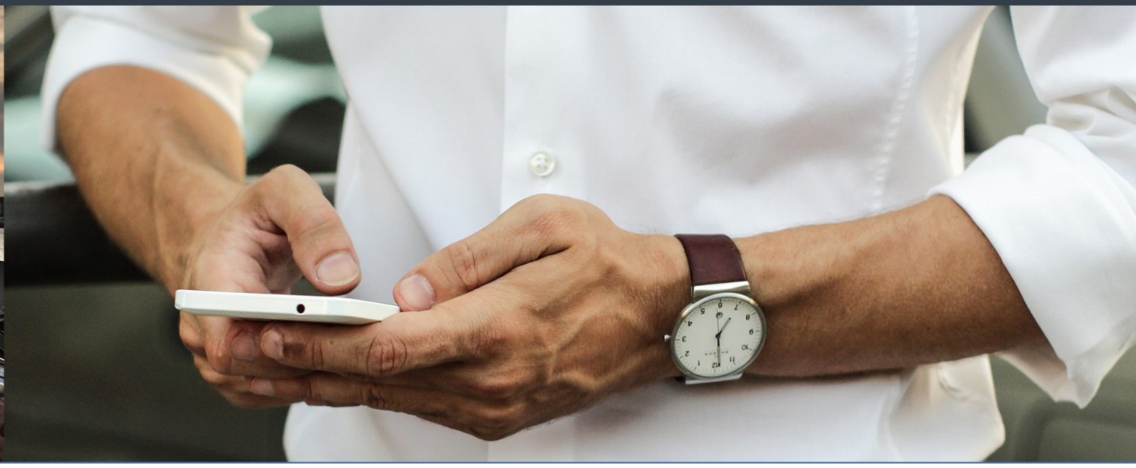
ECONOMIC REPORT
by Glacier Research



24 April 2020

Review period: March 2020

Domestic Overview

The outbreak and spread of the coronavirus pandemic continued to take centre stage during March as the situation deteriorated with a growing number of confirmed cases and deaths. This was particularly pronounced in developed market economies (i.e. US and Europe). Heightened anxiety engulfed investors, leading to a series of unprecedented fiscal and monetary stimulus measures unleashed by governments and central banks. Moody's downgraded South Africa's sovereign credit rating to junk status with a negative outlook, adding further anguish on an economy already in recession and facing a steep contraction sparked by the COVID-19 pandemic. The downgrade was announced as the country grapples with massive economic devastation from the nationwide lockdown enforced to contain the spread of the coronavirus.

Domestic Highlights in March 2020

- SARB's emergency response to the coronavirus
- Moody's downgrade

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The SARB's emergency response to the coronavirus

Following the declaration of the National State of Disaster by President Cyril Ramaphosa, and in an attempt to curb the impact of Coronavirus on the economy, the SARB slashed the repo rate by a whopping 100 basis points to 5.25% in its scheduled March meeting. The decision for the sharp rate cut was also supported by global monetary easing (both by developed and emerging markets' central banks) and the sharp downturn of the oil price which helps ease inflationary pressure. Viewed from an importing perspective, the lower oil price bodes well for the domestic economy, however, the weakness of the rand will need to be considered. The coronavirus pandemic has left central banks with no option but to step in decisively as liquidity dried up due to panic-selling. Against this backdrop, the SARB went further, in an unconventional fashion, to announce that it will purchase government bonds on the secondary market to manage liquidity.

Moody's downgrade

Despite the measures effected by the SARB (as highlighted above) and those communicated in the February budget, Moody's Investor Services proceeded to downgrade South Africa's debt rating to sub-investment grade (commonly referred to as 'junk status') while maintaining its negative outlook. The rating agency cited the main driver of the downgrade was 'the continuing deterioration in fiscal strength and structurally very weak growth'. Moody's was the last of the three rating agencies to keep South African's sovereign debt on investment grade. S&P and Fitch downgraded the country's credit rating to sub-investment grade in 2017 (after the cabinet reshuffle). The implications of the downgrade are that South African bonds will be excluded from the World Government Bond Index (WGBI). This will trigger a significant sell-off, however this exclusion will only happen at the end of April as the administrators of the WGBI have delayed their rebalancing until then. The market's reaction to the downgrade was underwhelming as the downgrade has already been priced in. Therefore, there was no meaningful yield spike.

South Africa: Economy

Economic growth in South Africa has been elusive as the slow pace of policy reform and ill-managed, state-owned enterprises took a heavy toll on the country's fiscus. In addition to the already-existing structural bottlenecks and hurdles, the outbreak and spread of coronavirus added further pressure to an economy that ended 2019 in a technical recession (i.e. two consecutive quarterly contractions). The economy contracted by an annualised 1.4% in the fourth quarter of 2019, following a revised contraction of 0.8% in the prior quarter. This was a result of the rolling blackouts which impacted seven of the ten industries, with agriculture (-7.6%) and transport & communication (-7.2%) contracting the most. Finance (+2.7%) and mining (+1.8%) were the leading contributors. Business confidence tumbled from 26 to 18 points while consumer confidence also fell, sinking deeper into contraction territory from -7 to -9

	Oct'19	Nov'19	Dec'19	Jan'20	Feb'20	Mar'20
CPI (y/y)	3.7%	3.6%	4.0%	4.5%	4.6%	4.1%
PPI (y/y)	3.0%	2.3%	3.4%	4.6%	4.5%	-

Sources: Trading Economics

	31 March 2018	31 March 2019	31 March 2020
USD/ZAR	11.82	14.49	17.85
GBP/ZAR	16.60	18.90	22.15
EUR/ZAR	14.58	16.25	19.71

Source: IRESS

South Africa: Markets

Concerns of the impact of the coronavirus continued to drive markets further south with almost all asset classes sinking deeper in negative territory except for cash. The proverbial blood bath continued and was more severe during the month of March. SA property continued to take the hardest knock, plummeting 36.32%, after having lost 15.68% in February. The All Share Index (ALSI) was down 12.13% in addition to bonds delivering a dismal 9.75%. Inflation-linked bonds shed 17.47% while preference shares lost 27.04%. Cash, on the other hand, was up 0.57%.

In terms of market-cap performance, mid-caps recorded the largest losses for the month, tanking 23.66%, followed by small-caps which lost 21.67%. Large-caps (i.e. Top 40) shed 10.44% as the weakness of the rand helped ease losses. Foreigners were net sellers of R18.70 billion worth of SA equities and net sellers of R66.69 billion worth in SA bonds.

LOCAL RETURNS IN ZAR

2019	January 2020	February 2020	March 2020	Year-to-date
SA MID CAPS 15.58%	SA BONDS 1.19%	SA CASH 0.54%	SA CASH 0.57%	SA CASH 1.69%
SA TOP 40 12.41%	SA CASH 0.58%	SA BONDS -0.04%	SA BONDS -9.75%	SA BONDS -8.72%
SA EQUITY 12.05%	SA SMALL CAPS -0.71%	SA TOP 40 -8.43%	SA TOP 40 -10.44%	SA TOP 40 -19.17%
SA BONDS 10.32%	SA TOP 40 -1.44%	SA EQUITY -8.99%	SA EQUITY -12.13%	SA EQUITY -21.38%
SA CASH 7.29%	SA EQUITY -1.69%	SA MID CAPS -12.90%	SA SMALL CAPS -21.67%	SA SMALL CAPS -32.55%
SA PROPERTY -0.40%	SA MID CAPS -3.12%	SA SMALL CAPS -13.28%	SA MID CAPS -23.66%	SA MID CAPS -35.57%
SA SMALL CAPS -4.10%	SA PROPERTY -3.30%	SA PROPERTY -15.68%	SA PROPERTY -36.32%	SA PROPERTY -48.07%

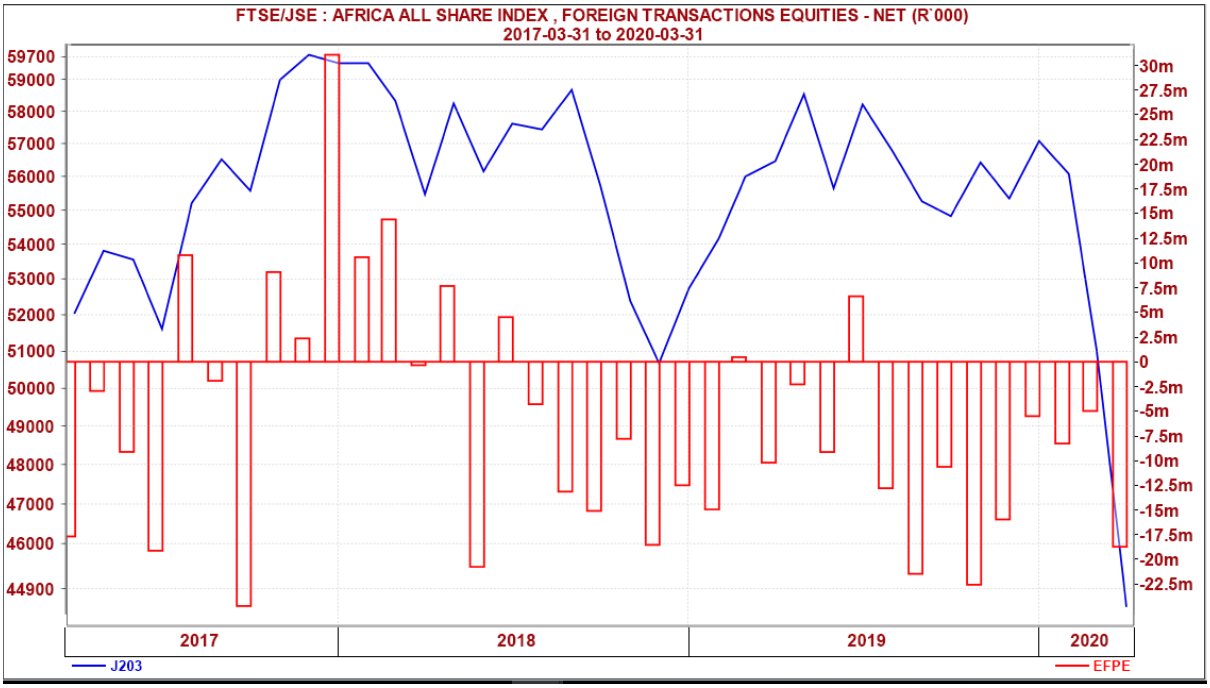
Source: Morningstar

In terms of sectors, financials were down sharply (-29.43%), followed by industrials which tanked 22.63%. Resources recorded a loss of 12.43% while SA industrials (including dual-listed companies) weathered the storm much better, returning -3.06%.

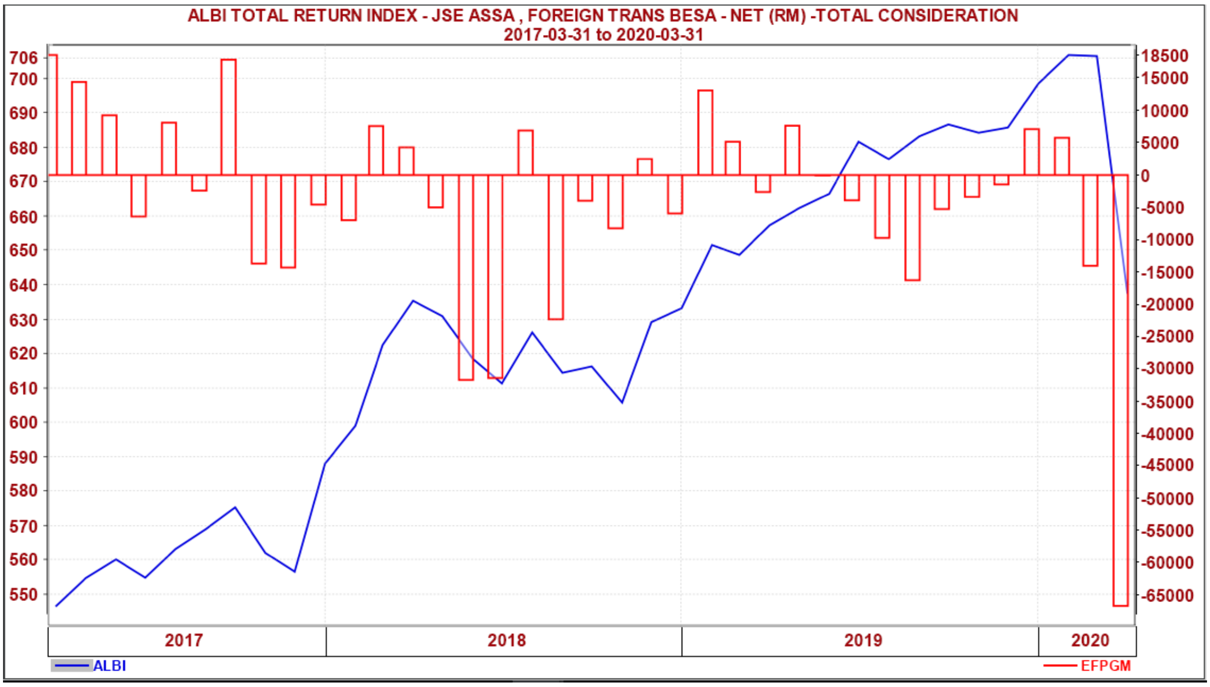
LOCAL SECTOR RETURNS IN ZAR

2019	January 2020	February 2020	March 2020	Year-to-date
RESOURCES 28.53%	SA INDUSTRIALS 1.56%	CONSUMER GOODS -6.92%	SA INDUSTRIALS -3.06%	SA INDUSTRIALS -8.44%
CONSUMER GOODS 18.31%	CONSUMER GOODS 1.46%	SA INDUSTRIALS -7.00%	CONSUMER GOODS -4.47%	CONSUMER GOODS -9.78%
SA INDUSTRIALS 8.90%	RESOURCES -3.48%	FINANCIALS -9.49%	RESOURCES -12.43%	RESOURCES -25.27%
CONSUMER SERVICES 2.60%	CONSUMER SERVICES -4.70%	RESOURCES -11.58%	CONSUMER SERVICES -13.19%	CONSUMER SERVICES -27.09%
FINANCIALS 0.63%	FINANCIALS -5.24%	GENERAL RETAILERS -11.62%	INDUSTRIALS -22.63%	INDUSTRIALS -37.37%
INDUSTRIALS -8.91%	INDUSTRIALS -5.42%	CONSUMER SERVICES -11.87%	FINANCIALS -29.43%	FINANCIALS -39.48%
GENERAL RETAILERS -18.37%	GENERAL RETAILERS -7.02%	INDUSTRIALS -14.42%	GENERAL RETAILERS -31.76%	GENERAL RETAILERS -43.92%

Source: Morningstar



Source: IRESS March 2020



Source: IRESS March 2020

Global Overview

The world has found itself in unprecedented times characterised by fear, worldwide lockdowns, social distancing and continuous hand-washing. This is the new normal or new world of2020. The novel coronavirus is escalating and has spread to the four corners of the world, leaving us both paralysed and hopeless. This once-in-a-generation grey rhino event has left investors fleeing for the hills, or bunkers, to try to find direction and assess the impact on global growth. Given this backdrop, global equity markets ended the month in negative territory amid concerns about the rapid spread of the coronavirus and its impact on the global economy.

As a result, the MSCI World delivered -13.73% in dollar terms. The mass COVID-19 sell-off has led to the sudden end of the longest-ever bull market in US history, with trading halts being initiated in order to prevent further losses. Most equity sectors experienced sell offs, with energy and financials, particularly banks and insurers, fearing the worst amid growing concerns that earnings for the year would be adversely impacted. Perceived 'safe havens' such as government bonds and gold were the main beneficiaries against this backdrop.

On a global equity style basis using the MSCI World style indices, quality was the top performing style (-8.70%), followed by growth (-9.99%), momentum (-10.22%) and lastly value, delivering -16.76% in dollar terms. The price of Brent crude oil slumped from US$49.67 to close at US$26.35 a barrel. Economic disruptions resulting from coronavirus outbreak, together with stalling negotiations between Russia and OPEC on the implementation of further supply cuts, led to a 46.95%, fall in the price of Brent crude oil over the month. Both global bonds and global equities were negative in dollar terms during the month.

United States

US equity markets returned negatively for the month amid continued uncertainty around the coronavirus pandemic and its potential impact on the global economy. The mass COVID-19 sell-off, abruptly ended the longest-ever bull market in US history with trading halts being initiated in order to prevent further losses. The recent turmoil triggered market-wide circuit-breakers (which attempt to prevent panic-trading) four times in March alone. As a result, the S&P 500 delivered -12.41%, recording its biggest quarterly decline since 2008, with the Dow Jones Industrial Average having its worst display since 1987 in dollar terms over the month. In an attempt to stimulate and support the fragile economy, central banks around the world have taken aggressive policy actions.

The US Federal Reserve slashed interest rates close to zero while the Senate passed a US$2 trillion coronavirus aid bill - the largest economic stimulus in US history. In terms of economic data releases, the notable standout was the spike in US jobless claims - new claimants for unemployment benefits – which reached nearly 10 million in the last two weeks of March. The data provided real evidence of how much damage the coronavirus shutdown is having on the US economy. The US manufacturing Purchasing Managers' Index (PMI) fell to 48.5 from the previous month's 50.7, and below expectations. The change pointed to the worst contraction in the manufacturing sector since August 2009 on the back of weak domestic and foreign demand conditions, following the outbreak and spread of the coronavirus.

The US Services PMI decreased to 39.8 in March 2020 from 49.4 in the previous month. The reading signalled the steepest decline in output since inception. As new business declined, export orders also dropped amid concerns about the impact of the coronavirus outbreak. The US unemployment rate increased to 4.4% in March 2020 from 3.5% in the previous month. The number of unemployed people increased by 1.5 million to 7.14 million while employment declined by 2.99 million to 155.77 million.

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. In addition, investors flocked to 'safe haven' assets as widespread lockdowns fueled a sell- off across European markets. As a result, the Euro Stoxx finished -17.90% lower in euro terms. To stimulate and support the fragile economy the European Central Bank announced €750bn in asset purchases under a new emergency program.

The new package came in only six days after they had already announced a further €120bn of asset purchases at their last scheduled meeting. On the macroeconomic front, Eurozone Manufacturing PMI decreased to 44.5 in March from 49.2 in the previous month. The change pointed to the steepest month of contraction in the manufacturing sector since July 2012. Governments across Europe stepped up efforts to contain the rapid spread of COVID-19. Output, new orders and purchasing all fell sharply, whilst jobs were cut markedly, and supply-side constraints increased at a record pace. The Eurozone Services PMI was revised lower to 26.4 in March from 52.8 in the previous month. The reading pointed to the largest month of contraction in the sector on record as the COVID-19 pandemic forced many non-essential businesses to close.

United Kingdom

UK equity markets returned negatively during the month as markets were rattled by coronavirus fears. As a result, the FTSE 100 finished -13.81% down in pound terms. During the month equity market volatility has risen to historically high levels, post its biggest quarterly fall for more than three decades. On the data front, the Purchasing Manager's Index dropped to 47.8 in March from 51.9 previous month. Output contracted by the most since July 2012 and new orders declined sharply as the outbreak of COVID-19 led to lower demand from both domestic and overseas markets.

Spot Rates	31 March 2018	31 March 2019	31 March 2020
EUR/USD	1.23	1.12	1.10
GBP/USD	1.40	1.30	1.24
USD/JPY	106.28	110.86	107.57

Source: IRESS

Emerging Markets

Emerging markets delivered negative returns in March, underperforming its developed markets counterpart. The MSCI EM index returned -15.61%, while the MSCI Developed World delivered -13.47% in dollar terms.

This was largely as a result of concerns about the rapid spread of the deadly coronavirus outside of China and its potential impact on the global economy.

GLOBAL RETURNS IN ZAR

2019	January 2020	February 2020	March 2020	Year-to-date
S&P 500 27.82%	GLOBAL BONDS 8.63%	GLOBAL BONDS 5.59%	GLOBAL BONDS 10.99%	GLOBAL BONDS 27.30%
MSCI WORLD 24.11%	GLOBAL PROPERTY 8.44%	SHANGHAI STOCK EXCHANGE 1.54%	SHANGHAI STOCK EXCHANGE 6.62%	SHANGHAI STOCK EXCHANGE 13.69%
EURO STOXX 50 22.37%	S&P 500 7.22%	MSCI EM -0.65%	S&P 500 -0.49%	S&P 500 2.69%
SHANGHAI STOCK EXCHANGE 21.81%	MSCI WORLD 6.61%	GLOBAL PROPERTY -3.75%	MSCI WORLD -1.49%	MSCI WORLD 0.83%
GLOBAL PROPERTY 20.64%	SHANGHAI STOCK EXCHANGE 5.01%	S&P 500 -3.75%	MSCI EM -3.96%	MSCI EM -2.42%
FTSE 100 18.63%	FTSE 100 3.16%	MSCI WORLD -3.98%	FTSE 100 -4.57%	EURO STOXX 50 -6.79%
MSCI EM 15.12%	EURO STOXX 50 3.08%	EURO STOXX 50 -4.84%	EURO STOXX 50 -4.98%	GLOBAL PROPERTY -8.62%
GLOBAL BONDS 3.86%	MSCI EM 2.27%	FTSE 100 -7.51%	GLOBAL PROPERTY -12.45%	FTSE 100 -8.95%

Source: Morningstar