CINNABAR
INVESTMENT MANAGEMENT

# Cinnabar Monthly Insight: 30-11-2020

Another month has passed, and not a lot has changed, there still is not an official winner in the U.S. presidential election, nor a majority in the U.S. Senate. However, markets have accepted and celebrated what appears to be the likely outcome: Joe Biden as president and the Senate being controlled by the Republican Party. 2020's November was one of the best for equity returns in history, buoyed be even more positive vaccine news.

The majority view for economies and markets is that the next two years will be excellent – we agree wholeheartedly with this prognosis. Although we are wary of the world's yearning for anything positive, it is difficult not to get excited. The Paris-based Organisation for Economic Cooperation and Development (OECD) was predicting the World economy would fall between 6-7% in 2020. Its latest November based forecast is -4.2%. Significantly, the OECD predicts US GDP as -3.7% and China as +1.8%! Global growth is expected to average 4% over 2021-22.

There are several tailwinds for equities. In the U.S., the fiscal support of the government with the appointment of Janet Yellen as Biden's treasury secretary could dovetail beautifully with Fed Chairperson Jerome Powell and his promise to continue monetary support in the form of stimulus packages. Added to this is the pent-up demand that will be released as sentiment improves. Household savings rates have soared in the year of the pandemic. They are expected to fall in 2021 which should drive a fundamental, broader recovery in equities, hitting more sectors than just the hyper-growth technology stocks. Some economists prefer to use the term "restart", rather than "recovery", citing the fact that this is not a regular business cycle collapse, but a natural disaster and hence the restart could be much faster than a typical market recovery.

The equity themes of the next decade include stronger emerging market economies, focussing around China and India; further deglobalisation; COVID accelerated innovation; and infrastructure and industrial development with a keen focus on the environment.

In the short-to-medium term, we expect the U.S. economy to recover vigorously then return to the lower growth environment that was predicted before COVID. In contrast, we expect emerging markets growth to surge ahead for the latter part of the decade. As we head to the end of this unique year, we may be tired, but we are incredibly excited for the future.

# Market update

### United States of America

Sentiment was boosted in November by positive vaccine news and decreasing political uncertainty. Markets also reacted positively to the news that former Federal Reserve Chair Janet Yellen would be named Treasury secretary. It's suggested the new administration will collaborate with the central bank to boost the economy and target a strong rebound in growth next year. As for the November numbers, Manufacturing PMI was confirmed at 56.7 the strongest factory growth since September of 2014, supported by stronger domestic and foreign client demand. The annual inflation rate fell to 1.2% in October from 1.4% in the previous month, remaining below the 2.3% reading in February before the coronavirus pandemic hit. More positively, retail sales, new orders for manufactured durable goods, and personal spending all edged up during October with Black Friday online sales hitting a record $5.1 billion, up 21.5% from last year. Unemployment ended the month lower at 6.7% for November on the back of a lower labour force participation rate as fewer people looked for work.

### The U.K.

The third quarter saw a rebound in economic activity with GDP growing 15.5% on a seasonally-adjusted quarter-on-quarter basis, contrasting the 19.8% contraction logged in the second quarter. The upturn reflected recoveries in private consumption, public spending, fixed investment, and exports. Exports rose 2.6% with imports gaining 7.7%, leading to a reduction in the trade surplus of GBP 0.61 billion for September. Even with retail sales up 5.80% in October and inflation coming in slightly higher for the month at 0.7%, November confidence readings show consumers are less sure about the economy as the country entered a new coronavirus lockdown. Policymakers noted that there had been a rapid rise in rates of COVID infection and the U.K. Government has responded by increasing the severity of COVID restrictions. These fresh COVID lockdowns have encouraged the Bank of England to increase the size of its bond-buying program by a larger-than-expected £150 billion to £875 billion. The Bank of England has also left its bank rate at a record low of 0.1%. On the political front, trade talks between Britain and the E.U. stalled, as the chief negotiators agreed that the conditions for a deal were not met due to several issues, including fisheries and governance.

### Europe

The impact of second-wave infections in Europe has left households less confident about the expected general economic situation and their expected financial situation, which were matched by more cautious intentions to make significant purchases. The consumer confidence indicator in the Euro Area was confirmed at -17.6 in November, the lowest level since May, with consumer prices going down 0.3% year-on-year in November. On the labour side, the number of employed persons increased by 1% on quarter for the three months ending September, whilst the seasonally-adjusted unemployment rate edged down to 8.4% in October. This was well below the 8.7% reading back in July. During their October meeting, the

European Central Bank (ECB) agreed that there was a need to signal the necessity of recalibrating the ECB's monetary policy instruments when they meet in December. More recently, ECB President Christine Lagarde suggested that the central bank would consider more asset purchases and low-cost lending as part of its policy review in December on the back of the second wave.

### Japan

Japan's economy grew an annualised 22.9% in the third quarter after a strong bounce back in economic activity. Household spending grew 20.1% in Q3, having contracted 28.7% in Q2, as restrictions on daily life were eased during the period. Meanwhile, public spending grew at the fastest rate since at least 1990, expanding 9.3%. Retail sales rose by 6.4% year-on-year in October, the first month of increase since February due to a recovery in demand amid easing COVID-19 restrictions. On the other hand, fixed investment decreased by 11.7% in Q3, marking its worst reading since Q4 2019. During its October meeting, the Bank of Japan decided to keep its short-term interest rate unchanged at -0.1% and maintained the target for the 10-year Japanese government bond yield at around 0%. Turning to sentiment, consumers are more optimistic about the future with consumer confidence edging up to 33.7; however, businesses don't share the same view and are more pessimistic on the future with the economy watchers survey coming in at 45.60, where a reading above 50.0 indicates optimism. Looking forward, growth is expected to decelerate in the final quarter of the year as the sharp rebound loses steam. Furthermore, a spike in daily infections in November bodes ill for domestic activity, while surging rates in Europe and the U.S. are a cause for concern for the external sector.

### China

China's economic recovery remains firmly in place. Manufacturing PMI rose to 54.9 in November 2020 from 53.6 in October, retail trade rose by 4.3% year-on-year in October, and industrial production rose 6.9% on the year. Both unemployment and inflation were lower in October with the former decreasing to 5.30% and the latter easing to 0.5%. On the political front, China's top leadership finalised the blueprint of the 14th Five-Year Plan (2021—2025) and unveiled its "Vision 2035" program, which intends to catapult China to "moderately developed economy" status in 15 years. China will look to boost total factor productivity, rebalancing economic development and reducing the economy's dependence on external markets and technology. Although an ambitious vision, China's solid track record of meeting economic and social targets makes this initiative plausible.

### South Africa

The economic scenario remains challenging in South Africa as the economy shrank by 6.0% year-on-year in the third quarter. Unemployment rose to its highest level of 30.8% in the third quarter, and business sentiment remained entrenched in negative territory in the same period, likely holding back capital spending. The South African Reserve Bank (SARB) left its benchmark repo rate unchanged at a record low of 3.5% during its November meeting. Policymakers said that the risks to the growth outlook look to be balanced, while overall risks to the inflation outlook appear to weigh to the downside in the near term and balanced over the medium term. Inflation reached its seven-month high, rising to 3.3% in October and staying well within the SARBs target range. In other news, despite a stubbornly high number of COVID-19 cases, authorities announced the reopening of borders to all international travellers on 11 November, in a bid to revive the ailing tourism industry.

*Sources: Trading Economics, CNBC, EUROSTAT, Bank of England, Cinnabar Investment Management*

**Greg Flash**
Chief Investment Officer
e. greg@cinnabarim.co.za
c. +27 72 668 8964
www.cinnabarim.co.za

**Windall Bekker**
Global Head of Distribution
e. windall@cinnabarim.co.za
c. +27 72 191 0492
www.cinnabarim.co.za

| As At 30 November 2020 | YTD | Last Month | Last Quarter | 1 Year | 2 Years | 3 Years | 5 Years | 10 Years |
|---|---|---|---|---|---|---|---|---|
| **South African Asset Classes** | | | | | | | | |
| STeFI Call Deposit ZAR | 4.2 | 0.3 | 0.9 | 4.8 | 5.7 | 6.0 | 6.3 | 5.8 |
| Beassa ALBI TR ZAR | 6.1 | 3.3 | 4.1 | 8.0 | 8.5 | 10.0 | 8.4 | 8.2 |
| FTSE/JSE SA Listed Property TR ZAR | -42.4 | 17.5 | 4.3 | -43.6 | -23.8 | -22.9 | -11.9 | 2.4 |
| FTSE/JSE All Share TR ZAR | 2.6 | 10.5 | 3.6 | 6.0 | 9.5 | 1.6 | 5.1 | 9.8 |
| **FTSE/JSE Market Capitalisations** | | | | | | | | |
| FTSE/JSE Small Cap TR ZAR | -5.4 | 15.6 | 16.6 | -5.2 | -5.2 | -7.0 | -2.6 | 6.8 |
| FTSE/JSE Mid Cap TR ZAR | -19.7 | 10.1 | 8.0 | -15.9 | -2.0 | -4.3 | 1.8 | 7.1 |
| FTSE/JSE Top 40 TR ZAR | 5.8 | 10.4 | 3.0 | 9.6 | 11.6 | 2.5 | 5.5 | 10.1 |
| **FTSE/JSE Sectors** | | | | | | | | |
| FTSE/JSE Ind/Financials TR ZAR | -25.8 | 17.1 | 12.9 | -25.3 | -13.3 | -9.6 | -4.1 | 7.8 |
| FTSE/JSE SA Industrials TR ZAR | 13.1 | 8.0 | 6.8 | 15.7 | 12.3 | -0.9 | 3.0 | 13.1 |
| FTSE/JSE SA Resources TR ZAR | 10.7 | 10.9 | -4.4 | 18.4 | 26.4 | 17.8 | 20.1 | 3.9 |
| **Global Equities in ZAR** | | | | | | | | |
| FTSE/JSE All Share TR ZAR | 2.6 | 10.5 | 0.7 | 6.0 | 9.5 | 1.6 | 5.1 | 9.8 |
| MSCI World Free GR USD | 23.6 | 7.5 | 3.7 | 21.6 | 21.7 | 14.8 | 13.1 | 19.8 |
| MSCI EM GR USD | 22.3 | 4.1 | 5.3 | 25.5 | 19.5 | 9.8 | 12.7 | 12.4 |
| S&P 500 TR USD | 26.2 | 5.7 | 4.6 | 24.1 | 23.4 | 18.0 | 15.6 | 23.5 |
| FTSE 100 TR GBP | -4.5 | 10.8 | -3.6 | -4.0 | 6.4 | 2.5 | 2.7 | 12.0 |
| Nikkei 225 Average TR JPY | 31.2 | 9.9 | 2.7 | 28.4 | 22.4 | 14.6 | 13.4 | 18.9 |
| SSE Composite PR CNY | 30.2 | 2.0 | 7.5 | 33.2 | 24.2 | 5.2 | 0.5 | 10.3 |
| **Global Equities in USD** | | | | | | | | |
| FTSE/JSE All Share TR ZAR | -7.3 | 16.0 | 4.9 | 0.4 | 3.6 | -2.6 | 3.6 | 1.6 |
| MSCI World Free GR USD | 11.7 | 12.8 | 8.0 | 15.1 | 15.2 | 10.1 | 11.5 | 10.8 |
| MSCI EM GR USD | 10.5 | 9.3 | 9.7 | 18.8 | 13.1 | 5.3 | 11.1 | 4.0 |
| S&P 500 TR USD | 14.0 | 10.9 | 8.9 | 17.5 | 16.8 | 13.2 | 14.0 | 14.2 |
| FTSE 100 TR GBP | -13.7 | 16.4 | 0.4 | -9.2 | 0.7 | -1.7 | 1.3 | 3.6 |
| Nikkei 225 Average TR JPY | 18.6 | 15.3 | 7.0 | 21.5 | 15.8 | 9.9 | 11.8 | 10.0 |
| SSE Composite PR CNY | 17.7 | 7.1 | 12.0 | 26.1 | 17.6 | 0.9 | -0.9 | 2.0 |
| **Commodities in USD** | | | | | | | | |
| S&P GSCI Copper Spot | 22.9 | 12.9 | 13.6 | 29.4 | 10.4 | 3.9 | 10.5 | -1.0 |
| LBMA Gold Price PM USD | 16.4 | -6.3 | -10.0 | 20.7 | 20.3 | 11.2 | 10.7 | 2.5 |
| Oil Price Brent Crude PR | -27.9 | 27.0 | 5.1 | -23.8 | -10.0 | -9.2 | 1.3 | -5.8 |
| LBMA Platinum PM PR USD | 2.8 | 14.9 | 5.3 | 9.5 | 10.3 | 1.4 | 3.3 | -5.1 |

Source: Morningstar Direct, annualised returns are presented for periods longer than 1 year.

| | 2020/11/30 | YTD | Last Month | Last Quarter | 1 Year | 2 Years | 3 Years | 5 Years | 10 Years |
|---|---|---|---|---|---|---|---|---|---|
| **Currencies** | | | | | | | | | |
| US Dollar | R 15.46 | -9.2% | 5.1% | 7.6% | -5.2% | -5.3% | -4.1% | -1.4% | -7.5% |
| Euro | R 18.43 | -14.4% | 3.3% | 8.3% | -12.5% | -7.9% | -4.3% | -3.7% | -6.6% |
| Pound Sterling | R 20.65 | -10.2% | 1.8% | 7.4% | -8.2% | -7.5% | -3.7% | 1.0% | -6.1% |

Source: Quandl as at 30 November 2020.

CINNABAR INVESTMENT MANAGEMENT