Market Review – Sihle Ndhlala

November 2018

Let us begin with the good news. In another calamitous month for equities, there is a glimmer of hope for those with a more conservative bent. Cash might not quite be king because long-dated South African blue-chip bonds have outperformed all comers in November. The JSE All Bond Composite Index returned nearly 4% in November and about 7% in the year to date. It has provided a measure of comfort for those battered by more risky assets in their portfolios. Yields offered by local government bonds are comfortably above inflation, meaning real returns are still available in an extremely stressed investment environment.

Asset Classes	*Nov-18*	*YTD*
Bonds - All Bond Composite (ALBI)	3.9%	7.1%
Property - FTSE/JSE SA Listed Property	-2.2%	-30.1%
Equity - FTSE/JSE All Share Index	-3.3%	-14.9%
Currency* - ZAR/USD	-6.3%	10.2%
* reflects the impact of currency on a US based investment.		

After October's mini-crash in global equities, some of us might have expected a rebound, or at least a relief rally. It happened in November, but only for about five days. And then the relentless selling pressure returned. Some skittish investors gave up all hope, but complete capitulation has not occurred. That is not to say it might not still happen. However one needs to take a step back and look where the selling came from. By any measure, certain sectors of the US stock market were overheated to begin with. Gains of 70% and more (on some stocks in the Nasdaq) over 12 months are signs of an overheated market and no one can be too surprised when profits are taken. As a case in point companies such as Nvidia, Advanced Micro Devices and Micron have all fallen dramatically from their highs. But over 12 months all remain in extremely healthy positive territory. Some shareholders, quite clearly, are looking to ride out the volatility with a view on the longer term.

International Markets	*Region*	*Nov-18*	*YTD*
Hong Kong Hang Seng index	Asia	6.11%	-11.41%
Nikkei 225	Asia	1.96%	-1.82%
S&P 500 index	Americas	1.79%	3.24%
Dow Jones Industrial Average	Americas	1.68%	3.31%
Nasdaq Composite index	Americas	0.34%	6.19%
Euro Stoxx 50 price EUR	Europe and Middle East	-0.76%	-9.44%
Deutsche Borse AG German Stock Index DAX	Europe and Middle East	-1.66%	-12.85%
CAC 40 index	Europe and Middle East	-1.76%	-5.81%
FTSE 100 Index	Europe and Middle East	-2.07%	-9.20%

Equity Indices	Nov-18	YTD
Consumer Services	5.96%	-16.54%
Technology	4.29%	-25.21%
Industrials	2.23%	-15.97%
Telecommunication	2.02%	-29.04%
Financials	0.32%	-13.27%
Mid Cap	-1.45%	-15.50%
Health Care	-2.41%	-30.72%
Top40 - (Tradable)	-3.22%	-14.99%
Small Cap	-3.54%	-16.88%
Basic Materials	-11.53%	-1.25%
Consumer Goods	-15.87%	-27.03%

Nobody wants to get too disheartened with local stocks, but it is impossible to miss how structural economic conditions have infected certain sectors. The interest rate hike in November did consumers no favours and we can expect retail spending to remain constrained. Given this tight environment, it is admirable that Bidvest, Spar, Woolworths, Shoprite and Truworths performed well in November. No company becomes bad overnight, no matter what the short-term stock prices may suggest, so value-seeking fund managers will always be able to identify stocks that show resilience in the face of generally bad sentiment.

There was precious little respite to be found in November in the large-cap portion of the JSE. The Basic Materials sector, having driven the performance of the local market for most of the year, pulled back substantially. Miners and related industries appear to be bearing up quite well considering the global headwinds, which include flagging Chinese demand and ongoing risks of a trade war with the US. Outside of resources, what many may see as safe havens such as British American Tobacco and related Rupert companies Reinet and Richemont got clobbered. The superficial reasons concern a threatened clampdown on cigarettes in the US, but the reality is that many investors were seeking liquidity or merely taking profits off the table

JSE Top 40 - Top performing shares					
Share Code	**Company Name**	**Industry Sector**	**Market Cap (Rmn)**	**November**	**YTD**
BVT	BIDVEST GROUP LTD	Consumer, Cyclical	69,011	11.7%	-5.9%
SPP	SPAR GROUP LIMITED/THE	Consumer, Non-cyclical	38,426	11.3%	-3.7%
CPI	CAPITEC BANK HOLDINGS LTD	Financial	127,837	11.0%	0.2%
WHL	WOOLWORTHS HOLDINGS LTD	Consumer, Non-cyclical	60,546	10.0%	-14.3%
SHP	SHOPRITE HOLDINGS LTD	Consumer, Non-cyclical	117,085	9.4%	-10.9%
TRU	TRUWORTHS INTERNATIONAL LTD	Consumer, Cyclical	39,399	8.5%	-7.1%
JSE Top 40 - Worst performing shares					
Share Code	**Company Name**	**Industry Sector**	**Market Cap (Rmn)**	**November**	**YTD**
NRP	NEPI ROCKCASTLE PLC	Financial	62,755	-13.7%	-48.5%
MNP	MONDI PLC	Basic Materials	151,144	-14.0%	-5.3%
SOL	SASOL LTD	Basic Materials	271,854	-16.1%	-5.1%
CFR	FINANCIERE RICHEMONT-DEP REC	Consumer, Cyclical	531,135	-17.4%	-20.2%
RNI	REINET INVESTMENTS SCA	Financial	39,851	-18.2%	-26.2%
BTI	BRITISH AMERICAN TOBACCO PLC	Consumer, Non-cyclical	1,117,570	-24.8%	-41.6%

The fact remains: year-to-date returns on the JSE have been abysmal, with property leading the charge downwards. So the preferred strategy is to remain defensive and always be on the lookout for counters that show some signs of momentum or value. Prospects for now appear bleak but as always the market has the capacity to surprise

LEVERAGED EQUITY (RFS)

There was nowhere to hide for the fund, which lost 10% in November. After a period of nice outperformance, resources pulled back. The hit was softened somewhat by a better showing in the local consumer services sector.

LONG- SHORT 140/40 (SJR)

Consumer services, technology, industrials and telecommunications showed some resilience, dragged down by international holdings and the pullback in resources. Short positions in the JSE Satrix Top 40 and selected property stocks slightly offset the losses in the Nasdaq and S&P 500 index trackers.

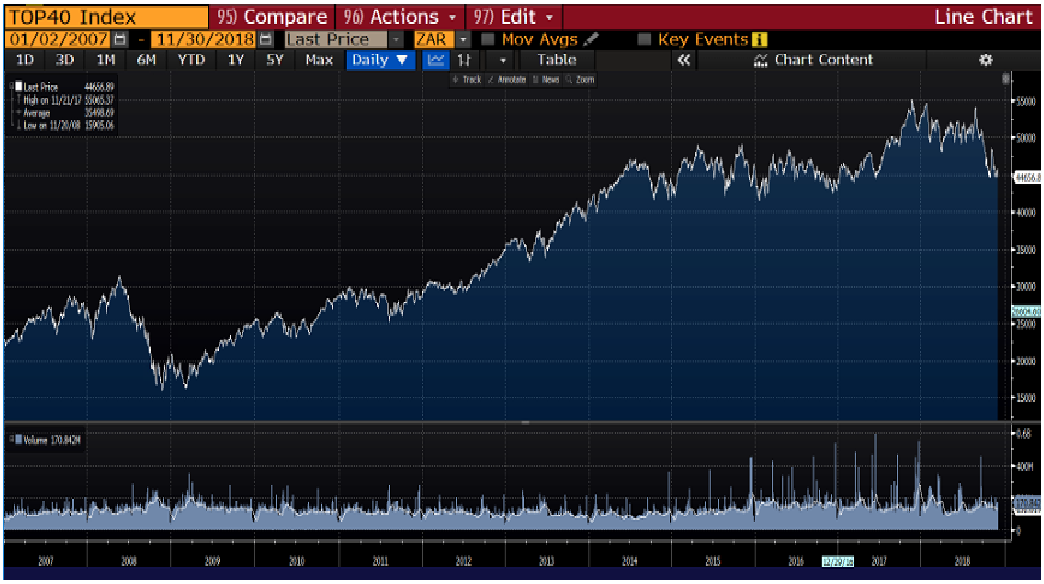
EASY EQUITIES BUNDLES

As spelled out above, more conservative bundles with a weighting towards cash and bonds performed well considering the nasty global political-economic situation. Momentum stocks were hit hard, reflecting a general risk-off mood among international investors.

Investment Products		*November*
Segregated Portfolios	Leveraged Equity (RFS)	-10.20%
Segregated Portfolios	Long-Short 140/40 (SJR)	-9.02%
Easy Equities - Bundles	Core Income Plus (Elbrus)	0.81%
Easy Equities - Bundles	Core Conservative (Kilimanjaro)	-1.23%
Easy Equities - Bundles	Core Moderate (Denali)	-1.62%
Easy Equities - Bundles	Core Balanced (Aconcagua)	-2.30%
Easy Equities - Bundles	Core Flexible Equity (Everest)	-4.16%
Easy Equities - Bundles	Enhanced Conservative (Kilimanjaro)	-1.22%
Easy Equities - Bundles	Enhanced Moderate (Denali)	-2.84%
Easy Equities - Bundles	Enhanced Balanced (Aconcagua)	-2.81%
Easy Equities - Bundles	Enhanced Flexible Equity (Everest)	-4.72%
Easy Equities - Bundles	Quality Building Block	-1.03%
Easy Equities - Bundles	Stability Building Block	-2.13%
Easy Equities - Bundles	Value Building Block	-1.32%
Easy Equities - Bundles	Momentum Building Block	-7.72%

TECHNICAL REVIEW

Globally there is not a lot of light on the horizon. The UK is in its own private hell, which seems to have infected the whole of Europe. Asia is little better despite a welcome bounce in Hong Kong and Shanghai in November. That leaves the US, which as we all know is beset with its own problems. At a more micro level, market-leading stocks such as Amazon, Apple and Google have undergone substantial corrections and it remains to be seen if they will drive any sort of recovery. All in all, not a pretty picture.



Turning to SA, nobody likes to see a chart such as the one of the JSE Top 40. The churn around the 45,000 mark is quite unsettling, providing an extremely wobbly support level dating back to the beginning of 2017, with no obvious signs of an imminent recovery. Investors who have ridden through this uncertainty deserve some sort of medal, and kudos to anyone who has picked a winner or two. A fall to 40,000 would negate all gains seen since 2014. Let us hope this does not occur; we could all do with a more jolly festive period.

Source: Bloomberg

Happy investing.

Sihle Ndhlala

Junior Fund Manager

+++++++++++++++++++++++++