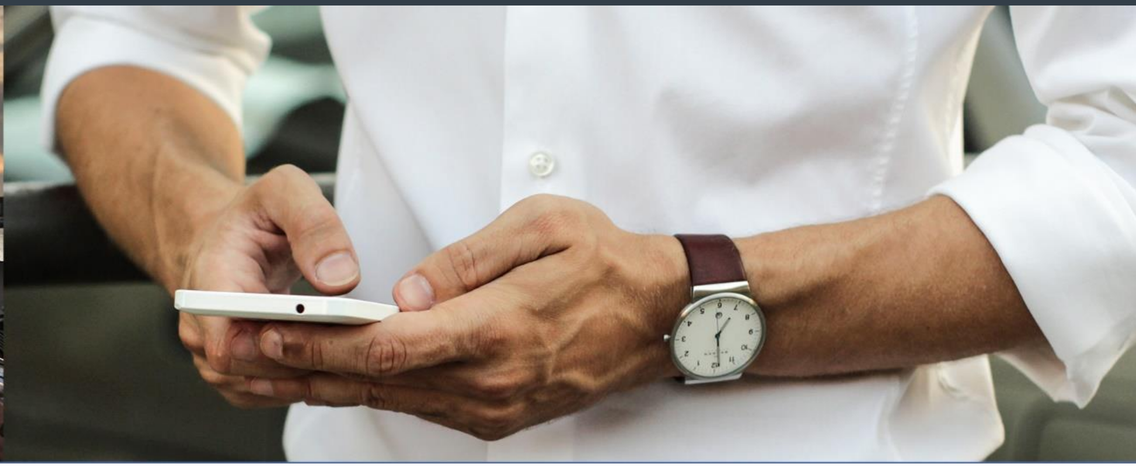
ECONOMIC REPORT

by Glacier Research

glacier by Sanlam



28 September 2020

Review period: August 2020

Domestic Overview

After four months of consecutive positive returns, local equites ended the month of August in negative territory. Gold mining, financials and property stocks took a nosedive while the rally in the consumer goods sector helped limit losses. Small caps, unlike mid- and large-cap stocks, delivered a positive return. The strength of the local currency was not supportive given the dominance of rand-hedges on the JSE. On the global front, US markets continued their rally, lifting global equities higher on the back of high-flying tech names. Facebook, Apple, Amazon, Netflix, Google and Microsoft continued to dominate the market. However, short-lived rotations in and out US tech have become more prevalent given the lofty valuations in the US. There are encouraging signs that the US economy is beginning to recover as unemployment trends lower while economic activity in developed and emerging market countries is ticking up.

Domestic Highlight(s) in August 2020

- Easing of lockdown restrictions to level 2

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Easing of lockdown restrictions to level 2

On the evening of 15 August 2020, President Cyril Ramaphosa announced the extension of the national state of disaster to 15 September. Furthermore, he announced that the country would move to lockdown level 2 from level 3 on 17 August 2020, citing the steadily declining number of COVID-19 infections. The daily infection rate dropped significantly from an average of 12 000 to 5 000 while the recovery rate rose from 48% a couple of months ago to 80% in August. The number of hospitalised patients had also seen a substantial decline which alleviated pressure on the healthcare industry. However, the cumulative number of cases continued to be reportedly higher at approximately 584 000 with close to 12 000 deaths at time the of President's address.

The move to alert level 2 meant that all restrictions on inter-provincial travel was lifted while international travel remained prohibited. Restaurants, bars and taverns were now allowed to open, albeit with limited numbers and within the curfew period of 22h00 and 04h00. The tobacco ban was lifted alongside the sale of alcohol (but within certain restrictions) which had been a contentious issue.

South Africa: Economy

The dire impact of the coronavirus pandemic and the subsequent lockdown continue to prevail in our fiscally challenged economy. Statistics South Africa released a report in August showing that tourism, hospitality and the leisure sectors suffered the most as lockdown restrictions brought the sector to a grinding halt. Total income from tourist accommodation came under the most severe pressure April, May and June, hitting a contraction of more than 95% in each of the three months. Food and beverage income came under pressure in April (R252 million) and May (R715 million) before rebounding in June (R2.88 billion), albeit below pre-pandemic levels (i.e. over R5.7 billion). The motor, trade and freight transport industry also came under severe pressure. This all bodes ill for employment given the labour intensity of these sectors.

On a slightly positive note, the ABSA manufacturing rose significantly from 51.2 in July to 57.3 in August owing to the expansion in factory activity which was supported by the easing of lockdown restrictions. On the monetary side, inflation was up from 2.2% in June to 3.2% in July, drifting back to the SARB's target range of 3% to 6% as lockdown restrictions eased to allow for demand to return to the economy. As a result, some market participants are speculating a pause on the SARB's rate cutting spree. However, the US Fed's average inflation target stance could potentially influence the SARB to follow its last QPM projection of yet another 25 basis point rate cut.

	Mar'20	Apr'20	May'20	Jun'20	Jul'20	Aug'20
CPI (y/y)	3.0%	2.1%	2.2%	2.2%	3.2%	3.1%
PPI (y/y)	1.2%	0.4%	0.5%	0.5%	1.9%	2.4%

Sources: Trading Economics

	31 August 2018	31 August 2019	31 August 2020
USD/ZAR	14.68	15.18	16.93
GBP/ZAR	19.02	18.46	22.64
EUR/ZAR	17.03	16.69	20.21

Source: IRESS

South Africa: Markets

South African equity markets ended the month weaker than recent months as the market starts to grapple with the harsh economic consequences of the pandemic. The stronger rand was not supportive to the large-cap rand hedges which tend to drive the domestic equity markets. The All Share Index (ALSI) was down 0.26% for the month with gold mining, financials and healthcare stocks taking a nosedive. Large-cap stocks were modestly lower, returning -0.09%, and mid-caps took a knock, losing 1.65%. Meanwhile, small-caps gained 1.37%. Property was the worst-performing asset class, plunging 8.80% as the property market remains adversely impacted by the pandemic

On the fixed income side, bonds extended last month's soft gains to end the August slightly higher at 0.89% as investors remained in the medium to front end of the curve. The longer end of the yield curve remained muted as the 7-12-year maturities gained 0.61% while the 12+ year maturities returned 0.96%. The front-end of the curve came under pressure as returns of 1-3 year maturities rose 0.62%. However, cash returned 0.39% as short-term interest rates remain low. Inflation-linked bonds were the best performer, returning 3.92% as inflation ticked higher. Foreigners were net sellers of R22.61 billion worth of SA equities and net sellers of R19.04 billion worth in SA bonds.

LOCAL RETURNS IN ZAR

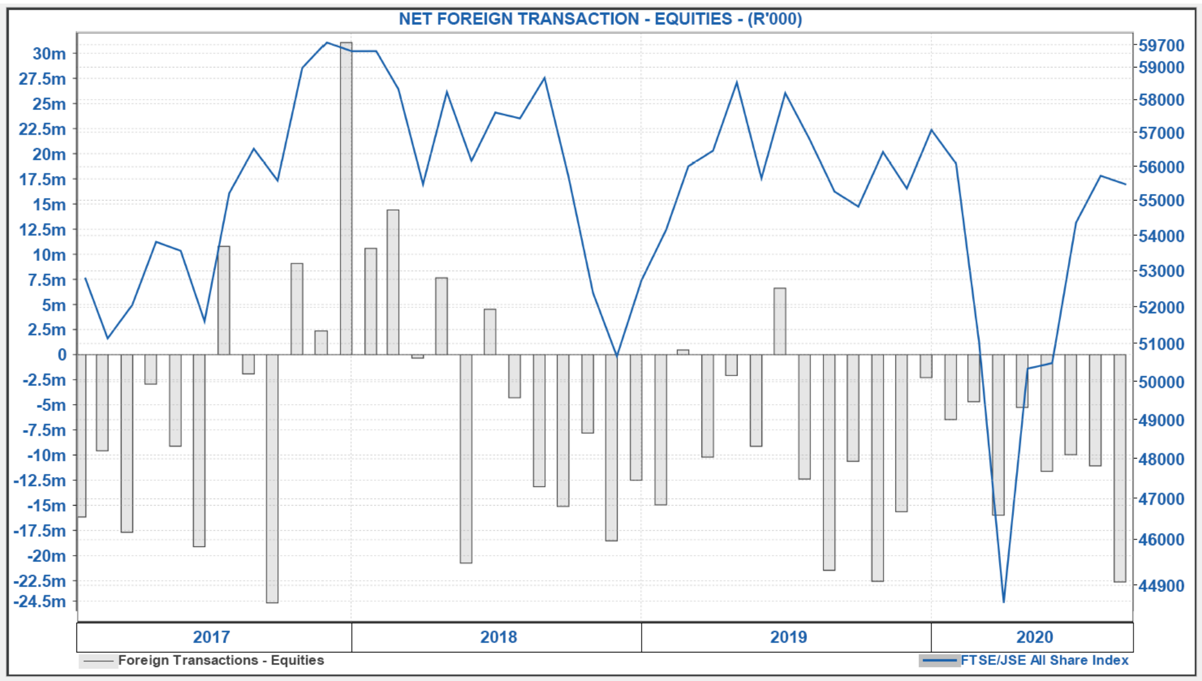
2019	June 2020	July 2020	August 2020	Year-to-date
SA MID CAPS 15.58%	SA PROPERTY 12.94%	SA EQUITY 2.56%	SA SMALL CAPS 1.37%	SA CASH 4.02%
SA TOP 40 12.41%	SA SMALL CAPS 11.33%	SA TOP 40 2.43%	SA BONDS 0.89%	SA TOP 40 2.72%
SA EQUITY 12.05%	SA TOP 40 7.85%	SA MID CAPS 1.71%	SA CASH 0.39%	SA BONDS 1.87%
SA BONDS 10.32%	SA EQUITY 7.74%	SA SMALL CAPS 1.29%	SA TOP 40 -0.09%	SA EQUITY -0.94%
SA CASH 7.29%	SA MID CAPS 6.06%	SA BONDS 0.61%	SA EQUITY -0.26%	SA SMALL CAPS -18.83%
SA PROPERTY -0.40%	SA CASH 0.44%	SA CASH 0.42%	SA MID CAPS -1.65%	SA MID CAPS -25.65%
SA SMALL CAPS -4.10%	SA BONDS -1.18%	SA PROPERTY -3.36%	SA PROPERTY -8.80%	SA PROPERTY -45.66%

Source: Morningstar

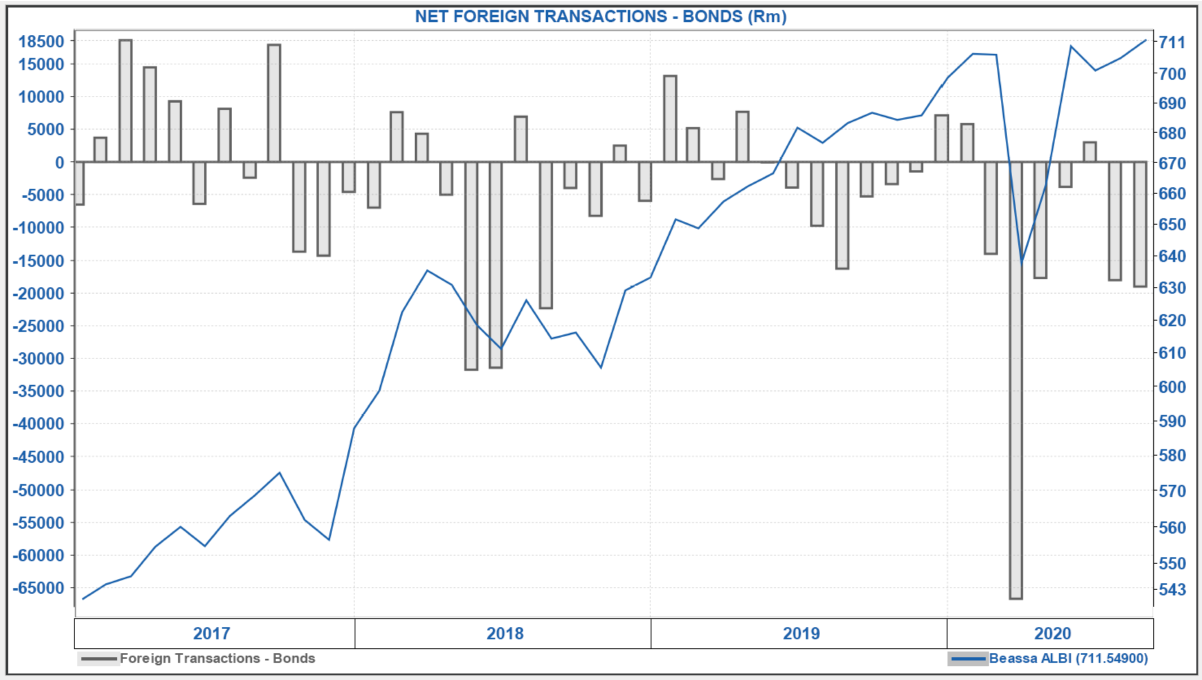
In terms of sectors, Resources (0.65%) snapped out of their winning streak as gold mining stocks came under pressure, delivering a return of -5.71%. SA Industrials (which are rand-hedges) staged a muted comeback at 0.46% while Industrials returned 1.98% as consumer goods stocks led the gains. Financials took a knock, losing 4.21%.

LOCAL SECTOR RETURNS IN ZAR				
2019	**June 2020**	**July 2020**	**August 2020**	**Year-to-date**
RESOURCES 28.53%	GENERAL RETAILERS 9.11%	RESOURCES 9.04%	CONSUMER GOODS 3.73%	RESOURCES 15.81%
CONSUMER GOODS 18.31%	RESOURCES 8.77%	FINANCIALS 0.40%	INDUSTRIALS 1.98%	SA INDUSTRIALS 5.87%
SA INDUSTRIALS 8.90%	SA INDUSTRIALS 8.31%	SA INDUSTRIALS -1.28%	GENERAL RETAILERS 1.12%	CONSUMER GOODS -0.47%
CONSUMER SERVICES 2.60%	CONSUMER SERVICES 7.11%	CONSUMER SERVICES -1.57%	RESOURCES 0.65%	CONSUMER SERVICES -24.63%
FINANCIALS 0.63%	CONSUMER GOODS 4.97%	INDUSTRIALS -2.57%	SA INDUSTRIALS 0.46%	INDUSTRIALS -33.97%
INDUSTRIALS -8.91%	FINANCIALS 4.17%	GENERAL RETAILERS -2.93%	CONSUMER SERVICES 0.02%	FINANCIALS -34.30%
GENERAL RETAILERS -18.37%	INDUSTRIALS -1.48%	CONSUMER GOODS -4.94%	FINANCIALS -4.21%	GENERAL RETAILERS -37.41%

Source: Morningstar



Source: IRESS August 2020



Source: IRESS August 2020

Global Overview

The show must go on despite the continuous spread of the virus. There have now been over 25 million cases globally, up from 10 million at the start of July. Europe is experiencing its second wave led by daily increases in reported cases in France and Spain. However, investor sentiment was boosted by a better-than-expected second-quarter earnings season as well as the potential of a viable Covid-19 vaccine in the coming months. As a result, global equity markets rallied strongly, led higher by US technology stocks and the expectation of lower interest rates for longer. Overall, risk assets continued to rally with the MSCI Emerging Markets Index gaining 2.09% and the MSCI Developed Market Index rising 6.53% in dollar terms.

In addition, credit markets also rallied, while global government bonds fell by 0.15%. From a sector perspective, technology and consumer discretionary were the best performers with Apple's market capitalisation rising above US$2 trillion for the first time ever. The worst-performing sectors were utilities, energy and real estate, all returning negatively. On a global equity style basis, using the MSCI World style indices, growth was the top-performing style (8.50%), followed by momentum (7.72%), quality (7.17%) and lastly value, delivering 4.64% in dollar terms. The price of Brent crude oil rose from US$43.52 to close at US$45.28 a barrel. The oil price continues to recover on the back of greater demand, supply cuts and a weaker dollar.

United States

US equity markets continued to rally, led higher by technology stocks as seen in the performance of the Nasdaq, which advanced 9.59%. Some of the biggest gainers were Apple, Amazon and Facebook. Overall, the S&P 500 delivered 7.01% in dollar terms over the month. In addition, the US Federal Reserve changed its inflation target to an average of 2% over time, signalling that borrowing costs were likely to be kept low for an extended period. On the macroeconomic front, the US manufacturing purchasing managers' index (PMI) increased to 53.6 in August from 50.9 in July, beating market expectations. The change pointed to the first expansion in factory activity since January.

The growth was driven by quicker expansions in output and new orders as the resumption of business operations and the reopening of clients had helped to boost sales. The US Services PMI rose to 54.8 in August from 50.0 in the previous month. This is the fastest rate of expansion since March 2019 and signalled the first expansion in service sector business activity since the start of 2020. The expansion was supported by new business, a sharp upturn in new export orders and employment growth which was the steepest since February 2019. The US unemployment rate decreased to 8.4% in August from 10.2% in the previous month. The number of unemployed people decreased by 2.8 million to 13.6 million. However, the jobless rate remains above the Global Financial Crisis peak of 10.0% and more than double than February's 3.5% before the spread of the pandemic in the US.

Eurozone

European equity markets rallied during the month, on the back of better than expected economic data. As a result, the Euro Stoxx finished 3.81% up in euro terms. During the quarter, the increase in the number of Covid-19 cases in several countries, including France and Spain, dominated news flow. However, the percentage of Covid-19 tests that are positive remains below the World Health Organization's recommended limit for reopening in all but

Spain. In response, governments have implemented targeted measures such as travel limitations and requirements to wear face masks instead of new lockdowns.

On the macroeconomic front, Eurozone Manufacturing PMI flatlined, coming in at 51.7 in August from 51.8 in July, in line with expectations. The reading pointed to manufacturing output growth for the second successive month and accelerated to reach its highest level in over two years. In addition, new orders eased slightly while new export orders rose at a relatively modest pace. The Eurozone Services PMI fell to 50.1 in August from 54.7 in the previous month. The latest reading signaled a slower expansion in the services sector amid a resurgence in coronavirus infections in some countries within the region.

United Kingdom

UK equity markets appreciated during the month amidst optimism that the worst of the pandemic's economic damage is ending. Strong economic data signaled that the economy is rebounding from the impact of the pandemic more quickly than had been expected. This rebound was driven by retail sales. Accordingly, the FTSE 100 finished 1.12% up in pound terms. On the data front, the Purchasing Manager's Index jumped to 55.3 in August from 53.3 in July. The reading pointed to the strongest increase in factory activity since February of 2018 as companies and their clients restarted operations following the coronavirus lockdown. UK retail trade increased 3.6% from a month earlier in July 2020. The figure suggested a further recovery from the sharp fall during lockdown, beating market expectations of 2.0%, as non-food sales climbed 10.0% and fuel trade jumped 26.2%.

Spot Rates	31 August 2018	31 August 2019	31 August 2020
EUR/USD	1.16	1.09	1.19
GBP/USD	1.29	1.21	1.33
USD/JPY	111.04	106.28	105.91

Source: IRESS

Emerging Markets and Asia

Emerging markets delivered positively during the month, underperforming its developed markets counterpart. The MSCI EM index returned 2.09%, while the MSCI DM delivered 6.53% in dollar terms. The continued strong performance was supported by the ongoing economic recovery and a weaker US dollar. Asian equity markets advanced, amid progress on vaccine development and an improving global economy. The momentum came against a backdrop of positive sentiment which was dampened somewhat by the continuation of the Covid-19 outbreak and the persistence of US-China tensions.

GLOBAL RETURNS IN ZAR

2019	June 2020	July 2020	August 2020	Year-to-date
S&P 500 27.82%	SHANGHAI STOCK EXCHANGE 4.97%	SHANGHAI STOCK EXCHANGE 10.97%	S&P 500 4.94%	SHANGHAI STOCK EXCHANGE 40.98%
MSCI WORLD 24.11%	MSCI EM 4.52%	MSCI EM 6.77%	MSCI WORLD 4.28%	S&P 500 32.96%
EURO STOXX 50 22.37%	EURO STOXX 50 4.04%	S&P 500 3.53%	EURO STOXX 50 2.76%	GLOBAL BONDS 28.55%
SHANGHAI STOCK EXCHANGE 21.81%	GLOBAL PROPERTY 1.23%	MSCI WORLD 2.70%	SHANGHAI STOCK EXCHANGE 2.52%	MSCI WORLD 27.62%
GLOBAL PROPERTY 20.64%	MSCI WORLD -0.25%	EURO STOXX 50 1.53%	MSCI EM 1.68%	MSCI EM 21.70%
FTSE 100 18.63%	S&P 500 -0.81%	GLOBAL PROPERTY 1.49%	FTSE 100 0.97%	EURO STOXX 50 14.83%
MSCI EM 15.12%	FTSE 100 -1.06%	GLOBAL BONDS 1.13%	GLOBAL PROPERTY 0.45%	GLOBAL PROPERTY 1.28%
GLOBAL BONDS 3.86%	GLOBAL BONDS -2.35%	FTSE 100 -0.26%	GLOBAL BONDS -2.64%	FTSE 100 -0.77%

Source: Morningstar