OPPORTUNITY
PRIVATE CAPITAL

Economic Snapshot November 2022

LOCAL ECONOMIC INDICATORS	NEWS
• All-Share Index end Nov: 73,045 • All-Share YTD return: -0.9% • Market PE ratio: 9.59 • USD/ZAR currently at R17.10/$ end Nov, • South Africa 10Y Government Bond yield: Current 10.230% (Data: Bloomberg; Sharenet; www.tradingeconomics.com)	• China has started suffering anti-lockdown protests as rising Covid cases prompted severe lockdowns. • While many markets in Europe are struggling, weapons manufacturers around Ukraine are not doing too badly. • The crypto exchange FTX has had a spectacular collapse, reportedly owing the top 50 creditors more than $3.1 billion. • Inflation in SA picked up to 7.6% after it was expected to ease. The main culprits were food, transport and household prices. • SARS has shown an olive branch to disgraced and embattled employees who suffered harm during the state capture era after the Nugent Commission confirmed some of the failings, paying them compensation for damages.

The predictability of markets

The last 12 months have been a proper masterclass in the predictability of markets, or maybe rather the *UN*predictability of capital markets. Few of us would claim that our glass balls were polished enough to see the severity of the moves in worldwide inflation, bond yields, equity repricing, and the list goes on. Not only has the sheer size of the moves been unpredictable, but the downward co-movement (or correlation) of some assets has also caught most by surprise.

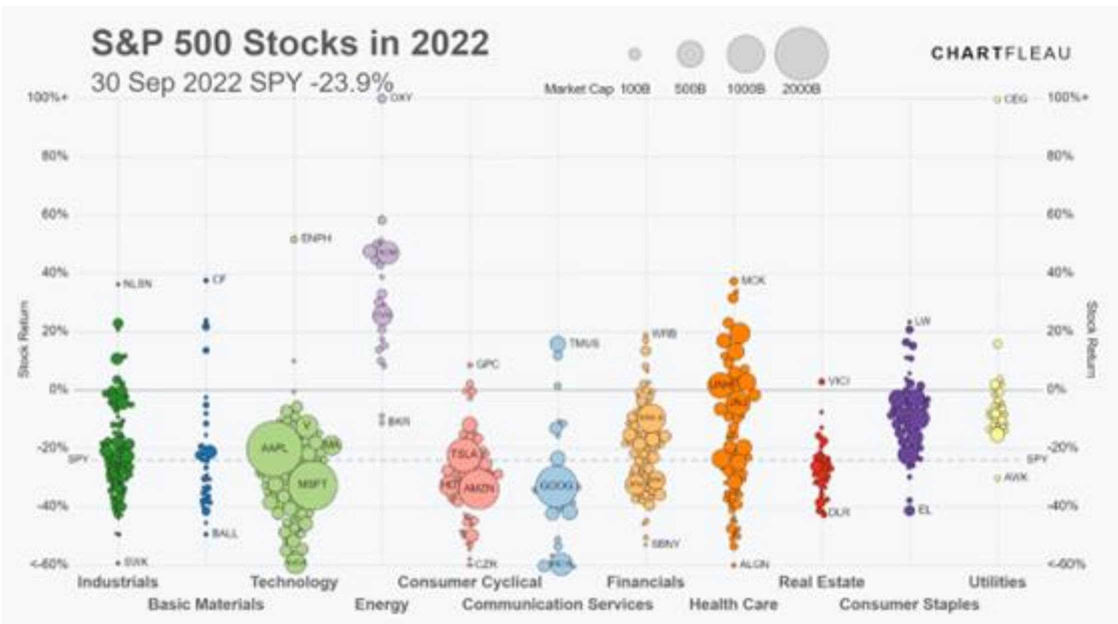
A recent study on the traditional 60/40 portfolio (using 60% US equity and 40% US bonds) showed that we are on track for the 3rd worst year in 100 years… Who would have guessed this outcome a mere year ago?

The one thing that we all would have agreed on is that markets are unpredictable. The chart below visualises the return for individual stocks across the main sectors of the S&P500 from Jan 2022 to end of September. It is a powerful picture because it illustrates some key share-investing principles that the old-hands among us will know well: Firstly, not all companies are equal, and you can get quite a wide range of outcomes (see Basic Materials and Healthcare). Secondly, you do sometimes get market risks that affect almost all companies simultaneously (like Tech). Thirdly, any company can have its time in the sun, and the big names don't always do the best (see the small companies that delivered 100%+ and the big bubbles that underperformed their sectors).

Knowing that it is very difficult to pick out where instrument returns are heading, there are some nuggets of wisdom that we can implement when it comes to portfolio construction:

(i) Diversify your return drivers, (ii) Diversify to reduce risk, (iii) Don't expect to time the market perfectly, (iv) Time 'in the market' beats timing the market, (v) Chasing momentum does not always work, and (vi) Don't only bank on one strategy, or one asset class!

GRAPH OF THE MONTH: - S&P500 YTD to end September 2022



Source: ChartFleau.com

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

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