A BETTER QUARTER DESPITE THE UNCERTAINTY

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It's April Fools' Day, so take a large pinch of salt with everything you read today. Therefore, many investors might struggle to believe that returns have improved in the first quarter even as the local economic outlook is unclear with Eskom keeping us in the dark (literally).

Meanwhile, a contentious election is around the corner and the related policy uncertainty is weighing on business sentiment. The rand has also taken a beating recently, which tends to add to the sour mood, even though a softer exchange rate comes with benefits. As a result, the global elements of local balanced portfolios have delivered the goods.

GLOBAL TO THE RESCUE

Global equity markets have rebounded following the fourth quarter collapse when the S&P 500 saw a 19% peak-to-trough decline from early October to Christmas Eve. While data still shows that the global economy is growing much more slowly than 2018, particularly in Europe, the top two risk items for investors have eased. Firstly, the trade talks between the US and China appear to be progressing well, limiting the odds of an all-out trade war. Secondly, central banks are unlikely to overdo interest hikes in the name of normalisation. In particular, the US Federal Reserve is on pause while it assesses the impact of past rate hikes. With inflation muted across the world, central banks have the luxury of being cautious.

The US S&P 500 ended March up 2% and advanced to a solid 13.7% in the first quarter, thereby pushing 12 month returns to 10%. The benchmark European index, the Eurostoxx 600 was positive in March, despite the weakening economy, and returned 13% in the first quarter in euros, lifting one-year returns to 7%.

Emerging market equities gained 0.8% in March and returned almost 10% in the first quarter, but is still moderately negative over the past year in US dollars terms.

The MSCI All Countries World Index, including developed and emerging markets, was up just over 1% in March and returned a strong 12.3% year-to-date in US dollars. This pushed the 12-month return back into the black.

BOND BOOM

Global bonds staged a strong rally in March as interest rate expectations shifted towards potential rate cuts given low inflation and a worsening growth outlook. Bond yields across the developed world slumped (bond prices and yields move in opposite directions) to levels last seen in late 2016. German long bond yields are back in negative territory, while the spread between long- and short-term US bond yields virtually disappeared as long bond yields plunged. When this spread turns negative, or inverts, it has historically presaged a recession. However, the bond market is probably overreacting given that none of the other traditional recession signals are flashing red. Indeed, while lower borrowing costs reflect global growth concerns, it is also part of the solution, reducing pressure on indebted entities and making new borrowing more attractive.

Global listed property has outperformed equity and bonds this year, with the FTSE EPRA/NAREIT Developed US$ Index returning 14% in the first quarter.

RAND FALLS AS TURKEY'S WINGS ARE CLIPPED

The rand lost 2% against the US dollar in March. It reacted much more to last week's negative emerging market sentiment than to stage four load-shedding the previous week. Turkey and Argentina are once again at the centre of an emerging markets sell-off. Ahead of local government elections, the Turkish government has been interfering with the currency market to stabilise the exchange rate. It has had the exact opposite effect. We expect no such shenanigans ahead of our own election in May. It also illustrates that global factors tend to matter more than local. Year-to-date, the rand is basically flat against the dollar and therefore global markets added value to local portfolios in rand terms. Over one year, the rand is quite a bit weaker and therefore boosts the rand return from offshore assets.

MINERS DIGGING OUT OF THE HOLE

Last year was an anomaly on the JSE given that non-resource rand hedge shares disappointed despite the 16% depreciation of the currency. This was largely due to company-specific issues unrelated to the macro-economy. Most notable was British American Tobacco (BAT), one of the largest shares on the local market, which lost 40% mostly due to regulatory concerns. Another was Naspers, the largest share on the JSE, whose share price largely follows the Chinese Internet giant Tencent. This picture is now reversing, with BAT up 26% and Naspers up 17% in the first quarter. (Naspers also announced its intention to separately list its Internet businesses in Amsterdam, which should unlock value for investors but also reduce concentration risk in JSE indices.) Richemont has gained 11%. Unfortunately Aspen, another large rand-hedge casualty of 2018, has continued to decline as investors question its debt-fuelled growth strategy.

But it is the resource shares that held the JSE up this year. In general terms, commodity prices have firmed up from the bombed-out levels of late 2015 but remain well below previous peaks. There are some anomalies. The iron ore price has benefited from reduced Brazilian supply in the wake of the tailings dam disaster, but is still 40% below the 2011 peak. A shortage of palladium has seen the price hit an all-time record above $1 500 per ounce. In contrast, its sister metal platinum is still depressed, and trading at less than half its record high (set in early 2008, when electricity blackouts in South Africa caused fears of a supply crunch). South Africa is the world's largest platinum producer, but we also produce a fair amount of palladium. Led by heavyweights Anglo American and BHP, the Resources Index returned 4.7% in March and 17.9% in the first quarter.

On the other hand, the weak state of the domestic economy is very clearly reflected in the share prices of companies that primarily rely on local customers. Banks, retailers and food producers are in the red in 2019. Financials had a particularly torrid month in March, with the JSE Financials Index losing 4%.

Local listed property suffered from an epic collapse in the first quarter of last year, while things did not fare much better in the subsequent three. It appears that things are stabilising, but the macro-environment for locally focused property companies is still very challenging. The sector bounced strongly in January, but gave back those gains in February and March.

HIGH RATES BAD FOR BORROWERS, GOOD FOR INVESTORS

Balanced portfolios also benefit from local fixed income assets. Money market returns largely depend on the prevailing short-term rates determined by the South African Reserve Bank (SARB). These are currently almost 4% above inflation. The SARB is maintaining high real interest rates to ensure inflation stays close to its 4.5% target (the midpoint of 3%-6%) and to mitigate against the (now much-diminished) risk of the Federal Reserve overdoing rate hikes.

The SARB's Monetary Policy Committee met again last week and kept the repo rate unchanged at 6.75% as expected. Its views are based on an inflation forecast that was largely unchanged, with an average of 4.8% expected this year and 5.3% next year. Meanwhile, it has once again trimmed its economic growth forecast and views growth risks to the downside. It cut its growth outlook for 2019 to 1.3% (from 1.7%) and for 2020 to 1.8% (from 2%). The Reserve Bank seems more or less comfortable with its inflation forecast, and noted the continued decline in surveyed inflation expectations. . However, it is concerned that it is still overestimating economic growth and its leading economic indicator has been declining.

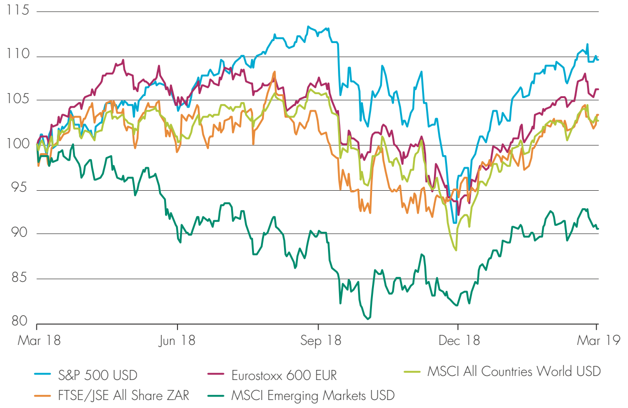
The Monetary Policy Committee maintains that its rate stance is 'accommodative', but it is hard to agree with this characterisation given that real interest rates are almost 3% and households face a squeeze on real incomes. The latest Stats SA data indicate that the average wage increase is less than 5%. If one leaves out the 8%+ increases for the public sector and electricity, gas and water utilities, the rest (essentially the private sector) is getting below inflation increases on average.

Local bonds have delivered a good return this year, as yields have declined marginally. The All Bond Index returned 3.8% in the first quarter. Over one year, the return is muted given the high base set by the 'Ramaphoria' rally early in 2018, and bonds lag cash over the past 12 months. Local bond yields remain attractive, with the 10-year government bond yield ending the month at 8.6%, while the latest inflation print was only 4.1%. Investors should not ignore such a handsome real return of more than 4%.

DON'T BE A FOOL IN APRIL

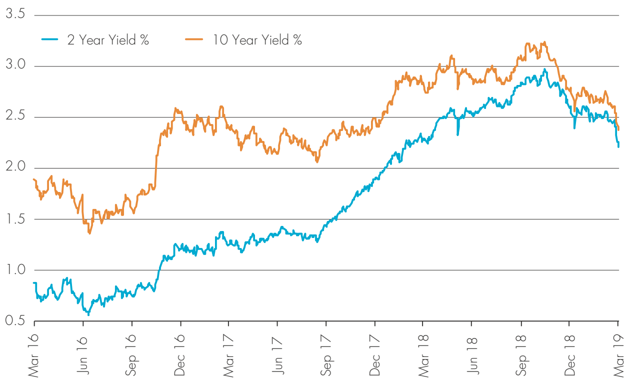
Last year saw the first negative calendar year for local equities in 10 years. The gap between local equity and cash returns at the end of 2018 was a sizable 15%. Global markets also disappointed in dollar terms. The temptation at that point to switch from equities to cash would have been massive for most investors. However, history tells us that after a sell-off in equities, it is usually better to buy than to sell. It is still fairly early in the year, but investors who stayed in the market are starting to reap the benefits. Global exposure has worked recently, but the principle of diversification still applies and local assets should not be written off.

CHART 1: MAJOR GLOBAL EQUITY INDICES OVER THE PAST YEAR, INDEXED TO 100



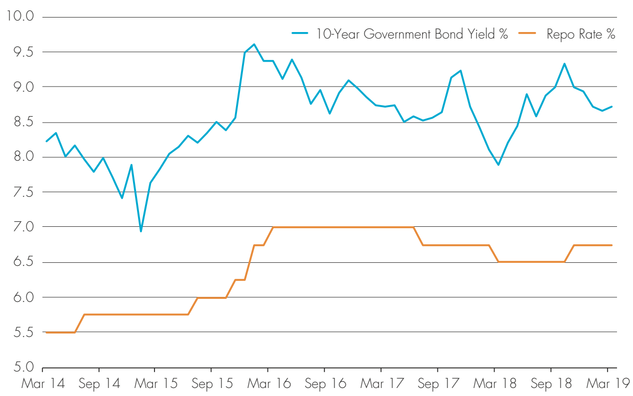
Source: Refinitiv

CHART 2: US GOVERNMENT BOND YIELDS %



Source: Refinitiv

CHART 3: SA REPO RATE AND 10-YEAR GOVERNMENT BOND YIELD %



Source: Refinitiv

INDICATORS

EQUITIES - GLOBAL

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
Global	MSCI World	US$	2 108.0	0.62%	1.05%	11.89%	2.03%
United States	S&P 500	US$	2 834.0	1.18%	1.80%	13.04%	7.23%
Europe	MSCI Europe	US$	1 635.0	0.25%	0.18%	10.03%	-6.62%
Britain	FTSE 100	US$	9 488.0	-0.35%	1.12%	10.52%	-4.09%
Germany	DAX	US$	1 216.0	0.25%	-1.30%	-1.26%	-13.64%
Japan	Nikkei 225	US$	191.3	-2.81%	-0.38%	-1.97%	-3.78%
Emerging Markets	MSCI Emerging Markets	US$	1 058.0	-0.19%	0.67%	9.52%	-9.50%
Brazil	MSCI Brazil	US$	2 081.0	1.81%	-3.97%	7.05%	-7.47%
China	MSCI China	US$	82.9	0.66%	2.44%	17.68%	-8.04%
India	MSCI India	US$	595.8	0.99%	9.12%	6.77%	5.26%
South Africa	MSCI South Africa	US$	462.0	0.87%	-2.12%	3.82%	-19.79%

EQUITIES - SOUTH AFRICA (TR UNLESS INDICATED OTHERWISE)

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
All Share (Capital Only)	All Share (Capital Index)	Rand	56 463.0	0.63%	0.82%	7.07%	1.78%
All Share	All Share (Total Return)	Rand	8 346.0	0.80%	1.56%	7.97%	5.03%
TOP 40/Large Caps	Top 40	Rand	7 407.0	1.13%	1.95%	8.46%	6.16%
Mid Caps	Mid Cap	Rand	15 747.0	-1.57%	-1.82%	2.76%	-3.74%
Small Companies	Small Cap	Rand	17 343.0	-1.12%	-2.71%	-3.41%	-16.44%
Resources	Resource 20	Rand	3 128.0	0.51%	4.61%	16.18%	40.55%
Industrials	Industrial 25	Rand	13 508.0	1.07%	3.49%	8.80%	-2.08%
Financials	Financial 15	Rand	9 269.0	1.59%	-4.78%	-0.43%	-3.47%
Listed Property	SA Listed Property	Rand	1 868.2	-0.14%	-1.47%	1.48%	-5.69%

FIXED INTEREST - GLOBAL

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
US Aggregate Bond Index	Bloomberg Barclays	US$	489.5	-0.13%	1.25%	2.20%	-0.39%

FIXED INTEREST - SOUTH AFRICA

DESCRIPTION	INDEX	CURRENCY	Index Value	Week	Month-to-date	Year-to-date	1 Year
All Bond	BESA ALBI	Rand	657.0	1.20%	1.28%	3.76%	3.45%
Government Bonds	BESA GOVI	Rand	650.6	1.24%	1.31%	3.82%	3.03%
Corporate Bonds	SB JSE Credit Indices	Rand	97.2	-2.44%	-5.46%	-4.58%	-21.36%
Inflation Linked Bonds	BESA CILI	Rand	254.7	-0.48%	-0.77%	0.50%	-3.14%
Cash	STEFI Composite	Rand	418.0	0.14%	0.57%	1.73%	7.26%

COMMODITIES

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
Brent Crude Oil	Brent Crude ICE	US$	67.6	1.00%	2.41%	25.17%	-2.04%
Gold	Gold Spot	US$	1 292.0	-1.60%	-2.42%	0.86%	-2.49%
Platinum	Platinum Spot	US$	846.0	0.24%	-2.98%	6.68%	-9.52%

CURRENCIES

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
ZAR/Dollar	ZAR/USD	Rand	14.49	-0.02%	-2.81%	-0.99%	-18.31%
ZAR/Pound	ZAR/GBP	Rand	18.90	1.27%	-1.16%	-3.07%	-12.17%
ZAR/Euro	ZAR/EUR	Rand	16.26	0.75%	-1.47%	1.30%	-10.45%
Dollar/Euro	USD/EUR	US$	1.12	0.89%	1.52%	2.41%	9.82%
Dollar/Pound	USD/GBP	US$	1.30	1.34%	2.04%	-1.80%	7.41%
Dollar/Yen	USD/JPY	US$	0.01	0.89%	-0.47%	1.15%	4.16%

Source: I-Net, figures as at 29 March 2019

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ASSET MANAGER MOVEMENTS

There were no manager movements over the past week.

THE WEEK AHEAD

SOUTH AFRICA

- Absa manufacturing purchasing managers' index
- Naamsa new vehicle sales

US

- Retail sales
- ISM indices
- Durable goods orders
- Vehicle sales
- Non-farm payrolls and unemployment

EUROPE

- Eurozone inflation
- Eurozone retail sales

CHINA

- Caixin manufacturing purchasing managers' index

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