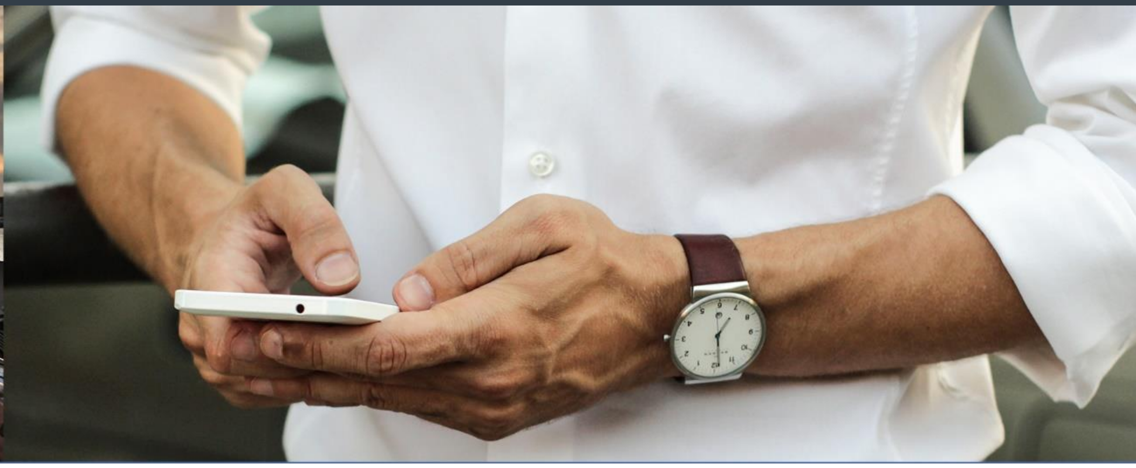
ECONOMIC REPORT

by Glacier Research

glacier by Sanlam



25 November 2020

Review period: October 2020

Domestic Overview

Local equity markets continued deeper into negative territory as the resource sector continued its downward trend alongside financials which took a downturn. On the economic front, the rise in business and manufacturing activity continued as a result of eased lockdown restriction. Globally, equity markets ended lower as concerns over the resurgence of COVID-19 cases spooked investors across major developed markets. In contrast, Chinese economic fundamentals are showing notable signs of recovery. In terms of investment styles, while growth stocks have had a multi-year rally, some signs of rotation to value stocks are beginning to show as high-flying tech stocks came under pressure in October. US presidential elections became a major theme in the markets as polls showed a Biden win.

Domestic Highlight(s) in October 2020

- South African Economic Reconstruction and Recovery Plan
- Medium Term Budget Policy Statement

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South African Economic Reconstruction and Recovery Plan

On the back of an ailing economy that is plagued by depressed growth, high unemployment, escalating debt, rampant corruption and the impact of COVID-19, President Cyril Ramaphosa tabled an Economic Reconstruction and Recovery Plan which is set to aid in getting the economy on a sustainable growth path. The key elements of the plan include:

- Infrastructure development and expansion (unlocking over R1 trillion in infrastructure development over four years)
- Fighting crime and corruption
- Employment-orientated initiatives leading to 800 000 jobs in the immediate term
- Reindustrialisation of the economy (with a focus on small businesses and supporting existing medium and large businesses)
- Strategic localisation and export promotion
- Energy security and efficiency
- Support for tourism

Of additional interest to the President's plan was his assertion that the implementation of the plan will contribute an additional 1.7% to the current projected growth of 1.3%, leading to an average growth of approximately 3% per annum over the next 10 years.

Medium Term Budget Policy Statement (MTBPS)

As the effect of COVID-19 continues to be felt in our fiscally challenged economy and against the backdrop the South African Economic Reconstruction and Recovery Plan tabled by the President, the MTBPS was aimed at reviewing the fiscal situation while also laying the framework for the main budget that will be tabled in 2021. Important takeaways from the MTBPS are as follows:

- The domestic economy is expected to suffer a contraction of 7.8% in 2020 before expanding 3.3% in 2021, 1.7% in 2022 and 1.5% in 2023.
- Over the next five years, debt-to-GDP is expected to settle at 95% while gross debt is expected to increase from approximately R4 trillion to R5.5 trillion over the next three years. Debt service costs have been revised down by R3.4 billion.
- The public wage bill is proposed to increase by 1.8% in 2020 while targeting to reduce the wage bill by R160 billion in three years.
- On the revenue side, a shortfall of R300 billion in tax collection is expected.
- In relation to the funding of SOEs, R10.5 billion was allocated to South African Airways for its rescue plan while R3 billion had been allocated to the Land Bank in June 2020.

South Africa: Economy

As the country continued to be on alert Level 1 of lockdown, manufacturing activity continued its upward trend, rising from a revised 58.5 in September to 60.9 in October as business activity, new sales and inventories increased. This marks the third consecutive month of expansion which has largely been driven by increasing demand due to eased COVID-19 restrictions. Data for August, released in October, showed a recovery in mining and retail sales. Mining production (-3% YoY) continued to contract but at a lesser rate compared to the upwardly revised year-on-year contraction of 6.5% and 25.3% in July and June, respectively. Gold was the largest detractor followed by iron ore and coal. On the other hand, retail sales volumes declined by 4.2% in August (less than expected) following a year-on-year decline of 8.6% in July and 49.9% in April. The pickup in food, beverages and tobacco was the main driver of the rebound.

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

Sources: Trading Economics

	31 October 2018	31 October 2019	31 October 2020
USD/ZAR	14.77	15.09	16.24
GBP/ZAR	18.87	19.53	21.05
EUR/ZAR	16.71	16.84	18.90

Source: IRESS

South Africa: Markets

Local equity markets delivered yet another disappointing month as resource stocks made some notable moves to the downside with market heavyweights such Anglo American (-7.72%) and BHP Group (-13.02%) ending the month lower while rand strength exacerbated the sell-off. The All Share Index (ALSI) was down 4.73% after having lost 1.58% in the previous month. Large-cap stocks also fell deeper into negative territory, giving up 5.13% and mid-caps following suit, losing 3.11%. Small caps (+0.08%), however, continued their moves to the upside, albeit ending weaker than the previous month. Once again, property turned in the lowest returns, declining 7.85%. On the fixed income side, bonds had a slightly stronger month as the ALBI gained 0.89%. Returns of one- to three-year maturities were up 1.09%, the three- to seven-year maturities were up 1.25% and seven- to 12-year maturities firmed 1.43%. Inflation-linked bonds staged a muted comeback to end higher at 0.75%. Cash returned 0.34%. Foreigners were net sellers of R20.62 billion worth of SA equities and net sellers of R15.54 billion worth in SA bonds.

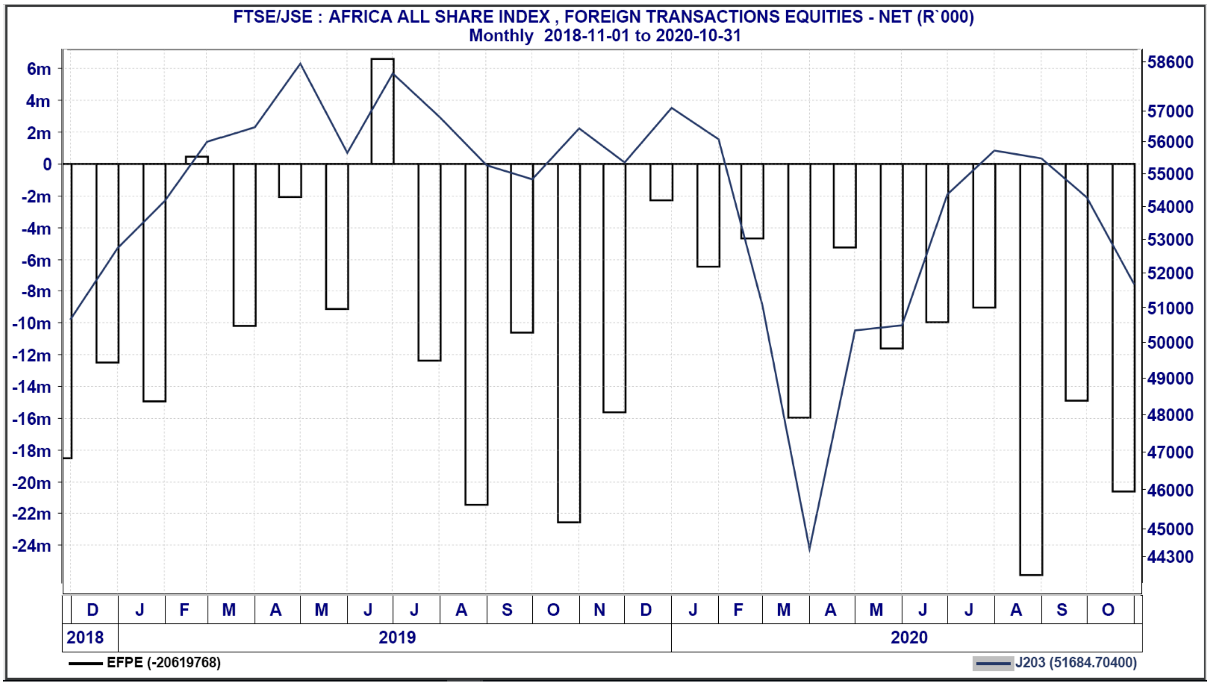
LOCAL RETURNS IN ZAR				
2019	**August 2020**	**September 2020**	**October 2020**	**Year-to-date**
SA MID CAPS 15.58%	SA SMALL CAPS 1.37%	SA MID CAPS 1.31%	SA BONDS 0.89%	SA CASH 4.73%
SA TOP 40 12.41%	SA BONDS 0.89%	SA SMALL CAPS 0.78%	SA CASH 0.34%	SA BONDS 2.72%
SA EQUITY 12.05%	SA CASH 0.39%	SA CASH 0.35%	SA SMALL CAPS 0.08%	SA TOP 40 -4.18%
SA BONDS 10.32%	SA TOP 40 -0.09%	SA BONDS -0.05%	SA MID CAPS -3.11%	SA EQUITY -7.12%
SA CASH 7.29%	SA EQUITY -0.26%	SA EQUITY -1.58%	SA EQUITY -4.73%	SA SMALL CAPS -18.13%
SA PROPERTY -0.40%	SA MID CAPS -1.65%	SA TOP 40 -1.67%	SA TOP 40 -5.13%	SA MID CAPS -27.02%
SA SMALL CAPS -4.10%	SA PROPERTY -8.80%	SA PROPERTY -4.02%	SA PROPERTY -7.85%	SA PROPERTY -51.94%

Source: Morningstar

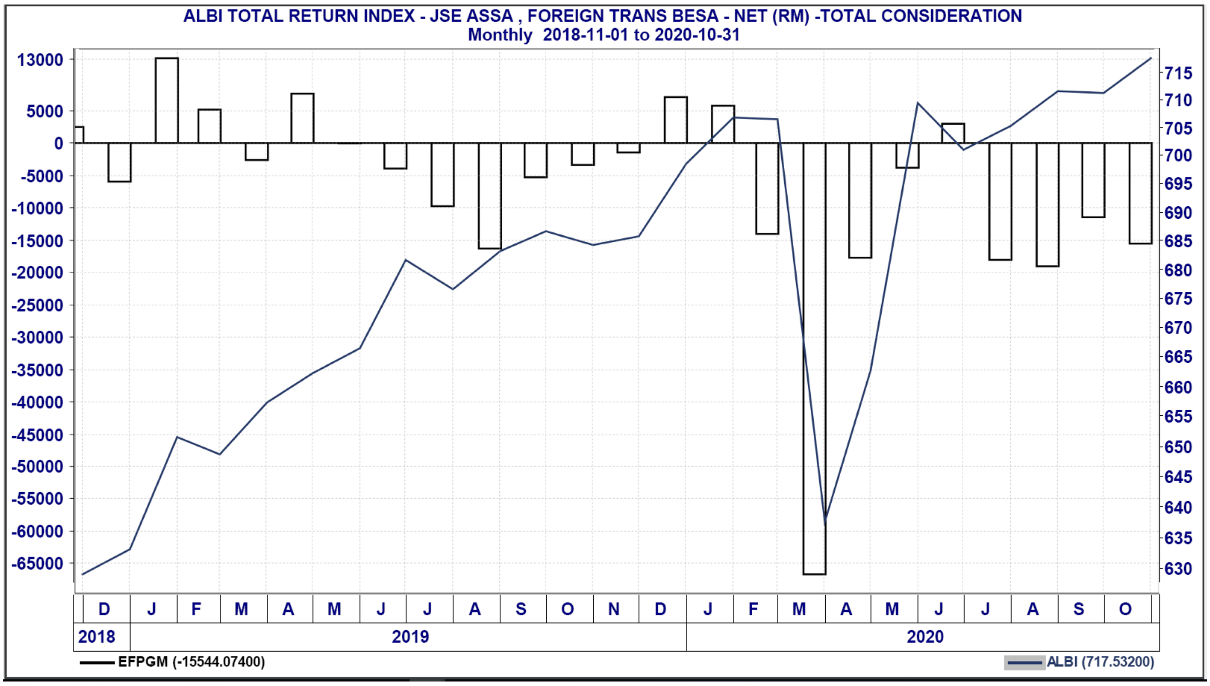
In terms of sectors, resources (-10.78%) had their second (and deeper) negative performance since the March sell-off followed by financials which suffered a downturn of 5.76%. Industrials fell by 3.17% while SA industrials (which are rand-hedges) managed to turn in modest gains, delivering +0.38% for the month.

LOCAL SECTOR RETURNS IN ZAR				
2019	**August 2020**	**September 2020**	**October 2020**	**Year-to-date**
RESOURCES 28.53%	CONSUMER GOODS 3.73%	GENERAL RETAILERS 10.73%	CONSUMER SERVICES 0.48%	SA INDUSTRIALS 4.70%
CONSUMER GOODS 18.31%	INDUSTRIALS 1.98%	CONSUMER SERVICES 6.36%	SA INDUSTRIALS 0.38%	RESOURCES -0.17%
SA INDUSTRIALS 8.90%	GENERAL RETAILERS 1.12%	FINANCIALS 2.27%	GENERAL RETAILERS 0.09%	CONSUMER GOODS -8.24%
CONSUMER SERVICES 2.60%	RESOURCES 0.65%	CONSUMER GOODS 1.66%	INDUSTRIALS -3.17%	CONSUMER SERVICES -19.45%
FINANCIALS 0.63%	SA INDUSTRIALS 0.46%	INDUSTRIALS 0.97%	FINANCIALS -5.76%	GENERAL RETAILERS -30.64%
INDUSTRIALS -8.91%	CONSUMER SERVICES 0.02%	SA INDUSTRIALS -1.47%	CONSUMER GOODS -9.32%	INDUSTRIALS -35.44%
GENERAL RETAILERS -18.37%	FINANCIALS -4.21%	RESOURCES -3.39%	RESOURCES -10.78%	FINANCIALS -36.68%

Source: Morningstar



Source: IRESS October 2020



Source: IRESS October 2020

Global Overview

The surge continues with the second wave of COVID-19 in full swing across continents. During the month, we saw a massive increase in daily infection rates across all major European economies. This caused concern about the potential stresses on public health facilities leading governments to re-impose new lockdown restrictions. As a result, global equity markets fell on virus concerns, with the MSCI World ACWI Index down 2.50% in dollar terms.

From a sector perspective, utilities and communication services were the best-performing sectors. The worst-performing sectors were energy and technology with weaker-than-expected revenue from iPhones and sales in China pushed Apple's share price into the red. On a global equity style basis, using the MSCI World style indices, value was the top-performing style (-2.83%), followed by growth (-3.27%), momentum (-3.55%) and lastly quality, delivering -3.73% in dollar terms. The price of Brent crude oil fell from US$42.30 to close at US$37.90 a barrel on concerns that a Biden victory and his support for remaining in the Paris climate agreement could herald a move away from fossil fuels. Global equities were negative whereas global bonds delivered positive returns in dollar terms.

United States

US equity markets returned negatively for the month on concerns of a second wave of COVID-19. Technology stocks sold off as seen in the performance of the Nasdaq which declined 2.29%. Some of the biggest losses came from Apple, Alphabet and Facebook. Overall, the S&P 500 delivered -2.77% in dollar terms. On the macroeconomic front, the US Manufacturing Purchasing Managers' Index (PMI) increased to 53.3 in October of 2020 from 53.2 in September.

The change pointed to the first expansion in factory activity since January. The growth was driven by a further increase in new order growth due to more robust client demand, with some firms noting larger orders being placed. The US Services PMI rose to 56 in October 2020 from 54.6 in the previous month. The reading signalled a continued solid upturn in service sector business activity. The expansion was supported by more robust demand conditions despite a slower upturn in new export business. The US unemployment rate decreased to 6.9% in October of 2020, from 7.9% in the previous month. The number of unemployed people decreased by 1.5 million to 11.1 million. However, the unemployment rate remains above pre-pandemic levels as the recovery from the COVID-19 shock showed signs of slowing amid diminishing government stimulus and a spike in new cases.

Eurozone

European equity markets fell during the month on concerns of a rise in COVID-19 cases and the subsequent increase in restrictions. The increase in the number of cases in several major regions including Spain, France, Germany and Italy forced governments to adopt national level restrictions. As a result, the Euro Stoxx finished -6.68% lower in euro terms. On the macroeconomic front, Eurozone Manufacturing PMI increased to 54.4 in October of 2020 from 53.7 in September, beating expectations. The reading pointed to the sharpest expansion in the manufacturing sector since August 2018. Growth in output and new orders quickened and backlogs of work were the highest since February of 2018. The Eurozone Services PMI fell to 46.2 in October 2020 from 48 in the previous month. The latest reading signalled a second consecutive monthly decline in contraction of the services economy as overall new business fell for a third straight month. Export business was also down markedly.

United Kingdom

UK equity markets retreated during the month, as a persistent rise in new COVID-19 cases led to national lockdown measures being announced. In addition, concerns of a stalling economic recovery ahead of the next round of Brexit negotiations also impacted sentiment. As a result, the FTSE 100 finished -4.92% lower in pound terms. On the data front, the Purchasing Manager's Index fell to 53.3 in October of 2020 from 54.1 in August. The reading reflects a weaker rise in output and new orders alongside a faster decline in staffing numbers across the manufacturing sector.

Spot Rates	31 October 2018	31 October 2019	31 October 2020
EUR/USD	1.13	1.12	1.17
GBP/USD	1.28	1.29	1.30
USD/JPY	112.95	108.03	104.67

Source: IRESS

Emerging Markets and Asia

Emerging markets delivered positively during the month, outperforming its developed market counterpart. The MSCI EM index returned 1.98%, while the MSCI Developed World delivered -3.14% in dollar terms. Markets were supported by strong performance from Asian equity markets as investor sentiment in China was boosted by healthy quarterly corporate results. In addition, strong macroeconomic data released in China points to a continuing economic recovery.

GLOBAL RETURNS IN ZAR

2019	August 2020	September 2020	October 2020	Year-to-date
S&P 500 27.82%	S&P 500 6.64%	GLOBAL BONDS -1.90%	MSCI EM -0.58%	SHANGHAI STOCK EXCHANGE 31.58%
MSCI WORLD 24.11%	MSCI WORLD 6.13%	MSCI EM -3.12%	SHANGHAI STOCK EXCHANGE -0.58%	GLOBAL BONDS 22.97%
EURO STOXX 50 22.37%	SHANGHAI STOCK EXCHANGE 4.31%	GLOBAL PROPERTY -4.38%	GLOBAL BONDS -2.49%	S&P 500 19.41%
SHANGHAI STOCK EXCHANGE 21.81%	EURO STOXX 50 3.82%	MSCI WORLD -4.94%	S&P 500 -5.18%	MSCI EM 17.22%
GLOBAL PROPERTY 20.64%	FTSE 100 3.27%	S&P 500 -5.28%	MSCI WORLD -5.57%	MSCI WORLD 14.55%
FTSE 100 18.63%	MSCI EM 1.69%	EURO STOXX 50 -5.71%	GLOBAL PROPERTY -5.79%	EURO STOXX 50 -2.88%
MSCI EM 15.12%	GLOBAL PROPERTY 1.59%	SHANGHAI STOCK EXCHANGE -6.12%	FTSE 100 -7.20%	GLOBAL PROPERTY -8.76%
GLOBAL BONDS 3.86%	GLOBAL BONDS -0.67%	FTSE 100 -6.40%	EURO STOXX 50 -10.31%	FTSE 100 -13.81%

Source: Morningstar