PRUDENTIAL
INVESTMENT MANAGERS

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Market Overview: December 2017

ARTICLE SUMMARY

LISTEN TO THE PODCAST

The year that was 2017 ended on a high in December, with equity markets around the world posting fresh record highs amid a remarkable lack of volatility. The MSCI All Country World Index, incorporating both developed and emerging markets, gained 1.6% in December and managed to return a remarkable 24.6% for the year as a whole. Global growth remained strong, inflation relatively subdued and monetary policies supportive for the month. The passage of the Republican tax cut package in the US bolstered market optimism further. During the month the US Federal Reserve raised its base interest rate by 25 basis points, its third hike for the year, as widely expected. Together with full employment and the large corporate tax cuts to come, analysts expect US inflation to become more problematic in 2018 – market consensus is for four 25bp Fed rate hikes in the new year. However, new Fed Chairman Jerome Powell is expected to proceed gradually. The Bank of England and European Central Bank both left their rates unchanged in December, the former due to concerns over sluggish growth and ongoing Brexit uncertainty, and the latter as a result of still-low inflation despite the region's accelerating growth.

Looking at global equity market returns (all in US$), the MSCI World Index (for developed markets) returned 1.4% in December, underperforming the MSCI Emerging Markets Index at 3.6%. Among developed markets, the S&P 500 returned 1.1% (21.8% in 2017) and the Dow Jones Industrial Average 1.9% (28.1% in 2017), while the Nasdaq delivered 0.5% (and an amazing 33% in 2017 thanks to the rally in technology stocks). In Europe, the Dow Jones EuroStoxx 50 posted a -1.1% return in December, but 24.3% for the year. UK stocks were bolstered in December by a long-awaited first agreement around Brexit terms, as the FTSE 100 delivered a strong 5.1% return for the month and ended 2017 with a total return of 22.6%. Japan’s Nikkei 225 produced 0.3% in December, while recording its best year since 2013 with a 25.7% annual return. Among larger emerging markets in US$ in December, the MSCI Turkey was the strongest performer with 13.2%, followed by the MSCI South Africa with 8.8%, and MSCI Russia at 3.0%. For the year in US$, South Korea's KOSPI returned a remarkable 41.3%, the MSCI Turkey 39.1%, the MSCI India 38.8% and the MSCI South Africa 36.8% (helped by the stronger rand versus the US$). Global bonds were largely flat in December as the Bloomberg Barclays Global Aggregate Bond Index (US$) returned 0.4% (7.4% in 2017), while the EPRA/NAREIT Developed Global Property Index (US$) returned 1.3% for the month and 10.4% for the year.

The price of Brent crude oil gained 5.2% in December, reaching a 2.5-year high at over $66.70 per barrel near month-end, for a total rise of 17.7% in 2017 on the back of effective supply constraints by OPEC and other oil producers. Other commodity prices also gained ground in December, extending their strong gains over the year in line with accelerating global growth and a weaker dollar. Palladium topped commodity gains in 2017 with a 57.8% price rise on the back of its increasing usage in vehicles, while platinum posted an annual gain of only 2.8% on oversupply concerns. Industrial metals reflected the higher global growth trend: aluminium was the second-best performer in 2017 at 32.4%, while copper and zinc both experienced 30.5% rises.

In South Africa, it was a surprisingly positive month for investors, with markets dominated by the election of market-friendly Cyril Ramaphosa as President of the ANC. Despite the installation of a divided ANC leadership committee with competing policy approaches, investors interpreted Ramaphosa's election as an opportunity for the country to introduce much-needed reforms, reduce corruption, and lift business and consumer sentiment. Greater prospects for improved fiscal responsibility also helped the credit rating outlook. Combined with Moody's credit rating reprieve in November, this more optimistic sentiment helped lower risk perceptions among both local and offshore investors, driving strong rallies in South African bonds, listed property and the rand. The BEASSA All Bond Index delivered a total return of 5.7% for the month. For the year, local bonds produced an exceptional 10.2%. Inflation-linked bonds (Composite ILB Index) delivered 4.9% in December (2.9% for 2017), and cash as measured by the STeFI Composite Index returned 0.6% (7.5% for the year).

The rand, meanwhile, gained strongly in December against all three major global currencies, appreciating 9.3% against a weaker US dollar, 9.1% against the pound sterling and 8.6% against the euro. For 2017 as a whole, the local currency managed to rally 10.1% versus the greenback and 1.9% versus sterling, while depreciating 2.2% against the resurgent euro.

SA's Q3 GDP growth was reported at 2.0% (q/q, annualised), down from a revised 2.8% in Q2, while November CPI eased to 4.6% y/y from 4.8% in October. Finally, the FTSE/JSE All Share Index (ALSI) closed out the year at around 58,500 points, below its November record high, mainly due to the plunge in the share prices of Steinhoff and its associated companies, as well as pressure on the large offshore-focused companies from the stronger rand in December. Resources counters were also weaker. This was offset to some extent by good gains in Retailers and Financials, helped by the improved local outlook and stronger rand. For the month, the ALSI returned -0.3%, while Financials delivered 8.4%, Listed

Property 4.2%, Industrials -4.1% and Resources posted a -1.1% return.

For 2017 as a whole, SA equities had a remarkable year given the poor local fundamentals, thanks partly to global conditions. The ALSI produced a total return of 21.0%, most of which came in the last six months of the year. Among the sectors, it was Industrials that gained the most for the year, up 22.5% and led by Naspers, while Financial stocks delivered 20.6%, Listed Property 17.2% and Resources 16.8%.

According to Morningstar data, the average ASISA SA general equity fund returned -0.9% for the month. The average multi-asset high equity (balanced) fund delivered -1.8%, while multi-asset low equity funds averaged -0.5%, and multi-asset income funds returned 0.8% on average.

To find out more about **Prudential funds** contact our Client Services Team on 0860 105 775 or at **query@prudential.co.za**.

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