Seed Market Overview

30 April 2019

Local Market

The FTSE/JSE All Share Index rallied for the fifth consecutive month in April. As in the previous month, Naspers was a key contributor after the counter recorded a 9.7% month-on-month gain. MTN Group and Anheuser-Busch also had a good run, recorded gains of 16.7% and 5.7% respectively. The financial sector had the best run, ending 7.6% stronger. Heavyweights Standard Bank, Firstrand and Absa Group all recording solid gains in excess of 10%. Resources sector recorded month-on-month losses for the first time this year, ending -2.0%.

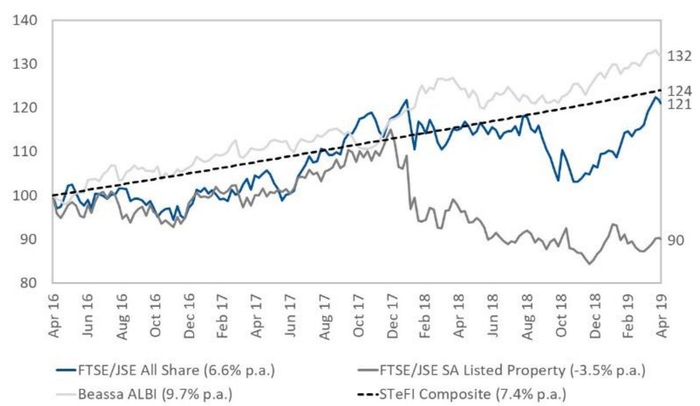
The Rand started the month strongly, nudging below R14/$1 after Moodys' reprieve, which kept South Africa's sovereign credit rating investment grade. The currency, however, retraced some of these gains as the market experienced pre-election jitters, ending the month with only a 1.3% gain on the US dollar after having gained 4% 10 days into the month. Bond yields followed a similar trajectory, with the R186 ending the month more expensive and yielding marginally lower at 8.5%.

Listed property gained 3.2% in April, bringing the year-to-date gains to 4.7% - ahead of the All Bond Index and cash so far this year. The month saw gains in counters like Growthpoint, Fortress A, Resilient, Vukile, NEPI Rockcastle and Redefine, driving the index return. The sector has been under pressure since last year, recording significant losses and underperforming other asset classes. The last 3 years have favoured cash and bonds over equities and listed property as illustrated in **Chart 1** (below).

The South African economy is currently going through a low growth environment, which has a negative impact on real estate. The office sector is facing the most pressure with negative rental growth due to oversupply, increased vacancies and tenant consolidations.

Similarly, retail and residential face weak fundamentals due to oversupply. With consumers under pressure, and the economy experiencing weak growth, industrial real estate is also experiencing weakening fundamentals. However, valuations are currently attractive, and the relatively high forward yield compensates investors for the muted growth expectations.

Chart 1: South African Asset Class Returns over 3 Years since 1 May 2016



Source: Seed Investments, Morningstar Direct (30 April 2019)

Global Market

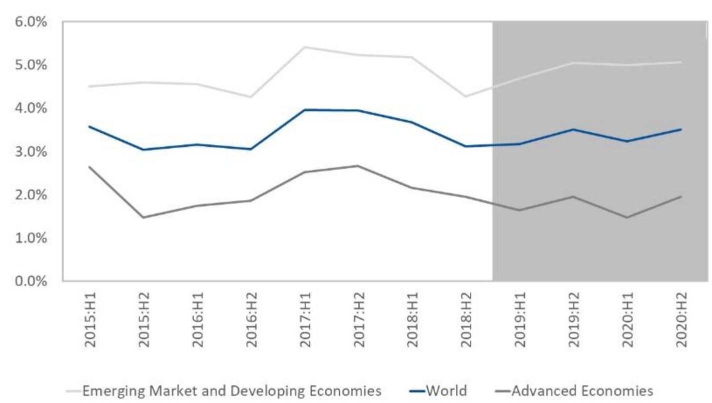
The MSCI All Country World Index gained 3.4% in April, with developed markets outperforming emerging markets. The MSCI World Index (developed markets) rose 3.5%, while the MSCI Emerging Market Index gained 2.1%. The US and European equity markets surged, with a revived appetite for risk boosted by improved global growth data, solid corporate earnings and the Fed's dovish tone. S&P 500 year-to-date gains reached 18.0%, while China remained a top performer with the MSCI China A shares up 33.3%. The markets have outperformed, in spite of the persistent trade disputes.

The latest World Economic Outlook by the International Monetary Fund (IMF) forecasts a slowdown in global economic growth. Last year, the global economy was forecast to grow at 3.9% in 2018 and 2019. However, the projection has deteriorated, and the global economy is now expected to grow by 3.3% in 2019 before picking up again in 2020, as illustrated in **Chart 2** (below). The global economy experienced strong growth in 2017 and early 2018, and economic activity slowed down in the second half of 2018 due to a number of factors, including –

- Declining Chinese growth after regulatory tightening
- Escalating US – China trade tension
- Euro area weakening consumer and business confidence (Car production in Germany was disrupted by the introduction of new emission standards, investment in Italy waned as sovereign spreads widened and external demand from emerging Asia softened)
- Tightening financial conditions in vulnerable emerging markets as well as some advanced economies

Conditions have eased this year, with optimism for a US-China trade deal and the US Fed signalling a more accommodative monetary policy. The recent growth forecast envisages that global growth will level off in the first half of 2019, and then firm up again after that. A number of factors should aid the growth pickup, including a build-up of policy stimulus in China, improvement in global financial market sentiment and a gradual stabilization of economies currently facing temporary drags and economic stress.

Chart 2: IMF Global Growth Outlook (Annualised Half-Yearly Forecasts)



Source: IMF Estimates (April 2019)

Asset Class (ZAR)	MTD	YTD	1 Year	3 Years	5 Years	10 Years
Local Equity	4.2%	12.5%	3.9%	6.6%	6.8%	14.3%
Local Property	3.2%	4.7%	-9.6%	-3.5%	5.8%	12.3%
Local Bonds	0.7%	4.6%	5.0%	9.7%	8.4%	8.6%
Local Cash	0.5%	2.2%	6.6%	6.8%	6.4%	6.0%
Global Equity	2.8%	15.6%	20.7%	11.8%	13.8%	17.1%
Global Property	-1.4%	13.1%	28.8%	6.1%	13.7%	20.0%
Global Bonds	-1.1%	0.9%	15.2%	0.7%	7.0%	7.9%
Global Cash	-0.4%	0.5%	17.5%	1.8%	7.4%	6.0%

Compiled by Seed Investment Consultants (Pty) Ltd, a licensed Financial Services Provider (2346). Data and illustrations reflect market data as at 30 April 2019.

Seed Market Overview

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seed investments

Seed Local Review

Equity

The JSE All Share returned a strong 4.2% in April, bringing the YTD return to 12.5%. After a very good first quarter, Resources lagged by 2.0% this month, as several commodity prices came down and Gold counters struggled. Industrials (6.5%) and Financials (7.6%) both contributed positively, as Banks and other domestically focused counters rallied. The market's strong YTD performance has outpaced earnings growth, and the more demanding valuations mean that less value is on offer. We are maintaining our equity allocations at levels just below benchmark.

Property

The SA Property Index bounced back in April with a 3.2% return, and the sector remains in the green YTD (4.7%) after a disastrous 2018. Slow economic growth remains a headwind for the sector, leading to increased vacancies and negative real rental growth. In current conditions, a property portfolio with a very attractive one year forward yield of 15.4% can be constructed, although the growth on this yield will be lower than inflation. Our valuation models continue to indicate a maximum weighting, despite the risks of expected distributions not materialising.

Bonds

The ALBI returned a modest 0.75% this month, and has lagged risk assets on a YTD basis - but remains the top local asset class over a 3-year (9.7%) and 5-year period (8.4%). Both the yield on the R186 benchmark bond (8.54%), and the 10-year rate (8.97%) were virtually unchanged this month. Implied inflation, as determined by the relationship between nominal and inflation-linked bond yields, increased to 5.6% as ILB's delivered 3.5% for the month. Our valuation model indicates that bonds are fairly valued, but practically, we continue to take duration risk in the Property sector in our funds.

Cash

Annual inflation increased to 4.5% in April from last month's 4.1%, with rising fuel prices the main culprit. The IMF expects GDP growth to come in at a low 1.2% for the year, which limits the possibility of any further rate increases. Cash currently delivers an attractive 2.7% real yield. We appreciate the optionality in cash, but recognise that several other asset classes offer more value at the moment. As a result, we remain neutral.

Seed Global Review

Currency

The rand strengthened against the majors during April, despite losing ground during the second half of the month. Positive news from Moody's on the SA Credit rating initially took the rand to R13.91/$ mid-month, but the ZAR weakened again from that point and closed at R14.30/$. The USD remains supported by strong US GDP growth, and the Fed's sustained dovish tone. At month end, the ZAR was 5% undervalued against the trade weighted basket of currencies on a purchasing power parity basis. Significantly, the ZAR was 24% undervalued versus the USD using the same methodology.

Equity

Global equities had another positive month across both Emerging and Developed markets, as global central banks remain accommodative and investors' risk appetites seems to increase. The MSCI ACWI delivered 3.4% during April, bringing the YTD return to a very strong 16.0%. US markets continue to outperform on the back of strong corporate earnings, and the S&P500 returned 4.0% for the month (18.2% YTD). The MSCI EM Index lagged during April, but China remains the top performing market YTD. We maintain our global equity ranking at overweight, and continue to favour allocation to high quality stocks.

Fixed Income

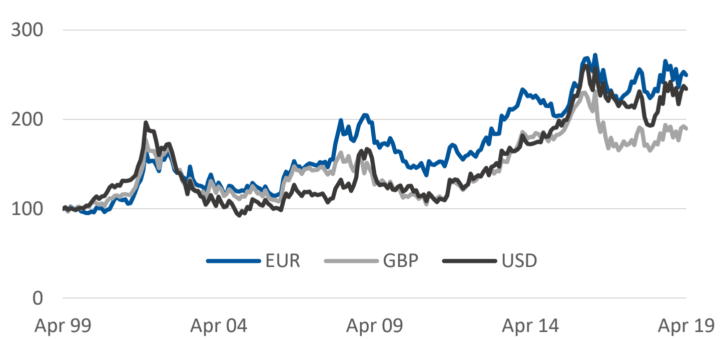
The yield on the US 10-year treasury bond increased to 2.51% this month, as investors preferred risk assets to the safe haven offered by bonds. The US Fed remains dovish, and market consensus is for rates to remain unchanged for the rest of the year. US GDP growth for Q1 has beaten expectations, and inflation is stable to trending up, leading BCA Research to opine that long-term bond yields will slowly grind higher from these levels.

Alternative

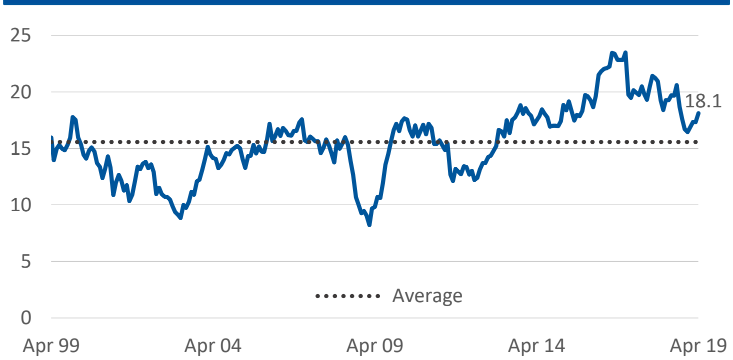
Other asset classes that can be considered include structured notes, private equity, direct real estate, commodities and hedge funds, and can provide investors with uncorrelated returns. However, as interest rates are slowly but surely rising, these alternative investments do become less attractive. These assets can still perform a useful role in multi asset portfolios, as they help provide more consistent returns.

ZAR vs USD

Currencies vs ZAR (rebased to 100)



ALSI vs PE Ratio



SA Government 10 Year Bond Yield