"It is understandable that the Fed injects cash to avoid the collapse of the stock market, but basically it is a bad policy for monetary authorities to intervene to save speculators from bankruptcy. This is not their role." – Maurice Allais

Eurozone equities advanced, supported by some strong quarterly earnings. Cyclical sectors such as materials, financials and industrials were the top gainers.

UK equities performed well, as the Bank of England launched a series of monetary easing measures in the wake of economic uncertainty, following the Brexit vote.

Japanese equities gained slightly as the government released details of a fiscal spending package, designed to run alongside the Bank of Japan’s continuing aggressive monetary policy easing.

Emerging markets extended their recent upward trend as several markets continued to benefit from comparatively high real yields.

Locally, our equity bourse continued the month with its range-bound horizontal trajectory, declining by 0.12%. Local political issues and the increased threat from the US Federal Reserve to increase interest rates, put pressure on the Rand.

In last month’s newsletter, we mentioned that South Africa might just have escaped a recession and that we might be at the early stages of a recovery in our economy. Our expectations were confirmed with a second quarter GDP growth number of 3.3% - the fastest pace of growth for SA since 2014. The report showed an encouraging rebound in both mining and manufacturing, expanding by 11.8% and 8.1% respectively.
We expect this uptick in economic growth to continue as Wilson Bayly Holmes-Ovcon’s CEO, Louwtjie Nel, recently stated that they are seeing an uptick in government spending on large-scale infrastructure in SA, following a hiatus since the country’s hosting of the 2010 Soccer World Cup.

Portfolio and Company News

According to the World Platinum Investment Council, the forecast deficit in platinum supply will increase in 2016, with South Africa showing a sizeable decline in output. The organisation raised its 2016 deficit forecast by 65,000 ounces to 520,000 ounces.

This report echoed the comments of the CEOs of Impala and Northam Platinum, who in recent weeks have warned of underinvestment across the Platinum industry.

With the fundamentals for platinum continuing to improve, we remain committed shareholders in Anglo American Platinum and Impala Platinum.

KAP Industrial Holdings released its annual results during the month. Headline earnings per share increased by 18% for the period ended 30 June, while revenue was up by 4%, at R16.2 billion. Operating profit increased by 19%, cash flow from operations grew by 44% and the dividend was increased by 20%.

The continued trend in cash-flow generation and margin expansion is very positive and management continues to focus on optimising, expanding its existing operations and growing its market share. This was a very solid result from the industrial company and the market rewarded investors with a 15.6% price gain during August.

![Growth in GDP (%)](image)

Source: Statistics South Africa

Conclusion

Following a value-based strategy is difficult – for both asset managers and their clients. It is not easy to go against the momentum of the market, to be contrarians like ourselves, but investors chasing market momentum should know that they are treading on thin ice.

Bill Gross of Janus Capital Group adeptly summarised this situation in his most recent quarterly newsletter: “The problem with the Cassandras, such as Gross(himself), Jim Grant and Stanley Druckenmiller, among a host of others, is that they can be compared to a broken watch that is right twice a day but wrong for the other 1,438 minutes. But believe me, this watch is ticking because of high global debt and out-of-date monetary/fiscal policies that hurt rather than heal real economies.”

Time is running out for the world’s central bankers.
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