EFFICIENT WEALTH
it's what we do

ECONOMIC COMMENTARY
- Dr. Francois Stofberg

YOUR MONTHLY ECONOMIC UPDATE
1 September 2021

AUGUST ECONOMICS

Markets in the United States (US) continued to reach new all-time highs in August. In fact, US equity valuations are now nearly as high as they were just before the dot-com meltdown. However, this by no means implies that we are heading in the same direction. What it does mean is that the overall US equity market might waver in the upcoming years. But this in turn, does not mean that specific companies in the US will not continue to outperform the markets; we still love the likes of Microsoft, Facebook, and UnitedHealth, to name but a few. Therefore, we believe that the prevailing market will be one for active and not passive management.

One of the more prominent reasons for our steadfast faith in US firms is because of the very nature of the US and their ability to persistently create an environment conducive to growth. Also, many of these firms have proven their ability to captivate markets, manage regulations, and drive long term earnings. And they have proven this more than their peers elsewhere. We also believe that the US is managing the transition from monetary to fiscal support well. As the Federal Reserve (Fed) slowly readies markets to get off the high that was induced by easy money, the US government is stepping up with plans to boost infrastructure spending.

A key event during August was the Fed's Symposium at Jackson Hole. This yearly event is one of the highlights on the calendars for everyone in the financial industry. Although we were waiting to receive more guidance about the upcoming taper, Fed chair, Jerome Powell, did not mention it at all. We will, therefore, have to wait until November, at which stage we believe the Fed will reduce the $80 billion monthly purchase of US bonds by $15 billion. We believe that the Fed will also reduce the $40 billion monthly purchases of mortgage-backed securities by $7.5 billion. However, like the 2013 taper, the tapering will not be on autopilot. In other words, the rate of tapering will be dependent on three factors: the rate of recovery in the US economy, the impact of tighter monetary policy, and markets. The US' GDP, job creation, and jobless claims are important variables to look out for as the US economy recovers. Other important variables include inflation, and markets (bond, equity, and foreign exchange markets). For now, however, the Fed bought themselves some more time, too wary of acting too fast or too dramatically.

In South Africa (SA), Statistics South Africa (StatsSA) rebased our GDP, a common phenomenon conducted by statistical authorities around the world every so often. What this means, is that we do not use 2010 prices as our base year anymore, but 2015 prices. To get an accurate view of an economy and how it performs over time, each year's output is compared to a specific (base) year's price. StatsSA also made some other smaller changes to improve the accuracy of the data. In the end, SA's economy (nominal GDP, that is, GDP that includes the effect of prices) is considered 11% larger than it was before the rebasing. Our 2020 nominal GDP is therefore R5 521 billion, and not the previously stated R4 973 billion. The annual growth rate for 2020 was also revised from -7.0% to -6.4%. One key implication is that important figures expressed as a percentage of GDP are now a lot smaller. One of these is debt to GDP which fell from 79% to 71%. Having prettier numbers to look at does not change the dire state of SA's economy, but it does help to improve sentiment and confidence.