



OPPORTUNITY PRIVATE CAPITAL

Economic Snapshot October 2020

LOCAL HIGHLIGHTS & LOWLIGHTS

- All-Share Index on 16/10: 55,047 (from 57,718 on 01/01).
- JSE Allshare P/E ratio is 22.78.
- USD/ZAR consolidating at R16.55/\$ mid October.
- South Africa 10Y Government Bond yield: Current 9.38%, (10.81% mid April)

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

NEWS

- Vaccine race heating up with AstraZeneca a forerunner, and the Russian vaccine (already approved and administered in Russia) being met with great scepticism.
- Race to US election almost over, Trump predicted to lose against Biden in most polls.
- International monetary fund (IMF) now reporting Chinese economy to be bigger than USA on PPP basis, at \$24.2 trillion vs \$20.8 trillion.
- IMF also predicting emerging markets to struggle post-covid, and advising emerging governments to introduce wealth taxes where possible.
- Manufacturing currently recovering in South Africa, with Purchasing Managers Index also reaching new historic highs
- StatsSA estimating 2.2 million jobs lost in second quarter, unemployment under expanded definition at 42%.
- Tito Mboweni reported government debt at 82% of GDP (expecting 95% in 3-4 years' time), planning to freeze public servants pay for next 3 years.

FACTOR INVESTING: THE INVESTMENT FACTOR (PART 3)

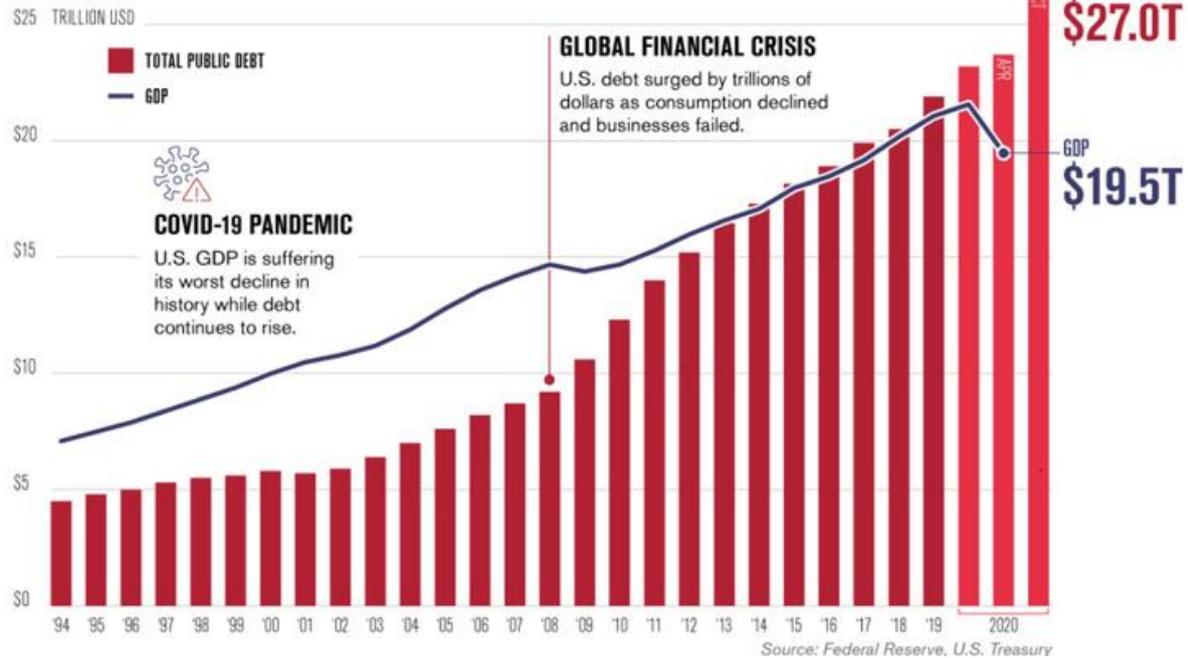
Over the past few months we have discussed how patterns in company fundamentals are being used to try and predict both over- and underperformance. This month we are asking if recent 'hard' investments in traditional PPE categories (product, plant and equipment) are indicative of near-term expected performance. Called the 'investment factor', it basically judges if corporate financing decisions quickly prove profitable.

We can all agree that companies need to invest in order to grow over the long term and expand their footprint. Managers therefore constantly juggle keeping the status quo against planned expansion & acquisitions. On top of that, their own behavioural biases and the state of the market adds another layer of complexity to the question of investing or not.

So let's answer the burning question: how do share prices react to large scale capital expansion? The pattern identified in most studies suggest that recent capital expansions are followed by underperformance. Some scepticism and a wait-and-see approach from investors is understandable because history tells us that not all investments are wise or timed correctly. On top of that, investments may take years to yield gains as new product lines find traction in the market amongst changing competition and market forces. The smart money is therefore advised to follow companies with less capital extensive projects, as measured by change in total assets.

GRAPH OF THE MONTH: USA Debt to GDP

U.S. TOTAL PUBLIC DEBT VS GDP



www.visualcapitalist.com/americas-debt-27-trillion-and-counting

Newsletter compiled by Dr Rousseau Lötter (Rousseau is a senior lecturer in Investments and Risk Management Lincoln University in the Department of Commerce)