

ECONOMIC COMMENTARY

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SIGNIFICANT ECONOMIC SHIFTS ARE ON THE HORIZON

Now, as the world stands on the cusp of significant economic shifts, investors find themselves navigating a landscape where global interest rates are hovering near 17-year highs. This environment, primed for a transition towards rate cuts, poses unique challenges and opportunities for those in pursuit of yield. Unlike the typical response to recessions, characterised by aggressive rate cuts to spur growth, the current environment suggests a more tempered, moderate cycle of rate cuts over the next 12 to 24 months. This cautious approach, underscored by expectations of global inflation normalisation rather than an outright economic downturn, promises to reshape the investment horizon, particularly in the United States (US), where growth forecasts remain surprisingly robust.

The US Federal Reserve's projection of three rate cuts in 2024 is in stark contrast with the market's expectation of a swifter, more aggressive cycle. This divergence hints at potentially misplaced market optimism regarding the pace at which financial conditions might ease, advocating for a strategic reduction in duration risk within fixed-income portfolios. Nonetheless, the underlying strength of global growth supports the prospect of continued attractive returns, particularly for conservative investors leaning towards the relative safety of dollar cash holdings.

Parallel to these financial dynamics is the evolving narrative of global technological and socio-economic trends. The past two decades have witnessed unparalleled investment returns fuelled by the advent of the internet and mobile technologies, driving an era of rapid globalisation. Yet, as the momentum behind these technological forces begins to wane, attention is shifting towards identifying the next group of megatrends that promise to deliver above-average growth opportunities. Among these, themes such as demographic shifts towards ageing populations, the ongoing digital and artificial intelligence revolution, geopolitical fragmentation, the evolving landscape of finance underpinned by blockchain technologies, and the imperative transition towards a low-carbon economy have emerged as pivotal.

This recalibration towards thematic investing underscores a broader, more profound transition from the frantic pace of late-20th and early-21st century globalisation to what has been termed 'slowbalisation'. Characterised by a deliberate move away from earlier rapid economic and cultural exchanges, slowbalisation reflects growing reservations about open trade and the ramifications of geopolitical tensions. This trend marks a departure from the global interdependence that once defined economic and social paradigms, advocating instead for a more localised, sustainable, and resilient approach to development. Amidst this backdrop, businesses and communities alike are increasingly prioritising resilience, favouring local over global in the quest for sustainability and cultural preservation.

The journey from hyper-globalisation to slowbalisation encapsulates not just a strategic re-orientation among investors but signals a deeper, more existential re-evaluation of the global order. As the world grapples with the complexities of environmental sustainability, geopolitical stability, and economic inclusivity, the shift towards slowbalisation offers a nuanced blueprint for navigating the future. It embodies a commitment to balancing global co-operation with local resilience, aiming to forge a path that is sustainable, inclusive, and adaptable to the unfolding challenges of the 21st century and beyond.

