OPPORTUNITY
PRIVATE CAPITAL

Economic Snapshot June 2022

LOCAL HIGHLIGHTS & LOWLIGHTS

- All-Share Index end of Jun: +-66,500
- All-Share YTD return: -10.16%
- Market PE ratio: 9.87
- USD/ZAR currently at R16.32/$,
- South Africa 10Y Government Bond yield: Current 10.425%

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

NEWS

- With many global equity markets down roughly 20% or more, the S&P500 has posted its worst first-half of the year since 1970. The world now wonders if recessions are priced in or not. The jury is still out as there is a mixed bag of forecasts from economists and commentators.
- Rolling Stage 6 blackouts are hitting the South African economy and general morale hard.
- The High Court found that President Cyril Ramaphosa can potentially be held liable for some of the blame that led up to the Marikana tragedy.

Safe as bonds pt.2?

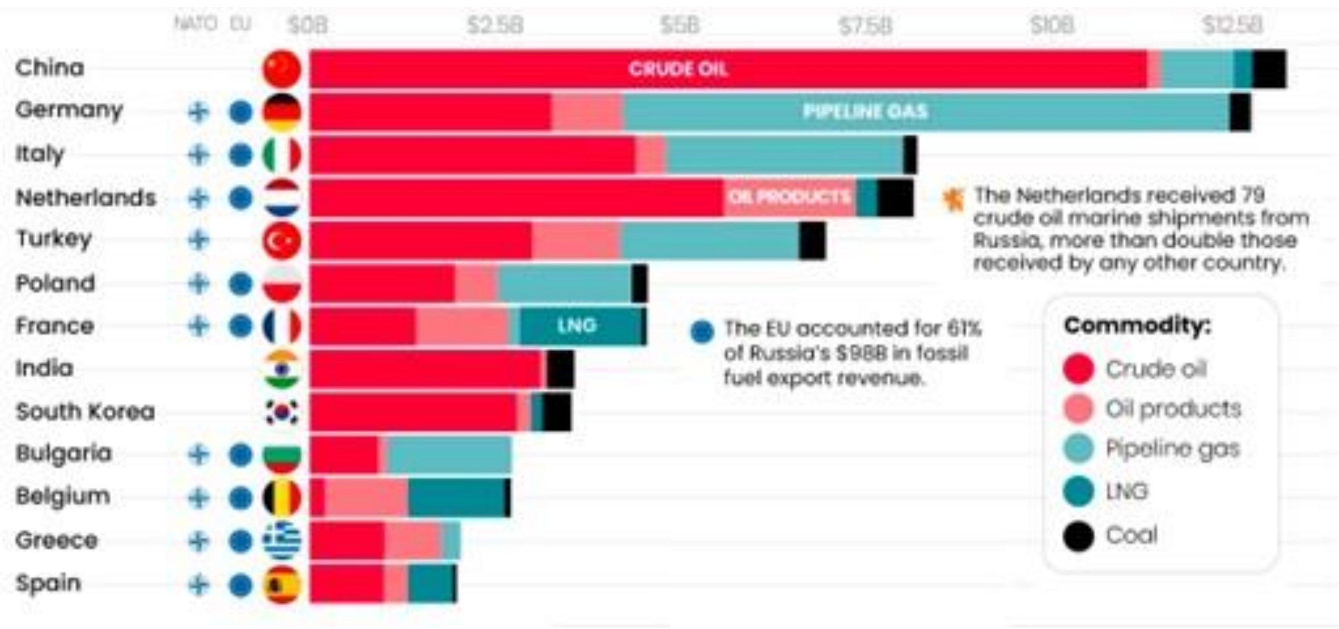
Last month we unpacked the record-breaking losses that occurred in the global bond markets so far this year. This month we take a step back and address how bonds work and if these losses will be permanently baked into portfolios.

Some of our readers will know that bonds are often classed as 'discount instruments'. This means that a future value (or values) is 'discounted' at some reference rate, helping you to determine a price that you are willing to pay today for a future return. By implication bonds are very different from shares, because when you purchase a share you are paying for an uncertain future stream of dividends and are unsure of what the future sales price will be. Most bonds, on the other hand, pay predetermined periodic coupons and then a principal-/face value when the bond matures. These cashflows are all 'discounted' at the prevailing yield (like the 10.425% above) to give you a present value. The higher the yield, the less you pay now for the future cashflows.

The current 10.425% yield of our 10y government bonds is higher than last month's 9.825%, implying that people who bought bonds last month now own bonds that are worth less than the purchase price. BUT, they will only lose money if they sell those bonds. The investors still own the right to receive all coupons and the principal-/face value of the bond, so if they hold the bonds to maturity and the bond issuer does not default then absolutely no money is lost. The price of the bond also undergoes what is called the 'pull to par' effect, where it invariably ends up at the face value of the bond no matter what market yields are doing.

The only real question is how long people are willing to wait for their money? Those with portfolios that are set up to be duration matched or according to a goals-based strategy would normally we happy to wait it out, not worried at all about the fluctuating values. The rest? Well, it is going to be an interesting second half of the year.

GRAPH OF THE MONTH: - Who is buying fossil fuels from Russia



Source: https://www.visualcapitalist.com/whos-still-buying-fossil-fuels-from-russia/

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

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