



INTERNATIONAL MARKETS

- S&P 500 INDEX REACHES NEW BULL MARKET RECORD

Market commentators were very excited about a new record set for one of the leading indexes in the USA, when the S&P 500 set a record for the longest bull market run in history with 3 453 days of uninterrupted gains since March 2009 towards the end of August. Some are cautioning about a correction to follow, but for now investors in companies included in this index are enjoying the run. Since March 2009, the index has more than quadrupled.

The other major indexes – the Dow Jones and Nasdaq also did well, driven by growth from leading global companies. The Dow and the S&P 500 finished August up 2.1 percent and 3 percent, with their best performances for the month since 2014. The Nasdaq Composite clinched its best August since 2000, ending the month up over 5.7 percent.

► US CONSUMERS REMAIN CONFIDENT

Consumer sentiment in the USA remains high after a slight increase was recorded in August, despite most economists predicting a slight decline. The University of Michigan's monthly survey of consumers hit 96.2 in the final reading of August, better than the drop to 95.5 expected by economists polled by Reuters. Negotiations between the USA and trade partners remain tense and continue to drive uncertainty on some days as US President Trump continues to drive his new policy ideas.

► EUROZONE LAGGING US

In the Eurozone, The Eurostoxx 50 Index lagged US markets in August 2018. A slightly better-than-expected German second-quarter GDP print, an initially weaker euro and news that Greece had ended its reliance on three separate bailout packages (granted between 2010 and 2015) were not enough to boost the overall market index.

► STRONG DOLLAR, TRADE TENSIONS DOMINATE EMS

Trade tensions and a strong dollar continued to dominate the headlines in emerging markets. At the start of August trade relations between the US and China deteriorated further as the US threatened to apply a 25% tariff on USD 200 billion of Chinese goods (these goods were already going to be subject to a 10% tariff). This sits on top of the 25% tariff on USD 16 billion of Chinese imports, which came into force on 23 August. Moreover, the US president signed the National Defence Authorization Act on 13 August in order to better regulate inbound foreign investments, a move not directly targeting China but which would still restrict the ability of the country to invest in the US.

JP Morgan reported in a note that all in all, the economic data for August points to a global economy that is still growing above trend, which should support corporate earnings globally. But geopolitical headlines continue to create considerable volatility around this generally positive trend. In this context it seems reasonable to remain pro-risk in balanced portfolios, while seeking at the same time low correlation assets to provide some protection as the cycle ages.

LOCAL MARKETS

- LOCAL CURRENCY IN STORMY WATERS, JSE IMPROVES SLIGHTLY

The beleaguered local currency experienced another month of volatility in August, thanks to various factors driving it weaker then stronger again. The rand behaved more erratically last month than it did during the height of the power struggle between Jacob Zuma and Cyril Ramaphosa in December last year. The notoriously volatile currency has traded between R13.18 and R15.55 per dollar during August amid thin liquidity, with many northern-hemisphere market participants on summer vacation.

Negative sentiment towards Emerging Markets (EMs) was a key contributing factor but a tweet by US President Donald Trump about the issue of land expropriation without compensation added to the many ups and downs recorded for the rand. The rand suffered collateral damage as Argentina's central bank failed to arrest the slide in the peso currency with an aggressive hike interest rates. The Turkish lira has battled to settle down, after Moody's downgraded 20 of the country's financial institutions, hurting sentiment towards emerging markets as an asset class.

► JSE SLIGHTLY UP DESPITE EM WOES

Despite EMs coming under pressure on the back of Turkey's financial crisis and trade war fears, the local bourse ended August higher. The FTSE JSE All Share Index closed 2.2% up month on month (down 1.4% year to date), with *Business Day* reporting that the All Share Index crossed the 60,000-point mark for the first time in six months on 28 August, before retreating again. Good performances from Sasol (+11.2% month on month), Richemont (+13.3% month on month) and even Naspers (+1.0% month on month), with its high weighting, helped support the index. Major mining shares (Harmony Gold +9.8%, BHP Billiton +4.3% month on month, Anglo American Platinum +6.3% month on month) drove resources, with the RESI-10 outperforming for the month with a 5.2% month on month jump (+20.4% year to date). Industrials closed 2.0% higher month on month (-5.0% year to date), while financial shares declined by 0.3% month on month (-4.2% year to date).

MTN, once a star performer for many portfolios, experienced fresh trouble from its operations in Nigeria, causing the share price to fall 20+% towards the end of the month. MTN tumbled by 23% after Nigerian authorities ordered the South African telecoms group and its bankers to return \$8.1 billion. Nigeria's central bank said the funds had been illegally moved abroad because the company's bankers, who include South Africa's Standard Bank's Nigerian unit Stanbic, had failed to verify that Africa's biggest telecoms company had met all the foreign exchange regulations. Standard Bank denied any wrongdoing but its share price was also hit and closed 3.2% lower on 30 August.

► ECONOMIC INDICATORS CONFIRM WEAK ECONOMY

On the economic front indicators clearly show the weakness of the local economy, supporting a rather bleak outlook for the remainder of the year. The Absa Purchasing Managers' Index (PMI) declined to 43.4 points in August, compared to 51.1 in July. This is the lowest level in 13 months from a sector that accounts for 13% of GDP. The index gauges activity in the manufacturing sector and is usually a good indicator of where the production numbers will head in two months' time. A figure below 50 indicates contraction in the sector.

SA retail sales rose 2.9% year on year in June, above consensus expectations, after increasing by a revised 1.6% in May. Month on month, July private sector credit demand recorded growth of 5.41% – slower than June's 5.68% advance. Local July consumer price inflation (CPI) accelerated for a third successive month to a 10-month high of 5.1% on the back of rising petrol prices (and the knock-on effect this has had on other categories) and the weaker rand. Core inflation, excluding the volatile food, beverages and energy categories, was 4.3%.

► TRADE DEFICIT SHOCKS

A shock trade deficit of R4.66bn was announced for July, falling well short of analysts' expectations. This follows June's revised surplus of R11.89bn and was at odds with the Bloomberg consensus of a R5.2bn surplus. Data from the SA Revenue Service (Sars) showed that July's deficit was attributable to exports of R107.06bn and imports of R111.72bn.

Vehicle sales also disappointed in August. The latest figure show that after a disappointing month sales are 0.6% lower than in 2017. In the first eight months of 2017, 365 534 cars and commercial vehicles were sold compared to 363 233 in 2018.

Sources:

Anchor Capital | Business Day | Momentum

Fin 24 | Daily Mail UK | JP Morgan

➔ BRENTHURST WEALTH IS PROUD TO ANNOUNCE THE LAUNCH OF ITS GLOBAL EQUITY FUND

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