

HOPE, MOOD(Y'S) AND DESTINY

We attended a global investment conference in Cape Town last week and experienced varied views on global risk assets by the asset managers presenting. One can easily be influenced by some of the negative global challenges: unprecedented Central Bank balance sheet expansion, a potential US corporate debt bubble, descending US corporate gross profit margins, high government debt to GDP ratios in many countries, developed market bond yields below zero and slowing global economic growth – just to name a few! One can easily lose faith and hope for your investment strategy when focusing on all the potentially negative impacts on your portfolios. Many of us will agree that global equity markets are also positively influenced by any news or ‘hope’ of an end to the US-Sino Trade War rhetoric.

Most of our readers are residents in the UK or South Africa. It is fair to assume that the negative political rhetoric of Brexit in the UK and structural economic and social political headwinds in SA could influence local investors in each jurisdiction to externalize their assets and diversify away from local investment/currency risks. It is so easy to be critical of local conditions and be influenced negatively.

But events can change the destiny of your investment strategy very quickly. To illustrate my point, I must use the opportunity of recent events to debate how emotions can whipsaw due to events.

It is fair to say that over the past week South Africans’ emotions varied between the fear of a SA Debt downgrade to junk by the Rating Agency Moody’s, coupled with the fear of a loss to a rampant English rugby side in the World Cup Rugby Final! Today we all know that Moody’s only shifted their outlook from stable to negative and the Springboks surprised even their most loyal supporters with a 32-12 win over England! An example of how quickly one’s attitude can shift from fear, to hype and potentially a new destiny. From an SA risk asset price perspective, prices may have looked very different from one week to another; with dire consequences to the SA economy if Moody’s downgraded SA Debt.

When it comes to an investment strategy it is important to focus on the facts. But how do you contribute to the destiny of your portfolio (and maybe your country?) while short term hype influences our emotions to such an extent?

For the benefit of UK and SA readers, I address both local issues in this overview, starting with fiscal proceedings in SA:

Last week, Tito Mboweni – SA Minister of Finance – delivered the Medium-Term Budget Policy Statement (MTBPS). Moody’s reported that ‘the combination of low potential growth and high and inexorably rising debt as outlined by the MTBPS would not be consistent with SA’s current rating. The current rating rests on the government’s ability to quickly develop a credible strategy to halt and ultimately reverse the rise in debt’. They continue by concluding that ‘such a strategy has not been forthcoming to date and that the MTBPS does not identify what the cost saving measures will be, other than that they will focus on the public sector wage bill. The MTBPS also reiterates that additional operational and financial reforms will be needed to curb the drain on public finances from Eskom and SOE’s in general. In short, last week’s MTBPS does not yet represent a developed, credible fiscal strategy.

It remains easy for us to demand action from our SA Government to provide an action plan to avoid economic disaster. But what can we do? More about that in the conclusion below...

And what’s next for Brexit proceedings?

The bill to hold a general election on 12 December has now received Royal Assent which means it is law. It follows the confirmation of a Brexit delay until 31 January 2020 after the EU agreed to the UK’s extension request.

Continued overleaf

Prime Minister Boris Johnson had previously said the UK would leave by 31 October 2019 "do or die". He has agreed a deal with the EU but the bill implementing it has been put on hold. It will now not progress before the general election.

So how can we improve the destiny of our respective country's (and perhaps the destiny of our portfolios)?

People like stories; we all respond to something that is worth celebrating, especially when we witness believable actions. This weekend we all witnessed the underdogs beat the favourites in the Rugby World Cup. When Rassie Erasmus, the award-winning coach of the winning SA team, was asked whether he and the team believed that they could win the Tournament, he answered as follows:

'We believed in 3 things:

- Hard work (they had the players, resources and a leadership team - but hard work would make a difference)
- Needed luck (sometimes the bounce of the ball or a bad referee decision determines a result)
- To give destiny a go! (believe in the chance to succeed)'

Certainly, a story to celebrate for South Africans – a divided nation, but with renewed hope to stand together after a story book display of belief and commitment by a diverse SA rugby team.

A question to myself, all readers (UK, Global and SA), political leaders, business leaders, the people from SA and the UK:

- What are you doing to communicate positive messages?
- Are we stuck in hopelessness and a focus on the negatives?

Hope is no investment strategy, but we all can make a difference to renew our loyalty toward unity in our respective countries. Let's vote for the appropriate leadership team (every vote makes a difference as witnessed by the results of Brexit and the US Election outcome) – those that demonstrate a clear strategy and work hard toward a collaborative goal to improve our destiny.

Instead of waiting on a clear action plan from our respective governments investment professionals in SA / UK, business leaders and large influential corporates should become more involved at government level to assist them in strategic direction. If not dialogue, some contribution to support the economy via investment in the local economy is also a contribution to our respective destinies.

By each making our contributions - even if it's just a positive message - we can renew government ideologies and thereby revive hope for all citizens.

Hope can drive our new destiny, but investment strategies should remain focused on the facts and until we witness a more collaborative global, domestic leadership exhibition, a managed diversified asset class portfolio remains the best message we can give to ensure you preserve your portfolio against the volatility of irrational local or global political/central bank behavior!



Roeloff Horne
Director & Head of Portfolio Management (SA)

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