

Growth expectations have continued to retreat this quarter as business confidence has deteriorated with accelerating US protectionism, particularly in the global manufacturing sector (especially Europe and Japan). Consequently, key central banks have abruptly ended their tightening and begun loosening monetary policy and signaling more accommodation, should economic activity deteriorate. Trade activity continues to weaken due to the ongoing trade dispute between the US and China and this seems to be dampening business confidence.

Locally, there was a moderate recovery in growth in the second quarter as the severe electricity-supply disruptions of the first quarter abated. Nevertheless, the South African economy continues to deliver a very weak performance, with persistently low business confidence, contracting fixed investment and lackluster consumption growth amidst a steadily deteriorating labour market. Continued progress in governance improvements (strengthening of corruption fighting institutions and improving corporate governance and senior leadership at SOCs) is being accompanied by frustratingly slow economic policy action in the face of a deteriorating fiscal position.

Global markets were only moderately higher in the last quarter in US dollars (up 0.7%) with the USA (up 1.7%) and Japan (up 2.8%) offsetting declines in France (down 1.4%), Germany (down 3.8%) and the UK (down 2.2%). Emerging markets (down 4.1% in dollar terms) were weak, particularly South Korea (down 4.8%), India (down 5.2%) and South Africa (down 12.4%).

In rand terms, the local equity market was negative this quarter (down 4.6%) with the resources sector (down 7.3%) underperforming. Diversified miners were weak, while gold and platinum miners were strong again (up 12.4% and 25.8% respectively). Standout performers included Northam Platinum (up 40.9%), Impala Platinum (up 36.6%) and Harmony Gold (up 36.4%).

Financials were down 6.8%, with Discovery (down 23.5%) and the banks (down 7.8%) being particularly weak. Listed property was also weak (down 4.5%), with Intu Properties (down 38.6%) the worst.

Industrials (down 2.1%) outperformed. Large companies, including MTN (down 8.0%) and Richemont (down 4.1%), underperformed, while British American Tobacco (up 13.7%) was strong.

After fees and trading costs, the fund performed marginally below its benchmark, the FTSE/JSE Top 40 Index, which closed the quarter down 5.2%.