EFFICIENT GROUP

# ECONOMIC COMMENTARY
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YOUR WEEKLY ECONOMIC UPDATE

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## GOOD CPI, GOOD MARKETS, BAD FTX

Global markets received some welcome news last week when the annual pace of consumer price inflation (CPI) in the United States (US) was lower than expected in October, coming in at only 7.7%, down from 8.2% in September. Pre-holiday retail discounting, a decline in used car prices, and a welcome easing in rental inflation were key drivers of the overall decline in CPI. Lower inflation will provide some relief to consumers and investors, as well as give some momentum to the idea that the worst is now behind them. What markets are hoping for from the lower inflation reading is that, even if the US central bank, the Federal Reserve (Fed), continues to increase interest rates, they will do so less aggressively. Consequently, the S&P 500, an index of the largest firms in the US, rose 5.5% on the day of the announcement, whilst the Nasdaq Composite surged by almost 7.4%. It was the best day since 2020 for both indices and the best weekly performance of the technology sector in the S&P 500 since April 2020, surging by more than 10%.

Lower-than-expected inflation has also strengthened the case that prices will moderate in 2023 after a period of elevated inflation, owing to pandemic-related supply constraints, coupled with large fiscal transfers and loose monetary policy: The first of which throttled supply whilst the latter overstimulated demand, with the net result being the substantially higher prices that we are experiencing today. However, one month of lower-than-expected inflation is not enough to bet the house on. Rental prices might have stabilised but they will continue to put upward pressure on core inflation for some time because of the stock of older rental contracts that are coming up for renewal in an environment that is more expensive.

Our view is that inflation will remain sticky and above the US Fed's target even as they start to moderate. We also would not be surprised to see some temporary re-acceleration as hurricane-related replacement demand temporarily lifts prices in some goods categories. October's CPI report is also not universally positive for the economic outlook. Indeed, a surprisingly weak inflation reading is likely to reflect softer consumer spending and increased margin pressures for the corporate sector. Technically, the US is in a recession but this has not yet translated into an earnings recession, which many analysts believe is still around the corner. For these reasons, the rand and other emerging-market currencies strengthened. At one point, the rand was close to R17.20 against the US dollar, its best level since mid-September. Emerging-market currencies also benefitted as China moved to ease some of its quarantine rules. Chinese authorities announced several COVID-19 relaxation measures, including reducing the quarantine time for inbound travellers and scrapping the international flight ban.

On a side note, the cryptocurrency world was rocked when FTX, one of the world's largest cryptocurrency exchanges, filed for bankruptcy protection, owing to a liquidity crisis. Bitcoin consequently plunged to a two-year low. FTX halted customer withdrawals after about $5 billion worth of withdrawal requests came in. Because of a lack of sufficient regulation and good governance, FTX lent out roughly $8 billion of customer assets to fund risky bets by its affiliated trading firm, Alameda Research, setting the stage for the exchange's implosion. In traditional markets, platforms must keep client funds segregated from other company assets, and regulators can punish them for violations. Events like these are why we maintain that more regulation is needed before cryptocurrencies can be adopted by the mass market, and that clients who do own cryptocurrencies should do so off-exchange as an added layer of security.