

AUGUST ECONOMICS

Usually, those familiar with equity markets cringe their teeth when August comes along. In the past, August has been marked by depression and much volatility as Americans and Europeans enjoy their summer holidays, away from trading desks and the worries of financial markets. As a result, volumes are lower and markets follow the path of least resistance, downwards. However, almost as rare as the black swan event of COVID-19, was this month's performance of United States equity markets, which is setting up to be the best August since 1984. The S&P500 is already up by 7.2%, pushing the broader-market index to record levels and officially confirming the new bull market. The Dow Jones Industrial has rallied more than 8% in August, erasing all 2020 losses. A persistent rally has been supported by monetary and government intervention. This seems to have outpaced the social and political worries of both the local and foreign environment in the United States.

Both Democrats and Republicans in the United States have still not reached a consensus about the second round relieve package. Democrats want an additional \$2.2 trillion in support, even though roughly \$2.4 trillion in aid has been committed through the CARES Act, amongst others, to support businesses and consumers facing the COVID-19 pandemic. Under this act, households received as much as \$3,400 (roughly R56,000) for a family of four. Republicans, however, believe \$1.3 trillion is sufficient, and that anything more would be too excessive and inflate state finances unnecessarily. We agree. Employment statistics have shown three months of strong positive performance. The number of Americans receiving state support fell from the May peak of 24.9 million to 14.5 million in August. Consumer spending grew month-on-month by 1.9% in July, higher than the 1.5% consensus estimates. Similarly, personal income rose by 0.4% in July, higher than the 0.2% estimate. Even the index of purchasing managers showed that the United States economy continued its expansion. More improvements are expected for August.

Nothing new was announced at the all-important Kansas City Fed annual Jackson Hole Economic Symposium. Fed chair, Jerome Powel, simply reiterated that the Fed would allow inflation to breach their 2% target, that yield-curve control is not something they're considering, and that the Fed would be extremely slow to act, i.e. taper down market support. Markets loved the news!

In local economic news, President Cyril Ramaphosa continued to fight the battle against corruption as questions about COVID-spending irregularities arose. Aided by good rains in the Western Cape, South Africa produced record wheat, barley, and canola crops. Production of these commodities increased year-on-year by 28%, 46% and 29%, respectively. Despite opening our economy, the trend of active coronavirus cases, as well as the rolling 3-day positive rate, has continued to fall since early July.

