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December 2022

Market overview: November 2022

ARTICLE SUMMARY

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

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November marked another month of gains in global assets, both equities and bonds, as investor risk-on sentiment was boosted by data showing a further decline in US inflation, solid corporate earnings reports, and the US Federal Reserve's November meeting Minutes pointing to an increased likelihood that the pace of the Fed's interest rate hikes was likely to slow going forward. While the Fed did hike rates 75bps as expected at its November meeting, the consensus now indicates a smaller 50bp increase in December. Investors were encouraged, with emerging market equities outperforming their developed market counterparts, and bonds also gaining ground around the globe, while the US dollar moved weaker. Muting global sentiment in the final days of the month was the emergence of angry protests in many Chinese cities demonstrating mounting frustration against the government's strict zero-Covid lockdown policy.

Other central banks again followed the Fed's lead with further aggressive monetary tightening, broadly in line with market expectations -- many countries have not showed signs of decelerating inflation. Forecasts for economic growth continued to be revised lower, and data out of both the UK and Japan were interpreted to be indicating the start of recession already. In South Africa, equities and bonds were lifted by the risk-on sentiment, particularly resources stocks, even as the SARB continued with its steep rate hikes.

Looking at global equity market returns (all in US$), the MSCI All Country World Index returned 7.8% for the month. Developed markets underperformed emerging markets, with the MSCI World Index returning delivering 7.0% and the MSCI Emerging Markets Index 14.8%. The Bloomberg Global Aggregate Bond Index (US$) returned 4.7%, while the EPRA/NAREIT Global REIT Index (US$) produced 6.3%.

The spot price of Brent crude oil closed the month 9.9% lower, as the slowdown in economic growth, rising interest rates and the higher likelihood of a global recession weighed on oil prices. The prices of metals rallied in the more bullish environment, with nickel gaining 21.8%, copper 8.9%, gold 7.2%, aluminium 8.6% and platinum 8.9%, while palladium was softer at -1.3% (all in US$).

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US
At its policy meeting on 2 November, the US Fed announced a 75bp hike in its Federal Funds target range to 3.75%-4.0%, a move that had been widely anticipated by markets. This came despite a drop in October CPI to 7.7% y/y from 8.2% in September, which was also lower than the 7.9% expected. While higher food and energy prices contributed to the price increases, there was a notable 40% jump in the cost of shelter. Also, at 6.3% y/y in October, Core inflation (headline CPI less food and energy costs) showed that inflationary pressures had become more pervasive.

The minutes of the Fed's meeting, released later in the month, proved more positive for financial markets, showing that FOMC members agreed the path of its rate hikes should be less steep going forward. Markets subsequently pencilled in only a 50bp hike for December, with the Fed Funds benchmark rate peaking in early 2023. Meanwhile, forecasters still expect the US to avoid a recession in both 2022 and 2023, although real GDP growth is expected at only 0.7% for 2023 (Survey of Professional Forecasters) and Fed Chairman Jerome Powell said the path to a soft landing for the economy had "narrowed".

After months of notable strength, the US dollar sold off on the back of the softer-than-expected inflation data as investors factored in lower interest rate hikes going forward: the greenback experienced its biggest daily loss since 2009 following the release of the CPI data.

Meanwhile, the US mid-term elections had little impact on financial markets as the Democrats managed to retain power in the US Senate, while Republicans gained control of the House, expected to result largely in a policy stalemate for the next two years.

The equities rebound saw the S&P 500 returning 5.6%, the Dow Jones Industrial Average 6.0%, and the technology-heavy Nasdaq Composite 4.5% (all in US$) for the month.

South Africa
The South African Reserve Bank (SARB) raised its benchmark repo rate by 75bps to 7.0% at its November MPC meeting as widely expected, marking the seventh consecutive rate hike since November 2021 and a cumulative 4.5% increase. The SARB again sounded a hawkish note, warning of upside

risks to inflation going forward due partly to the weaker rand. It additionally downgraded its 2022 GDP growth forecast for SA to 1.8% from 1.9% previously, while also lowering 2023 expectations to only 1.1% (from 1.4%) and 2024 to 1.4% (from 1.7% previously), due partly to persistent loadshedding, as well as lower commodity prices and higher interest rates. The market now sees a 50bp rate hike by the central bank at its next policy meeting in January.

Despite a fall in the petrol price, annual CPI inflation rose marginally to 7.6% in October from 7.5% in September, led by increases in food and beverages, and above expectations. The SARB only sees CPI returning back to the 4.5% midpoint of its 3%-6% target range in the second quarter of 2024, or in 16 months' time. SA government bonds were also at risk of weakness should the government's fiscal position deteriorate going forward due to lower commodity prices (on the back of the slowdown in global growth) and higher interest rates, the SARB cautioned.

Meanwhile, President Cyril Ramaphosa emerged as the frontrunner in the ANC's leadership nomination contest during the month, well ahead of Zwele Mkhezi. However, with the news emerging on the last day of November that a Parliamentary panel had found "prima facie" evidence of impeachable offenses related to the Phala-Phala scandal, his future became much more uncertain, and government bonds, the rand and domestically-focused stocks sold off on 1 December amid the elevated uncertainty created as a result. Any replacement is an unknown quantity to global investors, and they will be keeping a close eye on the next developments in the saga.

Equities jumped on the improved global sentiment, with commodity stocks the largest beneficiaries of the risk-on sentiment. The FTSE/JSE All Share Index returned 12.3%, with Resources delivering 17.3%, Industrials 14.0%, Property (FTSE/JSE All Property Index) 5.8% and Financials 4.9%. The FTSE/JSE Capped SWIX All Share Index, which we use as the equity benchmark for most of our client mandates, returned 9.6%. SA bonds (FTSE/JSE All Bond Index) delivered 3.9%, SA inflation-linked bonds returned 0.6%, and cash (STeFI Composite) produced 0.5%.

Finally, the rand appreciated against most major currencies, gaining 7.8% against the US dollar, 3.2% against the euro, and 3.8% relative to the pound sterling.

UK

In the UK, Q3 GDP growth came in at 2.4% y/y but -0.2% q/q, down from 4.4% y/y in Q2. The BoE and other forecasters said the country could already be falling into recession, with the central bank projecting that it would last through 2023 and into the first half of 2024 -- the longest since the 1920s. It warned that it saw GDP growth at 4.2% in 2022, but -1.4% in 2023 and 1.3% in 2024, accompanied by a record fall in living standards. At its MPC meeting on 2 November, the BoE hiked its key Bank Rate by 75bp to 3.0% after CPI hit 11.1% y/y in October, the highest in 41 years and well above the 10.7% expected. The BoE noted at the time that markets had pushed government bond yields to high levels, tightening financial conditions materially following the higher risks associated with the budget fiasco under Liz Truss. However, there was a generally positive reaction to new Chancellor Jeremy Hunt's Autumn Statement on 17 November, in which he presented a five-year programme of tax increases and spending cuts worth £55 billion that aimed at restoring economic stability, cushioning the economic downturn and limiting job losses. The government's Energy Price Cap was also extended by 12 months, lending some certainty to energy prices over the short-term.

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