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Market Update

August 2019

Global outlook

Global markets took a shot to the gut as the month kicked off with an escalation in the US-China trade war. While markets were anticipating another stalled resolution to the trade negotiations none expected the US president to impose a 10% tariff on further $300 billion worth of Chinese goods.

To this China hit back hard in two ways.Firstly China allowed its currency relative to the US dollar to fall to the lowest level in a decade which mitigated the intended impact of the previously imposed US tariffs as it made exports to the US more affordable.

Secondly China targeted one of the US's largest sectors by instructing local Chinese companies to suspend US agricultural imports.

Towards the end of month both nations attempted to deescalate the trade war which allowed markets some breathing room but not enough to reverse all of the month's losses.

On the back of the global trade uncertainty, growth assets both emerging and developed sold off in favour of defensive assets in the month of August.

Indicative of the risk off environment, the MSCI Developed World Equity Index registered a return of -2.05%, outperforming the MSCI Emerging Market Equity Index which declined by -4.88%, both in total Dollar return terms.

US

Despite the Fed cutting rates last month in an effort to stimulate US economic growth, the global economic uncertainty fuelled by the trade war sent the US benchmark 10 year yield curve tumbling down below the 2 year yield curve.This is called an inverted yield curve and is widely considered to be a precursor to a recession as it indicates that investors see more favourable investment opportunities in the shorter term than in the longer term.

Retail sales come out stronger than expected at 0.7% but manufacturing growth has slowed off of subdued global demand leading to a drag on business investment. In total return dollar terms, both the S&P 500 index and Dow Jones Industrial average index fell close on -1.8%

Eurozone

Germany, the Eurozone largest economy, contracted in Q2 2019 as it is heavily dependent on exports in its struggling automotive industry. Global trade uncertainty has constricted exports significantly. Many high rated European counties have seen their yield curve become negative as pessimism over the global growth prospects ensues.

Despite stumbling from the ramification of the global economic slowdown along with uncertainty arising from the US-Europe trade conflict, the ECB (European Central Bank) kept interest rates unchanged last month.

UK

To further exasperate Britain's mounting economic troubles, its gross domestic product (GDP) unexpectedly fell 0.2% in Q2 2019 the first time in almost 7 years. Amongst the G7 group of advanced economies, the UK's contraction raked it as the worst performing economy in Q2 2019. This may prompt a rate cut for the Bank of England sooner than expected in efforts to stimulate economic growth.

Boris Johnson remains persistent on exiting the EU come 31 October 2019, deal or no deal. A no deal for the UK upon exit would prove disastrous from all current indications. The FTSE All-Share declined -4.38%.

Asia

Asian markets followed in line with the rest of world as the impact of the global slowdown becoming increasingly more evident as seen by weak economic data coming out of Japan and China.

China's industrial production expanded by 4.8% year on year, its weakest level since 2002 while retail sales (a key measure of consumption) only grew by 7.6% in July. This was well short of economist's prediction of 8.6% growth. Further weakening China's outlook, Hong Kong's economy continues to stagnate with no relief in sight from the strain of the unrelenting anti-government protest.

SA

The FTSE/JSE Shareholder weighted index started the month off detracting on the back of the impact from the global sell-off amid uncertain trade conditions. Fortunately the last week of August saw some relief as local equity markets recovered from -4.5% to close the month at -2.5% in total return terms. Overall performance was dragged down by Financials (-4.0%) and Industrials (-3.0%).

Data from Statistics South Africa showed South Africa's headline consumer inflation eased from 4.5% to 4.0% year on year in July from the previous month.Producer Price Inflation for final manufactured goods decreased from 5.8% to 4.9% year on year in July 2019.

South Africa's private sector contracted for a 3rd consecutive month in July as the global market tension stifled both demand and factory output. The HIS's Markits Purchasing Managers' index (PMI) detracted to 48.4 points in the month of July. Below 50 points is indicative of poor health in the manufacturing sector.

Strong retail sales helped SA's growth outlook as the year on year increase to June came in at 2.4%. This added to growing evidence that SA's economy had returned to growth in the second quarter of 2019 which aided in alleviated fears of yet another technical recession in South Africa.

This month saw economic uncertainty and market volatility rise once again, creating a risk off environment as investors sought to sell out of risky assets and in favour of safe haven assets.

South Africa, being an emerging market and therefore risky by nature, saw the Rand sell off in August some 6.6% further weakening the value of local assets.

Market index - August 2019 (%)	1M	3M	YTD	1YR	3YR	5YR	7YR	10YR
Local Equity (SWIX)	-2.50	-1.69	3.96	-4.71	2.21	3.99	9.30	11.53
Local Listed Property	-3.57	-2.63	1.03	-5.52	-3.26	3.62	5.31	11.40
Local Money Market	0.61	1.80	4.87	7.35	7.44	7.13	6.62	6.54
Local Bonds	0.98	2.51	7.90	11.19	9.79	7.82	7.23	8.74
Global Developed Equity in USD	-2.05	4.93	15.63	0.26	9.63	6.15	9.76	9.20
Global Emerging Equity in USD	-4.88	-0.17	4.19	-4.36	5.76	0.38	3.00	4.07
Global Bonds in USD	2.66	4.56	7.67	8.44	1.85	1.38	0.96	2.05
Oil in USD	-8.06	-1.69	15.06	-19.28	8.50	-16.08	-11.64	-4.28
Rand versus the USD	-6.65	-4.12	-5.26	-3.51	-1.04	-6.87	-8.06	-6.46

Above indices returns are gross of fees.

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