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COVID-19: WHAT WILL 2030 LOOK LIKE?

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Economics students are taught “economics” using formulae and theories. A theory will be expressed in some formula and once the student understands the theory and the formula that represents it, then economics becomes a game of “plug-and-play”. And solutions have been identified for most, if not all, economic calamities. Is there a financial crisis? Cut interest rates and support banks. Is unemployment too high? Increase fiscal spending. Is inflation too low? Print money and spend more. These are examples of linear approaches to stochastic problems. The problem with most economists is that they apply linear thinking to stochastic problems. Under normal circumstances certain economic policy changes may nudge some economic aggregates in a desirable direction. But “normal” is a fallacy and successful policy changes are, at best, a lucky shot in the dark. Reality consists of complex, nonlinear systems, like markets, political systems, and businesses.

The global pandemic is a multifaceted, nonlinear, shock to the world economy. Additionally, its repercussions will echo in numerous nonlinear chaotic feedback loops. All this will radically increase the risks of events previously considered of little importance. What characterises the COVID-19 pandemic is its range and the uncertainty of its impact. It will expose the shortcomings of economic models, both short-term and long-term. This simply means that we do not know what will happen, and the best course of action is to be prepared for all eventualities.

There will be no absolute victory over the virus in the short-term and few countries have so far been successful in eliminating it. And the risk remains that a new epidemic, or second wave, is still to come.

We are still unsure about much of the virus, its spread, its mortality rate, if infection confers immunity. We also do not know how long before, or if at all, a vaccine will become available. But slowly as we begin to understand the virus, we will have a better idea of how to handle it. The aftershocks of the pandemic on the world economy will linger much, much longer.

What we do know is that this crisis will affect wealth creation, it will influence economic policies and it will raise questions about debt sustainability, the environment, wealth distribution, inequality and political stability, to name but a few. The effects of the COVID-19 pandemic will extend for years and in more dimensions than the market's current and immediate focus.

No economist, or surplus of economists, has sufficient insight or information available to truly understand the economy, and nobody knows what the future holds. But in this article, I will attempt, as a humble economist, to take a glance at what the future may hold. A few years from now, we can retrospectively analyse what was correct or laugh at the predictions that then might seem far-fetched.

THE NEW POLITICS

The “state”, and all its extended powers, is something that the world has largely accepted the past century. Yet, sovereign nation and imperial politics, as well as the economy that supports this, of the past few centuries were centred around

the idea of an all-powerful state. Since the 1970s, and especially influenced by political leaders like Thatcher and Reagan, the trend was for a less powerful and less important state and its monopoly of control became contested by multinational corporations. More and more parts of previously state-owned assets were transferred to companies or to state-engineered quasi-markets. Today many other services that used to be state monopolies, like utilities, telecommunications and the post office, are now run by profit-making companies. In 2016, for instance, of the largest 100 “economies”, 31 were countries and 69 were companies.

The actual and perceived inequalities created by these business behemoths and their influence over governments, that has shaped politics and big business, is often seen as heartless, exploitative, and extractive. While the state is seen as inefficient and incompetent.

The virus has changed all of that: the state is rising again.

Suddenly state spending is all the rage aimed, initially, at health spending, but also on spending to address homelessness, spending to provide a basic income for millions of people, and spending on loan guarantees or direct payments to businesses in “distress”. In the process, this gigantic increase in state spending will push already high state debt to unimaginable levels, backed by the taxpayers of the future.

And it is not only the power of a spending state that is running in overdrive, the astonishing restrictions on personal freedoms, using the police and armed forces to prevent assembly in public and private spaces, is mostly accepted without any opposition. The always present dangers of the yoke and tyranny of the state, the perils of Big Brother and its surveillance powers are all, for the time being, forgotten.

What is most astonishingly is the wide public support for government's disregard for liberty. Not since WWII has the state's power been exercised in the ways we experience today.

Sadly, states that appear to have been most successful are those which have adopted the most interventionist



and anti-liberty controls. Could this be the beginning of the new state and the end of private liberty and freedoms? This could be a new era where individual rights will be trampled upon under the guise of the greater good. Undoubtedly, new powers to politicians and officials will not be relinquished voluntarily.

Only politicians and ineptocrats can be the winners.

ECONOMIC GROWTH

After a very strong global contraction in economic growth since the beginning of the year, an initial growth spurt can be expected after this pandemic has passed but it is unlikely that the momentum will be maintained. Production capacity and many millions of job losses will be permanently lost.

The world economy will never return to where it was before the crisis. Many, especially smaller, businesses will decide to permanently lock their doors, despite the massive support packages announced worldwide. These packages will at best limit the downturn. Two factors determine economic growth potential over time: growth in the labour force, and productivity.

Birth rates have fallen sharply in most countries worldwide in recent years, resulting in a smaller labour force. This trend will continue for at least many more years to come, with Africa being the only significant exception. Lives lost due to the virus itself, mostly the elderly, is unlikely to affect the labour force that significantly. The measures that have been implemented to “fight” the virus will affect economies in a much more pronounced way.

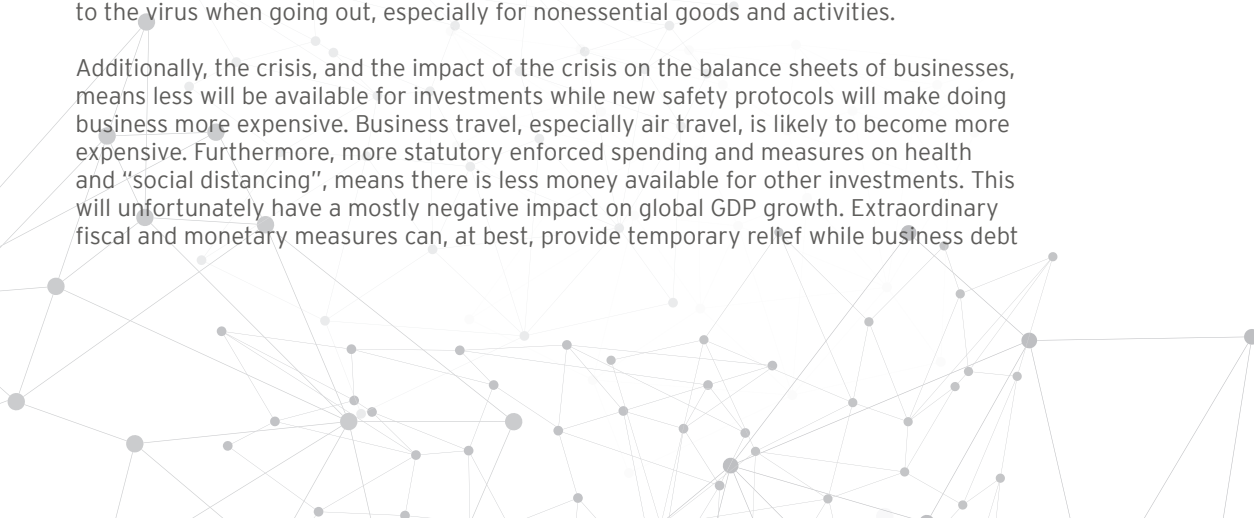
Incidentally, research suggests that it is unlikely that a baby boom will follow the lockdown. Increased levels of psychological stress due to the lockdown, and the resultant financial issues, like the loss of a job or other calamities, lead to less, not more, sex. Despite this, research generally suggests that family relationships actually improved and family rituals, like meals, were rediscovered during the lockdown. If expanding the workforce in the traditional way is not an option, the only way for advanced economies to increase their workforce is to encourage immigration. However, the opposition to immigration is likely to become even more intense which will result in keeping labour force growth low. From a labour force perspective, expect a further decline in available labour in advanced economies.

The good news, however, is that the lockdown forced many businesses to improve their productivity and discover new ways of doing business and support efficiencies. This means that from a productivity point of view some unexpected progress could be likely. The lockdown has also exposed many shortcomings, especially in large global supply chains. Due to these disruptions, in future, companies will probably try to establish more reliable supply chains which will increase costs and reduce margins. The exact opposite of what was experienced during the mad rush to globalise.

Despite governments’ original approach to the worldwide lockdown, certain sectors of the economy are going to struggle for an extended period of time still to come. Especially leisure businesses like musical and sports events, restaurants, bars, and the tourism industry. The reason for this is simply that when a lockdown is eased and supply chains are reopened, demand does not automatically return to previous levels. Obviously, people will have less money to spend, but people will also be wary of the risk of exposing themselves to the virus when going out, especially for nonessential goods and activities.

Additionally, the crisis, and the impact of the crisis on the balance sheets of businesses, means less will be available for investments while new safety protocols will make doing business more expensive. Business travel, especially air travel, is likely to become more expensive. Furthermore, more statutory enforced spending and measures on health and “social distancing”, means there is less money available for other investments. This will unfortunately have a mostly negative impact on global GDP growth. Extraordinary fiscal and monetary measures can, at best, provide temporary relief while business debt

THE GOOD NEWS, HOWEVER, IS THAT THE LOCKDOWN FORCED MANY BUSINESSES TO IMPROVE THEIR PRODUCTIVITY AND DISCOVER NEW WAYS OF DOING BUSINESS AND SUPPORT EFFICIENCIES.



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deleveraging will lead to more savings and less spending in future. More savings have the benefit that large fiscal deficits will be funded rather comfortably.

The permanence of the loss in production capacity depends on many factors. For instance, an extended period of weak economic growth and high levels of unemployment may just entrench exactly that, low growth, and high unemployment. This danger emphasises the importance of early successes in policy actions. And there are many potential policy mistakes waiting in the wings, and import substitution is a favourite mistake made often by developing countries. At best it seems, global growth will be significantly below what we have become accustomed to in recent decades.

My best guess is that the most likely "pattern" for global economic recovery will certainly not be V-shaped, perhaps also not U-shaped but most likely L-shaped with a U somewhere in the distant future, perhaps the best part of ten years.

CHANGE IN SOCIAL BEHAVIOUR AND THE DEMISE OF THE CITY

Will we go back to restaurants, overseas holidays, and sports events? Nobody knows, but some evidence suggests no, well not soon anyway. Even after the lockdown was lifted in some countries, people did not flock to restaurants and other social gatherings. Instead, and surprisingly, people went back to their homes and flats, ordered takeaways, and shopped online. Could the lockdown have altered human behaviour? Much of what we are seeing today was apparent before the virus and the lockdown only accelerated existing trends. But what were these trends?

One trend that has been on and off is urbanisation versus high-density urbanisation. Urbanisation as such was well established and likely to continue, but the real change is likely to happen between urbanisation and high-density urbanisation.

Most recently inner cities did experience a revival as urbanisation intensified with the resultant benefits to inner city properties and retail patterns. But social distancing, as well as racial-, class-, and political conflict, coupled with looting, is likely to see a dramatic altering in these trends. The virus has exposed the vulnerabilities of population density, the sky-high cost of living, and a reliance on retail. Culture and tourism will be the casualty in a post COVID-19 world.

In all crises in the past, the city bounced back stronger than before and reinvented itself. It is easier and cheaper to work in the city, and the city is where the talent is. But will it still be the case after COVID-19? Unlikely...

Expect an exodus of the better off from cities and everything that goes with that. City centres could enter another era of slums, weak growth, and unemployment while the suburbs will benefit from "work-from-home" initiatives and the gig economy. A similar altering in the way we use public transport

can be expected and this may just be that final push that ride hailing services like Uber needed to dominate public transport and the final nail in the coffin of busses, trains and taxis.

We already see the demand for office space, retail and other real estate falling, which will lead to lower property valuations. The wealthy will flee the city's rising taxes and the suburbs will ultimately win.

Some other, very interesting, initial spending and behavioural changes since the lockdown are also becoming apparent. Here are a few examples:

No surprise that online shopping was a major winner during the lockdown, a trend that is unlikely to be reversed after lockdown.

Video calls for private and business purposes is likely to stay. But a few specifics are probably related to the lockdown itself and may change after the lockdown.

A huge increase in the sales of tick and flea shampoo was reported, probably related to people living in closer proximity with their pets.

Hair colourants and nail polish sales also experienced a huge increase. Should this become a permanent trend, then beauty salons may be in for a difficult time after lockdown.

Interestingly, expensive food sales, like lobster were also strongly up, and, it should be added the sales of scented candles were also much better. Although we may be having less sex, perhaps we have become more romantic?

No surprise that the sales of sex toys, pornography, video and phone sex all soared during the lockdown. So not more sex, but more kinky sex...

Only time will tell if these new trends will prevail.

THE DEATH OF THE SMALL GUY

Suddenly we are all experts on Zoom, all but a haircut can be bought online, restaurants are contactless with multiple delivery options and suddenly the fourth industrial revolution is part of our everyday lives. And do not think this process will slow down, a lot more



innovation will happen which will enhance our quality of life and, most likely, extend it. The most difficult part was the logistics, but business seems to have aced this challenge.

And it was mostly large organisations that succeeded while entire ecologies of smaller restaurants, pubs and shops have suddenly disappeared. The market for food, for general retail, and for entertainment has gone online; the world has gone cashless.

Supermarkets have not only eaten the lunch of restaurants; supermarkets have also eaten restaurants and other small food outlets. Supermarkets also have huge chains of warehouses, transport capacity and complex logistic capacities behind them. Supermarkets will be a major winner in the quest to survive, and small business will be the loser.

The final link in the chain is the delivery companies themselves. Though their business models are different, their platforms now dominate the movements of products of all kinds.

Not surprisingly, the other big winner has been the giant of online retail: Amazon. Conventional street shops have been suffering from price and convenience competition from the internet for years, the pandemic was just the final straw that broke the camel's back. "Non-essential" retail space is closing as online shopping spikes. Chances are that these changes will be permanent and will lead to further dominance by big corporations.

Meanwhile as we wait for our parcels, the streaming entertainment industry, also dominated by big players, is getting all of our attention. Other online giants such as Google (owner of YouTube), Facebook (owner of Instagram) and Twitter provide the other platforms that dominate online traffic.

The other swing to corporate dominance has been the move away from state-backed cash towards contactless payment services. It is a consequence of online marketplaces, but it also means that the money moves through big corporations that take their cut for moving it. Visa and Mastercard are big winners, but so is Apple Pay, PayPal, and Amazon Pay. And watch this space as private money also becomes more popular and implement its own payment systems. There can only be one loser: banks!

THE FUTURE OF THE OFFICE WORKER

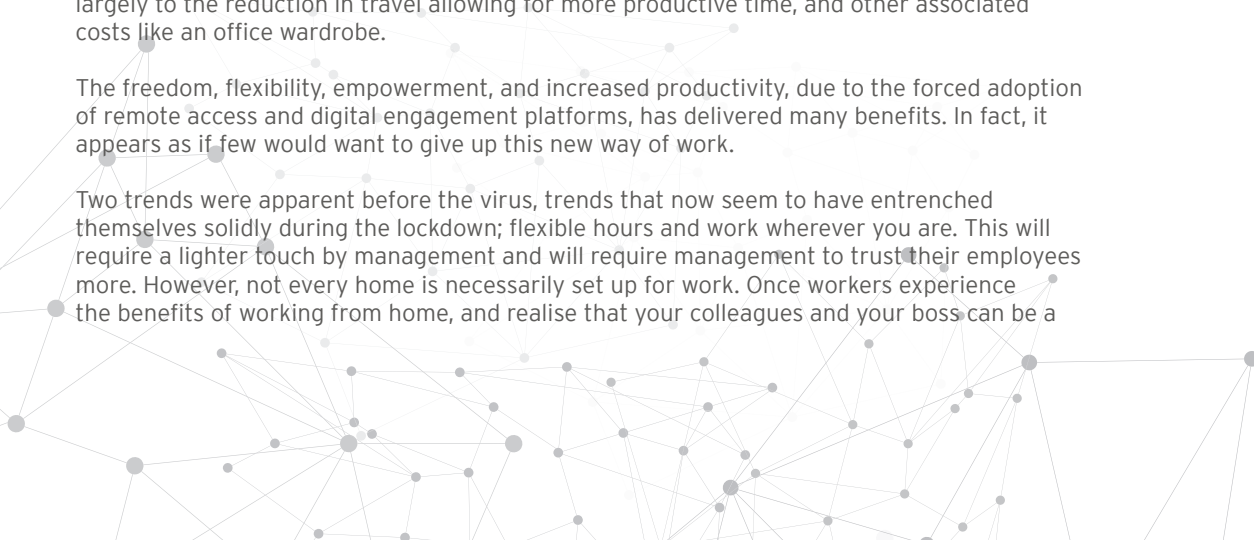
Long before COVID-19 struck, many companies attempted to get more of its staff to work from home, but a traditional workforce was difficult to convince. This crisis provided the required push. The COVID-19 crisis has emptied the traditional office and companies have, rapidly and where possible, moved employees into work-from-home situations. Surprisingly, many employers report an increase in productivity while employees report an increase in job satisfaction. Previous studies confirmed that employees who work from home are generally more productive, more engaged, and happier. Homeworkers also tend to resign less often than those stuck in an office and trust in the employee seems to be a powerful motivator for this.

Surprisingly, loafers are also more easily exposed and unexpectedly less able to hide. This will give companies an opportunity to assess who is, and who is not, important to the organisation. Corporates may realise that many of their staff are adding very little value, leading to many potential jobs lost for the traditional office worker. This changing environment will also act as a natural selection in favour of those workers that can adapt and innovate under trying conditions. A further benefit is that stress levels are down, thanks largely to the reduction in travel allowing for more productive time, and other associated costs like an office wardrobe.

The freedom, flexibility, empowerment, and increased productivity, due to the forced adoption of remote access and digital engagement platforms, has delivered many benefits. In fact, it appears as if few would want to give up this new way of work.

Two trends were apparent before the virus, trends that now seem to have entrenched themselves solidly during the lockdown; flexible hours and work wherever you are. This will require a lighter touch by management and will require management to trust their employees more. However, not every home is necessarily set up for work. Once workers experience the benefits of working from home, and realise that your colleagues and your boss can be a

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distraction in an office environment, the home of the future will be designed around the home-office worker. In future, workers and companies will realise that workers do not need to be at a desk in an office to deliver on the outputs that a company requires of them. The office worker of the future will require far more flexible working arrangements.

The past 100 years saw the migration from agriculture to the factory and the office. What we are seeing now is a migration from the factory and the office to the home. This could be the new greatest workplace experiment in the history of humanity after the industrial revolution. Most workers will never return to the office. Clearly, these trends will result in a huge number of office buildings becoming redundant. But the office worker, or white-collar worker, is typically the better qualified worker and often the better paid worker. And as the office workers go, so will the richer city residents also escape to their suburban homes with nasty consequences for the inner city.

Another possible future scenario is for the idea that staff come into the office for a day or two a week on a rotational basis. Teams could meet up on a scheduled basis and only when necessary. Some workers are more equal than others. Early evidence from the effects of the lockdown suggest that lower-earning workers are more likely to face retrenchments. Also, tech displacement of labour-intensive jobs is becoming more attractive.

A RUSH TO TECHNOLOGY

If there is one big trend that defines 2020, then it is that the virus has lit the fuse on technological trend acceleration while the enforced work-from-home environment has also led to a boom in new technology. Zoom's user base, for instance, exploded by 200 million users within six weeks, and its valuation is now exceeding that of the seven biggest airlines in the United States combined, and zooming is now a verb, like Googling. Microsoft's global Teams data centre collapsed within the first week of lockdown. This pandemic could be one of the best things to ever happen to knowledge-based businesses. This is an opportunity for a great reset and the companies that succeed will reap the biggest rewards.

It is not only online technology and sales that will benefit from the pandemic, many other forms of technology also stand to benefit.

For instance, Amperex Technology Co. Ltd. is ready to produce a battery that lasts 16 years and 2 million kilometres. This could hasten the demise of the internal combustion engine. Imagine what will happen to the oil price especially with much less flying in the future! Three-dimensional printing was already well established before this crisis and will provide blue collar workers with opportunities to also to work from home, thus ensuring that not only office workers will benefit. Just imagine the opportunities provided by disrupted supply chains, telecoms, and education!

An exciting development is medical care. In the United States, those on Medicare are now allowed to access a doctor or nurse without having to visit a healthcare facility. This will add

a strong stimulus to another accelerating trend: telehealth. Telehealth, healthcare services delivered on demand via telecommunications technology, is long-distance care delivered from where it is available to where it is needed... instantly. It means the patient and the healthcare provider can be anywhere and do not have to be in each other's presence. Couple this with wearable personal devices and you have a healthcare revolution on your hands.

But trend acceleration can also be negative. Existing rural medical facilities may become redundant, leaving those without a "connection" and the necessary skills out of the loop. Additionally, people have been scared to visit hospitals, and this has caused emergency room visits and demand for elective surgeries to plummet.

Education ecosystems are now and forever, digital. In future teaching and learning will become a combination of online and face-to-face engagement. Teaching will focus more on creativity, thinking and research skills. Innovation, from now on, will be a habit.

Other forms of structural reform will also be necessary. It is time to reimagine the school day, the school year, school holidays. One thing is for sure, we don't need no (physical) education... anymore.

THE REAL ESTATE CRISIS

In recent years, some companies began making offices more enticing with "campuses"; all sorts of amenities like dry cleaners, food shops, coffee bars and even crèches to keep workers happy and in the building longer. Not so anymore. Now companies are delaying the return of office workers for as long as possible and many use this opportunity to remodel the office altogether. The flip side is that some companies may need additional space to meet social distancing requirements but that is the exception. The rule is that less office space will be required in future.

What we realise now is that work is the thing we do, not the place we go to. The result is that many an office landlord will become extinct. Those that remain will have no choice but to offer more flexible lease terms if they want tenants to stay. It is not surprising that commercial real estate prices are plummeting. Additionally, the online revolution has also wreaked havoc on traditional retail stores. In future malls may not be the retail centres we have become accustomed to and many may eventually close, adding to the demise of the inner city.

GLOBAL FISCAL POLICY: IN CRISIS

Unfortunately, the current crisis happened at a time when the fiscal policies of most countries were already severely constrained due to previous crises, especially the Great Recession of 2007/08. Globally, public sector debt soared in recent years as authorities attempted to stimulate economies while tax receipts collapsed. For fiscal policy to stay stimulatory, the deficits to GDP need to keep on rising. This inevitably means that fiscal policy will eventually become more restrictive, exactly at a time that the world needs more fiscal stimulus.

There will also be more pressure on fiscal policy to spend more on health and on transfers to the poor, as well as support marginal companies. In fact, the introduction of minimum assistance, or a basic income grant, is likely to become a permanent fixture of fiscal policy in future. Inevitably that means that the role of the state in future will be further expanded as the state becomes more aware of the (income) needs of its citizen. That also means more taxes and more state debt.

Traditionally, inflation was used to be the go-to default option to lower state debt in real terms, not so anymore. Inflation has been very difficult to revive despite extraordinary monetary efforts. The only real support that was successful from the monetary authorities is central banks buying bonds which prevented yields to spike.

Marx would have approved.

Debt is future consumption brought forward. Eventually you must spend less in the future and unproductive debt reduces future growth. Could we be at that point where future generations cannot bear much more? The answer seems to be that with ever-rising debt, debt monetization by the central banks seems the only alternative. Eventually, this must lead to inflation.

GLOBAL MONETARY POLICY, INTO THE GREAT UNKNOWN

Central banks continue to flood markets with liquidity. Previous bounds of monetary easing did not lead to inflation because the money ended up, mostly, in the form of cash reserves at central banks. The money multiplier has collapsed.

Interest rates are ridiculously low, yet credit demand remains mooted and inflation should not be a problem at least in the short term. But much cheaper money does create the opportunity for large companies to buy their competition instead of expanding their own production capacity. That is why corporate debt has increased to record levels recently and why equities defy gravity. This has also exposed a fatal flaw in the remuneration of executives that are often rewarded because of their skills in financial manipulations, or to give it its proper name; financialization.

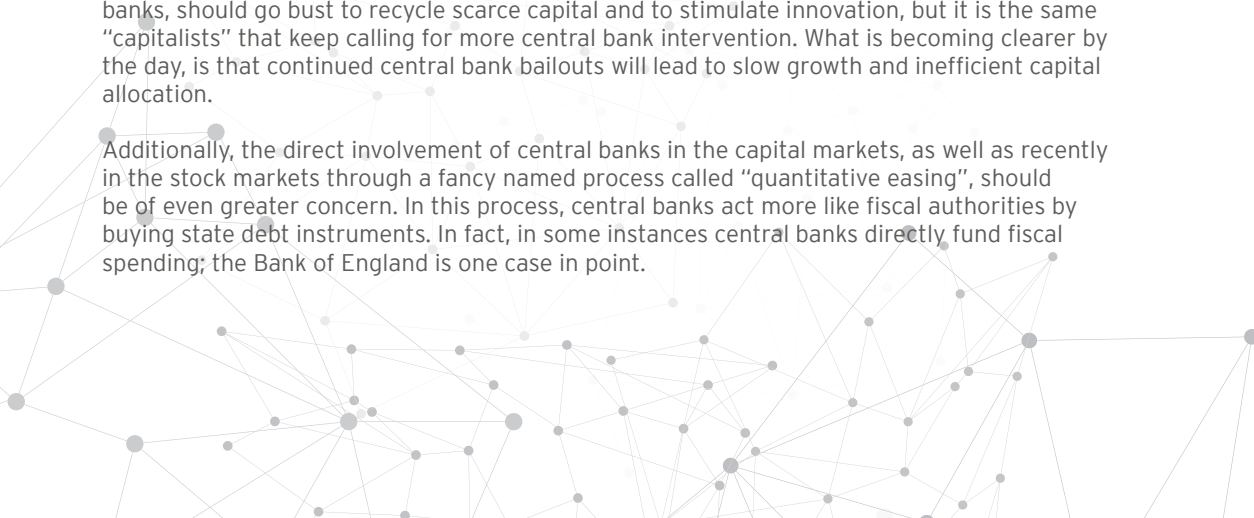
This exceptionally accommodative monetary policy approach by the world's major central banks, contributed to the great divide between weak, or contracting, economic growth and vibrant financial markets. Is monetary policy taking us on a wild goose chase? And how long will central banks be able to prop up overvalued financial markets? The risk for an asset manager seems to be to stay on the side-line, and be left behind by a market that is high on cheap money, or be more prudent and follow a fundamentalist approach to investments? So far, those that blindly followed central banks have definitely been winning!

Another, and more worrying, phenomenon created by excessively cheap money, is that those that are active in the world's financial markets were very handsomely rewarded. But they are typically giant conglomerates and generally better off individuals. Those that are not part of this financial rollercoaster, typically those working in the "real" economy, often miss out on the extravagances of the world of finance. The inevitable result is an ever-widening divide between the haves and have nots and increasing inequality. Eventually, this tension will spill over into the social- and political arenas, something that is already very apparent.

Ironically for the world of capitalism, when people and businesses get bailed out by central banks, it is a form of socialism gone rough. Capitalism dictates that companies, including banks, should go bust to recycle scarce capital and to stimulate innovation, but it is the same "capitalists" that keep calling for more central bank intervention. What is becoming clearer by the day, is that continued central bank bailouts will lead to slow growth and inefficient capital allocation.

Additionally, the direct involvement of central banks in the capital markets, as well as recently in the stock markets through a fancy named process called "quantitative easing", should be of even greater concern. In this process, central banks act more like fiscal authorities by buying state debt instruments. In fact, in some instances central banks directly fund fiscal spending; the Bank of England is one case in point.

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This blurring between the fiscal- and monetary authorities allows state debt to rise and rise while yields on state debt just falls and falls. This will end, and it will be messy. The past decade has seen the rise of the omnipotent central bank. "Whatever it takes", central banks will always clean up after us. But eventually even central banks will run out of options and then something must give.

But before we get there, why not experiment with Modern Monetary Policy...

WILL IT BE INFLATION OR DEFLATION?

In the immediate future, deflation will be the price phenomenon, primarily due to a large negative demand shock. As economies open, initially businesses will offer large discounts to attract customers. But in certain areas, like air travel, costs can increase substantially.

The retreat of globalisation will also increase costs, while very loose monetary policy will eventually lead to stronger credit demand. This in turn will then contribute to future inflationary pressures. Additionally, the burden of unsustainable fiscal debt will become unbearable and central banks will in future be prevented from tightening monetary policy sufficiently to prevent inflation from taking hold.

Although the outlook for short-term inflation is of little concern, continued expansionary fiscal and monetary policies, as well as widespread upward cost pressures on costs, may spark an inflationary process within a few years: expect global inflation at around 4-5% within three to five years.

SOUTH AFRICA

The South African economy is a topic I have written at length about and would only like to highlight some points. The following is important:



The South African government has mostly been a destructive force and has caused immense damage to the economy. The fiscus and the State-Owned Enterprises (SOEs) have been decimated, both operationally and financially.



Any significant economic growth for many years has become increasingly unlikely.



We can expect more state intervention and more radical policies as our political leaders realise that unemployment and poverty are getting worse.

THE FUTURE FOR MARKETS AND INVESTMENT STRATEGY

The past few decades were an extraordinary time for markets. Both equities and bonds were cheap during the 1980s, setting the scene for an amazing run. But now, both these asset classes are expensive, making future gains much more difficult. In the meantime, extraordinary low yields should make stocks the better performing asset class, yet both classes will be weak. Low yields and interest rates are the reasons why many are forced into equity markets, leaving investors dangerously exposed to equity risk. The classic portfolio of 60% stocks and 40% government bonds may have worked for the past few decades because equities and government bonds were typically negatively correlated. The 60:40 split worked out exceptionally well because government bonds acted as an insurance policy, cushioning against periodic losses on holdings. This can be seen as a kind of insurance in the form of a coupon on bonds which provided a source of return while portfolios were protected by diversifying equity risk.

But this double advantage has now turned into a double hazard. As central banks cut interest rates to zero and below, the yield component bonds have all but disappeared, leaving only potential capital appreciation. But with yields at zero or below, there is very little room left for yields to fall even further. Inevitably investors are forced into equities in search of some capital growth. Under these circumstances, any future financial crisis will leave the world financial markets with no shock absorbers.

Retail and institutional investors alike are now at a crossroad. There is no reliable source of return and the classic diversification strategy has become obsolete. The past few decades provided wonderful opportunities for investors, the next ten years certainly will not. Investors will be forced into stocks and returns on average of nearly 10% per annum are certainly not on the cards for the next ten years. Anybody attempting to squeeze more than 5% out of the financial markets over the next ten years will be forced into risky investments.

One solution may be to consider alternatives, like lower rated bonds. Perhaps even commodities, while complicated investment strategies may also provide better returns. But the use of bonds to diversify against possible losses in the rest of the portfolio is certainly gone for now. Equities is the only serious game in town. But that leaves investors vulnerable to economic growth and the whims of central banks.

For years now, I have advised investors to diversify a significant portion of their portfolios abroad; my advice remains the same!

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