

Market Overview

July 2019

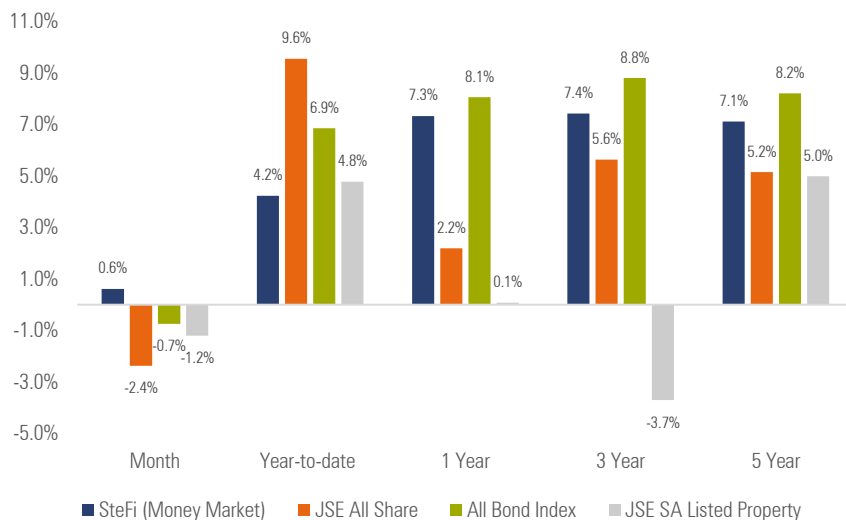
Market and Economic Summary

July proved to be a tough month for global markets as trade war fears weighed on sentiment. Asian markets came under pressure, as U.S. President Donald Trump criticised China’s position on trade, which increased concerns that the trade truce between the two largest economies in the world may be a thing of the past.

In a much-anticipated move, U.S. Federal Reserve Chair Jerome Powell announced a reduction in interest rates by 0.25% towards the end of July. The central bank also announced that it will end its balance sheet reduction two months earlier than planned.

Global economic data released in July proved to be mixed, with year-on-year GDP growth for the U.S. coming in at 2.1% (to the end of Q2 2019), higher than consensus forecasts of 1.9%. Both U.S. and German manufacturing data, however, showed a significant downward trend amid a slowdown in global trade, increasing the likelihood of future support from the major global central banks.

Exhibit 1: SA Market Performance (total returns)



Source: Morningstar Direct as at 31/07/2019. Returns are in South African Rand and have been annualised for periods longer than 1 year.

The South African equity market struggled in July, weighed down by poor performance from the big four banks as well as mining companies which make up a significant portion of the local equity index.

After a strong start to the month following expectations of a U.S. interest rate cut, the rand came under pressure towards the end of July, as Finance Minister Tito Mboweni announced an additional R59bn in support for power utility Eskom to assist in meeting its financial obligations.

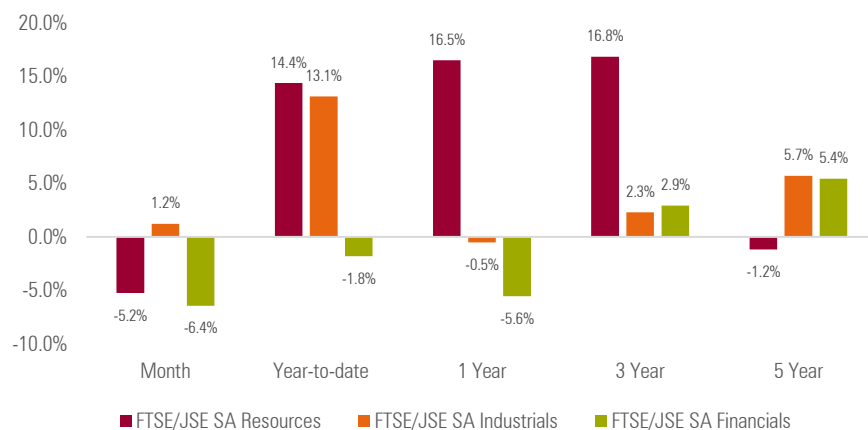
The South African Reserve Bank announced a reduction in the repo rate of 0.25% in July, as year-on-year inflation continues to hover around the midpoint of the target range of between 3% and 6%.

Retail sales beat expectations for a second consecutive month, rising 2.2% year-on-year in May following an increase of 2.7% year-on-year in April. Other positive news came in the way of a widening trade surplus, as exports grew faster than imports during June.

South Africa remains plagued by widespread unemployment, as evidenced by the latest reported figure of 29% for the second quarter of 2019, the highest on record.

Industrials (+1.2%) finished the month with a positive return, while **Resources** (-5.2%) and **Financials** (-6.4%) struggled.

Exhibit 2: SA Sector Performance (total returns)



Source: Morningstar Direct as at 31/07/2019. Returns are in South African Rand and have been annualised for periods longer than 1 year.

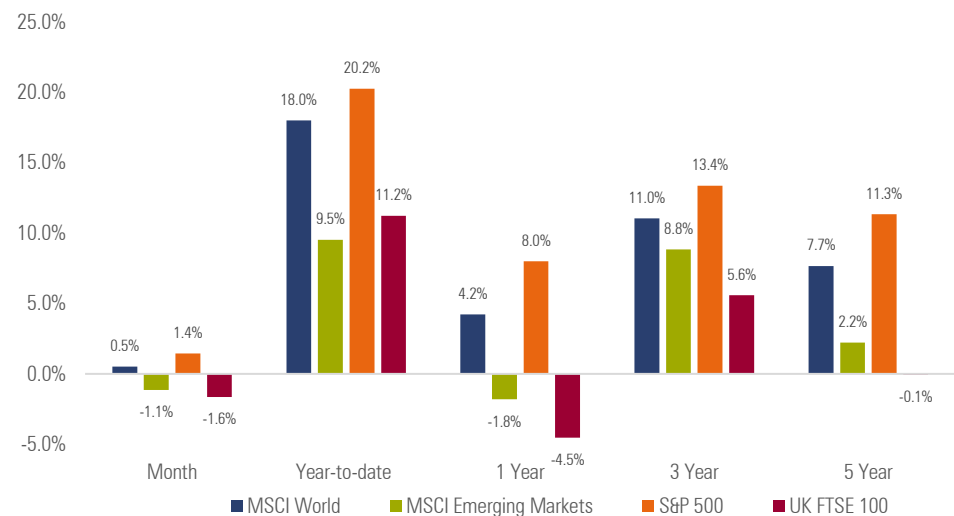
Developed market equities had mixed fortunes in July, as U.S. equities delivered decent performance, while Asian and European markets fared slightly worse. The **MSCI World Index** delivered a return of +0.5% for the month.

Emerging market equities struggled during the month on the back of concerns around trade and a global economic slowdown. The **MSCI Emerging Markets Index** (-1.1%) delivered disappointing performance for the month.

Most major equity markets ended the month lower, with the UK's **FTSE 100** (-1.6%), China's **Shanghai SE Composite** (-1.8%) and Germany's **FSE DAX** (-3.9%) all ending the month in negative territory. Japan's **Nikkei 225** (+0.4%) bucked the global trend with a positive return for the month.

U.S. equities delivered decent performance during July, with both the **NASDAQ 100** (+2.4%) and the **S&P 500** (+1.4%) finishing the month higher, supported by better than expected U.S. corporate earnings from index heavyweights Alphabet and Apple in particular.

Exhibit 3: International Market Performance (total returns)



Source: Morningstar Direct as at 31/07/2019. Returns are in US dollars and have been annualised for periods longer than 1 year.

Impact on client portfolios

The month of July was challenging for South African investors. Local cash was the only South African asset class that delivered a positive return for the month. Global allocations contributed positively to the performance of portfolios, particularly allocations to U.S. equities, which benefited from decent hard currency returns as well as slight rand weakness against the US dollar.

While the month of July may have been disappointing for investors, year-to-date performance from portfolios remains decent. We will continue to follow a long-term, valuation driven approach when employing capital. By allocating money to out of favour and unloved areas of the market, we hope to generate superior risk adjusted returns for clients over extended time periods.

Local Market Indices	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
JSE All Share	-2.37	9.55	2.19	5.63	5.15	10.63
JSE SA Listed Property	-1.20	4.77	0.08	-3.70	4.99	6.69
All Bond Index	-0.74	6.85	8.06	8.80	8.21	7.09
STeFI (Money Market)	0.61	4.23	7.33	7.43	7.11	6.61
Local Market Sectors	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
JSE Top 40	-2.63	10.47	2.16	6.51	4.96	10.85
JSE Mid Cap	-1.99	2.18	2.56	-1.35	4.53	8.04
JSE Small Cap	0.51	-1.13	-8.84	-3.46	1.67	8.15
FTSE/JSE SA Resources	-5.24	14.37	16.50	16.83	-1.17	3.60
FTSE/JSE Ind/Financials	-6.44	-1.80	-5.55	2.93	5.43	10.60
FTSE/JSE SA Industrials	1.23	13.11	-0.52	2.30	5.71	12.56
Global Market Indices	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
MSCI World	0.52	17.99	4.21	11.04	7.66	11.10
MSCI Emerging Markets	-1.14	9.51	-1.80	8.83	2.22	4.06
S&P 500	1.44	20.24	7.99	13.36	11.34	13.99
NASDAQ 100	2.36	24.73	9.74	19.72	16.41	18.29
FTSE 100	-1.64	11.21	-4.53	5.58	-0.06	4.70
SSE Composite	-1.80	17.25	1.08	-1.65	3.62	3.68
Nikkei 225	0.38	9.89	0.50	9.16	7.48	10.64
FSE DAX	-3.88	12.43	-9.42	5.49	1.52	7.20
US T-Bill 3m	0.18	1.40	2.37	1.52	0.96	0.70
Commodities	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
Oil Price Brent Crude	-2.07	21.13	-12.23	15.35	-9.21	-6.59
Gold	1.32	11.61	16.92	2.08	2.12	-1.81
Platinum	6.72	10.79	5.05	-8.59	-9.92	-6.78
Copper	-0.76	-0.65	-4.62	6.89	-3.65	-3.46

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