



FG ASSET MANAGEMENT

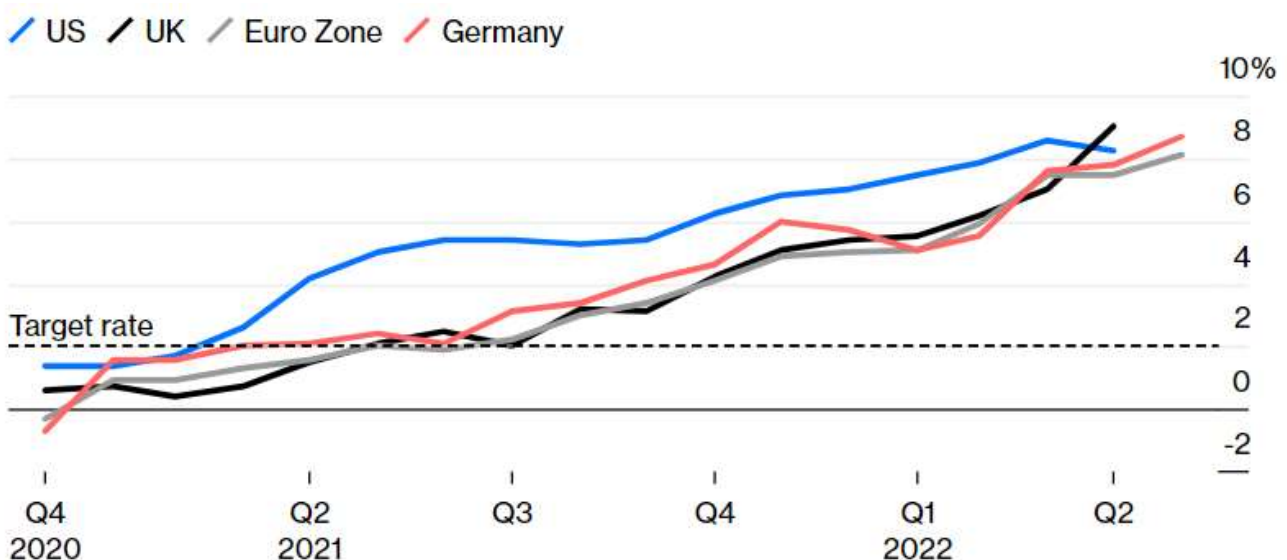
ECONOMIC EXPRESS

MAY 2022

Financial markets remained volatile over the month as market participants continued to work through the extent of which the elevated inflation and the subsequent monetary tightening will weigh on global growth. Widely accepted expectations are for global growth to slow; the uncertainty lies within how much.

Global inflation remains elevated, while in the US we saw slowing of price increases on the month. Some economists see this decline as a possible turning point for inflation, if this is in fact the case, the speed at which it will slow from here will be very important in determining the extent to which the US Federal Reserve will have to tighten monetary policy. US headline inflation came out at 8.3% for April, down from 8.5% in March. The annual core inflation measure which excludes food and energy prices also slowed from 6.5% to 6.2%. The market was however expecting larger declines for both measures, which weighed on market sentiment.

Figure 1: Global inflation of major economies:

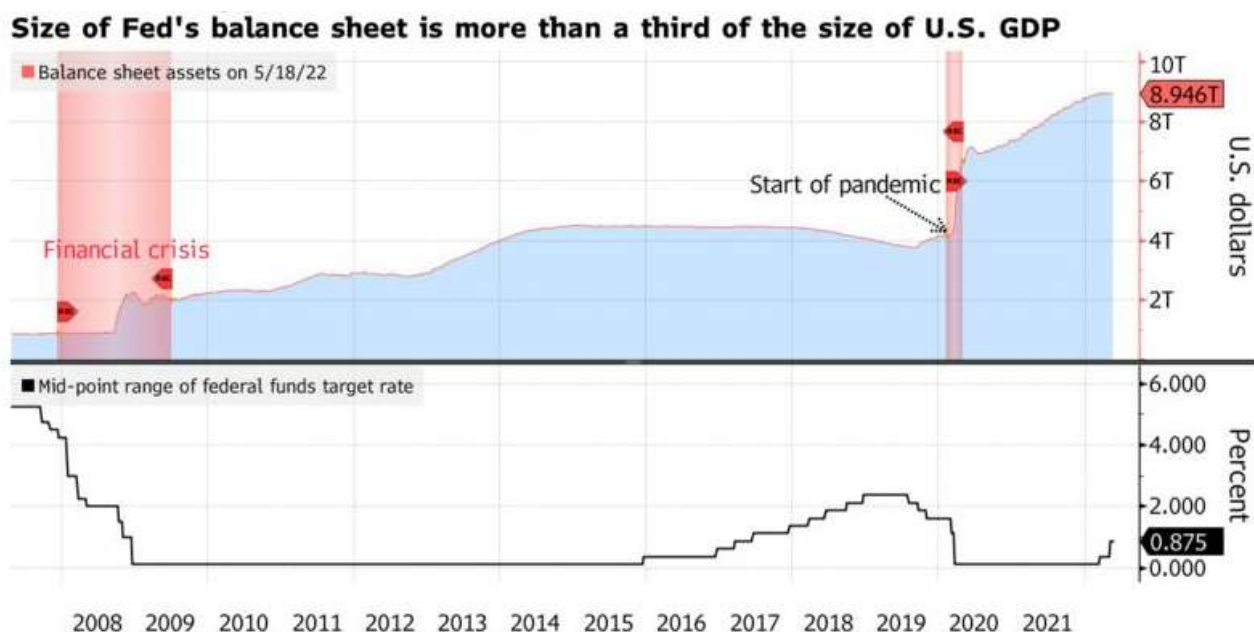


Source: Bloomberg



The US Federal Reserve (Fed) tightened monetary policy by hiking interest rates by 0.50% to 1% early in the month. Even though this was the largest increase in 22 years, the markets rallied following the hike as Jerome Powell commented that a 0.75% increase is not being considered at this stage. The 0.50% increase was widely expected, and the Fed chair commented that the committee was supportive of 0.50% increases for the meetings in June and July. The minutes of the meeting that was released later in the month reflected that the Fed is very “committed and determined to restore price stability”. The minutes also gave more details on the Fed’s plans to start shrinking its \$8.9 trillion balance sheet, which is set to start on June 1st.

Figure 2: US Federal Reserve Balance Sheet and mid-point of Federal target rate:



Source: Bloomberg

There was no resolution with regards to the Russian invasion of Ukraine, with the outcome of the war remaining very uncertain. The conflict has exacerbated inflation and weighed on growth. How the war develops from here will continue to be a key driver of the global economy. In addition, the strict zero Covid policy in China has further added to inflation and growth concerns as several major Chinese cities have been severely restricted in response to Covid infections. This has significantly weighed on the economic activity over the first half of this year, however towards the end of May there was some relief as a number of lockdowns were lifted. Expectations also increased for further easing of lockdown measures over June as Covid infection rates continue to fall. This will be positive driver for global growth going forward.



Local headline inflation for April remained unchanged at 5.9% for April, in line with market expectations. The main drivers behind the elevated prices remain within the transport and food categories, while the increases in medical insurance and prices on certain imported goods continue to point to inflation becoming broader based.

Mid-month the South African Reserve Bank (SARB) hiked rates by 0.50% to increase the repo rate to 4.75%. Four of the five members voted in favour of the 0.50% hike, while one member favoured only a 0.25% increase. This was in line with market expectations as inflation risks have increased to the upside, specifically within food, fuel, and wages. Overall, the SARB has raised rates by 1.25% since the rate hiking started November last year. The SARB also increased their inflation projection slightly higher to 5.9% from 5.8% for 2022. The 5% inflation forecast for 2023 shows the expectation for inflation to slow meaningfully as pressure from fuel prices diminish.

Index	Asset Class	MAY 2022
STEFI Composite Index	Local Cash	0.39%
FTSE/JSE All Bond (Total Return)	Local Bonds	1.01%
FTSE/JSE SA Listed Property (Total Return)	Local Property	0.05%
FTSE/JSE Africa All Share (Total Return)	Local Equities	-0.36%
JP Morgan World Govt Bond index (USD)	Global Bonds	0.0%
FTSE EPRA/NAREIT Global Index (USD)	Global Property	-4.82%
MSCI AC World (USD)	Global Equities	0.15%

Source: Morningstar