PRUDENTIAL **INSIGHTS**

Pieter Hugo
MD Prudential Unit Trusts

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Market Overview: January 2019

Global equity markets started the year on a strong note, with all major equity indices ending January in positive territory. The US Federal Reserve's decision to keep interest rates unchanged over the near term, coupled with the reported imminent conclusion of the trade war between the US and China, helped drive returns across developed markets. Emerging markets faired equally well, largely on the back of strong returns coming out of Brazil after its new president, Jair Bolsonaro, passed reforms to help bolster the economy. South Africa also posted positive returns for the month, supported by stronger Financials and Resources sectors.

In the US, markets reacted favourably to the Fed's easier stance stating that the case for raising rates had weakened somewhat. The announcement was largely seen as an indication of the Fed's willingness to apply greater flexibility to its rate hiking policy going forward. President Trump and Congress reached a temporary consensus over the border security funding dispute, bringing to an end a 35-day standoff in which the US government was effectively shut down. The US-China trade negotiations continued to make progress, with President Trump set to meet with President Xi in the coming weeks. Failure to reach an agreement would result in US tariffs on Chinese goods increasing from 10% to 25% from the beginning of March. CPI dropped for the first time in nine months, from 2.2% (y/y) in November to 1.9% (y/y) in December, largely on the back of declining oil prices. The yield on the benchmark 10-Year Treasury note closed the month at about 2.64%, marginally off its December's close of about 2.69%.

In the UK, Prime Minister Theresa May had her Brexit deal overwhelmingly rejected by Parliament, with the issue of avoiding a "hard" border between the UK and the Republic of Ireland the main obstacle to agreement. Subsequent negotiations between all sides led nowhere, exacerbating uncertainty with the deadline less than two months away. Elsewhere, the European Central Bank (ECB) highlighted the contraction in economic growth as a growing concern for the region, factoring downside risk into its growth forecast. ECB President Mario Draghi cited slower growth in China and Brexit uncertainty as among the main factors weighing on the Eurozone economy. European GDP dropped to its lowest level in five years, declining from 1.7% (y/y) to 1.2% (y/y). Meanwhile, Eurozone headline inflation fell from 1.9% in November to 1.6% in December, its lowest level since April 2018.

In Asia, investor sentiment was broadly positive as the US-China trade talks continued to make progress. In China, the government introduced initiatives to help bolster economic growth, freeing up an estimated 800 billion yuan of liquidity to support the flagging economy. China's Q4 GDP came in marginally lower at 1.5% (q/q), down from the 1.6% (q/q) posted in the third quarter of 2018. December industrial production, meanwhile, increased 5.7% (y/y) while retail sales were up 8.2% (y/y). In Japan, the Bank of Japan continued with its easy monetary policy as growth remained slow. The merchandise trade data for December showed a 3.8% (y/y) decline in exports, largely driven by a 7.0% (y/y) reduction in exports to China.

Looking at global equity market returns (all in US$), the MSCI All Country World Index returned 7.9% in December. Emerging markets outperformed developed markets, with the MSCI Emerging Markets Index returning 8.8% and the MSCI World Index delivering

7.8%. Among developed markets, the S&P 500 produced 8.0%, the Dow Jones Industrial 30 returned 7.3%, while the technology-heavy Nasdaq 100 posted 9.2%. The UK's FTSE 100 returned 6.7% and Japan's Nikkei 225 delivered 5.3%. Among the larger emerging markets (all in US$), Brazil's Bovespa returned 17.6%, the MSCI Russia 13.6% and the MSCI China 11.1%. The Bloomberg Barclays Global Aggregate Bond Index (US$) returned 1.5%, while the EPRA/NAREIT Global Property Index (US$) produced 11.1%.

Brent crude closed the month 15% higher at around US$61 per barrel as output levels started showing signs of stabilising. Precious metals benefitted from their safe-haven status amidst concerns over declining global growth. Gold closed the month 3.0% higher, silver returned 3.7% and platinum firmed by 3.3%. Palladium was the strongest performer, closing the month 8.7% higher.

Turning to South Africa, equity returns bounced back in January with Financials and Resources driving the overall index into positive territory. Resources were supported by a growing demand for precious metals after the IMF downgraded its outlook on global economic growth by 0.2% for 2019 and 0.1% for 2020. The demand for safe-haven assets was further supported by similar downgrades coming from a number of developed market banks. In the first Monetary Policy Committee meeting of 2019, the SARB kept interest rates unchanged following a much-improved outlook for inflation, however warned that the outlook for domestic growth remains "sluggish" – downgrading its 2019 growth forecast from 1.9% to 1.7%. Headline CPI decreased from 5.2% (y/y) in November to 4.5% (y/y) in December, largely on the back of lower fuel prices.

Demand for longer-dated government debt rallied following the SARB's dovish outlook on domestic growth, with the yield on the South African 10-year government bond dropping to 9.18% at month end. The BEASSA All Bond Index returned 2.9%, inflation-linked bonds (the Composite ILB Index) delivered 1.7%, and cash as measured by the STeFI Composite Index returned 0.6%. The rand started the year on a positive note, retracing some of its losses from 2018. The local currency gained 7.7% against the US dollar, 7.3% against the euro and 5.4% against the pound sterling.

The FTSE/JSE All Share Index returned 2.8% in January. Resources delivered 3.3%, Financials 6.0%, and Industrials 0.9%, while Listed Property made an about-turn from its 2018 lows by delivering 9.2% for the month.

According to Morningstar data, the average general equity fund returned 2.2% for the month, with the average balanced fund delivering 1.6%. The average low-equity balanced fund produced 1.2%, while multi-asset income funds returned 1.0% on average.

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