



FG ASSET MANAGEMENT

ECONOMIC EXPRESS

MAY 2024

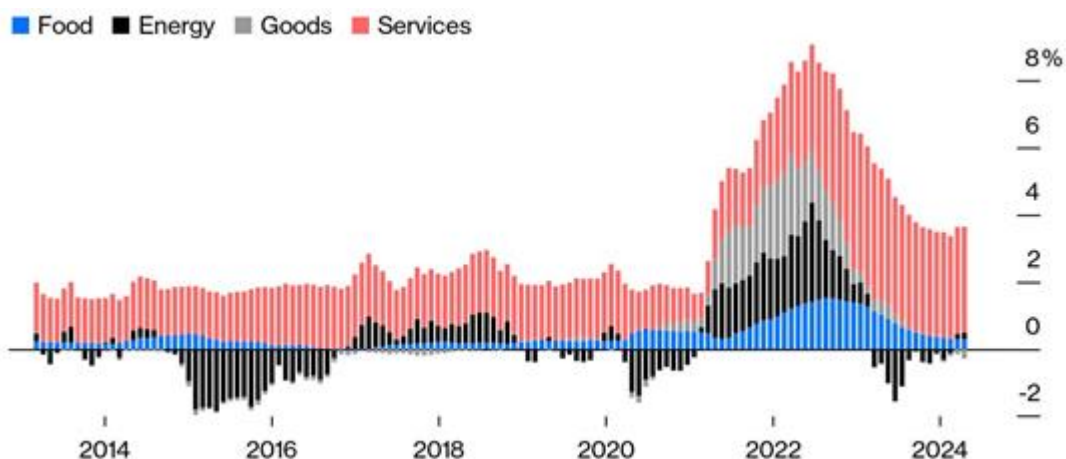
Global growth assets recovered from the weakness in April supported by global rate cut expectations that were brought forward again as developments within global monetary policy remained a key driver for markets. South African equities followed global counterparts higher over the first half of the month, unfortunately election concerns weighed on local assets in the into month end.

May started the US Federal Reserve (Fed) holding the FOMC (Federal Open Market Committee) meeting, where they unanimously decided to keep interest rates unchanged at the 5.25% to 5.5% range. This was in line with expectations and Chairman Powell confirmed that given the progress of slowing inflation has stalled in the interim, they see it more appropriate to wait and see how inflation develops from here before cutting interest rates.

The US economy have started to show some signs of slowing as indicated by the labour data releases at the start of the month. The non-farm payrolls showed the smallest monthly increase in six months and came out significantly below expectations. This together with the unemployment rate inching up to 3.9%, was seen as supportive for easing monetary policy as a weaker labour market will reduce the price pressures (wage inflation) within the services sector. This pushed expectations again for two rate cuts from the US Fed this year, supporting growth assets. The closely followed US inflation data came in slightly lower at 3.4% from 3.5% on an annual basis. Although this is not a large decline, it brought relief to the market as it did not surprise to the upside, which has been the case over the past three consecutive months. Services inflation (red bar below) however remains high and prevents the Fed from cutting interest rates in the near term.



Figure 1: US headline inflation (YoY%):



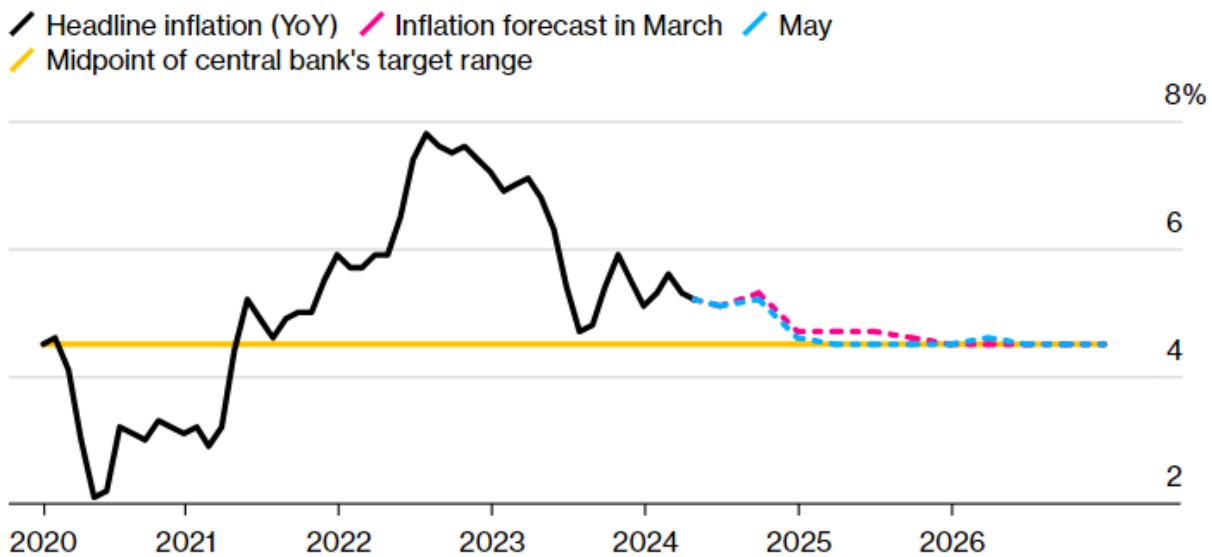
Source: Bloomberg Economic Analysis (2014 to 2024)

Local annual inflation slowed to 5.2% from 5.3%, remaining in the upper end of the SARB's target range. In addition, the core inflation also slowed from 4.9% to 4.6%. Slowing price pressures came from lower food inflation as well as general and medical insurance. Inflation has now been above the SARB's midpoint target for 3 years.

In the last week of the month the SARB (South African Reserve Bank) held their third monetary policy committee (MPC) meeting of the year. As widely expected, the committee voted unanimously to keep the repo rate unchanged at the 15 year high level of 8.25%. In addition, the MPC was somewhat more upbeat on the inflation outlook as it sees the risks to inflation as being broadly balanced. The SARB has also brought forward its projection by two quarters from its previous estimate to reach its midpoint inflation target by the second quarter of 2025. This was seen as supportive for an interest rate cut in the second half of the year.



Figure 2: SARB inflation forecast



Source: Statistics SA, South African Reserve Bank, Bloomberg (2020 to 2026)

The most significant event for local markets over the month were the national elections that were held on the 29th of May. The official results, released over the last weekend, were very surprising, specifically the significant support from within KwaZulu Natal for the MK (uMkhonto weSizwe) party, which was only started five months ago. In addition, the extent of the decline of the ANC’s majority was also larger than expected. Overall, the ANC has failed to win a parliamentary majority for the first time since it came into power in 1994. With only 40.2% of the vote, the ANC is forced to form a coalition or some kind of alliance with one of the larger parties. Ultimately the ANC has two options, firstly to join up with the DA (Democratic Alliance) which would be seen as market positive, or the second alternative is to join up with the more leftist EFF (Economic Freedom Fighters) or MKP. Coalition outcomes remain highly uncertain, with both options carrying very significantly different implications. This brings uncertainty in both the short term as to who the ANC will form alliances with but also over the longer term with regards to policy implementation.

Index	Asset Class	MAY 2024
STEFI Composite Index	Local Cash	0.70%
FTSE/JSE All Bond (Total Return)	Local Bonds	0.75%
FTSE/JSE SA Listed Property (Total Return)	Local Property	0.16%
FTSE/JSE Africa All Share (Total Return)	Local Equities	0.96%
Bloomberg Global Aggregate (USD)	Global Bonds	1.31%
FTSE EPRA/NAREIT Global Index (USD)	Global Property	4.02%
MSCI AC World (USD)	Global Equities	4.12%

Source: Morningstar

www.fgam.co.za

E: direct@fgam.co.za

T: +27 12 460 5007

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