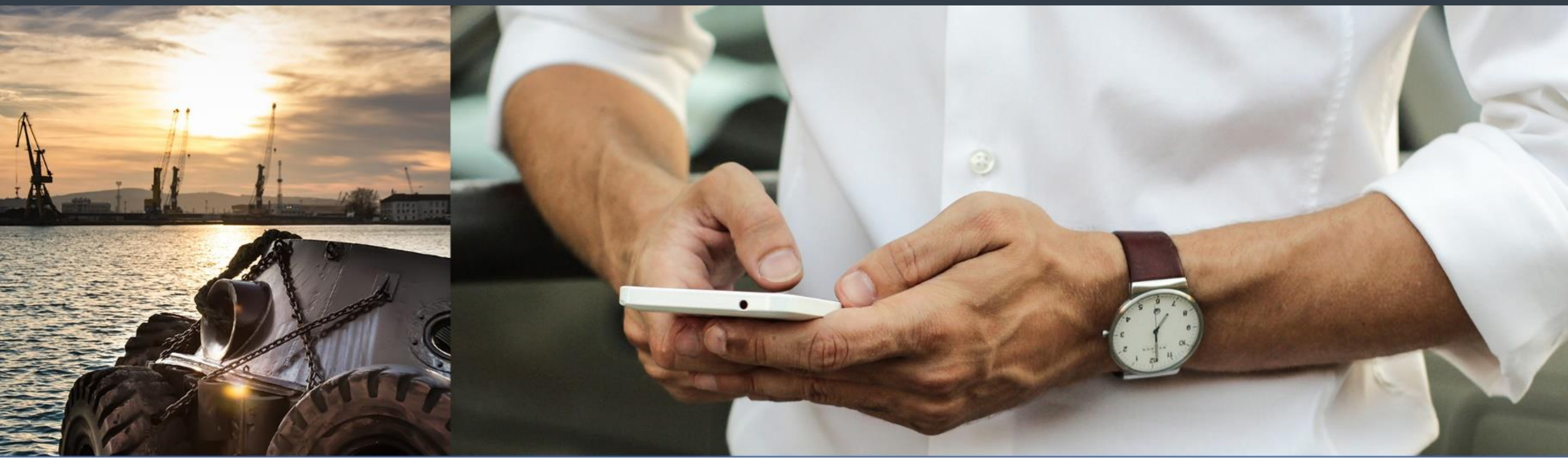
ECONOMIC REPORT

by Glacier Research

glacier by Sanlam



29 MARCH 2021

Review period: February 2021

Introduction

Domestic equity markets extended their monthly gains in February as prospects of an economic recovery continue to weigh positively on sentiment. Higher commodity prices and a relatively lower oil price (albeit slowly making some upward moves) remain supportive to the SA economy. A relatively positive and upbeat budget also added positively to sentiment as national revenue surprised on the upside and efforts to contain the wage bill remained intact. On the global side, developed market equities made a slight recovery from their previous months' lows with US small caps continuing to gain favour. The rotation from growth stocks to value stocks continued. US treasury yields spiked, triggering a move out of growth stocks, particularly in the US technology sector which is mostly viewed as overpriced. Yields have been rising as investors continue to price in expectations of higher inflation given the imminent fiscal injection.

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Domestic Highlight

- State of the Nation Address (SONA)
- National Budget Speech

SONA

President Cyril Ramaphosa delivered his fourth State of the Nation Address. Highlights from the SONA can be split into four key areas:

- Defeating COVID-19 which involves the status of the vaccination rollout and socio-economic relief measures taken by government.
- The Economic Reconstruction and Recovery Plan which entails a massive infrastructure rollout, increase in local production, job creation and energy-creation capacity.
- Economic reforms that include efforts at bolstering SOEs, agriculture and food security, and building state capacity.
- Fighting Crime and Corruption and addressing the scourge of gender-based violence.

National Budget Speech

Finance Minister Tito Mboweni delivered his third budget in which he offered some level of commitment to stabilising the country's finances. Some of the important highlights of the budget include:

- The budget deficit has widened to a record of 14% of GDP with government spending now exceeding R2 trillion a year, the majority of which goes towards social services.
- The initially planned tax increase of R40 billion announced in the MTBPS was withdrawn in order to support the economy.
- Corporate income tax will be lowered to 27% and personal income tax will be increased by 5%, providing a R2.2 billion tax relief to lower- and middle-income households.
- Expected revenue collection for 2020/21 is R1.2 trillion, R213 billion less than 2020 budget expectations.
- The rapidly rising public wage bill is planned to be cut by R265 billion in the next 3 years.
- The debt-to-GDP ratio jumped from 65% to 80% with gross loan debt planned to increase from R3.95 trillion in the current fiscal year to R5.2 trillion in 2023/24.

SA economy

Despite the 7% contraction recorded for 2020, sentiment towards economic recovery remains intact as global growth is expected to stage a recovery. According to the Budget Speech tabled by the Finance Minister, the SA economy is expected to grow by 3.3% in 2021. Current global dynamics of high commodity prices (favourable for exports) and a lower oil price (favourable for imports) are providing handsome tailwinds for the SA economy. The debt situation, however, remains a key challenge. As lockdown restrictions ease and plans for a vaccination put in place, business and economic activity is resurfacing well. As a result, the Manufacturing Purchasing Managers' Index (PMI) rose from 50.9 in January to 53 in February.

	Sep’20	Oct’20	Nov’20	Dec’20	Jan’21	Feb’21
CPI (y/y)	3.0%	3.3%	3.2%	3.1%	3.2%	2.9%
PPI (y/y)	2.6%	2.7%	3.0%	3.0%	3.5%	4.0%

Sources: Trading Economics

	28 February 2019	29 February 2020	28 February 2021
USD/ZAR	14.09	15.65	15.13
GBP/ZAR	18.68	20.07	21.08
EUR/ZAR	16.02	17.27	18.26

Source: IRESS

SA markets

Local equity markets continued to rally, driven by resources stocks. These counters made some big moves to the upside as the global macro backdrop remained supportive. Small cap stocks turned in a solid performance, advancing 8.40% as prospects of a rebound in the economy weighed positively on sentiment. Large-cap and mid-cap stocks were up 6.01% and 3.15%. Property made a strong comeback from last month’s low, gaining 9.70%. On the fixed income side, bonds were flat, returning 0.06%. Yields on the shorter end came under some pressure, especially the three to seven-year maturity which sold off 2.23% while the one to three-year area of the curve saw marginal losses of 0.69%. The market-friendly Budget Speech was supportive to the longer-end of the curve as the 12-year plus area returned 1.60%. Inflation-linked bonds made some notable moves to the upside, returning 2.94%.

Foreigners were net sellers of R16.93 billion worth of SA equities and net sellers of R33.61 billion worth in SA bonds.

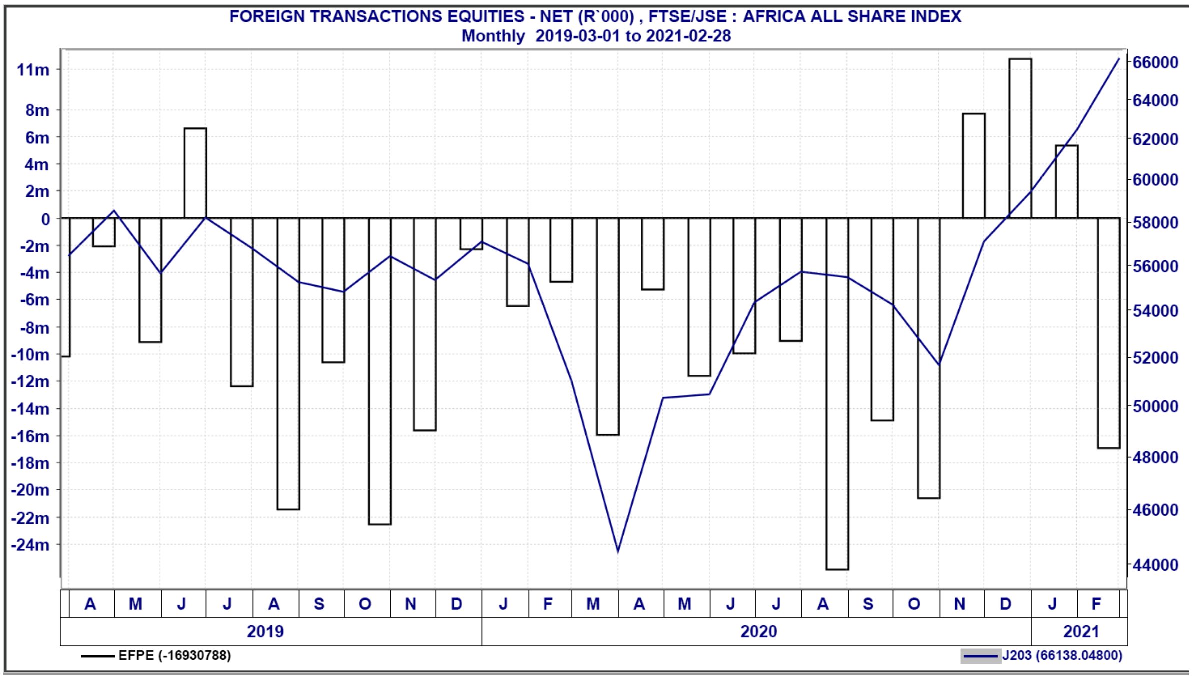
LOCAL RETURNS IN ZAR				
2020	December 2020	January 2021	February 2021	Year-to-date
SA TOP 40 9.97%	SA PROPERTY 13.27%	SA TOP 40 5.41%	SA PROPERTY 9.70%	SA SMALL CAPS 12.60%
SA BONDS 8.65%	SA MID CAPS 6.62%	SA EQUITY 5.21%	SA SMALL CAPS 8.40%	SA TOP 40 11.74%
SA EQUITY 7.00%	SA SMALL CAPS 5.41%	SA SMALL CAPS 3.88%	SA TOP 40 6.01%	SA EQUITY 11.38%
SA CASH 5.39%	SA EQUITY 4.24%	SA MID CAPS 2.59%	SA EQUITY 5.87%	SA PROPERTY 6.40%
SA SMALL CAPS -0.28%	SA TOP 40 3.98%	SA BONDS 0.76%	SA MID CAPS 3.15%	SA MID CAPS 5.82%
SA MID CAPS -14.37%	SA BONDS 2.44%	SA CASH 0.31%	SA CASH 0.28%	SA BONDS 0.82%
SA PROPERTY -35.53%	SA CASH 0.31%	SA PROPERTY -3.01%	SA BONDS 0.06%	SA CASH 0.59%

Source: Morningstar & Glacier Research

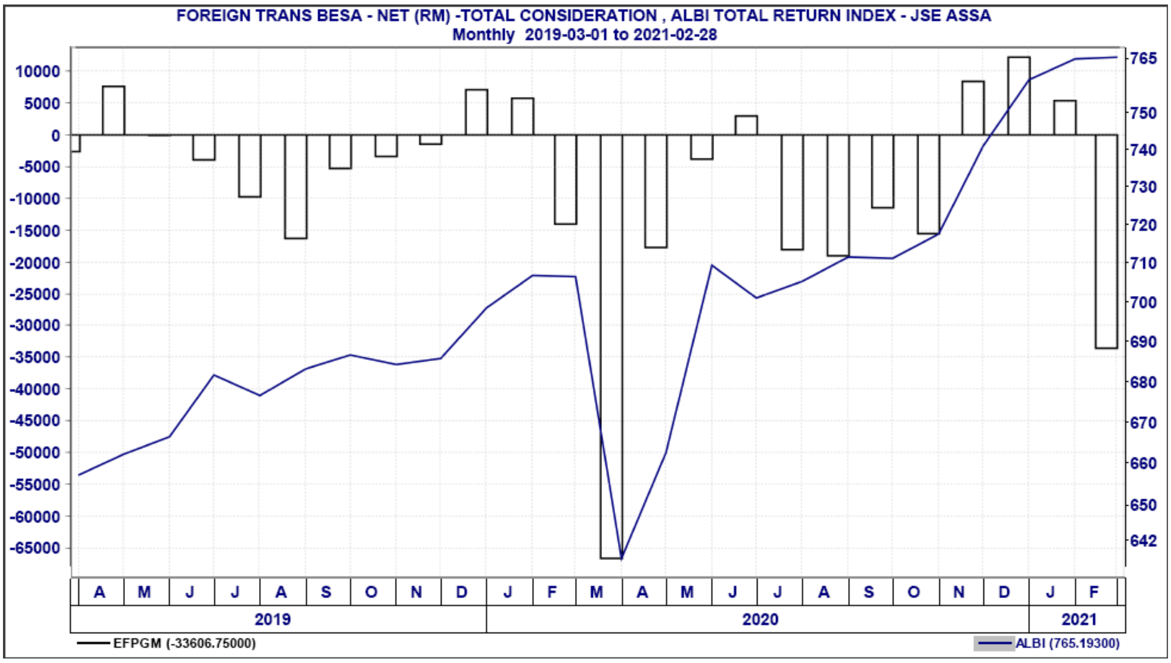
In terms of sectors, returns were positive across the board. Resources (11.57%) took the lead, followed by financials (4.79%) and industrials (4.04%). SA industrials were up 2.31%.

LOCAL SECTOR RETURNS IN ZAR				
2020	December 2020	January 2021	February 2021	Year-to-date
RESOURCES 21.20%	RESOURCES 9.48%	SA INDUSTRIALS 8.38%	RESOURCES 11.57%	RESOURCES 17.28%
CONSUMER GOODS 13.31%	FINANCIALS 8.33%	GENERAL RETAILERS 7.98%	FINANCIALS 4.79%	GENERAL RETAILERS 12.98%
SA INDUSTRIALS 12.00%	GENERAL RETAILERS 4.97%	RESOURCES 5.12%	GENERAL RETAILERS 4.64%	SA INDUSTRIALS 10.88%
CONSUMER SERVICES -8.80%	CONSUMER SERVICES 3.17%	CONSUMER GOODS 4.68%	INDUSTRIALS 4.04%	INDUSTRIALS 8.36%
GENERAL RETAILERS -15.39%	INDUSTRIALS 2.02%	INDUSTRIALS 4.15%	CONSUMER SERVICES 2.70%	CONSUMER GOODS 7.13%
FINANCIALS -19.67%	CONSUMER GOODS 1.30%	CONSUMER SERVICES 2.01%	CONSUMER GOODS 2.33%	CONSUMER SERVICES 4.76%
INDUSTRIALS -20.67%	SA INDUSTRIALS -0.96%	FINANCIALS -2.60%	SA INDUSTRIALS 2.31%	FINANCIALS 2.07%

Source: Morningstar & Glacier Research



Source: IRESS February 2021



Source: IRESS February 2021

Global markets

The month can be described as one of initial optimism around the decrease in infection rates and the rapid vaccine rollout programmes across countries. However, this was short-lived, as volatility picked up towards the end of the month on the back of rising inflation concerns. Increased government spending to combat the economic fallout of the pandemic has led to a fear of inflation. Thus, global equity markets ended the month of February slightly higher. Most equity sectors experienced positive returns with S&P 500, MSCI World AC and MSCI Developed Market returning 2.63%, 2.21% and 2.45%, respectively, in dollar terms. Most sectors were positive, with energy and financial services leading the pack, pointing to the strong rotation in favour of value and small caps. This was as a result of the expected post-pandemic normalisation and rising bond yields. The worst-performing sectors were healthcare and utilities. On a global equity style basis using the MSCI World style indices, value was the top-performing style (4.70%), followed by quality (1.21%), growth (0.40%) and lastly momentum, delivering -0.64% in dollar terms. The price of Brent crude oil rallied from US$55.04 to close at US$64.42 per barrel as producers agreed to maintain last year's production cuts to prevent the market from becoming over-supplied. In addition, higher commodity prices have contributed to higher inflation expectations which had a positive impact on oil producers. Global equity was positive while global bonds were negative during the month.

United States

US equity markets returned positively for the month amid optimism of a successful vaccine rollout programme. However, confidence eased towards the end of the month as core government bond yields started rising on concerns of higher future growth and inflation expectations. The US ten-year treasuries came under selling pressure, pushing yields up by 0.91% to end the month at 1.42%. US small cap stocks led the gains delivering 7.56% for the month. Overall, the S&P 500 delivered 2.61% in dollar terms. The Joe Biden administration made progress with the "American Rescue Plan" of USD 1.9 trillion. The plan is on top of the COVID relief stimulus, bringing the count close to 13% of GDP. This could lead to a significant acceleration in growth in the event of a successful vaccination campaign. In addition, the sheer size of the fiscal package, coupled with ample liquidity in the system, possible post-pandemic bottlenecks in supply chains and pent-up demand, could kick inflation. On the macroeconomic front, the US Manufacturing PMI decreased to 58.6 in February of 2021 from 59.2 in December. The change points to an improvement in the health of the US manufacturing sector although growth in production and new orders softened. Growth rates were still steep overall as manufacturers displayed stronger client demand. The US Services PMI rose higher to 59.8 in February 2021 from 58.3 in the previous month. The reading signalled the strongest expansion in the service sector since July 2014 as new order inflows expanded at the steepest pace despite a decline in new export orders. The US unemployment rate decreased to 6.2% in February 2021 from 6.3% in the previous month. The number of unemployed people decreased by 158 thousand to 9.97 million, dropping below the 10 million mark for the first time since March 2020. However, the jobless rate remains above the pre-pandemic levels as the recovery from COVID-19 shock showed signs of slowing. The annual inflation rate in the US increased to 1.7% in February of 2021 from 1.4% in January, which was mainly driven by energy. Core inflation remained unchanged.

Eurozone

European equity markets retreated during the month on the back of a strong fourth quarter earnings season. However, inflation concerns have emerged, following a surge in government spending combined with vast liquidity unleased by central banks. The ten-year German Bund rose from -0.52% to -0.26% over the month, hitting levels last seen during the height of the pandemic. As a result, the Euro Stoxx finished 4.55% higher in euro terms. Italy saw the formation of a new government led by Mario Draghi, the former European Central Bank president. The priorities of the new government are to address critical near-term issues, such as an effective vaccination plan, new support to prevent COVID-related layoffs, and an effective plan to use the resources of the European Recovery Fund. On the macroeconomic front, Eurozone Manufacturing PMI jumped to 57.9 in February of 2021 from 54.8 in January. The reading pointed to the strongest growth in factory activity in three years as output rose, buoyed by surging inflows of new business. The Eurozone Services PMI fell to 44.7 in February 2021 from 45.4 in the previous month. The latest reading suggests a sixth consecutive monthly contraction of services sector activity as virus-related restrictions continued to affect many businesses.

United Kingdom

UK equity markets were in positive territory during the month on positive vaccine rollout news and a brighter outlook for the economy. As a result, the FTSE 100 finished 1.19% higher in pound terms. The UK government's vaccination campaign has progressed remarkably well and has already reached 20 million people. In addition, Prime Minister Boris Johnson announced plans to gradually lift lockdown restrictions and reopen the economy over the next four months. On the data front, the PMI increased to 55.1 in February of 2021 from 54.1 in January. The reading points to the weakest rate of factory growth since the recovery began in June 2020. Employment increased marginally and new orders returned to growth while export sales remained weak.

Spot Rates	28 February 2019	29 February 2020	28 February 2021
EUR/USD	1.14	1.10	1.21
GBP/USD	1.33	1.28	1.39
USD/JPY	111.39	108.10	106.56

Source: IRESS

Emerging Markets and Asia

Emerging markets delivered positively during the month, underperforming its developed market counterpart. The MSCI EM index returned 0.74%, while the MSCI Developed World delivered 2.45% in US dollar terms. The markets were supported by meaningful decrease in new COVID cases, a faster than expected roll-out of COVID vaccines, the prospects of US fiscal stimulus and improved global growth prospects. Within the region, Japanese equity markets were driven higher by improved global growth prospects and robust quarterly corporate results, which included healthy full-year guidance. While in China, equity markets underperformed in the region as some large internet stocks gave back some of their recent gains.

GLOBAL RETURNS IN ZAR

2020	December 2020	January 2021	February 2020	Year-to-date
SHANGHAI STOCK EXCHANGE 30.52%	MSCI EM 7.35%	MSCI EM 5.62%	EURO STOXX 50 5.10%	MSCI EM 7.09%
MSCI EM 23.35%	FTSE 100 5.75%	SHANGHAI STOCK EXCHANGE 4.09%	GLOBAL PROPERTY 4.07%	FTSE 100 6.29%
S&P 500 17.63%	MSCI WORLD 4.24%	FTSE 100 2.13%	FTSE 100 4.06%	SHANGHAI STOCK EXCHANGE 5.99%
MSCI WORLD 15.73%	SHANGHAI STOCK EXCHANGE 4.15%	GLOBAL PROPERTY 1.67%	S&P 500 3.40%	GLOBAL PROPERTY 5.81%
GLOBAL BONDS 14.10%	EURO STOXX 50 4.10%	GLOBAL BONDS 1.57%	MSCI WORLD 3.20%	EURO STOXX 50 4.93%
EURO STOXX 50 11.37%	GLOBAL PROPERTY 4.00%	S&P 500 1.44%	SHANGHAI STOCK EXCHANGE 1.83%	S&P 500 4.89%
FTSE 100 -3.69%	S&P 500 3.84%	EURO STOXX 50 -0.16%	MSCI EM 1.39%	MSCI WORLD 4.71%
GLOBAL PROPERTY -4.14%	GLOBAL BONDS 1.34%	MSCI WORLD -0.99%	GLOBAL BONDS -1.11%	GLOBAL BONDS 0.45%

Source: Morningstar & Glacier Research