OVERBERG MARKET REPORT

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IN THIS WEEK'S BOTTOM LINE

Contributed by Gielie Fourie

- This week we look at one of the classic books on investing, "Where are the customers' yachts?" The book is humorous, even hilarious at times. It is probably the funniest investment book ever written. Read more in the Bottom Line.

SOUTH AFRICA ECONOMIC REVIEW

Contributed by Werner Erasmus

- Absa's purchasing managers index (PMI) rose to 57.1 index points in January from 54.1 in the previous month. The current level is in line with November's reading, but above the average recorded in the fourth quarter of 2021 and reflects a strong start to the year for the manufacturing sector. The improvement is largely due to a rebound in business activity. The forward-looking index (expected business conditions in six months' time) painted an even more optimistic picture, rising to an almost four-year high of 71.3 points. The improved reading comes as restrictions aimed at slowing the spread of the pandemic were eased further in December and several trading partners lifted travel bans on South Africa after it exited the fourth wave of Covid-19 infections that ensued following the onset of the Omicron strain. All the major subcomponents of the index excluding supplier performance rose in January. The new sales orders sub-index climbed to 55.5 from 51.7, while the sub-index measuring business activity climbed by almost eight points. While it is difficult to pinpoint the reasons for the stark improvement, the most likely is that future virus surges may not come with the strict restrictions on activity that limit output growth.

- New vehicles sales increased by 19.5% year-on-year in January. Sales of passenger cars increased by a notable 26.6% on the year. The vehicle rental industry was responsible for 12.3% of total vehicle sales last month. This is another sign that the tourism sector is recovering, albeit tentatively. Less promising was the 9.3% year-on-year decline in vehicle exports during January. This is, however, expected to pick up through 2022 as major producers plan to introduce new models for the export market. NAAMSA noted in its press report that the new vehicle market is expected to continue its gradual recovery to pre-COVID-19 levels in line with the moderate economic growth forecast for South Africa for 2022, but at a slower pace. The South African Reserve Bank increased its benchmark repo rate by 25 basis points to 4% at its January 2022 meeting due to increased inflation risks. Inflation has been fuelled, amongst others, by record-high fuel prices, rising food and energy costs as well as a depreciating rand exchange rate. Consumer and business sentiment will therefore remain under pressure over the short to medium term while supply chain disruptions, such as the global shortage of semi-conductors, will also continue to hamper new vehicle sales and production during the year. On the positive side, NAAMSA expects the new vehicle market trend over the next three years to be upwards, in close correlation with National Treasury's projected domestic economic growth outlook, averaging 1.7% for 2022, 2023 and 2024.

SOUTH AFRICA: THE WEEK AHEAD

Contributed by Werner Erasmus

- Mining production: Due Wednesday, 9 February 2022. Mining production is expected to ease to 3.5% growth year-on-year in December, according to the Bloomberg forecast, from 5.2% in the prior month. December typically sees a seasonal drop in production. Moreover, the rise in Covid-19 cases globally and lockdown restrictions likely weighed on export demand.

- Manufacturing production: Due Wednesday, 9 February 2022. Manufacturing is expected to dip 1.8% year-on-year in December, from a 0.7% fall in the prior month, according to the Bloomberg consensus. Omicron and global supply chain disruptions weighed on the sector in the last month of 2021.

- State of the Nations Address (SONA): Due Thursday, 10 February 2022. President Cyril Ramaphosa will deliver the state of the nation address on Thursday and is expected to detail progress by the government in its plans to attract foreign investment and help kick-start an economy still battling to recover from Covid-19. Ramaphosa is also expected to provide some hints of what to expect in the upcoming budget, in particular regarding government's plans to extend income support to the unemployed.

GLOBAL

Contributed by Nick Downing

- The oil price continued to surge despite the OPEC + group agreeing to its 8th consecutive monthly increase in production. The price surpassed the 2014 peak of $90 per barrel. While production quotas increased by another 400,000 per day, the cartel is unable to keep up with production. According to an OPEC report, production was lagging by 824,000 barrels per day. The shortfall is blamed on years of under-investment, exacerbated by the growing appetite for renewable energy. The Ukraine crisis is also adding to the oil price rally, especially with oil inventory levels at multi-year lows. The oil price, which has gained by 60% over the past

12 months is one of the main culprits in the world's inflationary surge, and has the potential to dampen consumer spending, which contributes around two-thirds of GDP in the developed world. Fortunately, oil prices are expected to peak in the second quarter, according to the consensus analyst forecast, with US production set to increase. The view is borne out by the shape of oil price futures, which are heavily in backwardation meaning current prices are higher than contracts maturing months ahead. Meanwhile, there is some respite on the Ukraine front, following President Macron's diplomatic visit to Moscow. He said Russia's aggression is about wresting a better deal with NATO rather than invading Ukraine. Forthcoming US and NATO compromises are likely to de-escalate the geopolitical risk premium embedded in the oil price.

NORTH AMERICA

Contributed by Nick Downing

- The US economy added a much stronger than expected 467,000 new jobs in January, well above the consensus forecast of 150,000. The November and December nonfarm payroll number was also revised higher by an aggregate 709,000. Hourly wages increased in January by a solid 5.7% year-on-year and 0.7% month-on-month. The data, which indicates an increasingly tight labour market and rising wage pressure, prompted a further increase in the 10-year Treasury bond yield as the market digested prospects for more aggressive rate increases from the Federal Reserve. After the data release the interest rate futures market priced in more than five 25 basis point interest rate hikes in 2022. Some analysts are even predicting the inaugural rate hike at the Fed's policy meeting on 15-16th March could be as much as 50 basis points. The labour participation rate, which measures the number of people who are either working or actively looking for work, nudged higher from 61.9% to 62.2%, although the gain is attributed to an increase in population estimates at the start of the year. Labour participation remains hamstrung by Covid effects, although as these ease and households run down the savings they accumulated from pandemic relief programmes, the labour participation rate is expected to recover. Elevated wages will also incentivise people to return to the labour market. The response from the bond market and interest rate futures market to the stronger than expected jobs data may be overdone. Besides the anticipated improvement in labour participation, employment data tends to be a lagging indicator, which means jobs growth will continue rising even as the pace of growth in consumer demand begins to slow. While the former will boost wage growth, which is inflationary and a source of concern for the Fed, the expected slowdown in consumer demand, which is already underway due to the fading impact of stimulus payments and a weaker equity market performance, should reduce inflationary pressure to a greater extent.

- Consumer spending contributes over two-thirds of US GDP. In this context, it is a potential concern that US consumer confidence fell in January below the low point at the start of the pandemic in 2020 hitting its lowest level since November 2011. The University of Michigan Consumer Sentiment Index fell to 67.2 from 70.6 in December, compared with 79.0 in January

2021. The steep decline over the month is due mainly to the Omicron impact, which peaked on 10th January. However, other factors also contributed, including rising inflation and falling real incomes, and the expiry of pandemic relief. Among the survey respondents, 75% cited inflation rather than employment as the most serious problem facing the economy and 58% anticipated a renewed recession. According to Richard Curtin, chief survey economist, “The Fed is about to raise interest rates to tame inflation…. The danger is that consumers may overreact to these tiny nudges, especially given the uncertainties about the coronavirus and other heightened geopolitical risks.” The potential impact of rising interest rates on the equity market and residential property market, significant sources of wealth for US households, could add further pressure on consumer confidence.

JAPAN

Contributed by Carel la Cock

- Japan’s Consumer Confidence Index fell 2.4 points in January to 36.7 marking the lowest reading in five months. Consumer optimism was softer across all sentiment sectors - Overall Livelihood (-1.8), Income Growth (-1.0), Employment (-4.8) and Willingness to buy durable goods (-2.2). The percentage of respondents expecting prices to rise in the year ahead jumped by 1.2% points to 89.7% in January, while only 2.7% expect prices to go down. Japanese consumers have been tightening their belts since the start of the pandemic reflected in the high savings ratios recorded. In the third quarter of last year, savings edged up to 10.3% from 9.6% in the second quarter. Expectations of higher inflation might prompt consumers to tap into their savings which will help a consumer led recovery. Interest rates remains at historic lows and the Bank of Japan is one of the most dovish central banks in the world, which should bode well for consumer confidence once the pandemic peters out.

EUROPE

Contributed by Carel la Cock

- Europe’s economy expanded by 0.3% in the final quarter of the year, putting the single currency bloc back on par with pre-pandemic levels of output. The final quarter of the year proved challenging as the Omicron variant forced governments to implement restrictive measures that hampered the recovery in the services sector and saw economic growth slow from the 2.3% pace achieved in the third quarter. Encouragingly, household spend remained firm, while businesses ramped up their efforts to restock inventories, boosting output for the quarter. Compared to the same quarter in 2020, the eurozone economy was 4.6% larger and grew by 5.2% year-on-year for 2021 according to preliminary estimates. Amongst individual countries, Spain (+2%) reported the highest quarter-on-quarter growth, followed by Portugal (+1.6%) and Sweden (+1.4%), offsetting declines for Austria (-2.2%), Germany (-0.7%) and Latvia (-0.1%). All member states reported positive year-on-year growth with France growing

7% year-on-year in 2021 being the standout. It was the fastest growth experienced by the French in more than half a century, driven largely by consumer spending. France was also less impacted by supply chain bottlenecks compared to its more industrial neighbour, Germany, which aided its outperformance. Spain also reported solid growth for the year at 5%, boosted by its tourism industry, but remains 4% below pre-pandemic levels. Economists expect growth in the eurozone to make a healthy recovery in the first quarter of the year as supply chains return to normal and restrictive measures start to ease, boosting both manufacturing and the services sector.

UNITED KINGDOM

Contributed by Carel la Cock

- UK households have been dealt a double blow; first by Ofgem lifting the price cap on energy bills and then by the Bank of England (BoE) hiking interest rates. The energy regulator announced a steep rise in the price cap on energy bills for households from the beginning of April, with average bills expected to be 54% higher. Ofgem proposed reviewing the price cap quarterly instead of the current twice yearly, which they say will reduce the volatility in energy prices consumers face this year. However, with tensions between Russia and the west rising around military action in Ukraine, natural gas supply from Russia could be curtailed which will see another big jump in consumer prices when Ofgem is expected to reset the cap in October. Since August last year, 28 energy companies have gone out of business, squeezed by soaring wholesale gas prices and low consumer price caps. Chancellor of the exchequer, Rishi Sunak, announced a £9bn relief package to alleviate the pressure of high energy bills on the most vulnerable. However, the Bank of England in the same week piled on the misery by hiking interest rates by 25-basis points, which will impact UK households' disposable incomes by as much as 2% this year. Rates could have been even higher as the monetary policy committee (MPC) voted five to four against a 50-basis point hike. The MPC adjusted its inflation outlook with a view that inflation will peak at 7.25% in April but will remain above 5% until the end of the year. Arguing for a steeper hike in rates, the minority MPC members noted that the central bank has made repeated inflation forecasting errors in the past year. Furthermore, there were signs that companies are set to raise prices significantly in the coming months and that workers are successfully negotiating higher wages, all adding to inflationary pressure. In addition, the BoE will reduce its balance sheet by not replacing maturing bonds it holds through its £875bn asset purchasing programme while actively selling £20bn corporate bonds by the end of 2023. The run-off will see £28bn in bonds maturing in March and another £70bn maturing over the next two years. It is expected that the impact from rising rates and tapering QE will slow economic growth in the UK to 1% per year while inflation will be brought back to within the target range of 2% in the next two years.

KEY MARKET INDICATORS (YEAR TO DATE % AND LEVEL)

JSE All Share	+ 2.67	75679
JSE Fini 15	+ 4.82	15511
JSE Indi 25	- 1.78	93753
JSE Resi 20	+ 8.39	76924
USD/ZAR	- 2.47	15.55
EUR/ZAR	- 2.06	17.76
GBR/ZAR	- 2.67	21.02
S&P 500	- 5.92	4483
Nikkei	- 5.10	27322
Hang Seng	+ 3.34	24178
Shanghai	- 6.66	3397
FTSE 100	+ 2.56	7573
Gold	- 0.53	1819
Platinum	+ 4.91	1016
Brent oil	+ 18.96	92.53

BOTTOM LINE

Contributed by Gielie Fourie

- WHERE ARE THE CUSTOMERS' YACHTS? BY FRED SCHWED: Fred Schwed, Jr. was an American stockbroker turned author, best known for his book on Wall Street, "Where Are the Customers' Yachts? The book is often cited by finance people, such as Warren Buffett, as one of the most authentic, timeless, hilarious, and true descriptions of the culture of Wall Street and investment firms. The title refers to an old story about a tourist to New York who couldn't help but notice all the yachts of the bankers and brokers moored up in the harbour. He asked his guide where all the yachts of their clients were and the answer was, they couldn't afford them despite following all the 'sage' advice of the professionals. Schwed wrote the book in

1940. It is a timeless classic. Although it is now more than 80 years old, it is still regarded as required reading for those who want to understand the psychology behind how professional investment works and who really benefits. With just over 120 pages, it is a quick read. Schwed's conclusion is that customers don't have yachts simply because they ignore the advice of their bankers and brokers. The book is edited regularly to include modern day market events.

- SCHWED ON SPECULATION: Schwed quotes Mark Twain here: "There are two times in a man's life when he should not speculate: when he can't afford it, and when he can." Beginners at stock market investment often try their hands at speculation. This is unwise because they don't understand the market very well. Typically, beginners think, 'If I can pick a few winning shares, I can sell out when the price goes up and make a quick profit.' The odds are against them, for two main reasons. First, there is very good evidence that no one, even the experts, is much good at picking winning shares consistently. Second, most beginner investors have no idea how to evaluate a particular company or to assess the risks of a given investment.

- UNDERSTANDING SPECULATION: To understand speculation, you need to understand human nature. It is very natural and human to get excited and confident when you have made some money easily and it looks as if you are going to make a lot more even more easily – that's how the psychology of booms works, when even normally cautious people start plunging into riskier and riskier investments. But real speculators, the people who are just naturally inclined to take large risks, are different: they will speculate whatever the market is doing, whether it is going up, down or sideways.

- RISK AND REWARD: Is speculation always foolish, and will it always end in tears? Not necessarily. For example, if you have better knowledge than others about a particular investment or situation, you may judge that it is less risky than other people realise. As a speculator, you look for opportunities where there is a high reward to risk ratio; if you can find them, you will make money. In the major stock markets, however, such opportunities are rare – to find them, you will have to go further afield, to emerging markets or outside the stock market altogether.

- SUMMARY: Investing is a serious business. You should learn to live with the ups and downs of investing. Investing can be fun and entertaining – it should not be a dry or boring "game." Schwed says the stock market is a game that is designed to foil speculation. Losing money is a stressful emotion. This is how Schwed describes the emotions of losing money with his typical brand of witticism: "Like all of life's rich emotional experiences, the full flavour of losing important money cannot be conveyed by literature. You cannot convey to an inexperienced girl what it is truly like to be a wife and mother. There are certain things that cannot be adequately explained to a virgin by words or pictures." If you dream of anchoring your own yacht alongside the yachts of bankers and brokers, contact one of our consultants. They will be delighted to help you.

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