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Dear Valued Clients

Global markets, led by the USA, continue to gain ground as successful vaccine programs roll out in the larger economies of the world. At the time of writing, the USA and China have both administered over 200m doses each. The UK has been one of the leading countries in the vaccine rollout with half the population having received at least one shot, while Germany, France and Italy play catch up at around 20%. Japan is the laggard of the most important economies in the world. This is a central theme for your investments since it is the route to returning the world to normal. The business and economic landscape can then be more predictable. The largest economies of the world have the largest impact.

The first quarter of 2021 sees a continuation of the themes that we highlighted and unpacked in our fourth quarter 2020 newsletter. The exciting development for South Africa and South African investors is that there is likely to be a sustained boom in the resources sector, driven by enormous infrastructure spending programs in the developed world.

The USA's $2 trillion program is the largest, but the Eurozone and China will follow. A buoyant mining sector has a way of trickling down to many sectors in our economy. A strong agricultural sector is also helping. We believe that things will turn out better for SA Inc over the next 5 years than many commentators have previously opined, and many areas of our financial markets offer a cheap starting point for new investment.

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The potential fall of Ace Magashule would be a welcome boost to sentiment. Our image in the rest of the world does matter if we want to be an investment destination, and corruption is a leading concern. We must demonstrate that the fight against corruption is more than talk. However, as mentioned in previous newsletters, flows into our listed markets do seem to be more tied to emerging market sentiment overall, than to SA specific factors in the shorter term. SA specific factors will have more long-term effect.

Our Plexus Wealth BCI Balanced and Conservative Funds were up for the quarter but lagged the market. The main reason for this is that they do not have direct exposure to resources. The investment strategy of these funds is to invest in stocks that have stable and growing dividend history and prospects. This leads to a focus on stocks like banks, insurers, food producers and retailers, consumer staples, tobacco and alcohol, and healthcare. The funds have exposure to Pfizer and Johnson & Johnson as a topical example. These types of companies are usually classified as Value Stocks. The resources sector is too volatile and cyclical to make the cut, but this has hurt in the last few months. However, we will benefit indirectly as the stable dividend payers benefit from a stronger economy.

The listed property sector has improved from the lows: in the last quarter, up about 8% in capital value terms. The companies are still being very cautious with distributions to investors, which is a cause of frustration for some. For most investors, a sound balance sheet and conservatism is most important, but for others, a strong income flow is the reason for investing in the sector. Retail malls are trading at similar levels to pre-COVID, and most teams are looking forward to being back in the office full time – the work from home factor is wearing thin.

Many of our SA-listed property companies have stakes in European property companies. When the European companies resume dividend payments, this will mean a recovery in income and dividend payments for the local companies. For example, Redefine owns a stake in Echo Polska, and Growthpoint owns a stake in Capital & Regional in the UK. This links back to the opening paragraph on the world economies returning to normal. Poland has vaccinated 23% of its population (one shot), and should be on track to opening up its retail malls fully in the European summer.

Our offshore funds and portfolios continue to do very well. Our first-choice partner, Credo, has excelled over the years. As noted in our last newsletter, one of our main predictions for the next 5-10 years is that we are going to see a rotation from growth or momentum stocks to value stocks. In practical terms that means stocks like Amazon and Tesla are not going to keep shooting the lights out, whereas portfolios like Credo that focus on strict valuation metrics, will outperform. We see rotations between the two styles regularly over time, in very rough terms about 10 years. At the moment, the gap between the two styles is at an extreme, which gives us further confidence.

In many ways the IT bubble of the late 90's seems to be repeating, but this time there are more Tech companies that have genuine cash-generating ability, while there are many others that would need to execute on their plans impeccably without any new competition emerging in order to justify anything close to the levels at which they are trading.

US Presidential election sorted, Brexit sorted, Vaccine rolling out, we should look forward to further recovery this year globally (except we want to avoid extreme valuations in certain sectors and focus on value stocks). SA risks remain in the long term, but the short to medium term is looking better.

Please give your advisor a call to discuss further.

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All the best from James, Eric, Connie, Don, Jon, Amanda and the team at Plexus Wealth.