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 January 2020

## Highlights

- United States (US): The profits cycle has historically been a more important determinant of US equity returns than the political cycle.
- Eurozone: Growth is unlikely to stage a significant rebound in 2020 given headwinds to domestic demand (from slowing growth in jobs and wages) and exports (should the US impose onerous tariffs on the region).
- United Kingdom (UK): In spite of Brexit noise, interest rates were left unchanged at 0.75% in line with expectations, with two members of the Monetary Policy Committee (MPC) calling for a cut in interest rates.
- Emerging markets (EMs): Structural reform efforts and a growth recovery from a low base in a number of previously troubled economies should contribute to higher growth for EMs in 2020.
- South Africa (SA): The postponement of hard-hitting structural reforms is becoming more costly for growth.
- Financial markets: The deadly coronavirus outbreak has rattled markets, causing a blow to riskier asset classes in January 2020.

## Global economic developments

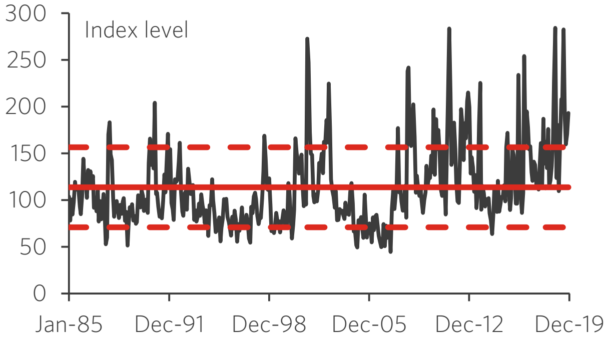
### US

*The profits cycle has historically been a more important determinant of US equity returns than the political cycle.*

Bank of America Merrill Lynch (BoAML) investigated market returns under various political scenarios. Its analysis shows that the market has been up an average of 10.7% in election years between 1928 and 2017 and up 16.5% on average in the year before a presidential election. The market has also tracked in positive territory for 88% of prior election years between 1928 and 2007, relative to only 73% of the time in general.

The study shows that average annual returns on the S&P 500 Index since 1928 have been highest at 24% when there is a change in leadership, but no change in the party. In contrast, average returns have been weakest (4%) when there has been a change in the leadership and the party.

Chart 1: Elevated US economic policy uncertainty




*Source: Bloomberg, Momentum Investments*

BoAML further noted that the Economic Policy Uncertainty Index (which is highly correlated to the CBOE Volatility Index [Vix]) is well above average levels relative to historical Presidential elections. This highlights the likelihood of a more volatile market during the current election cycle (see chart 1).

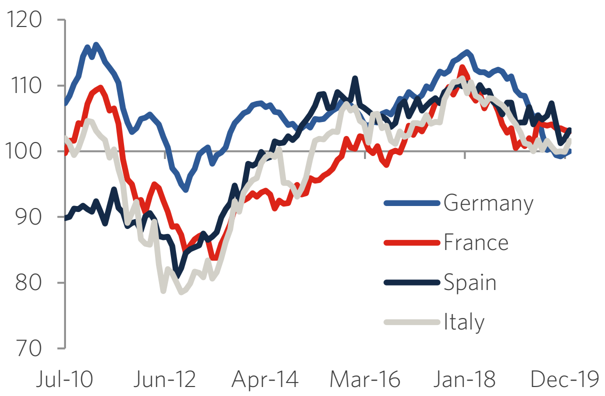
With the current administration being pro-business (lowered taxes and acted to lift the regulatory burden), BoAML expects a relief rally in risky assets in the event of a re-election of US President Donald Trump. They believe a moderate Democratic President would mute a negative reaction in markets, while a more liberal Democrat President would have the worst outcome for markets given potential increases in taxes, a heavier regulatory burden and increased anti-monopolistic policy.

## Eurozone

*Economic growth is unlikely to stage a significant rebound in 2020.*

Although the contribution for household spending helped to boost growth in gross domestic product (GDP) in the third quarter of 2019, retail volumes eased in a number of the core economies suggesting that consumption spending dropped in the fourth quarter of 2019. Consumer sentiment has faded (see chart 2) since the start of 2018 and could dip further if slower wage and employment growth materialises in line with the indications of recent business surveys.

Chart 2: Soft consumer sentiment in the Eurozone




*Source: Bloomberg, Momentum Investments*

The German Ifo Business Climate Index fell in January to 95.9 from 96.3 points in December 2019, underwhelming markets which were expecting a further improvement to 97 points. On a component analysis, the data improved in the manufacturing sector, but worsened in the services and construction industries.

Though the Eurozone's composite Purchasing Managers' Index (PMI) remained above the neutral level of 50 in January 2020, the underlying components reflected an ongoing recession in the manufacturing sector (47.5 points). Outside of Germany and France, activity slowed to a six-and-a-half year low indicative of downtrodden growth elsewhere in the composite.

While the direct effect of the trade war on the Eurozone has been largely contained, the indirect effects have been bigger given the drop off in investment growth and the slowdown in foreign direct investment into the Eurozone. According to Capital Economics the imposition of auto tariffs of 20% by the US on Europe would deduct 0.3% off from German GDP and would reduce Eurozone GDP by around 0.1%.

## UK

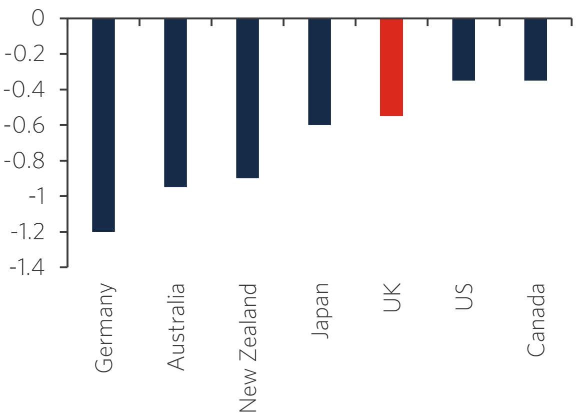
*In spite of Brexit noise, interest rates were left unchanged at 0.75%, in line with expectations.*

The Bank of England (BoE) MPC left the benchmark interest rate unchanged at 0.75% at the January 2020 interest rate-setting meeting. Two out of the nine-member committee voted for a 25-basis point reduction in interest rates citing growth concerns.

The International Monetary Fund (IMF) motivated for continuous monetary policy accommodation in its January 2020 World Economic Outlook report in countries where inflation is contained and real interest rates are still too high to support growth. The UK is however one of many developed market (DM) economies that have a negative real interest rate (see chart 3). Inflation in the UK fell to 1.3% in December 2019 (partly due to clothing and hotel costs) from 3% in early 2018. If inflation stays comfortably below the BoE's target of 2%, this could provide additional easing room for the Bank.

The January 2020 MPC report showed the BoE's expectation of growth to be 1.4% (1.7% previously) in the first quarter of 2021 and 1.6% (1.9% previously) in the first quarter of 2022. The Bloomberg consensus expects a weaker outcome of 1.4% in the first quarter of 2021. The MPC stated it would continue to monitor downside risks to growth including Brexit developments and household and business sentiment surveys, despite signs that global growth has stabilised.

Chart 3: Negative real interest rates in the UK (%)




*Source: Bloomberg, Momentum Investments*

The BoE's forecasted improvement in growth and activity in upcoming quarters accompanies an expected rise in inflation pressure in 2020 underpinned by higher unit labour costs.

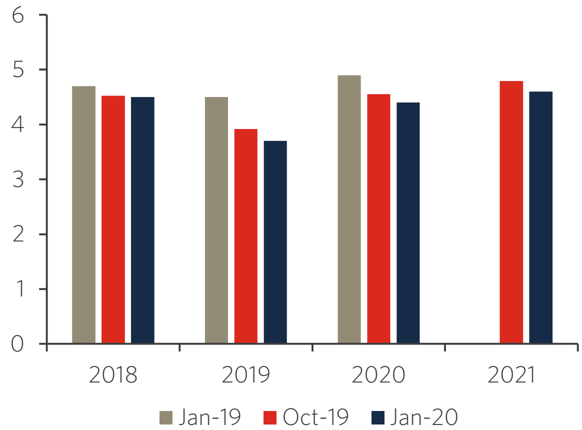
We maintain a cautious view on growth in the UK of 1.1% in 2020 constrained by sluggish fixed investment due to the uncertainty regarding the future of the UK's trade relations despite a degree of Brexit uncertainty having dissipated after the general election in December 2019.

### EMs

*Structural reform efforts and a recovery from a low base should contribute to higher growth for EMs in 2020.*

A recovery from a low growth base in EMs in conjunction with positive spillovers from monetary policy easing in 2019 are expected to be the main drivers underlying a tepid recovery in global growth in 2020. Although growth outcomes are likely to be better in 2020 than 2019, the IMF downwardly revised its initial expectation (see chart 4). The growth differential between EM ex-China and DMs is expected to widen in the forecast period after collapsing to close to zero in 2019.

Chart 4: EM growth forecast revised lower for 2020 and 2021 (%)




*Source: IMF, Momentum Investments*

The passage of pension fund reforms in Brazil has already triggered an improvement in sentiment. Meanwhile, the non-banking financial sector in India has been vulnerable and under financial strain with a number of these organisations facing insolvency. Stricter regulation and reform has been applied to the sector and may pose an upside risk to growth in India, in our opinion. Although it is still a work in progress, Rajnish Kumar, Chairman of the State Bank of India, noted an improvement to be evident.

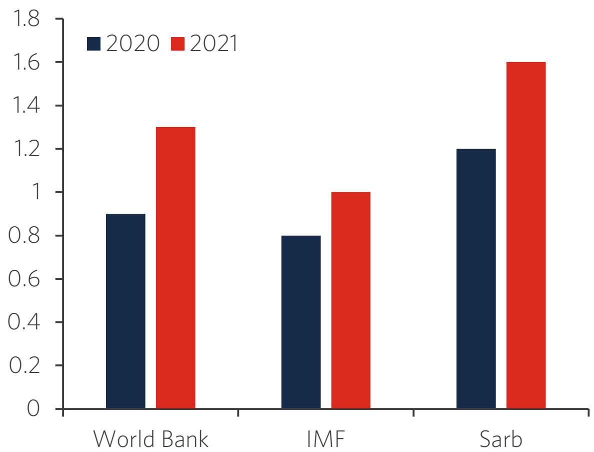
In addition, easier financial conditions given accommodative monetary policy in 2019 should contribute to EM investment attractiveness and an improved growth outlook. Our growth forecast for EMs is in line with the latest January 2020 IMF expectations at 4.4% for 2020 and 4.6% for 2021. While the materialisation of various structural reforms and policy stimulus (where inflation allows) pose upside risks to the growth forecast, a potential re-escalation in the trade war and further dollar strength pose graver downside threats to the IMF's and our growth forecasts.

## Local economic developments

*The postponement of hard-hitting structural reforms is becoming more costly for growth.*

The World Bank downwardly revised its SA growth expectation by 0.6% to 0.9% for 2020, on the back of ongoing power supply cuts and a slow pace of structural reform. The IMF has also lowered its growth forecast for SA, but to a slightly more bearish 0.8% for 2020. The SA Reserve Bank (Sarb) is the most bullish and still expects growth above 1% for 2020 (see chart 5).

Chart 5: Sarb still relatively bullish on growth assumptions for 2020 and 2021 (%)



*Source: IMF, World Bank, Sarb, Momentum Investments*

A spate of companies announced that they will retrench employees at the start of January 2020. Increased company stress has also been reflected in the 10.7% rise in company liquidations in 2019 relative to 2018, according to Statistics SA.

A weakening growth and fiscal outlook resulted in a downgrade to the outlook of Moody's sovereign outlook on SA in November 2019. With government's goal of achieving R150 billion worth in savings looking like a stretch, the possibility of SA's removal from the World Government Bond Index (WGBI) via a downgrade of the rating into junk status remains high in our view. Although the downgrade to junk is likely well discounted there could still be an outflow of capital in the near term which is negative for investment and growth.

The Moody's lead analyst on SA recently noted "there is nothing really to flag for the time being", which has raised speculation that a downgrade may not be imminent. However, the outcome of the national budget on 26 February 2020 remains a key determinant for the rating decision in our view.

Although SA's ease of doing business score ranks low at 84 out of 190 countries (82nd in 2018), some red tape has been removed to reduce barriers to doing business. This together with other efforts could help achieve the President's goal for SA to improve its ease of doing business score to the top 50 positions of the index in the next three years. However, more needs to be done and the urgency of reforms has grown in a growth constrained environment.

The Sarb has also reiterated the view that reform is crucial to accelerate growth. It has further mentioned fiscal dominance preventing a more aggressive cutting cycle a number of times in the MPC statements throughout 2019. In spite of this, the Bank unexpectedly cut the repo rate by 25 basis points at the January 2020 interest rate-setting meeting. In our view, SA's real interest rate profile allows for an additional interest rate cut of 25 basis points later in the year. While this could lift growth at the margin, we expect continued consumer headwinds (taxes, tariffs, job insecurities and subdued sentiment) to keep a lid on spending.

## Financial market performance

### Global markets

It was a month of two halves for the global equity market at the start of 2020. Global equity markets rose 2.5% in the first half of January buoyed by upbeat trade sentiment triggered by the trade truce between the US and China as well as firm growth numbers out of the latter, which confirmed the health of the Chinese economy. However, markets retreated in the second half of the month as investor angst rose over an outbreak of a deadly virus in China, which at the time of writing had spread from Mainland China to Hong Kong, Macao, Australia, Cambodia, Canada, Finland, France, Germany, Italy, Japan, Malaysia, Nepal, Singapore, South Korea, Sri Lanka, Thailand, Taiwan, United Arab Emirates, the US, Vietnam, Philippines, India, Russia, the UK and Spain. At the time of writing, 17 387 cases of the Wuhan coronavirus had been reported, with the death toll at 362.

According to the World Health Organisation (WHO), coronaviruses are a family of viruses that cause illnesses ranging from the common cold to more severe diseases including the Severe Acute Respiratory Syndrome (Sars) and Middle East Respiratory Syndrome (Mers). These viruses can circulate in animals and can transmit to humans. This new conoronavirus, thought to have originated from a seafood market (where wildlife is sold illegally), has been named the novel coronavirus (2019-nCov) and is the seventh coronavirus known to affect humans. More recent studies have however found that the 2019-nCov genetic sequence most closely correlated with two coronaviruses that originated in bats.

JP Morgan assessed the market impact of previous virus outbreaks to assess the potential consequences for economic activity. Their research found that markets rebounded swiftly in the month following the peak of the crisis in the case of the Sars (November 2002 to July 2003), Swine flu (March 2009 to August 2010), Ebola (December 2013 to June 2016) and Zika (March 2015 to November 2016) viruses and firmed up even more three months after the peak in the crisis.

Citigroup broadly agreed with this analysis and calculated that the S&P 500 Index pulled back between 6% and 13% around virus emergencies in the past, based on limited historic data. Given that the peak infection rate has not yet been reached, uncertainty could continue to plague markets, in our view.

The outbreak of the coronavirus in China broke the relative calm in markets which prevailed after the signing of the Phase One Trade Deal between the US and China. The CBOE Volatility Index (Vix), which is commonly referred to as the fear gauge, climbed from an intra-month low of 12.1 points near the middle of the month to 18.2 points during the last week of the month closing in on the longer-term average (since 1990) of around 19 points.

JP Morgan noted that although the closure of factories will be extended, the bulk of the shutdown period overlaps with the Lunar New Year holidays. They expect a detraction of 0.1% from overall GDP growth in China for 2020. Kristalina Georgieva, the new Managing Director of the International Monetary Fund (IMF) acknowledged that the virus could have a negative effect on Chinese growth, but suggested that it was too early to quantify the impact. Meanwhile S&P Global Ratings notes that if the virus knocks 10% off from services spend, growth in China could be 1.2% weaker. Based off the Sars experience of 2003, Credit Suisse modelled a potential growth reduction in China for the full year of between 1.2% and 1.5%, but expects this to be largely offset by a step up in fiscal spending.

Goldman Sachs estimates a 0.4% drag on Chinese GDP growth in 2020 with a minor dent of 0.05% to US GDP growth in the same period as a consequence of lower tourism from China and lower US goods exports to China. While the WHO's declaration of the coronavirus as a global health emergency has stopped short of a travel ban, travel warnings could put a further dampener on growth.

The Economist publication quoted calculations from consultancy Plenum which show that China's growth could slump 2% in year-on-year terms in the first quarter of the year. Nonetheless, Plenum expects a strong rebound when the country resumes normal activities. The Economist flagged that the major difference between comparing today with Sars in 2003, is that China's contribution to global growth has increased from 4% to 16% over this period. The Economist noted that with Wuhan being a key manufacturing hub, items ranging from important medicines (China supplies 80% of the world's active ingredients for medicines) to less important plastic flower markets (China supplies 90% of the world's plastic flowers) may be impacted.

DM equities outperformed their EM counterparts during the month, with the fallout of the deadly virus primarily affecting EM equities. The MSCI DM Index ended the month 0.6% lower, supported by gains in US equity markets, while the European and Japanese bourses slipped into the red as investor fears rippled through travel and tourism companies.

The S&P 500 Index finished January 2020 flat. The market avoided negative territory on firm financial and technology shares and resilient consumer confidence data which surprised the consensus expectation positively.

Meanwhile, in Europe, equity markets slipped into negative territory. The Eurostoxx 50 Index dropped 2.6% in January 2020. According to Capital Economics, the macroeconomic impact of the coronavirus on the Eurozone is likely to be marginal and temporary and in order to see a response from policy makers the current crisis would have to exceed the severity of the Sars outbreak. Capital Economics based their analysis on the Sars virus which resulted in a mere 0.02% dent to quarterly Eurozone GDP in the second quarter of 2003.

Over in Asia, the Japanese Nikkei 225 Index lost 1.9% after surging 20.7% in 2019. The market similarly caved under pressure over fears about the spread of the coronavirus in Asia.

Jitters over the outbreak drove a rally in global bond markets in January 2020 as investors sought out safer assets. The US 10-year government bond yield touched a three-month low of 1.57% during the month while the German 10-year government bond yield sank to its lowest level since October 2019.

The MSCI EM Index was down 4.7% for January 2020 after running 18.4% higher in 2019. Asian and Latin American equity markets fell by less during the month, while losses were steepest for the Europe, Middle East and the Africa (EMEA) region.

The MSCI Asia Index shrank 4.5% in January 2020 after climbing 19.2% in 2019. After ending 2019 17.5% in the black, the MSCI Latin America Index dove 5.6% in the first month of the year as virus fears negatively affected risk appetite. The MSCI EMEA Index retreated 4.8% in the first month of the year after rising 15.5% in 2019 as panic over the epidemic spread to Russian markets, offsetting gains seen earlier in the month on news that the Russian government would step up fiscal spending in a bid to strengthen growth.

Risk appetite towards EMs deteriorated in the second half of the month as investors moved away from riskier assets as the virus continued to spread. The JPMorgan EM Bond Index (Embi) spread ended January 2020 22 points higher, partly undoing a recovery of 157 points in 2019. The biggest deterioration in sovereign credit quality was observed in China due to the virus outbreak, where the credit default swap (CDS) spread rose 36% in January 2020. Notable monthly deteriorations in the CDS spread were also seen in South Korea, Philippines and Argentina.

The JPMorgan EM Currency Index staged a softer reaction and ended the first month of the year 2.6% weaker. The steepest depreciations against the US dollar were in the SA rand (6.7%) and the Chilean peso (6.1%), followed by the Brazilian real (5.9%). At the same time, the most significant currency appreciations were in the Indonesia rupiah (1.6%) and Mexican peso (0.4%).

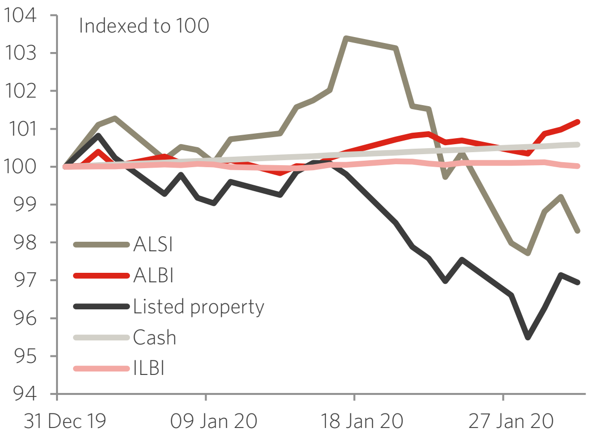
A knock to commodity prices in the first month of the year acted as a further drag on EMs. The Bloomberg Commodity Price Index sank 7.4% in January 2020 on fears of weaker growth in China following the epidemic.

## Local markets

The local equity market followed global equity markets lower in January 2020 as fears of the deadly virus hit riskier asset classes. The FTSE/JSE All-Share Index edged 1.7% lower in the month (see chart 6) on a weaker performance in commodity-affected resource shares and financial shares.

The FTSE/JSE Resources Index lost 3.5% in January 2020 despite a 4.7% increase in the dollar price of gold. The dollar price of platinum slipped 0.6% in the same period. The gold price jumped late in the month after the US Federal Reserve warned the coronavirus outbreak could hurt China's economy in the near term. Iron ore prices came under pressure as investor fears over China's demand for raw materials spiked. Financial shares had a dismal start to the year, plunging 5.2% in January 2020 after only edging up 0.6% in 2019. The FTSE/JSE Industrials Index recorded pedestrian gains of 1.6% in January 2020, following a mild return of 8.9% for 2019 as a whole.

Chart 6: Returns from local asset classes (%)




*Source: Iress, Momentum Investments, data up to 31 January 2020*

The FTSE/JSE Mid-cap Index fared worse than the Small-cap Index in January 2020, with the former tumbling 3.1% in the month while losses in the latter were limited to 0.7%.

The SA 10-year government bond yield rallied four points in January 2020 after rallying by a more significant 26 basis points in 2019. Yields were little moved on the surprise local interest rate cut of 25 basis points to 6.25% in the middle of the month. The JSE Assa All Bond Index (Albi) managed a 1.2% gain for January 2020, while the JSE Assa Government Inflation-linked Bond Index (Ilbi) traded flat for the same period. Meanwhile, the FTSE/JSE SA Listed Property Index had a tough month and ended January 2020 3.1% softer after inching up 1.9% in 2019.

A dent in risk appetite caused by the virus left the rand as the worst performing currency against the US dollar for January 2020. The rand weakened by 6.7% against the US dollar in the first month of the year. The rand ended the month 5.8% softer against the euro and 6.3% weaker against the pound.

Virus fears have rattled markets, sending flows in the direction of safe haven assets, leaving riskier assets on the back foot. SA's five-year CDS spread widened by 14% in January 2020 (after narrowing by 27% in 2019).

# Indices summary for January 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) | -1.69% | -0.27% | 7.14% | 5.32% | 6.56% | 4.99% | 6.91% | 8.01% | 10.99% |
| FTSE/JSE Shareholder Weighted Index (SWIX) | -1.78% | 0.25% | 4.15% | 3.88% | 5.21% | 3.59% | 6.76% | 7.90% | 11.18% |
| FTSE/JSE Capped SWIX All Share index | -2.57% | -1.03% | 1.20% | 1.80% | 3.73% | 2.33% | 5.68% | 6.95% | |
| FTSE/JSE All Share Top 40 Index | -1.44% | 0.07% | 7.87% | 6.10% | 6.33% | 5.21% | 6.70% | 7.95% | 10.78% |
| FTSE/JSE Mid Cap Index | -3.12% | 2.05% | 9.42% | 2.20% | 7.61% | 3.82% | 7.99% | 8.08% | 11.99% |
| FTSE/JSE Small Cap Index | -0.71% | -1.68% | -6.68% | -6.49% | 1.50% | -1.45% | 2.93% | 5.18% | 9.24% |
| FTSE/JSE Resources Index | -3.48% | 2.32% | 20.15% | 15.13% | 23.58% | 7.16% | 2.37% | 2.59% | 3.63% |
| FTSE/JSE Financials Index | -5.24% | -5.93% | -10.00% | 1.84% | 3.44% | 1.93% | 7.83% | 7.79% | 11.52% |
| FTSE/JSE Industrials Index | 1.56% | 1.23% | 9.63% | 2.42% | 1.83% | 3.13% | 6.67% | 9.08% | 14.33% |
| FTSE/JSE Research Affiliates Fundamental Indices 40 Index (RAFI) | -3.12% | -2.98% | 2.96% | 5.00% | 9.78% | 5.28% | 6.36% | 7.12% | 10.08% |
| FTSE/JSE Research Affiliates Fundamental Indices All Share Index | -3.32% | -2.83% | 2.92% | 3.96% | 9.65% | 4.80% | 6.11% | 6.86% | 9.73% |
| FTSE/JSE SA Listed Property Index (SAPY) | -3.06% | -4.30% | -9.50% | -5.23% | -0.44% | -0.84% | 5.82% | 4.92% | 10.52% |
| **Interest-bearing indices** | | | | | | | | | |
| JSE ASSA All Bond Index (ALBI) | 1.19% | 3.30% | 8.48% | 9.35% | 9.96% | 6.65% | 8.95% | 7.21% | 8.95% |
| JSE ASSA All Bond Index 1-3 years (ALBI) | 0.94% | 1.95% | 7.80% | 8.80% | 8.86% | 7.86% | 8.15% | 7.36% | 7.71% |
| JSE ASSA SA Government ILB Index | -0.10% | -0.55% | 0.60% | 1.10% | 2.53% | 2.91% | 4.94% | 3.80% | 6.90% |
| Short-term Fixed Interest Composite Index (SteFI) | 0.58% | 1.74% | 7.27% | 7.34% | 7.38% | 7.20% | 7.00% | 6.74% | 6.52% |
| **Commodities** | | | | | | | | | |
| NewGold Exchange-Traded Fund | 10.63% | 3.20% | 33.88% | 13.02% | 6.94% | 9.65% | 8.55% | 6.41% | 10.72% |
| Gold price (in rands) | 10.25% | 3.59% | 33.88% | 13.02% | 7.25% | 10.05% | 9.06% | 6.71% | 11.18% |
| Platinum Exchange-Traded Fund | 5.44% | 1.85% | 30.43% | 2.09% | 0.49% | -0.19% | -1.69% | | |
| Platinum price (in rands) | 5.65% | 2.57% | 32.65% | 2.35% | 0.98% | -0.11% | -1.05% | -1.49% | -0.78% |
| **Currency movements** | | | | | | | | | |
| Rand/euro movements | 5.16% | -1.88% | 8.52% | 4.29% | -1.01% | 4.69% | 1.55% | 4.52% | 4.65% |
| Rand/dollar movements | 6.62% | -1.18% | 12.56% | 3.49% | -1.55% | 5.16% | 4.98% | 7.62% | 7.07% |
| **Inflation index** | | | | | | | | | |
| Consumer Price Index (CPI) | | | 4.02% | 4.40% | 4.99% | 5.04% | 5.08% | 5.13% | 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

# January 2020

## Economies at a glance

### 01 United States

There are signs of the economy tracking in a late cycle phase, with 2020 growth likely to print below trend. Previous monetary easing should nevertheless prevent a hard landing. While services and consumer spending has remained resilient, rising wage growth has curbed corporate profitability. A pullback in hiring in 2020 and a rolling over in wage growth could soften consumption. In our view, contained inflation and slowing growth leave space for an additional cut in interest rates.

**Forecast 2020:**
GDP: 1.7%
Inflation: 2.1%
**Forecast 2021:**
GDP: 1.6%
Inflation: 2.0%

### 02 Eurozone

Growth has slowed in tune with downbeat confidence and a worsening in the global backdrop. Distinctive factors in some countries (notably Brexit and political troubles) add downside risks. Although services output remains solid, potential spillovers from weakness in industrial activity and the risk of trade disputes with the United States (US) remain concerning. Slower growth in jobs, wages and investment point to a smaller growth contribution from domestic demand in 2020.

**Forecast 2020:**
GDP: 1.1%
Inflation: 1.3%
**Forecast 2021:**
GDP: 1.0%
Inflation: 1.4%

### 03 Emerging markets

The growth differential between emerging markets (EMs) and developed markets (DM) is expected to have bottomed out in 2019. It is set to widen in 2020 on an unwinding of idiosyncratic factors in India, Brazil, Turkey and Russia. A return to monetary policy easing globally in 2019 and a recent trade détente should firm up growth in the EM composite in 2020. However, growth in the region remains vulnerable to a re-escalation in trade conflict. In addition to external risks, delayed monetary policy tightening in DM and contained inflation pressure could prompt further EM interest rate cuts to stimulate growth.

**Forecast 2020:**
GDP: 4.4%
Inflation: 3.9%
**Forecast 2021:**
GDP: 4.6%
Inflation: 3.5%

### 04 South Africa

Electricity supply issues are exacerbating the country's longest economic downturn in history and fractious politics are stymying the pace of reform. Growth is likely to muddle along at moribund levels and will remain reliant on positive global factors to provide interim growth boosts. If government fails to generate sufficient savings to achieve a primary balance surplus in the medium term, a downgrade to junk by Moody's becomes probable in 2020. Little sign of demand-pull inflation pressure provides space for an additional interest rate cut.

**Forecast 2020:**
GDP: 0.8%
Inflation: 4.4%
**Forecast 2021:**
GDP: 1.3%
Inflation: 4.7%

Brought to you by the
macro research desk

# Economies at a glance: US

- Trade represents just over a quarter of gross domestic product (GDP) in the US which points to the negative effects the trade war poses on US growth. The Phase 1 trade agreement presents an upside risk to growth for all countries involved, but particularly bodes well for the US trade deficit, which could narrow faster.
- Weakness in net trade and manufacturing sentiment have been offset by firm consumer and services spend in the US, but leading indicators highlight softer growth going forward.
- Dollar strength in the US is adding to an already struggling trade trajectory by raising the price of exports.
- The US economy is typified by a late growth cycle as fiscal stimulus wanes and trade war effects take hold. Meanwhile, the lead indicator signals further growth weakness ahead.

**Chart 1: Trade as a share of GDP off its peak level**

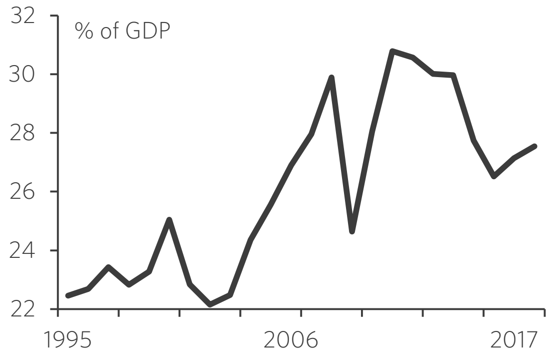



**Chart 2: Trade deficit shrinking**

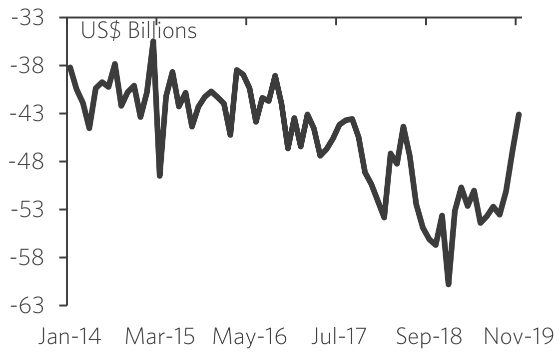



**Chart 3: Flat net trade effect from the trade war**

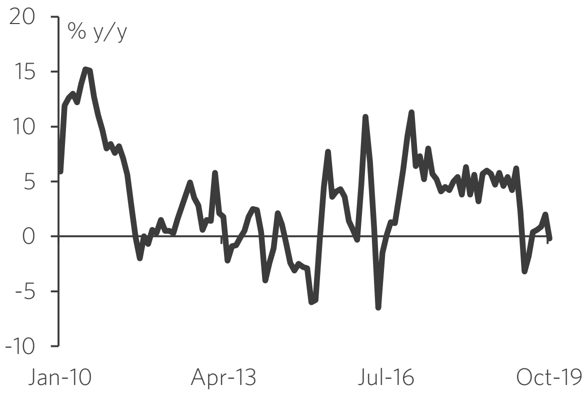



**Chart 4: Deterioration in ISM manufacturing but still in expansionary territory**

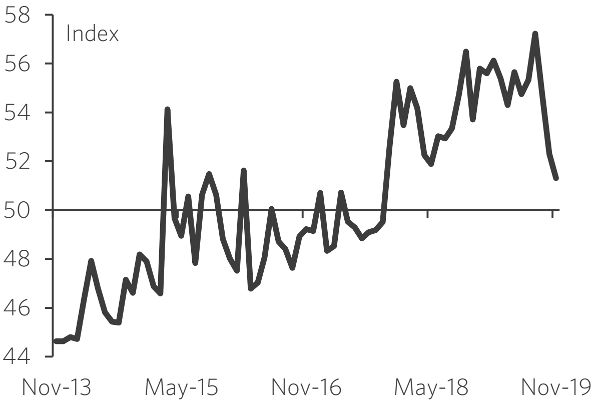



**Chart 5: Dollar strength intensifying trade difficulties**

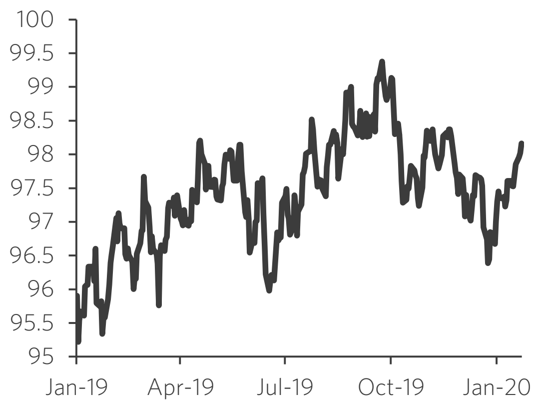
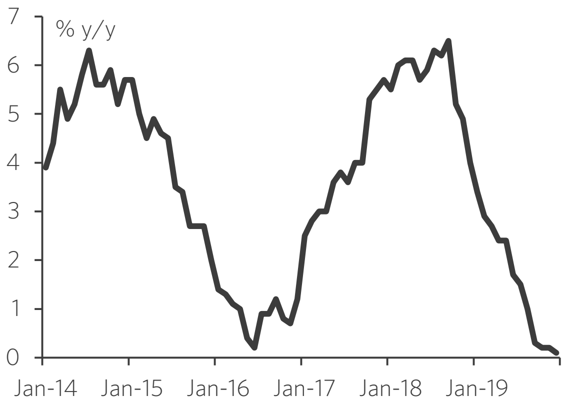



**Chart 6: Growth in lead indicator barely positive**




*Source: Bloomberg, World Bank, Momentum Investments*

# Economies at a glance: Eurozone

- Growth has proven resilient in select Eurozone members, but the overall business climate is weak across the board and manufacturing sentiment is largely unfavourable.
- Employment growth is still positive in some countries but on the decline for others in the Eurozone group. Sentiment regarding employment intentions is nevertheless weak flagging downside risks to consumer spending.
- Economic surprises have been positive relative to depressed expectations, but policy uncertainty remains heightened and poses downside risks to the economic outlook for the region.

**Chart 1: Manufacturing sentiment is weak outside of France**

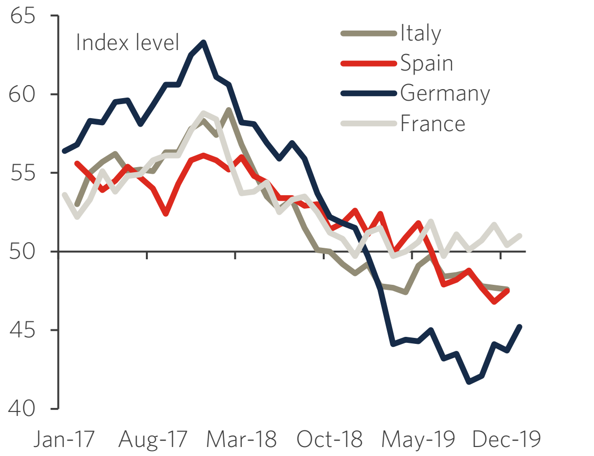



**Chart 2: Business sentiment waning**

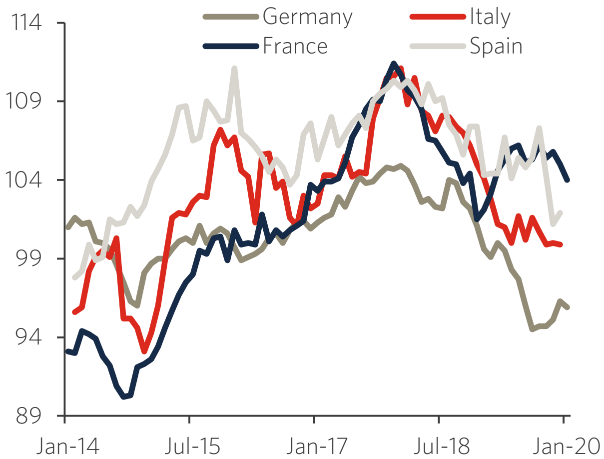



**Chart 3: Tentative signs of jobs growth rolling over**

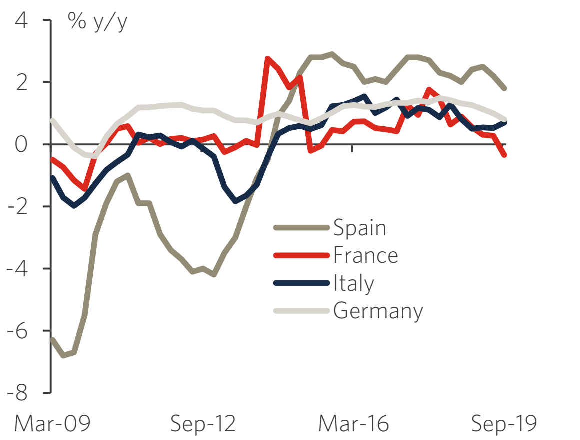



**Chart 4: Employment intentions deteriorating**

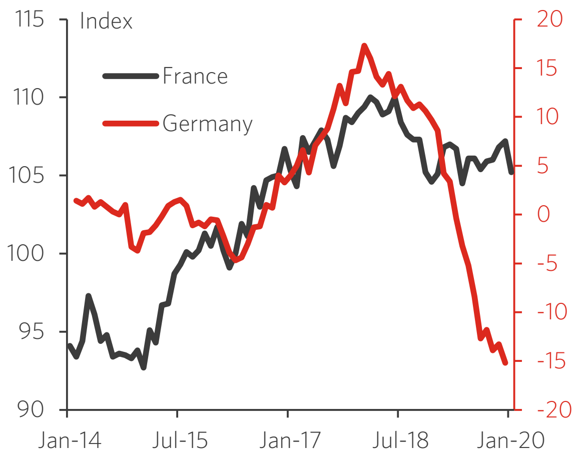



**Chart 5: Policy uncertainty off its highs but still elevated**

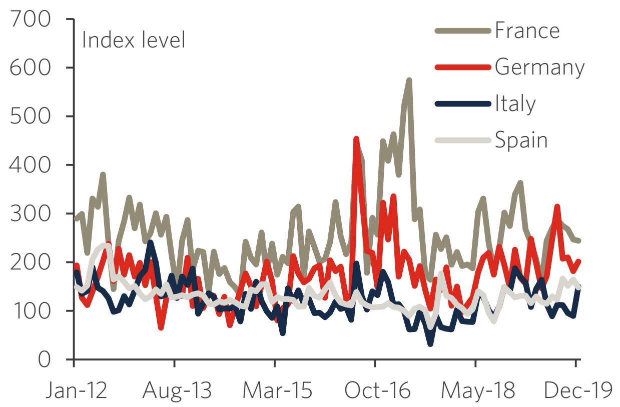
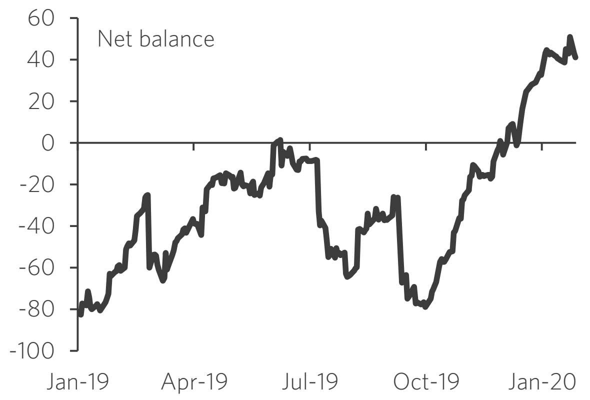



**Chart 6: Economic surprise data surprising to the upside**




*Source: Bloomberg, Policyuncertainty, Momentum Investments*

# Economies at a glance: EMs

- Structural reform is still the answer to achieve meaningful growth in the EM composite in the medium to long term. Reforms to the Brazilian pension fund would help the fiscal deficit shrink much faster given the weight pension debt holds.
- China has seen notable progress in reforming the shadow banking sector through stricter regulation. Even though shadow banking activity has slowed, the credit impulse remains favourable for growth.
- Downward growth revisions in India are partially explained by slow reform in the labour market which is creating bottlenecks for growth opportunities. High policy uncertainty in India could slow investment efforts.

**Chart 1: Brazil debt held by pension funds soaring**

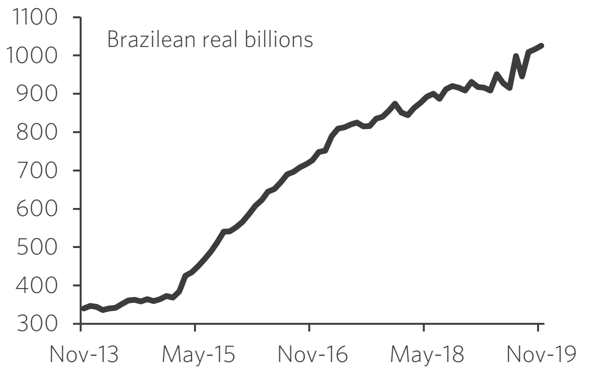



**Chart 2: Brazil budget balance a function of high pension fund debt**


**Chart 3: Growth in China shadow banking has weakened significantly**

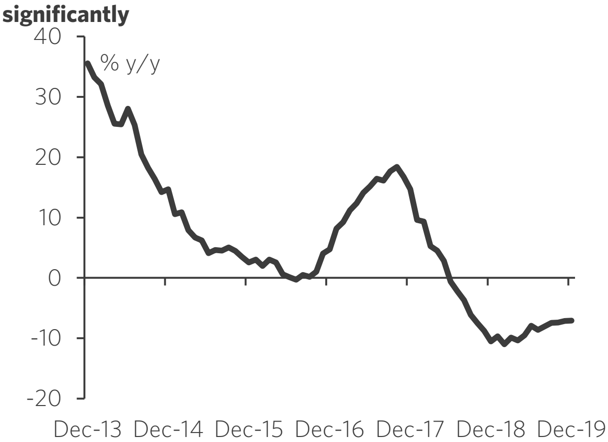



**Chart 4: China credit impulse favourable for growth**

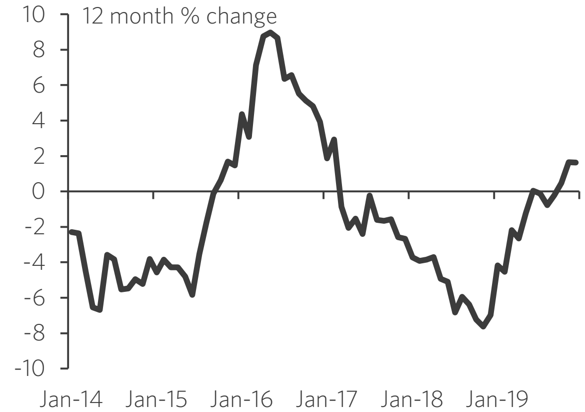



**Chart 5: Downward growth revisions in India**

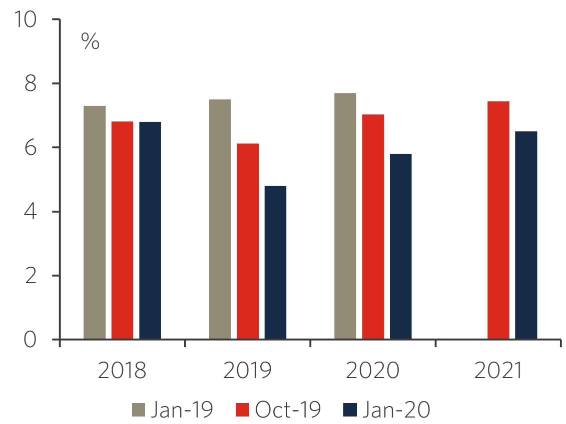
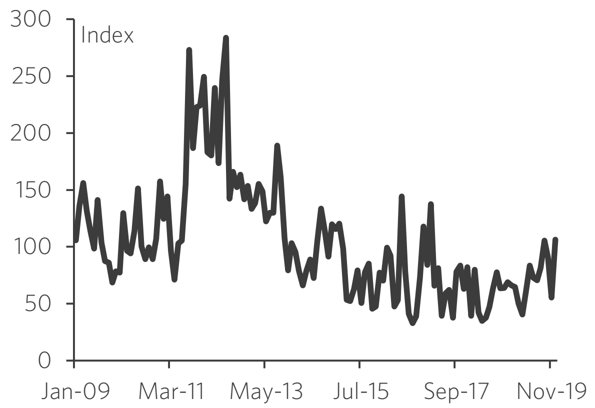



**Chart 6: Policy uncertainty on the rise in India**




*Source: Bloomberg, International Monetary Fund, Policyuncertainty, Momentum Investments*

# Economies at a glance: SA

- Slow structural reform of state-owned enterprises (SoEs) is choking a meaningful growth recovery in SA. This has further limited confidence and investment.
- A portion of SoE debt is state guaranteed which increases the indebtedness of the state. Government's ability to service this debt continues to decline given the weaker growth outlook and little room to manoeuvre on the expenditure outside of the wage bill.
- A bloated workforce and several SoEs being managed at a financial loss over multiple years requires reform to elevate SA out of its low growth conundrum.

**Chart 1: Eskom contingent liabilities remain persistently high**

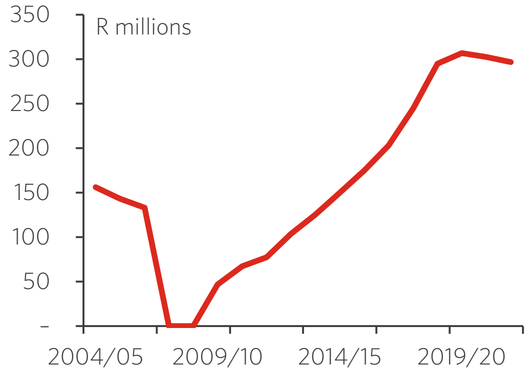



**Chart 2: Road accident fund (RAF) contingent liabilities continue to grow**

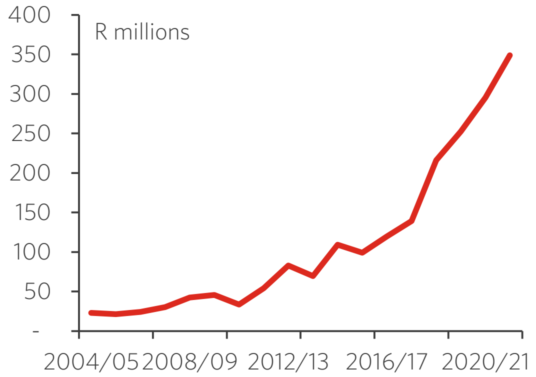



**Chart 3: SA Airways (SAA) contingent liabilities still elevated**

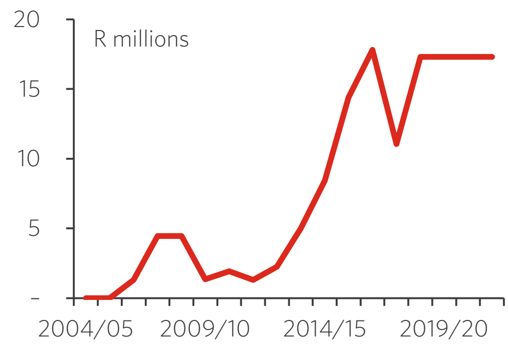



**Chart 4: Eskom staff complement (number)**

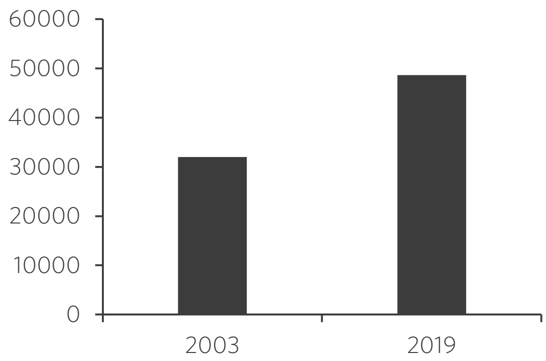



**Chart 5: Double-digit losses on the RAF (R billions)**

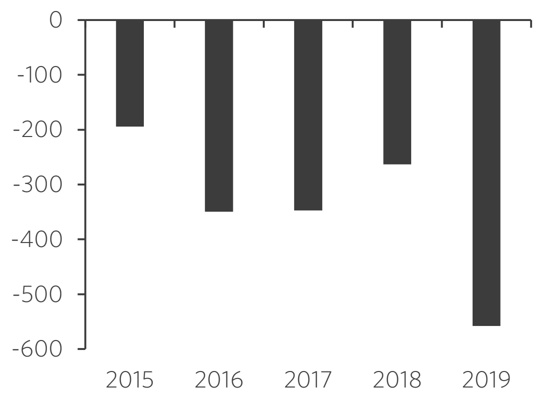
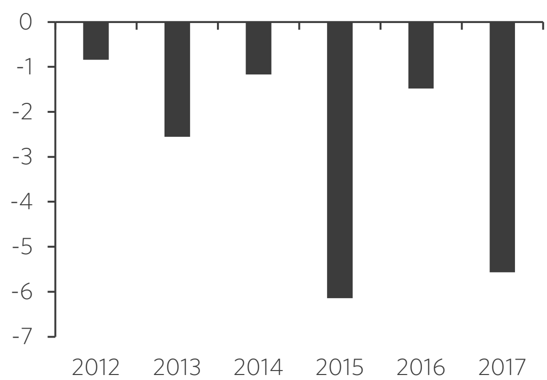



**Chart 6: SAA losses increasing (R billions)**




*Source: Stats SA, National Treasury, 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