Newsletter

July 2020

MARKETS

July delivered a mixed bag of performance as some major markets, such as the United States and China, finally made the switch to positive year-to-date returns, while others (Europe, United Kingdom, and Japan) had another down month. Globally, tech shares have been the primary drivers of equity market performance, with the attribution clearly visible in the divergence of the year-to-date price returns for the diversified S&P 500 Index (1.3%) against the tech-heavy Nasdaq 100 Index (24.88%).

Global stimulus is showing no signs of slowing, as an agreement was reached on a €750 billion package in Europe, and the United States is debating the scale of second round support. The Democrats are pushing for approximately $3 trillion, while the Republicans are suggesting a more cautious $1 trillion.

Gold, one of the traditional safe-haven assets, has been outperforming the past few months and recently surged past its 2011 peak. Supported by global economic uncertainty, expansionary monetary policy, and continuing fears regarding COVID-19, the commodity has delivered 30% year to date. Consequently, some of the best year-to-date performers on the All Share Index have been gold miners, such as Gold Fields (132%), Harmony Gold (114%), and AngloGold Ashanti (75%).

Source: Trading Economics

With the strong performance from not only Gold counters, but also Platinum and Iron Ore, the Resource sector drove the local equity market 2.6% higher in July. Local investors also benefited from the strong returns in offshore assets, despite some mixed movements in the currency markets; the Rand appreciated slightly against the United States dollar, ending the month approximately 1.6% higher, but weakened against the euro and British pound.

INTEREST RATES, INFLATION, AND GROWTH

The South African Reserve Bank (SARB) cut interest rates by 0.25% in July, taking the repo rate down to 3.50%, 3% lower than at the start of 2020. The decision to cut was not as unanimous as previous meetings as two of the members voted for rates to remain on hold. Supporting the decision to cut was the inflation figure of 2.1% for May, followed by 2.2% for June. This is the lowest year-on-year figures in more than 15 years. Looking forward the SARB sees inflation risks as relatively balanced, expecting inflation to remain around the midpoint (4.5%) for 2021 and 2022.

GDP is expected to contract by 7.3% in 2020, with sharp declines in exports, imports and investments, as well as further job losses. Although there have been signs of increased economic activity and spending from very depressed levels, latest retail sales figure shows a 74% month-on-month increase, the SARB has warned that it will take time to get the economy back to pre-COVID levels. They are forecasting growth of 3.7% for 2021 and 2.8% for 2022.

IMF LOAN AND COVID LOAN GUARANTEE SCHEME

The much reported and debated IMF loan, or Rapid Financing Instrument (RFI), was approved this month, giving the SARB access to a $4.3 billion (R70.4 billion) credit facility with limited conditionality. South Africa has taken 100% of the available facility and will have to repay this facility over 3.25 to 5 years. Although there is limited conditionality, there are certain requirements that relate to cooperation with the IMF in solving funding issues and following proposals regarding economic

policies. As part of the letter of intent, government recommitted to fiscal consolidation and reducing the public wage bill. The loan forms part of the original R500 billion stimulus package announced in April, rather than being an additional funding package.

Up to the first week of July, only approximately R12 billion of R200 billion had been taken up as part of the government's loan scheme aimed at supporting businesses, saving jobs, and adding liquidity to the economy. One of the flaws seems to have been the operating model, as banks are using inappropriate creditworthiness assessments, and thus many businesses do not qualify. Changes have now been implemented that will see many stringent criteria fall away and allow more optionality, which will help many businesses survive.

Having benefitted from what we saw as the "bounce" phase after Q1 drawdowns, we are cautiously monitoring the indicators for signs of a sustained recovery, which will support an overweight move to growth assets. For now, we remain in a neutral risk position, as the volatility in global and local factors play out.

JSE All Share	**MSCI World *(USD)***	**MSCI EM *(USD)***	**SA Bonds**
2,56% | 55 721,81 ▲	4,78% | 2 304,98 ▲	8,94% | 1 078,92 ▲	0,61% | 705,28 ▲
SA Property	**CPI (y/y)**	**Gold**	**Platinum**
- 3,19% | 257,88 ▼	2,20% | 114,90 ▲	11,48% | 1 976,28 ▲	11,89% | 908,50 ▲
Oil	**£/R**	**€/R**	**$/R**
5,46% | 43,52 ▲	3,78% | 22,34 ▲	3,14% | 20,11 ▲	- 1,68% | 17,06 ▼

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