Olympiad
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15 June 2020

Dear Fellow Investor

Economic Recession/Expensive Stock Markets?

Please see relative performance graph hereunder:

Question: Where would you have preferred your local money to be invested since Jan 2018?

(Olympiad BCI Managed FOF – **5/161** unit trusts in SA Managed High Equity category at lowest risk over 3 years till 31/3/2020, **5/179** over two years and **5/193** over 1 year. Source: Morningstar).

Is this global stock market rally sustainable or should we expect a serious correction/crash of ±50%? The speed of this relief rally caught myself and many seasoned investors including Buffett by surprise. The rally is built on the US Central Bank (Fed) printing new money to the tune of $3 trillion following an announcement in early April. The Fed's total balance sheet (new money) increased to $7 trillion by the end of last month and is expected to increase to $9 trillion from less than $1 trillion in 2008 pre last crash.

Some of the $9 trillion will be used to purchase corporate junk bonds which it has never done before. This of course will keep corporations afloat which should have gone bankrupt in a normal, capitalist economy based on competition and private ownership of money. The question is whether the Fed will be able to prop up all these junk bonds of which 540 issuers show a high probability of default. So the bond and stock markets are artificially supported by the Fed. The minute this support stop these markets will in all likelihood collapse.

The US Government Debt increased from **$22 trillion** a year ago to **$25,7 trillion** in May 2020. This debt plus corporate debt of $9,6 trillion and the Fed's $7 trillion result in a total of $42,3 trillion. This is almost double the $21.2 trillion worth of goods and services produced by the USA in 2019 i.e. GDP.

With the current unemployment rate of 13.3% (3.5% in Jan 2020) plus record high levels of debt and negative economic growth forecasts for 2020, I believe the current stock market values are not sustainable. Based on Prof Robert Shiller's CAPE Ratio, price/earnings ratio of the S&P500 companies with earnings adjusted for inflation over the last 10yrs, as an investor in the S&P500 over the next 10yrs you should expect to lose 1.6%pa. This ratio is currently 79.4% higher (more expensive) than its historical mean and has proven quite accurate in the past.

Please feel free to contact me should you have any comments or questions.

REGARDS

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