Quarterly commentary

Kagiso Top 40 Tracker Fund

June 2021

Rapid rollout programs of vaccines have substantially progressed in many developed markets, with laggard countries (like Germany and Japan) rapidly catching up. This is allowing a faster return to more normal activity in those regions, limiting further scarring in services sectors (particularly tourism and leisure). Unfortunately, several less wealthy nations are enduring continued heavy Covid-19 impacts, accompanied by slow vaccine rollouts. This is delaying their economic recoveries. It currently appears that the rate of vaccine rollouts is insufficient to contain the virus worldwide and, with mutations occurring where the virus is raging, it is likely that negative economic effects will endure for an extended period of time.

Positively, the local economy has continued to recover, with consistently high commodity prices (particularly platinum group metals and iron ore) significantly supporting economic outcomes and the agricultural sector remaining buoyant. However, with an ineffective vaccine rollout, recurring Covid-19 variant surges continue to hamper the recovery of our services sectors. South Africa is lagging the global recovery considerably, showing signs of permanent economic damage from the lockdown and years of state mismanagement. We suffer from a very depressed labour market, unstable electricity supply, weakened and tax-hungry municipalities and chronically low business and investment confidence. For these reasons, we remain pessimistic regarding the structural growth rate for the local economy (which we believe has severely weakened in recent years) and have been wary of extrapolating a short-term cyclical growth rebound too far into the future when valuing cash flows.

Global markets were once again strong this quarter (up 7.9% in US dollars), with France up 10.0%, the UK up 5.7% and the USA up 8.5%. Within emerging markets (up 5.1% in dollar terms), Brazil (up 23.8%) and Russia (up 14.4%) outperformed, while South Africa (down 1.3%) lagged. Over the last 15 months global equity markets have recovered very strongly from the March 2020 lows (up 67% overall).

In rand terms, the local equity market was flat this quarter, with mid-caps (up 5.9% for the quarter versus large-caps that were down 0.8%) still underperforming since the start of 2020 (down 0.9% versus large-caps up 18.8%). Resources shares underperformed this quarter (down 5.2%) following an extended period of outperformance. Anglo Platinum (down 23.4%), AngloGold (down 17.5%) and Northam Platinum (down 15.7%) underperformed, while Glencore (up 6.8%), Anglo American (down 0.7%) and BHP Group (down 1.2%) outperformed within this sector.

Industrials were flat (up 0.1%) – heavily influenced by weakness in Naspers (down 15.1%). Standout positive performers included Richemont (up 21.9%) and retailers (Dis-Chem up 41.4%, Foschini up 30.0%, Pepkor up 24.6% and Truworths up 20.6%). Telecommunication stocks were also strong, with MTN up 18.9% and Telkom up 9.5%. MultiChoice (down 9%) and British American Tobacco (down 1.3%) were other laggards.

After fees and trading costs, the fund outperformed its benchmark, the FTSE/JSE Top 40 Index, which closed the quarter down 0.84%.