



FG ASSET MANAGEMENT

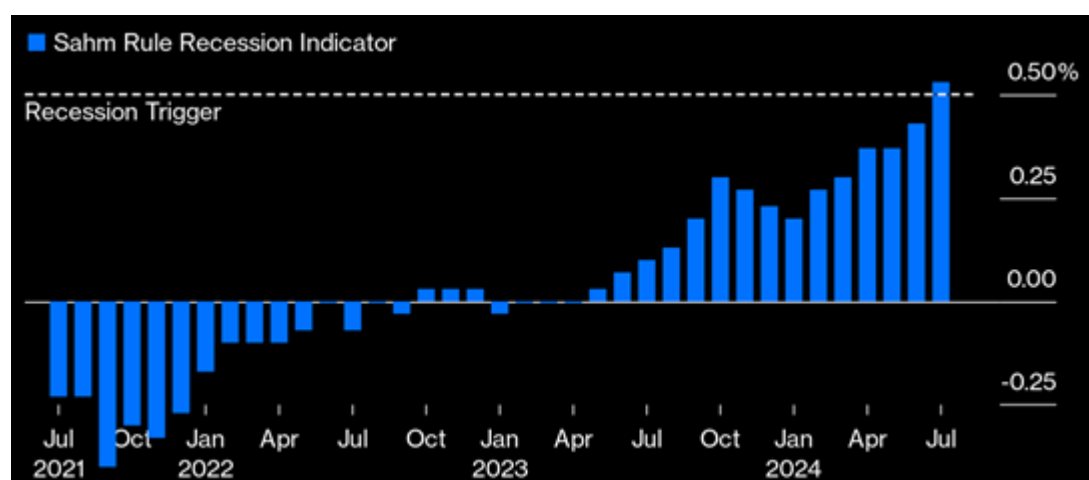
ECONOMIC EXPRESS

AUGUST 2024

The month of August started off with significant weakness in financial markets as weak US employment data drove fears of a more severe economic slowdown than anticipated. In addition, the unwind of the Japanese yen carry trade further drove negative sentiment and market moves. As the month progressed however, a number of positive economic data releases prompted the market's recovery from that first week's losses into month end. The global narrative continued to shift from inflation to economic growth as inflation further declined towards target levels and there were increased signs of slowing global growth.

The month started off with disappointing US unemployment data with US non-farm payrolls showing the number of new jobs that were created were significantly lower than what had been anticipated. In addition, the unemployment rate rose to 4.3%, triggering the Sahm Rule, which states that if the three month moving average of the unemployment rate increases more than 0.5% from its lowest point over the previous 12 months, then the US is in the beginning stages of a recession. It has to be cautioned however that there have been a number of recession indicators that have been triggered over recent past, such as the inverted US Treasury yield curve, after which a recession has failed to materialise.

Figure 1: Sahm Rule Indicator



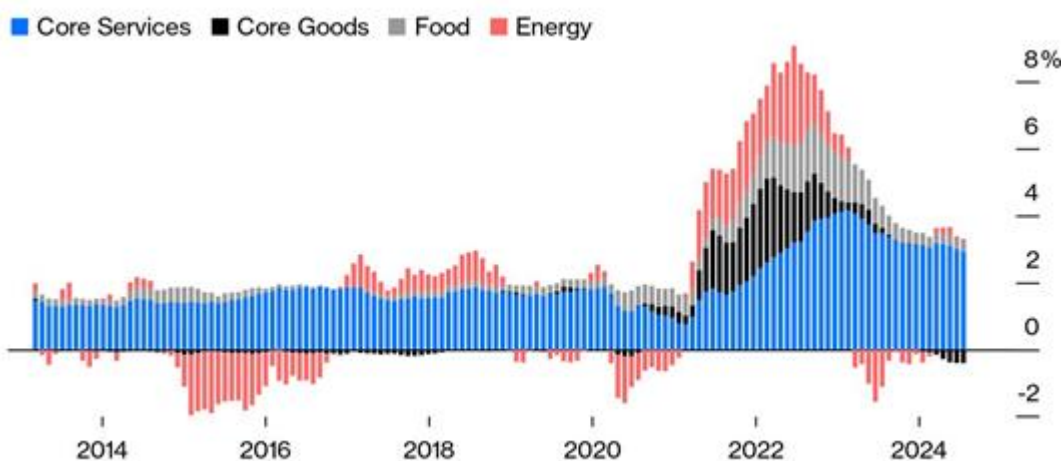
Source: Bloomberg



The Bank of Japan unexpectedly hiked interest rates by 15 basis points and halved its monthly bond purchases. This went beyond the tightening that the market was expecting and supported the appreciation of the Japanese yen. Many global investors had been participating in the carry trade which involved earning extra income by borrowing Japanese yen at an extremely low interest rate and investing elsewhere in the world. The decline in this extra income, together with the yen strength, led to the start of the unwinding of the carry trade which further contributed to the financial market weakness at the start of the month.

Subsequent to the first week's turmoil, there were a number of economic data releases out over the course of August which downplayed the view that the US economy was on the brink of a recession. US headline inflation slowed for the fourth consecutive month to 2.9% from 3%, lower than the unchanged expectation of 3%. It is the first time since 2021 that headline inflation is below the 3% level. While core inflation is still above 3%, it has also slowed meaningfully over the past year. Core services inflation, continues to be the key driver behind inflation with the goods inflation in negative territory:

Figure 2: US headline inflation (YoY%):



Source: Bloomberg Economic Analysis

The positive inflation data was closely followed by a strong US retail sales report which showed an increase of 1% from the previous month, significantly more than the 0.3% expected. The second quarter's GDP growth was also revised up to 3% from its initial estimate of 2.8% as a result of stronger consumer spending.

There was no FOMC (Federal Open Markets Committee) meeting held over the month, which was replaced by the Fed's (Federal Reserve) annual economic symposium in Jackson Hole. The Fed Chairman, Jerome Powell, reaffirmed the view that the Fed would look to start cutting interest rates at its next meeting in September given that inflation is on a downward trend towards its 2% target and that the US labour market has started to show some signs of deterioration. He also noted the downside risks to employment has now increased.



Locally South African annual headline inflation also positively surprised the market as it fell to 4.6% from 5.1%, substantially lower than the market's expected 5%. It is the lowest level in three years. Core inflation was also lower than expected, down from 4.5% to 4.3%. This inflation print would be supportive of a rate cut at the SARB's (South African Reserve Bank) next meeting in September. South African retail sales also came in much stronger than expected, increasing 1.6% from the previous month, which should be supportive for South Africa's second quarter GDP growth.

Index	Asset Class	AUGUST 2024
STEFI Composite Index	Local Cash	0.67%
FTSE/JSE All Bond (Total Return)	Local Bonds	2.38%
FTSE/JSE SA Listed Property (Total Return)	Local Property	8.25%
FTSE/JSE Africa All Share (Total Return)	Local Equities	1.38%
Bloomberg Global Aggregate (USD)	Global Bonds	2.37%
FTSE EPRA/NAREIT Global Index (USD)	Global Property	6.16%
MSCI AC World (USD)	Global Equities	2.57%

Source: Morningstar