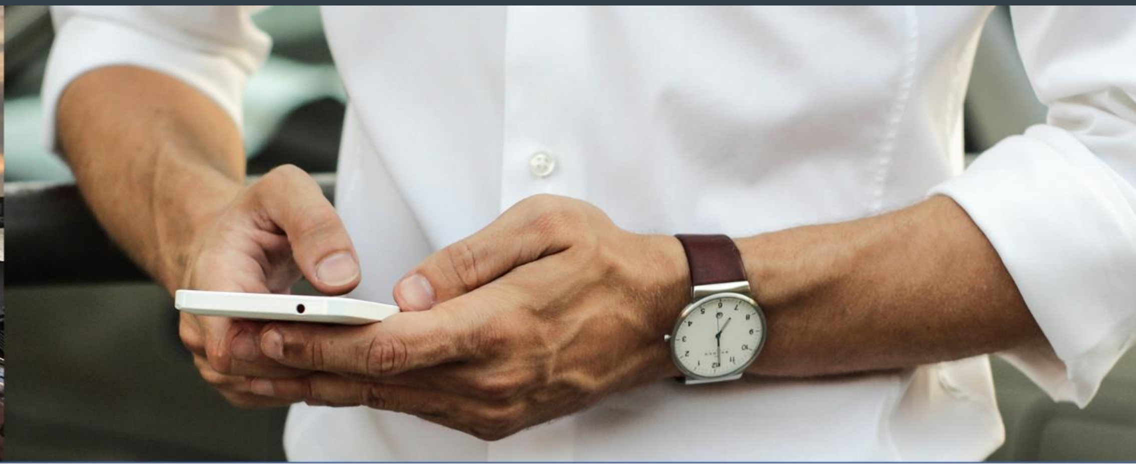
ECONOMIC REPORT

by Glacier Research

glacier by Sanlam



23 July 2021

Review period: June 2021

Introduction

During the month of June, local equity markets staged a notable move to the downside. This was as the resources rally continued to abate on the back of a fall in commodity prices, with the exception of oil. The weakness in the rand, following a four-month rally, dragged financials lower while property was the best-performing asset class. On the economic front, unemployment continued to deteriorate, reflecting the continued impact of COVID-19 and subsequent national lockdowns. GDP growth figures, on the other hand, came out positive for the first quarter of 2021. On the global side, inflation remains a key talking point, while the Federal Reserve (Fed) continues to deem it as transitory. Developed market sentiment was buoyed by President Biden’s spending proposal of $1.2 trillion, while value pockets of the market, which have been enjoying a rally, gave way to quality areas on the back of the hawkish policy tone of the Fed.

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Domestic highlights

- SA GDP

SA GDP

South Africa's GDP grew by 1.1% in the first quarter of 2021 (which translates to an annualised growth rate of 4.6%), modestly lower than the downwardly revised 1.4% growth recorded in the last quarter of 2020. The main drivers of the growth were mining (+18.1%), finance (+7.4%) and trade (+6.2%). Eight out of the ten industries ended the quarter higher, while two industries lagged, including electricity, gas & water (-2.6%) and agriculture (-3.2%). Despite the growth in the first quarter of 2021, the SA economy remains 2.7% lower than it was in the first quarter of 2020. On the expenditure side, spending on clothing & footwear was the highest at 22%.

SA economy

The slow pace of vaccinations indirectly contributed to limited energy supply, as intermittent lockdowns continue to hamper economic activity. The pullback in commodity prices is yet another factor that potentially will dampen revenues, along with the weakening rand which bodes ill for imports. Unemployment continued to deteriorate with the official rate now at 32.6% for the first quarter of 2021. This is the highest unemployment rate in over a decade. The number of unemployed people increased by 8 000 to 7.2 million, with sectors such as construction and trade leading the way in terms of job contributions. Business confidence, however, made some moves to the upside, rising from 35 to 50. Meanwhile, manufacturing activity edged lower from 57.8 May to 57.4 in June, albeit still in expansion territory.

	Jan'21	Feb'21	Mar'21	Apr'21	May'21	Jun'21
CPI (y/y)	3.2%	2.9%	3.2%	4.4%	5.2%	4.9%
PPI (y/y)	3.5%	4.0%	5.2%	6.7%	7.4%	-

Sources: Trading Economics

	30 June 2019	30 June 2020	30 June 2021
USD/ZAR	14.10	17.35	14.27
GBP/ZAR	17.89	21.52	19.75
EUR/ZAR	16.02	19.50	16.93

Source: IRESS

SA markets

Local equity markets staged a pullback this month, after a seven-month winning streak, as the downturn in commodity prices and the weaker rand weighed negatively on the resource sector. The All Share was down 2.43% for the month. Large caps (-2.56%), mid-caps (-2.58%) and small caps (-1%) also turned in negative performance. Meanwhile, property was the best-performing asset class, advancing 3.37%. On the fixed income side, bonds closed 1.09% higher with the long end of the curve driving most of the returns. The 12 year+ area was up 1.73% while the seven to 12-year area also gained 0.96%. Coming to the front-end of the curve, the one to three-year area lost 0.01%. Cash was up 0.31%, inflation-linked bonds were down 1.21% along with preference shares which fell 4.24%.

Foreigners were net sellers of R19.66 billion worth of SA equities and net sellers of R12.23 billion worth of SA bonds.

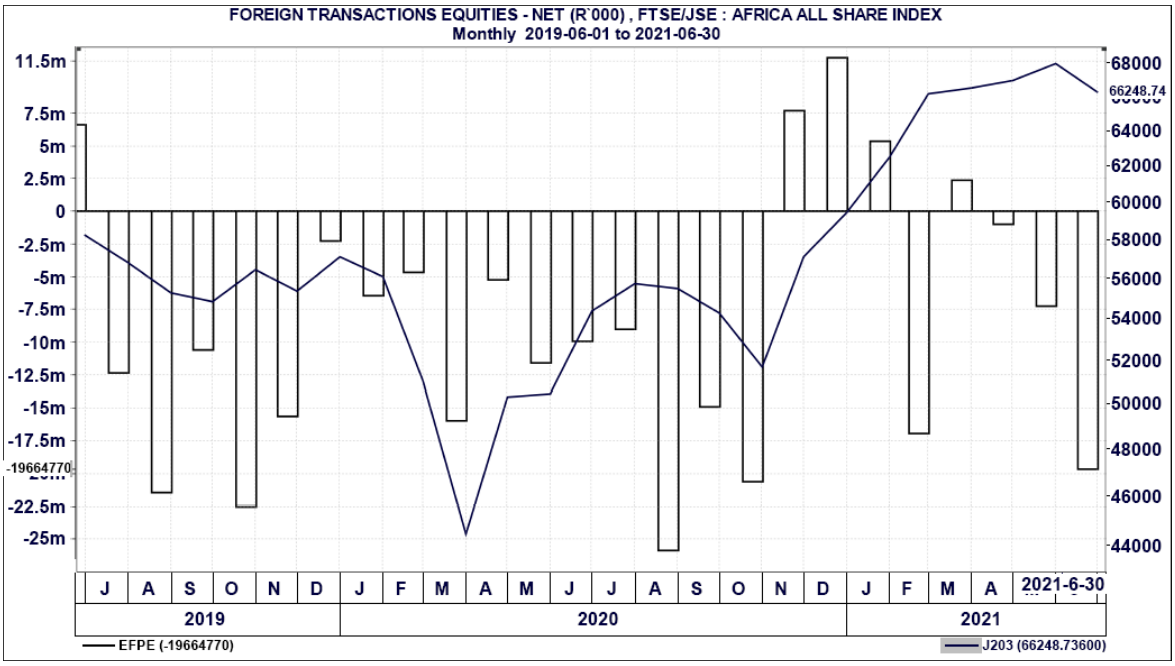
LOCAL RETURNS IN ZAR				
2020	**April 2021**	**May 2021**	**June 2021**	**Year-to-date**
SA TOP 40 9.97%	SA PROPERTY 3.02%	SA MID CAPS 6.16%	SA PROPERTY 3.02%	SA SMALL CAPS 30.93%
SA BONDS 8.65%	SA BONDS 1.09%	SA BONDS 3.73%	SA BONDS 1.09%	SA PROPERTY 20.09%
SA EQUITY 7.00%	SA CASH 0.31%	SA SMALL CAPS 3.33%	SA CASH 0.31%	SA MID CAPS 15.83%
SA CASH 5.39%	SA SMALL CAPS -1.00%	SA EQUITY 1.56%	SA SMALL CAPS -1.00%	SA EQUITY 13.20%
SA SMALL CAPS -0.28%	SA EQUITY -2.43%	SA TOP 40 1.14%	SA EQUITY -2.43%	SA TOP 40 12.24%
SA MID CAPS -14.37%	SA TOP 40 -2.56%	SA CASH 0.31%	SA TOP 40 -2.56%	SA BONDS 5.00%
SA PROPERTY -35.53%	SA MID CAPS -2.58%	SA PROPERTY -3.23%	SA MID CAPS -2.58%	SA CASH 1.83%

Source: Morningstar & Glacier Research

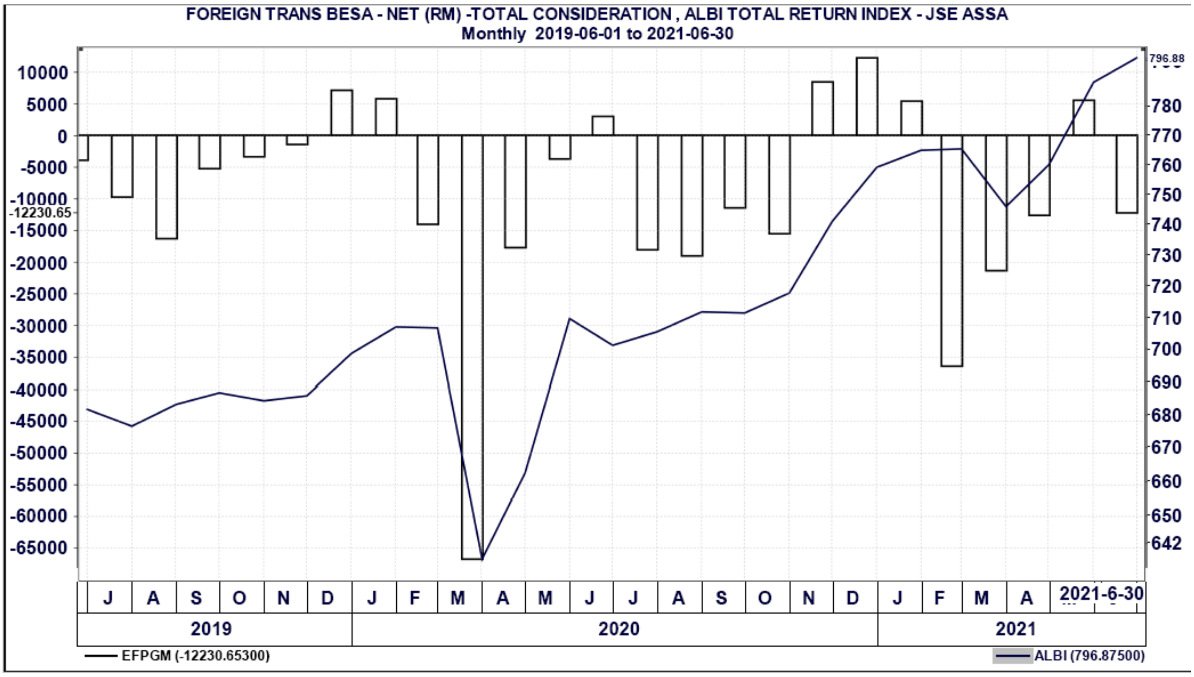
In terms of sectors, resources detracted the most, losing 6.44%, followed by financials which was down 3.03%. SA industrials bucked the trend, gaining 0.38% while industrials was down 0.19%.

LOCAL SECTOR RETURNS IN ZAR				
2020	**April 2021**	**May 2021**	**June 2021**	**Year-to-date**
RESOURCES 21.20%	GENERAL RETAILERS 5.85%	CONSUMER SERVICES 12.04%	CONSUMER SERVICES 3.30%	GENERAL RETAILERS 38.38%
CONSUMER GOODS 13.31%	CONSUMER SERVICES 3.74%	FINANCIALS 9.30%	GENERAL RETAILERS 1.86%	CONSUMER SERVICES 34.18%
SA INDUSTRIALS 12.00%	INDUSTRIALS 3.00%	CONSUMER GOODS 4.14%	CONSUMER GOODS 1.20%	INDUSTRIALS 19.61%
CONSUMER SERVICES -8.80%	RESOURCES 2.85%	INDUSTRIALS 2.62%	SA INDUSTRIALS 0.38%	SA INDUSTRIALS 13.82%
GENERAL RETAILERS -15.39%	FINANCIALS 1.46%	SA INDUSTRIALS 1.59%	INDUSTRIALS -0.19%	RESOURCES 12.81%
FINANCIALS -19.67%	SA INDUSTRIALS -1.19%	GENERAL RETAILERS 1.16%	FINANCIALS -3.03%	FINANCIALS 11.65%
INDUSTRIALS -20.67%	CONSUMER GOODS -1.85%	RESOURCES -1.24%	RESOURCES -6.44%	CONSUMER GOODS 9.93%

Source: Morningstar & Glacier Research



Source: IRESS June 2021



Source: IRESS June 2021

Global markets

Global equity markets continued an upward trajectory, supported by an acceleration in vaccination campaigns across developed economies. In addition, strong economic data posted over the last three months, has boosted investor sentiment. Markets were, however, constrained by concerns that upside data surprises may result in more persistent inflation. Despite this, global equity markets ended the month of June higher. Most equity sectors experienced positive returns with the S&P 500, MSCI World AC and MSCI Developed Market returning +2.20%, +1.20% and +1.40%, respectively, in dollar terms. From a sector perspective, performance was mixed, with technology, energy and communication services leading the pack.

Basic materials and utilities were the laggards during the month. The price of Brent crude oil increased from US$69.33 to close at US$74.62 per barrel, as higher inflation expectations along with supply constraints, have created upward pressure. The US 10-year Treasury yields dropped by 30 bps, falling to 1.45%, with the decline helping growth stocks to outperform value stocks. On a global equity style basis, using the MSCI World style indices, growth was the top-performing style (+4.46%), followed by quality (+3.66%), momentum (+1.44%) and lastly, value (-1.39%), in dollar terms. Global equity was positive during the month, while global bonds were negative in dollar terms.

United States

US equity markets performed positively during the month, booming on the back of full-bodied monetary and fiscal stimulus and world-leading vaccination programmes. As a result, the S&P 500 delivered 2.20% in dollar terms. During the month, the Biden administration and a group of senators proposed a bipartisan infrastructure plan of $1.2 trillion in spending, over the next five years. On the macroeconomic front, the US Manufacturing Purchasing Managers' Index (PMI) increased to 62.6 in June from 61.5 in May. The change points to record growth in factory activity, supported by stronger expansion in output and new orders, with the pace of the latter reaching the fastest on record. Although the US Services PMI fell to 64.8 in June from 70.4 in May, the level still indicates the second-sharpest expansion in the service sector, since inception. This, among rising customer demand as pandemic restrictions eased further during the month.

Growth rates in both new business and exports remained strong, while struggles among companies to find suitable workers hampered the pace of job creation. The US unemployment rate dropped to 5.9% in June from 5.8% in the previous month. The number of unemployed people declined by 168 000 000 to 9.48 million, while employment levels fell by 18 000 to 151.60 million. The jobless rate remains above the pre-pandemic levels, as the recovery from the COVID-19 shock showed signs of slowing. The annual inflation rate in the US increased to 5.4% in June, from 5% in May – mainly driven by used cars and trucks (45.2%), gasoline (45.1%), fuel & soil (44.5), utility gas services (15.6%) and transportation services (10.4%).

Eurozone

European equity markets advanced during the month, on acceleration in the rate of vaccinations and the continued pickup in economic activity across the region. As a result, the Euro Stoxx finished 0.87% higher in euro terms. On the macroeconomic front, the Eurozone Manufacturing PMI jumped to 63.4 in June from 63.1 in May, beating expectations. The reading pointed to record growth in factory activity. Overall, production growth remained elevated during June, close to the survey records registered earlier in the year. In addition, new orders experienced their third-fastest ever reported increase, with new export orders again increasing sharply over the month. The Eurozone Services PMI rose to 58.3 in June from 55.5 in the previous month. The latest reading points to the steepest pace of expansion in the service sector since July 2007, due to the easing of coronavirus-induced measures in many Eurozone member states.

United Kingdom

UK equity markets were in positive territory during the month, supported by the continued successful vaccination rollout and subsequent easing in restrictions. As a result, the FTSE 100 finished 0.21% higher in pound terms. On the data front, the Purchasing Manager's Index fell to 63.9 in June from 64.2 in May. The reading level still reflects a strong pace of expansion in the manufacturing sector, as output increased at marked rates across the consumer, intermediate and investment goods industries. The UK Services PMI rose to 62.4 in June from 60 in the previous month. The latest reading suggests strong expansion in service sector activity, in line with looser COVID-19 restrictions and growing customer demand. New order growth remained close to May's record high, despite a continued decline in exports – this while the rate of job creation was the strongest since June 2014.

Spot Rates	30 June 2019	30 June 2020	30 June 2021
EUR/USD	1.14	1.12	1.85
GBP/USD	1.27	1.24	1.38
USD/JPY	107.89	107.93	111.11

Source: IRESS

Emerging markets and Asia

Emerging markets returned negatively during the month, underperforming their developed market counterparts. The MSCI EM index returned -0.11%, while the MSCI Developed World delivered 1.40% in dollar terms. Emerging markets experienced pressure from the underperformance of EM currencies, as well as hawkish discussions about the Fed's tapering of monetary policies. Coupled with continued COVID-19 cases and falling commodity prices, this took its toll on most of the major EM regions.

GLOBAL RETURNS IN ZAR

2020	April 2021	May 2021	June 2021	2021 - YTD
SHANGHAI STOCK EXCHANGE 33.42%	GLOBAL PROPERTY 5.33%	SHANGHAI STOCK EXCHANGE 0.83%	S&P 500 6.50%	GLOBAL PROPERTY 13.31%
S&P 500 24.37%	S&P 500 3.49%	EURO STOXX 50 -1.74%	MSCI WORLD 5.62%	S&P 500 12.03%
MSCI EM 24.27%	MSCI WORLD 2.82%	FTSE 100 -1.86%	GLOBAL PROPERTY 5.16%	MSCI WORLD 9.89%
MSCI WORLD 21.75%	FTSE 100 2.64%	MSCI EM -3.24%	MSCI EM 4.25%	EURO STOXX 50 9.35%
GLOBAL BONDS 14.70%	EURO STOXX 50 2.46%	GLOBAL PROPERTY -3.77%	GLOBAL BONDS 3.15%	FTSE 100 8.96%
EURO STOXX 50 10.83%	MSCI EM 0.69%	MSCI WORLD -4.07%	EURO STOXX 50 1.64%	MSCI EM 4.45%
GLOBAL PROPERTY -3.27%	SHANGHAI STOCK EXCHANGE -0.22%	GLOBAL BONDS -4.54%	FTSE 100 1.55%	SHANGHAI STOCK EXCHANGE -0.13%

Source: Morningstar & Glacier Research