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INTERNATIONAL MARKETS

MIXED PERFORMANCE ON GLOBAL MARKETS IN MARCH

It was a mixed performance on global markets in March with US and Asian markets coming under pressure, while European equities performed better. In the US, the Dow Jones Industrial Average (DJIA) recorded it longest losing streak since 2011, as investor concerns that US President Donald Trump's agenda would no longer be a *fait accompli,* weighed on sentiment. Trump's failure to repeal the Affordable Care Act (Obamacare), spooked investors and concern mounted that his promises of sweeping tax reform, regulatory relief and robust infrastructure spending could be delayed or even derailed. The enormous gains markets have made since Trump's election in November also meant that a pullback might have been somewhat overdue.

Although US indices finished the first quarter of the year with solid gains, it was a mediocre March as the DJIA (-0.72% for the month) posted its first monthly drop since October and its worst month since January 2016. The S&P 500 was also down for the month (-0.04%), year to date the index is up an impressive 5.5%. The tech-heavy Nasdaq Composite rose 1.48% for the month in March, while *Factset* notes that it recorded its best quarterly performance since the end of 2013 in the first quarter of 2017. On the US economic data front, personal income rose 0.4% in February, in line with expectations, while consumer spending was up 0.1% (albeit below the 0.2% increase expected) and the PCE price index, an inflation indicator, rose 2.1% year on year, while core PCE advanced by 1.8% year on year.

The US Federal Reserve (Fed) also raised interest rates for the second time in three months (by a quarter point) at its mid-March meeting.

In Europe, the major indices closed higher, with Germany's DAX jumping by 4.04% for the month (+3.08% year to date), while France's CAC was up 5.43% in March and the UK's FTSE 100 finished the month 0.82% higher. March eurozone economic confidence weakened marginally as improvements in sentiment among consumers and builders were offset by declines in the industrial and services sectors.

Asian shares, in general, ended the month on a lacklustre note, with Japan's Nikkei ending March 1.10% down at 18,909 (for the first quarter of 2017 the Nikkei has retreated by 1.1%). However, Hong Kong's Hang Seng recorded a quarterly gain of 9.6%, while month on month it closed 1.6% higher. The Shanghai composite rose 0.6% for the month and ended the first quarter of the year with a gain of 3.8%.

Among commodities, Brent crude came under pressure, retreating by 5.3% for the month to just over $53/bbl. amid continued concerns around surging US shale production which soared despite the cheaper oil prices, impeding oil's price recovery. The gold price added 0.1% in March, to settle at $1,249.20/oz (year to date the gold price is up 8.9%). Platinum came under pressure ending the month 7.0% down.

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

LOCAL MARKETS
SA DOWNGRADED TO A SUB-INVESTMENT GRADE

Several market and economic indicators were slowly edging upwards during March and it seemed like although at a very slow pace, the economy was improving somewhat. That all changed in the last days of the month with the unexplained recall of Finance Minister Pravin Gordhan to return from an international trip to persuade international investors to remain positive about South Africa. This was followed days later by a significant cabinet reshuffle by President Zuma, which included a change of Finance Minister; a position now assigned to Malusi Gigaba. The move also sparked a sooner-than-expected rating downgrade at the end of the month when S&P Global moved to downgrade SA to a sub-investment grade rating.

Market reaction was immediate. The rand weakened by 11% in a few days and specific domestic equities (such as banks and retailers) have dropped precipitously. Nevertheless, despite the political noise, after stumbling in February, the FTSE JSE All Share Index still managed to close the month in the black rising 1.8% month on month (year to date it is up 2.8%), buoyed by the performance of rand-hedge counters which make up the bulk of the JSE. The falling rand boosting rand hedges and industrials saw the Indi-25 rocketing 4.0% for the month (year to date the index has now risen by 6.3%), while the Resi-20 rose 2.1% for the month (+0.7% year to date) as a softer rand boosted the local price of bullion. However, financial shares came under pressure following the political developments and concerns around rising interest rates and ratings downgrades, with the Fini-15 dropping by 2.2% for the month (year to date the index is down 3.3%).

March's top-20 best-performing shares were littered with industrials and especially rand-hedge stocks as the weakening of the local currency following the cabinet reshuffle saw these share prices jump. Gold shares were also lifted as investors sold the rand following news of the reshuffle and the resultant sharp drop in the rand vs the US dollar acted as a tailwind for locally listed gold mining shares as the rand gold price climbed 2% in March. Among the gold shares, Gold Fields emerged as March's best performer, rising 16.2% month and month. It was followed by Grand Parade Investments which recorded a rise of 14.9% for the month. Rand-hedge, Sappi (+11.4% month on month) came in third, boosted by the weaker exchange rate. The worst performers were Lonmin (-23.7% for the month), JSE Ltd (-20.8%) and Netcare Ltd (-19.5%).

Car sales figures were up by 2.1% in March with total sales of 48 534 vehicles, according to the latest data from the National Association of Automobile Manufacturers of SA (Naamsa). This follows a minor decline of 0.1% IN February and growth of 3.7% in January. Year to date new vehicle sales are up 1.9%.

On the SA economic data front, following disappointing January trade data (a R5.4bn deficit), the February trade balance came in better than expected with a R5.2bn surplus on the back of a 9.4% month on month rise in exports, while imports dropped 9.7%. At its March meeting, the Monetary Policy Committee (MPC) of the SA Reserve Bank (SARB) kept the repo rate on hold at 7%. Meanwhile, private sector credit extension (PSCE) growth slowed slightly (to 5.3% year on year in February from 5.5% in January), while February inflation (CPI) retreated to 6.3% year on year from 6.6% in January.

The FNB House Price Index growth rate for March started to show signs of some renewed strengthening, accelerating from a revised 2.7% year on year in February to 4.1% in March. In real terms, when adjusting for CPI (Consumer Price Index) inflation, the rate of house price change remains in negative territory, having recorded a –3.4% year on year decline in February. This is the result of a combination of +2.7% average house price inflation and +6.3% CPI inflation in February.

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