



INTERNATIONAL MARKETS

–HEADWINDS REMAIN BUT MARKETS START IN POSITIVE TERRITORY

MONTH IN REVIEW JANUARY 2019

► MARKETS BOUNCE BACK

Equity markets experienced welcome respite in January, after a torrid end to 2018. Both developed and emerging market equities gained over 7% in total return terms, boosted by signals from the US Federal Reserve (Fed) that it would be more patient with further rate rises, as well as by improving rhetoric towards China from the White House. Risk assets recovered some of the losses made in the fourth quarter. Even so, political uncertainty remains a headwind, while recent macroeconomic data releases continue to send mixed signals about the outlook for the global economy.

The S&P 500 Index rose steadily in the first half of the month, before tracking sideways and finished the month 8.0% higher; despite the disruptions to government activities caused by the 35-day partial shutdown of the federal government. This was triggered by a stand-off between Trump and Congress for US\$5.7 billion worth in funding to build a wall on the Mexican border.

In Europe, European equity markets ended the month firmly in positive territory. The Eurostoxx 50 Index climbed 5.6% in January 2019.

► SLOWER ECONOMIC GROWTH IN CHINA

Concerns over a slowdown in China have not dissipated. Real GDP for the fourth quarter was announced at 6.4% year on year—dipping below the 6.5% mark for the first time. In the face of rising uncertainty emanating from the domestic slowdown, as well as the trade tensions with the US, the Chinese authorities have looked to provide stimulus to the economy.

The slowdown in China affected the Japanese market as lower demand hurt global manufacturers' earnings and as poor results from US manufacturers spelt trouble for Japanese suppliers of machinery.

SMART TIP - TAX EFFICIENT

As the 2019 tax year draws to an end on 28 February 2019, there are various options available to reduce your tax burden. Make a lump sum contribution to a retirement annuity and later use this tax saving for offshore investing.

FIND ALL THE DETAILS HERE:

<https://bit.ly/2TztwNG>

There are several ways to be smart with tax but as each investor's situation is different, it is best to consult your financial planner or tax consultant. www.bwm.co.za

LOCAL MARKETS

–DESPITE VOLATILE DECEMBER, JSE ENDS HIGHER

► JSE CLOSES HIGHER

After wild swings during November and December 2018, equity markets sailed smoothly into January 2019. The SA market followed the direction of global markets and the FTSE/JSE All-Share Index ended the month 2.8% higher than in December, buoyed by gains in financial shares.

The JSE's Financials Index shot 6.0% higher, after posting a mild 0.6% gain in the previous month. The JSE Resources Index also closed in positive territory at 3.3% higher than the previous month. Resource shares were supported by a 3.0% bounce in the gold price and a 3.3% gain in the platinum price. This was thanks to fears of a weakening trend in global growth, which drove investors to safe-haven investments. Gains in the JSE Industrials Index were muted at 0.9% for January 2019, with mid-cap shares (2.3%) outperforming small-cap shares (2.0%) in the month. Listed property shares staged a comeback in January 2019, soaring 9.2% in the month; although this was off a very low base.

The SA rand was the best-performing currency against the US dollar in January 2019. The rand appreciated by 7.9% against the euro and 5.5% against the pound in the corresponding period. Other Emerging Market currencies that performed well against the dollar in January include the Russian rouble (6.6%), Brazilian real (6.2%) and Chilean Peso (6%).

► INFLATION LOWER

Headline inflation released by Statistics SA for December 2018 registered in line with expectations of a dip to 4.5%. The significant drop from 5.2% a month earlier was largely due to a R1.84 c/l cut in the price of petrol. A dip in fuel inflation from 19.2% to 7.7% between November and December 2018 resulted in a decline in administered price inflation from 12.1% to 8.0%.

Administered price inflation, which is primarily driven by fuel prices and electricity, water and sanitation charges, has averaged 7.1% since 2009 and remains an upside threat to the inflation forecast. The SA Reserve Bank (SARB) projects a 9% increase in electricity prices for 2019, which is below the energy utility's (Eskom) 15% requirement.

Inflation, excluding administered prices, recorded at 3.8% in December 2018, which is notably below the midpoint of the SARB's 3% to 6% inflation target. Given that the SARB's influence over administered prices through monetary policy is relatively limited, an argument can be made that the current monetary policy stance is appropriate. However, the SARB has reiterated its intention to bring inflation expectations closer to the midpoint of the inflation target range in order to create more flexibility in monetary policy to deal more effectively with external shocks.

► CONSUMER CONFIDENCE UNCHANGED

Consumer confidence remained at its 2018 low of 7 points in the fourth quarter of 2018. The consumer confidence index, compiled by FNB and the Bureau for Economic Research at Stellenbosch University and released in late January, said: "Consumer sentiment settled at a much lower level during the second half of 2018 compared to the extraordinarily positive numbers booked at the height of Ramaphoria."

This, however, is still above the long-run average reading for the CCI of 2 points and higher compared to the low levels recorded between 2015 and 2017. This suggests that that most consumers are fairly optimistic that the outlook for the South African economy and their own household finances will improve during the next 12 months, FNB said.

► RETAIL AND VEHICLE SALES UNDER PRESSURE

Although consumers may feel more hopeful for the year ahead, retail sales figures for the 2018 festive season show that household budgets are under pressure. Several of the larger retailers like Woolworths, Mr Price, Clicks and the likes of furniture retailer Lewis Group all reported that the typical Christmas spending boom did not materialise at the end of last year. The larger retailers all cautioned that a difficult year awaits when trading updates were released in January.

Issues like high debt levels, higher petrol prices (compared to a year ago) and the VAT hike were listed as contributing factors.

The automotive industry also had little to cheer about. New vehicle sales stumbled into 2019 with industry sales down 7.4% to 42 374 units year-on-year. According to Naamsa, passenger vehicles sales declined 10.8%, while light commercial vehicle sales remained flat with 0% growth compared to January last year.

MARKET PERFORMANCE

Table finalised on 4 February 2019. YTD: year to date

	Level	YTD
USA		%
S&P 500	2707	7.97
Nasdaq	6876	8.62
Dow Jones	25064	7.44
EUROPE		%
FTSE 100	7020	4.34
XDAX	11194	5.79
CAC 40	5019	6.1
ASIA		%
Nikkei 225	20788	3.87
Sensex 30	36469	1.11
Shanghai	2618	4.99
Hang Seng	27931	8.07

	Level	YTD
EMERGING MKTS		%
UAE ADX	5045	2.64
KSA Taduwl	8560	9.37
Qatar	3244	5.37
South Africa	53930	2.26
OTHER		%
Gold	1318	2.74
Oil	62.75	16.64
USA 10 year	2.69	0
Pound/Dollar	1.31	2.8
Euro/Dollar	1.15	0.32

Sources:
Momentum; J P Morgan; Business Day; Wheels24

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