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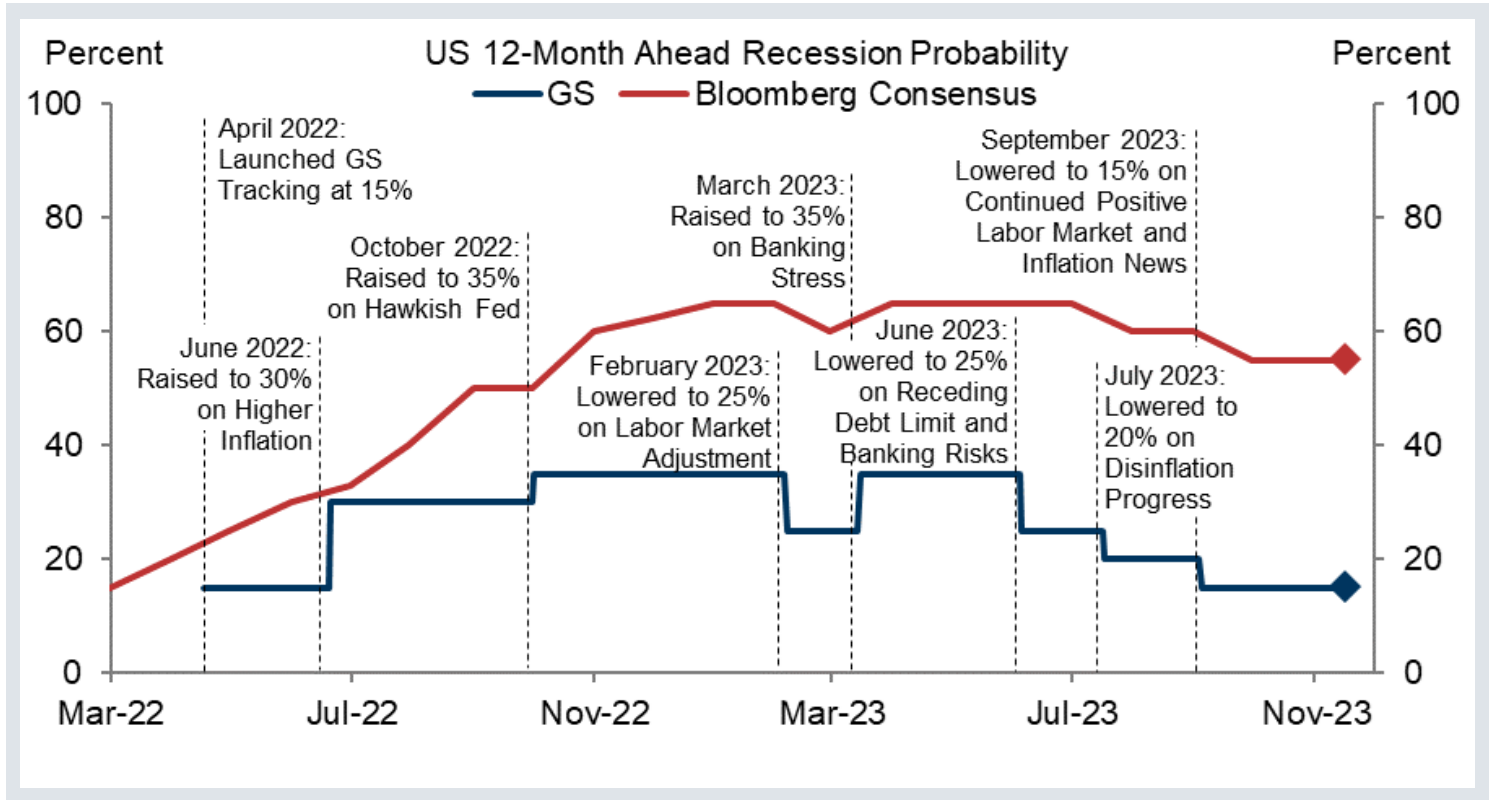
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US MACROECONOMICS AT A CROSSROADS OF RESILIENCE AND UNCERTAINTY



In the current economic environment, developed markets have adeptly steered clear of recessionary waters, but the vision of such an outcome lingers. The unique dynamics of the US macroeconomic landscape, characterized by a resilient labour market amidst robust policy measures and a minor banking disturbance, stand as pivotal factors influencing strategic investment considerations. The existing scenarios present two primary trajectories – a soft landing where recession is averted, yet inflation hovers above the 2% target, or an economic downturn that accelerates disinflation, affording the US Federal Reserve strategic flexibility.

According to Goldman Sachs, their estimations for the likelihood of a recession over the next 12 months stands at 15%, significantly lower than the median probability of approximately 50% reported in the Bloomberg forecaster survey (Chart 1).

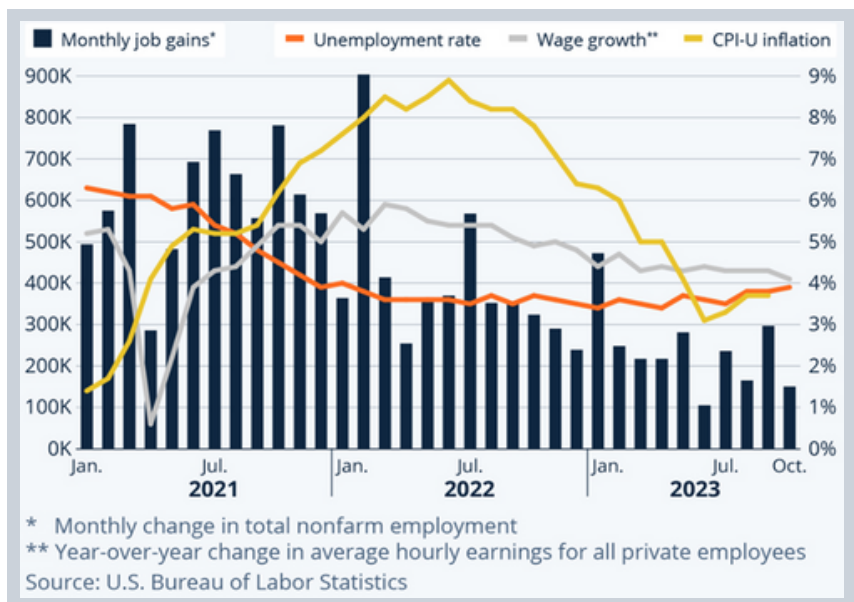


Recessions exhibit a diverse array of nuances, each with its own characteristics. The initial nuance arises from unforeseen disruptions on the supply side, such as unexpected shocks like a pandemic or oil-related crises in the 1970s. Although these recessions can lead to a substantial reduction in output, the recovery tends to be swift once the underlying supply issues are addressed. Turning attention to the three other nuances of recession primarily influenced by shifts on the demand side, the most dramatic involves collapses in asset prices and financial crises.

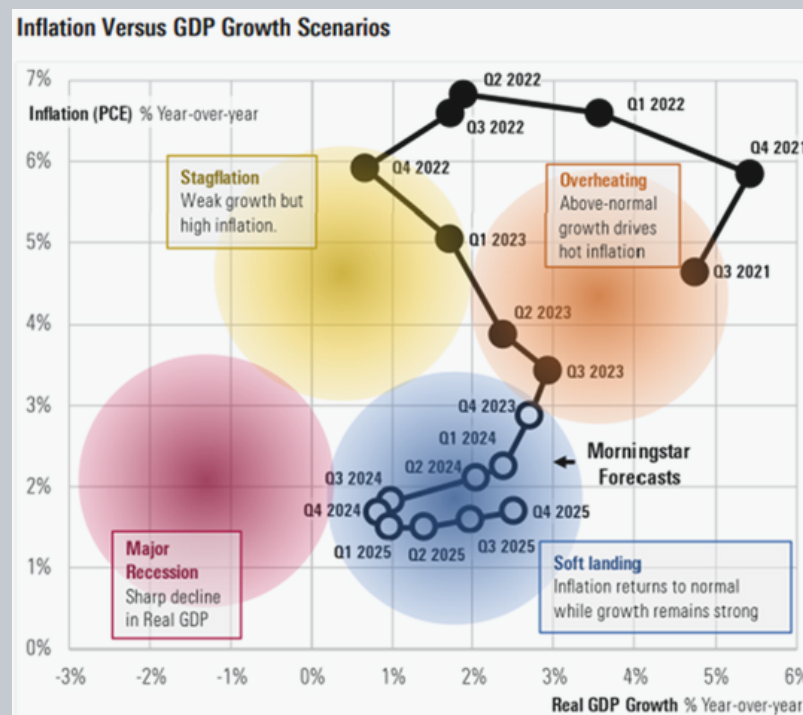
Originating from unwarranted credit expansion and the development of asset bubbles, notably in housing markets, these crises result in significant output losses and balance sheet recessions. Despite efforts by governments and central banks to address the crisis, the subsequent damage can hinder GDP from fully recovering, echoing the 2007-08 recession. The second nuance, a cyclical or "plain vanilla" recession, typically follows periods of policy tightening to curb excess demand or inflation, as seen in the early 1990s recession in the UK. These recessions entail a more moderate reduction in output, with subsequent policy easing being less conspicuous. The eventual recovery tends to be more comprehensive, with GDP returning to its pre-recession trajectory. The ultimate nuance, labelled a 'growth recession,' unfolds as economies experience sluggish growth, leading to rising unemployment. Although there is no outright loss of output, GDP falls short of its potential, fostering disinflationary pressures and diminishing living standards. Triggers for growth recessions can range from shifts in a country's terms of trade to the effects of policymaking. For policymakers, differentiating between a growth recession and a mild cyclical recession often involves an element of coincidence in navigating these economic complexities.

An in-depth analysis of macro-economic dynamics reveals an unconventional blend of factors, including a global pandemic, technological breakthroughs, heightened geopolitical risks, and transformative shifts in the labour market. This unique context challenges traditional economic cycles, leading to considerations of sector-specific, staggered recessions rather than a widespread synchronized downturn. The remarkable resilience of the labour market is central to this atypical economic scenario, serving as a key driver of US economic growth. The anticipated impact of the Inflation Reduction Act (IRA) is poised to strengthen capital expenditures, fostering productivity and sustaining nominal economic growth. Despite proactive policy tightening, the labour market's resilience defies conventional expectations, suggesting a potential structural shift in labour dynamics.

However, despite the resilient labour market and economic strength, caution is warranted. Warning signs of a potential hard landing persist, evident in indicators such as rising unemployment claims, weakening labour demand, and a year-over-year increase in unemployment rates. Disparities in consumer spending and tightening financial conditions contribute to the looming possibility of an economic downturn. Chart 2 shows several critical indicators that are currently showing positive trends, instilling optimism for a soft landing. The fate of these hopeful expectations hinges on whether it demonstrate a continued easing of inflation;



Any failure to do so may diminish or completely dash these optimistic prospects. The trajectory of inflation emerges as a pivotal factor shaping the future actions of central banks. In the event of a recession, inflation would likely subside rapidly, necessitating a strategic pivot by central banks. Conversely, a scenario without a recession but featuring decelerating inflation would provide leeway for the Federal Reserve to implement nominal rate cuts, preventing inadvertent economic tightening.

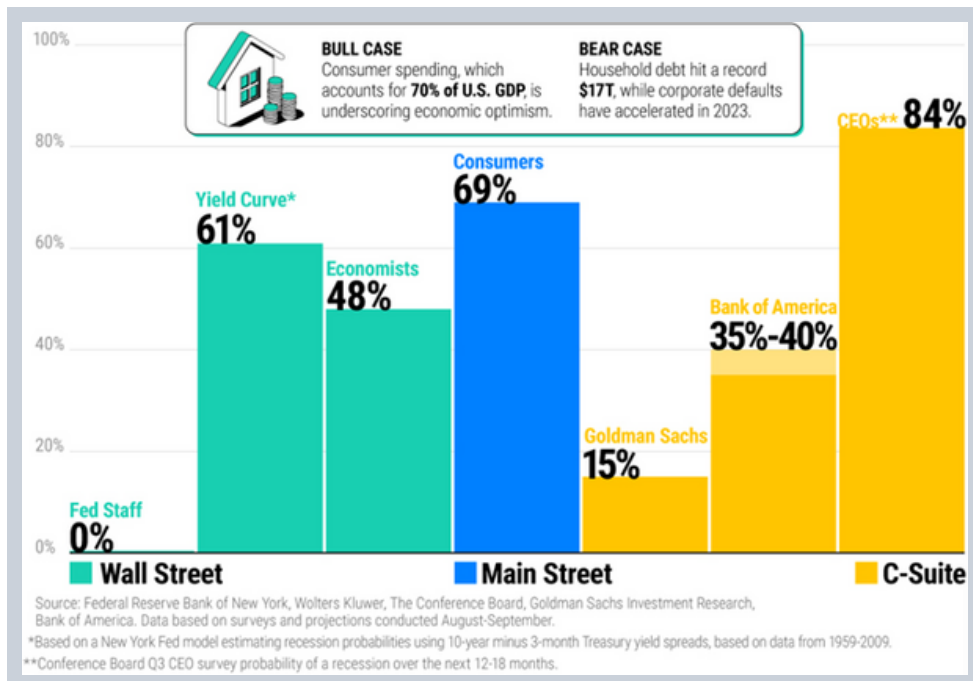


The expectation is that inflation should normalise in 2024, even with positive year-over-year real GDP growth, aligning with the "soft landing" scenario for the U.S. economy among four potential outcomes. Despite a 3% drop in inflation over the past year and accelerated real GDP growth, contrary to predictions of a deep economic slump eradicating inflation, the inflation-GDP trade-off has been favourable due to eased supply constraints. Surprisingly, economic growth has remained resilient despite aggressive Fed rate hikes, elevating the probability of an "overheating" scenario with robust economic expansion and 3%-4% inflation. Our belief persists that the Fed's executed rate hikes will eventually temper GDP growth enough to bring inflation down to 2%, avoiding a recession.

(Chart 3). Ongoing supply-side improvements will contribute, considering the Fed's substantial 5% rate increase in just over a year, the most significant move in four decades, with its effects still unfolding as borrowers face higher interest rates and financial buffers are gradually depleted.

Despite optimistic views from the Fed staff, the 10-year and 3-month Treasury yield curve signals a 61% chance of a recession in the next year. Economist opinions vary, with 48% foreseeing a recession, while consumer sentiment on Main Street leans toward caution, with over 69% anticipating a recession in the next year. In contrast, Goldman Sachs revised its recession forecast to 15%, and Bank of America gives it 35-40% odds. However, a shift is noted among CEOs, with 84% preparing for a recession in the next 12-18 months, down from 92% in Q2 2023 (Chart 4).

Inflation dynamics are shaped by cyclical and secular forces, where temporary cyclical disinflationary pressures may coexist with sustained inflation from geopolitical risks and globalization slowdown. Aligning with the 2% target set by central banks poses challenges, considering variables like wage growth and central bank credibility. Amid this complexity, fixed income markets stand favourably positioned. In a soft-landing scenario, where interest rates remain high, bonds benefit from robust carry, providing stability and potential appreciation. Conversely, in a recession, high carry and potential



central bank rate cuts support high-quality bonds. Despite uncertainties, bonds show promise for substantial returns, with the primary risk being a low-probability resurgence of inflation demanding further central bank tightening. In a scenario of heightened economic resilience, persistent inflation suggests an extended period of elevated interest rates, offering an optimistic outlook for bonds and a secure buffer for investors against potential volatility.

The economic situation is a mix of hope and caution. Unusual factors challenge the usual economic patterns, suggesting recessions might happen in some sectors rather than across the board. The strong job market and new laws to reduce inflation add positive signs. However, there are warnings about a potentially difficult economic situation. Looking ahead to 2024, there's hope for a smooth economic landing with positive growth. Even with strong moves by the Federal Reserve, the economy is holding up well, but the risk of things getting too hot is still there, and opinions on the chance of a recession differ. Importantly, the US has avoided a recession so far, and opinions about the future are varied. The way inflation behaves is key for fixed income markets, offering stability and chances for returns. Being flexible in our financial decisions is wise given the uncertainty in the economic landscape.



Dr. Chris Harmse
Economist

ECONOMIC REPORT

Both locally and globally, financial markets experienced a strong recovery in November, with most recovering from losses incurred in the first ten months of the year. The sustainable increase in interest rates by most central banks across the world, as well as the sharp increase in oil and food prices and the renewed military conflicts in Ukraine and the Gaza Strip, served as a reminder of the Black Swan event that occurred during the global sub-prime crisis and the effects of the Covid-19 pandemic.

Many economists and market analysts anticipated that the US and other developed economies would experience a second recession within three years. However, the downward movement in oil prices and other energy and food prices over the last three months proved that tighter monetary policies started to bear fruit. Not only did the inflation rates of most countries begin to subside, but natural economic recovery is turning around such that most economies should avoid another recession.

Nevertheless, economic growth in the US is still expected to slow down significantly in 2024, avoiding a recession but resulting in a contraction in consumer spending as disposable income dwindles.

SOUTH AFRICA

According to the South African Treasury, the country's economy is expected to grow by 0.8% in 2023, double the previously estimated growth of 0.4% during Q1 of this year. The World Bank and the IMF are among the international institutions that support this prediction.

The Reserve Bank's Monetary Policy Committee (MPC) has announced that it will not change the repo rate, which will remain at 8.5%. The decision comes after the CPI's inflation rate increased by 0.5% to 5.9% in October, just below the MPC's upper target of 6.0%. According to the CPI report released by Stats SA, food prices (8.8%), electricity (15.2%), water (7.9%), and petrol (11.9%) have all risen significantly more than the CPI index of 5.9% in October of the previous year. The MPC has cautioned that "with high-interest rates and uncertainty, financial markets and asset prices are expected to remain volatile, dampening investor appetite and capital flows."

This decision comes as the inflation rate (CPI change) rose by 0.5% to 5.9% during October, just below the MPC's upper target of 6.0%. According to the CPI report from Stats SA, food prices (8.8%), electricity (15.2%), water (7.9%), and petrol (11.9%) have increased significantly more than the CPI index of 5.9% in October last year. The MPC has stated that "with high interest rates and uncertainty, financial markets and asset prices are expected to remain volatile, dampening investor appetite and capital flows."

In September 2023, retail trade in South Africa increased by 0.9% from the same period in the previous year. This growth followed a decline of 0.5% in the last month and exceeded market expectations of a 0.5% increase. On the other hand, manufacturing production in the country experienced a significant decline of 4.3% year-on-year in September 2023.

This was down from a previously revised 1.5% increase in July and was worse than the expected 2.6% decrease. It was the largest drop in industrial activity since last December and was attributed mainly to the country's worst power cuts during September.

USA

The US economy is expected to grow by 2.4% in real GDP in 2023 and then decline to 0.8% in 2024. Despite elevated inflation and higher interest rates, US consumer spending has held up remarkably well this year. However, this trend is unlikely to continue. Real disposable personal income growth is flat, pandemic savings are dwindling, and household debt is rising. The unemployment rate is expected to exceed 4.0% before the end of the year. The FED is also expected to keep its Bank rate unchanged during its final meeting of the year on December 13th.

In October 2023, the annual inflation rate in the US slowed to 3.2% from 3.7% in September and August, below market forecasts of 3.3%. Although the core CPI was up 4% year-on-year and 0.2% month-on-month, it was lower than the expected 4.1% and 0.3%, respectively. This set a tone for the FED to become less hawkish.

EUROPE

In October 2023, the European Commission reduced its forecast for the real GDP growth of the twenty countries that share the euro currency. The forecast now stands at 0.6%, down from the previously expected 0.8% in September. The sluggish performance is due to high inflation, rising interest rates, and weak external demand. This has had a more significant impact on GDP growth than expected. The GDP growth rate is expected to improve to 1.3% in 2024, which is still below potential and a 0.1 percentage point decrease from the previous forecast. In 2025, the GDP growth rate is expected to pick up further to 1.7%. In the euro area, GDP growth is expected to be slightly lower, at 1.2% in 2024 and 1.6% in 2025. According to the Commission, economic activity is expected to gradually increase as consumption recovers due to a robust labour market, sustained wage growth, and continued easing of inflation.

The Commission forecasts that inflation, which the European Central Bank wants to keep at 2.0% over the medium term, is to subside to 3.2% next year from 5.6% expected in 2023 and slow further to 2.2% in 2025.

EMERGING MARKETS

Emerging markets and developing economies, excluding China, are anticipated to experience a decline in growth from 3.8% in 2022 to 2.7% in 2023. This is due to a reduction in external demand coupled with high inflation, currency depreciation, tighter financing conditions, and other domestic challenges. By the end of 2024, the GDP levels in emerging and developing economies will be around 6% lower than what was expected before the pandemic. Although global inflation is predicted to decrease, it will still be higher than pre-pandemic levels.

According to the latest data (October 2023), inflation in most emerging markets (EMs) continues to decrease. However, the decrease is expected to be more abrupt than in the first half of the year, so inflation will remain above target in many EMs for some time. Consequently, while the easing cycle in emerging markets will likely expand, several countries will keep their policy interest rates above neutral throughout 2024.

In October 2023, the IMF revised India's growth forecast to 6.3% for 2024, citing "resilient domestic demand and strong investment inflows." Meanwhile, the Chinese economy is expected to grow by 5% in 2023 and 4.2% in 2024, which is lower than the previous estimates of 5.2% and 4.5%, respectively, made in April.

Wise Money Spending in December: Avoiding the January Debt Trap

The festive season is a time of joy, celebration, and, unfortunately, often excessive spending. As we approach December, it's crucial to plan wisely to avoid the dreaded "January debt trap". Here are some tips to help you navigate this financially challenging period.



Charnè Smith
Head of Operations

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1. Create a Budget

Start by setting a realistic budget for your holiday spending. This should include all potential expenses - gifts, food, travel, and entertainment. Stick to this budget as closely as possible, and track your spending to ensure you're not going overboard.

2. Prioritise Your Spending

It's important to prioritise necessary expenses, such as rent, utilities, and groceries, before spending money on holidays. Remember, it's okay to cut back on gifts or festivities to avoid going into debt.

3. Shop Smart

Look for sales and discounts when shopping for gifts. Consider homemade gifts, which can be more meaningful and cost-effective. Also, remember that the best gift is not always the most expensive one.

4. Avoid Impulse Purchases

Stores are designed to entice you into making impulse purchases. Stick to your shopping list and resist the temptation to buy non-essential items, no matter how good the deal may seem.

5. Plan for January

Remember that January comes with its own expenses, such as school fees and other start-of-the-year costs. Make sure you budget for these expenses in advance to avoid financial stress.

6. Start Saving Early

If you can, start putting money aside earlier in the year to cover your holiday expenses. This can help alleviate financial pressure in December and January.

During the holiday season, it's important to spend time with loved ones rather than focusing on spending money. By carefully planning and being disciplined with your spending, you can enjoy the festivities without the financial burden in January.