



OPPORTUNITY PRIVATE CAPITAL

Economic Snapshot February 2022

LOCAL HIGHLIGHTS & LOWLIGHTS

- All-Share Index on 14 Feb: 75,534
- All-Share YTD return: 2.48%
- Market PE ratio: 12.70
- USD/ZAR currently at R15.20/\$,
- South Africa 10Y Government Bond yield: Current 9.195%

(Data: Bloomberg; Sharenet ; www.tradingeconomics.com)

NEWS

- Tensions between Russia and Ukraine are not lifting, with increased speculation that it will escalate into conflict.
- International investors have been net buyers of South Africa's debt for five days in a row, marking the longest run of purchases since May.
- On the back of demand for local assets, the rand had gained against the dollar for 5 of the 6 weeks of the year.
- Domestic travel in South Africa reported to be recovering well, but international travel is still far from its peak.

The inflation hedge

Inflation has surely been the dominant theme in the international financial news over the last six months. A mix between demand-side inflation (the Americans have specifically been spending massively while not travelling) and the well-publicised supply chain issues have caused consternation, no more so than in Melbourne where people were paying up to AU\$900 for 24 long-stem roses on Valentine's Day (yes, you heard right, that was no typo).

No wonder the central banks the world over is scrambling to deal with the most serious inflation challenge in over 40 years.

Joe Biden is also trying to handle this hot potato just 9 months out from this next election, with his Federal Reserve looking to have switched focus from the 2021 priority of employment over prices. With inflation proving much stickier than the “transitory” educated guess everyone had a few months ago, the question becomes what to do with your money? Let’s look at a few pieces of advice.

Katelyn Peters from Investopedia is of the opinion that gold, leveraged loans, commodities, TIPS and unitised property are among the great bets against inflation. Let’s unpack these options. Gold has traditionally held its value well in times of economic stress and is expected to outperform when war or financial crises breaks out. But gold is reported by CNBC to not be a sure bet against inflation anymore, reporting that the “precious metal hasn’t produced a positive return during periods of consistent inflation since the 1970s”.

Leveraged loans do carry some risk, but those with the risk appetite and risk capacity for it may be well rewarded if they entrust their funds to experienced money managers. Understanding the underlying asset(s) here is key, with knowledge regarding the lock-in periods and subordination of the loans also important.

Commodities represent a broad category of goods and range from grain, beef, and canola through to precious metals and oil. It is normally a leading indicator for inflation and a good performer during the inflation cycle. While not in reach for most investors to purchase directly, funds or ETFs can be used to get diversified exposure to it. TIPS, or treasury inflation protected securities, are directly linked to inflation, and should protect your purchasing power, albeit not in a way that will increase your wealth. It is a good anchor for a portfolio if you want a portion thereof to act as portfolio insurance.

Bloomberg recently published that “real estate is emerging as a hedge against roaring inflation”, supporting the opinion that property prices and rental income should normally rise with inflation. But property unit trusts are no silver bullet given that they are traditionally sensitive when rates start rising too quickly and other interest-bearing securities become more attractive during the rate-hike cycle.

All the best with managing your budgets and your investments, the next few years are going to be interesting! For now, let's watch Russia closely, both at the border of Ukraine and the winter Olympics

GRAPH OF THE MONTH: Doping at the winter olympics



Source: [Visualizing 50 Years of Doping Scandals at the Winter Olympics \(visualcapitalist.com\)](https://visualcapitalist.com/visualizing-50-years-of-doping-scandals-at-the-winter-olympics/)

[Click to view Current Available Investments from 14% p/a](#)

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

