



**Review period: December 2021**

## Introduction

In the month of December, local equity markets continued to extend their gains for the third straight month. While resources stocks continued its upward trajectory, financials however made a strong rebound to become the best performing sectors for the month, followed by listed property (which also extended gains from last month). On the global side, while labour and supply chain issues continued to exert upward pressure on inflation, fears over the Omicron variant faded as relatively less hospitalizations resulted from Omicron. Global sentiment, therefore, turned positive while the market also digested the commencement of a monetary policy tightening cycle. Developed market central banks have announced their plans to scale back on asset purchases. In terms of investment style, value outperformed its growth and quality counterparts.

## Domestic Highlights

- SA GDP

### SA GDP

South Africa's GDP fell by 1.5% in the third quarter of 2021, lower than the downwardly revised 1.1% growth recorded in the second quarter of 2021 and below the consensus estimate of a 1.2% decline. The main drivers of the contraction were agriculture (-13.0%), trade (-5.5%) and manufacturing (-4.2%). The agricultural sector suffered the biggest contraction since 2016 and this was on the back of the July civil unrest in KwaZulu Natal and the outbreak of the third/delta wave of COVID-19 which all impacted the sector negatively. These two events (i.e. July civil unrest and COVID-19 third/delta wave) were the main drivers of the economic underperformance. Six out of the ten industries ended the quarter lower, while four industries saw an expansion with finance (+1.2%) leading the pack followed by personal services (+0.5%) and government (+0.4%).

### SA economy

The slow pace of vaccination and limited energy supply continue to pose risks for SA's economic growth trajectory. The rebound in commodity prices (particularly PGMs) was supportive, however the continued rise in the oil price and the weakness in the currency continues to exert upward pressure on inflation. As a result, a monetary policy tightening cycle has commenced following the interest rate hike in the SARB's November. Unemployment continues to be one of the biggest challenges for the economy, particularly youth unemployment. Manufacturing activity took a downturn from 57.2 in November to 54.1 in November as new orders and employment decreased. This was driven by a notable reduction in exports which was on the back of waning optimism. Business confidence remained flat at 43, unchanged from the last quarter's reading.

	Jul'21	Aug'21	Sep'21	Oct'21	Nov'21	Dec21
CPI (y/y)	4.7%	4.9%	5.0%	5.0%	5.4%	5.9%
PPI (y/y)	7.1%	7.2%	7.8%	8.1%	9.6%	10.8%

Sources: Trading Economics

	31 December 2019	31 December 2020	31 December 2021
USD/ZAR	14.00	14.69	16.00
GBP/ZAR	18.57	20.10	21.64
EUR/ZAR	15.67	17.94	18.18

Source: IRESS

### SA markets

Local equity markets had yet another rally in December, extending gains for 3 months in a row. The All Share was up 4.80% for the month. From a market cap perspective, small caps (+7.33%) led the gains followed by large caps (+4.80%) and mid-caps (+4.29%). After rebounding handsomely last month, listed property extended its gains notably, ending the month 7.88% higher. On the fixed income side, bonds were up 2.69% higher with the back-end and the belly of the curve experiencing the highest gains. The 12 year+ area was up 3.07% while the 7–12-year area gained 3.35% and the 3–7-year area gained 1.37%. The 1–3-year was muted at +0.32%, while Cash was up 0.34%. Inflation-linked bonds made a strong recovery, gaining 4.63% while preference shares

(+6.55%) also made strong moves to the upside. Foreigners were net sellers of R27.1 billion worth of SA equities and net sellers of R8.9 billion worth of SA bonds, during the month.

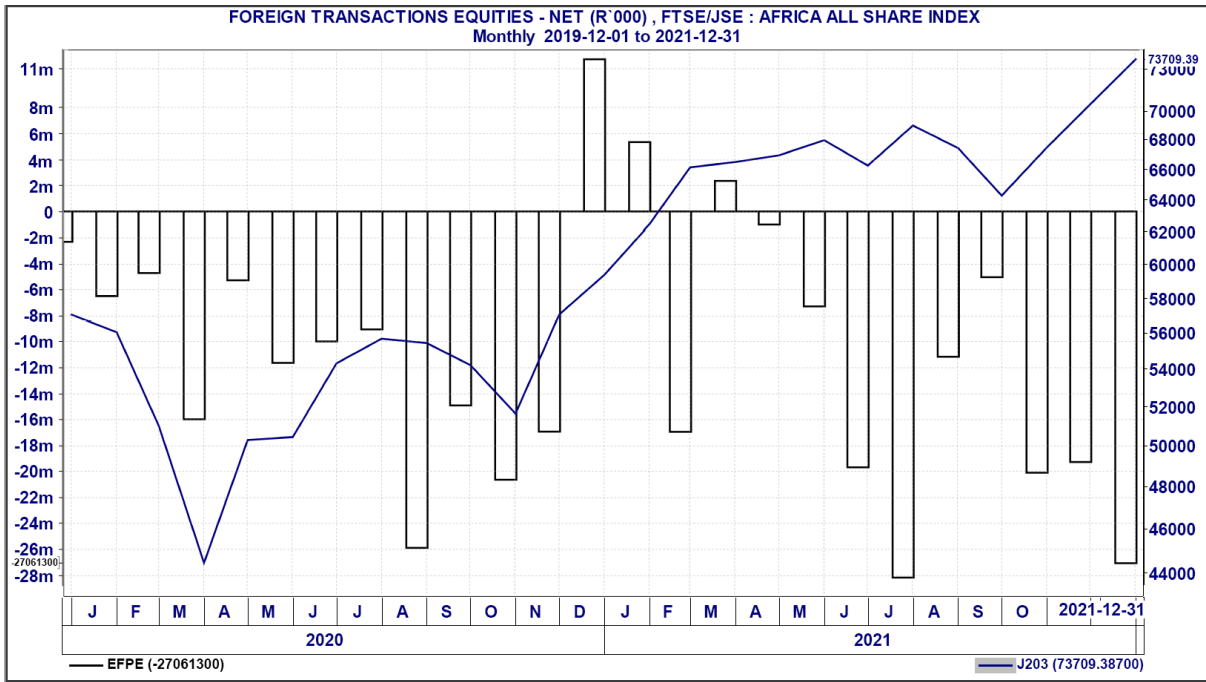
LOCAL RETURNS IN ZAR					
2021	September 2021	October 2021	November 2021	December 2021	Year-to-date
SA SMALL CAPS 59.08%	SA SMALL CAPS 5.58%	SA TOP 40 5.27%	SA TOP 40 5.36%	SA PROPERTY 7.61%	SA SMALL CAPS 59.08%
SA PROPERTY 38.63%	SA MID CAPS 0.52%	SA EQUITY 5.15%	SA EQUITY 4.47%	SA SMALL CAPS 7.33%	SA PROPERTY 38.63%
SA EQUITY 29.23%	SA CASH 0.31%	SA SMALL CAPS 3.12%	SA PROPERTY 2.17%	SA TOP 40 4.82%	SA EQUITY 29.23%
SA MID CAPS 28.88%	SA PROPERTY -0.21%	SA MID CAPS 1.16%	SA BONDS 0.66%	SA EQUITY 4.80%	SA MID CAPS 28.88%
SA TOP 40 28.40%	SA BONDS -2.12%	SA CASH 0.32%	SA CASH 0.32%	SA MID CAPS 4.29%	SA TOP 40 28.40%
SA BONDS 8.40%	SA EQUITY -3.14%	SA BONDS -0.48%	SA MID CAPS -1.58%	SA BONDS 2.69%	SA BONDS 8.40%
SA CASH 3.81%	SA TOP 40 -3.56%	SA PROPERTY -1.39%	SA SMALL CAPS -1.75%	SA CASH 0.34%	SA CASH 3.81%

Source: Morningstar & Glacier Research

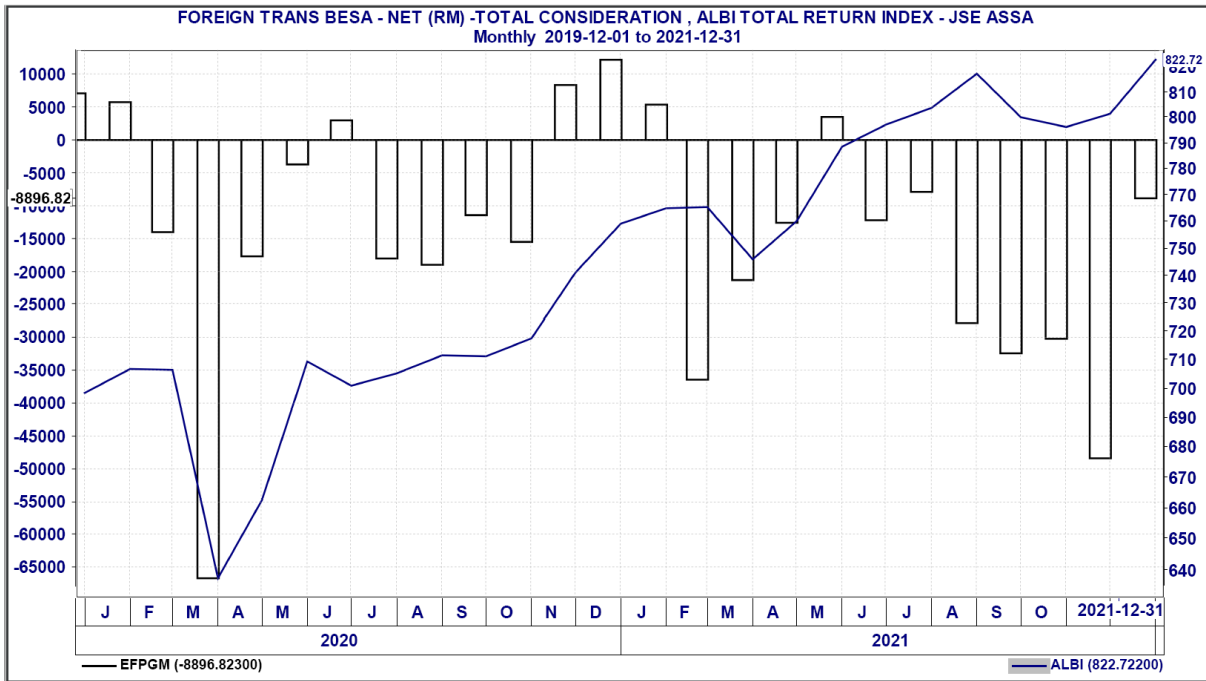
In terms of sectors, Financials were the best performers for the month, gaining 8.63% followed by listed property which advanced 7.88%. Industrials were up 5.53% while SA Industrials gained 2.92%. Resources continued to deliver handsome gains, gaining 5.33%.

LOCAL SECTOR RETURNS IN ZAR				
2021	October 2021	November 2021	December 2021	Year-to-date
CONSUMER SERVICES 76.32%	CONSUMER SERVICES 15.82%	CONSUMER SERVICES 18.98%	FINANCIALS 8.68%	CONSUMER SERVICES 76.32%
GENERAL RETAILERS 65.87%	GENERAL RETAILERS 11.51%	RESOURCES 6.53%	CONSUMER GOODS 6.52%	GENERAL RETAILERS 65.87%
RESOURCES 32.31%	RESOURCES 8.39%	SA INDUSTRIALS 5.72%	INDUSTRIALS 5.53%	RESOURCES 32.31%
INDUSTRIALS 30.72%	SA INDUSTRIALS 6.69%	CONSUMER GOODS -1.61%	RESOURCES 5.33%	INDUSTRIALS 30.72%
FINANCIALS 29.59%	INDUSTRIALS 1.65%	INDUSTRIALS -1.93%	GENERAL RETAILERS 3.02%	FINANCIALS 29.59%
SA INDUSTRIALS 26.45%	CONSUMER GOODS 1.47%	FINANCIALS -2.61%	SA INDUSTRIALS 2.92%	SA INDUSTRIALS 26.45%
CONSUMER GOODS 22.28%	FINANCIALS -3.16%	GENERAL RETAILERS -9.08%	CONSUMER SERVICES 2.10%	CONSUMER GOODS 22.28%

Source: Morningstar & Glacier Research



Source: IRESS December 2021



Source: IRESS December 2021

## Global markets

Global equity markets had a strong month in December reversing losses from the previous month as sentiment improved after reports that although the Omicron variant of Covid-19 had greater transmutability, it caused fewer hospitalisations. As a result of this, along with growing signals that supply chain bottlenecks have peaked and are easing, positive returns were widespread during the month of December. The S&P 500, MSCI World AC and MSCI Developed Market surged 4.48%, 4.00% and 4.27%, respectively, in dollar terms. From a sector perspective, sectors were mostly positive, with consumer staples and real estate leading the pack. Consumer discretionary was the only sector that generated a negative return.

The price of Brent crude oil rallied, resulting in it trading slightly below US\$80 (+10%) a barrel. Prices of iron ore and gold also saw a strong increase in line with greater demand for safe haven assets amid rising inflation and Omicron cases. Sovereign bonds rallied during the month (implying a capital loss) as a hawkish stance from central banks for higher interest rates in 2022 along with the US Federal Reserve's plans to wind down its bond buying programme at a faster pace weighed on government bonds. On a global equity style basis, value was the top performing style (+6.57%) with all investment styles ending in the positive territory. This was followed by quality (+3.87%), growth (+2.07%) and lastly momentum (+1.47%). Global equities were stronger, while global bonds struggled during the month.

## United States

US equity markets performed positively during the month of December after initial concerns of the Omicron variant of Covid-19 were alleviated as data showed that although the strain had greater transmutability, it caused fewer hospitalisations. As a result, the S&P 500 rose 4.48% (28.71% YTD), outperforming the NASDAQ which was up 0.74% (22.18% YTD) in dollar terms. On the macroeconomic front, the US Manufacturing Purchasing Managers' index (PMI) fell from 58.4 in November to 57.7% in December. Despite the decline, the US manufacturing industry is still expanding as the figure is still above 50, although at a slower pace. There has been a healthier labour market in the US in recent months as both unemployment rate and initial jobless claims dropped. The US Services PMI stayed above 60 since March, representing the longest stretch in history, however, the figure now stands at 62 after a sharp decline from 69.1. The annual inflation rate in the US rose to 6.8% in December 2021.

At a stock level, Apple finished the year with a sound performance, edging closely to being the first company to ever trade at a market capitalisation of \$3 trillion. The global tech giant was able to navigate strongly through the supply chain crisis along with a uptick in demand from consumers seeking to upgrade their work-from-home space.

## Eurozone

European equity markets rose during December, rebounding from losses in the previous month. The Euro Stoxx 50 finished +5.81% (+23.34% YTD) higher in euro terms.

On the macroeconomic front, the Eurozone Manufacturing PMI fell to a nine month low of 53.4 in December from 55.8 in November 2021. The Omicron variant and the impositions on restrictions had spillover effects on business activity and the services sector. On the employment front, there has been improvements over recent months as unemployment has dropped to pre-pandemic levels. Inflation in the region rose to 5.0% largely driven by energy



costs and increased costs of imports. This will likely put further pressure on the European Central Bank (ECB) to reduce its monetary stimulus programme.

## United Kingdom

UK equity markets were in positive territory during the month as fears of the severity of the Omicron variant dissipated. As a result, the FTSE 100 finished 4.75% (+18.44% YTD) higher in pound terms. The imposition of new restrictions in order to curb the spread of the Omicron variant did however pose threats to the hospitality sector. The recovery of airlines was staggered as a result and activity in the consumer sectors were lower. The BoE raised interest rates during December, as inflation had risen to a decade high of 5.1%. The bank's Monetary Policy Committee expects to impose further rate increases in order to bring inflation down to its 2% target rate. On a positive note, unemployment rate for the period fell to 4.2%, from 4.3% in the previous period.

Spot Rates	31 December 2019	31 December 2020	31 December 2021
EUR/USD	1.12	1.22	1.14
GBP/USD	1.33	1.37	1.35
USD/JPY	108.61	103.24	115.08

Source: IRESS

## Emerging markets and Asia

Emerging market equities managed to deliver positive returns during the month although underperforming its developed market counterparts. The MSCI EM index returned +1.88% (-2.54% YTD), while the MSCI Developed World delivered +4.27% (+21.82% YTD) in dollar terms. Emerging markets largely benefitted from positive sentiment from market participants as the Omicron variant fears were alleviated. During the month Latin American equity markets advanced and outperformed the broader EM region. Chinese equities lagged, dragging down the overall performance in the Asia region. This resulted from a combination of a rise in Covid-19 infections which had negative effects on services activities and disappointing retail sales figures particularly in the Chinese property sector.

GLOBAL RETURNS IN ZAR				
2021	October 2021	November 2021	December 2021	Year-to-date
GLOBAL PROPERTY 41.28%	US EQUITY 8.11%	CHINA EQUITY 6.16%	UK EQUITY 6.82%	GLOBAL PROPERTY 41.28%
US EQUITY 39.84%	GLOBAL PROPERTY 7.59%	GLOBAL BONDS 5.11%	EURO EQUITY 6.47%	US EQUITY 39.84%
GLOBAL EQUITY 32.36%	GLOBAL EQUITY 6.75%	US EQUITY 4.69%	GLOBAL PROPERTY 6.46%	GLOBAL EQUITY 32.36%
UK EQUITY 27.52%	EURO EQUITY 6.08%	GLOBAL PROPERTY 3.66%	US EQUITY 4.07%	UK EQUITY 27.52%
EURO EQUITY 24.56%	UK EQUITY 4.98%	GLOBAL EQUITY 3.11%	GLOBAL EQUITY 3.86%	EURO EQUITY 24.56%
CHINA EQUITY 14.96%	CHINA EQUITY 2.19%	GLOBAL EM 1.12%	CHINA EQUITY 1.68%	CHINA EQUITY 14.96%
GLOBAL EM 5.89%	GLOBAL EM 2.03%	UK EQUITY -0.46%	GLOBAL EM 1.47%	GLOBAL EM 5.89%
GLOBAL BONDS 3.54%	GLOBAL BONDS 0.79%	EURO EQUITY -1.90%	GLOBAL BONDS -0.54%	GLOBAL BONDS 3.54%

Source: Morningstar & Glacier Research