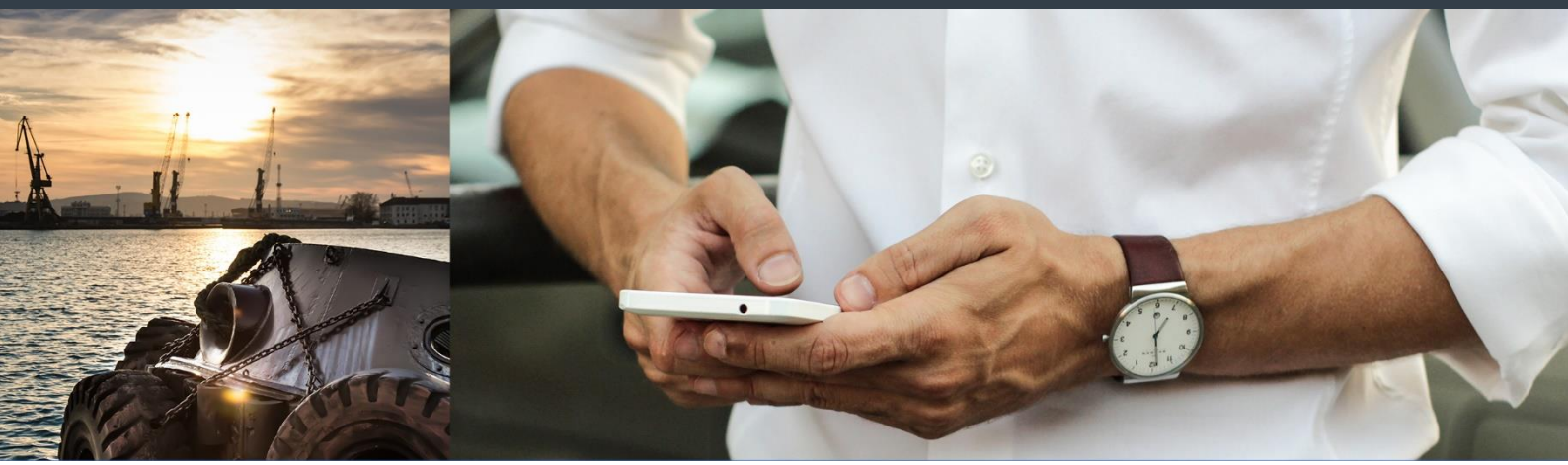
ECONOMIC REPORT

by Glacier Research

glacier by Sanlam



Review period: October 2021

Introduction

In the month of October, local equity markets staged a notable move to the upside, rebounding handsomely from the sell-off experienced in the previous two months. Resources stocks were the largest contributor to performance after their downturn in the last two months. The weakness in the rand was supportive to large cap rand-hedge counters, while financials and property edged lower. On the economic front, despite the IMF lowering its projections of global economic growth, it lifted SA's economic growth projections. On the global side, inflation remains concerning factor in global markets, as labour and supply chain issues continue to cause inflationary pressures. This is despite the Fed's firm position on the transitory nature of inflation. Rising oil prices also weighed positively on the energy sector. Despite bond yields touching a high of 1.7% during the month, global equity markets were broadly stronger, thanks to robust corporate earnings.

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

- IMF economic projections

IMF economic projections

The IMF lowered its 2021 global growth forecast from 6% to 5.9% on the back of the impact of the COVID-19 delta variant. Global growth expectations for 2022 were left unchanged at 4.9%, citing downside risks and a concern about a more aggressive variant of COVID-19 that could emerge before required vaccination levels are achieved. The IMF also sees global inflation risk to be more on the upside, which could lead to monetary policy tightening by central banks. Locally, the IMF lifted SA's economic growth forecast by 1% to 5% in 2021 and left the 2022 forecast unchanged at 2.2%. While the IMF is upbeat on SA's short-term outlook, it does, however, see a slightly concerning picture in the medium-term, citing fiscal deterioration and projecting a gross debt-to-GDP of 82.9% by 2026. Rising unemployment and political issues were other key issues mentioned.

SA economy

The slow pace of vaccinations and limited energy supply continue to pose risks for SA's economic growth trajectory. In October, lockdown restrictions were considerably eased, to level 1 - allowing more than 750 people or 50% capacity indoors, and 2000 people outdoors. This weighed positively on growth sentiment and was also supportive to local government election campaigning. The rise in oil price accompanied by the weakness in the currency bodes ill for local inflation, however, monetary policy seems to be holding firm from an accommodative point of view. Manufacturing activity (53.6) has been trending lower for the last 3 months, albeit still in above the 50-mark, this while business confidence is at contraction territory (below 50). Vehicle sales also edged lower in October, down from 43 146 in September to 41 035 in October.

SA markets

Local equity markets rebounded handsomely this month, after a two-month losing streak. The rally in resources contributed positively, while the weaker rand supported large cap rand-hedge counters. The JSE All Share was up 5.15% for the month. From a market cap perspective, Large caps (+5.27%) led the gains followed by small caps (+3.12%) and mid-caps (+1.16%) which also turned in positive performance. Meanwhile, Property was the worst performing asset class, falling 1.39%. On the fixed income side, bonds closed 0.48% lower, with the belly of the curve experiencing most of the losses while the back end of the curve added marginal gains. The 12 year+ area was up 0.43% while the 7–12-year area lost 1.31% and the 3–7-year area lost 1.54%. Coming to the front-end of the curve, the 1–3-year area lost 0.11%, while Cash delivered 0.31%. Inflation-linked bonds gained 0.51% while preference shares advanced 10.86%.

Foreigners were net sellers of R20 billion worth of SA equities and net sellers of R30.2 billion worth in SA bonds during the month.

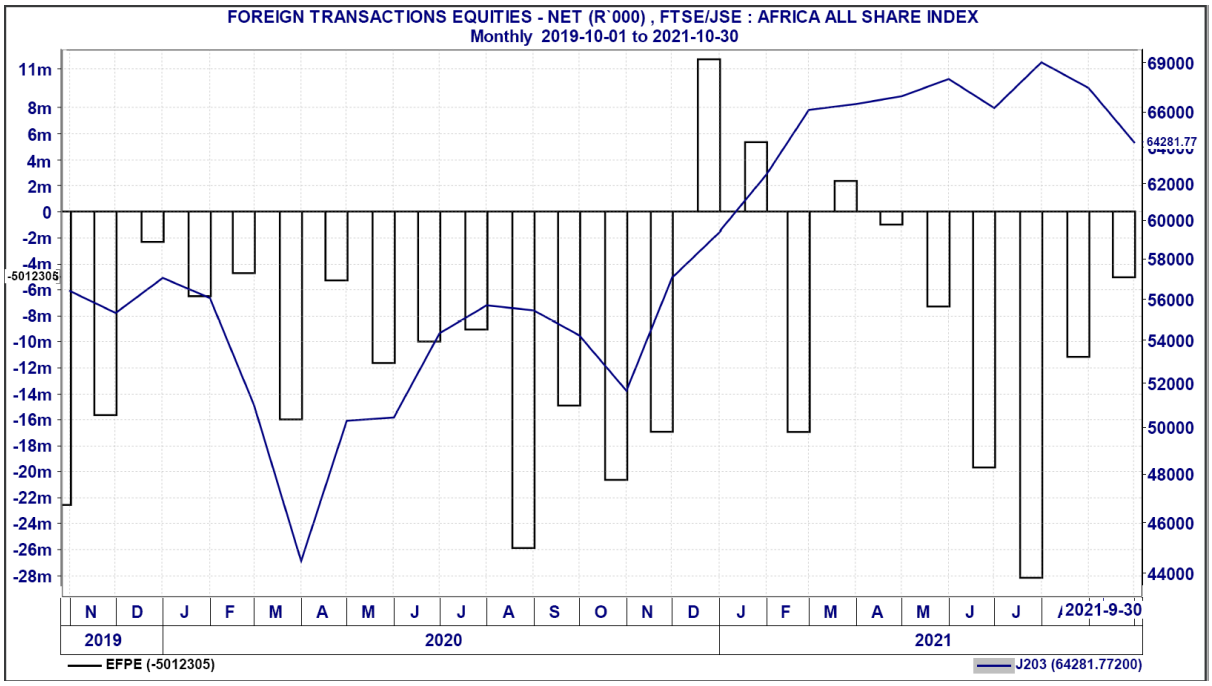
LOCAL RETURNS IN ZAR				
2020	August 2021	September 2021	October 2021	Year-to-date
SA TOP 40 9.97%	SA PROPERTY 7.12%	SA SMALL CAPS 5.58%	SA TOP 40 5.27%	SA SMALL CAPS 50.85%
SA BONDS 8.65%	SA SMALL CAPS 7.02%	SA MID CAPS 0.52%	SA EQUITY 5.15%	SA PROPERTY 26.09%
SA EQUITY 7.00%	SA MID CAPS 3.71%	SA CASH 0.31%	SA SMALL CAPS 3.12%	SA MID CAPS 25.57%
SA CASH 5.39%	SA BONDS 1.70%	SA PROPERTY -0.21%	SA MID CAPS 1.16%	SA EQUITY 18.03%
SA SMALL CAPS -0.28%	SA CASH 0.32%	SA BONDS -2.12%	SA CASH 0.30%	SA TOP 40 16.27%
SA MID CAPS -14.37%	SA EQUITY -1.74%	SA EQUITY -3.14%	SA BONDS -0.48%	SA BONDS 4.87%
SA PROPERTY -35.53%	SA TOP 40 -2.39%	SA TOP 40 -3.56%	SA PROPERTY -1.39%	SA CASH 3.12%

Source: Morningstar & Glacier Research

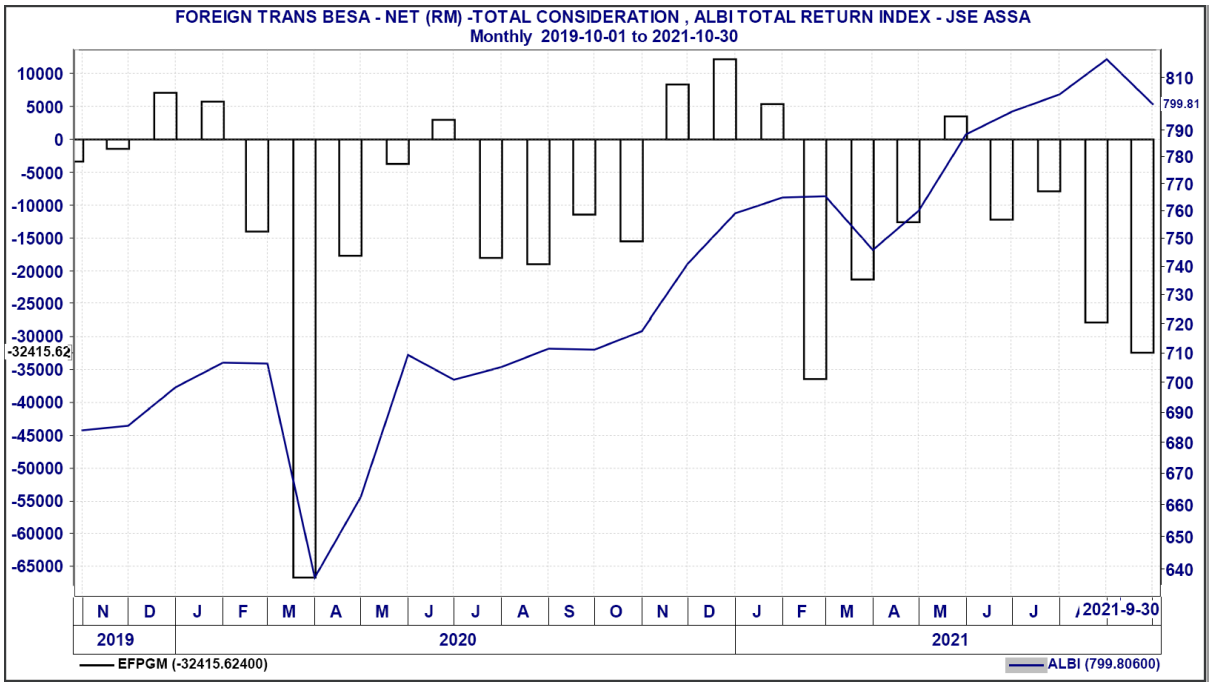
In terms of sectors, Resources were the leading contributors, gaining 8.39% followed by SA industrials which gained 6.69%, while Industrials edged up 1.65%. Financials bucked the trend, losing 3.16%.

LOCAL SECTOR RETURNS IN ZAR				
2020	August 2021	September 2021	October 2021	Year-to-date
RESOURCES 21.20%	GENERAL RETAILERS 12.77%	FINANCIALS 2.08%	CONSUMER SERVICES 15.82%	GENERAL RETAILERS 77.09%
CONSUMER GOODS 13.31%	FINANCIALS 12.28%	GENERAL RETAILERS 0.92%	GENERAL RETAILERS 11.51%	CONSUMER SERVICES 45.14%
SA INDUSTRIALS 12.00%	CONSUMER GOODS 4.43%	SA INDUSTRIALS -0.77%	RESOURCES 8.39%	INDUSTRIALS 26.31%
CONSUMER SERVICES -8.80%	INDUSTRIALS 0.94%	CONSUMER GOODS -0.95%	SA INDUSTRIALS 6.69%	FINANCIALS 22.43%
GENERAL RETAILERS -15.39%	SA INDUSTRIALS -4.45%	CONSUMER SERVICES -2.64%	INDUSTRIALS 1.65%	RESOURCES 17.92%
FINANCIALS -19.67%	RESOURCES -4.79%	INDUSTRIALS -2.82%	CONSUMER GOODS 1.47%	CONSUMER GOODS 16.68%
INDUSTRIALS -20.67%	CONSUMER SERVICES -9.77%	RESOURCES -9.30%	FINANCIALS -3.16%	SA INDUSTRIALS 16.22%

Source: Morningstar & Glacier Research



Source: IRESS October 2021



Source: IRESS October 2021

Global markets

Global equity markets regained momentum in October, supported by a strong quarter three earnings season - the majority of companies beating earnings expectations, along with progress in the Chinese property sector – after having experienced spill over effects from Chinese developer, Evergrande's mounting debt levels which caused anxiety for global investors about the company's ability to repay its total of $300 billion in debt. Investor concerns around the sector has eased slightly after the property developer agreed to settle interest payments on a domestic bond that had previously been missed. Supply chains continue to be disrupted, however, leading to higher prices, order backlogs, and longer delivery times. As a result, global equity markets ended the month of October higher. Most equity indices experienced positive returns, the S&P 500, MSCI World AC and MSCI Developed Market returning 7.01%, 5.10% and 5.66%, respectively, in dollar terms. From a sector perspective, most sectors were positive, with consumer discretionary, energy and information technology leading the pack. Consumer services and consumer staples were the laggards.

The price of Brent crude oil rose to close at US$83.60 (+10.72%) a barrel, due to expectations that the US would post an inventory build. Higher oil prices aided the performance of commodity and energy stocks as a result. The US 10-year Treasury yields reached a high of 1.70%, with Fed Chair, Jerome Powell's continuing with the belief that inflation pressures are transitory. Uncertainty continues to prevail in this regard, specifically how labour market and supply chain issues will drive impact medium inflation pressures. On a global equity style basis, momentum was the top-performing style (+7.52%), followed by quality (+6.75%), growth (+6.72%) and lastly value (+4.54%). Global equity was positive, while global bonds were negative during the month.

United States

US equity markets performed positively during the month, as a strong third quarter earnings season boosted market sentiment. As a result, the S&P 500 gained 7.01% (24.04% YTD), underperforming the NASDAQ which was up 7.29% (20.88% YTD) in dollar terms. On the macroeconomic front, the US Manufacturing Purchasing Managers' index (PMI) fell to 58.4 in October from 61.1 in September. Despite the decline, the US manufacturing industry is still expanding, although at a slower pace. There has been a healthier labour market in the US in recent months as both unemployment rate and initial jobless claims dropped. The US Services PMI stayed above 60 since March, representing the longest stretch in history. The annual inflation rate in the US rose to 5.4% in October 2021.

Tesla took centre stage during earnings season, as the company's market cap rose above $1 trillion, with the announcement of a deal with Hertz. In addition, growing climate action talk and the use of sustainable energy sources provided some strong tailwinds to the company's performance. Notable exceptions to the flurry of positive earnings results were Apple and Amazon. The tech giants were both significantly impacted by supply chain disruptions, resulting in downbeat quarterly results. Furthermore, Microsoft had swooped the title as the most valuable company in the world from Apple after posting strong earnings.

Eurozone

European equity markets advanced during the month, rebounding strongly from the falls in September. As a result, the Euro Stoxx 50 finished 5.15% (+21.85% YTD) higher in euro terms.

On the macroeconomic front, the Eurozone Manufacturing PMI fell to 54.3 in October 2021 from 56.2 in September 2021 largely driven by a weakness in services. Manufacturing was stable despite the supply bottlenecks and inflated energy costs, however, output experienced sharp drops and new orders as a result of domestic weakness. GDP for the third quarter was up 2.2% compared to the previous quarter, almost recovering to pre-Covid levels. The European Central Bank does, however, expect growth momentum to slow and that although supply chain bottlenecks are lasting longer than initially expected, should diminish in 2022. Meanwhile, the employment expectations indicator increased further in the eurozone, reaching its highest level since May 2018.

United Kingdom

UK equity markets were in positive territory during the month, as the economy continued to gain momentum - with positive data pushing stocks higher. As a result, the FTSE 100 finished 2.21% (+15.58% YTD) higher in pound terms. On the data front, the Purchasing Manager's Index rose to a three-month high, up to 56.8 in October of 2021 from 54.9 in September. Manufacturing output dropped to 50.6, resulting from continued capacity constraints, lengthy lead times and staff shortages. GDP rose by 0.4%, although lower than expected it reflects an uptick in economic activity. The recovery was largely driven by increased activity in accommodation and food services, arts and entertainment. Furthermore, the number of open jobs rose to a record high of 1.1m, while the average unemployment rate for the period fell to 4.5%, from 4.9% in the previous period.

Emerging markets and Asia

Emerging market equities delivered positively during the month, despite underperforming developed market counterparts. The MSCI EM index returned 0.99% (-0.27% YTD), while the MSCI Developed World delivered +5.66% (+19.44% YTD) in dollar terms. Emerging markets were largely supported by positive sentiment from developed markets, due to strong earnings releases, with over 80% of companies beating expectations. During the month Europe, Middle East, and Africa (EMEA) turned in strong returns, followed by emerging Asia - Latin American lagged, posting negative returns for October. Chinese equities posted positive returns, recovering some of the losses suffered in recent months, after progress in the battered property sector. Monthly economic data was, however, weaker than expected.

GLOBAL RETURNS IN ZAR				
July 2021	August 2021	September 2021	October 2021	2021 - YTD
GLOBAL PROPERTY 7.09%	SHANGHAI STOCK EXCHANGE 3.36%	SHANGHAI STOCK EXCHANGE 4.73%	S&P 500 8.11%	S&P 500 28.36%
S&P 500 4.88%	S&P 500 1.89%	GLOBAL BONDS 2.16%	GLOBAL PROPERTY 7.59%	GLOBAL PROPERTY 28.03%
MSCI WORLD 4.29%	MSCI EM 1.47%	FTSE 100 1.74%	MSCI WORLD 6.75%	MSCI WORLD 23.60%
GLOBAL BONDS 3.81%	MSCI WORLD 1.34%	MSCI EM -0.12%	EURO STOXX 50 6.08%	FTSE 100 19.93%
FTSE 100 3.18%	EURO STOXX 50 1.03%	MSCI WORLD -0.31%	FTSE 100 4.98%	EURO STOXX 50 19.26%
EURO STOXX 50 3.18%	GLOBAL PROPERTY 0.39%	S&P 500 -0.83%	SHANGHAI STOCK EXCHANGE 2.19%	SHANGHAI STOCK EXCHANGE 6.50%
SHANGHAI STOCK EXCHANGE -3.61%	FTSE 100 -0.11%	EURO STOXX 50 -1.37%	MSCI EM 2.03%	MSCI EM 3.20%
MSCI EM -4.44%	GLOBAL BONDS -1.53%	GLOBAL PROPERTY -2.32%	GLOBAL BONDS 0.79%	GLOBAL BONDS -0.96%

Source: Morningstar & Glacier Research