EFFICIENT GROUP

ECONOMIC COMMENTARY

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YOUR WEEKLY ECONOMIC UPDATE

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STICK TO THE PRINCIPLES

Central banks in many countries around the world keep on talking a big game, and rightfully so. If consumers start believing that above-trend inflation is over, they might push inflation higher into unwanted territories again. But for now, it seems as though central banks have succeeded in containing inflation. Amidst the sea of short-term noise, it is difficult to determine how the global economy will make it out in one piece. But, fundamentally, we should see stronger emerging markets on the other end.

Jerome Powell, Chair of the United States (US) Federal Reserve (Fed) reiterated the Fed's viewpoint that the US economy could require further interest rate increases. Since 2022, when the Fed started to increase interest rates at record-breaking speed, US inflation has come down from a near 40-year high at around 9% to levels closer to 3% in recent months. The Fed is targeting inflation levels closer to 2% and, therefore, continues to talk a big game. However, as time progresses, it will be very difficult to see another round of record-breaking inflation. The helicopter money that US households received from their government during COVID-19, which has been a main contributor to the economy's good health, will likely run dry by the end of 2023. If consumers and companies have done enough to improve their budgets and balance sheets during this time, they should be able to weather the expected slowdown once these savings run dry. If they have not, we might be heading towards that hard landing that many analysts were expecting until not too long ago.

In South Africa, inflation, once again, surprised to the downside. Analysts and market observers were expecting to see inflation come in at around 4.9% in July 2023 but Statistics South Africa reported that inflation only reached 4.7%. The draconic ruthlessness of the South African Reserve Bank (SARB) that placed an unnecessary burden on consumers has succeeded in bringing inflation down to the mid-range of their 3% to 6% target. Consequently, our real rates, which are now 3.55%, are now even higher compared with our peers. The SARB still believes that these high rates can attract short-term capital and support the rand, as it theoretically should have, but they completely misinterpreted the international landscape. Risk-averse international investors prefer the safety of developed markets in these volatile times and will most likely do so until the developed world, most notably the US, experiences a more substantial economic slowdown.

It is difficult to make sense of the world amidst the short-term noise. The US economy and markets continue to defy gravity amidst record interest rate increases and an almost permanently inverted yield curve. Then, there is the persistently weak Chinese economy that is stuck with deflation, elevated oil prices but sluggish commodity prices, and now a larger BRICS group of countries with talks about a new reserve currency. While all this is happening, geopolitical tensions rage on: Russia's infighting and the ongoing war in Ukraine are only what the highlights show but tensions are high in Africa and South America too. Then, we have not even mentioned the debt levels and poor fiscal position of most economies. Fundamentally, when the dust settles, we still see a structural shift towards emerging markets. Just like we see a fundamental shift out of SA's politically-induced economic slumber. Even though the former might come before the latter. Our advice to clients is to not get caught up in the noise but to continue with sound financial principles that avoid biases and that have withstood the test of time. These principles include rand cost averaging, investing in risk-appropriate assets, and consulting with independent experts, to name but a few.

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