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# SIMEKA

member of  Sanlam group

## MARKET INSIGHT

# Winter 2016

## The winter of 2016 is characterised by more **UNCERTAINTY** than usual.

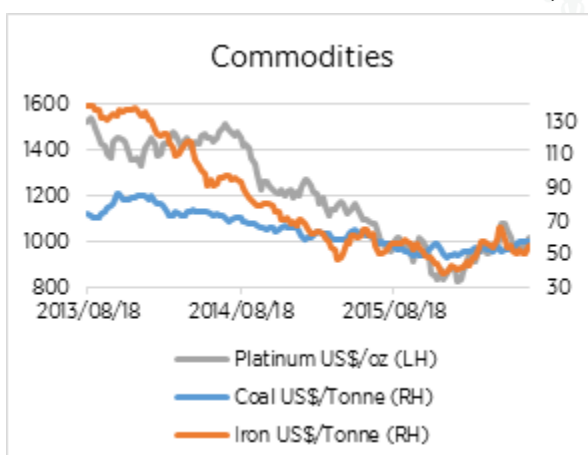
On a macro scale, the unexpected outcome of the United Kingdom (UK) referendum to leave the European Union surprised financial and currency markets. The UK leaving the European Union is not necessarily a bad thing, except that no state has ever left the European Union and nobody really knows what to expect. Suffice to say that the UK has two years in which to negotiate an exit from the European Union, at which time the impact on economies and markets will become clearer. The most important issue, presently, is that the referendum created a precedent for countries such as The Netherlands to reconsider not only its membership of the European Union, but also of the European Monetary Union. This may have a long-term impact on the future of the Euro. In the US, the Federal Reserve Bank of New York left its federal funds rate unchanged for the fourth time during its June 2016 meeting. However, (forward) rate assessment suggests two further interest-rate hikes in 2016.

As a result, US GDP growth forecasts were lowered for 2016 and 2017. Growth in the major economies of the world such as China (+6.7%), Europe (+1.7%), India (+7.9%), Japan (+0.1%) and USA (+2%) remains positive, but commodity dependant economies such as Brazil (-5.4%), Russia (-1.2%), South Africa (-0.2%) and Venezuela (-7.1%) continue to struggle.

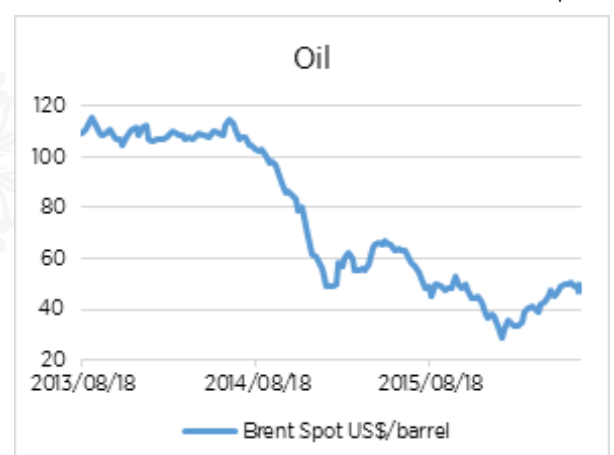
Less promising for South Africa is the increase to the price of oil (+28%) in the first half of 2016 (graph 2). Oil imports account for roughly a quarter of South Africa's imports and the higher oil price will have a dampening effect on domestic economic growth.

Commodity prices have increased since 2015 (graph 1). The coal price has increased by 19%, iron has increased by 23% and platinum has increased by 13% so far in 2016. It is unclear if volumes exported have also improved, but the price trend is promising for South Africa.

Graph 1



Graph 2





Over the 3-month and 1-year periods to June 2016, investors were not rewarded for assuming more risk as more risky portfolio produced similar or even lower investment returns than less risky portfolios.

The investment returns generated by large investment managers to June 2016, are unconvincing in comparison with previous periods, mainly because of modest returns that prevailed in financial markets. The top and bottom quartiles of the global balanced large investment managers are:

**Top and bottom quartiles of Global Balanced Funds to June 2016:**

	3 mnths	1 year	3 years	5 years
Top quartile	Allan Gray	Allan Gray	Investec	Investec
	OMIG	Investec	Allan Gray	Coronation
	SIM	Stanlib	Prudential	Prudential
Bottom quartile	Prudential	Coronation	ABSA	Momentum
	Foord	ABSA	Stanlib	ABSA
	Coronation	OMIG	Oasis	Oasis



Allan Gray continues to outshine its competitors as its approach to buy good businesses at reasonable prices, pays dividends. At the halfway stage in 2016, Sanlam Investments follows Allan Gray and is well ahead of others in the peer group.

Since November 2015, the value the investment style performed significantly better than it had in the 3-year period up to then (graph 6). In addition to Allan Gray, investment managers displaying a value-bias such as Sanlam Investments and Prudential started moving up the rankings. Investec, who considers momentum to an important factor, still dominates the ranking table for periods of 1-year and longer.

Financial markets recovered well from the difficult start to 2016. Significant inflows from abroad into both bond and equity markets supported the exchange rate of the Rand and market levels. The Brexit scare reversed the process briefly, but it appears as if common sense will prevail as investors look past these events. We expect that investors who stay with their long-term investment strategy will weather sometimes trying conditions better than others.

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