NAVIGA

Newsletter

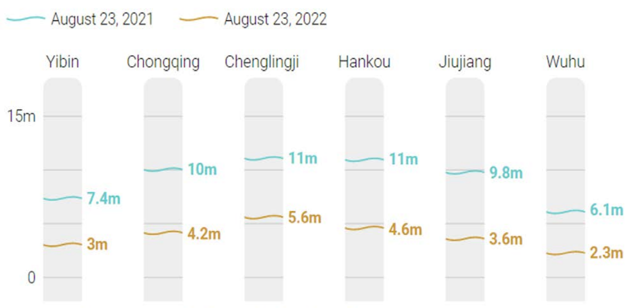
August 2022

MARKETS AND ECONOMICS

Inflation and growth concerns continued to be the key drivers in August, as investors try to gauge just how far central banks are willing to go to rein in inflation. With markets initially continuing the strong July trend, sentiment soured relatively quickly around mid-month, as investors realised that their expectations of a less aggressive policy stance were misplaced, and that we are likely heading for tougher financial conditions and a much lower earnings environment. There was a lot of focus especially on the Jackson Hole Economic Symposium in August, where central bankers from around the world gathered to discuss policy. It was here that United States (US) Federal Reserve Chair, Jerome Powell, announced that they will have to be more aggressive and for much longer than what the market is expecting, and that they are willing to tolerate a period of lower economic growth to ensure that inflation remains under control. This announcement led to a sharp reversal in sentiment and a sell off across global indices, while the US dollar moved even higher.

Apart from the macro factors mentioned, August saw talks of energy rationing for Europe amid the ongoing energy crisis, as Russia closed the taps on the main Nord Stream gas pipeline twice during the month. Heading into winter, this has forced the United Kingdom (UK) and European governments to commit up to $500 billion in subsidies to help cover energy bills. On the other side of the world, China battled extreme heatwaves and a drought, with record-low water levels posing significant risk to its own energy supply, as the country is very reliant on hydro-generation for electricity.

Water levels measured at the major hydrologic stations



Source: https://multimedia.scmp.com/infographics/news/china/article/3190803/china-drought

On the economic side, despite global Purchasing Managers' Index (PMI) data moving lower across major economies, as weaker global demand impacted on new order volumes, various other on-the-ground indicators have been showing some surprises on the upside. In this scenario, unfortunately, good news is bad news, as any signs of a stronger economy support firmer policy stances from central banks. Furthermore, while the US has seen some moderation in inflation, price pressures in Europe and the UK continue to rise and reach multiple-decade highs.

Locally, we saw inflation accelerate to a 13-year high of 7.8% in July, with transport, once again, being the primary driver (growing 25% year-on-year), followed by food and non-alcoholic beverages at 9.7%. The big jump in transport can be ascribed to the 53% increase in the fuel price. However, we are likely to see less pressure from this category going forward, as the fuel price starts to decline, with consecutive fuel price cuts at the start of August and September. On a positive note, the unemployment rate declined slightly for the second quarter of 2022, to 33.9% (from 34.5% in the first quarter). A portion of this decline could be attributed to a return to in-person interviews, after using telephonic interviews during the lockdown period, which has significantly improved the response rate and, therefore, now likely reflects more accurately.

At the beginning of August, we implemented a shorter-term de-risking strategy across our portfolios to focus on capital preservation, which protected against much of the downside experienced throughout the month. This strategy resulted in a reduction of growth assets in favour of high yielding and less volatile income instruments as a short-term parking space, therefore, protecting capital while still generating attractive risk-adjusted returns.

JSE All Share - 1,84% | 67 257,14	**MSCI World (USD)** - 4,18% | 2 627,32	**MSCI EM (USD)** 0,42% | 994,11
SA Bonds 0,31% | 829,18	**SA Property** - 5,41% | 297,37	**CPI (y/y)** 7,80% | 105,80
Gold - 2,58% | 1 720,84	**Platinum** - 5,23% | 825,50	**Oil** - 8,01% | 95,64
$/R 3,10% | 17,12	**€/R** 1,40% | 17,21	**£/R** - 1,56% | 19,90

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