INVESTMENT PLANNING • RETIREMENT PLANNING • OFFSHORE INVESTMENTS
TAX PLANNING • ESTATE PLANNING • LIFE INSURANCE

BRENTHURST
THE HOME OF WEALTH

BRENTHURST RANKED BEST BOUTIQUE WEALTH MANAGER IN SA 2017

INFLUENCES ON WEEKLY GLOBAL MARKET MOVEMENTS

Last week began with what was later dubbed "Manic Monday". Turkey was the main source of uncertainty in global markets once again. Sentiment was initially cautious owing to the strained relationship between the US and Turkey after the US Pastor was being detained in Turkey. This however, was the tip of the iceberg as sentiment then turned to completely risk off when the Turkish President was deemed to be a poor leader of the country.

Taking a few steps back, Turkey is a country that has large fiscal and current account deficits. At the same time, debt levels there have been rising and with an inflation rate of 15.85% (rose by over 5% in five months), one would expect interest rates to rise.

President Erdogan however, has been totally opposed to hiking interest rates as he does not believe in the role played by central banks in controlling inflation by adjusting interest rates. This goes against conventional economics and has been the main reason for the rapid rises in price levels in Turkey. Furthermore, central banks are normally independent of government, which makes it surprising that he has so much say in Turkey's monetary policy in the first place. These policies meant Turkey's economy went from being rocky-but-fixable into a full-blown currency crisis. The lira has lost -22.8% to the US dollar month to date and ended the week trading at 6.03/USD. One of two options could prevent it from sliding further.

Firstly, a large interest rate hike could do the trick, which seems unlikely at this point for the aforementioned reasons. Secondly, the implementation of capital controls whereby the selling of lira is limited, could also prevent further depreciation.

For now, this seems the most likely route (route followed by many dictatorships) although it is likely to deter foreign investment (which they so desperately need considering the huge amount of foreign currency denominated debt) and lead to further economic stagnation.

European equities had a difficult week with the DAX and CAC40 indices closing -1.7% and -1.3% lower respectively. Worries over how much exposure European banks have to Turkey was a potential factor causing the sell off. The euro lost ground to the US dollar over the week and closed -0.1% down at 1.14/EUR. The US dollar seems to be the safe haven of choice and traded at a thirteen month high relative to the euro.

Economic news had little impact on markets last week. In Europe, y/y GDP growth for Q2 2018 came in slightly above expectations (2.2% vs 2.1%). This was below the previous print of 2.5%, which more or less fits in with our expectations that the EU is cooling off to some degree. In the meanwhile, July retail sales in the UK easily beat consensus. Upon further investigation, there was a rise in expenditure on durable goods compared to spending on non-durables. This was a promising sign as it indicates the UK economy is in a stronger position than initially thought.

In the east, Japan's trade balance for July disappointed. After posting a surplus of JPY721Bn in June, expectations for July were for a deficit of -JPY50Bn. In the event, the deficit of -JPY231Bn caught practitioners off guard. Exports rose at a slower pace than expected over the period whilst imports increased by 14.6% in July compared to 2.6% in June.

It was no surprise that emerging markets got thrashed last week, with the MSCI Emerging Market index losing -3.7%. With risk aversion as a key theme, the JSE All Share index could not manage to escape the selling pressure and ended -1.7% in the red. All three of the main sub-indices ended lower. The JSE Industrial 25 index lost -2.3% and a key detractor was Naspers, which lost -5.7%.

Naspers is the largest shareholder in Hong Kong company Tencent Holdings. Tencent holdings released results which were worse than analyst forecasts, which sent the share tumbling. At the same time, the Chinese government has been clamping down on the gaming industry resulting in a new game release by Tencent being cancelled. Markets didn't like this one bit and Naspers suffered the consequence. The resource board ended -1.1% down as global resources sold off due to the stronger dollar and risk aversion. Gold, copper and nickel closing -2.1%, -4.5% and -2.9% down was evidence of the pressure placed on the sector.

The rand lost -4.1% to the US dollar and closed the week trading at 14.6/USD. The R186 yield rose by 0.17% to end at 9.0% as emerging market exposure fell out of favour. Fears of emerging market contagion from Turkey were rife. It may be worthwhile to compare SA to Turkey at this point. Like Turkey, SA also has a large current account deficit. However, SA's fiscal policy aims to narrow the budget deficit.

SA's capital markets are comparatively very liquid and its banking system is well capitalized. Thus, despite SA also having a high level of debt outstanding, most of the debt is rand denominated meaning any exchange rate changes should have little influence on the debt burden. Conversely, a high portion of Turkey's debt is foreign currency denominated, so the weaker lira makes it significantly more expensive to repay debt, which makes default more likely. The final difference is probably the most important.

Through all the corruption and uncertainty created by SA's previous political regime, the South African Reserve Bank has remained a pillar of independence. As mentioned above, this is definitely not the case in Turkey. These differences make contagion less likely. The recent sell off on the JSE is most likely due to negative sentiment leading to changes in asset allocation decisions (instead of selling Turkish exposure only, emerging market exposure gets cut and the JSE gets impacted). This should reverse as pockets of value open up down the line. Needless to say, there is still SA specific risk that could adversely impact markets.

ANC Secretary General Mantashe said white farmers should give government any farmland they own above 12k hectares. The land expropriation without compensation policy adds a layer of policy uncertainty that should hamper SA's growth outlook. Additionally, Moody's last week cautioned that the recent above inflation public wage settlements should lead to a slower pace of fiscal consolidation (lower than predicted in the 2018 National Budget), which should be growth negative and therefore lead to below expected revenues. This again rings the downgrade alarm bells and the repercussion that then could follow.

On a positive note, President Ramaphosa proposed a ZAR48Bn stimulus plan in an attempt to boost SA's sluggish growth. Importantly, the proposal is budget neutral, so it should not impact SA ratings.

After being concerned that SA would enter another recession when the Q2 2018 GDP figure eventually gets released, the mining production figures were keenly being awaited. Expectations were for a figure of 0.5% for June but markets were pleasantly surprised with the actual figure of 2.8%. This lowers the chance that SA enters into a recession to the markets relief.

BRENTHURST LAUNCHES LOW COST GLOBAL EQUITY FUND

THE BRENTHURST WEALTH GLOBAL EQUITY FUND is the latest addition to the range of funds we offer our clients and will give clients exposure to leading companies, regions, currencies and countries at a fraction of the cost of other internationally managed equity funds.

THE OPPORTUNITY AND BENEFITS TO INVESTORS:

- **Invested in equity markets globally: Participate in global growth**
- **Broad diversification by country, currency, sector, company**
- **Blended equity style factors to deliver improved risk/return: growth, momentum, value, quality, size**
- **Tactical positions taking advantage of opportunities/valuations by region, country and currency**
- **Underlying building blocks are passive or smart beta funds/ETFs**
- **Delivers a liquid, transparent, highly diversified global solution at very low TER**

FOR MORE INFORMATION ON THE BRENTHURST GLOBAL EQUITY FUND OR FOR INCLUSION INTO YOUR INVESTMENT PORTFOLIO, PLEASE CONSULT YOUR FINANCIAL ADVISOR AT BRENTHURST

JOHANNESBURG	**+27 (0) 11 799 8100**
SANDTON	**+27 (0) 10 035 1391**
PRETORIA	**+27 (0) 12 347 8240**
NEWLANDS	**+27 (0) 21 418 1236**
BELLVILLE	**+27 (0) 21 914 9646**
STELLENBOSCH	**+27 (0) 21 882 8706**

www.brenthurstwealth.co.za

BRENTHURST RANKED BEST BOUTIQUE WEALTH MANAGER IN SA 2017 & RUNNER-UP 2018 INTELLIDEX WEALTH MANAGER AND PRIVATE BANKS AWARD