Kagiso Top 40 Tracker Fund
December 2021

Although the global economy has largely recovered from the COVID-19 pandemic shock, the recovery is very uneven across countries and sectors. Despite high vaccine efficacy, new virus variant waves continue to impede a full recovery due to government containment measures. The pandemic has severely impacted manufactured goods supply chains and this is contributing to supply shortages and to higher inflation rates. 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.

Developed economies are growing above pre-crisis trend rates for now, despite the supply chain disruptions and even as fiscal stimulus benefits rapidly wane. This is due to healthy consumer spending stemming from robust labour markets, accumulated savings from lockdown periods and surging wealth levels. The medium-term outlook for emerging economies is extremely varied at present, with differing exposures to global supply chain bottlenecks, volatile energy and agricultural prices (importers versus exporters), strong mining commodity prices, a moribund tourism industry and differing impacts from the stewardship of the pandemic crisis and efficacy of vaccine rollouts. Due to recovering domestic demand and signs of increased inflation, policy interest rates have continued normalising higher from extraordinarily low crisis levels.

While in South Africa, the economy will continue to produce only moderate expansion from here despite notable strengthening of the primary sectors (mining and agriculture). Scarring from years of state mismanagement and the pandemic lockdowns is highly evident in consumer spending, manufacturing capacity and fixed investment. There is a risk that future less buoyant commodity prices (particularly platinum group metals, iron ore and coal), which are currently strongly supporting the economy, will result in an even weaker outlook. In addition, South Africa continues to battle burgeoning unemployment, a large and unskilled population, unstable and inadequate electricity supply, underinvestment in key transport infrastructure, weakened and revenue-hungry municipalities and chronically low business and investment confidence. For these reasons, coupled with the very large government debt burden, we remain pessimistic regarding the structural growth rate for the local economy.

Over the last quarter, global markets were strongly positive (up 7.9% in US dollars), with the USA (up 11.0%) and France (up 8.1%) outperforming and Hong Kong (down 4.8%) and Japan (down 5.3%) underperforming. Emerging markets were again weak in the fourth quarter (down 1.2%), with particularly poor performances from Russia (down 9.0%), China (down 6.1%) and Turkey (down 11.1%). 2021 was a very strong year for global equity markets (up 22.3% overall).

In rand terms, the local equity market was up significantly in the quarter (up 15.1%). Resources stocks were very positive (up 22.2%), with RBPlats (up 110.6%), Gold Fields (up 41.3%) and Anglo Platinum (up 39.3%) outperforming, while Sasol (down 9.3%) and Exxaro (down 5.1%) underperformed. Industrials were also positive (up 16.8%), with standout positive performers being Richemont (up 55.2%), Telkom (up 22.5%), MTN (up 20.8%), Dis-chem (up 19.9%) and Shoprite (up 16.9%). Aspen (down 17.2%), Woolworths (down 12.2%) and Pick n Pay (down 7.3%) all lagged.

Financials underperformed (up 2.2%), with listed property (up 8.4%), banks (up 3.2%) and life insurance (down 4.8%). Investec (up 37.6%), Fortress B (up 27.5%) and RMI Holdings (up 20.7%) outperformed, while Momentum (down 9.3%), Old Mutual (down 7.6%) and Sanlam (down 7.1%) underperformed.

After fees and trading costs, the fund underperformed its benchmark, the FTSE/JSE Top 40 Index, which closed the quarter up 16.25%.

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