



MONTH IN REVIEW OCTOBER 2017

INTERNATIONAL MARKETS TAX REFORM AGENDA BOOSTS US MARKETS

► US markets had a great month boosted by positive earnings and US President Trump's tax-reform agenda.

Concerns raised around how much agreement there will be among congressional factions once the tax bill is unveiled and media reports at the end of October suggesting the highly-anticipated reduction in the corporate tax rate may only take full effect in 2022, did little to cap the month on momentum. The Dow Jones Industrial Average (DJIA) outpaced both the S&P 500 and the Nasdaq Composite in October to register a 4.3% month on month gain (+18.3% year to date). Impressive earnings from US tech stocks (Alphabet, Intel, Amazon, Microsoft etc.) pushed the Nasdaq to new highs, with the index ending the month 3.6% up (year to date the index has risen by 25.0%). S&P 500 advanced by 2.2% month on month (+15.0% year to date).

► On the US economic front, GDP data surprised on the upside despite the recent hurricanes, with preliminary 3rd quarter 2017 GDP showing that the economy grew by 3% year on year (vs an expected 2.5%).

All segments of the US economy contributed to quarterly growth with exports, imports and business spending all increasing, while consumer spending, which accounts for the majority of economic activity, rose by a healthy 3.3% year on year.

► Positive earnings and some better-than-expected economic data saw European bourses recording positive performances in October.

Germany's DAX closed the month 3.1% higher (+15.2% year to date), while France's CAC rose by 3.3% month on month (+13.2% year to date). Eurozone 3rd quarter 2017 GDP growth of 0.6% quarter on quarter came in above expectations (expanding for the 18th consecutive quarter), while the

September unemployment rate dropped to 8.9% - the lowest since 2009. The UK FTSE-100 Index advanced by 1.6% month on month (+4.9% year to date), while growth for the 3rd quarter came in at 0.4% quarter on quarter - slower than that of the eurozone.

► In Asia, Japan's Nikkei 225 reached a 21-year high in October ending the month 8.1% higher month on month (+15.2% year to date).

Meanwhile, markets in China traded at their highest levels since the start of 2016 earlier in the month before entering the last week of October on a slightly weaker note. This pull-back in Chinese markets in the last days of the month resulted in Hong Kong's Hang Seng Index capping its month on month gain at 2.5% in October (year to date the index is up 28.4%), while the Shanghai Composite closed the month 1.3% higher (+9.3% year to date).

BRENTHURST GLOBAL BALANCED FUND COMING OF AGE

The current size of the Brenthurst Global Balanced Fund is around \$30.6m with a year-to-date return of 13.29% and a return of 11.63% for the past twelve months.

This Fund is a medium risk balanced fund which invests and participates in portfolios which are well diversified across various asset classes including cash, fixed income, equities, property and commodities. The fund has exposure to various currencies. It is suited for an investor with a five year or longer time horizon.

The Fund aims to provide clients with a balance between capital growth and preservation over the full investment cycle in local currency terms with a low management fee of just 1.63%.

LOCAL MARKETS

MID-TERM BUDGET DOMINATES NEWS

► **Finance Minister Malusi Gigaba shocked markets (and the nation) with the extent of SA's economic woes when he delivered the medium term budget (MTBPS) to parliament in October.** It is clear that consumers will have to prepare for more tough times ahead as the consequences of years of mismanagement and corruption, especially at state-owned enterprises (SOEs), came home to roost. The bleak picture Gigaba painted of SA's finances saw the rand hit an 11-month low against the dollar, before retracing some of these losses and ending the month 4.2% down against the dollar (year to date the local currency is 2.8% lower). Rating agency Moody's described Gigaba's MTBPS as signalling "a marked credit-negative departure from earlier fiscal consolidation efforts". Many commentators are now of the view that the odds in favour of credit rating downgrades by S&P and Moody's at their upcoming reviews later this year have tilted to the negative.

► **Financial Mail reported that the budget address showed that the Zuma administration has backed SA into a fiscal crisis. If the status quo is allowed to continue, the country will be in debt distress within a few years.** "According to budget documents, SA cannot sustain the current level of social spending, let alone fund new proposals like the National Health Insurance or free higher education, unless growth rebounds to 3% and stays there," according to the magazine's cover feature.

► **Despite the gloomy economic outlook the FTSE JSE All Share Index touched new record highs during October.** It was green across the board as a turnaround in resources and an impressive performance from large rand-hedge industrial shares such as Naspers and Richemont retraced September's losses. The All Share Index closed 6.1% higher month on month (+16.4% year to date), while the Indi-25, Resi-10, and Fini-15 posted month on month increases of 8.1% (+27.3% year to date), 6.4% (+16.0% year to date) and 2.1% (+2.3% year to date), respectively. Commodity shares (especially platinum stocks), Naspers and some real estate shares, accounted for the bulk of October's 20 best performers as a much-weaker rand lifted miners and rand-hedge and some real estate sector stocks.

► **Lonmin emerged as October's best performing share, soaring 55.3% month on month, albeit from a low base.** A strong production report (and weaker rand) pushed Impala Platinum (+26.5% month on month) into second

spot with Kumba Iron Ore at +23.4% for the month in third spot. Listed affordable housing developer, Calgro M3 Holdings, was October's worst-performing share, declining by 20.4% month on month. Ascendis Health was October's second-worst performing share – down 13.4% month on month, followed by Famous Brands in third spot – down 12.6% month on month.

► **In terms of local economic data, September CPI rose by a more-than-expected 5.1%, from 4.8% in August.**

September trade surplus narrowed slightly to R4bn vs R6bn in August. Year to date, the trade balance has improved to a R47.12bn surplus from a deficit of R6.66bn in the same period of 2016.

► **Unemployment rate, while stable at 27.7% for third quarter remained at record-high levels last seen 14 yrs ago.**

Following this announcement Business Times reported that SA's jobs market is entering a new era, one in which it could absorb less labour than in the past – even if growth returns to the economy. "A shift to a service-driven economy in line with global trends would not be a panacea for the country's unemployment challenge. We are entering a different kind of era," according to the newspaper's report. The best growth sector for jobs was finance and other business services, which added 68 000 employees during the quarter. However, manufacturing shed about 50 000 jobs, construction about 30 000, and agriculture about 25 000.

► **New vehicle sales numbers continued with positive gains for the fifth consecutive month, with more than 51 000 units sold in October.** The numbers issued by the National Association of Automobile Manufacturers of SA (Naamsa) stated that new vehicle sales in October 2017 closed at 51 037 units, an increase of 2 255 units or 4.6% compared to 48 782 vehicles sold in October 2016. Export sales at 28 229 vehicles registered a decline of 2 544 units or -8.3% compared to the 30 773 vehicles exported in October 2016. The new car market reflects further gains with 35 316 units, an improvement of 2 594 cars or 7.9% compared to the 32 722 new cars sold in October last year. The car rental Industry had accounted for an estimated 26.1% of new car sales in October 2017.

Sources: Anchor Capital, Financial Mail, Business Times. Wheels24



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