

# What if...?

by Vaneshen Naidoo

I recently found a note that my daughter wrote about me when she was in Grade R for Father's Day. This was back in 2019 before COVID-19 even entered our vocabulary. There were a few things that struck me in the note, but one of my main realisations was how quickly time passes, so I really hope you enjoyed those special moments these holidays.



## The multiverse is not for Marvel only

One of the items in my daughter's note was how she loved to watch the animated series *'What if?'* with me. *'What if?'* is a Marvel series that deals with the infinite earths (or multiverse) theory. The theory suggests that ours is not the only universe in existence, but rather one of an infinite number of parallel universes. In the series, each episode deals with a change in the original timeline, which leads to different outcomes in the future.

The reason this got me thinking is because this is the time of year when analysts are sending out emails detailing their outlooks and forecasts for the year ahead. It's an example not only of how much time we spend imagining different outcomes – different 'what ifs' – when trying to choose the best investments for our clients, but also of how different the reality may end up to what we expect. Heading into 2025 following a tumultuous 2024, we only need to consider where the global economy stands as reminder. There were no doubt a few of the seemingly more farfetched 'what ifs' that played out.

## Of flying PIIGS and inflationary highs and lows

Let's look at Europe, for example. Spain and Portugal have been included in the PIIGS grouping since the 1980s. As a reminder, 'PIIGS' is a derisive acronym for Portugal, Italy, Ireland, Greece, and Spain, countries mostly in Southern Europe (and therefore on the periphery of the Eurozone

economy) that are often grouped together due to their economic and financial challenges. They were also blamed for slowing the Eurozone's recovery following the 2008 financial crisis. Yet, since 2019, the so-called PIIGS economies have been growing faster than European stalwarts France and Germany. It doesn't look like this is set to change anytime soon. Both France and Germany are experiencing political chaos and economic weakness, which doesn't bode well for future growth (and potentially the European Union).

Speaking of political upheaval, Donald Trump is back in the White House after losing the 2020 elections, becoming the first US president to have been criminally convicted. He continues to make extreme claims and plans to impose stringent tariffs on Chinese goods especially. But the American wheel keeps turning and the US economy appears to remain sound. Of course, there is the small matter of inflation remaining sticky above what policymakers are targeting. At the end of 2023 there were suggestions that we had 'broken inflation in the US'. Little did we know that we would still be wondering if that's really the case today. While we certainly hope otherwise, the 'what if' that ends in a US recession is not completely off the table.

Inflation, of course, is not solely a US concern, but Asian economies such as China and Japan are experiencing it differently. Japan struggled with a sluggish economy for a

long time, characterised by low inflation and negative interest rates. However, there finally seems to be some momentum, with policymakers starting to increase rates to happily counter higher inflation. This is not the case in China, which is still trying to find ways to combat low inflation and economic weakness. I am guessing US tariffs aren't going to help.

### **Locally, we may just have got the 'what if' we were hoping for**

Bringing it back home, there seems to be a bit more normality. Our inflation is well under control, with the Reserve Bank investigating (alongside National Treasury) if our inflation target should be revised lower. We also now have a coalition government in the Government of National Unity (GNU), which looks so far to be working but not without expected turbulence. And our lights remained on for the better part of 2024. All this combined could lead to growth outcomes we haven't seen in the last decade. If we can get a few more things right, it could present a real turning point. We may not be 'Junk' after all.

### **What we know for sure is that we don't know for sure**

I guess the point I am trying to make is that even if we tried, there is no way we could have predicted how 2024 or even the last five years unfolded. So, we are not going to try and give you forecasts for the year ahead. It doesn't mean that we are not going to read the various outlooks and think about the many 'what ifs' they may point to. But the truth is that it is virtually impossible to predict any of these accurately.

What we do instead is try to build multi-scenario portfolios that cater to a range of 'what if' outcomes. We stay on top of economic developments and consider (and debate) the associated analyses, pairing this qualitative work with the outputs from our quantitative models. We consider the 'what ifs' that markets are pricing in, what this means for the relative value the various fixed income asset classes are offering, and how best to position portfolios in response – especially where we believe sentiment may be exaggerated. But we also know that we won't always get it right, which is why we will never position our portfolios with any single 'what if' in mind. We hope it helps to provide better overall investment outcomes, and a smoother ride.



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