Market Update

February 2019

At a glance

Global equity markets continued to improve in February as a resolution to the US/China trade spat appeared more imminent. Global bonds declined as a risk on attitude in favour of equities took preference. The MSCI World Index outperformed the MSCI Emerging Market Index, which returned 3.0% against the latter's 0.2%. These are both in total return terms.

US markets continued their winning streak bolstered by renewed hopes for a US/China trade war settlement, together with the Federal Reserve's confirmation of a more dovish approach to interest rate policy. The Dow Jones Industrial Average returned a positive 3.7% followed by the S&P 500 which returned 3.0%.

Most Eurozone markets closed in positive territory as a more risk on attitude prevailed and hopes improved for a boost to the global economy. This was further confirmed by the suggestion that the European Central Bank could restart its targeted long-term refinancing operations, offering cheaper loans to banks. France's CAC 40 returned 5.0% followed by Germany's DAX which reflected less exuberant growth returning 2.4%.

Sterling strength on the back of renewed hopes that the UK would avoid a hard Brexit from the European Union resulted in UK equities performing below their global peers. Japanese equities improved as fears of the extent of a global slowdown somewhat diminished. The Japanese market is ultra-sensitive to Yen movements, the currency having eased marginally over the month.

Emerging markets posted tepid growth for the month at 0.2% following January's sharp improvement. Uncertainty surrounding the US/China trade dispute continued to weigh on market sentiment.

Government bond yields rose in February with riskier assets commanding investors' attention. Minutes from the European Central Bank suggested it was preparing a new loan programme for banks, heralding a return of something similar to the long term refinancing operations of 2016.

In line with global markets and shaking off concerns around the Budget, the FTSE/JSE All-Share Index delivered a positive return of 3.4% for the month. The best performing Index was resources, which delivered a meaningful 9.1% for February.

Global - A trade peace?

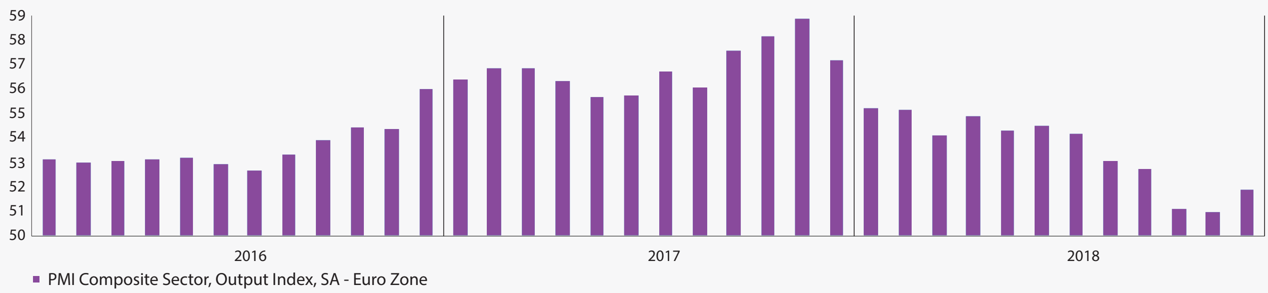
US equities continued to improve in February as economic data indicated a stable economy. GDP growth quarter-on-quarter for Q4 came in at 2.6% which was an improvement on economists' forecasts of 2.2% but considerably lower than Q3 growth of 3.4%. Growth in Q1 2019 is expected to reflect a slowdown in the economy. Employment levels remained buoyant.

Markets continued to enjoy their winning streak, bolstered by renewed hopes for a US/China trade war settlement together with the Federal Reserve's confirmation of a more dovish approach to interest rate policy. The US has temporarily suspended the imposition of increased tariffs on $200 billion of Chinese goods that was scheduled to be imposed from 1 March. The Dow Jones Industrial Average returned a positive 3.7% followed by the S&P 500 which returned 3.0%.

Eurozone equities performed in line with global equity markets with the MSCI EMU returning 3.9%. This was as a result of improved investor sentiment flowing from progress in the US/China trade talks. Furthermore, the suggestion that the European Central Bank may restart its long term refinancing operations also brought cheer to the markets. Banks were among the best performers whilst industrials also gained on the positive talk.

Economic data as a whole remained weak with GDP for Q4 2018 limping in at just 0.2%. Spain and France experienced growth of 0.7% and 0.3% respectively but Italy, as expected, slumped into recession. Eurozone PMI remained above the critical reading of 50 coming in at 51.4, but the industrial component slipped to 49.2.

Eurozone PMI



Source: FactSet/GTC

UK markets performed surprisingly well over the period although lagging their global peers. This was largely as a result of Sterling improving amid growing hopes that the UK would avoid a "hard" Brexit. The UK economy experienced a sharp slowdown in Q4 2018, with GDP declining to 0.2% from the previous quarter's 0.6%. GDP came in at 1.4% for 2018 which was at its lowest annual level since 2013. The downtrend was further confirmed by the Bank of England, who lowered its projected growth rate for 2019 from 1.7% to 1.2% and for 2020 to 1.5% from 1.7%.

As fears over a major global economic slowdown abated, the Japanese equity market continued to improve and closed the month 2.6% higher. This improvement was to an extent supported by an easing of the Yen/$ exchange rate, as well as the recovery from a set of natural disasters which impacted the Japanese economy in Q3 2018.

The weakening of the currency was welcomed by exporters as the end of Q4 2018 had seen a surge in the Yen's value. The outlook for the economy remains positive albeit with the proviso that the US/China trade situation remains balanced on a knife edge. Equities in the automotive sector are subject to considerable volatility as potential US tariff variations, coupled with the uncertainties surrounding Brexit, continue to exert their influence.

After posting significant gains in January, emerging markets tended to consolidate during the month and returned a meagre 0.2% underperforming the MSCI World Index significantly. The Chinese markets were the best performers on the back of positive developments on the US trade front. Furthermore, monetary and fiscal actions on the part of the People's Bank of China also added to market stimulus. With an improving US Dollar, emerging markets with significant external funding lost value.

Domestic - 2019 - An election budget

For a second month the South African domestic equity market continued its long overdue improvement, with the 2019 Budget having little impact on investor confidence. Of considerably more significance was the rising hope for a settlement of the US/China trade tariff impasse.

In line with global markets, and shaking off any potential concerns around the Budget, the FTSE/JSE All-Share Index delivered a positive return of 3.4% for the month. The best performing Index was resources which delivered a meaningful 9.1% for February. On the back of more positive market sentiment, the Industrial Index returned a positive 3.5%. This was in spite of major retailers such as Shoprite and Woolworths delivering poor results.

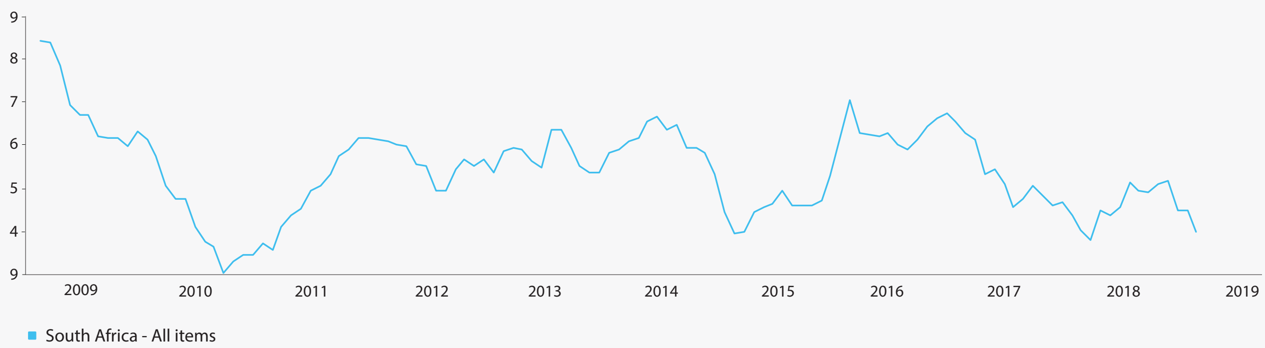
The financial sector experienced some selling pressure with the Financials Index delivering a negative return of -2.1%. The Listed Property Index reversed the trend of the previous month, largely on the back of disputed valuations at Resilient, with the Index returning a negative -5.7%.

South African Bonds were once again out of favour, with selling pressure resulting in the JSE All Bond Index returning a negative -0.4%. Inflation Linked Bonds were also negative delivering -0.5%. The Rand experienced considerable volatility during the month as the outlook for a trade war settlement between the US and China blew hot and cold at the whim of President Trump. The currency closed the month trading at R14.09/$.

SA's minister of finance Tito Mboweni presented a defensive budget taking into account the country's economic realities. What is patently evident is that SA's lack of economic growth is negatively impacting tax revenue. In 2018/19 tax revenue was R42.8 billion less than budgeted. Without higher economic growth the country will struggle to generate the revenue it needs to make structural changes. There were no big tax shocks but there was no compensation for bracket creep either.

A rescue plan for power utility Eskom calmed investors as it appeared to avert a South African credit rating downgrade from Moody's Investors Service, at least for now. Eskom will receive a R69 billion cash injection over the next three years to help service its debt.
South Africa Consumer Price Inflation

South Africa consumer price inflation

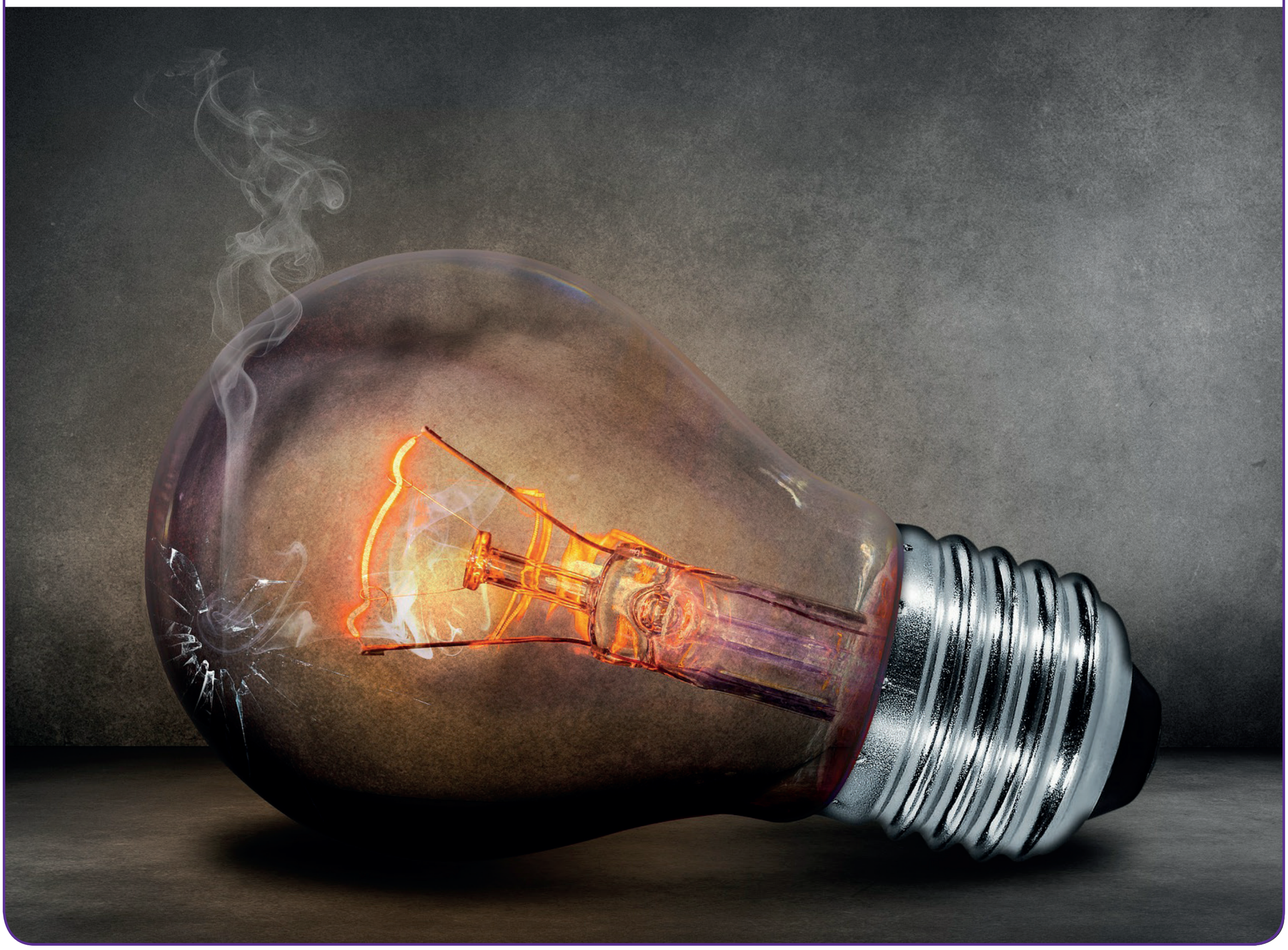


Source: FactSet/GTC

Data from Statistics South Africa showed South Africa's headline consumer inflation fell to 4.0% year-on-year in January from 4.5% in the previous month. On a month-on-month basis, prices fell 0.2% in January from a decrease of 0.2% in December.

Manufacturing production increased by 0.1% in December 2018 compared with December 2017. This followed month-on-month changes of 0.4% in November 2018 and 1.2% in October 2018. Mining production decreased by 4.8% year-on-year in December 2018. The negative contributors were: gold, iron ore and 'other' metallic minerals. Total mining production was 1.6% lower in 2018 compared with 2017.

Whilst the improvement in the local equity market is most welcome, one needs to be conscious of the fact that some strong headwinds remain. We are cognisant of the 8 May general election coming up. Hopefully investor sentiment and confidence remains positive, taking into account that equity returns are of their very nature a long term proposition.



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