

View of the month – May 2019



Dear Investor,

Our “View of the Month” picture is by Fariq and features the beautiful autumn colours of Johannesburg at Zoo Lake. **Unlike the picture, May was not a pretty month for the financial markets and the old adage of "Sell in May and go away" rang true.**

The adage is based on the historical underperformance of stock markets during the summer months of the northern hemisphere which starts in May and ends in October. The belief is that, as warm weather in the northern hemisphere sets in, low volumes and the lack of market participants (presumably on vacations) can make for a somewhat riskier, or at a minimum lackluster, market period.

Even though statistical averages over longer time studies support the adage, government and central bank policies can completely eliminate historical business cycles. **We suspect May 2019 was more about policy uncertainty as opposed to business cycles:** Brexit, Trade wars, and last but not least the South African elections and subsequent cabinet announcement.

Trade wars

By far the biggest of the above mentioned uncertainties are the trade wars. The following from a note by Investec economist Ryan Djajasaputra paints a bleak picture: Escalating trade tensions have weighed heavily on markets over the last week, with the S&P 500 falling 2.6% in the last week of May. Interest rate markets have witnessed notable moves, with the US curve now pricing in the prospect of two Federal Reserve rate cuts by the end of this year.

President Trump's latest rhetoric is raising concerns over the potential for trade tensions to widen out beyond the current US-China trade dispute, given his threat to impose tariffs on **Mexico**. Notably the US decision to announce these tariffs was based on immigration rather than trade. To add to widening trade issues, the US also announced that it would be ending **India's** preferential trade status over the weekend. With regard to US – China relations, the mood music in particular coming out of China, is warning over a prolonged trade war.

Elections and cabinet feedback

The South African (SA) elections on 8 May'19 went smooth without major disruptions. The Independent Electoral Commission of South Africa (IEC) declared the 2019 general elections free and fair with 17.6m out of the registered 26.8m voters casting their vote. **As expected, the ANC won the elections, but with a reduced majority of 57.5%**. The DA remains the second largest party with 20.77% and the EFF came third with 10.79%. What is concerning is that the EFF was the biggest winner in these elections, scoring nineteen more seats in the national assembly than during the 2014 elections.

The Cabinet was announced five days after President Cyril Ramaphosa was inaugurated, an unusually long delay. The announcement was even postponed twice on the day, signaling that there had been intense bargaining within the ANC. But it was worth the wait with the announcement of a **reduced cabinet of 28 ministers, which are 8 less than the previous 36**. Even more positive is that only four of the 28 ministers are linked to the Zuma faction. So only one in seven ministers is aligned to Zuma's group and none are in posts regarded within government as senior positions.

Sadly the Ramaphosa group lost one important battle, they had hoped to drastically cut the number of deputy ministers but reports suggest that they bowed to resistance from various lobby groups, among them the Zuma faction: **there are 34 deputies, only three fewer than under Zuma**. At least 12 of them are in the Zuma faction, reported EWN.

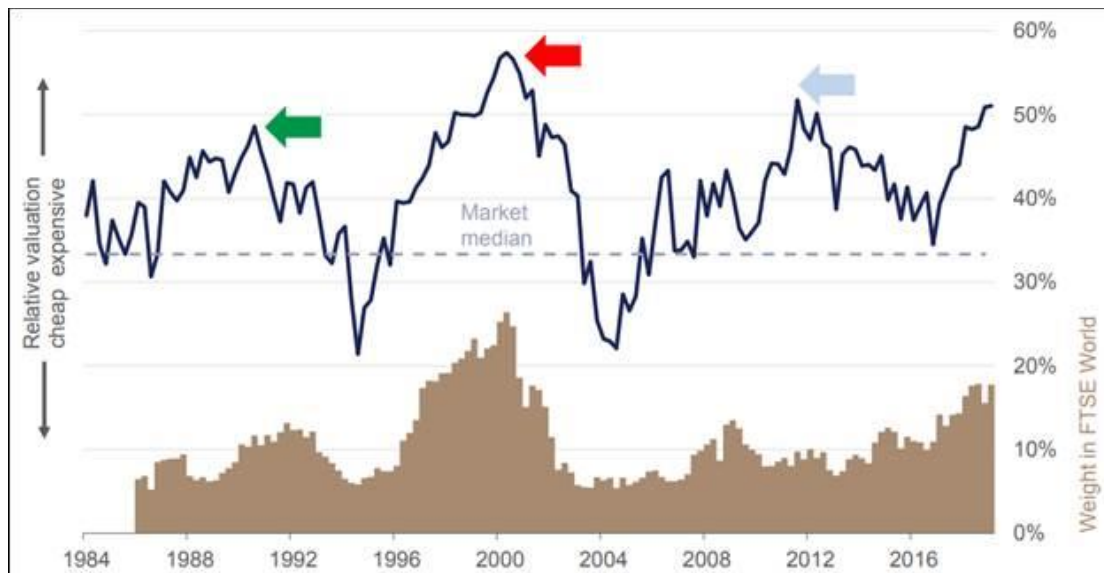
Should I not just move all my investments offshore?

Even though we're positive about the South African election and cabinet outcomes, this is a big ship and will take some time to turn. We're also still very concerned about Moody's potentially downgrading us. As a result, we still advise clients to diversify offshore. **As such, we had a question from a client recently wanting to know why she should not just move all her investments offshore?** This is a good question which we'd like to answer in the following ways:

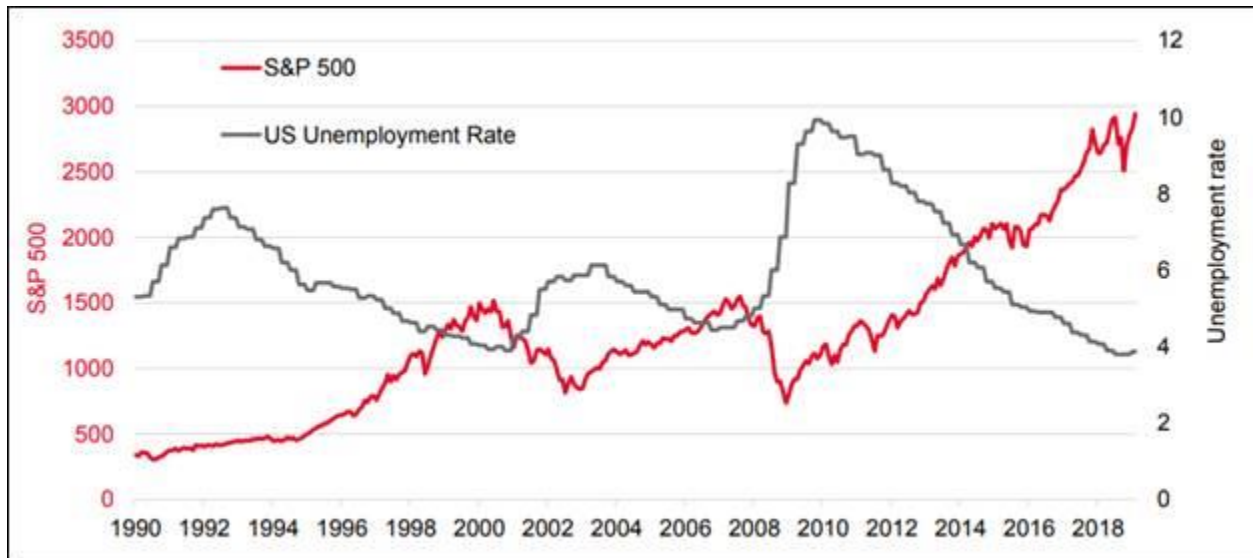
1. **Yes, the Rand is a depreciating currency but not as bad as you think.** The graph below indicates how the Rand has depreciated against a few major currencies over the past 5 years (by the way we include this graph in the financial indicators section of this newsletter every month). The graph indicates that if you converted your Rands to USD 5 years ago, you would have outperformed inflation and would have gained a whopping 7% annually. Conversely, if you converted your Rands to Australian Dollars (AUD) 5 years ago, you would have only gained 0.5% annually.

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	-0.54	0.44	5.82	-11.13	-3.86	2.74	0.54	55.62	4.53	1165.80	5.39
ZAR/EUR Exchange Rate	0.48	0.84	10.11	-5.94	-2.02	13.25	2.52	43.83	3.71	1262.51	6.69
ZAR/GBP Exchange Rate	-2.73	-1.98	9.29	-17.83	-6.35	4.21	0.83	39.74	3.41	970.99	5.03
ZAR/USD Exchange Rate	1.43	3.59	16.10	-5.34	-1.82	39.67	6.92	83.56	6.27	1951.47	6.45

2. During the Zuma years, SA unfortunately did not participate in the global synchronised growth which other countries and economies experienced post the global financial crisis. **As a result, overseas markets are currently extremely expensive and to now invest all your funds in these markets is risky.** For example, the graph below indicates that the US tech sector's price earnings (PE) are at elevated levels -levels last experienced before the tech bubble in 2001:



3. The next graph compares the US unemployment rate with the S&P500 index. **It indicates that when the unemployment rate in the US is very low, there is often a correction in the S&P500.** I.e. you need to be cautious when things are going very well in the US:



4. Being invested in SA has benefits often overlooked:
- Related to the above points, a benefit of being invested in SA is that **if a correction occurs in the US, the impact on SA might not be as big.** This is because the SA market has not seen the same rate of growth offshore markets has seen in the last 5 years and therefore does not have that much to give back.
 - The real interest rate is the rate of interest an investor, saver or lender receives after allowing for inflation. **SA has very high real interest rates** if you consider our inflation rate is currently just over 4% and you can earn interest at over 8% if you shop around and extend your term. This is a massive advantage for SA investors and often overlooked.
 - The world has become small place and research has found that the **top 40 companies listed on the JSE's earnings from offshore activities range between 60% and 70%.** Therefore by just being invested in the top companies listed on the JSE, investors already have big exposure to offshore markets without having to physically invest offshore.

It is important to note that we don't believe in timing the market and just as everyone else, we also don't know what the future holds. The above merely confirms that investors need to not only be asset diversified but also country diversified.

Quote of the month

"Let us forge a compact for an efficient, capable and ethical state, a state that is free of corruption, for companies that generate social value and propel human development, for elected officials and public servants who faithfully serve no other cause than that of our people. **We must be a society that values excellence, rewards effort and rejects mediocrity.**" President Cyril Ramaphosa, 2019 presidential inauguration.

Fuel prices

The AA's June 2019 petrol price forecast indicates a mixed picture for SA fuel prices. For petrol, the Rand's weakness was mostly a counterpart of oil's retreat, pointing to a 10 cents-a-litre reduction. Diesel fared worse, with an increase of 14 cents a litre, and illuminating paraffin showing a nine-cent rise. However, the AA warned that the forthcoming Carbon Tax is due for introduction on 5 June'19, and will add an additional nine cents a litre to the petrol price, and ten cents to the diesel price. **In effect this means that petrol will decrease by only one cent a litre, while diesel will increase more significantly by around 24 cents a litre.**

The markets

The red block in the table below shows the market stats for May 2019. In short, it was a very negative month for the SA stock market, with the **JSE All Share Total Return index** ↓-4.8% for the month (↑ 2.4% for the last 12 months). The **Industrial sector** was the worst hit ↓-6% for the month. The **Resource sector** was ↓-5.2% with **Financial** and **Listed Property sector** ↓-2.5% and ↓-0.9% respectively.

Market summary for the month of May 2019

	Close price at 2019/05/31	Weekly % change	Month to date	Year to date	Last 12 months
FTSE/JSE indices					
All-Share Index	55 650.41	2.3%	-4.9%	5.5%	-0.9%
All-Share Index Total Return	8 277.42	2.3%	-4.8%	7.1%	2.4%
Resources Index	24 688.89	1.9%	-5.2%	7.5%	12.1%
Industrials Index	75 254.57	2.3%	-6.0%	7.0%	-5.3%
Financials Index	41 692.49	2.5%	-2.5%	1.0%	-3.8%
Top 40 Index	49 587.47	2.4%	-5.1%	6.1%	-0.4%
Shareholder Weighted Index	20 527.90	2.7%	-5.6%	5.7%	0.8%
Capped Shareholder Weighted Index	22 429.50	2.4%	-4.8%	3.9%	-1.1%
SA Listed Property Index	1 910.68	2.6%	-0.9%	3.8%	-4.8%
SA Volatility Index	15.58	0.1%	1.0%	-28.5%	-9.2%
Interest-bearing indices					
JSE ASSA All Bond Index (ALBI)	666.45	-0.7%	0.6%	5.3%	7.7%
SteFI Composite Index	423.18	0.1%	0.6%	3.0%	7.3%
JSE ASSA SA Government ILB Index	703.51	0.0%	-0.7%	3.1%	1.7%
Interest rates					
Prime rate	10.25%			0.0%	2.5%
Repo rate	6.75%			0.0%	3.8%
Commodities (in US dollars)					
Gold price	1 305.20	1.6%	1.7%	1.9%	0.0%
Platinum price	791.50	-1.5%	-11.9%	-0.2%	-13.3%
Oil price	61.63	-11.0%	-14.0%	13.2%	-20.8%
Global indices (in base currency)					
Dow Jones (US)	24 815.04	-3.0%	-6.7%	6.4%	1.6%
S&P 500 (US)	2 752.06	-2.6%	-6.6%	9.8%	1.7%
FTSE (UK)	3 923.87	-1.5%	-3.5%	6.8%	-7.1%
Hang Seng (Hong Kong)	26 901.09	-1.7%	-9.4%	5.5%	-11.7%
Shanghai	2 898.70	1.6%	-5.8%	16.2%	-6.4%
Nikkei (Japan)	20 601.19	-2.4%	-7.4%	2.9%	-7.2%
CAC 40 (France)	5 207.63	-2.0%	-6.8%	10.1%	-3.5%
DAX (Germany)	1 097.08	-2.2%	-5.6%	10.8%	-8.0%
MSCI Emerging	998.00	1.2%	-7.5%	3.3%	-10.9%
MSCI Developed	2 046.25	-2.3%	-6.1%	8.6%	-2.2%
US Volatility Index	18.71	18.0%	42.6%	-26.4%	21.3%
Exchange rates					
Rand/US dollar	14.58	1.3%	2.0%	1.6%	14.8%
Rand/euro	16.29	0.8%	1.6%	-1.1%	9.7%
Rand/pound	18.42	0.5%	-1.2%	0.5%	9.1%
Dollar/euro	1.12	-0.3%	-0.4%	-2.6%	-4.5%

Financial Indicators as at 31 May 2019:

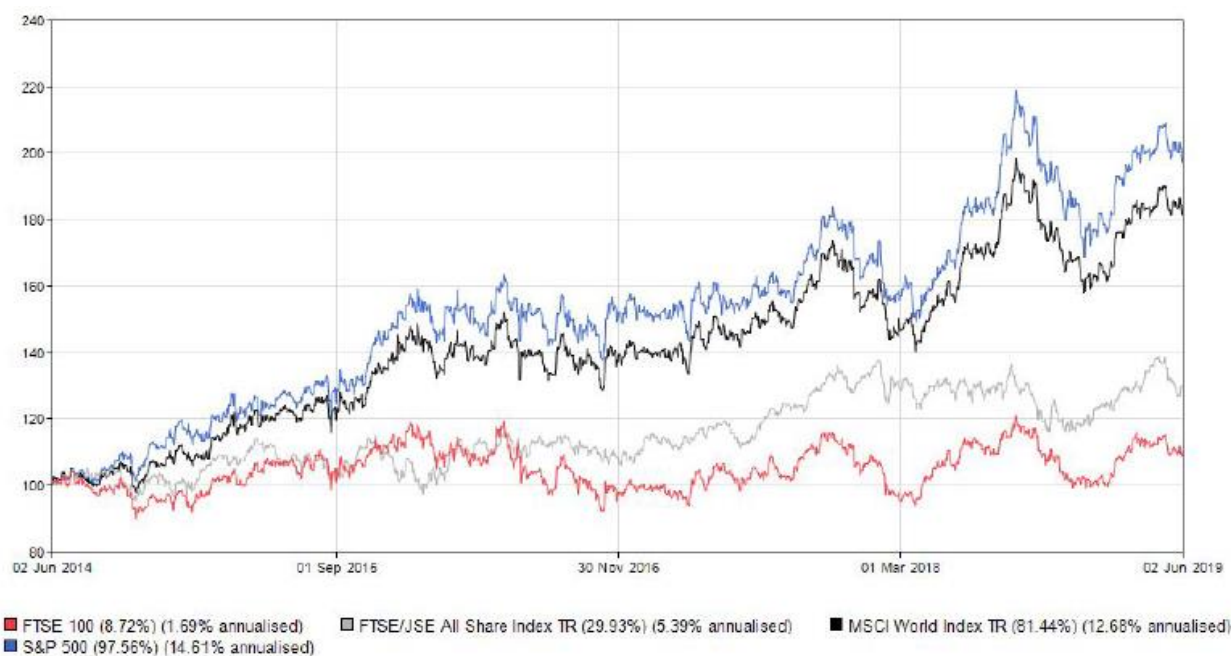
Global indices:

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	-5.24	-1.22	1.62	-5.00	-1.70	8.72	1.69	123.54	8.39	6590.92	12.72
FTSE/JSE All Share Index TR	-5.11	0.46	0.51	13.95	4.46	29.93	5.39	215.33	12.19	210699.26	16.79
MSCI World Index TR	-4.68	0.81	13.65	21.32	6.67	81.44	12.68	369.45	16.76	118683.45	15.83
S&P 500	-5.33	0.61	15.60	22.30	6.95	97.56	14.61	430.12	18.19	2430.91	13.59

Global indices – 1 Year:



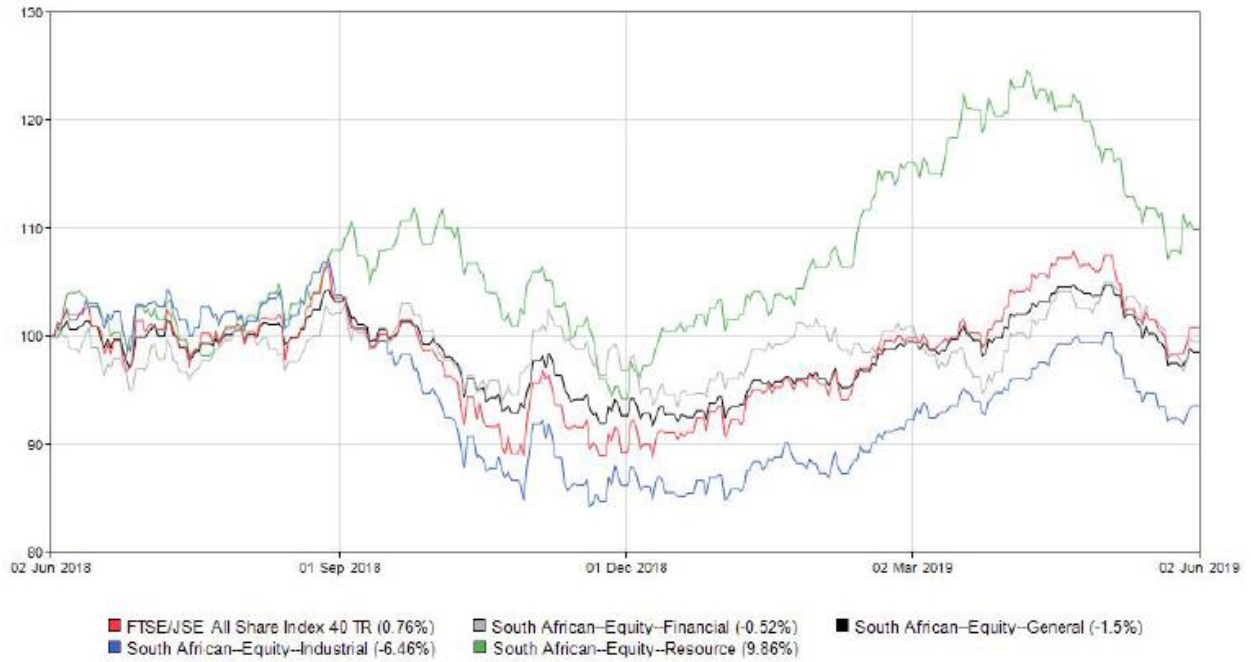
Global indices – 5 years:



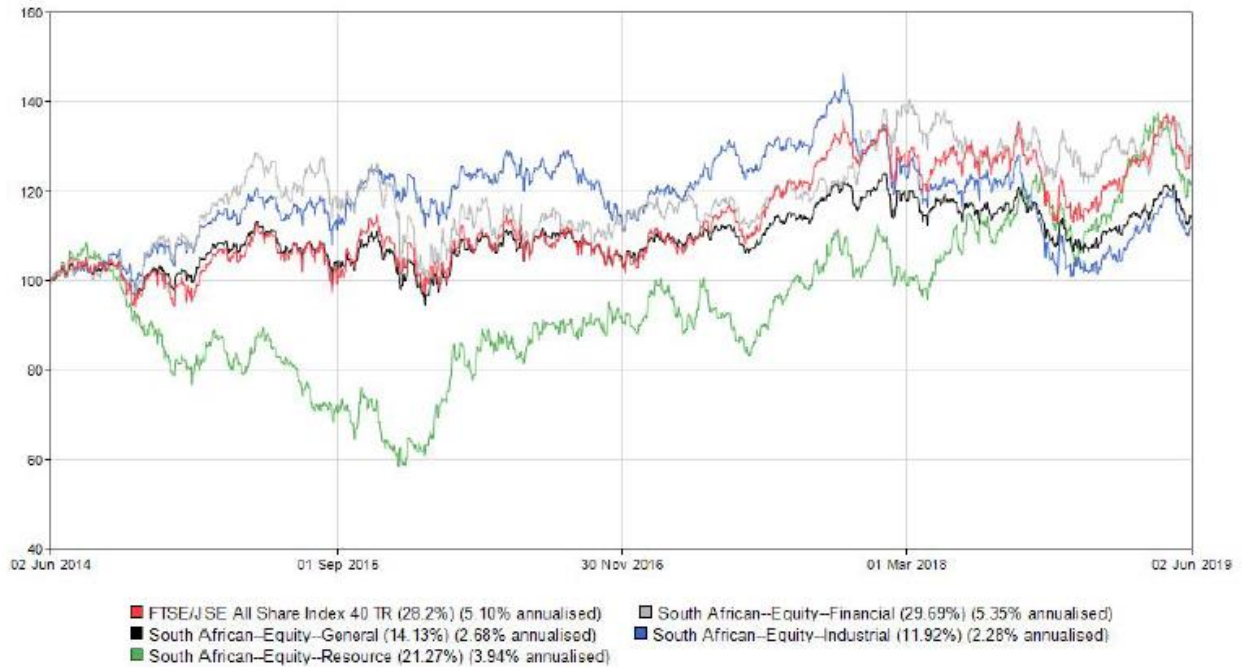
JSE Sectors:

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FTSE/JSE All Share Index 40 TR	-5.34	0.99	0.76	14.08	4.50	28.20	5.10	206.93	11.89	1946.97	13.46
South African–Equity–Financial	-4.79	-1.34	-0.52	11.99	3.86	29.69	5.35	265.34	13.86	1375.59	13.25
South African–Equity–General	-5.16	-0.98	-1.50	3.22	1.06	14.13	2.68	159.30	10.02	11814.12	15.66
South African–Equity–Industrial	-5.73	1.45	-6.46	-12.77	-4.46	11.92	2.28	255.17	13.54	5682.71	16.18
South African–Equity–Resource	-5.27	-5.32	9.86	43.22	12.75	21.27	3.94	67.41	5.30	7019.98	13.86

JSE Sectors – 1 Year:



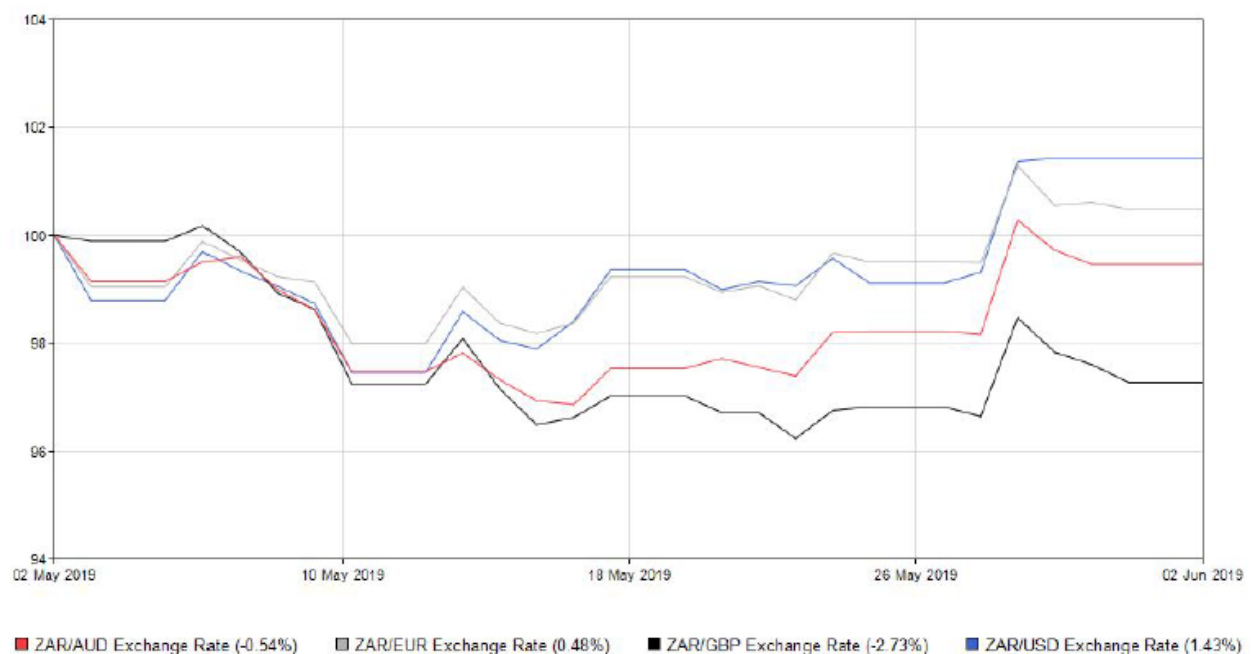
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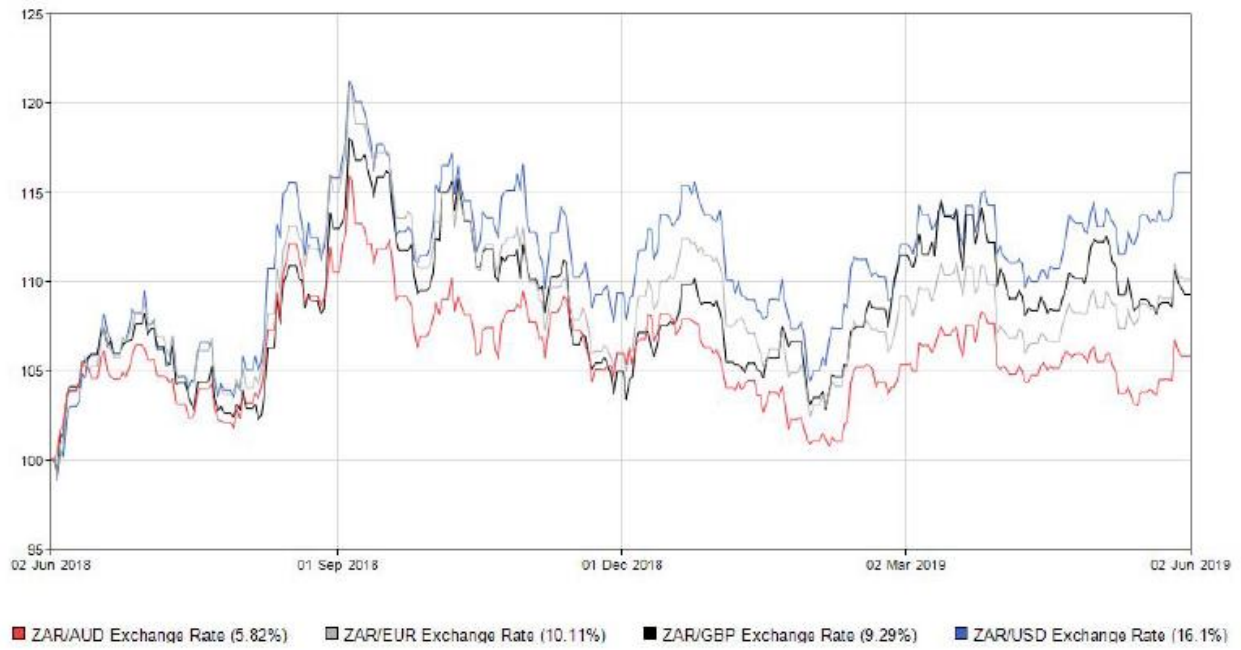
Currencies (Positive indicates ZAR has weakened for the period, vice versa):

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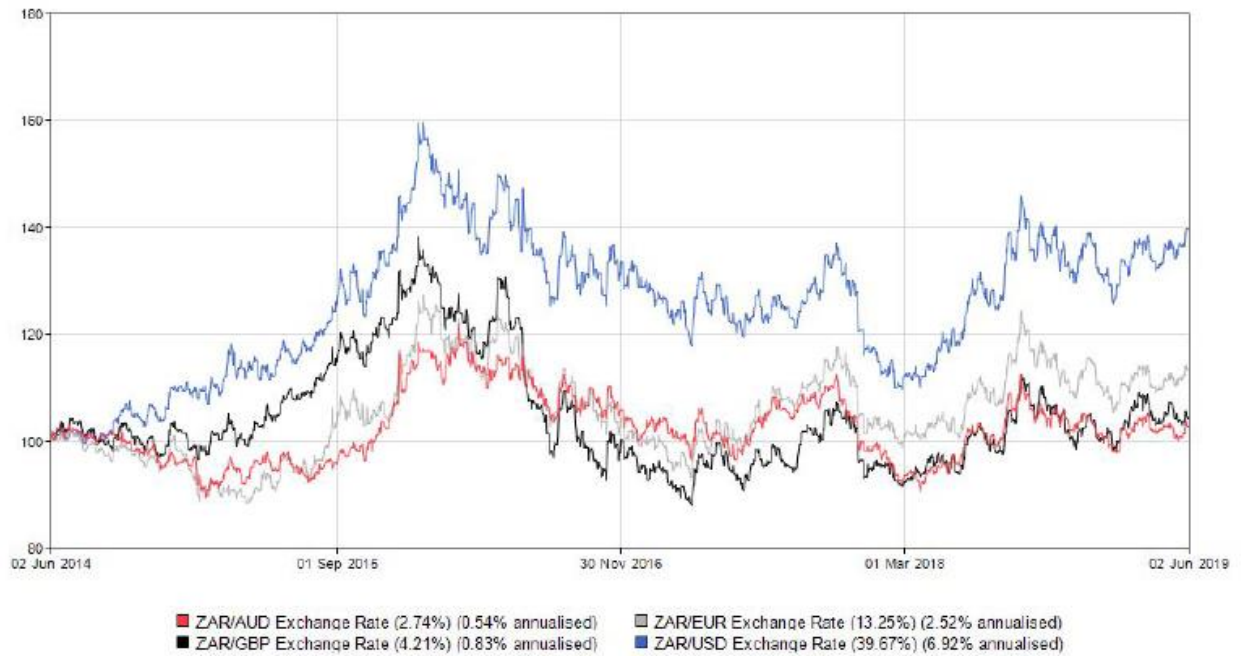
Currencies – 1 Month (Above 100 indicates ZAR has weakened for the period, vice versa):



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



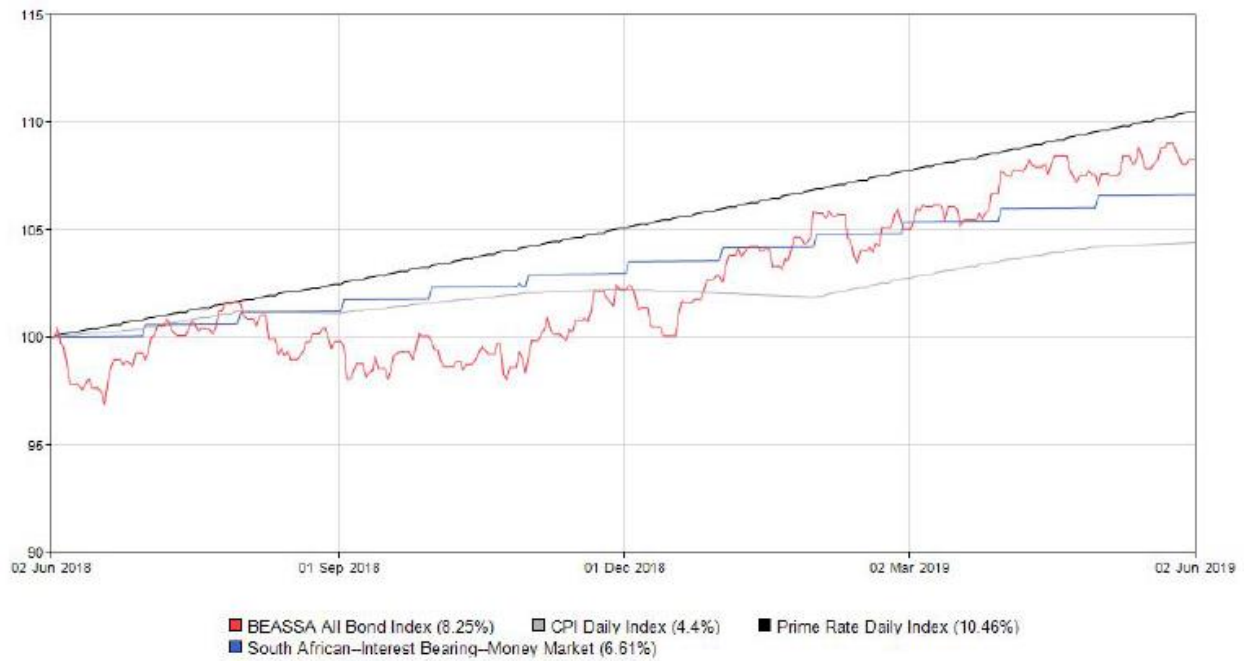
Currencies – 5 Years (Above 100 indicates ZAR has weakened for the period, vice versa):




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	1.12	3.08	8.25	34.33	10.36	49.49	8.39	131.46	8.77	530.01	10.41
CPI Daily Index	0.20	1.64	4.40	14.94	4.76	27.57	5.00	65.86	5.20	7673.31	9.23
Prime Rate Daily Index	0.81	2.55	10.46	30.82	9.39	55.12	9.19	145.61	9.42	994.93	12.30
South African–Interest Bearing–Money Market	0.03	1.18	6.61	23.51	7.31	39.17	6.85	84.85	6.35	543.02	8.81

Interest Rates – 1 Year:



Independent data provided by 

Regards,

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