

ECONOMIC COMMENTARY

- Dr. Francois Stofberg

YOUR MONTHLY ECONOMIC UPDATE

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INVESTING OFFSHORE AND THE 2023 BUDGET

Two things stood out during February: The question around offshore investing, and the 2023 Budget in South Africa (SA).

Investing offshore

Research is clear when it comes to liquid assets: Clients should have global exposure between 40% and 60%. This figure, however, gets murky if one considers net asset value. A lot of this has to do with the benefits of diversification, as Nobel laureate Harry Markowitz proved in the 1950s. There are many more investable opportunities in the global markets than there are in SA, and by including these opportunities clients can achieve a better risk-adjusted return in their portfolios. But, because of a poor-performing rand, clients have been reluctant to take money offshore since May 2022. Before that, there was a moment when the rand reached R14.40 levels, but that was when global markets crashed, and investors were simply too scared to take advantage of such a strong-performing rand. We are confident that the rand should strengthen back to levels closer to R16.50, although it can easily strengthen beyond R15.50 levels. But this can take another year. So, what can clients do until then? We believe that there are one of three options (speak to your financial advisor to determine which option is best for you):

1. Close their eyes and buy dollars at levels above R18.00. Unless there is no other alternative, we are not in favour of this. Clients will feel poorer when the rand eventually appreciates 10% to 15%.
2. Hedge out their currency risk. This can be expensive but is more viable.
3. Invest in other asset classes and/or markets until the rand is more favourable:
 - + For risk-averse clients: The fixed-income market in SA is offering very attractive returns and the money is almost immediately available.
 - + For balanced-type clients: A multi-asset or local balanced portfolio. We are very optimistic about emerging market returns over the short and medium term, especially fixed income in SA and investing in companies that profit from emerging market growth. However, clients must be aware that they can get stuck in these investments if markets go against them.
 - + For risk-takers: Clients who are willing to take the risk can invest in the local equity market. SA plays into the emerging market story and, despite Eskom, we believe that the local market will deliver favourable results. But, again, clients can get stuck in the local equity market if we see a persistent drag.

2023 Budget

Our overall impression of the 2023 Budget is that the Minister of Finance did all he could with the broken tools he had at his disposal. There were no substantial announcements except for the comments made about Eskom. It seems as if the Minister is nudging the process towards privatisation, which is good news for South Africans. Concerning taxes, if these were increased, we would simply have seen more tax evasion because consumers would not be able to bear the load, and because we have long since passed the point of optimal tax collection on the Laffer curve. We do foresee a revenue risk in the upcoming years because we believe the Minister was too optimistic in his growth forecasts. As the economy and commodity cycle continue to slow down, revenues will also fall. We also foresee a risk to expenses. The largest item that government spends on is civil servant salaries and wages. Because next year is an election year, we doubt that government will be able to maintain a 3% increase. Also, it will be very difficult to stop the COVID grants that more than eight million South Africans have grown dependent on. More expenses mean more debt.

Efficient Group

