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Month in Review - August 2020

INTERNATIONAL MARKETS
- RALLY FOR US MARKETS

U.S. stocks wrapped up their best month since April, continuing an extraordinary rally fueled by stimulus from Washington, signs of economic revival and progress toward a coronavirus vaccine. All three major U.S. stock indexes have climbed for five consecutive months after a brutal February and March, that ended the longest bull market on record. The benchmark S&P 500 has surged 35% over that period, its largest five-month percentage gain since 1938.

The US markets’ outperformance came about despite concerns around a second wave of COVID-19 infections in the coming US fall and winter and the ongoing stalemate in Congress about pandemic aid.

Among the three major US indices, the S&P 500 continued its now five-month gains ending 7.0% higher MoM (up 8.3% YTD), although the index took a breather on the last day of August after a seven-day winning streak during which it reached new all-time highs. Since its 23 March-low, the S&P is up 60%. The Dow Jones Industrial Average (DJIA) jumped 7.6% MoM although it remains down slightly YTD (-0.4%). Still, both the S&P and the DJIA clinched their best August performance since 1986 and 1984, respectively.

The tech-heavy Nasdaq jumped 9.6% MoM, its fifth consecutive positive month and its best MoM performance since 2000 (when it gained 11.66%). The US dollar, however, remained under pressure, trading near two-year lows. Last week, US Federal Reserve (Fed) Chair Jay Powell addressed a virtual sitting of the annual Fed symposium in Jackson Hole saying that the Fed would switch to inflation targeting as part of its monetary policy. This implies that the Fed will pursue lower rates for longer, even if US unemployment (historically associated with rising price pressures) started to fall.

COVID-19 NUMBERS UP AGAIN IN EUROPE

In Europe, the August news flow has been dominated by the increase in the number of COVID-19 cases in several countries, including France and Spain, where the daily increase in cases is back close to the levels seen at the height of the crisis in March and April. However, so far, the percentage of COVID-19 tests that are positive remains below the World Health Organization’s recommended limit for reopening in all but Spain. Governments have implemented targeted measures, such as travel limitations and requirements to wear face masks, instead of new lockdowns. High frequency data, including travel and navigation app usage, suggest that the rise in infections has so far not damaged activity but advanced economic indicators, such as flash PMIs, suggest that business confidence has been affected.

The UK market recorded good gains, with the FTSE 100 Index rising 1.1% in August (-20.9% YTD). European equity markets closed in the green, with Germany's Dax advancing by 5.1% MoM (-2.3% YTD), while France's CAC rose 3.4% MoM (-17.2% YTD).

In Asia, the number of daily new COVID-19 cases rose in India, Indonesia, the Philippines and South Korea but declined in most other countries. In Latin America, the number of new cases remained high although the pace of gains slowed in Brazil, Mexico and Chile, while in the Middle-East and Africa, the number of reported new cases continued to decrease across most of the region.

The Nikkei closed the month 6.6% higher but is still down 2.2% YTD. China's Shanghai Composite Index rose 2.6% MoM (up 11.3% YTD), slowing after an impressive 10.9% gain in July, while Hong Kong's Hang Seng gained 2.4% MoM (-10.7% YTD). Chinese economic activity continued to rebound in August with the country's services sector gauge coming in at its strongest level since early in 2018.

LOCAL MARKETS -POLITICS DRIVE NEGATIVE SENTIMENT

On-going political turmoil in the governing party caused uncertainty for investors, which weighed on the local market, especially towards the end of August. In-fighting in the party and rumours of a possible cabinet reshuffle ahead of a meeting of the ANC NEC were contributing factors to the uncertainty, with the result that the FTSE JSE All Share Index ended 0.4% lower month on month (-2.8% year to date).

Several large cap shares and major constituents of the Index closed lower. These include Naspers (1-7% Mom), British American Tobacco (-0.8% MoM), AngloGold Ashanti (-10.8% MoM), Anglo American (-3.3% MoM) and Gold Fields (-1.6% MoM). The Indi-25 and Resi-10 closed with minor gains of 0.3% and 0.1% MoM, respectively. The Fini-15 had another difficult month and closed 4% lower, thanks to declines in the share prices of leading companies like Sanlam (-9.6% MoM), Capitec (-5.6% MoM), FirstRand (-2.9%) and Standard Bank (-2.8%).

August's top-performing shares looked very different from the resources-laden, top performers in July, with a smorgasbord of sectors and companies accounting for the month's best-performing shares. The announcement that SA would move to level-2 lockdown meant the legal sale of alcohol and cigarettes was allowed (positive for companies such as Distell, British American Tobacco) and it also lifted the prohibition on inter-provincial and leisure travel (which had badly impacted the hospitality sector and companies such as Sun International, City Lodge Hotels and Tsogo Sun.). In addition, it allowed longer trading hours (and the serving of alcohol) at restaurants.

Investment holding company, Invicta (+49.4% MoM) was August's best-performing share. In July, the share price jumped 48.7% after the firm entered into an agreement with CNH Industrial SA to sell four of the businesses within its Capital Equipment Group (CEG). After getting pummeled in July (-14.8% MoM), Massmart's share price fortunes saw a turnaround with the share price jumping 39.4% MoM – August's second-best performing share. Textainer Group (+33.9% MoM), which is owned by Trencor, was the third-best performing share after having reported better-than-expected results in August.

Fortress REIT -B- was the month's worst-performing share with a 24.0% MoM drop. Redefine (-22.3 MoM) was in second place and Telkom was August's third-worst performing share, declining by 21.6% MoM. By 31 August less than 2 000 new cases of COVID-19 were confirmed in a 24-hour cycle, with the Health Department saying that 1 985 new cases had been identified with a total of 627 041 confirmed cases in SA to date. The local recovery rate now stands at 86% vs a 66% recovery rate at the end of July.

INFLATION TICKS UP, VEHICLE SALES REMAIN UNDER PRESSURE

SA's July annual consumer price inflation (CPI) rose to 3.2% – back within the SA Reserve Bank's target range of 3% to 6%. It was also an increase from June's 2.2% YoY annual inflation rate and May's 2.1% as lockdown restrictions continued to ease. MoM, CPI rose 1.3% – the biggest MoM rise since February 2016, largely driven by fuel prices and municipal tariffs. SA recorded a trade surplus in July as imports continued to lag but exports rose on the back of improving global demand. The rand was only slightly up in August (+0.8%) and is down 21.0% YTD.

Sales of cars and commercial vehicles improved marginally in August. At 33 515, the total was just ahead of July's market which in turn was a bit better than June's. However, compared with sales in August 2019, when the industry achieved a total of 42 960 vehicles, the sales were 26.3% weaker.

For the year to date, the gap is even wider. Aggregate sales for the first eight months of 2020, at 228 190, were 34.6% % behind the 349 150 at the corresponding stage in 2019. The National Association of Automobile Manufacturers of SA (Naamsa) reports that the car rental industry, worn down by paltry demand from local customers and the prospect of no foreign visitors for months to come, bought only eight vehicles in August. That was equivalent to 0.04% of the new-car market — a fraction of the sector's 18% share in August 2019.

The index measuring manufacturing sentiment jumped to a 13-year high in August after further easing of COVID-19 restrictions supported domestic demand and exports. Absa's Purchasing Managers' Index (PMI), compiled by the Bureau for Economic Research, surged to 57.3 to from 51.2 in July, according to the latest PMI report. The median estimate of six economists in a Bloomberg survey was 50.9.

The reading is at the highest level since March 2007 and marks the first time since 2016 that the index has spent four straight months above 50, which signals expansion. However, it probably overstates the extent of the recovery in a sector that was almost completely shut in April and factory output is unlikely to have returned to pre-virus levels.

Sources: Business Day; Anchor Capital; Wall Street Journal; JP Morgan

TAX SEASON 2020 - During Filing Season 2020, SARS is focusing on ensuring that the data that is used to prepopulate individual taxpayers' tax returns is verified and correct, thereby limiting the risk and time spent on objections and corrections once returns have been submitted. During August 2020, a significant number of auto-assessments, based on third party data, will be issued. Read more >> **Tax returns** and **Tax Season.**

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