

GRYPHON MARKET COMMENTARY – 30 SEPTEMBER 2020

INTERNATIONAL						LOCAL							
THE PAST	<p>The rally in global equities stalled in September, with the MSCI World Index's returning -3.6%, being outperformed by the MSCI Emerging Markets' -1.8%. The US Dollar strengthened as growth momentum slowed, COVID19 resurged in Europe and the political heat escalated ahead of the U.S. election. Forecasters trying to explain the likely path of economy recovery have migrated from a "V" to a "K" – explaining that some have benefitted, while others have suffered. We can't disagree with this, but employment data in the U.S. leads us to conclude that the negative impact on unemployment and hence consumer spending is being underestimated. The delay in the delivery of further fiscal stimulus in the U.S. is likely to damage the fragile economic recovery despite the extended period of low interest rates.</p>						<p>Local equities continued their negative trend, ending the month -1.6%. The All Bond Index was flat. The South African Reserve Bank kept rates unchanged despite consensus expectations for a 25bps cut. South Africa's economy lost 2.2m jobs during Q2, with the expanded definition of unemployment now at 42%. The Rand continued to strengthen despite generally lower commodity prices. Brent and WTI Crude fell 8% and 6% respectively as increased infection rates and a slow recovery in global mobility weighed on forecasts of future demand. While Resource stocks have outperformed year-to-date, the recent strength of the currency and slow-down in commodity prices will prove to be a headwind. A global demand recovery is required to sustain current prices.</p>						
	EQUITY INDICES	MTD	YTD	12M	CURRENCIES/COMMODITIES	VALUE	MTD	YTD	12 M	BONDS	VALUE	YTD BPT Δ	12M BPT Δ
	MSCI WORLD (USD)	-3.41%	2.12%	10.99%	ZAR vs USD	16.76	1%	-20%	-11%	USA BOND 10 YEAR	0.69	-123	-99
	MSCI EMERGING MARKETS (USD)	-1.58%	-0.91%	10.91%	ZAR vs GBP	21.65	4%	-17%	-16%	USA BOND 2 YEAR	0.133	-145	-152
	DOW JONES INDUSTRIAL	-2.18%	-0.91%	5.70%	ZAR vs EUR	19.64	3%	-25%	-19%	GERMAN BOND 10 YEAR	-0.55	-36	3
	S&P 500	-3.80%	5.57%	15.15%	ZAR vs AUD	12.01	4%	-22%	-17%	GERMAN BOND 2 YEAR	-0.7	-10	4
	UK FTSE 100	-1.63%	-22.23%	-20.82%	EUR vs USD	1.17	2%	-5%	-8%	UK BOND 10 YEAR	0.23	-60	-26
	JAPANESE NIKKEI 225	0.20%	-1.99%	6.57%	GBP vs USD	1.29	3%	3%	-5%	UK BOND 2 YEAR	-0.04	-57	-52
	GERMAN DAX	-0.95%	-2.94%	4.30%	YEN vs USD	0.01	0%	-3%	-3%	RSA LONG TERM GILT	9.501	54	60
	FRENCH CAC 40	-2.91%	-19.65%	-15.40%	GOLD	1888	-4%	24%	27%	RSA 10 YEAR	9.501	54	60
	AUSTRALIAN ASX	-3.79%	-11.66%	-11.64%	PLATINUM	870	-7%	-10%	-7%	RSA 3 YEAR	4.95	-225	-241
	JSE ALL SHARE	-1.58%	-2.51%	2.01%	IRON ORE	118	-4%	28%	29%	RSA REPO RATE	3.5	-300	-300
	JSE TOP 40	-1.67%	1.00%	5.59%	COPPER	6610	-2%	7%	15%	RSA PRIME LENDING RATE	7	-300	-300
	JSE ALL SHARE SWIX	-1.63%	-6.64%	-2.19%	NICKEL	14385	-7%	3%	-18%	USA INFLATION RATE	1.3	-100	-40
	JSE TOP 40 SWIX	-1.91%	-2.75%	1.80%	BRENT OIL	42	-7%	-36%	-30%	RSA INFLATION RATE	3.1	-90	-120
THE PRESENT	<p>While much attention has been focused on the debates between U.S. presidential candidates, we are more concerned about the increasingly elevated US-China tensions. Global markets have generally maintained a holding pattern in the three months prior to U.S. elections and while the prospect remains that this is the case in 2020, U.S. earnings for Q3 may provide a surprise to the downside. Earnings expectations have generally been revised higher and beating these expectations may prove more of a challenge. Countries that were able to bring the virus under control speedily have generally enjoyed a rebound in economic growth. A number of countries who are large contributors to global growth have been unable to do so. Consumer spending remains a large part of GDP in most developed countries. Consumer spending is key!</p>						<p>As indicated in the past, we continue to examine carefully vehicle sales data and trends. The data is published regularly and reflects the state of the consumer, business and profitability of a number of key segments in the economy. Results from local banks reflect the contribution from vehicle asset finance and the related financial services activities which are bundled with vehicle sales. The trend remains weak. Active managers have continued to underperform the index, despite the volatility which supposedly provides them with opportunity to stockpick. The All Share Index returned 2.0% in the year to end September, while active asset management delivered on average -2.9%. We eagerly await the Medium Term Budget Policy Statement, as we gather, do most magicians, who revel in the public display of their craft.</p>						
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THE FUTURE	<p>While much attention has been focused on the debates between U.S. presidential candidates, we are more concerned about the increasingly elevated US-China tensions. Global markets have generally maintained a holding pattern in the three months prior to U.S. elections and while the prospect remains that this is the case in 2020, U.S. earnings for Q3 may provide a surprise to the downside. Earnings expectations have generally been revised higher and beating these expectations may prove more of a challenge. Countries that were able to bring the virus under control speedily have generally enjoyed a rebound in economic growth. A number of countries who are large contributors to global growth have been unable to do so. Consumer spending remains a large part of GDP in most developed countries. Consumer spending is key!</p>						<p>As indicated in the past, we continue to examine carefully vehicle sales data and trends. The data is published regularly and reflects the state of the consumer, business and profitability of a number of key segments in the economy. Results from local banks reflect the contribution from vehicle asset finance and the related financial services activities which are bundled with vehicle sales. The trend remains weak. Active managers have continued to underperform the index, despite the volatility which supposedly provides them with opportunity to stockpick. The All Share Index returned 2.0% in the year to end September, while active asset management delivered on average -2.9%. We eagerly await the Medium Term Budget Policy Statement, as we gather, do most magicians, who revel in the public display of their craft.</p>						
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GRYPHON FUNDS	RISK		GRYPHON FUND				POSITIONING						
	<p>LOW</p> <p>↑</p> <p>↓</p> <p>HIGH</p>		<p>Money Market Fund</p> <p>Dividend Income Fund</p> <p>Prudential Fund of Funds</p> <p>Flexible Fund of Funds</p> <p>All Share Tracker Fund</p> <p>Global Equity Fund</p>				<p>Conservatively managed, superb yield.</p> <p>Enhanced before tax yield.</p> <p>Currently conservatively positioned. Regulation 28 compliant.</p> <p>Currently conservatively positioned.</p> <p>Lowest cost, superbly diversified exposure to equities.</p> <p>Low cost exposure to international diversification with associated currency benefit.</p>						