

# OLD MUTUAL SUPERFUND: MEMBER INVESTMENT UPDATE

**Live** Longer,  
**Laugh** at how easy it is to understand investments,  
**Love** how much your retirement savings can grow.

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## JUNK STATUS

By now, almost every South African will be aware that the international credit ratings agency, Standard & Poor's (S&P), has downgraded our long-term foreign currency sovereign credit rating to sub-investment grade, better known as "junk status". Fitch has now also become the second agency to downgrade SA's credit rating so sub-investment grade.

## HOW DID THIS HAPPEN?

The past few weeks have been extremely unstable with a number of unfortunate events such as the recall of then Minister of Finance, Pravin Gordhan and his deputy, Minister Mcebisi Jonas, followed by an announcement of a Cabinet reshuffle that included a newly appointed Minister of Finance, Malusi Gigaba, which was in turn followed by the ratings downgrade. S&P said the decision has followed the recent executive changes initiated by President Zuma.

All of these events have and will continue to cause instability (i.e. volatility) in the South African Investment market. Markets want predictability and don't like change.

## NO NEED TO PANIC

South African government debt was already priced by the market as if we had been downgraded to

"junk status" before the Cabinet changes. While there will be volatility, as people tend to overreact to such events, there is no need to panic. The fundamentals that have determined the course of the Rand over the last few months are still in place: commodity prices have increased, emerging markets (of which South Africa is one) are seen as providing better value than developed economies, the drought has broken in the summer rainfall area, electricity supply seems stable.

## WHAT WILL HAPPEN NOW?

The worst case scenario would play out like this:



But there is no reason to expect that this downward spiral is inevitable. South Africa is only a small player on the world stage, and it is the world that determines how our currency and commodities are priced.

While credit rating agencies would prefer policy certainty and stability, the impact of current events is likely to be a short-term market drop rather than a permanent shock to the financial system.

## WHAT YOU SHOULD DO

It is important **not to panic and make any rash decisions based on the current market events** by disinvesting from the market and putting your retirement savings into portfolios that aim to preserve capital value at the expense of long-term returns.



If you are in our default smoothed bonus portfolio, the smoothing mechanism will protect you from some of the short-term volatility while keeping you invested in long-term growth assets.

Another piece of advice is to **reduce your debt as much as possible** and to not spend beyond what you can afford. We may witness a tough economic environment and the cost of living may increase.

If you are in any doubt, you should **seek financial advice from an accredited adviser** and remain committed to a sound financial plan.

## WRAPPING UP...

As outlined above there are likely to be a number of developments in the months ahead that will influence your investment returns. The Old Mutual SuperFund is very cautious and has made sure that the Investment Managers offering investment portfolios to our members have excellent people and processes in place and that each investment portfolio is well diversified across the various asset classes.

The investment world can be complicated and confusing especially during times of unusual volatility. We hope, however, that this Investment Update has reassured you that your savings are in good hands.

