

ELECTING AN INVESTMENT STRATEGY FOR THE COMING ELECTION

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It is less than two months before the general election and temperatures are rising as campaigning goes into full swing. Many investors and business people have expressed apprehension about the election and its possible outcome. This seems unnecessary for a number of reasons.

In the democratic era, South Africa has already run five general elections and four nationwide local government elections that can only be described overall as free, fair and peaceful. So the voting process should not be of concern to anyone.

What is weighing most on investors' minds is policy uncertainty and how the election outcome will influence government reform initiatives. Investors are concerned about policy uncertainty on matters such as land expropriation, nationalisation, and prescribed assets. They are also monitoring the promises being made to voters by the main parties, and assessing the possible implications for government spending and economic stability. Populism is often an easy sell, promising voters immediate gratification without doing the hard yards of fixing underlying problems. The problem with populist policies is that they may make things better in the short term, but invariably they create massive longer-term problems.

Globally, the rise of populism has gained much attention. The Brexit referendum in the UK was a classic example where voters were promised utopia if the UK left the European Union. Similarly, Donald Trump campaigned on populist measures, including his infamous wall on the Mexican border, but his policies so far have mostly benefited billionaires like himself. In Italy, an unlikely populist coalition between populist far-left and far-right parties has formed a government. The most destructive recent example has been Venezuela's late Hugo Chavez and Nicolas Maduro, his hand-picked successor.

PROSPECTS FOR REFORM

On the policy reform front, many commentators have warned that 'nothing will happen until after the election'. But this is not true and a lot has happened. The announcements on unbundling Eskom and trimming the public service were done despite substantial union opposition. Though the crisis at Eskom might have brought forward these announcements, they still happened before the election and that is significant. Indeed, there was nothing in the recent Budget Speech that can be described as pre-election giveaways to voters.

So markets remain wary and sceptical, with South Africa's credit default swap (CDS) spreads (the cost of insuring against a bond default) higher than Brazil's, where the new President Jair Bolsonaro also has a reform agenda. Bolsonaro is accused of being a populist, but his number one challenge of reforming Brazil's bloated public sector pension fund is the exact opposite of populism. Put differently, global markets seem to place

greater faith in Bolsonaro succeeding with his reforms than Ramaphosa, even though Ramaphosa's party has a legislative majority that Bolsonaro's party doesn't. An election with few surprises and a reasonable mandate for President Ramaphosa to start his first full term could see a positive market reaction.

REMEMBER OUR STRENGTHS

Although each party has a presidential candidate, voters do not vote for an individual but for parties, which are allocated seats in the National Assembly based on their share of the vote. The National Assembly then elects the President. He or she in turn appoints the cabinet members, who have to be members of parliament (MPs). (Only two cabinet members can come from outside parliament.)

Beyond the politicians, there are very important governmental institutions that act as checks and balances. These include the courts and the independent South African Reserve Bank (SARB) that sets monetary policy. While one might quibble with interest rates being too high, the SARB has shown no inclination to bow to political pressure and its independence is indeed written into the Constitution. This will not change if it is nationalised, since ownership is irrelevant to it performing its duties. Most central banks are state-owned.

Politicians in power always want lower interest rates, particularly ahead of an election. Donald Trump famously criticised the US Federal Reserve for keeping rates too low when President Obama was still in office, but once he took over, he lambasted it for hiking rates. The SARB hiked rates on the eve of the 2016 municipal election, demonstrating that it did not bow to pressure from the Union Buildings. Outside of government, South Africa still has a strong civil society that acts as a bulwark against government overreach. Particularly, we have a noisy free press and it is no exaggeration to say that our top-notch investigative journalists were key in untangling the web of state capture.

DON'T TAKE YOUR EYE OFF THE BALL

Investors hate uncertainty and tend to be easily upset by electioneering politicians. However, it is important to remember that our elections have always been peaceful, the results readily accepted and the more sweeping promises of politicians are not necessarily implemented into policy. So amid all the noise and uncertainty leading up to the election, investors must stay focused on their investment strategy and its financial goals.

Against this backdrop of uncertainty, noise, a poorly performing local economy and disappointing returns for the last three years, investors also need to consider the following realities:



Firstly, around 60% of the revenue generated by the companies listed on the JSE originates from outside the local economy. Many of the largest companies on the JSE are major global companies, e.g. BAT, AB InBev, Richemont and BHP. The outcome of the election will not influence the international prices of these shares, but the currency can move the rand price. A weaker rand will boost these share prices and vice versa with a stronger rand. A weaker rand will also boost the rand value of internationally-generated revenues of SA companies such as Woolworths, MediClinic, Naspers and many others. The mining companies also benefit from a weaker rand. So any election outcome that weakens the rand would not necessarily knock the JSE.

Secondly, local interest rates offer very attractive yields compared to international yields, including other emerging markets. Compared to inflation, local interest rates are also extremely good value. Many investors worry that the election outcome could lead to a ratings downgrade, but our research strongly suggests that our government debt is already rated junk status on global capital markets – so a downgrade would probably not result in a massive rate hike.

Thirdly, it is important to remember that although we are exposed to the local economy and local politics as citizens, taxpayers, entrepreneurs or salary-earners, we can spread our wings globally as investors. Global equity markets are currently very reasonably priced. Given market consensus views for global company profits the next year, global equity market valuations are hovering around five- to six-year lows. History suggests that from these valuation levels the patient investor could be pleasantly surprised by future returns.

So against this backdrop of attractive equity market valuations, the effective foreign exposure on the JSE and high real local interest rates, it would not be wise for investors to abandon their longer-term investment strategy and disinvest from markets.

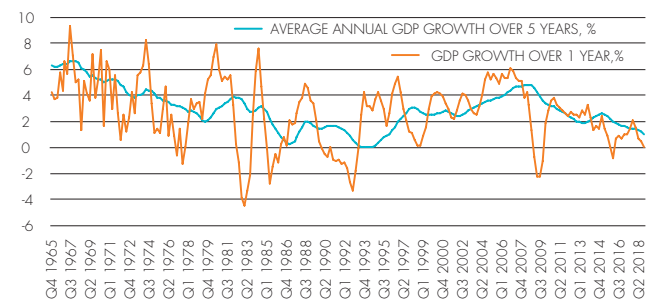
Lastly, it is important to remember that the future is always uncertain and can surprise on the upside as well as the downside. The only sensible way to cope with this uncertainty is to have an appropriately diversified investment strategy suited to the individual investor's financial circumstances and needs. The upcoming election should not alter this approach.

CHART 1: SA AND BRAZIL 5 YEAR US\$ CDS



Source: Refinitiv

CHART 2: SA REAL ECONOMIC GROWTH



Source: Refinitiv

CHART 3: RAND-DOLLAR EXCHANGE RATE



Source: Refinitiv



INDICATORS

EQUITIES - GLOBAL

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
Global	MSCI World	US\$	2 051,0	-2,15%	-1,68%	8,86%	-3,48%
United States	S&P 500	US\$	2 743,0	-2,18%	-1,47%	9,41%	0,15%
Europe	MSCI Europe	US\$	1 600,0	-2,32%	-1,96%	7,67%	-10,16%
Britain	FTSE 100	US\$	9 246,0	-1,49%	-1,46%	7,70%	-7,06%
Germany	DAX	US\$	1 211,0	-2,65%	-1,70%	-1,67%	-15,84%
Japan	Nikkei 225	US\$	189,1	-1,56%	-1,50%	-3,08%	-6,00%
Emerging Markets	MSCI Emerging Markets	US\$	1 030,0	-2,09%	-2,00%	6,63%	-13,81%
Brazil	MSCI Brazil	US\$	2 098,0	-0,99%	-3,18%	7,92%	-7,98%
China	MSCI China	US\$	79,8	-2,34%	-1,36%	13,32%	-14,55%
India	MSCI India	US\$	564,1	2,35%	3,32%	1,10%	-1,55%
South Africa	MSCI South Africa	US\$	455,0	-2,36%	-3,60%	2,25%	-27,55%

EQUITIES - SOUTH AFRICA (TR UNLESS INDICATED OTHERWISE)

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
All Share (Capital Only)	All Share (Capital Index)	Rand	55 489,0	-1,27%	-0,92%	5,22%	-5,83%
All Share	All Share (Total Return)	Rand	8 163,0	-1,02%	-0,67%	5,60%	-2,80%
TOP 40/Large Caps	Top 40	Rand	7 221,0	-0,96%	-0,61%	5,74%	-2,48%
Mid Caps	Mid Cap	Rand	15 847,0	-1,43%	-1,20%	3,41%	-6,77%
Small Companies	Small Cap	Rand	17 636,0	-1,04%	-1,07%	-1,78%	-16,25%
Resources	Resource 20	Rand	2 980,6	-0,77%	-0,32%	10,70%	33,20%
Industrials	Industrial 25	Rand	13 086,0	-0,37%	0,26%	5,40%	-12,64%
Financials	Financial 15	Rand	9 449,0	-2,53%	-2,93%	1,50%	-6,27%
Listed Property	SA Listed Property	Rand	1 917,8	0,59%	1,15%	4,17%	-7,58%

FIXED INTEREST - GLOBAL

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
US Aggregate Bond Index	Bloomberg Barclays	US\$	483,4	0,25%	0,00%	0,94%	-1,03%

FIXED INTEREST - SOUTH AFRICA

DESCRIPTION	INDEX	CURRENCY	Index Value	Week	Month-to-date	Year-to-date	1 Year
All Bond	BESA ALBI	Rand	652,9	0,99%	0,66%	3,12%	4,60%
Government Bonds	BESA GOVI	Rand	646,6	1,03%	0,69%	3,18%	4,02%
Corporate Bonds	SB JSE Credit Indices	Rand	102,7	-0,01%	-0,10%	0,83%	-20,60%
Inflation Linked Bonds	BESA CILI	Rand	256,5	-0,04%	-0,06%	1,21%	2,42%
Cash	STEFI Composite	Rand	416,3	0,14%	0,16%	1,31%	7,26%

COMMODITIES

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
Brent Crude Oil	Brent Crude ICE	US\$	65,7	1,25%	-0,45%	21,67%	2,66%
Gold	Gold Spot	US\$	1 298,0	0,39%	-1,96%	1,33%	-2,11%
Platinum	Platinum Spot	US\$	816,0	-4,90%	-6,42%	2,90%	-14,11%

CURRENCIES

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
ZAR/Dollar	ZAR/USD	Rand	14,44	-1,44%	-2,44%	-0,61%	-17,51%
ZAR/Pound	ZAR/GBP	Rand	18,79	-0,05%	-0,59%	-2,50%	-12,40%
ZAR/Euro	ZAR/EUR	Rand	16,22	-0,30%	-1,22%	1,55%	-9,55%
Dollar/Euro	USD/EUR	US\$	1,12	1,79%	1,52%	2,41%	9,82%
Dollar/Pound	USD/GBP	US\$	1,30	1,48%	2,19%	-1,65%	6,03%
Dollar/Yen	USD/JPY	US\$	0,01	-0,68%	-0,19%	1,43%	4,68%

Source: I/Net, figures as at 8 March 2019



ASSET MANAGER MOVEMENTS

There were no manager movements over the past week.

THE WEEK AHEAD

SOUTH AFRICA

- RMB/BER Business Confidence Index
- Mining and manufacturing production

US

- Inflation
- Retail sales
- Industrial production

EUROPE

- Eurozone industrial production

CHINA

- Industrial production
- Retail sales
- New loans

JAPAN

- Household spending

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