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IN THIS ISSUE

The JSE's strong short-term performance can be misleading, as offshore diversification is not about chasing returns, but reducing risk and expanding opportunity. A well-balanced portfolio considers long-term goals, global exposure and currency factors, rather than one-year comparisons.

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THE JSE IS OUTPERFORMING

HERE'S WHY THAT'S NOT THE POINT

ARIN RUTTENBERG | FINANCIAL ADVISOR, BWM SANDTON

The JSE's 39.5% return looks compelling, but comparing it to global markets over a single year misses the point of offshore diversification entirely. Local vs global shouldn't be looked at as a binary choice against the JSE, but rather a balance. A well-constructed portfolio holds both.

When investors point to the JSE All Share Index's eye-catching returns and ask why they should be investing offshore, it opens a more important conversation – about what we're actually measuring, and over which time horizon.

It's a fair observation. When you look at recent performance data and see the FTSE/JSE All Share Index (Alsi) posting a one-year return of 39.53% against the MSCI All Country World Index's 15.80%, the recommendation to diversify offshore can look, at best, counterintuitive – and at worst, like poor advice.

But the observation contains a subtle framing error. The question is not whether the JSE can outperform global markets in a given period. It can, and sometimes it does. The real question is what a globally diversified portfolio is actually trying to achieve, and why comparing short-term index returns misses that entirely.

Global diversification was never about abandoning South Africa. It was about not being confined to it. And in answering the question, it helps to be honest: the short-term data actually answers itself.

PART 1 – BEYOND THE RETURNS

THE DOLLAR LENS

Investment analyst and director of Brenthurst Wealth, Magnus Heystek, offers what is perhaps the most clarifying framework for this debate: stop measuring South African wealth in rands.

When you price South African wealth in dollars – the currency in which most global goods, services, travel and education are ultimately denominated – a very different picture emerges. Over the past 17 years, South African wealth measured in dollars has declined by approximately 30%-40% in purchasing power. The rand has moved from rough parity with the dollar in the 1970s to more than 17:1 today. Nominal rand returns, however impressive, must be viewed through that lens.

This is not a pessimistic framing – it is an accurate one. The question for any wealth management strategy is not what the number says in rands, but what it buys in the world. That erosion is silent, but it is relentless.

A COMMODITY WINDFALL, NOT A STRUCTURAL RECOVERY

The JSE's recent outperformance deserves scrutiny, not uncritical celebration. The surge has not been driven by policy reform, improved infrastructure or underlying economic health, but by a spike in commodity prices – gold hitting record highs above $5 000 per ounce, alongside elevated prices for manganese and copper.

In the same period, South African manufacturing contracted by 4%. The market is booming; the economy is not. Heystek describes current market levels as an "unnaturally high plateau" – a temporary commodity windfall, rather than a reversal of longer-term structural decline.

A NARROW FISHING POND

The structural case for global diversification is also about access. Most top South African equity funds are fishing in the same small pond: Naspers, Richemont, a handful of banks. The result is that their returns converge almost regardless of management quality.

Offshore investors, by contrast, access high-growth sectors like artificial intelligence, biotechnology and blockchain, as well as specific regional players. Japanese equity funds returned 22% in dollar terms over this period; Africa ex-South Africa funds returned 68% in dollar terms. These are opportunities largely unavailable to investors confined to the JSE.

THE STRUCTURAL AND POLITICAL DIMENSION

With South African government debt approaching 80% of GDP and a shrinking tax base, the long-term structural risks to domestic assets remain real. Moving a meaningful portion of wealth offshore is not a speculative call, it is a defensive one. The goal is long-term wealth preservation in more stable, diversified and liquid global markets.

PART 2 – WHAT THE DATA ACTUALLY SHOWS

UNDERSTANDING THE BENCHMARK: THE MSCI ACWI

Before examining the numbers, it is worth clarifying the benchmark. The MSCI All Country World Index (ACWI) tracks approximately 2 900 companies across 47 countries – 23 developed markets and 24 emerging markets. It is weighted by market capitalisation, with the United States currently accounting for roughly 65% of its composition, and Japan, the UK, Canada and France as the next largest constituents.

In effect, the ACWI is a single number that captures the collective performance of investable global equity markets. When evaluating a globally diversified portfolio, it is the most honest available benchmark – more honest, for instance, than the S&P 500 or Nasdaq, which capture only one, admittedly large, slice of the global opportunity set. (It is worth noting that the S&P 500 and Nasdaq comparisons would show an even wider gap in favour of offshore markets, but the whole world is the better lens.)

TWO DECADES OF DATA

TABLE 1 – PAST 10 YEARS (MORE RECENT PERIOD)

Fund	6 Months	1 Year	3 Years	5 Years	10 Years
FTSE/JSE All Share	9.90%	39.53%	19.09%	16.42%	12.33%
MSCI ACWI	1.58%	15.80%	14.94%	13.19%	13.33%
SA CPI + 6%	3.85%	9.04%	10.11%	11.13%	10.88%

(Source: Charting tool)

TABLE 2 – PRIOR 10 YEARS (PREVIOUS PERIOD)

Fund	6 Months	1 Year	3 Years	5 Years	10 Years
FTSE/JSE All Share	11.67%	7.00%	3.12%	6.36%	9.61%
MSCI ACWI	6.30%	22.12%	16.52%	11.07%	18.19%
SA CPI + 6%	5.58%	9.38%	10.19%	10.90%	11.36%

(Source: Charting tool)

Looking across both 10-year windows, the picture is instructive. In the more recent decade, the Alsi posted an annualised return of 12.33% versus the ACWI's 13.33% – the JSE trails the global index, even with the current commodity tailwind behind it. In the prior decade, the gap is considerably wider: the Alsi returned 9.61% annualised against the ACWI's 18.19%.

That is not a rounding error. It is a material difference in compounded wealth outcomes over a decade. The one-year return of 39.53% is remarkable – no one is dismissing it – but pockets of strong local outperformance have occurred before and will occur again. What the longer data set shows is that leadership between markets shifts over time.

Rather than trying to rotate into whatever has just performed best – which is almost always the wrong moment to do so – the better discipline is to remain diversified and allow compounding to work across full cycles. As Morgan Housel writes: "Extraordinary investing often comes from average returns earned over an above-average period of time."

NOT A ONE-SIZE-FITS-ALL CONVERSATION

A diversified global allocation is not a recommendation to exit South Africa. Risk profile, income needs, time horizon and personal circumstances all shape the right balance.

Offshore does not mean all-or-nothing, and retirement planning, in particular, can carry a healthy blend of local and global exposure. The conversation is always about the appropriate tilt, not a binary switch.

THE WRINKLE MOST INVESTORS MISS

Perhaps the most counterintuitive observation of all: the JSE Top 40 is far less "purely South African" than it first appears.

On a strict look-through basis, roughly a third of the index is composed of companies primarily listed offshore and secondarily on the JSE – British American Tobacco, Prosus, Richemont, AngloGold, AB InBev, BHP, Investec Plc, Glencore and Anglo American, among them.

If one also includes the large exporters, miners and multinationals that earn substantial foreign-currency revenue, the offshore earnings exposure rises to approximately two-thirds. Many commentators would place the broader rand-hedge share of the index at nearer to 75%.

The implication is significant: much of the JSE's recent strong performance is, in fact, a story about global earnings being reported in a weakening currency. Far from undermining the case for offshore investing, it reinforces it.

THE REAL INCONGRUENCE

So, is there an incongruence in recommending offshore diversification while the Alsi outperforms? Yes, but perhaps not for the reason most investors assume.

The incongruence is in treating it as a binary choice at all. A well-constructed portfolio holds both local and global exposure, sized appropriately to each investor's circumstances.

The offshore component serves a structural role – purchasing power preservation, access to deeper and more diverse markets, protection against long-term currency erosion – that no short-term return comparison between indices can capture or replace.

The JSE can have its best year in memory, however, the case for global diversification remains unchanged.

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He has been at Brenthurst since 2016 and holds a BCom degree and a Postgraduate Diploma in Financial Planning from the University of the Free State. Arin's passion for financial planning drives him to continuously expand his knowledge, ensuring he can assist clients in achieving their financial goals. He has successfully completed the First Level Regulatory Examination for Representatives, enabling him to provide comprehensive investment advice.

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