OPPORTUNITY
PRIVATE CAPITAL

Economic Snapshot January 2023

LOCAL ECONOMIC INDICATORS	NEWS
• All-Share Index end Jan: 78,188 • All-Share YTD return: 7.19% • Market PE ratio: 10.67 • USD/ZAR currently at R18.29/$ (22 Jan), • South Africa 10Y Government Bond yield: Current 10.245% (Data: Bloomberg; Sharenet; www.tradingeconomics.com)	• China's reopening, after all their strict Covid lockdowns, is still having a positive effect on global markets. Global shipping lanes are also doing better and green shoots for both travel and goods transport are appearing. • On the other hand, central banks globally are forging ahead with interest rate hikes to calm runaway inflation. The current rhetoric about both interest rates and inflation is 'higher for longer'. Equity markets are however not convinced and still pricing in good earnings and soft landings, flaming talk of current returns being signs of a 'bear market bounce'. • Locally, the load-shedding saga continues, with a reported 7,000 megawatts reportedly being dropped from the network.

The short game

Global capital markets are currently in a precarious place, with equity markets especially being scrutinised for possible overpricing.

I've always held the opinion that share markets are the oldest form of social media, with thousands of opinions about everything from company information to global economic trends somehow finding their way into a consensus price.

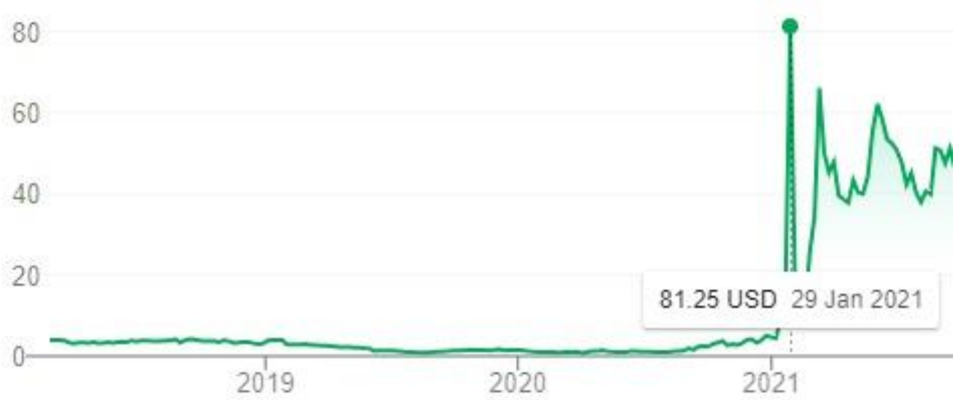
The interesting thing about equity pricing is that it is very much forward focused, trying to anticipate the next piece of news that will affect the wider industry or the company itself. The game of anticipating if news will be good or bad oftens controls much of what happens with prices over the short term, causing both price volatility and over- or under valuation. It gets even more interesting when you get good news that is followed by a negative price reaction. The question is why?

The answer lies in the sequence of things. When you get a series of good news events, especially if the good news were surprises on the upside, then the market can get a little heated. So, when you get a fourth or fifth good earnings announcement, but it was *less good* than what was expected, markets will provide a short term negative surprise to price movements. That is exactly why most equity portfolio managers will advise investors to buy a share at a good price, and then own it through a cycle, or even forever. Some would say this is way too boring.

Cue the short-sellers who walk among us. Apart from those who buy, own and sell equities, the short sellers are those who use financial contracts to profit from times when prices go down. These people are not always very popular with the management of the companies they are shorting, who naturally would like to hear positive things written about their company. Those very short sellers are currently scratching their heads, wondering if they should enter the market with a few shorts, betting on enough negative news to get prices to start falling.

The problem occurs when prices start going against you, even if you have correctly interpreted all of the fundamental news perfectly. We are only a week or so away from the 2-year anniversary of the GameStop saga, where a rocketing price caused many short sellers and hedge-funds to lose copious amounts of money (, graph below, read the entire story here: https://en.wikipedia.org/wiki/GameStop_short_squeeze). Only time will tell if the bulls or the bears were correct in calling the current, supposed 'bear market bounce".

GRAPH OF THE MONTH: - Gamestop Historic Price



Source: Google.com, Gamestop price

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

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