EFFICIENT GROUP

ECONOMIC COMMENTARY

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YOUR MONTHLY ECONOMIC UPDATE

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DON'T WORRY, BE HAPPY

January usually starts with a lot of 'hopium', that is, irrational optimism. Consumers come back from holiday, well rested and ready for the new year. A new year full of new opportunities: #newyearnewyou, #2022, and #thisismyyear fill reels on Twitter and Instagram. This usually only lasts for about a week or two, until the children who are still stuck at home before schools start, etch away at our patience, and until an inbox with hundreds of e-mails continues to grow. Or, in 2022, until global markets correct and cryptocurrencies plummet. The S&P 500 is down 10.4% from its record high on 3 January, while the tech-heavy Nasdaq had its worst start to a year since 1980. If that is not enough, the South African Reserve Bank (SARB) increased interest rates again, and South Africans are hearing rumours about electricity prices potentially increasing by more than 20%. These are only some of the highlights that consumers have been bombarded with in Janu-worry.

The reason for all this bad sentiment is because the world is at a crucial turning point. For more than a decade, mostly loose monetary policy extended the business cycles of rich countries well passed their due dates. In the past, business cycles ranged between five and seven years during which time capital was allocated in a flurry towards new growth opportunities. Strong growth in these areas inflated asset prices until the bubble eventually burst, which then allowed scarce capital to be allocated from less to more effective users. The technology bubble of the early 2000s and the global financial crises that occurred around 2008/2009 are the perfect examples of the end of such business cycles.

But after the global financial crises, loose monetary policy kept the cycle going and going and going. In fact, adjusting for the COVID-19 flash crash, which did not restart the business cycle and was, therefore, not the end of a cycle, the United States (US) is still in its longest expansionary cycle in history. For more than 12 years the US has been expanding, double the length of a normal business cycle. This is good news for Americans, who are now probably wealthier than they have ever been, but it is not good news for global markets who believe that a crash is needed to restart the process of creative destruction that will allow for a more efficient allocation of scarce resources.

But that is just it, a healthy economy is not one that crashes. Sure, debt is high, but inflation is paying off that debt and the US has only started to use fiscal policy to boost economic performance. Sure, interest rates will increase in the US, but I doubt that we will see more than a couple of increases over the next 18 months, and the US consumer can easily get through that. After that, yields are back to levels around 3% and the economy is growing at 2% in real terms, a real Goldilocks environment.

So, if a crash is due, I doubt it will originate in the US, or that it will occur in the next two years. On that point, considering that the US and its consumers are in a healthier position than those in the European Union (EU), or even the wealthier regions of Asia, why would capital move out of the US? This would probably help to explain why the dollar continues to strengthen. If this is the case, then maybe we are not heading towards an imminent crash, maybe markets will correct over a couple of years, or maybe we will enter a new era of steady-for-longer. Whatever is coming, it is less something to worry about, than it is something to plan for.

The kind of short-term volatility that we are currently in should never be concerning because context is crucial. To quote Warren Buffett: "The stock market is designed to transfer money from the active to the patient". So, be patient, only change your long-term convictions if long-term trends have shifted; and we are not there yet. If you are unsure, speak to your independent financial advisor so that you can receive the best holistic financial advice and investment guidance to get you through the year to come.

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