EFFICIENT GROUP

ECONOMIC COMMENTARY

- Dr. Francois Stofberg, with specialist input from Renier van Zyl

YOUR MONTHLY ECONOMIC UPDATE

5 October 2023

How short-sightedness hurts your investments in the long term

Taking a hiatus from checking your investment portfolio for a month can be akin to stepping back from the canvas of daily market fluctuations. It is a deliberate act of patience, allowing the market's ebb and flow to paint its own picture before returning to assess the masterpiece.

In the intricate tapestry of financial markets, September often paints a canvas of uncertainty and volatility. Historically, September has proven to be the worst month for equity market returns. In fact, it has been the worst-performing month, on average, going back nearly a century. It is a period when investors are reminded of the unpredictable nature of the financial landscape. Market participants refer to this phenomenon as the "September Effect". It is a calendar-based market anomaly in the sense that it occurs without any real causal link or event, challenging the efficient markets hypothesis.

Challenging the established order is crucial, especially when the downturn is more pronounced than usual, as is the case this year. There are several reasons for this: The looming threat of a United States (US) government shutdown is causing market uncertainty. This potential shutdown is owing to a sharp ideological division between House Republicans that could lead to a halt in federal agency funding by 30 September. The shutdown will continue to loom unless Congress agrees on all 12 appropriation bills in time for the new fiscal year beginning on 01 October.

In August, Fitch Ratings downgraded the US owing to precarious debt ceiling disputes between the Democrats and the Republicans. This downgrade highlights the fragility of US fiscal policymaking compared with its AAA-rated counterparts. Another government shutdown would only exacerbate this vulnerability.

Additionally, the US is already walking a financial tightrope with the nation's debt now exceeding $31.1 trillion. It is a complex interplay of economic necessity, political debates, and global repercussions, all influencing the US' fiscal future. In the last week alone, the US managed to add a staggering $100 billion of additional debt (this is more than a quarter of South Africa's annual gross domestic product (GDP)). Persistently high interest rates will lead to the US refinancing its debt at increasingly costly levels, potentially surpassing $1 trillion in annual borrowing costs before the end of 2023. Without a debt limit, there is little incentive for fiscal restraint. If the situation continues to deteriorate, it could result in another downgrade of the country's debt rating.

Then there is the consumer: The US economy will stay utterly dependent on the consumer to steer it to a place of relative safety; investors are, therefore, constantly monitoring the health of the US consumer. Intriguingly, the latest downward revision of second-quarter GDP consumption figures paints a challenging picture. As a result of the revision, quarter-on-quarter GDP growth plummeted from an annualised rate of 1.7% to 0.8%, the lowest rate since the onset of the COVID-19 pandemic. Personal consumption, constituting more than 68% of nominal US GDP, faces mounting pressures owing to tightened lending conditions, student loan repayments, and dwindling savings. Even Bloomberg reports that most Americans, excluding the wealthiest 20%, now have less cash on hand than when the pandemic began. Expiring support programmes are also adding to the strain.

In this environment, patient, methodical financial planning becomes evermore important. Planning of this kind helps investors steer away from being short-sighted and running after deceptive returns. Usually, these short-sighted investment decisions are fuelled by emotions rather than by logic, and this does not play out well in the long term. Independent, holistic financial advice allows investors to step back from the canvas of short-term market fluctuations (read emotions) and make the most of long-term opportunities by buying the right companies at the right prices. In the current environment, the right company is resilient, with a strong balance sheet and products that are in high demand. With patient, methodical financial planning, uncertainty and volatility eventually fade away, and all that remains is peace of mind.

Efficient Group

81 Dely Road, Hazelwood, Pretoria, 0081 087 944 7999 info@efgroup.co.za www.efgroup.co.za