

Moving money offshore?

You may be missing out...

In the current investment climate, many investors believe that local assets are doomed to underperform their offshore counterparts, and are opting to take their money offshore. But is this the best approach given current valuations? The answer may surprise you.

The recent underperformance is just that... "recent"!

Historically the JSE has outperformed global equities over long periods. **It is their more recent underperformance that is dominating the current narrative.**



Table 1

PERIOD	FTSE/JSE ALSI	MSCI WORLD	DIFFERENCE
31 Dec 1996 - 31 Aug 2020	13.0%	13.1%	-0.1%
31 Dec 1999 - 31 Aug 2020	13.9%	11.0%	+2.9%
31 Mar 2009 - 31 Aug 2020	10.8%	16.6%	-5.8%

SOURCE: BLOOMBERG



Local equities: trading at a significant discount

Taking the same periods as in Table 1, Table 2 shows a common equity market valuation indicator, the Price to Book value ratio (P/B), at the start of each period.

Table 2

PERIOD	P/B AT BEGINNING OF PERIOD FTSE/JSE ALSI	MSCI WORLD	P/B PREMIUM/ DISCOUNT FTSE/JSE ALSI RELATIVE TO MSCI WORLD
31 Dec 1996 - 31 Aug 2020	2.33	2.69	-13%
31 Dec 1999 - 31 Aug 2020	1.57	3.62	-57%
31 Mar 2009 - 31 Aug 2020	1.61	1.41	14%
Current	1.65	2.75	-40%

SOURCE: BLOOMBERG

So, what does this mean?

With a P/B of **1.65**, the ALSI is offering a **40%** discount compared to that of the MSCI World at **2.75**.

Although this isn't as extreme as late 1999, it suggests analysts already expect a far more favourable environment for developed markets. The distribution of potential outcomes from this starting point favours South Africa. SA equities currently represent excellent value compared to developed country markets, offering strong prospective returns.

History shows that when valuations are significantly in favour of South African assets, as they are currently, subsequent long-term returns eventually reflect this.



Visit the [Insights page](#) of our website to read the full article: *The merits of moving money offshore*, in which Chief Investment Officer David Knee debunks some of the "myths" that are compelling investors to take their money offshore.

For more information about investing locally or offshore, or if you have any other investment-related questions, please feel free to contact our Client Services Team on 0860 105 775 or email us at query@prudential.co.za.