



## ECONOMIC COMMENTARY

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### Newsletter

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#### SEPTEMBER, A MUCH HAPPIER MONTH

Almost recovering from the August-blues, the S&P 500 index gained 1.7% during the month of September. This year to date, the S&P 500 index is up by 18% in US dollar terms, another stellar year after the disappointment in 2018. Markets were initially off to a great start in September and rallied by more than 4%. However, a further slowdown in global economic performance fuelled by

- + Uncertainty in Britain and the Middle East;
- + Less dovish monetary policy in the United States; and
- + Concerns surrounding the trade war, pulled back some of the performance!

Poor performing manufacturing purchasing manager's indexes (PMIS) around the world supported the expectations of a slowdown. In India, this index for future growth, fell to its lowest levels in over a year. Similarly, Indonesia's PMI is at its lowest level since 2017. China's official PMI fell below expansionary levels (49.5), which imply that that this industry is slowing down and could be heading towards contraction. In the United States, the Philippines, and even Myanmar, PMIs also slipped.

During September, Jack Ma, one of Alibaba's founders, retired from the company on his 55th birthday. Since 1999, Jack led the Chinese-based company to international stardom, beating competitors like eBay and Amazon, in what is considered one of the world's greatest wealth creative stories. After hosting the world's largest initial public offering (IPO) of \$25 billion in 2014, Jack grew the company to its current valuation of roughly \$440 billion. From Alibaba to Apple. They also launched their new line of products of which the announcement of their own streaming service Apple TV+ was the most notable. The Apple TV+ service, at \$4.99, will be an alternative to Netflix (\$12.99), HBO (\$14.99) and Disney+ (\$7.99). Apple tried to sell the value of this service, but unless they revamp the streaming industry, like they did the music industry, we don't see a substantial upside for shareholders.

In local markets, September was marked by the further unbundling of Naspers who listed their foreign owned assets on the Euronext stock exchange in Amsterdam, the Netherlands. This momentous event came after years of preparation to reduce the discount Naspers were trading against on the JSE. Naspers own 31.2% of Tencent, one of the world's largest companies. Tencent is a Chinese internet conglomerate that is most widely known for producing Fortnite. Naspers' exposure to Tencent is valued at R1.80 trillion, but Naspers often trade at valuations around R1.55 trillion on the JSE. This is because their size imply that they constitute 21% of the total market capitalisation of the JSE. Asset managers, investors, and even certain indices are therefore natural sellers of the share, which places downward pressure on share prices. Economic agents simply can't have such a large exposure to any one share and were therefore forced to cap (reduce) their positions.

To counter this natural sell-off, Naspers started to unwind and restructure many of their assets. First, they listed their Multichoice assets, which own DSTV, separately on the JSE. Then, on the 11th of September 2019, Naspers unbundled more of its assets and listed them on the Euronext stock exchange in Amsterdam:

- + The Naspers listing on the JSE will hold all the South African-based assets: Media24, Takealot, Autotrader, Property24 and webuycars.co.za.
- + In the Netherlands, Prosus, will hold all of Naspers' international assets: the stake in Tencent, OLX, Swiggy (an Indian food delivery company) and two large Russian companies (Avito, a property platform, and mail.ru, Russia's largest gaming company).

In other important local news, South Africa's second quarter GDP figures surprised the market; in a good way! Expectations averaged 2.4%, but growth realised at 3.1%. Growth in the mining industry (14.4%) contributed a full percentage point to the quarter's growth as strikes in the gold sector came to a halt and global iron ore prices rallied. The finance industry also experienced a strong quarter-on-quarter growth of 4.1%.

