EFFICIENT GROUP

# ECONOMIC COMMENTARY
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YOUR WEEKLY ECONOMIC UPDATE

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## US INFLATION, A SLUMP, AND A FINAL BUYING OPPORTUNITY

Investors breathed a sigh of relief last week after data from the United States (US) Department of Labor showed that US inflation finally eased from its four-decade high. The Consumer Price Index (CPI), an index used to measure the rate of price increases among households, came in lower than analysts expected: It increased 8.5% from a year earlier, cooling off from the 9.1% high that we saw in June.

The below-forecast reading came on the back of a sharp drop in energy costs and provided a much-needed boost to risk assets globally. Oil prices have now fallen to $97 a barrel as concerns about a recession have reduced demand expectations to below their pre-Ukraine war levels. Lower oil prices were also supported by data showing that US oil stockpiles were at their highest levels since December 2021, thanks to an increase in domestic output. Globally, a tight oil market saw some relief when a dispute linked to sanctions was resolved, allowing oil to flow from Russia to three European countries.

Investors are hopeful that the slowdown in inflation is a sign that inflation has, in fact, peaked and that the US Federal Reserve (Fed) will need to raise interest rates less sharply to keep inflation under control. Markets are now pricing in a 37.5% chance that the Fed will increase interest rates by 75 basis points for a third consecutive time at its September policy meeting; a 50-basis points increase is now the more likely option.

Expectations around less aggressive interest rate increases caused the dollar to lose further ground against other major currencies. This was welcome news for emerging market currencies like the rand, which ended up around R16.27 against the US dollar after appreciating to R16.14, its strongest level since the end of June. This is also much stronger from the slump we saw in July when the rand sank to a low of R17.24.

For now, the US economy remains resilient, producing jobs despite higher borrowing costs and inflation, which is quickly deteriorating the buying power of households and businesses. But while sentiment was positive, analysts warned against getting over-excited as inflation was still high and would take some time to get under control. If we were to take a step back, other global economies are faring a lot worse. World markets have been battered by a range of other issues, including the war in Ukraine, supply-chain snarls, and rising China/US tensions over Taiwan, to name but a few.

For now, we agree with the decision of many to de-risk their portfolios, especially if you are dependent on their income. Global markets might see another round of corrections in the next few months. But we would not have our clients sit on their hands for too long. In fact, this time should rather be used to sort out admin and get cash ready. If there is another slump this will provide long-term investors with the perfect buying opportunity, one which they might not see again for a long time to come.

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