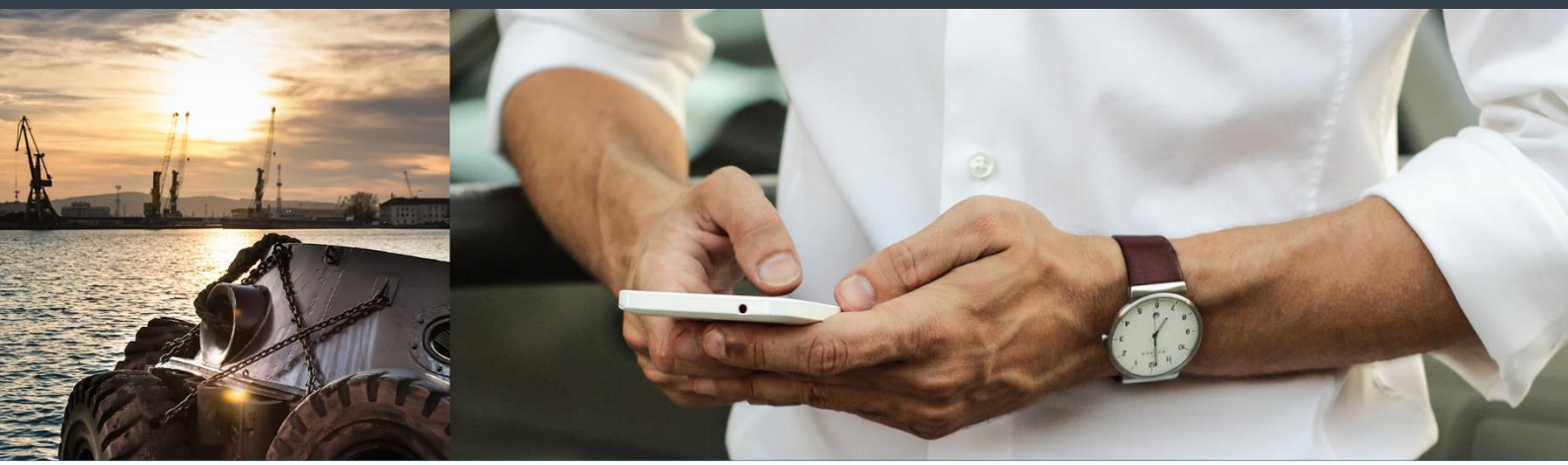
ECONOMIC REPORT

by Glacier Research

glacier by Sanlam



30 April 2021

Review period: March 2021

Introduction

Domestic equity markets extended their monthly gains in March. Prospects of economic recovery continue to weigh on sentiment with news of COVID-19 vaccine rollouts. Notably, South Africa has secured nine million doses of the Johnson & Johnson vaccine and 20 million doses of the Pfizer vaccine with the government's intention to have 40 million South Africans vaccinated by the end of 2021. On the economic front, GDP growth for the fourth quarter made some notable moves to the upside, extending its growth from the previous quarter, supported by easing lockdown restrictions. Globally, equity markets remained robust with the S&P 500 and Nasdaq gaining 4.24% and 1.24%. A rise in US bond yields continues to weigh on sentiment as market participants fear that the $1.9 trillion stimulus package might cause the return of inflation in the long term. On the commodity front, Brent crude oil rose by 4% due to the Suez Canal blockage taking longer than expected to clear.

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Domestic Highlight

- Monetary Policy Committee leaves interest rates unchanged
- SA GDP for the fourth quarter of 2020

Monetary Policy Committee leaves interest rates unchanged

The South African Reserve Bank (SARB) unanimously kept the repo rate unchanged at 3.5%. They expect the South African economy to grow by about 3.8% in 2021, which is better than the prior forecast of 3.6%. However, getting the economy back to pre-pandemic output levels will take time. 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 GDP for the fourth quarter of 2020

South Africa's GDP continued its upward trajectory in the fourth quarter of 2020, advancing by an annualised 6.3% quarter-on-quarter as easing lockdown restrictions were supportive of economic activity. The notable rebound in economic growth came in the third quarter with a surge of 67.3% after a steep contraction of 51.7% in the second quarter. Important to highlight is the fact that this sharp growth comes off a low base and the SA economy is 4.7% below the peak level of output of 2019. On a sectoral basis, general retailers (12.30%), consumer services (6.68%) and industrials (+4.63%) were the biggest drivers.

SA economy

Sentiment towards economic recovery remains sound as global growth is expected to stage a recovery. However, retail sales figures released for January showed a drop of 3.5% mainly attributed to the contraction in food, beverages and tobacco stores which were severely hit by the alcohol ban. On a positive note, South Africa's trade surplus widened to R29 billion as exports increased by 16.5% on a month-on-month basis. Imports rose by 1.6%. Consumer price inflation surprised on the downside coming in at 2.9% year-on-year, which is now below the SARB's target range of 3% to 6%. The rand remained relatively constant during March, hovering at around R15/$ - eventually strengthening by 2.5% against the dollar for the month.

	Oct'20	Nov'20	Dec'20	Jan'21	Feb'21	Mar'21
CPI (y/y)	3.3%	3.2%	3.1%	3.2%	2.9%	3.2%
PPI (y/y)	2.7%	3.0%	3.0%	3.5%	4.0%	5.2%

Sources: Trading Economics

	31 March 2019	31 March 2020	31 March 2021
USD/ZAR	14.49	17.85	14.78
GBP/ZAR	18.90	22.15	20.37
EUR/ZAR	16.26	19.71	17.33

Source: IRESS

SA markets

Local equity markets continued their rally, driven by resources stocks which made some strong moves to the upside as the global macro backdrop remained supportive. Small-cap stocks turned in solid performance, advancing 7.65% as prospects of a rebound in the economy weighed on sentiment. Large-cap and mid-cap stocks were up 1.30% and 3.35%. Continuing its rally, property gained 1.55%. Bonds performed dismally, closing 2.54% lower. Yields on the longer end came under some pressure, especially the 12+ years maturity which sold off 4.25%, while the seven to 12-year area of the curve saw losses of 2.43%. The SARB's decision to keep repo rates unchanged and growth in economic growth in the fourth quarter were supportive to the shorter end of the curve. The one to three-year area returned 0.34%. Inflation-linked bonds retreated marginally by 0.12%.

Foreigners were net buyers of R2.36 billion worth of SA equities and net sellers of R21.36 billion worth in SA bonds.

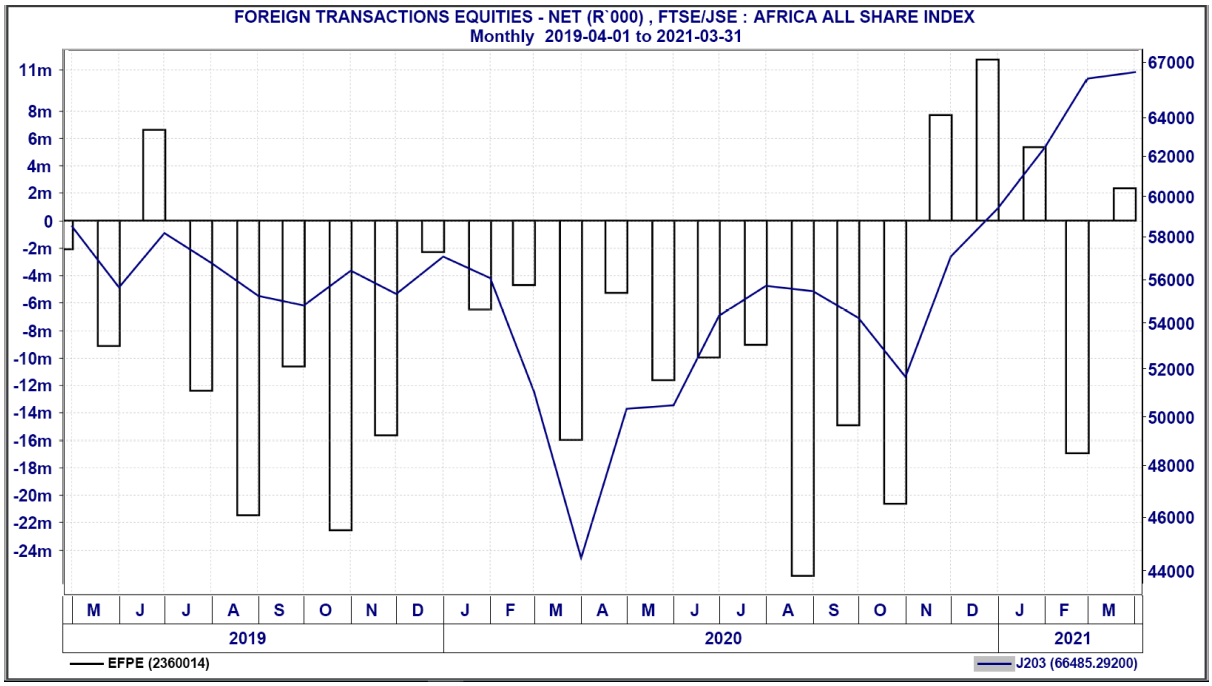
LOCAL RETURNS IN ZAR				
December 2020	**January 2021**	**February 2021**	**March 2021**	**Year-to-date**
SA PROPERTY 13.27%	SA TOP 40 5.41%	SA PROPERTY 9.70%	SA SMALL CAPS 7.65%	SA SMALL CAPS 21.22%
SA MID CAPS 6.62%	SA EQUITY 5.21%	SA SMALL CAPS 8.40%	SA MID CAPS 3.35%	SA TOP 40 13.19%
SA SMALL CAPS 5.41%	SA SMALL CAPS 3.88%	SA TOP 40 6.01%	SA EQUITY 1.58%	SA EQUITY 13.14%
SA EQUITY 4.24%	SA MID CAPS 2.59%	SA EQUITY 5.87%	SA PROPERTY 1.55%	SA MID CAPS 9.36%
SA TOP 40 3.98%	SA BONDS 0.76%	SA MID CAPS 3.15%	SA TOP 40 1.30%	SA PROPERTY 8.05%
SA BONDS 2.44%	SA CASH 0.31%	SA CASH 0.28%	SA CASH 0.31%	SA CASH 0.90%
SA CASH 0.31%	SA PROPERTY -3.01%	SA BONDS 0.06%	SA BONDS -2.54%	SA BONDS -1.74%

Source: Morningstar & Glacier Research

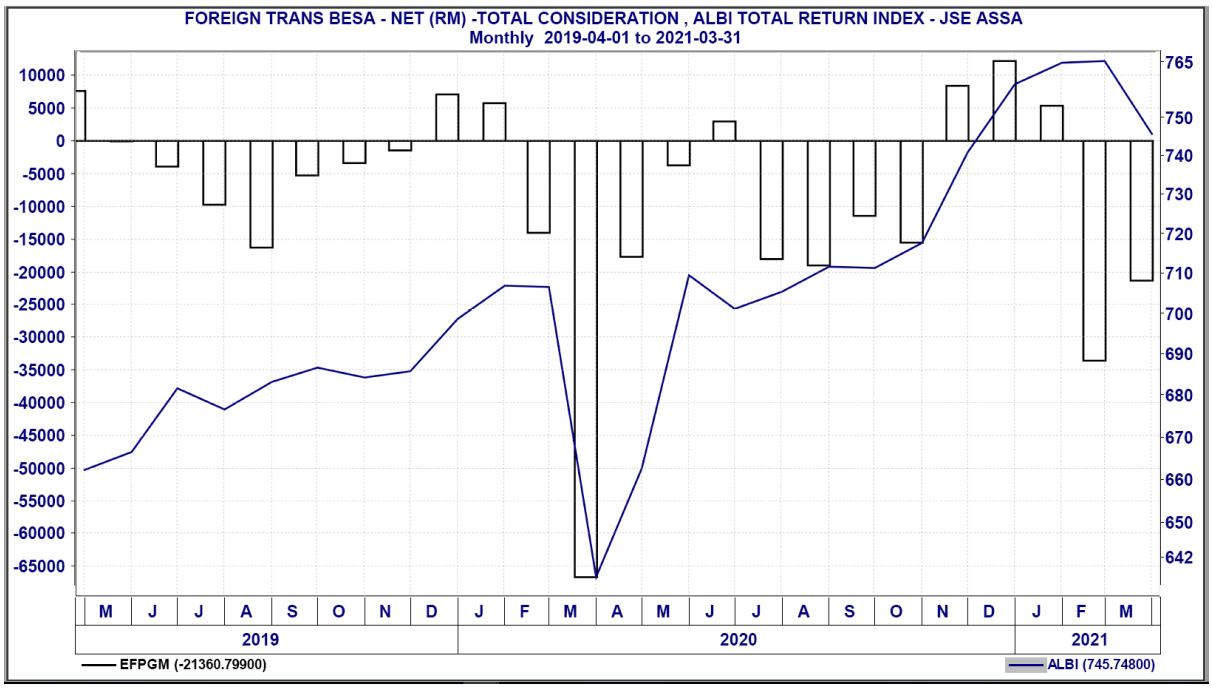
In terms of sectors, returns were positive across the board with industrials (4.63%) taking the lead, followed by financials (1.73%) and resources (1.21%). SA industrials were up 1.86%.

LOCAL SECTOR RETURNS IN ZAR				
December 2020	January 2021	February 2021	March 2021	Year-to-date
RESOURCES 9.48%	SA INDUSTRIALS 8.38%	RESOURCES 11.57%	GENERAL RETAILERS 12.30%	GENERAL RETAILERS 26.88%
FINANCIALS 8.33%	GENERAL RETAILERS 7.98%	FINANCIALS 4.79%	CONSUMER SERVICES 6.68%	RESOURCES 18.70%
GENERAL RETAILERS 4.97%	RESOURCES 5.12%	GENERAL RETAILERS 4.64%	INDUSTRIALS 4.63%	INDUSTRIALS 13.38%
CONSUMER SERVICES 3.17%	CONSUMER GOODS 4.68%	INDUSTRIALS 4.04%	SA INDUSTRIALS 1.86%	SA INDUSTRIALS 12.95%
INDUSTRIALS 2.02%	INDUSTRIALS 4.15%	CONSUMER SERVICES 2.70%	FINANCIALS 1.73%	CONSUMER SERVICES 11.75%
CONSUMER GOODS 1.30%	CONSUMER SERVICES 2.01%	CONSUMER GOODS 2.33%	RESOURCES 1.21%	CONSUMER GOODS 6.28%
SA INDUSTRIALS -0.96%	FINANCIALS -2.60%	SA INDUSTRIALS 2.31%	CONSUMER GOODS -0.79%	FINANCIALS 3.84%

Source: Morningstar & Glacier Research



Source: IRESS March 2021



Source: IRESS March 2021

Global markets

Global equity markets continued its advance during the month amid optimism over the acceleration of the global recovery and supportive central banks. In addition, the continued rollout of massive fiscal stimulus fuelled investor sentiment. Global equity markets ended the month of March higher. Most equity sectors experienced positive returns with S&P 500, MSCI World AC and MSCI Developed Market returning 4.24%, 2.46% and 3.11% in dollar terms. From a sector perspective, all were positive with utilities, industrials and consumer staples leading the pack. Information technology and energy were the laggards during the month. On a global equity style basis using the MSCI World style indices, value was the top-performing style (5.71%), followed by quality (3.81%), growth (0.83%) and lastly momentum, delivering 0.25% in dollar terms. The price of Brent crude oil fell from US$64.42 to close at US$62.74 a barrel as concerns over weaker demand put an end to the recent rally. In addition, concerns about demand were driven by several European countries re-imposing lockdowns and halting vaccination programmes. While global equities were positive, global bonds were negative during the month.

United States

US equity markets returned positively for the month amid optimism of a successful vaccine rollout programme, easing lockdown measures and signs of a recovering economy. US small-caps stocks led the gains, delivering 3.19% for the month. Overall, the S&P 500 delivered 4.24% in dollar terms. The Joe Biden administration finally signed into law the "American Rescue Plan" of USD 1.9 trillion. On the macroeconomic front, the US Manufacturing Purchasing Managers' Index (PMI) increased to 59.1 in March of 2021 from 58.6 last month. The change points to the steepest rise in new orders since June 2014 although production was reportedly held back by supply shortages. The US Services PMI rose to 60.4 in March of 2021 from 58.8 in February. The reading signalled a strongest expansion in the service sector since July 2014 as new orders rose sharply amid stronger client demand and the loosening of COVID-19 restrictions in some states. The US unemployment rate decreased to 6% in March of 2021 from 6.2% in the previous month. The number of unemployed people decreased by 262 000 to 9.70 million. However, the jobless rate remains above pre-pandemic levels as the recovery from the COVID-19 shock showed signs of slowing. The annual inflation rate in the US increased to 2.6% in March of 2021 from 1.7% in February, mainly driven by energy, gasoline and utilities.

Eurozone

European equity markets advanced during the month on positive earnings announcements and a continued pickup in economic activities across the region. As a result, the Euro Stoxx finished 7.75% higher in euro terms. On the macroeconomic front, the Eurozone Manufacturing PMI jumped to 62.5 in March of 2021 from 57.9 in February and beating expectations. The reading pointed to output and increase in new orders at record rates, helped by the fastest increase in export orders since inception. Purchasing activity posted the sharpest expansion ever. The Eurozone Services PMI rose to 49.6 in March of 2021 from 45.7 in the previous month. The latest reading suggests a marginal rate of contraction – the slowest over this period.

United Kingdom

UK equity markets were in positive territory during the month on positive vaccine rollout progress and a brighter outlook for the economy. As a result, the FTSE 100 finished 3.55% higher in pound terms. The UK governments vaccination campaign has progressed remarkably well with 58% of adults having received their first shot. On the data front, the PMI increased to 58.9 in March of 2021 from 55.1 in February. The reading points to the steepest month of expansion in factory activity since February 2011, supported by stronger demand from both domestic and overseas markets.

Spot Rates	31 March 2019	31 March 2020	31 March 2021
EUR/USD	1.12	1.10	1.17
GBP/USD	1.30	1.24	1.38
USD/JPY	110.86	107.57	110.72

Source: IRESS

Emerging Markets and Asia

Emerging markets delivered negatively during the month, underperforming its developed markets counterpart. The MSCI EM index returned -1.70% while the MSCI Developed World delivered 3.11% in dollar terms. Markets were dampened by an appreciating US dollar and falling commodity prices as rising inflationary pressures incited interest rate hikes in Russia, Brazil and Turkey. Within the region, Japanese equity led the gains as sentiment was aided by the improved global growth outlook and better visibility surrounding the recovery in corporate profitability. In China, equity markets underperformed the region amidst tightened regulatory measures.

GLOBAL RETURNS IN ZAR				
December 2020	January 2021	February 2021	March 2021	Year-to-date
MSCI EM 1.89%	MSCI EM 5.62%	EURO STOXX 50 5.10%	EURO STOXX 50 1.84%	EURO STOXX 50 6.86%
FTSE 100 0.37%	SHANGHAI STOCK EXCHANGE 4.09%	GLOBAL PROPERTY 4.07%	S&P 500 1.76%	S&P 500 6.74%
MSCI WORLD -1.06%	FTSE 100 2.13%	FTSE 100 4.06%	MSCI WORLD 0.73%	FTSE 100 6.51%
SHANGHAI STOCK EXCHANGE -1.15%	GLOBAL PROPERTY 1.67%	S&P 500 3.40%	GLOBAL PROPERTY 0.46%	GLOBAL PROPERTY 6.30%
EURO STOXX 50 -1.20%	GLOBAL BONDS 1.57%	MSCI WORLD 3.20%	FTSE 100 0.21%	MSCI WORLD 5.48%
GLOBAL PROPERTY -1.29%	MSCI WORLD 1.46%	SHANGHAI STOCK EXCHANGE 1.83%	MSCI EM -3.98%	MSCI EM 2.83%
S&P 500 -1.44%	S&P 500 1.44%	MSCI EM 1.39%	GLOBAL BONDS -4.38%	SHANGHAI STOCK EXCHANGE -1.33%
GLOBAL BONDS -3.81%	EURO STOXX 50 -0.16%	GLOBAL BONDS -1.11%	SHANGHAI STOCK EXCHANGE -6.91%	GLOBAL BONDS -3.96%

Source: Morningstar & Glacier Research