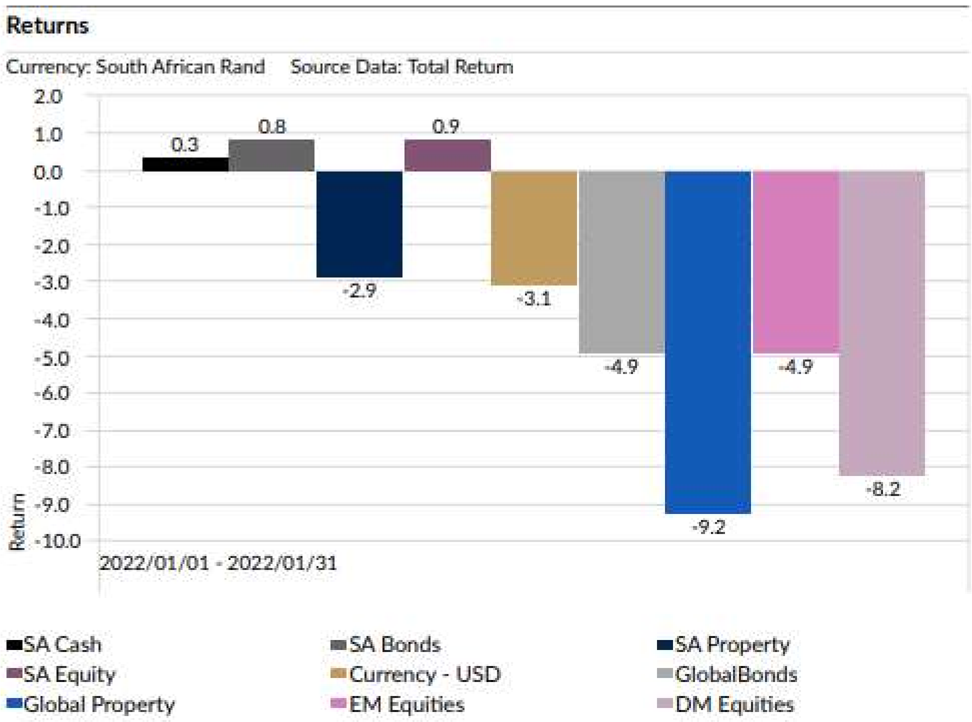
FG ASSET MANAGEMENT

ECONOMIC EXPRESS

JANUARY 2022

January was a weak month for global risk assets as we saw risk aversion increase in expectation for a faster withdrawal of the current easy monetary policy.

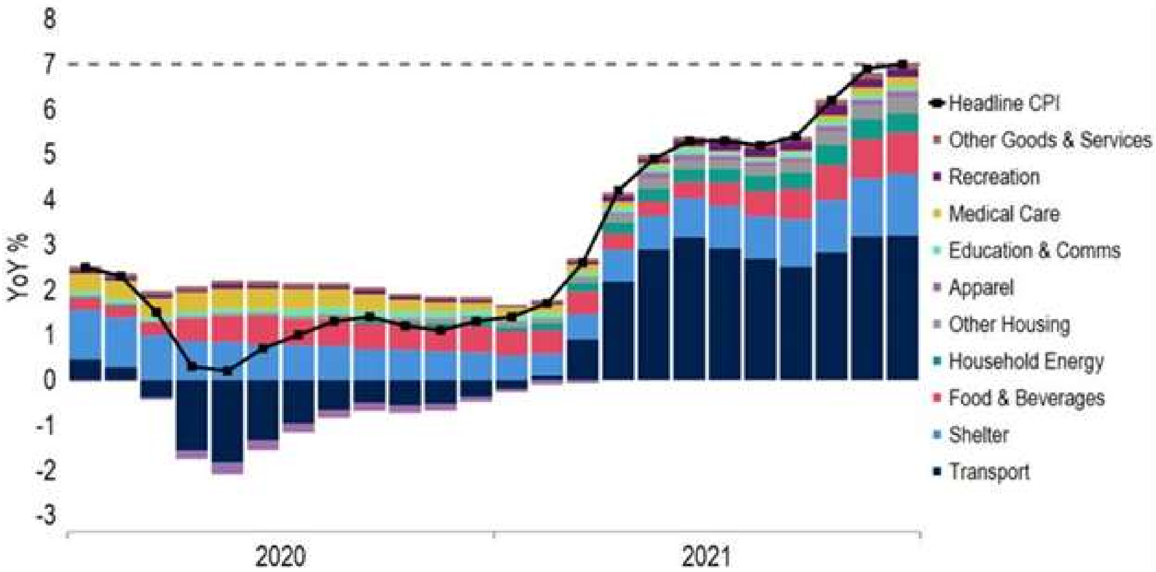
Figure 1: January asset class returns:



Source: Morningstar

Specifically, the US Federal Reserve (Fed)'s indication to be looking to withdraw accommodative monetary policy at a faster rate than previously indicated, as inflation continued to surprise on the upside. The US annual inflation rate was released in the second week of the month and came out at 7%, higher than the 6.8% expected and the highest level since 1982.

Figure 2: US Inflation contribution:



Source: Investec

While transport and energy remained high, the building of inflationary pressures were also evident in other key sectors such as shelter and food. The strong inflation print put further pressure on the US Federal Reserve to accelerate the monetary policy tightening process. This was realised at the first FOMC (Federal Open Market Committee) meeting of the year where the Fed signaled that they would look to start hiking rates as soon as March this year. Fed Chairman, Jerome Powell also confirmed that the central bank will start reducing the bond holdings on their balance sheet (quantitative tightening) after the rate increases commences. The Chairman also commented that the policy remains 'nimble' meaning that the policy could change if inflation and employment come out materially different to what they are expecting. This makes the market even more sensitive towards economic data releases, driving market volatility higher as the market digest releases and try to gauge the extent of monetary policy withdrawal.

Locally, inflation for December surprised the market on the upside as it came out at 5.9% relative to the expectations of 5.7%, and higher than the previous level of 5.5%. Higher transport costs have also been the major driver behind the inflation we have seen over the past year. With brent crude oil now at the highest level since 2014 (South African fuel has increased 40.5% year- on-year) it is understandable the effect that this has had on inflation. December's inflation data however showed that price increases are becoming broader based as food and housing costs are also contributing more noticeably.

In the last week of the month the South African Reserve Bank (SARB) increased the repo rate by 0.25% to 4%, in line with market expectations. This follows on from the last hike of 0.25% at the previous meeting in November. The decision was not unanimous as one of the five members voted to keep the repo rate unchanged. The SARB reasoned that despite the economy being weak, inflation risks have increased and as a result revised its inflation forecast for 2022 upwards to 4.9% from 4.3% in November. The SARB has emphasised that they are looking to do a gradual rate hiking cycle with the aim to keep the inflation anchored at its mid-point target level of 4.5%.

Index	Asset Class	January 2022
STEFI Composite Index	Local Cash	0.34%
FTSE/JSE All Bond (Total Return)	Local Bonds	0.85%
FTSE/JSE SA Listed Property (Total Return)	Local Property	-2.85%
FTSE/JSE Africa All Share (Total Return)	Local Equities	0.86%
JP Morgan World Govt Bond index (USD)	Global Bonds	-2.02%
FTSE EPRA/NAREIT Global Index (USD)	Global Property	-6.34%
MSCI AC World (USD)	Global Equities	-4.89%

Source: Morningstar

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