



WEEKLY INVESTMENT INSIGHTS

1 MARCH 2016



US GDP Growth Revised Up to 1% - pg. 2

2016 tough for retailers - pg. 3

Market moves

Group/Investment	Base Currency	2016/02/20
		Return (Cumulative)
Local Markets		
FTSE/JSE All Share TR ZAR	South African Rand	-3.29
FTSE/JSE Ind/Financials TR ZAR	South African Rand	-5.24
FTSE/JSE Ind/Industrials TR ZAR	South African Rand	-4.93
FTSE/JSE Financials&Indl 30 TR ZAR	South African Rand	-3.17
FTSE/JSE Ind/Basic Materials TR ZAR	South African Rand	-2.24
FTSE/JSE Gold Mining TR ZAR	South African Rand	10.52
FTSE/JSE SA Listed Property TR ZAR	South African Rand	-4.75
Beassa ALBI TR ZAR	South African Rand	-4.87
International Markets		
S&P 500 TR USD	US Dollar	1.63
MSCI ACWI All Cap NR USD	US Dollar	1.10
EURO STOXX 50 NR USD	US Dollar	0.37
DJ Industrial Average TR USD	US Dollar	1.56
NASDAQ Composite TR USD	US Dollar	1.92
FTSE 100 TR GBP	Pound Sterling	-0.34
Hang Seng HSI TR HKD	Hong Kong Dollar	0.42
Nikkei 225 Average TR JPY	Japanese Yen	0.43
Euronext Paris CAC 40 NR EUR	Euro	0.51
FSE DAX TR EUR	Euro	-0.31
Commodities		
Oil Price Brent Crude PR	US Dollar	6.33
LBMA Platinum AM PR USD	US Dollar	-1.81
Gold London AM Fixing PR USD	US Dollar	0.78

The week ahead

Domestic

- 1 GDP Growth Rate
- 3 Standard Bank PMI

International

- 2 China GDP Growth Rate
- 4 US Non-farm payrolls

Macro

US

The US economy expanded an annualised 1% on quarter in the last three months of 2015, higher than a preliminary figure of 0.7%, according to the second estimate released by the Bureau of Economic Analysis. Business inventories were revised higher and the negative impact from trade came lower than expected while consumer spending was revised down.

Asia

The People's Bank of China injected 300 billion yuan (\$46 billion) into the banking system in its open market operations on Friday, continuing its recent policy of maintaining strong money supply and keeping funding costs relatively low. For the week, the central bank injected a total 880 billion yuan via its market operations.

Japan

Core inflation rate rose 1.1% year-on-year in January, compared to a 1.30% rise in December 2015, a new prices indicator from the Bank of Japan showed. Earlier, according to the government's data, core inflation rate was flat, following a 0.10% rise in the preceding month.

Markets

JSE

Revenue for the year climbed to R2.1 billion (2014: R1.8 billion). Profit from operating activities jumped to R1.0 billion (2014: R703.8 million). Profit for the year rose to R899.5 million (2014: R634.3 million). Furthermore, headline earnings per share increased to 1026.3 cents per share (2014: 735.0 cents per share).

Truworths

Delivered a strong set of results for the interim period ending December 2015. Group retail sales increased by 37% to R8.3 billion. Credit sales accounted for 60% of the retail sales.

Woolworths

Turnover and concession sales increased by 17% to R35.5 billion. However, if the sales of David Jones are excluded then this retail groups' sales only increased by 12%.

Shoprite

Despite South Africa's weak economic growth, Shoprite, managed to grow operating profit for the six months to December by more than 10% to R3.3 billion. Turnover was up 8.8% to R63 billion and Shoprite declared a dividend ahead of the prior period at R1.56/share.

Focused news

US GDP Growth revised up by 1%

The US economy expanded an annualised 1% on quarter in the last three months of 2015, higher than a preliminary figure of 0.7%, according to the second estimate released by the Bureau of Economic Analysis.

Personal consumption expenditure (PCE) contributed 1.38 percentage points to growth and rose by 2%. Spending on both durable goods and nondurable goods grew at a slower pace, while consumption in services increased more than expected.

The upbeat data on Friday added to reports on manufacturing and the labour market in suggesting economic growth regained momentum early this year after slowing in the fourth quarter.

The growth outlook was further bolstered by steady consumer sentiment in February despite a recent stock market sell-off. That should help ease fears of a looming recession and probably allow the Federal Reserve to hike rates this year. The U.S. central bank raised rates in December for the first time in nearly a decade.

The chief economist at Naroff Economic Advisors in Holland told Reuters that “growth is rebounding, inflation is picking up and stocks have recovered about half the loss posted this year.”

The Commerce Department said consumer spending increased 0.5%, the largest gain in 10 months, as households ramped up purchases of a range of goods and a return to normal winter temperatures boosted demand for heating. Consumer spending, which accounts for more than two-thirds of U.S. economic activity, rose by an upwardly revised 0.1% in December.

The pick-up in consumer spending stimulated price pressures last month, which will most likely increase Fed officials’ confidence that inflation will move toward the U.S. central bank’s 2 percent target despite low inflation expectations.

In the 12 months through January, the personal consumption expenditures (PCE) price index rose 1.3%, the largest increase since October 2014, after advancing 0.7% in December.

Bottom line

The PSG Wealth Investment & Research division feels these numbers supports our view that developed markets are positioned better during tough economic times. Our products are defensively positioned in developed markets and

large conglomerates which benefits from broad based economic improvements. We believe the developed space will continue to outperform emerging markets in the medium- to long-term.

Focused news

2016 tough for retailers

Rising prices and higher levels of unemployment have contributed towards a 0.9% decrease in retail sales in South Africa in December 2015. According to Statistics South Africa, retail sales averaged 0.39% from 2002 until 2015, reaching an all-time high of 4.30% in January 2004 and a record low of -3.70% in May 2008.

An international retailer Massmart reported flat annual earnings last week Thursday, highlighting the difficulties South African food retailers are likely to face this year as shoppers contend with rising prices, mounting debt and high unemployment.

The retailer, majority owned by Wal-Mart Stores Inc, earns 91% of its revenue in Africa and South Africa, an economy expected to grow by less than 1% this year. Africa's economic growth is influenced by the price of oil and the commodity slowdown, but it is still stronger than South Africa's economic growth. However, growth opportunities are impacted by the depreciation of currencies and a shortage of real estate and supply-line challenges. Although the cost of doing business rises (many are USD based), margins are traditionally higher.

Massmart posted diluted headline earnings per share (EPS) of 508.8 cents for 2015, compared with 504.7 cents in 2014.

Rival Shoprite also noted the impact of transport costs on customers when it reported an 8.9% rise in half-year profit on Tuesday. However, Shoprites' management remains confident in the groups' ability to withstand tough economic times.

According to the company analysis by the PSG Equity Research division Shoprite is considered a high quality company with a strong balance sheet, a consistently high return-on-equity (ROE) and is well-positioned in a defensive industry.

Their historically strong cash generative profile and good growth prospects have provided investors with a reasonably safe investment during times of economic uncertainty.

We feel the share's attractive fundamentals are fully reflected in its current valuation, trading on a historic P/E-ratio of 20.3 times and 4.2 times its NAV.

For the past week (from 22-26 February) Shoprite's shares showed a return of 8.6%, Massmart a return of 5.8%, while Woolwoths and Truworths had negative returns for the week of -1.8% and -7.9% respectively.

Previous publications - 2015

Daily



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Weekly



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Monthly



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Quarterly



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