momentum investments

Economies at a glance

November 2020

UNITED STATES

A big focus will be placed on the Democrats' ability to win the run-off elections in Georgia in January 2020, which would allow them to take control of the Senate and deploy a larger fiscal injection into the economy. Nevertheless, a divided Congress appears the most likely outcome and this will constrain policy intentions of the new administration under President-elect Joe Biden. A resurgence in COVID-19 cases and potentially more stringent restrictions on mobility could limit demand in the near term, but news of viable vaccines on the horizon and a modest fiscal package will likely provide support for the consumer later in 2021. With inflation and unemployment outcomes remaining a distance away from the Federal Reserve's targets, interest rates are likely to remain near zero and quantitative easing should provide further accommodation in the coming year.

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

EUROZONE

Climbing infection rates and consequent fresh lockdown restrictions are likely to pull growth into negative territory again in the fourth quarter of 2020. Consumer confidence remains well below the long-term average in response to higher unemployment levels. Business confidence, however, reflects a more significant recovery from its lows, but industries are expected to recover at different speeds. Major restrictions on economic activity should be lifted by the second quarter of 2021, with growth recovering in the second half of 2021 on the back of higher spending in the hospitality sectors. Longer-term economic scarring to the supply side will nevertheless keep inflation subdued, allowing the European Central Bank to sustain monetary policy at ultra-accommodative levels for the foreseeable future.

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

UNITED KINGDOM

Positive vaccine developments suggest a boost to the economy in the second half of 2021, but tighter restrictions to curb the second wave of COVID-19 cases will drag growth lower in the near term. Despite an extension in the furlough scheme, unemployment rates are expected to rise further in the coming quarters, putting downward pressure on wages and inflation and urging the Bank of England to remain focused on supporting the recovery. Discussions of a review clause may provide a compromise to the ideological deadlocks, preventing both parties from moving forward on Brexit negotiations. Despite only one month left to the end of the transition period, it remains unclear whether a deal will be reached in time. This uncertainty will continue to stifle the recovery in investment.

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

JAPAN

Notwithstanding a higher-than-expected jump in economic activity in the third quarter of the year, the Financial Times notes the economy remains 6% smaller than it was a year ago. Although there was a recent uptick in COVID-19 cases in Japan, the country is likely to avoid severe restrictions on economic activity. Prime Minister Yoshihide Suga has nonetheless instructed Cabinet to compile a new stimulus package to cushion the blow from the pandemic. These measures will focus on structural changes and digitalisation and could amount to anywhere between US$95 billion and US$286 billion, based on requests from ruling party lawmakers. This comes on top of two stimulus packages announced earlier in the year amounting to US$2 trillion, which focused on cash payments to households and small businesses.

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

CHINA

Relative to many other economies, the recovery appears well underway, with China likely to be the only major economy showing growth in activity for the year. The manufacturing and services purchasing managers' indices (PMIs) have remained in positive territory for six months. Exports have remained robust, but tighter lockdown restrictions in many parts of the world herald caution on extrapolating these trends. Measures to counter the pandemic were far smaller than the RMB4 trillion stimulus package triggered in the global financial crisis. Authorities have been careful not to create asset price bubbles and spur on leverage ratios this time around. Despite a further expected moderation in inflation, interest rates are likely to remain on hold, while no major fiscal stimulus announcements are anticipated.

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

EMERGING MARKETS

Encouraging trends painted by the services and manufacturing PMIs in the past four months may reverse in upcoming months given the recent surge in COVID-19 cases and associated tighter lockdown restrictions in Europe, which will hurt foreign demand orders. Although positive vaccine news will likely provide a brighter global growth outlook for the second half of 2021, many emerging markets (EMs) either have agreements in place for small vaccine purchases or face challenges with distributing vaccines. Large negative output gaps have continued to suppress core measures of EM inflation. Although broad-based extensive interest rate cuts across EMs have petered out, monetary policy will likely remain accommodative for the region as a whole.

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

SOUTH AFRICA

The surge in active COVID-19 cases in the Eastern and Western Cape has given rise to the risk of renewed restrictions. Given the earlier battering the economy took with prolonged tighter restrictions under level five and four of lockdown, it is unlikely that government would return to that level of stringency on a country-wide basis.
With South Africa (SA) entering the pandemic on weaker economic footing, the crisis has further pushed back economic progress. The International Monetary Fund does not see SA gross domestic product on a per capita basis returning to its 2019 levels in its outlook to 2025. We expect sticky unemployment, lower wages and a dip in investment to dampen consumer spend, while implementation delays could prevent a faster recovery in fixed investment growth.
Furthermore, government's ability to lend support to the ailing economy remains constrained and this has placed downward pressure on sovereign ratings. With policy uncertainty and subdued confidence, due to a slow pace of economic reform, being the main reasons behind sluggish investment, we do not see the interest rate environment as a significant constraint to demand. As such, we expect interest rates to remain steady until the first hike in the second half of 2021.

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

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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.

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Indices summary for November 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)	15,56%	16,56%	-5,19%	-6,98%	-5,12%	-2,56%	-0,97%	1,70%	6,76%
FTSE/JSE Shareholder Weighted Index (Swix)	10,90%	-4,41%	18,42%	17,85%	16,92%	20,13%	7,73%	5,15%	3,94%
FTSE/JSE Capped Swix All Share index	17,10%	12,86%	-25,30%	-9,63%	-4,00%	-4,11%	-1,61%	2,31%	7,79%
FTSE/JSE All Share Top 40 Index	8,01%	6,82%	15,71%	-0,88%	6,09%	3,00%	5,18%	7,18%	13,09%
FTSE/JSE Mid Cap Index	14,87%	6,13%	-3,94%	-0,12%	4,05%	6,22%	4,13%	5,11%	8,23%
FTSE/JSE Small Cap Index	14,45%	6,06%	-4,95%	-0,46%	3,29%	5,80%	3,69%	4,69%	7,70%
FTSE/JSE Resources Index	17,47%	4,29%	-43,57%	-22,95%	-14,43%	-11,86%	-7,69%	-3,44%	2,43%
FTSE/JSE Financials Index	15,56%	16,56%	-5,19%	-6,98%	-5,12%	-2,56%	-0,97%	1,70%	6,76%
FTSE/JSE Industrials Index	10,90%	-4,41%	18,42%	17,85%	16,92%	20,13%	7,73%	5,15%	3,94%
FTSE/JSE Research Affiliates Fundamental Indices 40 Index (Rafi)	17,10%	12,86%	-25,30%	-9,63%	-4,00%	-4,11%	-1,61%	2,31%	7,79%
FTSE/JSE Research Affiliates Fundamental Indices All Share Index	8,01%	6,82%	15,71%	-0,88%	6,09%	3,00%	5,18%	7,18%	13,09%
FTSE/JSE SA Listed Property Index (Sapy)	14,87%	6,13%	-3,94%	-0,12%	4,05%	6,22%	4,13%	5,11%	8,23%
Interest-bearing indices									
FTSE/JSE All Bond Index (Albi)	3,25%	4,12%	8,04%	10,01%	8,98%	8,39%	7,19%	8,01%	8,17%
FTSE/JSE All Bond Index 1-3 years (Albi)	-0,05%	1,54%	11,87%	10,09%	9,58%	9,19%	8,51%	8,34%	8,00%
FTSE/JSE Inflation-linked Index (Ili)	1,97%	1,43%	2,71%	3,04%	1,53%	2,15%	2,69%	4,04%	5,94%
Short-term Fixed Interest Composite Index (Stefi)	0,31%	1,00%	5,67%	6,74%	6,95%	7,02%	6,93%	6,77%	6,38%
Commodities									
NewGold Exchange-Traded Fund	-11,06%	-18,15%	27,11%	15,66%	12,82%	11,84%	12,64%	11,03%	10,28%
Gold price (in rands)	-11,25%	-17,16%	27,12%	16,01%	13,41%	12,23%	13,08%	11,58%	10,74%
Platinum Exchange-Traded Fund	8,66%	-5,07%	13,34%	4,90%	3,44%	4,28%	1,55%	0,54%	
Platinum price (in rands)	7,64%	-5,83%	13,12%	4,95%	3,67%	4,35%	1,89%	1,02%	-1,82%
Currency movements									
Rand/euro movements	-3,39%	-9,17%	14,23%	4,23%	5,45%	3,88%	4,97%	4,16%	7,15%
Rand/dollar movements	-5,93%	-9,45%	4,77%	4,01%	2,27%	1,26%	5,64%	6,06%	8,03%
Inflation index									
Consumer Price Index (CPI)			3,26%	4,00%	4,21%	4,64%	4,65%	4,82%	5,09%

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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