EFFICIENT GROUP

ECONOMIC COMMENTARY

- Dr. Francois Stofberg

YOUR WEEKLY ECONOMIC UPDATE

19 January 2022

A WONDERFUL NEW YEAR, THE RAND, AND THE MARKETS

And so, the new year is upon us! Because we always get the same questions at the beginning of each year, I thought I would use this year's first newsletter to introduce you to the main themes that we are considering and to provide you with some forecasts. These can hopefully help you to plan better and to make better decisions. As always, it is important to understand that forecasts are nothing more than best guesses. It is true that we are good at guessing, but we also get it wrong from time to time. It is also important to understand that as information changes, forecasts change. So, on a weekly basis, I will keep you updated as matters unfold.

You will probably hear a wide range of forecasts about the rand this year, from R14.00 to as high as R17.00. We think something around R15.00 is a truer reflection of the rand's long-term value and would advise clients to take money offshore at any level below R15.50. The rand can easily appreciate to levels closer to R14.00, or depreciate to levels closer to R16.00. But, in our experience, these are only short-term swings. Similarly, you will hear a lot of stories about what markets are going to do. Local markets can either have another stellar year or, on the flipside, disappoint to the downside. Our view is that local markets will most likely have another double-digit year and will be relatively stronger than competitors. Chinese markets, depressed by regulation, will most likely continue to stagnate. Some believe that markets in the United States (US), led by technology stocks, will experience a healthy correction. Others, like ourselves, agree, but maintain that pockets of value still exist, and would caution against an abrupt shift away from technology stocks.

The reason for all the confusion is because of the amount of available information and many varying opinions: Different stories about weak local politics, a weak fiscus, weak policies, corruption, and so the list goes on. Then, of course, you have all the moving parts of global markets, led by the hawkish monetary shift that the US Federal Reserve (Fed) made in December and, of course, the drag-on effect that the coronavirus still has on markets worldwide. What the Fed previously considered palatable inflation has now turned into something that must be addressed at all costs and as soon as possible. Although the Fed is independent, they will be pressured by President Biden to act swiftly, as he has fallen out of favour with voters around issues about how he has been addressing inflation concerns. Luckily, the Fed has made their intentions known, giving markets the appropriate time to adjust, as we saw during the recent sell-off among technology stocks.

If history is anything to go by, the start of an interest rate hiking cycle is also not where problems start. This occurs later when consumers realise that they cannot honour all their credit and debt repayments. But now, unlike in other hiking cycles, the consumer is much stronger and thanks to Uncle Sam's stimulus checks in the US, and his counterpart's work in the European Union, consumers in the rich world have a massive savings stockpile to dig into. So, we are not too concerned about the impact of tighter monetary policy just yet. Another reason why we are not too concerned has to do with company valuations. Quantitative easing (QE) was supposed to have a much larger direct impact on liquidity and boost investments that could eventually benefit consumers. But this never played out like monetary authorities intended for it to do. Company valuations were driven more by earnings and earnings expectations. If QE did contribute to valuations, it was indirectly through its perceived benefit.

So, for now, do not fret too much. Rather make sure that you have the right team behind you: A team that can reduce all the clutter and noise to provide independent, holistic, financial advice so that you can have peace of mind.

81 Dely Road, Hazelwood, Pretoria, 0081 | +27 (0)87 944 7999 | info@efgroup.co.za | www.efgroup.co.za