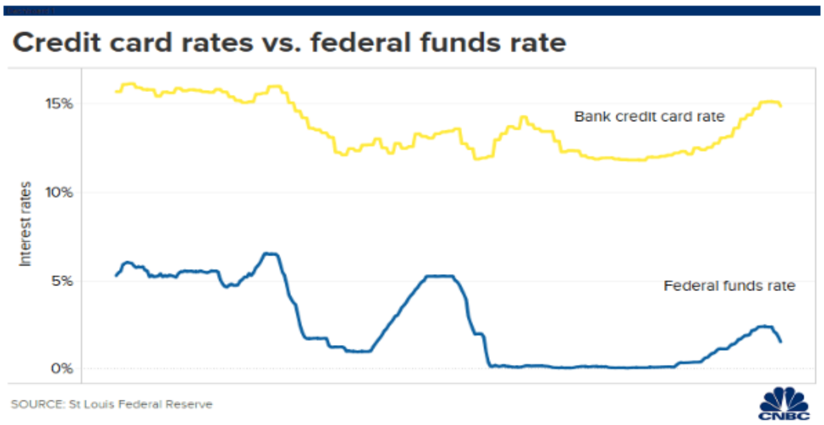
19th July 2022

Continued Trouble?

Consumer Credit

With inflation globally, continuing to rise to record levels (US and UK inflation is 8,6% and 9,1% respectively) and central banks tightening interest rates, consumer spending is coming under significant pressure. Global credit card balances increased approximately $841 billion in 2022. 229 million new credit card accounts were opened in the first quarter of this year. Total household debt is currently at a record high of $15,84 trillion.

Much of the increase in consumer spending, is attributable to stimulus injections given by central governments, directly to consumers. This has proved a boon to e-commerce and the investment craze in meme-stocks. However, with rising rates putting upward pressure on household disposable income, funding repayments has become more onerous. Variable Annual Percentage Rate (VAPR), the interest rate to which most credit cards are subject, is currently just over 16%. With its direct correlation to the Fed Funds rate (refer graph below), the VAPR is forecast to exceed 18% by the end of the year. This might exceed record levels set in April 2019 of 17,87% (Refer to the graph below).



Consumer spending drives a significant part of US GDP. This makes it one of the biggest determinants of economic health. However, with the consumer confidence index declining in June 2022 to its lowest level in more than a year (refer below), we have seen a fall in consumer confidence and expenditure in the US.

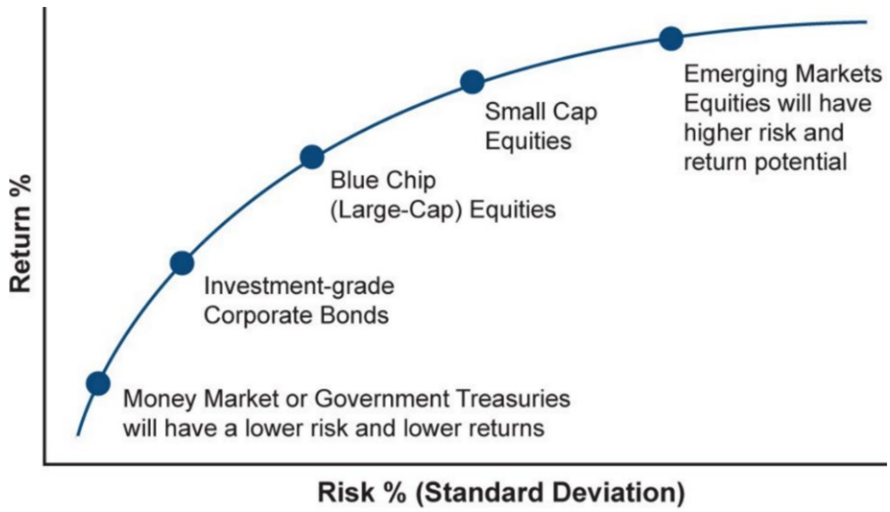
Email: roscoecj@rockmancap.com | http://rockmancap.com | Telephone: + 230 214 2251
3 River Court, St Denis Street, Port Louis, Mauritius

With the increasing VAPR and slowing consumer spending, the risk of a recession has therefore increased.

How do you invest now?

With the S&P 500, Nasdaq 100, and all other major indices in bear market territory, after 12 years the bull market that started in March 2009, has finally come to an end. High risk, long duration stocks (such as those advocated by Cathie Wood, of Ark Invest), which had their valuations boosted by ultra-accommodative monetary policy, have all come crashing down. Whilst in the midst of the present US Federal Reserve's hiking cycle, below are some of the considerations taken to mitigate downside capital risk.

Investors typically move down the risk curve (refer below), by selling more volatile, higher risk investments and rotating into sectors including defensives, blue chip, long-term dividend producing stocks.



Defensive stocks tend have a lower Beta Coefficient (*Beta*) than most growth stocks: The Beta indicates the historical level of correlation to the market a stocks price movements will have, relative to the index. It also indicates the level of risk a stock poses relative to alternative stocks.

Beta is measured as follows:

- ***Beta*: X > 1** = The stock will fluctuate by a factor of 1 times and more, relative to the market. For example if the market falls 10% and the stock has a Beta of 1,5x, the stock will generally fall 15%.
- ***Beta*: X = 1** = The stock will move in correlation to the market.
- ***Beta*: X < 1** = The stock will fluctuate by a factor of 1 times and less, relative to the market. For example if the market falls 10% and the stock has a Beta of 0,5x, the stock will generally fall 5%.

Due to the importance of managing client downside risk, at Rockman Capital we have developed portfolios that have a low Beta. This has allowed us to decrease our downside risk and outperform relative to the current bear market.

Since the start of 2022, within our own equity universe of over 500 counters which we follow, we have seen the following sector performance statistics:

- Consumer Defensive -2%,
- Technology -22,2%,
- Consumer Cyclical -33,7%,
- Financial Services -14,56%,
- Healthcare -25,95%,
- Utilities -4,87%.

Consumer defensive sectors have outperformed alternative sectors. These stocks generally have Beta's lower than 0,5x. Sectors with higher Beta's (X>1) like Tech and Cyclicals have during this present bear market, dropped much further than the market average.

While these periods are difficult to endure, history shows us that you do not have to wait long for the market to recover. The average length of a bear market is 289 days, or about 9.6 months. That's significantly shorter than the average length of a bull market, which is 991 days or 2.7 years. The compulsion to sell investments when markets plummet remains ever present. At Rockman Capital, through year of investing and guiding our client, we continue to build trust with our clients, by guiding them through the various on and ongoing market cycles.

Email: roscoecj@rockmancap.com | http://rockmancap.com | Telephone: + 230 214 2251
3 River Court, St Denis Street, Port Louis, Mauritius