momentum
investments

A world with more fragility

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No one believed that 2022 would be this bad

Social, political and economic forces have undermined relatively upbeat expectations for this year

- Large swaths of Africa unvaccinated
- Disruptive lockdowns in China

Progress on vaccination programmes?

Actively address climate change?

Coal has become the go-to alternative for Europeans

- Chronic debt and mismanagement
- Rising living costs
- Widespread discontent

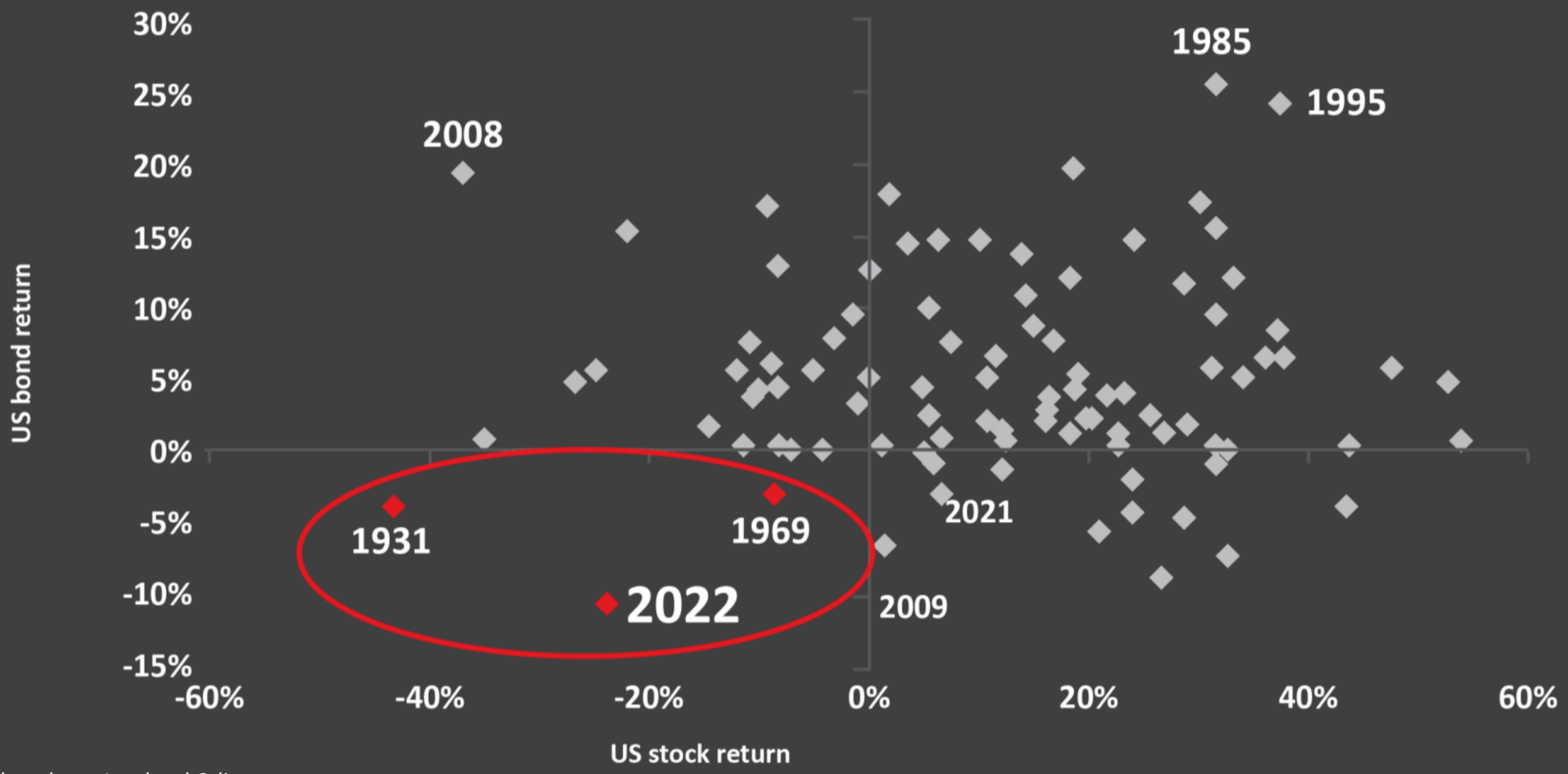
A more tolerant society?

Improved global backdrop?

Growth expectations deteriorated

A shocking year with no place to hide

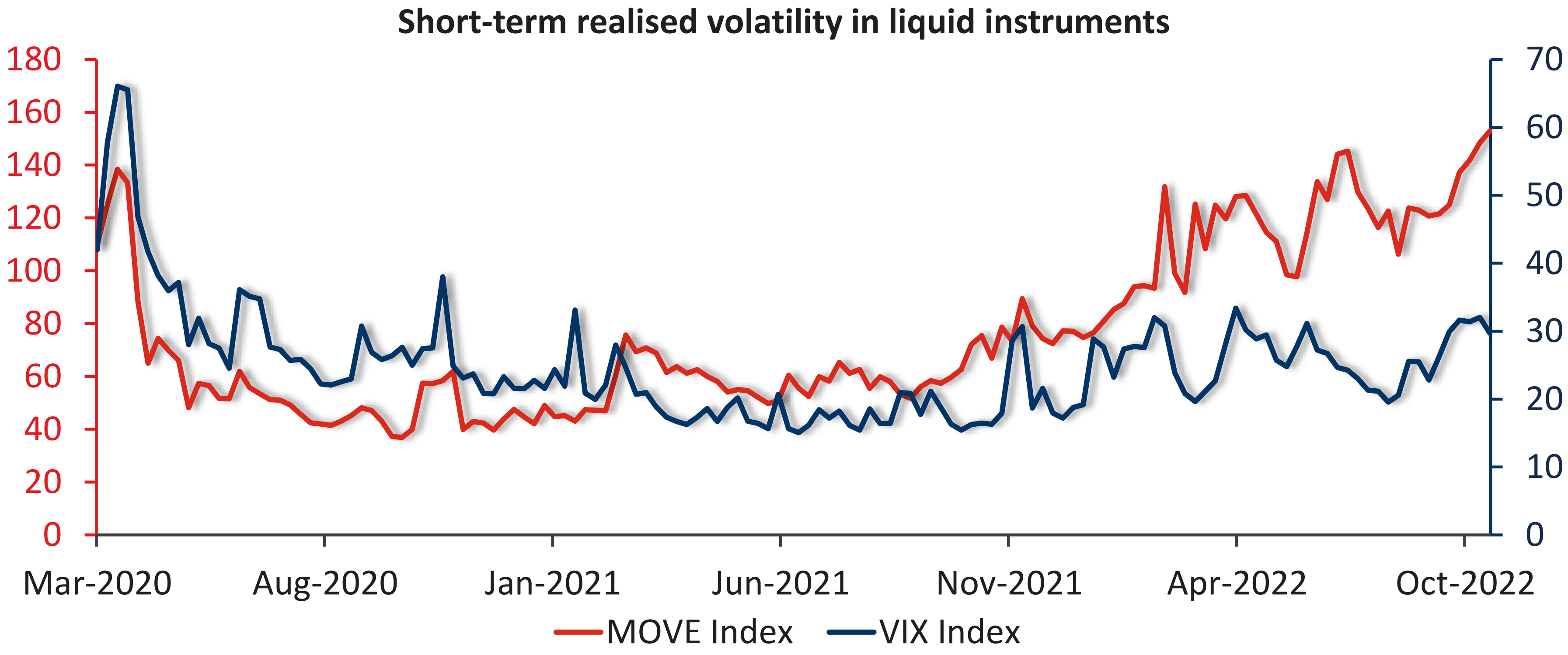
A tough year for equities and bonds



Source: Bloomberg, Lombard Odier

Bond market volatility is not spooking equities yet

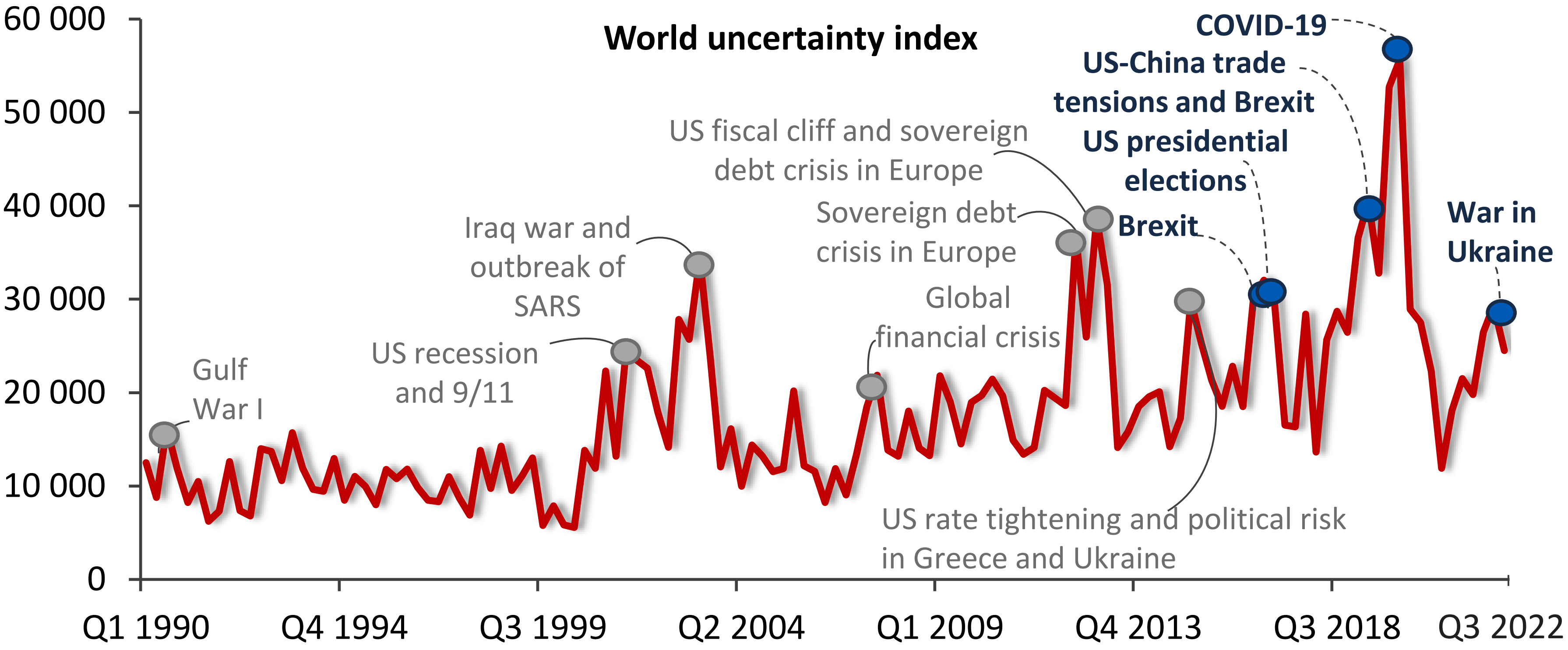
Fixed income markets jolted by inflation fears and risks posed by more hawkish central banks



Source: Bloomberg, Momentum Investments

Global shocks are here to stay

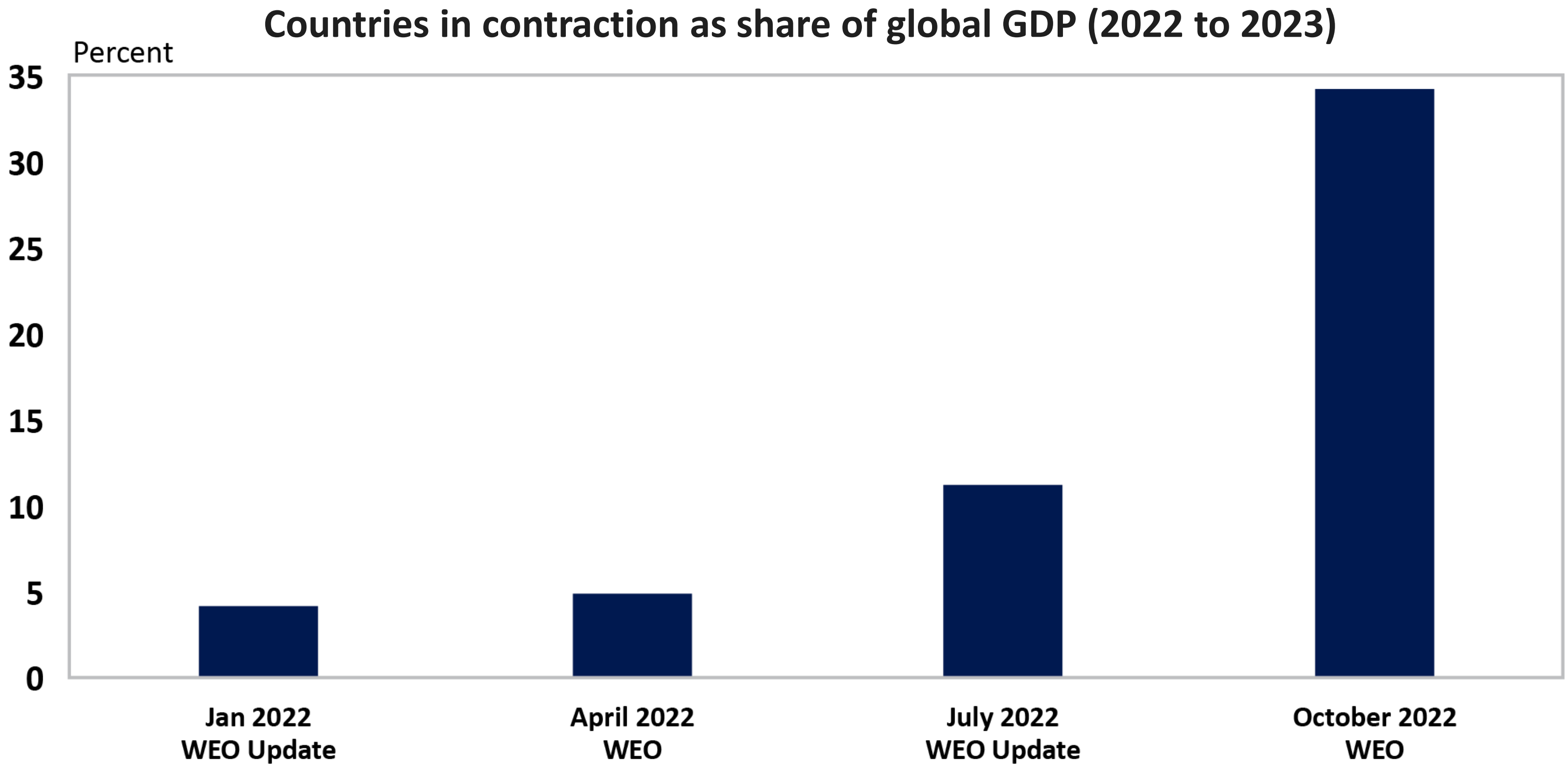
Greater geo-political fragmentation and polarised politics will power higher global uncertainty



Source: International Monetary fund, Economist Intelligence Unit

Growth prospects have faded

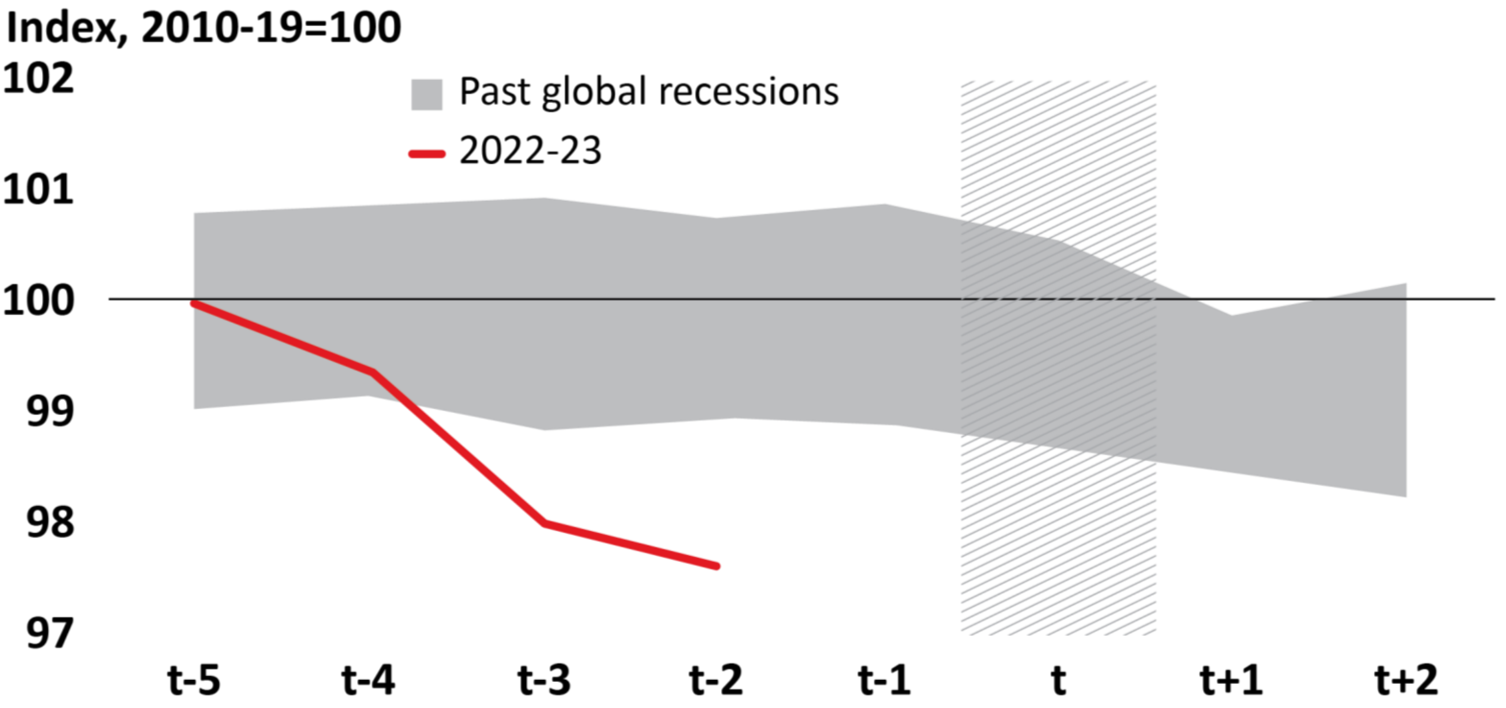
War, persistent inflation, tighter global financing conditions and slower Chinese growth are to blame



Source: International Monetary Fund World Economic Outlook, Momentum Investments

Recession indicators flashing red

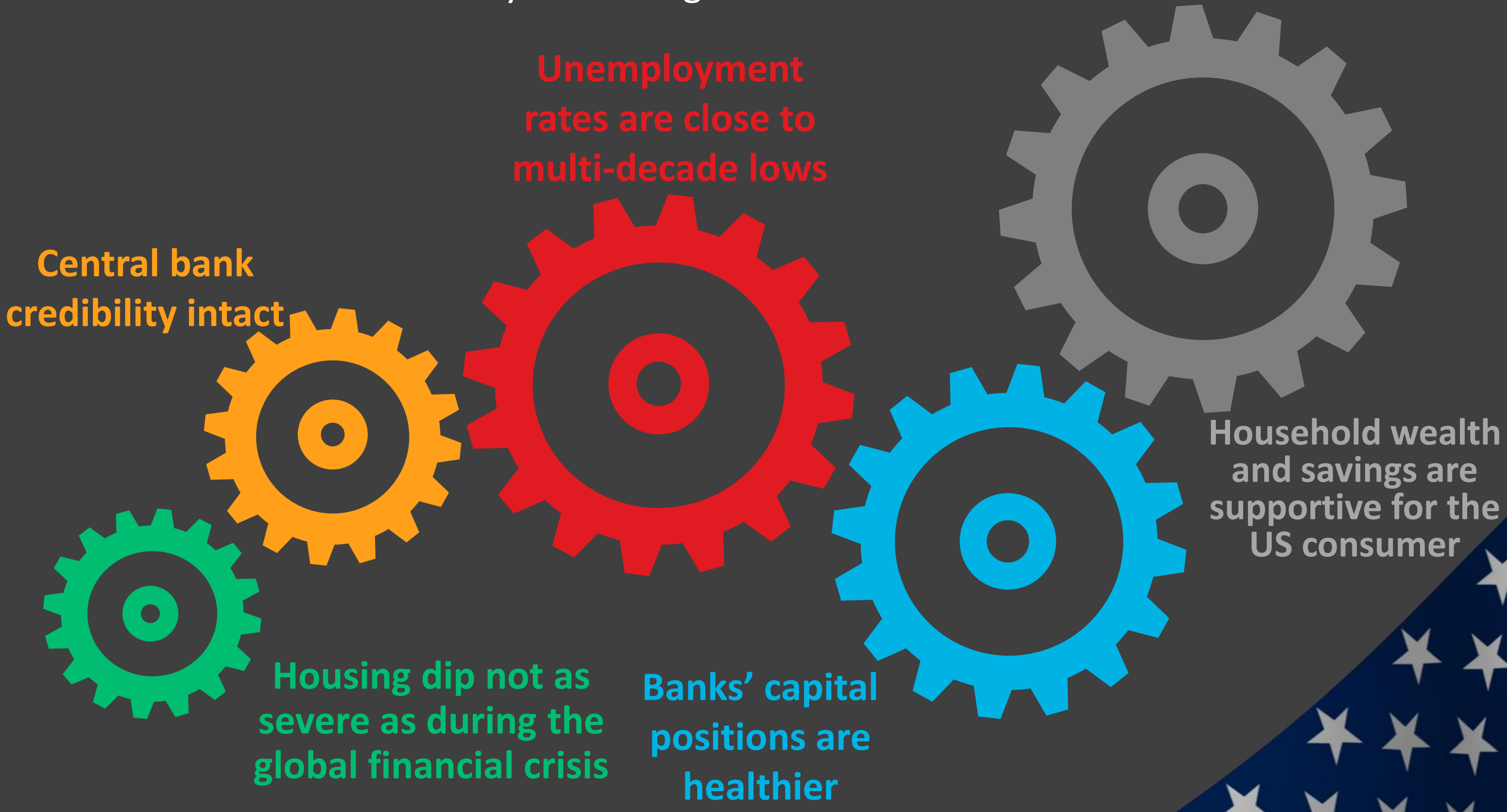
Consumer sentiment has deteriorated at a much faster rate than prior to historical global recessions



Source: World Bank, past five global recessions = 1975, 1982, 1991, 2009 and 2020

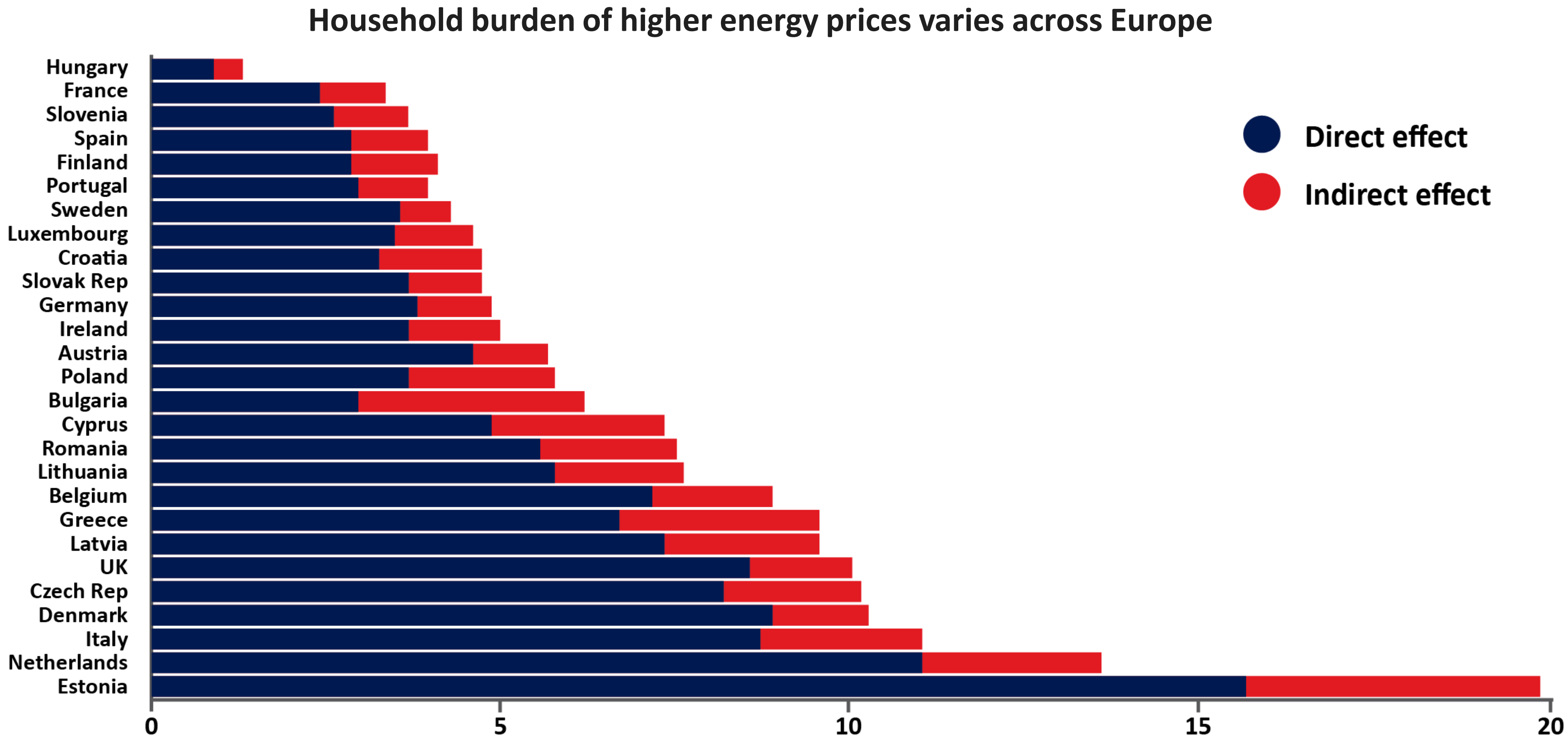
US likely to avoid a deep and protracted recession

Elements of the US economy are stronger this time around



Intensifying economic troubles in Europe

Energy crunch grips the continent

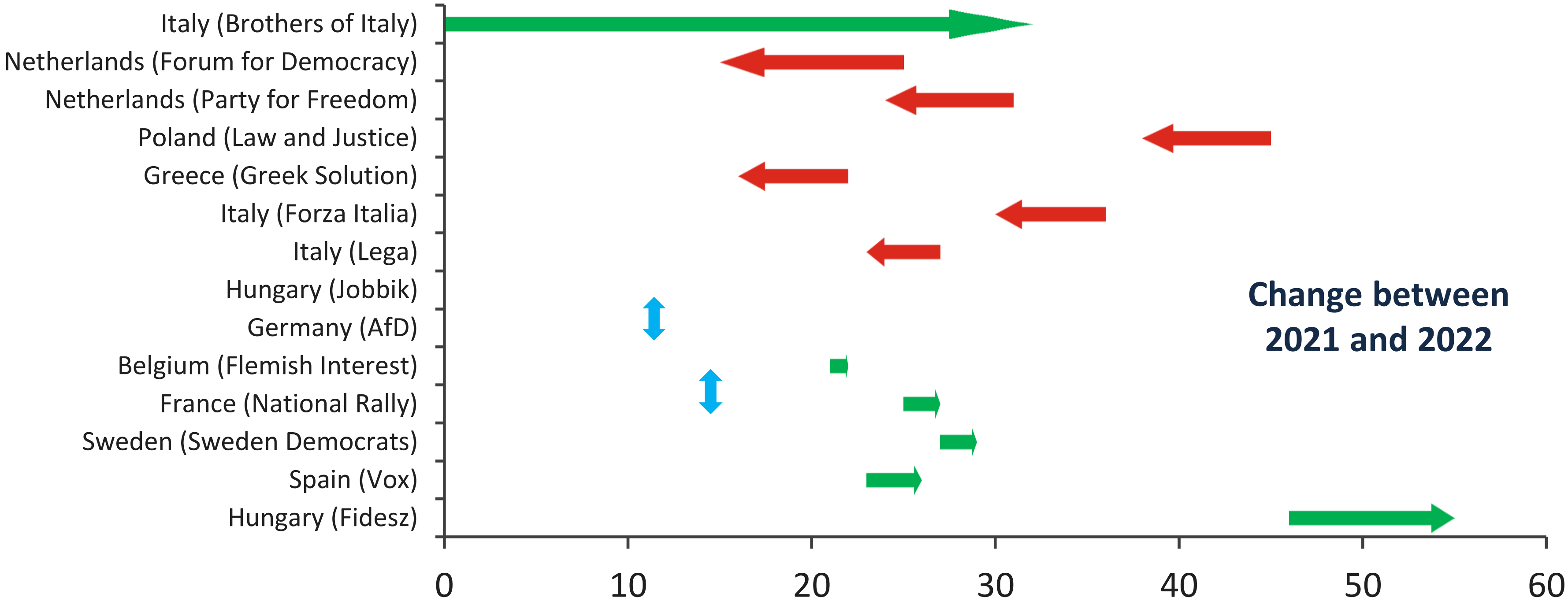


Source: International Monetary Fund

Rising political pressures could prevent EU co-operation

Right-leaning parties account for a significant share of the vote and gaining prominence in some countries

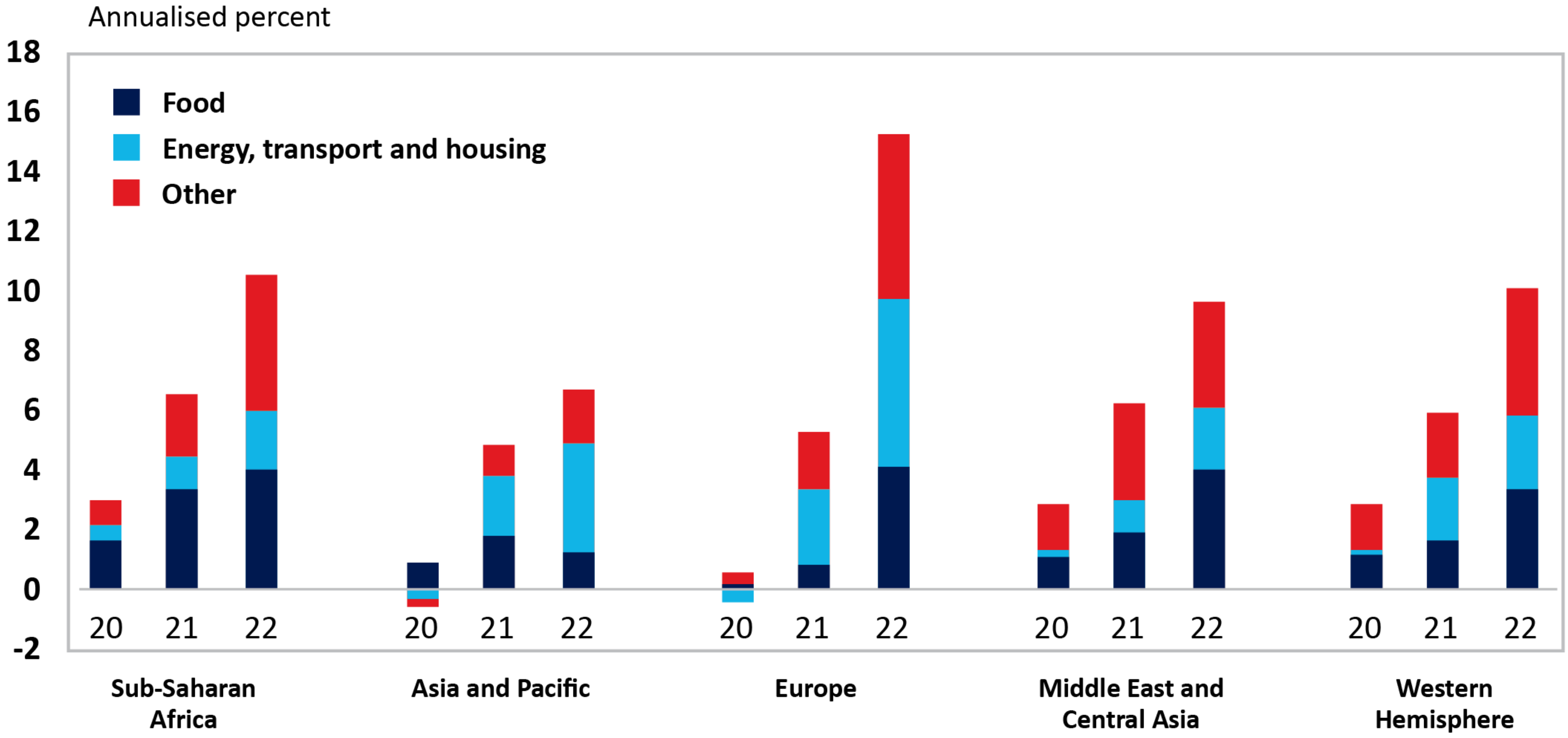
Percentage of respondents who have a favourable view of the following right-winged populist parties



Source: Pew Research Centre, Momentum Investments

Risk of under-tightening poses a larger threat

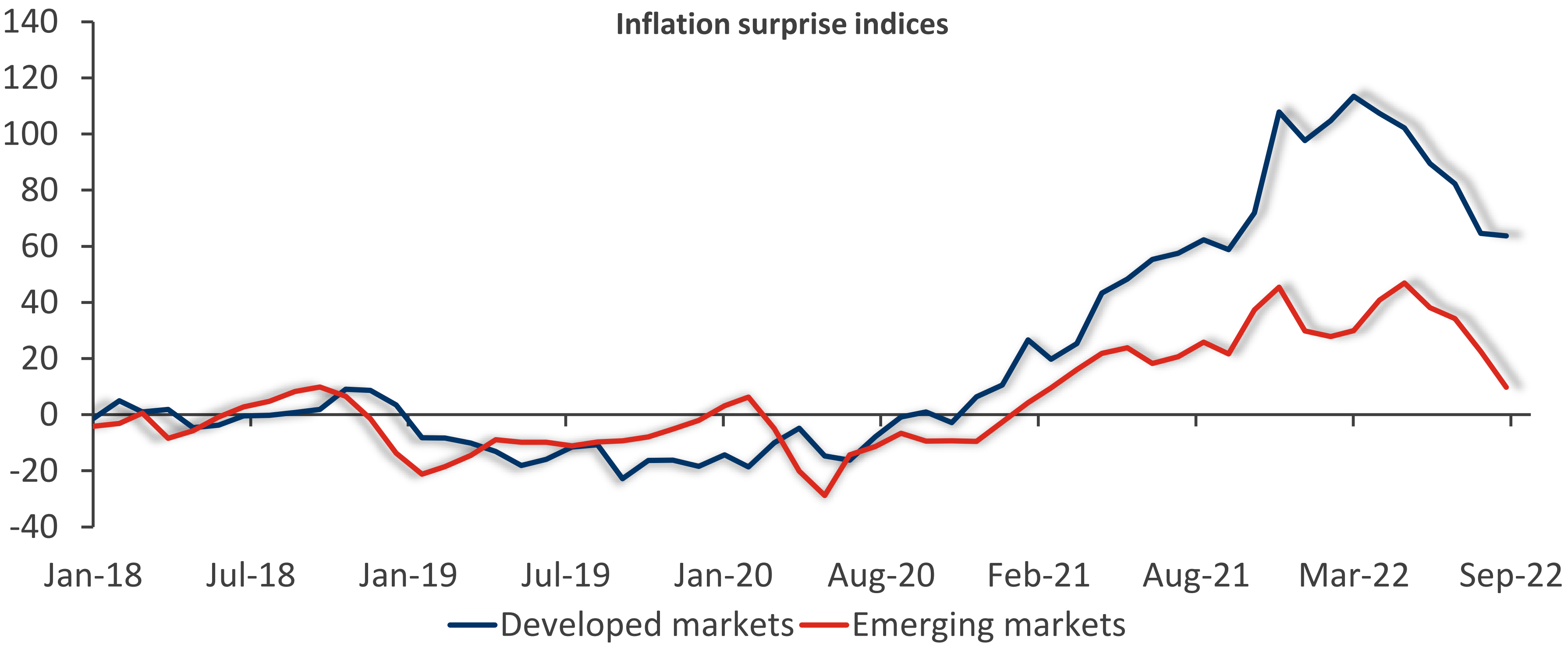
A broadening in price pressures could unhinge longer-dated inflation expectations



Source: South African Reserve Bank, International Monetary Fund

Inflation misses becoming smaller

Extent to which inflation is surprising the market consensus is narrowing

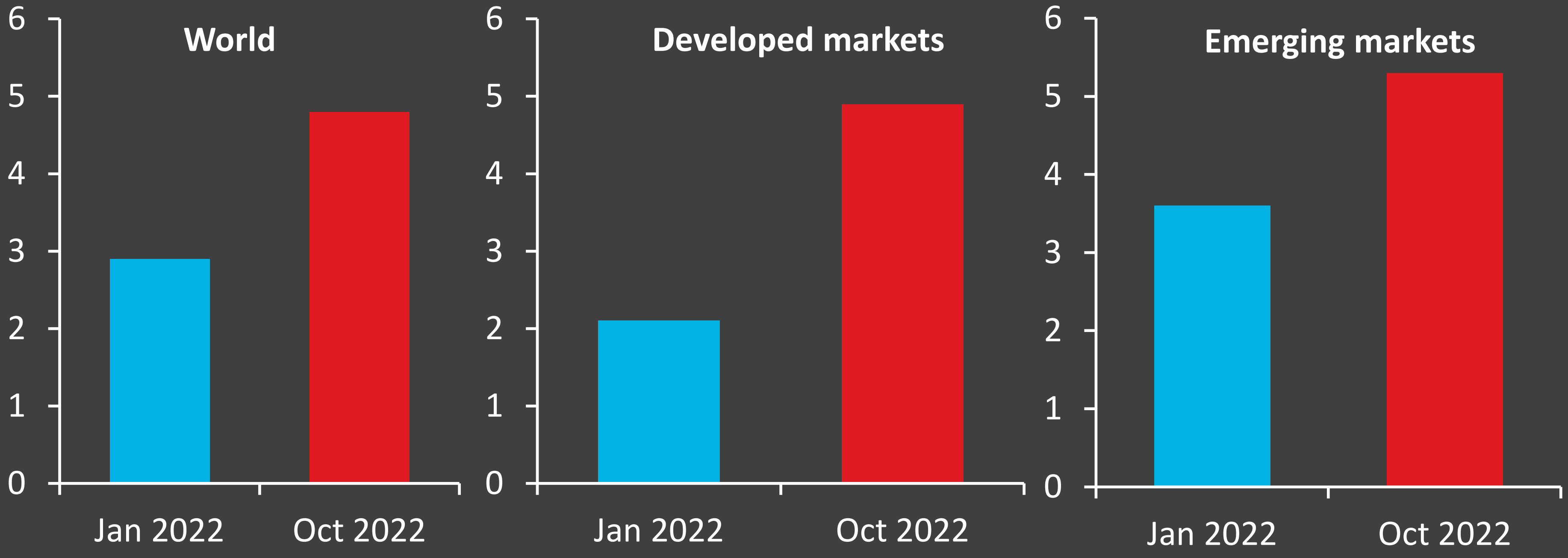


Source: Bloomberg, Momentum Investments

Slower expected return to central bank targets

Stickier wage and services inflation

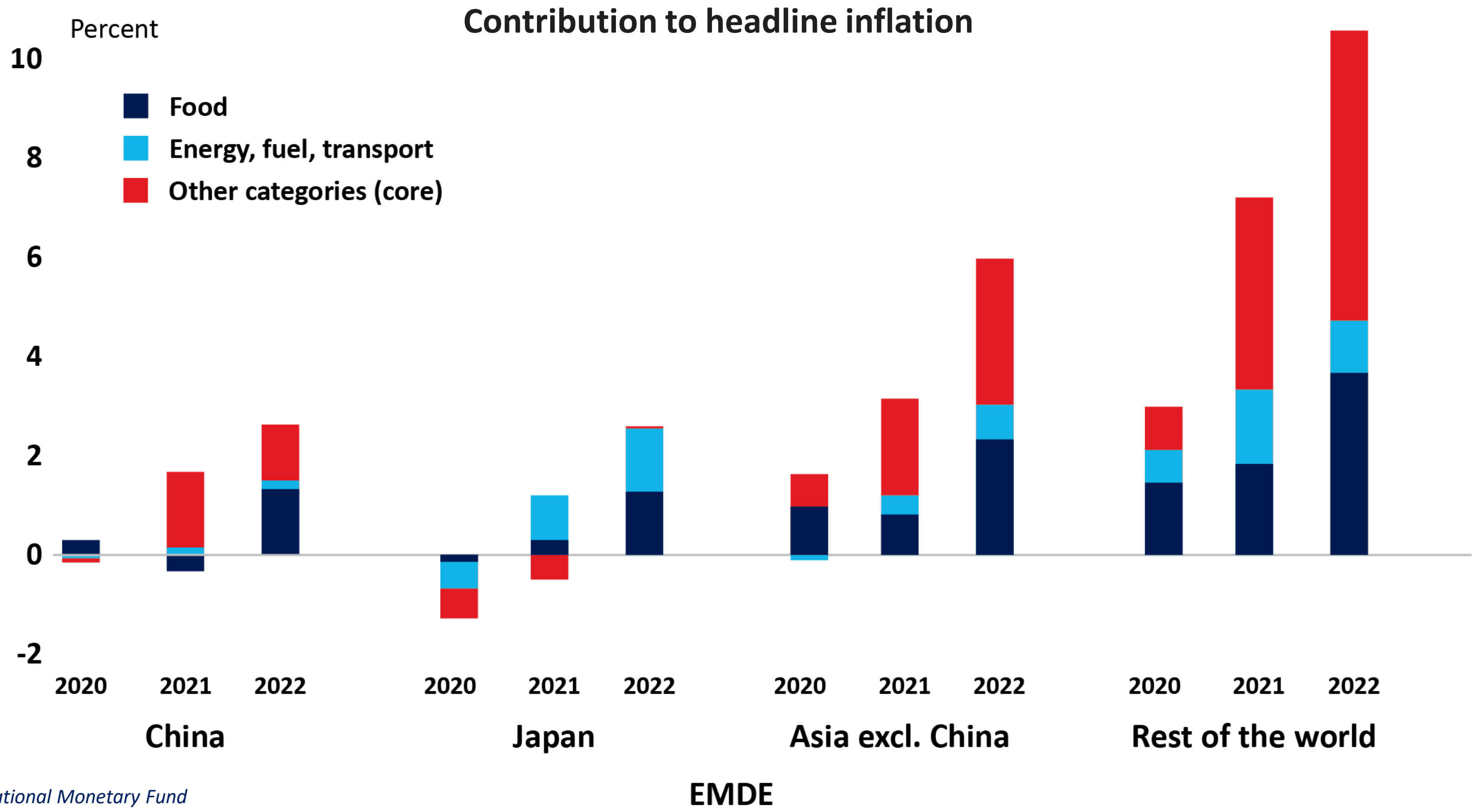
Median consensus forecast for headline inflation in 2023 (%)



Source: Bloomberg, Momentum Investments

Asia could prove to be a bright spot in 2023

Lower inflation pressures allowed for less monetary tightening in parts of Asia

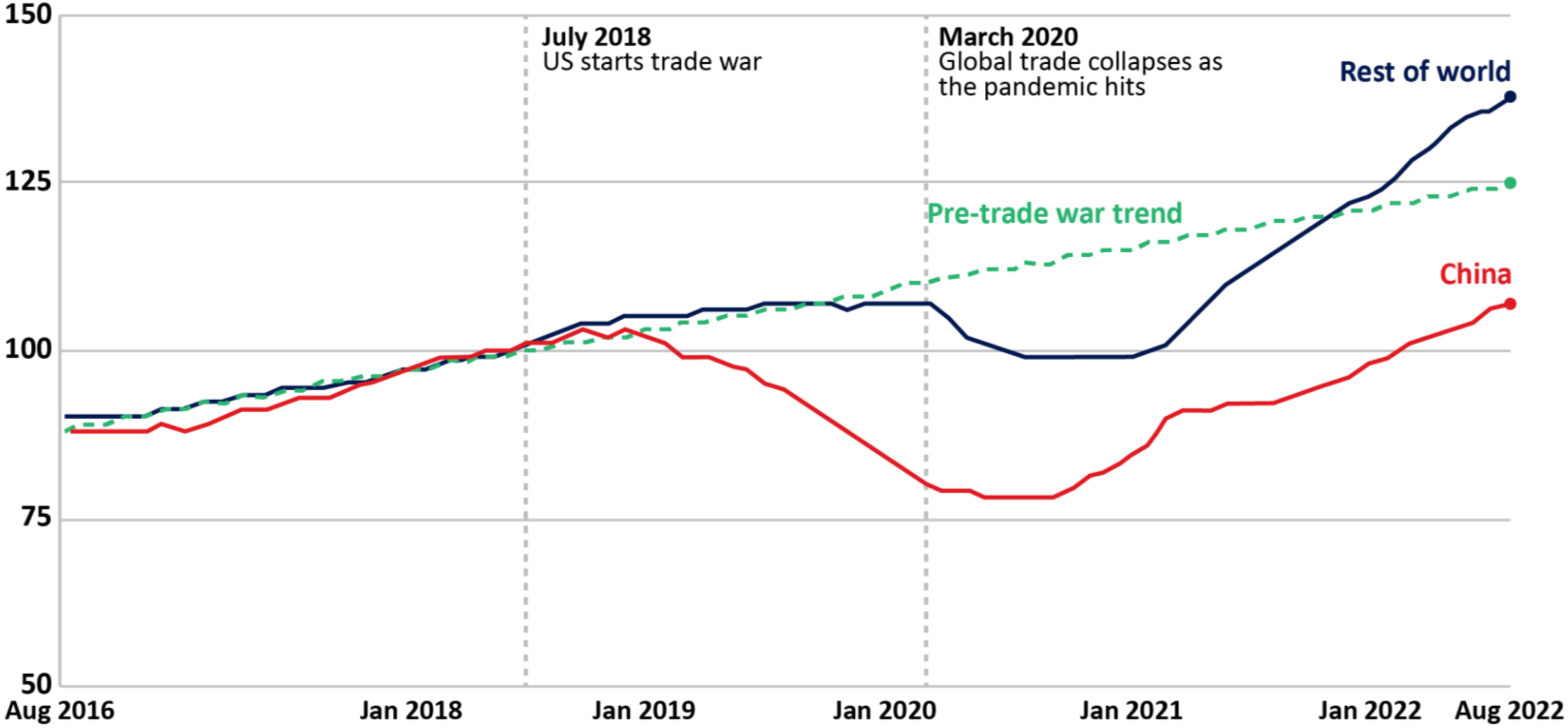


Source: International Monetary Fund

Geo-political fragmentation a risk for Asia

Investment in manufacturing and trade could come under pressure

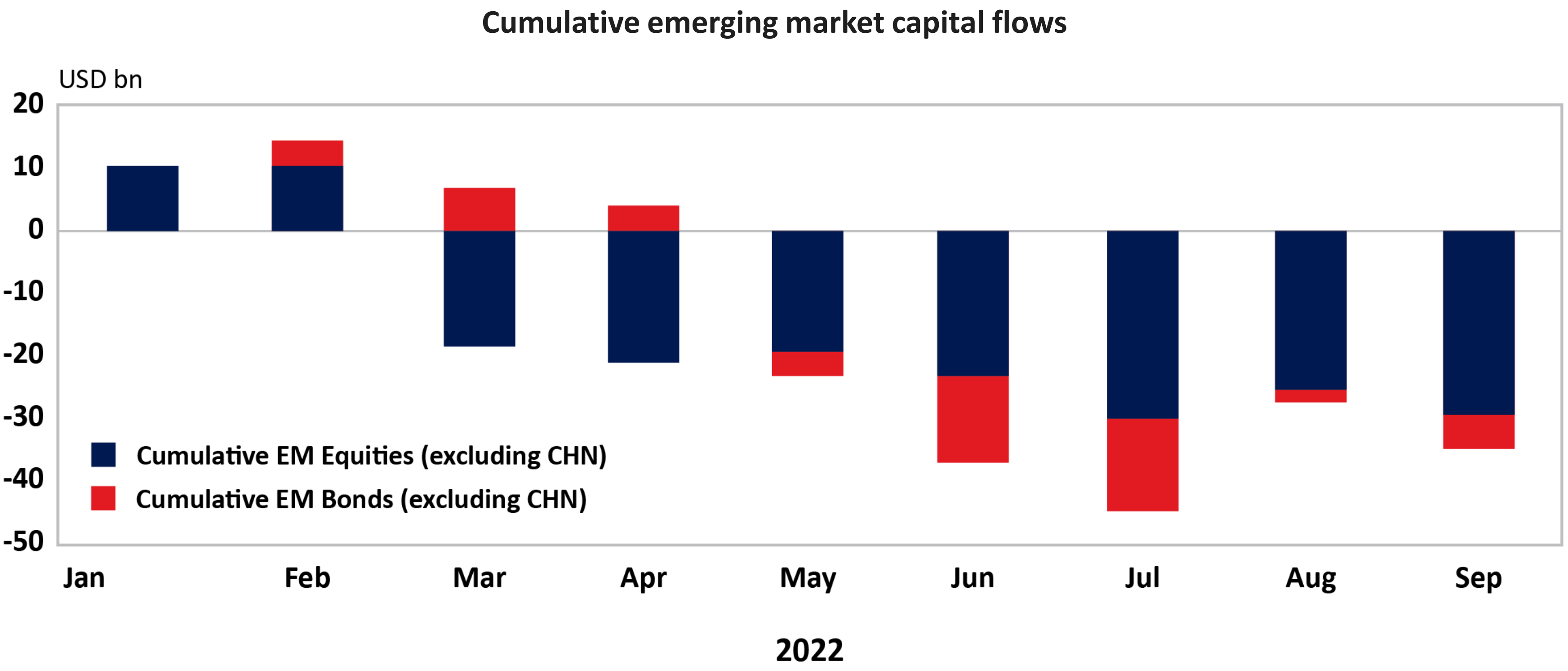
Value of US goods imports from China and the rest of the world from 2016 to 2022 (June 2018=100)



Source: Peterson Institute for International Economics

Risk aversion spurred significant EM outflows

Emerging markets facing higher financial stability risks



Source: South African Reserve Bank, International Monetary Fund

Widespread discontent over rising living costs

Higher food and fuel prices have a greater effect on inequality in emerging economies

Effect of a two-standard deviation increase in food and energy prices on the Gini co-efficient

1.3-point increase on average

1.7-point increase in emerging and developing economies

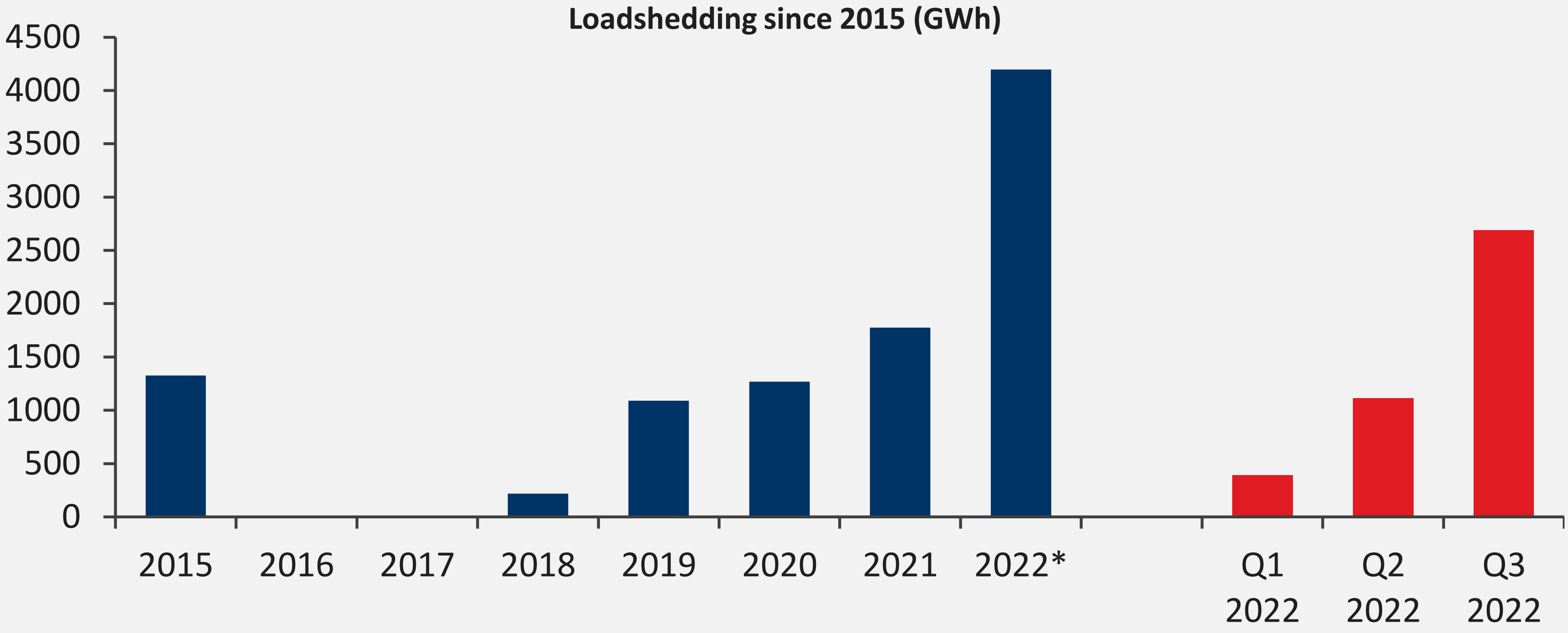
4.4-point increase on average

6.4-point increase in emerging and developing economies

Source: International Monetary Fund

Local growth set to moderate in 2023

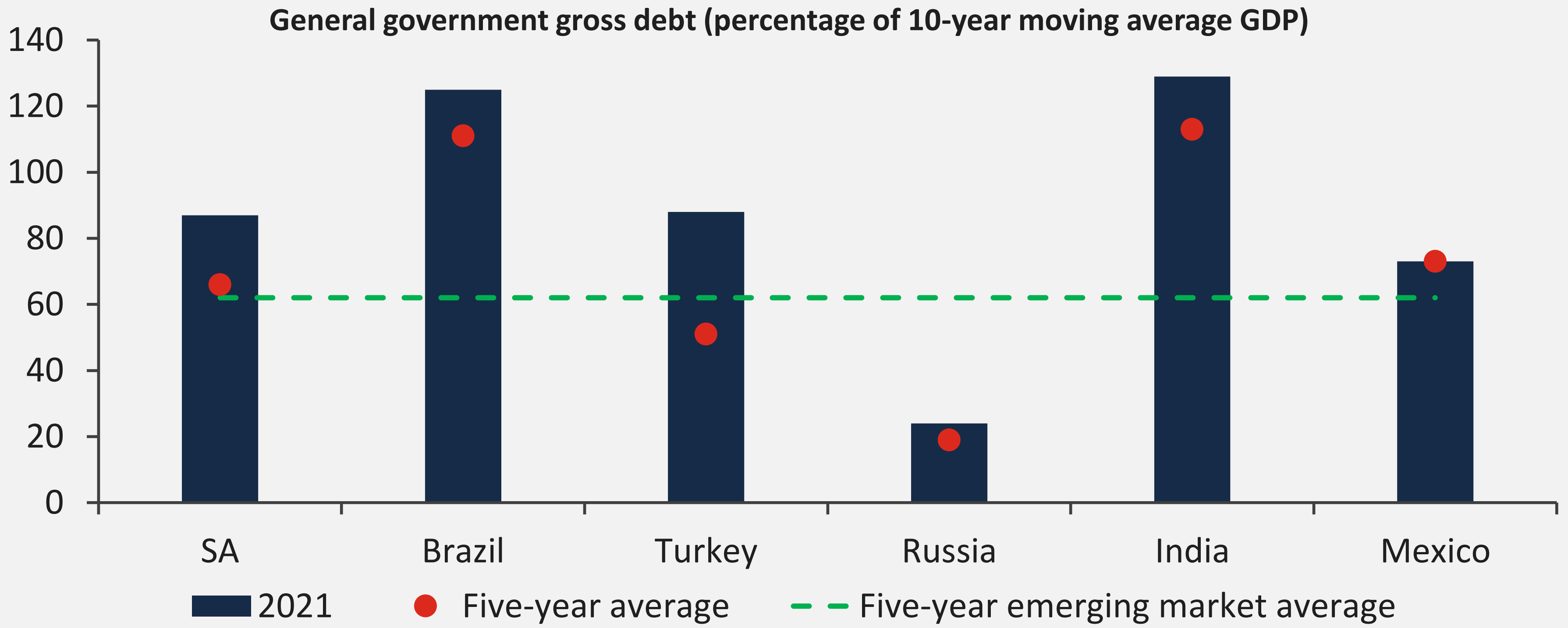
Bleak sentiment, policy uncertainty and energy and logistical hurdles constrain economic activity



*Source: National Treasury, *2022 includes data up to Q3 2022*

SA's debt burden remains substantial

Debt stabilisation at risk from rising social demands, support for parastatals and bankrupt municipalities



Source: South African Reserve Bank, World Bank

In summary

Larger tail risks, high uncertainty and elevated volatility

Synchronous tightening to douse inflation will steepen slowdown

Fiscal and monetary authorities must stand ready to deal with growth spillovers

Further downside likely in financial markets due to sticky inflation, tighter policy and rising recession risks

Avoid unnecessary portfolio changes and focus on the rationality of long-termism

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