REICHTEC PRIVATE WEALTH

Newsletter – May 2019 5/29/2019

Post-Elections – now what?

South African elections have been concluded and the reality is that not much has changed. The ANC won, albeit with its worst ever performance in National elections (but a better performance for them than in the local government elections in 2016).

The Election result was probably never in doubt despite what fanatical supporters might have had to say on Social Media, but the reality is that the actual result is possibly the best we could have hoped for. An ANC victory with less than 50% would have opened the door for dangerous coalitions at a national level.

Now that the elections are over it will be very interesting to see how the "clean-up" proceeds. It is very easy to be negative about the country, but I do think that we are seeing the first signs of spring after a long winter.

Going forward I think it will however be important to be realistic about expectations. We will not see sweeping reforms overnight – this is politics after all and some of the biggest divisions in the political landscape are probably within the ruling party itself.

Politics is a dirty business – political support is never "unconditional" and there will always be concessions to shore up support and at the same time there will be a resistance to change from those who have "lost out".

BREXIT

The original deadline for a final BREXIT deal has come and gone (and so has Theresa May as the British Prime Minister – although only officially leaving office in June though), and after more than two years of negotiations it is still difficult to know how this might turn out.

It is hard to believe that the original vote was held in June 2016 – now almost three years ago – and the formal notice to exit the EU was issued in March 2017 which was supposed to give only 2 years to finalise the exit deal.

As an "outsider" it is difficult to see how this will be resolved. The EU definitely doesn't want to offer too many concessions as this may encourage other members to leave, whereas the British politicians who "sold" the idea to the public have promised more than they will be able to deliver.

In the meantime, the uncertainty has had an impact on the UK economy and property market. Several companies have made contingency plans to relocate offices to other European cities.

I truly hope that common sense prevails and we are not left with a no-deal / hard Brexit which is probably the worst possible outcome – this seems a bit like destroying something just to make sure neither party gets what they want!!!

We do however already have many positive changes/developments – none of these would have seemed possible 18 months ago heading into the ANC Elective Conference in December 2017.

- The various Commissions of Enquiry exposing the corruption in Government, SARS and the various State-Owned Enterprises.
- A new National Director of Public Prosecutions as well as the appointment of a Special Investigating Directorate to tackle high-level corruption
- A new SARS Commissioner replacing Tom Moyane
- A reduction in the number of Cabinet Ministers excluding almost all of the "worst" Ministers from the "Zuma Days"

I would say that we have probably moved from the biggest risks being "Internal" to a situation where the biggest risks South Africa faces are external – and in the month of May the biggest risk has been Donald Trump.

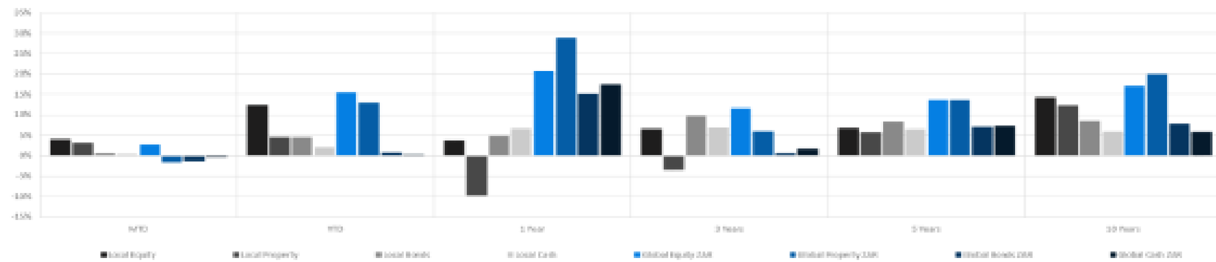
Just as it appeared that the trade deal with China would be finalized so Trump upped the ante with additional tariffs on Chinese products. A Trade War is likely to lower global growth and hence May was another difficult month for investors. On the bright side however, it should be noted that American elections take place at the end of 2020 and historically the biggest determining factor in whether an incumbent president is re-elected has been the health of the economy.

If this trade war is not resolved soon then it is likely that the American economy will also start to slow down. It seems as if Trump may be trying to force the Chinese to take further steps to stimulate growth and then agree to the Trade deal which could have an enormously positive effect on the markets. Of course this does have the potential to go horribly wrong and such speculation should never be the basis of any investment decisions.

Market Flash

30 April 2019

Asset Class Performance (ZAR)



Asset Class	Index	MTD	YTD	1 Year	3 Years	5 Years	10 Years
Local Equity	FTSE/JSE All Share TR ZAR	4.2%	12.5%	3.9%	6.6%	6.8%	14.3%
Local Property	FTSE/JSE SA Listed Property TR ZAR	3.2%	4.7%	-9.6%	-3.5%	5.8%	12.3%
Local Bonds	Beassa ALBI TR ZAR	0.7%	4.6%	5.0%	9.7%	8.4%	8.6%
Local Cash	STeFI Call Deposit ZAR	0.5%	2.2%	6.6%	6.8%	6.4%	6.0%
Global Equity ZAR	MSCI ACWI NR USD	2.8%	15.6%	20.7%	11.8%	13.8%	17.1%
Global Property ZAR	MSCI ACWI/Real Estate NR USD	-1.4%	13.1%	28.8%	6.1%	13.7%	20.0%
Global Bonds ZAR	JPM GBI Global Traded TR USD	-1.1%	0.9%	15.2%	0.7%	7.0%	7.9%
Global Cash ZAR	ICE LIBOR 1 Month USD	-0.4%	0.5%	17.5%	1.8%	7.4%	6.0%

SA Market Overview

The FTSE/JSE All Share Index rallied for the fifth consecutive month in April. As in the previous month, Naspers was a key contributor after the counter recorded a 9.7% month-on-month gain. MTN Group and Anheuser-Busch also had a good run, recording gains of 16.7% and 5.7% respectively. The financial sector had the best run ending 7.6% better with heavyweights Standard Bank, Firstrand and Absa group all recording strong gains in excess of 10%. Resources sector recorded month-on-month losses for the first time this year ending 2.0% lower.

The Rand started the month strongly nudging below R14/$1 after the Moody's reprieve which kept South Africa's sovereign credit rating investment grade. The currency however retraced some of these gains as the market experienced pre-election jitters, ending the month with only a 1.3% gain on the US dollar after having gained 4%, 10 days into the month. Bond yields followed a similar trajectory with the R186 ending the month more expensive, yielding marginally lower at 8.5%.

Listed property gained 3.2% in April bringing the year-to-date gains to 4.7%, ahead of the All Bond Index and cash so far this year. The month saw gains in counters like Growthpoint, Fortress A, Resilient, Vukile, NEPI Rockcastle and Redefine, driving the index return. The sector has been under pressure since last year, recording significant losses thus underperforming other asset classes. The last 3 years have favoured cash and bonds over equities and listed property as shown in Chart 1.

The South African economy is currently going through a low growth environment which is not good for real estate. The office sector is facing the most pressure with negative rental growth due to oversupply, increased vacancies and tenant consolidations.

Chart 1: South African Asset Class Returns over 3 Years since 1 May 2016

Source: Seed Investments, Morningstar Direct (30 April 2019)

Similarly, retail and residential face weak fundamentals due to oversupply. With consumers under pressure and the economy experiencing weak growth, industrial real estate is also experiencing weakening fundamentals. However, valuations are currently attractive and the relatively high forward yield compensating investors for the muted growth expectations.

Global Market Overview

The MSCI All Country World Index gained 3.4% in April with developed markets outperforming emerging markets. The MSCI World Index (developed markets) rose 3.5% while the MSCI Emerging Market Index gained 2.1%. The U.S. and European equity markets surged with a revived appetite for risk boosted by improved global growth data, solid corporate earnings and the Fed's dovish tone. S&P 500 year-to-date gains reached 18.0% while China remained a top performer with the MSCI China A shares up 33.3%. The markets have outperformed in spite of the persistent trade disputes.

The latest World Economic Outlook by the International Monetary Fund (IMF) forecasts a slowdown in global economic growth. Last year, the global economy was forecast to grow at 3.9% in 2018 and 2019. The projection has however deteriorated and the global economy is now expected to grow by 3.3% in 2019 before picking up again in 2020. The global economy experienced strong growth in 2017 and early 2018, economic activity slowed down in the second half of 2018 due to a number of factors that include:

- Declining Chinese growth after regulatory tightening
- Escalating US – China trade tension
- Euro area weakening consumer and business confidence – Germany car production was disrupted by the introduction of new emission standards, investment in Italy waned as sovereign spreads widened and external demand from emerging Asia softened
- Tightening financial conditions in vulnerable emerging markets and also some advanced economies

Conditions have eased this year with optimism for a US-China trade deal and the US Fed signalling a more accommodative monetary policy. The recent growth forecast envisages that global growth will level off in the first half of 2019 and then firm up again after that. A number of factors should aid the growth pickup including build-up of policy stimulus in China, improvements global financial market sentiment and a gradual stabilization of economies currently facing temporary drags and economic stress.