
# ECONOMIC COMMENTARY - By Riaan Prinsloo, CFA

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## WHAT CAN WE EXPECT FROM 2020?

The decision to assassinate Iranian Major General Qasem Soleimani has left the Middle East and the broader international community stunned. The price for a barrel of Brent Crude oil spiked to almost $70 and safe haven assets such as gold rallied. Iran retaliated by firing 15 missiles at two military bases housing United States troops in neighbouring Iraq. This escalation led to impending World War III hysteria by the media.
A few hours after the missile strike, which was supposed to quell vindictive local tension more than inflict damages, Iran shot down a Ukrainian passenger airliner, killing 176 people. Tehran initially blamed the attack on a mechanical flaw but after increasing international pressure changed their story. Iran now claims that the downing of the passenger jet was due to human error, as the country's defence forces were expecting a potential retaliation from the United States.

**Immediate implications...**

When investors think Iran, they think oil.
There is clearly more geopolitical risk in the region than what Brent was pricing in, even after the attack on Saudi oil refineries last year. Going forward oil price movements will mostly depend on supply disruptions. Due to sanctions, Iranian oil exports has already been depleted, therefore oil traders will be watching out for further signs of supply disruptions. Hedge funds might start investing in major oil companies as a way to reduce geopolitical risk.

**Taking a step back**

More importantly, these events clouded the prism through which investors view markets and risk. With the possibility of a hard Brexit now mostly out of the way, and as central bankers remain dovish, the key risk to markets this year seems to be political.
The two areas where President Trump has the most punch are trade and defence. And markets remain mindful of risks associated with the China-US trade war! Protectionism is a structural risk that has been introduced into global markets and a phase one trade deal does not change that. Also, do not rule out the possibility of continued meddling in the Middle East from the United States as they approach their presidential elections in November.

**Bearish on markets?**

These views do not change our optimism for global markets, and South African equities specifically. The USD remains a key driver for equity markets. The global economy should grow in line with its long-term average of 3% and the only major central bank that still has room to reduce interest rates is the Federal Reserve. Therefore, continued dollar appreciation looks unlikely. Considering accommodative central banks, a stable China and cheap valuations in emerging markets, such as South Africa, we see opportunities for long-term investors.

81 Dely Road, Hazelwood, Pretoria, 0081 +27 (0)12 667 3771 admin@efpc.co.za www.efpc.co.za