EFFICIENT GROUP

ECONOMIC COMMENTARY

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Newsletter

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NOVEMBER ECONOMICS: ENDING THE YEAR IN EUPHORIA

November started off with the United States (US) elections where it, at first, seemed as though Donald Trump might actually pull off the impossible, again. But as the mail-in ballots continued to be counted many days after election day it became clear that the incumbent, Joe Biden, would, in fact, emerge victorious. Well, it was clear to everyone except Trump, who launched multiple lawsuits to discredit Biden's claim to fame as the new and oldest American president to date. But the margins were against Trump. He would have to overthrow four states to beat Biden and was lagging by more than 10 000 votes in most of these states. Historically, voting errors were closer to 300. Although Trump did not concede, he did announce that Biden would be the next president, kickstarting the peaceful transition of power few thought he had in him.

Biden's victory fuelled a new type of investor euphoria that was starting to brew just beneath the surface: a cyclical shift away from developed markets towards emerging markets, which would benefit our local markets substantially. In fact, this same euphoria has been aiding the Rand with its rally against the world's leading currencies. For the last approximately six years, large American firms, especially the technological FAANGs (Facebook, Amazon, Apple, Netflix and Alphabet) of the world, licked up liquidity from everywhere. But many experts seem to agree with us that America's golden age is slowing down and that the weight of negative sentiment is lifting from emerging economies and their markets. Compared to Trump's hard-line approach against policies that do not put the US centre stage, Biden is a classic politician that favours friendly co-operation. So, the world will return to something that resembles pre-Trump normality. The US will stop their trade war against the world, they will re-enter the Paris Agreement on global warming, they will rejoin the World Health Organization (WHO) and they will restart talks with Iran about a nuclear deal, amongst others. A lot more money will be spent on social development in the US and taxes will, most likely, be increased before Biden's term is up. In this world, China, who is a lot better at cloak-and-dagger politics, wins. But even in a world were China steams relentlessly forward and the US falls from the seat of glory, global growth looks promising. Global growth, in turn, fuels positive sentiment towards emerging markets, especially industrial and commodity-producing emerging markets like ours.

Two more factors support stronger global growth in the coming years, both of which saw worldwide markets take off in recent weeks. In fact, the S&P 500, an index of the 500 largest firms in the US, reached a new historic high. So too did the Dow Jones Industrial Average, an index of large industrial firms in the US. The first factor is the imminent roll-out of a COVID-19 vaccine. During November, Pfizer's preliminary data indicated that their coronavirus vaccine was more than 90% effective. Moderna, another company in Phase 3 clinical trials, indicated that their vaccine was 94.5% effective. Eleven other companies are also in Phase 3, many of which expect to launch their vaccine in the next couple of weeks. Pfizer is so bullish about their vaccine that some observers believe that Pfizer will have more than 100-million vials ready before the end of 2020. A vaccine means that life, and business, can return to normal; further fuelling investor euphoria. The second factor supporting stronger global growth is that it seems as if European austerity is slowly starting to subside. During the government-enforced lockdowns that many countries were put in, and the trillions that were spent across the world to support households and corporates alike, something has changed. It seems that the European Union (EU) realised that, at the expected levels of inflation, they might be able to spend more on their economies to boost economic growth which, in turn, can pay off debts in the long term. Once again, this is welcome news to industrial and commodity-based emerging markets.

Leaving November behind, we have finally reached the end of 2020. A year that has felt like a decade to some, or at least a couple of tough seasons. What we have been left with is a state of euphoria.