Seed Market Overview

31 January 2020

Local Market

After delivering excellent returns in December, the FTSE/JSE All Share Index started 2020 on a disappointing note, falling 1.7% in January. Unsurprisingly, the financial sector, down 5.2% was the worst performing sector for the month, with all the major bank shares down 6% – 9%. Resources also closed the month in the red, down 3.5% as Platinum shares seemed to take a break from its ongoing rally. Fortunately, strong gains from market-cap heavyweights such as British American Tobacco (10.3%) and Naspers (7.4%) were able to mask some of these losses.

Eskom chairman Jabu Mabuza resigned from his position soon after André de Ruyter officially stepped in as the new CEO of the struggling state-owned power utility early in January. Through the course of the month the nation continued to grapple with planned and unplanned power outages as load shedding continued to put economic growth under pressure. Power cuts seem likely to persist throughout the year.

Concerns around Eskom and the outbreak of the Coronavirus drove the Rand 7.3% lower against the US Dollar, making it the worst performing currency against the greenback in January. This has been the biggest drop in the Rand since August 2018.

January also saw a surprising shift in the Monetary Policy Committee's stance as they announced a 0.25% rate cut, bringing the repo rate down to 6.25%. Most analysts expected the cut to only come much later in the year. The repo rate, which is the benchmark interest rate at which the bank lends money to other banks, is now at the lowest level in 4 years, as illustrated **Chart 1** (below). The SARB also lowered its forecasts for inflation and economic growth.

In the month ahead, the Minister of Finance, Tito Mboweni, will deliver the highly anticipated National Budget speech in parliament. This is a key event for investors as they await any signs of the government's plans to address the nation's dire economic situation.

Global Market

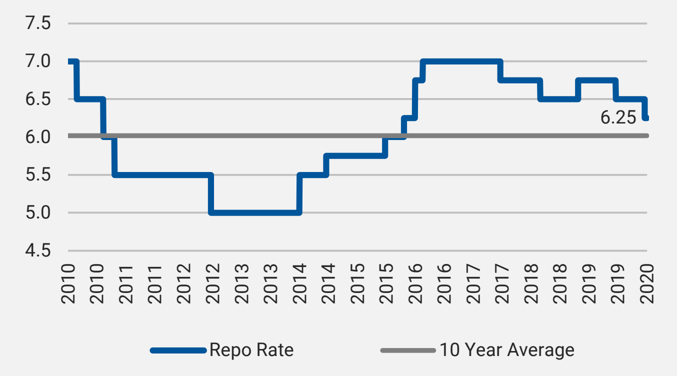
Worries about the US-China trade war took the backseat, as fears that conflict between the US and Iran could escalate took the forefront. This came as a result of the killing of a top Iranian official in a US drone strike ordered by President Trump that took place early in the new year. Fortunately, neither country seemed to want the situation to escalate into a full-on war, and market reactions have been muted after the initial sell-off.

January also saw the US-China 'Phase One' deal officially signed at a White Ceremony on the 15th. The deal stated that the White House would cut some tariffs on imported Chinese goods and that China, in exchange, would pledge to purchase more American agricultural, energy and manufacturing goods, as well as look into US complaints regarding China's intellectual property practices.

The annual World Economic Forum took place in Davos towards the end of the month. Climate change took centre stage as catastrophic bushfires broke out in Australia. The fires have killed at least 29 people and destroyed around 2,500 homes. The fires, along with rising sea levels, heatwaves and flooding are heaping the pressure on investors globally to allocate more money towards sustainable investing.

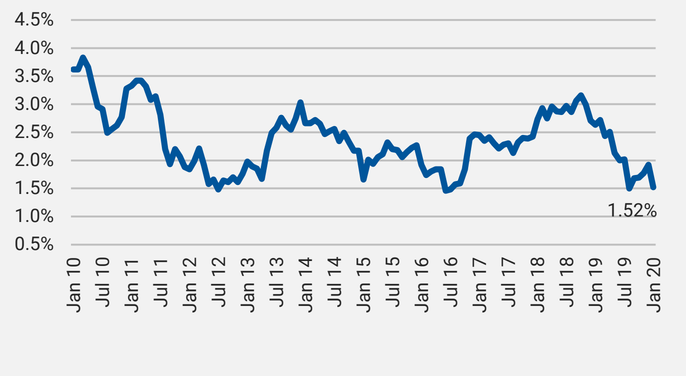
After ending 2019 on a high, global markets closed January lower with negative sentiment being driven by fears of the new Coronavirus (2019-nCoV) outbreak. The virus originated in China and appears to be spreading rapidly, with over 75,000 confirmed cases across 29 countries and at least 2,000 deaths thus far.On the 30th of January, the World Health Organization (WHO) declared the Coronavirus outbreak a Global Public Health Emergency of international concern. The virus could possibly also slow down China's deployment of 5G networks, which is a national priority for the country. Many companies in China have instructed their employees to stay home, resulting in labour intensive services, like network deployment, being hugely impacted. The US 10-Year Government Bond yield hit its lowest level in 5 months as illustrated in **Chart 2** (below), while investor concerns about the economic impact of the Coronavirus increased.

Chart 1 : South Africa's Repo Rate Over the Past 10 Years



Source : South African Reserve Bank (31 January 2020)

Chart 2 : US Government Bond Yield Over the Past 10 Years



Source : Seed Investments (31 January 2020)

Asset Class (ZAR)	MTD	YTD	1 Year	3 Years	5 Years	10 Years
Local Equity	-1.7%	-1.7%	7.1%	5.3%	5.0%	11.0%
Local Property	-3.1%	-3.1%	-9.5%	-5.2%	-0.8%	10.5%
Local Bonds	1.2%	1.2%	8.5%	9.4%	6.7%	9.0%
Local Cash	0.5%	0.5%	6.6%	6.7%	6.6%	6.0%
Global Equity	6.1%	6.1%	31.2%	15.1%	14.2%	16.9%
Global Property	8.4%	8.4%	27.9%	13.3%	11.5%	19.0%
Global Bonds	9.2%	9.2%	20.4%	8.1%	7.8%	9.6%
Global Cash	7.4%	7.4%	15.6%	5.5%	6.5%	7.9%

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Local Review

Equity

Local Equities had a disappointing start to the year as the JSE All Share Index delivered a negative return of -1.7% in January. Financials (-5.2%) continued to lag, with Resources (-3.5%) not far behind. Industrials fared relatively better, (1.6%), propped up by heavyweights such as Naspers, which outperformed for the month. Sixty local shares, including ABSA, PPC, Truworths and Growthpoint hit their 12-month lows during the month. Our models indicate that there is still reasonable value on offer and we therefore maintain our equity allocations at levels close to benchmark.

Property

The SA Property Index recorded yet another month of negative returns, losing 3.1% in January. The 3-year and 5-year returns for this sector are even lower at -9.5% and -5.2% respectively. Oversupply remains a problem in all three subsectors (office, retail and industrial) of the local property market and investors remain wary of this asset class despite the attractive 10.4% yield on offer. We maintain a neutral ranking on this asset class.

Bonds

The ALBI delivered 1.2% this month and bonds remained a great local asset class over the past 5 years.The benchmark R186 yield decreased further to 8.0% at month end, and the risk premium component remains close to 15-year highs. The World Bank lowered South Africa's economic growth forecasts to 0.9% from a previous 1.0% as SA faces a probable downgrade by Moody's ratings agency in March. 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 increased to 4.0% from a very low 3.6%. It remains at the lower end of the SARB's target band. This increase was mainly due to an increase in the costs of food, non-alcoholic beverages and transportations prices. Cash currently delivers a 2.6% 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 weakened 6.7% against the US Dollar during the month and was the worst performing currency against the US Dollar in January. The Rand weakness can be attributed to a myriad of structural problems faced by the local economy, as well as concerns surrounding the Coronavirus affecting all Emerging Markets. The ZAR closed the month at R 15.00/$ from a starting point of R 14.01/$. At month end, the ZAR was 4% undervalued against the trade weighted basket of currencies on a purchasing power parity basis. Significantly, the ZAR was 29% undervalued versus the USD using the same methodology.

Equity

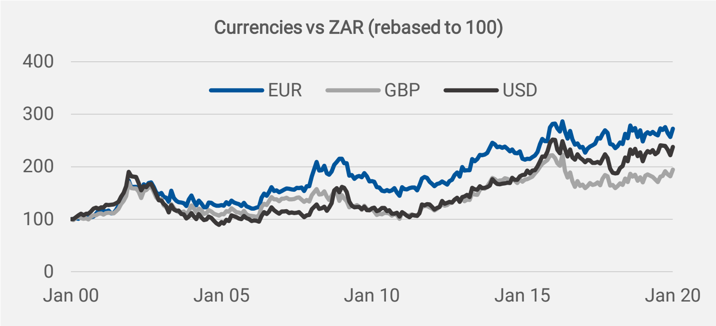
Global developed equity markets had an uninspiring month, with the MSCI ACWI returning -1.1% and the S&P 500 down 0.1%. The MSCI Emerging Markets Index lagged, returning -4.7% on the back of a weaker Chinese market. During the last two weeks of January, global markets recorded some of the most volatile market action in months. As the market continues to shift towards more cyclical sectors, we maintain our global equity ranking to overweight, and continue to favour allocation to high quality stocks.

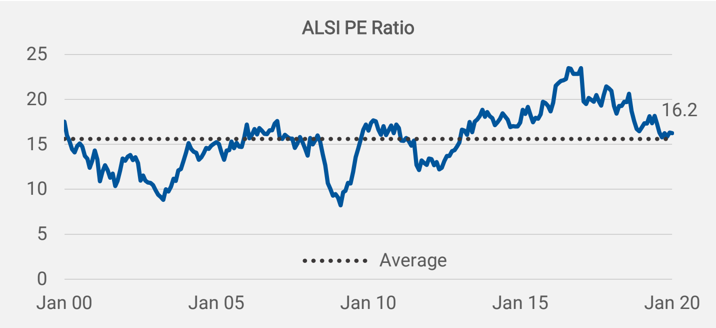
Fixed Income

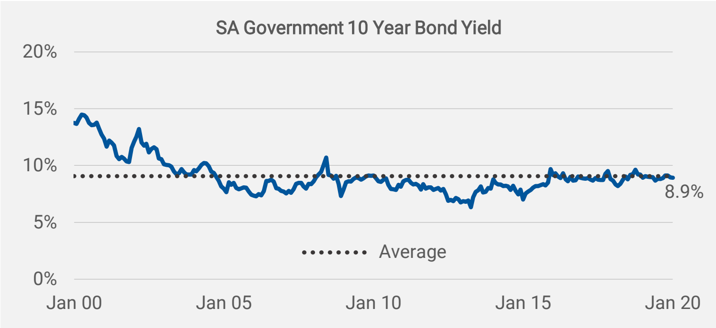
The US 10-year treasury bond yield decreased to 1.5% in December, as investors sought cover in safe haven assets as the long-term impact of the Coronavirus on global ecomomic markets remains uncertain. BCA Research opines that the US Fed will stay on hold for the year, and will not cut rates twice as the market is currently pricing in.

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. .







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