



INTERNATIONAL MARKETS DRAMATIC UPS AND DOWNS FOR GLOBAL MARKETS

MONTH IN REVIEW FEBRUARY 2018

February was likely one of the US markets' most extreme rollercoaster rides since the global financial crisis, with big early declines followed by steady gains and then further slides towards month-end.

The Dow Jones Industrial Average (DJIA) recorded two 1,000-point drops on the back of investor concern that a spike in inflation could cause the US Federal Reserve (Fed) to intervene by aggressively raising rates, while a combination of inflation and bond market concerns, together with falling oil prices and a strengthening dollar also hampered stock market performance. In the last two days of February, the DJIA tumbled 680 points, leaving it down 1 600 points from its record high in late January. Month on month the Dow declined 4.3% (+1.3% year to date), while the S&P 500 dropped by 3.9% (+1.5% year to date) and the Nasdaq was down 1.9% month on month (up 5.4% ytd).

On the economic data front, the outlook for the US economy remained robust as February consumer confidence hit a new 17-year high, while corporate profits boomed, with FactSet noting that 4th quarter 2017 S&P 500 earnings are up an estimated 15% and on track to be the best in six years. However, the US Commerce Department revised its second estimate of GDP data downwards, with US economic growth slowing slightly more than initially thought in the 4th quarter of last year - expanding at a 2.5% annual rate, instead of the previously reported 2.6%.

The wild February ride wasn't limited to US markets as major global exchanges also ended the month in the red. In Europe, most markets closed lower, with Germany's DAX ending the month 5.7% down (-3.7% year to date) and France's CAC dropping by 2.9% (+0.2% year to date). In the UK, the FTSE 100 lost 4.0% month on month (-5.9% year to date). Eurozone economic confidence eased last month but nevertheless remained at historically elevated levels.

In Asia, Japan's benchmark Nikkei 225 Index closed February 4.5% lower (-3.1% year to date), while in China, Hong Kong's Hang Seng Index dropped by 6.2% month on month (+3.1% year to date) and the Shanghai Composite Index declined 6.4% month on month (-1.4% year to date).

This as data showing China's manufacturing sector slowing to its weakest level in more than 18 months and Japanese industrial output dropping the most since March 2011, weighed on markets.

SMART TIP

RAND STRENGTH DID NOT TRANSLATE INTO BETTER RETURNS

The rand has been climbing against almost all major currencies since January 2016, rising from almost R17 to the USD post the Nenegate-scandal in December 2015 to lows around R11,50 earlier this month, soon after the resignation of Jacob Zuma as president and his replacement by Cyril Ramaphosa. This is an increase of more than 30% over two years. But does this mean that investors who took money offshore at much higher rates have experienced losses? The answer is no, as the following table shows.

The sharp increase in the value of the rand did not translate into better rand-returns for local investors, as many have suggested or might have expected. The reason for this is that the returns earned by investors in most global sectors have been better than the rand-returns on the JSE. The performance of the JSE has been under pressure due to depressed economic conditions, weak consumer and business confidence plus a range of company specific-events such as Steinhoff, Capitec and recently the Resilient Group of companies. Over a 3 year period the average return on the JSE has been a mere 6.4% per annum, its lowest 3-year period of growth for many years.

The rand has benefitted mainly as a result of the weak US-dollar, which during 2017 had its worst year (down 10% against a basket of currencies) since 2004. This weakness is showing signs of abating and the US dollar could be entering a new period of strength.

PERFORMANCE SUMMARY: 3 YEAR RETURNS

27/02/2013 - 27/02/2018

- FTSE/JSE All Share Index (ALSI) 73.7
- MSCI AC Asia ex Japan 99.8
- MSCI AC Asia Pacific ex Japan 87.5
- MSCI AC World 117.5
- MSCI All China 116.5
- MSCI EM (Emerging Markets) NR USD 73.0
- MSCI Europe 85.5

Source: FE2018 - Currency ZAR

LOCAL MARKETS

NEW PRESIDENT & 2018 BUDGET DOMINATED MARKET NEWS

The JSE and the local currency firmed sharply mid-February following the overnight resignation of Jacob Zuma as president and the election of Cyril Ramaphosa to replace him. The positive atmosphere which developed since the start of the year continued and the difficult budget announced by then minister of finance Malusi Gigaba was, for the most part, well received by ratings agencies.

However, volatility on international markets drove the market lower and the FTSE JSE All Share index ended the month 2% lower than the January close. Market heavyweights, British American Tobacco, Naspers, and BHP Billiton, dropped by 13%, 7% and 3% month on month, respectively, on the back of lower global markets, a stronger rand and weaker commodity prices. A decrease in resources prices also pulled the Resi-10 4.9% down for the month, while Industrials closed 3.5% in the red. On the flipside, Financials, dragged lower in January by the fallout from the Viceroy report on Capitec, ended February 5.1% in the green. Poultry producer, Astral Foods was February's best-performing share, rising by 20.3% month on month, with retailer the Lewis Group in second spot with a 19.4% month on month gain and Harmony Gold in third place with a month on month gain of 18.8%. With commodity prices being hammered in February and also due to a stronger rand, nearly half of the month's 20 worst-performing shares were made up of resource companies, with Pan African Resources Plc (-48.6% month on month) emerging as February's worst performer. Fortress -B was the second worst (-46.8% month on month) and Resilient in third place (-43.0% month on month).

Euphoria over Cyril Ramaphosa's election as ANC leader in December settled somewhat in February as the mammoth task facing the new president hit home.

The rand ended February 0.5% higher after strengthening to a three-year high of R11.52/\$1 leading up to the new president's Cabinet near the end of the month.

The re-appointment of Nhlanhla Nene as finance minister and Pravin Gordhan as minister of public enterprises was welcomed and seen as assisting Ramaphosa's government clean-up. However, there were also concerns around some of the appointments, in what is widely seen as a compromise cabinet.

On the local economic data front, January consumer price inflation (CPI) data showed that inflation dropped to its lowest level since March 2015 - down to 4.4% year on year vs December 2017's 4.7%. Month on month, inflation eased to 0.3% in January vs December's 0.5%. Core CPI, which excludes the volatile food, non-alcoholic beverages, and energy price categories, fell to 4.1% year on year in January vs 4.2% in December. Meanwhile, January producer price inflation (PPI) slowed slightly to 5.1% year on year vs December's 5.2%. January's trade deficit expanded to the biggest since the early 1990s as imports surged by 22% and vehicle exports declined, with the SA Revenue Service (SARS) revealing a R27.7bn (\$2.4bn) trade gap. This compares with December's revised R15.3bn positive balance.

February 2018 was another tough month for new car sales with year-on-year declines recorded across all market segments according to the National Association of Automobile Manufacturers of South Africa (NAAMSA). Cars.co.za reported that total sales at 46 347 vehicles were 3.8% lower than in February last year. A decline of 30% in the rental channel and a 42% decline in the government channel had a significant effect on overall performance over the period.

Our full report on the 2018 budget was published last month. Read it here: <http://bit.ly/2oFZU3R>

Sources: Anchor Capital | Cars.co.za



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