

April 2022

Forecast 2022:

GDP: 3.3%

Core PCE Inflation: 4.6%

Forecast 2023:

GDP: 2.1%

Core PCE Inflation: 2.7%

EUROZONE

Incumbent French President, Emmanuel Macron, defeated far-right rival Marine Le Pen with 58.5% of the vote and became the first president in two decades to win a second five-year term. With 28% of voters not turning up to cast their ballot, this was the highest level of voter abstention in any French election run-off since 1969. *Politico* argues that France's electoral system results in large segments of the population being severely underrepresented and has ascribed this to the rise in voter apathy. French discontent is also evident in the rise in populist or extremist support from less than 50% in 2017 to 58% of voters in the first round of this year's election. Protests, the COVID-19 pandemic, and the Russia-Ukraine war complicated Macron's efforts to implement more pro-business reform and tighten European Union integration in his first term, but an increasingly fractured voter base could threaten support for Macron's policies in his second term.

Forecast 2022:

GDP: 3.8%

Inflation: 7.3%

Forecast 2023:

GDP: 1.1%

Inflation: 3.6%

JAPAN

Unlike many other major economies, the Bloomberg median consensus expectation for growth in Japan for 2022 remains marginally higher than estimates a year ago. Loose fiscal policy, recovering household consumption and an easing in supply chain constraints in the manufacturing and export sectors should support the economy this year. Nonetheless, the Russia-Ukraine war will dampen growth prospects through higher commodity prices and a dent to global growth. Similarly, Japan's expected inflation has bucked the global trend.

The Bloomberg median consensus expectation for inflation for 2022 is nearly in line with estimates a year ago and only marginally higher than the Bank of Japan's price stability target of 2%. In our view, ultra-loose monetary policy and quantitative and qualitative easing is set to continue for the foreseeable future.

UNITED STATES

Previously an increase in the oil price would have been a clear negative for the United States (US), but the country has become the largest producer of petroleum globally followed by Saudi Arabia and Russia. Nonetheless, US consumers are feeling the higher prices arising from the Russia-Ukraine war. With mounting pressure on households and a recent inversion in the yield curve (a reliable predictor of economic downturns), analysts are questioning whether the economy is headed for a hard landing as the Federal Reserve hikes interest rates to counter an inflationary shock. Goldman Sachs found that 11 out of 14 tightening cycles since the Second World War were followed by a recession within two years. However, only eight of these can be partially attributed to interest rate hiking cycles. Moreover, healthy private sector balance sheets and reasonably contained longer-dated inflation expectations argue for a softer landing.

Forecast 2022:

GDP: 2.7%

HICP Inflation: 6.3%

Forecast 2023:

GDP: 2.1%

HICP Inflation: 2.3%

UNITED KINGDOM

Rising household bills have tanked United Kingdom (UK) consumer sentiment levels. The Deloitte Consumer Tracker experienced the steepest drop in net sentiment since the UK first entered lockdown in the first quarter of 2020. The survey nevertheless showed polarisation in consumer expenditure by income group as higher-income households unleashed pent-up demand for socialising and travelling. Meanwhile, essential spending has climbed for lower-income groups due to price inflation. As such, a two-speed economy could emerge this year. Deloitte notes that higher-income households will account for a disproportionate share of spending, with the wealthier consumers using accumulated savings and benefiting from a rise in household net wealth. Meanwhile, those on lower incomes will continue to feel the pinch as staples account for a higher share of their disposable income.

Forecast 2022:

GDP: 2.2%

Inflation: 1.4%

Forecast 2023:

GDP: 1.6%

Inflation: 1%

CHINA

Forecast 2022:

GDP: 4.6%

Inflation: 2.2%

Forecast 2023:

GDP: 5.1%

Inflation: 2.1%

Project44, a supply chain crisis tracker, reported that containers arriving at Shanghai are waiting for over a week (a 163% increase in duration from March 2022) to be picked up for inland destinations. More than 90% of trucks supporting deliveries were reported as non-operational due to COVID-19 restrictions, contributing to the longer import dwell times. Despite mounting economic damage and disruptions to global supply chains, China's government has repeatedly defended its commitment to a zero-COVID policy. The International Monetary Fund (IMF) argues that reshoring is not the answer to global supply chain disruptions. Greater substitutability of input sourcing rather than reshoring can halve gross domestic product (GDP) losses, on average, following a shock to a large global supplier of intermediate inputs (if an elasticity of substitution of 0.5 is used) and it can also lower the volatility of GDP by 5%.

Forecast 2022:

GDP: 4.1%

Inflation: 5.4%

Forecast 2023:

GDP: 4.6%

Inflation: 4.2%

EMERGING MARKETS

In its April update, the IMF warned that even before the Russia-Ukraine war some emerging market (EM) central banks had already come under pressure to bring forward the timing of their monetary policy tightening. War-related supply shortages and renewed pressure on global supply chains, following the lockdowns in China, will amplify those pressures as food and energy burdens grow. Although EM capital outflows in early March 2022 matched the rate and magnitude seen at the onset of the COVID-19 pandemic, the pace has recently steadied. Nevertheless, the IMF's April 2022 Global Financial Stability Report highlights the risks to EMs posed by an accelerated pace of global monetary policy tightening and a more aggressive repricing in financial markets. The IMF April 2022 Fiscal Monitor shows that the debt-to-GDP ratio for the median EM middle-income economy has grown to 60% from 40% during the 2013 taper tantrum and as such the EM composite is more vulnerable to interest rate hikes.

Forecast 2022:

GDP: 1.8%

Inflation: 5.7%

Forecast 2023:

GDP: 1.8%

Inflation: 4.5%

SOUTH AFRICA

EMs faced a tough second half of the month following weaker global growth forecasts for 2022 and 2023 from the World Bank and IMF. The multilateral agencies slashed their expectations following the Russia-Ukraine war, tighter lockdown restrictions in China and increasingly hawkish rhetoric from key central banks. Commodity-related currencies, including the South African rand, the Colombian peso, the Chilean peso and the Brazilian real tumbled the most in the second half of April 2022 following a 7% fall in the Bloomberg Commodity Price Index. The rand's fall could also be attributed to severe flood damage in parts of KwaZulu-Natal and intensified loadshedding. Heavy rainfall has damaged critical infrastructure and hectares of farmland in the province, with authorities still counting the full cost of the devastation. Moreover, SA was hit with a rise in unavailable generating capacity in the month, which nearly matched the level of available generating capacity. Nedbank estimates that stage one (1 000 megawatts) loadshedding for the entire year lowers GDP growth by 0.4%. The April 2022 Reuters Ecometer showed that the median consensus forecast for second quarter GDP had been downgraded to 1.6% from 1.9% a month earlier. Headline inflation forecasts were raised by 0.2% for 2022 to 5.7% and a more hawkish stance was adopted on the forecasted repo rate which is now projected to end 2022 (2024) at 5% (6.25%) from 4.75% (5.75%) previously.

The macro research desk

Herman van Papendorp is the head of the Momentum Investments research and insights team and takes ultimate responsibility for macro research and asset allocation. Economist, Sanisha Packirisamy, is responsible for providing a macro framework to inform investment opportunities and strategies.



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Indices summary for April 2022

	One month	Three months	One year	Three years	Four years	Five years	Six years	Seven years	Ten years
Equity indices									
FTSE/JSE All-Share Index (Alsi)	-3.66%	-0.81%	13.17%	11.26%	9.36%	9.78%	8.88%	7.60%	11.22%
FTSE/JSE Shareholder Weighted Index (Swix)	-3.95%	-0.77%	8.83%	7.15%	5.77%	6.55%	6.19%	5.23%	10.00%
FTSE/JSE Capped Swix All Share index	-3.95%	0.11%	14.75%	8.65%	5.97%	6.49%	5.86%	5.00%	9.83%
FTSE/JSE All Share Top 40 Index	-4.02%	-1.67%	12.14%	11.66%	9.95%	10.42%	9.34%	7.84%	11.41%
FTSE/JSE Mid Cap Index	-2.51%	4.68%	19.98%	8.03%	4.73%	5.14%	4.68%	4.68%	8.83%
FTSE/JSE Small Cap Index	2.28%	7.79%	32.23%	16.93%	8.45%	6.92%	6.49%	6.36%	11.26%
FTSE/JSE Resources Index	-4.82%	9.32%	22.77%	26.47%	26.75%	25.38%	21.31%	13.96%	9.23%
FTSE/JSE Financials Index	-6.13%	9.08%	38.87%	3.69%	2.03%	4.90%	4.41%	3.01%	9.94%
FTSE/JSE Industrials Index	-1.73%	-12.93%	-3.25%	4.78%	2.92%	3.47%	3.92%	3.86%	10.80%
FTSE/JSE Research Affiliates Fundamental Indices 40 Index (Rafi)	-3.30%	3.50%	30.82%	13.53%	11.33%	12.23%	11.03%	9.14%	11.40%
FTSE/JSE Research Affiliates Fundamental Indices All Share Index	-3.44%	3.62%	29.22%	13.12%	10.82%	11.71%	10.64%	8.74%	11.06%
FTSE/JSE SA Listed Property Index (Sapy)	-1.41%	0.20%	12.16%	-5.26%	-6.37%	-5.22%	-4.37%	-2.87%	4.55%
FTSE/JSE All Property Index (ALPI)	-1.46%	-0.17%	11.58%	-5.81%	-7.35%	-6.24%	-5.82%	-4.11%	4.01%
Interest-bearing indices									
FTSE/JSE All Bond Index (Albi)	-1.67%	-0.69%	8.43%	7.56%	6.90%	8.24%	8.63%	7.62%	7.77%
FTSE/JSE All Bond Index 1-3 years (Albi)	0.43%	1.51%	4.57%	7.33%	7.80%	7.95%	8.19%	7.91%	7.35%
FTSE/JSE Inflation-linked Index (Ili)	1.97%	3.37%	11.66%	6.59%	5.58%	5.13%	4.47%	4.66%	6.17%
Short-term Fixed Interest Composite Index (Stefi)	0.36%	1.05%	4.01%	5.15%	5.68%	6.03%	6.29%	6.35%	6.12%
Commodities									
NewGold Exchange-Traded Fund	6.85%	8.57%	17.64%	17.69%	16.17%	11.83%	8.29%	11.11%	8.58%
Gold price (in rands)	7.58%	9.22%	19.32%	18.20%	16.69%	12.49%	8.84%	11.68%	9.02%
Platinum Exchange-Traded Fund	3.70%	-5.63%	-15.78%	4.97%	6.66%	2.89%	-0.69%	0.89%	
Platinum price (in rands)	2.44%	-5.25%	-14.73%	4.96%	7.09%	3.32%	-0.54%	1.41%	0.41%
Currency movements									
Rand/euro movements	2.61%	-3.72%	-4.41%	1.29%	2.57%	2.75%	0.46%	3.20%	4.99%
Rand/dollar movements	8.20%	2.11%	9.08%	3.35%	6.11%	3.41%	1.84%	4.09%	7.40%
Inflation index									
Consumer Price Index (CPI)			5.93%	4.42%	4.45%	4.32%	4.62%	4.85%	5.00%

Important notes

1. Sources: Momentum Investments, IRESS, www.msci.com, www.yieldbook.com, www.ft.com.
2. Returns for periods exceeding one year are annualised.
3. The return for Consumer Price Index (CPI) is to the end of the previous month. Due to the reweighting of the CPI from January 2009, this number reflects a compound of month-on-month CPI returns. The historical numbers used are the official month-on-month numbers based on a composite of the previous inflation series (calculations before January 2009) and the revised inflation series (calculations after January 2009).
4. The MSCI World index (All Countries) returns are adjusted to correspond with global investment prices received.
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