Market Update

May 2020

Overview

Equity markets continued to improve in May as Covid-19 lockdown restrictions were eased and further fiscal and monetary stimulus measures were announced. The MSCI World Index comfortably outperformed the MSCI Emerging Market Index as the latter was subject to escalating concerns over the U.S./China trade dispute. The MSCI World Index returned 4.8% with the MSCI Emerging Market Index returning a paltry 0.8%.

U.S. equity markets were cheered by optimism surrounding the gradual re-opening of the economy with GDP being revised upwards to a negative -4.8% from the previous -5.0%.

Eurozone markets also displayed improved positive sentiment as many European countries began to ease out of the lockdown. Equities were further supported by the stimulus package proposed by the European Commission of Euro 750 billion.

U.K. equities posted positive returns in May with certain areas of the market performing exceptionally well. Easing of lockdown procedures helped improve investor sentiment despite Sterling coming under pressure from renewed fears of a possible no deal Brexit.

Japanese equities rose steadily over the month with the gradual lifting of lockdown procedures. Japan was fortunate in that the nation weathered the storm from both the infection and mortality rate from Covid-19 pandemic better than most.

Emerging market equities advanced at snails' pace hampered by the continuing and at times vitriolic exchange of views surrounding the U.S. /China trade negotiations.

The JSE All-Share performance remained almost flat at month end following President Trump's announcement of China's proposed Hong Kong involvement and his threat to impose punitive trade sanctions.

Global - COVID-19 Lockdown ease

U.S.

U.S. equities performed well in May as investors took heart from the proposed easing of lockdown restrictions in almost all U.S. states, as well as in many other countries around the world. Market optimism remained positive despite confirmation that the economy had contracted in Q1 even further than was at first indicated.

This was the first negative economic growth since Q4 2008. At the heart of this economic slowdown was the sharp decline in consumer spending which is the lifeblood of the American economy. This was further exacerbated by concerns over a possible deterioration in U.S./China trade negotiations. All sectors in the S&P 500 rose with the index returning 4.8%. I.T stocks were again the best performers.

Eurozone

The gradual easing out of lockdown by European countries resulted in gains for some markets despite the ravages to the economies of Italy and Spain. The European Commission proposed a Euro 750 billion recovery fund to support particularly those countries worst affected ,which was in addition to the Euro 540 billion fund which was agreed to in April.

The European Central Bank also indicated that its asset purchase target would also be considerably increased. Forward looking economic data showed a significant improvement with the Markit composite PMI rising to 30.5 in May from April's 13.6. However, this is a far cry from 50 which separates expansion from contraction.

U.K.

In line with global markets U.K. equities improved over the month with a positive spin coming from investor confidence. Mining counters attracted considerable interest in response to an uptick in Chinese industrial activity. Easing of lockdown measures saw a phased reopening of the retail sector and people were encouraged to return to work where possible.

Fresh concerns surrounding a possible "no deal" Brexit weighed on Sterling as did the possibility of the introduction of negative interest rates. The Governor of The Bank of England confirmed that such a possibility was under active review and Treasury confirmed it had sold negative yielding bonds for the first time. The U.K. economy contracted -2.0% in Q1 2020 the largest decline since Q4 2009.

Japan

The Japanese market improved steadily over the month returning a welcome 6.8% this despite the imposition of some fairly limited lockdown restrictions. Government statistics for both the mortality and infection rates stemming from the coronavirus remained considerably better than for most other developed economies. Popular opinion would suggest that this was more by luck than by government intervention with the governments public approval levels being at an all-time low. The Yen remained stable during the month whilst on the equity front pharmaceuticals remained the best performer.

Emerging Markets

Emerging markets delivered mediocre positive returns in May of 0.8% as global lockdowns began to ease but performance was significantly impacted by renewed trade and geo-political tensions between the U.S. and China.

These tensions were exacerbated by China moving to impose a national security law in respect of Hong Kong, despite longstanding United Nations approved self-governing laws relating to the former British territory. The increased demand for riskier assets led to positive returns for emerging markets bonds and currencies.

Domestic - Level 3 arrives

The announcement late in May by President Cyril Ramaphosa that South Africa was to ease lockdown restrictions from level 4 to level 3 on 1 June brought some cheer to the local market but this was somewhat short-lived. China's decision to impose legal restrictions in Hong Kong suggested that U.S. sanctions might well follow, and this resulted in risk-off sentiment prevailing at month end.

The JSE All-Share Index returned a paltry 0.3% for the month in total return terms. Resources was the best performing sector returning 5.6% whilst financials, having come under considerable selling pressure, returned a negative -3.3%. The JSE All Bond Index returned 7.0% while cash gave 0.5%.

South Africa's economy is expected to contract by -5.8% in 2020 but with an expected rebound to 4% growth in 2021, according to a presentation to parliament's finance committee by the IMF. The head of the National Treasury said GDP in 2020 could contract by as much as -12%, with manufacturing, mining and services sectors likely taking the biggest hit.

South Africa's trade balance recorded a deficit of R35.02 billion in April from a revised surplus of R23.94 billion in March. Exports fell 55.1% on a m/m basis to R53.02 billion, while imports were down 6.5% to R88.03 billion.

Domestic motor vehicle sales fell 68% in May from a year earlier, compared with a record drop of 98.4% in April. The median estimate of economists' estimates in a Bloomberg survey was for a decline of 86.3%. Exports fell 64.1% year-on-year compared with 97.3% in April.

The PIC has proposed converting its holdings in Eskom loan stock to equity which will cut Eskom's indebtedness by more than half to R200bn. Eskom's cash position has been bolstered by government's R49 billion support package and has since improved to R23 billion. The power utility has also managed to achieve R9 billion in savings. Municipal debt is still a headache, having increased to R28.04 billion as at 31 March 2020. Eskom expects only three days of Stage 1 power cuts during the winter period when demand increases.

The process to procure emergency energy capacity essential to minimise load-shedding when the economy returns to normal became a reality this week with a decision by SA's energy regulator that the procurement process should proceed.

Manufacturing production decreased by -2.1% in February 2020 compared with February 2019. Seasonally adjusted manufacturing production decreased by -2.3% in February 2020 compared with January 2020. This followed month-on-month changes of 3.0% in January 2020 and -3.2% in December 2019. Eight of the ten manufacturing divisions reported negative growth rates over this period.

Mining production increased by 7.0% year-on-year in February 2020. The largest positive contributors were coal, PGMs and gold. Seasonally adjusted mining production decreased by -1.0% in February 2020 compared with January 2020. This followed month-on-month changes of 6.3% in January 2020 and -6.1% in December 2019.

The months ahead are likely to be both uncertain and testing for the economy, the stock market ,as well as for the populace, as the pandemic spreads. The Ramaphosa administration is likely to come under renewed pressure to accelerate the lifting of any remaining lockdown regulations but bearing in mind that we are still some way from the projected peak of viral infection some degree of caution will hopefully prevail. Market volatility will continue to increase but as recent market performance has clearly demonstrated staying invested is the key to investment success.

May investment market returns (%)	1M	3M	YTD	1YR	3YR	5YR	7YR	10YR
Local Equity (SWIX)	-0.97	-3.02	-13.33	-10.40	-1.89	0.63	5.25	9.39
Local Listed Property	-0.76	-32.64	-44.94	-45.92	-21.61	-11.38	-3.66	3.48
Local Money Market	0.50	1.60	2.77	7.07	7.27	7.23	6.81	6.50
Local Bonds	7.06	0.41	1.56	6.45	8.20	7.71	7.25	8.46
Global Developed Shares in USD	4.83	0.89	-7.95	6.80	5.91	5.84	7.59	9.28
Global Emerging Shares in USD	0.77	-6.95	-15.90	-4.39	-0.15	0.88	1.23	2.47
Global Bonds in USD	0.20	0.77	3.42	6.36	3.72	3.51	2.04	2.47
Oil in USD	35.99	-31.06	-46.88	-38.47	-6.89	-14.45	-16.33	-8.50
Rand vs. USD	14.17	-10.77	-20.68	-17.43	-9.23	-7.15	-7.70	-7.96

Above indices returns are gross of fees.

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