As the year draws to a close, we take the opportunity to reflect on the year past and to offer some thoughts about our expectations for the new year and beyond.

The year 2020 has been a difficult and traumatic year for many. Apart from the persistent concerns about personal health brought about by the Covid-19 pandemic and the financial strain from locked-down economies, investors had to contend with seeing their investment values collapse in dramatic fashion and then climb a nerve-wrecking wall of worry as they recovered over the remainder of the year, in what can only be called a remarkable recovery engineered by swift global government and central bank action as they opened the floodgates of monetary and fiscal support to economies and households.

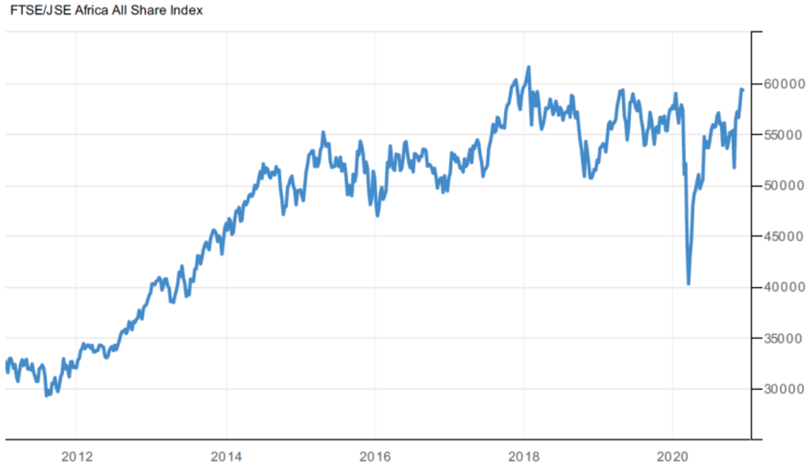
Despite the challenges and uncertainties that remain as we enter the new year, we are optimistic about what the future might hold for investors' investments and share our thoughts about this below.

The dramatic story of 2020…

After 5 years of volatile but broadly sideways movement, that on the whole produced disappointing returns for investors, the South African equity market crashed by more than 30% during late February and March as the Covid-19 pandemic spread across the world and global markets tumbled. From late March onwards global markets, including South Africa, recovered strongly spurred by global government and central bank stimulus. The JSE All Share Index is back near the 60 000 level, up from the low point of 38 000.

More recently, the promise of a vaccine, the promise of President Biden, and the promise of further stimulus have combined to make November one of the best months for risk assets on record. Underlying the current rally is an expectation that fiscal stimulus combined with low interest rates will keep commodity prices (other than gold) well supported. The expectation is that of a cyclical upturn that will benefit all, with emerging markets (particularly Asian markets other than China) likely to see the most benefit. Investor's demand for cyclical emerging market assets has seen domestic assets rally, with listed property in particular benefitting in South Africa. For most of us though, the impact is most noticeable in the Rand which has moved from R16.24 to R15.36 against the US Dollar over the month of November. Rand appreciation of a little over 5% certainly has impacted on many fronts. The rand has been helped by the improvement in South Africa's terms of trade (mostly benefitting from lower oil prices) and for as long as investors are blinded to the risks of the emerging market fiscal deterioration (of which South Africa was one of the worst) by the allure of the global cyclical upturn, we expect that risk assets will continue to prosper and that Rand strength will likely continue. It is looking like this will be the theme for the early part of 2021.

The FTSE/JSE All Share Index over the past 5 years



Why we are optimistic about the future…

While there remain significant near term global and local risks…

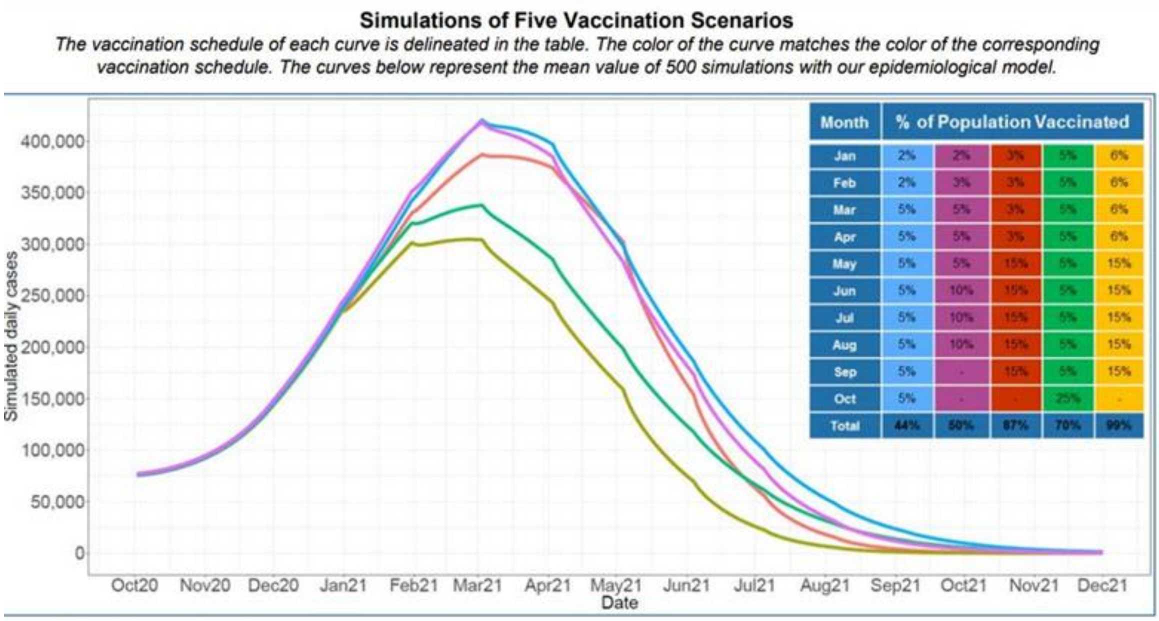
- New waves of Covid-19 infections in Europe and the US that exceed the initial waves of infections
- Donald Trump's stubborn refusal to accept and acknowledge the result of the US presidential election
- Cliff-hanger final Brexit negotiations with a no-deal crash-out Brexit still a distinct possibility
- A tenuous South African economic and political landscape

…there are multiple reasons why we remain optimistic about investment prospects in 2021 and beyond:

- Covid-19 vaccines with extremely high efficacies (90% in the case of the Pfizer vaccine) will arrive in 2021
- Global economic growth continues to rebound
- Company earnings recoveries in the major global economies have generally surprised to the upside
- Interest rates are to remain low and accommodating, potentially all the way through 2023 at least
- Inflation remains low and inflation expectations well anchored
- Fiscal stimulus will continue globally, with a focus on infrastructure spending by the major economies
- Global equity valuations outside the "Big Tech" Growth sector are generally much more moderate
- South African assets are cheap almost across the board by historic standards – including the shares of SA focused companies, government bonds and listed property. Challenges remain but valuation entry points are compelling.
- After a decade of underperformance of the Value investment style relative to the Growth style, a global recovery that favours economically sensitive sectors, emerging markets and cyclical sectors is likely to be the catalyst for a recovery in the fortunes of Value investing. This will be good news for the likes of Allan Gray, Orbis, Prudential, Foord and Coronation, to name but a few managers that have a Value leaning.

The continuing fight against Covid-19… towards vaccine roll-out

Although the market understands that vaccination will lower daily new cases, the trajectory of the decline is a vibrant point of debate. The Biotech research team at Morgan Stanley leveraged their previous epidemiological model and, after updating it for the recent uptick in daily cases, have simulated how 5 different vaccination-rate scenarios might impact the US daily case trajectory. All scenarios assume vaccinations start on Jan 1, 2021, and have 90% efficacy. Their simulations suggest that vaccinations could end the pandemic in the US by late-summer/early fall 2021. Further, all of their scenarios indicate that reducing daily cases to insignificant values does not require vaccination of the total population (100%). Europe and the UK are likely to follow a similar trajectory and while some emerging markets, South Africa included, may have to wait longer for vaccine availability, the developments are encouraging.

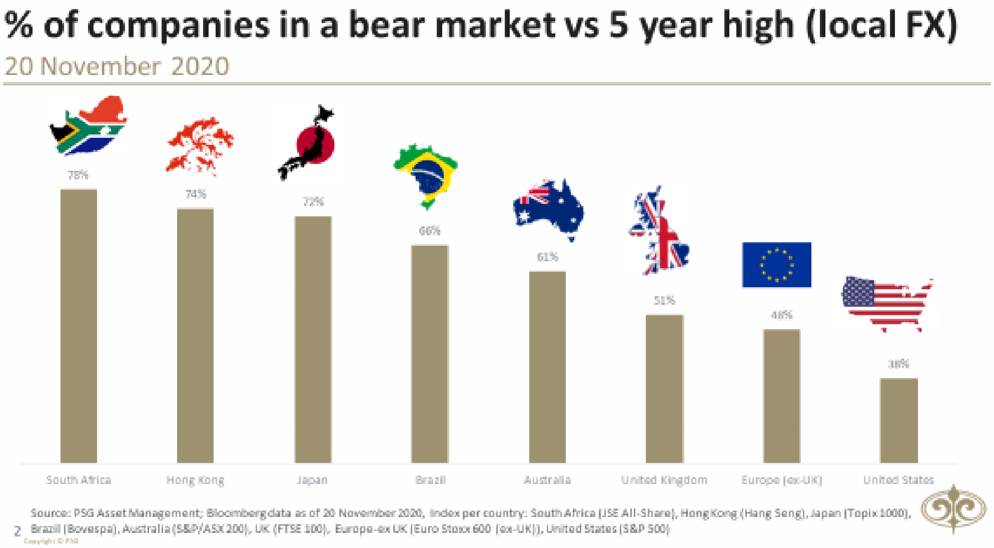


Month	% of Population Vaccinated				
Jan	2%	2%	3%	5%	6%
Feb	2%	3%	3%	5%	6%
Mar	5%	5%	3%	5%	6%
Apr	5%	5%	3%	5%	6%
May	5%	5%	15%	5%	15%
Jun	5%	10%	15%	5%	15%
Jul	5%	10%	15%	5%	15%
Aug	5%	10%	15%	5%	15%
Sep	5%	-	15%	5%	15%
Oct	5%	-	-	25%	-
Total	44%	50%	87%	70%	99%

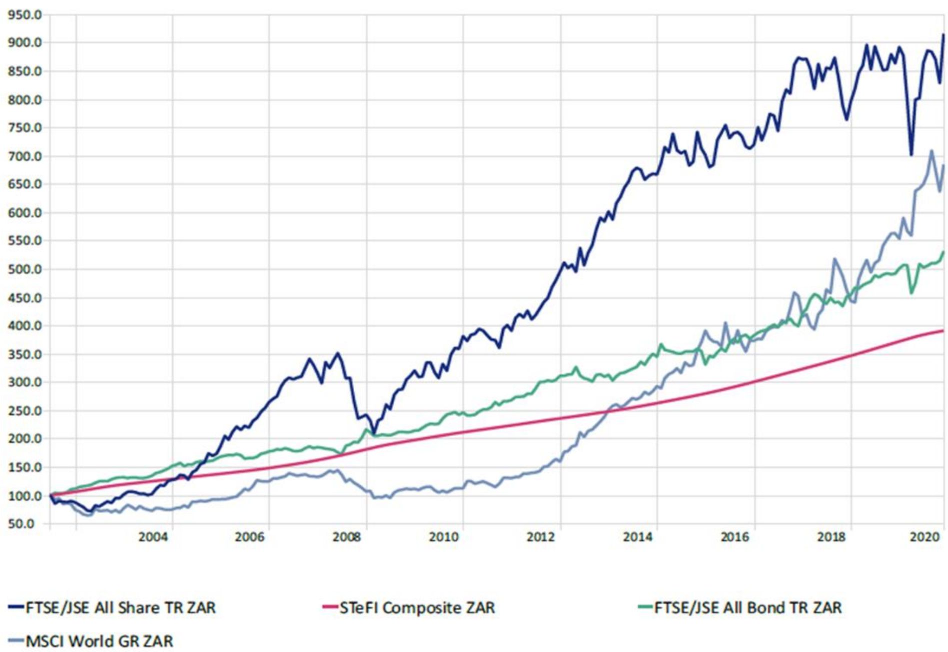
Source: Morgan Stanley Research

South African equity market valuations

The graphic below, curtesy of PSG Asset Management, illustrates the degree to which SA equity valuations are appealing compared to other markets. Almost 80% of SA companies are trading at bear market valuations compared to their highs of the past 5 years. Investment managers like Allan Gray, Coronation and PSG are acknowledging these valuation opportunities and are selectively increasing their exposure to SA exposed companies.

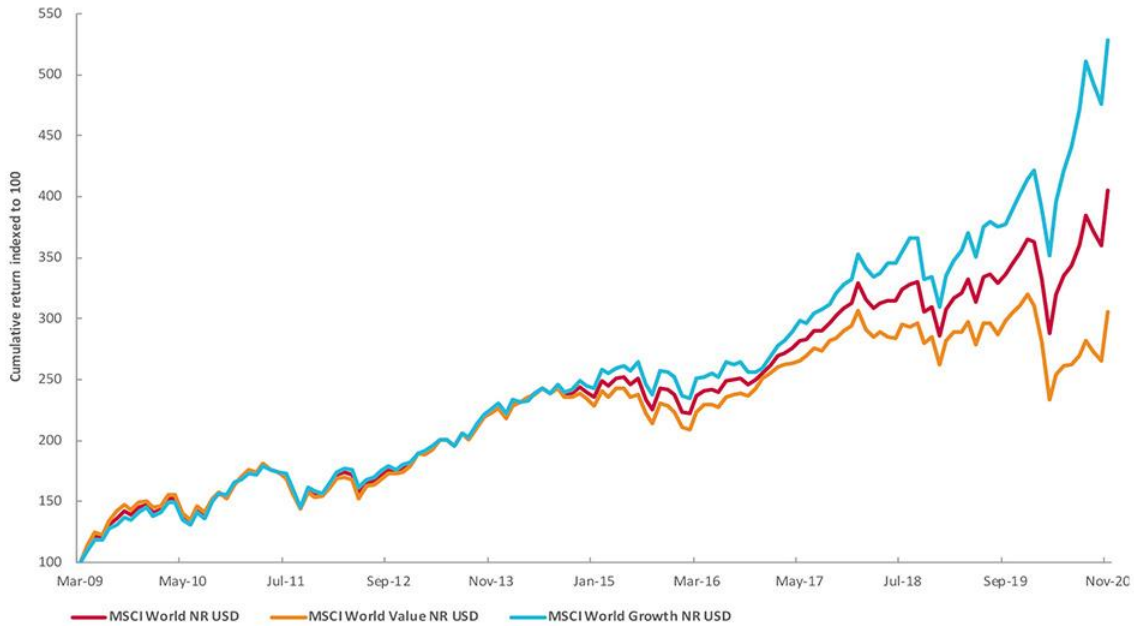


The next graphic, illustrating asset class performance over the past 20 years, offers a prescient reminder that while equity is a volatile asset class that often requires patience and perseverance from investors, patient and disciplined investing is extremely well rewarded over time.



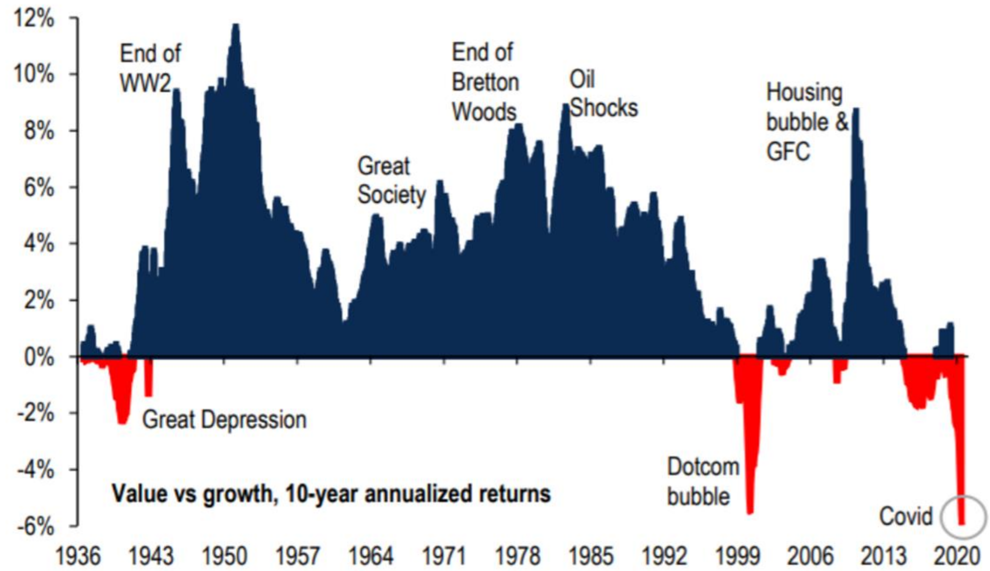
The case for Value investing

The graphic below illustrates the outperformance on a global scale of the Growth investment style relative to the Value investment style in recent years, driven primarily by the US Tech Giants, the so called FAANG stocks. Having under-performed the MSCI World Index by almost 3% on an annualised basis since March 2009, the MSCI World Value Index posted its best monthly gain since the Global Financial Crisis (2007/2008) in November. It rose 15.01%, against broader market gains of 12.79%. This is the largest factor shift between value and growth on record.



The next graphic provides a longer-term perspective on the performance of the Value investment style relative to Growth. On a rolling 10-year basis, Value investing has outperformed Growth investing in the vast majority of cases in the past almost 100 years. While we don't expect a collapse in the share prices of the high growth Big Tech companies (these are after all highly cash generative and dominant businesses), we do reflect on the evidence below and believe that a global recovery that favours economically sensitive sectors, emerging markets and cyclical sectors is likely to be the catalyst for a recovery in the fortunes of Value investing. We therefore retain our exposure to high quality Value-style managers in our portfolios and advise investors not to give up on these managers near what could be a turn in their performance cycle.

Worst ever relative return for value stocks



Conclusion

We are maintaining a broadly neutral exposure to asset classes, striking a balance between the global uncertainties that persist and the opportunities presented by the global recovery that is underway, supported by policy measures. We expect equities to provide the bulk of returns in the years ahead, and continue to hold a blend of equity investment styles to take advantage of the recovery potential in value stocks and the long term opportunities in growth stocks, while including exposure to higher quality companies that have the resilience and balance sheet strength to ride through the challenging periods.

Investing in well-diversified portfolios like the ones that we manage on your behalf continue to be the best approach to follow for achieving long term investment goals. The investments we manage on your behalf are actively monitored and managed in response to market prospects and conditions and investors can rest assured that their investments are being prudently managed with an eye on the long term, and without deviations from philosophy and process in response to unexpected and short term market dislocations.

We wish you a restful holiday period and a successful new year.