EFFICIENT GROUP

# ECONOMIC COMMENTARY

- Dr. Francois Stofberg

YOUR MONTHLY ECONOMIC UPDATE

6 October 2022

## SEPTEMBER ECONOMICS - OUCH!

"Historically, September is the worst month of the year for equities." We used these cautionary words in our previous monthly newsletter to describe a possible poor month for markets in September. It would seem that we could not have chosen our words any better for what lay ahead.

Global markets, as measured by the MSCI, erased almost 10% of their value in the space of a month. The worst month of the year thus far. So, what happened in the world during September?

The largest market in the world, the United States (US), hit the ground running early on, rising with more than 3%. Investors brushed off US Federal Reserve (Fed) Jerome Powell's warning that the Fed will stay steadfast in their battle to tame inflation. But investors should have known better than to take on the 800-pound silverback gorilla which is the US Fed. Following the release of higher-than-expected inflation and improved manufacturing figures for August, investors received a reality check when the US Fed took a firm stance on inflation, and the US market started its downward descend. The Fed moved swiftly and hiked interest rates by 75 basis points for the third consecutive time, which pushed markets down even lower.

Across the Atlantic, United Kingdom politics dominated headlines at the start of September as the country swore in a "plain-speaking Yorkshire woman" as Prime Minister in Liz Truss. Unfortunately, her celebrations were short-lived after Queen Elizabeth II, the longest-serving British monarch in history, passed away on 08 September. With a new tax-cutting, regulation-slashing, and energy-subsidising government in place, the British pound weakened to a 37-year low against the US dollar. The Bank of England (BoE) would have been all too pleased if the pound was their only concern. Unfortunately, they also had to contend with higher yields on British bonds, prompting the BoE to re-introduce quantitative easing.

Europe, in contrast, cannot even so much as whisper quantitative easing, as the block is already struggling with a wildfire situation with inflation increasing by an eye-watering 10% year-over-year in September. To add fuel to the fire, reports emerged that gas leaks were found in the Nord Stream 1 and 2 pipelines, Russia's largest gas pipelines to Europe. These have been ascribed to an "apparent sabotage", as per Jake Sullivan, the US' National Security Advisor.

Moving east, China started the month off on a very different foot than most of its peers. Plagued by ongoing rolling lockdowns, investors opted to steer clear of the Red Dragon as economic growth continued to falter. To boost economic growth and to regain investor confidence, China's biggest state-run banks decided to cut deposit rates for the first time since 2015. Unfortunately, this only led to China's currency, the renminbi, falling to its lowest levels since 2008 against the US dollar.

Locally, the rand suffered the same fate as its global peers. It continued to lose ground against the greenback as risk-off sentiment and higher interest rates drove up demand for the US dollar. Adding to the woes were the ongoing bouts of load shedding that seem to have no end in sight. Despite these setbacks, South African equities showed greater resilience than most markets for the month, but still closed lower by more than 3%.

Going forward, historically, October provides a net positive return for investors despite being the month of the 1907 Panic, and the 1929 and 1987 Black Mondays. What is certain is that investors will continue to scrutinise the impact of a strong US dollar on the global economy in addition to the upcoming earnings season in the US.

81 Dely Road, Hazelwood, Pretoria, 0081 | +27 (0)87 944 7999 | info@efgroup.co.za | www.efgroup.co.za