

# Redrawing the political lines of global influence

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Economist  
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# Agenda

1

## **Economic realignment**

*Emergence of new markets*

2

## **Fragmentation threatens dollar dominance**

*US dollar remains the preeminent reserve currency*

3

## **Regionalisation amid rising protectionism**

*Shifting global supply chains*

4

## **Rethinking global governance**

*Implications for global cooperation*

5

## **Geopolitical flashpoints**

*Indicators of global instability*

6

## **South Africa's unity government and path to reform**

*Fixing internal wounds amid global risks*

7

## **Navigating the new world order**

*Impact on the economy and financial markets*

## Economic realignment

Emergence of new markets



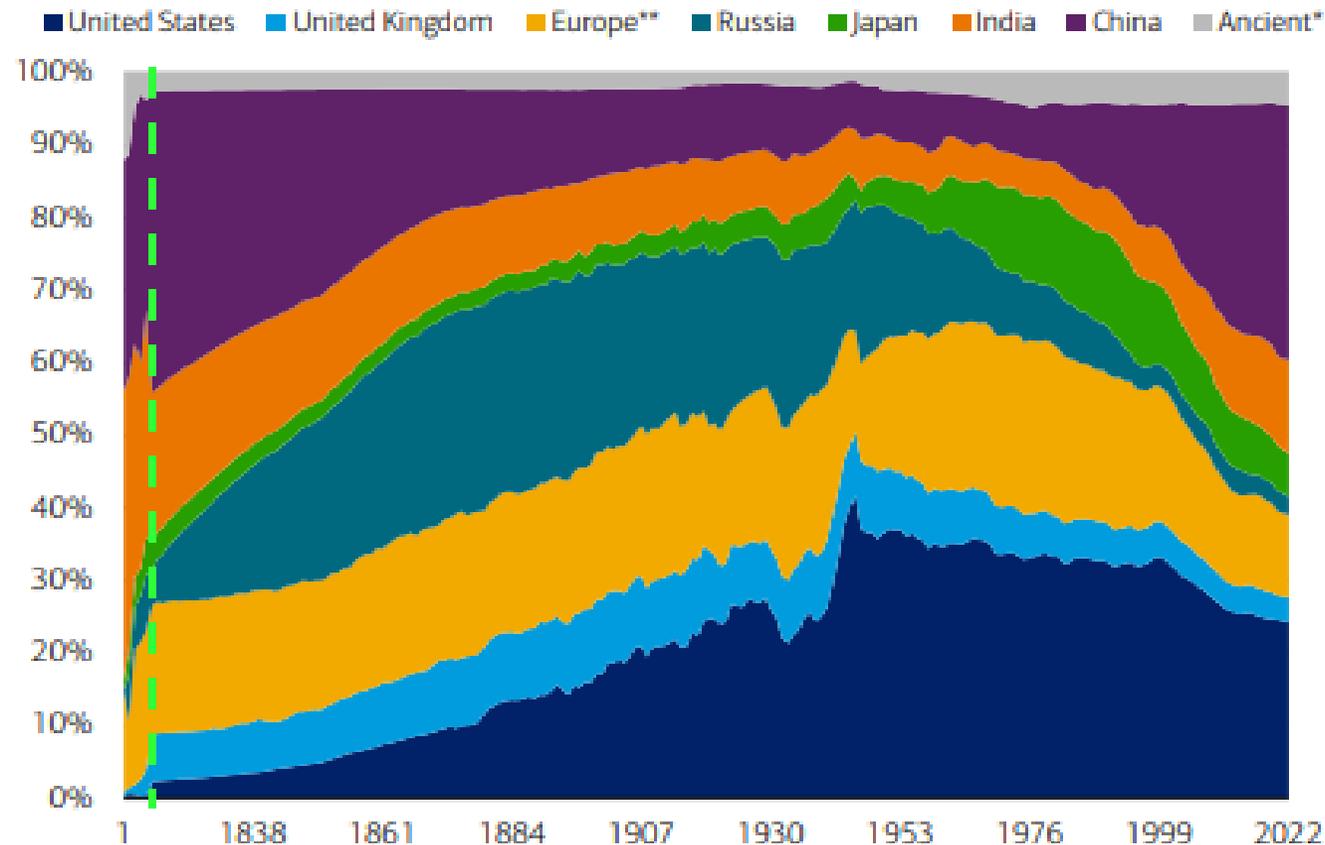
Source: Global Times

# Section 1

# Economic realignment

The US and China are locked in a battle for economic, financial, technological and geopolitical supremacy → this is shaping geopolitical and economic policies

## Share of the global economy (major world powers)



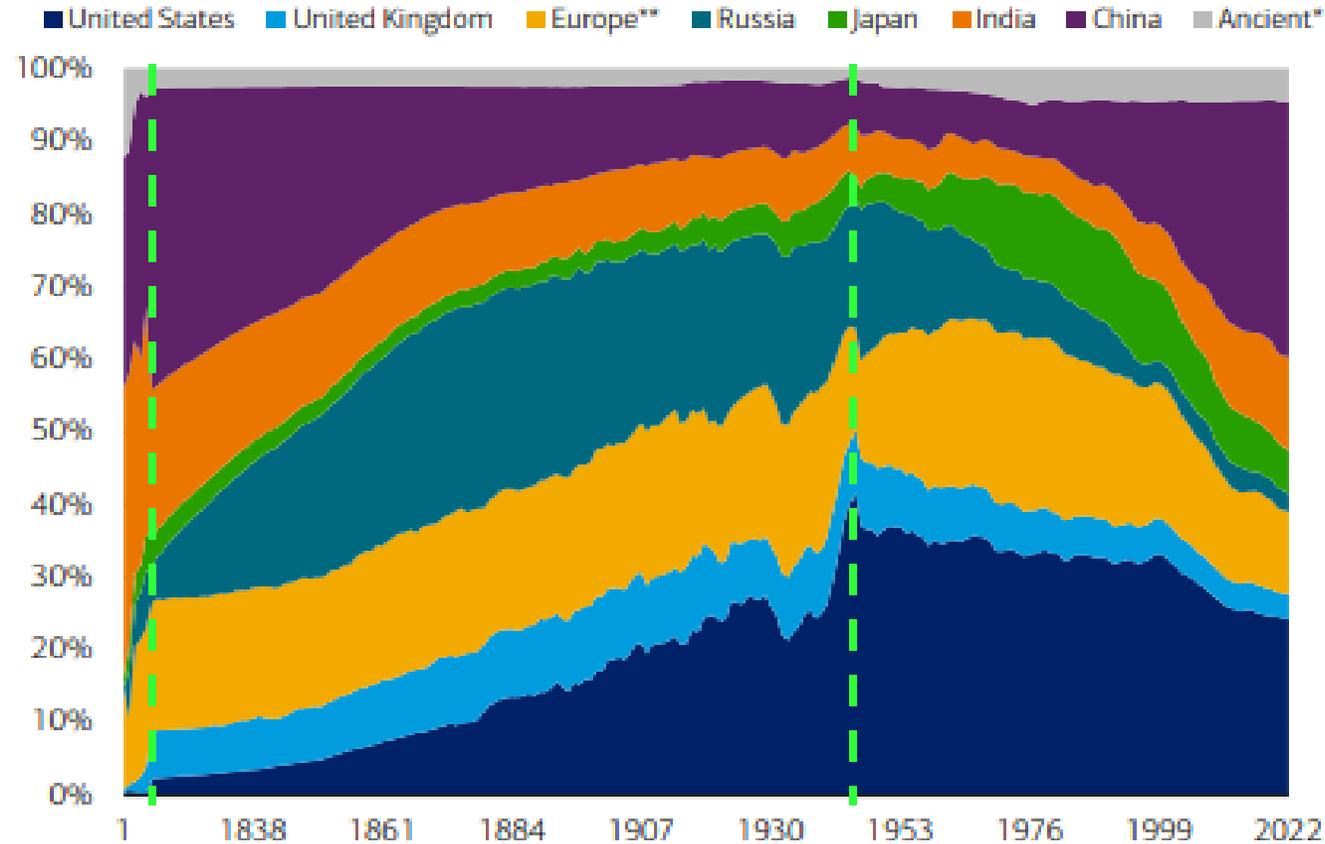
Source: BofA Global Investment Strategy, Groningen Growth and Development Centre, IMF

\*Ancient = Greece, Turkey, Egypt, Iran, \*\*Europe = Germany, Italy, Spain and France

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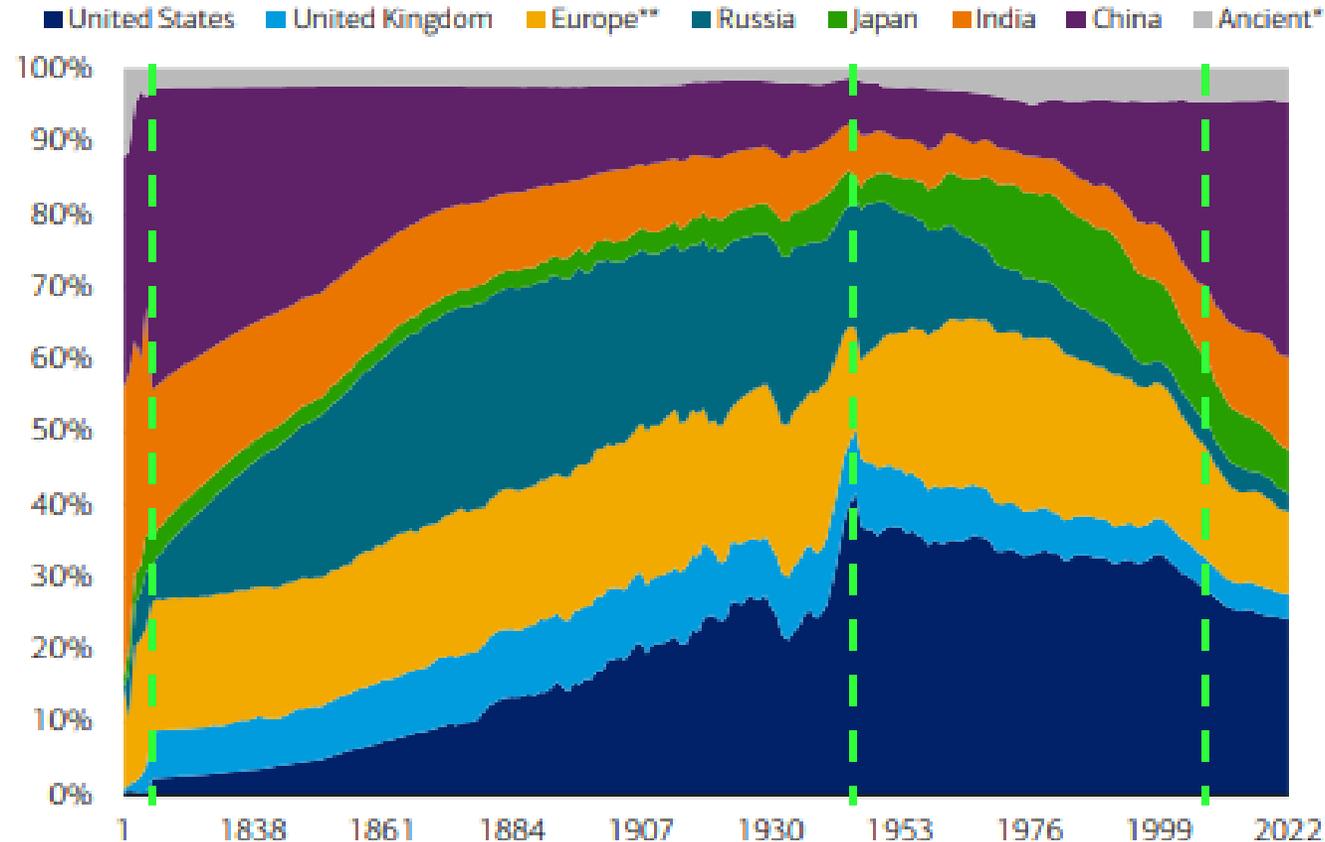
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# Economic realignment

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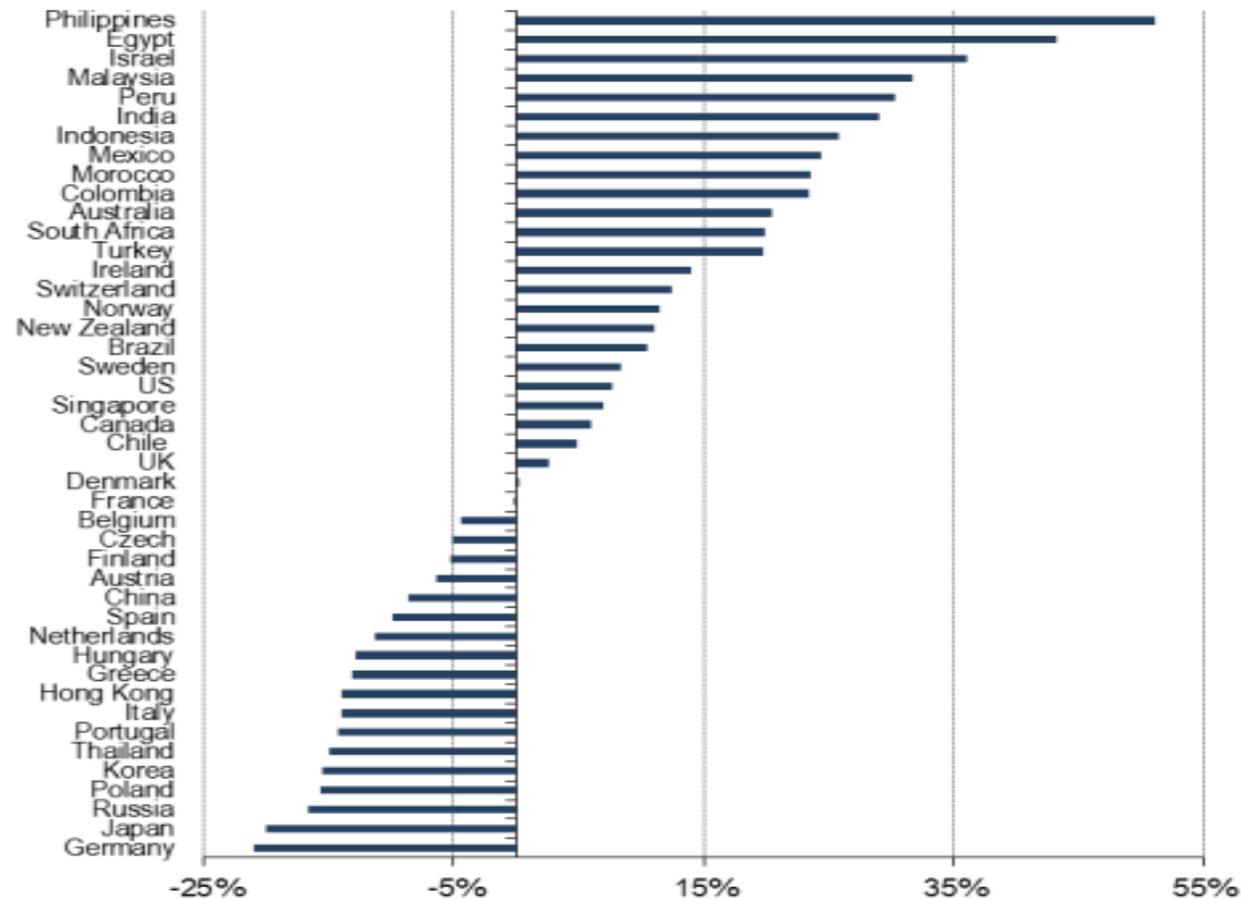
Source: BofA Global Investment Strategy, Groningen Growth and Development Centre, IMF

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# Economic realignment

Growth of working age population is a key input in most models of long-term potential economic growth → US is one of the few developed market countries estimated to enjoy population growth

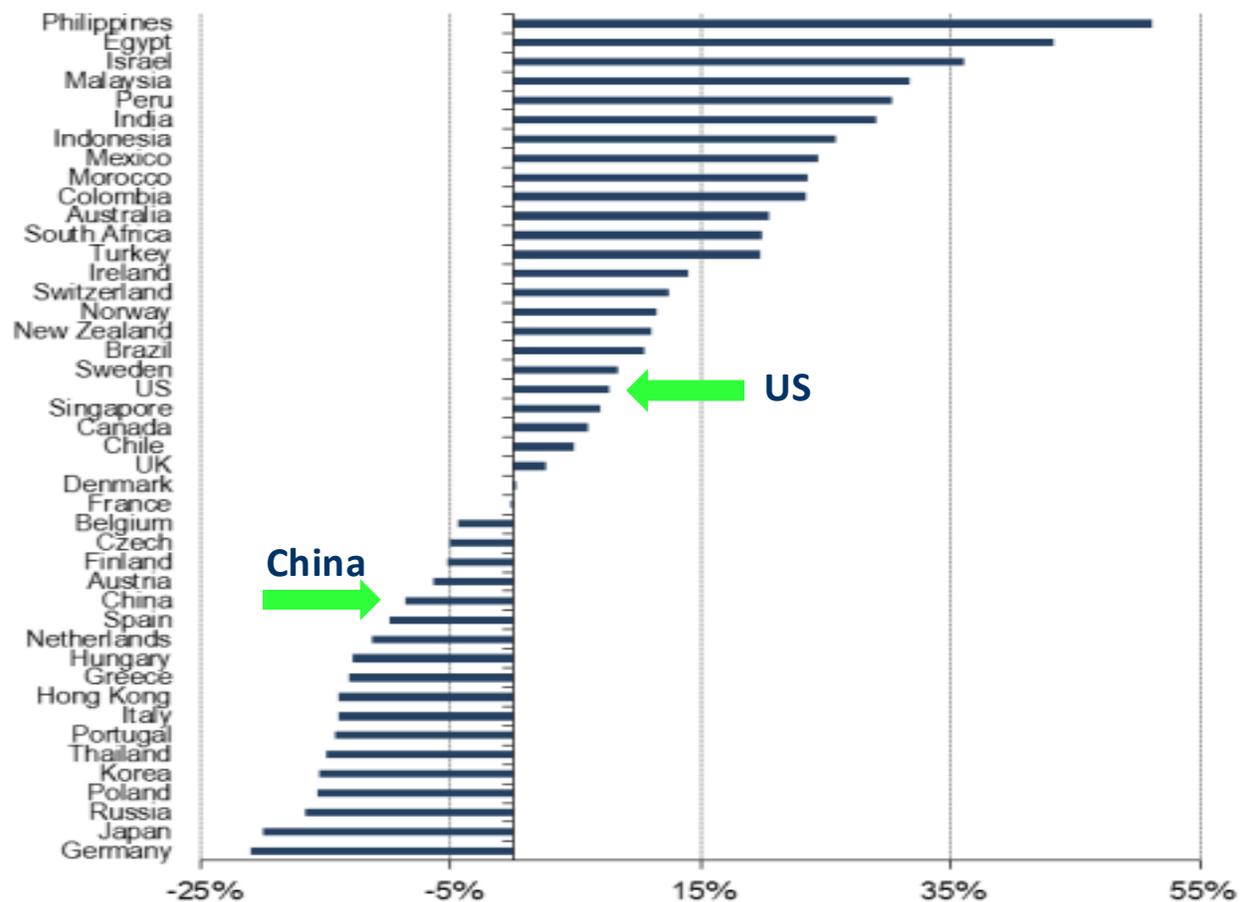
## Working age population growth (2013 – 2038)



# Economic realignment

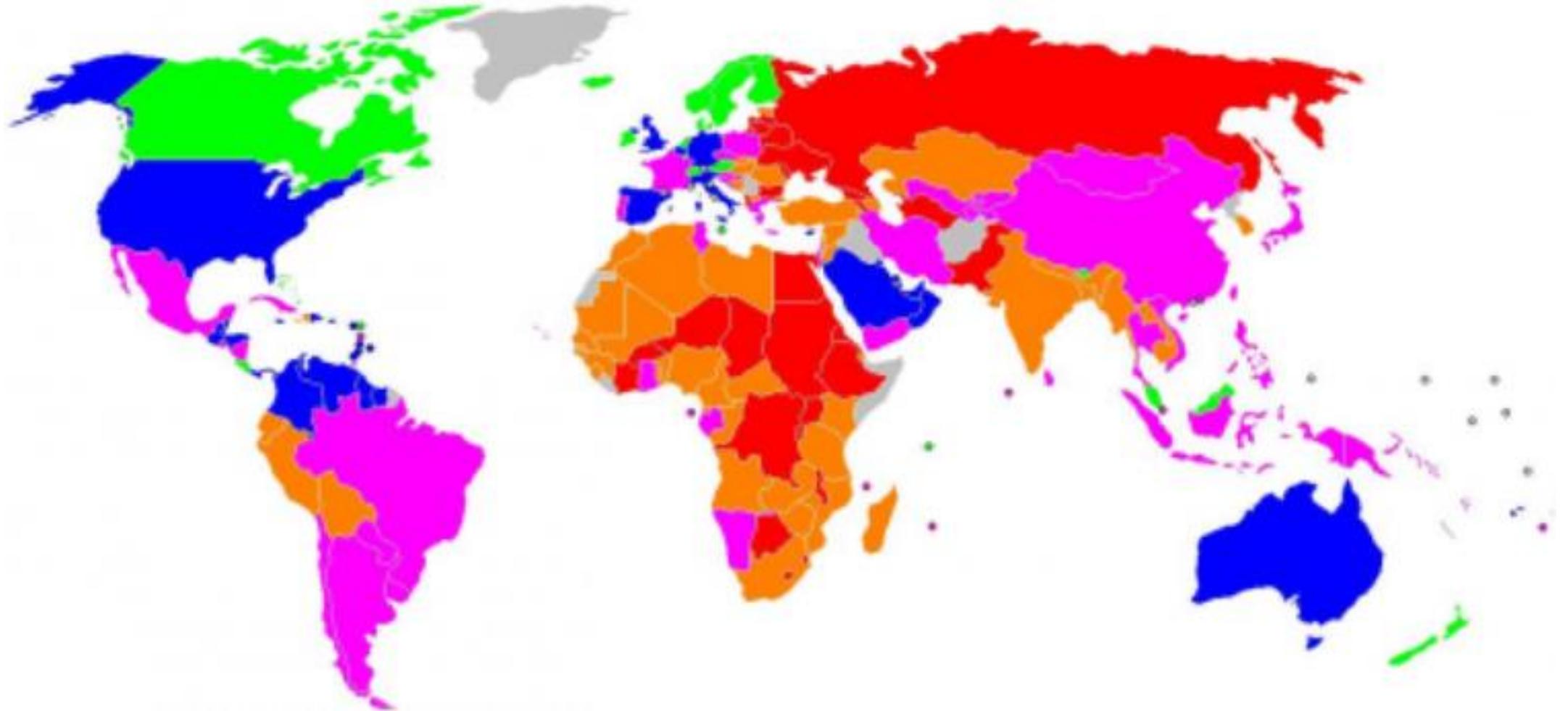
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Working age population growth (2013 – 2038)



# Economic realignment

“When a state feels destined to rule, this leads to the state bankrupting itself through imperial overreach”\* Global cooperation is doubly vital in a world where many regional powers are rising



## Economic fragmentation challenging dollar dominance

US dollar remains the preeminent reserve currency



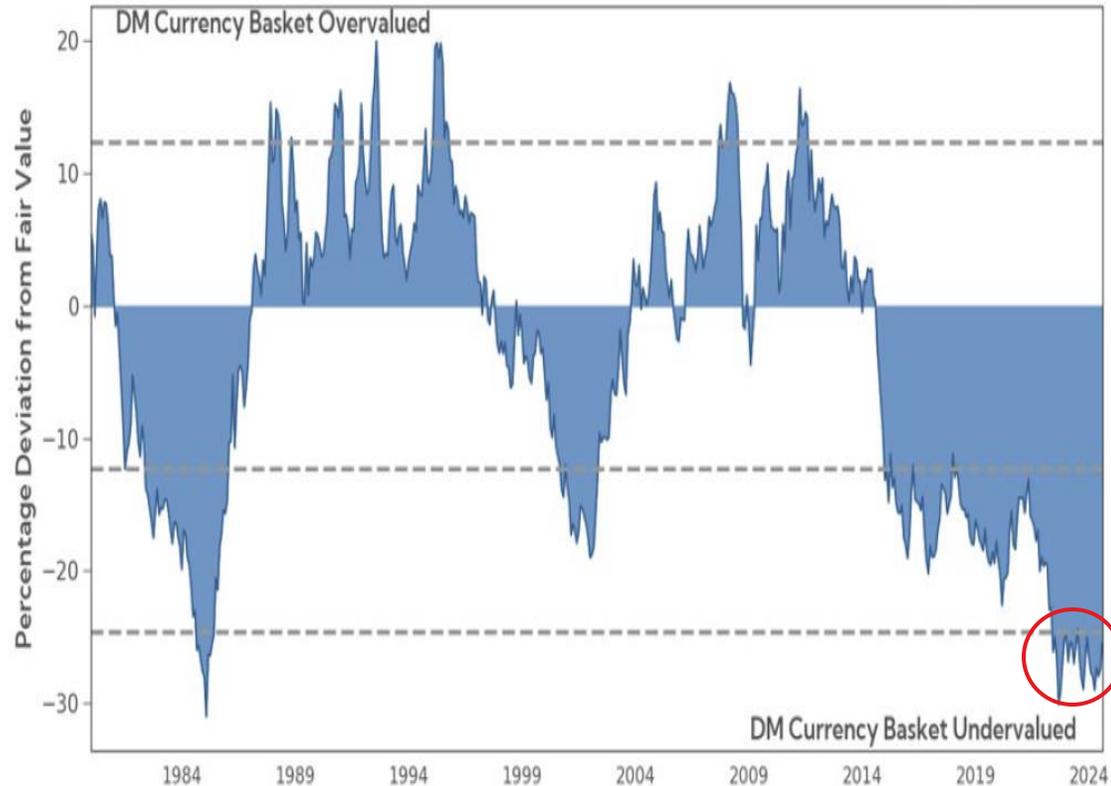
Source: Hedgeye

## Section 2

# Fragmentation threatens dollar dominance

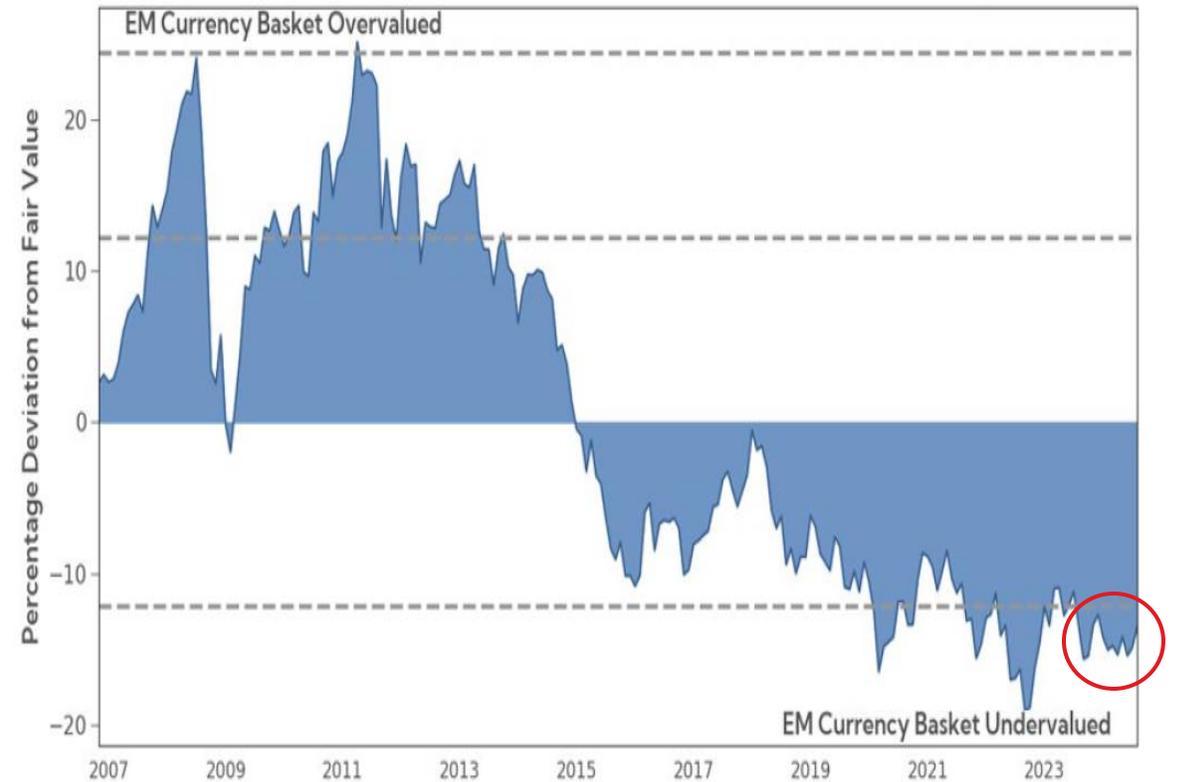
US dollar is meaningfully overvalued

Developed market currency basket/US dollar



To end August 2024

Emerging market currency basket/US dollar



To end August 2024

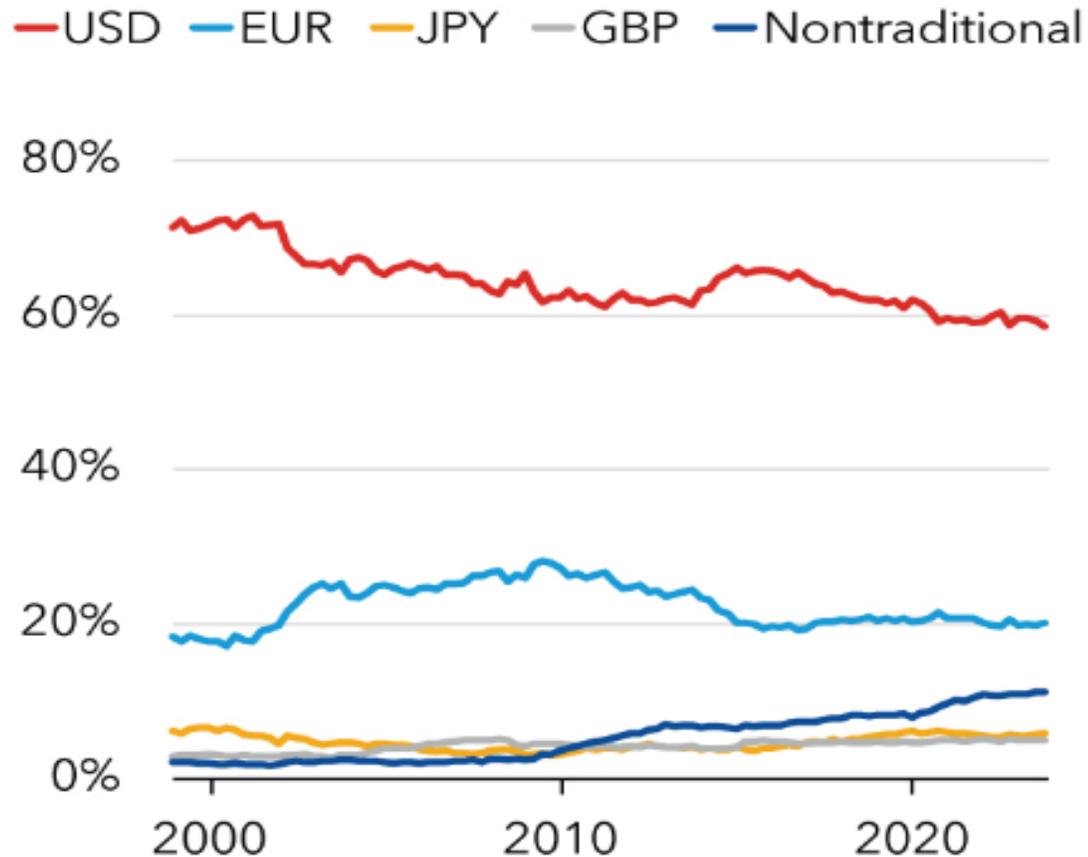
Source: Colchester Global Investors, DM = Euro, Japanese yen, British pound, Norwegian Krone, Canadian dollar

Source: Colchester Global Investors, EM = 19 countries including China

# Fragmentation threatens dollar dominance

Falling share of “big four” currencies mirrored by increasing holdings of non-traditional reserve currencies → but the US dollar remains the largest share

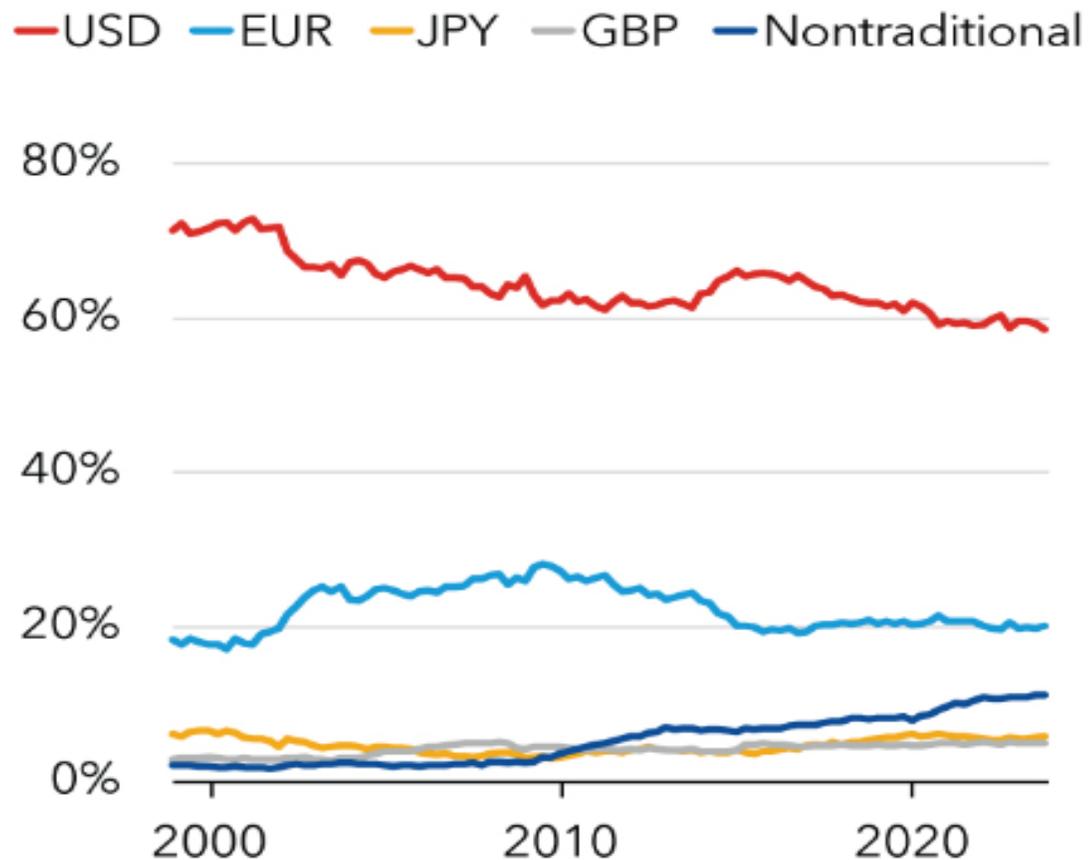
Currency share of global foreign exchange reserves



# Fragmentation threatens dollar dominance

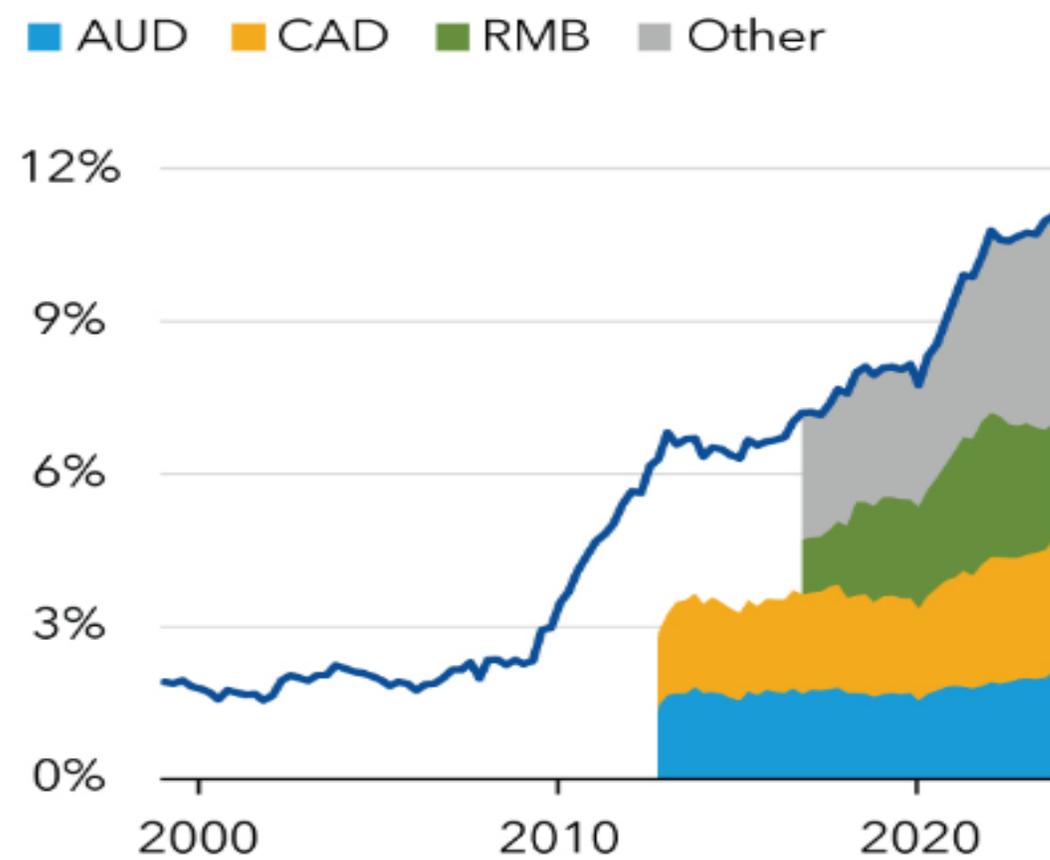
Falling share of “big four” currencies mirrored by increasing holdings of non-traditional reserve currencies → but the US dollar remains the largest share

Currency share of global foreign exchange reserves



Source: IMF blog (June 2024)

Non-traditional share breakdown

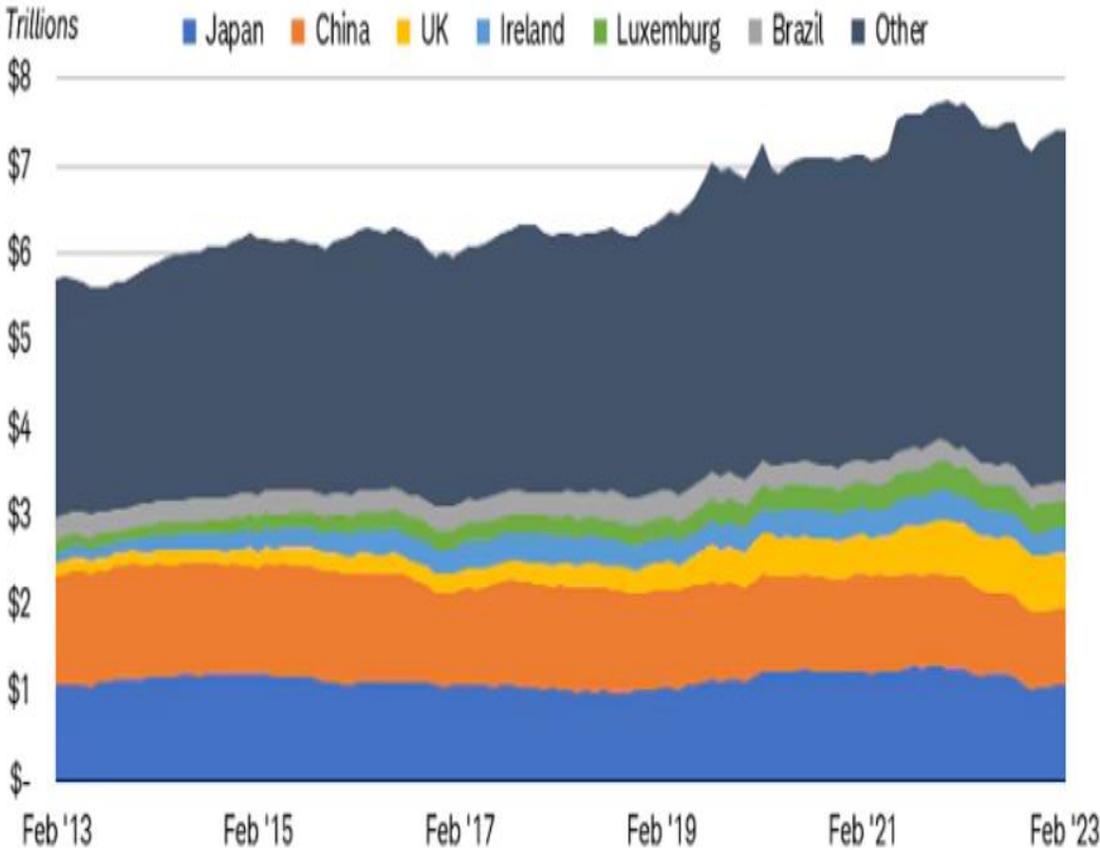


Source: IMF blog (June 2024)

# Fragmentation threatens dollar dominance

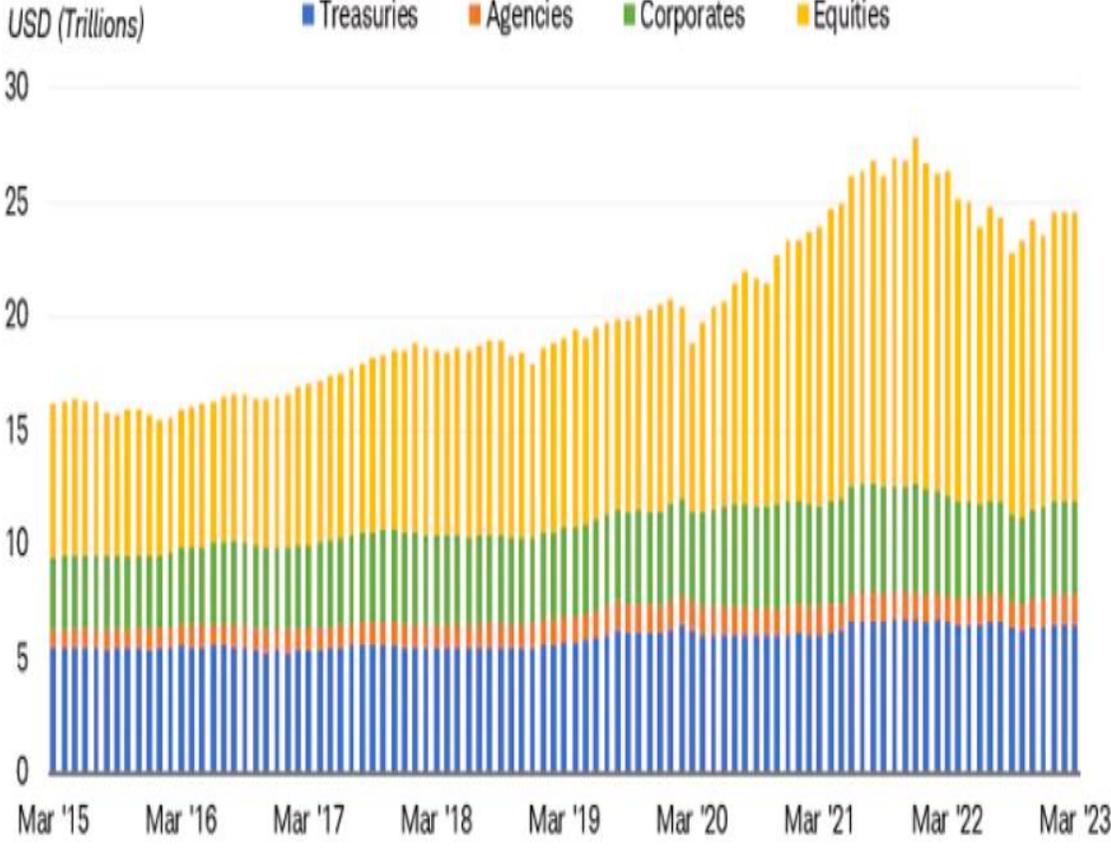
The demand for US dollars extends beyond US Treasuries

Foreign holdings of US Treasuries have structurally expanded



Source: Charles Schwab

The demand for dollar assets extends beyond US Treasuries

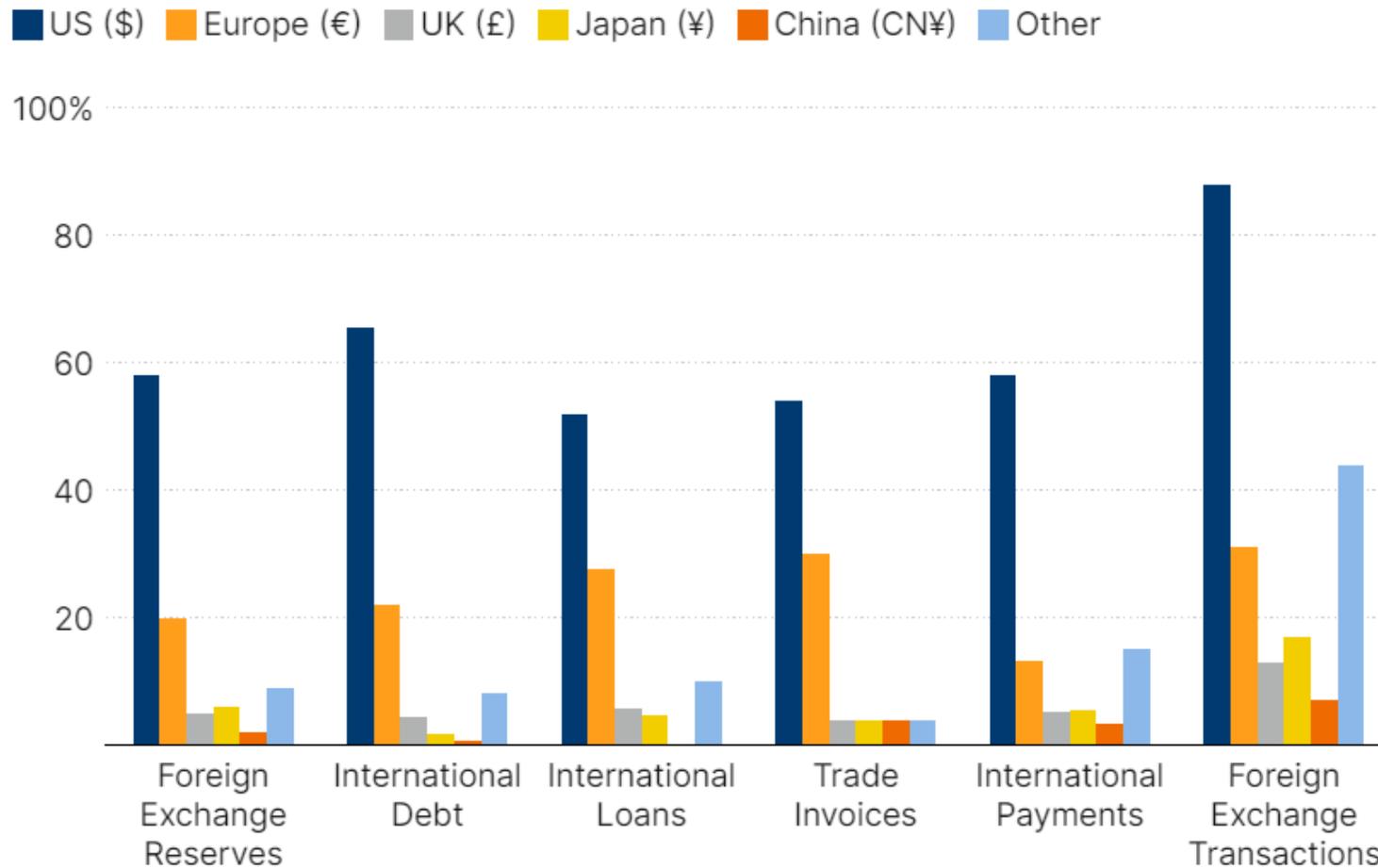


Source: Charles Schwab

# Fragmentation threatens dollar dominance

The role of the US dollar remains strong

The demand for US dollars for transactional purposes has remained relatively steady

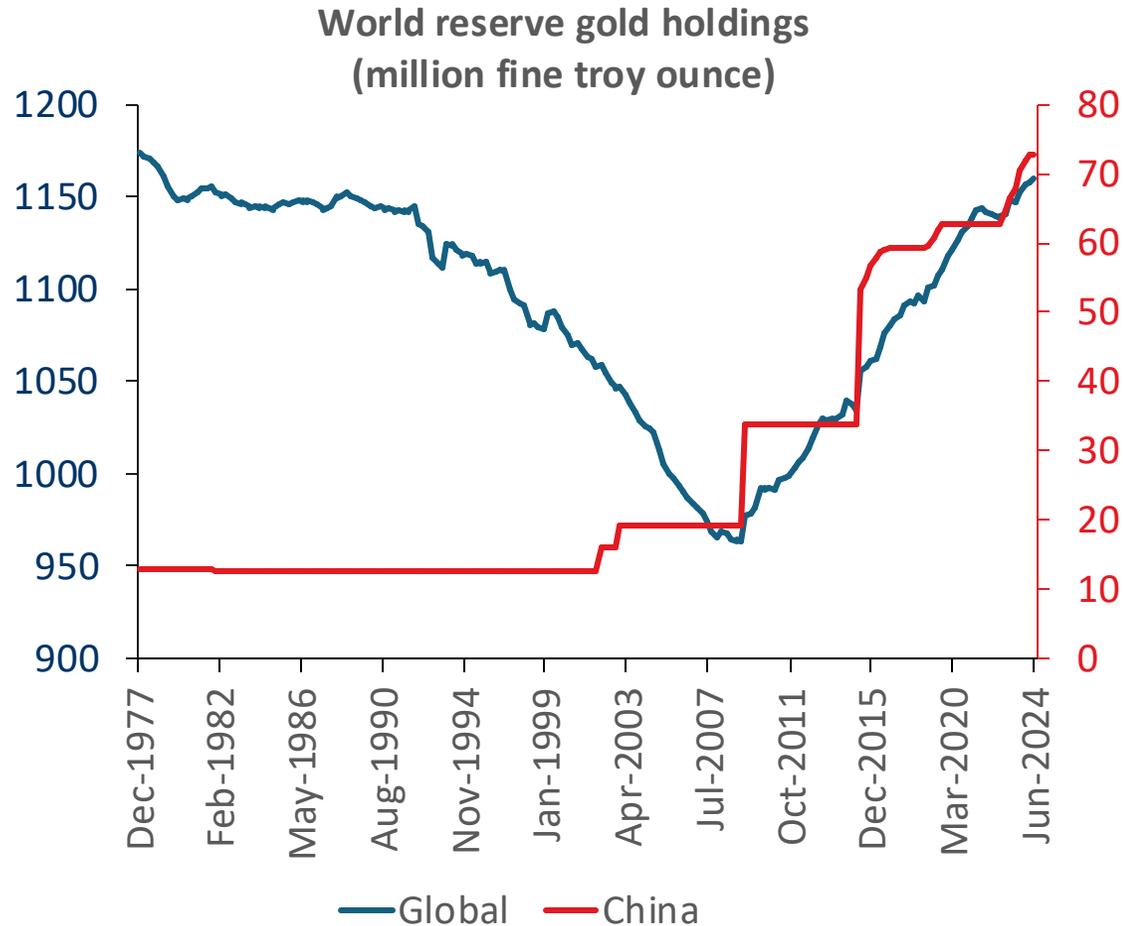


Source: Brookings, Atlantic Council, Bank for International Settlements



# Fragmentation threatens dollar dominance

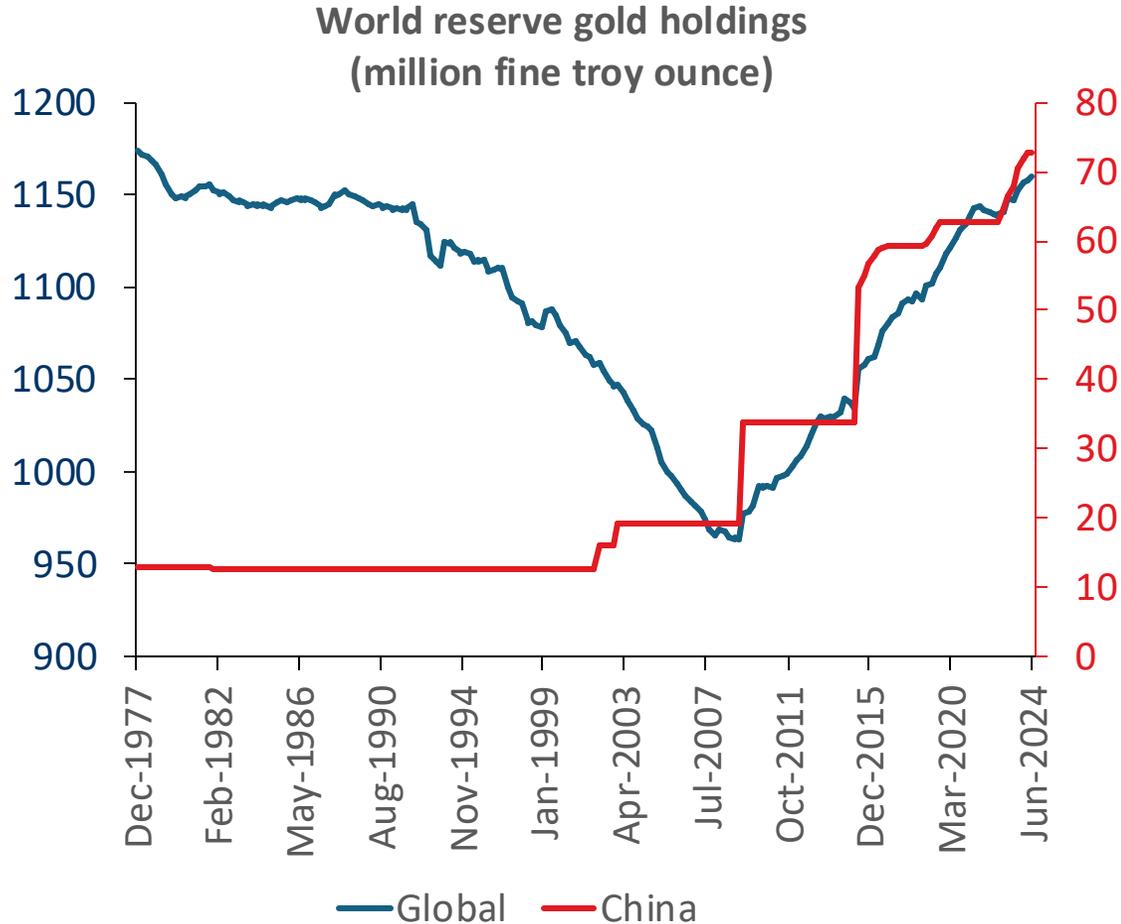
Gold's seeming safety from sanctions has been widely viewed as a particularly salient factor behind official gold purchases



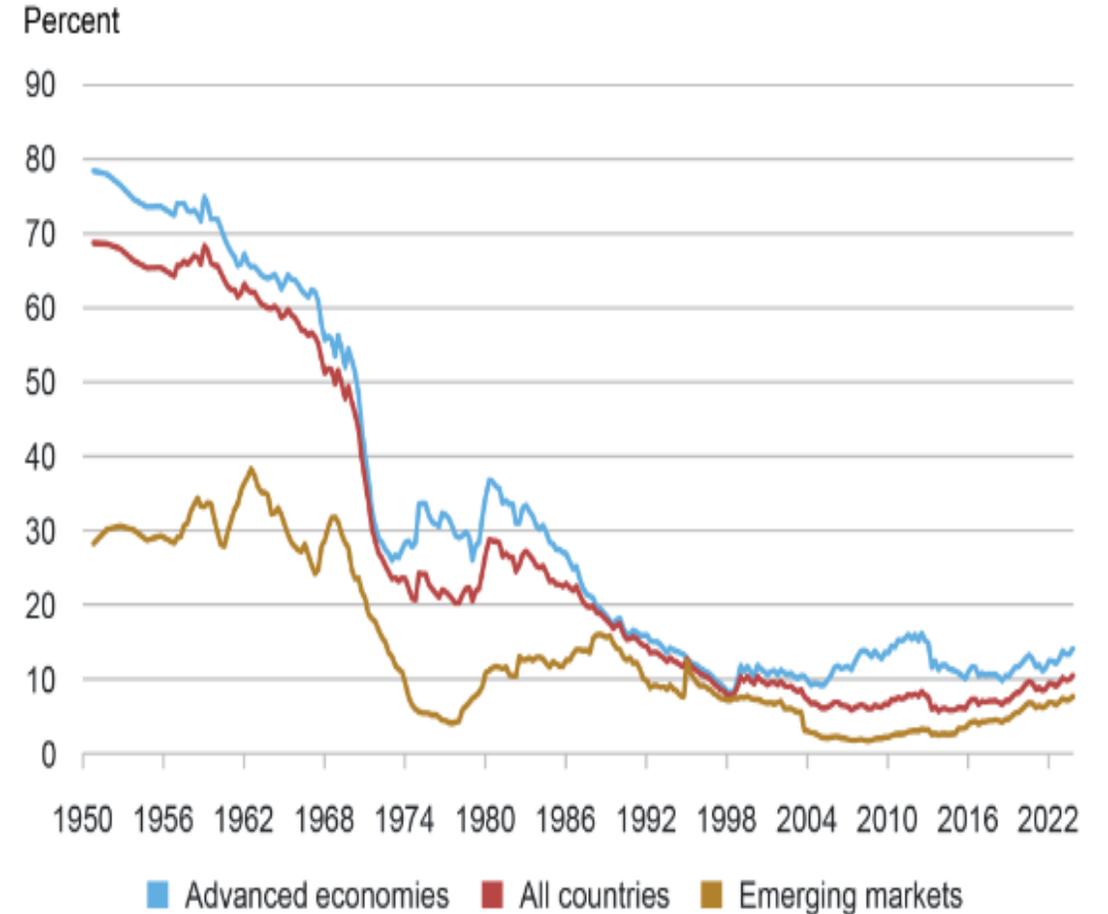
# Fragmentation threatens dollar dominance

Gold's seeming safety from sanctions has been widely viewed as a particularly salient factor behind official gold purchases

Bullion holdings are nearing the highest level in decades, but the ratio of gold to official foreign exchange reserves remains low



Source: Bloomberg, Momentum Investments Group



Source: Liberty Street Economics

## Regionalisation amid rising protectionism

Shifting global supply chains



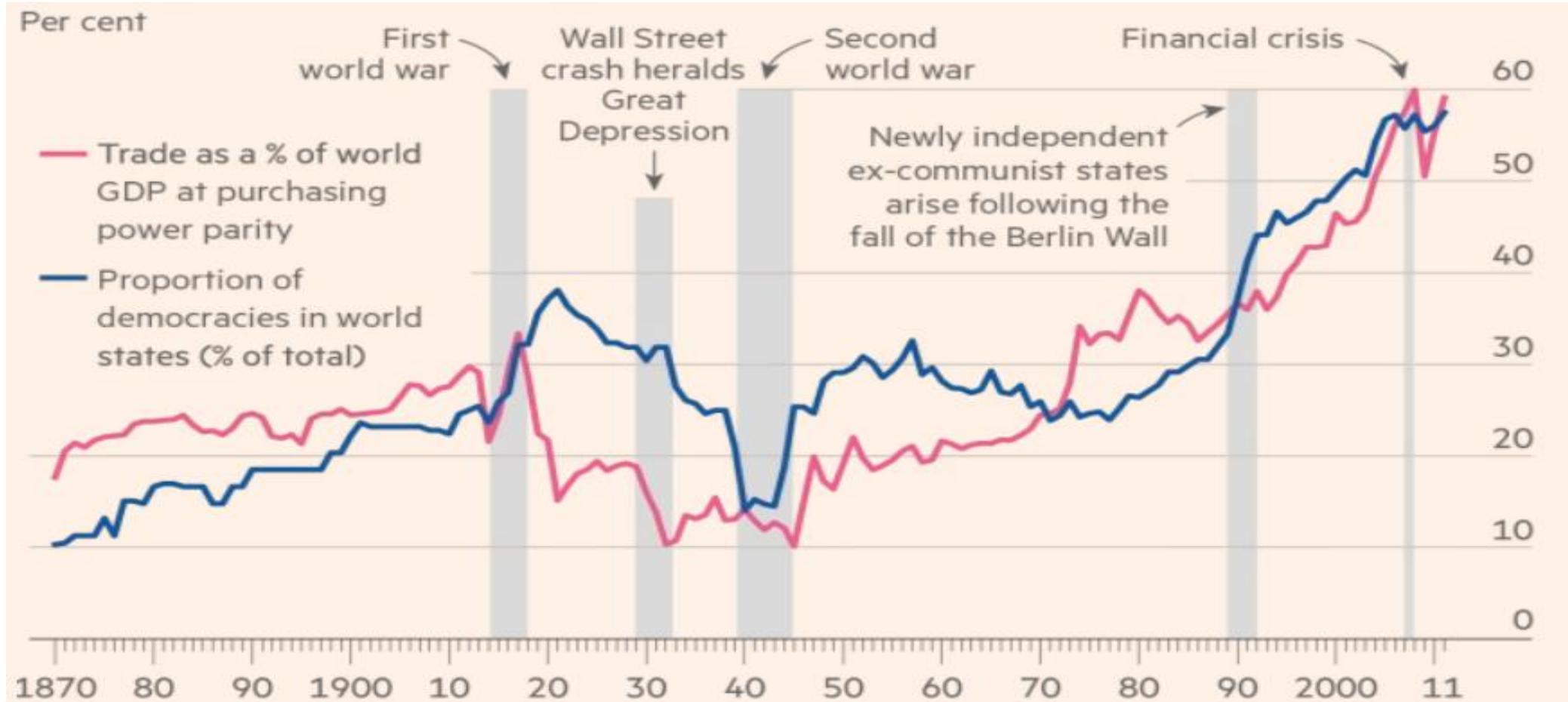
Source: Financial Times

Section  
**3**

# Regionalisation amid rising protectionism

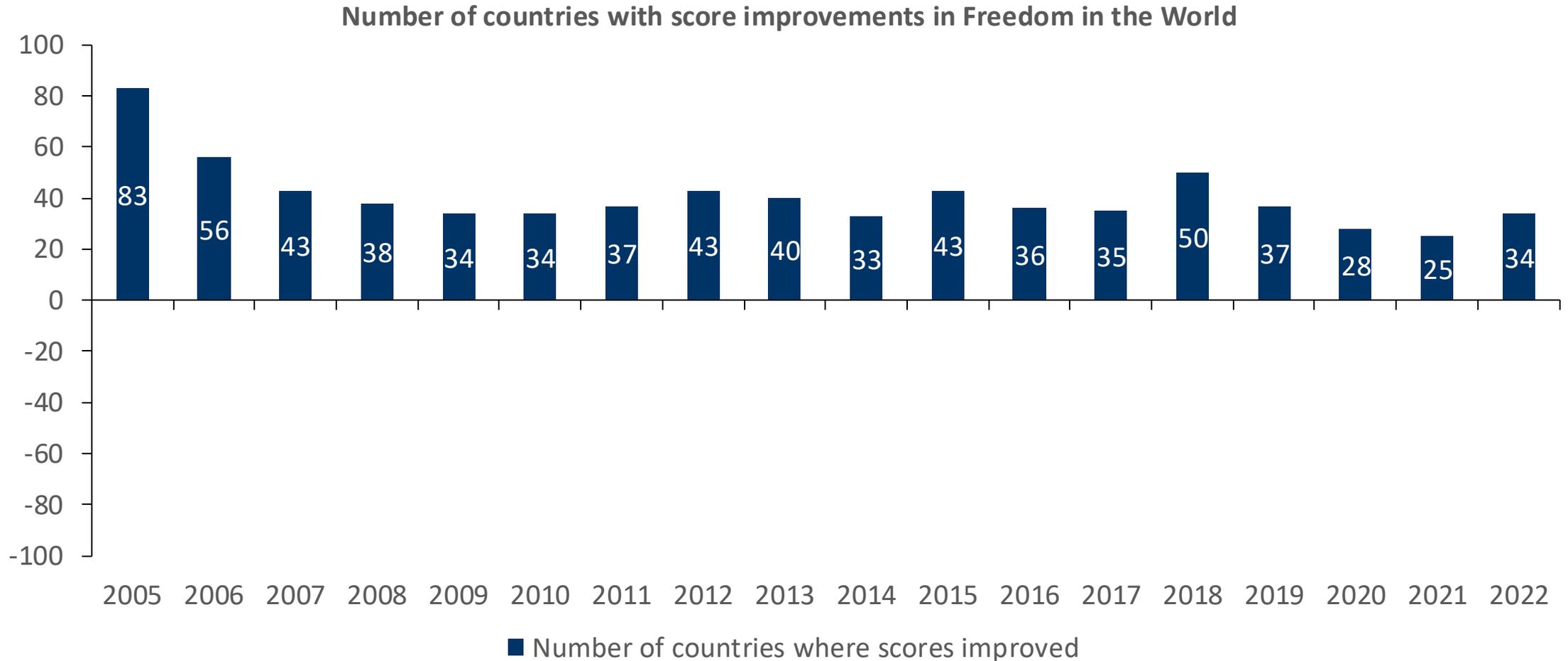
Periods of prosperity strengthen democratisation and bolden demands for political inclusion

## Globalisation and democracy



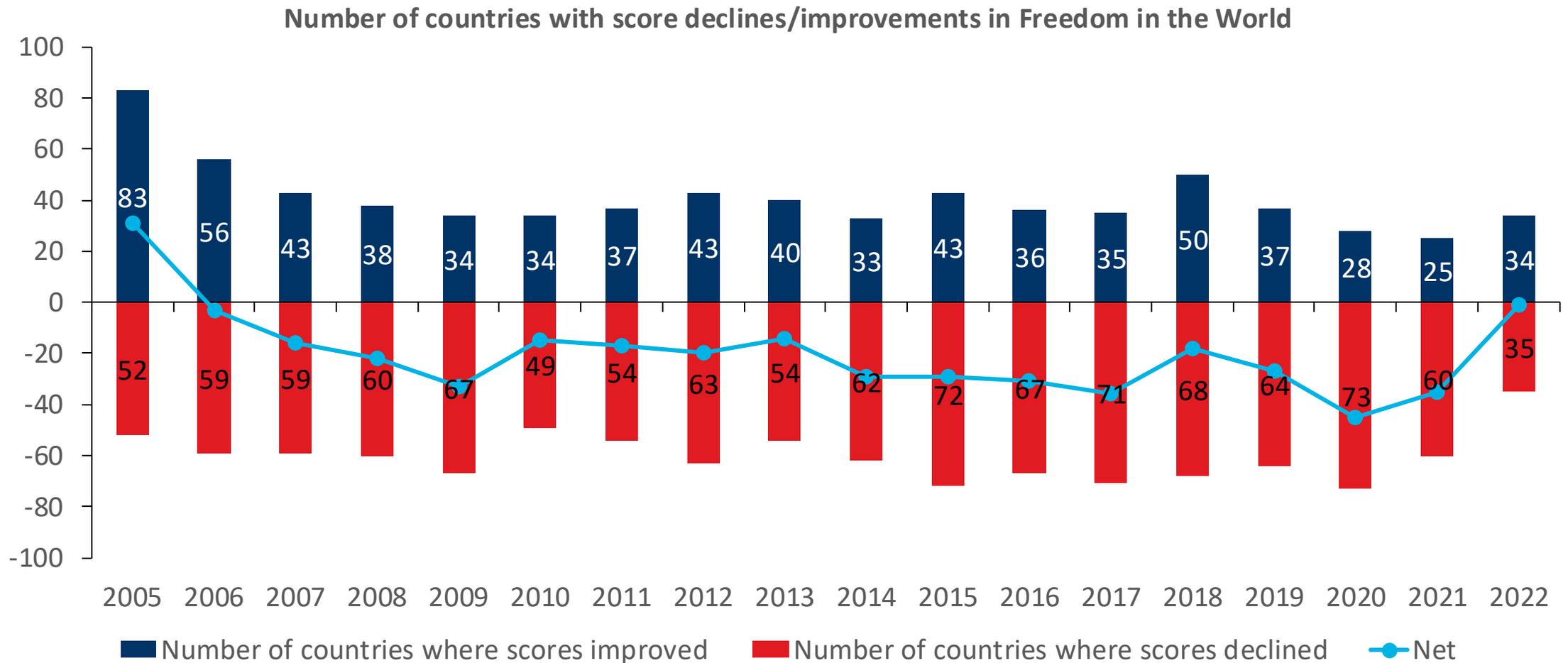
# Regionalisation amid rising protectionism

A test for global democracy based on civil liberties, functioning of government and political participation



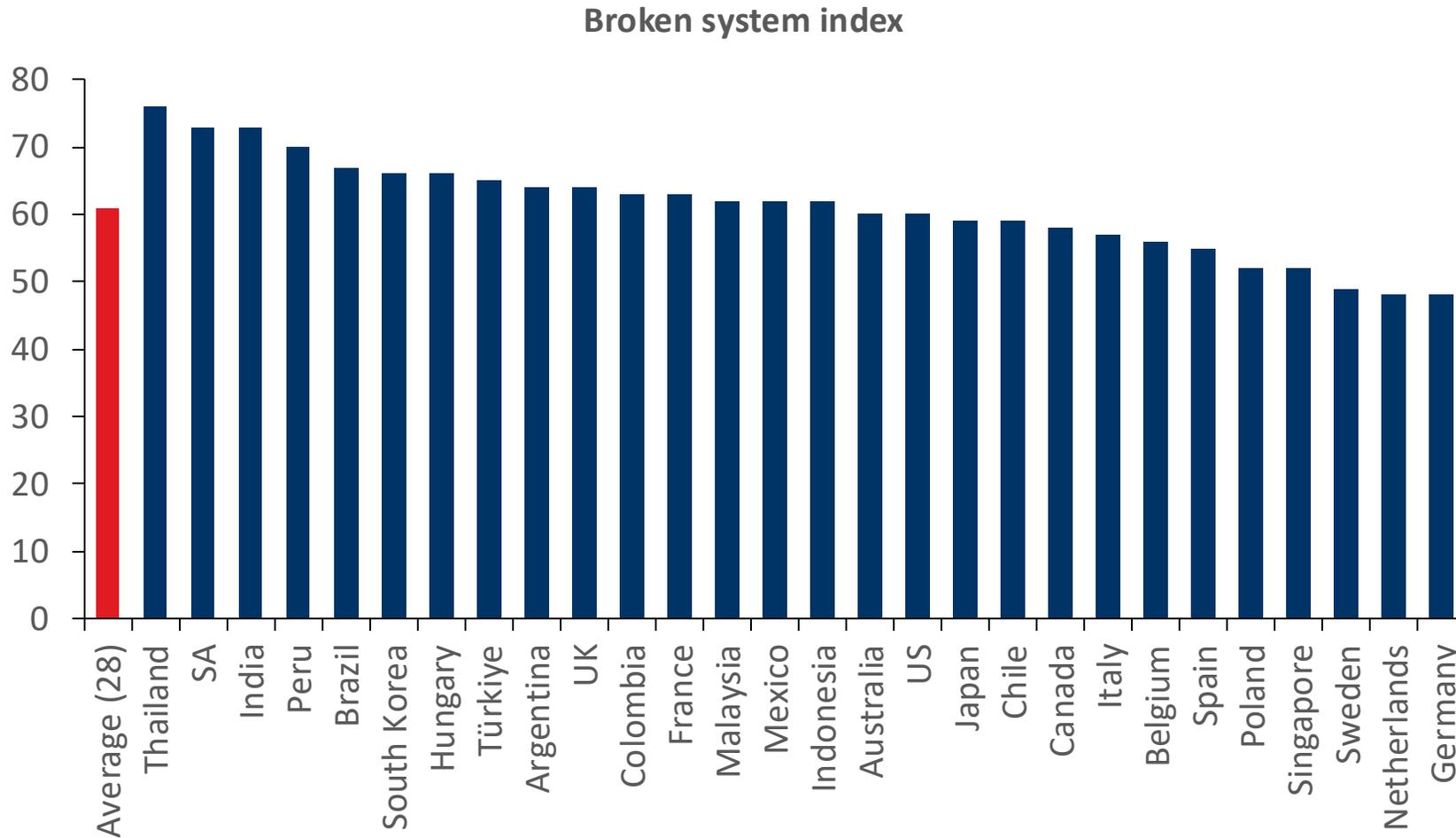
# Regionalisation amid rising protectionism

A test for global democracy which has been in decline over the past 17 years



# Regionalisation amid rising protectionism

In a monumental election year there is an appetite for populism



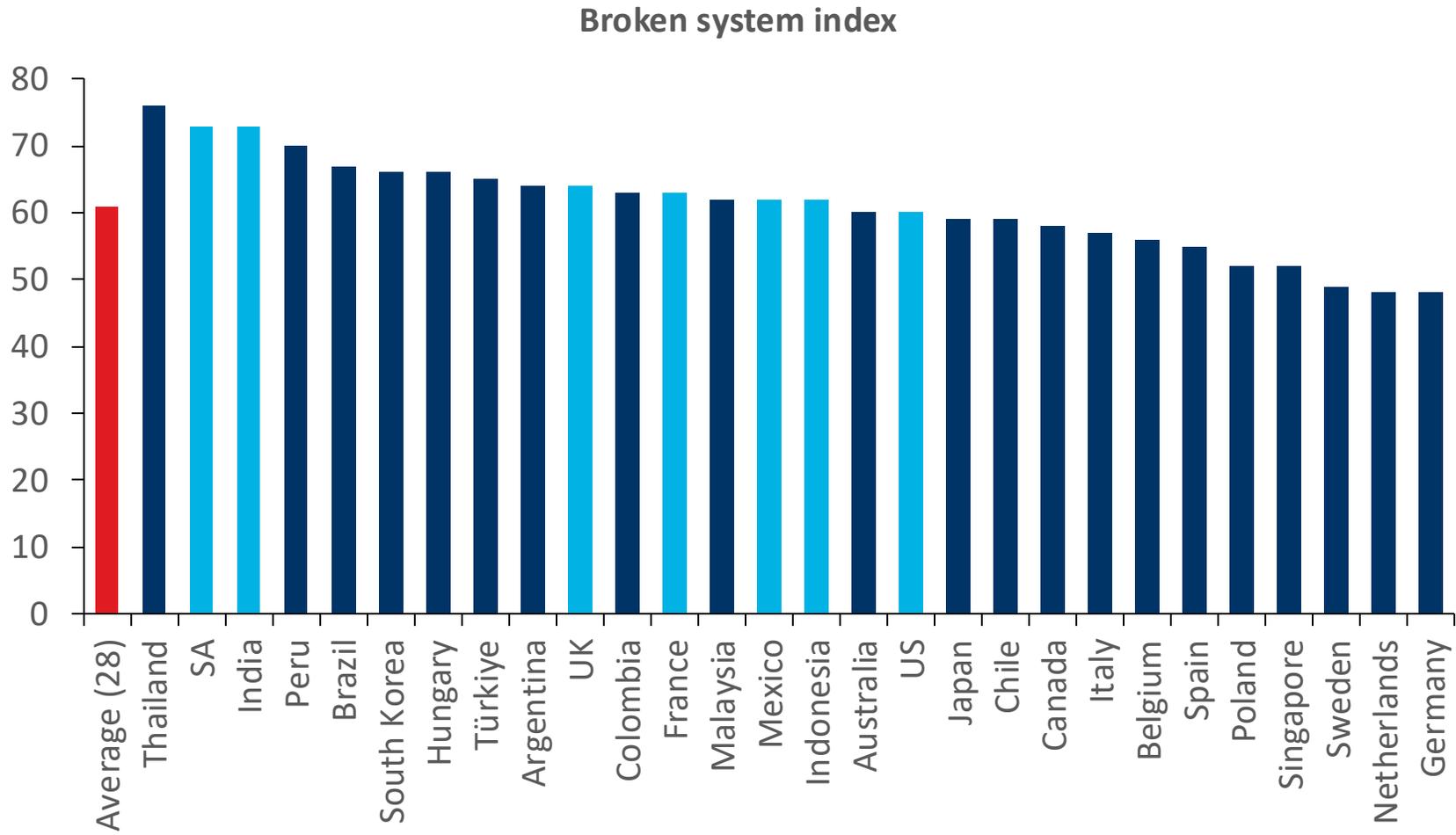
“The country is rigged to advantage the elite”

“Traditional parties and politicians don’t care about people like me”

“Experts in this country don’t understand the lives of people like me”

# Regionalisation amid rising protectionism

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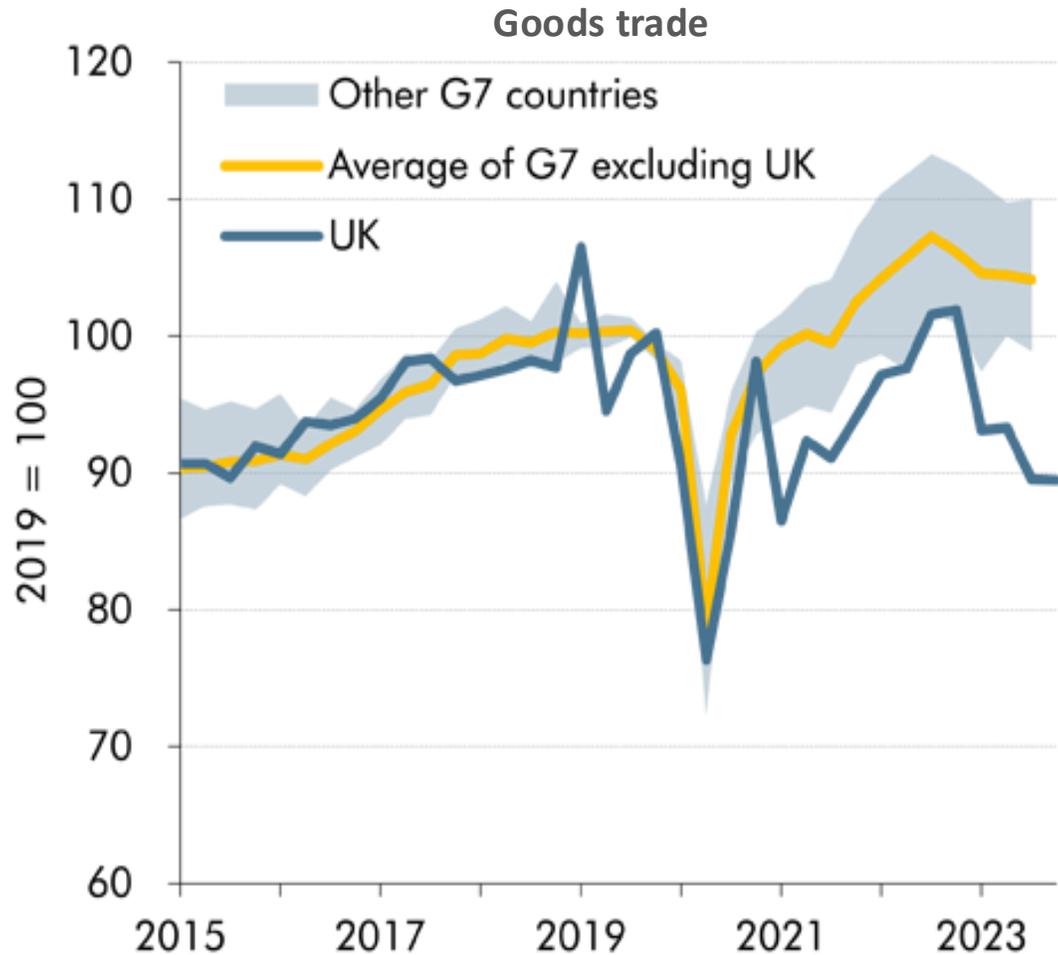
“Need a strong leader to take the country back from the elite”

“To fix the country we need a strong leader willing to break rules”

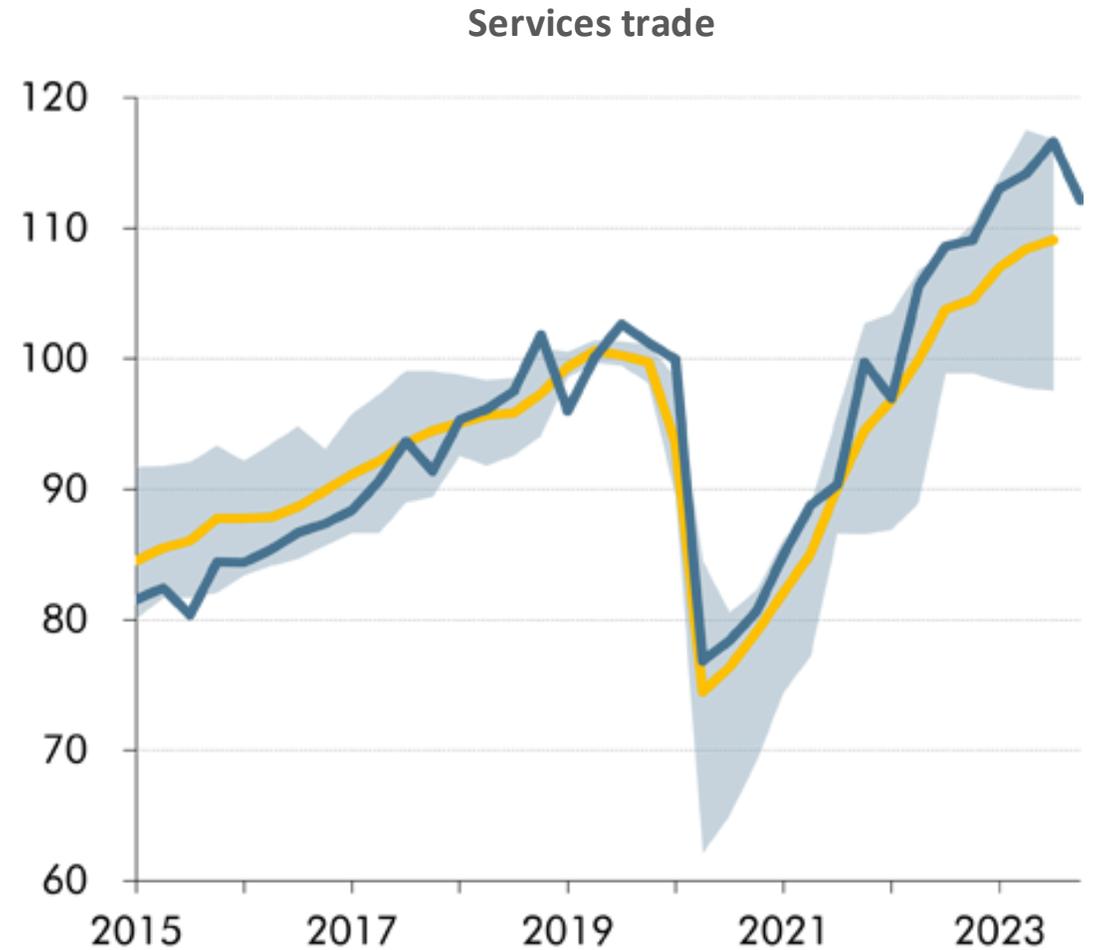
Source: Ipsos (Interviewed 22 Nov – 6 Dec 2023), Momentum Investments Group  
Turquoise bars = Countries with executive-level elections in 2024

# Regionalisation amid rising protectionism

The UK post Brexit → missed growth in goods and services trade account is consistent with a 4% to 5% GDP reduction compared to a Britain that had remained



Source: Office for Budget Responsibility

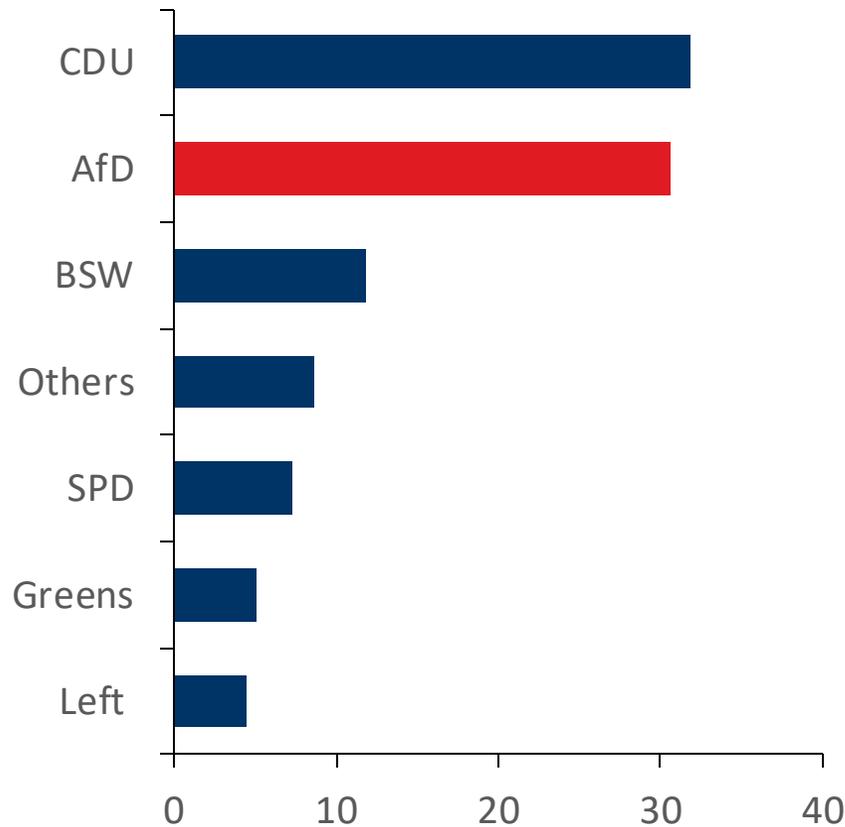


Source: Office for Budget Responsibility

# Regionalisation amid rising protectionism

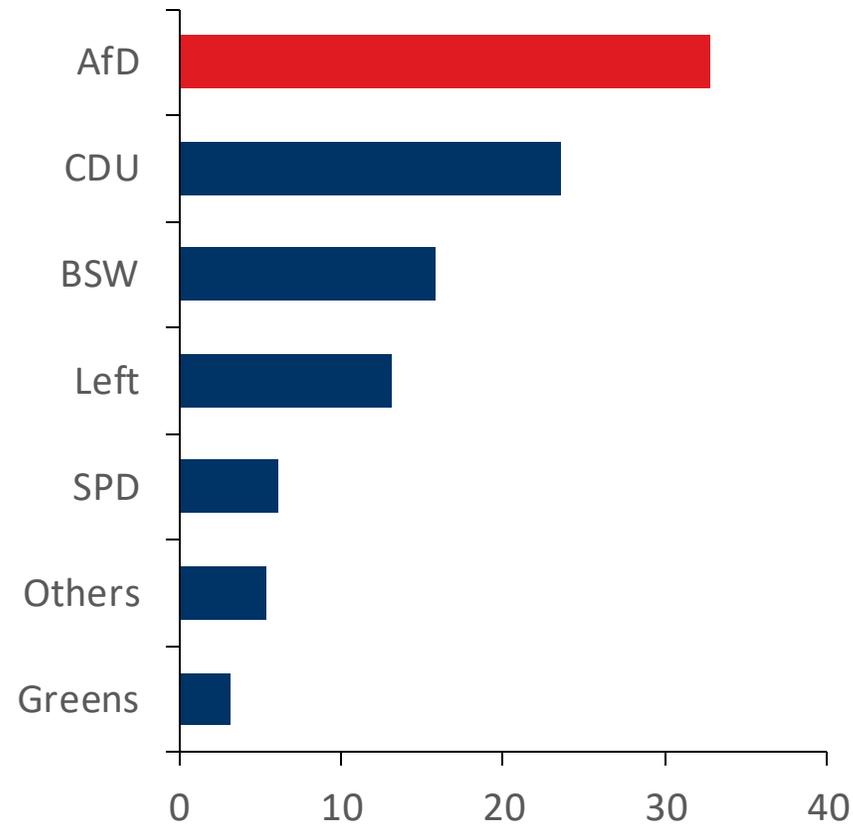
The biggest issue for AfD voters is immigration

German state election in *Saxony*  
(% of votes per party)



Source: BBC, Momentum Investments Group

German state election in *Thuringia*  
(% of votes per party)



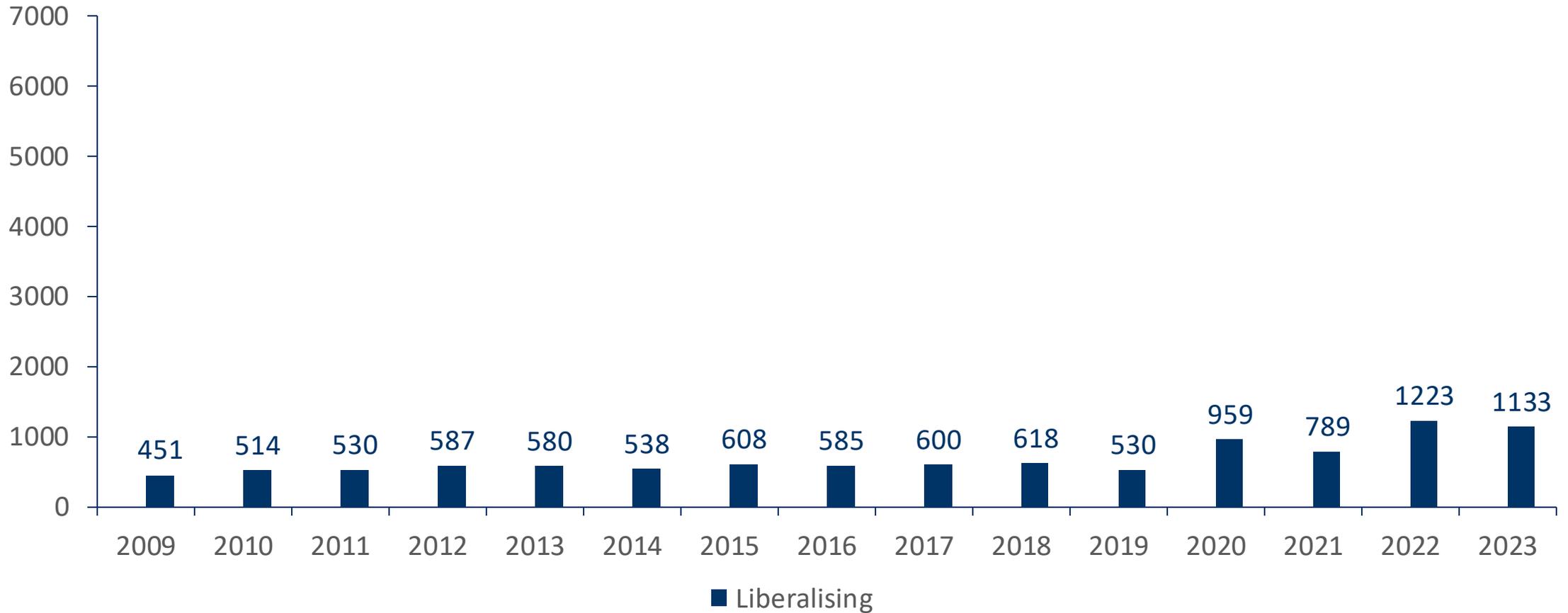
Source: BBC, Momentum Investments Group



# Regionalisation amid rising protectionism

Some new liberalising trade interventions introduced since the global financial crisis

Number of new trade interventions by year

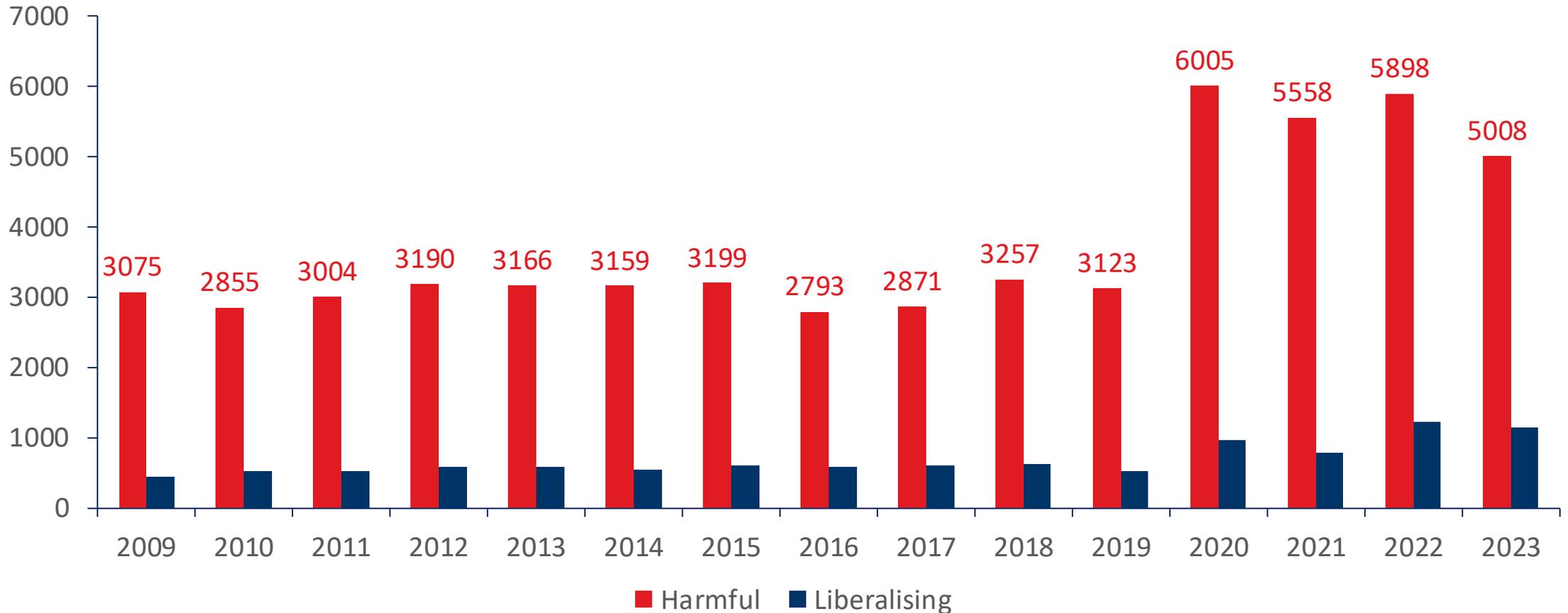


Source: Global Trade Alert, Momentum Investments Group  
735 Liberalising 2024 YTD (July)

# Regionalisation amid rising protectionism

A large increase in harmful measures which are distorting global trade

Number of new trade interventions by year



Source: Global Trade Alert, Momentum Investments Group  
2227 Harmful 2024 YTD (July), 735 Liberalising 2024 YTD (July)

# Regionalisation amid rising protectionism

US-China trade war halts long-term trends → a c.75% probability a subsidy elicits a retaliatory response within one year



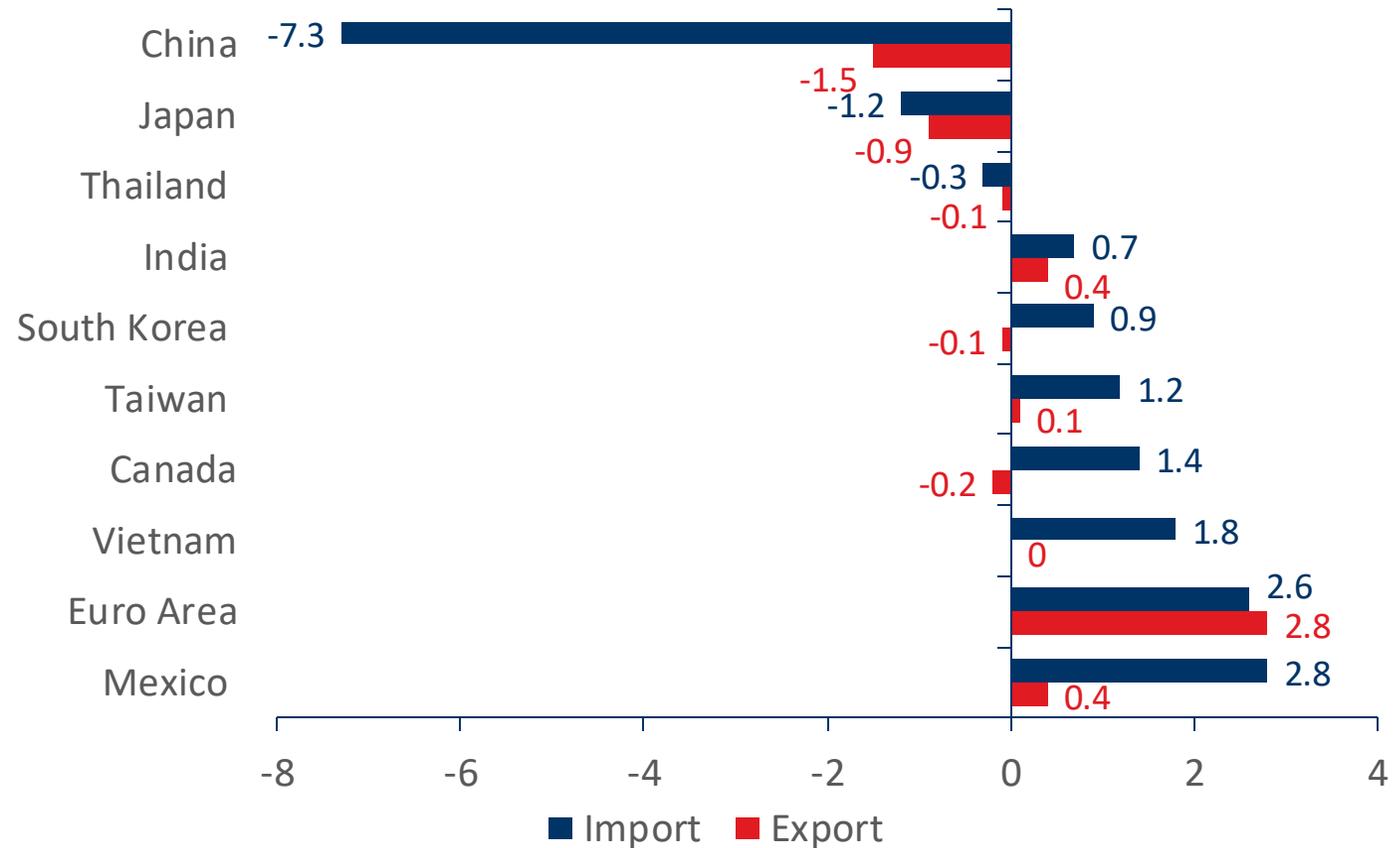
Source: Colchester Global Investors



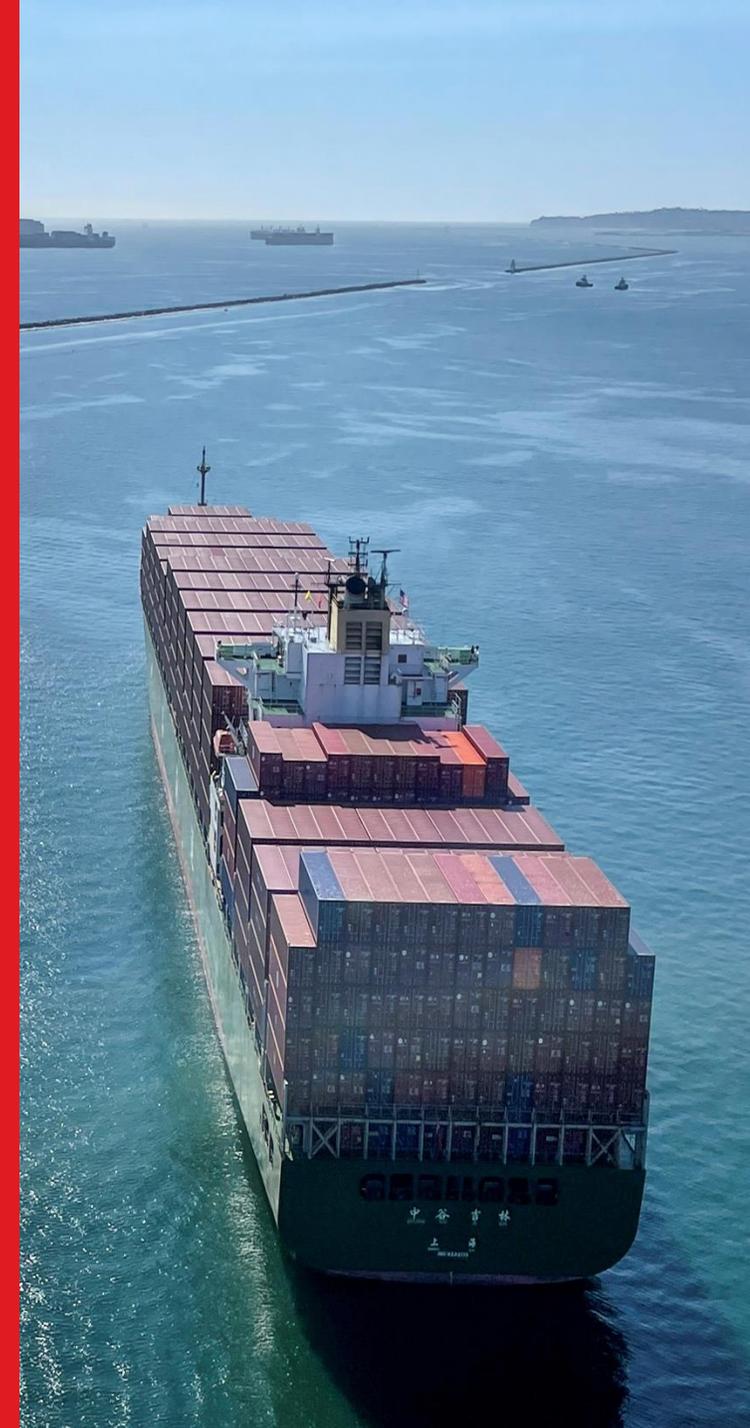
# Regionalisation amid rising protectionism

Onshoring, nearshoring and friendshoring taking place

Change in US export and import share with select countries  
(2017 - 2023), %



Source: Colchester Global Investors, Momentum Investments Group



## Rethinking global governance

Implications for global cooperation

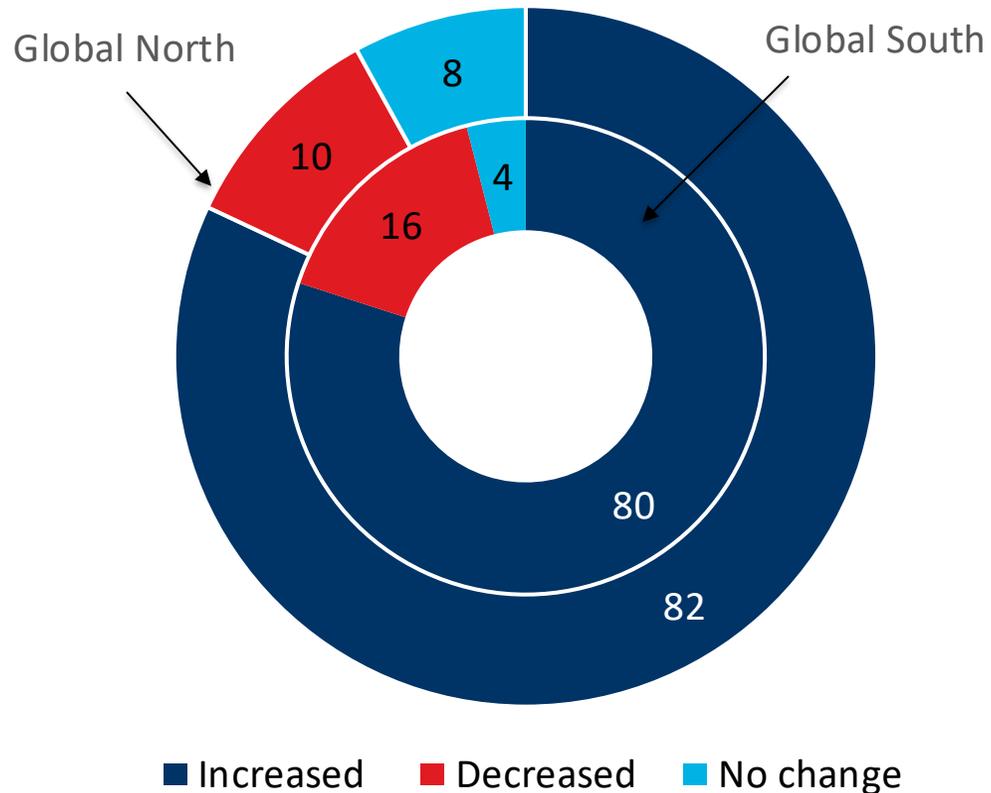


## Section 4

# Rethinking global governance

Agreement that multilateralism is needed

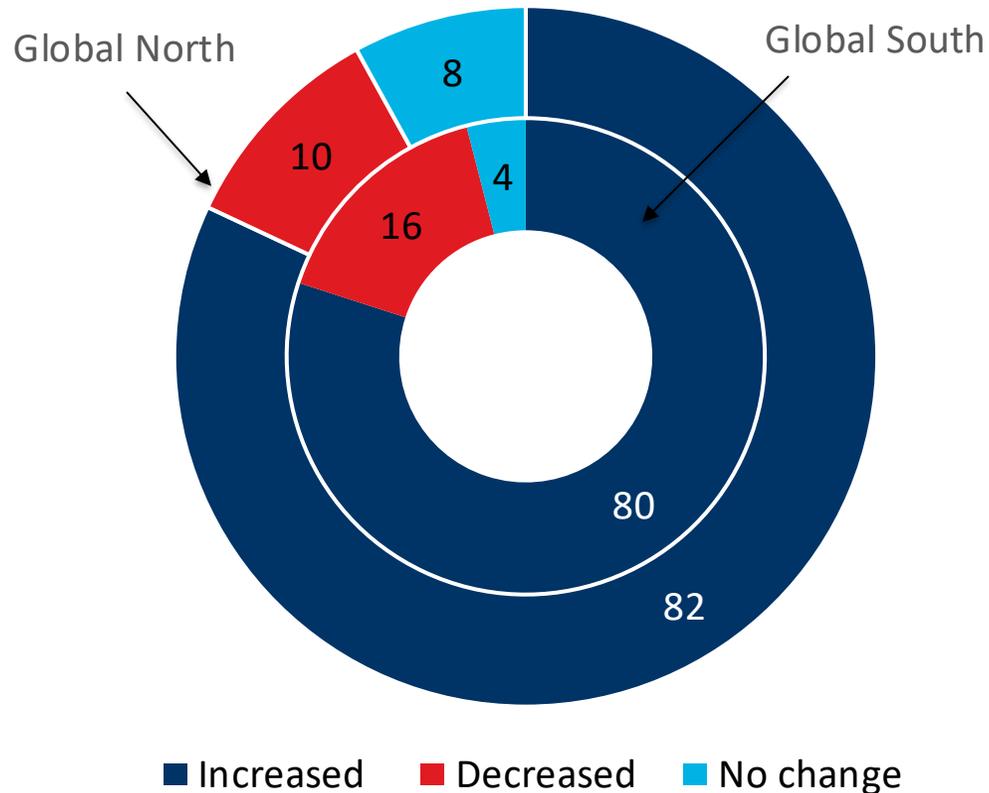
How has societies' need for effective multilateralism changed in the last two decades?



# Rethinking global governance

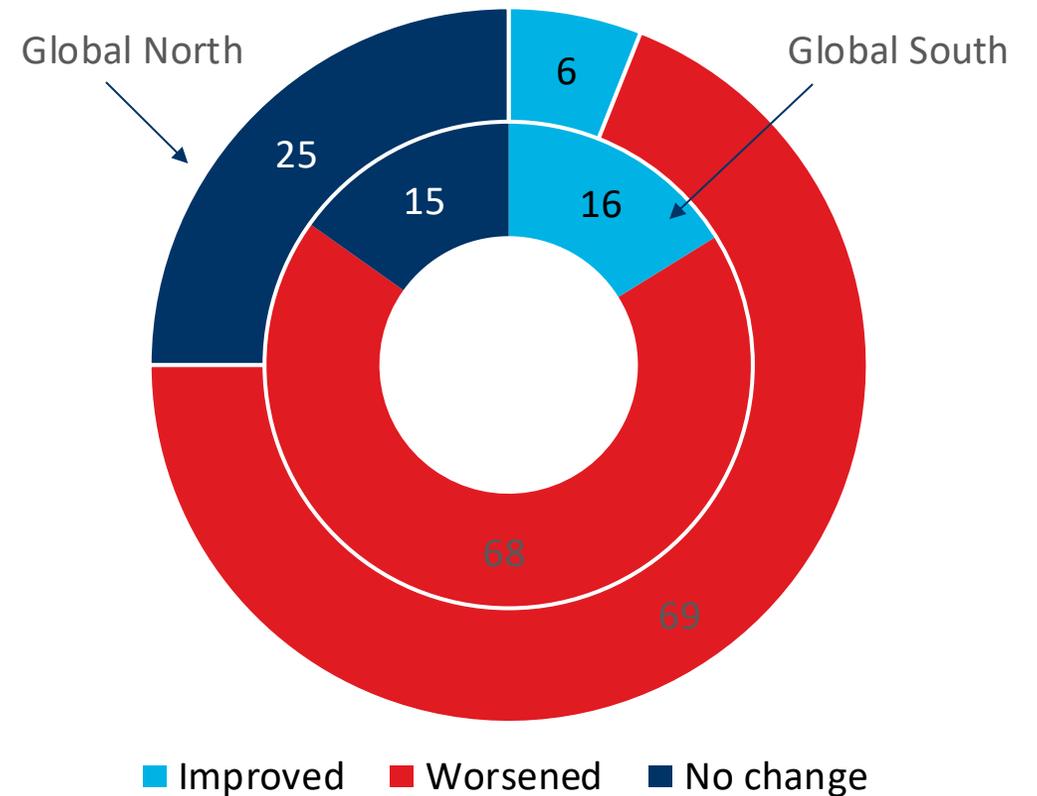
Agreement that multilateralism is needed, but a general belief that the effectiveness of the multilateral system has worsened

How has societies' need for effective multilateralism changed in the last two decades?



Source: Brookings, Momentum Investments Group

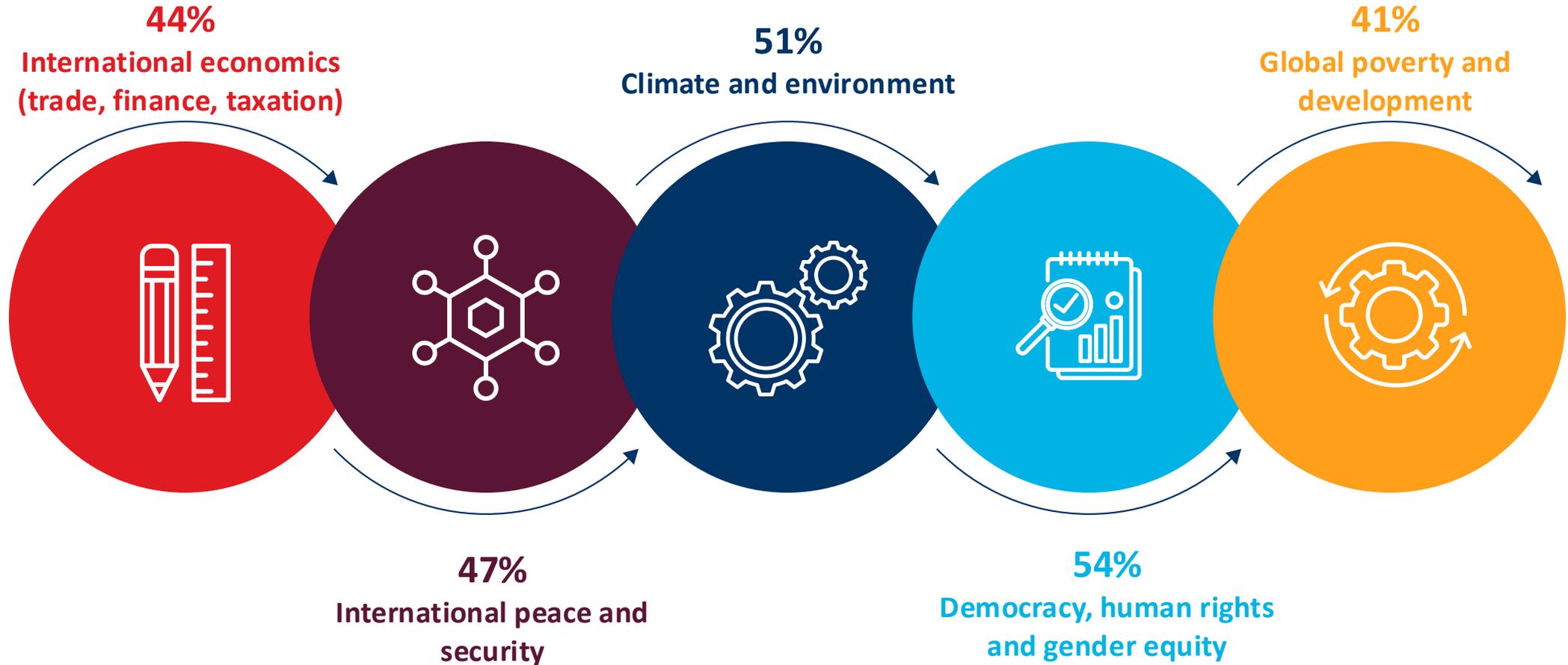
How has the effectiveness of the multilateral system changed in the last two decades?



Source: Brookings, Momentum Investments Group

# Rethinking global governance

The survey rating of the multilateral system as either very ineffective or somewhat ineffective in the following domains



## Geopolitical flashpoints

Indicators of global instability



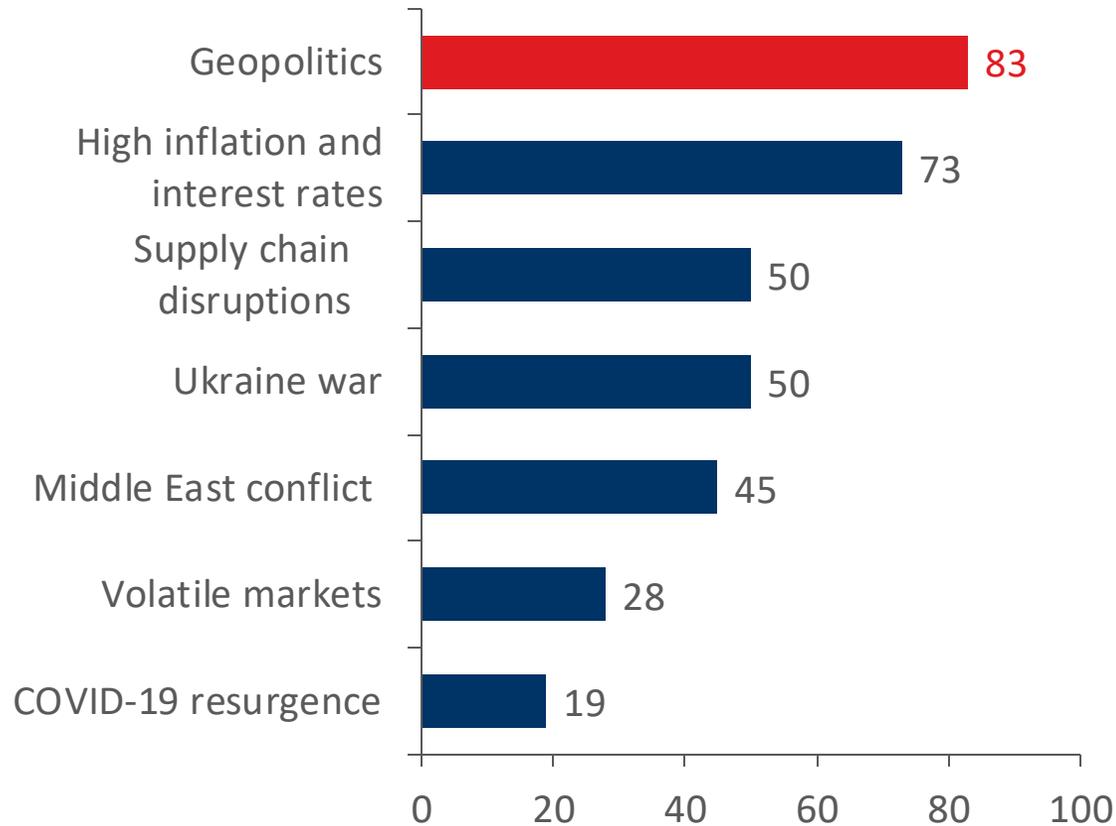
Section

5

# Geopolitical flashpoints

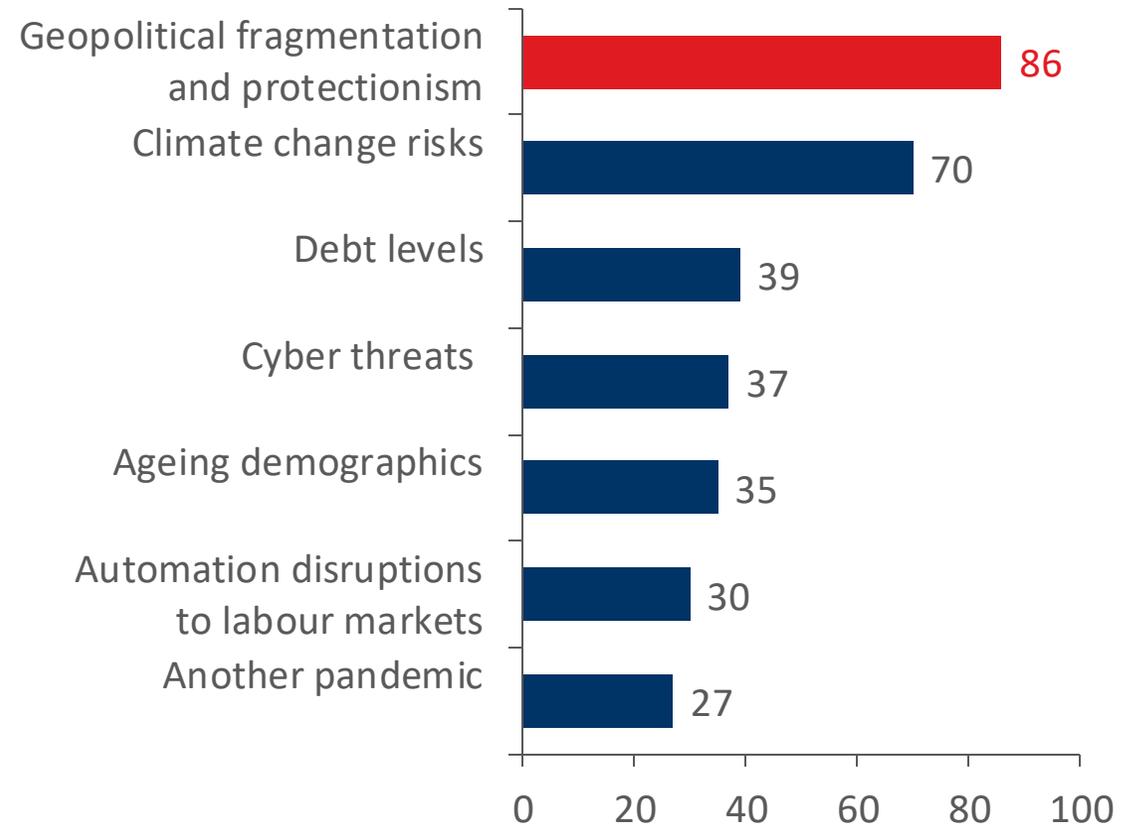
Geopolitical concerns have overtaken inflation as the primary worry for global central banks and sovereign wealth funds

Risks to global economic growth in the next year (%)



Source: World Economic Forum, Momentum Investments Group

Risks to global economic growth in the next 10 years (%)

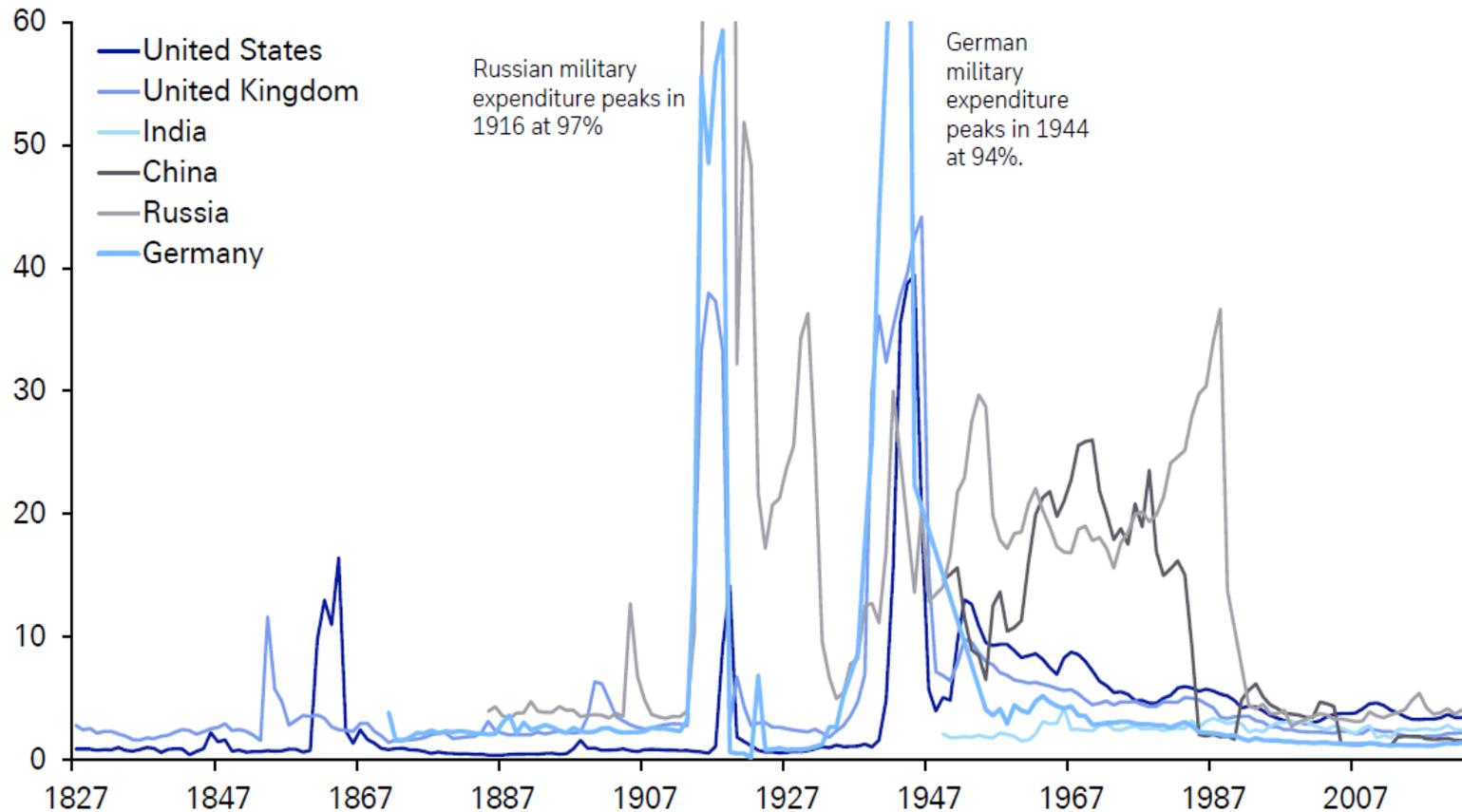


Source: World Economic Forum, Momentum Investments Group

# Geopolitical flashpoints

Peace dividend followed Soviet Union collapse → pressure to increase defence spending is now rising as political pressures mount → impact on debt ratios across the globe

## Military spending as % of GDP (1827 – 2023)



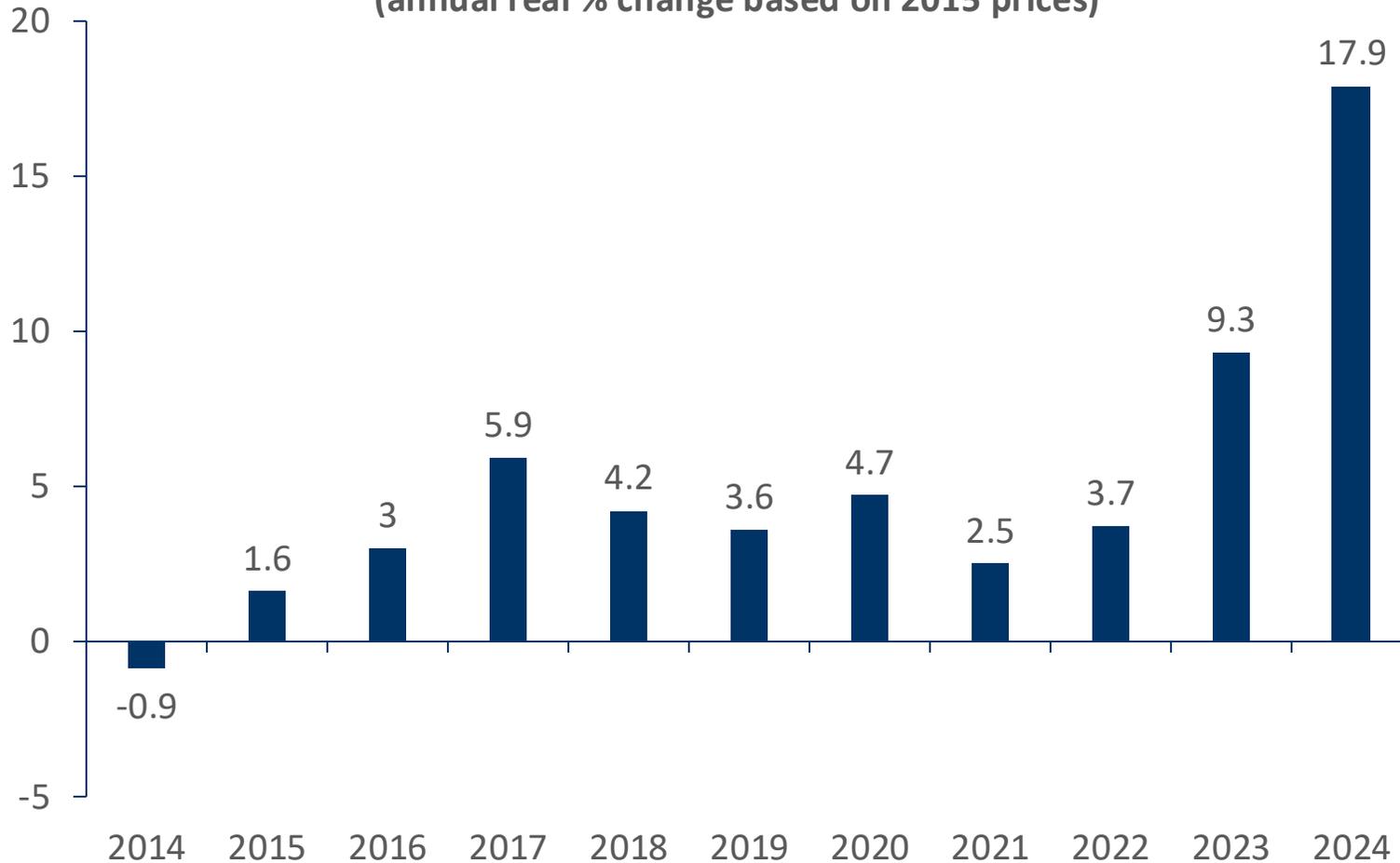
Source: Deutsche Bank



# Geopolitical flashpoints

NATO countries ex-US have increased spending on defence

NATO Europe + Canada defence expenditure  
(annual real % change based on 2015 prices)



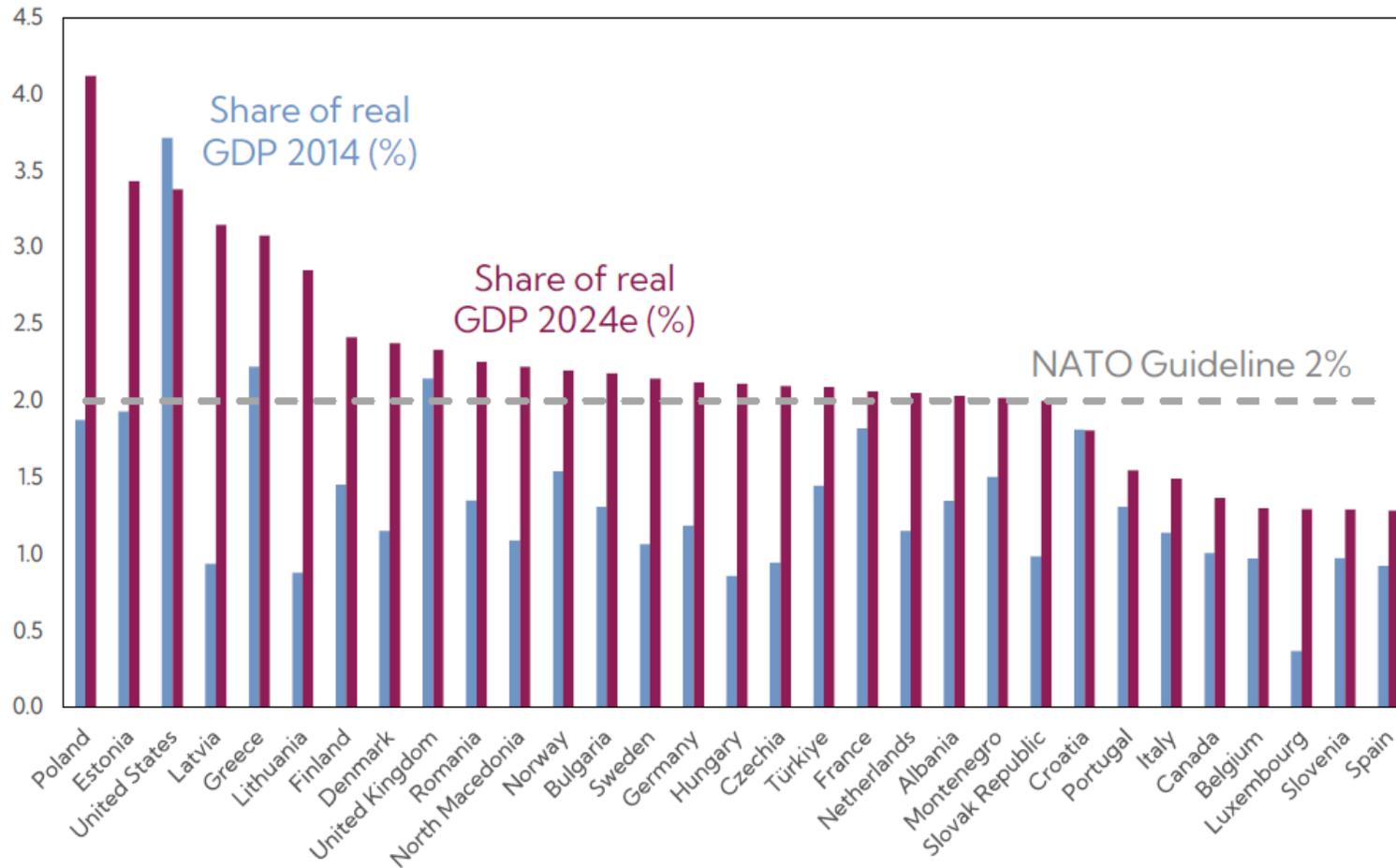
Source: Colchester Global Investors, Momentum Investments Group



# Geopolitical flashpoints

23 countries are expected to meet the NATO guideline by the end of 2024

## NATO defence expenditure as % of GDP



Source: Colchester Global Investors



# Geopolitical flashpoints

Fears mount as Middle East tensions threaten to erupt as a potential tripwire was triggered in Lebanon

Scenario 1:  
Continuation of low-  
level fighting

Scenario 2: “All hell  
breaks loose”

Scenario 3: “Keep  
hope alive”

# Geopolitical flashpoints

Fears mount as Middle East tensions threaten to erupt as a potential tripwire was triggered in Lebanon

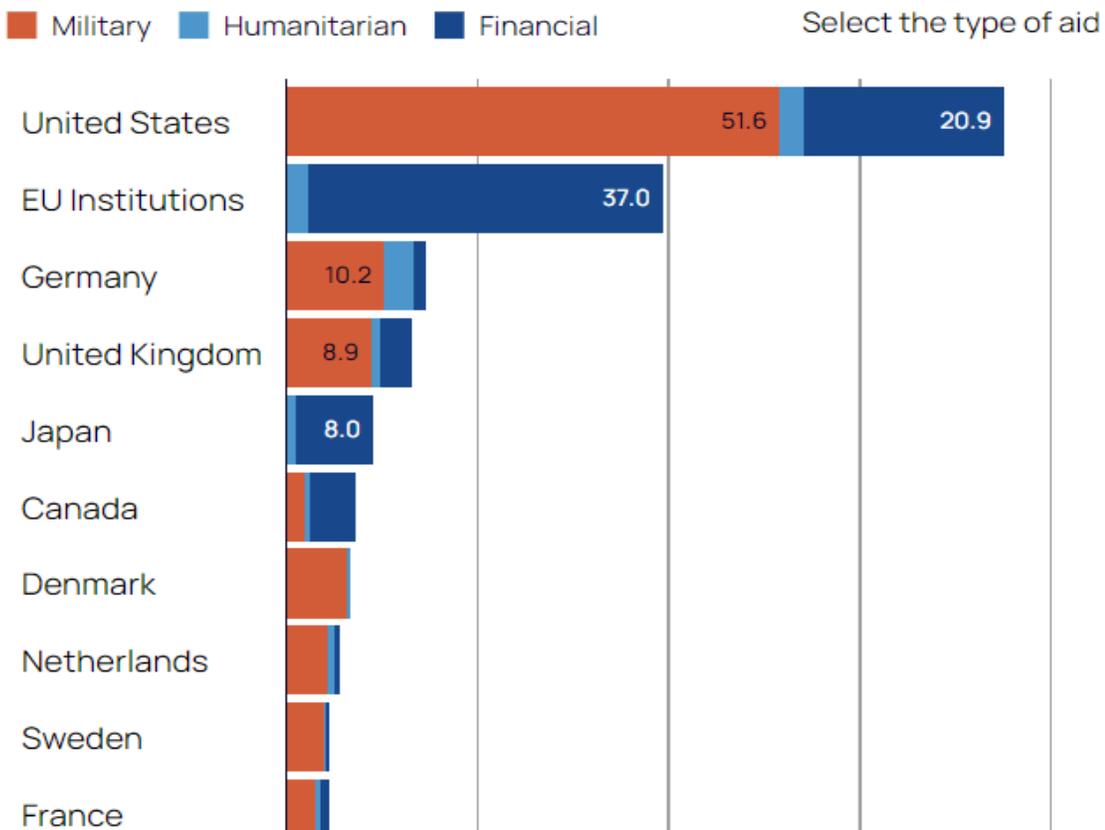


# Geopolitical flashpoints

Can Ukraine stay in the fight and can Russia keep up its current tempo of operations?

## Government support to Ukraine (€ billion)

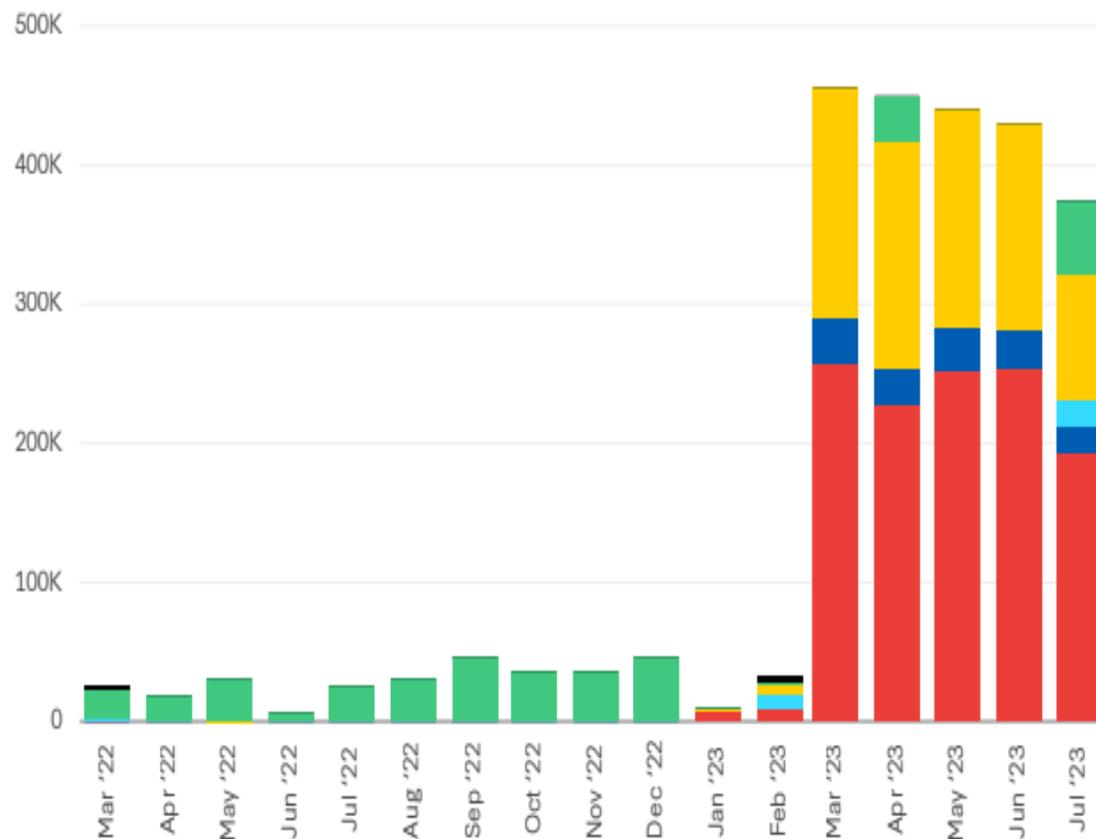
Allocations Jan. 24, 2022 to June 30, 2024. Data on 42 donors ; scroll to see more donors



Source: Kiel Institute

## Russian imports of key military goods by country (# of records)

● China 
 ● European Union 
 ● India 
 ● Other 
 ● Turkey 
 ● Vietnam

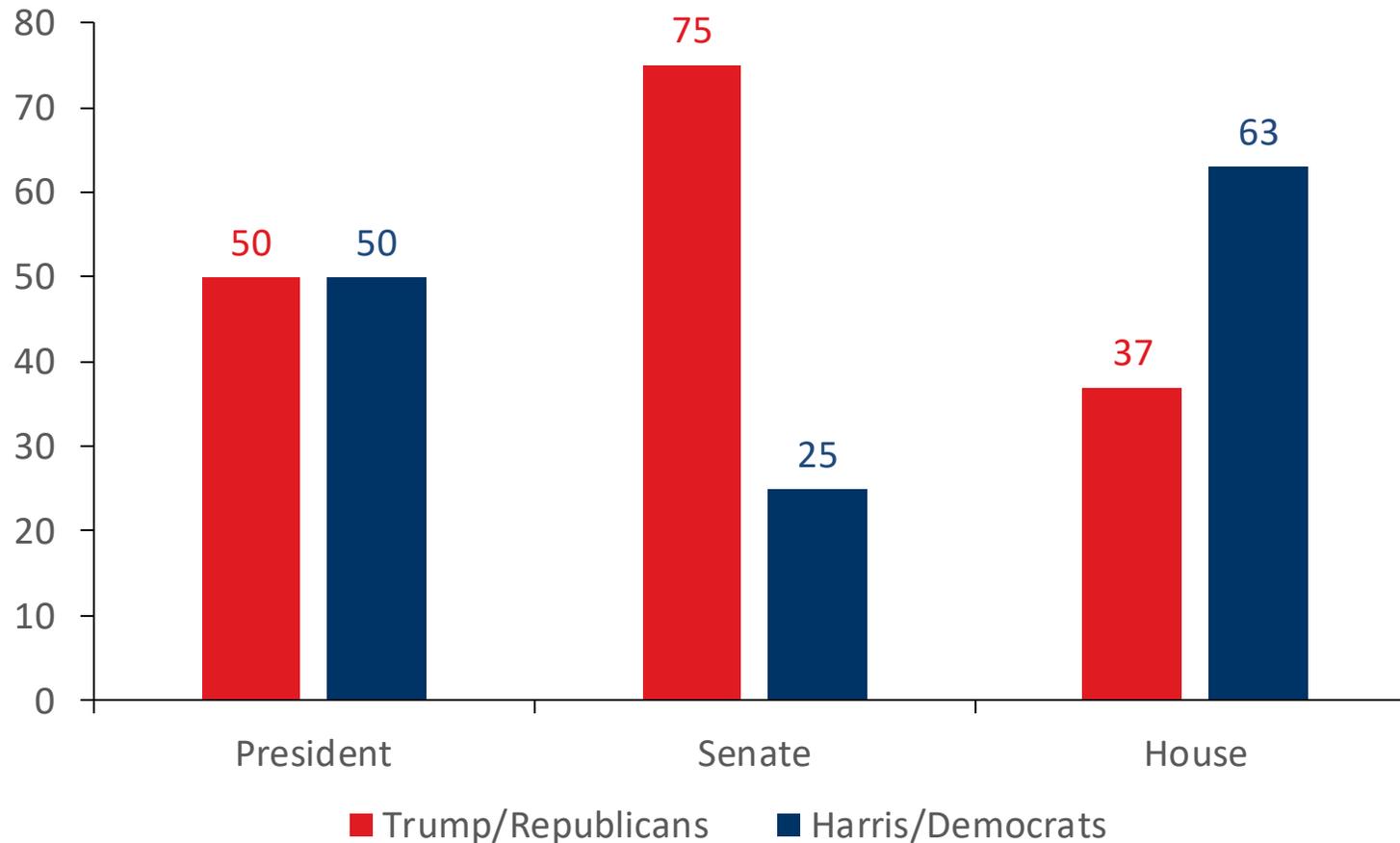


Source: Centre for Strategic and International Studies (April 2024)

# Geopolitical flashpoints

A tight race for the presidency

US election betting odds: % Chance to win

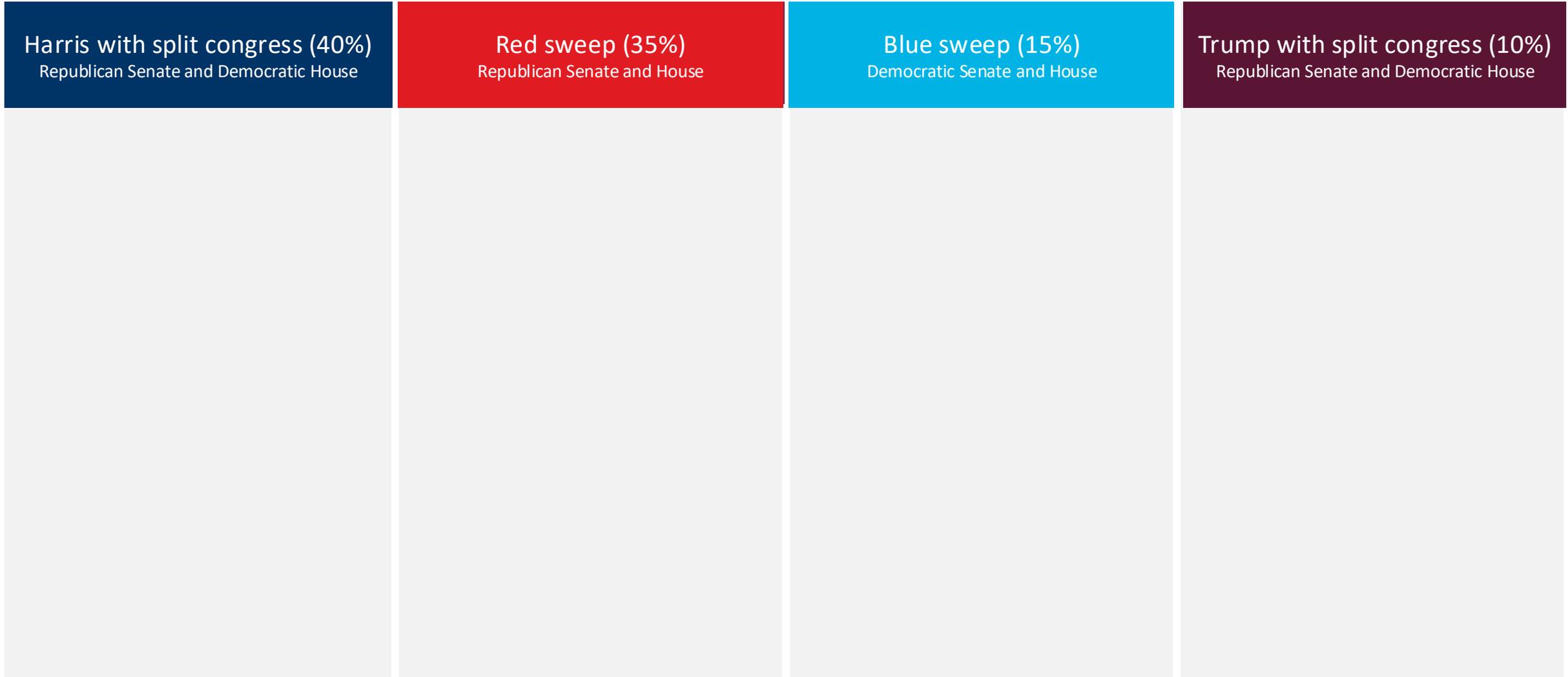


Source: Polymarket betting odds (13 September 2024), Momentum Investments Group



# Geopolitical flashpoints

Significant market implications emerge from the stark contrast between the presidential candidates' policies



Source: UBS Wealth Management, Momentum Investments Group, \*IRA = Inflation Reduction Act, \*\*CGT = capital gains taxes

# Geopolitical flashpoints

Significant market implications emerge from the stark contrast between the presidential candidates' policies

<b>Harris with split congress (40%)</b> Republican Senate and Democratic House	<b>Red sweep (35%)</b> Republican Senate and House	<b>Blue sweep (15%)</b> Democratic Senate and House	<b>Trump with split congress (10%)</b> Republican Senate and Democratic House
<ul style="list-style-type: none"> <li>• Smaller economic impact than blue sweep</li> <li>• No corporate taxes</li> <li>• Higher taxes on higher income households (less than blue sweep)</li> </ul>	<ul style="list-style-type: none"> <li>• Initially positive for growth</li> <li>• Corporate taxes considered</li> <li>• Lower marginal tax rates extended</li> </ul>	<ul style="list-style-type: none"> <li>• Initially slightly growth negative</li> <li>• Possible corporate tax hike</li> <li>• Higher taxes on higher income households (including CGT**)</li> </ul>	<ul style="list-style-type: none"> <li>• Initially positive for growth but less so than red sweep</li> <li>• No changes to corporate taxes</li> <li>• Higher marginal tax rates reinstated</li> </ul>

# Geopolitical flashpoints

Significant market implications emerge from the stark contrast between the presidential candidates' policies

**Harris with split congress (40%)**  
Republican Senate and Democratic House

- Outlook for growth, inflation, monetary policy and dollar unchanged relative to baseline

**Red sweep (35%)**  
Republican Senate and House

- Higher inflation and fewer interest rate cuts → initially firmer dollar → weakens further out on higher deficits and trade tensions

**Blue sweep (15%)**  
Democratic Senate and House

- Disinflation impact → larger interest rate cuts → slightly negative for dollar

**Trump with split congress (10%)**  
Republican Senate and Democratic House

- Higher inflation due to tariffs → fewer interest rate cuts → initially firmer dollar → weakens further out on higher deficits and trade tensions

# Geopolitical flashpoints

Significant market implications emerge from the stark contrast between the presidential candidates' policies

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<ul style="list-style-type: none"> <li>IRA* plans intact</li> <li>Stringent regulatory oversight</li> <li>Existing tariffs remain in place</li> <li>Foreign policy emphasises strategic alliances and sanctions</li> </ul>	<ul style="list-style-type: none"> <li>Regulatory oversight decreases</li> <li>IRA rolled back</li> <li>New tariffs (universal possible)</li> </ul>	<ul style="list-style-type: none"> <li>Stringent regulatory oversight</li> <li>IRA rolled out</li> <li>Existing tariffs remain in place</li> <li>Foreign policy emphasises strategic alliances and sanctions</li> </ul>	<ul style="list-style-type: none"> <li>Regulatory oversight decreases</li> <li>IRA only partly rolled out</li> <li>New tariffs (universal possible)</li> </ul>

# Geopolitical flashpoints

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# SA's unity government and path to reform

Fixing internal wounds amid global risks



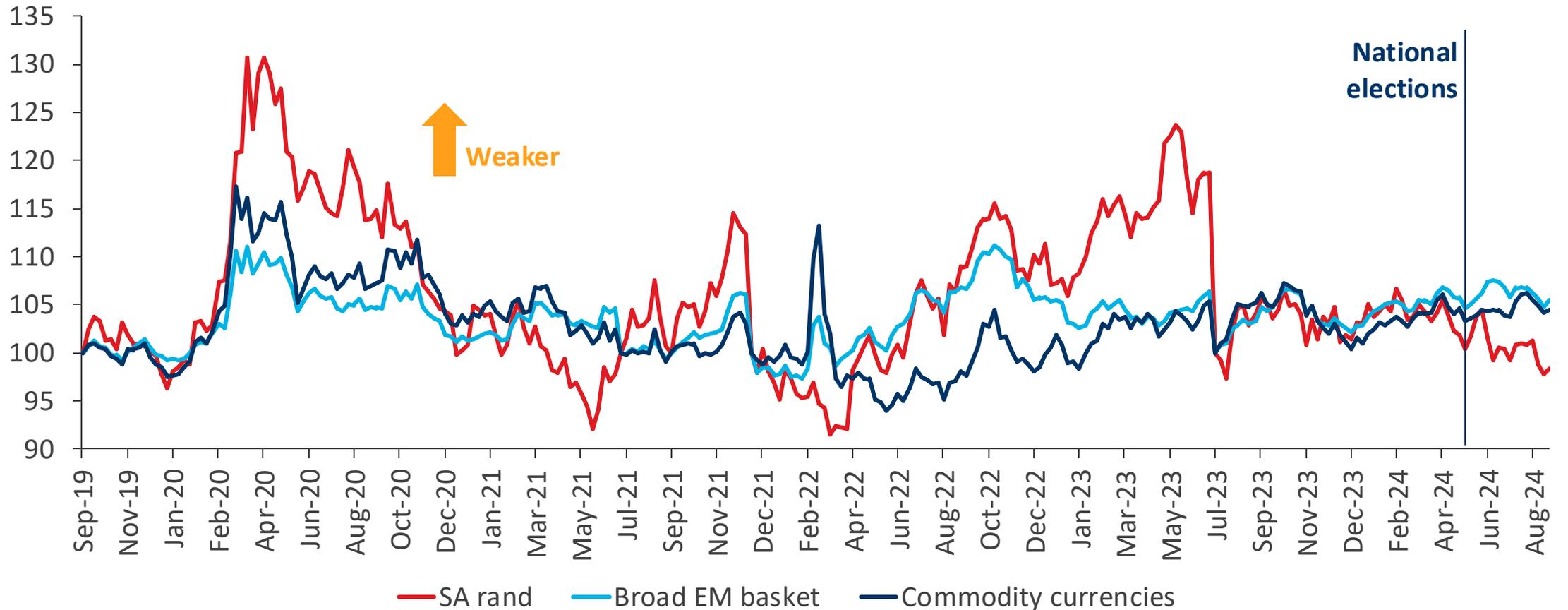
Source: Business Day

## Section 6

# SA's unity government and path to reform

Political optimism evident → SA's currency has recovered relative to its emerging market peers and commodity-related currencies

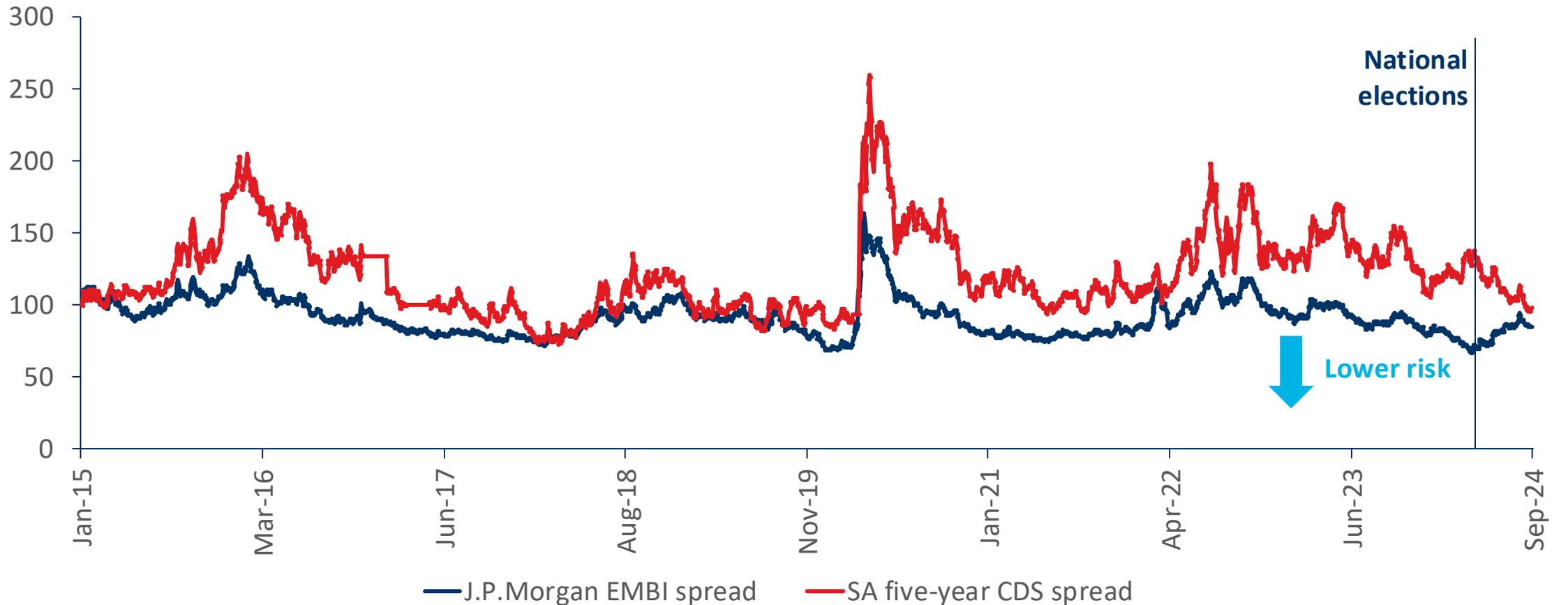
Currency performance (Index: Sept 2019 = 100)



# SA's unity government and path to reform

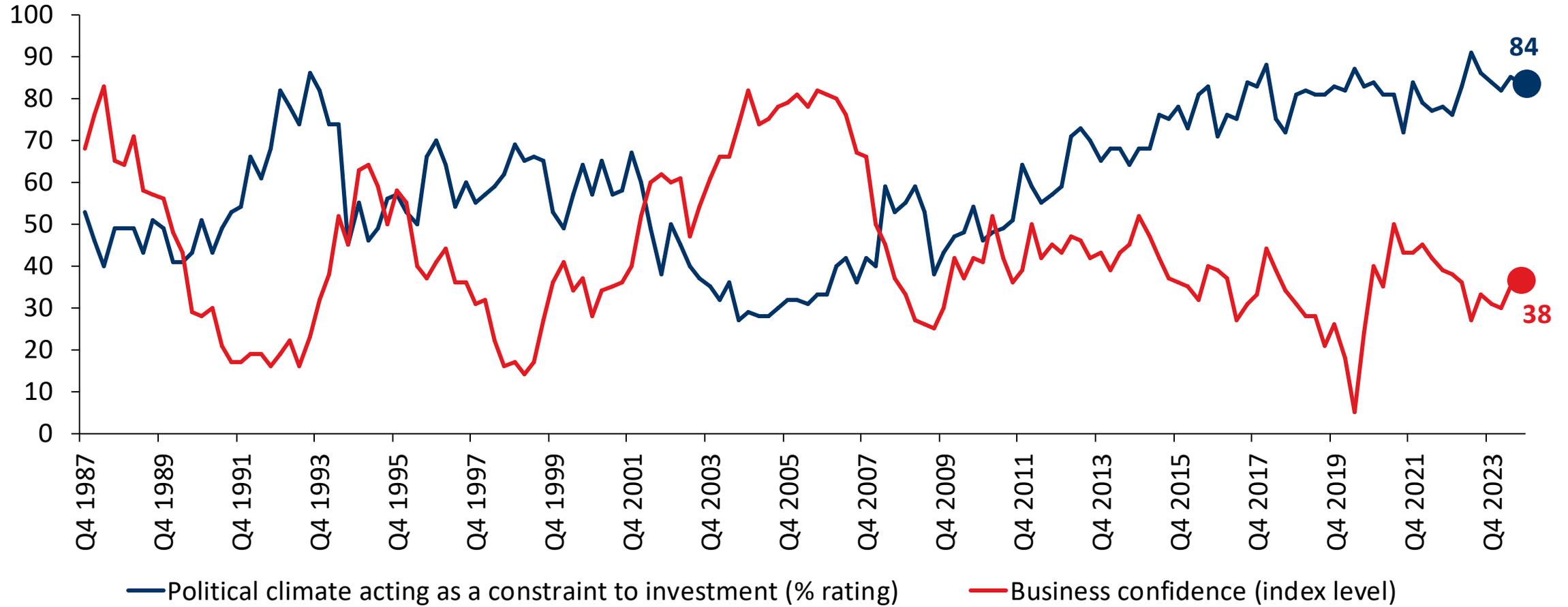
Political optimism evident → SA's credit default swap spread has recovered relative to its emerging market peer's spreads

SA/Emerging market spreads  
(Index: Jan 2015 = 100)



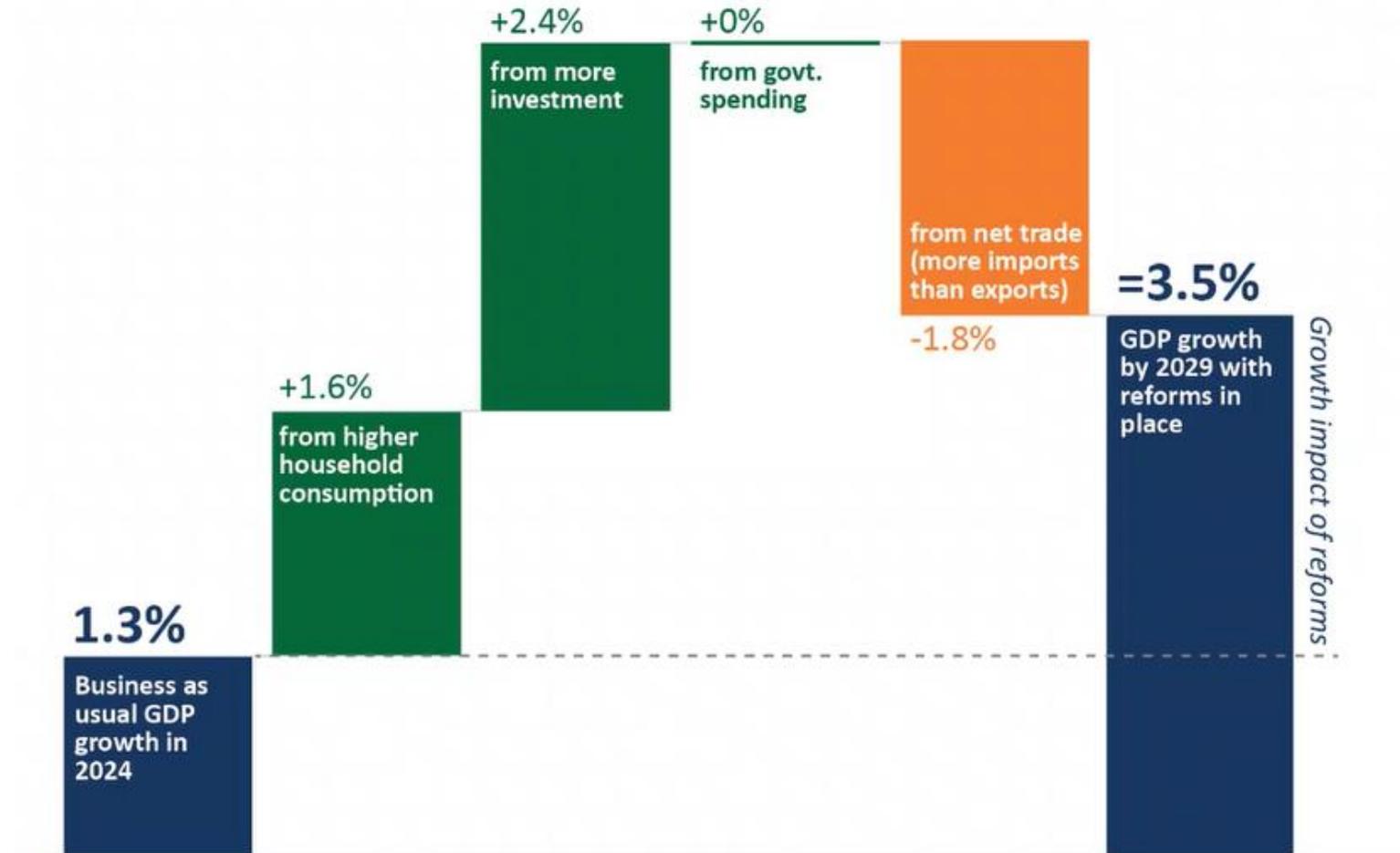
# SA's unity government and path to reform

Political uncertainty has hindered business optimism, but reform hopes have jumped



# SA's unity government and path to reform

Reforms undertaken by Operation Vulindlela in Phase 1 could boost growth by 1.5pp by 2029



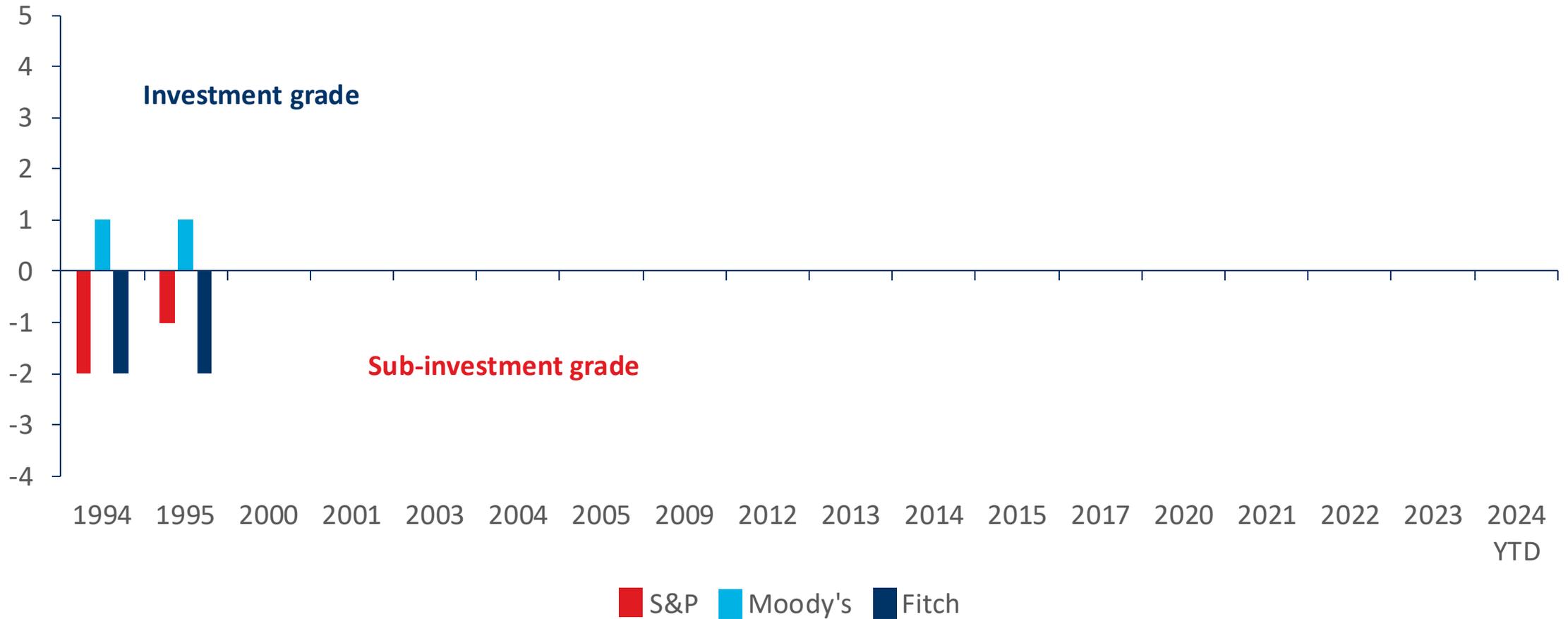
Source: Operation Vulindlela



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Is SA due for a sovereign rating upgrade?

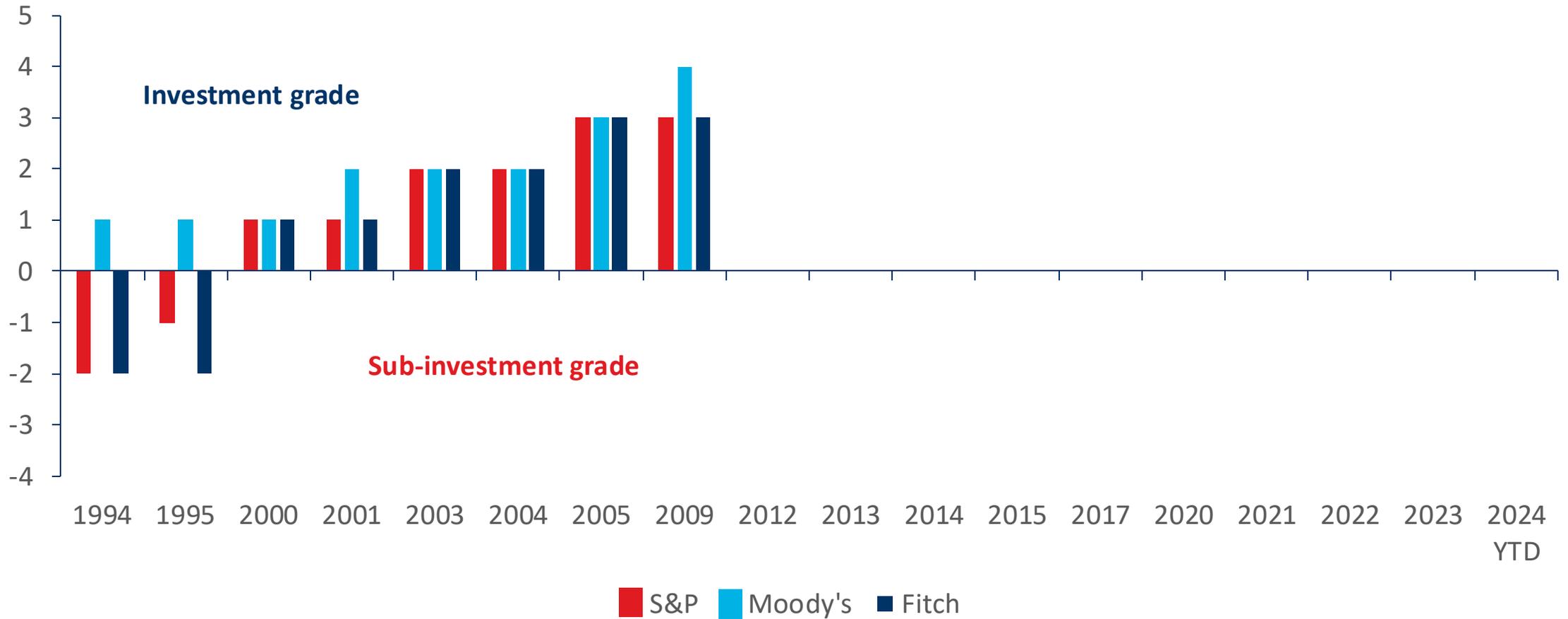
Level of foreign-currency debt rating relative to investment grade (notches)



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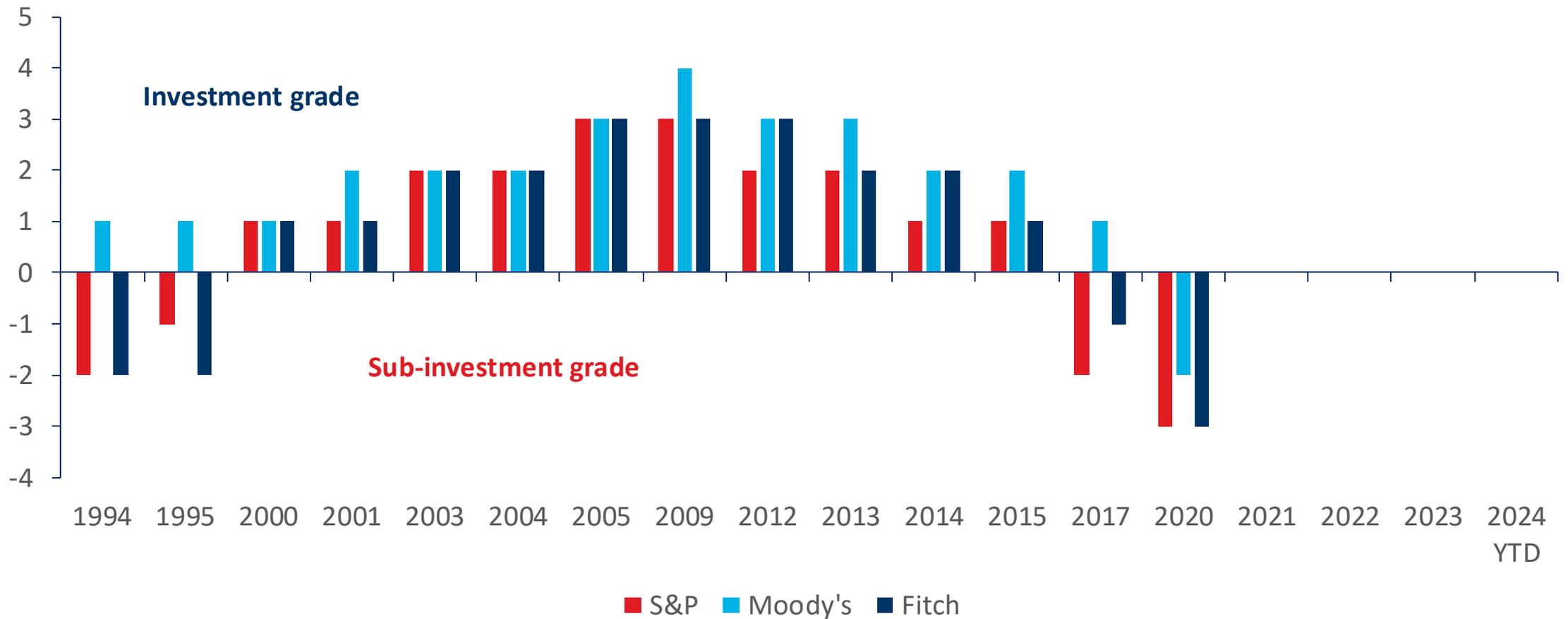
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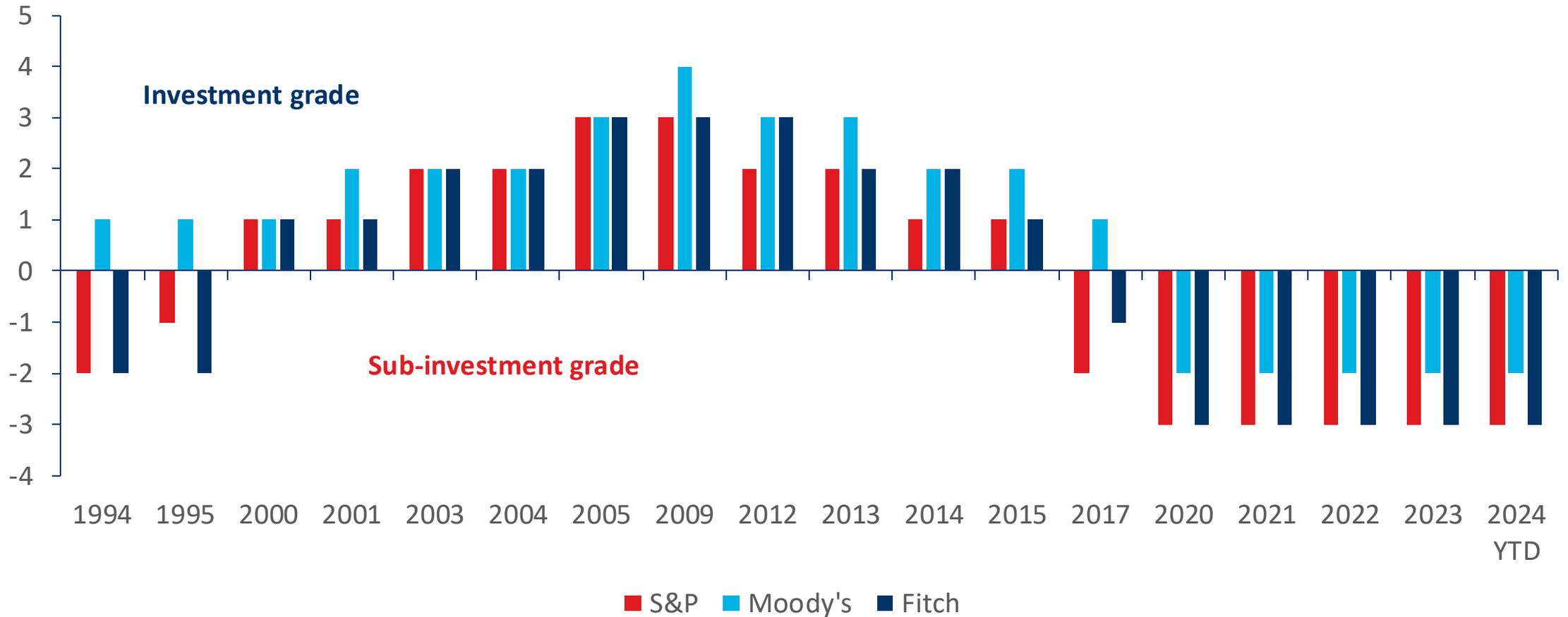
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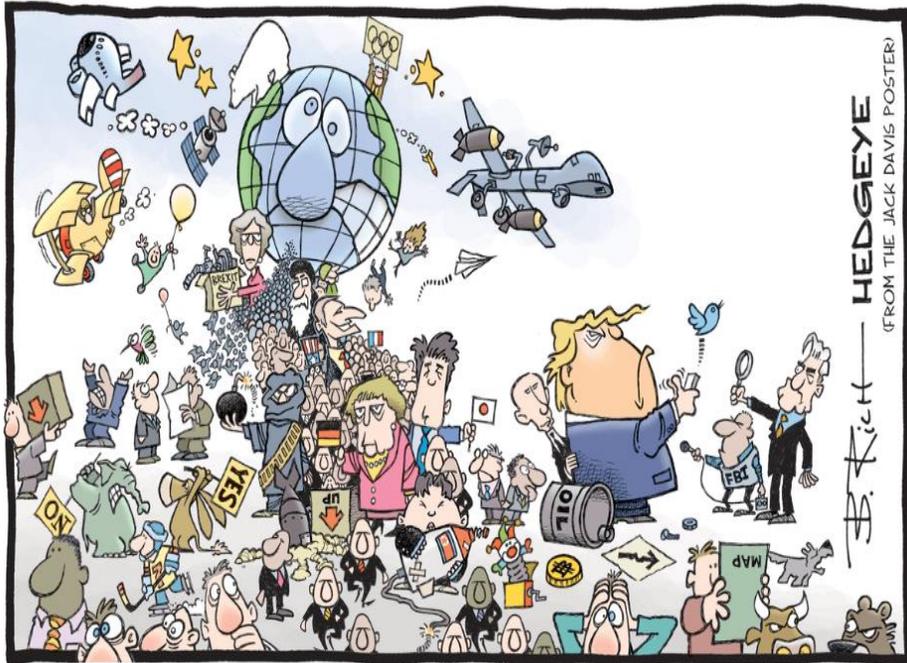
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# Navigating the new world order

Impact on the economy and financial markets

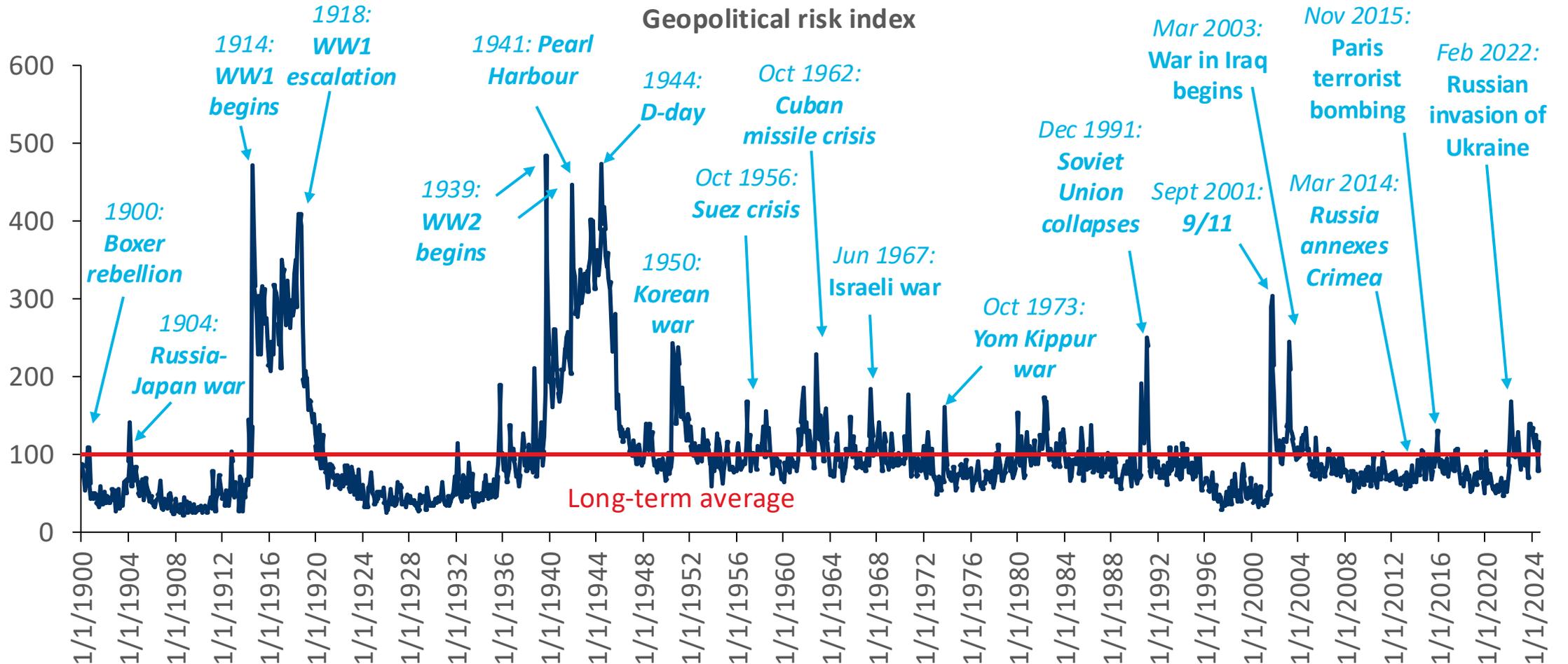


Source: Hedgeye

## Section 7

# Navigating the new world order

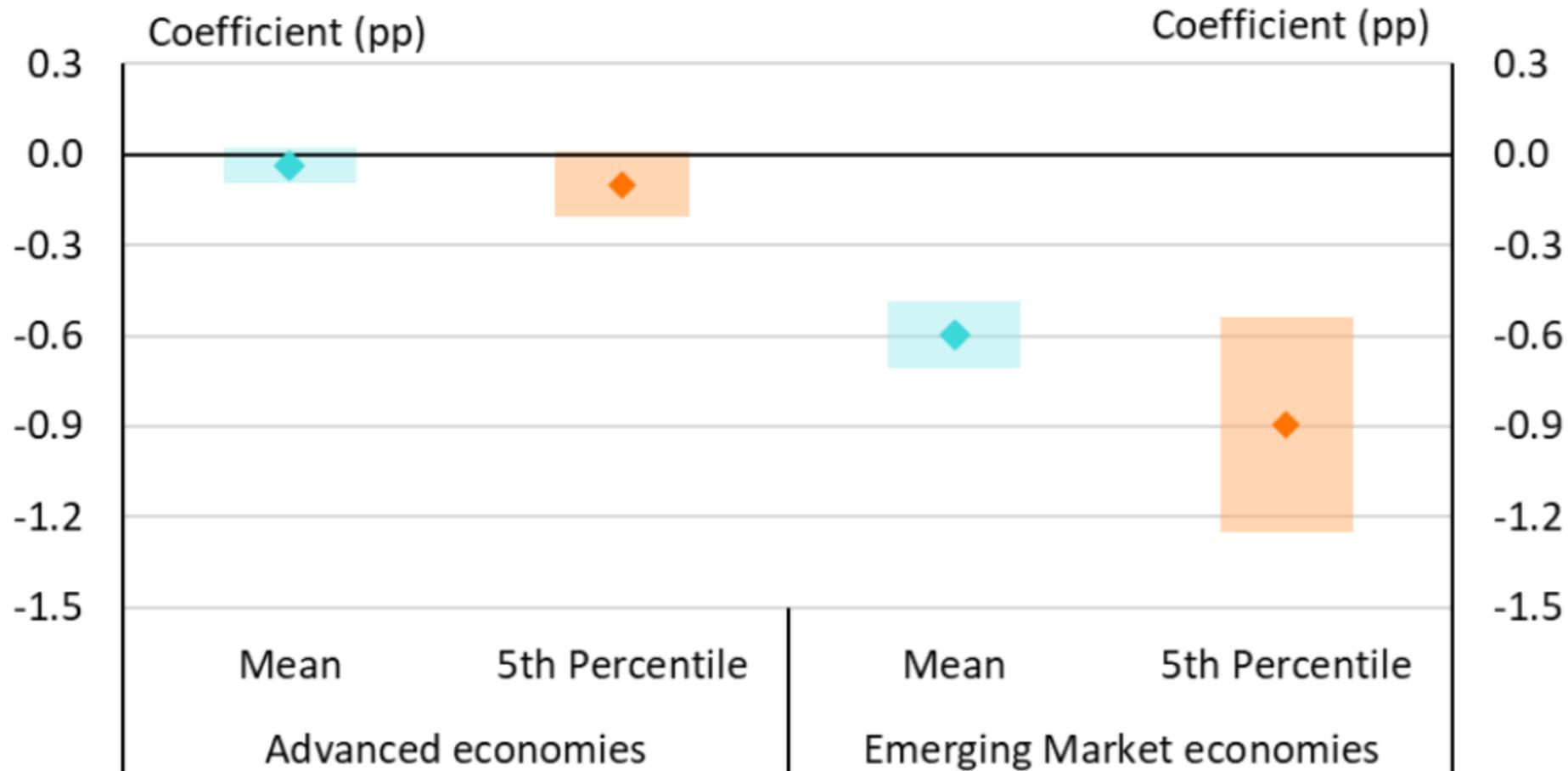
Heightened geopolitical risks could lead to structurally higher inflation, lower growth and greater social disparities



# Navigating the new world order

Impact of geopolitical risk is more material for emerging markets

Impacts of geopolitical risk on GDP growth at one-year horizon, by country group

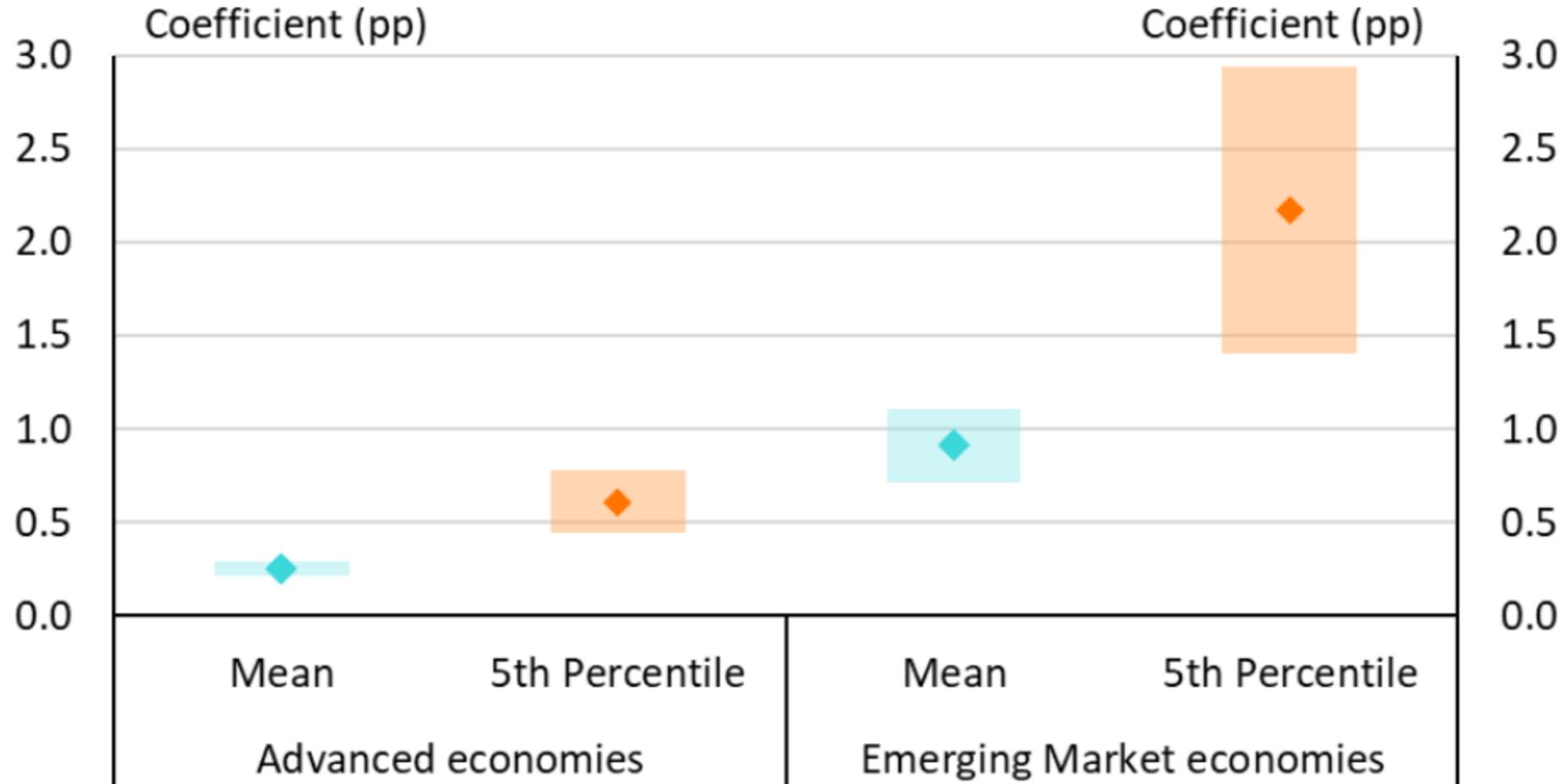


Source: Bank of England, Momentum Investments Group, Shaded area = 68% confidence interval around mean

# Navigating the new world order

Impact of geopolitical risk is more material for emerging markets

Impacts of geopolitical risk on consumer price inflation at one-year horizon, by country group

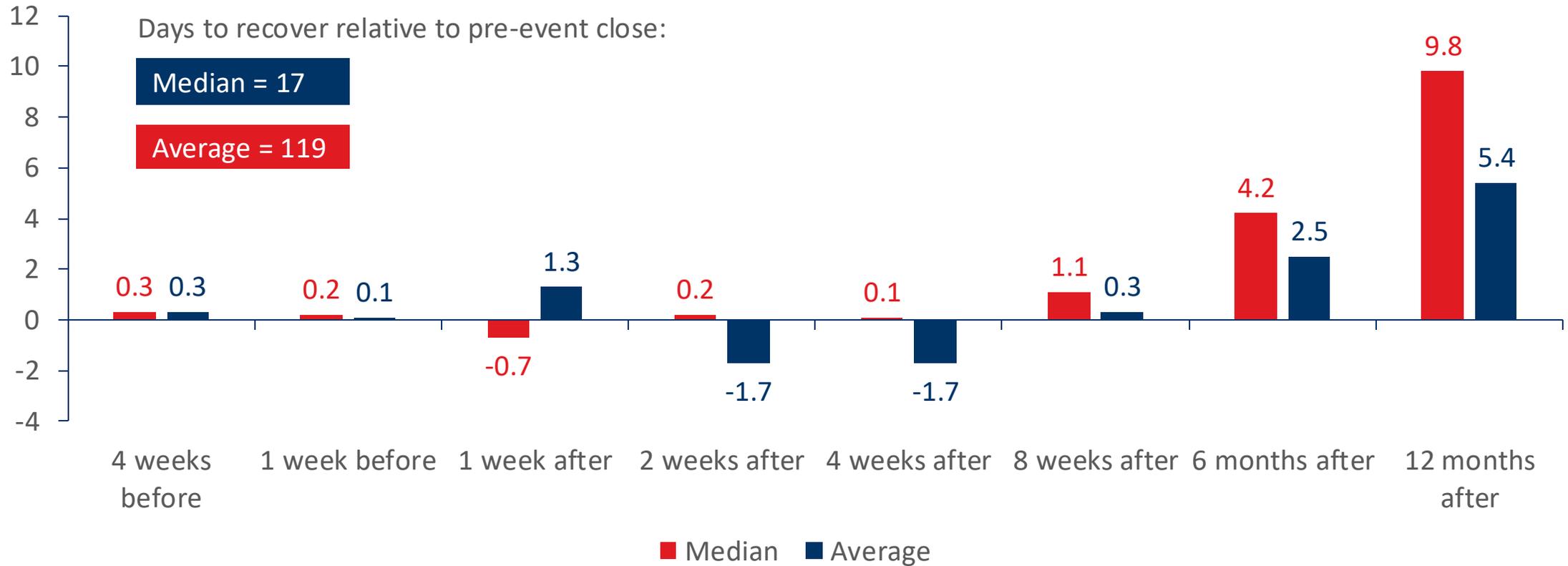


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# Navigating the new world order

Geopolitical risks and shocks have historically seen sharp but short-lived selloffs and from there the macro drives the narrative

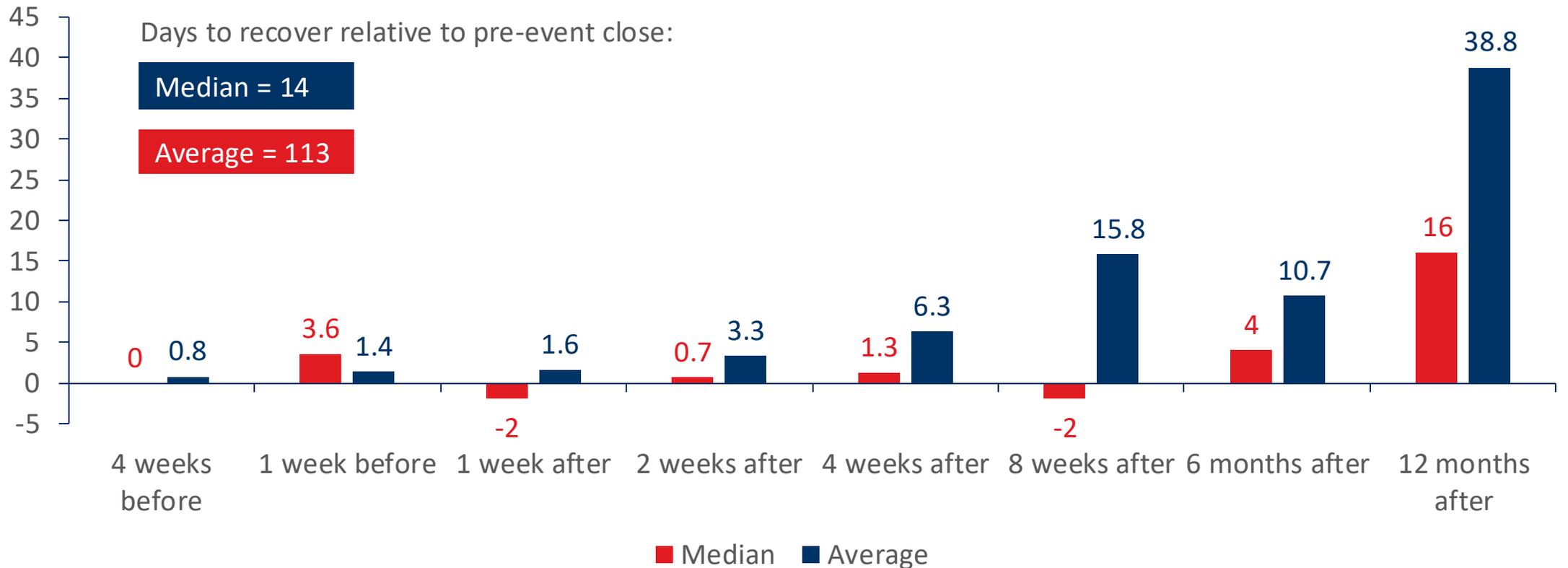
S&P 500 gains or losses following 28 major geopolitical events from World War 2 onwards  
(% change)



# Navigating the new world order

Geopolitical risks and shocks have historically seen sharp but short-lived selloffs and from there the macro drives the narrative

US 10-year treasury yield gains or losses following 22 major geopolitical events from 1962 onwards  
(basis-point change)



# Summary

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US and China are at the centre of the  
global economic power shift  
→ emerging markets playing a  
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## Navigating risks

Structurally higher geopolitical risks associated with rise in defence spending  
→ could lead to lower growth, higher inflation and raised market volatility

**momentum**  
investments group

**Questions?**

The background features a dark blue gradient. On the right side, there is a large, abstract graphic composed of several overlapping shapes. These include a large maroon rounded rectangle, a smaller red circle, a larger red circle, and a rounded rectangle in a darker shade of maroon. The shapes are layered, creating a sense of depth and movement.