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Market Overview: January 2018

ARTICLE SUMMARY

LISTEN TO THE PODCAST

January marked a record 15 months of gains in global equity markets, with sentiment underpinned by solid corporate earnings growth (including higher earnings prospects) and economic data confirming the entrenched and coordinated nature of global growth. Fresh record highs were posted across numerous equity markets, while global bonds were mixed. In the US, more analysts pointed to warning signs of the economy overheating, as unemployment reached a near-17-year low at 4.1%. The US Federal Reserve left interest rates unchanged as expected at its 31 January FOMC meeting, the last for Chairman Janet Yellen. However, the Fed adopted a somewhat more cautionary tone on expected inflation, causing some analysts to adjust their interest rate forecasts for 2018 higher – to four 25bp hikes from three previously. Market consensus is pointing to a 25bp hike at the next FOMC meeting in March.

Looking at global equity market returns (all in US$), the MSCI All Country World Index returned a very strong 5.7% in January, helped by the weaker US dollar. Emerging markets outperformed with an 8.3% return from the MSCI Emerging Markets Index, while the MSCI World Index (for developed markets) returned 5.3%. Among developed markets, the S&P 500 returned 5.7% and the Dow Jones Industrial 5.9%, while the Nasdaq delivered 8.7%. In Europe, the Dow Jones EuroStoxx 50 posted a 6.9% return, with France's CAC producing 6.6% and Germany's DAX 5.4%. The UK's FTSE 100 was more subdued at 2.8% in January. Japan's Nikkei returned 4.5%. Among larger emerging markets in US$, the strongest performers for the month were Brazil's Bovespa at 16.3%, the MSCI Russia (12.6%) and the MSCI China (12.5%). South Africa and South Korea were the laggards, both delivering 2.8% in January. Global bonds and listed property were mixed. The Bloomberg Barclays Global Aggregate Bond Index (US$) returned 1.2%, dragged down by a -1.2% return (in US$) from US bonds, but helped by the weaker US dollar (boosting the non-US% component of the index). The EPRA/NAREIT Developed Global Property Index (US$) ended flat on the month.

Commodity prices were mixed. The price of Brent crude oil gained 3.3% in January to trade at over $70 per barrel (before falling back slightly) given the extension in production curbs through the end of 2018. However, on the back of the price rise, US shale production rose to over 10 million barrels per day, a level last seen in 1970. According to a Reuters poll, a consensus of analysts expects the oil price to average around $70 per barrel for 2018 as these two forces broadly offset each other during the year. Gold and platinum gained 3.3% and 8.0% respectively, while industrial metals were mixed: aluminium fell 1.6% and copper was down 1.8%, but zinc, lead, nickel and tin gained between 5% and 9% over the month.

In South Africa, improving political and business sentiment, as well as global equity gains, lent support to the local equity market in

January, but returns were hit by weakness in Naspers shares, and a negative research report on Capitec released by US group Viceroy, which caused its share price to plummet. The report raised concerns in an already-jittery market (following the Steinhoff debacle) over poor lending practices at the bank, which were subsequently rebutted by company management, the SA Reserve Bank and S&P Global Ratings. Listed property shares were also punished by rumours and worries over balance sheet weakness at the Resilient stable of property companies. In other news, consumer inflation was reported at 4.7% in December, for an average CPI of 5.3% for 2017, within the SA Reserve Bank (SARB)'s 3%-6% target band. The SARB left interest rates unchanged at its 18 January MPC meeting, as expected, despite sluggish growth. It cited two main risks to its inflation outlook: the looming possibility of a sovereign credit rating downgrade by Moody's, which could send the rand weaker (fuelling inflation), and upside risks to the international oil price. However, the central bank did revise upward slightly its economic growth forecasts for 2018 and 2019: to 1.4% from 1.2%, and to 1.6% from 1.5%, respectively. SA nominal bonds posted modest gains amid lower inflation prospects and lingering positive sentiment from December's Ramaphosa rally - the BEASSA All Bond Index returned 1.9% for the month. Inflation-linked bonds (Composite ILB Index) produced -1.4%, however, while cash as measured by the STeFI Composite Index returned 0.6%.

The rand, meanwhile, appreciated 3.7% against a weaker US dollar in January, briefly moving near the R11.80 level versus the greenback on the last day of the month, its lowest level in nearly three years. It was basically flat against the euro, but lost 0.9% against UK sterling for the month. And although the FTSE/JSE All Share Index hit new record highs during January, it retraced almost all of its gains and returned only 0.1% for the month. The Listed Property sector returned -9.9% for the month, while Financials delivered -3.0%. Resources were the best performing stocks with a total return of 3.6%, while Industrials delivered only 0.4%, with large rand-hedge stocks impacted by the stronger rand.

According to Morningstar data, the average ASISA SA general equity fund returned 0.2% for the month. The average multi-asset high equity (balanced) fund delivered 0.7%, while multi-asset low equity funds averaged -0.1%, and multi-asset income funds returned 0.4% 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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