momentum
investments

Economies at a glance

December 2020

UNITED STATES

Forecast 2020:
GDP: -3.8%
Inflation: 1.2%
Forecast 2021:
GDP: 4.0%
Inflation: 1.8%

A difficult winter is being shaped by an acceleration in infections and associated restrictions on mobility. However, the rollout of an effective vaccine to the broader population should provide a catalyst for increased economic activity as consumers feel more comfortable to engage in a wider range of sectors. Pent-up household savings, still-easy monetary policy conditions and an additional dose of fiscal stimulus should underpin growth, particularly in the second half of 2021. Despite the high likelihood of fragmented political power, Congress reached a deal on a substantial fiscal injection to provide ongoing support to the economy. The United States (US) Federal Reserve (Fed) is expected to continue growing its balance sheet in 2021, albeit at a slower pace. In our view, interest rate hikes are still some way off given the Fed's appetite to tolerate periods of higher inflation.

EUROZONE

A second wave of the COVID-19 pandemic and extended lockdowns have unleashed renewed uncertainty about the near-term outlook for growth. The European Central Bank (ECB) expects a slower recovery in 2021 and has lowered its growth expectation from 5% to 3.9%. In a similar vein the ECB anticipates a more gradual uptick in inflation. The headline figure is only expected to reach 1.4% by 2023, which is significantly below the 2% target. Growth fears, stemming from a renewed tightening in restrictions, urged the ECB to boost its bond-buying programme by €500 billion. In addition, it extended the programme by nine months to March 2022. European Union (EU) leaders have also reached agreement on a €1.1 trillion seven-year budget and €750 billion recovery package. Funds are nevertheless only likely to be distributed in the second half of 2021.

Forecast 2020:
GDP: -7.9%
Inflation: 0.4%
Forecast 2021:
GDP: 3.8%
Inflation: 0.9%

UNITED KINGDOM

Forecast 2020:
GDP: -10.9%
Inflation: 0.8%
Forecast 2021:
GDP: 4.3%
Inflation: 1.4%

Heightened lockdown restrictions on economic activity throughout winter are likely to suppress growth outcomes in the final quarter of 2020 and the first quarter of 2021. The recovery should nonetheless gather steam in the second half of the year on less severe restrictions following the availability of a vaccine and continued fiscal and monetary support. After nearly a year of exhausting negotiations, the United Kingdom and the EU signed a trade deal, avoiding new tariffs and quotas. However, exclusions to the deal imply that a range of industries will still face disruptions. The lack of mutual recognition of standards means an additional certification process, while professional qualifications in the services industry will no longer be automatically recognised in the EU. Moreover, extra paperwork and checks will be conducted at the EU border.

JAPAN

Although infection rates rose into the back end of 2020 and hit a record high, the number of COVID-19 cases remained low relative to other large developed markets. External demand has mostly supported the economic bounce in Japanese growth, but a surge in infection rates in some of Japan's key trading partners may see export growth roll over. Moreover, domestic sectors continue to face headwinds. Consumers have maintained a cautious stance on travelling and recreational establishments and they have also pared back spending on big-ticket items. Consequently, below-trend demand and spare capacity have curbed investment spending by firms. The strength of the recovery will be reliant on generous government support in 2021 to aid troubled businesses and workers, until a vaccine can be widely distributed.

Forecast 2020:
GDP: -5.0%
Inflation: -0.1%
Forecast 2021:
GDP: 2.1%
Inflation: 0.2%

CHINA

Draconian lockdown measures early on in the pandemic proved effective in initially containing the spread of the virus. This allowed for a quicker turnaround in economic activity and has resulted in China being one of the only major economies in the world that is anticipated to post positive growth on a full-year basis for 2020. A mass rollout of a vaccine is expected for 2021, which should increase consumer confidence and augment the normalisation in economic activity. The sharp increase in the aggregate debt ratio has been arrested with the People's Bank of China (PBoC) exercising prudence on liquidity injections into the economy. Modest inflation suggests little pressure to hike interest rates any time soon but the PBoC is expected to exercise targeted risk control. On the fiscal front, a gradual withdrawal of emergency measures is expected in line with a continued economic recovery.

Forecast 2020:
GDP: 2.1%
Inflation: 2.7%
Forecast 2021:
GDP: 7.7%
Inflation: 1.8%

EMERGING MARKETS

The momentum behind growth slowed into the final quarter of the year on a resurgence of infections in several of the composite's key trading partners. The outcome of the US election and progress on the vaccine front have helped to balance out risks to growth for emerging markets (EM) in 2021. It may, nevertheless, take time for a full rollout of the vaccine and effective immunisation and as such, further waves of infection cannot be ruled out. A more drawn out recovery is anticipated for Latin America, which was disproportionately hit during the COVID-19 pandemic. Many of the EMs in Asia are expected to stage a quicker growth recovery to pre-pandemic levels, while the performance in Emerging European countries have suffered a setback given the renewed tightening of restrictions.

Forecast 2020:
GDP: -0.7%
Inflation: 3.2%
Forecast 2021:
GDP: 4.6%
Inflation: 3.4%

SOUTH AFRICA

A likely rise in bankruptcies, electricity supply constraints, a poor jobs outlook, and material fiscal constraints lower the ceiling on South Africa's (SA) expected recovery. Moreover, a resurgence in COVID-19 cases and tighter restrictions could temper the expected upturn. The major rating agencies have flagged that fiscal consolidation and the Economic Reconstruction and Recovery Plan, which should improve the fiscal and economic outlook for SA, face high implementation risk. If government fails to arrest the increase in its debt burden through extensive wage bill cuts and capping additional financial support to poorly performing state-owned enterprises, further negative rating actions could well be on the horizon later in 2021. A more favourable terms-of-trade and positive momentum behind global vaccine hopes should support the rand in the interim. Nevertheless, we continue to see a depreciating bias in the local currency in the medium term given SA's deteriorating macro-fundamentals on a relative EM comparison. While near term inflation pressures are likely tilted to the downside, we see inflation rising in the medium term. Additional monetary policy easing is less likely from here, unless SA suffers another growth setback induced by prolonged tighter lockdown restrictions or if there is another sharp dip in inflation.

Forecast 2020:
GDP: -8.1%
Inflation: 3.2%
Forecast 2021:
GDP: 2.0%
Inflation: 3.9%

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 December 2020

	One month	Three months	One year	Three years	Four years	Five years	Six years	Seven years	Ten years
Equity indices									
FTSE/JSE All-Share Index (ALSI)	4.24%	9.75%	7.00%	3.12%	7.32%	6.36%	6.16%	6.82%	9.61%
FTSE/JSE Shareholder Weighted Index (SWIX)	3.95%	9.91%	2.61%	-0.31%	4.69%	4.57%	4.41%	5.92%	9.28%
FTSE/JSE Capped SWIX All Share index	5.47%	11.48%	0.58%	-1.48%	2.73%	3.21%	3.14%	4.81%	
FTSE/JSE All Share Top 40 Index	3.98%	8.88%	9.97%	4.26%	8.68%	6.54%	6.70%	7.05%	9.81%
FTSE/JSE Mid Cap Index	6.62%	13.69%	-14.37%	-3.68%	-1.03%	4.01%	1.99%	4.34%	7.51%
FTSE/JSE Small Cap Index	5.41%	21.91%	-0.28%	-6.52%	-4.24%	0.33%	-0.39%	2.36%	6.85%
FTSE/JSE Resources Index	9.48%	8.32%	21.20%	21.64%	20.69%	23.29%	10.24%	6.27%	4.10%
FTSE/JSE Financials Index	8.33%	19.54%	-19.67%	-9.65%	-2.89%	-1.28%	-0.43%	3.13%	8.16%
FTSE/JSE Industrials Index	-0.96%	7.38%	12.00%	0.19%	5.35%	2.86%	4.84%	6.46%	12.39%
FTSE/JSE Research Affiliates Fundamental Indices 40 Index (RAFI)	4.83%	10.58%	-2.02%	1.12%	5.02%	7.80%	5.09%	5.37%	8.04%
FTSE/JSE Research Affiliates Fundamental Indices All Share Index	5.39%	11.41%	-2.44%	0.71%	4.65%	7.50%	4.72%	5.10%	7.61%
FTSE/JSE SA Listed Property Index (SAPY)	13.68%	22.19%	-34.49%	-20.68%	-12.56%	-8.42%	-5.87%	-1.79%	3.52%
Interest-bearing indices									
JSE ASSA All Bond Index (ALBI)	2.44%	6.71%	8.65%	8.88%	9.21%	10.43%	7.90%	8.22%	8.24%
JSE ASSA All Bond Index 1-3 years (ALBI)	0.21%	1.25%	11.50%	9.37%	9.43%	9.56%	8.63%	8.28%	7.96%
JSE ASSA SA Government ILB Index	2.25%	5.47%	3.94%	2.11%	2.23%	3.00%	3.10%	4.21%	6.15%
Short-term Fixed Interest Composite Index (SteFI)	0.31%	0.97%	5.39%	6.64%	6.86%	6.97%	6.89%	6.75%	6.36%
Commodities									
NewGold Exchange-Traded Fund	2.24%	-12.03%	29.88%	19.88%	14.55%	10.50%	11.91%	11.47%	10.99%
Gold price (in rands)	1.55%	-12.84%	29.44%	20.02%	14.95%	10.98%	12.24%	11.93%	11.52%
Platinum Exchange-Traded Fund	5.58%	4.85%	16.03%	10.99%	5.61%	2.71%	1.69%	0.98%	
Platinum price (in rands)	5.93%	7.86%	15.60%	10.97%	6.19%	2.68%	2.14%	1.46%	-1.38%
Currency movements									
Rand/euro movements	-2.38%	-8.13%	14.38%	6.53%	5.62%	1.33%	4.26%	3.17%	7.30%
Rand/dollar movements	-4.56%	-12.23%	4.56%	5.77%	1.71%	-1.10%	4.02%	4.90%	8.23%
Inflation index									
Consumer Price Index (CPI)			3.17%	3.97%	4.13%	4.62%	4.65%	4.81%	5.07%

Important notes

1. Sources: Momentum Investments, IRESS, www.msci.com, www.yieldbook.com, 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.
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