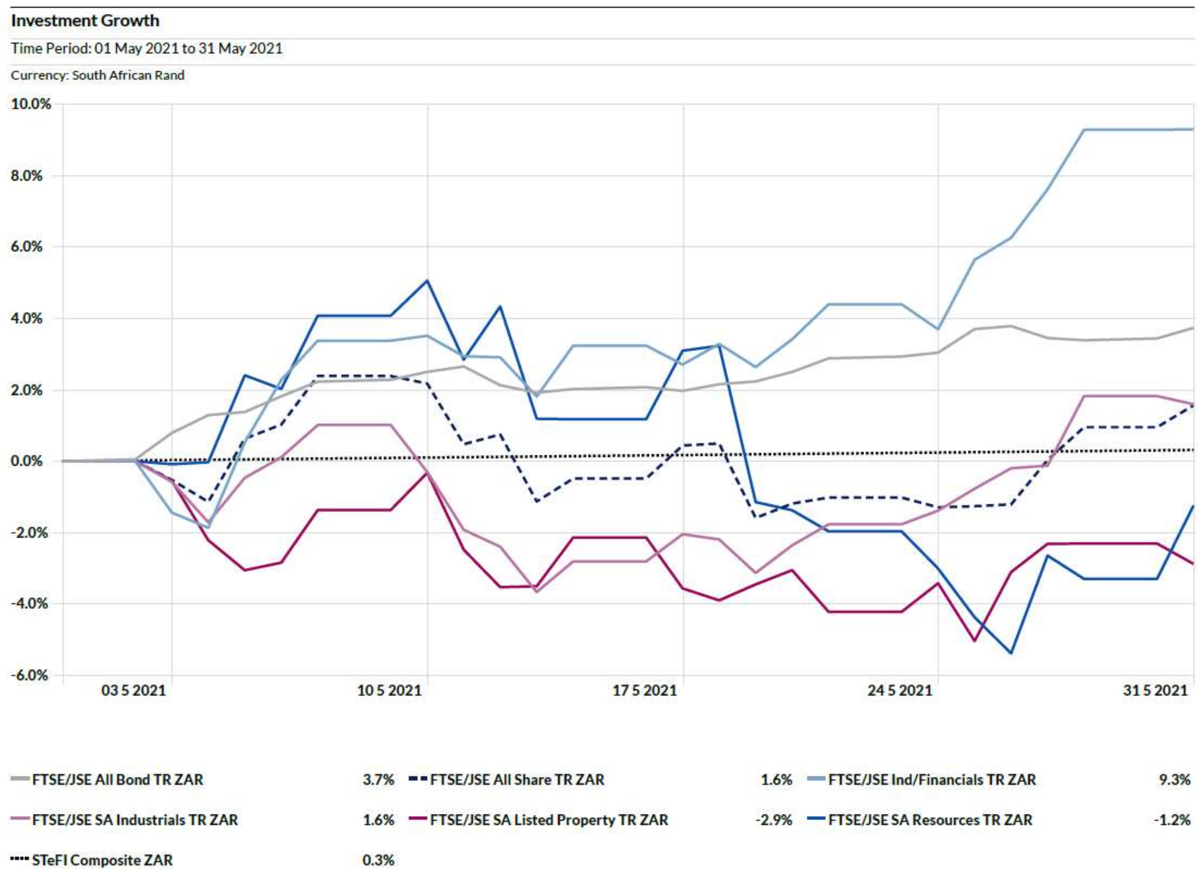

**MAY 2021**

May saw local equities continuing their strong run, as the FTSE/JSE ALSI posted yet another month of positive returns (+1.6%), the seventh consecutive positive month since the drawdowns in October last year. The local equity market was however in negative territory for a sizeable part of the month but managed to recover into month end. Declining commodity prices weighed on the resources sector (-1.2%) as China expressed concerns regarding the extent of the price increases. In contrast financials had a stellar month returning 9.3% as market sentiment improved.

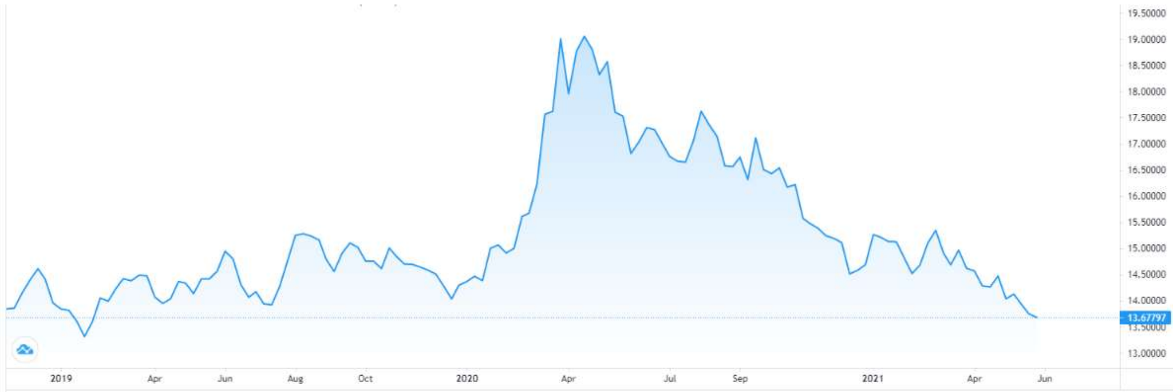
**Figure 1: Local asset class returns for May**




Source: Morningstar

Overall, bonds was the best performing local asset class, returning 3.7% (FTSE/JSE All Bond Index) as global yields stabilised and expectations increased for further fiscal improvements given the strong terms of trade. The rand continued to appreciate significantly over the month much to the surprise of many market participants. Relative to the US dollar it appreciated by a further 5.2%, finishing the month at R13.75, a level last seen in 2019. The large surplus on South Africa's trade account as a result of elevated commodity prices has been driving robust commodity exports and has been a key factor for the rand's strength.

**Figure 2: US dollar relative to the South African rand**




Source: www.tradingview.com

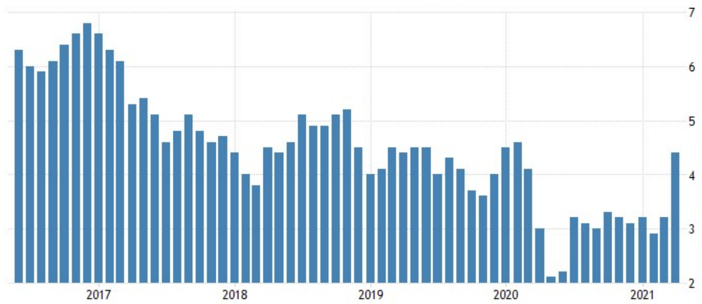
At the start of the month there was a big surprise when the US employment data came out much weaker than expected by the market. The expectations were for a million US non-farm jobs to be created in April, however the number came in much lower at only 266 000. In contrast, the average hourly wage increases on the month (+0.7%) was much higher than expected (+0.1%). One reasoning for the underwhelming report is that it is as a result of limited labour supply given the generous unemployment benefits, encouraging workers to rather stay at home than work. Whatever the reason behind the sharp miss on expectations, it helped ease concerns that the US Federal Reserve would be forced to start withdrawing its easy monetary policy sooner if the economy improves faster than expected.

This sentiment however did not last long as another notable macro-economic release a couple of days later showed the US inflation rate for April coming out much higher than expected. Core inflation increased +0.9% on the month relative to the expected +0.3%, leaving the annual core US inflation rate at 3% for April. This again reignited fears that the current spike in inflation might not be in fact transitory and that it will force the US Federal Reserve to withdraw easy monetary policy in an effort to contain it. Going forward we expect to see increased financial market volatility following macro-economic data surprises, such as we saw in May, as market participants try to anticipate the timing of the US Federal Reserve reducing its accommodative monetary policy.

Locally, South African Reserve Bank (SARB) held its third meeting for the year, where the Monetary Policy Committee (MPC) decided to keep the repo rate unchanged at 3.5%. The MPC's quarterly projection model continued to signal two 25 basis points hikes in the second half of this year, followed by 100bps increases in 2022 and 2023 respectively. This means that the repo rate is expected to return to 6% level only by the end of 2023. The projection model however is only to be used as a guide and could be subject to change as market conditions evolve. The MPC slightly lowered its inflation forecast for 2021 to 4.2% from 4.3%, while its inflation forecast for 2022 and 2023 were kept unchanged at 4.4% and 4.5% respectively.

Mid-month, the annual inflation rate was released for April, which showed that prices increased to 4.4% over the last 12 months, up from March's 3.2% increase. This was overall in line with the market's expectations of 4.3% and the highest level we have seen since February 2020. Majority of the increase was contributed by transport given the large increases (+21%) in fuel prices from the low levels a year ago.

**Figure 3: South African Inflation Rate**




Source: Statistics SA, tradingeconomics.com

Going forward macro-economic releases, specifically inflation will continue to be closely watched in the near term as it will be pivotal to the direction and speed that central bankers will move with regards to their monetary policy stance.  Much of the financial markets' strong performance since the height of the COVID- drawdowns in March last year, has been as a result of the significant monetary stimulus from global central banks and therefore it is important to be cognizant that any unexpected change in this stimulus will almost definitely cause market volatility.

| Index | Asset Class | May 2021 |
|---|---|---|
| STEFI Composite Index | Local Cash | 0.31% |
| Beassa ALBI Total Return | Local Bonds | 3.73% |
| FTSE/JSE SA Listed Property (Total Return) | Local Property | -2.88% |
| FTSE/JSE Africa All Share (Total Return) | Local Equities | 1.56% |
| JP Morgan World Govt Bond index (USD) | Global Bonds | 0.80% |
| EPRA/NAREIT Global Index (USD) | Global Property | 1.35% |
| MSCI AC World (USD) | Global Equities | 1.37% |

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