



Market Commentary

July 2023

RISCURA



China's housing market
suppressing consumption

25 bps



US Federal Reserve raised
rates: 25 bps

Global market themes

The global investment landscape remains turbulent, with conflicting data and economies giving mixed signals. Inflation is easing in key regions like North America and Europe, but upward pressure still exists. Some economies, like India, are showing signs of life, but others, like China, are struggling despite strong performance month to date. The US appears to have a vibrant economy based on statistics like the labour market employment rate, while other statistics, like the inverted yield curve, Leading Economic Indicator (LEI) and contracting PMI are more concerning. The bulls came out on top again this month as financial markets across the globe performed exceptionally well. The bulls came out on top again this month as financial markets across the globe performed exceptionally well. All major indices are up, with MSCI China taking pole position, up 10.8% in USD dollar terms. China's tailwinds lifted emerging markets, with MSCI EM gaining 6.2% for the month - its biggest gain of the year. Developed markets followed suit, with the MSCI World up by 3.4%.

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China's central bank left its lending benchmark rates unchanged in July, despite indicators from a slowing economy calling for more stimulus. Lowering interest rates to support the economy might not be a favoured stimulus tool because it can widen interest differentials with the US even further, leading to short-term capital outflows.

China's economy grew at a frail pace of 0.8% during the second quarter of 2023, missing analyst expectations by a considerable margin. It was expected that the domestic consumer would drive

the next wave of growth endogenously. However, low local consumer and investor sentiment leads to a worrying deflationary environment. The uncertainty within China's housing market also leads to suppressed domestic consumption. Investors are therefore hoping for more supportive measures to ensure that the country's growth target of 5% remains on track. The Chinese stock market has been increasingly active in July as investors try to pre-empt policy announcements. Chinese Manufacturing PMI print for July came in at 49.3 and has been in a contractionary state since April; this indicator has largely mirrored global consumer demand.

The US Federal Reserve raised interest rates by 25 bps in mid-July, taking the federal funds rate to 5.25-5.5%. While hikes of this nature in the past have resulted in Dollar strength, this month saw a decline in the DXY index (a representation of overall dollar strength), down 1%. US inflation softened to 3% and appeared largely under control, provided input costs and wage rates remain subdued. Based on Jerome Powell's comment on the Fed's policy being data-dependent, the market believes that the hiking cycle may be close to an end, with only one more hike expected in September.

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Given a strong underlying labour market, consumer spending has been resilient, company earnings have been sustained, and predictions of a hard economic recession have quietened. The VIX index, which has been on a downward trend this year, closed the month at 13.6, well below its 18.5 long-term average.

The image shows the letters 'AAA' in a bold, blue, sans-serif font. The first two 'A's are solid blue, while the third 'A' is outlined in blue.

US stripped of AAA rating by Fitch

Additionally, commodity prices have moderated off 2022 peaks, which has helped in taming global inflation. The S&P 500 rose 3.2% for the month, in dollar terms, and some large asset managers have been vocal about their revised bullish price targets.

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The US was stripped of its AAA sovereign credit rating by Fitch Rating agency, citing the nation's ballooning fiscal deficits and "erosion of governance" as factors in the decision. The US got dangerously close to breaching its self-imposed debt ceiling earlier this year before a resolution was found to suspend the ceiling, pushing the issue further into the future. The move down to AA+ is in line with the decision made by S&P Global ratings over a decade ago. Interest payments in the US have grown considerably since the COVID-19 pandemic. This debt burden is forecast to reach 118% of gross GDP by 2025, more than two and a half times that of the AAA median ratio of 39.3%. This troubling ratio will make the US increasingly vulnerable to economic shocks in the future. With that being said, the Dollar remains the preferred safe-haven currency and most liquid asset, while the underlying economy is fundamentally relatively strong.

UK inflation remains the highest of the G7 members, at 7.9%, although the recent prints have come down from 8.7% in June. That inflation rate is nearly four times the Bank of England's (BoE) 2% target and double the rate in the United States. The Bank of England has announced that they plan to be more data-dependent, and as a result, will likely raise rates by between 25-50 bps.

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This move follows suit with both the US Fed and European Central Bank raising rates by 25 bps in July. The market has predicted a terminal interest rate of 5.75% from the BoE, much like that of the US. The BoE has forecast their target rate of 2% to be reached in early 2025.

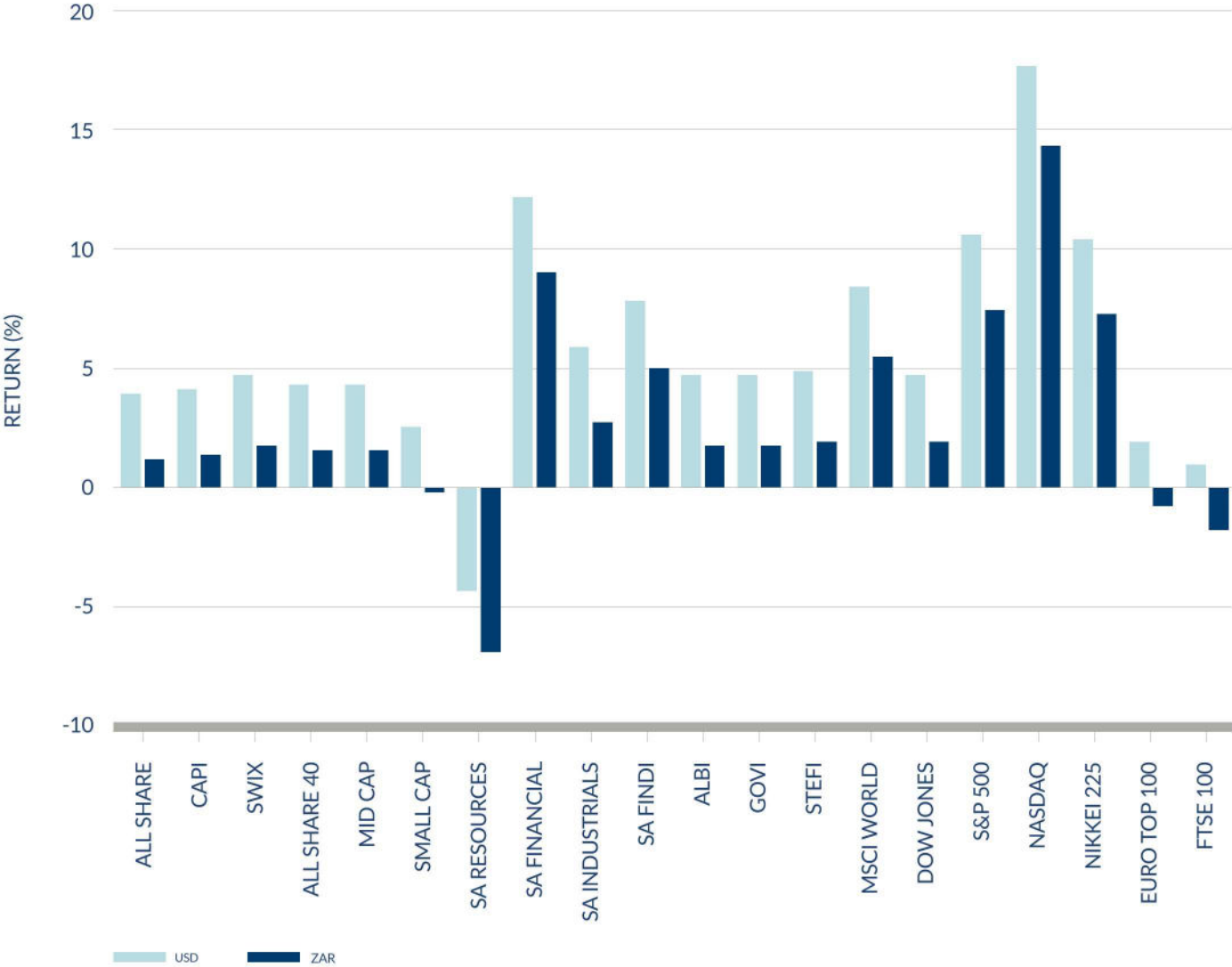
In the commodity markets, oil made a 13.3% recovery in July, up to 85.4 USD per barrel from 75 USD per barrel end of June. This rise came because of an extended production cut from OPEC organization, in a move to push commodity prices up. Precious metals joined the rally with Silver rising 8.6% and Gold up 2.4%. Copper and palladium rose 5.7% and 4.6%, respectively. Coal and Iron ore were the two commodities that experienced price declines this month, down 8.3% and 3.2%, respectively.



UK inflation at 7.9%, highest in G7

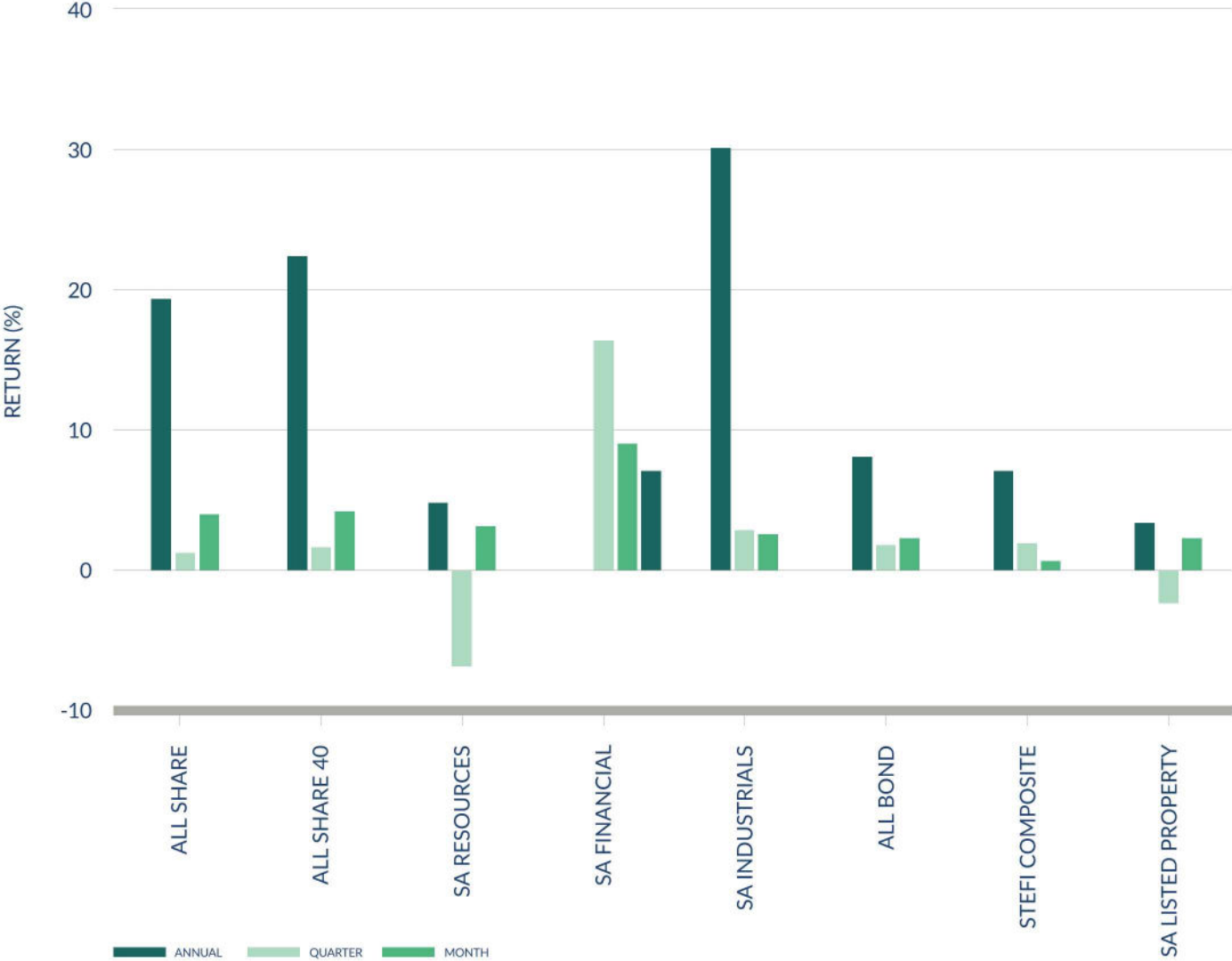
World Market Indices Performance

QUARTERLY RETURN OF MAJOR INDICES



South African Market Indices Performance

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