

WHY

IS THE DOWNGRADE IMPORTANT?

- Sovereign credit ratings are a key element of a country's borrowing costs in international markets.
- These ratings set the ceiling for the ratings that are given to banks and companies, and in turn impact the cost of private financing within the country.
- Most institutional investors are legally required to maintain a lower risk exposure, which would mean they would not be able to hold bonds with a junk status.

A DOWNGRADE MEANS...

- A depreciating currency
- Rising interest rates

Long-term impact?

How asset prices react to a downgrade depends on how government policy responds:

- No decisive policy response (including monetary or fiscal policy) could result in uncertainty and fear, and potential further downgrades.



WHAT IT MEANS FOR INVESTORS

Your buying power

- The SA rand will depreciate in value.
- Travelling abroad and buying imported products will be more costly.
- Your global buying power will be eroded.

If you have investments offshore

- A depreciating rand will mean more capital in rand terms.
- At the very least, your global buying power will be maintained.

SOEs (SAA, Eskom, etc) rely on external funding

- If bond yields increase further, this will lead to increased borrowing.

WHAT IT MEANS FOR SOUTH AFRICA

1. The market will re-price yields on government debt to reflect the increased risk of a default.

- This would increase the rates payable on all private debt.

2. It would be bad for business confidence

- Businesses would be reluctant to invest in their businesses until future growth prospects improved.

3. It would be bad for investor confidence externally

- South Africa's ability to repay its debt would be diminished and investments into the country would dry up as a result.

HOW SHOULD YOU REACT?



STAY THE COURSE

You have worked with your advisor to create a long-term investment plan for retirement - do not stray from that plan. You may be tempted to withdraw from the market ...

By trying to time an investment into the market. You may miss out on the best market return days.

TAKE THE EMOTION

OUT OF YOUR INVESTMENT DECISIONS

Continue investing through the dip to take advantage of investments priced below their intrinsic value.

DON'T PANIC

A downgrade is not the end of the world, but rather a reflection of the economic and political climate we live in. We are also in the same boat as many of our emerging market peers.