PRUDENTIAL **INSIGHTS**

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OCTOBER 2018

Market Overview: September 2018

LISTEN TO THE PODCAST

Global equity returns were more muted in September than previous months, with developed markets largely flat due to escalating trade tensions and political uncertainty in Europe. Emerging markets were mixed, as declining sentiment towards risky assets weighed on equity returns. Turkey and Argentina were the noticeable outliers, however, offsetting some of last month's major losses as they continued making strides towards rebuilding their economies. The local bourse closed the month in the red in spite of President Ramaphosa's stimulus plan to boost the economy and the much-anticipated approval of the revised mining charter. The rand, meanwhile, continued to surprise the market as it firmed against major currencies from its oversold position.

In the US, the central bank hiked its key interest rate by 0.25% (from 2.00% - 2.25%), in line with market expectations. The Fed cited strong economic growth and improved employment data among the main drivers behind the decision, with an additional hike likely before the end of the year. The yield on the benchmark 10-year Treasury note closed the month marginally higher at around 3.0%. The Fed's bullish view on the economy created renewed optimism towards US stocks and demand for the US dollar, offsetting earlier news that the US trade deficit had reached its highest levels in five months. Tensions between the US and China continued to escalate following accusations from President Trump that China had meddled in the upcoming US elections. The World Trade Organisation downgraded its global trade forecast for 2018 to 3.9% (from 4.4%), slowing in 2019 to 3.7% as the growing trade war between the US and the world's top economies continues to target global exports.

The Bank of England (BoE) left interest rates unchanged at 0.75% in September, stating that future increases are likely to be gradual as the central bank monitors Brexit developments. Brexit negotiations continued to press on investor sentiment, with heightened public infighting among the government's Tory party and credit rating agency Moody's warning that Britain's economy could slump to a recession if the country leaves the EU without a deal – hinting at the prospect of future downgrades. Sterling came under pressure following the release of poor economic data with the Purchasing Managers' Index falling to its lowest levels in 25 months, business confidence reaching a 22-month low and inflation increasing to 2.7% (y/y) for August – up from 2.5% (y/y) in July.

In Europe, news that Italy had gone against the EU's recommendations by setting a higher budget deficit target of 2.4% of GDP weighed on the Milan exchange, pushing the euro and European stocks lower. Italy's debt levels currently stand at around 131% of GDP, second only to Greece. In Asia, Chinese stocks continued to suffer under the restrictions of US trade tariffs, which now amount to more than US$250bn (roughly half of China's US exports). Japanese shares, meanwhile, surged to a 27-year high on the back of rising US yields, a weakening yen and improved prospects for corporate earnings. In Turkey, demand for the lira grew after the central bank hiked its benchmark interest rate to 24% (up from 17.75%) in a bid to stabilise conditions following the lira's significant depreciation and inflation increased to 17.9% last month.

Looking at global equity market returns (all in US$), the MSCI All Country World Index returned 0.5% in September. Developed markets outperformed emerging markets, with the MSCI World Index delivering 0.6% and the MSCI Emerging Markets Index returning -0.5%. Among developed markets, the S&P 500 produced 0.6%, the Dow Jones Industrial 30 returned 2.0%, while the technology-heavy Nasdaq posted -0.3%. In Europe, the Dow Jones EuroStoxx 50 delivered 0.1%, the UK's FTSE 100 returned 1.8% and Japan's Nikkei 225 delivered 3.9%. Among the larger emerging markets (all in US$), the strongest performer for the month was the MSCI Turkey with 20.6%, while the MSCI Russia returned 9.9% and Brazil's Bovespa delivered 6.9%. The weakest markets, meanwhile, included the MSCI India (-9.1%), MSCI South Africa (-1.9%) and MSCI China (-1.4%). The Bloomberg Barclays Global Aggregate Bond Index (US$) returned -0.9%, while the EPRA/NAREIT Global Property Index (US$) produced -2.3%.

Brent crude reached a four-year high, closing the month 6.8% higher at US82 per barrel in the wake of imminent US sanctions on Iranian crude exports and the decision by the world's top oil producers to retain current output levels. Gold, meanwhile, dipped -0.9% on the back of rising interest rates and a strong US dollar, closing the month at US$1192 per ounce. The top picks among precious metals were palladium with 11.7% and platinum with 3.6% (all in US$). Industrial metals were a mixed bag, with copper and zinc returning 5.0% and 8.0% respectively, aluminium generating -2.5% and lead producing -1.7% (all in US$).

In South Africa, the combination of poor economic data, international trade war tensions, rising interest rates in the US and uncertainty around land expropriation weighed on the local bourse. Stats SA confirmed that the country had slipped into a technical recession after real GDP contracted by 0.7% in the second quarter of the year. Credit rating agency Moody's cut its estimate for South Africa's 2018 GDP growth from 1.5% to between 0.7% - 1.0%. Business confidence declined by 4.2 points to 90.5, its lowest level this year. The SARB, meanwhile, in a close

vote, opted to keep the repo rate unchanged at 6.5% despite the deteriorating inflation outlook, and also cut its GDP growth forecasts in 2018 to 0.7% (down from 1.2% in July).
In more positive news, CPI for August came in marginally lower than expected at 4.9% compared to July's 5.1%, while manufacturing production volumes increased by 2.9% in July. President Ramaphosa announced his stimulus plan to boost the country's economy. The plan is set to iron out some of the major issues hindering economic growth and investment, with a particular focus on key items such as accelerated infrastructure development, job creation and mining reform. Confidence in the mining sector gained traction following the news that the revised Mining Charter had been approved, with Parliament deciding to shelve the contentious Mineral and Petroleum Resources Development Act Amendment Bill.

The BEASSA All Bond Index was largely flat for September at 0.3%, inflation-linked bonds (the Composite ILB Index) produced 0.4%, and cash as measured by the STeFI Composite Index returned 0.5%. The rand retraced some of its losses in September, gaining 3.5% against the US dollar, 3.7% against the euro, and 3.2% against the pound sterling.

As for South African equities, the FTSE/JSE All Share Index returned -4.2% in September. Industrials were the worst performers returning -7.7%, followed by listed property with -2.6% and Financials with -2.0%. Resources stocks managed to push through into positive territory producing a 1.0% return for the month.

According to Morningstar data, the average ASISA SA general equity fund returned -3.8% for the month. The average multi-asset high equity (balanced) fund delivered -2.7%, while multi-asset low equity funds averaged -1.3%, and multi-asset income funds returned 0.5% on average.

Sources: Prudential, M&G Investments, Bloomberg, Morningstar data to 30 September 2018.

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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