NAVIGA

Newsletter

September 2022

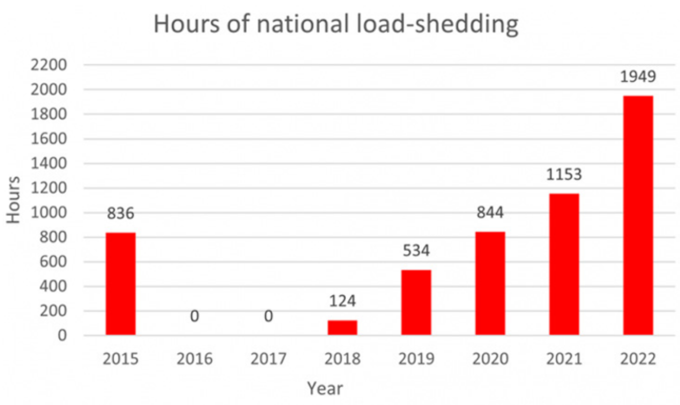
MARKETS AND ECONOMICS

It was another sea of red for markets in September, with equities, bonds, and currencies (relative to the dollar) all suffering losses during the month. Markets, once again, faced the realisation that inflation is not under control yet, and we have yet to reach the peak in the interest-rate cycle. Hopes of easing rate pressure were diminished around mid-month, after a higher-than-expected inflation print was reported in the United States (US), driven by an acceleration in core services inflation. The US Federal Reserve (Fed) increased rates by another 0.75% at their September meeting – the highest level since 2008. The Fed commented that they will need to maintain higher rates and see economic growth weaken more than anticipated in order to bring down inflation. Projections are now pointing to a policy rate of 4.4% by year-end, while any potential rate cuts have been pushed out to 2024, although the market still expects earlier cuts.

Apart from the same inflationary and rate pressures, it was an especially volatile month in the United Kingdom (UK). Only days after the newly-appointed Prime Minister, Elizabeth Truss, was sworn in, the country mourned as news broke of the passing of Queen Elizabeth II, the UK's longest-serving monarch that reigned for 70 years. As part of their first major policy moves, the new Prime Minister and the newly-appointed Finance Minister, Kwasi Kwarteng, announced a host of extreme changes, including the biggest tax cuts in 50 years, all of which require significant government borrowing. The announcement led to serious concerns around financial stability, a crash in UK assets, and major currency weakness, ultimately leading to the abandonment of some of the proposed changes.

Geopolitical risk was also heightened during the month, with Russian President, Vladimir Putin, mobilising an additional 300 000 soldiers in the war against Ukraine. This comes amid rising tensions with Europe, and China that is continuing to implement strict lockdowns across its major cities.

In addition to a clearly chaotic global landscape, things did not fare much better locally, as assets suffered under the risk-off sentiment, the ever-stronger US dollar, and the return of load shedding. So far, South Africa has had 1 949 hours of national load shedding in 2022, the equivalent of 81 days without electricity. Furthermore, the energy availability factor (EAF), which indicates the percentage of installed capacity available to the grid, hit its lowest level on record (53%) during the month. The dramatic extent of load shedding is likely to have a significant impact on economic growth for the third quarter of 2022, both directly and indirectly, through disruptions in activity in the mining, manufacturing, and agricultural sectors.



Source: South Africa's horror year of load shedding – here's how it compares (BusinessTech)

Other local economic developments included the South African Reserve Bank's decision to hike interest rates by another 0.75% on the back of upside risks to inflation, while two committee members even voted for a 1% increase. Expectations are that we will likely have another 0.5% increase at the November meeting, the last meeting for the year, which will have the repo rate end the year at 6.75%. This is despite a slight deceleration in inflation during August to 7.6% (from 7.8%), and the expectation that inflation likely peaked in July, primarily owing to the major risk that the exchange rate and food and energy prices pose to the inflation outlook.

JSE All Share - 4,13% | 63 726,37 ▼	**MSCI World (USD)** - 9,30% | 2 378,65 ▼	**MSCI EM (USD)** - 11,72% | 875,79 ▼
SA Bonds - 2,11% | 811,67 ▼	**SA Property** - 6,28% | 274,43 ▼	**CPI (y/y)** 7,60% | 106,00 ▲
Gold - 3,48% | 1 660,90 ▼	**Platinum** 1,41% | 864,50 ▲	**Oil** - 10,98% | 85,14 ▼
$/R 5,70% | 18,09 ▲	**€/R** 3,04% | 17,74 ▲	**£/R** 1,52% | 20,20 ▲

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