Market Update

October 2019

Global

Global developed markets sold off some 2.2% at the beginning of the month as October kicked off with an escalation in geopolitical tension. This came after US government considered delisting Chinese companies from major US stock exchanges in its efforts to reduce US investments into China as the trade war endures. Towards the middle of the month both nations attempted to deescalate the trade war in hopes of signing a partial trade deal in the near future.

To this end, the US postponed the 15th October 2019 deadline that it imposed on China which would have seen an additional 5% tariff increase from 25% to 30% on $250 billion of Chinses goods. In return China would buy US agricultural produce.

This new found trade stability allowed global markets some breathing room and saw a return to a risk on environment. Nonetheless the International Monetary Fund (IMF) has revised global growth down to 3% (if achieved, it will be the slowest since 2009) on the back of weak global industrial activity and low investment levels.

The MSCI Developed World Equity Index registered a return of +2.5%, with the MSCI Emerging Market Equity Index earning +4.2%, both in total Dollar return terms.

US

Off of the previous rate cut by the FED, the US economy expanded 1.9% in the 3rd quarter of 2019. This is down from the previous quarter's growth of 2.2% indicating that even monetary stimulus is no longer enough to entirely offset the adverse impact from the global trade war. Business investments continued to fall recording a -1.5% decline amid an uncertain future outlook in the US. While the FED believes that a US recession is not on the horizon they have opted to cut interest rates another 25 basis points to encourage growth. This marks the 3rd rate cut for 2019 signifying that the US economy is not immune to the impacts of the global slowdown.

In total return Dollar terms, the S&P 500 index gained 2.0% with the Dow Jones Industrial average index marginally up 0.5%

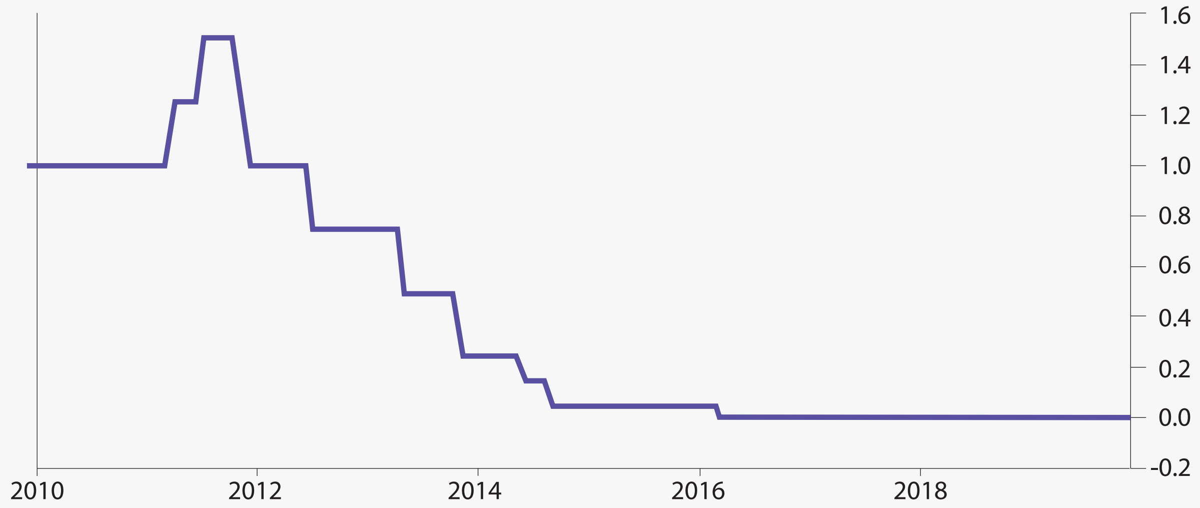
Eurozone

The US- Europe trade war escalated as the US imposed tariffs on $7.5 billion of European goods came into effect this month. This further deepened concerns over future growth in the EU after its GDP only grew by 0.2% during the 3rd quarter of 2019. Global trade uncertainty has constricted exports significantly exacerbating an already depressed German economy (the EU's largest economy). 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 at 0% in October.

UK

Prime Minister Boris Johnson was forced to request a postponement of the long-awaited exit of the UK from the EU (European Union). Johnson campaigned on the notion that come 31 October 2019 he will see the UK exit the EU, deal or no deal. This did not come to pass as the UK parliament rejected the exit agreement that Johnson struck with the EU. The EU granted the UK an extension to 31 January 2020 but with the option to exit sooner if the UK parliament approved the Withdrawal Agreement Bill. The effects of Brexit and the global slowdown on the UK economy is evident in the UK's poor manufacturing sector which recorded its 5th consecutive contraction. The FTSE All-Share declined -1.7% for the month.

Eurozone interest rate over the past 10 years



Source: Trading Economics

Asia

Economic data coming out of the Asian countries put them in line with the rest of the world. While investment markets have recovered somewhat, fundamentals are still weak. China recorded GDP growth of 6% in the 3rd quarter of 2019, its lowest level in 3 decades as the impact of the trade war becomes increasingly more evident. China experienced its 6th consecutive month of decline in its factory activity owing to sluggish demand. Japan kept its interest rates unchanged at -0.1% while imposing a sales tax increase of 2%. On the back of this retail sales surged up 9.1% ahead of the increased sales tax implementation.

Hong Kong's economy continues to stagnate as it entered into a technical recession with no relief in sight from the strain of the unrelenting anti-government protest. Hong Kong economy shrank 3.2% in the 3rd quarter of 2019.

SA

The month started off on the backfoot with local equity markets detracting some 1.3% in the first week as sentiment in the manufacturing sector dropped to its lowest in over a decade. As the month progressed, investors eagerly awaited the outcomes of the Medium-Term Budget and government credit rating review from the Moodys rating agency which was to be held at the end of the month.

While the anticipation of this created some noise in the investment market it was pleasing to see the FTSE/JSE Shareholder weighted index rally to close the month at +2.6%. Overall performance was boosted by another great month for Resources (+7.3%) along with an uptick from Financials (+3.3%) and Industrials (+0.3%).

In line with the recent surge in resources over the past few months which translated into an 8.4% increase in exports, the South African trade balance recorded a R6.4 billion surplus ahead of the R2 billion expectation.

Data from Statistics South Africa (StatsSA) showed South Africa's headline consumer inflation eased from 4.3% to 4.1% year on year in September from the previous month. Producer Price Inflation for final manufactured goods decreased from 4.5% to 4.1% year on year in September 2019. StatsSA further reported that unemployment rate in SA increased by 0.1% to 29.1% with the youth unemployment (between the ages of 15 and 24) rate at 52%.

With the election of President Cyril Ramaphosa and the increased political certainty that followed, South Africa has moved up 7 places to 60th in the World Economic Forum's Global Competitive index. This annual report which assess 141 countries stated that SA has regained momentum post the election. In particular it looked favourably upon President Ramaphosa's efforts in fighting corruption and his appointment of the well-respected prosecutor, Shamila Batohi, as head of the National Prosecuting Authority.

Unfortunately given the dire state of Eskom the Fitch rating agency has downgraded their standalone credit rating further into junk territory citing worsening revenue growth prospects and poor ability to repay debt. To this end the Mineral and Energy Resource minister has asked coal producers in South Africa to cut their prices to Eskom in efforts to assist in the Eskom turnaround. The government has passed a special appropriation bill which will provide Eskom with an additional bailout this year. This month saw Eskom implement forced load shedding once again as a snapped conveyer belt put the national gird at risk of collapsing. Poor surplus capacity meant that they could not mend this conveyer belt without rationing electricity supply.

While there is an element of fear in the investment market which has led to subdued returns, there is also meaningful greenshoots coming through the woodwork. Tyre giant Bridgestone has plans to invest a further R300 million in SA during 2020 after the R400 million it invested earlier this year. The Mara Group has opened their smart phone manufacturing plant in Durban which is set to compete with top name brands at significantly cheaper prices.

Market index - Oct 2019 (%)	1M	3M	YTD	1YR	3YR	5YR	7YR	10YR
Local Equity (SWIX)	2.64	0.44	7.10	9.53	4.52	4.54	9.08	11.33
Local Listed Property	1.89	-1.45	3.25	0.84	-3.07	2.27	6.77	11.19
Local Money Market	0.58	1.80	5.48	7.37	7.42	7.15	6.64	6.54
Local Bonds	-0.35	1.14	8.06	12.96	8.54	7.48	7.21	8.77
Global Developed Equity in USD	2.54	2.58	21.19	12.69	11.86	7.58	10.17	9.48
Global Emerging Equity in USD	4.22	1.03	10.71	11.86	7.36	2.93	3.11	3.78
Global Bonds in USD	0.54	1.87	6.84	9.92	2.55	1.96	0.76	1.73
Gold in USD	2.99	5.86	17.63	23.93	5.20	4.57	-2.37	3.18
Oil in USD	2.10	-4.81	19.12	-14.78	9.14	-12.10	-10.55	-4.49
Rand vs. USD	0.66	-5.91	-4.50	-1.97	-3.63	-6.01	-7.54	-6.34

Above indices returns are gross of fees.

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