



ECONOMIC COMMENTARY

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THE COMFORT TRAP: WHEN “TRUTHINESS” BECOMES POLICY

Markets love a simple promise: When things get tough, someone will step in. In the United States (US) that promise has a name: The “Fed put”. This refers to the belief that the central bank will cushion losses and keep the cycle alive. This belief is again being tested as President Donald Trump nominates Kevin Warsh to lead the Federal Reserve (Fed).

Warsh’s critique has a certain “truthiness”: “Money on Wall Street is too easy, and credit on Main Street is too tight”. He has also argued for shrinking the Fed’s balance sheet, a move that can push up longer-term borrowing costs even if the policy rate falls. But the same storyline often smuggles in a second promise: That an artificial intelligence-driven productivity boom is close enough to let rates drop without inflation returning. Investors should be careful. Productivity miracles are not policy tools; they are outcomes. Betting today’s valuations on tomorrow’s productivity is how “truthiness” becomes strategy.

The deeper issue is not who chairs the Fed. It is that modern economies have become addicted to stabilisers. Over the past few decades, recessions have become rarer and expansions longer. This is partly because policymakers learned to fight every fire with rate cuts, emergency liquidity, fiscal cheques, and regulatory flexibility. Over time, this rewires incentives. When downturns are postponed repeatedly, risk does not disappear; it migrates. It shows up as higher leverage, thinner equity buffers, and companies that survive on refinancing rather than profits. Markets get trained to buy every dip because the referee hates drawdowns. The paradox is that the more stability you manufacture, the bigger the eventual repricing can be, because everyone is positioned for rescue.

Now widen the lens. The world is shifting from globalisation as the default to industrial policy as the default. The European Union (EU) is preparing “made in Europe” rules that would tilt parts of public procurement towards local production in green technologies. India, long a protectionist, is moving towards major trade deals with the US and the EU to accelerate export-led manufacturing. And the race for critical minerals is turning Brazil into a geopolitical auction house, with Washington backing a \$565 million financing deal for Serra Verde, a Brazilian rare earths miner.

These trends reconnect the real economy to the financial one. Industrial policy is expensive. It reshapes supply chains. It can be inflationary in the short term, even if it is disinflationary later. And it creates a temptation: If the transition is bumpy, lean on the central bank to smooth it.

South Africa sits inside the same comfort trap. The South African Reserve Bank has held the repo rate at 6.75%, but the inflation story is not only about Consumer Price Index prints. Electricity is a policy variable: Nersa’s revised Eskom increases (8.76% in April 2026 and 8.83% in April 2027) remind us that administered prices can reintroduce pressure just as investors start pricing in easing. Add the rand’s sensitivity to US rates and global risk appetite, and the “Fed put” reaches your household budget.

So, what should a South African investor take from this?

First, stop treating “puts” as permanent laws of nature. They are political choices, and politics change. Second, favour resilience over narratives: Strong balance sheets, real pricing power, and business models that do not require cheap funding to exist. Third, diversify across regimes, not just assets. The last decade rewarded a tidy regime with abundant liquidity, smooth supply chains, and low inflation. The next may reward a messier mix: Strategic reshoring, resource constraints, and a higher premium on credible policy and cash flow. Avoiding recessions is not free. If we keep paying for stability with debt, subsidies, and central-bank balance sheets, we are not eliminating cycles; we are storing them.

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