

Market Review – Sihle Ndhala

September 2018

September was a month of mixed fortunes. Finally there was some indication that the government was taking seriously the lapse into recession, which prompted the president and finance minister to indicate that some stimulatory steps would be taken. These included a promised relaxation of immigration rules to encourage tourism, and draft Mining Charter regulations that were mildly positive for the sector. However, the promises weren't enough to offset other disappointments. In the absence of concrete proposals, the market took its cue from nasty surprises regarding the fuel price and the spectre of zero-growth inflation. It is not a happy situation and we have to hope that before the end of the year more encouragement is given to consumers and businesses in order to revitalise the drooping stock market.

Asset Classes	Sep-18	YTD
Bonds - All Bond Composite (ALBI)	0.2%	4.8%
Property - FTSE/JSE SA Listed Property	-4.9%	-26.9%
Equity - FTSE/JSE All Share Index	-5.0%	-6.4%
Currency* - ZAR/USD	-4.1%	13.8%

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

We take some heart from the resilient performance of basic materials stocks, building on their year's gains again in September. Rand-watchers were again bamboozled: the currency recovered 4% in September but that was on the back of an 11% collapse in August, and it is still markedly weaker for the year. Traditionally this has translated into a fillip for SA companies earning hard currency, but equally the feeble rand hammered consumer-facing domestic companies that were faced with higher import costs and rising producer inflation.

Equity Indices	Sep-18	YTD
Basic Materials	-0.39%	16.18%
Telecommunication	-1.36%	-29.29%
Technology	-1.77%	-26.77%
Small Cap	-2.01%	-10.41%
Financials	-3.14%	-10.21%
Mid Cap	-4.47%	-14.62%
Top40 - (Tradable)	-5.61%	-5.73%
Consumer Services	-6.22%	-11.22%
Industrials	-7.02%	-15.75%
Consumer Goods	-9.90%	-7.59%
Health Care	-26.80%	-25.27%

Also worth noting in September was the extreme shock reaction to Aspen's results. At face value it was due to disappointment regarding the disposal of a non-core subsidiary, but the market punished the stock for perceived dangerous levels of debt. Following a calamitous 42% decline in the share price, the company was moved to issue another SENS announcement to calm fears about its borrowings. The share has since stabilised (at a markedly lower price:earnings multiple) and we will have to see if this former market darling growth stock can recover its former

glory. As it was, Aspen's tumble infected other pharma and related consumer stocks, with Mediclinic, Netcare, Bidvest and Clicks all suffering in September.

On the upside it was good to see Anglo American and Amplats leading the charge for basic materials, supported nicely by Capitec and Investec. With regard to the latter, the market seemed to shrug off the retirement of founding partners Stephen Koseff and Brian Kantor, with perhaps the promotion of new blood in the form of Hendrik du Toit, head of the London-based asset management team, causing fresh investor interest.

<i>JSE Top 40 - Top performing shares</i>					
<i>Share Code</i>	<i>Company Name</i>	<i>Industry Sector</i>	<i>Market Cap (Rmn)</i>	<i>September</i>	<i>YTD</i>
AGL	ANGLO AMERICAN PLC	Basic Materials	417,637	7.8%	25.1%
ANG	ANGLOGOLD ASHANTI LTD	Basic Materials	51,712	3.8%	-4.8%
INL	INVESTEC LTD	Financial	98,858	3.5%	10.9%
INP	INVESTEC PLC	Financial	98,858	3.1%	11.1%
CPI	CAPITEC BANK HOLDINGS LTD	Financial	118,478	2.1%	-6.7%
MRP	MR PRICE GROUP LTD	Consumer, Cyclical	60,118	1.3%	-6.8%
<i>JSE Top 40 - Worst performing shares</i>					
<i>Share Code</i>	<i>Company Name</i>	<i>Industry Sector</i>	<i>Market Cap (Rmn)</i>	<i>September</i>	<i>YTD</i>
SAP	SAPPI LIMITED	Basic Materials	49,034	-11.6%	-0.8%
CLS	CLICKS GROUP LTD	Consumer, Cyclical	44,057	-13.8%	-3.4%
BVT	BIDVEST GROUP LTD	Consumer, Non-cyclical	62,032	-14.4%	-15.2%
MEI	MEDICLINIC INTERNATIONAL PLC	Consumer, Non-cyclical	60,845	-15.9%	-25.3%
NTC	NETCARE LTD	Consumer, Non-cyclical	35,172	-17.5%	-3.7%
APN	ASPEN PHARMACARE HOLDINGS LT	Consumer, Non-cyclical	78,304	-41.9%	-39.0%

Locally, all asset classes except bonds (flat) ended September around 5% lower, and even worse for 2018 to date. There has been some market chatter that at these levels stocks are beginning to show signs of value, but in the absence of more macro economic stimulation it is hard to see a sustained rebound. A similar picture is playing out across all emerging markets.

<i>International Markets</i>	<i>Region</i>	<i>Sep-18</i>	<i>YTD</i>
Nikkei 225	Asia	5.49%	5.95%
Dow Jones Industrial Average	Americas	1.90%	7.04%
CAC 40 index	Europe and Middle East	1.60%	3.41%
FTSE 100 Index	Europe and Middle East	1.05%	-2.31%
S&P 500 index	Americas	0.43%	8.99%
Euro Stoxx 50 price EUR	Europe and Middle East	0.19%	-2.99%
Hong Kong Hang Seng index	Asia	-0.36%	-7.12%
Nasdaq Composite index	Americas	-0.78%	16.56%
Deutsche Borse AG German Stock Index DAX	Europe and Middle East	-0.95%	-5.19%

Looking offshore, the US continues to be the guiding light. Although the Nasdaq came off marginally from its heights, the S&P500 held its ground. Across in Europe the FTSE regained some of its annual losses, while Japan's Nikkei has been remarkably strong all year.

LEVERAGED EQUITY (RFS)

The portfolio lost 5.94% in September, primarily due to its international holdings. Losses were offset by good performances from Santam and Assore.

LONG- SHORT 140/40 (SJR)

The fund was negative in the month, down 4.22%. Offshore holdings were a drag, but short positions in the STX40 and some property shares had a positive effect.

EASY EQUITIES BUNDLES

Bundles exposed to foreign and local equities took an expected hit, but there was a hint of hope in the positive performance of the value building block - could this be a sign that the market is beginning to find green shoots? As always in an equity downturn, more conservative bundles weighted towards bonds and the money market were slightly stronger in September.

<i>Investment Products</i>		<i>September</i>
Segregated	Robert Falcon Scott	-5.94%
Segregated	Sir John Ross	-4.22%
Easy Equities - Bundles	Emperor Core - <i>Income</i>	-0.09%
Easy Equities - Bundles	Emperor Core - <i>Conservative</i>	-1.07%
Easy Equities - Bundles	Emperor Core - <i>Moderate</i>	-1.36%
Easy Equities - Bundles	Emperor Core - <i>Balanced</i>	-2.09%
Easy Equities - Bundles	Emperor Core - <i>Equity</i>	-2.46%
Easy Equities - Bundles	Emperor Enhanced Conservative Portfolio	-1.56%
Easy Equities - Bundles	Emperor Enhanced Moderate Portfolio	-2.32%
Easy Equities - Bundles	Emperor Enhanced Balanced Portfolio	-3.17%
Easy Equities - Bundles	Emperor Enhanced Equity Portfolio	-4.60%
Easy Equities - Bundles	Emperor Quality Building Block	-5.68%
Easy Equities - Bundles	Emperor Stability Building Block	-2.63%
Easy Equities - Bundles	Emperor Value Building Block	0.96%
Easy Equities - Bundles	Emperor Momentum Building Block	-4.92%

TECHNICAL REVIEW

Over the longer term, taken from the point of the global recovery in 2009, the JSE Top 40 index looks pretty good (given the awful political situation we lived through, with all the attendant uncertainty and setbacks). However the market has basically been trading water around the 50,000 level despite some early hopes at the beginning of the year that it would finally burst through 55,000. Now that Cyril Ramaphosa has begun to settle in, market expectations could be said to be building strength - but as always it is foolhardy to hope for too much. In the meantime, strategic stock and asset class selection remain the key to maintaining value and even to eking out gains when the market has a mind to begin its next move.



Source: Bloomberg

Happy investing.

Sihle Ndhala

Junior Fund Manager

Disclaimer:

This document is for information purposes only and does not constitute or form part of any offer to issue or sell, or any solicitation of any offer to subscribe for or purchase any particular investment. Opinions expressed in this document may be changed without notice at any time after publication. We therefore disclaim any liability for any loss, liability, damage (whether direct or consequential) or expense of any nature whatsoever which may be suffered as a result of or which may be attributable, directly or indirectly, to the use of or reliance upon the information. The value of participatory interests may go down as well as up and therefore is not guaranteed. The past performance is not necessarily a guide to the future performance. Emperor Asset Management is an authorised Financial Services Provider FSP 44978.

+++++