

MARKET REVIEW

Month ending 30 September 2019



SEPTEMBER 2019 MARKET REVIEW – INTERNATIONAL OVERVIEW

KEEPING THE BOAT AFLOAT

September turned out to be volatile and eventful. Despite the geopolitics, central banks continued to provide enough support for risk assets to rally and oscillate around historic highs. Both the US Federal Reserve and ECB cut rates, with the latter also announcing a comprehensive stimulus package, with no specific end date. Against this backdrop of easier financial conditions and weaker global economic data, current market valuations remain vulnerable to any negative surprises.

The S&P 500 rose 1.9% in September, bringing the year to date returns to +20.6%. The MSCI World index gained 2.2% over the month, leaving year to date returns at +18.2%, largely driven by outperformance from the US. The MSCI Emerging Markets index gained 1.9%, but still ended the quarter down -4.1%, reflecting the continued weakness in China and broader trade disruption.

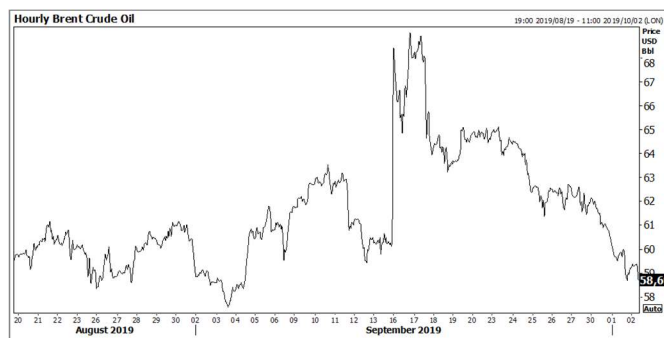
Market Performance (USD)

Index total returns in USD (%)	August	YTD	12-m
Dow Jones Industrial 30	2.1	17.5	4.2
S&P 500	1.9	20.6	4.3
NASDAQ 100	0.8	23.4	2.7
FTSE 100	4.0	10.2	-2.7
CAC 40	2.9	17.8	0.4
DAX 30	3.3	12.2	-4.7
NIKKEI 225	4.1	13.1	-3.2
Hang Seng	1.9	4.2	-2.9
MSCI World	2.2	18.2	2.4
MSCI Emerging Markets	1.9	6.2	-1.6
FTSE/JSE All Share	0.4	1.5	-4.9
MSCI SA South Africa	-1.2	-2.2	-5.8

Source: Bloomberg

A WAR PRESIDENT

Tension in the Middle East escalated after missile and drone attacks at Abqaiq, Saudi Arabia's biggest oil processing centre. Although the Houthi Islamist movement claimed responsibility, many world leaders believe Iran to be behind the assault, largely in response to sanctions imposed by the US. Half of the kingdom's crude oil production was believed to be impacted, an estimated 5m b/d representing around 5% of global supply. The oil price spiked by circa 20% intraday, a move last seen when Saddam Hussein invaded Kuwait in 1999. Despite fears of extended supply disruption, the recovery in oil production in the region was faster than many expected, and enough to help the oil price stabilise at prior levels. Equally critical, it was also enough to deter a confrontation between key role players Iran and the US, despite President Trump's rhetoric of military action.



Source: Thompson Reuters

President Trump, however, was due to face a different confrontation back home. A transcript revealed the president asking his Ukrainian counterpart to investigate presidential candidate Joe Biden and his son as a “favour”. Nancy Pelosi, Speaker of the House and the Democrats have since begun impeachment proceedings. A barrage of tweets has followed. Under pressure, the President quoted Fox news host, Pastor Robert Jeffress, in a tweet that “civil war” may ensue should he be removed from office by impeachment. For now, the market response has been modest, given the hurdle of a two third vote in the Republican controlled Senate. With 2020 an election year and the economy also running out of steam, investors are hoping that President Trump may be encouraged to extend an olive branch in his trade negotiations, rather than gain support as a war time president.

UNLAWFUL

In a historic judgement, the UK Supreme Court unanimously ruled that Prime Minister Boris Johnson had acted unlawfully in his suspension of parliament. Parliament reconvened, and activity data shows businesses have again started stockpiling. PM Johnson remains defiant on the exit date and the country divided, as the days to 31 October count down.

DOMESTIC OVERVIEW

Market performance (ZAR)

Index total returns in ZAR (%)	August	YTD	12-m
All Share	0.2	7.1	1.9
Preference Share Index	2.7	15.2	19.9
All Bond	0.5	8.4	11.5
Inflation Linked Bonds	0.4	3.5	4.0
Cash	0.6	5.5	7.4
Indices			
Top 40	0.1	7.6	2.0
Mid Cap	-0.2	2.4	5.1
Small Cap	2.2	-4.7	-11.7
Resource 10	-0.5	10.5	5.0
Industrial 25	-0.8	11.2	3.6
Financial 15	3.5	-1.7	-2.0
SA Listed Property	0.3	1.3	-2.7
Best sectors			
Construction & Materials	16.2	-7.2	-17.2
Equity Investment	8.3	25.1	9.2
Pharmaceuticals & Biotech	7.6	-33.0	-45.9
Worst sectors			
Household Goods	-18.3	-43.0	-57.9
Gold Mining	-14.9	64.7	127.4
Media	-11.4	22.3	15.9

Source: Bloomberg, Thomson Reuters

CIVIL SOCIETY FORCES

While delegates from across Africa attended the World Economic Forum (WEF) Africa summit in Cape Town, xenophobic attacks saw businesses burn and citizens from all walks took to the streets to protest gender-based violence. President Ramaphosa addressed the nation’s frustration and spoke out against the violence, but against a backdrop of anaemic economic growth, increased civil unrest sends a clear message to leaders that change is sorely needed. With that in mind, October looks to set the tone with the mini budget (MTBPS), Eskom turnaround plan and a response on National Treasury’s Economic Policy Paper all due.

The SA Reserve Bank kept interest rates on hold, a unanimous decision by the committee. This was broadly in line with market expectations given the significant event risk from MTBPS and Moody’s ratings review all scheduled before the next MPC meeting. Provisional budget data for this tax year suggest continued underperformance in tax revenues, with expenditure (although largely contained) increasing due to additional support for struggling SOE’s, SAA and Denel. Underlying these broad trends is marked underperformance in personal and corporate tax revenue collections, with both coming in weaker than Treasury estimates. With the economy yet to show signs of improvement, we expect the update on government finances to be particularly tough with a budget deficit worse than Treasury had anticipated in the February Budget. Bond markets continue to price in a challenged fiscus but managed to gain +0.5% over the month given the benign inflationary backdrop.

Property sector financial results reaffirmed a challenging environment, resulting in guidance for meagre distribution growth at best. The sector lost -4.4% over the quarter, leaving it the worst performing domestic asset class for the last 12 months at -2.7%.

Although an improvement on the prior months, local equity markets were lacklustre, edging up +0.2% over the month, with quarterly returns down -4.6%. In one of the largest and most anticipated local corporate events, Naspers listed its international internet assets via a new entity, Prosus, on the Euronext Amsterdam. The majority of local investors exercised their rights to take up shares in the new listing, adding another offshore focused counter to the JSE. Sasol delayed its financial results for a second time, citing the need for more time to conclude their investigation into the budget overruns and delays of the Lake Charles Chemical Project (LCCP). This gave the market ample room for speculation, which drove the share price down -12% over the month.

Economic indicators

Economic indicators	Month	Latest	Previous
CPI (y/y)	August	4.3	4.0
PPI (y/y)	August	4.5	4.9
Repo rate	September	6.5	6.5
GDP			
GDP (q/q, annualised)	2019Q2	3.1	-3.1
GDP (nsa, y/y)	2019Q2	0.9	0.0
PSCE (y/y)	August	6.9	7.2
M3 (y/y)	August	7.5	8.3
Net reserves (US\$bn)	August	44.2	43.9
Trade balance (Rbn)	August	6.8	-3.7
Current a/c (% GDP)	2019Q2	-4.0	-2.9
Manufacturing production (Y/Y)			
Manufacturing production (Y/Y)	July	-1.1	-3.6
Barclays Manufacturing PMI	September	41.6	45.7
Standard Bank South Africa PMI	September	49.2	49.7
SACCI Business Confidence Index	August	89.1	92.0
Retail sales (constant, y/y)	July	2.0	2.4
Vehicle sales (y/y)	September	-0.9	-5.1

Source: Bloomberg, Thomson Reuters

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