MARKET REVIEW
Month ending 31 January 2020

NEDGROUP INVESTMENTS

INTERNATIONAL OVERVIEW

LEFT TAIL RISKS

After a decent start to the year, risk assets ended the first month on tentative footing. The killing of Iranian General Soleimani early in the new year sparked threats of military action, but markets breathed a sigh of relief as tensions between the US and Iran abated for the time being, with Iran showing little immediate appetite to retaliate.

The US and China signed the much-anticipated Phase One trade deal. Although President Trump has suggested that phase two negotiations would start "very shortly", markets are not expecting much progress ahead of US elections in November. This hiatus should create a more supportive backdrop for global manufacturing and trade and has started to manifest itself in a modest improvement in global activity indicators and trade data.

Market Performance (USD)

Index total returns in USD (%)	January	YTD	12-m
Dow Jones Industrial 30	-0.9	-0.9	15.8
S&P 500	0.0	0.0	21.7
NASDAQ 100	3.0	3.0	31.6
FTSE 100	-3.8	-3.8	10.0
CAC 40	-4.0	-4.0	16.3
DAX 30	-3.1	-3.1	12.5
NIKKEI 225	-1.5	-1.5	14.5
Hang Seng	-6.4	-6.4	-1.4
MSCI World	-0.6	-0.6	18.4
MSCI Emerging Markets	-4.7	-4.7	4.2
FTSE/JSE All Share	-8.3	-8.3	-4.8
MSCI SA South Africa	-8.8	-8.8	-10.1

Source: Bloomberg

The progress in trade talks and de-escalation of tension in the Middle East was, however, largely overshadowed by the outbreak of the coronavirus in the Chinese city of Wuhan. With Chinese stock markets closed for an extended Lunar New Year holiday, the Hong Kong's Hang Seng Index bore the brunt of fall out, losing -6.4% over the month. Fears spread, as cases of the contagious disease were confirmed around the globe and put at risk the modest stabilisation in global growth that investors have been pencilling in.

The S&P 500 consequently flatlined in January, returning +0.0%, despite a constructive start to the US corporate earnings season. The MSCI World Index returned -0.6% over the month, with emerging markets losing ground as risk appetite diminished. Global bond markets benefitted from the flight to safety, with the Barclays Global Aggregate Index gaining +1.3% over the month.

POTENTIAL FOR CONTAGION

The progression of the novel coronavirus remains unclear, but at the time of writing, reports indicate at least 361 confirmed deaths (only two outside China) and around 17 000 confirmed cases worldwide. The World Health Organisation has declared the outbreak a Public Health Emergency of International Concern but has not recommended restrictions on travel.

Comparisons to the SARS outbreak in 2003, which killed around 800 people, provide some learnings and a point of reference. Even though the number of confirmed cases exceed that of SARS, the mortality rate remains a lot lower. The response from Chinese authorities has been faster, although containment has been complicated by increased travel around the celebration of the Chinese New Year. The main economic impact from SARS was felt through lower travel and consumer spending which was largely concentrated in China and resulted in weaker economic growth for several quarters rather than years.

Today, China is a much larger economy, more geared to consumers spending and an even bigger driver of global commodity prices and growth. Supply chains are more integrated globally and thus at greater risk. There should therefore be no doubt that this is a setback for the proposed improvement in global growth. China has already taken steps to stimulate the economy, but the development and impact of the epidemic bears close monitoring.

BREXIT: A TRANSITION
After more than three years, the UK formally exited the European Union on 31 January. The Brexit Withdrawal Agreement makes allowance to agree to a two-year transition, but the UK government has remained firm on completing the transition before the end of 2020. As trade negotiations resume, Prime Minister Johnson has already suggested that the UK was determined to have its own regulations and would be willing to walk away without a deal. A noisy transition may await.

DOMESTIC OVERVIEW

Market performance (ZAR)

Index total returns in ZAR (%)	January	YTD	12-m
All Share	-1.7	-1.7	7.1
Preference Share Index	-0.8	-0.8	16.7
All Bond	1.2	1.2	8.5
Inflation Linked Bonds	-0.1	-0.1	0.8
Cash	0.6	0.6	7.3
Indices			
Top 40	-1.4	-1.4	8.0
Mid Cap	-3.1	-3.1	9.4
Small Cap	-0.7	-0.7	-6.5
Resource 10	-3.6	-3.6	17.5
Industrial 25	2.1	2.1	12.4
Financial 15	-5.9	-5.9	-11.1
SA Listed Property	-3.1	-3.1	-9.5
Best sectors			
Equity Investment	15.6	15.6	58.0
Tobacco	10.3	10.3	51.4
Household Goods	7.3	7.3	-45.7
Worst sectors			
Chemicals	-19.2	-19.2	-36.6
Industrial Metals	-15.8	-15.8	11.8
Industrial Engineering	-12.1	-12.1	-55.6

Source: Bloomberg

A NEW NORMAL
Electricity shortages continued to plague the country as businesses and schools opened for 2020. Eskom CEO Andre de Ruyter, informed South Africa that the power system will remain vulnerable to load shedding for at least 18 months to allow much needed maintenance work. This is likely to weigh on growth potential in the near term, however, a predictable schedule may allow South Africans a better chance of navigating the impact of this new normal until the door is opened for independent power producers (this was confirmed at the Mining Indaba but requires formalisation) and repair work at Eskom brings some operational stability.

Domestic equities had a weak start to the year with the FTSE/JSE All Share losing -1.7% in January. The financial sector saw significant price movement (-5.2%), with bank share prices reaching multi year lows. A bellwether for local prospects, the markets are clearly taking a dim view on the country's growth prospects and chances of retaining its last investment grade credit rating. The property sector continued its downtrend, losing a further -3.1% over the month, bringing the performance over the last twelve months to -9.5%.

After holding up well despite all the local travails, the rand finally gave way, depreciating with other emerging markets currencies and losing circa 6.8% against the US dollar as angst around the coronavirus increased over the month. In contrast, perceived safe haven asset gold advanced with the precious metal sector gaining 1.4% over the month.

The South African Reserve Bank surprised the market with a 25bps interest rate cut. The decision was unanimous, despite an acknowledgement of risks to the Rand and financial stability from a strained fiscus and Moody's credit ratings review. A welcome move after the December inflation print confirmed inflation for 2019 at 4.1% with little inflationary pressures and a weak demand environment.

Domestic bond markets benefitted from an easing in monetary policy as well as international sentiment in favour of safe havens such as bonds, with the All Bond Index gaining +1.2% in January. After a strong 2019, floating rate preference shares reset alongside the change in interest rate. The Index moved -0.8% over the month. All eyes now turn to the Budget in February.

Economic indicators

Economic indicators	Month	Latest	Previous
CPI (y/y)	December	4.0	3.6
PPI (y/y)	December	3.4	2.3
Repo rate	December	6.25	6.5
GDP (q/q, annualised)	2019Q3	-0.6	3.2
GDP (nsa, y/y)	2019Q3	0.1	0.9
PSCE (y/y)	December	6.1	6.6
M3 (y/y)	December	6.2	7.4
Net reserves (US$bn)	December	44.9	44.4
Trade balance (Rbn)	December	14.9	6.1
Current a/c (% GDP)	2019Q3	-3.7	-4.1
Manufacturing production (Y/Y)	November	-3.6	-0.8
Barclays Manufacturing PMI	January	45.2	47.1
Standard Bank South Africa PMI	December	47.6	48.6
SACCI Business Confidence Index	December	93.1	92.7
Retail sales (constant, y/y)	November	2.6	0.4
Vehicle sales (y/y)	November	-8.1	4.2

Source: Bloomberg, Refinitiv

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