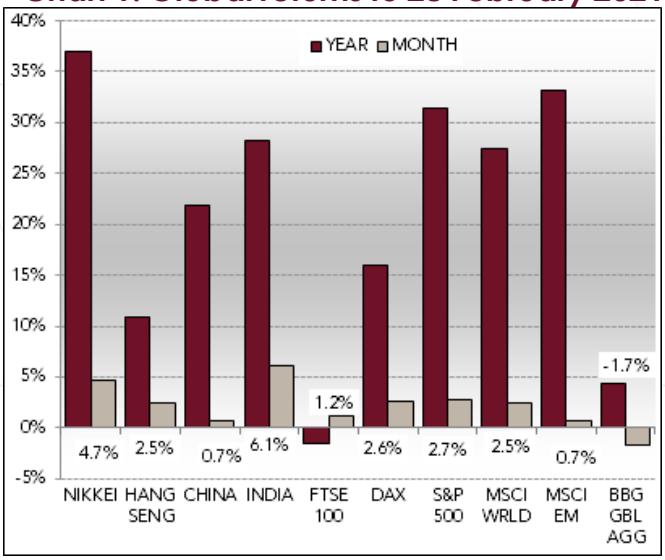
February in perspective – global markets

Market participants probably feel like they have experienced a year of market activity so far during 2021 – yet we are only two months into the year. Investors further removed from markets can be forgiven for wondering what all the fuss is about – markets have been relatively calm so far, haven't they? My response would be "anything but!" I wouldn't want to over-dramatize the market movements, but they have been extreme – in both directions. Hardly a day has gone by without some significant development occurring, forcing us to keep our attention fixed on the present and the future, in the hope that we can navigate what are becoming increasingly nervous and volatile markets. An example may suffice to illustrate my point.

Chart 1: Global returns to 28 February 2021



Let me use the US equity market as an example: the S&P500, effectively the US large cap index, began the year strongly – remember that last year was a strong year on global equity markets in any event, notwithstanding the global pandemic and economic crisis, both of which are still very real and present. During the first 14 trading days of the year, the S&P500 index rose 4.2%, which is a significant gain under any conditions. However, in the ensuing 4 trading days the index lost 3.7%. During the first 10 trading days in February, the index rose 5.9%, only to lose 3.1% from its peak in the ensuing 9 days. In short, that left the index up 1.7% for the year-to-date, but you will agree that those gains were not without extraordinary volatility in a few short periods of time. No wonder we all feel like we need another holiday!

The causes of the volatility are numerous but the over-riding driver of equity market nervousness during February (and into March, I should add) has been investor concern about rising bond yields (interest rates). Bond rates have begun to rise as the view begins to emerge of a world returning to some form of normality, thanks to the astonishingly successful vaccine results so far, and the fact that it is likely to occur when the full might of the unprecedented fiscal and monetary stimulus kicks into effect. Add to that, huge pent up demand and record savings rates, as well as strong economic growth rates (the US economy alone is forecast to grow more than 7.0% this year), and you can see how exciting the economic future looks. However, lingering concerns and uncertainty about a potential increase in inflation, and the certainty of record government debt (and I mean record debt!) have created nervousness within credit (bond) markets. In turn, this has translated into rising bond yields and falling equity markets. We all know by now, and appreciate, the massive amounts of liquidity (money) sloshing around the world – the effects of monetary and fiscal stimulation implemented to "save the world" at the onset of the Covid pandemic last year – and there is still plenty more to come. So with lots of cheap money, huge future demand, and lots of personal savings in the wings, strong economic

growth, all wrapped up and measured against global equity markets that have run really hard, we have at present a delightful, some may say terrifying, cocktail that awaits us as we head further into 2021.

Let's turn to the data: the MSCI World index rose 2.5% in February, ahead of the MSCI Emerging market index gain of just 0.7%. The dollar rose 0.3% during the month, which retarded the gains in emerging markets and currencies. The Japanese equity market rose 4.7%, the Hong Kong market 2.5% (it was particularly volatile, around the Chinese lunar New Year), the German market rose 2.6%, and the US 2.7%. Amongst emerging markets, the Indian market rose 6.1%, and Russia 3.2% (thanks to an 18.1% gain in the oil price), but the Brazilian market lost 4.4%. The view that the rising economic tide would lift all ships, some of which were really trashed last year, led to strong returns from mid and small cap shares around the world. The S&P Mid and Small cap indices rose 6.7% and 7.6% in February alone, bringing their respective year-to-date i.e. two-month gains to 8.2% and 14.3%; compare that to the large cap gain of only 1.7% over the two-month period.

While we have already referred to the trauma in the bond markets, the returns there still actually look quite sedate – remember equity markets are far more volatile than bond markets. The Bloomberg Global Aggregate bond index lost 1.7% in February and the US Aggregate bond index lost 1.4%. Commodity prices were firm – in anticipation of the surging economic growth expected later this year, remember? – with oil up 18.1% (year-to-date gain of 34.4%), copper up 15.1%, iron ore 11.8%, and aluminium 9.0%. Gold lost 4.0%, but that is not surprising, given its inverse relationship with bond yields.

Soekarno-Hatta Airport, Jakarta, Indonesia

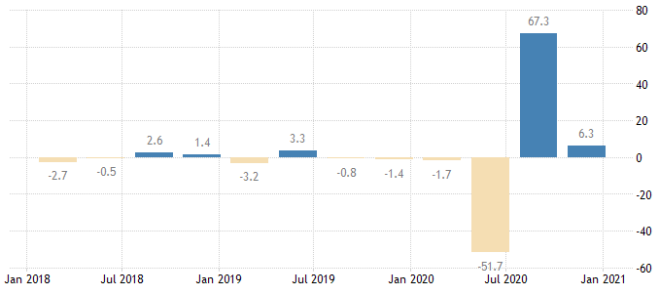
Source: @dailyoverview

What's on our radar screen?

Here is a summary of the things we have been keeping an eye on:

- *The South African economy:* The economy grew at a quarter-on-quarter, annualized rate of 6.3% during the final quarter of 2020 (Q4), led by the manufacturing, household consumption, and exports sectors. Of course, one has to see the growth in the correct perspective, given the wild swings of 2020 as the pandemic decimated the economy during Q2 of 2020. Chart 2 depicts the annualized quarterly growth rates, which places the wild swings into perspective. But don't be fooled; the SA economy is declining at an unacceptably low rate; the sub-par growth is just hidden by shorter-term data.

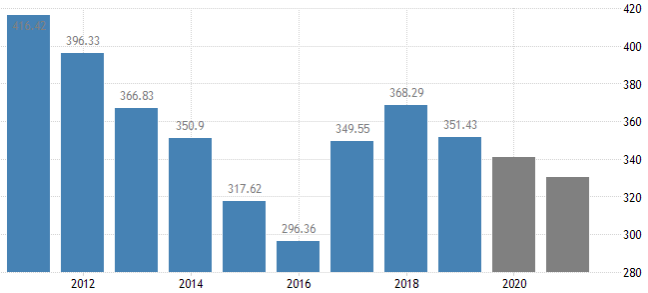
Chart 2 SA GDP: quarterly annualized rate (%)



Source: tradingeconomics.com

In year-on-year terms, the economy contracted by 4.1% although for 2020 as a whole, it shrank by 7.0%. To place this contraction into perspective, StatsSA noted that it was the largest annual decline in the SA economy since 1946. One gets familiar looking at growth rates in percentage change terms, but looking at the actual level of the Gross Domestic Product (GDP) in absolute terms i.e. the actual size of the SA economy, expressed in billions of dollars, and how it has changed over time - refer to Chart 3 – you begin to appreciate how shocking the performance and management of the economy has been over time, and why we have, for many years now, been raising the alarm and talking of "Destination Zimbabwe". What a pity government isn't listening.

Chart 3 SA GDP in absolute terms ($bn)



Source: tradingeconomics.com

The total value of the SA economy (GDP) was $351.43bn in 2019. To place that in perspective, it constituted just 0.29% of global GDP. At the time of writing, the SA economy was 52.8% of the size of Tesla ($665.9bn), 22.5% the size of Amazon ($1.56tn) and just 17.3% the size of Apple ($2.03tn).

Moving on, StatsSA reported that SA's official unemployment rate was 32.5%, with the number of unemployed people rising by 701 000 during Q4. The total number of unemployed people is now 7.2m. More realistically, when one includes the job seekers who have given up looking for employment, the unofficial unemployment rate rose to 42.6% during Q4.

A Photo from Tom Hegen's Coal Mine series

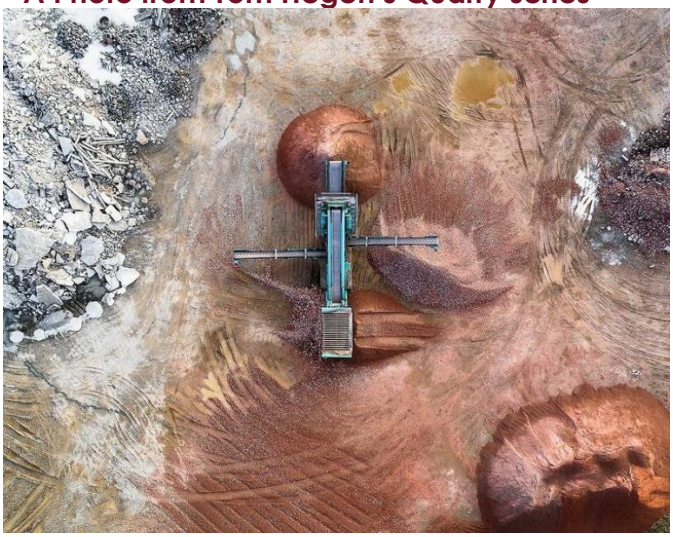
Source: @tomhegen.de

You don't have to be a genius to realize that the increase in unemployment and the shrinking economy are closely related, and more importantly, together are hardly the recipe for success into the future. And still government isn't listening. Rather, they choose to have tea with Jacob Zuma, who has openly flouted the law and taunted the highest court in the land. If that was any ordinary citizen like you or me, we would surely have been thrown into jail a long time ago. But no, the leaders of our country have decided it is more important to have tea with Zuma than to address the livelihood and survival of 7.2m unemployed citizens of this country, not to talk of the rest of the country and its needs, which become ever more desperate and unachievable with each passing day.

- *The US economy:* The economy continued to recover from the depths of the 2020 pandemic. It grew at an annualized rate of 4.1% during Q4, supported by strong retail sales, as the US consumer began spending some of the handouts embedded in the recent fiscal stimulus package. Following three months of consecutive declines, US retail sales rocketed 7.3% in January (relative to December sales), bearing testimony to the pent-up demand that has built up during the pandemic restrictions. Following the spending spree in January, retail sales declined 3.0% in February, although that was largely a function of January's high base and pretty miserable weather across much of the US. Speaking of pent-up demand, the savings rate rose to 20.5%, the highest level since May last year, providing further evidence of just how much "spending power" lies in the hands of the US consumer – and we all know how much he and she likes to spend! Personal income in the US rose 10.0% in January, propelled by receipt of relief cheques.

Despite investor concerns about inflation, seen in the sharp increase in US bond yields (interest rates), there is little evidence of it so far; core inflation i.e. inflation excluding volatile food and energy prices, rose only 0.1% month-on-month in February, after two consecutive "increases" of 0.0%. The annual rate of core US inflation is now 1.3%, from 1.4% in January – hardly the stuff hyper-inflation nightmares are made of. February's headline inflation rose 0.4% month-on-month, from 0.3% in January, bringing the annual rate to 1.7% from January's 1.4%. The labour market continued to improve: 379 000 jobs were created in February, which reduced the unemployment rate to 6.2%.

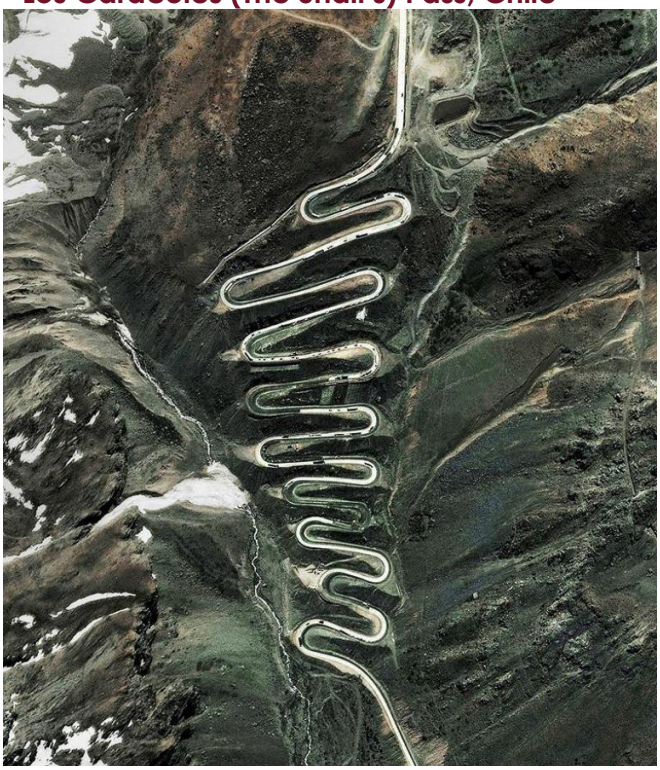
A Photo from Tom Hegen's Quarry series



Source: @tomhegen.de

"To achieve great things, two things are needed; a plan, and not quite enough time."
- Leonard Bernstein

Los Caracoles (The Snail's) Pass, Chile



Source: @dailyoverview

- *Developed economies*: The Eurozone economy's Q4 "growth" was revised down from -0.6% to -0.7%, although the annual "growth" rate was increased to -4.9% from -5.0%. The Eurozone unemployment rate remained steady at 8.1% in January, but retail sales declined by 5.9% as the pandemic restrictions took their toll. The Swiss economy fared better than most during Q4, rising 0.3% quarter-on-quarter, from Q3's 7.6% and Q2's -7.3%. For 2020 as a whole, the economy shrank 2.9%. The growth in Q4 was supported by government investment and consumption, offset by a sharp decline in private consumption, particularly in the hospitality services and leisure industries, which were affected by further lockdowns in December. The Swiss economy is expected to grow in excess of 4.0% during 2021. The German economy grew 0.3% in Q4, boosted by exports, particularly to China, and construction activity. This brought the 2020 "growth" rate to -4.9%. Household spending dropped 3.3% in Q4. The German fiscal deficit rose to 4.2% of GDP, having borne the cost of huge fiscal spending to support the economy.
- *Emerging economies:* The Indian economy grew 0.4% during Q4. The National Statistics Office revised its decline in the economy for the fiscal year from 7.7% to 8.0%, the largest decline on record. On the other side of the world, the Brazilian economy grew 3.2% in Q4, fuelled by rising domestic demand, hand-outs and record low interest rates. For 2020 as a whole, the economy contracted 4.1%. The generous fiscal support sent the primary fiscal deficit rocketing: it rose to 15.0% and pushed government debt to GDP to 100%.

Quotes to chew on

Socialism – revisited

Margaret Thatcher: "The problem with socialism is that you eventually run out of other people's money".

Where have all the babies gone? Baby bust!!

In recent months we have watched with interest, and a modicum of alarm, at the emergence of a trend we have been monitoring for many years now. The onset of the pandemic seems to have accelerated this theme, and it is now on many investors and politicians' minds. It has to do with the declining fertility rate in developed countries i.e. insufficient babies are being born in the world to support the current population.

Legendary deep value investor *Jeremy Grantham* recently penned an article in the Financial Times entitled *The severe cost of the world's baby bust*. I thought it was worth quoting the article at length, seeing that it summed up the problem so well. You can read the whole article by clicking here.

He wrote as follows: "We are in a global baby bust of unprecedented proportions. It is far from over and its implications are gravely under-estimated.

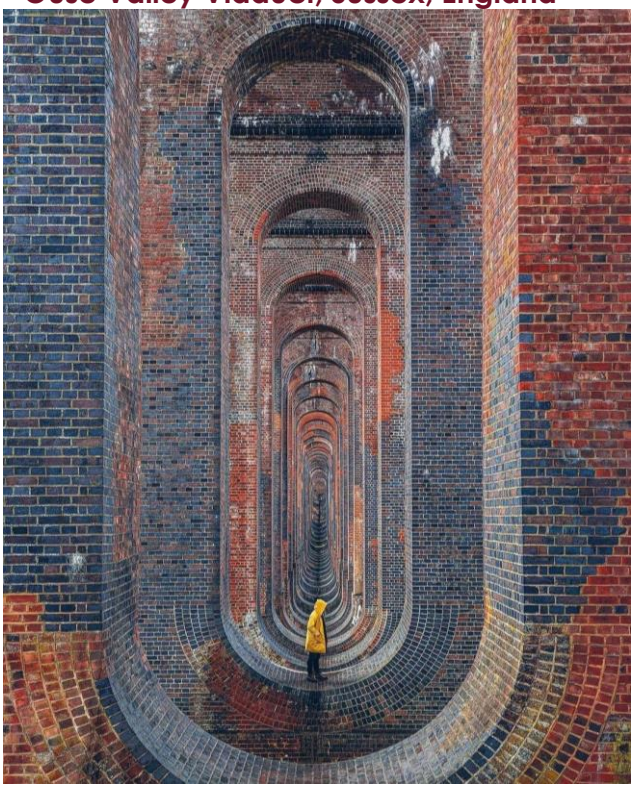
"The worldwide fertility rate has already dropped more than 50% in the past 50 years, from 5.1 births per woman in 1964 to 2.4 in 2018, according to the World Bank. In 2020, the 20% shortfall below replacement rate in US fertility, together with low net immigration, produced the lowest population growth on record of 0.35%, below even the flu pandemic of 1918.

"Many countries, including Italy, South Korea and Japan, are predicted to see their populations drop by more than half by the end of this century.

"The coronavirus pandemic is having a profound incremental impact, with provisional fertility declines of 5 -15% in most developed countries. South Korea recently reported a 2020 fertility rate of 0.84, the lowest rate ever recorded for a major economy.

"Lower population growth directly causes slower economic growth. A falling fertility rate also increases the proportion of older adults in the population. In China for example, the percentage of people aged 60 or over has risen from 6% in 1970 to 17% today and is predicted to reach an astonishing 35% in just 30 years.

Ouse Valley Viaduct, Sussex, England



Source: @harimaolee

"This trend will result in a greatly increased burden on pension and medical systems as fewer workers struggle to look after a growing number of retirees. With the old taking up more resources, and the shortage of young workers requiring more capital spending to maintain productivity, the current era of excess savings is likely to end.

"This is likely to lead to the higher inflation and real interest rates typical of the pre-2000 era. This would almost certainly be accompanied by a reversion towards the lower average levels of asset prices that characterised the 20th century.

"From an environmental perspective, a smaller population is exactly what the climate and biosphere need. However, we must still fully de-carbonise global industrial systems and reduce CO_2 in the atmosphere to its pre-industrial level

of 280 parts per million from its probable future peak of more than 550 parts.

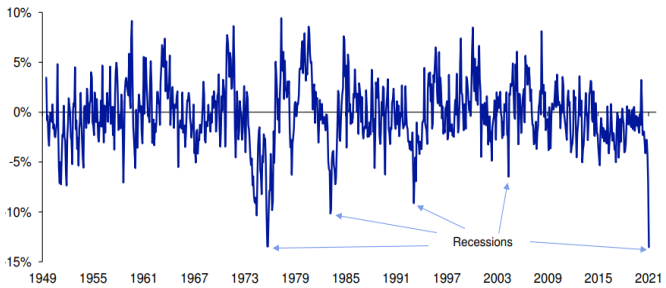
"To achieve this will require every biological and mechanical innovation of which we are capable. Unfortunately, lower economic growth caused by a shrinking and ageing population may weaken not only the necessary innovation and investment but also the resolve to do it. It will need significant fiscal and regulatory encouragement to get the job done.

"The most frightening aspect of this baby bust is that it is not occurring entirely by choice. Social changes, particularly female empowerment, and economic constraints contribute to the falling birth rate – but our actual capacity to have children is in steep decline, as evidenced by a shocking 50% decline in sperm count since 1970 and an equally rapid increase in age-adjusted miscarriage rates ... Infertility is beginning to rise rapidly and, combined with the increasing age at which women in developed countries are having children, is leading to greater difficulty conceiving…

"… We are in a global baby bust of unprecedented proportions. It is far from over and its implications are gravely underestimated".

Chart 4: Number of live births in France

Annual % change



Source: Deutsche Bank

As Grantham noted, one of the side effects of the pandemic has been an acceleration in the "baby bust". More and more countries are reporting birth numbers that now cover at least nine months from the start of lockdown. Chart 4 depicts that France had the largest year-on-year fall (-13.5%) since 1975 in January.

Preliminary data also shows sharp declines in the number of births in Spain and Italy, two countries already facing the challenge of ageing populations. Evidence points to similar trends in the UK and the US. In January, Californian and Florida births were down -10.5% and -7.2%, respectively.

For 2020 as a whole, Italy's national statistical agency Istat said there were about 400 000 births, down from 420 000 the year before, while the country recorded 647 000 deaths – leaving the largest gap between the two since the Spanish flu outbreak of 1918. In December the largest 15 cities saw a -21% year-on-year fall in births, so the lockdown impact could spill over into 2021. Spain saw a -20% decline in January, too.

As Chart 4 shows, a recession usually brings a fall in the birth rate. However with demographics extremely challenging going forward in many Western countries it'll be important to see if any structural changes occur. With such increased focus on climate change and the human impact, it might be more difficult for countries to encourage a higher birth rate going forward. This is in addition to a societal trend towards having fewer children.

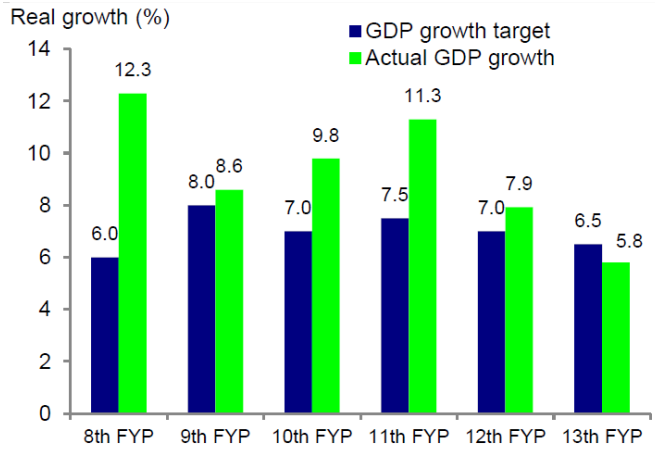
Demographics are pivotal to long-term growth, inflation and market performance, so it will be crucial to see if this rebounds sharply over the next 1-2 years, or if any structural damage to the trend has been done.

Charts of the month

Selected charts on China

As you are aware, the annual plenary sessions of the two organizations in China that make national-level political decisions, being the National People's Congress (NPC) and the National Committee of the Chinese People's Political Consultative Conference (CPPCC), has just been concluded. The so-called "two sessions" conference thrashes out policies on various issues and levels, including the keenly watched Five Year Plan (FYP). This year details of the 14th FYP were concluded. The macro-economic objectives set by the authorities provide guidance with regard to the economy. It is noteworthy that the 13th FYP economic growth targets were not actually met – refer to Chart 5. This may explain why the authorities were so cautious in setting the growth target for the 14th FYP at 6.0%, when consensus forecasts are closer to 8.0%.

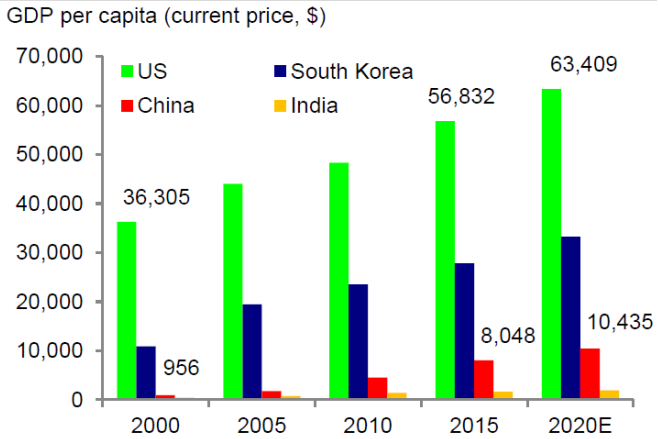
Chart 5: Missed growth target in 13th FYP



Source: UBS

Looking closely at the per capital GDP in China i.e. the value of the total economy divided by that country's population, and which denotes a measure of wealth per person, one of the main attractions for investors, including ourselves, is the rapidly rising per capita GDP of China. This has occurred due to rapid economic growth over the past three decades despite a population of about 1.5bn people. Of greater relevance than the absolute level of this metric (although the latter in itself holds great relevance), is the rate of growth in the metric. So countries with a rapidly growing per capita GDP are attractive as the average wealth per person is rising more rapidly.

Chart 6: China's per capita GDP above $10 000



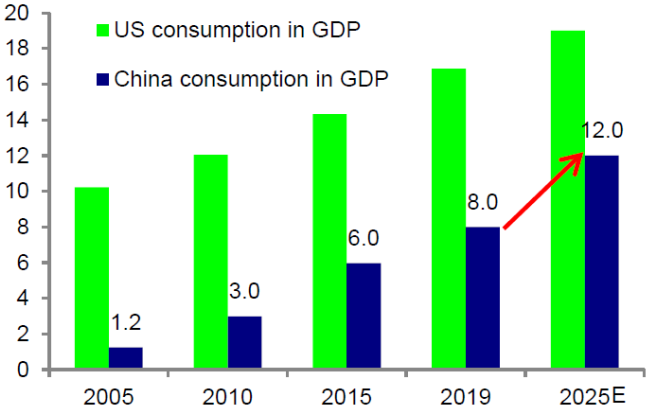
Source: UBS

Chart 6 illustrates this point; it shows how rapidly China's per capita GDP has risen during the past 20 years, from a level of $956 (R14 340) per person in 2000, to $10 435 (R156 525) in 2020 i.e. a 991.5% rise in absolute terms over the period. Compare that to the rise in US per capital GDP of "only" 74.7% over the same period. As an aside, compare that to South Africa's growth in US dollar per capita of only 23.7% over the same period, and you will appreciate why we are in such trouble as a nation. South Africa's per capita GDP in 2020 was only $7 346.

Once again off a relatively low base, the extent of the growth in consumption by the Chinese, driven by rising wealth (as seen in the per capita GDP), is notable and certainly attractive for an investor. Chart 7 shows that, whereas the US consumer remains dominant in global terms, the Chinese are catching up rapidly, so much so that their consumption is expected to increase by 50% between 2019 and 2025.

Chart 7: China as an engine of consumption

Consumption (in GDP, $tn)



Source: UBS

SA: Stuck in the mud and going nowhere fast

At the risk of sounding like a stuck record, but also not shying away from the ugly facts, Chart 8 depicts the history of the RMB Business Confidence Index (BCI) in South Africa. It makes for unpleasant reading and encapsulates some of the country's intractable problems.

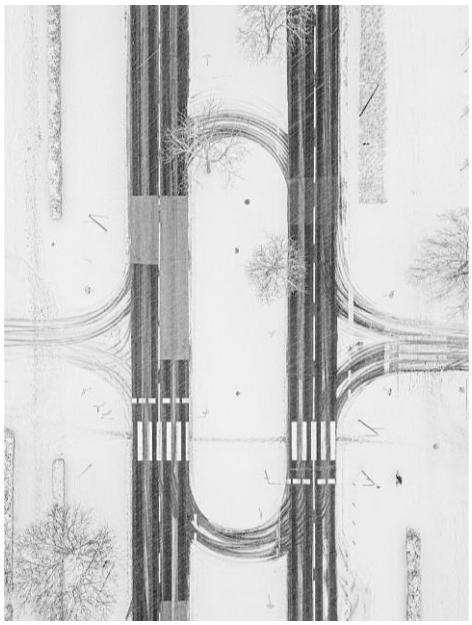
Chart 8: SA's RMB Business Confidence Index

Source: Business Maverick

According to the latest RMB BCI, which is based on a survey of around 1 300 executives, seven out of ten senior SA business executives are dissatisfied with prevailing business conditions. The BCI declined to 35 from 40 in the previous quarter, when six out of ten executives were bearish about the local business environment.

The survey was conducted during mid-February when the peak of the second wave of COVID-19 infections had passed, and certain restrictions (such as the ban on alcohol sales) had been lifted. Load-shedding was also less pronounced during the survey period. That confidence failed to improve further, is rather telling.

A Snowscape from Tychy, in Silesia, Poland



Source: @radkm

Confidence fell across all the five sectors making up the BCI. Retail saw the biggest decline, followed by manufacturing and new vehicle dealers. Sentiment among building contractors and wholesale traders deteriorated slightly. Except for the wholesale trade, confidence in every other sector remained well below the 50-point neutral level i.e. in net negative terrain.

This suggests that the recovery remains fragile at best, which is no shocker in the wake of a 7% contraction in SA's GDP in 2020, the biggest decline in output in a century. Plenty of headwinds remain: load shedding, rising power costs, the snail's pace of the domestic vaccine rollout, the potential for a third pandemic wave, and political risks linked to ANC infighting, to name just a few. At 35, the BCI towers over its historic low of 5 points reached in the second quarter of last year during the initial hard lockdown, but it remains deeply in negative territory.

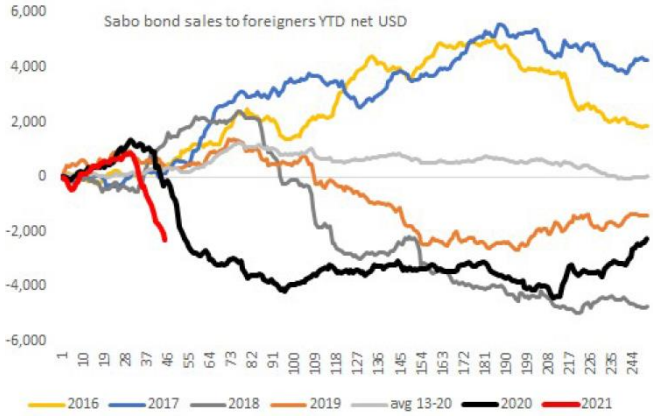
SA bonds: where have all the buyers gone?

One of the reasons for the rand's strength so far this year, particularly at the start of the year, has been the activity of foreign bond investors, who sought out SA's bonds due to their relative high yield (interest rate). In a world starved for yield (income), the 8.5% offered by government bonds (with higher yields available on other government and corporate bonds) compares well to the 1.7% or -0.3% on comparable US and German bonds. Well, that all changed after the Budget was delivered on February 24, from which date we have seen consistent sellers of SA bonds.

Chart 9 shows that this year has seen the worst start to the year, in terms of foreign bond sales, since 2013. Sales so far this year have been even worse than 2020, a year impacted by the severe economic toll of the pandemic on the country.

Talk is cheap, but it is actions that count. So one can ignore that investors are *saying*; rather look at what they are doing – and the chart shows compelling evidence that foreigners are voting with their feet, despite our attractive yields, and leaving the country in droves.

Chart 9: SA bond flows: worst start since 2013

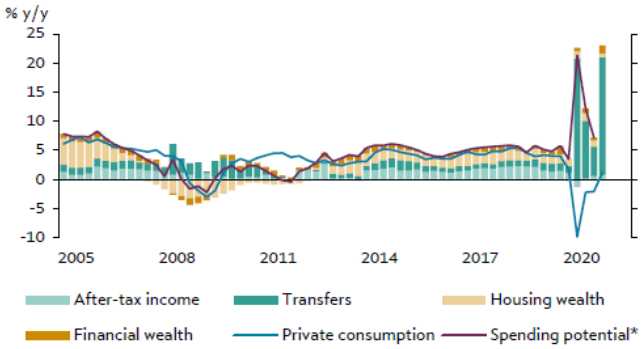


Source: Deutsche Bank

Demand build-up – watch closely now

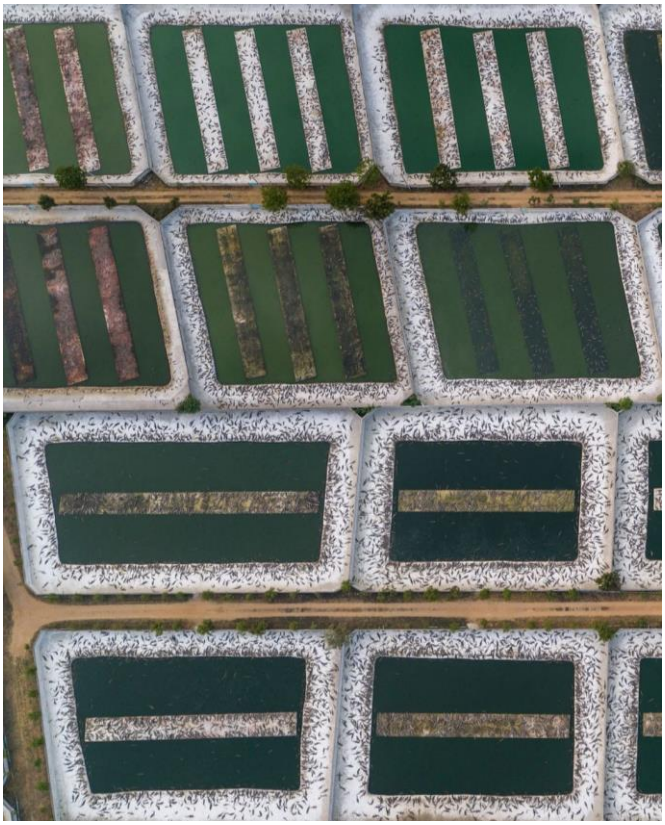
Enough bad news for now though; let's turn our attention to something more uplifting – of which there is more than sufficient around. Let us start with US consumer demand. Earlier we referred to the pent-up US consumer demand, evidenced largely by the high (7.3%) retail sales in January and the 20.5% savings rate. Chart 10 places the current state of the US consumer into perspective. This depiction of spending power *doesn't* take into account the $1.9tn stimulus package recently signed into being by President Biden. The inherent spending power of the US consumer is thus only going to improve from here onwards.

Chart 10: Super-charged US spending power



Source: Julius Bär

Crocodile farm in Thailand



Source: @geosteinmetz

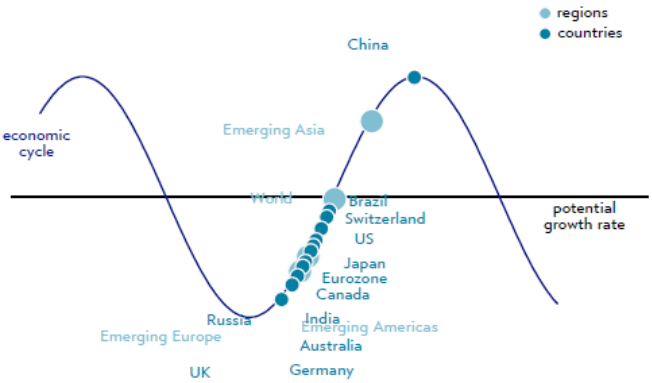
Why are equity markets rising?

This question is a perennial one that we are confronted by all the time by skeptical clients and other interested equity investors, particularly at a time when markets have risen strongly for so many years already, and in the face of the worst economic crisis in living memory. It is a good question. If I had to try and answer it with one chart, I would offer Chart 11.

I am always a little skeptical of charts like these – ones that depict the conceptual economic cycle. We can differ and argue about where exactly each country or region finds itself on the cycle, but when I saw this chart, I thought "there it is – all the evidence you need to support equity markets' current strength". The chart shows that every region and country – only the major ones are shown here – are all on the phase in the economic cycle where growth is likely to soon turn positive *and accelerate* from the current rate. We can argue over the camp fire whether Chinese economic growth will be 6.0% or 8.0% in 2021, but that misses the point. The point is China is growing rapidly and is not heading for a downturn, or worse still, a recession. And you can say the same for all the important regions and countries in the world.

That is why equity markets are rising, despite all the prevailing negative factors. Corporate earnings are forecast to rise strongly, there are huge amounts of liquidity (money) sloshing around the system thanks to unprecedented government support, bond yields remain low and unattractive, and investors remain underweight equity exposure. What more could an equity junkie wish for? We continue to believe that equity markets will rise into the rest of this year, and we have positioned the discretionary assets under our management accordingly.

Chart 11: The global business cycle



Source: Julius Bär

Inflation: an evil omen or welcome guest?

One of the factors causing consternation in markets in recent weeks has been the scepter of rising inflation into the future. The thinking goes that with all the money governments have pumped into economies to support them through the pandemic, the likely outcome will be a dramatic rise in inflation and inflationary expectations; some even talk of another cycle of hyperinflation, which all investors would regard as a disaster and certainly something to be avoided. If that is correct, interest rates need to start rising, and central banks will eventually be forced to hike rates dramatically, way beyond levels they currently think necessary. That is the thinking that has caused the recent rise in, for example, the US 10-year government bond yield (interest rate).

Central and Lower Manhattan, New York City

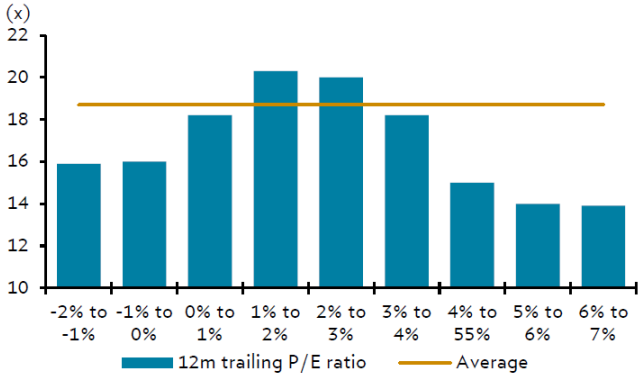
Source: @dailyoverview

On the other hand, there are those – and Maestro falls into this camp – who believe that while inflation is likely to rise (it is currently so low it can hardly do anything but rise), we are unlikely to see a *dramatic*, *uncontrollable* rise in inflation; we certainly don't buy into the "hyperinflation" thinking. Time and space precludes an explanation behind our thinking in this regard; suffice to say that we think inflation is not a bad thing, provided it remains at reasonable levels – and let's call that between 1.5% and 2.5%. We think that is a likely outcome, and consequently we don't see a moderate rise in government bond yields as incompatible with rising equity markets. The only thing worse than very high and uncontrollable levels of inflation, is deflation i.e. where prices fall on a consistent basis. There are plenty of historical precedents showing that long periods of deflation is economically devastating and ruinous for investors. Deflation is tantamount to cancer for economies and has to be avoided at all costs.

So what, I hear you ask? Well, part of the "future inflation" camp has been the debate over how equity markets react during periods of inflation. Very high inflation or deflation is very bad for equity markets (and by definition for company profitability), which tend to be rated much lower than during periods of sustainable, low inflation. This is the basis for equity investors' caution as yields have risen in recent weeks. Chart 12, though, places a useful historical perspective on this debate. It shows that equity markets are rated at their best (where the price earnings ratio, or PE, of markets is used as the barometer of the market's rating) during periods when inflation ranges between 1% and 3% (inflation ranges are shown on the horizontal axis). Moderate inflation is supportive of earnings growth, which further supports higher equity

market ratings. This is certainly true of very cyclical companies, such as banks and basic material companies. Thus, and Maestro agrees with this contention, mild inflation is supportive of equity markets. This provides another reason why we remain positive on the future of equity markets during the remainder of this year.

Chart 12: Mild inflation supportive of valuations



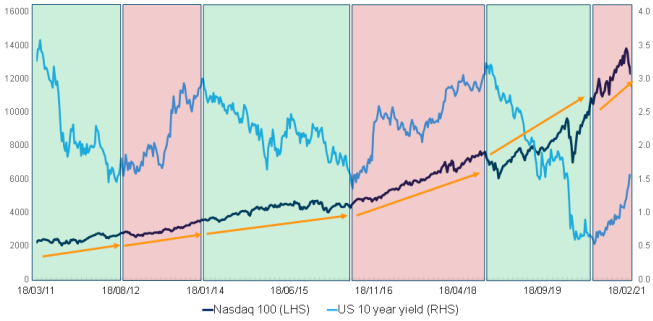
Source: Julius Bär

Can growth deliver while rates rise?

I am indebted to my friend and respected global investment manager Nick Dennis of Southridge Global Capital for the chart and thoughts below. Nick manages the Anchor Global Equity Fund, which registered a cool 91.0% rand return for 2020 as a whole. Much of that return came from highly-valued tech and "new economy" shares, so his comments below have particular significance, given the prevailing environment that has seen a sharp increase in US bond yields and a large switch away from tech and "Covid-winner" shares and into value and cyclical shares. I encourage you to read the full article, which you can access by clicking here.

Nick writes as follows: "The major market narrative at present is that rising interest rates are bad for stocks - growth stocks in particular. The reality is that stocks can go up (and down) with both rising and falling interest rates. In (Chart 13), we highlight the NASDAQ and the US 10-year yield, while the shaded green and red areas are periods of falling and rising interest rates, respectively. Interestingly, you will notice that, over the past decade, the NASDAQ rose irrespective of the direction of interest rates. In terms of the argument relating to the absolute level of interest rates, we highlight that the tech bubble took place with the US 10-year yield at around 6%. And the steepest part of the ascent came as yields rose from 4% to 6%. In theory, rising interest rates should put a dampener on valuations, however, in practice, liquidity and animal spirits trump theory..."

Chart 13: Rates rise, but so do tech shares



Source: Anchor Capital

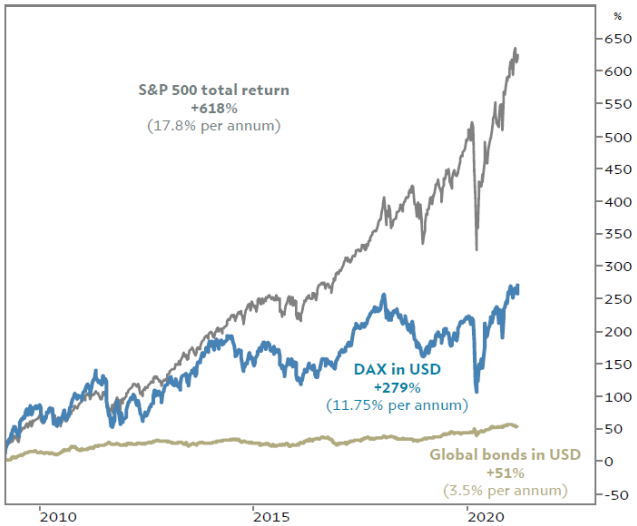
Happy Birthday to Mr. Market

To finish off the Charts of the Month section, we have to stop and acknowledge, better still enjoy, the 12th anniversary of the market trough of 6 March 2009 at the height of the Great Financial Crisis, brought about primarily as a result of the US "sub-prime crisis". On that day, the S&P500 index touched a nadir of 666; that compares to the index reading of 3913 at the time of writing, an increase of 487.5% in absolute terms.

I am indebted to *Julius Bär's technical analyst Mensur Pocinci*, for the charts and commentaries that accompany them. Chart 13 provides more historic evidence why equities remain the primary engine for capital growth, and why we

continue to favour them over other asset classes. During the period since the market troughed, the US equity market (S&P500) has provided a total return i.e. capital growth and income earned (in the form of dividends) of 618% or 17.8% per annum. The German equity market (the DAX) has produced a comparable return of 279% or 11.8%pa in dollar terms, while the global bond market has provided only 51% or 3.5%pa. Not shown in the chart is the return for alternative (hedge funds) of 65% or 4.2%pa. As they say in the US, "Go figure!"

Chart 14: Happy 12th Birthday Mr. Market



Source: Julius Bär

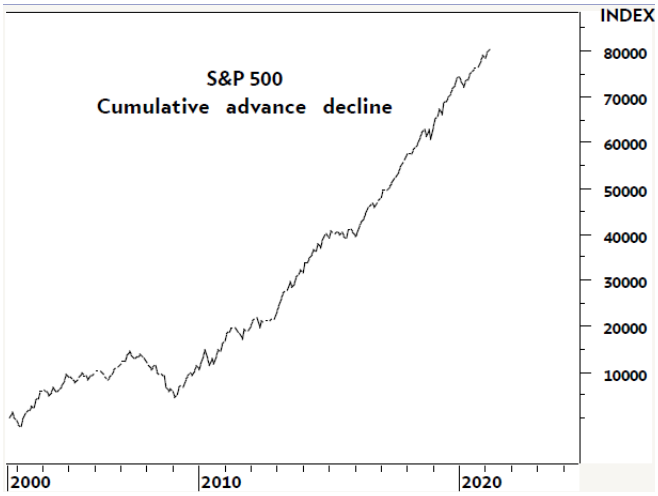
How healthy is the market?

The current bull market, which is long in the tooth by any standard, has been described as one of the most hated in history. This is a reasonably accurate description, based on how many investors have missed it, and still sit on the sidelines.

How are we to judge the intrinsic "health" of the bull market? Note that we are not talking about valuation now; rather, we need a technical indicator that we can review in order to inform us about the intrinsic nature (health) of this most hated bull market. One of the commonly used indicators goes by the name of the advance decline line (A/D line), which plots the number of advancing securities (shares) on any given trading day, against declining securities. It is cumulative, which means the positive number is added to the previous total and the number of declining shares subtracted from the total. In short, it tells us whether more shares are rising than are falling. It is an accurate indicator of the sentiment underlying market behaviour.

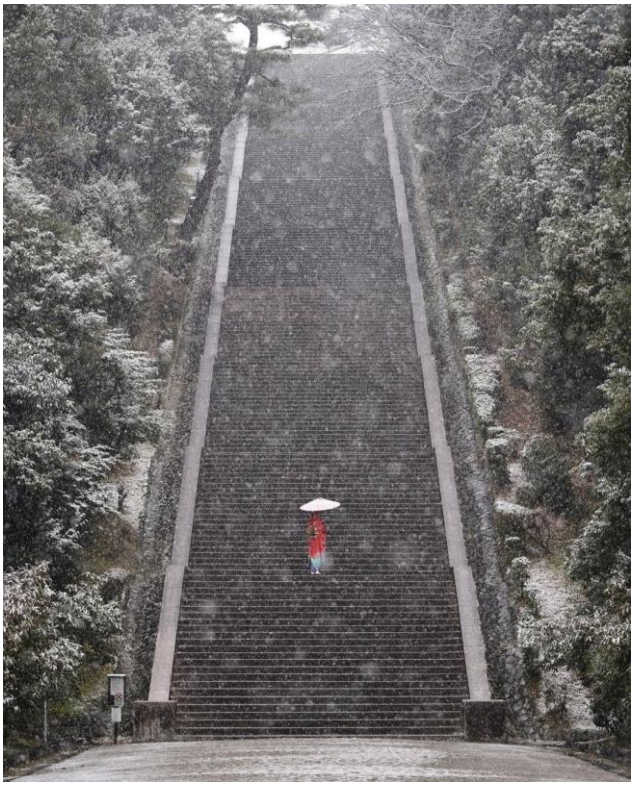
Ideally, when markets hit new record levels, you want to see a strongly rising A/D line; you should be concerned when markets are hitting records but the A/D line is declining (although counterintuitive, this can and does happen). Encouragingly, as Chart 15 shows, the A/D line of the US equity market is rising very strongly, despite recent volatility. As the market continues to climb the "wall of worry" it is clear that participation in the rising trend is broad-based. We find this comforting, and it again confirms our positive attitude regarding the medium to longer-term trend in global equity markets.

Chart 15: Healthy breadth in the S&P500



Source: Julius Bär

Fushimi-Momoyama Castle stairs, Kyoto City



Source: @hamnin1027ie

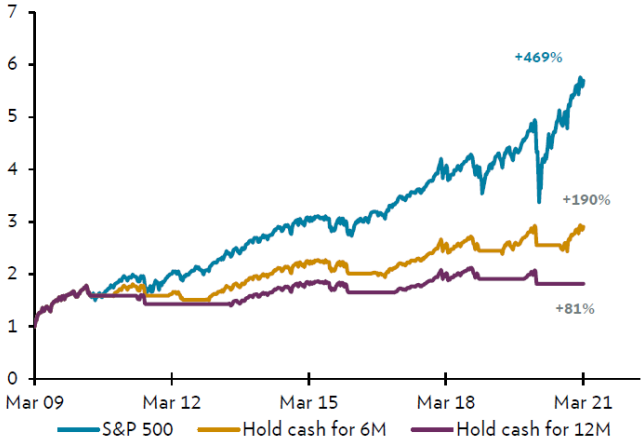
Buy and hold; it's your choice

Still on the matter of celebrating the 12th birthday returns since the Great Financial Crisis trough, the following data comes per kind favour of *Mensur Pocinci* again.

Providing us with an alternative definition of a bull market, namely that "in bull markets you will regret every time you sell shares", he goes on to show what has happened every time investors sold shares following a 10% decline in the S&P500. The super-cautious investor, who sold his shares after each 10% correction and then retained them in cash for the ensuing 12 months before re-entering the equity market, would have generated a return, in absolute terms, of 81% over the 12-year period.

The slightly-cautious investor, who also sold his shares after each 10% dip but invested the proceeds in cash for only six months before re-entering the market, derived a return of 190% over the period. The lazy buy-and-hold investor, who never sold any shares over the period, derived a return of 469%. With disarming bluntness, Pocinci suggests "it's your choice. Selling shares in a bull market is not a good idea". Chart 16 depicts the returns of the three investors.

Chart 16: Historic return: selling after a 10% dip

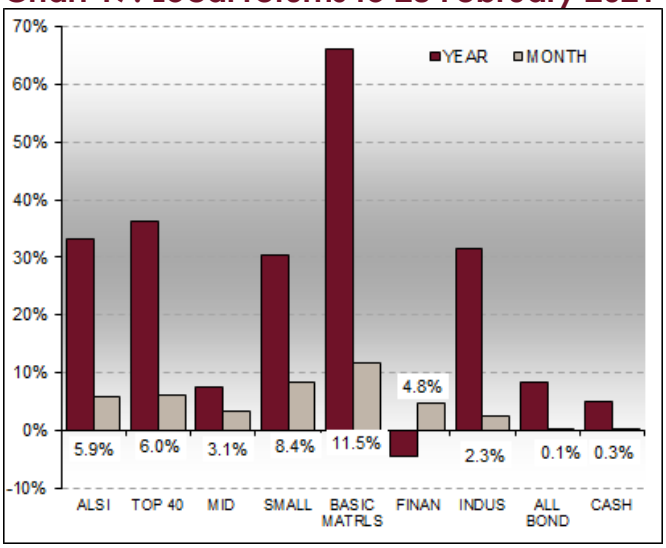


Source: Julius Bär

January in perspective – local markets

Turning to the South African markets, the same factors driving global markets were behind most of the local market movements. The All Bond index was under pressure, rising only 0.1%, while the All Share index rose 5.9%, thanks to an 11.5% gain in the Basic Materials index – surging economic growth later this year, remember? – a 4.8% gain in the Financial index and a 2.3% rise in Industrials. The rand was relatively volatile but ended the month only 0.6% weaker. The Mid and Small indices rose 3.2% and 8.4% respectively, bringing their respective year-to-date gains to 5.8% and 12.6%. The All Share index has risen 11.4% over the same period.

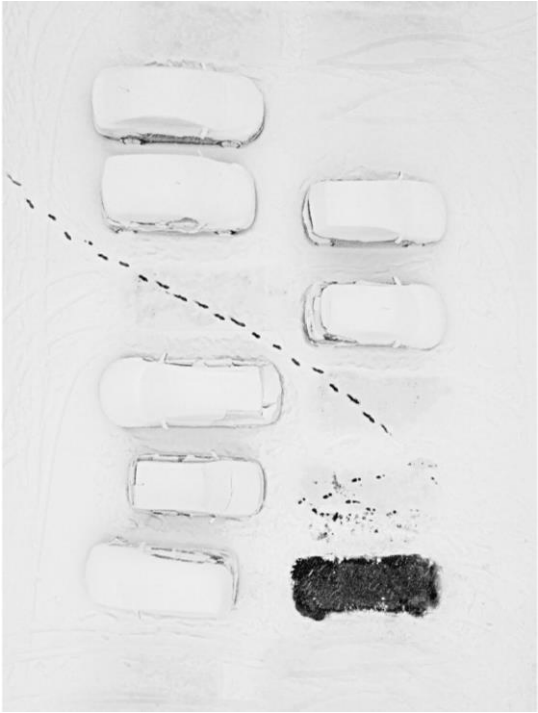
Chart 17: Local returns to 28 February 2021



Our views regarding the future have not changed much since last month. We continue to believe that the South African economy is in dire straits and will not cope under the burden of poor governance, ubiquitous corruption, failing service delivery, and ongoing load-shedding, to mention but a few of the challenges. The economy's finances are deteriorating rapidly and the country is well into a debt-trap from which there will be no return – no pun intended! Government lacks the political will or ability to arrest the increasing disintegration of the fabric of not only the economy but also the South African society at large. We consequently continue to search for more attractive returns outside of the country.

Notwithstanding the increasingly volatile markets, we continue to regard global equity markets as the best way to generate capital growth over time. We acknowledge the current uncertainty, caused by the possibility of rising inflation as seen in the sharp uptick in the bond rates. However, we are of the view that the increased and pent-up consumer demand, rather than constrained supply, will prevail on the underlying economies. Consequently, we don't believe we are on the verge of a *sustained* rise in inflation. Moreover, corporate earnings should continue to be above-average. As the world changes, the themes that are emerging will continue to drive change throughout society as we know it and will be supportive of many, albeit not all, of the relatively high ratings at which rapidly growing companies trade. The ride is likely to be bumpy, and a large part of the increase in economic activity will only become visible during the second half of this year. However, we remain quietly confident that investors who "hold the faith" will be sufficiently rewarded when all is said and done.

Car park snow scene, Tychy, Poland



Source: @radkm

In short, we remain constructive towards global equity markets and believe investors should retain a full weighting towards them, to the extent that is appropriate given their unique individual circumstances.

For the record

Table 1 lists the latest returns of the mutual and retirement funds under Maestro's care. Returns include income and are presented *after* fees have been charged. Fund Summaries for each respective fund listed in the table, as well as all the historic returns, are available on our website.

Table 1: The returns of funds in Maestro's care

	Period ended	Month	Year to date	Year
Maestro Equity Prescient Fund	**Feb**	**4.3%**	**6.8%**	**27.6%**
JSE All Share Index	*Feb*	*5.9%*	*11.4%*	*33.2%*
Morningstar sector ave	*Feb*	*4.8%*	*8.7%*	*22.6%*
Maestro Growth Fund	**Feb**	**1.8%**	**4.0%**	**15.3%**
Fund Benchmark	*Feb*	*3.7%*	*7.3%*	*23.5%*
Morningstar sector ave	*Feb*	*3.1%*	*5.9%*	*15.9%*
Maestro Balanced Fund	**Feb**	**1.7%**	**3.9%**	**14.6%**
Fund Benchmark	*Feb*	*3.2%*	*6.2%*	*20.7%*
Morningstar sector ave	*Feb*	*2.4%*	*4.7%*	*12.9%*
Maestro Cautious Fund	**Feb**	**0.9%**	**1.6%**	**7.0%**
Fund Benchmark	*Feb*	*1.9%*	*3.8%*	*14.5%*
Morningstar sector ave	*Feb*	*1.6%*	*3.2%*	*9.4%*
Maestro Global Balanced Fund	**Feb**	**0.7%**	**4.6%**	**17.2%**
Benchmark	*Feb*	*1.4%*	*2.9%*	*13.2%*
*Sector average **	*Feb*	*0.7%*	*3.8%*	*13.4%*

* Morningstar Global Multi Asset Flexible Category

Notwithstanding the returns listed in Table 1, our longer-term returns for our investment solutions are listed in the table below. All returns are for periods to 28 February, and are taken from Morningstar's monthly unit trust survey. Returns are shown on a net basis i.e. after all fees have been deducted.

Table 2: The Maestro Equity Prescient Fund

Morningstar (ASISA) South Africa Equity General - February 2021						
	3 mths	6 mths	1 year	3 years	5 years	10 years
Maestro Equity Prescient Fund	***10.0%***	***12.2%***	***27.6%***	***3.1%***	***2.5%***	***6.6%***
Maestro Equity Fund benchmark	12.8%	18.9%	29.1%	5.8%	7.9%	12.4%
SA Peer Group Average	13.1%	17.4%	22.6%	3.4%	5.6%	8.1%
Maestro position within Group	138	139	43	79	92	48
Number of participants	167	165	163	146	113	62
Quartile	4th	4th	2nd	3rd	4th	4th

Table 3: The Maestro Growth Fund

Morningstar (ASISA) South Africa Multi-Asset High Equity - February 2021						
	3 mths	6 mths	1 year	3 years	5 years	10 years
Maestro Growth Fund	***4.5%***	***1.2%***	***15.3%***	***7.3%***	***5.5%***	***8.1%***
Maestro Growth Fund benchmark	10.4%	13.2%	23.5%	8.6%	9.3%	10.5%
SA Peer Group Average	8.5%	10.1%	15.9%	6.0%	6.0%	8.5%
Maestro position within Group	189	199	115	52	92	37
Number of participants	206	203	198	175	139	57
Quartile	4th	4th	3rd	2nd	3rd	3rd

Table 4: The Maestro Balanced Fund

Morningstar (ASISA) South Africa Multi-Asset Medium Equity - February 2021						
	3 mths	6 mths	1 year	3 years	5 years	10 years
Maestro Balanced Fund	***4.5%***	***1.5%***	***14.6%***	***6.1%***	***5.0%***	***7.6%***
Maestro Balanced Fund benchmark	8.9%	11.4%	20.7%	8.6%	9.1%	10.0%
SA Peer Group Average	6.8%	7.9%	12.9%	6.2%	5.9%	7.9%
Maestro position within Group	88	94	28	48	53	20
Number of participants	97	95	92	83	69	36
Quartile	4th	4th	2nd	3rd	4th	3rd

Table 5: The Maestro Cautious Fund

Morningstar (ASISA) South African Multi-Asset Low Equity - February 2021						
	3 mths	6 mths	1 year	3 years	5 years	10 years
Maestro Cautious Fund	***2.3%***	***2.4%***	***7.0%***	***6.2%***	***6.0%***	***8.0%***
Maestro Cautious Fund benchmark	6.0%	9.0%	14.5%	7.4%	8.7%	8.6%
SA Peer Group Average	4.8%	5.9%	9.4%	6.2%	6.0%	7.7%
Maestro position within Group	150	146	127	79	62	25
Number of participants	158	157	155	135	109	53
Quartile	4th	4th	4th	3rd	3rd	2nd

Table 6: Maestro Global Balanced Fund

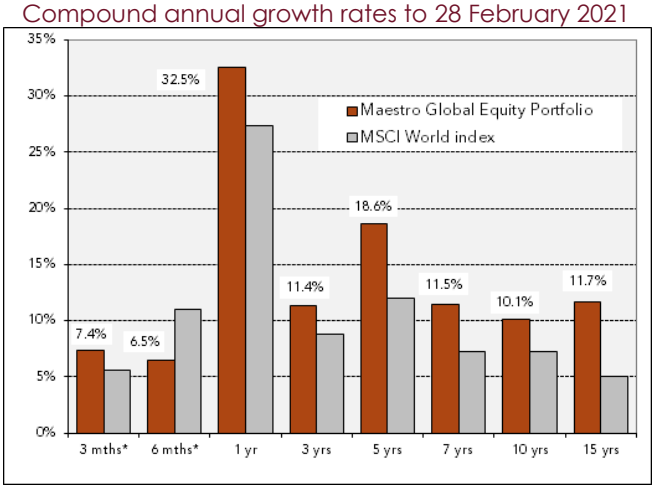
Morningstar (ASISA) Global Multi-Asset Flexible - February 2021						
	3 mths	6 mths	1 Year	3 Years	5 Years	10 years
Maestro Global Balanced Fund	***2.7%***	***-6.6%***	***17.2%***	***16.4%***	***N/A****	***N/A****
Global Balanced Fund benchmark	1.4%	-5.1%	13.2%	16.2%	7.5%	13.7%
SA Peer Group Average	2.6%	-2.4%	13.4%	14.9%	7.8%	12.7%
Maestro position within Group	22	31	12	11	N/A	N/A
Number of participants	41	37	33	25	21	11
Quartile	3rd	4th	2nd	2nd	N/A	N/A

Table 7: Central Park Global Balanced Fund

Morningstar USD Moderate Allocation - February 2021						
	1 Year	3 Years	5 Years	7 years	10 years	15 years
Central Park Global Balanced Fund ($)	***24.5%***	***7.6%***	***10.4%***	***5.1%***	***3.0%***	***3.1%***
Central Park Glbl Balanced Fund benchmark	18.2%	7.2%	8.5%	5.5%	5.3%	7.3%
Global Sector Average	12.5%	4.7%	6.8%	3.9%	3.6%	N/A

"To achieve great things, two things are needed; a plan, and not quite enough time."
- Leonard Bernstein

Chart 18: Maestro global equity returns
Compound annual growth rates to 28 February 2021



Covid vaccines – plenty of reasons for hope

Given the constant barrage of news on the Covid pandemic and the torrent of disagreements regarding issues surrounding the various vaccines, it is easy to get despondent and come to the view that they are not working; we are doomed and there is truly no hope.

Of course, this is simply untrue. Remembering for a moment that only bad news sells – I am of the humble view that in time history will reveal the utter failure of the media, and TV in particular, in their social mandate/contract to factually and adequately inform the world of significant developments (as opposed to only Covid news). Their coverage of the latter alone leaves much to be desired – there is plenty of reason for hope. Despite all the hiccups – we have got used to a world full of instant solutions, but vaccines and nature do now fit into that mould – there are some remarkable outcomes where vaccines have been applied.

In support on my contention I would like to quote from Jim Reid's Early Morning Reid from various days. He has been meticulous in his coverage of significant events (not opinions) of the vaccine results and activities surrounding humanity's efforts to overcome this pandemic, which continues to affect us all. So here follow selected extracts from his coverage, to share with you some very real reasons for hope.

Snow scene, near Lake Como, Italy

Source: @dariatroitskaia

From the Early Morning Reid of 18 February:
"Overnight we also saw news from a lab study that the Pfizer-BioNTech vaccine stimulated roughly two-thirds lower levels of neutralizing antibodies against the South African variant. The results were published in the New England Journal of Medicine and are part of tests of the vaccine against a lab-created virus that had all the mutations found in the South African variant. Further, the report added that Pfizer/ BioNTech's vaccine still offers significant levels of neutralizing antibodies against the variant. Pfizer and BioNTech said in a statement that there's no real-

world evidence that the South African variant can elude their shot. Still, they said they're getting ready to develop an updated vaccine or booster if need be.

"In more positive news, the New England Journal of Medicine published results from another study showing that the Pfizer vaccine had a first dose efficacy of 92.6% as against the previously reported efficacy of 52.4%. The efficacy number of 52.4% was arrived at by examining the data for the first 2 weeks after the first dose was administered, when immunity would have still been mounting and the new research used documents submitted to the Food and Drug Administration to derive the vaccine efficacy beginning from 2 weeks after the first dose to before the second dose".

From the Early Morning Reid of 19 February:
"In more positive vaccine news out of the US, Bloomberg estimated that the US vaccine supply is expected to double by March. Given statements from Pfizer, Moderna, Johnson & Johnson executives and government officials vaccine supply could rise from 10-15m per week currently to 20m in March and 25m in April and over 30m in the following months. Elsewhere, in the UK, it was announced that the Northern Ireland lockdown would be extended until April 1, although children aged 4-7 would return to school on March 8. Cases have continued to fall across the UK, with the 7-day average now down to 12,084, the lowest since early October.

"Overnight, the UK has said that it will share the "majority" of any future surplus coronavirus vaccines with the Covax program while Novavax has said that it will supply the program with 1.1bn doses. Novavax shares were up +7% in post market trading on the news. President Biden has also pledged that the US will contribute $4bn to Covax and France has said that it will donate 5% of its secured doses to the WHO initiative which aims to distribute vaccines to lower income countries. *Meanwhile, reaffirming the high efficacy of a single shot of Pfizer/ BioNTech, the Lancet medical journal published a study overnight that said among health-care workers who received the vaccine, symptomatic infections were reduced by 85% in the 15 to 28 days after the first dose, compared with those who didn't get a shot".* (My italics)

A Picture from "The Ash Pond series", Poland

Source: @tomhegen.de

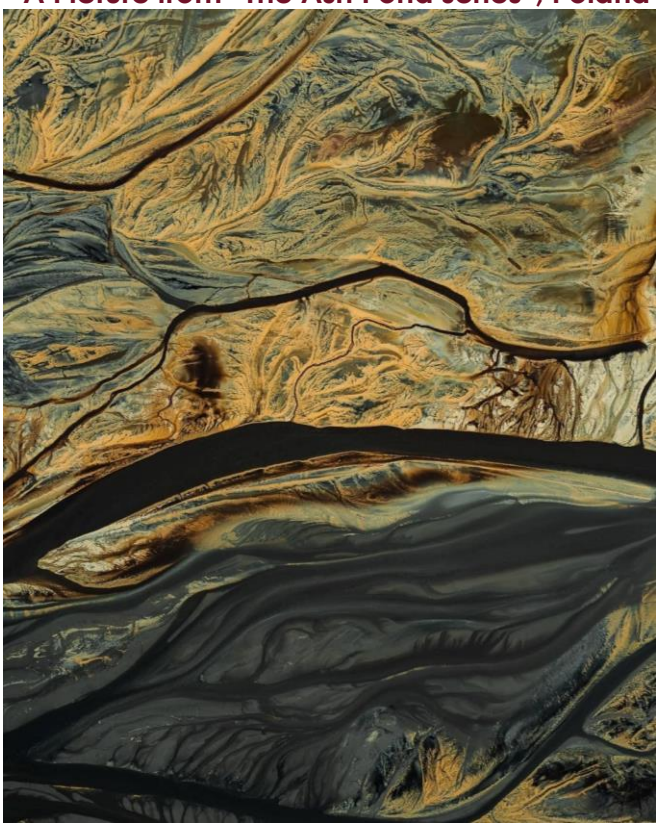
From the Early Morning Reid of 22 February:
"Israel lifted a number of restrictions yesterday and that will be an even more real time template even if restrictions have been far lower there of late than in the West. On Saturday, the Israeli health ministry released data suggesting the risk of illness from the virus has dropped 95.8% for

those who have had both doses of the Pfizer vaccine. It was also claimed that the vaccine was 98% effective in preventing fever or breathing problems. Another study from Israel suggested the Pfizer vaccine was 89.4% effective at preventing transmission, one of the first to show that vaccines reduce the spread of the virus as well as illness. So lots of positive news on the vaccine front emerging."

From the Early Morning Reid of 23 February:
"On the pandemic, studies added to a growing body of evidence that the vaccination programs are beginning to have an impact. One in Scotland published yesterday, albeit not peer-reviewed yet, found that the AstraZeneca/ Oxford vaccine reduced hospital admissions by 94% with a single dose 4-6 weeks after vaccination, while the Pfizer/BioNTech vaccine led to an 85% reduction. A separate analysis from Public Health England found that a single dose of the Pfizer vaccine reduced the risk of catching infection by 85% after the second dose.

"In the US, the FDA announced that drug makers would not have to undergo large efficacy trials on booster shots to combat the variants, if needed, and that they would instead be based on immunogenicity studies, where researchers give vaccines to people and then conduct lab tests to measure the immune response. This is similar to how the annual flu vaccine is tested and produced. Also on vaccines, Moderna got positive feedback from the US government to get more doses of its Covid-19 vaccine from each individual vial it produces. This could expand supplies, which continues to trail demand dramatically. In terms of restrictions, New York continues to ease curbs on businesses as theatres will be allowed to reopen in mid-March with reduced capacity."

A Picture from "The Ash Pond series", Poland



Source: @tomhegen.de

From the Early Morning Reid of 25 February:
"Turning to the pandemic, we got some positive news yesterday as a large-scale study of almost 1.2m people in Israel showed that 2 doses of the Pfizer/BioNTech vaccine prevented 94% of infections. On top of this, staff at the FDA in the US wrote that the J&J vaccine was safe and effective, which comes ahead of an FDA committee meeting tomorrow where they'll be discussing whether to give it an emergency use authorization".

From the Early Morning Reid of 2 March:
"Across the other side of the world, China has now set a goal of vaccinating 40% of its population by the end of June".

To put that in perspective, China actually committed itself to vaccinating 560m by end-June. Take a while to understand the logistics behind this commitment! At the time of writing (21 March), South Africa had vaccinated 182 983 citizens since 18 February; so, on average, 8 713 people per day. At this rate, it will take over 17 years to vaccinate the entire country!! If China are to be successful in achieving their target, which I have no doubt they will, they will on average administer 6.2m vaccinations per day, and complete vaccinating their entire 1.5bn citizens before the end of this year!

From the "Mediterranean series", off Malta

Source: @dariatroitskaia

So what's with the pics?

As I did in the last edition of Intermezzo, this month I am again including photos that I have collected from my "Aerial" album. I hope you find them enjoyable and encourage you to follow the photographers and their remarkable work on Instagram, using the handles as shown.

A Snowscape near Lombardy, Italy

Source: @dariatroitskaia