Market Update

April 2019

At a glance

Global equity markets continued to improve in April. This was largely due to central banks continuing to provide liquidity and economic data coming in above expectations. The MSCI World Index delivered 3.5% outperforming the MSCI Emerging Market Index which delivered 2.1% both in total return terms.

Significantly improved Q1 GDP data coupled with strong employment growth provided the US market with the necessary impetus to reach new highs.

Contrary to expectations Eurozone equities continued their advance during April with GDP growth outstripping analyst's forecasts. The financial and information technology sectors were the best performers.

In spite of the uncertainties surrounding the Brexit debacle, UK equities did improve over the month but failed to match peer performance dragged down by weaker mining and tobacco counters.

The Japanese equity market remained somewhat subdued in April with the abdication of the Emperor absorbing considerable interest. On the economic front few newsworthy items were announced with the Yen marginally softer.

Better than previously hoped for global economic growth prospects resulted in an improved risk appetite for emerging market equities which posted positive returns for the month.

The South African equity market improved in line with its global counterparts but lagged in terms of peer performance as resources delivered negative returns. Global bond yields continued to rise on the back of improving economic data with corporate bonds attracting particular interest.

Global - A booming US

United States of America
Economic data emanating from the US continued to outstrip expectations resulting in significant risk-on appetite and driving equities to all-time highs. Far better than expected Q1 GDP numbers came in at 3.2% while employment numbers grew by 196,000 in March and the unemployment rate remained at 3.8%.

These factors coupled with the continuing dovish approach to interest rates on the part of the Federal Reserve kept the markets buoyant. Earnings results provided additional stimulus to the markets with technology stocks Amazon and Twitter delivering spectacular numbers. Market performance in the tech sector at month end was somewhat soured by results from Alphabet, the holding company of Google, which delivered disappointing results. The Financial sector was the best performer.

Eurozone
Eurozone equity performance surprised on the upside as forward looking economic data was indicative of a slowdown in economic growth in most of the region. The MSCI EMU Index returned a commendable 4.9%. Improving data from China helped lift market sentiment and in particular better performance from automakers was well received. GDP data on a q/q basis indicated that the economy had grown 0.4% in Q1 as opposed to the 0.1% at the end of 2018. The German economy remains of some concern with the business outlook index declining from 99.7 in March to 99.2 in April. The composite PMI also declined from 51.6 in March to 51.3 in April signalling a downturn in industrial production.

MSCI EMU

Source: FactSet/GTC

United Kingdom
Notwithstanding the hoodoo of the on/off Brexit initiative, UK economic data continued to surprise on the upside albeit at a slower rate with GDP for February coming in at 0.2% versus January's 0.5%.

The stock market delivered positive returns with the FTSE All-Share coming in at 2.7%. However the major mining and tobacco sectors gave back some of their previous gains. Industrial production for the period surprised with Markit's PMI standing at 55.1,its highest level in a year. This seems to have been driven largely by inventory build ahead of a potential March 31st Brexit.

Japan
The Japanese market remained relatively subdued over the month with considerable focus being on the abdication of the Emperor and the instillation of his son. Whilst not of any real economic significance this event resulted in investors remaining side-lined. The market returned 1.7%.

The potential imposition of punitive tariffs by the US on Chinese imports continued to weigh on the market in spite of indications suggesting an amicable resolution to the dispute. Domestic economic data failed to sway the market but some concern was expressed over the decline in industrial production.

Emerging Markets
Most of the Chinese major markets moved higher in line with their global counterparts. Economic data remained largely positive with GDP expanding at a certainly better than expected 6.4% y/y in Q1.

Fixed asset investment, retail sales, and industrial production all demonstrated a resilient economy that most pundits had predicted would already have been displaying the effects of limited US punitive trade tariffs. Industrial production rose 8.5% y/y in March.

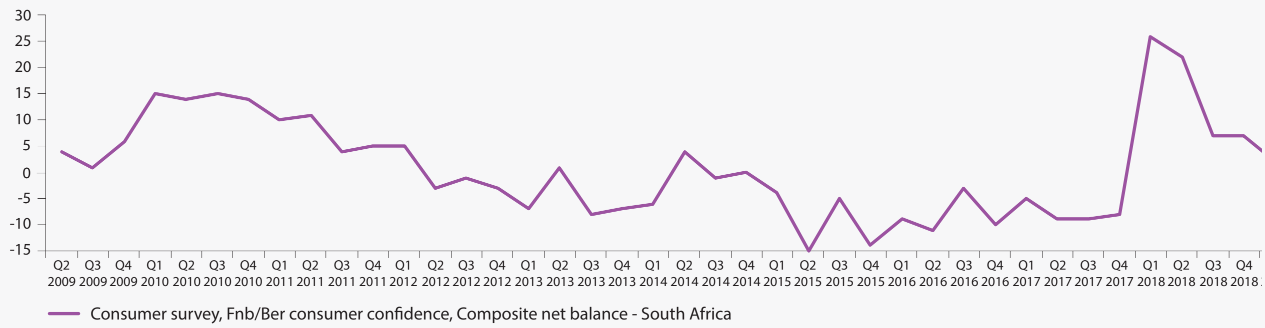
Domestic - 2019 - May elections

The JSE/FTSE All-Share moved ahead in line with global markets returning 4.2% in total return terms for the month. The best performing sectors were the Industrial and Financial sectors which returned 6.5% and 5.3% respectively. The Resources sector was subject to considerable volatility particularly as a result of a gyrating oil price and a weaker platinum sector and closed the month down a negative -2.0%.

Listed property is trading at its lowest level against Government Bonds in ten years. Good property returns are indicated from this low base created in 2018 even taking into account distribution growth and relative earnings. The property sector returned a positive 3.2%.

Real bond yields continue to appear attractive relative to SA's peer group investment grade and the JSE All Bond Index returned 0.7%. The JSE Inflation Linked Bond Index returned 3.5%. The SA volatility Index reflected a negative -10.7%. The Rand closed at R14.34/ Dollar.

South Africa consumer confidence survey



Source: FactSet/GTC

South African consumer confidence declined to its lowest level in more than a year in the first quarter as expectations of an economic recovery declined. The consumer-confidence index was at 2 in Q1 2019 dropping from 7 in Q4 2018. While a net majority of consumers remain positive, the gauge is at its lowest level since Q4 of 2017 and well off the record high of 26 when Cyril Ramaphosa took over as president a year ago.

The latest dip in consumer confidence shows that consumers do not expect the country's economic prospects to improve over the next 12 months.

SA's annual headline consumer price index increased to 4.5% in March from 4.1% in February. This was within the expected range of projections by economists of between 4.2% and 4.8% and was largely due to increases in fuel prices. An increase in the price of crude oil has seen fuel prices rise in the past two months and analysts see inflation continuing to rise throughout 2019 after power supplier Eskom was granted a 13% tariff hike.

SA's growth outlook is lower than projected growth in the region according to a recent report from the World Bank. The Bank left SA's growth figures unchanged from its World Economic Outlook in October 2018 when it lowered forecasts from 1.8% to 1.3% in 2019 and from 1.9% to 1.7% in 2020. Growth for 2021 is estimated at 1.8%.

The International Monetary Fund has lowered South Africa's projected GDP growth rate for 2019 from 1.4% to 1.2%, putting the country among the worst performers in sub-Saharan Africa. Projected GDP expansion for 2020 has also been lowered from 1.7% to 1.5%. At a growth rate of 1.2%, SA's economic expansion would still be above the 0.8% level at which the economy expanded in 2018. The projected recovery reflects reduced but continued policy uncertainty in the South African economy after the May 2019 elections.

The global mining group Rio Tinto has announced a R6.5bn investment in its mineral sands business in Kwa-Zulu Natal. The company announced that the investment would sustain the capacity of Richards Bay Minerals by developing a new mine. RBM produces predominantly rutile, zircon, titania slag and high purity iron. Rio Tinto has held a 74% stake in RBM since 2012 and manages the operation.

Nissan plans to invest a further R3 billion in its South African plant to prepare for production of the latest version of the Navara pickup. The decision by the Japanese carmaker may add 30 000 units to the plant's current annual volume of 35 000. The manufacture of the Navara from 2020 will also create about 1 200 jobs.

S&P Global Ratings has kept SA's sovereign credit rating unchanged at 'BB' and maintained a stable outlook, amid expectations that the African National Congress would win the election and continue with policy reforms they started.

Equity markets are uncertainty averse and currently are faced with the ongoing US/China tariff dispute. Consequently we can expect volatility across all markets to continue unabated until there is final resolution to these issues. Sitting tight would seem the best and most prudent advice.

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