



## ECONOMIC COMMENTARY

Dr. Francois Stofberg

YOUR WEEKLY  
ECONOMIC UPDATE  
19 June 2024

*For every one to attain  
financial well-being*

### NAVIGATING THE INFLATION LANDSCAPE

The latest United States (US) Consumer Price Index (CPI) report, released in May, provides valuable insights into the current economic landscape and its implications for investors and financial advisors in South Africa (SA). Understanding these dynamics is crucial to making informed investment decisions in today's global market.

#### A pause in price increases

For the first time in nearly two years, the overall CPI remained flat in May compared with April, primarily owing to a significant drop in gasoline prices. The core CPI, which excludes volatile food and energy prices, rose by only 0.2%, the smallest increase since October. This undershot the forecasts of most economists, suggesting a potential easing of inflationary pressures. The decline in services inflation, particularly car insurance and airline fares, played a pivotal role in this moderation. This development is critical as it signals a possible stabilisation in core inflation, which could influence the Federal Reserve's (Fed's) future monetary policy decisions.

#### Core inflation trends

The annual rate of core inflation decreased to 3.4%, the lowest since April 2021, supported by the smallest rise in housing costs in more than two years. The headline CPI also came in at 3.3%. This decline in core inflation is a positive sign, indicating that broader inflationary pressures are beginning to ease. As housing costs are a significant component of core inflation, their deceleration is particularly noteworthy and could have long-term implications for the overall inflation trajectory.

#### The Fed's response

The CPI report has increased the likelihood that the Fed will project two rate cuts for 2024 in their updated forecasts, even though Fed Chair, Jerome Powell, only hinted towards one increase during their latest meeting. Interest rate futures markets have shown increased bets on the Fed initiating rate cuts as early as September. The anticipation of these cuts has already impacted the markets, with Treasury yields falling and stock indices rising. The two-year Treasury yield dropped to 4.68%, while the S&P 500 opened with a 0.8% gain. Meanwhile, the Bloomberg Dollar Spot Index experienced its most significant drop since mid-May. These movements indicate market optimism about potential monetary easing, and its positive impact on economic growth and asset prices.

#### Impact on financial markets

The May CPI report has provided a boost to both the stock and bond markets. The report's softer inflation figures have fuelled a rally in Treasuries, reducing yields across the curve. Stocks have also benefitted, with the S&P 500 showing gains. The dollar, conversely, has weakened, reflecting decreased expectations for further rate hikes. This environment presents opportunities for investors to capitalise on favourable market conditions. For high-net-worth individuals, this could mean adjusting their portfolios to take advantage of lower interest rates and potential equity market gains.

#### Implications for South African investors

The US CPI report holds several implications for South African investors. The potential for US rate cuts could lead to a stronger rand, as seen with its recent gains following the cooler US inflation data. A stronger rand could positively impact inflation in SA, potentially leading to lower interest rates domestically. This environment may present opportunities for South African investors to seek higher returns in both local and international markets. Also, the anticipated stabilisation of global inflationary pressures may lead to improved economic conditions and investment opportunities worldwide.

#### Conclusion

The May US CPI report provides a glimmer of hope for a moderation in inflation and potential rate cuts by the Fed. These developments have significant implications for global markets and investors, including those in SA. By staying informed and strategically adjusting portfolios, investors and financial advisors can navigate these changing economic dynamics effectively. As always, our commitment is to provide you with timely and relevant insights to guide your financial strategies. We encourage you to stay engaged and informed as we navigate these evolving economic times together.

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