OPPORTUNITY
PRIVATE CAPITAL

Economic Snapshot April 2022

LOCAL HIGHLIGHTS & LOWLIGHTS	NEWS
• All-Share Index on 30 April: 72,438 • All-Share YTD return:1.72% • Market PE ratio: 10.76 • USD/ZAR currently at R15.85/$, • South Africa 10Y Government Bond yield: Current 9.955% (Data: Bloomberg; Sharenet ; www.tradingeconomics.com)	• The Russian conflict with Ukraine is continuing to make headlines, while NATO and the USA try to figure out where the line of agitation is before Putin makes good on his threats of nuclear war (something we all hope to avoid). • Elon Musk has been successful in a bid to buy Twitter and will privatise the company. • On the topic of private markets: The JSE is seeing a 'delisting deluge', with 25 companies delisting in 2021 and 2022 seeing another 20 de-listings so far. To put this in context, Business Day reported that this is a sign of our capital markets being in 'a state of existential crisis'. • China is undergoing a spate of harsh lockdowns, badly affecting the worldwide supply chain again as especially Shanghai is seeing record container congestion around it.

Corrections & crashes

The Berkshire Hathaway 2021 annual meeting yielded an interesting quote from Charlie Munger, who said: "*If you're not a little confused by what is going on, you don't understand it. We're in uncharted territory*".
Charlie was referring to all the 'unknowns and unexpecteds' that financial practitioners and commentators alike have been trying to navigate.

Many of the graphs in the Economics 101 textbooks are looking a little confused as markets have been '*counterintuitive*', '*contrasting*', and '*hard to pin down in terms of ramifications*'.

While sports events are being hosted again and we see thousands of people gathering without masks on TV, inflation and interest rates have also started rising globally. These two rising factors have made the future outlook of company earnings less rosy and caused discount rates to spike, sending both the bond- and share markets into a bit of a tailspin.

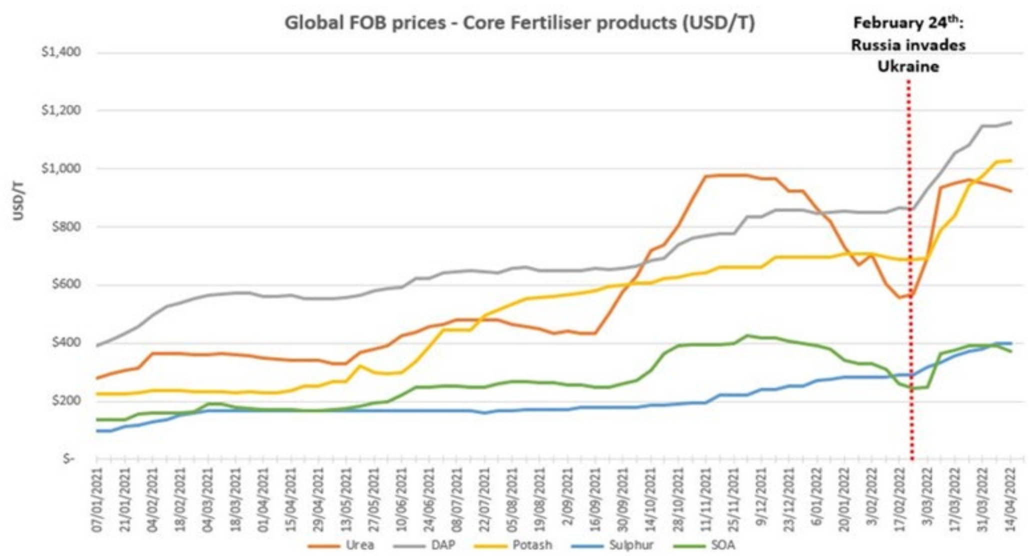
Let's speak about bonds first. Bianco Research reports that the global aggregate bond index have had the worst four months ever, and these four months have already surpassed the worst ever return year on record. It does not imply that value has been permanently destroyed for long-term holders of bonds, only that the future cashflows that will come their way are being discounted at a higher rate (if there are no defaults, of course). The problem is the wait for the cashflows can become a bit long, and many will crystalise their losses by selling their bonds. The total bond index funds down more than 11% in dollar terms since 2020.

The S&P500 is down almost 14% from recent highs, while the Nasdaq fell 13.2% in only April of this year (the 12th worst monthly fall ever) in a fall of 23% from its all-time high. Amongst others, the DAX, the Russell 2000 and the Shanghai index are all down more than 10%, bringing us to our newsletter topic.

We are seeing solid market corrections, typically defined by a fall of more than 10%. These happen from time to time and are often end-of-cycle indicators that were unavoidable as asset prices were overinflated.

A crash, on the other hand, often lasts longer than a correction and is associated with a fall of more than 20%. Crashes average around 14 to 16 months in duration. So we are not crashing, only correcting, but who knows what is to come?

GRAPH OF THE MONTH: Global fertiliser costs rise after Russia invades Ukraine



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