

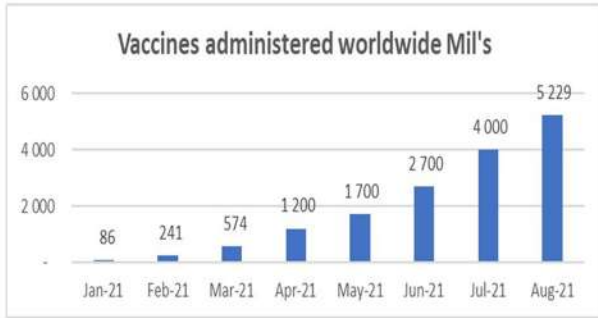


DOUGLAS INVESTMENTS INVESTMENT ENVIRONMENT

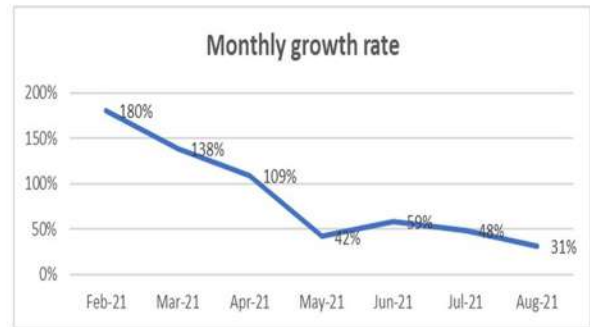
AUGUST 2021

COVID-19 VACCINATION PROGRESS

The number of vaccines administered worldwide continues to gather pace. The table on the left shows the absolute number of vaccines administered worldwide; the table on the right shows the growth rate over the prior month – the decline is expected as we start to get closer to “herd immunity”.

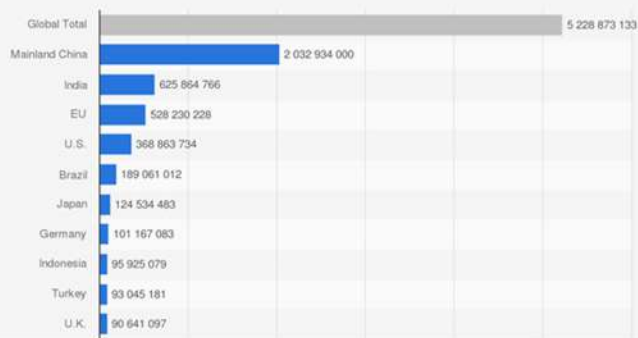


SOURCE: STATISTA



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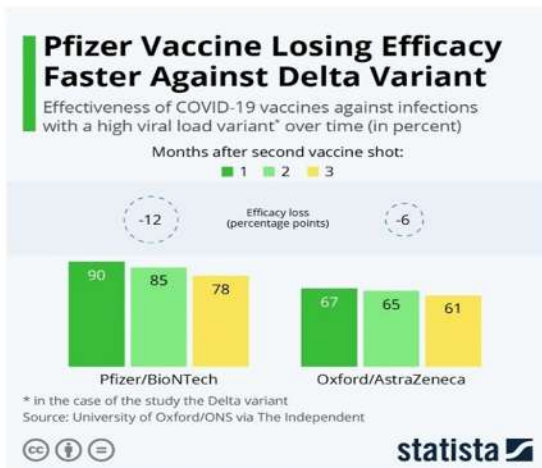
Number of COVID-19 vaccine doses administered worldwide as of August 29, 2021, by country



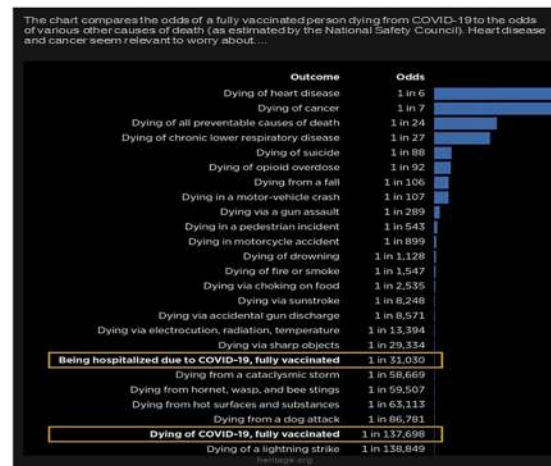
SOURCE: STATISTA

The graph on the left shows the vaccine doses administered worldwide by country. Emerging markets (China, India, Brazil, etc.) are making significant progress; developed markets continue to do well.

The Delta strand of the variant is posing challenges to governments and health officials around the world given its contagious characteristics and ability to weaken the efficacy of the current vaccinations. The below graphs provide some data on the efficacy of the Pfizer and Oxford/AstraZeneca vaccine as well as the probability of contracting and death once one has been vaccinated.



Whilst the loss of the Pfizer is higher than the Oxford/AstraZeneca, the vaccines still provide significant protection. People are significantly better off having taken the vaccine than not so governments continue to promote and encourage vaccinations despite many nay sayers. On balance we think the progress on vaccinations has reached a critical junction where the ability to get to “herd immunity” as originally planned is having its challenges. The nay sayers will make it difficult (but not impossible) to continue with the rapid progress to date and the efficacy of the various vaccines will continuously be reviewed as new data comes to light. We also believe that COVID 19, in its various forms, will be with us for quite some time still.





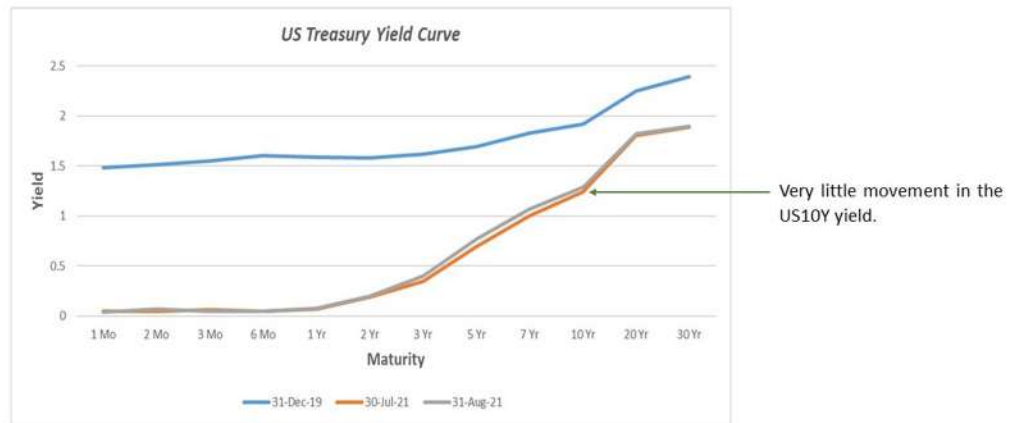
DOUGLAS INVESTMENTS INVESTMENT ENVIRONMENT

AUGUST 2021...CONTINUED

We remain neutral on whether the current progress provides for a “risk on” or “risk off” environment. Further progress on vaccination roll out and efficacy data will cause the market to move forward or sideways as it digests the flow of information.

FISCAL STIMULUS, INTEREST RATES AND RISK-FREE RATE

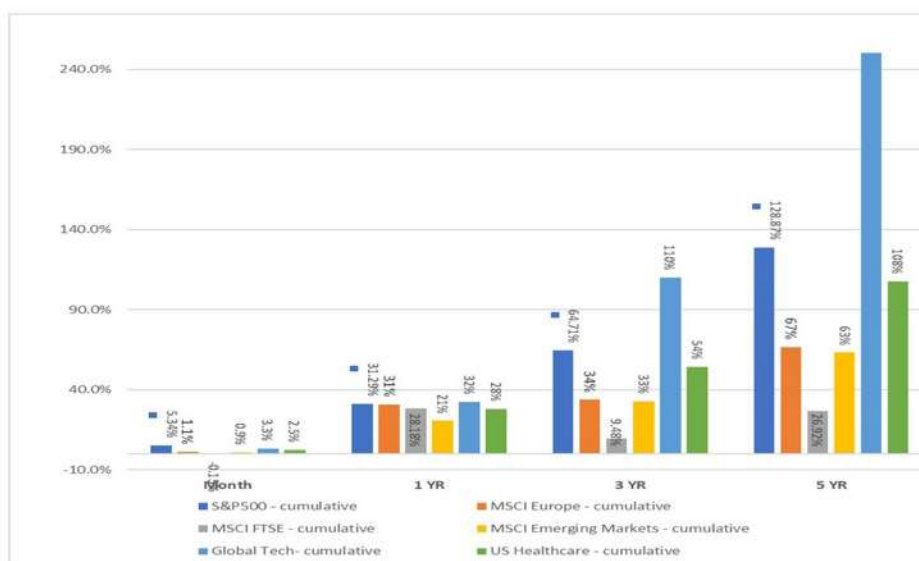
The biggest factor driving markets at present remains the future term of interest rates. The Federal Reserve Bank of Kansas held their economic policy symposium last week in Jackson Hole, Wyoming. Jerome Powell provided the market with a view on the position of the Federal Reserve with regards to tapering and interest rates. The Fed indicated that significant progress had been made on employment and price stability goals (that effect long term inflation) and will be considering tapering – reducing the pace of asset purchases – later this year. The Fed also mentioned that it was unlikely to raise short term interest rates anytime soon. It wants to achieve maximum employment and inflation at 2% or higher for a period of time before considering interest rate increases. This was well received by the equity market and particularly technology where the majority of the value lies in the future. The current position of the Fed provides for a “risk on” environment and a weaker dollar. We have therefore maintained our equity weightings and positioning for the time being but continue to review in light of developments in the short term. The current stance of the Fed has caused the yield curve to stabilise. When the Fed decides to reduce tapering we are likely to see some volatility in the long end of the curve as supply / demand dynamics will prevail without a natural buyer in the form of the Fed.



SOURCE: DOUGLAS INVESTMENTS

EQUITIES

INDICES PERFORMANCE (ROLLING CUMULATIVE FIVE YEAR RETURNS IN USD):



SOURCE: ISHARES

All market indices were up for the month. The S&P500 rallied 5.3% driven by Technology (3.3%) and Healthcare (2.5%). Europe, UK and Emerging Markets were marginally up in USD. The USD strengthened during the month only to weaken again towards the end of the month following the Fed’s view on short term interest rates.



DOUGLAS INVESTMENTS

INVESTMENT ENVIRONMENT

AUGUST 2021...CONTINUED

EARNINGS, VALUATIONS AND SUPPORT FOR EQUITIES

The rise in global equity markets, albeit with volatility, continues to cause some anxiety for fund managers. There are a couple factors in our view driving this, which has been good for portfolio performance.

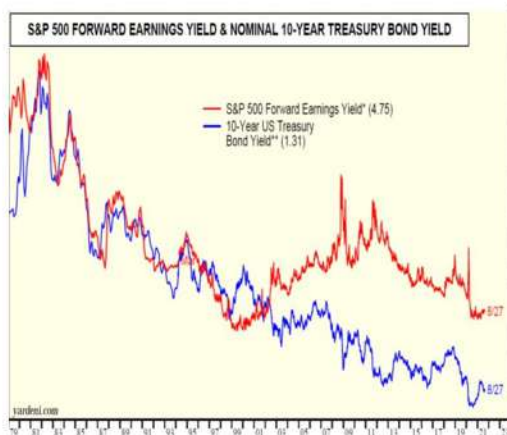
ACTUAL EARNINGS AND EARNINGS SURPRISES

We have reported on the actual earnings and upward revision of the S&P500 for quite some time. This index as well as its constituents continue to perform admirably. What we have not commented much on is the situation in Europe. Below provides a view on the earnings recovery of the EuroStoxx600 shares (essentially the equivalent of the S&P500 but in Europe). The earnings recovery of 248% is more than twice as good as the S&P500 and is also broad based.



RELATIVE VALUATION VS BOND YIELDS

The below provides a historical and forward looking picture of the S&P500 earnings yield relative to the US10Y Treasury Yield (graph on left) and the relative under / over valuation (graph on right). The yield gap remains favourable and provides support for equities relative to bonds as does the relative valuation situation. The low interest rate environment, together with low bond yields (corporate predominantly), is supportive of equities as an asset class.



The situation in Europe is no different when comparing the Earnings yield of the Eurostoxx600 to Government 10Y bonds which are largely negative.

CONCLUSION

Global equity markets had a relatively volatile August but ended on a good note following the stance of the Fed on keeping US interest rates lower for longer until such time as their key metrics (labour market and inflation) meet their longer term goals. Actual reported earnings have largely been better than analyst's forecasts, which continue to support equities in general.

In South Africa, we appear to be moving forward from a political and structural reform perspective but it's slow going. Official unemployment has peaked at 34.4% giving South Africa one of the highest globally. This does not bode well for the future whether its economically or socially. The Rand weakened in August but is strengthening in September. This is largely due to the USD rather than the Rand. For the time being, South Africa's tax base is largely being supported by the mining sector and other select industries that have benefitted from a kick start in the global supply chain as economies emerge out of lockdowns. With the Zondo commission approaching its end and the local municipal elections later this year (or not if the ANC get their way!) all eyes will be on the support of the ANC to see how powerful they will continue to be in the years that lie ahead.