OPPORTUNITY

PRIVATE CAPITAL

Economic Snapshot March 2023

## LOCAL ECONOMIC INDICATORS

- All-Share Index end Mar: 76,994
- All-Share 1YTD return: 5.44%
- Market PE ratio: 10.41
- USD/ZAR R18.05/$ (22 Jan
- South Africa 10Y Government Bond yield: Current 9.800%

(Data: Bloomberg; Sharenet; www.tradingeconomics.com )

## NEWS

The world of politics has had a very interesting month:

- China's president Xi Jinping and Russia's Vladimir Putin recently met to discuss shaping a new world order, while President Jinping interestingly did not pledge support for the war in Ukraine (which had its anniversary on Feb 20).
- French President Emmanuel Macron survived a no confidence vote.
- The Israeli prime minister Benjamin Netanyahu's government is on tenderhooks after proposing a judicial overhaul, described as the 'worst national crisis in years'.
- Former president Donald Trump has been indicted after paying 'hush money' to a porn star.
- Russia now holds the rotating presidency of the UN Security Council in the same month as an arrest warrant for Putin was issued over war crimes.

And yes, then there was the content of the newsletter…

## What a difference a day makes

And there we were, at the beginning of the year, thinking that the worst was definitely behind us. Equity markets everywhere were calling the Fed's bluff, and recently China had signalled their re-opening.

There was even talk of earnings rebounds for stuttering companies, and 'a very plausible no landing scenario' (implying that no hint of a global recession was on the cards after inflation started running and interest rates soared in 2022).

Oh, what a difference a day makes.

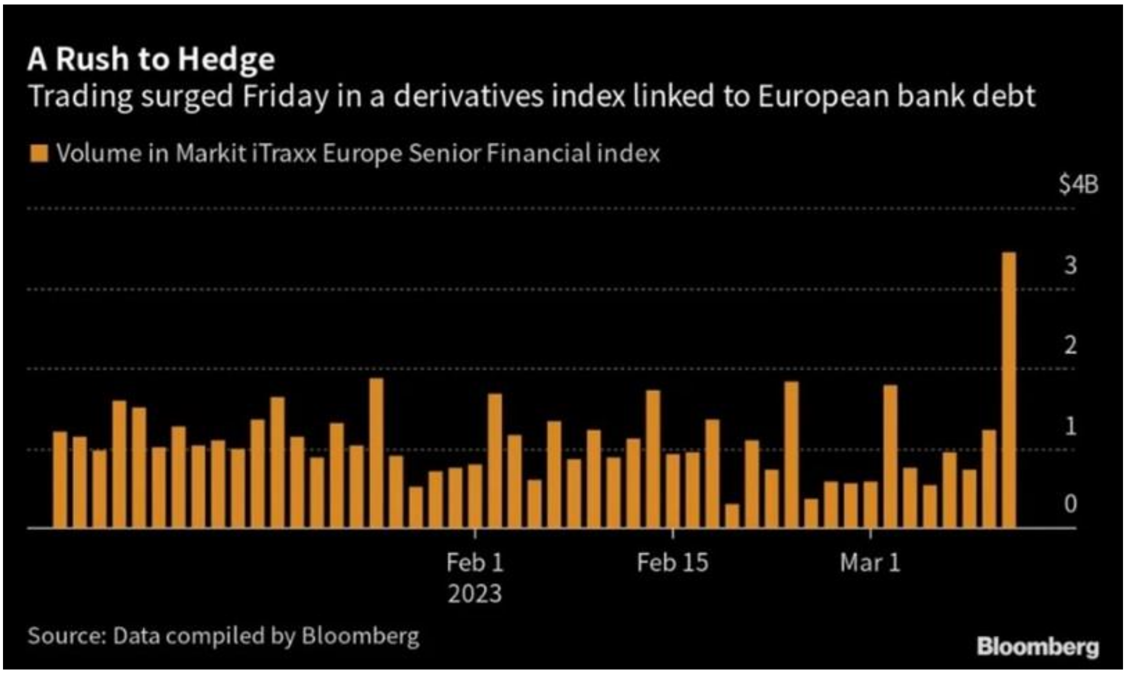
The specific day we are referring to is, of course, the day that marked the failure of Silicon Valley Bank (SVB). After the 2008 Global Financial Crisis we thought that this would *never happen again*, regulators and bankers everywhere should have learnt their lessons. To be fair, they did learn a big lesson and introduced new controls and systems, but they have just now been taught a *new* lesson.

Hidden in the background of all the global bank lending practices are pages upon pages of regulation (Google "Basel III" if you want to learn about the international regulatory framework for banks), which in turn has to be mixed with sharp business acumen and some very unsexy statistical risk control measures.

SVB's problems arose because, like all banks that do not like to sit on hot cash, SVB rather invested their depositors' cash into other instruments and made money for their shareholders. Specifically, they bought fixed interest instruments with the deposits, where prices move down when interest rates go up and vice versa. The interesting thing is that the regulators are very happy with this practice, and even allow banks to value all these values at their maturity- or face value instead of the current market value. Now this is all fine, but only until people want their money and banks have to sell these securities at losses. This is exactly what happened with SVB: they reported losses on the sale of some bonds, whereafter venture capital firms caused a stampede of withdrawals by sounding warnings to their clients to get their money out of the SVB door.

On a grander scale, Nouriel Roubini estimates that US banks' current unrealised losses amount to roughly $1.75 trillion, and to put that in context – 80% of their capital. While this is worrying, analysts are not predicting a full-blown crash or crisis, just a reduction in credit, which may even have the positive effect of calming inflation. No one predicted that the global path of interest rates would rise as quickly as it did, so it is a new lesson indeed.

## GRAPH OF THE MONTH: - How credit traders were blindsided and rushed to safety.




**Source: Yahoo Finance**

Click to view Current Available Investments from 14% p/a

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