BRENTHURST
THE HOME OF WEALTH

INTERNATIONAL MARKETS - CORONAVIRUS SPOOKS MARKETS

After the stellar end to 2019, most major global markets closed the month lower after the two weeks to end January recorded some of the most volatile market action in months and Friday (31 January) saw a major sell-off on Wall Street. For the first time in a while it wasn't trade war worries that weighed on equity markets but rather negative sentiment being driven by fears of the new coronavirus (or Wuhan Flu) originating in China.

Even the early-January drone strike ordered by US President Donald Trump, which killed prominent Iranian commander Qasem Suleimani and which was seen as bringing the US close to war, seemed but a distant memory. On 30 January, the World Health Organization (WHO) declared the Wuhan Flu a public health emergency – the virus has thus far (to 3 February) spread to 17 405 people in China alone, killing 362. Cases have also been confirmed in several other countries including Australia, France, Japan, Singapore, South Korea, Thailand, the US and Canada, with a total of 175 infections globally (excl. mainland China). Fears around the virus saw the Volatility Index (VIX), which represents the market's expectation of 30-day forward-looking volatility, last week jumping to its highest level since early October 2019.

After topping the 9 000 mark for the first time on 26 December, the Nasdaq ended January 2.0% higher despite a few hiccups along the way. The Nasdaq was driven by an impressive performance from Amazon (+8.7% MoM) following its better-than-expected results. The S&P 500 (-0.2% MoM) and the Dow Jones (-1.0% MoM) reached all-time highs during the month, but still closed lower compared to December 2019. Both indices recorded their largest one-day declines since August 2019 on Friday (31 January) as fears that the Wuhan Flu would slow global economic growth intensified.

On the US economic data front, GDP growth for the 4th quarter of 2019 came in at 2.1% – in line with forecasts, while overall growth in 2019 was 2.3%. December consumer spending rose modestly (+0.3% YoY), ending a satisfactory US holiday shopping season. The inflation rate also picked up as core personal consumption expenditure (PCE), a separate measure of inflation stripping out food and energy, rose 0.2% YoY in December, while the yearly rate edged up to 1.6% vs 1.5% in 2018.

➢ EUROPEAN MARKETS CLOSE LOWER

Major European markets also closed in the red, with the region's largest economy, Germany's DAX down 2.0% MoM, while France's CAC dropped 2.9% MoM. According to the first official estimate of eurozone economic growth, the economy of the 19 European Union (EU) countries only grew 0.1% in 4Q19. However, the number of unemployed people fell to 7.4% – the lowest level since May 2008, according to Reuters. Following four years of uncertainty (and 40 years of being part of the bloc), the UK finally left the EU on 31 January entering an 11-month period of transition during which it will need to negotiate new trade agreements with its biggest partners in the region. The UK's FTSE 100 was down 3.4% in January.

In Asia, Chinese markets have been closed since 23 January for the Lunar New Year holiday, which the government extended until Monday (3 February), while authorities attempt to deal with the Wuhan Flu outbreak. For the period during which these markets traded in January the Hang Seng dropped 6.7%, while Hong Kong's Shanghai Composite Index closed 2.4% lower MoM. China's official manufacturing purchasing managers' index (PMI) came in at 50.0 for January – in line with expectations (a reading above 50 indicates expansion, while below 50 signals contraction). The coronavirus outbreak was not fully reflected in this reading, since the survey is conducted prior to 20 January. While shares on the Japanese market closed higher on the last day of the month, the Nikkei closed 1.9% lower compared to December 2019.

LOCAL MARKETS
- SLOW ECONOMIC START AS LOAD SHEDDING HITS

The already struggling local economy was off to a slow start in 2020 as load shedding resumed earlier in January than what was widely expected. Commentators were quick to point out that the full impact of the power struggles will take a while to be fully realised but all agreed that the already tough economic climate will get tougher still.

The gloom was exacerbated by news of retrenchments by retailer Massmart and other companies in the first weeks of the year. Business Day reported that after conducting a store optimisation project that highlighted a number of underperforming stores, Massmart began consultations that could affect 1 440 employees across 34 DionWired and Masscash stores. News site The South African labeled it a 'black January' when the news of the planned retrenchments at Massmart, pharmaceutical company Aspen and phone company Telkom was announced.

The World Bank revised SA's 2020 GDP growth forecast lower (to 0.9% vs 1% previously) and forecast GDP growth averaging 1.4% in 2021-22 if President Cyril Ramaphosa's administration implements the necessary structural reforms and addresses current policy uncertainty. Meanwhile, at the World Economic Forum (WEF) in Davos, the SA contingent was decidedly smaller than in previous years

➢ JSE CLOSES LOWER

After a great performance in December, the FTSE JSE All Share Index closed January 1.8% lower. Strong gains from market-cap heavyweights such as British American Tobacco (+10.3% MoM), Naspers (+7.4% MoM), and Prosus (+2.5% MoM) were not enough to drag the All Share into positive territory although these shares did help push the Indi-25 to a 2.0% MoM gain. The Resi-10 was pulled lower by poor performances from large mining shares such as Anglo American Platinum (Amplats; -8.2% MoM), Anglo American (-2.1% MoM), and BHP Group (-1.2% MoM), while the Fini-15 (-5.9% MoM) continued to lag as it posted the largest MoM decline, weighed down by Nedbank (-8.7% MoM), FirstRand (-8.0% MoM), ABSA (-7.9% MoM), Capitec (-6.9% MoM) and Standard Bank (-6.4% MoM).

DRDGold was January's best-performing share, jumping 26.9% MoM as the gold retreatment firm released a trading statement saying that it expected a 69.0% YoY surge in revenue during its half-year to end-December. In second place, Pan African Resources recorded a 17.6% MoM share price rise, followed by Reinet Investments in third place with a MoM gain of 16.3%.

UK-based mall owner, Intu's share price remained under pressure in January losing a further 45.0% after plunging 70.4% in 2019. Ascendis Health was the second-worst performing share – down 34.9% MoM, followed by EOH Holdings in third spot.

➢ REPO RATE CUT BRINGS SOME RELIEF

On the South Africa (SA) economic data front, annual consumer price inflation (CPI) advanced to 4.0% in December (3.6% in November), following three consecutive MoM declines. MoM, price growth was 0.3% vs 0.1% in November. December headline CPI (which excludes the volatile food and fuel component) quickened to 4.0% YoY, vs 3.6% in November. The SA Reserve Bank's (SARB) Monetary Policy Committee (MPC) cut the repo rate by 25 basis points to 6.25% (from 6.5%) at its first meeting of 2020, giving some relief to cash-strapped consumers.

The latest November retail sales data beat expectations coming in at 2.6% YoY, following a revised 0.4% rise in October. MoM, sales rose 3.1% YoY. Black Friday deals offered by retailers boosted the numbers, with November retail sales showing the biggest monthly increase of 2019.

➢ LOWER VEHICLE SALES CONTINUE

New-vehicle sales fell 8.1% in January from a year earlier. However, German carmaker BMW's decision to withhold details of monthly sales around the world makes it difficult to draw conclusions from the first month of sales in 2020.

According to a report in Business Day, BMW has decided that, in future, the group and its subsidiaries, including BMW SA, will publish sales figures every quarter, instead of monthly. As a result, figures published by the department of trade and industry do not offer a clear picture of the state of the SA market.

Excluding BMW, the local market sold 39 475 cars and commercial vehicles in January. A year earlier, the number, including BMW, was 42 956. The car market in January was 5.1% weaker — 28 115 compared to 29 616. If the average BMW sales of about 1 200 in recent months is added, the car deficit would have been about 1.2% and the overall market, about 5%.

Sources: Anchor Capital, Business Day, The South African

Although Brenthurst remains cognisant of global politics and international risks, we remain cautiously optimistic on specific global geographies, themes and sectors. Brenthurst continues to advise a global, flexible portfolio invested across all asset classes including bonds, cash and global equities in accordance with individual risk profiles and investment objectives. A strategy which worked very well for our clients over the past few years and which we expect will continue to do so.

SMART TIP - BE SMART WITH TAX

Make the most of tax breaks available before the end of the tax year on 29 February 2020. There is still time to add to Tax Free Savings Accounts (annual limit R33 000) or retirement annuities. Consult your advisor or tax consultant without delay. Instructions need to be submitted no later than 21 February 2020 to allow time to process transactions before Friday 28 February 2020.
Read more about tax efficiency here: Tax Planning

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

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