INVESTMENT REPORT
JULY 2022 • ISSUE 476

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RECESSION, NOT ARMAGEDDON

By Renee Eagar, Certified Financial Planner®, Brenthurst Claremont

With the US and, therefore, the world barreling towards what looks like a recession, it is only normal to feel anxious. Having barely emerged from COVID, the war in Ukraine has thrown an unexpected curve ball that threatens markets, currencies, food security and the cost of living.

That is a lot to absorb in such a short period of time. And the future does not look much rosier if the much talked about US recession does become a reality. When the US sneezes the entire world catches a cold. This includes South Africa who would not be able to avoid a slowing in global trade. But what are the chances of a recession? And what are investors to do about it?

WHAT IS A RECESSION?

A recession is generally seen as a slowdown in economic activity marked by two consecutive quarters of negative GDP growth.

A technical recession in the investment world follows the model used by the National Bureau of Economic Research (NBER). This gauge measures five key economic indicators in its analysis of the economy, namely negative real GDP, industrial production, payroll employment, inflation-adjusted personal income, and the health of sales and manufacturing sectors.

The worse each measure becomes, the more severe the economic recession. However, there is one caveat: These are retrospective, lagging indicators taking a full six months or more to manifest. By the time anyone can confirm them, we are already well into a recession, and as such they are better used to qualify and quantify a recession, rather than predict one.

IN THIS ISSUE

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The most recent global recession was the 2008-2009 global financial crisis sparked by the sub-prime mortgage crisis in the US. Esteemed investment bank names like Lehman Brothers disappeared overnight, while many other banks had to be bailed out to the tune of nearly US$800 billion.

This crisis soon sent shockwaves through equity markets, with the Dow Jones Industrial Average experiencing its largest ever intra-day drop in history when it fell 777 points.

IS THE US ON THE THRESHOLD OF A RECESSION?

The warnings of a looming recession in the US are based on the fear that efforts by the US Federal Reserve (Fed) to stifle demand could lead to negative growth and, therefore, a recession.

It seems the Fed is already behind the curve and has some catching up to do. According to the Wall Street Journal this is adding pressure on the Federal Reserve to act more aggressively to slow rapid price increases throughout the economy.

For the Fed, the trick going forward is to tread a fine line between getting inflation under control without crippling the economy and tipping it into recession.

It remains to be seen whether this will take effect. The next Fed meeting will paint a clearer picture of where we are heading.

WHY THIS WILL BE DIFFERENT TO THE 2008 CREDIT CRISIS

It is important to put this into context because the current conditions and pressures are vastly different from 2008. Recessions that have been measured since the 1950s have shown that on average a recession lasts 11 months. However, the credit crisis was severe – it lasted 17 months.

What we are facing is a financial recession – a pandemic induced recession, not a technical recession. The world's banks are not in crisis this time, the US consumer has remained fairly resilient, and the unemployment rate is at an all-time low. The negative growth will, therefore, arise from a lack of supply for strong demand.

We have all experienced the frustration of shortages, with South Africa's infamous Marmite shortage over the past two years as an example of how daily routines have been disrupted. But in this case, increase that exponentially in far more critical engines of economic activity and industries, such as car manufacturers who have been left stranded by the shortage of computer chips.

HOW THIS AFFECTS YOU

A lot is riding on how the US navigates its rising inflation because the knock-on effects will be felt across the globe.

The impact of rising oil prices is already being felt locally, if the dollar strengthens further as we have seen this past week it will continue to affect SA's commodity exports and imports, leading to further price inflation that will affect households across the country.

The rand already being impacted and currently on a weakening trajectory trading levels over R17 to the USD.

But as far as your investment strategy is concerned, your main job is to ignore the noise and stay invested. The results are clearly in favour of those who have stayed invested through previous recessions, often gaining handsomely from the inevitable recovery.

CRISIS = OPPORTUNITY

MARKET CRISIS OVER THE LAST 25 YEARS				CRISIS PRESENT OUTSIZED OPPORTUNITIES TO ADD VALUE
1998	**EM/Russia crisis**	**ALSI**	**-43%**	**ALSI + 110% 15 months later**
2001 - 2002	**Tech collapse + 9/11 + Enron**	**S&P**	**-36%**	**S&P < 3 years later**
2008	**GFC**	**S&P**	**-57%**	**S&P +109% three years later**
2020	**Covid**	**S&P**	**-34%**	**S&P +87% one year later**
2022	**Recession + rates + war**	**S&P**	**-19%**	**??**

Source: Coronation, Investment Forum 2022

Apart from that, I suggest you look to build your portfolio in partnership with a qualified advisor associated with highly skilled fund managers. And invest in quality companies, whether local or offshore, building a mix of value and growth stocks into your portfolio.

And if you are looking for a solid option to diversify your assets, SA bonds continue to offer attractive, steady yields. This asset class has only gained from the recent vote of confidence from S&P, who upgraded its view on the country's fiscal outlook.

The bottom line is that you need to [navigate these times](#) of huge uncertainty and rising costs. Fleeing from the market is not advisable, simply because you will be doing yourself more harm than good. And a recession is not the end of the world, neither is it unending. We will get through this, and you will be better off if you stay the course.

ADVISOR PROFILE | RENEE EAGAR, CERTIFIED FINANCIAL PLANNER®, BRENTHURST CLAREMONT

RENEE is head of the Claremont office. She is a CERTIFIED FINANCIAL PLANNER® professional and a member of the Financial Planning Institute of South Africa.

Renee has been in the financial services industry for 23 years since 1998 and has worked for institutions such as namely TMA and Investec Asset Management.

Renee obtained her Higher Certificate in Financial Markets in 2004 and attained her CERTIFIED FINANCIAL PLANNER® designation in 2006.

Email: renee@brenthurstwealth.co.za **Phone:** +27 21 418 1236 **Cell:** +27 83 233 9373

RENEE EAGAR WAS PLACED AS SA'S THIRD TOP RELATIONSHIP MANAGER IN 2022

BRENTHURST ADVISORS RANKED AS THE BEST IN SA

BRENTHURST WEALTH HAS BEEN RANKED AS ONE OF THE TOP BOUTIQUE WEALTH MANAGERS IN SOUTH AFRICA FOR THE 6TH CONSECUTIVE YEAR AT THE 2022 [INTELLIDEX PRIVATE BANKS AND WEALTH MANAGER AWARDS](#). An exceptional achievement in a competitive financial services industry and a testament to our commitment to serving clients in the troubled and the good times in financial markets.

WE ARE PARTICULARLY PROUD TO SHARE THAT ALL THREE TOP RELATIONSHIP MANAGERS IN SA ARE BRENTHURST ADVISORS. Managing Director & CFP, **BRIAN BUTCHART**, was announced as the winner of the 2022 relationships manager category, with **SONIA DU PLESSIS**, CFP and Head of Brenthurst Wealth Stellenbosch, in second place, followed by **RENEE EAGER**, CFP and Head of Brenthurst Wealth Claremont - Cape Town, in third place.

CONTACT ANY OF OUR HIGHLY QUALIFIED FINANCIAL ADVISORS AT OUR 8 OFFICES COUNTRYWIDE TO DISCUSS YOUR INVESTMENT STRATEGY

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