Market Review – Sihle Ndhlala

February 2019

The local stock market's recovery in February, with the JSE all share index rising by 3.4%, marked a welcome start to the year. By the end of the month the index was up 6.2% for 2019, and of course we must not forget that December last year was also positive. Is this a turning point for SA investors? It is too soon to tell but we have to note more and more encouraging talk among fund managers who point out that the JSE is now fundamentally "cheaper" than it has ever been in comparison to its emerging market peers (based on estimated price:earnings ratios). However, according to Bloomberg research, this has not led to more foreigners venturing into local stocks. Offshore investors remain net sellers of JSE-listed companies - probably with good reason given the uncertain economic and political environment in SA that continues to unnerve all market participants, foreign and local.

Asset Classes	*Feb-19*	*YTD*
Bonds - All Bond Composite (ALBI)	-0.4%	2.4%
Property - FTSE/JSE SA Listed Property	-5.7%	2.9%
Equity - FTSE/JSE All Share Index	3.4%	6.2%
Currency* - ZAR/USD	4.4%	-3.5%
* reflects the impact of currency on a US based investment.		

For all that, however, any hint of encouragement by the government and the Reserve Bank ought to spark more interest in the stock market. It is worth recording that while foreigners have avoided the share market, they have been very active in bonds. Bloomberg highlights the fact that inflows into the SA bond market of R10bn in 2019 have partly offset the stock outflows.

February also marked the debut budget speech of finance minister Tito Mboweni. He did not have much room to move given the sad fact of falling tax revenue and the onerous demands of failing state-owned entities such as Eskom. He will have to wait for the ground-level economic situation to improve before we see any signs of a state commitment to infrastructure spending or other forms of fiscal stimulus. Over at the Reserve Bank, caution also prevails, but here again we can hope that governor Lesetja Kganyago sees the way forward to cut interest rates to kick-start the economy. Certainly, he doesn't have much to fear in the way of inflation.

Internationally, there was plenty of positive action in February. All the major indexes were positive, and the US in particular gave the impression of building a nice head of bullish steam in the beginning of 2019. For background, Bank of America Merrill Lynch published a survey of US fund managers which showed a net overweight position in cash. According to the research, this was a similar situation to January 2009, just before the market bottomed and set up the longest bull run in Wall Street history. When sentiment moves to such extremes it is a reliable contrarian indicator, the survey suggested, setting up what could be a prolonged rally. Naturally we must not base any investment decision on such research, but it does provide much food for thought.

International Markets	***Region***	***Feb-19***	***YTD***
CAC 40 index	Europe and Middle East	4.96%	10.78%
Euro Stoxx 50 price EUR	Europe and Middle East	4.39%	9.89%
Dow Jones Industrial Average	Americas	3.67%	11.10%
Nasdaq Composite index	Americas	3.44%	13.52%
Deutsche Borse AG German Stock Index DAX	Europe and Middle East	3.07%	9.06%
S&P 500 index	Americas	2.97%	11.08%
Nikkei 225	Asia	2.94%	6.85%
Hong Kong Hang Seng index	Asia	2.47%	10.79%
FTSE 100 Index	Europe and Middle East	1.52%	5.15%

To pick out a couple of local trends that became evident in February, it is immediately apparent that there has been an upsurge in interest in the consumer goods sector, up 12.63% for the month and over 10% in the year to date. This, combined with the continued good performance of basic materials, has bolstered the JSE. We look forward to other run-down sectors, particularly property, telecommunications and technology, to rebound at some stage. Industrials and financials seem to be becalmed, but more positively-minded investors could look at them and say they are poised for recovery.

Equity Indices	***Feb-19***	***YTD***
Consumer Goods	12.63%	10.05%
Basic Materials	9.12%	12.62%
Top40 - (Tradable)	3.57%	6.29%
Mid Cap	2.28%	4.25%
Consumer Services	2.22%	4.39%
Health Care	0.11%	1.13%
Financials	-2.10%	3.73%
Industrials	-2.38%	1.04%
Small Cap	-2.83%	-1.16%
Telecommunication	-3.22%	-6.96%
Technology	-4.53%	-6.55%

JSE Top 40 - Top performing shares					
Share Code	***Company Name***	***Industry Sector***	***Market Cap (Rmn)***	***February***	***YTD***
CFR	FINANCIERE RICHEMONT-DEP REC	Consumer, Cyclical	637,362	17.8%	14.3%
CPI	CAPITEC BANK HOLDINGS LTD	Financial	151,934	12.0%	16.8%
RNI	REINET INVESTMENTS SCA	Financial	45,386	10.7%	1.7%
BHP	BHP GROUP PLC	Basic Materials	1,816,401	10.7%	7.6%
BTI	BRITISH AMERICAN TOBACCO PLC	Consumer, Non-cyclical	1,234,118	9.9%	9.1%
AGL	ANGLO AMERICAN PLC	Basic Materials	494,209	8.9%	15.6%
JSE Top 40 - Worst performing shares					
Share Code	***Company Name***	***Industry Sector***	***Market Cap (Rmn)***	***February***	***YTD***
SLM	SANLAM LTD	Financial	175,278	-6.4%	-1.4%
FSR	FIRSTRAND LTD	Financial	362,317	-7.3%	-1.9%
SAP	SAPPI LIMITED	Basic Materials	41,762	-7.4%	-11.5%
RDF	REDEFINE PROPERTIES LTD	Financial	55,640	-8.0%	0.4%
CLS	CLICKS GROUP LTD	Consumer, Cyclical	48,126	-8.2%	-5.6%
WHL	WOOLWORTHS HOLDINGS LTD	Consumer, Non-cyclical	48,248	-8.8%	-16.9%

LEVERAGED EQUITY (RFS)

Foreign holdings lifted the portfolio by 5.73% in February (outperforming major indexes such as the S&P 500 and FTSE 100). Exposure to property stocks was mostly negative, however.

LONG- SHORT 140/40 (SJR)

The long-short 140/40 portfolio rose a strong 3.08%. Although relatively lightly weighted, platinum shares performed nicely (Impala was up 55%, Anglo American Platinum was up 20%).

EASY EQUITIES BUNDLES

As can be seen in the table, the more aggressive enhanced equity bundles performed best, with the return of more reliable signs of momentum in the market. Overall, all portfolios were positive.

Investment Products		***February***
Segregated Portfolios	Leveraged Equity (RFS)	5.73%
Segregated Portfolios	Long-Short 140/40 (SJR)	3.81%
Easy Equities - Bundles	Core Income Plus (Elbrus)	0.64%
Easy Equities - Bundles	Core Conservative (Kilimanjaro)	2.04%
Easy Equities - Bundles	Core Moderate (Denali)	2.52%
Easy Equities - Bundles	Core Balanced (Aconcagua)	2.74%
Easy Equities - Bundles	Core Flexible Equity (Everest)	4.91%
Easy Equities - Bundles	Enhanced Conservative (Kilimanjaro)	2.14%
Easy Equities - Bundles	Enhanced Moderate (Denali)	2.91%
Easy Equities - Bundles	Enhanced Balanced (Aconcagua)	3.13%
Easy Equities - Bundles	Enhanced Flexible Equity (Everest)	4.94%
Easy Equities - Bundles	Quality Building Block	2.38%
Easy Equities - Bundles	Stability Building Block	0.99%
Easy Equities - Bundles	Value Building Block	1.15%
Easy Equities - Bundles	Momentum Building Block	3.78%

TECHNICAL REVIEW

A quick look at the chart suggests nobody should get over-excited about the JSE Top 40 index, as tempting as it might be. There was a critically important bounce off the 45,000 level - which has provided support for the past five years of wobbling around - but there is stiff resistance at 50,000. Technical levels such as this may appear to be irrelevant, but the charts never lie! At the very least investors can expect more volatility as the Top 40 finds its feet before targeting the 55,000 peak last hit in the dying days of 2017. There will be plenty of caution in the market, but as we spelt out in the introduction to this market review, there are also signs of positivity in the fund management industry. Let us hope the rest of 2019 builds on the nice momentum shown in the first two months of the year.

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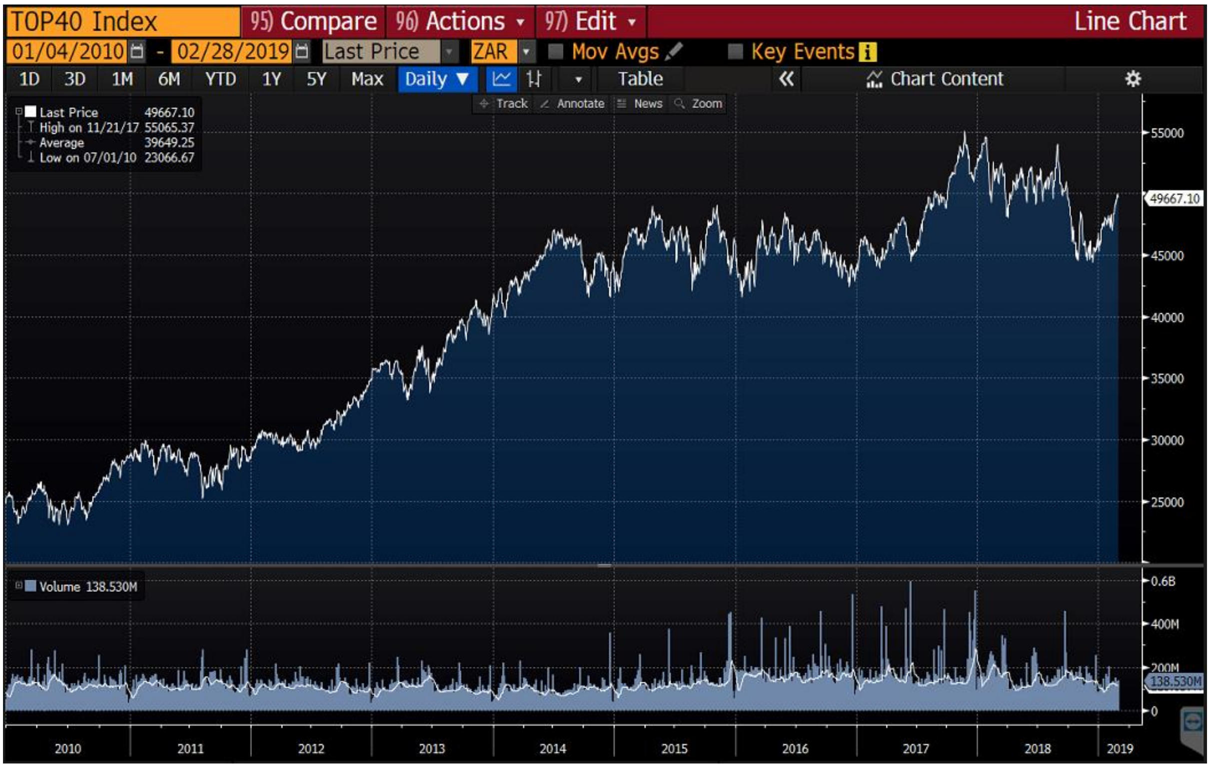

Source: Bloomberg

Happy investing!

Sihle Ndhlala

Junior Fund Manager

Disclaimer:

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