OPPORTUNITY

PRIVATE CAPITAL

Economic Snapshot April 2023

LOCAL ECONOMIC INDICATORS

- All-Share Index end April: 77,500
- All-Share 1Y return: 14.1%
- Market PE ratio: 9.171
- USD/ZAR R18.30/$ (30 Apr)
- USD/ZAR R19.45/$ (14 May)
- South Africa 10Y Government Bond yield: Current 10.94%

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

NEWS

- #LadyRussiaGate is making global waves. The Lady R's visit to Simons Town in December has been flagged by US Ambassador Reuben Brigety as a potential shady arms transaction. South Africans are waiting with bated breath to hear if the Russians were indeed supplied with ammunition and weapons to assist them with the war in Ukraine. The full extent of the US intelligence is still to be seen, but the fact that the ambassador seemingly broke ranks may have been a 'shot across the bow' for the ANC to let them know that big brother is not just listening but watching too (The ZAR/USD reaction can be seen in this month's graph).
- Meanwhile, it is reported that only 8 of the Rooivalk attack helicopters in South Africa's arsenal of 46 can still fly, with the blame laid at Denel's doorstep.
- Ukraine has also halted a counteroffensive against Russia after US military intelligence thereof was leaked. The city of Bakhmut remains a hotpot of activity as the Russians and Ukrainians tussle for control.

The Bloomberg Global "Agg"

After a few years of low yields and the 'bond bloodbath' that was 2022, many credible investment houses and economists announced that 2023 would be 'The year of the bond' when setting out their strategies in January.

Remember that bond prices fall when yields go up and go up with yields decrease. Last year saw yields rise quicker and higher than expected on the back of central banks 'hoiking' interest rates to unprecedented levels in order to combat record inflation. This year, the end of the hiking cycle was being called by many, and, importantly, the yields started to stabilise and decrease as traders started banking on the future decreases in interest rates.

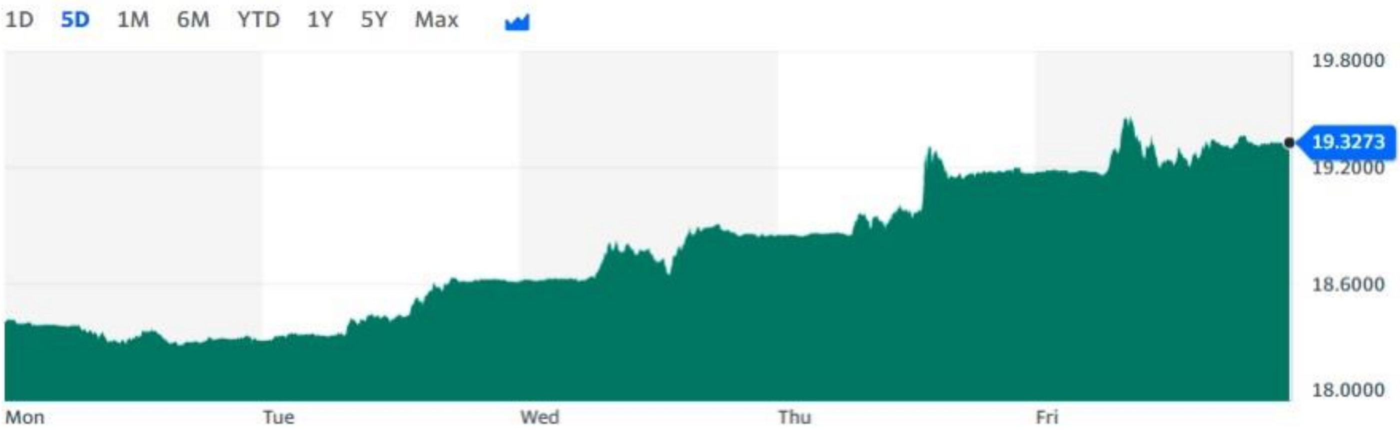
Globally, investors are able to buy bonds at yields and coupon rates much higher than was predicted while we were all scrambling to buy masks, and these investors may well make a bit of price gains when yields start sliding when/if a global recession hits.

A global bond portfolio's performance is often measured against the Bloomberg Global Aggregate Index, which is the preeminent global index for these portfolios. While many investors heard about the economic prediction and simply piled into the bond's funds, they do not take a minute to investigate what exactly is in this index. Let's unpack the Bloomberg Global 'Agg' a little:

- The index was created in the year 2000, with the index history then 'backfilled' to 1990.
- It currently contains more than 28,000 global instruments.
- It does not only have bonds in it but encapsulates global quality debt instruments.
- The bulk of the 'Agg' is in global Treasury Bonds (54.5%), then Mortgage Backed Securities (12.2% normal, 0.7% corporate), with corporate bonds broken down as Industrials (9%), Financials (6.8%), Agency bonds (6.1%), and Utilities (1.4%). Non-corporate bonds come in at 5.4%, while the index is finished off with Cash (1.3%), Asset Backed Securities (0.05%) and finally 'Other' (2.4%).

Twenty-twenty-three may just turn out to be the year of the bond, we'll first have to wait and see if the 'higher for longer/no landing' bunch, the perma-bears, the 'imminent demise of the global financial system' bunch, or the 'somewhere in-between' group wins. Whatever happens, it is still a great time for those able to buy and hold bonds.

GRAPH OF THE MONTH: - The ZAR's slide over the week of 8 May



Source: Yahoo Finance

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

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