MARKET REVIEW
Month ending 31 October 2019

NEDGROUP INVESTMENTS

INTERNATIONAL OVERVIEW

PAID IN FULL

Accommodative global monetary policy has thus far provided a floor for risk assets, as sentiment ebbs and flows with geopolitics. In line with market expectations, the US Federal Reserve cut interest rates by 25bps in October but guided that they were not planning further cuts unless anything caused “material reassessment” of their outlook.

Fed Chair Powell determined that monetary policy had done enough to provide support against the backdrop of ongoing trade uncertainty, which has culminated in a manufacturing recession globally. Confounding many, he also concluded that there was now more visibility on a “phase one” trade deal between the US and China, despite the poor track record on any formal resolution between the two countries. Considering expectations reflected by market prices, investors don’t believe the Fed has paid its dues in full just yet.

The S&P 500 rose 2.2% in October, bringing the year to date returns to +23.3%. The MSCI World index gained 2.6% over the month, leaving year to date returns at +21.2%, largely driven by the outperformance over the year from the US. Emerging markets benefitted from improved sentiment and a weaker dollar which saw the MSCI Emerging Markets Index gain 4.2%.

Market Performance (USD)

Index total returns in USD (%)	October	YTD	12-m
Dow Jones Industrial 30	0.6	18.2	10.3
S&P 500	2.2	23.2	14.3
NASDAQ 100	4.4	28.8	17.3
FTSE 100	3.3	13.8	8.0
CAC 40	3.2	21.5	14.7
DAX 30	5.8	18.7	10.8
NIKKEI 225	5.6	19.4	11.9
Hang Seng	3.3	7.7	11.7
MSCI World	2.6	21.2	13.4
MSCI Emerging Markets	4.2	10.7	12.3
FTSE/JSE All Share	3.8	5.4	9.2
MSCI SA South Africa	3.2	0.9	9.1

Source: Bloomberg

On the ground however, activity data in many of the largest economies remains lacklustre. The IMF downgraded the 2019 global growth outlook to 3.0%, the lowest forecast since the global financial crisis while China reported growth of 6% in the third quarter, its slowest pace in decades. US data has also started to deteriorate, be it at the margin. With this backdrop and benefits from 2018 tax cuts in the base, the market was broadly prepared for weaker earnings from corporates in the latest reporting season. Third quarter US corporate earnings still managed to exceed expectations and helped spur markets higher. Forward guidance, however, was less upbeat, especially for companies with global exposure.

ELECTION TIME

A week can be a long time in politics - even more so when you have a deadline approaching that could cause economic and political chaos if ignored. By mid-month, UK Prime Minister Boris Johnson managed to secure a withdrawal deal with the EU but did not receive the required support from key parties or parliament to pass anything formal before the deadline of 31 October. Needless to say, the prime minister was reluctantly forced to send a letter to the EU requesting an extension.

The remaining 27 EU-member states formally agreed on a three-month flexible extension to 31 January 2020. This means the UK can leave before the agreed date if a deal is approved and enacted by British Parliament. Although there was consensus amongst most EU states, France was reluctant to agree to the timing of the new extension, favouring a shorter time frame to keep pressure on UK parliamentarians to formally approve the current deal. Considering that this is the third request for an extension, the increasing resistance to extend timelines and prolong uncertainty for businesses is unsurprising.

After voting against the idea multiple times, parliament agreed to a general election on 12 December 2019. For many, this will be a vote on Brexit and even the possibility of another referendum. But with the loss in support for the two larger parties, in particular Johnson's Conservative Party, there is a real chance that the elections could result in a hung parliament. The risk of a no deal Brexit has diminished – at least for this week. Now on to election promises.

DOMESTIC OVERVIEW

Market performance (ZAR)

Index total returns in ZAR (%)	October	YTD	12-m
All Share	3.1	10.5	11.5
Preference Share Index	1.1	16.5	20.1
All Bond	-0.4	8.1	13.0
Inflation Linked Bonds	-0.5	3.0	2.6
Cash	0.6	6.1	7.3
Indices			
Top 40	3.0	10.8	12.5
Mid Cap	7.2	9.7	11.9
Small Cap	1.7	-3.0	-7.0
Resource 10	7.3	18.5	17.6
Industrial 25	0.3	11.6	13.5
Financial 15	3.3	1.5	5.4
SA Listed Property	1.9	3.3	0.9
Best sectors			
Gold Mining	22.0	101.0	137.6
Pharmaceuticals & Biotech	19.2	-20.2	-30.6
Platinum	16.7	140.4	180.6
Worst sectors			
Beverages	-11.8	28.5	21.9
Software and Computer	-6.1	-2.5	3.0
Travel & Leisure	-5.1	-23.2	-20.9

Source: Bloomberg, Thomson Reuters

HOPE IS NOT A STRATEGY

It was ironic that after months of steady energy supply, the country would face another round of load shedding in the same month the Integrated Resource Plan (SA's future energy mix to 2030) and the much-anticipated Eskom Special Paper was to be released. The policy document outlined a role for existing sources such as coal and nuclear, but also emphasises a larger role for renewable energy in the future, in line with the progression of technology, environmental focus and least cost principle. Although the IRP did not satisfy everyone, it was broadly accepted and welcomed as a step forward. The Eskom Special Paper was met with less enthusiasm, although the detail contained in the document proposes meaningful structural changes for the energy sector going forward. Nonetheless, timelines were set to take the first steps of restructuring, and the market now awaits the announcement of the new CEO.

The Medium-Term Budget Policy Statement (MTBPS) a day later would emphasise how interwoven Eskom's travails are with the fortunes of the economy and the fiscus. In line with expectations, revenues came in weaker than expected with expenditure greater than targeted due to financial support for Eskom. While the MTBPS can be commended for more realistic economic growth and revenue assumptions, the path for all fiscal metrics and lack of debt consolidation shocked the market. Bond markets and the currency weakened after the budget speech as the market awaited the Moody's review shortly after month end.

Property sector financial results continue to be grim, guiding for little to no distribution growth. The sector gained +1.9% over the month, leaving the returns over the last year at a meagre +0.9%. Local equity markets bucked the trend, returning +3.1%, as global sentiment remained pro risk and offshore earners benefitted from the weaker Rand. Gold and platinum counters advanced with the underlying trends in commodity prices, while pharmaceutical company Aspen regained some lost ground, gaining +23% over the month. After multiple delays, Sasol delivered its financial results, cutting dividends in order to repair the balance sheet. Decisive action also extended to leadership, with the company announcing the departure of the co-CEO's that oversaw the foray into the US and the Lake Charles Chemical Project (LCCP). The Sasol share price rallied circa +8% over the month.

The start of a new month marked a bittersweet moment for the country. The Springboks won the Rugby World Cup in Japan, while Moody's downgraded the outlook for the sovereign to negative. A stern warning that hope is not a strategy.

Economic indicators

Economic indicators	Month	Latest	Previous
CPI (y/y)	September	4.1	4.3
PPI (y/y)	September	4.1	4.5
Repo rate	October	6.5	6.5
GDP (q/q, annualised)	2019Q2	3.1	-3.1
GDP (nsa, y/y)	2019Q2	0.9	0.0
PSCE (y/y)	September	6.2	6.9
M3 (y/y)	September	6.1	7.5
Net reserves (US$bn)	September	44.1	44.2
Trade balance (Rbn)	September	5.2	4.5
Current a/c (% GDP)	2019Q2	-4.0	-2.9
Manufacturing production (Y/Y)	August	-1.8	-0.7
Barclays Manufacturing PMI	October	48.1	45.1
Standard Bank South Africa PMI	September	49.2	49.7
SACCI Business Confidence Index	September	92.4	89.1
Retail sales (constant, y/y)	August	1.1	2.0
Vehicle sales (y/y)	October	0.2	-0.9

Source: Bloomberg, Thomson Reuters

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