

Are investors missing out by waiting for “the Rand to recover against the Dollar”?

The strength of the US Dollar over the past six months has caught many off guard. Our own Rand has gone from R15.90/\$ on 1 January 2022 to R18.21/\$ at the time of writing. That is a 15% decline in the value of the Rand. In true South African tradition this gets attributed to local issues like Eskom, unemployment, or our low growth rates. But the reality is that the US\$ has been strong against all major currencies. The Euro, Yen and GBP Pound are trading at multi decade lows relative to the US\$. This US\$ strength has nothing to do with South Africa and its many issues.

Unsurprisingly, industry statistics have shown a dramatic decrease in the number of investors taking money offshore. Offshore investments have reduced significantly in the past few months. Investors seemed to have learnt from previous periods of currency weakness which saw large sums of money flow offshore at elevated exchange rates, only for rates to reduce in the months that followed. This investor behaviour is somewhat encouraging.

However, many investors have not factored in that offshore markets have also been weak this year. US markets are down anywhere between 20% and 30% since January 2022. Other developed and emerging markets have also been falling as a result of higher inflation, rising interest rates, slowing global growth, war and Chinese policy shifts. The risks have been many and varied and have played out around the world.

This has presented an opportunity for astute, long-term investors to increase their offshore allocation. Many struggle to see a South African recovery in the short to medium term given our many challenges. It is hard to argue with them given that we've seen Eskom fighting the same battle for the past 15 years. No modern economy grows without reliable or cheap electricity. Eventually this impacts on local asset returns.

The weak Rand has caused many investors to miss that they could be buying offshore assets a lot cheaper than before. Many investors are stuck on the fact that their R1m offshore allowance buys them far fewer US\$ today than it did at the start of the year. Consider the real life example below to understand the opportunity of taking money offshore today. It shows how many US\$ an investor could have bought with R1m, and then how many units that investor could have bought in the Nedgroup Core Global fund. The Nedgroup Core Global fund is an offshore fund that invests in offshore shares, bonds, cash, property in the US, other developed economies and emerging markets.

Date	R/US\$ Exchange Rate	US\$ for R1m	Core Global Units
1 January 2022	R15.90 / 1\$	\$62,902	36,062
30 September 2022	R17.97 / 1\$	\$55,646	41,748

Investors taking money offshore are getting more units in the fund today, despite getting fewer US\$ for their R1m. They are getting 15.7% more units in the fund despite investing 11% less US\$. Ultimately when markets rise, the unit price of the Nedgroup Core Global fund will increase so those investors buying now will see their investment benefiting significantly as a result. The historical performance of the Nedgroup Core Global fund is shown below versus the average global balanced fund. It is a fund we use a lot in GM Investment clients' offshore portfolios.



16/11/2015 - 17/10/2022 Data from FE fundinfo2022

If you wish to discuss any of the above, please contact your financial adviser at Gradidge-Mahura Investments, or send an email to info@gminvestments.co.za and we will get someone to contact you.