View of the month – June 2019

Dear Investor,

Our "View of the Month" is a photo of **snow at Tiffindell Ski Resort in the Drakensberg**, the only ski resort in South Africa (SA) and one of two ski resorts in Southern Africa. Eye Witness News (EWN) reported that Tiffindell received snowfall twice in the last three days. It's interesting to note, Tiffendell was voted number 19 in CNN Travel's 'World's Best Ski Runs' in 2014. Click here to read more.

Macro-economic outlook

Unfortunately, it is not cold only in Tiffendell, the macro-economic outlook globally and for SA is also looking rather chilly. The following high level observations from **Investec's Chief Economist (Annabel Bishop)** indicates that there are tough times ahead:

- With SA achieving little in reducing unemployment over the past ten years on a sustainable basis, **households are constrained financially, and household expenditure growth in real terms is weak**. This will result in low GDP growth, as household consumption expenditure accounts for two thirds of GDP
- With the negative GDP results from Q1 2019, SA's economic growth outlook for the remainder of the year has dimmed, again, and consensus **forecast for 2019 GDP now ranges between 0.6% y/y to 0.8% y/y**, from closer to 1.5% y/y at the start of the year
- Such persistent mild growth (2018 0.8% y/y) does not necessarily absorb all incoming labour market entrants and risks the **unemployment rate ticking up toward 30%**, if it persists
- With regulatory blockages in SA, **specifically the ease of doing business hampered by a relatively onerous regulatory burden that is suppressing economic activity**, government cannot move fast enough to unlock these impediments to economic growth, marked reindustrialisation and job creation

- **Structural reforms for ease of doing business are urgently needed to boost confidence and so production and output**, else economic growth is unlikely to lift sustainably. The SA economy can no longer afford to wait for the longer-term adjustments to improve its ease of doing business
- Reindustrialisation of SA will do much to boost economic growth and job creation in the country, while SA's mature sophisticated services sector can be leveraged to make this happen. This will require the **government to drastically reduce the regulatory burden placed on business activity, particularly in the manufacturing and mining sectors**
- **Households have seen the pace of growth in debt rise**, to 6.5% y/y from around 3.5% y/y in early 2017 as they have increasingly resorted to debt in a constrained environment (household debt has reached 72.5% of disposable income from 71.3% in 2017)
- **Growth in disposable income has slowed materially over this period**, from 11.3% y/y at the beginning of 2017, to 4.0% y/y currently, while compensation of employees has seen growth falter too, down to 4.3% y/y from around 7.0% y/y at the beginning of 2017
- **Household savings as a % of disposable income is negative**, while the cost of servicing debt as a % of disposable income remained at 9.3% in Q1 2019
- **Many forecast a 25bp cut in the repo rate this month, at the MPC meeting on 18th July**, with two members of the committee already voting at its last meeting for a 25bp cut, and three against
- The SARB (South African Reserve Bank) **shows a forecast for CPI inflation of 4.5% y/y in 2020.** The SARB has also warned that the "current challenges facing the economy are primarily structural in nature and cannot be resolved by monetary policy alone."
- **Globally, concerns over economic growth persist, and monetary policy has become dovish**, resulting in the US expected to cut its interest rates by 50bp this year, likely resulting in a weaker US dollar and underpinning the rand.
- **The rand, and other emerging market currencies, have benefitted from financial market expectations that the US will cut its interest rates this year**, while expectations that the European Central Bank (ECB) could ease policy are rising, and SA is likely to join the dovish direction
- **Investec has revised their forecast for world GDP growth down again, to 2.6% y/y for 2019**, versus the forecast they made in Q2 2019 of 2.9% y/y in line with the World Bank
- **U.S. growth is expected to slow to 2.5% in 2019** and further decelerate to 1.7% in 2020 and 1.6% in 2021, as the effects of recent fiscal stimulus wane
- **While the rand could see further strength this year, this is more likely to be sustained in the last quarter**, as global financial markets tend to be less risk averse during that period (the last and first quarters of the year), while during the third quarter financial markets often experience risk-off
- **Longer-term, the rand is expected to return to its purchasing power parity valuation (in the expected case),** absent a further escalation in trade tensions between the US and China, and absent also a Moody's credit rating downgrade and a prolonged global financial markets risk-off environment

What to do during these tough times?

- **Prepare a budget –** if you don't have a budget you're living someone else's budget and probably can't afford it
- **Live below your means –** yes, during tough times it should be below and not within your means
- **Avoid buying on credit –** this is not the time to purchase depreciable, non-essential items
- **Make sacrifices that count –** don't cut back on essentials like insurance or medical aid, rather reduce spending on nice-to-haves
- **Stay the course with your retirement savings**
- **Diversify your investments** – click here to read why it is not necessary to move all your investments offshore:
  - Yes, the Rand is a depreciating currency but not as bad as you think
  - overseas markets are currently expensive
  - when the unemployment rate in the US is very low, there is often a correction
  - If a correction occurs in the US, the impact on SA might not be as big
  - SA has very high real interest rates
  - Top 40 companies listed on the JSE's earnings from offshore activities range between 60% and 70%

SONA 2019

The state of the nation address (SONA) of the 6^{th} parliament was delivered by President Cyril Ramaphosa on 20 June 2019. It was a non-event with the same promises of growing the economy and creating jobs that we've heard during his previous two SONAs. This time he did add a dream including smart cities founded on the technologies of the fourth industrial revolution in which bullet trains pass through Johannesburg as it travels to Musina and it stops in Buffalo City on the way to Cape Town. **It's good to dream but in a country that can't even replace pit latrines in schools and where the trains in the Western Cape is literally burning, maybe best to focus on getting the basics right.** Below high level points of the speech:

- **Eskom:** No mention of the unbundling into three separate units but the president mentioned that the R69-billion bailout from Treasury in February 2019 – would sustain Eskom only until the end of October 2019. As Eskom could not be allowed to fail he indicated that a special appropriation bill will be tabled urgently to allocate a significant portion of the R230-billion fiscal support the State-owned Entity (SOE) require
- **SARB:** It was very positive to hear the role of the Reserve Bank was affirmed as being mandated by the Constitution to "protect the value of our currency in the interest of balanced and sustainable growth"
- **Telecoms:** Minister of communications was instructed to proceed with the licensing spectrum that will significantly reduce data costs
- **State capture:** Return public money that has been stolen (estimated to be around R14.7bn) will be fast-tracked through a Special Investigative Unit
- **Unemployment:** Create two million jobs for young people over the next 10 years
- **Tourism:** Double international tourist arrivals to 21-million by 2030, by introducing a "world class visa regime" and focusing on tourists from China, India and the rest of Africa
- **Land reform:** Accelerate efforts to identify and release public land that is suitable for smart, urban settlements and for farming

Quote of the month

In line with our tough times ahead theme this month, we thought this short and to the point quote by Robert H. Schuller fitting:
"Tough times never last, but tough people do."

Fuel prices

The Department of Energy has published the official petrol and diesel price changes taking effect from 3 July 2019:

- The price of **petrol will see a price drop of 95 cents per litre** and 96 cents per litre for 95 and 93 grades, respectively
- **Diesel will drop by 75 cents per litre** and 76 cents per litre for 0.05% sulphur content and 0.005% sulphur content, respectively

The main driver behind the price reduction in July is the massive drop in international oil prices. The price drop could have been bigger, but the Rand weakness over the period did not help. The average Rand/US dollar exchange rate for the period 31 May 2019 to 27 June 2019 was 14.62 compared to 14.41 during the previous period.

ICC Cricket World Cup

No comment – We think the macro-economic outlook has provided enough bad news for one newsletter.

The markets

The red block in the table below shows the market stats for June 2019. In short, it was positive month for the SA stock market, with the **JSE All Share Total Return index** ↑4.6% for the month (↑ 7.8% for the last 12 months). The **Resource sector** was the best performing sector ↑10.2% for the month. The **Industrial sector** was ↑3.4% with the **Listed Property** and **Financial sector** ↑2.2% and ↑1.2% respectively.

Market summary for the month of June 2019

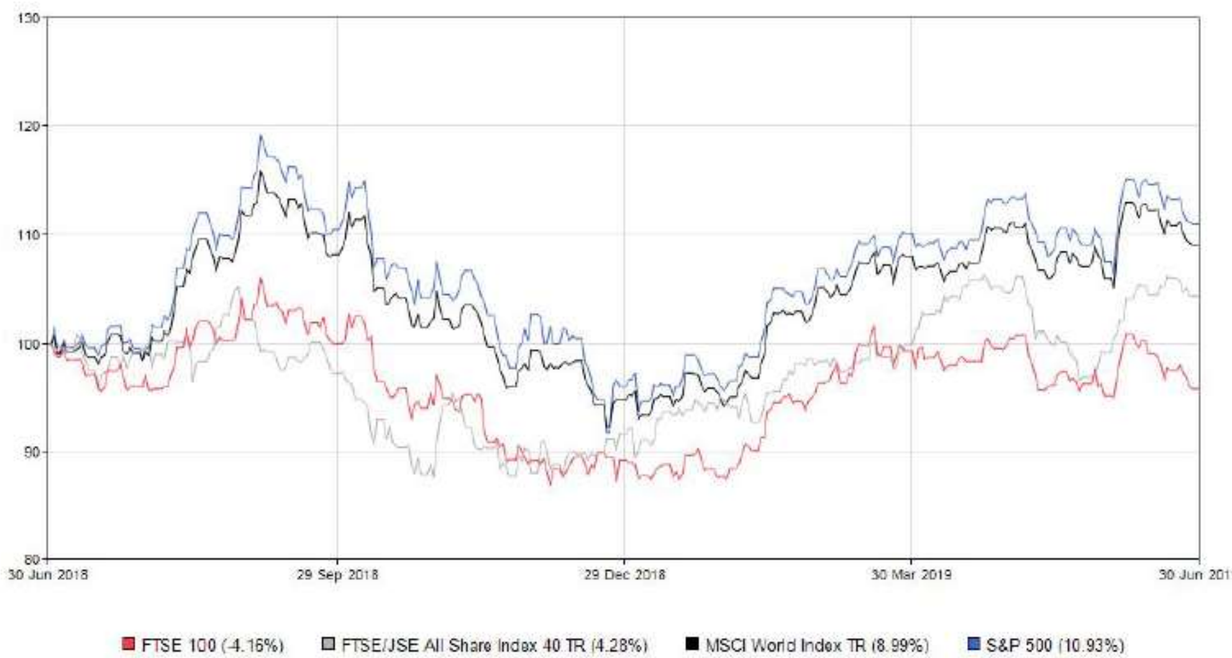
	Close price at 2019/06/28	Weekly % change	Month to date	Year to date	Last 12 months
FTSE/JSE indices					
All-Share Index	58 203.84	-1.3%	4.6%	10.4%	4.3%
All-Share Index Total Return	8 673.20	-1.2%	4.8%	12.2%	7.8%
Resources Index	27 196.80	0.8%	10.2%	18.4%	19.9%
Industrials Index	77 846.87	-1.7%	3.4%	10.7%	-2.2%
Financials Index	42 172.19	-2.6%	1.2%	2.1%	3.2%
Top 40 Index	52 198.94	-1.3%	5.3%	11.7%	4.9%
Shareholder Weighted Index	21 168.52	-1.7%	3.1%	9.0%	4.8%
Capped Shareholder Weighted Index	23 076.38	-1.9%	2.9%	6.9%	4.2%
SA Listed Property Index	1 952.64	-0.6%	2.2%	6.0%	3.2%
SA Volatility Index	15.60	-0.1%	0.1%	-28.4%	-11.8%
Interest-bearing indices					
JSE ASSA All Bond Index (ALBI)	681.28	1.0%	2.2%	7.6%	12.2%
SteFI Composite Index	425.50	0.1%	0.5%	3.6%	7.3%
JSE ASSA SA Government ILB Index	704.40	0.7%	0.1%	3.2%	3.9%
Interest rates					
Prime rate	10.25%			0.0%	2.5%
Repo rate	6.75%			0.0%	3.8%
Commodities (in US dollars)					
Gold price	1 409.10	0.8%	8.0%	10.0%	12.7%
Platinum price	833.00	3.2%	5.2%	5.0%	-2.4%
Oil price	64.41	-1.4%	4.5%	18.3%	-17.1%
Global indices (in base currency)					
Dow Jones (US)	26 599.96	-0.4%	7.2%	14.0%	9.8%
S&P 500 (US)	2 941.76	-0.3%	6.9%	17.3%	8.3%
FTSE (UK)	4 056.88	0.3%	3.4%	10.4%	-3.1%
Hang Seng (Hong Kong)	28 542.62	0.2%	6.1%	11.9%	0.2%
Shanghai	2 978.88	-0.8%	2.8%	19.4%	6.9%
Nikkei (Japan)	21 275.92	0.1%	3.3%	6.3%	-4.5%
CAC 40 (France)	5 538.97	0.2%	6.4%	17.1%	5.0%
DAX (Germany)	1 151.35	0.7%	4.9%	16.2%	0.1%
MSCI Emerging	1 054.86	0.2%	5.7%	9.2%	0.8%
MSCI Developed	2 178.35	0.0%	6.5%	15.6%	4.7%
US Volatility Index	15.08	-2.1%	-19.4%	-40.7%	-10.5%
Exchange rates					
Rand/US dollar	14.10	-1.6%	-3.3%	-1.8%	2.4%
Rand/euro	16.03	-1.7%	-1.6%	-2.7%	0.6%
Rand/pound	17.89	-2.1%	-2.9%	-2.4%	-0.7%
Dollar/euro	1.14	0.0%	1.8%	-0.8%	-1.7%
Inflation indicator					
CPI					4.5%

Financial Indicators as at 30 June 2019:

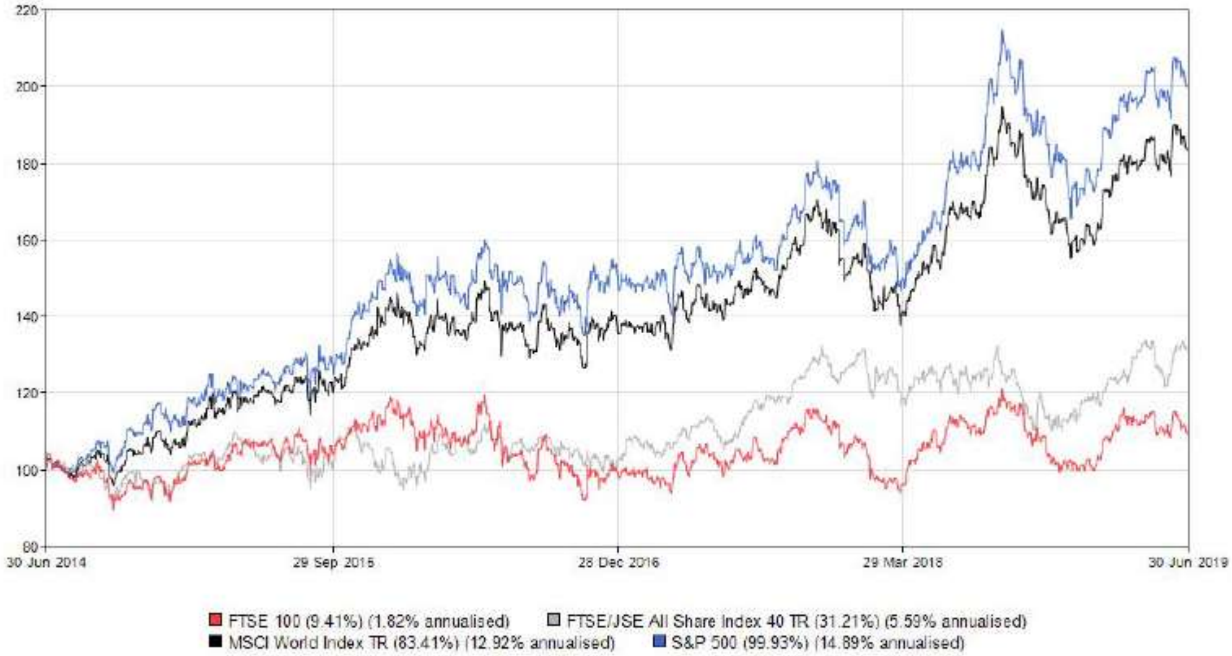
Global indices:

Fund	1 Month (%)	3 Month (%)	1 Year (%)	3 Year (%)	3 Year annualised (%)	5 Year (%)	5 Year annualised (%)	10 Year (%)	10 Year annualised (%)	Since inception (%)	Since inception annualised (%)
FTSE 100	-0.47	-3.55	-4.16	4.34	1.43	9.41	1.82	141.24	9.22	6635.00	12.72
FTSE/JSE All Share Index 40 TR	4.94	4.32	4.28	23.65	7.35	31.21	5.59	248.72	13.33	2048.05	13.65
MSCI World Index TR	1.36	0.96	8.99	33.81	10.21	83.41	12.92	403.37	17.58	122156.96	15.88
S&P 500	1.28	0.75	10.93	34.33	10.36	99.93	14.89	482.00	19.30	2512.33	13.69

Global indices – 1 Year:



Global indices – 5 years:

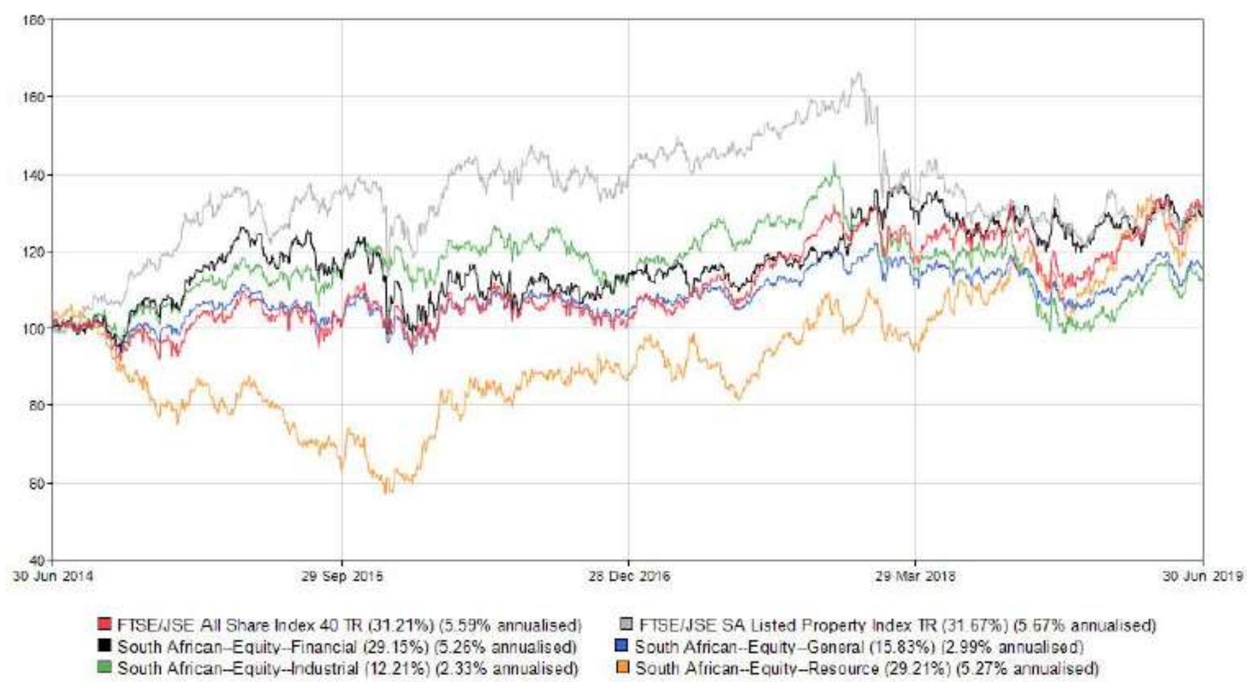


JSE Sectors:

Fund	1 Month (%)	3 Month (%)	1 Year (%)	3 Year (%)	3 Year annualised (%)	5 Year (%)	5 Year annualised (%)	10 Year (%)	10 Year annualised (%)	Since inception (%)	Since inception annualised (%)
FTSE/JSE All Share Index 40 TR	4.94	4.32	4.28	23.65	7.35	31.21	5.59	248.72	13.33	2048.05	13.65
FTSE/JSE SA Listed Property Index TR	2.94	4.58	0.84	-6.61	-2.26	31.67	5.67	239.74	13.04	935.06	17.01
South African--Equity--Financial	1.07	4.32	3.99	18.41	5.81	29.15	5.26	262.44	13.77	1395.58	13.27
South African--Equity--General	2.78	1.65	1.56	8.40	2.73	15.83	2.99	175.06	10.67	12174.48	15.72
South African--Equity--Industrial	2.64	1.08	-6.93	-8.46	-2.91	12.21	2.33	271.16	14.04	5820.31	16.23
South African--Equity--Resource	8.08	-0.78	16.34	55.74	15.94	29.21	5.27	102.01	7.30	7643.67	14.11

JSE Sectors – 1 Year:

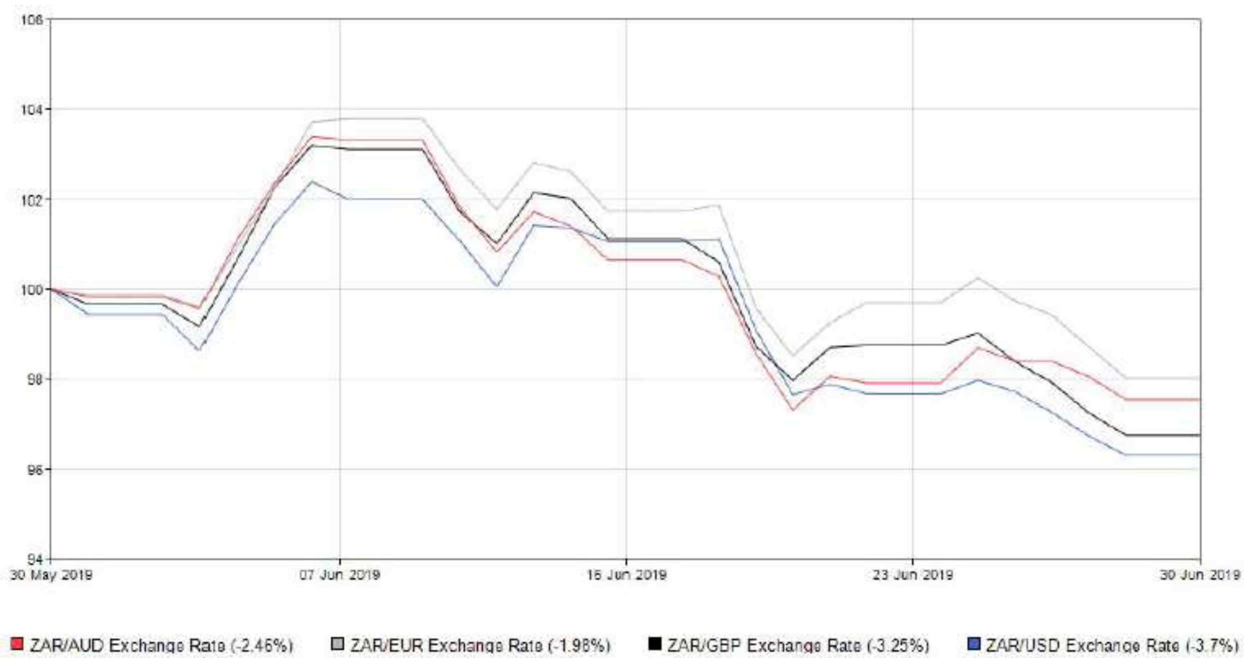
JSE Sectors – 5 Years:



Currencies (Positive indicates ZAR has weakened for the period, vice versa):

Fund	1 Month (%)	3 Month (%)	1 Year (%)	3 Year (%)	3 Year annualised (%)	5 Year (%)	5 Year annualised (%)	10 Year (%)	10 Year annualised (%)	Since inception (%)	Since inception annualised (%)
ZAR/AUD Exchange Rate	-2.46	-3.96	-2.83	-9.00	-3.10	-1.38	-0.28	58.14	4.70	1136.72	5.34
ZAR/EUR Exchange Rate	-1.98	-1.60	-0.19	-1.77	-0.60	10.87	2.09	45.39	3.82	1237.33	6.63
ZAR/GBP Exchange Rate	-3.25	-5.45	-1.44	-8.61	-2.96	-0.64	-0.13	38.05	3.28	939.73	4.96
ZAR/USD Exchange Rate	-3.70	-2.64	2.80	-3.88	-1.31	33.61	5.98	82.41	6.21	1865.65	6.35

Currencies – 1 Month (Above 100 indicates ZAR has weakened for the period, vice versa):



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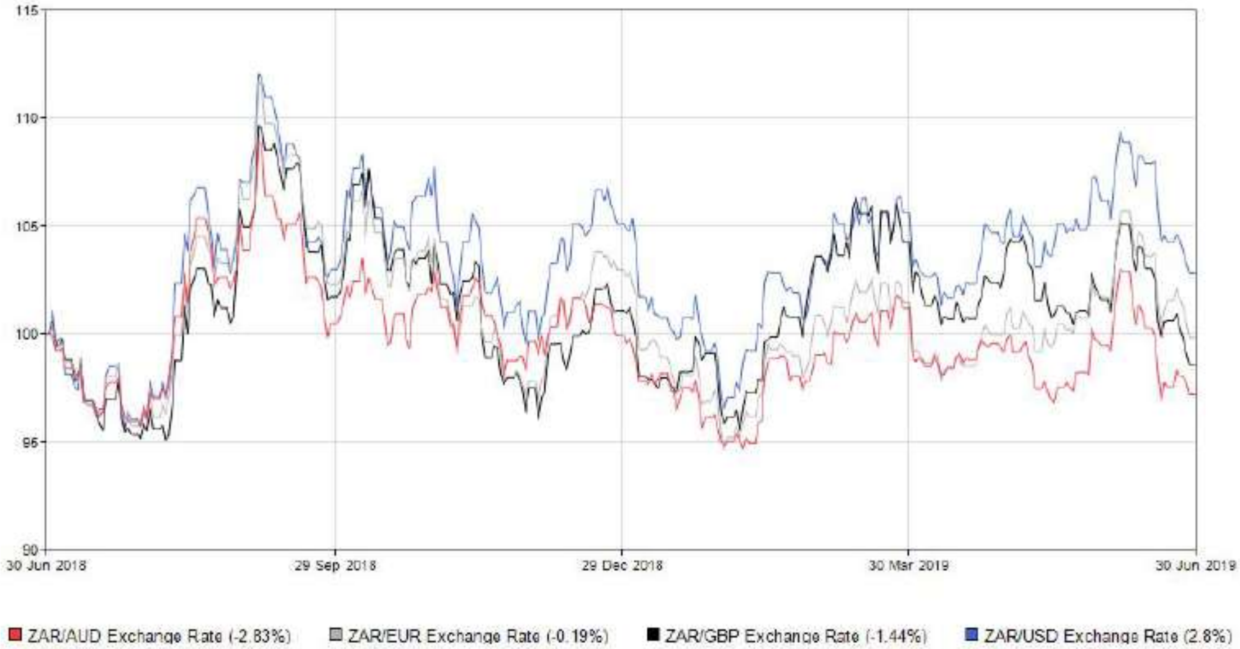
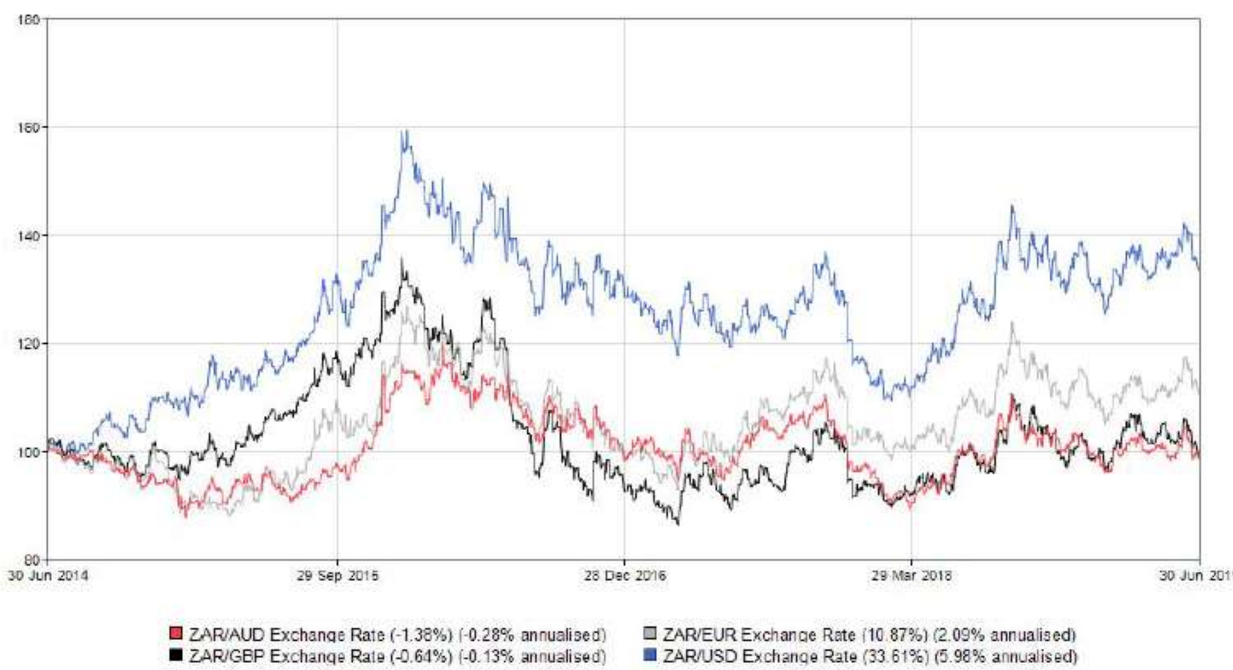


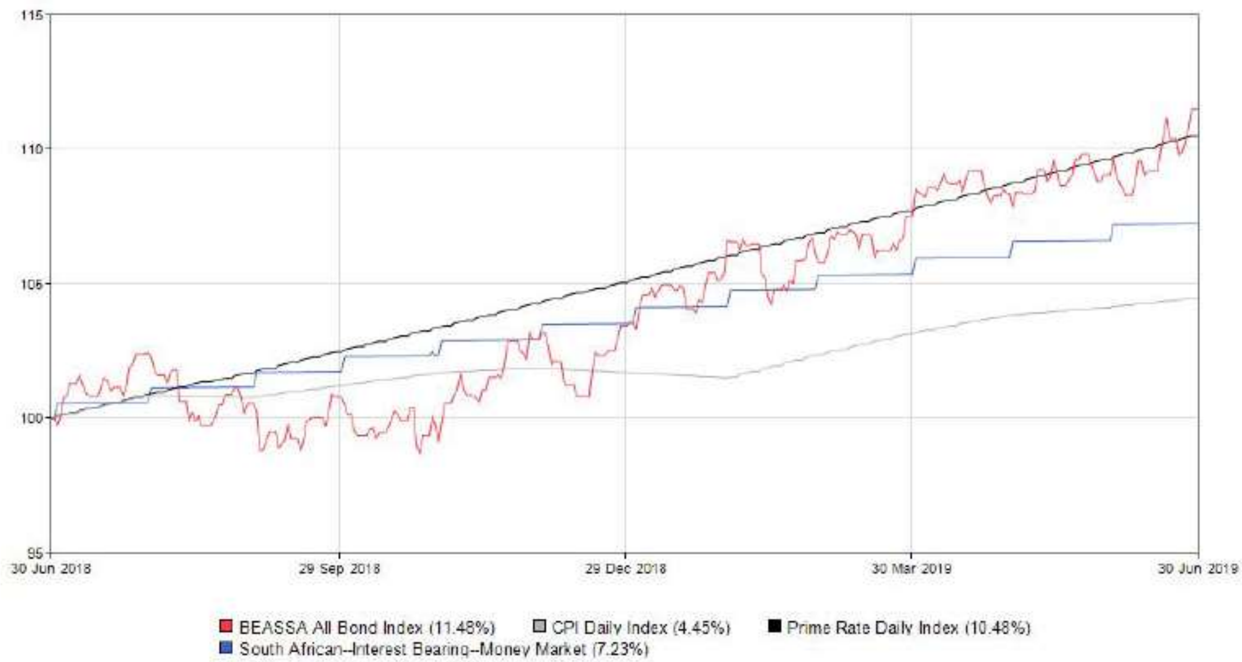
Currencies – 5 Years (Above 100 indicates ZAR has weakened for the period, vice versa):



Interest Rates:

Fund	1 Month (%)	3 Month (%)	1 Year (%)	3 Year (%)	3 Year annualised (%)	5 Year (%)	5 Year annualised (%)	10 Year (%)	10 Year annualised (%)	Since inception (%)	Since inception annualised (%)
BEASSA All Bond Index	2.46	3.70	11.48	32.54	9.86	50.93	8.60	137.11	9.04	544.03	10.49
CPI Daily Index	0.35	1.29	4.45	14.78	4.71	27.74	5.03	65.94	5.21	7703.95	9.22
Prime Rate Daily Index	0.81	2.58	10.48	31.10	9.46	55.27	9.21	145.47	9.41	1003.54	12.30
South African--Interest Bearing--Money Market	0.60	1.78	7.23	24.26	7.52	40.01	6.97	85.99	6.41	547.00	8.81

Interest Rates – 1 Year:



Independent data provided by PROFILE DATA

Regards,

Vista Wealth Management
Magnus de Wet | 082 894 8654 (preferred) | Office: 010 141 6033 | magnus@vistawealth.co.za
info@vistawealth.co.za
www.vistawealth.co.za