## Show Me the Incentive and I Will Show You the Outcome

*"If you can lend money to the US government at close to 5% in USD terms, most other investments don't make sense."*

This simple one-liner from an investment report stood out for me.

For the past 13 years, ultra-low interest rate policies favored ownership of riskier investments and discouraged lower risk savings. However, the 2022 dramatic increase in USD interest rates (see chart below), aimed at combatting inflation, has dramatically changed the **incentive structure**.

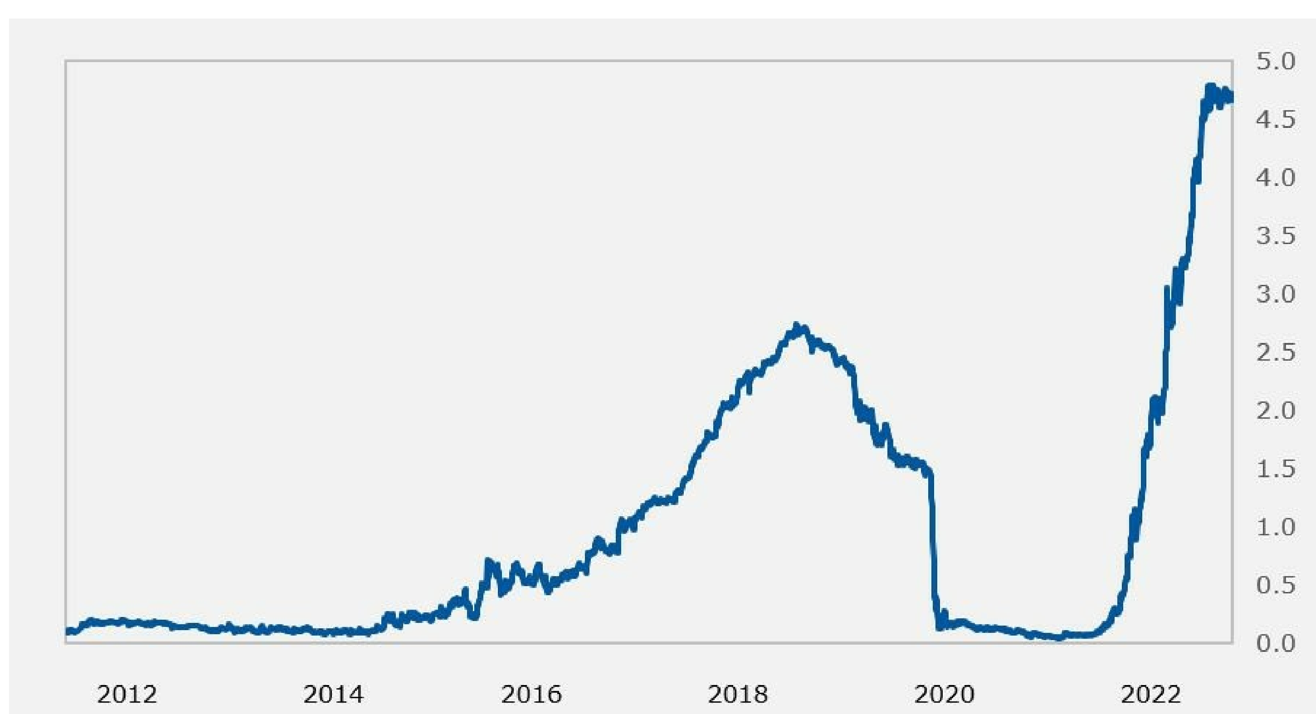
The higher interest rates act like a **magnet for global liquidity**, attracting global liquidity, and in turn putting pressure on valuations of riskier investments.

*In my mind, these more appropriate interest rates have some definite benefits, so let's explore those ...*

For the first time in years, more appropriate interest rates are now available for **savers**. Of equal importance is the fact that **overleveraged, low-quality companies will rightfully face consequences from higher rates and debt repayments.**

Additionally, Ponzi schemes like the recent crypto debacle at FTX, have and will continue to be exposed (explored in my Seed Global article on how the 2008 financial crisis exposed the Madoff Ponzi).

**Chart : US 52 Week Bond Yield**




When the "dust settles", it will be the patient investors, that have steered their capital into sustainable and quality businesses, who will be rewarded.

In the meantime, the more appropriate level of global interest rates, allows us in the Seed Global fund to have a **high 30% exposure to cash and longer dated** bonds.

**Ian De Lange** *CA(SA)*
*Chief Investment Officer*

For guidance and assistance, please reach out to our Investment Team on investmentteam@seedinvestments.co.za.

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