momentum investments

UNITED STATES

The reopening of the economy is unlikely to be swift, as lingering fears over the virus will suppress demand for many services. A quick response from policymakers supported households and firms early on in the crisis, but more is likely needed to limit economic scarring. The Federal Reserve (Fed) warned that long-term unemployment and the risk of additional virus outbreaks could lead to a protracted recovery in economic activity. While the Fed has already cut short-term interest rates to zero, it could still pledge to pin down longer-term borrowing costs or ramp up its purchases of treasury securities. Meanwhile, on the fiscal side, the Heroes Act is unlikely to be passed by the Senate in full, but a compromise could be reached on a smaller package, particularly given it is an election year.

Forecast 2020:
GDP: -5.7%
Inflation: 0.8%
Forecast 2021:
GDP: 3.5%
Inflation: 1.6%

EUROZONE

The European Central Bank (ECB) sketched out three scenarios envisaging an economic contraction of between 5% and 12% in 2020. The speed of the downturn has nevertheless ruled out the milder scenario. Risks of the Eurozone sliding into deflation in the near term have risen and the likelihood of much lower inflation in the coming years has increased substantially. In an unprecedented move, Germany and France threw their weight behind a joint borrowing plan to fund the post-crisis recovery. The European Commission proposed a €750 billion (5.4% of gross domestic product (GDP)) aid package, but this is unlikely to be dispersed before 2021, leaving the ECB to shoulder the burden for now and raising hopes of an expansion in its bond purchases.

Forecast 2020:
GDP: -7.8%
Inflation: 0.4%
Forecast 2021:
GDP: 3.0%
Inflation: 1.1%

UNITED KINGDOM

Early and decisive action by government and the Bank of England (BoE) boosted the pound. However, a renewed bout of weakness hit the currency with COVID-19 cases in the United Kingdom (UK) stacking up as the highest in Europe. Moreover, the looming deadline of 30 June 2020 for the UK and European Union to decide on an extension of the transition period, beyond 31 December 2020, left the pound on a weaker footing. Support for the pound could come from an extended transition period to allow firms to prepare. In addition, a likely stepping up of quantitative easing measures by the BoE could provide a floor under the currency.

Forecast 2020:
GDP: -6.5%
Inflation: 0.9%
Forecast 2021:
GDP: 3.2%
Inflation: 1.5%

JAPAN

Government efforts to contain the COVID-19 outbreak will likely have a larger negative effect on growth outcomes in the second quarter of the year. Although the state of emergency was lifted earlier than initially anticipated, many sectors which are key contributors to GDP, including tourism, will take longer to recover. With private sector weakness likely to extend, government may have to continue supporting growth. Cabinet approved fresh stimulus measures which doubled Japan's fiscal support to 40% of GDP. Even though this pushes new bond issuance to a record high, yield curve control will continue to keep borrowing costs low.

Forecast 2020:
GDP: -4.5%
Inflation: -0.1%
Forecast 2021:
GDP: 1.2%
Inflation: 0.3%

CHINA

The announcement of the long-awaited fiscal stimulus package disappointed investors and raised jitters over a potential technical recession, which would be the first since 1976.
Soured relations with the United States and fears of a second wave of infections prevented analysts from raising their growth forecasts for 2020 even in light of the package. While certain details of the package remain unknown, the stimulus measures are estimated at about 5% of GDP and are projected to lift growth by 3%, in comparison to a larger 8% improvement, following the stimulus enacted during the global financial crisis. In our view, government has nevertheless kept the door open for further fiscal policy stimulus to counter any unanticipated economic changes.

Forecast 2020:
GDP: 1.1%
Inflation: 3.1%
Forecast 2021:
GDP: 5.9%
Inflation: 1.8%

EMERGING MARKETS

Within the emerging market composite, prompt interventions by policymakers have enabled large parts of Emerging Asia to control the outbreak of COVID-19, while larger areas of Central and Eastern Europe are starting to loosen restrictions on economic activity and the movement of people. A slower and more staggered response has nevertheless left parts of Latin America struggling to contain the spread of the virus. Collapsing demand should continue to depress underlying price pressures, affording space for further interest rate cuts in the composite.

Forecast 2020:
GDP: -0.7%
Inflation: 3.5%
Forecast 2021:
GDP: 4.0%
Inflation: 3.0%

SOUTH AFRICA

An estimated 80% of the economy should be operational under level three restrictions. However, decimated sentiment and pressure on smaller businesses will lead to a further rise in job losses in the coming quarters, which will squeeze local demand even further. With South Africa's (SA) relatively strong financial and economic integration into the world economy, suppressed international demand and global disruptions in supply chains will cut the country's exports. Even with government's announced stimulus package, the economy is unlikely to be saved from a historic contraction in growth this year. Despite the rand reacting poorly to negative global risk sentiment, lower oil prices and a modest currency pass-through should result in tame inflation. The SA Reserve Bank has already sliced 250 basis points off interest rates since the end of January, but further modest easing is expected in light of depressed growth and downside risks to inflation.

Forecast 2020:
GDP: -8.1%
Inflation: 2.9%
Forecast 2021:
GDP: 2.0%
Inflation: 3.5%

The macro research desk

Herman van Papendorp is the head of the Momentum Investments research and insights team and takes ultimate responsibility for macro research and asset allocation. Economist, Sanisha Packirisamy, is responsible for providing a macro framework to inform investment opportunities and strategies.

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Indices summary for May 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)	0.31%	0.46%	-5.96%	1.33%	1.54%	2.46%	3.45%	5.89%	9.71%
FTSE/JSE Shareholder Weighted Index (SWIX)	-0.97%	-3.02%	-10.40%	-1.89%	-0.70%	0.63%	2.52%	5.25%	9.39%
FTSE/JSE Capped SWIX All Share index	-0.41%	-5.27%	-14.19%	-4.19%	-2.75%	-1.17%	0.97%	3.89%	
FTSE/JSE All Share Top 40 Index	0.42%	3.11%	-2.81%	2.77%	2.32%	3.20%	3.79%	6.26%	10.00%
FTSE/JSE Mid Cap Index	0.23%	-16.95%	-20.39%	-6.51%	-3.99%	-2.53%	0.63%	2.83%	7.26%
FTSE/JSE Small Cap Index	-3.20%	-17.53%	-30.88%	-15.49%	-10.69%	-8.19%	-4.57%	-0.51%	5.16%
FTSE/JSE Resources Index	5.55%	13.68%	13.81%	19.94%	15.32%	7.05%	1.81%	3.75%	3.65%
FTSE/JSE Financials Index	-3.18%	-23.53%	-36.31%	-10.43%	-7.32%	-6.12%	-1.62%	1.75%	7.14%
FTSE/JSE Industrials Index	-1.76%	4.35%	-0.33%	-1.59%	-0.59%	1.83%	4.10%	6.71%	13.45%
FTSE/JSE Research Affiliates Fundamental Indices 40 Index (RAFI)	0.62%	-6.18%	-16.19%	-0.12%	1.51%	1.37%	1.63%	4.24%	7.98%
FTSE/JSE Research Affiliates Fundamental Indices All Share Index	0.87%	-6.86%	-16.83%	-0.68%	1.20%	0.83%	1.32%	3.85%	7.59%
FTSE/JSE SA Listed Property Index (SAPY)	-0.76%	-32.64%	-45.92%	-21.61%	-15.92%	-11.38%	-5.33%	-3.66%	3.48%
Interest-bearing indices									
JSE ASSA All Bond Index (ALBI)	7.06%	0.41%	6.45%	8.20%	9.46%	7.71%	8.00%	7.25%	8.46%
JSE ASSA All Bond Index 1-3 years (ALBI)	1.14%	4.74%	10.56%	9.51%	9.59%	8.94%	8.54%	8.04%	7.98%
JSE ASSA SA Government ILB Index	1.12%	-1.94%	-1.97%	0.99%	1.22%	2.35%	2.99%	3.18%	6.27%
Short-term Fixed Interest Composite Index (SteFI)	0.50%	1.59%	7.02%	7.23%	7.34%	7.22%	7.06%	6.81%	6.49%
Commodities									
NewGold Exchange-Traded Fund	-2.58%	20.49%	59.56%	21.63%	11.91%	15.53%	14.54%	11.26%	12.09%
Gold price (in rands)	-2.78%	20.39%	60.26%	22.19%	12.29%	15.94%	14.97%	11.50%	12.74%
Platinum Exchange-Traded Fund	4.03%	8.76%	26.49%	5.33%	-1.35%	1.26%	-1.08%	1.49%	
Platinum price (in rands)	1.31%	5.73%	26.40%	5.57%	-1.28%	1.57%	-0.83%	1.10%	-0.57%
Currency movements									
Rand/euro movements	-2.70%	14.24%	20.82%	9.74%	2.84%	8.00%	5.22%	6.00%	7.58%
Rand/dollar movements	-4.02%	12.67%	21.08%	10.16%	2.88%	7.72%	8.88%	8.35%	8.65%
Inflation index									
Consumer Price Index (CPI)			3.49%	4.12%	4.43%	4.79%	4.74%	4.93%	5.08%

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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