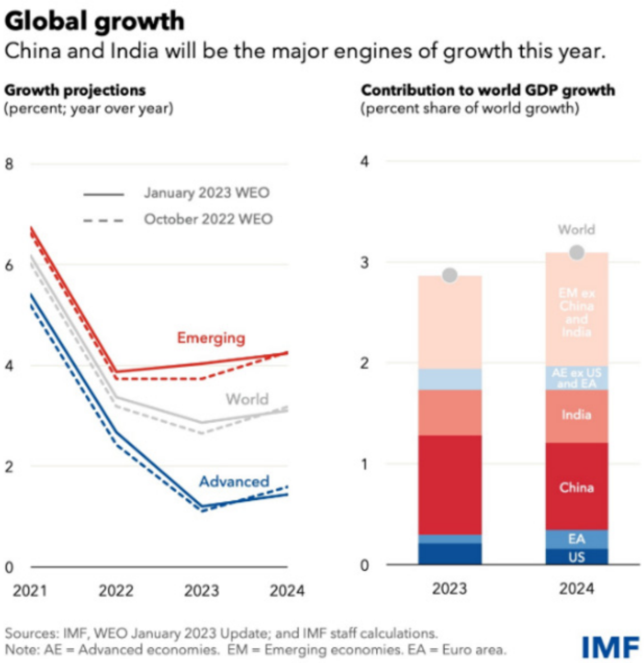
SELECT MANAGER

Newsletter

January 2023

MARKETS AND ECONOMICS

After a disappointing year of investment performance in 2022, 2023 started with a bang. The new year continued the trend that was formed in the fourth quarter of 2022, as equities delivered handsomely across most major markets. Investors were driven back to growth assets and supported a risk-on sentiment as a result of a combination of inflation figures moving lower around the globe, fewer fears around a recession in Europe (thanks to significantly lower natural gas prices and a milder winter), and the re-opening of China that will hopefully boost economic activity. Despite these positive developments, global growth is set to slow further in 2023. According to the World Economic Outlook (WEO) January 2023 Update by the International Monetary Fund (IMF), global growth is projected to move to 2.9% in 2023, before improving slightly in 2024. Emerging markets are expected to be the biggest drivers of growth, with the bulk of this centred around China and India. These markets seem to have bottomed already and could see growth accelerate into 2023.



A few key highlights during the month included:

+ South African inflation continued its downward trend with the year-on-year figure reported at 7.2% for December, resulting in average inflation of 6.9% for 2022.
+ The South African Reserve Bank announced a 0.25% increase in the repo rate. They also commented on their concerns around economic growth amid severe load shedding. The central bank cut its growth forecast for South Africa from 1.1% to 0.3% for 2023.
+ The United States (US) economy expanded by 2.9% (annualised) in the final quarter of 2022, ahead of expectations, while inflation fell to its lowest level in more than a year, coming in at 6.5%.
+ Chinese economic growth figures showed a multi-decade low of 3% growth for the year 2022, despite performing better than expectations in the fourth quarter.
+ United Kingdom (UK) consumer inflation eased slightly to 10.5% (from 10.7%) in December, moving from the peak of 11.1% experienced in October.

As mentioned in last month's commentary, we have finalised our house view for the first quarter of 2023. Here are some of the highlights:

+ The odds of a recession continue to rise and are reflected by the continuous inversion of the yield curve. The yield curve has historically been a very accurate predictor of economic contraction, although the timing of a recession is more uncertain.
+ US monetary policy has already effectively reached tight territory, which has typically acted as a catalyst for a recession within a year. Furthermore, central banks continue to raise interest rates, despite leading economic indicators already contracting.
+ China is currently at a very different stage of its business cycle when compared with other major economies. China has low inflation pressures, which have prompted policymakers to ease policy to revive activity following the re-opening of the Chinese economy.
+ Equity markets continue to be vulnerable to earnings downgrades, as the current earnings outlook has potentially not fully priced the impact of monetary policy tightening and a potential slowdown in global growth.

It seems that, despite some of the concerns above, the recent stabilisation in some of the cyclical growth regions, namely Europe, the UK, and China, as well as the potential for inflation to move lower faster than central banks expected, could support strong returns from risk assets and provide support to reduce defensive positions over the shorter term.

JSE All Share 8,89% | 79 476,60	**MSCI World (USD)** 7,08% | 2 785,00	**MSCI EM (USD)** 7,90% | 1 031,50
SA Bonds 2,94% | 882,96	**SA Property** - 1,00% | 314,97	**CPI (y/y)** 7,20% | 107,20
Gold 4,53% | 1 906,54	**Platinum** - 5,76% | 1 011,24	**Oil** - 0,52% | 85,46
$/R 2,26% | 17,41	**€/R** 3,77% | 18,91	**£/R** 4,14% | 21,45

t: 087 944 7999 | e: info@selectmanager.co.za | 81 Dely Road, Hazelwood, Pretoria, 0081
FSP Licence no : 928