NAVIGA

Newsletter

September 2020

ECONOMICS, POLITICS AND COVID-19

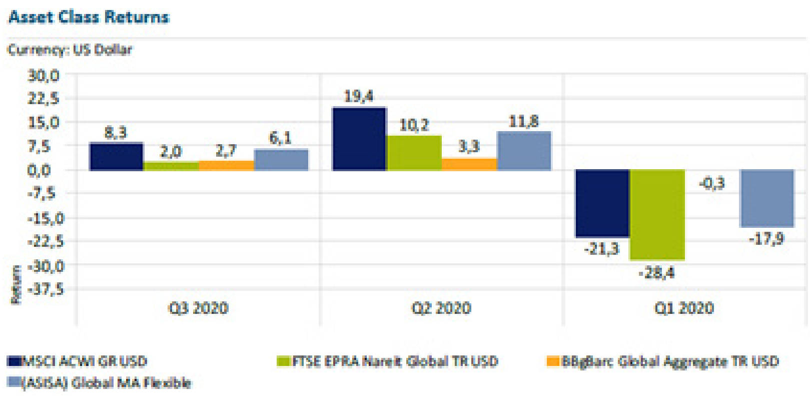
It was a busy month in terms of economic data and market-moving events. In the US, the Federal Reserve disappointed the market as it failed to announce any additional stimulus measures. The Republicans and Democrats are also still debating the magnitude of their second-round fiscal support package, causing some frustration. Furthermore, Presidential elections are causing volatility, after a heated and very unproductive first presidential debate set a concerning tone for things to come. Rising COVID infections and the so-called second wave have taken hold in many countries, especially across Europe, with some reinstating lockdown restrictions. Fears are also running high in the US, as winter approaches in the Northern Hemisphere, and after the recent reports that the US President and First Lady have both tested positive for the virus.

In South Africa, CPI figures for August came in slightly lower than the previous month, 3.1% year on year, keeping the trend of lower inflation intact. Despite the continued below-midpoint level of inflation, the SARB's Monetary Policy Committee decided to keep rates on hold at 3.5% in September, in line with consensus. No further rate cuts are expected in 2020, but there is potential for rate hikes towards the end of 2021, according to SARB comments.

Local unemployment data released throughout the month pointed to the loss of 2.2million jobs in Q2 of 2020. Despite this, the official unemployment rate declined to 23.3% (broad unemployment rose to 42%). This figure is distorted however, due to various factors including people exiting the job market (smaller labour force). The unemployment rate will thus likely see a sharp increase in the next quarterly release. GDP data for the second quarter was also released early in September, pointing to a 16.4% quarter on quarter decline. This figure incorporates the worst part of the local lockdown and was very much in line with expectations. On a positive note, the ABSA Purchasing Managers Index and New Vehicle Sales data released in September seem to support a relatively robust rebound for the third quarter. South Africa also recorded the second largest monthly trade surplus on record in August.

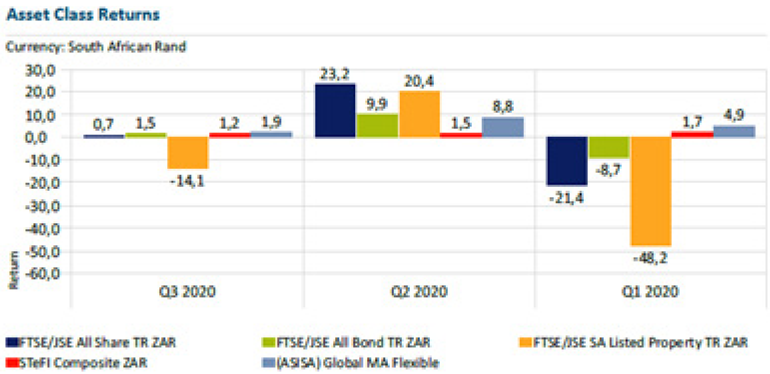
South Africa officially opened its borders to international travel for business and leisure on the 1st of October. Although there are still many countries on a "banned" (high risk) -list, the opening of borders was announced much earlier than initially expected. Furthermore, visitors from these high-risk countries make up a significantly smaller portion of total overnight visitors.

MARKETS



September saw a slight pullback in markets, not surprising given the factors mentioned above. Almost all major equity markets sold off, with some of the largest detractors being the major technology shares such as Facebook, Apple, Tesla, and Alphabet. The pullback resulted in a slightly more muted, albeit at least positive, performance for the third quarter.

The local market also delivered very little to be excited about in terms of performance, with cash being the only asset class showing a positive return in September. Local equities followed their global counterparts lower, while declines in major commodity prices (gold, platinum, and oil) further hurt the large resource counters on the index. In terms of currency, the ZAR remained on a strengthening path until mid-month, when global concerns took hold, leading to a strengthening Dollar (and weakening Rand). The local currency still managed to end the month slightly stronger, adding to the negative returns experienced by local investors in offshore markets.



This brings a relatively disappointing end to the third quarter for the local market. However, given the strong rebound experienced in the second quarter, and all the global considerations, a brief period of profit taking is probably not surprising. Year to date, offshore investments are still the best performers.

Optimism remains around global growth, with a general preference for more risky/pro-growth assets, despite the negative sentiment, especially related to politics and the accompanying policies. The belief is that these factors will only cause short-term noise, or small corrections as seen in September. Lower inflation and interest rates, including the global stimulus provided by governments, should assist markets over the medium term.

JSE All Share - 1,58% | 54 264,96	**MSCI World *(USD)*** - 3,45% | 2 367,27	**MSCI EM *(USD)*** - 1,60% | 1 082,00	**SA Bonds** - 0,05% | 711,21
SA Property - 2,97% | 227,72	**CPI (y/y)** 3,10% | 116,60	**Gold** - 3,59% | 1 887,90	**Platinum** - 6,50% | 869,88
Oil - 6,58% | 42,30	**£/R** - 4,39% | 21,65	**€/R** - 2,84% | 19,64	**$/R** - 1,09% | 16,76