



INTERNATIONAL MARKETS

SURGE IN VOLATILITY AND USA PRESIDENT'S TRADE TARIFFS PLANS HIT MARKETS

MONTH IN REVIEW MARCH 2018

Higher volatility, the sell-off in US tech shares and the possibility of a trade war weighed on global markets in March as US President Donald Trump's move to impose tariffs on Chinese goods (and China retaliating by announcing tariffs on several US products), rattled markets.

► **Trump's criticism of Amazon, a data breach of Facebook accounts and the possibility of US government regulation of the tech sector pulled markets lower.** For March, the Dow Jones Industrial Average lost 3.7% month on month (its second straight negative month after February's drop which followed a 10-month rally) and was down 2.5% for the 1st quarter of 2018. The S&P 500 fell 2.7% (-1.2% for 1Q18) and the Nasdaq, like the Dow and the S&P, also posted its second straight monthly decline (-2.9%, its biggest monthly drop since Jan 2016). For 1Q18, however, the index is still up 2.3% - its seventh straight quarterly gain.

► **Stocks in Europe closed higher towards the end of the month on the back of a rally in the auto sector driven by Renault.** This followed a report on *Reuters* that the company could merge with Nissan (the firm has declined to comment on the report). However, this was not enough to reverse the losses experienced during the month and most major European markets closed the month lower. Germany's Dax fell 2.7% month on month (-6.4% for the 1st quarter of 2018) and France's CAC dropped by 2.9% compared to February (-2.7% for 1Q18). In the UK, the FTSE 100 lost 2.4% month on month and is now down 8.2% for the quarter.

► In Asia, Japan's benchmark Nikkei 225 Index ended March 4.1% in the red (-7.1% for 1Q18), while in China, Hong Kong's Hang Seng Index dropped by 2.4% month on month (+0.6% for the quarter) and the Shanghai Composite Index declined 3.0% for the month (-4.4% in 1Q).

► **Business Day reported on the global quarterly declines and noted that "this was the quarter when investors were reminded that stocks don't go up forever".** The newspaper's markets specialist, Michel Pireu, noted that the optimism that has carried the US market higher and higher ended in the last three months. He wrote: "It was a turbulent quarter that featured two 1 000 point Dow index plunges, powerful rallies as well as a growing sense of fear among investors."



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LOCAL MARKETS

GLOBAL TENSION AND VOLATILITY DRIVE MARKETS LOWER

Despite further initiatives by new President Cyril Ramaphosa to set SA on a better path and some positive economic and market news, global tension around a threatening trade war between the USA and China had a negative impact on sentiment driving indices down. It is clear investors are in for a bumpy ride for the months ahead.

► The global market jitters saw the FTSE JSE All Share Index ending the month 4.9% lower (down 6.8% in 1st Quarter of 2018). Market heavyweights such as Naspers, FirstRand, Glencore and BHP Billiton, all posted month on month declines (down 11.6%, 9.5%, 7.4% and 3.8%, respectively), on the back of lower international markets and weaker commodity prices. The lower resources prices pulled the Resi-10 2.9% down for the month (-4.4% for the first quarter), Industrials closed 6.0% in the red (-9.2% in 1Q) and financials, down 4.4% month on month (and 1.8% in the quarter), gave back most of February's gains.

► Retail-focused Polish property Group, Echo Polska Properties (EPP) was March's best-performing share, rising 24.8% month on month. In second spot, construction Group, Murray & Roberts rose 23.7% for the month, buoyed by reports that it had been awarded new underground mining projects in the North American and Australasian markets to the value of R3.80bn. Another property company, Hammerson Plc, was March's third best-performing share, rallying 21.9% month on month after rejecting a GBP4.90bn offer from French shopping centre operator, Klépierre.

► Steinhoff International Holdings was March's worst-performing share, dropping by 43.1% month on month. The company's share price plunged after it indicated that it was not in a hurry to dispose of its stake in Steinhoff African Retail (STAR) to decrease its massive debt burden. EOH Holdings was March's second-worst performing share, shedding 39.9% of its share price month on month as it reported a decline in earnings. The Resilient Group of Companies (specifically Greenbay Properties, Fortress - B-, Resilient) continued to remain under pressure from short-selling activity in March, emerging as the month's third worst-performing share.

► Locally, optimism around President Ramaphosa continued to contribute to the SA economic recovery as investor and consumer confidence improved.

Ramaphosa has been moving quickly, first reshuffling the cabinet in February and firing (or demoting) several Jacob Zuma allies while also reinstating Nhlanhla Nene as finance minister. In late-March, Ramaphosa suspended another key Zuma ally - head of the SA Revenue Service (SARS), Tom Moyane.

► On the economic data front, growth reached 3.1% in the 4th quarter of 2017, while the SA economy grew by 1.3% year on year in 2017 – better than National Treasury's expected 1% growth. The strengthening economic activity over 2017 was partly driven by a bumper maize crop and a recovery in other agricultural commodities following one of the worst droughts in SA's history.

► Despite these positive signs, it is definitely not smooth sailing regarding the SA economy. The stock market is under strain due to international issues but signs of the continued muted economic situation is also very evident in other key indicators like property prices and the sentiment of manufacturing purchasing managers, reported in the ABSA Purchasing Managers Index.

► March 2018 saw the FNB House Price Index growing by a slower 1%, year-on-year, down from a revised 2.7% in February, and from 2017's high of 5.1% reached in November. This implies a weak start to 2018, despite indications of improved national sentiment and an improved economy early in the year. However, one key additional constraint on the national house price growth rate of late has been the "normalisation" of house price growth in the Western Cape. Not long ago, that province's relatively strong house price growth was a boost to the national average price growth. Of late, however, its rate has become "pedestrian" like the rest.

► March Purchasing Managers Index fell 3.9 points to 46.9 points, a sign that manufacturing is contracting.

► Vehicle sales were higher (49 233 units sold compared to 48 698 in March last year). This was driven by a buyers wanting to beat the April 1 increase in Value Added Tax (VAT) and vehicle ad valorem duties. Business Day reported that the industry is expecting a 'correction' in the months ahead.

Sources:

Anchor Capital | FNB Housing Index | Business Day | Momentum

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