CORION CAPITAL

DECODING THE MONTH

October 2021

Global

Nasdaq	7.9%
All Country	5.1%
EM Equity	1.0%
Gold (Spot)	1.0%
Bonds (WGBI)	-0.4%

Local

Resources	8.4%
All Share	5.2%
Bonds	-0.5%
Property	-1.7%
Financials	-3.8%

Best Shares

Northam	27.6%
Richemont	20.8%
AngloGold	20.0%
Amplats	18.3%
Goldfields	16.2%

Worst Shares

Aspen	-10.2%
Sasol	-10.1%
Woolworths	-8.7%
ABSA	-8.3%
FirstRand	-8.2%

Worth Noting

- Investec follows Nedbank and announces preference share buy back.
- Brazil's stocks, bonds and currency slumps due to deficit concerns.
- Tesla joins the elite $1 trillion stock club.

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Commentary

As October drew to an end, South African sentiment was again impacted by our plunge into darkness. Despite this, the generating capacity of the FTSE/JSE All Share Index didn't appear to be impacted, ending the month up a bright 5.4%. The Resources sector kept the midnight oil burning - returning 8.4% for the month, on the back of a turnaround in PGM basket prices. The Industrial sector also had an illuminating month predominantly due to index heavyweights Richemont and Prosus ending the month up 17.2% and 8.7%, respectively.

Economically, the latest inflation print (+5% YoY) still sits comfortably within the SARB's 3%-6% target range. Thus, from a South African standpoint, inflation is not a major concern at the moment and consequently it is unlikely that we will see the SARB start implementing rate hikes at their next policy meeting.

However, from a fiscal policy standpoint, South Africa remains on a knife-edge. Policy uncertainty, state failure and the resurgence of load shedding all place our fiscal status under pressure. "A debt problem is, at its core, a budgeting problem", which in this case falls to our new Finance Minister, Enoch Godongwana. He is expected to deliver his maiden Medium-Term Budget Policy Statement on 11 November 2021, under the close scrutiny of ratings agencies. Should the budget fail to instil confidence, we may unfortunately see further downgrades to come.

Looking to the US, equities closed out the month at record highs yet again, with the S&P 500 and Nasdaq having their best month since November 2020. Returns appeared immune to a noticeable deceleration in the US 3Q GDP growth (+2.0% vs an expected +2.7%) and rather placed their attention on corporate earnings. Despite some misses on the Big Tech front, corporate America is beating expectations.

Inflation, supply-chain difficulties, and the direction of fiscal and monetary policy, all however continue to weigh on sentiment. Thus, the upcoming Federal Reserve meeting will be watched with an eagle-eye. The Fed has done well to prepare the market for a reduction in their bond purchasing programme. However, the inception of a rate hiking cycle, assumed to begin once the bond purchases end, still remains the key unresolved debate.

The bond market is already looking for higher rates, with the yield on the 10-year Treasury note now near 1.6%, after beginning 2021 below 1.0%. Inflation remains the main driver behind the movement but some factors may point to the market overstating the risk. Rising prices are being driven more by supply bottlenecks than an increase in demand. And that's an issue that interest-rate increases are unlikely to solve.

Positioning

Large Underweight	Mild Underweight	Neutral Weight	Mild Overweight	Large Overweight
Global Bonds & Local Income	Global Equity		Local Equity	Local Bonds & Global Income

Data: Reuters. Indices are the FTSE/JSE , the MSCI and the WGBI.