MARKET SUMMARY

As of 30/09/2018

MARKET INDICES (R)

	1 month	3 months	1 year	3 years*	5 years*	7 years*
FTSE/JSE All Share	-4.17	-2.17	3.32	6.67	7.99	12.77
FTSE/JSE SA Listed Property	-2.60	-1.01	-15.68	-1.42	6.78	11.18
All Bond Index	0.30	0.81	7.14	7.66	7.16	7.92
STeFI (Cash)	0.57	1.78	7.27	7.33	6.81	6.41
MSCI World	-3.03	7.93	14.42	12.21	14.75	19.51
MSCI EM	-4.15	1.16	1.53	10.63	8.34	11.14
Oil Price	3.20	7.51	50.67	20.51	1.38	5.01
Gold Price	-4.63	-1.97	-3.02	2.94	4.71	3.71

MARKET COMMENTARY

From a performance perspective, markets continue to experience mixed conditions that carry an undercurrent of emerging market instability and U.S. strength. This is consistent by broad asset class – whether we are talking about equities, fixed income or currency – but also in rhetoric.

After a slow start in the first half of the year, volatility increased during the third quarter as international investors became increasingly concerned about political, monetary, and foreign policy issues in emerging markets. These concerns lead to extensive emerging market outflows in August in both stock markets and bonds resulting in meaningfully depreciating currencies. This was most prominent in Turkey and Argentina, but South Africa was not saved from the carnage. This resulted in most emerging markets delivering negative returns in during the quarter while developed markets delivered strong results with the U.S. market leading the pack.

These strong results were achieved in the US despite the ongoing US/China trade wars, which seemed to escalate in September, as tariffs on a further $200 billion worth of imports from China took effect. The disagreement escalated further with Chinese officials accusing the US of using threats and pressure to gain ascendency in trade talks. In addition, unsubstantiated accusations from US President Donald Trump that China was attempting to interfere in the US midterm elections did not help matters, while concern around the future impact of US protectionist policies on corporate profits and the world economy further unsettled investors.

During the quarter the US Federal Reserve announced a 25 basis point interest rate hike, with indications that a fourth will follow towards the end of the year. One of the main reasons that the less accommodative Federal Reserve policy combined with geopolitical tensions between the US and China have not yet resulted in a broad stock market decline is that corporate profits in the US remain strong. These factors, combined with a relatively strong job market, high consumer confidence and manufacturing and service sector strength have resulted in higher than expected growth from the US.

Locally, South Africa entered a technical recession (the first since 2009) as GDP data showed that the economy shrank for a second consecutive quarter. While emerging market currencies remained under pressure there was some degree of a rebound which the rand traced closely. A refinanced loan by Turkey's second-largest listed bank allayed concern of a debt crisis in that country, while Argentina was promised extra money and faster payments from the IMF, which expanded an already record bailout. The rand strengthened during September following the sharp selloff in August, but the currency is still down 15% YTD.

Meanwhile, the SA Reserve Bank left the repo rate unchanged during September, citing an expected increase in inflation later this year and a weak economic growth environment.

On the political front, President Ramaphosa continued his uphill battle to revive the South African economy despite several headwinds. Some of these include a lack of business confidence, sizeable fuel price increases during the quarter and VAT increases dampening consumer spending. Ramaphosa announced a R50 billion stimulus package and while many criticised it for being largely different spending rather than new money, others saw it as a good start to stimulate growth and build up confidence.

Bringing this together, we continue to face several issues that impact portfolio decision making. Uncertain times continue to surround us, but this feels especially prevalent late in the investment cycle. The good news is that the longer-term developments are creating opportunities for those focused on fundamental diversification and valuation-driven analysis. It is in this common-sense approach that portfolios can be positioned in such a way that aligns outcomes with goals.

*Returns are simulated and based on the underlying funds at the initial weightings and are net of published asset manager fees. Returns greater than a year have been annualised.