EFFICIENT GROUP

ECONOMIC COMMENTARY

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YOUR MONTHLY ECONOMIC UPDATE

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OCTOBER ECONOMICS: OPTIMISM AMID UNCERTAINTY

Investors have experienced a rigid "dichotomy" in financial markets over the past two months: September and October stood in stark contrast to one another. Within the space of two months, we have experienced one of the worst and one of the best months of the year.

The performance figures speak volumes: After losing almost 10% of its value in September, the MSCI All Country World Index (ACWI), a well-diversified global index of equities, clawed its way back and recouped almost 5% of those losses in October. Almost unbelievable but yes, these are not annual performance figures, but monthly figures! In this tug of war, volatility is running rampant. The increase in volatility is because financial market participants are scared, anxious, nervous, and uncertain. All words which legendary investor Warren Buffet would have used as a measure to indicate an opportunity to pick up wonderful companies at attractive prices.

Perhaps the "Buffet-mentality" can partly explain why markets performed so well during October. Stocks like Oracle and Netflix, still trading in negative territory for the year, managed to climb more than 24% during October because of extremely attractive valuations. Then, there is also companies like Apple, constituting almost 7% of the S&P 500 index, that are still succeeding in most of their business segments despite a weak global macro-economic backdrop. Apple, a Buffet favourite, returned almost 11% for the month after the iPhone maker managed to offset lower iPhone sales with higher prices. Another big winner for the month was Twitter, rising with more than 22% for the month after Elon Musk finally made good on his promise to take the social media giant private following months of waffling, lawsuits, and verbal mudslinging with Twitter's board.

Despite the positive performance in markets, there were also a couple of bad apples in the basket. Amazon tanked 18% after stating that fewer people are buying products on its platform. Compared to Facebook's parent company Meta, Amazon's numbers are not looking that bad. Meta sank 25% as the outlook for advertising deteriorated, but can take some comfort from the poor performance of the sector. Intel, Alphabet, Microsoft, and Texas Instruments are all still struggling at the moment.

The corporate world was not the only place where performance stood out in October. Politics also stole the limelight. In the United Kingdom, history books will not speak kindly of Liz Truss. On her 45th day in office, Britain's prime minister threw in the towel amid a series of blows to her leadership, paving the way for Rishi Sunak to take over. He is Brittan's third prime minister in 2022 alone. In China, Chinese President Xi Jinping secured a third term in power and in the process set himself up to be president for life. Xi demonstrated that loyalty trumps ability when he appointed apparatchiks whose primary qualification is not their expertise, but rather their loyalty. Markets did not take kindly to the news and caused Chinese-listed stocks to take a severe beating.

In South Africa, Enoch Godongwana, delivered his Medium-term Budget Policy Statement (MTBPS), in which he stated that South Africa's fiscal position had improved, owing to improved tax revenue from mines. Unfortunately, most of those funds will be allocated to our highly indebted state-owned enterprises (SOEs) as well as the ongoing Social Relief of Distress (SRD) grant program for 7.4 million individuals. We are hoping that the government can continue to make the tough calls and keep social spending lower whilst increasing economic spending. That is, effectively spending on healthcare, education, infrastructure, and the ease of doing business. Although social spending helps to keep SOEs alive, and gain more votes (through SRDs) it does not create jobs in the long term.

While news around macro-economics, market volatility and mind-numbing politics continue to dominate headlines and drive investor morale, we are starting to see hints of optimism in certain areas of the financial markets. This may very well pave the way for a strong finish to an otherwise dismal year.