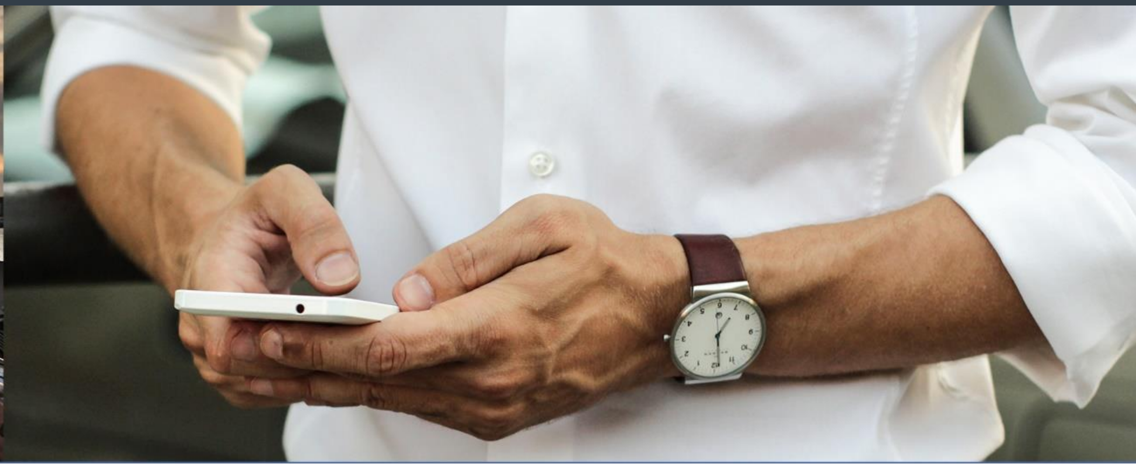
ECONOMIC REPORT

by Glacier Research

glacier by Sanlam



27 October 2020

Review period: September 2020

Domestic Overview

Local equity markets had yet another disappointing month. Large-cap, rand-hedge dominant stocks (i.e. Naspers, Anglo American and BHP Billiton) sold off notably, offsetting the retail stocks' rally that was bolstered by the easing of lockdown restrictions. On the economic front, interest rates were left unchanged as inflation risks remain muted given the recent currency strength and lower oil prices. On the global front, markets came under pressure alongside an unsupportive rand. The run-up to the US election dominated market news, together with protracted additional stimulus talks between the Democrats and Republicans. The Fed Chair reiterated his call for another fiscal response to aid the US economic recovery. The sell-off in US tech stocks contributed to the lag in US markets. Meanwhile, European markets tumbled as investors reacted to the resurgence in COVID-19 cases and ensuing tightening of lockdown restrictions.

Domestic Highlight(s) in September 2020

- Q2 2020 GDP contraction
- SARB interest rate decision

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Q2 2020 GDP contraction

On the back of the strict COVID-19 lockdown restrictions, South Africa's GDP plunged 17.1% in the second quarter, slipping deeper into recession, resulting in an annualised growth rate of -51%. This marked the fourth consecutive quarterly contraction and the steepest decline in decades. Apart from the agricultural sector which expanded 15.1%, all sectors of the economy experienced a collapse in output. Construction (-76.6%), manufacturing (-74.9%) and mining (-73.1%) were the leading detractors. On the expenditure of GDP (which reflects demand), household spending tumbled 49.8%, led by the significant decline in restaurants and hotel spending, which plummeted 99.9%.

SARB interest rate decision

In its September meeting, the SARB took a decision to keep short-term interest rates unchanged at 3.50%. Three members preferred to keep rates on hold, while two members preferred a cut of 25 basis points. Year-to-date, rates have been cut by 3.0%. There seems to be no prospect of another rate cut given a pickup in inflation. Inflation is forecast to average 3.3% in 2020 before drifting upwards to 4% in 2021 and 4.4% in 2022. The bank sees overall risk to the inflation outlook to be balanced as the oil price remains low. Food prices are expected to remain contained alongside currency depreciation, which is expected to remain subdued. The SARB's Quarterly Projection Model is implying no further rate cuts in the short term while rather pointing to rate hikes in the third and fourth quarters of 2021. In terms of growth projection, the SARB is now forecasting GDP to contract 8.2% in 2020, higher than the 7.3% contraction projected in its July meeting.

South Africa: Economy

The country continues to be plagued by the effects of the COVID-19 pandemic and the subsequent lockdown restrictions. The move from Alert level 2 to Alert level 1 was welcomed as an important development in the path to economic recovery. Alert level 1 brought about permission for larger gatherings alongside the opening of borders for internal travel (subject to certain conditions) which will be particularly positive for the hospitality, entertainment and tourism sectors. On another positive note, business confidence surprised to the upside, recovering from its record low of 5 to 24 as lockdown restrictions were eased. In addition, manufacturing activity saw a further pickup to 58.3 in September, from 57.3 in August.

	Apr'20	May'20	Jun'20	Jul'20	Aug'20	Sep'20
CPI (y/y)	2.1%	2.2%	2.2%	3.2%	3.1%	-
PPI (y/y)	0.4%	0.5%	0.5%	1.9%	2.4%	-

Sources: Trading Economics

	30 September 2018	30 September 2019	30 September 2020
USD/ZAR	14.15	15.31	16.75
GBP/ZAR	18.44	18.60	21.64
EUR/ZAR	16.42	16.50	19.64

Source: IRESS

South Africa: Markets

Local equity markets had yet another disappointing month as rand-hedge stocks came under pressure. Market heavyweights such Naspers, Anglo American and BHP Billiton took a nosedive while the rand offered no support. The All Share Index (ALSI) sank a further 1.58%, after the muted downturn of 0.26% in the previous month. Large-cap stocks shed 1.67% while mid-caps rebounded 1.31% and small-caps continued their third consecutive positive month, gaining 0.78%. Once again, property was the worst-performing asset class, declining 4.02%. On the fixed income side, bonds had a weaker month. The ALBI flatlined, returning -0.05%. Cash was the best-performing asset class, gaining 0.35%. Returns of 1-3 year maturities were up 0.51%, while the 3-7 year maturities were up 1.44%. Inflation-linked bonds retreated to end lower at -0.95%. Foreigners were net sellers of R14.90 billion worth of SA equities and net sellers of R11.46 billion worth in SA bonds.

LOCAL RETURNS IN ZAR

2019	July 2020	August 2020	September 2020	Year-to-date
SA MID CAPS 15.58%	SA EQUITY 2.56%	SA SMALL CAPS 1.37%	SA MID CAPS 1.31%	SA CASH 4.38%
SA TOP 40 12.41%	SA TOP 40 2.43%	SA BONDS 0.89%	SA SMALL CAPS 0.78%	SA BONDS 1.82%
SA EQUITY 12.05%	SA MID CAPS 1.71%	SA CASH 0.39%	SA CASH 0.35%	SA TOP 40 1.00%
SA BONDS 10.32%	SA SMALL CAPS 1.29%	SA TOP 40 -0.09%	SA BONDS -0.05%	SA EQUITY -2.51%
SA CASH 7.29%	SA BONDS 0.61%	SA EQUITY -0.26%	SA EQUITY -1.58%	SA SMALL CAPS -18.20%
SA PROPERTY -0.40%	SA CASH 0.42%	SA MID CAPS -1.65%	SA TOP 40 -1.67%	SA MID CAPS -24.68%
SA SMALL CAPS -4.10%	SA PROPERTY -3.36%	SA PROPERTY -8.80%	SA PROPERTY -4.02%	SA PROPERTY -47.84%

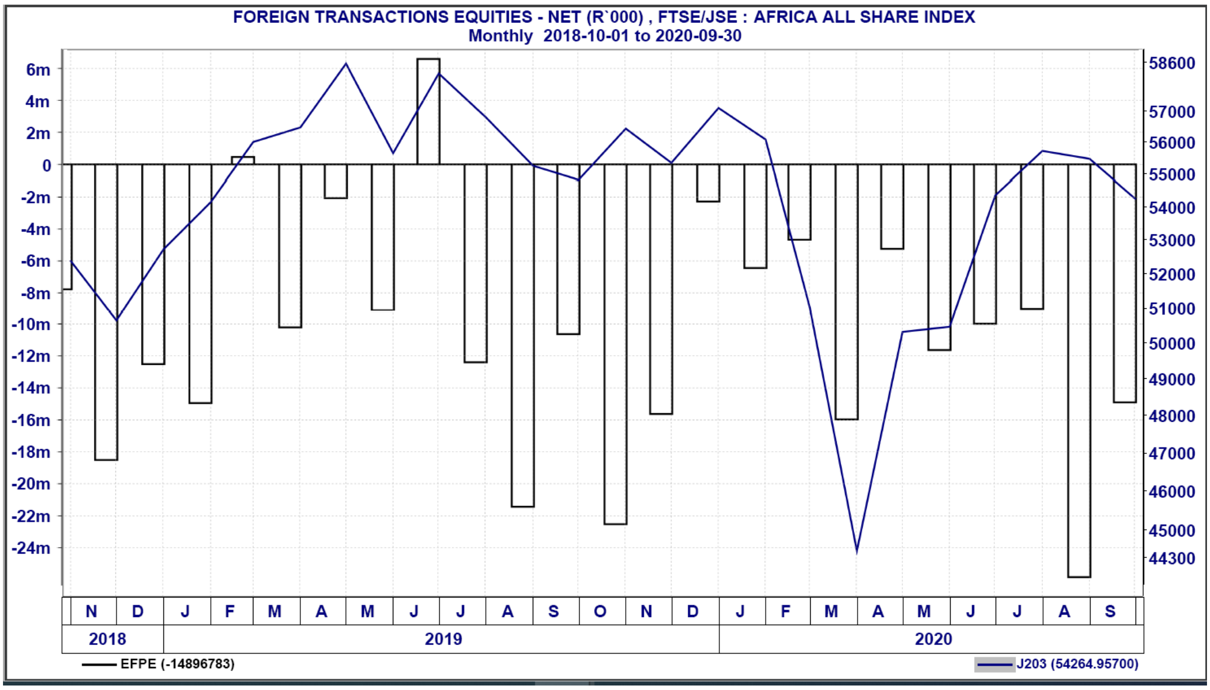
Source: Morningstar

In terms of sectors, resources (-3.39%) had their first negative performance since the March sell-off with gold mining stocks (-11.03%) being one of the key contributors. SA industrials (which are rand-hedges) retracted, shedding 1.47%, while industrials (0.97%) bucked the trend as retail stocks delivered strong returns. Financials (2.27%) had a relatively good month, recovering from the previous month's decline.

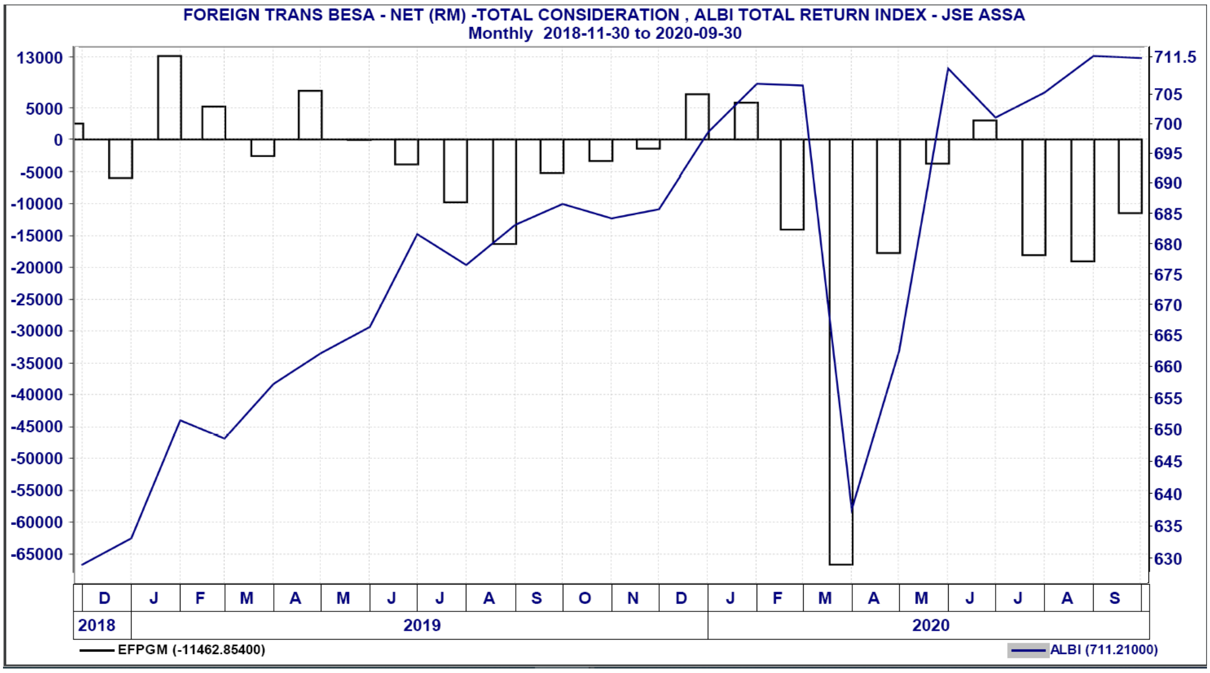
LOCAL SECTOR RETURNS IN ZAR

2019	July 2020	August 2020	September 2020	Year-to-date
RESOURCES 28.53%	RESOURCES 9.04%	CONSUMER GOODS 3.73%	GENERAL RETAILERS 10.73%	RESOURCES 11.89%
CONSUMER GOODS 18.31%	FINANCIALS 0.40%	INDUSTRIALS 1.98%	CONSUMER SERVICES 6.36%	SA INDUSTRIALS 4.31%
SA INDUSTRIALS 8.90%	SA INDUSTRIALS -1.28%	GENERAL RETAILERS 1.12%	FINANCIALS 2.27%	CONSUMER GOODS 1.18%
CONSUMER SERVICES 2.60%	CONSUMER SERVICES -1.57%	RESOURCES 0.65%	CONSUMER GOODS 1.66%	CONSUMER SERVICES -19.84%
FINANCIALS 0.63%	INDUSTRIALS -2.57%	SA INDUSTRIALS 0.46%	INDUSTRIALS 0.97%	GENERAL RETAILERS -30.70%
INDUSTRIALS -8.91%	GENERAL RETAILERS -2.93%	CONSUMER SERVICES 0.02%	SA INDUSTRIALS -1.47%	FINANCIALS -32.81%
GENERAL RETAILERS -18.37%	CONSUMER GOODS -4.94%	FINANCIALS -4.21%	RESOURCES -3.39%	INDUSTRIALS -33.33%

Source: Morningstar



Source: IRESS September 2020



Source: IRESS September 2020

Global Overview

Every decision has a consequence. Unfortunately, the race to reopening the economy has led to a resurgence of the COVID-19 pandemic across continents. During the month, governments slowly re-introduced limitations on citizens' movements and interactions, thus introducing new measures to support economies. In addition, failure by US lawmakers to agree on another stimulus bill and rising tension between the US and China ahead of the US presidential election further dampened sentiment. As a result, global equity markets fell on virus concerns, with the MSCI Emerging Markets Index returning -1.77% and the MSCI World ACWI Index dropping -3.37% in dollar terms. Government bond yields fell to reflect further uncertainty around economic growth, while corporates took advantage of the low rates with high issuance of investment-grade credit.

From a sector perspective, utilities and basic materials were the best-performing sectors. The worst-performing sectors were energy and technology with Apple's shares feeling a little bruised as the company's market capitalisation fell below US$2 trillion. On a global equity-style basis, using the MSCI World style indices, quality was the top-performing style (-2.50%), followed by value (-3.20%), momentum (-3.22%) and lastly growth, delivering -3.66% in dollar terms. The price of Brent crude oil fell from US$43.52 to close at US$42.30 a barrel on concerns over slowing global demand. Both global bonds and global equity were negative during the month, in dollar terms.

United States

US equity markets returned negatively for the month on second-wave virus concerns. In addition, failure by US lawmakers to agree on another stimulus bill and rising tension between the US and China ahead of the US presidential election further dampened sentiment. Technology stocks sold off for the first time since March as seen in the performance of the Nasdaq, which declined -5.16%. Some of the biggest losses came from Apple, Alphabet and Facebook. Overall, the S&P 500 delivered -3.92% in dollar terms. On the macroeconomic front, the US Manufacturing Purchasing Managers' Index (PMI) increased to 53.5 in September of 2020 from 53.1 in August, beating market expectations.

The change pointed to the first expansion in factory activity since January. The growth was driven by a further increase in new orders and the resumption of clients' operations. The US Services PMI rose to 54.6 in September from 54.8 in the previous month. The reading signalled a solid upturn in service sector business activity. The expansion was supported by strengthening customer demand and the second-strongest increase in exports since the data was collected. The US unemployment rate decreased to 7.9% in September from 8.4% in the previous month. The number of unemployed people decreased by 1 million to 12.6 million. However, the jobless rate remains above pre-pandemic levels. 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. As a result, the Euro Stoxx finished -2.66% lower in euro terms. During the month, the increase in the number of COVID-19 cases in several countries, including France and Spain, dominated news flow. In response, governments have implemented targeted measures such as travel limitations and requirements to wear face masks, including new lockdowns. On the macroeconomic front, Eurozone Manufacturing PMI increased to 53.7 in September from 51.7 in August, in line with expectations. The reading pointed to the sharpest expansion in the manufacturing sector since August 2018 as output growth accelerated to its highest in over two-and-a-half years. The Eurozone Services PMI fell to 48 in September 2020 from 50.1 in the previous month. The latest reading signalled a fall back into contraction of the services economy as overall new business fell for a second straight month and export business was down markedly.

United Kingdom

UK equity markets retreated during the month as a steep rise in COVID-19 cases increased the prospect of new lockdown measures. 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 1.63% lower in pound terms. On the data front, the PMI fell to 54.1 in September from 55.3 in August. The reading pointed to the fourth consecutive month of growth as output increased, helped by improved inflows of new work, companies reopening and staff returning to work.

Spot Rates	30 September 2018	30 September 2019	30 September 2020
EUR/USD	1.16	1.08	1.17
GBP/USD	1.30	1.22	1.29
USD/JPY	113.69	108.08	105.45

Source: IRESS

Emerging Markets and Asia

Emerging markets delivered negatively during the month, outperforming its developed markets counterpart. The MSCI EM Index returned -1.77%, while the MSCI Developed World Index delivered -3.59% in dollar terms. However, early gains were lost and investor sentiment deteriorated on a resurgence in global COVID-19 cases, the persistence of US-China tensions, a strengthening dollar and an approaching US election.

GLOBAL RETURNS IN ZAR				
2019	July 2020	August 2020	September 2020	Year-to-date
S&P 500 27.82%	SHANGHAI STOCK EXCHANGE 10.97%	S&P 500 6.64%	GLOBAL BONDS -1.90%	SHANGHAI STOCK EXCHANGE 32.35%
MSCI WORLD 24.11%	MSCI EM 6.77%	MSCI WORLD 6.13%	MSCI EM -3.12%	GLOBAL BONDS 26.11%
EURO STOXX 50 22.37%	S&P 500 3.53%	SHANGHAI STOCK EXCHANGE 4.31%	GLOBAL PROPERTY -4.38%	S&P 500 25.93%
SHANGHAI STOCK EXCHANGE 21.81%	MSCI WORLD 2.70%	EURO STOXX 50 3.82%	MSCI WORLD -4.94%	MSCI WORLD 21.32%
GLOBAL PROPERTY 20.64%	EURO STOXX 50 1.53%	FTSE 100 3.27%	S&P 500 -5.28%	MSCI EM 17.90%
FTSE 100 18.63%	GLOBAL PROPERTY 1.49%	MSCI EM 1.69%	EURO STOXX 50 -5.71%	EURO STOXX 50 8.28%
MSCI EM 15.12%	GLOBAL BONDS 1.13%	GLOBAL PROPERTY 1.59%	SHANGHAI STOCK EXCHANGE -6.12%	GLOBAL PROPERTY -3.15%
GLOBAL BONDS 3.86%	FTSE 100 -0.26%	GLOBAL BONDS -0.67%	FTSE 100 -6.40%	FTSE 100 -7.12%

Source: Morningstar