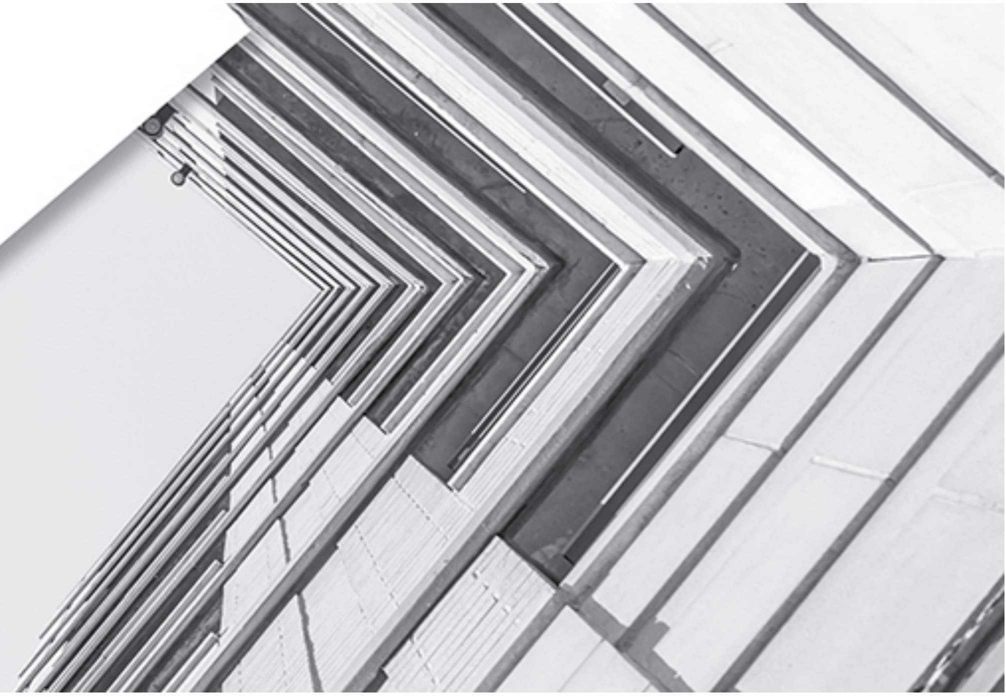
momentum
investments



IN THE
moment

Monthly market commentary | February 2021

Global economic growth continued to recover in February although several countries are still experiencing considerable Covid-19 lockdown restrictions. The global vaccination rollout continued to gain traction with around 140 million vaccines being administered in the month, although the speed of implementation varied significantly across countries.

On a positive note, global Covid-19 related deaths continued to trend downwards with a month-on-month decline of 25% to 300 000. Perhaps the most significant market news in the month was the meaningful rise in global bond yields as investors anticipate a strong cyclical growth recovery, bringing with it the possibility of higher inflation.[1,2]

Global equity markets ended the month in positive territory after posting generally negative US dollar returns in January, with cyclical stocks continuing to broadly outperform defensive stocks, and value stocks continuing to outperform growth and quality stocks. The MSCI World Index (developed markets only) ended the month 2.5% higher in USD terms. Most of the major countries delivered positive returns.

The S&P 500 rose 2.6% with the energy sector the strongest performer on the back of an 18% rally in the oil price (due to diminished US supply), while technology stocks underperformed the broader market. Earnings results from the US showed a 5% increase in Q4 2020 relative to Q4 2019 which was well ahead of analyst expectations.

Most other developed markets showed positive monthly returns with Germany, France and the UK delivering returns of 2.6%, 5.6% and 1.2% respectively. Asian markets also fared well with Japan and Hong Kong posting returns of 4.7% and 2.5% respectively in USD.

Emerging markets underperformed developed markets in the aggregate with a USD return of just 0.7%. Over the last 12 months, however, the index is up 33% in USD, ahead of developed markets which returned 27% over this period.

The rand traded within a wide range in the month, rallying to reach R14.50 against the US dollar but gave these gains away to close the month at R15.12 – just 0.3% stronger and therefore neither meaningfully adding nor subtracting from offshore returns.[1,2]

Locally, the 2021/2022 National Budget which was viewed as largely positive as government gave priority to debt consolidation over spending with the large tax windfall from the mining industry being used to reduce debt issuance and avoid further tax increases. The local equity market delivered a fourth consecutive month of positive returns and outperformed its emerging market peers with the FTSE/JSE Capped SWIX Index up 5.3%. The returns were broad-based with the platinum sector leading with a return of 24% as platinum group metal (PGM) prices continued to rise. Gold mining was the only major sector that delivered a negative return (-16%) as the gold price fell on the back of rising global bond yields. Sectors sensitive to the local economy also generally performed well with banks and insurers returning 4% and 5% respectively. Local property also participated in the rally with a return of close to 9%. Over the last 12 months, resources (73%) continue to be the best performer, with industrials up 33% and financials continuing to lag significantly with a return of -5%. Local property remains down with a return of -16% but has matched the return of equities over the last four months.[1,2]

On the fixed income front, most develop market bond yields traded meaningfully higher with the US 10-year ending the month 34 bps higher at 1.41% (after having reached a high of 1.52% during the month). European bond yields remain negative but less so comparted to the previous month. The result was negative returns for most global bond indices. Locally, the rise in developed market bond yields precipitated large foreign selling of domestic bonds to the tune of close to R30 billion, offsetting most of the positive flows seen in the prior three months. The All Bond Index (ALBI) was flat in the aggregate. However, shorter-dated bonds delivered negative returns (the three to seven year sector was the worst performer with a return of -2.2%) while longer-dated bonds were up with the 12+ year sector returning 1.6%. The yield curve continued to flatten which benefitted long duration strategies.[1]

The Consult Select portfolios continued their steady recovery of both absolute performance and performance relative to peers after the March 2020 sell-off and delivered strong positive returns across the board as follows: Consult Select Income (0.2%), Consult Select 3 (2.1%), Consult Select 5 (3.6%), Consult Select 7 (4.1%) and Consult Select 7-Plus (4.0%). The sequence reflects the progressively higher allocation to equities and listed property which performed well.[3]

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Source:
[1] Anchor Capital February 2021 Market commentary
[2] Asset class returns – February 2020, RMB Markets Research
[3] Momentum Wealth