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BRENTHURST
THE HOME OF WEALTH

INTERNATIONAL MARKETS
BUMPY RIDE FOR GLOBAL MARKETS IN OCTOBER

► SEVERAL MARKETS TREND LOWER

Markets globally had a rough October with the S&P 500 Index experiencing its worst month in over seven years (since September 2011, when we were in the midst of a European debt crisis). The month started with an escalation of the tension between Italy and the European Union (EU) over Italy's proposed debt-fuelled budget, driving the spread between Italian and German bond yields to levels last seen during the European debt crisis in 2011/2012. China's A50 Index of large-cap onshore stocks had its worst start to the month since January 2016 as foreigners dumped $1.4bn of onshore shares via the Hong Kong exchange link. International events started to weigh on the US stock market, with the S&P 500 dropping over 5% in the two days leading up to the start of the third-quarter earnings announcements.

During the month, over 60% of S&P 500 companies reported earnings for the 3rd quarter, which grew by over 23% in aggregate (more than 6% ahead of expectations). However, despite this, results did nothing to shake fears that this would be as good as it gets for US corporates. Large-cap US tech companies, which have been dragging markets higher for most of the year, pulled markets down this month as Amazon and Google, reporting earnings on the same day, delivered revenue growth that disappointed and kicked off the second leg down for equity markets late in the month.

► EMERGING MARKETS REMAIN UNDER PRESSURE

A two-day rally into month-end was just about enough to haul US markets back into positive territory for the year. However, after the damage done in October it was very difficult to find another market still up year to date. The one exception being the Brazilian stock market which, despite an 11% weakening of the Brazilian real year to date, remains marginally higher in US dollar terms for the year. Jair Bolsonaro won the Brazilian presidential elections during the month and markets cheered the prospect of the far-right candidate's proposed reforms. The picture in the rest of emerging markets was less rosy and the MSCI Emerging Market Index more than doubled its year to date losses in October, leaving it down 16% for the year.

► DOLLAR RETAINS SAFEHAVEN STATUS

Amongst the turmoil, the US dollar kept its haven-status with the Dollar Index another 2% higher during the month. Oil dipped in October with the focus shifting from supply concerns to demand worries. This despite the US releasing 3rd quarter economic growth data which comfortably beat expectations (up 3.5% vs expectations of 3.3% growth). GDP was driven by 4% growth in personal consumption (vs expectations of 3.3%) and no sign of growing inflation pressure as the US Federal Reserve (Fed's) preferred gauge of inflation came out in-line with expectations at 2%.

LOCAL MARKETS
-JSE FOLLOWS GLOBAL DOWNWARD TREND

► JSE CLOSES 6% LOWER

A mix of fears around trade wars, slowing growth, higher interest rates, tension with Saudi Arabia (following the murder of journalist Jamal Khashoggi) and worries that US company earnings may have peaked, rattled bourses around the world in October. The JSE was no exception, ending October red across the board, with the FTSE JSE All Share Index closing 6.0% lower month on month (down 12.0% year to date) at 52 388.87. Disappointing month on month performances from heavyweight shares including Naspers (-15.0% as it tracked Tencent [a 31.2% stake] lower), BHP Billiton (-4.1%), British American Tobacco (-3.6%), Richemont (-7.0%) and Glencore (-1.7% month on month) conspired to pull the JSE lower.

Although resources shares featured prominently among October's best-performing shares, as we saw a rise in the gold price (+2.0% Month on month) buoying gold mining shares, some large mining majors (Anglo American, BHP Billiton, Glencore) weighed on the resources sector resulting in the Resi-20 decreasing by 4.2% month on month (+14% year to date). Once again, industrial shares were the worst hit with the Indi-25 dropping 8.6% (-20.6% year to date), dragged down by the fall in the Naspers and Richemont's share prices. Financials declined by 4.5% month on month (-11.5% year to date) as heavyweights such as FirstRand (-5.2%), Sanlam (-6.1%) and Standard Bank Group (-6.7%) also posted steep month on month declines.

► INFLATION UNCHANGED

On the macro front, SA September headline consumer price inflation (CPI) was flat at 4.9% year on year, while month on month, inflation accelerated to 0.5% after contracting by 0.1% in August. Core inflation, excluding the volatile food, beverages, energy etc. categories, was unchanged from August's 4.2% year on year.

The rand (-4.6% month on month) was under pressure during the month as the medium-term budget policy statement (MTBPS) and the Moody's reaction to it weighed on the local currency. Year to date, the rand is down 16% vs the dollar.

► MBOWENI DELIVERS MID-TERM BUDGET

Turning to politics, Nhlanhla Nene exited his position as finance minister after he revealed he had visited the controversial Gupta family at their home several times between 2010 and 2014. President Cyril Ramaphosa announced Tito Mboweni as the new finance minister, with Mboweni having the unenviable task of presenting his maiden MTBPS soon after being appointed to the position. The MTBPS revealed a weaker local fiscal outlook and painted a sombre picture of SA's finances.

Moody's, the only one of the three major ratings agencies that still assesses SA at investment grade, described the MTBPS as credit-negative. Another month, another corruption scandal with an investigation into VBS Mutual Bank's failure finding that R1.9bn was looted from the bank prior to its collapse with some prominent politicians named in investigator Terry Motau's report. However, there was also good news when, at the end of an investment conference held in Sandton on 25-27 October,Ramaphosa announced a combined amount of R290bn in investments for the local economy.

► BETTER MONTH FOR VEHICLE SALES

In a welcome but overdue boost for the South African motor industry, new-vehicle sales recorded their biggest monthly total for three years in October, while exports leapt 21% from a year earlier. Domestic sales of new vehicles totalled 51 866 in October, a 1.7% improvement on the corresponding month of 2017 and the best monthly figure since October 2015.

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However, it was not enough to drag 2018 out of the red. Aggregate sales for the first 10 months, at 464 742, are 0.5% behind the same stage of 2017.

October's growth owed much to the commercial-vehicle sector. Car sales were actually down but light, medium and heavy commercials all boasted gains. For the year so far, car sales lag 2017 by 0.3%.

Exports reached 34 134, 21% beyond the 28 233 of October 2017. As a result, the year-to-date deficit from last year has narrowed to 0.1% — 284 145 shipments compared to 284 461.

Sources:
Anchor Capital I Business Day I Wheels24

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KEY CHALLENGES FACING SA INVESTORS

BRENTHURST IN ASSOCIATION WITH INVESTEC WILL BE HOSTING THE FOLLOWING INVESTMENT SEMINARS:

-PRETORIA SEMINAR: 14 NOV 2018

Time: 16:00 to 18:30
Venue: Atterbury &, Klarinet Rd, Menlo Park, Pretoria

-JOHANNESBURG SEMINAR: 15 NOV 2018

Time: 16:00 to 18:30
Venue: 100 Grayston Dr, Sandown, Sandton

-STELLENBOSCH SEMINAR: 20 NOV 2018

Time: 16:00 to 18:30
Venue: Spier Wine Farm, R310 Baden Powell Drive, Stellenbosch

-CAPE TOWN SEMINAR: 21 NOV 2018

Time: 17:30 to 19:30 *(note later starting time)*
Venue: 36 Hans Strijdom Ave, Foreshore, Cape Town

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