The Globe

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GLOBAL LOCAL&®

In this issue

Market Indicators

- Mining production jumped by 3,4% year-on-year in September after edging up by 0,1% year-on-year in August.
- Consumer inflation in China rose to 2,1% year-on-year in October from 1,9% year-on-year in September.
- The Chinese foreign trade surplus narrowed to US$49,06bn in October.
- The US fiscal deficit narrowed to $44bn in October 2016 from $137bn in October 2015.
- The UK foreign trade deficit widened to GBP 5,2bn in September from GBP 3,8bn in August.
- The gold (-19.2%) and platinum (-17.0%) sectors were especially hard hit after precious metals prices retreated from mid-year highs.
- Global developed market bond yields rose sharply on expectations of rising US interest rates, but SA bond yields were only marginally higher, having recovered strongly towards month end after fraud and theft charges against the finance minister were dropped - the All Bond Index (+15.8%) is the best performing SA asset class this year.
- Global developed market equities (-1.9%) suffered their worst month this year despite positive year-on-year US corporate earnings growth and modestly improving European economic prospects - investors are now increasingly positioning portfolios for more hawkish monetary policy and higher interest rates.
- European (-3.2%) and UK equities (-5.2%) underperformed as hard-line political posturing weighed on sentiment and currencies with the Pound (-6.0%) hardest hit after a 'bloody difficult' Theresa May signalled a hard Brexit.

Source: Forecaster Ecosa cc (Weekly Economic Briefing) and Foord (October 2016 Update)

'Our moral economy went bankrupt long before our financial one'

– Steve Maraboli

Editorial

Words by Michael Haldane, Managing Director

Dear Clients,

We live in good times; we live in bad times. Both internationally and locally, the last couple of months have been extraordinary. In June of this year the conservative English centre and right voted to leave the European Union, the Pound plunged and the world was shocked.
Last month the High Court came out in the United Kingdom with a ruling that parliament has the right to overturn Brexit and the Pound strengthens. What's next?

I grew so tired of News24 - every article being about Clinton, Trump, the debates and the hate speech against each other as well as the email debacle. What happened, against all odds, was that Trump won. The American centre and right have spoken. His triumph confounds everyone, but his motto of 'Make America great again' might have been enough. His threats, amongst others, are to arm South Korea and Japan with nuclear weapons and building a new wall dividing Mexico from the US (it worked for the Chinese - they have no Mexican immigrants). Let's hope these are empty threats and were simply words to get the popular vote. When Ronald Reagan was elected president, everyone laughed that a B-grade actor had won but in fact he was more good than bad, and hopefully history will repeat itself and Trump might be a success. He is a businessman so perhaps politics won't get in the way and the country will be run correctly. Well the jury is out and we'll only know this once he is officially sworn in as president in January.

Locally, it has been a fascinating time with a flimsy case from the NPA against our finance minister Pravin Gordhan. For those not following the news, the case against him was that he allowed a government official to retire early and then hired him again. That case was dismissed by the head of the National Prosecuting Authority (NPA) himself - Abrahams. And now our glorious president has spoken out and has demanded the removal of Abrahams. This is hypocrisy on a grand scale. I remember quite clearly that it was not so long ago when Zuma himself very proudly announced that his new head NPA would be Abrahams. Then again, the latest drama is that all the costs of Zuma's court cases - which amounts to over R40 million – must be covered by the state (i.e. us the taxpayer), which is a battle being fought by the opposition parties.

Lastly, the third attempt of a vote of no confidence against Jacob Zuma failed dismally last week. The rumour is that the ANC members who wanted him out were warned not to cause any trouble at the appeal. So a number of these members, when the vote was called, were on toilet breaks or missing. Why can't we have a voting system where one's vote is private in parliament and not by a show of hands? This is not democracy, but lunacy!

Now for a bit of light-heartedness, Mauro (our Operations Director) and I went down to Cape Town this week to do a presentation to our Cape Town clients. We were very happily sitting in a coffee shop after having checked in, when we heard an announcement: 'Michael Haldane please come to the luggage counter'. This has never happened to me before, so you can imagine my surprise. I went down to the luggage area where they greeted me by my first name, which was very strange in itself, where they asked me to open my luggage. Now as many of you may know, I'm an avid fan of auctions and buying antiques. I recently bought a copper fire extinguisher that was manufactured in the early 20th century and a copper hot water flask that was manufactured in 1880. These were in my checked luggage and they must have appeared to be explosive. To prove that these vessels were empty, and to add insult to injury, I opened the hot water flask and some white powder began to trickle out (this was not questioned - which I find quite bizarre). The flight was uneventful and the trip a great success.

News from our end is that we are now able to offer Bidvest Cash Cards in multiple currencies. In addition to this, we can also help you get your cash currency for any overseas travelling. We can do this at discounted rates compared to you doing it directly. Give us a call at any our offices and we will gladly assist you.

I have had several consultations on the current Voluntary Disclosure Programme about naughty grey money that you may have stashed overseas and that has been undisclosed to the Tax authorities. There are options on the table and the fees are very reasonable, so this is your last option to come clean. Please phone us at your earliest convenience to discuss this with us.

Our latest property deal in the UK through Riverside Capital closes on the 9th of December. In a nutshell, this is a logistics company owned by the French government which is expanding rapidly into the UK. An annual income of 5% in Pounds, with a projected annual growth of 5% - 7% a year over 5 years is expected. The entry level 25 000 Pounds.

And for the adventurous at heart, I'm sure you have all had our email on the rare blesbok syndication over a 5-year period. It is a unique opportunity where you can own part of a herd of rare blesbok and potentially earn a very healthy return on your investment.

For further details on this product or any of our other products, please phone any of our offices.

Its 6.30PM on a Friday night, so I think it's time to close off and say cheers until next time.

Regards,

Michael Haldane,
Dishwasher

Spotlight

Braking or just breaking? A reflection on the markets

Words by Louis Venter, Financial Advisor & Technical Analyst

'It's the end of the world as we know it and I feel fine.' - Michael Stipe (REM)

Has the world gone crazy or is crazy the new norm? During 2015 and 2016 we experienced South Africa appointing three different finance ministers, the ANC scraping through to a municipal election victory, the Guptas leaving on a jet plane and dare I say it, some ministers taking ownership and responsibility of their designated portfolios and even managing to stay awake in our National Assembly.

Internationally the winds of change have blown in Brexit and a Trump triumph is still causing waves that continue to lapse financial markets and currencies.

It is thus not very difficult to state that the only current certainty, is in fact uncertainty and this could potentially be any market's or investor's worst nightmare. The net result of all these events are quite prevalent in the recent eroded returns experienced and there remains a rather muted and maybe even some pessimistic sense of expectation of what the near future may hold. Is this truly merited?

Studying historical returns one is left with a rather interesting clue and that is that history does indeed repeat itself. If one considers the JSE Index of ordinary shares and the JSE ALSI over the last 20 years then some insightful patterns do emerge.

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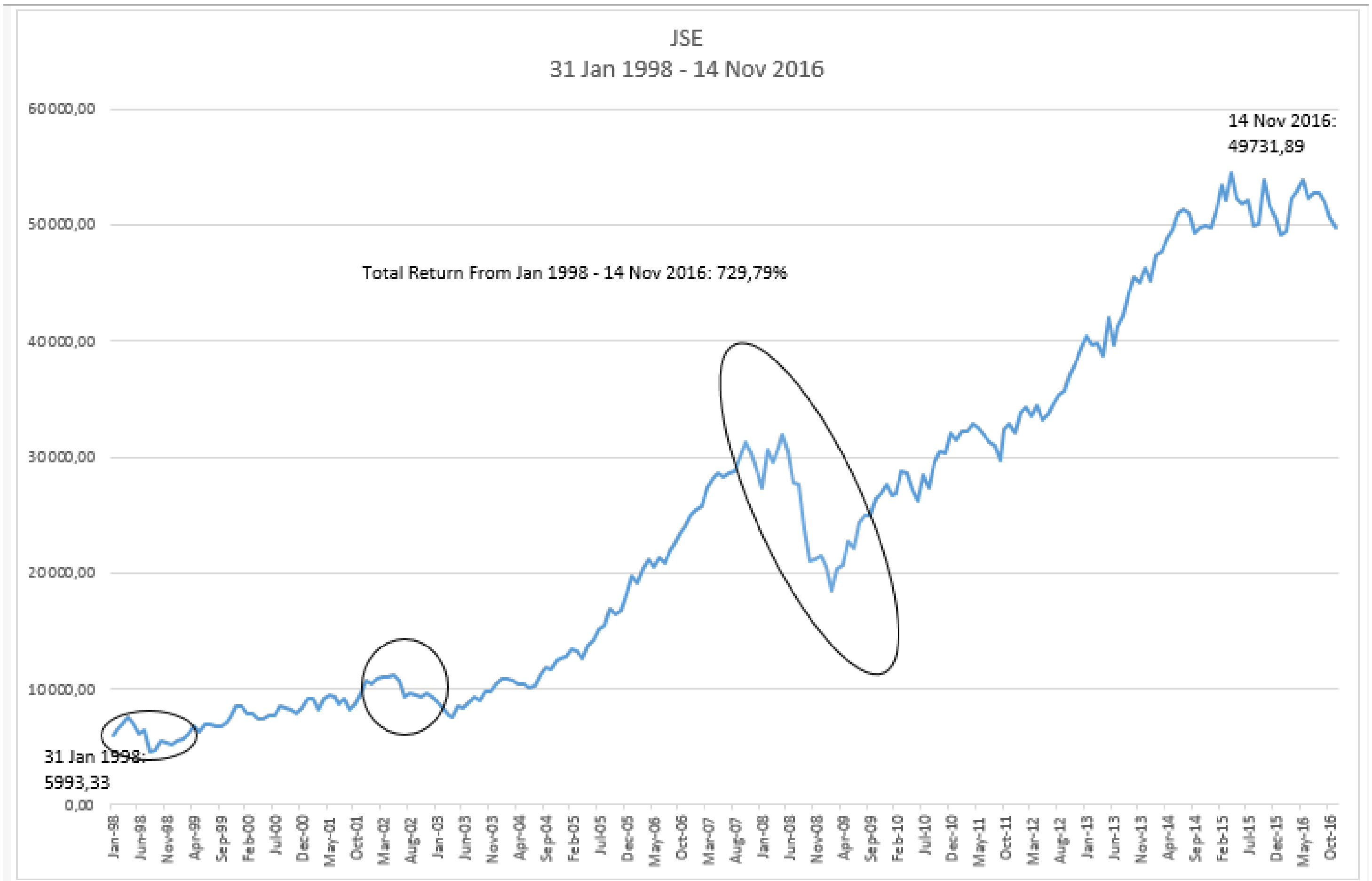


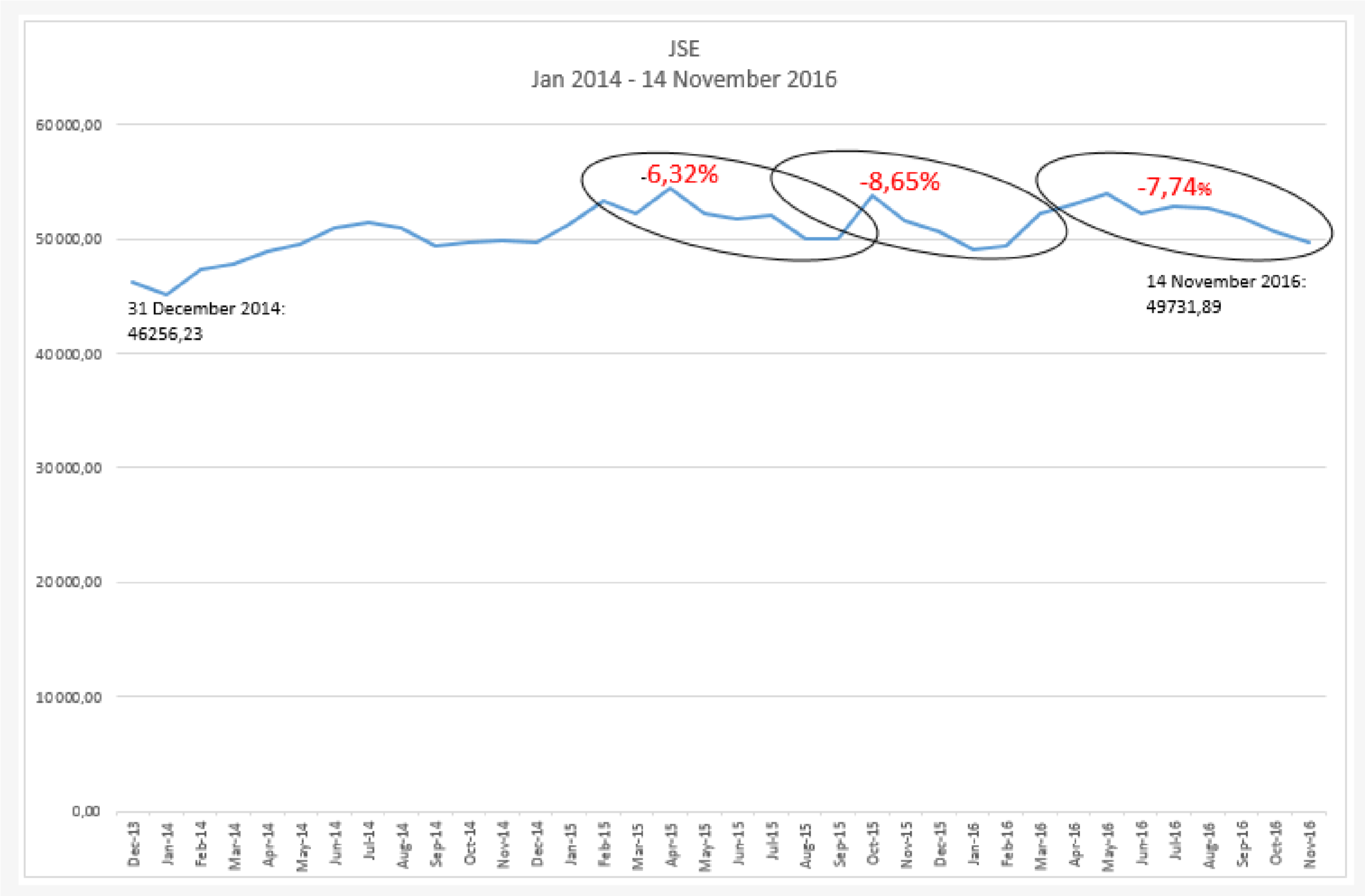
Looking at this snapshot, it is interesting to note that the Index did experience losses of more than 30% on three occasions. During 1998 the Index shed 34% as the world stressed about a potential collapse of the Japanese market. In 2002 another 32% was again wiped off the charts. During 2008 the entire world expected a complete financial Armageddon and our beloved JSE saw 40% of its value crushed. A scary picture this does paint.

Let us change our viewpoint slightly. If I can guarantee an investment return in excess of 650% over an 18-year investment horizon, then I do not doubt that I will be able to attract very keen investors. Now look at our graph of the JSE again and pay attention to our starting point and also to the end result. During the period of 1998 up to and including 14 November 2016 the JSE moved from a level of around 6500 to just short of 50 000!

A shrewd investor might point out that had I been able to expect, or somehow predict the main corrections, then this overall yield could have been well over 700%. I do agree, but unfortunately there is no bell or whistle that blows that indicates the end of a particular cycle. Many an investor trying to time markets like this have in fact found themselves selling at the lower levels of the corrections and then getting swept away in a new wave of hyped investment interest and then entering their original positions at even higher levels than before.

Active and passive management of an investment requires an equal amount of dedication and skill. The synergy lies in the ignored principle that even a passive approach still requires a conscious decision to not act or react. Human nature tends to lead to a defensive reaction, or a 'flight to safety', when markets lose excessively, but that same flawed reaction will also lead to a spur of the moment investment only AFTER a position has recovered significantly.

Here is a more enhanced view of the short-term volatility our JSE experienced during the 2014 and 2016 period.



Based on the above it may be easy to predict that the Index is finding the 50 000 level as a barrier to the downside. Every time this level was tested the Index recovered rather quickly so perhaps the recent slump of approximately 7,74% during 2016 may be very close to another bottom.

'Bull markets are born amidst massive pessimism; they grow on scepticism' - Sir John Templeton

Our view remains that an investment portfolio should have at least a 25-30% exposure to riskier assets like equities and even property at all times. The simple reason behind this approach is that a dedicated money market and or fixed interest investment strategy will struggle to achieve the yields of these higher risk assets over the longer period and that any potential miscalculations of a market timing is also excluded completely. With interest rates expected to remain at very accommodative levels worldwide to assist in economic stimulus, a so called "low risk" investment in money market and fixed interest assets only may very well further struggle to combat the eventual erosive effect of increased inflation as well.

As we look back at a year where our beloved Springboks are on track; or should that be derailed, to achieve their worst record over a one-year period ever, even they could benefit from our advice of keeping the ball in play and not to just kick the possession away. As the rules of the game currently stand you can only score WITH the ball. With investments, you can also only gain if you in fact do have possession when the markets eventually move favourably.

As we prepare to enjoy a well-deserved year end break it may be an opportune time to reflect on the fact that even markets do tend to take the odd break and that a supposed crash should not necessarily be that fatal brake. As nature pauses through the seasons, so does the worlds' markets and in most instances, it may merely be taking a deep breath to prepare for the next long haul.

Opinion

Triumphant Trump shakes the global markets.

Words by Tapiwa Mufunde, Technical Analyst

Yes, the unimaginable happened, Donald Trump was elected as the 45th US president. This sparked protests in parts of the United States against his ascension to power. Despite Hillary Clinton getting the popular vote, Donald Trump was declared the winner based on the US Electoral College. However, in the early hours of Wednesday the 9th of November, global markets didn't respond positively to the Republican as the Futures on the S&P 500 plunged by 5%, European Equities sunk more than 4% and the MSCI Asia Pacific Index dropped by 2,6%.

The Mexican currency plummeted by 20% against the Dollar and was the worst performer amongst currencies worldwide. The Rand weakened by 2,7% against the Dollar, the Russian Rouble slipped 0.2% as the South Korean Won went down by 1,3%.

Ultimately the US Dollar fell as much as 3.5% against the Yen which is viewed as a safe haven. Investors also took refuge in Gold which jumped up as much as 4,8% to $1 337.38 per ounce, spurring gains in most mining stocks.

Crude oil, which was hovering above $50, 00 per barrel in recent weeks after OPEC agreed to limit output to a range of 32,5 to 33 million barrels a day since 2008 in their September meeting, dropped as much as 4.3% to $43,07 per barrel in New York as investors shun riskier assets.

Additionally, wheat, corn and soybean futures on the Chicago Board of Trade slumped more than 1%. As the US is the world's largest exporter of corn and soybeans Trump's win would put pressure on agricultural commodities because of his anti-trade sentiments.

Just like the shocking Brexit vote in June, a Trump victory has been portrayed by analysts as having the potential to unhinge markets that were banking on the continuation of policies that coincided with the second longest bull market in S&P history. Moreover, Trump's sentiments on immigration and minorities created social unrest in some communities of the US and escalation of hate speech according to the FBI.

On the local front, the state capture report by former Public Protector Thuli Madonsela, continues to cause massive headaches for parliamentarians, presidency, law enforcement authorities, industry captains and the ordinary citizen alike.

The report implicated damning findings against some political heavy weights and Eskom CEO B Molefe among others in their unprecedented involvement with the Gupta family in capturing state organs through governance and corruption issues. These findings saw the Eskom CEO tendering his resignation.

The immediate implication of the report is the loss of confidence and trust in the South African economy by both local and foreign investors. With rating agencies keeping a hawk-eye on both the economic and political climate, pending the rating review in December 2016, the findings could possibly fuel a rating downgrade to junk status of the South African economy.

Gordhan said South Africa has many good things going for it and has big opportunities for growth in areas such as agriculture, tourism, the oceans economy, science, and space technology and infrastructure development. Our collective focus now must be to grow our economy. The key is to create unity of purpose. We need to have a culture of sharing, contributing and benefiting.

"Well, at least we won the Internet."

http://www.newyorker.com/cartoons