FG ASSET MANAGEMENT

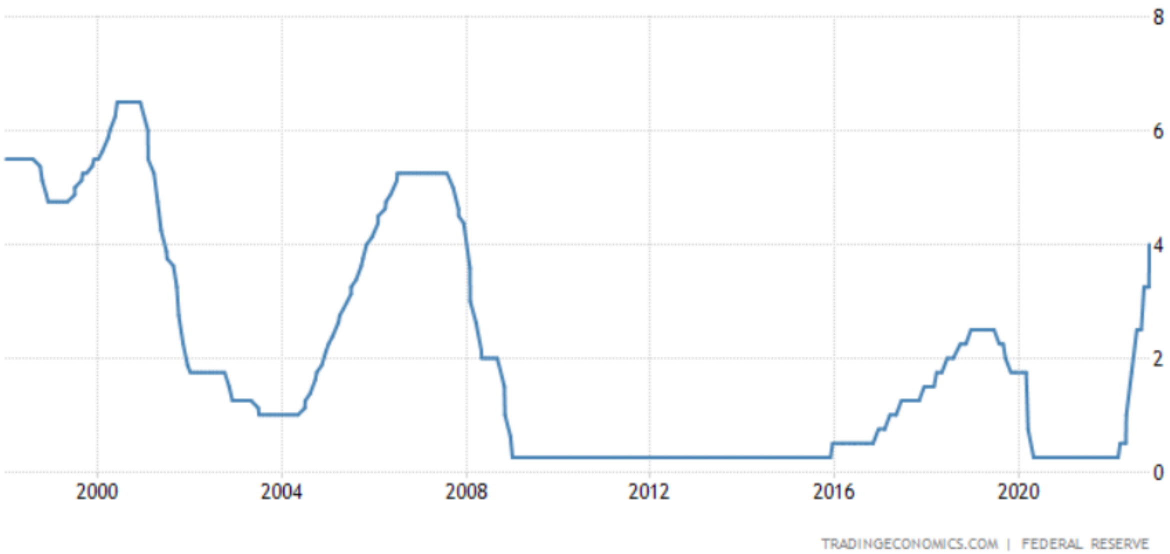
# ECONOMIC EXPRESS

**NOVEMBER 2022**

**November saw a marked improvement in investor sentiment as several developments supported financial markets over the month. These included the indication from the US Fed (Federal Reserve) that the pace of interest rate hikes might slow going forward and the subsequent US inflation release that came in better than expected. In addition, the gradual easing of Chinese zero-COVID restrictions together with government support for the Chinese property sector improved the global growth outlook over the month.**

**The month kicked off with the November FOMC (Federal Open Market Committee) meeting where the US Fed raised interest rates by 0.75% to the new range of 3.75% to 4%. The hike was widely expected and the fourth consecutive 0.75% rate hike to bring the Fed funds rate to the highest range in almost 15 years. The FOMC statement and press conference signalled that the pace of rate hikes would be slowing going forward, providing time to observe the lagged effect of the significant tightening that has been implemented since the start of this year. They however reiterated that given the elevated inflation and strong labour market, rate hikes would continue and would end at a higher level than previously expected.**

**Figure 1: US Fed Funds Rate**




***Source: Federal Reserve, Tradingeconomics.com***

The market continued to closely follow US inflation given the important implications on US monetary policy. The annual headline US CPI inflation rate showed that the pace of price increases had slowed to 7.7% to the end of October from 8.2% in September and well below expectations of 8%. It was the fourth consecutive monthly decline, with inflation now 1.4% lower than its peak in June and the lowest level since January. The deceleration of prices was across categories, including food, apparel and used cars and truck prices. Core prices which excluded food and energy also surprised positively falling to 6.3% from 6.6%, below the 6.5% expected. The lower-than-expected inflation suggested that less monetary tightening will be needed by the US Fed and so reduced interest hiking expectations which was very encouraging for financial markets.

In contrast, local annual inflation unexpectedly increased from 7.5% in September to 7.6% in October driven by a further increase in food prices. Core inflation also increased above expectations to 5%. Going forward, inflation is expected to return to the 4.5% mid-point of the target range in 2023 as a result of the base effects in both fuel and food inflation. It was therefore of little surprise when the SARB (South African Reserve Bank) hiked interest rates by another 0.75% to increase the repo rate to 7%. It was the seventh increase since November last year and brought the repo rate to the highest level since 2017.

**Figure 2: South African Interest Rate**


*Source: South African Reserve Bank, Tradingeconomics.com*

Another notable development was the gradual easing of China's zero-COVID controls. While officially China is still sticking to its zero COVID policy, the relaxing of strict controls over the month signal the potential start of the reopening. The easing of controls was unexpected especially given that China is in its winter season, positive COVID cases are rising, and a large portion of the elderly population remain unvaccinated. Given that China is the world's second largest economy, its reopening will be a material boost for global growth. Especially at a time when the rest of the world economies are slowing or even heading for a recession. The prospect of the Chinese economy reopening was therefore another positive market driver over the month.

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| Index | Asset Class | NOVEMBER 2022 |
| --- | --- | --- |
| STEFI Composite Index | Local Cash | 0.51% |
| FTSE/JSE All Bond (Total Return) | Local Bonds | 3.91% |
| FTSE/JSE SA Listed Property (Total Return) | Local Property | 6.32% |
| FTSE/JSE Africa All Share (Total Return) | Local Equities | 12.33% |
| JP Morgan World Govt Bond index (USD) | Global Bonds | 4.38% |
| FTSE EPRA/NAREIT Global Index (USD) | Global Property | 6.36% |
| MSCI AC World (USD) | Global Equities | 7.80% |

***Source: Morningstar***

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