M&G Investments
October 2022

Market overview: September 2022

Our Market Snapshot provides an overview of key events that influenced financial markets over the course of September 2022.

Global equity and bond markets sold-off sharply in September, largely on the back of aggressive monetary tightening from most major central banks and fears over a slowdown in global economic growth. In the US, a third consecutive 75bp interest rate hike weighed on investor sentiment, as did the prospect of more “pain” to come as the Federal Reserve continues its battle to bring inflation under control. Most major central banks followed the Fed’s lead, with the Bank of England raising rates by 50bps. However, it was UK chancellor Kwasi Kwarteng’s mini-budget and proposed tax cuts that sparked unrest across the UK with the Bank of England having to intervene to help stabilise gilt markets. Meanwhile, in China, a growing divergence with the West in terms of monetary policies placed pressure on the yuan, as did a slowdown in manufacturing activity which weighed on commodity demand. Turning to South Africa, global risk-off sentiment and the prospect of further load-shedding weighed on the local bourse.

Looking at global equity market returns (all in US$), the MSCI All Country World Index returned -9.5% for the month. Developed markets outperformed emerging markets, with the MSCI World Index

returning delivering -9.3% and the MSCI Emerging Markets Index -11.7%. The Bloomberg Global Aggregate Bond Index (US$) returned -5.1%, while the EPRA/NAREIT Global REIT Index (US$) produced -12.3%.

The spot price of Brent crude oil closed the month 8.8% lower at around US$93 per barrel, as a slowdown in economic growth, rising interest rates and the likelihood of a global recession weighed on oil prices. The prices of most metals followed suit,
with aluminium returning -8.0%, copper -1.0%, lead -3.1%, zinc -15.6% and gold -3.5%. Positive outliers for the month included nickel, which returned 4.9%, platinum 1.4%, palladium 2.3% and silver 3.6% (all in US$).

US

The Federal Reserve (Fed) raised its federal funds rate by 75bps to 3%-3.25% during its September meeting, largely in line with market forecasts and pushing borrowing costs to the highest level since 2008. Sentiment, however, shifted lower after policymakers signalled that ongoing increases would be appropriate to help curb rising inflation, with Fed Chair Jerome Powell noting that more “pain” was to come, reiterating the importance of doing whatever was necessary to overcome the inflation hurdle. Interest rates are now expected to reach 4.4% by December before rising to 4.6% in 2023.

In other news, the yield on the benchmark US 10-year Treasury Note peaked at an over 12-year high of 4% during the month, largely on the back of growing concerns that higher inflation and rising interest rates would drag the economy into recession. The Fed revised its GDP growth forecast lower for this year to 0.2% (vs 1.7%) and 1.2% in 2023 (vs 1.7%). Meanwhile, annual inflation eased for a second consecutive month to 8.3% in August, marginally above market forecasts of an 8.1% increase, but still lower than the 8.5% recorded in July. On a more positive note, preliminary estimates showed Manufacturing PMI edging higher to 51.8 in September from 51.5 in August, beating market forecasts of 51.1, signalling a relatively

subdued improvement in the manufacturing sector. Services PMI also edged higher to 56.9 in August from 56.7 a month earlier.

Equities closed the month lower, with the S&P 500 returning -9.2%, the Dow Jones Industrial Average -8.8%, and the technology-heavy Nasdaq Composite -10.4% (all in US$).

South Africa

The South African Reserve Bank (SARB) raised its benchmark repo rate by 75bps to 6.25% in September as widely expected, marking the sixth consecutive rate hike since November 2021. Annual inflation eased to 7.6% in August from an over 13-year high of 7.8% in July, marginally above market expectations of a 7.5% rise. GDP contracted by 0.7% q/q in Q2, as the devastating floods in KwaZulu-Natal and continued power outages across the country negatively impacted economic activity, with manufacturing the hardest hit (-5.9% in Q2 vs 5% in Q1). In other news, the Purchasing Managers' Index expanded to 52.1 points in August from 47.6 in July, following August's steep fall in fuel prices, which helped moderate cost pressures. Meanwhile, retail trade climbed by 8.6% y/y in July, following a downwardly revised 2.3% fall in the previous month, marking the steepest rise in retail activity since June 2021.

Equities closed the month lower, as growing concerns over a slowdown in global economic growth drove commodity prices lower, placing downward pressure on heavy-weight miners; however, this was largely offset by a stronger US dollar relative to the rand. Meanwhile, news that Eskom planned to ramp up its nationwide load-shedding schedule further dampened investor sentiment. Turning to performance, the FTSE/JSE All Share Index returned -4.1% in September, dragged lower by Industrials which returned -6.4%, Financials -6.0% and Property (FTSE/JSE All Property Index) -6.5%. Resources stocks benefited from their rand-hedge earnings, returning 1.7% for the month. The FTSE/JSE Capped SWIX All Share Index, which we use as the equity benchmark for most of our client mandates, returned -3.8%. SA bonds (FTSE/JSE All Bond

Index) delivered -2.1%, SA inflation-linked bonds returned -2.2%, and cash (STeFI Composite) delivered 0.5%.

Finally, the rand depreciated against most major currencies, falling 5.5% against the US dollar, 2.8% against the euro, and 1.2% relative to the pound sterling.

UK

In the UK, protests arose from the public and financial markets alike following new chancellor Kwasi Kwarteng's mini-budget speech, which proposed much higher deficit spending, including tax cuts for Britain's highest earners, to boost growth. This sparked concerns over higher inflation and a wider inequality gap, and resulted in a sharp sell-off of government debt, with the yield on the 10-year note topping 4.5% for the first time since November 2008. The Bank of England had to restart quantitative easing to calm the turmoil in gilts markets, which coincided with the Central Bank having raised its key interest rate by 50bps to 2.25% in September, pushing borrowing costs to the highest level in 14 years. In other news, S&P Global Ratings lowered the UK's sovereign credit rating outlook to 'negative' from 'stable', citing concerns about the country's fiscal outlook. Meanwhile, annual inflation in the UK unexpectedly edged lower to 9.9% in August from a near 40-year high of 10.1% recorded in July.

Turning to the Euro Area, the European Central Bank (ECB) raised interest rates by an unprecedented 75bps in September, following a 50bps rate hike in July, and bringing the key lending rate to 1.25%. Policymakers signalled that interest rates would rise further over the next several meetings to help stem rising inflation. ECB President Christine Lagarde echoed this sentiment, stating that the ECB was "far away" from the rate that will help return inflation back to within the 2% target. Annual inflation in the Euro Area jumped to 10% in September from 9.1% in August, marking the first time that inflation had reached double-digits. The ECB revised its inflation projections higher to 8.1% in 2022, 5.5% in 2023 and 2.3% in 2024. GDP growth, meanwhile, was adjusted lower to 3.1% in 2022, 0.9% in 2023 and 1.9% in 2024.

For the month, the UK's FTSE 100 returned -9.0%, Germany's DAX -8.0% and France's CAC 40 -8.2% (in US$).

China and Japan

The People's Bank of China (PBoC) left its benchmark lending rates unchanged in September in line with market expectations, as the widening policy divergence between China and the US heightened the risk of yuan depreciation and capital outflows. The move came after the central bank maintained its medium-term policy rate while draining some liquidity from the banking system, and lowered the borrowing cost of 14-day reverse repos from 2.25% to 2.15% in a bid to revive credit and boost economic growth. Sentiment declined further after financial services companies, Nomura and Goldman Sachs, sharply cut their 2023 economic growth forecasts for China, noting that Beijing would most likely retain its strict zero-Covid policy well into next year. Manufacturing PMI unexpectedly fell to 48.1 in September from 49.5 in August, while Non-Manufacturing PMI declined to a four-month low of 50.6 in September from 52.6 a month earlier, largely due to the impact of Covid controls. In more positive news, China's retail trade rose by 5.4% y/y in August, exceeding market estimates of 3.5% and accelerating from a 2.7% rise a month earlier. Meanwhile, annual inflation unexpectedly fell to 2.5% y/y in August from a near-two-year high of 2.7% in July.

Turning to Japan, the Bank of Japan (BoJ) maintained its key short-term interest rate at -0.1% and 10-year bond yields at around 0% in September, noting that the economy is expected to be under downward pressure from high commodity prices as a result of the prolonged war in Ukraine. The economy expanded by 0.9% q/q in Q2 2022 following a lifting of all Covid curbs, above market consensus of a 0.7% increase. Annual inflation rose to 3.0% in August, the highest reading since September 2014, largely due to rising prices of food and raw materials, as well as yen weakness. The BoJ announced that it would continue to buy unlimited amounts of bonds to defend its implicit 0.25% cap every market day, as initially implemented in April.

For the month, Japan's Nikkei 225 delivered -10.8% and Hong Kong's Hang Seng -13.2% (in US$).

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