momentum investments

Economies at a glance

January 2021

UNITED STATES

New president, Joe Biden, changed course by signing 17 executive orders on his first day in office – reversing several environment-related policies introduced by former president Trump. His promised target of 100 million COVID-19 vaccine doses to be administered during his first 100 days in office is likely to be exceeded. Meanwhile, Americans started to receive their $600 'stimulus checks', which formed part of the $900 billion relief package approved late last year. It was, however, too late to support fourth quarter economic growth, which slowed to 4% from 33,4% in the third quarter. However, Biden's proposed additional $1,9 trillion COVID-19 relief package, which includes a 'once-off stimulus check' of $1 400, received opposition. The International Monetary Fund (IMF) expects the fiscal deficit at 17,5% of gross domestic product (GDP) for 2020 and 11,8% in 2021. The Federal Reserve kept interest rates unchanged and signalled that it will not raise interest rates despite higher inflation in the second half of 2021.

Forecast 2020:
GDP: -3.5%
Inflation: 1.2%
Forecast 2021:
GDP: 5.1%
Inflation: 1.8%

EUROZONE

With several countries imposing severe lockdown restrictions, the European Central Bank (ECB) decided to continue purchasing bonds, as well as keep the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility unchanged (0,0%, 0,25% and negative 0,5% respectively). The ECB indicated that rates would remain low until inflation converges to close to, but below 2%. The IMF expects the respective fiscal deficits for 2020 and 2021 at 8,4% and 5,9% of gross domestic product (GDP). Economic growth will be affected by a slowdown in investments, as almost half of European firms (45%) indicated they will delay, or abandon future investment plans at a time when they have to deal with lockdowns and adapt to green and digital transition. The European Union threatened legal action against pharmaceutical companies following delays in vaccine deliveries.

Forecast 2020:
GDP: -7.2%
Inflation: 0.3%
Forecast 2021:
GDP: 4.2%
Inflation: 0.7%

UNITED KINGDOM

Resistance to the proposed increase in corporate taxes in the March budget intensified, as businesses are challenged by the lockdown and new Brexit rules. About 10 000 firms declared a record 795 000 workers redundant in 2020 because of lockdown. As the Brexit deal was struck late in December, businesses were unprepared for implementation and now must cope with delays and an administrative burden. The governor of the Bank of England told a parliamentary committee that the Brexit deal is estimated to cost the British economy about 2% of GDP in the next few years. The Bank of England is expected to keep interest rates unchanged in February, while the IMF estimates that the fiscal deficit increased from 2,3% of GDP in 2019 to 14,5% in 2020 (while expecting 10,6% in 2021).

Forecast 2020:
GDP: -10.0%
Inflation: 0.8%
Forecast 2021:
GDP: 4.5%
Inflation: 1.4%

JAPAN

A strong turnaround in Japan's economic prospects depends on the success of the country's COVID-19 vaccine rollout plan and the hosting of the Olympic Games in July (it was already postponed from last year). However, the economic outlook received a setback as the government is considering a fresh state of emergency declaration in Tokyo and three neighboring regions as the number of COVID-19 cases continue to climb. Prime Minister Yoshihide Suga promised to procure enough doses of vaccine for the whole nation's needs by the first half of 2021. He said the government was aiming to begin the country's vaccination program by the end of February. If these plans turn out to be true and the Olympic Games go ahead, struggling service businesses such as entertainment, transportation and travel companies should be the primary beneficiaries.

Forecast 2020:
GDP: -5.1%
Inflation: -0.1%
Forecast 2021:
GDP: 3.1%
Inflation: 0.2%

CHINA

The strength of China's economy continues to be industrial production, exports and investments. Although the consumer sector performed reasonably in 2020, it lagged the other sectors. China's industrial production increased 7,3% year on year (y/y) in December, bringing the average for the year to 2,3%. The manufacturing component increased 7,7% and supported exports, which increased 18% y/y. Contrastingly, retail sales growth was only 4,6% higher in December (y/y). For 2020, retail sales were down 3,9% compared to 2019. However, online retail sales performed well, increasing by 15% in 2020 compared to 2019. The IMF expects China's fiscal deficit to have increased from 6,3% of GDP in 2019 to 11,8% in 2020 – and that it will decline marginally to 11% in 2021. Monetary policy is expected to remain easy during 2021.

Forecast 2020:
GDP: 2.3%
Inflation: 2.7%
Forecast 2021:
GDP: 8.1%
Inflation: 1.8%

EMERGING MARKETS

India has been remarkably successful in its fight to contain COVID-19 infections. The country also averted a second wave. Consequently, the IMF expects a sharp turnaround in India's economy – from a contraction of 8% last year to growth of 11,5% in 2021. The turnaround in European emerging markets is expected to be less pronounced – from a contraction of 2,8% to growth of 4%. In Latin America, the respective numbers are a contraction of 7,4% and growth of 4,1%. The IMF analysis shows that almost 90% of emerging markets (including China) eased fiscal policy to contain the health crisis and support the economy. This contributed to emerging markets' overall fiscal deficit widening by 5,5 percentage points to reach 10,3% of GDP in 2020. Even so, continued fiscal support is prescribed to support economic growth in 2021.

Forecast 2020:
GDP: -2.4%
Inflation: 3.2%
Forecast 2021:
GDP: 4.6%
Inflation: 3.4%

SOUTH AFRICA

South Africa's fiscal deficit is expected to be lower than estimated in the Medium Term Budget Policy Statement (MTBPS). Stronger revenue growth from personal and company income taxes, expenditure containment and a less severe economic contraction should combine to produce a fiscal deficit smaller than the MTBPS' 15,7% of GDP (and make the financing of a vaccine easier). However, economic growth in the fourth quarter of 2020 and first quarter of 2021 encountered a few setbacks. A move back to an adjusted level 3 lockdown, load shedding and uncertainty about the rollout of a COVID-19 vaccine will constrain economic activity. However, fiscal policy is expected to be moderately easy, while the Sarb is expected to keep the repo rate unchanged for the remainder of the year, barring negative shocks to the economy.

Forecast 2020:
GDP: -7.2%
Inflation: 3.3%
Forecast 2021:
GDP: 3.2%
Inflation: 3.9%

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. Economists, Sanisha Packirisamy and Johann van Tonder, are responsible for providing a macro framework to inform investment opportunities and strategies.

Indices summary for January 2021

	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)	5.21%	21.19%	14.51%	4.85%	7.55%	8.10%	6.52%	7.96%	10.41%
FTSE/JSE Shareholder Weighted Index (Swix)	4.97%	18.18%	9.67%	1.55%	5.29%	6.09%	4.58%	7.17%	10.18%
FTSE/JSE Capped Swix All Share index	3.08%	20.00%	6.40%	-0.33%	2.93%	4.26%	2.99%	5.78%	
FTSE/JSE All Share Top 40 Index	5.41%	20.98%	17.61%	6.04%	8.87%	8.49%	7.18%	8.19%	10.58%
FTSE/JSE Mid Cap Index	2.59%	20.38%	-9.33%	-2.83%	-0.81%	3.99%	1.50%	5.33%	8.31%
FTSE/JSE Small Cap Index	3.88%	26.53%	4.32%	-5.24%	-3.90%	2.06%	-0.51%	3.13%	7.65%
FTSE/JSE Resources Index	5.12%	27.62%	32.00%	22.40%	19.13%	25.22%	10.95%	6.15%	4.67%
FTSE/JSE Financials Index	-2.60%	23.56%	-17.43%	-9.53%	-3.36%	-1.12%	-1.59%	3.80%	8.04%
FTSE/JSE Industrials Index	8.38%	15.94%	19.52%	2.77%	6.45%	5.15%	5.70%	8.42%	13.77%
FTSE/JSE Research Affiliates Fundamental Indices 40 Index (Rafi)	4.58%	25.93%	5.77%	1.87%	5.19%	8.96%	5.36%	6.28%	8.67%
FTSE/JSE Research Affiliates Fundamental Indices All Share Index	4.44%	25.97%	5.38%	1.60%	4.31%	8.79%	4.90%	6.01%	8.21%
FTSE/JSE SA Listed Property Index (Sapy)	-3.21%	29.26%	-34.59%	-18.76%	-13.62%	-8.46%	-7.48%	-1.21%	3.63%
Interest-bearing indices									
FTSE/JSE All Bond Index (Albi)	0.76%	6.58%	8.20%	8.49%	9.06%	9.61%	6.91%	8.85%	8.56%
FTSE/JSE All Bond Index 1-3 years (Albi)	0.17%	0.33%	10.65%	9.06%	9.26%	9.21%	8.32%	8.50%	8.04%
FTSE/JSE Inflation-linked Index (Ili)	2.08%	6.43%	6.21%	3.32%	2.36%	3.26%	3.45%	5.12%	6.41%
Short-term Fixed Interest Composite Index (Stefi)	0.28%	0.91%	5.07%	6.53%	6.77%	6.92%	6.85%	6.72%	6.34%
Commodities									
NewGold Exchange-Traded Fund	0.35%	-8.75%	17.81%	20.17%	14.20%	9.04%	10.97%	9.82%	10.91%
Gold price (in rands)	1.81%	-8.24%	19.54%	20.75%	14.62%	9.60%	11.57%	10.50%	11.48%
Platinum Exchange-Traded Fund	3.41%	18.64%	13.79%	10.72%	4.90%	3.02%	2.02%	0.39%	
Platinum price (in rands)	4.46%	19.10%	14.30%	11.31%	5.22%	3.51%	2.16%	1.01%	-1.04%
Currency movements									
Rand/euro movements	1.60%	-4.18%	10.51%	7.27%	5.81%	1.20%	5.64%	2.79%	6.37%
Rand/dollar movements	2.62%	-7.86%	0.64%	8.17%	2.77%	-1.12%	4.39%	4.35%	7.68%
Inflation index									
Consumer Price Index (CPI)			3.08%	3.86%	4.07%	4.60%	4.71%	4.79%	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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