

## The interconnectedness of the global economy

### Key considerations for investors



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With the US Elections underway, and the results set to be announced on 5 November 2024, investors are at the edge of their seats. The US elections are a stark reminder of the interconnectedness of global economies and markets, and by extension, its impact on investors across the globe.

The world is highly interested in who becomes the next US president due to the vast influence of the United States on global politics, economics, and security. The US is of course also the largest economy in the world, and its policies on trade, tariffs, and international agreements can significantly impact the global economy. For instance, changes in US monetary or fiscal policy can influence global interest rates, inflation, and capital flows, affecting investors, businesses, and governments worldwide.

In this article, we look beyond the US election and consider the broader range of factors impacted by global events such as political change, geopolitics, financial crises, natural disasters and technological advancements. Each of the below factors can be unpacked in extensive detail but the aim is to highlight the areas that could be affected and why.

#### **Companies are becoming more global**

Approximately 59% of earnings on the FTSE/JSE All Share Index (index measuring the South African equity market) come from outside South Africa. This figure highlights the globalised nature of corporates and that often these listed companies have a significant portion of earnings generated outside of the country it is listed in. While this provides local investors with diversification benefits and helps mitigate risks related to a certain economy, it also exposes investors to the risk of the other countries in which the rest of these earnings are generated in.

#### **Global currency fluctuations can have a far-reaching impact**

Using the US election as an example, it has caused volatility in the US dollar, which, in turn, affects the South African rand, and other currencies across the globe. A weaker dollar may strengthen the rand, while a stronger dollar could weaken it. This fluctuation can influence the value of investments, particularly for investors with dollar-denominated assets or exposure to the US economy.

Currency fluctuations caused by global events impact trade, inflation, foreign investment, corporate earnings, and overall economic confidence. Fluctuations in currency value affect various sectors of the global economy, influencing decisions on trade, investment, and economic policy.

### **Global events often impact market sentiment and heighten volatility**

Global elections, war, geopolitics and natural disasters (to name but a few) bring uncertainty, leading to heightened volatility in global markets. In times of heightened tension globally, investors may see short-term fluctuations in their portfolios, especially if they hold stocks in industries affected by the particular event.

When tensions rise globally, global stock markets tend to react, with safe-haven assets like gold and bonds seeing increased demand.

### **Trade policies impact global and regional trade**

Changes in global trade policies — such as tariffs or new trade agreements — can affect various economies globally. Sanctions between countries can constrain a country's ability to engage in international trade. Sanctions can impact sectors like banking, manufacturing, and commodities that rely on global supply chains. South Africa being greylisted is a fairly recent example.

### **Global interest rates and inflation are significantly influenced by major global events**

US fiscal and monetary policies often impact global interest rates and inflation expectations. A change in US Federal Reserve policies post-election (e.g., raising or lowering interest rates) could influence South African bond yields, debt costs, and inflation.

Wars can create supply shortages, particularly in commodities like oil and food. This can lead to higher inflation as goods become scarcer and more expensive. In response, central banks may raise interest rates to curb inflation and control price increases.

To mitigate the economic damage of pandemics or disasters, governments often implement stimulus packages, increasing liquidity in the economy. While this boosts short-term demand, it can also lead to long-term inflationary pressures, potentially forcing central banks to increase interest rates once the economy stabilises.

### **Commodity prices are sensitive to global events**

The overall health of the global economy is a primary driver of commodity demand. Strong economic growth in major economies (e.g., the U.S., China, and the European Union) typically increases demand for commodities like oil, metals, and agricultural products as these economies require more raw materials for production and consumption.

Global events that disrupt oil supplies, such as wars in oil-producing regions or OPEC's decisions to cut production, often lead to higher global inflation due to rising energy prices. In response, central banks may increase interest rates to combat inflationary pressures.

### **In conclusion**

US presidential elections hold global significance because the US wields immense power in economic, political, military, and cultural arenas. The policies and leadership style of the new president can have far-reaching consequences for countries, businesses, and markets across the world.

Key global events, such as elections, wars, or natural disasters, impact global sentiment and can lead to market volatility. For South African investors, in particular, fluctuations in the US dollar can significantly affect the rand and other local investments, while global commodity prices and trade policies may shift in response to US leadership decisions.

As these events unfold, investors are reminded of the importance of diversification and long-term strategy to navigate global market shifts effectively. Even more important is to remain invested during times of volatility as time in the market remains superior to timing the market.

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