

Sit tight or consider international platforms

An investment risk outlook for 2019 Q4

Political and economic uncertainty are wreaking havoc with the rand. Tom Elliott from deVere Acuma, part of deVere Group, explains what this will mean for your investments for the rest of the year.

The rand has depreciated 6.5% against the dollar in August, with the worst performance among emerging-market currencies after Argentina's peso. During the past month, it has whipsawed between daily gains of as much as 1.1% and losses of 1.9%.

"The rand's performance is influenced by wide ranging internal and external factors, which results in its extreme volatility," says Tom Elliott, International Investment Strategist at deVere Group, one of the world's largest independent financial organisations.

South Africa's bond yields are another cause for concern. They have risen to close to 9% on the back of political and economic uncertainty, which has increased their risk premium by 0.8%. Global concerns are also playing a factor.

"Local and foreign investors are concerned about this pricing, and while there are opportunities for value in high-entry yields, investors will need confidence – or a high-risk appetite – to buy in," says Mr Elliott.

Another negative factor is the collapse of the high-end property market, confirmed by FNB's quarterly property survey, and driven by a surge in emigration and a loss of interest from international property investors, due to the lack of political certainty – and the property threat of expropriation without compensation.

"While the lower price brackets remain resilient, the stagnation of the market has spread to mid-level housing prices as well," says Mr Elliott. "Essentially, now is not a good time to sell property, and while this might indicate a buyer's market, political uncertainty is hampering purchaser confidence as well. No one wants to buy a house they can't sell."

Taken together, the investment strategist says that these factors contribute to a rather dim forecast for South African investments for the rest of the year. "While you shouldn't be pulling your money out of poorly performing assets because it's never a good idea to sell at the bottom of the market, it's really worth considering an expansion into international markets for the growth and rand hedge opportunities that they offer."

He adds that any new investments into the local market should be looked at with extreme caution and with a lot of research to attempt to define the relevant macroeconomic risks at play.

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Martin Slabbert

Newsroom Manager at HWB Communications

Email

martin@hwb.co.za

Phone

0214210430

Mobile

0795001503

Twitter

[@hwbcomm](https://twitter.com/hwbcomm)

Website

hwb.co.za

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