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BRENTHURST

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THE POWER OF INDEPENDENT ADVICE

INTERNATIONAL MARKETS

US MARKETS DO WELL DESPITE GEOPOLITICAL TENSION

The possibility of a military confrontation between the US and North Korea continued to loom in September as the war of words between US President Donald Trump and North Korean leader Kim Jong Un escalated. Despite geopolitical uncertainty, US markets remained resilient, ending the month higher. The Dow registered a 2.1% return (+13.4% year to date), while the S&P 500 closed Friday 1.9% higher month on month (+12.5% year to date) and the tech-heavy Nasdaq advanced by 1.1% in September (+20.7% year to date).

On the economic data front, US consumer price inflation (CPI) finally picked up in August, recording the largest increase since January with inflation rising from 1.7% in July to 1.9% in August - a seven-month high. This was predominately driven by higher energy prices, and came in above market expectations of 1.6%. Annual average inflation rose from 1.9% in July to 2.0% in August - a near three-year high. Meanwhile, the Conference Board's consumer confidence index eased slightly in September as the impact of Hurricanes Harvey and Irma weighed on the data. August industrial output and retail sales data disappointed.

European bourses recorded their best month this year, following several positive economic data releases and a banking sector rally on rising expectations for tighter monetary policy in the region. September eurozone purchasing manager's indices (PMIs) were solid as growth of business activity accelerated across both manufacturing and services, with job creation the second-highest seen in over the past decade. Germany's DAX closed the month 6.4% higher (+11.7% year to date), while France's CAC rose 4.8% month on month (+9.6% year to date).

As was expected, elections in Germany resulted in Chancellor Merkel securing a fourth term. In the UK, the Bank of England (BoE) suggested interest rates could rise for the first time in ten years next month, which saw the sterling surging to its highest level since the Brexit referendum. However, the UK FTSE-100 Index retreated by 0.8% month on month(+3.2% year to date), likely on the back of the stronger currency as companies in the index earn a large part of their earnings in foreign currencies.

In Asia, Japan led the way regionally, with the Nikkei recording its best month year to date, rising by 3.6% in September (+6.5% year to date), as yen weakness stoked last month's jump to two-year highs. In China, Hong Kong's Hang Seng Index hit a bump, stymieing its upward trajectory this year. The index closed September 1.5% lower (+25.2% year to date). The Shanghai Composite retreated by 0.4% month on month but is up 7.9% year to date. In terms of economic data, while most of the headline numbers were disappointing, China manufacturing investment advanced, consistent with a turnaround in the PMIs, while August housing sector data showed a surprise (albeit small) rebound.

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%.

Brenthurst Wealth Management (PTY) LTD FSP No. 7833

LOCAL MARKETS

JOBS CRISIS WORSENS, INTEREST RATE UNCHANGED

Although some economic indicators delivered marginally positive news, rising unemployment is causing concern in many quarters. The local economy remains under pressure and commentators are not expecting any improvement in the medium term.

The South African economy continues to bleed jobs, with Statistics SA reporting in September that employment had declined by 34 000 jobs in the second quarter of 2017. Formal non-agriculture jobs fell by 48 000 in the first quarter, courtesy of a dour performance in manufacturing, transport, trade and finance and business services. Stats SA said that while the figures showed a gain of 13 000 jobs when compared with a similar period in 2016, the figures were unlikely to allay fears that the weakened economy was shedding jobs at a fast rate.

In terms of other economic data, following the disappointing 0.6% quarter on quarter GDP contraction in the first quarter of 2017, GDP growth for the second quarter on 2017 exceeded consensus expectations slightly at 2.5%. August consumer price inflation (CPI) advanced modestly year on year coming in at 4.8%, with food price inflation declining to 5.7% from 6.8% in July as the impact of the drought on maize, fruit and vegetable prices continued to reverse. While consensus economist forecasts expected the SA Reserve Bank (SARB) to cut interest rates by 25bpts at its meeting last month, it kept the repo rate at 6.75%. After surprising the market with a strong push towards R13/$1 level in August, the local currency retreated by 4.0% month on month in September. Year to date the rand has strengthened by 1.0% against the US Dollar.

Political risk locally remained a concern for investors as more and more evidence emerged of the extent of the so-called “state capture” project but with no arrests made. Accounting firm, KPMG South Africa, was left reeling after it was exposed in state capture activity with the top leadership in the local business resigning. The High Court also found the results of the KwaZulu-Natal ANC's 8th provincial elective conference in November 2015 were invalid with the current leadership in the province now having to be dissolved.

On the JSE, it was red across the board as resource shares gave back most of their August gains, with the Resi-10 closing Friday 2.0% down month on month (+9.0% year to date).

The FTSE JSE All Share Index was also 2.0% lower month on month (+10.0% year to date), while the Indi-25 and Fini-15 posted month on month declines of 1.0% (+18.0% year to date) and 4.0% (unchanged year to date), respectively.

Retailer, Choppies Enterprises, which posted a 10.2% month on month loss in August, was September’s best-performing share, gaining 13.2% month on month albeit from a low base. In second spot, MAS Real Estate, the European real estate investor, is up 12.9% month on month with a strong pipeline of investments and developments. Coming in third, Namibian investment company, Trustco Group Holdings continued to rebound (in August the share price rose by 14.5% month on month), ending September 11.6% higher.

In stark contrast to the rally in major resources stocks buoying the local bourse in August, broadly lower commodity prices in September along with several poor results releases saw several of September’s worst performers coming from the resources sector. Sibanye-Stillwater was the worst-performer, plummeting 26.7% month on month and giving back more than the gains it recorded in August when a rally in the gold price propped up gold shares. In second spot, Impala Platinum lost 22.9% month on month as the drop in the platinum price and disappointing full year results for 2017 weighed on the share price. Group Five (-22.2% month on month) was the third-worst performer, with the construction firm swinging to a full-year loss in its 2017 full year results.

According to figures released by the National Association of Automobile Manufacturers (Naamsa) aggregate new vehicle sales came in at 50 675 units, up by 3 138 units or 7% from the 47 357 vehicles sold in September 2016. New passenger cars sold came in at 33 669 units, a gain of 1 868 cars or 5.9% compared with the 31 801 new cars sold in September 2016. Toyota sold the most vehicles (11 123) during the month, followed by Volkswagen (8 012). Export sales at 36 359 vehicles had registered an improvement of 3595 units or a gain of 11% compared with the 32 764 vehicles exported in September 2016.

SOURCES: Business Day • Anchor Capital

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