Market Commentary | July 2020

Macroeconomic reports released during July made for grim reading. With virtually every economy hit by the Covid-19 pandemic and associated shutdowns, it was no real surprise that US GDP, for instance, declined by 32.9% for the second quarter of the year. Forecasters and market participants continued to wrestle with understanding the depth of structural damage done to the consumer psyche, business health, and of course to government finances. Some progress was made in developing a Covid vaccine (in fact several vaccines moved to late stage trials), but this encouraging news was tempered by the grim current economic reality.

We have previously written about an expectation of divergent recovery paths - well-resourced and strongly developed and financed countries on the one hand, and countries with weak fundamentals, poorer medical resources, and reliance on foreign capital on the other. This divergence became increasingly apparent, as well as the divergence between sectors and companies. Political differences also contributed to ongoing tensions affecting the major trading blocs.

From a market perspective, investors sought certainty in the technology growth shares, attracted by their strong reported earnings and obvious benefit from accelerated online commerce. In addition, low or no interest rates and heightened political tensions encouraged ongoing investment in gold bullion and other precious metals including platinum, palladium and silver. The US dollar, however, weakened as investors started to doubt its long-term safe haven status given the dovish US Federal Reserve. Global bonds rallied further in the month, with the US 10-year yield falling 13bps to just 0.53%.

SA remained tense, with eased lockdown restrictions accompanying surging Covid cases in Gauteng, KZN and the Eastern Cape, albeit offset by encouraging signs of a decline in infections in the Western Cape. The MPC cut the repo rate a further 0.25%, to 3.5%, on the back of slightly lower inflation and growth forecasts. In contrast to the unanimous May 0.5% cut, 2 members voted to keep rates unchanged at the July meeting, with differing views emerging amongst members around the balance of risks to the outlook. The last two CPI prints were both just above 2% (comfortably below the lower 3% band of the inflation target), but the SARB model currently reflects this as a temporary downside breach, with inflation expected to trend up towards the mid-point of the target range over their forecast period. At 3.5%, the current level of the repo rate is therefore negative, and certainly accommodative, on a forward-looking basis.

The market remains nervous about the deterioration in the fiscal outlook and large government funding requirements. Positively, the IMF approved the $4.2bn Rapid Financing Facility loan towards the end of the month. Despite not having specific conditionality attached, the IMF team still needed to have confidence around the debt sustainability of SA as a borrower, so the eventual granting of the loan was a positive development in this regard. Interestingly, South Africa's Letter of Intent (signed by the Minister of Finance and Reserve Bank Governor) indicates that SA is open to the idea of introducing a debt ceiling as a fiscal rule in addition to the existing expenditure ceiling, and also committed to implementing the economic reforms outlined in Treasury's growth document released last year. It is on this point that investors remain wary - in the absence of concrete, irrefutable signs that some of these policy reforms are actually being implemented, bond investors will remain extremely cautious, and the yield curve will remain steep to reflect this necessary risk premium.

SA equities edged higher, the JSE ALSI ending the month up 2.6%, mainly due to the rampant Resources index which returned 8.3%, boosted by strong precious metal prices. The Industrials index returned -1.2% while the Financial index returned 1.2%. Performance across the domestic bond curve was mixed in July, with the shorter end of the curve (out to the ten year point) rallying, but longer dated yields steepening further. The ALBI returned 0.61% for the month, bringing the year to date index return to 0.97%

TANTALUM FUND PERFORMANCE

The Tantalum funds benefited from holdings in shares like AngloGold, Foschini, Northam, Anglo American and Reinet as well as our holding in the platinum metal ETF. Detractors from performance were British American Tobacco, Tsogo Sun and Gaming, and MPact. BATs reported encouraging results just before month end, stemming recent share price weakness. Our global share portfolio also had a solid earnings season, with good performance at Unilever Plc being a key standout. Our holdings in Siemens, Alphabet, and Deutsche Post also added to performance. Looking ahead, we remain alert to the narrowness of recent share market leadership. This is never a good sign for enduring bull markets. We have continued to add some selective share exposure on weakness, but have retained healthy liquidity and a number of derivative protection strategies to navigate the difficult half year ahead.

On the fixed income side, we took the opportunity of higher yields in July to increase duration slightly. We recognise the attraction of higher yields, but also the risk premium that is warranted for longer dated bonds at the current fiscal juncture. We reflect this in our asset allocation by being slightly, but not materially overweight bonds as an asset class, until we have greater confidence that SA's fiscal outlook will trend closer to the 'active', rather than 'passive' scenario outlined in National Treasury's recent Supplementary Budget.

As always, we appreciate the strong support of our clients through volatile and challenging markets, and your encouragement to us to stick with our tried and tested investment process.

FUND	JUL '20 RETURN	ROLLING 12MTH RETURN
Tantalum BCI Strategic Income Fund	0.4%	7.4%
Tantalum IDS MNC Retail Hedge Fund	0.5%	2.5%
Tantalum Absolute Return Fund	0.8%	-0.3%
Tantalum Balanced Fund (Local Only)	0.6%	-2.3%
Tantalum BCI Balanced Fund (incl. Offshore)	1.2%	5.8%
Tantalum Equity Fund	0.3%	-8.0%
PPS Stable Growth Fund	0.7%	6.3%

All performance numbers are estimates until final approval by administrator