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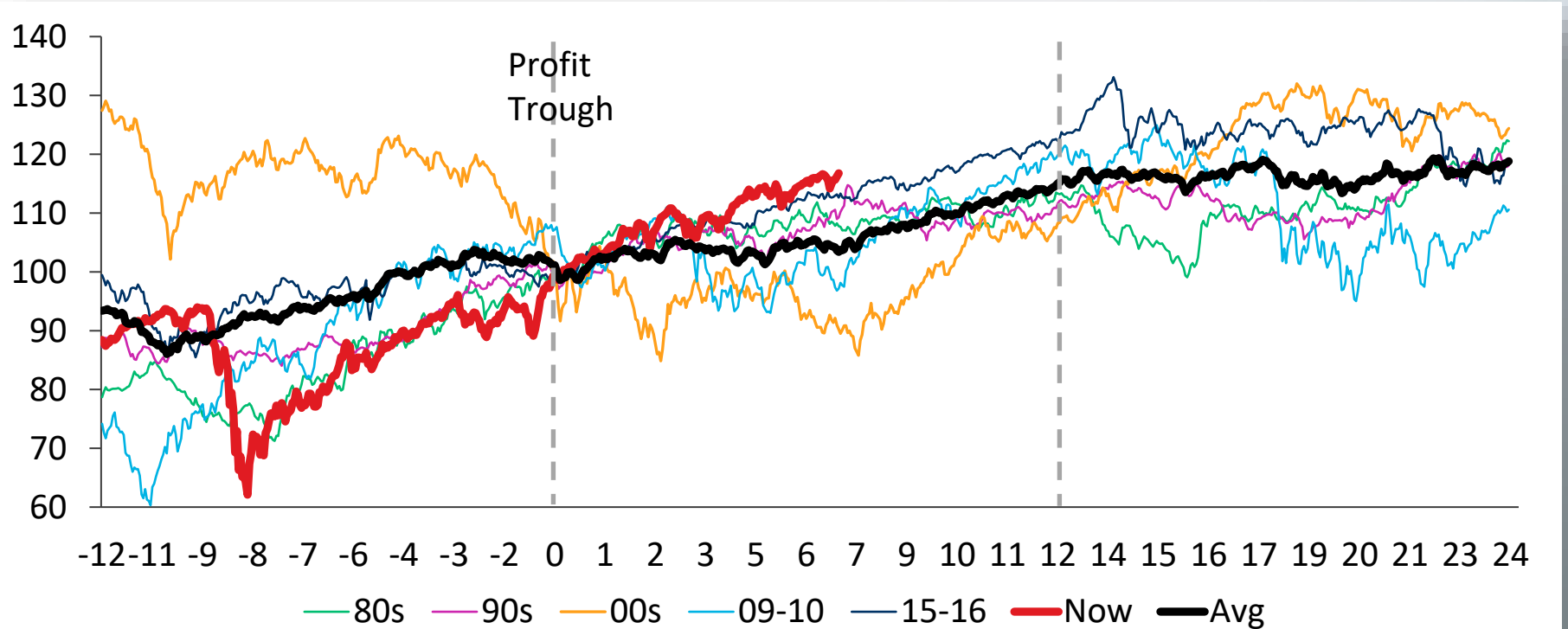
Macro overview

**Herman van Papendorp**

15 July 2021

# Equities do well in year 1 of profit recovery <sup>™</sup>

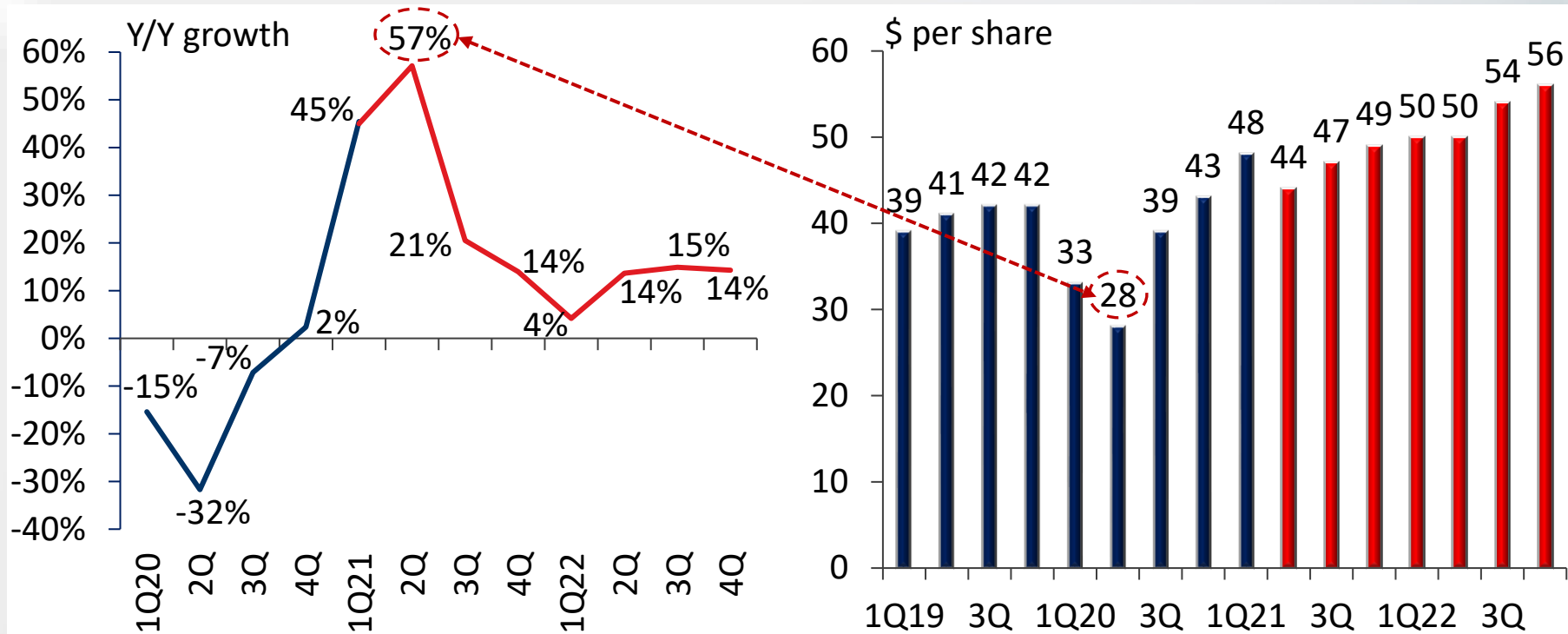
Historical global equity returns before and after profit troughs



Source: Citi

# Profit momentum compared to profit level <sup>m</sup>

US profit growth peaking in the second quarter of 2021 due to the low base a year ago

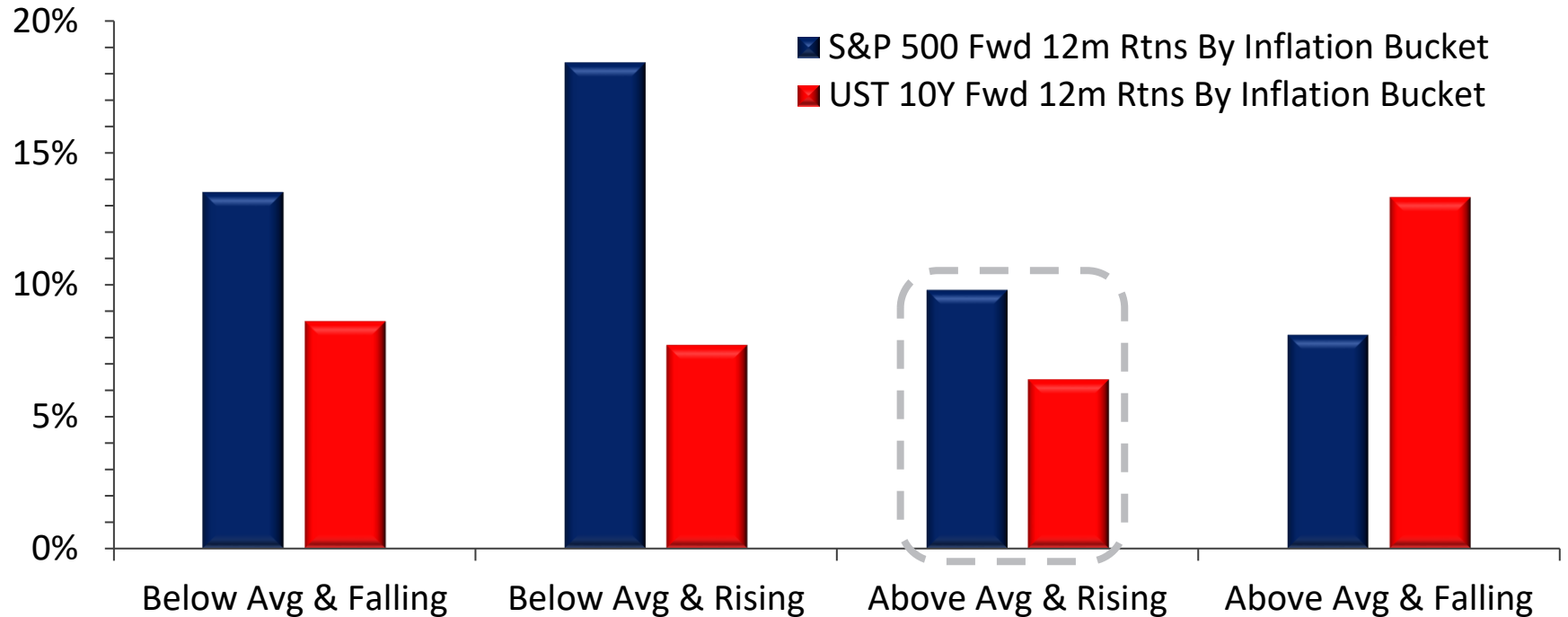


Source: Credit Suisse

# Current inflation regime favours equities



US equities historically still outperformed bonds when inflation was above average and rising



Source: Morgan Stanley

# Frequency of US equity drawdowns



History would point to some drawdown in the coming months → coinciding with taper talk?

## S&P 500 drawdowns in past 30 years

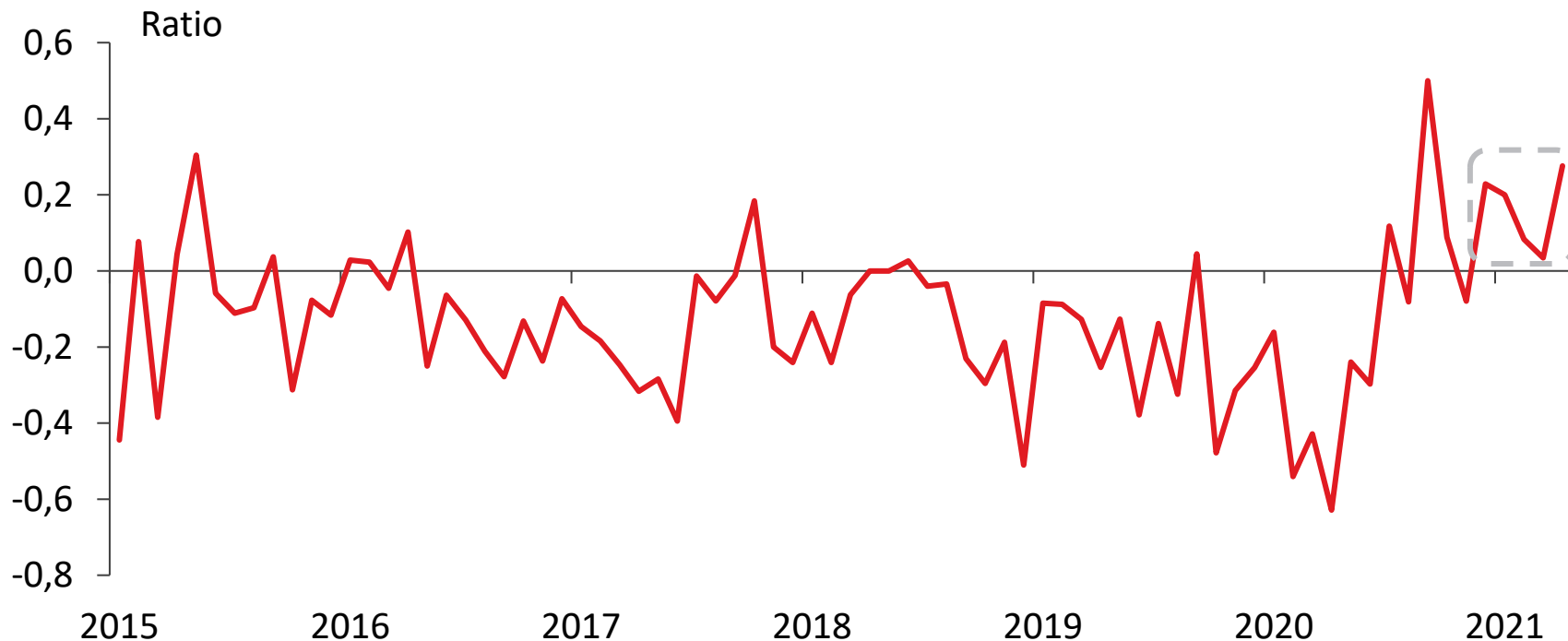
Drawdowns	Bear Markets	Corrections	Minor Pullbacks
Definition	>20% fall	10%-20% fall	5%-10% fall
Number of instances	3	11	35
Implied frequency (months)	120	33	10
Previous occasion	19 Feb '20	20 Sep '18	2 Sep '20
	23 Mar '20	24 Dec '18	23 Sep '20
% fall	33.9%	19.8%	9.6%
Months since previous trough	15	30	9

Source: Credit Suisse

# Earnings support for SA equities



Upward profit revisions the norm since FTSE/JSE ALSI earnings bottomed in January 2021

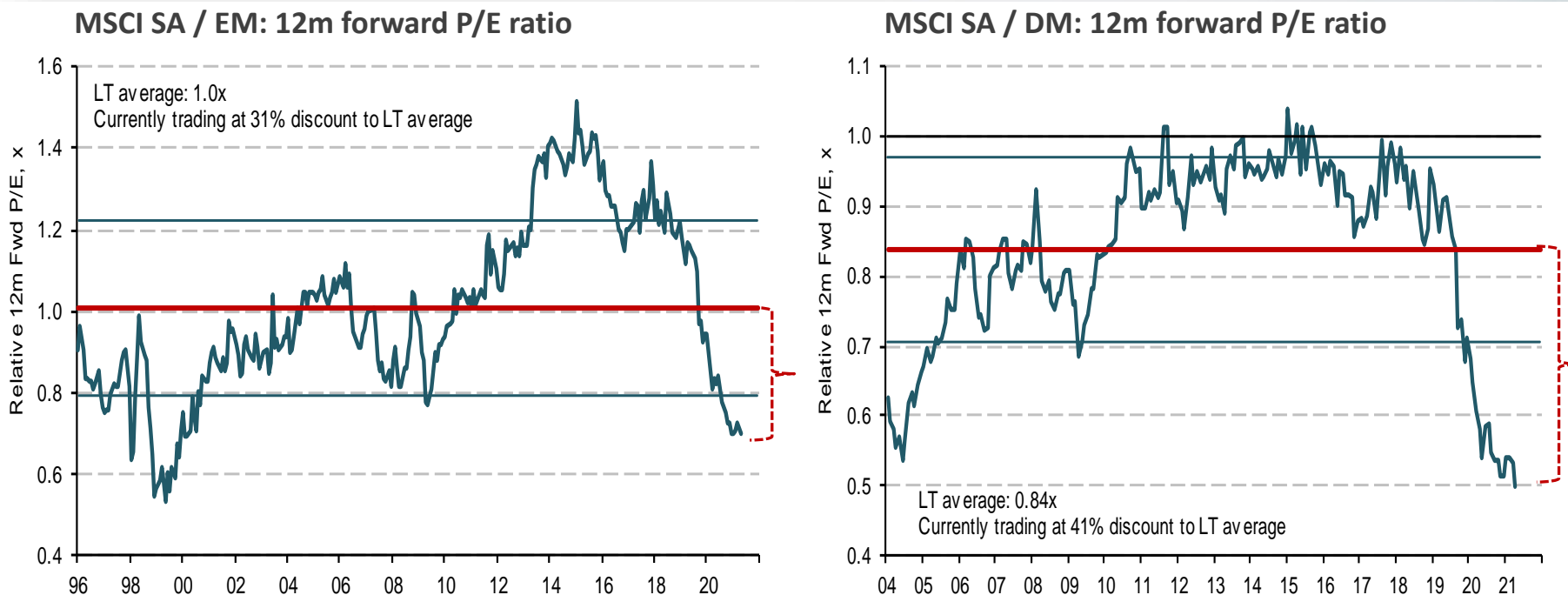


Source: SBG Securities

# SA equities attractive versus EM and DM



SA forward P/E now trades at much larger discounts than normal to EM and DM equities

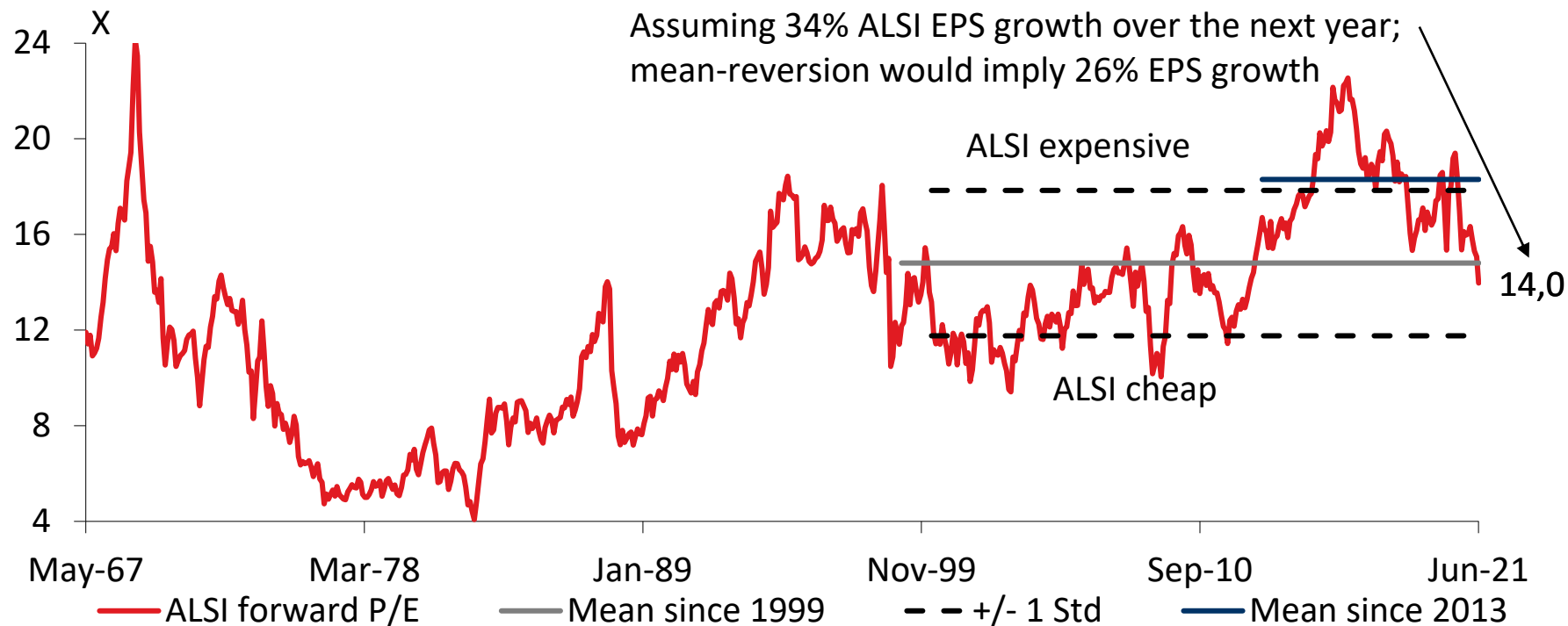


Source: SBG Securities

# SA equity market not expensive



Earnings upgrades are keeping SA valuations in check and forward return potential supported



Source: Iress, Momentum Investments



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**Sources:** Momentum Investments, Iress