

THE OUTLOOK FOR 2019

Not déjà vu again?



**HARVARD
HOUSE**

We understand your need for FINANCIAL INTEGRITY



4 years of flat returns

On average, equities are weaker now than four years ago

JSE All Share Index



What has happened this year?

Stable H1 has given way to severe weakness

JSE All Share Index: 2018



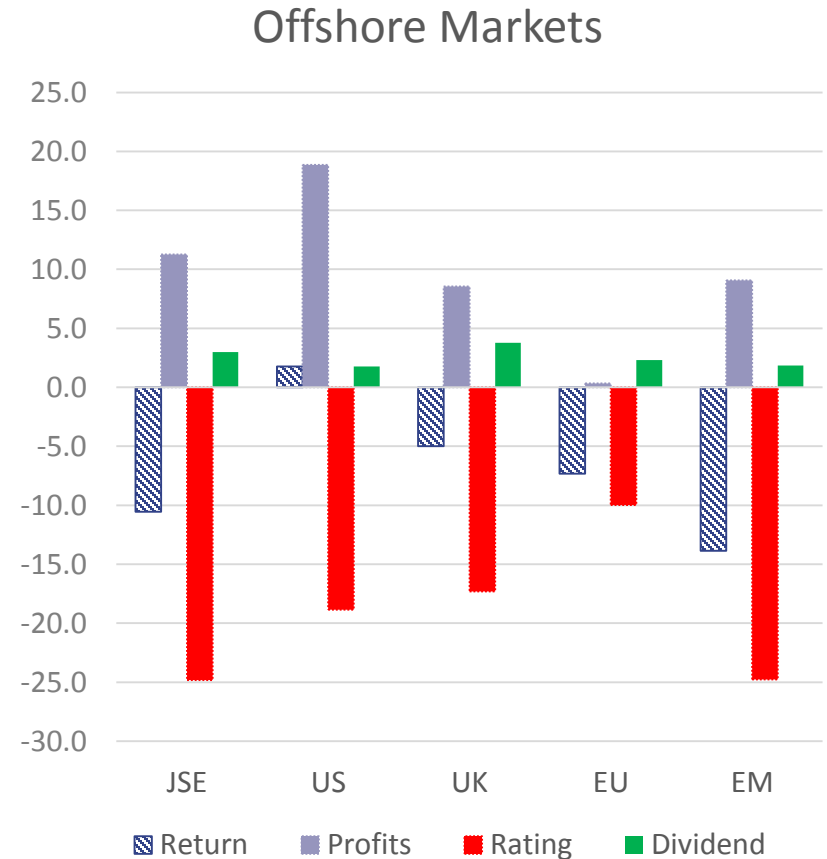
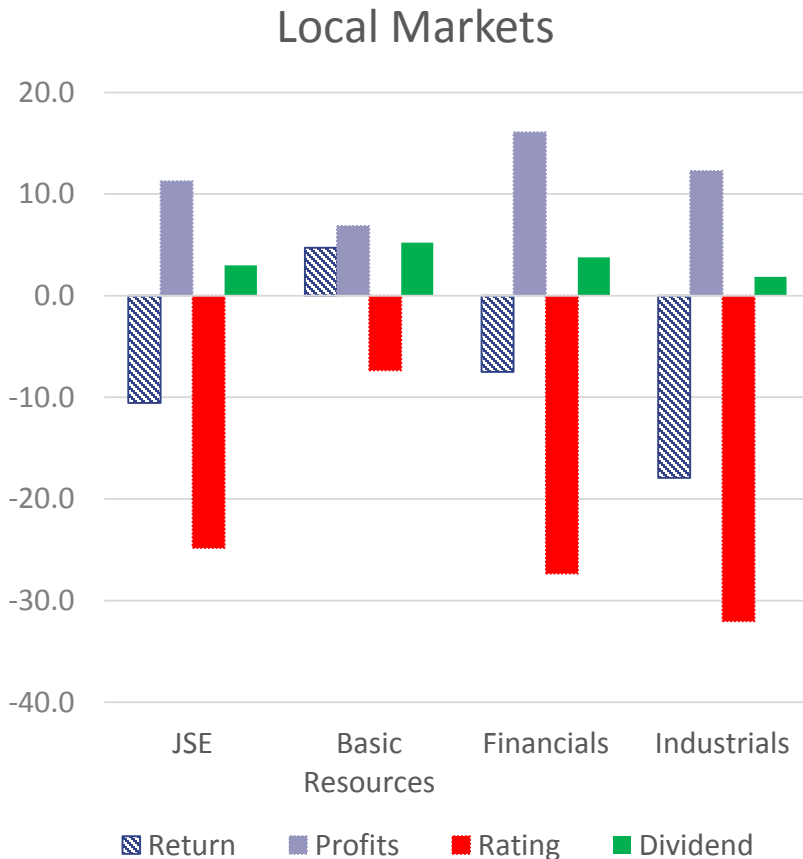
Reasons:

1. US market weakness, as China tariffs first announced.
2. Emerging market weakness
3. Weak economy (GDP pointed to official recession)
4. Global market & technology sell-off due to impact on trade war, politics, interest rate concerns and slowing global growth.



Putting this year's returns into perspective

Profits and dividends have been offset by weakening prices



What will drive markets in 2019?

A few key issues will determine the trend

Global themes / concerns:

1. Slowing global growth
2. Rising US interest rates
3. Weak emerging markets
4. Trade wars
5. Politics

Local issues

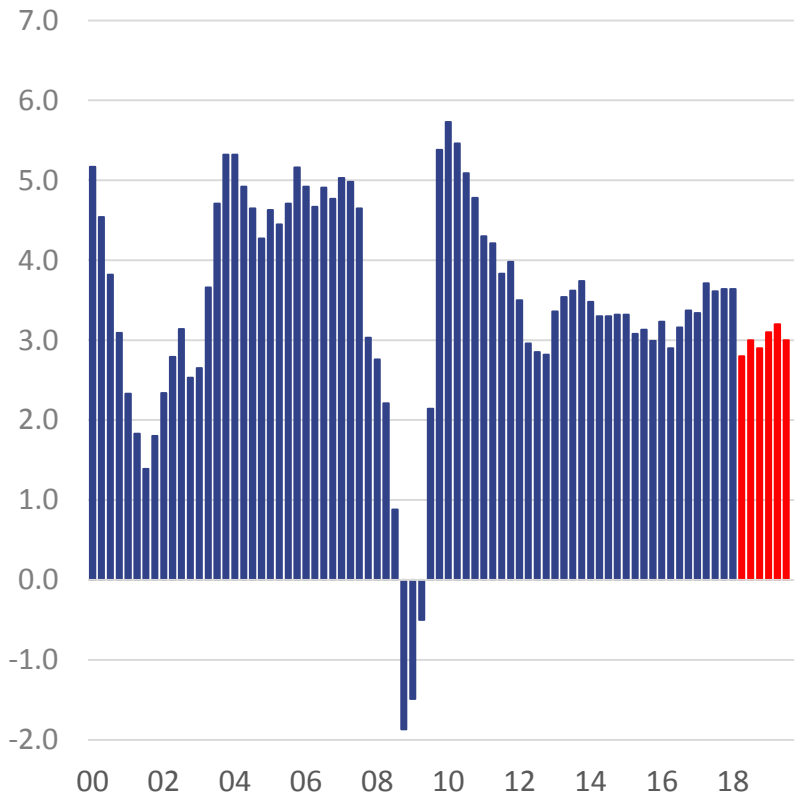
1. Elections, elections, and elections
2. A gradual economic recovery, but



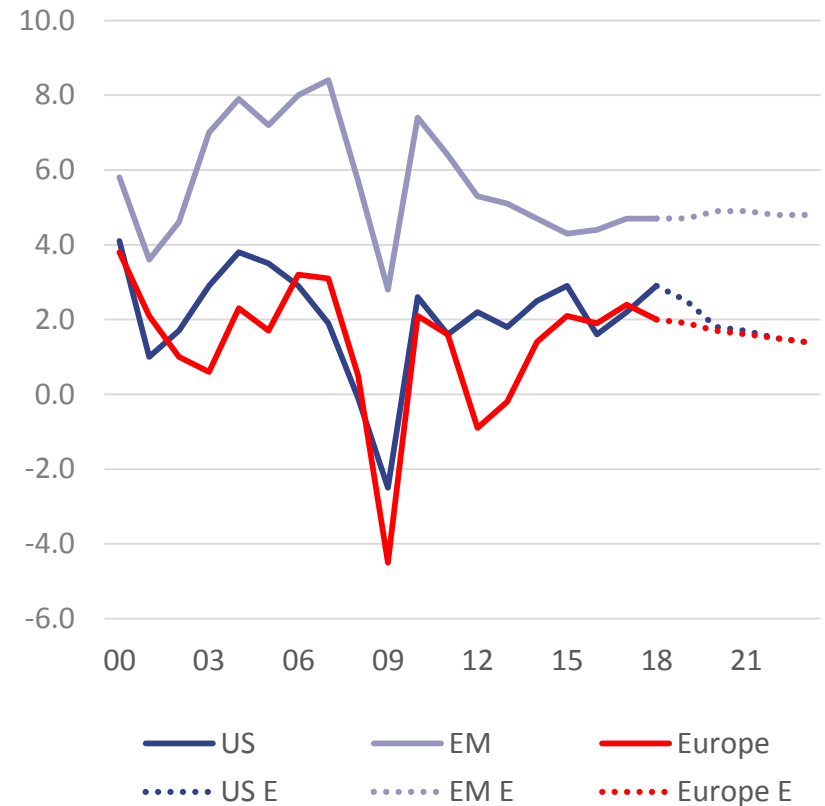
Global growth coming off the boil

But it's a not train smash

Global GDP Growth

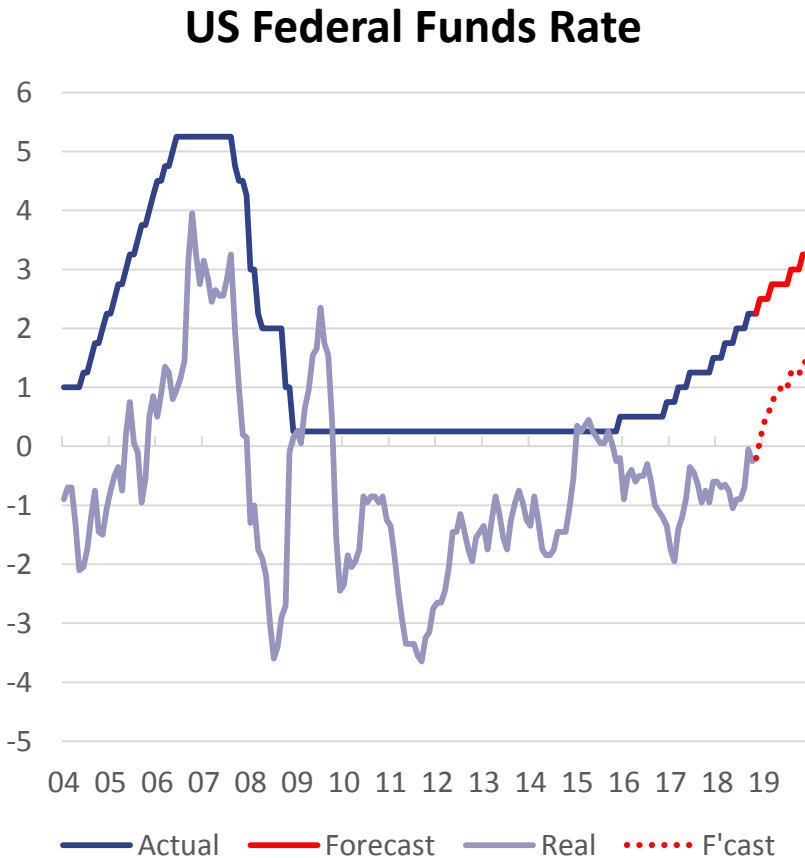


GDP Growth by region



US interest rates

Aggressive tightening in 2018; more expected in 2019, but....



Case for aggressive hikes:

1. US wage growth (fuelled by low unemployment)
2. Broader US Inflation

Case for slowing the pace of hikes:

1. US housing market showing signs of weakness.
2. Slower US economy
3. Weaker global growth

Currently, 1-1.25% further increases expected. Risk is fewer, rather than more.



Global politics

Not necessarily “Business as usual”

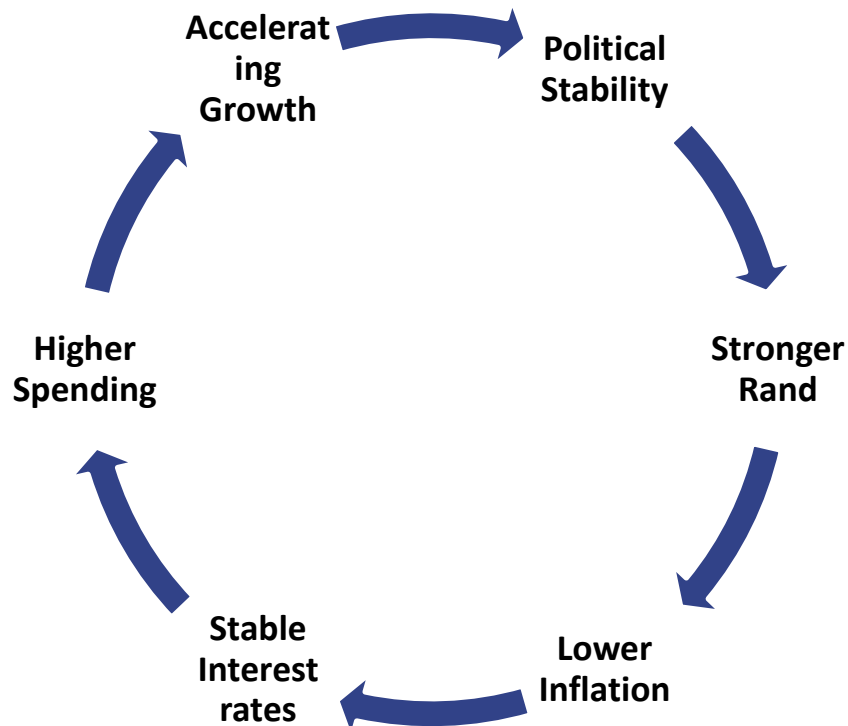
1. US: divided House of Representatives vs Senate; co-operation or conflict?
2. Trade wars: a softening tone, as the impact starts to be felt.
3. UK: Brexit: 29th March deadline looming, parliamentary vote this weekend, but chances are that some form of deal is struck
4. Europe: multitude of elections, but also for key EU posts

Impossible to predict with any certainty, but likely to create bouts of volatility.



SA Growth

Stable politics can lay the foundation for recovery, based on:



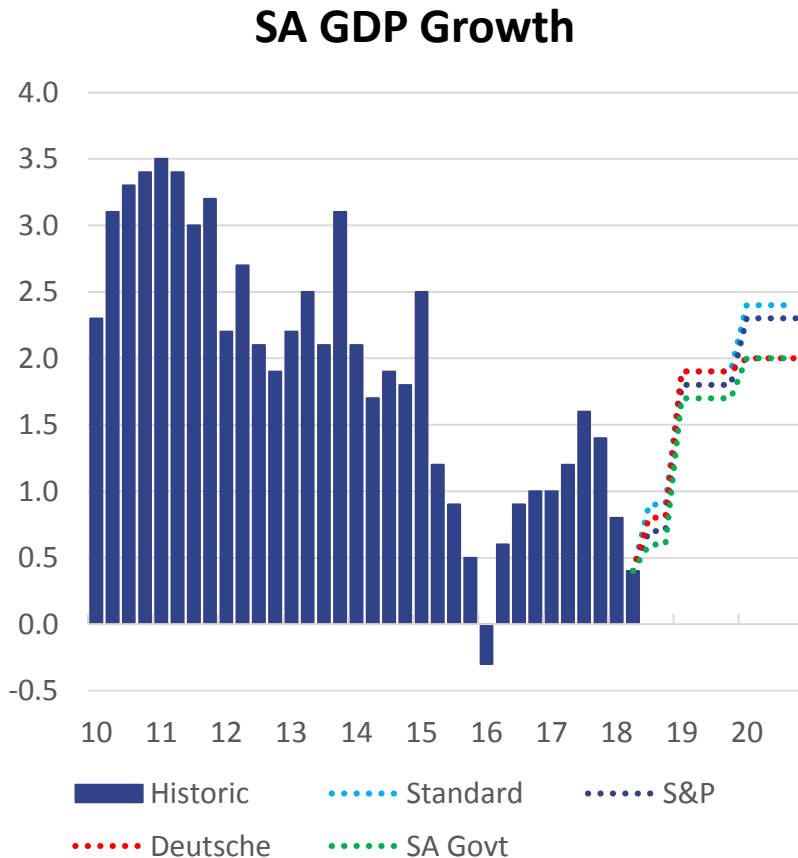
Gradual improvement rests on:

1. Politically induced virtuous cycle, boosted by:
 1. Fading impact of VAT hike
 2. Oil price stimulus
 3. Stable to stronger currency
 4. Recovering business confidence (again)
2. Offset by:
 1. Potential for further interest rate increases



SA GDP Growth

Better, but far from perfect



Recovery driven by:

1. Consumer demand
2. Increase in fixed investment
3. Restocking

But risks remain:

1. Messy election & further political uncertainty
2. ESKOM
3. Sharp deterioration in global growth, putting pressure on commodity prices and EM currencies



What does that mean for markets?

Valuations are attractive – both historically and into the future

Historic P/E Ratio



Forward P/E Ratio



Income yields are also attractive

Especially given underlying income growth

Historic Dividend Yield (%)



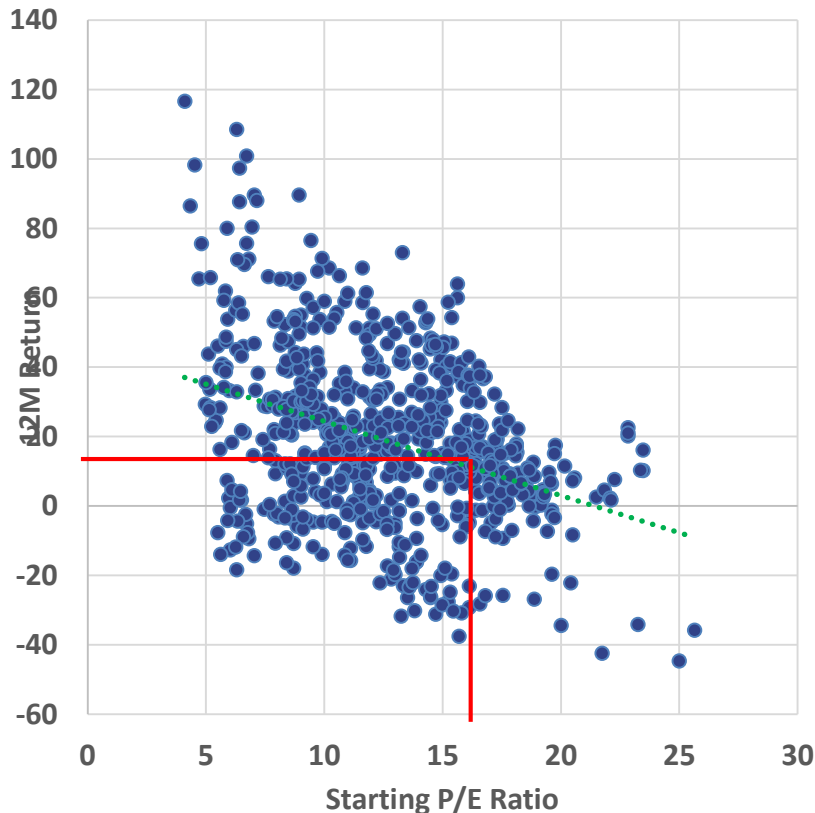
Dividend Growth (%)



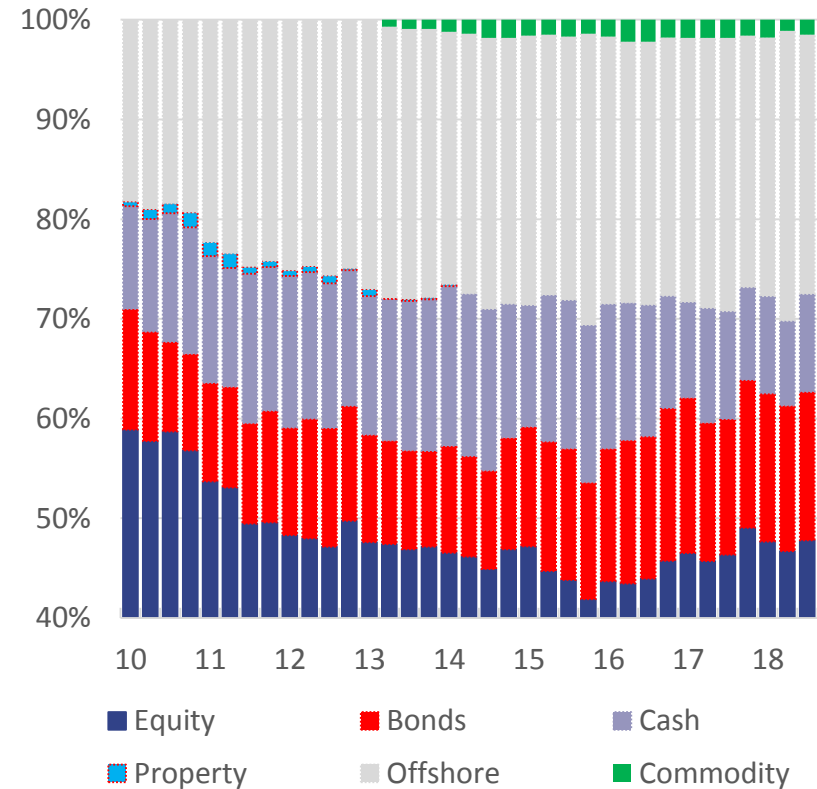
Correlation between valuation & return

And we are not alone in our view

12M Returns vs Starting P/E



Domestic Asset Allocation



Summary

Not expecting miracles – but there is room for improvement

1. Yes, global growth is slowing, but its still solid.
2. A slowdown in the US will allow the Fed to pause – that is beneficial for emerging markets and currencies.
3. Unfortunately, politics will remain a feature
4. We expect our election to go off reasonably smoothly, with a predictable outcome
5. Our economy to accelerate over the year. Growth will be better, but far from adequate

Implication: Q1 could remain volatile, but we expect conditions to settle as the year progresses.

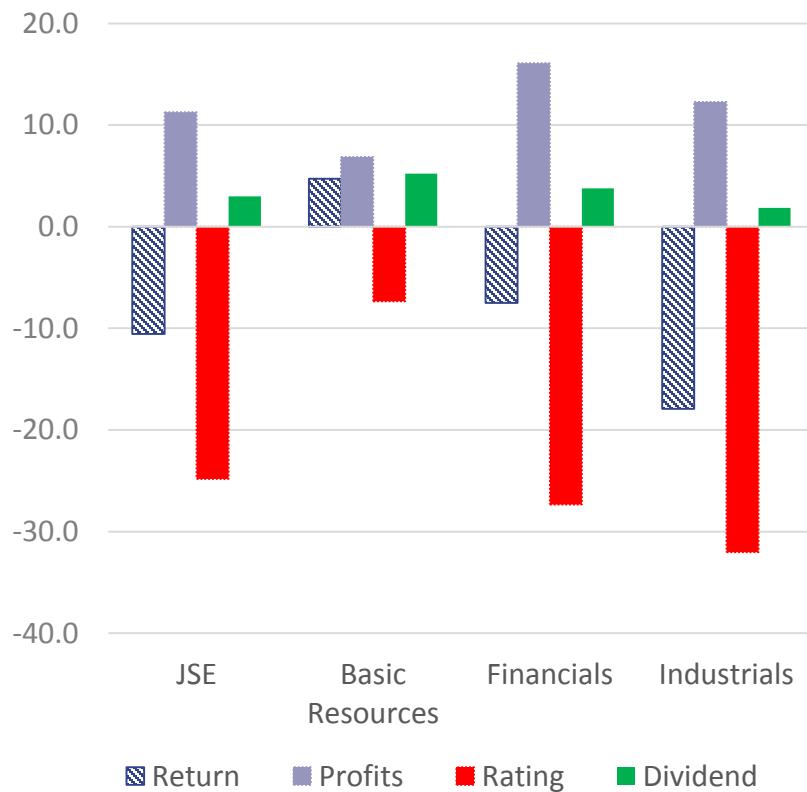
So, how do we proceed?



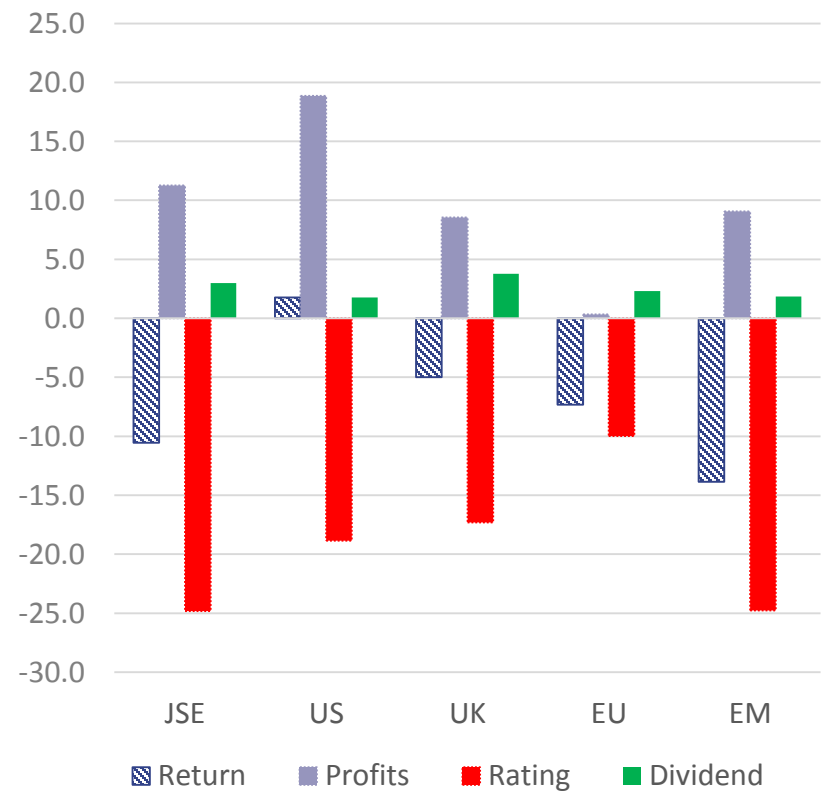
Revisiting this year's returns

Fundamentals have remained strong

Local Markets



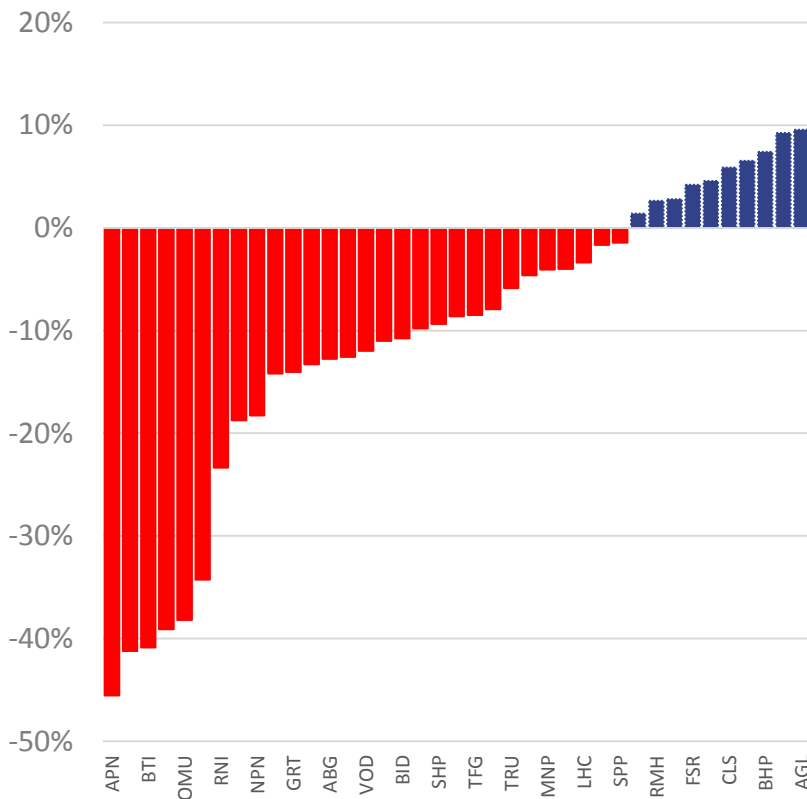
Offshore Markets



Our investment philosophy

Price changes do not necessarily reflect underlying operating performance

Top 40: YTD Price Change



Top 40: YTD Dividend Change

