

Market Overview

June 2019

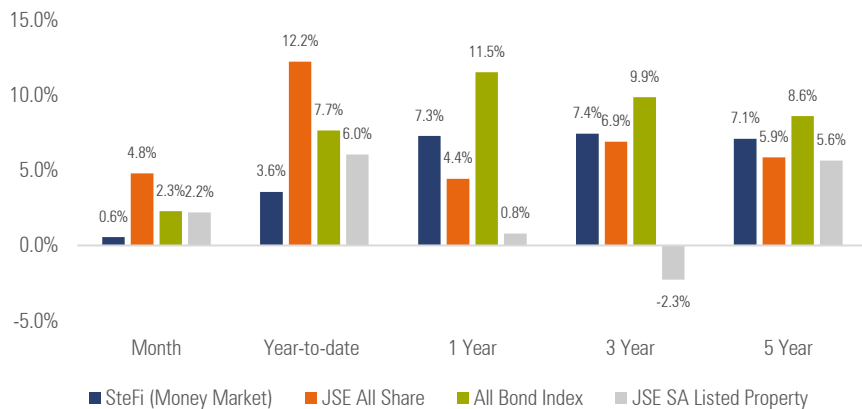
Market and Economic Summary

Global markets rebounded strongly in June following suggestions by major central banks that they are willing to provide support in the form of lower interest rates. This included U.S. Federal Reserve Chair Jerome Powell, who said that he stood “ready to act”, with the Fed showing that Powell has plenty of support for accommodative monetary policy from fellow members of the Federal Open Market Committee.

Easing trade concerns also proved supportive of global equity markets, as the U.S. and China agreed to pause a tit for tat trade war which has spooked markets recently. U.S. Treasury Secretary Steve Mnuchin indicated late in June that a trade deal with China was “90% complete”.

Most global equity markets finished the month higher and developed market bond yields continued to fall in June, as interest rate markets price in expectations for almost three U.S. rate cuts by the end of the year.

Exhibit 1: SA Market Performance (total returns)



Source: Morningstar Direct as at 30/06/2019. Returns are in South African Rand and have been annualised for periods longer than 1 year.

South African equities rallied in June, driven higher by large mining stocks as well as Naspers, which was supported by strong performance from its largest subsidiary Tencent, following improving trade sentiment. Local bonds were supported by the positive global backdrop and finished the month higher, despite foreign selling and the

absence of economic reform measures which is likely to constrain growth and place pressure on the finances of the fiscus.

The rand was significantly stronger during June against most major currencies, as the shift in the monetary policy stance of the major central banks proved supportive of emerging market currencies.

Headline inflation continues to be manageable, with the latest year-on-year figure for May coming in at 4.5%, which was slightly above market expectations due to higher food and fuel prices.

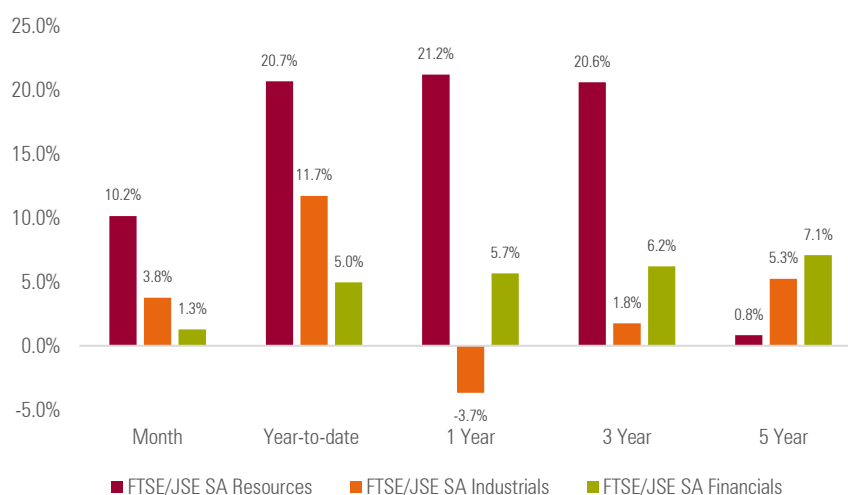
The market is now pricing in a significant chance of an interest rate cut from the Monetary Policy Committee in July, with the possibility of another interest rate cut later in the year.

The results of the Quarterly employment survey (QES) released by Statistics South Africa, showed an increase of 22,000 jobs in the formal non-agricultural business sector from 10,152 million to 10,174 million. This was largely due to increases in the following industries: community services (+0.7%), mining and quarrying (+1.3%), manufacturing (+0.4%) and business services (+0.2%).

Total employment increased by 76,000 jobs or +0.8% year-on-year from March 2018 to March 2019.

In terms of local equity sectors, **Resources** (+10.2%) finished the month sharply higher, while both **Industrials** (+3.8%) and **Financials** (+1.3%) managed to eke out a positive return.

Exhibit 2: SA Sector Performance (total returns)



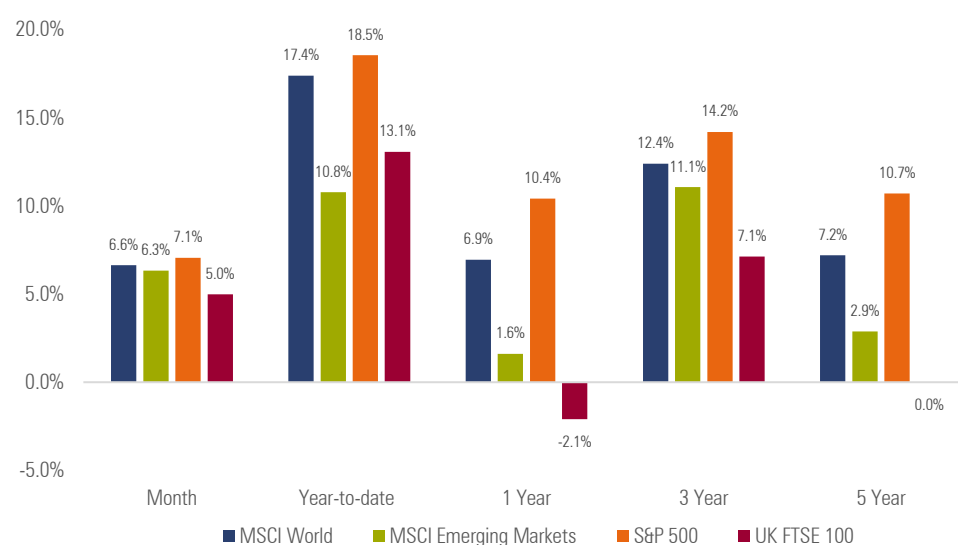
Source: Morningstar Direct as at 30/06/2019. Returns are in South African Rand and have been annualised for periods longer than 1 year.

Developed market equities delivered strong performance in the month, driven higher by positive trade rhetoric and accommodative comments from global central banks. The **MSCI World Index** delivered a return of +6.6% for the month.

Emerging market equities were also up strongly during the month, with the **MSCI Emerging Markets Index** (+6.3%) delivering positive performance.

Most major equity markets ended the month higher, with Germany's **FSE DAX** (+8.1%), the UK's **FTSE 100** (+5.0%), Japan's **Nikkei 225** (+4.3%) and China's **Shanghai SE Composite** (+3.3%) all finishing the month with positive returns.

Exhibit 3: International Market Performance (total returns)



Source: Morningstar Direct as at 30/06/2019. Returns are in US dollars and have been annualised for periods longer than 1 year.

Impact on client portfolios

South African investors will be pleased with returns generated from portfolios during June. Local equities drove performance during the month in line with the global risk on environment and local bonds also held up well given the difficult local economic landscape. Global equities also contributed to portfolio outcomes, despite rand strength against most major currencies detracting slightly from the performance of global allocations.

While global political headlines appear to be moving markets on a monthly basis, we do not claim to have any ability in forecasting these events, let alone how they are likely to move markets. We will instead focus on the fundamentals, investing clients' money in assets where we believe there is sufficient reward for the risk taken. By investing in undervalued and unloved assets using a valuation driven approach, we believe that we can generate significant excess returns for end investors.

Local Market Indices	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
JSE All Share	4.78	12.21	4.42	6.89	5.85	11.44
JSE SA Listed Property	2.20	6.04	0.79	-2.27	5.64	8.14
All Bond Index	2.27	7.65	11.50	9.86	8.59	7.80
STeFI (Money Market)	0.55	3.56	7.27	7.42	7.08	6.58
Local Market Sectors	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
JSE Top 40	5.39	13.45	4.57	7.43	5.64	11.68
JSE Mid Cap	2.46	4.26	5.19	1.94	5.61	8.92
JSE Small Cap	-0.16	-1.63	-10.89	-2.81	1.77	8.37
FTSE/JSE SA Resources	10.16	20.69	21.22	20.63	0.83	4.13
FTSE/JSE Ind/Financials	1.29	4.96	5.66	6.22	7.09	12.25
FTSE/JSE SA Industrials	3.76	11.73	-3.69	1.75	5.25	13.18
Global Market Indices	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
MSCI World	6.63	17.38	6.94	12.39	7.20	11.23
MSCI Emerging Markets	6.32	10.78	1.61	11.06	2.87	4.53
S&P 500	7.05	18.54	10.42	14.19	10.71	13.98
NASDAQ 100	7.69	21.85	10.16	21.56	16.14	18.07
FTSE 100	4.98	13.06	-2.10	7.12	-0.01	5.11
SSE Composite	3.29	19.40	0.92	-0.55	5.61	3.10
Nikkei 225	4.32	9.47	0.18	11.34	7.72	10.36
FSE DAX	8.05	16.98	-1.73	9.50	0.96	8.18
US T-Bill 3m	0.19	1.22	2.36	1.47	0.92	0.68
Commodities	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
Oil Price Brent Crude	3.19	23.70	-16.23	10.24	-9.96	-5.37
Gold	8.76	10.16	12.68	2.18	1.39	-1.79
Platinum	3.41	3.81	-3.88	-6.45	-11.18	-7.65
Copper	3.30	0.11	-10.15	7.35	-3.00	-3.40

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