



INSIGHT

Investment perspectives from the Harvard House Group

COUNTING THE COST OF POLITICAL EVENTS

Uncertainty Rules!

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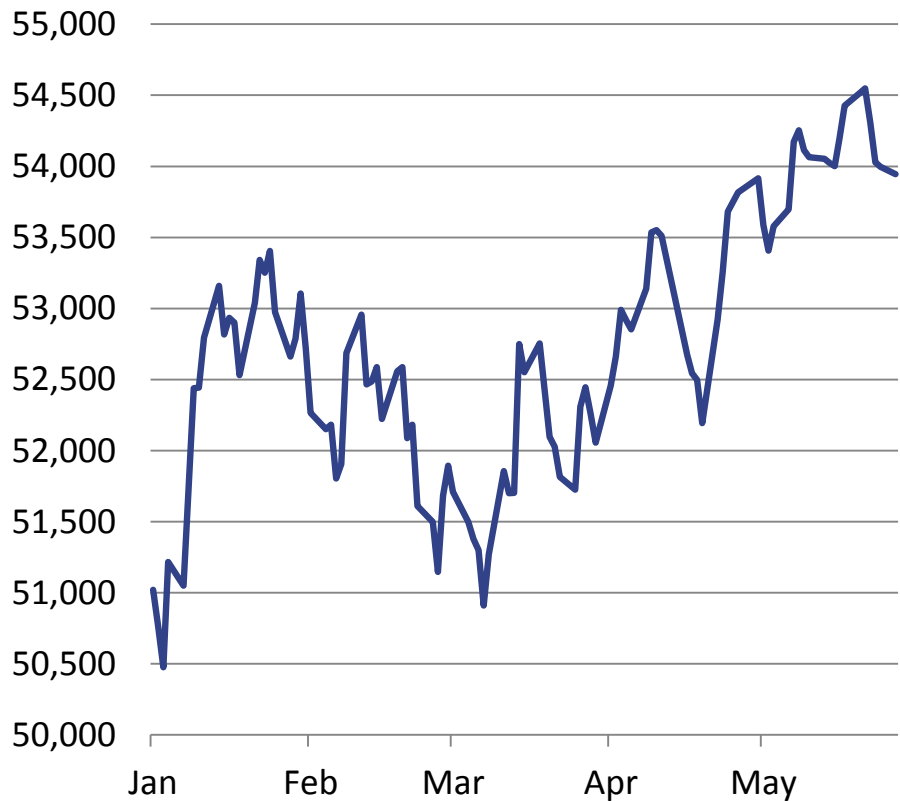
May/June 2017



2017: Returns as expected?

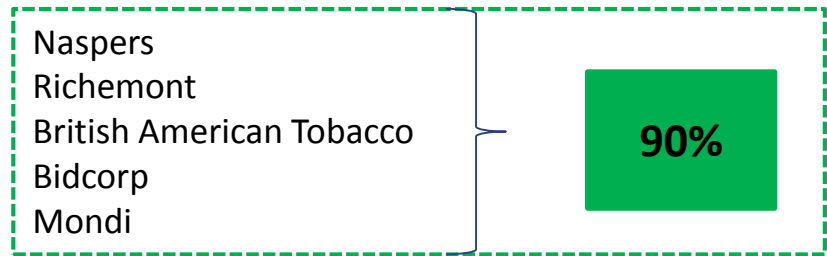
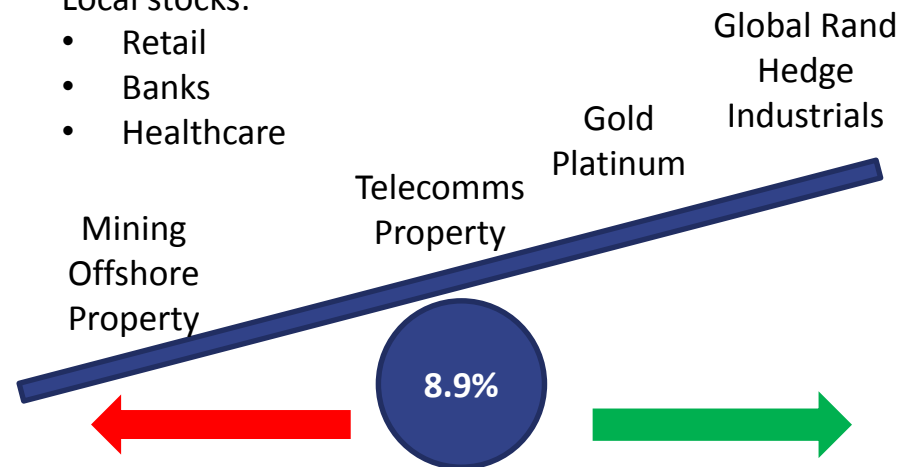
Returns look good at first glance, but they are highly concentrated

JSE All Share



Local stocks:

- Retail
- Banks
- Healthcare



4 ½ Reasons to be optimistic

6 months ago, we flagged the following factors. Are they still valid?



Global tailwind



Higher commodity prices



Domestic Self Help



Lower Inflation



Foreign activity



What has changed?

The outlook for SA has deteriorated since the Cabinet Reshuffle



Assessing the South African economy

At the start of the year, we anticipated an improvement



A recovery from the drought



Lower inflation:

- Improvement in real wages
- Lower interest rates



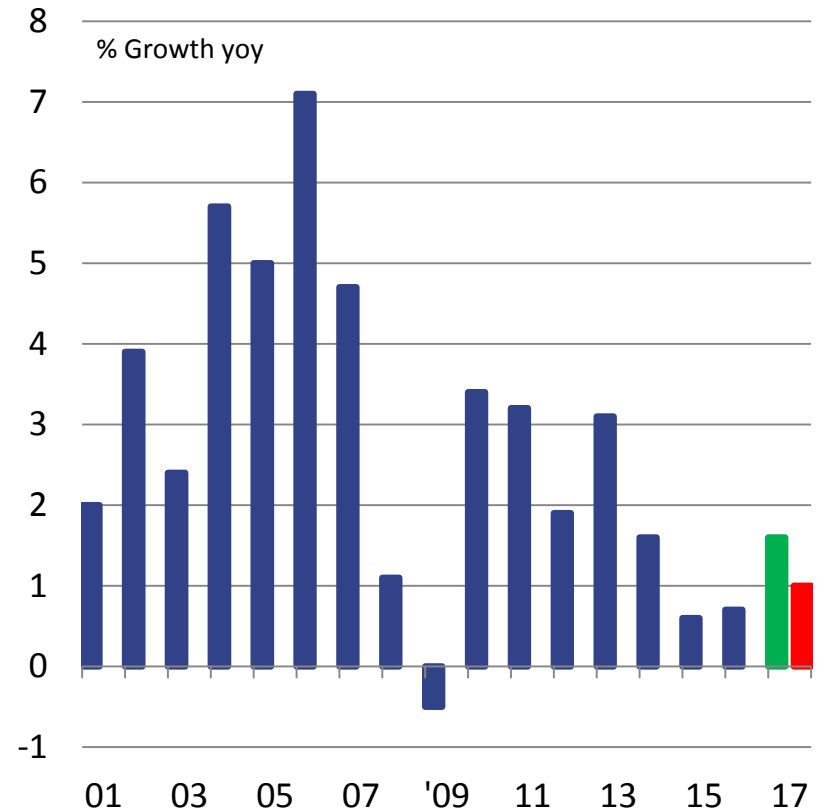
Higher exports

- Better global economy
- Higher commodity prices



Improving momentum in economic growth, which had the potential to lay the foundation for second round effects

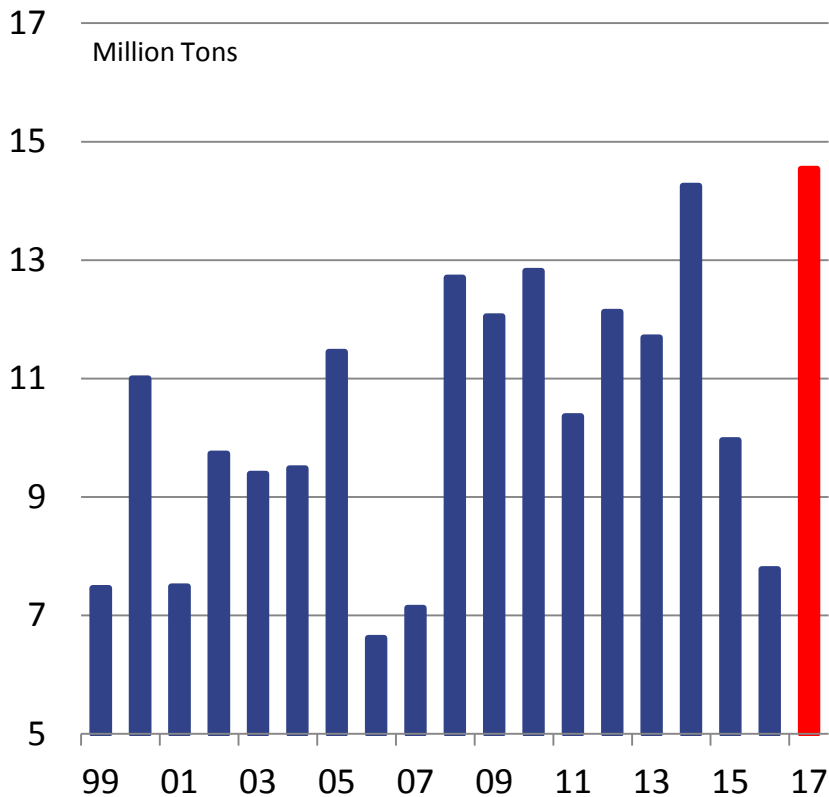
SA: GDP Growth



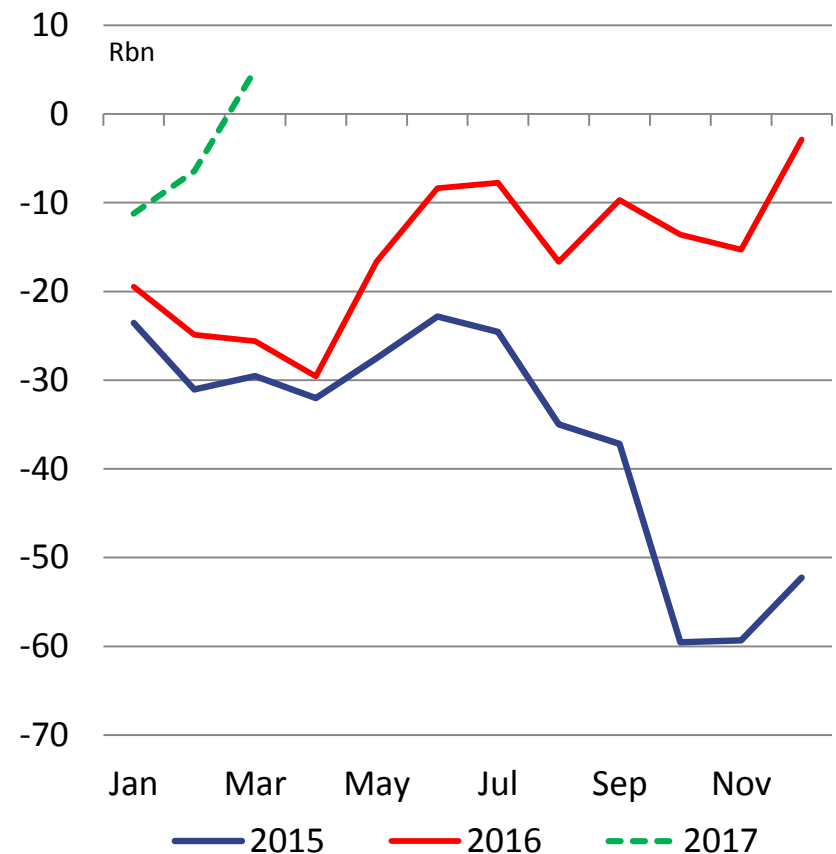
SA economy post the reshuffle

We still expect a recovery – some drivers cannot be undone

SA Maize Crop



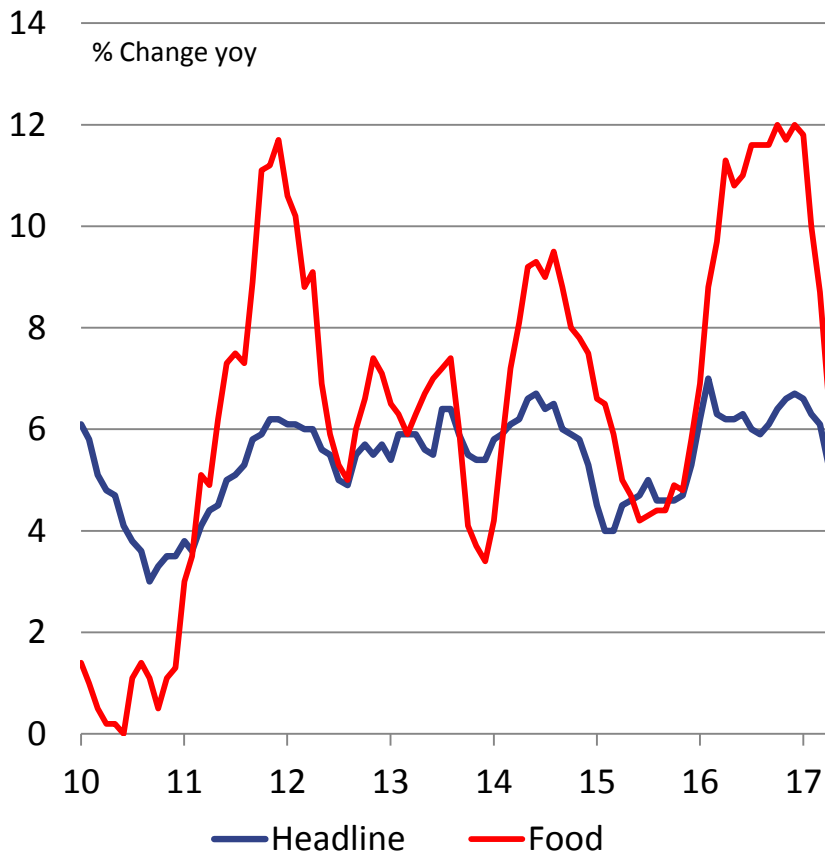
SA Trade Balance



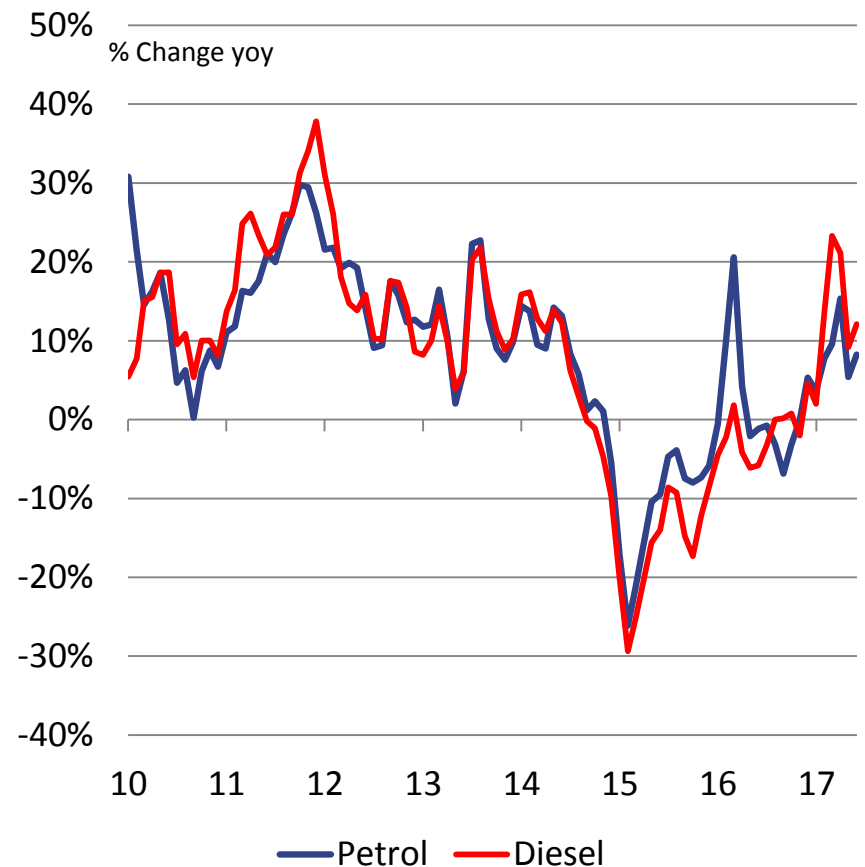
SA economy (cont)

Inflation is still trending lower, but dynamics are turning less supportive

SA Inflation



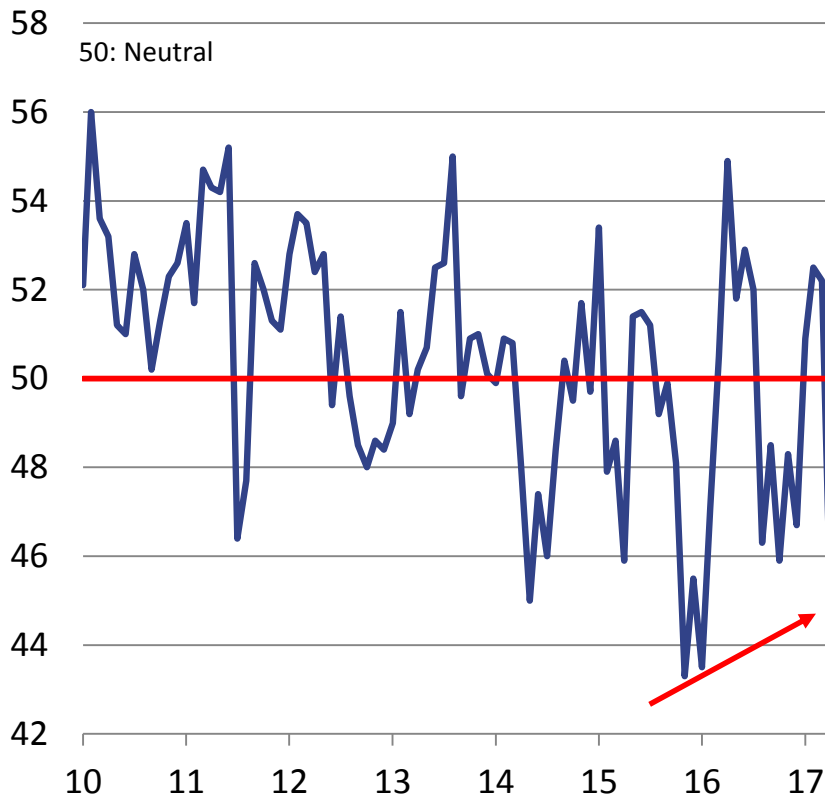
Gauteng Fuel Prices



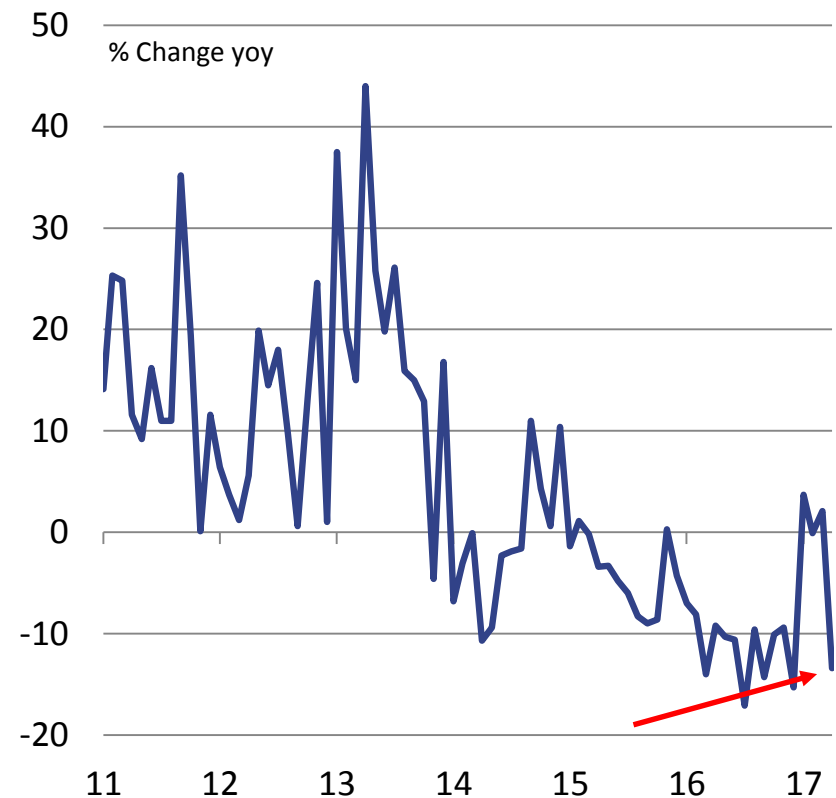
SA economy (cont)

Confidence has plunged – and uncertainty implies inaction

SA PMI Index



SA Vehicle Sales



The Rand

Still driven by economic fundamentals; politics adds the volatility



The fundamental trend is driven by:

- Terms of trade
- Commodity prices



US expected to raise interest rates twice more this year.

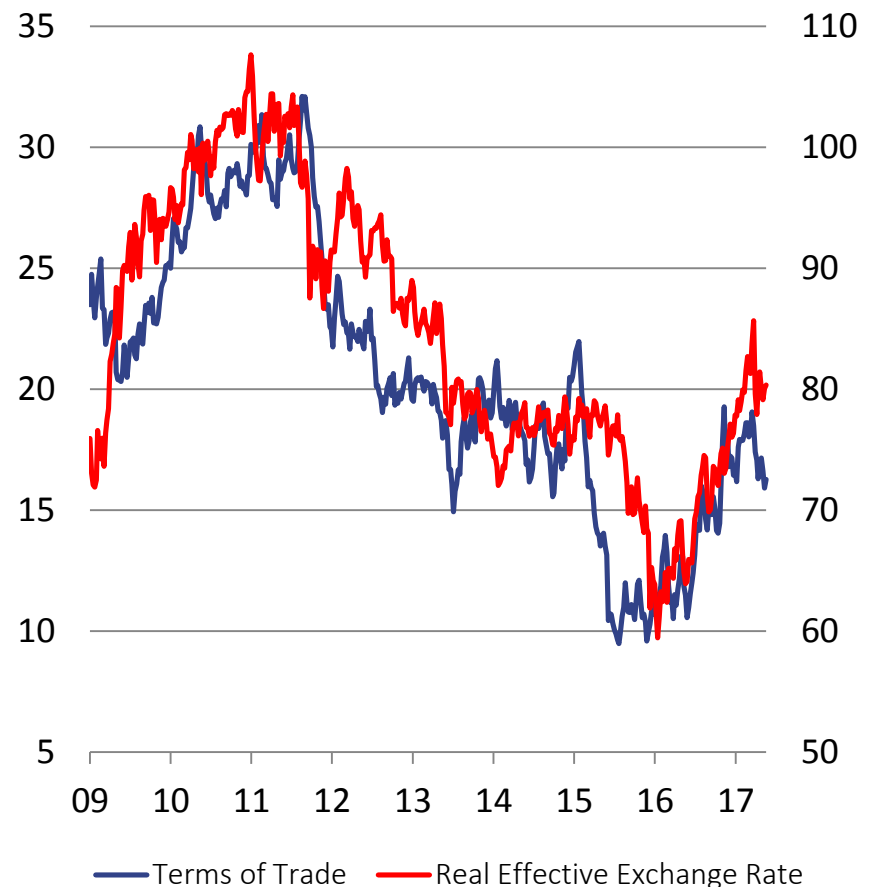


Emerging markets remain in favour, and SA floats to the top!



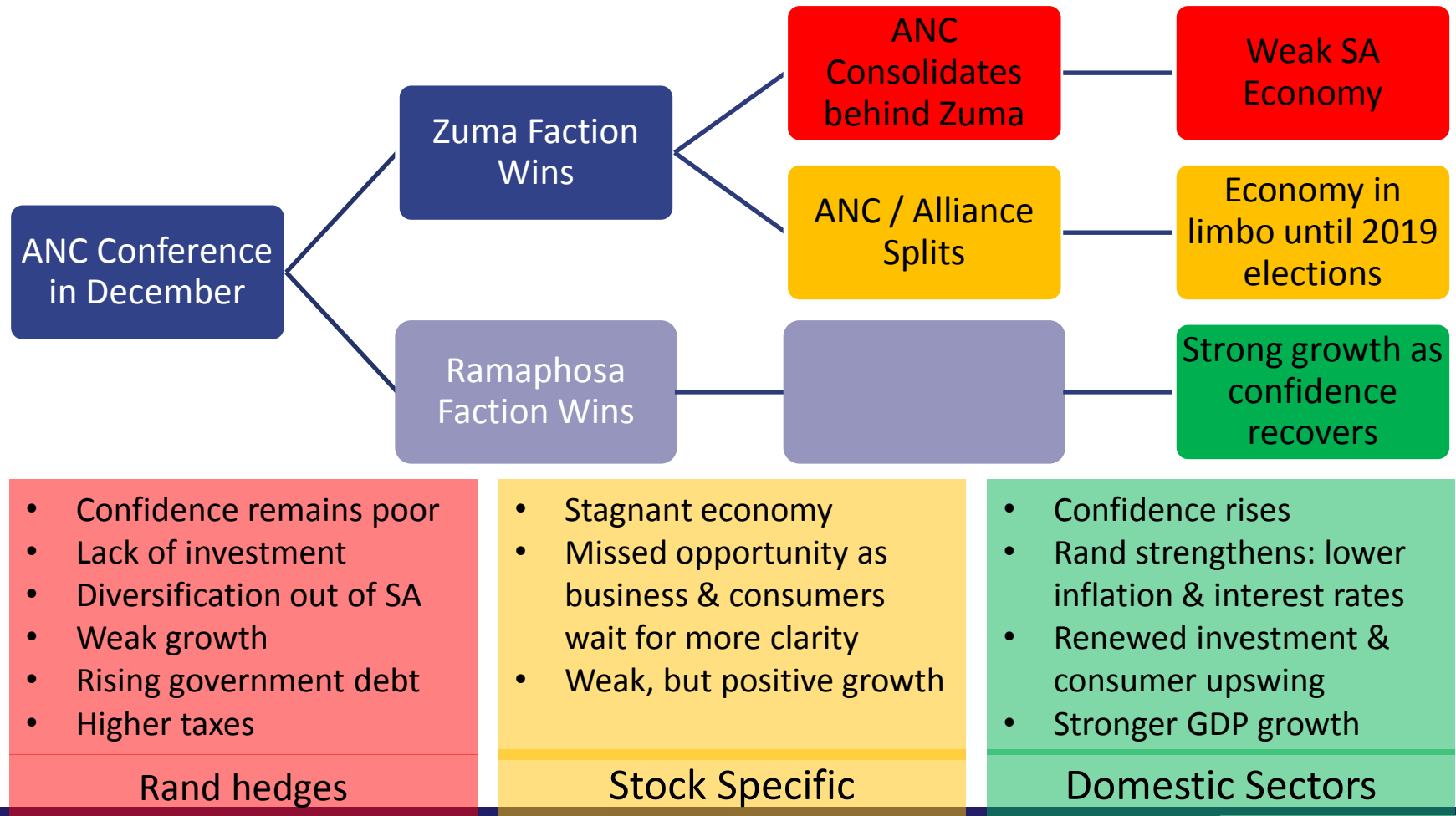
Slightly weaker commodity prices & higher US interest rates imply a slightly weaker currency. We expect a range between R13 – R14 / USD

Rand vs Terms of Trade



Positioning your local investments

Political outcomes will greatly influence positioning and returns



Stock markets: what really matters?

Earnings growth is key to rising markets

JSE All Share Earnings Growth



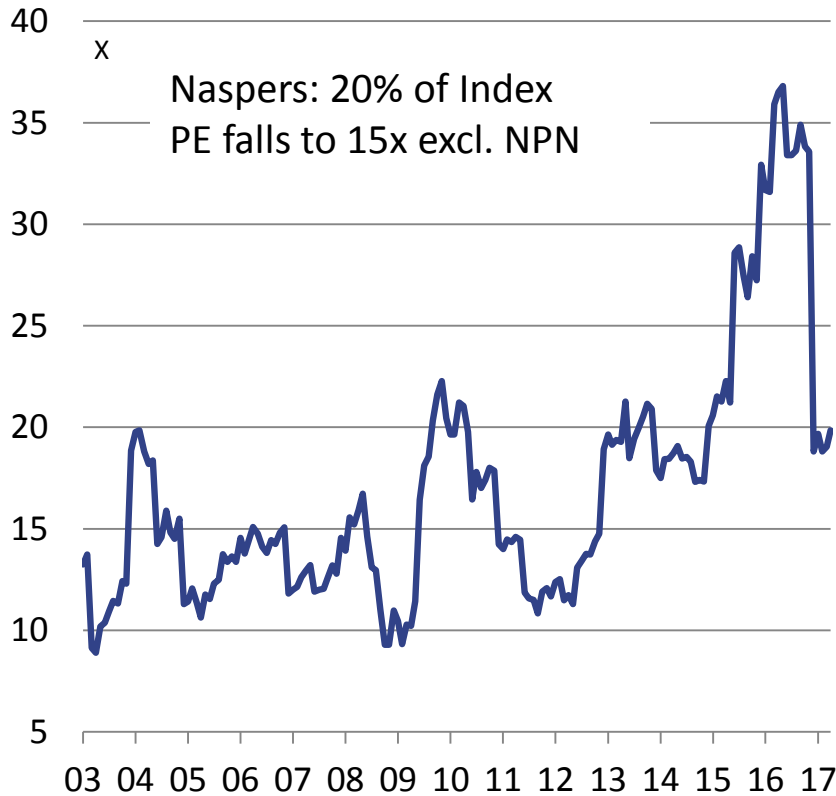
S&P 500 Earnings Growth



Stock markets: rose-tinted glasses

Global valuations are leaving little room for disappointment

JSE Top 40 PE Ratio

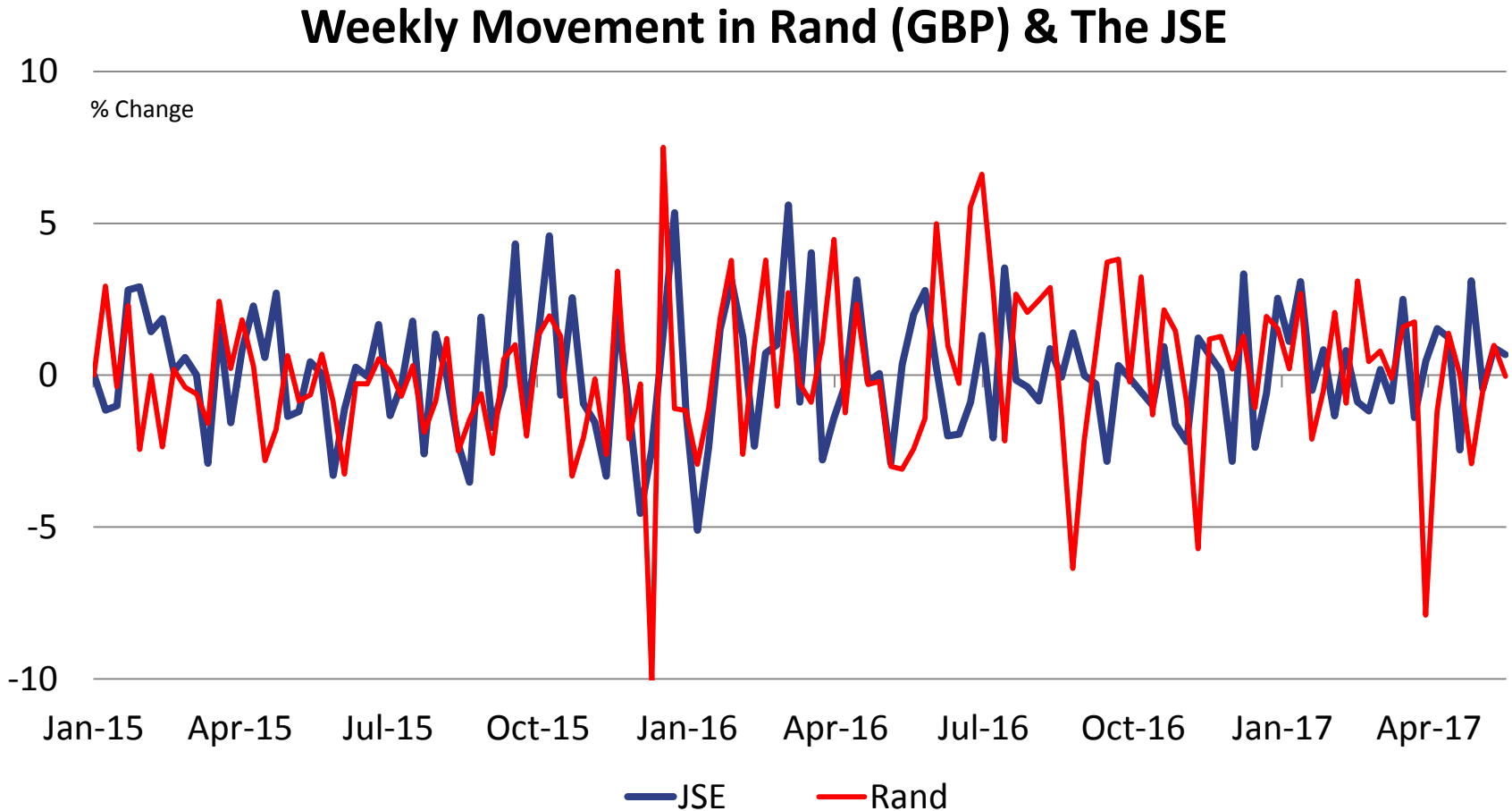


S&P 500 PE Ratio



Remember the Rand

The JSE remains extremely sensitive to the movements in the Rand (GBP)



Summarising our views

Conflicting factors suggest a diversified approach

-  The SA economy will still recover, but growth will be tepid until there is more political certainty.
-  Weaker growth implies weaker corporate profitability.
-  The Rand is likely to be rangebound as commodity prices stabilise.
-  Offshore markets offer higher GDP and earnings growth.
-  Valuations are high, as investors have anticipated policy changes
-  Policy non-delivery could see valuations drift lower.

Portfolio Action

- Stock specific – no themes
- Focus on earnings growth and dividends
- Diversified portfolio to acknowledge widely divergent potential outcomes.



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Q & A

Please feel free to ask questions

Thank you for listening