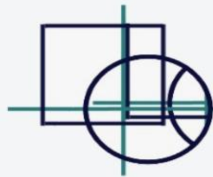


REICHTEC PRIVATE WEALTH

Newsletter – November 2017 11/21/2017

Market Commentary

October was an exceptionally good month especially for Equities. The local JSE hit a new record high level and international markets also performed well.

Much of the local performance can be ascribed to the weaker currency rather than an improved economic outlook. The currency weakness was triggered following the medium-term budget policy speech – the outlook presented was worse than expected especially the shortfall in tax revenue which will increase the future government borrowing requirements.

The past 3 years have seen the JSE moving largely sideways (see chart below) which has been a drag on all portfolios. The recent performance was certainly not predicted and once again serves as a reminder not to panic and try to "guess" the future.

Industry statistics show that many investors have become disillusioned and switched to income-type funds over the past year. It can be difficult to remain invested when you see you could have been better off in the Money Market than equities over 2 years. This once again highlights the problem of looking at short-term past performance when investing rather than just sticking to a strategy.

December Holidays

Reichtec offices will officially close at lunchtime on Friday 15 December and will re-open on Monday 8 January 2018. I will however be around during this period and should have full access to email and internet over this period.

I will try to respond to any queries and transaction requests as quickly as possible but please understand if you do not get an immediate response.

I would like to take this opportunity to thank all clients once again for your support over this year. It has certainly been another tough year with regards economic and political news, however the past couple of months have rewarded investors for their patience through the difficult times.

All the best for the festive season and the New Year. Please take care especially if you are travelling on the roads over this period.

Mark and Sunitha

2017 Looking towards 2018

It is hard to believe that we are rapidly closing in on the end of 2017 and looking ahead to 2018. It seems like just yesterday that all the news was about Brexit and the election of Donald Trump – and both these events happened in 2016.

As mentioned, the local economy continues to struggle to grow, with "real" GDP growth only around 0,5% (lower than the population growth). The main reason is the uncertainty regarding government policy which has led to less investment from the private sector.

While the ANC elective conference in December may provide some clarity with regards South African politics there can be little doubt that the ANC has lost significant support and is a party in conflict with itself.

The budget in February is likely to see measures put in place to try to increase tax revenue. Realistically the only measure which is likely to have any significant impact would be an increase in the VAT rate but this is also the most politically sensitive tax.

The next ratings agency decision is expected later today (24 Nov) and given the picture presented in the medium-term budget speech there is a very good chance that there will be a downgrade to "Junk" status. The only hope at the moment is that the ratings agencies adopt a "wait-and-see" approach looking forward to the ANC elective conference but the market seems to have "priced-in" a downgrade already.

It is not all doom and gloom however. A year ago the country was experiencing tremendous food price inflation due to the country-wide drought. 2017 rainfall was good (everywhere except in the Cape which is in severe danger) and SA had a record maize crop.

The current account (exports vs imports) has also improved significantly through a combination of higher commodity prices (good for exports) and lower demand for imported goods due to the struggling local economy.

Just across the border in Zimbabwe we have seen a change in leader for the first time in 37 years as Robert Mugabe has finally been removed from power. It will certainly be interesting to see how this develops but there seems to be a wave of hope across the border.

Further afield, Donald Trump seems to be becoming more and more unpopular. He has failed to deliver on most of his election promises and is under pressure both locally as well as internationally with a number of unpopular decisions (and tweets).

The good news is that while most economies are growing at a reasonable pace inflation remains under control globally. This is the "goldilocks" scenario of not too hot and not too cold…..

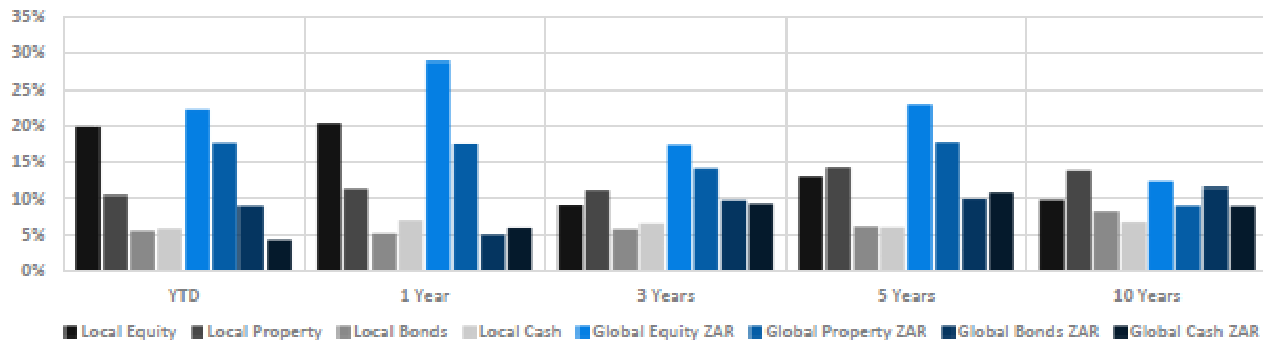
In summary, for 2018 expect the following:

- There will be volatility
- The Rand will weaken and it will strengthen - unfortunately I don't know which will happen first and by how much…
- Markets will go up and they will go down
- The only way to be prepared is to ensure you have a diversified portfolio and don't worry about short term changes.

"Are you ready to start investing or do you want to keep throwing your money away on food, clothing and shelter?"

Market Flash

31 October 2017



Asset Class	Index	YTD	1 Year	3 Years	5 Years	10 Years
Local Equity	FTSE/JSE All Share	19.6	20.1	9.0	13.0	9.7
Local Property	FTSE/JSE SA Listed Property	10.3	11.1	10.9	14.1	13.6
Local Bonds	Beassa ALBI	5.4	5.0	5.6	6.0	8.0
Local Cash	STeFI Call Deposit	5.7	6.9	6.4	5.9	6.6
Global Equity	MSCI All Country World	22.2	28.8	17.4	22.9	12.4
Global Property	MSCI ACWI/Real Estate	17.5	17.3	14.0	17.6	8.9
Global Bonds	JPM GBI Global Traded	8.9	4.9	9.8	10.0	11.3
Global Cash	ICE LIBOR 1 Month	4.3	5.9	9.1	10.6	8.8

SA Market Overview

By far the most topical event during October was the MTBPS (Medium Term Budget Policy Statement), which investors thought to be disappointing and uninspiring. Below are some of the highlights (or rather, lowlights):

- SA Budget deficit to widen to 4.3% of GDP in 2017/18, from target of 3.1%
- Revenue shortfall of R50.8bn is estimated in 2017, excluding SOE bailouts
- Gross national debt is projected to reach over 60% of GDP by 2022
- Real GDP growth is now expected at 0.9%, 1.1%, 1.6% and 2% over the next four years, a significantly lowered growth profile.
- Expenditure will exceed budget by around R3.5bn this fiscal year

Overall, a downgrade and exclusion from the World Global Bond Index (WGBI) seems to be a foregone conclusion in the market given an extremely bearish MTBPS report. The risks of credit ratings downgrades before year-end have risen materially.

Over the month, the rand weakened by 4.2% against the dollar, breaching the R14/$ levels. The All Share Index, however, touched record highs and rallied by 6.26% during October. The INDI (Industrial Index) was the best performing index, returning 8.14%, boosted by the rand hedge counters, where we saw Naspers gaining almost 18% and British American Tobacco gaining 6.4% during the month. The RESI20 (Resources 20 index) gained 6.37% led by the Industrial Metals stocks and the FINI (Financial index) returned 2.58% during the month, where Capitec rose by 9.4%.

The All Bond Index (ALBI), lost 2.3% during the month, after the long end of the yield curved succumbed to selling pressures. SA's 10-year generic bond weakened to trade at 9.09% from 8.55%.

Offshore Market Overview

Global equities made further progress in October where we have seen several major indices set new record highs, while volatility reached an historic low.

It was another good month on Wall Street, supported by economic data that remained positive despite the disruption caused by hurricanes Harvey and Irma. The Dow Jones index gained 4% to close October at 23,377 points – up an impressive 18% for the year.

In Europe, the equity markets reacted positively to the central bank's announcement that it would extend quantitative easing to September 2018, albeit at a reduced pace. The MSCI EMU index returned 2.4% during October.

In the UK, resourced led the market higher as Chinese macroeconomic data remained supportive and crude oil prices continued to rebound. The FTSE All-Share index returned 1.9% during October

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Data illustrations reflect market data as at 31 October 2017. Click here to view disclaimer.