

TWO OPPORTUNITIES TO CLIMB OUT OF THE TRENCHES

This week, President Ramaphosa delivers another very important State of the Nations Address (SONA). The SONA attempts to inform South Africans about the country's economic, political, and social environment. However, I doubt another update about how tough things are going will make any difference. We know:

- + unemployment is at record highs and will most likely reach levels close to 32% this year;
- + various confidence indicators are at all-time lows;
- + that over the last couple of years our economy has only been growing at levels around 1% whilst the population has been growing at roughly 2%, meaning that we're getting poorer on a per capita basis;
- + we've literally returned to the dark ages; and
- + nothing will come of Zuma's trials.

And the list goes on... What we still don't know is how the inner circle (President Ramaphosa, Gwede Mantashe, Tito Mboweni, Pravin Gordhan, and a few others) is going to turn our situation around? What we still lack is strong leadership. Leadership that can implement tough structural changes. That is, those wealth creation policies that can enable businesses to grow our economy which in turn can lead to social development.

And then we have the Budget Speech. The reason it's so important this time, is not because of Moody's, but because of investor sentiment. Like the last two years, I still don't believe Moody's will downgrade South African government bonds to junk, but even if they do, it won't do much (if anything) to our currency or markets; the effect is already priced in. But, as the slowdown in the United States economy starts to materialize and their markets finally start to normalize back to 8% levels, investors will be on the hunt for yield, and here, South Africa can be a major winner! Over the last couple of years, declines in equity prices have outpaced the fall in company earnings. As a result, dividend yields have increased, but more importantly, price-earnings ratios have deteriorated. What this means, is that share prices are now too cheap for global investors to miss out on. However, investors are weary of investing in emerging markets; they've grown accustomed to the unnatural environment created by United States companies, where less risky stocks have been producing exceptional, above-trend returns. Therefore, it's really important to position South Africa as an attractive short- (stocks and bonds) and long-term (infrastructure and manufacturing) investor haven. If, by some miracle, we see a shift towards wealth creation structural change during the SONA and/or Budget Speech our markets might just do something exceptional over the next 18 months.

