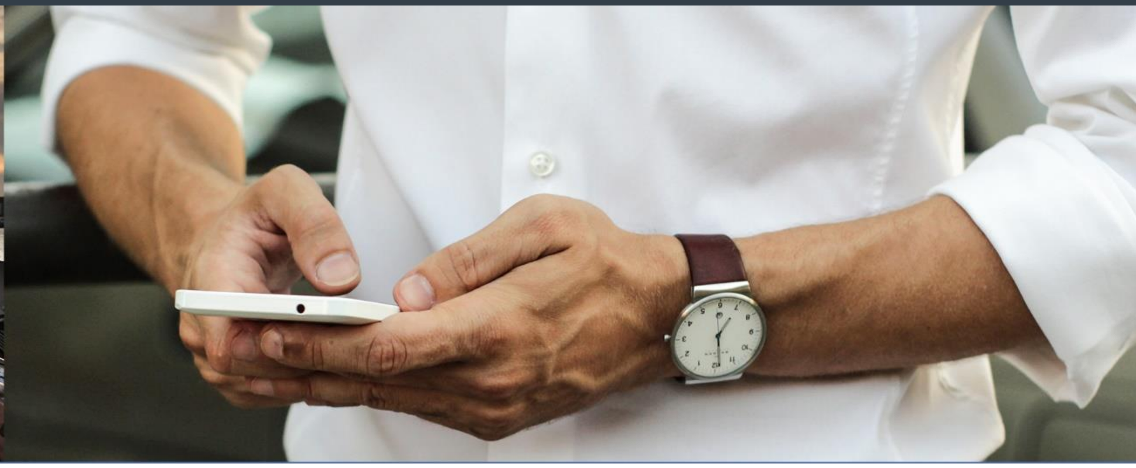
ECONOMIC REPORT

by Glacier Research

glacier by Sanlam

Review period: November 2021

Introduction

In the month of November, local equity markets extended their gains after the notable upside moves. Resources stocks continued to be the largest contributor to performance, also extending their gains from last month - the weakness in the rand remained supportive to large cap rand-hedge counters, while financials extended their sell-off. Interestingly, local property rebounded. On the economic front, the SARB's monetary policy committee hiked interest rates, the first time since the emergence of COVID-19. On the global side, while labour and supply chain issues continue to cause inflationary pressures, the fourth wave of COVID-19 was the key driver of the dampened global market sentiment. Rising oil prices continue to weigh positively on the energy sector, albeit causing inflationary pressure on the other hand. Global equity markets were broadly lower, as investors found a safer haven in fixed income – this was one of the asset classes to offer relatively better performance, after US technology stocks.

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Domestic Highlights

- SARB interest rate decision

SARB interest rate decision

In its November meeting, the SARB took an unexpected decision to hike interest rates by 0.25% to 3.75%, with three members of the monetary policy committee vouching for the decision while the other two members were against the decision. The main backdrop of the decision was the increased uncertainty over rising inflation (both globally and locally), weaker commodity export prices, and stagnant investments. The SARB also cited the July unrest, the pandemic and on-going energy supply issues as factors likely to have a lasting effect on investor confidence, job creation and growth. The SARB currently expects SA GDP growth to be 5.2% in 2021, before sliding to 1.7% in 2022 and 1.8% in 2023, unchanged from the September forecast. Headline consumer price inflation forecast was revised slightly higher to 4.5% in 2021 before easing slightly to 4.3% in 2022 and stabilizing at 4.6% in 2023. Higher food, energy and oil prices are key drivers. Overall risks to short-term inflation are assessed to be on the upside. The SARB's Quarterly Projection Model is pointing to a 25 basis points increase in the fourth quarter of 2021 and in each quarter of 2022, 2023 and 2024.

SA economy

The slow pace of vaccination and limited energy supply continue to pose risks for SA's economic growth trajectory. Weakening commodity prices (particularly PGMs) also present certain headwinds given the fact we export such commodities. The rise in the oil (which we import) price accompanied by the weakness in the currency continues to bode ill for inflation, while monetary policy seems to be becoming less accommodative following the surprise interest rate hike by the SARB. Job creation remains one of the biggest challenges in SA, particularly in relation to the youth. Manufacturing activity, however, has seen a handsome uptick from 53.6 in October to 57.2 in November, the strongest reading since June, while business confidence remains in contraction territory. Vehicle sales also edged slightly higher, up from 41 035 in October to 41 588 in November.

SA markets

Local equity markets continued to strengthen this month - resources stocks rallied, as the rand continued to weaken, supporting rand-hedge large cap counters. The All Share was up 4.47% for the month. From a market cap perspective, large caps (+5.36%) led the gains while small caps (-1.75%) and mid-caps (-1.58%) turned in negative performances. Meanwhile, property rebounded from the previous month's losses, gaining 2.17%. On the fixed income side, bonds closed 0.66% higher with the front end of the curve experiencing the highest gains. The 12 year+ area was up 0.56% while the 7–12-year area gained 0.32% and the 3–7-year area gained 1.25%. The 1–3-year was up 1.16%, while Cash was up 0.32%. Inflation-linked bonds were down 0.13% while preference shares also shed 0.71%.

Foreigners were net sellers of R19.3 billion worth of SA equities and net sellers of R48.4 billion worth of SA bonds, during the month.

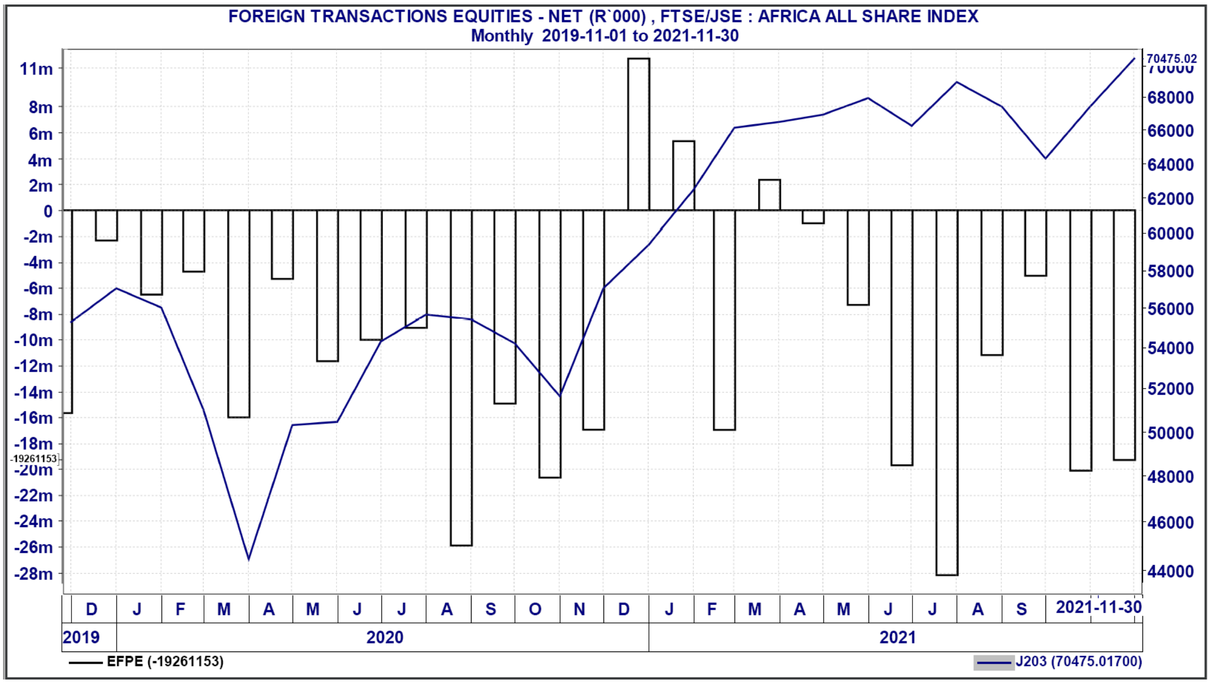
LOCAL RETURNS IN ZAR				
August 2021	September 2021	October 2021	November 2021	2021 - YTD
SA PROPERTY 7.12%	SA SMALL CAPS 5.58%	SA TOP 40 5.27%	SA TOP 40 5.36%	SA SMALL CAPS 48.21%
SA SMALL CAPS 7.02%	SA MID CAPS 0.52%	SA EQUITY 5.15%	SA EQUITY 4.47%	SA PROPERTY 28.83%
SA MID CAPS 3.71%	SA CASH 0.31%	SA SMALL CAPS 3.12%	SA PROPERTY 2.17%	SA MID CAPS 23.58%
SA BONDS 1.70%	SA PROPERTY -0.21%	SA MID CAPS 1.16%	SA BONDS 0.66%	SA EQUITY 23.30%
SA CASH 0.32%	SA BONDS -2.12%	SA CASH 0.32%	SA CASH 0.32%	SA TOP 40 22.50%
SA EQUITY -1.74%	SA EQUITY -3.14%	SA BONDS -0.48%	SA MID CAPS -1.58%	SA BONDS 5.56%
SA TOP 40 -2.39%	SA TOP 40 -3.56%	SA PROPERTY -1.39%	SA SMALL CAPS -1.75%	SA CASH 3.46%

Source: Morningstar & Glacier Research

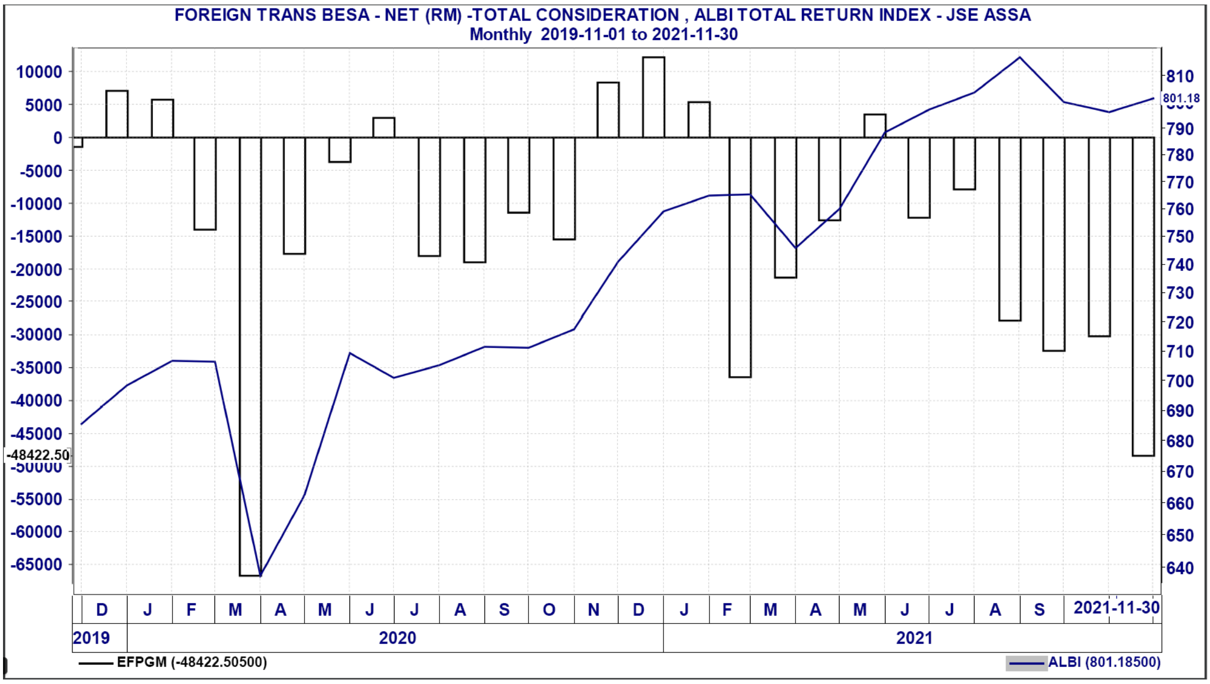
In terms of sectors, Resources continued being the leading contributor, gaining 6.53% followed by SA Industrials which gained 5.72% while Industrials took a downturn of 1.83%. Financials continued to weaken, losing 2.61%.

LOCAL SECTOR RETURNS IN ZAR				
August 2021	September 2021	October 2021	November 2021	2021 - YTD
GENERAL RETAILERS 12.77%	FINANCIALS 2.08%	CONSUMER SERVICES 15.82%	CONSUMER SERVICES 18.98%	CONSUMER SERVICES 72.69%
FINANCIALS 12.28%	GENERAL RETAILERS 0.92%	GENERAL RETAILERS 11.51%	RESOURCES 6.53%	GENERAL RETAILERS 61.01%
CONSUMER GOODS 4.43%	SA INDUSTRIALS -0.77%	RESOURCES 8.39%	SA INDUSTRIALS 5.72%	RESOURCES 25.62%
INDUSTRIALS 0.94%	CONSUMER GOODS -0.95%	SA INDUSTRIALS 6.69%	CONSUMER GOODS -1.61%	INDUSTRIALS 23.87%
SA INDUSTRIALS -4.45%	CONSUMER SERVICES -2.64%	INDUSTRIALS 1.65%	INDUSTRIALS -1.93%	SA INDUSTRIALS 22.86%
RESOURCES -4.79%	INDUSTRIALS -2.82%	CONSUMER GOODS 1.47%	FINANCIALS -2.61%	FINANCIALS 19.23%
CONSUMER SERVICES -9.77%	RESOURCES -9.30%	FINANCIALS -3.16%	GENERAL RETAILERS -9.08%	CONSUMER GOODS 14.80%

Source: Morningstar & Glacier Research



Source: IRESS November 2021



Source: IRESS November 2021

Global markets

Global equity markets lost momentum in November - risk aversion prevailed, resulting from a number of factors including the Omicron Covid-19 variant, rising inflation concerns as labour market and supply shortages persist and a hawkish tone from the US Federal Reserve. As a result, global equity market losses were widespread during the month. The S&P 500, MSCI World AC and MSCI Developed Market were down 0.69%, 2.41% and 2.19%, respectively, in dollar terms. From a sector perspective, performances were mostly negative, with consumer discretionary and information technology being the only sectors which generated positive returns. Financials, energy and consumer services were the laggards.

The price of Brent crude oil declined, resulting in it trading at US$70.57 (-16.4%) a barrel, due to increasing concerns around the impact of more Covid-related lockdowns. Sovereign bonds rallied during the month in the wake of Omicron, as investors shifted away from risky assets. Rising inflation concerns continue to prevail, along with how the labour market and supply chain issues will drive additional inflationary pressures. On a global equity style basis, quality protected losses relatively well (-0.56%) as all investment styles ended in the negative. This was followed by growth (-0.72%), momentum (-3.06%) and lastly value (-3.79%). Global equity was negative, while global bonds were positive during the month.

United States

US equity markets performed negatively towards the end of the month, after a strong start attributed to a favourable earnings season and lower cases of Covid-19. Markets then took a considerable turn after reports of the Omicron variant of Covid-19, which weighed on risk sentiment. As a result, the S&P 500 lost 0.69% (23.18% YTD), underperforming the NASDAQ which was up 0.33% (21.28% YTD) in dollar terms. On the macroeconomic front, the US Manufacturing Purchasing Managers' index (PMI) fell from 60.7 in October to 58.4 in November. 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 as the figure now stands at 69.1 compared to the expected value of 65. The annual inflation rate in the US rose to 6.2% in November 2021.

At a stock level, Peloton saw a sharp decline in its stock price - the company reported a cut in their revenue forecast by $1bn, in line with a drastic fall in demand, as the lockdown inspired trend of home exercise began to diminish. In contrast, biotech companies posted strong performances with Novavax leading the pack, on the back of reports of the Omicron variant.

Eurozone

European equity markets declined during the month, after a strong rebound in October. The Euro Stoxx 50 finished -4.33% (+16.57% YTD) lower in euro terms.

On the macroeconomic front, the Eurozone Manufacturing PMI rose to 55.8 in November 2021 from 54.3 in October 2021, which was above market expectations. The Omicron variant has plagued global economies as fears of how it will affect economic growth came to the fore. On the employment front, there has been improvements over recent months as unemployment has dropped to pre-pandemic levels. Furthermore, the jobless rate across the Eurozone had fallen to 7.4% in September 2021 compared to 8.6% in September 2020.

Inflation in the region rose to 4.9%, largely driven by energy costs and increased costs of imports. This will likely put pressure on the European Central Bank (ECB) to reduce its monetary stimulus programme.

United Kingdom

UK equity markets were in negative territory during the month as the discovery of the Omicron variant weighed on risk sentiment. As a result, the FTSE 100 finished 2.17% (+13.07% YTD) lower in pound terms. Airline and travel stocks were also impacted by the imposition of new restrictions in order to curb the spread of the Omicron variant. On the data front, the Purchasing Manager's Index rose to 58.1 in November from 56.8 in October. Data reported for quarter three GDP figures showed that GDP had risen by 1.3% which was slower than expected, compared to 1.5% forecasted by the Bank of England (BoE). The BoE had kept rates unchanged at 0.1% during November, although inflation had risen to 4.2%. This will likely impose pressure on the central bank to increase interest rates in the following month. On a positive note, unemployment rate for the period fell to 4.3%, from 4.5% in the previous period.

Emerging markets and Asia

Emerging market equities failed to deliver positive returns during the month and also underperformed its developed market counterparts. The MSCI EM index returned -4.08% (-4.34% YTD), while the MSCI Developed World delivered -2.19% (+16.82% YTD) in dollar terms. Emerging markets were largely impacted by negative sentiment from the discovery of the Omicron variant. During the month Europe, Middle East, and Africa (EMEA) turned in the lowest returns, followed by emerging Asia and Latin America. Chinese equities posted negative returns as well, resulting from a combination of Omicron concerns on economic growth and weakness in the Chinese property sector.

GLOBAL RETURNS IN ZAR

August 2021	September 2021	October 2021	November 2021	2021 - YTD
SHANGHAI STOCK EXCHANGE 3.36%	SHANGHAI STOCK EXCHANGE 4.73%	S&P 500 8.11%	SHANGHAI STOCK EXCHANGE 6.16%	S&P 500 34.38%
S&P 500 1.89%	GLOBAL BONDS 2.16%	GLOBAL PROPERTY 7.59%	GLOBAL BONDS 5.11%	GLOBAL PROPERTY 32.71%
MSCI EM 1.47%	FTSE 100 1.74%	MSCI WORLD 6.75%	S&P 500 4.69%	MSCI WORLD 27.44%
MSCI WORLD 1.34%	MSCI EM -0.12%	EURO STOXX 50 6.08%	GLOBAL PROPERTY 3.66%	FTSE 100 19.38%
EURO STOXX 50 1.03%	MSCI WORLD -0.31%	FTSE 100 4.98%	MSCI WORLD 3.11%	EURO STOXX 50 16.99%
GLOBAL PROPERTY 0.39%	S&P 500 -0.83%	SHANGHAI STOCK EXCHANGE 2.19%	MSCI EM 1.12%	SHANGHAI STOCK EXCHANGE 13.06%
FTSE 100 -0.11%	EURO STOXX 50 -1.37%	MSCI EM 2.03%	FTSE 100 -0.46%	MSCI EM 4.36%
GLOBAL BONDS -1.53%	GLOBAL PROPERTY -2.32%	GLOBAL BONDS 0.79%	EURO STOXX 50 -1.90%	GLOBAL BONDS 4.10%

Source: Morningstar & Glacier Research