NAVIGA

Newsletter

July 2022

MARKETS AND ECONOMICS

The month of July brought some much-needed relief after the end of the second quarter, which consisted of significant drawdowns and volatility across asset classes. Most asset classes ended the month substantially higher, driven primarily by interest rate expectations and earnings results, and despite various other negative influences. Global markets bounced on indications of weaker economic growth, with the United States (US) posting the second quarter of negative gross domestic product growth (-0.9%), which market participants believe could imply less aggressive interest rate action by central banks going forward. Market pricing currently even points to expectations of policy rate cuts in the second half of 2023, which is likely an overly-optimistic outlook. Comments by some central bank members have made it clear that they remain committed to reigning in inflation, despite the risk of a recession, after a unanimous vote for a 0.75% increase at their July meeting and comments by Jerome Powell suggesting that another large hike is on the table for September. Other market-moving forces for the month included highly elevated geopolitical tension, as the relationship between the US, China, and Russia continues to sour, while internal political chaos in the United Kingdom and Italy also added to market volatility.

Despite talks about a recession, higher input costs, and the rising cost of capital, the latest results period in the US seems to indicate that corporates are still holding up. Approximately 56% of the companies in the S&P 500 reported results for the second quarter at month-end, with 76% of these reporting earnings above estimates. The positive earnings surprises further supported the equity rally experienced throughout July: The large technology counters were some of the biggest beneficiaries, with the likes of Amazon and Netflix up close to 30% for the month.

Locally, after large-scale load shedding in June and at the beginning of July, electricity supply stabilised around mid-month, partially as a result of an agreement on wage negotiations at Eskom, providing activity relief and a welcome boost to local sentiment. Furthermore, significant progress in energy reforms were announced, including the removal of licensing requirements for embedded energy generation, as well as incentives for rooftop solar installations through the ability to sell surplus electricity to Eskom. Although these measures will take time to result in improved energy supply, it should contribute significantly to growth through private investment. There are also steps being taken to accelerate the approval process for independent power producers, which should speed up implementation. These positive developments contributed to domestic-focussed businesses outperforming in July, with the consumer discretionary sector delivering 11.6%. Meanwhile, mining underperformed after some disappointing results announcements, primarily owing to the downward trend in metal prices during the last year, as well as lower production.

In line with its global peers, the South African Reserve Bank (SARB) increased interest rates by 0.75% in July, the biggest hike since 2002, moving ahead of the market's consensus of 0.5%. The voting data points to a much more hawkish stance from the SARB, as three members voted for the 0.75% hike, one member voted for 0.5%, and one member even voted for a 1% increase. The SARB is clearly committed to tackling rising price pressures after inflation moved to a 13-year high of 7.4% in June, primarily driven, once again, by transport, housing, and the food and non-alcoholic beverages categories.

JSE All Share ▲ 4,22% | 68 934,01	**MSCI World (USD)** ▲ 7,94% | 2 746,37	**MSCI EM (USD)** ▼ - 0,25% | 993,78
SA Bonds ▲ 2,44% | 826,57	**SA Property** ▲ 8,81% | 314,47	**CPI (y/y)** ▲ 7,40% | 104,20
Gold ▼ - 2,68% | 1 766,34	**Platinum** ▼ - 1,85% | 899,50	**Oil** ▼ - 4,64% | 103,97
\$/R ▲ 1,93% | 16,60	**€/R** ▼ - 0,52% | 16,98	**£/R** ▲ 1,96% | 20,21

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