

RUTHERFORD

ASSET MANAGEMENT

Market Perspective

Fourth Quarter 2021

Current Outlook – Global Recovery

Portfolio Position – Cautious

Now that the Covid 19 vaccine rollout in the developed world has reached levels where their economies can more fully open up, attention has shifted to global economic recovery. The pace of growth has slowed due to inflation levels, supply chain bottlenecks, energy shortages, and concerns over China's financial stability.

South Africa

The JSE Alsi fell 7,5% over the last few weeks from its highs in August. Similarly, the Rand has been under pressure since reaching R13,50 to the US\$ in June. It is now trading at levels near R15,00 because the Dollar has strengthened against most currencies on heightened global economic concerns.

South Africa recorded a trade surplus of R42 billion in August as exports continue to outpace imports. 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 inflation rate increased to 4,5% for the year as the economy recovers from the 2020 Covid lockdowns. We are now in the unusual position where SA inflation is lower than USA inflation.

With global warming now taking centre stage, the structure of Eskom as a large coal burning polluter is attracting international attention. This may be good news for SA. There is growing support from developed countries to look at ways to re-finance Eskom's massive debt in return for closing many of its coal fired power stations and replacing them with renewables such as solar and wind power.

Developed Markets

In our previous newsletters we noted that massive stimulus policies, and the prospect that they may continue in the USA and across the developed world have fuelled euphoric equity market rallies, pushing valuations to historical highs. The Federal Reserve has recently indicated that it will begin to withdraw their stimulus in the next few months.

US equity markets are down 5% from their August peak as investors become increasingly concerned about headwinds to global growth.

Inflation has turned out to be more persistent than first thought. The oil price has surged from \$37 in October last year to \$82 today. Gas and coal prices have also surged. This is likely to be inflationary.

Supply chain bottlenecks are becoming evident across many industries and spreading globally. The most visible was the sight of many of the UK's petrol stations running dry in September.

China's vast property sector is in the spotlight as Evergrande, its biggest property developer, looks likely to default on its \$300 billion of debt. Investors are concerned that a default of this magnitude could create a financial crisis in China.

Equity markets have entered a volatile phase as headwinds to global growth become more apparent. The effects of Covid 19 still linger and there are concerns that new variants will emerge.

Rutherford Asset Management provides information that we believe to be useful and accurate. The contents of this document are provided for information purposes only. All information is provided as is, without any representations or warranties of any kind. No representation is made that any illustration reflects the actual performance of any investor.

THE RUTHERFORD WAY