MARKET PERFORMANCE AND ECONOMIC UPDATE

Quarter 1 of 2017

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Market overview

Politics was the central theme driving markets over the first quarter of 2017. Global Markets made a positive start to the quarter supported by positive global economic data and Trump's pro-growth policies. Momentum slowed in March as geo-political events increased market uncertainty.

US Fed raises interest rates

On the whole, economic data out of the US was positive and supportive of an improved outlook for growth and inflation for the world's largest economy. Given the improved outlook, the US Fed raised interest rates by 0.25%.

The failure of US president Trump's administration to secure enough support for the proposed amendments to healthcare has cast doubt over the execution abilities of his pro-growth policies.

China's economy

Investor sentiment around China improved over the quarter as economic data exceeded market expectations and the Chinese equity market had their best first quarter in over ten years.

European Union, UK and Japan's economic update

Economic data out of the Eurozone was largely positive as the manufacturing PMI reached its highest level since April 2011 and annual inflation reached 2% in February before dropping to 1.5% in March.

The European Central Bank (ECB) elected to leave interest rates unchanged over the quarter. It did increase its growth expectations for 2017 and 2018 to 1.8% (1.7%) and 1.7% (1.6%) but said it would keep the existing stimulus programme in place until the end of the year.

Prime Minister Theresa May formally triggered Article 50 in March to begin the two-year exit process from the EU. The Bank of England (BOE) elected to leave interest rates unchanged. It raised its growth expectation for 2017 to 2.0% (1.4%) due to stronger-than-expected consumer spending following Brexit.

In Japan, PMI readings decreased slightly but still remains in expansionary territory. The Bank of Japan (BoJ) left interest rates unchanged over the quarter.

Commodities

The oil price declined -4.5% in March and -6.5% for the quarter as an increase in the number of active US oil rigs and continuing build-up in US inventories counter the production cut currently in effect by OPEC to slow down supply. The oil price did manage to recover some of the earlier losses at the end of March as investors reacted positively to the news of a potential extension of the current production cut deal.

Gold and platinum were up by 9.2% and 6.5% over the quarter respectively.

South Africa

The focus of the 2017/18 national budget was to raise R28 billion by increasing taxes. This has resulted in the tax burden increasing from 26% to 26.7% of gross domestic product (GDP) , which is still in the middle range relative to similar countries. The government has adhered to its spending ceiling since the ceiling was established in 2012, which has earned it credibility with investors and ratings agencies.

S&P has downgraded SA's long-term foreign denominated debt from BBB- to BB+, which is a sub-investment grade rating. Such a downgrade was catalysed by the sacking of finance minister Pravin Gordhan and cabinet reshuffle. S&P's more adverse opinion on SA's fiscal outlook post the reshuffle is reflected in the revision on the country's debt burden score from neutral to weakness, suggesting a loss of faith in National Treasury as an institution. The cost of financing government debt has risen on account of the downgrade, making it increasingly difficult for the Treasury to balance its budget and find the funds required for more meaningful expenditures in the economy like infrastructure and education. Political instability also brings with it policy uncertainty and decreased chances of investment all of which contribute towards a less encouraging growth outlook.

Following the S&P downgrade, Fitch announced, a downgrade of both the rand and foreign-denominated sovereign debt to sub-investment grade. The Fitch downgrade is more significant because it pulled with it both the local currency rating (90% of total outstanding debt) and the foreign currency rating (10%); while S&P only downgraded the foreign currency rating.

The SARB elected to leave interest rates unchanged at its January meeting.

Market performance as at end of March 2017

Global equities and global bonds returned 7.1% (MSCI ACWI) and 1.6% (Citi WGBI) respectively. Emerging market equities (MSCI EM) returned 11.5% to outperform their developed counterparts over the quarter (all in US dollars).

Despite local political turmoil, the JSE All Share Index (ALSI) gained 2.7% in March and 3.8% for the quarter. This as rand weakness at the end of the quarter boosted gains of the local rand hedge stocks (which make up a significant portion of the local index).

Industrials was the best performing super sector, returning 6.6% for the quarter , due to its outperformance of the rand hedge stocks in the index in March (4.2%). Resources gained 2.9% in March and 2.7% for the quarter as gold stocks rallied on the back of a stronger gold price. Financials was down -0.7% over March and -1.1% over the quarter due to the political turmoil and concerns over credit downgrades at the time.

The top three performing sectors over the quarter were construction (11.8%), consumer services (11.1%) and consumer goods (9.9%). At the bottom were telecommunications (-8.9%), health (-7.0%) and technology (-0.6%).

Small caps (4.5%) outperformed large caps (3.9%) and mid caps (1.1%) over the quarter.

Local bonds gained 0.4% in March as almost all of the gains during the month were reversed in the last week of the month due to political uncertainty. Local-Inflation Linked Bonds declined -0.5% in March due to political uncertainty and lower inflation expectations but gained 0.9% for the quarter.

Due to increased political uncertainty in March, the rand depreciated against the US dollar (-2.4%), euro (-3.6%) and sterling (-3.2%) over March. Over the quarter the rand was still up 1.8% against the US dollar, helped by dollar weakness over the period, slightly up 0.5% against the euro and down -0.5% against the sterling.

Asset class returns in rand terms for the period ending 31 March 2017:

Asset classes	Index	1 month	3 months	1 year	3 years (per year)	5 years (per year)
Local equities	FTSE/JSE All Share Index	2.70%	3.80%	2.50%	6.00%	12.50%
Listed properties	SA Property Index (SAPI)	0.10%	1.40%	1.50%	14.50%	15.80%
Local bonds	All Bond Index (ALBI)	0.40%	2.50%	11.00%	7.50%	7.40%
Inflation-linked bonds	Inflation-Linked Bond Index	-0.50%	0.90%	4.90%	6.70%	7.70%
Local cash	STeFI Overnight	0.60%	1.70%	7.00%	6.20%	5.70%
Global equities	MSCI All Countries World Index	3.80%	5.00%	5.50%	14.60%	21.80%
Global bonds	Citi WGBI	2.70%	-0.40%	-12.20%	7.10%	11.20%

** The returns for the global asset classes have been converted from dollars to rands.*

Sources: INET BFA, DataStream, Bloomberg