MARKET REVIEW
Month ending 31 August 2019

NEDGROUP INVESTMENTS

AUGUST 2019 MARKET REVIEW – INTERNATIONAL OVERVIEW

A MARKED DETERIORATION

August was a volatile month with lower trading volumes due to holiday season in some of the major markets. Market sentiment was largely negative, oscillating between angst over the impact of trade tensions and encouragement that central banks will be there to catch the economy when it stumbles.

The S&P 500 traded down -1.6% in August, bringing the year to date returns to +18.3%. The MSCI World index lost -2.0% over the month, leaving year to date returns at +15.6%. It was a poor month for emerging markets in the wake of a risk off environment and crises in Argentina. The MSCI Emerging Markets traded down -4.9%, while China's Hang Seng Index decreased -7.2% as markets digested increasing tension between the US and China.

Market performance (USD)

Index total returns in USD (%)	August	YTD	12-m
Dow Jones Industrial 30	-1.3	15.1	4.1
S&P 500	-1.6	18.3	3.0
NASDAQ 100	-1.9	22.4	1.8
FTSE 100	-4.5	5.9	-6.2
CAC 40	-1.9	14.4	-2.4
DAX 30	-3.3	8.6	-9.9
NIKKEI 225	-1.7	8.7	-3.3
Hang Seng	-7.2	2.3	-5.3
MSCI World	-2.0	15.6	0.6
MSCI Emerging Markets	-4.9	4.2	-4.2
FTSE/JSE All Share	-9.0	1.2	-5.6
MSCI SA South Africa	-8.9	-1.1	-6.3

Source: Bloomberg

BEARISH DATA POINTS

Negative data and a flight to quality supported largescale buying of US Treasuries which drove the 2 and 10-year US bond spread negative, inverting the bond yield curve and signaling further bearishness being priced in by bond markets.

PMI data from across the globe suggest a worsening in manufacturing activity, especially for countries caught in the crossfire of the US-Sino trade war. As it stands, these include some of the largest economies, such as Germany, which signals further pressure for global growth prospects. Activity in global services, however, is holding up, which supports the narrative that the world is experiencing a manufacturing recession which has not yet spilled over into the broader economy. A continuation of tensions and related uncertainty may well bring this to pass and prove the bond market bears right.

TIT FOR TAT

August started with the US announcing further proposed tariffs on China. In a pivotal moment, Beijing allowed its currency, which is controlled through managed float, to depreciate against the dollar. The Renminbi experienced its largest monthly fall in 25 years and dropped below the symbolic threshold of 7 to the US dollar. This will help China mitigate some of the additional costs from tariffs and support its slowing domestic economy. To many this suggests that China do not see a quick resolution to the current impasse and are setting themselves up to play a much longer-term strategy. To others this was ultimately the outcome of market demand and supply, a reflection of trade stress and one that has limited economic impact.

China's currency regime, despite reforms, has been a well-known grievance for President Trump. Tensions escalated when the US Treasury officially labelled China a "currency manipulator", a conclusion the IMF has historically disagreed with and an action it has shied away from in the past. Trade tensions continued unabated, ending the month with more tariffs levied by both sides. In this latest salvo, US tariffs now extend to final goods rather than just supply chain inputs, a move which has prompted many to highlight the potential for these actions to push up US household costs.

TIME FOR ANOTHER ELECTION?

In early September, a showdown between PM Boris Johnson and parliament and the prospect of a snap election saw the British pound trade to a 3-year low. The retaliation is hardly surprising after the Prime Minister requested the Queen to suspend parliament for five weeks to allow the possibility of a no – deal Brexit. Dissenters of the no deal idea, including 21 of Johnson's own Conservative party (now coined Tory rebels) voted 328 to 301 to take control of parliament and formally oppose the possibility of a no-deal exit. At the time of writing, PM Johnson had indicated that he would now be seeking a snap election, which requires two third majority support from MPs. If he succeeds, the nation will go to the polls for the third time in four years by mid-October. Days before the 31 October, British democracy may still be in turmoil.

With less than 100 days to the next deadline, the new British negotiating team has told the EU that the country will leave on 31 October "whatever the circumstances". The EU continues to maintain that the current withdrawal agreement is the best possible outcome, while holding firm on terms regarding the Irish backstop. The new UK chancellor has earmarked an extra £2.1bn for no-deal Brexit planning (total allocation now £6.3bn) in an effort to convince its people that it is ready for Brexit. The currency arguably suggests they are not.

DOMESTIC OVERVIEW

Market performance (ZAR)

Index total returns in ZAR (%)	August	YTD	12-m
All Share	-2.4	6.9	-2.8
Preference Share Index	-0.6	12.2	16.1
All Bond	1.0	7.9	11.6
Inflation Linked Bonds	-0.2	3.1	4.0
Cash	0.6	4.8	7.3
Indices			
Top 40	-2.7	7.5	-3.2
Mid Cap	0.4	2.5	2.1
Small Cap	-5.8	-6.8	-14.8
Resource 10	-1.0	11.1	5.7
Industrial 25	-2.8	12.1	-4.6
Financial 15	-4.0	-5.0	-6.5
SA Listed Property	-3.6	1.0	-4.3
Best sectors			
Gold Mining	29.0	93.4	174.2
Platinum	13.5	97.1	175.1
Tobacco	4.5	18.0	-20.7
Worst sectors			
Industrial Engineering	-19.9	-45.3	-43.4
Coal Mining	-18.6	2.1	-2.2
Construction & Materials	-13.8	-20.2	-25.7

Source: Bloomberg, Thomson Reuters

OF NATIONAL AND ECONOMIC HEALTH

In early August, government published the National Health Insurance Bill, which outlined the phased rollout of universal healthcare for all South Africans by 2026. Although improved access to healthcare is clearly an imperative for the country, there remains outstanding questions as to the services that will be available under the plan, the ability to fund anything beyond the most basic of service and what role private sector medical aid schemes will play. Investors took a dim view on the impact the proposals would have on the healthcare sector, in particular medical insurers, who will only be able to offer complementary cover not provided by the NHI. We expect the sector to remain under some pressure while uncertainty prevails.

National Treasury released an Economic Policy Paper which sets out a blueprint for growth enhancing reforms over the short, medium and longer term. While the document draws from the National Development Plan, it has already been met with resistance by various agents in the political sphere. The Finance Minister used the opportunity to mobilise support, seeking feedback from the public and stakeholders by mid-September. Although most of the proposals are not new, the document is clearly a call to action on reforms that are desperately needed to revive economic growth.

Emerging market assets bore the brunt of the global risk off environment, with SA bond and equity markets seeing net outflows over the month. This added further pressure to the rand, which spent most of the month above the R15 mark, depreciating by circa 5.9% against the US dollar. Domestic consumer and producer inflation surprised to the downside, despite the inclusion of higher electricity tariffs. Bond markets continue to price in a challenged fiscus but managed to gain +1.0% over the month given the benign inflationary backdrop.

A rebalancing of the MSCI indices prompted further selling of SA equities, which worsened the downdraft for the FTSE/JSE All Share, ending the month down -2.4%.
Gold counters continued to benefit from a rise in volatility worldwide, which helped the sector gain +29% over August. Sentiment towards retailers soured as company results confirmed a tough trading environment with limited ability to pass on full cost increases. Market leader Mr Price saw a 32-month low while industry veteran Shoprite traded down circa 27% over the month, although balance sheet concerns also played a role here. This only serves to highlight the protracted nature of the economic downturn, with signs of balance sheet malaise seen as cause for intensive care.

Economic indicators

Economic indicators	Month	Latest	Previous
CPI (y/y)	July	4.0	4.5
PPI (y/y)	July	4.9	5.8
Repo rate	August	6.5	6.75
GDP (q/q, annualised)	2019Q2	3.1	-3.1
GDP (nsa, y/y)	2019Q2	0.9	0.0
PSCE (y/y)	July	7.2	7.9
M3 (y/y)	July	8.3	9.0
Net reserves (US$bn)	July	43.9	43.9
Trade balance (Rbn)	July	-2.9	5.5
Current a/c (% GDP)	2019Q1	-2.9	-2.2
Manufacturing production (Y/Y)	June	-3.2	0.4
Barclays Manufacturing PMI	August	45.7	52.1
Standard Bank South Africa PMI	August	49.7	48.4
SACCI Business Confidence Index	July	92.0	93.0
Retail sales (constant, y/y)	June	2.4	2.3
Vehicle sales (y/y)	August	-5.1	-3.7

Source: Bloomberg, Thomson Reuters

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