

"Think not those faithful who praise all thy words and actions, but those who kindly reprove thy faults."
Socrates

ECONOMIC OUTLOOK

Minutes from the US Federal Reserve's policy meeting in July suggest there is no consensus among committee members as to the pace of future interest rate hikes. Although there is consensus that interest rates will need to rise from current levels, consumer inflation continues to surprise to the downside (chart 1), suggesting the Fed can slow the pace of interest rate hikes to improve the economic growth outlook. There is growing evidence that the "lower for longer" interest rate stance of the Fed is now starting to have a more pronounced impact on US economic growth. US retail sales and manufacturing production have accelerated on the back of improved consumer and business sentiment, while second quarter GDP growth was revised upwards to 3.0% (chart 2).

Brexit negotiations resumed at the end of August following the summer holiday break. Following the conclusion of the second round of talks between the European Union and the United Kingdom during July, it was clear that little, if any, progress had been made. The EU first wants to agree the UK's financial and budgetary liabilities, as well as resolve the issue of the Irish border and the future rights of EU citizens in the UK, before tackling the issue of the future relationship between the EU and the UK. The UK, on the other hand, would like all the issues to be dealt with and negotiated at the same time.

Index	August %	12m %	YTD %
Dow Jones	0.7	22.3	13.0
S&P 500	0.3	16.2	11.9
FTSE 100	0.8	9.6	4.0
EURO STOXX 50	-0.7	16.1	6.3
Nikkei 225	-1.4	16.3	0.3
Hang Seng	2.4	21.7	27.1
Australia	0.0	4.5	1.0

Source: I-Net Bridge

In South Africa, official interest rates are now expected to fall further this year after consumer inflation dropped to 4.6% in July (chart 3). Although consumer inflation will accelerate again in August and September due to unfavourable base effects in the price of petrol, the lower trajectory will resume in October. The value of the rand is also having a favourable impact on the inflation outlook, after it strengthened further against the US dollar in August (chart 4), despite a sharp increase in geopolitical risk and President Jacob Zuma surviving yet another vote of no confidence, this time held via secret ballot.

Although it's too early to gauge the impact, July's surprise cut in interest rates by the South African Reserve Bank is unlikely to boost economic growth in the short-term. Consumer, investor and business confidence remain rooted at historically low levels. Compounding the problems are elevated levels of political and policy uncertainty as we head towards the ANC's national conference in December, during which a new President of the ANC will be chosen. The election is expected to be hotly contested, with Deputy President Cyril Ramaphosa and Nkosazana Dlamini-Zuma the current frontrunners.

MARKET OUTLOOK

An increase in geopolitical risk and little direction from policy makers weighed on global equity markets during August. Apart from Hong Kong, where share prices continued to rise sharply, most major global equity markets finished the month with a small gain or loss. North Korea's recent missile tests, including firing a missile over Japan, have been met with condemnation throughout the world. Increased political tension in the Far East and a stronger yen weighed on Japan's Nikkei index, which declined by 1.4% in August but has gained 16.3% in 2017. A strong earnings season in the US, where average S&P 500 earnings growth topped 10% in the second quarter, helped the US equity market post a small gain during the month.

Mixed signals from central bankers and the increase in geopolitical risk helped fuel a rally in global bond markets. The yield on 10-year US Treasury bonds fell to 2.13% from 2.30% (chart 5). The gold price also increased during August as investors went in search of safe-havens. Global listed property markets failed to make any headway during the month, despite the significant drop in global bond yields. Investors continue to worry about the impact technological disruption will have on various property types, following Amazon's disruption of the grocery chain market with the purchase of Whole Foods.

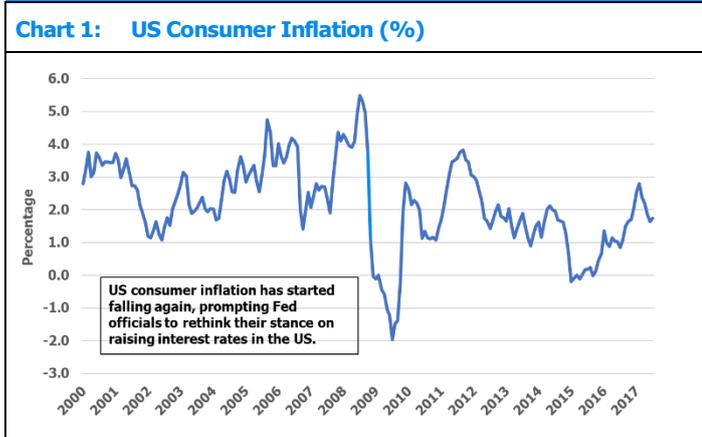
Index	August %	12m %	YTD %
All Share	2.6	10.1	13.6
Resources	5.1	17.3	13.6
Financials	2.1	10.6	6.0
Industrials	2.0	8.0	17.4
Property	0.8	9.4	6.9
Bond	1.0	10.2	6.6
Cash	0.6	7.7	5.0

Source: I-Net Bridge

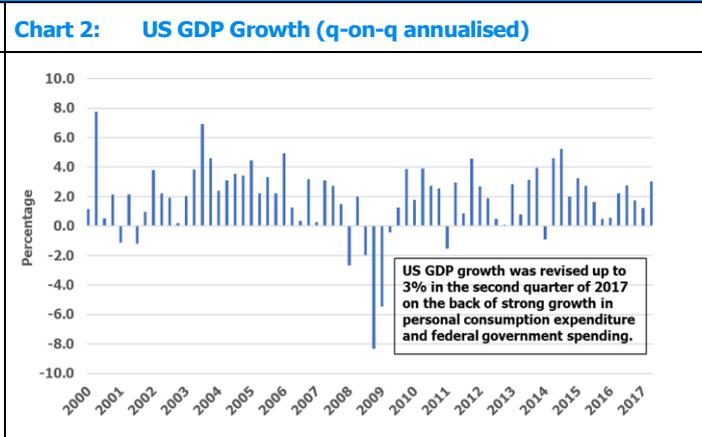
Higher commodity prices helped the South African equity market gain 2.7% in August. The resources sector surged 5.1% during the month and is now up 13.6% in 2017 (chart 6). The financial and industrial sectors also posted gains in August. Since the start of the year, the South African equity market has gained 13.6%, driven primarily by a 46% increase in the price of Naspers. Based on FactSet estimates, the one-year forward p/e on the South African equity market is now 15.0 times and the one-year forward dividend yield is 3.4%. Excluding Naspers from these calculations makes the South African equity market look more attractively priced.

South African government bond yields fell a few basis points in August, despite the stronger rand and strong leads from global bond markets. The bailout and continued funding needs of State-Owned Enterprises (SOEs) and a substantial shortfall in tax revenue are likely to lead to a material increase in the government's borrowing requirements in the short and medium-term and this is likely to curb any rally in the South African bond market. The South African listed property sector posted a modest gain of 0.8% in August while the one-year forward dividend yield on the SA Listed Property (SAPY) index increased to 7.0%.

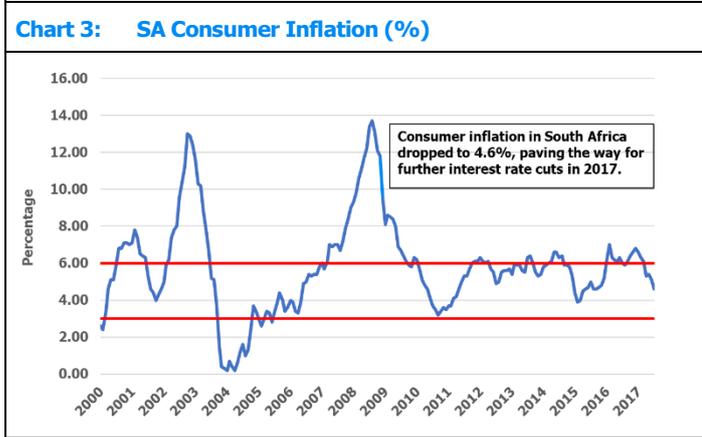
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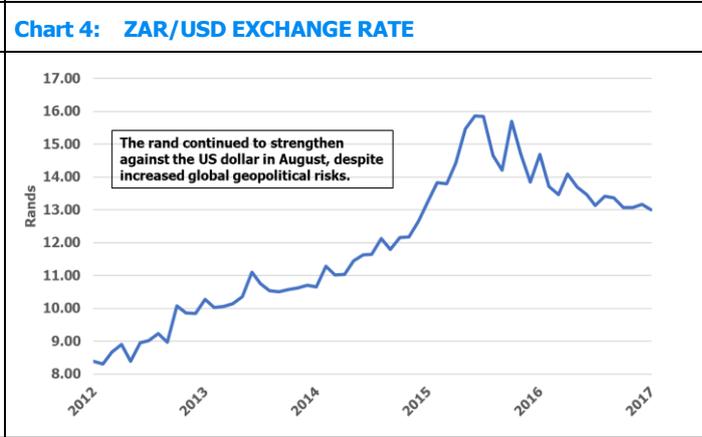
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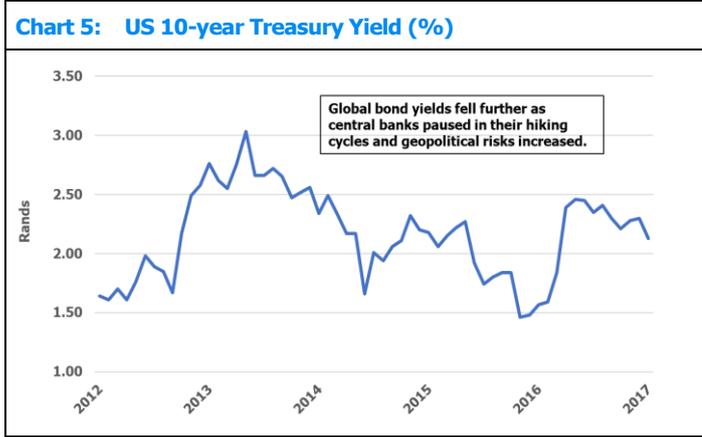
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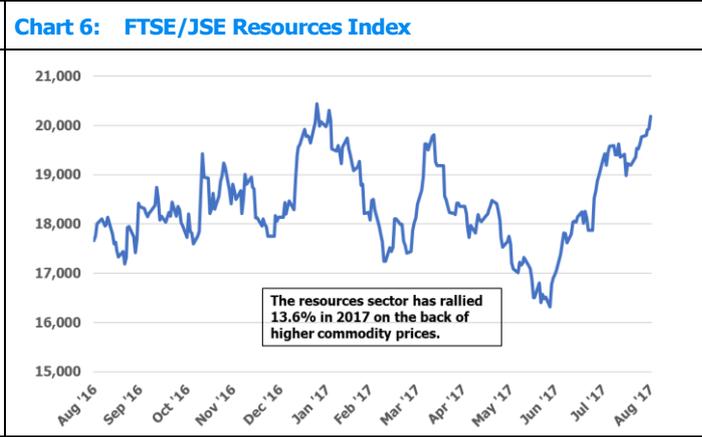
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