Investment Insight

Friday, 3 February 2017

ARIA | CAPITAL

It's just (g)Rand: *When investors consider Emerging Markets, it is often the more familiar regions such as Asia and South America that find their way into investment portfolios; however, the sector encompasses many other regions that receive less attention. One such is South Africa. In a recent interview with Bloomberg's Alexandria Arnold, Dave Mohr of Old Mutual Wealth discussed his views on South Africa, the Rand and the investment case it presents.*

*In this week's **Inside Track** we share some extracts from the interview.*

Tech boom: *According to a recent report by CBRE, publicly quoted technology firms occupied more than 93 million square feet of office space in the Bay Area of California. This is more than double what it was in 2009 and is despite skyrocketing rents.*

*In **Pic of the Week** we take a closer look.*

Quoted...

"He's like Bambi on speed." – Bill McLaren on Simon Geoghegan. COYBIG!

The Inside Track

The following extracts are from a recent interview with Dave Mohr, Chief Investment Strategist, Old Mutual Wealth where he discusses the potential outcomes for 2017 for investors in South Africa along with the political situation and the effects it may have.

Q: What do you like in South Africa?

A: We still like government bond yields at just below 9%. With inflation that can come down to 5% or 5.5%, that provides you an attractive real yield by historic standards locally and also by international standards. There is nowhere else in the world where you can get those kinds of real yields in a fairly liquid market.

Q: Any other sectors?

A: The listed property market in South Africa. Although vacancies are creeping up because of slow growth, overall the property companies seem to be sustaining their income growth of at least inflation. There could be some further improvement in the mining sector, though not the kind that we saw last year. If we have somewhat better growth and the rand is stable, then we believe the banking sector is still competitively priced and could give good returns. It's a well-managed banking sector, the capital ratio of the banks is fine, there do not seem to be large, bad debts looming because South African consumers have been quite cautious in borrowing as interest rates went up.

Q: How will the equity index perform this year?

A: We're still a little bit underweight on South African equities because there's a lot of uncertainty. Historically, the South African equity market is not cheap.

Q: What's your outlook on the rand?

A: If commodity prices maintain some of their strength and, more importantly, emerging markets continue to outperform, the rand can go below 13 this year versus the dollar.

Q: What do you see as the biggest risks to South Africa this year?

A: If there's any setback to the global economy that would impact our commodity prices. That certainly would impact the mining sector of South Africa. It would put more pressure on the currency as well, which means the interest-rate relief we're thinking of maybe later this year won't happen. Global growth is one thing that we are certainly worried about.

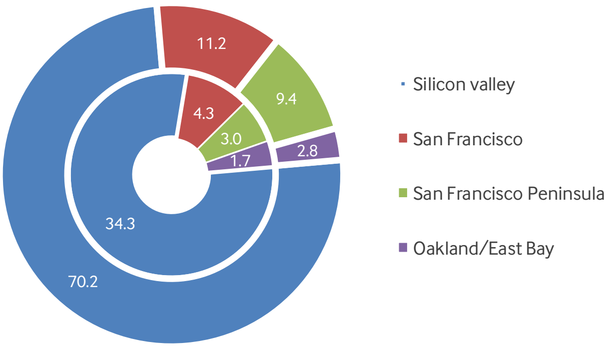
Q: How will the domestic political situation in South Africa develop?

A: It is very fluid at the moment and one will have to see which way that goes. Over the last year or so, the political situation has probably stabilized and that's one of the reasons why we've avoided the debt downgrade everyone has been speculating about. If we can turn the corner in terms of economic growth, we should be able to avoid that downgrade. If that doesn't happen, we could have a downgrade which might not have such a big direct impact on the economy, but it could be a set-back for confidence levels, which obviously wouldn't be good for growth.

Pic of the Week

California's Bay Area is split into four property regions: Silicon Valley, San Francisco, San Francisco Peninsula and Oakland/East Bay. Eye-wateringly high rents in the Bay Area haven't deterred the tech companies that occupy much of the prime office space. While Silicon Valley is dominant, San Francisco Peninsula has seen the largest inflows since 2009 with occupancy almost tripling from 4.4 million sq. ft. in 2009 to 11 million in 2016.

Bay Area Tech Occupancy (Millions sq ft)
2009 (inner) to 2016 (outer)



Market View

	Last 7 days	Last 12 mths	YTD	5Y Ann.
Global equities	-0.8%	+16.9%	+1.7%	+8.7%
US equities	-0.7%	+19.9%	+1.9%	+11.5%
European equities	-1.3%	+9.2%	+0.4%	+6.5%
EM equities	-0.4%	+25.3%	+5.9%	-2.6%
Irish equities	-0.9%	+1.8%	-0.7%	+16.1%
Commodities	+0.1%	+7.7%	+1.0%	-9.4%
Hedge funds	-0.6%	+6.0%	+0.5%	+1.4%

Economic indicators	*Bond yields*	*Inflation*	*GDP YoY*
Ireland	+1.1%	0.0%	+6.9%
Germany	+0.4%	+1.9%	+1.7%
USA	+2.5%	+2.1%	+1.9%
China	+3.3%	+2.1%	+6.8%

Currencies	*Current*	*YTD Δ*
EUR:USD	1.08	+2.3%
EUR:GBP	0.86	+0.6%
EUR:CNY	7.44	+1.4%
GBP:USD	1.25	+1.5%
Bitcoin	1,010.23	+6.1%

Week ahead: Key events

06/02 Germany Factory Orders & Construction PMI Data
06/02 Eurozone Retail PMI
07/02 China PMI & UK House Prices
07/02 Germany Industrial Production
07/02 US JOLTS Job Openings
08/02 US Mortgage Applications & Japan Housing Loans
09/02 US Jobless Claims
10/02 UK Manufacturing & Construction Data

Commodities	*Current*	*YTD Δ*
Gold	1,215.90	+5.5%
Copper	5,936.00	+7.5%
Oil	56.73	-1.3%
Wheat	434.50	+6.5%

Central Bank rates	*Current*
Eurozone	0.00%
USA	0.75%
UK	0.25%

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