momentum investments

in the moment

Herman van Papendorp

Head of Investment Research & Asset Allocation

Sanisha Packirisamy

Economist

Roberta Noise

Economic Analyst

Economic and market snapshot for December 2019

Highlights

- United States (US): The US economy will likely show characteristics of slower growth and muted inflation pressures in 2020, compelling the central bank to maintain an accommodative monetary policy stance.
- Eurozone: Limp global trade activity will likely impede growth prospects in 2020. Weak demand will act as an additional drag on inflation, which is not expected to reach the target of close to, but below, 2% any time soon.
- United Kingdom (UK): The sterling-induced inflation overshoot has largely reversed, but lingering Brexit uncertainty related to future trading relationships will continue to weigh on firms' investment intentions.
- Emerging markets (EMs): The ebb and flow of trade war risk is likely to partly counter the continued search for yield in a globally accommodative monetary policy setting.
- South Africa (SA): The slow implementation of economic reform will stifle growth prospects in 2020. Depressed growth and well-behaved inflation suggest some space for additional monetary policy easing at the margin.

Global economic developments

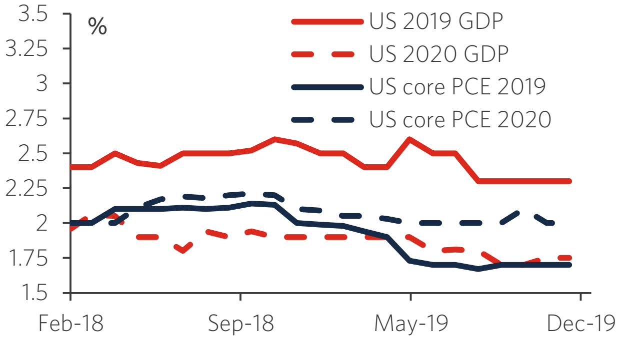
US

The US economy will likely show characteristics of slower growth and muted inflation pressures in 2020.

Economic activity in the US started 2019 off on a high note, with signs of a slowdown emerging in the fourth quarter of the year. The 2019 Bloomberg consensus growth estimate for the US was pitched at 2.5% at the beginning of the year, but softened a tad to 2.3% by the end of the year (see chart 1).
The Federal Reserve (Fed) of Atlanta's real growth projection for the fourth quarter of 2019 (based on its gross domestic product now (GDPNow) estimate which uses available data for the measured quarter) picked up in early December 2019 to 2.0%.

The Blue Chip (large, established firms) consensus pitched a more pessimistic view on fourth quarter growth of 1.5%.

Chart 1: US growth to drop below trend in 2020, while inflation likely to bumble along at muted levels



Source: Bloomberg, Momentum Investments

Growth estimates for 2020 point to further weakness in growth with the Bloomberg consensus forecasting a moderation in the growth in gross domestic product (GDP) to 1.8%. Activity and sentiment in the manufacturing sector have remained lethargic. Still, gloomy manufacturers may be reflecting a short-lived strike in the motor vehicle industry. The ongoing trade war between the US and China has painted a poor outlook for US exports, although a stabilisation in the US dollar could temper weakness in US exports.

Glum sentiment observed in the Conference Board's Chief Executive Officer (CEO) confidence index points to a protracted stagnation in business investment in the US. However, residential investment has picked up and a stabilisation in oil prices could support mining investment in the coming quarters.

Although the momentum behind retail sales has tapered off, consumer fundamentals remain strong. Firm employment growth, above-average consumer confidence and solid wage growth (average hourly earnings increased at 3.1% in nominal terms in November 2019) continue to support consumer spending.

Decent growth in demand has not translated into significantly higher rates of inflation. The Bloomberg consensus is looking for a marginal shift higher in inflation measured by the core private consumption expenditure deflator from 1.7% in 2019 to 2% in 2020.

We still see a chance for one more interest rate cut of 25 basis points. More aggressive cuts, coupled with unconventional monetary policy tools, would, however, be necessary in the risk scenario, where growth falls by a more significant margin than anticipated.

Eurozone

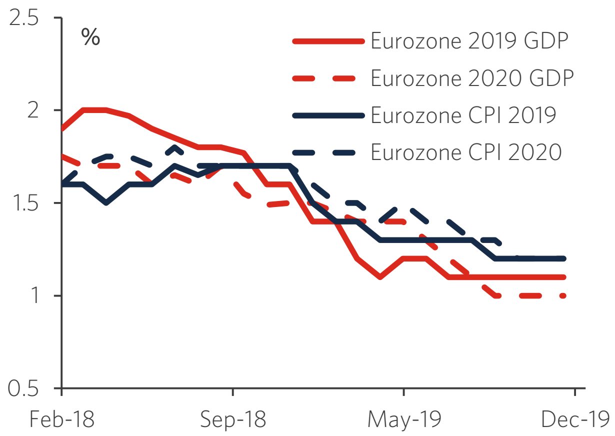
Sluggish growth in 2020 unable to meaningfully lift inflation.

Growth data for the Eurozone for the third quarter of 2019 was underpinned mainly by domestic demand, while inventories and net trade detracted from overall growth in GDP. Although the consumer played a supportive role in the third quarter of 2019, the momentum behind retail sales growth waned in the fourth quarter, particularly in the bigger markets such as Germany. Consumer sentiment in the Eurozone is admittedly comfortably above the longer-term average reading of negative 10 points. Still, the index has dropped consistently from a recent peak of negative three points at the start of 2019 to negative seven points in November 2019. Wage growth has climbed swiftly in the past year to 2.7% for the third quarter of 2019. However, survey indications point to firms struggling to maintain this level of wage increase going forward.

Growth in industrial production in the Eurozone's largest economy, Germany, has languished in negative territory for much of 2019. The German Ifo Business Climate Index has shifted up from its earlier lows, but continues to paint a bleak picture for German manufacturing in 2020. Moreover, slow growth in global activity has weighed on Eurozone export growth. According to Capital Economics, exports destined for the UK and China continued to contract, while exports to the US have started to slow. With growth set to dim in the US and China (the two largest export markets for the Eurozone), export growth is likely to struggle in 2020.

As such, the Bloomberg consensus maintains a soggy growth forecast of 1% for the Eurozone in 2020, down from an earlier estimate of 1.5% at the start of 2019 (see chart 2).

Chart 2: Soft growth and absent inflation pressures in 2020



Source: Bloomberg, Momentum Investments

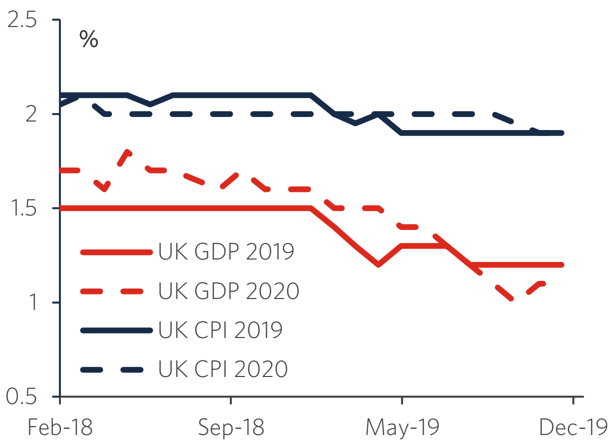
Absent demand-pull inflation pressure has suppressed inflation outcomes. The Bloomberg consensus expects headline inflation in the Eurozone to track sideways in 2020 from 1.2% in 2019. Tepid growth and persistently low inflation hint at the need for easier monetary and fiscal conditions, but with lower interest rates posing a threat to European banks' profitability, the pressure is rising for European governments to exercise less fiscal frugality.

UK

Inflation overshoot has largely reversed, but Brexit uncertainty will continue to set back investment.

A mild expansion in growth in the UK in the third quarter of 2019 was driven by private consumption. In contrast, fixed investment slumped on Brexit uncertainty and inventories were pared back.
The Bloomberg consensus forecasts growth in 2020 to be a touch softer than in 2019 at 1.1% (see chart 3).
A majority Conservative government should lessen uncertainty (relative to a scenario where a minority Conservative or Labour government took the helm) and could lead to a swift exit from the European Union (EU).

Chart 3: Future trade agreement uncertainty to remain a drag on growth in the UK in 2020



Source: Bloomberg, Momentum Investments

The Conservatives are campaigning for the withdrawal agreement that Prime Minister, Boris Johnson, has positioned to be passed by Parliament before the new deadline of 31 January 2020. This agreement, according to Investec, leaves Northern Ireland with a hybrid customs system and a Canada-style free trade agreement for the UK, implying there will still be challenges to trading freely with the UK.

Although a reduction in political uncertainty could be good for business sentiment, confidence may be tarnished by the lack of detail around a future UK-EU free trade agreement, keeping a lid on growth prospects. In addition, limited plans for increasing public investment restricts the fiscal thrust from government to the economy.

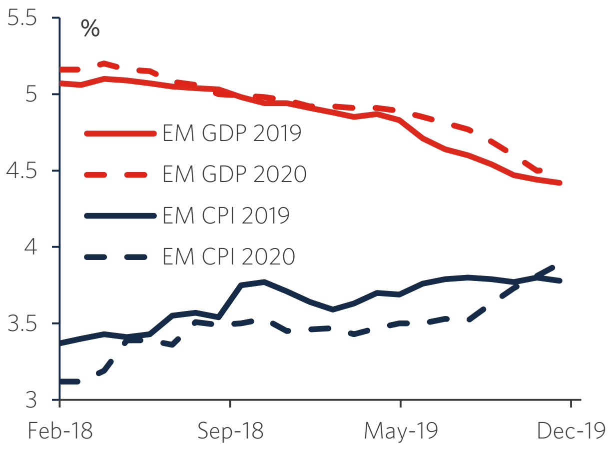
Should protracted uncertainty over the Brexit path beget significantly lower growth than anticipated by the Bank of England (it forecasts growth to lift from 1% in the fourth quarter of 2019 to 1.6% in the fourth quarter of 2020), it may be forced to step in with additional easing measures. However, room for major easing remains limited, shifting the burden on fiscal policy to achieve some of the heavy lifting for higher growth.

EMs

Ebb and flow of trade war risk likely to partly counter the search for yield in a globally accommodative policy setting.

A relatively optimistic Bloomberg consensus forecast pegged EM growth at 5.1% for 2019 at the start of 2018 (see chart 4). As an intensification of the trade war and softer growth in developed markets (DMs) took their toll on global trade volumes, the consensus for full-year growth in 2019 slipped to 4.4% by December 2019.

Chart 4: Protectionism and weaker DM growth to weigh on EM growth prospects in 2020



Source: Bloomberg, Momentum Investments

We remain cautious on growth in EMs for 2020. The direction of global demand remains in the balance due to persistent uncertainty from the trade conflict between the US and China. Growth in EM ex-China should stage a marginal recovery, dotted with improvements in economies that experienced a weak growth showing in 2019. These countries include Brazil, Mexico, Turkey, Russia and India. Growth in China in 2020, on the other hand, is expected to slow moderately as the trade rift between the US and China lingers. Supportive monetary and fiscal measures should nevertheless soften the negative effect on economic activity and prevent a hard landing in growth.

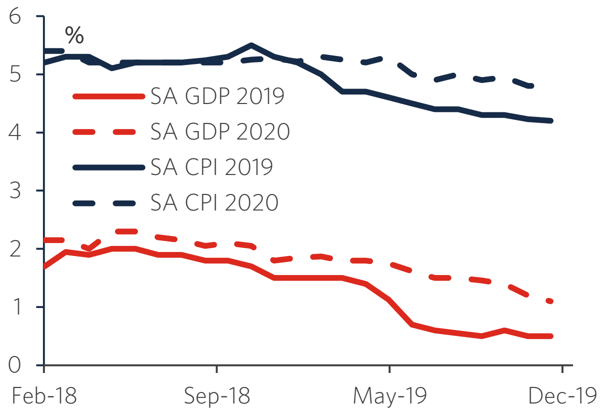
Inflation in the EM composite should drift marginally higher in 2020, mainly due to rising food prices in China. Modestly higher growth and subdued inflation pressure could lead to further monetary accommodation in EMs, but the extent of interest rate cuts is likely to moderate in 2020 relative to 2019 as the nominal gap between interest rates in DMs and EMs is closing towards multi-decade lows.

Local economic developments

Slow pace of economic reform in a depressed growth environment will stifle growth prospects in 2020.

Growth in SA's leading indicator, which provides foresight into where growth in the economy is headed, contracted for the past year, confirming downbeat consumer and business sentiment and heralding a tepid growth outlook for 2020. The Bloomberg consensus estimate for growth in SA in 2020 has nearly halved since the start of 2018 to 1.1% (see chart 5).

Chart 5: Slow reform to stifle SA growth in 2020, while inflation to remain well behaved



Source: IMF, Momentum Investments

The local economy slipped into its 73rd month of the economic downswing in December 2019 with little to suggest a growth surge is on the horizon. We believe growth in SA is likely to struggle to reach 1% in 2020 on reform efforts, which are too slow to swiftly reinvigorate sentiment, accelerate consumer purchases of bigger-ticket items or encourage the outlay of big capital investment projects just yet.

Meanwhile, inflation has been relatively well behaved. Core or underlying inflation has averaged 4.3% for the past two years in comparison to its long-term history of 5% since 2009, while services inflation has averaged 5% for the past two years relative to 5.8% for the full history since 2009. This suggests downside surprises in inflation were broader than just food. After excluding the effect of administered prices (water and electricity tariffs, public transport, school fees and petrol), inflation averaged 3.9% for the past two years, further signalling subdued inflation pressures in areas of the basket where monetary policy has more of an influence.
Muted inflation appears to be broad based with a weighted average of 77% of the items in the consumer inflation basket registering inflation lower than 6% in the past two years, in comparison to 61% for the longer-term history.

In our view, there is likely an opportunity to cut interest rates by 25 basis points in the first half of 2020, but this will require more meaningful downgrades to the SA Reserve Bank's (Sarb) growth and inflation forecasts. In its November 2019 economic assumptions, the Sarb forecasted growth of 1.4% for 2020 (above our forecast of below 1%) and expected inflation of 5.1% relative to our forecast of 4.6% in 2020 from an anticipated 4.2% in 2019.

Financial market performance

Global markets

The majority of risky asset classes entered the year on poor footing following an extensive sell-off at the end of 2018. However, a complete about turn in the global monetary policy stance has supported robust returns in global equity markets in 2019. Market returns were further supported late in the year on an easing in trade disputes between the US and China and a majority win by the Conservative Party in the UK, suggesting a clearer path towards Brexit. These positive political developments contributed to a reduction in the CBOE Volatility Index (Vix) from 25 index points at the end of 2018 to nearly 14 index points by the end of 2019, which is below the longer-term average since 1990 of around 19 points.

Global equity markets had their best year since 2009when markets soared 34.6%. The MSCI All Country World Index ended the year 26.6% higher after collapsing 9.4% in 2018. A more accommodative monetary policy stance adopted by the major DM central banks fuelled DM equity markets in 2019, sending them higher relative to EM bourses. Returns in the MSCI DM Index more than made up for an 8.7% dip in 2018 and powered ahead at 27.7% in 2019. This left 2019 as the best performing year since 2009 when the MSCI DM Index climbed nearly 30%. Easier monetary policy and above-trend growth aided robust returns in US equity markets. The US equity market was the star performer in the DM composite, with the S&P 500 Index rushing ahead by 31.5% in 2019, which was the highest return since the index printed 32.4% in 2013. US markets lifted late in the year on de-escalation in the trade war between the US and China.

European bourses performed equally as well in 2019. The Eurostoxx 50 Index gained 29.3%. Nevertheless, average annual returns in the Eurostoxx 50 Index have underperformed that of the S&P 500 Index since the global financial crisis (GFC) at 7% relative to 13.7% for the latter. The Japanese Nikkei 225 Index lagged the DM composite at 20.7% for the year after declining by 10.3% in 2018. The return on the index for 2019 represented the fifth highest annual return since the GFC. Returns were buoyed late in the year on a positive number in the Chinese manufacturing sentiment index indicative of an easing in trade tensions.

DM government bond yields rallied further in 2019. The US 10-year government bond yield declined nearly 77 basis points to 1.9% in 2019, while the German 10-year government bond yield rallied a further 43 basis points (following a 19-basis point rally in 2018) to negative 0.2% at the end of 2019. The German 10-year government bond yield reached a new low of negative 0.7% in 2019 during the month of August.

The MSCI EM Index unwound the 14.6% fall it experienced in 2018, but underperformed its DM equity counterpart at 18.4% for 2019. The 18.4% increase in the MSCI EM Index represented the fourth highest annual return since the GFC. Annual returns in the index have averaged 11.8% since 2009.

Asian and Latin American equity markets led the EM equity market composite higher in 2019. The MSCI Asia Index increased by 19.2%, offsetting a 14.6% fall in 2018. The index ended 2019 on a strong note given an alleviation in trade friction between the US and China. Despite social unrest breaking out in several countries in South America, the MSCI Latin America Index ended the year 17.5% higher, after slipping 6.6% in 2018. Lower interest rates in Brazil (the Brazilian benchmark selic dropped from 6.5% at the start of 2019 to 4.5% by the end of the year) boosted returns on the Brazilian Bovespa despite record outflows since the GFC. Foreigners have been wary of stalling reform efforts since the introduction of pension reforms earlier in the year.

Despite falling the most in 2018 (down 16%) relative to composite equity markets for Asia and Latin America, returns in the MSCI Europe, Middle East and the Africa (EMEA) Index had a shallower rebound in 2019 at 15.5% for 2019. Strengthening fundamentals in the Russian economy, including a rebuild in foreign exchange reserves, a healthy budget surplus and less noise about additional sanctions supported healthy returns in the Russian Moex in 2019.

Risk appetite towards EMs improved in 2019. The JPMorgan EM Bond Index (Embi) spread recovered 157 points in 2019 after deteriorating 123 points in 2018. The biggest deterioration in sovereign credit quality was observed in Argentina, where the credit default swap (CDS) spread blew up 312% in 2019. The largest improvements were seen in Malaysia (down 68%), Russia (64% lower) and the Philippines (down 61%).

The JPMorgan EM Currency Index had a smaller reaction and only appreciated by 0.9% in 2019. The steepest depreciation against the US dollar was in the Argentine peso (37.1%), followed by the Turkish lira (11.1%).At the same time, the most significant currency appreciations were in the Russian rouble (12.5%) and Thai baht 8.6%).

Firmer commodity prices in 2019 also provided an impetus for growth in EMs. The Bloomberg Commodity Price Index rose 7.7% in 2019, previously down 11.3% in 2018.

Local markets

The local equity market trailed global equity markets in 2019 partly due to weak domestic economic conditions. The FTSE/JSE All-Share Index gained 12% in 2019 after losing 8.5% in 2018. Annual gains in the SA equity market have averaged 13.2% each year since the GFC. Resource shares were the clear winner for 2019, while financial shares barely eked out a gain for the year.

The FTSE/JSE Resources Index shot 28.5% higher in 2019, posting its fourth consecutive annual increase in returns. Average annual gains in the index registered above 8% for the period since the GFC. Gold and platinum prices were up 18.3% and 21.5% for the year following contractions of 1.6% and 14.3% in 2018, respectively. Although consumer demand for jewellery was knocked by weaker confidence in India and China, gold had a strong year supported by central bank purchases in Turkey, Russia and China. Palladium rocketed 54% higher during the year further lifting a number of mining stocks.

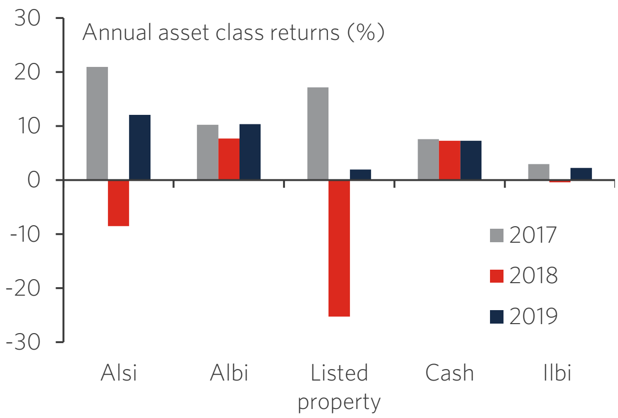
Financial shares had a dismal year linked to the poor performance of the domestic economy, with the FTSE/JSE Financials Index only up 0.6% for 2019 after sinking 8.8% in 2018. Nonetheless, average annual returns in the index since the GFC have exceeded that of the resources index at 14.4%.

Pedestrian returns of 8.9% were recorded in the FTSE/JSE Industrials Index for 2019, following a plunge in the index of 17.5% in 2018. The general retail sector fell around 20% in 2019 on continued consumer pressure, while construction stocks underperformed on poor building activity, a drying up of contracts and thin margins.

The divergence in performance of the FTSE/JSE Small-cap Index and the Mid-cap Index grew in 2019. Small-cap shares ended 2019 4.1% down after crashing 14.6% in 2018, while mid-cap shares rose 15.6% in 2019 after declining by 9.7% in 2018.

The SA 10-year government bond yield rallied 26 basis points in 2019 after selling off 40 basis points in the year before. The JSE Assa All Bond Index (Albi) managed a 10.3% gain for 2019, following a 7.7% rise in 2018, while the JSE Assa Government Inflation-linked Bond Index (Ilbi) edged up only 2.3% higher in 2019 following a 0.4% dip the year before. Meanwhile, the FTSE/JSE SA Listed Property Index managed to end the year in the black at 1.9% after plummeting 25.3% in 2018 (see chart 6).

Chart 6: Returns from local asset classes (%)



Source: Iress, Momentum Investments

A rise in global trade optimism left the rand firmer in December 2019. The rand strengthened by 2.5% against the US dollar in 2019 after depreciating by 13.8% in 2018. The rand was 4.9% firmer against the euro at the end of 2019 after depreciating by 9.7% against the euro in 2018, while the rand extended losses against the pound in 2019 by a further 1.3% following 8.6% the year before.

SA's five-year CDS spread narrowed by 27% during 2019 despite a rising risk of further sovereign rating downgrades to reflect a worsening in trend growth and a deterioration in government finances.

Indices summary for December 2019

	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)	3.30%	4.63%	12.05%	7.42%	6.20%	5.99%	6.79%	8.77%	10.78%
FTSE/JSE Shareholder Weighted Index (SWIX)	3.68%	4.77%	9.32%	5.39%	5.07%	4.78%	6.48%	8.41%	11.09%
FTSE/JSE Capped SWIX All Share index	3.09%	5.27%	6.75%	3.46%	3.89%	3.66%	5.54%	7.58%	
FTSE/JSE All Share Top 40 Index	3.64%	4.54%	12.41%	8.25%	5.70%	6.06%	6.57%	8.75%	10.52%
FTSE/JSE Mid Cap Index	4.70%	12.91%	15.58%	3.86%	9.19%	5.62%	7.83%	8.55%	12.11%
FTSE/JSE Small Cap Index	0.21%	0.74%	-4.10%	-5.52%	0.49%	-0.41%	2.81%	5.88%	9.26%
FTSE/JSE Resources Index	6.97%	13.78%	28.53%	20.53%	23.82%	8.17%	3.96%	3.59%	3.31%
FTSE/JSE Financials Index	0.74%	2.83%	0.63%	3.46%	3.95%	3.94%	7.51%	9.09%	12.26%
FTSE/JSE Industrials Index	2.32%	0.00%	8.90%	3.22%	0.69%	3.46%	5.57%	9.34%	13.84%
FTSE/JSE Research Affiliates Fundamental Indices 40 Index (RAFI)	2.77%	4.51%	8.94%	7.48%	10.40%	6.57%	6.66%	8.13%	10.11%
FTSE/JSE Research Affiliates Fundamental Indices All Share Index	2.68%	4.91%	9.06%	7.13%	10.14%	6.22%	6.42%	7.83%	9.73%
FTSE/JSE SA Listed Property Index (SAPY)	-2.07%	0.58%	1.92%	-3.72%	-0.42%	1.21%	5.06%	5.53%	10.83%
Interest-bearing indices									
JSE ASSA All Bond Index (ALBI)	1.86%	1.73%	10.32%	9.40%	10.88%	7.75%	8.14%	7.04%	8.85%
JSE ASSA All Bond Index 1-3 years (ALBI)	0.54%	1.56%	7.50%	8.75%	9.08%	8.07%	7.76%	7.27%	7.69%
JSE ASSA SA Government ILB Index	1.04%	-0.97%	2.41%	1.67%	2.77%	2.94%	4.25%	3.75%	6.83%
Short-term Fixed Interest Composite Index (SteFI)	0.58%	1.74%	7.29%	7.36%	7.38%	7.19%	6.97%	6.72%	6.52%
Commodities									
NewGold Exchange-Traded Fund	0.06%	-5.33%	15.26%	9.85%	6.12%	8.63%	8.67%	5.58%	9.62%
Gold price (in rands)	-0.27%	-5.07%	15.95%	10.48%	6.80%	9.09%	9.25%	6.12%	10.31%
Platinum Exchange-Traded Fund	3.13%	-0.38%	18.52%	2.35%	-0.37%	-0.95%	-1.33%		
Platinum price (in rands)	3.66%	-3.44%	19.43%	3.23%	-0.32%	-0.36%	-0.72%	-3.02%	-1.07%
Currency movements									
Rand/euro movements	-2.51%	-4.97%	-4.38%	2.85%	-1.69%	2.35%	1.41%	4.97%	4.05%
Rand/dollar movements	-4.37%	-7.65%	-2.46%	0.78%	-2.47%	3.91%	4.95%	7.42%	6.64%
Inflation index									
Consumer Price Index (CPI)			3.56%	4.45%	4.99%	4.94%	5.09%	5.12%	5.11%

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.
5. FTSE/JSE disclaimer: 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.
9. Momentum Investments is part of Momentum Metropolitan Life Limited, an authorised financial services and registered credit provider, and rated B-BBEE level 1.

momentum
investments

December 2019

Economies at a glance

01 United States

The economy has transitioned into a late cycle phase, but past easing by the United States (US) Federal Reserve (Fed) should help to cushion the economic slowdown. While robust wage growth and a healthy labour market continue to underpin consumer strength, downside risks to global growth and trade risks have weighed heavily on business sentiment and have curbed growth in capital spending. Interest rate easing has likely spurred on higher levels of sentiment to improve economic activity but we are likely nearing the end of the cycle.

Forecast 2019:
GDP: 2.3%
Inflation: 1.7%
Forecast 2020:
GDP: 1.7%
Inflation: 2.1%

02 Eurozone

Forecast 2019:
GDP: 1.1%
Inflation: 1.2%
Forecast 2020:
GDP: 1.1%
Inflation: 1.4%

Growth momentum has slowed in tune with downbeat confidence and a worsening global backdrop. Concerns over trade wars and Brexit have generated more uncertainty and point to downside risks to the economic outlook for the region. Although the pace of growth in the services-related industries remains solid, the risk of spillovers from the industrial sectors to the rest of the economy remains significant. Inflation remains well below the European Central Bank's (ECB) target, suggesting a continuation of an ultra-accommodative monetary policy stance.

03 China

Growth has slowed to a three-decade low on recessionary conditions in the manufacturing sector. Still, resilience in China's services and consumption sectors should allow full-year growth to match the government's target broadly. China's external sector has been the most affected by the escalating trade war with the US. An end to the trade war appears low as China is unlikely to compromise the country's economic development and technological progress. Cuts to the reserve requirement ratio and lower benchmark interest rates by the People's Bank of China have a smaller effect on credit growth than in the past. However, government still has plenty of levers to pull, including tax reductions, funding additional infrastructure projects and allowing credit availability to grow at a stronger pace to drive growth higher.

Forecast 2019:
GDP: 6.0%
Inflation: 2.3%
Forecast 2020:
GDP: 5.8%
Inflation: 2.2%

04 South Africa

Forecast 2019:
GDP: 0.6%
Inflation: 4.5%
Forecast 2020:
GDP: 1.3%
Inflation: 4.7%

South Africa (SA) is in its longest economic downturn in history but fractious politics are stymying the pace of reform. The economy is likely to muddle along at moribund levels and remain reliant on positive global factors to boost interim growth. Moody's has downgraded the outlook on the sovereign to reflect rising economic and fiscal risks and if political will is not exercised to rectify this, a downgrade could follow as early as 2020. There is little sign of demand-pull inflation pressure, providing space for an additional rate cut but reforms are ultimately needed.

Brought to you by
the macro research desk

Economies at a glance: US

- The divergence between the manufacturing and services sector Purchasing Managers Indices (PMI) intensified in 2019 with confidence in the manufacturing sector contracting below the 50 neutral mark. However, confidence in the services sector and consumer sentiment held up in the same period and supported growth in overall economic activity.
- Growth in the lead indicator continued to slump and bottomed out at nearly zero. Slowing economic activity was corroborated by soaring temporary employment, which is an early indicator of a slowdown approaching.
- Besides the S&P 500 Index reaching an all-time high in 2019, consumers are significantly positive about keeping their current employment in six months.

Chart 1: PMI for services has held up while the manufacturing sector is still contracting

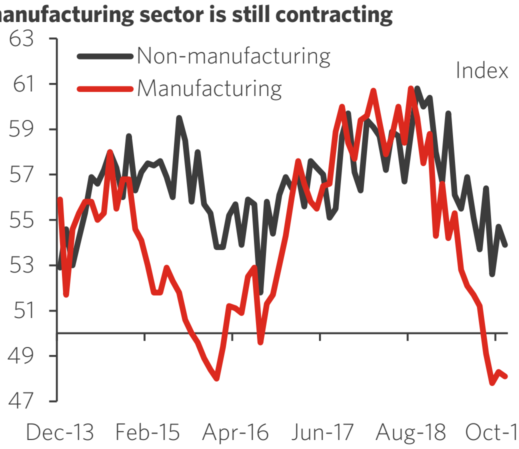


Chart 2: Consumer confidence is still trending up

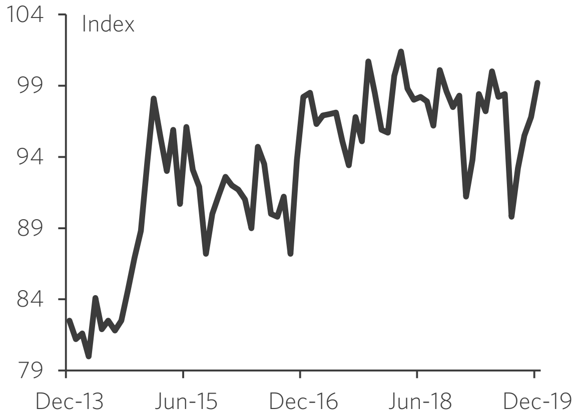


Chart 3: Growth in the lead indicator has been on the decline since the third quarter of 2018

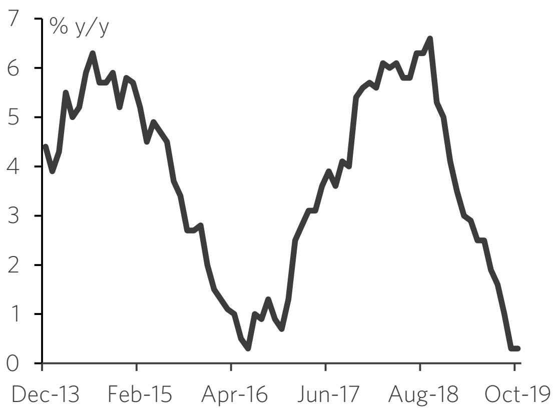


Chart 4: Temporary employment is at its highest since the financial crisis

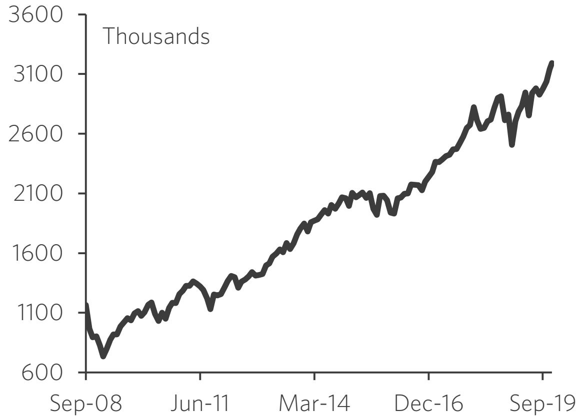


Chart 5: The S&P 500 Index has soared in the current upturn

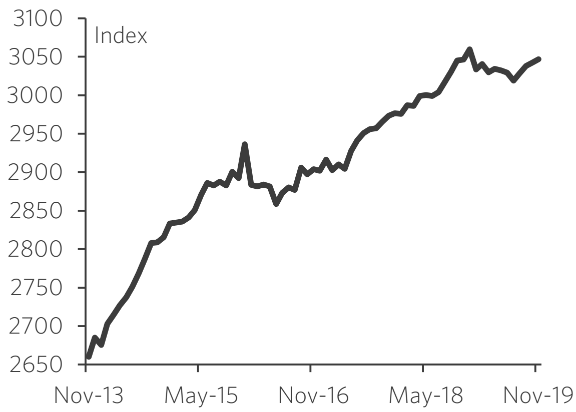
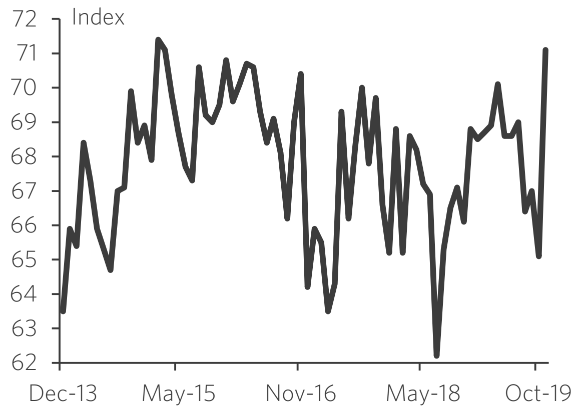


Chart 6: Confidence in ability to keep same employment six months from now



Source: Bloomberg, Momentum Investments

Economies at a glance: Eurozone

- Business sentiment has been in the doldrums, but there is an expectation that this will reverse. Nevertheless, we remain cautious about the outlook for growth in the Eurozone in 2020, given persistent global headwinds.
- Despite downbeat sentiment, employment has not been negatively affected by the growth slowdown, yet.
- The political calendar was eventful in 2019 and contributed to the slump in sentiment. A recent poll showed that there is a high expectation that 2020 would still have a lot of political focus, which will likely result in continued policy uncertainty.

Chart 1: The business climate deteriorated throughout 2019

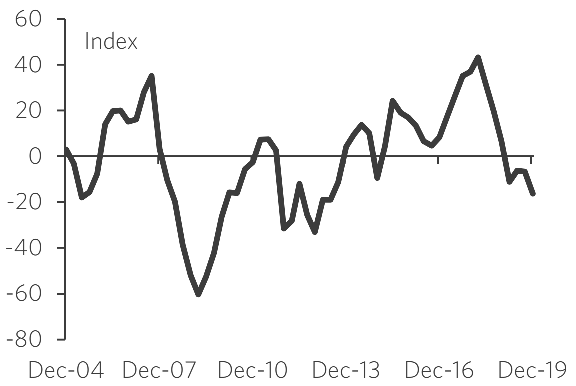


Chart 2: There is however an expectation that the business climate will improve

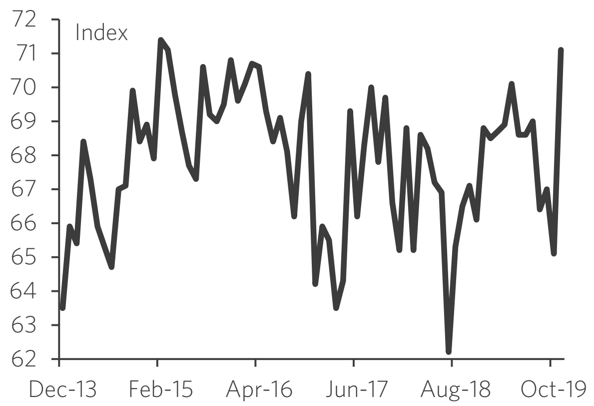


Chart 3: The headline unemployment rate has however remained low

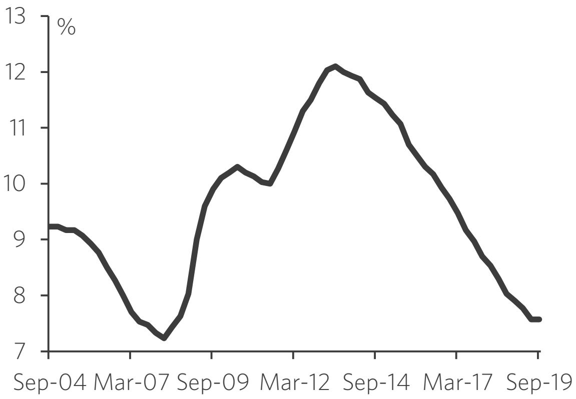


Chart 4: Consumer confidence has been negative since the first quarter of 2019

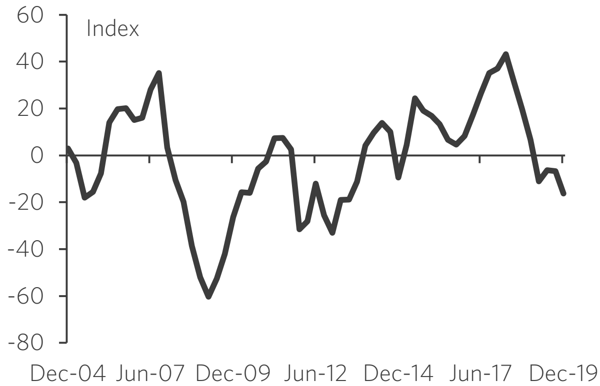


Chart 5: Expectation that the European Union (EU) will give increased attention to the execution of Brexit (%)

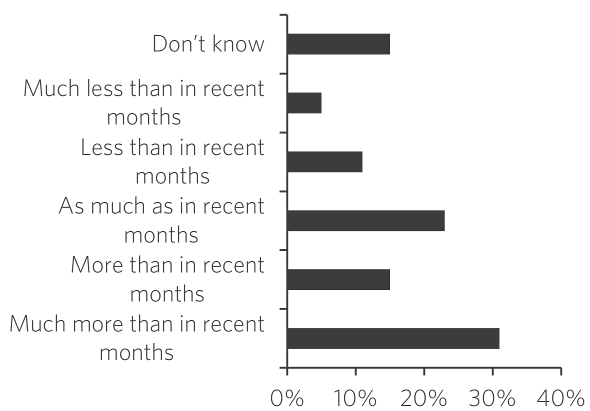
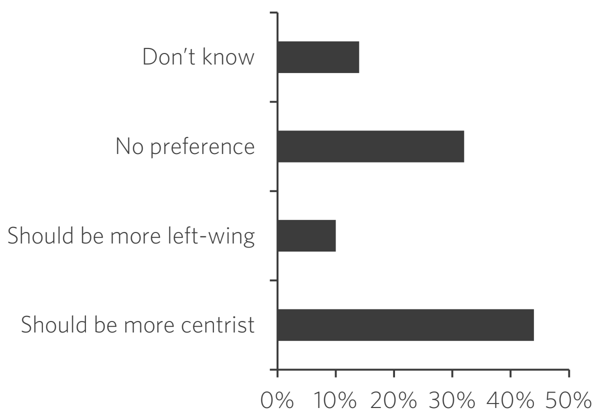


Chart 6: Increased expectation for a centrist party (%)



Source: Bloomberg, YOUGov, Momentum Investments

Economies at a glance: China

- Stimulus efforts by government have prevented a sharper slowdown. But in line with its rebalancing goals, growth had declined to below 6% in 2019.
- Residential property growth has reacted to infrastructure stimulus plans.
- Business sentiment and the PMI have, however remained in expansionary territory amid the slowdown in growth.

Chart 1: Gross domestic product (GDP) growth grinding lower

Chart 2: Growth in infrastructure investment flattened after robust rise at the start of 2019

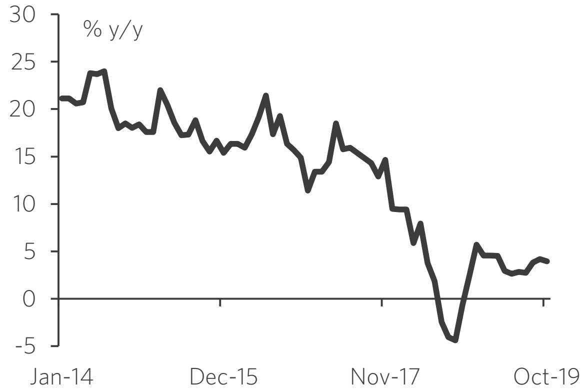


Chart 3: Residential property growth corroborates initial build up and flattening pattern in growth (%y/y)

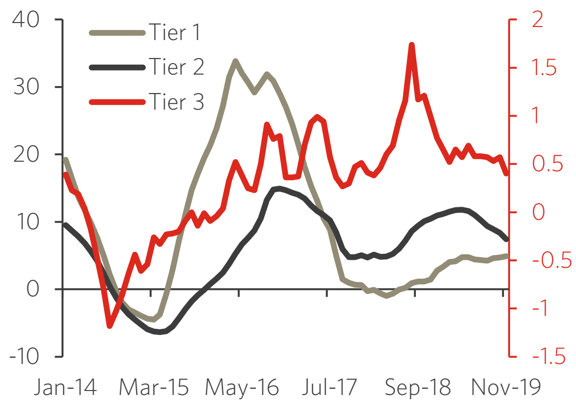


Chart 4: Active residential building construction remains firm at 9% since mid-2019

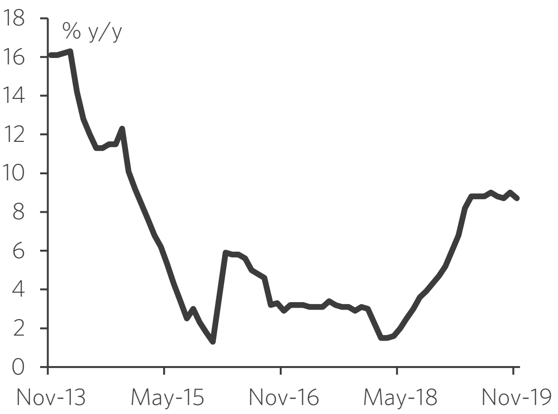


Chart 5: Business climate expectation still rising above 50 neutral mark

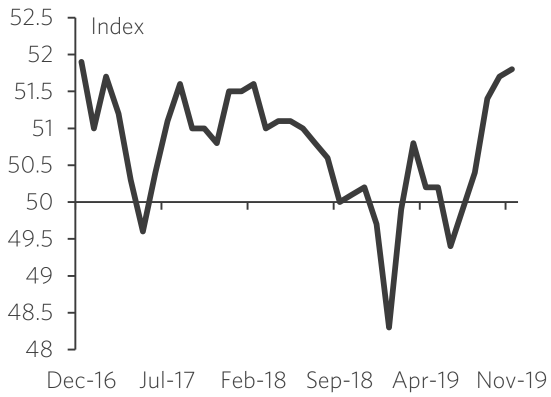
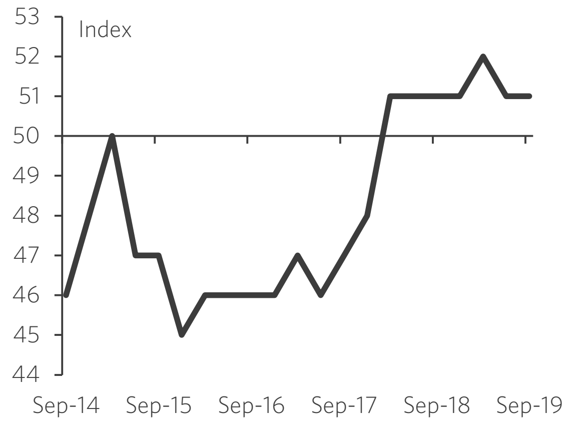


Chart 6: PMI still firm above 50 neutral mark



Source: Bloomberg, Momentum Investments

Economies at a glance: SA

- The housing market has been in the doldrums for a while now, as shown by significantly low house prices and high national vacancy rates.
- There has also been a weakening in residential rental demand and prices explained by oversupply. Market strength is weak and back to the end of 2018 levels underpinned by the supply rating exceeding the demand rating.
- Consumer credit and mortgage advances have increased likely due to an extension of existing mortgage advances and have not translated into higher consumer appetite for durable goods spending.

Chart 1: House price growth has been consistently below its longer-term average

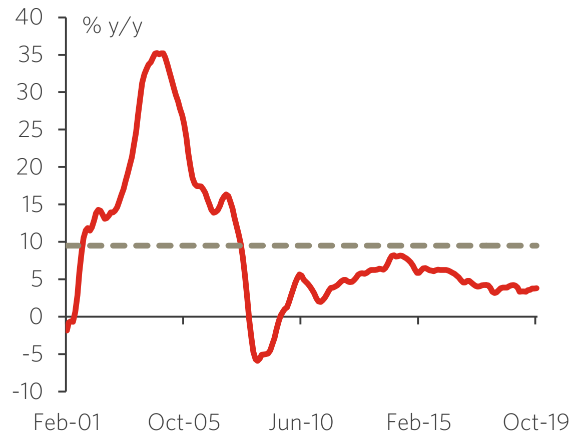


Chart 2: National vacancy rates highest since 2016 (%)

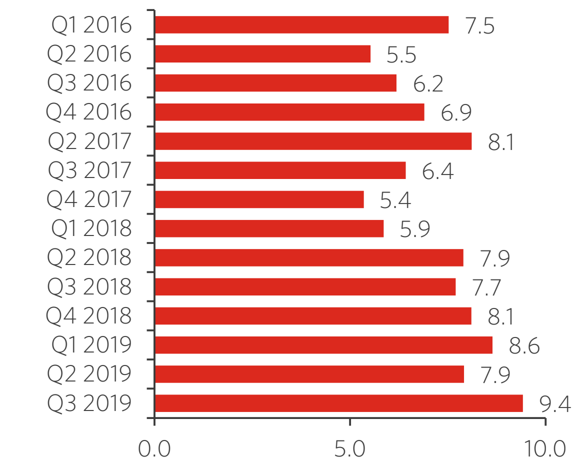


Chart 3: The residential rental market has weakened further in 2019 (% share of total)

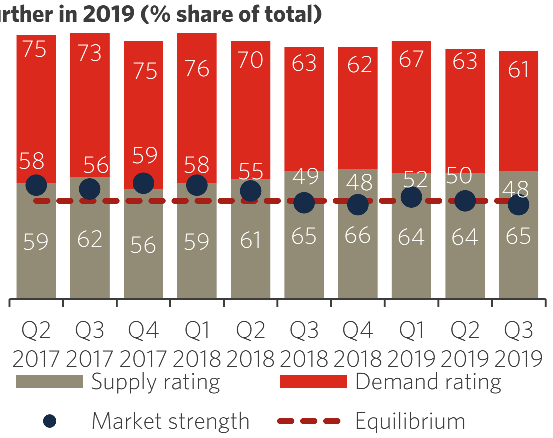


Chart 4: Rental inflation is at an all-time low (% y/y)

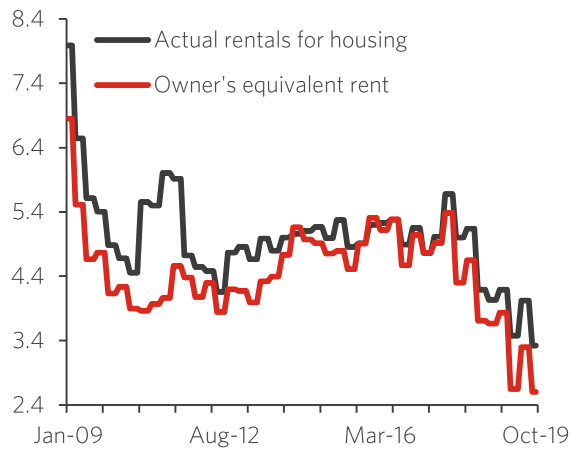


Chart 5: Further contraction in the consumer rating of the current time as being appropriate to buy durables

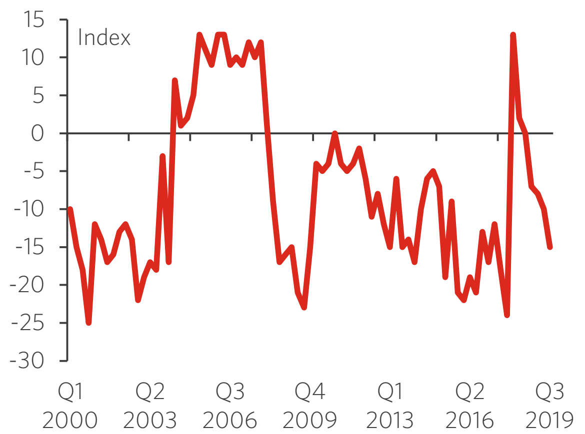
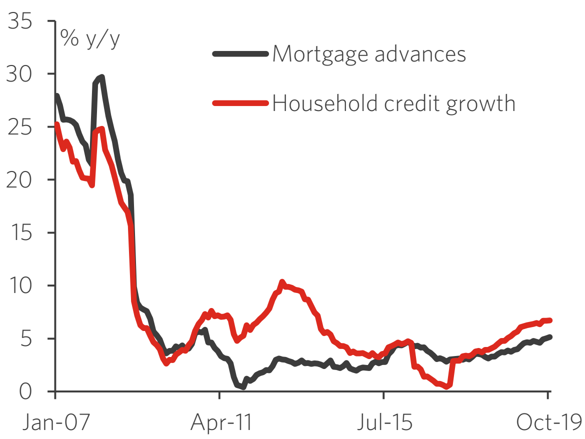


Chart 6: Total consumer credit and mortgage growth has risen mildly



Source: BER, Iress, TPN, Stats SA, SARB, Momentum Investments

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. Roberta Noise has recently joined the team as an economic analyst.

Herman van Papendorp

Head of Investment Research and Asset Allocation

Sanisha Packirisamy

Economist

Roberta Noise

Economic Analyst