OPPORTUNITY

PRIVATE CAPITAL

Economic Snapshot March 2022

LOCAL HIGHLIGHTS & LOWLIGHTS	NEWS
• All-Share Index on 2 April: 75,907 • All-Share YTD return:3.44% • Market PE ratio: 11.43 • USD/ZAR currently at R14.61/$, • South Africa 10Y Government Bond yield: Current 9.600% (Data: Bloomberg; Sharenet ; www.tradingeconomics.com)	• The Russian and Ukrainian stand-off resulted in war, with the Russian government's propaganda machine working overtime to tell its citizens that it is a military operation. The end of the conflict is not yet in sight. • While the South African government refrained from rebuking Russia, the New Development Bank (that was set up by the BRICS members) stopped doing business with Russia. • Nedbank forecasts for GDP growth for South Africa came in at 1.7%, which would put us towards the bottom of the pile of emerging markets with others expecting high single number or low double-digit growth.

The active crystal ball

The last two years have introduced a raft of unexpected curveballs, with the war in Ukraine being a proper surprise. Some geopolitical experts were thinking that Putin had a chess piece or two up his sleeve to play before his tenure ends, and even days before the war those in close vicinity were unsure of his bluff.

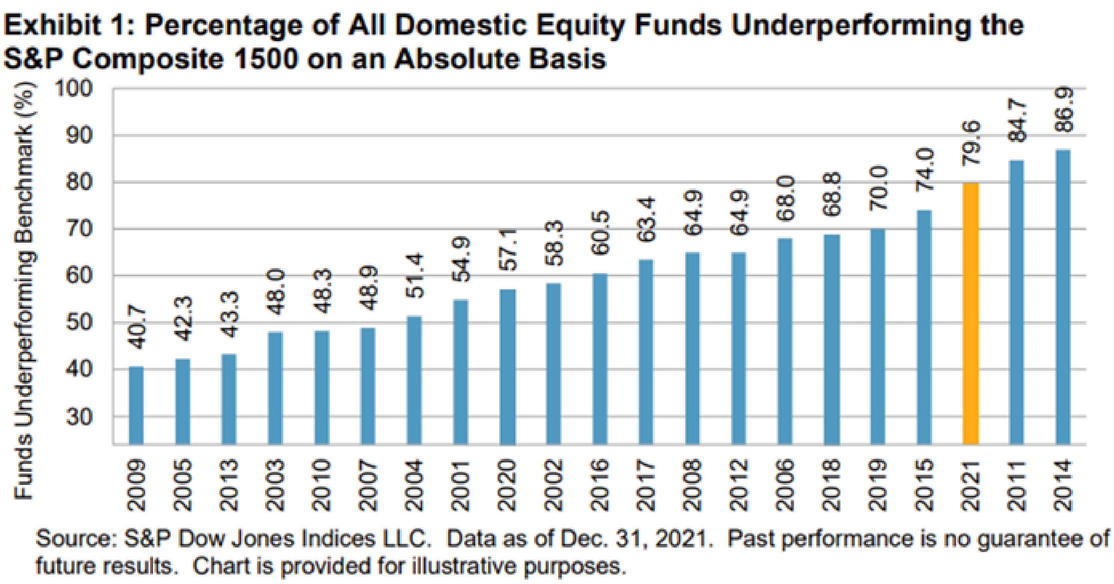
In the grander scheme of things, we somehow get used to uncertainty, and find ways to deal with the everchanging world. We normally expect our experts to have the answers and see all the signs, none more so when we entrust them to grow our wealth for us. There are thousands of investment consultants and portfolio managers the world over who all swear by their superior skill, their tried and tested investment philosophy, and their team of experts (whether in the flesh or artificial). So how are they doing, given that uncertainty and market volatility are where they can truly show their mettle?

S&P Global reports that 2021 was a tough year for active managers, especially in America. They found that 79.6% of mangers underperformed a general benchmark, leaving them with their 3rd worst collective ranking in the last 21 years (see the graph for the full history). The good news here is that the S&P500 delivered 28.7% in 2021, so a slight underperformance was not the end of the world for the clients close to benchmark. While a handful of sectors did have a good outperformance year, the crystal balls were definitely not polished sufficiently in the recent darling growth sector, where "*98.6% of large-cap growth funds failed to beat the S&P 500 Growth*".

In South Africa, the S&P South Africa 50 was up 30.5% over 2021, but unfortunately 74% of funds were beaten by the index. S&P reports that "*the dominance of the large-cap benchmark is further highlighted by the 5- and 10-year periods, in which 95% of funds underperformed*". The numbers for Latin America look similar over longer periods of time, with Australia also showing similar trends in the large shares space.

Does all of this mean that the fund managers are unskilled and misinformed? No, it just shows that it is a very difficult game to play. Those investors who chose the outperforming managers may put it down to their own skill, but deep down they know – they may just have been a little bit lucky.

GRAPH OF THE MONTH:



Source: 2021 S&P SPIVA REPORT FOR THE USA

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

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