Market Review – Sihle Ndhlala

December 2018

When December rolled around, global markets were wobbling on their feet after an atrocious pounding in October and November. And all this after a year that had started so well. By the end of 2018 all the major international markets were down for the year, with the Nasdaq faring best with only about a 4% loss. There was a feeling of exhaustion about trading activity, not helped by a combination of bad news and profit-taking in all the traditional favourites: Facebook, Apple, Amazon, Netflix and Google (Alphabet). No other large-cap stocks looked likely to take the place of the FAANGs, least of all old-school counters such as General Electric which were hammered for different fundamental reasons. And of course there was an overall cloud of foul sentiment hanging over the US, UK and Europe, a combination of paralysed governments facing shutdown and enduring trade turmoil.

International Markets	*Region*	*Dec-18*	*2018*
Hong Kong Hang Seng index	Asia	-2.49%	-13.61%
FTSE 100 Index	Europe and Middle East	-3.61%	-12.48%
Euro Stoxx 50 price EUR	Europe and Middle East	-5.41%	-14.34%
CAC 40 index	Europe and Middle East	-5.46%	-10.95%
Deutsche Borse AG German Stock Index DAX	Europe and Middle East	-6.20%	-18.26%
Dow Jones Industrial Average	Americas	-8.66%	-5.63%
S&P 500 index	Americas	-9.18%	-6.24%
Nasdaq Composite index	Americas	-9.48%	-3.88%
Nikkei 225	Asia	-10.45%	-12.08%

Locally, as always, the JSE felt the knock-on from overseas during the course of 2018. Although there was a welcome 4% recovery in the Top 40 in December, the annual performance was down a grim 11%. While this was pretty shocking, SA still beat the overall emerging market index, which fell nearly 16% over the year. Here at home, we've had to weather every kind of headwind, from rising interest rates to petrol price hikes, not to mention ongoing uncertainty on the political front. Considering everything, domestic stocks stood up fairly well, particularly when one takes into account the fact that the price swoon by the giants BAT and Naspers was mainly responsible for the dip in the JSE's overall standing by year-end.

Asset Classes	*Dec-18*	*2018*
Bonds - All Bond Composite (ALBI)	0.6%	7.7%
Property - FTSE/JSE SA Listed Property	-1.6%	-31.2%
Equity - FTSE/JSE All Share Index	4.1%	-11.4%
Currency* - ZAR/USD	5.7%	16.5%
* reflects the impact of currency on a US based investment.		

In SA we can at least take some comfort from the performance of bonds, which were basically flat in December but up 7.7% for the year. Property was the truly rotten egg, recovering marginally by the end of 2018 but down an ugly 31.2% for the 12 months. Among equities, healthcare was the worst performer. Investors didn't like market updates and news coming from Aspen and MediClinic, although both companies moved swiftly to provide some measure of reassurance that internal problems were far from terminal.

Equity Indices	Dec-18	2018
Basic Materials	12.35%	10.95%
Top40 - (Tradable)	4.63%	-11.05%
Telecommunication	3.46%	-26.59%
Consumer Services	3.03%	-14.01%
Mid Cap	3.00%	-12.96%
Consumer Goods	2.41%	-25.27%
Technology	0.83%	-24.58%
Financials	0.36%	-12.96%
Small Cap	-1.46%	-18.10%
Industrials	-2.04%	-17.69%
Health Care	-2.30%	-32.32%

Telecommunications was not a whole lot better. We've mentioned Naspers (which was hurt by the Chinese slowdown), MTN (which faced a nasty situation in Nigeria), and Blue Label (down 64%). An almost total lack of government commitment to infrastructure spending led to a predictable collapse in construction stocks (with the notable exception of WBHO). Basil Read and Esor stocks were suspended, while Group Five and Aveng dropped more than 98% and they continue to flounder. Fortunately there was a bright spot, provided by basic materials. Miners were buoyant in December, contributing to a nice 11% annual gain. AngloGold Ashanti, Anglo American and BHP led the charge on the upside.

JSE Top 40 - Top performing shares					
Share Code	Company Name	Industry Sector	Market Cap (Rmn)	December	2018
ANG	ANGLOGOLD ASHANTI LTD	Basic Materials	74,783	30.6%	41.3%
AGL	ANGLO AMERICAN PLC	Basic Materials	405,158	16.3%	26.1%
BHP	BHP GROUP PLC	Basic Materials	639,934	15.3%	7.4%
RNI	REINET INVESTMENTS SCA	Financial	40,560	8.0%	-20.3%
SAP	SAPPI LIMITED	Basic Materials	43,479	7.8%	-8.8%
SPP	SPAR GROUP LIMITED/THE	Consumer, Non-cyclical	38,624	6.0%	2.1%
JSE Top 40 - Worst performing shares					
Share Code	Company Name	Industry Sector	Market Cap (Rmn)	December	2018
SHP	SHOPRITE HOLDINGS LTD	Consumer, Non-cyclical	109,634	-3.6%	-14.0%
MEI	MEDICLINIC INTERNATIONAL PLC	Consumer, Non-cyclical	40,482	-4.7%	-43.5%
INP	INVESTEC PLC	Financial	81,853	-4.9%	-11.3%
TFG	THE FOSCHINI GROUP LTD	Consumer, Cyclical	39,401	-4.9%	-15.8%
INL	INVESTEC LTD	Financial	81,851	-5.6%	-11.9%
APN	ASPEN PHARMACARE HOLDINGS LT	Consumer, Non-cyclical	61,507	-8.3%	-51.4%

LEVERAGED EQUITY (RFS)

The portfolio was hit hard by international markets, which dragged it down 1.68% in December to end the year at a 20% loss. This was offset by exposure to the rebounding resources sector.

LONG- SHORT 140/40 (SJR)

Down 2.98% in December, the fund suffered from holdings in international equities, helped slightly by gains in basic materials and financials. Short positions in the JSE Top 40 and property stocks dampened the losses.

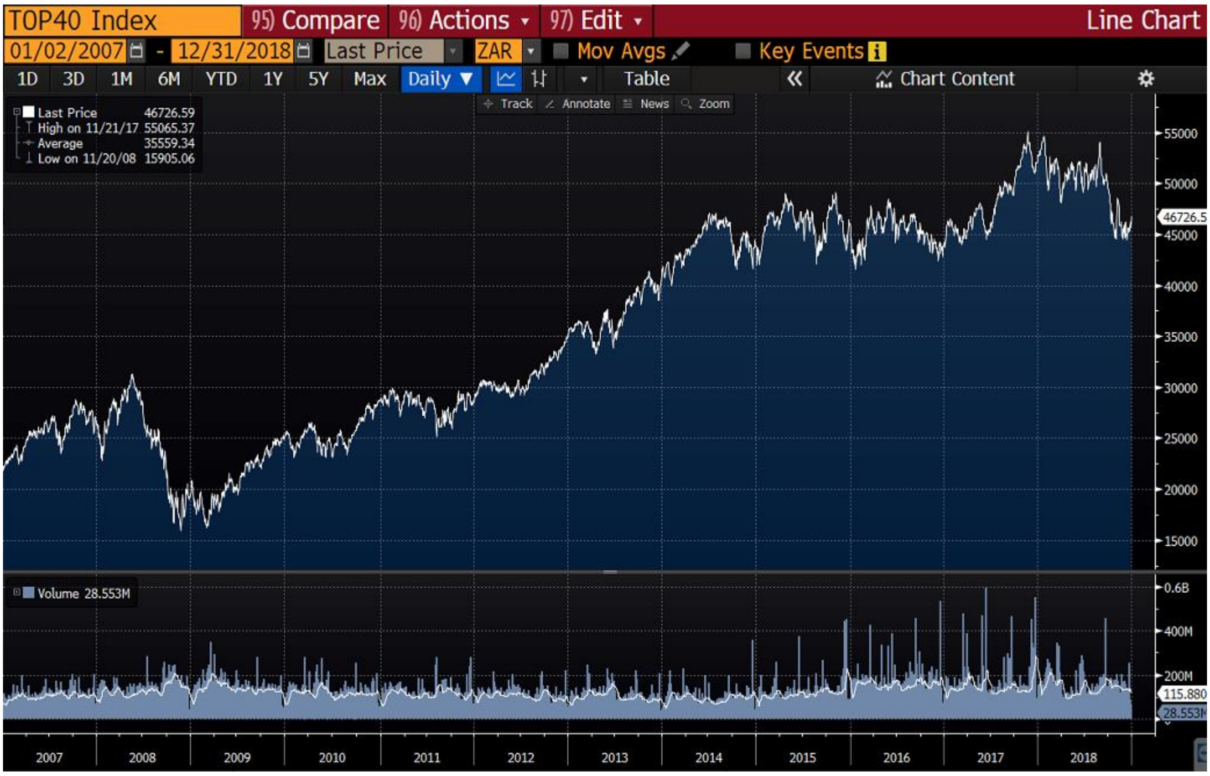
EASY EQUITIES BUNDLES

Our momentum stocks were nicely positive, as you can see from the Momentum Building Block in the table (up 4.71% in December). Value stocks showed a welcome rebound for the month, albeit only 0.56%. As mentioned above, local markets did not do too badly in the last month of the year, but exposure to offshore stocks dragged returns down.

Investment Products		***December***
Segregated Portfolios	Leveraged Equity (RFS)	-1.68%
Segregated Portfolios	Long-Short 140/40 (SJR)	-2.98%
Easy Equities - Bundles	Core Income Plus (Elbrus)	0.02%
Easy Equities - Bundles	Core Conservative (Kilimanjaro)	-0.41%
Easy Equities - Bundles	Core Moderate (Denali)	-0.18%
Easy Equities - Bundles	Core Balanced (Aconcagua)	-0.21%
Easy Equities - Bundles	Core Flexible Equity (Everest)	1.46%
Easy Equities - Bundles	Enhanced Conservative (Kilimanjaro)	-0.65%
Easy Equities - Bundles	Enhanced Moderate (Denali)	-0.86%
Easy Equities - Bundles	Enhanced Balanced (Aconcagua)	-0.80%
Easy Equities - Bundles	Enhanced Flexible Equity (Everest)	-1.38%
Easy Equities - Bundles	Quality Building Block	1.34%
Easy Equities - Bundles	Stability Building Block	-1.57%
Easy Equities - Bundles	Value Building Block	0.56%
Easy Equities - Bundles	Momentum Building Block	4.71%

TECHNICAL REVIEW

There was a prevailing feeling over the last quarter of 2018 that international investors had become tired of climbing the proverbial wall of worry and were prepared to batten down the hatches to some extent. As we have become used to, however, a lot of the bad news is baked in and there will always be money on the sidelines seeking bargains. The chart of the JSE Top 40 index shows a long-running sideways pattern dating back to 2014. There is a tremendously important support level at 45,000 that must be held if we want to see any kind of bounce in 2019. As it is, the closing price of 46,726 at the end of December is flirting with danger. On a happier note, one cannot ignore the fact that many good companies have ridden through pretty awful global and domestic macroeconomic conditions and are well positioned to catch a wave of momentum and value-hunting buyers. SA's big fund managers have been forced by circumstances to position their portfolios defensively, but more and more of them have come out in recent months to suggest they may turn more aggressive in the new year. Let us hope this picture plays out to everybody's benefit.



Source: Bloomberg

Happy investing.

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Junior Fund Manager

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