



OPPORTUNITY PRIVATE CAPITAL

Economic Snapshot January 2021

LOCAL HIGHLIGHTS & LOWLIGHTS

- All-Share Index on 15/01: 63,550 (from 57,718 on 01/01/2020).
- Market PE ratio: 29.01
- USD/ZAR currently strong at R15.07 /\$
- South Africa 10Y Government Bond yield: Current 9.27%, (10.81% mid April)

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

NEWS

- Biggest headline of the recent month is unfortunately the 2 mutations of the coronavirus, with estimates of it being between 50% and 90% more transmissible. Many countries have subsequently gone back into lockdown and reimposed travel restrictions. Vaccines are proving to need the second/booster dose to provide strong immunity.
- The US presidential transition to Biden from Trump is set to happen on the 20th, but with a break from tradition as Donald Trump will not attend the inauguration and is set to become first US president to be impeached twice after his supporters stormed the capitol buildings.
- Brexit terms agreed upon and large capital flows away from Britain has begun.
- Low business confidence still persisting in South Africa, latest lockdown not boding well for tourism in particular.

FACTOR INVESTING: UNTANGLING THE FACTORS

With 2020 firmly behind us, we enter a new year with circumstances that we could not have predicted a mere two months ago. In this issue, we finalise our discussion of smart beta with a discourse on how the various smart factor strategies perform and work in a world of uncertainty.

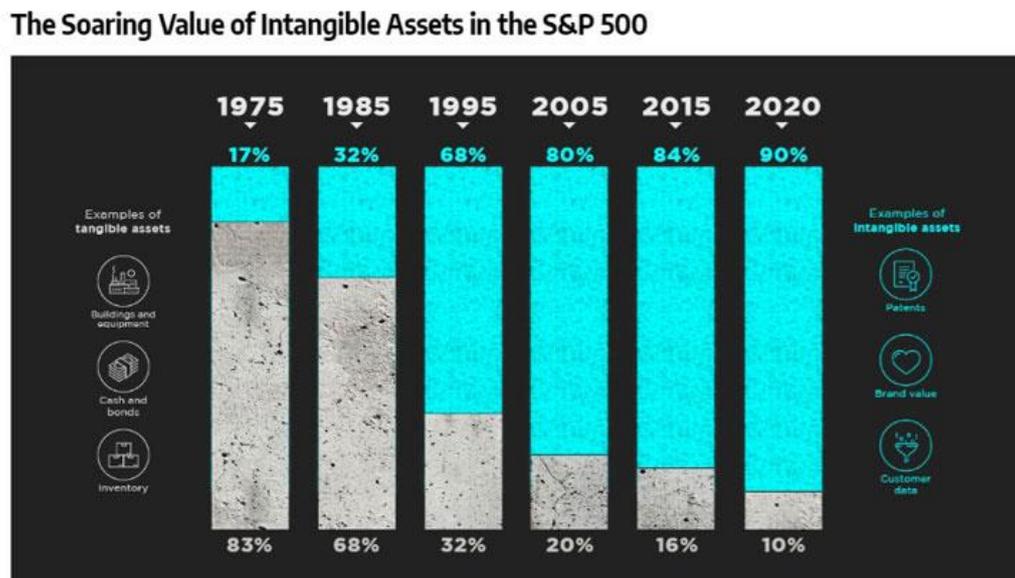
The previous newsletters' smart factors each presented a simplified and rules-based view of the world. In essence, those factors captured or focused on a single anomaly or rule, while we all know the world is much more complex and interconnected. In reality, no single factor consistently outperforms or beats the other ones. The factor portfolios also do not present a magical recipe to beat the market every single month, but they rather provide long term strategies for outperformance and diversification. The smart beta portfolios also often provide portfolios that perform very well during periods of uncertainty and market decline. Internationally, smart beta portfolios have been rising in popularity and are currently starting to form a major part of investment planning.

Some of the latest research proposes to use multiple smart beta strategies simultaneously, endeavouring to make the most of the variety of strong fundamental drivers of returns. Mathematicians and statisticians are furthermore currently trying to untangle the factor spaghetti, and even building factor-neutral portfolios with the aim of capturing what is called the pure-factor returns when combining them.

Time will tell what the new research will contribute. The search for predictable income streams and yields will only increase as the world changes and adapts to a new-normal, as earnings-streams and risks come from more and more countries, as governments introduce crypto-currencies, and more alternative investments become available.

In closing, I wish you all the best for the new year. Stay safe and happy investing!

GRAPH OF THE MONTH: Intangible assets on the S&P500



Source: adapted from www.visualcapitalist.com

[Click to view Current Available Investments](#)

Compiled by Dr Rousseau Lötter (Senior Private Wealth Specialist at Craigs Investment Partners, NZ)