Economic and market overview

6 March 2019

Global

An eight-month trade war looks like it's finally nearing an end, and not necessarily because China is ready to bow to United States (US) President Donald Trump's demands. According to a Bloomberg report, both sides are close to a deal that could lift most or all US tariffs if Beijing follows through on pledges ranging from better protecting intellectual property rights to buying a significant amount of American products. Trump and President Xi Jinping each have an incentive to avoid further tariff increases that may hurt the global economy. Xi doesn't want to see job losses that could undermine the Communist Party's legitimacy, while Trump has linked his success to the economy and stock market gains. These developments should support global markets, but it's early days and the proposed deal still needs to be finalised. For Trump, any decision is a bet on his 2020 election campaign strategy. Given how global markets jumped early in March on optimism of a deal, Xi could walk away relatively unscathed. It seems as if a full-scale trade war has been averted. That's, of course, until the President tweets again.

Among other reasons mentioned below, the uncertainty that's been created by the talk of trade wars has caused a slight slowdown in global growth. Major economic and political risks persist, with growth weakening much more than expected in Europe according to the OECD's latest Interim Economic Outlook. This publication identifies the Chinese and European slowdown, as well as the weakening of global trade growth, as the principal factors weighing on the world economy. It underlines that further trade restrictions and policy uncertainty could bring additional adverse effects on global growth. While policy stimulus is expected to help offset weak trade developments in China, risks remain of a sharper slowdown that would hit global growth and trade prospects.

What can investors be optimistic about? Emerging market equities look attractively priced and stable interest rates in the US could support capital flows into developing markets. India and China are still growing in excess of 6% per annum, with Indonesia (with a population of over 260 million people) not far behind at over 5% per annum. In aggregate it means that for 40% of the world's population, significant real economic growth is creating wealth at a rate of note. This creates significant opportunities for companies that operate in these regions.

South Africa

February traditionally heralds the presentation of the national budget by South Africa's (SA's) Minister of Finance. The 2019 budget delivered by Minister Tito Mboweni presented a significant deterioration in South Africa's financial position. The bond and currency markets, after selling off aggressively during the budget speech, settled and recovered soon after. This is a sign that the market expects that a rating downgrade has been avoided. While this could be true for a March 2019 downgrade by Moody's, the general view is that the rating agency will change the rating outlook to negative.

Granate Asset Management reports that, while the focus has been (and remains) on Eskom, it is important to note that the slide in SA's credit rating begun in 2012 with a focus on the economy's growth trajectory. The economic growth path remains lower (the budget was growth negative) than has been projected and the fiscal metric is deteriorating, further raising the probability of a downgrade to non-investment grade later this year or next year. This will have a negative impact on the value of the rand against its trading currencies and could put upward pressure on inflation and interest rates. With consumer demand pressures still absent, it is administered prices that are the key for the inflation outlook. Granting Eskom a double digit electricity tariff increase will add further upward pressure to inflation rates and hurdles to economic growth.

It's not all bad news though. According to Fairtree Asset Management, there are various developments that can boost the local economy. Local factors include improving business and consumer confidence, improvement in manufacturing, mining and agriculture, and (if our credit rating remains unchanged) further interest rate and tax hikes are unlikely. Positive influence from external factors could come from an easing in Chinese monetary policy, a weaker US dollar and no further interest rate increases by the Federal Reserve (the Fed). In aggregate, this could create an environment in which commodity producers could do particularly well.

Market performance

February was another much-needed positive month in equity markets around the globe. An end to the US government shutdown at the end of January, along with a continued dovish stance from the Fed, lifted investor sentiment. While both the economic and political landscapes in Europe and the UK continue to impede these markets, positive US-China trade talks along with both fiscal and monetary stimulus in China kept global markets afloat. Locally, a realistic budget speech reflected 10 years of poor budgeting although treasury was commended for attempting to rein in expenditure despite the clear obstacles (such as Eskom and other state-owned enterprises).

SA equities continued their strong recovery (+3.4%) courtesy of a strong resource sector. Despite this strong showing, the only asset class that generated proper year-on-year real returns was cash (money market). South African bond yields trended higher during the month but ended lower than the inter-month highs to record a -0.44% return – a good outcome considering the poor budget outlook. The rand continued its bumpy ride, losing 5.9% in the month. Listed property was the worst performing major asset class (down 5.7%).

South African Multi-Asset High Equity Funds delivered an average of 2.0% to investors during the last 12 months with their low equity counterparts ending 5.2% higher.

Market indices[1]	28 February 2019		
(All returns in rand)	3 months	12 months	5 years
SA equities (JSE All Share Index)	10.8%	-0.9%	6.6%
SA property (SAPY)	1.9%	-5.2%	6.9%
SA bonds (SA All Bond Index)	3.1%	4.2%	8.4%
SA cash (STeFI)	1.8%	7.3%	7.0%
Global developed equities (MSCI World Index)	4.1%	20.3%	13.1%
Emerging market equities (MSCI Emerging Market Index)	7.7%	7.7%	10.3%
Global bonds (Barclays Global Aggregate)	4.4%	18.4%	6.3%
Rand/dollar[2]	1.4%	19.1%	5.5%
Rand/sterling	5.7%	15.0%	0.8%
Rand/euro	2.0%	11.2%	1.5%
Average South African Multi-Asset High Equity Fund	4.8%	2.0%	5.8%
Average South African Multi-Asset Low Equity Fund	3.5%	5.2%	6.5%

[1] Source: Factset
[2] A negative number implies fewer rands are being paid per US dollar, so this implies a strengthening of the rand.

Commentary – The world is better than you think (and it's a fact!)

We recently attended an investment conference in London where we had the privilege of listening to a talk by Ana Rosling Röslund. Together with her husband (Ola Rosling) and late father-in-law (Hans Rosling), they have started the independent Swedish foundation Gapminder. They describe it as a fact tank, not a think tank, and one of their aims is to fight devastating misconceptions about global development. They elaborate on this vision in their 2018 book, "Factfulness: Ten Reasons We're Wrong About the World – and Why Things Are Better Than You Think".

Gapminder was founded in Stockholm in 2005 and in 2006, Hans Rosling held his first TED talk on "The best statistics you've never seen". It became one of the most seen TED talks ever, thanks to its unique combination of knowledge testing, animating bubble charts and storytelling about global development. It's well worth a view.

Sadly Hans Rosling passed away from pancreatic cancer in 2017 in Uppsala, Sweden, his town of birth. His son and daughter-in-law are, however, carrying on the amazing work that Hans started. This includes the production of free teaching resources making the world understandable based on reliable statistics and promoting a fact-based worldview everyone can understand.

In short, Gapminder illustrates that we hold on to outdated data when we form our world view and as a result, we are wrong about the world more often than not. And when we are wrong, we have a bias towards painting a picture that is worse than the reality.

You may wonder how you compare in terms of your world view. They've designed a simple test of 12 questions (plus a bonus question), each with three possible answers. If you gave the same set of questions to chimpanzees they would statistically get 4 of the 12 right (1 out of every 3). That's a score of 33.3%. Various groups of very smart people fared far worse versus the chimpanzees, including delegates at the Davos World Economic Forum and a group of Nobel Laureates. We show four of the questions below:

Q1: In the last 20 years the proportion of people living in extreme poverty worldwide, has...? *

A. Almost doubled
B. Remained more or less the same
C. Almost halved

Q2: How did the number of deaths per year from natural disasters change over the last hundred years?

A. More than doubled
B. Remained more or less the same
C. Decreased to less than half

Q3: Which map best shows how the world's seven billion people are spread between the Americas, Europe, Africa and Asia? Each figure represents one billion.

Q4: Worldwide, 30-year old men have spent 10 years in school, on average. How many years have women of the same age spent in school? *

A. 9 years
B. 6 years
C. 3 years

In each of these questions far fewer than 33% of respondents get the right answer, due to their view of the world. The correct answers are shown at the bottom of this page.[3]

We know that the size of the world population is a concern to many, and the Gapminder has tested our understanding of population growth (which can be forecasted with remarkable accuracy) by posting this question to thousands of respondents:

"In the year 2000 the total number of children (age 0-14) in the world reached two billion. How many do UN experts estimate there will be by the year 2100?"

The possible answers were as follows:

A. 4 billion
B. 3 billion
C. 2 billion
D. 1 billion

The results among all respondents, as well as a subset of university students, were astounding:

Options	All respondents	University students
A. 4 billion	48%	45%
B. 3 billion	44%	48%
C. 2 billion	6%	6%
D. 1 billion	2%	1%

The correct answer according to the United Nations? Two billion, as birth rates have almost halved over the last 50 years. From the research that Gapminder has done, most respondents' world view is still anchored on outdated data.

Why is it so important to use updated and accurate data when we form our world view? We humans are born with a craving for fat and sugar. But we are also born with a craving for drama. We pay attention to dramatic stories and we get bored if nothing happens.

Journalists and lobbyists tell dramatic stories. That's their job. They tell stories about extraordinary events and unusual people. The dramatic stories pile up in people's minds to an overdramatic worldview and strong negative stress feelings: "The world is getting worse!", "It's us vs. them!", "Other people are strange!", "The population just keeps growing!" and "Nobody cares!"

For the first time in human history, reliable statistics exist. There's data for almost every aspect of global development. The data shows a very different picture: a world where most things improve, a world that is not divided. People across cultures and religions make decisions based on universal human needs, which are easy to understand. The fast growth in population will soon be over. The total number of children in the world has stopped growing. The remaining growth in population is an inevitable consequence of large generations born decades back. We live in a globalised world, not only in terms of trade and migration. More people than ever before care about global development. The world has never been less bad, which doesn't mean it's perfect. The world is still far from perfect.

The dramatic worldview can be dismantled, because it is stressful and wrong. It leads to bad focus and bad decisions. We know this because entities like Gapminder has measured the global ignorance among the world's top decision makers in public and private sector. Their global ignorance is high, just like the ignorance among the rest of us. This has nothing to do with intelligence. It's a problem of factual

[3] To complete the full questionnaire go to http://forms.gapminder.org/s3/test-2018
Correct answers Q1 – C, Q2 – C, Q3 – B, Q4 – A

knowledge. Facts don’t come naturally. Drama and opinions do. Factual knowledge must be learned. The problem can be solved, because the data exists. Long live the data!