



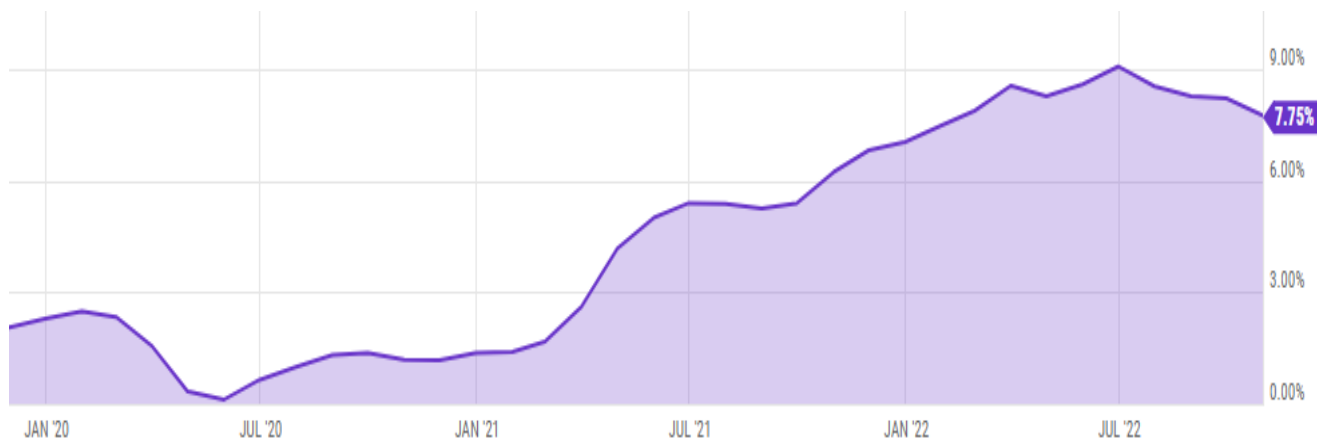
Reporting from Bank of America's November global fund manager survey, Dow Jones Newswires this week advised that more than three out of four investors expect a global recession in the next 12 months.

This is the highest number since the Covid-19 high in April 2020. Some 55% of chief investment officers want chief executives to improve company balance sheets due to the fear of a recession, while 21% prefer to increase capital spending and 17% favor share buybacks.

Coming on the back of inflation numbers out of Britain that show that nation's inflation rate hit the highest level in 41 years at 11.1 percent, together with a tough current winter half-year for Germany because of soaring energy prices that are the result of the boycott of Russian gas supplies, these are ill omens for share markets.

How is it possible then that investors have begun buying in anticipation that share markets are bottoming and bond markets peaking? How, furthermore, given the pain that protracted rising interest rates are going to inflict upon countries like South Africa as we are forced to match global rates in order to roll over our massive national debt, is it that local investors turned the JSE tide in early October?

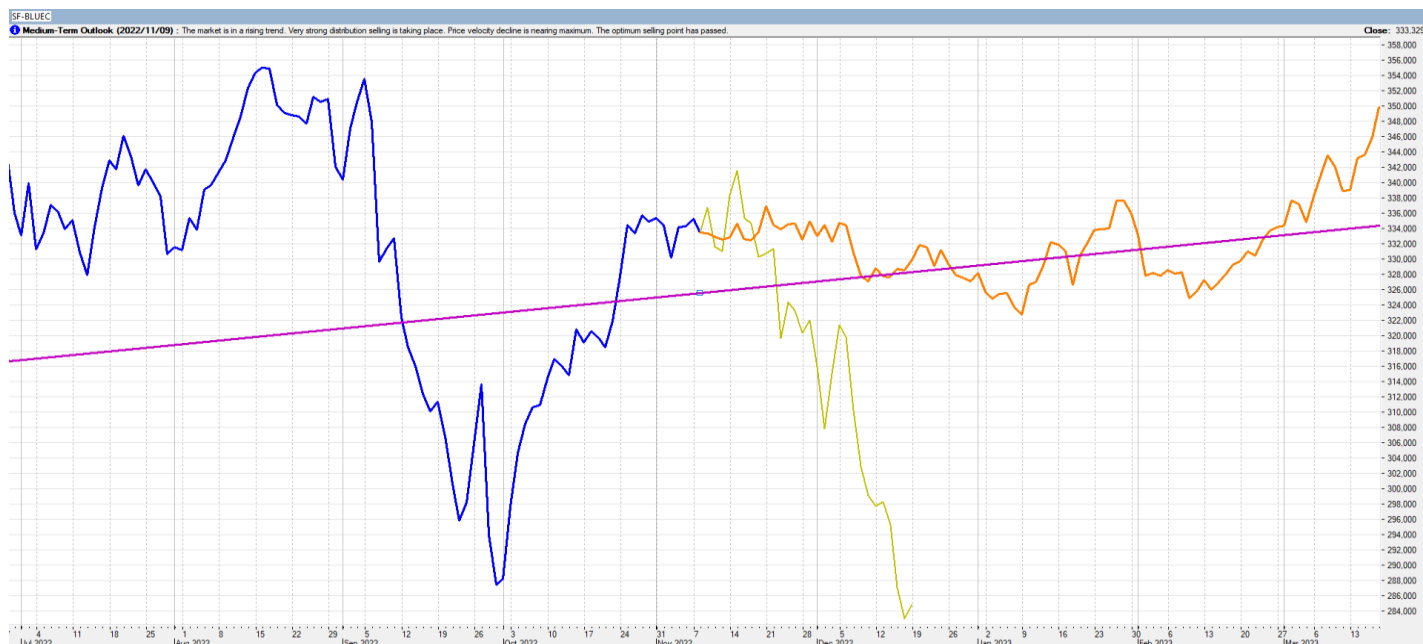
Hope has been ignited by Wall Street analysts who sense that the US inflation numbers have been slowing because North American numbers came in at 7.7 percent for October as the following graph from Y Charts illustrates:



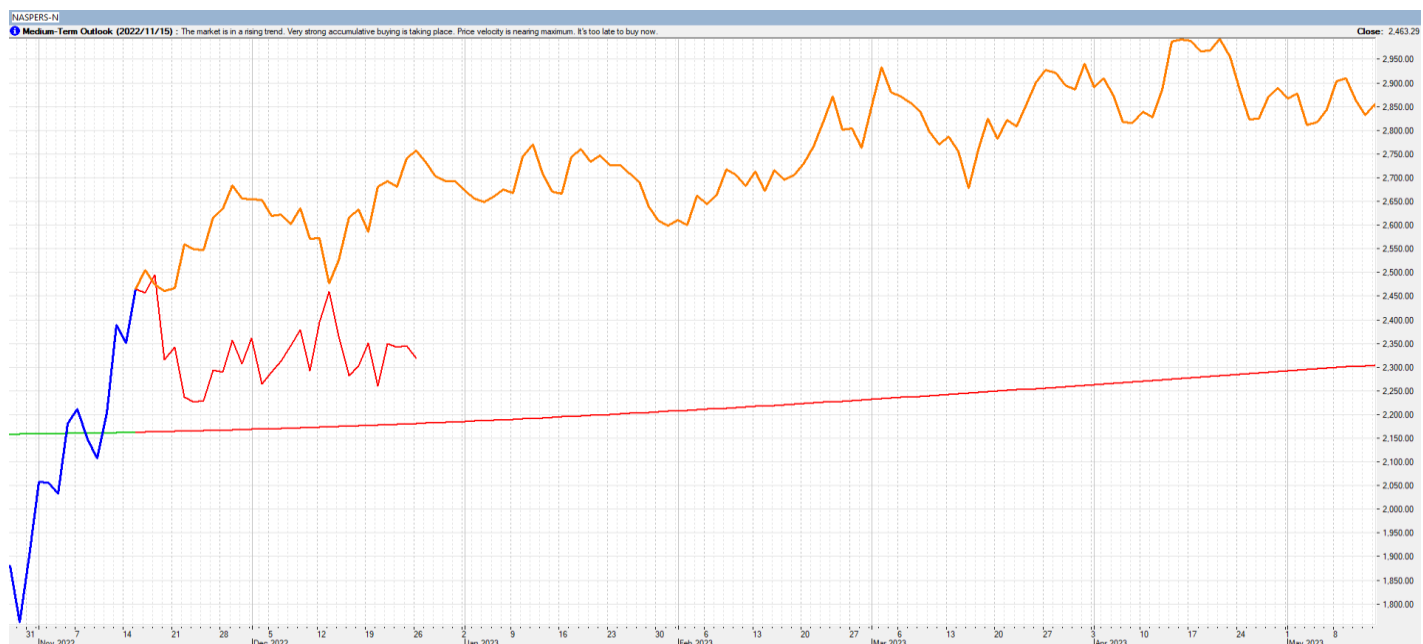
But one swallow does not, as they say, mean that summer has arrived. In many parts of the developed world, ordinary folk have been celebrating the apparent end of the Covid Pandemic and, along with holidaying again in favourite destinations, most are feeling cash-flush because they accumulated savings during the long quarantine. It will thus, say the economists, take some job losses in the family before the penny drops that the employment bonanza is already passing. The massive lay-offs at Twitter might seem like the vagaries of a hyper-wealthy nutter, but they are, in fact, the likely fore-runners of a much more widespread phenomenon.

So, the likely truth is that those who have been buying could be in for a nasty surprise because the latest local market recovery might already be over and it could be down-hill from now until the second week of January.

ShareFinder's unerringly accurate artificial intelligence system presents us with the following picture for the likely movement of JSE Blue Chip shares over the festive season:



The yellow, short-term projection is usually the most accurate and the fact that it is not matched in magnitude by the orange medium-term projection, does not mean that the decline will thus be modest. And indeed, the blue line of actual index prices has clearly been rolling over since October 28 although current market favourites like Naspers (pictured below) are still caught up in the new euphoria and buoyed on by the reported warm tone of a meeting this week between US President Joe Biden and China's Xi Jinping:



If the Naspers projection graph is to be believed, the shares are likely to keep on soaring until April when they might have gained another 22 percent.

Sadly, however, the picture is not nearly as pretty for Tongaat-Hulett which has fallen from an August 2014 peak of R170.62 to R2.38 in June this year ahead of the suspension of the company and its application for business rescue which has threatened the livelihood many down-stream businesses and an estimated 15 000 KwaZulu-Natal jobs...many in the politically sensitive Phoenix area which was the epicenter of the riots!



While its debt pile of R6.8-billion might seem like chickenfeed compared with Eskom’s R396-billion, in comparative terms it is potentially no less devastating for the KZN economy since the knock-on damage of 4300 cane growers not receiving their monthly cheques will inevitably spell bleak Christmases for thousands more small businesses who service the sugar industry:

Natal’s sugar industry dates back 170 years and is inextricably woven into the KZN economy with roots dating back nearly as far as the foundation of the colony by Francis George Farewell in 1824. James Liege Hulett arrived 33 years later and, with a borrowed £25, rented the 600-acre farm Kearsney - where the KZN private school of the same name originated - which was to become the foundation of an agricultural business that continued growing for the next century to become the biggest land-owner in the province.

Hulett ownership ended abruptly in 1962, and in the view of present family members, the decline of the once great Hulett empire began when a consortium of KZN businessmen consisting of the Executive Director of Union Acceptances, A Williams, M G Mackeurtan, a director of Philip Hill, Higginson and Co.(Africa) Ltd. Chris Saunders, Vice Chairman of The Tongaat Sugar Co., Harry Brunskill, Chairman of C G Smith & Co.,Ltd., G Vernon Crookes, chairman of Reynolds Brothers Ltd.,; and F S V Gillatt chairman of the Gledhow – Chaka’s Kraal Sugar Co, collectively gained control through a R19-million hostile takeover. They ejected then CEO Guy Hulett one sad Monday morning and to some Hulett family members the collapse almost exactly 60 years later then became inevitable because, with the passing of control, went a legacy of old value management styles.

With six former executives, including ex-CEO Peter Staude, and a former audit partner at Deloitte out on bail of R30,000 bail each after appearing in the Durban specialised commercial crimes court, the Tongaat-Hulett affair is being likened to a local Steinhoff scandal. But it is much more than that for the old Durban families – the ODFs as they are locally known.

To the fading but still remaining gentry of Natal who continue to gather once a year in the crumbling mausoleum of the Durban Club on Durban’s Victoria Embankment to celebrate its AGM and quietly mourn the great days of the British Empire, control of Tongaat-Hulett was likely as close as one could get to becoming local royalty. And certainly the late Chris Saunders was the uncrowned king. So there are deep emotional connotations about the collapse of the company which, at least in the minds of those who once ‘owned’ the great Natal business empires of the past and who likely continue to hold powerful purse strings which might still come to the rescue of one of its crown jewels, rescue is an imperative.

With so many family fortunes at stake and so many jobs on the line, Tongaat-Hulett is arguably a business which cannot be allowed to fail and so, when they again become available, this is a gamble I would be prepared to take.....but then I have to confess to being one of those ODFs myself and so I am biased!

Have a good weekend

The month ahead:

New York's SP500: I correctly predicted further brief gains until around November 7 and then a decline until mid-February. But this week's hesitation has been the prelude for perhaps two weeks more of gains before the festive decline gathers way.

Nasdaq: I correctly saw gains until late November ahead of an almost uninterrupted decline until mid-February within an overall decline lasting until September. In the short-term, however, I saw some unexpected pressure for gains which has led to an interim sideways pattern which could last right up to December 22.

London's Footsie: I correctly warned that London would peak around November 14 followed by a decline that has probably now begun and is likely to last until at least mid to late February.

France's Cac 40: I wrongly called the end of the brief recovery but I think it is likely in the coming week ahead of another brief upsurge until the end of the month followed by declines until mid-February.

Hong Kong's Hangsen: I correctly predicted a short-term slightly sideways trend until early December before the carnage resumes for a relentless drop until April.

Japan's Nikkei: I prematurely saw an ending of the brief recovery. Now I expect a sideways trend until December 21 ahead of declines until April.

Australia's All Ordinaries: I correctly predicted gains which I still saw peaking this week followed by a decline to the next bottom in mid-January.

JSE Top 40 Index: I correctly predicted sporadic gains until early-November followed by a steep decline which I expect from now until late January when the next up-cycle appears likely to begin.

ShareFinder JSE Blue Chip Index: I correctly expected that the market was peaking and I still now continue to expect declines until early-January.

Rand/Dollar: I correctly predicted brief gains ahead of further weakness which I believe has now begun and is likely to continue right through to Christmas followed by a sideways trend until early February when I expect further weakness continuing through to early March.

Rand/Euro: I correctly predicted that the Rand was peaking and saw losses ahead. Now I see a resurgence of strength from around December 9 through to mid-January.

The Predicts accuracy rate on a running average basis since January 2001 has been 86.82 percent. For the past 12 months it has been 94.68 percent.

■ **OPINION** | **EDITOR'S NOTE** | PREMIUM ARTICLE

ROB ROSE: Can SA avoid a wave of company collapses?



Can South Africa avoid a wave of company collapses in the next few months?

You wouldn't bet on it, what with rising interest rates taking a fatal bite into cash flows and streets of once-thriving restaurants now an unsightly shamble of "To Let" signs.

The list of casualties that either were, or are, in business rescue is long, with Comair, Ster-Kinekor, Edcon and SAA now joined by Africa's largest sugar company, Tongaat Hulett.

Yet the mood at last week's conference of the South African Restructuring & Insolvency Practitioners Association (Saripa) in Fancourt was far from apocalyptic. Sure, things are tough — but in South Africa, the 300 delegates seemed to believe, they've *always* been tough.

Speaking on a panel, Absa Corporate & Investment Bank head of special asset management Anthony Evens said while it's going to be an arduous year, "South African management teams have built crisis management muscles ... perhaps we've been in a really long period of crisis, and we've just got used to it".

Rather than companies tipping over indiscriminately, Evens expects "pockets of stress", particularly in commercial property finance and companies exposed to wheezing state-owned entities. "The idea of the tide going out, that's gone — the question

is: can you swim?" he said.

This was echoed by Ken Wienand of the Public Investment Corp (PIC): "We went from a recession into Covid, out of Covid, we went into a war, we went into riots, we are sitting now with interest rates where they are, we still don't quite know where we are. There's no new normal here."

Which isn't to say South Africa will avoid global inflation ructions; we just might handle it better.

Gideon Bochedi of the Credit Guarantee Insurance Corp of Africa says claims made to his company have jumped 25% in recent times. "We're seeing a lot of delay in payments, and asking for extension of payment terms," he says.

Nonetheless, Bochedi isn't unduly perturbed. "You have to have a certain level of insolvencies in an economy, because it's about life and death. For life to exist, people have to die and [funeral] parlours need to make money ... we do the same here: we resuscitate, and bury the ones who [can't] be resuscitated."

It sounds flippant, but the reality is that since a step change in 2011, when a "business rescue" regime was implemented, way more companies are surviving.

Eric Levenstein, a partner at Werksmans Attorneys and chair of Saripa, says business rescue helps companies trade out of a financial squeeze and become solvent again. "Before [2011], all directors of distressed companies could do was place their struggling entities into liquidation," he said.

It's not without controversy. As Adams & Adams attorney Philip Pla writes, critics argue business rescue "is prone to abuse by creditors, rescue practitioners or even the companies themselves, and there is still a relatively low success rate".

A 2021 study in the Independent Research Journal in the Management Sciences found "total direct costs [of a business rescue] average 3.36% of the total asset value". Business rescue practitioners charged a mean of R2.5m, with legal fees at about R1.5m.

Fees, in particular, are a sore point. In some cases, judges have spoken darkly of how practitioners "enriched" themselves by charging toe-curling amounts.

Still, even if the 2018 figures are correct and only 16.7% of business rescues succeed, that's better than liquidation. After all, liquidators' fees can be just as eye-watering, but with less chance of jobs being saved.

Some of the firms that have been successfully rescued are large too and employ many people, including racing firm Phumelela, Edcon (where the stores were bought by Retailability and TFG), Ster-Kinekor and the Andalusite Resources mine.

Nonetheless, first prize for everyone is to keep companies out of business rescue entirely.

To prevent failures, Wienand says that in the PIC's R200bn portfolio of unlisted companies, it is flagging problems earlier and intervening by appointing a chief restructuring officer, so that firms can be fixed before "it's too far down the line".

It's also true, however, that not every firm should be saved.

As Levenstein points out, there are always going to be zombie companies, trading unprofitably, ridden with debt and addicted to loans. Those firms, he says, "should be put out of their misery".

One such "zombie firm" that probably won't spend too long in ICU before being wheeled to the mortuary is cryptocurrency exchange FTX, which collapsed sensationally last week.

Consider this: last Thursday, FTX founder Sam Bankman-Fried — the charismatic 30-year-old who created the world's third

-largest crypto exchange and was once lauded as “the saviour of crypto” — had an estimated net worth of \$16bn.

Sequoia Capital, the US-based venture capital fund run by Pik Botha’s grandson Roelof Botha, once said talking to Bankman-Fried was like “talking to the world’s first trillionaire”.

Yet by Saturday morning, after FTX sought bankruptcy protection as investors withdrew \$6bn, Bankman-Fried’s wealth fell to effectively zero. Now *that’s* a pretty bad weekend, registering a Carl Niehaus on the Des van Rooyen “Weekend Special” scale.

FTX, it appears, has \$9bn in liabilities and just \$900m in assets, partly as it quietly “lent” much of its customers’ crypto assets to Bankman-Fried’s trading company Alameda Research, where \$2bn may have vanished. (Sequoia has written down its \$210m investment in FTX to zero.)

Needless to say, FTX would *not* be a candidate for business rescue — partly because, like most crypto assets, there’s pretty much no underlying business to salvage.

FTX seems to be, in Levenstein’s terminology, the classic “zombie company”, too far gone to rescue. But for those South African companies that succumb to an anaemic economy in the next few months, Levenstein says, “business rescue will continue to prove itself”.