OASIS

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SA MAY EDITION - **2022**

VIEWS FROM OUR CEO

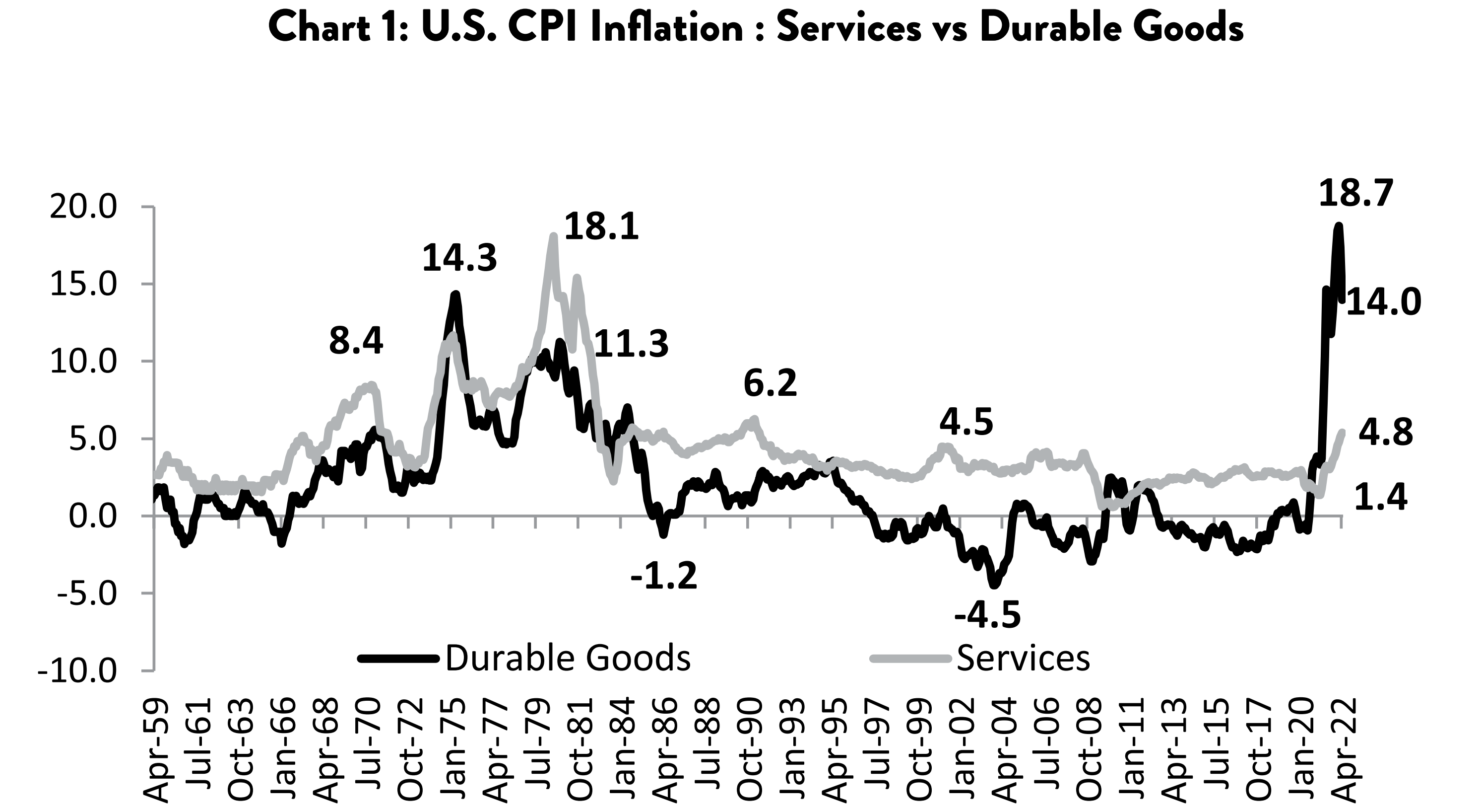
With inflation surging over the past year, there has been much comparison to the so-called 'Great Inflation' decade of the 1970's. At that time, inflation in the U.S. rose to 12.3% in December 1974 and then went on further to reach an all-time record of 14.8% in March 1980. A number of drivers caused the inflation surge in the 1970s, which are not entirely dissimilar to those we face today. In the 1970's, the growing U.S. fiscal burden of the Vietnam War (1955-1975) combined with 2 oil price shocks in 1973 and 1979 led to global and U.S. recessions, rising unemployment and widespread political and social discontentment. These global and domestic shocks were compounded by misguided macro-economic policy. What were ultimately a series of supply shocks, like today, were made worse by over-stimulative monetary and fiscal policy to boost demand which dramatically worsened the inflation outlook.

In the 3 decades following the 1970s global inflation shock, the global economy increasingly entered into period known as the "Great Moderation". Restrictive monetary policy during the early 1980's by Federal Reserve Chairman Paul Volcker helped tame upward inflationary pressures. Meanwhile, increasing globalisation, technological advances (particularly in computing and the internet) combined with the embrace of China into the global economy, all unleashed a remarkable period of stable economic growth beginning in the 1990s which led to both rising prosperity, employment participation and appreciating asset values. How was this possible? Receding inflation allowed interest rates to fall, reducing the cost of borrowing. Rising financial market asset values, including the housing market, boosted household net wealth and created a virtuous circle of rising wealth, consumption and production which was serviced by increasingly sophisticated, just-in-time global supply chains with Asia and China at its heart.

This process of globalisation led to the offshoring of production to cheaper labour jurisdictions, like China, and would ultimately lay the seeds for a populist political uprising some 3 decades later, drawing the curtain on ever-outward looking globalisation. In this important respect, this period of rising wealth and global political stability led to complacency in so far as it was believed that the forces toward the "Great Moderation" would persist indefinitely. However, the UK Brexit vote in June 2016, the election of Donald Trump as US president in November 2016, the outbreak of the COVID-19 pandemic in early 2020 and war in Ukraine in March 2022, have interrupted the previous 3 decades of global stability.

What does this all mean for us today? The global economy is currently in a period of unprecedented flux. For the time being, the world has moved from globalisation and offshoring towards regionalisation and onshoring; from the abundance of commodities and labour inputs toward scarcity. Now that China is both ageing rapidly and moving toward a higher wage and consumer driven economy, the global deflationary impulse has unwound. The drive towards 'clean tech' and reducing carbon emissions has led to stagnating investment in fossil fuels such as coal and oil while at the same time placing enormous pressure on a range of metals, particularly lithium, copper and platinum. Increased local demand for labour is leading to shortages and rapid wage growth, particularly as inflation expectations ratchet higher. Even though inflation could soon peak at current rates, inflation rates for both goods and services are likely to remain well above recent norms given the greater frictions in world trade and energy production the world economy is currently witnessing. As a result, households' purchasing power is going to remain under severe pressure, particularly at the lower income levels. In summary, a world of high inflation and high interest rates are probably here to stay in coming years which will not be a supportive environment for substantial wealth creation and increased prosperity. through investment.

Chart 1: U.S. CPI Inflation : Services vs Durable Goods



Source: Bureau of Labour Statistics (BLS) and Oasis Research

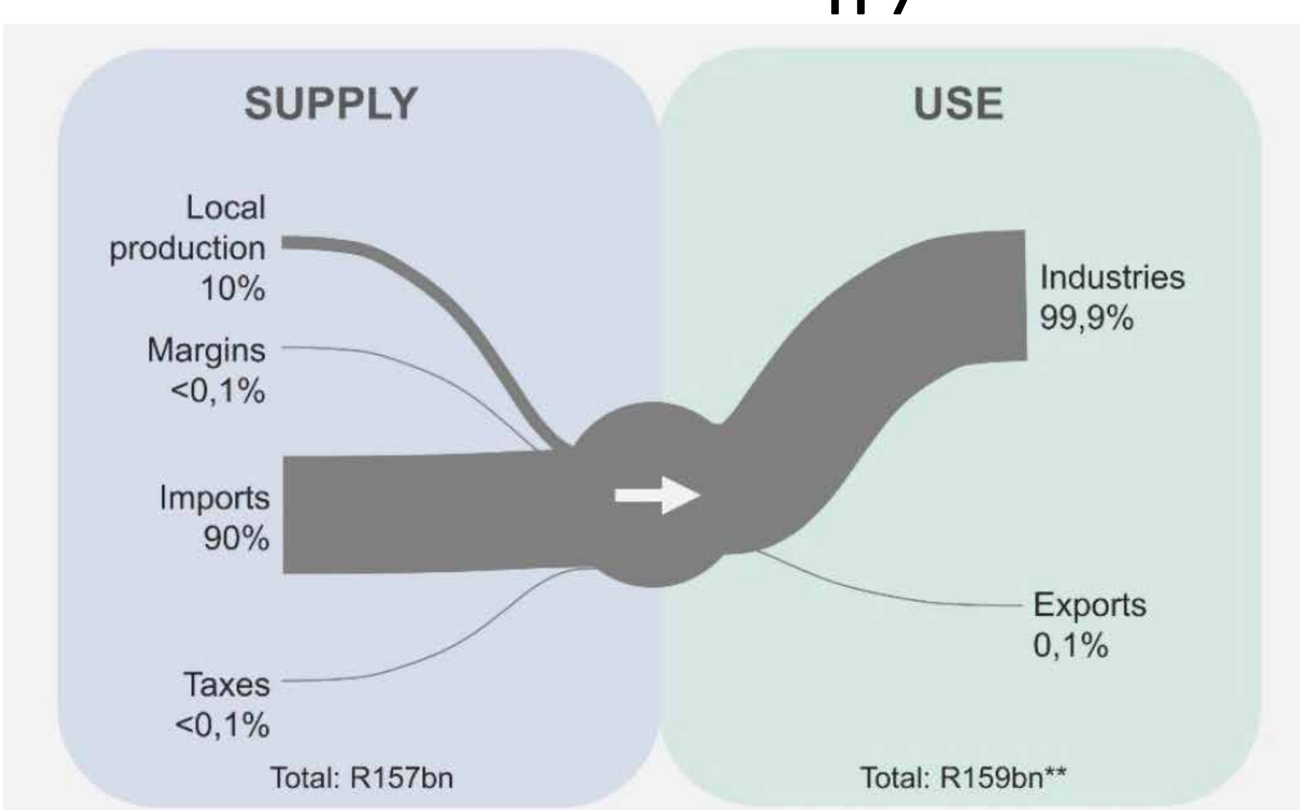
SA ECONOMY

South Africa's petrol price is highly dependent on the prices of external variables over which the country has little direct control, namely the price of Brent Crude and the value of the Rand. Almost all of South Africa's supply of crude oil (90%) is imported while only 10% is locally produced.

On the demand side almost all the recorded transactions occur within the oil refineries which processes crude petroleum into diesel, petrol, paraffin and other related products for domestic consumers. On the plus side, the Rand has held its own this year, trading relatively sideways since January starting the year around 15.50, a level it was back at in late May, albeit strengthening notably during March to 14.70 levels before giving up those gains. The real culprit behind sharply rising petrol prices has therefore been the international price of crude oil which started the year around $80 a barrel but jumping higher on the invasion of Ukraine by Russia to most recently around $120 a barrel, an increase of some 45%. The price of unleaded inland octane was R21.84 during May and jumped 10.7% in early June to R24.17. It could have been even higher if the Finance Minister had not chosen to extend the R1.50 temporary 2-month cut in the Fuel Levy which was first implemented in April. Higher global oil prices are a further upside risk to the petrol price and the withdrawal of the Fuel Levy subsidy over July implies petrol prices are more likely to be going up than down in the near term.

Looking longer term, it is important for the government to have a genuine conversation about the appropriate level of petrol related taxes, duties and levies. Currently, around 35% of the price of petrol is accounted for by government tax of one sort or another, which significantly increases the cost burden for individuals and companies.

Chart 2: South Africa Crude Oil Supply vs Demand



Source: Statistics South Africa and Oasis Research

FINANCIAL ADVICE

The last 30 years of investment returns have been very strongly correlated with a high degree of wealth creation. Over this period, we have increasingly moved from a situation of satisfying needs to satisfying wants, often in the context of rising indebtedness. The complacency around rising indebtedness reflects a belief that rising asset values could always be used to pay down accumulated debt. In the current challenging financial and economic environment we now find ourselves, we need to fundamentally reassess our views that rising asset values justify us taking on larger amounts of debt.

By contrast, in a world of higher inflation and interest rates, and potentially more modest investment returns than we have been used to over the past couple of decades, we should instead look to reduce our exposure to debt. As individuals we should carefully identify our families' needs versus our wants or desires. As an example, when receiving a performance related bonus, rather than take an overseas holiday, a portion of the bonus should be used to reduce outstanding debts and/or invest towards a savings nest, useful for a rainy day, or as a contribution towards a retirement fund.

At Oasis, our resolute and committed focus to our valued clients remains on protecting and growing real wealth in order that they meet their financial needs consistently and sustainably over the long term. During uncertain times, a prudent investor should look to invest in a range of asset classes that would yield their desired outcomes, while reducing the overall risk within their portfolio. Having a balanced approach to investing would ensure that your long term objectives are met. A key advantage of investing in one of our Balanced Funds over a single asset class is the ability to diversify your investment portfolio across a variety of asset classes (equity, property & income) in order to reduce volatility and meet your individual risk profile. Speak to an accredited Oasis financial advisor to assist you in identifying products suitable to your needs.

OASIS UPDATE

1 June 2022 is a special time for the Oasis Group as we have reached our twenty fifth year of operation. This occasion continuously reminds us of the Barakah (blessings) bestowed on us and how, over the past 25 years, we have been privileged to contribute so meaningfully to our clients, our stakeholders, our employees and the communities at large. Our drive at Oasis to deliver sustainable material change in the lives of our investors is as prevalent today as it was in 1997 and we look forward to continue sharing in these valuable relationships with our unwavering commitment to protect and grow your wealth.

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Collective Investment Schemes | Retirement Funds
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