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INTERNATIONAL MARKETS

USA MAJOR INDICES UP, UK AND CHINA UNDER PRESSURE

Despite some tension between the US and North Korea, and concerns around the French elections, most major global markets ended April in the green, although UK and Chinese markets came under some pressure. While investors remained cautious in the face of uncertainty over events in Syria and escalating chances of conflict between the US and North Korea, the results of the first round of France's presidential election, which saw pro- European Union (EU) French presidential candidate Emmanuel Macron beat anti-EU rival Marine le Pen, fuelled a global relief rally. In the US, the three major indices posted month on month advances - the Dow Jones Industrial Average (DJIA) closed 1.3% higher for the month (+6.0% year to date), while the S&P 500 (+6.5% year to date) and the NASDAQ (+12.3% year to date) rose 0.9% and 2.3% month on month, respectively. This was the Nasdaq's sixth-straight monthly gain with the index also reaching a new milestone as it traded above the 6,000 level for the first time.

While economic data out of the US was mixed, with less than stellar GDP growth (the US economy grew at a rate of 0.7% in 1Q17 – significantly below the expected growth of 1.2% and its weakest pace in three years), the April read on consumer sentiment inched higher in the first quarter of 2017. The mood on US markets also brightened last week on news that Congress had passed a one-week funding extension to avoid a government shutdown (on Sunday, Congress extended this by reaching a bipartisan agreement on a spending package that would see the federal government funded through 30 September).

In Europe, Germany's DAX rose by 1.0% month on month (+8.3% year to date), while France's CAC was up 2.8% compared to March (also +8.3% year to date), but the UK's FTSE 100 finished the month 1.6% in the red (+0.9% year to date). In terms of economic data releases, Eurozone inflation jumped to 1.9% last month (its highest level since 2013) from 1.5% in March driven by energy prices, while in the UK, first quarter 2017 GDP growth slowed to a one-year low of 0.3% from 0.7% in the fourth quarter of 2016, according to data released by the *Office for National Statistics* on Friday. UK retail sales also recorded its biggest quarterly drop in seven years in the first quarter, falling by 1.4% as rising prices discouraged shoppers.

Moving to Asia, Japan's Nikkei ended April 1.5% higher (+0.4% year to date), while on the economic data front industrial production fell 2.1% in March (worse than the 1.0% expected decline) but March retail sales rose 2.1% year on year. Following its two-day meeting last week, the Bank of Japan kept its monetary policy steady, raising its 2017 GDP growth forecast while lowering its core inflation expectation slightly. In China, *Bloomberg* reports that a review of risk in the country's financial markets received the backing of President Xi Jinping and the Communist Party's politburo last week, weighing on the Shanghai Composite Index which dropped as much as 1.4% on Thursday following the news and ended the month 2.1% lower (year to date the index is up 1.6%). However, Hong Kong's Hang Seng still recorded a monthly gain of 2.1% (+11.9% year to date).

Among commodities, Brent crude remained under pressure, retreating by 2.1% for the month to around $51.70/bbl. Oil prices fell sharply in the last days of April, as news emerged that oilfields in Libya had resumed production, while uncertainty remained as to whether OPEC would extend its output cuts decision. The gold price advanced 1.5% for the month, to settle at $1,268.28/oz (+10.5% year to date) as concerns over tensions in the Korean peninsula and the threat of a strong showing from an anti-EU candidate in the French elections earlier in the month helped drive the gold price higher. Platinum ended April 0.4% lower. (+5.0% YTD).

SOURCES:
• Anchor Capital • Wheels24.co.za • Moneyweb.co.za

LOCAL MARKETS

DESPITE MIXED ECONOMIC DATA, ANALYSTS EXPECT RECESSION

As always never a dull moment in South Africa as the trading month started with a long expected ratings downgrade. This happened in the aftermath of President Jacob Zuma's firing of respected Finance Minister Pravin Gordhan and his deputy in a cabinet reshuffle at the end of March. Ratings agency Fitch downgraded SA's local and foreign currency sovereign credit ratings to BB+ (the highest non-investment grade rating). The rand hardly reacted to what was a widely expected announcement after S&P Global's move to downgrade SA to a sub-investment grade rating earlier in the month. The currency ended April only slightly higher (+0.3% month on month vs the dollar as it recovered from its recent worst levels due to the weaker dollar).

Despite these events the FTSE JSE All Share Index posted an impressive performance in April, rising 3.4% compared to March (+6.2% for the year to date) - buoyed by the performance of industrial rand-hedge shares which account for the bulk of the JSE. Naspers accounted for approximately half of this return, mirroring the strong gains made in Tencent (Naspers has a 34.5% stake in the Chinese internet giant) and the broader global tech sector. The Indi-25 rocketed a further 5.9% in April (after gaining 4.0% for the month in March) and is now up 12.6% for the year to date. After dropping by 2.2% in March, the Fini-15 rebounded, ending April 3.2% higher (-0.2% year to date), while the Resi-20 disappointed by posting only +0.1% for the month (+0.7% year to date).

Industrial, and especially industrial rand-hedge shares, once again accounted for most of April's top-20 best-performing shares. Leader of the pack was Lonmin PLC which ended the month 30.9% up compared to the previous month. The second best performing share was Finbond Group Ltd at +22.2% and in third place was Mediclinic International PLC at 18.3%. Worst performers were Group Five at -25.5% for the month, followed by Adcorp Holdings at -16% and Grindrod at -15.9%. The best performers year to date are Trencor (+41.1%), Finbond Group (+32%), and Exxaro Resources (+27.2%). Worst performers year to date are Group Five (-36.5%), Consolidated Infrastructure (-24.1%) and Invicta Holdings (-20.4%).

On the SA economic data front, March's trade surplus improved to R11.44bn from February's better-than-expected R5.2bn surplus, as exports increased 16% month on month, the bulk of which was attributed to precious metals and stones, vehicles and transport equipment. A slowdown in food inflation saw March CPI rise 6.1% year on year - the lowest inflation rate in six months and below market expectations of a 6.3% increase. Although some economic indicators are looking positive, Moneyweb reports that some analysts are not excluding the possibility of a recession. "Indicators like the business confidence index, which at 40 (ten points below 50) is indicative of contractionary tendencies in the economy, shows domestic investors are still largely negative on prospects," it stated in a report early May. The Purchasing Managers Index (PMI) confirms the negative sentiment. "The PMI index which measures confidence, dropped from a reading of 50.9 (barely expansionary) to 44.7. (contractionary)."

The motor industry had a particularly bad month. New vehicle sales in all segments, with the exception of medium commercial vehicles, deteriorated sharply during April 2017, registering double digit declines, reports National Association of Automobile Manufacturers of South Africa (Naamsa). Naamsa attributed the lower sales in part to the many public holidays in April. "The public holidays negatively affected new vehicle exports which also reflected a sharp year on year decline," according to the Naamsa report. April 2017 aggregate new vehicle sales registered 34 956 units, a decrease of 5 392 units or 13.4% from 40 348 vehicles sold in April 2016. Export sales were 24 449, a sharp fall of 8 383 vehicles or a decline of 25.5% compared to the 32 832 vehicles exported in April last year. Overall, out of the total reported Industry sales of 34 956 vehicles, an estimated 31 479 units or 90.1% represented dealer sales, 4.3% represented sales to the vehicle rental Industry, 3.1% to Industry corporate fleets and 2.5% to government.

Other positive news was the Reserve Bank's leading economic indicator – drawn from a wide array of metrics – which has been positive for seven months in a row. As the drought ended agricultural production also improved, some analysts expecting by as much as 80% compared to last year.

JOHANNESBURG (FOURWAYS)
Tel: +27 (0)11 799 8100
Fax: +27 (0)11 799 8101
Unit 2B, Cedar Office Estate, Cedar Road, Fourways, SA

JOHANNESBURG (SANDTON)
Tel: +27 (0)10 035 1391
Fax: +27 (0)86 775 7089
The Business Exchange, 150 Rivonia Road, Sandton, SA

PRETORIA (ERASMUSKLOOF)
Tel: +27 (0)12 347 8240
Fax: +27 (0)12 347 0601
494A Lois Avenue, Erasmuskloof X3, Pretoria, SA

CAPE TOWN (DE WATERKANT)
Tel: +27 (0) 21 418 1236
Fax: +27 (0) 21 418 1304
29 Chiappini Street, De Waterkant, Cape Town, SA

BELLVILLE (TYGERVALLEY)
Tel: +27 (0)21 914 9646
Fax: +27 (0)21 914 6515
Tyger Waterfront Terraces 2, Carl Cronje Drive, Bellville, SA

STELLENBOSCH (CENTRAL)
Tel: +27 (0)21 882 8706
Fax: +27 (0)21 882 8799
97 Dorp Street, Unit 3, La Gratitude, Stellenbosch, SA