Seed Global

At Seed, we believe that the distinction between local and global investing is merely an artificial construct, and we can help you navigate the path. This is your guide to borderless investing with Ian De Lange, Chief Investment Officer.

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Unintended Consequences

Have you heard about the aftercare facility that charged parents a small fee for picking up their children late? Unfortunately, it had the exact opposite effect as more parents began picking up their children late, as they were now willing to pay for the *"service"*.

Another example of unintended consequences is the *"cobra effect"*, where the British government, concerned about the number of deadly cobras in India, offered a bounty for every dead snake brought in. This seemed to work for a while, until people began breeding snakes to collect the bounty. When the insulted government canceled the program, the snakes were released, resulting in a far bigger problem.

Good intentions - unintended consequences.

So, what does this have to do with investing you may ask?

As investors we need to be aware of possible **unintended consequences of central bank interest rate policy**. Over a decade long period we experienced an era of ultra-cheap and abundant money, which was then followed by huge interest rate hikes in 2022, in an attempt to curb inflation – which itself was mostly as a result of the ultra-cheap and abundant money.

The latest consequence of this rate hike was the downfall of the large US based Silicon Valley Bank and the subsequent contagion to other regional US banks. We also saw the collapse this week of Swiss bank, Credit Suisse, which was founded in 1856, as it merges into rival UBS.

There will be other consequences of the interest rates volatility.

One that we ponder, is the spectacular **rise in passive investing** over the past ten years, which has several advantages for investors. However, one unintended result of cheap money is that it inflates the value of poorer quality, over-indebted businesses, which in turn then carry a greater weighting in passive portfolios.

Another possible unintended consequence of the increase in interest rates in developed markets from near zero levels could be **more instability in currency markets**, particularly for emerging market currencies.

While we are on the lookout for adverse consequences of interest rate distortions, our focus remains on the **fundamentals of quality businesses, with low leverage.** And as always sufficient diversification. We don't want to step on any landmines.

For guidance and assistance, please reach out to Ian and our Global team on global@seedinvestments.co.za.

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