

MARKET COMMENTARY - QUARTER ENDED 30 SEPTEMBER 2021

MARKET REVIEW

The equities of developed markets were flat over the quarter after a decline in September erased the quarter's prior gains. The equities of emerging markets under-performed developed markets amid a sell-off in China. The US Dollar rose against the Euro, the Yen and most other currencies.

Rising consumer prices sparked fears as major central banks considered taking steps to fight inflationary pressures and investors became increasingly concerned about the withdrawal of the stimulus that has buoyed markets since the outbreak of COVID-19. For emerging markets this was exacerbated by China's slowing economy, increasing regulation by Chinese authorities and concerns about the debt restructuring of China's second largest property developer.

INDEX	3 MTH TOTAL RETURN IN US (%)	3 MTH TOTAL RETURN IN EUR (%)	3 MTH TOTAL RETURN IN GBP (%)
<i>MSCI WORLD</i>	0.0	2.3	2.4
<i>S&P 500 (US)</i>	0.6	2.9	3.1
<i>FTSE EUROPE EX UK</i>	-1.7	0.6	0.8
<i>FTSE ALL SHARE(UK)</i>	-0.2	2.1	2.2
<i>TOPIX (JAPAN)</i>	4.8	7.2	7.3
<i>MSCI EMERGING MARKETS</i>	-8.1	-6.0	-5.8
<i>MSCI ASIA EX JAPAN</i>	-9.3	-7.2	-7.1

The US

The S&P 500 Index rose by 0.6% in US Dollars as investors weighed the prospects of the recovering consumer against concerns about rising inflation and interest rates.

The Federal Reserve (Fed) announced that it would soon begin to slow the pace of asset purchases, with purchases set to come to an end by about the middle of 2022. The Fed also released its projections for interest rates over the next few years and expects interest rates to increase to 1.75% by the end of 2024. The pace of rate increases was faster than the market had been pricing in, resulting in a rise in Treasury yields in the days following the Fed's September meeting and reversing the decline in yields from earlier in the quarter.

This change in stance by the Fed comes in the context of rising inflation and its revised estimate for real gross domestic product (GDP) growth of 5.9% for 2021 (down from the 7% estimate at the last meeting). The Fed now expects inflation of 4.2% in 2021 which is above its previous estimate of 3.4%. The Fed raised its GDP projections for 2022 and 2023 to growth of 3.8% and 2.5% respectively.

Europe

Eurozone

The FTSE Europe ex UK Index rose by 0.8% in Euros but fell 1.7% in US Dollars.

Annual inflation in the Eurozone was estimated at an annualised 3.4% in September, up from 3.0% in August and 2.2% in July. Consumer prices rose primarily due to higher costs for energy and durable goods as well as widespread supply chain disruptions.

The European Central Bank (ECB) said that it would tolerate any moderate and transitory overshoot of its 2.0% inflation target. It announced a reduction in the pace of its asset purchases but stressed that this was not the beginning of a process of tapering purchases down to zero.

Germany held a general election which saw the Social Democrats (SPD) take the largest share of the votes. Coalition talks are now underway with a view to forming a new government.

Most large Eurozone countries have now fully vaccinated around 75% of their population against the virus, enabling many restrictions on travel and other activities to be lifted.

UK

The FTSE All Share Index rose by 2.2% in Sterling but fell by 0.2% in US Dollars.

The UK government announced the removal of most remaining COVID-19 restrictions from 19 July. It also made several changes to travel restrictions confirming inter alia that fully-vaccinated travellers from the US and amber countries in the EU would no longer be required to quarantine when they arrived in the UK. Restrictions for UK travellers were also relaxed. The end of June marked the removal of several key UK government COVID-19 support measures.

The Bank of England (BoE) took a more hawkish tone as inflationary pressures continued to surpass expectations and suggested that it might increase interest rates before the end of the year.

Japan

The Topix Index rose by 5.2% in Yen and by 4.8% in US Dollars. Japanese equities rallied on hopes of further stimulus and economic re-opening.

Throughout the COVID-19 pandemic, Japan has consistently seen a lower infection rate than most developed countries but faced a more serious test during the early summer as infections picked up rapidly. Public opposition towards the government's approach intensified and the approval rate for Prime Minister Yoshihide Suga fell to its lowest levels since he took office in September 2020. On 3 September, Suga announced his intention to resign without contesting the Liberal Democratic Party (LDP) leadership election. His successor, Fumio Kishida, is now seen as likely to lead the LDP to victory in the 31 October general election.

Japan's economy expanded modestly in the second quarter. The Bank of Japan kept monetary policy unchanged in September following a flat inflation reading in August, the strongest in more than a year.

Emerging Markets

The MSCI Emerging Markets Index fell by 8.1% in US Dollars.

China: The MSCI China IMI Index fell by 18.0% in US Dollars, its worst quarterly decline since 2015. Government intervention in the technology, education and online gaming led to a sweeping selloff. China's economy also showed signs of slowing, with weaker data in areas of manufacturing activity, construction starts and retail sales. Power shortages raised further concerns about factory output and disruptions to global supply chains. Meanwhile, the impending default of heavily indebted property giant Evergrande Group fuelled worries about China's property sector and commodity demand.

Brazil: The MSCI Brazil IMI Index fell by 20% in US Dollars. Brazil was the weakest market in the MSCI Emerging Market Index as above target inflation continued to rise and the central bank responded with further interest rate increases. Gross domestic product (GDP) growth for the second quarter of 2021 disappointed, developments in China weighed on industrial metal prices and political rhetoric picked up ahead of next year's presidential election.

Russia: The MSCI Russia IMI Index rose by 9.1% in US Dollars helped by high energy prices.

India: The MSCI India IMI Index rose by 12.6% in US Dollars. India's economy grew by an annualised 20.1% during the quarter ended 30 June 2021 as vaccination rates increased. The MSCI India IMI Index has soared by 30% in during the year to date.

South Africa

South Africa's year-on-year GDP growth of 19.3% represents a recovery off the lowest base of the Covid-19-induced recession, while the quarter-on-quarter print of 1.2% suggests a more subdued pace. The economy is now just 1.4% off its pre-Covid level of the first quarter of 2020.

President Ramaphosa eased lockdown regulations during the quarter as the third wave of infections subsided. This enhanced mobility together with a removal of South Africa from the UK red list bodes well for the country in the near future, although the impact of the looting in KwaZulu-Natal and Gauteng is still to be felt in economic terms.

The IMF upgraded South Africa's projected 2021 growth from 4% to 5%, while the medium-term outlook will depend mainly on ongoing trade surpluses which have been very supportive. Absent these, the IMF is predicting South African GDP growth to run below that of its population growth for the period between 2023 and 2026, with unemployment continuing to rise up to 38.6% by the end of 2026. It is therefore the government's highest priority to implement its much-deliberated structural reforms and in turn stimulate investment in the private sector and job creation through greater business confidence.

Inflation was recorded at 4.9% year-on-year. Core inflation however, which excludes volatile fuel and energy prices as well as that of food and non-alcoholic beverages, was recorded at 3.1%. This paints a more accurate picture of the low underlying inflation in the economy and was likely a significant factor in the South African Reserve Bank (SARB)'s decision to leave the repo rate unchanged at 3.5%.

SARB Governor Lesetja Kganyago announced that South Africa's existing inflation targeting framework is to be reviewed by the National Treasury. The current inflation target of between 3% and 6% was set over twenty years ago and Governor Kganyago intimated a target of 3% as more appropriate going forward in that it would help keep interest rates lower for longer.

The Rand and the JSE: The Rand all but gave up its previous quarter's gains due largely to a correction in key commodity prices such as iron ore and the platinum group metals (PGM's). While both metals were adversely affected by increased concerns in China, the current semiconductor chip shortage in the vehicle industry in particular had an acute effect on the price of PGM's. In the end the Rand declined 5.5% against the US Dollar, 3.4% against Sterling and by 2.8% against the Euro.

The All-Share Index fell 2.6% during the quarter, driven by the above-mentioned correction in commodity prices as well as the increased fears in China. This led to further significant declines in the shares of JSE heavyweights Naspers and Prosus. The Mining Index decreased 7.8% and the Industrial Index decreased 5.8%, while the Financial Index bucked the trend and rose 12.7%.

Indices By Sector

		Sector	2020 25-Sep	31-Dec	2021 26-Mar	26-Jun	01-Oct	3 Months % Chg	6 months % Chg	9 months % Chg	12 months % Chg
JI0020	1	Health Care	3541	3608	4026	4310	5648	31.0%	40.3%	56.5%	59.5%
JI0015	2	Telecommunications	3703	3920	5106	5341	6572	23.0%	28.7%	67.7%	77.5%
JS3011	3	Banks	5378	6714	7099	7401	8498	14.8%	19.7%	26.6%	58.0%
JI0030	4	Financials	25127	29828	31709	32477	36846	13.5%	16.2%	23.5%	46.6%
JI0050	5	Industrials	25465	31036	35235	35296	36780	4.2%	4.4%	18.5%	44.4%
J253	6	Listed Property	220	268	286	311	320	2.9%	11.9%	19.4%	45.5%
JI0045	7	Consumer Staples	58875	65506	69153	69060	70837	2.6%	2.4%	8.1%	20.3%
JS4041	8	Retailers	3753	4588	5772	6343	6337	-0.1%	9.8%	38.1%	68.9%
J203	9	All Share Index	54719	60479	67089	65809	64129	-2.6%	-4.4%	6.0%	17.2%
J200	10	Top 40	50579	55438	61444	59821	57755	-3.5%	-6.0%	4.2%	14.2%
JI0040	11	Consumer Discretionary	17095	19108	21886	25873	24482	-5.4%	11.9%	28.1%	43.2%
JS5513	12	Precious Metals & Mining	51817	58289	62967	54456	45902	-15.7%	-27.1%	-21.3%	-11.4%
JI0010	13	Technology	39937	40679	47000	39381	31488	-20.0%	-33.0%	-22.6%	-21.2%

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