

"The great thing in this world is not so much where you stand, as in what direction you are moving."
Oliver Wendell Holmes

ECONOMIC OUTLOOK

The US Federal Reserve (the Fed) raised official interest rates by 0.25% at their final meeting of 2017. The move was widely anticipated following a pick-up in US economic activity in the second half of the year, as well as steady improvement in the US labour market. The Fed maintained its forecast of 3 additional 0.25% increases in both 2018 and 2019. The Fed believe that the recently announced tax cuts will have a positive impact on economic growth in 2018 but will not have an impact on long-run growth potential, which remains low at 1.8%. The Fed remains committed to a gradual normalisation of monetary policy after raising interest rates 3 times in 2017 (chart 1) and with inflation remaining stubbornly low.

Both the European Central Bank (ECB) and the Bank of England left interest rates unchanged following policy meetings in December. The ECB also maintained monthly asset purchases at €30 billion as part of ongoing efforts to stimulate growth in the region. The ECB's current projections suggest economic growth will accelerate in 2018, while inflation is unlikely to breach 2% (chart 2). Interest rates in the Eurozone are therefore expected to remain at current levels throughout 2018 and the ECB's asset purchase programme is expected to remain in place until inflation gets closer to the targeted level of 2%.

Index	December %	12m %	YTD %
Dow Jones	1.9	28.1	28.1
S&P 500	1.1	21.8	21.8
FTSE 100	4.9	7.6	7.6
EURO STOXX 50	-1.7	9.2	9.2
Nikkei 225	0.2	16.2	16.2
Hang Seng	2.5	36.0	36.0
Australia	1.8	7.8	7.8

Source: I-Net Bridge

In South Africa, the ANC's elective conference saw Cyril Ramaphosa defeat Nkosazana Dlamini-Zuma in the race for the Presidency of the ANC. The outcome had a positive impact on the value of the rand, which appreciated to R12.38/US\$ by year-end from R13.66/US\$ at the end of November (chart 3). The stronger rand is expected to have an immediate, positive effect on consumer inflation and the South African Reserve Bank is expected to cut official interest rates by at least 0.25% by the end of the first quarter of 2018, although the threat of a possible sovereign credit rating downgrade by Moody's in March might stay their hand.

It is probably too early to tell what impact, if any, Ramaphosa's victory will have on the South African economy. Current forecasts suggest economic growth will be less than 1.5% in 2018, far too low to create jobs and stave off a move to "junk" status by Moody's, who remain the only ratings agency still assigning South Africa an investment grade credit rating. If Moody's were to downgrade South Africa during 2018, it would trigger the removal of South Africa from investment grade global bond indices and result in foreign selling of South African government bonds in excess of R100 billion.

MARKET OUTLOOK

US equity markets finished 2017 at record high levels following the US Senate's decision to pass \$1.3 trillion in tax cuts proposed by the Republican Party. Not only will the tax cuts boost economic growth in 2018, the proposed lower tax rate for US companies will boost earnings and dividends. The surge in US share prices has become more broad-based, having been led by technology companies during the first half of 2017. Elsewhere, markets dominated by technology companies fared equally well during 2017. In Hong Kong, where Tencent Holdings and other technology companies dominate the exchange, the Hang Seng index soared 36% in 2017 (chart 4). UK and European stock markets lagged on the back of a stronger pound and euro.

Global bond yields continued to drift sideways in December, despite the Fed's decision to raise official interests at their December policy meeting. Global inflation has remained low throughout 2017 and, despite a pick-up in oil prices, is expected to remain low in 2018, which should support global bond markets. Global listed property markets posted modest gains in December and the GPR 250 REIT index finished 2017 with a 6.8% gain in US dollars, despite the prospect of an acceleration in global economic growth in 2018. During December, Unibail-Rodamco announced it was acquiring Westfield to create the world's second largest mall owner.

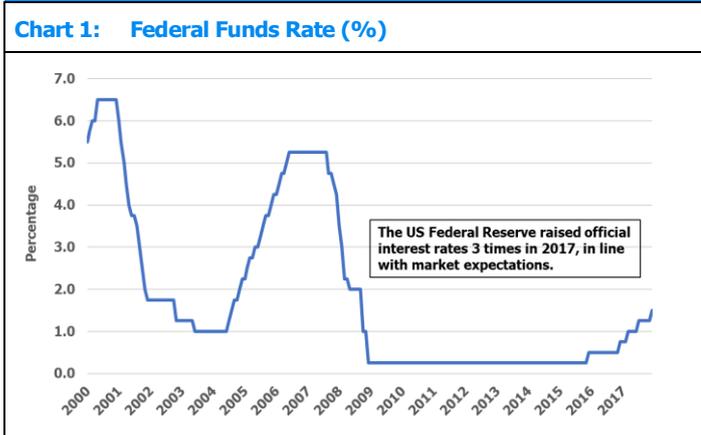
Index	December %	12m %	YTD %
All Share	-0.3	21.0	21.0
Resources	-0.5	17.9	17.9
Financials	8.4	20.6	20.6
Industrials	-4.1	22.5	22.5
Property	4.2	17.2	17.2
Bond	5.7	10.2	10.2
Cash	0.6	7.5	7.5

Source: I-Net Bridge

The stronger rand, following Cyril Ramaphosa's victory at the ANC's elective conference in December, meant the South African equity market fell 0.3% in December, but nevertheless managed a 21% gain for 2017 (chart 5). The banks and retailers were the big winners in South Africa during December, with the financials index gaining 8.4% over the month. Most analysts and market commentators had been predicting that Nkosazana Dlamini-Zuma would win the ANC presidency and would perpetuate the damaging policies of President Jacob Zuma and his allies. Ramaphosa's victory was therefore viewed positively for SA-focussed companies.

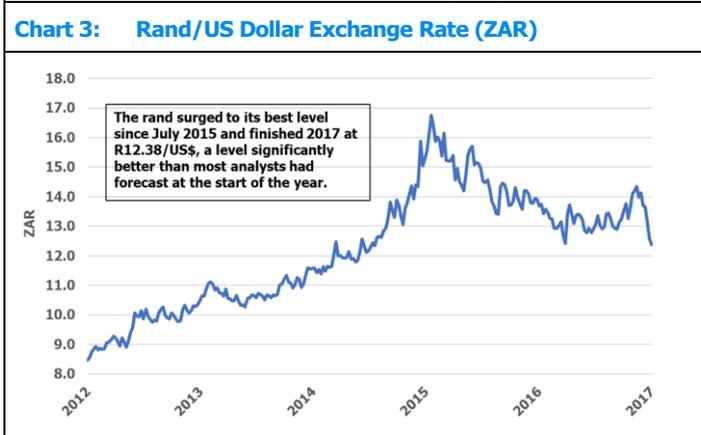
South African government bond yields fell more than 75 basis points (chart 6), following Ramaphosa's victory. The yield on government's benchmark R186 bond fell to 8.59% from 9.35% at the end of November. The strong move in December helped the bond market post a 10.2% gain in 2017. South Africa's listed property sector also benefited from the outcome of the ANC's elective conference and the SA Listed Property (SAPY) index advanced 4.2% in December and 17.2% in 2017. The current one year forward yield on the SAPY index is now just 6.5%, reflecting the increased offshore exposure of SA property companies.

CHARTS



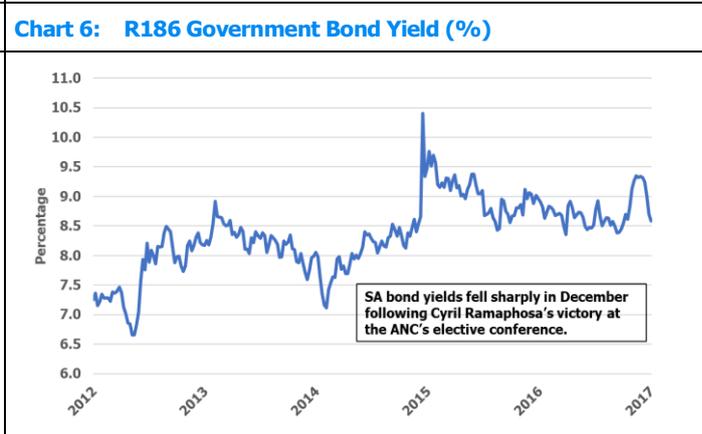
Source: I-Net Bridge

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