

## View of the month – February 2019



Dear Investor,

Our “view of the month” picture for February 2019 is the Aloe Ferox. **This resilient, drought resistant, indigenous plant is found across South Africa and was used by Finance Minister Tito Mboweni as an analogy for the South African (SA) economy during his maiden budget speech in February.** The Aloe’s Latin name is Ferox which means fierce, and it’s also known as the Bitter Aloe. The minister used this hardier, pricklier variety to illustrate his point, as he delivered a tough-talking, tricky budget, full of difficult truths about an economy that’s spending more than it makes, with multiple distressed state-owned entities and a bloated public service wage bill.

Being an election year, many expected the budget speech to be populist with messages aimed at voters. The reality was the minister’s speech was aimed directly at rating agencies with the goal of addressing some of their most important concerns:

- Eskom is probably one of SA’s biggest red flags at the moment. We were saved from an almost immediate downgrade with the finance minister statement that **“Eskom took on the debt. It must ultimately repay it”**. It was also the first time a minister questioned the need for State Owned Entities (SOE) publicly
- The budget highlighted that the wage bill shows some projected containment with cuts in “compensation budgets, reflecting faster-than-expected declines in headcounts, as well as the anticipated effects of other interventions, **including early retirement without penalties.**”
- Lastly, the debt-to-GDP ratio is set to grow to 60.2% by 2023/2024, and recede slightly to 60.1% the following year. This is not ideal but **the fact that debt-to-GDP ratio is expected to grow only by 4% over the next four years, and then remain there,** shows that Treasury aims to stabilise South Africa’s debt

Moody's is currently the only rating agency that has South Africa (SA) at investment grade, while S&P Global Ratings and Fitch Ratings have us at sub investment-grade. The big question is if the budget speech was enough to keep Moody's at bay and prevent a potential downgrade to junk status. **It is however important to note that they would probably first revise our outlook from stable to negative, before downright outright us.**

Generally, as seen in other country downgrades, a shock will be felt in the country's currency as it weakens against other major currencies. A direct impact will also be felt in the bond and fixed income market through rising interest rates. This could also have a negative impact on the equity market as investors deem the assets to be more risky. **Even though many market commentators argue a downgrade is already priced in,** it is difficult to predict what kneejerk reaction will be observed in the months following a downgrade announcement.

#### **Predicting the possible outcomes post a downgrade**

We agree with Investec economist Annabel Bishop's approach in predicting an outcome of a downgrade. She highlights that one needs to take the global market's "risk-on" view into account when predicting the possible outcomes of a downgrade. If global markets are in a neutral to risk-on environment, then the Rand would likely see markedly less depreciation, **where the Rand weakens towards R17/USD - R18/USD, but does not stay at that level for a prolonged period, nor weaken much beyond that.** Instead it returns towards R15/USD fairly quickly.

**The same could be said for SA government bond yields in a global risk-on environment,** which after a period of three months could even see a strengthening back towards the immediate pre-budget yields.

**The risk clearly is a prolonged global risk aversion environment, as occurred during the last three quarter of 2018,** where the US experienced a relatively rapid interest rate hike environment, global trade tensions were escalated and fears of a marked global growth slowdown hamstrung markets that were somewhat overblown initially.

Downgrade or not, we believe SA will remain a favourite among emerging markets for global investors. **This is because SA is a liquid market, still maintains strong institutions such as a credible central bank, has favourable interest rates and a strong yield curve.** SA will therefore remain key for investors who want to have portfolios in emerging markets.

**Moody's will be announcing their ratings review outcomes on 29 March 2019.**

#### **Quote of the month**

We thought the following quote by Finance Minister Tito Mboweni during the budget speech to be appropriate during these current testing times in South Africa:

**"Despite our best efforts, sometimes, ravages and risks such as pests or rot could attack our green shoots. But we must persevere, we must prune and pluck away at the rot, until there is growth."**

### **Three positives for SA during February**

1. The recent oil and gas discovery at Brulpadda could bring as much as R1 trillion into the South African economy in the next decade
2. While the unemployment situation in South Africa is dire, not many noticed the latest employment numbers from StatsSA which indicated that 149 000 people found employment in the last quarter of 2018
3. Foreign Direct Investment into South Africa grew by 446% over 2018. While this is of a very low base and comes with certain caveats, there was nearly R100bn in new money which came into SA following President Ramaphosa's investment drive

### **How to invest in these uncertain times**

We urge investors to remain currency, country and asset diversified in their portfolios. We specifically recommend:

- **Diversify offshore** – we recommend a client's offshore exposure to be at least 50% of their total investment portfolio
- **Capital protected structures:**
  - o Offshore – the [Morgan Stanley Capital Protected Bonus Note](#) is designed for investors seeking 100% capital protection, guaranteed yearly coupon and an opportunity to participate in stock market growth
  - o Local – the [Investec Structured Return Note](#) offers returns linked to the Eurozone's top companies, with full downside protection on invested capital and attractive rand returns over three years, even if the market remains flat
- **High interest bearing bank accounts** – we make use of Investec Corporate Cash Management (CCM). These Investec bank accounts can be structured to be instant cash, notice term (30 to 60 days) or fixed term (6 months to 5 years). The accounts has no costs associated with them and pays [high interest](#) (the longer the term the higher the interest)
- **Share portfolios** – this is still the most cost effective investment method and should be utilised during low return periods as observed the last couple of years in SA. [Click here](#) for suggested low cost offshore ETFs that can be hosted in your share portfolio

### **Fuel prices – Remember to fill up before midnight tonight (Tuesday 5 March)**

The Department of Energy announced an **increase in the fuel price of 74c/l on 6 March (to be followed by at least 29c/l in April)** on the back of the fuel levy and CO2 increases announced in the February 2019 Budget Review). This follows large reductions of R1.84/cl and R1.23c/l in December and January. The large petrol price increase in February can be mainly ascribed to a rise in the Brent oil price from a low of \$50/bbl in December to \$65/bbl by mid-February. The effect of the ZAR, which traded at a low of 13.25/\$ at the end of January and hit a low of 14.06/\$ in mid-March, had a small impact.

### **Australia business and investment visas**

If you're not convinced by the budget speech and other positive developments in SA, **then you might want to consider speaking to a migration expert.** [Suffolk-law and Visa](#) is an Australian Legal company of dedicated Lawyers and migration agents. Jannie Kotze from Suffolk-Law will be in South Africa – Johannesburg, Nelspruit, Cape Town, Bloemfontein & Durban – from 5 - 12 April 2019 for private consultations on Business and Investment Visas. You can contact Jannie directly at [janniek@suffolk-law.com.au](mailto:janniek@suffolk-law.com.au) for more information.

## Naspers

Naspers (NPN) completed the unbundling of its shares in MultiChoice Group (MCG) to Naspers shareholders following a listing of MCG on the Johannesburg Stock Exchange (JSE) on 27 February 2019. **Naspers has distributed to its shareholders one MCG share for every one Naspers “N” ordinary share held**, giving them a direct interest in the newly-listed MCG, rather than holding that interest through Naspers.

**Many investors have asked us if they should hold-on to their new MCG shares or sell them and buy more NPN?** The answer will depend if you have bought into the management’s Africa turnaround strategy. There is no doubt Africa will be developing faster than SA in the next couple of years and that’s why we have companies like Shoprite and MTN in our portfolios. If you however want gearing to a positive surprise north of our borders, look no further than Shoprite.

**Tencent will be releasing their results on 21 March 2019.** Investec research highlights some concerns below (contact Vista for the full report):

- Increase in gamers in China is slowing down
- Internet users who play games has flat lined
- Tencent losing market share to competition
- Competition is adding to margin pressures
- Video shows no sight of being profitable
- Regulation is starting to impact of multiple layers of Tencent’s business

## The markets

**The red block in the table below shows the market stats for January 2019.** In short, it was another positive month for the South African stock market. The **JSE All Share Total Return index** was  $\uparrow 3.4\%$  for the month (still  $\downarrow -4\%$  for the last 12 months). The **Resources sector** was the top performer  $\uparrow 9.1\%$  for the month. The **Industrial sector** also had a good performance and ended  $\uparrow 3.5\%$  for the month. The **Financial sector** was  $\downarrow -2.1\%$  for the month with the **Listed property sector** the worst performing sector, giving back most of its gains from the previous month  $\downarrow -5.7\%$ .

## Market summary for the month of February 2019

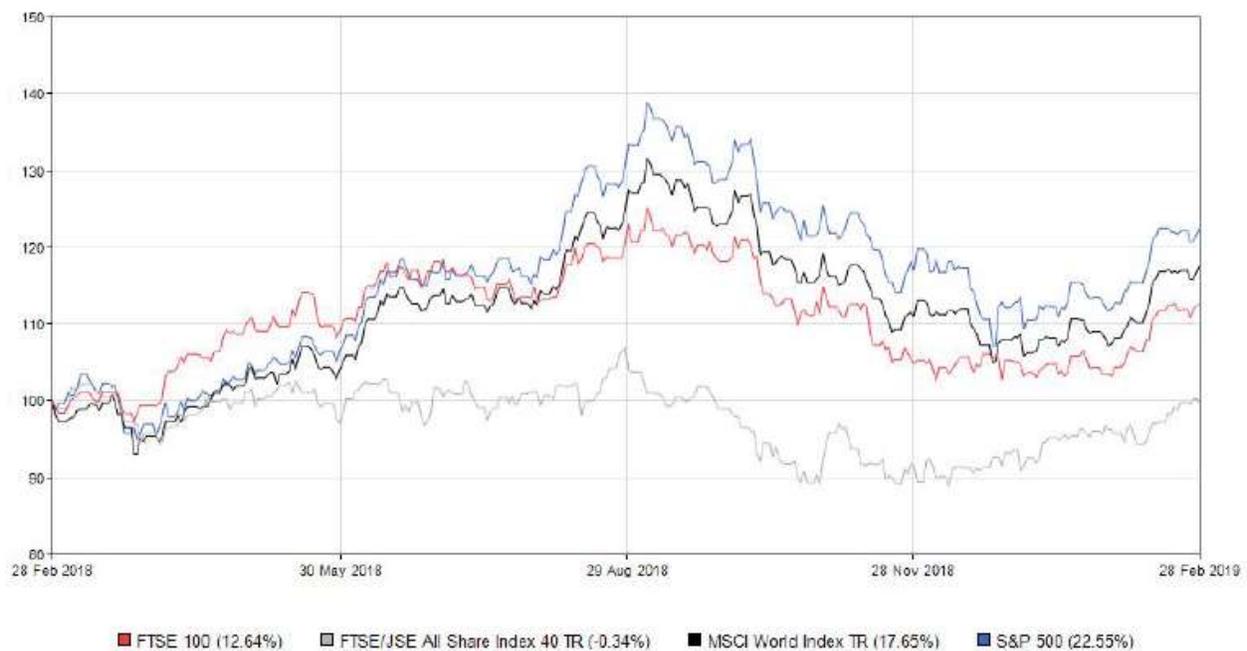
	Close price at 2/28/2019	Daily % change	Month to date	Year to date	Last 12 months
<b>FTSE/JSE indices</b>					
All-Share Index	56,002.08	-0.5%	3.4%	6.2%	-4.0%
All-Share Index Total Return	8,217.57	-0.5%	3.4%	6.3%	-0.9%
Resources Index	25,847.33	-1.3%	9.1%	12.5%	27.3%
Industrials Index	73,340.34	-0.1%	3.5%	4.2%	-13.4%
Financials Index	42,839.37	-0.4%	-2.1%	3.7%	-9.2%
Top 40 Index	49,667.10	-0.6%	3.6%	6.3%	-3.3%
Shareholder Weighted Index	20,326.04	-0.3%	1.6%	4.7%	-5.8%
Capped Shareholder Weighted Index	22,466.61	-0.5%	1.2%	4.0%	-6.2%
SA Listed Property Index	1,895.99	-1.3%	-5.7%	3.0%	-5.2%
SA Volatility Index	16.34	0.1%	-22.3%	-25.0%	-0.2%
<b>Interest-bearing indices</b>					
JSE ASSA All Bond Index (ALBI)	648.65	-0.5%	-0.4%	2.4%	4.2%
StefI Composite Index	415.62	0.0%	0.5%	1.2%	7.3%
JSE ASSA SA Government ILB Index	690.65	0.1%	-0.5%	1.2%	1.7%
<b>Interest rates</b>					
Prime rate	10.25%			0.0%	0.0%
Repo rate	6.75%			0.0%	0.0%
<b>Commodities (in US dollars)</b>					
Gold price	1,323.60	-0.2%	0.3%	3.3%	0.5%
Platinum price	871.96	1.1%	6.6%	9.9%	-11.0%
Oil price	66.42	0.2%	8.7%	22.0%	2.7%
<b>Global indices (in base currency)</b>					
Dow Jones (US)	25,916.00	-0.3%	3.7%	11.1%	3.5%
S&P 500 (US)	2,784.49	-0.3%	3.0%	11.1%	2.6%
FTSE (UK)	3,888.81	-0.4%	1.7%	5.8%	-2.3%
Hang Seng (Hong Kong)	28,633.18	-0.4%	2.5%	12.3%	-7.2%
Shanghai	2,618.23	-11.4%	1.3%	5.0%	-19.7%
Nikkei (Japan)	21,385.16	-0.8%	2.9%	6.8%	-3.1%
CAC 40 (France)	5,240.53	0.3%	5.0%	10.8%	-1.5%
DAX (Germany)	1,083.17	0.3%	2.4%	9.4%	-7.8%
MSCI Emerging	1,050.95	-1.0%	0.1%	8.8%	-12.1%
MSCI Developed	2,085.85	-0.3%	2.8%	10.7%	-1.5%
US Volatility Index	14.78	0.5%	-10.8%	-41.9%	-25.5%
<b>Exchange rates</b>					
Rand/US dollar	14.09	1.1%	6.3%	-1.9%	19.4%
Rand/euro	16.02	1.1%	5.6%	-2.7%	11.3%
Rand/pound	18.68	0.7%	7.6%	2.0%	15.1%
Dollar/euro	1.14	0.0%	-0.7%	-0.8%	-6.8%

## Financial Indicators as at 28 February 2019:

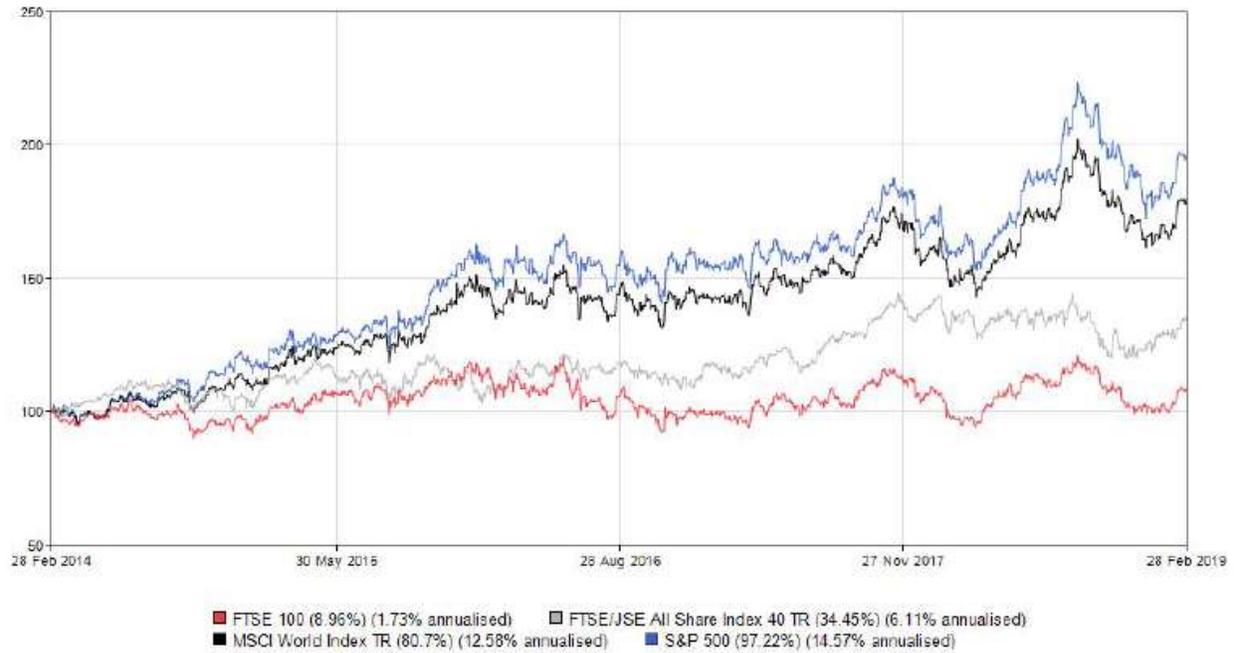
### Global indices:

Fund	1 Month (%)	3 Month (%)	1 Year (%)	3 Year (%)	3 Year annualised (%)	5 Year (%)	5 Year annualised (%)	10 Year (%)	10 Year annualised (%)	Since inception (%)	Since inception annualised (%)
FTSE 100	8.93	6.72	12.64	-0.17	-0.06	8.96	1.73	143.62	9.33	6600.83	12.83
FTSE/JSE All Share Index 40 TR	4.34	8.67	-0.34	23.31	7.24	34.45	6.11	296.89	14.81	1919.75	13.55
MSCI World Index TR	8.24	5.46	17.65	28.48	8.72	80.70	12.58	377.70	16.96	115948.13	15.87
S&P 500	8.50	3.72	22.55	25.67	7.92	97.22	14.57	418.03	17.92	2373.06	13.63

### Global indices – 1 Year:



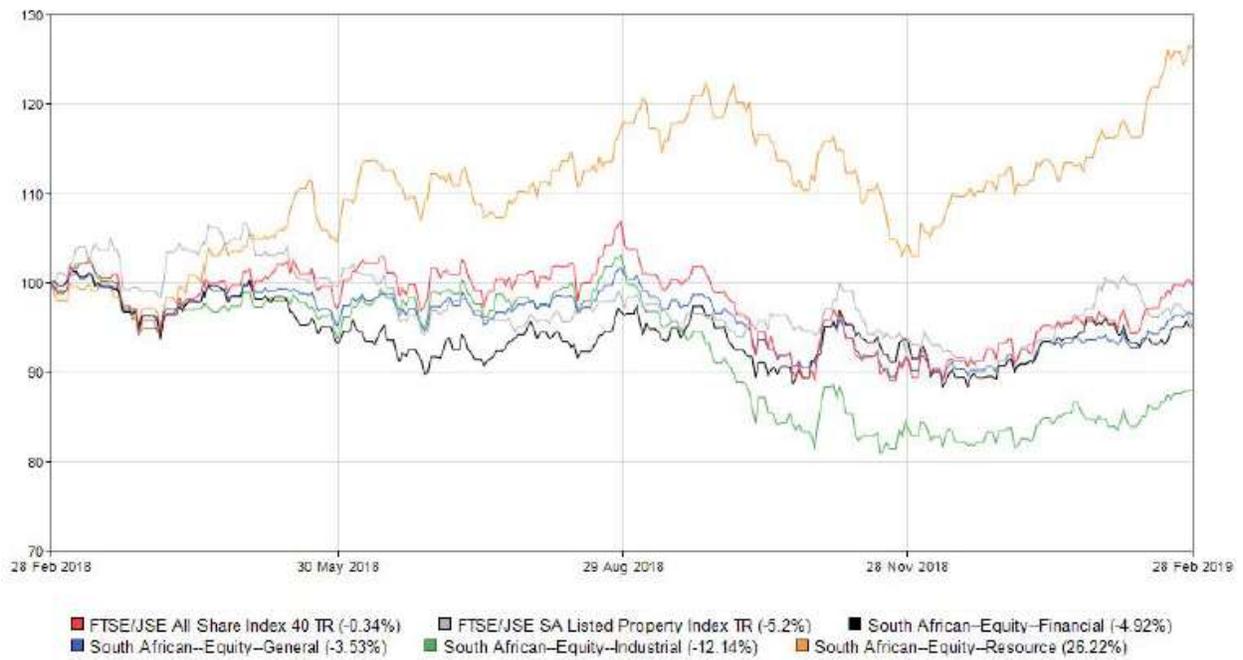
## Global indices – 5 years:



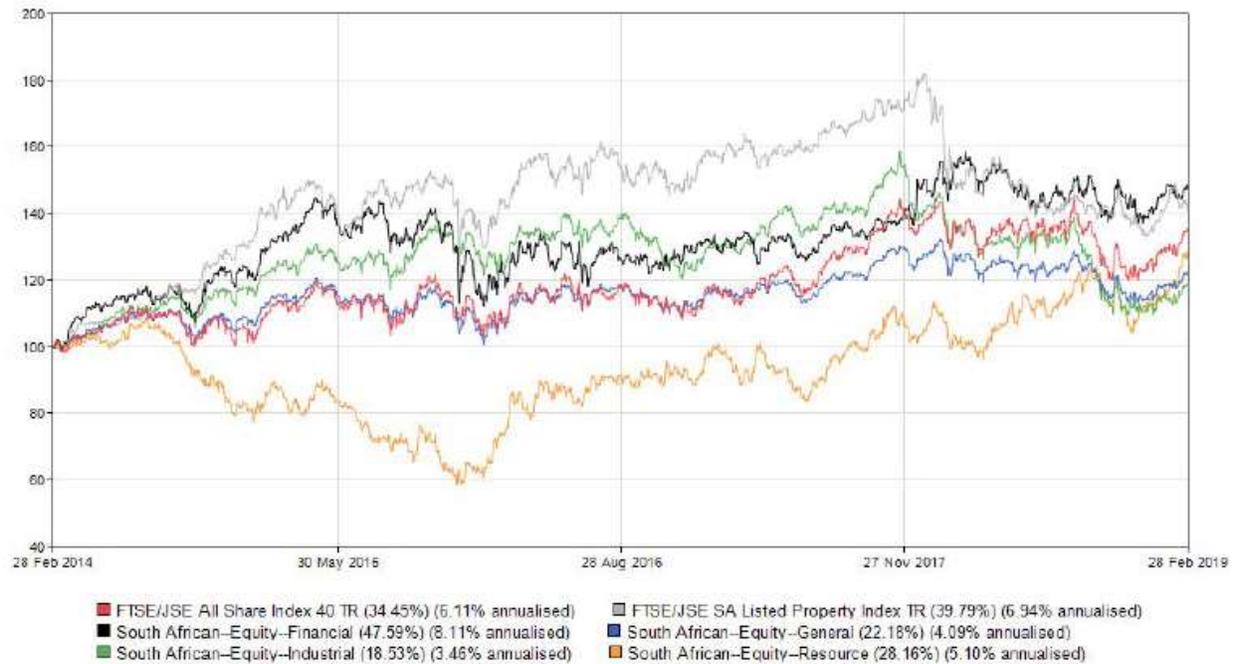
## JSE Sectors:

Fund	1 Month (%)	3 Month (%)	1 Year (%)	3 Year (%)	3 Year annualised (%)	5 Year (%)	5 Year annualised (%)	10 Year (%)	10 Year annualised (%)	Since inception (%)	Since inception annualised (%)
FTSE/JSE All Share Index 40 TR	4.34	8.67	-0.34	23.31	7.24	34.45	6.11	296.89	14.81	1919.75	13.55
FTSE/JSE SA Listed Property Index TR	-3.41	2.91	-5.20	-1.69	-0.57	39.79	6.94	235.31	12.89	904.44	17.19
South African–Equity–Financial	-0.20	1.36	-4.92	22.76	7.08	47.59	8.11	363.95	16.62	1391.46	13.48
South African–Equity–General	3.10	5.28	-3.53	13.69	4.37	22.18	4.09	221.08	12.40	11876.98	15.81
South African–Equity–Industrial	4.24	3.88	-12.14	-8.09	-2.07	18.53	3.46	318.79	15.43	5548.84	16.24
South African–Equity–Resource	9.38	21.22	26.22	69.34	19.21	28.16	5.10	124.18	8.42	7385.67	14.15

### JSE Sectors – 1 Year:



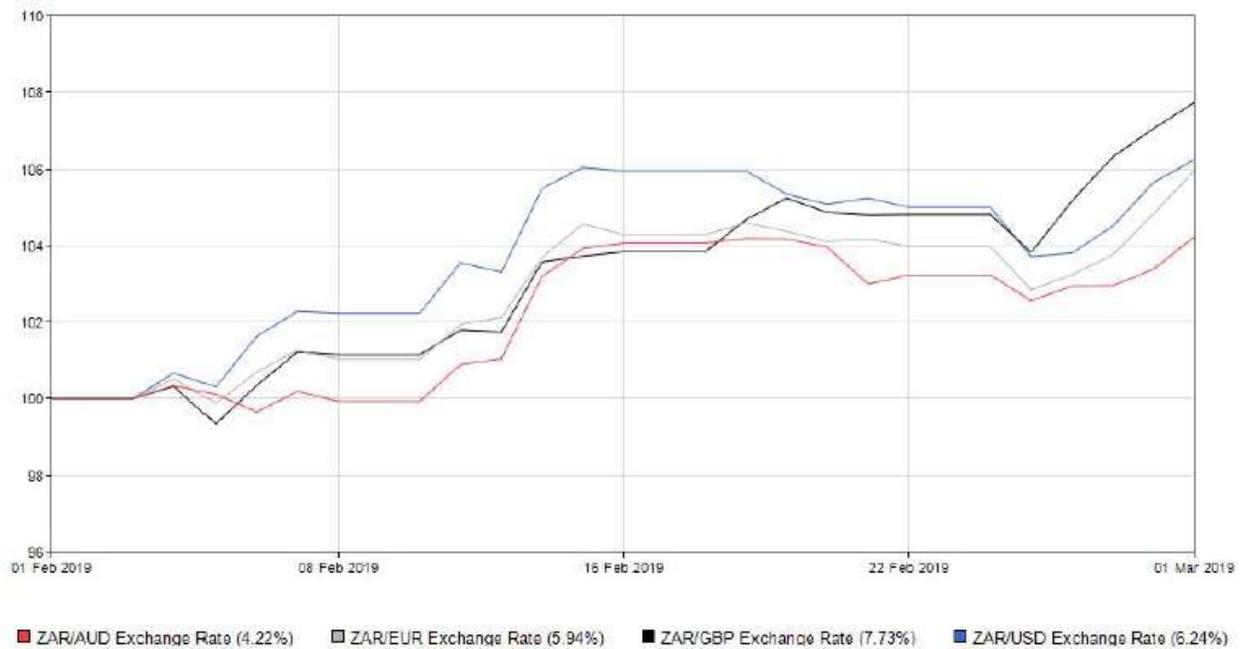
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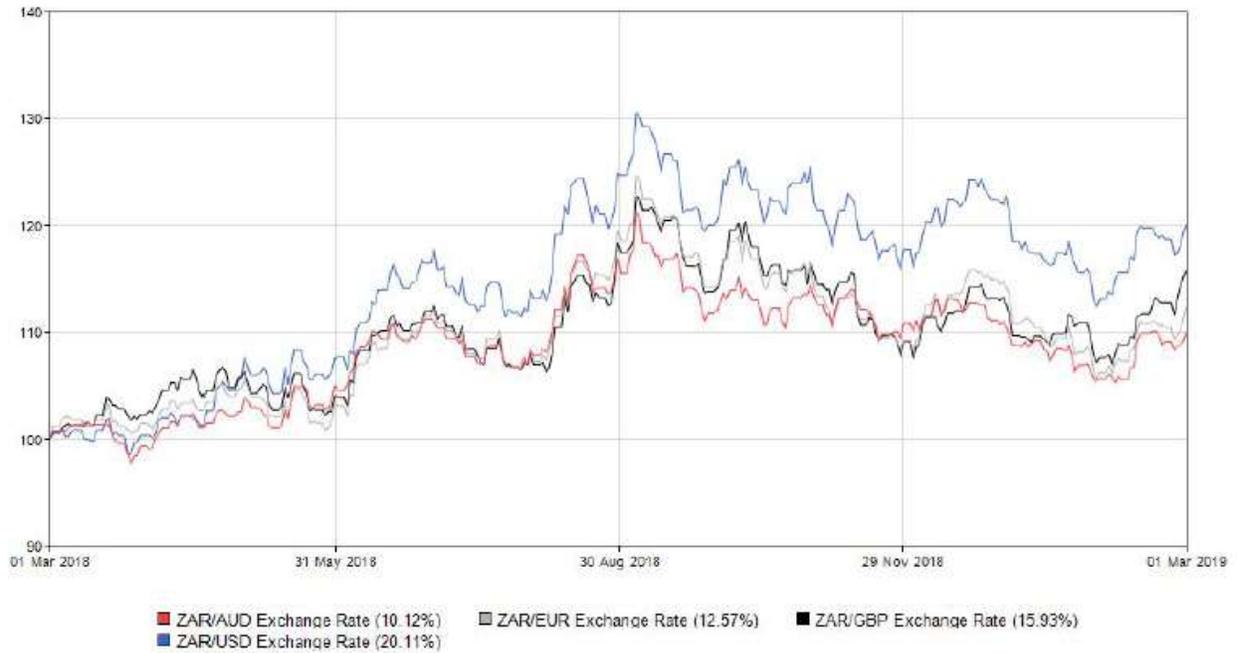
**Currencies (Positive indicates ZAR has weakened for the period, vice versa):**

Fund	1 Month (%)	3 Month (%)	1 Year (%)	3 Year (%)	3 Year annualised (%)	5 Year (%)	5 Year annualised (%)	10 Year (%)	10 Year annualised (%)	Since inception (%)	Since inception annualised (%)
ZAR/AUD Exchange Rate	4.22	-0.63	10.12	-10.40	-3.60	5.52	1.08	54.07	4.43	1160.08	5.41
ZAR/EUR Exchange Rate	5.94	3.12	12.57	-4.32	-1.46	10.43	2.01	28.37	2.53	1251.18	6.71
ZAR/GBP Exchange Rate	7.73	6.25	15.93	-13.49	-4.73	5.54	1.09	32.73	2.88	992.65	5.10
ZAR/USD Exchange Rate	6.24	2.02	20.11	-8.98	-3.09	32.45	5.79	40.85	3.49	1871.36	6.40

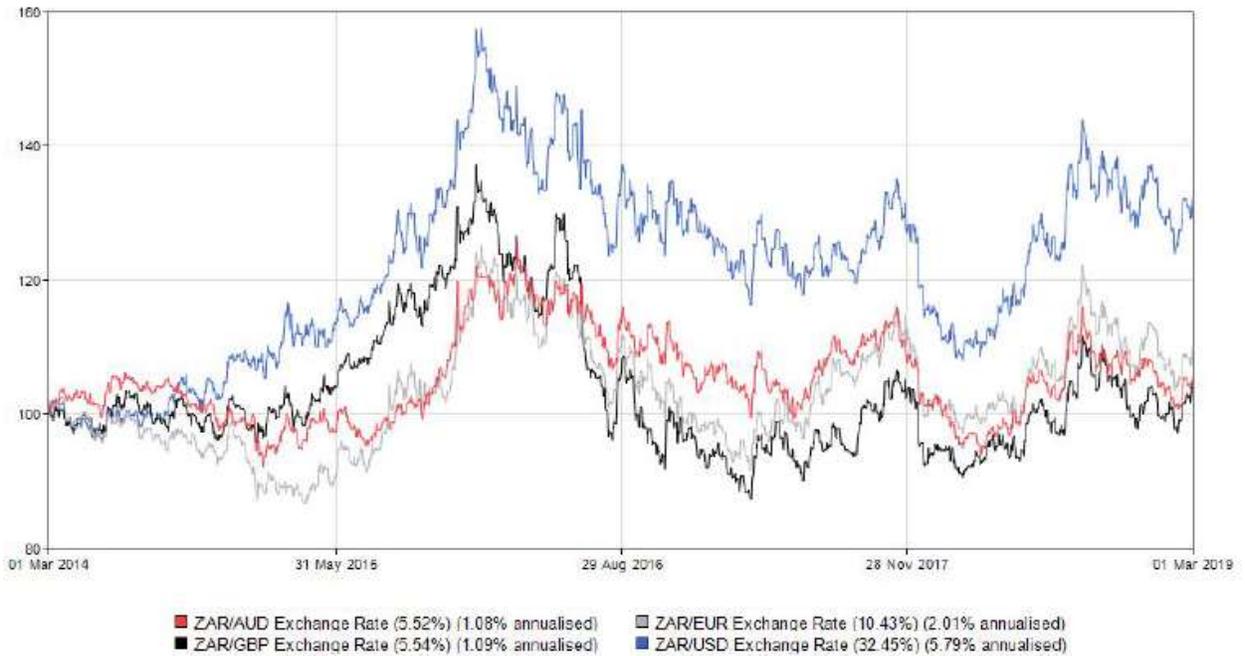
**Currencies – 1 Month (Above 100 indicates ZAR has weakened for the period, vice versa):**



**Currencies – 1 Year (Above 100 indicates ZAR has weakened for the period, vice versa):**



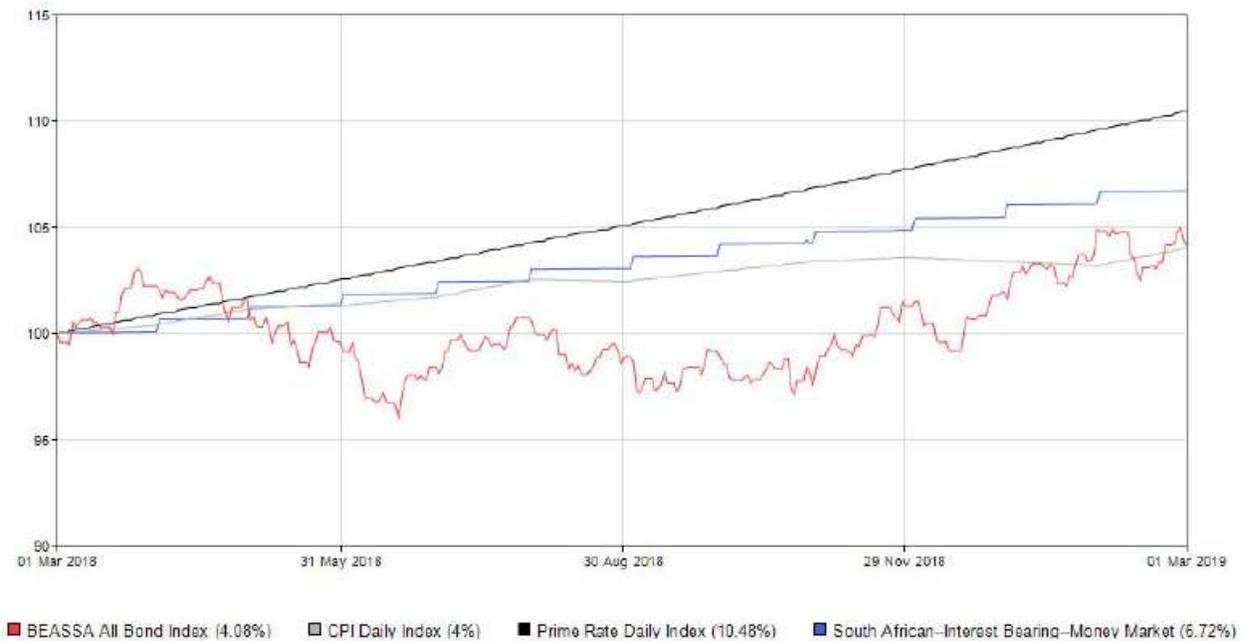
**Currencies – 5 Years (Above 100 indicates ZAR has weakened for the period, vice versa):**



## Interest Rates:

Fund	1 Month (%)	3 Month (%)	1 Year (%)	3 Year (%)	3 Year annualised (%)	5 Year (%)	5 Year annualised (%)	10 Year (%)	10 Year annualised (%)	Since inception (%)	Since inception annualised (%)
BEASSA All Bond Index	-0.70	2.77	4.08	34.29	10.35	49.38	8.37	125.81	8.50	511.19	10.38
CPI Daily Index	0.75	0.41	4.00	15.00	4.78	27.89	5.05	86.78	5.26	7542.04	9.24
Prime Rate Daily Index	0.79	2.55	10.48	30.11	9.19	54.80	9.15	147.62	9.51	987.72	12.33
South African-Interest Bearing-Money Market	0.03	1.77	6.72	23.49	7.30	39.12	6.84	87.59	6.51	532.03	8.83

## Interest Rates – 1 Year:



Independent data provided by 

Regards,

**Vista Wealth Management**

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