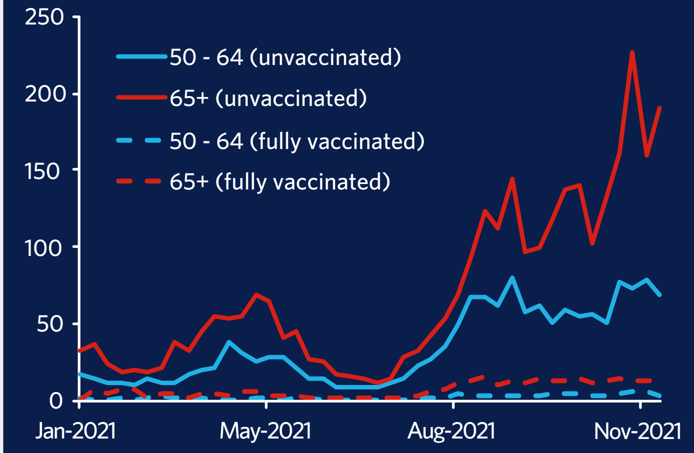
momentum
investments

Economies at a glance

The risk of hospitalisation is significantly higher for unvaccinated individuals

- **Hospital admissions in the United States (US)** are once again accelerating in line with the uptick in reported **COVID-19 cases.**
- Hospitalisation of vaccinated individuals has, however, been **rare in the US.**
- While vaccination rates have climbed above **70%** in some states such as New York, Massachusetts and Connecticut, vaccination rates are much lower in states like **Wyoming (48%), Alabama (48.2%) and Mississippi (48.8%).**

US hospitalisation rate per 100 000 population



Source: Centers for Disease Control and Prevention

Two-thirds of people globally are feeling the pinch of higher inflation

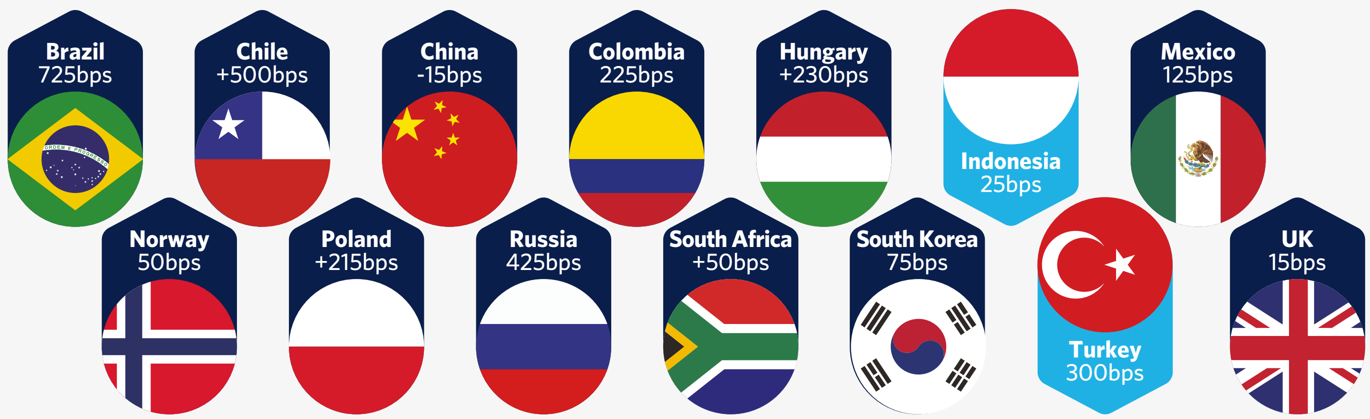
Thinking about the prices you have been paying for the following in recent weeks, do they generally seem higher, lower or about the same as they were six months ago?

	Higher (total)	A lot higher	Somewhat higher	About the same	Somewhat lower	A lot lower
Transportation (gasoline, car payments and maintenance, parking, public transit, etc.)	70%	38%	32%	24%	4%	2%
Food and drink (groceries, meals/restaurants)	70%	29%	41%	25%	4%	1%
Utilities (electricity, gas, water, phone, internet, etc.)	66%	31%	35%	29%	3%	1%
Clothing and shoes	55%	19%	36%	37%	6%	2%
Housing (rent or mortgage payments, maintenance, etc.)	51%	21%	29%	43%	4%	2%
Medical and healthcare	51%	19%	32%	44%	4%	2%
Entertainment	49%	16%	33%	42%	6%	3%

Source: IPSOS Consumer Perceptions (20 000 adults, 30 countries, December 2021)

Many countries have responded to higher-than-anticipated inflation by unwinding monetary policy accommodation

Interest rate moves across the globe since January 2021



Source: Bloomberg

momentum

investments

January 2022

UNITED STATES

Communication from the United States (US) Federal Reserve (Fed) suggests it has brought forward its plans to tighten monetary policy despite the impact of Omicron on shorter term growth. Relative to its September 2021 economic projections, the Fed expects PCE inflation to average 2022 at a higher 2.6% (from 2.3%) and core PCE to average 2.7% (from 2.3%) for the same period. The Fed's median projected policy path indicates the prospect of three interest rate hikes of 25 basis points each in 2022, three hikes in 2023 and two in 2024, leaving rates at 2.1%. This is higher than the Fed funds futures rate of 1.7%. Deutsche Bank estimates that the Fed will draw down its balance sheet by US$560 billion this year and US$1 trillion in 2023, which would be equivalent to an additional 2.5 hikes. In our view, President Joe Biden's nominations to fill the vacancies on the Fed Board are unlikely to meaningfully shift the short-term stance on monetary policy.

Forecast 2022:
GDP: 3.9%
Core PCE Inflation: 3.3%
Forecast 2023:
GDP: 2.5%
Core PCE Inflation: 2.2%

EUROZONE

Germany, Italy, France and the Netherlands, amongst other countries, have tightened lockdown restrictions in response to the emergence of the Omicron variant. However, Google mobility data for retail/recreational activity have not dropped to the same levels as was the case when tighter restrictions were imposed previously. Although supply-side shortages persist, manufacturing remained resilient into the end of 2021 and average lead times indicated alleviated pressures on supply chains. As the economic effects of the pandemic begin to wane, the stark gap in growth performance among the various countries should start to narrow with the aid of the European Recovery and Resilience Facility. Although inflation has lifted to record levels, energy prices are the main culprit, and these should subside in the coming quarters. Moreover, slack in the labour market remains. As such, we do not see pressure for the European Central Bank to raise interest rates this year.

Forecast 2022:
GDP: 4%
HICP Inflation: 3.1%
Forecast 2023:
GDP: 2.5%
HICP Inflation: 1.6%

UNITED KINGDOM

Although most independent forecasts point to the economy reaching pre-pandemic levels at the start of this year, the initial boost to growth from a reopening of the economy appears to be fading. Moreover, more restrictive fiscal and monetary policy, squeezed household incomes (due to rising inflation and higher taxes) and a continuation of supply-side bottlenecks in raw material and labour markets should act against growth momentum in 2022. Increased trade and immigration restrictions following the exit from the European Union Single Market have exacerbated these shortages. Currently high inflation could see further swift action from the Bank of England (the Bloomberg consensus estimates up to 100 basis points of interest rate hikes by the end of 2023) to stem any further rise in inflation expectations despite market forecasts that inflation will moderate considerably by the end of 2022.

Forecast 2022:
GDP: 4.3%
Inflation: 4.8%
Forecast 2023:
GDP: 2%
Inflation: 2.1%

JAPAN

Despite the emergence of the Omicron variant threatening the outlook for activity in Japan's services sectors, the country's high vaccination rate (nearly 80%), a slow reopening of the economy and robust government support (¥55.7 trillion) remain supportive of growth momentum in 2022. Consumption spending should lift with the Mitsubishi Research Institute estimating that consumers will spend up to 37% of their savings from government's cash handouts. Moreover, rising prices are more likely to affect company margins than consumers given firms' hesitancy to pass on cost increases. A U-turn by Prime Minister Fumio Kishida on raising capital gains taxes, subsidies and tax breaks for small businesses, a period of political calm and Japan's digital transformation drive nevertheless appear supportive for firms in 2022.

Forecast 2022:
GDP: 2.8%
Inflation: 0.9%
Forecast 2023:
GDP: 1.4%
Inflation: 0.8%

momentum investments

CHINA

When pressure to achieve China's growth target was low, authorities used this as a window of opportunity to launch a regulatory campaign in 2021. Although COVID-19, tighter control measures and weak confidence in the housing market remain key growth concerns, China's pivot in policy at the end of 2021 signals increasing support for economic growth this year. Notwithstanding an upside surprise in the fourth quarter growth number (4% relative to a consensus forecast of 3.3%), the People's Bank of China (PBoC) announced a 10-basis point reduction in its key interest rate for the first time since April 2020 and injected more liquidity through medium-term lending facility loans. Vice Governor Lui Guoqiang's comments that the PBoC will "open (the) monetary policy toolbox wider, maintain stable overall money supply and avoid a collapse in credit" suggest further action will be taken to stabilise the economy.

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

EMERGING MARKETS

The evolution of the COVID-19 pandemic remains uncertain particularly in economies where the rate of vaccination remains low. Moreover, authorities' swift response to the crisis has left the composite with a legacy of higher debt levels. The average emerging market's (EM) debt level increased to 64%, which is more than 10% higher than at the start of 2019. Landmark elections in key EMs could lead to a shift away from fiscal austerity, raising additional concerns over public debt. Election cycles could further dominate decisions over economic policy and structural reform. Although Fed tapering and interest rate increases imply a more challenging backdrop for EMs, well-telegraphed tightening may lead to a more benign outcome in select EMs, particularly those that have stronger macro fundamentals, such as healthier trend growth, credible institutions, smaller fiscal and current account deficits or those which have shown progress on accelerating structural reform efforts.

Forecast 2022:
GDP: 5.0%
Inflation: 4.2%
Forecast 2023:
GDP: 4.8%
Inflation: 3.6%

SOUTH AFRICA

Despite concerns that the festive season would increase the spread of the Omicron variant, the health minister announced that all South African (SA) provinces had passed the fourth wave of COVID-19 by the middle of January 2022. In view of falling infections, the National Coronavirus Command Council is considering lifting the state of disaster and focusing on other health protocols and regulations in its place. With the decline in infections, the downside growth risk posed by Omicron has lessened considerably in our view. Nevertheless, weaker-than-anticipated global demand, lower international commodity prices, local energy supply constraints, lingering unemployment, the need to stabilise government debt and less accommodative monetary policy continue to pose headwinds to local growth. While the Reuters median consensus forecast for growth in 2022 edged lower by 0.1% to 2% between September 2021 and January 2022, the median forecast for headline inflation drifted up from 4.4% to 4.8%. Transport inflation contributed to the higher-than-anticipated headline inflation figure for December 2021, whereas underlying measures of inflation remained largely intact. Nevertheless, the negative inflation surprise and signals from the US Fed, suggesting a nearer lift-off in interest rates, has prompted the SA Reserve Bank to act pre-emptively by raising interest rates by an additional 25 basis points to prevent a de-anchoring in inflation expectations.

Forecast 2022:
GDP: 2.0%
Inflation: 5%
Forecast 2023:
GDP: 1.8%
Inflation: 4.3%

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 January 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)	0.86%	10.43%	23.89%	14.98%	9.31%	10.63%	10.59%	8.84%	11.65%
FTSE/JSE Shareholder Weighted Index (Swix)	2.30%	7.76%	17.98%	10.45%	5.43%	7.72%	7.98%	6.39%	10.69%
FTSE/JSE Capped Swix All Share index	2.39%	8.37%	26.23%	10.77%	5.73%	7.22%	7.64%	6.03%	10.42%
FTSE/JSE All Share Top 40 Index	1.16%	11.71%	23.22%	16.06%	10.10%	11.60%	10.82%	9.34%	11.82%
FTSE/JSE Mid Cap Index	-0.40%	2.23%	25.13%	7.48%	3.51%	3.91%	7.24%	4.58%	9.26%
FTSE/JSE Small Cap Index	-1.30%	4.09%	51.15%	13.74%	6.49%	5.21%	8.96%	5.61%	11.19%
FTSE/JSE Resources Index	3.63%	16.27%	30.43%	27.42%	24.36%	21.31%	26.07%	13.54%	7.33%
FTSE/JSE Financials Index	3.50%	9.55%	37.69%	0.77%	0.48%	3.73%	4.49%	3.25%	9.94%
FTSE/JSE Industrials Index	-1.93%	6.71%	14.42%	14.46%	5.57%	8.00%	6.64%	6.90%	13.42%
FTSE/JSE Research Affiliates Fundamental Indices 40 Index (Rafi)	4.03%	14.65%	41.02%	15.37%	10.50%	11.54%	13.75%	9.84%	11.32%
FTSE/JSE Research Affiliates Fundamental Indices All Share Index	3.28%	13.01%	39.62%	14.83%	10.00%	10.58%	13.41%	9.27%	10.91%
FTSE/JSE SA Listed Property Index (Sapy)	-2.85%	7.06%	37.44%	-6.65%	-7.35%	-5.21%	-2.05%	-2.10%	5.12%
FTSE/JSE All Property Index (Alpi)	-2.87%	6.79%	38.82%	-7.25%	-7.99%	-5.90%	-4.08%	-3.33%	4.56%
Interest-bearing indices									
FTSE/JSE All Bond Index (Albi)	0.85%	4.24%	8.49%	8.39%	8.49%	8.95%	9.42%	7.13%	8.07%
FTSE/JSE All Bond Index 1-3 years (Albi)	0.18%	1.67%	4.18%	7.51%	7.82%	8.22%	8.36%	7.72%	7.39%
FTSE/JSE Inflation-linked Index (Ili)	-1.15%	3.38%	12.01%	6.17%	5.43%	4.22%	4.67%	4.64%	6.18%
Short-term Fixed Interest Composite Index (Stefi)	0.34%	1.00%	3.88%	5.40%	5.86%	6.19%	6.40%	6.42%	6.16%
Commodities									
NewGold Exchange-Traded Fund	-3.72%	2.87%	-0.75%	16.11%	14.56%	11.04%	7.34%	9.22%	7.02%
Gold price (in rands)	-4.71%	3.40%	-1.45%	16.40%	14.77%	11.21%	7.68%	9.61%	7.41%
Platinum Exchange-Traded Fund	3.21%	2.00%	-4.04%	12.51%	6.83%	3.05%	1.81%	1.13%	
Platinum price (in rands)	1.44%	0.44%	-4.57%	13.11%	7.11%	3.18%	2.12%	1.17%	-0.77%
Currency movements									
Rand/euro movements	-4.31%	-1.44%	-5.02%	4.43%	4.06%	3.55%	0.13%	4.05%	5.44%
Rand/dollar movements	-3.01%	1.95%	3.12%	5.32%	6.88%	2.84%	-0.42%	4.21%	7.11%
Inflation index									
Consumer Price Index (CPI)	0.57%	1.31%	5.88%	4.32%	4.36%	4.43%	4.82%	4.87%	5.05%

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.
5. FTSE/JSE disclaimer: www.jse.co.za
6. The information reproduced in this document has been compiled by or arrived at by Investments from sources believed to be reliable.
7. Reasonable steps have been taken to ensure the validity and accuracy of the information in this document. However, Momentum Investments does not accept any responsibility for any claim, damages, loss or expense, howsoever arising out of or in connection with the information in this document, whether by a client, investor or intermediary.
8. The content used in this document is sourced from various media publications, the Internet and Momentum Investments. For further information, please visit us at www.momentuminv.co.za.
9. Momentum Investments is part of Momentum Metropolitan Life Limited, an authorised financial services and registered credit provider, and rated B-BBEE level 1.