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Global equities were sharply lower in December when US bourses capitulated after Trump's public criticism of Fed Chair Powell failed to deter a final rate hike amid weakening economic data and a partial US government shutdown. Emerging markets were also negative as China underperformed on unclear trade war progress and a slowing domestic economy. Bond yields fell markedly on safe-haven appeal.

After a blistering 2017 when JSE and global equities surged over 20% and most asset classes delivered double digit returns, 2018 stood in stark contrast. Equity bourses varied from -4.5% in US dollars for the bellwether US markets to -14.2% for emerging markets. Commodity indices were lower and even global bonds showed negative returns.

The FTSE/JSE All Share Index fell 8.5% (-21.3% in US dollars) last year with several blue-chip stalwarts suffering heavy losses as the market de-rated companies that have exploited cheap leverage to make acquisitions. Nine Alsi 40 shares declined by more than 30% (of which six fell more than 40%). SA listed property stocks plunged 25.3%. In SA, only cash and the All Bond Index (+7.7%) produced real returns.

The global economy continued to deliver above trend growth as US corporate earnings were boosted by Trump's early tax cuts. The US Federal Reserve responded by raising interest rates in four quarter-point increments, but tellingly reduced its outlook for the number of hikes anticipated in 2019.

Major market inflection points are often associated with elevated volatility and increasing concentration of returns in a few counters. This was reflected on the JSE with the FTSE/JSE All Share Index fluctuating more than 5% twelve times during the year while US market returns were initially concentrated in the giant US tech stocks.

South Africans welcomed with relief a new political order as President Ramaphosa moved to reverse some of the more insidious decisions made in the final stages of the Zuma era. Despite this positive political catalyst, the country slipped into two quarters of negative GDP growth. Business confidence languished amid political uncertainty while consumer spending was constrained.

The rand weakened 13.5% against the US dollar in 2018 on emerging market contagion risk following Turkish and Argentinian disruptions. Trade war escalation further exposed the vulnerability of small, open, twin-deficit economies to exogenous shocks. Severely stretched public finances limit the SA government's ability to meaningfully stimulate growth, making anaemic private sector fixed investment crucial for growth.

Foord's portfolios have been cautiously positioned for at least two years. We are often criticised for being early but long experience has shown that it's better to be early than late when the bears are at the door. Caution remains the watchword for 2019, but the portfolio managers are vigilant for quality opportunities that will sustain long-term performance when the bears retreat.

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DISCLOSURE