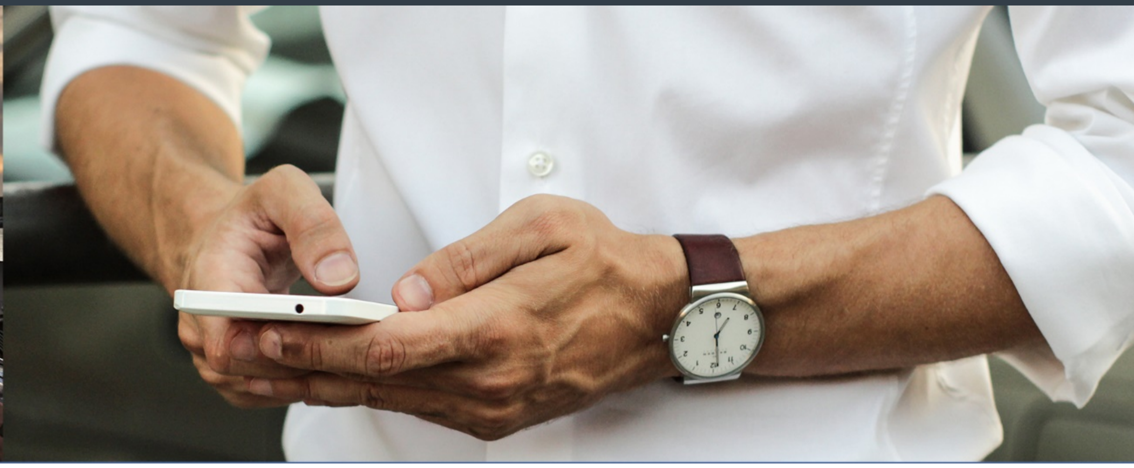
ECONOMIC REPORT
by Glacier Research

glacier
by Sanlam



28 February 2020

Review period: January 2020

Domestic Overview

After a handsome rally in December 2019, local equities experienced “a fall from grace” as the sharp weakness of the rand was not enough to even lift the market into positive territory in January, except for a few rand-hedge market darlings such as Naspers and British American Tobacco. Domestic equities remain out of favour as local headwinds of policy uncertainty, slow pace of reforms and fiscal woes prevail. Investors are rather finding value in local bonds given the attractive levels of real yields. Globally, the outbreak of the coronavirus took centre stage, raising concerns over its impact on global growth. As a result, developed and emerging market equities recorded disappointing performances in base currency. However, the sharp depreciation of the rand bolstered global returns in rand terms.

Domestic Highlights in January 2020

- SARB rate cut

SARB rate cut

The South African Reserve Bank unanimously decided to cut the repo rate by 25 basis points from 6.50% to 6.25% in the January 2019 meeting – in line with market expectations. The Reserve Bank further revised its growth forecast of the South African economy lower, from 0.5% to 0.4% in 2019.

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

Forecasts for 2020 and 2021 were also revised lower to 1.2% and 1.7%. Weak business confidence, electricity supply constraints, fiscal challenges and weak export growth were cited as key domestic headwinds confronting the economy. The Reserve Bank welcomed the lower inflation outcome and assessed its outlook to be evenly balanced, noting it would like to see inflation anchored closer to the 4.5% mark on a sustainable basis. The medium-term inflation outlook was revised significantly lower as the Quarterly Projection Model (QPM) suggested 4.1% in 2019, 4.7% in 2020 and 4.6% in 2021.

South Africa: Economy

The South African economy remains plagued with policy uncertainty, slow-paced reforms and enormous fiscal woes. Load shedding in January added to the woes, partly contributing to the sharp depreciation of the rand (7.18%). The currency (along with other emerging market currencies) was also battered by concerns over the outbreak of the coronavirus and its negative impact on global growth. The sharp sell-off is a reminder of how vulnerable the rand is to market shocks given the precarious state of the local economy. In other reports, the ABSA PMI was down to 45.2 in January from 47.1 in December, marking the fifth consecutive month of contraction. Vehicle sales also trended lower – from 41 683 in December to 39 475 in January – reflecting the dire state of the economy.

	Aug'19	Sep'19	Oct'19	Nov'19	Dec'19	Jan'20
CPI (y/y)	4.3%	4.1%	3.7%	3.6%	4.0%	4.5%
PPI (y/y)	4.5%	4.1%	3.0%	2.3%	3.4%	4.6%

Sources: Trading Economics

	31 January 2018	31 January 2019	31 January 2020
USD/ZAR	11.87	13.24	15.00
GBP/ZAR	16.88	17.36	19.81
EUR/ZAR	14.78	15.16	16.65

Source: IRESS

South Africa: Markets

Following the solid performance in December, local equity markets retreated in January despite the sharp weakness of the rand, which typically tends to be supportive of large-cap stocks (which are mostly rand-hedges). SA industrials was the only pocket of the market that offered value in January, bolstered by the rand-hedge effect in technology and consumer goods companies. The resources rally came to a standstill in January, halted by weaker commodity prices. As a result, the All Share Index (ALSI) was down 1.69%. After recording leading gains last month, mid-caps took the largest losses, delivering -3.12%, followed by large-caps which were down 1.44%. Losses in small-cap stocks were eased at -0.71%. Property (-3.30%) extended its losses to record the worst performance, across asset classes, once again.

Fixed income assets, cash and bonds, saved the month after delivering 0.58% and 1.19. On a stock level, market giants British American Tobacco and Naspers were up 10.32% and 7.42%. Intu Properties was the worst performer, surrendering 45.05% for the month. Foreigners were net sellers of R8.27 billion worth of SA equities and net buyers of R5.77 billion worth in SA bonds.

LOCAL RETURNS IN ZAR

2019	November 2019	December 2019	January 2020	Year-to-date
SA MID CAPS 15.58%	SA MID CAPS 0.61%	SA MID CAPS 4.70%	SA BONDS 1.19%	SA BONDS 1.19%
SA TOP 40 12.41%	SA CASH 0.56%	SA TOP 40 3.64%	SA CASH 0.58%	SA CASH 0.58%
SA EQUITY 12.05%	SA BONDS 0.22%	SA EQUITY 3.30%	SA SMALL CAPS -0.71%	SA SMALL CAPS -0.71%
SA BONDS 10.32%	SA PROPERTY -0.02%	SA BONDS 1.86%	SA TOP 40 -1.44%	SA TOP 40 -1.44%
SA CASH 7.29%	SA SMALL CAPS -1.20%	SA CASH 0.58%	SA EQUITY -1.69%	SA EQUITY -1.69%
SA PROPERTY -0.40%	SA EQUITY -1.80%	SA SMALL CAPS 0.21%	SA MID CAPS -3.12%	SA MID CAPS -3.12%
SA SMALL CAPS -4.10%	SA TOP 40 -2.03%	SA PROPERTY -1.57%	SA PROPERTY -3.30%	SA PROPERTY -3.30%

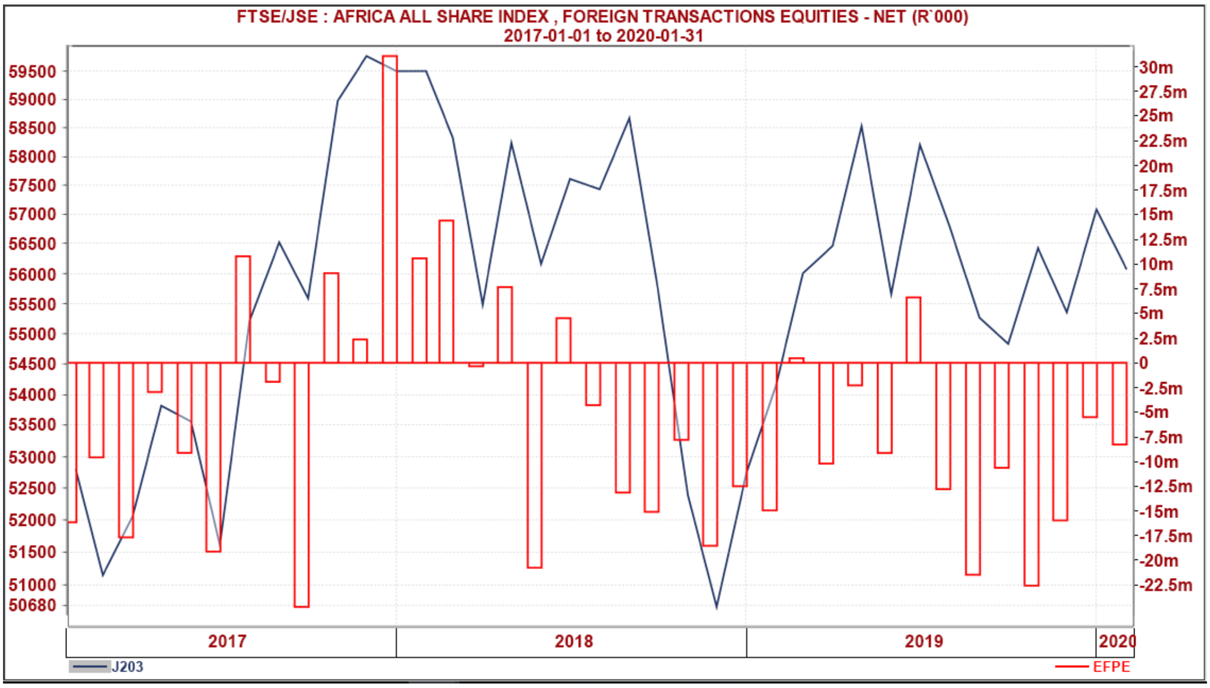
Source: Morningstar

In terms of sectors, industrials (-5.42%) and financials (-5.24%) recorded the largest losses for the month. After a year of glory, resources also joined the laggards - recording a loss of 3.48%.

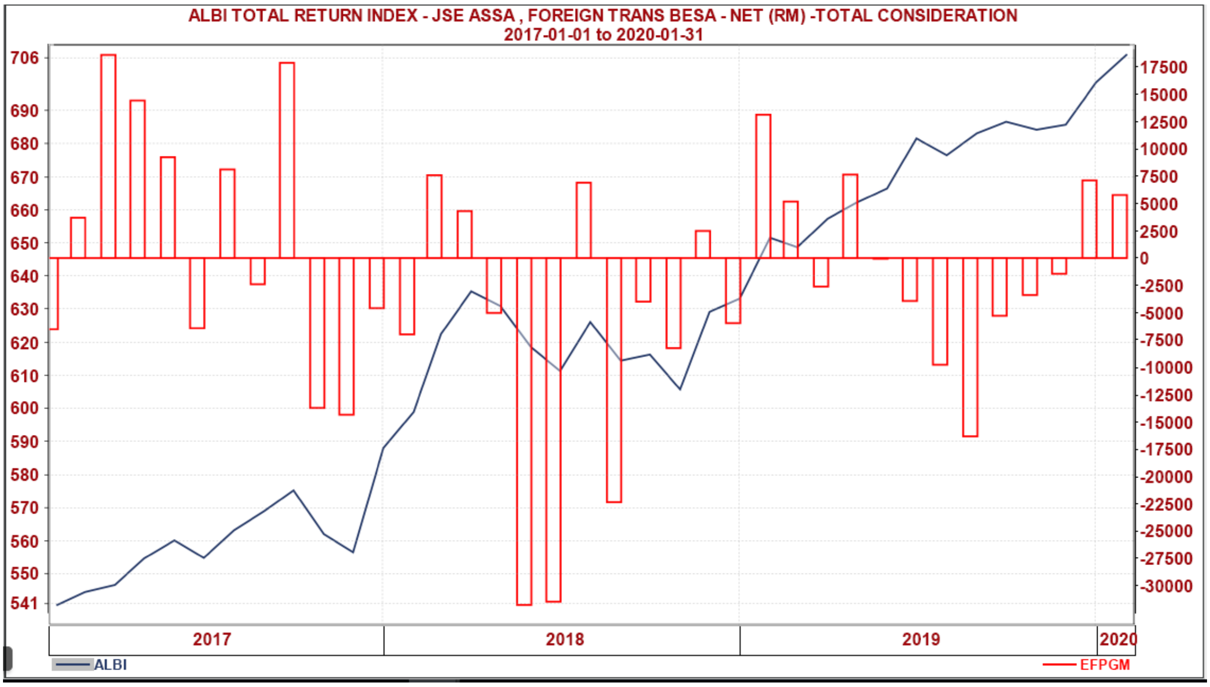
LOCAL SECTOR RETURNS IN ZAR

2019	November 2019	December 2019	January 2020	Year-to-date
RESOURCES 28.53%	RESOURCES -0.89%	RESOURCES 6.97%	SA INDUSTRIALS 1.56%	SA INDUSTRIALS 1.56%
CONSUMER GOODS 18.31%	FINANCIALS -1.47%	SA INDUSTRIALS 2.32%	CONSUMER GOODS 1.46%	CONSUMER GOODS 1.46%
SA INDUSTRIALS 8.90%	SA INDUSTRIALS -2.58%	INDUSTRIALS 0.83%	RESOURCES -3.48%	RESOURCES -3.48%
CONSUMER SERVICES 2.60%	CONSUMER GOODS -2.77%	FINANCIALS 0.74%	CONSUMER SERVICES -4.70%	CONSUMER SERVICES -4.70%
FINANCIALS 0.63%	GENERAL RETAILERS -2.98%	GENERAL RETAILERS 0.47%	FINANCIALS -5.24%	FINANCIALS -5.24%
INDUSTRIALS -8.91%	CONSUMER SERVICES -3.08%	CONSUMER GOODS 0.12%	INDUSTRIALS -5.42%	INDUSTRIALS -5.42%
GENERAL RETAILERS -18.37%	INDUSTRIALS -3.70%	CONSUMER SERVICES 0.02%	GENERAL RETAILERS -7.02%	GENERAL RETAILERS -7.02%

Source: Morningstar



Source: IRESS January 2020



Source: IRESS January 2020

Global Overview

The new year started off in a similarly buoyant fashion, after a stellar 2019 – spurred on by market optimism, following the signing of a Phase One trade deal between the US and China. Supportive economic data released across regions, also showed signs of improvement. In addition, major central banks are set to remain accommodative in the coming year. However, this was short-lived as volatility picked up towards the end of the month. Equity market optimism was hit by an unexpected black swan event, the novel coronavirus. Consequently, global equity markets ended the month of January in negative territory amid concerns about the rapid spread of the deadly coronavirus from China and its potential impact on the global economy.

Thus far, the virus has infected more than 7 711 people while killing 170 people. The virus has spread to more than ten countries, including the US, France, Australia and Canada. As a result, the MSCI World delivered -1.17% in dollar terms as sentiment turned and investors flocked to safe havens. The consumer-related and technology sectors were the best-performing sectors. Technology stocks were once again skewed towards the big 'players' such as Microsoft, Amazon and Alphabet. On the back of global growth concerns, the energy and materials sectors were the worst-performing sectors. On a global equity style basis, using the MSCI World style indices, momentum was the top-performing style (2.63%), followed by growth (1.69%), quality (0.55%) and lastly value, delivering -2.93% in dollar terms.

The price of Brent crude oil slumped from US$66.15 to close at US$58.16 a barrel. The prospect of a weaker global economy in the near term and associated weaker demand for oil led to a 12.08% fall in the price of Brent crude oil. Global bonds were positive while global equities were negative in dollar terms. Against this backdrop, government and investment grade corporate bonds performed well, alongside gold and currencies such as the US dollar and the Japanese yen.

United States

U.S equity markets returned negatively for the month amid concerns about the rapid spread of the deadly coronavirus and its potential impact on the global economy. As a result, the S&P 500 delivered -0.16% in dollar terms. The US and China signed the Phase One trade deal on the 15 January. However, it is important to remember that significant tariffs will remain in place and that the structural issues to be tackled in the next phase are not likely to be resolved easily. The Phase One agreement suggests that the US will suspend its next planned round of tariffs as well as cut the existing tariff rates on around USD110 billion of Chinese imports from 15% to 7.5%. The Fed kept the target range unchanged at 1.5 to 1.75%. The central bank suggested it would remain patient after cutting interest rates three times in 2019. The US economy grew by an annualised 2.1% in the fourth quarter – in line with market expectations.

Eurozone

European equity markets retreated during the month on the back of concerns around the rapid spread of the deadly coronavirus and its potential impact on the global economy. As a result, the Euro Stoxx finished -3.00% lower in euro terms. The Eurozone Manufacturing PMI increased to 47.9 in January from 46.3 in the previous month. Output contracted at a slower rate with new orders and purchasing slowing. The Eurozone Services PMI was revised higher to 52.8 in January 2020. Service sector growth slowed in France and Spain while all other nations registered stronger expansion. Eurozone GDP figures for the fourth quarter came in at 0.1%, below market expectations. This was the weakest growth rate since the contraction recorded in the first quarter of 2013..

United Kingdom

UK equity markets returned negatively during the month, as markets were rattled by coronavirus fears. As a result, the FTSE 100 finished -3.40% down in pound terms. 31 January 2020 marked the UK officially exiting the EU. However, this is not the end to the long journey. The UK and EU will need to negotiate a new free-trade agreement during the 11 months of transition. During the month, Bank of England's Monetary Policy Committee voted to hold the base rate at 0.75%. The monetary policy committee decided the improvement in business sentiment, since the general election, made an immediate cut unnecessary. On the data front, January economic data released suggests a rebound with employment growing by 208,000 in the three months to November. The Purchasing Manager's Index rebounded to 52.4 in January from 47.3 in December 2019 – pointing to a sharp improvement in both manufacturing and services.

Spot Rates	31 January 2018	31 January 2019	31 January 2020
EUR/USD	1.24	1.14	1.10
GBP/USD	1.42	1.31	1.32
USD/JPY	109.18	108.86	108.35

Source: IRESS

Emerging Markets

Emerging markets delivered negative returns in January, underperforming its developed markets counterpart. The MSCI EM index returned -4.69% while the MSCI World delivered -0.68% in dollar terms. This was largely as a result of concerns about the rapid spread of the deadly coronavirus from China and its potential impact on the global economy.

GLOBAL RETURNS IN ZAR				
2019	November 2019	December 2019	January 2020	Year-to-date
S&P 500 27.82%	S&P 500 0.81%	SHANGHAI STOCK EXCHANGE 2.56%	GLOBAL BONDS 8.63%	GLOBAL BONDS 8.63%
MSCI WORLD 24.11%	MSCI WORLD -0.02%	MSCI EM 2.55%	GLOBAL PROPERTY 8.44%	GLOBAL PROPERTY 8.44%
EURO STOXX 50 22.37%	FTSE 100 -1.01%	FTSE 100 0.45%	S&P 500 7.22%	S&P 500 7.22%
SHANGHAI STOCK EXCHANGE 21.81%	EURO STOXX 50 -1.17%	EURO STOXX 50 -1.68%	MSCI WORLD 6.61%	MSCI WORLD 6.61%
GLOBAL PROPERTY 20.64%	MSCI EM -2.86%	S&P 500 -1.69%	SHANGHAI STOCK EXCHANGE 5.01%	SHANGHAI STOCK EXCHANGE 5.01%
FTSE 100 18.63%	GLOBAL BONDS -3.46%	MSCI WORLD -1.71%	FTSE 100 3.16%	FTSE 100 3.16%
MSCI EM 15.12%	GLOBAL PROPERTY -3.84%	GLOBAL BONDS -4.01%	EURO STOXX 50 3.08%	EURO STOXX 50 3.08%
GLOBAL BONDS 3.86%	SHANGHAI STOCK EXCHANGE -4.26%	GLOBAL PROPERTY -4.24%	MSCI EM 2.27%	MSCI EM 2.27%

Source: Morningstar