Your Oasis

SA Edition 1 - 2018

CEO Update

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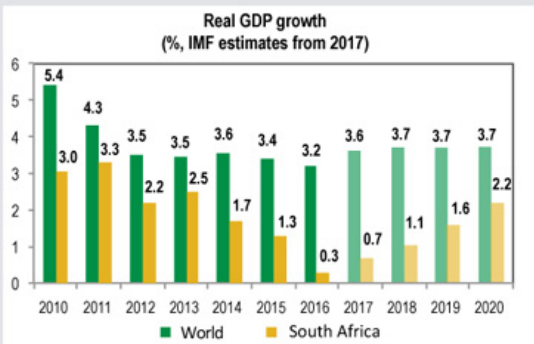
As we enter the new year, a synchronised global upswing is firmly underway, driven by improving manufacturing output, trade volumes and commodity prices. The IMF expects global economic growth to firm further to 3.7% in 2018 after 3.6% in 2017, a pace comfortably above the 3.2% recorded in 2016, when there were widespread concerns over secular economic stagnation. In the United States, an improving job market supported growth in disposable income and employment levels which have helped underpin consumer spending. Looking ahead, the Republican Party's tax cut agenda, which will see the corporate tax rate reduced from 35% to 21%, will help support corporate earnings going forward and potentially boost business spending on investment and jobs. Also supporting the improving global outlook was that major geopolitical risks did not materialise last year although these remain a concern. Concerns over a global shift toward inward-looking economic policies have yet to be realised. In the United Kingdom, the worst fears over Brexit have faded as the British government looks ahead this year to Phase II of the negotiations with the EU on trade. Meanwhile, tensions on the Korean peninsula have appeared to ease as North and South Korea engage in formal talks for the first time in two years.



Source: IMF & Oasis Research (15-01-2018)

By contrast, the South African economy has continued to perform well below its long-term potential given domestic headwinds from corruption, poor governance within the State Owned Enterprise (SOE) sector and uncertainties around the political landscape. Economic growth is expected to measure just 1.0% in 2017 versus a post-1994 average of 2.8%. The election of Cyril Ramaphosa as ANC President is potentially a pivotal moment if he is successful in tackling deep-seated corruption and introducing growth-supportive economic policies. The 10% appreciation of the Rand since the ANC's National Conference in mid-December shows a vote of confidence by financial markets. If Ramaphosa is able to fulfil these expectations, the stronger Rand will improve inflation outcomes by protecting the economy from rising oil prices and potentially provide scope for the South African Reserve Bank to cut interest rates during the course of this year. The combination of a lower SARB benchmark policy rate and improving household purchasing power will help support consumer expenditure. In turn, re-establishing economic policy certainty may see businesses implement delayed investment and hiring decisions. To be sure, fiscal constraints and the risk of further sovereign rating downgrades remain a reality. Higher taxes are likely in the February 2018 Budget unless the government makes a more determined effort to live within its means by controlling expenditure. On the plus side, weak domestic demand has translated into a narrowing current account deficit as demand for capital and consumer imports has fallen, thereby reducing some of South Africa's dependence on foreign portfolio inflows.

At the end of the day, faster economic growth is the key requirement to relieving fiscal pressures while lowering inequality, raising employment and reducing poverty. There is much hope that the ANC under Ramaphosa will be able to deliver on the aspirations of the South Africa population for a better standard of living.

A word on financial matters

South Africans have been impacted by the rise in personal income tax and capital gains tax rates over the past few years with a possibility of additional tax increases being introduced in the February 2018 Budget as the government tries to address the budget deficit. It is imperative therefore that investors maximise the tax efficient savings opportunities in South Africa. Firstly, with respect to retirement savings, individuals qualify for a tax deduction of the greater of remuneration or taxable income (to a maximum of R350,000 per annum). This is an ideal way to ensure that one saves sufficiently towards retirement while at the same time benefitting from annual tax allowances. Secondly, the Tax Free savings account in South Africa is an ideal way for households to save in a tax efficient manner. An individual is allowed to invest R33,000 per annum with a lifetime contribution of R500,000.

As an example, if we take a family of five, this would amount to R165,000 being invested for the family annually. Therefore, if these funds are invested in an income product like the Tax free Oasis Crescent Income Fund, an income yield of around 6% per annum, tax free, could be generated. With an individual lifetime limit of R500,000, this family of five would have contributed R2,500,000 (if full lifetime limit utilised). Importantly, at that point in time, if a yield of 6% income is being generated, this would amount to R150,000 per annum of income, which would be tax free. Any capital gains that could be generated over time would not be subject to any capital gains tax, making the tax free savings accounts an ideal form of investment for the South African household. The Oasis range of Tax Free savings accounts, which includes a Shari'ah compliant income and balanced fund option, provide ethical investors with an opportunity to invest in a high quality, cost effective and flexible savings product.

In the News