# NAVIGA

## Newsletter

October 2020

### MARKETS

It seems that the 2020 whirlwind is showing no signs of easing, as October proved to be another rollercoaster month. Many countries went back into lockdown, United States (US) citizens were getting ready to vote (while the rest of the world held their breath), the United Kingdom (UK) moved closer to a ‘hard Brexit’ as Prime Minister Boris Johnson is yet to conclude a favourable deal, and Europe is facing increasing recession risks.

Markets fell on the back of these developments and uncertainties as well as disappointing earnings reports from some of the large tech shares (which have been market darlings for this year thus far). Significant drawdowns were experienced in the US, UK and Europe (especially Germany and France), despite strong gross domestic product (GDP) growth rebounds published for the third quarter. Asian markets performed slightly better, with Japan being down less than 1% and China rising slightly.

The local market also had another tough month, with equities, property and the average offshore flexible portfolio all losing significant ground. Contributing to the negative returns from offshore investments was the currency effect from the Rand that strengthened throughout the month by around 3% against the US Dollar. Bonds also had a slightly positive month, supported by stable inflation figures for September and attractive real yields.

### US ELECTIONS

At the time of writing, the final US election results were being tallied and the outcome was still too early to call. While the two candidates clearly do not see eye to eye, and there are significant differences in their approaches to the presidency, there are also some similarities that can be drawn between their preferences and policies. These include support of accommodative monetary (and, to some extent, fiscal) policy and increased capital expenditure, preference for a weaker US Dollar, and a tougher stance towards China, albeit that Joe Biden will do this in a much more diplomatic manner.

Either way, with the potential for a contested election, a divided house and the uncertainty of whether markets would prefer a change in the status quo or not, it is best not to bet the house as volatility and market noise will likely persist.

### MEDIUM TERM BUDGET POLICY STATEMENT (MTBPS)

Finance Minister Tito Mboweni presented the MTBPS towards the end of October. The MTBPS painted a worsening picture of government finances but again coupled with some optimistic plans. Key highlights include:

+ Tax increases have generated less revenue than expected (thus becoming less effective). An increase in personal income tax is still likely and potentially even another value-added tax (VAT) rate increase.
+ Cost cutting will occur at a slower rate than expected. The economy cannot afford an excessively sharp fiscal consolidation.
+ There is a focus on shifting from consumption to capital expenditure spending (borrow for capital assets rather than to consume), again reflecting the need to cut government’s wage bill. A wage freeze has been proposed for the next three years.
+ Treasury expects zero-based budgeting to be implemented by 2023.
+ Weakened state-owned enterprise (SOE) balance sheets continue to put the budget at risk, with an additional R10.5 billion allocated to South African Airways (SAA).
+ There seems to be a growing focus on electricity generation, Eskom and splitting the SOE into three proposed divisions.
+ Prescribed assets remain an unlikely funding method.

Another important announcement from the MTBPS was the agreement of compulsory annuitisation of retirement benefits from provident funds and provident preservation funds starting 1 March 2021. Under this agreement, employees will have to buy a compulsory annuity with two-thirds of their benefit. Contributions made prior to the implementation date will still be accessible as a lump sum and the change does not apply to members 55 years or older. Furthermore, government has initiated a review process of Regulation 28 to allow retirement funds greater access to investment in infrastructure.

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| **JSE All Share**<br>- 4,73% \| 51 684,70 | **MSCI World *(USD)***<br>- 3,07% \| 2 292,93 | **MSCI EM *(USD)***<br>2,06% \| 1 103,46 | **SA Bonds**<br>0,89% \| 717,53 |
| **SA Property**<br>- 8,50% \| 206,66 | **CPI (y/y)**<br>3,00% \| 116,80 | **Gold**<br>- 0,52% \| 1 877,90 | **Platinum**<br>- 2,40% \| 849,00 |
| **Oil**<br>- 10,30% \| 37,94 | **£/R**<br>- 2,77% \| 21,05 | **€/R**<br>- 3,76% \| 18,90 | **$/R**<br>- 3,07% \| 16,24 |