EFFICIENT GROUP

ECONOMIC COMMENTARY

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YOUR WEEKLY ECONOMIC UPDATE

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MARKETS AND ECONOMICS: WHAT TO EXPECT FROM 2023

Here we are, another new year with all of its potential, whether good or bad. Most investors seem anxious, and for good reason, as the last few years have not been kind. So, what do we expect from 2023? Well, first, it is important to remember that forecasts are, at best, well-informed guestimates. We do not have a crystal ball; we simply use our experiences and historic data to mathematically extrapolate what can potentially occur in the future. To do this, we use age-old cause-and-effect relationships and consider different scenarios. In this economic update, we will share the scenarios that we think have the greatest probability of occurring, that is, our base case scenarios.

Our view is that, from a policy or economic perspective, nothing noteworthy will happen in South Africa (SA) until after next year's election. There might, however, be many more political fights and scandals until we reach the election, and many more heads might roll. Polls seem to suggest that the African National Congress will, for the first time, win less than 50% of the electoral votes. This means that we will have a coalition government for the first time since full democracy in 1994, which, in turn, means real economic reform might slow down.

Concerning Eskom, we believe that electricity shortages will continue to plague South Africans for at least two to three more years. At this point, alternative sources of electricity should be more readily accessible to the middle class. Interest rates in SA will, most likely, increase by 0.50% to 0.75% in 2023, before starting to decline by the end of the year. Inflation should fall back within the range of 5.0% to 5.5%, well within the South African Reserve Bank's range of 3% to 6%. The rand will, most likely, strengthen to below R16.50 against the dollar, which means that we will be purchasing dollars for our clients at any rate below this figure. We also expect to see the All-Share Index on the Johannesburg Stock Exchange to outperform this year.

In the rest of the world, various large economies or economic blocks will go into some form of a recession, although, in its totality, the global economy should not enter a recession. In the developed world, the United States (US) will, most likely, reign supreme. Yes, we might feel the final touches of an earnings recession but it will be short-lived. In this instance, the decision to run up interest rates hard to force the process of creative destruction, will reward the US with a quick recovery too, albeit to a lower level of normality. Remember that the +15% returns we saw from the American equity markets for more than a decade are far above their long-term averages, as 5% to 8% is considered normal. Therefore, most analysts believe that US equity markets will, in aggregate, only return 5% annually for the next decade. We, however, believe that, although passive investing will only yield about 5% in the future, active management can easily get you to 8% annually.

On the other end, the European block has chosen to take a more gradual approach to fighting inflation, that is, excess demand, meaning that the pain will be around for a lot longer and might even turn a recession into a depression. Of course, the socio-political tensions around the war in Ukraine, and possibly elsewhere, will continue to have a negative impact on the block. We expect the US Federal Reserve to increase interest rates by another 0.50% and keep rates there for a while; we will, most likely, only see a decrease in 2024. Inflation in the US should fall back to a range between 4% and 5% this year.

We are concerned about the Japanese economy. They are running out of fiscal and monetary levers to pull to keep their zombie-like economy alive. Should rumours about an inability to continue with yield curve control start, global markets will react violently. We are also concerned about the slowdown that we will see in China, and the impact that this will have on global performance and demand for things like commodities. We are especially concerned about the probability of China annexing Taiwan. But we are very excited about the Indian economy, and those like Indonesia and Malaysia. This year will, therefore, most likely, mark the turn from developed to developing, like the period we experienced between 2000 and 2007. In these volatile periods of uncertainty, we favour active management and holistic financial planning. In this way, clients can protect themselves sufficiently whilst taking advantage of new emerging trends.

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