MORNINGSTAR®

Market Overview

May 2019

Market and Economic Summary

Global equity markets came under pressure in May as the escalation of trade tensions and its possible effect on global economic growth weighed on sentiment. U.S. President Donald Trump turned his attention to trade agreements with Mexico and India, despite tariff issues with China not being resolved after lengthy negotiations. Investors turned to the safe-haven appeal of developed market bonds, with U.S. bond yields falling to levels not seen in almost two years.

U.S. economic data releases in May were rather disappointing with manufacturing activity falling to a 9-year low, a slowdown in the services sector and disappointing durable goods orders. Retail sales in Q2 also look likely to be sharply lower than what was achieved in the first quarter of the year.

The resignation of U.K. Prime Minister, Theresa May, increased the continued uncertainty around Brexit and weighed on the economy, increasing the likelihood that the U.K. will leave the E.U. without a deal.

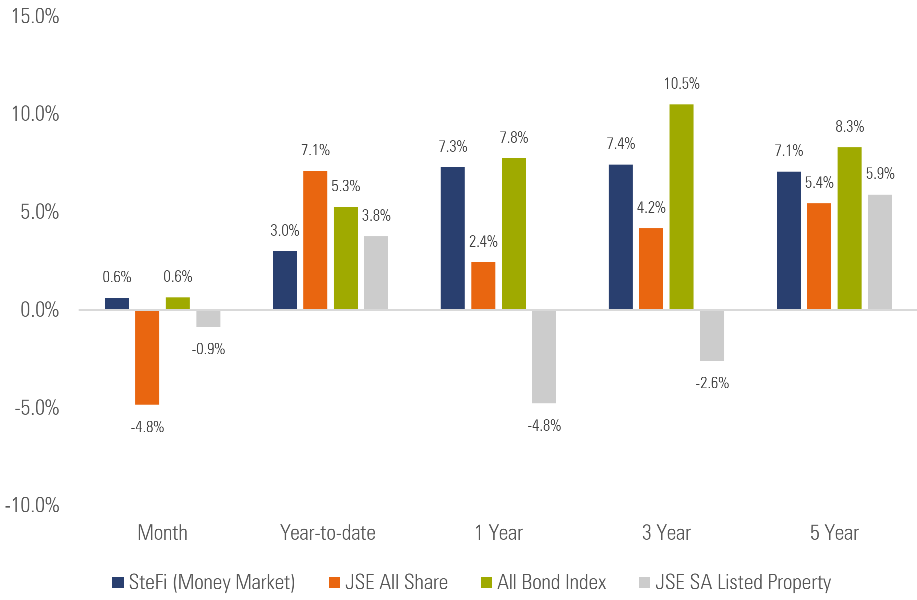
South African equities were not spared from concerns around slowing global growth, despite the outcome of elections appearing to hand President Cyril Ramaphosa with a mandate to continue reforms. The asset class ended with a negative monthly return for the first time in six months, giving back some of its year-to-date gains.

The local listed property space also sold off, in line with the risk off environment and continues to face headwinds from the weak South African economy.

Local bonds managed to deliver positive performance for the month, despite the rand coming under pressure and concerns around the strain placed on government finances from Eskom’s debt levels.

The South African Reserve Bank Monetary Policy Committee met towards the end of May and left the repo rate unchanged at 6.75%, which was largely in line with consensus forecasts. Surprisingly, however, two of the five MPC members voted for an interest rate cut and the market is now pricing in a 100% chance of an interest rate cut of 25 basis points by the end of the year.

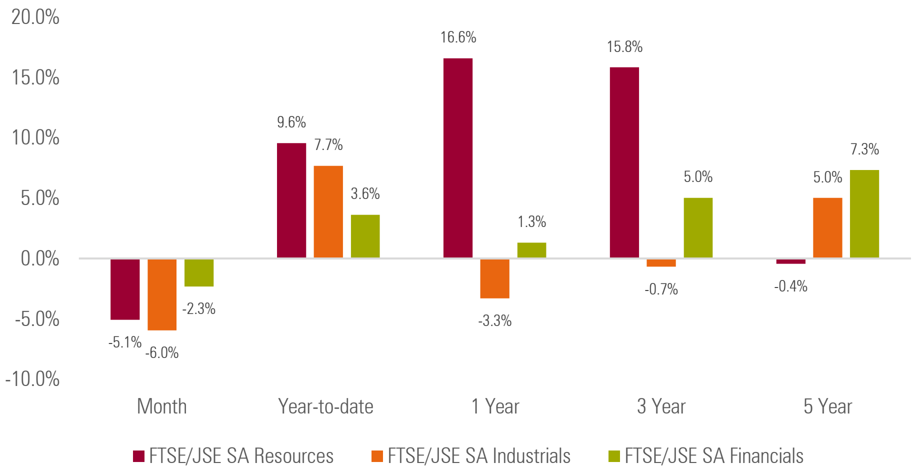
Exhibit 1: SA Market Performance (total returns)



Source: Morningstar Direct as at 31/05/2019. Returns are in South African Rand and have been annualised for periods longer than 1 year.

All local sectors ended the month lower, with **Financials** (-2.3%) faring slightly better than **Resources** (-5.1%) and **Industrials** (-6.0%).

Exhibit 2: SA Sector Performance (total returns)



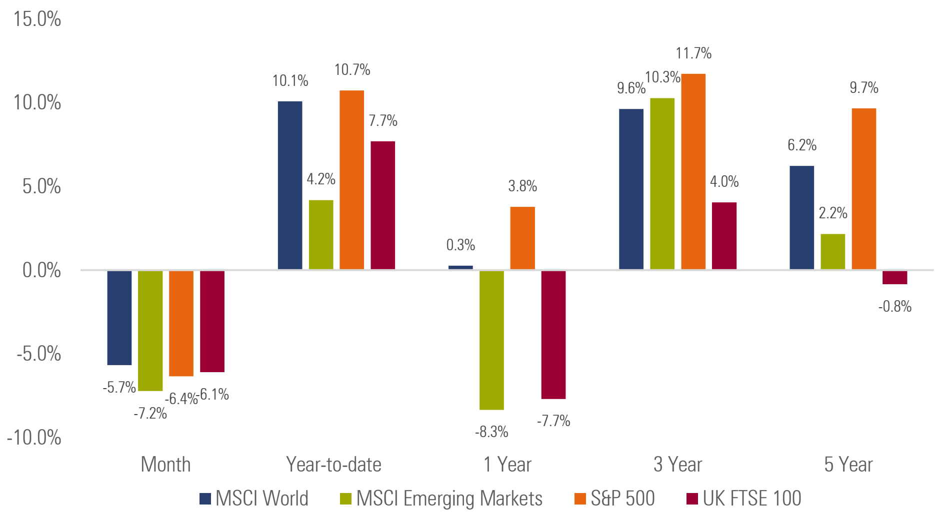
Source: Morningstar Direct as at 31/05/2019. Returns are in South African Rand and have been annualised for periods longer than 1 year.

Developed market equities came under pressure during the month, driven lower by trade tensions and fears of a global economic slowdown. The **MSCI World Index** delivered a return of -5.7% for the month.

Emerging market equities sold off in line with the global risk off sentiment. The **MSCI Emerging Markets Index** (-7.2%) ended May sharply lower, mainly due to poor performance from Chinese equities.

Most major equity markets ended the month lower, with Japan's **Nikkei 225** (-5.1%), Germany's **FSE DAX** (-5.5%), the UK's **FTSE 100** (-6.1%) and China's **Shanghai SE Composite** (-8.1%) all performing poorly in May.

Exhibit 3: International Market Performance (total returns)



Source: Morningstar Direct as at 31/05/2019. Returns are in US dollars and have been annualised for periods longer than 1 year.

Impact on client portfolios

The month of May provided South African investors with a striking reminder of how dependent we are on global sentiment to drive our local equity market. The external environment turned negative during the month, largely driven by escalating trade tensions between the world's two largest economies and concerns around slowing GDP growth. As a small open economy which makes up less than 1% of global GDP, South Africa is very sensitive to changes in global investor sentiment and risk appetite.

Both South African and global equities delivered poor returns during May, largely driven by concerns around escalating trade tensions. Rand depreciation did cushion the blow slightly from the poor performance from global equities, however, not enough to offset negative equity returns. Investors with significant exposure to equities received disappointing outcomes during the month. Income investors were largely sheltered from the equity market selloff, as local and global bonds and cash delivered positive returns for end investors.

While May was a disappointing month for most investors, 2019 year-to-date returns from most portfolios remain healthy. We would encourage investors to take a long-term view when investing rather than making investment decisions based on news headlines.

Local Market Indices	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
JSE All Share	-4.84	7.09	2.43	4.17	5.44	10.99
JSE SA Listed Property	-0.87	3.76	-4.78	-2.60	5.89	8.84
All Bond Index	0.64	5.26	7.75	10.49	8.31	7.96
STeFI (Money Market)	0.61	3.00	7.29	7.43	7.06	6.57
Local Market Sectors	**1 Month**	**YTD**	**1 Year**	**3 Years**	**5 Years**	**7 Years**
JSE Top 40	-5.09	7.64	2.80	4.10	5.16	11.09
JSE Mid Cap	-3.53	1.76	0.47	2.20	5.45	9.04
JSE Small Cap	-2.68	-1.47	-13.70	-2.73	1.79	8.83
FTSE/JSE SA Resources	-5.09	9.56	16.59	15.83	-0.43	2.85
FTSE/JSE Ind/Financials	-2.31	3.63	1.32	5.03	7.32	12.52
FTSE/JSE SA Industrials	-5.95	7.68	-3.30	-0.68	5.01	12.89
Global Market Indices	**1 Month**	**YTD**	**1 Year**	**3 Years**	**5 Years**	**7 Years**
MSCI World	-5.68	10.08	0.27	9.62	6.22	11.00
MSCI Emerging Markets	-7.22	4.19	-8.34	10.28	2.16	4.19
S&P 500	-6.35	10.74	3.78	11.72	9.66	13.53
NASDAQ 100	-8.25	13.15	3.41	17.67	15.13	17.43
FTSE 100	-6.09	7.70	-7.69	4.04	-0.84	5.41
SSE Composite	-8.10	15.60	-13.17	-1.76	5.17	1.73
Nikkei 225	-5.06	4.94	-5.20	8.99	7.70	10.28
FSE DAX	-5.54	8.26	-11.19	4.58	-0.75	7.76
US T-Bill 3m	0.20	1.03	2.34	1.41	0.88	0.65
Commodities	**1 Month**	**YTD**	**1 Year**	**3 Years**	**5 Years**	**7 Years**
Oil Price Brent Crude	-11.41	19.87	-16.88	9.08	-10.07	-6.36
Gold	1.03	1.29	-0.75	2.24	0.71	-2.60
Platinum	-11.02	0.38	-12.79	-6.61	-11.58	-7.88
Copper	-10.27	-3.09	-15.30	7.15	-3.74	-3.68

Disclaimer

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