INTERNATIONAL MARKETS
- GLOBAL MARKET RALLY CONTINUES

▸ COMPANY RESULTS DRIVE GAINS

The rally in global equity markets continued in April 2019, following a strong (12.2%) first quarter of the year. The MSCI All Country World Index rose 3.4% in the month despite downgrades by the International Monetary Fund to world growth estimates from 3.5% in January 2019 to 3.3% in its April 2019 World Economic Outlook.

Company results took the baton in April, nudging the S&P 500 Index 4% higher as it headed towards a 20% year to date gain (+18%). Just over half of S&P 500 companies reported earnings for the first quarter in April, with aggregate earnings growth of 2.5% year on year. That was a far cry from the 23% year on year earnings growth from S&P 500 companies in the first quarter of 2018, but the bulk of that growth was driven by US tax cuts which are now firmly in the base. The moderate first quarter 2019 positive earnings growth beat expectations, with analysts going into the announcements expecting earnings to decline slightly on a year on year basis.

The Eurostoxx 50 climbed by a similar 5.5% in the month, despite weaker industrial data out of Germany and France, which emphasised the Euro area's vulnerability to a slowdown in global demand and milder growth forecasts in the region's key trading partners.

Developed market equities (+3.5%) comfortably outperformed emerging markets (+2.1%) for the month as Chinese markets took a breather (the Shanghai Composite was down 0.4% in April) following a stellar start to the year (+24% in the first quarter of 2019). Brazil lost momentum and Indian markets seemed to be on hold as their protracted electoral process plays out. Meanwhile, Turkish markets continued to struggle with the lira comfortably the worst-performing currency for the month, down 6.7% against the US dollar. This, as efforts to recapitalise banks and tighten monetary policy were offset by volatility in foreign currency reserves, which their central bank struggled to explain.

▸ SLOWDOWN AHEAD

The global economy has entered a "synchronised slowdown" which may be difficult to reverse in 2019, according to the latest update of a tracking index compiled by the Brookings Institution think-tank and the *Financial Times*. Sentiment indicators and economic data across advanced and emerging economies have been deteriorating since last autumn, suggesting fading momentum in global growth and the need to resort to new forms of economic stimulus.

The findings follow generally disappointing economic indicators over the past six months that have shown a similar picture in the US, China and in Europe.

Professor Eswar Prasad of the Brookings Institution said the slowdown did not yet appear to be heading for a global recession, but all parts of the world economy were losing momentum. "The nature of the slowdown has ominous indications for these economies over the next few years, especially given present constraints on macroeconomic policies that could stimulate growth," he said.

LOCAL MARKETS - ALL EYES ON ELECTION

▸ MARKET MOOD IMPROVES

Eskom kept the lights on in April and helped ease the mood of South African investors as campaigning by political parties picked up pace ahead of the election of early May. SA equities followed global markets higher in the month with the FTSE/JSE All-Share Index closing 4.2% higher compared to March.

Gains were firmest among industrial and financial shares, while resource shares retraced. The FTSE/JSE Industrials Index shot up 6.6% in the month, driven higher by rand hedges. The FTSE/JSE Financials Index matched this return for the same period. The FTSE/JSE Resources Index bucked the trend and fell by 2.0% in the month. The US dollar price of gold fell to a four-month low late in April 2019, as investors shifted into riskier asset classes. Palladium prices dipped 15% at its worst point in the month relative to the high in the middle of March 2019, while the price of platinum rose to its best level since June 2018.

After a reprieve from ratings agency Moody's after markets closed at the end of March, the South Africa rand started the month strongly, gaining over 4% in the first half of the month, to nudge below R14/US$1. However, this was short lived, and the currency retraced most of those gains into month-end, likely waiting for election results early in May before choosing a more sustainable trajectory.

▸ HOUSEHOLDS REMAIN UNDER PRESSURE

Household consumption as a share of GDP rose from a trough of 41% in the third quarter of 1967 to a peak of 62% in the final quarter of 2018. However, growth in consumer spend has been tracking below its longer-term average of 3.5% since the beginning of 2013.

In the latest number released, for the fourth quarter of 2018, growth in consumption slowed to 1.3% .
The SA Reserve Bank indicates direct personal taxes have been detracting from disposable income since 2015 but expects this to lessen in 2020. Higher tariffs on electricity and an escalation in indirect taxes have placed further pressure on disposable income growth.

Consumer confidence dropped to two index points in the first quarter of the year from seven points in the previous quarter but plunged 24 points relative to the reading taken a year before. While load shedding may have contributed to the dip in sentiment (the survey was conducted between 4 and 25 March, when load shedding intensified), other factors have also been weighing on the consumer. This includes a higher fuel price - SA's consumers were hit by the second-highest fuel prices on record, a little more than 2% off records reached in late 2018.

▸ SLIGHT IMPROVEMENT IN VEHICLE SALES

Domestic sales at 36 794 units showed an improvement of 266 units or 0.7% compared to the 36 528 vehicles sold in April 2018. Export sales had again registered strong growth reflecting a substantial improvement of 11 571 vehicles or a gain of 53.8% compared to the 21 519 vehicles exported in April last year.

Overall, out of the total reported Industry sales of 36 794 vehicles, an estimated 31 945 units or 86.8% represented dealer sales, an estimated 6.5% represented sales to the vehicle rental Industry, 4.1% to industry corporate fleets and 2.6% to government.

Sources: Anchor Capital, Momentum, Financial Times, Wheels24, BusinessLive

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