

INVESTMENT REVIEW

JANUARY 2017

"A lack of money is the root of all evil."
George Bernard Shaw

ECONOMIC OUTLOOK

The US Federal Reserve (the Fed) concluded their first policy meeting of the year by painting an upbeat picture of the US economy. The economy continued to add jobs, inflation was starting to rise and confidence amongst consumers and businesses was rising. Newly-elected President, Donald Trump, has been very busy in his first weeks in office, although his first acts as President have been met with vilification and vindication in equal measure. Importantly for the economy, the Trump administration remains committed to his campaign promises of lower taxes and increased spending, although the exact details of how this will be achieved have not been forthcoming. Against this backdrop, the US Fed is expected to raise interest rates further in 2017 and 2018.

In the UK, MPs unanimously backed the government's European Union Bill. The bill will now face further scrutiny in the House of Commons and the House of Lords before it can be signed into law. British Prime Minister, Theresa May, has set 31 March as the deadline for invoking Article 50 of the Lisbon Treaty, which would then allow officials from the UK and the European Union to start negotiations. The European Central Bank (the ECB) left interest rates unchanged at their January policy meeting. They also announced no change to their quantitative easing programme, which is currently set at €80 billion per month.

Index	January %	12m %	YTD %
Dow Jones	0.6	23.9	0.6
S&P 500	1.9	20.0	1.9
FTSE 100	-0.6	16.7	-0.6
EURO STOXX 50	-1.7	9.2	-1.7
Nikkei 225	-2.8	8.7	-2.8
Hang Seng	6.2	18.7	6.2
Australia	-0.8	12.2	-0.8

Source: I-Net Bridge

In South Africa, the Monetary Policy Committee (the MPC) of the South African Reserve Bank (the SARB) left interest rates unchanged at their first policy meeting of the year. The MPC raised its inflation forecasts for 2017 as a result of base effects, higher food prices and a higher US dollar oil price. The MPC now expects inflation to average 6.2% in 2017, up from 5.8%, but have left their forecasts for 2018 unchanged at 5.5%. As a result of the higher inflation forecast in 2017, the MPC is unlikely to cut interest rates this year. Following the meeting, the governor of the Reserve Bank indicated that the Committee felt monetary policy was still accommodative.

South African consumer inflation rose to 6.8% in December from 6.7% in November (chart 1). The market had expected consumer inflation to moderate to 6.5%. Food inflation accelerated to 12% on the back of a sharp increase in the price of frozen chicken portions, while core inflation was impacted by a higher-than-expected increase in rentals, which are surveyed every quarter. Although food price inflation is expected to moderate in 2017, there is some concern that an invasion of fall armyworms might impact maize crop production in South Africa, limiting the downside for maize prices.

MARKET OUTLOOK

Having finished 2016 on a positive note, global equity markets produced a mixed bag of returns in January. Donald Trump's headline-making exploits as President of the United States are having a profound effect on short-term share price movements in the US equity market, which is spilling over into other equity markets. By the end of January, just over one-third of S&P 500 constituents had reported earnings for the fourth quarter. On average, earnings have grown by 4.2%, versus analyst expectations of 3.1% before the first company reported. Technology and industrial companies have been reporting earnings ahead of estimates, while in the energy sector, companies have, on average, reported earnings below analyst estimates.

Global bond yields were largely unchanged in January (chart 2), as most central banks kept official interest rates unchanged and appeared under little or no pressure to raise interest rates anytime soon. Inflation is not a threat, although it has been rising in the US (chart 3). The GPR 250 REIT index declined by just 0.1% in January as global listed property markets took their cue from global bond markets and moved sideways. A number of large US REITs are expected to report fourth quarter earnings over the next 2 weeks which may provide more direction for global listed property markets in 2017.

Index	January %	12m %	YTD %
All Share	4.3	10.3	4.3
Resources	10.7	52.8	10.7
Financials	-0.7	8.4	-0.7
Industrials	4.0	0.1	4.0
Property	1.6	15.4	1.6
Bond	1.3	11.8	1.3
Cash	0.6	7.5	0.6

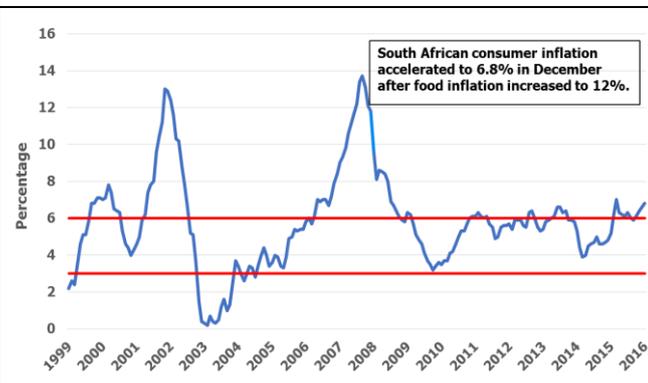
Source: I-Net Bridge

South Africa's equity market was boosted by a strong performance by the Resources sector (chart 4). Higher commodity prices helped the Resources sector post a 10.7% gain in January and have helped the sector gain more than 50% over the past 12 months. The stronger rand (chart 5) once again weighed on the prices of the large, dual-listed industrial companies. The Financials sector struggled in the wake of persistent rumours around a cabinet reshuffle that would see Pravin Gordhan removed as Finance Minister. The Banks sector was particularly hard hit by the rumours and the FTSE/JSE SA Banks index declined by 4.5% during the month.

Despite the rumours of a cabinet reshuffle, South African long bond yields fell a further 10 basis points in January (chart 6). As a result, the All Bond index gained 1.3% in January and is up 11.8% over the past 12 months. South Africa's listed property sector benefited from lower long bond yields and posted a 1.6% return in January. Over the past 12 months, listed property has been South Africa's best performing domestic asset class, having produced a 15.4% return over that period. While the sector continues to face headwinds in 2017, there are still good investment opportunities in the sector.

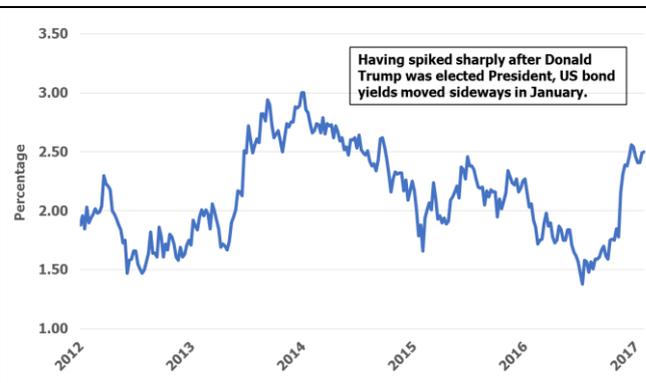
CHARTS

Chart 1: SA Consumer Inflation (%)



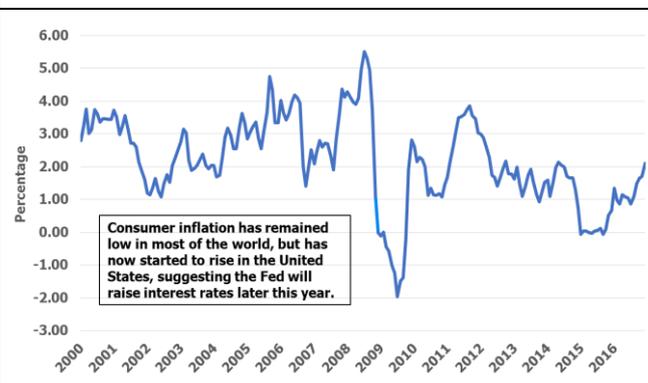
Source: I-Net Bridge

Chart 2: US 10-Year Government Bond Yield (%)



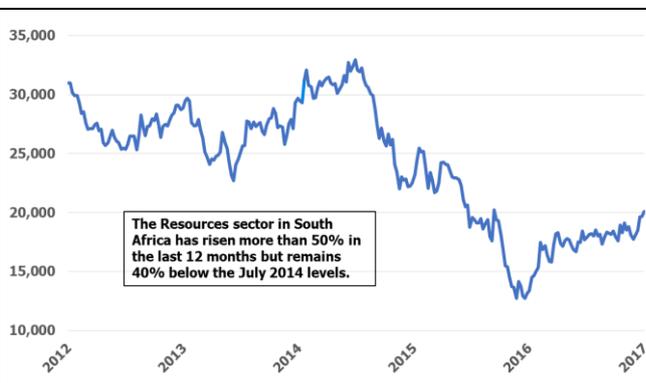
Source: I-Net Bridge

Chart 3: US Consumer Inflation (%)



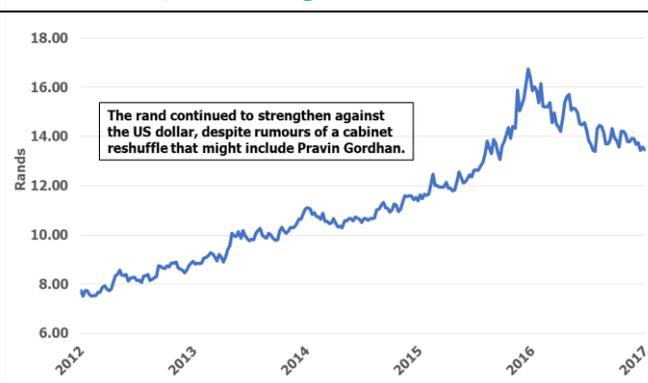
Source: I-Net Bridge

Chart 4: FTSE/JSE Resources Index



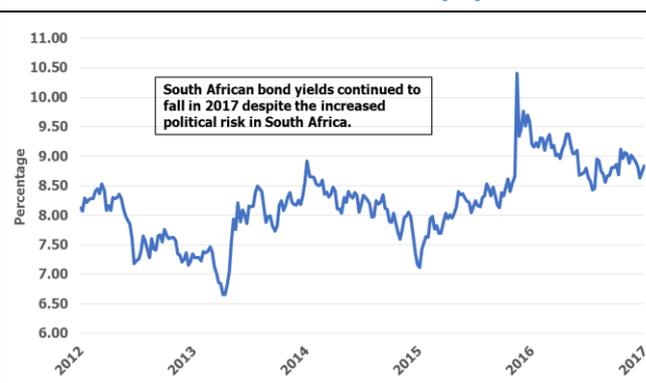
Source: I-Net Bridge

Chart 5: USD/ZAR Exchange Rate



Source: Global Property Research

Chart 6: R186 Government Bond Yield (%)



Source: I-Net Bridge

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