

Market Review – Sihle Ndhala

August 2019

August, the peak month of the northern hemisphere summer, must have spoiled the holidays of every investment manager in Europe and the US. It was a rotten month all round. Spurred by many reasons, not least of which was the inflammatory rhetoric on the trade front by Donald Trump, investors fled for safety. The rush to “safe” first-world bonds made this the hottest market around -- but as is the rule with fixed-income assets, when prices rocketed, yields collapsed.

In certain territories, such as Germany, Switzerland and Japan, yields sat in negative territory: you would pay for the privilege of buying a bond. Really what you were buying was the secure knowledge that you would at least get all your money back at the end of the lending period. It meant that in August we reached the extreme end of the global risk-off scenario.

Asset Classes	Aug-19	YTD
Bonds - All Bond Composite (ALBI)	1.0%	7.9%
Property - FTSE/JSE SA Listed Property	-3.6%	-3.4%
Equity - FTSE/JSE All Share Index	-2.7%	4.8%
Currency* - ZAR/USD	5.9%	5.3%
* reflects the impact of currency on a US based investment.		

Beyond the simple fact that investors ran from the more risky stock market is the implication that they fear bad economic news just around the corner. During August there was an extraordinary amount of speculation about when exactly the next recession would strike. This kind of scary talk provided the backdrop to the month -- no wonder stocks collapsed in such dramatic fashion.

Emerging markets, deemed to be the most perilous, suffered a 5% fall, and the JSE All Share index didn't fare much better, down nearly 3%. SA's property market continues to be hammered, and in August fell another 3.6%.

Right across Europe and the US, stock markets were hammered by risk-aversion. Yet no matter how much it hurt over the course of the month, one has to bear in mind that performances in the year to date have not been bad -- indeed, in the case of the Nasdaq, a return of over 20% is not to be sniffed at.

International Markets	Region	Aug-19	YTD
CAC 40 index	Europe and Middle East	-0.70%	15.85%
Euro Stoxx 50 price EUR	Europe and Middle East	-1.16%	14.17%
Dow Jones Industrial Average	Americas	-1.72%	13.19%
S&P 500 index	Americas	-1.81%	16.74%
Deutsche Borse AG German Stock Index DAX	Europe and Middle East	-2.05%	13.07%
Nasdaq Composite index	Americas	-2.60%	20.01%
Nikkei 225	Asia	-3.80%	3.45%
FTSE 100 Index	Europe and Middle East	-5.00%	7.12%
Hong Kong Hang Seng index	Asia	-7.39%	-0.47%

As expected, political ructions also did damage. Brexit turmoil in the UK knocked the FTSE 100 down 5%, and in the Far East the Hang Seng index of Hong Kong was badly shaken by investor confidence during a month of increasingly violent protests. As if in sympathy, Japan's Nikkei index also fell nearly 4%.

Equity Indices	Aug-19	YTD
Mid Cap	0.25%	0.16%
Basic Materials	-0.87%	11.38%
Technology	-1.60%	5.96%
Consumer Goods	-2.18%	18.51%
Top40 - (Tradable)	-2.91%	5.55%
Health Care	-3.45%	-25.90%
Financials	-3.83%	-8.29%
Industrials	-4.40%	-14.72%
Consumer Services	-5.51%	-3.55%
Small Cap	-5.88%	-9.23%
Telecommunication	-7.36%	6.37%

On the local market, the pain was shared across all sectors, with telecommunications taking the brunt of the selling pressure. Small caps and consumer services, reflecting the unsettled economic environment, were not much better - and there were no signs that financials and industrials would recover this year. This is extremely worrying for the SA economy. Basic materials have kept the JSE afloat this year, but this can't continue forever.

JSE Top 40 - Top performing shares					
Share Code	Company Name	Industry Sector	Market Cap (Rmn)	August	YTD
ANG	ANGLOGOLD ASHANTI LTD	Basic Materials	147,068	36.4%	90.4%
GFI	GOLD FIELDS LTD	Basic Materials	74,660	19.5%	84.2%
AMS	ANGLO AMERICAN PLATINUM LTD	Basic Materials	240,578	9.0%	73.0%
BID	BID CORP LTD	Consumer, Non-cyclical	107,722	8.3%	22.6%
BTI	BRITISH AMERICAN TOBACCO PLC	Consumer, Non-cyclical	1,218,541	4.5%	14.1%
NRP	NEPI ROCKCASTLE PLC	Financial	77,360	3.7%	19.0%
JSE Top 40 - Worst performing shares					
Share Code	Company Name	Industry Sector	Market Cap (Rmn)	August	YTD
PSG	PSG GROUP LTD	Financial	46,096	-12.3%	-18.1%
APN	ASPEN PHARMACARE HOLDINGS LT	Consumer, Non-cyclical	37,616	-12.9%	-41.6%
DSY	DISCOVERY LTD	Financial	75,703	-12.9%	-27.9%
SAP	SAPPI LIMITED	Basic Materials	22,602	-13.3%	-44.6%
EXX	EXXARO RESOURCES LTD	Energy	47,934	-18.6%	-1.2%
SHP	SHOPRITE HOLDINGS LTD	Consumer, Non-cyclical	67,407	-26.9%	-40.6%

As much as it is great to see gold and platinum stocks rocketing, they are seen as "haven" assets -- bought to provide a bedrock of safety for portfolios in volatile and increasingly bearish times. An obvious sign of consumer distress in SA was reflected in Shoprite's financial results. The retailer reported 18.2% lower earnings for 2019, with operating profit down 8.2%. Numbers like these have become commonplace for JSE-listed stocks, which of course has contributed to the general tendency towards fear of risk among investors.

LEVERAGED EQUITY (RFS)

Considering the overall negative environment, the fund managed to keep its losses down to 1.22%. Most long positions had negative returns, but short holdings provided a strong hedge, along with selected global stocks that did well.

LONG- SHORT 140/40 (SJR)

The fund has stabilised well over the past six months, and weathered August's ill winds very impressively. Up 0.14% in a falling universe, the fund benefited from internationals and its Top 40 short position.

EASY EQUITIES BUNDLES

The Core International bundle was the leading performer, outshining other bundles focused more on domestic assets. Although the Building Blocks bundles were hit quite hard, other bundles were resilient, most of them up or very marginally down.

<i>Investment Products</i>		<i>August</i>
Segregated Portfolios	Leveraged Equity (RFS)	-1.22%
Segregated Portfolios	Long-Short 140/40 (SJR)	0.14%
Easy Equities - Bundles	Core Income Plus (Elbrus)	0.87%
Easy Equities - Bundles	Core Conservative (Kilimanjaro)	0.90%
Easy Equities - Bundles	Core Moderate (Denali)	0.56%
Easy Equities - Bundles	Core Balanced (Aconcagua)	-0.19%
Easy Equities - Bundles	Core Flexible Equity (Everest)	-0.35%
Easy Equities - Bundles	Enhanced Conservative (Kilimanjaro)	0.85%
Easy Equities - Bundles	Enhanced Moderate (Denali)	0.51%
Easy Equities - Bundles	Enhanced Balanced (Aconcagua)	0.23%
Easy Equities - Bundles	Enhanced Flexible Equity (Everest)	-0.34%
Easy Equities - Bundles	Quality Building Block	-3.81%
Easy Equities - Bundles	Stability Building Block	-3.82%
Easy Equities - Bundles	Value Building Block	-4.93%
Easy Equities - Bundles	Momentum Building Block	-0.66%
Easy Equities - Bundles	Core International Portfolio	4.66%
Easy Equities - Bundles	International Equity Bundle (USD)	-2.90%

TECHNICAL REVIEW

The chart of the JSE Top 40 index shows a familiar holding pattern. Although it extended its losses by 2.9% in the month to the 49,320 level, the index remains in a long-term holding pattern dating back to 2014. There is strong support at 45,000 but an equally tough barrier at 55,000. For now we have to be patient because there is no clear signal either fundamentally or technically that things are about to improve

JSE Top 40 Index



Source: Bloomberg

Happy investing!

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