

Market Review – Sihle Ndhlala

July 2019

In July international markets built on the encouraging rebound seen in June after the unpleasant drawdowns that occurred during May. Despite the uncertainty surrounding Brexit, London's FTSE100 was the best global performer, returning 2.17% for the month and nearly 13% for the year to date. One has to bear in mind that London is the primary home for many mining houses, and the materials sector has been particularly buoyant in 2019.

International Markets	Region	Jul-19	YTD
FTSE 100 Index	Europe and Middle East	2.17%	12.76%
Nasdaq Composite index	Americas	2.11%	23.21%
S&P 500 index	Americas	1.31%	18.89%
Nikkei 225	Asia	1.15%	7.53%
Dow Jones Industrial Average	Americas	0.99%	15.16%
Euro Stoxx 50 price EUR	Europe and Middle East	-0.20%	15.51%
CAC 40 index	Europe and Middle East	-0.36%	16.66%
Deutsche Borse AG German Stock Index DAX	Europe and Middle East	-1.69%	15.44%
Hong Kong Hang Seng index	Asia	-2.68%	7.48%

Other European markets, such as Germany and France, were not as strong in July, but in the year to date have performed quite well with returns of above 15%.

The Nasdaq has been the outstanding index of the year so far, and its 2.11% gain in July added to its 23.21% rise for the year. Close behind are the other US indexes, the Dow and S&P 500, with Japan's Nikkei 225 showing nice resilience. Hong Kong has its own domestic troubles, the sometimes violent repatriation dispute with China perhaps affecting sentiment towards Hang Seng stocks, which fell 2.68% in July and 7.48% in 2019.

Asset Classes	Jul-19	YTD
Bonds - All Bond Composite (ALBI)	-0.7%	6.9%
Property - FTSE/JSE SA Listed Property	-1.3%	0.2%
Equity - FTSE/JSE All Share Index	-2.4%	7.7%
Currency* - ZAR/USD	1.8%	-0.6%

* reflects the impact of currency on a US based investment.

Emerging markets have been disappointing all year. July's fall of 1.69% further dented an annual return of just 7.38%. Given this, it was no surprise that the JSE all share index fell 2.4% in July, bringing its performance for 2019 to 7.7%. As unexciting as this was, equities still beat both bonds and property in the year to date.

Overall, as noted by many analysts, investor sentiment remains relatively poor as concerns over domestic economic growth and political uncertainty place a damper on markets.

Equity Indices	Jul-19	YTD
Consumer Goods	3.21%	21.15%
Technology	2.55%	7.69%
Telecommunication	2.43%	14.82%
Small Cap	0.09%	-3.55%
Mid Cap	-2.17%	-0.09%
Consumer Services	-2.61%	2.08%
Top40 - (Tradable)	-2.68%	8.71%
Health Care	-2.88%	-23.25%
Industrials	-3.82%	-10.80%
Basic Materials	-5.24%	12.36%
Financials	-6.61%	-4.64%

Looking more closely at the JSE, we can see that basic materials have had an excellent run, returning 12.36% over the year. The sector pulled back 5.24% in July, but prospects still look good for resources stocks such as AngloGold, Gold Fields, and Anglo American.

Sasol has been a big disappointment. The stock fell 28.3% in July, and has fallen close to 42% in the year to date. Investors have not been impressed with management having to allocate an additional \$1-billion to the Lake Charles Chemical Project in the US, which cut Sasol's expected earnings over the next three years by 25%.

JSE Top 40 - Top performing shares					
Share Code	Company Name	Industry Sector	Market Cap (Rmn)	July	YTD
WHL	WOOLWORTHS HOLDINGS LTD	Consumer, Non-cyclical	56,407	12.5%	-0.2%
MTN	MTN GROUP LTD	Communications	211,886	5.6%	26.7%
BTI	BRITISH AMERICAN TOBACCO PLC	Consumer, Non-cyclical	1,250,055	3.6%	9.2%
CFR	FINANCIERE RICHEMONT-DEP REC	Consumer, Cyclical	683,298	2.6%	31.0%
NPN	NASPERS LTD-N SHS	Communications	1,493,139	2.6%	25.1%
AMS	ANGLO AMERICAN PLATINUM LTD	Basic Materials	215,309	2.1%	58.8%
JSE Top 40 - Worst performing shares					
Share Code	Company Name	Industry Sector	Market Cap (Rmn)	July	YTD
INP	INVESTEC PLC	Financial	80,616	-7.2%	-14.7%
INL	INVESTEC LTD	Financial	79,509	-7.2%	-12.9%
MRP	MR PRICE GROUP LTD	Consumer, Cyclical	48,623	-17.1%	-21.5%
SOL	SASOL LTD	Basic Materials	187,564	-28.3%	-41.7%
DSY	DISCOVERY LTD	Financial	84,748	-18.0%	-22.7%
AGL	ANGLO AMERICAN PLC	Basic Materials	421,358	-5.0%	12.0%

The standout performer in the local market was Woolworths, up 12.5% in July. The stock is still flat for the year, but it is clear that management is well on the way to sorting out the company's problems in Australia. Other stocks showing welcome strength were MTN, British American Tobacco, Richemont and Naspers.

In the case of JSE heavyweight Naspers, the market obviously likes the potential for further unbundling of its assets, which will unlock value and provide excellent new investment opportunities.

LEVERAGED EQUITY (RFS)

Although the fund was down 0.82% in July, it benefited from gains in international markets and short positions in Brait, Massmart and others.

LONG- SHORT 140/40 (SJR)

The fund was up 0.45%, building on a steady performance over the past six months based on strategic longs in basic materials, hedged by a short position in the JSE Top 40 index.

EASY EQUITIES BUNDLES

The JSE Top 40 index fell 2.68% in July, which dragged down the performance of all the bundles that have a large domestic equity component. The more conservative portfolios were less badly affected, given their bias towards stability or income, and it was nice to see strong 3%-plus returns recorded by the international bundles.

Investment Products		July
Segregated Portfolios	Leveraged Equity (RFS)	-0.82%
Segregated Portfolios	Long-Short 140/40 (SJR)	0.45%
Easy Equities - Bundles	Core Income Plus (Elbrus)	0.07%
Easy Equities - Bundles	Core Conservative (Kilimanjaro)	-0.31%
Easy Equities - Bundles	Core Moderate (Denali)	-0.37%
Easy Equities - Bundles	Core Balanced (Aconcagua)	-0.81%
Easy Equities - Bundles	Core Flexible Equity (Everest)	-0.95%
Easy Equities - Bundles	Enhanced Conservative (Kilimanjaro)	-0.13%
Easy Equities - Bundles	Enhanced Moderate (Denali)	-0.17%
Easy Equities - Bundles	Enhanced Balanced (Aconcagua)	-0.29%
Easy Equities - Bundles	Enhanced Flexible Equity (Everest)	0.04%
Easy Equities - Bundles	Quality Building Block	-2.54%
Easy Equities - Bundles	Stability Building Block	-1.33%
Easy Equities - Bundles	Value Building Block	-3.76%
Easy Equities - Bundles	Momentum Building Block	-2.52%
Easy Equities - Bundles	Core International Portfolio	3.04%
Easy Equities - Bundles	International Equity Bundle (USD)	3.69%

TECHNICAL REVIEW

The 55,000 level on the JSE Top 40 remains elusive, and by the end of July the index was bobbing around the 50,798 mark. There are no obvious technical signs of weakness in the local market, but as usual the JSE will be at the mercy of much larger players in the global investment picture. Donald Trump appears to be amping up the trade war with China, which has unsettled markets, so we do not expect big things from August. Given the macroeconomic turmoil we've been through in the last year or so, a flat market is often not a bad thing at all!

JSE Top 40 Index



Source: Bloomberg

Happy investing!

Sihle Ndhlala

Junior Fund Manager

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