RECESSIONS RISKS: SOUTH AFRICAN MANAGERS ARE CONTRARIAN

South Africans are optimistic people. This positive outlook serves us culturally and relationally and is one of the core pillars of our resilience and richness as a nation. Unfortunately, optimism reaches the limit of its impact when it runs against logic, as we have seen in the contrast in forecasting outlooks between the Bank of America international survey and the local one.

The first chart shows the international Fund Managers' expectations of a recession; a record 73% of International Fund Managers think that the economy will be weaker in 12 months. This forecast is the worst on record, even lower than the GFC of 2008.

Chart 28: Investors expecting a stronger economy

Net % of FMS investors expecting stronger economy

Source: BofA Global Fund Manager Survey

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As the chart shows, they expect corporate profits to get smashed as severely as in the CFC.

Interestingly, the bottom-up consensus forecast for corporate earnings of the 1200 largest companies worldwide still shows about 10% profit growth for the next two years. These haven't been revised down materially in the last three months.

Source: BofA Global Fund Manager Survey

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Chart 5: Global profit expectations weakest since Lehman

Net % say global profits will improve

Source: BofA Global Fund Manager Survey

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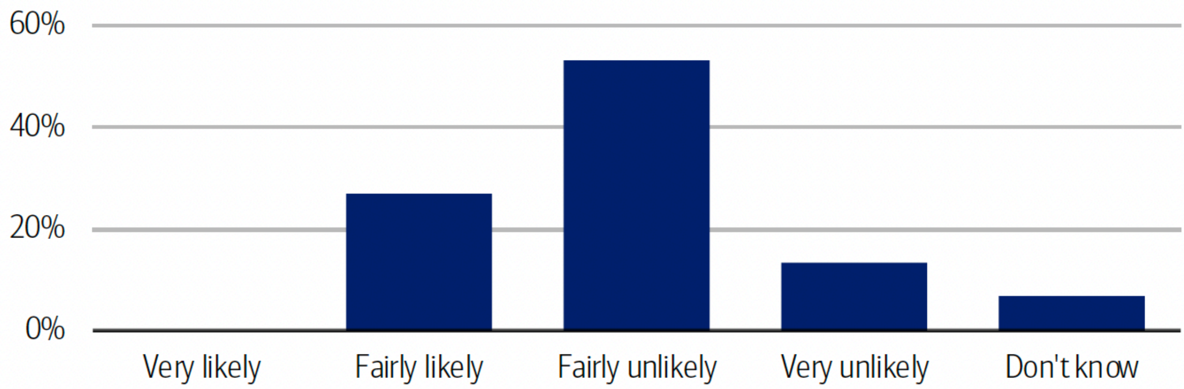
SOUTH AFRICAN FUND MANAGERS ARE LOOKING CHEERFUL

As the chart below shows, local expectations of a recession are almost entirely reversed, with roughly 70% of South African Fund Managers seeing a recession being **"Fairly or Very Unlikely."**

Exhibit 2: How likely do you think the S. Africa economy will experience a recession +12M

A net 40% say 'unlikely'



Source: BofA Global Research, S. Africa Fund Manager Survey, June 2022

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WHAT DOES REZCO THINK

Since the start of 2021, we have been highly concerned about the overly loose international fiscal and monetary policy triggering significant inflation and the necessary medicine to eliminate it, which is, by definition, recessionary.
So, as the inflation outlook in Europe and the USA has unfolded as expected, **we are now close to the international consensus,** and we expect corporate profit expectations to be revised down sharply. This means stock markets probably have a way to go before we see the bottom in equity prices.

Regarding the local economy and corporate profits, we are in the minority of local Fund Managers expecting a local and international recession. Our view is that South Africa does not exist economically as an island. Our internal economic drivers are, at best, weak. Further, it is unlikely that being a resources-driven economy and stock market will shield us. In any other global recession, industrial metals and minerals get hurt by the cold blasts of the adverse economic winds. As the international focus has shifted from inflation and what protects you from it to recession, industrial resources have started to struggle. We expect further pressure on resource prices, equities and economies through to the end of the year.

China's economy is no longer growing at double-digit rates, so it is unlikely to assist the world economy, specifically resource prices, by a material amount. Their internal dynamics of trying to manage a Zero Covid policy, deflate a housing bubble and address an economic transformation away from CapEx to consumption, to name a few, make a repeat of 2009 unlikely.

The Fed and other central banks are also unlikely to blink soon as this downturn is accompanied by the worst inflation since the early 1980s, making restarting QE unthinkable.

In the words of Bill Dudley, former governor of the influential New York Fed: (22 June Bloomberg)
If you're still holding out hope that the Federal Reserve will be able to engineer a soft landing in the US economy, abandon it. A recession is inevitable within the next 12 to 18 months.