

---

## Market Overview

December 2018

---

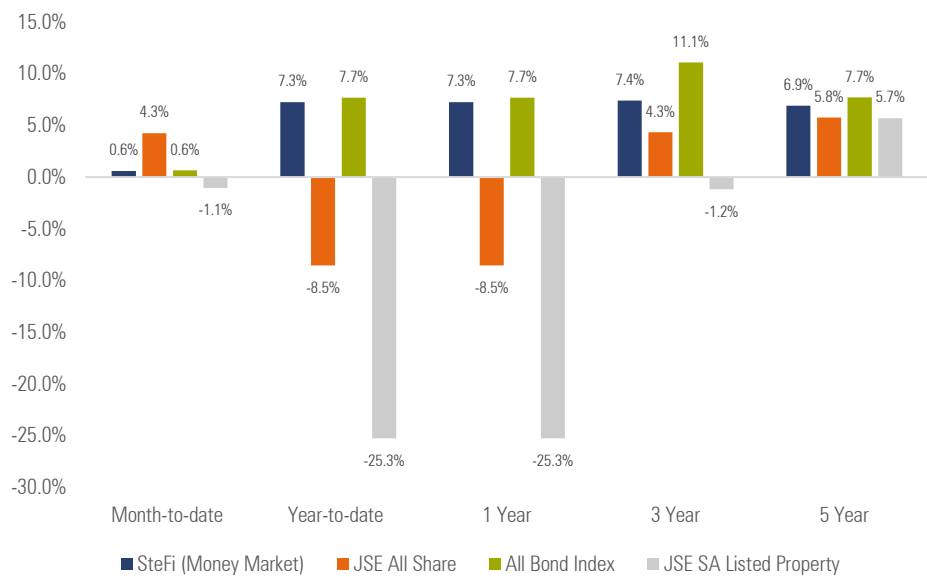
### Market and Economic Summary

Global equity markets had a volatile end to 2018 as major markets, led by the U.S., sold off to record their worst calendar year since the global financial crisis as concerns around slowing global growth, tightening monetary policy in the U.S. and trade tensions weighed on markets. The heightened volatility saw an increase in demand for perceived safe havens such as U.S. Treasuries and gold, with yields on treasuries declining significantly from pre-December levels. In a much anticipated move, the U.S. Federal Reserve raised interest rates by 25 basis points in December, the fourth increase in 2018. Fed Chair Jerome Powell lowered his expectations for interest rate increases in 2019 from three to two, highlighting that the U.S. economy is likely to remain strong in the short term despite slowing global growth and concerns around tightening global monetary conditions.

Despite disappointing performance from global equities during December, decent returns from mining and rand hedge stocks led the JSE to a strong finish for 2018. Strong performance in December was not enough to drag South African equities into positive territory for the year. Bonds strengthened their position as the best performing local asset class for the year, despite foreigners selling approximately R68bn in 2018, which was almost five times the previous record in 2008.

GDP growth in Q3 2018 was stronger than expected (2.2% quarter on quarter annualised) as economic data releases continue to surprise on the upside and Q4 growth is also expected to be positive. Weak confidence and PMI surveys, however, indicate that momentum is slow and growth is unlikely to beat consensus forecasts for 2019 significantly. Inflation continues to remain subdued and well within the target band of between 3% and 6%. Headline CPI for November came in at 5.2% year-on-year, however, the significant decline in the petrol price in December implies a decline in inflation over the next few months.

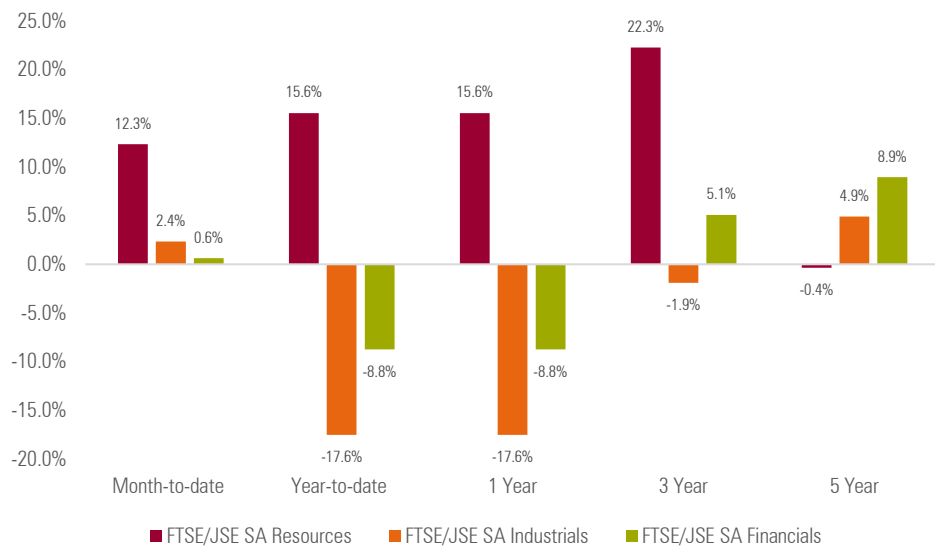
### Exhibit 1: SA Market Performance (total returns)



Source: Morningstar Direct as at 31/12/2018. Returns are in South African Rand and have been annualised for periods longer than 1 year.

**Resources** (+12.3%) was the standout sector in December, while **Industrials** (+2.4%) and **Financials** (+0.6%) ended the month marginally positive. 2018 performance from the different sectors was divergent with **Resources** (+15.6%) significantly outperforming both **Financials** (-8.8%) and **Industrials** (-17.6%).

### Exhibit 2: SA Sector Performance (total returns)



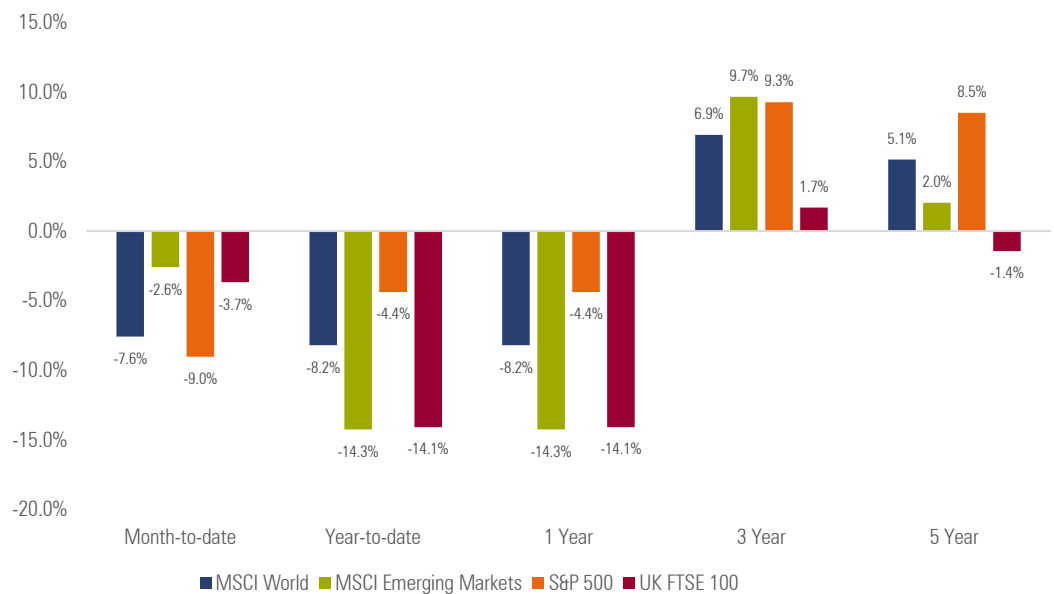
Source: Morningstar Direct as at 31/12/2018. Returns are in South African Rand and have been annualised for periods longer than 1 year.

Emerging markets fared slightly better than developed markets in December in the continuation of a recent trend towards the back end of 2018. Both the **MSCI World Index** (-7.6%) and the **MSCI Emerging Markets Index** (-2.6%), however, finished December in the red.

Most major equity markets ended the month in negative territory, with the UK's **FTSE 100** (-3.7%) faring slightly better than Germany's **FSE DAX** (-5.3%) and Japan's **Nikkei 225** (-7.2%).

U.S. equities led the global market selloff in December, with both the **S&P 500** (-9.0%) and the **NASDAQ 100** (-8.8%) sharply negative for the month. Poor performance during December meant that U.S. equities finished 2018 with their first negative calendar year return since 2008.

### Exhibit 3: International Market Performance (total returns)



Source: Morningstar Direct as at 31/12/2018. Returns are in US dollars and have been annualised for periods longer than 1 year.

### Impact on client portfolios

2018 was a largely disappointing year for investors with significant equity allocations. Local risk assets including equities and listed property both largely produced negative returns. Global equity allocations received a strong tailwind from a weaker rand during the year, however, this was not enough to significantly offset disappointing US dollar returns from most equity markets. Conservative investors fared much better in 2018, with local cash and bonds comfortably outperforming local risk assets during the year.

We are aware that investors may be worried when reviewing the progress that they have made towards achieving their financial goals during 2018. Global equity markets produced negative returns (in both Rands and US dollars) during the year and South African equities have now underperformed for a significant period. We would encourage investors to remain calm and rational when making investment decisions. Asset class behaviour can be volatile in the short-term, however, history has taught us that investors with long time horizons need decent allocations to risk assets in order to generate inflation beating returns.

<b>Local Market Indices</b>	<b>1 Month</b>	<b>Year-to-date</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>7 Years</b>
JSE All Share	4.25	-8.53	-8.53	4.33	5.77	10.69
JSE SA Listed Property	-1.06	-25.26	-25.26	-1.19	5.70	9.96
All Bond Index	0.64	7.69	7.69	11.07	7.71	7.80
STeFI (Money Market)	0.60	7.25	7.25	7.39	6.91	6.47
<b>Local Market Sectors</b>	<b>1 Month</b>	<b>Year-to-date</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>7 Years</b>
JSE Top 40	4.76	-8.31	-8.31	3.55	5.44	10.55
JSE Mid Cap	3.37	-9.73	-9.73	7.14	6.34	10.33
JSE Small Cap	-0.85	-14.59	-14.59	2.06	4.25	10.46
FTSE/JSE SA Resources	12.33	15.55	15.55	22.29	-0.35	0.37
FTSE/JSE Ind/Financials	0.62	-8.76	-8.76	5.08	8.94	14.14
FTSE/JSE SA Industrials	2.35	-17.55	-17.55	-1.91	4.91	13.42
<b>Global Market Indices</b>	<b>1 Month</b>	<b>Year-to-date</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>7 Years</b>
MSCI World	-7.57	-8.20	-8.20	6.91	5.14	9.66
MSCI Emerging Markets	-2.60	-14.25	-14.25	9.65	2.03	3.61
S&P 500	-9.03	-4.38	-4.38	9.26	8.49	12.70
NASDAQ 100	-8.83	0.04	0.04	12.59	13.34	17.16
FTSE 100	-3.67	-14.08	-14.08	1.68	-1.44	3.74
SSE Composite	-2.55	-28.48	-28.48	-12.65	0.77	0.55
Nikkei 225	-7.15	-7.89	-7.89	6.91	5.24	9.54
FSE DAX	-5.30	-22.18	-22.18	1.13	-1.72	6.72
US T-Bill 3m	0.21	2.02	2.02	1.11	0.68	0.51
<b>Commodities</b>	<b>1 Month</b>	<b>Year-to-date</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>7 Years</b>
Oil Price Brent Crude	-8.36	-19.55	-19.55	13.01	-13.43	-9.43
Gold	5.05	-0.93	-0.93	6.46	1.21	-2.54
Platinum	-2.11	-14.81	-14.81	-3.17	-10.30	-7.44
Copper	-4.38	-16.66	-16.66	8.25	-4.21	-3.32

## Disclaimer

©2019 Morningstar. All Rights Reserved. The Morningstar name and logo are registered trademarks of Morningstar, Inc. The information, data and analyses contained herein (1) includes the confidential and proprietary information of Morningstar, (2) may not be copied or redistributed, (3) does not constitute investment advice (4) is provided solely for informational purposes and therefore is not an offer to buy or sell a security, and (5) is not warranted to be correct, complete or accurate. Morningstar shall not be responsible for any trading decisions, damages, or other losses resulting from, or related to, this information, data or analyses or their use. All data sourced from Morningstar Direct. Past performance is not a guide to future returns. Morningstar Investment Management South Africa (Pty) Ltd is an authorised financial services provider (FSP 45679).

## Morningstar South Africa

C/O Spaces (Regus)  
4th Floor Sunclare Building  
21 Dreyer Street  
Claremont  
7708  
+27 21 446 8300