
Towards the end of July we received confirmation of the $4.3bn loan from the International Monetary Fund through its Rapid Financing Instrument. In the process of obtaining the loan, the government re-committed itself to the fiscal consolidation outlined in the supplementary budget presented in June, including to introduce zero-based budgeting. The government's letter of intent to the IMF also mentioned it would commit to reducing the size of the public sector wage bill and would link further transfers to state owned enterprises to key performance indicators. The loan from the IMF is not tied to strict conditionalities, the government merely needs to show that it will use the funds to deal with the COVID-19 crisis. However, the IMF emphasised that "specific reform commitments at the time of the October Medium-Term Budget Policy Statement will be a critical step to buttress credibility of reform efforts and should be followed by steadfast implementation". The fund also recognises that "efforts to preserve the central bank's inflation mandate" will be important going forward.

Meanwhile, in another illustration of the lockdown's devastation and lasting impact on the economy so far, the commissioner of SARS said that the lockdown resulted in an under-recovery (relative to earlier expectations) of tax revenue of about R82bn for the 2020/21 fiscal year up to 15 July. Excise duty collection (which includes levies on alcohol, tobacco products and fuel) fell by 42% Year-on-Year in the three months up to June. However, value added tax (VAT), personal income and other taxes were also significantly lower. In all, Treasury data showed that total gross tax revenue was down by 23.6% Year-on-Year between April and June 2020.

Company Results

British American Tobacco Plc. – Half year results to 30 June 2020

Earnings per share	R31.88
Historical PE	12.1
EPS growth	22.7%
Turnover growth	2.4%
ROE	9.5%
Debt/Equity	73%
NAV per share	R649.6
Dividend yield	8.3%
Share price	R669.63



Nature of Business

British American Tobacco plc is a holding company, which engages in the manufacture and distribution of tobacco products. Its brands include Kent, Dunhill, Lucky Strike, and Pall Mall. It operates through the following geographical segments: United States, Asia-Pacific and Middle East, Americas and Sub-Saharan Africa, and Europe and North Africa. The company was founded by James Buchanan Duke on September 29, 1902 and is headquartered in London, the United Kingdom.

Latest Results

BATS is a leading global tobacco company that is heavily exposed (c40% sales) to the highly resilient US market and is a true multi-category player in next generation products, which provides medium to long-term growth upside. BATS should consistently grow earnings over the medium to long-term, with a sustainable dividend yield.

Basic earnings per share were 22.7% higher at 151.2p (30 June 2019: 123.2p) largely determined by the higher profit from operations driven by an improved operating performance (as well as the prior period being negatively impacted by the Quebec class action charge), the reduction in the effective tax rate from 25.1% to 23.0% and an improved performance from the Group's main associate (ITC).

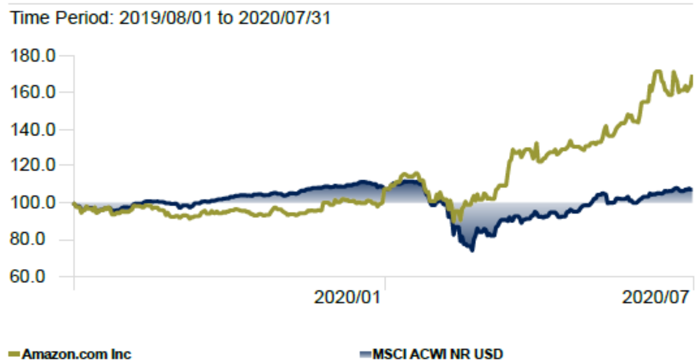
The solid H1 20 release was followed by a positive tone on the conference call with encouraging commentary on developed market cigarettes, Vapor, and Tobacco Heating Products (THP) in particular. In cigarettes, the pricing environment in most markets is strong with premiums doing well and no signs of accelerated switching to cheaper alternatives in developed markets. The situation in emerging markets is more mixed with some down-trading due to the impact of lockdowns on daily wage workers, partially offset by less illicit availability (especially Brazil) due to border closures. However, the company expects the pockets of EM down-trading to abate as lockdowns and Hotel, Restaurants and Cafe closures are eased. New Categories showed promising results across all three sub segments in H1 with the company reaching 11.6m next generation product (NGP) consumers (up 1.1m from Dec-19) led by share gains in key markets in Vapor and Modern Oral, as well as the "extremely promising" launch of Glo Hyper in THP.

Dividend

On 27 February 2020, the Company announced that the Board had declared an interim dividend of 210.4p per ordinary share of 25p, for the year ended 31 December 2019, payable in four equal quarterly instalments of 52.6p per ordinary share in May 2020, August 2020, November 2020 and February 2021. The most recent dividend payed translated to a rand amount of R10.69 per share.

Amazon.com Inc. – Quarterly results for the period ending June 2020

Earnings per share	**$26**
Historical PE	**106**
EPS growth	**24.4%**
Turnover growth	**8%**
ROE	**20.8%**
Debt/Equity	**123%**
NAV per share	**$147.2**
Dividend yield	**0%**
Share price	**$2758.82**



Nature of Business

Amazon.com, Inc. engages in the provision of online retail shopping services. It operates through the following business segments: North America, International, and Amazon Web Services (AWS). The North America segment includes retail sales of consumer products and subscriptions through North America-focused websites such as www.amazon.com and www.amazon.ca. The International segment offers retail sales of consumer products and subscriptions through internationally focused websites. The Amazon Web Services segment involves in the global sales of compute, storage, database, and AWS service offerings for start-ups, enterprises, government agencies, and academic institutions. The company was founded by Jeffrey P. Bezos in July 1994 and is headquartered in Seattle, WA.

Latest Results

Amazon's quarterly results release substantially beat analyst expectations. This depicted, yet again, the resilience of the business model. Operating cash flow increased 42% to $51.2 billion for the trailing twelve months, compared with $36.0 billion for the trailing twelve months ended June 30, 2019. Free cash flow increased to $31.9 billion for the trailing twelve months, compared with $25.0 billion for the trailing twelve months ended June 30, 2019. Operating income increased to $5.8 billion in the second quarter, compared with operating income of $3.1 billion in second quarter 2019 significantly exceeding managements guidance of $1.5B. Net income increased to $5.2 billion in the second quarter compared with net income of $2.6 billion in second quarter 2019.

AMZN saw strong demand across the board, especially in grocery & consumables, though other categories including hardlines & softlines ramped through the quarter. AMZN's Prime ecosystem stood out this quarter, as Prime member growth accelerated in the US & international. Grocery was another standout category, with AMZN increasing its delivery capacity 160% during the quarter and overall grocery sales tripled Year-on-Year. AMZN expects strong demand to continue in the back half of the year, with 3Q revenue guidance of $87B-$93B implying 24%-33% Year-on-Year growth.

Dividend

Dividends have become much more commonplace in the technology sector in recent years. Amazon does not pay a dividend and it is unclear when they will. Instead of paying a dividend Amazon retains all its earnings to be reinvested into growing the business further.

Snippets

PCH In The News

The Private Client Trust team have yet again done us proud this time Elmien Pols stepped up to be interviewed on Moneyweb radio to chat about why you should not draw up your own Will when minors are meant to inherit...it will also be broadcast on SAfm Market Update. Listen to the podcast here.

And then…

- Listen to Mark MacSymon CFP® being interviewed on Classic FM about the changes that the National Treasury has proposed to Living Annuity regulations.
- Mark, a wealth manager at PCH, was the Financial Planning Institutes Financial Planner of the year in 2017 / 2018 and is an FPI brand ambassador.

The interview centres on the National Treasury's proposal that individuals who receive funds from a living annuity will temporarily be allowed to immediately either increase (up to a maximum of 20 per cent from 17.5 per cent) or decrease (down to a minimum of 0.5 per cent from 2.5 percent) the proportion they receive as annuity income, instead of waiting up to one year until their next contract "anniversary date". This will assist individuals who either need cash flow immediately or who do not want to be forced to sell after their investments have underperformed.

1. Elmien's interview on Moneyweb radio https://www.privateclient.co.za/post/elmien-pols-stepped-up-to-be-interviewed-on-moneyweb-radio.

2. Mark MacSymon CFP® was interviewed on Classic FM https://www.privateclient.co.za/post/mark-macsymon-cfp-being-interviewed-on-classic-fm.

Corporate Cash Manager Rates

FUND	BALANCE	RATE
CALL ACCOUNT	0.00 – 9 999.99	3.15
	10 000 – 24 999.99	3.15
	25 000 – 49 999.99	3.15
	50 000 – 99 999.99	3.15
	100 000 – 249 999.99	3.15
CALL MONEY FUND: *Individuals*	250 000 – 999 999.99	4.69
	1 000 000 – 9 999 999.99	4.69
	10 000 000 upwards	4.69
CALL MONEY FUND: *Non-Individuals*	250 000 – 999 999.99	4.49
	1 000 000 – 9 999 999.99	4.49
	10 000 000 upwards	4.49

Dividends Payable

Dividends in LDT order

Company	Decl	LDT	Pay	Amt	Curr
Nampak Ltd. (NAMPAK 6%P)	27-Jul	11-Aug	17-Aug	6	ZARc
Nampak Ltd. (NAMPAK 6.5)	27-Jul	11-Aug	17-Aug	6.5	ZARc
Oceana Group Ltd. (OCEANA)	27-Jul	11-Aug	17-Aug	100	ZARc
Oceana Group Ltd. (OCEANA-NSX)	27-Jul	11-Aug	17-Aug	100	ZARc
Nictus Holdings Ltd. (NICTUS H)	30-Jul	14-Aug	24-Aug	12	NADc
Anglo American plc (ANGLO)	30-Jul	18-Aug	25-Sep	28	USDc
Gaia Infrastructure Capital Ltd. (GAIA)	29-Jul	18-Aug	24-Aug	15	ZARc
Kumba Iron Ore Ltd. (KUMBA)	28-Jul	18-Aug	24-Aug	1960	ZARc
MiX Telematics Ltd. (MIXTEL)	30-Jul	18-Aug	24-Aug	4	ZARc
Anglo American Platinum Ltd. (AMPLATS)	27-Jul	25-Aug	31-Aug	1023	ZARc
FirstRand Ltd. (FIRSTRANDB-P)	04-Aug	25-Aug	31-Aug	305.97	ZARc
Reinet Investments SCA (REINET)	29-May	25-Aug	02-Sep	19	EURc
Senwesbel Ltd. (ZXSWB)	02-Jul	26-Aug	04-Sep	23	ZARc
Senwes Ltd. (ZXSWS)	02-Jul	26-Aug	03-Sep	30	ZARc

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