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Prudential Investment Managers

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Market Overview: March 2019

ARTICLE SUMMARY

Global equity and bond markets were broadly positive in March, buoyed by the US Federal Reserve's easier interest rate stance that put the brakes on further interest rate hikes for the remainder of 2019. Developed markets outperformed emerging markets, shrugging off concerns over a contraction in global growth and political uncertainty in Europe. In Europe, political turmoil in Turkey and uncertainty around Brexit dominated headlines; however, news that the European Central Bank would implement a new cheap loan programme for banks to stimulate economic activity within the region helped bolster investor sentiment. In South Africa, local equities and bonds posted positive returns for the month, supported by stronger Resources and Industrials sectors.

In the US, the Federal Reserve left the benchmark interest rate within the 2.25% - 2.5% range, indicating that no further rate hikes were likely for the remainder of 2019, while forecasting just one further rate hike in 2020. Fed Chair, Jerome Powell, noted that a slowdown in the European and Chinese economies could have a positive but lagged effect on US growth through downward pressure on future inflation (and therefore less need for higher interest rates). The GDP growth forecast for 2019, meanwhile, was revised down to 2.1% from 2.3%, while February CPI came in marginally softer at 1.5% y/y compared to the 1.6% market consensus. Unemployment remained unchanged at 3.8%. Long-dated bond yields rallied with the yield on the benchmark 10-Year Treasury note closing the month at around 2.45%. This level was well below 3-month rates for the first time since 2007, resulting in an inverted yield curve that has historically been a precursor of an economic recession.

In the UK, Prime Minister Theresa May had a third vote on her Brexit proposal rejected by Parliament. Parliament also voted down eight separate proposals on the structure for exit, creating even more uncertainty. The EU has given Britain until 12 April 2019 to formalise its exit strategy. The European Central Bank (ECB), meanwhile, revised its GDP growth forecast for 2019 down to 1.1% from 1.7%, with inflation expected to reach 1.2% in 2019 and increase to 1.5% in 2020. The ECB also announced its intention to keep interest rates unchanged for the remainder of 2019, and launched its new Targeted Long-Term Refinancing Operation (TLTRO-3) aimed at helping banks rollover their ECB loans and encourage economic activity through a range of favourable credit incentives.

In Japan, poor economic indicators and a slowdown in China's growth forecast for 2019 left markets subdued; however, news that the US-China trade talks had made substantial progress helped Asian markets close the month in positive territory.

Meanwhile, China lowered its growth target for 2019 to between 6.0% - 6.5%, down from its 2018 target of 6.5%, and announced a major tax cut in a bid to stimulate economic growth. In Turkey, political unrest leading up to the national elections dented investor confidence and financial markets suffered the consequences; however, the contagion was not nearly as widespread as the crisis seen in August last year.

Looking at global equity market returns (all in US$), the MSCI All Country World Index returned 1.3% in March. Developed markets outperformed emerging markets, with the MSCI World Index delivering 1.4% and the MSCI Emerging Markets Index returning

0.9%. Among developed markets, the S&P 500 produced 1.9%, the Dow Jones Industrial 30 returned 0.2%, while the technology-heavy Nasdaq 100 posted 4.0%. The UK's FTSE 100 returned 1.2% and Japan's Nikkei 225 delivered 0.5%. Among the larger emerging markets, the MSCI India returned 9.2%, MSCI China 2.4% and MSCI Russia 0.9% (all in US$). The Bloomberg Barclays Global Aggregate Bond Index (US$) returned 1.3%, while the EPRA/NAREIT Global Property Index (US$) produced 3.1%.

Brent crude closed the month 3.6% higher at around US$67 per barrel on the back of reduced supply from OPEC countries and US sanctions on Venezuela and Iran. Precious metals sold off in March, with gold returning -1.6%, silver -3.2% and platinum -2.5%. Palladium was the weakest performer, closing the month -10.0% lower.

Turning to South Africa, the SARB announced that it would keep interest rates unchanged at 6.75%, in line with market expectations. GDP for 2018 came in at 0.8% (y/y), slightly higher than expected; however the SARB indicated that this may be revised down to 0.7% (y/y).The SARB also lowered its growth forecast for 2019 from 1.7% to 1.3% and from 2.0% to 1.8% for 2020. Inflation for February was relatively subdued at 4.1% (y/y), marginally firmer than the 4.0% (y/y) posted in January. Ratings agency Standard & Poor's, meanwhile, revised its outlook for Eskom from negative to stable. President Ramaphosa announced that the government would move ahead with the nationalisation of the SARB, sparking fears of state interference in monetary policy. The announcement came on the back of growing allegations of corruption within the ruling party, state-owned enterprises and ANC-run municipalities.

Demand for longer-dated government debt rallied following the SARB's negative outlook on domestic growth, the Fed's decision to pause its rate hiking cycle, and the move by rating agency Moody's on 29 March not to review the sovereign rating and leave it at investment grade with a stable outlook. The latter granted the country a big reprieve, with the yield on the SA 10-year government bond dropping to 9.23% at month end. The BEASSA All Bond Index returned 1.3%, inflation-linked bonds (the Composite ILB Index) delivered -0.8%, and cash as measured by the STeFI Composite Index returned 0.6%. The rand depreciated against all major currencies for the month, losing -3.3% against the US dollar, -1.9% against the euro and -1.0% against the pound sterling.

The FTSE/JSE All Share Index returned 1.6% in March, with Resources increasing by 4.7% and Industrials by 2.9% due largely to their global exposure. Financials were the biggest loser in March, having declined by -4.0%, while Listed Property lost -1.5%.

According to Morningstar data, the average general equity fund returned 0.8% for the month, with the average balanced fund delivering 1.3%. The average low-equity balanced fund produced 1.0%, while multi-asset income funds returned 0.6% on average.

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