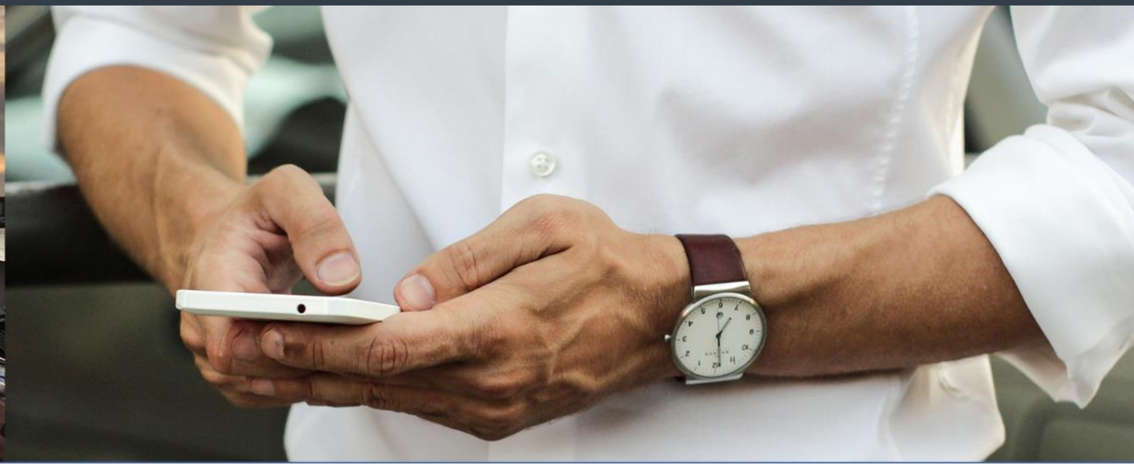
# ECONOMIC REPORT

by Glacier Research

glacier by Sanlam



**Review period: July 2022**

## Introduction

Market sentiment improved in July with local equity markets following global peers higher and recouping some of the losses experienced in the first half of 2022. All major indices posted positive returns for the month. Miners rebounded nicely from the prior month slump despite continued pressure on commodity prices. Globally, developed markets ended the month in positive territory as investors began to focus on the prospect of interest rate cuts next year, given signs of a slowing global economy. However, emerging markets lagged amid weakness in China.

## Domestic Highlights

### SARB interest rate decision

In an attempt to combat surging domestic inflation, the South African Reserve Bank's (SARB) Monetary Policy Committee (MPC) surprised the market by hiking the repo rate by 75 basis points (bps) to 5.5%, marking the sharpest rate hike in almost two decades and taking the prime lending rate up to 9%. This was the fifth consecutive rate hike since November 2021. The MPC meeting revealed that the vote was not unanimous as three members were in favour of the hike of 75 bps, while the other two were in favour of 100 bps and 50 bps hikes, respectively.



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The risks to the inflation outlook were assessed to the upside with the headline CPI forecast being revised higher to 6.5% in 2022 (vs 5.9% projected earlier), 5.7% in 2023 (vs 5%) and 4.7% in 2024. Meanwhile, the GDP growth projections were raised to 2% in 2022 (vs 1.7%) whereas cut to 1.3% in 2023 (vs 1.9%) and 1.5% in 2024 (vs 1.9%).

## SA economy

In June 2022, the annual inflation rate in SA rose to 7.4% from 6.5% in May, breaching the upper limit of the SARB's target range of 3%-6%. The main contributors to the 7.4% annual inflation rate were transport (20% vs 15.7% in May); food and non-alcoholic beverages (8.6% vs 7.6%); housing and utilities (5.1% vs 4.9%); and miscellaneous goods and services (4% vs 3.9%). The annual core inflation (which excludes prices of food, non-alcoholic beverages, fuel and energy) rose to 4.4% in June from 4.1% in May, the highest reading since March of 2019.

Locally, Eskom's loadshedding debacle has caused manufacturing production to fall by 3.5% in June 2022, after a downwardly revised 1.8% decline in the prior month and above market forecasts of a 2.9% decline. This marks the third consecutive month of contraction in manufacturing activity. In the month of July, the rand depreciated 2.3% against the dollar, 2.2% against the pound, and gained 0.3% against the euro (due to their ongoing energy problems and recession fears in Europe).

| | Feb'22 | Mar'22 | Apr'22 | May'22 | Jun'22 | July'22 |
|---|---|---|---|---|---|---|
| CPI (y/y) | 5.7% | 5.9% | 5.9% | 6.5% | 7.4% | 7.0% (forecast) |
| PPI (y/y) | 10.5% | 11.9% | 13.1% | 14.7% | 16.2% | 17.5% (forecast) |

*Sources: Trading Economics*

| | 31 July 2020 | 31 July 2021 | 31 July 2022 |
|---|---|---|---|
| USD/ZAR | 17.01 | 14.56 | 16.64 |
| GBP/ZAR | 22.31 | 20.24 | 20.24 |
| EUR/ZAR | 20.09 | 17.23 | 17.00 |

*Source: IRESS*

## SA markets

Local markets turned in decent performance with the FTSE/JSE All Share Index advancing 4.22%. SA industrials outperformed once again, buoyed by share price gains in Richemont (+15%). Financials, industrials, and resources ended the month in positive territory. However, resources were the month's poorest performers. In terms of market cap, small caps were the best performers, returning 5.87% for the month, followed by mid-caps (+4.36%) and then large caps, which returned 4.03%.

South African listed property ended its three-month losing streak, posting a monthly gain of 9.06%. On the fixed income side, SA bonds experienced a positive month as the FTSE/JSE All Bond returned 2.44% with most of the gains coming from the longer end of the curve. The 12 years+ area returned 3.33% while the 7-to-12-year area gained 2.23%. The 3-to-7-year area as well as the 1-to-3-year area also witnessed some gains, up by 0.62% and 0.26%, respectively. Inflation-linked bonds were down 1.3%, while cash was up 0.43%.

Foreigners were net sellers of R30.6 billion worth of SA equities and net sellers of R17.2 billion worth of SA bonds, during the month.

**LOCAL RETURNS IN ZAR**

| 2021 | May 2022 | June 2022 | July 2022 | Year-to-date |
|---|---|---|---|---|
| SA SMALL CAPS 59.08% | SA BONDS 1.01% | SA CASH 0.40% | SA PROPERTY 9.06% | SA SMALL CAPS 4.11% |
| SA PROPERTY 38.63% | SA CASH 0.39% | SA BONDS -3.06% | SA SMALL CAPS 5.87% | SA CASH 2.63% |
| SA EQUITY 29.23% | SA TOP 40 0.01% | SA SMALL CAPS -7.29% | SA MID CAPS 4.36% | SA BONDS 0.47% |
| SA MID CAPS 28.88% | SA SMALL CAPS -0.30% | SA EQUITY -8.01% | SA EQUITY 4.22% | SA MID CAPS -2.52% |
| SA TOP 40 28.40% | SA PROPERTY -0.32% | SA TOP 40 -8.07% | SA TOP 40 4.03% | SA EQUITY -4.43% |
| SA BONDS 8.40% | SA EQUITY -0.36% | SA MID CAPS -9.36% | SA BONDS 2.44% | SA TOP 40 -4.86% |
| SA CASH 3.81% | SA MID CAPS -1.16% | SA PROPERTY -10.47% | SA CASH 0.43% | SA PROPERTY -5.63% |

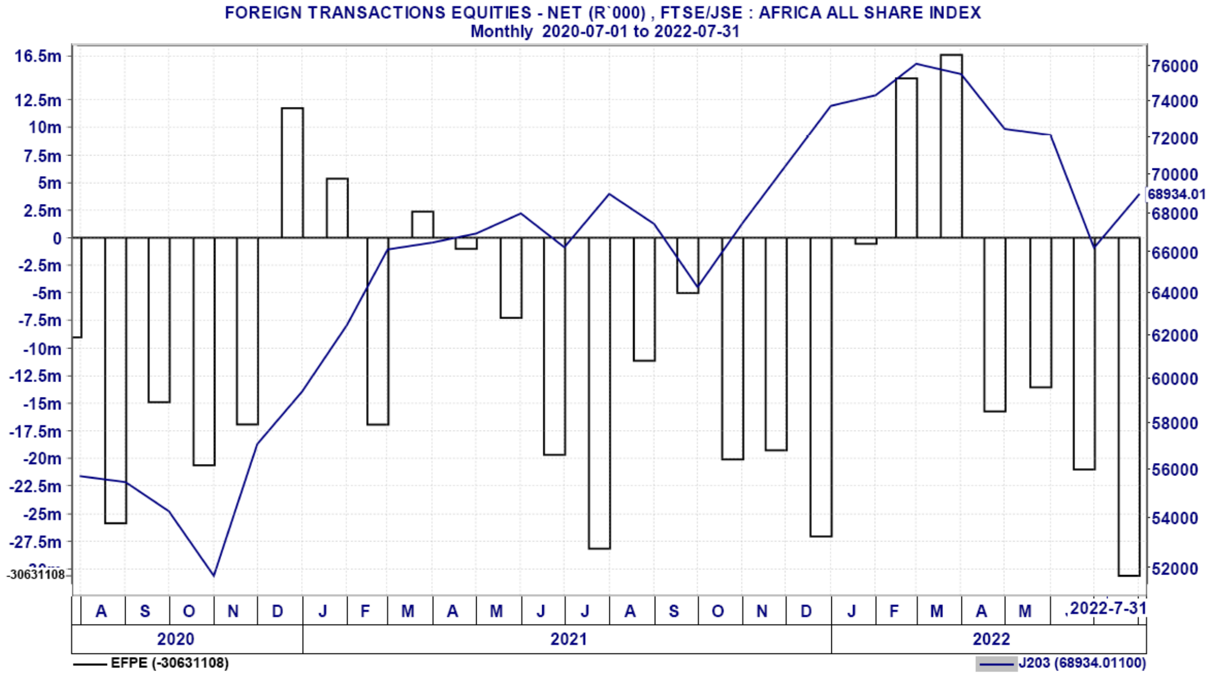
*Source: Morningstar & Glacier Research*

In terms of sector performances, SA industrials extended their gains and remained the top-performing sector in July, returning 5.82%. Industrials, financials, and resources recovered from their prior month losses, gaining 5.24%, 3.85%, and 1.28%, respectively.

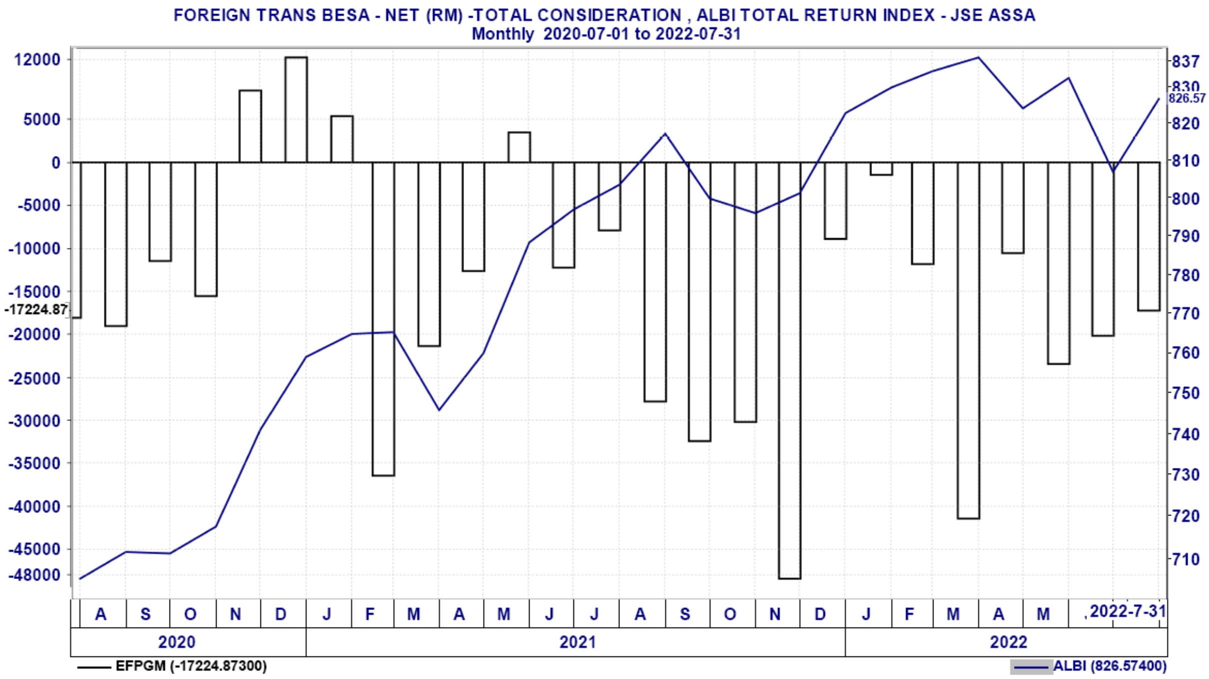
**LOCAL SECTOR RETURNS IN ZAR**

| 2021 | May 2022 | June 2022 | July 2022 | Year-to-date |
|---|---|---|---|---|
| CONSUMER SERVICES 76.32% | GENERAL RETAILERS 5.54% | SA INDUSTRIALS 0.93% | CONSUMER SERVICES 11.61% | FINANCIALS 5.21% |
| GENERAL RETAILERS 65.87% | FINANCIALS 3.49% | CONSUMER SERVICES -2.72% | SA INDUSTRIALS 5.82% | CONSUMER GOODS 1.29% |
| RESOURCES 32.31% | RESOURCES -0.42% | CONSUMER GOODS -4.03% | INDUSTRIALS 5.24% | RESOURCES -4.40% |
| INDUSTRIALS 30.72% | INDUSTRIALS -0.60% | INDUSTRIALS -5.13% | FINANCIALS 3.85% | GENERAL RETAILERS -6.53% |
| FINANCIALS 29.59% | CONSUMER GOODS -1.19% | GENERAL RETAILERS -9.77% | CONSUMER GOODS 1.69% | SA INDUSTRIALS -10.78% |
| SA INDUSTRIALS 26.45% | SA INDUSTRIALS -2.17% | FINANCIALS -13.30% | RESOURCES 1.28% | INDUSTRIALS -10.95% |
| CONSUMER GOODS 22.28% | CONSUMER SERVICES -6.67% | RESOURCES -16.33% | GENERAL RETAILERS -0.66% | CONSUMER SERVICES -15.42% |

*Source: Morningstar & Glacier Research*




*Source: IRESS July 2022*




*Source: IRESS July 2022*

## Global markets

Global equities experienced its best month of performance this year with gains across the board, although emerging markets bucked the trend. Macroeconomic headwinds in the form of high inflation, rising interest rates and slowing economic growth remain a concern, but upbeat earnings reports were the catalyst for a rally in European, UK and US markets.

As a result, gains were widespread across developed markets, while emerging markets lagged as a result of challenges faced in the Chinese markets. The S&P 500, MSCI World and MSCI World ACWI rallied 9.22%, 7.94% and 6.98%, respectively, in dollar terms.

Across the regions, inflation continued to rise reaching new multi-decade highs. Further evidence of a slowing global economy was also seen through lower flash Purchasing Managers' Index (PMI) surveys. A strong labour market provided some respite driving nominal wage growth. Sovereign bond yields in the US declined during the month (implying a capital gain) with the US 10-year treasury note decreasing from 3.01% to 2.65%, as the possibility of a recession due to slowing economic growth dragged long-term yields down. Similarly, the 10-year UK gilts also declined from 2.23% to 1.86%. On a global equity style basis, growth rose the most (+11.54%) with quality not too far behind (+8.50%) as growth stocks benefitted from markets increasingly pricing in interest rate cuts from the US Federal Reserve (Fed) in 2023 against the current weak economic backdrop. This was followed by value (+4.57%) and momentum (+4.38%).

## United States

US equity markets ended the month of July higher as all three major US indices – NASDAQ (+12.39%), S&P 500 (+9.22%) and Dow Jones (+6.82%) – rallied significantly. A strong earnings season was the major catalyst for this upswing against a challenging economic backdrop. The tech-heavy NASDAQ rose as tech stocks, Amazon (+27%), Apple (+19%) and Netflix (+29%) rallied in line with earnings announcements and forward guidance beating expectations. Macroeconomic risks of high inflation, interest rate hikes and slowing growth continued to plague markets. US inflation data showed that headline inflation was up 9.1% year-on-year, higher than expectations, with food and energy prices accounting for the majority of the monthly increase. The Fed responded by raising interest rates by 75 bps for the second consecutive meeting. A decline in flash PMIs for July with a figure of 47.5 showed that the US is slipping into a contraction phase. Furthermore, second quarter GDP figures of -0.9% – a second consecutive quarter of negative economic growth – added to concerns given that this qualifies as a technical recession. On a positive note, the labour market remained resilient with the unemployment rate remaining at 3.6%.

## Eurozone

European equity markets had its best month of performance for 2022 thus far, rebounding from losses in the previous month. Macroeconomic risks remain present in the background, but upbeat earnings reports helped drive market sentiment.

On the macroeconomic front, the eurozone Purchasing Managers' Composite Index (PMI) fell to 49.4 in July from 51.9 in the previous month, indicating that eurozone is slipping into a contraction. The sharp drop in the PMI has raised concerns about a potential recession as companies were affected by rising prices and a drop in orders. Inflation in the region rose to 8.9% in July, largely driven by rising food and energy prices. The European Central Bank (ECB) subsequently rose interest rates by 50 bps for the first time in 10 years. On a positive note, the eurozone GDP grew faster than initially estimated in the second quarter of 2022, up to 0.7% from a consensus of 0.1%, despite challenges faced on the macroeconomic front. Tourism in Spain, Italy and France were the main contributors. Furthermore, the labour market continued to remain resilient, as unemployment remained at multi-decade lows.

## United Kingdom

UK equity markets also had their strongest month of performance for the year thus far, driven by strong earnings reports which outweighed concerns over rising inflation and deteriorating global growth. The FTSE 100 finished 3.67% higher in pound sterling terms. UK's inflation rose to a 40-year record high of 9.4% up from 9.1% in the previous month, driven largely by rising food and energy prices, increasing pressure in the cost of living. The Bank of England (BoE) subsequently raised the possibility of increasing interest rates by 50 bps proving that their approach will be more aggressive. The market is anticipating a hike of 50 bps in August, given the central bank's expectation of inflation peaking at 11%.

On a positive note, UK's GDP rose 0.5% between April and May. Consensus estimates had expected growth to be flat as rising prices hit household spending and business activity. On the political front, Prime Minister Boris Johnson announced his resignation. Rishi Sunak and Liz Truss are recognised as the two potential candidates to succeed him.

| Spot Rates | 31 July 2020 | 31 July 2021 | 31 July 2022 |
|---|---|---|---|
| EUR/USD | 1.18 | 1.19 | 1.02 |
| GBP/USD | 1.31 | 1.39 | 1.22 |
| USD/JPY | 105.88 | 109.70 | 133.19 |

*Source: IRESS*

## Emerging markets and Asia

Emerging market equities delivered negative returns during the month, underperforming their developed market counterparts. The MSCI EM index returned -0.25%, while the MSCI World index delivered +7.94% in US dollar terms. The underperformance in emerging markets were largely driven by a weaker showing from Chinese equities as the Shanghai Composite Index declined 5.03%. Sentiment in China turned negative due to the reports of a new COVD-19 variant in Shanghai, raising concerns of more economic damage as China continues to pursue its zero-tolerance approach to COVID-19. Furthermore, Chinese regulation headwinds remain a concern as Alibaba and Tencent faced regulatory fines.

| GLOBAL RETURNS IN ZAR | | | | |
|---|---|---|---|---|
| **2021** | **May 2022** | **June 2022** | **July 2022** | **Year-to-date** |
| GLOBAL PROPERTY 41.28% | EURO EQUITY 2.40% | CHINA EQUITY 12.35% | US EQUITY 11.07% | UK EQUITY -3.72% |
| US EQUITY 39.84% | UK EQUITY -0.29% | GLOBAL BONDS 1.75% | GLOBAL PROPERTY 10.25% | GLOBAL BONDS -8.23% |
| GLOBAL EQUITY 32.36% | CHINA EQUITY -0.41% | GLOBAL EM -1.86% | GLOBAL EQUITY 9.76% | US EQUITY -8.75% |
| UK EQUITY 27.52% | GLOBAL BONDS -1.06% | US EQUITY -3.55% | EURO EQUITY 6.56% | GLOBAL EQUITY -10.43% |
| EURO EQUITY 24.56% | GLOBAL EQUITY -1.10% | GLOBAL EQUITY -3.98% | UK EQUITY 5.64% | GLOBAL PROPERTY -11.43% |
| CHINA EQUITY 14.96% | US EQUITY -1.22% | UK EQUITY -4.30% | GLOBAL BONDS 3.85% | CHINA EQUITY -13.47% |
| GLOBAL EM 5.89% | GLOBAL EM -2.76% | GLOBAL PROPERTY -4.44% | GLOBAL EM 1.44% | GLOBAL EM -14.23% |
| GLOBAL BONDS 3.54% | GLOBAL PROPERTY -5.74% | EURO EQUITY -6.39% | CHINA EQUITY -4.04% | EURO EQUITY -17.49% |

*Source: Morningstar & Glacier Research*