Economic Snapshot June 2021

LOCAL HIGHLIGHTS & LOWLIGHTS	NEWS
• All-Share Index on 15 May: 66,806 • All-Share 1-year return: 24.51% • Market PE ratio: 19.58 • USD/ZAR currently strong at R14.23/$, slightly weaker than the previous month • South Africa 10Y Government Bond yield: Current 8.905% (Data: Bloomberg; Sharenet; www.tradingeconomics.com)	• The WHO has dropped the country names for the covid variants. The 'delta'-variant is currently posing the biggest threat because of a much higher infection rate and children also getting sick from it. • Corporate profits around the world are looking relatively positive in countries where covid vaccinations are on track and lockdown restrictions are lifting, especially in the US and in China. • Worldwide stocks have offered good returns, but some sectors are said to be overvalued with historically higher PE multiples than usual (See USA graph below). • Closer to home, Pravin Gordon has finally announced that an equity partner for SAA has been announced, with the Takatso consortium declared the winning bidder. Scepticism remains as to if the deal will result in a profitable company.

The inflation effect

Covid-19 left all the various fraternities of the world scrambling for solutions when it started spreading in 2019. Medical researchers started searching for a cure, schools and universities looked for ways to teach students, businesses piled into Zoom to continue meeting virtually, and central banks contemplated how to stop both capital markets and real markets from imploding. Interest rates were slashed across the globe, and the coinciding 'mega money printing' of fiscal stimulus was dubbed a "financial bazooka" that came to the rescue.

The result was that most global markets survived the brunt of the lockdowns, but it did not stop the virus from spreading. Many months on and we are seeing third and fourth waves in countries going into lockdown again, halting manufacturing, shipments, and ultimately supply of goods as well. The picture we are seeing is that demand is being propped up on the one hand, but that the global supply chain is still struggling on the other. The result? Inflation.

Inflation can be good if it is driven by internal economic advances and coincides with increases in economic output and employment. Bad inflation is where you have no control over the drivers thereof, especially when it coincides with a slowing down of economic output.

The current debate is whether deflation (a general reduction of prices) or stagflation (price increases with slow economic growth or economic contraction) are on the cards? For now, prices are steadily rising across the world, and one can only hope that the banks are making sure that the debt people are taking on during this low-rate environment has a high probability of repayment. Word on the streets is that we should not see another 2008 crash again, but that we might face a global slow-burn as inflation and rising rates become the norm for the near future.

GRAPH OF THE MONTH: Historic PE levels of the S&P500

Source: JP Morgan's 2021/05 guide-to-the-markets

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