BRENTHURST
THE HOME OF WEALTH

INTERNATIONAL MARKETS

- CORONAVIRUS TAKES OVER FROM TRADE WARS TO SPOOK MARKETS

Trade war worries seemed a distant memory as ongoing fears around the impact of the Coronavirus (Covid-19, Wuhan flu) and infections spreading outside of China resulted in investors growing increasingly concerned about the virus' impact on global economic growth and company profits.

Markets across the globe ended February in the red in a volatile month for world equities as worries about the virus outbreak mounted following a spike last week in Italy and South Korea, with a new case also reported in California at the end of the month and the US Center for Disease Control and Prevention saying it expects the cases in the US to rise. Thus far, the virus has infected more than 83 000 people worldwide (of which 95% is in China) and has been a dominant theme in US earnings releases and on companies' conference calls as firms such as Apple, Microsoft, Starbucks, and Mc Donald's continue to warn that they won't meet earnings targets for the first quarter of 2020 because of the virus.

In the US, the three major stock indices posted their worst weekly percentage declines since the global financial crisis (GFC). The Dow ended February 11.0% lower MoM (-10.1% YTD) after the index dropped 1 191 points or 4.4% on 27 February – its worst one-day point drop in history. The S&P 500 lost 8.6% (-8.4% YTD), while the Nasdaq closed 4.5% down MoM (-6.4% YTD) – over 10% below its recent peak. However, while indices fell into correction territory last week, according to Bloomberg, stocks still aren't close to a bear market, which is defined as 20% or more below the most recent peak. The S&P 500 and the Dow ended February 12% and 10% below their most-recent peaks, respectively.

➢ EUROPEAN MARKETS ALSO DECLINE

In the UK, the FTSE 100 also fell into correction territory towards the end of the month in that market's first correction since December 2018. MoM, the index was down 12.8%, while YTD it has lost 9.7%. Shares in Europe closed February with their worst weekly performance since the 2008 GFC as the spread of Covid-19 outside China saw continued selling. Germany's DAX was down 10.3% MoM (-8.4% YTD), while the CAC in France ended February 11.2% lower (-8.5% YTD).

In Asia, Chinese markets, which were closed from 23 January to 3 February for an extended Lunar New Year holiday, recorded losses across the board. MoM, Hong Kong's Hang Seng lost 7.3% (-0.7% YTD), while the Shanghai Composite was down 5.6% for the month (-3.2% YTD). On the economic data front, China's official manufacturing purchasing managers' index (PMI) plunged to 35.7 in February from 50.0 in January (a reading above 50 indicates expansion, while below 50 signals contraction). This was its worst decline on record as the damage caused by the Covid-19 outbreak suggested deepening cracks in an economy that was already negatively impacted by the trade war. In Japan, stocks also recorded major declines with the Nikkei plummeting by 10.6% MoM (-8.9% YTD).

➢ GOLD PRICE HITS SEVEN YEAR HIGH, THEN RETREATS

On the commodity front, crude oil prices dropped around 13% in February closing the month at $50.52 per barrel, while US oil traded at $44.76 – the lowest prices since late 2018. While the gold price initially rose on Covid-19 fears, its reputation as a safe haven during financial turmoil was tarnished at the end of the month as the yellow metal suffered one of its worst one-day drops on record. This after hitting a seven-year high at close to $1 700/oz on 24 February. MoM, the gold price was down 0.2% but it remains up over 4.5% YTD. Despite supply tightening as weather events squeezed exports from such key suppliers as Australia and Brazil, benchmark iron ore prices lost 6.5% in February amid expectations that end-users in China would lower production levels or even idle some capacity. The price of platinum was also down, 14% MoM, while palladium continued to rise MoM, jumping by 13.7%, despite plummeting by 10.2% on 28 February.

LOCAL MARKETS
- THE CORONAVIRUS FALL-OUT DRIVES JSE LOWER

As infections spread across the globe markets everywhere were impacted negatively by the outbreak of the Coronavirus (Covid-19). The JSE did not escape the global market decline and the FTSE JSE All Share Index closed 9.0% lower in February (-10.6% YTD).

Market heavyweights such as Anheuser Busch InBev (-22.4% MoM), BHP Group (-13.8% MoM), British American Tobacco (-7.8% MoM), Naspers (-3.2% MoM), and Prosus (-2.4% MoM) were battered. On 24 February, the benchmark index had suffered its biggest fall since December 2008 (according to Bloomberg), dropping by 4.46% on the day, as fears of rising Covid-19 cases outside China sparked an initial global sell-off. Concerns ahead of the Budget speech and worries that a slowdown in China's demand for commodities could impact the local economy also weighed on the bourse. Commodity prices and shares didn't escape the contagion and the Resi-10 was pulled 11.6% lower MoM (-14.7% YTD), while the Fini-15 lost 8.2% MoM (-13.5% YTD) and the Indi-25 closed the month 6.5% down (-4.6% YTD). The rand also came under pressure, dropping by 4.2% MoM against the dollar.

Retail holding firm, Steinhoff International (+48.9% MoM) was February's best-performing share, albeit from a very low base. Steinhoff was followed by Harmony Gold, which recorded a share price jump of 9.3% MoM, with DRDGold (January's best-performing share), in third place after the share jumped a further 6.4% MoM.

EOH Holdings was February's worst-performing share, plummeting by a staggering 63.0% MoM, with the share price hitting levels last seen in 2004. Business Day wrote that the sell-off could be due to ongoing concerns about the Group's history of corporate governance. For the second month running, Ascendis Health was the second-worst performing share – down 47.5% MoM. Invicta was the third worst-performing share – declining 36.5% MoM.

➢ INFLATION HIGHER SECOND MONTH IN A ROW

On the economic data front, annual consumer price inflation (CPI) advanced for the second month running, coming in at 4.5% in January (vs 4.0% in December) – the midpoint of the SA Reserve Bank's monetary policy target range. The higher number was due to increases in the prices of fuel, food and utilities. Housing and utilities, especially, and transport costs contributed to the higher number. MoM, price growth remained at 0.3%. Headline CPI (which excludes the volatile food and fuel component) also quickened to 4.5% YoY, vs 4.0% in December. Meanwhile, January's trade balance swung to a deficit of R1.87bn from a revised R13.89bn surplus in December; exports fell 1.4% MoM to R101.4bn and imports rose 16.1% MoM to R103.3bn.

The continuing economic decline is evident is numbers released for the manufacturing sector that showed declines for the fourth month running. Business Day reported that manufacturing has now reached the lowest levels since 2009, when SA was grappling with the after-effects of the global financial crisis. “The Absa purchasing managers’ index (PMI) hit 44.3 index points in February, the lowest level since August 2009. The decline was broad-based with four of the PMI’s subcomponents falling,” the newspaper reported. Some respondents flagged load-shedding as a reason for the decline in activity while weakness in external demand contributed to a drop in sales orders.

➢ BUSINESS CONFIDENCE AT LOWEST IN 34 YEARS

The weak economy is also apparent in the South African business confidence index, which slumped to the lowest in 34 years in 2019 as the country faced power cuts, delays in policy implementation, deteriorating public finances and the risk of losing its only remaining investment-grade credit rating. A sentiment index compiled by the South African Chamber of Commerce and Industry showed business confidence declined to an average of 92.6 from a two-year high of 95.5 in 2018, the lowest annual number since 1985.

Moody’s cut SA’s 2020 GDP growth forecast to 0.7% (from 1.5%) in February, citing a stalling economy and the impact of power outages as reasons.

➢ NO TAX INCREASES IN BUDGET

Finance Minister Tito Mboweni delivered his highly anticipated 2020 Budget Speech in the last week of February and, for the most part, it was favourably received by market analysts and economists, although they noted that implementation will be key. Mboweni said SA intends to cut R160bn from the public sector wage bill to contain a rising budget deficit, but this depends on renegotiating wage agreements with labour unions, which is likely to be extremely difficult. Other positive highlights included no tax increases (and even some reductions), an infrastructure drive, and more money for law enforcement including the NPA. Anchor Capital said in its comment it is positive about the budget and thinks that government is finally looking at addressing the real problems impacting the economy rather than just fighting the symptoms. “This may, in time, prove to have been a turning point for the economic tide in SA.”

The sales of new vehicles continued the declining trend of the past year last month. The National Association of Automobile Manufacturers of South Africa (Naamsa) confirmed aggregate domestic sales at 43 485 units showed a decline of 320 units or 0,7% from the 43 805 vehicles sold in February 2019. Export sales at 30 832 units, meanwhile, registered a fall of 2 843 units or a decline of 8,4% compared with the 33 675 vehicles exported in February last year.

Sources: Sources: Anchor Capital, Business Day, Bloomberg, Car Magazine, BusinessTech

SMART TIP - YOUR OFFSHORE ASSETS MAY REQUIRE AN OFFSHORE WILL

If you have international assets, whether it be properties or global portfolios, you may need an offshore will to manage the distribution of such assets to beneficiaries.
Everything you need to know here: When is an offshore will required

Please do not hesitate to contact any one of our 13 highly qualified financial advisors at our office countrywide.

Johannesburg	+27 (0) 11 799 8100	**Claremont**	+27 (0) 21 418 1236
Sandton	+27 (0) 10 035 1391	**Bellville**	+27 (0) 21 914 9646
Pretoria	+27 (0) 12 347 8240	**Stellenbosch**	+27 (0) 21 882 8706
Cape Town	+27 (0) 21 418 1236	**Mauritius**	00 230 5843 5215