# from the editor

JANA MARAIS

Two underreported stories caught my eye this week, both sending some concerning signals about investor confidence.

The first was a piece by Moneyweb on Transnet's most recent two-weekly bond auction, held on 8 May, where the parastatal aimed to sell R200m worth of bonds. It received two bids amounting to R40m, and ended up only issuing bonds worth R10m. Of the R600m Transnet has sought to raise in its three auctions following the axing of Pravin Gordhan as finance minister, it has raised just R55m, or 9%, according to Moneyweb.

Given the backlogs in infrastructure investment and the crucial logistical role Transnet plays in the country, this can't be good news. Last year, Futuregrowth Asset Management came under immense fire for saying it would no longer buy bonds from a number of parastatals, including Transnet, citing governance concerns. It seems its peers have quietly decided to do the same. One can only imagine what investor interest would be like after further credit rating downgrades.

The second story, by *Business Day*, explained why Coronation decided to sell out of South African government bonds in three of its major funds, including its flagship Balanced Plus fund. Nishan Maharaj, head of fixed interest at Coronation, said to the newspaper that, while SA government bonds look "cheap on the surface", it is not pricing in sufficient risk. In short, investors believe SA can follow Brazil's path of economic and political reforms – a mistake, in Maharaj's view.

While an argument can be made that stingy investors could eventually leave government with no choice but to get its house in order, one would hope that the latter happens long before important state-owned enterprises or departments run out of cash, or we get tempted to print money Zimbabwe-style to keep the wheels turning.

It is easy to get carried away and paint an overly negative picture of SA's economic outlook. What happens if global sentiment cools on emerging markets and the rand blows out, for example, leading to huge inflation increases and interest rate hikes? But even without that scenario on the cards, diversifying offshore as much as possible is probably a wise investment decision. (See cover story from page 18-32.)

As Investec's Ryan Friedman points out, we have access to only about 400 locally listed companies out of a total investable universe of about 49 000 listed companies (see page 27). SA's GDP constitutes not even 1% of global GDP. If nothing else, this should be enough reason for investors to look beyond rand hedges on the JSE. ■

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