Market Review – Sihle Ndhlala

January 2019

Not everyone is convinced by the rally in global stocks in January. But after a hellish last quarter of 2018 that wiped out gains for the year, we'll take it. The Nasdaq led the charge with a gain of almost 10%, tracked closely by other US indexes, Hong Kong and emerging markets - while even Europe and the UK managed to follow positive suit.

Here in South Africa the gains were more muted, with the JSE All Share index and bonds rising almost 3%. Altogether, then, it was a good start to the year - even the rand was stronger by 7.5% (propelled not so much by good domestic news but by a weakening dollar that was hurt by some familiar nonsense on the US political front).

International Markets	*Region*	*Jan-19*	*YTD*
Nasdaq Composite index	Americas	9.74%	9.74%
Hong Kong Hang Seng index	Asia	8.11%	8.11%
S&P 500 index	Americas	7.87%	7.87%
Dow Jones Industrial Average	Americas	7.17%	7.17%
Deutsche Borse AG German Stock Index DAX	Europe and Middle East	5.82%	5.82%
CAC 40 index	Europe and Middle East	5.54%	5.54%
Euro Stoxx 50 price EUR	Europe and Middle East	5.26%	5.26%
Nikkei 225	Asia	3.79%	3.79%
FTSE 100 Index	Europe and Middle East	3.58%	3.58%

Asset Classes	*Jan-19*	*YTD*
Bonds - All Bond Composite (ALBI)	2.9%	2.9%
Property - FTSE/JSE SA Listed Property	9.2%	9.2%
Equity - FTSE/JSE All Share Index	2.7%	2.7%
Currency* - ZAR/USD	-7.5%	-7.5%
* reflects the impact of currency on a US based investment.		

Off an extremely low base, local property stocks bounced 9%, helped no doubt by the SA Reserve Bank opting to keep the repo rate unchanged at 6.75%. Financial stocks also benefited by the slightly easier interest-rate environment. Investec was a major beneficiary, while Absa rose strongly on the news that CEO Maria Ramos would be retiring. As much as this was a slap in the face for her, the financial metrics do show that she has not been able to bring the bank to match the performance of major competitors FirstRand, Standard Bank or even Nedbank under her watch.

Looking slightly closer at the JSE, we can be happy that industrials have joined basic materials in the upswing, and there are signs of life in consumer services and healthcare. However, the consumer goods sector is still struggling with extremely constrained retail spending, as reflected in the sales figures of listed companies. The public is having a hard time of it, and we can see this in the performance of Shoprite, Mr Price, Truworths and Woolworths, all down by close to 9% and more in January. The telecommunications sector was the big loser for the month, punished by lacklustre earnings numbers by Vodacom and a murky outlook for its prospects in markets outside South Africa.

Equity Indices	*Jan-19*	*2018*
Financials	5.95%	5.95%
Industrials	3.50%	3.50%
Basic Materials	3.20%	3.20%
Top40 - (Tradable)	2.63%	2.63%
Consumer Services	2.12%	2.12%
Mid Cap	1.93%	1.93%
Small Cap	1.72%	1.72%
Health Care	1.02%	1.02%
Technology	-2.11%	-2.11%
Consumer Goods	-2.29%	-2.29%
Telecommunication	-3.86%	-3.86%

JSE Top 40 - Top performing shares					
Share Code	*Company Name*	*Industry Sector*	*Market Cap (Rmn)*	*January*	*YTD*
ABG	ABSA GROUP LTD	Financial	151,307	14.2%	14.2%
GRT	GROWTHPOINT PROPERTIES LTD	Financial	75,819	11.5%	11.5%
NRP	NEPI ROCKCASTLE PLC	Financial	72,138	11.0%	11.0%
INL	INVESTEC LTD	Financial	85,615	10.2%	10.2%
RDF	REDEFINE PROPERTIES LTD	Financial	59,272	9.1%	9.1%
SBK	STANDARD BANK GROUP LTD	Financial	306,320	9.1%	9.1%
JSE Top 40 - Worst performing shares					
Share Code	*Company Name*	*Industry Sector*	*Market Cap (Rmn)*	*January*	*YTD*
RNI	REINET INVESTMENTS SCA	Financial	39,114	-8.1%	-8.1%
VOD	VODACOM GROUP LTD	Communications	214,668	-8.7%	-8.7%
WHL	WOOLWORTHS HOLDINGS LTD	Consumer, Non-cyclical	50,649	-8.8%	-8.8%
TRU	TRUWORTHS INTERNATIONAL LTD	Consumer, Cyclical	34,580	-9.1%	-9.1%
MRP	MR PRICE GROUP LTD	Consumer, Cyclical	58,202	-9.4%	-9.4%
SHP	SHOPRITE HOLDINGS LTD	Consumer, Non-cyclical	93,526	-13.9%	-13.9%

So, while we are happy to book gains in January, the larger perspective shows that the bounce in the US has only just pushed stocks up to where they were at the beginning of December. There is still a long way to go to recoup the damage done in October and November - never mind retracing the way back to early-2018 levels. However, it seems the US Federal Reserve might pause its interest-rate hiking cycle, which will provide much-needed support to both investor confidence and corporate spending.

The reduced attractiveness of safe-haven US treasury bonds means we can already see gold bursting out of its doldrums, nearing its five-year resistance line. Miners such as Sibanye-Stillwater and Gold Fields have responded nicely

LEVERAGED EQUITY (RFS)

Although the fund was up 0.61% in January, performance was hampered by the unexpected bounce in property stocks, in which we had short positions. Our offshore holdings were disappointing, due mainly to the stronger rand.

LONG- SHORT 140/40 (SJR)

The portfolio gained 0.71%, with the conservative short in the Satrix 40 ETF and some property stocks bringing down the overall performance.

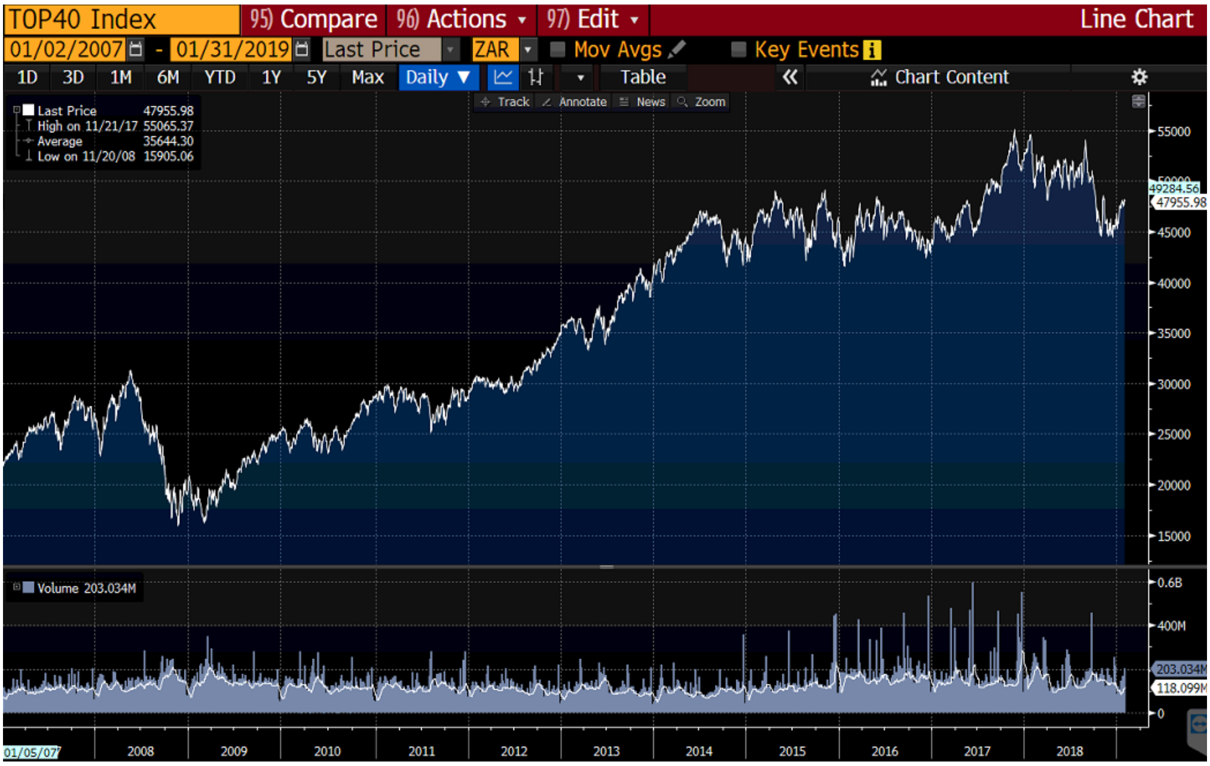
EASY EQUITIES BUNDLES

Most of the bundles managed gains of around 2%, with a positive bias towards the more conservative balanced portfolios. The Quality building block demonstrated perhaps that investors are looking beyond short-term growth and more towards value while markets struggle to find a longer-term positive direction.

Investment Products		***January***
Segregated Portfolios	Leveraged Equity (RFS)	0.61%
Segregated Portfolios	Long-Short 140/40 (SJR)	0.71%
Easy Equities - Bundles	Core Income Plus (Elbrus)	2.20%
Easy Equities - Bundles	Core Conservative (Kilimanjaro)	2.18%
Easy Equities - Bundles	Core Moderate (Denali)	1.90%
Easy Equities - Bundles	Core Balanced (Aconcagua)	2.09%
Easy Equities - Bundles	Core Flexible Equity (Everest)	1.59%
Easy Equities - Bundles	Enhanced Conservative (Kilimanjaro)	2.03%
Easy Equities - Bundles	Enhanced Moderate (Denali)	1.62%
Easy Equities - Bundles	Enhanced Balanced (Aconcagua)	1.63%
Easy Equities - Bundles	Enhanced Flexible Equity (Everest)	0.71%
Easy Equities - Bundles	Quality Building Block	3.76%
Easy Equities - Bundles	Stability Building Block	1.23%
Easy Equities - Bundles	Value Building Block	1.34%
Easy Equities - Bundles	Momentum Building Block	1.81%

TECHNICAL REVIEW

Take a look at that chart of the JSE Top 40 index and it is obvious that we are still in the middle of a churning sideways drift dating back all the way to 2014. The level at the close of January was just under 48,000, reflecting a welcome boost from the 46,726 it reached at the end of December. However we doubt anyone is going to be too over-excited until the local index begins to approach the 50,000 barrier where it spent much of 2018 - never mind the 55,000 highs hit in the closing months of 2017.



As we look beyond President Cyril Ramaphosa's state of the nation address and its promises as yet undelivered, plus looming worries of the elections later in the year, we can't really expect a rally driven by local macroeconomic news such as infrastructure spending commitments. However, January showed that with the slightest improvement in investor sentiment (if not consumer spending), there is scope for some kind of upward nudge in domestic stocks. As always, of course, we have to bear in mind that geopolitical events in the US, UK, Europe, the Middle East and Asia will be the major trigger for the stock market's direction - not just rhetoric in our little corner of the world.

Source: Bloomberg

Happy investing!

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