INVESTMENT REVIEW

APRIL 2017

BRIDGE FUND MANAGERS

"Let a good man do good deeds with the same zeal that the evil man does bad ones."
The Belzer Rebbe

ECONOMIC OUTLOOK

The US Federal Reserve (the Fed) decided to leave interest rates unchanged following their May policy meeting. The Fed remains committed to a gradual increase in official interest rates throughout 2017 and 2018, despite a slowdown in US economic activity in the first quarter of this year. Committee members believe the slowdown is transitory and that the continued improvement in the US labour market (chart 1) will translate into stronger economic growth later in the year. The expected boost to economic growth from fiscal stimulus has not materialised yet, but given Donald Trump's campaign promises some boost to growth from lower taxes and increased infrastructure spending is expected in the medium-term. This may have an impact on the timing of the Fed's next move.

Political risks in Europe have subsided following Emmanuel Macron's victory in the French presidential election. He was up against Marine Le Pen, who represented the wave of nationalism that was threatening to break up the European Union. Macron, on the other hand, is a supporter of a stronger European Union and will not shut France's borders to immigrants and asylum seekers. Low voter turnout during the second round of voting, together with the large number of spoilt ballots, suggests most French citizens remain unhappy with the political environment in their country.

Index	April %	12m %	YTD %
Dow Jones	1.4	20.9	6.7
S&P 500	1.0	17.9	7.2
FTSE 100	-1.6	15.4	0.9
EURO STOXX 50	2.0	20.9	8.9
Nikkei 225	1.5	15.2	-2.0
Hang Seng	2.1	16.8	11.9
Australia	0.7	11.9	4.0

Source: I-Net Bridge

Ratings agency Fitch cut South Africa's foreign and local currency debt credit rating to "junk" status. The move followed S&P's decision to cut the country's foreign currency credit rating to "junk" following President Jacob Zuma's decision to reshuffle his cabinet, which included replacing highly-respected Finance Minister, Pravin Gordhan and his deputy, Mcebisi Jonas. According to Fitch, the changes in the Finance Ministry will likely result in a change in economic policy direction. The new Finance Minister, Malusi Gigaba has been on a roadshow to appease foreign investors but appears to have had little success in convincing them that it is business as usual in South Africa.

The fluid political landscape in South Africa, as we head towards the ANC's elective conference in December, is likely to reduce investor, business and consumer confidence further. Economic growth is now expected to be less than 1% this year with little prospect for improvement in 2018 as the government looks to move forward with "radical economic transformation". On a more positive note, consumer inflation has continued to fall as food price inflation eased following the breaking of the drought in many parts of South Africa. Consumer inflation fell to 6.1% in March from 6.3% in February (chart 2).

MARKET OUTLOOK

Global equity markets inched higher in April, with most investors focussing on political developments in the US, UK and Europe. Of the major global equity markets, only the UK market failed to push higher, closing 1.6% down during the month (chart 3). With almost 83% of the S&P 500 companies having reported first quarter earnings, the blended earnings growth rate is finally justifying the lofty valuations of the US equity market. Most companies have exceeded analyst expectations as the growth rate across the S&P 500 reached 13.5%, the highest level of earnings growth since the third quarter of 2011. The energy sector has made the most meaningful contribution to first quarter earnings growth as the sector returns to profitability, having recorded losses a year ago.

Global bond yields were marginally lower in April with little direction from policymakers or politicians. Investors appeared to be taking a "wait and see" approach to the French presidential election as well as further efforts by the Trump administration to repeal and replace Obamacare. Global listed property markets finished April largely unchanged as most of the US REITs reported results in line with analyst expectations. Attention was once again focussed on the large mall owners following negative earnings surprises from many of their tenants. Their results suggest mall metrics appear to have stabilised, albeit at lower levels.

Index	April %	12m %	YTD %
All Share	3.6	4.5	7.6
Resources	0.0	2.8	2.7
Financials	3.6	2.0	2.4
Industrials	5.2	6.2	12.1
Property	0.5	0.0	1.9
Bond	1.5	10.6	4.0
Cash	0.6	7.6	2.5

Source: I-Net Bridge

Despite political headwinds and the threat of further credit rating downgrades, South Africa's equity market rallied in April as both the Financial and Industrial sectors registered strong gains. The weaker rand offset lower commodity prices meaning the Resources sector finished the month unchanged. The price of iron ore dropped 19% in April, resulting in sharp price declines for the Industrial Metals sector. Naspers gained 9.7% during April (chart 4) following a sharp jump in the price of Tencent Holdings in Hong Kong. Mediclinic's share price surged more than 18% during the month (chart 5) after Abu Dhabi scrapped a 20% co-payment requirement for its citizens receiving treatment at private hospitals.

South African government bond yields fell during April, despite credit rating downgrades by both S&P and Fitch. The government's benchmark R186 bond was yielding 8.69% at the end of April, down from 8.84% at the end of March (chart 6). South Africa's bond yields are expected to remain elevated in the face of ongoing political uncertainty. South Africa's listed property sector posted a modest 0.5% gain in April, despite lower government bond yields. The one year forward yield on the sector is still low at 6.9%, but the sector today has more than 40% exposure to lower yielding offshore property.

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*NON EXECUTIVE

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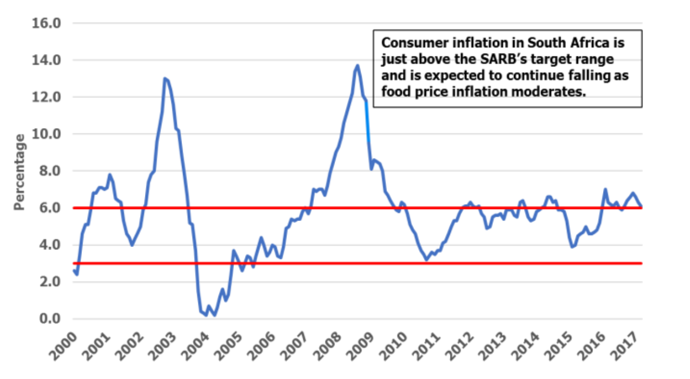
CHARTS

Chart 1: US Unemployment Rate (%)

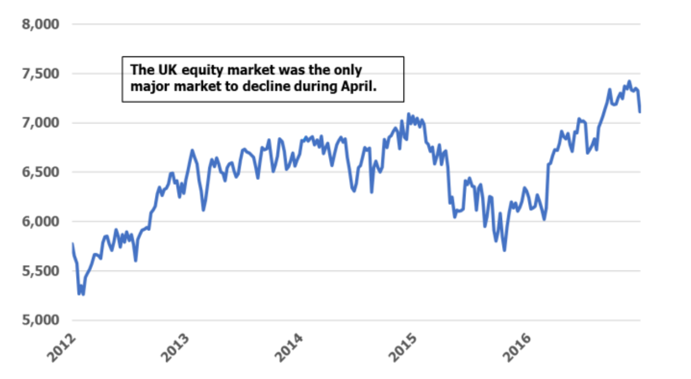
Source: I-Net Bridge

Chart 2: SA Consumer Inflation (%)



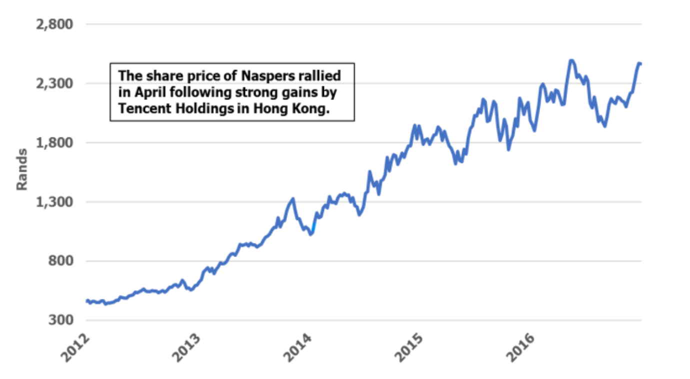
Source: I-Net Bridge

Chart 3: FTSE 100 Index



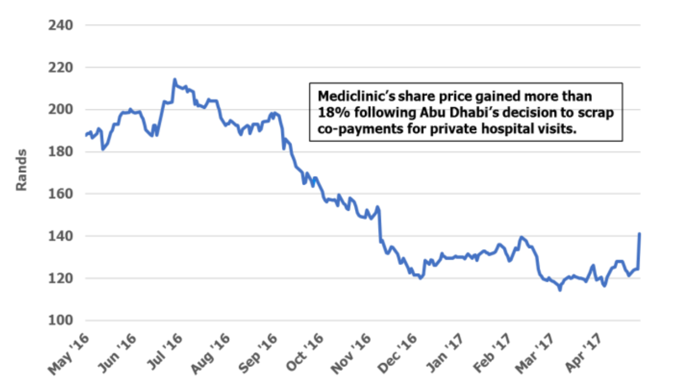
Source: I-Net Bridge

Chart 4: Naspers Share Price (ZAR)



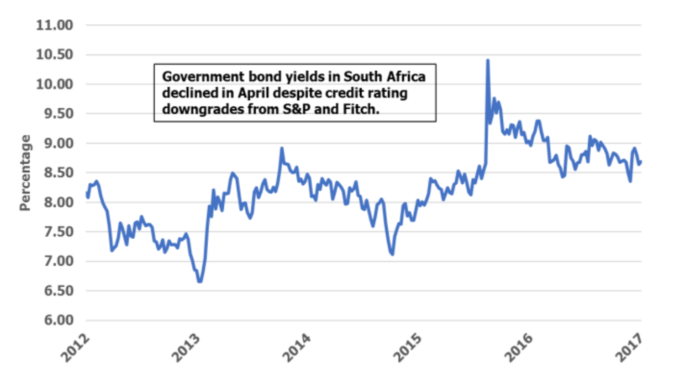
Source: Global Property Research

Chart 5: Mediclinic Share Price (ZAR)



Source: I-Net Bridge

Chart 6: R186 Government Bond Yield (%)



Source: I-Net Bridge

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