Quarterly commentary

Kagiso Top 40 Tracker Fund
September 2021

Rapid rollouts of effective vaccines have been substantially completed in most developed markets and normal activity is resuming in those regions, limiting further scarring in services sectors (particularly tourism and leisure). Unfortunately, lingering vaccine hesitancy and slow vaccine rollout programs among less wealthy nations is delaying economic recovery. It appears that the virus will remain endemic in years to come, albeit with significantly reduced danger to society.

In the near-term, it seems that many developed economies are growing at above trend levels post their pandemic recoveries. This stronger demand backdrop together with the disruptive effects of past lockdowns is resulting in severe temporary logistical challenges and supply shortages in certain electronic components, energy sources, commodities and labour markets. Enduring economic trends may be visible only when fiscal support and monetary stimulus tapers off more meaningfully and when supply chains are functioning more normally.

On the other hand, the South African economy has continued to recover slowly and in an uneven fashion, with high commodity prices (particularly platinum group metals, iron ore and coal) significantly supporting economic growth. High soft commodity prices, a favourable exchange rate and good weather are substantially buoying the agricultural sector. South Africa is lagging the global recovery considerably, showing signs of permanent economic scarring from lockdowns and years of state mismanagement. We have very high unemployment, a large unskilled population, unstable electricity supply, underinvestment in key transport infrastructure, weakened and revenue-hungry municipalities and chronically low business and investment confidence. For these reasons, and the very large government debt burden, we remain pessimistic regarding the structural growth rate for the local economy.

Against this backdrop, global markets were flat in the quarter (up 0.1% in US dollars), with Hong Kong and Germany underperforming (down 14.1% and 4.0% respectively) while the USA (up 0.6%) and Japan (up 2.7%) outperformed. Emerging markets were weak in the quarter (down 8.0%), with particularly poor performances from China (down 18.1%) and Brazil (down 19.5%).

In rand terms, the local equity market was down 0.8% in the quarter, with mid-caps (up 7.2% for the quarter versus large-caps down 1.5%) outperforming again. Resources stocks were weak (down 3.8%) in the quarter. RBPlats (down 22.0%), Impala Platinum (down 22.0%), African Rainbow Resources (down 17.9%) and Northam Platinum (down 17.3%) underperformed, while Sasol (up 30.9%) and Glencore (up 18.7%) outperformed.

Industrials underperformed (down 5.1%) - primarily due to Prosus/Naspers. Standout positive performers included Aspen (up 68.8%), MTN (up 36.9%) and food and drug retailers (up 9.5%). Prosus/Naspers (down 16.9%), AB Inbev (down 16.8%) and The Foschini Group (down 14.1%) all lagged. Financials outperformed (up 12.7%), with listed property (up 5.9%), banks (up 15.0%) and life insurance (up 11.8%). Liberty (up 52.2%), Old Mutual (up 24.6%) and Investec (up 22.8%) outperformed, while Hammerson (down 11.7%), Fortress B (down 8.6%) and PSG Group (down 7.0%) underperformed.

After fees and trading costs, the fund outperformed its benchmark, the FTSE/JSE Top 40 Index, which closed the quarter down 1.6%.

Invest with us **Website** www.kagisoam.com **Client service** 0800 864 418 **Email** clientservice@kagisoam.com **Fax** 088 021 671 3112