



OPPORTUNITY

PRIVATE CAPITAL

Economic Snapshot June 2023

LOCAL ECONOMIC INDICATORS

- All-Share Index end June: approx. 75,000
- All-Share 1Y return: 16.3%
- Market PE ratio: 8.9
- USD/ZAR R18.84/\$ (30 Jun)
- South Africa 10Y Government Bond yield: Current 10.51%

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

NEWS

- In a surprise twist, the Wagner group turned on Russia after the Russian military allegedly fired a missile at the Wagner troops. They marched to a few hundred kilometers of Moscow and took out Russian attack helicopters before a truce was negotiated. The events were the first real threat on the Russian president and capital city in decades.
- The Titanic claimed another 5 victims as the Ocean Gate submarine imploded, instantly killing the passengers on board.
- Broad global commodity indices are continuing a downward trend because of recession fears, higher interest rates (influencing the holding cost of inventory), and a stronger than forecast USD.
- The Chinese Yuan has weakened by about 10% for the year, which is a welcome deflationary signal for the rest of the world. Analysts are expecting further weakness.

When America Sneezes

The American economy is an absolute behemoth, sporting a complex, diversified structure that is supported by a stable political environment. Not only does America consume lavishly and drive global production, but the US Dollar is also used as the world's global reserve currency, and it has been used as such for almost 80 years.

The long era of Dollar dominance started after World War II, taking the mantle from the British Pound to become the undisputed holder of the title, and peaking in 2001 at 72% of global currency reserves.

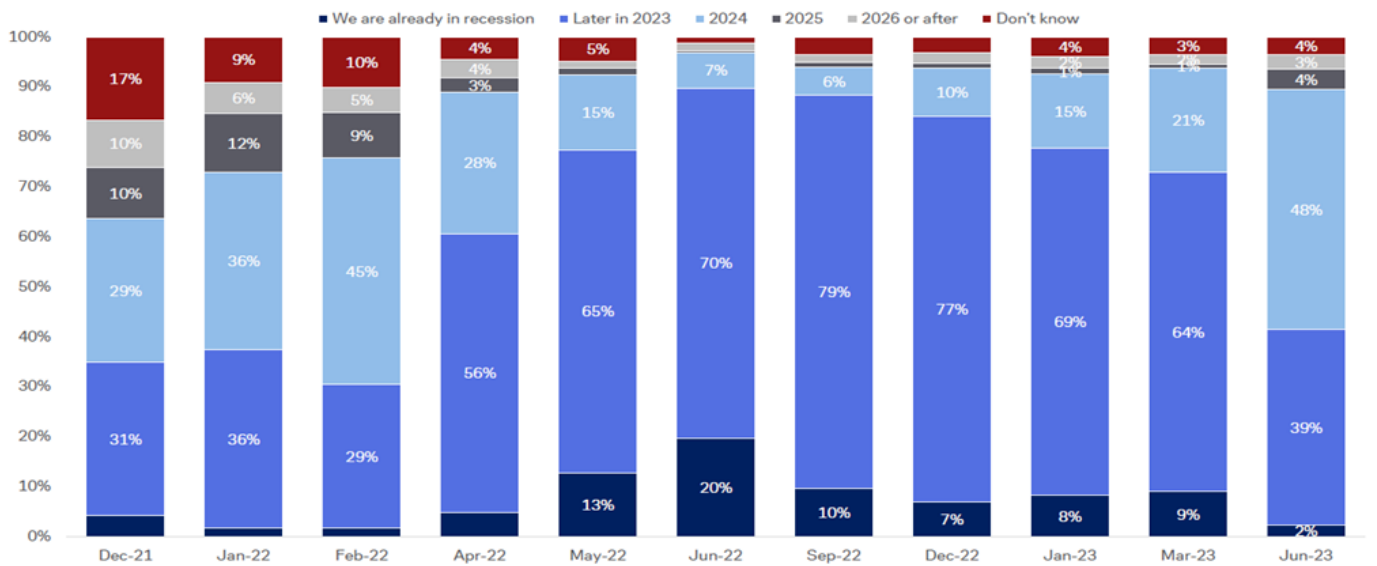
A currency is known as a reserve currency when it is widely accepted in global trade and held by financial institutions and central banks especially as part of their foreign exchange reserves. The sheer size of the US economic machine is foundational to the greenback's dominance, with the economy accounting for more than 25% of global GDP. Traders and investors alike are aware of this fact, hence the old adage that "When America sneezes, the whole world gets sick".

To illustrate the above point, it is widely speculated that the global supply chain issues of the last few years were caused by... wait for it... American 'couch surfers'. When the pandemic lockdowns struck and interest rates plummeted, the American consumer suddenly had more time and cheap money on their hands than they knew what to do with. They started ordering online like crazy, causing a demand tsunami that crippled the supply chain.

The American economy is currently proving much stronger than anyone expected. The last few months had many seasoned economists (and an inverted yield curve) saying that *surely* an American recession is imminent. *Surely?* It has not happened yet, and the Deutsche Bank survey below shows the recession prophets are kicking the can down the road, bringing us to our last old Warren Buffett adage: "Never bet against America!".

GRAPH OF THE MONTH: - Deutsche bank US recession survey

When do you think the next US recession will occur? It will occur in...



Source: dbDIG Survey, Deutsche Bank

Source: Deutsche Bank

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