OLD MUTUAL INTERNATIONAL NEWSLETTER

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INTERNATIONAL

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A rocket company became the largest listing in history. Gold set fresh record highs before stumbling. Global software stocks shed close to two trillion dollars amid fears that artificial intelligence could make them obsolete. Reading only the headlines, you would think the ground had shifted beneath every portfolio at once.

However, it hasn't, or at least not in the way the noise suggests. Headlines move fast. Wealth, in my experience, moves slowly. The two are easily confused. Much of this edition is about telling the difference between movement and meaning.

Sean Ashton, Head of Investments from Private Clients, examines the sell-off in global software and questions whether the market has mistaken disruption for destruction. The businesses being punished most are often the ones most deeply embedded in how the world actually works.

Elsewhere, Magwitch lifts the lid on passive investing and finds it is not nearly as passive as the label implies. Using the SpaceX listing as its lens, the piece shows how the rulebooks behind market indices quietly decide what investors own, when they own it, and at what price. Ned Naylor-Leyland of Jupiter turns to gold and silver, exploring why they paused and why he remains patient.

My own piece returns to a theme close to my heart: Eigenzeit, the idea that capital, like most things worth having, has a time of its own and cannot be rushed. It is the thread that runs through this issue. Time and quality tend to prevail, even when the market is busy rewarding something else. What we do matters.

We are also opening a new chapter in our own offering, with structures designed for families whose needs no longer fit neatly into a single solution. More on that inside.

As always, thank you for your continued support. I hope this edition helps guide your discussions about the things that matter most.

Warm regards

Trevor

Wealth Director

AI fears wipe nearly US$2 trillion off global software stocks

Sean Ashton | Head of Investments at Private Clients by Old Mutual

Cape Town, 26 June 2026:

Throughout market history, dominant industries have rarely been displaced overnight. Instead, they have been gradually, then suddenly, reshaped by technologies that fundamentally alter how value is created, delivered and captured.

The pattern may be familiar to investors: early signs of disruption are often dismissed as incremental innovation before deeper shifts in behaviour, cost structures and distribution models force a reassessment of entire sectors.

We have seen this before. Traditional media lost structural ground as audiences and advertising migrated online. Video rental collapsed as streaming transformed distribution economics. Film photography was overtaken by digital capture, while brick-and-mortar retail has spent more than a decade adjusting to the rise of ecommerce and platform-based consumption.

In each case, the disruption was not merely technological but economic. Revenues slowed, margins compressed and markets eventually revalued what these businesses were worth in a structurally different world.

Today, investors are increasingly asking whether software is entering a similar period of reassessment, with artificial intelligence emerging as the central catalyst.

What began as artificial intelligence enhancing productivity is now evolving into something more consequential. Large language models and emerging “agentic AI” systems are no longer limited to assisting users with search or content generation. Increasingly, they can interpret instructions, execute multi-step tasks and operate across workflows that historically required structured software environments and specialist users.

This matters because it changes the nature of interaction with software itself.

For decades, enterprise software has relied on structured interfaces, predefined workflows and trained users navigating increasingly complex systems. These systems remain deeply embedded within corporate infrastructure and continue to play a critical role in business operations. However, AI is beginning to abstract much of that complexity. Instead of navigating multiple applications, users can increasingly describe an outcome in natural language, while AI coordinates execution across systems in the background.

For investors, this raises a more fundamental question: if AI can replicate or automate meaningful portions of traditional software functionality, what happens to the economics that have defined the sector for decades?

One of the clearest concerns relates to pricing models. Enterprise software has historically benefited from "seat-based" pricing, where revenue scales with the number of users. But if AI materially improves productivity per employee, or reduces the need for human interaction altogether, that relationship may weaken over time.

At the same time, lower barriers to software creation may accelerate competition, shorten product cycles and compress differentiation across parts of the industry. The implication is not simply that software becomes cheaper to build, but that long-standing assumptions around durability, pricing power and market dominance may need to be revisited.

This evolution has driven a sharp reassessment across global software equities over the past several months.

Software companies have materially underperformed broader equity indices year to date as investors attempt to reprice long-duration growth assets in a world where the future economics of software feel less certain than they once did.

Even some of the world's largest and most profitable software businesses have not escaped the sell-off. Collectively, leading global software companies had, at the peak of the drawdown, lost close to US$2 trillion in market capitalisation since late 2025, reflecting the extent to which the market is discounting potential structural disruption.

What makes this particularly notable is that the de-rating has occurred despite relatively stable near-term operating performance across much of the sector. Revenues, margins and cash generation in many cases remain robust. The debate, therefore, is not primarily about what these companies earn today, but what investors believe they can sustainably earn into perpetuity; in essence, a terminal value debate.

This distinction matters because most equity value is ultimately derived from cash flows far into the future rather than the next, say, three years. Even modest changes in assumptions around future growth, competitive advantage or pricing power can materially affect valuations.

Yet, while the disruption narrative is compelling, there are also reasons to believe the market may be extrapolating the pace and breadth of change too aggressively.

Enterprise software is deeply embedded within organisational workflows. Replacing core systems is often expensive, operationally risky and time-consuming. The process of replacing them could be compared to "open-heart surgery" for large organisations. Furthermore, while AI outputs are probabilistic in nature, many business operations require *deterministic* answers and outputs – this is where traditional software excels.

A more plausible near-term outcome may therefore be integration rather than outright replacement. Companies that can successfully embed AI into their offerings may ultimately strengthen their competitive positions instead of losing them. AI agents may well operate on top of pre-existing software packages too – in some cases, enhancing the use and value of those platforms.

In that sense, therefore, the current environment may prove less about the collapse of software economics and more about a separation between durable platforms and vulnerable ones.

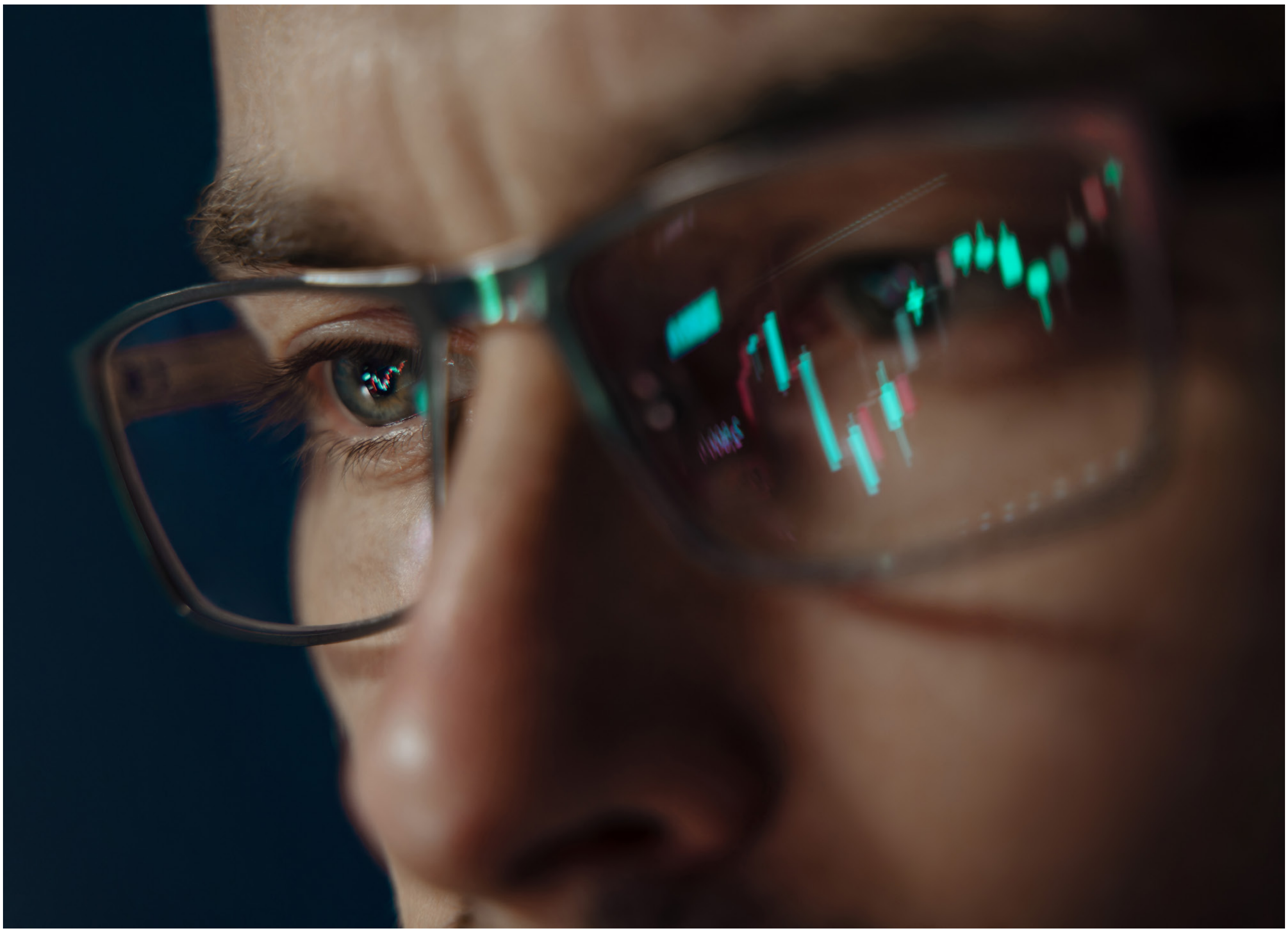
The investment implications extend beyond strategy and technology. Falling share prices have also shifted the dynamics of capital allocation; lower valuations increase the relative impact of stock-based compensation while simultaneously making buybacks more accretive for companies with strong free cash flow generation.

None of this suggests the risks posed by AI are overstated or irrelevant. Technological disruption has repeatedly demonstrated the market's ability to underestimate how quickly industries can change once economic incentives align with new capabilities.

But history also shows that disruption is rarely uniform. Some incumbents fail to adapt, while others evolve and strengthen their positions precisely because they possess scale, infrastructure, customers and distribution advantages that newer entrants struggle to replicate.

For investors, the challenge is therefore unlikely to be identifying whether disruption exists, but rather determining how much disruption is already reflected in valuations, and whether markets are appropriately distinguishing between structurally exposed businesses and those capable of adapting, as well as demonstrating adaptation.

What is unfolding in software is unlikely to be a binary outcome. Rather, it is shaping up to be a period of separation between businesses that successfully integrate AI into their ecosystems and those that fail to evolve alongside it. Within that distinction lies both significant risk and potential opportunity.



Passive Investing Isn't as Passive as You Think

David Case | Director | Magwitch Offshore

WHAT THE SPACEX LISTING — AND THOSE TO COME — REVEAL ABOUT INDEX INVESTING

SpaceX's listing this month has captured global attention and, understandably so, given its valuation north of $2 trillion and status as the largest IPO on record.

But beyond the headlines lies a quieter, more important story, one that runs beneath most portfolios. It is a story about index providers, their rulebooks, and what investors are actually buying when they invest "passively".

And SpaceX is only the beginning. OpenAI and Anthropic are expected to follow. Together, these companies are not simply new listings. They are testing the frameworks that determine how indices are built. However, those frameworks are not the same.

SAME COMPANY, DIFFERENT OUTCOMES

There is a common assumption that when a company of this size lists, it quickly becomes part of "the market". However, whether and when it enters an index depends entirely on the provider.

S&P Dow Jones Indices continues to take a conservative approach. Companies must demonstrate sustained profitability and build a track record as listed businesses before they qualify. Despite its scale, SpaceX does not meet these criteria today, and the same may apply to OpenAI and Anthropic when they list.

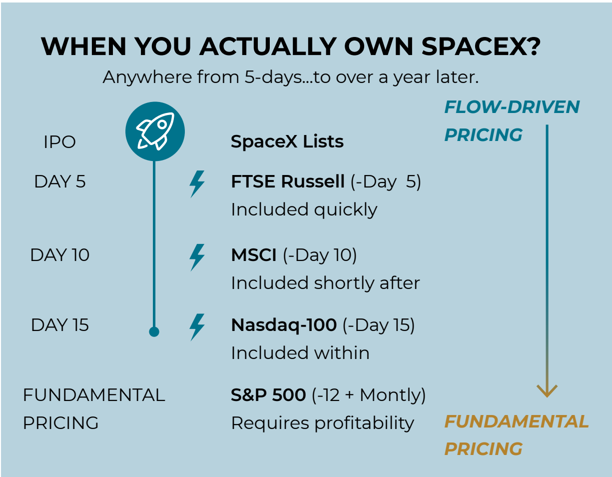
Other providers prioritise speed. FTSE Russell, MSCI and Nasdaq all have mechanisms to admit large IPOs within days or weeks. Profitability is not a requirement; size and investability are often enough.

The result is simple, but powerful: the same company can sit inside one index almost immediately, and outside another for a year or more. So the question becomes: when do you actually own it?

One of the most important, and least appreciated, features of this dynamic is timing.

There is no single "inclusion date" for SpaceX. Instead, there is a sequence:

- FTSE Russell may include it within five days
- MSCI typically follows within around ten days
- Nasdaq indices can add it in roughly two weeks
- The S&P 500 may not include it for at least 12 months, and only if profitability is achieved



That creates a striking reality: investors gain exposure to the same company at entirely different points in its lifecycle.

Some will own SpaceX almost immediately, during the post-listing phase when trading is heavily influenced by demand and limited supply. Others will only gain exposure much later, once the company has matured and its earnings profile is clearer. In other words, passive investors are not just choosing whether to own a company; they are also accepting the rules that determine when they are required to own it.

THE MECHANICS INVESTORS DON'T SEE

Passive funds do not make judgement calls; they follow rules. When an index includes a company, every fund tracking that index must buy it, regardless of valuation or timing. In the case of SpaceX, this creates a powerful short-term dynamic. Only a small portion of its shares is available to trade, the free float. When index funds are required to buy into that limited pool, demand can overwhelm supply, pushing prices higher. But there is an important nuance.

Despite its enormous headline valuation, SpaceX's initial index weight is likely to be far smaller than many expect. Indices are constructed using free-float market capitalisation, not total company value. With only a small percentage of shares available, its starting weight in broad indices may look modest relative to its size.

This tempers the overall impact on benchmarks, but it does not eliminate the effect of forced flows. Because index funds must still buy that smaller weight within a compressed timeframe, the interaction between low float and price-insensitive demand can still create meaningful short-term price pressure.

That buying must be funded. To add SpaceX, index funds must sell a portion of their existing holdings. The result is two simultaneous forces:

- buying pressure in the new entrant
- selling pressure across the index

Both are mechanical, predictable and largely unrelated to fundamentals.

WHY THE S&P 500 STILL MATTERS

The S&P 500's stricter requirements make it a gatekeeper in this process. Its profitability test delays inclusion and prevents the largest pool of passive capital from buying at the point of listing. This has two important effects:

- it dampens immediate market impact, as the largest benchmark does not participate in early flows
- it shifts exposure to a later stage, when prices may be driven more by earnings than mechanics

Investors tracking faster-moving indices are exposed earlier, during the phase when market structure, rather than fundamentals, plays a larger role.

AS OPENAI AND ANTHROPIC APPROACH

The upcoming listings of OpenAI and Anthropic are likely to follow a similar path. Both are expected to list at very large valuations, but without consistent profitability. That sets up the same pattern:

- rapid inclusion in fast-entry indices
- delayed inclusion in profitability-based benchmarks

As a result, two investors who believe they hold "global equities" may end up with meaningfully different exposures, not because of stock selection, but because of index design.

THE DECISION YOU DIDN'T KNOW YOU WERE MAKING

Here is the uncomfortable reality. Choosing a passive fund feels like opting out of investment decisions.

It isn't.

It is a decision to follow a specific rulebook, one that determines when you buy a company like SpaceX, at what price, and whether you own it at all.

Consider two investors with similar mandates. One tracks a fast-entry index and owns SpaceX within weeks, buying into a thin float during a period dominated by flows. The other tracks the S&P 500 and may not gain exposure until 2027, potentially at a price shaped by profitability and earnings growth. Same company. Same market. Very different outcomes.

THE BOTTOM LINE

The wave of mega-cap IPOs is not just a story about innovation; it's a story about index construction.

The biggest influence on your portfolio may not be the companies themselves, but the rules that determine:

- when they enter your portfolio
- how much weight they carry
- and the conditions under which you are forced to own them.

Passive investing remains a powerful tool. However, it is not neutral or simple.

Gold and silver hit the pause button

Ned Naylor-Leyland | Fund Manager | Head of Gold & Silver at Jupiter Asset Management

The past few weeks have been a volatile period for financial markets including gold and silver.

Gold reached a record high in January of $5,405/oz after a remarkable run last year. In March, the price declined by 12%, the worst monthly performance since June 2013. Despite this, gold remained up 5.5% year-to-date through March.

The conflict with Iran and the complex geopolitical environment led markets to become more sceptical about the outlook for the US Federal Reserve (Fed) rate cuts, while short-term inflation expectations held steady. Real interest rates rose, which is negative for gold and silver, while speculative traders sold off.

If markets expect central banks to change direction and hike rates meaningfully, this is typically negative for gold and silver. However, we believe that speculative traders may have overreacted to recent developments.

STAYING POSITIVE

The Middle East conflict has caused many investors to refrain from making significant portfolio changes. While we recognise the heightened uncertainty in financial markets, we remain positive on the prospects for gold and silver.

The gold and silver markets have been driven by a combination of speculative traders and global hedge funds on one side and retail investors who bought into monetary metals as prices have risen over the past year on the other side. Central banks have also been increasing their gold holdings in recent years.

What hasn't been driving the market, however, are asset allocators and long-only investors. This would include global investment funds, and retirement and pension funds, who we believe are under-allocated to gold and silver. We would expect this to change over time.

MAG 7 AND PRIVATE MARKETS

Long-only investors have been heavily focused on technology stocks over the last few years. These include the MAG 7 (Microsoft, Apple, Nvidia, etc) as well as private market assets, which, in our view, have left little space for other assets to get attention.

The questions we ask are: how to regain momentum in gold and silver markets and attract the attention of long-only buyers? In our view, the fundamentals that support gold and silver haven't changed.

We believe we may be in the later stage of a long cycle of US hegemony, including the primacy of the dollar and US Treasuries as the main risk-free assets in the global financial system. There are growing concerns about the US government's balance sheet, increasing deficit and financing costs. However, it's not just a US government issue, France, Italy, the UK and Japan also have substantial amounts of debt. This is one reason why the major fiat currencies, including the dollar, euro, pound and yen, have lost value against gold over the last 25 years.

Regardless of how the conflict in the Middle East ends, we think these longer-term fundamental issues remain.

TWO SCENARIOS

If the war ends soon, markets may return to the view that the Fed will resume its rate-cutting cycle and inflation will be manageable. In our view, this would be positive for monetary metals.

A more difficult scenario for investors would be a prolonged war causing supply chain disruptions, continued oil and gas price spikes and a 1970s-style stagflation environment.

This would be negative for risk assets and the traditional 60-40 portfolio (60% stocks, 40% bonds), in our view. It could potentially motivate long-only asset allocators to look to gold and silver. I sometimes use an aircraft carrier analogy: this huge part of the market would begin to turn, take notice of gold and silver and bring momentum to the market.

It is important to recognise that investment outcomes for gold, silver and related mining stocks may differ materially from expectations. Price performance depends on physical supply and demand as well as capital flows, market confidence and macroeconomic developments, all of which can change quickly.

At the time of writing, gold and silver seem to be paused, along with other asset classes, as investors await clarity on the path ahead.

TURKEY SELLS?

There has been some commentary in the press recently about the Turkish central bank selling gold to support the lira and the impact this may have had on the market. In our view this has more to do with the state of Turkey's economy. Gold would be sold to another country's central bank through the Bank of International Settlements (BIS) and would not have impacted market prices. The BIS is a global financial institution owned by member central banks.

This event highlights gold's role as a key reserve asset for central banks, which use the yellow metal as a hedge against inflation and market risk. According to the World Gold Council, these institutions have increased their holdings in recent years.

Gold and silver have functioned as stores of value during periods of market volatility, geopolitical instability and economic uncertainty due to their diversification and liquidity attributes. We remain patient and positive about the outlook, as we believe gold and silver and related mining equities have a role to play in well-diversified investment portfolios.

The value of active minds – independent thinking: A key feature of Jupiter's investment approach is that we avoid the adoption of a house view, preferring instead to allow our specialist fund managers to formulate their own opinions on their asset class. As a result, it should be noted that any views expressed – including on matters relating to environmental, social and governance considerations – are those of the author(s) and may differ from views held by other Jupiter investment professionals.

Eigenzeit

Trevor John | Wealth Director

There is a German word that does not translate cleanly; *Eigenzeit*. A thing's own time. The pace at which something unfolds when it is not interfered with.

It applies to fermentation. To grief. To the way a forest recovers after a fire. It also applies to wealth.

Much of the financial conversation advisers have with their clients is still, at its core, a consumption story. Save now, spend later. Delay gratification for long enough and eventually you get the reward. A bigger house. A better retirement. Something you can finally enjoy.

That framing is not wrong. But it is incomplete. The more interesting question is not only when you get to spend. It is whether capital can ever escape the spending story entirely.

Three stages of capital

There are three stages to building wealth.

First, get the money. Earning, saving and converting labour into capital.

Second, get the money a job. Putting capital into assets that work when you are not working.

Third, harness the money. Reaching the point where capital produces more than you need, allowing the surplus to compound without being constantly interrupted.

Most people live in the first stage. Some reach the second. The third is where the story changes. Capital begins to have its own momentum, increasingly independent of the person who started it. That momentum has its own time. You cannot rush it. You can only avoid interrupting it.

THE PATIENCE OF STRUCTURE

Warren Buffett is the obvious example, but the lesson is often told too narrowly. People focus on what he bought. The more important lesson may be what he chose not to do. He did not harass his capital. He did not draw it down when many investors begin spending in retirement. He allowed compounding to work for longer than almost anyone in history. Much of his wealth is not only the result of stock selection, but geological patience.

Bill Gates is also extraordinary, but once he had created significant wealth, he did not keep betting everything on one outcome. He diversified and managed risk. Both teach something more replicable than brilliance: the value of structure, patience and restraint.

Elon Musk is a different story. He took repeated, concentrated, existential risk and it conspicuously paid off. That makes him fascinating. It does not make the journey easy to copy. For most clients, that kind of risk is more a spectator sport than a financial plan.

This is the conversation advisers can help clients have when FOMO appears, or when the market rewards the risks they wisely avoided.

GLOBAL FAMILIES, LONGER TIME HORIZONS

The complication, more pressing in recent years, is that the time horizon itself has changed shape.

Families are more global than they were. A South African client may have children in London, a grandchild born in Dubai, or a beneficiary who has emigrated and is no longer a South African taxpayer. Wealth does not stop when the passport changes. However, the structures need to accommodate that.

For much of our history, the Old Mutual International offering addressed a specific and elegant need: providing intermediated products and enabling generational transfer inside an efficient tax vehicle for South African taxpayers. Our Isle of Man structure allows us to provide clients with investment options, collect and pay fees and taxes cleanly, change beneficial ownership without dismantling the investment container, and do this across a 99-year term. Our flagship product has been Investment Portfolio+ (IP+).

That is a long time. Long enough for *Eigenzeit* to work.

But the shape of the families using that container has shifted. Some clients now want the tax responsibility in their own hands. Some have beneficiaries for whom a wrapped structure may no longer be optimal.

DIFFERENT CONTAINERS, SAME PHILOSOPHY

The offering needs to reflect the way clients actually invest and live today.

We have built and are launching IP+ Assured, an endowment for clients who want a policy structure with a defined end point through a life assured, particularly where future beneficiaries may be based offshore.

We are also introducing an unwrapped product, Global Personal, for clients who want the practical benefits (investment access, administration, reporting and operational efficiency) while holding the tax responsibility directly. This may be relevant where a client has moved, or is moving, offshore.

The same philosophy. Different containers. Designed for global families who do not always fit neatly into structures built for a previous generation.

None of these changes the underlying argument. The container matters. Getting it right matters. But the container's job is simple: protect the compounding from unnecessary interruption.

Eigenzeit is not passive. It requires active decisions about structure, ownership, liquidity, tax responsibility, transfer and beneficiaries. It requires advisers who understand that the question is not only which assets to hold, but how to hold them across time and generations. The slow accumulation of capital, properly structured, moving through families rather than stopping at them.

China up close

Izak Odendaal | Chief Investment Strategist | Symmetry

When Donald Trump visited Beijing recently, some of the backdrop was familiar. I had been there just three weeks prior and was happy with my timing, since the US president's motorcade would've caused havoc with the already heavy traffic in China's capital.

Trump's itinerary seemed to be designed to highlight the ancient heritage of the Chinese state. This included a visit to the Temple of Heaven, which for 600 years was the site of an annual pilgrimage by the emperor to pray for good harvests and peace. At the walled-off Zhongnanhai leadership compound, President Xi also deliberately pointed out centuries-old trees – trees that are older than the United States itself.

Xi also referenced the Thucydides Trap, a theory suggesting that when an emerging power threatens to unseat an established power, the tension makes war likely. The ancient historian after which it was named noted how it was "the rise of Athens and the fear that this instilled in Sparta that made war inevitable."

The parallels are clear as China challenges US dominance. Strictly speaking, however, for most of its history China was the superpower. In the nineteenth century, it was the US that was the scrappy upstart, while China's two-millennium-old imperial state was in decline. Along with European powers, America forced its way into China by establishing a foothold in five treaty ports, including Shanghai and Hong Kong, which is why they still have an East-meets-West character.

The period between the Opium Wars of the 1840s and the Communist Revolution of 1949 is known in China as the 'Century of Humiliation', an aberration in the long history of the country. Therefore, what is happening today is seen not so much as the "rise of China" as a return to its historical place as a leading nation.

Fortunately, while the Trump–Xi summit did not solve any of the underlying tensions around trade, technology and Taiwan, there were smiles and handshakes all round, suggesting that at least channels of communication are firmly open, unlike between Athens and Sparta.

As for me, visiting China was a remarkable experience. On the one hand, there is the deep history, the culture, the ancient traditions. On the other, it feels like a place where the future has arrived. Sharing a hotel lift with a talking delivery robot was particularly interesting, though I couldn't understand what it was saying. Not even being able to read signs or instructions can be a bit overwhelming, but it also makes being there enjoyable. You never forget you are in a foreign country and there is no point in pretending to be a local. Nonetheless, English appears on many road signs, station names and menus, while translation apps cover the rest. The Chinese use Arabic numerals, so you at least know how much something costs, even if you don't always know what you are looking at. Once you take a deep breath and embrace the unfamiliar, getting around becomes easier.

The infrastructure is, especially to a South African, amazing. Travelling by high-speed rail is a great way to see the country up close and China now has more miles of high-speed rail than the rest of the world combined. The big cities have efficient, clean and extensive metro systems. And, as with much of modern China, it was mostly built from scratch in the last two or three decades.

This shouldn't necessarily come as a surprise. China is a society with a long history of public works. The Grand Canal, an important system of waterways that connected Beijing in the north to Hangzhou in the east, was first constructed in the fifth century BCE and was continuously expanded and upgraded over subsequent centuries. The Great Wall, built to keep out raiders from the north, is perhaps the most iconic example, spanning thousands of kilometres. The first sections were built in the seventh century BCE, while the famous section outside Beijing was built by the Ming dynasty in the 1500s.

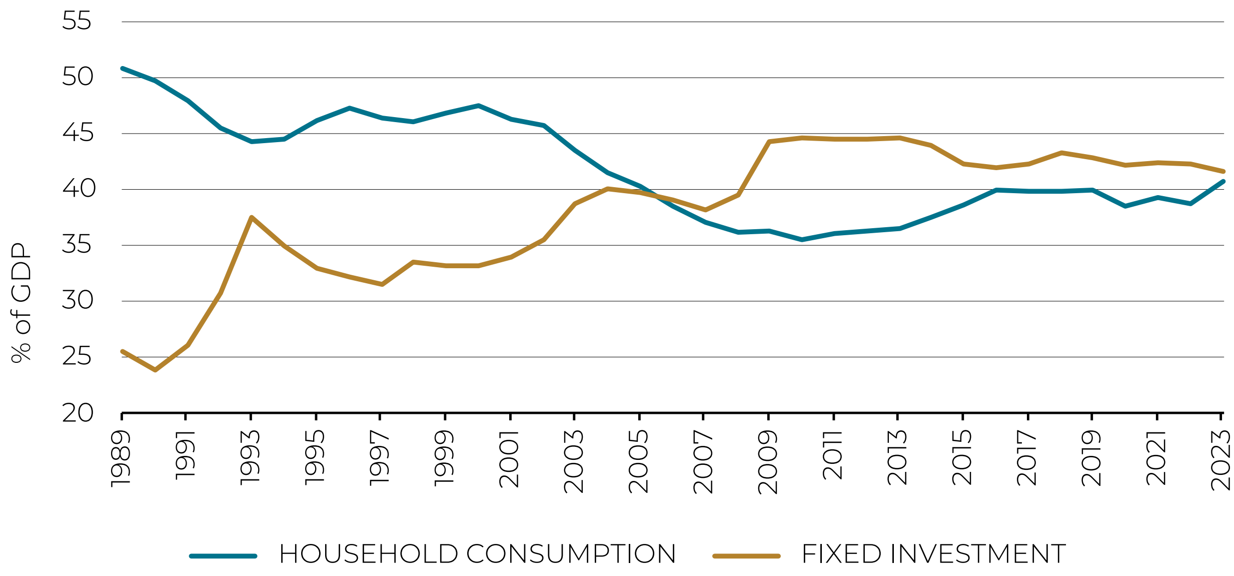
ALL ALONG THE WATCHTOWER

It is truly impressive. The Badaling section I visited was built across the peaks of a mountain range, high above the surrounding landscape. Tourists reach it by cable car and parts of the wall are very steep. Walking a kilometre or two can be a serious workout. Somehow, hundreds of years ago, workers dragged tools and stones uphill to build the wall. Many died on site and some were buried within the wall itself.

From an economist's point of view, however, there is such a thing as overinvestment in infrastructure. Even today, China plans to expand its high-speed network to connect every city with a population of more than 500,000, roughly the size of Pietermaritzburg.

It made for investment rates to rise in the 1980s and 1990s when the country was still underdeveloped with a patchy infrastructure. Rising investment boosted economic growth, which in turn funded more investment. It makes much less sense to reinvest 41% of national income today, the highest share of any large country on earth. Meanwhile, as Chart 1 shows, the flipside of high investment rates is that household consumption is kept artificially low. The incremental return from new investment has declined and is negative (i.e. wasteful) in many cases.

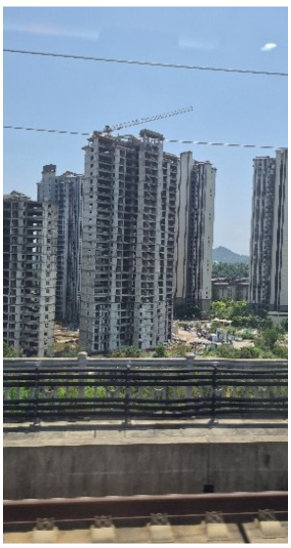
Chart 1: China's unbalanced economic structure

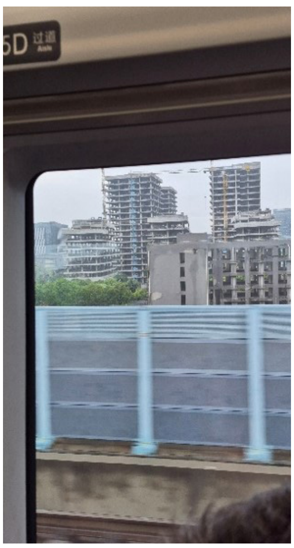


Source: LSEG Datastream

Nowhere is this truer than in the epic property bubble, which burst in 2022. Today, empty and uncompleted apartment buildings are clearly visible from the train as you pass through smaller cities. China's declining population means there is little hope that these apartments will ever be occupied. These ghostly buildings will haunt the urban landscape for years to come until, presumably, they are eventually demolished.

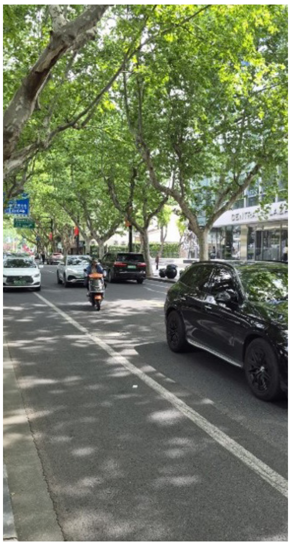
These photos of unfinished blocks of flats were taken from the train between Shanghai and Beijing. There were also many completed but empty buildings visible.

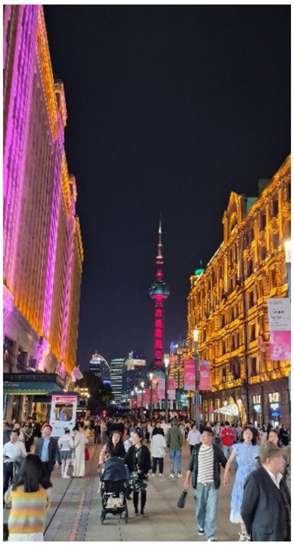




Chinese households were keen participants in this bubble, and for most it became their main store of wealth. This is unlike in South Africa where household wealth is held in pension funds, unit trusts and insurance products. An estimated 90% of Chinese households own property, with around 30% owning second or third homes. Declining house prices are therefore a significant setback to the financial position of households, though fortunately they didn't borrow excessively. Property developers, however, borrow billions of dollars, much of which will be written off.

Despite this, Tier 1 cities like Shanghai, Shenzhen and Beijing have some of the most expensive real estate on earth, with average house prices running between $7,000 and $9,000 per square metre according to the National Bureau of Statistics. Prices in Sandton are between $1,000 and $2,000 per square metre. Owning a flat in these cities has become out of reach on an ordinary salary. This contributes to a sense of hopelessness among many young people who work exhausting hours but feel like they are making little progress in life. It also implies, however, that the housing supply in these cities must continue expanding.





ELECTRIC AVENUE

Four other observations stood out during my visit. First, electric vehicles are ubiquitous in the biggest cities. This means that the streets are quiet and pleasant, with smog being a thing of the past. Even delivery bikes are electric, which makes them quite dangerous, as they drive just as recklessly as in South Africa, but almost silent, making them harder to notice. This also means that there wasn't much panic in China when global fuel prices surged. Though China is the world's largest buyer of oil from Iran, it has also built substantial oil stockpiles over the years to ride out the storm.

Secondly, visiting China is surprisingly affordable, even for a South African. Shanghai is a global financial hub, but food and accommodation were certainly cheaper than in London or Paris. This suggests its currency is undervalued, which is remarkable given China's trillion-dollar annual trade surplus. If Beijing allowed its currency to appreciate – something that it will only ever do very gradually – it will raise the purchasing power of Chinese households and help rebalance the economy away from investment to consumption. It will also make Chinese assets more valuable for foreign investors, therefore supporting the aim of promoting the renminbi as an alternative to the dollar.

Thirdly, people seem to be glued to their phones. Partly, this is because mobile payments are ubiquitous. I never touched any cash. If you plan on visiting, Alipay or WeChat are a must.

Fourthly, there is a heavy police presence and security cameras everywhere. You know you are being watched, but it is also very safe as a result.

INVESTABLE?

To conclude, what does this tell us about China as an investment destination? While China can confidently project itself on the global stage as an economic, military and technological superpower these days, market valuations tell a different story. Chinese equities trade at a large discount to the US, more so if one considers that the 10-year US government bond yield is around 4.5%, while the Chinese equivalent is only 1.7%. This implies a substantial 'equity risk premium' in Chinese equities, while US equities carry little margin of safety.

Some of this discount reflects the challenges described above, as well as sudden regulatory changes that led some investors to label China as "uninvestable" around 2021. Since then, however, authorities have shifted their attitudes. Beijing long viewed equity markets as a sideshow that attracts speculation, whereas the serious business of funding economic development fell on the banking system. However, banks are now constrained by struggling property exposure, while the example of other countries, notably the US tech sector, has shown how equity markets can fund innovation. Equities can also act as an engine of wealth creation for households, important in a country with an ageing population and patchy social security coverage. Therefore, regulators are now keen to foster a "slow bull market" of gradually rising long-term equity values that can support economic development and help Chinese families save for retirement.

To support this, corporate governance standards have been raised, and listed companies are encouraged to pay regular dividends. This is a long-overdue shift to a more shareholder-friendly environment. Despite China's phenomenal economic performance, listed companies failed to turn GDP growth into profit growth and equity returns have been lacklustre. In contrast, the main reason the S&P 500 trades at a premium is the consistent earnings-per-share growth delivery, well ahead of any other major market (helped along by around $1 trillion in share buybacks over the past decade).

Chart 2: Forward price: earnings ratios

Source: LSEG Datastream

For equity investors outside China, the trifecta of a cheap currency, low valuations and increased policy support should be appealing. China's weight in the main global equity benchmarks compiled by the likes of MSCI and FTSE Russell has declined to only around 3%, way out of proportion with its share of total global economic output and innovation. As investors increasingly worry about concentration risk in the US market, Chinese equities present a useful source of diversification. However, if you are just wondering where to go on your next overseas holiday, China also deserves consideration.