

Market Overview

January 2020

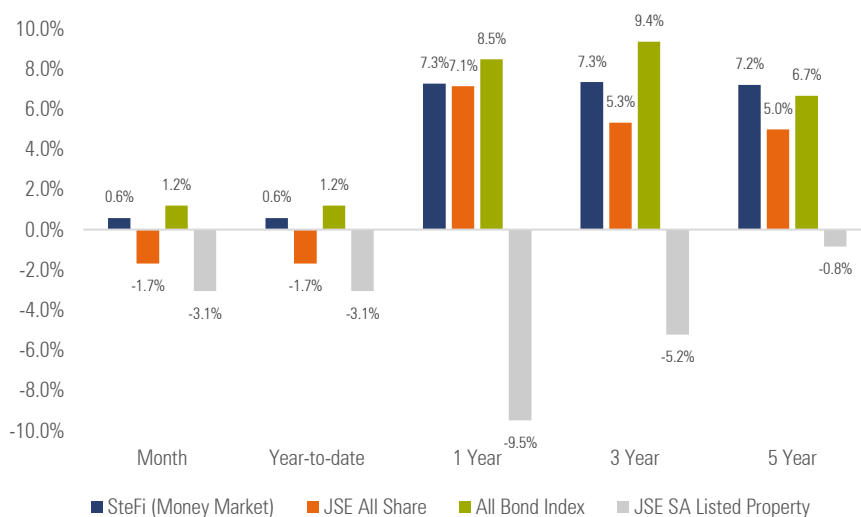
Market and Economic Summary

The year started with a largely risk off tone, as concerns around the Coronavirus and its impact on global economic growth drove investors out of equities and into perceived safe havens including gold and developed market government bonds.

US equities bucked the global trend slightly, with the NASDAQ delivering decent performance, largely due to strong performance from Amazon on the back of a better than expected earnings announcement.

The UK finally left the EU on 31 January after years of uncertainty, entering an 11-month period during which it will need to renegotiate new trade agreements with its biggest partners in Europe.

Exhibit 1: SA Market Performance (total returns)



Source: Morningstar Direct as at 31/01/2020. Returns are in South African Rand and have been annualised for periods longer than 1 year.

South African equities got off to a difficult start to the year, delivering poor performance in line with the risk off tone in major equity markets.

Local bonds were the best performing local asset class for the month, supported by the largely unexpected interest rate cut by the South African Reserve Bank (SARB) in January.

Local listed property continued to come under pressure, despite the attractive initial yields on offer, as the sector continues to be plagued by lower lease escalations and high vacancies.

The rand was significantly weaker against most major currencies during the month, which did provide support to certain rand hedge local equity counters that generate significant earnings in foreign markets.

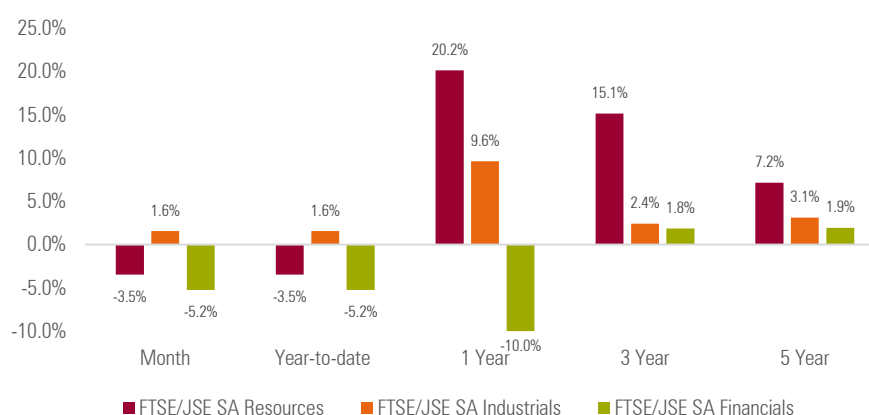
The SARB cut the repo rate in its January meeting from 6.50% to 6.25%, as the Monetary Policy Committee (MPC) cited lower future inflation and growth forecasts.

After three consecutive month on month declines, consumer price inflation (CPI) picked up to a year on year figure of 4.0% to the end of December 2019.

Market participants are now looking ahead to the budget speech by Finance Minister Tito Mboweni on 26 February, with concrete plans desperately needed to stem rising government debt levels.

The weak rand propped up the performance of the **Industrials** (+1.6%) index, while **Resources** (-3.5%) and **Financials** (-5.2%) fared slightly worse.

Exhibit 2: SA Sector Performance (total returns)



Source: Morningstar Direct as at 31/01/2020. Returns are in South African Rand and have been annualised for periods longer than 1 year.

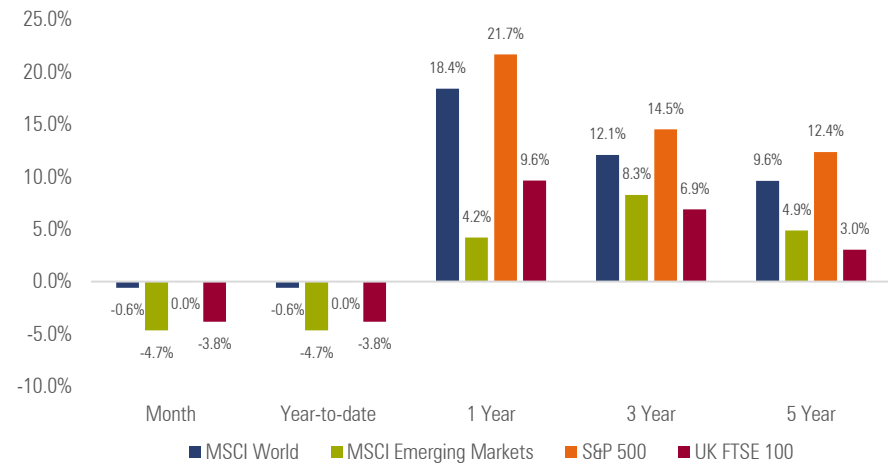
Developed market equities ended the month slightly in the red, as most major equity markets ended in negative territory. The **MSCI World Index** delivered a return of -0.6% for the month.

Emerging market equities struggled during the month, as the risk off tone led market participants away from those areas highly geared to the strength of the global economy. The **MSCI Emerging Markets Index** delivered a return of -4.7% for the month.

Most major equity markets ended the month lower, with Japan's **Nikkei 225** (-1.6%), China's **Shanghai SE Composite** (-1.9%), Germany's **FSE DAX** (-3.3%) and the UK's **FTSE 100** (-3.8%) all delivering poor performance.

US equities bucked the global trend slightly, with the **NASDAQ 100** (+3.0%) finishing the month higher and the **S&P 500** (-0.0%) finishing largely flat for the month.

Exhibit 3: International Market Performance (total returns)



Source: Morningstar Direct as at 31/01/2020. Returns are in US dollars and have been annualised for periods longer than 1 year.

Impact on client portfolios

Despite disappointing performance from local risk assets including equities and listed property during the month, the weak rand provided a nice buffer for the performance of client portfolios. The rand was significantly weaker against major developed market currencies during the month, which provided a strong tailwind for offshore exposures. Income focussed investors received decent outcomes during the month, as local bond allocations benefitted from the surprise interest rate cut from the SARB during January.

We will continue to follow a valuation driven approach when investing client capital. By allocating to unloved and undervalued assets in a diversified portfolio, we believe that we can assist clients in achieving their financial goals at the lowest level of risk possible. While 2020 has started with no shortage of attention-grabbing news headlines, we would encourage to investors to stay the course and focus on the long term rather than being influenced into making financial decisions which may harm their ability to generate strong investment results in the future.

Local Market Indices	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
JSE All Share	-1.69	-1.69	7.14	5.32	4.99	8.01
JSE SA Listed Property	-3.06	-3.06	-9.50	-5.23	-0.84	4.92
All Bond Index	1.19	1.19	8.48	9.35	6.66	7.21
STeFI (Cash)	0.58	0.58	7.27	7.34	7.20	6.74
Local Market Sectors	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
JSE Top 40	-1.44	-1.44	7.87	6.10	5.21	7.95
JSE Mid Cap	-3.12	-3.12	9.42	2.20	3.82	8.08
JSE Small Cap	-0.71	-0.71	-6.68	-6.49	-1.45	5.18
FTSE/JSE SA Resources	-3.48	-3.48	20.15	15.13	7.16	2.59
FTSE/JSE Ind/Financials	-5.24	-5.24	-10.00	1.84	1.93	7.79
FTSE/JSE SA Industrials	1.56	1.56	9.63	2.42	3.13	9.08
Global Market Indices	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
MSCI World	-0.58	-0.58	18.40	12.08	9.62	10.31
MSCI Emerging Markets	-4.66	-4.66	4.21	8.28	4.87	2.73
S&P 500	-0.04	-0.04	21.68	14.54	12.37	13.90
NASDAQ 100	3.01	3.01	31.60	22.00	18.09	20.00
FTSE 100	-3.83	-3.83	9.64	6.88	3.03	3.47
SSE Composite	-1.91	-1.91	11.43	-2.21	-3.51	1.63
Nikkei 225	-1.64	-1.64	14.56	10.35	9.41	10.40
FSE DAX	-3.26	-3.26	12.22	4.89	3.58	4.52
US T-Bill 3m	0.13	0.13	2.07	1.74	1.13	0.82
Commodities	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
Oil Price Brent Crude	-11.88	-11.88	-6.03	1.45	1.88	-9.32
Gold	4.58	4.58	19.72	9.31	4.68	-0.71
Platinum	0.74	0.74	16.81	-1.09	-4.72	-7.63
Copper	-9.52	-9.52	-9.39	-2.02	0.24	-5.32

Disclaimer

©2020 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

5th Floor
20 Vineyard Road
Claremont
7708
+27 21 201 4645