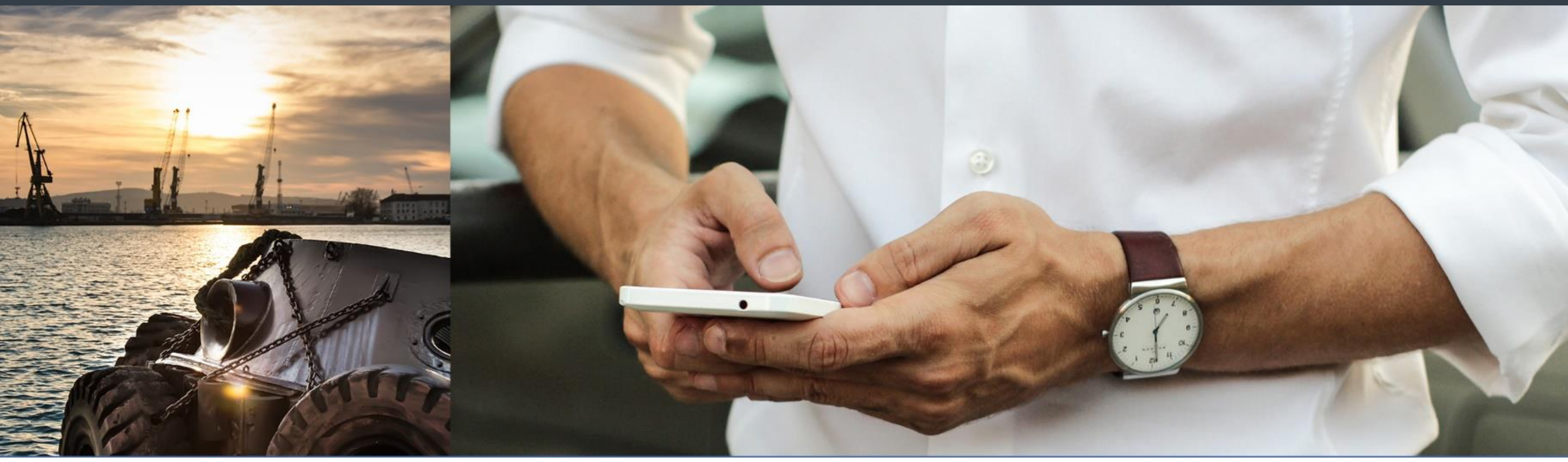
ECONOMIC REPORT

by Glacier Research



Review period: March 2022

Introduction

In the month of March, local equity markets ended flat as industrials had a tough month due to Prosus/Naspers ending weaker on the back of disappointing results from Tencent. After two months of strong performance, resources pulled back while financials rallied, benefiting handsomely from the strength of the rand. In attempt to curb inflation and stay ahead of the curve, the SARB increased the repo rate. Globally, the Ukraine-Russia crisis dominated headlines with sanctions and supply chain disruptions continuing to place upward pressure on energy and food prices. The eurozone inflation increased to an all-time high while US inflation also hit a staggering 7.9% causing US policymakers, for the first time since 2018, to increase the federal funds target range.

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Domestic Highlights

- GDP Q4 2021
- SARB MPC Interest Rate Decision

GDP Q4 2021

On the 8th of March, Statistics South Africa (Stats SA) revealed that the real gross domestic product (GDP) increased by 1.2% in the fourth quarter, taking the annual growth rate for 2021 to 4.9%. However, real GDP continues to lag pre-pandemic levels with economic activity on par with the third quarter of 2017. The economy is 1.8% smaller than it was in the first quarter of 2020. From an industry perspective, mining (+11.8%), agriculture (+8.3%) and manufacturing (+6.6%) recorded the highest growth rates in 2021 compared with 2020, with finance (+3.7%), personal services (+5.3%) and manufacturing (+6.6%) the largest positive contributors to overall growth. The construction industry contracted in 2021, falling by 1.9%. This was the fifth consecutive year of decline in construction.

SARB MPC Interest Rate Decision

The Monetary Policy Committee (MPC) decided to raise the repo rate by 25 basis points (bps) to 4.25%, taking the prime lending rate to 7.75%. Three of the committee members where in favour while the remaining two sought a 50 bps increase. This was the third consecutive interest rate hike despite inflation risks being relatively well-contained. February's core inflation data (+3.5% YoY) remained well within the SARB's 3% - 6% target range. Headline inflation (+5.8% YoY), which includes the volatile food and energy categories, is closer to the top-end of the range and is expected to breach that level as the Russian-Ukraine conflict weighs on food and energy prices. The Quarterly Projection Model (QPM) continues to reflect a steady rise of the repo rate with increases of 25 bps at each of the remaining meetings in 2022 and hikes totalling 100 bps in 2023 and 50 bps in 2024.

SA economy

The unemployment rate hit a new record high of 35.3% in the final quarter of 2021, from 34.9% in the preceding quarter. Despite economic activity rebounding in the final quarter of 2021 after being interrupted by multiple shocks in the third quarter, business confidence remained in contraction territory due to slow economic reforms and persistent power shortages. Job losses were primarily observed in manufacturing (-85 thousand) and construction (-35 thousand). On the other hand, private households (+129 thousand), trade (+118 thousand) and community and social services (+73 thousand) reported job gains. The youth unemployment rate was unchanged at a record high of 66.5%.

Furthermore, the rand continues to benefit from the surge in commodity prices and the recent hawkish tone by the SARB has only helped extend gains. As such, the Rand ended March having appreciated 4.93% against the Dollar, also gaining 6.92% and 6.21% against the Pound and Euro respectively. Improvement in economic activity is expected further in 2022 as the worst of the pandemic seems to have passed. However, households' finances will remain under pressure in the short term as the purchasing power of disposable income will be hurt by surging prices of fuel, food, and other essential items, as well as rising interest rates.

	Oct'21	Nov'21	Dec21	Jan'22	Feb'22	Mar'22
CPI (y/y)	5.0%	5.4%	5.9%	5.7%	5.7%	5.9%
PPI (y/y)	8.1%	9.6%	10.8%	10.1%	10.5%	10.8% (forecast)

Sources: Trading Economics

	31 March 2020	31 March 2021	31 March 2022
USD/ZAR	17.84	14.77	14.60
GBP/ZAR	22.15	20.35	19.19
EUR/ZAR	19.68	17.32	16.17

Source: IRESS

SA markets

During March, local equities were flat as industrials continued to weigh negatively due to Prosus/Naspers' poor performance, driven by the disappointing results from Tencent. Resources also weighed negatively after pulling back from their two-month rally, however financials were largest contributors to performance, benefitting handsomely from the stronger rand and the hike in interest rates. The All-Share Index was flat at 0.01%. From a market cap perspective, mid-caps (+6.94%) led the gains followed by small caps (+4.02%) and large caps (+3.84%). Listed property rebounded handsomely from last month, gaining 4.4%.

On the fixed income side, SA bonds were mostly muted, gaining 0.45% during the month of March, with most of gains coming from the back end of the curve. The 12 year+ area was up 1.01%. The front end of the curve (1-3-year area) gained +0.61%, whilst the 3-7-year and the 7-12-year area was down -0.23% and -0.02% respectively. Cash was up 0.36%, whilst inflation-linked bonds were down -0.68%. Preference shares gained 7.25%.

Foreigners were net buyers of R16.5 billion worth of SA equities and net sellers of R41.8 billion worth of SA bonds, during the month.

LOCAL RETURNS IN ZAR

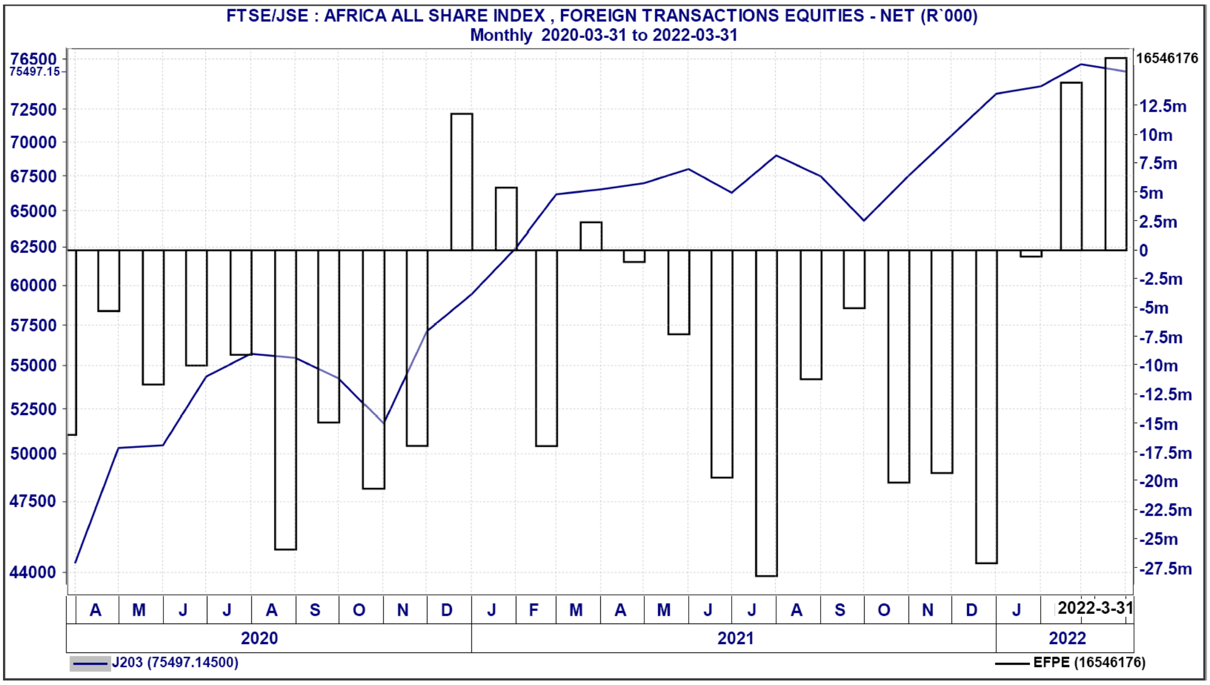
2021	January 2022	February 2022	March 2022	Year-to-date
SA SMALL CAPS 59.08%	SA TOP 40 1.16%	SA TOP 40 3.28%	SA MID CAPS 6.28%	SA MID CAPS 6.94%
SA PROPERTY 38.63%	SA EQUITY 0.86%	SA EQUITY 2.95%	SA SMALL CAPS 4.82%	SA SMALL CAPS 4.02%
SA EQUITY 29.23%	SA BONDS 0.85%	SA MID CAPS 1.02%	SA PROPERTY 4.40%	SA EQUITY 3.84%
SA MID CAPS 28.88%	SA CASH 0.34%	SA BONDS 0.54%	SA BONDS 0.45%	SA TOP 40 3.64%
SA TOP 40 28.40%	SA MID CAPS -0.40%	SA SMALL CAPS 0.54%	SA CASH 0.36%	SA BONDS 1.86%
SA BONDS 8.40%	SA SMALL CAPS -1.30%	SA CASH 0.32%	SA EQUITY 0.01%	SA CASH 1.03%
SA CASH 3.81%	SA PROPERTY -2.87%	SA PROPERTY -2.96%	SA TOP 40 -0.81%	SA PROPERTY -1.60%

Source: Morningstar & Glacier Research

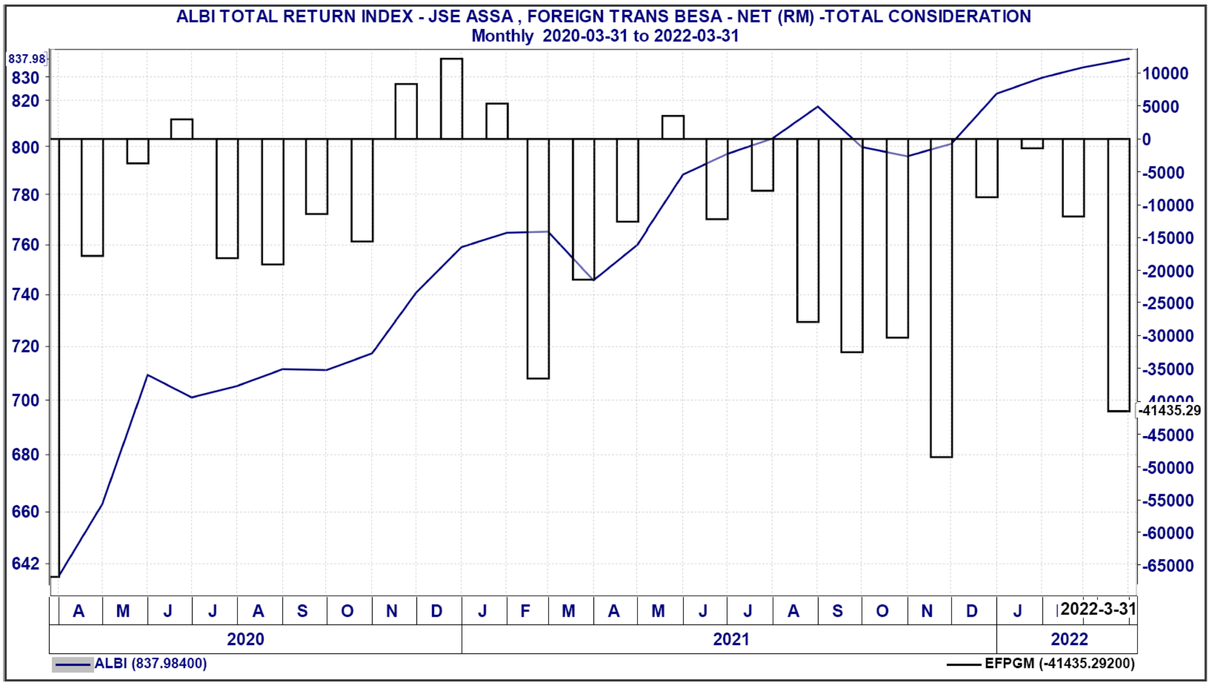
In terms of sector performances, financials were the best performers for the month, gaining 11.99%.SA Industrials (-4.29%) had a challenging month alongside Industrials which were down 3.42%. Resources pulled back from their previous gains, ending 1.05% lower.

LOCAL SECTOR RETURNS IN ZAR				
2021	**January 2022**	**February 2022**	**March 2022**	**Year-to-date**
CONSUMER SERVICES 76.32%	RESOURCES 3.63%	RESOURCES 16.08%	FINANCIALS 11.99%	FINANCIALS 20.28%
GENERAL RETAILERS 65.87%	FINANCIALS 3.50%	FINANCIALS 3.77%	GENERAL RETAILERS 4.84%	RESOURCES 19.02%
RESOURCES 32.31%	CONSUMER GOODS 3.02%	GENERAL RETAILERS 2.63%	CONSUMER GOODS -0.23%	CONSUMER GOODS 2.68%
INDUSTRIALS 30.72%	SA INDUSTRIALS -1.93%	CONSUMER GOODS -0.10%	RESOURCES -1.05%	GENERAL RETAILERS -0.38%
FINANCIALS 29.59%	INDUSTRIALS -2.44%	CONSUMER SERVICES -4.80%	INDUSTRIALS -3.42%	INDUSTRIALS -11.42%
SA INDUSTRIALS 26.45%	CONSUMER SERVICES -7.11%	INDUSTRIALS -5.98%	SA INDUSTRIALS -4.29%	SA INDUSTRIALS -13.11%
CONSUMER GOODS 22.28%	GENERAL RETAILERS -7.41%	SA INDUSTRIALS -7.43%	CONSUMER SERVICES -5.17%	CONSUMER SERVICES -16.14%

Source: Morningstar & Glacier Research



Source: IRESS March 2022



Source: IRESS March 2022

Global markets

Global equities ended the month of March higher, recouping losses from the previous months which was largely dominated by Russia's invasion of Ukraine. The prospect of a negotiated settlement between the two countries restored some optimism and lifted sentiment in global markets, although fears of long-term effects persist. As a result, gains were widespread during the month. The S&P 500, MSCI Developed Market and MSCI World AC rose 3.71%, 2.74% and 2.17%, respectively, in dollar terms. From a sector perspective, sectors were mostly positive, with utilities and energy sectors rising the most. Financials was the only sector that generated a negative return for the month.

Brent crude oil was in the spotlight yet again this month as prices spiked above US$130 a barrel (the highest level since 2007) before settling at US$108 a barrel (+7.0%). The US Federal Reserve hiked rates for the first time since 2018 with expectations of accelerated rate hikes in order to combat inflation. The European Central Bank shared similar hawkish sentiments with the Fed as the effects of high inflation exceeded concerns around slowing economic growth. Sovereign bond yields rallied during the month (implying a capital loss) as a result of the hawkish shift in monetary policy. On a global equity style basis, momentum was the top performing style (+4.45%) followed by quality (+3.40%), growth (+3.24%) and lastly value (+2.29%).

United States

US equity markets performed positively during the month of March as uncertainty surrounding monetary policy began to dissipate. Peace negotiations between Russia and Ukraine also began to dominate headlines and restoring some optimism in global markets. The S&P 500 rose 3.71% and the NASDAQ was up 3.48% in dollar terms. On the macroeconomic front, the US Manufacturing Purchasing Managers' index (PMI) rose from 56.0 in February to 58.8 in March as services rebounded strongly after slowing in January as Omicron's economic impact filtered into the data. The ISM manufacturing PMI, however, declined from 58.6 to 57.1 on the back of lower new export orders. Despite the disparity in indices, the US manufacturing industry is still expanding as the figure is still above 50. The US labour market remained healthy over recent months with the unemployment rate falling below 3.8% as 678 000 new jobs were created, significantly outperforming forecasts. Concerns of a potential recession in the near term was resurfaced as global yields rallied with some segments of the curve inverting – historically an indicator of an impending recession.

Eurozone

European equity markets fell during March, extending losses from the previous month. The Euro Stoxx 50 finished -0.46% lower in euro terms. This was largely due to the Eurozone's reliance on Russian energy exports as it supplies 40% of the region's gas. As sanctions are now causing inflated energy prices, this poses a threat of slow growth in the region.

On the macroeconomic front, the Eurozone Manufacturing PMI fell to 54.5 in March from 55.2 in the previous month. These levels remain largely in line with expectations given the effects that the Russian -Ukraine war has had on supply chains. Inflation in the region rose to 7.6%, the highest in 40 years, largely driven by energy and food prices. On the employment front, there has been improvements over recent months as unemployment has remained at a record low of 6.8%.

United Kingdom

UK equity markets closed in positive territory in March although concerns over rising inflation and commodity price volatility resulting from the Russian-Ukraine conflict remained front of mind. The FTSE 100 finished 1.42% higher in pound terms. UK's real GDP expanded by 1.3% in the first quarter of 2022 which was above market expectations. Inflation rose to a 30-year record high of 6.2% which has prompted the Bank of England to raise interest rates from 0.5% to 0.75%. The hawkish shift in monetary policy will result in interest rates returning to their pre-Covid levels. The monetary policy committee now expects inflation to rise to around 8% in the second quarter of 2022.

Spot Rates	31 March 2020	31 March 2021	31 March 2022
EUR/USD	1.10	1.17	1.11
GBP/USD	1.24	1.38	1.31
USD/JPY	107.53	110.70	121.66

Source: IRESS

Emerging markets and Asia

Emerging market equities delivered negative returns during the month underperforming its developed market counterparts. The MSCI EM index returned -2.26%, while the MSCI Developed World delivered +2.74% in dollar terms. The surging commodity prices resulting from the Russia-Ukraine conflict has led to emerging markets facing higher input costs. Central banks in South Africa, Mexico and Brazil have now raised interest rates in order to combat inflationary pressures, however this will have consequences on economic growth. Chinese equities lagged once again, underperforming emerging market equities. This resulted from a resurgence in Covid-19 cases in the region, imposition of lockdowns, supply chain disruptions and continued regulatory pressure on Chinese technology companies. Furthermore, uncertainty surrounding whether the Chinese government would support Russia's invasion of Ukraine also weighed on sentiment, dragging markets lower.

GLOBAL RETURNS IN ZAR

2021	January 2022	February 2022	March 2022	Year-to-date
GLOBAL PROPERTY 41.28%	UK EQUITY -2.91%	CHINA EQUITY 3.68%	GLOBAL PROPERTY -0.77%	UK EQUITY -8.44%
US EQUITY 39.84%	GLOBAL EM -4.90%	UK EQUITY 0.20%	US EQUITY -1.92%	GLOBAL PROPERTY -12.35%
GLOBAL EQUITY 32.36%	GLOBAL BONDS -5.06%	GLOBAL BONDS -1.30%	GLOBAL EQUITY -2.84%	US EQUITY -12.65%
UK EQUITY 27.52%	EURO EQUITY -7.11%	GLOBAL EQUITY -2.64%	UK EQUITY -5.89%	GLOBAL EQUITY -13.16%
EURO EQUITY 24.56%	US EQUITY -8.09%	GLOBAL PROPERTY -2.76%	EURO EQUITY -6.75%	GLOBAL BONDS -14.08%
CHINA EQUITY 14.96%	GLOBAL EQUITY -8.20%	GLOBAL EM -3.10%	GLOBAL EM -7.57%	GLOBAL EM -14.83%
GLOBAL EM 5.89%	GLOBAL PROPERTY -9.16%	US EQUITY -3.10%	GLOBAL BONDS -8.32%	EURO EQUITY -18.44%
GLOBAL BONDS 3.54%	CHINA EQUITY -10.74%	EURO EQUITY -5.84%	CHINA EQUITY -12.06%	CHINA EQUITY -18.62%

Source: Morningstar & Glacier Research