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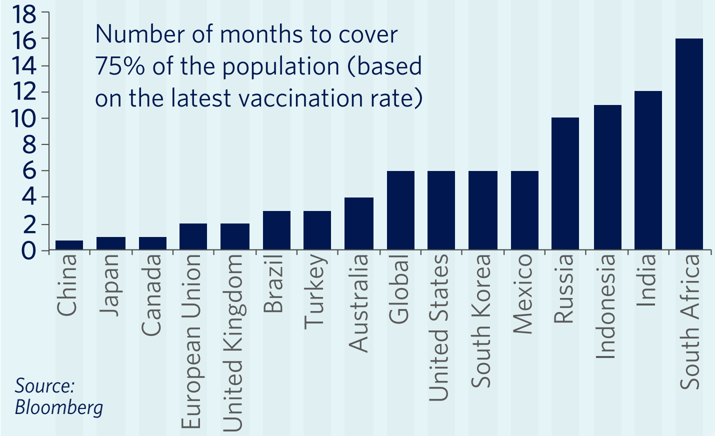
Economies at a glance

The global path to immunity against COVID-19

As a higher proportion of the global community becomes immune

(either through vaccination or contracting COVID-19), the less infectious the disease becomes with the reproductive number falling below 1. Safe and effective vaccines provide the globe with the possibility of reaching herd immunity against COVID-19 in a safer way that reduces the risk of death and hospitalisation. While reaching local herd immunity is more likely, achieving herd immunity on a global scale will require a coordinated response across the globe, including a more equitable distribution of vaccines.

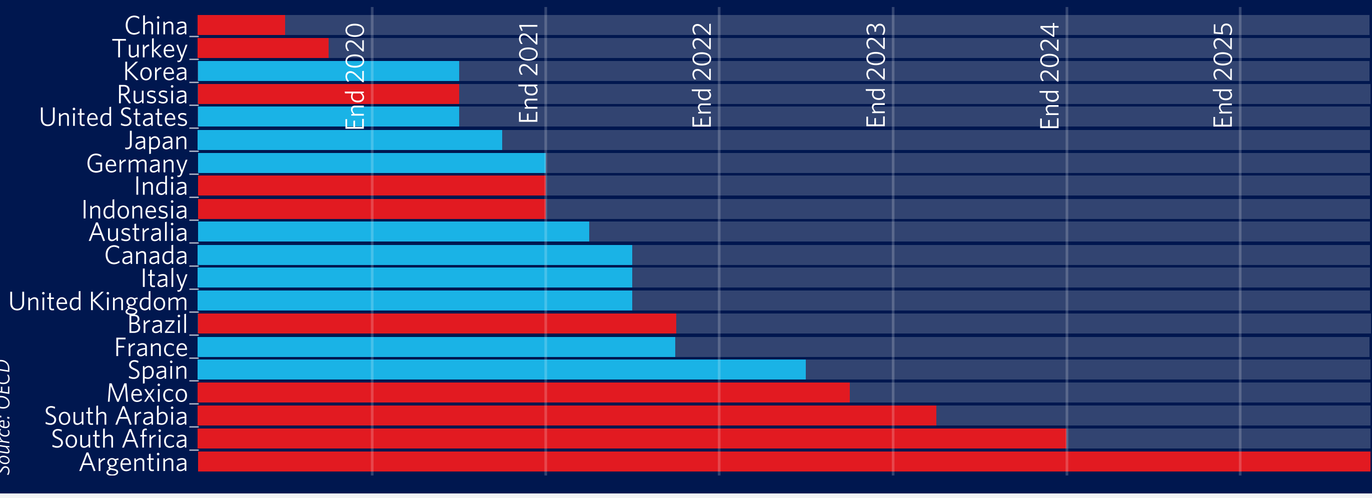


Source: Bloomberg

How long to recover to pre-pandemic GDP per capita levels?

Advanced economies are likely to recover to their pre-pandemic levels of GDP per capita much sooner on average than their developed market counterparts due to:

- Easier access to vaccines
- Pace of vaccine rollout
- Easing in lockdown restrictions and recovery in mobility due to higher rates of vaccination
- Generous fiscal and monetary policy measures



Source: OECD

US infrastructure package

Gross fixed capital formation accounted for

20.8% of US GDP in 2019,

which is below the long-term average of 21.6%

Source: Brookings, Financial Times, Wall Street Journal

Senators voted 68-29

on the infrastructure bill with 18 Republicans joining Democrats to clear the procedural hurdle

The infrastructure bill is 2702 pages long

The **US$1 trillion includes US$550 billion** for roads, bridges and internet access, **US$66 billion** for passenger and freight rail and **US$39 billion** for other forms of public transport

The infrastructure deficit in the US:

- Average age of dams in the US is 57 years,
- 45 years for water and sewage pipes,
- 44 years for bridges and
- 29 years for highways and streets
- 17 million households don't have broadband of any kind

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August 2021

UNITED STATES

The Bloomberg median consensus growth forecast started the year below 4% but climbed to 6.5% in July. Forecasts have since been adjusted lower on the back of disappointing growth in the second quarter and rising virus cases, particularly in parts of the country where vaccination rates remain low. The Centres for Disease Control and Prevention (CDC) noted that 90 million Americans, who are eligible for the vaccine, remain unvaccinated, despite adequate supply. Racial identity and political partisanship continue to divide vaccination rates. The drag on services spending from the rise in virus cases and the dent in real incomes, from rising prices, should see a significant slowdown in growth in the second half of 2021. Although the infrastructure bill creates US$550 billion in new spending, this will be spread over the next five years. Pursuing the infrastructure bill alongside the spending bill raises the potential for further delays.

Forecast 2021:
GDP: 6.3%
Core PCE Inflation: 2.9%
Forecast 2022:
GDP: 4.4%
Core PCE Inflation: 2.4%

EUROZONE

Headline inflation has only breached 2% five times since December 2012. Four of these instances were in 2018, with the fifth recorded in July 2021. July's increase was driven by food (1.6%) and energy (14.1%) prices, while Germany led Eurozone inflation on a regional breakdown. Outside of food and fuel, core inflation dropped to 0.7% in July, primarily as a result of lower inflation in non-energy industrial goods, rather than services. The Citi Inflation Surprise Index for the Eurozone has been on the rise for the past year. Although fuel inflation could drive the headline number above 3% by the end of 2021, we expect inflation to fall back below 2% in 2022 as supply bottlenecks unwind and as base effects fall away. As such, we do not see pressure on the European Central Bank to raise interest rates for a number of years.

Forecast 2021:
GDP: 4.8%
HICP Inflation: 2%
Forecast 2022:
GDP: 4.5%
HICP Inflation: 1.5%

UNITED KINGDOM

A recovery is surfacing in the labour market as evidenced by the decline in the number of jobs on furlough to just under 8% of private sector jobs by the end of the second quarter of 2021. The Deloitte CFO survey signalled that nearly 80% of businesses reported recruitment difficulties in this period. Despite an apparent tightening in the labour market, the rate of unemployment remains higher than pre-pandemic levels. This is partly owing to lower availability of workers born outside the country, a mismatch between skills and jobs and a lower job search rate than before the pandemic. While there is no urgency to raise interest rates, comments that "some modest tightening of monetary policy is likely to be necessary" to meet the central bank's target of 2% in the medium term have brought forward expectations of the first rate hike before the end of 2022.

Forecast 2021:
GDP: 6.9%
Inflation: 2.1%
Forecast 2022:
GDP: 5.2%
Inflation: 2.4%

JAPAN

The Olympic Games went ahead despite 83% of respondents suggesting they be postponed or scrapped, according to an Asahi Shimbun survey. COVID-19 restrictions have, however, put a dampener on the potential upside to growth. The Japan Times reported a 20% cost overrun as a result of the pandemic delaying the event for a year. Moreover, Nomura Research calculates a US$1.3 billion reduction in the economic benefit due to the absence of spectators. Popular support for Japan's prime minister, Yoshihide Suga, dropped to levels below those observed before the Olympics. At 28%, a slow vaccination rollout and a resurgence of COVID-19 cases have driven his popular rating to the lowest level since taking office, curtailing his chances of re-election in October 2021.

Forecast 2021:
GDP: 2.4%
Inflation: 0%
Forecast 2022:
GDP: 2.5%
Inflation: 0.5%

CHINA

The epicentres of the delta variant breakout had already seen a decline in the number of daily cases by the middle of August. More stringent controls associated with the zero-tolerance policy, however, could shave off between 1% and 2% from the third quarter growth figure, particularly as services are hit. Even so, authorities are unlikely to unleash a bumper stimulus package. Instead, we expect a slightly more accommodative stance on fiscal policy and further cuts to the reserve requirement rate. In our view, elevated inflation may dissuade the People's Bank of China from cutting the short-term interest rate. High oil and coal prices have driven up factory gate prices, but authorities have released state-owned commodity reserves and cracked down on speculation, limiting further upward momentum in inflation.

Forecast 2021:
GDP: 8.4%
Inflation: 1.3%
Forecast 2022:
GDP: 5.7%
Inflation: 2.3%

EMERGING MARKETS

The International Monetary Fund approved US$650 billion of Special Drawing Rights (SDR) which can assist a number of governments in emerging markets (EM) to address liquidity concerns and fund their COVID-19 responses. According to the Oxford Business Group, the increased allocation could raise gross international reserves by 10% for some countries. The Peterson Institute for International Economies underscores the importance of SDR allocations and suggests that countries with external constraints on policy, as a result of limited access to foreign credit, can use SDR credit as an insurance policy to adopt policies to enable a faster pace of economic recovery. Nevertheless, EM growth forecasts have been revised lower (mostly for emerging Asian and low-income developing economies) due to a slow vaccine rollout and limited policy space.

Forecast 2021:
GDP: 6.6%
Inflation: 3.5%
Forecast 2022:
GDP: 5.2%
Inflation: 3.7%

SOUTH AFRICA

The expected growth bounce in 2021 is likely to be tempered by a move to an adjusted level four in lockdown restrictions during July and civil unrest in protest of the arrest of the former president. While destocking and infrastructure damage will likely drive a negative growth number in the third quarter of the year, restocking and rebuilding may add to future quarters of growth. Post the initial rebound, drivers of medium-term growth will remain reliant on sustained progress on reforms, an alleviation in structural bottlenecks and higher levels of business and consumer confidence. The effects of the violent riots are likely to have affected poor communities the most. This has pressed government to extend the social relief of distress grant to the end of March 2022. With little prospect of a major recovery in jobs, the debate over a more permanent extension of grants raises medium-term risks to fiscal consolidation. Moreover, the lack of a multi-year public sector wage agreement and the introduction of a cash allowance pose further fiscal risks in the medium term. Meanwhile, the accommodative stance on monetary policy is likely to persist given soft medium-term growth and subdued services inflation containing the headline figure.

Forecast 2021:
GDP: 3.8%
Inflation: 4.4%
Forecast 2022:
GDP: 2%
Inflation: 4.3%

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.

Indices summary for August 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)	-1.74%	-0.12%	25.16%	8.19%	7.86%	8.31%	8.36%	7.30%	11.44%
FTSE/JSE Shareholder Weighted Index (Swix)	0.38%	-0.87%	22.61%	5.25%	4.89%	5.49%	6.06%	5.84%	10.71%
FTSE/JSE Capped Swix All Share index	2.02%	1.51%	30.80%	5.47%	4.80%	5.14%	5.54%	5.40%	10.39%
FTSE/JSE All Share Top 40 Index	-2.39%	-0.58%	22.61%	8.53%	8.38%	8.88%	8.63%	7.38%	11.52%
FTSE/JSE Mid Cap Index	3.71%	3.86%	42.23%	6.52%	3.97%	3.85%	5.75%	5.65%	9.96%
FTSE/JSE Small Cap Index	7.02%	4.76%	70.22%	6.47%	4.08%	3.47%	4.71%	5.28%	10.95%
FTSE/JSE Resources Index	-4.79%	-0.52%	25.51%	21.70%	22.33%	21.31%	16.39%	7.21%	6.98%
FTSE/JSE Financials Index	12.28%	7.56%	51.42%	-1.34%	0.96%	2.81%	1.66%	4.07%	10.31%
FTSE/JSE Industrials Index	-4.45%	-3.18%	16.14%	4.95%	3.60%	4.46%	5.80%	6.33%	13.08%
FTSE/JSE Research Affiliates Fundamental Indices 40 Index (Rafi)	3.35%	5.57%	41.99%	8.16%	8.79%	10.14%	9.79%	7.28%	10.89%
FTSE/JSE Research Affiliates Fundamental Indices All Share Index	3.37%	5.22%	42.62%	8.17%	8.50%	9.88%	9.35%	7.06%	10.59%
FTSE/JSE SA Listed Property Index (Sapy)	7.46%	10.37%	51.02%	-7.34%	-8.64%	-5.28%	-3.87%	0.08%	5.32%
Interest-bearing indices									
FTSE/JSE All Bond Index (Albi)	1.70%	3.66%	14.84%	9.97%	9.47%	9.62%	8.74%	8.26%	8.27%
FTSE/JSE All Bond Index 1-3 years (Albi)	0.53%	1.46%	4.51%	8.91%	8.36%	8.65%	8.41%	8.12%	7.53%
FTSE/JSE Inflation-linked Index (Ili)	1.21%	0.10%	13.64%	5.51%	4.47%	3.56%	4.16%	4.35%	6.15%
Short-term Fixed Interest Composite Index (Stefi)	0.32%	0.95%	3.83%	5.86%	6.21%	6.50%	6.59%	6.56%	6.23%
Commodities									
NewGold Exchange-Traded Fund	-1.77%	0.02%	-21.36%	13.71%	10.81%	5.93%	9.29%	9.26%	7.07%
Gold price (in rands)	-1.01%	0.86%	-19.66%	14.41%	11.54%	6.76%	9.90%	9.86%	7.58%
Platinum Exchange-Traded Fund	-4.28%	-10.25%	-7.50%	7.53%	2.82%	-1.44%	1.04%	-0.91%	
Platinum price (in rands)	-5.69%	-9.63%	-6.84%	8.40%	3.10%	-1.03%	1.54%	-0.48%	-0.46%
Currency movements									
Rand/euro movements	-1.53%	1.81%	-15.72%	0.03%	2.54%	0.82%	2.34%	2.88%	5.45%
Rand/dollar movements	-1.10%	5.44%	-14.63%	-0.44%	2.71%	-0.32%	1.45%	4.50%	7.54%
Inflation index									
Consumer Price Index (CPI)			4.64%	3.93%	4.23%	4.29%	4.58%	4.64%	5.00%

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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