Economic Snapshot July 2021

LOCAL HIGHLIGHTS & LOWLIGHTS	NEWS
• All-Share Index on 15 July: 67,898.19 • All-Share 1-year return: 25.58% • Market PE ratio: 19.8 • USD/ZAR currently at R14.71/$, slightly weaker due to unrests • South Africa 10Y Government Bond yield: Current 8.900% (Data: Bloomberg; Sharenet; www.tradingeconomics.com)	• China is seeing a crackdown on their tech moguls, with commentators saying it is welcome government intervention into anticompetitive behaviour. • The World Bank has said SA needs emergency measures to stop current market slide. Advice includes temporary tax incentives, relaxing labour rules, and boosting entrepreneurship to help recover the 1.4 million jobs lost during 2020. • Zuma has finally ended up in jail, but the widespread looting and loss of life that followed is marring the triumph of justice • Unemployment rate at 32.6%, third highest of 82 countries tracked by Bloomberg • On an interesting note, a rare 39.3 carat blue diamond found in Gauteng has sold for R576 million.

Private lending trends

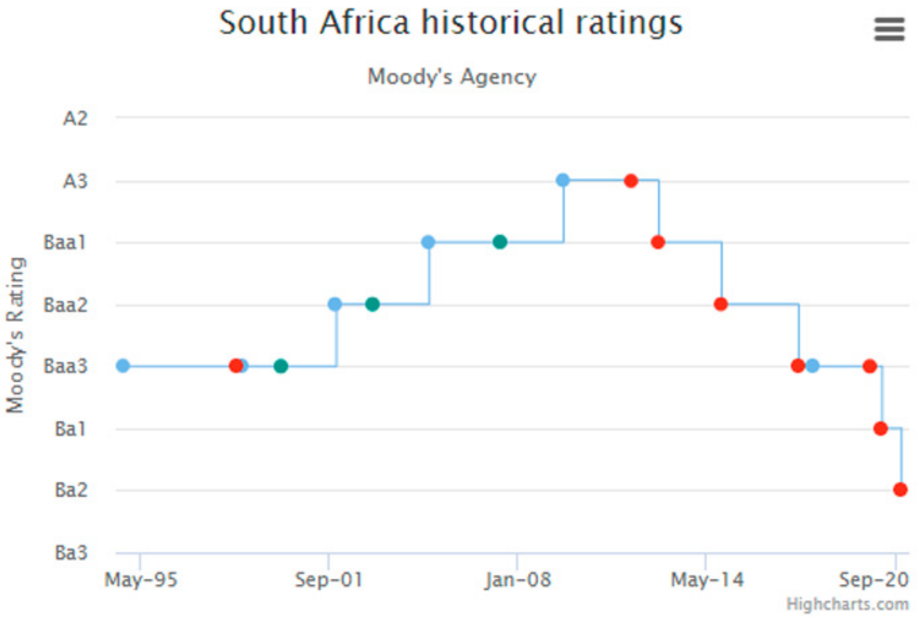
I often wonder how we will view the current market environment in 20 or 30 years' time? When we look back plus-minus 20 years from where we are now, we see high interest rates, high inflation, a tech bubble, and the infamous 9/11 incidents in America. Pensioners were relatively happy leaving their money in the banks as cash yields were high and bond portfolios delivered good returns, and equity markets in the early 2000s had some astounding bull runs. It was also the period in which South Africa's sovereign debt gained investment grade status. The markets were running hot, and even safe assets proved to satisfy many people's yield requirements.

Turn the clock forward to the current day, and we have a very different global picture. Low interest rates and a threatening inflation outlook has investors on edge as they search for yield, while global housing bubbles and talk of overheated markets abound. While the outlook is not all bad, leaving money in the bank will not provide much safety as inflation slowly erodes the purchasing power thereof. Investors know this and are looking for options.

In walks the two distant cousins of private equity and private lending. Both are promising a good yield if you are willing to bear the counterparty risk and trust the salesmen. The global market for private lending has passed $1-trillion globally this year as the search for higher yields increases investors' risk appetites. The other driving force here is that private lending occupies a space that banks are either not willing to play in or have rules that restrict them from venturing into. This banking-void gives the private lending investors access to unique opportunities because their money services businesses and ventures that require a short- to medium term injection of foreign capital. The trick for the investor is to make sure their money goes to a 'spender' that has a good probability of paying the funds back.

But let us get back to the initial question – where is all of this going to end? Word on the street is that interest rates are not going anywhere in a hurry, and that the record amounts of debt that individuals and businesses undertook during the Covid19 era will stop central banks from raising rates quickly. It bodes well for the private lending market, and hopefully they learnt the 2008 lesson of making sure they correctly class the credit.

GRAPH OF THE MONTH: Historic Ratings of RSA Government Debt



Source: http://www.worldgovernmentbonds.com/credit-rating/south-africa/

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