EFFICIENT GROUP

ECONOMIC COMMENTARY

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YOUR MONTHLY ECONOMIC UPDATE

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A ROLLER-COASTER MONTH ACROSS THE GLOBE

The past month has been a wild one! The technology-heavy Nasdaq Composite, a stock market index that includes almost all of the stocks listed on the Nasdaq stock exchange in the United States (US), contracted 13.3% in April. This was its worst monthly drop since the global financial crisis in 2008. April was also the worst month on the broader S&P 500 index since the pandemic erupted in 2020. The S&P 500 is a benchmark index that tracks the 500 largest companies in the US. Uncertainty and volatility spiked as we drew closer and closer to the much-anticipated US Federal Reserve (Fed) interest rate announcement expected in early May.

Initially, markets were expecting an increase of 0.50% but then rumours started to circulate that the Fed might increase rates by 0.75%, as well as step up the size and number of future increases. One of the reasons for these speculations was the record-high inflation of 8.5%, which was recorded in the US for the month of March. This was the highest rate in more than 40 years and solidified the permanency of the inflation problem in the US. The US has now been printing record-high inflation numbers for many consecutive months.

Even across the Atlantic, in Britain, inflation reached a near three-decade high. Inflation in many countries around the world, especially in developed countries, has remained stubbornly high because of the mismatch between global demand and supply. While demand was overstimulated by more than a decade of low interest rates and excess liquidity from quantitative easing, supply has been crippled in recent years by disruptions and labour market tightness. Now, central banks must attempt to cool off demand until supply constraints can be overcome. Making the banks' task extremely difficult is the ongoing war in Ukraine, the sanctions against Russia, and a zero-COVID policy in China.

As a result of the above, markets recoiled in April, fearing that the Fed might overextend itself and force the US economy into a recession, instead of cooling the economy down. Investors were already nervous because the US yield curve inverted, albeit briefly, which, in the past, has been a sure sign of an upcoming recession. Consequently, large institutions, like the International Monetary Fund (IMF), slashed their growth expectations. In a recent statement, the IMF lowered their 2022 and 2023 global growth estimates to 3.6%, down 0.8% and 0.2% respectively from their January forecasts.

Amid all of this, China continued their unnecessary zero-COVID policy. They also extended their draconic lockdowns in Shanghai and even considered doing the same in Beijing. China's leader, Xi Jinping, is walking a political tightrope. He aims to take an unprecedented third term as head of the Chinese Communist Party, the state, and the military, later this year. But his carefully crafted image as a strong and competent leader might come under scrutiny if he loses control of COVID, or if his COVID policies upset the great Chinese growth narrative.