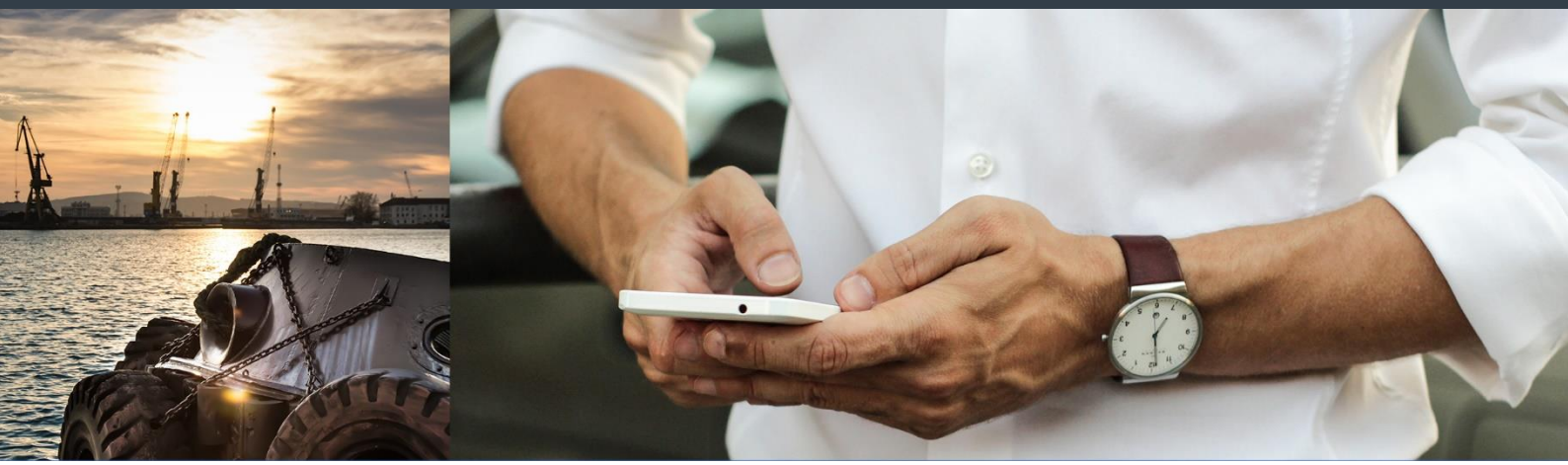
ECONOMIC REPORT

by Glacier Research

glacier by Sanlam



22 May 2020

Review period: April 2020

Domestic Overview

Markets staged a solid comeback in April, rebounding from the steep drawdowns of the previous month. The gradual easing of COVID-19 restrictions in many developed countries, preceded by aggressive stimulus measures from governments, helped propel the April rally. Global developed market equities were the main drivers of the rebound in local markets as the rand continued to weaken, albeit not as much as the blow-out seen in the previous month. Right now, markets are driven by sentiment more than fundamentals and fragile to developments of COVID-19.

Domestic Highlights in April 2020

- SARB's interest rate cut
- R500 billion stimulus package

The SARB's interest rate cut

Following the announcement of unconventional measures such as the purchasing of government bonds in the secondary market, the SARB's monetary policy committee unanimously slashed the repo rate by 100 basis points to 4.25%. This follows two interest rate cuts of 25 basis points in January and 100 basis point in March, resulting in a total rate cut year-to-date of 2.25%. The April cut was on the back of concerns over the impact of COVID-19 on the economy. The SARB took cues from other major central banks that have provided massive stimulus measures to mitigate the impact of spread of COVID-19.

Glacier Financial Solutions (Pty) Ltd, I A member of the Sanlam Group | Private Bag X5 I Tyger Valley 7536 I Email: client.services@glacier.co.za | Tel +27 21 917 9002 I Fax +27 21 947 9210 I Web www.glacier.co.za | Reg No 1999/025360/07 I Licensed Financial Services Provider

The SARB expects inflation to be contained, remaining below the mid-point for the rest of the year and close to the mid-point in 2021. The SARB's quarterly projection model (QPM) suggests five more rate cuts of 25 basis points.

R500 billion stimulus package

Following in the footsteps of most developed economies, the South African government announced a COVID-19 stimulus package to the tune of R500 billion, which mainly comes from credit guarantees through banks and the reprioritisation of the existing budget. The rest of the funds are reported to be sourced from international development finance institutions such as the BRICS Bank, IMF and World Bank. The table below details the actual source of the funding:

	R million
Credit Guarantee Scheme	200 000
Baseline reprioritisation	130 000
Borrowings from multilateral finance institutions and development banks[1] for business support, job creation and protection	95 000
Additional transfers and subsidies from the social security funds	60 000
Available funds in the Department of Social Development 2020/21 appropriation	15 000
Total	**500 000**

Source: National Treasury

The projected spending of the R500 billion is detailed in the below table:

	R million
Credit Guarantee Scheme	200 000
Job creation and support for SME and informal business	100 000
Measures for income support (Further tax deferrals, SDL holiday and ETI extension)	70 000
Support to vulnerable households for 6 months	50 000
Wage protection (UIF)	40 000
Health and other frontline services	20 000
Support to municipalities	20 000
Total	**500 000**

Source: National Treasury

South Africa: Economy

On the back of an ailing economy characterised by fiscal woes, elevated debt levels, growth recession and the recent COVID-19 health crisis (which rapidly turned into a social and economic crisis), the SARB revised its growth

projections downwards. The bank is forecasting a contraction of 6% in 2020 (slightly below the 5.8% projected by the IMF) compared to the 0.2% contraction it projected in March. It further expects GDP to rebound by 2.2% in 2021 and 2.7% in 2022. In response to the economic effects of the pandemic, the National Treasury conducted a scenario planning exercise to gauge the likely impact of COVID-19 on the SA economy. The scenarios are based on the speed of economic recovery (i.e. quick, slow and long) and the subsequent effect of that speed on GDP. Under the quick scenario, GDP is projected to contract 5.4% in 2020 while under the slow and long scenarios GDP is projected to contract 12.1% and 16.1%. The extension of the lockdown to the end of April added more pressure on the economy as government tried to balance risks of health versus that of the economy. However, the announcement of a risk-adjusted phased reopening of the economy was welcomed.

	Nov'19	Dec'19	Jan'20	Feb'20	Mar'20	Apr'20
CPI (y/y)	3.6%	4.0%	4.5%	4.6%	4.1%	-
PPI (y/y)	2.3%	3.4%	4.6%	4.5%	-	-

Sources: Trading Economics

	30 April 2018	30 April 2019	30 April 2020
USD/ZAR	12.46	14.30	18.52
GBP/ZAR	17.14	18.63	23.33
EUR/ZAR	15.05	16.03	20.29

Source: IRESS

South Africa: Markets

Following the sharp COVID-fuelled sell-off in March, markets staged a solid rebound in April, offsetting losses of the previous month as the All Share Index (ALSI) rose 13.98%. This rally was supported by resources and rand-hedge stocks. Local markets were buoyed by the global recovery, supported by the reopening of developed market economies and the apparent flattening of the infection curve in major developed countries. Rand weakness also played its part in enhancing returns, albeit not as weak as the previous month. In other asset classes, bonds advanced 3.92% as investors were risk-on. The 3-7year maturity profile of the curve offered a sweet spot, delivering a return of 7.54%. In terms of market-cap performances, the Top 40 recorded the largest gain for the month, adding 14.65% followed by small-caps which were up 8.77%y, while mid-caps returned 8.53%. Foreigners were net sellers of R5.97 billion worth of SA equities and net sellers of R17.73 billion worth in SA bonds.

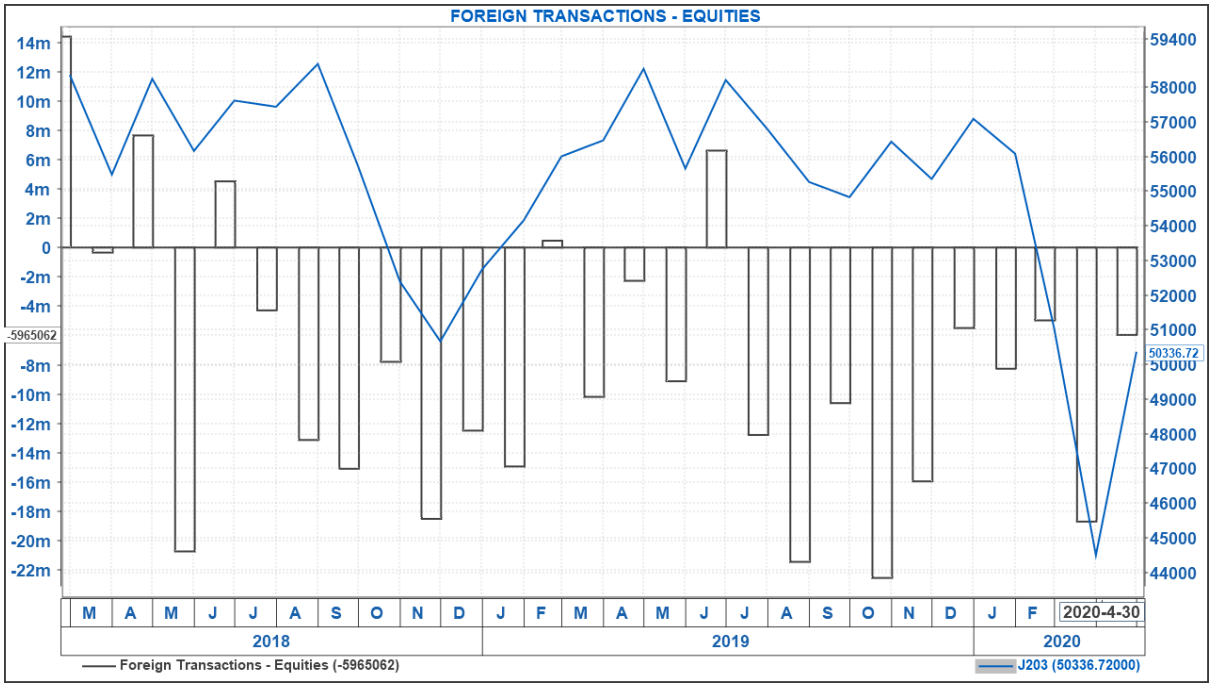
LOCAL RETURNS IN ZAR				
2019	February 2020	March 2020	April 2020	Year-to-date
SA MID CAPS 15.58%	SA CASH 0.54%	SA CASH 0.57%	SA TOP 40 14.65%	SA CASH 2.22%
SA TOP 40 12.41%	SA BONDS -0.04%	SA BONDS -9.75%	SA EQUITY 13.98%	SA BONDS -5.14%
SA EQUITY 12.05%	SA TOP 40 -8.43%	SA TOP 40 -10.44%	SA SMALL CAPS 8.77%	SA TOP 40 -7.33%
SA BONDS 10.32%	SA EQUITY -8.99%	SA EQUITY -12.13%	SA MID CAPS 8.53%	SA EQUITY -10.39%
SA CASH 7.29%	SA MID CAPS -12.90%	SA SMALL CAPS -21.67%	SA PROPERTY 5.68%	SA SMALL CAPS -26.64%
SA PROPERTY -0.40%	SA SMALL CAPS -13.28%	SA MID CAPS -23.66%	SA BONDS 3.92%	SA MID CAPS -30.08%
SA SMALL CAPS -4.10%	SA PROPERTY -15.68%	SA PROPERTY -36.32%	SA CASH 0.52%	SA PROPERTY -45.12%

Source: Morningstar

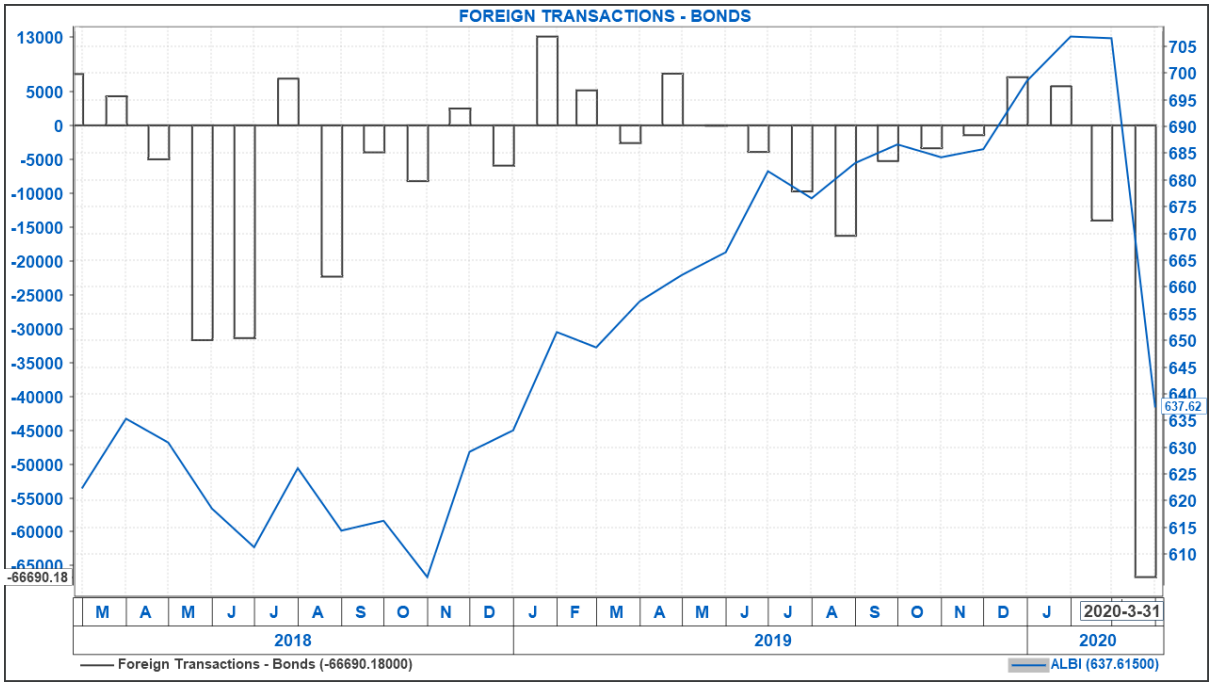
In terms of sectors, resources advanced 22.99% followed by financials which returned 11.92%. Industrials recorded a gain of 5.65% while SA industrials (consisting of rand-hedges) were up 9.57%.

LOCAL SECTOR RETURNS IN ZAR				
2019	February 2020	March 2020	April 2020	Year-to-date
RESOURCES 28.53%	CONSUMER GOODS -6.92%	SA INDUSTRIALS -3.06%	RESOURCES 22.99%	SA INDUSTRIALS 0.33%
CONSUMER GOODS 18.31%	SA INDUSTRIALS -7.00%	CONSUMER GOODS -4.47%	FINANCIALS 11.92%	CONSUMER GOODS -1.17%
SA INDUSTRIALS 8.90%	FINANCIALS -9.49%	RESOURCES -12.43%	GENERAL RETAILERS 10.69%	RESOURCES -8.09%
CONSUMER SERVICES 2.60%	RESOURCES -11.58%	CONSUMER SERVICES -13.19%	SA INDUSTRIALS 9.57%	CONSUMER SERVICES -26.32%
FINANCIALS 0.63%	GENERAL RETAILERS -11.62%	INDUSTRIALS -22.63%	CONSUMER GOODS 9.54%	FINANCIALS -32.26%
INDUSTRIALS -8.91%	CONSUMER SERVICES -11.87%	FINANCIALS -29.43%	INDUSTRIALS 5.65%	INDUSTRIALS -33.83%
GENERAL RETAILERS -18.37%	INDUSTRIALS -14.42%	GENERAL RETAILERS -31.76%	CONSUMER SERVICES 1.05%	GENERAL RETAILERS -37.92%

Source: Morningstar



Source: IRESS April 2020



Source: IRESS April 2020

Global Overview

Following what was a very rough month, global equity markets rebounded strongly during April. This rally was supported by massive global fiscal and monetary responses as well as hope provided by an antiviral drug called Remdesivir. However, this combination has led to a massive disconnect between the pain felt by the real economy and broad optimism of the financial markets. This comes at a time when more and more workers are filing for unemployment and more businesses apply for rescue loans. Despite the disconnect, the MSCI World delivered 10.59% in dollar terms. Most equity sectors were positive with energy and technology stocks being the best performers. Both Apple and Amazon reported higher sales as consumers increasingly turned to home delivery and streaming entertainment.

On a global equity style basis and using the MSCI World style indices, growth was the top-performing style +12.77%), followed by quality (11.17%), momentum (10.24%) and lastly value delivering 8.76% in dollar terms. The price of Brent crude oil hardly moved – from US$26.35 to close at US$26.48 a barrel. However, the oil price remains volatile despite an agreement on production cuts. West Texas Intermediate (WTI) oil futures for imminent delivery went negative for the first time in history. As weak demand and difficulties in managing US oil storage meant traders were briefly paid to take physical delivery of oil. Both global bonds and global equity was positive in dollar terms during the month.

United States

US equity markets returned positively for the month as unprecedented monetary and fiscal packages boosted investor sentiment. In addition, signs that lockdown measures may be having some success in reducing the rates of infection added to the optimism. As a result, the S&P 500 delivered 12.68% in dollar terms. On the macroeconomic front, the US Manufacturing Purchasing Managers' Index (PMI) fell to 36.9 from the previous month's 48.5, and below expectations. The change points to the sharpest contraction in factory activity in 11 years resulting from weak domestic and foreign demand conditions following the outbreak of the coronavirus.

Factory activity shrank at a record pace, while input costs and factory gate charges both fell at the fastest rates in over a decade. In addition, factory closures and stay-at-home orders led to a marked downturn in workforce numbers. The US Services PMI decreased to 27 in April 2020 from 38.9 in the previous month. The reading signalled the steepest fall in service sector activity since inception as lockdown measures to contain the spread of COVID-19 hit consumer-facing industries particularly hard. New business dropped the most on record and employment declined at a steeper pace. The University of Michigan's consumer sentiment for the US fell to 71 in April of 2020 from 89.1 in March. The change points to the largest monthly decline ever recorded.

Data indicates that the free-fall in confidence would have been worse had it not been for the expectation that the infection and death rates from COVID-19 would soon peak and allow the economy to restart. US retail sales plunged 8.4% from a month earlier in March 2020. It is the biggest decline on record, a sign that the impact of COVID-19 on the economy may be harder than anticipated. The US unemployment rate increased to 14.7% in April 2020 from 4.4% in the previous month. The reading is the highest in history as the COVID-19 crisis threw millions out of work. The number of unemployed people increased by 15.9 million to 23.1 million while employment declined by 22.5 million to 133.4 million. The US economy shrank by an annualised 4.8% in the first quarter of

2020, ending the longest period of expansion in the country's history. The figure suggests the steepest pace of contraction in GDP since the last quarter of 2008, as the COVID-19 pandemic forced several states to impose lockdown measures. Household consumption fell the most since the fourth quarter of 1980 and business investment contracted for a fourth consecutive period.

Eurozone

European equity markets advanced during the month, supported by central bank monetary stimulus and optimism of easing lockdown measures. As a result, the Euro Stoxx finished 6.04% higher in euro terms. To further stimulate and support the fragile economy the Eurozone finance minister announced an additional €500bn to fight COVID-19 and recommended a recovery fund. The European Central Bank announced more support for banks by reducing its targeted longer-term refinancing operations by 25 basis points. This will provide long-term financing to banks at attractive conditions, with the aim of trying to stimulate bank lending to the real economy.

On the macroeconomic front, Eurozone Manufacturing PMI decreased to 33.4 in March from 44.5 in the previous month. The change points to the steepest month of contraction in the manufacturing sector since June 1997. Governments across the region were forced to impose strict measures to contain the COVID-19 outbreak. Output, new orders, export sales and purchasing all fell sharply, while jobs were cut markedly, and supply-side constraints increased at a record pace. The Eurozone Services PMI fell to 11.7 in April from 26.4 in the previous month. The reading points to the largest month of contraction in the sector on record as a result of measures taken to contain the rapid spread of COVID-19. The Eurozone economy contracted by an annualised 3.8% in the first quarter of 2020. The data indicates the steepest contraction since inception as the coronavirus lockdown forced businesses to close and consumers to stay at home. The economies of France, Spain and Italy contracted the most, with France entering a recession.

United Kingdom

UK equity markets returned positively during the month as sentiment was boosted by timely and large-scale interventions from central banks across the world. As a result, the FTSE 100 finished 4.04% higher in pound terms. During the month, equity market volatility remained at historically high levels. On the data front, the PMI dropped to 32.9 in April from 47.8 in the previous month. The latest reading points to the sharpest month of contraction in the sector since its inception. Output, new orders, exports and employment fell at record pace due to the coronavirus pandemic.

Retail sales in the UK plunged 5.1% month-over-month in March of 2020, the largest drop on record, following government’s guidance during the coronavirus pandemic. The UK economy contracted by an annualised 2% in the first quarter of 2020. The change points to the steepest contraction since the fourth quarter of 2008 as coronavirus lockdown forced businesses to close. Household consumption dropped by 1.7%, also the largest fall since the fourth quarter of 2008, driven by declines in spending on transport, restaurants, hotels, clothing and footwear because of social distancing measures.

Spot Rates	30 April 2018	30 April 2019	30 April 2020
EUR/USD	1.20	1.12	1.09
GBP/USD	1.37	1.30	1.25
USD/JPY	109.33	111.43	107.18

Source: IRESS

Emerging Markets

Emerging markets delivered positive returns in April, underperforming its developed markets counterpart. The MSCI EM index returned 9%, while the MSCI Developed World delivered 10.80% in dollar terms. This was largely as a result of continued support by governments and central banks in the form of fiscal and monetary packages aimed at supporting economies weakened by the coronavirus pandemic.

GLOBAL RETURNS IN ZAR				
2019	February 2020	March 2020	April 2020	Year-to-date
S&P 500 27.82%	GLOBAL BONDS 5.59%	GLOBAL BONDS 10.99%	S&P 500 16.01%	GLOBAL BONDS 33.47%
MSCI WORLD 24.11%	SHANGHAI STOCK EXCHANGE 1.54%	SHANGHAI STOCK EXCHANGE 6.62%	MSCI WORLD 14.06%	SHANGHAI STOCK EXCHANGE 23.11%
EURO STOXX 50 22.37%	MSCI EM -0.65%	S&P 500 -0.49%	MSCI EM 12.24%	S&P 500 19.13%
SHANGHAI STOCK EXCHANGE 21.81%	GLOBAL PROPERTY -3.75%	MSCI WORLD -1.49%	GLOBAL PROPERTY 9.96%	MSCI WORLD 15.01%
GLOBAL PROPERTY 20.64%	S&P 500 -3.75%	MSCI EM -3.96%	FTSE 100 8.68%	MSCI EM 9.53%
FTSE 100 18.63%	MSCI WORLD -3.98%	FTSE 100 -4.57%	SHANGHAI STOCK EXCHANGE 8.28%	EURO STOXX 50 0.77%
MSCI EM 15.12%	EURO STOXX 50 -4.84%	EURO STOXX 50 -4.98%	EURO STOXX 50 8.11%	GLOBAL PROPERTY 0.48%
GLOBAL BONDS 3.86%	FTSE 100 -7.51%	GLOBAL PROPERTY -12.45%	GLOBAL BONDS 4.85%	FTSE 100 -1.05%

Source: Morningstar