Market and Model Update

Waypoint Asset Management | October 2023

Global Economy

Both global and local markets had a difficult time in October and experienced negative returns. The S&P 500 returned -2.2%, the Euro Stoxx returned -2.7%, the FTSE 100 returned -3.8%, the Nikkei 225 returned -3.1%, the FTSE/JSE All Share Index returned -3.8%, and the Nasdaq 100 returned -2.1% (all in base currencies). However, year-to-date, most major markets (except for the All Share and FTSE 100) have delivered positive returns, with the standout performer being the Nasdaq 100, returning an impressive 31.7%.

The International Monetary Fund (IMF) has updated its global growth forecasts and expects a slowdown in the next few years. It predicts that growth will slow to 3.0% in 2023 and 2.9% in 2024. However, emerging markets are expected to grow faster than developed markets, with growth forecast at 4.0% for 2023 and 2024. On a positive note, although revised upwards, global inflation is expected to slow down from 8.7% in 2022 to 6.9% in 2023 and further to 5.8% in 2024. However, inflation will not likely return to central banks' targets until 2025.

The Federal Reserve has announced that it plans to maintain high-interest rates for the foreseeable future. While it seems that interest rates in the US have hit a peak, the Federal Reserve is expected to continue to maintain these rates until at least 2024 before considering any rate cuts. Unfortunately, the US unemployment rate has increased slightly from 3.8% in September to 3.9% in October, with the most significant concern being the decrease in the labour market participation rate from 62.8% in September to 62.7% in October. However, the US Gross Domestic Product (GDP) grew by 4.9% in the third quarter of 2023. Despite some concerns, many still believe that the economy will experience a soft landing.

The European Central Bank (ECB) has decided to maintain the interest rates at 4.5% in the Euro Area. This decision was made due to lower inflation and a weak economy. Inflation dropped to 2.9% in October, mainly because of decreased energy and food prices. ECB policymakers have acknowledged the risks of higher oil prices leading to increased inflation. Inflation is expected to only return to the 2% target by the middle to end of 2024. In the Euro area, inflation averages 5.4% in 2023 and 2.5% in 2024. Consumer and business confidence remains low, and as a result, the International Monetary Fund (IMF) has revised its growth projections downwards by 0.2% to 0.7% in 2023 and by 0.3% to 1.2% for 2024.

The Bank of England has decided to maintain the interest rates at 5.25% in the UK. This is the first time the rates have remained unchanged since November 2021. The inflation rate for September has remained at 6.7%, the same as August. However, due to the increasing costs of mortgages, rent, and fuel, consumer confidence has experienced its most significant drop in over three years. Additionally, the International Monetary Fund (IMF) lowered its growth forecast for 2024 to 0.6%.

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The Prime Minister of Japan has introduced a new economic stimulus plan to increase wage growth and investment in capital and human resources. The Bank of Japan conducted an unscheduled bond-purchase operation after the 10-year Japanese government bond yield reached a 10-year high. Japan's inflation rose from 2.8% in September to 3.3% in October, prompting the BoJ to maintain its ultra-loose monetary policy. The International Monetary Fund has revised its 2024 growth forecast upward by 0.6% to 2.0%.

China's Gross Domestic Product (GDP) grew by 4.9% yearly (y/y) at the end of the third quarter, indicating that the Chinese economy may be stabilising. This GDP growth was primarily driven by the government's stimulus measures, increased consumption, and service sector improvements. However, the property market remains a significant concern, and the services and manufacturing purchasing managers' index (PMI) data decreased from September to October.

South African Economy

As of mid-October, the Rand/Dollar exchange rate had depreciated by 10.4%, a much steeper decline than the 4.3% drop observed in other Emerging Market currencies this year. This decline is mainly due to concerns that interest rates will remain elevated for an extended period, as well as fiscal issues in South Africa and a tax revenue shortfall of R56.8 billion.

Despite inflation rising from 4.8% in August to 5.4% in September, it is still within the target range of 3-6% set by the Reserve Bank. However, higher prices for food and fuel may continue to put upward pressure on inflation, necessitating close monitoring by the SARB. Unstable electricity supply and higher interest rates hurt the manufacturing sector, with the PMI manufacturing index being below the critical 50 index level for eight consecutive months. Growth is expected to decline from 1.9% in 2022 to 0.9% in 2023 and increase again to 1.8% in 2024.

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Investment Update

At Waypoint Asset Management, we take a long-term approach to investing and ensure that our investment strategies are positioned accordingly. In October, the Investment Team at Waypoint Asset Management met to discuss the current market climate and potential opportunities. After conducting thorough research, the Investment Team made some changes to our investment strategies. Locally, we decided to consolidate our underweight position in Global Property to one active fund manager and implemented the second tranche of the Regulation 28 trades, as previously explained. Globally, we deployed some of our excess cash into the market. Given the recent market pullbacks, we believe that it is a good entry point into the market.

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