Will equities saw a second Covid-10 correction?

Share markets recorded a sell off last week as more and more second wave Covid-19 cases are reported. The sudden increase in infections and deaths reported in the US, China and Europe had led to a flight of investors from risky assets as the second wave of infections may halt the opening of economies. In the US, the state of Texas tracked back on their heels as they close bars on Friday. Florida and other “Sun Belt” states recorded an alarming growing amount of new cases as their governors had reopened businesses. Infected cases worldwide stand on 9.6 million with deaths approaching half a million. Equity markets for most of last week traded negatively with US stocks losses mounted to more than 4.0% and treasuries rose. This despite data than show that US consumer spending had surged by a record in May as the relief payments from the government were spend. A fear on yet another downward correction on share markets, just as during March, also contributes towards negative market sentiment. At the close of markets in South Africa on Friday, the Dow Jones Industrial index was down by 2.3% and the S&P500 traded off by 2.03%. The NASDAQ that reached a new record level above the 10 000 earlier in the week had tumbled more than 4.0% since the previous Friday.

The “bad news” around South Africa’s supplementary budget that was delivered by Finance Minister Tito Mboweni last Wednesday was expected. The projected debt to GDP ratio of 82% was discounted by markets at the beginning of the week. The Rand, although volatile and bond rates moved rather sideways. The currency traded Friday at the close of the JSE on R17.32/$, the same number as the previous week, against the Pound 5 cents stronger on R21.36 and only 3 cents weaker against the Euro on R19.41. The R186 2030 bond traded 9 points stronger on 7.65%. This indicates that foreign investment sentiment against the country remains cautious. The increase in the unemployment rate during the first quarter from 29.1% to 30.1% was lower than expected. The indication that this figure may rise to 50 % during the second quarter becomes more evident. The long-awaited inflation rate for April was released by STATSSA last Wednesday, indicating the growth in the new adjusted CPI basket was a low 3.0%, increasing sentiment that another drop in the repo rate in July is imminent.

On the JSE most equities had an up and down week but ended the week flat. Financial and Banking shares, as a proxy for domestic market sentiment however continue to move downwards. The FINI 15 index traded lower than 10 000 at the close on Friday

(9991). This is now 35% lower than the 15 2934 on 14 January 2020. The ALSI closed Friday on 53 648 or 1.1% down from the previous week. Industrial shares traded down by only 0.5%, whereas Resources gained 1.1%. Listed property continue its dire straits movement as the index traded down by 3.6%

This coming week investors' attention will concentrate mostly on the release of South Africa's Gross Domestic Product (Economic growth) numbers by STATSSA today. It is expected that the economy had contracted by 3.5% during the first three months of the year, as the "Lock Down" was only introduced at the end of March. SACCI will publish its latest business confidence index (MAY) also today. It is expected that the index had improved somewhat to 83 from 77 in April. ABSA 's manufacturing PMI and total new vehicle sales data for June will be announced on Wednesday. Globally the release of the latest Job data for the US on Thursday will set the sentiment for equity and bond markets. The US Federal Reserve's latest minutes that will be released on Wednesday will also be of importance. Most Developed Market economies will announce their various Purchasers Managers Indices (PMI's) during the week.

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Dr Chris Harmse completed his doctorate degree in Economics at the University of Pretoria. Prior to entering the financial services industry, he was a lecturer and professor at the Department of Economics of the University of Pretoria between 1986 and 2005. Dr Harmse was awarded an extraordinary professorship at the School of Economics of the University of Pretoria in January 2006. He served on various Investment Committees and is extensively involved in economic research and asset management.

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