Discovery Invest shares their market outlook for 2021

Johannesburg, 18 February 2021 — It goes without saying that 2020 was a tumultuous year as people around the world confronted the unprecedented social, economic and political challenges brought about by the COVID-19 outbreak.

Globally, governments moved to protect their citizens from COVID-19 by imposing renewed lockdowns, sending the global economy into a severe contraction. Unsurprisingly, markets were affected, with many investors suffering substantial losses in the early part of 2020.

Kenny Rabson, CEO of Discovery Invest, says the rollout of vaccines, backed by an extraordinary degree of scientific rigour, has given renewed hope for a return to normal and shown that there is light at the end of the tunnel.

“Markets had rebounded strongly by the end of last year with the long journey to recovery already well underway. While we aren’t suggesting that a return to pre-COVID 19 levels of economic activity are just around the corner, there are, in addition to the vaccine, a multitude of factors that are coming together positively and bode well for the year ahead. We and our partners are, therefore, optimistic when it comes to the performance of our funds in 2021.”

Discovery Invest’s funds are managed by Ninety One. In 2020, Discovery Invest launched a greatly-enhanced global investment solution that uses shared value to create the opportunity for investors to invest below the prevailing exchange rate, and utilise asset allocations provided by BlackRock and Goldman Sachs Asset Management, world leaders in asset management.

THE YEAR THAT WAS

Governments and central banks responded swiftly to the dramatic global economic downturn and resultant market sell-off that occurred in the wake of the pandemic. This pro-growth monetary policy, as well as progress on the approval and implementation of vaccines in the final quarter of 2020, saw global equity markets recover sharply from their March 2020 lows, with investors taking a much more upbeat view about global prospects.

Local markets followed suit, with the FTSE/JSE Capped SWIX All Share Index up by a marginal 0.6% by the final quarter of the year. Decent gains from resources and large cap rand-hedge industrials were just enough to offset the declines we saw from those companies and sectors that struggled to cope, according to Ninety One.

“The recovery of both local and international markets reaffirms our consistent message. When it comes to investing, it is far more important to spend time in the market and to remain true to one’s long-term investment goals than to make emotionally driven decisions and to try and time the market,” says Rabson.

THE WAY FORWARD

Discovery Invest believes that with a strong rebound across global markets as a backdrop, a multitude of factors are coming together to form a constructive outlook for both emerging and developed markets in 2021.

“For the year ahead, we have the continued benefits of monetary policy that is going to be ultra-supportive, and despite this already having had a tremendous impact on the markets, much of that is yet to feed into the real economy,” says James Ashley, head of both the International Market Strategy team and Strategic Advisory Solutions covering EMEA (Europe, the Middle East and Africa) and Asia, at Goldman Sachs Asset Management (GSAM).

This support, combined with an improved political scenario, notably in the US rapidly improving fundamentals and a recovering global economy, bode well for equity markets.
“Our view at this stage is still incredibly constructive towards equity markets,” says Luke Barrs, head of Fundamental Equity Client Portfolio Management in EMEA and Asia Ex-Japan, also at GSAM. “Where we are right now, I think there are far more reasons to be optimistic going into the new year than there were 12 months ago.”

This positive outlook is echoed by BlackRock, in spite of a setback to the pace, and stability, of recovery owing to new, more contagious strains of COVID-19 spreading globally.
“Ultimately we still expect the cumulative economic activity loss from the COVID shock – which is what matters for markets – to be just a fraction of that seen after the global financial crisis,” says Khoabane Phoofolo, Head of BlackRock Africa.

With the first half of the year promising to be a bit of a choppy ride, however, Phoofolo believes “investors should look through any market volatility triggered by the evolving virus dynamic.”

AS ALWAYS, INTERNATIONAL DIVERSIFICATION IS KEY

While lockdown restrictions aimed at trying to tackle the local outbreak of COVID-19 came at a great cost to economic activity, by the last quarter of 2020 South Africa had emerged from its longest recession in almost three decades. The GDP expanded by an annualised 66.1% in the three months ending September 2020 following a spectacular 51.7% free-fall over the April to June period. "Although it will still be a slow and very gradual path to economic recovery, the negative trend in earnings expectations from our SA Inc sectors has probably bottomed," according to Ninety One. Rabson says that although opportunities do exist in South Africa, it is important for investors to have broad diversification in their portfolios, owing to the uneven pace of recovery and "to tap into the attractive growth prospects that exist globally."