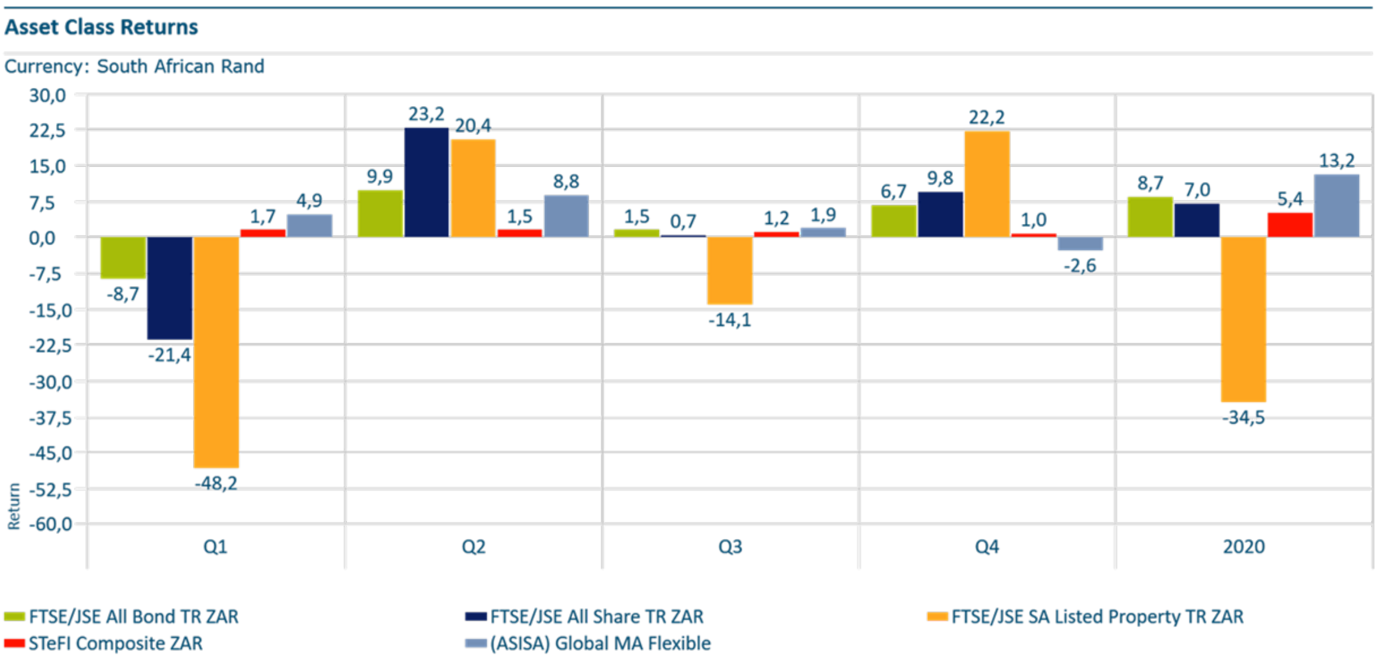
NAVIGA

Newsletter

December 2020

MARKETS

December brought a relatively pleasant end to a difficult year in terms of investment performance. All local asset classes added positive returns for the month, with property once again rebounding strongly. Despite positive returns from offshore investments, the average global flexible portfolio was pulled down by the strong rand appreciation over the past few months, leaving the average flexible offshore investment with a negative return for both December and the fourth quarter. The rand has now appreciated by approximately 30% since its weakest point in April. For the year 2020 most assets were able to provide inflation beating returns, with the obvious exception being local property (as indicated on the graph below).



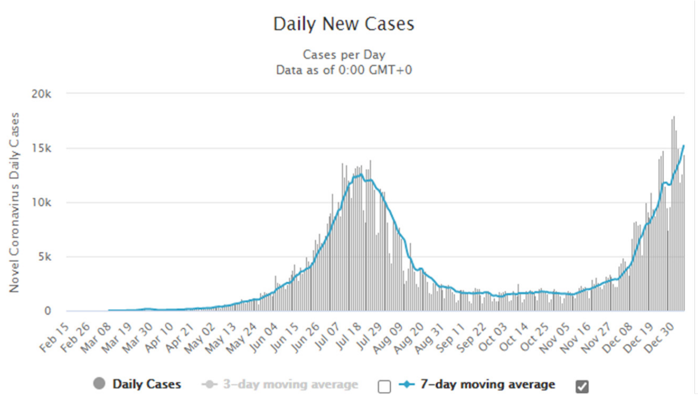
ECONOMICS AND POLITICS

As suggested in the previous month's commentary, growth in manufacturing, trade, and mining managed to drive a significant rebound in local Gross Domestic Product (GDP) for the third quarter of 2020. The real GDP growth came in at 66.1% quarter on quarter (annualized). Consumer Price Index (CPI) data released for the month of November indicated a slight slowdown from 3.3% in the previous month to 3.2% year-on-year. Other data releases included a record surplus in the local current account balance of 5.9% (the largest since 1988) for the third quarter. The trade balance benefitted from strong commodity prices and there was a significant jump in exports thanks to easing lockdown restrictions. Unfortunately, it was not all good news, as brief periods of loadshedding and various lockdown restrictions were reimposed throughout the month.

On the global front, the much-anticipated additional fiscal stimulus package in the United States (US) was finally approved. The America Federal Reserve Bank (Fed) committed to continue with its bond buying program until full employment is reached and to keep inflation at 2%. In the United Kingdom (UK), after years of negotiations and political chaos, as well as many last-minute crisis discussions between the European Union (EU) and the UK, the Brexit transition deadline of 31 December has passed. Previous agreements between the EU and UK are no longer valid. While a post-Brexit trade agreement was eventually reached, it remains to be seen how effective the agreement is and whether Prime Minister Johnson has delivered on all his promises. In Asia, indicators from China continue to support a recovery, with initial estimates pointing to a 2% growth rate for 2020. According to local comments, China's leadership plans to target an 8% real growth rate for 2021, while slowly reducing monetary and fiscal interventions used to combat the COVID-pandemic.

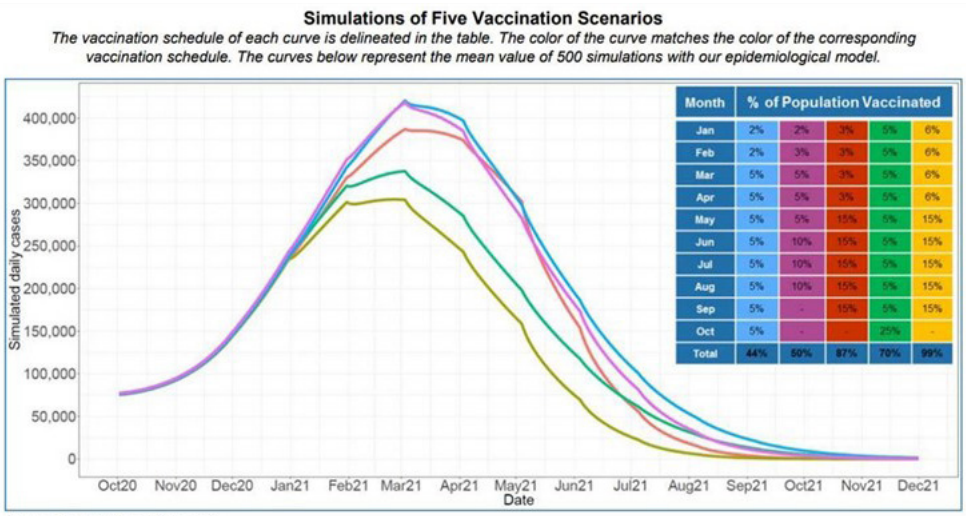
COVID AND VACCINES

Festive moods were significantly dampened over December as infection rates skyrocketed and the second wave firmly took hold in South Africa (SA). This led to tighter lockdown measures being reinstated first provincially and then nationally. Plans are currently being made for acquiring and distributing vaccines in SA, with the ideal (slightly optimistic) target being set for February. Healthcare workers expected to receive the first dosages.



Source: Daily New Cases in South Africa, Worldometers. www.worldometers.info

While the vaccines are too late to address the second wave of infections, they could potentially halt any third wave possibilities. Furthermore, trying to vaccinate the entire population within the first half of 2021 will be impossible, but by focusing on the most vulnerable we can remove significant pressure from the healthcare systems. Recent studies also suggest that vaccinating the full population is not necessarily required to get the daily infection rate down. According to experts in the US, if 75% to 80% of citizens are vaccinated, the US should reach the herd immunity threshold a few months later. This would allow the return to some degree of normality.



Source: Morgan Stanley Research

LOOKING AHEAD

COVID vaccines will likely be a major theme for the year. We will likely see a cyclical recovery, that will benefit Emerging Markets (including SA) and value fund managers, on the back of reopening economies and stimulus measures put in place. It is unlikely to be a smooth ride, however. Fiscal and monetary stimulus, geopolitical risks (think US/China, UK/EU), the tech race and the likely regulation thereof, a potential rise of inflation, and ESG (climate change, impact investing) considerations are only a couple of other themes set to be top of mind as we go through the year and will be key determinants in our investment decisions.

JSE All Share 4,24% | 59 408,68 ▲	**MSCI World *(USD)*** 4,24% | 2 690,04 ▲	**MSCI EM *(USD)*** 7,35% | 1 291,26 ▲	**SA Bonds** 2,44% | 758,96 ▲
SA Property 13,68% | 272,98 ▲	**CPI (y/y)** 3,20% | 117,10 ▲	**Gold** 6,64% | 1 894,23 ▲	**Platinum** 11,51% | 1 069,93 ▲
Oil 8,19% | 51,80 ▲	**£/R** - 2,52% | 20,08 ▼	**€/R** - 2,71% | 17,95 ▼	**$/R** - 5,01% | 14,69 ▼

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