CAMuniqué

CADIZ ASSET MANAGEMENT INVESTMENT UPDATE

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MARKET COMMENTARY
FEBRUARY 2019

Local Market Overview

The local market enjoyed yet another positive month to start off 2019, with the JSE All Share Index gaining 3.85% in February. The Resource and Industrial Indexes were main contributors to this positive performance, with resources and industrials up 7.56% and 5.2% respectively. During the month, CPI year-on-year for January was lower than expected at 4%, which decreased by 0.5% from the prior period. The local currency traded weaker over the month, losing 5.7% against the US dollar. This was mainly driven by a weakening sentiment due to overall emerging market concerns.

International Market Overview

Developed markets' returns, as per the MSCI World Index, eclipsed those of emerging markets, adding 3.07% (USD) against the MSCI Emerging Markets Index's paltry 0.22% (USD). Despite continued Brexit uncertainty, both United Kingdom and European equity markets had a strong month, growing 2.30% (GBP) and 4.09% (EUR), respectively. The United States continues to lock horns with China over trade tariffs, yet with little impact to global equity sentiment. Both Europe and Unites States' employment rates remain robust, with unemployment stable at approximately 5% and 4% respectively.

Listed Property

The local listed property sector retraced most of the gains it achieved in the previous month. Counters lost ground across the board as foreign flows waned and the local currency weakened. There was little follow-through from investors who bought on the back of share prices that have declined to attractive entry levels. The listed property index was similarly down 5.70% for the month of February.

Property fundamentals remain weak in a low-growth environment. Event risk, such as a potential ratings downgrade and political tensions ahead of the May elections, has increased volatility. The office sector remains a laggard as oversupply increases, with the near-term outlook remaining volatile in a challenging sector.

We maintain a diversified mix of property counters in our portfolios. The investment strategy remains focussed in shares that fall within our defined quality and liquidity parameters.

Local Fixed Income

MARKET REVIEW

Global bond markets were relatively stable following the US Federal Reserve Bank's less hawkish stance continuing from the previous period. The US 10-year generic bond yield was up nine basis points to 2.72%, reflecting a steepening in the yield curve. The German 10-year generic yield rose three basis points while its French counterpart was up by two basis points to end the period at 0.57%.

The local bond market was largely driven by announcements emanating from the budget and negative reports on the local power utility. Weak foreign flows remain and heightened currency volatility suppressed any meaningful gains from bonds. The JSE All Bond total return index ended the month down 0.44%.

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Inflation-linked bonds lost some ground as inflation numbers released pegged much lower than market expectations.

Our fixed income outlook for the coming month is detailed as follows:

- Economic growth remains low with little signs of substantive recovery.
- Currency volatility will continue to be fueled by political and international factors.
- Lower fuel prices continue to contain inflationary pressures, but risks to the upside remain as a turnaround in the oil price and increases in electricity tariffs persist as threats to the economy.
- Foreign flows have diminished and the economy remains vulnerable to event risk factors such as a potential ratings downgrade and rising political tensions ahead of the imminent general elections.
- Short and long-term technical trends are in neutral territory with a weaker bias emerging.
- Local sentiment remains cautious.

We continue to seek value along the yield curve with careful duration risk positioning of our portfolios.

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