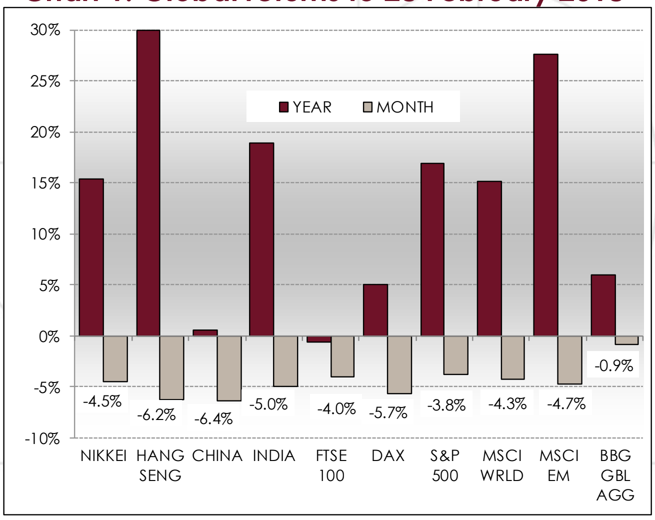
## February in perspective – global markets

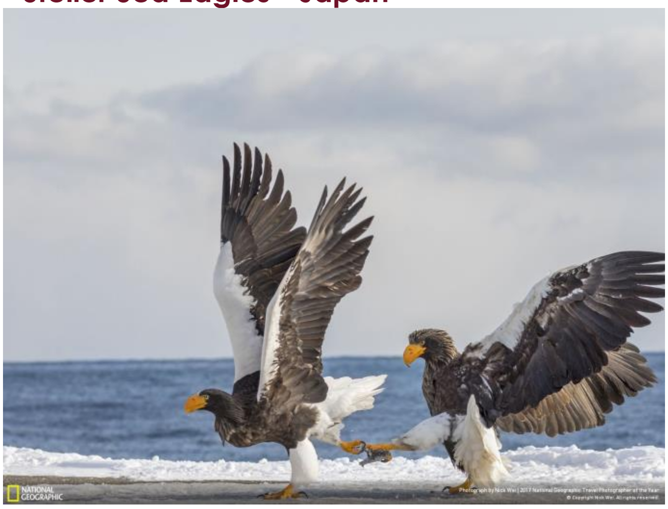
After the recent profitable months in global equity and bond markets, we should not have been surprised by the weak and volatile markets experienced in February. It was always going to happen, the only uncertainty was when. We now have the answer: a dose of reality, or should that be "normality", returned to markets during February. It was not pleasant and the unusually high volatility came as a shock to everyone. In the February issue of *Intermezzo* we spent some time describing the market movements. Global equity markets recovered some of the early month losses but, with only a few exceptions, ended the month a lot lower.

## Chart 1: Global returns to 28 February 2018




The dollar rose 1.7% following a sustained period of weakness. This in turn hurt other currencies: the euro and sterling lost 2.1% and 3.1% respectively. The firm dollar didn't help US equity markets: the S&P500 fell 3.8% and the NASDAQ 1.9%. The weak euro and sterling didn't help European markets either: Germany's DAX index fell 5.7%, the UK equity market lost 4.0%, and the Swiss market 4.6%. Turning to Asia, the Japanese equity market lost 4.5% and Hong Kong 6.1% (although it is still up 29.9% during the past year). The MSCI World and MSCI Emerging Market indices lost 4.3% and 4.7% respectively. The Chinese market lost 6.4%, and India 5.0%, although the Russian and Brazilian markets rose 0.7% and 0.5% respectively. Supporting the assertion that there literally was "no place to hide", the Bloomberg Global Aggregate Bond index lost 0.9%; the returns on (US) cash remain negligible. Suppressed by the firm dollar, most commodity prices moved lower – the oil price lost 8.0% - with iron ore being the notable exception; it rose 7.9%.

## Steller Sea Eagles - Japan

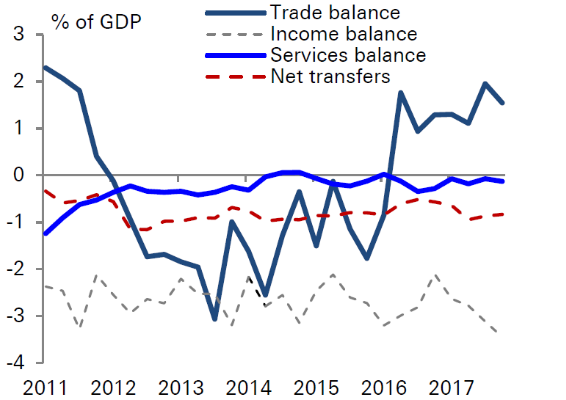


## What's on our radar screen?

Here are a few items we are keeping an eye on:

- *The SA economy*: The SA economy grew at a faster pace than expected during the last quarter (Q4) of 2017. It expanded at a quarter-on-quarter, annualized rate of 3.1%, beating the 1.8% consensus expectation. Growth during the previous quarter (Q3) was revised up to 2.3%. The Q4 surge was driven largely by growth in the volatile agricultural sector and a recovery in trade. The manufacturing sector contributed to a lesser extent while mining production fell. The annual rate of growth during 2017 remained a weak 1.3%. The current account deficit increased from 2.1% in Q3 to 2.9% in Q4. While the trade surplus remains comfortably positive, the "net invisibles deficit", which consists of net dividend and interest payments abroad, rose to a deficit of R211bn, or 4.4% of SA GDP, the largest such deficit in six years – refer to Chart 2.

**Chart 2: SA Current account breakdown**




Source: Deutsche Bank

- *The US economy*: In recent months we have spent a lot of time on Purchasing Manufacturing Indices (PMIs). You will therefore appreciate the fact that the US manufacturing PMI rose to its strongest level since May 2004 and the third strongest level since April 1984, thereby providing further evidence of the strength of the US economy. As if to confirm that, weekly initial jobless claims fell to their lowest level since 1969, while a bumper total of 313 000 jobs were created during February, the highest since July 2016. The two prior months' jobs created total were revised up by a cumulative 54 000. The unemployment rate remained at a 17-year low of 4.1%. The second reading of Q4 economic growth was revised down by 0.1% to 2.5% quarter-on-quarter. The core inflation rate remained steady at an annual rate of 1.8% for the third consecutive month. We acknowledge though, that the three and six-month annualized rate of core inflation is now 3.1% and 2.5% respectively, so there is no room for complacency. All-in-all, you will agree that the US economy is in great shape, with few signs on inflation. This is important as it provides a pillar to our expectation of firm equity markets for the foreseeable future. Finally, at their March meeting the US Federal Reserve increased interest rates by 0.25%. At the same time they increased their growth projections for the US economy for 2018 and 2019 to 2.7% and 2.4% respectively, while retaining their 2018 core inflation forecast at 1.9%. The 2018 and 2019 unemployment forecasts were revised lower to 3.8% and 3.6% respectively.

**Baya weavers - Indonesia**

- *Developed economies*: The final reading of the **Eurozone's** Q4 growth was 0.6% quarter-on-quarter and 2.7% for the year. January unemployment was 8.6% (Italy at 11.1% and Germany at 5.4%, a post-unification low) while the February core annual inflation rate was 1.0%. The annual headline inflation rate was 1.2%. In **Germany**, Q4 economic growth was confirmed at 0.6% quarter-on-quarter and 2.9% for the year. The Organization for Economic co-Ordination and Development

(OECD) revised its growth projections upwards. It now expects the global economy to grow 3.9% during 2018 and 2019. The OECD's forecast for the US growth rate was increased from 2.5% to 2.9% in 2018, and from 2.1% in 2019 to 2.8%.

## Quotes to chew on

*The return of volatility*

Last month we noted the return of volatility to global equity markets. Market behaviour for all of last year and into January was such that you could be forgiven for thinking equity investment was a "one-way ticket to heaven". That all changed in early-February, as we noted, but the volatility continued into March. The following excerpt from *Deutsche Bank's Jim Reid* in his *Early Morning Reid* daily, written on 20 March, captured this nicely "… it's fairly amazing that the S&P 500 has now seen 16 days of plus or minus 1% moves in either direction since the start of February, which compares to only 10 occasions through the 13 months ending in January."

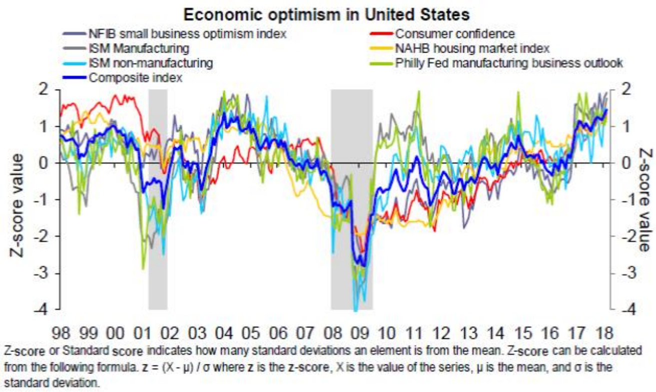
## Buff-tailed coronet - Colombia

## Charts of the month

*How much better can it get?*

We have maintained a constructive view on the global economy and the US economy in particular for a few years already. Even though this upturn in the economic cycle is "long in the tooth" we are of the view that it is unlikely to turn down dramatically, or soon. We do agree that the greatest threat to the robust global conditions is an unexpected increase in the rate of inflation. Right now we are keeping an eye on the latter but don't think it has reached a point that would cause alarm.

## Chart 3: US economy – how hot is "hot"?




Source: Deutsche Bank

Chart 3 depicts an array of US economic indicators during the past two decades. The point here is simply to note that we should keep a wary eye on just how good the US economy is. Based on the above chart, conditions are unlikely to get much better, so the best we can hope for is that conditions remain favourable. Fiscal policy changes, such as the changes in the US tax regime, and a robust global economy outside of the US, should be supportive in this regard.

## Flamingos - Yucatan, Mexico

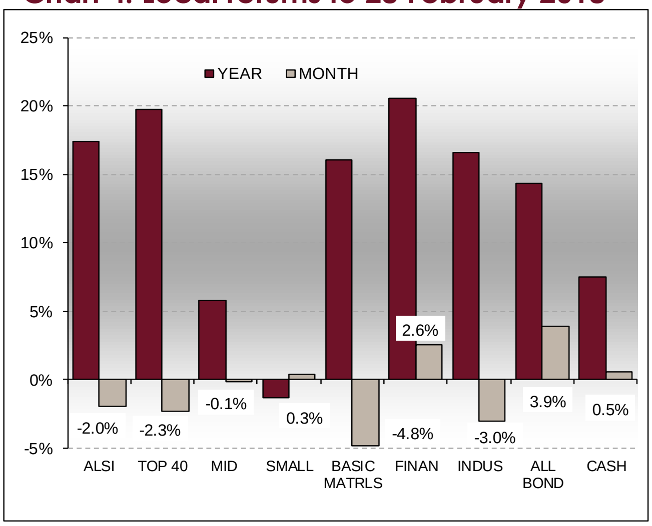
Negative equity markets globally weighed on local equity returns and the All Share index lost 2.0%. The major sector movements saw the Basic Materials and Industrial indices lose 4.8% and 3.0% respectively, but the firm rand and bond market helped Financials to a 2.6% gain. The Small cap index actually rose 0.3%; its huge under-performance of larger caps, though, remains noteworthy: small caps have lost 1.3% during the past year, while the Top40 (large cap) index is up 19.8%. For what it's worth, the Gold index lost 14.2%, bringing its three-month return to -26.4%.

The best-performing sector during February was the Automobiles and Parts sector, which rose 12.1%. The Banks index rose 9.5% and the General Financials index 5.1%. The worst performing sector was the Real Estate and Investment and Service sector, which declined 16.8%, hard on the heels of its 18.0% decline in January. The Households Goods (read Steinhoff) index lost 15.2%, and Gold Mining lost 14.2%.

## February in perspective – local markets

Turning to local markets, the positive "Ramaphoria" market sentiment continues – at least for now - and proved to be supportive of returns and the rand. Notwithstanding the firm dollar, the rand gained a further 0.6%, bringing its four-month gain against the greenback to 19.8%! SA markets survived the change in the President and the Budget rather well, and even weathered the totally underwhelming cabinet reshuffle. The firm rand aided the bond market, which posted a bumper return of 3.9%.

## Chart 4: Local returns to 28 February 2018




## Gray owl – Quebec, Canada

"To achieve great things, two things are needed; a plan, and not quite enough time."
- Leonard Bernstein

## For the record

Table 1 lists the latest returns of the mutual and retirement funds under Maestro's care. Returns include income and are presented *after* fees have been charged. Fund Summaries for each respective fund listed in the table, as well as all the historic returns, are available on our website.

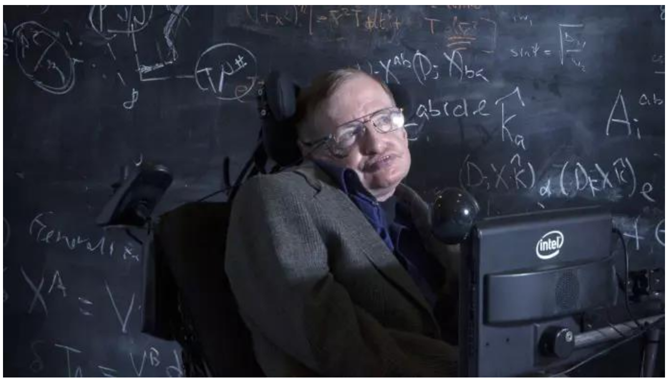
### Table 1: The returns of funds in Maestro's care

| | Period ended | Month | Year to date | Year |
|---|---|---|---|---|
| **Maestro Equity Prescient Fund** | **Feb** | **-2.0%** | **-2.5%** | **-2.1%** |
| *JSE All Share Index* | *Feb* | *-2.0%* | *-1.9%* | *17.5%* |
| **Maestro Growth Fund** | **Feb** | **-2.0%** | **-1.5%** | **4.5%** |
| *Fund Benchmark* | *Feb* | *-0.7%* | *-0.3%* | *14.3%* |
| **Maestro Balanced Fund** | **Feb** | **-1.7%** | **-1.2%** | **5.1%** |
| *Fund Benchmark* | *Feb* | *-0.4%* | *0.1%* | *13.3%* |
| **Maestro Cautious Fund** | **Feb** | **-0.4%** | **-0.1%** | **4.8%** |
| *Fund Benchmark* | *Feb* | *0.8%* | *1.7%* | *12.7%* |
| **Central Park Global Balanced Fund ($)** | **Jan** | **6.1%** | **6.1%** | **37.9%** |
| *Benchmark** | *Jan* | *3.6%* | *3.6%* | *16.9%* |
| *Sector average *** | *Jan* | *2.7%* | *2.7%* | *12.6%* |

* 60% MSCI World Index and 40% Bloomberg Global Aggregate Bond Index
**** Morningstar USD Moderate Allocation ($)**

## Obituary – Stephen Hawking (1942 – 2018)

Stephen Hawking, who has died at the age of 76, was one of the most brilliant scientists of his age, and the best known physicist since Einstein. Above all he symbolized the ability of the human spirit to rise above severe physical disability.



Source: FT.com

Hawking's self-proclaimed intellectual goal was strikingly ambitious: "Complete understanding of the universe, why it is as it is and why it exists at all." He made important contributions to many of the big issues in cosmology, particularly the unification of the two great theories of 20th-century physics: relativity and quantum mechanics.

His most original research concerned black holes — concentrations of matter so dense that light cannot escape from their gravitational pull. He showed that black holes are not just a bizarre theoretical concept but play an important role in the development of the universe. Indeed, they are not even quite black; they can emit radiation, known as Hawking radiation, and eventually they can evaporate and disappear. Hawking emerged as a leading popularizer in 1988 with the publication of A Brief History of Time.

Although his disability made writing a slow and laborious process, he went on to produce several other popular books, including Black Holes and Baby Universes (1993) and The Universe in a Nutshell (2001). At the same time, he emerged as an immensely popular lecturer who could fill any auditorium with fans eager to hear his elegant voice-synthesized account of the cosmos. He inspired thousands of young people with enthusiasm for research.

Stephen William Hawking was born in Oxford on January 8 1942 — as he liked to point out, this was 300 years to the day after the death of Galileo. His father was a tropical diseases specialist and his mother a Liberal party activist. He won a scholarship while at St Albans School to read physics at University College, Oxford. Then he moved to do a PhD in cosmology at Cambridge University, where he was to spend the remainder of his professional life. His motor neuron disease (also known as ALS) was diagnosed in 1963 during his first year at Cambridge. It kills most people within two years but Hawking proved to be a most remarkable survivor, helped by his first wife Jane Wilde, whom he married in 1965 and by whom he had two sons and a daughter.

### Great blue heron – Vancouver, Canada

Hawking's condition deteriorated over the years and took a marked turn for the worse in 1985, when he caught pneumonia and had a tracheotomy operation. After that, he lost all power of speech and depended on 24-hour care from teams of devoted nurses.

Fortunately technology had by then reached the point at which Hawking could communicate by computer, using tiny movements of his hand, eye or head to select letters and words. These could be saved to disk or spoken out via a speech synthesizer.

By the 1990s Hawking had become a big-name celebrity and the tabloid newspapers feasted on the acrimonious break-up of his marriage and his wedding in 1995 to Elaine Mason, who had been one of his nurses.

A sense of fun and adventure pervaded Hawking's life and he had some unusual interests: he was fascinated by the search for extraterrestrial intelligence. He was convinced that the universe is populated with advanced civilizations and supported attempts to listen out for any signals they might transmit, while opposing the idea of sending messages from Earth into space that might attract the attention of malign aliens.

Whether Hawking would have made such an impact with his science if he had not suffered from motor neuron disease is impossible to say. It was the combination of disability and scientific brilliance that made him a great man. As Lord Martin Rees, his Cambridge colleague and Britain's astronomer-royal, put it: "What a triumph his life has been. His name will live in the annals of science; millions have had their cosmic horizons widened by his best-selling books; and even more around the world have been inspired by a unique example of achievement against all the odds — a manifestation of amazing willpower and determination."

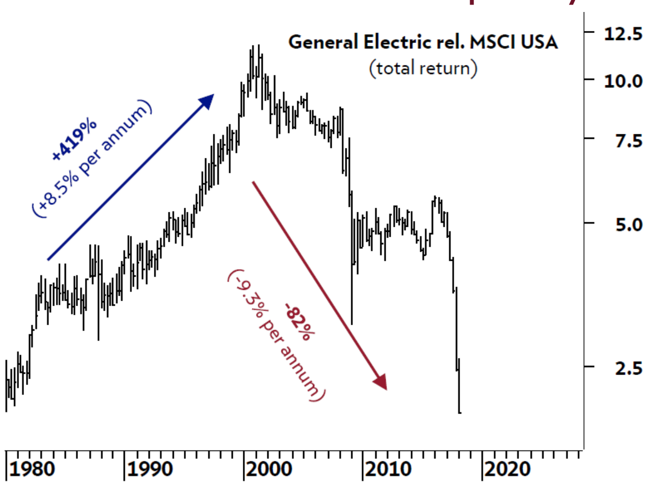
### File 13. Things almost worth remembering

*General Electric – a Six Sigma decline*

One of reasons our global equity portfolios have done so well during the past year or so is that we have avoided what we refer to internally as "potholes" i.e. shares which are consistent underperformers or which experience calamitous downward pressure, contrary to expectations. One such example is the once-mighty US industrial giant, General Electric (GE). We came across this wonderful cameo from Julius Bär's *Daily Wire* of 26 February.

"The decline of General Electric continues. The stock was down even on Friday, when 470 stocks rose in the S&P 500 and only three declined. Thus, looking at the relative chart of General Electric we see that the stock has underperformed by 82% since the year 2000 against the MSCI USA on a total-return basis. Thus, the stock has retraced all outperformance from the year 1980 and is now at an all-time low in relative terms. Even in absolute terms the stock is down more than 45% since March 2000, even when we include the dividend. Thus, for most technicians it is clear that something is wrong. If it is the management strategy of Jack Welch and the whole Six Sigma and Black Belt management theories or something else, we don't mind. At the end of the day it does not matter. Nevertheless, *I think once again price information is a powerful tool* (our italics), as this morning we read that the earnings of the past two years in General Electric will be restated. Earnings, GDP growth figures and a whole bunch of other economic indicators get revised all the time, an accountant even signs it. The only thing that does not get revised is traded prices."

## Chart 5: GE relative to MSCI US - quarterly




Source: Julius Bär

## So what's with the pics?

I am continuing to share pictures that were candidates in various categories for National Geographic's 2017 Photo of the Day series. This month birds are the theme. These fascinating creatures continue to mesmerize photographers, to the extent that I would suggest they are the most photographed creatures in the world – for which we should be grateful.  I hope you find them as enjoyable as I do.

## Osprey collecting a meal