OVERBERG MARKET REPORT

Tuesday 5th January 2021

IN THIS WEEK'S BOTTOM LINE

Contributed by Gielie Fourie

- What the world needs now, is good leadership. Today many of South Africa's problems are the result of bad leadership. We look at some SA leaders and countries that will elect leaders in 2021. Read more in the Bottom Line.

SOUTH AFRICA: THE WEEK AHEAD

Contributed by Ingrid Breed

- Total New Vehicle Sales: Due Tuesday 5 January. New vehicle sales are expected to have ended the year in December with negligible improvement from the depressed numbers recorded in November, comprising a slight month-on-month increase and a notable year-on-year decline. Exports are likely to be impacted by the second-wave lockdown in major overseas markets.

- Standard Bank Purchasing Managers' Index: Due Wednesday 6 January. After falling in November 2020 from a 31-month high reached in October, the South Africa Standard Bank Purchasing Managers Index (PMI) is expected to have continued its decline in December due to the second wave of Covid-19. The PMI, which measures conditions across both manufacturing and service sectors of the economy, is expected to have declined to 49.6 in December from 50.3 in November.

- Absa Purchasing Managers' Index: Due Friday 8 January. The Absa Purchasing Managers' Index (PMI), measuring conditions in the manufacturing sector, is expected to have declined slightly from 52.6 in November to 52 in December, due to Covid-lockdowns in key export destinations. Despite the expected decline the PMI is likely to have remained in above-50 expansionary territory for a fifth consecutive month.

GLOBAL

Contributed by Nick Downing

- Despite the powerful second wave of Covid infections sweeping across western economies, economists appear to be unanimous in their outlook for a strong economic recovery as the year progresses. The prediction is founded on a successful vaccine rollout, which will release pent-up demand. Household savings are unusually high and company balance sheets are strong, so there should be no risk to a resumption in demand, which is the usual culprit in most recessions. Demand will be further supported by a continuation of ultra-accommodative monetary policy and generous fiscal support. Low interest rates will moreover support the expected upward move in asset prices and contain government funding costs. The outlook is so positive that some economists are even predicting a repeat of the "roaring twenties" when animal spirits unleashed by the end of WW1 and the Spanish flu led to one of the biggest economic booms on record. The ebullient outlook for the economy also translates to bold predictions for the global equity market, especially those sectors of the market particularly affected by social distancing which were left behind in the 2020 rally. A great rotation is in store, with the baton passing from the Covid winners to the more cyclical sectors of the market which are most geared to strong economic growth. There are risks to the bullish outlook. The greatest risk is a sharp increase in government bond yields. While positive for banks and financial stocks, which would benefit from rising interest margins, the high-flying technology enabled shares would be impacted. A premature removal of fiscal support is also a risk, highlighted by OECD chief economist Laurence Boone, who urges governments to hold their nerve amid surging budget deficits and not to repeat the mistake made after the 2008/09 Global Financial Crisis, when early austerity chocked the recovery. Some say the biggest risk is that the bullishness is all pervasive. Excessive positive sentiment tends to be a reliable contra-indicator for the markets, especially when some shares are clearly in bubble territory, for instance Tesla which climbed 900% in 2020 and trades on a 1400 price-earnings multiple. In view of the opportunities but mindful of the ever-present market risks, the best approach is cautious optimism and effective diversification across asset classes and equity market segments.

NORTH AMERICA

Contributed by Nick Downing

- President Trump signed off on a second pandemic aid package valued at $900 billion, providing additional unemployment assistance of $300 per week and a once-off stimulus payment of $600 per person. The equivalent figures in the March CARES Act were $600 per week and a once-off payment of $1200. Trump had urged the Republican-controlled Senate to increase the once-off payment to $2000, a measure approved by the Democrat-controlled House of Representatives, but Senate leader Mitch McConnel rejected the appeal. The pandemic unemployment assistance will run until the 14th March. Although less than the $1.5 trillion package that had been expected by some economists, the additional fiscal support provides significant relief for the economy and financial markets.

- The latest Wall Street Journal economists' survey shows a reduction in GDP forecasts for the first quarter of the year but an upgrade to growth forecasts in each of the remaining three quarters. The positive outlook is premised on the vaccine rollout, the supplementary $900 billion pandemic relief package and a continuation of low borrowing costs. The Federal Reserve has pledged to keep the benchmark fed funds rate at 0-0.25% at least until 2023. In addition, economists are encouraged that household savings have remained elevated, which combined with low borrowing costs could fuel a significant spending boom. The household savings ratio dipped by November to 12.9%, as a percentage of personal income, from a peak of 33.7% in April but remains well above the long-term average of 5-7%. Furthermore, strong company balance sheets and low borrowing costs support increased capital investment and a resumption of merger and acquisition activity, dividend payments and share buybacks. While many businesses have closed due to the pandemic, the rapid acceleration in technology adoption and low borrowing costs provide fertile ground for new businesses to evolve. The number of new company registrations surged in the third quarter of 2020 by 82% year-on-year. Goldman Sachs forecasts that after shrinking in 2020 by 3.5%, the US economy will grow by 5.8% in 2021, staging a solid V-shaped recovery.

CHINA

Contributed by Nick Downing

- The National Bureau of Statistics purchasing managers' indices (PMIs) slipped slightly in December although both the manufacturing and services PMIs remained above the key 50-threshold demarcating expansionary territory, for a 10th straight month. The manufacturing PMI declined from 52.1 to 51.9 while the services PMI dipped from 56.4 to 55.7. The private sector Caixin PMI also fell from 54.9 to 53 but like the official survey readings some pullback had been expected from November levels, which were at or close to their highest in a decade. The export sub-indices remained expansionary, which is particularly encouraging considering the lockdown effect on demand emanating from the second wave of Covid infections in western markets. The survey data indicates a strong finish to the year for the economy, with GDP growth likely to have accelerated from 4.9% year-on-year in the third quarter to 6% in the fourth. Economic growth is expected to gather momentum to 8% in 2021, helped by a recovery in domestic demand and accommodative monetary policy from the People's Bank of China (PBOC). Consumer price inflation turned negative in November for the first time since 2009, at minus 0.5%, indicating an absence of inflationary pressure. The PBOC will be keen to stem the risk of deflation via potential interest rate cuts especially as its benchmark rate remains considerably higher than in the US and other developed economies.

JAPAN

Contributed by Carel la Cock

- The Nikkei 225 stock market index ended the year on 27,444.17 points, up 37.1% for the year and marking the highest level since 1989. The Japanese stock market has defied the pandemic and has attracted seasoned investors in the hope that a rotational shift from growth to value stocks will cause the big Japanese conglomerates to outperform. In an early sign that this trend might continue, the latest manufacturing PMI figures for December showed a recovery in the sector. The headline Jibun Bank Japan Manufacturing Purchasing Managers' Index (PMI) rose to 50.0 from 49.0 in November, marking the end of a 23-month decline in output. The stabilisation in operating conditions also prompted companies to increase hiring for the first time in almost a year. Business confidence for the coming year was also higher than the month before, supported by hopes that an end to the pandemic will further buoy global trade and the launch of new products will stimulate demand.

EUROPE

Contributed by Carel la Cock

- Optimism for economic growth abounds according to a Financial Times poll of economists. Economists expect the eurozone economy to expand by 4.3%, the fastest rate since its inception and comfortably beating the European Central Bank's forecast of 3.9% issued in December. However, the forecast is below the IMF's prediction of 5.2% made in October. Economists base the rebound on the hopes that a roll out of the covid-19 vaccine will restore normal trading conditions for most services and that consumers will help drive growth as they satisfy pent-up demand. They expect the eurozone economy to reach pre-pandemic levels by mid-2022, despite the most recent lockdowns which will send the region into a double dip recession this winter. Widespread vaccinations and help from the €750bn EU recovery fund will lead to a sharp recovery in the second half of the year. However, it is not all positive. Economists polled expect unemployment to be above 10% for the first time in over four years, from 8.4% in October. Second-round effects and potential credit flows are headwinds to the recovery although an increase in non-performing loans in the banking sector is not expected to cause a crisis as banks are much better capitalised than during the 2008 global financial crisis.

UNITED KINGDOM

Contributed by Carel la Cock

- After a brief cheer as the UK and EU reached a trade deal in the eleventh hour, narrowly avoiding a calamitous "no-deal" exit, the focus has shifted back to the covid-19 pandemic as prime minister, Boris Johnson, announced a third lockdown for the UK. In an address on Monday evening, Mr Johnson ordered schools to close until mid-February and instructed citizens to stay at home while the vaccine is being rolled out. This comes as pressure has been mounting on the national health services, which were expected to be swamped this month without an intervention. In the wake of the new containment measures, chancellor of the exchequer, Rishi Sunak, announced a fresh stimulus package of £4.6bn to support struggling UK companies, especially in the retail, hospitality, and leisure sectors. The stimulus package will consist of £4bn for one-off "top-up grants" enabling struggling companies to claim up to £9,000 and a £594m discretionary fund, available to councils to assist other businesses key to communities which do not qualify for grants. Although the new measures have been welcomed, some have lamented that it did not go far enough and that there is a real risk that some industries would be in trouble once the schemes have been depleted in the spring, especially those in supply chains and other business in support of retail and hospitality but that do not qualify for the new grants. To date the UK government has supported the economy to the tune of £280bn in the form of business support, extra funding for NHS and PPE, but this will have to be increased to avoid a financial cliff in the spring. All hopes are now pinned on the successful roll out of the vaccine, not just across the UK, but globally.

KEY MARKET INDICATORS (YEAR TO DATE % AND LEVEL)

- Nil data this week.

BOTTOM LINE

Contributed by Gielie Fourie

- THE FUTURE: In 2020 we saw how futile it can be to try and predict the future. Yogi Berra (1925 – 2015), the legendary US baseball catcher, was known for his "Yogisms" - pithy and snappy one-liners. About predictions Yogi Berra once remarked: "It's tough to make predictions, especially about the future." We will heed the words of Yogi Berra and avoid predictions, about the future. We will look at events that are already planned – a roadmap for 2021.

- STATE OF THE NATION ADDRESS (SONA): Pres Ramaphosa will deliver his SONA on Thursday evening, 11 February 2021 from 7:00 pm to 9:00 pm. It falls outside the new Level 3 lockdown period that ends on 15 January 2021. We can expect his main theme to be around the Covid-19 crisis, especially the availability of vaccines. Ramaphosa will have to take a firm stand. In his previous SONA Ramaphosa warned: "Our country is facing a stark reality. Our economy has not grown at any meaningful rate for over a decade." He went on to paint a bleak picture of the poor health of state-owned enterprises (SOEs), adding that "our public finances are under severe pressure". One year later, and we have probably gone backwards.

- BUDGET SPEECH: A mere two weeks later, min Tito Mboweni will present his 2021/22 budget on Wednesday, 24 February 2021 at 2:00 pm. Expect a big budget deficit. His biggest problem will be the government wage bill for our 1.3 million overpaid public servants. It is still the biggest expense item in the budget. Mboweni's target is to cut the wage bill by R160 bn (billion) by 2022. His R78 bn wage freeze for the present tax year was taken to the Appeal Court by the Public Sector Unions. They were 'shocked and angry' after they lost their court case. The court said salary hikes would not be 'just and equitable' and could imperil social grants and health-care funding. So, Mboweni is halfway to his target of R160 bn.

- HOW GOOD ARE OUR LEADERS? The Mail & Guardian's (M&G) annual Cabinet report cards have become a respected barometer of government performance. They rate ministers from A, the best, to F, the worst. The M&G graded both Ramaphosa and Mboweni with a C ("You are OK"). Only the min of Justice, Ronald Lamola, achieved an A grade ("You are doing an excellent job"). The min of Basic Education, Angie Motshekga, and the min in the Presidency for Women, Maite Nkoana-Mashabane, received F grades ("You are Fired"). Why Ramaphosa does not get rid of them, is a mystery. Yogi Berra: "You made too many wrong mistakes."

- SA MUNICIPAL ELECTIONS: In 2021 we will have municipal elections in all nine provinces. The last elections were held in 2016. The exact date of the elections is not yet known. It must take place before the end of 2021. The elections will almost certainly be held between 3 August and 3 November 2021. There have been calls for the elections to be merged with the 2024 national elections because of Covid-19. But the IEC has made it clear that in its view, that is a non-starter. It could be the most contested election ever. In 2016, voter turnout was 58%. If 2020 is anything to go by, Covid-19 could be a disaster for the IEC's best-laid election plans.

- THE US PRESIDENT: On Wednesday, 20 January 2021 Democrat Joe Biden will be inaugurated as the 46th president of the United States. The Republican era of Trump will be over. Some will say it will mark the end of an error. What is not certain yet, is who will be in control of the Senate. This will only be known later today or tomorrow, depending on the results in Georgia.

- THE US CHAIR OF THE FEDERAL RESERVE (FED): Jerome Powell, a Republican, will remain as the Fed chair. His term of office expires on 5 February 2022. Powell is popular with both Republicans and Democrats. Powell is rated as neutral in terms of monetary views, neither a hawk nor a dove. His predecessor, Janet Yellen, a Democrat, was widely considered to be a "dove", meaning she was never keen to advocate interest rate hikes. Yellen will serve as Biden's Secretary of the Treasury.

- ELECTIONS: In March 2020, the UK announced that local elections originally scheduled for 7 May 2020 would be delayed for a year due to the COVID-19 pandemic. Local elections are now expected to be held on 6 May 2021. They will be the first in the post-Brexit era.

- OTHER ELECTIONS: The Netherlands, Norway, Germany and Russia are all holding elections during the course of the year, which will be closely watched for their effect on government policy, in particular fiscal stimulus, environmental legislation and free trade. THE NETHERLANDS: The next general election to elect the members of the House of Representatives is scheduled for 17 March 2021. The present prime minister is Mark Rutte. NORWAY: The next parliamentary election is scheduled to be held on 13 September 2021. The present prime minister is Erna Solberg. RUSSIA: The next legislative election will be held no later than 19 September 2021. The present prime minister is Mikhail Mishustin. Vladimir Putin has been president/prime minister since 1999. GERMANY: The next federal election is expected to be held on 26 September 2021. The chancellor, since 2005, is Angela Merkel.

- ELON MUSK: We cannot finish a series of leaders without mentioning Elon Musk. Despite several setbacks (he was bullied at school and he is still mocked on TV by analysts such as Jim Cramer of Mad Money), he has prevailed. His success covers many disciplines. To name a few: he cofounded PayPal, he founded SpaceX. With NASA he sent cargo/astronauts to the International Space Station, and he is the CEO of Tesla. He was born and schooled in Pretoria.

- SUMMARY: 2021 will be tough. Tough times never last, but tough people do. Easily the most famous and truest Yogism of them all: “The future ain't what it used to be”. Yup!

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