



ECONOMIC COMMENTARY

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*For every one to attain
financial well-being*

WHAT AI, RARE EARTHS, AND DOLLAR WOBBLES MEAN FOR GLOBAL MARKETS

At Google's recent I/O Conference, co-founder Sergey Brin declared that artificial intelligence (AI) will be "vastly more transformative" than the internet or the mobile phone. Meanwhile, global markets grappled with a very different kind of transformation: The visible unravelling of United States (US) fiscal dominance and the dollar's once-unassailable safe-haven status. In a world shaped by technological breakthroughs and shifting geopolitical alliances, investors must now prepare for a multi-polar, multi-risk economic landscape.

Consider the US Federal Reserve (Fed): For the first time in modern history, it is operating at a structural loss. Its balance sheet remains bloated with pandemic-era treasuries and mortgage-backed securities, while interest paid on bank reserves (now its main policy tool) has outpaced returns. The Fed experienced a loss of \$114 billion in 2023 and another significant shortfall in 2024. While these are accounting anomalies in theory, they erode the central bank's political capital and challenge its independence at a moment when clarity and authority are desperately needed. At the same time, long-term US Treasury yields have again breached 5%, and the dollar has posted its steepest weekly decline since April's renewed trade tensions with the European Union and China. Talk of "de-dollarisation" is no longer restricted to fringe corners of the market. Moody's downgrade of the US credit rating, combined with ballooning deficits, has injected long-dormant risk into what used to be the world's safest assets.

Europe, meanwhile, is watching carefully. The euro's role as a reserve and trade currency is under fresh scrutiny. Policymakers are beginning to advocate for proactive steps: Promoting euro invoicing in global trade deals, deepening sovereign bond markets, and expanding euro swap lines. A more assertive Eurozone could prove appealing as investors seek stability without the political dysfunction plaguing Washington.

Trade policy is also reshaping the global investment calculus. China's new export restrictions on seven rare earth minerals (key to manufacturing everything from electric vehicles to fighter jets) have throttled supply chains across Europe and the US. While some export licenses are trickling through, many multinationals warn that the pace is far too slow to avoid production disruption. The message is clear: Strategic materials are now geopolitical leverage, not just economic input.

Ironically, even amid these tensions, capital is flowing into Asia. Hong Kong markets have surged, outperforming mainland peers by the widest margin since 2008. The catalyst? A wave of interest in AI firms, led by DeepSeek's claims of efficiency gains in computing power, and a broader shift as investors reposition toward liquid, tech-heavy stocks listed in the region.

Google's announcement of "AI mode" for its core search engine (a full integration of generative AI into its browser, search bar, and apps) signals its most decisive pivot since the mobile-first revolution. The stakes are massive: \$198 billion in search-driven ad revenue is at risk if AI reshapes how users engage online. Google is betting on subscription pricing, ad placements in chat responses, and a full ecosystem upgrade via tools like Gemini, Veo, and Project Mariner.

For South African investors — and Efficient clients — these are not distant curiosities. They are signals. The US no longer offers frictionless safety. China is using supply chains to enforce political will. The euro may re-emerge as a credible alternative. And the AI arms race is not just about chatbots; it is about who controls the infrastructure of knowledge, consumer attention, and data. We are entering a new era of competition for credibility, capital, and control. Central banks, tech firms, and trading blocs alike are adapting their playbooks. And so must we.

At Efficient, we continue to evaluate global developments not as noise but as inputs into a resilient, forward-looking investment strategy. Our approach is grounded in stewardship, clarity, and adaptability: The very qualities that matter most when the old rules no longer apply.

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