



The Macro Research Desk



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Finance Minister Gordhan's summons lifts SA's political temperature

The facts

South Africa's political risk profile was lifted yesterday when the National Prosecuting Authority issued Finance Minister Pravin Gordhan, together with former South Africa Revenue Service (SARS) Commissioner Oupa Magashula and former SARS Deputy Commissioner Ivan Pillay, with summonses to appear in court on 2 November 2016 on alleged fraud charges. These relate to the approval of a R1.14 million severance payment made to Mr Pillay in 2010 for taking early retirement, before subsequently reinstating him on a contract basis after retirement.

The market reaction

Since the firing of SA's previous Finance Minister Nhlanhla Nene in December 2015, financial markets have been sensitised to any perceived threat to SA's institutional framework, including the National Treasury (NT), the South African Reserve Bank (SARB) and the judiciary. As such, yesterday's announcement caused a meaningful sell-off in the SA currency (-4% against the US dollar), debt markets (All Bond Index -1.6%) and rate-sensitive stocks (banks -3.6% and general retail -2.1%). In contrast, rand-hedge stocks had a splendid day, with resource stocks up 1.9%, Richemont up 6.7% and British American Tobacco up 3.2%. As a result, the overall equity market (All Share) ended the day up 0.4%, aptly illustrating the benefits of a diversified equity exposure.

The recommended investor response: keep calm and stay invested!

Momentum's outcome-based approach to investment incorporates both return and risk parameters when constructing portfolios to meet the long-term goals of our clients. As such, our portfolios are appropriately diversified to cope with the inevitable short-term volatility that a risk event like that of yesterday causes. We remain steadfast in our view that appropriately diversified portfolios that incorporate a well-constructed asset allocation process within a multi-asset portfolio framework remains paramount to safeguarding long-term financial wellness for clients. In addition, we always look to identify potentially lucrative opportunities from any asset price weakness associated with risk events to add strategic exposures to long-term portfolios if justified by an appropriate risk-reward ratio improvement in order to increase portfolio returns for our clients in the long run. In particular, our current full exposure to global assets, our overweight exposure to domestic cash and an underweight position in local listed property all benefit our portfolios during periods of rand weakness.

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