

"Some people are so busy learning the tricks of the trade that they never learn the trade."
Vernon Law

ECONOMIC OUTLOOK

The higher global economic growth forecast for 2018 is now under threat as the trade war between the US and China continues to escalate. In the first week of July, the US will impose tariffs on approximately \$34 billion of imports from China, while the Chinese are set to target a similar amount of tariff increases on the same day. In a recent article, the Financial Times speculated that this trade war could surge through the \$1 trillion mark after President Donald Trump announced that a further \$200 billion worth of imports should be considered for a 10% tariff increase, while threatening the number could double to \$400 billion. Trump has also called for tariffs to be imposed on imported cars and parts. China and Europe will likely respond in kind.

The US Federal Reserve (the Fed) decided to increase official interest rates in the US by 0.25% following the conclusion of their policy meeting in June. While the Fed noted that inflation had moved closer to their target of 2%, indicators of longer-term inflation expectations were broadly unchanged. A global trade war would place significant upward pressure on inflation but was not considered a threat by the Fed. The decision to raise interest rates was unanimous and follows a period of growth in household spending and business fixed investment. The US unemployment rate fell to 3.8% in May (chart 1).

Index	June %	12m %	YTD %
Dow Jones	-0.5	16.3	-0.7
S&P 500	0.6	14.4	2.6
FTSE 100	-0.5	4.4	-0.7
EURO STOXX 50	-0.2	1.3	-1.0
Nikkei 225	0.5	11.3	-2.0
Hang Seng	-5.0	12.4	-3.2
Australia	2.7	9.1	2.0

Source: IRESS

A number of internal and external factors have contributed to another slowdown in economic activity in South Africa. Following Cyril Ramaphosa's inauguration as President of South Africa, an interest rate cut and avoiding being downgraded to "junk" status by Moody's, South Africa's economic growth seemed poised to accelerate in 2018 and 2019. However, business and consumer confidence in South Africa has now been undermined by the ongoing debate around land expropriation without compensation and the impact of a global trade war on the economies of emerging countries like South Africa.

The rand depreciated by more than 7% against the US dollar in June (chart 2), with only the Argentine peso falling by more. The higher oil price and weaker rand will put upward pressure on consumer inflation in the second half of the year and the South African Reserve Bank (SARB) is not expected to cut interest rates again in 2018. If the rand remains at these levels or weakens further, the SARB may be forced to raise official interest rates, despite recent downgrades to the outlook for economic growth in South Africa in 2018 and 2019. Consumer inflation declined to 4.4% in May from 4.5% in April (chart 3).

MARKET OUTLOOK

Global equity markets finished the month largely unchanged, although emerging markets remained under significant pressure, while resource-based markets like Australia performed well on the back of rising commodity prices. Hong Kong's Hang Seng index dropped 5% (chart 4) as investors continued to withdraw money from emerging market funds. Focus has shifted from earnings to the threat of a global trade war. A few US companies have already announced that the proposed tariffs will have a negative impact on their business. Harley Davidson announced that it would move some of its production to Europe after the European Union raised tariffs on US imported motorcycles from 6% to 31%. Harley Davidson sold 40,000 motorcycles in Europe last year.

Global bond yields were largely unchanged in June with no catalysts to push yields in either direction. While investors are concerned about the pace at which the Fed is raising interest rates in the US, they are also mindful of the negative impact a global trade war will have on economic growth and monetary policy. Global listed property prices continued to rise in June on the back of a more stable global bond environment and on expectations that corporate action will continue to drive prices higher. The GPR 250 REIT index returned 2.9% in US dollars during June and was up 6.9% in the second quarter (chart 5).

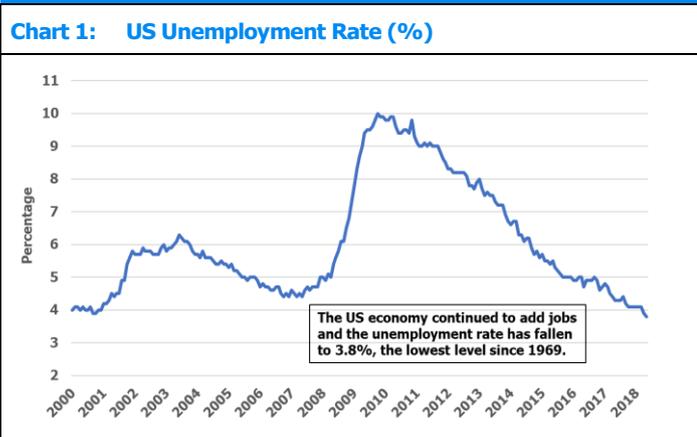
Index	June %	12m %	YTD %
All Share	2.8	15.0	-1.7
Resources	6.0	42.1	15.0
Financials	-2.9	10.5	-9.4
Industrials	4.2	7.5	-4.3
Property	-3.5	-9.9	-21.4
Bond	-1.2	10.2	4.0
Cash	0.6	7.3	3.5

Source: IRESS

South Africa's equity market rose 2.8% in June on the back of a sharply weaker rand and higher commodity prices. The resources sector gained 6% while the rand-hedge dominated industrial sector was up 4.2%, with sector heavyweight, Naspers, returning 15.2%. Companies with little or no offshore exposure continued to be sold off aggressively in June. The life insurance sector was down 7.5% and general retailers were down 6.9%. Since the start of the year, the resources sector has been the clear winner with BHP Billiton gaining 26.6%, Mondi plc up 23.3%, Anglo American up 22.7% and Sasol up 18.6%.

South African bond yields surged 30 basis points on the back of the weaker rand and the sell-off in emerging markets. The yield on government's benchmark R186 bond briefly increased above 9% before finishing the month at 8.84% (chart 6). Against this backdrop it was hardly surprising that listed property was the worst performing asset class in South Africa in June. What was surprising was that the weakness in listed property was broad-based and even the rand-hedges failed to make any headway despite the more than 7% depreciation in the value of the rand. The one-year forward yield on the SA Listed Property index is now 8.6%.

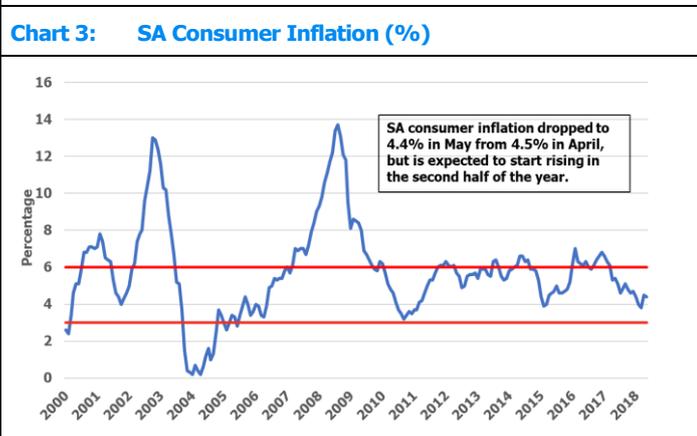
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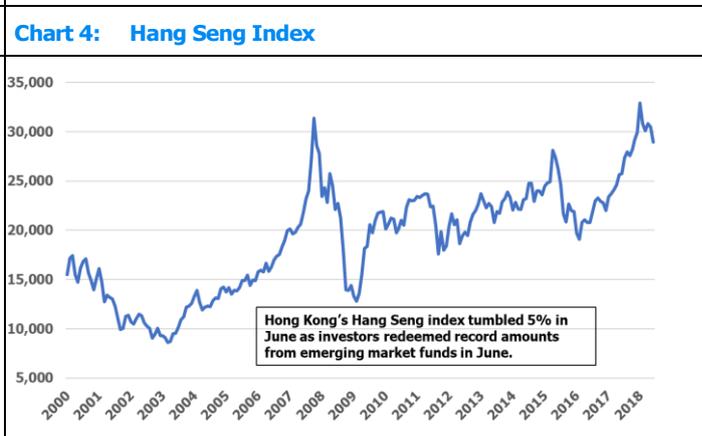
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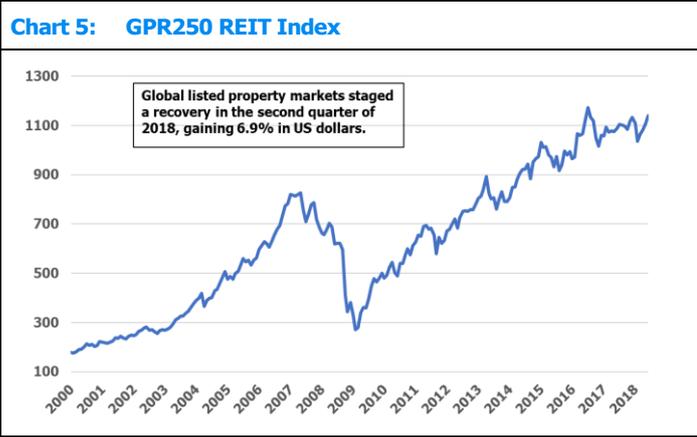
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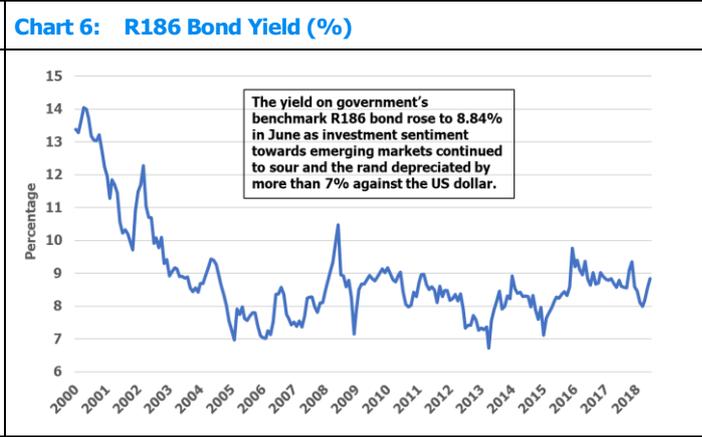
Source: IRESS



Source: IRESS



Source: Global Property Research



Source: IRESS

Ian Anderson, CFA, CAIA
Chief Investment Officer

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