M&G Insights

M&G Investments

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Tough economy, great opportunities?

South Africa's economy has been through some tough times of late. In just the last three years alone, our country has had to deal with the fallout from the Covid-19 pandemic and subsequent lockdowns, the devastating floods in Kwa-Zulu Natal, and let's not forget national loadshedding.

More recently, South Africa has been faced with a torrid combination of rapidly rising inflation and higher interest rates, largely brought on by global factors – particularly supply disruptions caused by the Russia-Ukraine war and rising interest rates in the US. It's unsurprising then, that Stats SA reported South Africa's economy as having contracted by 0.7% for the second quarter of 2022, largely in line with other developed and emerging market economies.

Riding out the downturns

These economic challenges have placed some downward pressure on global and local equity markets, causing some investors to alter their investment strategies in anticipation of a sign, a signal – anything – to let them know that the coast is clear to start investing again. Unfortunately, when it comes to economies and investing, there aren't any bells that ring whenever a good investment opportunity comes around. It's usually far more effective to simply stay invested and ride out the ups and downs, rather than to try and time the market.

Another interesting observation is the high number of investors who switched out of their equity and even multi-asset investments in favour of less volatile (and lower returning) fixed interest investments. While this may seem like a smart way to protect your investment from downward volatility, it really isn’t. Switching investments during periods of poor performance locks in losses and destroys the value over the long term. It's important to remember that markets and economies move in cycles, and short-term conditions shouldn’t influence your long-term investment decisions. As mentioned earlier, it’s usually far more effective to simply be patient with your current investment choices and let the markets take their course in the knowledge that there will eventually be an upturn.

Good opportunities when times are tough

In the long run, investment valuations are the most important factor when determining potential investment returns – and **weak economies are usually a good hunting ground for assets that are priced cheaply**, well below what they’re actually worth. If there’s a lot of bad news priced into the market, it usually means there are good investment opportunities for investors and fund managers who know how to keep a cool head and identify quality assets that are priced below their fundamental value. They are often the investors who end up doing the exact opposite of what everybody else is doing - buying when the herd is selling. That’s what makes them different, and it’s also what makes them successful!

To sum up, low-growth conditions and market volatility are natural parts of the investment landscape and shouldn’t affect your long-term thinking. Your basic human instincts will likely urge you to “do something” when you see your investment value declining, especially against the backdrop of a recession. But if you were to speak to your financial adviser or an investment professional, they would most likely tell you to hold tight, ride out the rough patch and remember your long-term goals. They would also likely point you in the direction of a fund manager (like M&G Investments) who is taking full advantage of great opportunities in what looks like a difficult market.

For more information, feel free to contact our Client Services Team on 0860 105 775 or email us at info@mandg.co.za.