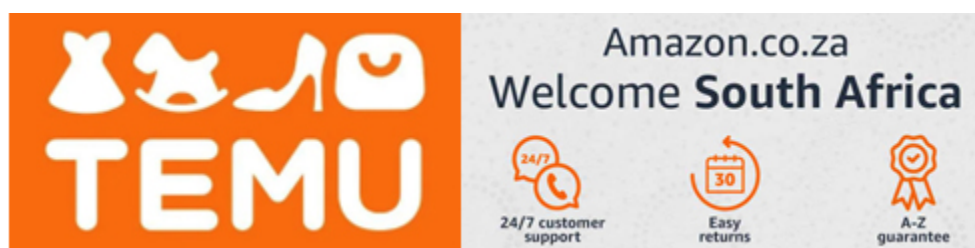


Market Movers

Have you heard of TEMU? The online retail platform owned by the Chinese mega-company Pinduoduo is making aggressive inroads into South Africa in recent months. You may also have noticed a somewhat more muted, but no less significant, launch of the Marketplace platform by Amazon. Both of these companies are seeking to displace Takealot amongst other retail stores across the country.



Separately, the Australian headquartered BHP is lining up a takeover offer for Anglo American, a company established in 1917 and one of the stalwarts on the JSE. Could it disappear from our shores?

BHP plans £31bn bid for Anglo American but attracts ire from South Africa and shareholders

So, what do these headlines have in common?

Each of them highlights two important aspects concerning investments: the value of listed companies available to local investors on the local stock market; and the profits earned by local companies to contribute to the local economy and its population.

This dynamic is not unique to South Africa or even new. The allocation of listed equities across countries and regions changes slowly, but significantly, over time.

To put this in context, consider this: in 1900, the largest stock market in the world was in the UK – accounting for almost 24% of all global listed equities. Despite only generating 9.1% of global productivity or GDP, the UK had managed to get itself into a position where the majority of publicly listed equity was housed within its borders. These were the days of the great British Empire, and intuitively it makes sense: *“go forth and acquire!”*. The UK made use of its wealth and its ambition to establish a global footprint of companies spanning sectors such as oil, commodities and finance. Revenues and profits from around the world were dragged back into London.

At the same time, China accounted for just 0.4% of global equity markets, yet was already a driving force and producing almost 16% of global GDP. In the US, they were just entering the fray, unbelievably, and held just 15.5% of global equity markets while contributing 18.6% of global GDP.

The point should hopefully be clear: your country’s productivity is often owned by others! The table below illustrates how global stock markets have evolved since 1900:

Market	1900		2022		Change in Stock Market Share	Change in GDP Share
	Share of Global Stock Market	Share of Global Economy (GDP)	Share of Global Stock Market	Share of Global Economy (GDP)		
Rest of World	22.8%	41.5%	13.4%	43.7%	-9.4%	2.2%
China	0.4%	11.4%	3.6%	15.8%	3.2%	4.4%
Austria	4.8%	0.8%	0.1%	0.4%	-4.7%	-0.4%
Switzerland	1.1%	0.6%	2.5%	0.7%	1.4%	0.1%
Netherlands	2.7%	0.8%	1.3%	1.0%	-1.4%	0.2%
Australia	3.4%	0.7%	1.9%	1.5%	-1.5%	0.8%
Canada	1.3%	0.8%	2.5%	1.8%	1.2%	1.0%
France	11.0%	5.4%	2.8%	2.9%	-8.2%	-2.5%
Germany	12.2%	7.5%	2.2%	4.0%	-10.0%	-3.5%
Japan	1.0%	2.8%	6.3%	4.4%	5.3%	1.6%
UK	23.8%	9.1%	3.9%	3.1%	-19.9%	-6.0%
US	15.5%	18.6%	59.5%	20.7%	44.0%	2.1%
Total	100.0%	100.0%	100.0%	100.0%		

Source: Visual Capitalist: Our World in Data, Global Financial Data, OECD Trading Economics, Bloomberg, Federal Reserve of St. Louis.

By 2022, the US held almost 60% of the value of all global stock markets¹, while maintaining a relatively stable 20.7% of the GDP market share. It has been the clear winner when it comes to building valuable businesses without doing all of the work, and the UK (and Europe more generally) the big losers. You could ask the question: "Why bother with anything else other than a US equity portfolio?". Especially when you consider that 60% of the S&P 500's revenues come from other countries around the world.²

You can capture the global investment opportunity through the US alone, and avoid the fuss of looking more broadly.

These structural shifts between markets are extremely important in generating investment returns. How can we better understand what drives them?

Below we explore six drivers which collectively impact the relative success or failure of a country to grow its stock market share and its opportunities for investors. From this we hope to be able to gauge where we are today.

1. The Competition for Capital

This describes the broad environment within a country which makes it more or less attractive to start a business, to raise capital, to source talent, education and training, the rule of law, governance standards and overall stability of the system. Very simply, the more organised and better resourced a nation, the more successful they will be in attracting and building investment opportunities.

2. Growth and Innovation

This speaks to the culture, ingenuity and talent pool within a nation, as well as the strength of the support systems such as banks, venture capital and other funding sources. In many respects innovation is a luxury afforded to those with the time to spare to create new businesses and technologies. Great examples here are Google, Microsoft and Tesla. Entrepreneurs are rare, and they tend to go where they can get the support for their ideas.

3. Natural Resources

Looking back through history, this has been a key factor driving market returns and is illustrated by the fact that resource-heavy countries such as South Africa and Australia are near the top of the performance tables when measured over 100 years+. At the turn of the 20th century the oil majors were companies like Standard Oil (now ExxonMobil) and Shell. Anglo American (gold and other commodities), De Beers (diamonds), Goldfields, AngloGold, Harmony Gold, Implats and Amplats (both platinum) have all been material contributors to South African investment portfolios. Looking forward, it is less obvious who the main resource beneficiaries will be. Will it be those countries with base metals suited to the emerging electric car (EV) industry? Will oil still be relevant thirty

years from now? With green energy a clear trend, will those countries with deep reserves in cobalt, manganese, copper, lithium and nickel be the equivalent to the gold and diamond miners from the early 1900's? To be successful here, you need a lot of good luck.

4. Acquisitions

The JSE has shrunk from over 600 listed companies in the late 1990's to ~350 today. Many of these delistings are due to being bought out by a global party with deep pockets, often taking advantage of overly pessimistic local valuations. Success breeds success, and a company with greater size and scale can acquire companies in parallel industries or foreign competitors to enhance their future growth. Mark Shuttleworth's Thawte being bought by Verisign in 1999 was one such example³. These transactions shift market value from one country to another, and also shift revenues, taxes and dividends to other domiciles.

5. Home country size and scale

Size matters when competing against global stock markets. In a country with a larger, wealthier population, it is easier to reach scale quicker than a country with a similar innovation, but a smaller local population to support its growth. The US has excelled in this area in particular. No other single country has both the wealth and the scale which the US does to help launch and grow new startups.

6. Valuations

Lastly, valuations impact the relative size of stock markets around the world. For instance, the US today trades at 27x the past years profits, whereas in China the stock market is trading at one third of that level. Europe is about half. These differences can be both temporary (excitement around AI driving US markets for example), or structural, where a better regulated, more transparent, more liquid market with higher quality companies will attract a higher average valuation level over time, claiming a higher proportion of investment markets globally. As a matter of interest, if the US reverted to its average valuation level today of ~18x profits, it's share would fall to a bit over 50% of global markets.

Looking ahead

What does this mean for investment returns? We can make some simple observations:

- It is not obvious that the US will stop growing its share of global stock markets. It is better organized, has the size and scale, the culture, access to talent, ownership of key technologies and countless other advantages over other regions and markets. 100 years ago, colonization involved fleets of ships and armies. The US has financially colonized the world through innovation, hard work, and a reliable system.
- In the transition to a digital global economy, does it lower the barriers for transition of stock market wealth? Our TEMU example above highlights this: a Chinese⁴ company setting up shop in SA in a matter of months and able to compete using a substantially larger platform via its Chinese parent. The revenue generated by local companies declines, and the value of local equity markets suffers as a result.
- When you consider that the region with the most favourable growth forecast is South East Asia and more generally the Emerging Markets, is it likely that these countries and regions will continue to accept their productivity being 'captured' in foreign, developed world stock markets? Or will these countries start aligning themselves in a collective direction to own what is theirs? The 'East vs West' theme rises up here, including South Africa's own involvement in the BRICS+.
- Lastly, who are the candidates who have the potential to score across the six areas mentioned above and lay a claim for future expansion? Countries like India and China have the scale and in many cases innovation and growth traits are a feature of their markets. But they fall down in other areas such as Competition for Capital. Signs that either of these countries focus their strategic intent on becoming investor friendly for old school western capital would change the dynamics quickly. And all the while their domestic wealth is growing, to the point where they could outmuscle developed market companies when it comes to acquisitions.

The migration of stock market wealth from Europe and the Emerging Markets to the US and China signifies who is winning the race for global competitiveness. Despite China's current reputation as a higher risk, investor unfriendly environment, it looks poised to continue expanding its footprint as it leverages an increasingly broad wealth base and strong culture of growth and innovation. The US will continue to form the rump of most investor portfolios, and while this is a welcome feature, there can be times when its share is oversized. At these points, allocations to regions which are not as organized or competitive, but are substantially better value, can yield higher returns for investors.

[1] As at 30.04.2024, it now holds 63% of all listed equities.

[2] Source: Factset

[3] Thawte had substantial global market share for internet security outside of the US, but Verisign was dominant in the US and used this stronger position to acquire the smaller company in SA. Thawte was still private at the time and not listed on the JSE.

[4] TEMU is actually headquartered in Ireland, presumably to lower its tax rate and provide easier business relationships around the globe.

REDFIN WEALTH

INVESTMENT - RETIREMENT - FINANCIAL PLANNERS

April 2024

MARKET REPORT

30 04 2024

		3m	YTD	1yr	3yr pa	5yr pa	10yr pa	5yr Vol1	10yr Vol1
LOCAL MARKET INDICES									
SA Equity	ZAR	3.5%	0.4%	0.5%	8.1%	8.6%	7.2%	17.1%	14.3%
SA Listed Property	ZAR	-0.9%	3.0%	13.1%	9.0%	-0.5%	2.4%	26.9%	21.3%
SA Bonds	ZAR	-1.3%	-0.5%	6.3%	6.7%	6.6%	7.0%	8.5%	8.1%
SA Cash	ZAR	2.0%	2.8%	8.5%	6.2%	6.0%	6.5%	0.5%	0.4%
Balanced Benchmark	ZAR	2.3%	1.3%	5.4%	8.6%	8.8%	8.2%	11.8%	9.7%
SA Inflation (1 month lag)	ZAR	1.9%	1.9%	5.3%	6.1%	5.1%	5.0%	1.4%	1.4%
GLOBAL MARKET INDICES BASED TO USD									
Global Equity	USD	3.6%	4.6%	18.5%	5.8%	10.6%	9.0%	18.1%	15.1%
Emerging Markets Equity	USD	8.0%	2.9%	9.6%	-6.1%	1.5%	2.7%	19.1%	17.4%
Global Property	USD	-3.3%	-8.1%	-0.9%	-5.2%	-1.2%	2.1%	20.7%	16.8%
Global Bonds	USD	-3.3%	-4.6%	-2.6%	-6.0%	-1.7%	-0.5%	7.6%	6.2%
US Cash	USD	1.3%	1.8%	5.5%	2.8%	2.1%	1.5%	0.6%	0.5%
MAJOR INDICES BASED TO RANDS									
SA Equity	ZAR	3.5%	0.4%	0.5%	8.1%	8.6%	7.2%	17.1%	14.3%
Global Equity	ZAR	5.0%	6.7%	22.1%	15.4%	16.8%	15.5%	16.0%	15.7%
Emerging Markets Equity	ZAR	9.3%	6.0%	12.9%	2.5%	7.2%	8.9%	14.3%	13.8%
Global Property	ZAR	-2.0%	-6.2%	2.1%	3.5%	4.4%	8.2%	18.7%	17.2%
SA Bonds	ZAR	-1.3%	-0.5%	6.3%	6.7%	6.6%	7.0%	8.5%	8.1%
Global Bonds	ZAR	-2.0%	-1.7%	0.3%	2.6%	3.8%	5.5%	13.4%	13.8%
COMMODITIES									
Gold (US Dollars)	USD	12.3%	11.8%	16.2%	9.1%	12.3%	5.8%	14.7%	13.7%
Gold (Rands)	ZAR	13.8%	15.2%	19.7%	19.1%	18.6%	12.1%	18.0%	16.9%
CURRENCIES									
Rand / Dollar	ZAR	-0.7%	-2.8%	-2.4%	-9.1%	-5.6%	-6.0%	14.3%	14.7%
Rand / GBP Pound	ZAR	1.0%	-0.9%	-1.9%	-5.5%	-4.7%	-2.8%	12.3%	14.2%
Rand / Euro	ZAR	0.9%	0.6%	1.7%	-4.9%	-4.5%	-3.2%	11.6%	13.0%

KEY

Asset Class	Represented By:
SA Bonds	Satrix Bond Index Tracker
SA Cash	STeFi
SA Equity	Satrix ALSI Index Tracker
SA Listed Property	Satrix Property Index Tracker
Emerging Markets Equity	iShares Emerging Markets Equity Index Tracker
US Cash	Fidelity Institutional Liquidity The United States Dollar
Global Bonds	iShares Core Global Aggregate Bond ETF
Global Equity	iShares Developed World Index Tracker
Global Property	iShares Developed Real Estate Index Tracker

REDFIN WEALTH

INVESTMENT - RETIREMENT - FINANCIAL PLANNERS

April 2024

Spot Rates		30-Apr-24	Latest Quarter	1 Year Ago	5 Years Ago	10 Years Ago	20 Years Ago
CURRENCIES							
Rand/US\$	Rand	18.8	18.9	18.3	14.3	10.5	6.9
Rand/GBP	Rand	23.6	23.9	23.0	18.7	17.8	12.2
Rand/EUR	Rand	20.1	20.5	20.2	16.1	14.6	8.1
RATES							
SOFR 6m \$	US\$	5.7	5.6	5.4	2.6	0.3	1.3
Repo Rate	Rand	8.25	8.25	7.75	6.75	5.50	8.00
Prime	Rand	11.75	11.75	11.25	10.25	9.00	11.50
All Bond Index Yield	Rand	10.7	10.7	11.6	9.4	8.6	9.7
COMMODITIES							
Gold (\$/oz)	US\$	2,296.5	2,214.3	1,990.4	1,283.1	1,293.7	391.8
Platinum	US\$	939.0	907.0	1,074.0	889.0	1,424.0	820.0
Oil (Brent Crude) \$	US\$	87.9	87.4	79.5	72.9	107.8	34.7
INFLATION							
SA Inflation	%	5.3	5.6	6.8	4.3	6.2	9.4

data provided by FE Analytics

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