



By Kyle Hulett  
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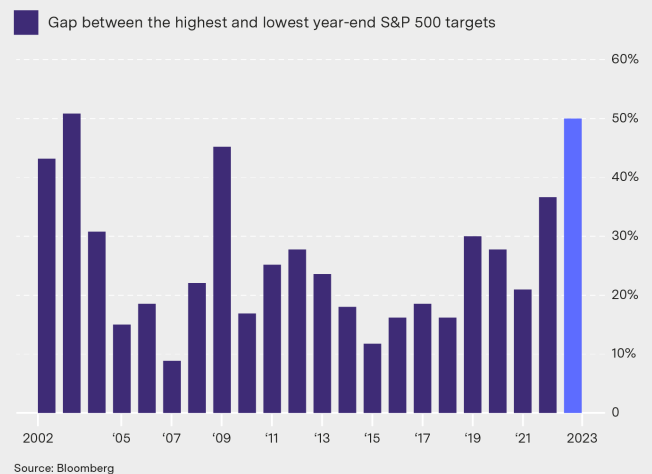
## Market review

Global markets rallied on more good news about inflation and the prospects of a soft landing. The International Monetary Fund (IMF) July World Economic Outlook was slightly more upbeat than April, with global growth revised up to 3% for 2023 and 2024. Inflation is coming down and should continue to do so (though not in a straight line). This is positive for markets, as it suggests that central banks may not need to raise interest rates as aggressively as expected. Copper confirmed the stronger economic growth prospects by rising to a two-month high, and the US dollar index weakened to below the key 100 level as investors priced in faster rate cuts next year. The United Nations warned of soaring global public debt, which reached a record \$92 trillion – the consequence of vicious public debt growth through Covid is that 3.3 billion people now live in countries where interest payments exceed spending on healthcare or education. The rate hikes over the last year will take effect eventually, and investor outlook on the market is at its most divided in twenty years (see Chart 1). Some analysts believe that the S&P 500 could reach a new high by the end of the year, while others believe it could fall by more than 10%. Part of the confusion is the rally of FANG stocks (the leaders in the AI race), which have propelled the MSCI ACWI up 14% year to date, while the equally weighted basket of the ACWI is up a more modest 5%.

A structural shift is occurring in the oil market, with much of Russia's oil trade shifting to the Middle East. According to the Financial Times, companies registered in Dubai bought around a third of Russian oil exports – at least 39 million tonnes – between January and April. Through intermediaries, China, India and Türkiye are buying energy at a discount from sanctioned Russia, Iran and Venezuela, who account for nearly 20% of global oil exports. Russian oil is sold in the local currencies of the buyers or in the currencies of countries that Russia perceives as friendly, which has helped keep oil prices and inflation lower despite sanctions. However, there is a risk that Russia will reduce oil exports as a side-effect of its defensive positioning on the battlefield. The Kerch Strait Bridge, the single most important piece of infrastructure in the Russian war strategy, was further compromised, significantly limiting Russia's ability to transport fuel, food and weapons to the battlefield and effectively stranding about 2 million Russians in Crimea. On the same day, Russia ended the Ukraine grain-export deal. The UN warned that "many may die" as a result, and IMF managing director Kristalina Georgieva singled out the event as raising food insecurity and malnutrition risks around the globe. Higher food prices disproportionately impact Africa, so the move cast a shadow over the African Leaders summit in St Petersburg, where just 17 heads of state attended compared to 43 when Putin hosted the event in 2019.

The 2023 NATO summit took place in July, with Turkish President Recep Tayyip Erdogan agreeing to support Sweden's application to join; consequently, the European Union will reconsider Turkey's long-stalled bid for membership in the bloc. However, Ukraine's addition to NATO is unlikely any time soon. Geopolitical risks increased beyond Russia. For the first time in close to four decades, the US brought a submarine capable of firing nuclear ballistic missiles to a South Korean port, prompting North Korea to launch two missiles in a show of anger just hours later. Israel's Parliament passed a bill curbing the power of courts to oversee political decisions, a move that has driven hundreds of thousands into the streets. French pension protests and riots are estimated to have cost France more than €1 billion. In retaliation for the US chip ban, China has limited exports to the US of two key metals (gallium and germanium) used in electric vehicles. The secret documents case against former US President Donald Trump includes 1 545 pages of classified evidence and 1.1 million pages of unclassified evidence, but the leading 2024 Republican presidential nominee seems so far to have thrived on legal jeopardy.

Chart 1: Strategists are the most split on S&P 500 year-end target in twenty years



## US – inflation cools for now...

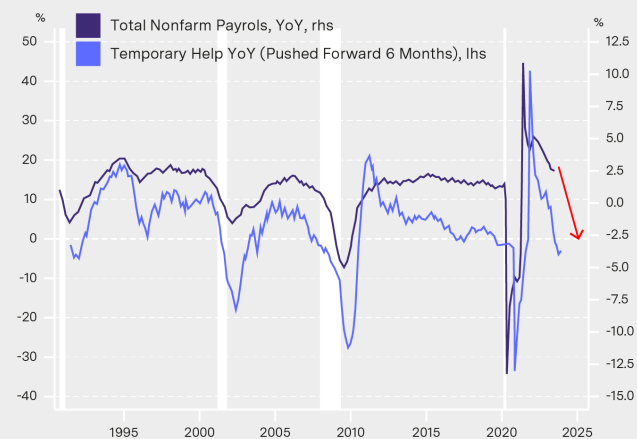
- Inflation saw a significant reduction in June, with the consumer price index rising at its slowest rate in over two years.
- Economic indicators – such as temporary employment figures and an end to the pandemic moratorium on student loan payments – hint at a cooling US economy.

Inflation in the United States cooled significantly in June, coming in well below expectations. The consumer price index (CPI) rose 3% year-on-year, its slowest rate in more than two years and a third of



the peak rate just a year ago. This is good news for US consumers and global markets, as it suggests that the Fed may not need to raise interest rates as aggressively as previously thought (or hold them high for as long). The Fed unanimously raised the Fed Funds rate by 25 bps to the 5.25%–5.5% range but did not confirm that the end of the rate hiking cycle had been reached. The structure of the inflation number was also good, with most CPI items rising below 2% on a three-month annualised basis. This suggests that the recent spike in inflation was largely due to temporary factors, such as high oil prices, Covid stimulus and supply-chain disruptions. As the lagged impact of higher interest rates starts to affect consumers and tighter credit lending standards catch up with the market, further growth headwinds could slow the pace of inflation. House Republicans have forced the Biden administration to drop its pandemic moratorium on student loan payments, which will have a significant impact on spending, as almost 27 million borrowers with \$1.1 trillion in debt will resume payments from 1 October. Additionally, temporary-employment figures suggest more payroll weakness (see Chart 2), showing that the US economy is definitely cooling – on both inflation and employment. In the short term, receding inflation and the resilient labour market explain the improvement in consumer sentiment, with consumer spending on large household durables at a two-year high. For the moment, it looks like the Fed has pulled off the impossible, with growth surprisingly robust as inflation falls. However, higher interest rates will ultimately lead to higher unemployment and will raise the odds of recession in 2024.

**Chart 2: Temporary-employment figures suggest a further rise in unemployment**



Source: Bloomberg

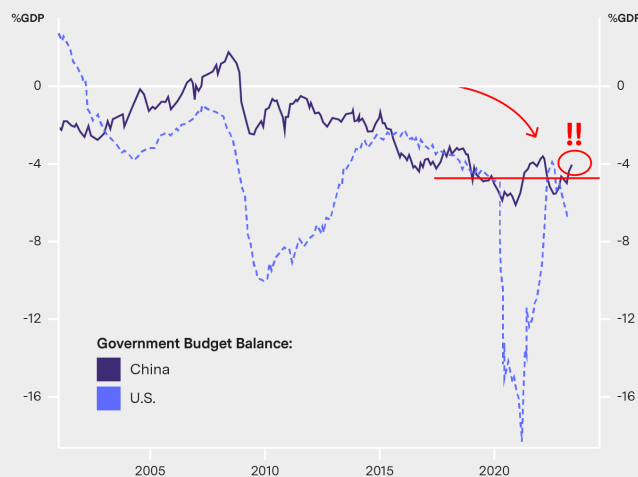
## China – deflation risk rises, government tries to talk up confidence

- **Slowing economic growth, with GDP expanding by only 0.8%, has been influenced by a reduction in exports, domestic property challenges and cautious consumer spending.**
- **A 2021 tech clampdown has affected employment and investor sentiment, but there are signs of the government easing its stance on tech companies.**

China's reopening boom from the Covid lockdowns has faded, with economic growth slowing sharply in Q2. GDP expanded by 0.8%, down sharply from the 2.2% of Q1. This weaker quarterly growth is a result of a slower global environment, which has reduced Chinese exports – China's June exports fell their most since the pandemic began (-12.4%), a continuation of domestic property woes and a cautious Chinese consumer that has not spent their Covid savings as other countries have. However, GDP growth averaged 5.5% in H1, above the annual target of 5%, preventing the government from implementing large-scale stimulus.

But while other global economies are fighting inflation, China is close to deflation. Consumer prices were 0% year-on-year in June, their lowest rate in two years, and producer price deflation was at -5.4%, its worst since 2015. Measures to support the economy have been limited and targeted: the central bank cut a key policy interest rate last month by only a small amount, and the government has extended tax breaks for buyers of electric cars. President Xi Jinping and his policymakers are adhering to a stance they call "maintaining strategic focus". This means continuing to deleverage the over-indebted property sector while pursuing global leadership in strategic areas of the economy, such as advanced and green technologies. Beijing's stubborn preference for piecemeal and incremental policy support has worried markets, and Chinese markets have lagged others year to date. China is at risk of a balance sheet recession, in part thanks to overly indebted real estate developers dealing with a property crash. China's new-home prices are poised for their longest losing streak since records began in 2011, and the government announced that an existing credit support plan for developers will be extended by a year. In addition, on 24 July the ruling Communist Party's 24-member politburo – its top decision-making body, led by President Xi Jinping – promised "counter-cyclical" economic policy to support growth, as well as an "adjustment" of restrictions in the property sector.

**Chart 3: China's fiscal policy is way too stingy**



Source: Alpine Macro

The politburo meeting included a pledge to drive the healthy development of internet-platform firms. China's 2021 tech clampdown has hurt employment and investor confidence, and youth unemployment (aged 16–24) hit a record high of 21.3%, driven by a skills mismatch and an excess of qualified graduates. The supply of students finishing college or university is set to reach a record high this year. The tech crackdown has exacerbated this problem, as online education was typically a large employer of new graduates. The government has called an end to the 2021 crackdowns on several industries, including online education and ecommerce platforms.



The People's Bank of China fined Ant 7.12 billion yuan (\$984 million) and Tencent 2.99 billion yuan (\$413 million) and announced the end to a two-year investigation. Alibaba's share price bounced 16% on the announcement. In a July meeting with executives from Alibaba Group Holding Ltd, food delivery group Meituan and Tiktok owner ByteDance Ltd, Chinese Premier Li Qiang called internet firms the "trailblazers of the era". President Xi himself greeted US billionaire Bill Gates in Beijing, calling him "the first American friend I've met in Beijing this year". The Communist Party and the government issued a rare joint statement outlining 31 measures to improve conditions for businesses, including a pledge to consult more with entrepreneurs before drafting policies.

Investor confidence should improve after the end of the tech crackdown. However, after disappointing Q2 GDP, it looks like there is insufficient stimulus to support broad growth and valuations reflect this as the MSCI China Index has only been cheaper for less than 2% of the past 20 years.



**By Bashaarit Khan**  
Portfolio Analyst

## South Africa – more loadshedding and SOE bail-outs

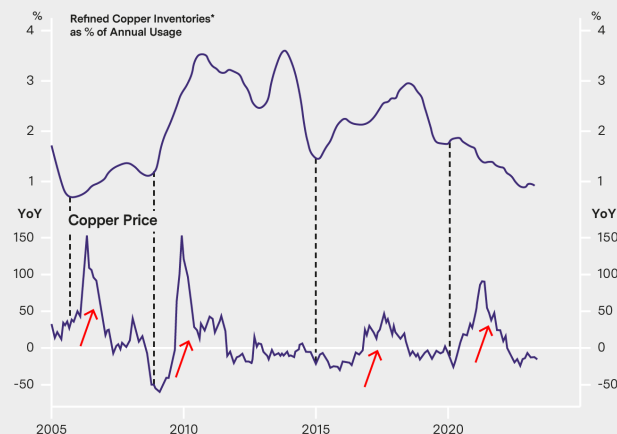
- **Despite President Putin's absence from the BRICS seminar, South Africa's continued involvement in the African Growth and Opportunity Act remains uncertain.**
- **The rand experienced a significant recovery, influenced by stable commodity prices and decreased US inflation that weakened the dollar.**

Finance Minister Enoch Godongwana and Trade and Industry Minister Ebrahim Patel met with US Trade Representative Katherine Tai to lobby for an extension of the African Growth and Opportunity Act (AGOA) after political analysts and opposition parties warned that South Africa's stance on Russia may jeopardise its relationship with the US. President Putin will not be attending the August BRICS seminar in Johannesburg, but AGOA remains at risk. However, President Ramaphosa did attend the Africa summit in St. Petersburg.

Load shedding returned to Stage 6 this month on the back of colder temperatures, the additional loss of generating units and an inability to replenish pumped storage dam levels. The number of gigawatts shed year to date now exceeds that of 2022 by 50%. Meanwhile, the private sector added 2 400 MW worth of capacity in Q1. Cabinet has agreed to bankroll another struggling SOE, pledging R6.2bn to restructure the SA Post Office. Inflation dropped to 5.4% and the SARB kept rates steady at 8.25%, putting an end to a series of 10 consecutive hikes.

The rand recovered dramatically on the back of lower US inflation numbers that weakened the dollar and stabilised commodity prices. The rand remains among the most shorted currencies in the world at present, alongside the yen. Despite low global growth, commodity prices may stabilise or even rise slightly as a result of low inventory levels. Higher commodity prices would support the rand further.

## Chart 4: Inventory destocking has kept commodity prices low



\*Aggregate of visible stocks held at LME, CME, and SHFE  
Source: Alpine Macro



**By Iain Anderson**  
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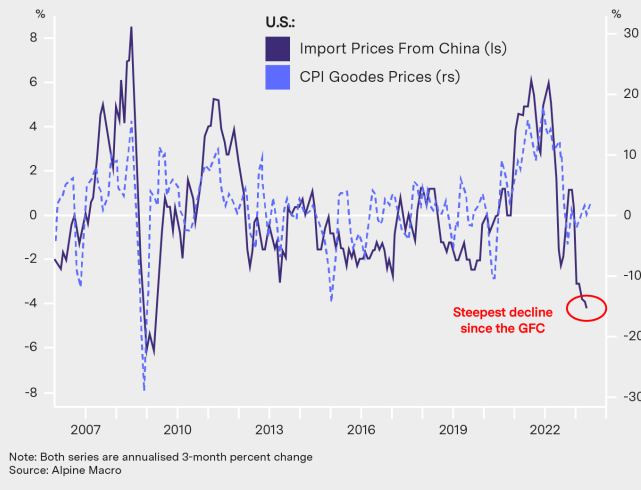
## Outlook

The outlook for markets is uncertain. China's reduced demand for capital investment relative to available domestic savings has pushed domestic interest rates to low levels and reduced pricing power, making China a source of global deflationary pressure (see Chart 5). This has been good for global inflation, as the price of imported Chinese goods has fallen. The good news on inflation is a positive sign, and markets may rally further in the coming months before the lagged impacts of tightening take effect. However, in the US, the short-term resilience we expected is likely coming to an end. The stock of excess household savings built up during the pandemic should be exhausted in the next few months, and consumer credit growth peaked eight months ago. Thirty-day delinquency rates for credit cards and home equity lines of credit are also rising.

We remain long-term bearish on the dollar – although having weakened so quickly this month, a small rebound is possible. We are neutral EU, as the euro area's GDP is more export-driven than the US and a rebound in China's domestic demand is a necessary condition for the euro area's economy to thrive. The outlook has never been so divided, but inflation appears to be under control and growth remains resilient. The developed world economy will slow towards the end of the year. The biggest risk is that as inflation and growth slow enough for rate cuts to begin, renewed geopolitical risks will push up energy and food prices and force rate hikes, crushing the world into a deep recession.



**Chart 5: Import prices from China fell the most since the Great Financial Crisis**



## Key indicators

	1 mo.	3 mos.	6 mos.	1 yr.	2 yrs.	3 yrs.	5 yrs.	10 yrs.
J203T <b>FTSE/JSE All Share Index</b>	4.0%	1.3%	1.1%	19.3%	11.8%	16.7%	10.5%	10.3%
J200T <b>FTSE/JSE Top 40 Index</b>	4.2%	1.7%	1.9%	22.4%	12.9%	16.9%	11.3%	10.7%
J210T <b>FTSE/JSE Resources 10 Index</b>	3.7%	-6.9%	-13.4%	5.8%	1.8%	11.1%	14.8%	7.8%
J211T <b>FTSE/JSE Industrials 25 index</b>	2.8%	3.3%	7.6%	32.7%	13.6%	15.6%	10.2%	10.9%
J212T <b>FTSE/JSE Financials 15 Index</b>	7.9%	10.7%	10.5%	19.9%	21.6%	24.4%	5.0%	9.0%
J403T <b>FTSE/JSE SWIX Index</b>	4.1%	1.9%	0.9%	15.4%	9.6%	13.2%	7.1%	8.8%
J433T <b>FTSE/JSE Capped SWIX Index</b>	4.1%	1.8%	0.9%	14.9%	11.0%	16.1%	7.5%	8.6%
J303T <b>FTSE/JSE CAPI Index</b>	4.0%	1.4%	0.5%	18.1%	12.0%	17.9%	10.6%	10.3%
J253T <b>FTSE/JSE SA Listed Property Index</b>	2.3%	-2.3%	-1.2%	3.4%	6.5%	13.4%	-3.0%	2.1%
ALBI <b>JSE All Bond Composite Index</b>	2.3%	1.9%	1.2%	8.1%	5.4%	8.2%	7.4%	7.7%
STeFI <b>STeFI Index</b>	0.7%	2.0%	3.8%	7.0%	5.6%	5.0%	5.8%	6.3%
<b>MSCI World Index in SA Rands</b>	-2.7%	5.5%	13.4%	21.1%	11.9%	13.3%	15.7%	16.0%
<b>Rand/US Dollar Exchange Rate</b>	-5.9%	-2.7%	2.0%	6.7%	10.3%	1.5%	6.1%	6.1%
<b>Rand/Euro Exchange Rate</b>	-4.9%	-2.9%	3.6%	15.4%	6.3%	-0.9%	4.8%	4.1%
<b>Rand/Pound Exchange Rate</b>	-4.7%	-0.4%	6.6%	12.9%	6.1%	0.8%	5.6%	4.3%
<b>Headline CPI</b>	0.2%	0.7%	2.4%	5.4%	6.4%	5.9%	4.9%	5.2%
<b>PPI</b>	-0.3%	0.2%	1.4%	4.8%	10.4%	9.5%	6.9%	6.3%

