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Outlook for the day

The brisk upside in US equities coupled with a modestly upbeat tone for those Asian indices which are trading today will allow for further modest upside on the JSE. The JSE-TOPI will edge ahead of the 68,000-point level on the chart, but a challenge of the recent highs could well prove to be a bridge too far particularly as technical metrics on the weekly chart remains elevated. The available evidence indicates there is no decisive reason to “chase performance” at current levels. Trading exposure may be retained until evidence of weakness in short term rate of change data indicates profit-taking is appropriate.

JSE may continue to benefit from improved sentiment on Tuesday.

The JSE may start off February on a positive note today having earned out gains in January in what was a turbulent month.

- Boris Johnson under fire from Tories
- Sony is buying Bungie
- Some strategists see further pullback ahead
- Bitcoin’s bad month OPEC+ set to meet.
- UBS: 2021 net profit of USD 7.5bn, 17.5% return on CET1 capital
- Does Telkom probe the long arm of the law or malice?

Here’s what’s moving markets.

Fresh Fury

U.K. Prime Minister Boris Johnson faced fresh fury from his own Conservative lawmakers after a report into partying in Downing Street during lockdown slammed “failures of leadership and judgment” at the top of his government and criticized “excessive” drinking. London’s Metropolitan Police is now investigating 12 lockdown gatherings in government buildings, including in Johnson’s own apartment, and said Monday it was reviewing “more than 300 images and over 500 pages of information.”

Gaming Mania

Sony is purchasing Bungie, the U.S. video game developer behind the popular Destiny and Halo franchises, for \$3.6 billion to bolster its stable of game-making studios. The deal announced on Monday by Sony Interactive Entertainment is the third significant video-game acquisition in recent weeks. Shares of European game makers may move after the announcement, with Jefferies analyst Ken Rumph saying the most obvious read across names are Ubisoft Entertainment and CD Projekt.

Crypto Winter

Bitcoin closed out a rough month, with January declines bringing a reminder of the digital coin’s struggles at the dawn of the 2018 “crypto winter.” The largest cryptocurrency by market value notched only about a dozen up days in January, according to data compiled by Bloomberg, with the rest of the time mired in a decline. Other digital assets have also suffered, with No. 2 token Ether down roughly 26% since the end of December.

Hichilema calls for rule of law in Africa.

Just as Zapiro put out a cartoon showing the big chunks of Africa subject to coups the Zambian President, on a visit to SA, said “what Africa needs to do now is focus on the true opportunities that come with the endowment we have in mining, agriculture, water and good soils...Respect for democracy and the rule of law were key starting points in this quest.” He said this would be a key focus of his presidency and ...he would want to leave a legacy in which the biggest defenders of the democratic culture would be the citizens. Now if He can continue to walk the talk it would make a difference! City Press.

UBS: 2021 net profit of USD 7.5bn, 17.5% return on CET1 capital

The major Swiss bank UBS earned less in the fourth quarter of 2021 due to higher expenses. As UBS AG announced, pre-tax profit fell by 13 per cent to 1.73 billion dollars compared to the same period last year. This includes credit loss recoveries of \$27 million net. Due to higher provisions of 740 million dollars, operating expenses increased by 14 per cent. Without the provision, operating expenses would have increased only 2 per cent, UBS said, and pre-tax profit would have been 24 per cent higher than a year earlier. Growth groups the standouts in Monday trading

Growth a notable outperformer to value

Growth a notable outperformer to value today in a continuation of Friday afternoon's rally, though still trailed value by ~675 bp for the month. However, breadth still markedly positive. FANMAG group broadly higher, with NFLX-US the notable gainer. Autos stronger, led by TSLA-US (other EV names and lithium related stocks higher as well). Semis saw solid gains, while profitless tech, cloud software, payments largely up (ARK Innovation ETF posted best day since Mar-21). Retail, airlines, paper/packaging, precious-metals miners, cosmetics, exchanges, credit cards, IBs, asset managers, homebuilders, solar among other areas of strength. On the downside, defensive sectors the laggards. Consumer staples weighed down by HPCs, drug stores, and food products (K-US). Banks modestly higher, though larger caps fared worse than the regionals. Oil services worst- performer in energy despite firmer crude. Large-cap pharma, biotech, healthcare distributors, P&C insurers, beverages, A&D, rails, and machinery also among relative underperformers.

Some strategists see further pullback

Mike Wilson of Morgan Stanley wrote today he sees S&P 500 fair value closer to 4,000, or around 10% below current levels and 4,400 year-end targets. Cited factors including drag from tighter Fed policy path, higher frequency earnings revisions, and some cautious signals from recent data, such as spread between ISM manufacturing orders vs inventories. Goldman Sachs strategist David Kostin also said today four potential Fed hikes, up from two when he released his 2022 outlook, and mixed guidance so far this earnings season present downside risk to his 5,100 target. Kostin also said the index could fall to 4,000 if real US Treasury yields rise to 0%. Cautious outlooks come after some strategists recently highlighted parts of bullish narrative, such as S&P higher in 12 months that followed start of each of last seven Fed rate hike cycles, extreme bearish positioning in Treasuries, VIX signalling, and buyback window reopening.

Netflix, Tesla get sell-side upgrades

A couple of high-profile growth stocks caught sell-side upgrades today. Netflix, which is down over 35% this year on disappointing sub add guidance, upgraded to buy from neutral at Citi. Firm talked up pricing power. Also upgraded Spotify to buy as part of the same call, noting the company can improve its ad-supported monetization. Netflix stock found some support last week after Bill Ackman said his Pershing Square hedge fund purchased a \$1.1B stake. Netflix founder Reed Hastings also purchased \$20M worth of stock in the last week. Tesla, which is down nearly 20% heading into the final day of trading for January, was upgraded to outperform from neutral at Credit Suisse. Firm highlighted attractive entry point with market punishing growth stocks. Noted attractive growth story with robust fundamentals ahead, along with leverage to disruption and decarbonization themes. Barron's said this weekend that Tesla looks like the best bet in the auto space over the coming months.

Democrats getting desperate on economic agenda

While monetary policy shift continues to get the bulk of the attention as the big risk-off driver, dampened fiscal policy support another overhang. Goldman Sachs has pointed out that if none of the spending in BBB is ultimately approved, GDP growth would likely be more than 1/2pp lower in 2022 and more than 1/4pp lower in 2023 if fiscal support is limited to what has already been implemented. No BBB would provide some reprieve on the tax front, as the changes were expected to hit S&P 500 EPS by 2-3%, though WSJ noted some companies concerned lack of US participation in a global tax agreement could leave them exposed to double taxation. That article also discussed how Democrats are increasingly willing to accept whatever child-care, healthcare and climate package Manchin would support as they look to salvage key elements of the party's economic agenda. Added that with several other items moving up the priority list, it could be weeks or possibly months before Manchin ultimately blesses a deal.

Modest Increase

OPEC and its allies are expected to approve another modest oil-output increase this week, yet once again struggle to deliver all the extra supplies into a red-hot crude market. The recovery in fuel consumption from the pandemic continues apace, leaving plenty of room for the 23-nation coalition led by Saudi Arabia and Russia to boost production. But members from Nigeria to Russia have been running out of spare capacity and struggling to revive their output after years of cuts and under-investment.

Exchange rates

Latest Rates	Spot	Move
USD/ZAR	15.37	▼
GBP/ZAR	20.59	▼
EUR/ZAR	17.31	▼
CHF/ZAR	16.57	▼

The rand was 0.2% weaker at R15.40/\$, having firmed more than 3% against the dollar so far in 2022.

South Africa

Montalto wants energy policy facts and model based.

Head of Capital Markets Research at Intellidex is frustrated by it's going off the reservation into conspiracy theory land with accusations that sinister neo-colonial forces are at work. "I don't think people in government realise what happens when ministers start uttering madness like this. Instead, we should critically inspect the research and work of those supposedly involved in such conspiracies and we might actually find a path to a better jobs-rich SA." BD.

Mashaba resigns as Joburg councillor, Mboweni as MP, Grootes on outsider as ANC president Herman Mashaba's ActionSA agrees he must get out into the field and build party formations ahead of 2024 provincial and national elections. The former SARB governor and minister of finance wants to get out of politics and back to the private sector. Grootes surmises that while it is not impossible that an outsider could lead the ANC it is unlikely. His speculations include billionaire Sandile Zungu who recently threw his hat into the ring, former deputy president Phumzile Mlambo-Ngcuka, Herman Mashaba and Patrice Motsepe. Such speculation arises of course from what Professor Steven Friedman calls "the hole in our politics" i.e., "to whom do those who used to vote ANC shift their vote." DM.

Is Telkom probe the long arm of the law or malice?

The BD editorial says while there is plenty to investigate in the era after Sizwe Nxasana and before Siphos Maseko the suspicion has arisen that it might be punishment for obstructing the spectrum auction. Maseko did, however, preside over a R91m contract to Bain without a bidding process. Hilary Joffe says shooting messengers is rife in places like Turkey where Erdogan has recently fired the head of the statistics agency and Argentina where the president fired the consumer price division at the national statistics agency in 2007. Inflation there has continued along its merry path with many bailouts by the IMF including one to bailout the 2018 bailout. BD.

Coming Up

- European stocks look set for a strong open amid a tech rally after the Nasdaq saw its best two-day jump since 2020.
- Alphabet reports earnings later, while Paypal, Exxon Mobil, AMD, Starbucks
- GM and Electronic Arts among other big names in a busy earnings day in the U.S. UBS Group increased its share buyback program and upgraded key profit and efficiency targets.
- In Japan, Nomura said third-quarter profit fell 39%. India announces its budget, and there's CPI data from France and manufacturing PMIs for the Eurozone and the U.K.
- And Hungary's Prime Minister Viktor Orban travels to Russia to meet with Vladimir Putin.



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