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MM QUARTERLY REVIEW

Quarter Two 2019

Part one: Market review

The table below provides a review of key domestic and international investment indicators for the past quarter, as well as over longer periods.

South African asset classes (in rands)

(Performance over periods to 28 June 2019)

Asset class	Indicator	3 months	1 year	3 years	5 years	LT-average*
Equities	All Share Index	3.9%	4.4%	6.9%	5.8%	12.3%
	Shareholder Weighted Index	2.9%	1.2%	4.3%	5.4%	
Property	Listed Property Index	4.5%	0.8%	-2.3%	5.6%	11.8%
Bonds	All Bond Index	3.7%	11.5%	9.9%	8.6%	6.9%
Cash	STeFI Call	1.6%	6.6%	6.8%	6.4%	5.9%
Inflation	CPI (one month in arrear)	1.7%	4.5%	4.8%	5.0%	5.7%

Source: Morningstar

Global asset classes (in dollars)

(Performance over periods to 28 June 2019)

Asset class	Indicator	3 months	1 year	3 years	5 years	LT-average*
Equities	MSCI AC World Index	3.8%	6.3%	12.2%	6.7%	8.5%
Property	FTSE EPRA/NAREIT Developed Property Index	0.2%	8.6%	5.5%	5.8%	6.7%
Bonds	Barclays Global Bond Index	3.3%	5.8%	1.6%	1.2%	4.6%
Cash	US 3-month deposits	0.6%	2.5%	1.6%	1.1%	4.3%
Inflation	US CPI (one month in arrear)	1.3%	1.8%	2.2%	1.5%	3.0%

Source: Morningstar

Currencies

(Movements over periods to 28 June 2019)

Currency	Value at month-end	3 months	1 year	3 years	5 years	LT-average*
Rand / Dollar	14.10	2.3%	-2.8%	1.3%	-5.5%	-5.5%
Rand / Sterling	17.95	4.7%	0.8%	2.9%	0.3%	-4.1%
Rand / Euro	16.06	0.8%	-0.3%	0.4%	-1.9%	-5.5%

Source: Morningstar

** Updated annually from 1900, or longest available period*
Returns for periods longer than 12 months are annualised.

International market commentary – Q2 2019

As financial markets crossed the midway point of 2019, except for the pullback in May, investors can reflect on a very positive second quarter and an even better first half. Most asset classes, regions, sectors and styles delivered strong gains over both periods, with equities and riskier assets generally producing the highest returns.

Focusing on the second quarter, economic data generally came through a bit softer than expected, which prompted leading economists to downgrade forecasts for global growth in 2019. Company analysts also moderated their expectations for corporate earnings, whilst the breakdown of US-China trade talks and the threat of increased tariffs were regular market headlines. Investors remained positive through April, but by May they started to focus more on the negative news-flow, which led to a sharp drawdown; as risky assets were sold off in favour of safe havens. However, in early June the central banks stepped in and the clouds were lifted. The key turning point was a speech by Federal Reserve Chairman Powell, in which he effectively endorsed expectations that US interest rates would be cut in the second half of 2019. With the shift in stance on interest rates confirmed, restored investor confidence provided a fillip to riskier and higher yielding assets.

Over the second quarter global equities advanced by +3.8% when measured using the MSCI AC World Index in US dollars. The vast majority of markets rose, with Europe ex UK (+5.8%) and the US (+4.1%) leading the majors, whilst Asia ex Japan (-0.7%) was the most notable laggard. The best sector returns tended to be amongst the cyclicals, with Financials (+6.0%), Information Technology (+5.3%) and Industrials (+4.6%) leading markets higher. At the other end of the spectrum, Energy (-0.9%), Real Estate (+0.6%) and Healthcare (+1.4%) all lagged the markets. In terms of style, Growth (+5.0%) continued to outpace Value (+2.5%), whilst Larger Companies (+3.6%) outperformed Smaller Companies (+1.8%).

The sharp downward adjustment in interest rate expectations underpinned strong performance across the fixed income markets. The JP Morgan Global Government Bond Index rose +3.1%, whilst the Merrill Lynch Global Investment Grade Corporate Bond Index gained +3.8%, the Merrill Lynch Global High Yield Index advanced +2.8% and the JP Morgan Emerging Market Bond Index delivered +3.8% (all hedged to US dollars).

Compared to other asset classes, commodities were disappointing with mixed performance across the different subsectors. Overall, the Bloomberg Commodity Index slipped -1.2%, with Gold (+9.0%) and Agriculture (+4.5%) being areas of strength, whilst Industrial Metals (-7.2%) and Crude Oil (-2.8%) lost ground.

With the Federal Reserve's shift in policy stance reducing interest rate support, the US dollar declined against most currencies. Over the quarter it lost -1.4% versus the euro, -2.7% against the yen, -1.9% relative to the Canadian dollar and -2.2% versus the South African rand. However, whilst the dollar was under pressure, it wasn't at the bottom of the pack, as the pound (down -2.6% relative to the dollar) and the Chinese yuan (-2.3%) weakened more due to uncertainties relating to Brexit and the US–China trade war.

Notes: All quarterly data is quoted in US dollar terms unless otherwise stated.

Domestic market commentary – Q2 2019

The South African equity market delivered another strong quarter with the FTSE/JSE All Share up +4.9%. This has pushed domestic equities up over 12% year-to-date – a strong return to positive territory. The rally in commodity prices and resource stocks continued into the second quarter. It should be noted however, that even though the quarter was nicely positive, it was more a tale of two halves – with May being an extremely poor month of large market drawdowns. There was a strong risk off environment as trade wars and Middle East tensions erupted, but this was then put on the back foot as both globally and domestically more accommodative central bank policy became the order of the day – with rates expected to be lower for longer.

The much-anticipated State of the Nation Address (SONA) by President Ramaphosa focused on growth enhancing initiatives, although many considered it light on detail on the most critical issues, in particular, the Eskom restructure. The rand benefitted less from SONA and more from improved sentiment towards emerging market currencies as a truce of sorts between the US and China was struck during the G20 during June. Despite a poor GDP number and continued unease about Eskom, the currency appreciated by circa 3.4% against the US dollar by month-end.

SA nominal bonds priced benign inflation and the likelihood of more accommodative monetary policy, ending the month of June up +2.2% and the quarter up 3.7%. The local bond yield curve remains steep as bond investors price for rate cuts on short/medium maturities, while longer dated bonds reflect concerns about the impact of Eskom support on the fiscus and the potential for a downgrade from credit ratings agency Moody's.

The preference share index edged higher by +2.0% over the month, bringing the returns over the last 12 months to +19.7%. The property sector rebounded alongside other interest rate sensitive sectors, delivering +2.2% in June and 4.5% for the quarter. This brings the 12-month performance into positive territory at +0.8%.

SA equities recovered some of the previous months losses alongside international trends, with the FTSE/JSE All Share up +4.8% in June. Resource counters had another strong month, with the Resource 10 Index surging +10.3% with support from platinum and gold miners. Gold mining companies benefitted from a resurgence in the gold price, as the allure of the metal increases in the face of declining interest rates and heightened geopolitical risk.

The rand ended the second quarter of the year stronger against the major currencies at R14.10/$, R17.95/£ and R16.06/€. This was largely due to an overall strengthening of emerging market currencies against the US dollar as well as being backed up by a more risk-on investment climate.