OVERBERG MARKET REPORT

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Global Report

Carel La Cock

Global energy transition.

In the 2022 update, Tracking SDG7: The energy Progress Report[1], The World Bank recognises the challenges faced by governments across the globe in reaching the Sustainable Development Goal 7 (SDG7) set by the United Nations General Assembly back in 2015. Goal 7 of 17 aims to "Ensure access to affordable, reliable, sustainable and modern energy for all" by 2030. While progress was made by many developed nations during the pandemic, utilising unprecedented fiscal support to lower their dependence on fossil fuels, it has left many emerging nations, without the fiscal leeway, falling behind SDG7 goals. The spike in energy prices which started in 2021 and exacerbated by the invasion of Ukraine aided in speeding up the process and European governments are seeking for ways to wean themselves off Russian oil and gas.

Emerging and developing nations have gone backwards during the pandemic. The economic hardship caused by lockdowns and the impact on the global economy caused roughly 90 million people to lose access to electricity in Asia and Africa. The Asia-Pacific population relies heavily on fossil fuels for energy and accounts for roughly 20% of global energy consumption. Despite a pledge by nearly 200 nations to "phase-down" the use of coal, many nations will remain reliant on coal for many decades. Asia-Pacific have some of the youngest coal fired power stations in the world and globally the percentage of coal generated electricity increased in the last year. Even Germany is considering firing up mothballed coal power-stations if the current gas shortage continues into the winter months.

China, the industrial hub of Asia, accounts for nearly 70% of all energy use in the region. A pledged to halt the commissioning of any new coal fired power station last year was encouraging but seems at odds with a need for sustained growth. On top of that, China is the world's largest producer and importer of coal. Despite China's reliance on coal, it has made great strides in expanding its solar and wind capacity in the last year, contributing to 36% and 40% of the global expansion last year. China is also an important supplier of minerals needed in the transition to green energy and the leading manufacturer of solar panels and wind turbines.

Furthermore, the World Bank has recently unveiled a global initiative to reduce the reliance on coal. Together with G7 leaders in partnership with India, Indonesia, Vietnam, and Senegal, they proposed new funding measures moving towards clean energy. India, the world's 2nd largest population and Indonesia the 4th largest, make up over a fifth of the world's population and both nations are still expanding. A change there could really move the needle in reducing greenhouse gasses.

However, in a recent report by the Organisation for Economic Co-operation and Development (OECD) it cautioned on the efforts by developed nations to shield households from the impacts of high energy prices, warning that "Interventions that blunt price signals and dampen incentives to reduce fossil-based energy use should be phased out while building capacity to better address household vulnerabilities to price shocks and accelerating the development of alternative sources of energy."

The UK has achieved some remarkable growth in renewable energy generation in the last decade and is the world leader in offshore wind farms. In 2020 renewable energy accounted for 14% of total energy supply and 43% of electricity generation. The UK government aims to significantly increase the supply of low-cost renewable generation with a budget of GBP285bn. Greencoat UK Wind is the leading listed renewable infrastructure fund in the UK and invested in 44 wind farms both onshore and offshore with a total generating capacity of 1459.8MW. It has an impeccable track record, and the team has a collective investment experience of over GBP7bn, invested across seven funds. The fund has proved to be a ballast during this year's volatile markets and managed to improve its Net Asset Value (NAV) by 10.4% and its share price by 10% year to date and currently trades at a 1.6% premium to NAV. Greencoat UK Wind is an important diversifier in our clients' portfolios and has been an excellent hedge against rising energy prices and record inflation. Speak to one of our highly qualified investment consultants to see how we can help diversify your investment portfolio with alternative asset classes.

[1] IEA, IRENA, UNSD, World Bank, WHO. 2022. Tracking SDG 7: The Energy Progress Report. World Bank, Washington DC. © World Bank. License: Creative Commons Attribution—Non Commercial 3.0 IGO (CC BY-NC 3.0 IGO).

Local Report

Gielie Fourie

I am a millionaire, what now?

INTRODUCTION: You have just made your first million Rand, in cash. Congratulations! What now? The best thing to do is to keep a cool head - to preserve your wealth. Keep a simple lifestyle – avoid luxury accessories like Rolex, Gucci, etc. - the trick is to be rich, not to look rich. Your first million may have taken many years to accumulate. Your next million will not take that long. Just like a snowball rolling downhill grows bigger and bigger, your wealth will increase over time if you invest wisely. When you invest, you are buying a day, or days, that you do not have to work. You must look further than cash. Cash is a riskless asset on the downside – on the upside it has limits. A financial advisor can advise you on the benefits of buying shares, taking out a Retirement Annuity, Tax Free Savings Accounts, etc.

THE RULE OF 72: Thanks to inflation and the devaluation of the Rand over time, R1 million is not the fortune it used to be many years ago. But if you have a million Rand and no debt, you can use the Rule of 72 to double your money. The Rule of 72 estimates the number of years it takes to double your money at a specified rate of return. It is remarkably simple - you do not even need a calculator. You simply take 72 and divide it by the annual interest rate. If the annual interest rate is 12%, it will take you six years to double your R1 million to R2 million. Now you are a multimillionaire. The first million may have been 20 years in the making, but the second million takes only six years. In another six years you can double your R2 million to R4 million. You can repeat the process indefinitely. You are on your way to become a US Dollar millionaire (R16 million). This is the snowball effect in action.

FINANCIAL ADVISORS: Becoming a multimillionaire overnight can be difficult to cope with mentally. That is why the operators of big lotteries offer psychological services to their winners. As a self-made millionaire, you may not need a psychologist, but you may need a financial advisor. A good financial advisor can help you on your investment journey. They cannot make you wealthy – but they can help you to preserve your wealth. They can protect you from making silly mistakes – they can protect you from yourself. They can assist you to create budgets and stick to it. They can help you to get better returns than the 12% return in the example above, reduce your income tax and help you to create long term financial goals. They can help you to diversify your investments and give you exposure to offshore markets.

MILLIONAIRES IN AFRICA: Being a US Dollar millionaire is still special. There are approximately 125,000 millionaires in Africa, each with net assets of US$1 million (R16 million) or more. They are referred to as HNWIs (High Net Worth Individuals). Being a billionaire is very special. There are 22 people in Africa with net assets of US$1 billion or more. South Africa has 36,500 Dollar millionaires, the most in Africa. Egypt is second with 15,500 Dollar millionaires and Nigeria is third with 9,100 Dollar millionaires. Most of South Africa's HNWIs live in Johannesburg (15,100), Cape Town (6,500), Durban and Umhlanga (3,400) and the Stellenbosch, Paarl and Franschhoek area (2,800). If you want to rub shoulders with HNWIs, that is where you will find them. South Africa's wealth is affected by ongoing migration of wealthy people out of the country. Around 4,200 HNWIs have left South Africa over the past decade (2010 – 2020) – in 3,650 days 4,200 HNWIs emigrated – more than one every single day. Most of these individuals have emigrated to the UK, Australia, and the USA. (Source: AfrAsia Africa Wealth Report 2021).

BOTTOM LINE: It is essential to preserve your wealth. Inflation and taxes are wealth destructors. To protect you from your own emotions, like impatience and greed, get a good financial advisor to manage your money. Warren Buffett once said that it is wise for investors to be "fearful when others are greedy, and greedy when others are fearful." If you are concerned about investing in these times of high inflation and high interest rates, contact one of our highly qualified consultants. They will take the "sting" out of investing.