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Prudential Investment Managers

MAY 2019

Market Snapshot April 2019

ARTICLE SUMMARY

Our Market Snapshot provides an overview of key events that influenced financial markets over the course of April 2019.

Global equity markets recorded healthy gains in April, as positive investor sentiment (largely arising from the easier global monetary outlook) outweighed renewed concerns over a slowdown in global growth. The IMF revised its 2019 global growth forecast down to 3.3% from 3.5% previously, citing the decelerating US and EU economies, as well as ongoing trade tensions, as major factors behind the downward revision. Some respite, however, came from China thanks to some better-than-expected economic data. In the UK, Britain's withdrawal from the EU was postponed yet again, allowing Prime Minister Theresa May more time to have some form of exit deal approved by parliament. Emerging market equities also benefitted from the improved sentiment, including South Africa, which outperformed most of its EM peers for the month. In contrast with equities, global bonds and listed property finished marginally weaker, retracing some of the previous month's robust returns.

Looking at global equity market returns (all in US$), the MSCI All Country World Index returned 3.4% in April. Developed markets outperformed emerging markets, with the MSCI World Index delivering 3.6% and the MSCI Emerging Markets Index returning 2.1%.The Bloomberg Barclays Global Aggregate Bond Index (US$) returned -0.3%, while the EPRA/NAREIT Global Property Index (US$) produced -0.4%.

Among developed markets in US$, the S&P 500 produced 4.0%, the Dow Jones Industrial 30 returned 2.7%, and the technology-heavy Nasdaq 100 posted 5.5%. The UK's FTSE 100 returned 2.7% and Japan's Nikkei 225 delivered 4.2%. For the larger emerging markets (all in US$), the MSCI South Africa was by far the strongest performer with 8.1%, followed by the MSCI Russia with 3.8% and the MSCI China with 2.2%. The worst performer was the MSCI Turkey with -3.6%.

US

In the US, Q1 2019 GDP growth surprised on the upside at 3.2% (q/q annualised). This was attributed to an improved trade surplus and higher inventories, short-term factors that masked sizeable drops in consumer and business spending, as well as weaker housing investment and declines in manufacturing and industrial production. Employment numbers were also better than expected. Given the fundamental slowdown, comments from the US Federal Reserve continued to reinforce the outlook of "lower interest rates for longer", bolstering investor "risk-on" sentiment and helping both the S&P and Dow Jones indices to set new record highs towards the end of the month. President Trump, meanwhile, indicated that the US may impose additional tariffs on US$11 billion worth of EU products in response to its government subsidies for aircraft manufacturers. Headline CPI was up at 1.9% y/y in March from 1.5% y/y in February, mainly due to the higher oil price.

The price of Brent crude oil continued its gains in April, rising from around US$67 to nearly US$75 per barrel on the back of further threatened sanctions on Iran and Venezuelan supply disruptions. However, it eased to end the month at around US$71 per barrel on higher-than-expected US inventories and projected higher US (and likely OPEC) production.

UK AND EUROPE
In the UK, the Brexit deal deadline was pushed out to 31 October, but Prime Minister Theresa May's failure to secure agreement resulted in mounting pressure to resign. In more positive news, the UK's GDP growth accelerated to 2.0% y/y in February as manufacturers rushed to stockpile goods ahead of Brexit (as well as a low base in 2018). February industrial production increased by 0.6%, firmer than the -0.1% market consensus, while manufacturing output rose 0.9%, also above the market's expectation of 0.2%. The Eurozone's GDP growth for Q1 2019 came in at 1.2% (q/q annualised), slightly higher than the 1.1% expected. The European Central Bank (ECB) kept its main policy rate unchanged at 0%, in line with expectations. The ECB reaffirmed its position that policy rates would remain at current levels until the end of 2019, and that its programme of quantitative easing would continue beyond that date.

ASIA
The Bank of Japan (BoJ) left its monetary policy unchanged at its April meeting, emphasizing the need to continue its monetary stimulus The BoJ stated that the economy is expected to continue expanding moderately, while inflation is likely to increase gradually towards the 2.0% target level.

Economic data out of China helped drive equity markets higher, as its trade surplus rose from US$4.1 billion in February to US$32.6 billion in March, well above market expectations, with exports increasing by 14.2% in March, significantly higher than the -20.7% posted in February. Q1 2019 GDP growth, meanwhile, expanded 6.4% (q/q annualised), unchanged from the previous quarter and marginally higher than market expectations. Chinese policymakers indicated that they would continue with stimulus measures to grow the economy.

SOUTH AFRICA
In South Africa, the IMF lowered its economic growth forecast for South Africa to 1.2% in 2019 and 1.5% in 2020, citing high debt levels and political and policy uncertainty as major concerns.

Moody's announcement that it would hold South Africa's sovereign credit rating at investment grade with a stable outlook kept the bond market buoyant in the first part of the month; however it later highlighted that the country’s investment grade status was at risk due to its growing debt linked to SOE bailouts. Public Enterprises Minister Pravin Gordhan, meanwhile, confirmed that the government is discussing another support package for the highly-indebted Eskom, which earlier in the year received a R69 billion three-year bailout package.

Although headline consumer inflation accelerated to 4.5% y/y in March from 4.1% y/y in February, this was still considered a moderate level, while the outlook for interest rates eased against the backdrop of the more dovish monetary policy globally. The local market is expecting no further rate hikes this year by the SARB, and the SARB itself is forecasting inflation of 4.8% for 2019, near the 4.5% midpoint of its 3-6% target band. The central bank does remain concerned about the impact of the weaker rand and higher oil prices on future inflation, however. In the run-up to the 8 May national elections, South Africa's business confidence index fell to a seven-month low, coming in at 91.8 in March from 93.4 in February. Retail sales increased by 1.1% y/y in February, down from the 1.2% y/y posted in January. February mining output fell by a significant 7.5% y/y, while manufacturing production was muted with just 0.6% growth.

In local financial markets, the FTSE/JSE All Share Index returned 4.2% in April, led by Financials and Industrials, both with a 6.6% return. Listed property delivered 3.2%, while Resources lagged with -1.8%. The BEASSA All Bond Index returned 0.8%, inflation-linked bonds (the Composite ILB Index) delivered 3.3%, and cash as measured by the STeFI Composite Index returned 0.6%. The rand gained a bit of ground against the major currencies for the month, up 0.9% against the US dollar, 1.1% against the euro and 0.6% against the pound sterling.

For more information, contact your financial adviser or our Client Services Team on 0860 105 775 or at query@prudential.co.za.

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