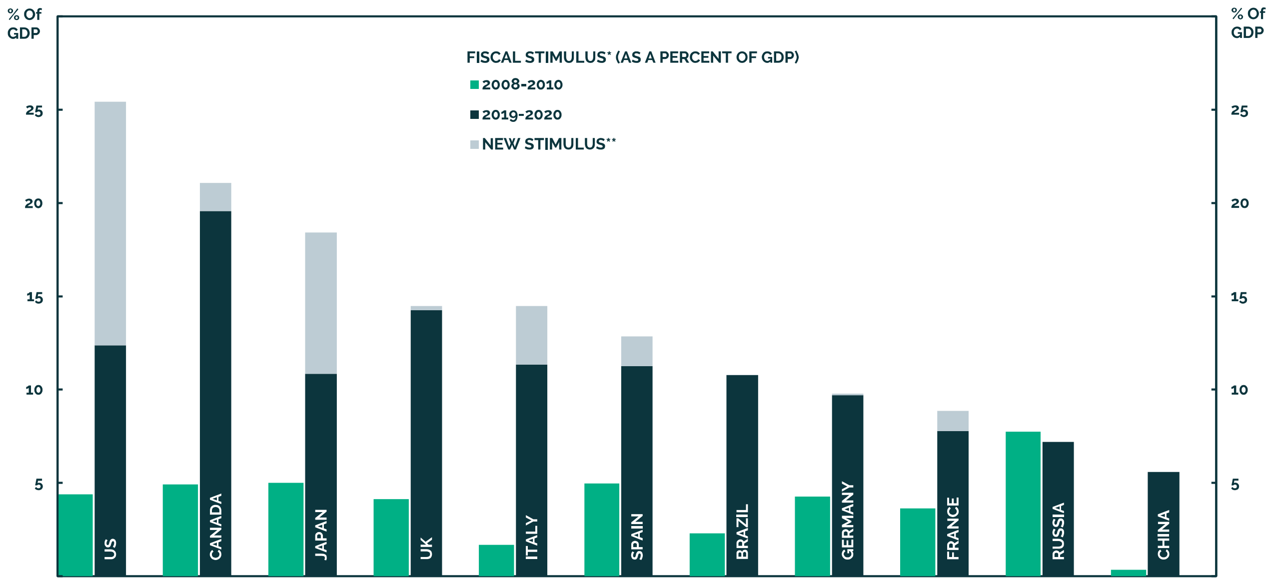
Market Synopsis – March 2021

The outlook for the global economy is hesitantly optimistic for the remainder of 2021. However, the recovery so far has been spread unevenly: Bloomberg's consensus forecast has US real GDP growing by 4.8% in the first quarter, whereas some market participants expect the economies in the Euro area, UK, and Japan to contract by 3.6%, 13.3%, and 5%, respectively. Two major factors have contributed to the US's short-term growth outperformance: Firstly, their rapid vaccination program since the beginning of the year has allowed state governments to ease lockdown restrictions. The US has so far administered 40 vaccine doses for every 100 citizens, only being beaten by the UK. Many parts of Europe are battling new waves of COVID-19 infections, resulting in their vaccination rates hovering around 15 per 100 citizens. Secondly, US fiscal stimulus has eclipsed all other nations. Over and above the USD 3.5 trillion already committed, on 11 March President Biden signed the USD 1.9 trillion *American Rescue Plan Act* into law – see Figure 1.

Unlike the previous administration's *Tax Cuts and Jobs Act*, this legislation is set to raise the income of the poor to middle-income population more than the wealthy. In January 2021, US households were sitting with USD 1.7 trillion in excess savings, compared to pre-COVID-19 levels. The most recent stimulus package is expected to increase this savings by an additional USD 300 billion by April. This extreme excess is supporting spending and driving the economic recovery. Real-time economic indicators, such as traffic congestion and restaurant occupancy are already approaching pre-pandemic levels in many American cities. Even the struggling airline and cruise ship industries are expressing optimism due to recent increases in bookings.

However, due to the nature of the stimulus packages, the supply side of the US economy may come under pressure. Roughly half of jobless workers will receive more income between now and September due to extended unemployment benefits than they would have made if employed. This may discourage many to re-enter the job market at this critical time when firms are attempting to ramp up hiring.

The above-mentioned supply and demand drivers have been slowly, but surely pushing inflation expectations higher. This, in turn, has resulted in bond yields creeping steadily higher. These recent increases in long-term bond yields may temporarily destabilise the equity market, however as long as yields do not increase sufficiently to trigger a recession the impact will not be long. There is also a degree of self-regulation to how high bond yields can rise, and equities can fall, when inflation rates remain



* CALCULATED AS THE ABSOLUTE VALUE OF THE CHANGE IN OVERALL BALANCE (NET LENDING/BORROWING AS % OF GDP). EXCLUDED LOAN GUARANTEES AND QUASI-FISCAL STIMULUS.

** NEW STIMULUS PLANS REVEALED AFTER OCTOBER 2020, INCLUDING: THE US' $2800 BN OMINIBUS BILL & BIDEN RESCUE PLAN, JAPAN'S THIRD RELIEF PACKAGE WITH $385 BN IN DIRECT FISCAL SPENDING, CANADA'S PROPOSED $78 BN STIMULUS PLAN OVER THE NEXT THREE YEARS (ASSUMING SPEND EVENLY), UK'S $6.2 BN NEW LOCKDOWN STIMULUS, ITALY'S $53.9 BN BUSINESS AID & STIMULUS, SPAIN'S $13 BN SMALL BUISNESSES AID, BRAZIL'S $ 8 BN EXTENDED FEDERAL CASH TRANSFER PROGRAM, AND FRANCE'S $24.3 BN BUSINESS AID PLAN. ADDITIONALLY, ITALY, SPAIN, GERMANY AND FRANCE'S NEW STIMULUS ALSO INCLUDE COMMITMENTS FROM THE EU RECOVERY GRANTS (EXCLUDING LOANS).

SOURCE: IMF FISCAL MONITOR (OCTOBER 2020) AND BCA CALCULATIONS.

Figure 1 – Global stimulus spigots are wide open

subdued. Higher yields lead to tighter fiscal conditions. This in turn leads to weaker growth, justifying an extension of the period of low rates. Only when inflation increases beyond a level that central banks find conformable do tighter financial conditions become desirable. We are currently far from an uncomfortable level of inflation. In this environment risk assets should continue to grind higher – see Figure 2.

The current bull market in equities will come to an end when central banks become concerned with rising inflation levels. The historical method of inflation targeting was based on forecasted inflation levels to decide when to increase rates. The Federal Reserve's current policy, which focuses on current rather than forecasted inflation, inherently guarantees inflation will eventually overshoot its target. This is due to the lagged impact of monetary policy on the economy – by the time the Fed starts to act, inflation will have already risen beyond its target. Investors concerned about long-term inflation hedging should reduce duration exposure in fixed income portfolios, and increase their exposure to real assets such as equities, commodities and property.

Historically investors have flocked to gold for inflation protection. Recently there has been many investors that have started to favour cryptocurrencies as an alternative. We, however, do not believe this is appropriate for a long-term investor seeking to mitigate this risk. Cryptocurrencies may provide similar inflation hedging properties to gold, but it may be at odds with the increasingly popular ESG investing approach. The current annual energy consumption of mining Bitcoin exceeds the energy consumption of individual countries such as Sweden, Ukraine, and Argentina – see Figure 3 on the following page. Roughly 70% of all mining taking place in China, which relies heavily on coal power. With countries and individual companies placing more importance on ESG, in general, the future of crypto mining may be at risk.

Like the US is currently experiencing, the rest of the global economy should accelerate during 2021 and beyond. Cyclical sectors tend to outperform when global growth is in an upswing. Markets outside of the US are currently more exposed to cyclical sectors such as energy, consumer discretionary, industrials, and materials. These sectors usually outperform coming out of a downturn, leading us to favour Japan, Europe, and Emerging Markets. We also group banks into the cyclical category as increased economic growth tends to decrease bad loans, while also putting upward pressure on bond yields which drives banks' profitability. Boosted global growth coupled with bottlenecks in global supply chains should maintain the momentum in commodity prices over the medium term: Capital investment into the oil and gas sector, as an example, has fallen by 50% over the past 7 years, leading us to believe that the annual growth in demand for crude oil to outpace its supply over the remainder of 2021. The increase in popularity of electric vehicles may be a long term threat to oil, it is a boon for

		US 10-Year Treasury Yield (%)			S&P 500		
TROUGH	**PEAK**	**At Trough**	**At Peak**	**Change (ppt)**	**At Trough**	**At Peak**	**Change**
Oct 15, 1993	Nov 07, 1994	5.19	8.05	2.86	470	463	-1.4%
Jan 18, 1996	Jul 05, 1996	5.53	7.06	1.53	608	657	8.1%
Oct 05, 1998	Jan 20, 2000	4.16	6.79	2.63	989	1446	46.2%
Jun 13, 2003	Jun 12, 2007	3.13	5.26	2.13	989	1493	51.0%
Dec 18, 2008	Apr 05, 2010	2.08	4.01	1.93	885	1187	34.1%
Jul 25, 2012	Dec 31, 2013	1.43	3.04	1.61	1338	1848	38.2%
Jul 05, 2016	Nov 08, 2018	1.37	3.24	1.87	2089	2807	34.4%
Aug 04, 2020	Mar 19, 2021	0.52	1.74	1.22	3307	3913	18.3%

Figure 2 — S&P 500 performance vs 10-year Treasury yield increases

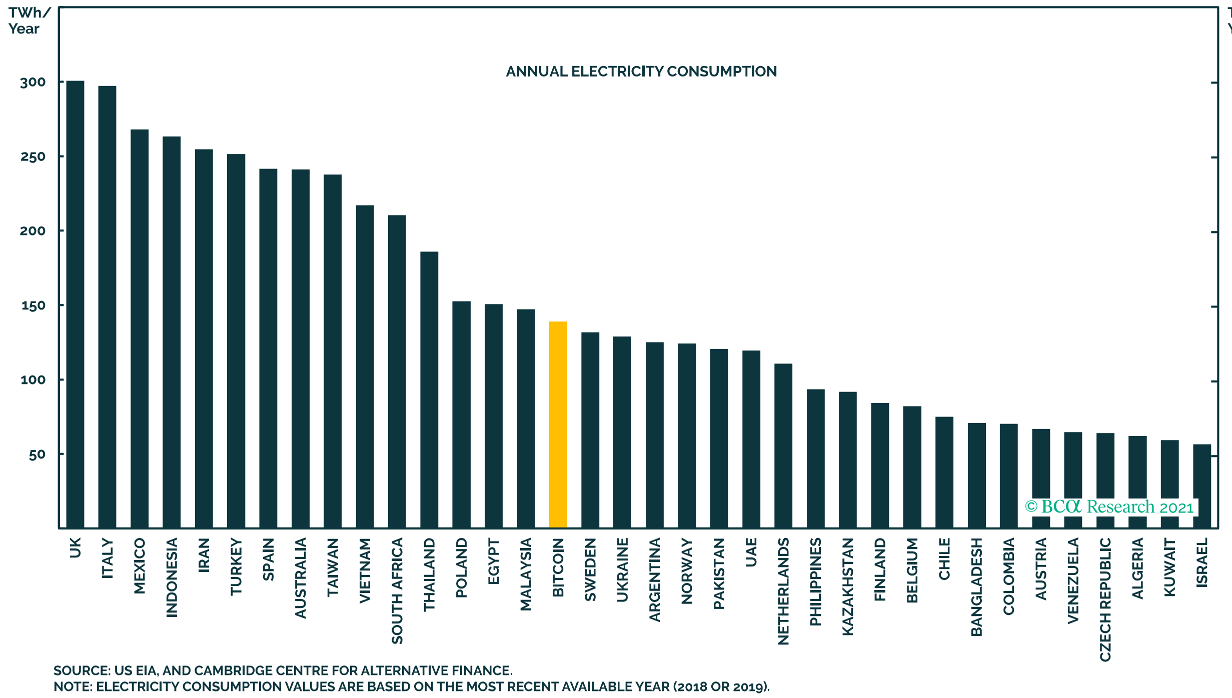
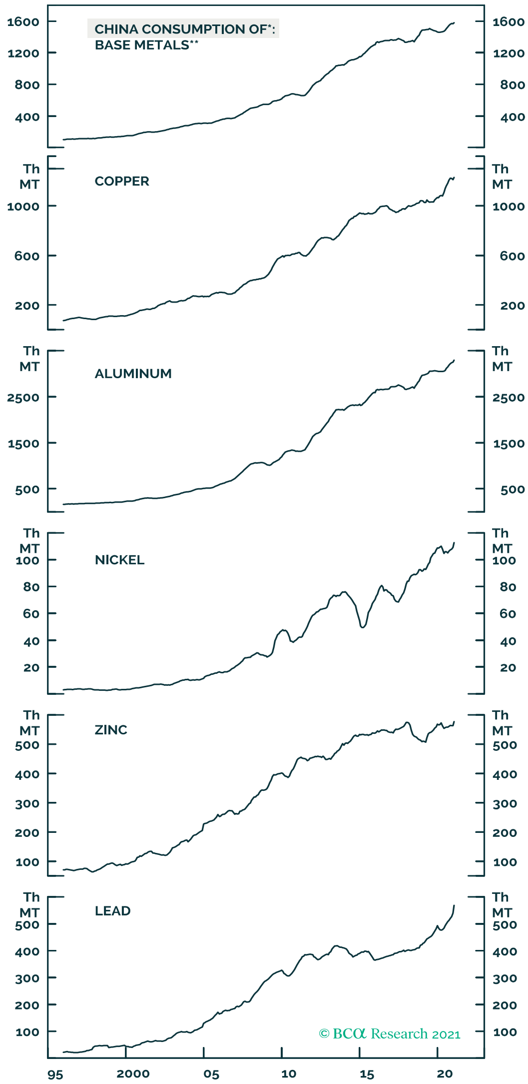


Figure 3 – Annual electricity consumption of Bitcoin vs countries

many metals. The demand for key production metals such as copper, lithium, and nickel is expected to increase multiple fold over the next 10 years. By 2030, 15% of the annual copper production is expected to go to electric vehicle production alone. Commodity prices are also still being boosted by Chinese demand. Even though the world's second largest economy is growing slower than in the past, its current volume demand for commodities is double what it was 20 years ago and 5 times more (in monetary terms) than at onset of China's industrialisation process – see Figure 4 on the following page.

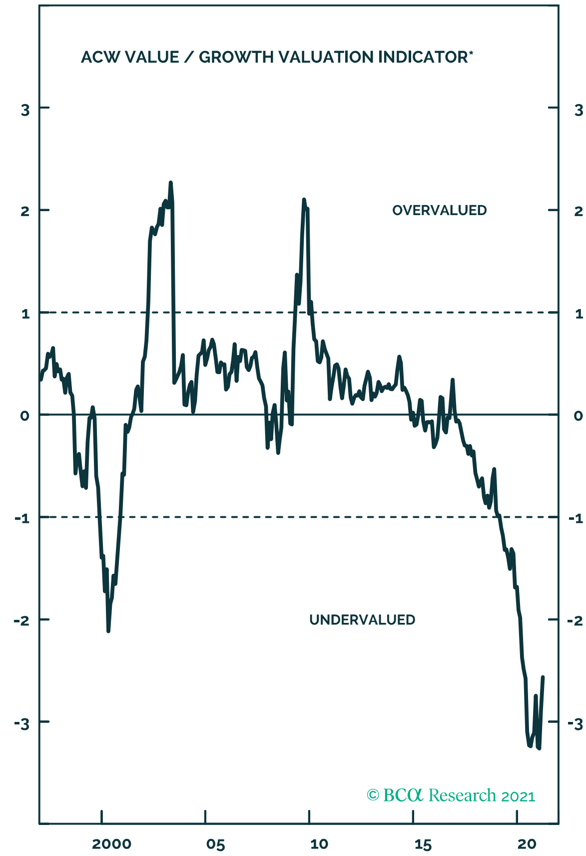
Cyclical sectors and banks currently dominate value equity indices. Value is still far cheaper relative to growth – see Figure 5 on the following page. Since the start of the year, traditional value sectors have also experienced higher earnings revisions compared to tech companies.

Further aiding our decision to favour non-US companies is the expected US corporate tax rate increase. The Biden administration and the Democrat-controlled senate is wanting to increase the corporate tax rate from 21% to as high as 28%. Capital gains taxes are also planned to be increased. These tax changes should not to topple the US economy, but they will detract from the performance of US equities relative to their international peers. The high likelihood of increasing global bond yields, as well as the emergence of a new bull market in commodities, amongst other tailwinds, makes us believe that the recent



* SHOWN AS 12-MONTH MOVING AVERAGES.
** WEIGHTED BASED ON CHINESE CONSUMPTION VALUE (IN USD TERMS) OF COPPER, ALUMINUM, ZINC, NICKEL, LEAD, AND TIN. REBASED TO JANUARY 1996 = 100.
SOURCE: WORLD BUREAU OF METAL STATISTICS AND BCA RESEARCH CALCULATIONS.

Figure 4 – China's broad metal consumption



* BASED ON RELATIVE PRICE/BOOK, PRICE/EARNINGS, AND DIVIDEND YIELDS.
SOURCE: REFINITIV/IBES AND MSCI INC. (SEE COPYRIGHT DECLARATION).

Figure 5 – Value at multidecade lows

For more information on this Market Synopsis or to discuss solutions provided by Integrity Asset Management, please contact us at:

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Indicator	Spot	MTD	YTD	Y-o-Y
Gold	1 708.25	-1.5%	-10.0%	8.3%
Brent Crude	63.54	-3.9%	22.7%	179.4%
USDZAR	14.7617	-2.4%	0.6%	-17.1%
EURZAR	17.3446	-4.9%	-3.3%	-11.2%
GBPZAR	20.3711	-3.2%	1.7%	-7.7%
JSE All Share TRI	10 484.62	1.6%	13.1%	54.0%
JSE Resources TRI	4 852.53	1.3%	18.7%	90.4%
JSE Industrials TRI	17 693.92	1.6%	12.4%	37.0%
JSE Financials TRI	7 721.23	1.1%	2.3%	37.1%
JSE Listed Property TRI	1 308.32	1.2%	6.4%	34.4%
S&P 500	3 972.89	4.2%	5.8%	53.7%
Euro STOXX 50	8 515.14	7.9%	10.7%	43.5%
FTSE 100	6 481.71	4.2%	5.0%	21.9%
Nikkei 225	48 537.95	1.4%	7.0%	56.7%
Hang Seng	85 122.19	-1.8%	4.5%	23.9%

Source: Bloomberg, as at 31 March 2021