

NAVIGA



Newsletter

January 2021

MARKETS AND ECONOMICS

It was a positive start to the year as local assets delivered strong returns, with local equities posting the best start to a year since 2012. The only exception was local property, taking a breather from the relatively strong recovery over the past few months. Global markets were slightly more mixed, with returns being relatively muted compared to those achieved locally. As the rand depreciated slightly throughout the month, local investors received a currency pickup from their offshore investments, with the average global flexible portfolio returning 3.5%.

Making headlines this month was the uprise of amateur investors against large institutions. An investment group on Reddit decided to bid up (buy) the shares of, amongst others, failing video game retailer GameStop, knowing full well there are various hedge fund managers shorting this stock, possibly without having covered position ("naked short"). This forced the managers to buy back the shares to cover their positions at significantly higher prices, thereby driving the prices even higher ("short squeeze") and incurring major losses. The financial upset resulted in billions of dollars of wealth transfer.

In terms of economics, local interest rates were left unchanged at 3.5% even as inflation eased slightly to 3.1% for December. Manufacturing data disappointed for November, and we were again confronted with loadshedding. Globally, growth indicators were mixed, but policymakers once again reiterated their commitments to further ease monetary conditions if required. The International Monetary Fund (IMF) updated their growth forecasts, lifting their global growth expectations, but unfortunately turning more pessimistic towards South Africa. They have cautioned that growth forecasts will largely be dependent on the effectiveness of vaccine roll-outs.

VACCINES

At time of writing this market overview, the first batch of COVID-19 vaccinations, the AstraZeneca vaccinations from India, have arrived in South Africa. These vaccinations require two injections, with the second injection needing to be administered four to twelve weeks after the first. The AstraZeneca vaccination, which is a viral vector vaccine (meaning it uses a modified virus to deliver a genetic code of cells that train the immune system, rather than delivering the infectious pathogen itself), has an efficacy rate of approximately 70% (based on data from United Kingdom and Brazil), which is slightly lower than those of the Pfizer/BioNTech and Moderna vaccines, but better than the Novavax vaccine. The use of the Pfizer/BioNTech and Moderna vaccinations hold significant logistical issues for countries like South Africa, as they need to be stored at extreme temperatures and are significantly more expensive. Nonetheless, South Africa is set to also receive batches from Pfizer, as well as Johnson & Johnson.

This first batch of approximately one million vaccinations will be used for healthcare workers, with a second batch expected towards the end of February. According to comments from government, they are aiming to vaccinate 40 million people (approximately 65% of the population) by the end of 2021. This will, however, be highly dependent on efficiency of the roll-out, and whether orders are fulfilled.

While the process could run very smoothly, and the take-up well-received (according to surveys, approximately 70% of South Africans are currently willing to take the vaccination), there is a downside risk that orders get delayed or that emerging countries like South Africa get left behind in global procurement and implementation. It seems we are already late to the party when compared to the progress of peers.

Latest World Economic Outlook Growth Projections

	ESTIMATE	PROJECTIONS	
(real GDP, annual percent change)	2020	2021	2022
World Output	-3.5	5.5	4.2
Advanced Economies	-4.9	4.3	3.1
United States	-3.4	5.1	2.5
Euro Area	-7.2	4.2	3.6
Germany	-5.4	3.5	3.1
France	-9.0	5.5	4.1
Italy	-9.2	3.0	3.6
Spain	-11.1	5.9	4.7
Japan	-5.1	3.1	2.4
United Kingdom	-10.0	4.5	5.0
Canada	-5.5	3.6	4.1
Other Advanced Economies	-2.5	3.6	3.1
Emerging Markets and Developing Economies	-2.4	6.3	5.0
Emerging and Developing Asia	-1.1	8.3	5.9
China	2.3	8.1	5.6
India	-8.0	11.5	6.8
ASEAN-5	-3.7	5.2	6.0
Emerging and Developing Europe	-2.8	4.0	3.9
Russia	-3.6	3.0	3.9
Latin America and the Caribbean	-7.4	4.1	2.9
Brazil	-4.5	3.6	2.6
Mexico	-8.5	4.3	2.5
Middle East and Central Asia	-3.2	3.0	4.2
Saudi Arabia	-3.9	2.6	4.0
Sub-Saharan Africa	-2.6	3.2	3.9
Nigeria	-3.2	1.5	2.5
South Africa	-7.5	2.8	1.4
Memorandum			
Low-Income Developing Countries	-0.8	5.1	5.5

Source: IMF World Economic Outlook Update, January 2021

Note: For India, data and forecasts are presented on a fiscal year basis, with FY 2020/2021 starting in April 2020. India's growth projections are -7.4 percent in 2020 and 11.0 percent in 2021 based on calendar year.

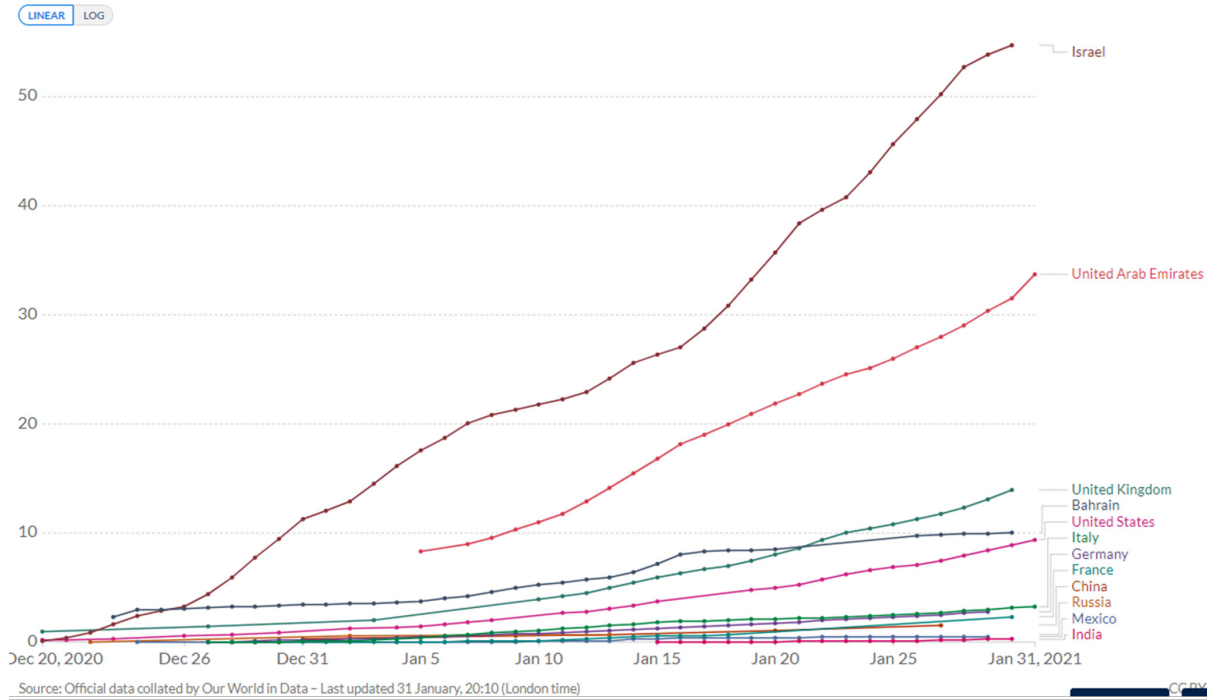
INTERNATIONAL MONETARY FUND

IMF.org

Cumulative COVID-19 vaccination doses administered per 100 people

This is counted as a single dose, and may not equal the total number of people vaccinated, depending on the specific dose regime (e.g. people receive multiple doses).

Our World in Data



Source: Official data collated by Our World in Data - Last updated 31 January, 20:10 (London time)

Source: Our World In Data, Coronavirus (COVID-19) Vaccinations, <https://ourworldindata.org/covid-vaccinations>.

LOOKING AHEAD

In concluding our investment views for the first quarter at the start of January, we found support for our view on the economic recovery. This view is based on:

1. Improving fundamental factors being further driven by aggressive policy support (both monetary and fiscal),
2. increasingly positive advancements in COVID vaccinations, and
3. relatively low recession risk from a global view.

We maintain our optimistic view of a supported and balanced recovery, suggesting a pro-cyclical-growth stance. Our active bets remain relatively cautious however, based on rich valuations, policy-error risk, and the risk of virus-mutations or vaccination headwinds.

JSE All Share 5,21% 62 472,10 ▲	MSCI World (USD) -0,99% 2 661,96 ▼	MSCI EM (USD) 3,07% 1 329,57 ▲	SA Bonds 0,76% 764,74 ▲
SA Property -3,21% 262,88 ▼	CPI (y/y) 3,10% 117,30 ▲	Gold -2,50% 1 846,97 ▼	Platinum 1,22% 1 082,95 ▲
Oil 6,25% 55,04 ▲	£/R 3,49% 20,78 ▲	€/R 2,50% 18,40 ▲	\$/R 3,20% 15,16 ▲