OPPORTUNITY
PRIVATE CAPITAL

Economic Snapshot September 2022

LOCAL ECONOMIC INDICATORS

- All-Share Index end Sep: 63,263
- All-Share YTD return: -10.23%
- Market PE ratio: 9.54
- USD/ZAR currently at R17.73/$ end Sep,
- South Africa 10Y Government Bond yield: Current 10.210%

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

NEWS

- International equity markets were given a jolt from the UK when Liz Truss and Kwasi Kwarteng decided that an impromptu tax cut & spend announcement was on the cards for their voter base. Debt markets were sent into a tailspin until the Bank of England stepped in.
- Ukraine has taken back some lost ground just as Russia held referendums to conclude that all the people forced to vote at gunpoint wanted to annex their areas. The effect of the war on food and energy prices is still being felt.
- The US dollar has strengthened against every major currency on the back of risk aversion and a dramatic increase in US interest rates.

Sentiment and the glass ball

Most people reading this newsletter should have lived through a few global market shocks, most notably 2008's GFC (the global financial crisis). Alongside the GFC we have recently seen a pandemic, we witnessed the DotCom bubble in the early 2000s, the infamous '9/11' in 2001, Brexit, an unexpected commodity market slowdown in the early 2010's, etc. It has certainly not been a 'dull' few years, and through it all we even reached peak globalisation in 2019.

Currently we are in a bit of a negative news spiral, mainly because it seems team Transitory-inflation is losing against team Sticky-inflation.

This is causing central banks across the globe to flex their inflation-fighting muscles and intervene as the world tries to find a path to a post-Covid market normalisation. As interest rates go up, asset prices go down, and because of the uncertainty we also see asset managers and investors deciding to rather hold onto their cash. As one commentator I listen to recently stated, "Things are not great at the moment".

BUT… There is hope. Every prior 'wobble' did not last forever, although it felt like it would at the time. The problem with sentiment is that we easily turn myopic when the news is bad, making us short-sighted and panicky. The graph below shows a lot of green after every major S&P500 slump over the last 72 years, which should bring us some comfort about the future.

Unfortunately, we cannot say that history will repeat itself, leaving us with no guarantee that we can blindly trust the 'pattern' below. What we can trust in is that no condition is permanent, and that we will get out the other side of all of this eventually. The timing of the 'eventually' is where it gets tricky, so hopefully the Reserve Bank of Australia's recent decision to only increase their interest rates by 25bps (half of what was planned) is a sign that inflation might be losing some steam. One thing is certain, the next period is going to be as memorable as it will be interesting!

GRAPH OF THE MONTH: - Returns after bad bear markets

When the S&P 500 is Down 25% or Worse Since 1950

Peak	Trough	% Decline	+1 Year	+3 Years	+5 Years	+10 Years
12/12/1961	6/26/1962	-28.0%	31.2%	69.2%	94.8%	171.1%
11/29/1968	5/26/1970	-36.1%	32.2%	44.3%	27.9%	97.5%
1/11/1973	10/3/1974	-48.2%	1.4%	23.8%	42.0%	188.4%
11/28/1980	8/12/1982	-27.1%	43.9%	81.2%	238.6%	403.9%
8/25/1987	12/4/1987	-33.5%	14.7%	34.1%	96.8%	387.1%
3/24/2000	10/9/2002	-49.1%	0.2%	1.9%	21.5%	38.3%
10/9/2007	3/9/2009	-56.8%	-6.9%	3.7%	61.2%	209.6%
2/19/2020	3/23/2020	-33.9%	56.4%	???	???	???
1/3/2022	9/30/2022	-25.2%	???	???	???	???
Averages		**-37.6%**	**21.6%**	**36.9%**	**83.3%**	**213.7%**

Data: Ycharts

Source: Ben Carlson Blog.

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

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