

A Look at the Latest Market Movements

A Look at the Last Quarter of 2019

The last quarter of 2019 had a sluggish start, with local and global investors bracing themselves for turbulent market conditions amidst headlines about failing SOE's and a possible downgrade to junk status, while global trade tensions spooked the markets.

By the end of the quarter global markets exceeded most investors' expectations and ended the year strongly as a result of supportive economic data and easing trade tensions. Fears of a recession faded as a little more light was shed 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.

Locally, although still having a long way to go, things were slowly but surely starting to look up on various fronts. South Africa yet again survived a downgrade to sub-investment grade by Moody's, although the outlook was changed from stable to negative. The Rand rallied and government bonds gained significantly as the worst-case scenario was averted and the country desperately clung to its last investment grade credit rating.

The ratings announcement came after Finance Minister, Tito Mboweni, delivered the Medium-Term Budget Policy Statement, which painted a bleak picture of the country's finances. Key challenges were highlighted and included stagnant growth, escalating debt, the public sector wage bill and the fiscal risk posed by the state-owned entities.

Fortunately, changes are afoot at South African Airways (SAA) as the state-owned entity has been placed into business rescue. This came as a result of large amounts of debt and a history of mismanagement. Business rescue is South Africa's bankruptcy protection process and the last attempt to save the airways.

At Eskom, the announcement of André de Ruyter as the new CEO took many by surprise. Goldman Sachs Group described the debt laden power utility as the biggest threat to the South African economy, as severe power cuts continued putting further strain on SA's economic growth.

Consumer price inflation (CPI) ended the year in December where it started in January, at 4%. Average inflation for 2019 was 4.1%, lower than the average rates recorded for 2018 (4.7%) and 2017 (5.3%). SA's fiscal predicament intensified as nominal economic growth fell to its lowest rate in 25 years.

By the end of 2019, markets were looking surprisingly enthusiastic, despite the many uncertainties and risks that remain on the horizon. The JSE All share index delivered a healthy double-digit return, somewhat offsetting the very meagre return from the local property sector. In a refreshing change of pace, investors seem to be cautiously optimistic as we step into the new year.

Kind regards,



Lisa Polson *B. Com*

Investment Support

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