CAMmuniqué

CADIZ ASSET MANAGEMENT INVESTMENT UPDATE

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ASSET MANAGEMENT

MARKET COMMENTARY
MARCH 2019

Local Market Overview

The local market continued its strong start to the year, recording its fourth consecutive month of gains, as the JSE All Share Index (ALSI) rose 1.56% in March. Like the previous month, it was the resource and industrial indices that drove the market higher, gaining 4.61% and 3.49%, respectively. The South African Reserve Bank left interest rates unchanged, keeping the repo rate at 6.75%. Consumer inflation figures for February registered an increase of 4.1%, in line with expectations. GDP figures released for 2018 came in higher than anticipated, as the South African economy grew by 1.10% compared to the 0.6% expected. On the final trading day of the quarter, Moody's was expected to deliver an announcement on South Africa's sovereign credit rating, however, the rating agency deferred its review for six months. South Africa's credit rating, therefore, remains unchanged at Baa3, one notch above junk status.

International Market Overview

Emerging markets continued to lag developed markets, with the MSCI Emerging Markets Index growing 0.83% (USD), and the MSCI World Index adding 1.37% (USD). The UK's FTSE 100 Index shrugged off Brexit concerns, climbing 3.29% (GBP) during March. The EURO Stoxx 50 Index also had a strong month, rising 1.86% in EUR. In the US, the S&P 500 Index added 1.94% in USD, with the FOMC leaving the Federal Funds Target rate unchanged at 2.50%.

Listed Property

The local listed property sector continued its decline during the month of March, as foreign selling accelerated across the board. An overall decline in stock prices was experienced regardless of whether the counter had a local or offshore bias. The listed property index ended down 1.46% for the month of March.

Property fundamentals remain weak in a low-growth environment. Event risk, such as the fear of a ratings downgrade and political tensions ahead of the May elections, have also increased volatility. The office sector remains a laggard as oversupply increases. The near-term outlook remains 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 defined quality and liquidity parameters.

Local Fixed Income

MARKET REVIEW

Global bond yields moved lower during the month of March on the back of weaker global growth concerns. The 10- year generic US bond yield was down 31 basis points, to 2.41%, as the curve inverted. The German 10-year generic followed suit and was down 25 basis points to end the period at -0.07%. The French long-bond yield also declined by some 25 basis points to end the month at 0.32%.

Yield movement in the local bond market was characterised by event risk, such as intermittent electricity blackouts, the SARB holding rates steady and the inaction of the ratings agency, Moody's. Despite continual foreign selling, the JSE All Bond total return index was up 1.28% for the month.

Inflation-linked bonds lost ground, however, as real yields climbed higher, fuelled by a larger-than-expected increase in the weekly auction size.

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 fuelled by political and international factors.
- Electricity tariff increases, and potentially higher oil prices remain threats to the economy and inflation.
- Foreign flows are negative, and the economy remains vulnerable to event risk factors, such as the imminent general elections.
- Short- and long-term technical trends have turned positive for now.
- Local sentiment remains cautious.

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