Market Perspective

Third Quarter 2021

Current Outlook – Global Recovery

Portfolio Position – Cautious

Vaccine rollout in the developed world has reached levels where their economies can more fully open up, and though international travel remains difficult it is picking up by the week. Vast stimulus programs have protected livelihoods and increased consumer confidence, with the result that most developed economies have bounced back strongly over the past few months, but questions remain about how durable that growth will be.

South Africa

South African equity markets have enjoyed a strong first half of the year with returns of 13% YTD. The Rand reached lows of R13,40 to the US$ in early June but has given up some of those gains to be at the R14,20 level in early July.

South Africa recorded another large current account surplus in the first quarter of 2021 as exports outpaced imports. In monetary terms the surplus was R267 billion which is the second largest on record. Robust commodity prices are expected to continue to support exports. South Africa's export-led recovery should give room to address some of the structural deficiencies in the economy.

The business confidence index was at its highest for three years at the end of May as the economy slowly recovers from the worst effects of the pandemic. Consumer confidence on the other hand is taking longer to recover.

The fight against endemic corruption in South Africa is gaining ground, and legislation to support business is being enacted, but progress is painfully slow. The riots over the past few days will test the resilience of the SA economy once again.

Developed Markets

In our last newsletter we mentioned that massive stimulus policies, and the prospect that they may continue in the USA and across the developed world have fuelled a euphoric equity markets rally, pushing valuations to historical highs. This remains the case.

The US equity markets are up 15% year to date as a consequence of the efficient vaccination program rolled out across the country. The US economy is recovering strongly and unemployment is now below 6%.

National debt across the developed world continues to rise rapidly as governments which have supported their economies since the Global Financial Crisis in 2009 have increased fiscal and monetary stimulus through the pandemic. Historically such debt levels tend to lead to lower GDP growth in the future.

Over the past 40 years tax rates for corporates and individuals fell significantly. This trend now looks to be reversing, especially under President Biden in the USA. In an historic development last month 130 countries of the OECD agreed to the introduction of a global minimum tax. Once implemented, higher taxes will affect corporate profits and valuations.

Equity markets continue to rise, fuelled by ongoing stimulus measures in developed economies and optimism about economic recovery. It is uncertain how sustainable these valuations really are.