

## Monthly Newsletter – July 2016

### A Note from Theo and Warren

#### **Brexit: What next?**

In a humbling reminder of the difficulty in predicting binary political events, the UK referendum on EU membership didn't go quite as the financial markets (and everyone else) had expected. This lesson will linger for some time and might undermine investors' confidence when they act around upcoming political events such as the US election in November.

In a natural response to this shock, the market's immediate reaction has been to unload risky assets and flock to 'safe havens' such as gold and the Swiss franc. The UK's decision to leave the EU propels markets into uncharted waters, with implications that may not be known for years.

The execution of the decision to exit will not be immediate. It could take at least two years once the UK government invokes Article 50 of the Lisbon Treaty, potentially giving time for the UK to make an effort to re-engage economically with the EU, and for economic actors to adjust. The specific path to Brexit could take many forms, depending on the degree of co-operation between the UK and the EU and other trading partners.

The UK's vote to leave is not the result of a deep economic crisis; it is primarily a political choice. Finally, the UK has its own currency, so an obvious but important point to note is that the 'leave' vote does not directly threaten the continent's monetary union. The impact of Brexit on UK banks and the financial sector, while negative, should not be systemically threatening.

#### *Worry more about political than economic contagion*

In our view, the global economy would manage even if, as a result of Brexit, the UK went into a mild recession. Thus, we think that key to determining future market direction is the extent to which the events in the UK could lead to separatist movements in countries of the EU. While European leaders may have learned the lesson from the unwanted outcome of David Cameron's referendum gamble, the potential for referenda among EU members is a new risk on the horizon.

The elections in Spain saw the left-wing Podemos party taking 21.1% of the vote. Although lower than expected, it demonstrates the steady rise of populism in Europe. It is probably reasonable to assume that policymakers will not be passive bystanders if the markets become disorderly. For example, in the aftermath of the vote, markets have largely eliminated expectations for interest rate hikes by the US

Federal Reserve in 2016. This liquidity backdrop is supportive of risky assets.

### *This is not a home-grown crisis for emerging markets*

For emerging markets, the current turmoil is an imported one, not home-grown. In fact, with stabilising commodity prices, emerging economies appeared to be bottoming out in the last few months. This may help explain the relative resilience of emerging market assets the day after the vote. From here onward, the future of emerging markets will depend critically on the impact of Brexit on global growth and risk appetite.

The SA rand posted the second largest monthly gain among a basket of EM currencies, second only to the stellar 12.4% appreciation of the Brazilian real against the US dollar. The rand gained 6.8% against the US dollar and a firmer 7.2% against the euro.

### **Spotlight on two of our core shares**

**BARCLAYS AFRICA:** Barclays Africa offers personal and business banking, credit cards, corporate and investment banking, wealth and investment management and insurance. It is the African arm of the UK-based Barclays Group, and its long-standing presence in 12 key African markets has built the necessary goodwill and market share to secure a strong platform to capture the growth opportunity Africa offers. African economies offer high growth and wide margins, and Barclays Africa shareholders should be delighted that Barclays intends to re-focus on the OECD business and exit Africa. We doubt that Brexit will make any difference to the holding company's view.

**MTN:** MTN is primarily involved in the operation of GSM cellular networks and the provision of related services to customers. In the utilities space, dominance is everything – if you aren't number one or two, you're pretty much nowhere. Well, with the possible exception of South Africa, the geographies MTN is placed in are ideal for this kind of business – young growing populations, with a massive appetite for telecoms and financial services. The fall-out from a politically regulatory fine in the Nigerian market, has created a bargain basement opportunity to accumulate the stock cheaply, and the company has not allowed the hiatus to hold it back. Data is a key growth area in mobile. It was the only bidder in the 2600MHz spectrum auction in Nigeria, which spectrum it will use to roll out a 2 000 site LTE network, which will overtake competitors in terms of data network quality.

*- Theo and Warren*

## **Ditch the travel guilt**

If you're the kind to choose travel over a new sofa or a bigger car, science is on your side. Recent psychological research from Cornell University in New York confirms that the key to happiness is found in experiences, not things.

Dr Thomas Gilovich, who led the two-year study, says we buy things to make us happy, and we succeed. But only for a while. New things are exciting to us at first, but then we adapt to them. So we get used to the things we own, and they make us less happy.

But when it comes to things we've done, our happiness increases, because they shape who we are. So Dr Gilovich suggests that instead of saving for a new Xbox, or a massive plasma screen TV, you aim instead to fill your life with experiences like travel, outdoor activities, new skills or visiting exhibitions.

Time to aim for some more stamps in that passport!

## **6 things to stop apologising for**

Sociolinguists have noted that women in the western world are far more likely to start a sentence with "Sorry ..." than men are. But that doesn't mean it's their domain alone – often we begin by apologising, and often, there's no need to apologise at all. So here's a list of things you need to stop apologising for, because that "Sorry ..." only makes you look weak and easy to dismiss.

1. Don't apologise for not being omniscient. You cannot be expected to know what people meant if they didn't expressly tell you.
2. Don't apologise for having human needs like food and sleep. You're entitled to do what you need to do to stay healthy.
3. Don't apologise for being intimidatingly talented. Celebrate your strengths; play to them.
4. Don't apologise for not leaping onto whatever today's bandwagon is. If you have opposing views, express them. Trendy isn't always clever.
5. Don't apologise for not helping those who can help themselves. Don't enable laziness.
6. Don't apologise for trusting your gut. There's a reason you have instincts. Trust them, always.