

Defying gravity but turbulence ahead

Mike Adsetts, deputy chief investment officer at Momentum Investments

It has been a topsy turvy kind of year in which we once again experienced investment markets that seem to defy gravity and generated great returns, albeit with significant volatility and uncertainty.

To some extent strong and positive market sentiment was a key component that provided the impetus for market returns – progress on vaccine rollouts, re-opening economies and robust global growth created the context of a future with potential. Balanced against these pro-growth forces were events that demonstrated the level of risk in the system and how fragile the global interconnected economy can be.

Who can forget when the Ever Given blocked the Suez Canal? This created havoc with global supply chains and raised the question of the dependence on and efficiency of the global supply chain. This is an issue that can have significant implications for globalisation and is also one of the factors that feeds into a growing discussion of the potential for structurally higher inflation.



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The other feature of the year was a continuation of ultra-accommodative monetary and fiscal policies to mitigate against the effects of the COVID-19 pandemic. There is an enormous debate about infrastructure investment around the globe and at home. In the US and SA, for instance, there has been decades of under-investment in infrastructure and there is a critical need for this.

Infrastructure programmes are also seen as potential vehicles of employment and drivers of economic growth as governments grapple with how to navigate their way out of the negative economic impacts of the pandemic. In the US the proposed multi-trillion-

dollar infrastructure programme is a source of significant contestation. The big question is whether the infrastructure programme will come anywhere near to the span and scope that President Biden was hoping for.

Locally, we have seen proposed changes to Regulation 28 of the Pension Funds Act, as the government has tried to put on a charm offensive (with a fair bit of stick) to try and crowd in private capital into infrastructure projects. While many of these projects have appeal, there is a trust deficit between the private sector and government that needs to be addressed. The other theme that has taken markets by storm is responsible investing. The realities of climate change and social inequality as demonstrated by the social unrest in SA this year, are irrefutable evidence that environmental, social and governance (ESG) issues need to be actively engaged and addressed by investors.

An increasing focus on renewable energy and the concept of a Just Transition (not leaving workers behind as the energy generation mix changes) are positive signs that ESG is practically gaining traction. At Momentum Investments we are key proponents of responsible investing and doing good while doing well. Our primary objective is to deliver returns for

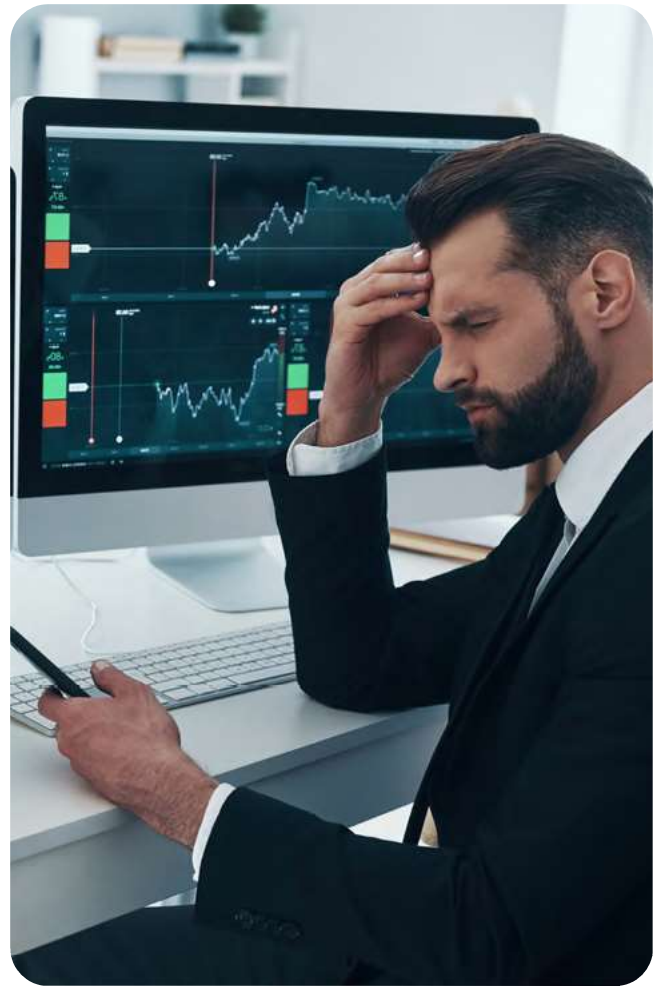
our clients. When doing this, we consider how we can drive purpose and take advantage of the investment opportunities to create a better future for our investors, their communities and society.

In the last year growth orientated asset classes have done well as global growth has re-asserted itself. Going forward, however, there are big questions about growth and inflation, which will have significant implications on investment markets. As base effects pass through, i.e. low inflation and growth in 2020 making 2021 numbers comparatively much higher, we expect growth to moderate, but still be positive, providing support for global markets.

Inflation should likewise reduce in the shorter term but there are questions about whether inflation will be trending higher in the longer term. Globally central banks want to stop quantitative easing, global growth, logistics bottlenecks, excess savings accumulated by the wealthy are all potential sources of inflationary pressure and rising interest rates that should start there-after. A key issue is whether the Federal Reserve will raise interest rates in the US.

The local government elections and coalitions will be a key feature of the political landscape at the end of 2021 and in 2022. This could have profound implications for the local economy in the years ahead. **As it is said, may you live in interesting times, and we do!**

For more about Momentum Investments and how we navigate this topsy turvy world through our outcome-based investing approach, speak to your Momentum Consultant or visit momentum.co.za.



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