



20 March 2019

REVIEW PERIOD: FEBRUARY 2019

DOMESTIC OVERVIEW

South African equity markets continued to rally in February driven by a strong resource sector. The rand weakened by 6.34% for the month, while resource shares advanced 9.06%. The major contributors were large- and mid-cap stocks, while small caps and property stocks retreated from the previous month's gains. Investors also digested the State of the Nation Address and the budget speech as Eskom took centre stage.

Domestic Highlights in February 2019

- State of the Nation Address (SONA)
- National Budget Speech

SONA

On 7 February 2019, President Cyril Ramaphosa opened parliament and delivered his second SONA. This was the 25th time that the SONA was delivered in a democratic South Africa. In his address, President Ramaphosa reflected on the past challenges the country faced as well as on attempts to intervene and solve the corruption and inefficiency rooted in government and its agencies. Notable highlights from the SONA include:

- The splitting of Eskom into three sub-entities that include generation, transmission and distribution, which would all be constituted under Eskom Holdings;
- The aim of aggressively improving the country's rankings in ease of doing business. South Africa is currently ranked at 82 out of 192 countries;

- The introduction of an online Visa regime in 2019, so as to stimulate the tourism sector by further aiming to double the amount of tourists by 2030 (from 10 million to 21 million).

National Budget Speech

On 20 February, Finance Minister Tito Mboweni delivered his maiden speech in which he painted the dire state of the country's coffers as rising expenditure, struggling SOEs and decreasing revenue were cited as the main causes. Eskom seemed to have taken centre stage as one of the key contributors to the bleak financial picture of the country. Some of the highlights of the budget include:

- The increase of the budget deficit from 4% to 4.2% of GDP
- The increase in gross public debt from current levels of 55.6% to 58.9% of GDP.
- A mammoth public wage bill (which is unsustainable) – a R27 billion reduction is targeted.
- The annual allocation of R23 billion to Eskom as it embarks on restructuring plans. The finance minister emphasised the fact that government will not be taking on the debt of Eskom.

South Africa: Economy

The seasonally adjusted Absa Purchasing Managers' Index fell to 46.2 points in February, down from 49.9 points in January, led by a fall in new orders and business activity. This was as a result of Eskom's implemented power cuts. Unemployment improved slightly in the fourth quarter of 2018, falling from 27.5% in Q3 to 27.1% in Q4. The biggest contributor to the improvement came from the formal sector and private households. Unemployment usually improves in the last quarter of the year due to higher job activity during the festive season.

	Sep'18	Oct'18	Nov'18	Dec'18	Jan'19	Feb'19
CPI (y/y)	4.9%	5.1%	5.2%	4.5%	4.0%	4.1%
PPI (y/y)	6.2%	6.9%	6.8%	5.2%	4.1%	-

Sources: SA Reserve Bank, Statistics SA, BER, Trading Economics

	28 February 2017	28 February 2018	28 February 2019
USD/ZAR	13.12	11.79	14.08
GBP/ZAR	16.25	16.22	18.67
EUR/ZAR	13.87	14.38	16.01

Source: IRESS

South Africa: Markets

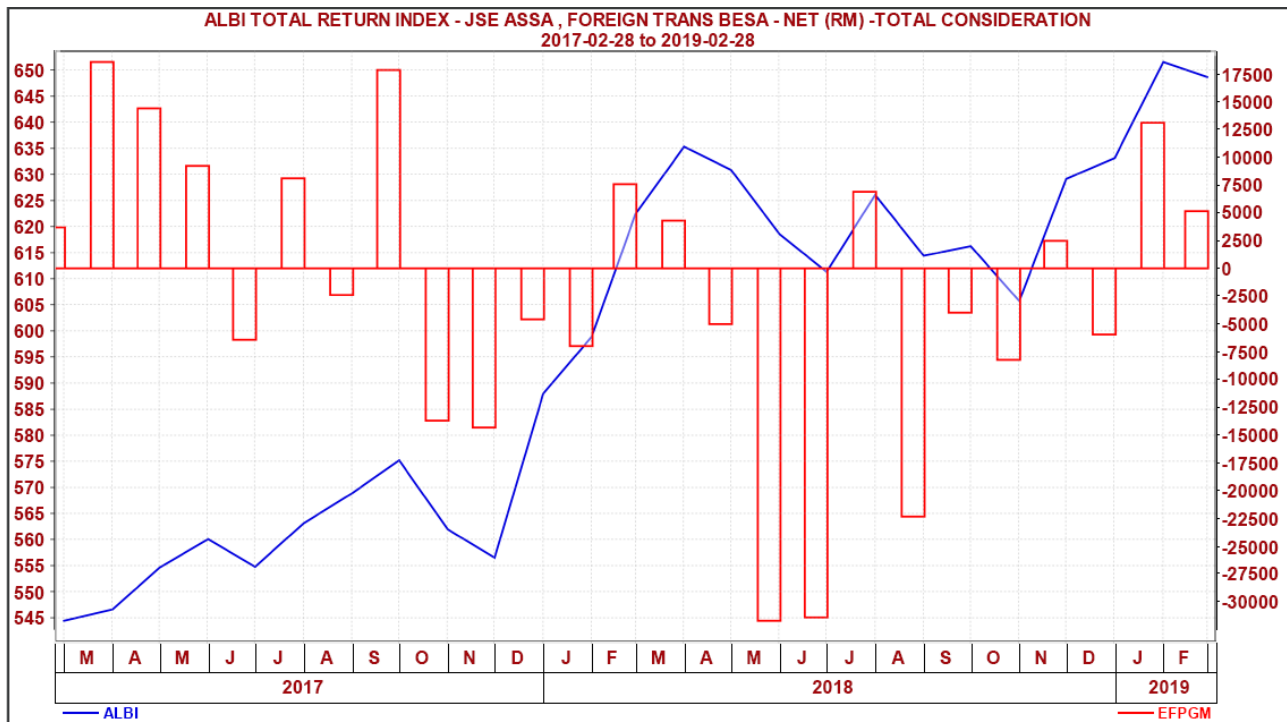
The local bourse delivered a return of 3.41%, supported by large- and mid-cap stocks which delivered 3.57% and 2.28% respectively. SA property and small cap stocks were the worst performers for the month after having rallied

in January. Both delivered negative returns with property being the worst off with a -5.7% performance. Bonds also detracted for the month, delivering a return of -0.44%, while cash returns were muted at 0.55%.

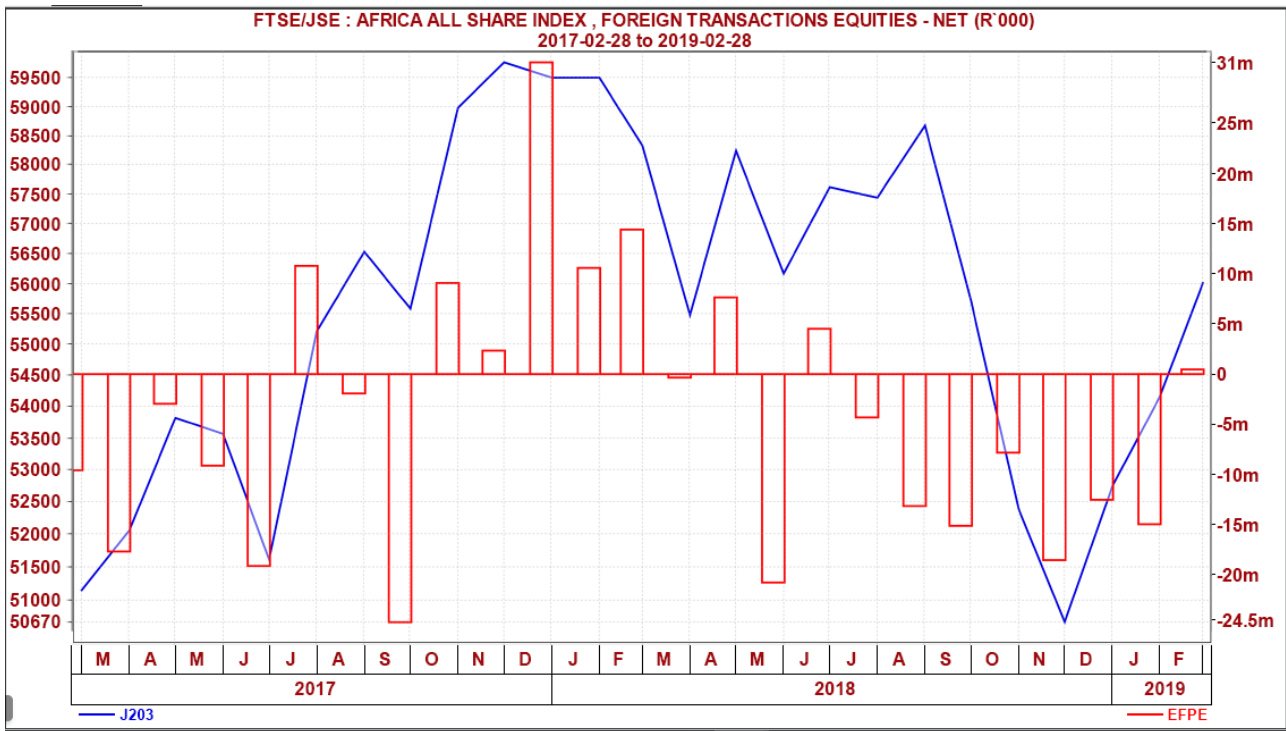
LOCAL RETURNS IN ZAR				
2018	December 2018	January 2019	February 2019	Year-to-date
SA BONDS 7.69%	SA TOP 40 4.76%	SA PROPERTY 9.18%	SA TOP 40 3.57%	SA TOP 40 6.38%
SA CASH 7.25%	SA EQUITY 4.25%	SA BONDS 2.90%	SA EQUITY 3.41%	SA EQUITY 6.31%
SA TOP 40 -8.31%	SA MID CAPS 3.37%	SA EQUITY 2.81%	SA MID CAPS 2.28%	SA MID CAPS 4.67%
SA EQUITY -8.53%	SA BONDS 0.64%	SA TOP 40 2.72%	SA CASH 0.55%	SA PROPERTY 2.96%
SA MID CAPS -9.73%	SA CASH 0.60%	SA MID CAPS 2.34%	SA BONDS -0.44%	SA BONDS 2.45%
SA SMALL CAPS -14.59%	SA SMALL CAPS -0.85%	SA SMALL CAPS 2.04%	SA SMALL CAPS -2.71%	SA CASH 1.16%
SA PROPERTY -25.26%	SA PROPERTY -1.06%	SA CASH 0.60%	SA PROPERTY -5.70%	SA SMALL CAPS -0.72%

Source: Morningstar

Foreigners were net buyers of R5.16 billion worth of SA bonds and net sellers of R2.48 billion worth of SA equities



Source: IRESS February 2019



Source: IRESS February 2019

In terms of industries, Consumer Goods was the best performer for the month, delivering a return of 12.63% followed by Basic Materials (+9.12%). Resources (+9.06%) was the best performing overall sector with a 9.06% return while Financials (-2.09%) and Industrials (-2.34%) detracted from performance.

LOCAL SECTOR RETURNS IN ZAR				
2018	December 2018	January 2019	February 2019	Year-to-date
RESOURCES 15.55%	RESOURCES 12.33%	FINANCIALS 5.96%	CONSUMER GOODS 12.63%	RESOURCES 12.60%
GENERAL RETAILERS -7.31%	CONSUMER SERVICES 3.17%	INDUSTRIALS 3.93%	RESOURCES 9.06%	CONSUMER GOODS 10.36%
FINANCIALS -8.76%	CONSUMER GOODS 2.72%	RESOURCES 3.25%	SA INDUSTRIALS 3.53%	CONSUMER SERVICES 4.48%
CONSUMER SERVICES -13.15%	SA INDUSTRIALS 2.35%	CONSUMER SERVICES 2.22%	CONSUMER SERVICES 2.22%	SA INDUSTRIALS 4.44%
INDUSTRIALS -15.56%	FINANCIALS 0.62%	SA INDUSTRIALS 0.88%	FINANCIALS -2.09%	FINANCIALS 3.75%
SA INDUSTRIALS -17.55%	GENERAL RETAILERS -0.07%	CONSUMER GOODS -2.02%	INDUSTRIALS -2.34%	INDUSTRIALS 1.50%
CONSUMER GOODS -23.28%	INDUSTRIALS -2.03%	GENERAL RETAILERS -5.28%	GENERAL RETAILERS -4.34%	GENERAL RETAILERS -9.39%

Source: Morningstar

GLOBAL OVERVIEW

Global equity markets ended the month of February in positive territory, amidst optimism over the US-China trade negotiations. In addition the US Federal Reserve moved to a more dovish stance with regard to interest rate hikes and the implementation of a Chinese stimulus to help boost investor sentiment. As a result, the MSCI ACWI delivered 9.00% in ZAR terms for the month. The price of Brent Crude Oil climbed to US\$63 a barrel, a 6.7% increase. Although negative in hard currency terms global bonds delivered a 5.72% return in ZAR, as the rand weakened by 6.34% against the USD.

United States

US equity markets were positive in February amid optimism over the US-China trade negotiations and easing market fears of a global recession. As a result the S&P 500 finished 9.50% higher in ZAR terms. On the macroeconomic front, economic growth in the US remains firm. The fourth quarter GDP, however, indicated that growth has moderated from 3.4% q/q annualised in Q3 to 2.6% in the final quarter. The US Purchasing Managers' Index (PMI) improved to 55.8, which supports an ongoing robust rate of growth in the US economy of around 2%. Retail sales for December 2018 were very disappointing, registering a 1.2% monthly decline. Inflation remains relatively muted with January core inflation numbers flat as headline inflation fell to 1.6% year-on-year.

Eurozone

European equity markets closed positively for the month, on the back of optimism over the US-China trade negotiations, and a promised implementation of a Chinese stimulus. The Eurozone composite PMI improved to 51.4, but the manufacturing index fell below 50, indicating an absolute contraction in manufacturing activity. Consumer confidence increased for the second month in a row with signs of improvement in car registrations.

United Kingdom

UK equity markets returned positively during the month, despite continued Brexit uncertainty. On the macroeconomic front, UK services PMI fell to 50.1 with many businesses citing Brexit as the key reason for weaker demand. Inflation fell to below 2% in January, predominantly driven by lower energy prices, whilst UK retail sales growth was ahead of expectations. As a result of continued political uncertainty, the Bank of England (BoE) cut its UK growth forecast from 1.7% to 1.2% for the year, mentioning slowing global economic growth and Brexit related uncertainty.

Spot Rates	28 February 2017	28 February 2018	28 February 2019
EUR/USD	1.08	1.24	1.13
GBP/USD	1.25	1.42	1.32
USD/JPY	112.78	109.18	111.39

Source: IRESS

Emerging Markets

Emerging markets registered marginally positive USD returns in February, underperforming their developed market counterpart. The MSCI EM index returned 6.44% in ZAR. This was largely as a result of lifted sentiment due to the hold on US interest rate rises and optimism over the US-China trade negotiations.

GLOBAL RETURNS IN ZAR				
2018	December 2018	January 2019	February 2019	Year-to-date
GLOBAL BONDS 14.80%	GLOBAL BONDS 5.84%	GLOBAL PROPERTY 2.25%	SHANGHAI STOCK EXCHANGE 21.81%	SHANGHAI STOCK EXCHANGE 20.34%
S&P 500 11.10%	MSCI EM 0.98%	MSCI EM 0.34%	EURO STOXX 50 9.79%	S&P 500 8.96%
GLOBAL PROPERTY 10.72%	SHANGHAI STOCK EXCHANGE 0.00%	S&P 500 -0.36%	FTSE 100 9.59%	MSCI WORLD 8.51%
MSCI WORLD 6.07%	FTSE 100 -0.07%	MSCI WORLD -0.57%	S&P 500 9.36%	GLOBAL PROPERTY 8.23%
FTSE 100 -0.16%	EURO STOXX 50 -0.79%	SHANGHAI STOCK EXCHANGE -1.21%	MSCI WORLD 9.14%	FTSE 100 8.21%
MSCI EM -0.74%	GLOBAL PROPERTY -2.39%	FTSE 100 -1.26%	MSCI EM 6.19%	EURO STOXX 50 7.26%
EURO STOXX 50 -2.69%	MSCI WORLD -4.15%	EURO STOXX 50 -2.31%	GLOBAL PROPERTY 5.84%	MSCI EM 6.55%
SHANGHAI STOCK EXCHANGE -17.08%	S&P 500 -5.63%	GLOBAL BONDS -6.35%	GLOBAL BONDS 5.34%	GLOBAL BONDS -1.34%

Source: Morningstar