



OPPORTUNITY PRIVATE CAPITAL

Economic Snapshot August 2020

LOCAL HIGHLIGHTS & LOWLIGHTS

- All-Share Index 57,060 (from 49,113 mid-May).
- JSE Allshare P/E ratio is 16.05.
- USD/ZAR consolidating at R17.32/\$ after tumbling over past 4 weeks.
- South Africa 10Y Government Bond yield: Current 9.17%, (10.81% mid April)

(Data: Bloomberg; Sharenet;
www.tradingeconomics.com)

NEWS

- China is increasingly at odds with its neighbours, and trade talks with the USA postponed for now.
- After hitting a record high, Gold has seen a short-term correction to \$1,943. Some commentators say \$3000 per ounce is possible while others are calling a \$1650. The vaccine-race and tensions with China possibly two main factors to watch.
- WHO: 165 novel coronavirus vaccine candidates in development, of which 26 vaccine candidates are already in clinical testing. Russia has started administering a vaccine that has not been through all the clinical trials.
- South Africa moves to lockdown level 2, finally lifting the alcohol and tobacco ban. These two bans were instated to keep the hospitals open, but have left a mammoth hole in the fiscus due to the tax collection that has been foregone.

FACTOR INVESTING: THE WAY OF THE FUTURE (PART 1)

For most of the past 100 years of investment management history, many star portfolio managers have had “magical recipes” that clients were charged high fees for. These managers picked stocks and forged combinations of shares into outperforming portfolios, with some managers backed up by large teams of analysts, and others choosing shares from their yachts adrift off of Cape Town’s harbour after reading the news. Some managers would hold positions only for short periods of time (trading often), while others would hold positions for years (trading infrequently). While clients do not mind paying high fees when inflation is low and portfolio returns are high, current economic conditions have created a squeeze on both clients’ willingness to pay and portfolio managers’ ability to beat inflation.

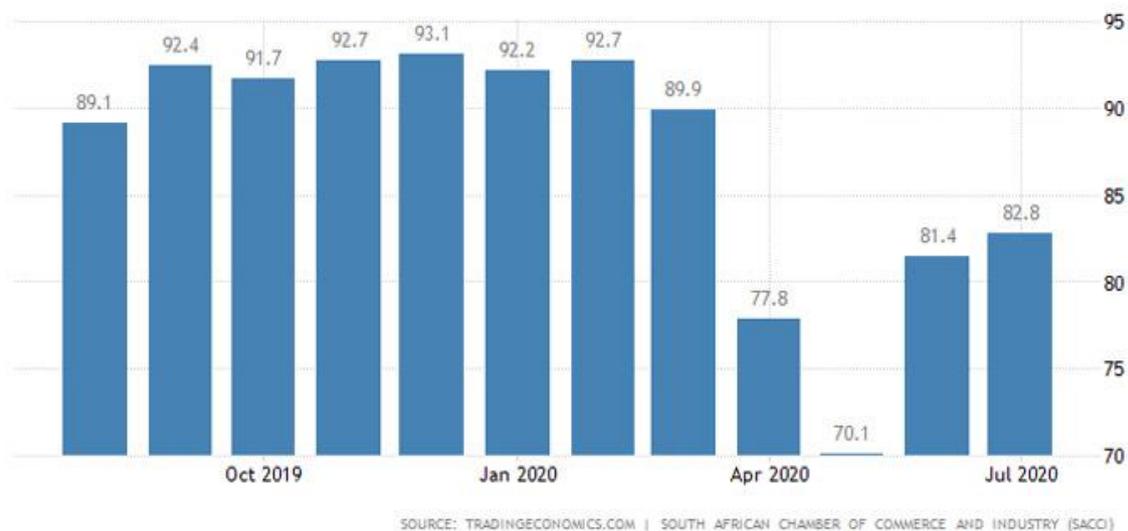
Over the past 30 years especially, two questions in particular have been asked: (i) Is there a methodical, rules based way of replicating the ‘winning recipes’, and (ii) can it be done cheaper than the traditional model? The advancement of both technology and portfolio theory has started moving us to an answer.

It walks factor investing. It has the sole aim of using defined, quantifiable characteristics (called factors) of investable assets to explain what drives both the outperformance and underperformance of instruments within the spectrum of securities. While that may sound like quite a mouthful, it can be as simple as saying that, over time, that a portfolio with shares that all have a low P/E ratio will outperform a portfolio of shares with high P/E ratios. In this case, the factor refers to valuation of the securities, and is called a ‘Value Factor’.

The factors that are based on security characteristics are broadly called 'style factors', and alongside the various style factors we have macro-economic factors. We will be exploring the implications and the applications of this exciting advancement over the next few weeks.

GRAPH OF THE MONTH: SOUTH AFRICA SACCI BUSINESS CONFIDENCE INDEX

South Africa's SACCI business confidence dipped to a 35-year low in May of 70.1, and has subsequently risen to 82.8 (July 2020). It was the highest reading since March, and will hopefully be helped upwards by improving global economic activity and the economy's reopening over the next few months.



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