



28 June 2021

Review period: May 2021

Introduction

Domestic equity markets extended their monthly gains in May as prospects of economic recovery continue to reflect positively on sentiment. Notably, South Africa launched phase two of its vaccine rollout with the aim of inoculating five million citizens aged 60 and over by the end of June. Thus far only approximately 1.3 million people have been vaccinated, although the vaccination drive does seem to have gained some traction. On the economic front, SA CPI made some notable moves to the upside. On the global side, equity markets were mixed as the S&P 500 was up 0.70% for the month whilst the tech-heavy Nasdaq lost 1.44%. On the commodity front, Brent crude oil rose by 3.3%, platinum was down 1.1% and gold was up 7.8% for May.

Domestic Highlights

- Monetary Policy Committee leaves interest rates unchanged
- SA consumer inflation rises

Monetary Policy Committee leaves interest rates unchanged

The South African Reserve Bank (SARB) unanimously kept the repo rate unchanged at 3.5% as expected. The SARB has, however, revised its forecast for the South African economy to grow by about 4.2% in 2021, which is better than the prior forecast of 3.8%. Better sectoral growth performances and more robust terms of trade in the first quarter of the year were contributing factors to this stronger growth forecast. The SARB's quarterly projection model was unchanged from the meeting in January, predicting no further cuts but two increases of 25 basis points each in the second and fourth quarters of 2021.

SA consumer inflation rises

South Africa's CPI rose by 1.2% on a month-on-month basis, pushing the annual inflation rate up to 4.4%. Major areas which contributed to this upward pressure on inflation include the rise in fuel prices, food and non-alcoholic beverages, housing and utilities, transport and base effects created by price imputations during 2020. Fuel prices were more than 21% higher than 12 months ago followed by food which was 6.7% higher year-on-year. Despite inflation being the highest it has been since before the pandemic-induced lockdown, inflation remains well under control within the SARB's target band of 3%-6%, where it is expected to be for the foreseeable future.

SA economy

Sentiment towards economic recovery remains positive as global growth continued, however, concerns over inflation and the pace of the global economic recovery continued to weigh on sentiment. Retail sales figures released for March showed a decrease of 3.7% month-on-month, following a 6.9% month-on-month rise in February. This is reflective of the underlying weakness currently being experienced across SA households. Other positive drivers were that South Africa's trade surplus widened to R51 billion although exports decreased by 3.9% on a month-on-month basis, while imports declined by 4.6%. Consumer price inflation surprised on the upside, coming in at 4.4% year-on-year, which is well within the SARB's target range of 3%-6%. The rand strengthened by 5.43% against the dollar for the month to R13.74/\$.

	Dec'20	Jan'21	Feb'21	Mar'21	Apr'21	May'21
CPI (y/y)	3.1%	3.2%	2.9%	3.2%	4.4%	5.2%
PPI (y/y)	3%	3.5%	4.0%	5.2%	6.7%	7.4%

Sources: Trading Economics

	31 May 2019	31 May 2020	31 May 2021
USD/ZAR	14.58	17.54	13.74
GBP/ZAR	18.42	20.67	19.53
EUR/ZAR	16.29	19.48	16.80

Source: IRESS

SA markets

Local equity markets continued their upward trend with the FTSE JSE ALSI rising for its seventh straight month. This performance was driven by financials, gold and retailers. Small cap stocks turned in a solid performance, advancing 3.33% and bringing the year-to-date growth to 32.25% as prospects of a rebound in the economy reflected positively on sentiment. Large-cap and mid-cap stocks were up 1.14% and 6.16%, respectively. Property bucked its strong upward trend of the previous months, dropping 3.23% in May. On the fixed income side, bonds closed 3.73% higher at the end of May. Yields on the longer end came in stronger this month, especially the 12-year plus maturity which gained 5.80% while the 7-12-year area of the curve saw gains of 3.47%. The rise in inflation and MPC's decision on rates seemed to have not been supportive to the shorter end of the curve, as the 1-3-year area returned -0.08%. Inflation-linked bonds rose by 3.28%.

Foreigners were net sellers of R72.67 billion worth of SA equities and net buyers of R5.92 billion worth of SA bonds.

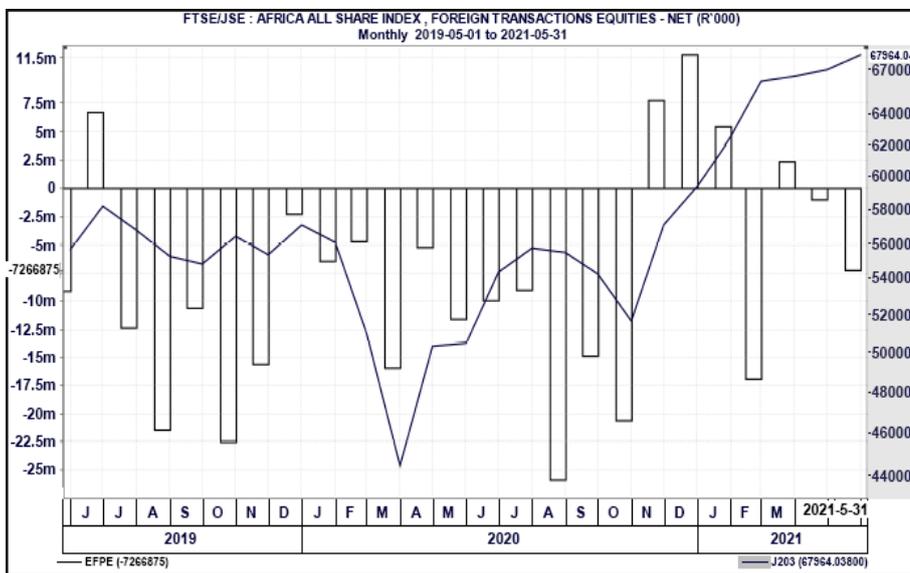
LOCAL RETURNS IN ZAR				
February 2021	March 2021	April 2021	May 2021	2021 - YTD
SA PROPERTY 9.70%	SA SMALL CAPS 7.65%	SA PROPERTY 11.49%	SA MID CAPS 6.16%	SA SMALL CAPS 32.25%
SA SMALL CAPS 8.40%	SA MID CAPS 3.35%	SA SMALL CAPS 5.58%	SA BONDS 3.73%	SA MID CAPS 18.90%
SA TOP 40 6.01%	SA EQUITY 1.58%	SA MID CAPS 2.41%	SA SMALL CAPS 3.33%	SA PROPERTY 16.58%
SA EQUITY 5.87%	SA PROPERTY 1.55%	SA BONDS 1.90%	SA EQUITY 1.56%	SA EQUITY 16.02%
SA MID CAPS 3.15%	SA TOP 40 1.30%	SA EQUITY 0.97%	SA TOP 40 1.14%	SA TOP 40 15.20%
SA CASH 0.28%	SA CASH 0.31%	SA TOP 40 0.62%	SA CASH 0.31%	SA BONDS 3.86%
SA BONDS 0.06%	SA BONDS -2.54%	SA CASH 0.30%	SA PROPERTY -3.23%	SA CASH 1.52%

Source: Morningstar & Glacier Research

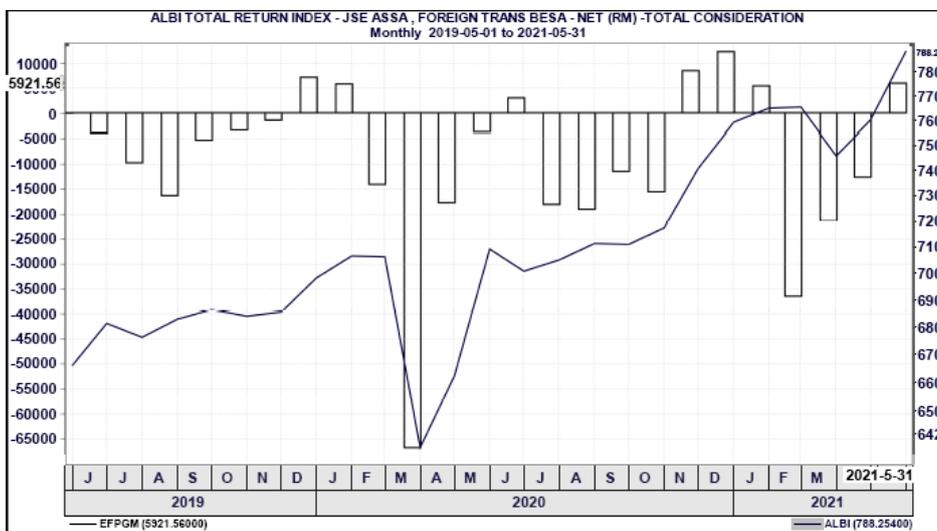
In terms of sectors, the majority of the returns were positive, with financials (+9.30%) taking the lead followed by industrials (+2.62%) and resources having a challenging month (-1.24%). SA Industrials was up 1.59%.

LOCAL SECTOR RETURNS IN ZAR				
February 2021	March 2021	April 2021	May 2021	2021 - YTD
RESOURCES 11.57%	GENERAL RETAILERS 12.30%	GENERAL RETAILERS 5.85%	CONSUMER SERVICES 12.04%	GENERAL RETAILERS 35.86%
FINANCIALS 4.79%	CONSUMER SERVICES 6.68%	CONSUMER SERVICES 3.74%	FINANCIALS 9.30%	CONSUMER SERVICES 29.90%
GENERAL RETAILERS 4.64%	INDUSTRIALS 4.63%	INDUSTRIALS 3.00%	CONSUMER GOODS 4.14%	RESOURCES 20.57%
INDUSTRIALS 4.04%	SA INDUSTRIALS 1.86%	RESOURCES 2.85%	INDUSTRIALS 2.62%	INDUSTRIALS 19.83%
CONSUMER SERVICES 2.70%	FINANCIALS 1.73%	FINANCIALS 1.46%	SA INDUSTRIALS 1.59%	FINANCIALS 15.15%
CONSUMER GOODS 2.33%	RESOURCES 1.21%	SA INDUSTRIALS -1.19%	GENERAL RETAILERS 1.16%	SA INDUSTRIALS 13.38%
SA INDUSTRIALS 2.31%	CONSUMER GOODS -0.79%	CONSUMER GOODS -1.85%	RESOURCES -1.24%	CONSUMER GOODS 8.63%

Source: Morningstar & Glacier Research



Source: IRESS May 2021



Source: IRESS May 2021

Global markets

Global equity markets continued their positive run supported by strong economic data. However, markets were constrained by concerns that upside data surprises may result in more persistent inflation. In addition, progress in the rollout of COVID-19 vaccinations in a number of countries, despite supply problems, also boosted sentiment. Thus, global equity markets ended the month of May higher. Most equity sectors experienced positive returns with the S&P 500, MSCI World AC and MSCI Developed Market indices returning +0.70%, +1.56% and +1.44% respectively, in dollar terms. From a sector perspective, sectors were mixed, with basic materials, energy and financial services leading the pack. Consumer cyclicals and utilities were the laggards during the month. The price of Brent crude oil increased from US\$62.74 to close at US\$69.33 a barrel, as higher commodity prices have contributed to higher inflation expectations, which had a positive impact on oil producers. On a global equity style basis, using the MSCI World style indices, value was the top-performing style (+2.94%), followed by quality (+1.53%), growth (-0.16%) and lastly momentum delivering -1.05% in dollar terms. Both global equity and global bonds were positive during the month.

United States

US equity markets performed positively during the month, on the back of strong economic data and the US' continued position as the global leader in the vaccination rollout programme. As a result, the S&P 500 delivered 0.70% in dollar terms. During the month, US corporate earnings for the first quarter were much stronger than expected. S&P 500 companies reported earnings growth of 47% (y/y) relative to consensus expectations for 20% growth. On the macroeconomic front, the US Manufacturing Purchasing Managers' Index (PMI) increased to 62.1 in May from 60.5 in April. The change points to another record growth in factory activity, supported by stronger expansions in output and new orders, with the pace of the latter reaching the fastest on record. The US Services PMI rose to 70.4 in May from 64.7 in April. The reading signalled the sharpest rate of expansion since inception, amid greater customer confidence and the reopening of non-essential businesses. New order growth accelerated to the fastest on record, with new export business rising the most since August 2020, while the pace of job creation remained solid. The US unemployment rate dropped to 5.8% in May from 6.1% in the previous month. The number of unemployed people declined by 496 000 to 9.32 million. However, the jobless rate remains above the pre-pandemic levels as the recovery from the COVID-19 shock showed signs of slowing. The annual inflation rate in the US increased to 5% in May of 2021 from 4.2% in April, which was mainly driven by gasoline (56.2%), used cars and trucks (29.7%), utility gas service (13.5%), transportation services (11.2%) and apparel (5.6%).

Eurozone

European equity markets advanced during the month, on the positive acceleration in the rate of vaccinations and the continued pickup in economic activity across the region. As a result, the Euro Stoxx finished 2.30% higher in euro terms. On the macroeconomic front, the Eurozone Manufacturing PMI jumped to 63.1 in April from 62.9 in March and beating expectations. The reading pointed to fresh record growth in factory activity. Output growth was the slowest in three months, though it remained close to March's record with production again underpinned by rapid gains in new orders. The Eurozone Services PMI rose to 55.5 in April from 50.5 in the previous month. The latest reading points to the strongest pace of expansion since June 2018. All nations recorded an improvement in activity since April, with Ireland and Spain leading the way, following the easing of COVID-19 restrictions.

United Kingdom

UK equity markets were in positive territory during the month, supported by the continued successful vaccination rollout and the subsequent easing in restrictions. In addition, it is now estimated that 70% of adults have antibodies against the coronavirus, and the UK should be on a sustainable path to reopening. As a result, the FTSE 100 finished 1.08% higher in pound terms. On the data front, the Purchasing Managers' Index increased to 65.6 in April from 60.9 in March. The reading still points to the steepest pace of expansion in the UK manufacturing sector since a record growth rate hit in July 1994, due to a loosening of lockdown restrictions. The UK Services PMI rose to 61 in April from 56.3 in the previous month. The latest reading suggests a record growth in factory activity as output growth strengthened and new orders rose at the quickest pace since inception. Looser pandemic restrictions and high levels of pent-up demand meant that the rapid revival in labour market conditions continued, with staffing levels also rising at a record pace. Retail sales in the UK surged 9.2% month-over-month in April of 2021, reflecting the effect of the easing of coronavirus restrictions including the re-opening of all non-essential retail from mid-April. In addition, clothing sales grew by an astonishing 70% over the prior month.

Spot Rates	31 May 2019	31 May 2020	31 May 2021
EUR/USD	1.12	1.11	1.22
GBP/USD	1.26	1.24	1.42
USD/JPY	108.26	107.82	109.59

Source: IRESS

Emerging markets and Asia

Emerging markets delivered positively during the month, outperforming their developed market counterpart. The MSCI EM index returned 2.32%, while the MSCI Developed World delivered 1.44% in dollar terms. Leading the gains were Russia, India and Brazil which were supported by rising commodity prices and a steady drop in the number of new COVID-19 cases.

GLOBAL RETURNS IN ZAR				
February 2021	March 2021	April 2021	May 2021	2021 - YTD
EURO STOXX 50 5.10%	EURO STOXX 50 1.84%	GLOBAL PROPERTY 5.33%	SHANGHAI STOCK EXCHANGE 0.83%	GLOBAL PROPERTY 7.76%
GLOBAL PROPERTY 4.07%	S&P 500 1.76%	S&P 500 3.49%	EURO STOXX 50 -1.74%	EURO STOXX 50 7.59%
FTSE 100 4.06%	MSCI WORLD 0.73%	MSCI WORLD 2.82%	FTSE 100 -1.86%	FTSE 100 7.29%
S&P 500 3.40%	GLOBAL PROPERTY 0.46%	FTSE 100 2.64%	MSCI EM -3.24%	S&P 500 5.19%
MSCI WORLD 3.20%	FTSE 100 0.21%	EURO STOXX 50 2.46%	GLOBAL PROPERTY -3.77%	MSCI WORLD 4.04%
SHANGHAI STOCK EXCHANGE 1.83%	MSCI EM -3.98%	MSCI EM 0.69%	MSCI WORLD -4.07%	MSCI EM 0.19%
MSCI EM 1.39%	GLOBAL BONDS -4.38%	SHANGHAI STOCK EXCHANGE -0.22%	GLOBAL BONDS -4.54%	SHANGHAI STOCK EXCHANGE -0.74%
GLOBAL BONDS -1.11%	SHANGHAI STOCK EXCHANGE -6.91%	GLOBAL BONDS -0.51%	S&P 500 -4.77%	GLOBAL BONDS -8.79%

Source: Morningstar & Glacier Research