NAVIGA

Newsletter

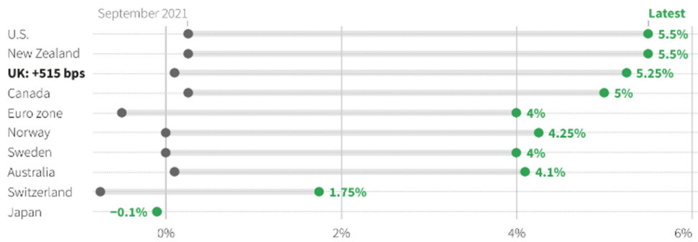
September 2023

MARKETS AND ECONOMICS

Negative market momentum continued into September, which, in turn, resulted in negative quarterly returns across most asset classes. The threat of a government shutdown in the United States (US) and the higher-for-longer interest rate narrative resulted in little appetite for growth assets, as bond yields moved higher and equity markets sold off further. The US 10-Year Treasury Yields reached levels last seen in 2007 during September, while the S&P 500 Index experienced its worst return for 2023 thus far. Despite the ongoing concerns regarding the property sector, the economic slowdown in China at least showed some signs of stabilising during the month, as the government continues to implement various stimulus measures. Subsequently, Chinese markets experienced relatively lower drawdowns during September, helping emerging markets outperform developed markets.

The race to raise rates

Change in policy rates by central banks overseeing the 10 most traded currencies



Note: As of September 21, 2023.
Source: LSEG Datastream | Reuters, September 21, 2023 | By Sumanta Sen

Reuters Graphics

It was a busy month on the monetary policy front. With most central banks leaving rates unchanged at their respective policy meetings, it seems as if we have potentially reached the peak of the global hiking cycle after two years of aggressive tightening. That being said, as part of their announcements, many central banks emphasised that inflation remains above comfort levels and that rates will likely remain at elevated levels for longer than initially expected. Further rate increases were also kept on the table with the US Federal Reserve Chair, Jerome Powell, even commenting that they expect another 0.25% hike before the end of the year. The Federal Reserve Bank further commented that the economy is remaining stronger than expected, resulting in their growth forecast being revised higher for 2023 and 2024. This resulted in longer-dated bond yields moving even higher, as the guidance suggests a lower probability of a significant recessionary environment.

Locally, we saw similar trends to those developing globally. At their Monetary Policy Meeting, the South African Reserve Bank kept rates unchanged but also left the door open for further hikes. Increasing oil prices and a weakening currency are placing increasing pressure on inflation expectations. Oil prices reached $95 per barrel in September and ended the month around 6% higher, as the Organisation of the Petroleum Exporting Countries extended their production cuts of more than 1.3 million barrels per day. Local sentiment was also dampened by rising fiscal risk and the ongoing bird flu crisis that has resulted in a chicken and egg shortage, after losing between 15% and 20% of national production to the virus.

A few other economic highlights included:

+ The South African economy expanded faster than expected in the second quarter, growing 0.6% for the quarter. Local inflation ticked up slightly in August, to 4.8% from 4.7% in July, as the housing and utilities categories rose on the back of an increase in electricity and other fuels, as well as water and other services.
+ The European Central Bank (ECB), in contrast with some of its peers, opted to increase its interest rates for the tenth consecutive time by another 0.25% to 4% at its September meeting. As part of the announcement, the ECB commented that this is likely its last rate hike for the year. The bank also revised its growth forecast lower to 0.7% for 2023, and revised its inflation forecast higher to 2.9% for 2024 and 2.2% for 2025.
+ The US Services Purchasing Managers' Index increased to 54.5 in August, up from 52.7 in July, ahead of expectations as the US economy continues to show resilience. Inflation also moved slightly higher in August on the back of the surge in oil prices. Core inflation, however, moderated slightly from 4.7% to 4.3%.

JSE All Share - 2,55% | 74 953,73	**MSCI World (USD)** - 4,31% | 2 986,02	**MSCI EM (USD)** - 2,62% | 980,33
SA Bonds - 2,34% | 891,27	**SA Property** - 4,08% | 302,87	**CPI (y/y)** 4,80% | 110,80
Gold - 4,95% | 1 848,69	**Platinum** - 6,58% | 904,46	**Oil** 6,18% | 92,20
$/R 0,26% | 18,92	**€/R** - 2,22% | 20,01	**£/R** - 3,47% | 23,09

t: 087 056 9631 | e: info@naviga.co.za | www.naviga.co.za | Catnia Building, Bella Rosa Village, Bella Rosa Street, Bellville, 7530