

Market Review – Sihle Ndhlala

October 2018

It wasn't as if we didn't see that one coming, at least as far as the US market is concerned. It had been obvious for a while that stocks were battling headwinds on every front, yet still managing to eke out gains. The bull looked wobbly on its feet in September, and duly collapsed in a heap in October.



Once the S&P500 and Nasdaq capitulated, it was only a matter of time before the rest of the world followed suit. Losses for the month ranged from 5% to over 10% in the developed world, spreading their contagion across the globe. The VIX (better known as the “fear index”) had a nasty spike in the past two months, reflecting the general sense of anxiety among stock market participants in the US

particularly. Even so, American, European and Asian stock exchanges performed a lot better than emerging markets, which fell 11% in October and more than 18% in the 10 months to the end of October.

The JSE All Share index was down 6% in October, bringing its losses this year to 12%. Property fared slightly better with a 2% fall but that index has dropped heavily (28.5%) in 2018. Bonds and the currency were pretty stable, all things considered, but most investors by now know that the global economic environment is extremely unsettled and are prepared for the worst.

Asset Classes	Oct-18	YTD
Bonds - All Bond Composite (ALBI)	-1.7%	3.1%
Property - FTSE/JSE SA Listed Property	-2.3%	-28.5%
Equity - FTSE/JSE All Share Index	-6.0%	-12.0%
Currency* - ZAR/USD	3.4%	17.7%

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

On the JSE in October, only six shares in the Top 40 index ended the month in the green. The blue-chip index itself fell close to 7%. AngloGold Ashanti and Clicks led the charge on the upside, and it was nice to see some resilience in Old Mutual and Netcare. But although Woolworths eked out a gain, the share has fallen dramatically in the year to date. Mr Price, for a long time the darling of retail investors, appears to be on the bounce but nobody's counting any chickens quite yet. And for good reason: in 2018 so far, fewer than a quarter of the shares on the All share Index have delivered positive returns.

Equity Indices	Oct-18	YTD
Mid Cap	0.44%	-14.25%
Telecommunication	-1.63%	-30.44%
Technology	-2.07%	-28.28%
Industrials	-2.44%	-17.80%
Financials	-3.71%	-13.55%
Small Cap	-3.83%	-13.84%
Basic Materials	-3.92%	11.62%
Health Care	-5.00%	-29.01%
Consumer Goods	-6.14%	-13.27%
Top40 - (Tradable)	-6.82%	-12.17%
Consumer Services	-11.28%	-21.24%

As you would expect, the downside looked very ugly. Market heavyweights Naspers, Sasol and Mondi took the brunt of the offshore selling, with Mediclinic and Investec not much better. In terms of sectors, companies exposed to consumer spending were hit hardest, with healthcare following suit. Basic materials were subject to some profit taking, driving the sector down 4%, but mining and related commodities remain the standout performer in 2018 with a positive return of nearly 12%. For the rest, we should perhaps take some consolation that losses in financials, industrials, technology and telecommunication were pretty subdued given the carnage elsewhere. Mid-cap stocks held up well in October while small-caps were hammered.

JSE Top 40 - Top performing shares					
Share Code	Company Name	Industry Sector	Market Cap (Rmn)	October	YTD
ANG	ANGLOGOLD ASHANTI LTD	Basic Materials	59,453	16.7%	11.0%
CLS	CLICKS GROUP LTD	Consumer, Cyclical	49,629	7.4%	3.8%
OMU	OLD MUTUAL LTD	Financial	119,598	3.4%	6.6%
WHL	WOOLWORTHS HOLDINGS LTD	Consumer, Non-cyclical	55,356	2.7%	-22.0%
NTC	NETCARE LTD	Consumer, Non-cyclical	37,717	2.6%	-1.3%
MRP	MR PRICE GROUP LTD	Consumer, Cyclical	65,282	1.2%	-5.7%
JSE Top 40 - Worst performing shares					
Share Code	Company Name	Industry Sector	Market Cap (Rmn)	October	YTD
INP	INVESTEC PLC	Financial	93,027	-8.1%	2.1%
MND	MONDI LTD	Basic Materials	167,461	-9.2%	10.5%
MNP	MONDI PLC	Basic Materials	167,461	-9.5%	10.2%
MEI	MEDICLINIC INTERNATIONAL PLC	Consumer, Non-cyclical	54,799	-10.6%	-33.2%
SOL	SASOL LTD	Basic Materials	305,952	-11.6%	13.0%
NPN	NASPERS LTD-N SHS	Communications	1,290,448	-15.0%	-24.9%

International Markets	Region	Oct-18	YTD
Dow Jones Industrial Average	Americas	-5.07%	1.60%
FTSE 100 Index	Europe and Middle East	-5.09%	-7.28%
Euro Stoxx 50 price EUR	Europe and Middle East	-5.93%	-8.75%
Deutsche Borse AG German Stock Index DAX	Europe and Middle East	-6.53%	-11.38%
S&P 500 index	Americas	-6.94%	1.43%
CAC 40 index	Europe and Middle East	-7.28%	-4.12%
Nikkei 225	Asia	-9.12%	-3.71%
Nasdaq Composite index	Americas	-9.20%	5.83%
Hong Kong Hang Seng index	Asia	-10.11%	-16.51%

Few market commentators are brave enough to deliver a prognosis on future prospects, but even with further falls a prudently constructed portfolio should be able to withstand the worst of the losses and take advantage of any upswing. It goes without saying that fund managers have to be on their best game, using every quantitative, technical and growth-value metric and analysis tool and strategy available in order to protect clients in these volatile times.

Although investors have taken money off the table, in many cases they have taken supreme profits - notably in the likes of semiconductors (such as Nvidia, Micron and AMD). So there is money on the sidelines potentially waiting for the right dip into which it can be reinvested. We can expect, therefore, some rotation out of certain sectors and into others. However the fear of a total collapse, as we know from previous extreme bear events, will always be there. On the brighter side, value-seekers with their eyes on the longer term will also be there.

LEVERAGED EQUITY (RFS)

International holdings were the major culprit in the fund falling 5.71% in October, not helped by positions in local healthcare and financials. Fortunately our short holdings limited the downside.

LONG- SHORT 140/40 (SJR)

Short positions in selected stocks (particularly property) and in the Satrix 40 ETF offset the negative impact, limiting the overall loss to 4.42% for the month. Unavoidably, offshore holdings and certain JSE sectors pulled down the fund's performance.

EASY EQUITIES BUNDLES

As you can see from the table, October was a bit of a nightmare. Our bundles fell between 1% and 6%, depending on equity (and hence risk) exposure. As per the commentary above, any position in healthcare, resources and foreign equity was bound to take a knock.

Investment Products		October
Segregated Portfolios	Leveraged Equity (RFS)	-5.71%
Segregated Portfolios	Long-Short 140/40 (SJR)	-4.42%
Easy Equities - Bundles	Core Income Plus (Elbrus)	-1.25%
Easy Equities - Bundles	Core Conservative (Kilimanjaro)	-2.09%
Easy Equities - Bundles	Core Moderate (Denali)	-2.18%
Easy Equities - Bundles	Core Balanced (Aconcagua)	-2.80%
Easy Equities - Bundles	Core Flexible Equity (Everest)	-3.90%
Easy Equities - Bundles	Enhanced Conservative (Kilimanjaro)	-2.43%
Easy Equities - Bundles	Enhanced Moderate (Denali)	-2.65%
Easy Equities - Bundles	Enhanced Balanced (Aconcagua)	-3.80%
Easy Equities - Bundles	Enhanced Flexible Equity (Everest)	-3.94%
Easy Equities - Bundles	Quality Building Block	-4.18%
Easy Equities - Bundles	Stability Building Block	-4.32%
Easy Equities - Bundles	Value Building Block	-3.94%
Easy Equities - Bundles	Momentum Building Block	-5.98%

TECHNICAL REVIEW

The chart of the JSE Top 40 is not pretty. At the end of September the index was still hovering around the 50,000 mark, giving no clear indication of its future direction. But as we know the global storm clouds finally broke in October, driving the bellwether local index down to an extremely disappointing 46,141 by the end of the month. The support level at 46,000, which dates back to 2014, is critical. Anything below that will reflect a failure of confidence in SA stocks, and perhaps more importantly in the overall economic and political environment. One ought to note, however, that a few market analysts have of late been poking their heads above the parapet, saying there are pockets of value to be found locally. Whether the buying momentum will follow this cautious confidence remains to be seen.



Source: Bloomberg

Happy investing.

Sihle Ndhlala

Junior Fund Manager

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