



FG ASSET MANAGEMENT

ECONOMIC EXPRESS

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January's market trends continued into February, with global equities performing strongly and outperforming local markets. Both global and local fixed income assets struggled as yields rose with expectations for future rate cuts being pushed later into this year.

The timing of the first US interest rate cut from the US Federal Reserve (Fed) was pushed out further as resilient economic data and above target inflation levels gave the Fed little reason or haste to ease monetary policy. The latest core PCE (Personal Consumption Expenditure), the Fed's favoured inflation gauge, showed the annual price index falling from 2.9% to 2.8%. The top down decline looks positive, but the breakdown reveals that the services (excluding shelter) price pressures are increasing once more, with the monthly increase the highest in a year. This makes it harder for the Fed to justify cutting rates as there continues to be evidence that price pressures remain within the services sector.

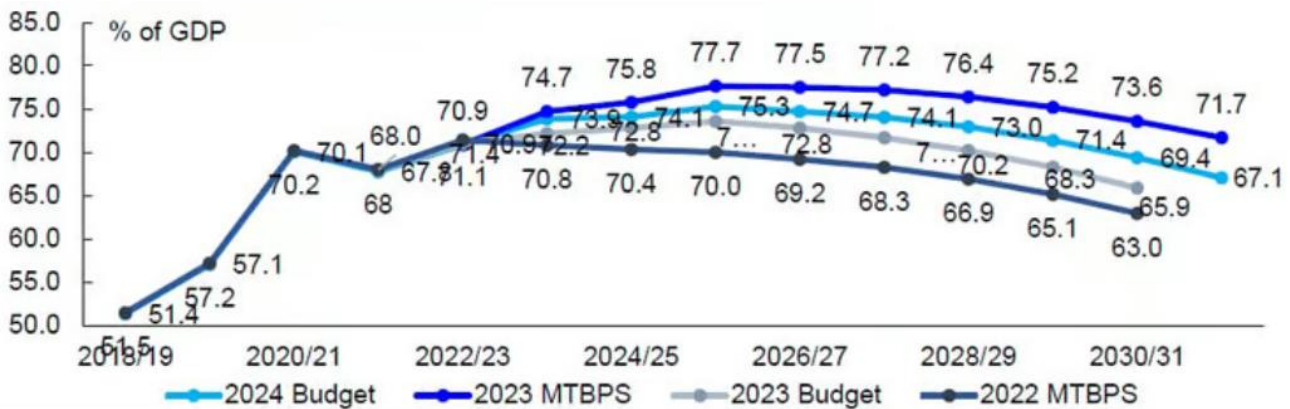
No FOMC meetings were held over the month, however the minutes from the January meeting were released which pointed towards a cautious Fed, concerned to reduce rates too quickly. This highlights the uncertainty on the timing of the first cut as evidence that price pressures in certain sectors remain too high.

Locally, the headline inflation rate increased from 5.1% to 5.3%, slightly lower than the 5.4% expected. Food inflation increases offset the price declines from the transportation sector. Core inflation, which excludes energy and food, slightly increased from 4.5% to 4.6%. On the growth side, December's retail sales released were much stronger than expected and could help overall GDP growth avoid a contraction in the fourth quarter. There were no MPC (Monetary Policy Committee) meetings held over the month.



Locally, the closely followed budget was released in the second half of the month. Overall, the budget provided some relief to the market as there were no unexpected surprises. In addition, further details of the how the funds of the Gold and Foreign Exchange Contingency Reserve Account (GFERCA) will be utilised were given, which provided assurance that the funds will be used responsibly. Excess GFERCA funds will be used to reduce the country’s debt burden and so freeing up money from debt servicing to other much needed areas. This translates in the peak debt to GDP falling from 77.7% to 75.3% in 2025/26.

Figure 1: Gross det-to-GDP forecast



Source: National Treasury, Budget 2024, Investec

It is important to note however that this use of the excess GFERCA funds is only a short term solution and that subsequent sustainable reductions in debt will have to come from revenue growth or the reduction in spending. While the expectations for spending showed some restraint the expenditure estimates were seen as ambitious by numerous market participants. The growth of South African economy remains anaemic, given all its challenges. Concerns remain as to how the ever higher creeping debt levels will be addressed in the longer run.

Index	Asset Class	FEBRUARY 2024
STEFI Composite Index	Local Cash	0.65%
FTSE/JSE All Bond (Total Return)	Local Bonds	-0.58%
FTSE/JSE SA Listed Property (Total Return)	Local Property	0.82%
FTSE/JSE Africa All Share (Total Return)	Local Equities	-2.44%
Bloomberg Global Aggregate (USD)	Global Bonds	-1.26%
FTSE EPRA/NAREIT Global Index (USD)	Global Property	-0.14%
MSCI AC World (USD)	Global Equities	4.28%

Source: Morningstar