PRUDENTIAL **INSIGHTS**

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ARTICLE SUMMARY

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March was characterized by more volatility in global financial markets as nervous investors continued to fear more aggressive interest rate hikes in the US, while also reacting negatively to, among other things, the growing possibility of both an international trade war and the imposition of stricter regulations on the giant tech companies (amid the Facebook information-sharing scandal and Trump's criticism of Amazon). Consequently, most equity markets ended the month in the red. This was contrasted by stronger bond markets as the US Federal Reserve met market expectations by raising the federal funds rate by 25bps, but kept its 2018 rate predictions unchanged (for two more 25bp increases). The Fed did confirm its view of a more robust US economy as it lifted its forecasts for 2018 GDP growth to 2.7% from 2.5% previously, and added extra rate hikes to its expectations for 2019-2020. This came as US jobless claims fell to their lowest level in 45 years and unemployment dropped to 4.1%, while February CPI crept up to 2.2% y/y from 2.1% y/y. US Treasuries firmed slightly, with the yield on the benchmark 10-year UST falling from 2.9% to 2.8% over the month. Globally, fundamentals remained positive as the European economy gathered steam alongside subdued inflation (at only 1.1% y/y in February) and the ECB signaled its intent to adhere to its path of slow monetary tapering. UK prospects appeared to brighten somewhat thanks to a long-awaited agreement on a Brexit transition deal and parts of the broader exit treaty. Economic indicators were broadly positive.

Looking at global equity market returns (all in US$), the MSCI All Country World Index returned -2.1% in March. Emerging markets delivered -1.9% (MSCI Emerging Markets Index), while the MSCI World Index (for developed markets) returned -2.1%. Among developed markets, the S&P 500 produced -2.5% and the Dow Jones Industrial 30 -3.6%, while the Nasdaq delivered -3.9%. In Europe, the Dow Jones EuroStoxx 50 posted a -1.4% return, with France's CAC producing -2.0% and Germany's DAX -2.1%. The UK's FTSE 100 lost 0.4% and Japan's Nikkei returned -1.6%. Among larger emerging markets in US$, the strongest performer for the month was South Korea's KOSPI (in positive territory with a 2.6% return), while Brazil's Bovespa was the next strongest with -2.3%. The weakest markets included the MSCI Turkey (-7.3%) and the MSCI South Africa (-6.4%). The Bloomberg Barclays Global Aggregate Bond Index (US$) returned 1.1%, while the EPRA/NAREIT Developed Global Property Index (US$) delivered 2.3%.

Commodity prices were mixed: oil and gold were stronger but industrial metals weaker. Brent crude gained 6.8% to trade over US$70 per barrel for much of the month (amid additional geopolitical supply constraints) and ended March just below this key level. Gold gained 0.5%, while platinum lost 5.2%.

In South Africa, local bonds recorded gains on the back of several factors, including Moody's decision not to downgrade the sovereign local currency credit rating to junk status (rather upgrading the outlook to stable from negative). Moody's also lifted its 2018 GDP growth forecast to 2.0% from 1.0%, along with other international institutions. Lower-than-expected inflation (with February CPI at 4.0% y/y) and the SARB's expected 25bp rate cut near month-end also supported the fixed income market. The BEASSA All Bond Index delivered 2.1% in March: the 10-year bond yield fell from 8.1% to 8.0% at month-end. Inflation-linked bonds (Composite ILB Index) produced a strong 4.4%, and cash as measured by the STeFI Composite Index returned 0.6%. Despite a broadly weaker US dollar in March, the rand depreciated 0.7% against the greenback, 2.3% against the UK pound sterling and 1.4% versus the euro, dented only partly by concerns over the implications of the ANC's potential wider use of land expropriation without compensation.

SA equities continued to reflect the more volatile global market conditions: the FTSE/JSE All Share Index posted a -4.2% monthly return, weighed down by losses in big industrial counters, Naspers and financial shares. After a shocking start to the year, listed property shares were the best performers in March, returning -1.0% amid some bargain hunting. Resources stocks lost 1.3%, Financials lost 3.1% and Industrials were down 5.5%.

According to Morningstar data, the average ASISA SA general equity fund returned -3.8% for the month. The average multi-asset high equity (balanced) fund delivered -2.2%, while multi-asset low equity funds averaged -0.6%, and multi-asset income funds returned 1.0% on average. To find out more about **Prudential funds** contact our Client Services Team on 0860 105 775 or at **query@prudential.co.za**.

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