Weekly Investment Update

22 March 2017

PSG Wealth

US inflation highest in five years
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Main structural drivers for listed healthcare providers
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Market moves

Performance: 10/03/2017 to 16/03/2017	Return (Cumulative)
Local Markets	
All Share TR ZAR	3.80
Ind/Financials TR ZAR	2.84
Ind/Industrials TR ZAR	3.68
Financials&Indl 30 TR ZAR	3.41
Ind/Basic Materials TR ZAR	5.27
Gold Mining TR ZAR	8.48
SA Listed Property TR ZAR	2.97
Beassa ALBI TR ZAR	1.40
Commodities	
Oil Price Brent Crude PR	-0.86
LBMA Platinum AM PR USD	1.48
Gold London AM Fixing PR USD	1.74

The week ahead

Domestic

22 Mar Inflation rate

22 Mar Current account Q4

International

23 Mar US: Fed Yellen speech

29 Mar UK: BoE interest rate

Macro

South Africa

Retail sales disappointed in January, contracting by 2.3% y/y, against the markets' forecast of a 1.2% growth following a 1.0% increase in December. The main drag came from the 'general dealers' and 'textiles, clothing, footwear and leather goods' categories, where annual sales contracted sharply.

Germany

German producer prices rose 3.1% y/y in February 2017, compared to a 2.4% growth in January, while markets expected a 3.2% rise. It was the strongest gain since December 2011, driven by a faster increase in the cost of energy, intermediate goods and consumer goods.

Netherlands

Dutch consumer confidence went up to +16 in March, from +14 in February. It was the highest reading since June 2007, as consumers were more positive toward the economy and their willingness to buy rose.

Markets*

Best performer

For the week was Kumba Iron Ore with a return of 17%. Gold Fields Ltd. was second, with a 15% return for the same period.

Worst performer

Novus Holdings Ltd. was the worst performer for the week with a loss of 29%. Followed by Sun International Ltd. with a 17% drop for the week.

Sectors

Industrial metals was the best performing sector for the week with a return of 8.3%. The industrial engineering sector was the worst performing with a 3.1% loss.

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

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Macro note

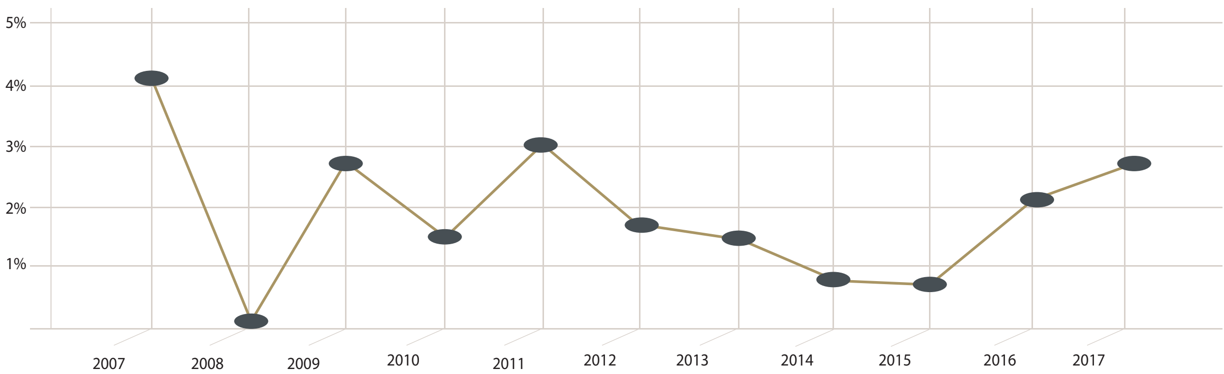
US inflation highest in five years

Recent inflation data has indicated that, after a long lull, consumer and producer prices are feeling upward pressure. Consumer price inflation (CPI) in the US is already around the US Federal Reserve's (Fed) 2% target. If CPI moves above this target the Fed would use rate increases to rein in prices.

"In a relatively short period of time, the US inflation picture has escalated from dormant to a state of semi-perkiness," said analysts at brokerage Jefferies in a note to clients, predicting an elevated 3.2% inflation rate for the third quarter…Higher inflation has not been a good thing in the past for equity markets, as performance generally weakens as inflation rises. A faster pace of rising inflation could bring about more rate hikes, which also weakens returns." There's also some gentle pressure coming from the growth side of the equation: the American labour market is seeing the fewest layoffs since the early 1970s, a sign of an economy ramped up to near maximum capacity. One reason the central bank is moving so cautiously could be the slow start to economic policy from the new presidential administration.

In her press conference, Fed Chair Janet Yellen said the central bank would have to wait and see what the fiscal and tax policies are before making any necessary amendments to monetary policy. For commodity prices and rate-sensitive sectors of the stock market, Yellen's cautious tone was a reprieve. The dollar fell more than 1% against a basket of currencies in the wake of the Fed's statement. As they consider the pace of hikes to come, central bankers will have to consider the dangers to global growth posed by sudden moves in the mighty greenback.

US inflation since 2007



Source: US inflation calculator

Bottom line

We just came out of an economic cycle where the possibility of deflation was seen as the biggest threat to the world economy. Now we are already starting to see the first warnings against high inflation. A good investment strategy is one that does not have to change as economies and markets run through their cycles.

The PSG Wealth financial planning strategy and the supporting PSG Wealth Solutions were developed to provide stability over all the different economic and market cycles.

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Market note

Main structural drivers for listed healthcare providers

Healthcare providers operate within a defensive sector with attractive structural drivers. However, the sector does remain exposed to regulatory threats and ongoing pressure on tariffs. Domestically, the key risk stems from the potential for negative legislation. The Competition Commission is currently investigating pricing in the private healthcare sector in South Africa.

Skills shortages in South Africa can also create significant issues. The different healthcare providers continue to face regulatory pressure in their specific regions of operations, according to their latest financial results. Medclinic has received the brunt of regulatory pressure. The group's Swiss business is exposed to the threat of a new tax on private patients in Zurich. In the United Arab Emirates (UAE), legislative risks also continue to rise. Their UAE business came under significant pressure after the required 20% co-payment on Thiqa patients was implimented in Abu Dhabi.

Netcare is likely to conclude a PropCo rental-deal in the short-term and resolve the ownership structure of OpCo in 2017. Regardless of the lacklustre recovery in private medical insurance (PMI) and volumes in the UK, the group still stands to benefit from the spill-over of an overburdened National Healthcare System (NHS).

Netcare is also likely to grow market share in South Africa, supported by the ramp up of their new hospitals. Its latest network deal with the Government Employees Medical Scheme's (GEMS) and their proposed move into mentalhealth via Akeso clinics could also boost growth.

The 95% stake that Life Healthcare has in the Alliance Medical Group (AMG), a European diagnostics provider, presents growth opportunities for this group. Specifically in the under-penetrated UK-region.

Important numbers for three listed healthcare providers in Southern Africa

EBITDA margin	Growth and paid patient days	Occupancy
Netcare - 21.9%	Netcare - 4.7%	Netcare - 67.2%
Life Health Care - 27.5%	Life Health Care - 4.0%	Life Health Care - 72.5%
MediClinic - 20.7%	MediClinic - 2.6%	MediClinic - 74.2%

Source: PSG Wealth research team, Netcare, Life Healthcare, Mediclinic financial results ending September 2016

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Previous publications

Daily

22 March 2017

Weekly

15 Mar	09 Nov	02 Aug	11 May
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

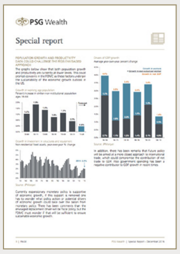
Monthly

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

Quarterly

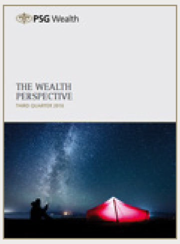
Summer 2017
Spring 2016
Winter 2016
Autumn 2016
Summer 2016
Spring 2015

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