SIX THEMES SHAPING THE 2020s

LINDA EEDES: INVESTMENT PROFESSIONAL

JANUARY 2025

The 2020s have been anything but predictable. From the pandemic's aftermath to rising interest rates and geopolitical unrest, the first half of the decade has brought sweeping changes. Looking ahead, fiscal pressures, technological advances, political shifts, and evolving global power dynamics promise continued uncertainty but also opportunity.

Here, we highlight six key themes defining the investment landscape of the early 2020s and explore how they may evolve through the remainder of the decade.

1. NORMALISATION OF INTEREST RATES

After nearly a decade of near-zero interest rates, the aggressive hikes of 2022 marked a historic turning point. Massive government spending helped insulate the US economy from recessionary pressures, even with significantly higher rates, while the long-term structure of mortgages and corporate debt has delayed their full impact. Many borrowers locked in low rates during the ultra-low interest rate environment, muting immediate effects on spending and borrowing.

However, as debt matures and refinancing occurs at higher rates, the economic drag is expected to increase. While further rate cuts may follow signs of economic weakness, rates are unlikely to return to ultra-low levels due to persistent inflationary pressures. This environment is less likely to boost US equities further, given already high valuations. Instead, emerging markets could benefit from a weaker dollar and flows into higher-yielding and more attractively priced opportunities outside the US.

2. FISCAL SPENDING AND WIDENING DEFICITS

Governments around the world are grappling with soaring debt and widening deficits. In the US, the deficit has more than doubled over the past decade to $2.1 trillion, or 6% of GDP — five times the post-WWII recovery high when adjusted for unemployment. Pandemic-driven fiscal stimulus drove US debt from 90% to 120% of GDP, boosting short-term growth but creating long-term vulnerabilities. Rising interest rates have pushed annual debt servicing costs above $1 trillion — roughly 20% of government revenue — a level more commonly associated with struggling emerging markets.

The US risks falling into a 'debt trap', where additional spending inflates debt while austerity risks slowing growth and worsening fiscal imbalances. Transformative developments, such as AI-driven productivity gains or an energy boom, could expand GDP meaningfully, but this outcome is far from assured. Inflation remains the more likely, though less desirable, path to reducing the real value of US government debt.

3. US EXCEPTIONALISM AND BIG TECH DOMINANCE

US exceptionalism has driven US stocks to extreme levels, with the S&P 500 delivering extraordinary performance in recent years. However, this reliance on recency bias — the assumption that past success guarantees future gains — poses significant risks. Valuations have soared, with much of the market's gains driven by unsustainable price-to-earnings (PE) ratings. At a PE ratio in the mid-20s, the S&P 500 faces challenges in delivering continued growth, especially as the index becomes increasingly concentrated in a handful of top-performing stocks. Nearly 38% of the S&P's value is tied to its top seven weights, creating an illusion of diversification while exposing investors to concentration risks.

If current valuations prove unjustified, there is significant potential for capital losses. While the narrative of US dominance in tech and other sectors remains strong, developments in other regions, such as China's advancements in electric vehicles and infrastructure, highlight that opportunities exist beyond the US. By investing in high-quality businesses elsewhere at more reasonable valuations, investors are able to mitigate the risks of overexposure to US equities. Diversification and disciplined, value-based investing will prove critical in this environment.

4. DOMESTIC POLITICS SHIFT TO THE RIGHT

The rise of right-wing politics in many developed countries has brought immigration to the forefront of political discourse, with significant implications for economic growth and labour markets. In the US, UK, France, and Canada, dissatisfaction with uncontrolled immigration has driven tighter border controls and stricter policies. This shift began with events like Brexit and Donald Trump's election, signalling widespread concerns about the social and economic impacts of immigration.

Immigration has played a critical role in driving GDP growth, particularly in the US, where it accounted for nearly 90% of labour force growth over the past decade. However, social costs such as competition for jobs and housing have sparked backlash across social classes. Restricting immigration may hinder economic growth and exacerbate labour shortages and inflation, particularly in aging economies with negative demographic trends.

5. SOUTH AFRICA'S RETURN TO COALITION POLITICS

The formation of South Africa's Government of National Unity (GNU) in 2024 brought cautious optimism to the country's political and economic outlook. While this development has driven a re-rating of South African equities, significant uncertainties remain about the GNU's sustainability and ability to deliver meaningful reform. Key areas to monitor include education, infrastructure investment, and anti-corruption efforts — critical components for fostering sustained growth. However, given South Africa's stagnation over the past decade, we remain cautious and avoid relying on broad-based economic recovery in our investment strategy.

Instead, we focus on businesses with strong growth prospects or niche market positions that can thrive independently of macroeconomic conditions, such as healthcare and select food producers. In the bond market, we see limited value in nominal bonds, which have rallied but now appear expensive. Inflation-linked bonds, offering real yields near 5%, present a more attractive opportunity as a hedge against persistent fiscal challenges and lingering uncertainties surrounding the GNU.

6. GEOPOLITICS AND THE WEST VS. THE REST

Geopolitical tensions between the West and the Rest continue to shape the global landscape. The US-China rivalry, the Russia-Ukraine war, and the increasing collaboration among non-Western nations highlight the growing polarization. BRICS nations, representing a rising share of global GDP, are challenging Western-centric systems and increasing trade outside the US dollar. For South Africa, maintaining neutrality while benefiting from both Western and BRICS partnerships remains a delicate balancing act.

The return of Donald Trump adds further unpredictability, with his America-first policies likely to escalate trade tensions and protectionism. While South Africa may avoid direct targeting, it risks becoming collateral damage in disputes involving larger economies. Rising geopolitical polarization significantly widens the range of possible outcomes, some of which could negatively impact global markets and economies. Investors must remain vigilant, monitor developments closely, and prioritize diversification to navigate this increasingly uncertain environment.

As we navigate the remainder of the 2020s, these six themes underscore the need for disciplined, value-driven investment strategies. By remaining adaptable and focusing on fundamentals, investors can position themselves to capitalize on opportunities while mitigating risks in an ever-changing global landscape.

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