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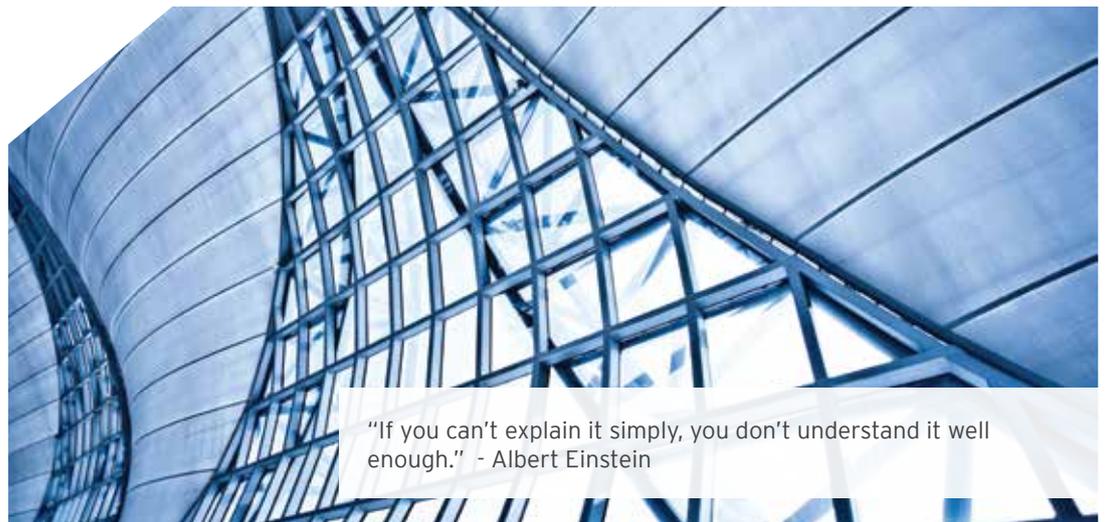
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"If you can't explain it simply, you don't understand it well enough." - Albert Einstein

ECONOMIC COMMENTARY - By Francois Stofberg

It was tough to find a suitable topic for this week's newsletter. Everyone is still fixated on Brexit, but I believe enough time has been wasted on something no-one really understands. Everyone has his own opinion now, and instead of adding to the mix, I'd rather gather more information and return to the topic once it actually starts impacting us, and our investments. Another topic I'm quite interested in, which almost made it to this week's newsletter, is artificial intelligence and the economic impact it might have on us. But, something else happened yesterday which I believe needs some consideration.

Dawie Roodt, our Chief Economist, won the Beeld Economist of the Year award. This prestigious award is given to the economist who best forecasted 12 macro-economic variables during a particular year. Dawie did the best among 34 of SA's top economists. With this knowledge and seeing as we are now well into the second half of 2016, I thought I would reiterate some of our expectations for this year. But, before I do, just remember that we don't have a crystal ball; we simply observe, analyse, and optimize.

We still believe SA will enter a technical recession this year, with growth averaging roughly 0.3% (possibly 0%). We still believe SA will be downgraded to sub-investment grade (junk-bond status), but yields on 10 year bonds won't increase much beyond 9.2% (we will revisit this topic in a couple of months). Inflation will most likely average 6.8%, and even though gold prices are enjoying the volatility in financial markets, we still believe gold is not something to be invested in (it's a zero-yield asset, you're just buying the Rand's depreciation which a good global portfolio can outperform). We still favour US markets over Britain and the EU (Brexit is just aiding our initial expectations). We still believe the Rand is too under-valued and will go back to R14.50 levels by the end of the year (as it keeps on wanting to do).