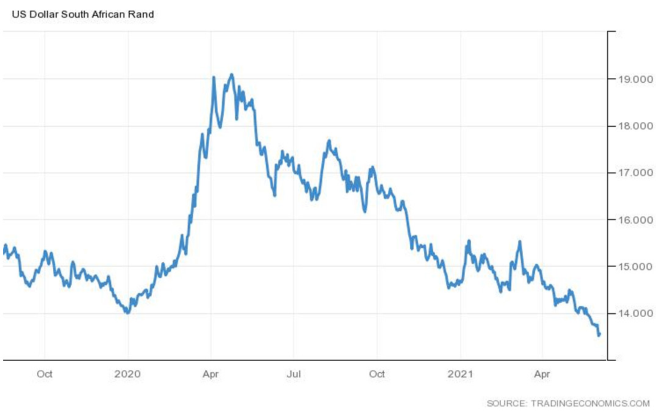
NAVIGA

Newsletter

May 2021

MARKETS AND ECONOMICS

We have firmly entered the end of the first half of 2021 with another busy month that has passed: from inflation scares, a crypto-crash, conflict in the Middle East and rising COVID-19 infections driving uncertainty abroad to local headaches caused by weaker employment statistics, increased lockdown measures, conflict in the ruling political party and the resurgence of load shedding. Despite this, continued improvement in most countries' economic data indicators pushed markets higher, allowing for a relatively generous month of performance. Although most markets added relatively strong returns, emerging markets outperformed with cyclical value counters being the winners, while the large tech companies suffered losses.



Amongst the currencies, the rand was a star performer in May. Various factors on the global front have been supporting the appreciation trend, such as the drive towards emerging markets, continued accommodative policies, stronger commodity prices on the back of global demand and the dollar's weakness driven by capital flows. A few local factors have also been supporting the rand, such as the strong current account surplus, the relatively 'positive chaos' happening in government and the fact that the currency has been moving from a very high base.

Focussing on probably the most important market drivers over the past few months, namely inflation and monetary policy, we recently saw inflation figures surprising on the upside for many developed economies. In the United States (US), April's inflation of 4.2% was an unwelcome surprise, the highest year-on-year increase since the 2008/2009 global financial crisis, leading to a market pullback and rising yields. Investors have been concerned that the extent of the jump past the upper bound of the inflation target would force the Federal Reserve's hand to adjust monetary policy, despite continued comments from officials that these inflation figures are only transitory. Luckily, the weaker-than-expected jobs reports that followed eased some concerns.

The following are a few additional key economic highlights from the global markets:

+ Higher manufacturing Purchasing Managers' Index (PMI) figures were posted across the US (62.1), Europe (63.1) and China (52), indicating continued expansion in manufacturing activity.
+ Inflation in the Eurozone accelerated to 2% year-on-year in May, while the United Kingdom (UK) experienced a doubling in their inflation rate to 1.5% in April. China's inflation jumped to 0.9% in April (from 0.4% in the previous month).

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

+ Despite inflation moving higher to 4.4% year-on-year, the highest level post-COVID, the South African Reserve Bank (SARB) kept rates unchanged at 3.5% and revised their 2021 gross domestic product (GDP) forecast higher to 4.2%.
+ The manufacturing PMI moved up to 57.8 for May (from 56.2 in April).
+ April's trade balance came in at a R51 billion surplus, only slightly lower than the previous month's record-high of R52.5 billion.
+ Retail sales moved back into negative territory in March, showing a 2.5% contraction year-on-year.

JSE All Share 1,56% | 67 964,04 ▲	**MSCI World (USD)** 1,44% | 2 975,70 ▲	**MSCI EM (USD)** 2,32% | 1 376,21 ▲
SA Bonds 3,73% | 788,25 ▲	**SA Property** - 2,88% | 305,48 ▼	**CPI (y/y)** 4,40% | 120,10 ▲
Gold 7,59% | 1 896,49 ▲	**Platinum** - 0,90% | 1 182,43 ▼	**Oil** 3,85% | 69,33 ▲
$/R - 5,23% | 13,74 ▼	**€/R** - 3,58% | 16,80 ▼	**£/R** - 2,47% | 19,53 ▼

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