Seed Market Overview

31 December 2019

Local Market

December was a reasonably good month overall for the local market. South African equities performed better than global equity markets in December, gaining 3.3%. The FTSE/JSE All Share delivered a respectable 12.1 % return for the year, outperforming inflation by nearly 8%. Up 7.0% for the month, the Resources sector was the key contributor to the index performance. Telecommunications recorded losses of 9.9% for the month, as MTN faced legal battles and Telkom shares fell a further 25.7%.

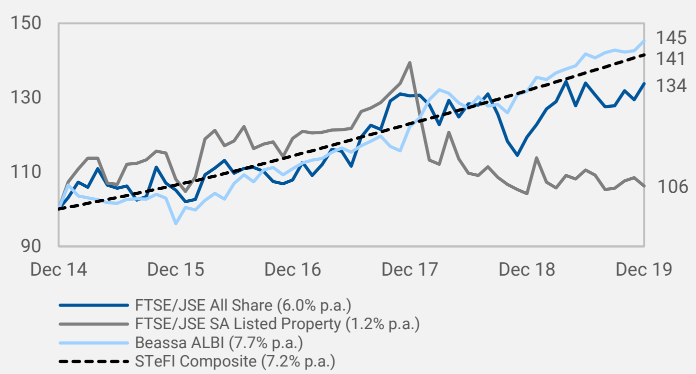
The listed property sector was the worst performing asset class for the year once again, despite recovery to modest growth after the sector plunged 25% in 2018. The FTSE/JSE South African Listed Property Index lost 2.1% in December, recording another year of negative real returns as structural adjustments have yet to run their course.

Bonds had a good month, outperforming Developed and Emerging Market aggregates. This is despite a very negative fiscal outlook and a high possibility of a rating downgrade by Moody's in the first half of 2020. The 1.9% gain of the All Bond total return Index was supported by a very strong ZAR in December. Rand ended the month 4.6% stronger at R 14.01 per US Dollar.

On the 9th of December Eskom implemented the previously unheard-of stage 6 load shedding, putting further strain on South Africa's economic growth. In response to the most severe power cuts the country has experienced to date, Goldman Sachs Group described the debt-laden power utility as the biggest threat to the South African economy.

As it forms the base for government revenue, low nominal GDP is intensifying SA's fiscal predicament. SA's nominal economic growth fell to its lowest rate in over 25 years (3.8%). This is mainly due to low inflation and weak real economic growth. Weaker nominal GDP and lower tax compliance have led to disappointing government revenue collection. On the other hand, rising emigration numbers are also threatening SA's shrinking tax base.

Chart 1: South African Asset Class Returns Over 5 Years Since 1 Jan 2015



Source : Seed Investments, Morningstar Direct (31 December 2019)

Global Market

Global markets exceeded most investors' expectations in 2019 and ended the year strongly as a result of supportive economic data and easing trade tensions.

December brought a little more certainty on two major global issues. First, the British voted for Boris Johnson as Britain's Prime Minister, and thus for Brexit as quickly as possible. Second, the last-minute decision of the US administration to cancel the December 15 rise in tariffs on Chinese imports seemed to de-escalate the US-Chinese tariffs war.

Equities recorded its best calendar year performance since 2013, which was widely welcomed by investors given that global markets suffered their worst year in a decade in 2018.

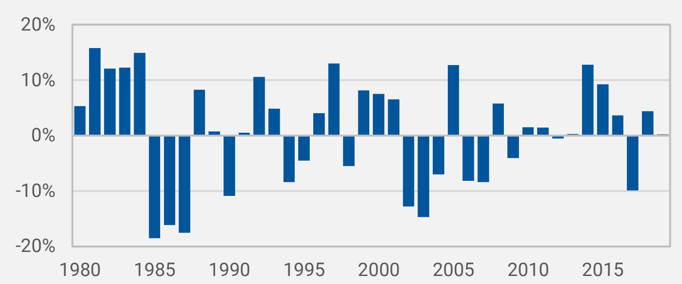
The S&P 500 gained 31.5% for the year on a total return basis, making 2019 a year to remember for risk assets. Gold gained 3.6% in December and 18.3% for the year, the best annual performance in a decade, as central banks globally relaxed monetary policy to boost economic growth.

The MSCI Emerging Markets Index returned a decent 7.5% in December but recorded a less impressive yearly return of 18.4%. The Purchasing Managers' Indices (PMIs) stabilized in many regions during the month, although manufacturing mostly remained in recessionary territory. December saw the United States ISM manufacturing index fall to its lowest level since June 2009.

Numerous characteristics of risk-on sentiment emerged in December. The US dollar depreciated against developed market currencies, particularly the Euro, as well as emerging market currencies as the global environment appeared to be less risky.

The US dollar index recorded its smallest-ever annual move, rising just 0.2% for the year after a drop in December reversed earlier gains.

Chart 2: US Dollar Index (DXY) Annual Change



Source : Investing.com (31 December 2019)

Asset Class (ZAR)	MTD	YTD	1 Year	3 Years	5 Years	10 Years
Local Equity	3.3%	12.0%	12.0%	7.4%	6.0%	10.8%
Local Property	-2.1%	1.9%	1.9%	-3.7%	1.2%	10.8%
Local Bonds	1.9%	10.3%	10.3%	9.4%	7.7%	8.9%
Local Cash	0.5%	6.6%	6.6%	6.7%	6.5%	6.0%
Global Equity	-1.2%	23.1%	23.1%	13.3%	12.6%	16.0%
Global Property	-4.2%	20.6%	20.6%	9.8%	11.0%	17.8%
Global Bonds	-4.4%	3.1%	3.1%	4.8%	6.1%	8.9%
Global Cash	-4.4%	-0.5%	-0.5%	2.6%	5.1%	7.4%

Seed Market Overview

31 December 2019

Local Review

Equity

The JSE All Share Index returned a strong 3.3% in December, ending the year with a double digit return of 12.1%. Resources (7.0%) had another excellent month with platinum shares as the key contributor. Industrials (2.4%) also performed well, while Financials (0.7%) lagged. Stocks delivered a mixed bag of returns with big gains in resource companies such as Impala Platinum (27.5%) and Gold Fields (+24.6%), together with big losses in Telecommunications with Telkom down 25.7%. Our models indicate that there is reasonable value on offer and we therefore maintain our equity allocations at levels close to benchmark.

Property

The SA Property Index returned -2.1% in December, recording another disappointing yearly return of 1.9%. The 3-Year and 5-Year returns for this sector are even lower. The outlook for all three sub-sectors (office, retail and industrial) remain weak, and short-term total returns are expected to be generated by income rather than capital appreciation. We maintain a neutral ranking on this asset class.

Bonds

The ALBI delivered a very good return of 1.9% in December, and bonds remain a great local asset class over the last 5-Year period. The benchmark R186 yield decreased slightly to 8.25% at month end, and the risk premium component remains close to 15-Year highs. The World Bank has lowered SA's economic growth forecasts to below 1% for 2020 as SA faces the possibility of a downgrade in March by Moody's. Our valuation model indicates that bonds are fairly valued, and the high yield in real terms is looking attractive compared to other asset classes.

Cash

In line with market expectations, annual inflation decreased to a very low 3.6% from 3.7% in the previous month. It remains at the very low end of the SARB's target band. Cash currently delivers a very attractive 3.2% real yield. We appreciate the optionality in cash, but recognise that several other asset classes currently have higher expected real returns.

Global Review

Currency

The rand strengthened against the majors during December as a result of a favourable global environment. Most Emerging Market currencies rallied on the back of easing tensions between the US and China. ZAR closed the month at R 14.01/$ from a starting point of R 14.65/$. At month end, the ZAR was fairly valued against the trade weighted basket of currencies on a purchasing power parity basis. Significantly, the ZAR was 20% undervalued versus the USD using the same methodology.

Equity

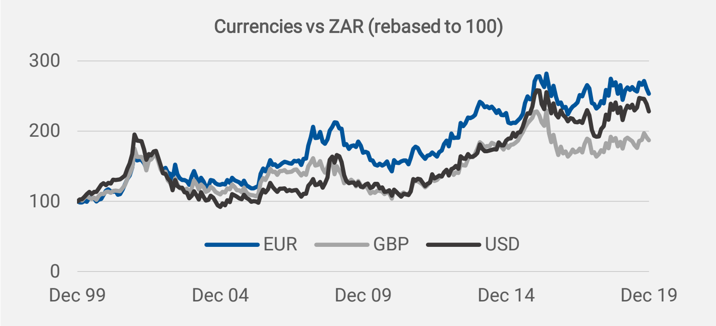
Global developed equity markets had another good month, with the MSCI ACWI returning 3.5%, and the S&P500 up 3.0%. Emerging Markets outperformed Developed Markets, with the MSCI Emerging Markets Index returning 7.5% for the month. This performance was mainly driven by stronger Brazilian and Chinese markets. Globally, economic activity is picking up, and cyclical sectors and economies are starting to outperform defensives. We therefore maintain our global equity ranking to overweight and continue to favour allocation to high quality stocks.

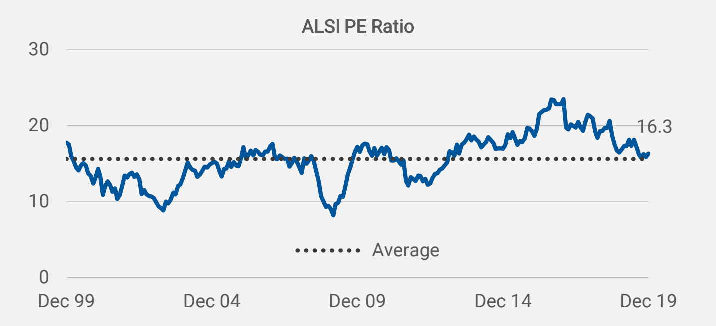
Fixed Income

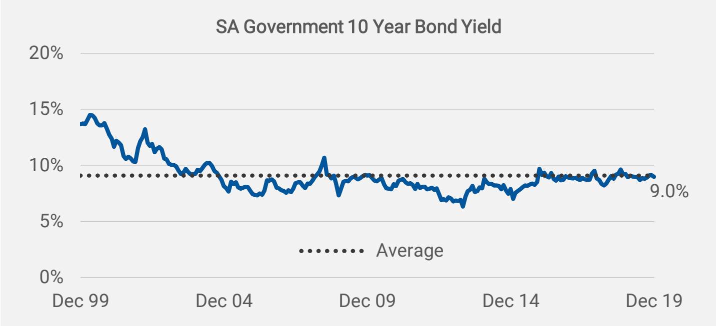
With renewed risk-on sentiment driving some investors towards equities, the US 10-Year treasury bond yield increased to 1.92% in December. With a positive view on global economic growth, longer-term rates are expected to increase further. The US Fed is expected to cut rates once over the next 12 months, and BCA Research opines that yields should reach 2.5% by mid-2020.

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.







Seed Market Overview

31 December 2019

seed investments

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