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LOCAL MARKETS
- A MONTH OF TURMOIL

July 2021 will be remembered for the worst looting and unrest in the country's history. The unrest engulfed KwaZulu-Natal (KZN) and parts of Gauteng during the week of 12 July in what appeared to be an insurrection aimed at undermining an already fragile economy and, in turn, President Cyril Ramaphosa's administration. The riots followed the incarceration of former President Jacob Zuma, who faces a 15-month sentence on contempt-of-court charges after failing to abide by an order to testify at the state capture commission.

While it will take months for the full impact of this to be realised, indicators released after the end of the month already show the setbacks the upheaval delivered. Conditions in the manufacturing sector fell to a 14-month low in July, highlighting the damaging effect of the fallout of the violent protests and the impact of stricter lockdown regulations that were in effect in July. The Absa purchasing managers' index (PMI) — one of the first data points to tally the impact of these adverse events on SA's economy — suffered a record single month decline of almost 14 points in July, as it slid to 43.5 index points, down from 57.4 in June.

The unrest and stricter lockdown also hit the vehicle industry. In its report about July vehicle sales Naamsa noted that this slowed down the recovery of the automotive industry in recent months. Year-on-year domestic sales lifted by a mere 1.7%, compared to 20.2% reported in June. According to a report published on Fin24 the unrest and the force majeure at Transnet caused logistical challenges on the N3 highway and the country's major ports. "Export sales declined by a third (33.1%). Vehicle exports and imports as well as vehicle production and the delivery of automotive components could take some time to normalise. Physical damages to assets and property, lost sales orders as well as the cancellation of new developments in the automotive industry are estimated at well over R3 billion."

JSE CLOSES HIGHER

On the JSE, the JSE All Share Index recorded strong gains – up 4.1% MoM (+16.1% YTD) as commodity, metals, and materials shares drove the JSE higher. The Resi10 soared 11.8% MoM (+22.8% YTD), while the Indi-25 just made it into positive territory with a 0.9% MoM gain (+13.0% YTD). Financials were down 1.5% MoM (+7.0% YTD), while the SA Listed Property Index retreated by 1.1% MoM following its impressive performance in June. BHP Group, the biggest company on the JSE by market cap, jumped 12.2% MoM, while Kumba Iron Ore, Anglo American Platinum (Amplats), and Anglo American soared 21.5%, 16.3%, and 14.8% MoM, respectively.

Richemont (+7.91% MoM) and Glencore (+7.88% MoM) also posted impressive gains. The regulatory crack-down in China weighed on Naspers and Prosus (the second-biggest share on the JSE) especially and the share prices of these companies were down 5.9% and 7.3% MoM, in sympathy with the Tencent share price drop.

Liberty Holdings (+33.2% MoM) was July's best-performer as its share price jumped after Standard Bank said that it intended to acquire all the shares it does not already own in the company (it has a 54% stake in Liberty) for R11bn. Another company which saw its share price rocket after a buyout offer is Imperial Logistics (+28.8% MoM), July's second best-performing share. Imperial Logistics was followed by ArcelorMittal SA (AMSA; +27.9% MoM) – the third best-performing share in July. The company returned to profitability in the six months to end-June, benefiting from higher steel prices that were lifted by the opening of the global economy and low supply-chain inventories.

Steinhoff (-14.8% MoM) was July's worst-performing share, following a court blow to the company's settle-ment plans. Alexander Forbes (-13.2%) was July's second-worst performer and was followed by construction Group Raubex (-12.7%) in third spot.

INFLATION SLOWS DOWN

June annual headline inflation, as measured by the consumer price index (CPI), came in at 4.9% YoY – down from 5.2% in May. Accommodation inflation edged higher, but StatsSA records housing rentals every quarter, with the latest survey taking place in June (2Q21). This component accounts for a sizeable chunk (17%) of the inflation basket and includes actual and imputed rentals. Fuel also recorded its third-consecutive month of double-digit inflation, but these relatively high rates come off the low base in 2Q20, when fuel prices were depressed.

As expected, at its July meeting, the SA Reserve Bank (SARB) kept interest rates unchanged at 3.5%. Overall, commentators viewed the tone of the statement as balanced, despite a better-than-forecast 1Q21 economic growth rate of 4.6%, the SARB cited concerns around the impact of the recent unrest and its ensuing economic damage on investor confidence and job creation. As a result, it estimates that the unrest has fully negated the better 1Q21 growth, resulting in an unchanged 2021 GDP growth estimate of 4.2%.

One snippet of better news was a report that booming tax revenues for the first quarter of the fiscal year will boost the government's plan to slow down rising debt and knock public finances into better shape even as it grapples with the effects of the level 4 lockdown and civil unrest. However, Business Day noted that "this is provided not too much of the windfall is spent ahead of next February, which would be difficult in a context of

INTERNATIONAL MARKETS
- MOST MARKETS ENDED IN POSITIVE TERRITORY

With some exceptions (notably China and Japan), most major global markets had a positive July. US markets ended the month with solid gains, although market volatility picked up towards the end of the month amid concerns about the momentum of the US economic recovery in the face of the spreading Delta variant. Added to that, China's clampdown on technology (tech) businesses and lofty expectations for US corporate earnings weighed on sentiment. Nevertheless, the blue-chip S&P 500 notched up its sixth-straight positive month in July (+2.3% MoM/+17.0% YTD), while the tech-heavy Nasdaq added 1.2% MoM (+13.8% YTD), and the Dow Jones rose by 1.3% MoM (+14.1% YTD).

On the US economic data front, 2Q21 GDP accelerated by 6.5% quarter on quarter annualised, as economic activity continued to normalise post pandemic. Although welcomed, the number was well below consensus economists' forecasts of growth of an 8.4% quarter on quarter. The Conference Board's July consumer confidence soared to a 17-month high at 129.1 – households' spending plans rose despite lingering concerns about higher inflation, suggesting that the US economy maintained its strong growth path early in the 3rd quarter.

The UK's FTSE 100 Index ended July slightly lower (-0.1% MoM/+8.9% YTD), breaking a five-month consecutive winning streak. In economic data, the UK's May GDP grew 0.8% MoM, weaker-than-expected and down from April's 2% MoM surge. Meanwhile, UK trade numbers showed a further recovery in May as exports to the EU rose to the highest level since October 2019. However, imports from the EU remained weak. On 19 July, the UK lifted nearly all COVID-19 restrictions despite high infection rates (and rising). CNBC reported that to date, 87.9% of UK adults have received the first dose of a vaccine and 68.3% have received both doses. Having both doses greatly reduce the risk of infection and hospitalisation.

ASIAN MARKETS HIT BY CHINA'S CRACKDOWN ON TECH COMPANIES

In Asia, the surge in regulatory risks in China on the back of a government crackdown on tech stocks resulted in a month of huge losses for that market. Hong Kong's Hang Seng Index fell 9.9% MoM (-4.7% YTD), its worst month since August 2018. Three of the five most valuable shares in the Hang Seng are tech companies domiciled in mainland China – Alibaba, Baidu, and Bilibili. Meanwhile, China's Shanghai Composite Index closed 5.4% lower MoM (-2.2% YTD). Investors remained cautious even after China's regulators said its policy actions were meant to the improve the sector, with the country's state-run media attempting to shore up sentiment by reporting that China remains open and supportive of its companies seeking a listing in offshore markets. In terms of economic data, China's official manufacturing purchasing managers' index (PMI) slowed in July, contracting to 50.4 from 50.9 in June.

In Japan, the Nikkei closed 5.2% lower MoM (-0.6% YTD) as uncertainty around the country's economic rebound increased following a significant nationwide rise in COVID-19 cases and government's decision to expand the pandemic state of emergency to four more prefectures. On the economic data front, Japan reported relatively strong 2Q21 data, before government started tightening COVID-19 restrictions once again as cases surged, with retail sales, industrial production, and employment all rebounding strongly in June.

On the commodity front, oil prices continued to edge higher in July (+1.6% MoM/+47.4% YTD) as investors hoped that vaccinations would alleviate a resurgence of COVID-19 infections globally and keep oil demand growing faster than supply. After falling 7.2% MoM in June, gold gained 2.5% MoM in July (-4.4% YTD), on renewed signs that the US Fed may not reduce economic support and hike rates in the near term. Gold jumped by 1.4% on 29 July after comments made by Fed Chair Powell that the Fed was "ways away" from considering interest rate hikes. Iron ore was down 10% MoM but is still 24.3% higher YTD.

Sources: Sources: Anchor Capital; Business Day, Fin24

SMART TIP

Does your portfolio include offshore investments and why is this important? Why you need to update your will. Do you have a living will and why do you need one? Why you should include a tax-free savings account in your overall financial plan. All these issues and more are addressed in the insights of our advisors shared on various media news sites, newspapers, and radio stations.

Find all our media coverage and investment reports here: Insights and audio and video.

NEWS FLASH

If you missed our webinar about trends for offshore investing with speakers Magnus Heystek, Magda Wierzycka, Mike Schüssler and Glyn Owen, view the recording here: Offshore Investing 2021 WEBINAR.

BRENTHURST WEBINAR
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