Proceed with care

Despite there being potential for a rebound, much should be considered when people invest offshore, writes **Pedro van Gaalen**

Following the socioeconomic disruption caused by the Covid-19 pandemic, investors continue to adapt to the new global investment order.

As countries roll out vaccination programmes, talk is turning to the global economic recovery. Investors are positioning themselves for the expected post-crisis rebound, which should unleash significant pent-up demand.

"Investors can look at past recession recoveries for some guidance about the impact on the global investment landscape," says Fedgroup chief financial officer Sheldon Friedericksen. "But they should bear in mind the differences between this recession, brought about predominantly by the pandemic, and the various responses from nations."

According to asset manager BlackRock's 2021 Global Outlook report, the traditional business cycle playbook does not apply to the pandemic. "We see the shock as more akin to that of a large-scale natural disaster followed by swift economic restart," say the authors.

Friedericksen also expects a sharp upturn at some point in the cycle: "The recovery generally kicks off with a rapid rise, then tapers off, or even somewhat reverses."

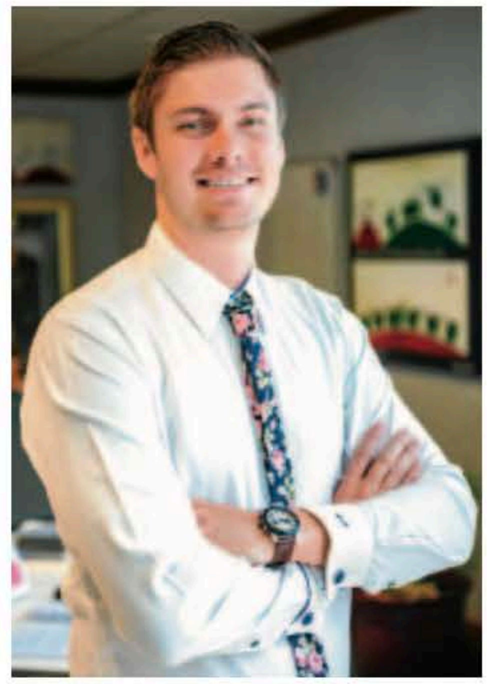
And governments and reserve banks are doing whatever they can to accelerate the recovery. "Countries do not want to drag it out, which suggests a high likelihood of softer economic policies and lots of stimulus, which is good for global investors," adds Andrew Bradley, CEO at Fiscal Private Client Services.

Despite these broad interventions, expect sector-specific recovery rates to differ based on various market factors. Expectations are growing that a K-shaped recovery will see certain sectors rebound while others remain in freefall.

Amid these divergent paths, Bradley believes that opportunities will emerge, with value in sectors and companies that were hard hit by the pandemic but were not decimated.

"Investors should have adequate exposure to these companies, sectors and counters as part of a broader investment approach. Just remain cognisant of the structures you're buying into and don't go in blindly. Maintain a sensible, responsible approach at all times, particularly given the costs that SA investors incur when investing offshore."


Andrew Bradley ...divergent paths


Sheldon Friedericksen ... sharp upturn

Country-specific recovery rates will also be far from linear. "Developed economies will likely get back to growth sooner, while many emerging markets will likely get left behind," continues Bradley.

An assessment by Fiscal Private Client Services suggests US markets are running far ahead of the rest of world, including Europe, mainly due to Trump-era tax cuts. "We believe there is some benefit to considering investment opportunities in Europe and Asia, especially as economic growth projections suggest China's economy will now surpass the US by 2028," Bradley says.

Beyond the pandemic's economic impact, global investors must also consider additional global factors.

While Brexit and the US elections are over, the filter-through effects from these events continue to reverberate through global markets.

Markets are also factoring in higher corporate taxes in the US as President Joe Biden plans to repeal Trump-era corporate tax cuts.

"However, the new US president has already helped restore some stability to the world order. And greater certainty and predictability regarding relations between the US and its global trading partners, particularly China, benefit the global economy," says Bradley.

"When these factors are considered together, we expect the dollar to remain relatively stable without any significant appreciation. And all indicators suggest that the rand shouldn't weaken much more, unless due to local factors."

As such, local investors with plans to boost offshore investment allocations must consider this market context.

"Don't react to currency fluctuations. Timing the market is tough and timing the rand is fraught with even greater risk. Taking money offshore at all costs is not the right approach, nor is it sensible.

"Rather develop a prudent global investing strategy and stick to it," says Bradley.

Despite the many opportunities, investors must remain aware of other potential global risks that could affect investment returns this year.

"Some of the areas which could increase risks through 2021 include ineffective coronavirus vaccines or vaccination programmes, which could lead to additional infection waves and renewed lockdowns," says AlphaWealth's Wealth Manager Greg Strachan.

"Other potential risks include tightening monetary policy from China and extreme market exuberance leading to significant increases in risk assets, followed by significant corrections and heightened volatility."

"Additional areas of concern include government debt levels, and protectionist sentiment where nations become self-focused with limited external support for foreign nations," says Friedericksen.