

### Economies at a glance

June 2020

#### Forecast 2020:

GDP: -5.7%

Inflation: 0.8%

#### Forecast 2021:

GDP: 3.5%

Inflation: 1.6%

### EUROZONE

Even with substantial monetary and fiscal support, output and employment will likely be below pre-pandemic levels by the end of 2021, particularly in sectors where productivity has been permanently affected. A larger intraregional divergence in economic outcomes is also likely to emerge. The large European recovery plan, proposed by the European Commission and backed by Germany and France, has been welcomed by markets as it will be funded by common debt issuance and will allow for substantial grants for the most affected countries. Meanwhile, it is vital that the European Central Bank maintains a large degree of monetary accommodation to fend off the dangers of too low inflation, which could include a reconsideration of the cross-country allocation of sovereign bond purchases.

#### Forecast 2020:

GDP: -6.5%

Inflation: 0.9%

#### Forecast 2021:

GDP: 3.2%

Inflation: 1.5%

### JAPAN

Incrementally stepped up confinement measures and decimated external demand are largely behind plummeting economic activity for the first half of the year. Total government support, including off-budget measures such as emergency loans and guarantees as well as tax and social insurance premium deferrals, amounts to an unprecedented 42.4% of GDP. The Bank of Japan has played its role in ensuring adequate financing to households and firms, and has maintained stability in the financial system through the lowering of regulatory capital and liquidity buffers as well as purchases of exchange-traded funds, corporate and government bonds.

### UNITED STATES

The COVID-19 pandemic has brought the longest economic expansion on record to a shuddering halt. Although large and rapid monetary and fiscal responses have shielded households and businesses, more support may be necessary to curb the lingering negative effects of job losses and bankruptcies in distressed industries. As restrictions have relaxed, temporarily furloughed workers have rejoined the workforce, leading to the highest positive economic surprise data on record. Nevertheless, COVID-19 is likely to have enduring scars on productivity levels, economic certainty and business investment. The Federal Reserve is expected to shift its emphasis away from emergency facilities towards a focus on medium-term monetary policy, which could include forward guidance, a more consistent quantitative easing programme or even yield curve control.

#### Forecast 2020:

GDP: -7.8%

Inflation: 0.4%

#### Forecast 2021:

GDP: 3.0%

Inflation: 1.1%

### UNITED KINGDOM

As a services-based economy, the United Kingdom (UK) has been heavily affected by confinement restrictions undertaken by government to ease the rapid spread of COVID-19. A prompt response from government, including 5% of gross domestic product (GDP) in discretionary spending, basic unemployment support and loans as well as guarantees to businesses affected by the crisis will support an economic recovery, but investment growth is projected to remain sluggish and the outlook for trade remains weak, particularly as talks of a free trade agreement between the UK and European Union remain unresolved.

#### Forecast 2020:

GDP: -4.5%

Inflation: -0.1%

#### Forecast 2021:

GDP: 1.2%

Inflation: 0.3%

## CHINA

After experiencing the steepest quarterly plunge in history in the first quarter of the year, growth is expected to resume in the second quarter. While industry and tourism-related services bore the brunt of the lockdown measures, information technology and financial services benefited, as online services and contactless services flourished. Disrupted value chains in backward and forward linkages could continue to linger, leaving capacity utilisation rates below normal levels. China's stimulus package remains moderate at below 4% of GDP, while the central bank has undertaken measures to entice banks to lend. Government's decision to abandon its growth target for the year allows for greater focus on the quality, rather than quantity, of growth.

### Forecast 2020:

GDP: -0.7%  
Inflation: 3.5%

### Forecast 2021:

GDP: 4.0%  
Inflation: 3.0%

### Forecast 2020:

GDP: 1.1%  
Inflation: 3.1%

### Forecast 2021:

GDP: 5.9%  
Inflation: 1.8%

## EMERGING MARKETS

The economic rebound is expected to be stronger in Emerging Asia and Emerging Europe, but far more tentative in Latin America, where governments were less successful in containing their COVID-19 outbreaks. Emerging market (EM) inflation is near its weakest levels of record, but the drag on inflation from lower fuel prices is expected to ease in the coming months. Nevertheless, significant output gaps (the difference between actual and potential growth) will continue to exert meaningful downward pressure on underlying or core inflation. As such, policymakers are expected to keep interest rates low for an extended period, while some EMs have turned to unconventional policy.

### Forecast 2020:

GDP: -8.1%  
Inflation: 2.9%

### Forecast 2021:

GDP: 2.0%  
Inflation: 3.5%

## SOUTH AFRICA

As financial hardship deepened for many South African (SA) businesses and consumers, government announced a further easing under level three restrictions to allow a larger number of additional businesses to operate. This relative easing in restrictions coincided with SA reporting a record high in daily cases late in June. Consumers are increasingly relying on savings, unemployment insurance fund payments, social grants and loans from family and friends to make up for lost incomes. Moreover, higher levels of unemployment will exacerbate SA's high social vulnerabilities. Treasury's supplementary budget review highlighted the urgency needed for an active response to enable a stabilisation of debt metrics by fiscal year 2023/24, without which SA could find itself in an unsustainable debt spiral. We still see space for another 50 basis points of monetary policy easing, given tame inflation and an expected shallow economic recovery following a steep contraction.

## The macro research desk

---

Herman van Papendorp is the head of the Momentum Investments research and insights team and takes ultimate responsibility for macro research and asset allocation. Economist, Sanisha Packirisamy, is responsible for providing a macro framework to inform investment opportunities and strategies.



# Indices summary for June 2020

	One month	Three months	One year	Three years	Four years	Five years	Six years	Seven years	Ten years
<b>Equity indices</b>									
FTSE/JSE All-Share Index (ALSI)	7.74%	23.18%	-3.30%	5.11%	4.25%	4.16%	4.27%	7.93%	10.89%
FTSE/JSE Shareholder Weighted Index (SWIX)	8.07%	22.09%	-6.09%	2.00%	1.57%	2.08%	3.39%	7.05%	10.61%
FTSE/JSE Capped SWIX All Share index	6.98%	21.64%	-10.78%	-0.81%	-0.80%	0.07%	1.66%	5.51%	
FTSE/JSE All Share Top 40 Index	7.85%	24.18%	-0.55%	6.68%	5.38%	4.82%	4.58%	8.49%	11.23%
FTSE/JSE Mid Cap Index	6.06%	15.37%	-17.60%	-3.50%	-3.34%	-0.62%	1.33%	3.75%	8.00%
FTSE/JSE Small Cap Index	11.33%	17.21%	-22.93%	-11.59%	-8.29%	-5.85%	-2.84%	1.19%	6.54%
FTSE/JSE Resources Index	8.77%	41.20%	12.38%	24.64%	18.51%	10.47%	2.67%	7.22%	4.97%
FTSE/JSE Financials Index	4.17%	12.87%	-34.50%	-8.55%	-5.87%	-5.26%	-1.34%	2.70%	7.92%
FTSE/JSE Industrials Index	8.31%	16.59%	4.04%	2.52%	2.32%	3.34%	5.05%	8.36%	14.62%
FTSE/JSE Research Affiliates Fundamental Indices 40 Index (RAFI)	6.89%	22.92%	-14.48%	3.22%	3.43%	3.06%	2.34%	6.40%	9.11%
FTSE/JSE Research Affiliates Fundamental Indices All Share Index	6.66%	22.21%	-14.98%	2.51%	3.01%	2.53%	2.02%	5.85%	8.66%
FTSE/JSE SA Listed Property Index (SAPY)	13.41%	20.43%	-39.98%	-18.33%	-13.49%	-9.06%	-3.86%	-2.51%	4.68%
<b>Interest-bearing indices</b>									
JSE ASSA All Bond Index (ALBI)	-1.18%	9.94%	2.85%	8.11%	8.06%	7.49%	7.61%	7.30%	8.30%
JSE ASSA All Bond Index 1-3 years (ALBI)	0.93%	6.25%	10.56%	9.74%	9.43%	9.04%	8.62%	8.19%	8.01%
JSE ASSA SA Government ILB Index	-0.94%	4.75%	-3.27%	0.75%	0.49%	2.08%	2.57%	3.85%	6.04%
Short-term Fixed Interest Composite Index (StefI)	0.44%	1.46%	6.86%	7.17%	7.30%	7.21%	7.05%	6.81%	6.48%
<b>Commodities</b>									
NewGold Exchange-Traded Fund	1.57%	7.72%	54.93%	23.29%	12.01%	16.35%	13.62%	13.94%	12.06%
Gold price (in rands)	1.05%	6.69%	53.87%	23.62%	11.93%	16.50%	14.03%	14.54%	12.43%
Platinum Exchange-Traded Fund	-2.49%	10.29%	22.26%	5.52%	-1.11%	1.42%	-2.03%	0.11%	
Platinum price (in rands)	-3.44%	8.80%	19.97%	5.20%	-1.61%	1.44%	-1.90%	-0.38%	-1.17%
<b>Currency movements</b>									
Rand/euro movements	-0.49%	-0.44%	21.41%	9.28%	4.65%	7.58%	4.99%	6.08%	7.59%
Rand/dollar movements	-1.51%	-2.75%	23.05%	9.84%	4.37%	7.42%	8.52%	8.34%	8.52%
<b>Inflation index</b>									
Consumer Price Index (CPI)			2.68%	3.84%	4.25%	4.62%	4.61%	4.90%	5.00%

## Important notes

1. Sources: Momentum Investments, IRESS, [www.msci.com](http://www.msci.com), [www.yieldbook.com](http://www.yieldbook.com), [www.ft.com](http://www.ft.com).
2. Returns for periods exceeding one year are annualised.
3. The return for Consumer Price Index (CPI) is to the end of the previous month. Due to the reweighting of the CPI from January 2009, this number reflects a compound of month-on-month CPI returns. The historical numbers used are the official month-on-month numbers based on a composite of the previous inflation series (calculations before January 2009) and the revised inflation series (calculations after January 2009).
4. The MSCI World index (All Countries) returns are adjusted to correspond with global investment prices received.
5. FTSE/JSE disclaimer: [www.jse.co.za](http://www.jse.co.za)
6. The information reproduced in this document has been compiled by or arrived at by Investments from sources believed to be reliable.
7. Reasonable steps have been taken to ensure the validity and accuracy of the information in this document. However, Momentum Investments does not accept any responsibility for any claim, damages, loss or expense, howsoever arising out of or in connection with the information in this document, whether by a client, investor or intermediary.
8. The content used in this document is sourced from various media publications, the Internet and Momentum Investments. For further information, please visit us at [www.momentuminv.co.za](http://www.momentuminv.co.za).
9. Momentum Investments is part of Momentum Metropolitan Life Limited, an authorised financial services and registered credit provider, and rated B-BBEE level 1.