

## Market Review – Sihle Ndhala

### July 2018

July was a good month for investors in international markets, which were driven to a large extent by the ongoing outperformance of the Nasdaq and to a lesser extent the S&P500 in the US. Even Japan, Europe and the UK picked up some momentum after a disappointing first six months of the year. Emerging markets had a great July, up 4.15%, but were unable to make much of a dent in their 4.74% drift lower during the course of 2018. Among developed markets, the notable underperformer was Hong Kong's Hang Seng which continued its slump, perhaps poisoned by the escalating trade war rhetoric coming from Donald Trump.

<b>Asset Classes</b>	<b>Jul-18</b>	<b>YTD</b>
Bonds - All Bond Composite (ALBI)	2.4%	6.5%
Property - FTSE/JSE SA Listed Property	-0.6%	-24.7%
Equity - FTSE/JSE All Share Index	-0.3%	-3.5%
Currency* - ZAR/USD	-3.9%	6.9%

\* reflects the impact of currency on a US based investment.

Locally, things did not look as healthy. Equities were just about flat in July, unable to make up the 3.5% in lost ground in 2018. Property is still battling, although there does seem to be some support for bonds. This is likely to be from yield-chasing foreigners using the carry trade on the back of a weakening rand.

<b>International Markets</b>	<b>Region</b>	<b>Jul-18</b>	<b>YTD</b>
Dow Jones Industrial Average	Americas	4.71%	2.82%
Deutsche Borse AG German Stock Index DAX	Europe and Middle East	4.06%	-0.87%
Euro Stoxx 50 price EUR	Europe and Middle East	3.83%	0.61%
S&P 500 index	Americas	3.60%	5.34%
CAC 40 index	Europe and Middle East	3.53%	3.74%
Nasdaq Composite index	Americas	2.15%	11.13%
FTSE 100 Index	Europe and Middle East	1.46%	0.79%
Nikkei 225	Asia	1.12%	-0.93%
Hong Kong Hang Seng index	Asia	-1.29%	-4.47%

On the JSE it was good to see the bounce in technology stocks, but although they delivered a 15.49% return in July they are still down a hefty 23.41% for the year. The same goes for telecommunications and most other sectors in the local market, all of them battling to become positive in 2018. Basic Materials has been the standout for the year to date with an 11% gain despite falling 1.43% in July.

<b>Equity Indices</b>	<b>Jul-18</b>	<b>YTD</b>
Technology	15.49%	-23.41%
Telecommunication	7.67%	-12.70%
Financials	4.50%	-7.47%
Consumer Goods	0.97%	-3.97%
Industrials	0.44%	-11.60%
Mid Cap	0.33%	-11.89%
Top40 - (Tradable)	-0.39%	-2.32%
Basic Materials	-1.43%	11.01%
Small Cap	-1.95%	-9.50%
Health Care	-2.67%	-8.31%
Consumer Services	-5.19%	-6.63%

The top performers for the month were mostly in the financial sector, which as a whole jumped 4.5% in July. Discovery, Capitec, Nedbank, Sanlam and RMB Holdings all registered healthy gains. It remains to be seen if banks and financial services companies can build on this for the remainder of the year given the headwinds from falling business confidence, lower consumer spending and borrowing, and an uncertain outlook on interest rates and inflation.

On the downside of the JSE were mostly consumer-facing companies in the form of Woolworths and the healthcare stocks Life and Mediclinic. One also has to note the slip in Naspers, the dominant stock on the JSE, which stalled in July and is in fact down 6.1% for the year. Given the size of its market cap, it was no surprise to see Naspers dragging down the JSE Top 40 and the All Share index as a whole.

<b>JSE Top 40 - Top performing shares</b>					
<b>Share Code</b>	<b>Company Name</b>	<b>Industry Sector</b>	<b>Market Cap (Rmn)</b>	<b>July</b>	<b>YTD</b>
DSY	DISCOVERY LTD	Financial	107,616	15.3%	-8.6%
VOD	VODACOM GROUP LTD	Communications	219,997	14.2%	-3.7%
CPI	CAPITEC BANK HOLDINGS LTD	Financial	108,516	9.6%	-13.3%
NED	NEDBANK GROUP LTD	Financial	129,792	9.3%	6.5%
SLM	SANLAM LTD	Financial	167,622	8.9%	-12.3%
RMH	RMB HOLDINGS LTD	Financial	109,421	8.7%	4.1%
<b>JSE Top 40 - Worst performing shares</b>					
<b>Share Code</b>	<b>Company Name</b>	<b>Industry Sector</b>	<b>Market Cap (Rmn)</b>	<b>July</b>	<b>YTD</b>
LHC	LIFE HEALTHCARE GROUP HOLDIN	Consumer, Non-cyclical	35,099	-3.5%	-13.5%
BID	BID CORP LTD	Consumer, Cyclical	95,402	-4.3%	-12.4%
BVT	BIDVEST GROUP LTD	Consumer, Non-cyclical	65,235	-4.9%	-14.1%
NPN	NASPERS LTD-N SHS	Communications	1,476,317	-7.0%	-6.1%
MEI	MEDICLINIC INTERNATIONAL PLC	Consumer, Non-cyclical	64,752	-7.2%	-16.8%
WHL	WOOLWORTHS HOLDINGS LTD	Consumer, Non-cyclical	53,275	-7.7%	-21.7%

The fund lost 2.7% in July, pulled lower by some of its bigger holdings. On the upside were FirstRand, Santam and British American Tobacco.

#### SIR JOHN ROSS (Long- short 140/40)

The hedge fund fell 4% in the month, hurt by long holdings in the STXNDQ , ETF5IT and its short position in the JSE Top 40.

#### UNIT TRUST-- IP MOMENTUM EQUITY

The fund lost 0.56% in July, mostly due to PPC, Assore and Blue Label, offset to some extent by the good performance of Imperial Holdings and FirstRand.

#### UNIT TRUST: IP GLOBAL MOMENTUM EQUITY

A slight monthly correction in some of the major drivers of the Nasdaq, in the form of Nvidia, Adobe and Amazon, led to the global unit trust falling 4.5% in July.

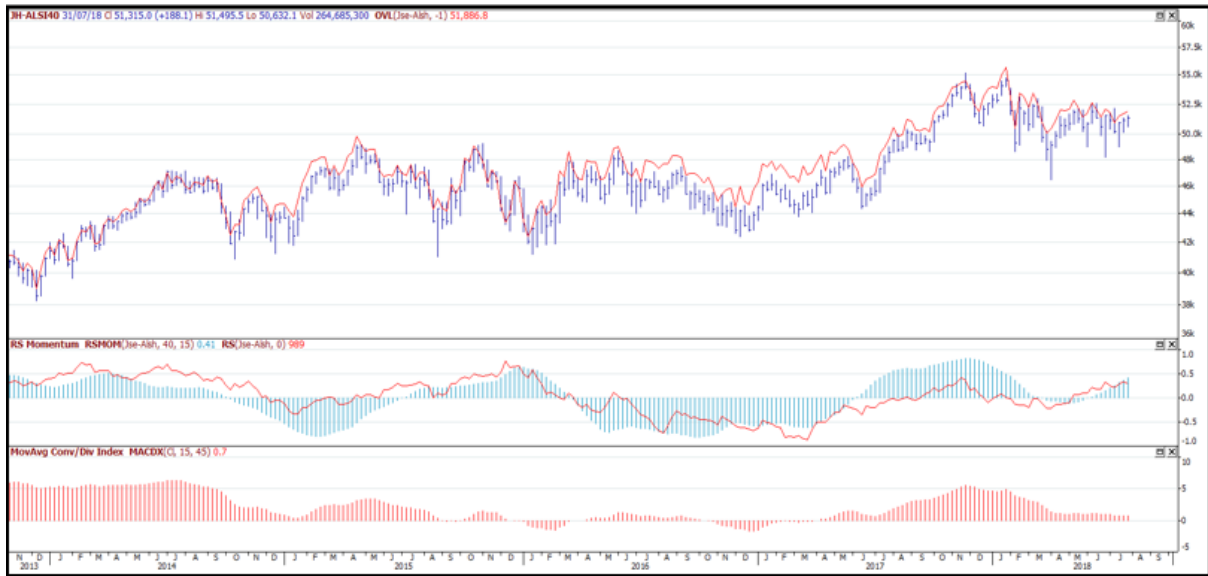
#### EASY EQUITIES BUNDLES

Overall, the various risk-rated funds were positive for the month. The more conservative funds benefited from bonds and money market holdings, but all funds had their edge taken off by weakness in property and foreign equities.

<b>Investment Products</b>		<b>July</b>	<b>Net Gearing</b>
Segregated	Robert Falcon Scott	-2.72%	117%
Segregated	Sir John Ross	-4.49%	77%
Hedge Fund	Sir John Ross	-3.11%	77%
Unit Trust	Emperor IP Momentum Equity - Local	-0.56%	88%
Unit Trust	Emperor IP Momentum Equity - Foreign	-4.56%	72%
Easy Equities - Bundles	Emperor Core - <b>Income</b>	0.82%	
Easy Equities - Bundles	Emperor Core - <b>Conservative</b>	0.41%	
Easy Equities - Bundles	Emperor Core - <b>Moderate</b>	0.30%	
Easy Equities - Bundles	Emperor Core - <b>Balanced</b>	0.42%	
Easy Equities - Bundles	Emperor Core - <b>Equity</b>	0.30%	

#### **TECHNICAL REVIEW**

The JSE All Share index continues to tread water, falling marginally from its end-June position to read 51,315 by July 31. The index is still down 3.5% for the year.



Emperor’s MSX-Monthly momentum indicator for July dipped from June’s figure to 26.07. While this was not good news, the weekly momentum indicator showed signs of a recovery, rising to 36 from June’s 22. The indicators show the percentage of shares having upward price momentum. Obviously one would like to see this number rising to the 50 level and above before we can even begin to glimpse signs of bullishness. At the moment, though, market breadth is very poor and the JSE All Share depends to an unhealthy degree on the outperformance of only a few shares.

In terms of market confidence, Emperor’s Rule of 18 for June remained just about static at 21.99. In simple English, the rule demonstrates a lack of confidence among investors that stocks show promising value. Basically, it tells us that stocks in general remain relatively expensive (PEs adjusted for inflation). We need the valuation level to fall to 20 or below before we start getting excited.

I don’t think anyone can be surprised at the sour level of general sentiment in the local business community given the almost complete lack of direction and stimulus provided by the government. Until that changes most people will expect the market to trade sideways at best until spring hopefully provides some green shoots!

+++++