RWM MARKET WATCH

28 February 2020

Renaissance Wealth Management

DOMESTIC MARKET

FTSE/JSE EQUITY INDICES		YTD	1 M	3 M	1 Yr
FTSE JSE ALSI (TR)	7 749	-10.5%	-9.0%	-7.6%	-5.7%
BASIC MATERIALS	3 894	-14.7%	-11.6%	-8.7%	-2.5%
INDUSTRIALS	13 164	-4.5%	-6.5%	-2.1%	0.9%
CONSUMER GOODS	10 105	-5.6%	-6.9%	-5.4%	1.3%
HEALTHCARE	6 722	-11.5%	-10.8%	-10.5%	-18.1%
CONSUMER SERVICES	34 189	-16.0%	-11.9%	-16.0%	-17.5%
TELECOMS	10 226	-9.5%	-8.5%	-18.5%	-9.9%
FINANCIALS	33 746	-14.2%	-9.5%	-13.8%	-21.2%
TECHNOLOGY	4 666	3.1%	-3.2%	12.0%	13.6%

SIZE		YTD	1 M	3 M	1 Yr
JSE TOP 40	6 929	-9.7%	-8.4%	-6.5%	-4.6%
SA MID CAPS	14 946	-15.6%	-12.9%	-11.6%	-6.8%
SA SMALL CAPS	14 828	-13.9%	-13.3%	-13.7%	-16.8%

STYLE		YTD	1 M	3 M	1 Yr
SA VALUE	312	-13.4%	-10.6%	-12.5%	-17.5%
SA GROWTH	643	-7.8%	-7.5%	-2.9%	0.2%

INTEREST RATE SENSATIVES		YTD	1 M	3 M	1 Yr
SA LISTED PROPERTY	1 534	-18.3%	-15.7%	-20.0%	-19.1%
BEASSA ALBI	706.48	1.1%	0.0%	3.0%	8.9%

CASH		YTD	1 M	3 M	1 Yr
STEFI INDEX	445.69	1.1%	0.5%	1.7%	7.2%

EXCHANGE RATES		YTD	1 M	3 M	1 Yr
ZAR/USD	15.66		15.03	14.67	14.07
ZAR (Appreciation)/Depreciation		12.1%	4.2%	6.8%	11.3%
ZAR/GBP	20.07		19.82	18.95	18.66
ZAR (Appreciation)/Depreciation		8.3%	1.3%	5.9%	7.6%
ZAR/EUR	17.27		16.65	16.15	16.01
ZAR (Appreciation)/Depreciation		10.1%	3.7%	6.9%	7.9%

BORROWING RATES			1m Ago	3m Ago	12m Ago
SA REPO	6.3%		6.3%	6.5%	6.8%
SA PRIME OVERDRAFT	9.8%		9.8%	10.0%	10.3%

ECONOMICS	Last Avail	2018	2017	2016	2015
SA REAL GDP YOY	-0.5%	0.8%	1.3%	0.3%	1.4%
CPI YOY	4.5%	4.5%	5.3%	6.3%	4.6%
CURRENT ACC (AS % of GDP)	-3.2%	-3.6%	-2.8%	-4.6%	-5.1%
UNEMPLOYMENT RATE	29.1%	27..1%	27.5%	26.7%	25.3%

ASISA CATEGORIES (IN ZAR)		YTD	1 M	3 M	1 Yr
SA MULTI-ASSET LOW EQUITY		-1.0%	-2.0%	-0.4%	4.4%
SA MULTI-ASSET MEDIUM EQUITY		-2.5%	-3.4%	-1.7%	2.6%
SA MULTI-ASSET HIGH EQUITY		-3.9%	-4.6%	-2.8%	0.8%
SA EQUITY GENERAL		-9.5%	-8.1%	-7.2%	-6.8%
SA REAL ESTATE GENERAL		-16.9%	-14.3%	-18.0%	-19.2%

GLOBAL MULTI-ASSET LOW EQUITY		8.8%	2.3%	5.7%	14.5%
GLOBAL MULTI-ASSET HIGH EQUITY		5.5%	-0.6%	3.6%	15.0%
GLOBAL MULTI-ASSET FLEXIBLE		4.9%	-1.0%	3.1%	14.4%
GLOBAL EQUITY GENERAL		2.9%	-3.2%	1.5%	14.8%

Source: Bloomberg, Morningstar

QUARERLY COMMENTARY

On the face of it, 2019 appears to have been a rather prosperous year for local investors. The FTSE/JSE All Share Index and the ALBI were up 12% and 11% respectively, the rand behaved itself, and the FTSE/JSE Property Index gained 2%. However, the dispersion of returns over the year, particularly in the stock market paints a very different picture.

For example, value underperformed growth by 14%, small caps underperformed large caps by 17%, and a basket of "SA Inc" shares in the SWIX 40 underperformed Rand hedge basket by approximately 35%. The lethargy in the domestic small & mid cap markets mirrors the tragic loss of appetite for risk assets that are directly exposed to the local economy, that continues to bumble along, falling into and out of recession quarter on quarter. While foreigners have been net sellers of SA equities for most of the last 6 years, the resumption of load shedding and a particularly negative MTBPS in Q4 appears to have added more fuel to this fire.

The real winners of 2019 were the platinum and gold miners, with the likes of Impala Platinum and Sibyanya Still-Water up 290% and 260% respectively. The blue-chip rand hedges took direction from the broad-based gains in developed markets and also performed strongly, with the likes of AB InBev, BAT, Naspers, and Richmont all delivering gains in excess of 20% for the year. On the other hand, some of the biggest losers were the local retailers like Shoprite (down 30%), Mr Price (down 23%), Truworths (down 40%) and Massmart (down 50%).

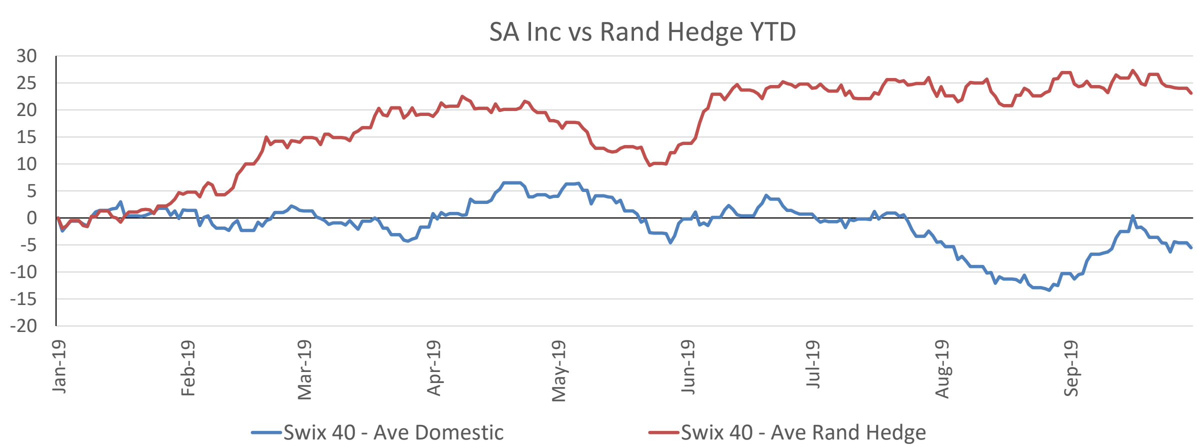
Despite the deteriorating fiscus and worries over a potential downgrade to junk status by S&P, local bonds performed exceptionally well in 2019, gaining 11%. In fact going into year-end, foreigners couldn't resist the juicy real yields on offer, only bettered by Turkey, Nigeria and Lebanon among our emerging-market peers. The November government bond auction was four times oversubscribed and foreigners have been net buyers of SA bonds for the three months running to December 2019.

The movement of the R/$ over the year reflects the strong appetite for real yields in emerging markets, a stark contrast to the ever-growing mass of negative yielding debt in developed markets. Starting the year at 14.38, the rand gained 2.8% against the US$ to 13.98 at year end. Considering the negative news flow around the countries fiscal woes, the ongoing Eskom crisis, the subdued economic activity, and the absence of any positive policy reforms, it's evident that importance of global factors (that currently favour the ZAR) outweigh the domestic issues that appear in the headlines.

CPI figures in November echoed the tepid growth environment investors have grown accustomed to, easing to 3.6% from 3.7% in October. Anaemic consumer confidence and muted growth in household spending explain some of the weakness in inflation, but delayed normalisation in meat prices due to the foot-and-mouth outbreak and normalisation in fuel prices have also contributed to weak inflation numbers.

The reserve bank has pencilled in 5.1% for CPI in 2020, peaking at 5.3% in the first quarter of 2020, but this remains well above consensus. The outlook for rising food inflation, higher fuel prices and higher prices for structural inefficiencies (such as electricity and water supply) remain upside risks to the inflation outlook.

The 2020 Budget in late February will be scrutinised after SA's ever worse fiscal position was outlined in the MTBPS in 2019, sparking concern that Moody's rating agency may strip the sovereign of its only investment grade rating this year. Should National Treasury fail to announce large reductions in its spending forecasts in the 2020 Budget, a ratings downgrade would likely follow.



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OFFSHORE MARKET

DEVELOPED MARKETS		YTD	1 M	3 M	1 Yr
MSCI World (USD)	**6 287**	**-9.0%**	**-8.5%**	**-6.3%**	4.6%
US S&P500	**2 954**	**-8.6%**	**-8.4%**	**-5.9%**	6.1%
UK FTSE100	**6 581**	**-12.8%**	**-9.7%**	**-10.4%**	**-7.0%**
DJ Euro Stoxx 50	**3 329**	**-11.1%**	**-8.6%**	**-10.1%**	0.9%
France CAC40	**5 310**	**-11.2%**	**-8.5%**	**-10.1%**	1.3%
Germany Exetra Dax Index	**11 890**	**-10.3%**	**-8.4%**	**-10.2%**	3.3%
Japan Nikkei 225	**21 143**	**-10.6%**	**-8.9%**	**-9.2%**	**-1.1%**

EMERGING MARKETS		YTD	1 M	3 M	1 Yr
MSCI Emerging Markets (USD)	**1 006**	**-9.8%**	**-5.3%**	**-3.3%**	**-4.3%**
Brazil - Bovespa Index	**104 172**	**-9.9%**	**-8.4%**	**-3.8%**	9.0%
China - Shanghai Composite	**2 880**	**-5.6%**	**-3.2%**	0.3%	**-2.1%**
India - Bombay Sensitive	**38 297**	**-7.2%**	**-6.0%**	**-6.1%**	6.8%
Russia - MICEX Russia Index	**2 785**	**-8.6%**	**-9.5%**	**-5.1%**	12.1%

STYLE		YTD	1 M	3 M	1 Yr
MSCI WORLD VALUE	**2 585**	**-12.5%**	**-9.8%**	**-10.0%**	**-5.5%**
MSCI WORLD GROWTH	**2 841**	**-5.9%**	**-7.4%**	**-3.2%**	11.1%

GLOBAL INTEREST RATE SENSATIVES		YTD	1 M	3 M	1 Yr
JPMorgan Global Gov Bond Index	-	6.0%	0.2%	0.6%	6.0%

CASH			1 M Ago	3 M Ago	1 Yr Ago
US$ 12M LIBOR	**1.4%**		1.4%	2.0%	2.7%

EXCHANGE RATES		YTD	1 M	3 M	1 Yr
USD/GBP	**1.28**		**1.32**	**1.29**	**1.33**
USD (Appreciation)/Depreciation		**-3.3%**	**-2.9%**	**-0.8%**	**-3.3%**
USD/EUR	**1.10**		**1.11**	**1.10**	**1.14**
USD (Appreciation)/Depreciation		**-1.8%**	**-0.6%**	0.1%	**-3.1%**
USD/JPY	**0.01**		**0.01**	**0.01**	**0.01**
USD (Appreciation)/Depreciation		0.4%	0.2%	1.3%	3.0%

SHORT TERM RATES			1 M Ago	3 M Ago	1 Yr Ago
US Repo Rate	**1.6%**		1.6%	1.6%	2.5%

LONG TERM SOVEREIGN YIELDS			1 M Ago	3 M Ago	1 Yr Ago
US Govt Bonds 10 Year (YTM)	**1.1%**		1.5%	1.8%	2.4%
UK Govt Bonds 10 Year (YTM)	**0.4%**		0.4%	0.7%	1.0%

PRECIOUS METALS (USD)					
Gold - USD/Oz	**1 585.69**	4.1%	**-0.2%**	8.3%	20.6%
Platinum - USD/Oz	**866.30**	**-11.1%**	**-9.9%**	**-3.3%**	**-0.7%**
Silver - USD/Oz	**16.67**	**-7.1%**	**-7.6%**	**-2.1%**	6.7%
Palladium - USD/Oz	**2 616.55**	34.8%	14.4%	42.1%	69.1%

INDUSTRIAL METALS (USD)					
Copper - Cash LME (US/ton)	**5 617.25**	**-8.6%**	1.2%	**-3.9%**	**-14.3%**
Steel - HRC Price	**590.00**	0.7%	7.3%	0.0%	**-12.6%**
Aluminium - Cash LME (US/ton)	**1 676.50**	**-5.9%**	**-1.7%**	**-6.4%**	**-11.3%**

COMMODITIES INDEX		YTD	1 M	3 M	1 Yr
RJ CRB Index TR	**169.18**	**-14.0%**	**-6.3%**	**-9.4%**	**-11.0%**

ENERGY					
Oil - Brent Crude Spot Price (US$)	**50.52**	**-23.5%**	**-13.1%**	**-19.1%**	**-23.5%**

AGRICULTURAL PRODUCTS					
Maize	**368.25**	**-6.7%**	**-4.7%**	**-4.5%**	**-9.7%**
Wheat	**525.00**	**-6.5%**	**-5.0%**	**-3.6%**	2.5%

HEDGE FUND INDEX		YTD	1 M	3 M	1 Yr
HFRX Global Hedge Fund Index	**1 279.08**	**-1.0%**	**-1.4%**	0.2%	4.6%

Source: Bloomberg, Morningstar

US

US equities made robust gains in Q4 as trade uncertainty faded with the US and China's phase one trade deal announcement, while economic data remained stable. The trade deal, which is due to be signed in mid-January, means the planned new tariffs will not be imposed, while US tariffs imposed in September on $120 billion Chinese goods will be reduced by half. The US' 25% tariffs on $250 billion of Chinese goods will remain. China has also agreed to increase purchases of US goods, with agricultural produce highlighted.

The Federal Reserve cut interest rates once in the quarter before indicating that "the current stance of monetary policy is appropriate". The US economy expanded by 2.1% (annualised) in Q3; this was better than expected and stronger than in Q2. While we await the Q4 growth data, the unemployment release in early December showed that joblessness declined to 3.5% - its lowest point since 1969 - with better-than-expected wage inflation. Forward-looking data such as the purchasing managers' indices, which survey the manufacturing and services sectors, continues to indicate modest expansion.

The tech sector was among the principal beneficiaries of the easing trade tensions. Energy stocks, which had lagged the broader S&P 500 index materially in 2019, rallied as the oil price rose on lower-than-expected supply. Real estate – which is typically less exposed to economic growth – lagged, although industrials were also flatter over the month.

Eurozone

Eurozone equities notched up a strong advance in the final quarter of the year, with the region's MSCI EMU index returning 5.1%. Stocks were supported by some better economic data from Germany as well as the phase one trade deal agreed by the US and China.

Gains were led by sectors that generally fare well when the economy is strengthening; top performing sectors included information technology, consumer discretionary and materials. By contrast, the communication services and consumer staples sectors registered a negative return, while utilities were also weak. In the consumer staples sector, Unilever warned that its 2019 sales growth would be slightly below its previous forecast. In the car sector, Fiat Chrysler and PSA Peugeot signed an agreement to merge in a €40 billion deal. Meanwhile, France's luxury goods group LVMH bought US jeweller Tiffany & Co for $16.6 billion.

The Ifo business climate indicator, which measures confidence among German executives, improved to 96.3 in December from 95.1 in November. The eurozone composite purchasing managers' index was unchanged at 50.6 in December – a level that indicates weak growth. (50 is the level that separates expansion from contraction. The survey is based on responses from companies in the manufacturing and services sectors).

Annual inflation was 1.0% in November, up from 0.7% in October but still well below the European Central Bank's target of close to 2%. Christine Lagarde took over as president of the European Central Bank on 1 November. In her first major speech she urged governments to boost public investment in order to increase domestic demand in Europe.

UK

Domestic politics drove UK asset prices following a landslide general election victory for the incumbent Conservative Party in December. The new government is set to use its large majority to take the UK out of the EU by 31 January 2020, entering a transition period when the next stage of negotiations will begin. UK equities performed relatively well and, within the market, domestically focused areas significantly benefited as they responded very favourably to the reduction in near-term political uncertainty.

These trends were further reflected in a very strong performance by small and mid cap shares and a sharp recovery in sterling from the lows struck in the summer. Latest GDP figures confirmed the UK economy had avoided entering a technical recession in the third quarter after contracting in the previous quarter. GDP growth was 0.4% quarter-on-quarter in Q3 compared to -0.2% in Q2. Overall, the data suggests that the economy is coping with the uncertainty from Brexit.

More widely, many economically sensitive areas of the market outperformed, in line with the trend across global markets amid a return of risk appetite. However, the oil & gas sector was the notable exception and performed poorly over Q4 despite the recovery in crude oil prices. HSBC also performed poorly as sentiment was negatively impacted by a combination of factors, including social unrest in Hong Kong, lower-for-longer US interest rates and company-specific factors.

Japan

The Japanese market rose in each month of the quarter to record a total return of 8.6%, but underperformed other major markets in December. Across the quarter as a whole the yen weakened slightly against the US dollar but generally remained in a range which is comfortable for both the US and Japan.

Sentiment towards Japanese equities fluctuated in line with geopolitical tensions but was ultimately helped by signs of easing in relations between the US and China and expectations for the signing of a phase one trade agreement. Foreigners generally remained net buyers of Japanese equities for most of the quarter. The most recent quarterly reporting season for Japanese companies ended in November and was largely in line with expectations.

Japan's economic data continued to show a significant divergence between the strength in service sectors and the weakness in manufacturing. There were also signs that the long-running trend towards an ever-tighter labour market had finally reached its natural limit. The main economic event for the quarter was the consumption tax increase on 1 October. Some evidence of front-loading demand ahead of the tax increase was visible, but it is now clear that the subsequent downturn has been greater than consensus expectations, even if allowance is made for the devastating typhoon which hit central Japan in the same month.

In response, the government has announced a significant supplementary budget, with a particular focus on reconstruction. Investors have generally responded positively to this planned fiscal stimulus, while the Bank of Japan governor, Mr Kuroda, has welcomed the change in emphasis away from monetary policy alone. The Bank of Japan made no change in policy this quarter.

Summary

The bottom line is that U.S. equities have been in a secular bull market in relative performance against most international markets, and this relative bull market has lasted for a decade. Keep in mind that this US dominance hasn't always the status quo. Prior to the Financial crisis Emerging markets ruled the preceding decade in terms of returns and prior to that it was Europe. There is no question that the U.S. economy has been much stronger than most other high-income economies, and American corporations are much more oriented toward maximizing profits and shareholder value. All of this explains why U.S. shares have to this point performed better than most other equity markets around the world. Nonetheless, it is also true that the U.S. dollar's performance has had a huge impact on the relative performance of U.S. stocks versus international equities. The correlation is negative, with a weakening dollar typically boosting international stocks, and vice versa. The dollar bull market has also lasted a decade, which explains in part why U.S. equities have delivered superb dollar returns against other markets. We don't know whether or when the secular bull market in the relative performance for U.S. stocks will come to an end. There are many factors that need to be considered. Nevertheless, the probability of a weaker dollar in 2020 is rising. Therefore, at least on a cyclical basis, international stocks are looking attractive and could see further upside. One still can't ignore the risks and despite a positive outlook for risk assets , extended valuations , geopolitical risk and the unknown means appropriate diversification is paramount and will go a long way to reducing volatility that is undoubtedly likely to rear its head in 2020.