



23 May 2019

Review period: April 2019

Domestic Overview

South African equity markets ended the month of April higher, the highest rally in 2019. Gains came on the back of stellar returns from Naspers, alongside a rally in retailers. The rand strengthened, leaving notable rand-hedge counters to end the month in negative territory. The downward turn in big rand-hedge stocks was not enough to dampen the tailwinds that came from general retailers and small cap shares, particularly counters such as EOH.

Domestic Highlights in April 2019

- The SARB Monetary Policy Review (MPR)
- Moody's Issuer update on SA

The SARB Monetary Policy Review

The South African Reserve Bank released its Monetary Policy Review document wherein it outlines its outlook on the future trajectory of monetary policy (i.e. inflation and interest rates). In the April issue, the SARB stressed its commitment to dampen inflation to the mid-point level of 4.5%. This is down from its initial long-term outlook of 5.5%. The SARB continued to highlight the slowing of forecasted global growth and the domestic pressures on the local economy, upon which state capture had the most devastating effect.

Moody's Issuer update on SA

Following the reprieve it granted to South Africa in March, Moody's issued an update on South Africa where it highlighted the country's triple problem of persistent low growth, high unemployment and elevated government debt as key headwinds. Despite these challenges, Moody's went on to highlight key strengths that have earned the country a stable outlook (Baa-3 rating), namely, the strength of South Africa's core institutions, a solid financial sector and limited exposure to foreign exchange volatility. Moody's Vice President, Lucie Villa, commented that "While South Africa's economic growth will remain slow and fiscal strength will continue to erode, we expect the country's credit profile to remain in line with those of Baa3-rated sovereigns". The implementation of key structural reforms identified to unlock growth will be key to Moody's revising its view on South Africa.

South Africa: Economy

The SA economy continues to experience drawbacks resulting from domestic and global headwinds. Vehicle sales dropped from 47 718 in March to 36 794 in April. The ABSA Manufacturing PMI remains under the 50 index mark, albeit having increased from 45 in March to 47.2 in April. The International Monetary Fund (IMF) published the latest edition of its World Economic Outlook, lowering SA's growth projection from 1.4% to 1.2%, which is above the rate achieved in 2018 but below the SARB's projection. The IMF cited policy uncertainty as a phenomenon that could continue post elections.

	Nov'18	Dec'18	Jan'19	Feb'19	Mar'19	Apr'19
CPI (y/y)	5.2%	4.5%	4.0%	4.1%	4.5%	-
PPI (y/y)	6.8%	5.2%	4.1%	4.7%	6.2%	-

Sources: Trading Economics

	30 April 2017	30 April 2018	30 April 2019
USD/ZAR	13.36	12.46	14.30
GBP/ZAR	17.25	17.14	18.63
EUR/ZAR	14.56	15.05	16.03

Source: IRESS

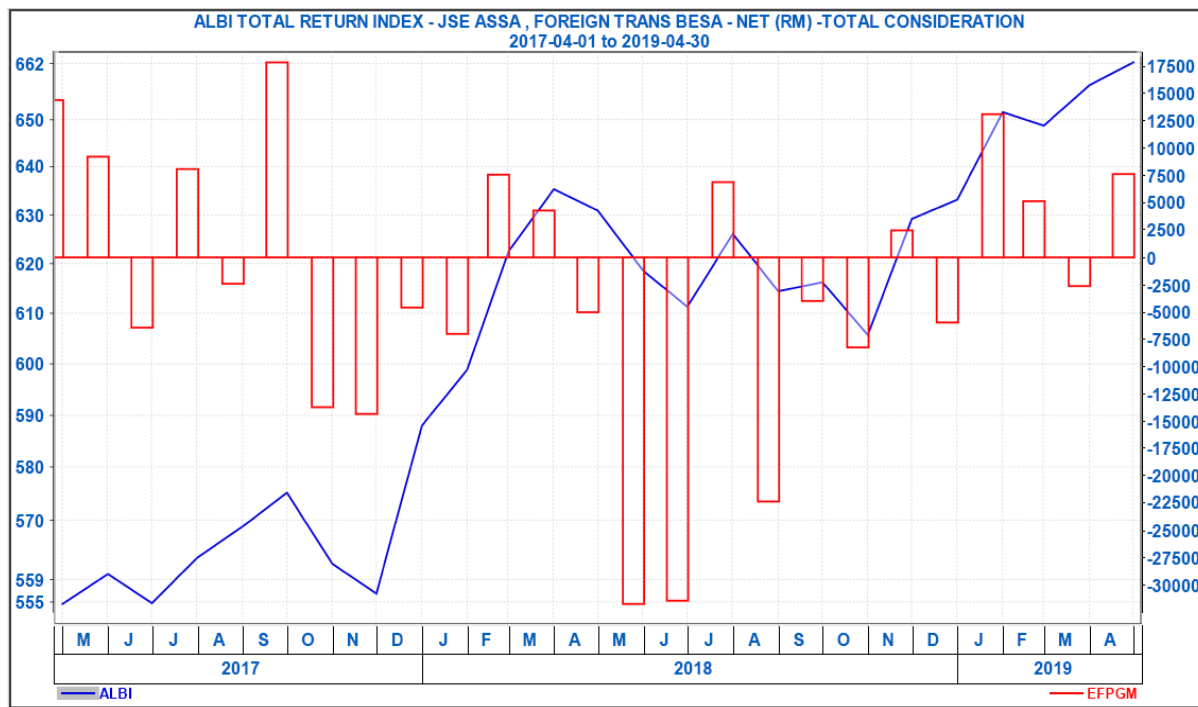
South Africa: Markets

The local equity market delivered a return of 4.22% for the month of April, supported by retailers and industrials. Despite the rand strengthening in April, the Top 40 managed to deliver handsome gains of 4.58%, supported by the rally in shares of Naspers (+9.69%). Small-cap shares rebounded nicely from the previous month to deliver returns of 4.82%, supported by exponential gains in shares of EOH which jumped 96.35% during the month. SA property also experienced a healthy recovery that saw a gain of 2.03%. SA bonds retreated in April, offering a marginal 0.75%, while cash added 0.59% for the month.

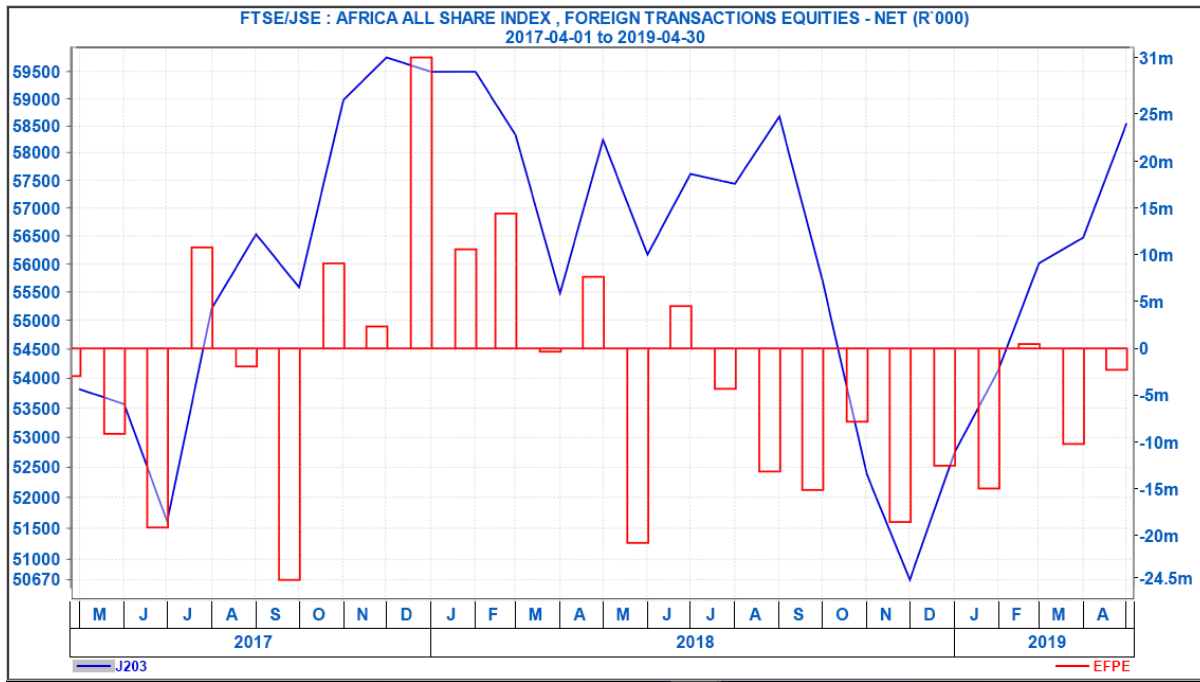
LOCAL RETURNS IN ZAR				
2018	February 2019	March 2019	April 2019	Year-to-date
SA BONDS 7.69%	SA TOP 40 3.57%	SA TOP 40 1.94%	SA SMALL CAPS 4.82%	SA TOP 40 13.41%
SA CASH 7.25%	SA EQUITY 3.41%	SA EQUITY 1.56%	SA TOP 40 4.58%	SA EQUITY 12.54%
SA TOP 40 -8.31%	SA MID CAPS 2.28%	SA BONDS 1.33%	SA EQUITY 4.23%	SA MID CAPS 5.47%
SA EQUITY -8.53%	SA CASH 0.55%	SA CASH 0.61%	SA PROPERTY 3.17%	SA PROPERTY 4.67%
SA MID CAPS -9.73%	SA BONDS -0.44%	SA PROPERTY -1.46%	SA MID CAPS 2.64%	SA BONDS 4.59%
SA SMALL CAPS -14.59%	SA SMALL CAPS -2.71%	SA MID CAPS -1.82%	SA BONDS 0.75%	SA CASH 2.37%
SA PROPERTY -25.26%	SA PROPERTY -5.70%	SA SMALL CAPS -2.71%	SA CASH 0.59%	SA SMALL CAPS 1.24%

Source: Morningstar

Foreigners were net sellers of R2.72 billion worth of SA equities and net buyers of R7.6 billion worth of SA bonds.



Source: IRESS April 2019



Source: IRESS April 2019

In terms of sectors, Resources snapped out of its protracted rally as commodity prices came under pressure, coupled with a strengthening local currency. Resources dwindled 2.05% for month, while Financials (6.55%) and Industrials (6.33%) advanced.

LOCAL SECTOR RETURNS IN ZAR				
2018	February 2019	March 2019	April 2019	Year-to-date
RESOURCES 15.55%	CONSUMER GOODS 12.63%	RESOURCES 4.66%	GENERAL RETAILERS 10.05%	RESOURCES 15.43%
GENERAL RETAILERS -7.31%	RESOURCES 9.06%	SA INDUSTRIALS 2.86%	CONSUMER SERVICES 6.75%	SA INDUSTRIALS 14.50%
FINANCIALS -8.76%	SA INDUSTRIALS 3.53%	CONSUMER GOODS 1.83%	SA INDUSTRIALS 6.59%	CONSUMER GOODS 11.79%
CONSUMER SERVICES -13.15%	CONSUMER SERVICES 2.22%	CONSUMER SERVICES -2.23%	FINANCIALS 6.55%	CONSUMER SERVICES 9.04%
INDUSTRIALS -15.56%	FINANCIALS -2.09%	FINANCIALS -4.04%	INDUSTRIALS 6.33%	FINANCIALS 6.08%
SA INDUSTRIALS -17.55%	INDUSTRIALS -2.34%	GENERAL RETAILERS -5.30%	CONSUMER GOODS -0.52%	INDUSTRIALS 2.19%
CONSUMER GOODS -23.28%	GENERAL RETAILERS -4.34%	INDUSTRIALS -5.32%	RESOURCES -2.05%	GENERAL RETAILERS -5.58%

Source: Morningstar

Global Overview

Global equity markets advanced in the month of April amid strong corporate earnings releases and better-than-expected US economic growth. In addition, the rebound this year has been driven by accommodative central banks, the expectation of a recovery in Chinese growth and optimism over a resolution to trade negotiations. As a result, the MSCI World AC delivered 3.20% in dollar terms over the month. Financials was the strongest performing sector over the month followed by technology stocks which were powered by Microsoft. Healthcare and real estate were the weakest performing sectors. The price of Brent Crude oil rose sharply to close at US\$71.65 a barrel amid supply concerns following the US decision to end waivers on Iranian oil imports. Global equities were positive while global bonds were negative in dollar terms during the month.

United States

US equity markets returned positively for the month, led by stronger-than-expected corporate earnings. As a result, the S&P 500 finished 3.93% higher in dollar terms. On the macroeconomic front, US economic growth was much higher than expected at 3.2% annualised. This indicates that the US economy is still growing at an above-trend pace. US labour markets have held up well so far with unemployment falling to 3.6% in April while wage growth picked up (increasing 4.19% in March). The US added 196 000 new jobs for the month, compared to 33 000 in the month of February. Core CPI increased slightly to 2.1% from 2.0% in March – in line with market expectations.

Eurozone

European equity markets advanced during the month, delivering their fourth consecutive rally. In addition, investor concerns were alleviated on easing US-China trade concerns, signs that Chinese stimulus measures are working and better-than-expected economic data. The Eurozone Manufacturing PMI improved to 47.9 while the new export orders component is still in a contractionary state. The unemployment rate fell slightly to 7.7% in the March. The Services PMI improved to 52.8 while consumer confidence fell to -7.9, which is lower than in the previous month, at -7.2.

United Kingdom

UK equity markets returned positively during the month despite continued Brexit uncertainty. On the macroeconomic front, the European Union granted the United Kingdom an extension to Article 50 until 31 October 2019, removing the threat of a no-deal exit. The Manufacturing PMI dropped to 53.1% from its previous month's 13-month high while retail sales increased for a third consecutive month in March. The unemployment rate fell, reaching 3.8%, which is slightly below the market expectation while basic wages rose 3.4% y/y.

Spot Rates	30 April 2017	30 April 2018	30 April 2019
EUR/USD	1.08	1.20	1.12
GBP/USD	1.29	1.37	1.30
USD/JPY	111.52	109.33	111.43

Source: IRESS

Emerging Markets

Emerging markets registered positive returns in April, underperforming their developed market counterparts. The MSCI EM index returned 1.99% while the MSCI World delivered 3.20% in dollar terms. This was largely as a result of steady progress in US-China trade talks and positive economic indicators from China while an improvement in the global economic growth outlook helped lift investor sentiment.

GLOBAL RETURNS IN ZAR				
2018	February 2019	March 2019	April 2019	Year-to-date
GLOBAL BONDS 14.80%	SHANGHAI STOCK EXCHANGE 21.81%	SHANGHAI STOCK EXCHANGE 8.25%	EURO STOXX 50 4.51%	SHANGHAI STOCK EXCHANGE 29.49%
S&P 500 11.10%	EURO STOXX 50 9.79%	GLOBAL PROPERTY 6.04%	S&P 500 3.44%	S&P 500 17.85%
GLOBAL PROPERTY 10.72%	FTSE 100 9.59%	S&P 500 4.56%	MSCI WORLD 2.94%	MSCI WORLD 16.07%
MSCI WORLD 6.07%	S&P 500 9.36%	MSCI WORLD 3.92%	FTSE 100 1.77%	EURO STOXX 50 15.44%
FTSE 100 -0.16%	MSCI WORLD 9.14%	GLOBAL BONDS 3.85%	MSCI EM 1.50%	FTSE 100 14.30%
MSCI EM -0.73%	MSCI EM 6.19%	FTSE 100 3.79%	SHANGHAI STOCK EXCHANGE -0.60%	GLOBAL PROPERTY 13.11%
EURO STOXX 50 -2.69%	GLOBAL PROPERTY 5.84%	MSCI EM 3.43%	GLOBAL BONDS -0.88%	MSCI EM 11.85%
SHANGHAI STOCK EXCHANGE -17.08%	GLOBAL BONDS 5.34%	EURO STOXX 50 2.98%	GLOBAL PROPERTY -1.44%	GLOBAL BONDS 1.55%

Source: Morningstar