EFFICIENT GROUP

ECONOMIC COMMENTARY

- Dr. Francois Stofberg

Newsletter

6 July 2020

JITTERY JUNE - ECONOMICS

Although we still don't have the answers we want regarding COVID-19, one truth started to emerge amidst all the confusion: the world, most likely, completely overreacted. Of course, few would admit it, but the truth is revealed by buoyant markets, that can be wrong but never lie. Unfortunately, it seems all the confusion is still favouring the pre-COVID trends, where technology giants based in the United States, with more cash than most emerging countries, are licking up liquidity. However, if you have an ear, you'll pick up that large research entities are once again hinting towards the end of the United States (read developed market) prominence and a return to favouring riskier emerging markets.

United States president, Donald Trump, who went as far as to rephrase a misinterpreted statement that was made by one of his officials, has done a lot to calm nerves about trade with China. It seems that despite contentions about Hong Kong, Trump understands that he needs to keep face among his voters to ensure another presidential victory later this year. However, his real concerns are closer to home. Coca Cola became the latest among large consumer brand companies to pull all their advertisements from Facebook, boycotting the firm for not moderating what they believe is hate speech. Other consumer brands like Unilever, Verizon, Honda, Ben & Jerry's, and Patagonia share their sentiment that Trump's reference to rioting looters as thugs, can be considered hate speech. In this same Facebook post, Trump explained that "when the looting starts, the shooting starts". These companies, among others, explained that they will no longer use Facebook as an advertising platform until the company goes against their free speech mandate and applies stricter moderating policies. Failing to control the narrative will put a lot of pressure on Trump to win over the hearts of his constituents.

Except for political uncertainty, developed countries like the United States have yet to undergo a structural rerating, something we believe will occur in the next three years. As the uncertainty increases, fuelled by social and political tensions, trade unrest, and a gargantuan balance sheet of fiscal expansion, markets should start to rerate in favour of emerging countries. South Africa stands to gain the most, both our currency and equity markets have been hit harder than almost any other emerging country, excluding the Venezuelas of the world, of course. However, before sentiment can return to our shores, government must act on their proposed active debt-management plan, which was tabled by Finance Minister, Tito Mboweni, during his recent rescue budget speech. Tough as it might be, the pandemic has given the ruling party a unique opportunity to bring about the change that is needed to create an environment conducive of economic growth. Like the liberal, pro-market policies they followed between 1994 and 2007, it is still possible to revitalize the rainbow nation.

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