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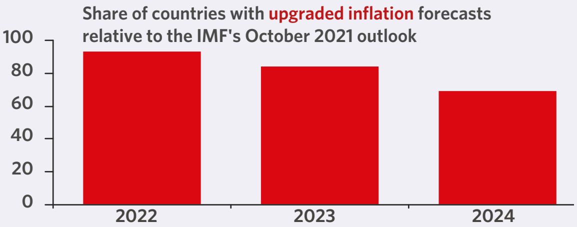
Economies at a glance

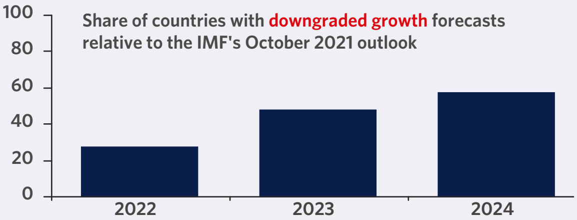
It's all about inflation

- Relative to its October 2021 World Economic Outlook publication, the International Monetary Fund (IMF) **upgraded** its **2022 inflation forecasts** for **96%** of all countries covered. Upward revisions were made to its inflation projections for 86% of economies for 2023 and 67% of economies for 2024, suggesting a **more widespread** and **persistent inflationary overshoot.**
- Meanwhile, the IMF **downgraded** its **2022 growth views** for **22%** of all countries covered. Downward adjustments were made to growth forecasts for 39% of all countries for 2023 and half of all countries for 2024, highlighting **longer-term negative economic consequences** resulting from heightened **geopolitical risks,** persistent **global supply chain disruptions, pandemic scarring** and **unwinding of accommodative policies.**
- Despite lower growth projections, central banks globally are more concerned about the threat of second-round effects on wages and prices and remain poised to unwind ultra-accommodative policies.

War-related supply shortages amplifying inflation pressures



Global growth prospects have worsened



Source: IMF, Momentum Investments

Saying goodbye to easy money

Unconventional monetary policy measures to combat the negative economic effects of the pandemic have taken central bank balance sheets to new highs. But many developed market central banks are now ending their asset purchase programmes as they seek to foster less accommodative financial conditions.

The major G4 central banks (US Federal Reserve (Fed), European Central Bank (ECB), Bank of England and the Bank of Japan (BoJ) are expected to engage in quantitative tightening (QT) in aggregate despite ongoing purchases by the BoJ. The BoJ is expected to maintain an ultra-easy monetary policy stance to support an economy that continues to face growth pressures.

In some cases, central banks will no longer reinvest assets once they mature while others will reduce asset holdings outright through direct sales. Direct sales are more likely in Australia and the UK where the average maturity of assets held is longer.

What is quantitative easing (QE)?

QE is unconventional expansionary monetary policy used by central banks once short-term policy rates have been reduced to (or close to) zero. Central banks create reserves on their balance sheets and use these to purchase assets, such as government bonds. These purchases boost money supply, lower interest rates and encourage lending and investment in the economy.

What is quantitative tightening (QT)?

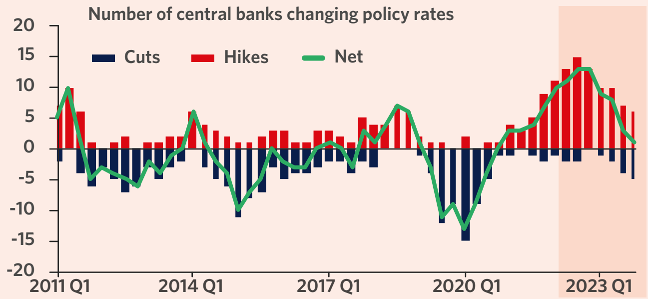
QT is when central banks undergo contractionary monetary policy which is the reverse of QE. QT seeks to increase borrowing rates to manage an overheated economy either by allowing the bonds central banks purchased to reach maturity and run off its balance sheet or by selling the financial securities on its balance sheet on the open market. This drains money from the system.

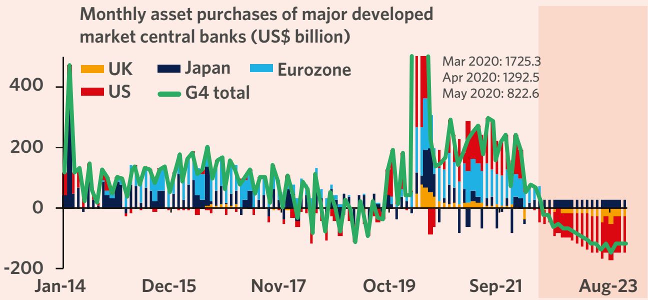
Policy divergence has widened between the Fed and BoJ, with the former expected to continue an aggressive series of interest rate hikes, while simultaneously reducing the balance sheet that will ultimately reach a pace that is double that of the QT pace experienced in the US between 2017 and 2019.

Oxford Economics estimates that balance sheet reductions in major economies could add the equivalent of up to 1.3% in tightening to the anticipated hikes in short-term policy rates, resulting in a bigger expected drag on growth.

The risk of financial collapse is nonetheless viewed as lower this time around. The latest round of QE did not create a surge in credit growth and as such QT is unlikely to trigger a large monetary contraction. Moreover, the Fed's new standing repo facility is likely to help avoid a 2019-style liquidity crunch.

The reality of tighter money





Source: Capital Economics, shaded forecasts up to the end of 2023

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May 2022

UNITED STATES

Core services inflation (which excludes energy services) for April rose at its fastest pace since 1990. This signals that price pressures in the United States (US) economy are not only a result of pandemic-related disruptions, but inflation has affected the economy more broadly. Soaring price pressures have contributed to President Joe Biden's approval ratings dropping to an all-time low of 38%, according to CNBC's All-America survey. Surveyed Americans were the most downbeat about the economy since 2012, with 56% expecting a recession in the next year. Nearly half of the survey participants chose the rising cost of living as the top concern facing the country, followed by the Russia-Ukraine war (31%) and immigration (23%). With only six months before the midterm elections, economic indicators continue to deteriorate and risk rattling the public's confidence in the current administration.

Forecast 2022:
GDP: 3.1%
Core PCE Inflation: 4.6%
Forecast 2023:
GDP: 2.1%
Core PCE Inflation: 2.7%

EUROZONE

In an address in Ljubljana, Slovenia, European Central Bank (ECB) President Christine Lagarde noted the Russia-Ukraine war 'complicated... monetary policy, since in the near term, inflation and growth are moving in opposite directions'. She acknowledged the ECB had shifted gears from 'patience and persistence when exiting a long period of too-low inflation' to a path of gradual policy normalisation since December given the change in the medium-term inflation outlook. Noting that geopolitics will become more important for the structure of global supply chains, Lagarde cautioned that the disinflationary dynamics of the past decade were unlikely to return. She announced that the ECB would end net asset purchases early in the third quarter shortly followed by the ECB's first interest rate hike. Lagarde did, however, note the pace of normalisation was likely to be gradual, reflecting on consumption and investment that remain below pre-crisis levels.

Forecast 2022:
GDP: 2.7%
HICP Inflation: 6.3%
Forecast 2023:
GDP: 2.1%
HICP Inflation: 2.4%

UNITED KINGDOM

Squeezed incomes have resulted in disappointing retail sales. The BRC-KPMG Retail Sales Monitor for April showed negative sales growth for the first time in 15 months. Spending on electronics and household goods slowed the most, while food and clothing purchases continued at a reasonable clip. KPMG estimates the 54% increase in the energy price cap in April and a proposed 30% increase for October could collectively add 2% or more to inflation this year and burden consumers further. Data from Barclaycard, which accounts for nearly half of Britain's credit and debit transactions, showed that rising prices have lowered spending on takeaways, nights out and digital subscriptions. Half of shoppers have cut down on luxury goods and 90% are concerned about the effect of higher household bills on their finances. Meanwhile, an improvement in spending on travel and special occasions points to a recovery in some areas of the economy.

Forecast 2022:
GDP: 3.8%
Inflation: 7.3%
Forecast 2023:
GDP: 1.1%
Inflation: 3.6%

JAPAN

Abenomics, policies formulated by former Prime Minister Shinzo Abe, caused a decade-long weakening of the yen. However, the pace of depreciation against the major currencies picked up speed since the end of March 2022, leaving the yen at levels last seen 20 years ago. Recent weakness has been triggered by the growing policy divergence between the US Federal Reserve, which is expected to continue tightening in response to an overheating economy, and the Bank of Japan (BoJ), which continues to view inflation as less of a problem than low post-pandemic growth. Former deputy vice minister of finance, Takatoshi Ito, has maintained that 'the exchange rate is not in the mandate of the BoJ' but pressures are mounting as the cost of living for Japanese consumers has risen, particularly as the upper house parliamentary election nears.

Forecast 2022:
GDP: 2%
Inflation: 1.5%
Forecast 2023:
GDP: 1.6%
Inflation: 1.1%

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CHINA

Forcing consumers back into hibernation while the rest of the globe embraces pandemic living, will continue to suppress growth. Moreover, aggressive lockdowns will hurt China's manufacturing and export sectors, particularly given the interconnectedness of the economy. Fitch Ratings reported that mobility trends in China dipped considerably in April, with traffic congestion and the volume of subway passengers dropping to their weakest levels since the start of the pandemic. It will be difficult to achieve government's growth target of around 5.5% this year with Nomura estimating that up to 30% of national economic output was under full or partial lockdown by mid-May. In response, Chinese Premier Li Keqiang instructed government departments to prioritise job saving measures given the importance of stable employment to the economic recovery and maintaining social cohesion.

Forecast 2022:
GDP: 4.4%
Inflation: 2.2%
Forecast 2023:
GDP: 5.1%
Inflation: 2.1%

EMERGING MARKETS

In its April update, the World Bank flagged financial tightening in the US and China's zero-COVID-19 policy as major risks to the export outlook for East Asia, while the Russia-Ukraine war continues to threaten food and fuel supplies. Although economic activity in South Asian countries had returned to pre-pandemic levels, the World Bank warned policy challenges exist amid hard-to-finance fiscal and trade deficits. The Russia-Ukraine war is having the largest effect on countries in Eastern Europe and Central Asia given their strong trade, financial and migration links. Food insecurity and runaway inflation expectations also plague this emerging market (EM) composite. The World Bank cautioned that although the recovery in Latin America is well underway, rising global inflation poses new policy challenges for the area, particularly as reforms for inclusive growth remain pending. Meanwhile, countries in the Middle East and North Africa are battling the aftereffects of the pandemic and rising food inflation.

Forecast 2022:
GDP: 4%
Inflation: 5.5%
Forecast 2023:
GDP: 4.5%
Inflation: 4.2%

SOUTH AFRICA

In its April Monetary Policy Review, the South African Reserve Bank (SARB) warned that 'pressure on (EM) policy rates also increased with inflation and heightened risk to capital flows and exchange rates'. It flagged the following as the main sources of upside risk to inflation: (1) pressure on international oil supplies, (2) sharply higher producer price inflation (up 11.9% relative to a year ago in March), (3) an upward drift in longer-dated inflation expectations (registering at 5% in the first quarter of the year according to the Bureau of Economic Research's Inflation Expectations Survey), (4) growing wage pressures, (5) a weaker currency (the rand registered as the worst-performing currency against the US dollar between the last two rate-setting meetings, from a range of EM peers, on the back of increasingly hawkish central bank rhetoric in developed economies, a step-up in local loadshedding incidences and negative sentiment resulting from extensive flood damage in KwaZulu-Natal) and (6) higher global goods inflation. Against this backdrop, the SARB hiked interest rates by 50 basis points to 4.75% in May. The SARB's Quarterly Projection Model continues to compute a nominal interest rate of 6.75% (and a neutral real interest rate of 2.4%) by the end of 2024. The May Reuters Econometer indicated that the local analyst community, on average, see a peak of 6% in the interest rate hiking cycle by the third quarter of 2023.

Forecast 2022:
GDP: 1.8%
Inflation: 5.9%
Forecast 2023:
GDP: 1.8%
Inflation: 4.5%

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.

Indices summary for May 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)	-0.36%	-4.00%	11.03%	12.98%	10.24%	9.79%	8.48%	8.16%	11.58%
FTSE/JSE Shareholder Weighted Index (Swix)	0.56%	-2.10%	8.02%	9.44%	7.22%	6.68%	6.05%	6.06%	10.41%
FTSE/JSE Capped Swix All Share index	0.54%	-1.98%	12.09%	10.62%	7.57%	6.77%	5.91%	5.84%	10.24%
FTSE/JSE All Share Top 40 Index	0.01%	-4.78%	10.89%	13.62%	10.82%	10.38%	8.76%	8.47%	11.84%
FTSE/JSE Mid Cap Index	-1.16%	2.41%	11.70%	8.91%	6.73%	5.81%	5.50%	5.22%	9.00%
FTSE/JSE Small Cap Index	-0.30%	6.89%	27.59%	17.87%	9.04%	7.41%	7.08%	6.42%	11.47%
FTSE/JSE Resources Index	-0.42%	-6.22%	23.80%	28.51%	25.42%	26.33%	22.01%	14.76%	9.96%
FTSE/JSE Financials Index	3.49%	8.79%	31.49%	5.70%	4.59%	5.91%	5.36%	4.40%	10.43%
FTSE/JSE Industrials Index	-2.17%	-7.99%	-6.84%	6.16%	3.71%	2.73%	2.68%	3.98%	10.83%
FTSE/JSE Research Affiliates Fundamental Indices 40 Index (Rafi)	0.78%	0.50%	27.24%	15.52%	12.57%	12.88%	11.80%	10.16%	11.94%
FTSE/JSE Research Affiliates Fundamental Indices All Share Index	0.75%	1.01%	25.52%	15.07%	12.12%	12.41%	11.50%	9.68%	11.60%
FTSE/JSE SA Listed Property Index (Sapy)	0.05%	3.62%	15.54%	-4.97%	-4.92%	-5.23%	-3.79%	-2.02%	4.50%
FTSE/JSE All Property Index (ALPI)	-0.32%	2.54%	14.93%	-5.26%	-6.25%	-6.29%	-5.63%	-3.52%	3.87%
Interest-bearing indices									
FTSE/JSE All Bond Index (Albi)	1.01%	-0.23%	5.59%	7.69%	7.70%	8.25%	9.08%	7.88%	7.88%
FTSE/JSE All Bond Index 1-3 years (Albi)	0.49%	1.53%	5.16%	7.19%	7.94%	7.91%	8.22%	7.95%	7.33%
FTSE/JSE Inflation-linked Index (Ili)	1.99%	3.23%	10.12%	7.64%	6.07%	5.55%	4.94%	5.23%	6.49%
Short-term Fixed Interest Composite Index (Stefi)	0.39%	1.12%	4.09%	5.08%	5.63%	5.98%	6.25%	6.32%	6.12%
Commodities									
NewGold Exchange-Traded Fund	-4.91%	-2.66%	9.44%	14.42%	14.52%	11.06%	6.66%	9.87%	7.50%
Gold price (in rands)	-5.36%	-2.23%	9.53%	14.92%	14.76%	11.56%	7.06%	10.28%	8.03%
Platinum Exchange-Traded Fund	0.58%	-8.13%	-8.39%	8.50%	6.44%	3.37%	-0.74%	1.04%	
Platinum price (in rands)	1.81%	-6.92%	-6.95%	9.41%	6.87%	4.04%	-0.27%	1.63%	0.35%
Currency movements									
Rand/euro movements	0.01%	-3.65%	-0.48%	0.96%	3.08%	2.40%	-0.80%	3.26%	4.66%
Rand/dollar movements	-1.53%	0.92%	13.58%	2.29%	5.31%	3.40%	-0.16%	3.62%	6.17%
Inflation index									
Consumer Price Index (CPI)			5.89%	4.41%	4.41%	4.42%	4.58%	4.81%	5.02%

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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