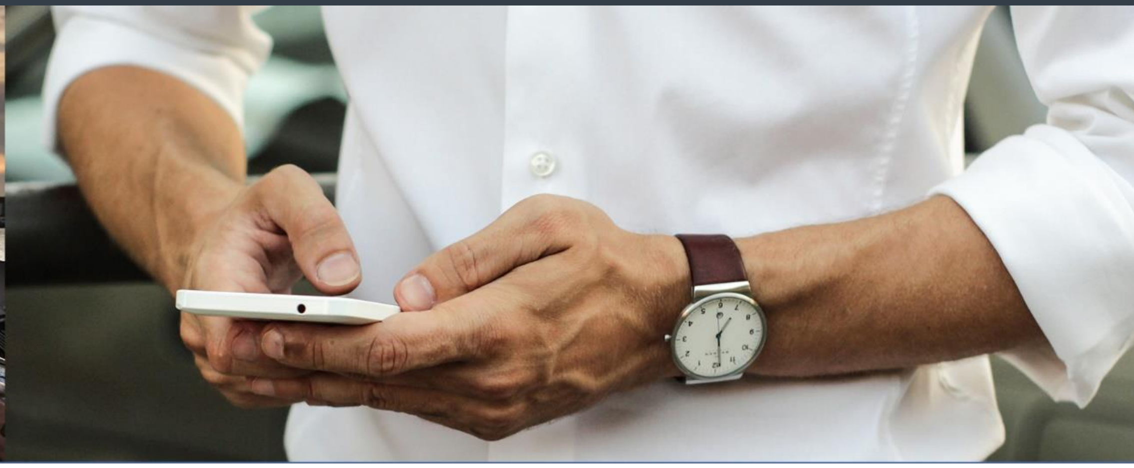
ECONOMIC REPORT

by Glacier Research

glacier
by Sanlam



Review period: January 2022

Introduction

After closing the year on a buoyant note, local equity markets ended January on a rather subtle note, pulling back from December's rally albeit still managing to stay afloat. Resources stocks continued to be a positive contributor alongside financials while property retreated from last month's gains to end the current month in negative territory. On the global side, markets took a toll as the rise in inflation and the prospects of tighter monetary policy spooked investors. Global sentiment also turned negative on the back of geopolitical tensions between Russia and Ukraine. The record high inflation also exerted pressure on the global bond market. In terms of investment style, value continued to outperform its growth and quality counterparts albeit in negative territory. Growth and momentum took the hardest hit following heightened inflation concerns which pushed yields higher and unsettled these parts of the market.

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

Domestic Highlights

- SARB interest rate decision

SARB interest rate decision

In its first seating of the year, the SARB took a decision to hike interest rates by 25 basis points to 4.00% with four of the monetary policy committee members preferring a rate hike while one member preferred rates to be kept on hold. The bank is of the view that a gradual increase in interest rates will be sufficient to keep inflation well anchored. As food and oil prices continued to surprise higher, the bank sees risks to inflation to be on the upside. Relative to the November meeting, the bank upwardly revised its headline inflation forecast to 4.9% (up from 4.3%) in 2022 and 4.5% in 2023 and 2024 Going forward, the bank expects a GDP growth of 1.7% in 2022, 1.8% in 2023 and 2% in 2023. These forecasts are lower than previous ones as the bank sees the fading rebound from the pandemic and the downturn in commodity prices as key concerns.

SA economy

The slow pace of vaccination and limited energy supply continued to pose risks for SA's economic recovery however the relaxation of lockdown restrictions was supportive. Commodity prices (particularly PGMs) continued to be supportive alongside the strengthening local currency, however continued oil and food inflation remain concerning. As a result, monetary policy continued to tighten as the SARB imposed yet another interest rate hike of 25 basis points, taking the repo rate to 4%. Unemployment continues to be a key challenge for the economy, particularly youth unemployment. Meanwhile, manufacturing activity rebounded handsomely from 54.1 in December to 57.1 in January due to higher business activity, exports and inventories as demand increased. The easing of COVID-19 and the lifting of international travel ban also weighed positively.

	Aug'21	Sep'21	Oct'21	Nov'21	Dec21	Jan'22
CPI (y/y)	4.9%	5.0%	5.0%	5.4%	5.9%	5.7%
PPI (y/y)	7.2%	7.8%	8.1%	9.6%	10.8%	10.1%

Sources: Trading Economics

	31 January 2020	31 January 2021	31 January 2022
USD/ZAR	15.00	15.16	15.39
GBP/ZAR	19.79	20.76	20.68
EUR/ZAR	16.63	18.40	17.28

Source: IRESS

SA markets

After robust performance last month, local equity markets pulled back but managed to log gains for the 4th month in a row albeit muted for January. The All Share was up 0.86% for the month. In terms of market cap, small caps (-1.30%) and mid-caps (-0.40%) took a downturn from the previous month's rally while large caps bucked the trend to end 1.80% higher. After a strong December, listed property took knock, ending the month 2.85% lower. On the fixed income side, bonds extended their gains albeit subdued as the ALBI rose 0.85% with the belly of the curve experiencing the highest gains. The 12 year+ area was up 0.93% while the 7–12-year area gained 0.63%

and the 3–7-year area gained 1.06%. The 1–3-year area was muted at +0.18%, lower than Cash which gained 0.34%. Inflation-linked bonds retreated, ending the month 1.10% lower while preference shares (+4.08%) extended their gains.

Foreigners were net sellers of R1.43 billion worth of SA equities and net sellers of R550 million worth of SA bonds, during the month.

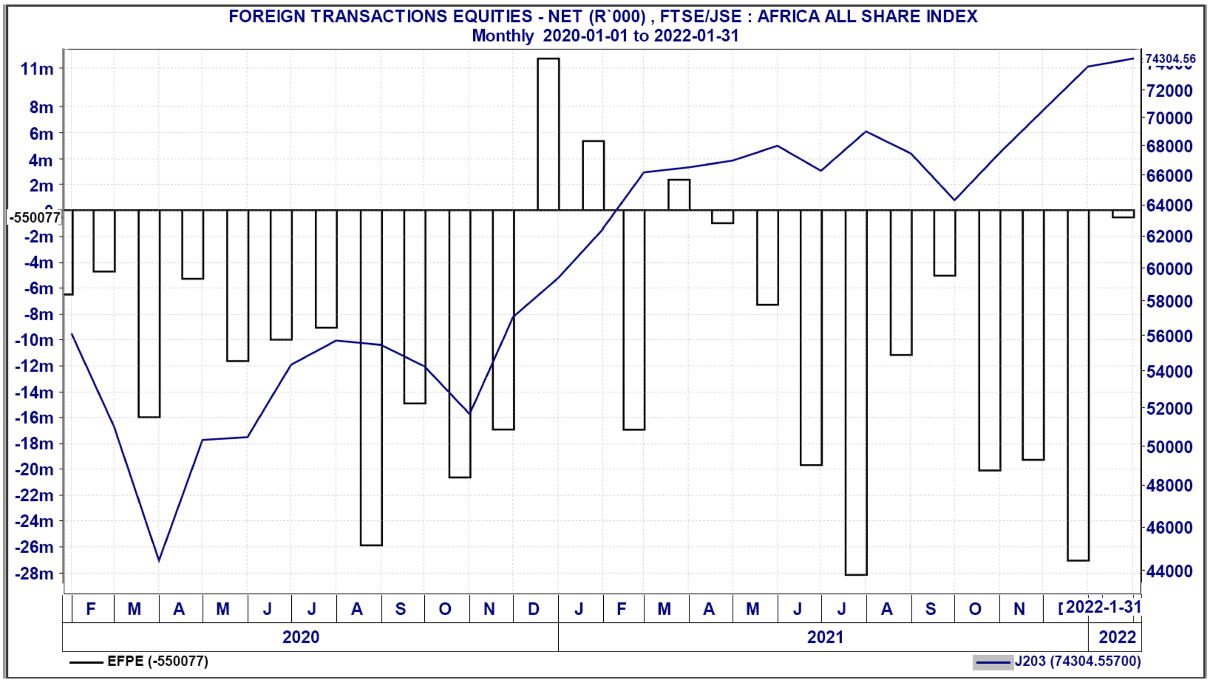
LOCAL RETURNS IN ZAR				
2021	**November 2021**	**December 2021**	**January 2022**	**Year-to-date**
SA SMALL CAPS 59.08%	SA TOP 40 5.36%	SA PROPERTY 7.61%	SA TOP 40 1.16%	SA TOP 40 1.16%
SA PROPERTY 38.63%	SA EQUITY 4.47%	SA SMALL CAPS 7.33%	SA EQUITY 0.86%	SA EQUITY 0.86%
SA EQUITY 29.23%	SA PROPERTY 2.17%	SA TOP 40 4.82%	SA BONDS 0.85%	SA BONDS 0.85%
SA MID CAPS 28.88%	SA BONDS 0.66%	SA EQUITY 4.80%	SA CASH 0.34%	SA CASH 0.34%
SA TOP 40 28.40%	SA CASH 0.32%	SA MID CAPS 4.29%	SA MID CAPS -0.40%	SA MID CAPS -0.40%
SA BONDS 8.40%	SA MID CAPS -1.58%	SA BONDS 2.69%	SA SMALL CAPS -1.30%	SA SMALL CAPS -1.30%
SA CASH 3.81%	SA SMALL CAPS -1.75%	SA CASH 0.34%	SA PROPERTY -2.87%	SA PROPERTY -2.87%

Source: Morningstar & Glacier Research

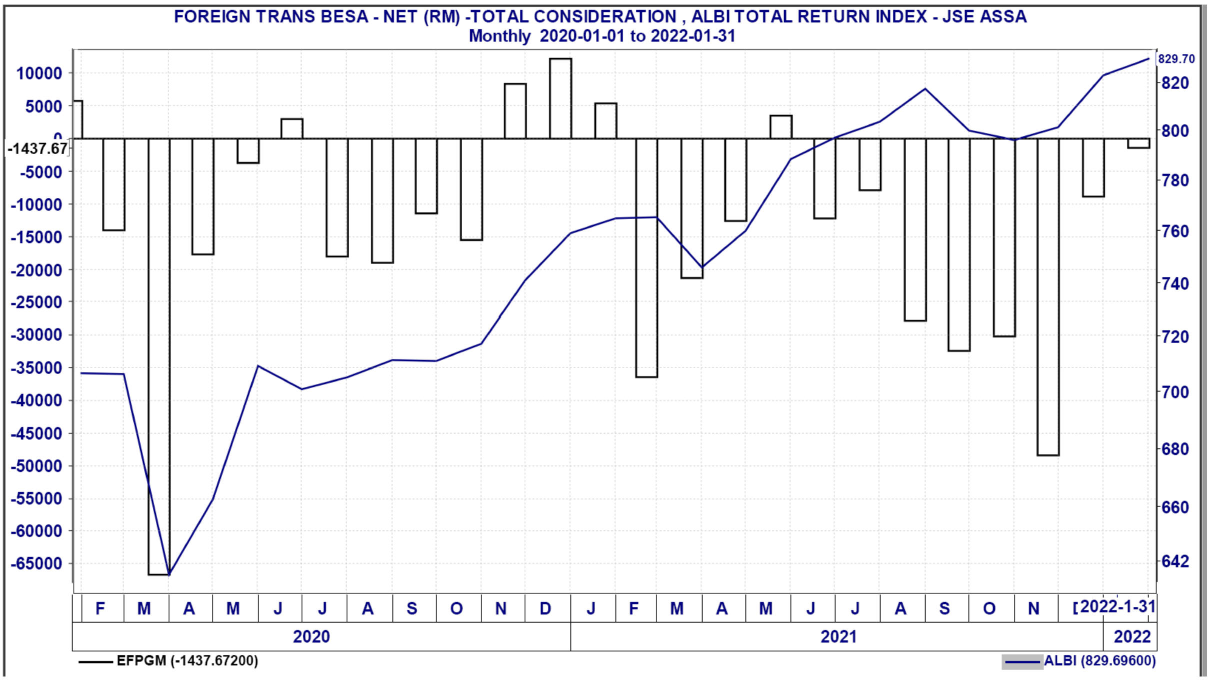
In terms of sectors, resources were the best performer for the month, gaining 3.63% followed by financials which gained 3.50%. Industrials were down 2.44% while SA Industrials fell 1.93%.

LOCAL SECTOR RETURNS IN ZAR				
2021	**November 2021**	**December 2021**	**January 2022**	**Year-to-date**
CONSUMER SERVICES 76.32%	CONSUMER SERVICES 18.98%	FINANCIALS 8.68%	RESOURCES 3.63%	RESOURCES 3.63%
GENERAL RETAILERS 65.87%	RESOURCES 6.53%	CONSUMER GOODS 6.52%	FINANCIALS 3.50%	FINANCIALS 3.50%
RESOURCES 32.31%	SA INDUSTRIALS 5.72%	INDUSTRIALS 5.53%	CONSUMER GOODS 3.02%	CONSUMER GOODS 3.02%
INDUSTRIALS 30.72%	CONSUMER GOODS -1.61%	RESOURCES 5.33%	SA INDUSTRIALS -1.93%	SA INDUSTRIALS -1.93%
FINANCIALS 29.59%	INDUSTRIALS -1.93%	GENERAL RETAILERS 3.02%	INDUSTRIALS -2.44%	INDUSTRIALS -2.44%
SA INDUSTRIALS 26.45%	FINANCIALS -2.61%	SA INDUSTRIALS 2.92%	CONSUMER SERVICES -7.11%	CONSUMER SERVICES -7.11%
CONSUMER GOODS 22.28%	GENERAL RETAILERS -9.08%	CONSUMER SERVICES 2.10%	GENERAL RETAILERS -7.41%	GENERAL RETAILERS -7.41%

Source: Morningstar & Glacier Research



Source: IRESS January 2022



Source: IRESS January 2022

Global markets

Global equity markets had a sluggish month in January 2022 reversing gains from the previous month as concerns over inflation, interest rate hikes from global central banks and rising tensions between Russia and Ukraine dampened sentiment. As a result, losses were widespread. The S&P 500, MSCI World AC and MSCI Developed Market dropped 5.17%, 4.91% and 5.29%, respectively, in dollar terms. From a sector perspective, consumer discretionary and real estate were largest detractors while energy was the only sector that generated a positive return.

The price of Brent crude oil rallied 17% to US$91 a barrel. The price of iron ore also saw a strong increase driven by the Chinese government and central bank's aim to stimulate economic growth by loosening monetary policy. This, along with an appreciation of commodity exporters' currencies boosted the price of industrial metals. Sovereign bonds rallied during the month (implying a capital loss) as interest rate hikes from global central banks are almost a certainty now. On a global equity style basis, value was the top performing style (-1.26%) although all investment styles ending in the negative territory. This was followed by momentum (-7.74%), quality (-8.02%) and lastly growth (-9.31%). Global equities and global bonds both struggled during the month.

United States

US equity markets performed negatively during the month of January after the US Federal Reserve reaffirmed their stance of tightening monetary policy thus raising interest rates. The rate hike narrative along with growing tension between Russia and Ukraine sparked a sell-off across global markets. As a result, the S&P 500 dropped 5.17% and the NASDAQ was down 8.96% in dollar terms. On the macroeconomic front, the US Manufacturing Purchasing Managers' index (PMI) fell from 57.7 in December 2021 to 50.9 in January as the impact of Omicron began to filter into the data. Despite the decline, the US manufacturing industry is still expanding as the figure is still above 50, although at a slower pace. The labour market remains healthy in the US in recent months with the unemployment rate at a low of 3.9%, in line with expectations.

Eurozone

European equity markets dropped during January, rebounding from gains in the previous month. The Euro Stoxx 50 finished -2.78% lower in euro terms for the first month of the year.

On the macroeconomic front, the Eurozone Manufacturing PMI fell to a low of 52.4 in January from 53.4 in December. Covid-19 imposed restrictions had weighed on demand particularly in the services and hospitality sectors. Furthermore, tensions between Russia and Ukraine pose geopolitical risks in the region. On the employment front, there has been improvements over recent months as unemployment has dropped to pre-pandemic levels. Inflation in the region rose to 5.0% largely driven by energy costs and food prices. This will likely put further pressure on the European Central Bank (ECB) to reduce its monetary stimulus programme quicker than expected.

United Kingdom

UK equity markets were in positive territory during the month although concerns over rate hikes, rising inflation and geopolitical tensions in Russia and Ukraine prevailed. The FTSE 100 finished higher in pound terms. UK equities managed to significantly outperform the developed market equities as they were the beneficiary of a rally in commodity and financial sector stocks (having a large weighting to both sectors). Furthermore, the index has a low weighting to technology stocks who were major detractors for global markets this month. The UK Purchasing Manager Index (PMI) dropped from 53.6 to 53.4 in January as the impact of the Omicron variant of Covid-19 began to filter into the data, this however still represents a growth as the figure stands strongly over 50. Inflation rose to a 30-year record high of 5.4% which now places further pressure on the Bank of England to hike rates once more.

Spot Rates	31 January 2020	31 January 2021	31 January 2022
EUR/USD	1.11	1.22	1.12
GBP/USD	1.32	1.37	1.35
USD/JPY	108.38	104.68	115.10

Source: IRESS

Emerging markets and Asia

Emerging market equities delivered negative returns for the month although outperforming its developed market counterparts. The MSCI EM index returned -1.89%, while the MSCI Developed World delivered -5.29% in dollar terms. Emerging markets largely benefitted from commodity-driven markets as commodity prices rallied. During the month Latin American equity markets were the strongest region, followed by EMEA then EM Asia. Chinese equities lagged, dragging down the overall performance in the Asia region. This resulted from a resurgence of Covid-19 outbreaks in the region and the imposition of lockdowns, supply chain bottlenecks in the automobile industry and an ailing Chinese property sector.

GLOBAL RETURNS IN ZAR

2021	November 2021	December 2021	January 2022	Year-to-date
GLOBAL PROPERTY 41.28%	CHINA EQUITY 6.16%	UK EQUITY 6.82%	UK EQUITY -2.91%	UK EQUITY -2.91%
US EQUITY 39.84%	GLOBAL BONDS 5.11%	EURO EQUITY 6.47%	GLOBAL EM -4.90%	GLOBAL EM -4.90%
GLOBAL EQUITY 32.36%	US EQUITY 4.69%	GLOBAL PROPERTY 6.46%	GLOBAL BONDS -5.06%	GLOBAL BONDS -5.06%
UK EQUITY 27.52%	GLOBAL PROPERTY 3.66%	US EQUITY 4.07%	EURO EQUITY -7.11%	EURO EQUITY -7.11%
EURO EQUITY 24.56%	GLOBAL EQUITY 3.11%	GLOBAL EQUITY 3.86%	US EQUITY -8.09%	US EQUITY -8.09%
CHINA EQUITY 14.96%	GLOBAL EM 1.12%	CHINA EQUITY 1.68%	GLOBAL EQUITY -8.20%	GLOBAL EQUITY -8.20%
GLOBAL EM 5.89%	UK EQUITY -0.46%	GLOBAL EM 1.47%	GLOBAL PROPERTY -9.16%	GLOBAL PROPERTY -9.16%
GLOBAL BONDS 3.54%	EURO EQUITY -1.90%	GLOBAL BONDS -0.54%	CHINA EQUITY -10.74%	CHINA EQUITY -10.74%

Source: Morningstar & Glacier Research