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INTERNATIONAL MARKETS MAJOR GLOBAL MARKETS REPORT GAINS IN MAY

Major global markets, for the most part, ended May in the green despite geopolitical tensions increasing as North Korea launched its third missile test in less than three weeks. Upbeat US corporate earnings and some positive economic data, helped support US and global equities in May, with the major US indices ending the month higher despite the market seeming to run out of steam towards month-end. The S&P 500 and the Nasdaq Composite indices hit fresh all-time highs in May with all three major US indices (Dow, S&P and Nasdaq) posting month on month gains. The tech-heavy Nasdaq gained 2.5% month on month, notching up a seven-month winning streak - its longest since 2013, while the S&P 500 gained 1.2% and the Dow advanced by 0.3% month on month.

In Europe, stock markets came under pressure amid UK election uncertainty (a poll showed the ruling Conservative Party could lose a significant number of Parliamentary seats to the opposition), and a sharper-than-expected fall in eurozone inflation data. Still, with the eurozone seemingly enjoying its best economic run in nearly a decade, positive eurozone GDP growth was reported, while businesses across the region maintained April's impressive growth rate in May as firms struggled to meet growing demand. Germany's DAX rose by 1.4%, while France's CAC was up 0.3% month on month, and the UK's FTSE 100 finished the month 4.4% higher.

In Asia, Japan's Nikkei ended May 2.4% higher month on month. In China, the Shanghai Composite Index closed the month 1.2% down. This was the index's third straight month of losses, likely not helped by China's first credit-rating cut in 30 years as Moody's downgraded the country's sovereign credit rating to A1 with a stable outlook. Nevertheless, on a macroeconomic level, investors seem to be optimistic about China's economic outlook, and Wednesday's manufacturing PMI data held steady at 51.2 in May, beating market expectations of a

further decline and indicating that downward pressure on China's economic growth might have eased. Hong Kong's Hang Seng Index posted an impressive month on month rise of 4.3%, its biggest monthly percentage gain since January.

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NIC BORAIN ~ Political Analyst
SAM HOULIE ~ Chief Investment Officer, Counterpoint Asset Management
RYK VAN NIEKERK ~ Editor of Moneyweb

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LOCAL MARKETS

POLITICS KEEP CURRENCY AND JSE UNDER PRESSURE

The most positive bit of news on the local front was a slowdown in the headline consumer price inflation rate which is now at a better than expected 5.3% year on year, the lowest in 17 months. This was due largely to a dramatic improvement in food inflation, as the worst drought in years ended in major food producing regions.

However, the local exchange and currency did not fare too well, again largely driven by negative sentiment created by the unrelenting political rollercoaster causing continued uncertainty. The big news of the last days of May was leaked emails that showed alleged influence of the politically connected Gupta family on the state and President Jacob Zuma. The rand rallied to below R13/\$1 ahead of an ANC's national executive committee (NEC) meeting and the hope that Zuma might finally be recalled but the ANC again failed to do so which once again saw the local market and the currency come under pressure. The rand nevertheless still ended May 1.9% higher month on month against the greenback due to a weaker dollar.

On the JSE, after an impressive performance in April, the FTSE JSE All Share Index ended May 0.5% in the red (+5.7% year to date), while the Resi-20 and Fini-15 also posted losses of 3.5% and 1.8% month on month, respectively. News of China's credit rating being downgraded for the first time in nearly 30 years, hurt emerging markets (EMs) worldwide and the local market was no exception. However, the Indi-25 was again the outperformer, closing the month 1.8% higher, buoyed by the performance of large industrial constituents and especially Naspers. Year to date the Indi-25 is now up 14.7%, while the Resi-20 and Fini-15 are down by 2.8% and 2.0% year to date, respectively.

Industrial companies ruled among May's best-performing shares with Group Five (+28.2% month on month) emerging as the best-performing stock. It was followed by Dis-Chem (+17.0% month on month) in second position and Nampak, which soared by 14.5%, in third spot. Resource stocks, especially gold and platinum shares, accounted for most of May's worst-performing shares as commodity

prices remained under pressure and China's sovereign debt downgrade by Moody's also weighed on the sector. Sibanye Gold (-41.5% month on month) was the worst performer - its share price fell as much as 35.0% in the last days of May to a low of R18.39. Lonmin (-33.4% month on month) and Adcorp Holdings (-20.9% month on month) were the second and third worst performers.

The best performers year to date are Naspers (+34.8%), Adcock Ingram (28.1%) and Astral Foods (+24.1%).

Other big news announced in May was the announcement by General Motors (GM) that it will disinvest from South Africa. Financial Mail reported that although small in global terms, the SA motor industry through vehicle and component manufacturers directly employ 111 300. "Add parts retailers, dealerships and auto-reliant jobs in other sectors from which the motor industry buys goods and services, the number exceeds 900 000," according to the report.

"GM's exit is a big deal. It has been in SA for more than a century and its vehicles have been built in the country for more than 90 years," the article says.

The troubles of the vehicle industry continued. New vehicle sales for May 2017 saw a year-on-year decline of 2.6%. In April, year-to-date sales volumes had shrunk 1.4%. With May's decline, year-to-date sales are now down 1.7%. The National Association of Automobile Manufacturers (Naamsa) said it in its report about the sales for May that the new vehicle sales industry continues to suffer the effects of South Africa's downgrade to junk status. "The junk ratings from Fitch and S&P Global Ratings in early April is still hurting vehicle sales. May had a favourable calendar for sales, with four more working days than April and one more working day than the same period last year. Yet despite this, overall sales declined. We can only attribute this to uncertainty among buyers," the Naamsa report stated.

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