BRENTHURST
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Month in Review - July 2020

INTERNATIONAL MARKETS
-US MARKET PERFORMS WELL AS TENSION WITH CHINA PICKS UP

July was a relatively strong month for US equity markets, with less volatility than has been the case in recent months, although the performances of other major global markets were mixed. Many US states rolled back reopening plans as COVID-19 cases soared, while on the geopolitical front relations between China and the US deteriorated further. The two superpowers clashed over trade, technology and even territory, with the Trump administration imposing sanctions on Beijing over China's policies in Hong Kong, challenging the country's claims in the South China Sea and ejecting China from its Houston Consulate. This resulted in a tit-for-tat retaliation as China ordered the US to close its consulate in Chengdu.

The Dow Jones Industrial Average (DJIA) gained 2.3% MoM but is down 7.8% YTD. However, the S&P 500 (+4.2% MoM) is now 0.5% in the green YTD, buoyed by the generally strong earnings and hopes that a COVID-19 vaccine will be available before the end of this year. The tech-heavy Nasdaq (+4.3% MoM and +18% YTD) remained 2020's big winner as many large tech stocks continued to benefit from the stay-at-home economy. The US dollar came under pressure in July, with the US Dollar Index recording a 4%-plus drop as the US Federal Reserve (Fed) reinforced the existing narrative that stimulus will continue for the foreseeable future at its July policy meeting.

On the US economic data front, a GDP decline was widely expected for the second quarter considering that large parts of the economy were essentially shut for much of April and May. However, GDP recorded a 32.9% annual decline – slightly better than the 34.7% drop consensus economist forecasts were expecting, but still the US' worst quarterly performance ever. As might be expected the services sector was the largest contributor to the decline. July US consumer sentiment also fell against the backdrop of rising COVID-19 cases and expiring federal aid relief programs. Unemployment data remained elevated and initial unemployment claims continue to rise with 1.4 million people filing for unemployment in the last full week of July-the second straight weekly increase.

MARKETS CLOSE LOWER IN UK AND EUROPE

UK market underperformed, with the FTSE 100 Index down 4.4% last month (-21.8% YTD) as the government imposed fresh lockdown restrictions on parts of the UK and the index struggled against the pound's gains. European equity markets closed lower on Friday (31 July), with Germany's Dax basically unchanged MoM but down 7.1% YTD, while France's CAC fell 3.1% MoM and is now down 20.0% YTD. On the data front, the euro-zone economy contracted by 12.1% in 2Q20 – the lowest reading since records began in 1995. France's GDP fell 13.8% in 2Q20, slightly better than expected, but still its worst on record, while Germany's economy contracted by 10.1% in 2Q20 — its worst reading since records began in 1970.

In Asia, Japan's Nikkei was down 2.6% MoM and is down 8.2% YTD. However, China outperformed with the Shanghai Composite Index jumping an impressive 10.9% in July (up 8.5% YTD), while Hong Kong's Hang Seng rose 0.7% MoM (-12.8% YTD). The latest economic data continues to suggest that China's economic recovery is well underway, with the country's official July manufacturing purchasing managers index (PMI) coming in above expectations.

COMMODITY PRICES UP

On the commodities front, iron ore demand remained strong with the price hitting a one-year high around mid July as governments around the world turn to infrastructure projects to help fuel economic growth and China's iron ore imports jumped 17% in June. MoM, the iron ore price rose by 9% in July. The platinum price was up 9.9% MoM, while palladium rose 5.3% in July. Crude oil prices ended the month 5% higher, but YTD oil is still 35% down. Gold had another great run in July (up 10.9% MoM and 30.2% YTD), closing the month at $1,975.86/oz after reaching new all-time highs towards the end of the month. The global backdrop for gold (and other precious metals prices) remains stable thanks to expansionary monetary policy responses, which has seen real yields continue to fall and remain depressed – an environment that has, historically, proven positive for precious metals prices.

LOCAL MARKETS

-MINING SHARES BOOST JSE

The resources sector of the JSE performed well in July on the back of strong gold and other precious metals prices, which boosted the overall market to close 2.5% higher than in June (-2.4% year to date). Several large-cap resource shares closed higher, including Glencore (+11.5% MoM), AngloGold Ashanti (+9.7% MoM), Anglo American (+4.2% MoM), Anglo American Platinum, and BHP Group (both up 4.0% MoM). Industrials underperformed and the Indi-25 closed 1.3% lower than in June (+7.5% YTD), while the resources rally boosted the Resi-index to close 8.3% higher in July (+12.8% YTD) and the Fini-15 advanced by 1.2% MoM (-35.2% YTD).

Pan African Resources was July's best performer as its share price soared 54.9% MoM. The company said last month that it expected to be debt-free within the next 12 months due to the record gold price which would also see the firm cutting half of Group net debt during the year ended June on better-than-expected output. Another gold miner, Harmony (+53.0% MoM), was July's second-best performing share. It was followed by investment holding company, Invicta (48.7% MoM).

Steel producer, ArcelorMittal SA was July's worst-performing share – down 38.7% MoM. In its first half year results of 2020, released late in July, the company said that revenue dropped to R12.01bn from R21.74bn posted in the same period of 2019. These results came as steel demand dropped due to COVID-19 and on the back of output declines after its operations were shut during lockdown. July's second-worst performer, Sun International, had recorded a 101.7% MoM share price surge in June but gave back up some of these gains in July as the share closed Friday (31 July) 33.5% in the red. City Lodge Hotels was July's third-worst performer with a share price drop of 32.7% MoM.

INFLATION AT LOWEST LEVEL SINCE 2004

The rand strengthened 1.6% in July (down 21.9% YTD), closing at R17.07/$1 as the dollar weakened but came under pressure again towards the end of the month as the impact of COVID-19 the pandemic was seen in emer-ging market economic data releases. SA's headline consumer price inflation (CPI) slowed to 2.1% YoY in May, its lowest level since September 2004, and vs April's figure of 3.0%. MoM, CPI was down 0.6% compared with a 0.5% MoM decrease in April.

The SA June trade balance widened further to a R46.6bn surplus (the largest since January 1990) vs a revised R19.7bn surplus in May. Exports jumped 10.1% MoM to R116.3bn, while imports fell 18.9% to R69.7bn. The SA Reserve Bank (SARB) announced a widely expected 25-bpt rate cut, bringing the SARB's total rate cuts YTD to 3.0%, with the repo rate now at 3.5% – its lowest level since the early 1970s.

VEHICLE SALES REACH PLATEAU

New vehicle sales rose slightly in July, reaching a plateau where analysts think it will settle for the rest of the year. Having seen the market rise in huge bounds from 546 during April's lockdown to 31 642 in June, the motor industry had hoped for one more swell before it evened out. Instead, a market of 32 396 cars and commercial vehicles outsold June by just 754. Mike Mabasa, CEO of the National Association of Automobile Manufacturers of SA said: "The figures provide a picture of what could be expected for the remainder of the year." Total new-vehicle sales in July were 29.6% weaker than the 46 042 of June 2019. Car sales alone, at 18 905, were 35.8% below last year's 29 457. As a result, for the first seven months aggregate car sales, at 127 944, lagged 2019's 196 994 by 35.1%. Include commercial vehicles, and the market was down 35.9% - from 303 666 to 194 741.

The manufacturing sector is showing signs of improvement after the deep hit taken during the worst of the lockdown restrictions. Conditions in the sector stayed in positive territory for a third consecutive month in July, according to the latest Absa purchasing managers index (PMI), despite a slight decline from the previous month. Though the data showed that activity levels have come back from the deep declines of the worst of the lockdown, economists warned that July's number signals a month-on-month improvement rather than activity levels returning to pre-lockdown levels.

SARS EXPECTS SIGNIFICANT UNDER-RECOVERY OF TAXES

A lockdown that initially shuttered almost all economic activity led to an under-recovery of R82bn for the fiscal year to July 15, according to SA Revenue Service (SARS) commissioner Edward Kieswetter, as reported in Business Day. Lockdown rules and allowances to cushion businesses against their effect contributed to the drop in income. The sale of tobacco products has been prohibited for four months and the government reinstated a similar ban on alcohol sales from July 13. In the three months to June, there was an under-recovery of about R47bn, with excise-duty collections including levies on alcohol, tobacco products and fuel contracting 42% from a year earlier.

Sources: Anchor Capital, BusinessLive

TAX SEASON 2020 - During Filing Season 2020, SARS is focusing on ensuring that the data that is used to prepopulate individual taxpayers' tax returns is verified and correct, thereby limiting the risk and time spent on objections and corrections once returns have been submitted. During August 2020, a significant number of auto-assessments, based on third party data, will be issued. Read more >>Tax returns and Tax Season.

CREATING GLOBAL WEALTH WEBINAR: 06 AUG 2020

If you missed the webinar Brenthurst hosted in association with asset manager Ninety One, view a recording here: **Brenthurst Ninety One Creating Global Wealth Webinar**. Do note that the recording does not include the presentation by Jeremy Gardiner due to copyright requirements.

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JOHANNESBURG	**+27 (0) 11 799 8100**	**PRETORIA**	**+27 (0) 12 347 8240**	**CLAREMONT**	**+27 (0) 21 418 1236**	**STELLENBOSCH**	**+27 (0) 21 882 8706**
SANDTON	**+27 (0) 10 035 1391**	**CAPE TOWN**	**+27 (0) 21 418 1236**	**BELLVILLE**	**+27 (0) 21 914 9646**	**MAURITIUS**	**00 230 5843 5215**