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WEEKLY REPORT

OVERBERG MARKET REPORT

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Global Report

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Artificial Intelligence to transform global economy.

Independent Research firm Capital Economics has written a comprehensive report titled “AI, Economies and Markets – How artificial intelligence will transform the global economy.” The report asserts that AI is a General-Purpose Technology (GPT). GPTs have widespread transformative effects across all sectors of the economy. Economist Robert Lipsey defined a GPT as “a single technology, or closely related groups of technologies, that is widely used across most of the economy, is technologically dynamic in the sense that it evolves in efficiency and range of uses in its own right and is an input in many downstream sectors where those uses enable a cascade of further inventions and innovations.”

Recent GPTs include the adoption of steam power during the 1700s and 1800s and the introduction of electricity in the early 1900s. These GPTs delivered surges in productivity and economic growth alongside widespread adoption of the new technologies, although changes took place over decades. Economies had to adapt to the displacement of workers. Over the course of the first two industrial revolutions between 1750 and 1914, the share of the UK workforce engaged in agriculture and other primary sectors shrank from 48% to 7%. It is currently just 1%. Over time however the boost to real incomes and to GDP increased the eventual net total number of jobs. The widespread adoption of AI could affect 47% of the US workforce either through job losses or substantial job changes, but the economy will adapt, creating an eventual net increase in total jobs. The surge in productivity will bring down inflation and boost fiscal revenues.

Narrow AI, designed to complete specific tasks, has already been around for years. Recent excitement has centred around Generative AI and the development of Large Language Models (LLMs) that are capable of generating text images or other media. Further along the AI spectrum lies General AI, which is still many years away, and refers to a machine capable of replicating human intelligence for a broad array of tasks, including creative ones. Developing LLMs can cost hundreds of millions of dollars, which puts the technology giants at a significant advantage, largely explaining the tremendous outperformance this year of the so-called “Magnificent 7” mega-cap technology stocks in the US.

Scottish Mortgage Investment Trust plc, a significant holding in Overberg Asset Management’s client portfolios, well known for its early investments in companies such as Tesla and Nvidia, makes exciting claims about AI. Its managers observe that the pace of progress in AI is well ahead of what Moore’s Law would suggest, that computing power doubles every two years. They observe that “instead of seeing the end of an aberrant growth era, we may be entering a period of even faster development. If so, the consequences will yet be more profound.” They highlight that the consumer tech giants have the deep pockets and user bases that may make them significant beneficiaries.

AI has the potential to boost innovation across a wide range of sectors, including but not limited to medicine, education, transport, and manufacturing. AI has the key advantage over past GPTs of being easier to adopt. Software can be rolled out far quicker than the physical capital equipment of past technologies, which means adoption will be quicker. Productivity growth is expected to double, leading to faster economic growth and lower inflation. The achievement of General AI could lead to explosive growth. According to Bank Credit Analyst Research "The global economy has experienced two phase transitions in the past: The Agricultural Revolution and the Industrial Revolution. Both revolutions saw GDP growth rise 30-to-100 fold relative to the previous epoch. A comparable increase in growth, this time driven by super-intelligent AI, would allow global GDP to double every year or even faster."

Some countries will benefit more than others. Capital Economics have ranked countries according to their AI Economic Impact Index reading, which depends on their capacity to innovate, diffuse, and adapt. The US ranks first, assuming the role of global technological leader, as it has done for much of the past 100 years, reflecting its size, free market orientation, rise in private and public investment in Research & Development, active venture capital markets, and higher education system. By contrast, Europe's less developed venture capital industry and weak cloud infrastructure, combined with structural impediments such as inflexible labour laws, make the innovation and diffusion of AI technology more difficult, as well as the ability to adapt to labour displacement and other disruptions.

The development and adoption of AI will benefit equity markets, especially the technology firms. Although widespread adoption will take time, equity markets tend to front load the benefits, hence the sizeable appreciation since the start of the year of the magnificent seven, which collectively have experienced a share price appreciation exceeding 50%. On a two-year horizon, the boost to equities is likely to remain focussed on the providers of AI, principally in the technology sector. The US, home to the AI technology giants is set to be the outperformer. Their share prices have grown substantially since the start of the year with prospects for a mania to develop, likely to be helped next year as the Federal Reserve pivots towards monetary easing and lower interest rates. According to Capital Economics "We still expect a bubble to last for at least two more years. And we expect the stock market in general to rally, as the bubble inflates, like it did in the second half of the 1990s…. Our 2024 and end-2025 forecasts for the S&P 500 are 5,500 and 6,500, respectively."

Local Report

Gielie Fourie

African Growth and Opportunity Act (AGOA)

INTRODUCTION: The African Growth and Opportunity Act (AGOA) is an American piece of legislation that was approved by the U.S. Congress on 18 May 2000 and signed into law by then President Bill Clinton. AGOA was the brainchild of Congressman Jim McDermott, who was familiar with conditions in Africa. AGOA is intended to be a transformational tool to bolster prosperity across Sub-Saharan Africa. AGOA's goal is the use of trade to create better opportunities for Africans and Americans. Importantly, to maintain eligibility, or "membership," countries must uphold values that are core to free and fair societies, such as the rule of law, labour rights, human rights, and intolerance of corruption. After completing its initial 15-year "trial" period, the AGOA legislation was extended on 29 June 2015 by a further ten years by former President Barrack Obama to 2025 when it will hopefully be extended again.

About 35 countries are "members" of AGOA. Every year, the US Trade Representative and trade ministers from every country that participates in AGOA come together at a forum to take stock of their work together and find opportunities to do more. This year's forum was hosted by South Africa and took place from 2 to 4 November in Johannesburg. The US was represented by US Trade Representative, Katherine Tai. The forum is an opportunity to gauge progress and, perhaps more importantly, discuss if AGOA can be improved to better serve more Africans and Americans. AGOA has already made a tremendous difference for millions of Africans. By providing duty-free access to the US market for more than 6,800 products, AGOA has helped to create jobs and economic opportunities, including for women and youth. Duty-free access allows products to be marketed at competitive prices in the US. To South Africa it represents 1.5% of our total exports.

THE FUTURE OF AGOA: At last December's US-Africa Leaders' Summit President Joe Biden affirmed that the US would elevate its relationship with Africa. He stated: "The future is Africa. One example is its youthful population: the median age on the continent is 19. By 2050, one in four people in the world will be in Africa. The US wants them to be healthy and wealthy. What happens in Africa will affect the rest of the globe - and we want to work together to ensure it is bright, safe, and prosperous. Our African partners are central to Washington's approach to driving trade that is accessible, fair, competitive, and resilient. We need to partner together to protect the dignity of all workers and the sustainability of our planet."

President Ramaphosa as well as other African leaders at the forum suggested that AGOA should be extended for another ten years (beyond its 2025 expiry date) and that such extension should be announced soon. This call for an early extension may relate to the US election next year. If re-elected, former US president Trump may be more hesitant to extend the AGOA programme.

THREATS TO REMOVE SOUTH AFRICA FROM AGOA: Some US senators are lobbying for SA to be subjected to an 'out of cycle' AGOA review due to the country's relationships with Russia, Palestine, and Iran. US Senator Jim Risch recently wrote to US Secretary of State Anthony Blinken and US Trade Representative Katherine Tai criticising the decision to retain SA as the host of this year's AGOA Forum as well as the decision to maintain SA's AGOA eligibility.

Senator Risch's concerns include the recent visit by government officials including ANC minister Naledi Pandor's to Iran to meet Iranian President Ebrahim Raisi, her recent phone call to Hamas leader Ismail Haniyeh, and her proposal in parliament that the International Criminal Court (ICC) immediately issue an arrest warrant for key Israeli decision makers, such as Prime Minister Benjamin Netanyahu. Pandor's actions confirm that "that Raisi's visit was even considered makes it clear that South Africa's government has priorities in direct conflict with our national security concerns. Hosting the AGOA Forum in South Africa and maintaining South Africa's eligibility benefits in 2024 compromises the programme's integrity".

Senator Chris Coons has submitted a Bill calling for an 'out of cycle' review of SA's eligibility for its AGOA benefits due to the concerns raised by Mr Risch. Despite the concerns of the two senators, SA's AGOA eligibility was extended for another year. Four African countries were not so fortunate. Uganda, the Central African Republic, Gabon, and Niger had their membership withdrawn largely on the grounds of human rights violations and/or military coups in those countries over the past year.

BOTTOM LINE: US ambassador to SA, Reuben Brigety, remarked at the AGOA Forum: “The African Growth and Opportunity Act is a key pillar to realising a vision for shared prosperity - which is why the US administration fully supports its reauthorisation. AGOA is an opportunity to deepen ties between the US and SA. This is why the Biden-Harris administration fully supports reauthorising AGOA.” Whether South Africa will remain a member of AGOA depends on our government’s relationships with countries that present security threats to the US. Unfortunately, you cannot be on both sides of the fence at once. AGOA will continue with or without us.