MENTENOVA

HOUSEVIEW TACTICAL ASSET ALLOCATION

19 November 2020

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We kept our overweight positions in SA nominal bonds unchanged, reduced our overweight position in inflation-linked bonds to neutral, increased our position in foreign equity from neutral to overweight, and reduced our neutral position in foreign bonds to underweight, with SA cash being the balancing figure.

Figure 1: Houseview Tactical Asset Allocation

Asset class	--	-	Neutral	+	++
SA cash					
SA bonds					
SA inflation-linked bonds					
SA listed property					
SA equity					
Foreign cash					
Foreign bonds					
Foreign equity					

Synopsis

We have made a few changes to our TAA positions. We remained overweight in SA nominal bonds as they continued to be attractive from an implied yield, real yield and hedged yield perspective. Furthermore, we believe improving domestic political sentiment and risk-on sentiment will benefit local bonds from a foreign investment flows perspective. We also reduced our moderately overweight position in inflation-linked bonds to neutral, given the limited upside inflation risk and relatively greater attractiveness of nominal bonds over inflation-linked bonds. We chose to stay neutral in SA equity and SA-listed property. The fundamentals for domestic risk assets remained largely unchanged over the past month, with some near-term improvement in domestic sentiment as the local economy opened up further. A higher (vaccine-linked) risk appetite may also bring some short-term gains, but consumers remain under pressure as recovery in the labour market remains slow and structural challenges persist. We prefer offshore equities over offshore bonds given the historically low yields and the promise of more predictable foreign policy and trade policy under a Biden administration, and as the global economy continues to recover – albeit at a slower rate as a new surge in COVID-19 infections disrupts the recovery momentum.

TAA Overview

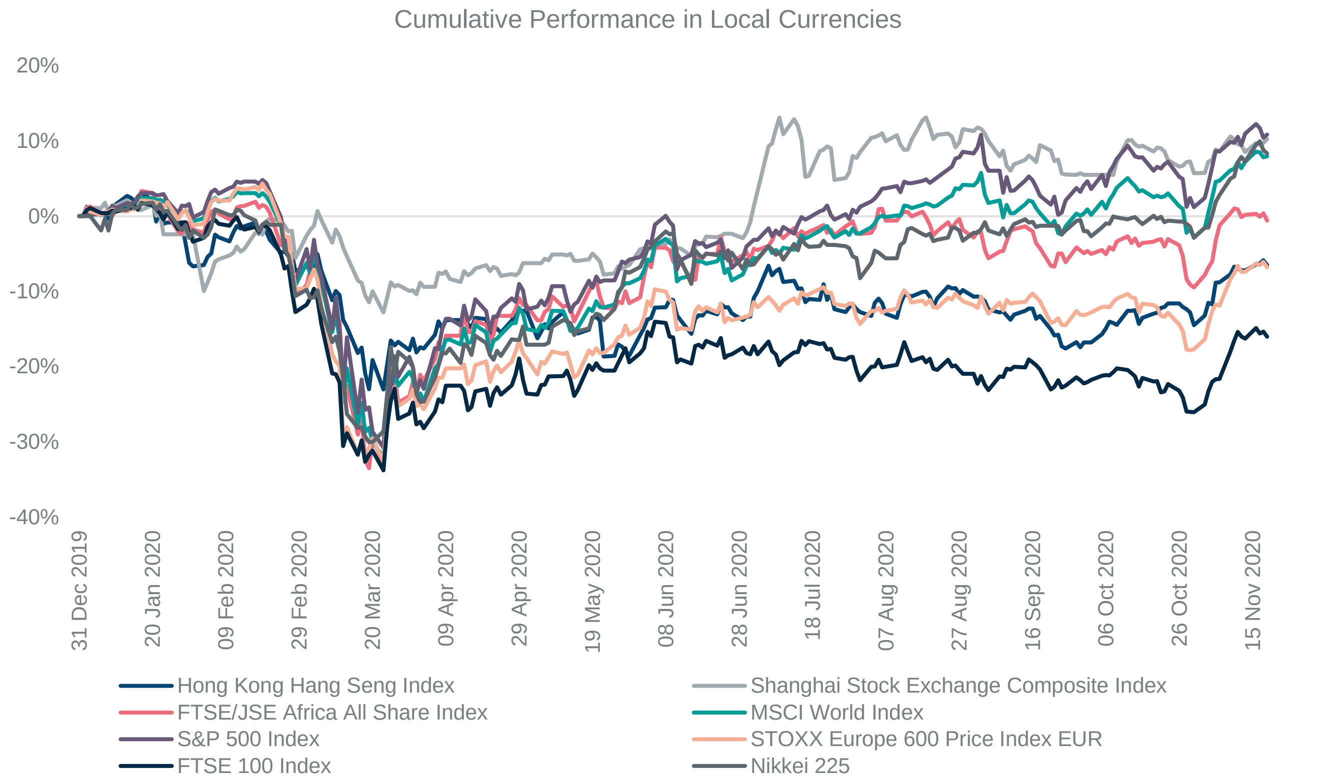
Equities ended October in the red and stock prices were under pressure in the face of the impasse over the second US fiscal stimulus bill, the resurgence of high COVID-19 infection rates in many parts of the world, the reintroduction of restrictions to curb the spread of the virus, a steady hospitalisation rate, and uncertainty surrounding the US election outcome. These large-scale issues overshadowed the strong US earnings performance over the period. According to FactSet Research, 64% of the S&P 500 companies reported earnings by the end of October, of which 86% outperformed analysts' estimates. Risk assets came back strongly in November with promising vaccine trial results reported by Pfizer, Moderna and AstraZeneca. The dust also seems to have settled on the US presidential election, with Joe Biden, the Democrat presidential-elect, having defeated Donald Trump. In a departure from Trump's nationalistic approach, Biden is expected to mend fractious relationships with the US's democratic allies and forge closer co-operation with like-minded countries. Meanwhile, the Republicans managed to hold off a blue wave, gained seats in the House and are likely to retain control of the Senate, depending on Georgia's senate runoff. Inheriting a divided Congress is likely to constrain Biden's policy options.

Figure 2: Major indices and asset class returns in ZAR

31 October 2020 (ZAR)	1M	3M	YTD	1 Year	3 Year (annualised)	5 Year (annualised)	10 Year (annualised)	MTD 18 November 2020
FTSE/JSE ALSI Total Return	-4.7%	-6.5%	-7.1%	-5.8%	-1.3%	2.2%	8.7%	10.9%
FTSE/JSE Capped SWIX Total Return	-4.2%	-6.1%	-13.6%	-12.2%	-5.3%	-1.1%		12.4%
S&P 500 Total Return	-5.1%	-4.0%	19.7%	18.5%	15.7%	15.4%	23.0%	3.5%
STOXX 600 Total Return	-8.0%	-9.0%	1.4%	-0.6%	2.6%	5.4%	12.8%	10.3%
Nikkei 225 Total Return	-2.5%	3.0%	19.0%	13.8%	11.5%	12.5%	18.4%	7.0%
MSCI World Total Return	-5.4%	-4.5%	15.3%	13.3%	11.7%	12.3%	18.9%	5.2%
MSCI ACWI Total Return	-4.8%	-4.1%	15.7%	13.8%	11.2%	12.3%	18.1%	5.1%
MSCI EM Total Return	-0.4%	-1.8%	17.8%	17.3%	7.2%	11.9%	11.9%	3.8%
STEFI	0.3%	1.1%	4.7%	5.9%	6.8%	7.1%	6.4%	0.2%
ALBI	0.9%	1.7%	2.7%	4.9%	8.5%	7.5%	7.6%	3.4%
IGOV	1.2%	3.4%	-0.3%	-0.8%	1.2%	1.9%	5.9%	1.9%
WGBI	-2.6%	-5.2%	24.5%	14.4%	9.5%	7.4%	10.7%	-4.1%
SAPY Total Return	-8.5%	-18.9%	-50.9%	-51.6%	-26.5%	-14.7%	0.7%	16.1%
MSCI US REIT Total Return	-5.0%	-9.1%	-6.0%	-14.7%	4.6%	5.7%	16.6%	6.1%
STOXX 600 Real Estate Total Return	-7.5%	-9.2%	-5.7%	-7.8%	2.4%	1.6%	12.9%	10.1%
Crude Oil	-10.8%	-17.3%	-33.9%	-32.8%	-11.1%	-2.3%	0.5%	12.2%
Aluminium	2.2%	3.1%	18.9%	13.7%	-0.5%	8.0%	6.3%	2.5%
Copper	-1.8%	0.2%	26.7%	25.1%	4.2%	9.1%	6.7%	0.0%
Gold	-0.4%	-4.9%	23.8%	24.2%	13.9%	10.5%	3.3%	-0.3%
Platinum	-7.5%	-10.5%	2.1%	-1.9%	2.0%	0.3%	1.5%	5.7%
Nickel	0.0%	0.0%	0.0%	0.0%	1.8%	4.8%	1.1%	0.0%
Palladium	-6.5%	1.3%	32.6%	33.1%	37.4%	31.0%	23.1%	0.0%
Iron Ore	-4.9%	2.5%	58.7%	49.3%	32.2%	22.2%		-2.5%
USDZAR	-3.0%	-4.8%	16.0%	7.6%	4.8%	3.3%	8.8%	-4.8%
GBPZAR	-2.8%	-5.8%	13.4%	7.7%	3.9%	-0.3%	6.5%	-2.5%
EURZAR	-3.6%	-5.9%	20.5%	12.4%	4.8%	4.4%	6.8%	-3.2%
JPYZAR	-2.3%	-3.7%	20.4%	11.1%	7.7%	6.3%	6.0%	-4.1%

Source: Bloomberg

Figure 3: Cumulative returns YTD as at 19 November 2020



Source: Bloomberg

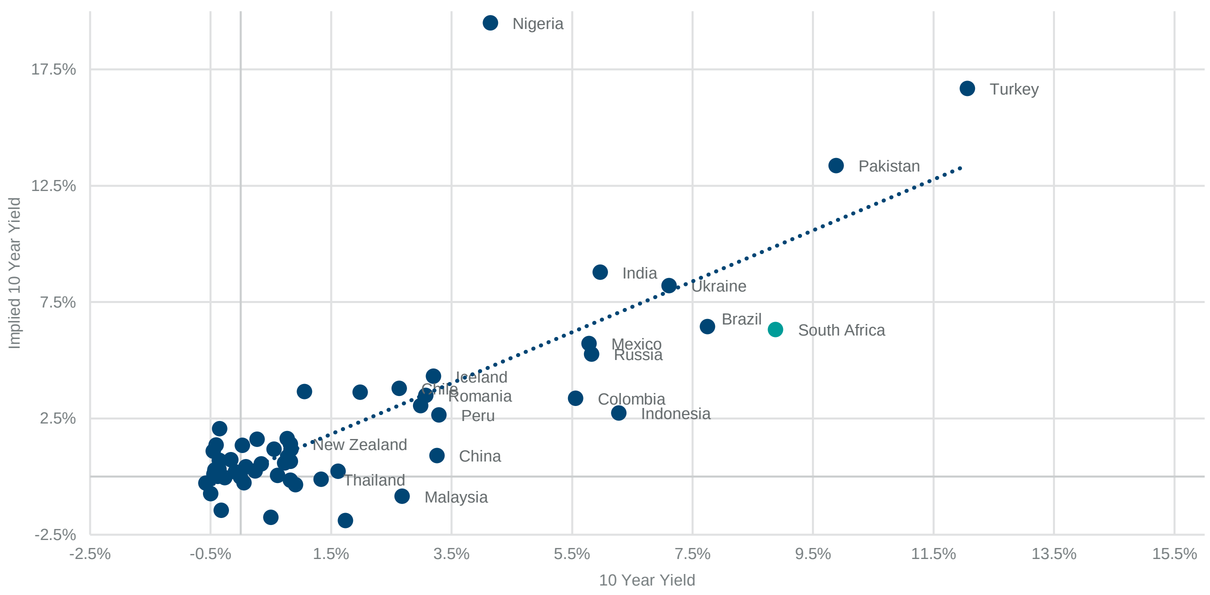
The Chicago Board Options Exchange (CBOE) Volatility Index declined from a peak of 40.28 on 28 October 2020 to 23.10 on 13 November 2020. Similarly, the JSE Securities South African Volatility Index declined from 24.60 to 20.46 over the same period as risk sentiment improved.

We reiterate our overweight positions in SA nominal bonds. The investment case for our domestic nominal bonds is that this asset class continues to be attractive from an implied yield, real yield and hedged yield perspective. The spread between the implied and actual 10-year nominal yield increased slightly from 328bps to 340bps over the past month.

Figure 4: South Africa 10-year nominal yield vs the implied yield as at 30 October 2020

Source: Bloomberg. The implied SA 10-year nominal yield is calculated using the US 10-year Treasury yield, US-SA inflation differential and 10-year CDS spread.

Figure 5: 10-year nominal yield vs the implied yield as at 13 November 2020

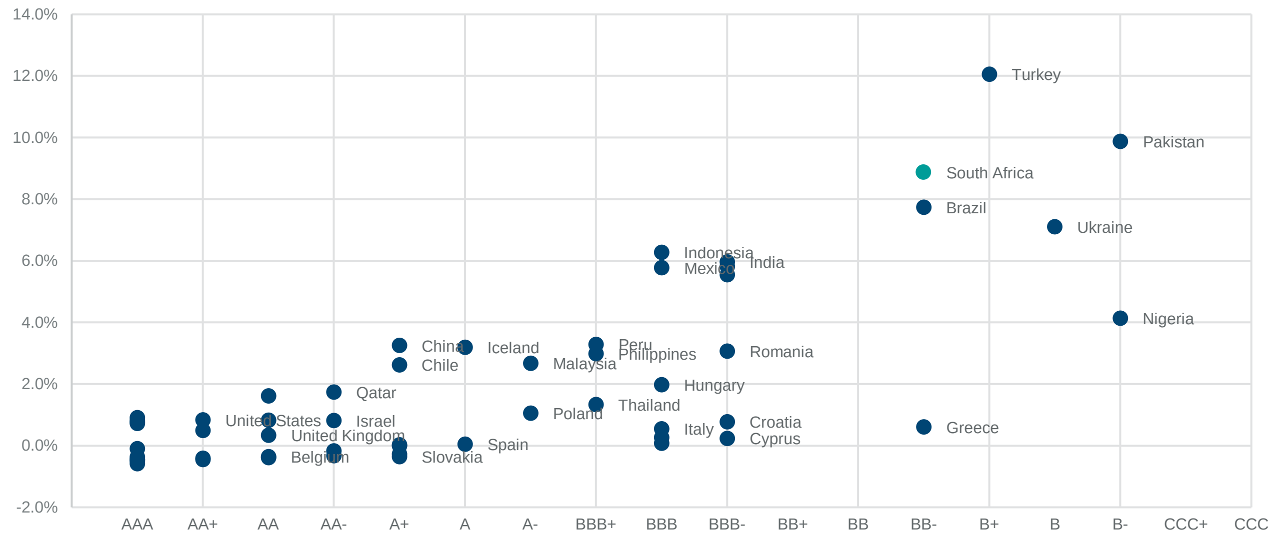


Source: Bloomberg

The South Africa 10-year nominal and real yields remained elevated compared to countries with similar or inferior ratings. In addition, yields remained steady after Moody's cut South Africa's credit rating from Ba1 to Ba2 and Fitch cut South Africa's foreign currency credit rating from BB to BB- on Friday last week. S&P kept its rating at BB- with a stable outlook, while both Moody's and Fitch issued a negative outlook.

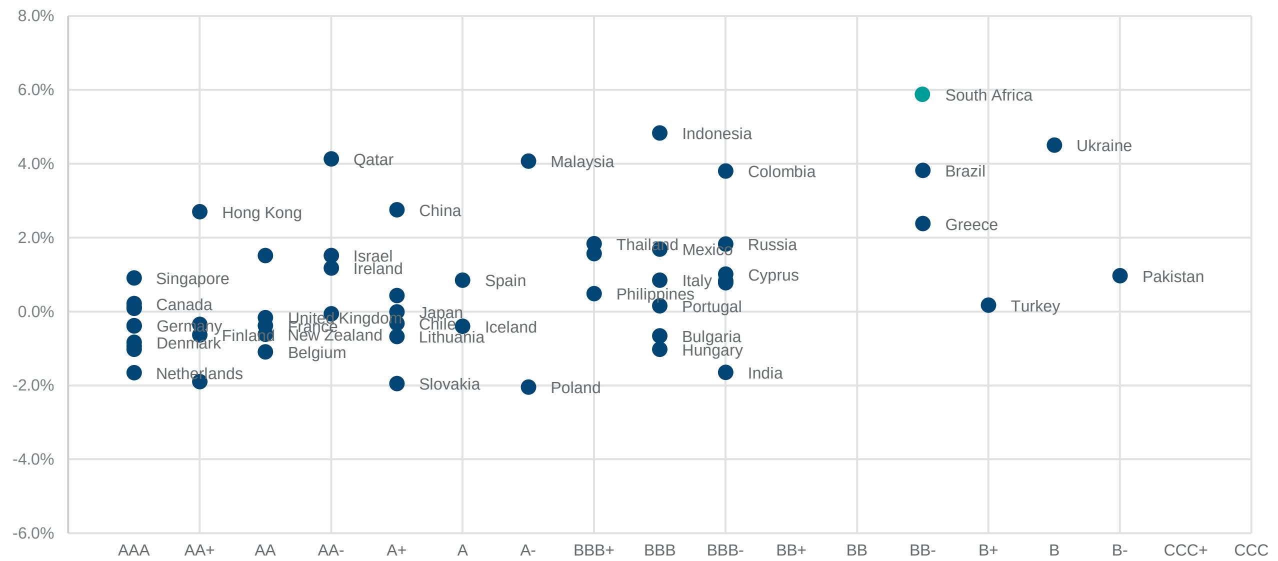
Rating agencies remained concerned about South Africa's fiscal deterioration and the country's general ability to implement much-needed structural economic reforms, particularly in view of the significant implementation risk and the government's poor track record in using wage negotiations to drive savings in expenditure.

Figure 6: 10-year nominal yield vs S&P credit rating as at 13 November 2020



Source: Bloomberg

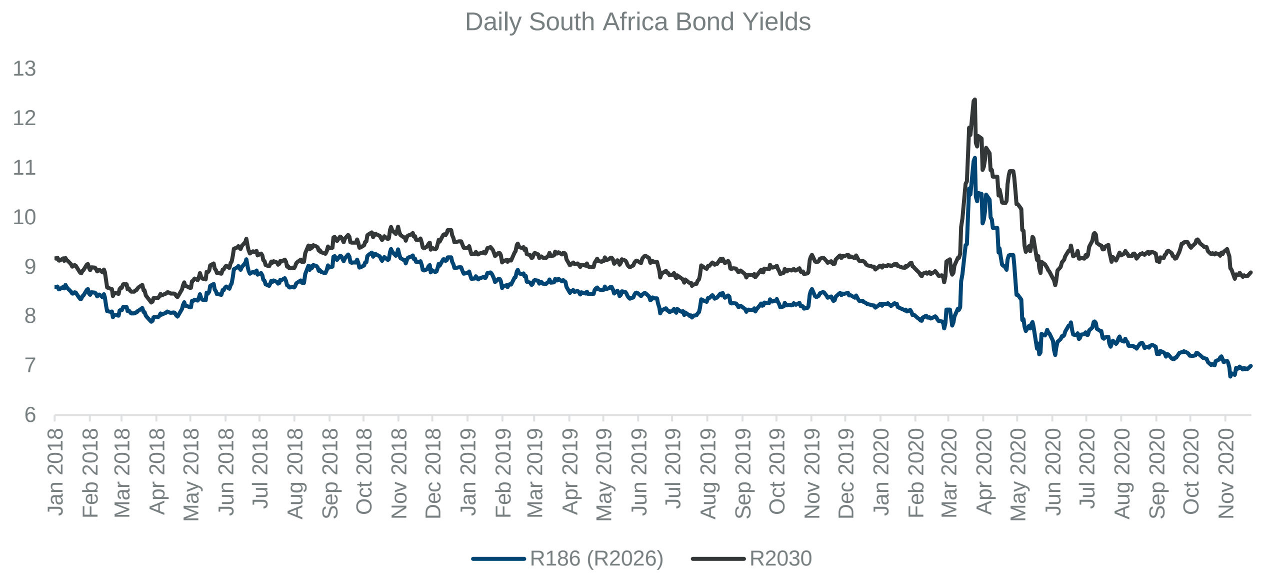
Figure 7: 10-year real yield vs S&P credit rating as at 13 November 2020



Source: Bloomberg

As South Africa descends deeper into junk status, which will increase the country's borrowing costs, yields have seen limited fallout, partly because the downgrades were mostly priced in by the market and partly because of optimism surrounding a vaccine, with the start of the US political transition also boosting investors' risk appetites.

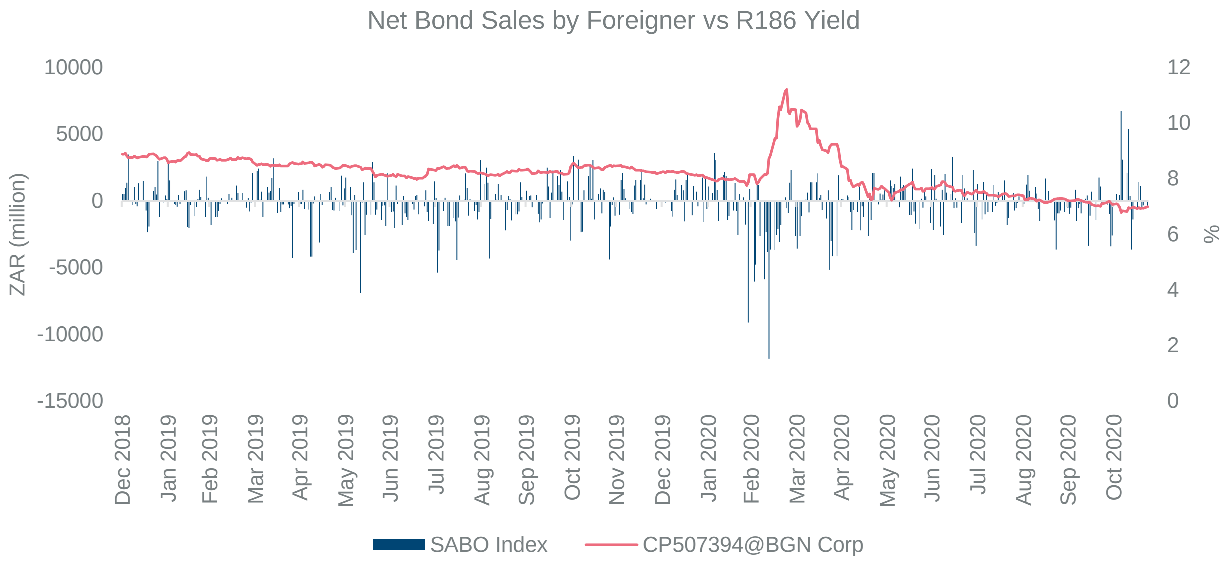
Figure 8: SA bond yields



Source: Bloomberg

For the year to date as at 13 November 2020, foreign investors had net sold US$3.6 billion-worth and US$7.2 billion-worth of local bonds and equities, respectively. We saw some strong flows from foreign investors into local bonds in early November, reducing the year to date's net sales of local bonds by foreign investors by roughly $860 million.

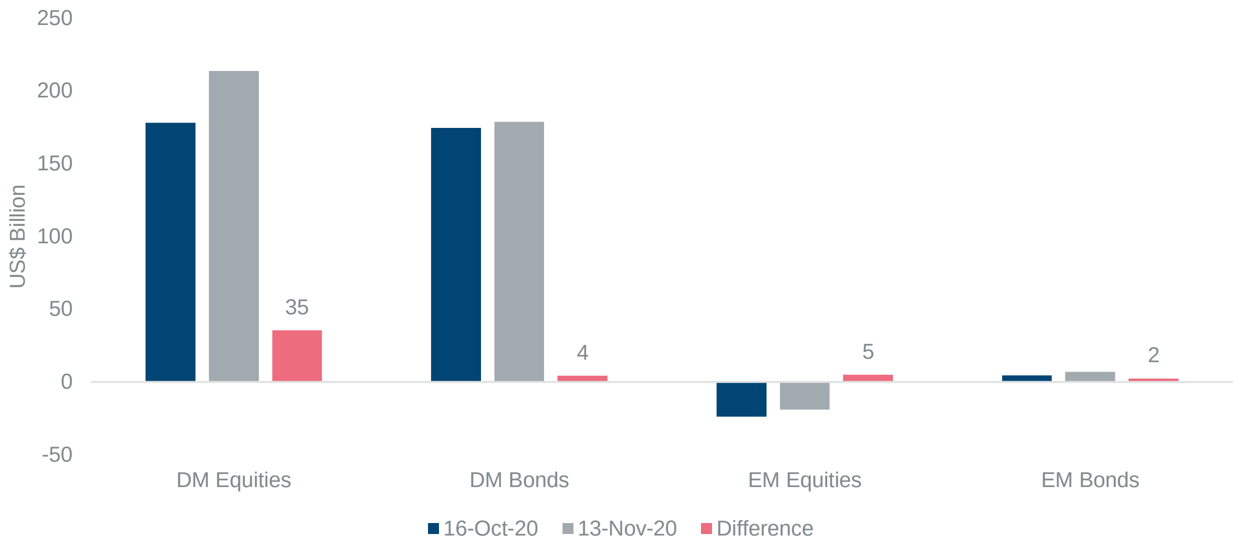
Figure 9: Net sales of local bonds by foreigners vs R186 yield



Source: Bloomberg

We saw that net flows per exchange-traded funds indicated inflows into both developed and emerging market equities and debt over the past month.

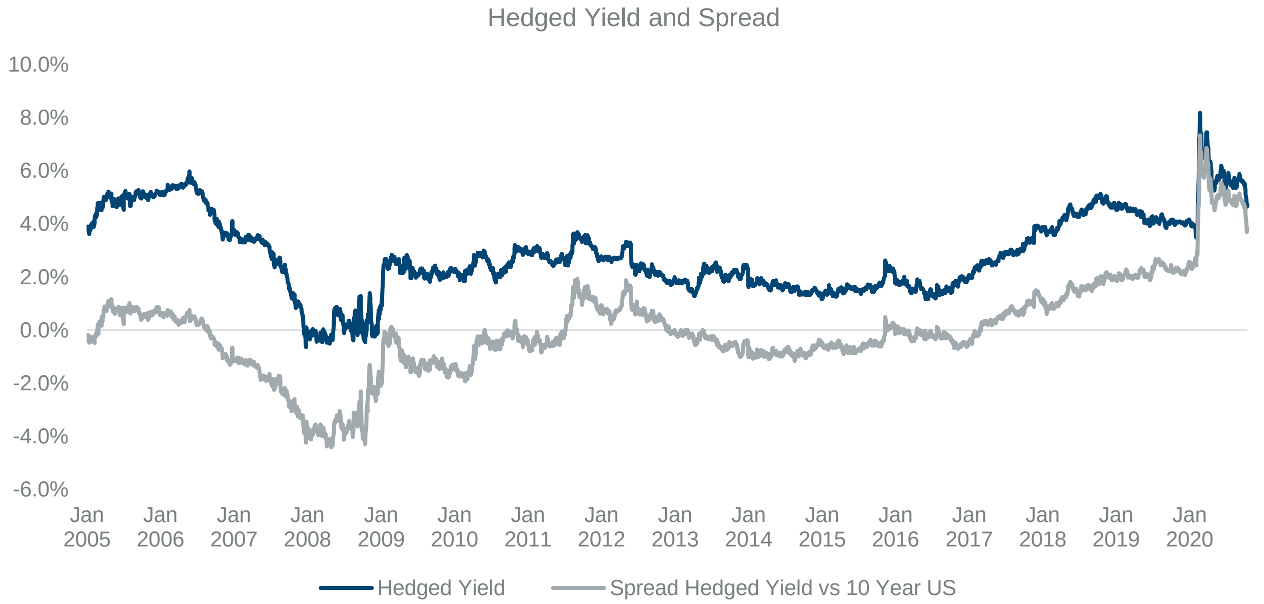
Figure 10: Exchange-traded funds' net flows into developed markets and emerging market equities and bonds as at 16 October 2020 and 13 November 2020



Source: Bloomberg

From a hedged yield perspective, local nominal government bonds remained attractive; however, the spread narrowed from 4.86% to 3.84% over the past month.

Figure 11: US$-hedged 10-year bond yield over time

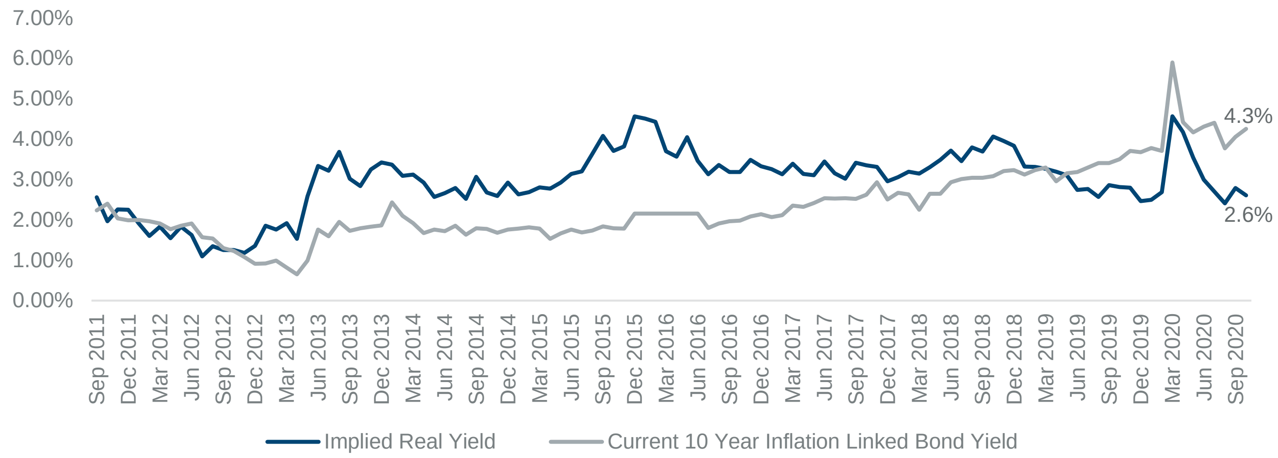


Source: Bloomberg

We believe offshore investors will also be drawn to South African bonds as inflation has been well contained. We therefore decided to remain moderately overweight in SA nominal bonds.

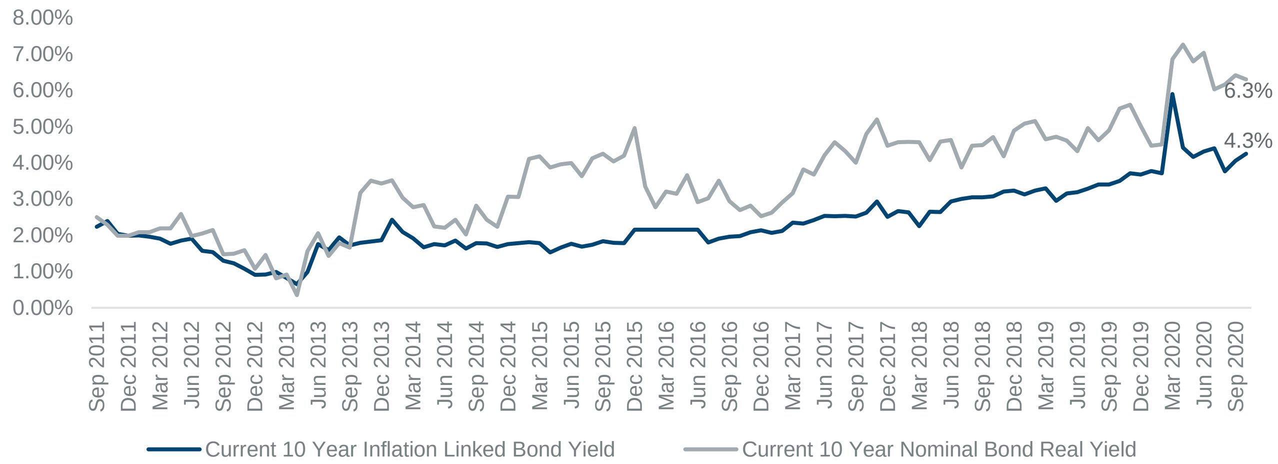
For inflation-linked bonds, we have performed a similar analysis by comparing the 10-year yield to the implied yield, based on the US 10-year TIPS and 10-year CDS spread. The current spread of 170bps indicates that our inflation-linked bonds are also under-priced but not as attractive as nominal bonds, as shown in Figure 12 below. However, the spread between the 10-year nominal bond real yield and 10-year inflation-linked bond yield has narrowed further from 220bps to 205bps over the month.

Figure 12: 10-year inflation-linked bond yield vs implied real yield as at 30 October 2020



Source: Bloomberg

Figure 13: 10-year real yield of nominal bond vs inflation-linked bond



Source: Bloomberg

SA inflation continued to hover at the lower end of the target range, with a September CPI of 3.0%, year on year. A few categories, such as alcoholic beverages and tobacco, showed a steady or more pronounced price uptick.

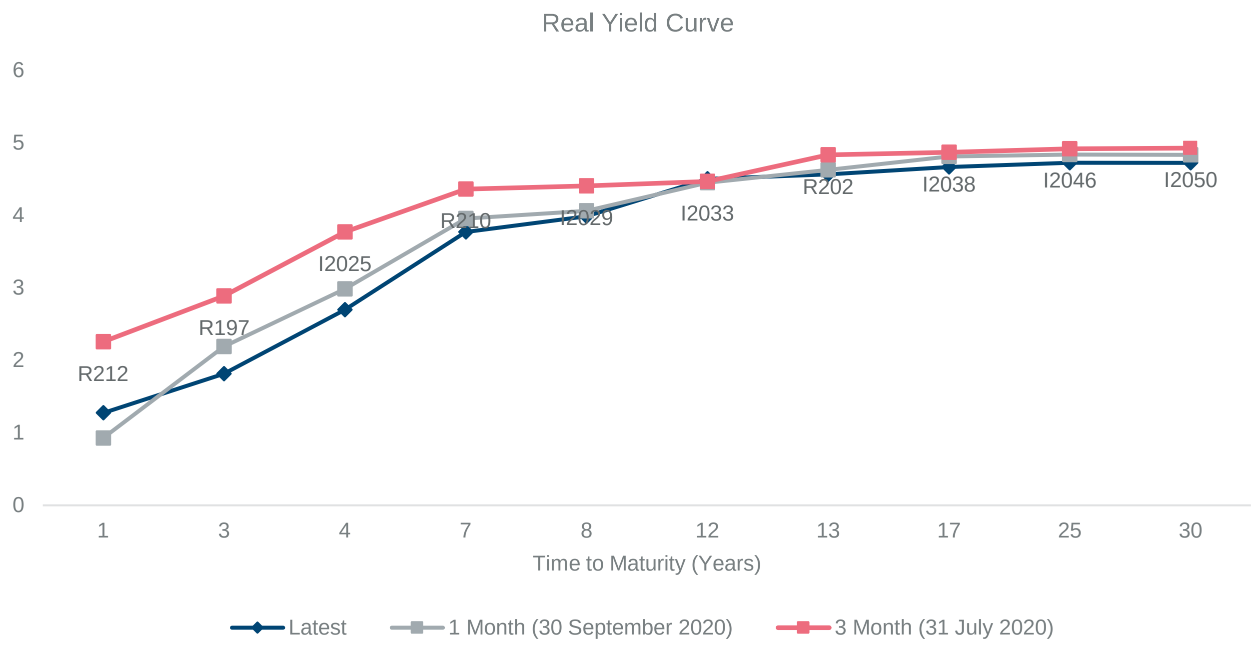
Figure 14: SA inflation YoY% per category

Reported		4.1%	3.0%	2.1%	2.2%	3.2%	3.1%	3.0%
	Weight	March YoY	April YoY	May YoY	June YoY	July YoY	August YoY	September YoY
Housing & Utilities	24.6%	4.8%	4.6%	4.5%	4.0%	3.2%	3.1%	2.8%
Food & Non Alcoholic Beverages	17.2%	4.2%	4.4%	4.4%	4.2%	4.3%	3.9%	3.9%
Miscellaneous Goods & Services	15.1%	6.4%	6.4%	6.2%	6.1%	6.7%	6.6%	6.5%
Transport	14.3%	3.4%	-3.5%	-8.4%	-5.9%	0.0%	0.2%	0.3%
Alcoholic Beverages & Tobacco	5.8%	3.7%	2.3%	1.3%	1.4%	2.4%	3.2%	4.1%
Recreation & Culture	5.2%	0.9%	0.4%	0.9%	1.1%	1.2%	1.0%	1.2%
Household Contents & Services	4.4%	2.6%	2.4%	2.0%	1.7%	1.8%	1.9%	1.5%
Clothing & Footwear	3.8%	2.3%	1.4%	0.6%	0.6%	0.4%	0.2%	0.2%
Restaurants & Hotels	3.1%	1.4%	1.0%	0.0%	0.3%	1.1%	0.6%	-0.5%
Communication	2.6%	0.1%	-0.3%	-0.4%	-0.1%	-0.2%	-0.3%	-0.2%
Education	2.5%	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%
Health	1.4%	4.6%	4.8%	3.9%	3.8%	3.9%	4.1%	3.9%

Source: Bloomberg

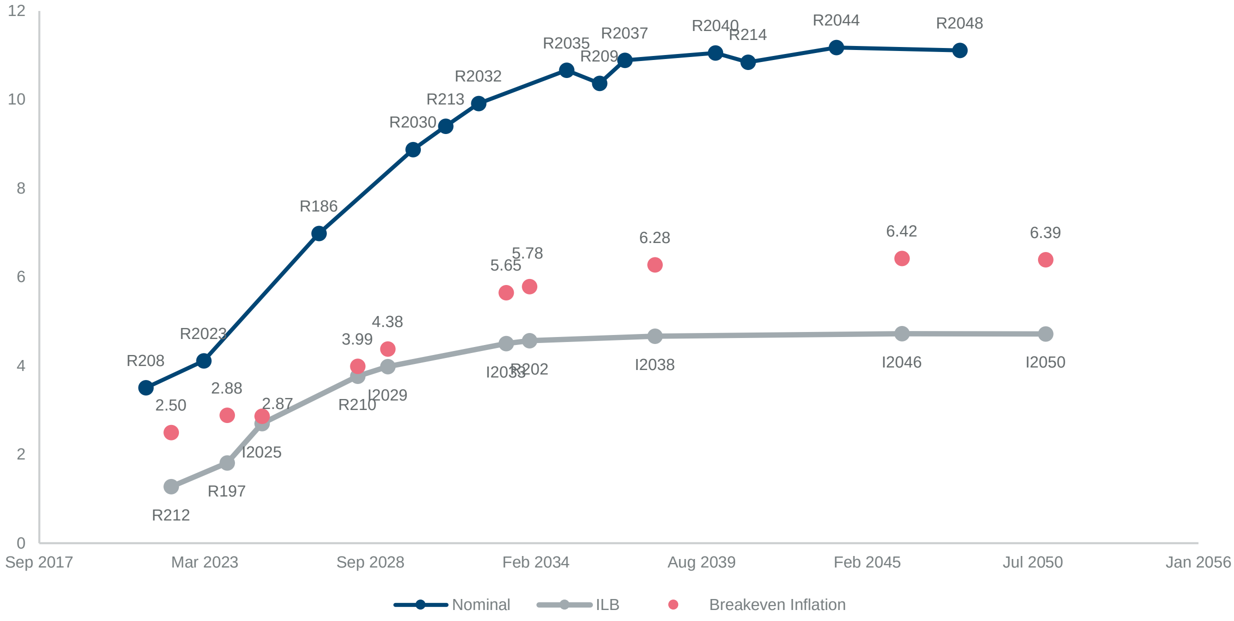
The real yield curve stayed largely unchanged over the past month, while the breakeven inflation rates implied from the nominal and inflation-linked bonds shifted lower by 44bps across all maturities.

Figure 15: SA real yields as at 13 November 2020



Source: Bloomberg

Figure 16: SA nominal and real yields as at 13 November 2020



Source: Bloomberg

We chose to reduce our moderately overweight position to neutral in SA inflation-linked bonds. They continue to be attractive relative to cash and from an implied real yield perspective. However, given the limited upside inflationary risk driven by weak domestic demand, we prefer SA nominal bonds, which offer a high implied real yield. We consider them to be a more attractive source of income in a yield-starved world. We will monitor this space closely as loose monetary policy and rising production costs, post-COVID, could lead to higher inflation, but surprise downward pressure on growth could lead to further stimulus.

We reiterate our neutral positions in SA equity and SA-listed property. From a valuation perspective, SA equity appears to be less attractive than SA-listed property, driven by the relative underperformance of the latter, despite its strong rebound so far in November. For the year to date as at 18 November, the SAPY index was still down at 50.9%. Fundamentals remain constrained for both, but domestic sentiment has steadied and we expect further improvements with less COVID-19 social distancing restrictions, while warmer weather has also reduced the risk of a second wave during the upcoming festive season.

Figure 17: FTSE/JSE All Share price-to-earnings ratio

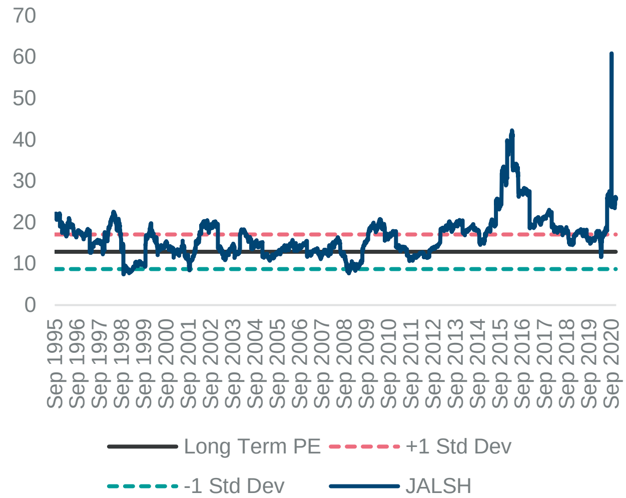
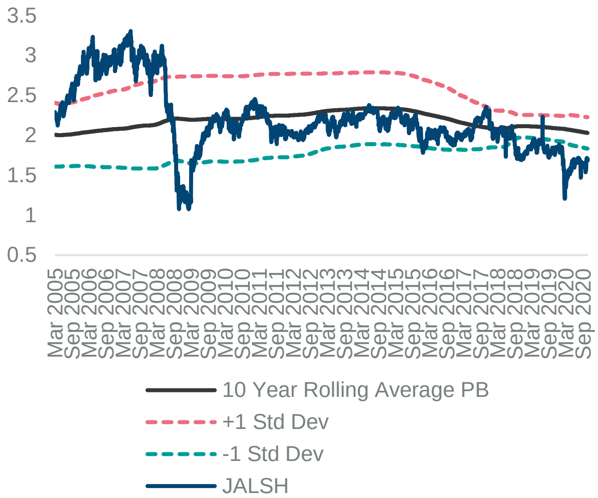


Figure 18: FTSE/JSE All Share price-to-book ratio



Source: Bloomberg, the spike in the PE ratio in September was related to an internal data glitch related to Hammerson PLC. The technical team at Bloomberg should fix it in the coming days.

Figure 19: FTSE/JSE All Share price-to-sales ratio

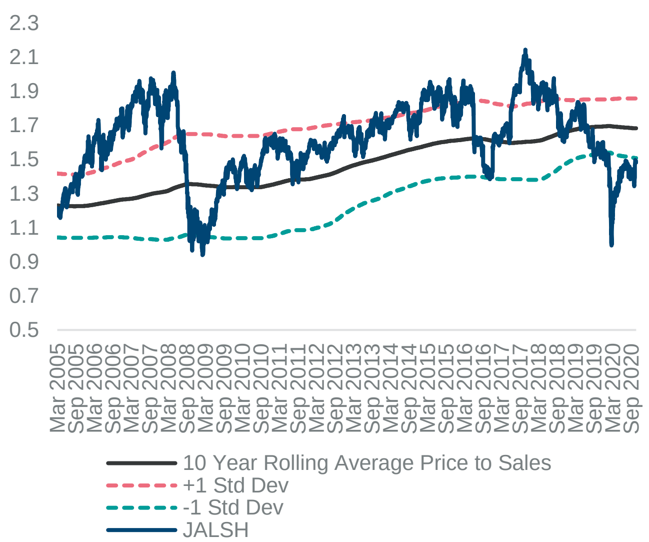
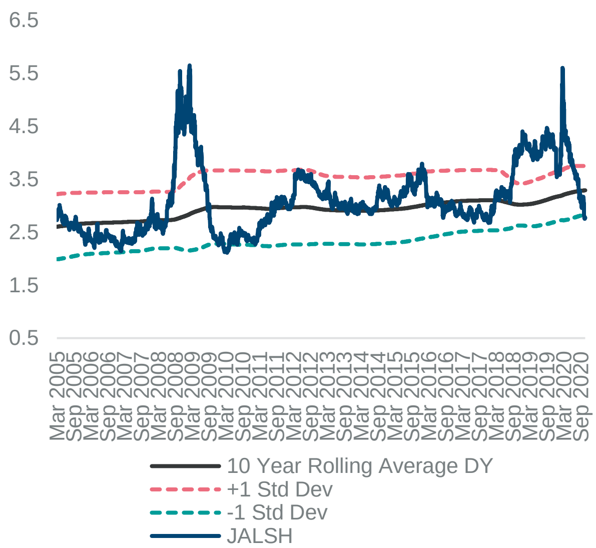
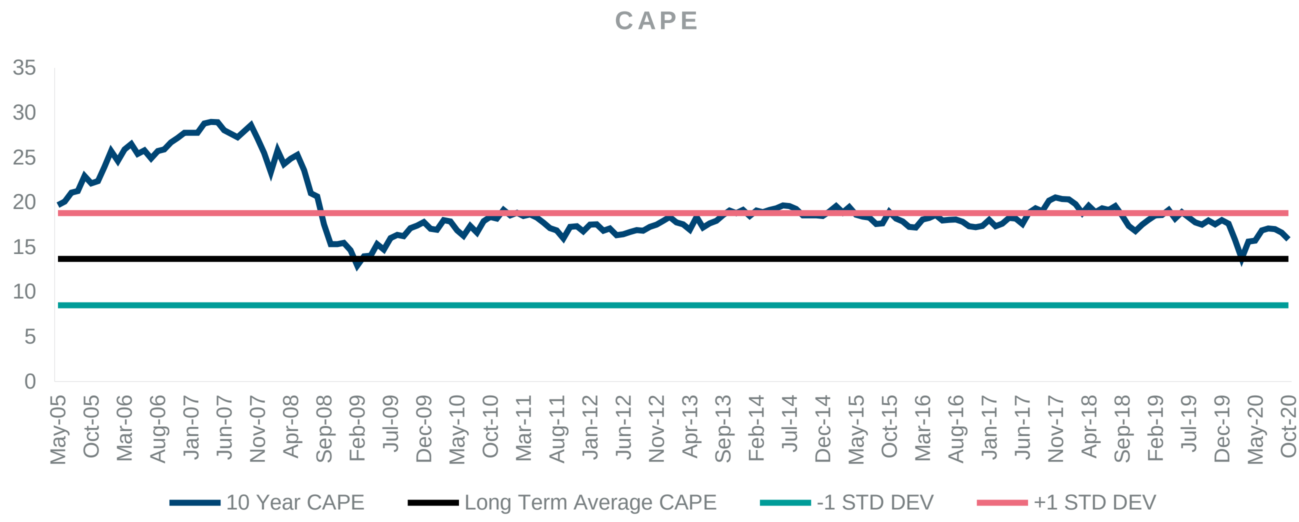


Figure 20: FTSE/JSE All Share dividend yield



Source: Bloomberg

Figure 21: FTSE/JSE All Share cyclically adjusted price-to-earnings ratio



Source: Bloomberg

Figure 22: SAPY yield spread relative to FTSE/JSE All Share Index

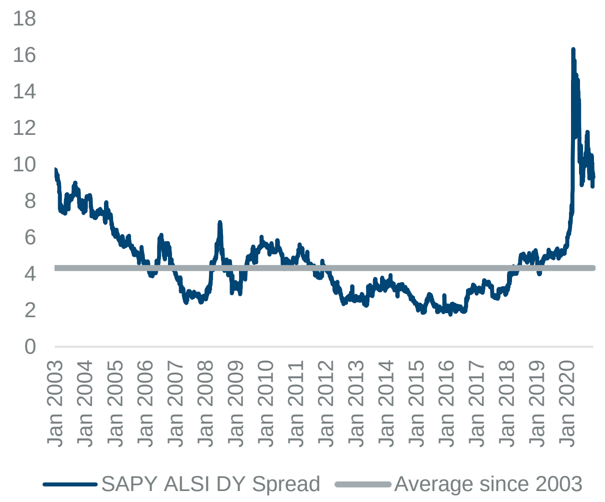
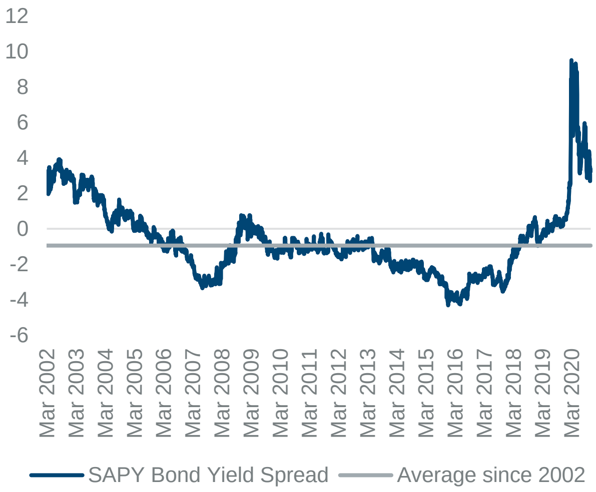
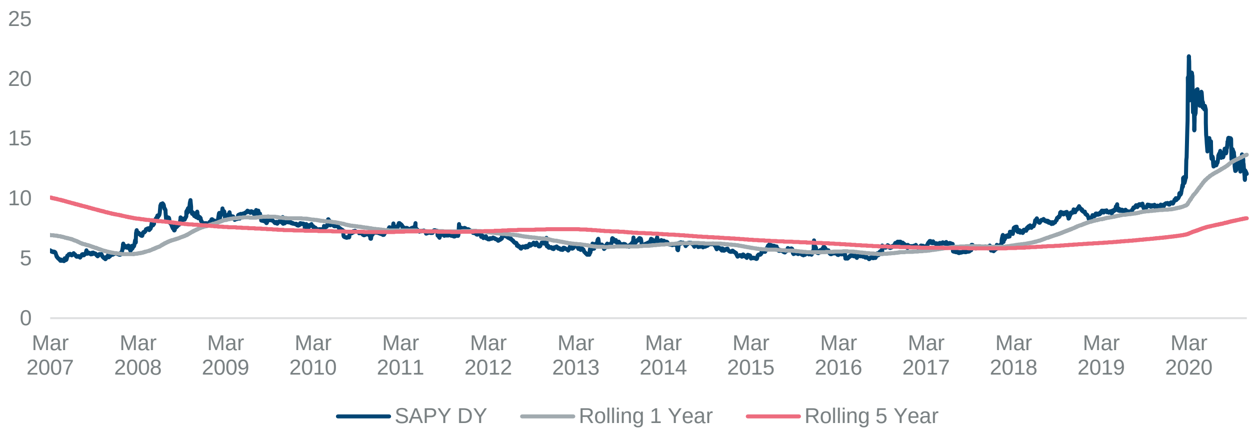


Figure 23: SAPY yield spread relative to 10-year bond



Source: Bloomberg

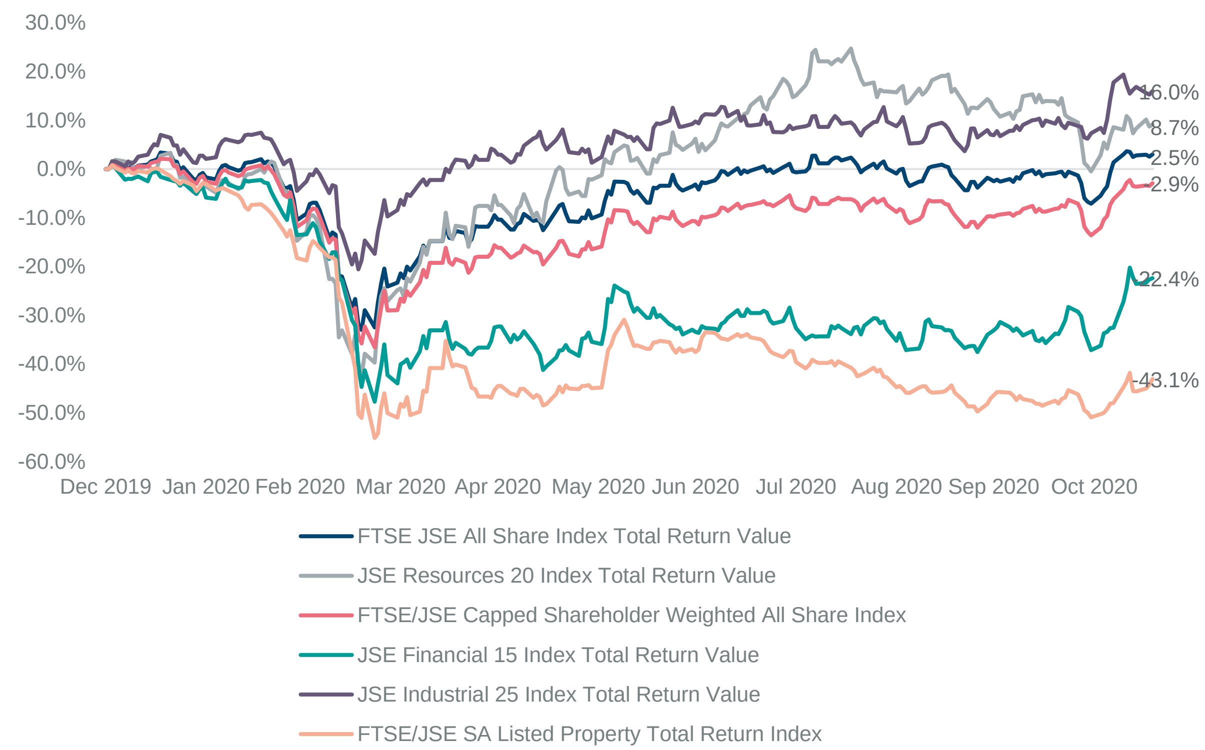
Figure 24: SAPY yield spread relative to historical yields



Source: Bloomberg

For the year to date, as at 13 November 2020, financials and properties had continued to lag the broader index and other sectors. However, financials delivered a strong performance into November. Non-performing loans have increased since 2018, but are still relatively low compared to historical norms and banks have built sufficient capital buffers since the global financial crisis. This sector has been pummelled by the COVID-19 crisis. The strong rally in November should therefore not come as a surprise as the economy was trying to recover from a depressed state following the fallout from the pandemic and risk sentiment was improving on a broad scale.

Figure 25: SA equity index performance YTD as at 13 November 2020



Source: Bloomberg

Sentiment indices continued to show improvement in recent data releases. The SA PMI Index increased from 58.3 in September to 60.9 in October. New sales orders, purchasing commitments and business activities sub-indices climbed above 60 in October. The employment sub-index also improved to 50.7 in October, the first time it had passed 50 since November 2001. Recovery in retail sales' year-on-year growth rate practically stalled, hardly changing from –3.4% in August to –3.2% in September. The building sector continued to make a good recovery in September, as indicated by the growth in total and residential building plans submitted, year on year, moving from –34.5% and –22.2%, respectively, in August to –14.8% and 5.6%, respectively, in September. This resembles the trends seen in the US, where consumers directed unused travel, restaurant and leisure funds towards household essentials and home improvements.

Figure 26: SA PMI Index

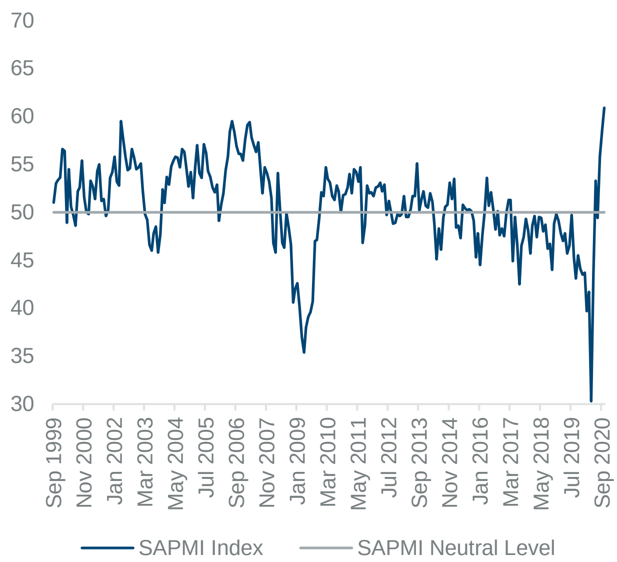
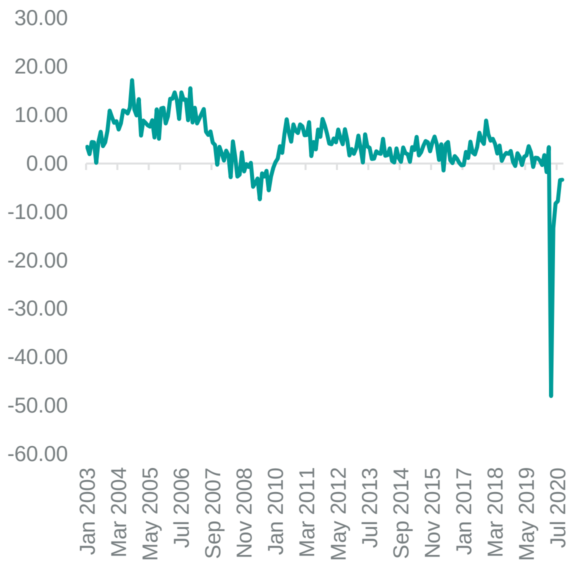


Figure 27: Retail sales real YoY% seasonally adj.



Source: Bloomberg

Figure 28: South Africa Barclays PMI employment SA

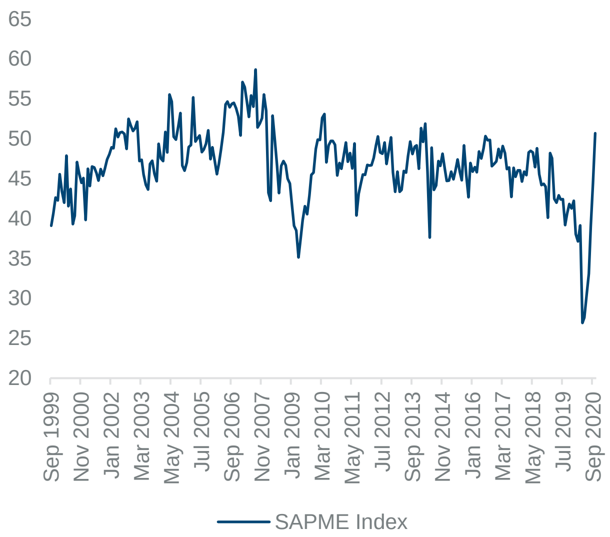
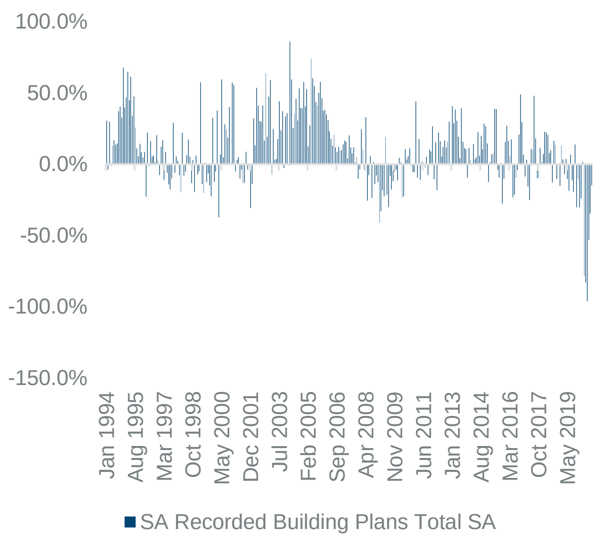


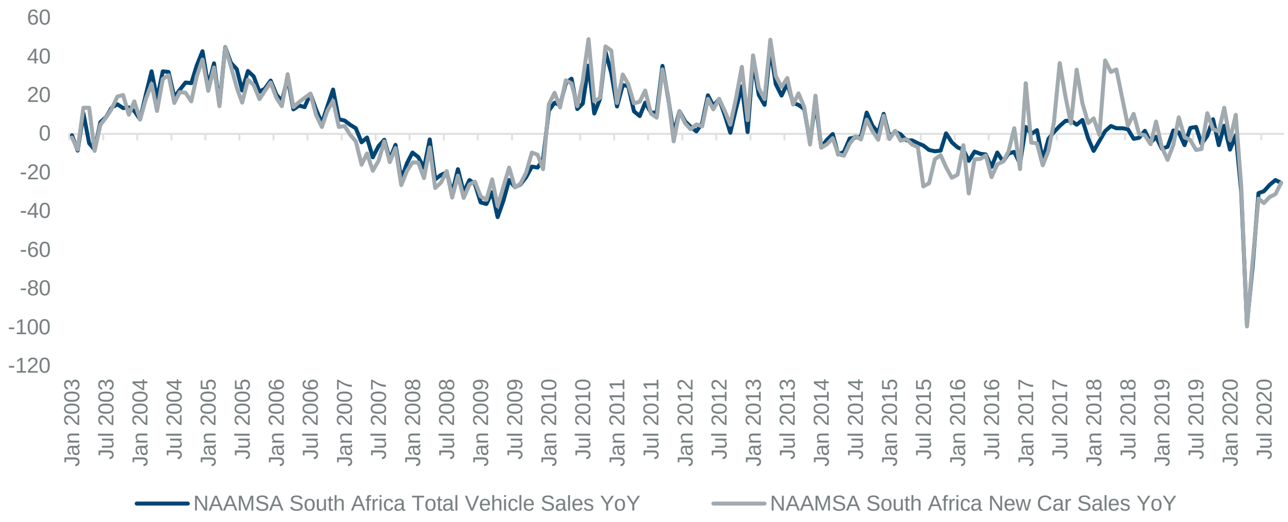
Figure 29: South Africa recorded building plans total YoY%



Source: Bloomberg

The new car sales' year-on-year growth rate made some small gains over the past month, from –31.2% in September to –25.4% in October, but recovery in total car sales stumbled, year on year, with the growth rate dropping slightly from –23.9% to –25.4% over the same period.

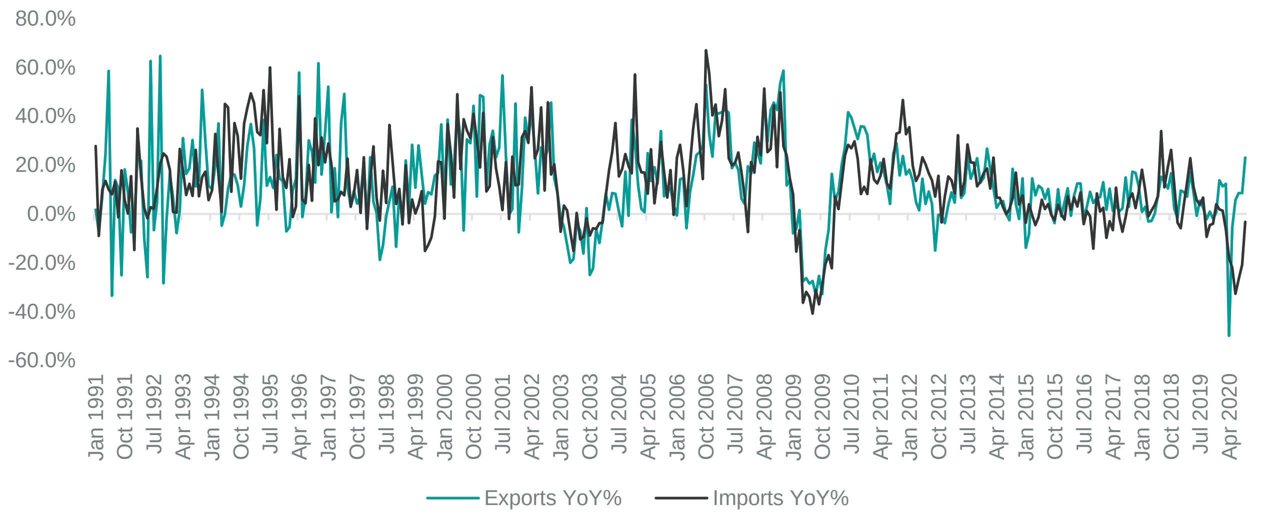
Figure 30: Total and new car sales YoY%



Source: Bloomberg

Very promising figures came out of the trade data, with exports' and imports' year-on-year growth rates jumping from 8.5% and –20.8%, respectively, in August to 23.1% and –3.3%, respectively, in September.

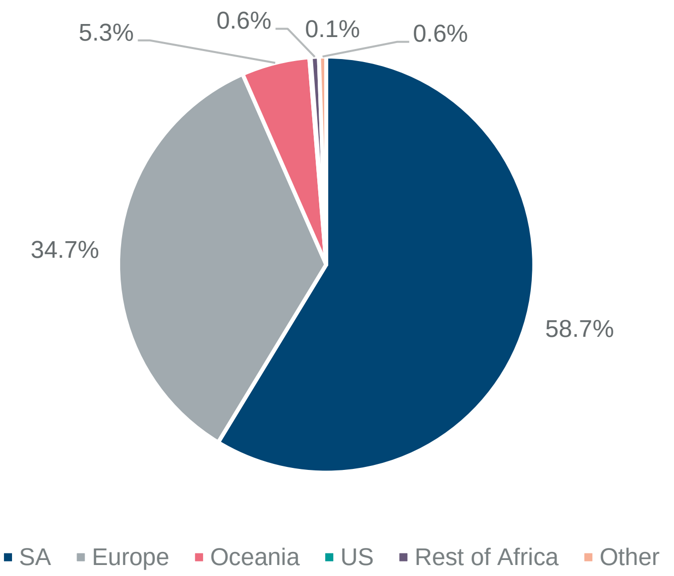
Figure 31: Exports and imports YoY%



Source: Bloomberg

For listed property, we expect higher vacancy rates in the retail and office sectors, which will continue to exert some downward pressure on rental reversions, especially in the short term, as the economy tries to regain its footing. While some investors believe the real estate sector is dead, as digital solutions are rapidly being adopted in all facets of businesses and trades, we think this sector still deserves a place in the portfolio. First, SAPY's revenue distribution is not 100% South African; it provides local investors with the opportunity to further increase their offshore exposure.

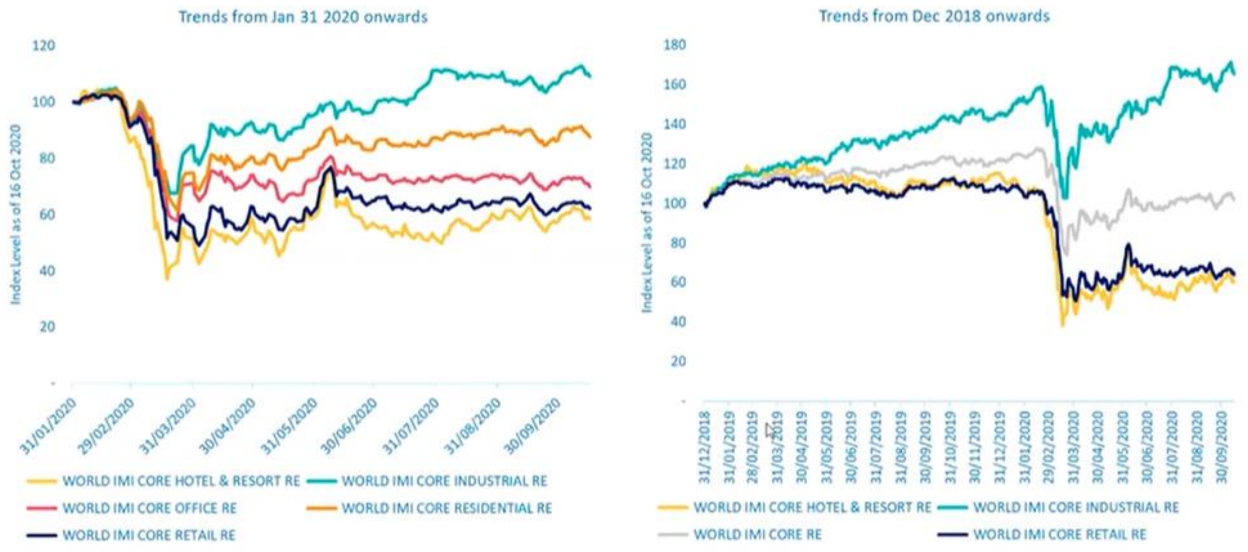
Figure 32: SAPY revenue distribution per geographical region



Source: Bloomberg, Company reports

Second, we saw that the only property sector that delivered a positive return in 2020 was industrial, while the retail sector was displaying weaknesses long before the COVID-19 crisis.

Figure 33: World IMI core performances



Source: MSCI

The retail weighting in the MSCI Global Annual Property Index declined over time due to poor capital growth and limited investments, while industrial and residential gained ground. Increased e-commerce has driven the demand for industrial property. COVID-19-related supply chain disruptions revealed the weakness of just-in-time models. Therefore, companies will need to build additional capacity to improve logistical network resilience. Niche sectors such as healthcare, student accommodation and data centres may also evolve to the extent that they become mainstream. The retail sector is being challenged by the onslaught of online shopping and changes in consumer behaviour over the past decade, and needs to re-establish its relevance in a multi-channel world. We believe that geographical and sector diversification is key to listed property investment going forward.

Figure 34: Composition of MSCI Global Annual Property Index

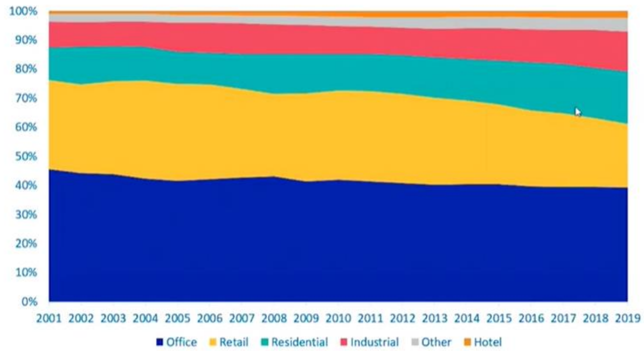
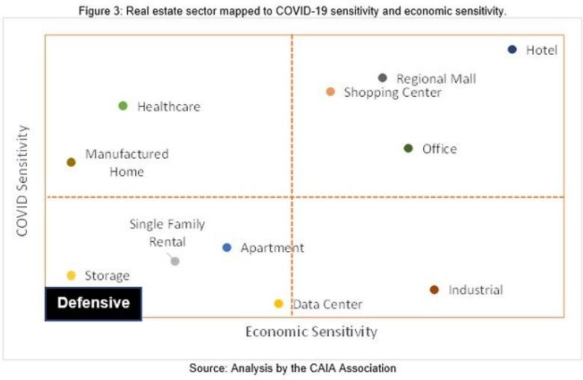


Figure 35: Property sector vs economic sensitivity



Source: MSCI, CAIA Association

The fundamentals for SA equity and listed property remained largely unchanged over the past month, but there are some nascent signs of recovery in sentiment, terms of trade and business activities. We are comfortable about staying neutral in SA equity and listed property. South African risk assets will benefit from improved risk sentiment among investors in the short term, especially where South African equities have underperformed against the emerging market benchmark since 2015. However, the economy and financial markets may remain highly cyclical until structural challenges and macro and fiscal headaches are given sufficient attention to warrant more risk-taking.

Figure 36: Performance of ALSI vs MSCI Emerging Market Index since 2015 in US$

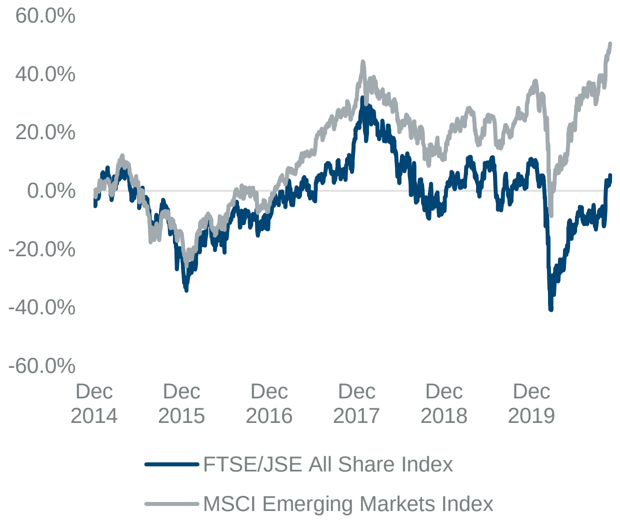
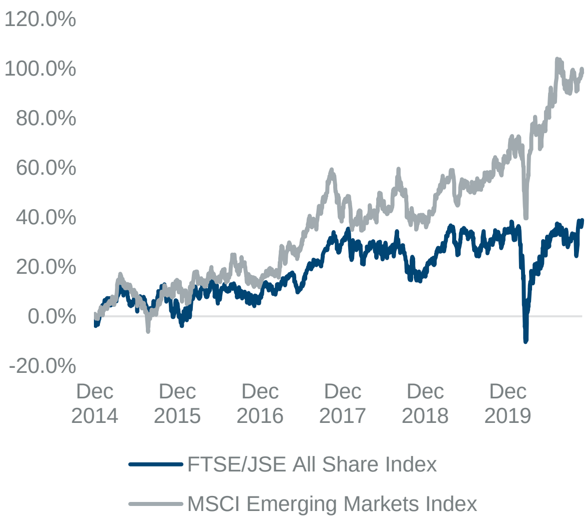


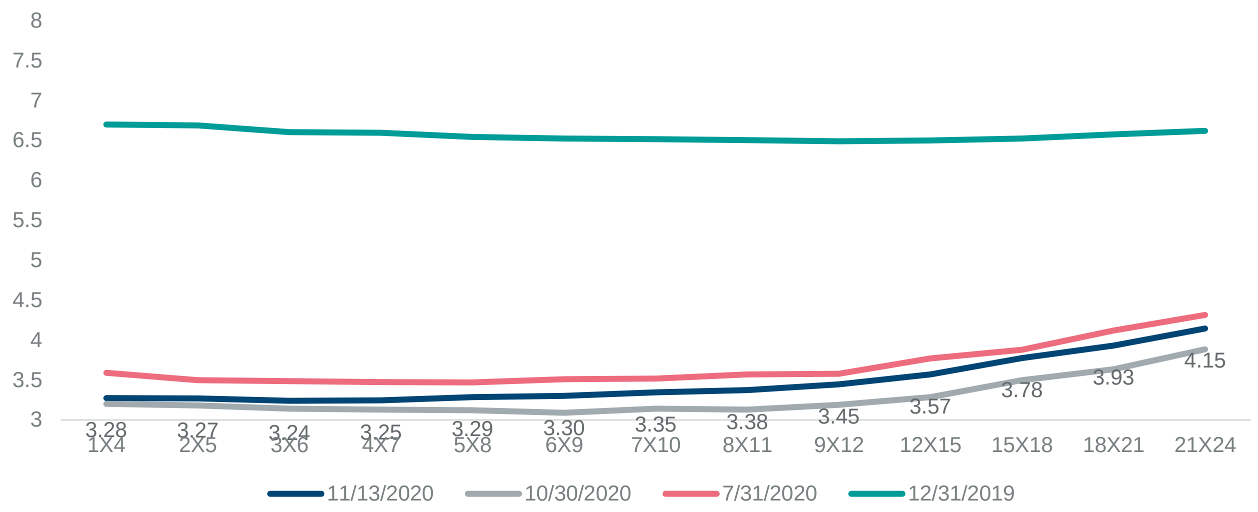
Figure 37: Performance of ALSI vs MSCI Emerging Market Index since 2015 in ZAR



Source: Bloomberg

According to the FRA rates shown in Figure 38, the market did not price in any further rate cuts this year, which is in line with the MPC's decision to keep rates steady after its meeting on 19 November. This signals the end of its cutting cycle. The Reserve Bank expects South Africa's GDP to be –8% for 2020, with an expected 50% quarter-on-quarter rebound for Q3 as restrictions were eased to support economic growth.

Figure 38: FRAs



Source: Bloomberg

For offshore equities, the value dashboard suggested a moderate underweight rating for all three regions, proxied by the S&P 500 Index, the STOXX 600 Index and the Nikkei 225 Index, respectively, which remained unchanged from the previous month.

Figure 39: US value dashboard

	Substantial underweight	Moderate underweight	Neutral	Moderate overweight	Substantial overweight
PE Ratio	X				
PB Ratio		X			
PS Ratio	X				
DY		X			
CAPE Ratio	X				
BEER					X
Total	**-6**	**-2**	**0**	**0**	**2**
Score	**-6**				
Recommendation	**Moderate underweight**				

Figure 40: EU value dashboard

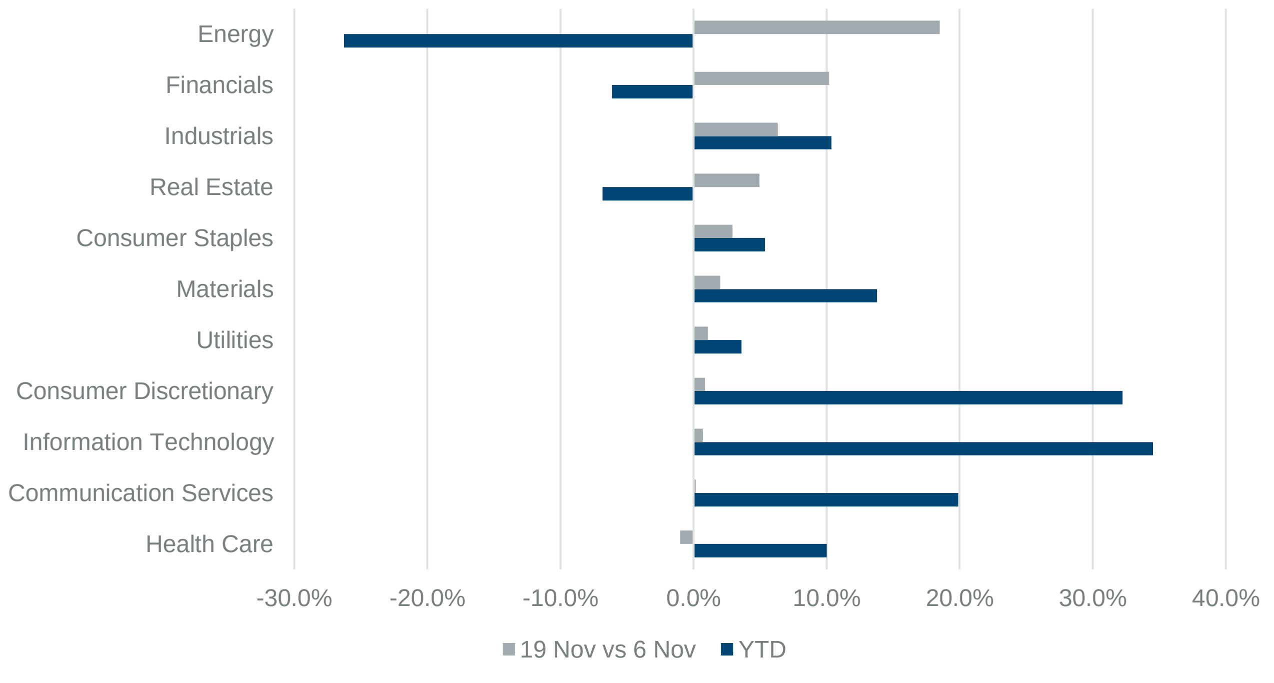
	Substantial underweight	Moderate underweight	Neutral	Moderate overweight	Substantial overweight
PE Ratio	X				
PB Ratio			X		
PS Ratio		X			
DY	X				
CAPE Ratio			X		
Total	**-4**	**-1**	**0**	**0**	**0**
Score	**-5**				
Recommendation	**Moderate underweight**				

Figure 41: Japan value dashboard

	Substantial underweight	Moderate underweight	Neutral	Moderate overweight	Substantial overweight
PE Ratio	X				
PB Ratio		X			
PS Ratio	X				
DY			X		
CAPE Ratio				X	
Total	**-4**	**-1**	**0**	**1**	**0**
Score	**-4**				
Recommendation	**Moderate underweight**				

The broader market benefited from cyclical rotations over the past few weeks as news of COVID-19 vaccine breakthroughs drove investors to value and cyclical counters that have been hardest hit by the pandemic.

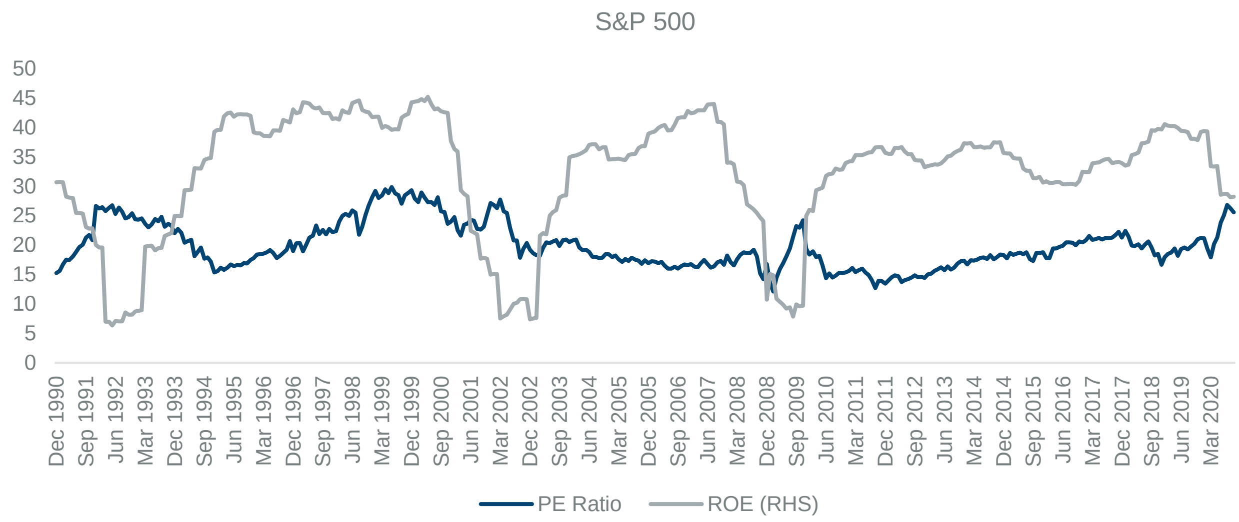
Figure 42: MSCI All World Sector Indices performance as at 19 November 2020



Sources: Bloomberg

The return on equity continued to trend lower for the S&P 500 and the STOXX 600 in October, with an uptick for NIKKEI 225, which improved from 5.3% in August to 6.1% in October.

Figure 43: S&P 500 PE and ROE as at 30 October 2020



Source: Bloomberg

Figure 44: STOXX 600 PE and ROE as at 30 October 2020

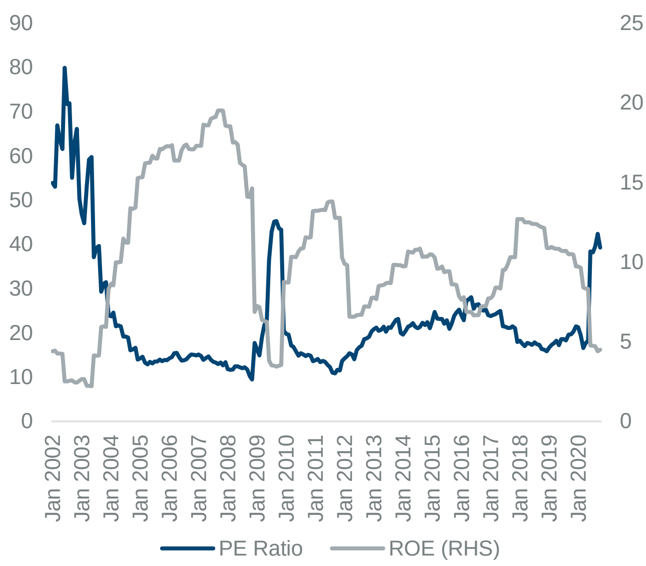
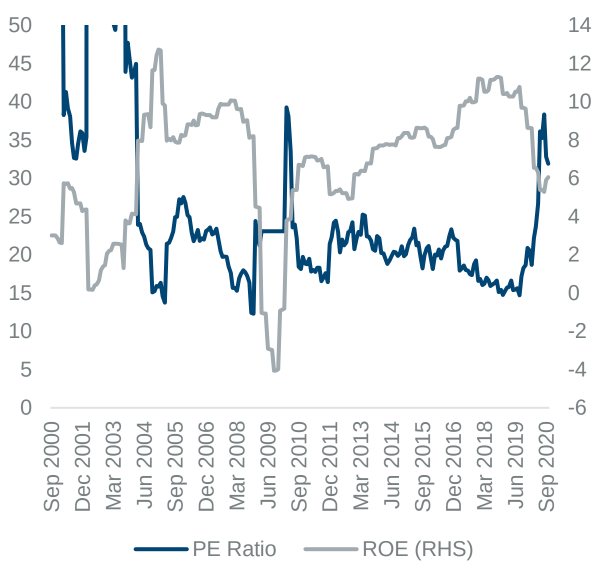


Figure 45: NIKKEI 225 PE and ROE as at 30 October 2020



Source: Bloomberg

The Chinese economy, in recovery mode, continued to gain momentum, with its manufacturing PMI staying above 51 in October. China non-manufacturing PMI, in turn, increased from 55.9 in September to 56.2 in October.

Figure 46: China manufacturing PMI (seasonally adj.)

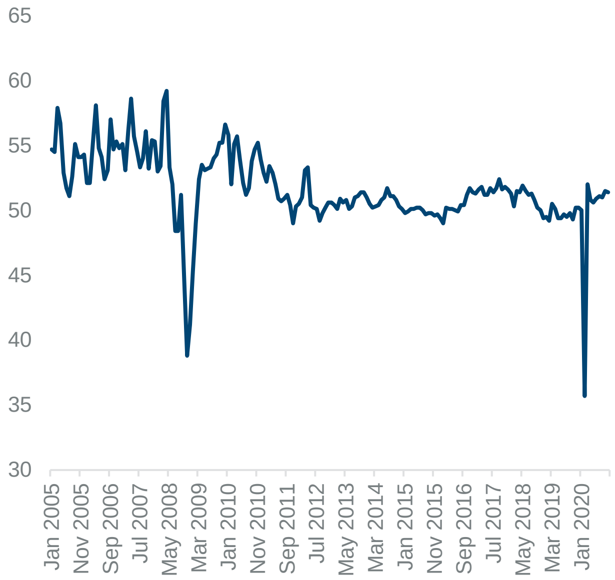
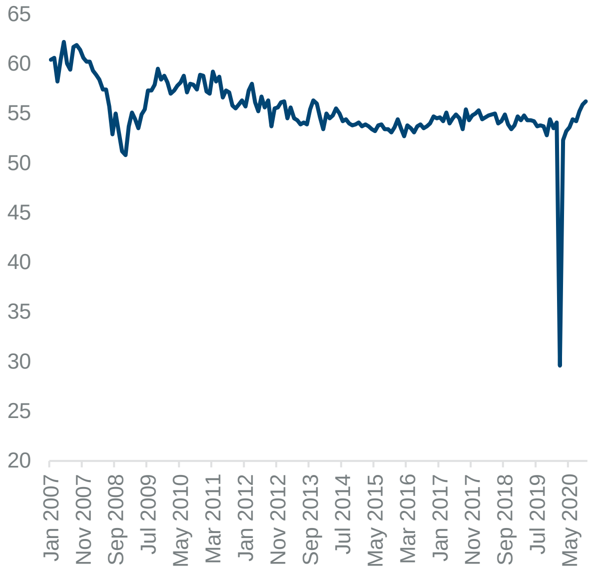


Figure 47: China non-manufacturing PMI (seasonally adj.)



Source: Bloomberg

Trade data was less positive. Exports grew by 7.6% in October, year on year, but imports softened moderately from 11.6% in September, year on year, to 0.9% in October. Retail sales growth, however, showed further improvement in October, reaching 4.3%, year on year, from 3.3% in September. Industrial production gained 6.9% in October, year on year, beating the market expectation of 6.7%. Industrial enterprises' profits grew by 10.1% in September, year on year, while foreign direct investment grew by 18.3% in October, year on year. Total car sales posted another consecutive month of gains in October.

Figure 48: China exports and imports YoY%

Source: Bloomberg

Figure 49: China retail sales YoY%

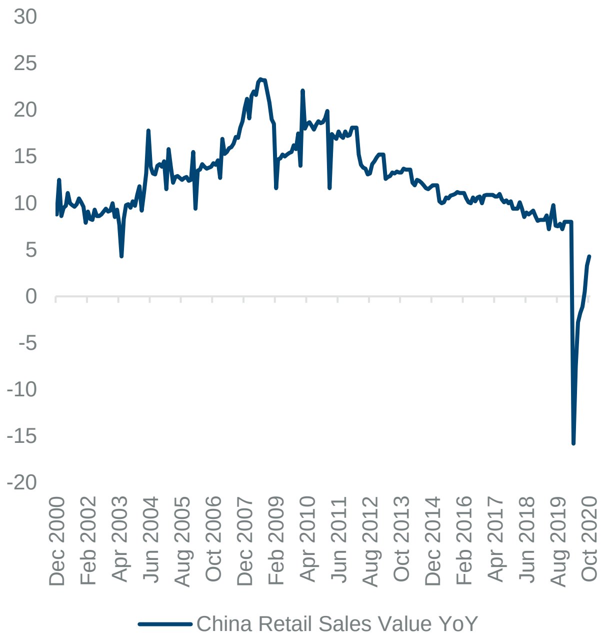
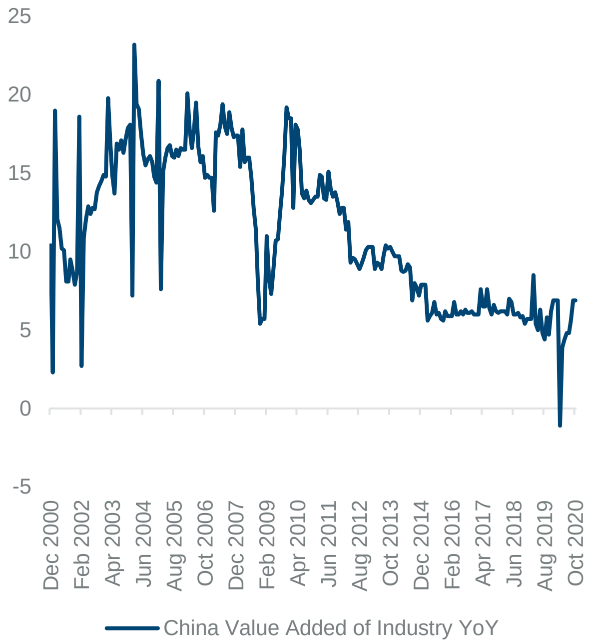


Figure 50: China industrial production YoY%



Source: Bloomberg

Figure 51: China industrial enterprises' total profits YoY%

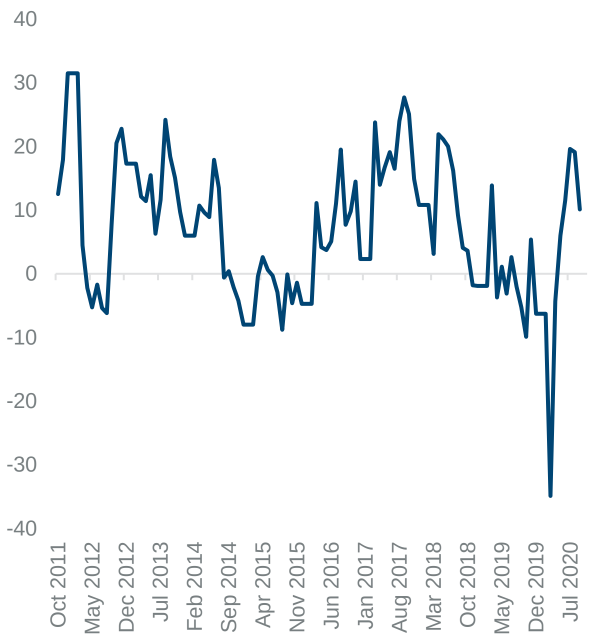
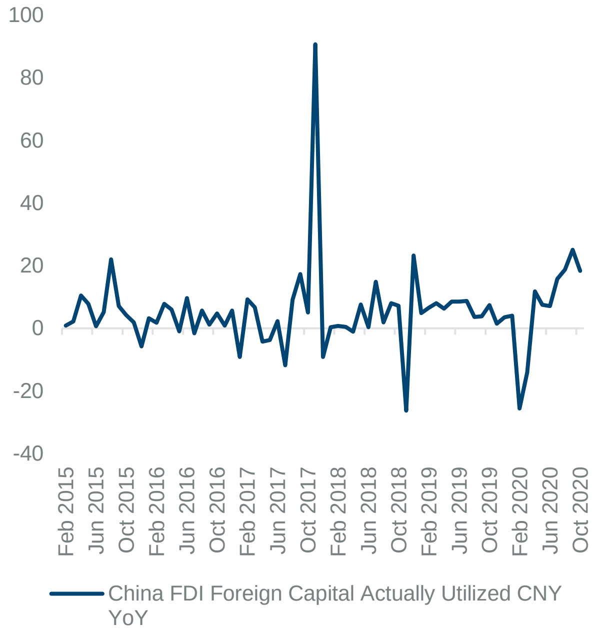
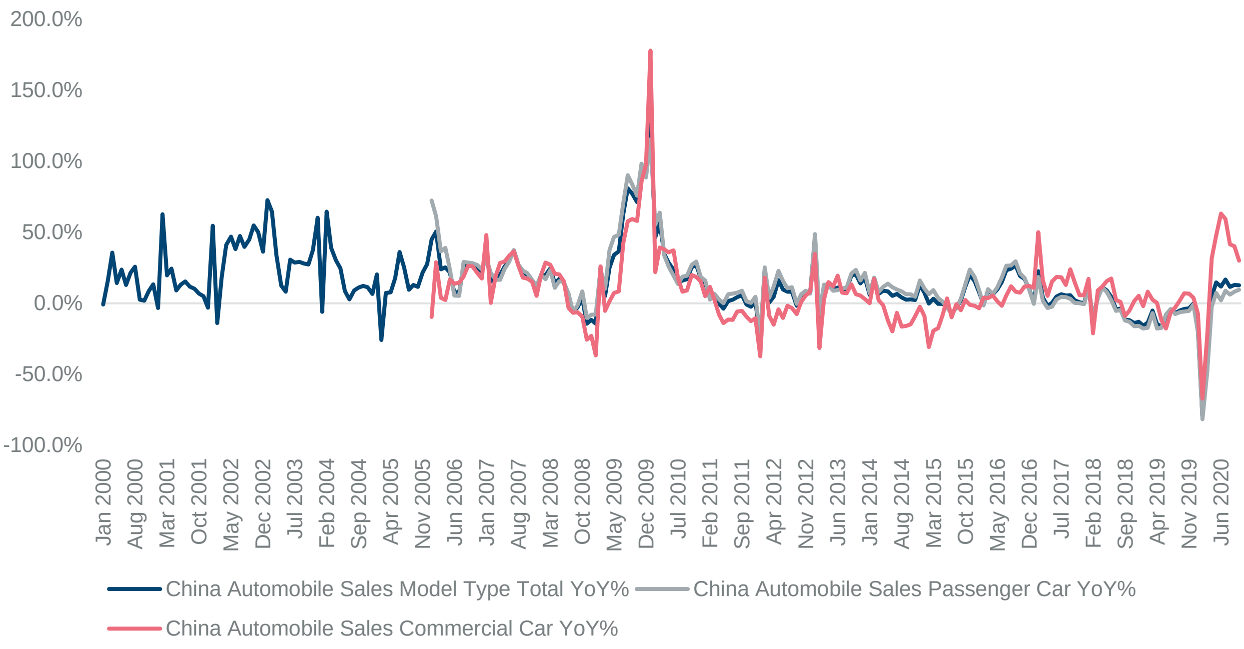


Figure 52: China FDI capital utilisation YoY%



Source: Bloomberg

Figure 53: China car sales YoY%

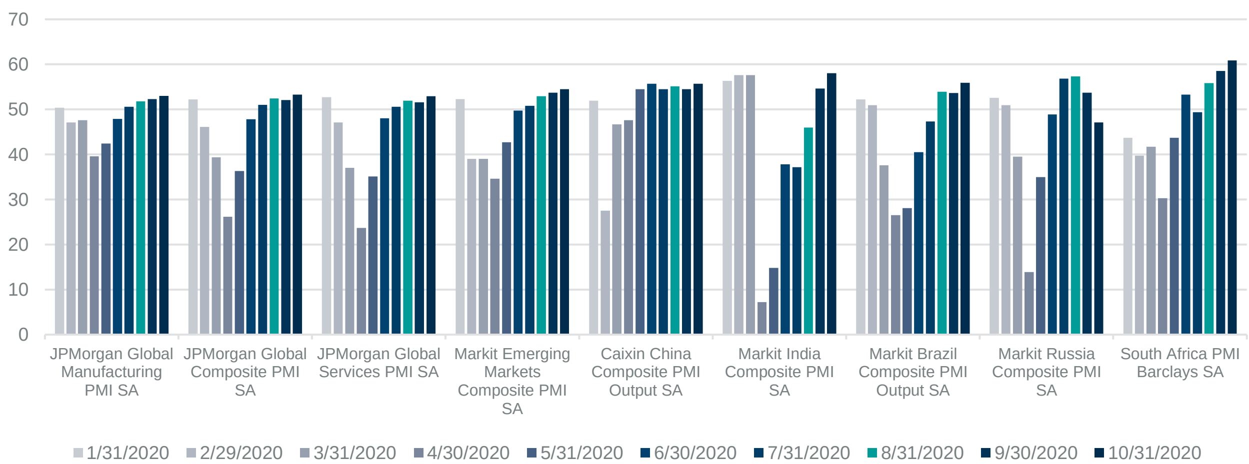


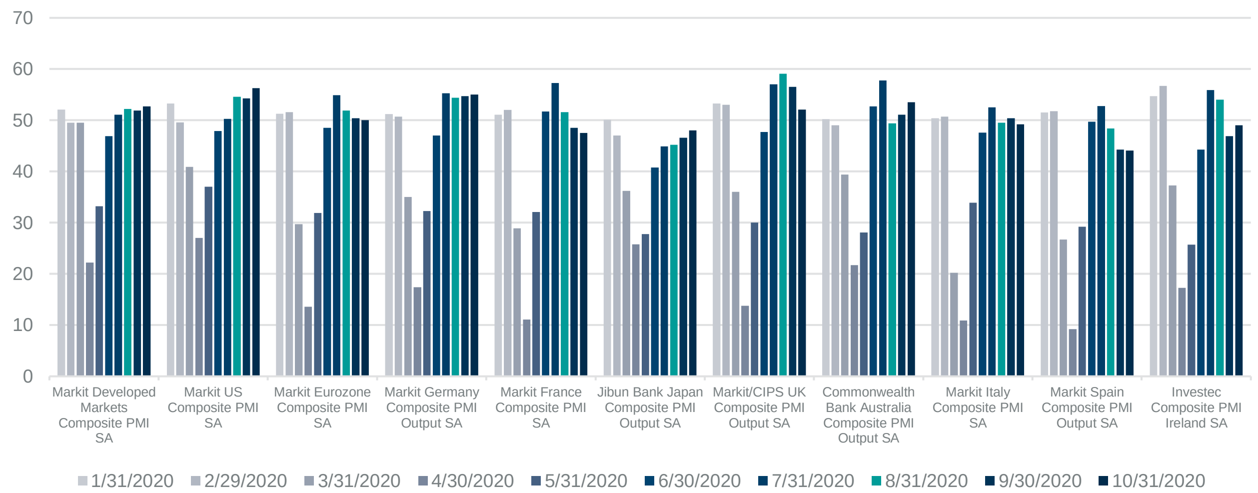
Source: Bloomberg

Korean imports' and exports' year-on-year growth rates softened in October to –5.8% and –3.6%, respectively. Korean imports from and exports to China followed similar growth trends, moving from 11.8% and 8.2%, respectively, in September to 4.3% and –5.7%, respectively, in October. Overall data suggests that trade activities weakened slightly in the Asia-Pacific region but Chinese consumer consumption continued to improve over the past month.

The PMI indices for most developing economies stayed in the expansionary zone, exceeding the neutral level of 50. Eurozone numbers continued to soften in October as reintroduced lockdown measures hurt sentiment and economic activity. The economic surprises index remained in positive territory, showing that the reported economic figures largely exceeded market expectations.

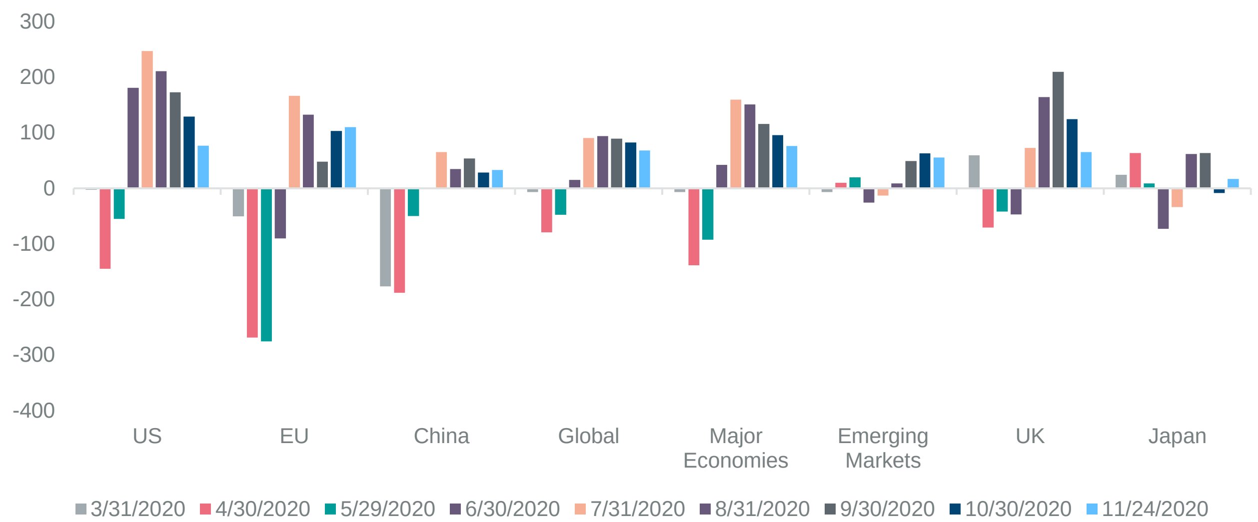
Figure 54: Global PMIs as at 30 October 2020





Source: Bloomberg

Figure 55: Economic surprises indices as at 24 November 2020



Source: Bloomberg

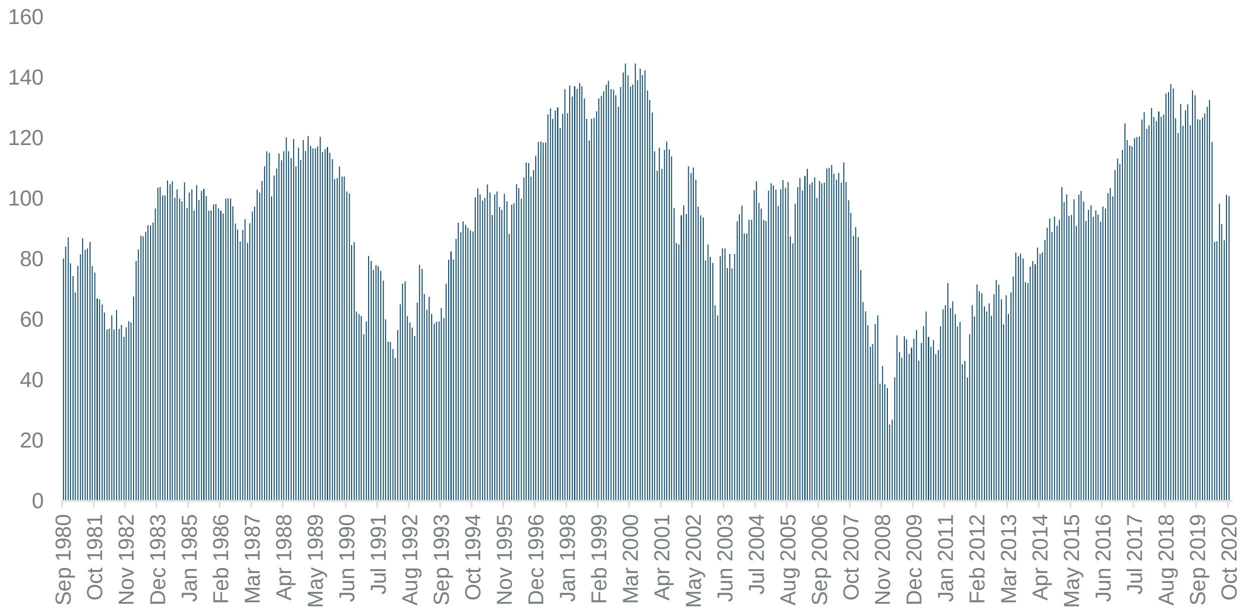
US consumer and business sentiment held steady in October and November, and continued to be relatively more upbeat than in Europe and Japan. The University of Michigan Consumer Sentiment Index rose slightly from 80.4 in September to 81.8 in October, before softening to 77 in November. The Bloomberg US Weekly Consumer Comfort Index, in turn, remained largely flat from 48.2 in early October to 48 in early November. The Conference Board Consumer Confidence Index followed a similar trend, remaining flat at 100.9 over the same period.

Figure 56: University of Michigan Consumer Sentiment Index

Figure 57: Bloomberg US Weekly Consumer Comfort Index

Source: Bloomberg

Figure 58: Conference Board Consumer Confidence Index



Source: Bloomberg

The US Federal Reserve Bank of New York Weekly Economic Index improved slightly, from –3.91 in mid-October to –2.68 in mid-November, while the US Federal Reserve Bank of San Francisco Daily News Economic Sentiment edged up closer to 0 in November.

Figure 59: US Federal Reserve Bank of New York Weekly Economic Index

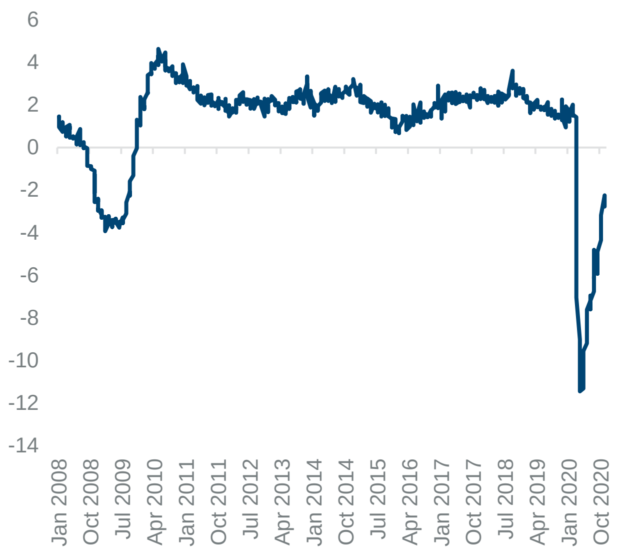
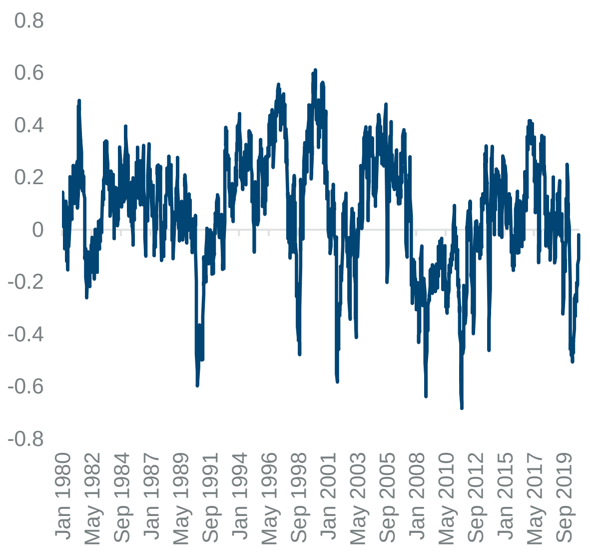
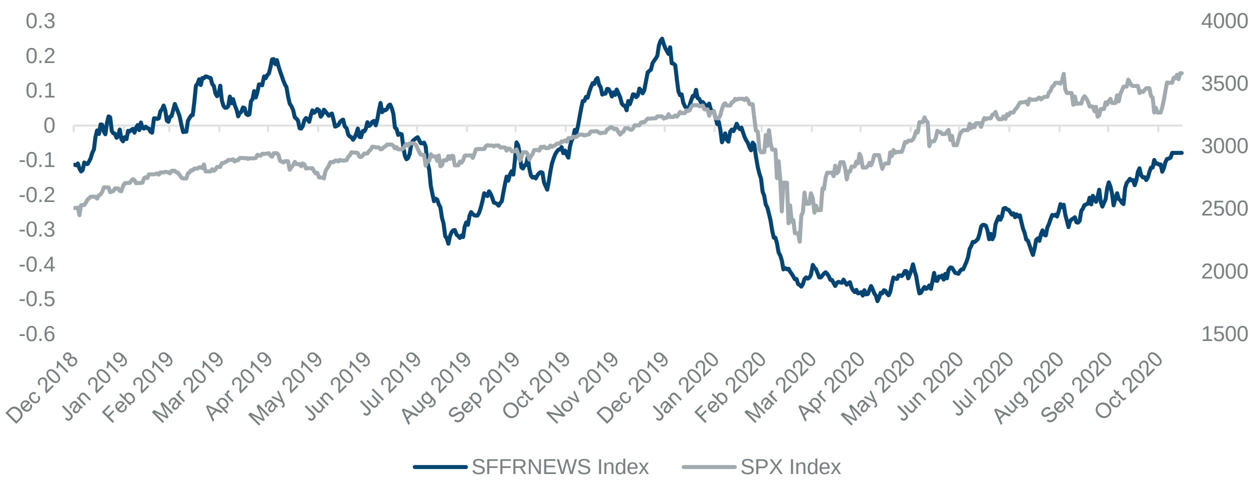


Figure 60: US Federal Reserve Bank of San Francisco Daily News Economic Sentiment Index



Source: Bloomberg

Figure 61: US Federal Reserve Bank of San Francisco Daily News Economic Sentiment Index (SFFRNEWS Index) vs S&P 500 Index (SPX Index) as at 13 November 2020



Source: Bloomberg

The US Business Tendency Manufacturing Confidence Composite improved from 100.86 in September to 101.32 in October. Business activity was very strong, as shown in the Dallas Fed Manufacturing Outlook Level for General Business Activity, jumping from 13.6 in September to 19.8 in October. The production outlook also showed a gain from 22.3 to 25.5 over the same period.

Figure 62: US Business Tendency Manufacturing Confidence Composite OECD

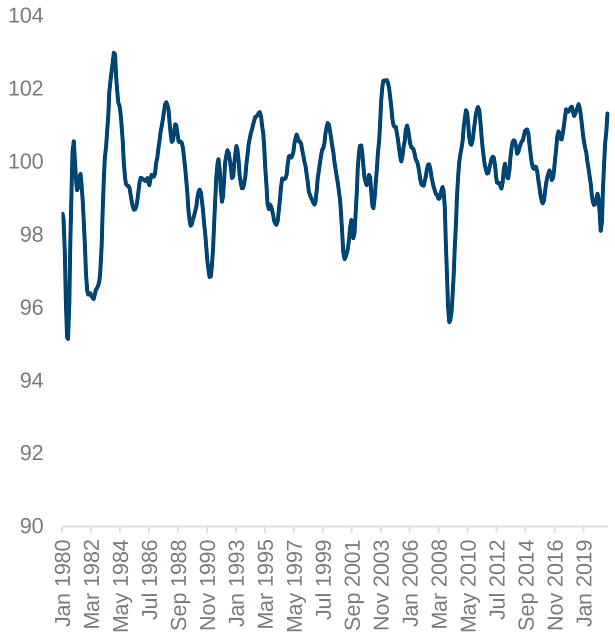


Figure 63: Dallas Fed Manufacturing Outlook Level for General Business Activity

Source: Bloomberg

Figure 64: Dallas Fed Manufacturing Outlook Production

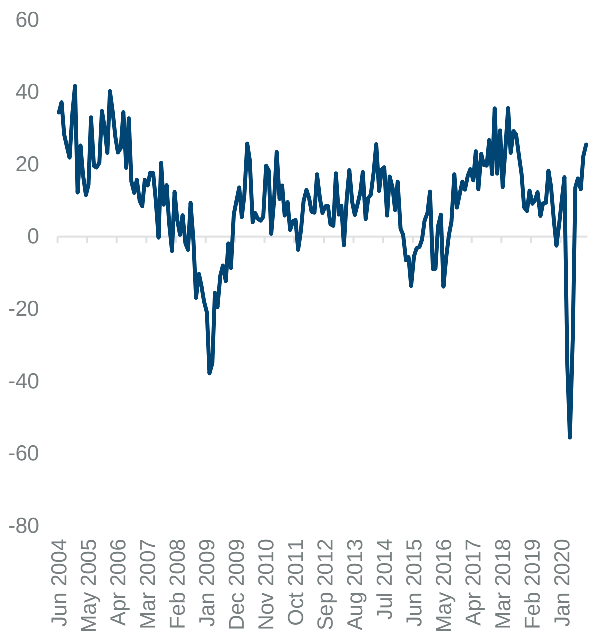
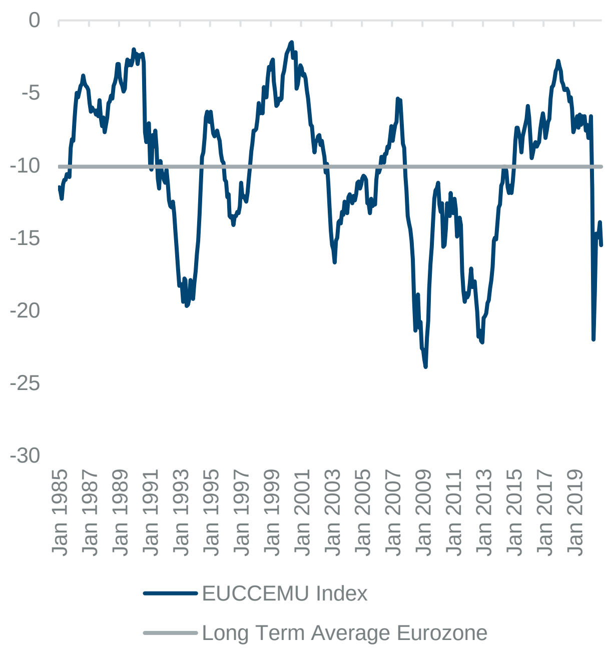


Figure 65: European Commission Consumer Confidence Indicator for the Eurozone



Source: Bloomberg

The European Commission Consumer Confidence Indicator for the Eurozone, which was dealt a blow by the resurgence of COVID-19 cases, dropped from –13.9 in September to –15.5 in October. Business sentiment held up better as the European Commission Economic Sentiment Indicator for the Eurozone stayed flat at

90.9 between September and October. The European Commission Euro Area Business Climate Indicator improved from –1.19 in September to –0.74 in October. The Japan Consumer Confidence Nationwide Index remained largely flat at 33.9 in October.

Figure 66: European Commission Economic Sentiment Indicator for the Eurozone

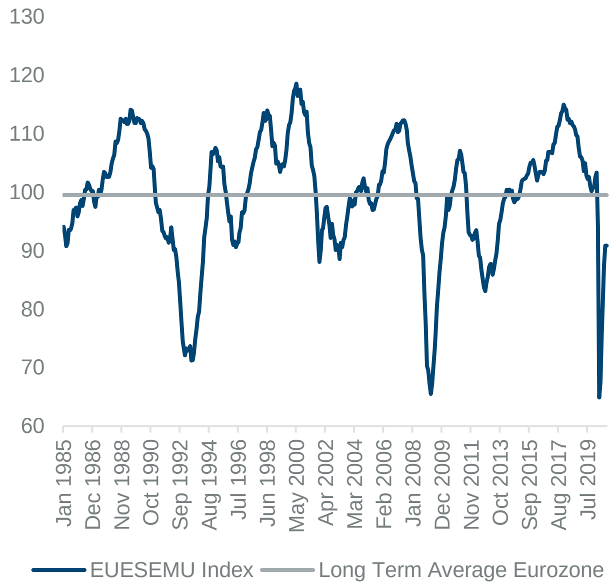


Figure 67: Japan Consumer Confidence overall nationwide NSA

Source: Bloomberg

Retail sales in both the Eurozone and Japan deteriorated, with year-on-year growth rates dropping from 4.4% and –1.9%, respectively, in August to 2.2% and –8.7%, respectively, in September. US retail sales, on the other hand, were much more resilient, with the year-on-year growth rate improving from 2.77% in August to 5.36% and 5.68% in September and October, respectively.

Figure 68: Eurostat retail sales Eurozone volume YoY%

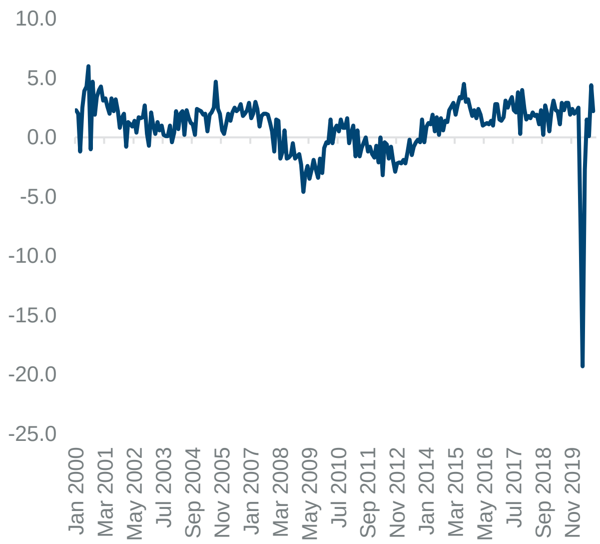
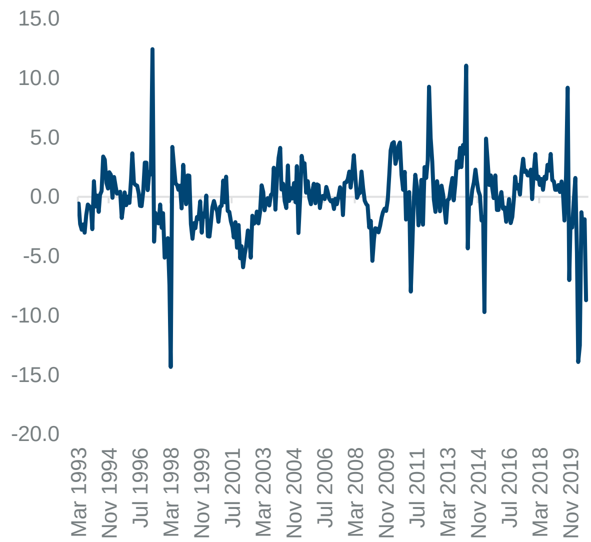
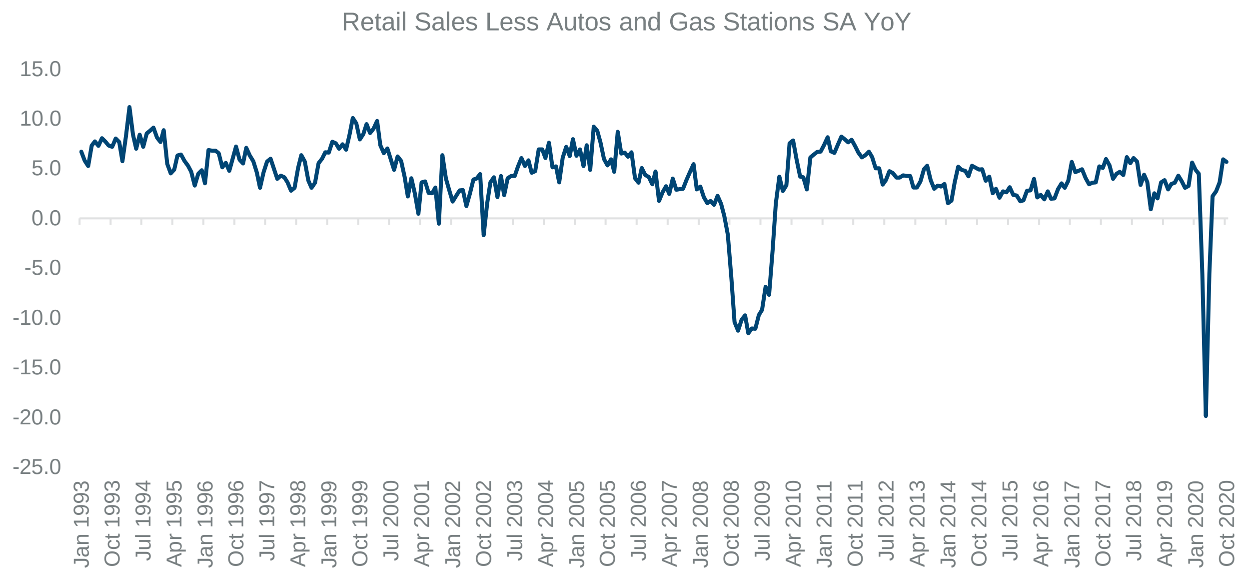


Figure 69: Japan retail sales yearly % change



Source: Bloomberg

Figure 70: US retail sales YoY%



Source: Bloomberg

Overall, we continued to see how governments' social distancing restrictions or approach to handling the pandemic and infection rates have had a profound influence on regional consumer and business sentiment.

The Eurozone's and Germany's PMIs remained in expansionary mode, with the Germany Manufacturing PMI reaching 58.2 and the Eurozone Manufacturing PMI improving to 54.8 in October. The Germany Services PMI business activities, however, declined from 50.6 in September to 49.6 in October.

Figure 71: Eurozone and Germany PMIs

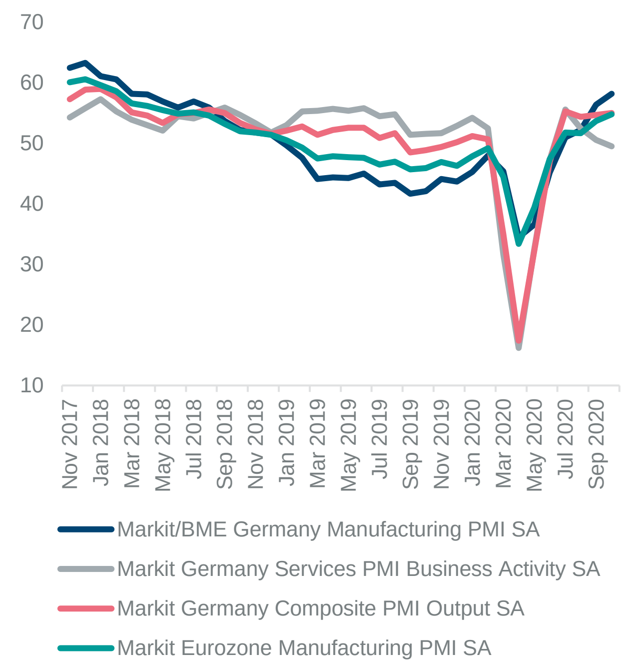
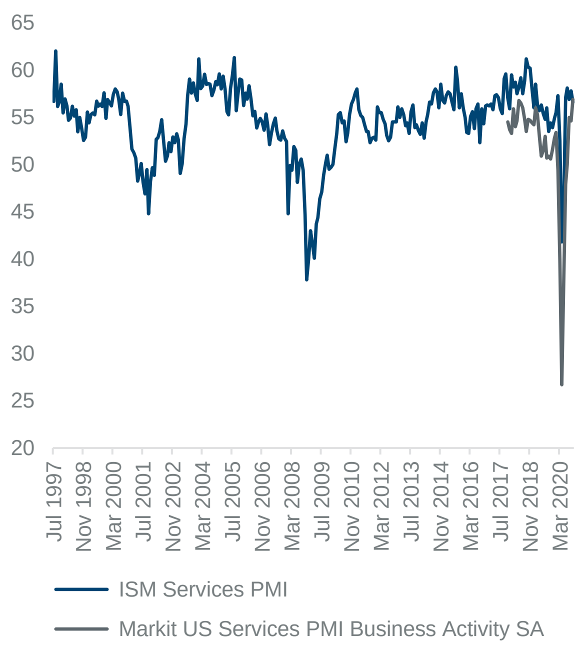


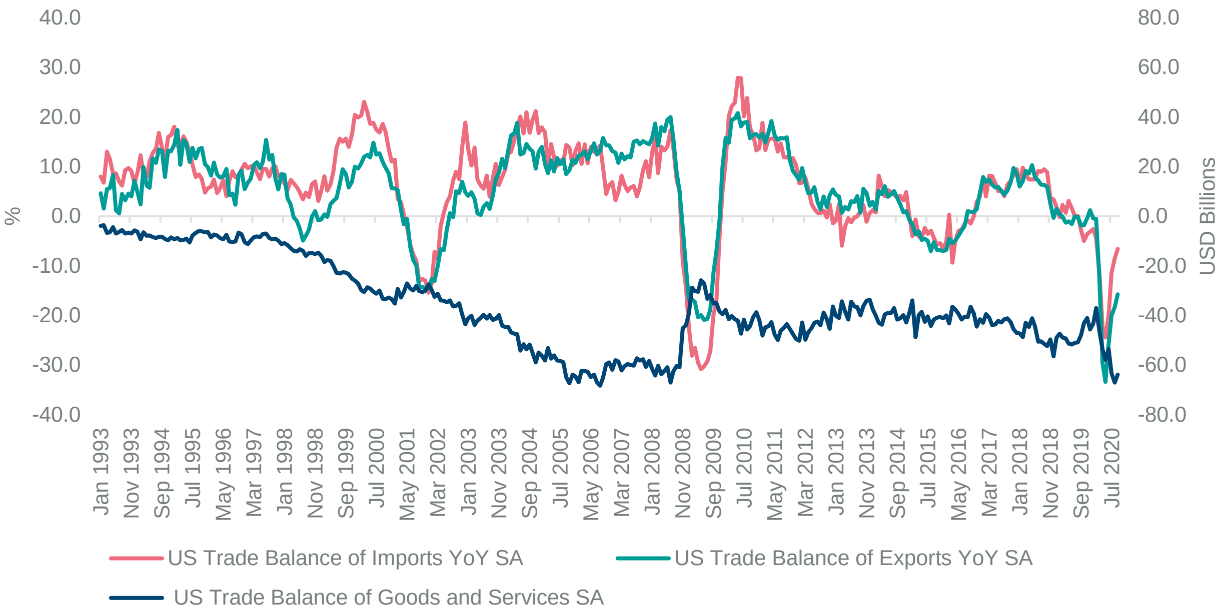
Figure 72: US non-manufacturing PMIs



Source: Bloomberg

US non-manufacturing PMIs softened slightly from 57.8 in September to 56.6 in October, but business activity in the services sector put in a strong performance, jumping from 54.6 to 56.9 over the same period. Trade activity made consistent gains, with exports' and imports' year-on-year growth rates improving from –18.31% and –8.53%, respectively, in August to –15.7% and –6.55%, respectively, in September.

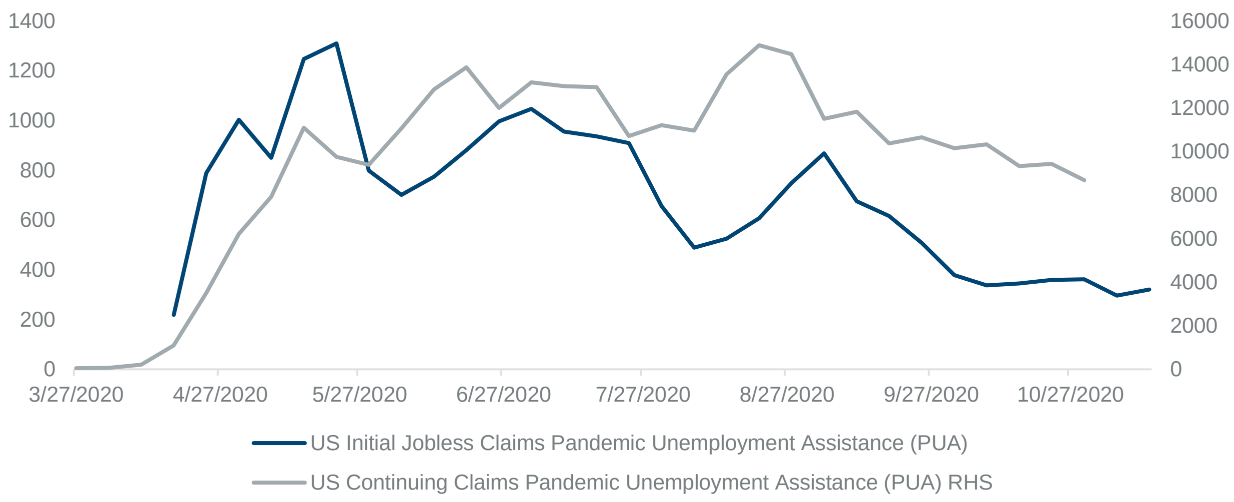
Figure 73: US imports and exports YoY%



Source: Bloomberg

The unemployment rate in the US dropped from 7.9% in September to 6.9% in October. Initial and continuing jobless claims under the Pandemic Unemployment Assistance program continue to trend lower.

Figure 74: US jobless claims under the Pandemic Unemployment Assistance Program

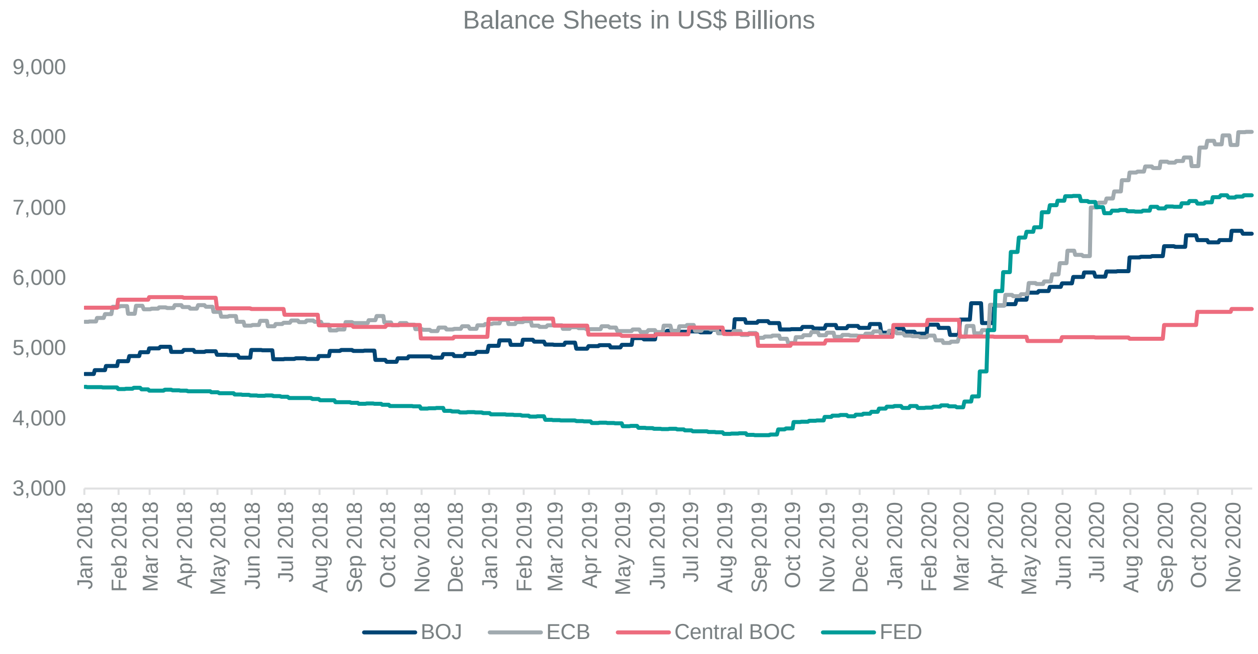


Source: Bloomberg

Payroll numbers were mixed, as non-farm payrolls increased by 638 000 vs a market consensus of 580 000 in October. However, the ADP National Employment Report non-farm level change fell short of market expectations in October, adding 365 000 jobs vs market expectations of 643 000. Labour market recovery seems to have slowed down.

From a liquidity perspective, we continued to see significant, positive liquidity injections from the ECB, the Bank of Japan and the Central Bank of China over the past month.

Figure 75: Central banks' balance sheets as at 13 November 2020



Source: Bloomberg

Favourable news about vaccine development, the anticipation of a more stable and predictable foreign and trade policy under a Biden administration, and signs of global economic improvements (although disruption risk continues to prevail in the face of renewed COVID-related concerns) have boosted risk-on sentiment.

With historically low offshore bond yields, we favour offshore equities over offshore fixed-income assets. We have seen how countries such as China and a number of other Asian countries have a done a better job than the West in containing the virus, which has put these nations further ahead on the road to economic recovery. This could also benefit local equities to a certain extent as commodity prices get support from a synchronised upturn in the global economy and a weaker dollar. Regionally, we still prefer US over European and Japanese equities, as sentiment and consumer consumption in the US are relatively more upbeat than in the latter two regions.

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