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INVESTMENT MANAGEMENT

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You could have been forgiven for not knowing the name “GameStop” coming into 2021. A videogame retailer on the decline, GameStop (ticker: GME) came to the forefront of global markets’ attention when retail investors, spurred on by Reddit GameStop diehards, pushed GameStop’s share price up over 1500% over the course of two weeks.

The impetus for the astonishing rise of GME came partially from these Reddit investors’ desire to push back against a couple of hedge funds’ short positions in the stock. The “little guys” successfully beat the Wall Street “big guys” in forcing them to close out their short positions at millions of dollars of losses. The David and Goliath story spooked markets, which were rattled by the idea that a few laypeople on smartphones could disrupt the world’s biggest stock markets.

The whole episode brought to the forefront of public awareness the rise of the retail investor and retail investing apps such as Robinhood, which, since the incident, has been called to Washington D.C. to account for the unusual incident and the possible implications for the future of investing.

More recent market volatility (although not as pronounced) can be attributed to the positive surprise in the vaccine rollout, particularly in the U.S., which saw a return to normal growth being priced in and sending Treasury bond yields to their highest levels in a year. The higher yields set off volatility in the equity markets, as they represent a more significant growth discount to lofty equity valuations, as well as higher borrowing costs for capital expenditures.

The Fed has reassured markets that on the short end of the yield curve, they intend to keep the easy monetary policy for some time to fuel the recovery that is in sight, but still a work in progress.

Market update

United States of America

The U.S. economy grew at a 4.1% quarter on quarter seasonally adjusted annual rate during the final quarter of 2020, with recent data showing rapid growth. The PMIs for the United States are well above the 50-point mark, which indicates growing activity. PMI for services rose to 58.9 during February; at the same time, the manufacturing PMI was 58.5. Both are showing substantial growth fuelled by government stimulus, declining infections, increasing vaccinations, and optimism about vaccines and further stimulus. In other indicators, the unemployment rate edged down to 6.2% for February. Federal Reserve chairman Jerome Powell said he expects hiring to pick up in the coming months but felt it was unlikely that the U.S. would return to its pre-pandemic employment levels this year. Households with incomes below $75,000 became less optimistic over future economic prospects. Turning to fiscal policy, President Joe Biden's $1.9 trillion stimulus bill is under debate with the American Senate after it passed the House of Representatives. U.S. Treasury Secretary Janet Yellen feels that a big stimulus package is needed to address the pain caused, and she shows no concern over higher inflation that may come from this. Yellen said, "Inflation has been very low for over a decade, and you know it's a risk, but it's a risk that the Federal Reserve and others have tools to address."

The U.K.

Britain's economy contracted sharply, but the outlook is improving. Gross domestic product shrank by 6.5% year-on-year in December, with real GDP falling 9.9% from 2019 to 2020. Despite the bad news, there are some green shoots. Consumer confidence rose five points from the previous month to -23 in February; annual inflation notched up to 0.7% in January, and fourth-quarter real GDP grew at an annualised rate of 4.1%. Moreover, assuming that the current economic restrictions are successful in suppressing the outbreak and are ultimately lifted and assuming that the rapid pace of vaccination continues, it is reasonable to expect strong growth for the remainder of the year. In other indicators, the U.K. trade deficit fell to GBP 6.2 billion in December. The U.K.'s unemployment rate increased to 5.1% in the three months to December, and Manufacturing PMI slightly higher at 55.1 in February. Turning to fiscal policy, the government's budget provided more spending on workers and businesses, yet to cushion the pandemic's blow by extending the furlough scheme to September. The government will recoup the now over $500 billion in fiscal support through a rise in corporation tax from 19% to 25% in 2023. Before that, there will be a two-year tax break for companies intended to spur investment.

Europe

The Eurozone economy shrank by 5% year-on-year in the fourth quarter, following a 4.3% contraction in the previous period. The European Union said that "there is light at the end of the tunnel" and that the Eurozone economy will grow 3.8% this year and next year. Furthermore, it expects real GDP to return to pre-pandemic levels by the middle of 2022. The latest PMI manufacturing figures support this, with February increasing to 57.7%. However, at the same time, Europe's manufacturing sector is experiencing a supply chain disruption, delivery delays, and rising input prices which will counter manufacturing strength. Turning to monetary policy, the Eurozone consumer price inflation is expected to hold steady at 0.9% year-on-year in February. European Central Bank (ECB) policymakers agreed that headline inflation was at a very low level and continued to be distant from the ECB target. Such the ECB left its primary interest rate at 0.0% and maintained its PEPP quota at 1.85 trillion euros with the buys to run at least until March 2022. Looking ahead, the risks surrounding growth remain; however, due to positive news about the global economy, the agreement on future EU-UK relations and the launch of vaccination campaigns, they have become less pronounced.

Japan

Japan's economy grew for a second straight quarter ending December, extending a recovery from its worst postwar recession earlier last year. However, as Japans state of emergency gets extended to curb coronavirus infections, Japans government cut its view on the overall economy in February for the first time since April last year. The government estimates the economy will expand 4.0% in the next fiscal year starting in April, after an expected 5.2% fall in the current fiscal year to March. In other indicators, Japan's construction orders increased 14.10% in January, and the unemployment rate edged down to 2.9%. Since February last year, consumers are more optimistic about Japans outlook, with consumer confidence reaching its highest reading since February last year, increasing 4.2 points from 33.8. In trade, Japan's trade deficit narrowed to JPY 323.9 billion in January. The latest official purchasing managers' indices (PMI) for Japan indicate a growing activity with the au Jibun Bank Japan Manufacturing PMI increasing to 51.4 in February, up from a preliminary estimate of 50.6 and 49.8 in the previous month.

China

There are clear indications that the Chinese economy is decelerating. Specifically, the official manufacturing PMI fell from 51.3 in January to 50.6 in February, indicating very slow growth in activity. This was the lowest reading since May last year and below the market consensus of 51.5, as the coronavirus pandemic weighed on demand and impacted business operations. More positively, producer prices rose 0.3% on the year in December. This was the fastest pace of increase since May 2019 and pointed to better Chinese industrial firms' profits. Consumer confidence increased, and unemployment remained unchanged at 5.2% during December. In trade, China reported a trade surplus of USD 103.25 billion in January-February combined, rebounding sharply from a USD 7.21 billion deficit in the same period a year earlier. Turning to monetary policy, the central bank left its prime lending rates unchanged. However, it tightened rules on funding for online lenders and raised capital requirements for banks lending to technology platforms.

South Africa

South Africa's economy contracted by 4.1% in the fourth quarter, with an overall contraction of 7% for 2020. Recent data suggest that a robust economic recovery is underway this year, in tandem with South Africa's lockdown having been scaled down to Level 1, albeit coming from a low base. February saw South Africa's Manufacturing PMI rising to 53 from 50.9, slightly above the 50 marks, indicating a growing activity; the higher the number, the faster the growth. In January, inflation ticked up to 3.2% from 3.1% in December but still close to the lower band of the South African Reserve banks target range of 3-6%. In trade, exports fell 13.6%, primarily due to lower sales in mineral products and base metals, whilst imports were up 4.2%, resulting in South Africa's trade surplus widening. Consumers were more optimistic, with fourth-quarter results rising to -12 from -23 in the previous period.

Further, gross fixed capital formation (GFCF) figures were also on a positive trajectory, increasing by 12.1% in the fourth quarter of 2020. This is important, as the higher the capital formation of an economy, the faster an economy can grow its aggregate income. However, on an annual basis, GFCF declined by 17.5% in 2020 when compared with 2019.

Sources: Trading Economics, Economy.com, OECD.org, Cinnabar Investment Management

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As At 28 February 2021	YTD	Last Month	Last Quarter	1 Year	2 Years	3 Years	5 Years	10 Years
South African Asset Classes								
STeFI Call Deposit ZAR	0.6	0.3	0.9	4.0	5.3	5.7	6.2	5.8
Beassa ALBI TR ZAR	0.8	0.1	3.3	8.3	8.6	7.1	9.8	8.6
FTSE/JSE SA Listed Property TR ZAR	5.1	8.6	19.5	-15.8	-17.4	-13.5	-7.6	4.6
FTSE/JSE All Share TR ZAR	11.4	5.9	16.1	33.2	12.1	7.6	9.2	10.7
FTSE/JSE Market Capitalisations								
FTSE/JSE Small Cap TR ZAR	12.6	8.4	18.7	30.4	4.1	-2.8	2.2	8.6
FTSE/JSE Mid Cap TR ZAR	5.8	3.1	12.8	7.4	0.0	-1.8	3.3	8.6
FTSE/JSE Top 40 TR ZAR	11.7	6.0	16.2	36.1	13.9	9.0	9.9	10.9
FTSE/JSE Sectors								
FTSE/JSE Ind/Financials TR ZAR	2.1	4.8	10.6	-4.4	-10.8	-8.9	0.1	8.6
FTSE/JSE SA Industrials TR ZAR	10.9	2.3	9.8	31.5	13.8	4.6	6.1	13.8
FTSE/JSE SA Resources TR ZAR	17.3	11.6	28.4	66.6	27.4	29.1	24.3	5.3
Global Equities in ZAR								
FTSE/JSE All Share TR ZAR	11.4	5.9	9.8	33.2	12.1	7.6	9.2	10.7
MSCI World Free GR USD	4.8	3.2	0.5	25.1	21.4	21.0	13.8	19.0
MSCI EM GR USD	7.1	1.4	5.5	31.4	20.4	16.0	14.7	13.3
S&P 500 TR USD	4.9	3.4	-1.2	26.4	23.7	24.0	15.9	22.6
FTSE 100 TR GBP	6.3	4.1	3.2	6.8	5.7	9.5	4.5	11.5
Nikkei 225 Average TR JPY	5.5	3.6	6.7	36.1	26.0	21.5	15.2	18.7
SSE Composite PR CNY	5.5	1.4	-1.0	26.9	15.3	10.6	4.9	10.4
Global Equities in USD								
FTSE/JSE All Share TR ZAR	8.0	5.2	24.6	38.3	8.0	-1.0	10.1	2.4
MSCI World Free GR USD	1.6	2.6	14.1	30.0	17.0	11.4	14.7	10.0
MSCI EM GR USD	3.9	0.8	19.8	36.5	16.0	6.7	15.7	4.8
S&P 500 TR USD	1.7	2.8	12.1	31.3	19.2	14.1	16.8	13.4
FTSE 100 TR GBP	3.1	3.4	17.2	10.9	1.8	0.7	5.4	3.1
Nikkei 225 Average TR JPY	2.3	2.9	21.2	41.3	21.4	11.8	16.1	9.8
SSE Composite PR CNY	2.3	0.8	12.4	31.8	11.1	1.8	5.8	2.1
Commodities in USD								
S&P GSCI Copper Spot	17.0	15.6	19.9	61.3	18.1	9.5	14.1	-0.8
LBMA Gold Price PM USD	-7.7	-6.5	-1.1	8.3	14.9	9.8	7.1	2.1
Oil Price Brent Crude PR	27.7	18.3	39.0	30.9	0.1	0.2	13.0	-5.2
LBMA Platinum PM PR USD	19.3	8.5	23.0	38.2	17.6	7.1	5.6	-4.0

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

	2021/02/28		YTD	Last Month	Last Quarter	1 Year	2 Years	3 Years	5 Years	10 Years
Currencies										
US Dollar	R	15.14	-3.1%	-0.5%	2.1%	3.9%	-3.6%	-8.0%	0.8%	-7.5%
Euro	R	18.10	-0.4%	1.1%	1.8%	-5.6%	-6.1%	-7.4%	-0.7%	-6.1%
Pound Sterling	R	21.16	-5.3%	-2.3%	-2.4%	-5.1%	-6.0%	-8.4%	0.8%	-6.1%

Source: Quandl

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