momentum
investments

# Economies at a glance

September 2020

## UNITED STATES

President Donald Trump's approval ratings are low, but uniquely steady given these are the most polarised presidential ratings between Republican and Democratic supporters since the 1950s. However, in our view, highly polarised politics threaten to delegitimise the November 2020 presidential election. With the daily new COVID-19 infection and fatality rates slowing and with fading momentum behind the Black Lives Matter protests, Joe Biden's lead over Trump has narrowed. A Trump re-election could result in restricted investment from China, broken alliances with world organisations and further restrictions on immigration. Meanwhile, a Biden victory could lead to freer trade, migration and cross-border investment. Both candidates are likely to prefer looser monetary policy for longer with the Federal Reserve recently announcing its adoption of an average inflation target.

**Forecast 2020:**
GDP: -5.7%
Inflation: 1.0%
**Forecast 2021:**
GDP: 3.5%
Inflation: 1.6%

## EUROZONE

The COVID-19 shock is likely to play out asymmetrically in the Eurozone, with a smaller deterioration in Germany and a worse full-year performance predicted for Italy, Spain and France. A surge in new infections has been concentrated in Spain and France but instead of authorising nation-wide lockdowns, only partial restrictions have been re-imposed given low hospitalisation rates. The rebound in economic activity has already started showing signs of slowing. Less generous furlough schemes and subdued hiring intentions point to sticky unemployment and a bleak outlook for consumer spending. Headline inflation dropped into negative territory for the first time in four years in August 2020 and could further prompt the European Central Bank to extend its asset purchase programme.

**Forecast 2020:**
GDP: -8.1%
Inflation: 0.4%
**Forecast 2021:**
GDP: 3.4%
Inflation: 1.1%

## UNITED KINGDOM

The Bank of England stressed it remained ready to act with additional stimulus if the outlook for the economy worsened. Its central forecast envisages GDP only reaching pre-crisis levels by the end of 2021, while headline inflation is only anticipated to rise close to the 2% target in two years' time. The transition period stipulated in the Withdrawal Agreement will end on 31 December 2020, but the deadline for a joint decision on an extension passed on 1 July 2020. An agreement on the future relationship between the United Kingdom and the European Union remains undecided after eight rounds of formal negotiations. The risk of no deal is rising given that a deal needs to be concluded by the end of October 2020 to allow for time for it to be ratified by the European Parliament.

**Forecast 2020:**
GDP: -9.0%
Inflation: 0.8%
**Forecast 2021:**
GDP: 3.9%
Inflation: 1.4%

## JAPAN

In a landslide victory, Yoshihide Suga, Chief Cabinet Secretary of Japan for the past eight years, replaced Prime Minister, Shinzo Abe, who stepped down on account of ill health. Given his strong backing within the Liberal Democratic Party, markets anticipated a snap general election to secure a more durable administration but his recent comments suggest otherwise. Suga previously indicated his intention to appoint reform-minded lawmakers to cabinet. Expectations are for a continuation of monetary accommodation by the Bank of Japan, significant government spending and ongoing structural reforms under Suga's administration. Suga has also signalled his intention to prioritise the revitalisation of the regional economy and despite having less experience in international affairs, he has been involved in all the major foreign policy decisions under Abe.

**Forecast 2020:**
GDP: -4.7%
Inflation: -0.1%
**Forecast 2021:**
GDP: 1.5%
Inflation: 0.3%

## CHINA

Government's stimulus efforts and a successful containment of the initial COVID-19 outbreak have aided a V-shaped recovery. However, the revival in activity has been uneven. The industrial sector appears to have rebounded more strongly, while consumer confidence has been slow to recover. Services are trailing the upturn and exports are only showing nascent signs of growth, in the face of ongoing trade tensions with the United States. Chinese authorities have noted that fiscal policy will play a more pro-active role in the second half of the year, but have maintained a more targeted approach to stimulus, including tax cuts, social insurance savings and social infrastructure. Monetary policy is expected to remain supportive for growth, but scope for major easing remains limited unless the recovery experiences a significant setback.

**Forecast 2020:**
GDP: 1.1%
Inflation: 2.8%
**Forecast 2021:**
GDP: 6.5%
Inflation: 1.8%

## EMERGING MARKETS

The economic recovery across the emerging market (EM) composite has varied based on the severity of the COVID-19 outbreak and the stringency and duration of lockdowns. While Emerging Europe and Emerging Asia are showing signs of economic outperformance, Latin America has been the heaviest hit region, where the number of daily new COVID-19 cases remains high. A renewed surge in virus cases has also put a dampener on third quarter activity in several other EMs. Although an easing in lockdown restrictions has boosted retail activity, a loss in momentum behind global growth suggests gains in exports will be slow from here. Sovereign vulnerabilities have increased in response to fiscal deficit expansions, but those EMs with externally-denominated and shorter-term debt face higher stress.

**Forecast 2020:**
GDP: -0.7%
Inflation: 3.5%
**Forecast 2021:**
GDP: 4.3%
Inflation: 3.2%

## SOUTH AFRICA

The country's already weak growth outcomes have been hobbled by the virus slump. In response to an easing in the daily rate of new COVID-19 cases and a slowing in fatalities, lockdown restrictions have eased further, allowing for the bulk of the economy to resume activities. Nevertheless, sticky unemployment and bankruptcies, particularly concentrated in small and medium businesses, as well as ongoing electricity supply constraints will dampen the recovery. Poor growth has limited South Africa's (SA) ability to deal with a growing budget deficit and a rising debt burden. A deteriorating fiscal position and stymied structural reform efforts will weigh on the sovereign ratings outlook, in our view. Despite interim rand weakness anticipated on fiscal vulnerabilities in the upcoming October 2020 medium-term budget and sovereign rating risks, passthrough to the inflation basket is expected to remain muted on a wide output gap and spare capacity. Flagging growth and subdued inflation suggest the SA Reserve Bank will keep interest rates steady into the first half of 2021, before raising rates in the third quarter on a mild growth recovery, fiscal woes and longer-term inflation risks.

**Forecast 2020:**
GDP: -8.1%
Inflation: 3.1%
**Forecast 2021:**
GDP: 2.0%
Inflation: 3.8%

# 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 September 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) | -1.58% | 0.67% | 2.01% | 2.39% | 4.30% | 4.75% | 4.76% | 6.22% | 9.58% |
| FTSE/JSE Shareholder Weighted Index (SWIX) | -1.63% | -0.33% | -2.19% | -0.39% | 1.41% | 2.89% | 3.42% | 5.38% | 9.11% |
| FTSE/JSE Capped SWIX All Share index | -1.07% | 1.01% | -5.02% | -2.38% | -0.51% | 1.11% | 1.91% | 4.07% | |
| FTSE/JSE All Share Top 40 Index | -1.67% | 0.63% | 5.59% | 3.57% | 5.58% | 5.26% | 5.20% | 6.58% | 9.91% |
| FTSE/JSE Mid Cap Index | 1.31% | 1.34% | -14.96% | -4.28% | -3.92% | 0.87% | 1.25% | 3.25% | 6.82% |
| FTSE/JSE Small Cap Index | 0.78% | 3.48% | -17.60% | -11.46% | -8.73% | -4.45% | -2.60% | 0.05% | 5.88% |
| FTSE/JSE Resources Index | -3.39% | 6.03% | 27.31% | 20.34% | 17.95% | 16.27% | 4.96% | 5.38% | 4.86% |
| FTSE/JSE Financials Index | 2.27% | -1.64% | -30.91% | -10.56% | -6.46% | -5.38% | -1.68% | 1.49% | 6.23% |
| FTSE/JSE Industrials Index | -1.47% | -2.29% | 4.31% | -0.66% | 2.26% | 2.70% | 4.77% | 6.37% | 12.43% |
| FTSE/JSE Research Affiliates Fundamental Indices 40 Index (RAFI) | 0.60% | 1.15% | -7.40% | 0.10% | 2.92% | 4.81% | 3.05% | 4.66% | 7.79% |
| FTSE/JSE Research Affiliates Fundamental Indices All Share Index | 0.32% | 1.27% | -8.14% | -0.38% | 2.37% | 4.26% | 2.68% | 4.18% | 7.43% |
| FTSE/JSE SA Listed Property Index (SAPY) | -2.97% | -14.14% | -46.07% | -23.80% | -16.57% | -12.85% | -7.35% | -4.43% | 1.78% |
| **Interest-bearing indices** | | | | | | | | | |
| JSE ASSA All Bond Index (ALBI) | -0.05% | 1.45% | 3.58% | 7.33% | 7.55% | 7.57% | 7.48% | 7.24% | 7.62% |
| JSE ASSA All Bond Index 1-3 years (ALBI) | 0.51% | 2.40% | 11.85% | 9.65% | 9.48% | 9.18% | 8.85% | 8.32% | 8.02% |
| JSE ASSA SA Government ILB Index | -1.66% | 1.00% | -2.41% | 0.65% | 0.64% | 2.10% | 2.57% | 3.83% | 5.68% |
| Short-term Fixed Interest Composite Index (SteFI) | 0.35% | 1.16% | 6.20% | 6.94% | 7.10% | 7.11% | 6.99% | 6.80% | 6.43% |
| **Commodities** | | | | | | | | | |
| NewGold Exchange-Traded Fund | -4.87% | 2.18% | 39.77% | 21.76% | 14.41% | 14.98% | 14.52% | 12.60% | 12.75% |
| Gold price (in rands) | -3.49% | 3.67% | 40.97% | 22.44% | 14.71% | 15.49% | 15.00% | 13.16% | 13.31% |
| Platinum Exchange-Traded Fund | -4.41% | 4.86% | 10.23% | 6.33% | 1.01% | 3.28% | -0.02% | 0.41% | |
| Platinum price (in rands) | -7.52% | 3.44% | 3.49% | 5.66% | 0.87% | 3.07% | -0.12% | -0.04% | -1.64% |
| **Currency movements** | | | | | | | | | |
| Rand/euro movements | -3.49% | 0.28% | 18.31% | 7.01% | 6.05% | 4.86% | 5.39% | 5.30% | 7.47% |
| Rand/dollar movements | -1.55% | -3.90% | 10.02% | 7.32% | 5.00% | 3.83% | 6.72% | 7.49% | 9.08% |
| **Inflation index** | | | | | | | | | |
| Consumer Price Index (CPI) | | | 3.09% | 4.12% | 4.27% | 4.60% | 4.60% | 4.86% | 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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