



INTERNATIONAL MARKETS - GLOBAL MARKETS ON BACK FOOT AGAIN

MONTH IN REVIEW MAY 2018

After April's positive performance, most global markets were again on the back foot in May as a crisis in Italy (the eurozone's third-largest economy) threw markets in turmoil in the last week of the month.

Fears of fresh elections, which could become a referendum on Italy's future in the European Union (EU), emerged as the country's populist parties failed to form a coalition government following a dispute with the head of state. Trade concerns also continued to weigh on sentiment especially after US President Donald Trump on slapped tariffs on steel and aluminium imports from the EU, Canada and Mexico. China criticised the US for renewing a threat to raise duties on some imports from the country and, together with the EU, stated they will react swiftly to new US tariffs with duties of their own. This again raised the prospect of greater global tensions and the possibility of trade wars, which put global markets on edge.

Despite a few hiccups, US markets performed well in May. The Dow Jones Industrial Average advancing by 1.05% month on month (-1.23% year to date), while the S&P 500 gained 2.16% month on month (+1.18% year to date). The tech-heavy Nasdaq jumped 5.32% for the month, taking its year to date gain to 7.80%. On the US economic data front, consumer confidence increased in May after a dip in April, while the second estimate of GDP for the 1st quarter, showed that the US economy grew at a 2.2% annual rate - slightly below the previously reported 2.3% pace.

European markets, for the most part, closed the month in the red, wrestling with the implications of the Italian crisis, which sent its government bonds plummeting and hit the euro and other risk assets. Performances from major European bourses suffered with Germany's Dax down 0.06% month on month (-2.42% year to date), and France's CAC dropping by 2.21% month on month (+1.62% year to date).

In the UK, the FTSE 100 rose 2.25% month on month. The index however is still down 0.12% year to date. UK gains were capped on the last trading day of May as the US imposed tariffs on European steel and aluminium imports (the EU is the UK's largest trading partner).

In Asia, Japan's benchmark Nikkei 225 Index ended May 1.18% down (-2.47% year to date), negatively impacted by a stronger yen. Data showed Japan's economy shrank at an annualised rate of 0.6% in the first quarter of the year – breaking eight straight quarters of economic growth. **In China, Hong Kong's Hang Seng Index declined by 1.10% month on month (+1.84% year to date) and the Shanghai Composite Index advanced by 0.43% for the month.**

SA QUO VADIS?

A lot has changed in South Africa since the start of the year and a more positive atmosphere and improved business confidence started to develop yet the scope of the challenges facing the new President may derail the momentum.

What lies ahead and how will this affect investment decisions? Book for the 2018 seminar series and hear the insights of a respected speaker panel, including Magnus Heystek, Investment Strategist and Director of Brenthurst, Glyn Owen, Investment Director of Momentum Global Investment Management, Ralph Mathekg, political analyst and author of 'When Zuma Goes' (2016), Magda Wierzycka, CEO of Sygnia, Jean-Pierre Verster, Equity Portfolio Manager at Fairtree Capital and Ryk van Niekerk, Editor of Moneyweb.

Dates: 18 June PTA, 19 June JHB and 21 June CPT.
BRENTHURST CLIENTS CAN ATTEND FREE OF CHARGE.

To book click here: <https://bit.ly/2g6Vluy>

LOCAL MARKETS - JSE SLIDES IN MAY

Markets around the world did not experience the best month in May as a crisis in Italy weighed on sentiment.

The JSE was not spared and the FTSE All Share Index nearly wiped out April's 5.0% gain, ending the month 3.6% in the red (down 5.6% year to date). Financial shares felt the most pressure with the FINI-15 dropping 6.9% month on month (-7.1% year to date), while Industrials closed 5.1% lower for the month (-8.9% year to date). A turnaround in some commodity prices saw the Resi-10 ending May 4.5% in the green (the index is now up an impressive 9.1% year to date). While market-heavyweight commodity companies, including BHP Billiton and Glencore, posted robust monthly gains of 8.6% and 2.8%, industrial shares including British American Tobacco, Richemont and Naspers declined by 5.6%, 1.9% and 1.1% month on month, respectively.

Payment solutions provider and Cash Paymaster Services holding company Net 1 UEPS Technologies was May's best-performing share, gaining 27.7% month on month. Hotel and casino operator Sun International was May's second-best performing share posting a 23.9% month on month. It was followed by construction Group, Murray and Roberts in third spot with a 16.8% month on month gain.

In May, Niveus Investments (-57.2% month on month) bumped Steinhoff International Holdings (Steinhoff) from the worst-performing share spot. Nevertheless, Steinhoff still came in a close second, with the share plummeting a further 41.7% month on month to its lowest levels yet. The company's share price has seen a spectacular drop since financial and accounting irregularities, which are now the subject of a forensic probe by PwC, came to light last year. Retailers, Massmart Holdings and Lewis (both down 28.9% month on month) were last month's third-worst performing shares. Massmart tumbled after revealing it expects significantly lower year on year headline earnings. The company said interim earnings could fall around 70% to end-March, hit by restructuring costs of R166m.

Retailer Lewis Group, Clover Industries and Murray & Roberts Holdings were the top-three year to date performers for the second-month running.

However, last month Murray & Roberts (+50.1% year to date) bumped Lewis (+26.3% year to date) from the top spot (to third best performer).

With its share price reaching new lows in May, Steinhoff is the worst performing share year to date, down by 75.9%. Steinhoff is followed by Fortress Real Estate Investment Trust (REIT) -B- (-64.9% year to date) and Niveus (-60.6% year to date) in second and third-spot, respectively.

On the political front, SA President Cyril Ramaphosa reached his first 100 days in office this past month, with many political commentators of the view that he has done well thus far at turning the tide following Jacob Zuma's disastrous tenure. Nevertheless, while so-called Ramaphoria may have lifted business confidence, commentators agree that a lot more still needs to be done to put the SA economy back on a growth trajectory.

Although the rand recorded a month on month decline of 1.9% (-2.6% year to date) as a strong dollar rode roughshod over the local unit, it did manage to improve slightly towards the end of the month. This is due to the fact that the dollar came under pressure following its strong run (the dollar reached a near 10-month high against the euro Tuesday).

In terms of economic data, April consumer price inflation (CPI) accelerated to 4.5% year on year from a multi-year low of 3.8% in March. Month on month, CPI advanced by 0.8%. Most of the increase was due to higher alcohol, tobacco and fuel prices, while the 1% VAT increase also came into effect in April, further contributing to the upward momentum. Private sector credit extension growth dropped sharply to 5.1% in April vs consensus forecasts of 6.1%. Meanwhile, the SA Reserve Bank (SARB) Monetary Policy Committee (MPC) decided to keep interest rates at current levels at its May meeting.

It was another good month for the local automotive industry as car sales improved. Data released by the National Association of Automobile Manufacturers of SA, shows that new vehicle sales are up by 2.4% year-on-year across all vehicle categories. A more holistic view of how the industry is performing comes from year-to-date data, where total sales over the first five months of 2018 are 1.6% down compared to the same period last year, according to a report on Wheels24. 220 783 new vehicles were sold in the first five months of this year, compared to 222 433 in the corresponding months last year.

The cost of fuel will rise about 5.5% in June, taking the cost of petrol to a new high and putting further pressure on consumers. Analysts expect further pressure on consumers as the rand comes under threat from monetary policy tightening by central banks in developed countries and also continued geopolitical risk.

Sources:

Anchor Capital | Fin 24.com | Wheels24.co.za |

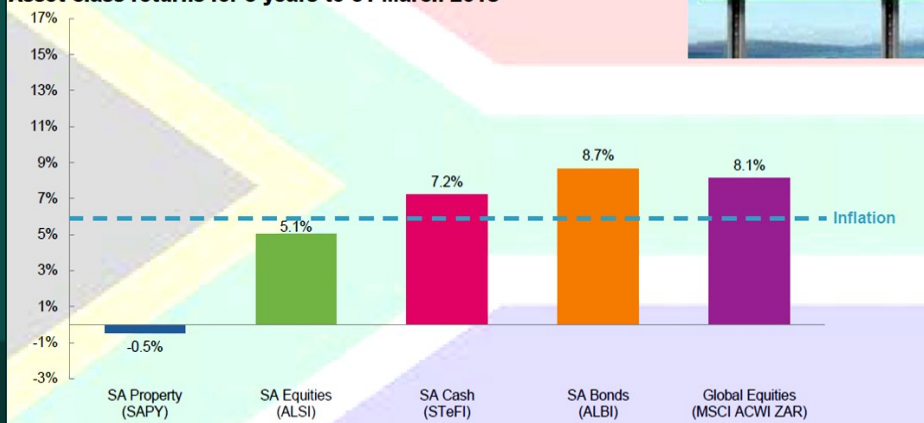
Business Day | Investec

➔ ASSET CLASS RETURNS AT A GLANCE - 3 YEAR RETURN

SURVEYING THE DAMAGE CAUSED BY JACOB ZUMA

3 years returns

Asset class returns for 3 years to 31 March 2018



It is generally not appreciated how much financial damage has been done by the 10-year rule of the ANC under Jacob Zuma.

SA was downgraded several times during this time to below investment-grade rating, foreign investment fled the country while SA companies also preferred to invest their money offshore instead of in SA. This has placed equity-returns on the JSE under tremendous pressure, leading to below-inflation returns on this asset class.

Offshore investments still offered the best returns over this period of time, followed by bonds and cash.

➔ BRENTHURST OPENS NEW OFFICE IN MAURITIUS

Brenthurst Wealth has also identified exciting investment opportunities for our clients in **MAURITIUS** and have set up an office currently headed up by Gavin Butchart. Gavin commutes between the two countries on a regular basis to attend client meetings and remains committed to all Brenthurst clients and is always contactable at gavinb@brenthurstwealth.co.za

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