OPPORTUNITY
PRIVATE CAPITAL

Economic Snapshot May 2022

| LOCAL HIGHLIGHTS & LOWLIGHTS | NEWS |
| --- | --- |
| • All-Share Index end of May: +- 71,000<br>• All-Share YTD return: -3.78%<br>• Market PE ratio: 10.44<br>• USD/ZAR currently at R15.61/$,<br>• South Africa 10Y Government Bond yield: Current 9.825%<br><br>(Data: Bloomberg; Sharenet ; www.tradingeconomics.com ) | • Turkey has thrown a spanner in the works for Sweden and Finland as they make moves to join Nato. Russia is escalating its efforts in Ukraine as we head towards 100 days of conflict.<br>• Comair has suspended its Kulula and British airways flights as it awaits funding.<br>• Queen Elizabeth is celebrating her 'platinum jubilee', marking her 70 years on the throne of England. No British monarch has ruled as long as the current queen. |

## Safe as bonds?

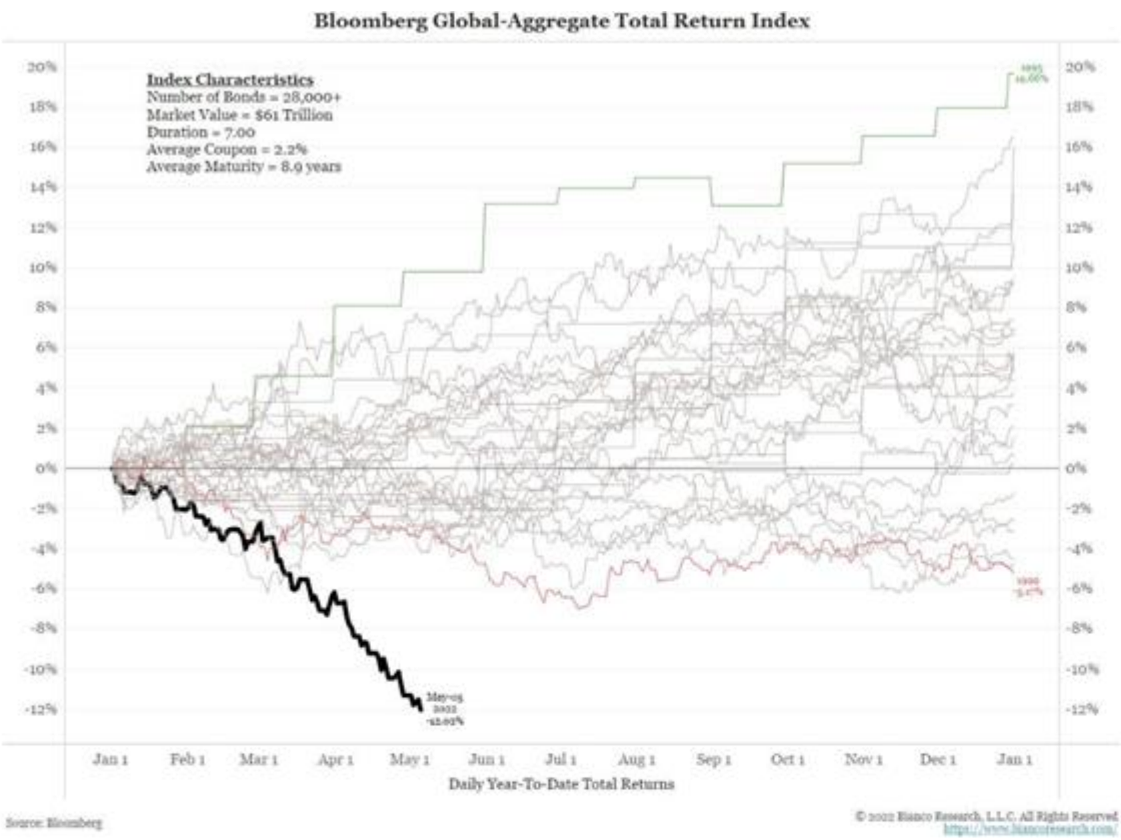
World markets are in a strange state at the moment. And please note that I do not say this lightly – the unpredictability of how the mix of geopolitical and economic curveballs are interacting is leaving the most seasoned economists scratching their heads at what is to come next. Investors are also scratching their heads now that the tech boom seems temporarily halted and inflation is affecting most parts of the globe.

While people are making active calls about equities and generally understand how companies work, they often also have exposure to a fixed interest category called bonds. The problem here is that investors often do not fully understand how bonds work, and therefore cannot understand why their prices do what they do. In short, most bonds (referred to as 'plain-vanilla' bonds) are purchased at a price that represents what investors are willing to pay now for (i) a predetermined six-monthly income stream called coupons and (ii) a single, large principal or face-value repayment right when the bond matures in a set number of years.

A bond is therefore simply a discount instrument. Two investors who buy the same bond a month apart can pay a different price and still get exactly the same cashflows. The price depends on the rate at which the set cashflows are discounted, referred to as the yield.

Unfortunately, yields have jumped on the back of interest rate and inflation forecasts, causing the prices to drop at an unprecedented rate in 2022 (see below). Next month we will explain why this is not all doom and gloom for long term investors, who hopefully have not forgotten how falling interest rates have benefitted them recently!

## GRAPH OF THE MONTH: Bonds facing the worst start to the year.




Source: [www.advisorperspectives.com](http://www.advisorperspectives.com)

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

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