



FG ASSET MANAGEMENT

ECONOMIC EXPRESS

AUGUST 2022

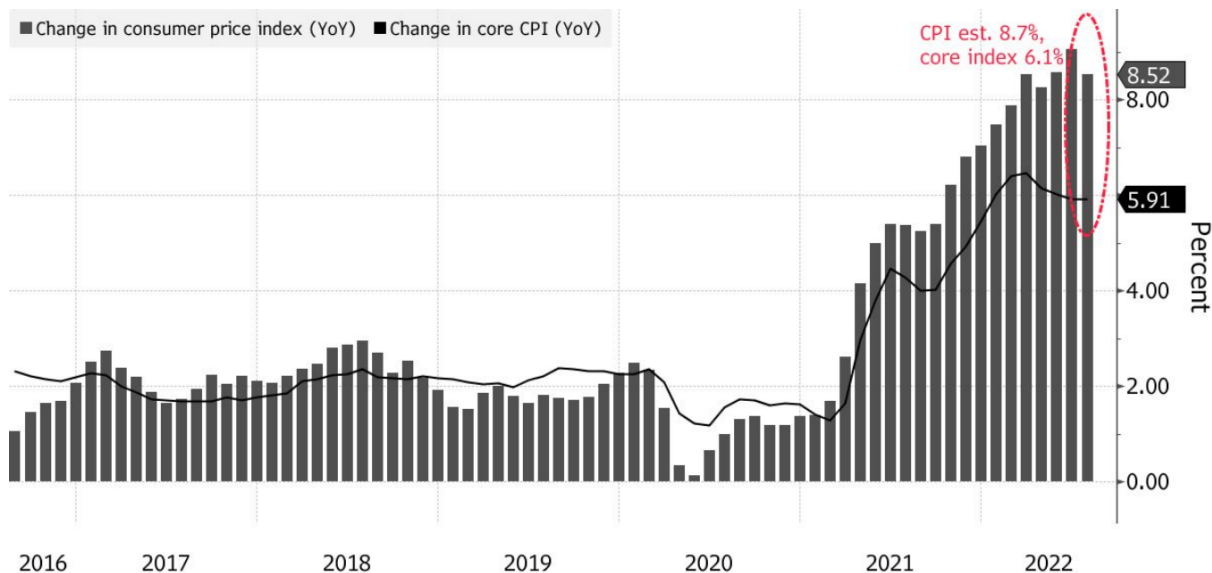
Inflation and growth remained key drivers of both global and local markets over August. The rally that started in July was supported by improving US employment and activity surveys early in the month. The positive sentiment soon subsided as the market's focus turned towards the US Federal Reserve's annual Jackson Hole Economic Symposium in the last week of the month, where it was looking for further clarification on how the US Federal Reserve will look to tighten monetary policy going forward.

Inflation remains at elevated levels, which are expected to decline over the second half of this year helped by base effects. The uncertainty, however, is around the extent to which pricing pressures will decline and the magnitude of tightening action further required from central banks to bring inflation back into target ranges. The outlook for global growth remains weak with increasing concerns, especially for Europe. European energy prices continued to increase from already elevated levels given the threat of limited gas supplies to the region as geopolitical tensions between Russia and the Ukraine continue. With no resolution to the war in the Ukraine in sight, it remains a source of uncertainty for financial markets.

Annual US headline inflation decelerated to 8.5% from 9.1%, more than the 8.7% the market was expecting. The decline was driven by lower energy prices, however, food and shelter prices continued to accelerate. Core inflation, which excludes food and energy, remained unchanged at 5.9% YoY. Overall, the market took the decline as an encouraging signal that inflation has potentially reached a peak and that the US Federal Reserve would have to tighten monetary policy to a lesser extent.



Figure 1: US Consumer Price Index



Source: Bureau of Labour Statistics, Bloomberg

The Jackson Hole Symposium was held in the last week of the month, where the Chairman of the US Federal Reserve clearly stated the central bank's commitment to reduce inflation back to the 2% objective, even if it means at the expense of growth and employment over a sustained period. In addition, the Fed is willing to keep rates at restrictive levels until they are confident that price stability has been restored. Powell also reiterated that future rate hike decisions remain dependent on incoming data. The hawkish nature of the comments surprised the market which was hoping for a dovish pivot and led to the subsequent reduction of risk sentiment into month end.

Index	Asset Class	AUGUST 2022
STEFI Composite Index	Local Cash	0.45%
FTSE/JSE All Bond (Total Return)	Local Bonds	0.31%
FTSE/JSE SA Listed Property (Total Return)	Local Property	-5.41%
FTSE/JSE Africa All Share (Total Return)	Local Equities	-1.84%
JP Morgan World Govt Bond index (USD)	Global Bonds	-4.22%
FTSE EPRA/NAREIT Global Index (USD)	Global Property	-6.17%
MSCI AC World (USD)	Global Equities	-3.64%

Source: Morningstar

www.fgam.co.za

E: direct@fgam.co.za

T: +27 12 460 5007

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