Our Weekly Paid Newsletter
Richard Cluver Predicts
In our 37th year of service to the investing public of South Africa

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We are now well into a political silly season affecting nearly half the world's population, a time when every investor needs to regularly remind himself that little we hear from government spokespeople – and their opponents for that matter – needs to be taken too seriously.

Both sides are making promises we know they cannot keep and many of them will not be in power by the time the real issues have to be tackled. Happily, however, we know already that the state of the economy is one thing politicians cannot wish away and in the one country which to outward appearances looks still to be in a reasonable state of health – the USA – bipartisan deadlock is preventing either side getting what they wish for.

However, there at least, as Investec noted this week, "....the economy continues to surprise on the upside and US companies remain remarkably profitable. While GDP growth is set to slow, margins may remain high, providing some support for US equities. Inflation is set to continue to decline and we expect it to surprise on the downside – allowing for accelerated cuts by the Fed.

"Acting against these tailwinds are tightening lending standards, weakening credit growth and the first signs of weakness in the US labour market. All of these point to the prospect of materially weaker growth over the year ahead. Excess savings have been dwindling too. Given current levels of indebtedness, it is not clear that the US government will be able to provide a sizeable fiscal package should growth slow."

The U.S. economy is a paradox. Official figures show that growth is solid, jobs are plentiful and wages are climbing, and yet market commentators report that voters are mostly feeling down and giving President Biden little credit. While the labour market seems to be performing strongly with employers having added 353,000 jobs last month, average hourly wages also rose. But that doesn't necessarily mean workers are more prosperous. Wintry weather shrank the average work week to 34.1 hours in January. In particular, non-salaried employees, especially those in retail, construction and the hospitality sectors, worked fewer hours, which probably ate into their pay.

In South Africa meanwhile, in the wake of our contentiously-motivated successful prosecution of Israel for its role in Gaza, foreign investors have expressed their opinion of this country taking up the Palestinian cause by withdrawing their investments on a record scale. SA's gross foreign exchange reserves fell to $61.18bn in January. Meanwhile Reserve Bank data released this week indicates that Foreign investors have withdrawn a net R1-trillion from SA's bond and equity markets over the past 10-and-a-half years — a situation that asset management firm Stanlib says was triggered by successive credit downgrades, the

sharp deterioration in the country's fiscal position, rampant corruption and the sustained decline of state-owned entities.

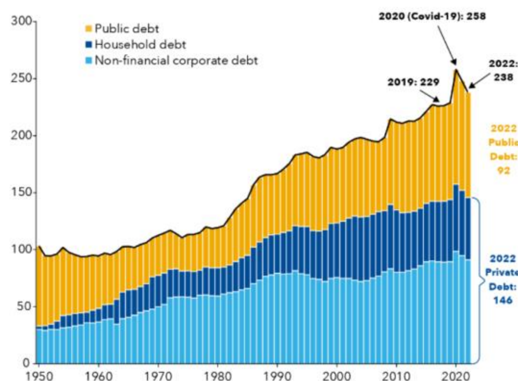
Stanlib's chief economist Kevin Lings has calculated that, using the prevailing exchange rate for each month over the past 10 years, disinvestment by foreigners has amounted to R984-bn."If you include the final six months of 2013 in the calculation, or the net flows over the past 10-and-a-half years, the disinvestment exceeds R1-trillion," he said.

"How much better off would SA have been if that R1-trillion had remained invested in SA's financial markets," he asked.

Referring back to its financial stability report which was released in May 2023, the Reserve Bank flagged the sale of SA bonds by foreigners as "a significant structural shift, especially considering the significant increase in government bonds issued during this period". In the same report, the Reserve Bank raised concerns about the capacity of SA investors to absorb new issuances of government bonds in future, saying this "raises financial stability concerns regarding market liquidity, increased volatility and [caused] higher domestic government bond yields".

Against this background, the decline of the ANC seems unstoppable, but no obvious successor has emerged – the DA and EFF each attract only around a fifth or sixth of voters while a host of smaller parties consistently win a handful of votes. More than 90 new parties have recently registered, but have only added noise rather than contributing substantial change to the political scene.

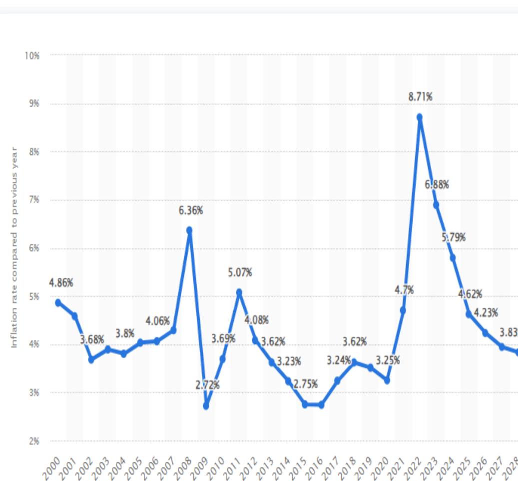
Thus the latest polls confirm what we have long known; that a wounded and decaying ANC is likely to poll well below the 50 percent mark with the DA getting around 19 percent and the EFF around 16 percent. Many of the older smaller parties will probably die and the few small survivors will run around trying to play kingmakers offering excessive cash and power demands in return for the miniscule votes they will be able to add.



So what is the small investor to make of all of this? The biggest concern, as I detailed last week, is global debt which I have been warning about since 2019 when I wrote my book 'The Crash of 2020' which anticipated a 'Black Swan' event that would tip the world into economic crisis. That issue came into sharp focus last week when Chinese property giant Evergrande went into liquidation owing an estimated $300-billion.

But that number pales into insignificance against International Monetary Fund calculations which suggest that the cumulative global debt figure has now reached a new record of $307-trillion of which the US total is now $32-trillion and its debt to GDP ratio is 123 percent of GDP. That figure is, furthermore, dwarfed by Japan's 263.9 percent.

But the biggest question mark hangs over China whose official rate is only 77.1 percent but whose off- balance sheet numbers are unknown. Bloomberg figures suggest a figure of 279.7 percent could be closer to the mark.



Figures like this suggest the likelihood of a sky high global inflation rate and Statista, an organisation which tries to keep track of such things, calculates in the next graph on the right a likely global average of 5.79 percent for calendar 2024 and that at current rates it is likely to take until 2028 before inflation returns to normal.

Against those estimates it is very important to listen to US Federal Reserve chairman Jay Powell who advised the world that ".....a March rate cut was probably not on the cards. He nevertheless told TV audiences watching the "60 Minutes" show this week that that he still expected three rate moves this year.

He warned that the "danger of moving too soon is that the job's not quite done," reaffirming his view that the central bank needs more evidence that inflation is under control before making a decision.

So how does one insure against a catastrophic capital loss if countries like the US and China are forced in the near future to competitively devalue their currencies in order to escape from under their debts? It is difficult to know what the long-term consequences of such action would cause but a deep global recession would probably be inevitable.

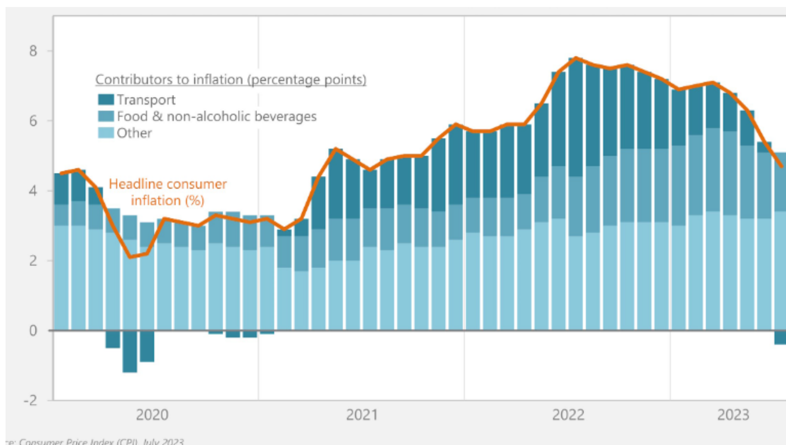
Usually, to counter the impact of this upon the man-in-the-street, central banks use techniques like quantitative easing to inject vast amounts of money into the global marketplace to prevent a catastrophic securities sell-off and the consequent impoverishment of their citizens. But in an already high inflation era with most governments already borrowed to the hilt, it is questionable whether banks could go that route.

So what are the classic safe havens for personal savings? Gold of course is the traditional safest haven and the graph on the right tracing the dollar price of the metal rising at a compound annual average rate of 9.03 percent completely explains why.

The world's share markets are, of course, volatile reflections of global economic events, but over time they always rebound if you have the courage not to blink....and sell when the going gets tough. So note that Wall Street's Dow Jones Index has grown annually at compound 8.17 over the past 30 years while the JSE All Share Index has done 9.68 percent compound over the same period and South African ShareFinder Blue Chips have done compound 10.93 percent while delivering an average dividend yield of 5.49 currently which thus represents a Total Return average of 16.42 percent.

The problem with gold is that it does not provide you with an income in the shape of dividends. Furthermore, if you have above average wealth, it is no small consideration that all dividend income is taxed at 20 percent instead of your marginal rate. So the end conclusion, particularly bearing in mind that Capital Gains Tax is levied whenever you take capital profits, is to take an ultra long-term view and sit tight while selling off a few of your highest gainers each year and balancing your gains against a few losses.

This latter view, however, means that sometimes one might eliminate a share or shares which have been temporarily underperforming and that is particularly so with shares that are vulnerable to interest rate fluctuation. So, for example, if a few years ago you sold off a few property reits in order to balance your gains in shares like Naspers which had done so well that they had become dangerously dominant in your portfolio, you should not forget that such investments are cyclical. So now might well be time to consider buying back such shares once more!



So, let us for a moment assume that in an election year every central bank will be under maximum political pressure to bring down interest rates. Accordingly please note South Africa's recent inflation history in a graph provided by Statistics SA. Conveniently for the politicians, our rate has been declining nicely. Our previously high inflation rates are thus to blame for the fact that our heavily-geared property reits initially crashed in value

from mid-2016 to early 2020 as interest rates rose to counter the rising inflationary tide....and now inflation is coming down nicely!

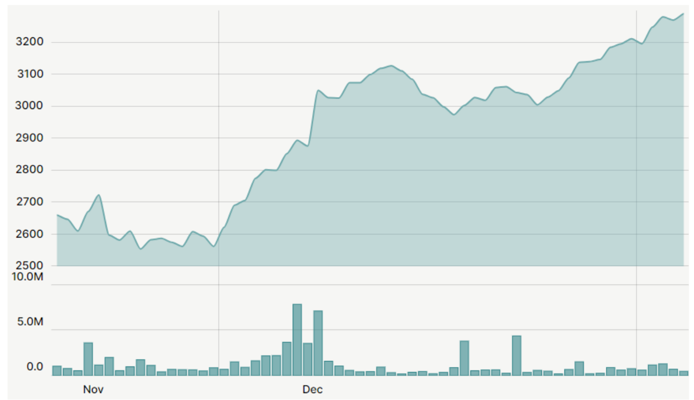
Sequentially then, I have graphed below three of our safest property reits, from the top, Hyprop whose 20-year graph tops the composite below indicating compound annual average growth since 2004 of 4.9 percent annually, and since 2020 a recovery rate of compound 21 percent annually. Second down is Growthpoint which delivered compound 3.4 over the past 20 years but has done no more than that since 2020 and, finally market favourite Redefine which has delivered compound 2.9 annually since 2004 and 26.4 percent compound since 2020.

Of the three I have always favoured Hyprop and the graph numbers prove that I have been correct. At its peak Hyprop peaked at R142.92 on August 12 2016. Then, because of the typically over-geared business model of the average reit structure, steadily-rising interest rates coupled with the burden of municipalities seeing them as rates cash cows, their profits became severely curtailed and share prices understandably nose- dived. But the reits which have survived are today far leaner operations and their earnings have begun to demonstrate a new vigour.

Payment date	Amount (c)	Prev 12 months amount (c)	Type
08 Nov 2023	299.2997	299.2997	Final
08 Nov 2022	293.6409	293.6409	Final
25 Oct 2021	673.0584	336.5292	Final
25 Jan 2021	308.737	375	Interim
25 Jan 2021	66.2629	375	Final
14 Oct 2019	359.3395	744.8903	Final

Hyprop was this week standing at a dividend yield of 9.15 percent and earnings at a fat 13.21. Furthermore, if you consider the dividend history on the right, confused by an interruption during the Covid period, it is clear that distributions have recovered and are beginning to climb.

At its last annual report the company reported that its' SA portfolio continues to deliver growth in key trading metrics with a steady increase in foot count of 6.8%, and a retail vacancy rate at a low 1.4%. However, given the current high levels of inflation and interest rates, it expects its financial performance will continue to be negatively impacted in the short-term as borrowings are refinanced and interest rate hedges mature and are replaced at prevailing rates.



The company's borrowings are at a fixed cap of 7.97 percent and with a capital expenditure prospect of R500-million, liquidity of R2.1-billion, its balance sheet appears robust and future dividends seem assured. Given a steady share price increase from a low of 2554 on November 21 to a current 3290, investors are clearly sensing growth ahead.

And of course, with South Africa's inflation rate falling steadily, together with the probability that interest rates are likely to fall this year, we now face a real prospect of reits like Hyprop returning to ever-higher dividend distributions. Is it possible that as interest rates fall the share price might return to rival previous peaks of 2016? Who knows, but I suggest you take a look at Hyprop because I do expect good gains!

The month ahead:

New York's SP500: I correctly warned that the signs were for weakness which has started and I now expect declines to the end of March followed by recovery to mid-July and then further declines to the end of the year.

Nasdaq: I correctly predicted an imminent down-turn which I now expect to last to the end of April followed by two months of gains and then further declines to the end of the year.

London's Footsie: I correctly predicted the brief dip followed by gains which I now expect to last until the third week of March when the next dip is due. Overall, however I see gains amid steadily-increasing volatility until early August when four months of decline seem probable.

France's Cac 40: I did not anticipate the brief recovery that is now under way and likely to last until the end of the month followed by the next down-hill phase which should last until April 10 followed by volatile gains until the end of August.

Hong Kong's Hangsen: I correctly predicted weakness which seems now to be turning into a sideways trend until the end of April. Thereafter I see a long recovery until November.

Japan's Nikkei: I correctly predicted the decline which is part of a longer-term volatile falling trend at least until May before a long recovery begins. This week's brief recovery is unlikely to last.

Australia's All Ordinaries: I correctly warned of declines through to late March ahead of a brief recovery to mid-April and a decline until May and another recovery to the end of June when three months of declines seem probable.

JSE Top 40 Index: I wrongly predicted a recovery which I believe is simply delayed and should begin today and should last until March 22 followed by losses until April 25. Thereafter I see a volatile recovery to early September.

ShareFinder JSE Blue Chip Index: I correctly expected continued gains which I see lasting until mid-July followed by six weeks of declines and then another six of gains to a market peak in late September.

Rand/Dollar: I correctly predicted the start of the long-term Rand recovery until the end of the year.

Rand/Euro: I correctly predicted gains until mid-March but thereafter I see weakness for most of the year.

The Predicts accuracy rate on a running average basis since January 2001 has been 87.14 percent. For the past 12 months it has been 91.85 percent.