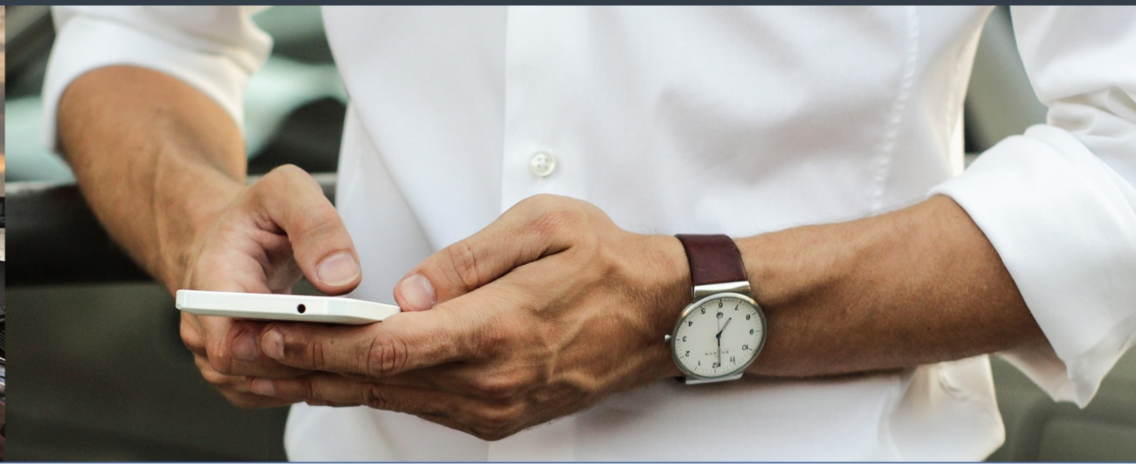
ECONOMIC REPORT

by Glacier Research

glacier by Sanlam



27 March 2020

Review period: February 2020

Domestic Overview

COVID-19 has taken centre stage in the political, economic, social and market landscape. Heightened anxiety over its impact on global growth and its possible catalytic effect to a global recession drove the risk-off sentiment seen in February. Investors are hunting for safe-haven assets amid uncertainty. COVID-19 has exerted a further strain on the economy, given the already-existing domestic fiscal woes. As a result, the rand experienced another sharp sell-off this month. Globally, the same COVID-19 sentiment reverberates as central banks engaged in emergency fiscal and monetary stimulus measures to curb the dire impact of the virus. This heightened uncertainty has dragged equity valuations to incredibly low levels as markets have officially entered bear territory.

Domestic Highlights in February 2020

- State of the Nation Address (SONA)
- National Budget Speech

State of the Nation Address (SONA)

On 13 February 2020, President Cyril Ramaphosa opened Parliament and delivered his third State of the Nation Address.

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

The President reflected on the trajectory of the past while also citing challenges facing the country and laying emphasis on the state of the economy, including but not limited to, unemployment and job creation. Notable highlights from the SONA include:

- Emergency power procurement, which includes measures to rapidly and significantly increase electricity generation outside of Eskom. This should facilitate the building and running of electricity plants of independent power producers, with the intention of selling power to qualifying municipalities to reduce load shedding.
- The establishment of a sovereign wealth fund and a state bank that will help extend access to financial services to all South Africans.
- A new six-point plan to combat youth unemployment, which includes a 1% allocation of the budget to youth employment initiatives.
- A reduction in red tape by significantly reducing the time it takes to register a private company.
- A plan to boost tourism and infrastructure.

National budget speech

On 26 February, Finance Minister Tito Mboweni delivered his second budget in which he reflected on the dire state of the country's economy. He subsequently introduced moderate austere measures to assist economic growth and elude the looming Moody's credit downgrade. While struggling State-Owned Enterprises (SOEs) were not out of sight, the public wage bill took centre stage. Some of the highlights of the budget include:

- The cutting of R160 billion in the wage bill over the next three years, with the aim to save R37.8 billion in the next fiscal year.
- The bailout of SOEs. Eskom will take the largest allocation of R56 billion in the ensuing fiscal year, followed by South African Airways (where R10.3 billion has been allocated in the ensuing fiscal year).
- The establishment of a state bank and a sovereign wealth fund. The bank will be a retail bank with commercial principles and subject to the Banks Act. The sovereign wealth fund has a target capital amount of R30 billion which will be raised through proceeds from gas or mineral rights royalties, sale of non-core state assets and future fiscal surpluses.
- An expected budget deficit increase of 6.8% of GDP in the ensuing year. This is based on an expected revenue projection of 1.58 trillion (or 29% of GDP) and an expense projection of R1.95 trillion (or 36% of GDP)
- Tax changes, that will effectively lead to taxpayers paying 5.2% less in income tax.
- The increase of the annual tax-free savings account to R36 000 from 1 March 2020.

South Africa: Economy

The South African economy continues to face structural challenges alongside policy uncertainty, slow pace of reform and fiscal distress. The emergence of the coronavirus is having far-reaching implications for the domestic economy given global headwinds. Load shedding continues to add to the problem as the rand weakened 4.33% in February, after depreciating 7.18% in January.

The sharp depreciation of the currency is a reminder of how vulnerable and susceptible the currency is to economic and market shocks, given its high liquidity status relative to other emerging market currencies. Manufacturing activity continues to dwindle as the ABSA PMI fell to 44.3 in February from 45.2 in January. Vehicle sales, however, were up from 40 234 in January to 43 485 in February.

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

Sources: Trading Economics

	28 February 2018	28 February 2019	29 February 2020
USD/ZAR	11.79	14.08	15.65
GBP/ZAR	16.22	18.68	20.06
EUR/ZAR	14.38	16.01	17.27

Source: IRESS

South Africa: Markets

The market did not escape the scourge of COVID-19. It's a proverbial bloodbath with almost all asset classes swimming in negative territory. SA property took the hardest knock during the month, plummeting 15.68%, with stocks such as Redefine Properties (-24.48%) and Growthpoint Properties (-16.55%) among the largest losers. There was literally no place to hide, except in safe-haven assets such as short-duration bonds, inflation-linked bonds and cash. As a result, the All Share Index (ALSI) was down 8.99%, due to heightened concerns over the impact of the coronavirus on global economic growth.

In terms of market-cap performance, small-caps bagged the largest losses, tanking 13.28%, followed by mid-caps, which were down 12.90%. Large-caps (i.e. Top 40) were also down 8.43% as rand weakness cushioned the severity of losses. Looking at fixed income, the front-end of the yield curve delivered the highest monthly return, 0.79%, while the ALBI returned -0.04%, given the dominance of longer-dated maturities which sold-off as investors fled to safety. Cash was up 0.52% while inflation-linked bonds added 0.78%. At a stock level, most SA Inc. stocks were hardest hit with Sasol taking centre stage, shedding 22.27%. Sappi (-23.47%) and Tiger Brands (-23.14%) were also among the worst performers. Foreigners were net sellers of R4.97 billion worth of SA equities and net sellers of R14.04 billion worth in SA bonds.

LOCAL RETURNS IN ZAR				
2019	December 2019	January 2020	February 2020	Year-to-date
SA MID CAPS 15.58%	SA MID CAPS 4.70%	SA BONDS 1.19%	SA CASH 0.52%	SA BONDS 1.14%
SA TOP 40 12.41%	SA TOP 40 3.64%	SA CASH 0.58%	SA BONDS -0.04%	SA CASH 1.10%
SA EQUITY 12.05%	SA EQUITY 3.30%	SA SMALL CAPS -0.71%	SA TOP 40 -8.43%	SA TOP 40 -9.75%
SA BONDS 10.32%	SA BONDS 1.86%	SA TOP 40 -1.44%	SA EQUITY -8.99%	SA EQUITY -10.53%
SA CASH 7.29%	SA CASH 0.58%	SA EQUITY -1.69%	SA MID CAPS -12.90%	SA SMALL CAPS -13.89%
SA PROPERTY -0.40%	SA SMALL CAPS 0.21%	SA MID CAPS -3.12%	SA SMALL CAPS -13.28%	SA MID CAPS -15.61%
SA SMALL CAPS -4.10%	SA PROPERTY -1.57%	SA PROPERTY -3.30%	SA PROPERTY -15.68%	SA PROPERTY -18.46%

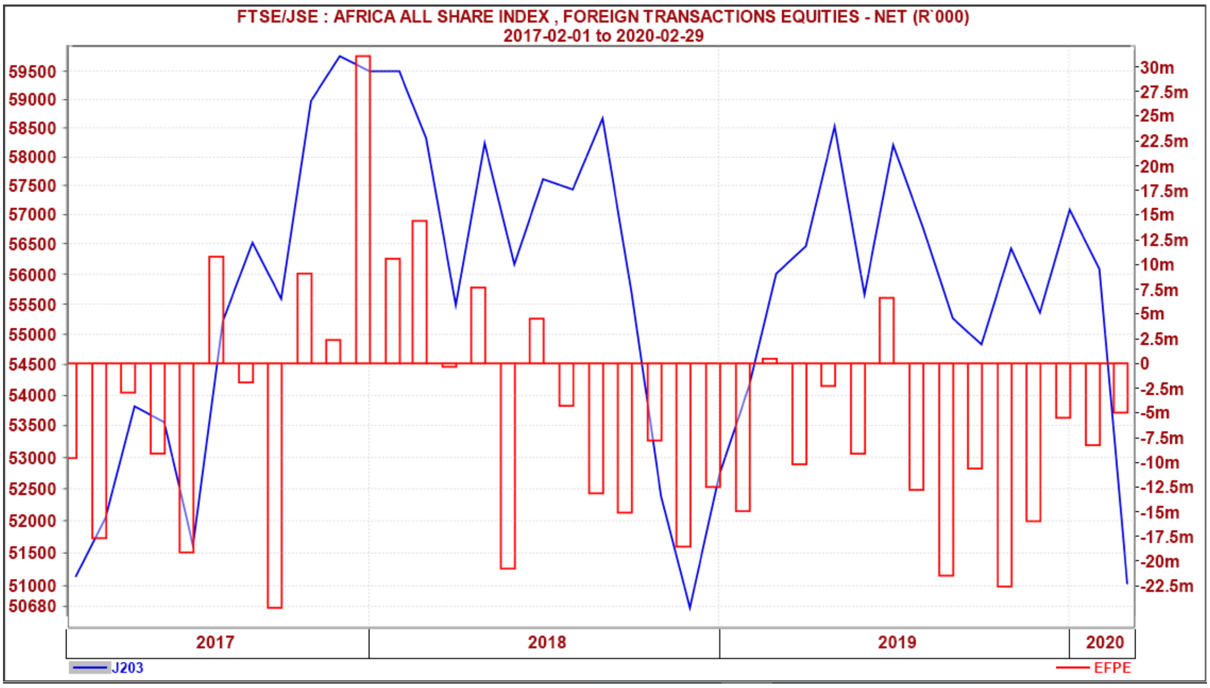
Source: Morningstar

In terms of sectors, industrials were down a whopping 14.42%, followed by resources, which tanked 11.58%. Financials recorded a loss of 9.49% while SA industrials surrendered 7.00%.

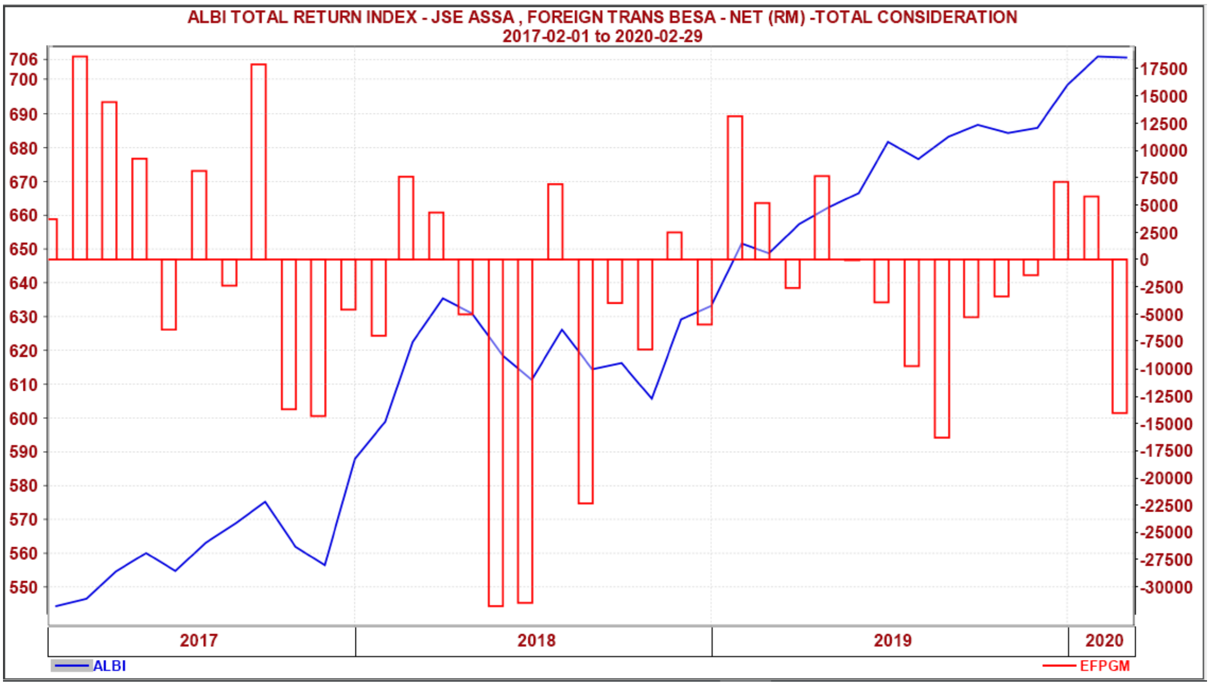
LOCAL SECTOR RETURNS IN ZAR

2019	December 2019	January 2020	February 2020	Year-to-date
RESOURCES 28.53%	RESOURCES 6.97%	SA INDUSTRIALS 1.56%	CONSUMER GOODS -6.92%	SA INDUSTRIALS -5.55%
CONSUMER GOODS 18.31%	SA INDUSTRIALS 2.32%	CONSUMER GOODS 1.46%	SA INDUSTRIALS -7.00%	CONSUMER GOODS -5.56%
SA INDUSTRIALS 8.90%	INDUSTRIALS 0.83%	RESOURCES -3.48%	FINANCIALS -9.49%	FINANCIALS -14.23%
CONSUMER SERVICES 2.60%	FINANCIALS 0.74%	CONSUMER SERVICES -4.70%	RESOURCES -11.58%	RESOURCES -14.66%
FINANCIALS 0.63%	GENERAL RETAILERS 0.47%	FINANCIALS -5.24%	GENERAL RETAILERS -11.62%	CONSUMER SERVICES -16.01%
INDUSTRIALS -8.91%	CONSUMER GOODS 0.12%	INDUSTRIALS -5.42%	CONSUMER SERVICES -11.87%	GENERAL RETAILERS -17.82%
GENERAL RETAILERS -18.37%	CONSUMER SERVICES 0.02%	GENERAL RETAILERS -7.02%	INDUSTRIALS -14.42%	INDUSTRIALS -19.06%

Source: Morningstar



Source: IRESS February 2020



Source: IRESS February 2020

Global Overview

Global equity markets ended the month in negative territory amid concerns about the rapid spread of COVID-19 outside China and its impact on the global economy. Equity markets got off to a positive start, spurred on by a better-than-expected fourth quarter earnings season in the US, improving business activity for January and the hope that negative effects of COVID-19 would be temporary and localised. However, the rapid spread of novel coronavirus in areas such as Italy, South Korea and the US saw market participants flock towards perceived 'safe haven' assets. As a result, the MSCI World delivered -8.21% in dollar terms, with the US 10-year Treasury yield hitting a new all-time low of 1.1%.

Each equity sector experienced a sell-off, with the more cyclical businesses fearing the worst. Travel and leisure stocks such as airlines and hotels have felt the sharpest falls as cautious consumers skipped holiday plans and governments continue to increase restrictions on unnecessary travel. Perceived 'safe havens' such as government bonds, gold and the Japanese yen were the main beneficiaries against this backdrop. Using the MSCI World style indices, momentum was the top-performing style (-7.18%), followed by growth (-7.36%), quality (-7.75%) and lastly value, delivering -9.61% in dollar terms. The price of Brent crude oil slumped from US$58.16 to close at US$49.67 a barrel. Economic disruptions resulting from the COVID-19 outbreak, together with stalling negotiations between Russia and OPEC on the implementation of further supply cuts, led to a 14.60% fall in the price of Brent crude oil. Global bonds were positive while global equities were negative in dollar terms.

United States

U.S equity markets returned negatively for the month amid concerns about the rising spread of the deadly coronavirus outside China and its potential impact on the global economy. As a result, the S&P 500 delivered -8.41% in dollar terms over the month. On the macroeconomic front, the US manufacturing Purchasing Managers' Index (PMI) fell to 50.7 from the previous month's 51.5, which was below expectation. The change pointed to the slowest expansion in factory activity since August, as output growth was the softest since last July. The US Services PMI decreased to 49.4 in February, from 53.4 in the previous month. The reading signalled the first decline in business activity since February 2016, as new business declined and export orders dropped amid concerns about the impact of the coronavirus outbreak. The US unemployment rate decreased to 3.5% in February from 3.6% in the previous month. The number of unemployed people decreased by 105 thousand to 5.79 million while employment rose by 45 thousand to 158.76 million.

Eurozone

European equity markets retreated during the month on the back of concerns around the rapid spread of the deadly coronavirus outside China and its potential impact on the global economy. As a result, the Euro Stoxx finished -7.68% lower in euro terms. The outbreak hit Italy the hardest - with a sudden surge of cases and eventually resulting in entire towns being locked down. Posting over 1 500 registered cases and 52 people dead. To combat the virus impact on the economy, Roberto Gualtieri, Italy's economy minister, announced a €3.6bn stimulus package (0.2% of GDP) to mitigate the impact of the outbreak. On the macroeconomic front, Eurozone Manufacturing PMI increased to 49.2 in February from 47.9 in the previous month. Export orders continued to decline and average lead times for the delivery of inputs lengthened – mainly linked to coronavirus-related factory shutdowns in China. The Eurozone Services PMI was revised higher to 52.8 in February. New business growth slowed in part linked to travel, tourism and some areas of business reportedly being disrupted by the coronavirus outbreak.

United Kingdom

UK equity markets returned negatively during the month, as markets were rattled by coronavirus fears. As a result, the FTSE 100 finished -9.68% down in pound terms. During the month, the Bank of England's Mark Carney stated that the coronavirus will hit the UK economy in the months ahead, raising expectations of an interest rate cut. On the data front, UK economic sentiment continued to improve in February, with both consumer and business sentiment picking up. Job growth continued its recent upswing with a solid 180k gain in the three months to December. The unemployment rate remained at 3.8%, the lowest level since 1975. The Purchasing Manager's Index rose to 51.9 in February from 50 previous month. This is the strongest improvement in overall business conditions since April 2019, as output growth accelerated to 10-month high.

Spot Rates	28 February 2018	28 February 2019	29 February 2020
EUR/USD	1.21	1.13	1.10
GBP/USD	1.37	1.32	1.28
USD/JPY	106.68	111.39	108.10

Source: IRESS

Emerging Markets

Emerging markets delivered negative returns in February, outperforming its developed markets counterpart. The MSCI EM index returned -5.35% while the MSCI World delivered -8.59% 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	December 2019	January 2020	February 2020	Year-to-date
S&P 500 27.82%	SHANGHAI STOCK EXCHANGE 2.56%	GLOBAL BONDS 8.63%	GLOBAL BONDS 5.59%	GLOBAL BONDS 14.70%
MSCI WORLD 24.11%	MSCI EM 2.55%	GLOBAL PROPERTY 8.44%	SHANGHAI STOCK EXCHANGE 1.54%	SHANGHAI STOCK EXCHANGE 6.63%
EURO STOXX 50 22.37%	FTSE 100 0.45%	S&P 500 7.22%	MSCI EM -0.65%	GLOBAL PROPERTY 4.37%
SHANGHAI STOCK EXCHANGE 21.81%	EURO STOXX 50 -1.68%	MSCI WORLD 6.61%	GLOBAL PROPERTY -3.75%	S&P 500 3.20%
GLOBAL PROPERTY 20.64%	S&P 500 -1.69%	SHANGHAI STOCK EXCHANGE 5.01%	S&P 500 -3.75%	MSCI WORLD 2.36%
FTSE 100 18.63%	MSCI WORLD -1.71%	FTSE 100 3.16%	MSCI WORLD -3.98%	MSCI EM 1.60%
MSCI EM 15.12%	GLOBAL BONDS -4.01%	EURO STOXX 50 3.08%	EURO STOXX 50 -4.84%	EURO STOXX 50 -1.91%
GLOBAL BONDS 3.86%	GLOBAL PROPERTY -4.24%	MSCI EM 2.27%	FTSE 100 -7.51%	FTSE 100 -4.59%

Source: Morningstar