# MARKET REVIEW
Month ending 31 July 2019

## JULY 2019 MARKET REVIEW – INTERNATIONAL OVERVIEW

### EARNINGS SURPRISES AND EASING

US earnings season delivered better results than expected, but forward guidance highlighted a more measured outlook with emphasis on global risks. Markets, however, were predominantly focused on the anticipated easing from global central banks, in particular the US Federal Reserve, which helped drive risk assets higher.

The S&P 500 delivered +1.4% in July, reaching new highs and bringing the year to date returns to +20.2%. The MSCI World index gained +0.5% over the month, leaving year to date returns at +18.0%. Emerging markets lost ground with the MSCI Emerging Markets down -1.1% and China's Hang Seng Index down -2.5% as markets digested another subdued GDP print from China.

### MARKET PERFORMANCE (USD)

| Index total returns in USD (%) | July | YTD | 12-m |
|---|---|---|---|
| Dow Jones Industrial 30 | 1.1 | 16.7 | 8.2 |
| S&P 500 | 1.4 | 20.2 | 8.0 |
| NASDAQ 100 | 2.4 | 24.7 | 9.7 |
| FTSE 100 | -1.6 | 10.9 | -4.8 |
| CAC 40 | -2.3 | 16.7 | -1.5 |
| DAX 30 | -3.7 | 12.3 | -9.5 |
| NIKKEI 225 | 0.5 | 10.6 | 0.4 |
| Hang Seng | -2.5 | 10.2 | 0.9 |
| MSCI World | 0.5 | 18.0 | 4.2 |
| MSCI Emerging Markets | -1.1 | 9.5 | -1.8 |
| FTSE/JSE All Share | -2.8 | 11.2 | -5.6 |
| MSCI SA South Africa | -2.8 | 8.6 | -7.7 |

Source: Bloomberg

### A MID CYCLE ADJUSTMENT

After much anticipation, the US Federal Reserve cut interest rates by 25bps, a first since 2008 during the global financial crisis. This was broadly in line with expectations, although there were some calls for a 50bps cut. Those who were looking for guidance suggesting a more aggressive and lengthy cutting cycle were disappointed with the commentary that the 25bps cut was a "mid-cycle adjustment to policy". Markets sold off on the cautious tone which suggested the Fed would remain supportive, but data dependent, with emerging markets currencies the first to take strain. President Trump also tweeted his disappointment, which comes short on the heels of trade meetings with China, which essentially yielded no imminent resolution.

Global bond yields outside of the US moved lower in sympathy as markets price a weak growth environment and accommodative central banks. Negative yielding bonds have reached an estimated $14trn, with Bloomberg reporting that more than a quarter of investment grade bonds yield below zero. Swiss bank UBS plans to move to negative interest rates for deposits larger than SFr2m, while in Denmark, mortgages with negative interest rates are being offered by some institutions. With asset prices reaching highs and developed market yields (outside the US) at lows, this all seems to indicate an unsustainable situation at best and a profound crisis at worst.

## GLOBAL BRITAIN

The pound sterling currently suggests that the UK is going through a profound crisis of its own. As expected, Boris Johnson won the leadership of the UK's Conservative Party and was subsequently sworn in as the new UK Prime Minister. Johnson wasted no time in selecting a new cabinet with key roles being taken up by staunch Brexiteers.

**GBP/USD**


Source: Thomson Reuters

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 (%) | July | YTD | 12-m |
|---|---|---|---|
| All Share | -2.4 | 9.6 | 2.2 |
| Preference Share Index | 0.7 | 12.9 | 19.9 |
| All Bond | -0.7 | 6.9 | 8.1 |
| Inflation Linked Bonds | 0.1 | 3.3 | 4.0 |
| Cash | 0.6 | 4.2 | 7.3 |
| **Indices** | | | |
| Top 40 | -2.6 | 10.5 | 2.3 |
| Mid Cap | -2.0 | 2.2 | 2.6 |
| Small Cap | 0.6 | -1.0 | -8.7 |
| Resource 10 | -5.9 | 12.1 | 13.2 |
| Industrial 25 | 1.5 | 15.3 | 1.0 |
| Financial 15 | -7.0 | -1.0 | -3.6 |
| SA Listed Property | -1.2 | 4.8 | 0.1 |
| **Best sectors** | | | |
| Beverages | 11.9 | 43.7 | 18.6 |
| Equity Investment Instruments | 10.2 | 14.3 | 5.1 |
| Platinum | 6.0 | 73.7 | 148.6 |
| **Worst sectors** | | | |
| Chemicals | -10.5 | -25.1 | -38.0 |
| Household Goods | -9.2 | -31.4 | -52.6 |
| Pharmaceutical & Biotech | -7.0 | -1.0 | -3.6 |

Source: Bloomberg, Thomson Reuters



NEDGROUP INVESTMENTS

## MATERIAL UNCERTAINTY

The absence of load shedding in the midst of a very cold winter may suggest some measure of operational stabilisation, but Eskom still faces an uphill battle as it struggles to turn its fortunes around. The embattled SOE's annual financial results revealed a net loss of R21bn for the period, with debt estimated at R440bn. The auditors concluded "material uncertainty" regarding Eskom's status as a going concern, which only remains possible with support from government. A troubling picture at best, as government aims to balance its own fiscal challenges and the stabilisation of an entity which by its own admission faces a "utility death spiral".

The proposed lifeline from government was outlined in the appropriation bill, namely a further R26bn injection in 2019 and R33bn in 2020. Although the numbers were largely in line with expectations, they are expected to worsen all the fiscal metrics whilst not accompanied by much detail of restructuring plans. By the time the announcement of the new Chief Restructuring Officer, Freeman Nomvalo arrived, ratings agency Fitch had already downgraded the outlook for the country to negative.

The SA Reserve Bank acknowledged a contained inflationary backdrop and cut interest rates by 25bps, providing much needed, albeit modest relief to consumers. Despite the Reserve Bank action, SA nominal bonds also priced fiscal concerns and ended the month down -0.7%.

The property sector continues to digest a weak economic backdrop locally and a changing retail environment globally as consumers move to online shopping. This is resulting in lower distribution growth, as well as a decline in capital values of property. In this unforgiving environment, companies with levered balance sheets have been particularly vulnerable. The property sector ended the month down -1.2%, with meaningful moves from property company, Intu, which traded down circa -37% in July as the market punished it for high debt ratios.

SA equities suffered continued outflows over the month which worsened the downdraft for the FTSE/JSE All Share, ending the month down -2.4%. But opportunity often presents at these times. Pioneer shareholders received a buyout offer of R110 per share from global operator Pepsico, well above the R68 it had been trading at. SA resources gave back some of the 2019 gains (-5.9%), with noteworthy losses from Sasol (-11.3%).

## ECONOMIC INDICATORS

| Economic indicators | Month | Latest | Previous |
|---|---|---|---|
| CPI (y/y) | June | 4.5 | 4.5 |
| PPI (y/y) | June | 5.8 | 6.4 |
| Repo rate | July | 6.5 | 6.75 |
| | | | |
| GDP (q/q, annualised) | 2019Q1 | -3.2 | 1.4 |
| GDP (nsa, y/y) | 2019Q1 | 0.0 | 1.1 |
| PSCE (y/y) | June | 6.9 | 7.7 |
| M3 (y/y) | June | 9.0 | 9.1 |
| Net reserves (US$bn) | June | 43.9 | 43.2 |
| Trade balance (Rbn) | June | 4.4 | 1.7 |
| Current a/c (% GDP) | 2019Q1 | -2.9 | -2.2 |
| | | | |
| Manufacturing production (Y/Y) | May | 1.0 | 4.3 |
| Barclays Manufacturing PMI | July | 52.1 | 46.2 |
| Standard Bank South Africa PMI | June | 49.7 | 49.3 |
| SACCI Business Confidence Index | June | 93.3 | 93.0 |
| Retail sales (constant, y/y) | May | 2.2 | 2.7 |
| Vehicle sales (y/y) | June | -3.7 | -1.6 |

Source: Bloomberg, Thomson Reuters

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