Market Perspective

First Quarter 2023

Current Outlook – Global Slowdown

Portfolio Position – Cautious

The global economy continues to slow as high inflation has forced central banks around the world to raise interest rates and tighten monetary policies. The era of easy money is over and we are now in a period of higher inflation and lower growth. The International Monetary Fund forecasts global growth will slow to 2,7% in 2023, while most Developed Economies are in recession or very close to it.

South Africa

The SA economy grew at 2% in 2022 and is forecast to grow just 1% this year. Despite this, the JSE rallied 15% over the last quarter and ended the year with a return of 3,5%.

The Rand started the year strongly, but over the last few months has weakened against the US Dollar and is currently at levels of R17,105. US Dollar strength is typical at this stage of a global risk-off cycle and the US$ has been extremely strong against all major currencies in 2022.

The South African Reserve Bank raised the repo rate by 0,75% in November to 7%, the seventh consecutive increase for the current cycle. The market expects a smaller hike of 0,25% in January as we near the top of this interest rate cycle.

The first half of 2022 saw SA return to improved economic growth driven by higher commodity prices, resulting in strong trade surpluses. However, growth is now disappointing again as the global economy slows and loadshedding hampers business.

SA Inflation eased to 7,2% in December from a high of 7,8% in July. Expectations are for inflation to moderate to 5% in 2023.

Developed Markets

2022 saw the US equity S&P500 index down nearly 20% for the year as the Federal Reserve continues to reduce its balance sheet and raise interest rates.

Inflation in the US slowed to 6,5% in December from its high of 9,1% in June. The US Federal Reserve inflation target is 2%, so even though inflation now shows signs of moderating, it is still far from being under control.

Inflation in the UK is 10,5% and in Europe it has slowed to 9,2% as so far Europe has managed its winter fuel crisis slightly better than predicted. Europe and the UK are expected to endure deep recessions over the next two years.

The US Fed raised interest rates by 0,5% in December to 4,5% and expectations are that rates will peak at 5% in 2023 and remain there for at least 12 months to control inflation. The Fed is now shrinking its balance sheet by $95 billion per month, which puts further pressure on asset prices.

The US Dollar is still the global safe haven in times of uncertainty and as such strengthened significantly against all major currencies in 2022, recording record highs against the Euro, UK Pound and Japanese Yen.

The US Federal Reserve has raised interest rates to control inflation, and central banks around the world have followed suit. The result is a global economic slowdown and equity market corrections. China's opening up from its lengthy Covid lockdown is a welcome stimulus to the global economy.