PRUDENTIAL **INSIGHTS**

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Market Overview: February 2018

ARTICLE SUMMARY

LISTEN TO THE PODCAST

February finally brought an end to the record 15-month winning streak in global equities, as markets experienced sharp losses starting in the first week of the month before retracing some of the decline. The S&P 500 saw a correction of over 10% after the US January employment report highlighted strong wage gains, sparking investor fears of accelerating US inflation and interest rates, and exacerbated by losses in volatility-linked products. The resurgence in volatility after months of relative calm was a notable feature for the month, underpinned late in February by comments from new Federal Reserve Chairman Jerome Powell interpreted as hawkish, signaling that an additional fourth interest rate hike was likely this year. Powell cited labour market strength, inflation data moving higher towards the Fed's 2.0% target, global economic growth and a more expansionary US fiscal policy as reasons behind his bullish outlook for the US economy. Investors now see a 50% chance of a 25 basis point (bp) rate hike in the fourth quarter of 2018 (previously none), in addition to 25bps in March (with a 100% chance), and 25bps each in the second and third quarters (with 70% and 80% chances, respectively). Global bond markets also reflected a likely acceleration in interest rate hikes, as US Treasuries sold off: having started the year at a 2.4% yield, the benchmark 10-year UST reached 2.9% by month end. However, global fundamentals remained solid as shown in corporate earnings growth figures and generally expansionary economic indicators.

Looking at global equity market returns (all in US$), the MSCI All Country World Index returned -4.2% in February. Emerging markets underperformed with a -4.6% return from the MSCI Emerging Markets Index, while the MSCI World Index (for developed markets) returned -4.1%. Among developed markets, the S&P 500 returned -3.7% and the Dow Jones Industrial 30 -4.0%, while the Nasdaq delivered -1.2%. In Europe, the Dow Jones EuroStoxx 50 posted a -6.6% return, with France's CAC producing -4.5% and Germany's DAX -7.3%. The UK's FTSE 100 lost 6.1% and Japan's Nikkei returned -2.1%. Among larger emerging markets in US$, the strongest performer for the month was the MSCI Russia (in positive territory with a 0.9% return), while Brazil's Bovespa was flat. The worst performing markets included South Korea's KOSPI (-7.3%), the MSCI India (-6.7%) and the MSCI China (-6.4%). The Bloomberg Barclays Global Aggregate Bond Index (US$) returned -0.9%, while the EPRA/NAREIT Developed Global Property Index (US$) delivered -6.6%.

Commodity prices were broadly lower, impacted partly by the stronger US dollar. The price of Brent crude oil lost 4.7% in February, its first monthly decline in six months, to trade around US$66 per barrel from over US$70 in January, as US shale production reached record levels. Gold and platinum lost 2.0% and 1.8% respectively, and industrial metals were also lower: aluminium fell 3.0%, copper was down 2.6%, and zinc declined 3.3% for the month.

In South Africa, local bonds were supported by the well-received 2018/19 Budget, which showed an improving government fiscal position. President Cyril Ramaphosa’s new Cabinet appointments and the Budget were greeted with approval by investors and the credit rating agencies, further boosting confidence and optimism that the country would escape a downgrade by Moody’s in March. Other positive factors included falling inflation (with CPI down to 4.4% in January from 4.7% in December) and market consensus for at least one interest rate cut by June. This all helped the BEASSA All Bond Index to deliver a 3.9% return, with the 10-year bond yield falling to 8.1% at month-end from 8.6% at the start of 2018. Inflation-linked bonds (Composite ILB Index) produced 1.1%, and cash as measured by the STeFI Composite Index returned 0.5%. Amid this optimism, the rand gained ground against all three major currencies in February, despite retracing some gains at month-end due to renewed concerns over new land expropriation policy, appreciating 0.8% against a stronger US dollar, 3.3% against the UK pound sterling and 2.8% versus the euro.

SA equities, however, could not escape the global downturn: the FTSE/JSE All Share Index posted a -2.0% monthly return, weighed down by a steep decline in listed property shares (-9.9%) amid jitters over ongoing rumours centred around fraudulent accounting and share price manipulation in the Resilient group of companies. Resources stocks were hurt by the stronger rand and weaker commodity prices, delivering -4.9%, and Industrials lost ground as large rand hedge shares weakened amid the global sell-off and stronger rand, recording a -3.0% return Financials was the only broad sector to notch up gains, producing 2.6% amid brighter SA economic prospects and the stronger rand.

According to Morningstar data, the average ASISA SA general equity fund returned -1.3% for the month. The average multi-asset high equity (balanced) fund delivered -1.5%, while multi-asset low equity funds averaged -0.6%, and multi-asset income funds returned 0.7% 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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