April 2021

ECONOMIC AND MARKET OVERVIEW

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…invests in a world of today that will create a better world of tomorrow…

ESG investing and analysis… looks at finding value in companies.

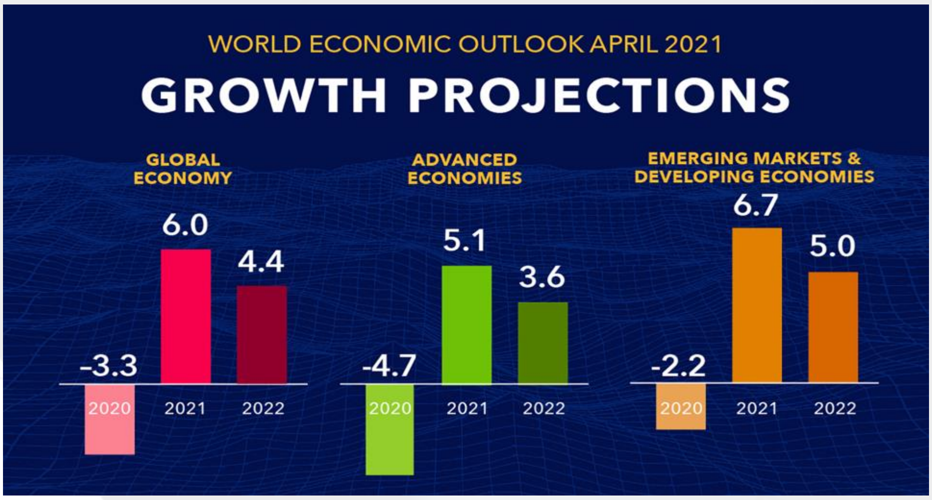
Global

The International Monetary Fund (IMF) recently published their bi-annual World Economic Outlook with the main message that the global economy is on firmer footing than a year ago.

However, they also report that global prospects remain highly uncertain one year into the pandemic. New virus mutations and the accumulating death toll raise concerns, even as growing vaccine coverage lifts consumer and investor sentiment. Economic recoveries are diverging across countries and sectors, reflecting variations in pandemic-induced disruptions and the extent of policy support. The outlook depends not just on the outcome of the battle between the virus and vaccines – it also hinges on how effectively economic policies deployed under high uncertainty can limit lasting damage from this unprecedented crisis.

Following an upward revision, global economic growth is now projected at 6% (up from 5.5%) in 2021, moderating to 4.4% in 2022. This revised figure reflects additional fiscal support in a few large economies (the Biden support package of USD 1.9 trillion for instance), the anticipated vaccine-powered recovery in the second half of 2021, and continued adaptation of economic activity to subdued mobility. High uncertainty surrounds this outlook, related to the path of the pandemic, the effectiveness of policy support to provide a bridge to vaccine-powered normalization, and the evolution of financial conditions.

The graph below shows the extent to which the global economy shrunk in 2020, followed by the expected economic recovery rates in 2021 and 2022:



Source: IMF World Economic Outlook April 2021

The IMF argues that strong international cooperation will be vital for recovery across the globe and ensuring that emerging market economies and low-income developing countries continue to narrow the gap between their living standards and those of high-income countries. On the health care front, this means ensuring adequate worldwide vaccine production and universal distribution at affordable prices – including through sufficient funding for the COVAX facility – so that all countries can quickly and decisively beat back the pandemic.

analytics

South Africa

In their second meeting for the year the South African Reserve Bank's Monetary Policy Committee (MPC) decided to leave the repurchase rate unchanged, keeping it at 3.5%.

This implies that the prime lending rate also remained stable at 7%. What is noteworthy though is that, in a departure from previous meetings, all five of the MPC members voted to keep the rate unchanged. In most of the recent meetings two members favoured a reduction of 0.25%. This is a clear indication that it is increasingly less likely that the next move would be a reduction in rates.

The Reserve Bank's quarterly projection model (QPM) now predicts two rate increases before the end of the year. Governor Kganyago however reiterated that any decision remains dependent on data available at the time. In a recent note RMB Global Markets anticipates that the QPM will shave off the currently projected 2021 hikes during the year as a result of the accommodating global policy environment and weak economic recovery as the economy remains smaller than before the pandemic. As a result, they expect the MPC to keep interest rates on hold throughout 2021.

With respect to South Africa's economic growth, Visio Capital reports that available economic data for the first quarter of 2021 points to a slower than anticipated start to the year. This can partly be attributed to the introduction of adjusted level 3 restrictions during January. Forward looking indicators present a mixed picture. The Bureau for Economic Research (BER) business confidence index declined in the first quarter and showed that 75% of manufacturers are unhappy with current business conditions. The most promising data released was the SARB's leading indicator which recorded a year-on-year increase of 13.6%. This, together with a strong global recovery suggests stronger gains in the quarters ahead notwithstanding risks of a third wave of Covid19 infections.

The table below shows how the International Monetary fund projects South Africa's economy to recover in comparison to the world and selected emerging markets:

		PROJECTIONS	
(real GDP, annual percent change)	2020	2021	2022
World Output	**-3.3**	**6.0**	**4.4**
Advanced Economies	**-4.7**	**5.1**	**3.6**
United States	-3.5	6.4	3.5
Euro Area	-6.6	4.4	3.8
Emerging Market and Developing Economies	**-2.2**	**6.7**	**5.0**
Emerging and Developing Asia	-1.0	8.6	6.0
Sub-Saharan Africa	-1.9	3.4	4.0
Nigeria	-1.8	2.5	2.3
South Africa	-7.0	3.1	2.0

Source: IMF World Economic Outlook April 2021

Market Performance

One year into the economic lockdown, in both developed and emerging markets, the recovery of economic activity and asset prices from the March 2020 trough levels has positively surprised market participants.

In their latest monthly commentary, Laurium Capital reports that commodities could have taken their cue from the strong economic data but seemed to run out of steam slightly in March. Oil and copper ended the month well off their recent highs, possibly succumbing to profit-taking and the weight of dollar strength. A notable exception to the pause in metal prices was palladium, which surged again on mine supply disruption at its largest source.

The ongoing positive commodity backdrop was supportive enough for the rand to make back some recent lost ground against most currencies, even strengthening slightly against the greenback.

In the local equity market, sector returns were divergent. The FTSE/JSE ALSI ended the month 1.6% higher. Its returns were boosted by continued strength in the platinum group metals and gold shares, select industrials like MTN and British American Tobacco, and bank shares. However, index returns were held back by specific weakness in Prosus (and to a much lesser extent Naspers) as Tencent (amongst other Chinese tech stocks) came under short term price pressure.

Laurium suggests that South African bonds struggled against a backdrop of a weaker global bond market, exacerbated by a weak local government bond auction and ongoing political infighting and tension within the ruling party. The net result was that the SA bond index was down (-2.5%) for the month of March.

Global equity markets gained 2.7% (in US dollars) during March, but developing markets (+3.4%) fared much better than emerging markets (-1.5%). Global bond yields followed US treasury yields higher and as a result the asset class ended the month in the red (-1.9%).

MARKET INDICES [1] (All returns in Rand)	31-Mar-21		
	3 months	12 months	5 years
SA equities (JSE All Share Index)	13.1%	54.0%	8.2%
SA property (S&P SA Reit Index)	7.3%	32.0%	-10.0%
SA bonds (SA All Bond Index)	-1.7%	17.0%	8.7%
SA cash (STeFI)	0.9%	4.7%	6.8%
Global developed equities (MSCI World Index)	5.6%	28.0%	14.1%
Emerging market equities (MSCI Emerging Market Index)	2.9%	31.4%	12.6%
Global bonds (Barclays Global Aggregate)	-4.0%	-13.5%	2.7%
Rand/dollar [2]	0.5%	-17.3%	0.1%
Rand/sterling	1.5%	-8.0%	-0.7%
Rand/euro	-3.4%	-11.4%	0.7%
Gold Price (USD)	-9.5%	8.2%	6.8%
Oil Price (Brent Crude, USD)	22.7%	179.4%	9.9%

1. Source: Factset
2. A negative number implies fewer rands are being paid per US dollar, so it implies a strengthening of the rand.

Commentary – ES what‽

interrobang (noun)

a non-standard punctuation mark (‽) indicating a question expressed in an exclamatory manner, as in what are you doing‽

The interrobang, also known as the interabang, is an unconventional punctuation mark used in various written languages and intended to combine the functions of the question mark, or interrogative point; and the exclamation mark, or exclamation point, known in the jargon of printers and programmers as a "bang“.

A little over a year go many readers would have been forgiven to express their confusion (or even ignorance) about what turned out to be a global pandemic by saying “Covid-what‽” In this instance Coronavirus/Covid-19 had a short-lived but significant impact on investments.

Once again you could be forgiven if you did not know what ESG stood for in an investment context. This is however a phenomenon that will have both a significant and much more permanent impact on investment strategies. ESG stands for Environmental, Social, and Governance. They are often referred to as “sustainability factors”. Investors are increasingly applying these non-financial factors as part of their analysis process to identify material risks and growth opportunities. ESG metrics are not commonly part of mandatory financial reporting, though companies are increasingly making disclosures in their annual report or in a standalone sustainability report.

In a recent virtual symposium hosted by Schroders Investment Management, their Head of Sustainability Strategy, Hannah Simons, summarised sustainable investing as the investment strategy that invests in a world of today that will create a better world of tomorrow.

ESG investing is not a new trend in investments. In the past many analysts would have considered the sustainability of an investment as part of their valuation of the opportunity. In recent years this has however been formalised to a large extent. The coronavirus pandemic, in particular, has intensified discussions about the interconnectedness of sustainability and the financial system. As ESG investing accelerates in demand, several key trends are emerging – from climate change to social unrest.

There is, however, not one exhaustive list of ESG examples. ESG factors are often interlinked, and it can be challenging to classify an ESG issue as only an environmental, social, or governance issue, as the table below shows:

Environmental	Social	Governance
Conservation of the natural world	Consideration of people & relationships	Standards for running a company
Climate change and carbon emissions	Customer satisfaction	Board composition
Air and water pollution	Data protection and privacy	Audit committee structure
Biodiversity	Gender and diversity	Bribery and corruption
Deforestation	Employee engagement	Executive compensation
Energy efficient	Community relations	Lobbying
Waste management	Human rights	Political contributions
Water scarcity	Labor standards	Whistleblower schemes

There is another three-letter abbreviation that you may come across now that your eye is primed in looking for ESG. This is socially responsible investing, or SRI. ESG investing grew out of investment philosophies such as SRI, but there are key differences. Earlier models typically use value judgments and negative screening to decide which companies to invest in. ESG investing and analysis, on the other hand, looks at finding value in companies—not just at supporting a set of values.

Many investment managers now subscribe to the United Nation's Principles for Responsible Investment (PRI). The 6 principles are:

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles.

Now that you know a little more about ESG, SRI and the PRI you are likely to notice a lot more of it in your engagement with investments and investment firms. For many investment professionals it's had a significant influence on their philosophies and processes, and this benefits the world we live in.

In the end a better world of tomorrow will be good for all who live in it today.

Sources: CFA Institute, Schroder Investment Management, United Nations