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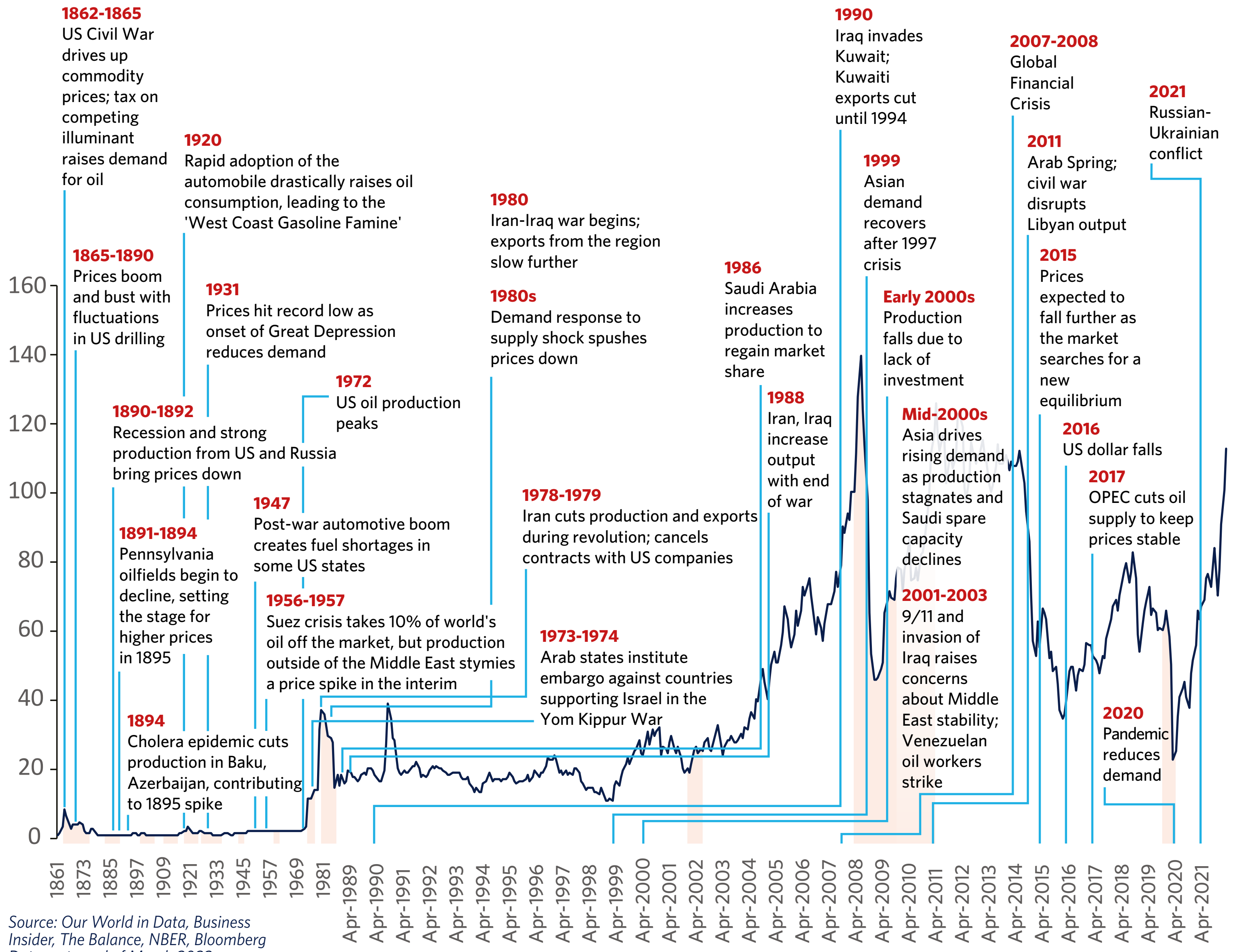
Economies at a glance

History of crude oil prices (measured in current US$/bbl)

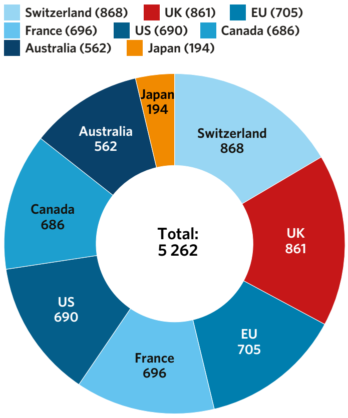


Source: Our World in Data, Business Insider, The Balance, NBER, Bloomberg
Data up to end of March 2022

Russia sanctions dashboard

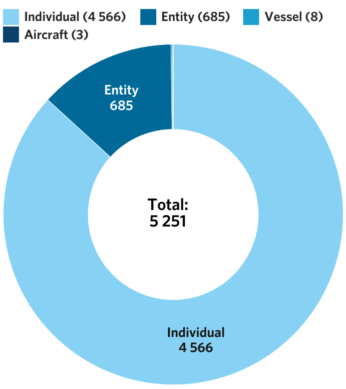
Who sanctioned Russia

Since 22 February

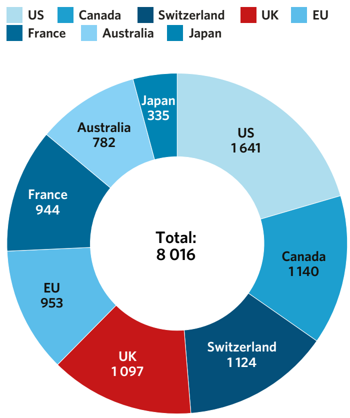


Sanctions targeting Russia by type

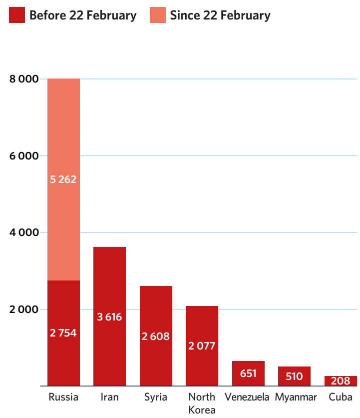
Since 22 February



Total Russia sanctions by source



Russia is now the world's most sanctioned country



Source: Castellum.AI

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March 2022

UNITED STATES

In its Federal Open Market Committee statement for March 2022, the United States (US) Federal Reserve (Fed) noted the invasion of Ukraine by Russia is likely to result in higher inflation and lower growth. The Fed downwardly revised its median growth estimate for this year from 4% to 2.8% but left its 2023 and 2024 growth assumptions unchanged at 2.2% and 2%, respectively. The Fed expects the effect on inflation to last longer and upwardly revised its median core PCE inflation projection from 2.7% to 4.1% for this year, from 2.3% to 2.6% for next year and from 2.1% to 2.3% for 2024. With these revisions in mind, the Fed's median projected policy path shifted up from 0.9% to 1.9% for the end of this year. However, its longer-run estimate dropped from 2.5% to 2.4%. The Bloomberg median consensus expects a lower rate of 1.6% by the end of this year despite a higher expected inflation average of 4.4%.

Forecast 2022:
GDP: 3.3%
Core PCE Inflation: 4.3%
Forecast 2023:
GDP: 2.3%
Core PCE Inflation: 2.5%

EUROZONE

The European Central Bank (ECB) acknowledged the Russian invasion of Ukraine is a 'watershed' for Europe. The ECB surprised financial markets by announcing a speedier exit from bond purchases as soon as the end of the third quarter of this year. The ECB president nevertheless flagged that any adjustment in interest rates would only take place 'some time after the end of our net purchases under the Asset Purchase Programme and will be gradual'. The ECB downgraded its growth projection for 2022 from 4.2% to 3.7% and highlighted it could be as low as 2.5% in a more adverse scenario and 2.3% under a severe scenario. These are based on stricter sanctions on Russia, a reduction in energy supply and a repricing of financial markets. The bank also revised its inflation estimate higher to 5.1% from 3.2% and noted that inflation could reach an average of 5.9% this year in a more adverse scenario and 7.1% in a severe scenario, where second-round effects are larger.

Forecast 2022:
GDP: 2.7%
HICP Inflation: 6%
Forecast 2023:
GDP: 2.1%
HICP Inflation: 2.1%

UNITED KINGDOM

The Bank of England (BOE) warned the increases in energy and other raw material prices would likely be felt more heavily in Europe given its reliance on Russian gas and the fragmentation of the global market. The BOE also raised concerns over the effect of higher prices on real incomes and the policy challenges this poses to central banks. Higher inflation expectations and greater perceived risks of inflation persistence have accounted for above-average medium-term inflation compensation measures. The March 2022 Market Participants Survey suggested that survey respondents now expect the peak in the monetary policy cycle at 2% based on the median expectation (from 1.5% in the February survey). The Bloomberg median consensus expects interest rates to end this year at 1.2% and next year at 1.5% despite lowering growth forecasts by 0.75% for this year and 0.4% for next year.

Forecast 2022:
GDP: 3.8%
Inflation: 6.7%
Forecast 2023:
GDP: 1.4%
Inflation: 3%

JAPAN

Despite Prime Minister Fumio Kishida's bigger-than-expected ¥56 trillion stimulus package, there have been calls for even further fiscal support. The economy faced tighter COVID-19 restrictions to combat an outbreak of Omicron at the start of the year, but the number of infections has nevertheless slowed recently to 27% of the recent peak. Meanwhile, pressure is mounting on consumption given higher utility bills on the back of the sharpest rise in fuel prices in Japan in more than 40 years. At the January 2022 interest rate-setting meeting, the Bank of Japan forecasted growth to average 2.6% for the next three fiscal years and estimated core inflation to average 0.7% in the same period. Wage inflation should also remain subdued with the emphasis on employment stability over wage increases and the number of hours worked remaining below pre-pandemic levels.

Forecast 2022:
GDP: 2.4%
Inflation: 1.3%
Forecast 2023:
GDP: 1.6%
Inflation: 1%

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CHINA

China is facing pressing issues at home. The country reached its highest number of COVID-19 cases since the first weeks of the pandemic. Even though President Xi Jinping claimed that government would minimise disruptions to the economy while pursuing its zero-COVID strategy, with a 'slice and grid' approach, Shanghai announced broader lockdowns late in the month. Aside from renewed virus concerns, financial stress is mounting in the property sector. The *Financial Times* notes that the spread between high-yield bonds in the overseas Chinese market and government bonds has risen to levels last seen in the global financial crisis, while *Bloomberg Intelligence* reported that more than half of junk-rated developers' bonds are trading less than 50 cents. With consumption and property seen to be the hardest hit, policymakers will likely continue to defend the 5% growth target by cutting interest rates further.

Forecast 2022:
GDP: 5%
Inflation: 2.2%
Forecast 2023:
GDP: 5.1%
Inflation: 2%

EMERGING MARKETS

The International Monetary Fund (IMF) warned that emerging markets (EM) will feel the heat of the Russian-Ukrainian war in three ways. Firstly, higher food and energy costs will push inflation higher and erode consumer purchasing power. Secondly, further disruptions to supply chains will hamper growth and raise inflation outcomes. Lastly, investor uncertainty could spur outflows from EMs, leading to tighter financial conditions. In our view, an environment of weaker global growth will create an even more challenging environment for EMs. The IMF notes that this latest spike in geopolitical conflict comes at a time when many EMs have less policy space to counter negative effects on growth and this could result in a further rise in public debt and magnified socio-economic pressures. While net commodity exporting nations are relatively better positioned, higher commodity prices will hurt external accounts of net commodity exporters and weigh negatively on currencies.

Forecast 2022:
GDP: 4.4%
Inflation: 4.9%
Forecast 2023:
GDP: 4.7%
Inflation: 3.9%

SOUTH AFRICA

Given limited direct trade linkages with Russia and Ukraine, the biggest channel of contagion is likely commodity prices. With the rise in South Africa's (SA) exported commodity prices outweighing the rise in international oil prices, the expectation on SA's current account balance has improved. The rand has further outperformed on substantial inflows into the equity market as low beta markets with relatively lower political risk and higher policy credibility have benefited from the exclusion of Russia from the MSCI EM Index and outflows from Turkey, following poor decision-making on monetary policy. Higher oil prices will nevertheless raise headline inflation in SA. The Reuters median consensus forecast on headline inflation for this year has risen from 4.8% in January 2022 to 5.5% in March 2022. Meanwhile, the SA Reserve Bank (SARB) lifted its headline inflation forecast from 4.9% to 5.8%. Analysts expect rising fuel prices will erode purchasing power and thus lowered their median expectation for growth this year from 2% to 1.9%. In contrast, the SARB expects higher commodity export prices to boost activity this year and upgraded its growth forecast from 1.7% to 2%. Despite these shifts in forecasts, the median Reuters consensus still places expected interest rates at 4.75% by the end of this year, while the SARB's quarterly projection model points to an increase to around 5%. Both forecasts are substantially lower than the forward-rate-agreement market pointing to a further rise of 200 basis points.

Forecast 2022:
GDP: 1.8%
Inflation: 5.7%
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 March 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)	0.01%	3.84%	18.61%	14.22%	11.85%	11.39%	9.87%	8.88%	11.94%
FTSE/JSE Shareholder Weighted Index (Swix)	1.35%	5.69%	12.95%	10.63%	7.98%	8.27%	7.12%	6.47%	10.74%
FTSE/JSE Capped Swix All Share index	1.49%	6.72%	20.43%	11.92%	8.11%	8.10%	6.87%	6.26%	10.57%
FTSE/JSE All Share Top 40 Index	-0.81%	3.64%	17.56%	14.90%	12.65%	12.31%	10.29%	9.26%	12.19%
FTSE/JSE Mid Cap Index	6.28%	6.94%	26.04%	9.90%	6.32%	5.51%	5.92%	5.37%	9.40%
FTSE/JSE Small Cap Index	4.82%	4.02%	36.50%	17.89%	8.17%	5.89%	7.11%	6.63%	11.14%
FTSE/JSE Resources Index	-1.05%	19.02%	32.67%	27.68%	31.03%	26.62%	24.91%	16.03%	10.04%
FTSE/JSE Financials Index	11.99%	20.28%	50.10%	8.17%	4.49%	6.98%	5.47%	4.56%	10.92%
FTSE/JSE Industrials Index	-4.29%	-13.11%	-2.72%	7.65%	4.68%	4.89%	4.07%	4.72%	11.34%
FTSE/JSE Research Affiliates Fundamental Indices 40 Index (Rafi)	3.13%	11.35%	38.92%	16.17%	13.64%	13.60%	12.89%	10.78%	12.04%
FTSE/JSE Research Affiliates Fundamental Indices All Share Index	3.83%	10.84%	37.68%	15.84%	13.16%	13.01%	12.63%	10.28%	11.71%
FTSE/JSE SA Listed Property Index (Sapy)	5.05%	-1.27%	27.06%	-3.82%	-4.29%	-4.85%	-3.83%	-2.67%	4.97%
FTSE/JSE All Property Index (ALPI)	4.40%	-1.60%	26.25%	-4.71%	-5.28%	-5.67%	-5.31%	-3.84%	4.40%
Interest-bearing indices									
FTSE/JSE All Bond Index (Albi)	0.45%	1.86%	12.37%	8.43%	7.17%	8.92%	9.27%	7.80%	8.15%
FTSE/JSE All Bond Index 1-3 years (Albi)	0.61%	1.27%	5.68%	7.47%	7.69%	8.08%	8.30%	7.90%	7.40%
FTSE/JSE Inflation-linked Index (Ili)	-0.73%	0.21%	10.76%	7.08%	4.34%	4.97%	4.68%	4.80%	6.13%
Short-term Fixed Interest Composite Index (Stefi)	0.36%	1.03%	3.94%	5.23%	5.74%	6.08%	6.33%	6.37%	6.14%
Commodities									
NewGold Exchange-Traded Fund	-4.20%	-2.17%	12.32%	14.29%	15.44%	10.75%	7.22%	9.68%	7.88%
Gold price (in rands)	-3.97%	-3.25%	12.31%	14.54%	15.84%	11.57%	6.91%	10.04%	8.27%
Platinum Exchange-Traded Fund	-11.92%	-6.08%	-18.78%	4.97%	6.50%	2.15%	-0.43%	0.15%	
Platinum price (in rands)	-10.74%	-6.16%	-15.29%	5.76%	7.14%	2.66%	0.20%	0.64%	-0.86%
Currency movements									
Rand/euro movements	-6.12%	-10.21%	-6.21%	0.14%	2.80%	2.53%	-0.50%	3.24%	4.76%
Rand/dollar movements	-5.28%	-8.47%	-0.91%	0.45%	5.41%	1.75%	-0.07%	2.74%	6.67%
Inflation index									
Consumer Price Index (CPI)			5.66%	4.36%	4.29%	4.24%	4.58%	4.92%	5.01%

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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