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Offshore investing is crucial to a diversified portfolio

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In the last 10 years, South African investors have not been rewarded for taking equity-type risk if most of their wealth was invested in the JSE.

Smart investors have started considering alternatives and flows to offshore markets, seeking better opportunities for long-term investors.

Delistings on the JSE are increasing, and local fund managers could be under pressure to perform for their investors with fewer stocks available to buy.

You can argue that if you track the returns of the JSE over a period longer than 10 years, you'd discover some sort of "acceptable" return to compensate a long-term investor.

However, an annualised return of 1.74% from the JSE over 10 years should not please investors who have committed to remaining invested for long periods of time and accepted the levels of risk associated with equities.

The bull run during Covid was mainly due to a strong performance from commodity stocks.

These stocks benefitted from rising commodity prices during the pandemic as demand for commodities increased from China and emerging markets.

SA's debt crisis: government's inability to create economic growth prospects

In recent weeks, news headlines have dominated the financial media over the rising fiscal debt crisis in SA, while another $1 billion (about R19 billion) is being negotiated at the World Bank for investment in the failing energy sector. A recent news report suggested that SA's widening budget deficit has raised the prospect of a fiscal crisis.

Although developed economies such as the US also have high fiscal debt levels, unemployment is low, so the economy still thrives as consumer demand remains resilient. This isn't the same for SA, as the country's unemployment rate is one of the highest in the world.

How does a possible fiscal crisis impact Sa's economy?

The short answer is that besides the borrowing cost of this debt exceeding R1 billion a day, it means government cannot allocate finances to stimulus projects to create employment and economic growth opportunities.

This also poses a risk of wealth tax, exchange control tightening and higher taxes, which will be felt by businesses and consumers.

SA and the rest of the world: We need foreign investment inflows and higher export numbers

SA is a commodity-producing economy and being an open economy, the reliance of the rest of the world for stability and growth is big.

Recent numbers indicate that foreigners are net sellers of SA equities and bonds.

This creates less demand for the rand, and more demand for other developed market currencies, contributing to gradual rand weakness over time.

This, and the slowed-down exports of SA's commodities to major trading partners such as China, places pressure on fiscal revenue collection, negatively impacts commodity prices, which again contributes to a weaker rand.

Here is how the rand has weakened over time: Rand depreciation is not good for foreign investors

On average, the rand weakened against the dollar over the long term. This is unfavourable for foreign investors as they earn less in dollars or in their equivalent foreign currency terms.

Offshore investing remains a crucial part of a diversification strategy, and investors should take careful consideration to consider diversification away from the fragile SA economy and stock market in search of better opportunities, especially for long-term capital that is not required to service lifestyle needs.

Keep in mind that all investment decisions are best decided with the guidance of a trusted wealth advisor.

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