REFLECTION ON 2018

AND

PERFORMANCE OF OUR STOCK PICKS FOR 2018

2018 Started off with a positive outlook for financial markets as investors were optimistic after the election of Mr. Ramaphosa as our new President, and the expectations that global growth would exceed that of 2017. Now that we are at the end of a challenging year in the financial markets, we look at the themes that influenced our local financial markets.

President Trump announced in January that tariffs are going to be raised on imports – mostly directed against China, which has escalated to a “trade war” between these two countries. The International Monetary Fund (IMF)has now revised its global growth forecast down, attributed to the escalating trade tensions and emerging market stress. Furthermore, the Chinese economy is experiencing a slowdown in growth of 6.5% currently, well below the long-term average of around 9.5%. This has a direct impact on the price of industrial commodities as the demand wanes.

Ten years after the financial crisis, developed markets cut back on their quantitative easing programmes, led by America, where the Federal Reserve has continued on its path of normalising monetary policy, thanks to strong economic growth in the US. The strong growth was partly due to the tax cuts boosting corporate earnings. The Fed increased its funds rate 3 times during 2018, with the possibility of another rate hike in December. This led to the strengthening of the US dollar Index, and subsequently a weakening of emerging market currencies and assets. The Rand has depreciated by more than 12% against the US Dollar and by 5.6% against the Euro, as foreigners sold SA Equities and Bonds.

Other emerging markets have also taken strain, specifically Argentina and Turkey, sending their currencies to record lows.

In South Africa, we had to endure a technical recession (the first in nine years), before recovering to grow at 2.2% in the third quarter of 2018. We were also subjected to persistently high unemployment, a VAT hike in April, rising electricity prices, and petrol prices hitting a record high, all resulting in the decline in consumer spending and confidence.

There are increasing pressure on Government finances as the shortfall in the budget is growing on the back of a low growth environment and the deteriorating financial health of our state-owned entities such as the SABC, SAA and Eskom. These fiscal risks, along with uncertainty surrounding the

Land Expropriation without Compensation, are putting South Africa at risk for further downgrades by ratings agencies.

With this backdrop of a challenging macro and local economic environment, the year to date returns of the South African Equities markets have been disappointing. Some large cap shares within the Top 40 index have lost more than 30% from their peaks.

In January 2018 we sent out a report on our stock picks for the year. Below is the year to date performance of these stock picks compared to the performance of the JSE All Share Index and the JSE Top 40 Index. If all five shares were bought in equal weighting the return would have been 3.36% compared to a return of -15.42% delivered by the JSE All Share Index over the same period.

Share	Market Price 03-Jan-18	Current Price 11-Dec-18	Year to Date Performance
Impala Platinum (IMP)	32.60	37.00	13.50%
BHP Billiton (BIL)	253.53	281.45	11.01%
Sasol (SOL)	423.07	425.82	0.65%
Netcare (NTC)	24.89	26.43	6.19%
Woolies (WHL)	63.93	54.64	-14.53%
JSE All Share Index (J203)			-15.42%
JSE Top 40 Index (J200)			-15.93%

Disclaimer: