January 2019

analytics
CONSULTING

Economic and market overview

PFPS

Global

Global equities deteriorated even further in December (to end the fourth quarter of 2018 down 13% in dollar terms). Continued concerns over trade war tariffs as well as slowing economic growth in Europe and China saw investors shy away from risky assets.

This risk aversion was demonstrated by the decrease in US Bond yields (result of investors fleeing to save-haven asset classes) as well as the strengthening of the US Dollar and Japanese Yen (which are also often seen as “safe-havens” in times of extreme uncertainty). These global factors also weighed on Emerging markets, particular emerging market equities. The MSCI Emerging Markets Index ended the year down 14.2% (in dollar terms).

After raising US rates again in December on continued stability in economic data, US Federal Reserve chairman (Jerome Powell) sounded slightly more dovish as he revised expected rises in 2019 from three down to two.

Last week the larger US companies started to issue warnings about the health of their businesses which validated the investors’ concerns over growth. Apple reduced their revenue expectations for the first time in 16 years citing weak iPhone sales in China. Following this announcement, Delta Air Lines said its fare revenue would be falling short of earlier forecasts.

The latest wage report indicated that the average US employee is starting to see an increase in their wages. This could put further pressure on companies’ margins if they elect to absorb the cost of increasing wages as opposed to increasing prices.

In the UK, the ongoing uncertainty surrounding Brexit negotiations continued to weigh on both business and consumer confidence as fears of a “no deal” Brexit continue to loom.

The Oil price plunged even further in December to end the 4th quarter 35% down from its previous quarter end. This sharp decline comes mainly as a result of increasing US shale production which saw rising supply catch up with demand. Although the lower oil price might hurt producers, consumers will benefit which could boost growth and provide a surprise on the upside.

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South Africa

Local markets struggled in 2018 as weak growth continued to reflect uncertainty around policies and disillusionment regarding the extent of the structural problems faced by president Ramaphosa.

SA Listed Property sector continued to fall 1% in December, ending the year **down 25%**

The JSE All Share Index struggled this year, ending the year down 9% despite a positive December. Except for resource stocks (which were up 15% for the year) local investors had few pockets to hide. Large, Rand-hedge counters such as Naspers, MTN, Aspen, and British American Tobacco all came under pressure (each one as a result of company specific issues). At the same time, SA Property stocks came under pressure as investors started to question the sustainability of some of the companies' earnings. The SA Listed Property sector continued to fall 1% in December, ending the year down 25%.

SA Bonds was the only local asset class that managed to outperformed cash this year, ending the year up 7.7%. This poor performance of local asset classes in 2018 has been disheartening for investors who (even over the past 3 and 5 years) have not been compensated for their exposure to risk assets.

The Rand weakened a further 4% against the US Dollar in December which saw it end 16% weaker against the Dollar for the year. As a result of this Dollar strength, managers with higher offshore exposure during 2018 outperformed.

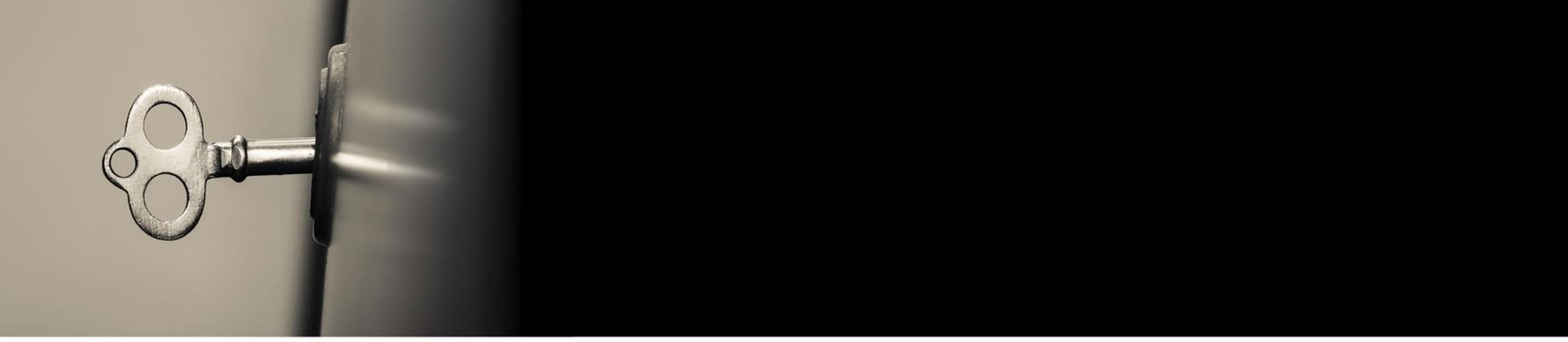
Market Performance

Global Equities fell in December as weaker-than-expected economic data from Japan, China and Europe sparked global growth slowdown fears.

Global Bonds had a solid month as the rate hike in December was widely anticipated and market expectation for rate hikes in 2019 shifted lower.

Locally the equity market had a positive month with resources and rand hedges as the biggest contributors. This is the result of benefiting from the slight optimism created by U.S. President Trump hinting "big progress" in trade talks with China.

SA bonds realised a slight positive month after the decrease in the oil price saw lower inflation expectations (transport being the biggest contributor to inflation consequently inflation should be more contained with lower fuel prices).



Brent crude oil fell 8% due to a combination of weakening global demand, applications of softening of U.S. Sanctions on Iran and the unexpected higher crude output in the U.S.

The (ASISA) South African MA High Equity sector average was slightly positive (0.5%) in December but returned -3.6% in 2018 while the Low Equity sector returned 0.5% for December and 1.2% for the year.

Index Returns in ZAR (31 Dec 2018) [1]	**1 Month**	**3 Months**	**6 Months**	**1 Year**	**5 Years**
SA Equities (JSE All Share Index)	4.3%	-4.9%	-6.9%	-8.5%	5.8%
SA Property (South African Listed Property Index)	-1.1%	-4.0%	-5.0%	-25.3%	5.7%
SA Bonds (SA All Bond Index)	0.6%	2.8%	3.6%	7.7%	7.7%
SA Cash (STeFI)	0.6%	1.8%	3.5%	7.3%	6.9%
Global Equities (MSCI All Countries World Index)	-3.5%	-11.2%	-4.3%	5.8%	11.7%
Developed Market Equities (MSCI World Index)	-4.1%	-11.9%	-4.4%	6.7%	12.0%
Emerging Market Equities (MSCI Emerging Market Index)	1.0%	-5.9%	-3.7%	-0.4%	8.7%
Global Bonds (Bloomberg Barclays Global Aggregate)	5.8%	2.9%	5.2%	14.8%	7.7%
Rand / Dollar [2]	3.7%	1.7%	5.0%	16.2%	6.6%
Rand / Sterling	3.6%	-0.7%	1.2%	9.4%	1.1%
Rand / Euro	4.7%	0.0%	2.8%	10.6%	2.6%
Average South African Multi-Asset High Equity Fund	0.5%	-4.5%	-3.4%	-3.6%	4.8%
Average South African Multi-Asset Low Equity Fund	0.5%	-1.8%	-0.3%	1.2%	5.8%

[1] Source: Factset
[2] A negative number implies fewer Rands are being paid per US Dollar, so this implies a strengthening Rand