

Post-Covid: The way forward for SA and emerging markets

Emerging markets across the world are well positioned to recover from the Covid-19 pandemic, thanks to a raft of reforms and baked-in resilience - but while South Africa's fundamentals appear to be in good shape, it must overcome slow growth and a worrying debt trajectory if it is to take advantage of the opportunities presented by the pandemic.



Justice Malala

That's the assessment of Alistair MacDonald, a senior vice president at global asset management company Franklin Templeton, who was delivering a keynote address at the digital Morningstar Investment Conference.

Unlike other emerging markets, South Africa had not seized the opportunity to make structural reforms and changes, said MacDonald. While the country had benefited in some ways from the Covid-19 crisis, with oil prices falling at the same time that precious metal prices were soaring, the increasing level of tax being used to service interest on debt raised questions of sustainability.

"Despite these headwinds, South Africa can use the Covid-19 crisis to implement reforms and get the country back to a strong growth trajectory. In recent years, Brazil managed to implement reforms, address corruption and reduce the country's debt levels, which could point the way for South Africa," he said.

Political analyst Justice Malala said the governing ANC was coming under unprecedented pressure to implement major policy changes aimed at alleviating the socio-economic challenges highlighted by the Covid-19 pandemic, with universal health coverage at the top of the list.

"This pandemic could be the genesis of a national health insurance (NHI), because no one who has been infected by Covid-19 has been turned away. If there was any doubt about the funding of NHI and the feasibility of the policy, there's no longer much doubt," he said.

ESG investing

Socially conscious investing also continues to gain momentum. Covid-19 has seen investors increasingly looking to environmental, social and governance (ESG) investments, which has spurred a growing number

impact investment funds.

ESG investments are currently estimated to total around \$30trn globally – or one in every three investment dollars – as more than 86% of S&P 500 companies adopt some form of ESG principles. While the importance of ESG investing is not yet a major feature of the South African landscape, the number of sustainability-focused index funds and their assets have doubled over the past three years, according to Morningstar [research](#).

“One of the myths of sustainable investing is that investors have to make a trade-off between ESG and performance. The numbers show that’s simply not true. During the second quarter, 56% of sustainable funds ranked in the top half of their Morningstar category, and year-to-date, that number jumps to 72%,” said Victoria Reuvers, Morningstar Investment Management MD.

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