QUARTERLY INVESTMENT UPDATE
Q1 2021

NEDBANK
PRIVATE WEALTH
SINCE 1834

GLOBAL AND SOUTH AFRICAN CONTEXT

- The **first quarter growth numbers and economic activity data** releases reminded us that **the progress of recovery is still as varied as the pace of vaccination and the ability to extend financial support**.
- The International Monetary Fund **upgraded their outlook for global growth for 2021 to 6,0% and for 2022 to 4,4%**.
- **First quarter US GDP came in at 6,4% annualised**, broadly in line with market expectations. With ample progress on vaccine rollouts, incoming **US data confirms a recovery that is gathering pace**.
- Having been in lockdown for much of the period, **the Eurozone contracted by 0,6% in the first quarter**.
- **Chinese GDP came in at 0,6% over the first quarter, bringing the yearly number to a staggering 18,3%**.

- The **local recovery has been fragile, with setbacks of load-shedding and a slow rollout of vaccinations** doing little to boost confidence.
- **It was disappointing that the spectrum auction was once again delayed**, following a ruling by the Pretoria High Court on the case brought by Telkom.
- Encouragingly, **the announcement of the eight preferred bidders for the procurement of emergency power** (2 000 MW) and **opening of bid window five** of the Renewable Energy Independent Power Producer Procurement Programme can be seen as **progress on the road to energy security, even though it will not fully mitigate challenges in the near term**.
- The **South African Reserve Bank (SARB)** voted to keep **interest rates unchanged in March**.
- **March inflation (3,2%) was lower than expected**, due to lower housing costs.

OUR VIEWS

While risk assets appear to have left the pandemic behind, it is all relative and we continue to be very selective about opportunities going forward. Our portfolios remain diversified.

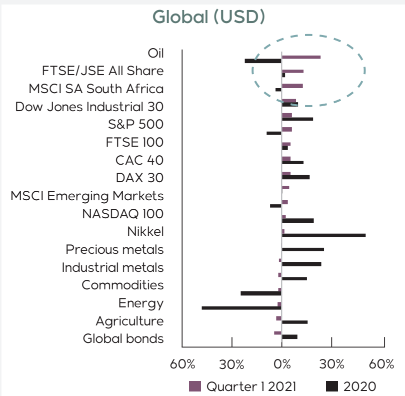
LOOKING BACK

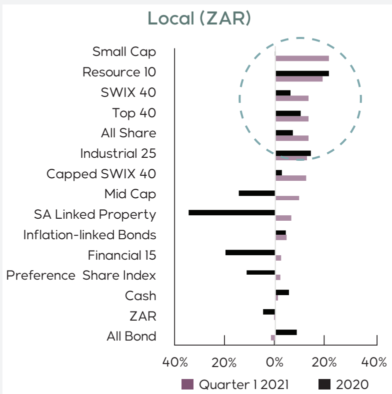
Local risk assets have produced good results.

- The FTSE/JSE All Share Index (ALSI) gained, bringing the first quarter return to a pleasing 13,1%.
- Strong quarterly performance from the resources sector (18,7%) continued to set the tone.
- Small-cap stocks also delivered credible results with the small-cap index up 21,2% relative to headline numbers from the mid-cap stocks (9,4%) and the Top 40 Index (13,2%).
- The property sector gained 1,2% in March, bringing the quarterly returns to a healthy 6,4%.

Global bond yields rose and created market volatility in the first quarter.
The BEASSA All-Bond Index (ALBI) declined by 2,5% in March, bringing the first quarter returns to -1,7%.

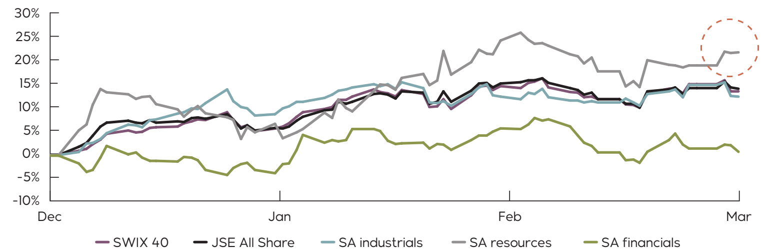
The world has transitioned to pricing in higher economic growth and cyclical expansion.





Source: Refinitiv, S&P GSCI Commodity Indices, Bloomberg Barclays Global Aggregate Bond Index, total return data to 31 March 2021

South African equities shone with resources setting the tone and financials bucking the global trend.



Source: Refinitiv, total returns to 31/03/2020

LOOKING AHEAD

- **South Africa continues** to **benefit** from the tailwinds of a **global economic recovery**.
- **Improved activity** from our trading partners **supports industry** and **local growth**.
- **Increased exports, and export prices**, most notably for the commodities mined locally, balanced against **weak import demand, has provided a constructive backdrop for the currency.**
- **The rand has held its own** relative to other emerging-market currencies.
- Incoming domestic data suggests **a broader economic recovery** is underway.
- The SARB highlighted **that policy would remain accommodative and more evidence would be required before increasing rates**, despite money markets pricing in multiple 0,25% hikes **before year end.**

OUR WEALTH ADVISORY AND INVESTMENT APPROACH REMAINS CONSISTENT

VALUATIONS
Investment returns are a function of what you get (value) for the price you pay, adjusted for risk. There are certain investments that we want to own in the long term and certain investments that we do not.

DIVERSIFICATION
We recognise the benefits of diversifying across countries, currencies, asset classes, business sectors and counterparties to ensure that we make the most of your wealth at the lowest risk throughout market cycles.

LONG-TERM VIEW
Investing in financial markets offers the best results over the long term (five years or longer).

OUR ASSET ALLOCATION AND PORTFOLIO POSITIONING

Asset class	Previous positioning	Current positioning					Our current views
		UW		Neutral		OW	
Global	Overweight (OW)						**The global asset allocation is tilted to provide capital protection and income.** Our global portfolios are tilted towards assets that give clients a better probability of capital protection and certainty of receiving income from their portfolios. The allocations are overweight cash; annuity-income-generating alternate investments in the renewable-energy and infrastructure sectors; and care homes in the property sector. We are underweight bonds and moderately underweight equities, mainly on valuation concerns.
South African equities	Neutral						**Select opportunities are still available.** **We have added to equites on extreme valuations.** Portfolios are broadly neutral towards the asset class, excluding our exposure to equity-linked notes. When we include this 'hedged equity' exposure, portfolios are marginally overweight. **South Africa should benefit from improved global growth and improved emerging-market sentiment.** • Headline market valuations have re-rated but certain sectors and companies still offer opportunity for long-term investors. • South African corporates are likely to face an improved but still challenging economic backdrop over the coming year, but this is highly dependent on progression of vaccine rollouts, load-shedding and sector-specific trends. Companies with high debt levels remain vulnerable in this environment. • We believe the market has, in some instances, already priced for this scenario. Stock selection should help differentiate between and within sectors.
South African hedged equities (equity-linked notes)	Overweight (OW)						**We continue to recalibrate portfolios and maintain a balanced risk profile.** Portfolios have a modest overweight exposure to equity-linked notes to provide some protection from equity market falls.
South African property	Underweight (UW)						**The property sector has been under pressure from the following:** • A nascent economic recovery • Fundamental demand/supply imbalances • Increases in operating costs (municipal costs and services) **Distributions are at risk from the following:** • Decreased earnings from rental reversions, rental holidays, and business failures • Disruptions like e-commerce • Balance sheet pressures Property valuers are taking a more cautious stance, with financial results revealing meaningful impairments to property asset values. This reflects both cyclical weakness and the threat of structural change with new remote-working and e-commerce trends accelerating. Retail and offices have been most vulnerable. There is a renewed focus on affordability of space and where rates should normalise in a post-Covid-19 world. We retain a focus on balance sheet strength, given deteriorating fundamentals and the aggressive mergers and acquisitions from previous years. **For now:** We have retained some exposure to capitalise on attractive entry points, but caution that a focus on quality is essential.
South African preference shares	Underweight (UW)						**Headline valuations for the asset class are still attractive on an after-tax basis, so it is a reasonable hold in the portfolio due to its annuity income stream and diversification benefits.** • SARB remains accommodative but the money markets have already priced in multiple interest rate hikes by year end. • Capital values should be more stable with upside from here on a medium- to long-term view. • Floating-rate instruments will become more attractive as a stand-alone opportunity and diversifier as interest rates rise. **We are keeping a close eye on the following risks:** • Corporate balance sheet risk. • The sector could be vulnerable in the event of a credit-ratings downgrade and forced selling, given the low liquidity.
South African bonds	Overweight (OW)						**Bonds remain attractive on a risk-adjusted basis and continue to warrant an overweight position in portfolios.** • Food inflation, increases in electricity tariffs, a higher oil price and base effects will see inflation increase in 2021. • Global central banks are likely to remain supportive, but markets are pricing in a global recovery. This will be reflected in steeper yield curves and more volatility. • The 2021 Budget was better than expected, but fiscal risk remains elevated with high execution risk. The improved outcomes did however allow for a decrease in bond issuance. This was a positive signal for the bond market. • A challenging fiscal backdrop, Eskom and state-owned enterprises difficulties and credit ratings downgrades remain risks, especially for longer-dated bonds.

South African bonds (continued)							For now: • Given the starting valuations in our local bond market, we believe local nominal bonds are still attractive on an absolute and relative basis, even allowing for a variety of scenarios for global bond yields and local inflationary dynamics. Fiscal risks, however, remain elevated. • Execution risk remains high, with notable pressure points about the cost of servicing our national debt and compensation.
Cash	Underweight (UW)						Cash is a stabilising factor and provides us with the option to deploy this when appropriate opportunities arise.

A YEAR ON

IT IS HARD TO BELIEVE WHERE WE ARE NOW, RELATIVE TO WHERE WE WERE – WHAT A YEAR IT HAS BEEN!

In March last year, the impact of the global pandemic on every market, asset class and economic indicator was extreme. At the time, we wrote to you about three key things:

1. To reassure you that despite the extreme uncertainty and market volatility our wealth advisory and investment approach would remain consistent.
2. To encourage you to avoid trying to time the market by switching between equities and cash.
3. Practical tips to help navigate the emotional challenges we would all have in the face of all the unknowns.

HISTORY HAS ONCE AGAIN SHOWN US THAT IF YOU STAY THE COURSE WITH A TRIED-AND-TESTED APPROACH THROUGH MARKET CYCLES, YOU WILL BENEFIT.

Source: Refinitiv, rolling 12-month total return data to 31 March 2021

WHILE THE NUMBERS ARE POSITIVE AND MARKETS ARE PRICING IN A FASTER GLOBAL RECOVERY, THERE ARE ALWAYS RISKS.

Globally, the risks include the following:
- China tightening policy faster than expected.
- Disappointing global economic growth (Europe may be vulnerable).
- A spike in real yields if the tapering of policy support is too sharp.
- If there is a Covid-19 setback and/or vaccines are delayed.

In South Africa, the ongoing challenges related to slow structural reform, state-owned enterprises, Eskom and the fiscal situation all pose a threat, which is why our portfolios remain diversified.

THE TIMELESS LESSONS STILL APPLY.

1. We still need to focus on what we know and can control, so that we don't waste our energy on things we don't know and can't control.
2. We still can't control the markets or decisions from governments.
3. As investors we can control our thoughts, emotions, and actions. By remaining aware of these, we are better able to avoid making irrational decisions.
   - For us, as your investment manager and wealth advisor, this means sticking to our tried-and-tested approach.
   - For you as our trusted clients, it means knowing that we are here for you. We are here to connect you with our globally integrated advice, and expertise to help you make the most of your wealth. Please continue to reach out to us and get our advice before making any big decisions about your wealth.