Weekly Investment Update

01 March 2017

PSG Wealth

Pound drops as news of Scottish referendum surfaces - pg. 2

Cuts in US corporate tax could lead to higher valuations - pg. 3

Market moves

Performance: 17/02/2017 to 23/02/2017	Return (Cumulative)
Local Markets	
All Share TR ZAR	-0.77
Ind/Financials TR ZAR	-1.19
Ind/Industrials TR ZAR	0.07
Financials&Indl 30 TR ZAR	-0.34
Ind/Basic Materials TR ZAR	-2.21
Gold Mining TR ZAR	-7.40
SA Listed Property TR ZAR	-1.45
Beassa ALBI TR ZAR	-0.34
Commodities	
Oil Price Brent Crude PR	1.67
LBMA Platinum AM PR USD	-1.68
Gold London AM Fixing PR USD	0.05

The week ahead

Domestic

03 Mar — Standard Bank PMI

07 Mar — Foreign exchange reserves

International

02 Mar — China: GDP growth rate

06 Mar — EA: Retail PMI

Macro

South Africa

Private sector credit rose by 5.56% y/y in January 2017, after a marginally revised 5.10% rise in December. This number was higher than market expectations of a 5.05% growth, central bank data showed.

Japan

This Asian country's industrial output unexpectedly fell by 0.8% m/m in January 2017, after a 0.7% rise in December and below expectations of a 0.3% gain.

France

The French economy expanded 0.4% q/q at the end of December 2016, compared to a 0.2% growth in the three months to September. This was in line with preliminary figures, second estimates showed. It was the second straight quarter of growth and the strongest since the March quarter

Markets*

Best performer

For the week was Bid Corporation Ltd. and Massmart Holdings, both with a return of 14%. Balwin Properties was second, with a 9% return for the same period.

Worst performer

Impala Platinum Holdings was the worst performer for the week with a loss of 12%. Followed by AngloGold Ashanti and Lonmin, both with a 9% drop for the week.

Sectors

The best performing sector for the week was the food and drug sector with a return of 5.4% for the week. The mining sector was the worst performing sector with a 6.5% loss.

*Disclaimer: Total weekly returns based on closing values from Monday to Monday.

Macro note

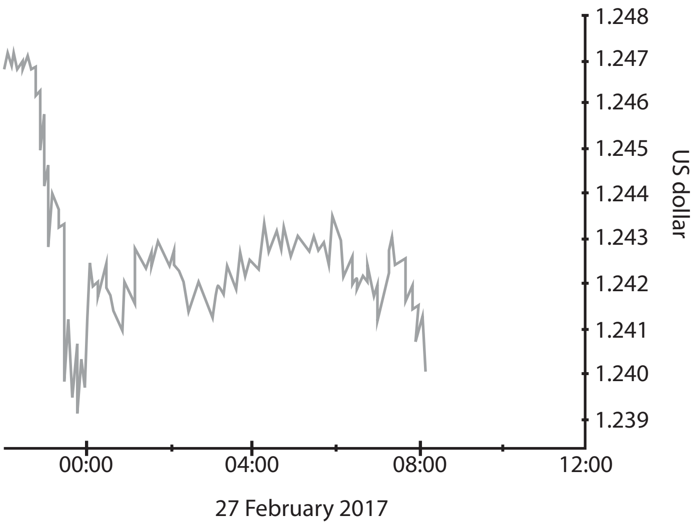
Pound drops as news of Scottish referendum surfaces

The pound fell against all its major peers after a major British newspaper reported that UK Prime Minister Theresa May's team is preparing for Scotland who could call for an independence referendum. Sterling, which has been held hostage by politics since a Scottish referendum in 2014, fell as much as 0.6% on Monday morning after the news broke. While talk of Scotland leaving the UK isn't new, analysts believe it's not been priced into markets yet. If Scotland decides to proceed with the second referendum to quit the UK, there could be another fundamental downshift in the pound's value, both against the US dollar, the euro and the rand.

The rand is currently trading at levels similar to those at the end of October 2013.

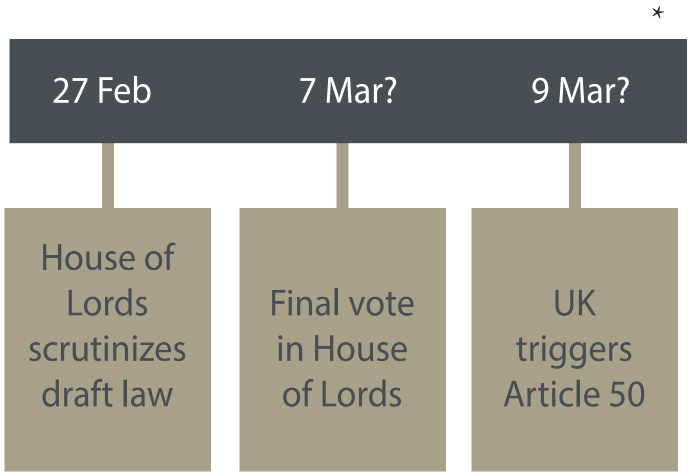
Since the start of January 2016 the rand has strengthened by 53.8% against the pound – from R24.40 a pound to R15.93 a pound. Alternatively, the pound has weakened by 35%, a third, against the rand over this period. During the last referendum in September 2014, Scotland voted 55% to 45% to stay inside the UK. Monday the House of Lords started a detailed examination of the bill authorising May to trigger the nation's withdrawal from the European Union.

Pound drops as UK said to prepare for new Scottish independence vote



Source: Bloomberg

UK's BREXIT Timetable



* Question marks represent uncertainty on specific dates.

Source: Bloomberg

Bottom line

The pounds' recent drop shows that currencies do not like instability. Even seemingly stable currencies can weaken against the rand. While in some instances, such as imports, a weaker pound is damaging to the British economy, at the same time it is an attractive opportunity for domestic investors.

A weaker pound could present an opportunity to South African investors who are not as widely diversified abroad as they would like. This could give our investors the chance to diversify abroad at cheaper levels. In this regard our GBP specific offshore solutions could be the correct place to invest in for broader offshore diversification.

PSG Wealth

Market note

Cuts in US corporate tax could lead to higher valuations

The proposed cut of corporate taxes by US President Donald Trump could translate into higher earnings and lead to a higher valuation of companies. One of Trumps' tax proposals is to cut corporate tax from 35% to between 15% to 25%.

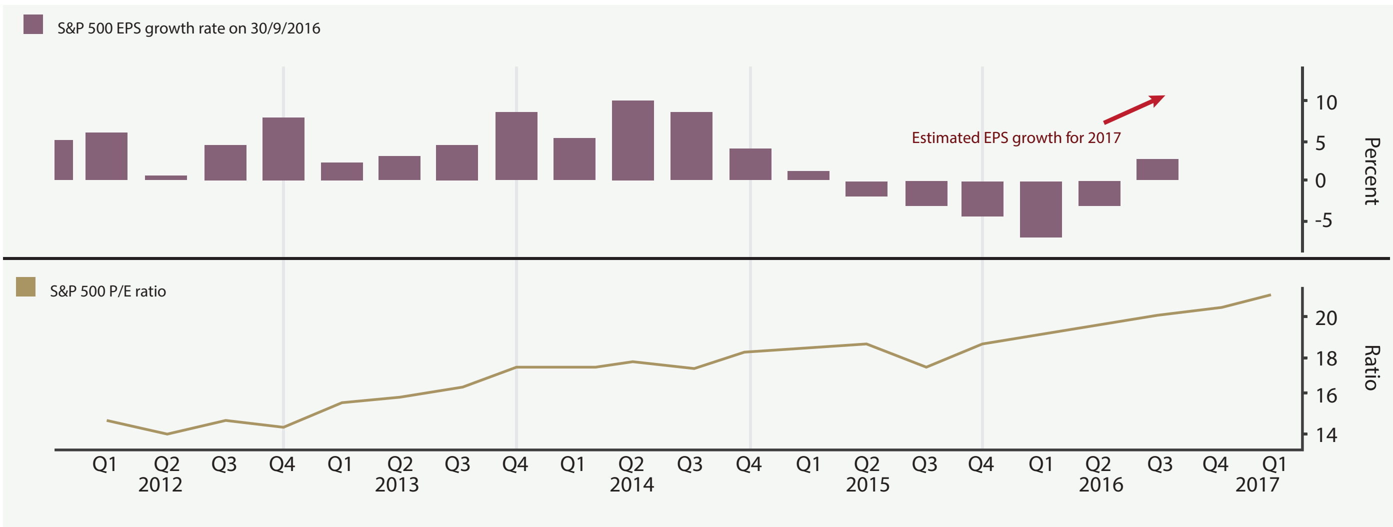
The S&P 500 has been trading at all-time highs in recent weeks. The graph below shows how P/E multiples have increased from about 17 times in the third quarter of 2015 to above 20 in the first few months of this year. Therefore, it's important for investors to note how these proposed tax changes could impact companies.

A more attractive US corporate tax rate could entice many S&P 500 companies to repatriate their profits (at lower proposed rates of 3.5% to 10%) from abroad. The proposed new tax plan could do away with interest deductability on new debt. Historically, this made the use of debt in a company's capital structure attractive as a portion of the cost of debt, in the form of interest payments, are offset in the company's income statement because the interest payments are tax deductible.

The long-term effect of these proposed tax changes are still unclear. If these changes are enacted, companies could have very different capital structures. The proposed Border Adjustment Tax could significantly impact importers and boost exporters in the US.

This could prove to be a headwind to earnings as companies might have to spend more on investments to align their operations within the US, rather than abroad. In this scenario, companies would rather pay off debts, than spend this extra cash on share buybacks.

S&P 500 EPS growth rate and P/E ratio



Source: PSG Wealth research team

PSG Wealth

Previous publications

Daily

01 March 2017

Weekly

15 Feb	12 Oct	06 Jul	20 Apr
06 Feb	05 Oct	29 Jun	12 Apr
18 Jan	28 Sep	22 Jun	05 Apr
11 Jan	14 Sep	15 Jun	30 Mar
14 Dec	07 Sep	08 Jun	23 Mar
07 Dec	31 Aug	01 Jun	16 Mar
30 Nov	17 Aug	25 May	09 Mar
16 Nov	10 Aug	18 May	01 Mar
09 Nov	02 Aug	11 May	23 Feb
02 Nov	27 Jul	04 May	11 Dec
26 Oct	13 Jul	26 Apr	20 Nov

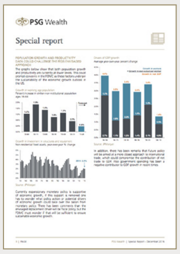
Monthly

Feb 2017	Feb 2016
Jan 2017	Dec 2015
Nov 2016	Nov 2015
Oct 2016	Oct 2015
Sep 2016	Sep 2015
Aug 2016	Aug 2015
Jul 2016	July 2015
Jun 2016	Jun 2015
May 2016	May 2015
Apr 2016	
Mar 2016	

Quarterly

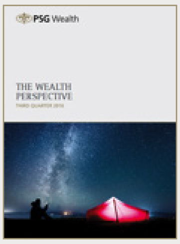
Summer 2017
Spring 2016
Winter 2016
Autumn 2016
Summer 2016
Spring 2015

Special Reports



Research provided
Fed hike inevitable?
S&P 2 Dec review
US election
Market PE's
Domestic local government elections
Brexit vote
Cash vs Long-term instruments
S&P June 2016 rating decision explained
Fed Dec 2015 interest rate hike
Impact of political moves on investments
FoF fees small compared to actual gains
SARB hikes rates
Weak PMI support foreign diversification

Wealth Perspective



Dec 2016
Sep 2016
Jul 2016
Apr 2016
Jan 2016
Oct 2015
Jul 2015