ECONOMIC COMMENTARY
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YOUR MONTHLY ECONOMIC UPDATE
8 December 2021

We would like to thank you for your continued support in 2021. We wish you happy holidays and look forward to keeping you updated in 2022!

FORTUNATELY FOR US

At the end of 2021, we find ourselves at the tipping point in terms of global macroeconomics. For more than a decade, most of the world's largest economies have been running an (unsustainable) monetary experiment, keeping interest rates at historic lows, and forcing liquidity into the system with tools such as quantitative easing (QE). Forewarned by what happened in Japan, where longer-term QE nationalised the bond market and supressed growth rates, many of these large economies know that they need to change course. If they are as risk averse as the Japanese, they too might end up with a zombie-like economy, or if they are risk taking and have credit-hungry consumers, they might end up at the other extreme with rampant inflation. Countries in the European Union (EU) fit the former profile, whereas the United States (US) fit the latter profile better. But breaking a decade-long habit is not easy; it will cause a lot of upset, especially in those areas that experienced the greatest benefit.

During this decade-long monetary experiment, there was probably not a regulated asset class that benefitted more from easy money than listed equities, especially the valuations of technology companies. Monopoly power and unmatchable valuation multiples made these companies a favourite storage for the world's liquidity, which, because of the experiment, could not go to cash or bonds. So, it is most likely that this portion of the equity market will experience the greatest upset when the scales are finally tipped. Add to this all of the uncertainty around COVID-19 and its variants, and you have all of the confusion of December 2021, which will, most likely, persist well into 2022. But this does not mean that equities will underperform against other asset classes, it simply means that you will now need active, and not passive, management to find those opportunities that will outperform.

In South Africa (SA), we will have to face the headwinds caused by this great shift. That is why we have, amongst others, seen the oil price rocket, and why the petrol price has increased 41% over the last year. This is also why the rand has been under so much pressure, depreciating even though the fundamentals would have it appreciate to levels closer to R14.50. It is also why, to some extent, the South African Reserve Bank (SARB) must continue to increase interest rates, even though inflation is below 5%. But, instead of following each headline and worrying about it, speak to your financial advisor and plan your way through the volatility. Your advisor will help you with some much-needed context. For one, even though the petrol price increased with 41%, most households only spend about 7% of their income on fuel, meaning that the impact on their budget was only an increase of 2.85% over the last year. Furthermore, remember to never make emotional decisions because of short-term uncertainty. Make sure that you continue to diversify offshore, but do not buy dollars above its long-term fair value price; currently, this means do not buy dollars above R15.50.

Fortunately, SA was unable to pull the same monetary levers as the large economies. Fortunately, we have been forced to go the difficult route of transformational change. Fortunately, we have been forced to fix our fiscal policy by reducing wages, paying off debt, and selling state-owned assets. Fortunately, our market valuations have been supressed by negative sentiment, reducing the need for a major correction. Fortunately, voters in SA have started to demand accountable leaders. Fortunately, those same hard-working, tax-paying South Africans have grown tired of rioting, looting and corruption, and, despite their differences, are standing together to force transformational change. So, even though uncertainty is increasing, we are well-positioned to weather the storm.