Quarterly commentary

Kagiso Top 40 Tracker Fund
December 2020

A severe COVID-19 resurgence has necessitated renewed partial lockdowns across the world, which is delaying economic recovery. The successful development of vaccines has shielded the world from more negative global health and economic scenarios, but the timing of the economic recovery in different regions and the extent of further scarring (particularly in services sectors like leisure and tourism) depends critically on the effectiveness of the vaccine rollout. In addition, the immense increase in global government debt due to aggressive fiscal stimulus will retard future, long-term growth. On the whole, uncertainty remains very high.

Governments in developed countries responded to the health care crisis and the resultant pausing of large parts of their economies with aggressive fiscal stimulus packages. Together with a dramatic easing of monetary policy (rate cuts, increased quantitative easing and other unconventional measures), this has tempered economic scarring from the COVID-19 crisis. The interventions, which are being sustained into the recovery phase, are providing a powerful buffer for financial markets and have led to dramatic increases in general asset prices. We expect increased volatility when fiscal stimulus inevitably wanes, if inflation emerges at last and when interest rates rise from their extremely low levels.

Against this backdrop, global markets were strong again this quarter (up 14.1% in US dollars), with Japan up 21.2%, France up 20.7% and the UK up 17.2%. Within emerging markets (up 19.8% in dollar terms), South Korea (up 35.0%) and Brazil (up 36.6%) outperformed. 2020 has been a very strong year for global equity markets (up 16.5% overall).

In rand terms, the local equity market was up 9.8% this quarter, with mid-caps (up 13.7% for the quarter versus large-caps up 8.9%) still significantly underperforming this year (down 14.2% for the year versus large-caps up 10.0%). Financials outperformed (up 20.1%), with listed property (up 22.2%) and banks (up 25.8%) outperforming life insurance (up 14.1%). Fortress B (up 100.7%), Redefine (up 27.2%), Capitec (up 38.1%) and Absa (up 34.2%) outperformed, while Momentum (up 1.7%), Fortress A (up 4.6%) and Santam (up 4.8%) underperformed.

Within the resources sector (up 7.9%), PGM miners (up 29.1%) outperformed, while gold miners (down 24.8%) lagged. Standout performers included Impala Platinum (up 38.8%) and African Rainbow Minerals (up 35.4%).

Industrials (up 6.8%) lagged - primarily due to heavyweights Naspers (up 2.2%) and British American Tobacco (down 6.0%). Standout positive performers included Barloworld (up 48.2%) and MultiChoice (up 38.3%). Retailers were again mixed, with Mr. Price (up 30.9%) and The Foschini Group (up 24.8%) outperforming, while Shoprite (up 2.5%) and Spar (up 3.4%) underperformed. The hospital sector underperformed, with Mediclinic and Netcare down 7.4% and 3.3% respectively. The local market was positive for the year (up 7.0%), with divergent sectoral performances. Resources were up 21.1%, industrials were up 14.3%, but financials underperformed (down 14.2%).

After fees and trading costs, the fund slightly underperformed its benchmark, the FTSE/JSE Top 40 Index, and closed the quarter up 8.8%.