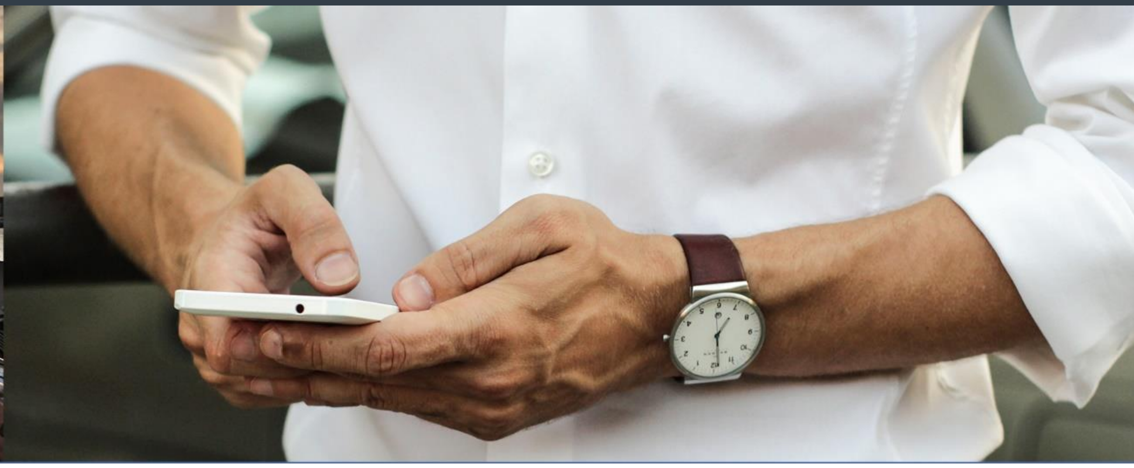
ECONOMIC REPORT

by Glacier Research

glacier by Sanlam



18 December 2020

Review period: November 2020

Domestic Overview

It was truly risk-on for global markets in November, on the back of the positive COVID-19 vaccine news and hopes of the world returning to normality. The market was further supported by the announcement that Joe Biden had emerged victorious in the US election. Against this backdrop, local assets benefitted with equities, bonds, property and preference shares all experiencing a strong month. With the positive vaccine news and the high efficacy rates, there is a risk of ‘COVID-19 fatigue’.

There is speculation around how long it will be before South African citizens receive the respective vaccines as there has been an increase in cases especially in the Eastern Cape and in the Western Cape’s Garden Route. Furthermore, there has been a rotation from the high-flying sectors, like technology to the downtrodden sectors such as financials and energy both from a local and global perspective. The dispersion of performance between growth and value is still massive but drives the point that it is very difficult to time exposure to value as a style.

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Domestic Highlight(s) in September 2020

- Monetary Policy Committee leaves interest rates unchanged
- South African suffers further credit rating downgrade

Monetary Policy Committee leaves interest rates unchanged

The South African Reserve Bank (SARB) left the repo rate unchanged at 3.5%, which came down to a split vote as three members opted for no change, while two members favoured a 25 basis points cut. Below are some of the main points from the meeting:

- They raised the 2020 growth forecasts to an 8% contraction compared to the -8.2% which was forecasted in September.
- The SARB's quarterly projection model was unchanged from the meeting in September, predicting no further cuts but two interest-rate hikes towards the end of 2021.

South Africa suffers further credit rating downgrades

Both Fitch and Moody's downgraded South Africa further into junk status. Fitch downgraded SA's long-term foreign currency debt to BB- from BB with a negative outlook, while Moody's downgraded SA's long-term local and foreign currency debt to Ba2 from Ba1. Meanwhile, S&P affirmed its rating of SA's long-term local currency debt at BB and its long-term foreign currency debt at BB-. We face the risk of further downgrades in the absence of fiscal consolidation and structural reforms. However, the bond market was not fazed by this news and was instead lifted by the global optimism as foreign investors returned as net buyers of local bonds.

South Africa: Economy

Economic activity has picked up gradually, which was evident by the easing of the annual contraction in both mining (-2.8% year-on-year) and manufacturing production (-2.6% year-on-year). There was, as expected, a strong rebound over the quarter by both mining (40.9%) and manufacturing production (32.9%). This is further supported by retail sales numbers as consumer spending has rebounded from the historical lows in April. The quarterly figure was up 23.9% at the end of September, while the year-on-year figure is down 2.7%. Despite this, consumers are still cautious on their spending habits due to concerns over job security coupled with the weak economic environment. Inflation surprised on the upside coming in at 3.3% year-on-year to October (from 3% in September), which was expected to remain unchanged. The main contributor was the increase in food prices. Furthermore, the unemployment rate surged to 30.8% in the third quarter of 2020 from 23.3% in the previous quarter, giving us a glimpse into the impact of COVID-19. However, the broader definition of unemployment (which includes discouraged workers), stands at 43.1%.

	Jun'20	Jul'20	Aug'20	Sep'20	Oct'20	Nov'20
CPI (y/y)	2.2%	3.2%	3.1%	3.0%	3.3%	3.2%
PPI (y/y)	0.5%	1.9%	2.4%	2.5%	2.7%	3.0%

Sources: Trading Economics

	30 November 2018	30 November 2019	30 November 2020
USD/ZAR	13.86	14.64	15.46
GBP/ZAR	17.66	18.93	20.59
EUR/ZAR	15.69	16.14	18.44

Source: IRESS

South Africa: Markets

Global risk-on sentiment helped local markets higher with the ALSI returning a stellar 10.51%, led by financials, which rallied 17.10%. It has been an unusual month for local assets with every asset class posting strong returns. The prospect of a COVID-19 vaccine was welcomed by the property sector as the ALPI surged 18.43%. The financial sector was supported by banking stocks with Nedbank being the standout performer, gaining 27.63%. On the resources front, the sector advanced 10.90%, with losses experienced by goldminers being offset by platinum miners.

There was a rotation to unloved stocks and sectors over the course of the month, which is evident by small-caps (15.56%) leading the charge. On the fixed income front, SA bonds (3.25%) followed a stronger rand as foreign investors returned as net buyers of local bonds. Investor preference was biased towards the longer end of the yield curve, which is reflected in the performance of the respective maturities. The longer end (12 years+) advanced 5.33% and the 7 to 12-year bucket firmed 3.13%, while the very short end (1 to 3 years) lost 0.05%. Credit spreads have continued to narrow (implying a gain for the respective instruments) as excess cash searches for yield opportunities. Furthermore, primary issuance in the credit space has picked up, mostly from Nedbank, Firstrand, Sanlam, Old Mutual as well as Mercedes Benz.

Foreigners were net buyers of R7.69 billion worth of SA equities and net buyers of R9.39 billion worth in SA bonds.

LOCAL RETURNS IN ZAR

2019	September 2020	October 2020	November 2020	Year-to-date
SA MID CAPS 15.58%	SA MID CAPS 1.31%	SA BONDS 0.86%	SA PROPERTY 18.43%	SA BONDS 6.07%
SA TOP 40 12.41%	SA SMALL CAPS 0.78%	SA CASH 0.33%	SA SMALL CAPS 15.56%	SA TOP 40 5.76%
SA EQUITY 12.05%	SA CASH 0.35%	SA SMALL CAPS 0.08%	SA EQUITY 10.51%	SA CASH 5.06%
SA BONDS 10.32%	SA BONDS -0.05%	SA MID CAPS -3.11%	SA TOP 40 10.37%	SA EQUITY 2.65%
SA CASH 7.29%	SA EQUITY -1.58%	SA EQUITY -4.73%	SA MID CAPS 10.05%	SA SMALL CAPS -5.39%
SA PROPERTY -0.40%	SA TOP 40 -1.67%	SA TOP 40 -5.13%	SA BONDS 3.25%	SA MID CAPS -19.68%
SA SMALL CAPS -4.10%	SA PROPERTY -4.02%	SA PROPERTY -7.85%	SA CASH 0.31%	SA PROPERTY -43.08%

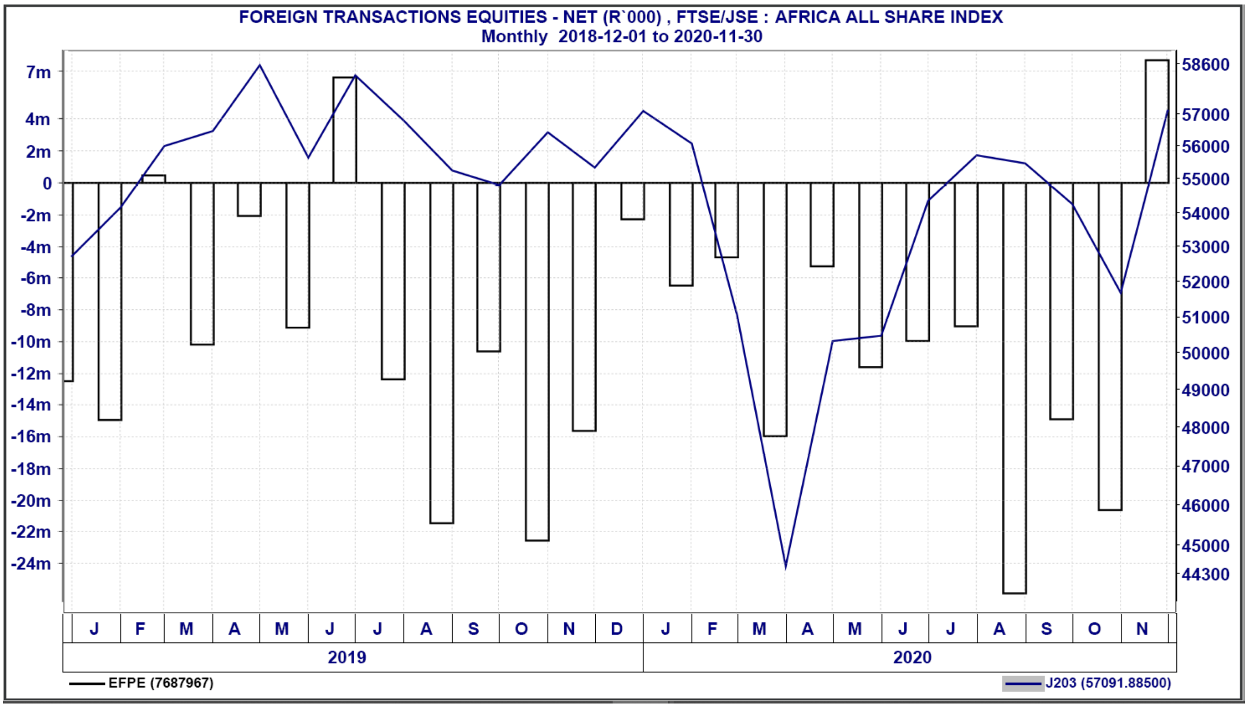
Source: Morningstar & Glacier Research

In terms of sectors, all were positive with some delivering double-digit returns. With the rand strengthening by 4.76% against the US dollar, it was expected that SA industrials would not fare as well due to the rand hedge counters. Furthermore, SA-facing businesses, which are prominent in the consumer goods, industrials, financials and general retailers, all posted strong returns.

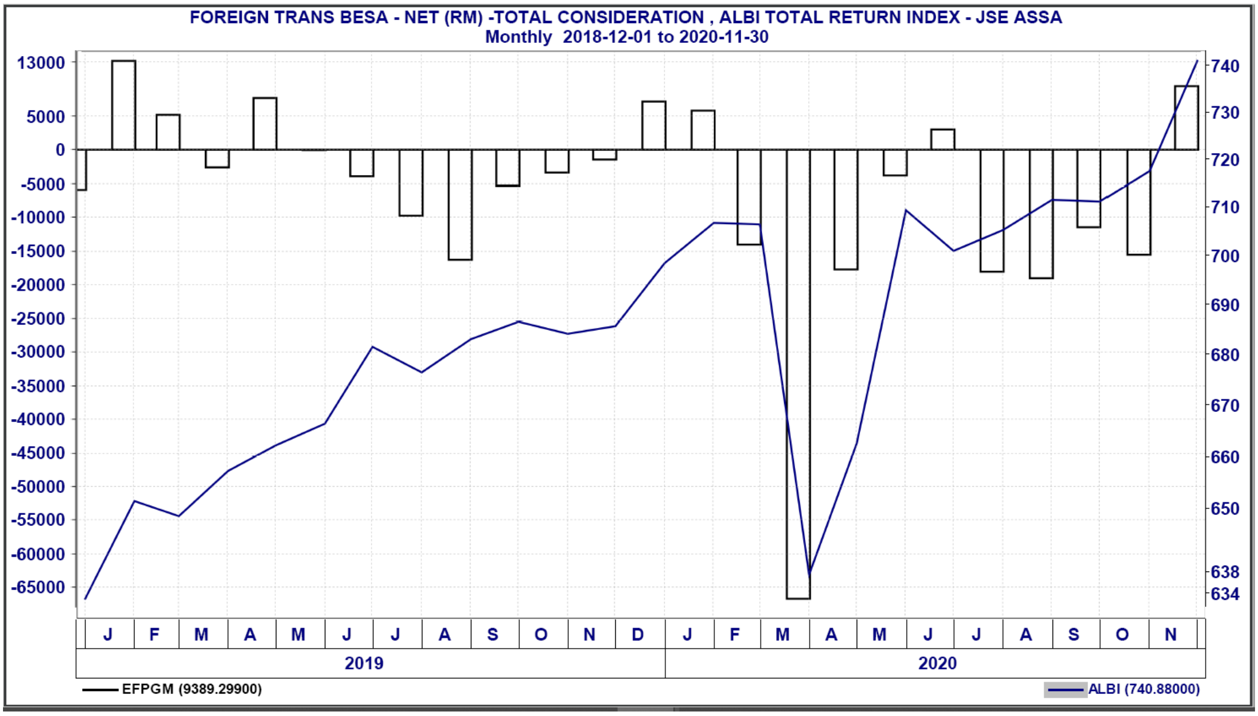
LOCAL SECTOR RETURNS IN ZAR

2019	September 2020	October 2020	November 2020	Year-to-date
RESOURCES 28.53%	GENERAL RETAILERS 10.73%	CONSUMER SERVICES 0.48%	CONSUMER GOODS 21.90%	SA INDUSTRIALS 13.09%
CONSUMER GOODS 18.31%	CONSUMER SERVICES 6.36%	SA INDUSTRIALS 0.38%	INDUSTRIALS 20.45%	CONSUMER GOODS 11.86%
SA INDUSTRIALS 8.90%	FINANCIALS 2.27%	GENERAL RETAILERS 0.09%	FINANCIALS 17.10%	RESOURCES 10.71%
CONSUMER SERVICES 2.60%	CONSUMER GOODS 1.66%	INDUSTRIALS -3.17%	GENERAL RETAILERS 16.21%	CONSUMER SERVICES -11.61%
FINANCIALS 0.63%	INDUSTRIALS 0.97%	FINANCIALS -5.76%	RESOURCES 10.90%	GENERAL RETAILERS -19.39%
INDUSTRIALS -8.91%	SA INDUSTRIALS -1.47%	CONSUMER GOODS -9.32%	CONSUMER SERVICES 9.74%	INDUSTRIALS -22.24%
GENERAL RETAILERS -18.37%	RESOURCES -3.39%	RESOURCES -10.78%	SA INDUSTRIALS 8.01%	FINANCIALS -25.85%

Source: Morningstar & Glacier Research



Source: IRESS November 2020



Source: IRESS November 2020

Global Overview

November can be described as a turning point for global markets in the aftermath of COVID-19. During the month, three vaccines that are effective against the virus, were announced. This news boosted investor sentiment and increased optimism about the near-term economic outlook. As a result, global equity markets rallied strongly, led higher by technology stocks as seen in the performance of the Nasdaq, which advanced 11.80% in US dollar terms. Most equity sectors experienced positive returns with the S&P 500, MSCI Emerging Markets and MSCI Developed Markets returning 10.75%, 9.21% and 12.66% in dollar terms, respectively.

From a sector perspective, all sectors were positive for the first time this year with energy and financial services leading the pack – pointing to the strong rotation from growth to value. The worst-performing sectors were consumer defensive and utilities. On a global equity style basis, using the MSCI World style indices, value was the top-performing style (15.01%), followed by growth (10.88%), quality (10.62%) and lastly momentum delivering 9.87% in dollar terms. The price of Brent crude oil rallied from US$37.90 to close to US$47.88 a barrel, amid a weakening dollar; optimism surrounding a surprise decline in US crude supplies; and recent breakthroughs in a COVID-19 vaccine. Both global equity and global bonds were positive during the month.

United States

US equity markets rallied during the month on positive vaccine news. Technology stocks led the advancement as seen in the performance of the Nasdaq and the S&P 500. Democrat Joe Biden captured the US presidency. However, President Donald Trump still refuses to concede defeat in the presidential election. The Trump administration has filed legal challenges to contest several of the state results in an attempt to hold office. The change in president will bring about two key changes. Firstly, a more diplomatic and less confrontational approach in foreign policy matters. Secondly, the US will re-join the Paris Climate Agreement in an effort to combat climate change. On the macroeconomic front, the US Manufacturing Purchasing Managers' Index (PMI) increased to 56.7 in November of 2020 from 53.4 in October.

The change pointed to the strongest expansion in factory activity since September of 2014 amid a marked rise in output, largely driven by a notable uptick in new business as demand conditions improved. The US Services PMI rose to 58.7 in November 2020 from 56 in the previous month. The reading signalled the steepest expansion in service output since March 2015, boosted by the fastest increase in new orders since April 2018 and the strongest employment growth since inception. The US unemployment rate decreased to 6.7% in November of 2020 from 6.9% in October. The number of unemployed people decreased by 326 000 to 10.7 million. However, the unemployment rate remains above pre-pandemic levels as the recovery showed signs of slowing amid diminishing government stimulus and a spike in new COVID-19 cases.

Eurozone

European equity markets advanced during the month on positive vaccine news despite concerns of a rise in coronavirus cases and the subsequent increase in restrictions. As a result, the Euro Stoxx finished 16.84% higher in euro terms. On the macroeconomic front, the race to contain the virus has once again exacerbated the gap between the paces of recovery in the manufacturing and services sectors of the economy.

Eurozone Manufacturing PMI fell to 53.6 in November of 2020 from 54.8 in October, beating expectations. The reading pointed to new orders increasing at the slowest rate recorded over the past five months, while manufacturing production continued to rise markedly. The Eurozone Services PMI fell to 41.3 in November 2020 from 46.2 in October. The latest reading suggests an acceleration in service activity decline amid renewed efforts to curb the spread of COVID-19.

United Kingdom

UK equity markets were in positive territory during the month on positive vaccine news and a brighter outlook for the economy. As a result, the FTSE 100 finished 12.35% higher in pound terms. During the month, the UK government once again reintroduced restrictions to contain the latest outbreak of the virus. In response to this, they announced the extension of the furlough scheme to the end of March. The Purchasing Manager's Index jumped to 55.2 in November of 2020 from 53.7 in October. The reading points to strong growth in factory activity amid a sustained recovery in production volumes after stoppages at the start of the pandemic.

Spot Rates	30 November 2018	30 November 2019	30 November 2020
EUR/USD	1.13	1.10	1.19
GBP/USD	1.27	1.29	1.33
USD/JPY	113.50	109.51	104.32

Source: IRESS

Emerging Markets and Asia

Emerging markets delivered positively during the month, underperforming its developed market counterparts. The MSCI EM index returned 9.21% while the MSCI Developed World delivered 12.66% in dollar terms. The markets were supported by strong performance from Asian equity markets.

GLOBAL RETURNS IN ZAR				
2019	**September 2020**	**October 2020**	**November 2020**	**Year-to-date**
S&P 500 27.82%	GLOBAL BONDS -1.90%	MSCI EM -0.58%	EURO STOXX 50 15.50%	SHANGHAI STOCK EXCHANGE 34.98%
MSCI WORLD 24.11%	MSCI EM -3.12%	SHANGHAI STOCK EXCHANGE -0.58%	FTSE 100 10.82%	S&P 500 26.19%
EURO STOXX 50 22.37%	GLOBAL PROPERTY -4.38%	GLOBAL BONDS -2.49%	MSCI WORLD 7.42%	MSCI WORLD 23.06%
SHANGHAI STOCK EXCHANGE 21.81%	MSCI WORLD -4.94%	S&P 500 -5.18%	GLOBAL PROPERTY 7.40%	MSCI EM 21.97%
GLOBAL PROPERTY 20.64%	S&P 500 -5.28%	MSCI WORLD -5.57%	S&P 500 5.67%	GLOBAL BONDS 19.25%
FTSE 100 18.63%	EURO STOXX 50 -5.71%	GLOBAL PROPERTY -5.79%	MSCI EM 4.05%	EURO STOXX 50 12.17%
MSCI EM 15.12%	SHANGHAI STOCK EXCHANGE -6.12%	FTSE 100 -7.20%	SHANGHAI STOCK EXCHANGE 2.58%	GLOBAL PROPERTY -2.01%
GLOBAL BONDS 3.86%	FTSE 100 -6.40%	EURO STOXX 50 -10.31%	GLOBAL BONDS -3.02%	FTSE 100 -4.48%

Source: Morningstar & Glacier Research