EFFICIENT GROUP

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For every one to attain financial well-being

THE WORLD IS RICHER THAN EVER, AND THAT MIGHT BE THE PROBLEM

The world has become astonishingly wealthy, at least on paper. Global wealth exceeded $600 trillion in 2025, more than five times the annual global gross domestic product (GDP). Household wealth rose by roughly $40 trillion in a single year. But, here is the uncomfortable question: How much of that increase came from building anything new? The answer: Very little.

Most of the gain came from rising asset prices. Shares became more expensive. Property values increased. Existing wealth was marked up, even though the world's stock of factories, ports, power stations, machinery, skills, and intellectual property did not expand at the same pace. This distinction is crucial. A higher share price makes an investor richer, but it does not automatically make the economy more productive. Financial wealth is a claim on future income. Real wealth is the productive capacity that must eventually generate that income.

The imbalance is now extreme. United States (US) equities are worth roughly 3.7 times of the US' GDP, far above the level reached during the dotcom bubble. Perhaps extraordinary profits and artificial intelligence will eventually justify those valuations. But, there is another possibility: Investors have already brought a large portion of tomorrow's returns into today's prices.

This matters for South African investors. Strong global markets can make retirement portfolios look healthier, but rising valuations are not the same as rising underlying productivity. When asset prices increase faster than economic output, expected future returns often fall, while vulnerability to inflation, interest rates, and shocks rises.

Oil is now testing this vulnerability. Renewed disruption around the Strait of Hormuz, the Red Sea, and the Black Sea has pushed crude oil prices sharply higher. For South Africa (SA), an oil shock travels quickly. It raises fuel prices, increases transport and food costs, worsens inflation, weakens household spending, and complicates the South African Reserve Bank's interest-rate decisions. It can also pressure the rand and government bond yields at precisely the wrong moment.

The same strain is visible elsewhere. Japan is finally emerging from decades of deflation, but it carries public debt exceeding 200% of GDP. Higher interest rates may be economically appropriate, yet they also increase the cost of servicing that debt. Supporting the bond market risks weakening the yen; defending the currency can push yields higher and send pressure into other global bond markets.

This is the inheritance of the cheap-money era. Governments borrowed. Investors stretched for returns. Asset prices surged. Now, inflation has proved more persistent than expected, energy markets are unstable, and the cost of capital is no longer negligible.

The world may restore balance in one of three ways. Productivity and economic growth could accelerate enough to validate current asset prices. Inflation could quietly reduce the real value of financial claims. Or, markets could fall until valuations better reflect the underlying economy. None of these adjustments will be painless.

This also changes how we should think about inequality and wealth. The most important distinction is not simply between rich and poor, but between productive and extractive wealth. A fortune built by creating useful products, employing people, and improving productivity is economically different from one built through political access, protected markets, or the inflation of scarce assets.

SA too often confuses the redistribution of existing wealth with the creation of new wealth. We argue endlessly about who should own the pie while electricity failures, weak logistics, poor education outcomes, municipal decay, and low investment prevent the pie from growing. The lesson from the world's distorted balance sheet is simple: An economy cannot value itself into prosperity. Sooner or later, financial claims must be supported by real production. SA's priority should, therefore, be brutally clear, not merely to reprice, tax, or redistribute what already exists, but to build what does not.

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