FG ASSET MANAGEMENT

ECONOMIC EXPRESS

JULY 2024

There were several events that drove financial markets over the month. US Monetary policy remains a key market driver and with US inflation coming in below market expectations, it reinforced expectations for interest rate cuts and supported interest rate sensitive parts of the market. We also saw the rise in support for Donald Trump to be re-elected for another term in the November US elections. A poor performance by current President Biden in a presidential debate at the end of June together with the failed assignation attempt on the ex-President Trump's life, drove expectations higher for a second Trump term.

Over July there were growing signs pointing towards slowing economic activity. The US labour market has started to show signs of weakness with the unemployment rate increasing to 4.1%, wage growth slowing and also the previous months' job growth data were revised lower. The US headline inflation came in below expectations as it slowed to 3% from 3.3%, helped by softer energy prices, while lower shelter inflation also aided the reduction in core inflation to 3.3%. Inflation's continued moderation reinforced bets for easier monetary policy and the market's expectations for the first rate cut from the US Fed in September. The second quarter's GDP growth for the US reflected the strength of US economy. US consumption accelerated again and together with government spending and inventory growth helped the economy to grow 2.8% on an annualised basis, better than the 2% expected and much faster than the 1.4% from the first quarter. This confirmed that although the US economy was showing signs of slowing economic activity it is by no means in contracting territory yet.

The Federal Reserve held their FOMC (Federal Open Market Committee) meeting at the end of the month, where they kept the Fed Fund rates steady at 5.25% to 5.5%, as widely expected. Chairman, Jerome Powell, reaffirmed their commitment to remain data dependent and while acknowledging the progress made lowering inflation, he reiterated the need to see further deceleration in inflation towards the 2% target in order to become fully confident to reduce rates. In addition, there was also a change in the statement which reflected the shift in focus from inflation towards employment.

Locally, SARB (South African Reserve Bank) met mid-month and decided to keep repo rate unchanged at 8.25%. Two members of the Monetary Policy Committee voted for a 0.25% reduction, while the remaining four members voted to keep the repo rate unchanged. The SARB lowered their expectation for inflation to ease to 4.3%, within their 4.5% mid-point target, by the end of the year. This was positive for local bonds as it supported views for a rate cut at the next meeting in September.

Local inflation was released a week later, which provided support for the SARB's inflation view as headline inflation declined to 5.1% from 5.2%, the lowest level since the end of last year. The lowest food inflation in four years (4.1%) together with slowing fuel prices were key drivers of the lower headline inflation.

Local markets continued its strong performance from June, supported by further improvement in sentiment towards the GNU (Government of National Unity)'s future policies together with the increased expectation of local and global rate cuts in September.

Index	Asset Class	JULY 2024
STEFI Composite Index	Local Cash	0.74%
FTSE/JSE All Bond (Total Return)	Local Bonds	3.96%
FTSE/JSE SA Listed Property (Total Return)	Local Property	4.39%
FTSE/JSE Africa All Share (Total Return)	Local Equities	3.92%
Bloomberg Global Aggregate (USD)	Global Bonds	2.76%
FTSE EPRA/NAREIT Global Index (USD)	Global Property	6.00%
MSCI AC World (USD)	Global Equities	1.64%

Source: Morningstar

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