# Better growth prospects and policy support bode well for markets

By Reza Hendrickse

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It's been a year since the pandemic and the events that followed took the world into unchartered territory, calling on humankind's innate ability to adapt to survive. The loss of life has been painful, and the loss of livelihoods has been devastating. The events that followed have also been remarkable.

Reza Hendrickse, portfolio manager, PPS Investments

After previously cutting their estimates, the International Monetary Fund (IMF) recently upgraded their growth forecasts for SA (to 3.1% for this year), joining both the South African Reserve Bank and National Treasury which have also been revising their forecasts higher. With the bar still low, there is a chance growth could continue surprising to the upside in the near-term, particularly given the commodity cycle windfall and strong global growth, which will assist related companies and boost state coffers. The stronger rand, as well as low inflation and interest rates are all further positives that should provide economic support during this part of the cycle.


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## Upgraded IMF forecasts

Global growth is expected to be strong this year, driven by effective vaccination programme roll-outs, especially in developed economies, allowing lockdowns to be progressively eased. The IMF upgraded their growth forecasts recently, and now predicts that the global economy will expand by 6% this year and 4.4% next year, with China and the US being key drivers.

The US is among the strongest of its developed market counterparts, with growth forecasts having steadily been revised higher. Some of its strength is attributable to its fiscal policies, with transfers such as stimulus checks and unemployment benefits having bolstered spending. Unlike the Trump tax cuts, which favoured the wealthy and corporations, these direct transfers benefit the broader population, which, unlike the wealthy, tend to spend more of every dollar earned. The strength of the US economy has caused some concerns that inflation might surprise higher, prompting the Fed to raise rates sooner than expected. These rising inflation expectations have caused bond yields to rise, and have led to some trepidation in markets because rapidly rising bond yields are generally negative for stocks (given the higher discount rate factored into valuation models).

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## Growth also rebounding

In the context of South Africa, growth is also rebounding, but at a slower pace compared to the rest of the world. Our approach to the vaccine has not been as effective as in other countries, which means our process of normalisation will naturally be slower, but regardless of this, conditions are improving and the medium-term trend is positive, despite our continued longer term structural impediments to growth.

The gradual transition to a less "managed" economy, and the risk of a policy error potentially leading to over-restrictive financial conditions, are therefore key issues to monitor over time.

## ABOUT THE AUTHOR

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