



OPPORTUNITY

PRIVATE CAPITAL

Economic Snapshot June 2024

LOCAL ECONOMIC INDICATORS 30 June 2024	NEWS
<ul style="list-style-type: none"> All-Share Index 30 Jun 2024: +- 79,707 All-Share Index 30 Jun 2023: +- 76,028 Market PE ratio: 13.8 USD/ZAR R18.05/\$ South Africa 10Y Government Bond yield: Current 10.21% <p>(Data: Bloomberg; SimplyWallSt; Tradingeconomics.; Google Finance.)</p>	<ul style="list-style-type: none"> The ANC losing their majority in the recent elections has paved the way for a Government of National Unity (GNU). After protracted negotiations the Cabinet posts have finally been decided, leading to a more bloated Cabinet than before, made up of a range of parties within the GNU. The party breakdown in terms of positions as follows: ANC(20), DA(6), IFP(2), PA(1), PAC(1), Good(1), FF+(1). Whether this leads to a more efficient government only time will tell, despite a very low bar. According to the UN, the world economy is set to grow by 2.7% in 2024. The Labour Party in the UK recently trounced the Conservatives to sweep to power in the General Elections. Led by Sir Keir Starmer, this is the first time in 14 years that the Party will be occupying 10 Downing Street.

SA Equity Funds and Benchmark

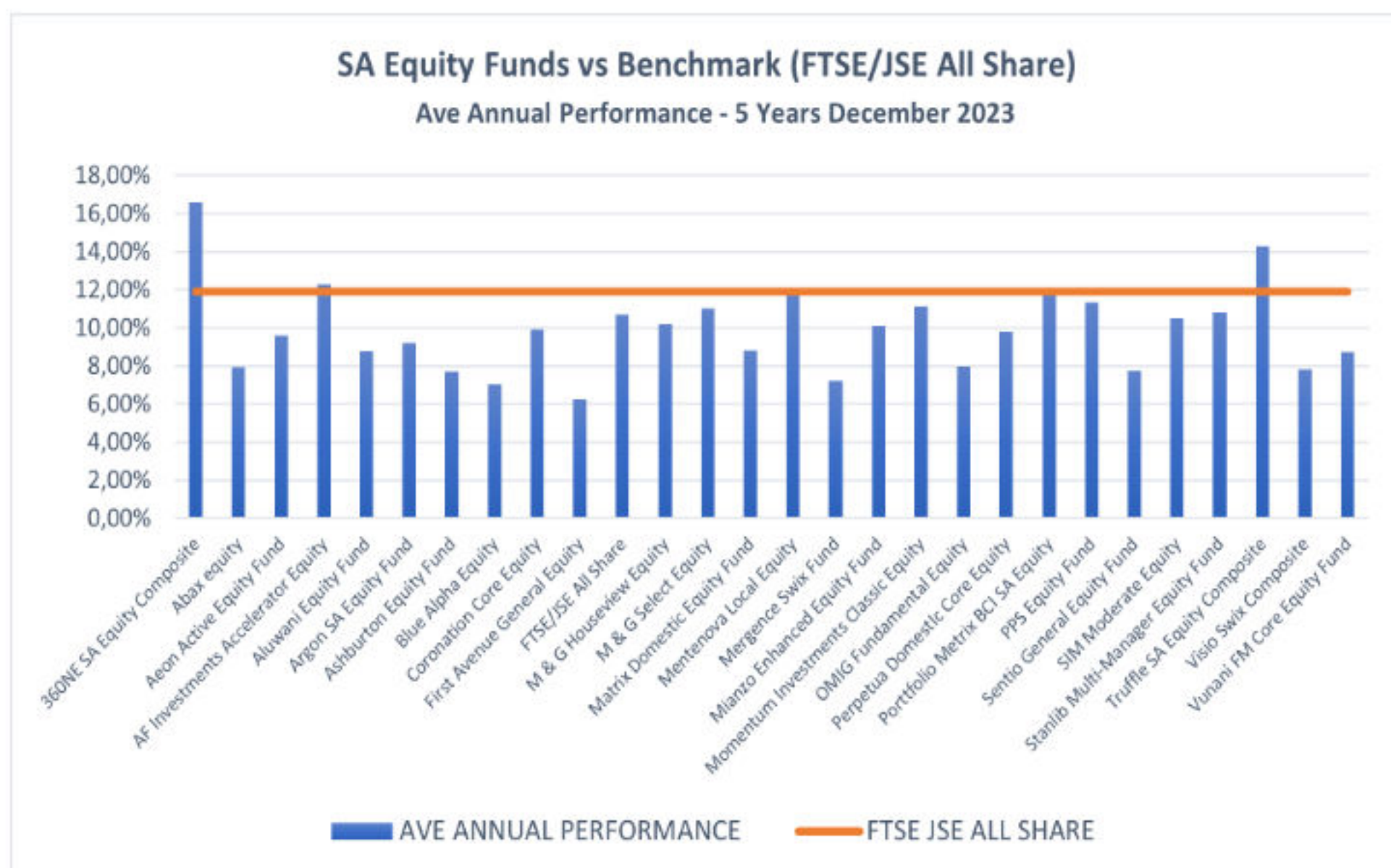
SA Equity Funds are popular investment options for investors who seek exposure to shares, specifically those equities listed on the Johannesburg Stock Exchange (JSE). Commonly, people will turn to well-known investment managers with expertise to manage the investments or positions on their behalf. The investment managers therefore invest where they deem, in their opinion, to find value. This naturally comes at a cost to the investor in the form of fees paid for these bespoke services.

These Unit Trusts adhere to specific regulations in South Africa, and these regulations specify that, among other things, each Unit Trust must have a benchmark. There are a number of different benchmarks used by investment managers with the well-known JSE AllShare Index topping the list. The graph below shows the annual performance of SA Equity funds relative to the AllShare Index over the last 5 years to December 2023 (Source: Alexander Forbes Annual Manager Watch Survey). This was a difficult period to navigate, with some dire performances recorded during the COVID period and some strong returns coming off the back of the downturn.

The graph below indicates the following: (i) Only 14% of the managers actually beat the featured benchmark over the period, (ii) Roughly 54% of managers failed to average annual returns in the double figures, (iii) While returns can on occasion be high, the predictability thereof is, well...unpredictable. The levels of volatility for these depicted ranged from roughly 12.5% to 16% which illustrates the instability of the paths followed. Capital loss when investing in equities, particularly over the short term, is therefore a distinct possibility. The rear-view mirror shows that it is very difficult for these fund managers to consistently beat the benchmarks over time. Equity investing thus requires patience, a rare commodity, with at the minimum an investment window of 7 years (this according to most fund managers fact sheets). So, if you don't wish to rely predominantly on luck, strap in. It's a long ride.

GRAPH OF THE MONTH

SA Equity Funds vs Benchmark - Last 5 Years Performance



Compiled by Nick Morgan - Co-founder, Opportunity Private Capital.