

Market Review – Sihle Ndhala

May 2019

In May international markets finally reacted to the unsettling trade war rhetoric exchanged between the US and China. Certain sectors that depend on a healthy bilateral relationship were sold off heavily, notably semiconductors - as reflected in drops of 20% or more in the likes of Nvidia and Intel. The technology sector in general suffered from the knock-on effects of President Donald Trump's import ban on products and components made by Chinese telecoms group Huawei, with nobody too sure where the next tit-for-tat blow would come from.

The S&P 500 was down 6.6% in May, and it was as bad or worse in Europe, the UK and Asia. It was no surprise that Hong Kong's Hang Seng index was knocked back close to 9% and Japan's Nikkei 225 by more than 7%. In Britain, ongoing uncertainty about Brexit pulled the FTSE 100 index down about 3%, with the market showing its jitters about the resignation of Prime Minister Theresa May, speculation about the next Conservative Party leader, and the likelihood of a general election. Matters were not helped by the results of the European elections, which reflected a broad-based shift in sentiment to populist parties whose commitment to globalised economic cooperation remains in question.

<i>International Markets</i>	<i>Region</i>	<i>May-19</i>	<i>YTD</i>
FTSE 100 Index	Europe and Middle East	-3.46%	6.44%
Deutsche Borse AG German Stock Index DAX	Europe and Middle East	-5.00%	11.06%
S&P 500 index	Americas	-6.58%	9.78%
Euro Stoxx 50 price EUR	Europe and Middle East	-6.66%	9.30%
Dow Jones Industrial Average	Americas	-6.69%	6.38%
CAC 40 index	Europe and Middle East	-6.78%	10.08%
Nikkei 225	Asia	-7.45%	2.93%
Nasdaq Composite index	Americas	-7.93%	12.33%
Hong Kong Hang Seng index	Asia	-9.42%	4.08%

The spillover from the northern hemisphere was bound to affect emerging markets negatively. By the end of May, the JSE Top 40 index had fallen over 5%, badly hurt by steep drops in the technology and healthcare sectors in particular. No area of the local market escaped the contagion, but one should perhaps take heart that the JSE is still positive for the year, although showing nowhere near the kind of growth that makes shareholders happy.

Elections in SA did not seem to trouble the market unduly, mainly because the general pattern of voting remained roughly the same. Investors have closely scrutinised the new cabinet announced by President Cyril Ramaphosa, and expectations are mixed about whether the incoming administration will show the required commitment to kick-starting economic growth and addressing critical levels of unemployment.

Equity Indices	May-19	YTD
Telecommunication	0.77%	8.83%
Consumer Goods	-2.09%	8.70%
Financials	-2.52%	0.95%
Small Cap	-3.06%	-2.91%
Consumer Services	-3.14%	4.70%
Mid Cap	-3.53%	0.22%
Industrials	-3.89%	-3.05%
Top40 - (Tradable)	-5.14%	6.12%
Basic Materials	-5.16%	7.63%
Technology	-10.21%	0.62%
Health Care	-12.13%	-19.98%

Among JSE shares, there were some worrying developments. Sasol was the biggest loser in May, falling 23% and losing billions in market capitalisation. This was due to selloff sparked by the company's disclosure that additional costs of up to \$1bn were expected on its Lake Charles chemicals project in the US. Three months ago costs were estimated to be about \$12bn.

Along with this extra drag on the blue-chip Top 40, Sappi dropped close to 20% after revealing a steep fall in profits due to weak paper demand that forced it into production cuts. To make matters worse, Netcare fell 22% on the back of forced share sales to cover finance charges. All in all in was a rotten month on the JSE, with the bourse's biggest component, Naspers, losing 10% and dragging things down further.

JSE Top 40 - Top performing shares					
Share Code	Company Name	Industry Sector	Market Cap (Rmn)	May	YTD
GFI	GOLD FIELDS LTD	Basic Materials	55,717	21.3%	32.6%
ANG	ANGLOGOLD ASHANTI LTD	Basic Materials	84,064	13.0%	7.1%
NRP	NEPI ROCKCASTLE PLC	Financial	72,205	3.2%	8.9%
VOD	VODACOM GROUP LTD	Communications	221,369	3.0%	-10.0%
ABG	ABSA GROUP LTD	Financial	146,466	2.9%	4.4%
CFR	FINANCIERE RICHEMONT-DEP REC	Consumer, Cyclical	614,739	1.5%	13.6%
JSE Top 40 - Worst performing shares					
Share Code	Company Name	Industry Sector	Market Cap (Rmn)	May	YTD
BTI	BRITISH AMERICAN TOBACCO PLC	Consumer, Non-cyclical	1,164,880	-9.0%	8.0%
NPN	NASPERS LTD-N SHS	Communications	1,467,763	-10.4%	16.8%
TBS	TIGER BRANDS LTD	Consumer, Non-cyclical	41,849	-11.5%	-13.3%
SAP	SAPPI LIMITED	Basic Materials	30,824	-19.2%	-32.5%
NTC	NETCARE LTD	Consumer, Non-cyclical	27,411	-22.4%	-29.6%
SOL	SASOL LTD	Basic Materials	228,148	-22.7%	-13.7%

On the brighter side, small gains were recorded by Gold Fields, Richemont and Vodacom, but not nearly enough to lift investor sentiment or help the JSE's overall performance.

LEVERAGED EQUITY (RFS)

Given the carnage on the JSE and in the developed world, the portfolio stood up quite well. Although it was down 1.6% in May, it benefited from short positions on the Satrix 40 ETF and in selected shares such as Massmart (which was 29% down) and Brait (which fell close to 27%).

LONG- SHORT 140/40 (SJR)

A similar pattern to RFS played out with SJR, falling 2.16% but protected with a prudent selection of short positions.

EASY EQUITIES BUNDLES

Although all bundles were down in May, losses were nowhere near as bad as felt on the JSE Top 40. The best performer for the month was Elbrus Core Income, insulated to some extent by its more conservative positioning that caused it to lose only 0.11% for the month. Generally, the more cautious bundles did better while those positioned more aggressively in equities tended to be hit harder.

<i>Investment Products</i>		<i>May</i>
Segregated Portfolios	Leveraged Equity (RFS)	-1.60%
Segregated Portfolios	Long-Short 140/40 (SJR)	-2.16%
Easy Equities - Bundles	Core Income Plus (Elbrus)	-0.41%
Easy Equities - Bundles	Core Conservative (Kilimanjaro)	-1.77%
Easy Equities - Bundles	Core Moderate (Denali)	-2.24%
Easy Equities - Bundles	Core Balanced (Aconcagua)	-3.31%
Easy Equities - Bundles	Core Flexible Equity (Everest)	-4.05%
Easy Equities - Bundles	Enhanced Conservative (Kilimanjaro)	-1.68%
Easy Equities - Bundles	Enhanced Moderate (Denali)	-2.04%
Easy Equities - Bundles	Enhanced Balanced (Aconcagua)	-2.14%
Easy Equities - Bundles	Enhanced Flexible Equity (Everest)	-3.27%
Easy Equities - Bundles	Quality Building Block	-0.76%
Easy Equities - Bundles	Stability Building Block	-2.97%
Easy Equities - Bundles	Value Building Block	-4.82%
Easy Equities - Bundles	Momentum Building Block	-0.26%
Easy Equities - Bundles	Core International Portfolio	-4.20%
Easy Equities - Bundles	International Equity Bundle (USD)	-6.64%

TECHNICAL REVIEW

The JSE Top 40 dropped 5% to 49,587.47 compared to the end-April close of 52,274. Right now there certainly isn't any suggestion that the local market is likely to regain momentum, and it remains to be seen if the JSE can hold onto its gains for the year. Most of the headwinds are coming from offshore, but as we've seen all it takes is a single tweet from Trump to transform bears into bulls - at least in the short term. Overall it remains a cautious and nervous global market environment, one in which SA's politicians need to tread very carefully indeed.



Source: Bloomberg

Happy investing!

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Junior Fund Manager

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