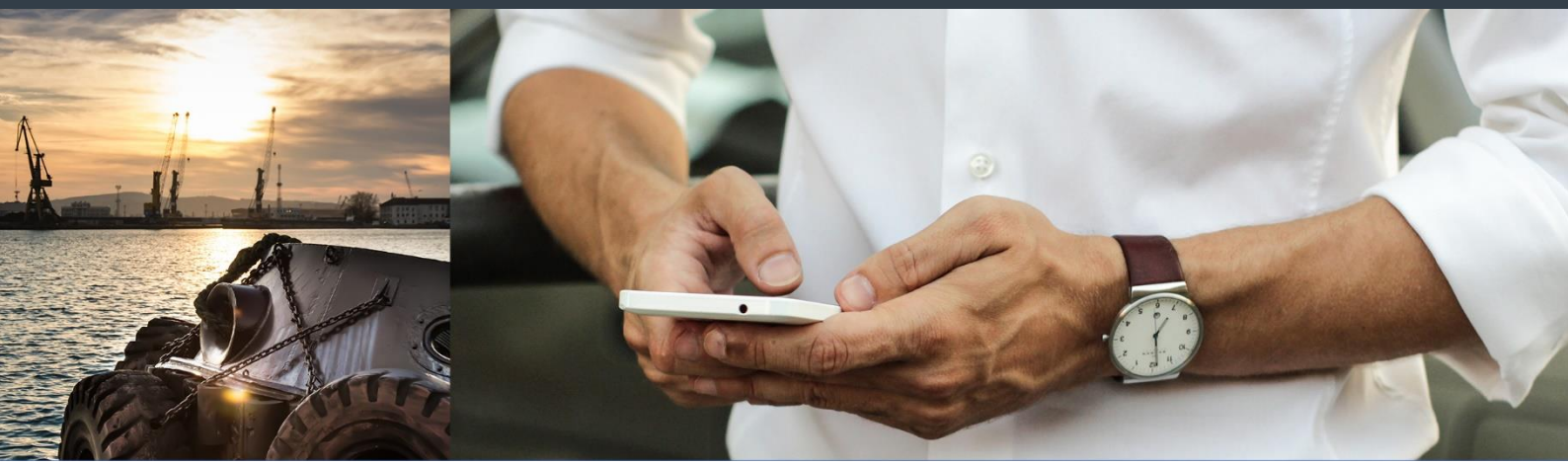
ECONOMIC REPORT

by Glacier Research

glacier by Sanlam



Review period: February 2022

Introduction

After ending January on a rather subtle note, local equities advanced higher in the month of February, providing a hedge against the global turmoil that was sparked by tensions between Russia and Ukraine. Resources continued to extend their gains once more, underpinned by geopolitical tensions and uncertainty in Europe which drove commodity markets higher. Financials also extended their gains, buoyed by strong earnings from banks. On the global side, markets extended their losses as tensions between Russia and Ukraine intensified, leading to an outright invasion of Ukraine by Russia. Meanwhile, concerns over the speed and magnitude of interest rate hikes continued to weigh negatively on sentiment. Volatility made a comeback, unsettling growth and quality stocks the most while value stocks fell the least.

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Domestic Highlights

- Budget speech

Budget speech

Finance Minister Enoch Godongwana delivered his maiden budget in which he offered some level of commitment in stabilizing the country's finances. Some of the important highlights of the budget include;

- The estimated tax revenue collection for 2021/2022 is R1.55 trillion, which is R182 billion more than last year's estimate. This is mostly from the mining sector, personal income tax, and value-added tax
- Government debt is projected to rise to R5.4 trillion over the mid-term, from R4.3 trillion
- A R5.2 billion tax relief is proposed to help boost the economy, fund incentives for youth development, and reduce the need for fuel levy and Road Accident Fund levy increases.
- Corporate income tax will be reduced from 28% to 27%. This will apply to companies with a year-end of 31 March 2023
- Regulation 28 of the Pension Funds Act will be amended to include more investments in infrastructure

SA economy

Against the backdrop of global uncertainty on the political and monetary policy front, commodity prices continued to support the local economy alongside the strengthening currency. However, COVID restrictions, global uncertainty and rising inflation constitute key risks for economy growth. Oil and food inflation remain concerning, especially after the spike in the oil price following the Ukraine's invasion by Russia. As a result, in the budget speech, SA economic growth expectations were reduced from 5.1% to 4.8%. Manufacturing activity, however, extended its gains from 57.1 in January to 58.6 in February, marking the strongest expansion since 2007 as output and new orders rose faster.

	Sep'21	Oct'21	Nov'21	Dec21	Jan'22	Feb'22
CPI (y/y)	5.0%	5.0%	5.4%	5.9%	5.7%	5.8% (forecast)
PPI (y/y)	7.8%	8.1%	9.6%	10.8%	10.1%	10.5% (forecast)

Sources: Trading Economics

	29 February 2020	28 February 2021	28 February 2022
USD/ZAR	15.66	15.09	15.36
GBP/ZAR	20.08	21.03	20.61
EUR/ZAR	17.27	18.22	17.23

Source: IRESS

SA markets

Local equity markets advanced once more to log gains for the 5th month in a row, supported mainly by the rally in commodities. The All Share was up 2.95% for the month. In terms of market cap, small caps (-0.77%) extended their losses while mid-caps (+0.62%) rebounded from last month's loss. Large caps also extended the gains, ending the month 4.48% higher. After a tough month in January, listed property took another knock, ending the month 5.74% lower. On the fixed income side, bonds extended their gains albeit subdued as the ALBI rose 0.54% with the back-end of the curve experiencing the highest gains. The 12 year+ area was up 0.83% while the 7–12-year area gained 0.55% and the 3–7-year area was flat at 0.04%. The 1–3-year area was up 0.47%, higher than Cash which gained 0.32%. Inflation-linked bonds rebounded from last month, ending 2.16% higher.

Foreigners were net buyers of R13.0 billion worth of SA equities and net sellers of R12.1 billion worth of SA bonds, during the month.

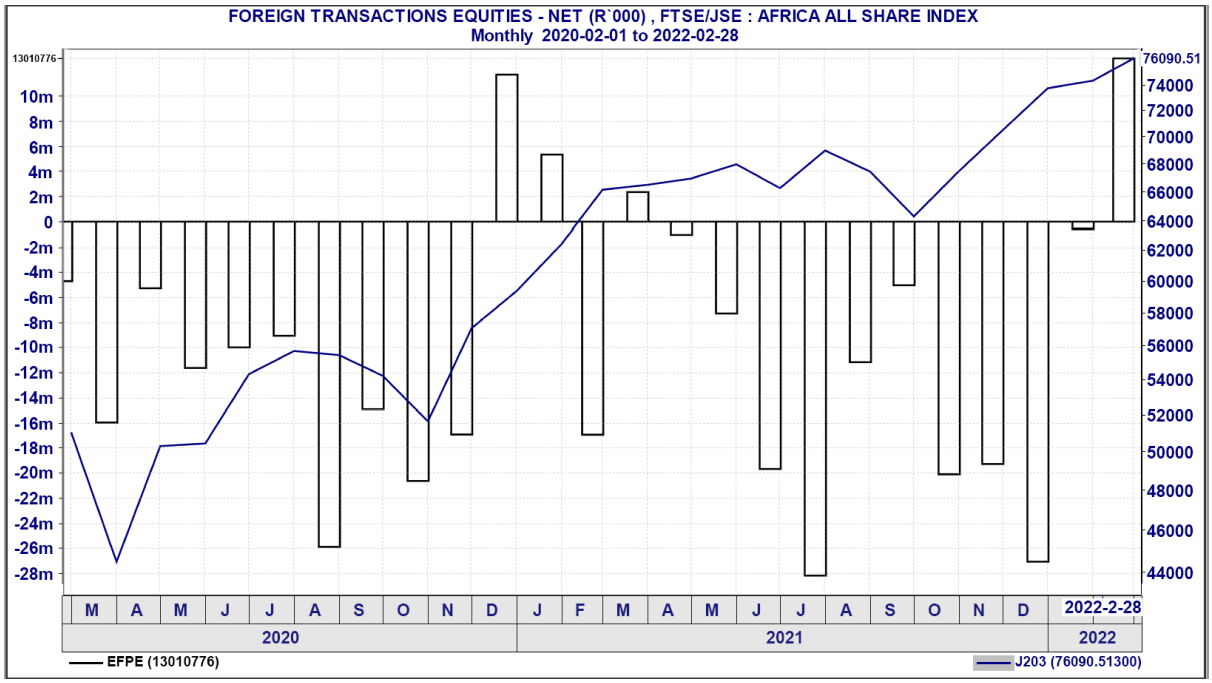
LOCAL RETURNS IN ZAR				
2021	December 2021	January 2022	February 2022	Year-to-date
SA SMALL CAPS 59.08%	SA PROPERTY 7.61%	SA TOP 40 1.16%	SA TOP 40 3.28%	SA TOP 40 4.48%
SA PROPERTY 38.63%	SA SMALL CAPS 7.33%	SA EQUITY 0.86%	SA EQUITY 2.95%	SA EQUITY 3.83%
SA EQUITY 29.23%	SA TOP 40 4.82%	SA BONDS 0.85%	SA MID CAPS 1.02%	SA BONDS 1.40%
SA MID CAPS 28.88%	SA EQUITY 4.80%	SA CASH 0.34%	SA BONDS 0.54%	SA CASH 0.66%
SA TOP 40 28.40%	SA MID CAPS 4.29%	SA MID CAPS -0.40%	SA SMALL CAPS 0.54%	SA MID CAPS 0.62%
SA BONDS 8.40%	SA BONDS 2.69%	SA SMALL CAPS -1.30%	SA CASH 0.32%	SA SMALL CAPS -0.77%
SA CASH 3.81%	SA CASH 0.34%	SA PROPERTY -2.87%	SA PROPERTY -2.96%	SA PROPERTY -5.74%

Source: Morningstar & Glacier Research

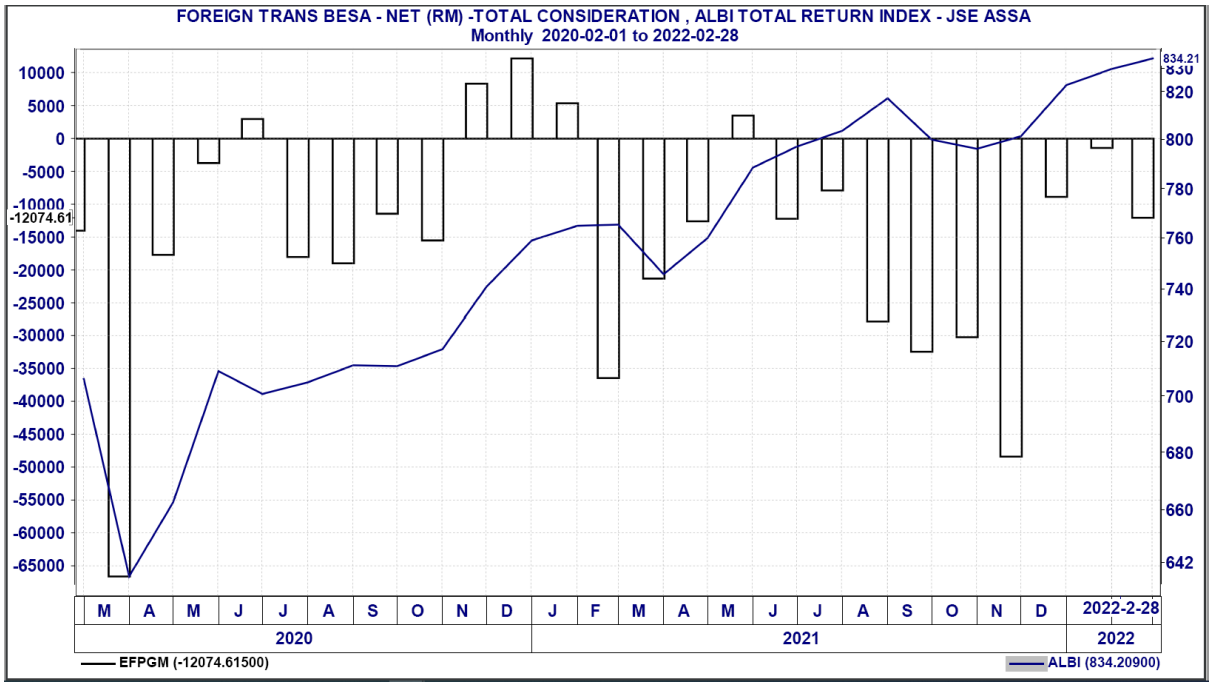
In terms of sectors, resources continued to be the best performer for the month, gaining 16.08% followed by financials which gained 7.40%. Industrials were down 8.22% while SA Industrials fell 9.21%.

LOCAL SECTOR RETURNS IN ZAR				
2021	December 2021	January 2022	February 2022	Year-to-date
CONSUMER SERVICES 76.32%	FINANCIALS 8.68%	RESOURCES 3.63%	RESOURCES 16.08%	RESOURCES 20.29%
GENERAL RETAILERS 65.87%	CONSUMER GOODS 6.52%	FINANCIALS 3.50%	FINANCIALS 3.77%	FINANCIALS 7.40%
RESOURCES 32.31%	INDUSTRIALS 5.53%	CONSUMER GOODS 3.02%	GENERAL RETAILERS 2.63%	CONSUMER GOODS 2.92%
INDUSTRIALS 30.72%	RESOURCES 5.33%	SA INDUSTRIALS -1.93%	CONSUMER GOODS -0.10%	GENERAL RETAILERS -4.98%
FINANCIALS 29.59%	GENERAL RETAILERS 3.02%	INDUSTRIALS -2.44%	CONSUMER SERVICES -4.80%	INDUSTRIALS -8.28%
SA INDUSTRIALS 26.45%	SA INDUSTRIALS 2.92%	CONSUMER SERVICES -7.11%	INDUSTRIALS -5.98%	SA INDUSTRIALS -9.21%
CONSUMER GOODS 22.28%	CONSUMER SERVICES 2.10%	GENERAL RETAILERS -7.41%	SA INDUSTRIALS -7.43%	CONSUMER SERVICES -11.57%

Source: Morningstar & Glacier Research



Source: IRESS February 2022



Source: IRESS February 2022

Global markets

Global equity and bond markets had a challenging month in February extending on losses from the previous month as concerns over interest rate hikes from global central banks and the threat of Russian military action in Ukraine weighed on investor morale and growth expectations. As a result, losses were widespread during the month. The S&P 500, MSCI World AC and MSCI Developed Market dropped 2.99%, 2.58% and 2.53%, respectively, in dollar terms. From a sector perspective, sectors were mostly negative, with consumer services and real estate detracting the most. Energy was the only sector that generated a positive return for the month.

Brent crude oil was in the spotlight as prices spiked to US$100 (+11%) a barrel, the highest rate in seven years. Higher energy prices may in turn have knock on effects on higher inflation rates. This predicament raises questions on whether global central banks will increase the speed or magnitude rate increases to address inflation or implement less aggressive tightening to support the economy.

Commodity prices also saw an increase resulting from the Russia-Ukraine conflict, supply chain disruptions and tight inventories which supported commodity exporters like Brazil and South Africa. Sovereign bonds rallied (implying a capital loss) as the view of monetary policy tightening to address inflation pressures was expected. On a global equity style basis, value was the top performing style (-1.63%) followed by momentum (-2.16%), growth (-3.50%) and lastly quality (-3.80%).

United States

US equity markets performed negatively during the month of February as concerns over rising inflation grew thus may increase the speed or magnitude of interest rate hikes. The tightening of monetary policy narrative along with the conflict between Russia and Ukraine sparked a sell-off across global markets. Russian President Valdimir Putin's aggressive military operation announcement was met with the imposition of economic sanctions by Nato and Western allies of Ukraine.

The S&P 500 dropped 2.99% and the NASDAQ was down 3.35% in dollar terms. On the macroeconomic front, the US Manufacturing Purchasing Managers' index (PMI) rose from 50.9 in January to approximately 56.0 in February as services rebounded strongly after slowing in January due to Omicron's economic impact filtered into the data. 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 3.8%, in line with expectations.

Notable stock movements in the US came from Meta, formerly known as Facebook, whose share price plummeted 26% in a single day, erasing $250bn from the company's market cap. The company announced that they expect a disappointing outlook for revenues of first quarter of 2022 owing to stagnating user growth, headwinds related to Apple's privacy updates and increasing competition for advertising spend from TikTok.

Eurozone

European equity markets dropped in February, extending on losses from the previous month. The Euro Stoxx 50 finished 5.92% lower in euro terms.

On the macroeconomic front, the Eurozone Manufacturing PMI rose to 55.2 in February from a low of 52.4 in the previous month, rebounding from a slower pace of activity in January due to Omicron. Looser covid restrictions

supported tourism activity, however tensions between Russia and Ukraine posed geopolitical risks in the region. The European Commission revised their growth forecasts downwards to a 4% expansion for 2022 compared to 4.3% previously on account of high energy prices and persistent supply chain disruptions. Inflation in the region rose to 5.8% largely driven by energy and food prices. On the employment front, there has been improvements over recent months as unemployment has dropped to pre-pandemic levels.

United Kingdom

UK equity markets closed in the positive territory in February although concerns over rate hikes, rising inflation and geopolitical conflict between Russia and Ukraine prevailed. The FTSE 100 finished 0.31% higher in pound terms. UK equities managed to significantly outperform the developed market equities as they were the beneficiary of a rally in energy and mining sectors (having a heavy exposure to both sectors). Russian stocks listed on the London exchange, namely, Sberbank, Rosneft and Gazprom saw large declines as a result of sanctions imposed on Russian companies.

Furthermore, the restriction of Russian financial institutions from using the Swift global financial messaging system will pose challenges for cross-border transactions. UK's real GDP rose by 1.0% in the fourth quarter of 2021 a 6.5% year-on-year rate as the country rebounded from the pandemic, albeit still below its pre-pandemic peak in quarter three 2019. Inflation rose to a 30-year record high of 5.5% which now places further pressure on the Bank of England to hike rates once more.

Spot Rates	29 February 2020	28 February 2021	28 February 2022
EUR/USD	1.10	1.21	1.12
GBP/USD	1.28	1.39	1.34
USD/JPY	108.07	106.58	114.99

Source: IRESS

Emerging markets and Asia

Emerging market equities delivered negative returns during the month underperforming its developed market counterparts. The MSCI EM index returned -2.99%, while the MSCI Developed World delivered -2.53% in dollar terms. Commodity-driven markets such as Brazil and South Africa were beneficiaries of price rallies and supply disruptions which lead to currency appreciations. During the month Latin American equity markets were the strongest region, while EMEA was the worst performing region falling almost 15% in dollar terms weighed down by a plummeting Russian equity market (-52.7% in dollar terms) due to economic sanctions imposed by Europe and the West.

Chinese equities lagged once again, underperforming emerging markets. This resulted from a surge in Covid-19 cases in the region and the imposition of lockdowns, supply chain disruptions 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