ECONOMIC COMMENTARY

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YOUR MONTHLY ECONOMIC UPDATE

8 September 2022

IS ERRATIC MARKET BEHAVIOUR HERE TO STAY?

Benjamin Graham, Warren Buffett's mentor, once described the global stock market as a manic-depressive person whose erratic behaviour changes daily. Let us call this person 'Mr Market'.

For the past eight months, Mr Market's mood has been affected by external circumstances, such as negative macro-economic data and geopolitical tensions. But Mr Market's mood has also been plagued by internal circumstances, such as tighter monetary policy. Unfortunately, the only remedy for Mr Market's illness, for now, seems to be a dose of certainty, which is not available yet.

Erratic market behaviour was especially evident during the month of August. Halfway through the month, the MSCI All Country World Index (ACWI), a globally diversified index, traded 3.5% stronger only to lose those gains, and some more, by month-end. The ACWI ultimately closed 3% lower compared with July.

Several factors contributed to the topsy-turvy environment. Early in August, markets reacted in a nonchalant way to Nancy Pelosi's visit to Taiwan. An irritated China, however, caused markets to rethink their nonchalant reaction and markets seemed uneasy. Nevertheless, markets then accelerated on the back of lower inflation data and relatively stable consumer spending data out of the United States (US).

Although inflation was still high, rising to 8.5% in July, measured from the same month a year ago, it was down from the 9.1% reading during June. Inflation in June was already so high that it marked the fastest pace of growth since November 1981. What seemed like a slowdown in inflation, along with other slightly more positive economic indicators, led investors to price in peak inflation, thus extending the short-term market rally.

A strong US consumer also supported the markets. US consumers continued to open their wallets in August, shifting savings from falling gasoline prices to purchases of everyday goods at places like Walmart. Consumer spending across the US was supported by a resilient labour market and an increase in people travelling during the summer period.

And then, mid-way through the month, things got interesting. Stock markets were caught completely off-guard by the sudden change in sentiment towards growth and inflation. Bond markets, conversely, seemed to have figured it out in advance, being much less volatile than stocks.

Bond markets were already nervous about a looming recession and the US Federal Reserve (Fed) Chair Jerome Powell's speech in late August. In his speech, Powell provided an aggressive outlook for further interest-rate hikes in an attempt to tame inflation. It seems that bond markets correctly priced in the Fed's message. The steady bond markets could also indicate that they were already anticipating a potential 'hard landing' for the economy, while the stock market only came around later. Adding to the pressure on stocks were declines in the technology sector, more specifically, chipmakers.

Locally, our market followed the same trajectory as its global peers. The Johannesburg Stock Exchange closed 2% lower for the month, with financial companies leading the declines. The 15 biggest financial companies lost almost 4% of their combined value for the month on the back of a stronger dollar and global recession fears. Politics also kept things interesting when the Pietermaritzburg High Court granted an order to force Jacob Zuma to pay back nearly R8 million spent on upgrades to his Nkandla residence. This was a welcome sign for most.

Going forward, historically, September is the worst month of the year for equities. Just two months have delivered an average negative return for stocks since 1945: February and September. It is, generally, believed that investors come back from their summer vacations in September and want to sell some holdings to lock in gains for the year. However, we might avoid the September-selling trend this year because much of the de-risking has already occurred, thanks to the historic collapse that we saw during the first half of 2022.

What is certain for Mr Market is that he will continue to place strong emphasis on macro-economic data throughout the month of September. This is something that we will continue to monitor as we steward your capital with diligence and providence.