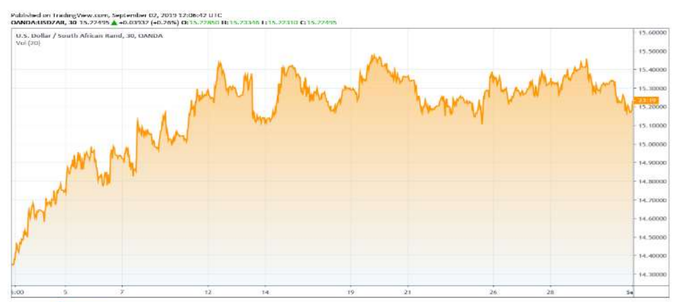
Monthly Market Commentary.

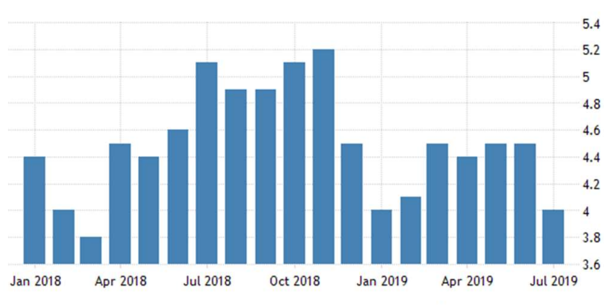
August 2019

SA Market Overview

South African equity markets were nearing their worst August return since 1998 on renewed trade tensions between China and the US, as well as various other market expectations resulting in risk-off trading however this was offset slightly by positive returns over the last two trading days in August. The monthly returns were also buoyed by some large-cap rand hedged stocks, which thrived under the weakening rand.

The South African Rand depreciated 5.9% in relation to the dollar during August, the added volatility during the month saw the rand depreciate against most 'hard currencies' with other emerging market currencies following suite. The unsettled global geopolitical climate may see a continuation of high volatility in emerging market assets, especially currencies. (see right the USD/ZAR exchange rate movement during the month.)



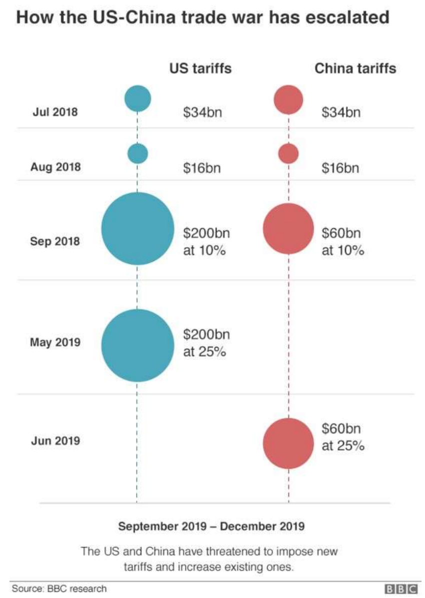


A positive in August was the downside surprise in inflation. The year-on-year inflation for July dropped to 4.0%, from the previous months 4.5%. This will bring some much-needed relief to the South African public, as well as provide tailwinds for bond & currency rallies in the coming months. (See left a chart of monthly ZAR inflation rates)

The SA parliament passed the National Health Insurance bill (NHI) in August, the government wants to implement a nationalised health insurance scheme by 2024. While the goal is widely supported, the tax/fiscal implications are worrying all current SA tax and medical scheme payers.

Global Market Overview

During August the markets were once again swayed by the trade tension between the worlds largest two economies, after a promising start to trade talks between the US & Chinese leaders, all seemingly fell apart, with the US imposing yet more tariffs on Chinese goods, taking effect on September 1st. The Chinese responded in kind by announcing further heightening of tariffs on US good taking effect between October and December. (See on the right a chart outlining the tariffs thus far, excluding the latest tariffs announced.)



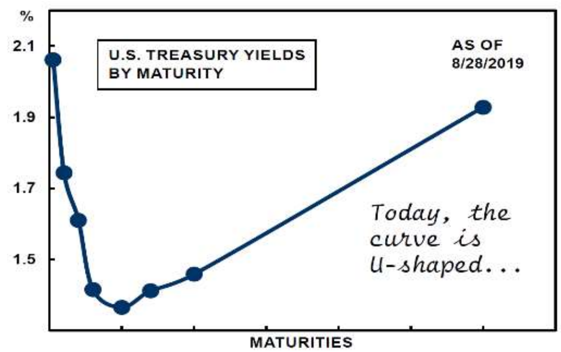
The effect of the US-Sino trade war has been felt far and wide, with most global securities markets being swayed heavily by rhetoric from both camps. Emerging market stock indices were hit the hardest as the impact of the trade war on global growth has further exacerbated the already high worries of a looming global recession.

The possibility of a global recession has also impacted commodity prices. Fears of slowing global growth, as well as tensions in the middle east has driven the price of Brent crude oil down 7.63% during August to settle at a price of $59.06 per barrel due to slowing demand in developed markets. The dwindling demand in China specifically has hurt most industrial commodities as well.

As is typical during uncertain times, the price of gold increased by some margin, ending the month of August 6.63% higher. This is due to investors fleeing to traditional 'safe-haven' asset classes, such as gold or developed market government bonds. (The price movement of gold (orange) and Brent crude (blue) can be seen in the graph on the above).

On the Brexit front, the Queen has granted a request of Prime-Minister Johnson to prorogue parliament early in September, which means that parliament will go on recess and all motions that have not been dealt with must be re-introduced in the new session. Many people believe that this is a ploy by Prime-Minister Johnson to limit the power of parliament in blocking a no-deal Brexit. While there is ongoing debate whether this move is democratic or even constitutional, the Pound closed over 1% lower to both the Dollar & the Euro on the day of the announcement.

The US treasury yield curve has inverted, which has long been a very accurate leading indicator of a coming recession. The situation may not be as dire as the yield curve signal indicates; many analysts have commented that the inversion is not complete; the curve is only inverted up to the 5-year mark. Historically, leading up to a recession the yield curve was negative across all maturities. BCA research has commented that the inversion may be a self-fulfilling prophecy as banks may tighten credit standards as a result of the partial inversion.



Asset Class Performance (ZAR)

As at 31 August 2019	MTD	YTD	1 Year	3 Years*	5 Years*
Global Equity – MSCI ACWI	4.46	20.19	2.57	10.56	13.75
Global Property - FTSE EPRA Nareit DR	9.97	25.69	13.63	6.12	14.48
Global Bond - JPM GBI Global Traded	10.29	14.01	12.91	2.93	9.24
Global Cash - ICE LIBOR 1 Month	7.33	7.31	6.15	2.70	8.55
SA Equity - FTSE/JSE All Share	(2.44)	6.88	(2.58)	4.68	4.73
SA Property - FTSE/JSE SA Listed Prop	(3.57)	1.03	(5.52)	(3.26)	3.62
SA Bond - Beassa ALBI	0.98	7.90	11.19	9.79	7.82
SA Cash - STeFI Call Deposit	0.52	4.40	6.63	6.74	6.48

Asset Class Performance (USD)

As at 31 August 2019	MTD	YTD	1 Year	3 Years*	5 Years*
Global Equity – MSCI ACWI	(2.49)	13.86	(1.02)	9.40	5.93
Global Property - FTSE EPRA Nareit DR	2.66	19.08	9.64	5.01	6.61
Global Bond - JPM GBI Global Traded	2.95	8.01	8.95	1.86	1.73
Global Cash - ICE LIBOR 1 Month	0.19	1.67	2.43	1.63	1.09
SA Equity - FTSE/JSE All Share	(8.93)	1.25	(5.99)	3.59	(2.47)
SA Property - FTSE/JSE SA Listed Prop	(9.98)	(4.29)	(8.83)	(4.26)	(3.50)
SA Bond - Beassa ALBI	(5.74)	2.22	7.29	8.65	0.41
SA Cash - STeFI Call Deposit	(6.16)	(1.10)	2.89	5.63	(0.83)