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ASSET MANAGEMENT

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Dear Fellow Investor

It was great to see many of you at our client event, attended by over 140 guests. If you were not able to attend, the videos are worth a watch and are available on our website (hyperlink here), covering global population demographics, Eskom, and Mayor Geordin Hill-Lewis' talk about the future of Cape Town.

So much has happened so far in 2023, centered around unpredictable geopolitical and economic shifts on both the global and local stages.

Without a shadow of a doubt, inflation, and the response thereto by central banks remains the single largest influencer of global markets in 2023. This is totally understandable; it is all about whether inflation or the economy cracks first – with perfectly opposite pay-off profiles for investors.

Headlines have also been dominated by US versus China tensions, both around Taiwan, but equally so the Ukraine war. Clearly there will be ebbs and flows in this relationship, but the broad media seems more focused on the symptoms with less emphasis on the cause – for the first time since the Cold War there is a rival superpower to the USA.

The third market development revolved around negotiations to raise the US debt ceiling, which is the maximum amount of money that the US fiscus is allowed to borrow to pay its bills. The ceiling was eventually raised to a little less than $32trn. Without this lifting running the government becomes impossible. This spooked the market for a few weeks and affected short-term US interest rates, but as has been the case in the past was resolved, as no party wants to be fingered for causing an unnecessary collapse in civil society.

In terms of domestic matters, South Africa, as we know, has a myriad of issues, all self-created with the common denominator being the ANC's incompetence, except when it comes to corruption. Loadshedding has hammered the models of great South African businesses and decimated consumer wallets. Marco writes about this in our Northstar Market Report for Quarter 2, 2023. The energy shortage is also hollowing-out our economy's productive capacity, resulting in sticky inflation as we are increasingly compelled to resort to imports.

Since July 2013, when coincidentally the EFF came into existence, South African politics turned decidedly dysfunctional but in essence, it has, until recently, been inwardly focused. 2023 heralded a new chapter in our gigantic political stuff-ups, we externalised our maladjusted diplomacy and initiated a diplomatic war with our second largest trading partner, the USA. Of course, these antics could precipitate further repercussions. As we side-up to the pariah Russia we lay the seeds of alienation with western powers that also happen to be some of our largest trading partners, which aside from the US, include the Brits and Northern Europeans being the most important.

As power and politics continued to ail, the SARB (South African Reserve Bank) maintained its Stalingrad attitude towards inflation and continued hiking interest rates this year. In May the repo rate was lifted another 50bps, hitting 8.25%, bring the total number of increases since the lows of November 2021 to 10.

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Against all of this, markets have been remarkably resilient, albeit volatile. The most significant victim of domestic troubles has been the rand, it has been one of the worst performing currencies this year, matched only by the Russian rouble. Starting 2023 at an already elevated level of 17 to the $, the ZAR depreciated to almost R20 in mid-May due to the Lady R debacle and is now approximately R18.40.

Despite all the negatives occurring at home, we have calculated that heaps of bad news is already priced into SA assets. Take the rand as an example, we run our own model on the currency and to ensure that we are not unduly optimistic, we incorporate very negative inputs to stress test the ZAR's valuation. Despite this, the local currency looks deeply undervalued. In fact, our 3-year view (3 years from today) is that the currency should be below R18 to the $. We do acknowledge however, that SA politics can instantly upturn logic.

In addition, it is encouraging to inform you that Northstar clients are generally doing well despite many political and economic developments. Our product range is well diversified, both in terms of geographies and asset classes. Using these we have been careful over the years to build financial journeys for you, with circuit breakers, where your wealth is not dependent on any one country, investment theme or asset class.

In addition, our investment teams are managing your money with a high degree of competency and navigating the landscape in a highly opportunistic fashion – tough markets always provide prospects. Things are going well!

In conclusion, we hope that you enjoy the Northstar Market Report for this quarter, we believe the articles offer some very interesting and easy reading.

Thank you for your loyal patronage of our firm, we certainly take great pride in deploying our efforts into building wealth for you and your family.

All the best,

Adrian Clayton, on behalf of the Northstar Team