NAVIGA

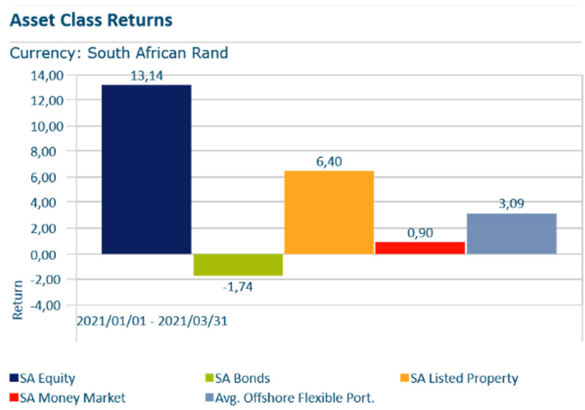
Newsletter

March 2021

MARKETS AND ECONOMICS

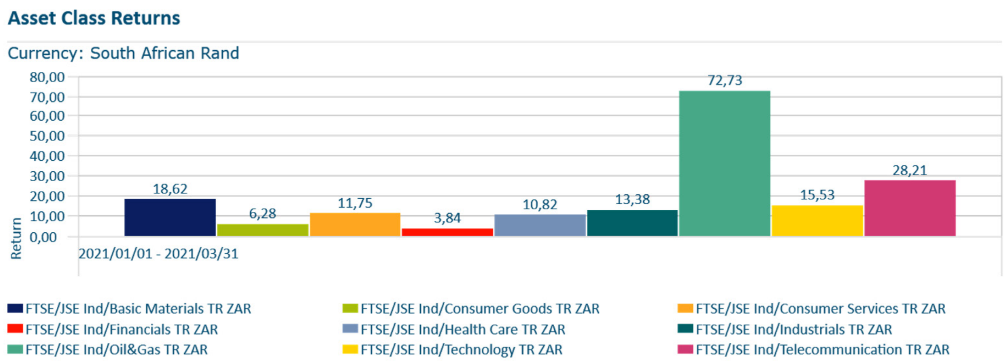
March, the anniversary of local and global lockdown measures, ended the strangest and most uncertain year that many of us have ever experienced. From complete shutdowns in economic activity to restrictions on and tracking of movement, and prohibitions on gatherings and family visits, the recovery from a year ago has indeed been quite impressive, albeit with many panic attacks in between.

In the local market, most asset classes ended the month slightly higher in March, with only bonds selling off and offshore allocations being negatively influenced by the local currency appreciation. Despite ongoing concerns around the impact of rising inflation and rising treasury yields, as well as continued lockdown measures around the world, global markets rather focussed on the positives in March. Optimism was driven by the COVID-19 relief package passed by the United States Congress, continued vaccination roll-out programmes around the globe and improved economic indicators. Asian markets were the slight exception, as Chinese equities were pulled down by investors' concerns around a tightening regulatory environment.



The end of March also signalled the end of the first quarter of 2021. For local investors, Q1 was a highly rewarding period, with the typical balanced portfolio (ASISA Multi Asset High Equity sector) delivering the best first quarter return since 2006, driven primarily by equities. With the COVID-19-induced market bottoming occurring mid-March 2020, the low base and strong market recovery has also resulted in extreme one-year return figures for most of the asset classes (50%+ for equities, 30%+ for bonds and 25%+ for the rand).

Although there has been relatively wide participation in the market's recovery, equity returns for the quarter were primarily driven by the large resource counters, with a few specific stocks, such as Naspers (consumer services), MTN (telecommunications) and Sasol (oil and gas) also making large contributions. From a global perspective, the South African All Share Index outperformed most of the major equity indices (S&P 500, FTSE 100, Nikkei 225, Hang Seng, FSE DAX) in local currency. The rand's appreciation that occurred during the quarter would have enhanced the outperformance of the local market by diminishing the returns for local investors' offshore allocations. On the bond side, the longer end of the curve (higher duration) investments sold off more, while the short-term fixed-income instruments were close to flat for the quarter.



In terms of economic data, the following were a few key releases during March:

+ Inflation is slightly down to 2.9% year-on-year for February (it was 3.2% in the previous month).
+ The repo rate remained unchanged at 3.5%.
+ The manufacturing PMI rose to 57.4, from 53 in the previous month, indicating the third consecutive month of expansion in manufacturing.
+ Retail sales fell 3.5% year-on-year in January (-1.2% in the previous month), underperforming market expectations of -2.7%.
+ Private sector credit growth slowed further in February, down to 2.62% year-on-year (it was 3.26% in the previous month).

The gross domestic product (GDP) data for the fourth quarter of 2020 was also released early March, pointing to quarter-on-quarter growth of 1.5% (6.3% annualised) vs. the 13.7% quarter-on-quarter growth of the previous (third) quarter. These two quarters of growth were, however, not enough to offset the economic shutdowns and loss of activity in the first two quarters, resulting in a 7% slump in GDP for 2020. While early indicators are pointing to slower growth momentum in the first quarter of 2021, the stronger commodity cycle and stronger than expected global economic recovery could provide support. A successful vaccination roll-out programme will also provide much needed confidence. The South African Reserve Bank has cautiously increased its growth outlook to 3.8% (from 3.6%) for 2021.

JSE All Share 1,58% | 66 485,29 ▲	**MSCI World *(USD)*** 3,33% | 2 811,70 ▲	**MSCI EM *(USD)*** - 1,51% | 1 316,43 ▼	**SA Bonds** - 2,54% | 745,75 ▼
SA Property 1,23% | 286,87 ▲	**CPI (y/y)** 2,90% | 118,50 ▲	**Gold** - 4,81% | 1 684,99 ▼	**Platinum** - 5,03% | 1 157,85 ▼
Oil - 2,61% | 62,74 ▼	**£/R** - 3,37% | 20,37 ▼	**€/R** - 5,07% | 17,33 ▼	**$/R** - 2,32% | 14,78 ▼