January 2021

Sygnals

The Monthly Bulletin by Sygnia

Market review

Globally, gaming company GameStop has stolen the limelight, worrying fundamental long-only investors while terrifying the hedge fund industry, who are the largest short sellers. Populism has hit capitalism in its backyard: gamers and Reddit users basically decided to start buying up GameStop Corp stock, driving prices up and digging a significant hole in the pockets of hedge funds that had taken short positions on the stock. Between 20 January and 26 January, GameStop's stock value leaped from just over $35 a share to north of $140 a share. By 27 January, it had hit new highs of over $325 a share and had increased more than 8 000% in the space of a few months.

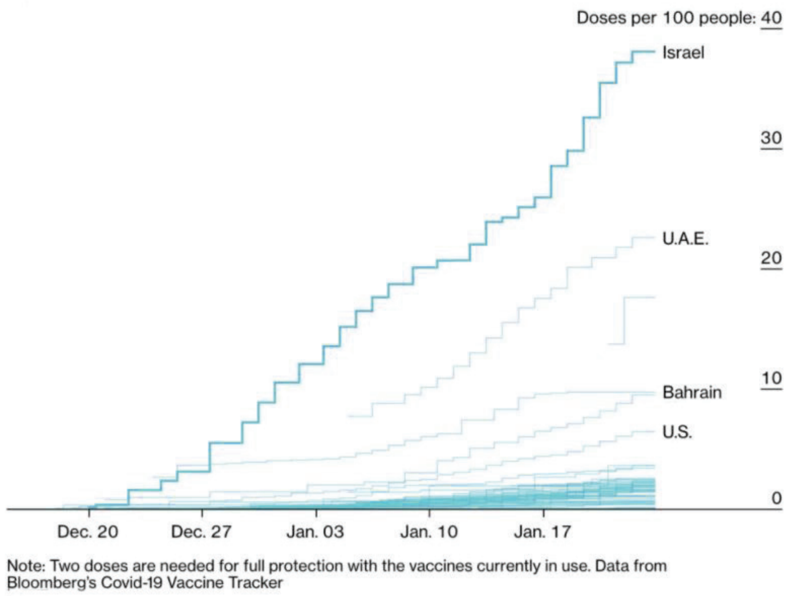
Covid-19 – vacc be nimble, vacc be quick

Sadly, but not unexpectedly, Covid-19 did not end with 2020 and remains the primary concern in the new year. Although 82 million vaccine doses have already been administered across 59 countries, the virus remains one step ahead of scientists working around the clock as new variants pop up in different geographies. The new UK, Brazil and South African variants are 50% more infectious but not more lethal. Although it is still early days for new variants, the vaccines remain effective and could even possibly be redesigned within a few weeks in the worst-case scenario. Key Covid-19 developments in the last month include:

- Moderna is already researching a boost vaccine for the new variant.
- Israel is emerging as a leader, with about 45% of its population already vaccinated.
- On 26 January, US hospitalisations fell to their lowest levels since mid-December.
- SA's number of new daily cases are down 75% from the recent peak.
- A survey by the Human Sciences Research Council (HSRC) revealed that a third of adult South Africans were undecided about or did not want the vaccine.

Chart 1: Percentage of global population that has received at least one dose of the Covid-19 vaccine

Source: Bloomberg



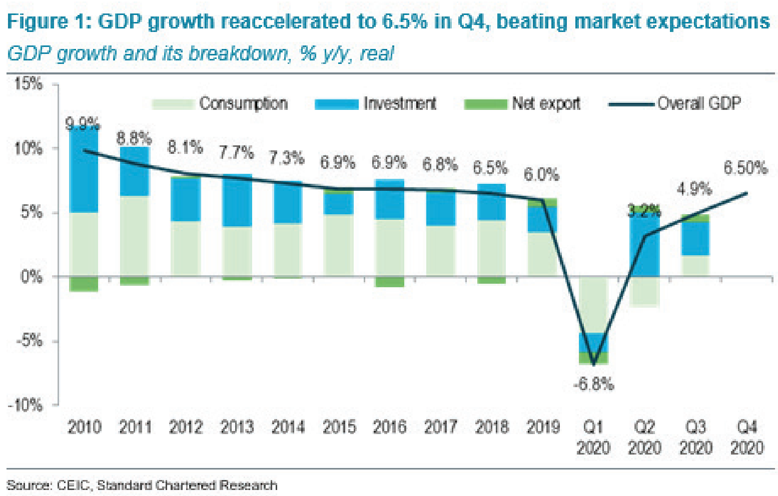
China – growth recovers sharply

Chinese GDP grew 6.5% in Q4 2020, beating forecasts. Overall, the Chinese economy grew 2.3% in 2020 on the back of higher industrial production. China is set to be the only G20 economy to achieve positive growth in 2020.

While it is still early days for Joe Biden in the US White House, Chinese president Xi Jinping has already started dropping heavy hints about a looming cold war. China wants to work together – but like Frank Sinatra, Xi has made it clear he wants to do it his way. It will be interesting to see how Biden chooses to handle the situation and how much backbone he has. The theme for the 51st World Economic Forum later this year is "The Great Reset", and one hopes this will set the tone going forward.

Chart 2: Chinese GDP accelerates in Q4 2020

Source: Standard Chartered Research



US – the great American Rescue Plan

Joe Biden was inaugurated on 20 January as the 46th US president and signed 15 executive orders on his first day in a notable start towards dismantling Trump's legacy. Biden's immediate focus is his "American Rescue Plan": potentially the largest stimulus plan in history, it is worth $1.9 trillion and is designed to support the US economy through the pandemic, including $1,400 in additional cash payments to Americans.

In the middle of all the fiscal support, concerns around inflation and the possibility of raising rates too soon remain, but Fed Chair Jerome Powell says the central bank will give plenty of notice before trimming its bond purchase programme. The Fed announced that the "lower for longer" approach is here to stay for the foreseeable future, with higher interest rates remaining unlikely unless inflation begins to pose a threat to the economy.

UK – dealing with the realities of an EU exit

The world's largest interdealer broker, TP ICAP plc, was one of the first to have to deal with the realities of the recently concluded Brexit deal. The London-based firm revealed that it had been prevented from serving all its EU clients because it hadn't completed its planned staff relocation to Paris. Despite this, the pound has remained strong as markets acknowledge the speedy roll-out of the vaccine in the UK relative to Europe and the US.

South Africa – confusion continues

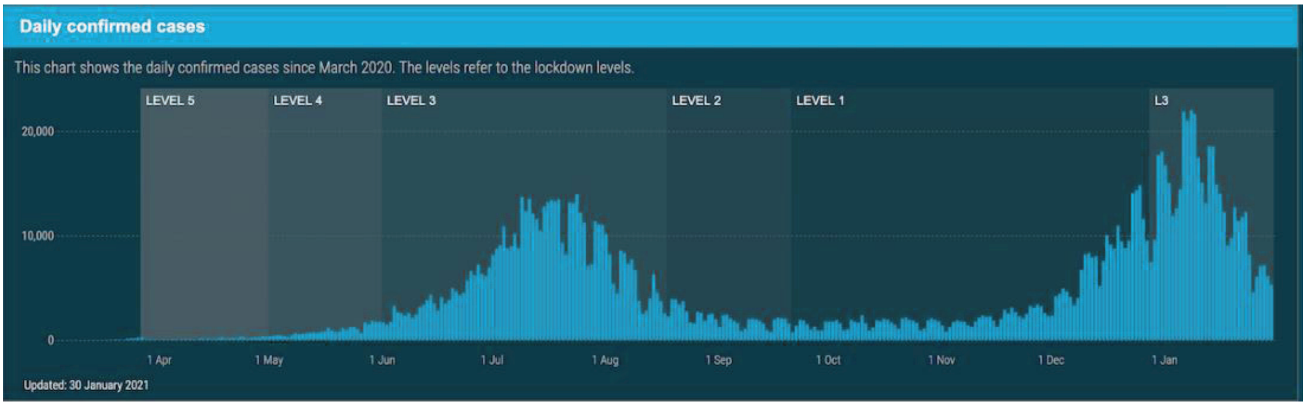
Amid continued stage 2 load shedding, crumbling water infrastructure and curfew restrictions, confusion continues around South Africa's vaccine roll-out plans – mostly because there aren't any, with various government sources providing conflicting information. South Africa ignored calls from vaccine producers and left discussions to the last minute and must now pay a massive premium on the shots it has secured directly from the Serum Institute of India (SII). Government has agreed to pay the SII $5.25 (about R78) a dose, twice the price the EU negotiated directly with AstraZeneca in 2020 , and doubt has been cast on whether SII vaccines due to be received in February will be rolled out before March due to the local approval process. South Africans may have to rely on their ingenuity and herd immunity while the government discusses more taxes to finance the vaccine – we await the February budget for more details.

The good news is that the country's Covid-19 new-infection rate recently fell below 10 000 for the first time since December. Meanwhile, the battle to protect jobs in an already ailing business environment continues. Both SA Breweries and Vinpro (representing the wine industry) are taking government to court over the contentious alcohol sales ban (currently in effect for the third time), which has left the R140bn liquor industry reeling. The liquor industry supports roughly 1-million jobs, and fears of another jobs bloodbath across the value chain abound, not without reason.

The IMF expects SA GDP growth of 2.8% in 2021 and says South Africa needs to remove barriers to growth and job creation.

Chart 3: South African daily confirmed cases since March 2020

Source: https://mediahack.co.za/datastories/coronavirus/dashboard/



Key take-aways

Author John Allen Paulos tells us that "uncertainty is the only certainty", which definitely rings true as we tiptoe into the new decade. All eyes are on President Biden as he steps up to the plate in the US, while China is leading the globe in terms of a strong recovery. Like an ex who won the house but lost everything else, the UK has already started to experience the practical implications of the Brexit deal.

Locally, the expected SA debt-to-GDP at the February Budget stands at 81.8%. Finance Minister Tito Mboweni gave a subtle signal of what to expect in the National Budget, tweeting, "You have to prioritise within your existing resources. You must balance your books. You must internalise your budget constraint. You cannot have EVERYTHING at the same time."

Key indicators

		1 mo.	3 mos.	6 mos.	1 yr.	2 yrs.	3 yrs.	5 yrs.	10 yrs.
J203T	**FTSE/JSE All Share Index**	5.2%	21.2%	13.3%	14.5%	10.8%	4.8%	8.1%	10.4%
J200T	**FTSE/JSE Top 40 Index**	5.4%	21.0%	12.7%	17.6%	12.6%	6.0%	8.5%	10.6%
J210T	**FTSE/JSE Resources 10 Index**	4.9%	27.6%	10.4%	31.7%	24.4%	21.8%	24.2%	4.2%
J211T	**FTSE/JSE Industrials 25 index**	8.5%	15.4%	14.3%	21.3%	16.7%	4.1%	5.9%	15.2%
J212T	**FTSE/JSE Financials 15 Index**	-3.1%	23.9%	15.5%	-17.3%	-14.2%	-8.3%	0.1%	8.4%
J403T	**FTSE/JSE SWIX Index**	5.0%	18.2%	12.3%	9.7%	6.9%	1.6%	6.1%	10.2%
J433T	**FTSE/JSE Capped SWIX Index**	3.1%	20.0%	12.7%	6.4%	3.8%	-0.3%	4.3%	-
J303T	**FTSE/JSE CAPI Index**	4.1%	22.2%	13.6%	13.1%	9.3%	4.1%	7.4%	10.2%
J253T	**FTSE/JSE SA Listed Property Index**	-3.2%	29.3%	4.9%	-34.6%	-23.1%	-18.8%	-8.5%	3.6%
ALBI	**JSE All Bond Composite Index**	0.8%	6.6%	8.4%	8.2%	8.3%	8.5%	9.6%	8.6%
STeFI	**STeFI Index**	0.3%	0.9%	2.0%	5.1%	6.2%	6.5%	6.9%	6.3%
	MSCI World Index in SA Rands	1.5%	7.8%	2.7%	15.8%	24.2%	17.2%	12.2%	17.9%
	Rand/US Dollar Exchange Rate	2.5%	-7.4%	-11.6%	0.3%	6.5%	8.2%	-1.0%	7.7%
	Rand/Euro Exchange Rate	1.8%	-3.4%	-9.2%	9.9%	9.7%	7.3%	1.2%	6.4%
	Headline CPI	0.2%	0.4%	2.1%	3.1%	3.5%	3.9%	4.6%	5.1%
	PPI	0.2%	0.6%	2.9%	3.0%	3.2%	3.9%	4.8%	5.6%