October 2020

Sygnals

The Monthly Bulletin by Sygnia

Market review

As the world limps towards the end of what seems like the longest year in history, markets are weary, investors are exhausted, and the light at the end of the tunnel seems miniscule. 2020 has weathered a global pandemic and the worst recession since World War II while heightened risk remains from US elections, Brexit and Covid. Amazingly, global equity markets have recovered all their losses this year and are now trading close to record highs against all odds. Global markets found some support with the Brexit can kicked down the road to a new deadline of mid-November and oil is supported after Russia announced it is ready to keep the OPEC+ curbs on oil output longer than planned.

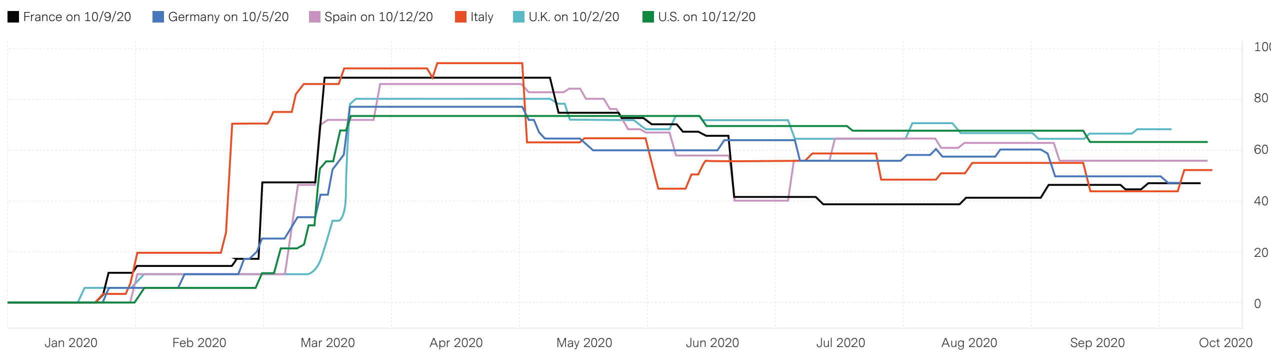
Covid update

However, markets ended the month on a lower note, on the back of concerns about extended or, in some cases, renewed lockdowns. While temperatures fell, new coronavirus cases rose throughout the US and Europe, prompting governments to close schools and cancel elective surgeries. Field hospitals have been set up. Spain launched a national curfew; Italy implemented the tightest curbs since May. England is implementing a new four-week lockdown. Over the weekend, Portugal, Austria and Greece announced new lockdown measures. Germany implemented a one-month lockdown and France followed suit. All bars and restaurants will be closed for a month while travel bans will be enforced, and the French borders are closed to non-EU travellers.

Vaccine news has been mixed. In the last month, Johnson & Johnson and Eli Lilly paused clinical trials for safety reasons. Fortunately, AstraZeneca says its trials are producing a robust immune response in the elderly. The WHO is urging a balance between health and economy. We are still confident that lockdown measures implemented now will have minimal impact compared to the first round of lockdowns as shown in chart 1.

Chart 1: Lockdown restrictions remain mild

Source: Bloomberg

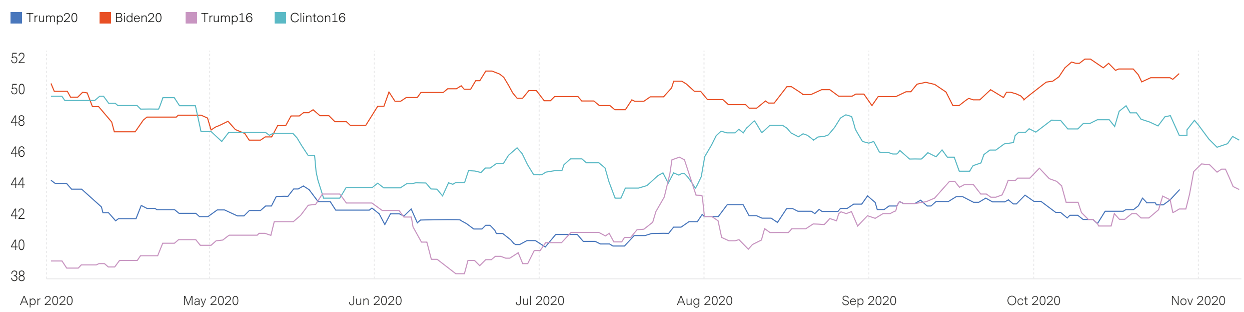


US election: A Blue sweep

President Trump tested negative for Covid-19 on consecutive days. The Donald went on to address thousands of supporters in Florida, most standing shoulder-to-shoulder and without masks. This, despite warnings from Dr Anthony Fauci that resuming campaign events is "asking for trouble". Donald and Anthony seem to be increasingly at loggerheads, with Donald insulting the respected immunologist, who responded in true "Godfather"' style.

The US elections remain key to market outlook. The latest announcement of an attempt by Iran and Russia to interfere in the elections could lead to new grounds for Donald to contest the elections. Despite odds narrowing recently, possible election outcomes now include a Blue Sweep where the Democrats control the White House, Senate and House seats. This is an incredibly positive outcome. It means that even if Donald challenges the outcome, the margin will be so wide as to render his objections less credible. A Democratic sweep also allows for easy fiscal support, and calmer geopolitics, both of which are good for rest-of-world growth, particularly that of emerging markets. However, it does carry the risk that Democratic Congressional control will lead to increased regulatory risks around Big Tech. The latest antitrust assault on Google by the Trump administration could be just the beginning. Google is already in hot water for paying to have its search engine as the default option on iPhones.

Chart 2: US Polls suggest a blue sweep is possible
Source: RealClear Politics



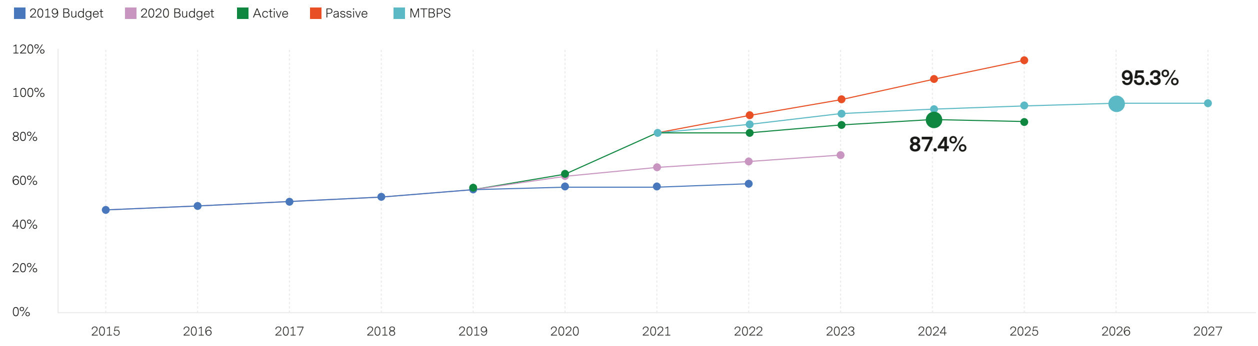
SA: Will Tito be able to find the resources to match Cyril's ERRP?

President Ramaphosa unveiled the Economic Reconstruction and Recovery plan at a joint sitting of Parliament. Like a tired policeman about to retire, Cyril trailed out the usual suspects - an infrastructure drive, improved energy supply, job creation, digital spectrum, and tourism. But while all the correct items were once again tabled, comfort that speedy execution will follow is sorely lacking. In fact, the only concrete detail was the extension of the social grants. Ever a straight shooter, Tito has been quoted saying that the National Treasury would have to find an additional R6 billion to finance the SRD grants.

The MTBPS was widely expected to underpin the ERRP. Tito once again warned of a financial crisis continuing across South Africa until 2024. The MTBPS proved to be a careful balancing act as with one hand Tito giveth, and with the other hand he taketh away. The minister announced cumulative budget cuts of R306 billion over the next three years, while approving the R10.5 billion SAA needs for its business rescue plan. The cuts will include peeling back public wage increases to 0.8% a year.

Although the revisions signal a glimmer of hope, it might not be enough with an incremental rise in the country's debt trajectory as debt levels are now projected to peak at 95.3% of GDP in 2025/26, up from 87.4% in 2023/4 (as shown in chart 3). Credit downgrades are likely, and investors will require tangible evidence of implementation traction to reel back bearishness.

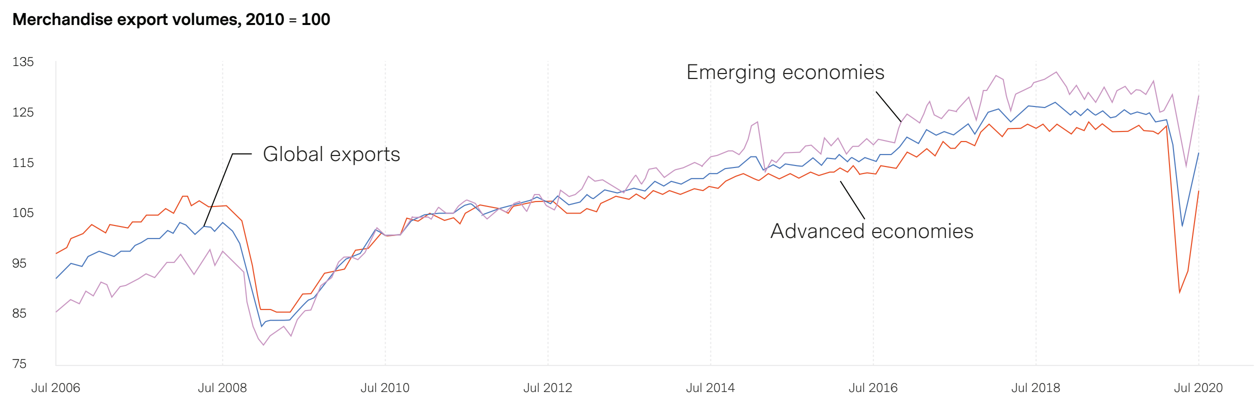
Chart 3: SA debt explodes again
Source: National Treasury



China: Asia Leading the rebound on WFH demand

The IMF has upgraded its global growth and trade forecasts for 2020, with emerging markets seeing a larger upgrade than advanced economies. The EM outlook is dependent on the US presidential elections, but even in a scenario where Donald remains in power with a divided congress, EM prospects are looking good. The dollar is not likely to strengthen, which will support emerging markets. In addition, China is driving strong growth within this sector as it successfully navigates Covid. By July, global export volumes were already back to 94% of their end-2019 levels, and emerging-economy exports had recovered all the ground lost during the pandemic (chart 4). Strong Asian exports have been driven by the electronics sector, helped by the rise in people working from home (WFH). We remain overweight emerging markets and expect to launch our new EM ETF early next year.

Chart 4 – Export volumes have recovered faster than after the GFC
Source: CFB, Standard Chartered Research



Here’s what you should take away

By and large, most people cannot wait to move into the new year and leave the turmoil of 2020 behind them. While it has been tumultuous, to say the least, the last three months of the year herald the slightest uptick. History tells us that after a recession, markets start to move up again. It might take longer than hoped to repair the damage wrought over the past year, but as Tito so optimistically puts it: “green shoots are emerging”.

Key indicators

		1 mo.	*3 mos.*	*6 mos.*	*1 yr.*	*2 yrs.*	*3 yrs.*	*5 yrs.*	*10 yrs.*
J203T	**FTSE/JSE All Share Index**	-4.7%	-6.5%	3.7%	-5.8%	2.5%	-1.3%	2.2%	8.7%
J200T	**FTSE/JSE Top 40 Index**	-5.1%	-6.8%	3.4%	-2.7%	4.6%	-0.4%	2.6%	8.9%
J210T	**FTSE/JSE Resources 10 Index**	-11.4%	-13.5%	7.4%	5.3%	11.2%	12.7%	10.9%	2.4%
J211T	**FTSE/JSE Industrials 25 index**	0.4%	-1.0%	4.3%	7.0%	10.1%	-1.8%	2.1%	13.7%
J212T	**FTSE/JSE Financials 15 Index**	-6.1%	-6.8%	-7.2%	-37.6%	-18.8%	-10.9%	-6.7%	6.2%
J403T	**FTSE/JSE SWIX Index**	-2.4%	-5.0%	4.1%	-7.0%	0.9%	-3.2%	1.0%	8.6%
J433T	**FTSE/JSE Capped SWIX Index**	-4.2%	-6.1%	3.1%	-12.2%	-3.6%	-5.3%	-1.1%	-
J303T	**FTSE/JSE CAPI Index**	-5.7%	-7.0%	3.1%	-8.2%	0.1%	-2.2%	1.4%	8.3%
J253T	**FTSE/JSE SA Listed Property Index**	-8.5%	-18.9%	-11.6%	-51.6%	-30.1%	-26.5%	-14.7%	0.7%
ALBI	**JSE All Bond Composite Index**	0.9%	1.7%	8.3%	4.9%	8.8%	8.5%	7.5%	7.6%
STeFI	**STeFI Index**	0.3%	1.1%	2.4%	5.9%	6.6%	6.8%	7.1%	6.4%
	MSCI World Index in SA Rands	-5.6%	-4.7%	-0.4%	12.3%	13.8%	11.0%	11.7%	18.2%
	Rand/US Dollar Exchange Rate	-2.6%	-4.6%	-11.5%	7.6%	4.9%	4.8%	3.3%	8.8%
	Rand/Euro Exchange Rate	-3.2%	-6.0%	-5.9%	12.3%	6.4%	4.8%	4.5%	6.9%
	Headline CPI	0.2%	1.7%	1.0%	3.0%	3.6%	4.0%	4.6%	5.1%
	PPI	0.3%	2.3%	1.7%	2.5%	3.3%	4.3%	4.9%	5.6%