Newsflash

- At this stage the dollar is too strong as well, trading near its three-month high versus the euro at $1.131.

Market Comment

- There certainly seems to be a lot for markets to worry about at this time, from very weak growth in Europe to China slowing down, bad news on the trade front (no meaningful progress reported from the Chinese side), Brexit dragging on and on, another partial US government shutdown looming on Friday (if the parties fail to reach agreement)…AND now load-shedding for our poor economy.
- So it is interesting that offshore markets are so far holding their own. The S&P 500 has gained +16.4% from its 24th December low and is now just below its 200-day moving average (+7.9% in 2019), considered a key level by most chartists. Many feel that it is due for a pullback after its strong bounce, especially because of the total lack of good news, apart from buoyant company earnings…and possibly the very strong bond market (lower yields/lower medium- and long-term cost of money).
- The US 10-year bond yield has sunk to 2.63% (price up), back at 2013/2014 levels.
- The German 10-year bond yield was at 0.75% a year ago versus today's 0.08%!
- At this stage the dollar is too strong as well, trading near its three-month high versus the euro at $1.132.
- Maybe (hopefully) Trump has some positive news up his sleeve about the trade story. Who knows, he may be playing games (as in his book "The Art of the Deal") with the Chinese, creating the impression of slow progress, with the threat of 25% tariffs up ahead.
- The JSE ALSI is trading this morning where it was a week ago. It had a nice move earlier last week, but gave it all up on Thursday and Friday, aggravated by the -6.5% tumble in Sasol's share price to a 15-month low on news of the delay in and higher cost of the construction of the Lake Charles Chemicals Project in the US.
- So far in 2019 the JSE Listed Property Index continues to lead with a total return so far of +9.6% (was +9.2% at end January), then the All Bond Index with +2.8% (+2.9% at end January), then the ALSI with +1.1% (+2.8% at end January).
- SA Listed Property is trading back at June 2018 levels, although it is still -24.6% from end 2017 (excluding dividends). Including dividends it is -17.9% lower; but bear in mind that 2017 saw returns of +17.2%. So it's back at 2016 levels, which is actually not that bad.
- Our platinum and gold shares remain in strong uptrends (a fairly rare occurrence over the past few years), with Implats, Anglo Plats and Sibanye consistently hitting new 52-week highs. Last week Sibanye gained +17%, Implats +17%, Mpact +15%, Harmony +11% and Clover +10%, while Omnia fell -12%, Gold Fields -10%, Truworths -9%, Stadio -8% and Sappi -8%.
- So far in 2019 Sibanye is +31%, Impala Platinum +26% and Anglo Platinum +21%. That's in just six weeks, thanks to the firmer gold price, also palladium and rhodium prices. The palladium price is up another +11.5% in dollars this year, close to a new record high.
- But the gold price needs the dollar to weaken a bit. It is too strong.

Other Commentators

US Market Analyst, Elaine Garzarelli

- The quants model remains in bullish mode with a high reading of 75.5% out of a maximum possible 100%.
- S&P 500 earnings estimates for the 4th quarter continue to improve, now +18% year-on-year from +15.3% about a month ago. Garza is forecasting +1.6% in 2019, up a little from 0% last week.

- Fair value for the index is now 2 844, +5% above current levels.
- US economic growth remains healthy. The US manufacturing PMI (leading indicator) rose in January, household employment remains strong and average hourly earnings are up +3.2% year-on-year. Consumer incomes are up almost +4% in real terms (after inflation).
- This supports consumer spending which accounts for two-thirds of US economic activity.
- The US economy has many pillars, such as strong employment, low inflation and good earnings going forward.
- Garza expects inflation to remain low due to technology and global competition.
- Garza expects +2.5% US GDP growth this year and +2% growth next year.

BCA Research

- Global growth should accelerate by mid-2019, as Chinese stimulus kicks in and the headwinds facing Europe fade.
- Investors should overweight global equities and underweight global bonds over the next 12 months.
- Global equities should finish the year 5-10% above current levels.
- The leadership role in the equity space will gradually shift outside the US, towards Europe and Emerging Markets.
- Today the US private sector financial balance (the difference between what the private sector earns and spends) stands at a healthy surplus of +2.1% of GDP. Both of the last two recessions began when the private sector balance was in deficit.
- With the S&P 500 Index trading at 16.1 times forward earnings, US shares are not cheap, but they're also hardly in a bubble.
- Housing is also doing well, with the home-owner vacancy rate near all-time lows, while the quality of mortgage lending is much higher than in the 2007/8 period.
- Exports are only 12% of US GDP, so it would take a sizeable external shock to knock the US into recession.
- The trade war is likely to take a break as Trump seeks to take credit for a deal with China.
- Euro area growth should reaccelerate over the coming months, thanks to lower oil prices, a revival in Emerging Market demand, modestly more stimulative government spending policies and the helpful stimulus of lower bond yields in the region. The risks of a 'hard Brexit' should also fade.

Paul Hansen
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