Monthly Market Commentary

November 2019

SA Market Overview

With reduced uncertainty on the global front, there was a "risk on" temperament in the market, this has historically been positive for SA markets, but November saw most SA asset classes underperforming, with only listed property outperforming cash.

The SARB monetary policy committee met in late November, the committee opted to leave rates unchanged in a decision that split the table, with two members preferring a rate-cut. The committee did however revise their GDP forecasts for the next three years downwards. The committee acknowledged the current risks to the economy which hinges on the government making timely fiscal reforms.

South African inflation surprised to the downside, with headline CPI coming in at 3.7% in October, compared to 4.1% in September. The drop was mostly due to the decline in food prices, that had been steadily increasing during 2019. Another positive contributor was transport price increases slowing significantly over October.

Components of Q3 GDP data showed slow growth with the economy stagnating following a bounce in the second quarter. The retail sector performed well over the quarter, but with mining and production sectors slowing over the period, a strong improvement in yet to be released agriculture numbers would be required to meet the already downward-revised estimates. The consensus estimate is for GDP growth to improve during 2020 but still at a very low rate of 1.3%. This level of growth will not result in job creation and will essentially weaken the SA fiscal position further which does not bode well for the strength of the Rand and could lead to higher inflation.

For most of 2019 the Rand has been its normal volatile self. YTD it has performed (1.40) % vs. the US$ with its strongest position being 13.2463 (31 Jan 2019) and its weakest being 15.4629 (19 Aug 2019). The Investment Grade status of our Government Debt is hanging by a thread. The RSA 10-year Bonds are trading at 8.37% p.a. and the 30-year bonds at 10.24% p.a. (4.67% and 6.54% above current inflation), effectively pricing in the long-avoided downgrade. The February 2020 budget speech and policy statements leading up to it will determine the currency and bond positions.

Global Market Overview

The most pronounced risk factors to market prices remain slowing global growth and the ongoing trade tensions between the US & China. Another strong influence on asset returns is the current BREXIT debacle, that has left the UK markets uncertain over a whole host of possible outcomes.

Global developed markets outperformed emerging markets over the month of November, which can be ascribed to positive news factors, as well as dollar strength.

While the next round of US tariffs on Chinese goods is still set to take hold on 15 December, this will be unlikely to take effect as President Trump has succumbed to the pressures of the next year's election pressures and is engaging in a "preliminary trade deal" negotiations and has adopted a softer approach. While said negotiations are yet to bear any tangible proof, it is likely that either a short-term detente will be reached, or the next round of tariffs delayed. The reduction in trade uncertainty led to US stocks outperforming with the IT sector being the biggest winner.

Slowing growth has been a recurring theme over the past year, with many investors fearing a looming global recession, these worries were slightly quelled during November, as both hard data & soft data showed pickups. In the US, the November PMI rose slightly, followed by a rise in Q3 GDP. In the Eurozone, Euro PMI also rose slightly, and GDP data showed that Germany narrowly avoided a technical recession. The ECB welcomed their new President, Christine Lagarde, who in her first major speech did not reveal much along the lines of monetary policy, choosing instead to focus on urging European governments to increase spending in a bid to increase domestic demand.

The UK heads to the polls on 12 December, meaning that campaigning is in full swing. The three main parties have all taken a different stance on BREXIT dealings, with the Conservative party appealing to the leave vote, the Liberal Democrats strongly campaigning to remain in the EU, and the Labour party aiming to negotiate a softer deal with the EU, and then proposing the deal to the public through a referendum, with the other option on the ballot being to remain in the EU. The election stances are thought to have lowered the risk of a no-deal BREXIT, which was supportive to Sterling and other UK focussed assets.

See on the right a chart showing the historic USD returns for various globally significant regional and DM/EM equity indices:
(Source: JP-Morgan Asset management.)

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	YTD	November 2019
MSCI EM 79.0%	MSCI Asia ex Japan 19.9%	US S&P 500 2.1%	MSCI Asia ex Japan 22.7%	Japan TOPIX 54.4%	US S&P 500 13.7%	Japan TOPIX 12.1%	UK FTSE All-Share 16.8%	MSCI Asia ex Japan 42.1%	US S&P 500 -4.4%	US S&P 500 27.6%	US S&P 500 3.6%
MSCI Asia ex Japan 72.5%	MSCI EM 19.2%	UK FTSE All-Share -3.5%	Japan TOPIX 20.9%	US S&P 500 32.4%	Japan TOPIX 10.3%	MSCI Europe ex UK 9.1%	US S&P 500 12.0%	MSCI EM 37.8%	UK FTSE All-Share -9.5%	MSCI Europe ex UK 25.9%	MSCI Europe ex UK 2.5%
UK FTSE All-Share 30.1%	US S&P 500 15.1%	MSCI Europe ex UK -12.1%	MSCI Europe ex UK 20.0%	MSCI Europe ex UK 24.2%	MSCI Europe ex UK 7.4%	US S&P 500 1.4%	MSCI EM 11.6%	Japan TOPIX 22.2%	MSCI Europe ex UK -10.6%	Japan TOPIX 16.4%	UK FTSE All-Share 2.2%
MSCI Europe ex UK 29.0%	UK FTSE All-Share 14.5%	Japan TOPIX -17.0%	MSCI EM 18.6%	UK FTSE All-Share 20.8%	MSCI Asia ex Japan 5.1%	UK FTSE All-Share 1.0%	MSCI Asia ex Japan 5.8%	US S&P 500 21.8%	MSCI Asia ex Japan -14.1%	UK FTSE All-Share 15.3%	Japan TOPIX 1.9%
US S&P 500 26.5%	MSCI Europe ex UK 5.1%	MSCI Asia ex Japan -17.1%	US S&P 500 16.0%	MSCI Asia ex Japan 3.3%	UK FTSE All-Share 1.2%	MSCI Asia ex Japan -8.9%	MSCI Europe ex UK 3.2%	MSCI Europe ex UK 14.5%	MSCI EM -14.2%	MSCI Asia ex Japan 11.1%	MSCI Asia ex Japan 0.2%
Japan TOPIX 7.6%	Japan TOPIX 1.0%	MSCI EM -18.2%	UK FTSE All-Share 12.3%	MSCI EM -2.3%	MSCI EM -1.8%	MSCI EM -14.6%	Japan TOPIX 0.3%	UK FTSE All-Share 13.1%	Japan TOPIX -16.0%	MSCI EM 10.6%	MSCI EM -0.1%

Asset Class Performance (ZAR)

As at 30 November 2019	MTD	YTD	1 Year	3 Years*	5 Years*
Global Equity – MSCI ACWI	(0.27)	24.84	20.18	13.77	14.05
Global Property - FTSE EPRA Nareit DR	(3.84)	25.98	22.97	11.87	13.19
Global Bond - JPM GBI Global Traded	(3.83)	7.81	14.61	5.25	7.99
Global Cash - ICE LIBOR 1 Month	(2.58)	4.09	8.20	3.26	7.06
SA Equity - FTSE/JSE All Share	(1.80)	8.46	13.08	6.61	5.26
SA Property - FTSE/JSE SA Listed Prop	0.81	4.08	2.98	(1.70)	1.86
SA Bond - Beassa ALBI	0.22	8.30	9.00	9.30	7.02
SA Cash - STeFI Call Deposit	0.52	6.07	6.65	6.71	6.53

Asset Class Performance (USD)

As at 30 November 2019	MTD	YTD	1 Year	3 Years*	5 Years*
Global Equity – MSCI ACWI	2.53	22.56	13.73	12.12	7.79
Global Property - FTSE EPRA Nareit DR	(1.14)	23.68	16.37	10.25	6.97
Global Bond - JPM GBI Global Traded	(1.14)	5.84	8.46	3.73	2.05
Global Cash - ICE LIBOR 1 Month	0.15	2.19	2.39	1.76	1.18
SA Equity - FTSE/JSE All Share	0.96	6.48	7.00	5.07	(0.52)
SA Property - FTSE/JSE SA Listed Prop	3.63	2.18	(2.55)	(3.12)	(3.74)
SA Bond - Beassa ALBI	3.03	6.32	3.14	7.71	1.14
SA Cash - STeFI Call Deposit	3.33	4.13	0.92	5.17	0.68