Weekly Investment Update

15 March 2017

PSG Wealth

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Market moves

Performance: 03/03/2017 to 09/03/2017	Return (Cumulative)
Local Markets	
All Share TR ZAR	-1.65
Ind/Financials TR ZAR	0.24
Ind/Industrials TR ZAR	-0.71
Financials&Indl 30 TR ZAR	-0.40
Ind/Basic Materials TR ZAR	-6.03
Gold Mining TR ZAR	-6.22
SA Listed Property TR ZAR	1.28
Beassa ALBI TR ZAR	0.61
Commodities	
Oil Price Brent Crude PR	-5.25
LBMA Platinum AM PR USD	-6.23
Gold London AM Fixing PR USD	-3.11

The week ahead

Domestic

22 Mar Inflation rate

22 Mar Current account Q4

International

16 Mar EA: Inflation rate

16 Mar UK: BoE interest rate

Macro

South Africa

Mining production rose by 1.3% y/y in January 2017, after an upwardly revised 3.1% drop the previous month and beating market expectations of a 0.5% decrease. It was the first increase in four months as output rose faster for manganese ore (20% from 8.9% in December 2016) and continued to increase for iron ore (7.3% from 7.7%).

EU

Industrial production in the EU rose less than expected. Industrial output rose 0.9% m/m in January, rebounding from a downwardly revised 1.2% fall in December, but below expectations of a 1.3% rise. Production recovered for capital goods and energy, but fell for non-durable, intermediate goods and durable goods.

US

Producer prices advanced by 0.3% m/m in February 2017, following a 0.6% rise in the previous month and beating market consensus of a 0.1% gain

Markets*

Best performer

For the week was Ascendis Health Ltd. with a return of 12%. Niveus Investments Ltd. was second, with an 8% return for the same period.

Worst performer

Lonmin was the worst performer for a second consecutive week with a loss of 17%. Followed by Pan African Resources with a 12% drop for the week.

Sectors

Household goods was the best performing sector for the week with a return of 3.8%. The industrial metals sector was the worst performing sector with a 4.0% loss.

*Disclaimer: Total weekly returns based on closing values from Monday to Monday.

PSG Wealth

Macro note

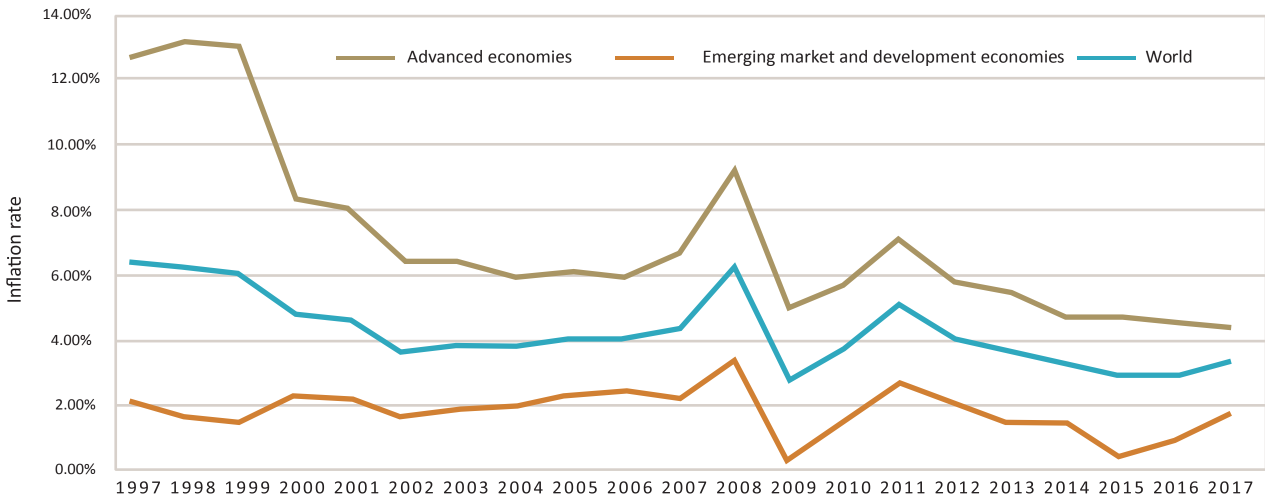
Higher developed market inflation signals recovery in global economy

Concerns of deflation have now been replaced with questions of higher inflation. In the last two years (2015,2016) markets became increasingly concerned about the risk of deflation, especially in the developed world. This concern was accompanied by sustained low-interest rates, an ongoing commitment to maintain QE, exceptionally low bond yields (with negative bond yields recorded in many European countries), and talks about the need to introduce 'helicopter' money.

This has now changed with inflation within advanced economies rising to 1.8% y/y, well above the recent low of less than 0.3% in 2015 according to data from the International Monetary Fund (IMF). In particular, US consumer inflation is up at 2.5%, while the inflation rate in the Euro-area is back to the target level of 2%. The catalyst has been a combination of two key factors, one a slightly more optimistic global economic outlook (which has been somewhat focused on China and the US) coupled with higher oil and commodity prices. For example, the oil price moved from a low of around $30/barrel in January 2016 to $54/barrel in January 2017 - an increase of 77%. There has also been a noticeable increase in a broad range of industrial commodity prices, while global food inflation has also moved higher.

Importantly, while these commodity related price increases have pushed headline inflation sharply higher in the developed world, there is still no indication of a broad-based acceleration in core, or underlying inflation. Overall, fixed-interest markets appear to be priced for a near normalisation of consumer inflation and a modest and slow rise in official interest rates.

Inflation over the past few decades



Source: IMF

Bottom line

Higher inflation is sufficient to cause the believe that the world economy is recovering. A greater demand for commodities normally leads to higher commodity prices. Investors in the PSG Wealth solutions should not change their investment strategies during unsure economic times. The best investment opportunities usually rise in these uncertain times.

Market note

Banks still face challenging operating environment

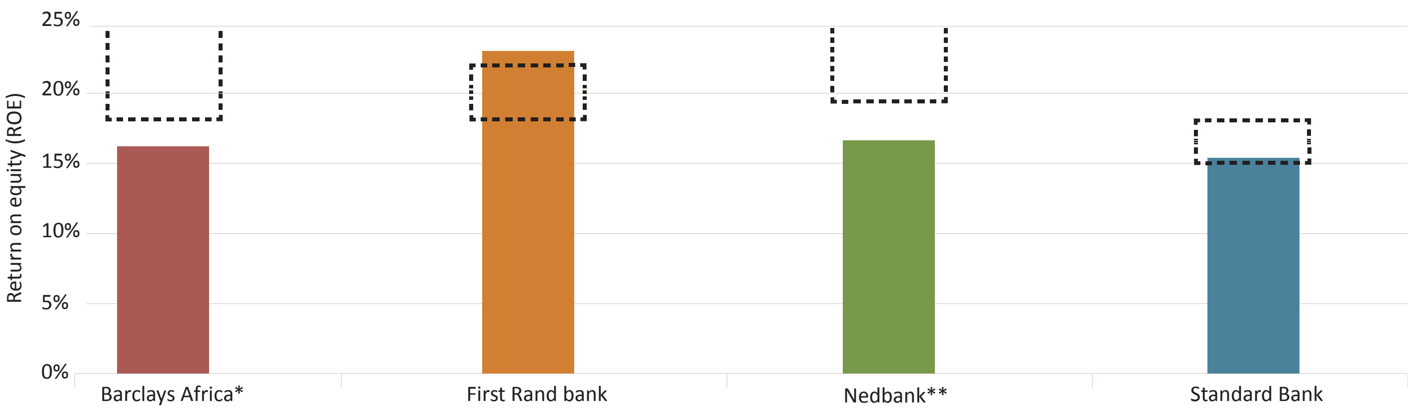
The four big banks in South Africa said their operating environment will remain challenging in the year ahead. This according to their latest results for the period ending December 2016. The general consensus is that the tightening cycle by the South African Reserve Bank (SARB) has reached its peak. While Nedbank forecasts a decline in the latter part of the year. This means that lending margins will no longer continue to be supported by a positive endowment impact, which has provided a boost to earnings over recent years.

However, the absence of further interest rate increases, together with the expectations of lower inflation due to a stronger rand and normal weather patterns, could have a positive impact on consumer credit demand. Their results showed that the growth in corporate advances continued to outpace retail, which is expected to be supported by the recovery in commodity prices. Despite these catalysts, the banks cautioned that loan growth will be under pressure in the next year. Facing a constrained revenue growth environment, the lenders will continue to focus on improving cost structures, whilst maintaining high levels of investment in digital capabilities. Another focus is pursuing growth objectives in the rest of Africa.

However, this poses additional risks seen in recent results, for example Nedbank's investment in Ecobank Transnational Inc. (ETI), a pan-African banking conglomerate, and FNB's operations in Zambia and Mozambique.

The banks continue to highlight event-risks, stemming from political decision making and rating agencies, as concerns. These events tend to be associated with a spike in bond yields, which places pressure on funding costs with a subsequent squeeze on margins. Notwithstanding the difficult conditions, the banks have shown their resilience and continue to execute their adopted strategies to meet their respective financial targets.

Return on equity (ROE) for big four banks



*Barclays Africa specifies a target above 18% ** Nedbank has a variable target at above 5% above it's cost of equity (14.2%).
ROE Target Range

Source: PSG Wealth research team

PSG Wealth

Previous publications

Daily

15 March 2017

Weekly

08 Mar	02 Nov	27 Jul	04 May
01 Mar	26 Oct	13 Jul	26 Apr
15 Feb	12 Oct	06 Jul	20 Apr
06 Feb	05 Oct	29 Jun	12 Apr
18 Jan	28 Sep	22 Jun	05 Apr
11 Jan	14 Sep	15 Jun	30 Mar
14 Dec	07 Sep	08 Jun	23 Mar
07 Dec	31 Aug	01 Jun	16 Mar
30 Nov	17 Aug	25 May	09 Mar
16 Nov	10 Aug	18 May	01 Mar
09 Nov	02 Aug	11 May	23 Feb

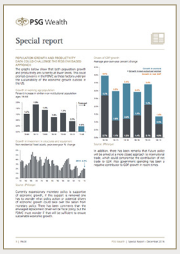
Monthly

Feb 2017
Jan 2017
Nov 2016
Oct 2016
Sep 2016
Aug 2016
Jul 2016
Jun 2016
May 2016
Apr 2016
Mar 2016
Feb 2016
Dec 2015
Nov 2015
Oct 2015
Sep 2015
Aug 2015
July 2015
Jun 2015
May 2015

Quarterly

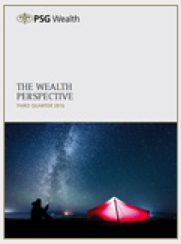
Summer 2017
Spring 2016
Winter 2016
Autumn 2016
Summer 2016
Spring 2015

Special Reports



Research provided
Fed hike inevitable?
S&P 2 Dec review
US election
Market PE's
Domestic local government elections
Brexit vote
Cash vs Long-term instruments
S&P June 2016 rating decision explained
Fed Dec 2015 interest rate hike
Impact of political moves on investments
FoF fees small compared to actual gains
SARB hikes rates
Weak PMI support foreign diversification

Wealth Perspective



Dec 2016
Sep 2016
Jul 2016
Apr 2016
Jan 2016
Oct 2015
Jul 2015