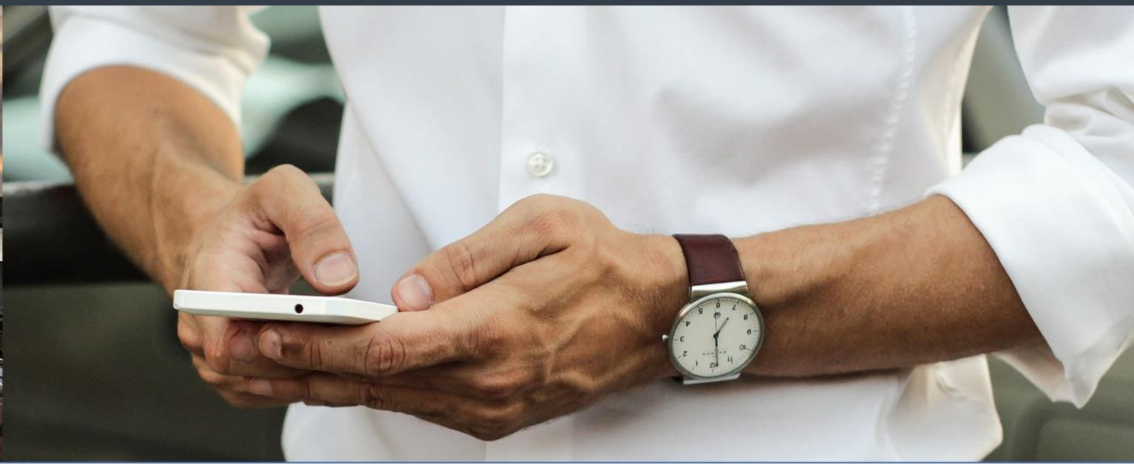
ECONOMIC REPORT
by Glacier Research

glacier by Sanlam



27 January 2021

Review period: December 2020

Introduction

Local equity markets ended the last month of 2020 on a positive note, albeit retreating from the strong gains of the previous month. Resources and financials led the gains. Property continued to surprise on the upside, remaining the best-performing asset class for the second consecutive month. The rand, which had its strongest monthly move since May 2020, provided tailwinds for rand-hedge stocks. On the economic front, GDP growth for the third quarter made some notable moves to the upside, albeit from a low base, supported by easing lockdown restrictions. On the global side, equity markets remained robust as the US tech sector continued in strength. However, US small caps had their best months despite the backdrop of increasing COVID-19 cases globally. Emerging markets also turned in impressive performance as the dollar weakness remained supportive.

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Domestic Highlight

- SA GDP for the third quarter of 2020

SA GDP for the third quarter of 2020

South Africa's GDP staged a resounding comeback in the third quarter of 2020, advancing by an annualised 66.1% quarter-on-quarter as easing lockdown restrictions were supportive of economic activity. The notable rebound in economic growth came after a steep contraction of 51.7% in the prior quarter, ahead of consensus estimates. Important to highlight is the fact that this sharp growth comes off a low base and the economy is 5.8% smaller than it was in 2019. All sectors of the economy recorded growth – mining (288%), manufacturing (210%) and trade (137%) were the biggest drivers.

SA economy

Easing lockdown restrictions provided some tailwinds for economic and business activity, restoring business and consumer confidence in the market. However, the pandemic is not over yet and therefore the economy has a long way to go before reaching pre-COVID levels. Manufacturing PMI slightly retreated from 52.6 in November to 50.3 in December, albeit still in expansionary territory. The second wave of the pandemic has had devasting effects on the country as the number of new cases peaked towards the end of December. As a result, the country was moved from Alert Level 1 to Alert Level 3 with a ban on alcohol sale, stricter curfews and other measures designed to contain the spread of the virus.

	Jul'20	Aug'20	Sep'20	Oct'20	Nov'20	Dec'20
CPI (y/y)	3.2%	3.1%	3.0%	3.3%	3.2%	3.1%
PPI (y/y)	1.9%	2.4%	2.5%	2.7%	3.0%	-

Sources: Trading Economics

	31 December 2018	31 December 2019	31 December 2020
USD/ZAR	14.35	14.00	14.69
GBP/ZAR	18.32	18.56	20.08
EUR/ZAR	16.46	15.69	17.95

Source: IRESS

SA markets

Local equity markets had yet another positive month. Resource and financial counters took the lead as the rand turned in its best month since May 2020, effecting tailwinds for rand-hedge stocks which tend to dominate the local market. The All Share Index (ALSI) was up 4.24% after gaining 10.51% in the previous month. Large-cap stocks (as indexed by the Top 40) gained 3.98% after they delivered double-digit returns (10.37%) previously. Mid-caps and small caps turned in 6.62% and 5.41%. Once again property surprised on the upside, advancing 13.27%. On the fixed income side, bonds had a strong month as the ALBI gained 2.44%. Returns of 1 to 3-year maturities were flat at 0.21% while the 3 to 7-year maturities and 7 to 12-year maturities advanced 2.50% and 2.47%. Inflation-linked bonds gained 2.53% while cash eked out 0.31%.

Foreigners were net buyers of R11.03 billion worth of SA equities and net buyers of R12.22 billion worth in SA bonds.

LOCAL RETURNS IN ZAR

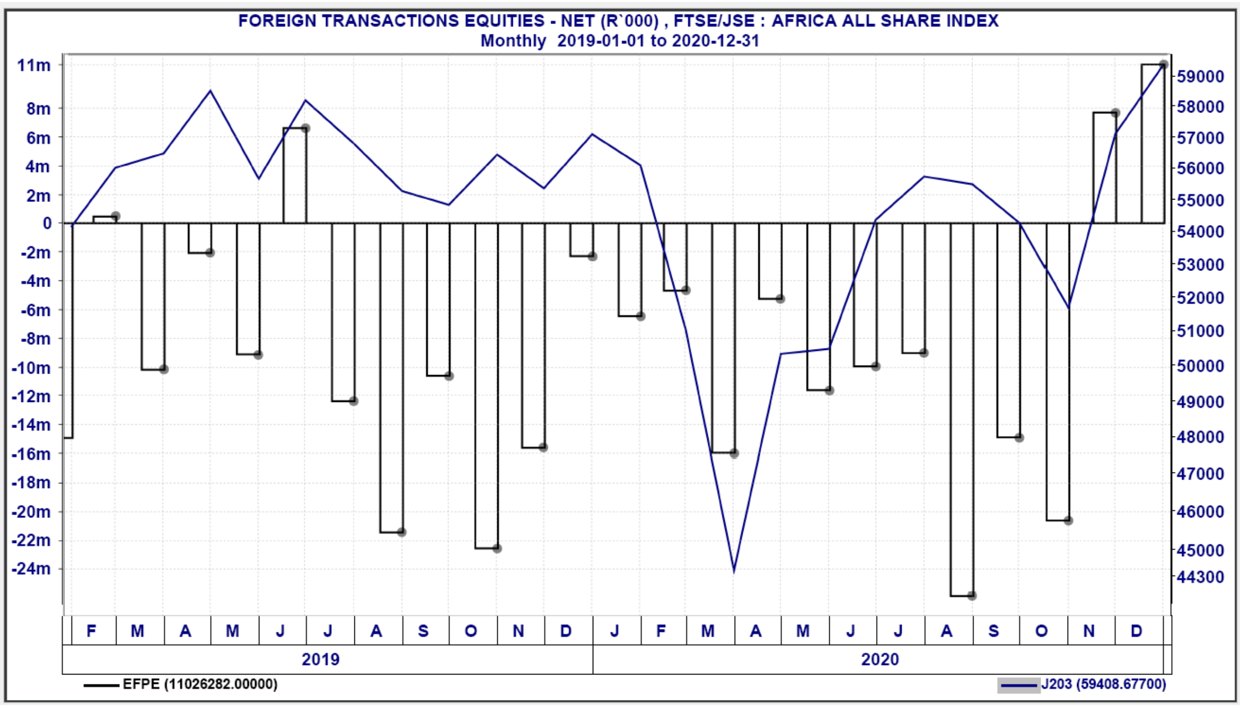
2019	October 2020	November 2020	December 2020	Year-to-date
SA MID CAPS 15.58%	SA BONDS 0.89%	SA PROPERTY 18.43%	SA PROPERTY 13.27%	SA TOP 40 9.97%
SA TOP 40 12.41%	SA CASH 0.34%	SA SMALL CAPS 15.56%	SA MID CAPS 6.62%	SA BONDS 8.65%
SA EQUITY 12.05%	SA SMALL CAPS 0.08%	SA EQUITY 10.51%	SA SMALL CAPS 5.41%	SA EQUITY 7.00%
SA BONDS 10.32%	SA MID CAPS -3.11%	SA TOP 40 10.37%	SA EQUITY 4.24%	SA CASH 5.39%
SA CASH 7.29%	SA EQUITY -4.73%	SA MID CAPS 10.05%	SA TOP 40 3.98%	SA SMALL CAPS -0.28%
SA PROPERTY -0.40%	SA TOP 40 -5.13%	SA BONDS 3.25%	SA BONDS 2.44%	SA MID CAPS -14.37%
SA SMALL CAPS -4.10%	SA PROPERTY -7.85%	SA CASH 0.31%	SA CASH 0.31%	SA PROPERTY -35.53%

Source: Morningstar & Glacier Research

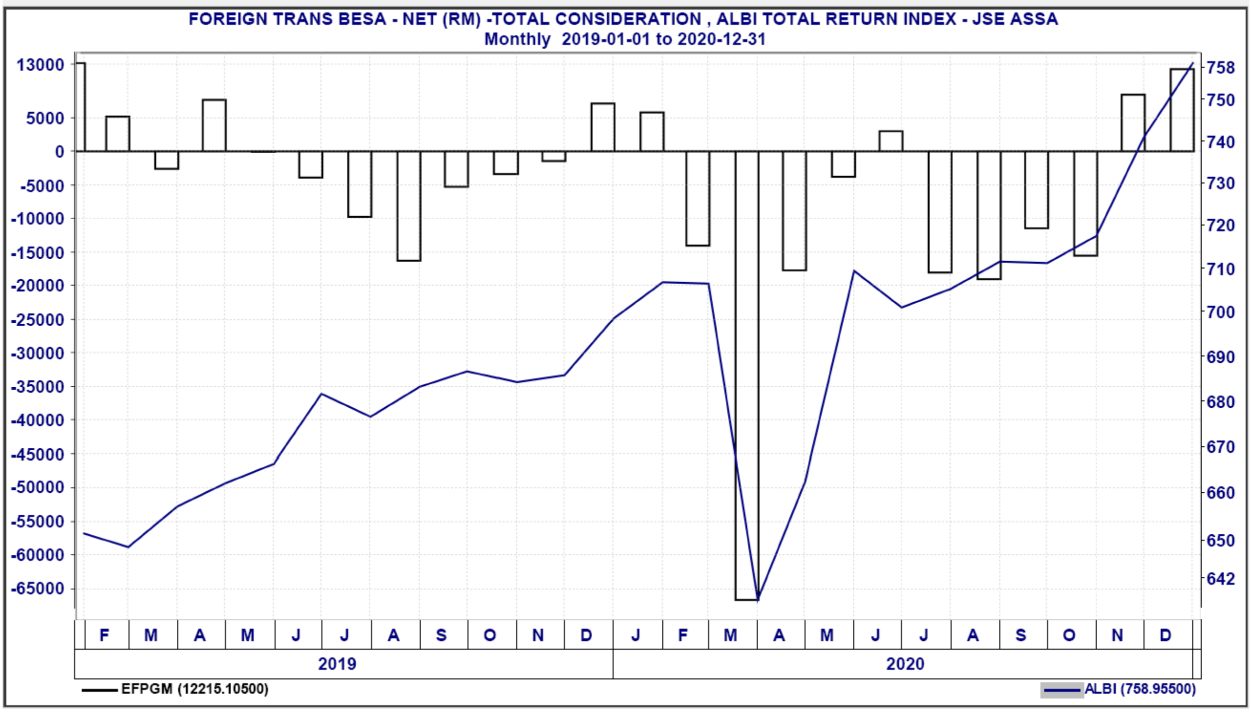
In terms of sectors, resources (9.41%) had their best month in December, followed by financials, which delivered 8.33%. Industrials were up 2.02% while SA industrials (which are rand-hedges) ended lower, delivering -0.96%.

LOCAL SECTOR RETURNS IN ZAR				
2019	**October 2020**	**November 2020**	**December 2020**	**Year-to-date**
RESOURCES 28.53%	CONSUMER SERVICES 0.48%	CONSUMER GOODS 21.90%	RESOURCES 9.48%	RESOURCES 21.20%
CONSUMER GOODS 18.31%	SA INDUSTRIALS 0.38%	INDUSTRIALS 20.45%	FINANCIALS 8.33%	CONSUMER GOODS 13.31%
SA INDUSTRIALS 8.90%	GENERAL RETAILERS 0.09%	FINANCIALS 17.10%	GENERAL RETAILERS 4.97%	SA INDUSTRIALS 12.00%
CONSUMER SERVICES 2.60%	INDUSTRIALS -3.17%	GENERAL RETAILERS 16.21%	CONSUMER SERVICES 3.17%	CONSUMER SERVICES -8.80%
FINANCIALS 0.63%	FINANCIALS -5.76%	RESOURCES 10.90%	INDUSTRIALS 2.02%	GENERAL RETAILERS -15.39%
INDUSTRIALS -8.91%	CONSUMER GOODS -9.32%	CONSUMER SERVICES 9.74%	CONSUMER GOODS 1.30%	FINANCIALS -19.67%
GENERAL RETAILERS -18.37%	RESOURCES -10.78%	SA INDUSTRIALS 8.01%	SA INDUSTRIALS -0.96%	INDUSTRIALS -20.67%

Source: Morningstar & Glacier Research



Source: IRESS December 2020



Source: IRESS December 2020

Global markets

December provided investors with a strong end to one of the most volatile years in the history of financial markets. Thankfully, global markets have proved robust throughout the year, largely propped up by the tech-heavy US market. Annual performance numbers of the S&P 500 and the NASDAQ showed few signs of the economic turmoil brought about by the COVID-19 pandemic. Although the Eurozone, UK and certain emerging markets came under extreme pressure during the year, December provided improved sentiment for most regions around the world. Anticipation of reflation and improved earnings pushed stocks higher as continued stimulus, the rollout of vaccines and the announcement of a Brexit deal, collectively offset concerns around ever-increasing global infection rates. Market participants further witnessed an interesting trend reversal between cyclicals and traditional growth stocks during parts of the month while growth outperformed value for the full month (5% vs 3.6% in USD, as measured by the MSCI World Growth and Value indices). Small caps returned to favour as well amid increased risk appetite amongst investors, leading monthly gains with the MSCI World Small Cap Index returning 7.4%. Emerging markets were similarly boosted by increased risk appetite. The MSCI Emerging Markets index delivered 7.4% in USD terms (1.89% in ZAR) and outperformed developed markets – the MSCI World Index returned 4.3% (-1.06% in ZAR). Furthermore, both global bonds and property were positive in USD terms, however, returning -3.73% and -7.06% in ZAR terms.

United States

As alluded to earlier, US markets have played a major role in keeping global markets afloat during 2020. December proved to be a month in which US stocks continued their upward trajectory as US indices climbed to record highs. Perhaps unsurprisingly, US tech stocks continued to outpace other sectors and thus the NASDAQ led gains, returning 5.65% in US dollars. The US economy continued to struggle, weathering the storm of increasing infection rates and fears that the transmission rate would increase further due to travel during the festive period. These fears were somewhat dampened by the rollout of the Pfizer-BioNtech vaccine towards the end of the year. Additionally, the market was supported by optimism that increasing vaccine alternatives as well as herd immunisation would contribute to a strong economic recovery in 2021. Supporting this optimism was the fact that President Trump signed off on a mammoth stimulus plan of $900 billion. This promises to give the economy a much-needed boost going into the new year. As vaccine developments grew more promising during the month, investors began participating in unloved areas of the market. Financials and energy were benefactors of this trend towards year-end although technology led the gains. From an economic point of view, consumer spending data revealed a decline of 0.4% in November, while personal incomes decreased 1.1% as the government ended welfare payments for struggling businesses due to the pandemic.

Eurozone

Markets in the Eurozone delivered encouraging returns during December, with many of the country-specific indices reaching pre-COVID levels. The vaccine rollout supported markets. Furthermore, news of a Brexit deal being reached and a historic trade deal between China and the EU provided optimism. Investors were encouraged to see PMI data surprise on the upside, indicating that the region may be stabilising. In rand terms, the Eurostoxx 50 delivered -0.66%, while providing 8.78% during the year.

United Kingdom

Markets in the UK enjoyed positive returns during the month, with the FTSE 100 delivering 3.10% in GBP terms. The rally was largely supported by a national vaccine rollout programme while the region was massively relieved given the announcement that a Brexit deal has been struck with the EU. Although details of the deal are limited at this point, the agreement managed to avert a no-deal scenario just before the end of the year. This development is believed to be positive for the UK economy in the short term. Despite a strong finish to the year, and renewed optimism around the vaccine rollout, UK markets experienced their worst calendar year since 2008. In rand terms, the FTSE 100 index has returned -7.31%, largely due to the index's large weighting to financial and energy stocks, with a lack of technology exposure.

Spot Rates	31 December 2018	31 December 2019	31 December 2020
EUR/USD	1.15	1.12	1.22
GBP/USD	1.28	1.33	1.37
USD/JPY	109.59	108.66	103.32

Source: IRESS

Emerging Markets and Asia

Emerging markets experienced an impressive end to the year with most markets in the region outperforming developed market peers. The rollout of vaccines provided much-needed optimism to the region while the signing of the US stimulus package contributed. A depreciating US dollar also provided tailwinds to commodity-dependent economies such as Brazil. The MSCI Emerging Market index returned 21.58% for the year, in rand terms, reaching its highest level since 2007. Asian stocks also ended the year on a high, with Taiwan and Korea leading the way during December. Chinese stocks capped off a very strong year although December performance was subdued due to increasing trade regulation by the Trump administration as well as internal antitrust investigations.

GLOBAL RETURNS IN ZAR				
2019	October 2020	November 2020	December 2020	Year-to-date
S&P 500 27.82%	MSCI EM -0.58%	EURO STOXX 50 15.50%	MSCI EM 1.89%	SHANGHAI STOCK EXCHANGE 33.42%
MSCI WORLD 24.11%	SHANGHAI STOCK EXCHANGE -0.58%	FTSE 100 10.82%	FTSE 100 0.37%	S&P 500 24.37%
EURO STOXX 50 22.37%	GLOBAL BONDS -2.49%	MSCI WORLD 7.42%	MSCI WORLD -1.06%	MSCI EM 24.27%
SHANGHAI STOCK EXCHANGE 21.81%	S&P 500 -5.18%	GLOBAL PROPERTY 7.40%	SHANGHAI STOCK EXCHANGE -1.15%	MSCI WORLD 21.75%
GLOBAL PROPERTY 20.64%	MSCI WORLD -5.57%	S&P 500 5.67%	EURO STOXX 50 -1.20%	GLOBAL BONDS 14.70%
FTSE 100 18.63%	GLOBAL PROPERTY -5.79%	MSCI EM 4.05%	GLOBAL PROPERTY -1.29%	EURO STOXX 50 10.83%
MSCI EM 15.12%	FTSE 100 -7.20%	SHANGHAI STOCK EXCHANGE 2.58%	S&P 500 -1.44%	GLOBAL PROPERTY -3.27%
GLOBAL BONDS 3.86%	EURO STOXX 50 -10.31%	GLOBAL BONDS -3.02%	GLOBAL BONDS -3.81%	FTSE 100 -4.13%

Source: Morningstar & Glacier Research