



# OUR TWO CENTS

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Michael joined as an investment analyst and has an MPhil (Financial Management Sciences) cum laude specialising in economic psychology and has passed the CFA level 3 exam. Prior to starting at New Road Capital, he worked as assistant lecturer at the University of Pretoria assisting with quantitative investment analysis. He has built and traded on models using CFDs. Outside of work, he enjoys flying motor gliders from Springs airfield as well as sailing his Laser class sailboat.

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## Equity Markets and Exchange Rates

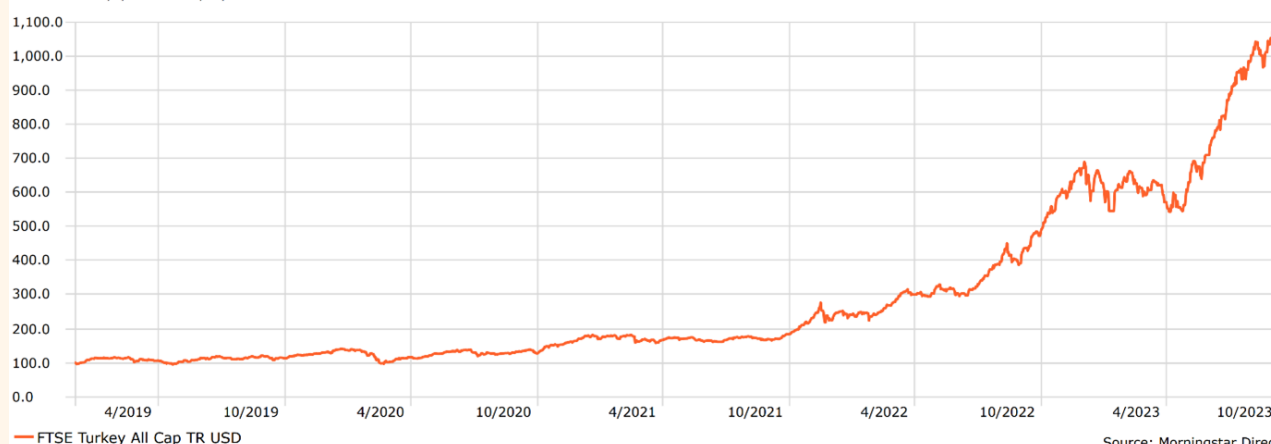
There have recently been fears about South Africa's fiscal debt situation and with it, the suggestion that investors move all their money into offshore equities. Before doing so, investors should carefully consider countries that have been through a similar situation and how their equity markets fared.

Turkey has been struggling from a fiscal and economic crisis resulting in the Turkish Lira losing about 81% of its value relative to the Dollar since the beginning of 2019. This was driven by excessive amounts of foreign denominated debt as well as a heavy reliance on imports relative to exports. South Africa doesn't face the same situation as Turkey, the Turkish debt was largely denominated in foreign currencies so as the Turkish Lira devalued, the debt became harder and harder to service. In contrast, most South African debt is denominated in Rands so if the Rand decreases in value, the debt burden remains unchanged.

Turkey does, however; provide a useful example for investors to consider when thinking about their own investments. Is moving money offshore the only way to be protected from similar crises? To answer this question, consider the performance of the FTSE Turkey Index presented in the following chart. In the same way that stocks offer some protection against inflation, they offer protection against currency devaluation too.

#### **Investment Performance of the FTSE Turkey Index in TKY**

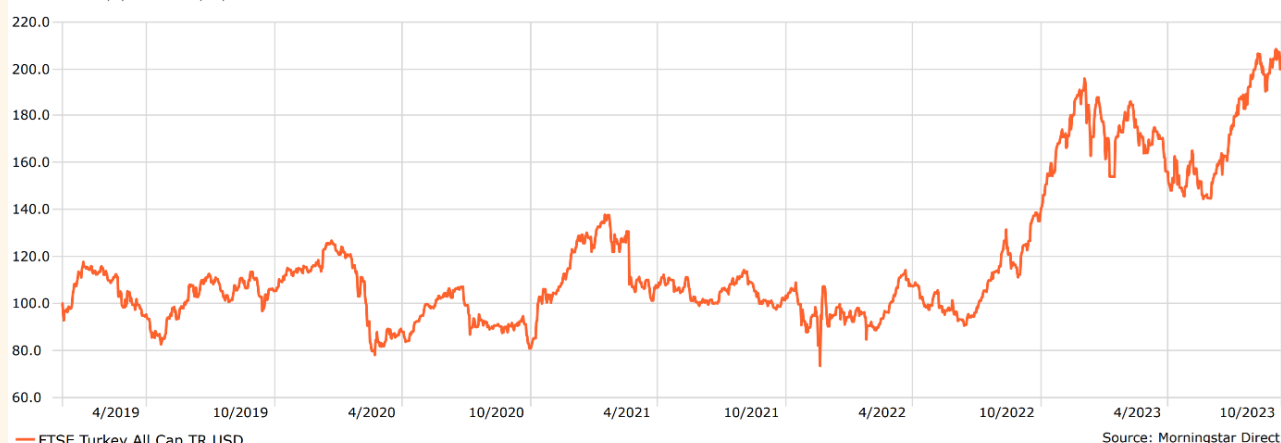
Time Period: 1/1/2019 to 10/10/2023



Over this period, an investor would have received a total return of approximately 64% p.a. in Turkish Lira terms! Such a return would have benefited the Turkish investor and protected the value of their money as the Turkish Lira fell in value relative to the Dollar. This can be seen more clearly in the following chart which illustrates the performance of the FTSE Turkey index in Dollar terms, which shows that the Turkish investor would still have benefited.

## Investment Performance of the FTSE Turkey Index in USD

Time Period: 1/1/2019 to 10/10/2023



Investors were also rewarded with a return of 16.26% p.a. in US Dollar terms.

Investors should be weary of focusing too much on a specific risk and a singular solution when constructing a portfolio. It's substantially better to maintain a well-diversified portfolio to achieve the best trade-off between achieving protection against adverse events while minimizing the opportunity cost.