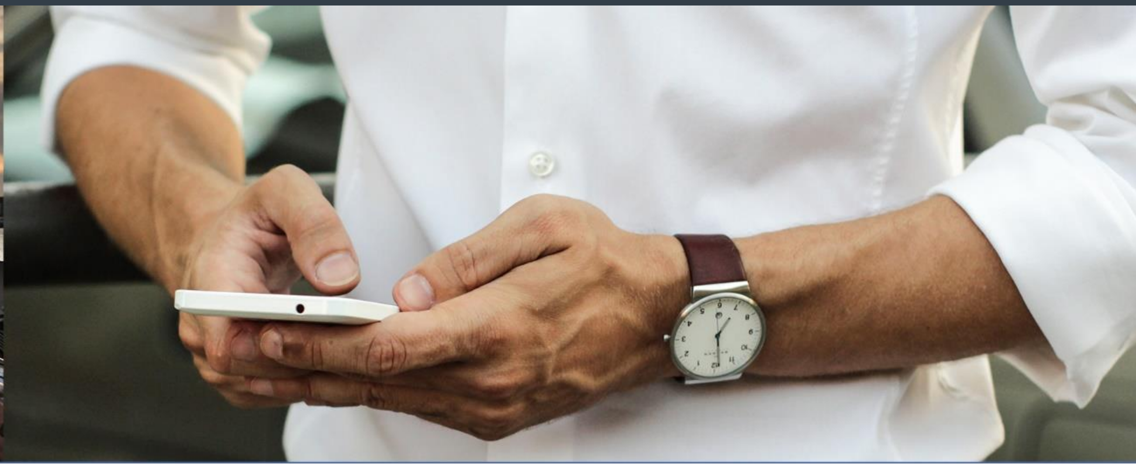
ECONOMIC REPORT

by Glacier Research



26 FEBRUARY 2021

Review period: January 2021

Introduction

Local equity markets had a strong start to the year as optimism about a global economic recovery, the decreasing number of COVID-19 cases and vaccine rollouts across the globe boosted sentiment. The outlook for the local economy seems somewhat less gloomy as commodity prices and flows to emerging markets were supportive. However, fiscal risks continue to prevail on the back of unsustainable debt levels. On the global side, developed market equities had a tough start to the year as most developed market regions settled in negative territory. Investors seem to have rotated into US small caps. They delivered the strongest returns for the month, rallying 6.24% (in USD) while emerging market equities enjoyed decent gains of 2.97% (in USD).

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Domestic Highlight

- SARB interest rate decision

SARB interest rate decision

In its first seating this year, the SARB took a decision to keep interest rates unchanged at 3.50%. Two monetary policy committee members preferred a rate cut of 25 basis points while the other three members opted for a hold. In the year 2020, the Bank slashed interest rates by 3% on the back of the devastating effects of the pandemic. As global growth outlook improved in the last quarter of 2020, the Bank revised its 2020 growth projections of the SA economy from a contraction of 8% in the November meeting to one of 7.1%. Going forward, the Bank expects GDP growth of 3.6% in 2021, 2.4% in 2022 and 2.5% in 2023 as vaccine distribution and high commodity prices remain supportive. While food and oil prices have risen, the Bank maintains that risks to inflation still appear balanced in the near and medium term, and the slow economic rebound will help keep inflation contained within the mid-point of the target range. Since the November meeting, the Bank upwardly revised its inflation forecast to 4% (up from 3.9%) in 2021, 4.5% (up from 4.4%) in 2022 and 4.6% in 2023.

SA economy

The positive global economic outlook spurred by the vaccine rollouts bode well for the SA economy and commodity prices remain supportive. The declining number of COVID-19 cases provides for a comforting outlook. Despite the economically unfavourable lockdown restrictions, the seasonally adjusted ABSA PMI slightly increased to 50.9 in January 2021, up from 50.3 in December 2020. The uptick was driven by new sales orders. However, the January reading remains much lower than the average reading of the final quarter of 2020. Business activity remains supressed, having recorded a fourth consecutive monthly decline. The SA economic outlook for 2021 will depend largely on the vaccine rollout and the management of fiscal risks, which are heightened by elevated debt levels.

	Aug'20	Sep'20	Oct'20	Nov'20	Dec'20	Jan'21
CPI (y/y)	3.1%	3.0%	3.3%	3.2%	3.1%	3.2%
PPI (y/y)	2.4%	2.5%	2.7%	3.0%	3%	-

Sources: Trading Economics

	31 January 2019	31 January 2020	31 January 2021
USD/ZAR	13.25	15.00	15.16
GBP/ZAR	17.36	19.81	20.78
EUR/ZAR	15.17	16.65	18.40

Source: IRESS

SA markets

Local equity markets had a strong start to the year, advancing 5.21% for the month of January. Rand weakness was supportive of large-cap, rand-hedge heavyweights such as Naspers (15.19%), BHP (7.18%) and Anglo American (3.20%). The Top40 was up 5.41% while mid- and small caps turned in 2.59% and 3.88%, respectively. The local property market declined 3.21%, after a record 13.27% return in December. On the fixed income side, bonds ended the month marginally higher, returning 0.76%. In terms of the maturity return profile, returns of 1-3 year maturities were subdued at 0.17%. The 3-7 year maturities and 7-12 year maturities were also muted at 0.50% and 0.76%. Inflation-linked bonds delivered slightly better gains at 1.27% while cash returned 0.31%.

Foreigners were net buyers of R4.27 billion worth of SA equities and net buyers of R5.82 billion worth in SA bonds.

LOCAL RETURNS IN ZAR

2020	November 2020	December 2020	January 2021	Year-to-date
SA TOP 40 9.97%	SA PROPERTY 18.43%	SA PROPERTY 13.27%	SA TOP 40 5.41%	SA TOP 40 5.41%
SA BONDS 8.65%	SA SMALL CAPS 15.56%	SA MID CAPS 6.62%	SA EQUITY 5.21%	SA EQUITY 5.21%
SA EQUITY 7.00%	SA EQUITY 10.51%	SA SMALL CAPS 5.41%	SA SMALL CAPS 3.88%	SA SMALL CAPS 3.88%
SA CASH 5.39%	SA TOP 40 10.37%	SA EQUITY 4.24%	SA MID CAPS 2.59%	SA MID CAPS 2.59%
SA SMALL CAPS -0.28%	SA MID CAPS 10.05%	SA TOP 40 3.98%	SA BONDS 0.76%	SA BONDS 0.76%
SA MID CAPS -14.37%	SA BONDS 3.25%	SA BONDS 2.44%	SA CASH 0.31%	SA CASH 0.31%
SA PROPERTY -35.53%	SA CASH 0.31%	SA CASH 0.31%	SA PROPERTY -3.01%	SA PROPERTY -3.01%

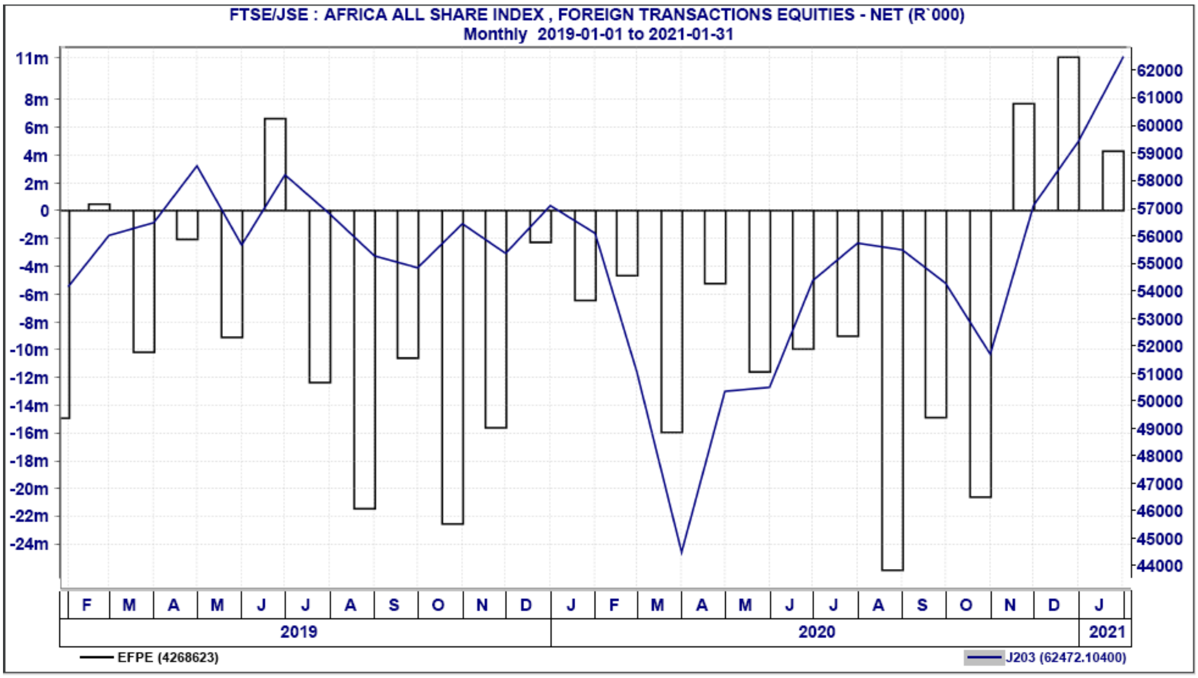
Source: Morningstar & Glacier Research

In terms of sectors, SA industrials took the lead, advancing 8.38% for the month followed by resources as the second-best performer, returning 5.21%. Industrials trailed, returning 4.15%. On the downside, financials lost 2.60%.

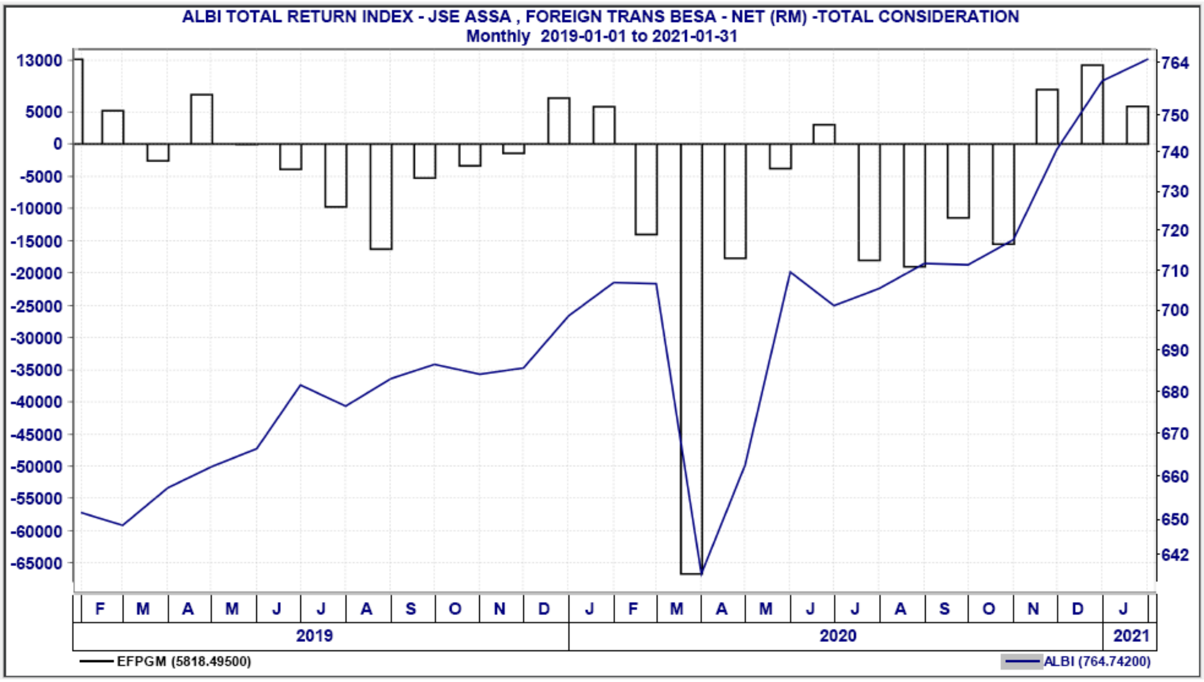
LOCAL SECTOR RETURNS IN ZAR

2020	November 2020	December 2020	January 2021	Year-to-date
RESOURCES 21.20%	INDUSTRIALS 26.03%	RESOURCES 9.48%	SA INDUSTRIALS 8.38%	SA INDUSTRIALS 8.38%
CONSUMER GOODS 13.31%	CONSUMER GOODS 19.67%	FINANCIALS 8.33%	GENERAL RETAILERS 7.98%	GENERAL RETAILERS 7.98%
SA INDUSTRIALS 12.00%	GENERAL RETAILERS 18.46%	GENERAL RETAILERS 4.97%	RESOURCES 5.12%	RESOURCES 5.12%
CONSUMER SERVICES -8.80%	FINANCIALS 17.69%	CONSUMER SERVICES 3.17%	CONSUMER GOODS 4.68%	CONSUMER GOODS 4.68%
GENERAL RETAILERS -15.39%	RESOURCES 12.75%	INDUSTRIALS 2.02%	INDUSTRIALS 4.15%	INDUSTRIALS 4.15%
FINANCIALS -19.67%	CONSUMER SERVICES 9.96%	CONSUMER GOODS 1.30%	CONSUMER SERVICES 2.01%	CONSUMER SERVICES 2.01%
INDUSTRIALS -20.67%	SA INDUSTRIALS 8.17%	SA INDUSTRIALS -0.96%	FINANCIALS -2.60%	FINANCIALS -2.60%

Source: Morningstar & Glacier Research



Source: IRESS January 2021



Source: IRESS January 2021

Global markets

After a strong start to the year, equity market momentum was halted by a group of retail investors coordinating a short squeeze. Initially, the markets were optimistic about several factors such as the global rollout of vaccinations and the promise of further fiscal and monetary stimulus. However, this was short-lived as volatility picked up towards the end of the month. Equity market optimism was hit by an unexpected battle between a small group of retail investors taking bets opposing hedge fund short positions in several unloved stocks and inflicting severe losses. Thus, global equity markets ended the month of January in negative territory. Most equity sectors experienced negative returns with S&P 500, MSCI World AC and MSCI Developed Market returning -1.11%, -0.52% and -1.05% in dollar terms. Nonetheless, resilience continued to be demonstrated by the Nasdaq, MSCI Emerging Markets and US Small Caps, delivering 1.42%, 2.97% and 6.24%. All sectors were mixed with energy and health care leading the pack. The worst-performing sectors were consumer defensives and industrials. On a global equity-style basis, using the MSCI World style indices, momentum was the top-performing style (0.82%), followed by growth (-0.98%), value (-1.01%). Lastly, quality delivered -2.10% in dollar terms. The price of Brent crude oil rallied from US$51.80 to close at US$55.04 a barrel. Producers agreed to maintain last year's production cuts to prevent the market from becoming oversupplied.

United States

US equity markets returned negatively for the month as a group of retail investors coordinated a short squeeze. They bet on a group of relatively small and heavily shorted stocks, resulting in a technically driven sell-off towards the end of the month. Technology stocks again proved resilient, as seen in the performance of the Nasdaq which rallied 1.42%. US small cap stocks led the gains delivering 6.24%. Overall, the S&P 500 delivered -1.11% in dollar terms. Following the Joe Biden victory, the new administration proposed a USD 1.9 trillion "American Rescue Plan". The plan is on top of the bipartisan USD 900 billion stimulus, bringing the count close to 10% of GDP. This could lead to a significant acceleration in growth in the event of a successful vaccination campaign. On the macroeconomic front, the US Manufacturing Purchasing Managers' Index (PMI) increased to 59.2 in January of 2021, from 58.3 in December. The change points to record factory growth, due to accelerated expansions in output and new orders. Both production and new export orders were the highest since 2014 and job creation was the strongest in 2 years. The US Services PMI rose to 58.3 in January 2021 from 54.8 in the previous month. The reading signalled a strong expansion in services activity amid a stronger rise in new business. However, despite the improvement in business confidence, the rate of job creation eased as pressure on capacity diminished and concerns regarding the short-term outlook remained. The US unemployment rate decreased to 6.3% in January of 2021, from 6.7% in the previous month. The number of unemployed people decreased to 10.1 million. However, the jobless rate remains above pre-pandemic levels as the recovery from the COVID-19 shock showed signs of slowing. The US economy expanded an annualised 4% in the fourth quarter of 2020, slowing from a record 33.4% expansion in the third quarter, as the continued rise in COVID-19 cases and restrictions on activity moderated consumer spending.

Eurozone

European equity markets retreated during the month, fuelled by a surge in retail trading activity and the subsequent de-risking by financial institutions. As a result, the Euro Stoxx finished 1.95% lower in euro terms. More stringent lockdown and social distancing measures were put in place to combat the new and infectious virus strains. It was a very volatile month with regards to politics as we saw the resignation of two prime ministers. Both the Dutch and Italian ministers, among others, resigned from their respective governments. On the macroeconomic front, the race to contain the virus has once again exacerbated the gap between the pace of recovery in the manufacturing and services sectors of the economy. Eurozone Manufacturing PMI fell to 54.7 in January of 2021, from 55.2 in December. The reading pointed to a slower, although strong, growth in factory activity. Yet, factory output expanded for a seventh consecutive month, thanks to sustained growth of new orders, exports and backlogs of work. The Eurozone Services PMI fell to 45.4 in January 2021, from 46.4 in the previous month. The latest reading suggests a fifth successive month of contraction in the services sector amid tighter COVID-19 lockdown restrictions.

United Kingdom

UK equity markets were in negative territory during the month as stalled vaccine rollouts in the EU led to a commotion between the EU and UK over vaccine supplies. In addition, new lockdown restrictions in the UK and elsewhere around the world further dampened optimism. As a result, the FTSE 100 finished -0.82% lower in pound terms. On the data front, the Purchasing Manager's Index fell to 54.1 in January of 2021, from 57.5 in December. The reading points to the slowest growth in factory activity since June amid COVID-19 lockdown restrictions. Some of the main factors weighing on the PMI were lower levels of new orders, reduced employment and a swift depletion of pre-production inventories.

Spot Rates	**31 January 2019**	**31 January 2020**	**31 January 2021**
EUR/USD	**1.14**	**1.11**	**1.21**
GBP/USD	**1.31**	**1.32**	**1.37**
USD/JPY	**108.86**	**108.35**	**104.69**

Source: IRESS

Emerging Markets and Asia

Emerging markets delivered positively during the month, outperforming its developed markets counterpart. The MSCI EM index returned 2.97%, while the MSCI Developed World delivered -1.05% in dollar terms. The markets were supported by strong performance from Asia amidst the rollout of the COVID-19 vaccine programmes and hopes for additional US fiscal stimulus, which boosted investor sentiment. Within the region, the Chinese equity markets were driven higher by some of the large technology companies and stable domestic economic data – ahead of consensus forecasts.

GLOBAL RETURNS IN ZAR

2020	November 2020	December 2020	January 2021	Year-to-date
SHANGHAI STOCK EXCHANGE 33.42%	EURO STOXX 50 15.50%	MSCI EM 1.89%	MSCI EM 5.62%	MSCI EM 5.62%
S&P 500 24.37%	FTSE 100 10.82%	FTSE 100 0.37%	SHANGHAI STOCK EXCHANGE 4.09%	SHANGHAI STOCK EXCHANGE 4.09%
MSCI EM 24.27%	MSCI WORLD 7.42%	MSCI WORLD -1.06%	FTSE 100 2.13%	FTSE 100 2.13%
MSCI WORLD 21.75%	GLOBAL PROPERTY 7.40%	SHANGHAI STOCK EXCHANGE -1.15%	GLOBAL PROPERTY 1.67%	GLOBAL PROPERTY 1.67%
GLOBAL BONDS 14.70%	S&P 500 5.67%	EURO STOXX 50 -1.20%	GLOBAL BONDS 1.57%	GLOBAL BONDS 1.57%
EURO STOXX 50 10.83%	MSCI EM 4.05%	GLOBAL PROPERTY -1.29%	MSCI WORLD 1.46%	MSCI WORLD 1.46%
GLOBAL PROPERTY -3.27%	SHANGHAI STOCK EXCHANGE 2.58%	S&P 500 -1.44%	S&P 500 1.44%	S&P 500 1.44%
FTSE 100 -4.13%	GLOBAL BONDS -3.02%	GLOBAL BONDS -3.81%	EURO STOXX 50 -0.16%	EURO STOXX 50 -0.16%

Source: Morningstar & Glacier Research