

## Fireside Conversations

### What is the opinion of S.A. Inc among South Africans?

Morningstar Investment Management  
South Africa

March 2021



**Roné Swanepoel**  
Business Development Manager  
Morningstar Investment Management  
South Africa

For Financial Advisors and their Clients

**As we sit down to enjoy dinner with our families, or catch-up with friends for a braai on the weekend, one can't help but see the topic of the current state of South Africa surface time and time again. In these conversations there is often a popular perception and/or narrative being shared. We've all heard a colleague, friend or a family member say - "South Africa is doomed, we have too much debt, we are too corrupt – just take all your money offshore".**

To make matters worse, 2020 brought with it little in the way of new developments and of course the impact of the Covid-19 pandemic. The pandemic hit South Africa with the most devastating economic blow since the 1920s. Two million people lost their jobs and many small (and some big) business had to close their doors. Overall, it worsened South Africa's triple curse of poverty, inequality and unemployment.

When this is the topic of fireside conversations in South Africa, it is hard to be optimistic and even harder to imagine investing our hard-earned cash in South Africa Inc.

#### **Is it all doom and gloom?**

News of the Covid-19 relief funding and provisions being looted not only sparked public outcry, but also saw the Presidency take swift action. The counterattack against corruption was further reinforced by the successes of the Zondo commission, which is still going strong as we enter 2021. Throughout 2020, 402 people were arrested and charged with corruption and several individuals involved in the [VBS scandal](#) have been sequestered in their personal capacity. The Presidency's reaction to the Covid-19 pandemic garnered strengthened support for President Ramaphosa, weakened his opponents, and reiterated the need for structural reform.

One such reform, which has been slightly overshadowed by recurring blackouts, was the progress made toward the unbundling of Eskom. A few positives also came out of the 2021 budget speech - we learnt that tax revenue collection was ahead of expectation, corporate taxes are going to be cut in 2022, and South African's actually got a tax break and given an above-inflation increase in income tax brackets. Needless to say, this was a welcomed reprieve announced by the Minister of Finance, Tito Mboweni. Another win was the fact that South Africa recorded its biggest year of exports. This was on the back of a very strong demand for commodities as well as good crops, especially citrus.

#### **Investing in S.A. Inc.**

The pessimism regarding South African equities is evident if one considers the numbers over the last couple of years. As can be seen in the below graphs - investors are moving to cash when

interest rates have fallen dramatically; pension funds have the smallest allocation since 1980 to South African equities (at a time when South African equities are the cheapest they have been in years); and globally there has been a slow and steady outflow of capital from South Africa when compared to other emerging markets.

### Cumulative net flows



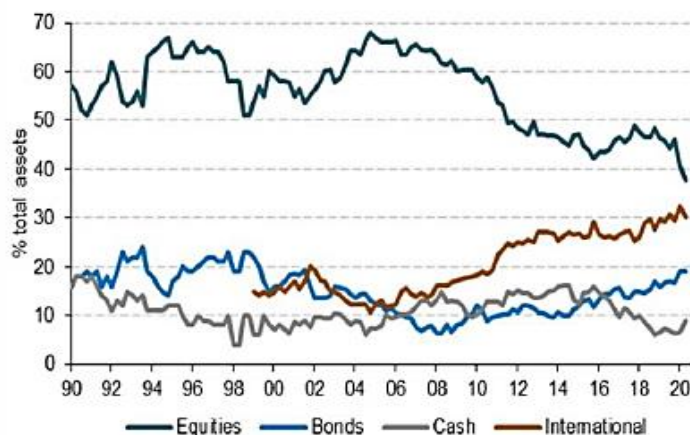
Source: ASISA, SBG Securities analysis

### Unit Trusts:

- R356 billion into Income funds since Sep18
- R56 billion out of Equity/Multi-Asset funds since Sep18

Source: PSG Asset Management, data as of February 2021. Past performance is not an indication of future performance. For illustrative purposes only.

### Domestic fund manager asset allocation



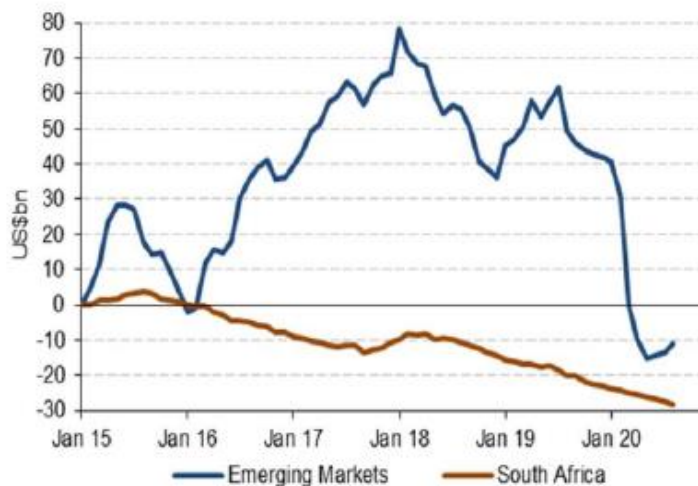
Source: Alexander Forbes Large Manager Watch, SBG Securities analysis

### Local Pension Funds:

- Lowest exposure to domestic equities since 1980s

Source: PSG Asset Management, data as of February 2021. Past performance is not an indication of future performance. For illustrative purposes only.

## Cumulative equity flows into Emerging Markets



Source: IIF, IIF estimates, SBC Securities analysis

Source: PSG Asset Management, data as of February 2021. Past performance is not an indication of future performance. For illustrative purposes only.

### Foreign Investors:

- Steady outflow from S.A.

## Economies don't seem to be faring well, so how are financial markets flourishing?

It is not surprising that markets experienced some of the sharpest falls in asset prices during the first quarter of 2020. The JSE All Share Index lost more than 30% from the start of 2020 until 23 March 2020. What was surprising to see was the speed of the recovery hereafter – since 23 March 2020 (the bottom of the sell-off), the market is up more than 70% (as at February 2021) making COVID-19 seem like a mere short-term disruption. The economy, however, tells a very different story, with one of the largest contractions in Government Gross Domestic Product (GDP) ever recorded, coupled with sky-high unemployment numbers.

Two key points to remember when looking at the stock market versus the economy is that the stock market is forward-looking and the prices of stocks/shares/bonds (listed and liquid instruments) are determined by the supply and demand of investors and how pessimistic and/or optimistic they are regarding the future of the market. In contrast, GDP numbers are backward looking. GDP is the value of goods and services produced/rendered in a country during a certain period. It provides a snapshot of a country's economy, and it is used to estimate the size of an economy and its growth rate.

When investing for the future, focusing on what happened in the past is not a recommended strategy and past performance is not an indication of future returns.

## Time in the market remains superior to timing the market

In the words of American investor John Bogle - "Time is your friend, impulse is your enemy". Often, we direct our attention away from the 'destination' and focus too heavily on the 'journey'.

when faced with a lot of market and media noise. Remember – your plan is in place for a reason, and you have put the needed steps in place to achieve your long-term goals.

During times of market turmoil, it is essential that we remain calm, focused and stay invested. Patiently allocating to assets that will help you achieve your financial goals should remain key. So, if you catch yourself getting down about the state of our economy, or speculation around government policies or trying to predict what is next, always remember why you are investing in the first place. ■■■

---

**Risk Warnings**

This commentary does not constitute investment, legal, tax or other advice and is supplied for information purposes only. Past performance is not a guide to future returns. The value of investments may go down as well as up and an investor may not get back the amount invested. Reference to any specific security is not a recommendation to buy or sell that security. The information, data, analyses, and opinions presented herein are provided as of the date written and are subject to change without notice. Every effort has been made to ensure the accuracy of the information provided, but Morningstar Investment Management South Africa (Pty) Ltd makes no warranty, express or implied regarding such information. The information presented herein will be deemed to be superseded by any subsequent versions of this commentary. Except as otherwise required by law, Morningstar Investment Management South Africa (Pty) Ltd shall not be responsible for any trading decisions, damages or losses resulting from, or related to, the information, data, analyses or opinions or their use.

This document may contain certain forward-looking statements. We use words such as “expects”, “anticipates”, “believes”, “estimates”, “forecasts”, and similar expressions to identify forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results to differ materially and/or substantially from any future results, performance or achievements expressed or implied by those projected in the forward-looking statements for any reason.

**Morningstar Investment Management South Africa Disclosure**

The Morningstar Investment Management group comprises Morningstar Inc.’s registered entities worldwide, including South Africa. Morningstar Investment Management South Africa (Pty) Ltd is an authorised financial services provider (FSP 45679) regulated by the Financial Sector Conduct Authority and is the entity providing the advisory/discretionary management services.

+ t: (0)21 201 4645 + e: [MIMSouthAfrica@morningstar.com](mailto:MIMSouthAfrica@morningstar.com) + 5th Floor, 20 Vineyard Road, Claremont, 7708.