JANUARY 2024

The positive momentum that started in the fourth quarter of last year continued into January. Many of the prevalent themes of 2023 also carried over into the new year, being the path of inflation going forward and the most likely monetary policy response. The US Federal Reserve (Fed) continues to take the lead in this regard and therefore US economic developments remain closely followed. It is however unsurprising that the market is fixated on the timing of when these record high interest rates will be lowered as concerns linger that the tight monetary policy will eventually feed through to the real economy. The South African economy is much more sensitive to changes in interest rates given the variable nature of our loans and mortgages and therefor interest rate cuts globally would filter through locally allowing the South African economy some much needed breathing room.

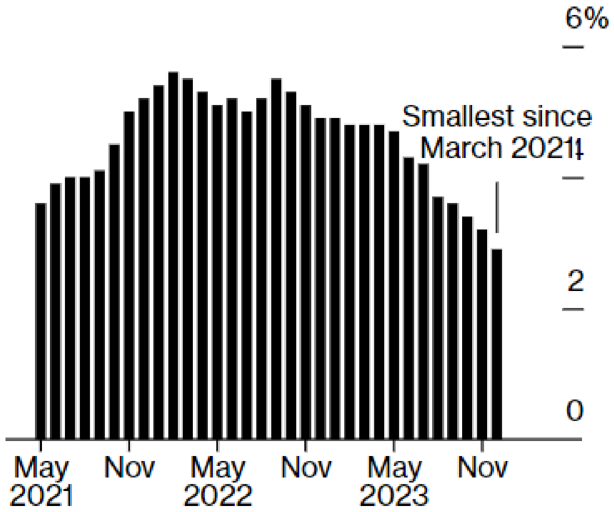
The US economy has positively surprised the market with its resilience despite having the highest borrowing costs in 23 years. The fourth quarter US GDP growth came out at 3.3% (QoQ annualised), significantly stronger than the expected 2% indicating that the economy remains strong. The breakdown of the growth rate reveals broad based expansion however majority of it remains within consumer spending and shows little evidence that the US consumer is under pressure from the high interest rates. The consumer has been supported by a robust job market with the unemployment rate remaining at a steady level of 3.7% (figure 1).

Figure 1: US unemployment rate (%)

Source: US Bureau of Statistics, www.tradingeconomics.com

The US Fed's preferred inflation measure, the core PCE (Personal Consumption Expenditure) price index also pointed towards moderating inflation as it fell to 2.9%, the lowest annual increase since 2021. This supported market hopes for a soft-landing, the scenario where inflation could be sustainably lowered to the Fed's target without significant slowing of economic growth and large increases in unemployment.

Figure 2: Core PCE price index (YoY):



Source: Bureau of Economic Analysis, Bloomberg

US Fed officials however remained cautious at the FOMC (Federal Open Market Committee) meeting at the end of the month, stating that they need further evidence to confirm that inflation is indeed cooling sustainably to the 2% target before interest rates are cut. This pushed back on the market's expectation for a first rate cut in March to May. Chairman Powell also reiterated that the Fed remains very data dependent.

Locally, the MPC (Monetary Policy Committee) decided to leave rates unchanged at 8.25%, which was a unanimous decision. The South African Reserve Bank (SARB) also updated their forecasts, expecting inflation to decline to 4.4% by year end, with their projection model forecasting three 0.25% rate cuts over the same period. Governor Kganyago commented that rates would only be lowered once inflation has sustainably reduced towards its 4.5% target. This was the first meeting with the new MPC member, Dr Fowkes. South African headline inflation has continued to moderate, with the headline annual rate of inflation falling below expectations to 5.1%, from 5.5%, the second consecutive monthly decline. Food and transportation both aided the decline, while the core measure excluding fuel and food remained stable at 4.5%

Geopolitical tensions remained in the Middle East as the war between Israel and Hamas continued. In addition, there have been several attacks from the Houthi rebels on commercial ships in the Red Sea, which led to the US and UK military launching airstrikes against the Houthi rebels mid-month. This has led to many shipping companies rerouting their vessels around Southern Africa, which takes an extended period of time and is more costly.

www.fgam.co.za **E: direct@fgam.co.za** **T: +27 12 460 5007**

Index	Asset Class	JANUARY 2024
STEFI Composite Index	Local Cash	0.70%
FTSE/JSE All Bond (Total Return)	Local Bonds	0.71%
FTSE/JSE SA Listed Property (Total Return)	Local Property	4.06%
FTSE/JSE Africa All Share (Total Return)	Local Equities	-2.93%
Bloomberg Global Aggregate (USD)	Global Bonds	-1.38%
FTSE EPRA/NAREIT Global Index (USD)	Global Property	-4.02%
MSCI AC World (USD)	Global Equities	0.61%

Source: Morningstar

www.fgam.co.za **E: direct@fgam.co.za** **T: +27 12 460 5007**