OPPORTUNITY

PRIVATE CAPITAL

Economic Snapshot September 2023

LOCAL ECONOMIC INDICATORS

- All-Share Index end Sept: +-72,500
- All-Share 1y return: 5.2%
- Market PE ratio: 8.96x
- USD/ZAR currently at R19.22/$,
- South Africa 10Y Government Bond yield: Current 10.89%
- Brent Crude Oil: US$90.71

(Data: Bloomberg; ShareNet; tradingeconomics.com)

NEWS

- The Chinese economic story is still unfolding. The world has been waiting for the government to unleash a stimulus package, but the new regime seems more focused on sovereignty than growth. Telling news of this include youth unemployment that will not be published anymore, the news of graduates being asked to do blue-collar jobs, and the simmering property debacle.
- Japan is the surprise of the year, with BlackRock even dedicating a section of their recent global update to the nation that has had almost no growth over the last few decades.
- BRICS to BRICSAEEISU: The recent summit was characterised by complaints against the West (for crises, wars and their fall-outs) and Cyril Ramaphosa announcing invitations to Argentina, Egypt, Ethiopia, Iran, Saudi Arabia and the United Arab Emirates to join the BRICS bloc.

Fifteen years the wiser

The human brain is a vastly intricate, but "funny" thing. Psychologists will tell you that most people can remember exactly where they were when they saw the news of 9/11 back in 2001, forming a shared memory on a global scale. For those who worked in finance, the events of fifteen years ago had a similar effect.

Back when it was happening, the term "Sub-Prime crisis" was bantered around, but what ensued has dwarfed that name and we now call the ensuing period the "Global Financial Crisis" (GFC), etched into our collective memories.

The GFC was different from 9/11 because it was a crisis of our own doing and happened on both sides of the Atlantic. If I were to ask you what started the crisis, you might say "some bank collapse?", referring to Lehman Brothers. The collapse of Lehman Bros wasn't really the start of the crisis, but it was our "economic second Boeing" moment. Lehman's collapse actually followed the sale of Bear Stearns to JPM, the sale of Countrywide Financial to BoA, the purchase of ABN Amro by RBS, the collapse of Northern Rock in the UK, the sale of Alliance & Leicester to Santander, and the merging of a range of UK building societies in an attempt to stabilise their books.

Lehman Brothers was the straw that broke the global debt-economy's camel's back. When the US Government, the US Treasury and the US Federal Reserve decided not to rescue Lehman Bros from collapse, the first domino fell in a series of events that taught us how callous lending and credit scoring is related to asset prices.

What followed was a crazy month of bank mergers and government interventions, during which we had the merger of Merrill Lynch with BoA, the massively important bailing out of AIG, the sale of Washington Mutual to JPM, the sale of Wachovia Bank to Wells Fargo, the nationalisation of both Lloyds and Royal Bank of Scotland, and the bailing out of UBS. And yes, that was all before mid-October.

Thankfully, the ensuing three years saw increased regulatory focus that caused radical changes in global banking governance. While those changes are not always apparent, the 'safe'/dedicated capital in the system has more than doubled, and global banks are now tightly managed and better regulated.

The response to a crisis is as important as the crisis itself, and the USA's decisive action was foundational to it having been the leading economy in the world (as seen in the chart below). We can only wonder what we will be writing in March 2035 when we reflect on the decisions governments made during Covid.

GRAPH OF THE MONTH: - USA vs the World

Source: Bloomberg

Compiled by Dr. Rousseau Lötter (Head of Portfolio Analytics, Craigs Investment Partners, NZ).