



FG ASSET MANAGEMENT

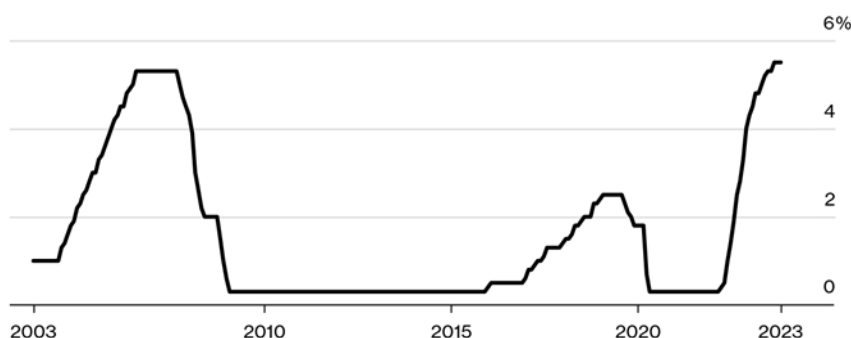
ECONOMIC EXPRESS

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Financial markets rebounded strongly in November, with risk assets making the largest monthly gains for the year so far. The positive risk sentiment was driven by a number of developments that pointed towards lower future US inflation, prompting the market to bring forward future rate cuts which supported global assets. By the end of the month, the market had brought forward another three 0.25% interest rate cuts for 2024 to five in total relative to the start of November.

On the first day of November the Fed (US Federal Reserve) held their second last policy setting meeting of the year where they kept interest rates unchanged for the second consecutive meeting at the range of 5.25% to 5.5%. In the press conference following the meeting, Chairman Powell hinted that rate hikes were finished for this cycle, which kick started the move lower of US bond yields.

Figure 1: US Federal funds target rate (upper bound):



Source: Bloomberg

Another important driver of financial markets over the month was the US inflation release which showed the annual headline inflation falling to 3.2% from 3.7%, slightly lower than the 3.3% that was expected. Price pressures remain in the services sector, with shelter and wage inflation being monitored closely by US Fed officials to determine the appropriateness of future monetary policy. The US unemployment data that was released in the first week of the month however showed weakness in the US labour market with the unemployment rate unexpectedly increasing up to 3.9%. This was also supportive for lower yields as it implies less price pressure expected to come through from wages.



At the end of the month, the annualised US GDP growth for the third quarter was revised higher to 5.2% from its preliminary estimate of 4.9%. This is however a backward looking measure of economic activity with many forward looking measures pointing towards a slowdown in economic activity going forward.

Locally, the much anticipated MTBPS (Medium Term Budget Policy Statement) took place at the start of the month, which was in line with expectations. Importantly, the statement outlined the larger budget deficit of 4.7% of GDP relative to the 3.9% estimate published from February's Budget. This was as a result of lower tax revenues, higher spending, and debt-servicing costs. The finance minister is to announce new tax measures at next year's Budget to raise additional revenue to cover the larger deficit. As a result, the Mini Budget showed South Africa's debt- to-GDP peaking at 77.7% in 2025/26 relative to February's projection of 73.6%.

Local inflation increased for the third consecutive month to 5.9% from 5.4%. This was well above the market's estimate of 5.6%. The increase was driven by price increases in food, transportation, and health. On the positive side, core inflation which strips out food and transportation declined to the lowest level in 14 months of 4.4%, as a result of slowing insurance and motor vehicle price increases. The SARB (South African Reserve Bank) made the unanimous decision to leave interest rates unchanged at 8.25%. The MPC (Monetary Policy Committee)'s statement however did remain hawkish warning that inflation risks remain to the upside, and should they materialise, the committee would increase interest rates further.

Index	Asset Class	NOVEMBER 2023
STEFI Composite Index	Local Cash	0.68%
FTSE/JSE All Bond (Total Return)	Local Bonds	4.73%
FTSE/JSE SA Listed Property (Total Return)	Local Property	9.14%
FTSE/JSE Africa All Share (Total Return)	Local Equities	8.55%
Bloomberg Global Aggregate (USD)	Global Bonds	5.04%
FTSE EPRA/NAREIT Global Index (USD)	Global Property	10.64%
MSCI AC World (USD)	Global Equities	9.28%

Source: Morningstar