



## OPPORTUNITY PRIVATE CAPITAL

Economic Snapshot December 2020

### LOCAL HIGHLIGHTS & LOWLIGHTS

- All-Share Index on 16/11: 59,478 (from 57,718 on 01/01).
- Market PE ratio: 27.48
- USD/ZAR currently strong at R14.86/\$
- South Africa 10Y Government Bond yield: Current 8.77%, (10.81% mid April)

(Data: Bloomberg; Sharenet;  
[www.tradingeconomics.com](http://www.tradingeconomics.com))

### NEWS

- Pfizer Covid19 vaccine administered in USA, UK and Canada. USA has now recorded over 300,000 virus-related deaths
- Survey in America shows around 25% of Americans do not want to take the vaccine.
- Relationships between China and Australia continue to sour as a trade war between the countries is erupting. In one instance, China has added import taxes of 200% to Australian wines.
- Tesla enters the S&P500 index as the 8th largest stock.
- South African GDP increased by an annualised rate of 66.1% in Q3, better than expected and boosting the exchange rate
- October retail sales figures show steady increase in consumer activity, outlook for Q4 deemed to be positive. (See graph at bottom.)
- Black Friday sales disappointed in South Africa compared to 2019 with roughly 2 million fewer in-store purchases offset by only 300,000 extra online transactions.

### FACTOR INVESTING: QUALITY (PART 5)

As we conclude our 2020 journey into some of the individual factors used in Smart Beta investing, we end off with the 'Quality' factor in a year where the corporate mettle of most listed companies was tested severely. Some took knocks that they will never recover from, but others managed to survive and survive well.

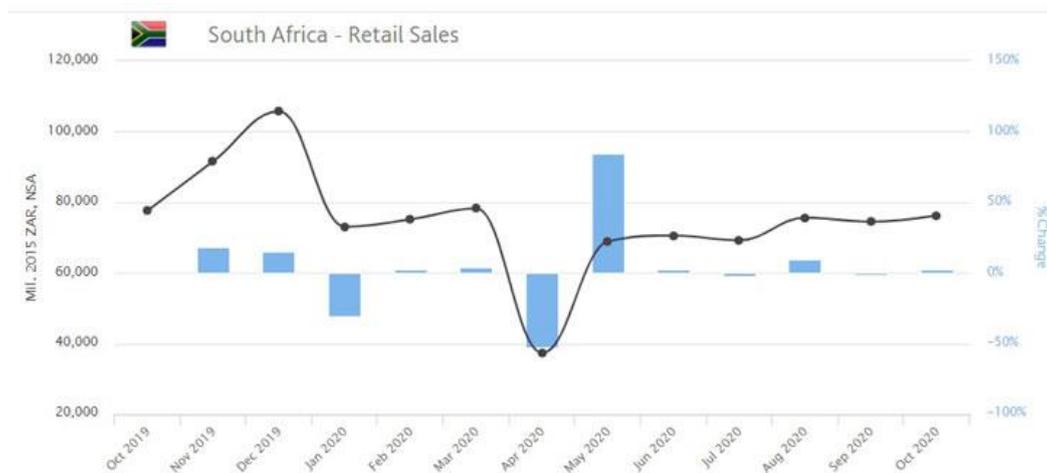
The quality factor is more complex than the other factors we have considered up to this point, and is generally defined to identify companies typified by low debt, stable earnings, consistent asset growth, and strong corporate governance (Investopedia definition).

Reading through the aforementioned list again, you will note that a quality company is one that is not only showing stable income over time (indicating the business model works), but has a management team that decides to not leverage the company to its limits and is deemed to have a strong level of corporate governance. It would be fair to say that the quality of businesses was tested in 2020, and that those that racked up high debt (in other words, having a low-quality score) before Covid may have had an especially tough time surviving. Companies with high quality scores also sound like the types of businesses Warren Buffet may describe as having a 'moat' (more on that next year). So how do you identify a Quality company? Investors who build screening tools for quality naturally include common financial metrics like return-to-equity, debt-to-equity, earnings variability, and governance

scores where available. Companies are ranked according to their joint scores across the metrics, and the highest overall-ranking shares deemed good for quality investment.

I wish you all a restful holiday period, a blessed Christmas for those who celebrate it, and good health in the months to come!

### GRAPH OF THE MONTH: Monthly retail sales in South Africa



Source: adapted from <https://www.economy.com/south-africa/retail-sales>

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