Market Update

May 2019

At a glance

The saying "*sell in May and go away*" certainly held true this month with global markets reeling under a major risk averse sell-off. There was no escape as the shadow of slowing global growth, enveloped all world markets.

Indicative of the sell-off, the MSCI World Equity Index registered a return of -5.8%, outperforming the MSCI Emerging Market Index which delivered a return of -7.3%, both in total Dollar return terms.

In the US the sell-off was across the board impacting the S&P 500, the Dow Jones Industrial Index as well as the NASDAQ. The break down in US/China tariff negotiations was not well received by the market.

Eurozone markets also laboured under the potential of a major global economic slowdown and shed value across the board. Stocks related to semi-conductors as well as motor vehicle production were particularly hard hit. The MSCI EMU Index shed -6.4%.

In the UK the overhang from failed Brexit negotiations weighed on the market alongside the potential downturn in world trade but was spared some of the downside as Sterling eased and aided export related and resource companies. The FTSE All-Share delivered -3.0%.

Asian and emerging markets declined as the extent of a possible global economic slowdown became more evident and poor economic data from China provided a clue as to the trade dispute's potential impact.

The JSE/FTSE All-Share, already reeling from political infighting, succumbed to the global sell-off closing at 55,650 and returned -4.8% in total return terms for the month. The JSE/FTSE Top 40 Index returned -5.1%.

Global - Risk-off prevails

United States

The US government increased tariffs on an additional $200 billion of Chinese goods from 10% to 25% with China responding with a tariff hike on $60 billion of US imports. Furthermore, the US administration imposed punitive measures on the Chinese tech-giant Huawei as well as threatening to impose a 5% tariff on all imports from Mexico. Once the Chinese trade talks broke down, these moves put the skids under the New York markets. The S&P 500 returned -6.4%.

Economic data remained positive with the Federal Reserve maintaining its dovish approach to interest rates and employment continued to rise. 263 000 new jobs were created resulting in total unemployment declining to 3.6%. Consumer confidence remained on the up climb from 129.2 in April to 134.1 in May. However, manufacturing slowed with May's PMI coming in at 50.4 from April's 50.6. The technology, industrial and energy sectors were the worst performers.

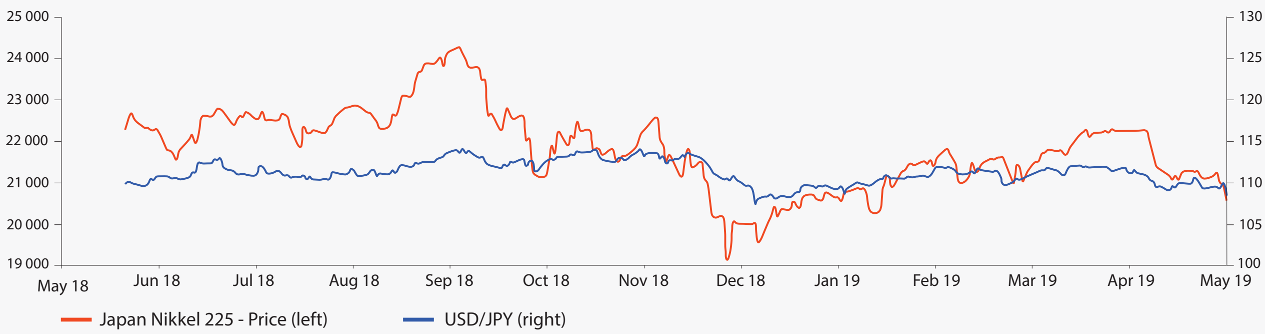
Eurozone

The MSCI EMU Index having delivered a return of -6.4%, reflected the renewed concerns of the region in relation to a slowdown of the global economy. The industries with major exposure to global trade fared worst with manufacturers of semi-conductors and automobiles being badly hit. Q1 GDP data from across the region reflected weak economic growth with the German economy barely lifting its head above recession and coming in at 0.4%. Italy's forecast of 2019 GDP was revised downwards to 0.1%.

UK

Sterling declined sharply over concerns of a disorderly exit from the European Union and were further amplified when the Prime Minister Theresa May tendered her resignation. Financials, resources and industrials were the worst performers. Surprisingly, manufacturing remained buoyant, mainly attributed to stockpiling ahead of the originally suggested date of exit from the EU being 31 March. Markit's PMI indicator for April was easier at 53.1 whilst contrary to expectations, the Bank of England revised its forecast growth number from 1.2% to 1.5%.

Japan: Nikkei 225 vs USD/Yen



Source: FactSet/GTC

Japan

Economic data remained largely positive with the biggest surprise coming in the form of Q1 GDP which came in at 2.1%, whilst most analysts were expecting a negative reading. Political pundits ascribe some of this unexpected performance in terms of a possible delay in implementing an increase in consumer tax scheduled for October. The Yen strengthened considerably during the month which had an adverse effect on equity prices and which resulted in the Nikkei Index delivering a negative -6.4%. The imposition of punitive tariffs by the US is likely to have far reaching implications for supply chain dynamics and will have a marked impact on the Japanese economy.

Emerging Markets

Emerging markets experienced a torrid time in May with Chinese markets bearing the brunt of the downswing. Chinese economic data displayed evidence of a slowing economy with industrial production down from 8.5% to 5.4%. Exports declined 2.7% and retail sales increased at their slowest pace in some time. Should there be no quick resolution to the US/China trade debacle, global economic growth is likely to be impaired for some considerable time.

Domestic - The new dawn fades

The JSE/FTSE All-Share was weighed down by the global sell-off closing at 55,650 and returning -4.8% in total return terms for the month. The JSE/FTSE Top 40 Index returned -5.1%.The worst performing sector was Industrials which declined fairly sharply as developments in the US/China clash took a turn for the worse and the telecom giant Huawei was singled out for particularly harsh sanctions on the part of the US. This had the effect of putting selling pressure on all global telecom stocks including Ten Cent which in turn impacted Naspers. The sector was down -6.0%.

A risk-off sentiment prevailed across almost the entire board which resulted in an overall negative performance for most counters with the Resources Index down -5.3%, Financials down -1.9%, Industrials down -5.9% and Listed Property down -0.9%. The SA Volatility Index closed at 15.58.

Consumer confidence in South Africa recovered in Q2 after a general election and the stabilisation of the power grid. Consumer spending was likely to remain constrained. The consumer confidence index rose to 5 from 2 in Q1.

The local market's focus will be on any developments regarding China's further retaliatory moves and the next steps taken to normalise trade, until Trump and Xi meet at the G20 meeting in Osaka Japan in late-June.

The number of employed persons decreased by 237 000 to 16.3 million in Q1 2019, while the number of unemployed persons increased by 62 000 to 6.2 million compared to Q4 2018, resulting in a decrease of 176 000 (down by 0.8%) in the number of people in the labour force.

Energy minister Jeff Radebe has opened the way for businesses to generate their own electricity and feed this into the national grid. The move is a crucial development that will assist in alleviating electricity supply constraints and open the generation market to enable more private entities to provide power alongside Eskom.

South Africa Business Confidence Index

Source: FactSet/GTC

The Business Confidence Index of the SA Chamber of Commerce and Industry improved by 1.9 index points to 93.7 compared to March. The April 2019 level is however still 2.3 index points below that of April 2018. This still points to a cautious business climate in SA.

Mining production decreased by 1.1% year-on-year in March. The largest negative contributors were: gold; other non-metallic minerals, chrome and iron ore. The largest positive contributor was coal.

Manufacturing production increased by 1.2% in March 2019 compared with March 2018. Seasonally adjusted manufacturing production decreased by 2.4% in Q1 of 2019 compared with Q4 of 2018. Seven of the ten manufacturing divisions reported negative growth rates over this period.

The National Association of Automobile Manufacturers of South Africa reported that the latest vehicle sales reflected a surprise increase with export sales continuing to perform exceptionally well. Domestic sales showed an improvement of 0.7% from the vehicles sold in April last year. Export sales registered strong growth reflecting a substantial improvement of 53.8% compared to the vehicles exported in April last year.

Volatility remains key as global markets swing from risk-on to risk-off while the power play between the US and China regarding trade tariffs remains unresolved. Markets will certainly welcome a resolution to these disputes.

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